

EQUITIES PERSPECTIVE

April 21, 2017
DJIA: 20,579

Where you're in ... more than whether you're in. While always a favorite theme, it certainly seems relevant here. Late last year it was all about the Trump stocks and pretty much to the exclusion of everything else, particularly those with foreign exposure. The poster child there was the Financials, but they stalled even before it was clear that Trump had stalled. Then there was the Saudi production cut and the sure thing of a crude rally, which instead opened the door wider for the frackers. Little wonder the FANG stocks have become "go-to," together with most that is non-Trump. To borrow from the financial press, the market is mixed. To show you how mixed, consider the S&P is only a few percent from its high, and is well above its 200-day moving average. And of the S&P's components, 75% are above their own 200-day moving average, more than respectable. However, only 55% are above their 50-day moving average and just recently, only 25% were above their 10-day moving average. Mixed it is.

From a longer-term perspective, the pattern described above is not a particularly bad one. Indeed, as it pertains to the XLF Financial Index (23) where this sort of pattern has been extreme, it should prove very favorable. Coming into the week, fewer than 10% of Financials were above their 10-day moving average, obviously a bit of an extreme. At the same time, however, more than 90% of Financials were above their 200-day moving average. So what you have are stocks in very sharp corrections, but corrections within overall uptrends. This pattern almost always proves positive. For anyone looking for a chance to buy Financials, this should be it. Even Goldman (218) is above its 200-day, despite the recent weakness. Because of its long-term pattern, our preference here would be JPMorgan (86), but clearly this is a group of stocks that move together.

Bull markets don't die of old age. Fortunate in this case, as this bull market by now would find itself on the wrong side of the grass. Rather, bull markets die when all the money is in – when collectively we wished we had more money to invest, but don't. By definition, stocks have to fall, something called supply and demand. It is a process, however, and the process is first apparent in a pattern of narrowing participation. As less and less money is available, there is less and less to push up stock prices, at least to the previous degree. Typically, large caps are the last to give it up and, hence, the market averages. The point of this diatribe is that after these many years of bull market, the Advance-Decline Index, as of Thursday's close, is at its all-time high, almost startling in a historical context. Certainly, the ETFs must be a part of this – you buy one investment and get 20 or more stocks. Still, the numbers seem solid, and peaks in the A-Ds precede peaks in the averages by 6 or more months.

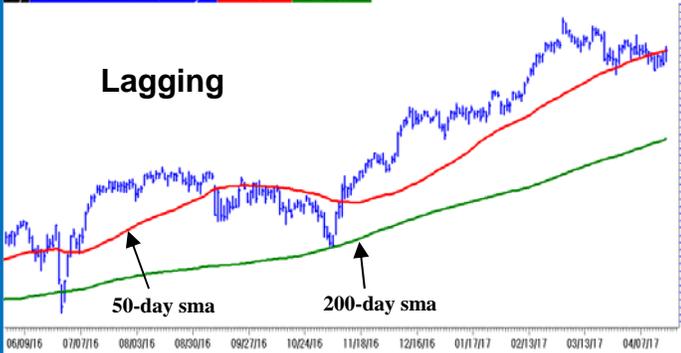
Also helping keep a Dow/advance-decline divergence at bay is the newly-minted Dow stock, Goldman Sachs. After its great run from the election, like most of the Financials, Goldman came up a little short this last quarterly report. Together with IBM's (162) miss, the poor Industrials look more vulnerable than venerable. This too will pass, but it's interesting to muse that the good people at Dow Jones might have been better served by sticking with "industrials" which, based on the XLI ETF (65), look much better than the Dow Jones stocks. Then, too, Wal-Mart (75) and, especially, McDonald's (133) have been pleasant surprises in this non-industrial average. Speaking of MCD, its spinoff, Chipotle (478), finally may be done making everyone sick, both in terms of food and stock price. After around 18 months, the stock finally seems to have broken the downtrend, and in what seems a rather dramatic way.

It's hard to know what to make of the French election. It is tempting to say, nothing much. After all, it's only the first round, and negative fallout from the Brexit vote lasted two days, that from Trump, two hours. Still, usually it's what you're not looking at that gets you. Hope this helps – though, of course, it doesn't. Together with the NYSE Advance-Decline Index, the NASDAQ Composite also reached a new high. If mixed, the market hasn't narrowed, the Financials being a good example of a formerly weak area that has pulled itself together. As it happens, up until Thursday's rally, it was the Dow that had been lagging, reaching a 2-month low. The Index had seen 27 of 30 days with either a loss or only a small gain. However, as discussed above, at worst it remained 5% above its 200-day. The Advance-Decline Index, what we call the average stock, is more important than the Averages. Together, though, they sometimes offer important insight. The Dow lost 119 points on Wednesday, while net declining issues were only 160. This pattern often gives you days like Thursday.

