

RealMoney Silver - The Edge

Scott Rothbort, founder and president of LakeView Asset Management, LLC, is filling in for Doug Kass today. Email Rothbort at scott.rothbort@thestreet.com. Doug will return on Tuesday, March 25.

When Will Volatility Spike?

Scott Rothbort

3/20/08 7:32 AM EDT

A wise man once said on this site:

"We need to get away from the up-200 down-200 nonsense. We need to get away from explosions. We just need some sanity and peace."

That wise man was Jim Cramer. That [comment](#) was made in a late post on April 8, 2003.

Boy, do his thoughts ring true for this period of time in the market.

As it turned out, that quote and my follow-up analysis pretty much coincided with the countertrend reversal that began when the market last bottomed in 2003 during this nine-year-long bear market.

On April 9 and April 10, 2003, I followed up his comments with my research on volatility. Later that year, I introduced my proprietary measure of volatility, the VDEV, which is a measure of the standard deviation of the day-to-day percentage changes in the **S&P 500**, built off of my research.

The VDEV is fast on the rise and is nearing a spike. We may have even spike. It now sits at 1.586%. This is more than two standard deviations off of the historical mean. This is the highest level since April 2, 2003, when the VDEV had a minor spike at 1.535%, a tad under two standard deviations over the historical mean.

The last major spike in the VDEV occurred on Sept. 6, 2002, at an astonishing 2.346%, just over four standard deviations over the mean. After that date, the market still worked its way lower by about 12%, until a bear market bottom in October 2002 but, by November 2002, was higher than that day of the volatility spike.

So can volatility move higher? It sure can. Can we be in the midst of a volatility spike? The answer to that is also yes. One such scenario is for the market to hold the March 10, 2008, low and then trade sideways or consolidate for a few days before moving higher.

The bottom line is that once we see a volatility spike, we will know it, but until such a time, we might have to endure more of the nonsense that Jim Cramer described five years ago.

Bove Bullish on Banks

Scott Rothbort

3/20/08 9:32 AM EDT

Dick Bove of Punk Ziegel is making a bold call this morning. He says that we have a once-in-a-generation opportunity to buy banking stocks and that the crisis is over. He did go on to say that more negative news will come but characterized it as meaningless.

Early gains in futures have turned to small deficits on the back of the jobless claims numbers. Commodities continue yesterday's precipitous fall. What we really need today is a nice quiet day.

Unfortunately, as we are headed into a weekend, that may not occur. This year, Fridays so far have produced the following moves for the **S&P 500**: down 2.08%, down 0.84%, down 2.71%, up 0.79%, up 0.08%, down 0.42%, up 1.22%, down 1.59%, down 0.60%, down 1.36% and down 2.46%. Thus, Fridays have accounted for (on a simple basis) 9.97% of the 11.57% loss in the S&P this year. While today is not Friday, it is the last day of the trading week, so I would qualify it as a proxy for Friday.

Remember that we also have options expiration today. Looking at those Friday numbers above, the January expiration was a mild loss of 0.60%, and the February expiration delivered a slight gain of 0.08%. This may work to our advantage, as it looks like the expiration damage may have been part of yesterday's carnage as it had been the day before January expiration (down 2.91%) and the day before February expiration (down 1.34%). Combined, the days before all three expirations this year delivered total losses of 6.68%, or over half of this year's losses.

Survey Says

Scott Rothbort

3/20/08 10:14 AM EDT

Economic surveys, which came out at 10 a.m. EDT were not as bad as anticipated and have given the market a bid. The data are still weak but may indicate that a recession (depending on your definition) will be averted or will be short and shallow. It is all about perception and expectations.

Commodities and their related stocks gapped lower at the open and have recaptured some of their losses. I am in the camp that says that this is a correction in a long-term bull market. I will try to place a call to Craig the Jeweler later today.

Favorite Longs and Shorts

Scott Rothbort

3/20/08 11:40 AM EDT

Here is a post in the spirit of Doug Kass' daily posts, with my own twist.

My favorite long-term long is **Apple** (AAPL).

My favorite long-term short or avoid is anything Japanese -- Japan is a still a 1980s story.

My favorite trading long is **Yamana Gold** (AUY), which is too beaten down.

My favorite trading short is treasuries. This is the most crowded long I see out there. I use the **iShares Lehman 20+ Year Treasury Bond** (TLT) to that end.

Position: *Long AAPL and AUY; short TLT*

CIT Halted

Scott Rothbort

3/20/08 12:12 PM EDT

CIT

(CIT) is halted. According to a CIT press release, the company "is drawing upon its \$7.3 billion in unsecured U.S. bank credit facilities. The company will use the proceeds to repay debt maturing in 2008, including commercial paper, and provide financing to its core commercial franchises. Over the near term, the company will continue to actively seek additional funding sources, as well as explore and execute on the sale of non-strategic assets and/or business lines."

CIT Reopened

Scott Rothbort

3/20/08 1:10 PM EDT

CIT (CIT) reopened for trading and continues to fall. Now down 40% on the day. Volume is heavy.

Apple (AAPL) looks to be trapped at \$130 for expiration.

Altria's (MO) destiny is \$70 for expiration.

Both Altria and Apple should move higher next week after the option pressure is removed.

Position: *Long AAPL and MO*

Restaurants Get Cooking

Scott Rothbort

3/20/08 3:36 PM EDT

I have been on the record as [saying](#) last fall to avoid restaurant stocks, with the exception of **McDonald's** (MCD). In December, I even [suggested](#) getting less bullish on Mickey D's and I cut back on the shares myself. Recently, I said that [opportunities](#) will soon present themselves in the sector.

In particular, I had my eye on **Buffalo Wild Wings** (BWLD) and **IHOP** (IHP). Yesterday, Buffalo Wild Wings jumped about \$2, or nearly 10%, in a horrible tape on the back of an upgrade and a mounting evidence of declining chicken wing prices. Buffalo Wild Wings is rising another \$1 today. As for IHOP, I was waiting for Julia Stewart to complete the acquisition and integration of Applebee's. Today's news of the sale of 41 restaurants to a franchisee is igniting IHOP

stock.

Everyone is so focused on the financials that the restaurants are not getting much attention. I think that it is time to take a serious look at some of these names but would avoid chasing after the big moves these last two days. Wait for a little pullback and then start a position.

Position: *Long MCD*

Commodities Turnaround Was Key

Scott Rothbort

3/20/08 4:00 PM EDT

Just when you thought you had everything figured out, we had a melt-up on the last trading day of a volatile week, which was also a quarterly expiration. It turned out that we had another one of those periods of the "up-200, down-200 nonsense" weeks that I [mentioned](#) in my opening discourse.

The turnaround in the commodity sector stocks was an important aspect of the move today. I truly believe that the recent action was a quick sharp correction in a long-term bull market most likely exacerbated by hedge fund liquidation and deleveraging in anticipation of quarter-end position squaring off and redemptions.

Tomorrow, we will have the opportunity to have a day of rest. This also happens to be a double holiday. So for those of you celebrating [Purim](#), please accept my cyber shalach manot and have a l'chaim on me. For those of you celebrating Good Friday, please enjoy your time with family and in commemoration of the day. To everyone else, enjoy the long weekend.

I will be back on Monday. See you then.

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