WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

December 11, 2015
DJIA: 17,575

Yes Virginia … bad news can become discounted. Just look at Kinder Morgan (17) on Wednesday. The company slashed the dividend, as they're wont to say, and the stock rallied 7%. This could become all the rage as a corporate strategy – dividend cut your way to a higher stock price. There is a saying that goes "buy the rumor, sell the news." However, this is when the rumor/news is good. For KMI, it was sell the rumor, buy the news. As we've said before, in the stock market what we all know isn't worth knowing. The dividend cut was expected, and apparently amply reflected in what has been more of a drubbing than a decline for the stock – down about 35% in 5 days. This is not the fun part of "discounting" bad news. Getting the sellers out of the way takes a lot of selling. And one day Virginia, this too will come true for all Oil and other commodity stocks. The stocks won't go up because the news will get better, they will go up because the bad news is discounted and the sellers out of the way.

If it's not weakness but weak rallies that you have to worry about, it's time to worry. Following a couple of bad days, last Friday the Dow rallied 370 points, the S&P a similar 2%, and all might have seemed right with the world. Market breadth was a respectable 1.9-to-1, but respectable for what. For a market above its 200-day moving average, for an up-2% day, it was one of the worst Advance-Decline figures since 1940. New Highs, by the way, were negative. It's just one day, but that's what we call a weak rally. In a sense, the "weakness" can be explained in a word, "Oil." There are a lot of Oil and Oil-related stocks to the degree that when they're weak, as they were that day, it's all but impossible to see the kind of one-sided numbers in breadth that we saw in the averages. However, to explain it is not to excuse it – it still counts. The market should be in sync, and when it's not, bad things happen.

In a bigger-picture sense, we're also dealing with a weak rally. Looking at this rally from the August low, it's time to worry. Stocks above their 200-day average have moved from 16% only back to 53% at the recent high, versus 70-80% earlier in the year. Similarly, at the recent peak, the Advance-Decline Index had retraced only about two-thirds of the decline from its April peak – all this, while the market averages have been bumping against their highs. Meanwhile, the A-D Index already has broken the uptrend from September, taking out the mid-November low. The Russell 2000 also has rallied poorly from the September low and now seems at risk of breaking as well. Add to this background Wednesday's weakness in the NAZ 10-20, the FANG stocks, the Amazons, call them what you will. If these were to be the last to give it up, and now they're giving it up, that's not a good sign.

The Transportation Average may be about transportation, but not always about the transportation of goods – Airlines being a prime example. Then too, the Dow Jones Industrial Average is as much financial as it is industrial. It's little wonder therefore that the Dow Theory, how should we put it, is taken so lightly. Moreover, the Theory itself is so nuanced that few really get it. One of those few is Robert Colby, who points out that the Theory confirmed a new "Primary Tide Bear Market Trend" on 8/20 – the Industrials closed below the January low, thereby confirming the previous lower low on the Transports. Both Averages now would have to close above their highs of 2014-2015 in order to signal a new "Primary Tide Bull Market Trend." He's the expert. For us, it's a bit simpler. There's a divergence here and divergences here or anywhere are not good. In the last couple of weeks this divergence has worsened as the Transports have broken the late-August uptrend. This is just one more in a growing list of negatives.

The technical backdrop has not been good for some time. A narrowing or divergent market never ends well, and its recent worsening means there is greater risk. If we are to escape this mess it could go something like this. It could be the recent weakness is "just in case selling" ahead of the Fed. If the Fed heeds Nike's dictum and "just does it," stocks could rally in relief. December is the most positive month of the year but oddly, the second week is almost never up. The last week, however, is almost never down. With all the predictions of lower oil forever, oil could bottom and rally all those stocks and the market. This would dramatically turn the Advance-Decline numbers. It could be the pattern that has worked all year will work again – stocks rally because the percent above their 10-day moving average is back to 20%. This sounds more like hope than reality, even to us. However, it's hard to see a collapse in December, with the market oversold and Oil stocks already beaten down.

