

DOW THEORY FORECASTS®

Vol. 65, No. 10, March 9, 2009

Stock Market Trends & Securities Reports Since 1946

www.DowTheory.com

Looking for the light

Upgrades and downgrades

► **Dolby Laboratories** (\$28; DLB), boasts strong Quadrix® scores (92 Overall, 98 in Quality, and 96 in Financial Strength) and a solid growth profile. Spending on discretionary consumer products has come under pressure. But Wall Street's 2009 growth targets for sales (5%) and per-share profits (3%) look too conservative for a company that saw profits rise at least 38% in each of the past three years. Moreover, Dolby's long-term outlook remains bright as countries converting to digital broadcasting are choosing Dolby audio technology. In other news, founder Ray Dolby is stepping down as chairman and Bill Jasper is stepping down as CEO, though both will remain on the board. *Dolby, already a Buy, is being added to the Focus List.*

► **PepsiCo** (\$48; PEP), a longtime *Forecasts* favorite known for its steady growth and defensive characteristics, has seen its Quadrix scores deteriorate in recent months. The Overall score has dipped to 58, well below the 80 we seek for most Buys and Long-Term Buys, and operating results for 2009 are not likely to boost those scores. Concerns about the economy weigh

Continued on page 6

Investors can be excused for worrying.

The economy is contracting, stocks are slumping, and consumers are running scared. We'd love to tell you people are overreacting. But the landscape is undeniably bleak, and we won't blow smoke at you.

What we will do, however, is point out a few slivers of light piercing the dark clouds by looking at two key components of sentiment. While today's headlines may be grim, the news does not need to be good for stocks to go up; it only needs to be less bad than what's expected.

Holding a sizable cash position

remains appropriate, but periods of widespread gloom have often been good times to buy high-quality stocks, like the two profiled on page 2 and the Buys and Long-Term Buys listed on page 7.

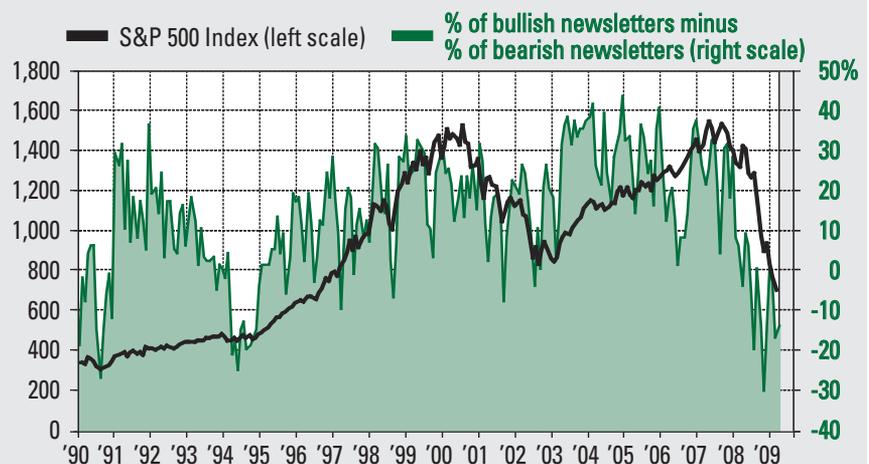
Newsletter bears roar

Investment newsletters are unusually pessimistic. As of March 3, 29.7% of newsletters were bullish, while 44.0% were bearish. As the chart below shows, bulls have outnumbered bears throughout most of the last 19 years.

However, bearishness has risen in

Continued on page 2

BEARS IN THE MAJORITY



The percentage of bearish newsletters tracked by Investor's Intelligence outnumbered bullish newsletters by 14% as of March 3. Over the last 19 years, bulls outnumbered bears by an average of 13%, and periods of high bearishness often precede strong stock-market gains.

Source: Investor's Intelligence

Looking for the light

Continued from page 1

six of the last eight weeks.

Glimmer of light: Periods when bears outnumber bulls have historically been good times to buy stocks, and sometimes you can find bargains when investors sell en masse.

In the last three months, newsletters have downgraded **Transocean** (\$56; RIG) more often any other stock. The contract driller has seen its shares fall 60% in the last year, hurt by worries that lower oil prices will slow drilling activity. While the shallow-water drilling market has weakened, Transocean's strength lies in deepwater projects plumbing depths greater than 4,500 feet. The global market for deepwater rigs has not slowed much, and rig-rental rates rose slightly in February. Transocean requires its clients, mostly large and financially strong firms, to sign contracts difficult to break, resulting in a low cancellation rate.

