WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

August 19, 2016
DJIA: 18,598

As we said last time … buy Retail. Actually, this is what we should have said as even Wal-Mart (74) has caught a bid. So it goes in the moveable feast called the stock market. Certainly someone will tell you a rally in the laggards is not a good thing – the last gasp of an old bull market. We're inclined to think anything that broadens the market isn't bad. However, there's always a tradeoff. When something new comes along, to varying degrees, something seems to drift away. Generally speaking, the latter has included the Consumer Staples, though drift more than damaged seems the point. Utilities also offer a good example of the market's shift in emphasis. As measured by the XLU ETF, Utilities are down about 5% from their early-July peak. That this group is out of favor is clear in that only 5% of the stocks now are above their 50-day moving average. That this change is recent, and likely temporary, is clear in that 90% remain above their 200-day moving average, that is, in overall uptrends.

Aside from Retail, the Oil stocks also have come to life despite what always seems a dubious background for the commodity itself. There's nothing new there, of course, which always has seemed a hopeful sign – bad news but the stocks hold. Oil may be just another commodity, but it's one with a lot of related stocks. Better Oil therefore also tends to broaden the market, a good thing for the technical background. Speaking of which, there's still nary a day when most stocks don't go up, Tuesday being one of the rare exceptions. It may be a trudge higher and some complain about the lack of volume and volatility. No volume is better than downside volume and, after all, it is August. Things will change but, until they do, the focus should be on the areas that are working, and Energy has some real potential in this regard. As a wise person once said, being early and being wrong are the same. However, we still think the FANG stocks should have their turn.

The market has done an excellent job of dismissing the possibility of higher rates. This last positive jobs number certainly laid open the possibility. Not only did it do so conceptually, there were a couple of practical signs as well. Banks rallied, for example, which they should do if rates are about to rise. Meanwhile, Gold and Gold shares weakened. The idea that rising rates are bad for Gold seems more lore than reality, especially in a negative rate world, but that's what they tell you. The jobs number was taken by the market as good news to the tune of 190 points yet rate-sensitive stocks were saying higher rates. When it comes to higher rates, they'll try to tell you that the market can handle it, but we have our doubts. When the aptly named Dudley suggested September wasn't off the rate-hike table, the market didn't handle it all too well. Wednesday's "minutes" seemed to allay those fears, but we would note that on August 26 Janet speaks at Jackson Hole.

With rates so low or negative, and everyone nonetheless begging for more, the "bond-bubble" guys probably have it right. The trouble with all bubbles is that it's hard to know one when you're in it, and harder still to predict its end. We're certainly not one of those bond geeks but we do know a good chart from the other kind. For now, the uptrend in the price of the 30-year is a thing of beauty, but things change – another observation you can feel free to borrow. In this case, a move below 137 wouldn't necessarily be a disaster, but it would be an unexpected change. We suspect the undoing of stocks, so to speak, eventually will have to do with an inflation/rate scare and, after all, the former is the latter. So an eye to bonds doesn't seem a bad idea. However, we've always found the stock market to be a reasonably fair game. We wouldn't expect big problems for stocks without the usual warning of decreased participation – poor Advance-Decline numbers, New Highs and the like.

Good markets don't just up and go away. Put another way, momentum takes time to unwind. Looking at stocks above their 10-day moving average, this last move up peaked around 70%, compared to the July peak of 96%. This seems a significant change but with stocks above their 50-day at 69% and those above their 200-day at an impressive 79%, there is no need for panic. Indeed, the S&P 500 has closed above its 20-day moving average for more than 30 days, one of the longest ever such streaks. Clearly there's some loss of momentum, but just as clearly there is no real selling. You don't want to see the Advance-Decline numbers suddenly turn poor and you don't want to see it happen with volume increasing. Dull and down we can live with, volume into weakness is something else again.

