

EQUITIES PERSPECTIVE

May 22, 2015

DJIA: 18,286

Tell us again ... why do they call those skies friendly? Wednesday may have put the last nail in the coffin of the venerable and for a while now vulnerable Dow Transportation Average. They should have stuck with the "Rail Average" but they had to go and add Airlines. The latter took the Transports to just about a six-month low Wednesday morning. The Airlines may have pushed the Transports over the edge Wednesday but to be fair it has been the Rails that got them to that edge. Not a good time to be a Dow Theorist and be bullish. The Dow Theory seems straight forward enough – what gets the stuff there should confirm what it is that's getting there. Sounds a bit quaint these days but, in reality, you need an expert to decipher the Theory's nuances. However, it is important in a sense we always stress, the market should be in sync in confirming a rise in the Dow Industrials or the S&P 500. Is this as important as a divergence in market breadth? The answer is no. It is, however, another sign of a bull market showing more and more wear and tear.

Unlike the Banks who always seem to find new ways to mess up, Airlines stick to the tried and true. When things are good they cut fares to gain market share or to keep up with others doing the same. Over the last couple of years, however, the industry seemed to get religion and figure out that they could make as much money on luggage as they could passengers, and the stocks were rewarded with gains of 88% and 60%, respectively. Then just when you thought you could count on these inveterate fare-slashers to do the right thing, American Airlines (42) announces that it would "compete aggressively" with the discounters. The market's reaction, you could almost think, was over-reaction – it was that severe. However, the stocks actually peaked back in late-January, not surprisingly coincident with the low in energy prices. You can argue the stocks haven't acted all that badly given energy's rally, and even now the charts still have a chance. But they should hold here – both in terms of airfares and the stock prices.

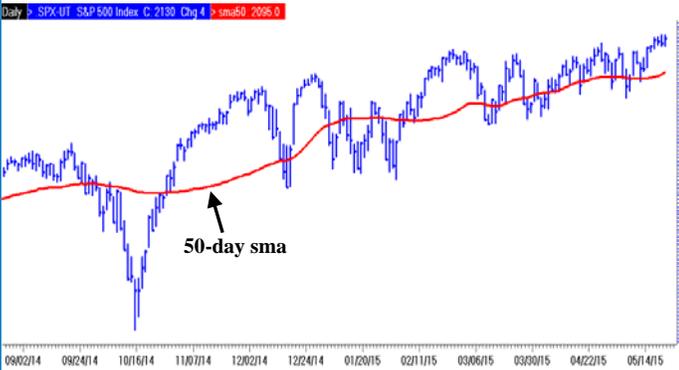
While well aware of the "breakouts" in the S&P and even the Dow, our comment here is, really? These may be higher highs by a smidge as we technical analysts are wont to say, but to borrow from those poets Dire Straits, it's not what we call rock n' roll. The idea of a breakout implies that you've cleared the air, or in this case, overhead resistance, and now you will move higher. We're open-minded but we haven't seen that and don't expect to see it. And that's not about the trading range in the averages, but rather the trading ranges in measures of the market's strength – momentum measures. There it's still a trading range – 20% to 80% in terms of stocks above their 10-day moving average. And because the recent low was around 25% rather than a more thorough washout of 10% or so, it's doubtful the background is in place for more than some trumpet-playing band. The indicators versus the averages still say trading range, more or less. It's not the worst thing, especially for stock pickers.

Stock pickers still have plenty to choose from, including our somewhat esoteric idea of a "nifty fifteen" – Amazon (432), Netflix (623), Tesla (246), and stocks of that ilk. We also call these "the stocks that cannot be bought." They can't be bought because they're up too much or they're too expensive or some other perfectly sound but incorrect reason. Of course, there's someone who can buy them – the stocks are going higher. However, these are the controversial stocks that make everyone uncomfortable to begin with, and then there's the prices – they're always up too much. Forever there have been stocks like this, and forever they always seem to go higher. And then there are the Biotechs, leaders for so long, but again poised, it seems, to move higher. Healthcare in general is positive even in the mundane retail space like a CVS (104) as it moves to become less mundane by becoming less Retail. Finally, all that's Apple (131) related acts well, and here we're thinking the Apple-related semis.

