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## Despite Rate Hikes, Stocks Ready To Bounce

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The bond market is braced for the first round of rate increases in more than four years--more likely to start at the Fed's next policy meeting at the end of June than it was before Friday morning's news that 288,000 new jobs had been created in April. In response, the yield on the ten-year Treasury is up more than 100 basis points in the last six weeks. Stocks, too, have been caught up in the rate hike funk, and all three major indexes are now in negative territory for the year. Many advisers and market timers, however, point out that initial interest rate rises are not the bane of bull markets. Many say to look for a rally in stocks off of oversold levels, followed by summer weakness and then a likely move higher into November's presidential election.

A close watcher of interest rates and the Federal Reserve, **Jim Stack** of Whitefish, Mont.-based [InvesTech Research](#) notes that bull markets have historically had more room to run once the Fed starts hiking short-term rates. "In most cases over the past 50 years, profitable gains were still available for seven to 12 months longer--until subsequent rate hikes started to take their toll," observes Stack, citing data from the past ten tightening cycles. The longest continuation of a bull market was 31 months, from July 1963 to February 1966, and the last time the Fed started raising rates, in August 1999, the S&P 500 climbed higher for the next seven months.

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**Special Offer: Diamonds (DIA) and Cubes (QQQ) are only two of more than 50 exchange-traded funds (ETFs) covered by Peter Way in Block Traders' ETF Monitor: a weekly ranking of funds under accumulation by big institutional investors. For a current list of ETFs the smart money is buying--and selling--click here.**

**Sy Harding**, editor of [Street Smart Report](#), cites that last Fed tightening cycle as an illustration of a rule of thumb he calls "Three Steps and a Stumble"--the third rate hike kills the bull. The third hike of that cycle was Feb. 2, 2000. "The market may decline for any number of reasons, but we doubt it will be due to interest rates," says Harding, who points out that the Fed has yet to tighten even once this time around.

"The news is certainly bad enough on many fronts," agrees **Marvin Appel** of [Gerald Appel's Systems & Forecasts](#), citing Iraq, rising rates and President [George W. Bush's](#) low job-approval rating. Appel looks at moving averages to discern trend, particularly the moving average convergence-divergence. He sees a buying opportunity if the MACD for the major averages puts in a higher low. "If the market can turn positive from the technical analysis point of view, I would take that as a sign that it has discounted the bad news," says Appel.

**Special Offer: Jim Stack is still a bull, despite the rise in interest rates and other warning flags for possible future weakness. Click here to find out which sectors and stocks Stack has in his portfolios--and which ones he says should be sold.**

**Mark Leibovit** of [VRTrader.com](#) is one of the top ten market timers for the last three months, as ranked by [Timer Digest](#). Leibovit is currently neutral on the S&P 500, which he trades via the **Spyders (amex: SPY)**, and the Dow Jones Industrial Average, tracked by the **Diamonds (amex: DIA)**. He would like to see the Dow get down to 9,800 and the S&P down to 1,060 to set up an especially good buying opportunity into the election. Even at current levels, they're both oversold, he says. He did short the **Cubes (amex: QQQ)** at \$35.07 on Thursday, although at the same time he bought the **Semiconductor HOLDRs (amex: SMH)** to ride an oversold bounce in stocks like **Intel** (nasdaq: [INTC](#) - [news](#) - [people](#) ).

"Higher rates," says Leibovit, "are indicative of improving underlying business conditions. In addition, we have an election coming up and, barring some catastrophe, probabilities favor a higher market into the election."

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