WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

March 20, 2015
DJIA: 17,959

They say volatility happens at tops and bottoms … then too, they say a lot of things. The market seems neither at a top nor a bottom, but there's plenty of volatility. During the past few months there have been more than 20 days with moves greater than 1% in the S&P, an inordinately large number. Contrary to what they may say, historically nothing much seems to have come of this. Another little misconception involves the Russell 2000 which this week, unlike the S&P, made a new high. While not a bad thing, this feat hasn't been particularly good for markets. It seems the market does best when everything is in unison. That said, when lagging secondary stocks do serve as a warning of trouble ahead. The Russell would show this though the measures we prefer are the Advance-Decline Index or the number of stocks above their various moving averages. In the number of stocks above their 200-day average there are divergences, but seemingly none life-threatening just yet.

The bull market recently turned six years old. The 1980-81 bull market lasted only a little over a year, the 1990-98 bull market close to eight years. As we have noted, age does not kill bull markets, it is excess that does them in. We recall like it was only yesterday standing around the locker room of the 7th Regiment Tennis Club back in 1980 listening to a bunch of tennis players discuss the breakup value of Gulf Oil of Canada. We also remember American Metal Climax back then turning down an $80 offer from Chevron (105), or what was then called Standard Oil of California. Those were the days. Whether every Biotech will come to be viewed as a takeover or come up with a cure for what we can't remember, this bull market is unlikely to go out without a speculative binge. You can argue that in Biotech a speculative phase already has begun. It won't be over, however, until those charts go vertical, and we're not there yet.

As bull markets age, groups of stocks begin to lag – divergences appear. It's just the way markets work. Stocks bottom all together but peak a few at a time as sideline investment funds are dissipated. In the natural progression of things, it's the small-cap stocks that peak first, the large-caps peak last. Hence the averages hold up to the end while measures like the Advance-Decline Index peak six months ahead, give or take. Despite the still positive action in the A-D Index and the new high in the Russell 2000, there is some evidence that this process of distinguishing among market caps has begun. If you look back to the March 2 S&P peak, 35% of small-cap stocks were down 20% or more from their 12-month high while only 10% of big-caps had similar declines. We don't think this subtle change holds a great deal of significance for the overall market, at least not yet. However, in stock selection it is something to consider.

The market's recent weakness was born out of the fear that rates might rise. Granted, rising rates could hurt housing, which already seems hurt enough. However, rising rates should mean a strengthening economy and, indeed, this seems the case. More to the point for investors, rising rates don't end uptrends. Robert Shiller will tell you markets don't peak until 9 or more months after the first rate rise. Fear of rising rates simply has become the go-to excuse for any market weakness. The weakness was about investor sentiment – bullishness is over the top. When everyone is on one side of the boat, there's little money left on the other side to even things out. So while "rate fears" may be gone, stocks above their 10-day average are back around 80% and the VIX is oozing complacency. Recently that combination has meant some short-term weakness. Now that the market has taken on a more speculative bent, who knows?

After the recent multi-week low, a test or move back to that low would not have been unusual. Instead the market, no longer "patient," took the good Fed news and did what bull markets do. What continues to be impressive is how it did it. We like to say it's not weakness that gets markets in trouble, it's weak rallies. Following this little correction the Fed-day rally saw Advance-Decline numbers that were better than 6-to-1 up. That's not our idea of a weak rally and, indeed, it's a number more indicative of a new bull market than one that is six years old. Some follow-through would be even better, but now you almost have to ask where? Thursday was a good day were you in Tech, a great day were you in Biotech, and an okay day elsewhere. We suspect that's the way it's going to stay with an emphasis on big, and big won't be exclusive to Tech. See for example Nike (103), Boeing (154) and Disney (107).

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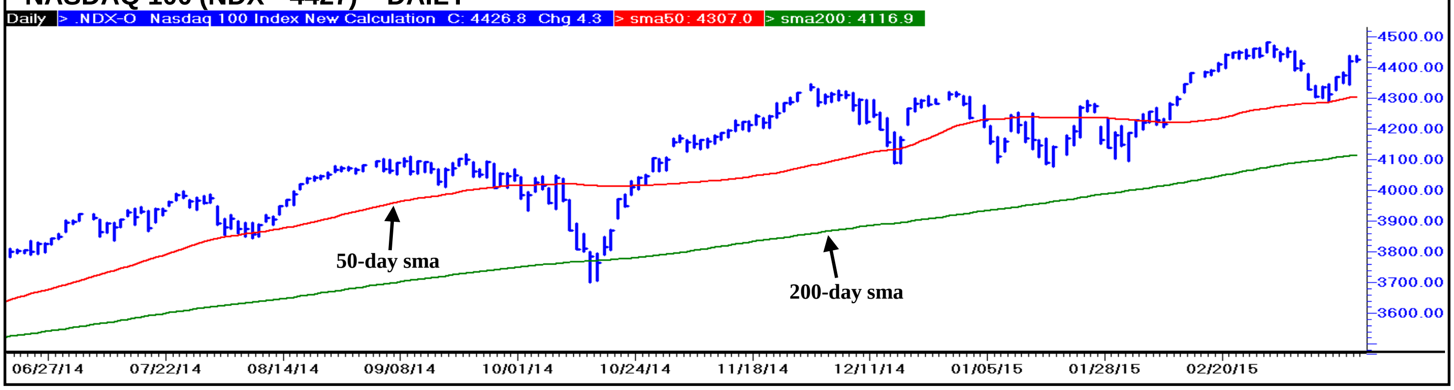
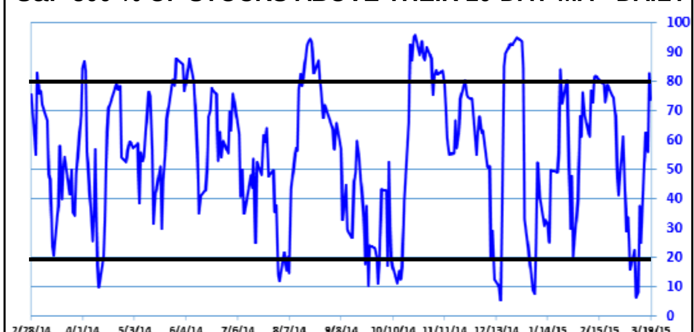
%=S&P Stks Above 200 Day

S&P 500 (SPX – 2089) – DAILY

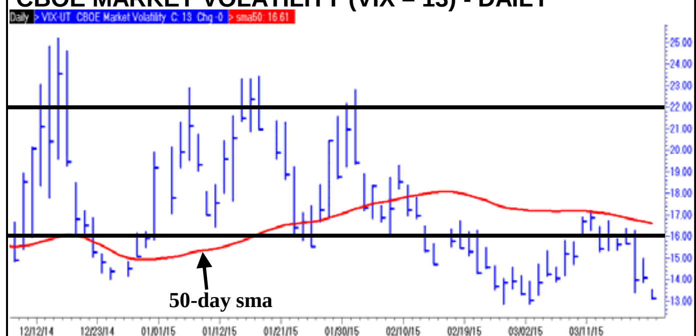
NASDAQ 100 (NDX – 4427) – DAILY



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



CBOE MARKET VOLATILITY (VIX – 13) - DAILY



NIKE INCORPORATED (NKE –103) - WEEKLY

BOEING COMPANY (BA – 154) - WEEKLY

THE WALT DISNEY COMPANY (DIS – 107) - WEEKLY

SPDR SER TRUST S&P BIOTECH (XBI – 238) - WEEKLY