After six years of bull market, you have to expect a few parts to start falling off of the technical background. The Transportation Average could be the latest in that regard, and having peaked in May 2013, the level of 12-month New Highs may have been the earliest. Another worrisome aspect of the overall background is the number of stocks above their 200-day moving average, a bigger picture look at market participation. As per the chart, the mid-2014 peak was in the upper 80s and subsequent peaks have been consistently lower. There are no "sell signals" in this measure and over the course of many bull market cycles we've seen worse. It is for sure, however, the sign of a bull market that's not a kid – the bull to bear market process is all about losing participation. These numbers are for the S&P while those for the entire NYSE are worse – at present only 53% versus 69% for the S&P. While all of this may seem a bit dire, there are no important market tops with the Advance-Decline Index at new highs as it was recently.

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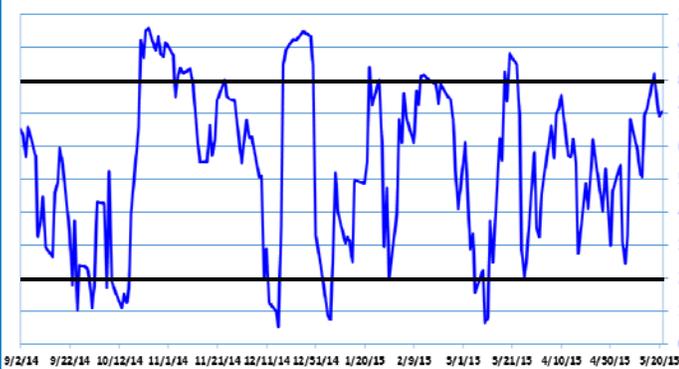
S&P 500 (SPX - 2131) - DAILY



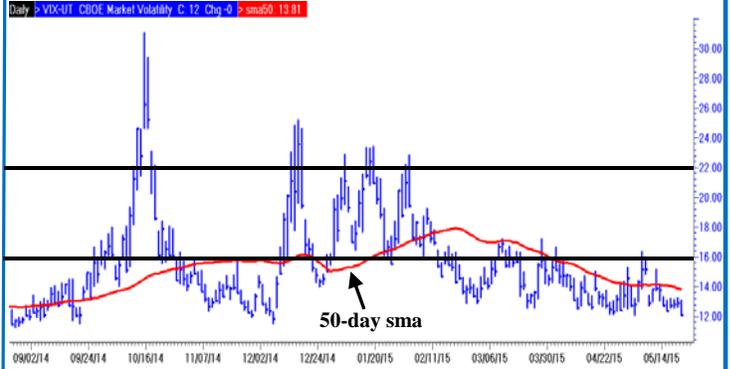
NASDAQ 100 (NDX - 4529) - DAILY



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



CBOE MARKET VOLATILITY (VIX - 12) - DAILY



DOW JONES TRANSPORTS (.TRAN - 8551) - WEEKLY



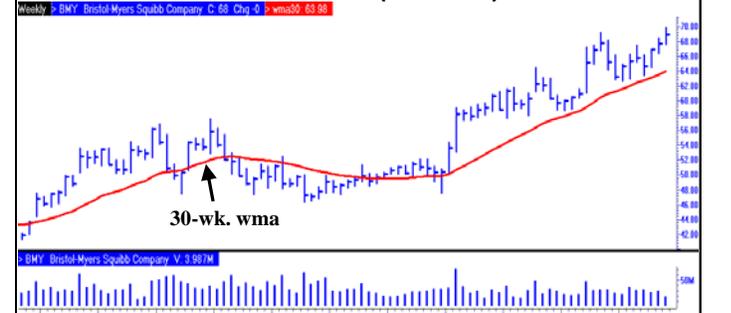
SKYWORKS SOLUTIONS INC. (SWKS - 104) - WEEKLY



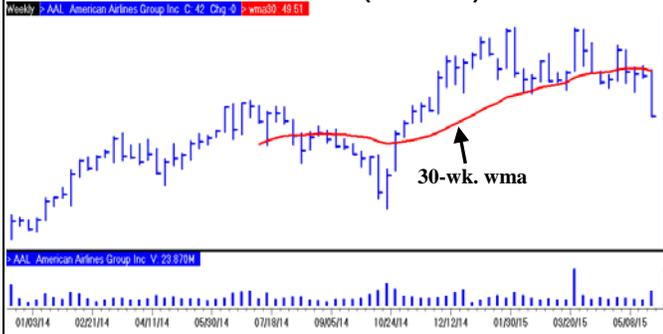
ISHS NASDAQ BIOTECH ETF (IBB - 364) - WEEKLY



BRISTOL MYERS-SQUIBB CO. (BMY - 69) - WEEKLY



AMERICAN AIRLINES GROUP (AAL - 42) - WEEKLY



S&P 500-% OF STOCKS ABOVE THEIR 200-DAY MA - DAILY

