WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

February 13, 2015
DJIA: 17,972

Trading the range … still? For both the S&P and the NASDAQ it has been since early December that they've been range-bound, as they say. Of course these trading ranges themselves are trends, they're just sideways trends. Markets and particularly stocks spend more time in these trends than you would suspect, it's just that rarely are they so well defined. Because of this a "breakout" may be treated with more significance than it deserves. While we are above all else trend-followers, we're also skeptics when it comes to anything too well recognized. Were the market all that strong we wouldn't still be in this trading range. The history of these trading ranges is replete with false breakouts, particularly in old bull markets and extended individual stocks. Let the buyer beware, particularly of upside breakouts without volume. Meanwhile, risk of important weakness seems minimal.

The greatest trick the devil ever pulled was convincing the world he didn't exist – to quote Kevin Spacey in "The Usual Suspects." Much the same might be said about this trading range. Sitting here at the upper end of the range it's easy to believe that it's an uptrend and not a trading range. However, the supply/demand factors that have ruled for these last couple of months say buyer beware. The market on a short-term basis is overbought or at the upper end of the range in most indicators. In terms of stocks above their 10-day moving average, for example, since early December you could have made a nice living trading the market from 20% to near 80%, where we are now. In terms of investor psychology you could have done similarly well trading the VIX, or Volatility Index, from 22-23 at market lows to 16-17 at market peaks. This will change of course, but for now it is what it is.

Meanwhile, the bigger picture perspective remains quite positive. Behind the market averages lies the real "market," the market of stocks. Most days most stocks go up leaving the Advance-Decline Index at new highs, far outpacing the market averages. Markets just don't get in trouble against this background. That will change, and perhaps dramatically, before real problems begin. As it happens, a rare example of what we mean here was last Tuesday. Tuesday's better than 1% gain in the S&P and 140 points in the Dow may have been impressive, but not so the Advance-Decline ratio of 1.3. According to the "Sentiment Trader," against this kind of configuration in a market only 1% from a 52-week high, the odds of being higher 30 days later are only about one-third. There's no big mystery here – the Oils had a bad day and Utilities have had a bad week. There are enough stocks in these groups to impact the A-D numbers. However, we've learned over the years not to make excuses for the numbers.

A falling dollar and firmer oil prices gave stocks a lift Thursday. As often happens in uptrends, ignored are Ukraine, ISIS and even John Stewart's retirement – the market has climbed a wall of worry, as good markets do. While the S&P is at its best levels of the year, it is not out of its trading range, literally. At multi-year highs the NASDAQ is out of its trading range. In this case none of that would seem to matter as much as where we go from here. It's not the numbers in the averages that concern us, it's those numbers like the VIX and so on. These numbers are where the market has reversed in the past, so we'll be impressed if the market can move higher or even hold here against that background. And you have to remember, while nothing may have changed, things always look better at the top of a range.

If indeed this consolidation/trading range is resolved, typically the first stocks out are the leaders. For most of the last couple of years that has meant Biotechs, but not this time, at least for now. Meanwhile Technology has moved completely across its own trading range in only the last two weeks. Clearly Apple's (126) breakout has had a lot to do with this. So much so that you could argue that because of its gazillion dollar market cap it would have done much the same for the Food Index. Whether it's cause or effect, most Semiconductors also are acting well, and Semiconductors seem to number in the thousands. Then there's Cisco (29) which Thursday gapped out of its own trading range. Cisco and even Apple have been stalled for a while now, so their breakouts lend credibility to the market's apparent breakout.

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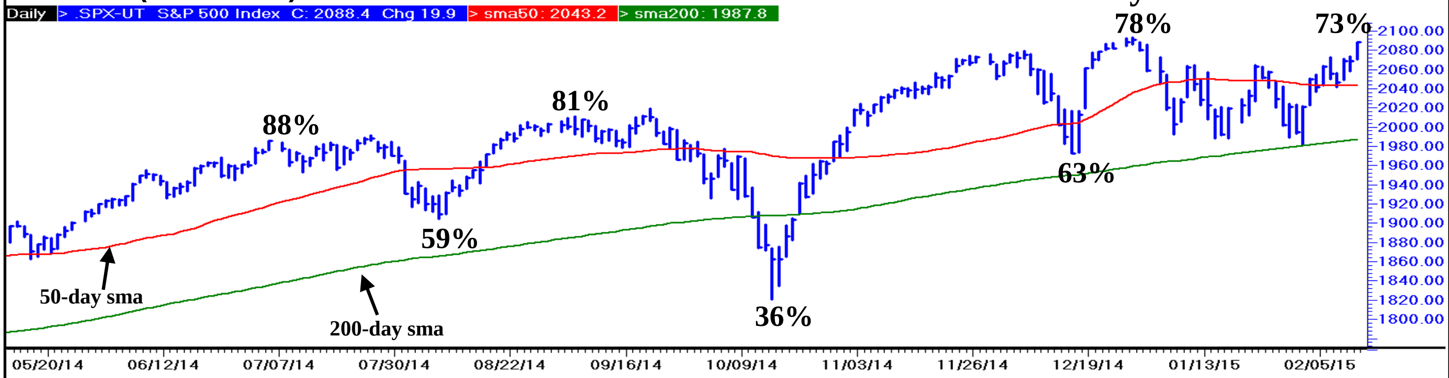
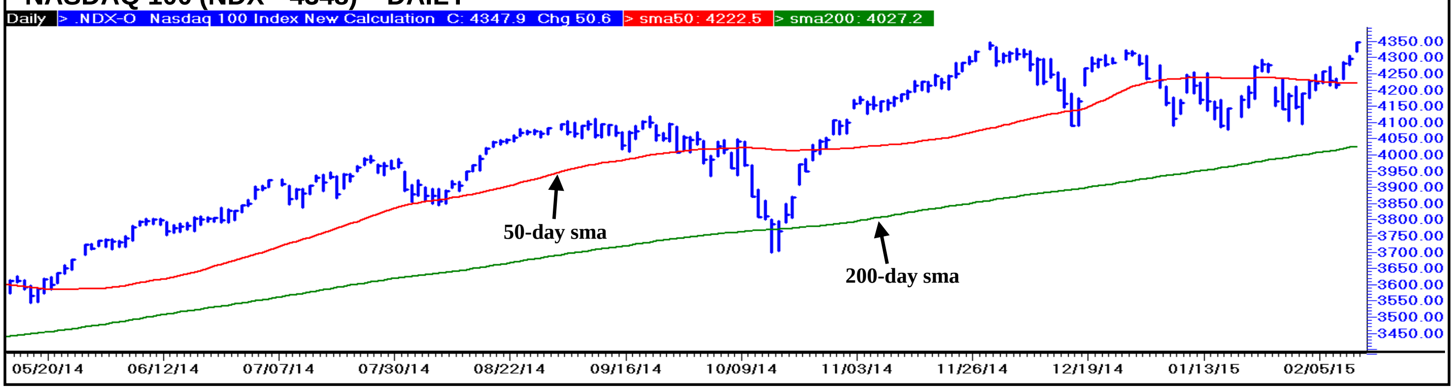
S&P 500 (SPX – 2088) – DAILY

