WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

October 9, 2015
DJIA: 17,051

As dear old Dad used to say … every dog has its day. It's doubtful he was talking about Freeport-McMoRan (13) but hey, you never know. Freeport is the poster child for getting it wrong. If copper wasn't bad enough, they bought into oil right around the top. Good that Carl came along to save the day, that while warning of the coming market collapse. More likely it's China that saved the day, that amidst their own feared collapse. The chart says there's a turn there, and if you're going to like those commodities, you had better like China. You wonder how their GDP grows and electrical use doesn't, but we're not here to pick. The fact is the country is so big that any growth means they're buying a lot of stuff. It is said that between 2011 and 2013 China put in place more concrete than did the U.S. in the entire twentieth century. Commodities were due for a recovery, and that $20 oil call likely sealed the deal.

Given their number, the commodity stocks have helped push some technical numbers to extremes. After the series of 90% downside days back in August, recently we've seen several 80% upside days. The 90% down-days say there was a lot of selling – the 80% up-days say selling was enough to clear the air, so to speak. Enough selling has been done to create a vacuum of sorts, or at least some ease of movement to the upside. This pattern should be good for more recovery. Even more impressive has been the TRIN, or Trading Index, a measure which combines advance-decline issues and advance-decline volume. It's a ratio of a ratio and anything below 1.0 means more volume in up versus down stocks. The recent low of .61 was the lowest in five years. The last two cases of a comparable number were the bear market lows in 2002 and 2009.

We all have our mean-reverting momentum measures – oscillators they're often called. Take your pick, by any the market is overbought – stretched to the upside. However, there's overbought and there's good overbought. Markets can be strong enough to get overbought and stay overbought, and we think that's true of this market. If you look at the percent of stocks above their 10-day moving average, a measure short-term to the point of having many mean-reverting swings, you can see that when above 80%, as we are now, the market typically corrects. However, when far enough above 80%, corrections take time to evolve. At 93%, we are near the 95.6% of last October 24th, the highest level of this cycle. From that point the next correction of any significance didn't begin until early January. Good markets don't give you a good chance to get in. They get overbought and stay overbought.

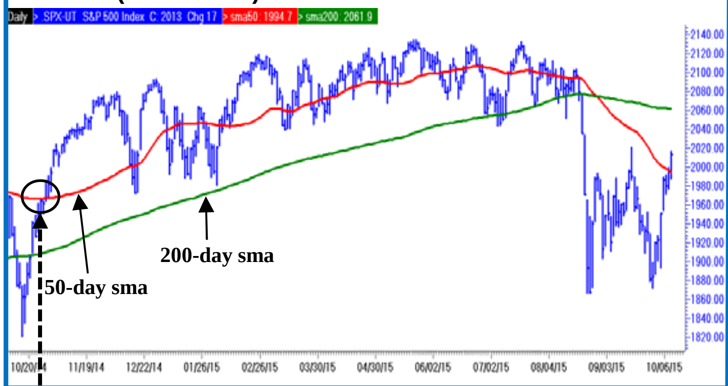
If you were watching the market's rather stunning reversal last Friday, you might have noticed it followed an intraday reversal in the Biotechs. Having led the way at the turn, it's somewhat befuddling that they've gone on to retreat so far this week. Between Valeant (171) and Illumina (140) they've had their share of bad news, but still. The Biotechs now are stretched to the downside and, at least, should have a reprieve. From there the recovery likely will be arduous and not so all-inclusive. Also underperforming are our favored big-cap Tech stocks where we also remain optimistic – Amazon (533), Netflix (115), Facebook (92), and Google (667). Meanwhile, McDonald's (103) just made a new high – go figure. The good to come out of no rate rise is dollar weakness. This is not the only reason for GE's (28) better action but it's part of it. The other part is getting out of the financial business, a business hurt by no rate rise.

The news always seems to improve as the market moves higher. It's not that the worries go away, they're just no longer things about which we worry. This seems to be happening when it comes to financial or default risk. The Barclays High Yield Bond ETF, symbol JNK (36), has had a tough go of it since May, coincident with oil's decline and worries about the frackers. However, the ETF saw an inflow this week of roughly 7% of its assets, the second highest in the fund's somewhat limited history. The highest inflow was 10% back in December 2008, coincident with a 15% rally. All may not be right with the world, but it does seem better, and that's better for equities as well. The often scoffed Volatility Index finally has dropped below 20. Most think a high VIX is good and, going into a panic-like low, it is. However, there's no magic number. The "buy signal," if you want to call it that, is when the VIX drops from a high level. A drop below 20 suggests we're back to some kind of normality.

