EQUITIES PERSPECTIVE

August 28, 2015
DJIA: 16,655

Remember the good old days … back when Greece was a problem? Or remember the good old days when bear markets didn't all happen in one week. The market loss in little more than a week was the largest in 3 years and erased more than 9 months of gains. As remarkable were the extremes reached in several technical indicators.

- The percent of S&P stocks above their 10-day average was 1% -- for the NDX the number was zero.
- The percent of S&P stocks above their 50-day average was 4%.
- The percent of S&P stocks above their 200-day was 17% -- for all NYSE stocks the number was 16%.
- Inverse ETF volume set a record as a percent of total NYSE volume.
- Total Put volume exceeded total Call volume by 70%, the second highest in history.

These extremes are sufficient to suggest the decline is at or near an end. Indeed, these extremes are sufficient to suggest a 20%+, two-year bear market is at an end. The extremes are sufficient to suggest the market should be "sold out." Sold out, of course, means they rally and do so in an impressive way – a 90% up-volume day would be a start, as was the case Wednesday. Then and only then do you know they're sold out.

Regardless if a low is in place, or when it is in place, volatility will continue. We've seen the type of panic trading that rarely occurs, and when it does, the pattern is to see some testing of the low. Finally we've rallied for a couple of days, but there should still be additional weakness. It's the nature of this kind of market.

There is always the question of what to buy when the market does make a low. As Edson Gould quipped when the market made its low at the end of 1974, buy every fourth stock on the NYSE. After these washouts everything lifts, down the most usually lifts the most. However, out of these declines new leadership often emerges. Marketwise those shares take the form of stocks which hold up the best. Patterns like that of Home Depot (118) are what we have in mind.

Schlumberger (74) to the rescue? Just as it seemed those Drillers were on the edge of the abyss, SLB at least saved Cameron (63). One might hope the takeover will save more, if only by association. To put it bluntly, the Energy sector needs saving. There are a couple of things here even more troubling than the share price weakness per se. Junk bonds are in a bear market of their own and that, apparently, is all about the Energy component while the rest of that market is doing just fine. This issue of financial viability also seems apparent in Banks of the region, see for example Cullen Frost (64). It also seems worth noting that Schlumberger sank on the news while for most of this year shares of acquiring companies rose along with the shares of those being acquired. Anything that helps these Oil Service stocks is a good thing – they seem essential to a decent recovery in the overall market.

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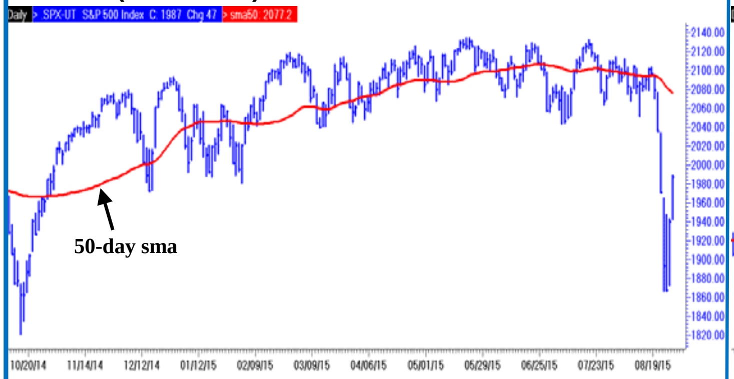
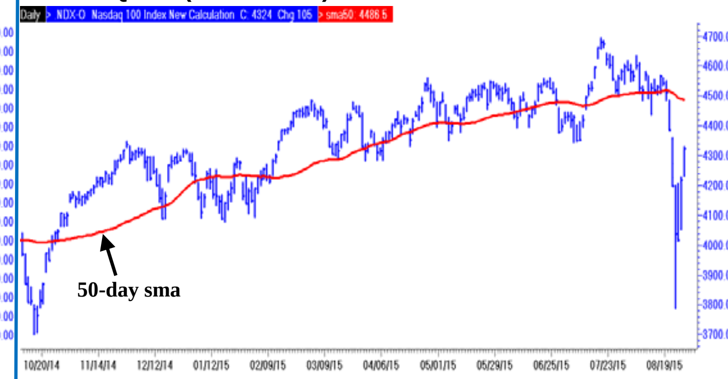
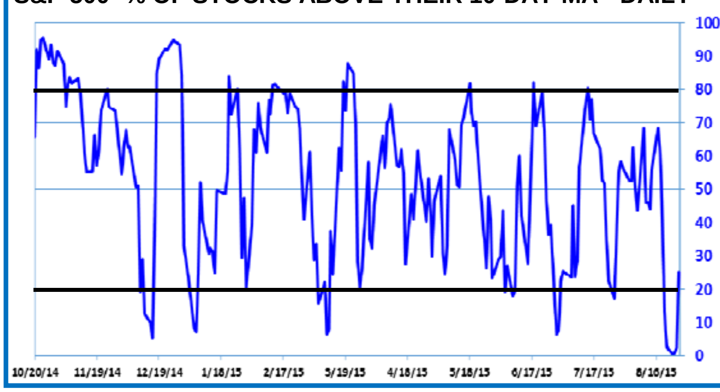
S&P 500 (SPX – 1988) – DAILY



NASDAQ 100 (NDX – 4325) – DAILY



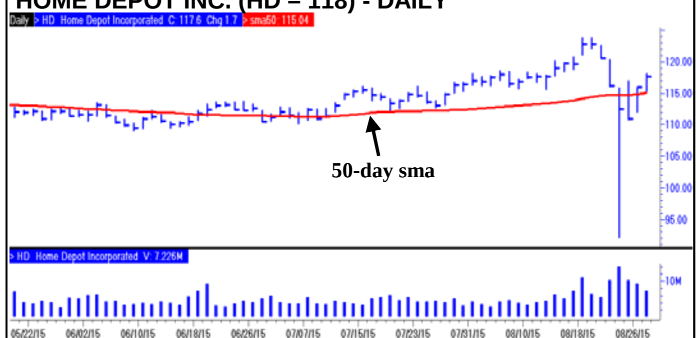
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



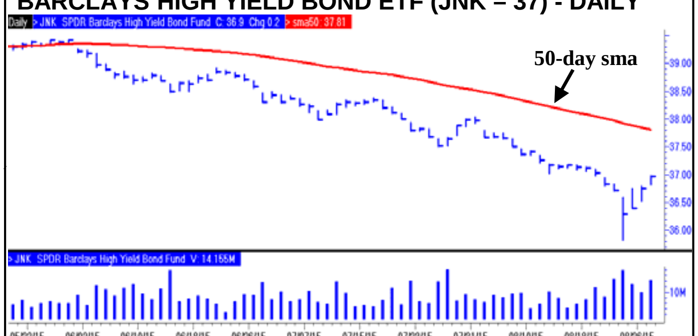
CBOE MARKET VOLATILITY (VIX – 26) - DAILY

MKT VECTORS OIL SERVICES ETF (OIH - 30) – DAILY

HOME DEPOT INC. (HD – 118) - DAILY



BARCLAYS HIGH YIELD BOND ETF (JNK – 37) - DAILY



BUFFALO WILD WINGS INC. (BWLD – 196) - DAILY

CULLEN FROST BANKERS INC. (CFR – 64) - DAILY

NETFLIX INC. (NFLX – 118) - DAILY