

# EQUITIES PERSPECTIVE

October 28, 2016  
DJIA: 18,170

Apple is no Netflix ... could Netflix be Apple? Netflix (126) soared on its results, Apple (115) not so much. Of course, no one is ever quite sure what to expect from Netflix, expectations for Apple typically skew high. It's all about "the phone," but more and more, talk is they need to do something, something that would move the needle, as they say. It's interesting that more than a week after the Netflix report, the stock hasn't quit, and even the day of Apple's disappointment, a day when virtually all of Tech was down, Netflix was up from the get-go. Meanwhile, Apple now has a "gap" to the downside, but not one that counts. Gaps matter when they're 5% or so, and when they set or change a trend. For Apple on Wednesday, this was not the case. One thing the Apple news did accomplish, it seemed to put a scare into Amazon (778) and Google (795) ahead of their earnings.

For the market as measured by the S&P, clearly it's still a trading range. However, this doesn't quite tell the story. In reality, it's a tale of two markets, to coin a paraphrase. Monday, a quality stock like Kimberly Clark (114) broke sharply to a new low, while the NASDAQ 100 made another minuscule new high. To that point, at least, it was the FANG stocks versus pretty much everything else. Mind you, even the NASDAQ Composite didn't make a new high, though it's close. Looking behind these averages is where the background becomes worrisome. Many recent days have seen more 52-week New Lows than New Highs. The 10-day average of the NASDAQ New High/New Low Ratio has dropped below 50%, meaning more stocks there are sitting at one-year lows versus highs. Given the position of the NASDAQ indexes, that's quite a divergence. The last time this happened was before the correction last summer. It also happened before the 2008 financial crisis.

Divergences are to uptrends what the great meteor was to the dinosaur. There are no important declines without divergences, but there are plenty of divergences without important declines. And, divergences can drag on before there is a consequence. Divergences often become extreme, as in 2000 when the dot-coms didn't quit until well after the Dow, S&P and most stocks. Something like that could yet happen – the FANG stocks go into a blowoff phase while those cheap, quality consumer stocks become even cheaper. However, divergences are a real warning. Consumer Confidence is above where it was three months ago, yet everything from NFL games to Restaurants have been weak. Maybe it is the election, or maybe it's just part of a tired bull market. Speaking of the elections, there is nothing more politically incorrect than most of Health Care. The XLV ETF includes some Biotechs, which themselves remain under pressure, but this sector is part of the divergence problem.

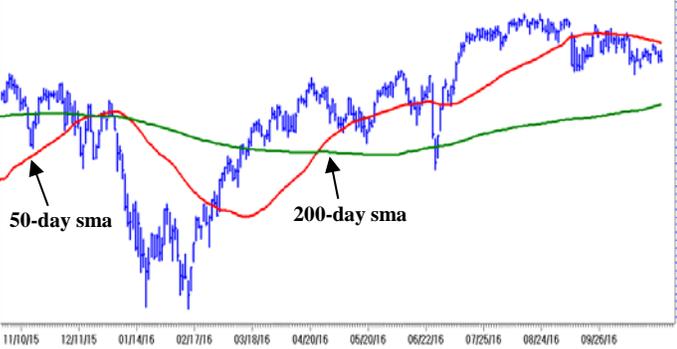
Wednesday's seemingly impressive reversal is not what it seemed. The decline on the Apple news took everything with it, including those FANG stocks. However, it was over as fast as it began, at least for the Dow and S&P. The problem was the rest of the market – advance-decline numbers closed near 2-to-1 to the downside. This configuration – positive Dow and negative breadth – is not unusual when reversals occur late in the day. On Wednesday, however, those advance-decline figures had plenty of time to recover, but did not. One-day always is just that, but this certainly is a pattern that leads to trouble. The recently more divergent action has begun to show up again in the Russell 2000, generally viewed as a proxy for secondary stocks. Secondary stocks can be thought of as a canary in a bull-market coal mine, in that they typically peak before the big-cap dominated averages. This measure just broke its mid-September low, while the S&P remains above that point.

