

# EQUITIES PERSPECTIVE

December 2, 2016  
DJIA: 19,192

A tide ... not one lifting all ships. To look at big pharma, you might think it was Hillary who won. Some is of their own doing, like the Lilly (66) problem, though we really can't remember. Even without Hillary, big pharma is on the outside looking in, politically. Then there's the "big" part of big pharma. These companies are global when global is out – we're ready to sell our vintage globe collection. Meanwhile, the Russell 2000 only just ended a record run of 15 consecutive positive days. Think of the Russell 2000 as a measure of secondary stocks, but think of it too as a measure of domestic companies. The Russell 2000 pretty much says it all in terms of where you want to be, that is, domestic. It also says a lot about where the market is likely to go. If you look at those times when the Russell was higher just 10 times in a row, it was higher a month later 21 of 27 times. And so it goes with momentum – overbought doesn't mean over.

The Russell isn't alone in arguing for higher prices. The Dow itself was positive 7 days in a row, which in the past led to higher prices three months out 21 of 26 times. Fifteen percent of NASDAQ stocks hit a new 12-month high, the highest percentage in three years. One year later, the NASDAQ was higher every time. And, when it comes to the election returns, gains tend to persist over the next six months. For all the good that is this rally, and the promise it seems to hold, it comes with plenty of distortions. The market has embraced what it perceives to be Trump stocks – infrastructure, defense, and the like – and shunned the global. And while it looks like the Fed won't be able to duck out of a December hike, and hence the spike in Bank stocks, not everything benefits from higher rates – you live in one. The REITs generally are not fans of rising rates.

Wednesday's market seemed one which couldn't walk and chew gum. While the Dow was positive most of the day, the advance-decline numbers were rarely so. By the close, the Dow was flat and the A-Ds negative by some 50%. The latter was particularly surprising given the tear in Energy stocks, of which there are many. This is more of the mixed, or bifurcated, market that we've seen since the election. Meanwhile, the FANG stocks were taken out and shot Wednesday, selling that continued Thursday. Reflecting all this, the Advance-Decline Index, though close, is yet to make a new high. With the Dow having surged past its high, normally this would be a big problem, however, the QCHA adjusted advance-decline index has made a new high. You might recall, unlike the A-D Index which just reflects direction, the QCHA Index measures direction and price change. So while stocks moving up versus those moving down have lagged, the price movement in the advancing stocks has far outpaced losses in the declining stocks.

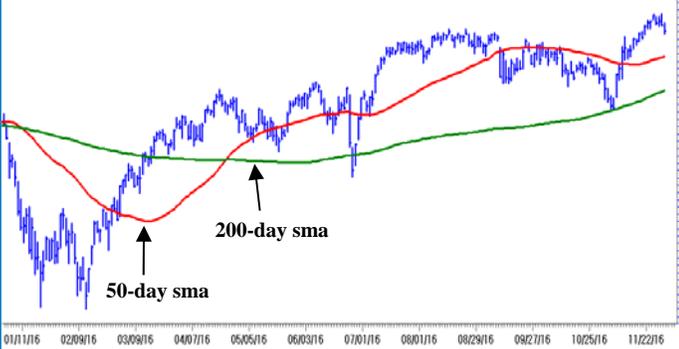
The FANG stocks never really got going, so weakness there, while not good, is not new. What is new is weakness in the Semiconductors, and, on Thursday, the weakness was a bit severe. We confess to not really understanding how Tech could go so wrong, but there it is. Though not very scientific, we don't remember markets going very far without Tech at least participating. Though the move has been impressive, we don't think Oil stocks are going to do it, and the last time they tried was the summer of 2008. Financials have been the real drivers and they're having a leg up on the back of that Treasury appointment. Another area with a lot going for it in the Trump world are the Transports, all of them. The Dow Transports are at a new high, confirming the highs in the Industrials. If only the Dow Theory still worked. The truth is just about everything in the Transportation sector looks good chart-wise. And there's GM – go figure.

Buyer beware! The overwhelmingly positive momentum numbers alluded to above, don't have to come to pass next week. And the weakness in things like the FANG stocks and, at least Thursday, all of Tech, has to make one question the "momentum." Momentum, as we think of it, is about the breadth of a move, the Advance-Decline Index, not the breadth of the move in Financial, infrastructure and Defense stocks. The technical configuration is disquieting and confusing, yet it can't literally be called bad. However, the "up-stocks" likely are up to excess, and so too the "down-stocks," for their part, seem in excess. Something that has worked all year, stocks above their 10-day average, is neutral, but unwinding. Then, too, this may speak to the S&P, but what does it really tell you in this bifurcated market – half is very overbought, half is very oversold. It would be good to see the market pull itself together, literally more than figuratively.

