

Market Commentary

By Art Cashin

Prepared by UBS Financial Services Inc.

Statistics

Fair Value	=	-160
Buy Program	=	-60
Sell Program	=	-260

Cashin's Comments

AN ENCORE PRESENTATION

On this day (+1) in 1620, as we all recall from sixth grade, the Pilgrim fathers....thankful for having safely reached their destination.....and to assure no limits on their new-found freedom.....gathered aboard the Mayflower to draft and sign - The Mayflower Compact. And, you probably remember your version of Sister Anesthesia telling you that was the beginning of democracy in America. Well maybe you recall it that way because you were spending too much time trying to figure out why Mary Agnes Doyle was starting to look different than she did in fifth grade.

We're sure the good Sister told you the real story. How the Pilgrims in fact were nowhere near their destination. (Records indicate they were destined for "Northern Virginia" which according to sea charts probably was somewhere between present day Perth Amboy, N.J. and Bayonne. If they had found their original spot....today we might speak of the thrifty reverent Pilgrims of Wall Street. They only pulled in at Massachusetts because they had run low on beer (or as they wrote in the log "beere").

That brings us back to the "Mayflower Compact." It seems that a significant portion of folks on the Mayflower were "strangers" - not members of the Pilgrim sect, but folks who signed on in hope of land and success in the new world. They had all signed agreements to abide by the Pilgrim Fathers in this new colony of the "Virginia Company."

So, when the Pilgrim Fathers suggested putting a party ashore, "the strangers", out of beer and noting a distinct chill in the air, remarked that since this place was outside the Virginia Company Grant - once ashore they were free to do as they pleased. (Now lest ye think these "strangers" a rowdy group - Verily - I point out thou mayest have heard of a few - mayhap one Miles Standish or a certain carpenter, John Alden.) So - to keep these "strangers" from demanding freedom once they went ashore, the Pilgrims devised the Mayflower Compact - which after a quick headcount went for "majority rule." Its purpose clearly was to set a range limit on freedom of choice.

The Pilgrims spent the next 30 days, foraging, shooting crows, scaring Native Americans and their dogs (Canis Americus) but finding no beer (had the boat landed in Jersey City.....but....). Finally, they landed around Plymouth and might have all died in a few months. Instead they were saved by an Indian named Squanto who mysteriously spoke English (with a Portuguese accent no less) but that's a story for another day.

It was not the lack of "beere" but the strength of bucks that bothered the stock market Thursday. The currency correlation was evident and undeniable.

Dollar Bounce Buckles Other Assets – The greenback found some strength near a possible double bottom. The resulting bounce in the buck initially hit stocks, oil and gold like a baseball bat to the knees.

Based on the buck, stocks opened lower. Pre-opening, futures had suggested a mild dip. But the dollar rallied further even as the opening bell was ringing. That resulted in a drop in the Dow of nearly 90 points not the 30, or so, that had been suggested by the futures.

The dollar rally didn't stop there, however. The greenback ticked even higher, putting more pressure on equities, oil and other commodities. By 11:00, the rise in the dollar had driven the Dow to the day's low (circa -170). The greenback paused and stocks moved irregularly sideways into mid-afternoon.

Shortly after 2:00, the dollar began to ease back. Slowly and hesitantly stocks, oil and gold began to tick higher. The strongest of the lot was gold, which actually made it back to plus territory.

Stocks improved and cut their losses. There was even a mini-spike in the Dow in the final 30 minutes which may have been helped by "market on close" buying.

Unfortunately, the late activity swelled the volume above the prior day. That gave us yet one more "distribution day", prompting Investors Business Daily to shift its current outlook to "uptrend under pressure".

In previous Comments, we had noted the emerging divergences between the large multi-nationals and the smaller stocks. Yesterday, those divergences continued. Converting each of the averages into Dow points, Thursday's selloff looked like this: Dow -93; S&P -135; Nasdaq -177 and Russell 2000 -250. Those divergences are troubling.

As we noted in Wednesday's Comments, the Russell is particularly troubling. Heavily peopled with small caps, it was the strongest performer for most of the rally since early March. But, it has failed to confirm the "higher highs" made by the Dow and S&P. In fact, it may have formed a double top and is currently trading below its 50 day moving average. Similar small cap/high cap divergence preceded the October 2007 highs.

The paring of the Dow's losses in the final hour eased the anxiety level somewhat. Nevertheless, the divergences suggest we watch the next two weeks carefully. Hopefully, the only turkeys we wind up with will be on the Thanksgiving table.

2000 Points In Two Days – We have been cautioning on TV and in these notes that the dollar could have a major impact on the stock market. Yesterday, we got a very brief hint of what that might look like. A small bounce up in the dollar knocked 170 points off the Dow in less than 90 minutes.

Imagine what could happen if some geo-political event suddenly turned the greenback into a "safe haven currency". A rush to load up on safe dollars would catch the "dollar carry" traders flat footed. The short covering explosion would vastly exacerbate the flight to safety frenzy. The impact on the stock market could be stunning – some traders speculate that you could see a 2000 point drop in the Dow in two days. Let's hope geo-politics stay dull.

Well Below The Radar – Hugo Chavez has apparently directed Venezuelan troops to dynamite several bridges connecting Columbia and Venezuela. We don't know yet if this is for domestic consumption or if tensions have risen to this level. Worth watching over the weekend.

A Broken Trade And Broken Hearts? – Very early this morning (circa 6:45), the dollar suddenly spiked. It had been rallying through yesterday's highs and suddenly the rockets went off. Traders initially figured that it was an algorithmic buy stop – new high equals cover shorts.

Our good friend and veteran trader, Dennis Gartman, hears it may have been an error. His sources say someone may have hit the wrong button sending a buy order for 2500 contracts electronically to the floor. He hears they may "break" (cancel) the erroneous trade. What about the trades that it inspired in other markets? We'll have to wait and see.

Consensus – Divergence keep alert flags flying. So, too, does fact that rates on Treasury bills turned negative yesterday (last happened immediately after Lehman failed). Something strange is going on. Stay very nimble.

Trivia Corner

Answer - No algebra needed. If the farmers cart took Raymond half the distance at half the speed of walking, that took as much time as walking the whole way, so the train trip was wasted.

Today's Question - In a certain town of one hundred men, 85 are married, 70 have a telephone, 75 own a car, and 80 own their own house. Of these 100 men, what is the least possible number who are married, have a telephone, own a car, and own their own house?

Point of Explanation
Wonder Woman's mission was
a bit more complicated than
first thought. Will be postponed.
So Comments resume.



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