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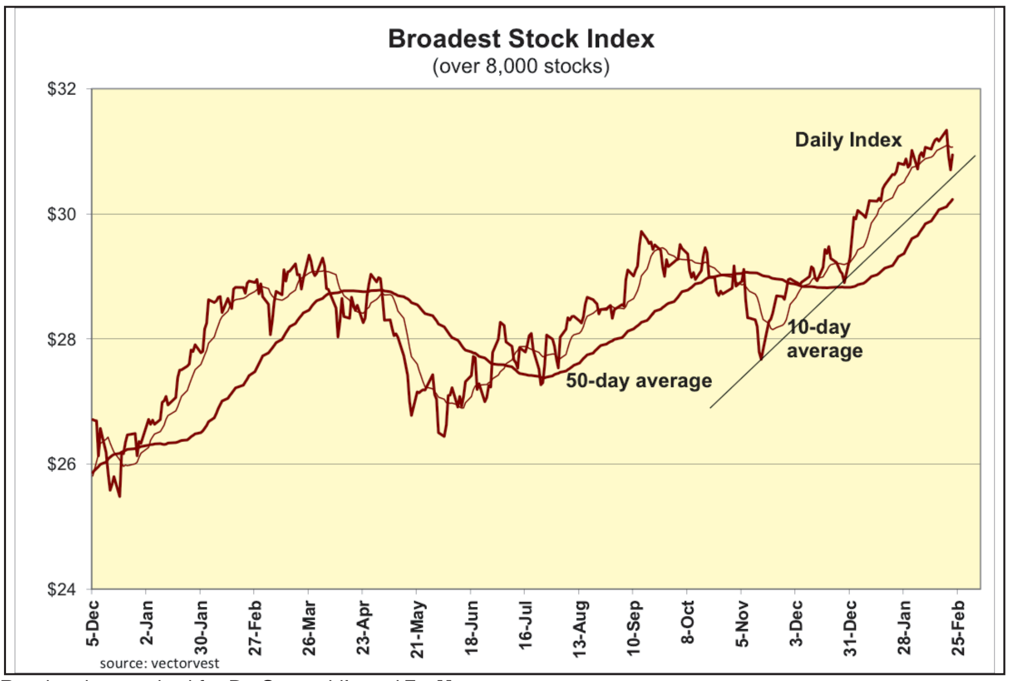
THE MEYERS REPORT

by Gary S. Meyers and Robert Genetski, Ph. D.

Genetski On Stocks



Readers have asked for Dr. Genetski's and **The Meyers Report** views on the current state of the stock market in light of both the issues surrounding sequestration and the debt ceiling. We are growing increasingly concerned over a correction in the market. Neither of our concerns revolves around sequestration or the budget ceiling, although we know both will be blamed if the market heads lower.

The good news. From a longer-term perspective we continue to believe the market is undervalued. Looking at the current price for the S&P 500 compared to earnings for the 4 quarters (ending in the 3rd quarter of 2012), the earnings yield is 5%-6%. This compares favorably to a yield of roughly 4% on AAA bonds. While current interest rates are artificially low due to Fed policy, any increase in rates is likely to be accompanied by an increase in the pace of spending. Such an increase would be far more beneficial to stockholders than bondholders. Hence, given current interest rates, stocks are cheap.

We are favorably impressed by how the market rebounded Friday, Feb. 22nd, to maintain its upward momentum. Both the overall market and the Russell 2000 were able to rally at or above the upward moving line on our chart above. The Russell was even closer to the line before rebounding. Also, the S&P 500 found support at the 1495 level we had previously mentioned.

On the downside, we are concerned over the high volume associated with the sharp declines on Wednesday and Thursday (Feb. 20th and 21st), followed by the very low volume accompanying the rebound on Friday. This is the opposite of a healthy market.

We also are concerned over what appears to be a slowing in bank loans and investments. During the six months ending in January, growth has slowed to a 4.6% annual rate. If the latest numbers (the first two weeks of February) are characteristic of the entire month, the growth rate for bank loans and investments in the six months ending in February will be 4.2%. This slowdown suggests to us that the substantial increase in bank reserves simply is not getting through the banking system to boost money or spending. Hence, the upward pressure on stocks from the growth in bank reserves is not as great as we would hope it would be.

