WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

June 26, 2015
DJIA: 17,890

The good news … no bad news. For Greece this seems so, though the politicians remain at it. The markets, however, seem to have spoken, especially that market in Germany. The question is whether they will continue to do so. Will the mere absence of bad news be enough to support an important new rally phase in a market that has gone nowhere all year? While acting well enough, the market here is once again up against its nemesis – stocks above their 10-day moving average are backing off of the 80% area. For all those seeming worries about Greece, there's little evidence of concern in transactional data – a low VIX and little put buying. It's not that it's a bad background, it's more that it's a difficult one, at least in terms of a big move up. There has been little progress from this kind of background all year, so it's hard to see a different outcome this time.

The hope for higher prices may well lie in what are the good charts. You can look at that chart of Facebook (88), for example, and see the market higher. The stock is just breaking out after going nowhere for almost a year and even Apple (128) is trying to come out of its 4-month consolidation. True, Netflix (664) may have become overdone for now on news of its split. Ironically news of a split usually sends stocks higher ahead of a post-split letdown – for Netflix the opposite could be the case. Perhaps most interesting in this group of NAZ leaders is Amazon (440), another stock with a couple months of consolidation. It's hard to talk about potential upside without going back to Biotech. These stocks have been so good for so long it's easy to think of them as out of reach. Based on the ETFs, however, that's anything but the case. Here again there has been several weeks of consolidation from which the stocks seem to be emerging. A stock like Celgene (119) is no higher than it was more than a year ago.

In a sense the market has followed the theoretical script. Bonds seem to have peaked, rates bottomed, and for stocks this has meant trouble for the dividend-payers. Utilities, for example, are down about 11% while the S&P still is a couple of percent higher. Similarly, Real Estate ETFs are down about 12%. By way of perspective, the REITs sank about 18% during the "taper tantrum" of 2013. On a positive note, in some cases these ETFs have seen the most liquidation ever, suggesting it may be late on the bearish side. Another area that could be reaching a downside-overdone is Oil & Gas. Optimism for this group of stocks is extremely low. Optimism on the XOP ETF itself recently was near the lowest in its history, despite the fact that the Index continues to hold above its December and March lows. Given the pessimism, the risk-reward here seems favorable. As usual, however, it's best to wait for a little strength rather than try to catch what still is a falling knife.

There may come the time when we simply say "Greece it" rather than the more cumbersome "kick the can down the road." There's no way out for Greece except to get out, an outcome that no one really wants. That did work for Argentina, but only eventually. Besides, Greece is no Argentina – all those natural resources just when China was beginning to boom. As it happens, China is booming again, but the demand for paper is for those stock certificates. The Shenzhen market, where small caps go to live, has risen more than 170% in the last 12 months. Surveys show 80% of retail Chinese investors trade at least once a month and the average holding period is one week versus eight months in the U.S. Something like 170,000 new accounts have been opened each day this year, ten times the rate of 2014. Margin debt is five times what it was a year ago and the average P/E is 140 compared to 25 even on the Shanghai. To make a bold call – this won't end well. The recent crack and volatility seem a warning.

The on again, off again Greek thing has kept the market unsettled. The real issue, of course, is the lack of any real upside momentum. In a sense a Greek default or other washout event would be a good thing. It would build the liquidity, that is, the wherewithal for a better rally. Absent that, it could be a long hot summer, to coin a phrase. As per the above, many stocks still act well, but not as many as before. The Advance-Decline numbers have lagged, which together with the level of 12-month New Highs and the Transports say it's an old bull market. Then, too, old doesn't mean over, and we're still expecting our own Shenzhen move. A characteristic of aging bull markets is that they narrow – hence the deterioration in the A-D numbers. Stocks that haven't rallied by now probably won't. Meanwhile, the big-caps typically are the last to give it up.

