WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

December 4, 2015
DJIA: 17,478

Don't trust the seasonal patterns … but trust Santa Claus. The "sell in May and go away" dictum is well-known and often useful. This year, however, it turned to sell in August. Perhaps the most feared of all months, October this year turned out to be the best. December, however, rarely disappoints. Since 1988, the month of December has been down only five times. Given this isn't a bear market year like 2008, you have to like the odds of moving higher here. Up, of course, doesn't mean straight up, as Wednesday and Thursday made all too clear. The typical December pattern is strength at both ends, especially that week after Christmas, and a lull in-between. Also, the month typically has more than its share of crosscurrents – better action among secondary stocks being foremost among them. Given the still decent overall backdrop, despite the recent weakness, December should do its thing.

Through November 27, Advance-Decline numbers had been positive 7 straight days. That's not exactly what you expect to see in a seven-year old bull market. The explanation may simply lie in the idea that secondary stocks tend to perform well this time of year. The Russell 2000 seems to bear this out. While this index has underperformed since the summer peak, it has performed in-line more recently. Overall, however, the market has narrowed. If you haven't noticed, recognizing this is all the rage. There's no question but that narrowing markets invariably lead to trouble. It is also true, however, that in the stock market what we all know isn't worth knowing. It's a bit of a conundrum. Historically these divergences typically linger on until the worries simply dissipate – then the market declines. In this case, however, you have to remember there has been a divergence in the Advance-Decline Index since April, and pretty much the same when it comes to stocks above their 200-day moving average. It's a worry but it would be an even greater one were we in the midst of some euphoric advance.

Wednesday and Thursday's weakness came as a bit of a surprise. It's hard to say what role the California shootings played, but the market was selling off prior to that. It seems likely that the break in the price of oil played as much a role as anything – back to that story of weak oil resulting in weak stocks. Weak oil certainly results in more than a little havoc in the technical background – the Advance-Decline number specifically. Tuesday's 2.4-to-1 positive breadth looked good until Wednesday's 3.7-to-1 and Thursday's 4.3-to-1 negative breadth came along. Because of their number, this only can happen when Oil stocks are in a little collapse. Still, the stocks aren't acting all that badly when compared to crude. This often can be a prelude to better things to come, maybe the OPEC meeting. Given that the Russians and the Saudis both need higher oil prices, it's hard to see a big new leg down.

You might say Thursday was a real Draghi, but this seems a little too much even for us. Rather than those who over-promise, Draghi is known to over-deliver. As usual, it's not the news that gets markets, it's the surprise or unexpected news that gets them. While above our paygrade, much of this weakness seems about a couple of macro trades that went the wrong way. Specifically, short the Euro, buy the Dollar seemed as sure a thing as it gets. Apparently too sure, which meant too crowded and hence those extreme moves in the currencies. While these aren't markets in which most of us trade, markets are connected in strange and not always wonderful ways. It's generally thought that hedge funds are having a bad year, one which no doubt got worse thanks to that Dollar selloff/Euro rally. Thursday's equity selloff could just have been about mechanics – they needed the money. Stay tuned.

After Thursday, there's dust that needs to settle. This is not so much about the overall market, where all year things have held together when stocks above their 10-day dropped below 20%. The dust, so to speak, is in all the stuff that went awry. Bonds, for example, took a big hit and the resulting higher rates hurt dividend payers like Utilities and REITs. Then there's the sharp drop in the Dollar, the "sure thing" trade really gone awry. For commodities, however, dollar strength should be a good thing. It also should calm Janet's nerves about the impact of her easing, vis-à-vis dollar strength's hit to foreign earnings. All this could settle out to a one-day event, or not. If not, some rethinking needs to be done. Meanwhile, there seems no reason that those stocks leading, the NAZ 10-20, or call them what you like, won't continue to do so. Keep in mind, the more narrow any recovery here, the more likely the bears are close to being right.

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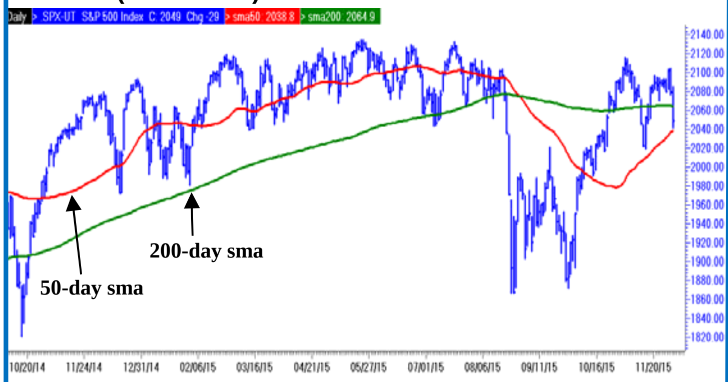
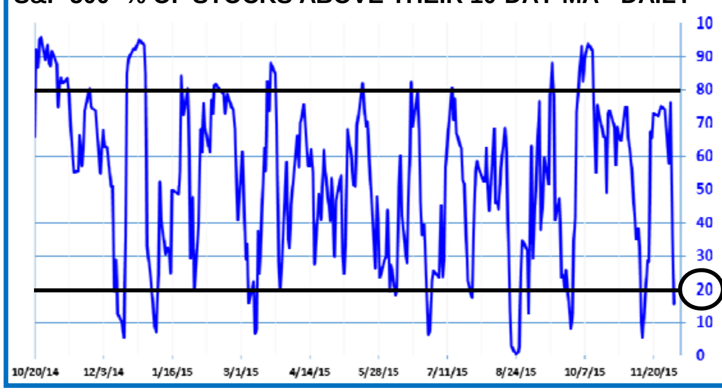
S&P 500 (SPX – 2050) – DAILY

