WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

October 21, 2016
DJIA: 18,162

Amazon, Facebook and Google … now playing on Netflix. The last shall be first seems as good an explanation as any for the outsized move this week in Netflix (123). It's still not the best overall chart of the FANG group, but it now has a "gap," and you know how we feel about gaps. The last gap back on July 26 led to gradually higher prices, as upside gaps usually do. All four FANG stocks have acted well, and why not? They're always hard to buy because they're expensive, yet easy to buy because they have the growth – funny how that works. Throw in the better-acting Apple (117), and these become almost must-own stocks if you need to keep pace with the market averages. It's also a backdrop where there isn't much else. According to Bloomberg, restaurant sales have fallen off a cliff, and most consumer stocks show that. Pharma needs a cure for the political plague, Telecoms need a call to the helpline, along with other yield stocks. With seemingly diminished choices, the FANG stocks just might have a speculative binge.

A long ago colleague used to quip, "trading is easy, all you need is a bull market." All too true in that even academics agree anywhere from 50%-70% of a stock's move is a function of the overall trend in the market. However, if not disagree, we would refine this a bit to say, give us a group in its own bull market. Forget the rest, give us Biotechs last year, Gold and even the Utilities earlier this year, and FANG of late. Making 50% trading is easy – just trade stocks that double. Aside from those FANG stocks, what brings all of this to mind is the better action in Energy stocks generally, those Drillers and Equipment stocks, particularly. This said, Energy is a very homogenous group – if they go, they pretty much all go. Naturally there are institutional go-to-stocks like Schlumberger (83), and the ETFs like XLE (71) and OIH (30). By the way, is RIG (11) a Trump stock?

Remember Gold? It was great until it wasn't. To be precise, Gold tanked to a new multi-month low on October 4 – a significant break. Of course, it was coincident with what became a new rally in the Dollar, a correlation apparently we incorrectly dismissed. To the point, Gold, the stocks, and so on, since are locked into an exceptionally tight trading range. After a decline like this, such a trading range often is called a "flag" by technical types, and you know who you are. In technical parlance, these flag patterns are continuation patterns, meaning, brief respites before a continuation of the trend. However, for reasons unknown to most of us mere mortals, when it comes to Gold, it's different. When Gold falls to a 3-month low and then consolidates into an unusually tight range, historically it has rallied, according to SentimenTrader.com. And, indeed, this week many of these seem to have come out of those consolidations to the upside.

The idea "it's a trading range" always strikes us as a cop-out. However, if you look to the July peak in the S&P and if you believe not us, but your eyes, it's a trading range. To be fair, it's a trading range in the S&P, not the FANG and, on the other hand, not the Utilities. Particularly in a trading range, the emphasis should be on what's working. Nothing new there, but when the tide isn't lifting all ships, that's all there is. Then, too, easier said than done. The Semis, for example, seemed leaders about to break out en masse. Now they've backed off, at least in terms of breakout leadership. Meanwhile, Consumer stocks of every ilk are struggling. However, the trading range that should be of concern for the market's sake is that of momentum. Good there is no real selling, but there's precious little buying. Look at stocks above their 10-day or 50-day moving averages – there's no momentum. Therein lies the real trading range, one which could drag on through the election.

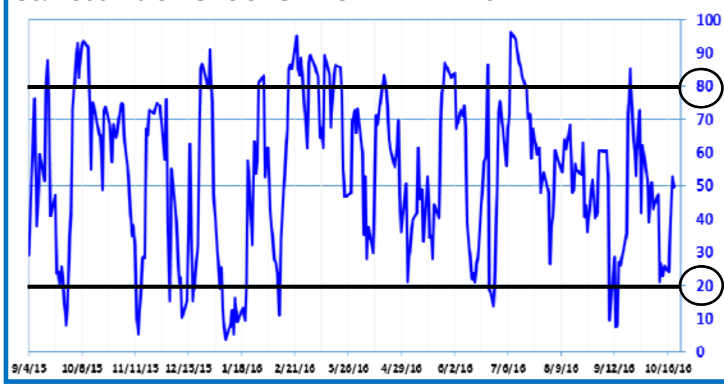
The strategy of "buy and hold" works, we suppose, provided you buy the right stocks. However, you might say the landscape is littered with the wrong stocks. In most cases, actually, the seemingly right stocks eventually become the wrong stocks – Dell, Xerox, even Apple hasn't always been "Apple." Growth always changes and moves to new foundations, and so too does emphasis in the stock market. When you lose that growth edge, it's hard to get it back – look at IBM (151) or even Cisco (30). All this makes buy and hold tough. It's somewhat amusing, therefore, that in the case of Microsoft (60), it worked, sort of. As of Friday morning, there no longer is anyone with a loss in Microsoft, the stock is at a new all-time high. When we say it worked sort of, this new high took 17 years – Cisco, by the way, has another 40 points to go.