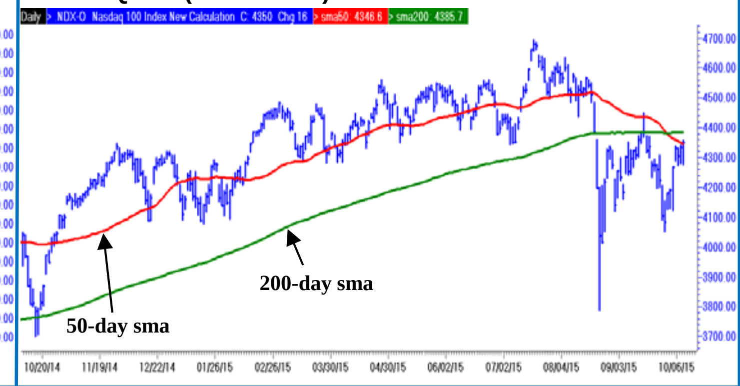
Frank D. Gretz

140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

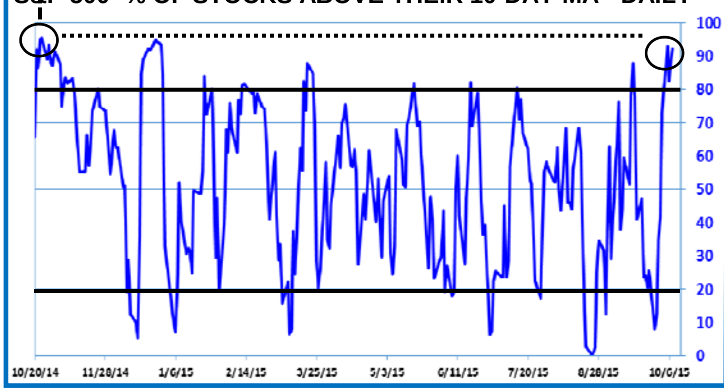
S&P 500 (SPX – 2013) – DAILY



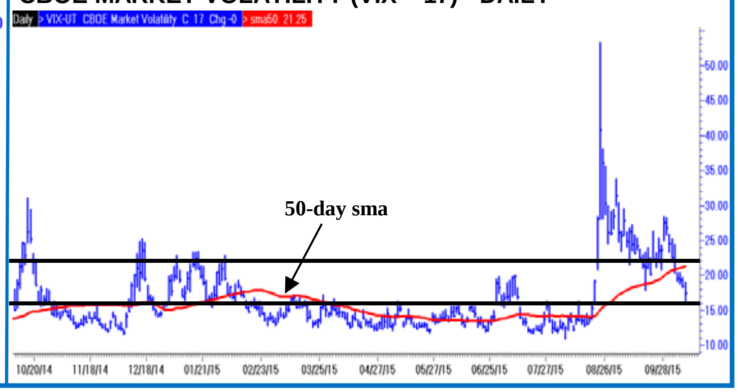
NASDAQ 100 (NDX – 4350) – DAILY



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

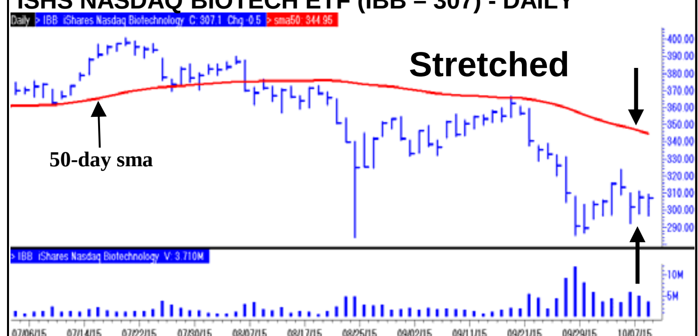


CBOE MARKET VOLATILITY (VIX – 17) - DAILY

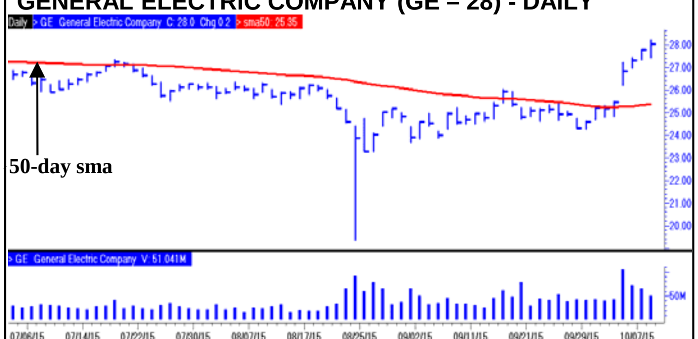


FREEPORT-MCMORAN INC. (FCX – 13) - DAILY

ISHS NASDAQ BIOTECH ETF (IBB – 307) - DAILY

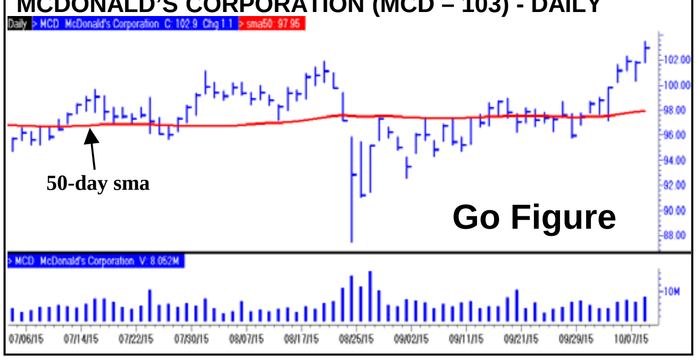


GENERAL ELECTRIC COMPANY (GE – 28) - DAILY



ISHARES CHINA LARGE-CAP ETF (FXI – 39) - DAILY

MCDONALD'S CORPORATION (MCD – 103) - DAILY



SPDR BARCLAYS HIGH YIELD BOND FD ETF (JNK – 36) - DAILY