



The Stealth Bull Market

New all-time highs for the major US indices were recorded on Wednesday of this week. For investors in Canadian equities, the biggest list being watched is the daily new lows. The liquidation process we discussed in last week's *Notebook* continues this week.

Prices for gold related equities plunged. The TSX gold index is down 36% from the September 2012 high and down 51% from the September 2011 all-time high. Is it time to buy? Not yet, as there are far too many gold bulls.

Our *Chart of the Week* shows the record-breaking feat of the two major US equity market barometers.

Chart of the Week: S&P 500 Index and Dow Jones Industrial Average – Weekly to April 10, 2013



US dollar year-to-date returns for these indices are 11.33% for the S&P500 Index and a 12.96% return for the Dow Jones Industrial Average.

For the year-to-date, US Treasury returns are still negative. Yes, we did get a one month positive return from March 8, 2013 to April 4, 2013 for those sharp enough to move quickly back into bonds. We can't believe those same investors were crafty enough to maintain a large enough equity exposure to still receive the positive out-performance from equities.



This past month we witnessed the parade of well-known global perma-bears on numerous business shows. Here are the types of commentary on CNBC; ‘The market was led by only the defensive sectors’ and ‘the volumes are too low and this move is unsustainable’. Let’s be cautious with some of the generalizations being tossed around by these prognosticators who have missed most of the equity market advance since 2009.

A look at the winners for the Dow Industrials shows 19 companies outperforming the return of the Dow average. Only two companies in the Dow Industrial Average produced a year-to-date negative return: CAT is down 3.4%. We indicated Caterpillar was a sell at \$98.65 in our January 31st Notebook. And Alcoa (AA:US) is down 4.3% year-to-date. Yes, both of these are non-defensive equities, but the best performing stock is Hewlett-Packard (HPQ: US) which is up 56.6% year-to-date. Boeing (BA:US), very much a global cyclical company, is up 16.5% year-to-date!

Another argument being espoused is the breadth of this equity advance has been narrow. Although Canadian equity performance certainly confirms that argument, the cumulative advance minus declines for both the S&P500 Index and the NYSE Composite Index show record readings.

Figure 1: Cumulative Advance-Decline Line for The NYSE, S&P 500, and NASDAQ Securities – Weekly to April 10, 2012



Source: Bloomberg



The biggest S&P 500 Index correction in 2013 is just above 3% over five days in late February.

Last year the *sell-in-May* crowd got lots of comfort for selling stock from the geopolitical events in Europe. We also got a strong signal with the sharp decline of the Australian dollar on concerns over the Chinese economy. This year we have a reversal of that signal.

