WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

January 23, 2015
DJIA: 17,814

What's not to like … what is to like? As to the latter, after Thursday we would say more. Still, remembering all those great Januaries past, this one seems disappointing, though maybe just by comparison. It is, after all, an old bull market, and that may say it all. We know it's old chronologically, but that's not what matters. What matters are signs of lost momentum, by which we mean lost participation. It's just the nature of bull markets that the longer they go, the more difficult it becomes to keep all the parts moving higher. One way to look at this process, and it is a process, is the percent of stocks above their 200-day average, a measure to which we often refer. Over the years there is a consistent pattern of lower peaks in this measure as bull markets run their course. The S&P chart on the back includes peak numbers for S&P stocks above their 200-day at the various peaks in the S&P. The trend in the S&P peaks is clear and clearly different from the trend in stocks above their 200-day. Obviously this divergence has not proven disastrous, but one day it could. A weak recovery, let's say only back to 60% rather than 70-80%, would be a real warning.

It seems important too that these percentages referenced above are for S&P stocks. If you look at all NYSE stocks the percent drops to less than 50% at present versus 69% for S&P stocks. The implication here is that non-S&P or smaller stocks are acting worse than their larger brethren. Of itself this is a pattern around market peaks – smaller stocks underperform the larger ones – the Russell 2000 underperforms the S&P 500. It's nice to think the Russell could have a catch-up move, and that's why the December breakout there was hopeful. However, history suggests otherwise. The weak drag down the strong, and not vice versa. None of this seems an immediate worry because the numbers have come down together with the averages. Should the averages move to a new high, that's another story. A failure to get back around 75% here would be considered fair warning. Even at that, however, you have to remember this is a process. It's an important warning but it's a warning.

Despite the recent respite, the decline in Oil is a problem – ask the 9,000 Schlumberger is about to layoff. To that point, all of the job growth in the economic recovery can be attributed to shale, that is, fracking. If oil prices remain low in the U.S. not only could we see more layoffs, but also a wave of bankruptcies from some of the leveraged frackers. Then there are the lenders. Apparently 20% of the junk bond market is in Energy, and in a weak Banking sector those Midwest banks are particularly so. In terms of economic growth, something like a third of S&P capital expenditures come from the Energy sector. So there's a lot to offset the much vaunted "tax cut" to consumers. As for the stocks, Jeffrey Gundlach of Doubleline Capital probably said it best – wait for them to stop going down. We agree and also would add a little twist. The easy trade still is to buy them, and that likely will change before it's right to buy them.

The overall uptrend is intact without important divergences, and that should be the overall consideration. It is the short term that has been the mystery. Last Friday's 80% up day was a hopeful sign that this latest setback was over, but Monday's lack of follow-through made it less so. Thursday's 80% up-day, however, should have done the trick, making it look as though the market was simply waiting for Godot, aka Draghi. Not only was Thursday a good day, it pushed the Advance-Decline Index to a new high, and markets just don't get into trouble against that background. Even before Thursday, the market's decision to ignore the IBM news and go with the Netflix news seemed another telling commentary. Ignoring the bad and going with the good for us always seems important. The market once again has ended a spate of weakness with an impressive rather than a weak rally, thereby keeping the bear at bay.

Leadership still is elusive, except perhaps on the downside. There you have Energy and Financials in the form of Banks. Together these sectors represent about 25% of the market by capitalization, but much more in terms of sheer stock numbers. That's something you care about when things like Advance-Decline numbers and stocks above their 200-day matter. We're still intrigued by the Food stocks, but the Consumer Staples ETF itself made a modest new high Thursday. Health Care is close to its high and Biotechs closer still, though individually the stocks themselves we would call more mixed these days. Within Health Care the United Health (114) types, Humana (154) and so on, probably act the best of late. Like the market, the Semiconductors are stalled but still worth a look. And finally, Gold acts better and Silver better still.

