WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

February 27, 2015
DJIA: 18,214

There is nothing to fear … but the lack thereof. They say the market climbs a wall of worry and, indeed, this is the only way it can climb. It's this worry that keeps enthusiasm in check, at least to the point there's sideline money still to be invested. Sure Greece contagion is an issue, war with Russia more so, and ISIS more so still. These are not, however, uptrend killers per se. After all, we have Apple (130) and the rest of Silicon Valley, and probably 90% of the world's patents in Biotech, an economy that's recovering and low rates. The market should go up. As for valuations, that's a term made up to give analysts something to talk about. Stocks sell at fair value twice – once on the way up and once on the way down. The rest of the time they are always either overvalued or undervalued. Better to spend your time on market direction rather than on the myth that valuations matter. This bull market is old and in ways shows its age. However, age doesn't kill bull markets, what kills them is excess.

Excess comes with the absence of that wall of worry. When there's nothing but blue skies, why not buy? Comes the time all the money is in, that's it, no matter how blue those skies may look. Of course this shows up in the market itself – divergences as the market loses momentum. There are, however, a number of measures of sentiment itself. Perhaps the oldest of these is that published by Investors' Intelligence which currently shows newsletter writers 4-to-1 bullish. Naturally you would expect a high level of bullishness in markets making new highs. However, the average for such markets is 65% versus current levels of 80%. Another measure which attempts to combine a number of variables is the Fear & Greed Index published by CNN Money. The Sentiment Trader Report estimates a current reading of above 80%. Going back to 1998 such readings produced a gain of less than 1% one month later while readings of less than 10% produced gains of close to 3% one month later.

Momentum always trumps sentiment. Most days most stocks go up, and this pretty much is all you have to know about momentum. Sure the market shows signs of diminished momentum – it's an old bull market. New Highs aren't what they used to be, even stocks above their 10-day average lost something in this last rally, but most days most stocks go up. Markets get into trouble when "stocks" begin to lag the averages. The idea that the market here has been strong enough to get to the upper range in many of these indicators is both good and bad. It's good that the rally has been strong enough to get them there, we doubt it's strong enough to keep them there. Another concern here is the Energy stocks. The overall market has been sensitive to Energy weakness and it looks as though they could turn weak again.

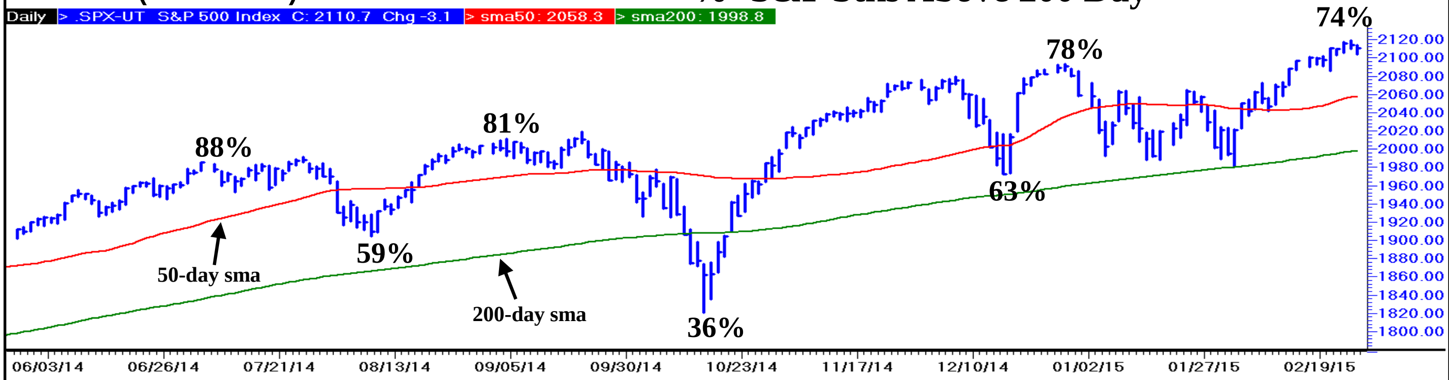
Not long ago Warren Buffett sold his Oil holdings. For the market this proved a momentary shock, and the overall uptrend calmed the market's nerves and those of Energy shares. We wonder, however, if the market wasn't right the first time. In selling Exxon (89), Buffett wasn't exactly letting go of some spec exploration company. He was making a call on Energy. So while everyone sits around pondering the bottom in Energy, that long-term investor Buffett is gone. So what was his rush? The sales were in the fourth quarter, which speaks to an even greater urgency to his selling. Oil and the stocks haven't changed all that much since then so what caused Buffett to suddenly turn into a "stop-loss" abiding trader? We wonder if his worry is less about oil and more about leverage in the oil industry. When it comes to his take on fundamentals here, we're inclined to defer and avoid Energy.

