Sand Spring Advisors LLC

Gallery of Missing Lows

by,

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In our February 2008 article, we spent some effort explaining our use of stretched Fibonacci bands to locate "natural attractor" missing lows that would make the fractal rhythm of a given chart pattern appear more "complete."

Then in March, we took some time to introduce the views of Morgan Stanley chief U.S. equity strategist Abhijit Chakraborti who we got to know reasonably well at a recent hedge fund event. While we liked some of Chakraborti's stock picks (and pans) longer term, we will be the first to admit that several have not worked in the short-term. Long-term bullishness on CL and KO only met short-term earnings and price behavior disappointment. Meanwhile, bearish views on MER and WB have only met "Pavlovian dog-type" eagerness by the market to buy in response to continued Fed easing and liquidity expansion.

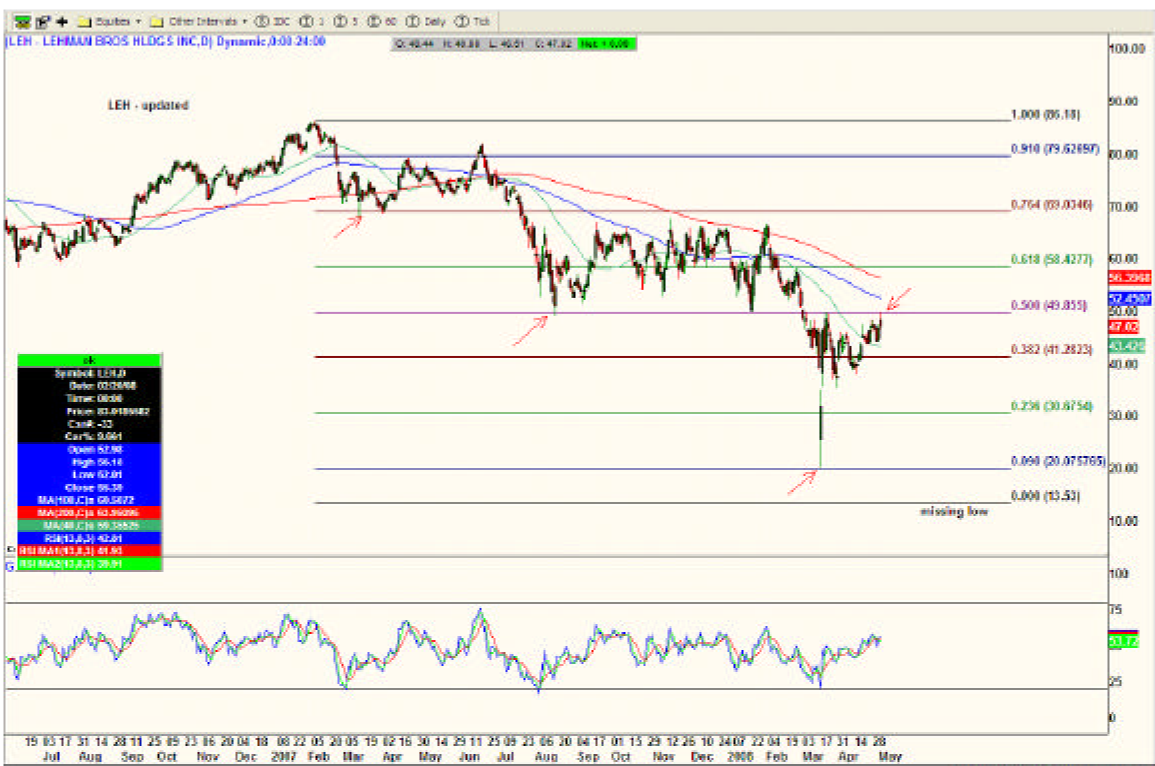
The rush to buy financials is such a misplaced knee-jerk investment by the public that it almost makes us want to cry. Yes, lower short-term rates and a steeper yield curve are typically beneficial to financial institutions, but doesn't the public also realize that the era of massive balance sheet leverage by the investments banks has ended, and that the trading of highly profitable derivative contracts is on the wane? Doesn't the public realize that core bank and brokerage company profitability will be impacted by the post-Bear Stearns push to down-size and need to dilute existing shareholders with new capital issuance?

