WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

August 26, 2016
DJIA: 18,448

Feelings … they're not facts. The market hasn't felt so good lately, yet if you look at the facts – the data, as it were – it's hard to see this. The averages are nudging at their highs and the Advance-Decline Index, that measure of the "average stock," reached a new high just the other day. Less important analytically, but more impressive anecdotally, until Wednesday, the S&P had been above its 20-day moving average for more than 30 days. So, as they say, what's not to like? Though just a bit selfish, the answer is very simple. The stocks going up are not the stocks we favor, that is, own. Retail, really? Financials, really? Meanwhile, remember our pounding the table on the FANG stocks? We are hoping you don't. They've done nothing. There's an arbitrage play in Lockheed (249), which when over, could lead to a significant rebound in the stock. Meanwhile, Aerospace/Defense has been weak, as have the Materials' stocks like Vulcan (118). Those, however, pale in comparison to the weakness in Gold. Gold is saying Janet is about to hit the up-button, which, after the recent weakness, just might help rather than further hurt the metals.

Reisefieber was Freud's term for the anxiety associated with travel. We wonder what his term might have been for the anxiety associated with Janet's little speech. Gold seems to think there's something dire in it, while the 30-year is clueless. You never know, but unlike Greenspan, at least we'll be able to understand her. As always, it's not so much what she says but, instead, how the market responds to what she says. Everyone knows the Fed would like to raise and, if the market is as strong as it has looked, any weakness should be muted. If she is her usual dovish self, and the market doesn't respond positively, it almost might be worse. This has been a problem for Gold recently. It's not that the charts showed so much risk, it's the more subtle idea that Gold passed on a couple of good excuses to rally. The interesting thing about this "speech day" is that the market is coiled to the point that it's ready to do something. Wednesday's decline was only 0.5% and came a day after momentarily being at an all-time high. Yet, the decline wiped out three weeks of gains. That is the kind of narrow, low-volatility range we've seen.

Stocks above their 10-day moving average dropped back to 40% after Wednesday's weakness. The level itself is not of particular concern but it does leave in place a rather weak looking rally compared to the 96% peak back in early-July. Short term there is no volume, no volatility, and clearly a loss of momentum. Or is it just August? However, other than the short term, there's plenty of momentum still left to unwind. When it comes to stocks above their 50-day, for example, any real weakness hasn't begun without a break of a little trading range like the recent one. Stocks above their 200-day moving average, that is, stocks in medium-term uptrends, haven't even begun to roll over from their very positive 80% level. Throw in the idea that the Advance-Decline Index just made a new high and there wouldn't seem to be a great degree of risk. Big or important declines begin out of a divergence in the background.

They tell you it's earnings that drive stock prices. What they don't tell you is what it is that drives earnings. In theory, the sale of goods and services drives earnings. In the stock market, however, it's earnings per share that count. So you can drive earnings the old-fashioned way through higher sales, or you can drive earnings by reducing share count. To a record degree, this is what has been happening. Why the emphasis on share repurchases instead of dividends? It's called executive compensation and/or executive job security. For the stock market as a whole, this may be creating an unrecognized risk, even a bubble of sorts. The market is at record highs while data shows continued public selling. Domestic mutual funds lost more than $26 billion in assets over the past four weeks, the largest amount in three years. This is net of ETF buying. The rally is being driven by corporate buying, the same buying driving earnings per share. If the earnings go away, and we've heard this sometimes happens, so too will the wherewithal for all the buying back.

Should the market not take kindly to Janet's pearls of wisdom, we doubt it would be the undoing of things. The market knows the Fed wants to raise and, what the market knows, usually is discounted already. Rising rates are not a good thing, but in this case they're going from nothing to something. If that's the market's idea of bad news, so be it. Bull markets don't end on bad news anyway, they more typically end amidst euphoria. We also believe it's never weakness that gets you, it's the weak rallies that follow. Forget the averages, with the Advance-Decline Index at new highs, this hasn't been a weak or divergent-filled rally. A selloff which leaves you in the hope of a subsequent recovery, that's the kind of action that leads to problems. We're not there yet and may not be for some time. We still find it hard to believe this bull market will go out with a whimper.