The consensus calls for 2009 per-share profits to slip 4% to \$13.74. The company boasts a sturdy balance sheet and earns outstanding Quadxix® scores for Value (92), Quality (94), and Overall (96). *Transocean, trading at just four times expected 2009 earnings, is a Focus List Buy and a Long-Term Buy.*

Consumer action

Declines in personal consumption

The Dow Theory is a method of interpreting and classifying general market trends and does not directly encompass the selection or rating of individual stocks or the duration of market movements. Dow Theory Forecasts endeavors to supply its subscribers with sound opinions and advice based on its analysis of public information from sources believed to be reliable.

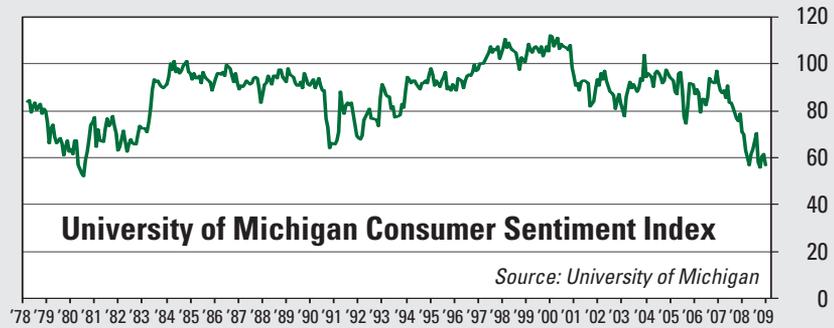
Editor, Director of Research

Richard J. Moroney, CFA

Managing Editor, Analyst

Robert A. Sweet, CFA

WORRIED CONSUMERS



In recent months, the University of Michigan Consumer Sentiment Index has flirted with lows not seen since 1980. Other indicators of consumer confidence tell a similar story — the Conference Board Consumer Confidence index fell to an all-time low in February.

in the last two quarters suggest that consumers — who account for about two-thirds of U.S. economic activity — have pulled in their horns. January retail sales came in stronger than the market expected — which translated to a year-over-year decline of “only” 9.7%.

Weak sales should not surprise us, as rising unemployment and huge losses in retirement accounts have U.S. consumers spooked. In February, the University of Michigan Consumer Sentiment Index fell within a point of the November 2008 low, which itself represented the lowest reading since early 1980.

Glimmer of light: January retail sales topped December sales, and early numbers from February point to another increase. Excluding automobiles and gas, January sales fell just 2% from year-ago levels, not exactly

a nosedive. If retail sales are leveling off, it could indicate the worst of the consumer panic has passed.

Even if consumers continue to cut back, they seem loathe to give up their satellite television. **DirecTV** (\$20; DTV) is delivering solid operating results despite a rough environment for companies dependent on consumers. Per-share profits climbed 13% in 2008 on 14% higher sales, and consensus estimates project 19% profit growth this year. DirecTV grew at a brisk clip in the December quarter, topping consensus projections by adding 301,000 net new U.S. subscribers.

DirecTV targets wealthier (read: less risky) clients. Despite economic weakness, the average collection period dropped 10% in 2008. While not immune to the downturn, America's largest satellite TV provider expects to deliver solid growth this year, boosting the U.S. subscriber count by 5%. *DirecTV is a Focus List Buy and a Long-Term Buy.*

SENTIMENT SNAPSHOT

Contributing Editors, Analysts

Charles B. Carlson, CFA David A. Wright, CFA
David B. Walle

Contributors

Robert M. Moll Jennifer R. Hopfinger

Dow Theory Forecasts (ISSN 0300-7324 USPS 997-000) published weekly by Horizon Publishing Company, 7412 Calumet Ave, Hammond, Indiana 46324-2692. Subscription Rate \$289 a year. Back issues are available for \$10 each by writing to the address above, or free to our subscribers on our Web site at www.DowTheory.com. Periodicals postage paid at Hammond, Indiana, and at

additional mailing offices. When you move—Please notify us three weeks in advance of any change in address. This will insure uninterrupted service. Periodically we rent our mailing list to companies with products that may be of interest to subscribers. If you would prefer not to be included in these mailings, please notify us in writing. POSTMASTER: Send address change to Dow Theory Forecasts, 7412 Calumet Avenue, Hammond, Indiana 46324-2692. Copyright 2009 Horizon Publishing Company. Any reproduction without written authorization is prohibited. **If you have any questions about your subscription, please write or phone us at (800) 233-5922 or (219) 852-3200.**

MetaStock is a registered trademark of Equis Int'l.