WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

July 10, 2015
DJIA: 17,549

It's like October … without the Ebola. That October decline ended in real panic and this one seems on its way to doing the same. Monday was a 90% down-day – 90% of volume in down stocks – and Wednesday was the same. These 90% down-days say "washout." The trouble is you don't want to buy after the first two in case there are two more. So washout selling alone isn't enough. You want to see stocks do what they should do if indeed they are washed out. They should rally, and not just in some garden-variety way. They should rally like there are no more sellers, that is, like they're washed out. Prices should go up as though they are in a vacuum. Mechanically, it should look the opposite of those 90% down-days. Volume in advancing stocks should be 80-90%. That's what turned the market last October and is typical of what it takes to get out of these corrections.

The occurrence of these 90% down-days is not the only sign the decline has become October-like. This is the first time since then that the S&P has dropped decisively below its 100-day average, after a remarkable record of finding support there. At the low in October, the S&P was about 100 points or 5% below the 100-day, while as of Thursday's close it was about 50 points, or just over 2% below the 100-day. Similarly the percent of stocks above their 200-day average has taken enough of a hit to be in what can be called bottoming territory. For all NYSE stocks only 32% are currently above their 200-day average versus 27% last October. For just the S&P stocks, the figures are a bit different – 45% versus 35%. Even bear markets often end at levels not far from these. At the same time, there's a long-term pattern here of declining peaks. Successive rallies have become weaker, losing participation. You can think of this as being normal as bull markets age, but it also is how bull markets eventually end.

Oil fell 8% Monday and was down about 15% from its May 6th high. Finding an Oil stock above its 50-day average is difficult – the selling has seemed relentless. As the perceived consummate buyer of commodities, a faltering China has taken much of the blame. However, we all know the real problem – there's just too much of the stuff. Nothing goes straight down of course, and oil is stretched in that direction. Monday's decline in oil is historically rare and often has marked a turning point. This is especially so in the summer months of June, July and August. Tuesday's reversal, therefore, could be the real deal, at least for a couple of months. Rallies that seem to come out of nowhere, that is, without news, often are worth a look.

Meanwhile, it's an ill wind and all that. Treasury Bonds have gone from a reflection of the economy and Fed policy, to a reflection of risk. In other words, as a safe haven they've rallied. Dividend payers like the REITs and Utilities have rallied with them. This likely will last until Greece goes away. Then it will be back to rates going higher, bonds going lower. A problem for U.S. growth is that the safe haven trade also has taken the dollar higher – the dark side of the global economy. Greece aside, events often are called seminal when in fact only time will tell. In this case it will take time to know if the Aetna (113)-Humana (186) deal is such an event, or just a one-of. Heretofore takeovers have been winners stock-wise for the acquirers and the companies being acquired, but not so in this Aetna deal as both stocks sank. Is that about the deal or is it about the market?

If price measures seem close in terms of a low, so are those that measure investor psychology. According to the CNN Fear & Greed Index, investors have become what can be called panicky – did someone yell Ebola? In the last 15 years only a handful of days have shown this level of pessimism, and stock returns in the following months have been significantly higher, according to the Sentiment Trader report. The VIX, or "fear index," also finally has come to life, closing Thursday at around 20. That's not quite the 22 of last October but it is the best since December and good enough for a turn. Whether Greece stays or goes will be important. Fortunately, this binary event seems to be concluding, at least for this round. A deal and markets will rally, no deal and markets will rally – after more washout. Then we can move on to that more rational problem they call China.

