WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

August 14, 2015
DJIA: 17,408

Things change … China doesn't. It's a mess and pretty much always has been, despite their "7%" growth. They're trying to move from a capital spending to a consumer-led economy, yet they devalue their currency. This seems a telling commentary on just how bad things there have become. Meanwhile, we would be the first to concede that equity markets often disconnect from economic reality, but in China's case they seem never to have had a connection. Good luck trying to manipulate that market. The devaluation is interesting in its timing – Congress, aka, Schumer, is in recess. Still we would have expected more of an outcry if somehow it was not understood that this will be something like a 5% versus a 10% cut in the yuan. And there's something to the idea that the currency is up almost 15% against the trade-weighted dollar. Still, down about 15% from its mid-April high, it's doubtful Apple (115) is sympathetic.

There was a time when your first thought on this China news might have been GM (31) and other automakers. And, indeed, GM and the others have taken a hit. However, times change and, arguably, this time Apple has taken an even bigger hit. Apple, of course, has more than just currency problems in China. Apparently, it's being outsold. And its new phone cycle always seems to cause anxiety as shipments slip during the lull between new phones. In general the stock tends to underperform when everyone gets excited about new products like the watch or whatever. In the second-half of 2012 the stock sank 30%. Following the lackluster earnings number and all the hype, it seems likely to be dead money for a while, however by that we don't mean another 30% correction. Obviously Apple is important both to the averages and to psychology, and that's why Wednesday's reversal could be important for it and the market.

Apple and China are not the market's only problems. The slump in Oil, the sense the Fed will soon raise rates, and the disappointing earnings from Disney and others all have conspired to send prices lower. For those of us on the technical side we have the Hindenburg Omen, signaling it's a bifurcated market, and a "death cross," signaling the market already is down enough for the 50-day to cross the 200-day. Both of these indicators have had their moments, so to speak, but not usually and not lately. The biggest concern we see is what happened last Thursday. It didn't seem that bad a day – the Dow lost 120 points and breadth was only 1.5-to-1 negative. However, the leaders, the Biotechs, Amazons and the like, sold off sharply – the NASDAQ Composite was off 1.5%. Selling the leaders is never good because, very simply, they're the leaders. In this case, selling the leaders is particularly worrisome because the market has narrowed to the point where the leaders are about all that's left.

Markets narrow or lose participation in the normal course of an uptrend. It's just a matter of when does it become too much, when do you get to "and then there were none?" Typically the leaders hold out to the end, and therefore our worry about last Thursday. With only 32% of NYSE stocks above their 200-day average – 50% of the S&P 500 – risk has increased. We lean to more trading range, more or less, but a deeper decline can't be ruled out. For Apple to hold seems encouraging, for Shanghai to hold also seems encouraging. Wednesday's reversal was encouraging – they had their chance to go down. Google (687) is in its own happy place these days, and the rest of the crew – Amazon (530), Netflix (124), Priceline (1285) and most of the Biotechs – have held together pretty well. We wouldn't go so far as to say the commodity stocks are through going down, but they have acted better lately. If they ever do stop going down and actually go up, this would give the market a much better look psychologically and technically.

Periods of weakness or even malaise often provide an opportunity to spot potential new leadership. Those would be the stocks acting well while most are doing nothing or going down. Aerospace/Defense stocks seem a good example, with most of the stocks near their highs but not extended. We always like it too when it's a group of stocks acting well, rather than just one or two. This makes it likely there is a basic fundamental change and, indeed, defense spending seems likely to increase. That's our defense spending while spending around the world seems likely to rise as well. It may be too small to refer to as group but cement stocks also stand out, even more so than most of homebuilding. These seem a positive amidst the market's otherwise narrowing pattern.

