

EQUITIES PERSPECTIVE

July 24, 2015

DJIA: 17,732

Ebola, Greece and now, even Apple ... it's always something. The "something" comes around when the market is ready to go down. Something comes along when the number of stocks above their 10-day average is back above 80%. Something comes along when after a panic-like low, the market is ready to test that low. And, of course, something comes along to frustrate/spook the most number of investors. That Rosanne Rosannadanna was quite the technical analyst. It even crossed our mind that rather than the Apple news affecting the market, it might have been the other way around. Really, selling 47.5 million phones wasn't enough? If indeed Apple was a little light, there was some warning in the horrible action in the Semis. If the Semis are the canary for these tech products, a look at Ambarella (123) and we're all about to buy a GoPro (64). In any event, it was nice to see the Semis get it together on Thursday. Markets usually don't go far without them.

Apple wasn't exactly our biggest worry. China, that's different. It's hard to know just how much the two are related, but we like to blame China for most things. They say China grew at 7% – of course the "they" in this case would be the Chinese authorities. If so, where is it? If you look at the collapse in commodities – and copper had become almost synonymous with China – where's the growth? If we're missing China's switch to a consumer-oriented economy, apparently Apple missed it too. The only growth in China that's apparent has been in stock prices, and now that's a problem. China's market is so bad they've changed the rules – no short selling and no IPOs. In 2007-08, we tried that here with little success. The best, however, is the head-in-the-sand tactic – stop trading the weak stocks and they won't go down. How would you like to own one of those stocks they won't let trade? Can't wait for trading to start so you can buy more? Messing with markets doesn't work.

Advance-Decline numbers of late have been nothing short of horrible, and we do mean horrible. It's not that they're so one-sided, it's more that they're incessantly bad – six straight days. At a new high Monday, Advance-Decline numbers were the worst in the history of any NASDAQ new high. The S&P closed fractionally below its high or the A-Ds there would have been the same. At least in part this reflects the age of the bull market – old bull markets tend to narrow. However, there's more at play here than just old age. It's also about the collapse in commodity stocks. To give you an idea of the impact here there were close to 500 12-month new lows the other day, in a market that's bumping up against an all-time high. For a technical analyst that's a nightmare configuration. In this case, however, it's easy to see what's going on and how it should easily change. All that needs to happen is for the commodity stocks to stop going down. However, it's never good to make excuses for the numbers.

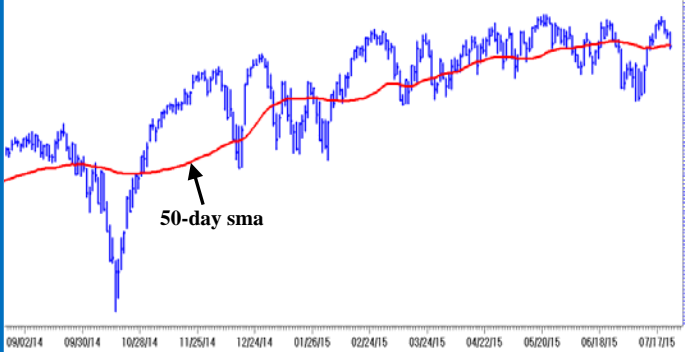
We've long observed that trends often take on a life of their own. The longer they persist, the longer they're deemed likely to persist. Opinions follow price. A stock like Barrick Gold might have made sense at 13, but down here at 7 no one wants to touch it. We understand that with the commodity price at current levels, a lot of miners will be losing money. However, this is like our diatribe last week about the Biotech's – by the time you understand why a trend is in place, the trend is likely over. For Gold stocks the story is bad, everyone gets it, and everyone sells. No matter how bad the story, prices will go up when those sellers are out of the way. Gold and the rest of the "stuff stocks" should bounce. More than 75% of the components of the Gold Bugs Index hit 12-month new lows the other day, a number which in the past has produced rallies. Commercial traders – the smart money – are long. Keep in mind we're talking about a bounce.

The ongoing decline in commodity stocks is worrisome from a technical standpoint. A house divided, and you know the rest. Divergences in Advance-Decline numbers end uptrends. However, this can go on for a while – typically 4-to-6 months is the lead time in the A-D Index. It's also not unusual to see uptrends similar to this one with a big chunk of the market doing badly, while a small chunk does extremely well. There was a "nifty-fifty," this time it's more like a "nifty five." This, more or less, is likely to continue. Short term the lows a couple weeks ago still seem viable. The key to these "tests" is less selling pressure, and that seems the case. It should just be a matter of getting oversold again, back to that 20%-80% thing in the percent of stocks above their 10-day moving average.

