WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

December 18, 2015
DJIA: 17,496

Janet gets what she wants … leaving us to think it was what we wanted. To step back for a minute, in what universe are rising rates good? Yet on Wednesday everyone was falling all over themselves to buy stocks. Very clever, that Janet. In retrospect, this left last week looking like "just in case selling." Even bad news the market doesn't discount twice, let alone over and over. Things do get priced-in, especially anything so widely advertised. That was part of last week's hope list – that stocks would rally on the news. Another item on this list was that December would continue to act like December. If the second week of the month is almost always down, the Christmas/New Year's week is almost always up. And the week we're in, a triple expiration week, also is very positive, including expiration day itself.

One thing from the hope list which is yet to come to pass is a rally in the commodity stocks. In fact, they're barely holding, and this weighs on many things. Technically, it goes a long way in explaining the horrible Advance-Decline numbers. It also explains how the market could be within 5% of its high and yet 20% of NYSE issues just traded at 52-week new lows. It's a market dramatically out of sync and this is never good. A rally in the commodity stocks certainly could change the A-D numbers, but at this point the market has dug itself enough of a technical hole that escape will be more than a little difficult. Getting back to that hope list, as it has all year, a less than 20% level in stocks above their 10-day moving average worked again last week. Needed is a move to, or beyond, 80%. If the market is less risky than we think, like October-November we should get overbought and stay there.

When you think of Sotheby's (26), you don't think market indicator. Yet over the years it has been as good as most, and for now the message isn't a good one. Market indicators typically can be divided into two categories. These are momentum, or the strength of a trend, and sentiment, or investor reaction to a trend. When investors are enthusiastic, typically it means they're fully or near-fully invested. If this is true for the majority of investors, by definition it's the top – all the money is in. Enthusiasm usually travels across markets, so we might infer euphoria in the art market implies a fair degree of euphoria/complacency in stocks. History seems to bear this out. Meanwhile, an auction in early-November scored a sale second only to May of this year. For the year, buyers have surpassed all previous records, even when adjusted for inflation. The Sotheby's chart, however, has declined significantly as it typically does before stock market declines.

December has more than enough crosscurrents, the rate hike only added to them. One outcome which needed no simmer-time was dollar strength. This, in turn, added to the woes in Oil and may have started a new leg down in Gold. In theory, higher rates are supposed to help the Banks, but so far, not so much. And, too, higher rates won't help those Midwestern Banks and their fracking loans. They say only 20% of the junk bond market is about Oil, but the chart makes you wonder. In a market like junk bonds, when you have to sell, sometimes you sell what you can. What isn't clear is what the hike could mean for Housing. Like many aspects of the recovery, Housing has disappointed despite the record low rates. This seems about bubble residue, so rising rates likely are a non-event. It was only a quarter-point, as they keep saying, but it has hurt because of the timing. This isn't a good time for dollar strength and more commodity weakness.

It's a bear market in stocks. You need only look at the trends in the Advance-Decline Index or the percent of stocks above their 200-day moving average. There's no bear market in the big-cap averages, but they will follow – sooner, later, eventually. The chosen ones, the Amazons, Googles, and so on, are up big from September and have held together. However, the weakness a few days ago may have been a first crack. A blowoff upside move now seems unlikely, and the stocks certainly won't hold in a really bad market. Meanwhile, what could continue to do well, even in a tough market, are more staid names like Kroger (42), Kimberly (126), and Smucker (124). These often are referred to as "defensive," but if you look at the long-term charts, that seems a misnomer. Also, the Aerospace/Defense area still makes sense. "If Santa Claus should fail to call, bears will come to Broad and Wall." This is a reference to December's last week, but more weakness here would be a bad sign.