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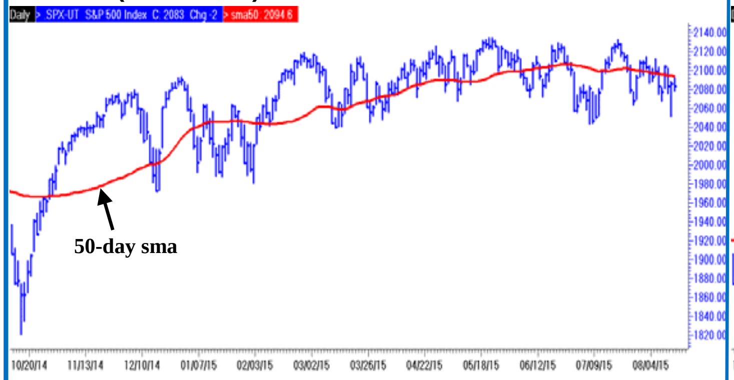
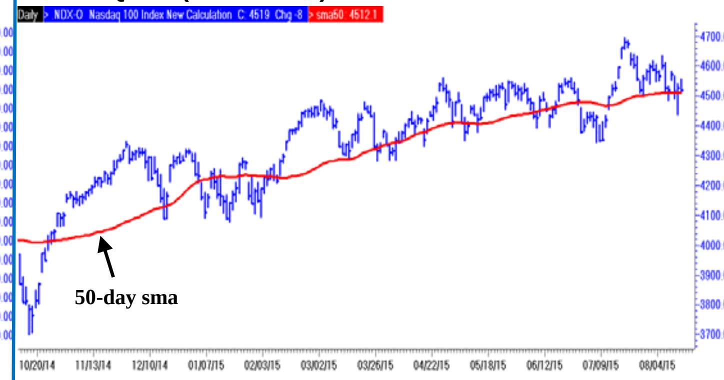
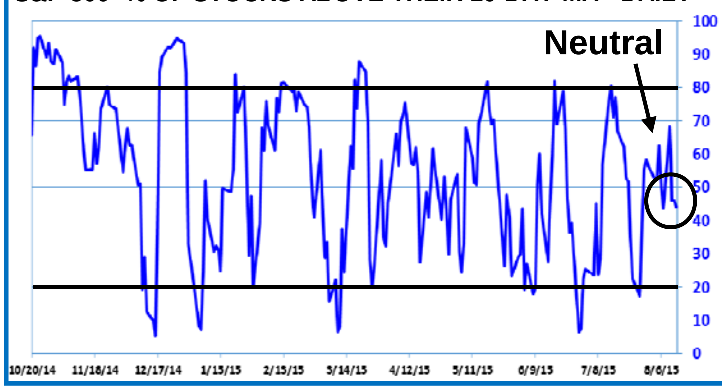
S&P 500 (SPX – 2083) – DAILY



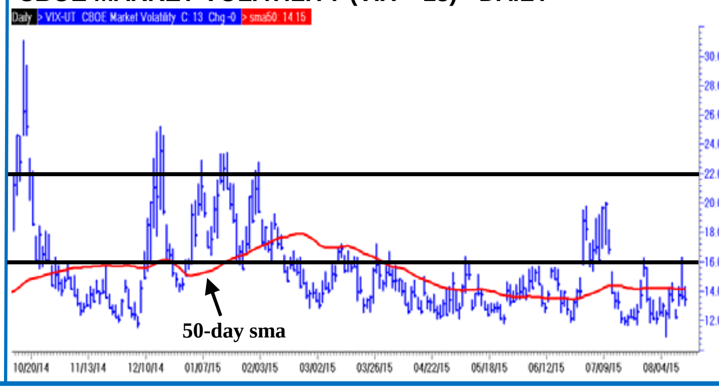
NASDAQ 100 (NDX – 4519) – DAILY



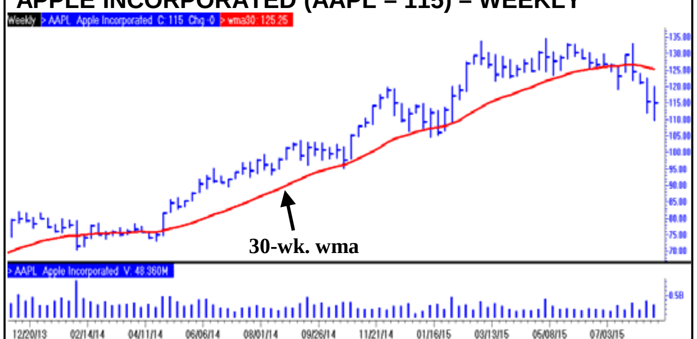
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



