# EQUITIES PERSPECTIVE

November 6, 2015
DJIA: 17,863

There's good … and there's scary good. From the August-September low we have seen a good rally. More than good enough to surprise most. However, Monday's up-day was scary good. In a six-year old bull market, which a few weeks ago seemed on its way out, you don't expect to see a 4-to-1 up-day. Strength in the averages is one thing, but old bull markets tend to narrow. And, indeed, to look at secondary stocks as measured by the Russell 2000, this still seems the case and it's what we expect. We're in a seasonally favorable period, there's plenty of momentum left in the tank, and both should push the market higher. By market, however, we mean the market averages and not the average stock. It's not an aberration that the NASDAQ 100 is leading the way – back to its mid-July peak, while the Russell is some 8% below its peak in June. That's just the way it works in old bull markets. Don't be surprised should this pattern become more extreme.

Moving averages are used to smooth a series of data and often in technical analysis they're used to define a trend. We can say bull, you can say bear, but above or below a moving average is mercifully objective. The somewhat odd time period of 50 days is frequently referred to in technical analysis and, if for that reason alone, has to be considered. In the event, the S&P 500 recently moved from 6% below its 50-day moving average to 6% above – another not-so-mean reversion. This kind of move is unusual and typically has been a good sign. Meanwhile, individual stocks above their 50-day average continue at an elevated level, as do stocks above their 10-day average, also good signs. A bit worrisome is the number of stocks above their 200-day average. Obviously this measure takes time to adjust, but more than others it offers the best commentary on bull versus bear markets. Its failure to get back to those highs around 80% would not be a good sign.

The other big-picture problem is the ongoing divergence in the Advance-Decline Index, a decent proxy for the average stock versus the stock averages. The peak here was back at the end of April followed by what is fair to call a pattern of divergences into the September low. The recovery remains well short of the high, though the performance hasn't been all that bad, including Monday's surprising number of close to 2000 net advancing issues. You might say there's a divergence but it's no longer diverging, and for now that's good enough. When the A-Ds turn weak again, against the background of the ongoing April divergence, trouble won't be too far behind. And this is the pattern we foresee, a market that narrows until "then there were none." The holdouts will be the large-cap stocks which dominate the averages, particularly the NASDAQ 100 where the Googles play. It's called distribution under the guise of strength in the averages. However, we should still have time.

The Biotechs had a decent day as well on Monday. However, they're no longer the homogeneous group they once were. Indeed, few are what we would call good charts – Amgen (161), Regeneron (564) and a couple of lesser-knowns. This is why we would favor the aforementioned rather than the all-encompassing IBB and XBI ETFs. These ETFs, however, have their impact in that when you sell an ETF, you're selling Amgen and Regeneron. It's not even guilt by association, it's guilt by mechanics. In the market-cap weighted IBB, of course, this is particularly so. The real problem isn't the ETFs, it's Valeant (79). This is where Biotech and much of Pharma is left guilty by association. Most of these charts in the group by now don't seem at risk, but the group is in the political crosshairs and that's a day-to-day risk. Contradictorily, a nice volatile risky stock like an Amazon seems less risky.

As one of the best performing stocks of the year, it's hard to call Netflix (114) a laggard. Of course it's all relative, and relative to Amazon (656), Facebook (109) and Google (761), it has lagged of late. At number 27 in the hierarchy of the NAZ 100, it's the kind of stock we think should get back into favor. And we're intrigued by the chart pattern, specifically its similarity to the aforementioned before their recent big moves. The similarity in those patterns then, and NFLX now, is that prior to their breakout they had as much as three months of consolidation – the technical wherewithal to support the outsized moves later seen. History doesn't always repeat and at this stage of the bull market you don't want to be buying laggards, even in the NAZ 100. However, there is, as we said, a similarity. It also seems unlikely this all will end without another leg up in Apple (121).

