EQUITIES PERSPECTIVE

April 1, 2016
DJIA: 17,685

Spring is sprung, the market is ris … wonder where that bear is? It's still lurking, we suspect, though under the guise of a new bull market. The big-cap averages reached new recovery highs this week, up low-teens from their early February lows, and have recaptured their respective 200-day moving averages. The problem doesn't lie in the big-cap averages, it lies in the rest of the market. As the week began, with the S&P only a few percent from its all-time high, almost half of its components were close to 20% below their own highs. This is not exactly the way a "bull market" is supposed to look. That would make this a bull market with half of the S&P's components in bear markets. You would think this might yet change, but history suggests otherwise. Over the course of the bull market's unwind, this pattern has worsened and will continue to do so, again, if history is any guide. For now, however, the day-to-day continues to lack those demon divergences.

If at the beginning of February investors had been offered a chance to get out 10% higher, most would have snapped it up. Now, not so much, and who can blame them? After all, China no longer seems the problem once feared, and whatever happened to $20 oil? It's funny how the news always seems to follow, rather than lead, prices. In the event, complacency rules the day. The VIX, or Volatility Index, aims to capture upticks in volatility which, in turn, increase as stocks fall. It's useful when stocks plunge, as was evident earlier this year, but not so much the rest of the time. Investors remain complacent much longer than they remain in a panic, hence the term "fear index" rather than "complacency index." In this case, however, volatility has collapsed at a historic pace. The VIX has fallen by more than half from its February high, the sharpest 25-day decline in history according to Jim Strugger of MKM Partners. Like other sentiment measures, particularly when it comes to complacency, the VIX is not the best timing tool. It is interesting, however, that while everyone talks the bear-market-talk, no one is buying the cheap insurance against one.

Janet doubled-down on her dovishness this week and the market responded. And they say the market doesn't discount the same news twice. What made this time different is that, for some reason, it seemed to move those "FANG" stocks. It's one thing to sit comfortably by when it's Kimberly (135) and Kellogg (77) leading the parade, but not so easy when it's stocks you actually want to own. Any follow-through there could push investors over the psychological edge, making it all but impossible not to play. This could, in turn, set us up for problems, in that a rally in Apple (109), Amazon (594), and the rest, tends to make you forget the basics. It would be similar to what Joe Granville used to call a "hook," something to distract you or make you think things are okay when they're not. Back in 2008, the Transports rallied to a new high. This had nothing to do with commerce/the economy, it was just about a speculative binge in Oil and other commodities, all of which benefitted the Rails. However, it made things at least seem not so bad, and this was the summer of 2008.

Overbought doesn't mean over, and this market certainly has borne this out. The percent of stocks above their 50-day moving average has reached its highest level, the most overbought, in three years, and the market has barely flinched. There are what we call good overbought levels, levels which show enough strength they become almost self-sustaining. Good markets become overbought and stay overbought though, and you can quote this, nothing lasts forever. What to watch for now would be a break in this pattern, as happened to stocks above their 10-day last October or, more importantly, as happened to stocks above their 50-day in early December. It's still early but Tuesday's lack of follow-through is not the best sign, let alone Wednesday's little intraday reversal – a multi-month high and close near the lows. Most days most stocks go up, and that's just not how markets get into trouble. Still, it's no time to join the complacent crowd.

Costco (158) often has seemed a mystery. Meet anyone and they love the place, the chart comes and goes. However, the corrections are more respite than weakness, it's one of those buy and hold kind of stocks. Its little breakout this week caps what has been a decent showing of late for Retail generally – Dollar Tree (83), Dollar General (86), TJX (78), Ross Stores (58), and the list really does go on. You have to wonder not how bad, but just how good things really are. Meanwhile, an area where there's little lift is the Financials. If one cared to do so, you might worry about this laggard action in what is supposed to be a leadership group. You might recall, too, the Financials peaked before the market back in 2007. Of course that was then, the era of liar loans, and this is now, the era of money for nothing. The implication seems just that for now, you don't want to be there.

