

EQUITIES PERSPECTIVE

April 10, 2015
DJIA: 17,959

Oil stocks ... you missed them! Well, it's a thought. You have to admit the stocks had stopped going down – always a good start to a new uptrend. And they did so a while ago meaning most have some period of basing. What also goes hand-in-hand with lows is bad news – supply seems endless, especially if Iran comes back. Or has that suddenly changed? The Saudis finally raised prices because of a perceived rebound in Asia. And now the takeovers may have begun. The stocks are cheap or how else could Shell (59) pay-up 50% for BG Group. Crude also is close to the kind of technical reversal that in the past has proven important. Following months of volatility and a 30% year-over-year drop, crude has seen a 20% four-week decline and could be about to see a four-week 20% rise. In the past this has been a very positive sign, as would a move through 20 in the US Oil Fund, USO (18).

The lift in Energy wasn't the only change as the first quarter came to a close. We've never quite understood why too much of a good thing should be a problem, but apparently that Alzheimer's news out of Biogen (427) back on March 20 proved to be so for the Biotechs. The stocks reversed and, on the whole, reversed sharply. Of course, they did no more than come down the way they went up. As sharp and as painful as those declines may have been, looking at a chart over the last year, the weakness was little more than a flesh wound. By the way, much of this Biotech weakness and Oil strength could have been prompted by quarter-end maneuvering. Meanwhile, as though it were magic, the 50-day moving average seems to have stemmed the Biotech weakness. Psychologically this seems about right. Before they really go down we will have learned to buy dips like these. We also will have learned that all Biotechs are takeovers.

The level of stocks above their 10-day moving average pretty much has called the moves in this market. That will persist as long as this remains a choppy or trendless sort of market. That's not to say it's a bad market – it's just a market without a real catalyst to the upside. Technically speaking, that catalyst would be a deeper oversold condition, or a move away from almost rampant complacency. Of course these typically go hand-in-hand, and they also go hand-in-hand with weakness. So the market overall is in a stall which could be risky and especially so considering upcoming earnings look to be less than wonderful. However, even if you're one of those who abides by earnings and such, keep in mind the market is foremost a discounting mechanism – it's not about the known, it's about what is yet to be known. As for the stall, a technical analyst might ask, what stall? The Advance-Decline Index, a measure of the average stock versus the stock averages, is at new highs. Markets don't get into problems of consequence against that background.

Apple (127) has become the "you know what" of everyone's eye. So it came with considerable surprise to learn the stock actually is under-owned, at least institutionally. According to comments on Bloomberg, Apple comprises only something like 1.5% of institutional portfolios. However, its weight in the S&P 500 is more like 3.7%. Apple arguably has driven the market since around this time last year and there's reason to believe it will continue to do so. So how can you be underweight and expect to outperform? The obvious answer is that you expect Apple to underperform. The chart, however, suggests otherwise. Since around this time last year the uptrend has been nothing if not orderly in its stair-step sort of way. The consolidations have kept the stock from becoming too extended in the overall uptrend and have laid the groundwork for additional spurts to the upside. The stock seems to be coming out of another of these consolidation phases which should further help boost the averages, this time including the Dow. Apple's periods of underperformance, by the way, have come when the stock was over-owned.

After six years of bull market we keep waiting for things to go wrong, particularly in terms of market breadth. The theory behind the Advance-Decline Index or market breadth is that as time goes by, more and more buying power or sideline cash becomes invested and no longer available. As a consequence of diminished investable funds, the market begins to narrow – the spread between advancing and declining issues narrows. The macro numbers say this should be happening. For example, the American Association of Individual Investors survey shows less sideline cash now than at the 2007 peak, and the highest level of stock investment so far this cycle. While this is a measure of small investors, the National Association of Active Investment Managers shows a similar pattern. So where is the money coming from to drive most stocks higher? It's enough to make you wonder but we learned long ago that when the market wants to go higher, money always seems to be there. When it's no longer there it will show up in lagging Advance-Decline numbers.

