WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

November 13, 2015
DJIA: 17,448

The last time the Fed raised … the iPhone didn't exist. In either case, it's hard to remember what that was like. Fortunately, others do. According to Capital Group, since 1954 the S&P averaged a gain of close to 15% in the following two years after a hike. In the short term, the S&P averaged a 7% gain in the six months following a hike, according to Strategas Research Partners. It makes sense that a rate hike should be ignored in that the Fed hikes when things are good. In this case, however, are they? If we let the market be the judge, since 1971, in four cases that the market had been falling in the previous six months, it lost 7% over the next six months. When the S&P had been rising, it kept rising after the rate rise. The problem is, when looking at the S&P, has it been rising or falling? If we let the 200-day moving average be the guide, it's again too close to call. We'll just say the market still seems sound, though not as sound as a week ago.

It seems clear the market has taken a turn for the worse. This is not so much an observation about the averages, but about negative Advance-Decline numbers 6 of the last 7 days, a change that's not a good one. Also, stocks above their 10-day moving average have dropped back to 10%. So we're out of that "overbought and staying overbought" mode which has characterized the rally since the August-September lows. This doesn't mean it's nothing but down from here but it does mean it's time to be careful. Despite the favorable seasonal pattern, November historically has seen a few nasty declines. And as for the poor showing in the number of stocks above their 200-day average, the overall background is not a picture of strength. The Transports haven't rallied, despite the "Norfolk deal," and the commodity stocks seem in the throes of another leg down. However, those NAZ 100 stocks, actually NAZ 10 or 20, still seem intact and that's why we expect another run at the upside. Keep in mind, however, if you think it has been narrow or selective up to now, it's likely to get worse.

If the ultimate overall impact of a rate hike may be as yet unclear, the mere prospect already has had multiple consequences. Bonds have turned down, the dollar has rallied, Banks have rallied and REITs have fallen. Though more difficult to measure, dividend payers like the Utilities also have fallen. Except for the Bank rally, it would seem more bad than good. And while Banks are many, most live on the NASDAQ, so NYSE market breadth doesn't get a lift. All this sorts out over time, but at the least, the market is betting this time the rate hike is for real. Amidst these crosscurrents in many stocks, commodity stocks have turned down again. Many view these as the real economic barometer, "Dr. Copper" and so on, making it a bit perverse that the Fed is about to raise rates. Regardless of the Fed's view, many investors are uncomfortable with this weakness. It seems more than coincidence that these stocks began to stabilize back in September, around the time this rally got going.

If you wear it, don't buy it, and don't buy where you buy it. Retail/Apparel got pretty much crushed on Wednesday. Macy's (41) disappointed, which seemed to surprise – J.C. Penney (9) had some good news, but managed only a few minutes of rally. It's so bad out there that even a leader like Nike (126) hasn't been able to rally. Meanwhile, Wal Mart (57) is trying to be more or less online, as though they've never heard of Amazon (665). A look at the chart will tell you how this is going. Doing more online won't make you Amazon just as selling coffee won't make you Starbucks (61). Maybe "bricks and mortar" again will just mean building materials. Restaurants have been almost as bad as retail/apparel. However, a glaring exception there has been McDonald's (112) – a chart with a significant long-term breakout. Weak retail, weak restaurants, where did that much-vaunted gas price dividend go? Warm weather may be bad for retail, but for restaurants? McDonald's still can be bought, as long as Amazon doesn't start selling hamburgers. Then there's Starbucks, more concept than retail or restaurant, and seemingly run by a Steve Jobs.

They're dwindling down to a precious few – Google (757), Amazon, Facebook (108), Starbucks, and that's about it. If you can't beat them, and you can't, join them. Even Thursday's 250-point decline left these relatively unscathed, but this doesn't end well. Eventually they get to everything, it's the nature of these divergences. Back in June the consequences were felt pretty quickly, but that's more the exception than the rule. Of course this time you have to keep in mind it was back in April that breadth peaked, and stocks above their 200-day average at this point showed a particularly poor recovery. For most stocks it's a bear market. Stocks above their 10-day average are all the way back down to 10%, where you will recall is not a place to become more negative, at least short term. We expect the averages to try again but that could be the rally to sell.

