WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

April 8, 2016
DJIA: 17,542

Equities … perspective is important. With some 90%+ of S&P 500 stocks above their 50-day moving average, the charts are a thing of beauty. However, if you look instead at the 200-day, it's a different story. The impressive rally has left about half of the NYSE stocks still in medium-term downtrends, that is, below their 200-day. For those of you familiar with charts, and you know who you are, the difference is like looking at a daily chart, where each bar is one day, and a weekly chart, where each of those bars is one week. The difference is striking. Clearly there are plenty of good charts, but not as many as the "dailies" would have you believe. The "weeklies" show half of those "good charts" are just rallies in overall downtrends. You need not go through all 500 S&P charts – let us save you some time. Just look at the S&P Index itself. That's a rally in a downtrend – not exactly a thing of beauty.

Despite the pattern described above, this rally is unusual. Most days most stocks go up – just look at the Advance-Decline Index, a measure of direction only. We had thought that by now the advance would have narrowed, and maybe this has begun. However, we love it when they try to tell you it's just short-covering. Too many stocks going up have no shorting, and short interest actually went up in February rather than down, as would happen had there been a lot of covering. Besides, a high level of shorting is no guarantee of potential demand. Short sellers never get "squeezed" when the position is going their way. Short interest was at a record high before the crashes in 1987 and 2008, so you have to be careful about applying macro numbers like short interest. How many times has the market gone up when mutual fund cash has said it shouldn't have? When the market wants to go higher, it somehow finds a way, regardless of short interest, mutual fund cash and the rest of the macro stuff.

Most days most stocks go up, but last Friday wasn't one of them. On the contrary, last Friday the Dow rose 100+ points and advance-declines were negative. That's an outright negative day and certainly a marked change in the pattern since the February low. Still, one day is just that and, typically, never a game-changer. However, add the following two days of 2.5-to-1 negative breadth and we may have seen a shot across the bow, though Wednesday's 3-to-1 up day makes even this seem dubious. Another short-term change is the drop in stocks above their 10-day moving average down to 28%. This broke the high level range which, when last it happened back in March, resulted in a short, but sharp, selloff. Like then, keep in mind that it's not usually weakness that ends uptrends, it's the weak rallies following the weakness that do things in. If stocks above their 50-day drop out of the recent range, it's a different story.

As the head of Allergan (241), or Pfizer (33), or both, correctly pointed out, the government changed the rules on them. What no one seemed to realize – nixing the deal turned out a boon for both stocks. Of course, both swear the deal wasn't just about the tax benefits, but when those benefits went away, it took them hours, no doubt long hours, to call off the deal. What the market seemed to like was that it freed up both to make new deals. If those too are called off, there's no telling just how high both stocks could go. As Sheldon of "The Big Bang Theory" would say, was that sarcasm? The stocks still seem last year's stocks – the big run-up and big decline. Against that backdrop real recoveries take considerable time. And, too, we understand there is some sort of election going on where it's all the rage to just say no. Looking at the IBB, the stocks had stabilized in their decline from last July and there may still be more room to run. However, this isn't 2015 all over again.

So which do you believe, the Tuesday weakness, the Wednesday strength, or the Thursday weakness? Those days, by the way, also were good or bad, respectively, based on rising volume and breadth. Any weakness here marks a change – important to keep in mind against what still seems an overall downtrend. However, the Advance-Decline Index reached a new high just four days ago so we're lacking any divergence – weak rally – which could lead to an important decline. Let's see what the rally looks like. Though the market looks tired, there is always the possibility of another good rally phase, likely on the back of those "FANG" stocks. Facebook (114) lost only a fraction in Thursday's decline and, as mentioned, the Biotechs have room. Aside from anything you can eat, the Defense stocks finally have become a little less boring. Build it and they will drive on it, the construction stocks also act well.