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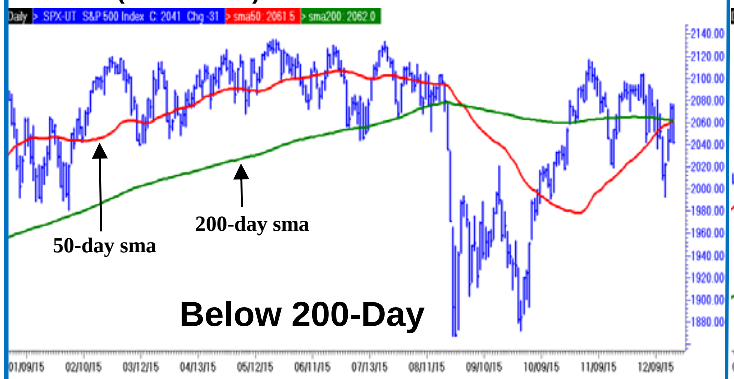
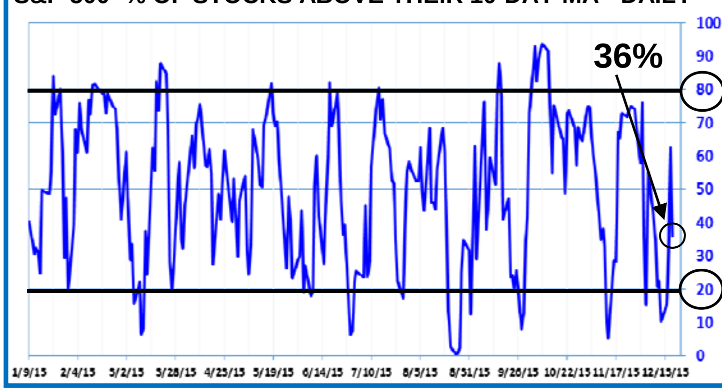
S&P 500 (SPX – 2042) – DAILY



NASDAQ 100 (NDX – 4598) – DAILY

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

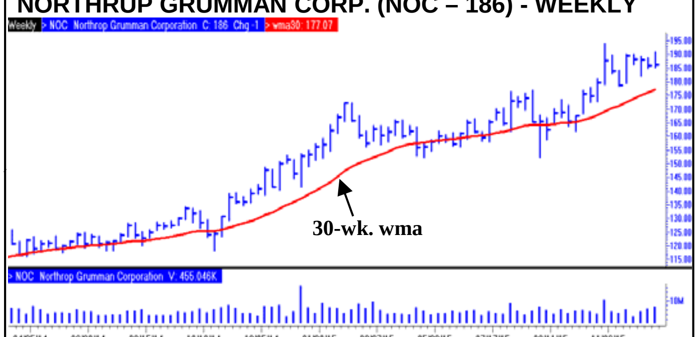


S&P 500 -% OF STOCKS ABOVE THEIR 200-DAY MA - DAILY

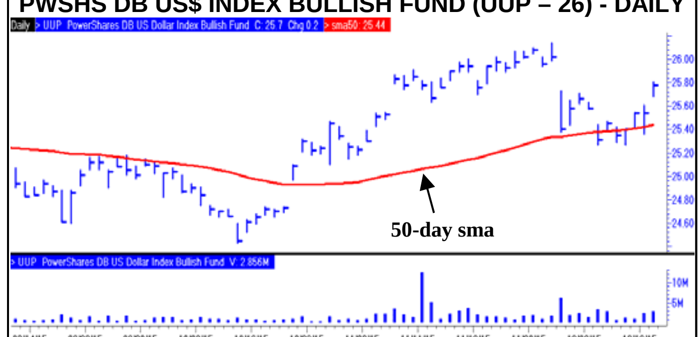
SOTHEBY'S (BID – 26) - MONTHLY

ADVANCE-DECLINE INDEX - DAILY

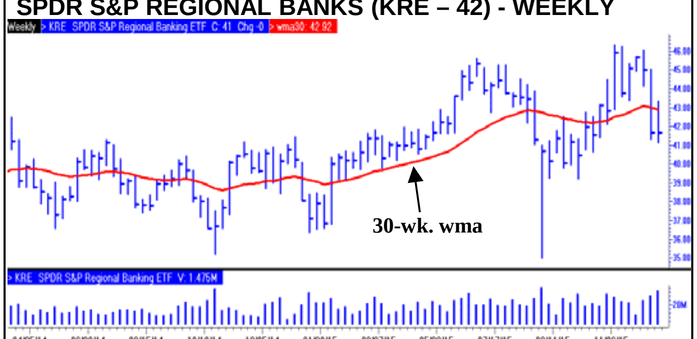
NORTHRUP GRUMMAN CORP. (NOC – 186) - WEEKLY



PWSHS DB US$ INDEX BULLISH FUND (UUP – 26) - DAILY



SPDR S&P REGIONAL BANKS (KRE – 42) - WEEKLY



KIMBERLY-CLARK CORP. (KMB – 124) - MONTHLY