EQUITIES PERSPECTIVE

November 20, 2015
DJIA: 17,733

It's about 50-50 … what's the question? Even at that, it depends. The background, you might say, is a little confused. Short term it's reasonably clear, or so it seems. The Thursday and Friday selling last week got things oversold or stretched to the downside. You will recall, the percentage of stocks above their 10-day moving average, that super-secret rocket science indicator, had dropped below 20% by Thursday night, ending Friday at 5%. We're slightly embarrassed by our own surprise, but as it has all year, it seems to have worked again – the market has rallied. Just as good markets can become overbought and stay overbought, bad markets can become oversold and stay oversold. This one did not. Another positive was that despite the terrible news from Friday, an excuse for the market to continue its decline, it did not. We always think it's worth noting when the market has a chance to do something, or even should do something, and does not.

A problem, however, is that last week's selloff did take the edge off the recovery. We had been in that happy place of being overbought and staying overbought, and that changed. It's nice that we've rallied, but now comes the hard part. The only way to deal with a selective market is to be in "the selected," though Amazon (661) and the other 10 or 20 might not be your cup of Teavana. Remember back in September when those "death crosses" were all the rage? If it's a technical excuse you need to buy into the NASDAQ 100 idea, the cross there has turned to gold – the 50-day moving average is back above its 200-day. There's GE (30), McDonald's (113), Home Depot (127) and a handful of other stocks, but the real leaders here live in that NAZ 10/20. If there is a catch-up move on the part of lagging money managers, this pretty much is where they have to go.

Our biggest concern about the market is the overall background. Bull-market tops are characterized by diminished participation – the big-cap averages and that's about it. As part of this, typically there's a last rally, noticeably poor relative to the others in the bull market. It's not over until it's over, but it looks increasingly likely this is that sort of rally. We're thinking of two measures here, the Advance-Decline Index and the percent of stocks above their 200-day moving average. Both gauge what you might call the average stock versus the stock averages. Using the S&P Index, this big-cap measure at its recent high had retraced virtually all of its August-September decline, while the A-D Index at its recent peak had retraced only about two-thirds of its decline. Looking at stocks above their 200-day average, you see a similar picture. From a low of 16% in the September selloff, the recent best was 53% versus highs earlier this year of 70-80%. This kind of poor rally, divergent action is typical of the ending phase of bull markets. Anything can happen, but it usually doesn't – lost momentum is hard to regain in a six-year old bull market.

Wednesday's rally in part has Goldman Sachs (193) to thank. It's not Goldman the stock we speak of, it's the company's upgrade of Apple (119). Apple has become a "channel stock," moving on rumors about its suppliers – most of those rumors not good. Just what this is about is hard to say, but if Apple can get back on track, it would be good for the market both literally and figuratively. Also getting back on track could be the Biotechs. We haven't mentioned these for a time, thanks to that 12-step program. The idea of not being sure just who might be a Valeant (84) is a big worry. Then there's the idea of knowing that every Democratic debate leaves the stocks at risk, at least for a day or two. However, many of the charts look better, including the ETFs like IBB. There you at least avoid the "Valeant risk." These stocks, if they do get going, also will further help the NAZ 100. There are four Biotechs among the top 20 there – Gilead (107), Amgen (159), Celgene (114), Biogen (289).

There is one other area we think worthy of attention and this is Aerospace/Defense. We understand this may sound like a knee-jerk reaction to the Paris attacks and to the positive reaction in the stocks, however there seems more to it than that. To begin, prior to this the fundamentals had changed – defense spending is going up. Technically, we had mentioned a few times, the charts were shaping up. So after last weekend, the worldwide outlook for defense spending would seem better than ever, and most of the stocks now have broken out. Finally, not to be morbid or paranoid, we remember 9/11 and we remember those "defense stocks" were the only ones to rally in its wake. You can buy a little insurance with a couple hundred out-of-the-money S&P puts, or you can buy a defense stock.

