WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

September 25, 2015
DJIA: 16,201

Hillary … leader of the band-wagon. This would be the one against those dastardly Pharma/Biotechs. To be fair, there would be no Patton without a war and here, no Hillary without Martin Shkreli. Going after pricing is nothing new in the drug business, including a foray not that long ago against Gilead (103). Like those, Hillary too will pass. However, it's not so much about the business that we worry, it's about the stocks. Going into this latest outcry the stocks were damaged from their August decline. After their bull market in recent years, a 25% decline may not seem outsized, and it could be a normal correction, as they like to say. However, the pattern now troubles us. Last time we suggested the uptrend from the August low should hold to keep the recovery intact. The weakness leaves open the question of whether the recovery was just a respite prior to another leg down. If all this seems a big to-do over just one group, it's an important group and one of the better ones in a market with few good ones left.

Losing leadership is never a good thing, especially in a market with little to spare. Though lacking the same long-term credentials, another teetering leadership area is Homebuilding. No rate rise, but no rally, and housing starts could have been better. Could be that stuff called wages. In any event, the recent pattern is not dissimilar to that of the Biotechs. We've never been a fan of the Banks, but the potential rate rise seemed to pique everyone's interest – the spreads, as though they do any banking. Rates of course will rise sometime, but the charts seem to have thrown in the towel. Then there are the Oil-Banks, lenders to the oil business in general and fracking specifically. If a proxy for their well-being might be the junk bond market, many of these lenders in the Southwest could be in for a rough time, and the Bank charts reflect it.

Thursday's Caterpillar (66) news was a bit of a shock, though it's not clear why. It is, after all, just more bad news about China – bad news, but not new bad news. So the already weak Industrials are failing to hold and the strong Biotechs and Housing stocks are breaking, meaning there's a lot here not to like. If the move off the August lows has failed, does it mean we're in for another test of the August lows, or are we in for a whole new leg down to lower lows? Naturally now it's all about a "test," or revisiting those lows, but why stop there? What the market does in the very short run could be important. All year the percent of stocks above their 10-day average has provided a good guide to trend changes. And while obviously a very short-term measure, in its own way it has been a guide to the bigger picture as well. As long as the rallies are strong enough to get back around 80%, and as long as the selloffs hold around 10-20%, nothing has changed. And if so, the market may not be as weak as those averages make it look.

The real momentum problem for the market is longer term. If you look at the percent of stocks above their 200-day average, a longer-term measure, and if you look over the years, there is a clear pattern of lower highs or diminishing momentum as rallies unwind. This has been the case from late last year through the present, with the recent divergence being the most dramatic. Going from a bull to bear market is about unwinding upside momentum. This unwind is a process – it takes time. It's not so much about the weakness – the moves down to the 20% level or lower. It's about the weak rallies – those which don't make it back to 80%, like most of those this year. The averages have moved higher, but with fewer participants.

Stranger things have happened, but few more so than the action in Netflix (104) on Thursday. Netflix has been weak, and, since mid-August, weak relative to Facebook (95) and other of its cohorts. Yet in Thursday's sharp selloff, the stock was up from the get-go, typically a positive sign. This leaves the chart respectable, if not great. To a lesser degree the same can be said of Apple (116), which also closed the day higher. Meanwhile, they say "just do it" and they did it. After-hours Nike (123) beat and the stock moved higher and likely will carry Under Armour (104), Foot Locker (76) and the rest of what we call shoe stocks, but they call athletic apparel. These and a few others like them are not insignificant stocks particularly when it comes to the market averages. We can envision a good rally here on the back of just a handful of stocks. Did we mention, at Thursday's close stocks above their 10-day average were down to 20%, and obviously lower before the upside reversal.

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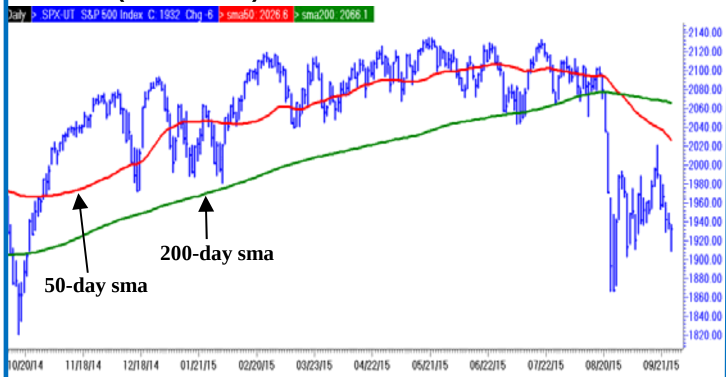
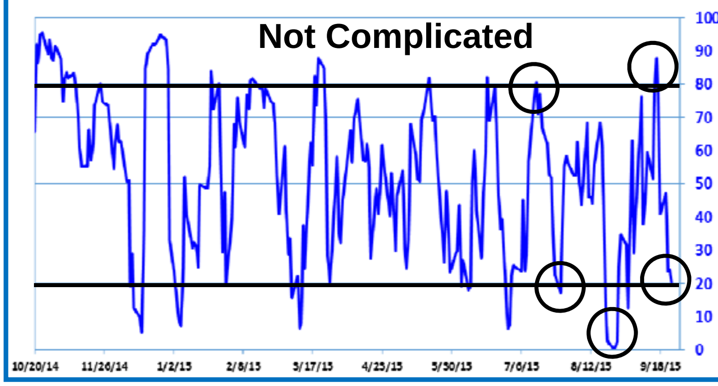
S&P 500 (SPX – 1932) – DAILY

