WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

June 12, 2015
DJIA: 18,039

A market of stocks … and that's no bull. Stock market, market of stocks, or as Cramer likes to say – there's always a bull market somewhere. In this case that somewhere is pretty much right in front of you, that is, the market averages. You still can take that ruler and draw a line under the lows in the S&P and find the right side higher than the left. And you still can find the 50-day moving average above the 200-day moving average. However, that's the S&P and the Dow, what most call the stock market. As for the market of stocks, the story is considerably different. For the NYSE, more than half are in medium-term downtrends, that is, below their 200-day moving average. That's not exactly what we would call a bull market. Granted the numbers get better if you look only at the 500 stocks that actually make up the S&P – 53% above their 200-day at the recent low versus 43% for the NYSE. If a bull market, clearly it's one that's done lifting all ships, so to speak. And as such, it's likely one on its way to being done. On its way, however, is not the same as being there. Unwinding bull markets like this takes a long time. We still expect some speculative binge – did someone say Netflix (666) and Ambarella (112)?

Other troubling aspects of the bull market are a few which by now have become obvious – the diminished number of stocks making New Highs, and the break in the Transports. There's something not quite right talking about a "bull market" when recently there have often been more 12-month New Lows than New Highs. And if not by planes, trains and trucks, where's the economic growth to support stock prices? It's here, too, that the weakness in bonds seems important. Countless hours are spent every day trying to decipher clues as to when the Fed will act, while the bond market already has done so. The question is why? When long-term interest rates rise for reasons other than a demand for capital, the yield rise will eventually put an end to the rise in equity prices. Meanwhile, it's an ill wind and all that – Banks and Brokers are back in favor.

Greece strangely still seems atop the market's worry list. We say strangely because the market typically doesn't discount the same thing twice, let alone the many times it has discounted the crisis in Greece. As the FT recently put it, "Greece is so 2011-12." As for the Fed worry, if an increase hasn't been priced-in by now, we would lose a lot of respect for the market's so-called "discounting" capabilities. So it is with some great interest that we come to the market's latest worry, Treasury bond liquidity. Admittedly the interest here is for the sake of any new worry, and also for the perversity of it all. In the course of saving the financial system through never ending and still ongoing QEs, authorities, as they're called, have set the stage for the next crisis, a collapse in bond prices. Between the Fed buying and regulators preventing natural buyers like Banks from "making markets," we've opened the door for an illiquidity-driven decline. It's like the story of the Hunt brothers after they had cornered the market in Silver. When it came time to sell, the question was, to whom?

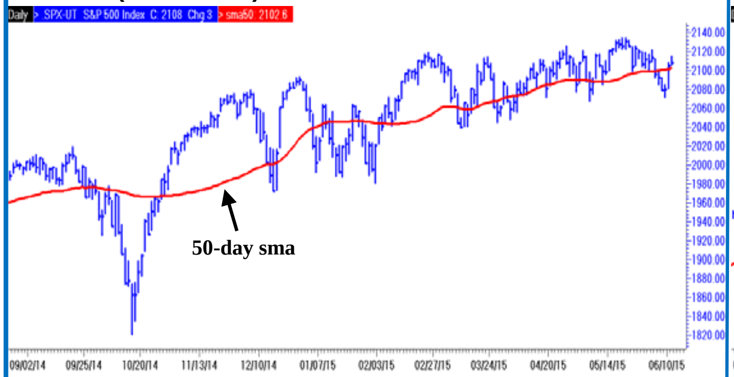
Then there are those worrisome things that might even be called extraneous, though we doubt Germany thinks of itself that way. Certainly the 10% decline in equities there is surprising and worrisome, coming as yields have turned higher. China always seems a worry, not so much economically as in terms of what seems speculation gone rampant. As is the case with all these worries, however, they don't matter until they matter. That's true even when it comes to the indicators. Back in 1987 the Advance-Decline Index began to lag the market averages in May but by the time it got to be crash time, everyone had stopped worrying. When markets go up against a deteriorating background the phrase you begin to hear is "this time is different." It's said that phrase has cost investors more than any other. Meanwhile, while the Advance-Decline Index peaked back on April 28, there is no divergence – higher highs in the averages unmatched by the A-D Index.