Back in late 2007, when we saw a huge coiling formation in Goldman Sachs similar to the topping coil formation that Fannie Mae made in 2001-2002, we published a version of the chart below with the red line showing our expected path for Goldman Sachs.

We obviously did not get every wiggle correct, but we update this view now as follows:

Similarly, we published a version of the chart below last December 2007 looking at the pattern of Lehman Brothers -- extrapolating out our expected path for LEH in blue.

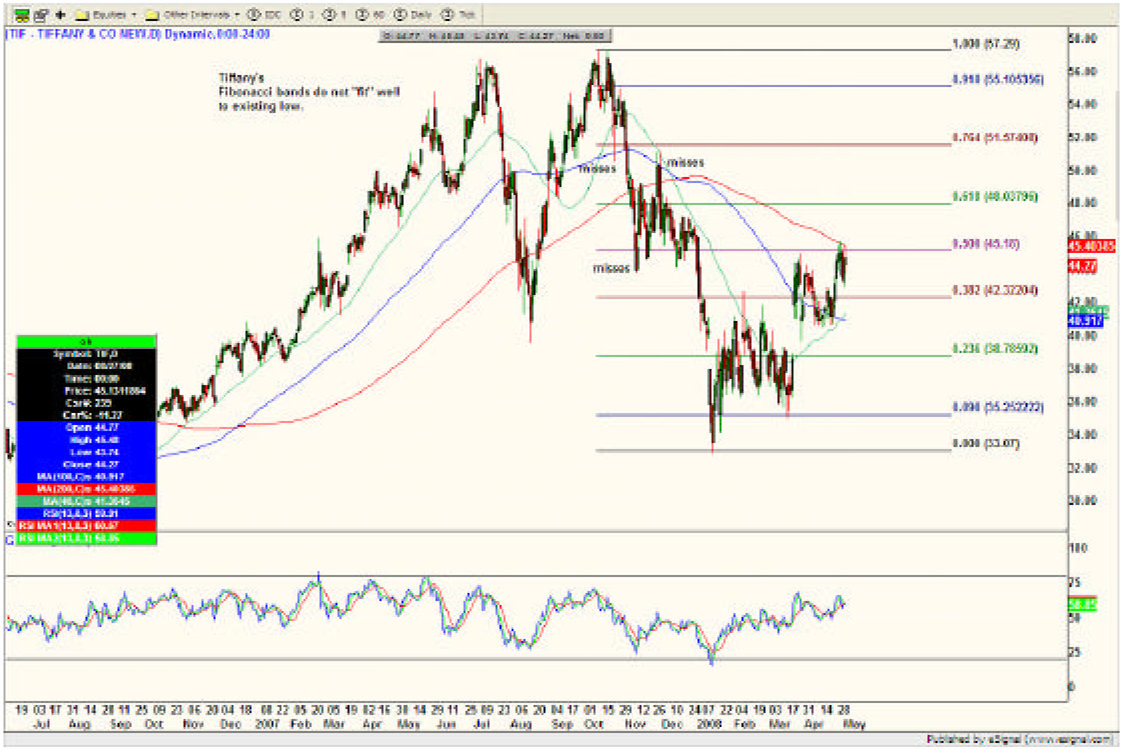
Our path and timing to the "Real Fear" demarcation on the chart was pretty good, but we're afraid to say – courtesy of the overshoot of $39 support on LEH on March 17th -- that we now expect LEH to end up making yet one more new low near $13.50:



The timing of this low, and that of GS above, is less clear. Will their forthcoming decline be fast or could this decline be ever so slow and linger into 2009-2011? We cannot immediately offer definitive guidance as to timing, but we can suggest that recent strength in both GS and LEH offers potential re-shorting opportunities – at least in our humble opinion.

