

EQUITIES PERSPECTIVE

October 7, 2016

DJIA: 18,269

Donald Trump ... why do we think Sharpe ratio? Clearly we've been doing this too long – thinking of goods and services in terms of a point move in Amazon. We mean no political commentary here but, rather, an observation with which we suspect most would agree. As per the Nobel laureate William F. Sharpe, the ratio is the risk-adjusted return, a measure often used to adjust a stock portfolio's performance. Regardless of his potential, Trump has risk. Trade is one of those risks, and the Mexican peso reacts to his ups and down. One commentator we respect expects a 1000 point selloff if Trump is elected. For now, the election seems a distraction rather than a trend determinant. However, it's enough of a distraction to help keep the S&P in the recent trading range. Looking at the very recent better action in the Banks, a December rate hike looks probable, another distraction. The market can take a hike, but it might not know it.

It may be "hope springs eternal" on our part, but we still think the FANG stocks should do well into year-end. In the case of Amazon (842), there's little hope involved, the rally there is borderline spectacular and could cause a rest, a consolidation. The lagging Google (777) seems poised, and the formerly lagging Netflix (105) has come to life. Everyone dismisses the takeover talk, but the overall rally, including a 4-point move Wednesday, says someone is buying the stock. Not technically a FANG, and not the overall chart of the rest, Apple (114) has seen a change for the better. Also on the side of these stocks is the simple idea that all of Tech acts well, particularly the Semiconductors. Of course, they're not alone. A great overall chart like Constellation Brands (171) broke out Wednesday in a lackluster Consumer Staples group. Energy acts much better, as do the Banks. As a group or sector, however, Tech seems to make the most sense.

Not all is Tech, which is to say not all acts well. When it comes to rising rates, for example, what is good for Banks apparently isn't so good for REITs, at least as measured by ETFs like IYR and VNQ. Then there are the Homebuilders, which have never really gotten out of their own way this cycle so it's worrisome, if not clear, how they might react. The biggest disappointment of late, however, is Gold. Could be less concern about a Trump presidency or could be the recent upside breakout in the dollar. In this event, the break is significant and like all such moves will take time to repair. Another disappointment is Aerospace/Defense. They're not so much horrible as seemingly, perpetually stalled. Perhaps another case where in the market anything too obvious rarely works – unless it's Amazon.

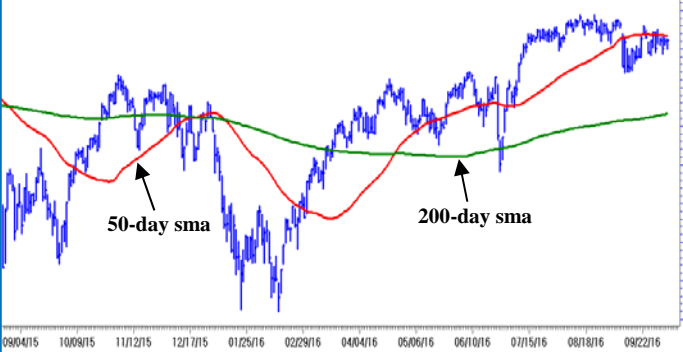
Tesla (201) is a stock they love to hate. Poor Elan has to work three jobs and still he gets no respect. We ourselves are agnostic, simply because the chart is agnostic. When it finally comes out of its 2-3 year trading range, we will change our mind, but the volatility won't make even this easy. Meanwhile, the good news here versus the bad news seems to even out, and hence the trading range. This stock isn't for chart analysis – either you believe or you don't. Too bad, waiting out the trading range seems best. Meanwhile, Wells Fargo (45) confirms our feeling that the Banks always find a way to shoot themselves in the proverbial foot. Though of course we don't know, it's hard to believe what was good for Wells Fargo wasn't good for others as well. That said, the stocks are acting better despite themselves. The pending December rate hike no doubt is part of the thinking.

