



July 12, 2010

The Markets

Investor sentiment is fickle and often changes as quickly as a 14-year-old's mind. Remember, it was just one week ago that the hot topic was fear of a double-dip economic recession. Fears were growing that Asian and United States economic growth was slowing too quickly and the European debt crisis was escalating. In addition, the technical condition was deteriorating as key support levels of the major stock averages were violated, and the Dow Jones Industrial Average leading up to the July 4th holiday had its worst five-day performance for that period since 1896!

What changed last week? Did China suddenly lift their curbs on bank-lending standards and eliminate all fear of rising property prices and inflation? Did European financial officials announce that the debt crisis was over and there was no longer concern of debt implosions and its banks encountering trouble? Were all fears of a slowing U.S. economy alleviated after a string of economic reports showing accelerated growth? Well, no -- none of these events occurred. What changed was investors' attitude swung from the glass is half empty to the glass is half full.

The stock market in the short term has been very oversold as measured by many momentum and sentiment indicators reaching historical levels that were coincident with, or soon followed by sizable stock-market gains. The message of the market, in contrast, has recently signaled few signs of a bottom and that the path of least resistance was lower. One never knows when an oversold market is oversold enough. Investors decided last week that enough was enough, at least for the near term, and the sharp rise in stocks has at least stemmed the tide of the decline. Now what?

Rapid swings in technical measures of momentum and investor sentiment have become the norm and not the exception. Many publications from Wells Fargo Advisors' strategists have discussed our outlook for increased volatility. The renewed volatility increase began May 6, the day of the "flash splash" and the DJIA's intraday swing of 1,010 points. During the past nine weeks, the DJIA has experienced advances of 1,050, 836 and two of more than 500 points all in nine trading days or less. In the same time period, there have been declines of 1,146, 979 and one of more than 500 points, also in nine trading days or less. Unfortunately, the major averages still remain in downward sloping channels since the April 2010 highs. We are hard pressed to remember a more volatile period than the past two months. Swings in sentiment of this degree are beginning to make a 14-year-old's change in mind appear rather subdued.

The rebound in stocks is better than a "stick in the eye," but has been somewhat disappointing with extremely light volume, even when accounting for that it is a summer rally and normal that activity would be subdued in the early stages of an advance following the S&P 500's recent 16% decline. Group leadership has also been inconsistent. Stocks were overdue for a bounce and now have had one. The real test for the durability of this advance will begin this week with a heavy economic calendar highlighted by retail sales, the June Federal Open Market Committee (FOMC) minutes, manufacturing readings and consumer confidence. Second quarter earnings will begin rolling out and the most critical factor will be forward guidance.

Index Performance Statistics – July 12

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10216.27	18.24	0.18	-2.03	22.62
NASDAQ	2198.36	1.91	0.09	-3.12	22.59
S&P 500	1078.75	0.79	0.07	-3.26	19.72

Source: Bloomberg

*Price return — does not include dividends

Abu Dhabi May Make BP Investment, Crown Prince Says

Abu Dhabi Crown Prince Sheikh Mohammed bin Zayed Al Nahyan said the emirate is considering making an investment in BP Plc. “We are still thinking about it,” he said in an interview in Abu Dhabi today, when asked about potentially buying a stake in the London-based oil producer. “We are looking across the board. We have been partners with BP for years.” BP Chief Executive Officer Tony Hayward said on July 7 that he had a “very good” meeting with the crown prince as analysts said the oil producer may be looking for support from Middle East investors. BP shares have gained 26 percent since the start of July as the company gets closer to containing its leaking well in the Gulf of Mexico, the worst oil spill in U.S. history.

“We would welcome any investor buying or increasing their stake,” said Robert Wine, a spokesman for BP in London. He declined to comment on Abu Dhabi in particular. BP rose for a second day in London trading today, gaining as much as 5.2 percent to trade at 414 pence as of 12:43 p.m. local time. The stock is down 37 percent since the April 20 accident in the Gulf that killed 11 workers and started the spill. BP yesterday installed a new cap on the well that may be able to stop the flow of oil until relief wells can plug it permanently. It will start testing pressure in the well today, Doug Suttles, chief operating officer for exploration and production, told reporters yesterday.

Last Week

Temperatures and markets rose on the corner of Broad and Wall this week. Stocks saw gains as investors speculated a positive start to earnings season after State Street (STT) preannounced better-than-expected second-quarter results. In addition, there were encouraging signs on the economic front. Specifically, the International Monetary Fund increased its global growth outlook for 2010, the weekly jobs numbers showed a decline and several retailers reported monthly same-store sales numbers above analyst projections. As a result, bulls got on a hot streak that helped the S&P 500 index to its first three-day rally since April with a 4.6% increase heading into Friday’s session.

Along with the positive news, the rally was likely influenced by psychological forces such as the recent sentiment readings. Generally used as a contrarian indicator, the poll conducted by the American Association of Individual Investors showed the number of bears increased to 57.07% from 41.99% in the prior week while bulls declined to 20.94% from 24.68%. It was also interesting to see bullish Wall Street prognosticators at UBS and Bank of America/Merrill reduced their market expectations. While it’s possible this week’s move was a bullish mirage, it does make sense to keep tabs of when sentiment moves to extremes and there is capitulation for a potential change in the market’s direction.

In addition to sentiment, investors are looking for strong second-quarter reports to re-ignite the bull. Current consensus expectations project a 27% year-over-year increase in profits heading into the start of earnings season with Alcoa (AA) reporting after the bell on Monday. With the positive early release by State Street this week, investors will look for affirmative tallies from Bank of America (BAC), Citigroup (C) and JP Morgan Chase (JPM). Other bellwether companies slated to hit the earnings tape include Intel (INTC), Google (GOOG), General Electric (GE), Abbott Labs (ABT), Yum! Brands (YUM), Texas Instruments (TXI), JB Hunt (JBHT), Mattel (MAT) and W.W. Grainger (GWW).

With earnings likely to dominate headlines, economic data will probably take a back seat, unless traders receive any unexpected reports. Specifically, the market will get updates on Retail Sales, Producer Price Index, Consumer Price Index, Import/Export Prices, Industrial Production, and Consumer Sentiment. In addition to the FOMC Minutes released on Wednesday, the Fed will be busy with speeches from Bernanke, Lacker and Duke. Also, there is a trip to Capitol Hill for Janet Yellen, Sarah Bloom Raskin and Peter Diamond for a Senate hearing on their nominations to the Board of Governors. Next week will be a busy week for bondland with the Treasury scheduled to hold auctions in 3-, 10- and 30-year securities totaling \$69 billion.

Weekly Focus – Think about it

“Most people spend more time and energy going around problems than in trying to solve them.”
~ Henry Ford

Best Regards,

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- * The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.
- * The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
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- * Past performance does not guarantee future results.
- * The Markets prepared by Scott Marcouiller, Chief Technical Market Strategist, Wells Fargo Advisors 7/13/10.
- * Abu Dhabi May make BP Investment: cited by Ayesha Daya, Bloomberg – 7/13/10
- * Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 7/9/10.
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