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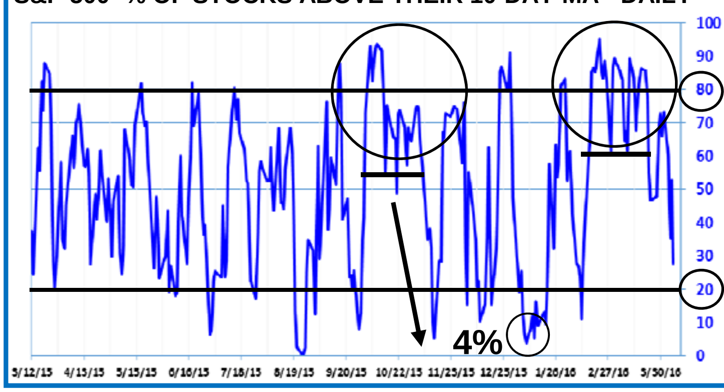
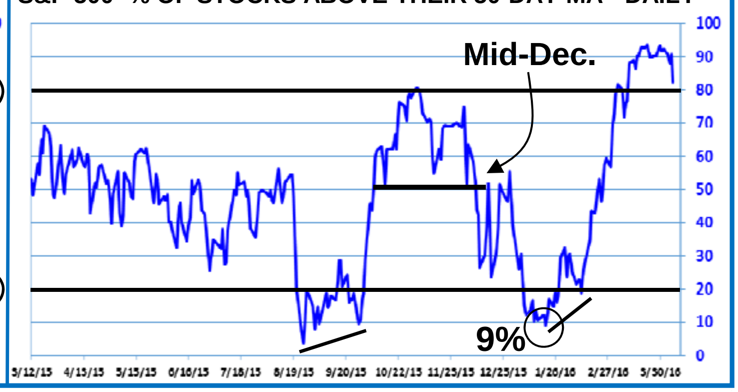
S&P 500 (SPX – 2042) – DAILY

NASDAQ 100 (NDX – 4475) – DAILY

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



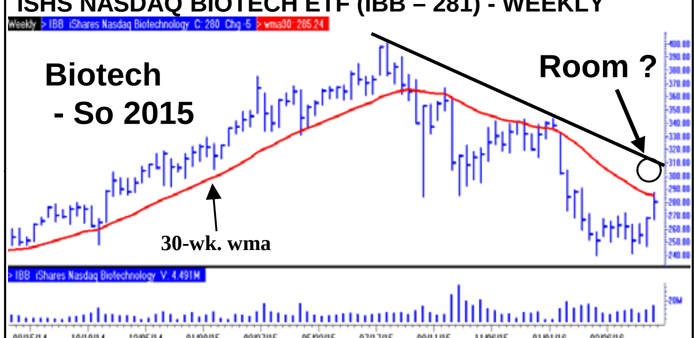
S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY



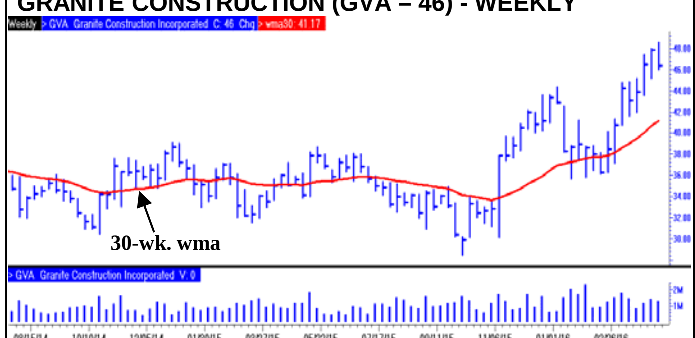
S&P 500 -% OF STOCKS ABOVE THEIR 200-DAY MA - DAILY

ADVANCE-DECLINE INDEX - DAILY

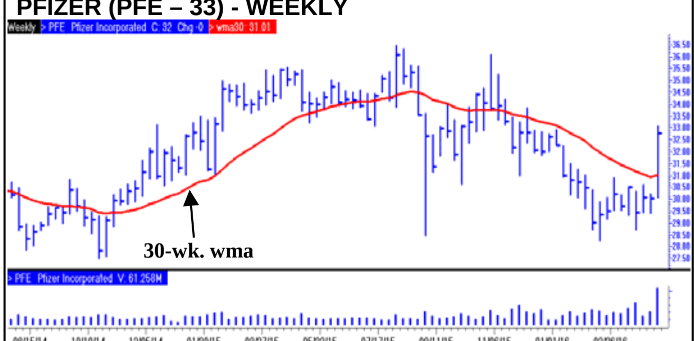
ISHS NASDAQ BIOTECH ETF (IBB – 281) - WEEKLY



GRANITE CONSTRUCTION (GVA – 46) - WEEKLY



PFIZER (PFE – 33) - WEEKLY



RAYTHEON COMPANY (RTN – 127) - WEEKLY