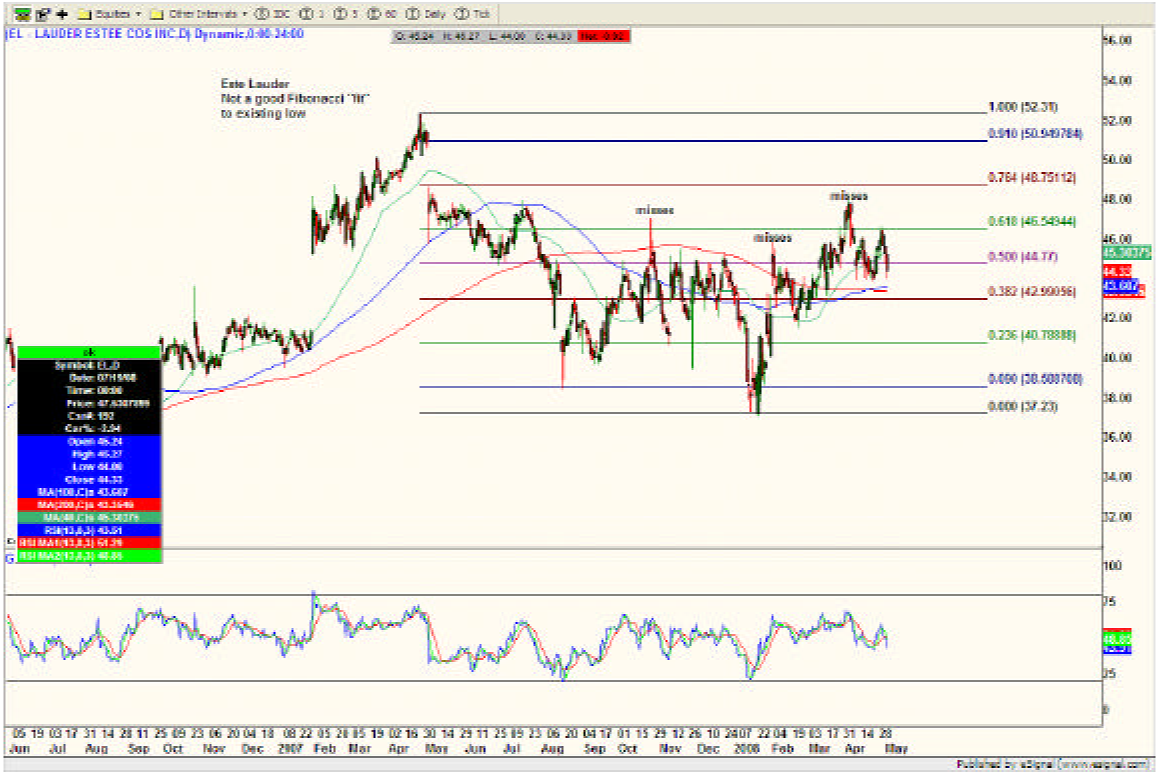
Elsewhere, let us focus on a few other missing low situations in single stocks that seem very clear to us technically. The first two are in high-end retailers Tiffany's and Este Lauder.

Just look at the chart below of Tiffany's and see how poorly the Fibonacci bands "fit" between the recent high and existing low.



Where we type "misses" on this chart, it is like having an anchor adrift that just doesn't "fit." This implies to us a new lower low to follow such that the ending complete fractal pattern looks more like this:

The comparison on the EL chart is similar. This is the mildly irritating Fibonacci situation to the existing low:

