

EQUITIES PERSPECTIVE

April 29, 2016
DJIA: 17,830

Steve ... they miss you! A 16% year/year decline in phone sales and nine quarters of decline in the iPad isn't the Apple everyone has come to know and love. Still, the reaction to the bad news was a bit surprising in that no one was expecting good news and the stock price had languished of late. The other surprise was how well the so-called Apple suppliers, like NXP Semiconductor (86) and Broadcom (148) acted, even after the report. Last time around, their poor action was thought to be the canary in the coal mine, but Apple's numbers were well-received. Go figure. Apple, the stock, goes through these mood changes. Though not the "A," the real issue might be the recent drubbing in the "FANG" stocks. We had thought these might lead in a narrowing market, but have instead lagged in what arguably has been a broadening market. The broadening to a considerable extent is a function of the commodity stocks and the financials – there are a lot of them. The problem is these still are rallies in downtrends.

Not all of "FANG" has been drubbed – the "FA" part has been just fine, especially Amazon (663) after Thursday night's report. We even had thought there could be blowoff moves in these stocks, but that was only half right, at best. In this arena, Apple (95) might be the biggest concern as a long-term chart shows these periods of being out of favor can take a while. We understand it's cheap, but we've never seen being cheap make a stock go up. On a more philosophical note, it's good to keep in mind there is no durable technology. RCA changed the world, not Apple, and the best to be said is they lasted longer than most. At its time, the H-beam was as radical as the invention of the semiconductor. The best that could be said in this case, at least the George Washington Bridge is still standing. We joke that Silver acts well because Eastman Kodak must be coming back. The closest thing we've seen to forever is big-pharma.

Commodity-related stocks like Energy and Mining have taken a leadership role of late. So do you get out there and swap your "FANG" for Freeport (13)? The problem with these, and other patterns like them, is that the overall trends remain down. These rallies in downtrends, or bear market rallies, eventually will cap the recoveries. However, Gold and Silver seem different. It's years of bear market they've been through and especially late last year, a real give-up phase. Since January 1, GLD (121), the commodity ETF is up around 20% and GDX (24), the Gold Miners ETF, is up close to 77%, making the latter one of the year's best performers. Success here hasn't gone unnoticed, as per a near-record short position on the part of hedgers. Normally an elevated short position is good, both from a contrary opinion standpoint and in terms of potential demand. In this case, however, it's not. The hedgers are the "smart money" when it comes to Gold. Despite this, Gold is consolidating and even moving higher. If it can continue to work its way through this period with little or no setback, it would confirm the idea that Gold is in a new bull market.

For the market as a whole the picture, you might say, is muddled. As even we have tired of saying, most days most stocks go up. The Advance-Decline Index measures this, and was at a new high Wednesday. This pattern almost never has preceded important weakness. It takes an unwind or a pattern of divergences to cause trouble – strength in the averages and flat or weak A-Ds. The A-Ds measure direction rather than price, and they take into account the performance of all NYSE stocks. The unusual strength in the A-Ds could reflect the many non-common stocks, or non-operating companies on the NYSE these days. Whatever the case, they are way out of line with the Russell 2000, which is a price measure of secondary stocks. Also, 12-month New Highs seem out of line with the A-Ds and even the S&P index itself. On a positive side, the 70% of stocks above their 200-day average say medium-term patterns are improving.

The market held up well in the face of the bad news out of Google (705), Netflix (90), Microsoft (50), and the others. It's more than a little ironic to see it slip on the good news out of Facebook (117) and Amazon. No one said it would be easy. Behind the weakness was the news out of Japan the other day regarding their failure to ease further. We can't tell you how many sleepless nights we've spent recently worrying about Japan. It is a reminder, however, that it's rarely what you're worried about that gets you. It's where you're not looking. The market's real issue seems simply about a momentum unwind – the market was overbought, and the series of lower peaks in most of the indicators tell the story. From a peak of 95% back on February 22, stocks above their 10-day moving average have displayed a pattern of lower peaks, culminating in that last weak rally. Now we have to see how the market responds from oversold levels.

