WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

July 31, 2015
DJIA: 17,746

Don't panic … it was just a test. The time to panic was back on July 8, and by the look of it, most did – the second 90% down-day. This recent move back toward those lows has the look of a "test." Following panic-like lows markets often revisit or test those lows. The test sometimes involves an even lower low in the averages, but the key to a test is that it involves less selling. This determination is never easy, and this time seems more muddled than usual. A key measure here is the number of 12-month New Lows. In theory most stocks make their lows in the washout and don't go to lower lows in the test. In this case there were 350 New Lows in the washout low, but a whopping 700+ a couple of days ago – not what you want to see. It's never a good idea to make excuses for the indicators. However, it seems reasonable to consider the majority of the jump in New Lows was about the rout in commodity stocks, which themselves may have washed out on that 700 number. If Tuesday's rally did mark the end of the test, they shouldn't look back from here.

Given the collapse in the commodity stocks and given there are a lot of them, Advance-Decline numbers have been what you might call horrible. So there's no help there in terms of evidence of diminished selling pressure. However, advance-decline figures just measure direction – up or down – and not price or the degree of up or down. There is, however, an obscure measure called QCHA, which measures the average percentage change in stocks up and in stocks down. In other words, it does give you an idea of selling pressure and, surprise, it showed less selling this past Friday and Monday than back on July 8. The Transports also held their July low, though we aren't inclined to bet the ranch on a bounce in a few rails. There is something in the advance-decline figures that does seem worthwhile and that's the degree to which they've been bad. Through Tuesday those numbers had been negative for seven straight days, an unusually persistent stretch. Over the last fifteen years this has resulted in higher prices one month later every time, according to the Sentiment Trader report.

Last week's drubbing of Biogen (317) made talk of a bubble in Biotech seem plausible. Biogen is a significant part of the IBB ETF and that index took a hit which may itself have resulted in some of the weakness in other Bio shares. In any event, it wasn't a pretty day in Bio-land. So far, however, it was one day, with no follow-through even in Biogen. Meanwhile Amgen (172), a stock noteworthy of late for doing nothing, reached a ten-month high on Tuesday. Suffice it to say most of Biotech still seems intact. It also seems important that despite Biogen's impact on the IBB, that index remains in its orderly uptrend channel. Contrast this with the pattern of the FXI, the China large-cap ETF. The move in that index in late-March above its own trend channel seems more characteristic of a bubble. It's that kind of move we still expect to see in the IBB and one which would turn us wary.

How about that Windows 10? That was our reaction too. Gone are the good old days when Microsoft (47) moved markets. That said, the stock acts just fine and may be shaping up for better things to come. Another nostalgia name which may be shaping up is Cisco (28). New leadership, of sorts, and an emphasis on cyber security could be helping. By far the most interesting retro name is EBAY (28). The stock has been all the rage for some time because of its spinoff of PayPal (38). Most of the interest seems relegated to the latter, while the better chart by far is that of EBAY. Did some new war begin? To look at the Aerospace/Defense stocks Wednesday, you might think so. Talk about the forgotten. Maybe there is more to like than just the Biotechs and Googles.

Earnings don't matter, at least in the short run. The long term is different – over time consistently higher earnings mean higher stock prices. In the short run it's not the earnings that matter, it's the surprise in earnings. Recently this has played out perfectly. Apple (122) and Facebook (95) reported good numbers but no surprise, and both went down. Google (630) and Amazon (539) surprised, and both went up. Studies long have shown that over time it's the surprise in earnings, both up and down, that moves stock prices. Almost any surprise in the commodity stocks would have to be positive – the stocks are that beaten down. Unless they at least hold, it will be hard for the market to get much lift. Stocks above their 10-day average are tracking back to 80%, a time to be careful again. The market has narrowed, which hasn't gone unnoticed. Such is the natural course of aging bull markets, but that won't end things just yet. It does mean being selective is important, then too, when isn't it?

