Wellington Shields & Co.
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EQUITIES PERSPECTIVE

August 5, 2016
DJIA: 18,352

FANG … where "N" is for Newmont. To be fair, Netflix (93) held its 80-85 support area and has acted well since a disappointing subscriber report and a negative piece in Barron's. Meanwhile, Amazon (761) and Google (797) had blowout numbers and the stocks did likewise. But hey, they're no Newmont (45), still by far the year's best performing S&P stock. This action lends some credence to our long-held idea that this bull market won't end without a blowoff move, a speculative binge somewhere – Amazon, Facebook (124), Google, or Gold stocks like Newmont. The upside price gap in a stock like Google makes it difficult to buy, yet it should make it easier. Like this market, strength begets strength, good markets and good stocks don't give you a good chance to get in. There are also what are called "exhaustion gaps," or gaps that end a move. However, having gone nowhere for several months now, this doesn't seem the case when it comes to Amazon, Google, or Facebook, and certainly not Apple (106).

The smart guys all think the market is about to correct. Not to be confused with the former, Goldman this week also advised going to cash. Anything is possible, and you can quote that, but we don't see it. We think there's more unwind still to go before any big downside. With all due respect to Soros, Druckenmiller, and certainly, Byron Wien, when right, these guys usually are early. Early and wrong are the same in our book. Granted, things can change fast and the weakness we're seeing in Oil has been behind the last couple of big selloffs, but usually weakness takes more than just an exogenous factor like the price of oil. Most days most stocks go up and that's not how markets get into big trouble. Important declines begin out of divergences – strength in the averages masking general underperformance. Since the market bottomed February 11, the small-cap Russell 2000 has surged almost 30% versus a gain of about 20% for the S&P. The Advance-Decline Index and the QCHA adjusted A-D Index continue to make new highs – not what we would expect before an important decline.

We have a predilection for "price gaps," which to better understand you need only look at Biogen (315). Gaps occur when the price range in a stock on a given day is above the price range in the stock the previous day, leaving a space or gap in the charts. Biogen had an upside price gap on July 21 and, to a lesser extent, on August 1. The stock also had a downside gap on June 7. Since it's our party, we naturally picked an example that proves our point, the point being prices tend to follow through in the direction of the gap. For Biogen, this was true of the downside gap and it seems to be true so far in the case of the upside. The stock's recent out-sized move is part of takeover rumors but our point remains. Biotech hasn't been our favorite, calling it as we have, last year's group. Be that as it may, anything that helps broaden the market is a good thing. Idexx (108), another Biotech, also had a price gap Tuesday, apparently unrelated to takeover speculation.

Time for another "jobs number" and this one is important – the most important since the last one and the most important until the next one. This aside, it is how the market responds that is important. Markets make the news – going with the good and ignoring the bad is what you want to see. August is a tough month, over the last 20 years it's the worst. However, how can you sell in August when you "sold in May and went away," and how could January be down when usually it's up and February up when usually down? Seasonality has turned random, which is not to say August won't be down. Over the last few weeks, the Dow and S&P have gone nowhere. Then, too, the NASDAQ has been in an orderly little uptrend over that time. Rather than in or out, this could be another of those times when it's where you're in – our adjusted FANG – that matters.

A seven-year old bull market hardly seems a time to be complacent, and we're not. That said, we don't remember a market top with so many calling for one, even if they are the smart guys. Most are bullish at tops, the money gets sucked in, and then that's it. We don't see that this has happened, but something like a run on those FANG stocks could do it. Meanwhile, momentum does seem to have peaked. We're disappointed that stocks above their 10-day average have dropped all the way back to 27% as of Tuesday. That's not a disaster, but disappointing. Stocks above their 50-day average remain around 65%, leaving plenty of mechanical unwind left to go. Any deeper oversold, however, would not be good in the scheme of things. On the positive side, for stocks above their 10-day, it's impressive that we've gone from 96% to 27% while the S&P has given up so little and the NAZ actually has gained.