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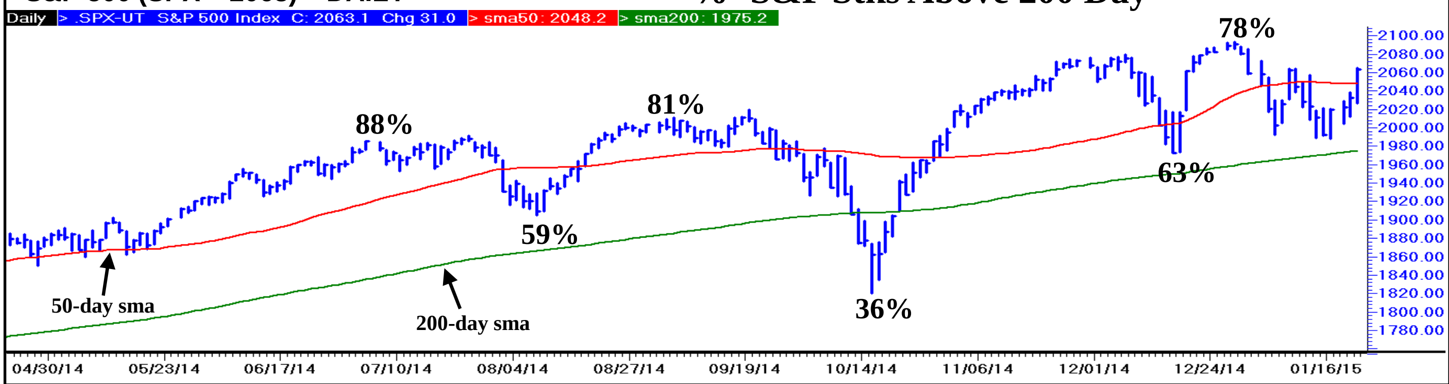
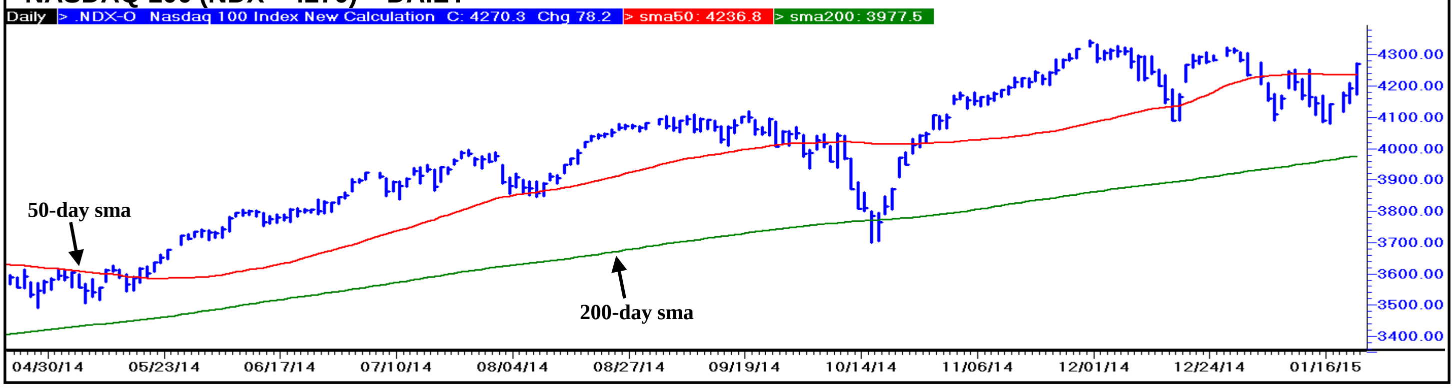
S&P 500 (SPX – 2063) – DAILY

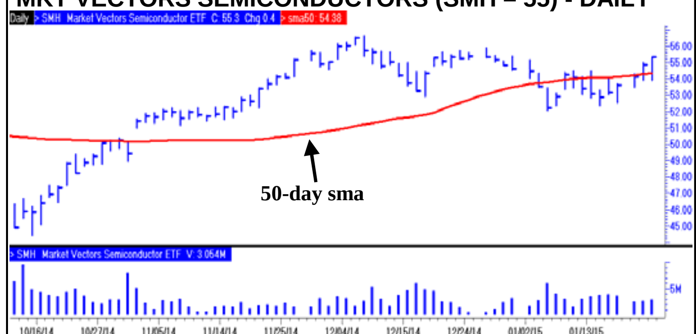


NASDAQ 100 (NDX – 4270) – DAILY

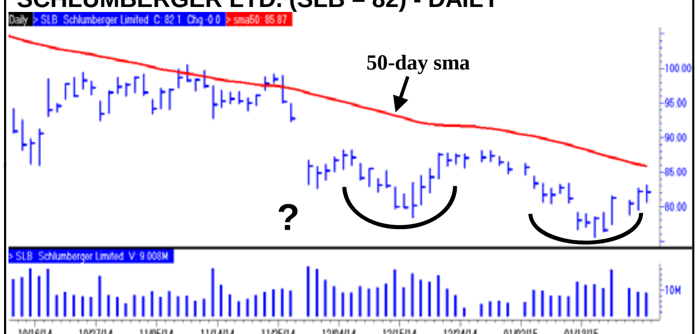


TEXAS CAPITAL BANCSHARES (TCBI – 43) - DAILY

MKT VECTORS SEMICONDUCTORS (SMH – 55) - DAILY

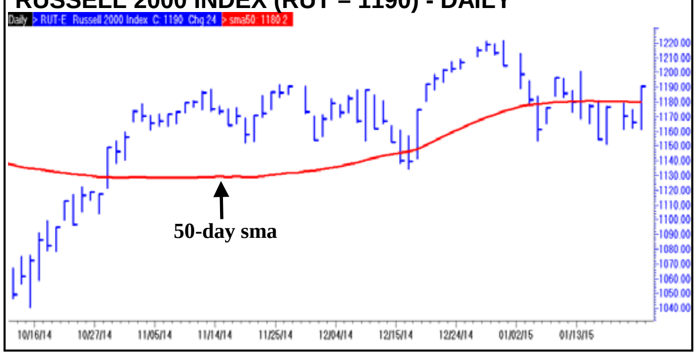


SCHLUMBERGER LTD. (SLB – 82) - DAILY



CONSUMER STAPLES SPDR (XLP – 50) - DAILY

RUSSELL 2000 INDEX (RUT – 1190) - DAILY



S&P 500 - % OF STOCKS ABOVE THEIR 10-DAY MA - DAILY