WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

April 15, 2016
DJIA: 17,926

Time to throw in the towel … on the bull or the bear? Back when the bear market first began and we became increasingly negative, we were asked, why not just call it a bear market? Back then, they weren't really going down and, sure enough, there was that nice October rally after the August tumble. Why name-call, so to speak, until things became really clear in December? As Voltaire on his deathbed replied when asked to renounce the devil, why make enemies? We still think it's a bear market, but sticks and stones – it's still going up surprisingly and impressively, call it what you like. We have no qualms about changing our mind and can always cop to being Keynesian, who is purported to have said, "When the facts change, I change my mind." Easy to say but change takes time and, at the start, is rarely easy to see. If name-calling is important, all the net gains in the stock market occur when, for the S&P 500, the 50-day moving average, now 1986.8, is above the 200-day moving average, now 2013.9. Then we would have to change the "B" word.

Call it what you like, most days most stocks go up and that should be the focus. This pattern will change prior to any significant weakness. The rally has its flaws, like the lack of volume, certainly something not typical of a new bull market. Then, too, the entire recovery has lacked volume and, at the least, volume has been more likely to expand during strength than during weakness. The almost pathetic feature of the strength remains 12-month New Highs. In Wednesday's little breakout in the S&P Index, New Highs on all exchanges numbered just 160. So there still is the idea of stocks recovering in downtrends. On the positive side of that coin, stocks above their 200-day average moved above 60% for the first time since last June. By that measure, medium-term patterns are improving and this kind of improvement does take time.

The tide lifts all ships, but even the Banks? JPMorgan Chase (63) rallied Wednesday on what was called an earnings "beat." For the Banks generally, staying at all profitable is what we call a beat. The first quarter of 2016 is predicted to be the worst for U.S. Banks since the financial crisis, and the rest of the year looks to be no prize. To be fair, unlike years past when they gave us those see-through office buildings and loans to third world countries, this time it's not all their own doing. Low rates and a flat yield curve mean slim interest margins, and you can throw in slumping merger activity, weak trading revenue, higher capital requirements and, let us not forget, those under-reserved Energy sector loans. The SPDR Financial ETF (23) is down about 4% on the year and the SPDR Bank ETF (32) is down about 6%. Both of these indexes recently crossed above their 50-day averages and every new uptrend has to start somewhere. We're skeptical, but pretending to be open-minded. As the second largest sector in the S&P, by the way, their action is important.

After a few weeks of dawdling, the S&P broke out Wednesday to a new multi-month high. While certainly not a bad thing, at least historically, it's not quite as good as it sounds. When coming out of a narrow range with a 1% gain, post-breakout returns were okay but not special. For those of us who like to buy breakouts in individual stocks, this is disappointing but not surprising. Even the breakouts in individual stocks have taken their time in following-through, when they do. Another short-term consideration is that the percent of stocks above their 10-day moving average is at 68%, that is, back to the upper end of the range. A characteristic of this market, and other strong markets, is that they become overbought and stay overbought. Last week's dip down to 28% therefore, was of some concern, but was then quickly reversed. Any similar break in the percent of stocks above the 50-day average likely could prove more consequential.

When it comes to successful investing, typically where you're in is more important than whether you're in. Think of Biotech last year, at least until July, and think of those "FANG" stocks in last year's fourth quarter. In some speculative binge in coming weeks, we still think the FANG stocks could have another big move. Meanwhile, the group that this year seems closest to the Bios last year is Gold. Gold finally has evolved from a protracted bear market, during which it disappointed over and over – bad news galore but no rallies. Gold's only little problem now is its own success – it's in need of a respite which might have started Thursday. However, the keyword here is respite, in the uptrend, not an end to that uptrend. They also speak of dollar strength as a risk, however, it's hard to see a lot of strength in that chart.

