Goldilocks Turning into Medusa?

Beyondbond

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Ever since the dramatic fall at the end of February, traders and investors have been busy wresting with the market and trying to regain some grounds. Shorting and covering orders were flying off the table. Roughly 3.40 billion shares changed hands in the New York Stock Exchange. For the week, the **Dow** fell 1.4% with 20 of its 30 components finished with losses and closed at 12,110.41. The **S&P 500** was off 1.1% at 1386.95 and the **Nasdaq Composite** gave back 0.6% and then closed at 2372.66.

According to the Labor Department, the CPI was up 0.4%, a bit higher than the expectation of 0.3%. The core index, which excludes food and energy prices, rose 0.2%, meeting the expectations. On the other hand, the producer price index, which measures inflation at the wholesale level, rose a greater-than-expected 1.3% last month. The core PPI was also higher than the forecasts with a 0.4% increase. Although the CPI is considered the more important of the two when it comes to influencing Fed decisions on interest rates on Wednesday, it is likely that Fed will leave the interest rate unchanged at 5.25%. The bond market showed little reaction to the inflationary data. The 10-year Treasury note was down 2/32 in price, yielding 4.55%. The dollar weakened against other major currencies. Crude Oil futures dropped below $60 and then fluctuated around $57 to $58 per barrel.

There are two schools of thoughts on Wall Street based on the current big swings across the board. One school believes it is the beginning of the bear market and others see them as corrections. What would happen to the lovely Goldilocks? We can support neither of them. Last week, as the housing market continued to worsen, the ripple effects started to hit mortgage companies, especially the subprime market. Other than the housing market, the reports coming from the retail sector was not as grand as expected. On top of these, Japanese Yen's appreciation was another blow to the market. As traders and investors have enjoyed the opportunity to borrow at lower lending rate from Japan and invest in the US market, which has been a critical source of liquidity in the market. Yen going higher against the dollar would certainly not be promising news to the investors.

Despite the bad news and bad numbers keep coming out from different resources, M&A deals are boiling hotter than ever. The nearly-500 point drop back in February was like a rain to the drought for private equities, which have been blocked outside of the market due to one-after-another record highs. With lots of cash on the side waiting to jump into the market, this overall fall across different sectors was a golden opportunity for private equity firms who can now negotiate deals at better prices. With M&A deals firing up, the market was pulled back every time when it got too close to the cliff.

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Nevertheless, for how much longer these M&A deals can still boost up the market is major concern. As most of the hedge fund companies are using the same strategy to join this wave of correction, one mistake can possibly pull the entire market down. What investors can possibly do while fleeting for shelters during this storm on Wall Street? For investors who do not trade or follow the market actively, even if you want to take this chance to nibble some stocks, the stock better have more than one good reason for you to commit fresh money. Examples would be to look for quality stocks with high dividend yields around 4% and then hold on to them. In addition, stocks that do not slide along with these big corrections could be better choices as well.

With an inverted yield curve, the financial sector might not be as attractive as before. However, investors can probably make a note to keep track of good companies like **Bank of America** (BAC), **Wells Fargo** (WFC), or **Citibank** (C), especially Citibank when it's at $49.2. So are **NYSE Group** (NYX) and **Mastercard** (MA). **Toyota** (TM) can be a good buy when it's at around $130. **Altria** (MO) will spin off its food company, Kraft, at the end of March. While Altria is getting rid off the concern of Kraft's liability, its stock price has the potential to go as high as $100. Altria can be a good buy at $82 or $83 and lock in the profit at $86. Investors should still be cautious with any possible regulation or lawsuit against the tobaccos industry. Other companies like **AT&T** (T), **Comcast** (CMCSA) and **Gymboree** (GYMB) could also be on investors' shopping list.