It's a tough time of year to be bearish. Even the three days before and after November 1<sup>st</sup> have been up 19 of the last 23 years according to SentimenTrader.com. However, given the recent action, particularly those advance-decline numbers, this is no time to be counting on the seasonal pattern. Even the FANG stocks didn't exactly act like leaders this week, though Amazon's uptrend shows little damage. The history of disappointments there is some lift, and then a period of settling. With little else working, you might say the market needs these stocks, that is, leadership. That said, Financials, like the Banks, are acting better, likely looking forward to a rate hike. However, the other side of this coin is a Hillary victory. There were a couple of nice moves in Semiconductors, and Qualcomm (70) finally pulled the trigger on NXP (99). When it comes to the overall market, they like to say "there is no alternative – TINA." Tell that to US equity funds, which last month saw the 5<sup>th</sup> largest outflow since 2007.

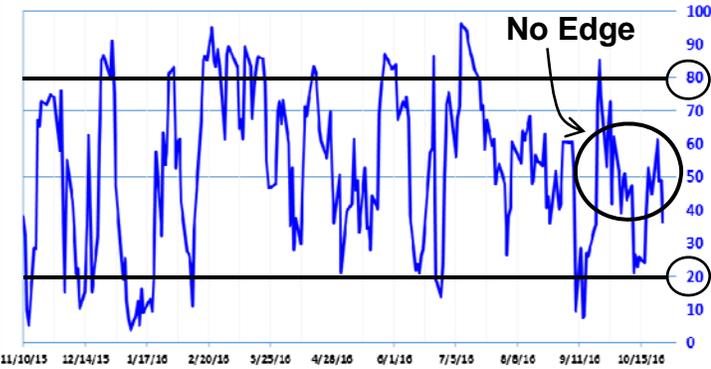
Frank D. Gretz

### S&P 500 (SPX – 2133) – DAILY

Daily > SPX:01 S&P 500 Index C: 2133 Chg: 6 > sma50: 2156.9 > sma200: 2076.6

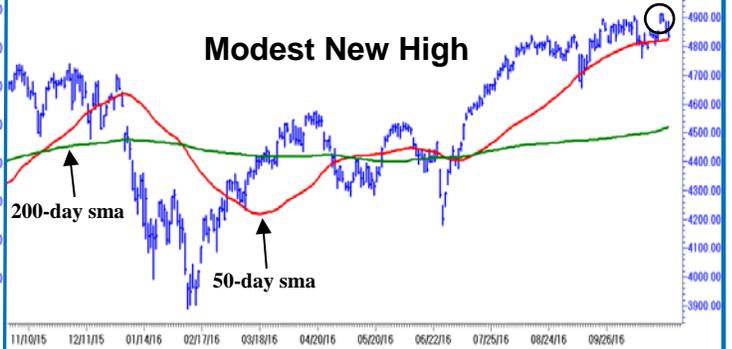


### S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY

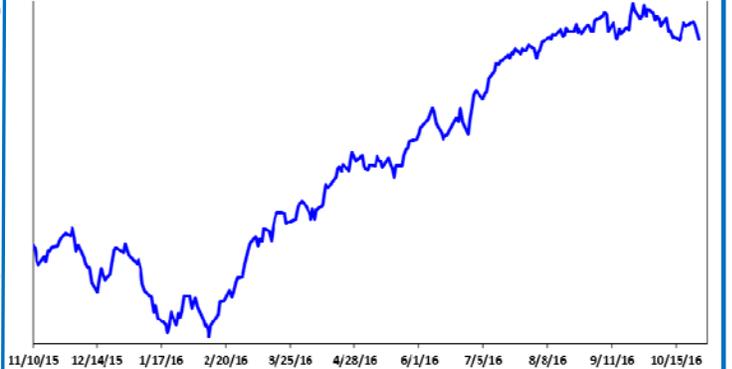


### NASDAQ 100 (NDX – 4836) – DAILY

Daily > NDX:0 Nasdaq 100 Index New Calculation C: 4836 Chg: 24 > sma50: 4822.9 > sma200: 4519.2

