WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

February 6, 2015
DJIA: 17,885

Oil up … stocks up? You probably thought rising oil prices were bad for stocks. Or how about an even less well known correlation – oil up and Biotechs down. That one is a mystery but this week had it all. So much for being in the leaders instead of the laggards. To be fair, the Biotechs have struggled of late after leading the market for a few years now. And Oil stocks needed a rest, in this case a rest from going down. Biotechs no longer are trading as one, so stock picking may be preferable here versus the ETFs. Energy stocks should have more upside in the next month or so, but the history of 1986 and 2008 favors another leg down in the spring. If you got Oil right this week, it's doubtful you expected to get Biotech wrong. In part this is about leadership sorting itself out early in the year. In part too, it's about the market being its perverse self – not wanting to accommodate the majority.

The market averages have been in an unusually clear trading range since early December. However, and more important, during that time the "average stock" has been in an unusually clear uptrend. While the averages struggle, the Advance-Decline Index is at new highs. We can't emphasize enough that this just isn't a pattern or backdrop against which markets get into trouble. On the contrary, it's when the average stock lags the averages that trouble begins. Meanwhile, the trading range is about more than just the market averages. If you look to the percent of stocks above their 10-day moving average, rather clearly weakness has ended at readings around 20% or less in this measure. The upper end of the range is less well-defined, but levels around 80% typically are where sellers step up. When it comes to a sentiment measure like the VIX, 22-23 recently has marked market lows, and rallies thin out around 16-17.

The market's seeming inability to break free of this trading range likely has something to do with the bull market's age. It's not age per se but rather the psychology that goes with an old bull market. In new bull markets any little dip is reason for near panic. That selling builds liquidity or buying power and corrections tend to be brief and the uptrend quickly resumes. As bull markets age, investors learn it's wrong to sell, and "buy the dips" becomes the cry of the land. Eventually it takes an Ebola scare kind of weakness to restore the liquidity for a new uptrend to begin. Panic is a bad thing everywhere but the stock market because in the stock market panic builds the liquidity for a new uptrend or restores liquidity for any uptrend to resume. It's no fun getting old, and that's true for markets as well.

Far from panic, market weakness these days is met with complacency. The asset allocation poll from the American Association of Individual Investors in December showed 68% for stocks and only 15% for cash. The latter is lower than at the 2007 market peaks and near the level of the 77% long position at the beginning of 2000. The oldest of the measures of investor psychology is the Investors' Intelligence Survey which stands at the highest level of optimism since 1987. Similarly money market cash is below the level of 2007 when related to the value of the stock market. This kind of complacency historically suggests that a lot of buying power has been used. That doesn't mean the market can't go higher or continue to muddle along in this trading range. However, it does explain why the market is having its troubles.

This trading range with the "average stock" – the Advance-Decline Index – at new highs isn't the worst scenario. There's money to be made and it doesn't entail a lot of risk. The trading range could be resolved to the upside were Pfizer to decide to buy the Drug and Biotech companies it doesn't already own. Or we could ride a breakout on the back of M-I-C-K-E-Y. Rallying Oils certainly would help as would dollar weakness. Were any or all of these things to come to pass, we suspect there would be a tradeoff. Other stocks would begin to lag and then come the divergences – the big-cap averages up while the average stock lags. Another of those "be careful what you wish for" things. Of course only time will tell, to coin a phrase, and all this would take time. Meanwhile, finding a leadership to sink your teeth into might be even more helpful.

Frank D. Gretz

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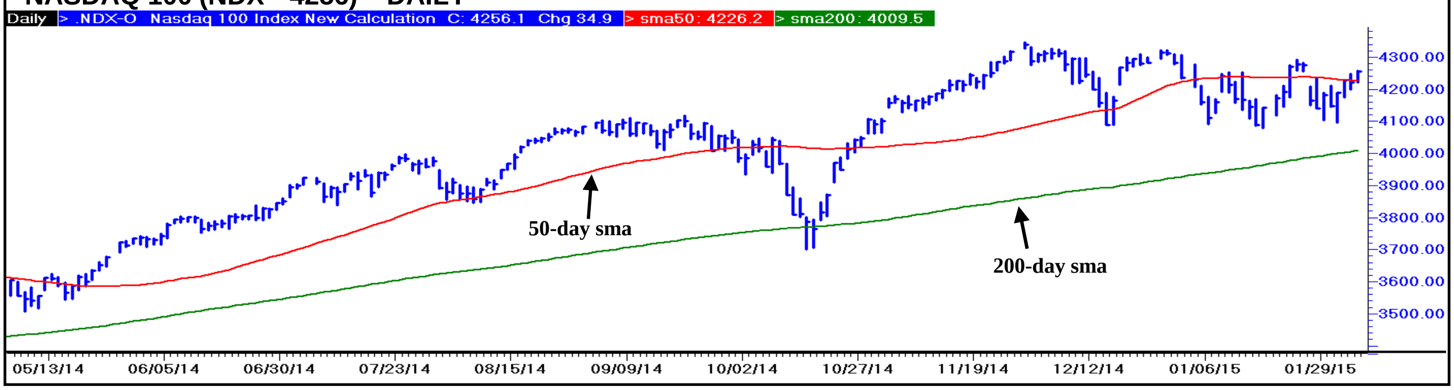
%=S&P Stks Above 200 Day