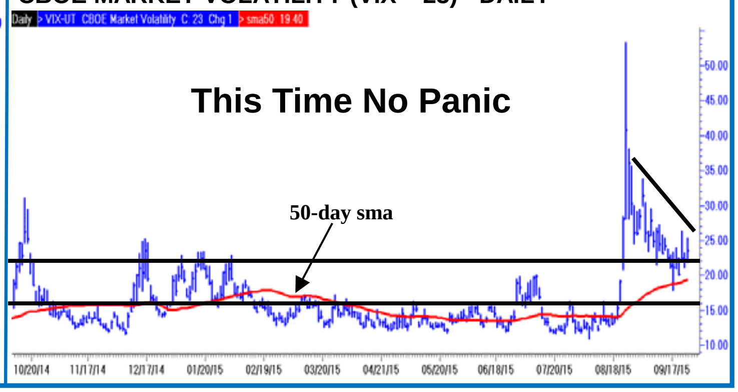


NASDAQ 100 (NDX – 4261) – DAILY

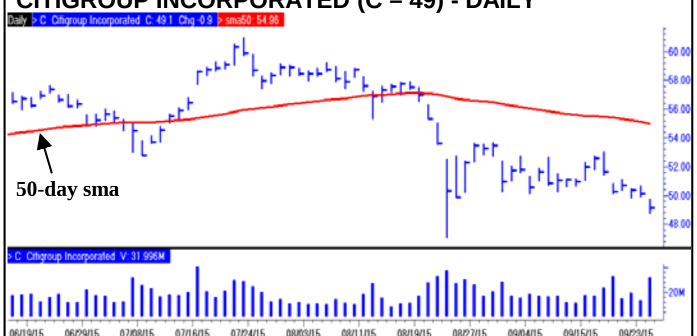
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



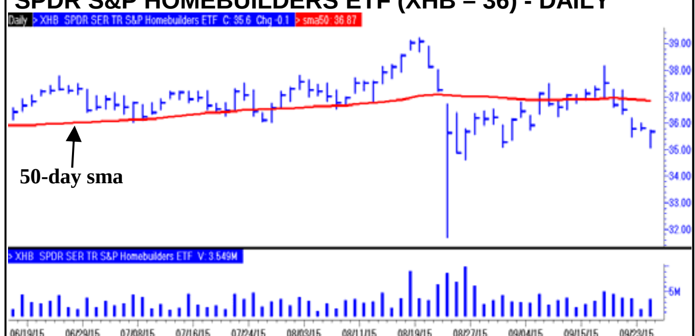
CBOE MARKET VOLATILITY (VIX – 23) - DAILY



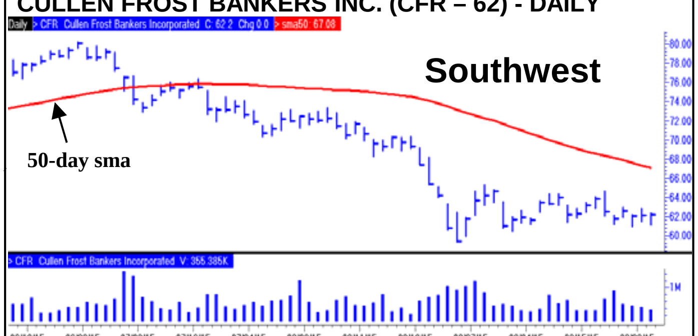
CITIGROUP INCORPORATED (C – 49) - DAILY



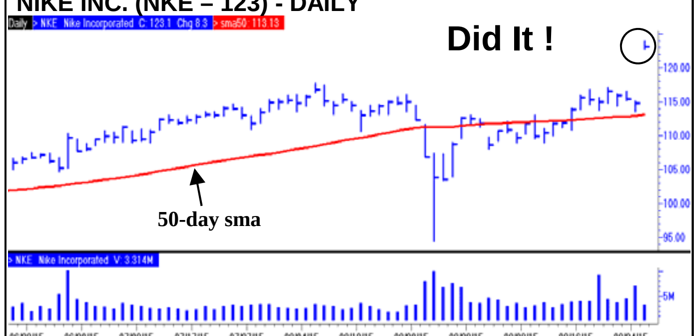
SPDR S&P HOMEBUILDERS ETF (XHB – 36) - DAILY



CULLEN FROST BANKERS INC. (CFR – 62) - DAILY



NIKE INC. (NKE – 123) - DAILY



BARCLAY'S HIGH YIELD BOND FD ETF (JNK – 36) - DAILY

S&P 500 - % OF STOCKS ABOVE THEIR 200-DAY MA - DAILY