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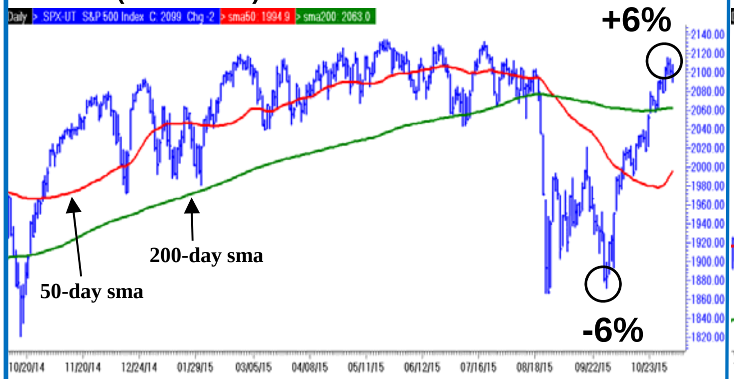
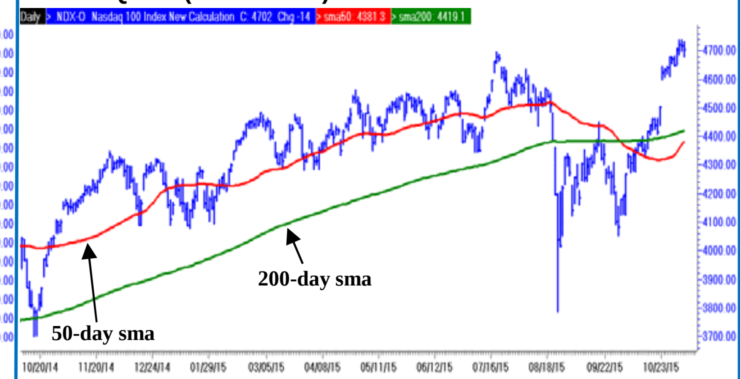
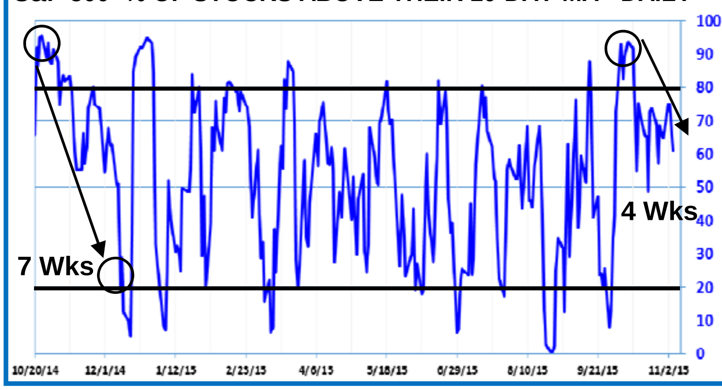
## S&P 500 (SPX – 2100) – DAILY




## NASDAQ 100 (NDX – 4703) – DAILY



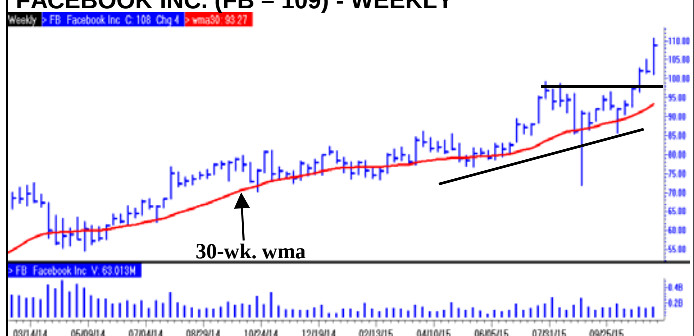

## S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY




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

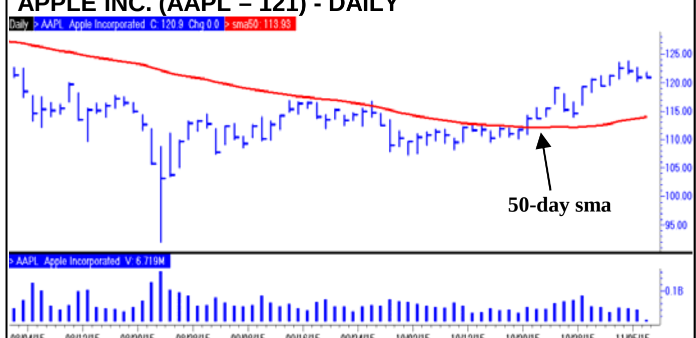

## NETFLIX INC. (NFLX – 114) - WEEKLY


## FACEBOOK INC. (FB – 109) - WEEKLY

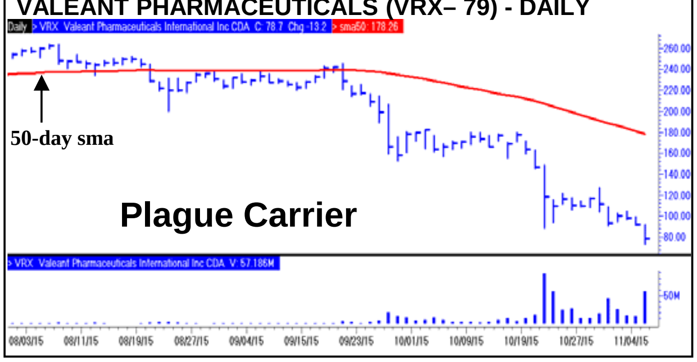



## REGENERON PHARM. (REGN – 564) - DAILY


## APPLE INC. (AAPL – 121) - DAILY




## VALEANT PHARMACEUTICALS (VRX– 79) - DAILY




## ADVANCE-DECLINE INDEX - DAILY