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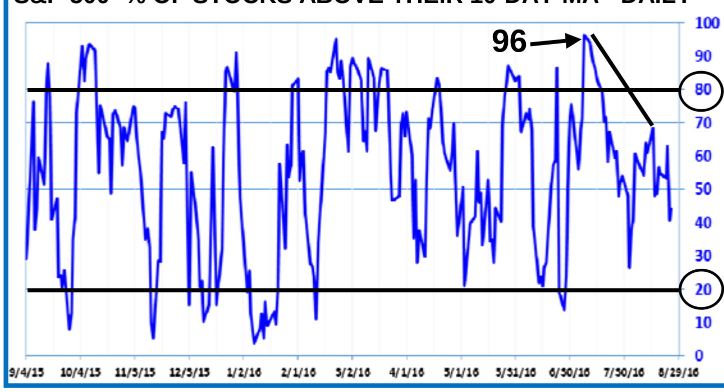
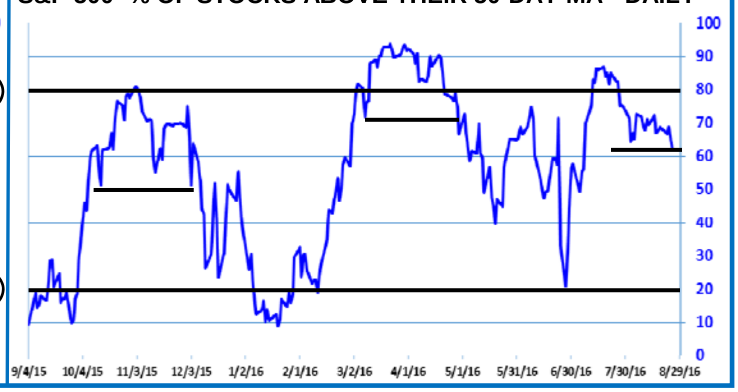
S&P 500 (SPX – 2172) – DAILY

NASDAQ 100 (NDX – 4775) – DAILY

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



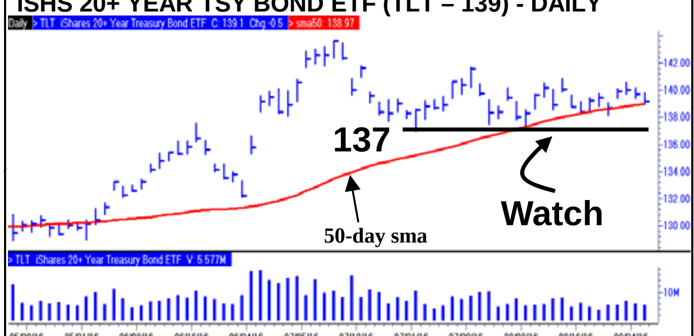
S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY



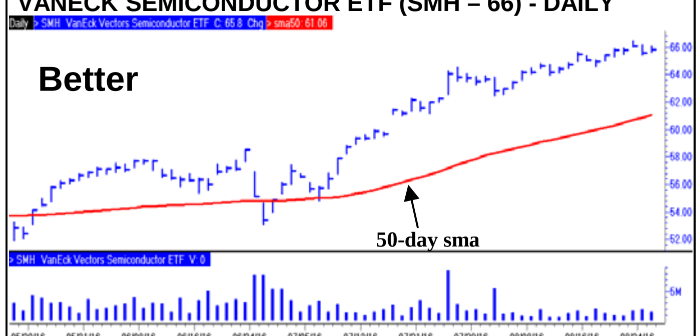
LOCKHEED MARTIN CORPORATION (LMT – 249) - DAILY

SPDR FD TECHNOLOGY (XLK – 47) - DAILY

ISHS 20+ YEAR TSY BOND ETF (TLT – 139) - DAILY



VANECK SEMICONDUCTOR ETF (SMH – 66) - DAILY



VANECK GOLD MINERS ETF (GDX – 27) - DAILY

MARTIN MARIETTA MATERIALS (MLM – 191) - DAILY