As for the short term, if you think you've seen this movie, you have. It's the one starring stocks above their 10-day moving average, a decline to 20% or so, and then a rally. It remains a trading range in these short-term measures of momentum – the overbought/oversold stuff. Throw in this time the S&P dropping below its 100-day moving average on Wednesday. Unlike the 50-day or the 200-day, the 100-day moving average isn't so widely followed, which in part could explain its rather remarkable degree of success in halting market declines. As evidenced by the VIX, the so-called fear index, also unchanged was the relative indifference with which the recent weakness was met. So if it is the same old story, is there any reason to expect anything other than the same old outcome – another half-hearted move up? The answer is both a resounding no, and you never know. The biggest concern would seem a rally even less than half-hearted – one rife with those divergences and other bad stuff. Stay tuned.

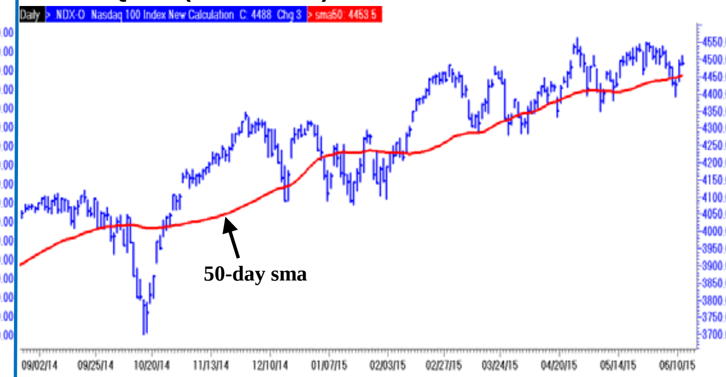
Frank D. Gretz

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

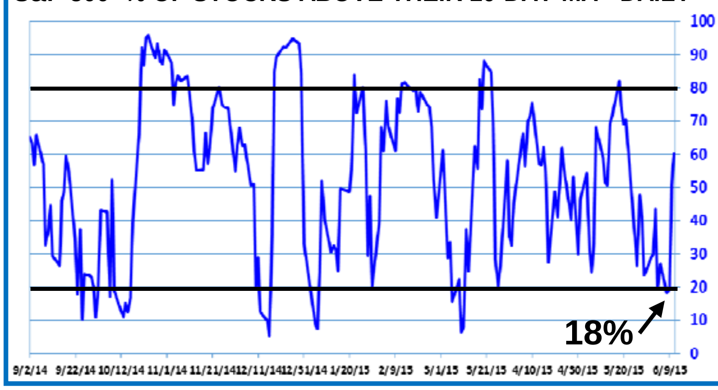
S&P 500 (SPX – 2109) – DAILY



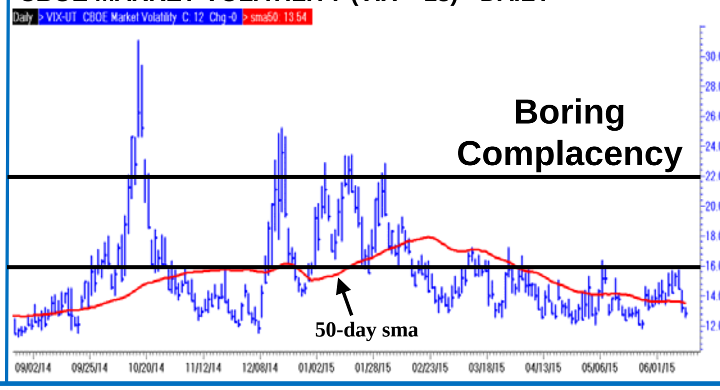
NASDAQ 100 (NDX – 4488) – DAILY



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



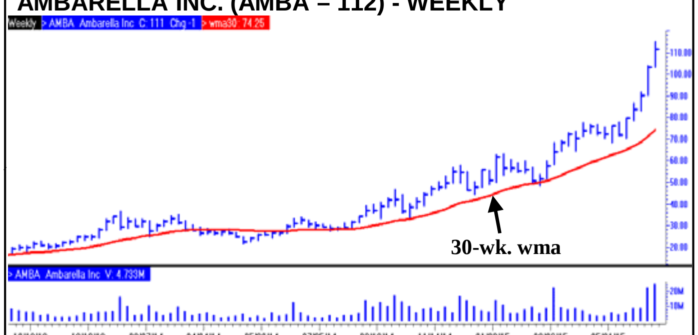
CBOE MARKET VOLATILITY (VIX – 13) - DAILY



NETFLIX INC. (NFLX – 666) – WEEKLY

JPMORGAN CHASE & COMPANY (JPM – 69) - WEEKLY

AMBARELLA INC. (AMBA – 112) - WEEKLY



CBOE INT RATE 10-YR TREASURIES (TNX – 24) - WEEKLY

ADVANCE-DECLINE INDEX - DAILY

S&P 500 & 100-DAY MOVING AVG (SPX – 2109) - DAILY