

EQUITIES PERSPECTIVE

May 15, 2015
DJIA: 18,252

Don't fight the tape ... whatever that means. Presumably it means the trend is your friend, whatever that means. It likely means buy good, sound stocks and hold them while they go up – if they don't go up, don't buy them, according to Will Rogers. There's little doubt stocks are going up and we can prove it with one of our sophisticated methods called the ruler test. With a ruler draw a line from late-2011 through all the low points on a monthly chart of the S&P 500. When like now the right side is higher than the left, it's an uptrend. If you really want to impress your friends, calculate a 50-day moving average and a 200-day moving average of the S&P. All the gains in the stock market have come when the 50 day is above the 200 day. It's as simple as that. The reason that particular system works is because it does for you what most fail to do for themselves. It lets profits run but cuts losses short. In the market, it's not whether you're right or wrong, it's how long you're right, and how long you're wrong.

The trend is up, but is it too up? That is, is it “bubblesque?” Bubbles are hard to know when you're in them, but this doesn't stop people from talking about them. It's like they say about recessions, the market has called nine of the last five, or some such thing. Bubble calls number more than the actual bubbles. Then too, a perfect example of how bubbles often work was 1999. In mid-1999, the dot-com frenzy for you kids, bubble-talk was all around. True that was the final phase of the bull market, but a phase that lasted another several months. Almost amazingly, by the time it was over bubble-talk had settled down. You can only be wrong for so long before you too begin to believe. Stocks don't seem in a bubble now, bonds perhaps were – negative interest rates and all that. It's interesting, too, that at the start of every year everyone has predicted a peak in bond prices, except of course this year when bond prices seem to have peaked. If indeed so, it will have implications for stocks, we just don't see it in stocks per se, however, no “NAZ 5000” like the last time.

If seemingly not now, a bubble at some point is what we expect. Bubbles are not about the market as a whole. They're about sectors or groups, typically big enough to impact the averages but only in a secondary way – think “nifty-fifty.” The dot-coms certainly weren't about the averages in that the Dow peaked in January 2000, just as the dot-coms really got going. In the summer of 2008, it was all about Oil, what seems a pretty big stretch this time around. The obvious choice of course would be the Biotechs, and that still may happen. Less of a stretch might be stocks like Amazon (432), Netflix (587) and Tesla (244). They certainly look poised for the part, but it's hard to make a bubble out of three stocks. Then, too, Apple (129) easily could join in and if things get going so too could Google (549), Facebook (81) and a few others – a nifty ten or fifteen? We feel pretty confident that a bull market like this won't go out with a whimper. So no bubble, no bull market top.

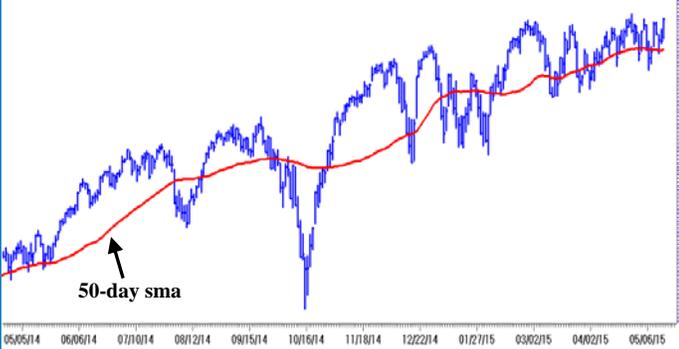
A sign that the bull market could be nearing an end is the diminished number of 12-month New Highs. The peak in New Highs was all the way back in the spring of 2013, so this isn't exactly a scoop. New Highs always peak before a peak in the averages, but this is beyond the typical 6-to-8 month lead time. Counterbalancing that, however, is the recent new high in market breadth. Here, too, the lead time is around six months, arguing for still more bull market. Breadth always peaks ahead of market peaks, the average stock ahead of the stock averages. An often asked question these days is whether market breadth this time is different and therefore is this time different. Certainly going from fractions to decimals changed how we define up and down. And we would contend that the proliferation of EFTs has to have made some difference. When a stock is up that's one advancing issue, but when an ETF is higher it can mean 20 advancing issues. Tracking breadth along with stocks above their various moving averages, however, it still seems breadth is telling an accurate story.