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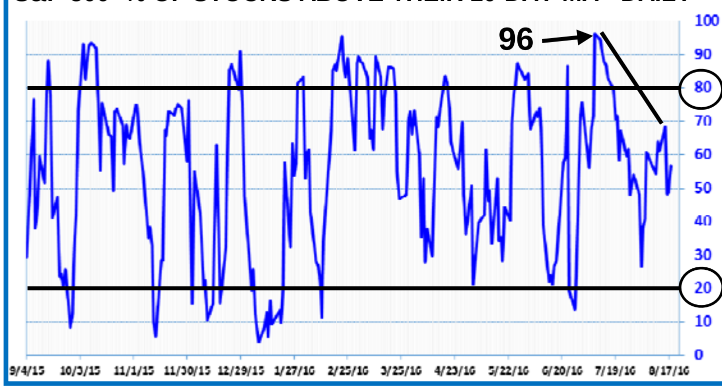
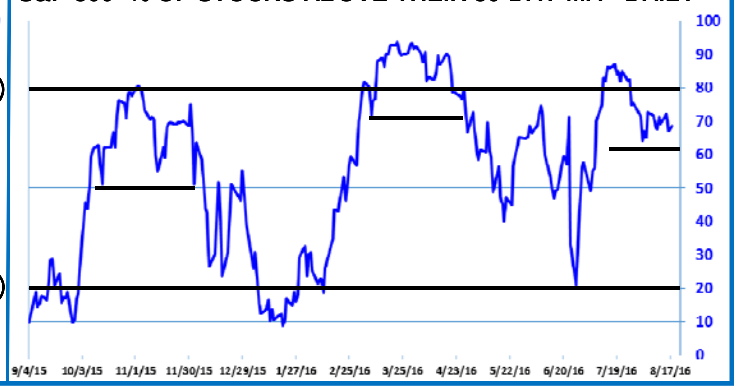
S&P 500 (SPX – 2187) – DAILY

NASDAQ 100 (NDX – 4809) – DAILY

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



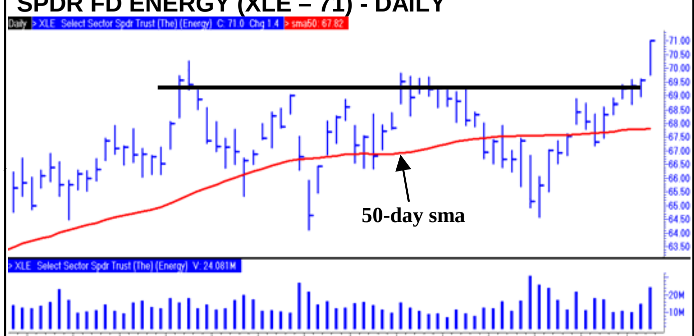
S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY



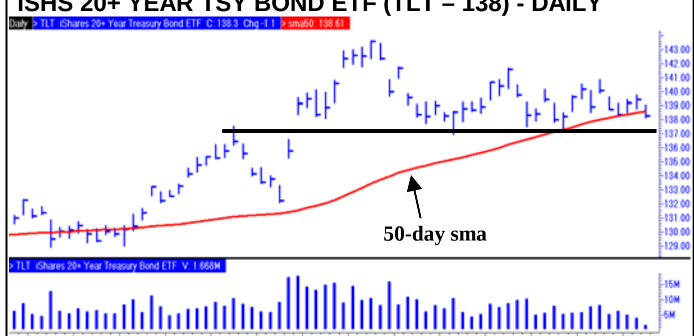
WAL-MART STORES INC. (WMT – 74) - DAILY

SPDR FD UTILITIES (XLU – 51) - DAILY

SPDR FD ENERGY (XLE – 71) - DAILY



ISHS 20+ YEAR TSY BOND ETF (TLT – 138) - DAILY



AMAZON.COM INC. (AMZN – 759) - DAILY

SPDR GOLD TRUST (GLD – 128) - DAILY