EQUITIES PERSPECTIVE

October 16, 2015
DJIA: 17,142

From mean-reverting … to nice reverting. There has been nothing mean about the market's recent reverting. It has been enough to suggest that it's more than just the proverbial oversold bounce. From the Trading Index to Marty Zweig's "Breadth-Thrust" Indicator, momentum measures say this rally is more than your garden-variety rebound. Is it a new bull market? In contrast to many, we're not sure the old one really ended. We see a good rally which likely will carry into year-end, call it what you like. The mean-reverting indicator we've emphasized all year has been the percent of stocks above their 10-day moving average. And it has worked quite well in its mean-reverting way – sell them above 80%, buy them below 20%. However, the recent peak of 94% we think makes this time different. Like the other aforementioned indicators, this kind of momentum surge doesn't go away in a hurry.

There's a logic which suggests nothing has changed and the market, therefore, has no reason to rally. The tricky thing about change is that it's hard to know it when it's happening. The quintessential example here being March 2009 when things could not have seemed bleaker. Things aren't that bleak now, but there's plenty that's not so wonderful, from retail sales and Wal-Mart (59), to teetering Brazil. Think the market is wrong if you like, but more often than not the market is out ahead of things. When it comes to the downside, it is said the market has predicted 10 of the last 8 recessions. All too true, but that's 8 more than economists, including those at the Fed. One piece of good news – we all seem a lot less likely to die from Ebola, which to the day, was everyone's fear last year. This, too, is the approximate date of the low in the percent of stocks above their 10-day average last year. More relevant now seems 10/24, the day this measure peaked at 96%. From that point of peak momentum, the market went on to rally about 7% at yearend. A similar rally now would take the S&P 500 to 2156 at yearend.

If it seems more common these days to refer to this as a bear market, we can see how that might easily change. Mind you, it might well be a bear market but perceptions change with prices, and we've noticed prices change. For simplicity sake, let's say Apple (112) were to rally 20 points, which is only back to its highs. Not only would this do wonders for the much-watched Dow and the rest of the averages, it would do wonders for the mass psyche. If Apple goes to a new high, how bad can things be? Chances are that if Apple goes to a new high, Amazon (562), Google (693) and the always too expensive Priceline (1327) already will be there, and with them, of course, the NASDAQ. Perhaps no shades of 2000, but a considerably more upbeat backdrop than we've seen of late. Bull markets don't end amidst pessimism. Most often they end in some form of euphoria, if not about the market itself, at least about some group of stocks.

Blame Hillary for the poor Biotech performance, but we would go with Martin Shkreli who made greed, for lack of a better word, bad. Of course it's like those fighting penalties in football – it's always the last guy to throw a punch that gets caught. The real problem likely lies with the stocks themselves. Having rallied 30% per year for the last 5 or 6 years, you can see how weakness shouldn't come as a surprise. It did, however, surprise us, since we thought it just as likely Biotechs would end in a blowoff or speculative last wave. It also comes as a surprise to us that the stocks have not had a better rebound. It's possible that this could be about Hillary, et al. If this past week is any guide, we noticed most all of Healthcare was weak before the Democratic debate. The stocks should continue to rebound, but if there are five more Democratic debates, there are five more times to be careful.

They say Gold is a hedge against inflation. However, the early 1930s was a time of massive deflation and major depression and yet, Gold stocks did well. Back in 1929, had you hedged your portfolio with a 10% position in Homestake Mining, you would have offset your losses – the stock rallied 600%. Of late Gold has proven a good hedge against only one thing – making money. Sentiment in Gold had become so bleak it almost had to rally, or so we've thought many times. The difference this time could be the recent dollar weakness, and the commodity rally generally. Gold sentiment has improved of late, but only to about 30% bullish versus recent peaks of 50%. Here selling seems to have revived, at least so far. For what it's worth, GLD (113) now is marginally above its 200-day moving average.

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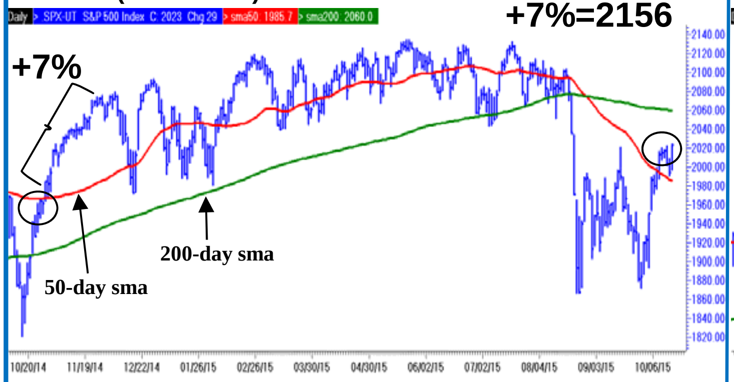
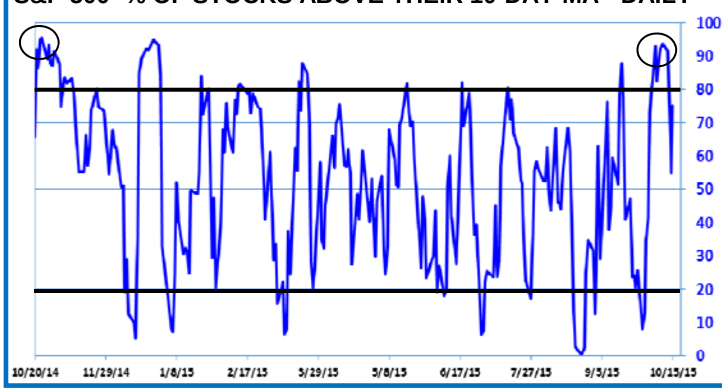
S&P 500 (SPX – 2024) – DAILY

