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Bulls and bears fight to the finish

One optimist still sees Dow 11,000 possible in the coming months. But one bear is betting on more market hurt ahead. Bush heads to the Azores. Fed meets Tuesday.

Isn't it just like the stock market not to give you what you want. After Thursday's stunning rally, investors were looking for either a clean confirmation of a new uptrend -- or a clear signal that Thursday was yet another bear-market head fake.

Naturally, it got neither. Rather, stocks started lower, jolted upward -- and ended mixed.

Regarding the open questions about the market's direction, theories abound. Two intriguing calls are noted in items below. But as the weekend arrived, investors simply had to contemplate the complicated days ahead -- highlighted by a weekend summit in the Azores for the Bush administration and its key allies.

Then on Tuesday, the Federal Reserve will meet on interest rates. The consensus take: Alan Greenspan and company will keep their rate-reduction powder dry, perhaps merely altering the "bias" toward lowering rates, but not actually acting. The data, especially on consumer behavior and jobs, have been weak, but the Fed presumably will want to see how the Iraq situation plays out before it moves.

One bull remains bullish

Last October, one day before the stock market turned around, Michael Painchaud of Market Profile Theorems openly celebrated the death of the bear market by wearing black on a Fox network television show. At the time, he predicted that the Dow Jones industrials would hit 11,000 by the end of March 2003.

Market Dispatch wrote about the call at the time, and so did MSN Money columnist Jon Markman (click here to see his column, and scroll to the second half).

Dispatch gave Painchaud a call Friday to get an update on his market perspective. And while he says he "hates to make excuses," he believes the Iraq conflict has gotten in the way of what remains a valid market call.

Painchaud's market approach involves the creation of four different market models, one each based on insider trading patterns, earnings growth, technical market levels and market style trends. To make a complicated story simple, Painchaud's models all imply a market that's poised to surge (provided there's

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Indexes		
Dow	7,859.71	+37.96
Nasdaq	1,340.33	-0.44
S&P	833.27	+1.37

Ford

Price	6.760
Change	-0.370

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Price	11.500
Change	-0.790

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no catastrophic event and the Iraq situation gets resolved relatively quickly).

“We like the markets, and we think you should be a buyer,” he said.

As for 11,600 on the Dow: “Obviously that window has been compressed” and is now “quite outside the realm of probability.” That said, Painchaud believes we’re in a trading-range phase for the market with Dow 11,000 still being a relevant high side of that range -- and a mark we’re likely to reach, though not by the end of March.

One bear’s view of the big rally

Here’s the decidedly more bearish view of Philip Erlanger, newsletter author, technical market strategist and a man who has correctly called many of the market moves in recent quarters:

“After almost six years of trading above 800, the S&P 500 has just completed three tests of 800 as support. The last two times were July 2002 and October 2002. As we pointed out yesterday, each successive test causes less and less fear. Think of fear as fuel for advances. Low levels of fuel tend to limit the prospects for rallies. A bull market perpetuates a ‘Wall of Worry’ as it advances. A bear market perpetuates hope despite falling prices . . .

“The important question is: how have investors deployed themselves to bet on the future? The answer is mixed because we have no recent extremes of sentiment. This is why our Model Portfolio is 50% in cash. However, against the backdrop of economic and geopolitical events, we believe there has been too much complacency. This is especially true if investors are factoring the possibility of no war at all into the picture.

“*The extent to which complacency exists is the extent to which this market is overvalued.* (Emphasis is Erlanger’s.) Our opinion is that yesterday (Thursday), and perhaps today (Friday), will be remembered as another of those in a string of one-day wonders that serve to define resistance, but which are eventually followed by lower lows. We'll change our tune if fear becomes the order of the day.”

Energy prices fuel PPI jump

The market got a mixed economic picture from wholesale price numbers this morning. The Labor Department said the producer price index rose 1% in February, higher than economists’ forecasts. But the core PPI excluding food and energy fell 0.5%, while economists were expecting a small rise.

John Ryding, chief market economist at Bear Stearns, told Squawk Box that higher energy prices have been acting as a tax on businesses, reducing their ability to have pricing power.

“(The energy number) is really more a statement of the near-term drag on the U.S. economy,” Ryding said. “Higher energy prices are playing an important part of the slowdown we’ve seen in February and you’ll see that in the CPI next week.”

He said he believes there are still a lot of problems in the underlying economy, but monetary and tax-cut policy should help ease them. He said he is “relatively confident” that there will be a stronger economy after the first quarter. He also noted that even if things don’t pick up, the economy has the “safety net” of a massive mortgage refinancing wave.

Where the money’s going

MSN Money columnist Tim Middleton offered the following data on the heavy interest in emerging market debt mutual funds. In his Tuesday column, Tim will take a deeper look at why these funds make sense for some investors.

Emerging markets bond mutual funds enjoyed net inflows of $173.6 million in the week ended March 12, according to EmergingPortfolio.com. That brought their inflows for the year to $864.7 million, an increase of 10.4% in total assets since the end of 2002.

Brad Durham, a managing director of EmergingPortfolio.com, says flows in the first 10 weeks of this year nearly equaled all of last year’s. “We have not seen emerging market bond flows this strong since we began tracking these funds in 1995,” he says.

As of March 13, the average emerging market bond fund has advanced 7.3% this year, far more than any other asset class. Domestic junk bond funds are second, with gains of 4.1%. Virtually all equity funds are negative.

-- CNBC on MSN Money staff

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