Frank D. Gretz

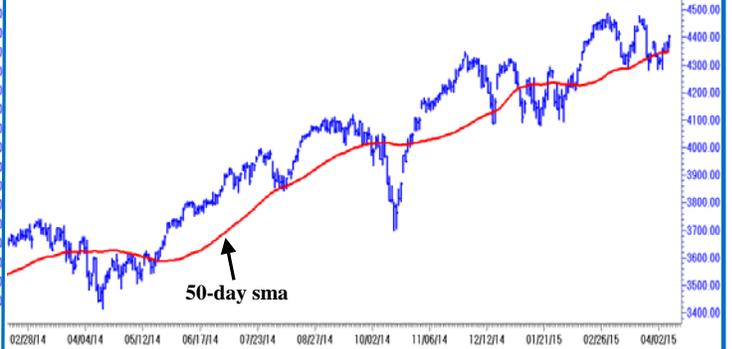
S&P 500 (SPX – 2091) – DAILY

Daily > SPX-01 S&P 500 Index C: 2091 Chg 9 > sma50 2075.9

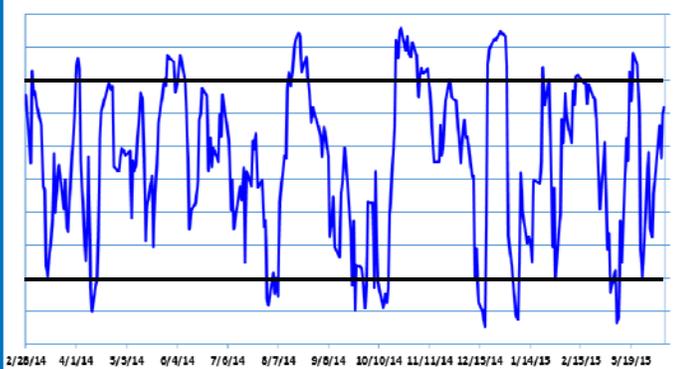


NASDAQ 100 (NDX – 4404) – DAILY

Daily > NDX-01 Nasdaq 100 Index New Calculation C: 4403 Chg 27 > sma50 4353.2

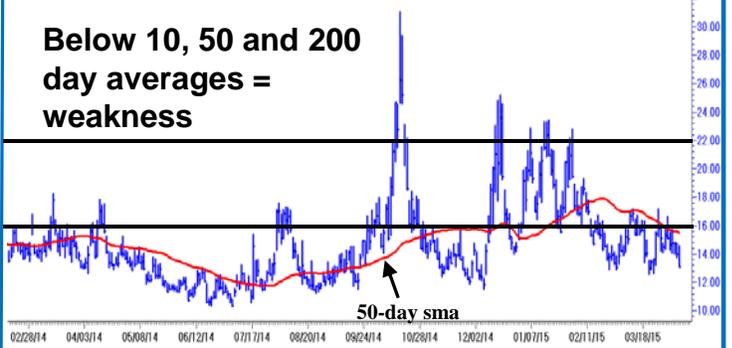


S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



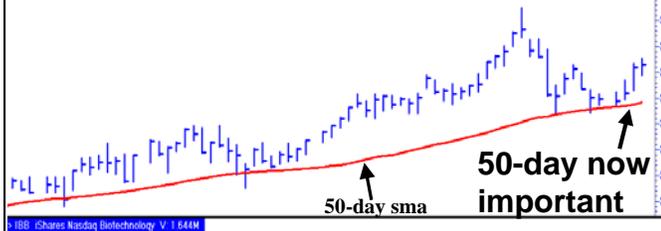
CBOE MARKET VOLATILITY (VIX – 13) - DAILY

Daily > VIX-01 CBOE Market Volatility C: 13 Chg -9 > sma50 15.49



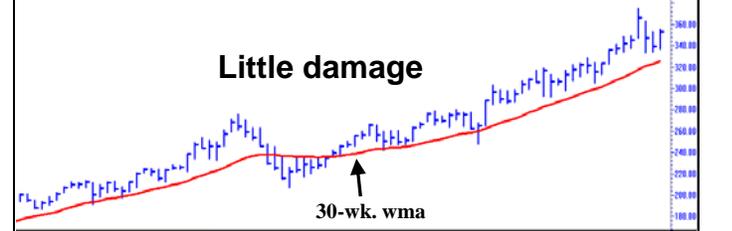
ISHS NASDAQ BIOTECH ETF (IBB – 353) - DAILY

Daily > IBB iShares Nasdaq Biotechnology C: 353 Chg 10 > sma50 338.18



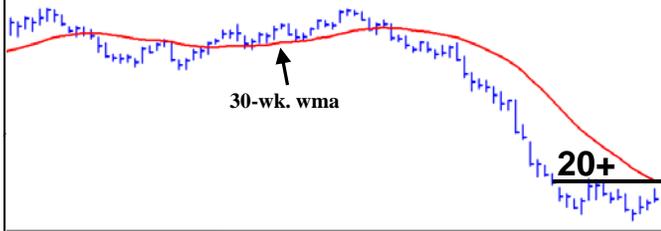
ISHS NASDAQ BIOTECH ETF (IBB – 353) - WEEKLY

Weekly > IBB iShares Nasdaq Biotechnology C: 353 Chg 1 > wma30 375.73



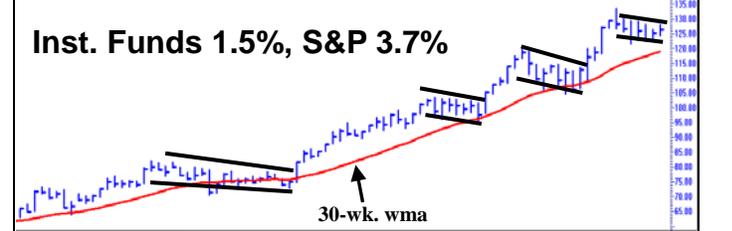
UNITED STATES OIL FUND L.P. (USO – 18) - WEEKLY

Weekly > USO United States Oil Fund L.P.(The) C: 18 Chg 0 > sma50 20.18



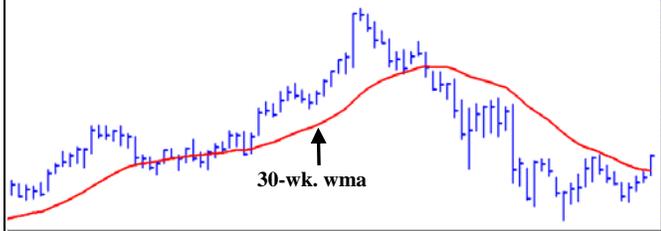
APPLE INCORPORATED (AAPL – 127) - WEEKLY

Weekly > AAPL Apple Incorporated C: 128 Chg 0 > sma50 113.14



SCHLUMBERGER LTD. (SLB – 88) - WEEKLY

Weekly > SLB Schlumberger Limited C: 88 Chg 0 > sma50 85.84



ANADARKO PETROLEUM CORP. (APC – 89) - WEEKLY

Weekly > APC Anadarko Petroleum Corporation C: 89 Chg 0 > sma50 83.81