Frank D. Gretz

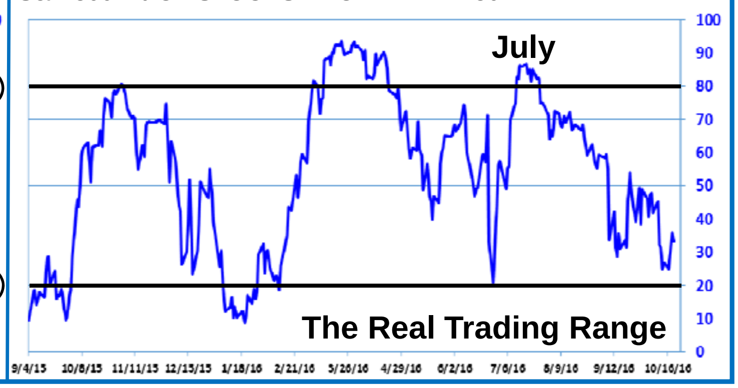
S&P 500 (SPX – 2141) – DAILY

NASDAQ 100 (NDX – 4833) – DAILY

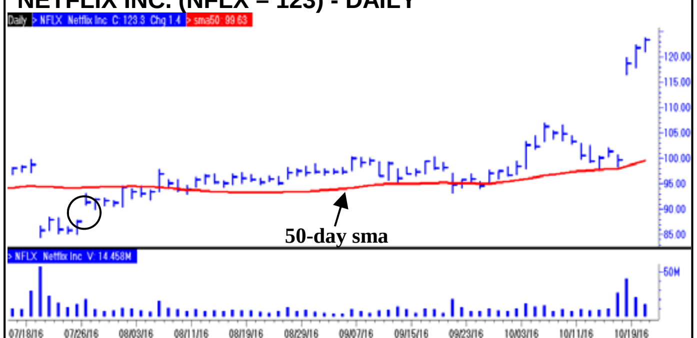
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



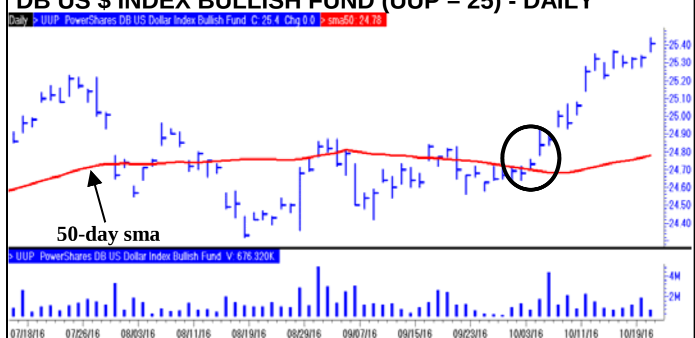
S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY



NETFLIX INC. (NFLX – 123) - DAILY

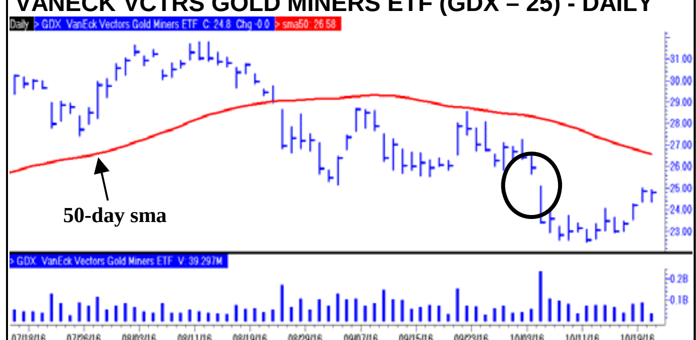


DB US $ INDEX BULLISH FUND (UUP – 25) - DAILY

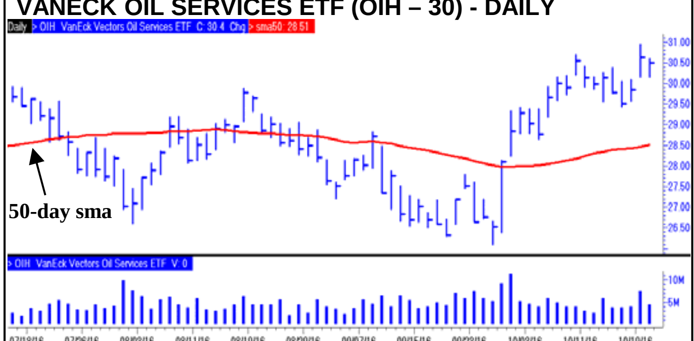


SCHLUMBERGER LTD. (SLB – 83) - DAILY

VANECK VCTRS GOLD MINERS ETF (GDX – 25) - DAILY



VANECK OIL SERVICES ETF (OIH – 30) - DAILY



MICROSOFT CORPORATION (MSFT – 60) - WEEKLY