If the bull market is intact, so too is the trading range, the S&P's modest new high notwithstanding. Given the poor look to the rallies of the last several weeks, and the modest oversold point from which this started, we're more than a little skeptical that this is a new big liftoff. However, last Friday's rally from the lower end of the range got our attention, as do almost any 4-to-1 up days. To back that up with Thursday's 3-to-1 up day is impressive. It's the first time in 100 years the Dow is this close to a six-month high and the Transports this close to a six-month low. It's an old bull market. That kind of divergence and the market's other problems will matter some time but doubtful it's now. The rally aside, where you're in still seems as important as whether you're in. The Dow lost 80 points Monday yet 80% of Bank stocks were higher – only 2% of REITs were the same. Eventually rising rates are bad for stocks, all stocks, but for now there are some winners. Also Apple seems important again. It was Apple's failure to respond to its good news that resulted in more trading range. If we're going higher, time for that dog to bark.

Frank D. Gretz

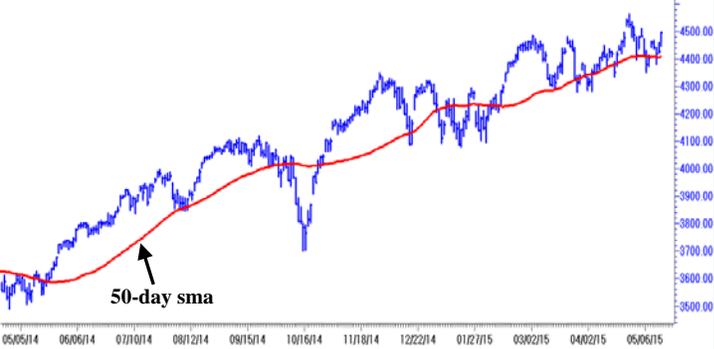
S&P 500 (SPX - 2121) - DAILY

Daily SPX:UT S&P 500 Index C: 2121 Chg 22.5 sma50 2089.0

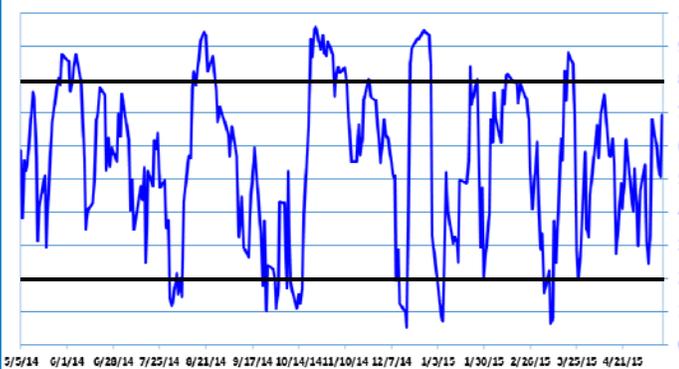


NASDAQ 100 (NDX - 4495) - DAILY

Daily NDX:O Nasdaq 100 Index New Calculation C: 4495 Chg 68.5 sma50 4407.3

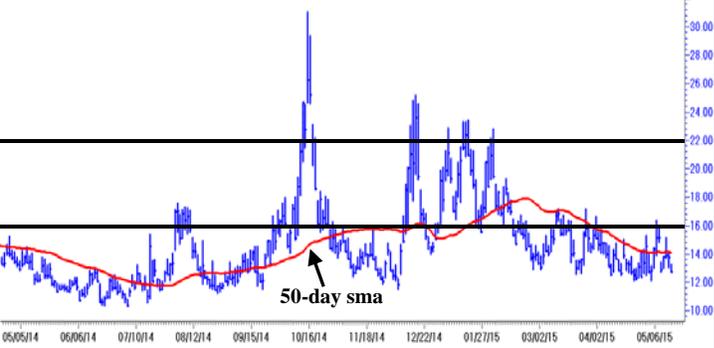


S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



CBOE MARKET VOLATILITY (VIX - 13) - DAILY

Daily VIX:UT CBOE Market Volatility C: 12 Chg -1.5 sma50 14.11



S&P 500 (SPX - 2121) - MONTHLY

Monthly SPX:UT S&P 500 Index C: 2121.0 Chg 22.8



AMAZON.COM INCORPORATED (AMZN - 432) - WEEKLY

Weekly AMZN: Amazon Com Incorporated C: 432 Chg 5.5 sma50 374.58



SIGNATURE BANK (SBNY - 141) - WEEKLY

Weekly SBNY: Signature Bank C: 141 Chg 1.5 sma50 123.61



NETFLIX INC. (NFLX - 587) - WEEKLY

Weekly NFLX: Netflix Inc C: 587 Chg 6.5 sma50 462.58



TESLA MOTORS INC. (TSLA - 244) - WEEKLY

Weekly TSLA: Tesla Motors Inc C: 245 Chg 1.5 sma50 212.41



APPLE INCORPORATED (AAPL - 129) - WEEKLY

Weekly AAPL: Apple Incorporated C: 128 Chg 2.5 sma50 122.88