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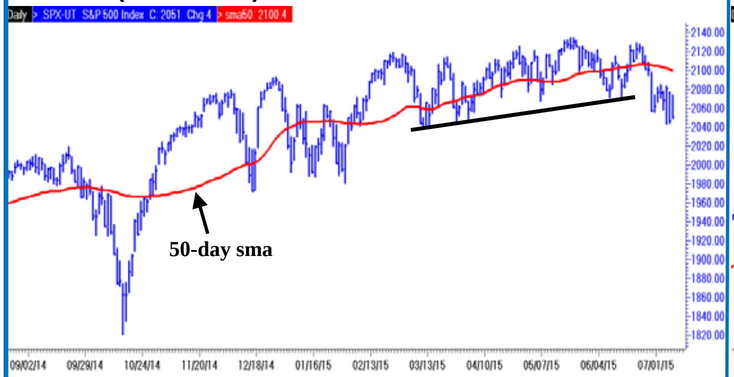
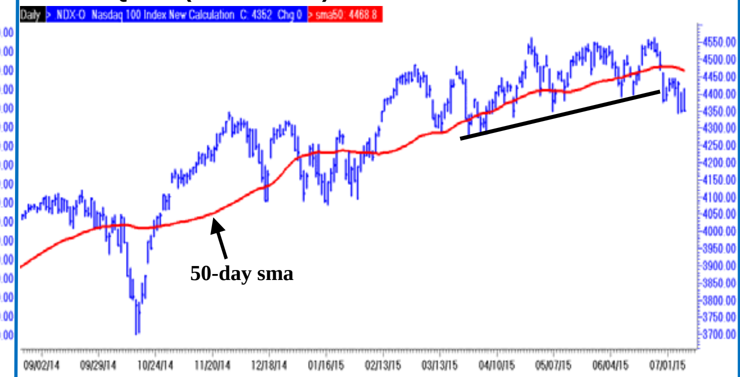
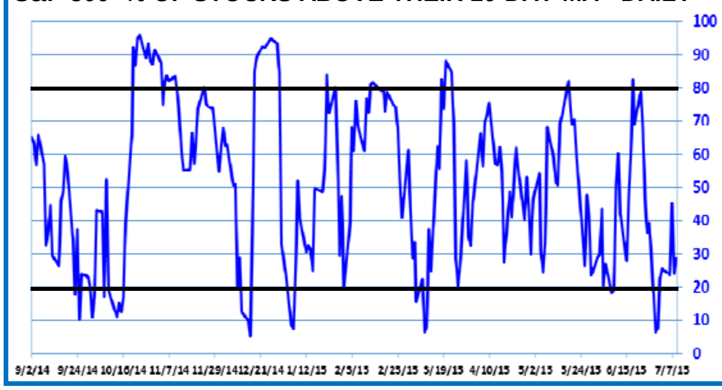
S&P 500 (SPX – 2051) – DAILY



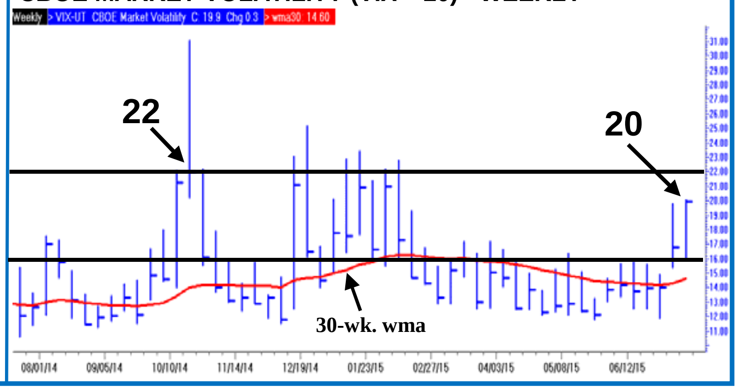
NASDAQ 100 (NDX – 4352) – DAILY



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

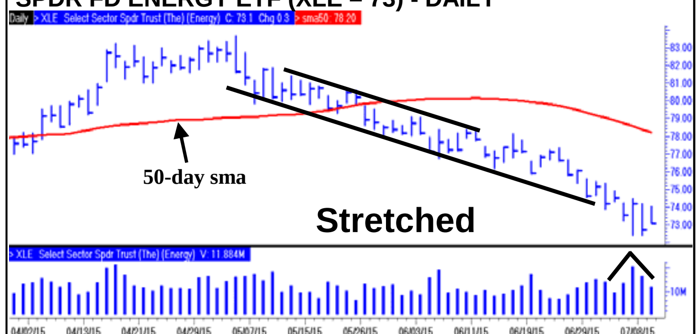


CBOE MARKET VOLATILITY (VIX – 20) - WEEKLY



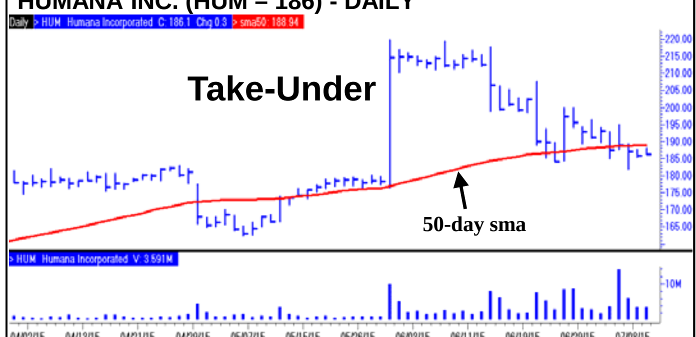
ISHS 20+ YEAR TSY BOND ETF (TLT – 118) – DAILY

SPDR FD ENERGY ETF (XLE – 73) - DAILY



S&P 500 & 100-DAY MOVING AVG (SPX – 2051) - DAILY

HUMANA INC. (HUM – 186) - DAILY



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

SHENZHEN COMPOSITE INDEX (SZIDX – 1955) - DAILY