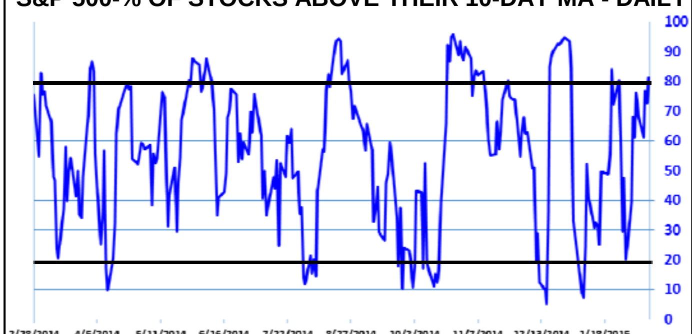
%=S&P Stks Above 200 Day



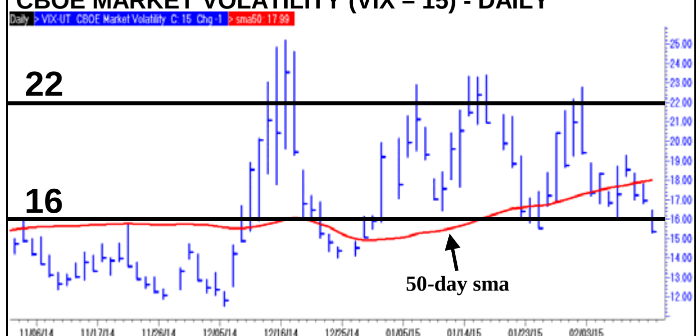
NASDAQ 100 (NDX – 4348) – DAILY



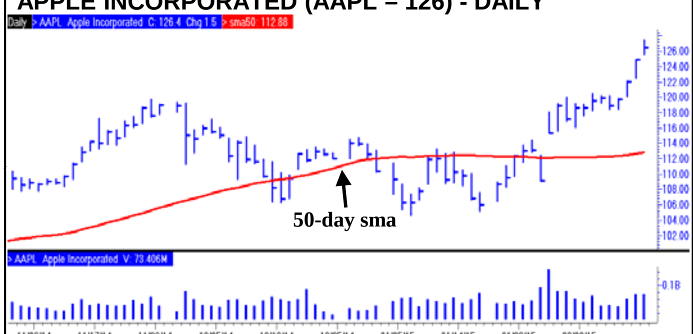
S&P 500-% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



CBOE MARKET VOLATILITY (VIX – 15) - DAILY

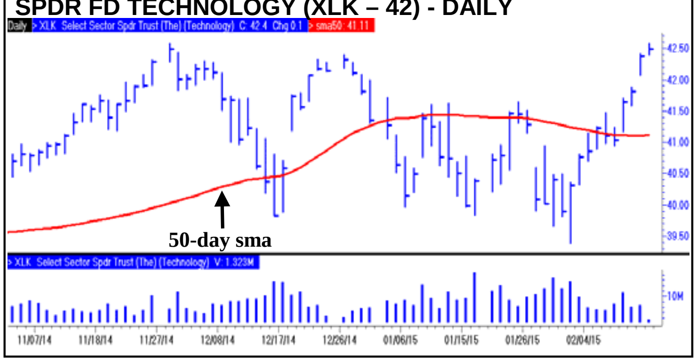


APPLE INCORPORATED (AAPL – 126) - DAILY



CISCO SYSTEMS INC. (CSCO – 29) - DAILY

SPDR FD TECHNOLOGY (XLK – 42) - DAILY



PHILADELPHIA SEMICONDUCTOR IDX (SOX – 700) - DAILY