Figure 2: Australian Dollar in US Dollars – Daily to April 10, 2013



Source: Bloomberg

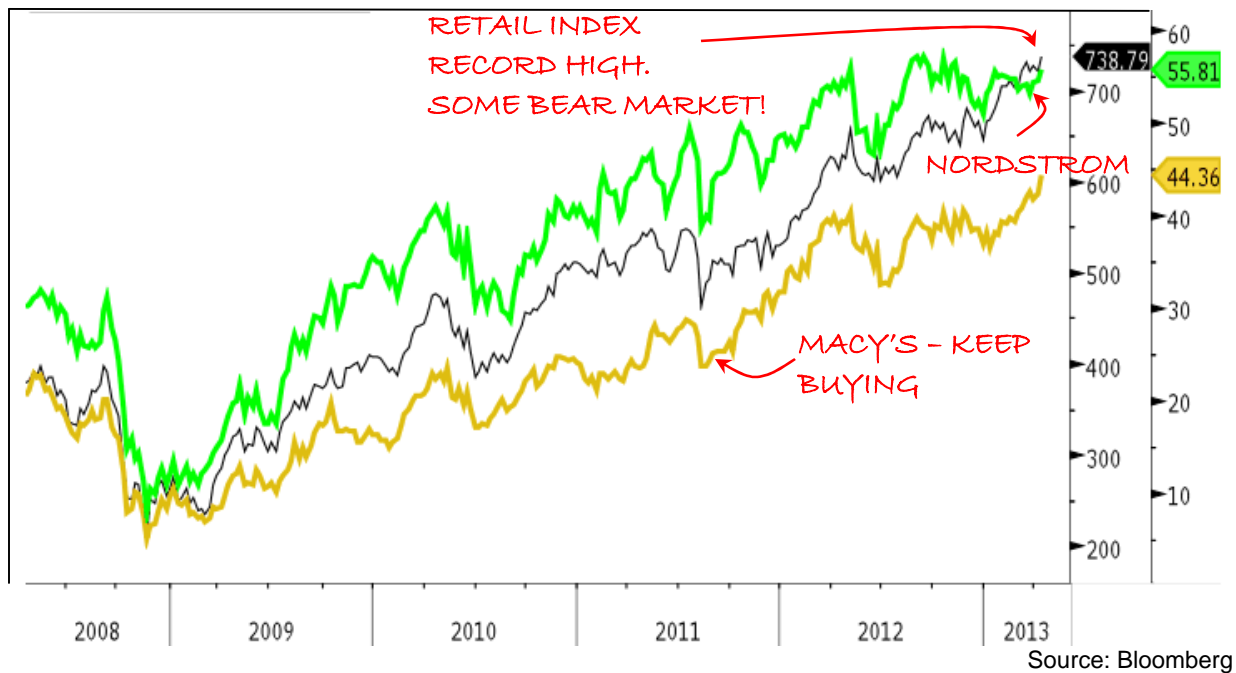
Much has been written and discussed about the impact of the US budget sequester upon the US consumer. If the value of the equity market is broadcast to be rising, and the value of US housing stock is rising, there is a very good possibility that US consumer spending will continue to rise. The weekly ICSC US Chain-store Sales Index provides a very strong reading and is also at an all-time high.



Figure 3: International Council of Shopping Centres – Chain-store Sales Index (ex: Wal-Mart) – Weekly to April 6, 2013



Figure 4: S&P Retail 1500 Super Index, Macy's and Nordstrom – Weekly to April 10, 2013





Remember our January 24, 2013 Notebook whereby we highlighted the Association of American Railroads Intermodal Container Carloads reading as a good indicator for future US retail sales six to eight weeks out? The railroad indicator continues to work!

If the rail indicator still works, so should the performance of railroad shares. The S&P Railroad Index experienced a sharp 6% correction in April, but railroad traffic remains very strong. Buy US railroad shares: Union Pacific (UNP:US), Kansas City Southern (KSU:US), CSX Corp. (CSX:US) and Norfolk Southern (NSC:US). Canadian railroads appear to be settling in for a sideways movement over the next month as investors await better news about the Chinese economy.

Airlines, a sector mostly ignored by investors produced a 17.6% US dollar return so far this year. This cyclical group is giving superior outperformance and is finally somewhat healthy.

Figure 5: Bloomberg Americas Airline Index – Weekly to April 10, 2013



An improving American housing and vehicle sales market is very good for the American advertising industry. The Bloomberg Americas Advertising Index confirms this belief.

