

Dollar Could Steer Stocks in Coming Week

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NEW YORK (TheStreet) -- Dollar-centric swings in the equity market may be exaggerated on light volume in the coming week as the U.S. takes a breather to celebrate the Thanksgiving holiday.

Although over the longer term, the dollar's value doesn't tend to move in tandem with stock prices, the market has been more closely attuned to currency fluctuations of late.

"You know how they say real estate is all about 'location, location, location'?" says Yu-Dee Chang, principal for the investment advisory firm ACE Investment Strategists. "Well, people have been joking lately ... [that] the direction of many markets is 'the dollar, the dollar, the dollar.'"

The dollar has recently been used as an explanation for all sorts of trends and forecasts, from gold's strength and stocks' weakness, to earnings and trade fluctuations. At the center of the debate is massive spending by the U.S. government to stabilize the financial system and kick the economy into gear. The **Federal Reserve** has promised cheap money for an "extended period," making some trades against the dollar appear more attractive.

For instance, gold has made a tremendous climb on such sentiment this year, hitting a record of \$1,153.40 an ounce on Nov. 18. The greenback hit a 15-month low against a basket of major currencies a couple sessions earlier. But stocks sputtered on Friday afternoon as the dollar strengthened and cash poured into Treasury bonds.

"One theory gaining credence these days says the weak dollar is pushing up stocks," Peter Cohan, a venture capitalist and consultant at Peter S. Cohan & Associates, said in a recent report. "If you think this theory has any credence, then you should invest in stocks for at least the next two years."

Next week, with foreign markets in full force and many U.S. traders taking time off for an extended turkey feast, trading is likely to be light, but even more volatile. Any significant revision on Tuesday to third-quarter gross domestic product -- which first tracked an impressive 3.5% growth -- could shock the market in either direction.

"Usually in a holiday-shortened week, not much happens," says ACE Investment's Chang. "Markets chop around because no one is around. But if there is an event and something does happen, it's exaggerated."

The other economic data to keep a close eye on next week will be existing home sales on Monday, and durable-goods orders on Wednesday. Also the tone of quarterly reports and outlooks from technology firms, retailers, and other consumer-exposed manufacturers will be influential. Hewlett-Packard, which prereported operating results on Nov. 11, will issue its full report on Monday, as will Tyson Foods and BJ Services. Barnes & Noble, Hormel and J. Crew report on Tuesday, while Deere & Co. and Tiffany & Co. report on Wednesday.

As has been the case for the past several weeks, the market appears to have gotten more selective about stock picks, according to Bryan Place, founder of Place Financial Advisors. Investors are leaving to the side the "low-quality" names that sparked the rally in March, and buying into blue-chip firms on any dips. Place expects consumer staples and recognizable brands like McDonalds, Procter & Gamble and Johnson & Johnson to perform well in the near term.

"People didn't stop buying toothpaste from March till now," says Place.

With all the cash on the sidelines, he doesn't believe the rally is over yet, even if the climb upward is choppy. Place is advising investors to watch closely when the market opens each day next week, because with light volume, initial trades tend to be an indicator for the rest of the day. "It could snowball," he says.

Past performance is not necessarily indicative of future results. The risk of loss exists in futures trading.