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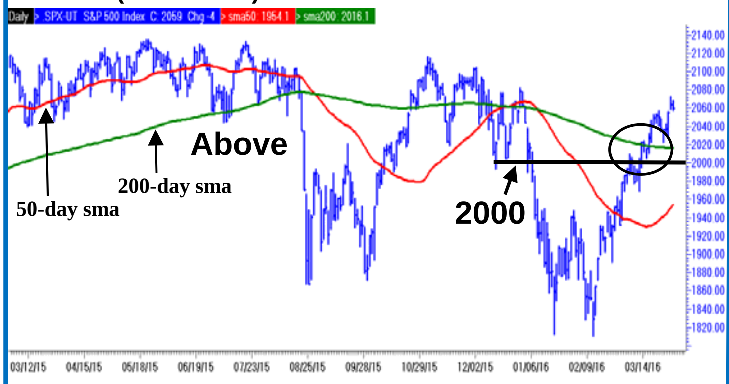
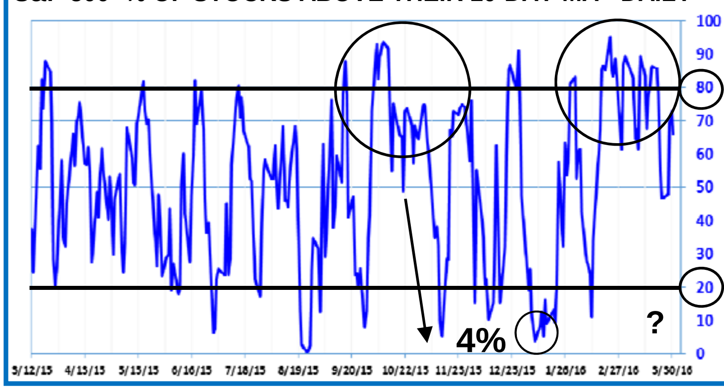
S&P 500 (SPX – 2060) – DAILY

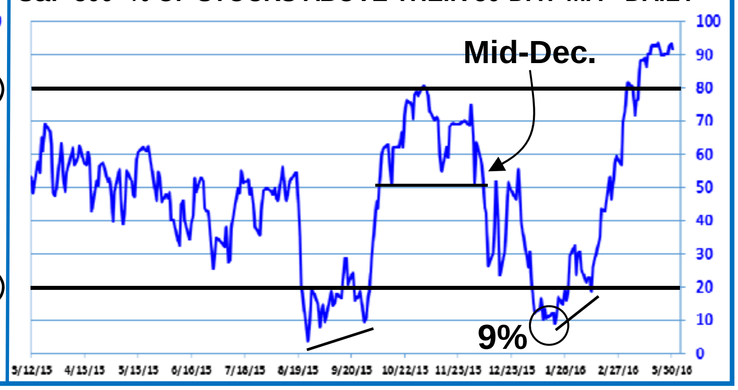


NASDAQ 100 (NDX – 4484) – DAILY

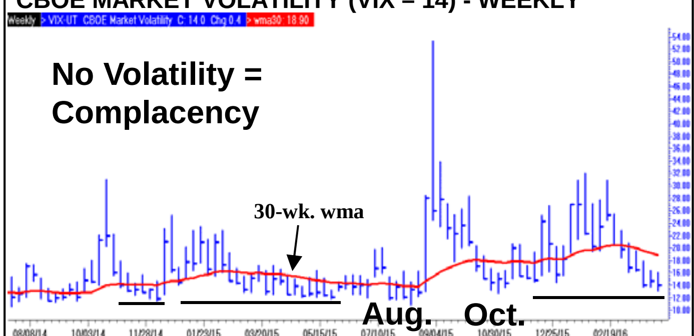
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



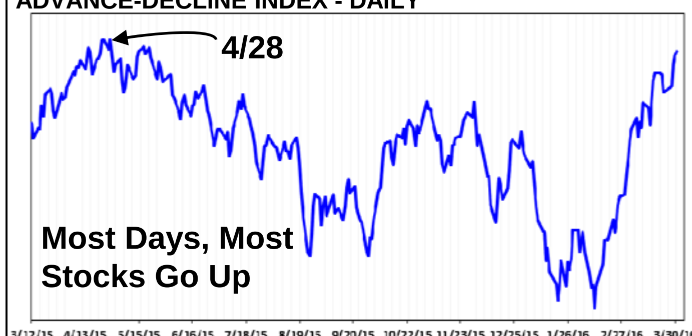
S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY



CBOE MARKET VOLATILITY (VIX – 14) - WEEKLY

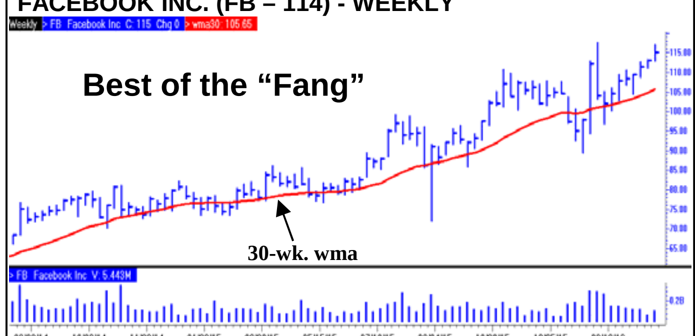


ADVANCE-DECLINE INDEX - DAILY



RUSSELL 2000 INDEX (RUT – 1114) - DAILY

FACEBOOK INC. (FB – 114) - WEEKLY



COSTCO WHOLESALE (COST – 158) - MONTHLY

CARTERS INC. (CRI – 105) - WEEKLY