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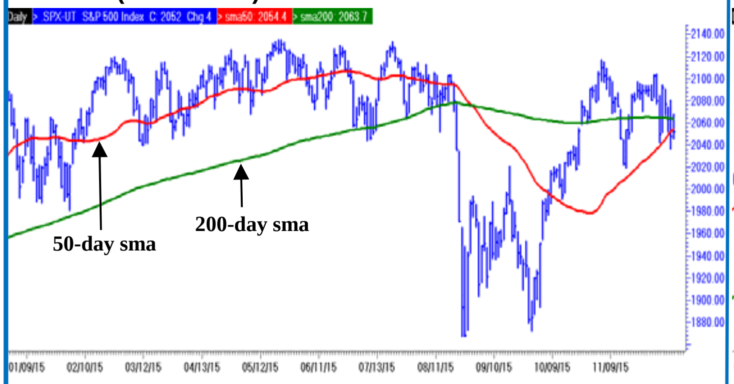
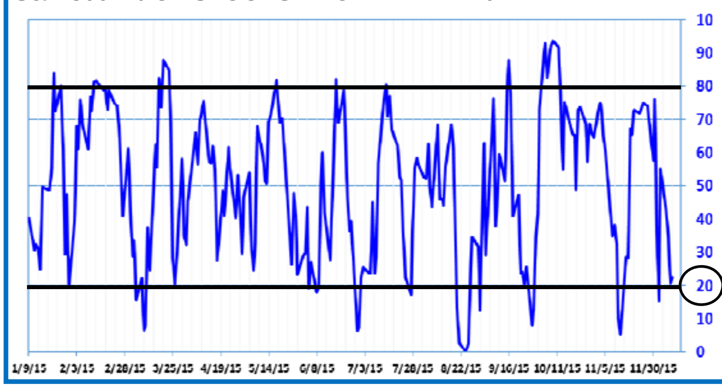
S&P 500 (SPX – 2052) – DAILY



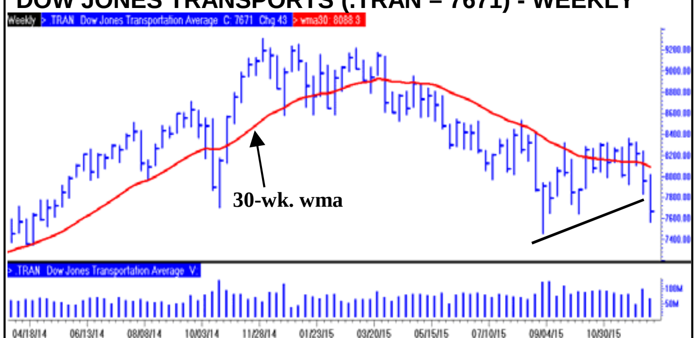
NASDAQ 100 (NDX – 4643) – DAILY

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



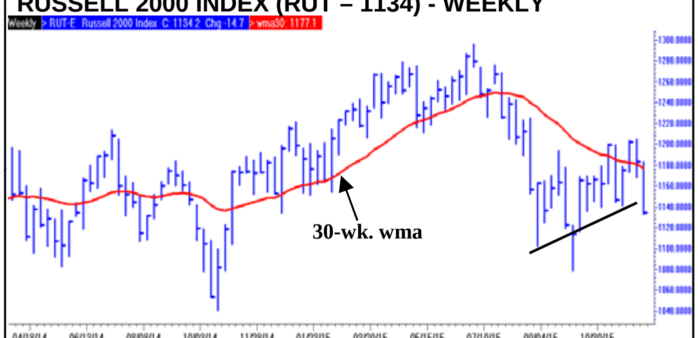
S&P 500 -% OF STOCKS ABOVE THEIR 200-DAY MA - DAILY

DOW JONES TRANSPORTS (.TRAN – 7671) - WEEKLY

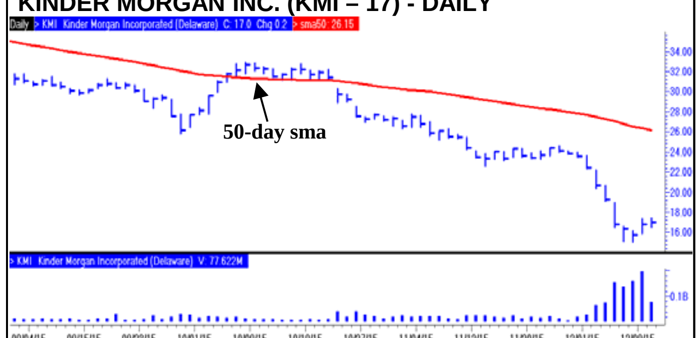


ADVANCE-DECLINE INDEX - DAILY

RUSSELL 2000 INDEX (RUT – 1134) - WEEKLY



KINDER MORGAN INC. (KMI – 17) - DAILY



ISHS CHINA LARGE-CAP ETF (FXI – 35) - WEEKLY

SPDR BARCLAYS HIGH YLD BD ETF (JNK – 34) - WEEKLY