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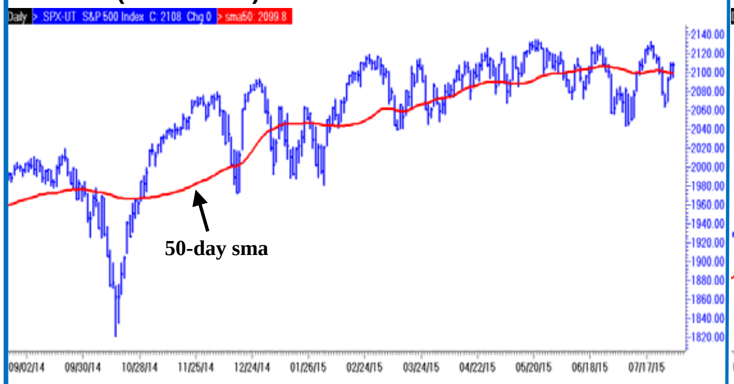
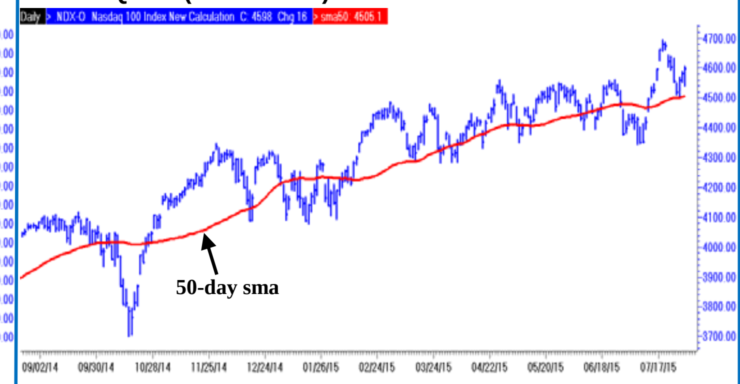
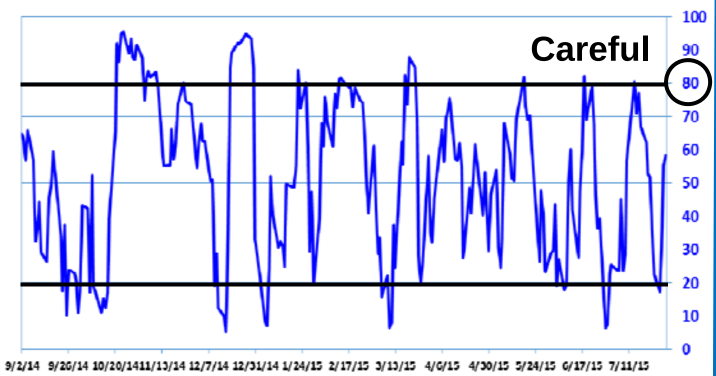
S&P 500 (SPX – 2109) – DAILY