Together with the Dow and S&P, the Advance-Decline Index made a new high two weeks ago, so no divergence. Even our QCHA adjusted measure has kept pace. This is not a background from which big declines begin. A decline is always possible, but it's not as much of a worry as a weak rebound. Of course, this sort of pattern takes time and comes with its own warning – a divergence. In the meantime, the averages seem to be parked and momentum measures are neutral as well. S&P stocks above their 10-day and 50-day moving averages both are around 50% – it's hard to get more neutral. Not to go looking for trouble, but you could argue that with the S&P nudging new highs, it's not so wonderful having half of its components below the 50-day. However, since the market is in this little trading range/correction, for now we'll give this a pass. And, the more important 200-day still shows 66% to the good side.

Frank D. Gretz

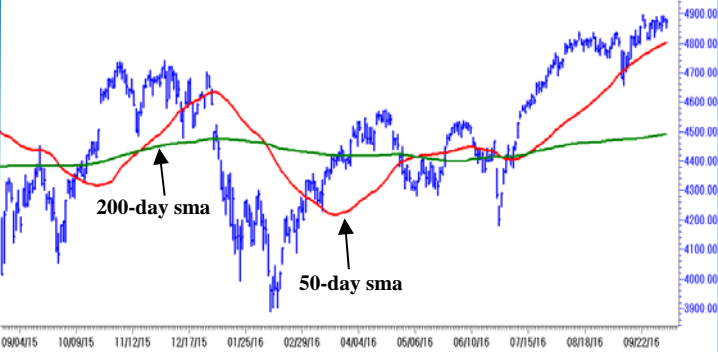
S&P 500 (SPX - 2161) - DAILY

Daily > SPX:U1 S&P 500 Index C: 2160 Chg 1 > sma50 2167.4 > sma200 2066.2



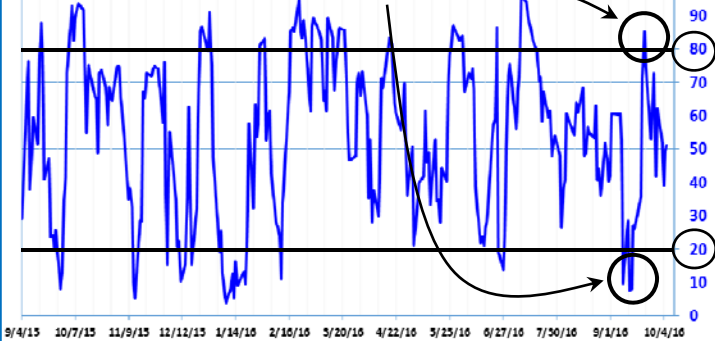
NASDAQ 100 (NDX - 4874) - DAILY

Daily > NDX:O Nasdaq 100 Index New Calculation C: 4873 Chg 3 > sma50 4801.6 > sma200 4491.9

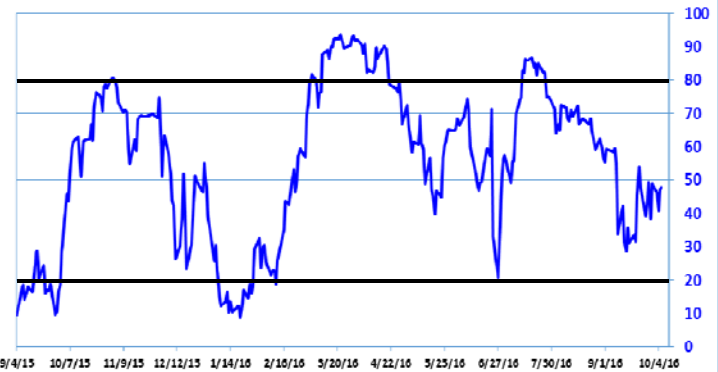


S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY

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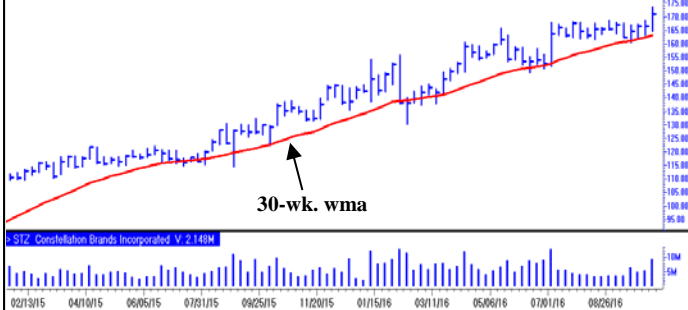