Frank D. Gretz

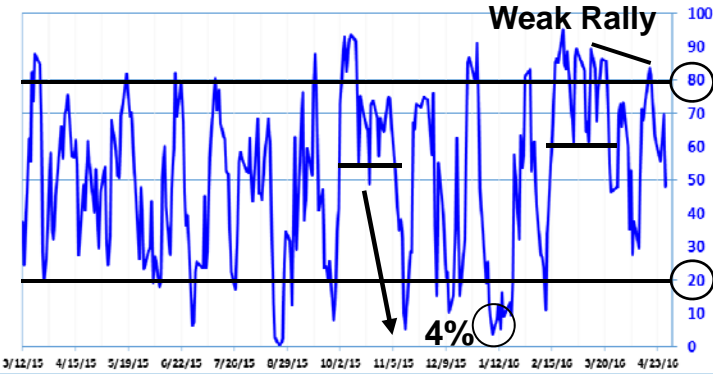
S&P 500 (SPX - 2076) - DAILY



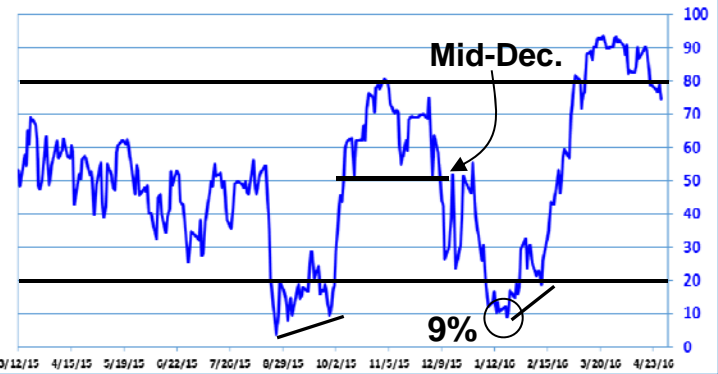
NASDAQ 100 (NDX - 4364) - DAILY



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



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



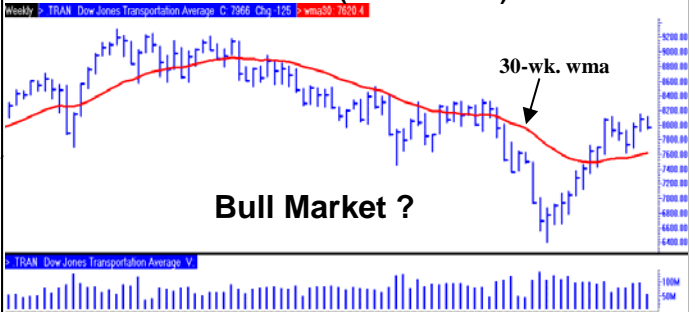
RUSSELL 2000 INDEX (RUT - 1140) - WEEKLY



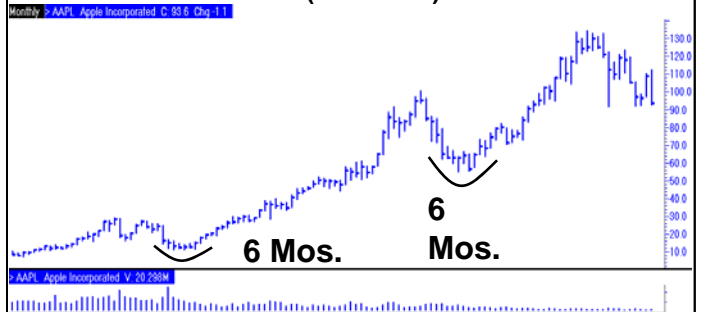
ADVANCE-DECLINE INDEX - DAILY



DOW JONES TRANSPORTS (.TRAN - 7966) - WEEKLY



APPLE INCORPORATED (AAPL - 95) - MONTHLY



FREEMONT-MCMORAN INC. (FCX - 13) - WEEKLY



NEWMONT MINING CORP. (NEM - 33) - WEEKLY

