WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

October 2, 2015
DJIA: 16,272

Not so easy … but when is it? Bull market, bear market, a test or a test of the test? There's a case for each. One thing that's clear is that the third quarter wasn't good, except perversely – bad third quarters lead to good fourth quarters 90% of the time. Also, investors dumped mutual funds in August, and the three-month selling ranked among the largest since 1984. The saying goes, the public is wrong at the extremes but right in-between. In other words, at tops and bottoms they're a contrary indicator. Then there's the cliché we all know and love – the market climbs a wall of worry. Bull markets typically end on good news, not with everyone in a near panic over China and interest rates. So we think this too will pass, though it will take some digging out. This latest down-leg began with the break in the Biotechs, and they definitely will take some digging out. Meanwhile, there's nothing in the group that isn't due for a sharp rebound.

So how about this "test?" We had gone some 20 days after the August washout low without one, which historically usually means no test. Yet here we are, with the S&P virtually right back to the lows. However, when it comes to a test, the market averages are not the standard by which to judge success or failure. A successful test often does make a lower low in the averages, which makes the matter that much more confusing. In the current situation, the Russell 2000 did make a lower low and this sometimes is seen as a leading indicator. Of course, sometimes it's not. The Dow hasn't made a lower low and perhaps more importantly, the usually sensitive Semiconductor Index hasn't come close to its August low. Biotechs, they're right down to it. So among the averages, who are you going to believe?

More than any of the averages, measures of supply and demand should tell the tale when it comes to a test. And so far, the news seems good. The most obvious and positive example here is the level of 12-month New Lows. Back on August 24 there were over 1800 new lows and since that time there have been less than half that number. So for most stocks there has been less selling pressure. A possible caveat is that most of those 1800 new lows were made at that crash opening on the 24th, but the idea of less selling pressure still makes sense. Another measure that shows less selling pressure is the percent of stocks above their 10-day average. At the recent low, only 8% of S&P 500 stocks were above their 10-day average, not much, but better than the 1% back at the crash lows. Volume, of course, has been much lighter than back at the August lows. So on the whole the numbers suggest we're having a successful test, by which is meant a confirmation that most of the selling already was out of the way.

Woulda, coulda, shouda, you can theorize all you like, there is only one way to know the selling is out of the way. When the selling is done, they go up, it's as simple as that. The 3-to-1 up-day on Wednesday was encouraging. Thursday's reversal, to the upside for a change, was encouraging. Some follow-through would be even more encouraging. In terms of those stocks above their 10-day moving average, there's plenty of room to rally. It would be nice to see a big overbought reading there, something well above 80%, to suggest the buyers are back. We often say the market makes the news, so if the worst is over for the market, this should be true of the news as well – China, rate talk, a little war with Russia, and so on. The payroll report seems about as exciting these days as money supply or the rig count, but you never know. Getting back to the market making the news, payroll days were higher 60% of the time when the market was above its 200-day average, but only 40% of the time when below.

If indeed we've made a low, test and all, the recovery at least initially should be all inclusive. Typically, down the most will bounce the most. However, relative strength should then prevail. Stocks which held up until the end and those among the first to rebound should prove the leaders. In the last week or so, stocks like Amazon (521), Facebook (91) and Google (642) took a hit. This, however, could be an end of the decline phenomenon, and a good sign. Declines like we've seen usually get around to everything, even those strong stocks which hold up to the end, like the aforementioned names. It also is typical that they are the first to rebound. Another group of stocks worth a look are those which have been in downtrends but held well above their August lows. We mentioned the Semiconductors generally, but look at Intel (30) or even Microsoft (45) as examples. And, the big Oils held their lows. In a new quarter things sometimes change.

