WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

August 11, 2017
DJIA: 21,844

Sure it's the end of the world … but is it discounted? We would say no. The weakness seems about the news, and to that, we also would say no. It's not the news that makes the market, it's the other way around. The averages have moved higher while the market has struggled. Against such a background, something always seems to come along as an excuse for weakness. Sometimes it can be the same news. When the market wants to go higher, a good jobs number will take the market higher. When the market wants to go lower, a good jobs number means the Fed will raise rates and it takes the market lower. It's the market that makes the news. Do you really think we're looking in the eye of nuclear war? It's an excuse for weakness in a weak market. It reminds us of the Cuban Missile Crisis, when the line for confession was around the block at Georgetown. It was a great time to buy—either the market was going back up, or you wouldn't care. This crisis, however, is not the same. It won't as easily go away.

The difficult resolution to the Korea problem seems all the more reason to stick with those Aerospace/Defense stocks. They're not just an end-of-the-world play, though they certainly have proven a hedge lately. There also is the idea that while they started as part of the "agenda" stocks, they've become immune to the agenda stocks. And, if the truth be known, we always have looked at these as a hedge of a different sort, recalling they did rally after 9/11. Finally, the charts have been good for years, not just as a play on Korea. A stock like Lockheed Martin (303) came out of a major base early in 2013 and, from that perspective, it's not all that extended. As long as there is a Korea, we suspect these stocks will remain in favor, though they're not exactly undiscovered. There are a number of ancillary stocks in this case, like Harris (118) and L3 Technologies (183), which also act well.

Until very recently, the technical world had been a happy place—everything in sync on the upside. Up is still the defining word for the Dow and S&P, the former having rallied a few hundred days in a row, like that matters. Until very recently, this was true too of the Advance-Decline Index, which we often call a good proxy for the "average stock." The Russell 2000 isn't exactly the average stock—it often is called a measure of secondary stocks, by which is meant smaller-cap stocks. For the last couple of weeks, there has been a rather dramatic divergence here, both in terms of the S&P and the Advance-Decline Index. The last high in the Russell was 7/25, versus minutes ago for the S&P and A-Ds. Weakness in the RUT is such that back on 8/2 it dropped below its 50-day average and remains there now. When in the past this has happened against the backdrop of a new high in the S&P, it has led to problems.

In a divergent-riddled backdrop, only very recently has the Advance-Decline Index failed to match the higher highs in the Dow and, hence, a more typical divergence. The divergences heretofore have been more subtle, and though important, easy to ignore. The Dow, for example, is all about Boeing (233), the unweighted S&P hasn't kept up with the one we all watch. Wednesday was nearly the worst day ever in the advance-declines against an unchanged day in the S&P. Similarly, while the NASDAQ is only a few percent or off its high, Wednesday saw a ratio of New Highs to New Lows under 35%. And then there is the aforementioned Russell, where there is both a Growth and a Value component. Recently the two have diverged significantly, with Growth up 11% year-to-date through July, and Value up just 1%. When in the past this has happened, subsequent 3-to-6 month performance has been poor, according to SentimenTrader.com. Another of your not-so-everyday divergences that have been typical of this market.

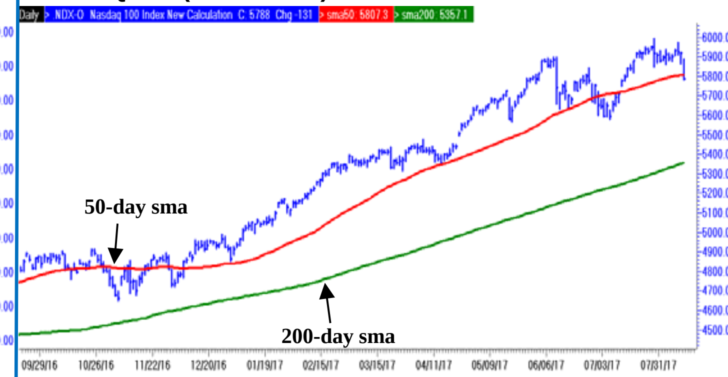
After Thursday it may feel like the end of the world, but it's not, and if it were, it's well on the way to being discounted. Lows aren't just about selling and being oversold. While part of a low, they don't make the low. As we like to say, it's a correction when they sell your stocks, a bear market when they sell my stocks. If there's a "my stock," it's Apple (155), or perhaps Nvidia (157), both of which are taking a hit. This actually is a good thing, in that market weakness like this usually gets to everything. Doing it sooner rather than later means we're that much closer to making a low. With only a minimum divergence in the Advance-Decline Index, this doesn't seem a major top. Look too at stocks above their 200-day moving average—absent is the "unwind" typical of a major top. Weakness doesn't kill bull markets, it's weak rallies. What these indicators look like a month or two from now will be important.

