

# EQUITIES PERSPECTIVE

April 22, 2016

DJIA: 17,983

Netflix is no steal ... and it's no steel. Trading around 330x trailing earnings, Netflix (95) didn't leave much room for its recent disappointment. Then, too, price/earnings ratios and that sort of thing are for "funnymentalists," who also have warned against the likes of Amazon (631) and Google (780), all the way up. Netflix and the rest of the "FANG" have another little problem – they don't sell steel or some other commodity. If every dog will have its day, apparently that day is today. The much maligned and, at least until recently, unloved commodity stocks, are all the rage. What happened to \$20 oil and China's 12-step program to just say no to copper and those other demon metals? Having spent a few summers at Bethlehem Steel doing graduate work in heavy lifting, it's pleasing to see United States Steel Corporation (20) still around, and apparently doing better than just surviving. However, you really know "commodity fever" has taken hold when you see the double in Cliffs Natural Resources (4), unfortunately from \$2.50 per share.

It was surprising that anyone really bought into a so-called Doha agreement to freeze oil output, but the failure of said agreement sent both Oil and the S&P lower Monday morning. The subsequent reversal was impressive, particularly for Oil. Good markets have their way of ignoring bad news and embracing the good, something with which the Oil market has had trouble, at least until recently. The same might be said of the market when on Tuesday it was able to ignore the bad news out of both Netflix and IBM (149). This leaves the S&P up 15% from the February low and only a couple percent from the all-time high. Impressive as this may be, the average bear market rally is around 13%. In 1973-74 there was a 14% rally, in 2007-2009, a 16% rally, and in 2000-03, a 21% rally. While these seem good enough to be called bull markets rather than bear market rallies, there are a couple of important distinctions.

If this indeed is just a bear market rally, you have to understand that it will end back where it started. If instead it is a new bull market, it's a bull market in the S&P and still lacking elsewhere. As the week began, around half of all small-cap stocks were down 20% or more, about the same as back in early-November. This is not exactly the kind of number you would expect in a new bull market. Large-cap stocks tell a different story. The number of large-cap stocks down 20% or more was only 16% and improved a bit from November. That the large-cap stocks are in a bull market is not at issue. What you have to keep in mind is that this is a pattern typical of bull-market tops. At bull-market tops, small or secondary stocks peak first – the large-caps are the last to give it up. Note, too, the difference between the S&P 500, the large-caps, and the Russell 2000, or small-caps. As impressive as this rally may be, and it is, it's hard to call it a bull market.

One of the confounding aspects of the rally has been the incessantly positive advance-decline numbers. However, that's true of the NYSE A-Ds – the NAZ A-Ds have recovered only about a third of the loss from their 2014 highs. We said some time ago that the A-Ds would never improve until the Oil stocks stopped going down – there are just too many of them. Now they're going up. Banks and other Financials also have caught a bid, and there are a lot of them. The Advance-Decline Index is a measure of direction, not price or the degree of the direction. This could be an unusual time which finds many stocks going up, but not going up by much. How else do you explain the NYSE Advance-Decline Index at a new high, and yet only 66% of NYSE stocks are above their 200-day moving average, that is, in medium-term uptrends? The S&P is near a 12-month high, but 12-month new highs among individual stocks remain paltry. We don't ever recall a market getting into trouble when the Advance-Decline Index is at a new high. Then, too, we don't recall a time when so many NYSE stocks were not domestic common issues, but are instead bond-equivalents, REITs and other non-operating companies.

Thursday wasn't a pretty day – down 100, 1.7-to-1 down breadth, and rising volume into the weakness. One day is just that, noteworthy only because weakness has been so rare. As it happens, it shouldn't take long to find out if there is any more to it. Thursday night saw a perfect storm of negative earnings news and lower after-hours prices – Google (742), Microsoft (52), Starbucks (58) and Visa (78). That's quite a smattering. If, as per the above, good markets can ignore bad news, in this case it would seem quite an accomplishment and quite bullish for the market as a whole. We expect some setback if only because the market is stretched to the upside – Tuesday saw 84% of stocks above their 10-day average and this often has proven troublesome. Whether bull market or bear market, we're not on the brink of a pending collapse. However, the better the market holds, the further we are from that brink.