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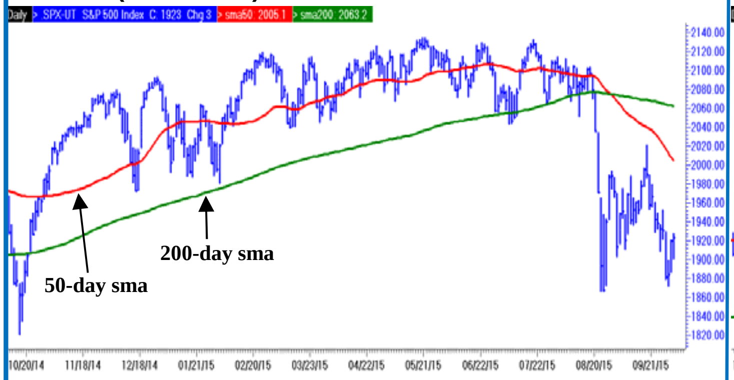
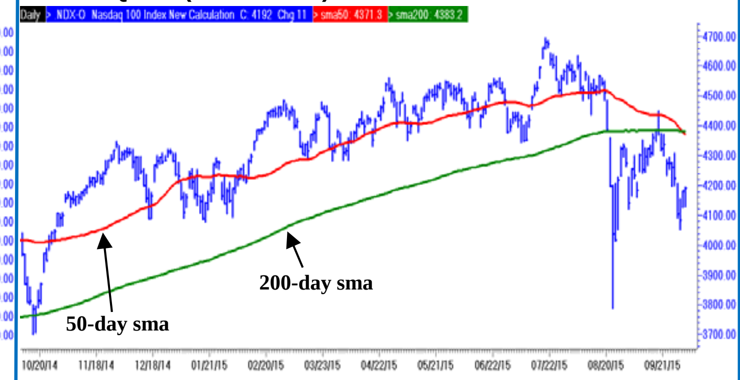
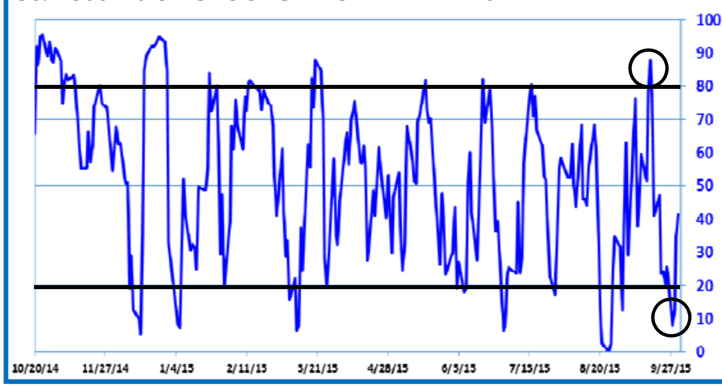
S&P 500 (SPX – 1924) – DAILY



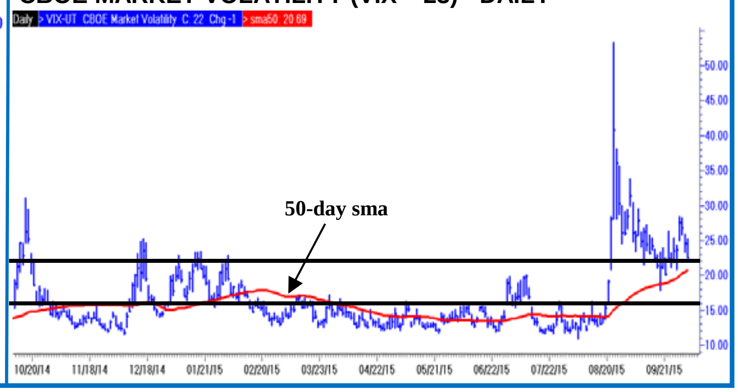
NASDAQ 100 (NDX – 4193) – DAILY



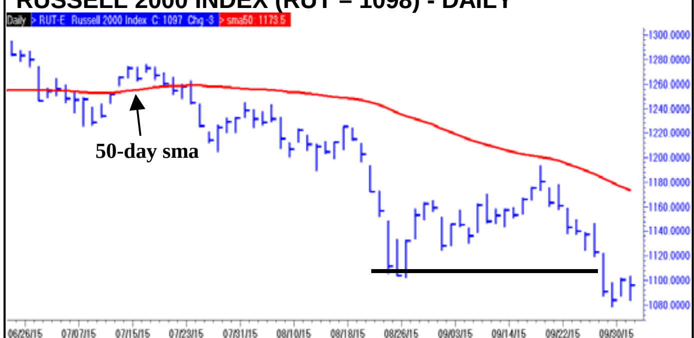
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