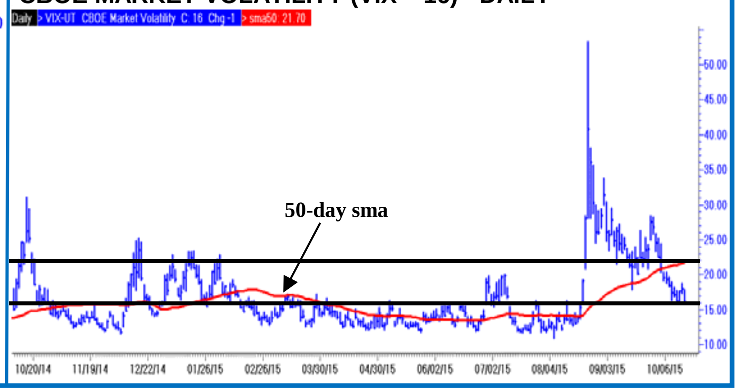


NASDAQ 100 (NDX – 4418) – DAILY

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



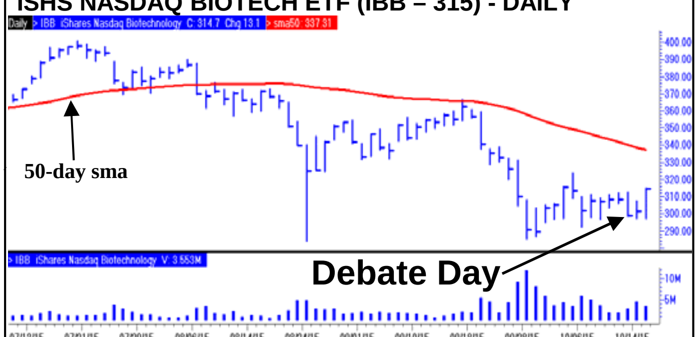
CBOE MARKET VOLATILITY (VIX – 16) - DAILY



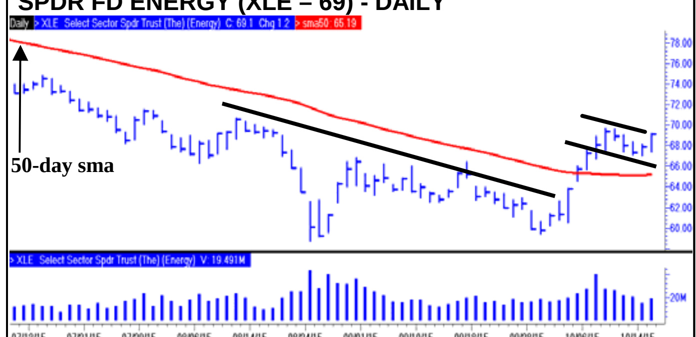
SPDR GOLD TRUST (GLD – 113) - DAILY

PWR SH DB US $ INDEX BULLISH FD (UUP – 25) - DAILY

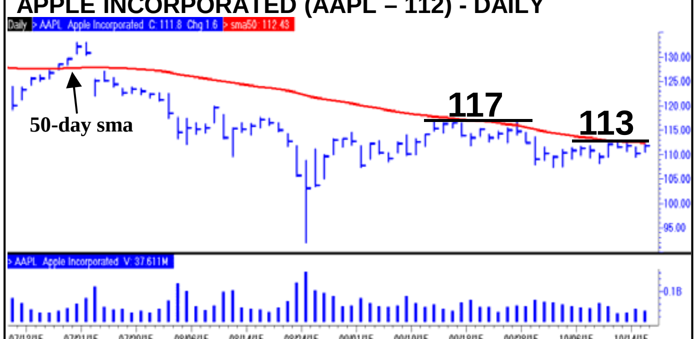
ISHS NASDAQ BIOTECH ETF (IBB – 315) - DAILY



SPDR FD ENERGY (XLE – 69) - DAILY



APPLE INCORPORATED (AAPL – 112) - DAILY



WAL-MART STORES INCORPORATED (WMT – 59) - DAILY