Frank D. Gretz

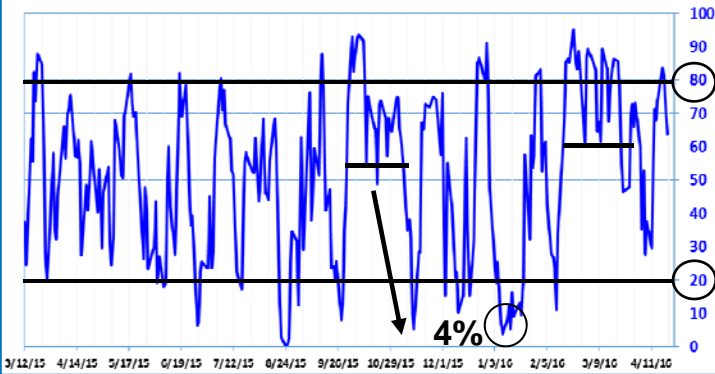
### S&P 500 (SPX - 2091) - DAILY



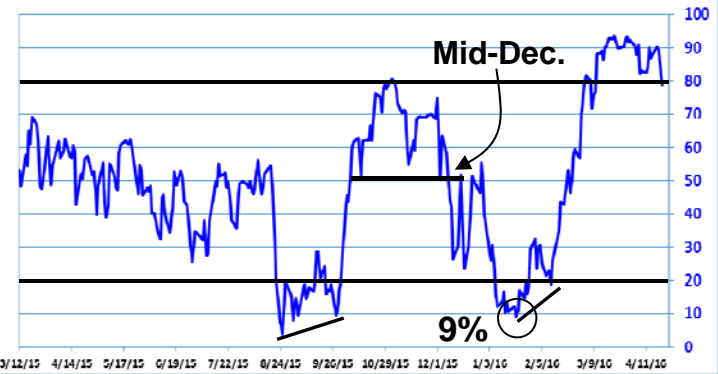
### NASDAQ 100 (NDX - 4541) - DAILY



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



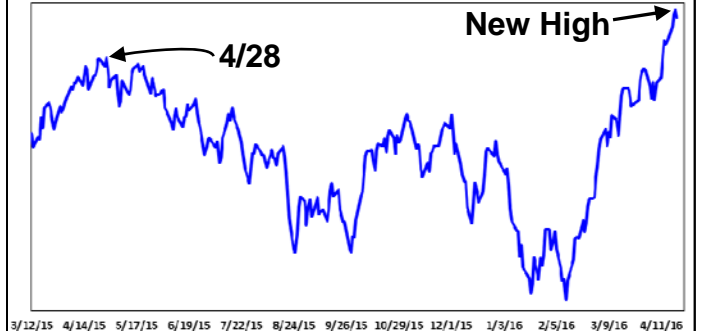
### S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY



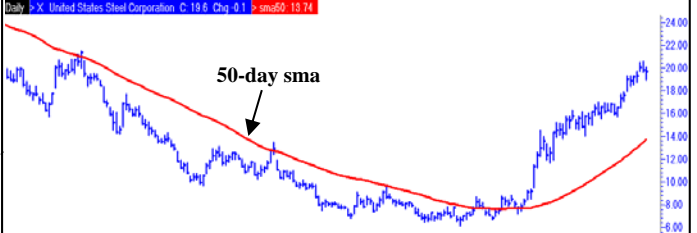
### RUSSELL 2000 INDEX (RUT - 1136) - WEEKLY



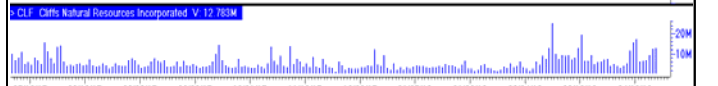
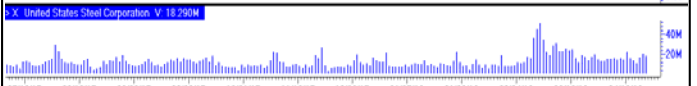
### ADVANCE-DECLINE INDEX - DAILY



### UNITED STATES STEEL CORPORATION (X - 20) - DAILY



### CLIFFS NATURAL RESOURCES (CLF - 4) - DAILY



### SPDR FD ENERGY (XLE - 66) - DAILY



### SPDR S&P METALS & MINING ETF (XME - 23) - DAILY

