WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

August 21, 2015
DJIA: 16,991

China is hot again, the Fed refuses to raise and Apple is up 50% … that's our idea of a market top. Market peaks are born out of good news, not bad. They climb the proverbial "wall of worry" rather than succumb to it. Tops are a happy place. Sure a lot of stocks are up a lot – the Biotechs and the Googles. However, they're not up in that attention-grabbing way of other speculative bull market peaks. We still think this is yet to come. Meanwhile, it's hard to sugar-coat Wednesday, let alone Thursday – horrible breadth and rising volume. In the last couple of weeks we were encouraged by a couple of upside reversals – seemingly the market didn't want to go down. Wednesday however seemed the opposite. It had its chance to rally after the "Fed minutes," but did not. Stocks above their 10-day average need to get back below 20%, and those commodity stocks need to start holding.

Surveys of sentiment tend to confirm investor concern. Almost all show optimism in the bottom quarter of all readings in the past year. Aside from the news background per se, this likely reflects the recent divergent nature of the market. More than 50% of S&P stocks are down more than 10% from their highs, and the numbers are worse outside the large caps. It's hard to be optimistic when you're losing money. Still, the negative sentiment is unusual when the S&P is within 5% of a 52-week high. In the past this kind of sentiment background lead to higher prices six months later almost every time. Also worth noting, on a shorter-term basis there has been aggressive put buying, and against that background stocks usually rally. These sentiment measures are never a perfect timing tool, but they're encouraging. The better timing measure these days has been the VIX, or Volatility Index. After a couple of recent moves to the 16 level, which have taken the market nowhere, it probably will take a move back to 20+, and oversold readings, for a worthwhile recovery.

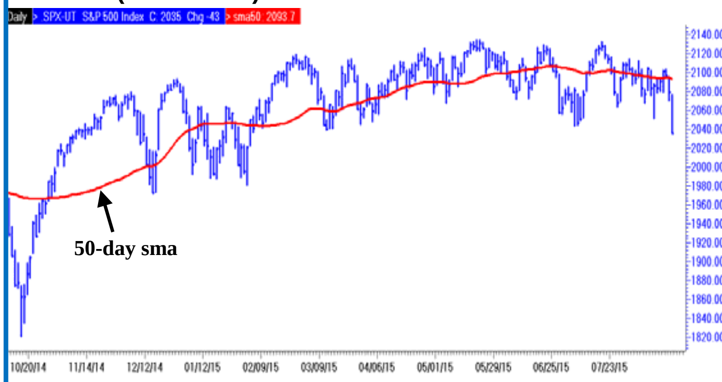
Wal-Mart (68) shares fell more than 3% Tuesday as earnings missed and guidance was lowered. Among the company's litany of excuses was currencies. Shouldn't a strong dollar/weak Asia have helped Wal-Mart more than most? Meanwhile, Home Depot (121) did just fine and its gain basically offset Wal-Mart, at least for the price-weighted Dow. Home Depot seems to be a win-win in that good or bad, home sales help them. In this case, the Housing stocks seem another potential new leader as builders broke ground on the most homes since 2007. That helped push several in the group to multi-year highs. This performance may seem a bit odd with the Fed seemingly about to raise rates. Counter-balancing that is the better job market making home ownership more attractive or, at the least, more feasible. This is especially so given the rise in rents. Meanwhile, and this may be key, Housing is unaffected by the strong dollar and the weakness in commodities.

In technical terms, you might say the market is a mess. Much of this mess is about the collapse in the commodity stocks and now you have the Semiconductors doing their imitation of those stocks. Against this background it's almost striking to look at the S&P or the NASDAQ – there's no real weakness – it's still the year-long trading range. It's in the Advance-Decline Index or the Russell 2000 that the weakness shows up, reflecting the weakness in most stocks versus the big-cap averages. This doesn't end well. It's tempting to hope the strong will drag up the weak, but it's the other way around. While we haven't been blind to this pattern, we've expected the weak to remain weak, but not collapse. In turn, we have expected that to allow the strong to get stronger – the blowoff in the Googles, and so on. This is still a scenario we favor, though apparently we will first need another selloff and oversold condition.

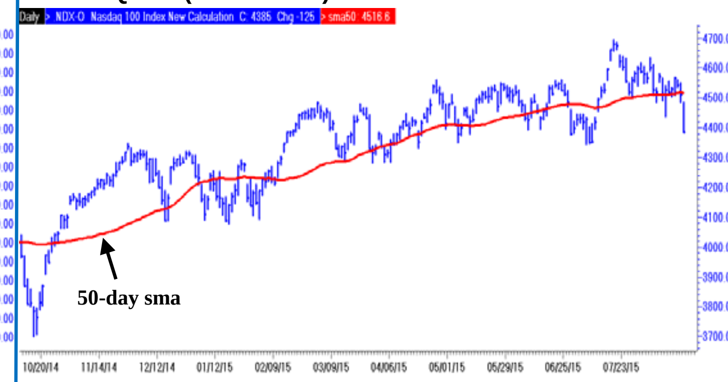
You might say it's about time, but Gold has been acting better. The low, measured by GLD (110), the ETF for bullion, was July 24th. If you think of Gold as a currency, given the yuan devaluation you might have hoped for more. Gold is, however, denominated in dollars, and a rise in rates is not the ideal backdrop. What Gold does have going for it, however, is that market psychology thing. Gold isn't at the give-up stage, it seems well past it. The week of July 24 saw what could have been exhaustive selling, sufficient to set up a multi-week low, or more. Mind you, this kind of short-term analysis is not how you want to make a living, but if it's there, it's something at least to consider. Gold shows record short positions among both money managers and speculators. For now, the price action is better, finally. The price action in that other big commodity, Oil, is not so wonderful, and this is a problem.