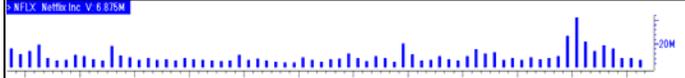
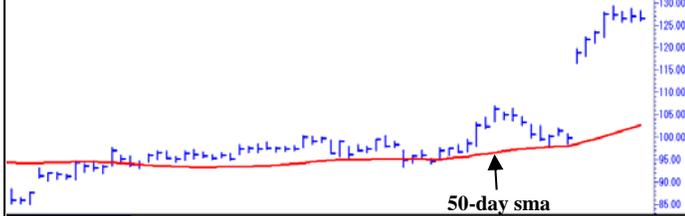


### ADVANCE-DECLINE INDEX - DAILY



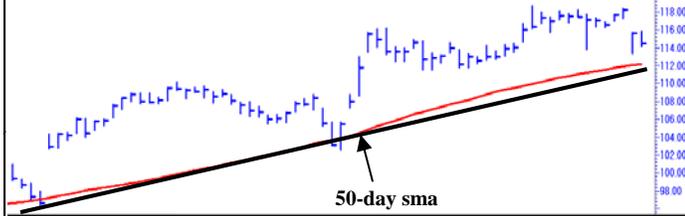
### NETFLIX INC. (NFLX – 126) - DAILY

Daily > NFLX: Netflix Inc. C: 126.4 Chg: 0.5 > sma50: 102.74



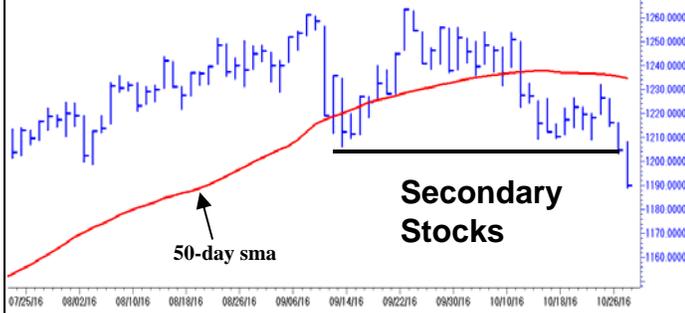
### APPLE INCORPORATED (AAPL – 114.5) - DAILY

Daily > AAPL: Apple Incorporated C: 114.5 Chg: 1.6 > sma50: 112.16



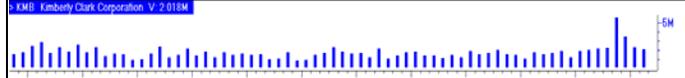
### RUSSELL 2000 INDEX (RUT – 1190) - DAILY

Daily > RUT:F Russell 2000 Index C: 1190.0 Chg: 14.7 > sma50: 1254.7



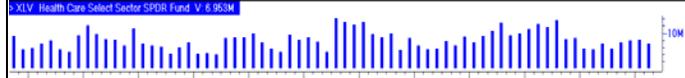
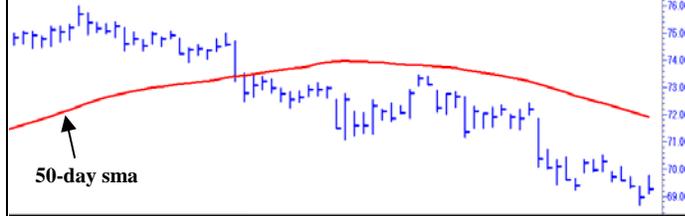
### KIMBERLY CLARK CORPORATION (KMB – 114) - DAILY

Daily > KMB: Kimberly Clark Corporation C: 113.8 Chg: 0.1 > sma50: 123.75



### HEALTH CARE SECTOR SPDR ETF (XLV – 69) - DAILY

Daily > XLV: Health Care Select Sector SPDR Fund C: 69.2 Chg: 0.3 > sma50: 71.91



### AMAZON.COM INCORPORATED (AMZN – 778) - DAILY

Daily > AMZN: Amazon.Com Incorporated C: 777.8 Chg: 40.4 > sma50: 799.92

