WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

October 30, 2015
DJIA: 17,756

Those unemployment numbers … don't be one of them. The market has had a remarkable rally, coming as a surprise to many. Indeed, what seemed unlikely only a few weeks ago has come to pass – as measured by the S&P, the market is positive on the year. It's one thing to underperform in a down year, quite another in an up year. We know the hedge funds are having a tough year and, so too we would think, the rest of professional money management. If you owned Energy in the first half it was a tough year, if you owned Healthcare in the second half it has been a tough year. It has been a tough year, but here's the market now back in an uptrend. So unless you're considering a new career, most portfolio managers could be thinking it's time to play, and play hard enough to catch-up. We realize this kind of simple logic often falls flat and, as a matter of fact, history doesn't necessarily bear out a year-end rally. However, we still expect a higher market into yearend.

Even after just a couple of months of being negative, it's relatively unusual for the market to turn positive in October. The last time it did so was 2011 and, almost to the day, it marked a peak. Back in 1982 when the S&P turned positive in October it never looked back, but that was the incipient stage of a new bull market. For the most part, returns were not impressive, that is, there was not a rush to get in. This time we suspect will be different, in large part because of the stocks involved. The stocks involved are big-cap stocks that dominate some of the averages. We could say it's Tech, but that's not quite accurate with some of the Semis arguably in a little bear market. And you can't ignore stocks like McDonald's (113), Nike (131) and General Electric (29). To simplify, the winner is the NASDAQ 100. By market-cap, the top six names here are Apple (121), Alphabet (745), Microsoft (53), Facebook (105), Amazon (627) and Intel (34). The NASDAQ 100, by the way, is back to its all-time high.

Back in the mid-90s, we remember Microsoft would rally every day. It was, at the time, the biggest stock in the S&P Index and helped to explain why no one at the time could beat the S&P – even if you owned Microsoft, by definition you could never own enough to beat the S&P. It seems a bit similar now in that even if you own the Amazons, it's unlikely you own enough to beat them. Adding to money management misery now is Apple, which these days also is part of the Dow. No one benchmarks against the Dow, but no one doesn't watch it. Even if you're in the Apple-no-growth-camp, now that it has broken out you kind of have to own it, or so it would seem. The thing about these stocks, too, they're not all that extended. Even after their gaps higher, Google and Amazon aren't out of reach. And, stocks usually follow through in the direction of their gaps.

This need to be in it, so to speak, could help the market in coming weeks, but the unusual upside momentum off the low is what got this started. We've likened this period to October last year when momentum off the low was exceptional. It was so much so that instead of any correction when the market became overbought or extended, the market became overbought and stayed overbought. Though comparisons between two periods can be tricky, the current one seems similar to last year in terms of momentum off the low. And, indeed, this market has become overbought but what we've termed a good overbought – overbought enough to stay there. Using stocks above their 10-day average to measure momentum, last year from the peak it took six weeks for the momentum to unwind – to go back to 20%. The peak in momentum this time was October 9, so time still should be on the side of this rally.

The emphasis on NAZ 100 stocks isn't particularly healthy for the overall market. It's healthy if you're in them, but not healthy to see the overall market narrow. This kind of action isn't new, and is particularly common at the end of bull markets. This just could be that speculative binge of which we often speak. Meanwhile, there are plenty of bear-market pockets out there. It's not clear the turn in commodities, including oil, is going to hold, particularly now that the dollar is rallying. Retail is so bad you only wish you could blame Amazon. And the usually reliable Pharma is under the cloud of the Biotechs. Markets can stay narrow yet go higher on the back of a handful of stocks – let's hear it for the "nifty-fifty." The Advance-Decline numbers should offer an insight as to just how extreme things may become. The A-D Index itself peaked on 4/28 and then began the divergences – higher highs in the S&P and lower highs in the A-D Index. So far this Index has held up surprisingly well.

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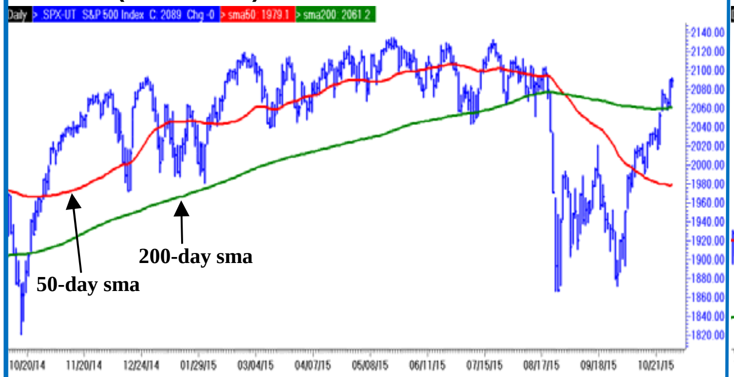
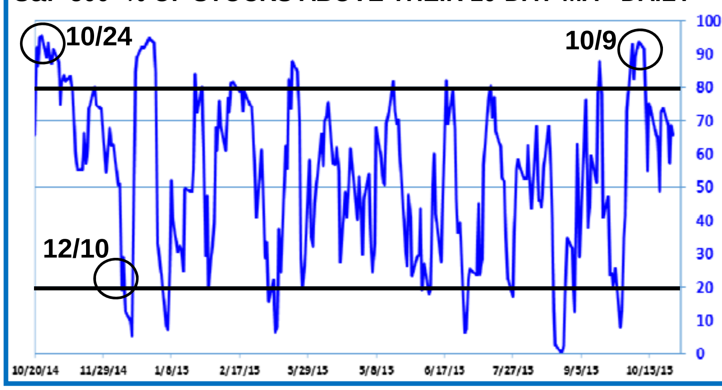
S&P 500 (SPX – 2089) – DAILY



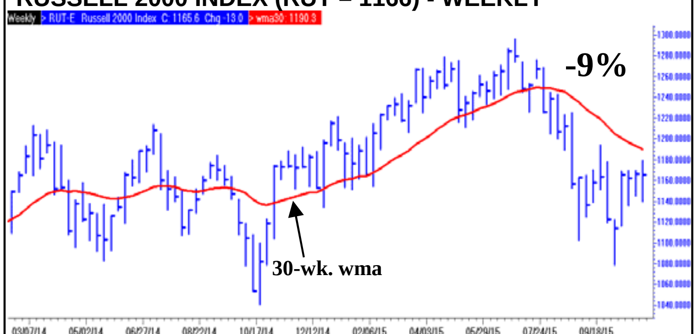
NASDAQ 100 (NDX – 4671) – DAILY

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



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

RUSSELL 2000 INDEX (RUT – 1166) - WEEKLY



SPDR S&P RETAIL (XRT– 46) - WEEKLY

ALPHABET INC. (GOOGL – 745) - WEEKLY

AMEX PHARMACEUTICAL INDEX (DRG – 550) - WEEKLY

FACEBOOK INC. (FB – 105) - WEEKLY

ADVANCE-DECLINE INDEX - DAILY