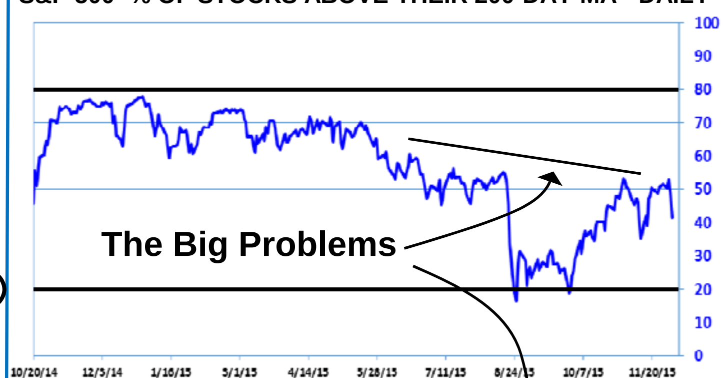


NASDAQ 100 (NDX – 4607) – DAILY

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

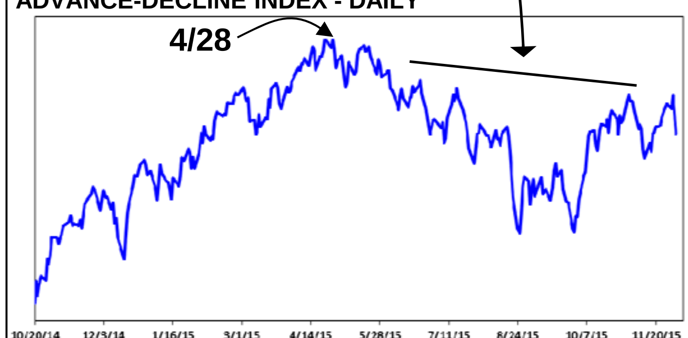


S&P 500 -% OF STOCKS ABOVE THEIR 200-DAY MA - DAILY

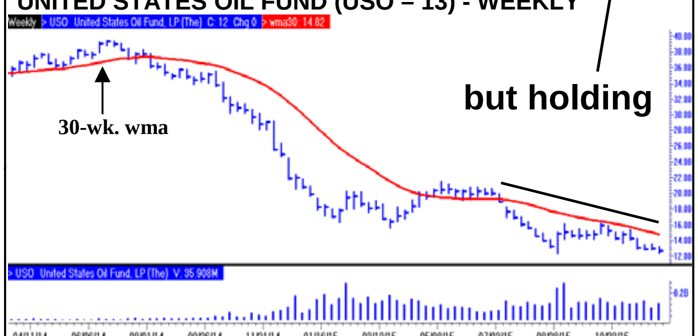


SPDR FD ENERGY (XLE – 65) - WEEKLY

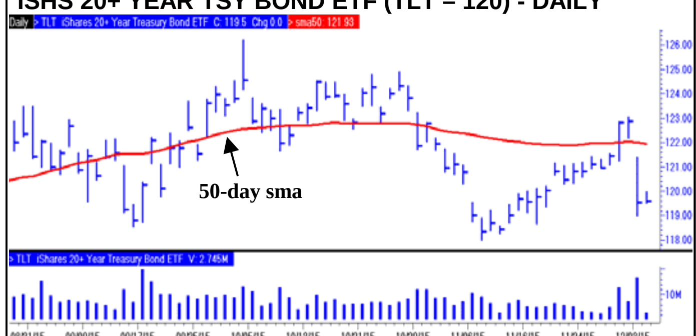
ADVANCE-DECLINE INDEX - DAILY



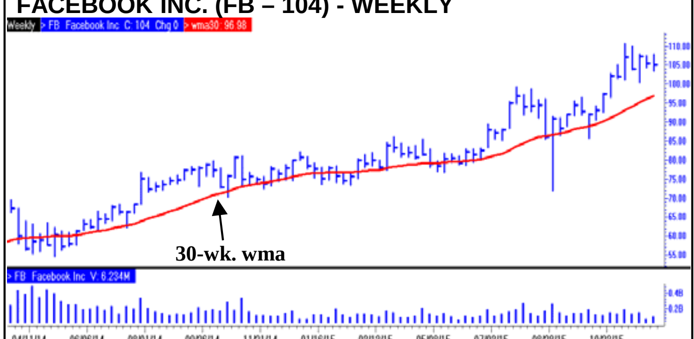
UNITED STATES OIL FUND (USO – 13) - WEEKLY



ISHS 20+ YEAR TSY BOND ETF (TLT – 120) - DAILY



FACEBOOK INC. (FB – 104) - WEEKLY



PWRSH DB US $ INDEX BULLISH FUND (UUP – 25) - DAILY