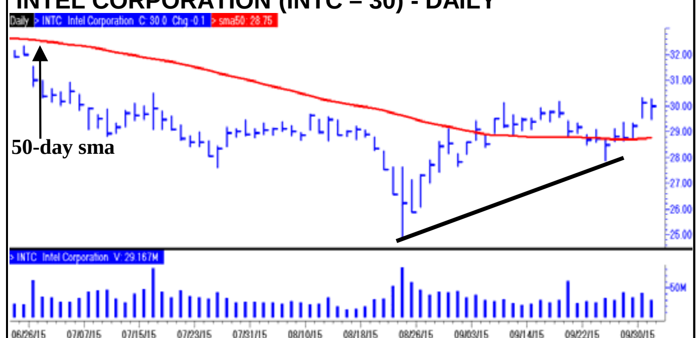
CBOE MARKET VOLATILITY (VIX – 23) - DAILY



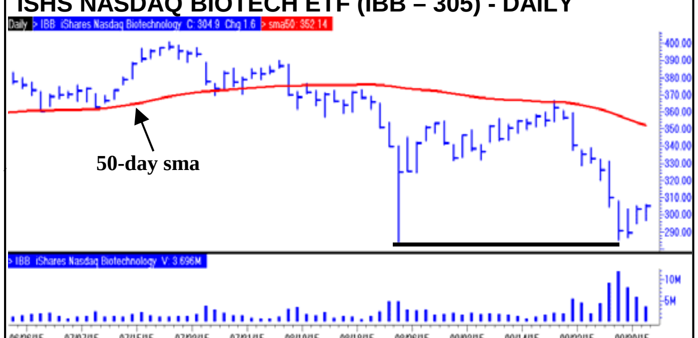
RUSSELL 2000 INDEX (RUT – 1098) - DAILY



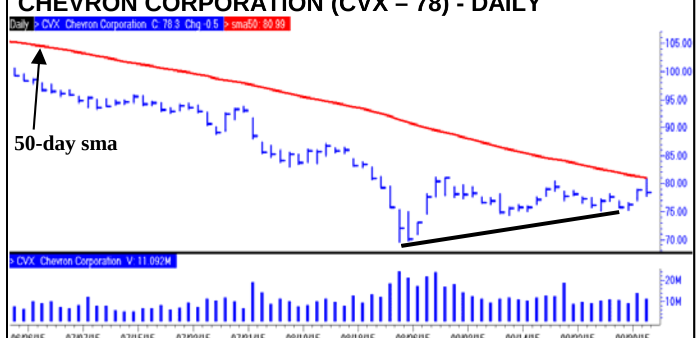
INTEL CORPORATION (INTC – 30) - DAILY



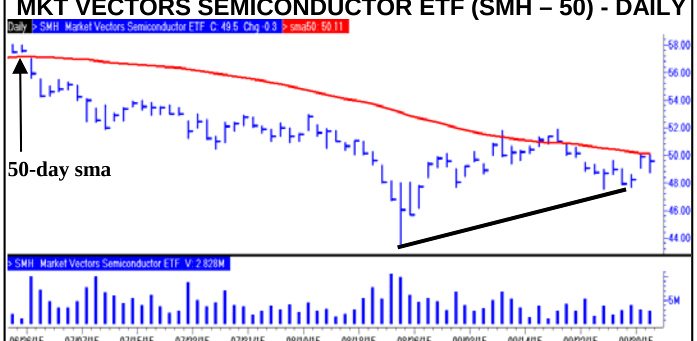
ISHS NASDAQ BIOTECH ETF (IBB – 305) - DAILY



CHEVRON CORPORATION (CVX – 78) - DAILY



MKT VECTORS SEMICONDUCTOR ETF (SMH – 50) - DAILY



FACEBOOK INC. (FB – 91) - DAILY