Frank D. Gretz

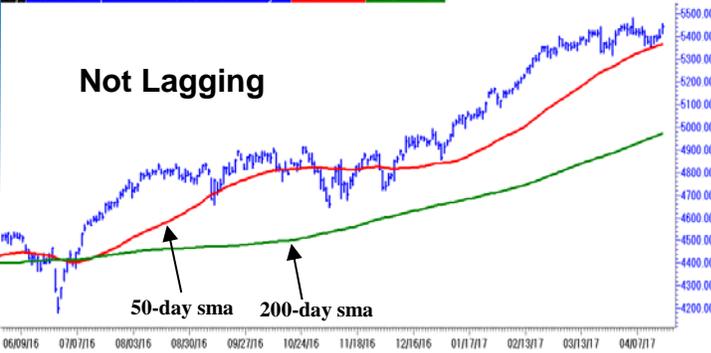
S&P 500 (SPX - 2356) - DAILY

Daily > SPX-01 S&P 500 Index C: 2356 Chg 17 > sma50 2364.3 > sma200 2253.0

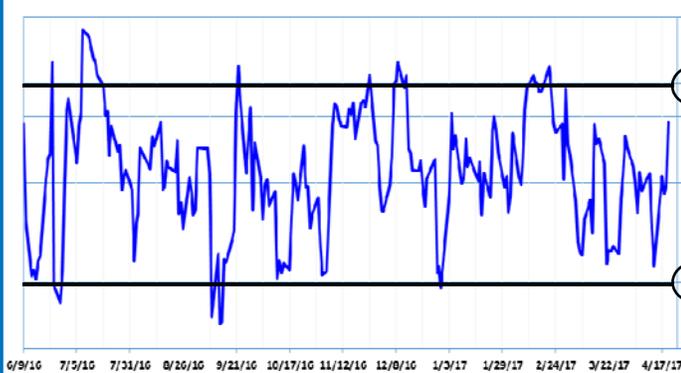


NASDAQ 100 (NDX - 5444) - DAILY

Daily > NDX-01 Nasdaq 100 Index New Calculation C: 5443 Chg 43 > sma50 5388.9 > sma200 4972.2



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

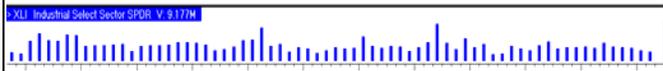


ADVANCE-DECLINE INDEX - DAILY



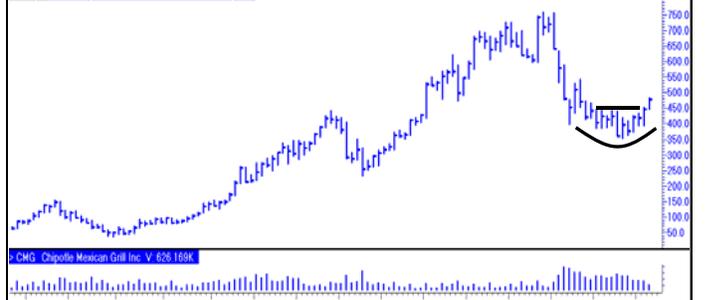
INDUSTRIAL SELECT SECTOR SPDR (XLI - 65) - WEEKLY

Weekly > XLI Industrial Select Sector SPDR C: 65 Chg 0 > sma50 64.11



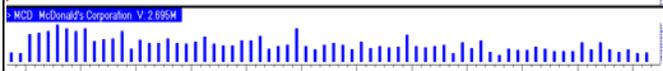
CHIPOTLE MEXICAN GRILL INC. (CMG - 478) - MONTHLY

Monthly > CMG Chipotle Mexican Grill Inc C: 478.3 Chg 1.4



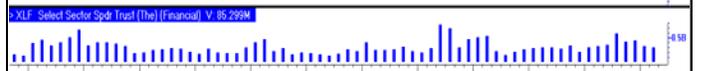
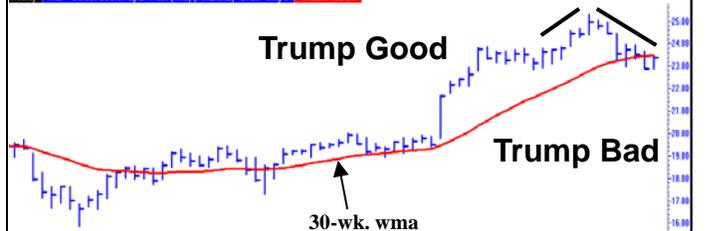
MCDONALD'S CORP. (MCD - 133) - WEEKLY

Weekly > MCD McDonald's Corporation C: 133 Chg 0 > sma50 126.74



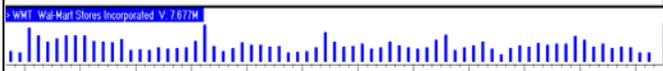
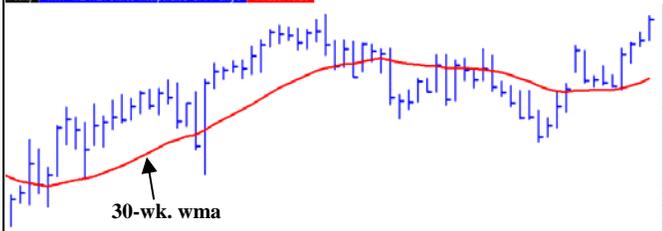
SPDR FUND FINANCIAL (XLF - 23) - WEEKLY

Weekly > XLF Select Sector Spdr Trust (The) (Financial) C: 23 Chg 0 > sma50 23.69



WAL-MART STORES INC. (WMT - 75) - WEEKLY

Weekly > WMT Wal-Mart Stores Incorporated C: 74 Chg 0 > sma50 70.23



HONEYWELL INTERNATIONAL (HON - 128) - WEEKLY

Weekly > HON Honeywell International Incorporated C: 127 Chg 4 > sma50 121.95

