

The Starboard Side Report

The week ending August 7, 2009

In the past two reports, we have included bullish charts of Dow Jones Industrial Average components Caterpillar and Bank of America. This week we wanted to show another US bellwether stock that is showing signs of a turnaround- General Electric. As you can see below, GE just broke a triple top chart pattern; thereby, ending a three month consolidation between \$10 and \$14. As with CAT and BAC, buyers appear to have gained the upper hand in this one as well. For the time being, the worst of the recession appears to have been fully discounted in these three important Dow stocks.

General Electric Co. (GE) NYSE

07-Aug, 11:09 ET, daily, O: 14.53, H: 14.79, L: 14.39, C: 14.75, V: 38.2M, Chg: +0.44

P&F Pattern Triple Top Breakout on 07-Aug-2009

Traditional, 3 box reversal chart

Prelim. Bullish Price Obj. (Rev.): 23.0

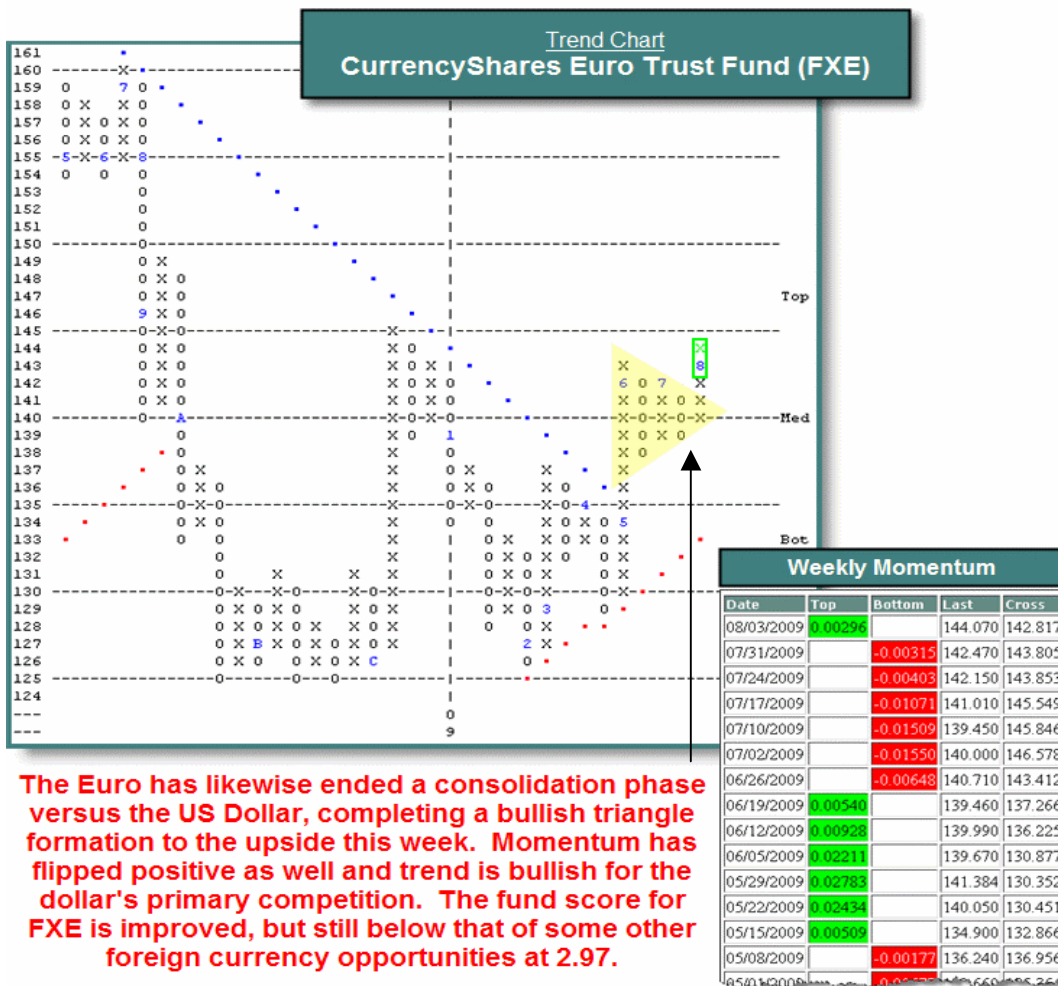
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A move to \$23 by GE would still be 60% below the 2000 highs and 40% below the 2007 high.

The fact that this breakout has occurred above the red downtrend line is very bullish. It was only a year ago that GE was trading at \$28, so another 50% move from here would not even get the stock close to that level. We certainly don't think GE will be heading back to its 2000 high of \$60 anytime soon (or even its 2007 peak of \$38 for that matter). However, that does not mean that there can't be some more upside in the months ahead. A move to the chart target of \$23, while 58% from here, would still leave the share price some 60% below the 2000 highs. This chart pretty much sums up the US stock market in general. Poor fundamentals and a negative long-term prognosis, but nonetheless recovering from a drastically oversold condition caused by the great panic of 2008.

