Don’t Fight the Tape

Beyondbond

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The markets have officially marched into the toughest month of the year. Traders and investors were greeted by both ecstatic news of the largest domestic oil field discovery and mixed signals such as hawkish comments from a normally dovish member of the Fed. This has resulted in a not-so-traditional September in the aftermath of vacations. Throughout the week, all three major indices had encountered several sizable ups and downs. At the end, the Dow surrendered 0.6%, the S&P 500 loss 0.9%, and the Nasdaq fell 1.25%. Weak trading volumes showed chilly sentiment lingering among investors who have exhibited a lack of confidence in the markets. The 10-year Treasury note edged up and yielded at 4.77%.

The surprise exploration by Chevron (CVX) and its partners sent oil prices to $66.25 per barrel, a total loss of 4.2% for the week. In the wake of possibly the largest oil find in the Gulf of Mexico, many other sectors were shaken. In the short run, investors might want to avoid alternative energy, precious metals, and basic materials. Oil prices might continue to drop and fall into a range of $55 to $65. If oil prices drops to a low of $60, it can be a good buying opportunity since any catalysts coming from the Middle East and tropical storms can trigger the oil prices again. On the bright side, the continued demands from China and India could still keep the commodity cycle going.

Now investors can take a break from the inflationary concern. The slow down in the world economy and housing market are more essential for investors to focus on. On top of this, the kick-off of the midterm election campaign will weigh in more political influence to the markets. In the following weeks, investors will observe more volatilities and V shapes like fluctuations within a day. Investors who do not watch the markets closely should probably walk away and come back in either late October or early November.

During this volatile time, defensive stocks such as healthcare, food & beverage, and tobacco are where the money flows. Big pharmacies such as Merck (MRK), Bristol-Myers Squibb Co. (BMY), and Pharmaceutical HOLDRs (PPH) could be potential choices for investors, especially when PPH is around $77. In the previous CEO’s tenure, BMY’s stock price had lost more than half. However, investors might be able to see some upside of 10-15% with news of replacing a new CEO. As the litigations in tobacco industry are dying down, Altria (MO) can be a good buy when the price is around $80.

Even though the performance in the Technology sector has started heating up, investors should be very selective on this high beta pool. It is probably better to

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stay away from Intel (INTC) and Marvell Technology Group Ltd. (MRVL), which are more consumer related. On the other hand, Google (GOOG) can be a good buy for investors. To determine true cheapness of a stock price, investors can look into PEG ratio (P/E ratio over growth rate). Google's PEG ratio is currently below 1 and it may stay as a good buy as long as PEG does not exceed 2. In addition, Semiconductor HOLDRs (SMH) and NASDAQ 100 Trust Shares (QQQQ) can serve investors as a trading vehicle.

Also replacing a new CEO, Ford Motor Co. (F) is standing at a turning point. It would be better for investors to wait until the price drops below $9.

Tumbling housing markets keeps investors passing by housing-related stocks. USG Corp. (USG), who provides gypsum and related products to finish the interior walls, ceilings, and floors mainly in industrial and commercial buildings, may be worth investors stopping and taking a deeper look, especially when Warren Buffett owns 17% of USG and may possibly accumulate up to 50%.

Mastercard Incorporated (MA) might still have some room to grow (up to $65). The company's IPO ($30) was too conservative due to the bad timing in the markets. Yet the price has doubled in less than five months.

September is traditionally the most volatile month of the year and leads to the worst performance. However, Wall Street has a tendency to overthrow any common theory. As the first week passed, the markets have shown strength without any major setback. An old saying on Wall Street, "Don't fight the tape," and "Don't catch the falling knife" may be a wiser way to invest in this particular time.