WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

July 17, 2015
DJIA: 18,120

All that … for 4%? The correction seemed worse, but for the S&P that's all it was – a measly 4%. For many stocks, of course, it was worse. The Semis, for example, took a beating. For the Oil sector it was hardly noticeable, rather, just more of the same. The correction was in the eye of the holder, so to speak, but it seems fair to say that the 4% decline felt like more. If this sounds like we think it's over, we do. The sun always was going to come up tomorrow, even if not over Greece. These news-related declines do become crowd driven, and as such create their own reality. Last October, were we all really about to contract Ebola? While Greece would seem to pale in comparison to Ebola-driven October, it surprisingly had the same result. It produced two 90% down days – 90% of volume in down stocks – numbers indicative of washout selling. That followed by 80% up-days last Friday and Monday – numbers indicating that stocks indeed had become washed out.

Another variation on this idea of being washed-out came in the 3 days ending Monday. Those 3 days saw 70% of total volume go into advancing stocks, versus less than 30% three days earlier. In the past, this has led to higher prices a week later close to 4 of 5 times. The record is more mixed after that until 4 weeks later when prices again were higher 4 of 5 times, this according to the Sentiment Trader Report. How rallies begin is important – the stronger the better. Good rallies don't give you a good chance to get in. That said, there is an exception when it comes to these washout or panic-like lows. In such cases there often is a "test" of the low. What follows is an explanation of this concept that we wrote back in October and are quoting virtually verbatim. That's how similar this period seems – just swap "Greece" for "Ebola." Back then, by the way, there was no test.

A "test," or "test of the lows," refers to the pullback or weakness which typically follows these volatile or semi-panic lows. There's the low, a rally for a few days or even more, and then another move back down. Even these washout declines don't always entail a test, but most do. In an old bull market like this one, it's hard to believe we're just going to run straight up to new highs. We believe we'll see new highs, that the bull market isn't over, but we doubt this will be as easy or clean as some other recoveries. Already we're up to the point of being a little stretched to the upside – more than 90% of stocks are back above their 10-day moving average. Against that kind of technical background, any renewed **Ebola** scare and there's your test. The test also serves a purpose. In its own way any weakness here can be important in terms of confirming that last week did indeed represent a good low.

After all this time it's almost hard to believe that the Biotechs still act as well as they do. Some say there's a bubble here, we say not yet, but it's coming. For the IBB or XBI ETFs, prices only now are bumping up against the upper bound of the trend channels. In a bubble phase we would expect to see prices well beyond those channels, like March but even more. We also expect bubble-like action in stocks like Netflix (116), Amazon (475), and even that sleeping giant Google (684). Bubbles are about more than just extended price patterns. Bubbles are about understanding and believing why a stock should go higher – every Biotech is a takeover or every Biotech has a cure for every disease known to man. When Cisco (28) peaked back in 2000 we had all come to believe the Internet would change the world and Cisco owned the Internet. No one believed at 40 or 50, it took 84.75 to get everyone hooked, and that was it. Amazon doesn't make money, it's up a lot, and yada, yada, yada. It's still hard to buy, and therefore, not done.

With a couple hundred politicians voting on the Greek deal, what could go wrong? You can see the potential excuse for a "test." Worry as you should about China, we doubt that disaster is imminent. However, the collateral damage to commodities like oil, this is real. Like last October, stocks above their 10-day average again are above 80%, a difficult place all year. Anecdotally, we're never quite comfortable when the Semis act this badly, then too, patience isn't our strong suit. It's an old bull market, but old doesn't mean over. However, old is important in terms of what to expect. Expect participation to narrow and, indeed, the Advance-Decline Index peaked back in late April. That's not good but for now the day-to-day numbers are good enough. In the overall scheme of things, the bull market won't go away because of China, or even rates. It's likely to go out in a speculative binge.

