WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

October 14, 2016
DJIA: 18,099

A new high … by a smidge. It's not that the Index is so obscure that you might have missed it, rather, it was just that brief. We are referring to the NASDAQ 100, home to those big NAZ names you know and love. The feat lasted all of one day, undone by Tuesday's weakness in Biotech. We haven't been too keen on Biotech, particularly the big guys which dominate the ETFs. Outside of those, many patterns are improved, and there are the recent highs in stocks like Abiomed (128) and Idexx (111). It's those FANG stocks that are the real drivers, of course, and now Apple (117) is on its longest winning streak in 20 months. Not only do Techs like these seem where you want to be, there isn't much else. Contrast, for example, Consumer Staples or Health Care. Then, too, Energy and the Financials at least are improved. For one of the few times in memory, Financials even acted well in Tuesday's weakness. Overall, however, the market has narrowed, which is a problem.

From first to worst is a catchy phrase, not one exactly apropos in this case, but have you been watching those advance-decline numbers? In Tuesday's weakness, the advance-decline numbers were 7-to-1 to the downside, not exactly a flesh wound. One day, of course, never matters, even a day as bad as that day. What matters is the changed pattern here. The Advance-Decline Index made a new high as recently as September 22. Weakness here precedes weakness in the averages, that is, the overall market, by four months on average. So the worry isn't that of a major top, however, since that September 22nd high, the pattern vis-à-vis the Dow has been divergent. Again, the change is not bull market-threatening, but even these short-term divergences can cause problems, like Tuesday. As per the aforementioned four-month lead time, divergences can go on long after you tire of hearing about them, but eventually they get you.

Last year around this time, investors were running from a meltdown in Chinese stocks – the Shanghai Composite had slid 43% in a few months. Fears over China's debt burden have not come to pass, at least not yet, and the Asia Pacific Index is nicely ahead this year. Of course, there's always something, and this year there are those recession fears, a Federal Reserve ready to hike, the "will it never end" U.S. election, Brexit, Italian banks, and earnings that are not so hot. Against this backdrop, investors glommed onto low volatility/dividend paying stocks. And it worked. During the first six months of 2016, the S&P Low Volatility ETF (SPLV-41) returned 12%, easily outpacing the S&P's return of around 4%. Of course, leadership often changes and in this case, it did. In the third quarter, the Low Volatility ETF dropped 3% as the S&P itself rose 4%. Many things can explain this including, things change. However, the idea that higher rates compete with dividends also seems a factor.

Part of the whole move away from dividend paying/low volatility stocks has been a thumping of Utility stocks. For almost two weeks now, the Utility ETF (XLU-48) and, indeed, the individual stocks, have closed below their 50-day moving average. We all know it to be a homogenous group, and so it is here to the downside. Since 2000, there have been only about 30 days that have seen such a prolonged streak of these stocks selling below their 50-day, this according to SentimentTrader.com. Over the next 30 days, the XLU showed a positive return close to 90% of the time, with the only real failure coming in February 2008. Even if there is a durable change going on here away from low volatility/dividend payers, at least for now, history suggests the selling may have reached an extreme. In terms of the chart, there are lows in the ETF in the 47-area that could act as support.

Despite the distractions – the Fed and the election, or perhaps because of them, the S&P and even the NASDAQ remain in their recent trading ranges. After weakness this week, those ranges are teetering a bit, but the market has a couple of things going for it. Seasonality hasn't exactly worked this year, but we are moving into a positive time frame. And markets up going into October usually end the year well. More importantly, stocks above their 10-day average, and even those above their 50-day average, are back around the 20% level. Those advance-decline numbers got sloppy and we're paying the price. However, the deterioration doesn't seem severe to the point that prices shouldn't be about to hold around these oversold levels. An inability to hold, of course, would mean things are worse than they now appear. Perhaps the bigger concern is just what a recovery will look like. If the recent pattern of weak advance-declines continues, the market's problems won't be over.