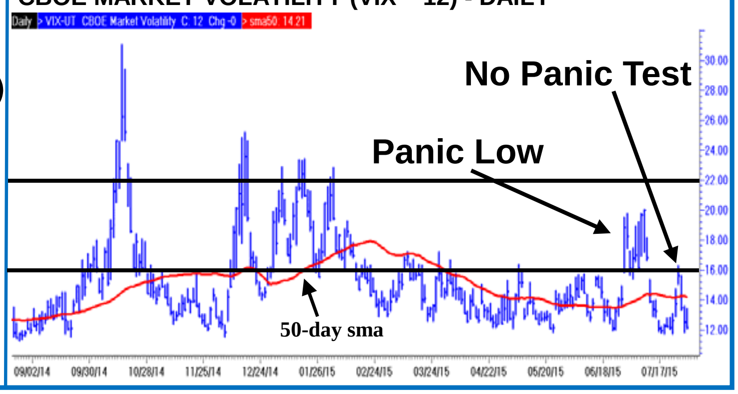
NASDAQ 100 (NDX – 4599) – DAILY



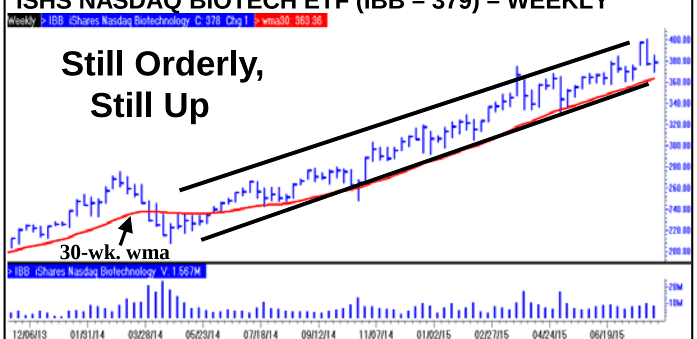
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



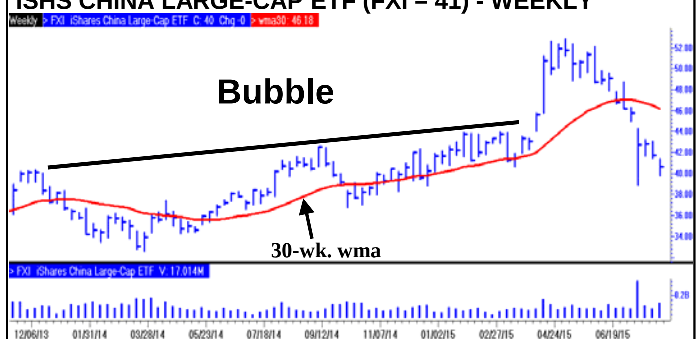
CBOE MARKET VOLATILITY (VIX – 12) - DAILY



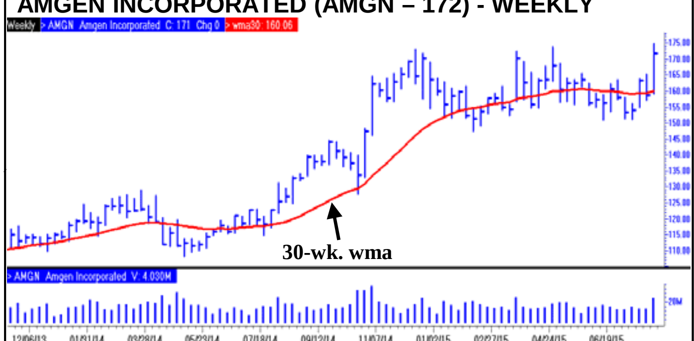
ISHS NASDAQ BIOTECH ETF (IBB – 379) – WEEKLY



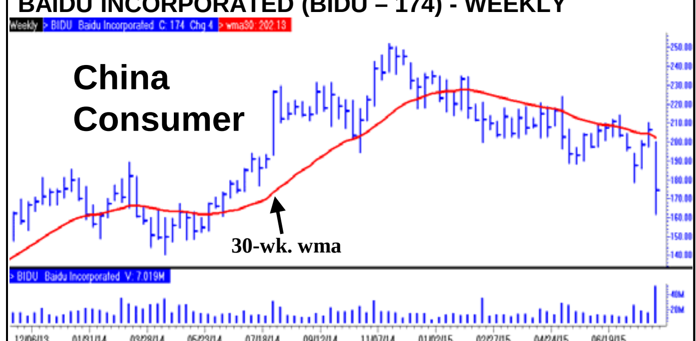
ISHS CHINA LARGE-CAP ETF (FXI – 41) - WEEKLY



AMGEN INCORPORATED (AMGN – 172) - WEEKLY



BAIDU INCORPORATED (BIDU – 174) - WEEKLY



LOCKHEED MARTIN CORP. (LMT – 206) - WEEKLY

FREEPORT-MCMORAN INC. (FCX – 12) - WEEKLY