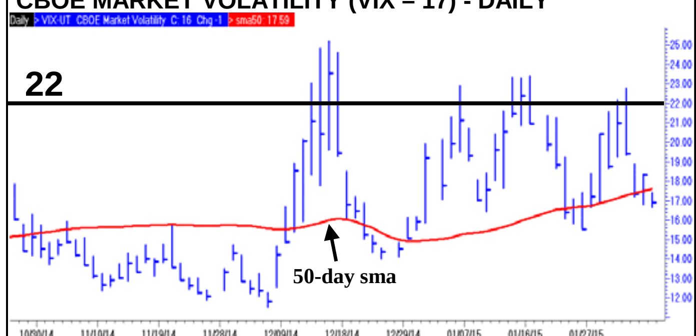
S&P 500 (SPX – 2063) – DAILY

NASDAQ 100 (NDX – 4256) – DAILY

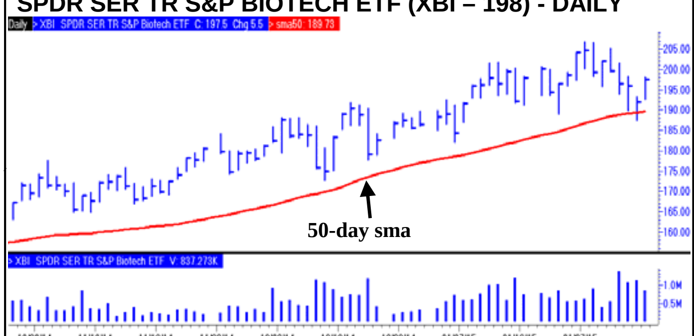


S&P 500-% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY

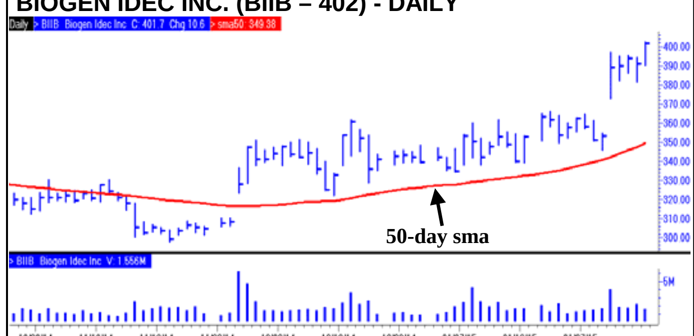
CBOE MARKET VOLATILITY (VIX – 17) - DAILY



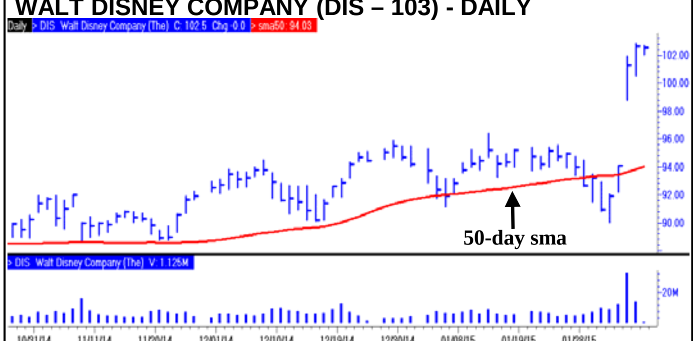
SPDR SER TR S&P BIOTECH ETF (XBI – 198) - DAILY



BIOGEN IDEC INC. (BIIB – 402) - DAILY



WALT DISNEY COMPANY (DIS – 103) - DAILY



SPDR FD ENERGY (XLE – 80) - DAILY