Frank D. Gretz

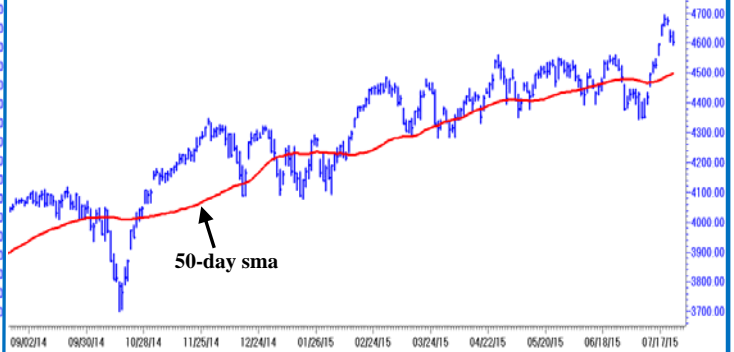
S&P 500 (SPX - 2102) - DAILY

Daily > SPX-01 S&P 500 Index C: 2102 Chq: 12 > sma50 2102.6

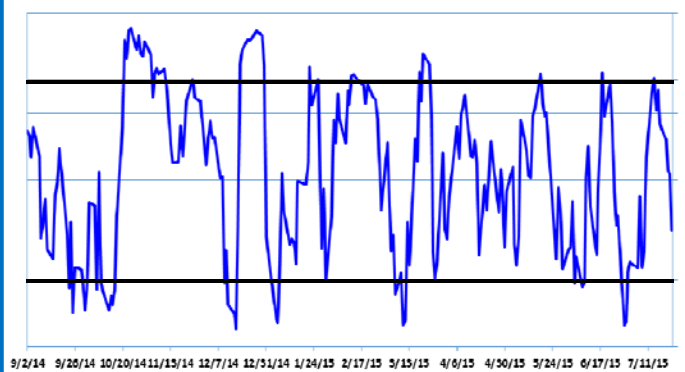


NASDAQ 100 (NDX - 4603) - DAILY

Daily > NDX-01 Nasdaq 100 Index New Calculation C: 4603 Chq: 20 > sma50 4487.4

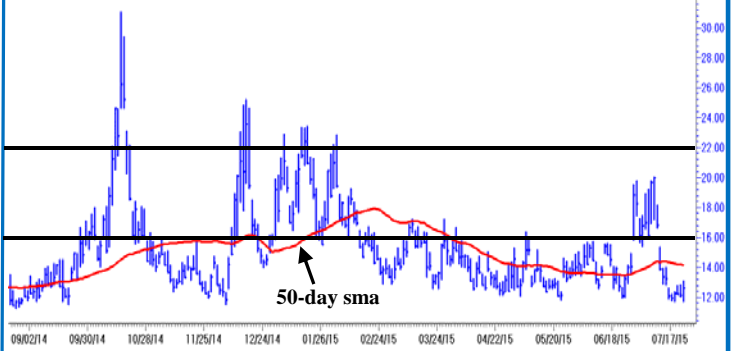


S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



CBOE MARKET VOLATILITY (VIX - 13) - DAILY

Daily > VIX-01 CBOE Market Volatility C: 13 Chq: 0 > sma50 14.16



AMBARRELLA INC. (AMBA - 123) - WEEKLY

Weekly > AMBA Ambarrell Inc. C: 123 Chq: 0 > sma30 69.37



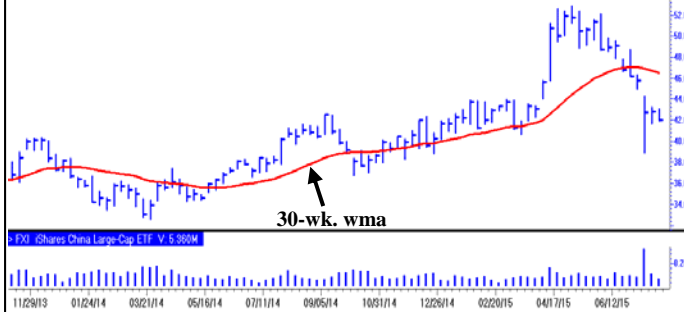
BLOOMBERG COPPER SUBINDEX (JJC - 28) - WEEKLY

Weekly > JJC iPath Bloomberg Copper Subindex Total Return ETN due October 22, 2037 C: 28 Chq: 2 > sma30 51.94



ISHS CHINA LARGE-CAP ETF (FXI - 42) - WEEKLY

Weekly > FXI iShares China Large-Cap ETF C: 42 Chq: 0 > sma30 46.61



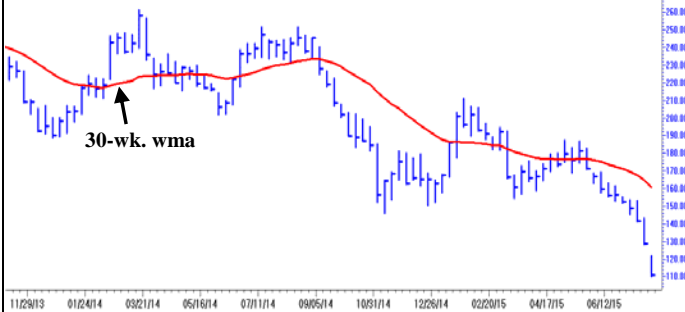
GOPRO INC. (GPRO - 64) - WEEKLY

Weekly > GPRO GoPro Inc. C: 63 Chq: 2 > sma30 61.61



NYSE ARCA GOLD BUGS INDEX (HUI - 111) - WEEKLY

Weekly > HUI NYSE Arca Gold BUGS Index C: 110.8 Chq: 4.8 > sma30 160.74



FACEBOOK INC. (FB - 97) - WEEKLY

Weekly > FB Facebook Inc. C: 98 Chq: 1 > sma30 83.67