Frank D. Gretz

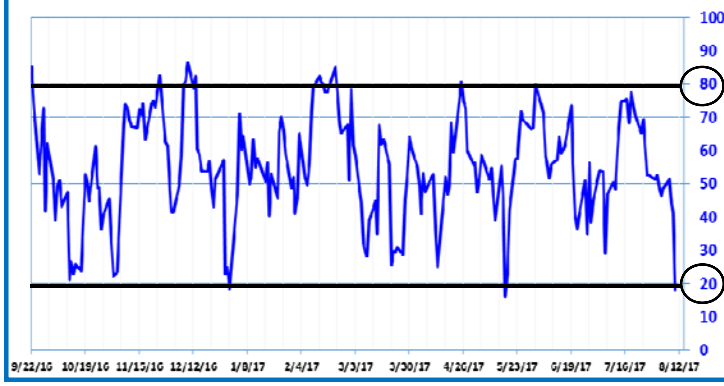
140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

S&P 500 (SPX – 2438) – DAILY

NASDAQ 100 (NDX – 5788) – DAILY



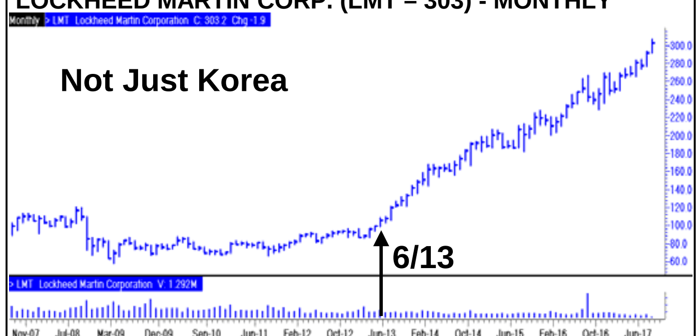
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



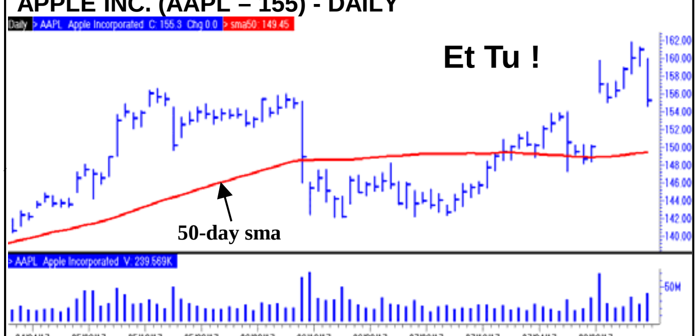
S&P 500 -% OF STOCKS ABOVE THEIR 200-DAY MA - DAILY

RUSSELL 2000 INDEX (RUT – 1372.5) - DAILY

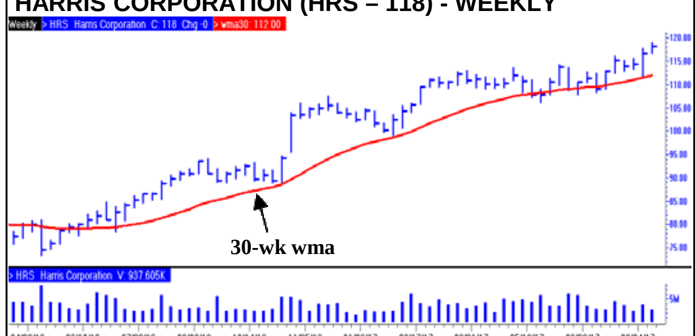
LOCKHEED MARTIN CORP. (LMT – 303) - MONTHLY



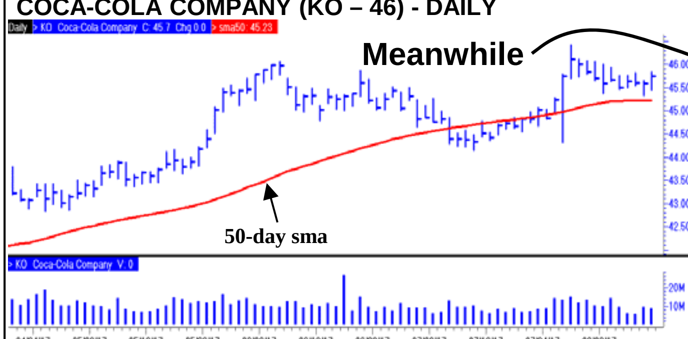
APPLE INC. (AAPL – 155) - DAILY



HARRIS CORPORATION (HRS – 118) - WEEKLY



COCA-COLA COMPANY (KO – 46) - DAILY



MCDONALD'S CORPORATION (MCD – 157) - DAILY