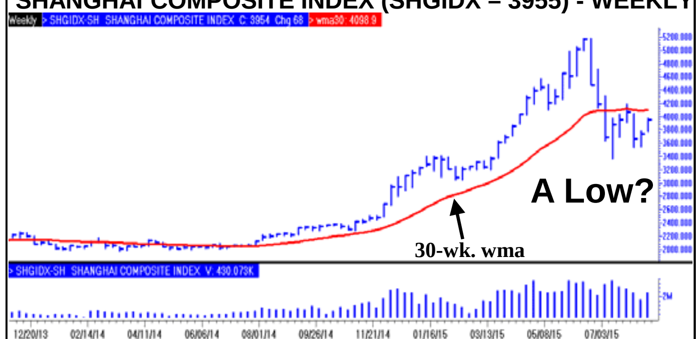
CBOE MARKET VOLATILITY (VIX – 13) - DAILY



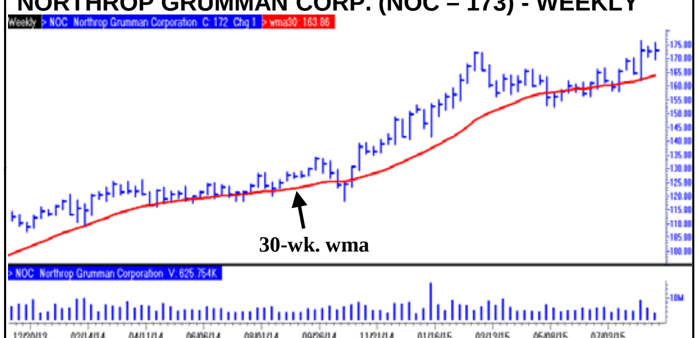
APPLE INCORPORATED (AAPL – 115) – WEEKLY



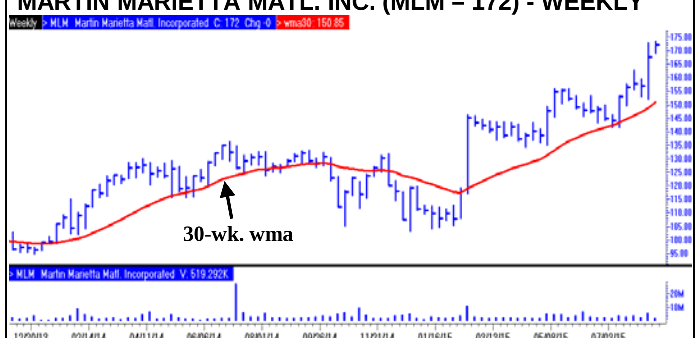
SHANGHAI COMPOSITE INDEX (SHGIDX – 3955) - WEEKLY



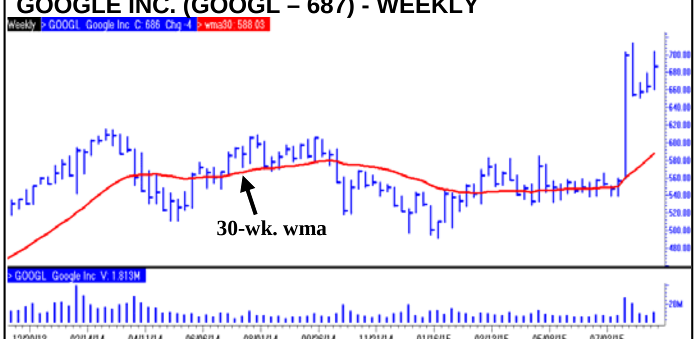
NORTHROP GRUMMAN CORP. (NOC – 173) - WEEKLY



MARTIN MARIETTA MATL. INC. (MLM – 172) - WEEKLY



GOOGLE INC. (GOOGL – 687) - WEEKLY



AMAZON.COM INC. (AMZN – 530) - WEEKLY