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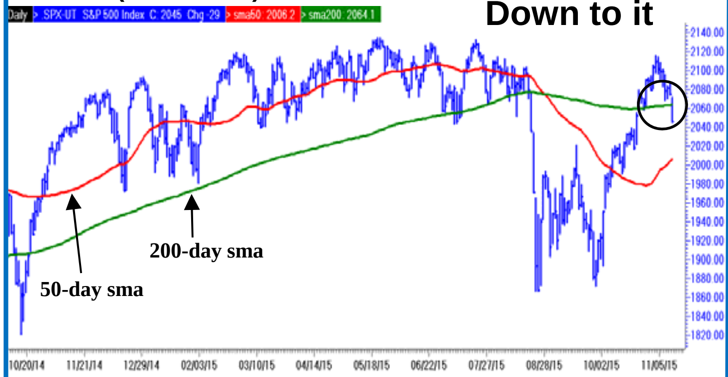
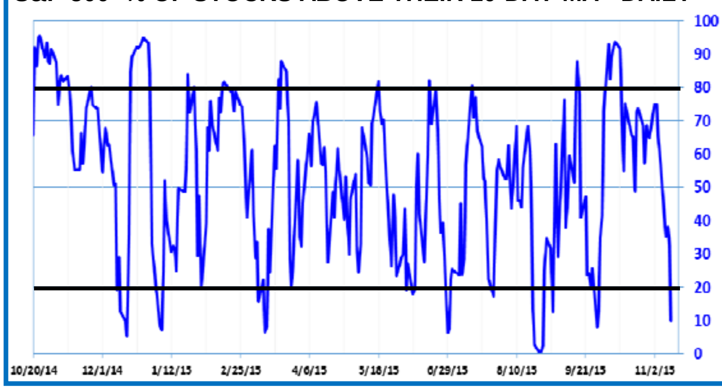
S&P 500 (SPX – 2046) – DAILY

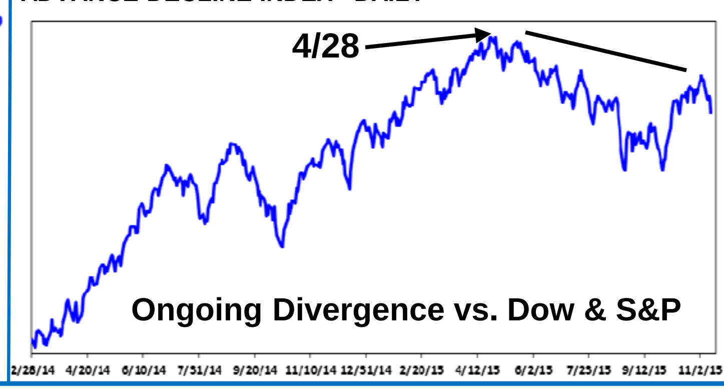


NASDAQ 100 (NDX – 4589) – DAILY

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

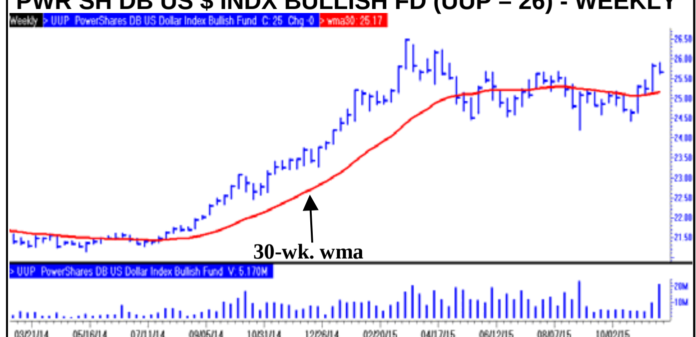


ADVANCE-DECLINE INDEX - DAILY

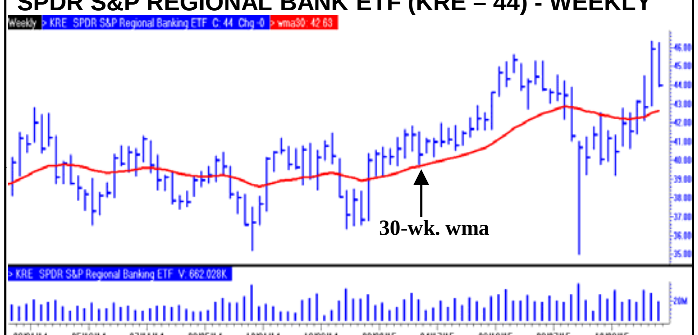


MACY'S INC. (M – 41) - WEEKLY

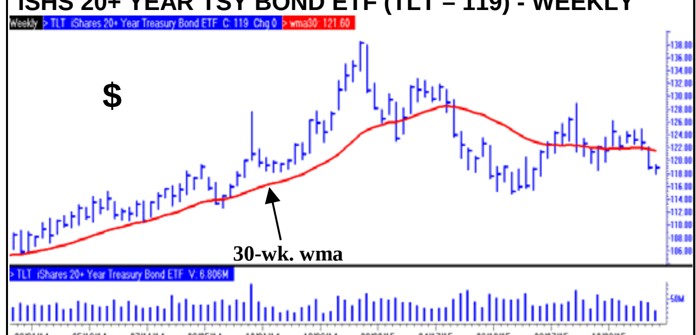
PWR SH DB US $ INDX BULLISH FD (UUP – 26) - WEEKLY



SPDR S&P REGIONAL BANK ETF (KRE – 44) - WEEKLY



ISHS 20+ YEAR TSY BOND ETF (TLT – 119) - WEEKLY



FACEBOOK INC. (FB – 108) - WEEKLY

FREEPORT-MCMORAN INC. (FCX – 9) - WEEKLY