Finally, commodity futures prices in February are down 5%. Since the dollar is up by about half that, there has been some weakness in commodity prices. This development is more consistent with economic weakness than strength.

Bottom line. The odds of a decline in stock prices have increased. Our inclination is to begin to hedge against a downturn in the market by purchasing some VXX, a proxy for the VIX volatility index. At this point Dr. Genetski intends to move from a fully-invested position to a neutral position if the market moves below the recent support levels. He would anticipate moving to a defensive position if the 10-day moves below the 50-day average.

THE MEYERS REPORT Economic Notes

Voting: Don't Do It Maryland

Yesterday the **Washington Post** reported that the State of Maryland will be introducing legislation allowing voters to download ballots, sign them (with no signature verification) and then send them in. How many ballots are going to be printed? By whom? And, who is going to sign them? Plus, the **Post** reports that Maryland's voting computers are vulnerable to hacking and fraud.

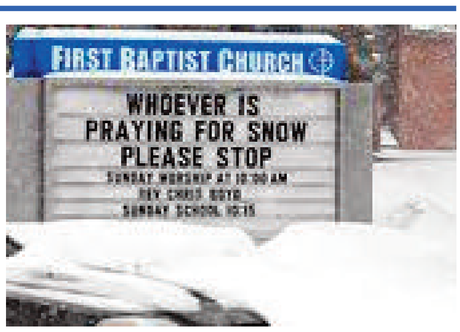
Reducing the security of the vote in no way protects voters and democracy. Quite the contrary, voting is a precious privilege and a responsibility. The founding fathers never intended to have voting treated lightly.

As for those who believe that voting fraud is a non-issue, please consider the last election. In Cleveland, 16 precincts had one candidate receiving "0" votes, 24 precincts where he received "one" vote, 35 precincts where he received two votes and another 53 precincts where he received only 3, 4 or 5 votes. Then in Florida, at least one county had a voter turnout of 140% of the registered voters, when 60% or 75% is considered a good turnout.

Dear Maryland Legislators, many Americans have died to protect our right to vote. When this bill comes to the floor, all you have to do is vote "no."

VXX is best described as a proxy for the VIX. The VIX is a measure of volitility. It tends to move inversly to the stock market. If stocks decline, the VXX tends to rise rapidly. (Referenced in article at right.)

HUMOR



Robert Genetski's Weekly Financial Update & Stock Impact Gauge

	Fundamental	Actual	Immediate Outlook
Fixed-income: 10-yr Treas.	5.0	1.98	heading higher
Equities: S&P 500	2000	1502	heading higher
Equities: Dow Jones	16,000	13,881	heading higher

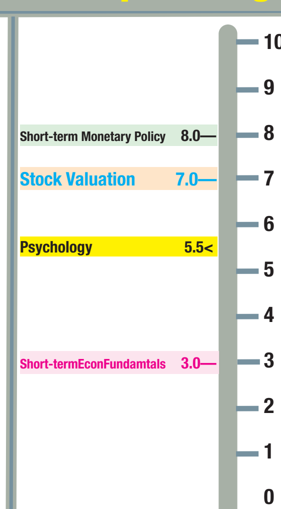
Stocks headed sharply lower last week on higher volume. Even so, there are reasons to believe the odds continue to favor further increases.

Market Outlook Stocks moved sharply lower on Wednesday and Thursday. Of the key indexes, the best relative performer was the Dow with a decline of 0.7%. The worst were the NASDAQ and Russell 2000; each fell by roughly 2%.

Trading volume was strongly negative on both Wednesday and Thursday. This indicates institutions were selling stocks. All key indexes fell below their 10-day averages—a negative development. However, all remain above their 50-day averages—a positive sign. The 10-day average remains above the 50-day average for all key indexes. This suggests the market's momentum remains positive.

My technical guru, Joe Barto, says there is key technical support at 1495-1500 on the S&P 500. If this support level fails, the odds favor further declines. With positive momentum and the market holding at a key support level, odds continue to favor further increases in stock prices.

Longer-term interest rates have paused with the 10-year Treasury near 2%. As with the stock market, the momentum is upward. Odds continue to favor further increases in long-term rates in the period ahead.



Ratings for forces impacting stocks	10 is best — means no change > change for better < the other direction