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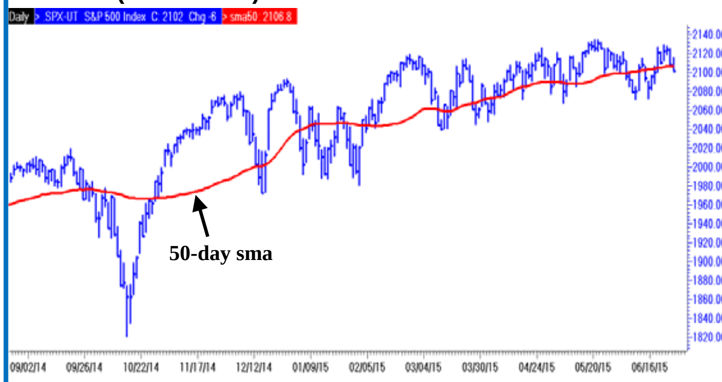
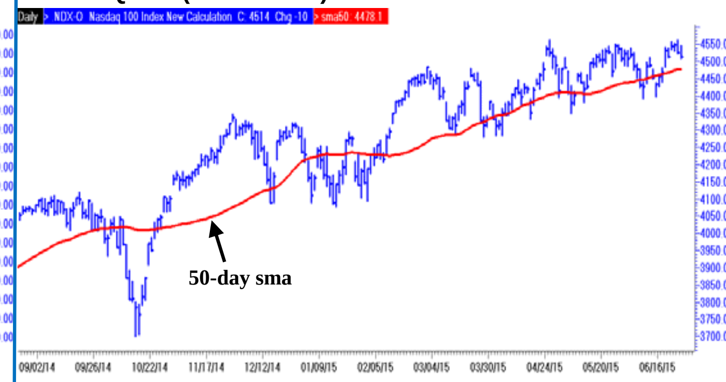
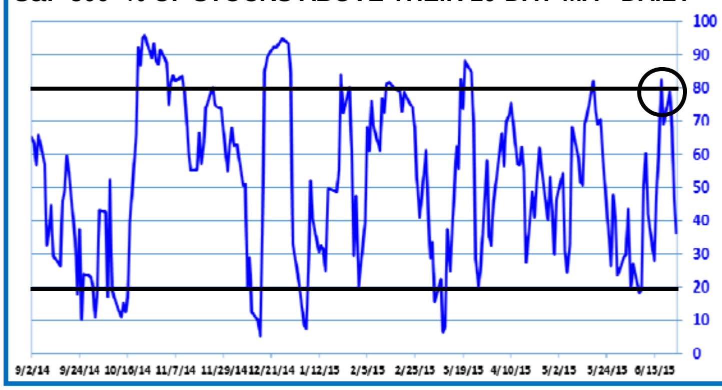
S&P 500 (SPX – 2102) – DAILY



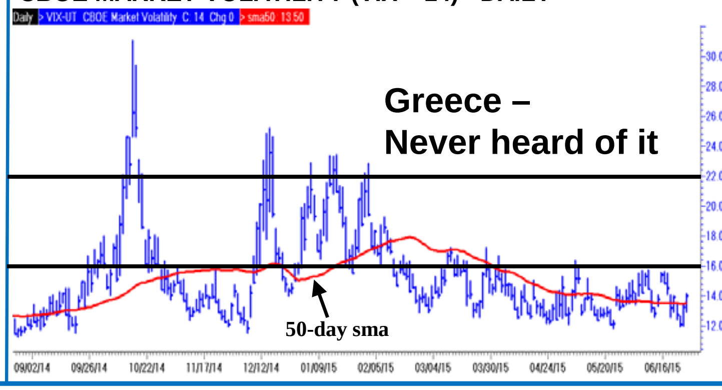
NASDAQ 100 (NDX – 4514) – DAILY



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



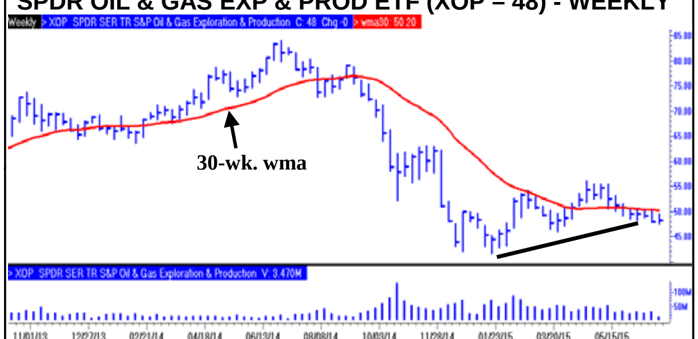
CBOE MARKET VOLATILITY (VIX – 14) - DAILY



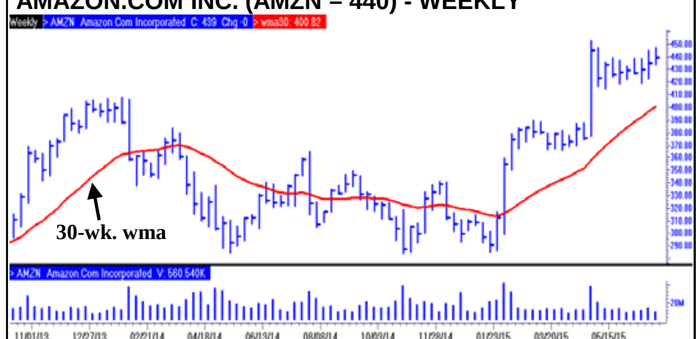
ISHS NASDAQ BIOTECH ETF (IBB – 376) – WEEKLY

VANGUARD REIT ETF (VNQ – 76) - WEEKLY

SPDR OIL & GAS EXP & PROD ETF (XOP – 48) - WEEKLY



AMAZON.COM INC. (AMZN – 440) - WEEKLY



FACEBOOK INC. (FB – 88) - WEEKLY

SHENZHEN COMPOSITE INDEX (SZIDX – 2503) - WEEKLY