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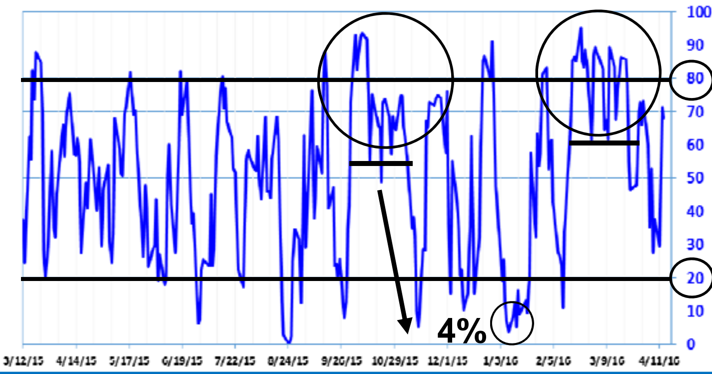
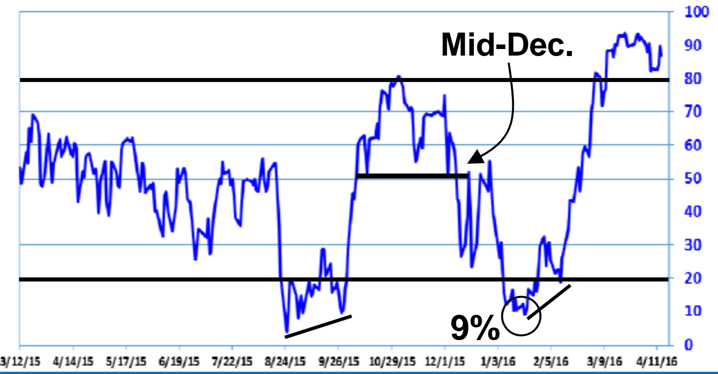
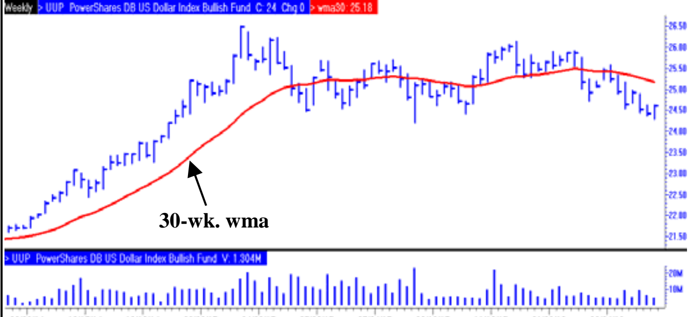
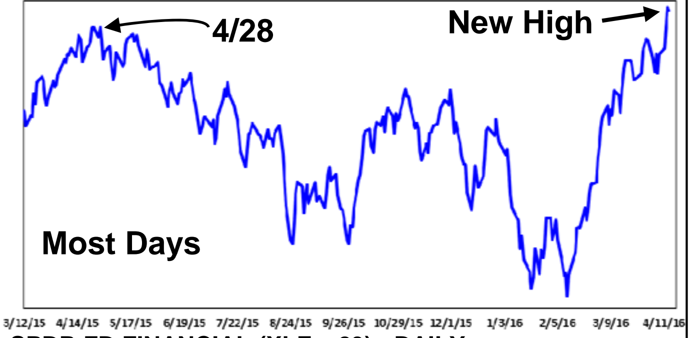
S&P 500 (SPX – 2083) – DAILY
200-day sma
50-day sma
2000

NASDAQ 100 (NDX – 4555) – DAILY
4500
200-day sma
50-day sma

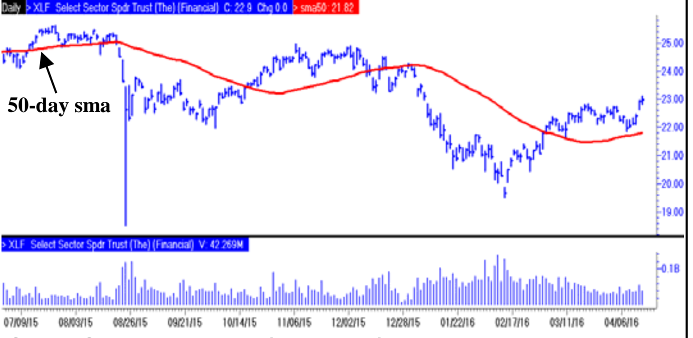

S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY
80
20
4%


S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY
Mid-Dec.
9%

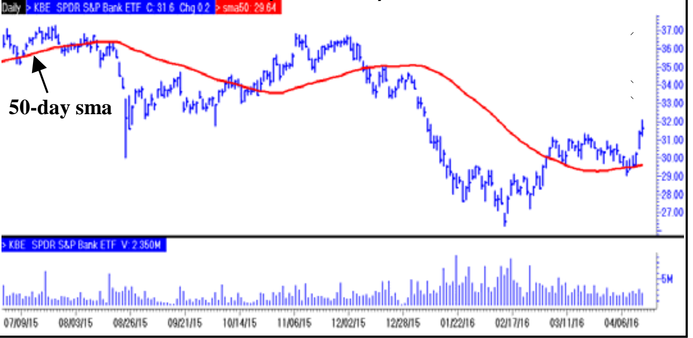

PWR SH DB US $ INDEX BULLISH FUND (UUP – 25) - WEEKLY
30-wk. wma


ADVANCE-DECLINE INDEX - DAILY
4/28
New High
Most Days

MARKET VECTORS GOLD MINERS (GDX – 22) - WEEKLY
30-wk. wma


SPDR FD FINANCIAL (XLF – 23) - DAILY
50-day sma

ALPHABET INC. (GOOGL – 780) - WEEKLY
30-wk. wma


SPDR S&P BANK ETF (KBE – 32) - DAILY
50-day sma