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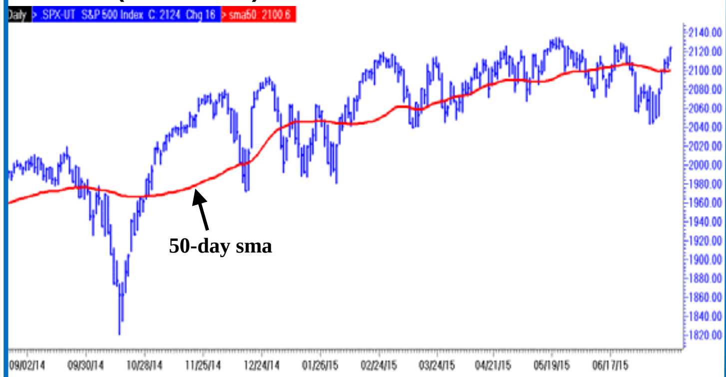
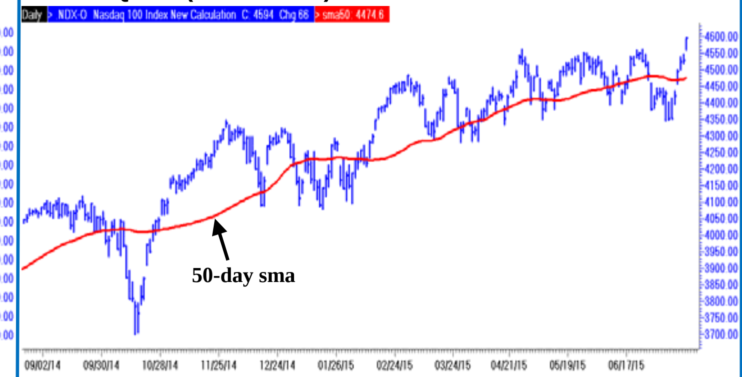
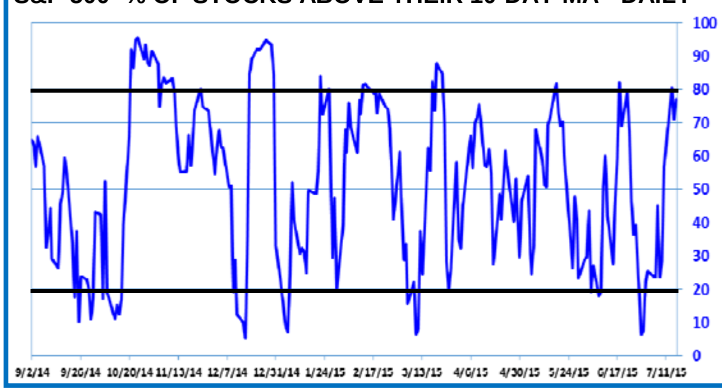
S&P 500 (SPX – 2124) – DAILY



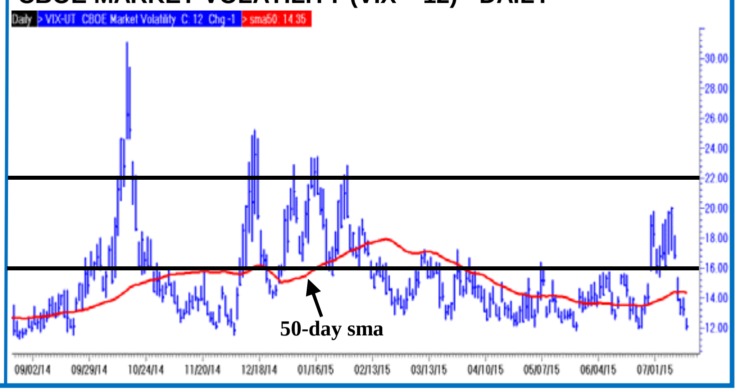
NASDAQ 100 (NDX – 4595) – DAILY



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



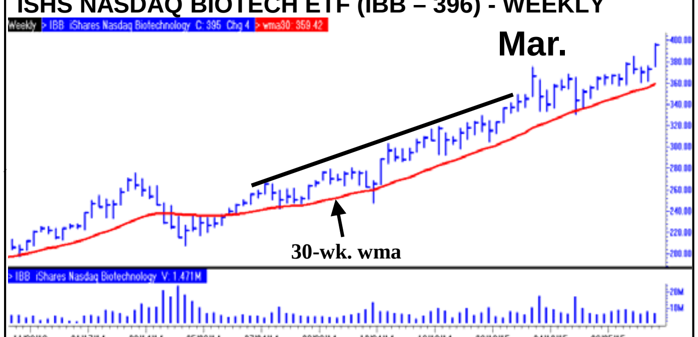
CBOE MARKET VOLATILITY (VIX – 12) - DAILY



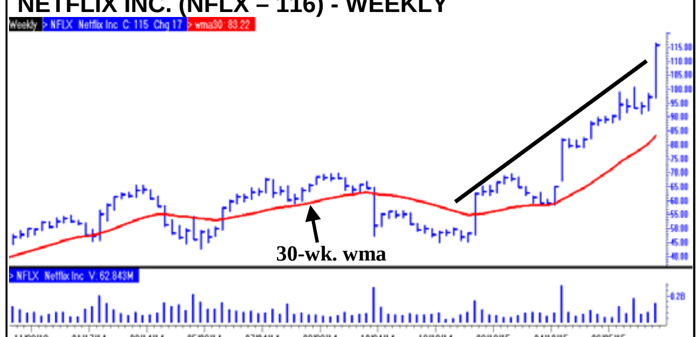
SEMICONDUCTOR ETF (SMH – 53) – WEEKLY

U S OIL FUND (USO – 17) - WEEKLY

ISHS NASDAQ BIOTECH ETF (IBB – 396) - WEEKLY



NETFLIX INC. (NFLX – 116) - WEEKLY



GOOGLE INC. (GOOGL – 684) - WEEKLY

ADVANCE-DECLINE INDEX - DAILY