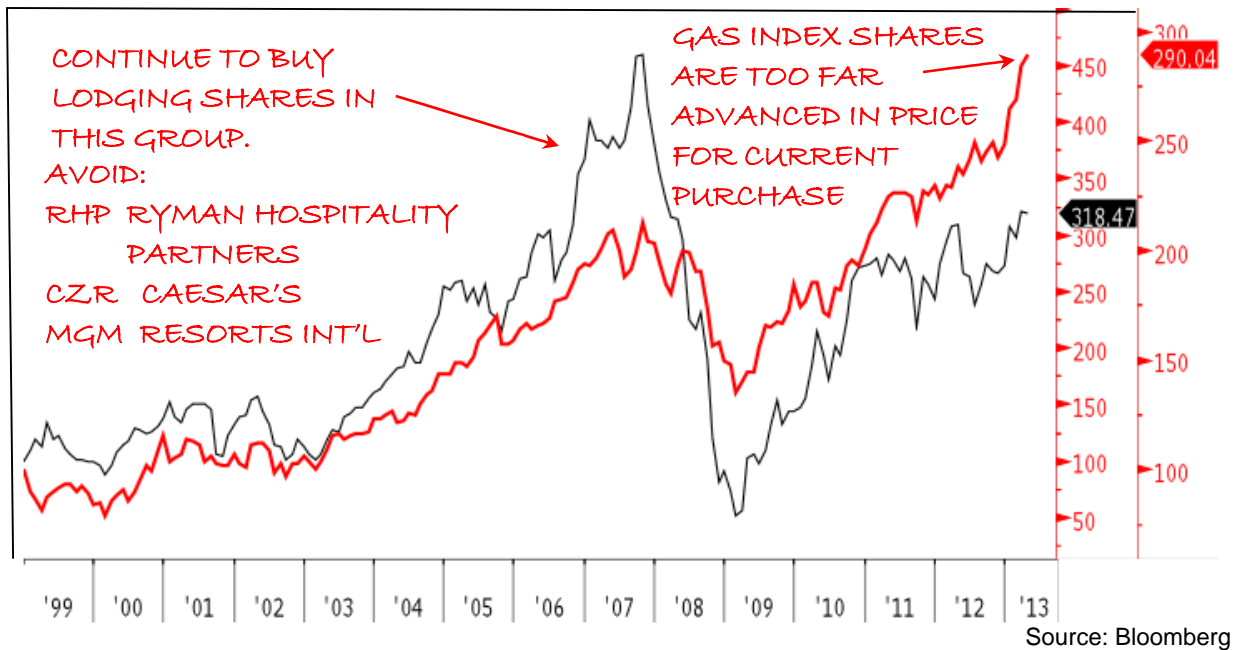


Figure 6: Bloomberg Americas Advertising Index – Monthly to April 10, 2013



Another outperforming, and very cyclical, US group is lodging. We show the lodging index along with another cyclical group, gas producers.

Figure 7: Bloomberg Americas Lodging Index and Bloomberg Americas Gas Index – Monthly to April 10, 2013





This US market advance is being lifted in an out-performing fashion by more than just the high-yielding, conservative securities.

The latest job reports for both US and Canada were disappointing and created nervousness for the equity market; that resulted in another quick slide downward in the averages. What has been an ongoing theme? The quick recovery of the major US indices. This US equity market *does* have strength.

Let's continue to focus on data provided by industry, rather than data from the government which is frequently revised.

What happened to market integrity and higher vigilance of market regulators? This past week revealed traits of the past – insider trading. An accountant working for KPMG can't count the benefits he received for tipping on the controversial Herbalife, and Skechers. The US Fed got caught sending early releases of the minutes to the usual benefactors, Congressmen and, of course Goldman Sachs. The investment industry remains a long way from being clean.

The listed market capitalization level of the US equity market is less than \$200 billion away from the all-time peak recorded on October 10, 2007. Since 2008, a big theme has been private equity accumulation of troubled companies. A restatement of overall worth of US stocks to include the companies taken private could exceed the old high.

Over the next week some important data will be released. In the US, watch for the retail sales report on April 12th, along with what should be a tame producer price report and a slightly better University of Michigan confidence reading. US CPI data arrives on April 16th.

In Canada there is the housing report on Thursday, followed by existing home sales on Monday. Watch this one as it appears that normally buoyant spring real estate is still hibernating in eastern Canada.

In the Canadian equity market, it appears further liquidation will hit the Materials sector with a focus on selling mining shares. We do expect lumber related shares to remain positive performers. The TSX energy sector is very selective and very extreme in performance.

The current split in the price action of the various members of the TSX is likely to continue. Financials got hit on concerns about the ability of Canadian economy to expand. Canadian bank shares have been a good play for international investors on a total return basis, but as the need for liquidity has grown globally, profit-taking in the banks has been the result. We expect this group to trade in a price range over the next month.



Expect elevated price volatility for the Canadian market as we work our way through the upcoming earnings season. Keep in mind, as bad as the Canadian market performance feels, only two sectors are underperforming: Utilities and Materials.

Figure 8: TSX Composite Index – Daily to April 10, 2013





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