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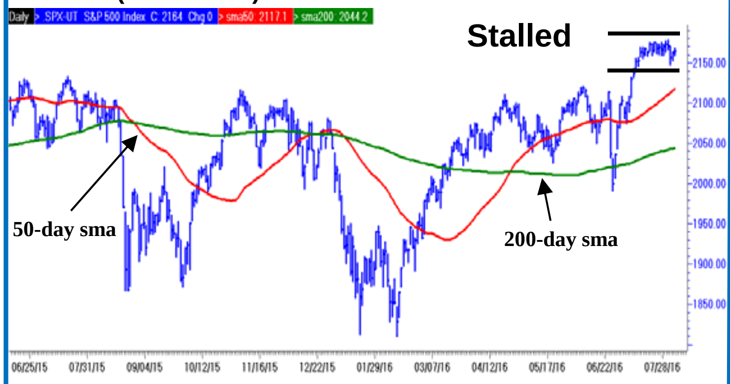
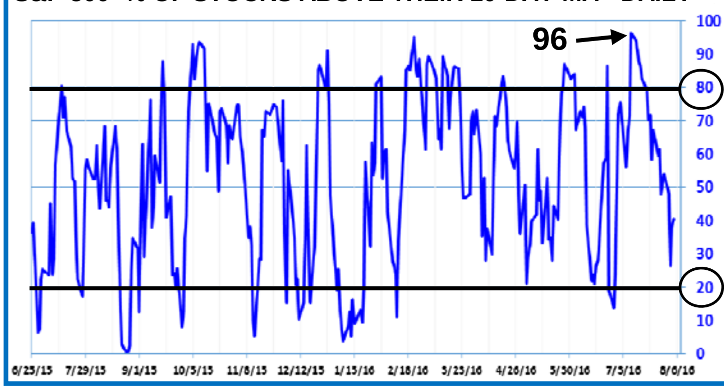
S&P 500 (SPX – 2164) – DAILY

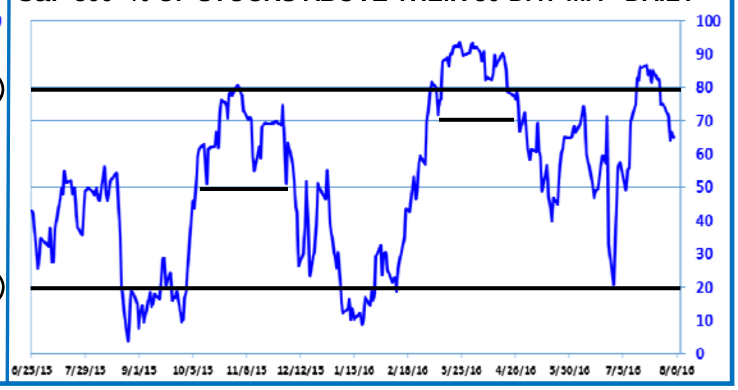


NASDAQ 100 (NDX – 4744) – DAILY

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



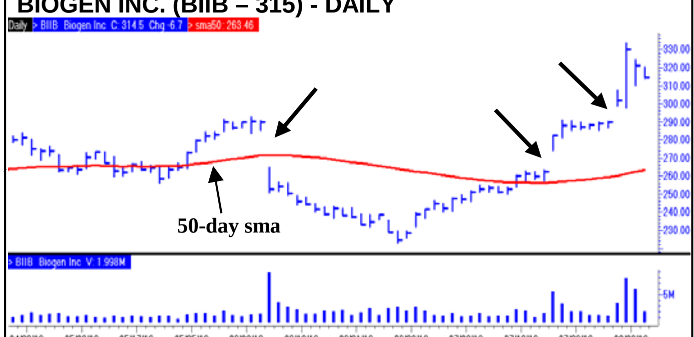
S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY



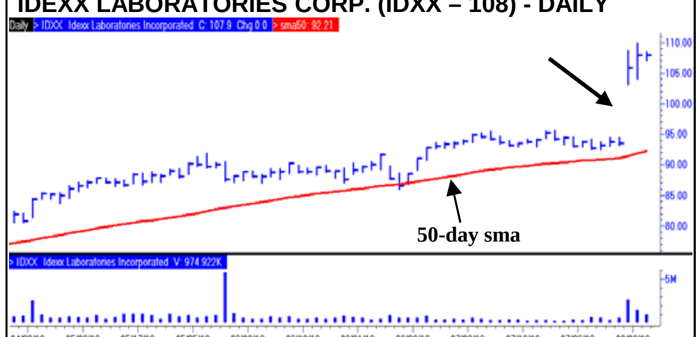
ALPHABET INC. (GOOGL – 797) - DAILY

NEWMONT MINING CORP. (NEM – 45) - DAILY

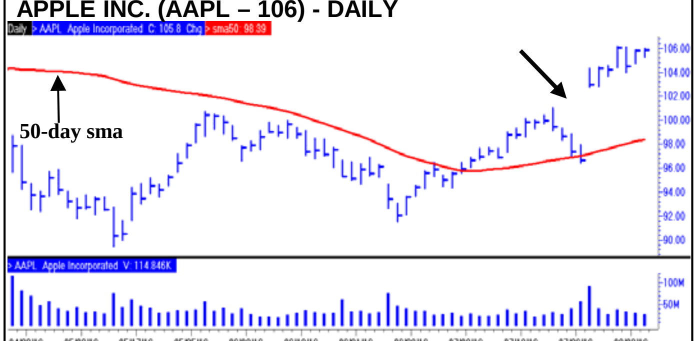
BIOGEN INC. (BIIB – 315) - DAILY



IDEXX LABORATORIES CORP. (IDXX – 108) - DAILY



APPLE INC. (AAPL – 106) - DAILY



FACEBOOK INC. (FB – 124) - DAILY