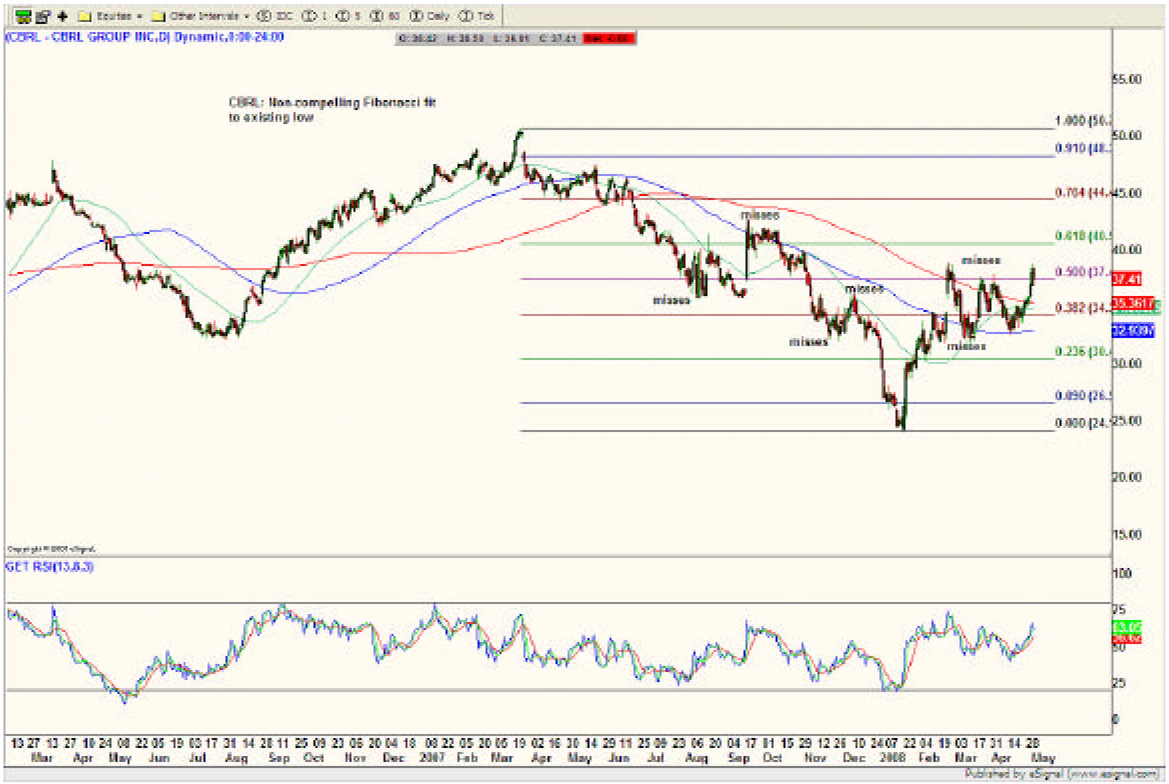


The above fit isn't horrific, but to our eye, the one below would be tighter and more compelling:

Other unfinished patterns to the downside include Alcoa. To our eye, the fractal rhythm to the existing low in AA is not complete looking:

The rhythm below looks much more potentially clean and compelling to our eye:

Here's yet another reasonably clear comparison of a chart with an incomplete existing rhythm, and a rhythm that we believe would look more compelling. The chart comparison involves restaurant chain Cracker Barrel (CBRL):



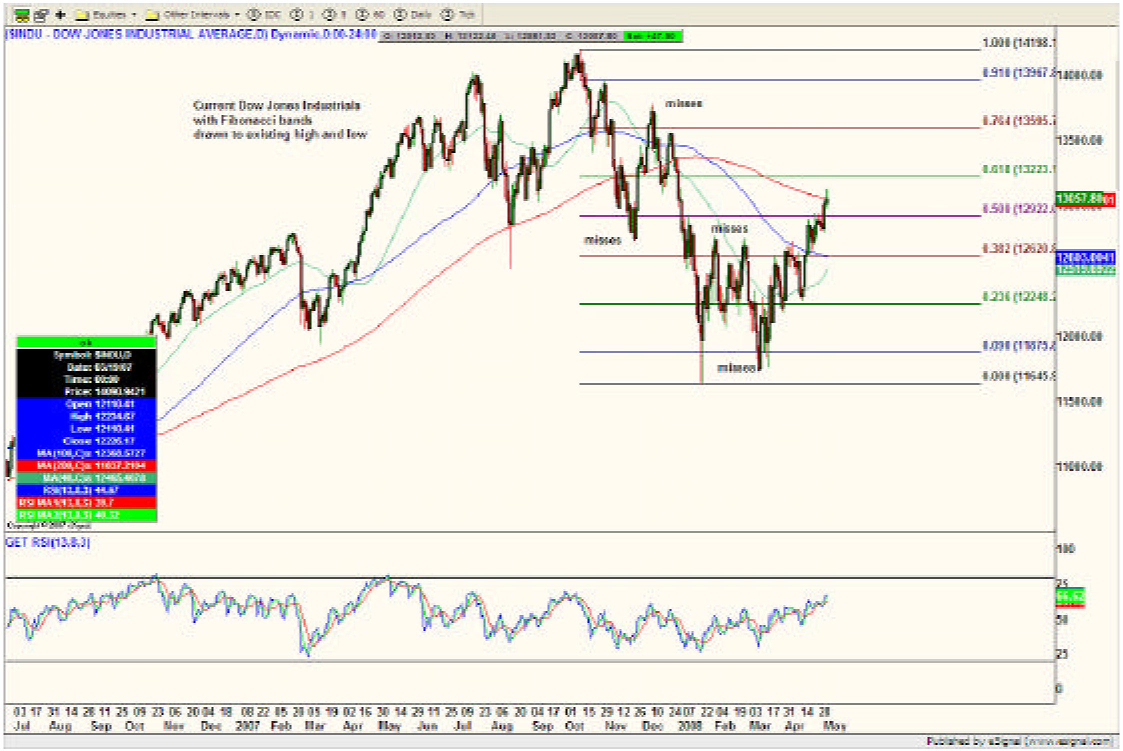
Compare the above to a potentially better Fibonacci "fit" to a new missing low:

And last but not least, we also spy a clear "missing low" syndrome in the stock of Hospira (HSP):

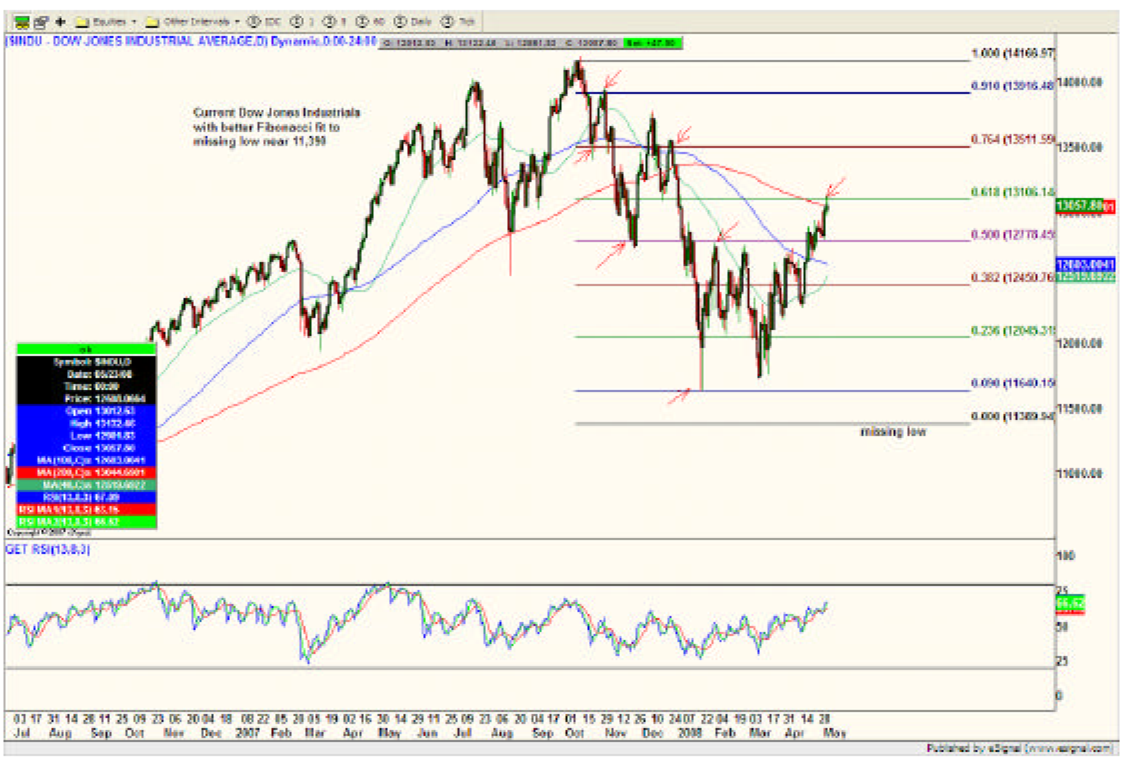
A better looking fractal rhythm for HSP would be:

So please accept the above as a few real-time examples of chart patterns where the fractal rhythm is to our eye at least compelling bearish. Call this our "gallery of missing lows." The timing of these expected declines is less clear, but we also believe that the current rally if the market in general is about to peter out.

Just look at the current fractal rhythm of the DJIA. The rhythm to the existing low once again does not look complete.



Does the rhythm below look potentially better?



We think so, and will be watching carefully for the market to shortly turn lower.

Send us your comments at information@Sandspring.com.

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