Frank D. Gretz

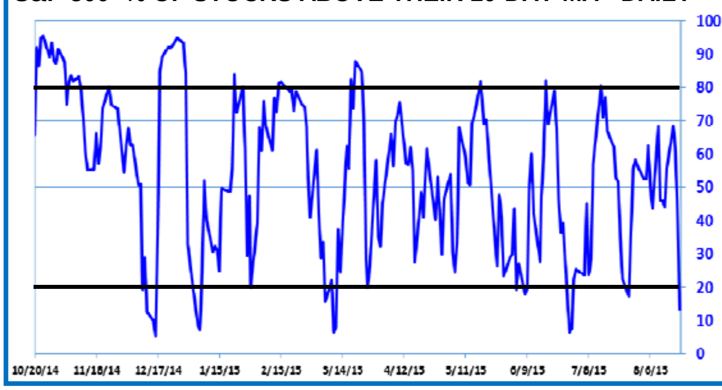
S&P 500 (SPX – 2036) – DAILY



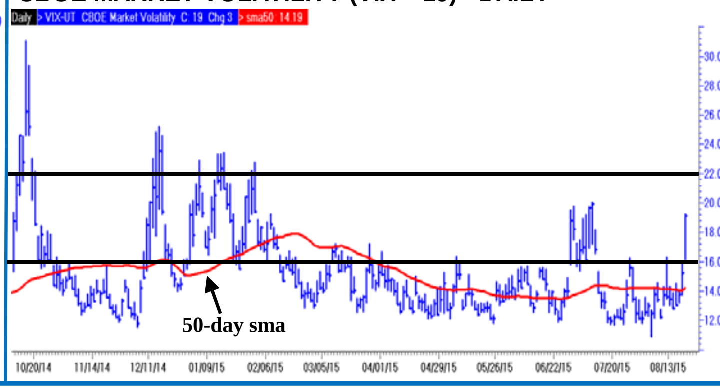
NASDAQ 100 (NDX – 4385) – DAILY



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



CBOE MARKET VOLATILITY (VIX – 19) - DAILY

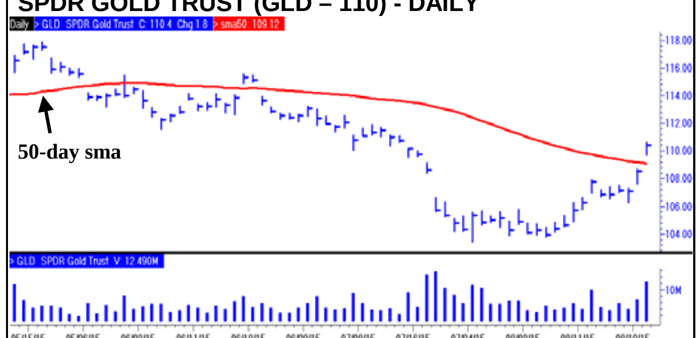


WAL-MART STORES INC. (WMT - 68) – WEEKLY

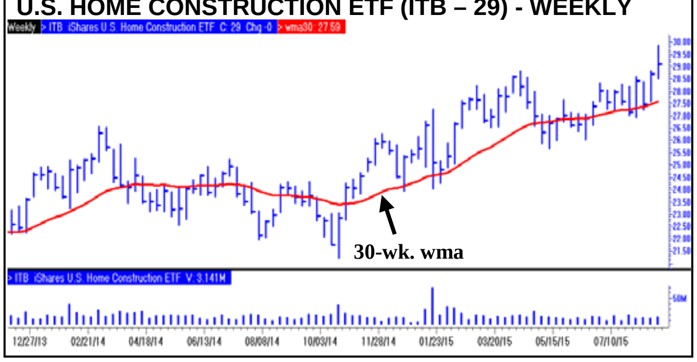
RUSSELL 2000 INDEX (RUT – 1173) - DAILY

HOME DEPOT INC. (HD – 121) - WEEKLY

SPDR GOLD TRUST (GLD – 110) - DAILY



U.S. HOME CONSTRUCTION ETF (ITB – 29) - WEEKLY



PHLX SEMICONDUCTOR INDEX (SOX – 595) - WEEKLY