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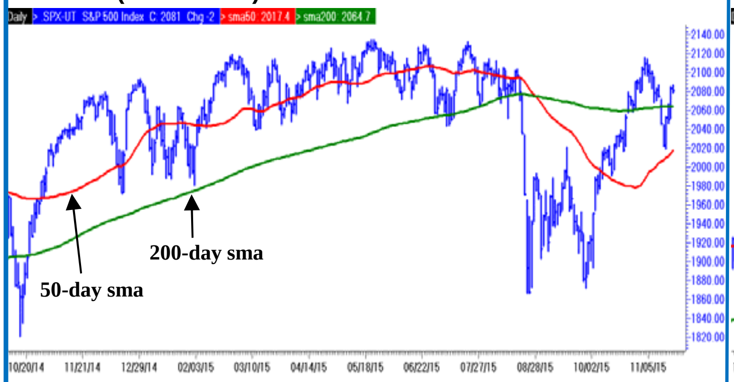
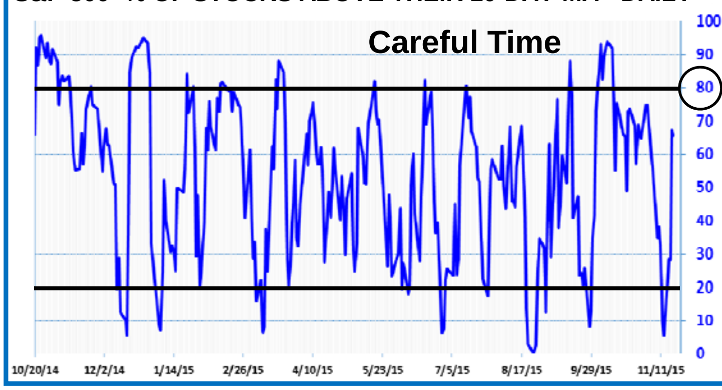
S&P 500 (SPX – 2081) – DAILY



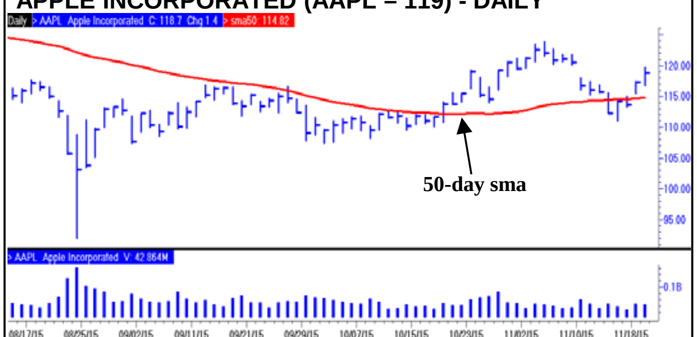
NASDAQ 100 (NDX – 4655) – DAILY

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



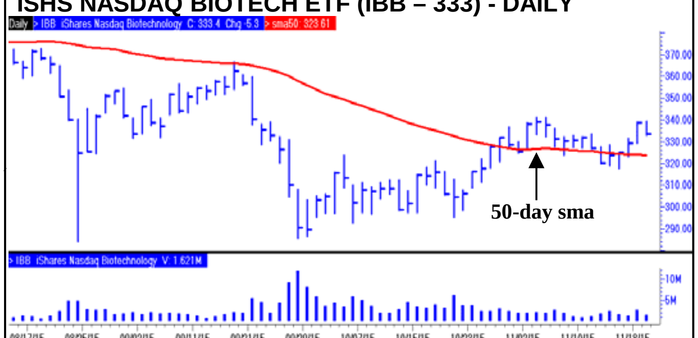
S&P 500 -% OF STOCKS ABOVE THEIR 200-DAY MA - DAILY

APPLE INCORPORATED (AAPL – 119) - DAILY

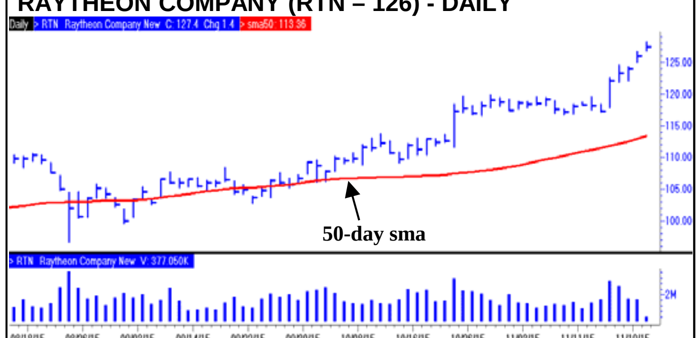


ADVANCE-DECLINE INDEX - DAILY

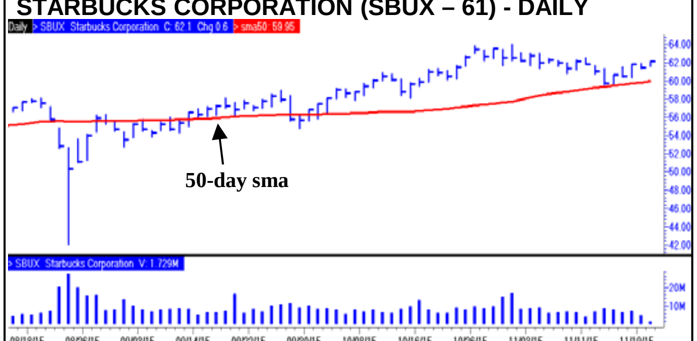
ISHS NASDAQ BIOTECH ETF (IBB – 333) - DAILY



RAYTHEON COMPANY (RTN – 126) - DAILY



STARBUCKS CORPORATION (SBUX – 61) - DAILY



ORBITAL ATK, INC. (OA – 86) - DAILY