S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY



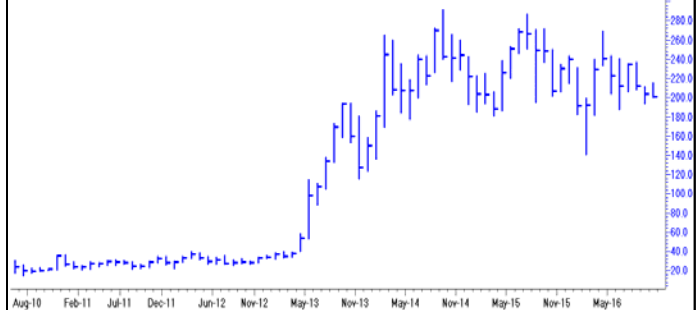
CONSTELLATION BRANDS INC. (STZ - 171) - WEEKLY

Weekly > STZ: Constellation Brands Incorporated C: 171 Chg 2 > sma50 163.01



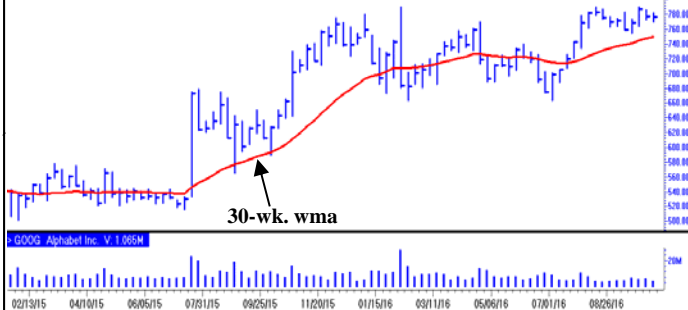
TESLA MOTORS INC. (TSLA - 201) - MONTHLY

Monthly > TSLA: Tesla Motors Inc. C: 201 Chg 7.4



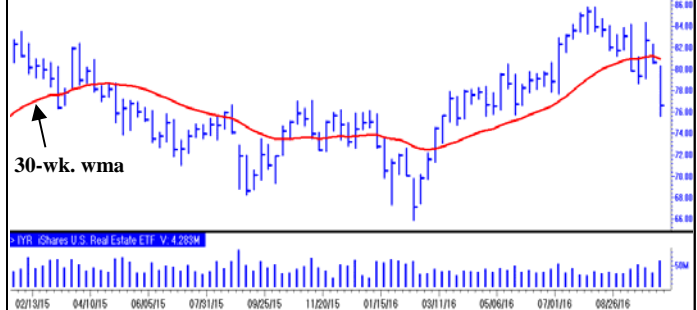
ALPHABET INC. (GOOG - 777) - WEEKLY

Weekly > GOOG: Alphabet Inc. C: 776 Chg 0 > sma50 749.83



ISHS US REAL ESTATE ETF (IYR - 77) - WEEKLY

Weekly > IYR: iShares U.S. Real Estate ETF C: 76 Chg 0 > sma50 80.58



SPDR S&P REGIONAL BANKS (KRE - 43) - WEEKLY

Weekly > KRE: SPDR S&P Regional Banking ETF C: 43 Chg 0 > sma50 40.82



VANECK VCTRS GOLD MINERS ETF (GDX - 23) - WEEKLY

Weekly > GDX: VanEck Vectors Gold Miners ETF C: 23 Chg 0 > sma50 27.84