NAZ 5000 – those were the days! Back then everyone became a "day trader." A day trader bought a stock and sold it when it went up. If it went down, they bought more and then sold it when it went up. A Bull market makes "great traders" while it lasts. This time the feeling isn't the same and most of those old NAZ names are gone, literally. In this pursuit of NAZ 5000, however, there is a familiar pattern – there are leaders and these leaders are the big caps that move an average like the NAZ 100. We complain when the market narrows, but that's the natural progression of things in bull markets. That is not completely here yet, but we see it setting up. For now Apple is the driver and this should continue. However, that NAZ group of Amazon (385), Netflix (483), and Google (559) seem poised. Throw in a few Biotechs, which on the whole are improving, and the market should easily get to a record, even if it narrows in doing so.

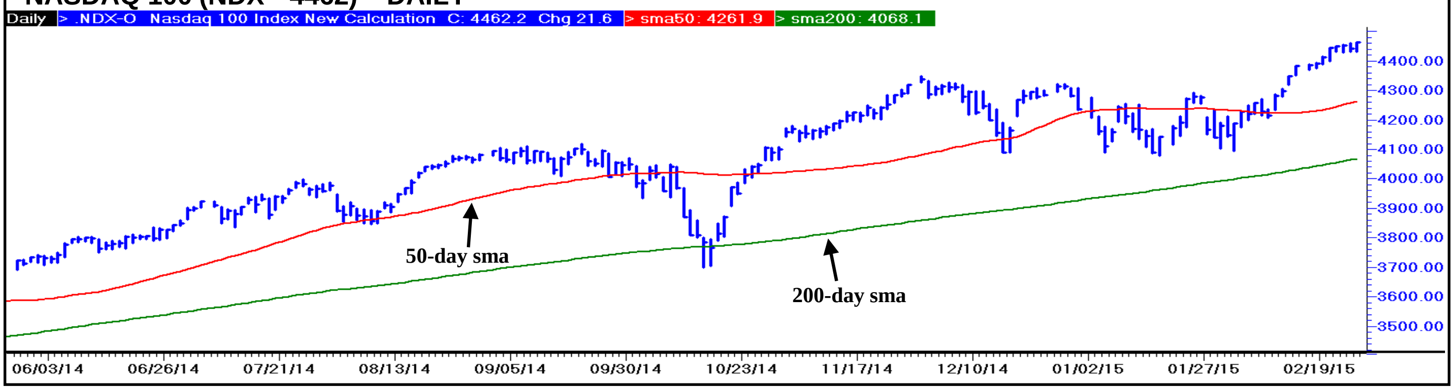
Frank D. Gretz

140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

S&P 500 (SPX – 2111) – DAILY

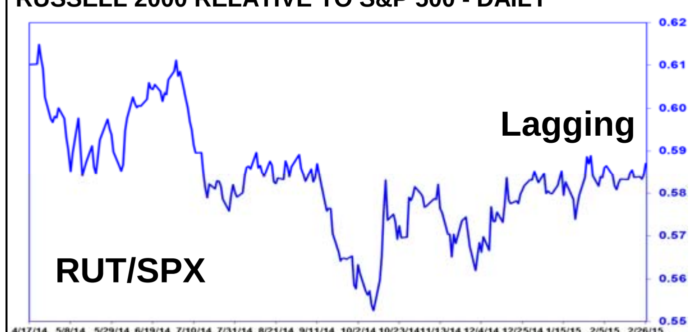


NASDAQ 100 (NDX – 4462) – DAILY



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

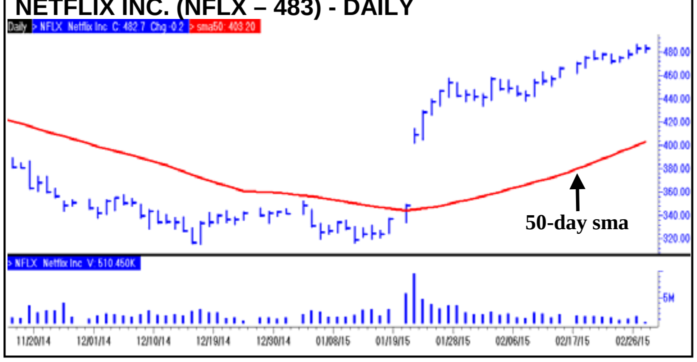
RUSSELL 2000 RELATIVE TO S&P 500 - DAILY



SPDR FD ENERGY (XLE – 79) - DAILY

AMAZON.COM INC. (AMZN – 385) - DAILY

NETFLIX INC. (NFLX – 483) - DAILY



GOOGLE INC. (GOOGL – 559) - DAILY