Frank D. Gretz

140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

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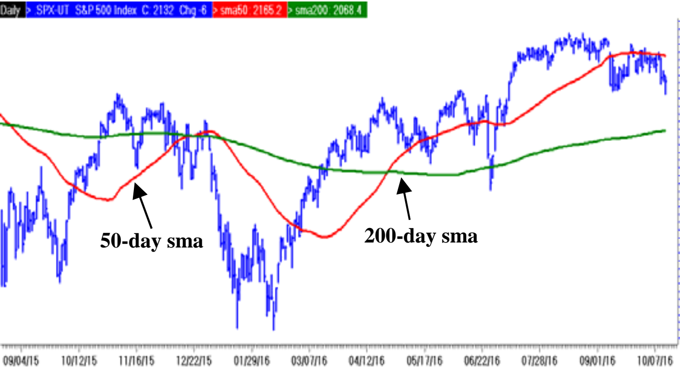
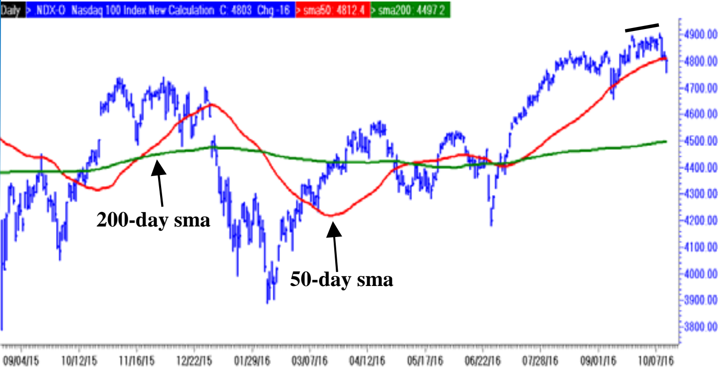
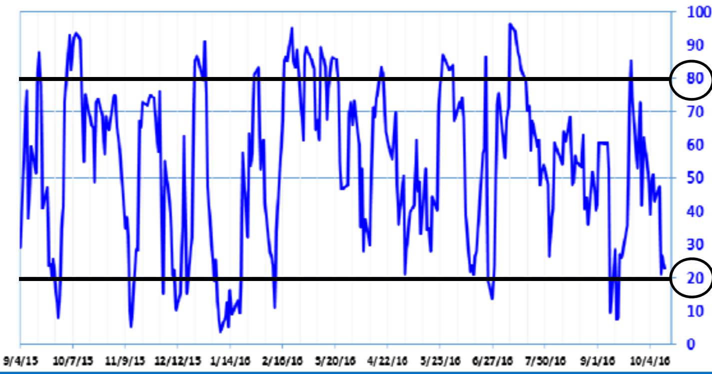
S&P 500 (SPX – 2133) – DAILY



NASDAQ 100 (NDX – 4803) – DAILY

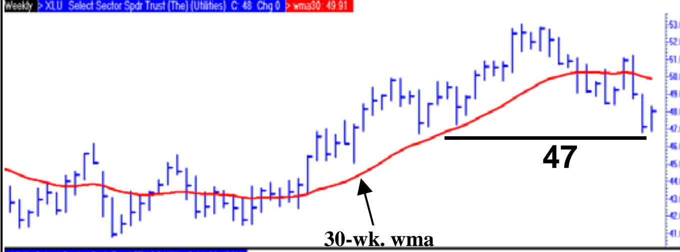


S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



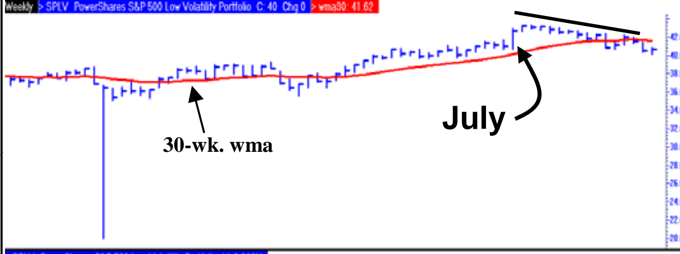
ADVANCE-DECLINE INDEX - DAILY

SPDR FD UTILITIES (XLU – 48) - WEEKLY

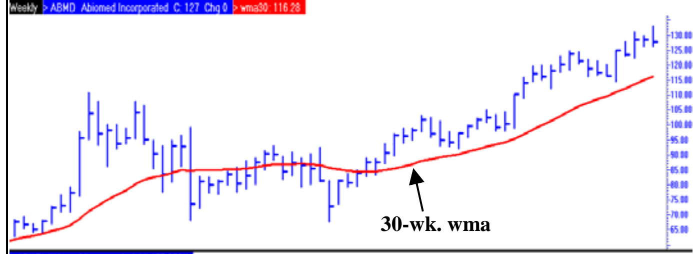


APPLE INCORPORATED (AAPL – 117) - WEEKLY

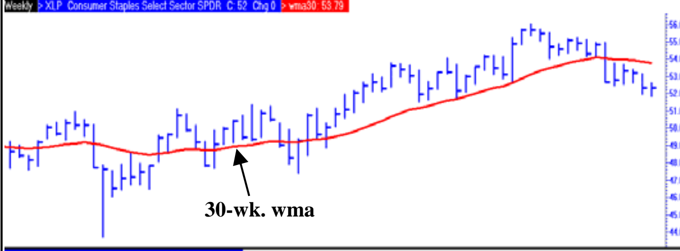
S&P 500 LOW VOLATILITY PORT. (SPLV – 41) - WEEKLY

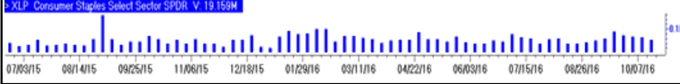


ABIOMED INCORPORATED (ABMD – 128) - WEEKLY



SPDR CONSUMER STAPLES (XLP – 52) - WEEKLY





ISHS NASDAQ BIOTECH ETF (IBB – 271) - WEEKLY