Frank D. Gretz

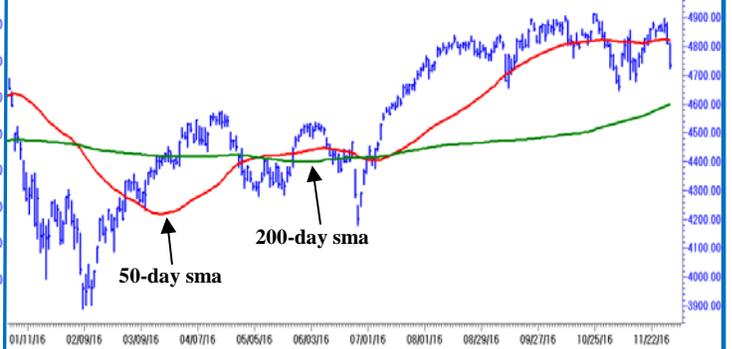
### S&P 500 (SPX - 2191) - DAILY

Daily > SPX:O1 S&P 500 Index C: 2191 Chg: 7 sma50: 2156.0 sma200: 2109.3

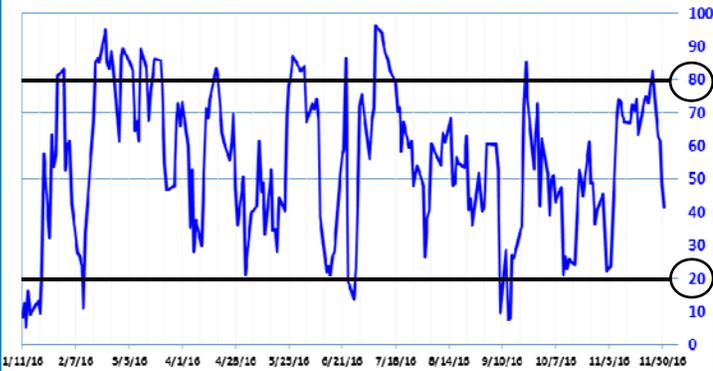


### NASDAQ 100 (NDX - 4734) - DAILY

Daily > NDX:O Nasdaq 100 Index New Calculation C: 4734 Chg: 76 sma50: 4822.7 sma200: 4597.7



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

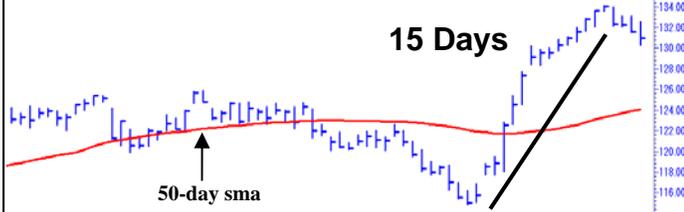


### QCHA - NYSE AVERAGE PERCENTAGE MOVEMENT - DAILY



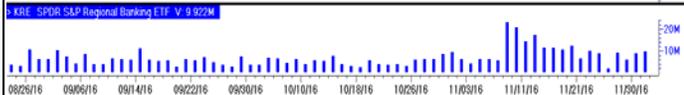
### ISHARES RUSSELL 2000 ETF (IWM - 131) - DAILY

Daily > IWM: Shares Russell 2000 ETF C: 130.9 Chg: 0.6 sma50: 124.06



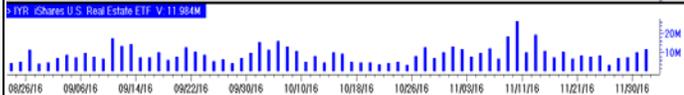
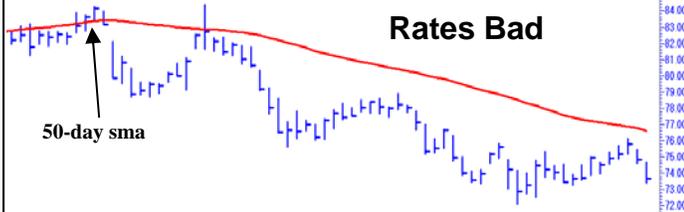
### SPDR S&P REGIONAL BANKING ETF (KRE - 53) - DAILY

Daily > KRE: SPDR S&P Regional Banking ETF C: 53.4 Chg: 1.0 sma50: 46.46



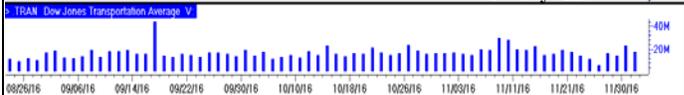
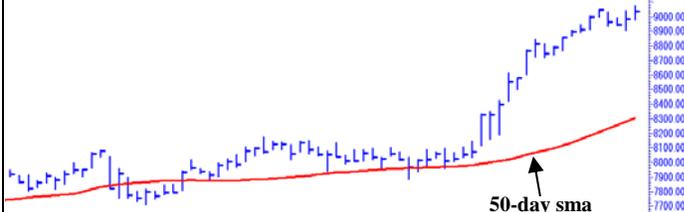
### ISHS US REAL ESTATE ETF (IYR - 74) - DAILY

Daily > IYR: iShares U.S. Real Estate ETF C: 78.6 Chg: 1.1 sma50: 76.69



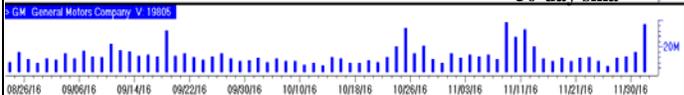
### DOW JONES TRANSPORTS (.TRAN - 9037) - DAILY

Daily > TRAN: Dow Jones Transportation Average C: 9037.2 Chg: sma50: 8502.3



### GENERAL MOTORS COMPANY (GM - 36) - DAILY

Daily > GM: General Motors Company C: 38.4 Chg: sma50: 32.41



### SPDR FD ENERGY (XLE - 75) - DAILY

Daily > XLE: Select Sector Spdr Trust (The) (Energy) C: 74.6 Chg: sma50: 70.28