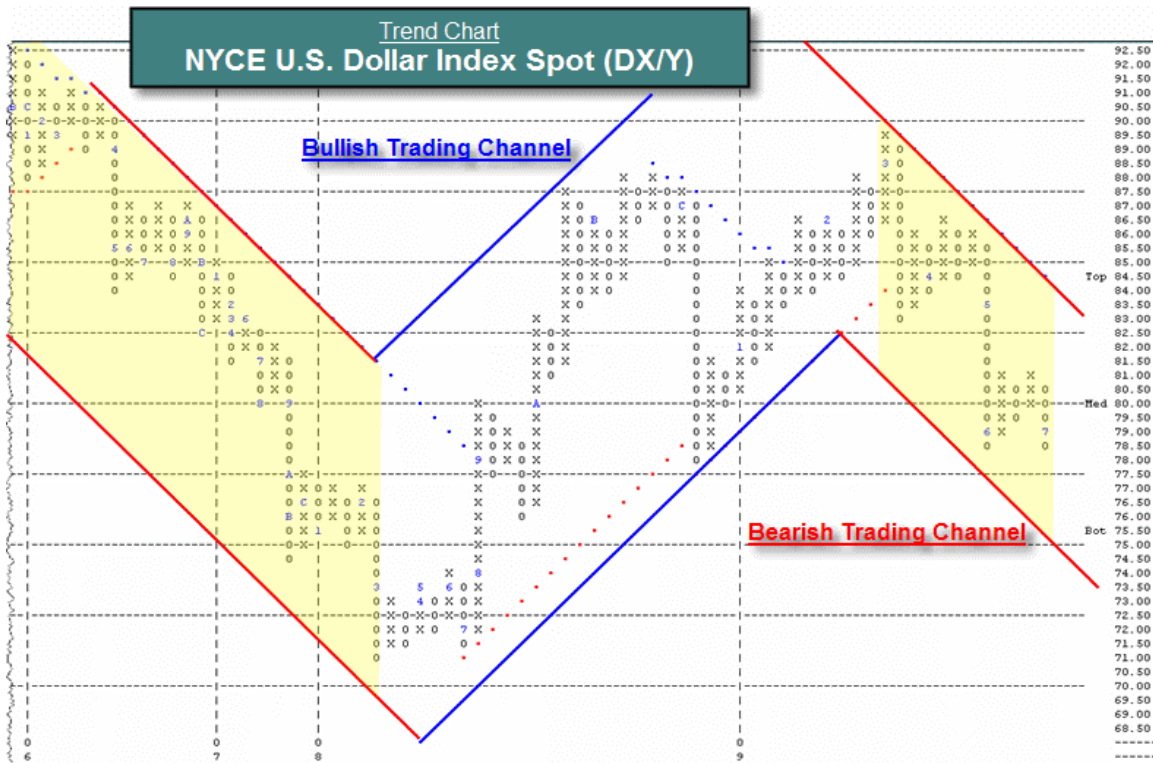
Those that follow the markets closely have no doubt been tuned into the inverse correlation that has developed between the dollar and global equities. For the past several years, dollar strength has resulted in poor performance for stocks around the world and vice-versa. For instance, as stocks took a breather between May and July this year, the dollar was in the midst of a small counter-trend rally. This was short-lived because foreign currencies are once again on the move higher versus the dollar. The chart below shows that the Euro has just broken out of a bullish triangle pattern after consolidating for two months.



The Euro has likewise ended a consolidation phase versus the US Dollar, completing a bullish triangle formation to the upside this week. Momentum has flipped positive as well and trend is bullish for the dollar's primary competition. The fund score for FXE is improved, but still below that of some other foreign currency opportunities at 2.97.

Source: Dorsey Wright and Associates

This is important because the Euro makes up almost 58% of the financial weighted US Dollar Index. US Dollar Index weakness should be very supportive of higher global stock and commodities prices because the inverse correlation mentioned above shows no signs of waning. The chart below clearly illustrates the very orderly channels that the dollar has traded in over the last three and a half years. Dollar bearish trading channels have been bullish for risky assets (especially foreign emerging markets and commodities).



Source: Dorsey Wright & Associates

The worst of the global financial crisis occurred last year when the dollar was rallying and liquidity was being sucked out of the global economy. Since the Federal Reserve and Congress began to make it clear that they are hell-bent on debasing the US currency to bailout the banking system, the dollar has started another downtrend and global stock markets have rallied.

Even though we are well aware of the negative doom and gloom views still out there, our analysis points to more upside in the markets before any of that reality starts to get priced into stocks once again. Every long-term equity bear market through history has counter-trend rallies that surprise on the upside. We are currently in the midst of one that doesn't appear to want to quit just yet.