



Sucker's Rally? Stock Gains Likely to Be Short-Lived
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While this week's stocks rally isn't making long-term believers out of many people, it does have market pros excited about being able to cover damage caused by recent woes on Wall Street.

Investors have jumped into the market as early earnings results are showing that financials are in better shape than Wall Street expected. Some have sold into the rally as a way to recover losses on previously beaten-down shares.

But while stocks spiked Thursday on **JPMorgan Chase's** better-than-expected results and another **steep drop in oil prices**, there remained a level of trepidation over what could lie ahead.

That has investment advisers cautioning their clients that stock upticks are unlikely to last and that a true market bottom probably is still off in the distance somewhere.

"It's a Sucker's Rally"

"It's a sucker's rally," Kathy Boyle, president of Chapin Hill Advisors, says of this week's market move. "If you make money here, don't get greedy."

Market pros are taking in earnings reports and economic data to try to assess the future, with an especially keen focus on what financials are doing and what to expect ahead.

Merrill Lynch reports after the bell, while **Citigroup** is on tap before the Friday market open, and analysts are looking at both events as keys to where the market is heading.

"As long as banks stabilize or move upward a little you could start to see a rally," says Dave Rovelli, managing director of US equity trading at Boston-based Canaccord Adams. "We need Merrill to come out today and say something positive."

Rovelli says traders are watching whether the Dow can eclipse its high last week in the 11,500 range before the end-of-week selloff took pace.

But he still sees the market moving with a bear psychology, making it a tricky time for investors.

"If you were to jump in right now, you're crazy," he says. "On the same front, if you're 35, 40, 45 years old and if you do your research and you buy like a **Wells Fargo** or a Merrill and it's going to survive, it could be the opportunity of a lifetime. Take small little nibbles."

To be sure, few expect the market to take a straight line higher, despite a pervading belief that strong second-quarter earnings could help form the long-sought bottom.

"If you're a stock market investor you've got to realize that volatility is part of the game and right now we're in one of those volatile periods," says Nadav Baum, managing director of investments at BPU Investment Management in Pittsburgh. "Long-term investors, the Warren Buffets of the world, they love times like these. They're licking their chops. The reality is the short-term does not make the markets. Markets are made in five years or 10 years."

In the meantime, until some news come out that the economy has stabilized and that financials and real estate are back on steady footing, trading will continue to be choppy.

"We need some good economic news to give us a bottom here and we just haven't been receiving it," Bill Seidman, of RWB Capital Management, said on CNBC. "There's nothing you can look at that's very encouraging at the moment, and I don't think we'll get a bottom until we see some good news from the economy."

An Opportunity, Albeit Brief

Bear market rallies can offer opportunities for investors to recover losses, a strategy Boyle is advocating for her clients. Boyle is calling for a 900-point surge in the Dow Jones Industrial Average and the Standard & Poor's 500 to climb more than 100 points and hit 1,340 before the rally loses steam.

After that, she sees a pullback that will cause havoc for anyone who thinks the short bursts this week are signs that the market has crossed a threshold and is heading back up for the long term.

"If you really panicked in June and July use this opportunity to add some hedges, add some puts or get out of the things that you made a lot of money in last year and sell a little," she says. "The stocks leading this rally are going to be the ones that are most beaten up, so you're getting this run in financials. That's not going to last. The underlying fundamentals have not changed enough."

In fact, Boyle says things may get so bad economically that we may run into a full-scale depression as banks continue to fail and consumer spending dries up.

Yet in the short term, Boyle says her firm dumped all its short positions earlier this week and has bought exchange-traded funds that benefit from moves up in industrials and emerging markets, including China.

Boyle bought **Ultra Industrials ProShares**, which is weighted towards bluechips with a 39 percent concentration in CNBC.com-parent **General Electric** and delivers twice the return of its components. Boyle also says she is looking at **Ultra RealEstate ProShares**, which also is a double fund and is gauged on the Dow US Real Estate Index, which was 1.4 percent higher in afternoon trading Thursday.

Boyle believes the upsurge in volatility is what's presenting an opportunity now. The Chicago Board Options Exchange's **Volatility Index** moved lower Thursday and was still considerably below panic levels.

"That's what you're looking for. You didn't have that fear, you didn't have that high anxiety in the marketplace," she says. "We're looking for a very short rally. We're looking for the first week in August for this to be over."

Others feel the same, with the problems in banks weighing most on people's minds. While the bank earnings have been better than estimates--13 of 20 banks in the S&P so far have beaten the Street--they've largely been measured against lowered expectations.

"There are going to be (bank) casualties with this, we all know that," says Baum, who sees the market trading in a range for the rest of the year. "As that happens, as people get more confidence that they're getting a clearer picture of what's going on, that's what's going to drive the market back up."

"I don't think we're out of the woods yet, but this is really good for the confidence of the market," he adds. "We probably don't really bust out of this thing until the first quarter of next year, and that's probably optimistic."

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