

EQUITIES PERSPECTIVE

December 1, 2017
DJIA: 24,272

Time flies ... when you're in Bitcoin. Seems like only yesterday Bitcoin was a mere nothing. Now up 12-fold, we almost know what it is, though not exactly. The Chicago Merc apparently knows what it is—a source of big profits. When trading begins there, it will lend a legitimacy, which of itself is a telling commentary. We're not here to name-call and, after all, tulips at least are aesthetically pleasing. And we're not here to make predictions, other than it will go up until it doesn't. Meanwhile, they laugh at "Goldbugs," and call Amazon (1177) a bubble. The dot-coms, of course, always enter the conversation. From a technical analysis standpoint, there's a bit of a silver lining here. More than the charts, the moving averages and all that good stuff, technical analysis at its heart is about supply and demand. If we are worried that everyone is fully invested, that all the money is in and the rally over, the run in Bitcoin suggests otherwise. Much the same for the new high in the Advance-Decline Index—it takes a lot of money to push up that many stocks.

There are many crosscurrents this time of year and, if only temporarily, leadership often changes as a new year begins. This having been said, it doesn't usually change in just one day, specifically, November 29. To be fair, Retail has been improving for a while. Semiconductors, however, made a new high just a few days ago before their 4% drop Wednesday. Tech was out, consumer stuff in, and dramatically so. Over the course of 2017, we've seen a few of these selloffs in Tech, all of which had happy endings. Obviously it's a little too soon to tell, but Thursday made it look like more of the same. Like the overall market, it's not the weakness that matters, it's the recovery. Weak recoveries eventually lead to more weakness. For the overall market, Thursday looked good enough—the Dow up 330 and advance-declines moderately positive. The Dow, of course, isn't the problem. The NAZ recovery was more tepid, suggesting leadership may well be changing.

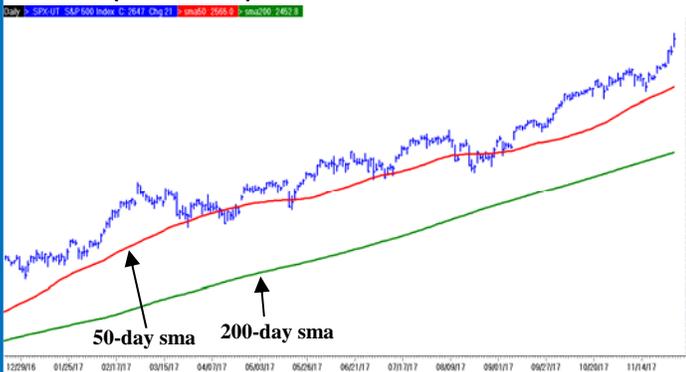
Driving the Dow, in no small part, have been Industrials, of all things. The Boeing (277) performance is pretty well known, as are those of Caterpillar (141) and 3M (243). If only Honeywell (156) were still a member—it has been FANG-like of late. The Dow has become such a melting pot, it's hard to talk about groups or sectors—it's an entity unto itself. Were it actively-managed, congratulations might be in order selecting Wal-Mart (97), the best of what has been a dismal Retail group for most of the year. There are a couple of Dow stocks where a tough first half shows signs of having changed. Nike (60) is one of them, finally showing signs of ending its year-long 10-point trading range. And then there's Disney (105), in the seemingly impossible position of competing with Netflix (188). The market seems to think it can, rallying earlier this month despite an earnings miss. A rally on bad news—usually a good thing.

Also helping the Dow have been the "on-again" Financials. More than half of the financial stocks in the S&P 500 hit a 12-month high on both Wednesday and Thursday. Since there are a lot of them, the rally also helps the Advance-Decline Index. A spike in new highs is a good thing, but in the short term, too much of anything can lead to a respite. After similar surges, the shares a week later were barely higher a third of the time, while 6-12 month returns were positive, according to SentimenTrader.com. Nearly 80% of the stocks are at 20-day highs. Surprisingly, analysts remain tepid on the stocks, with the fewest buy ratings since 2008 at J.P. Morgan. Maybe they understand that rising rates are bad for markets, or is this time different? They are all acting well and we do mean all—across every spectrum. Financials are almost reminiscent of the Semis a couple of weeks ago. Things change, we've noticed.

Up 100, down 100, all in the same day? That was the case for the Dow and the NASDAQ, respectively, on Wednesday. Even in this strange year, this seems a little out there. But wait, there's more. The S&P rallied 0.8% on Thursday, while emerging markets dropped by almost the same amount. Were these more normal times, you might worry. The last time the S&P rose as it did Thursday, and the typically inverse-reacting VIX also rose, was March 2000—how do you say "dot-com?" After a year of these little distortions proving meaningless, we're not inclined to worry too much during this typically distorted time of year. Even the basics are hard to rely on in December, but most days most stocks go up, and that's not how markets get into trouble. The trouble for investors is that those up stocks have been changing recently. The other trouble is the S&P stocks—those above their 10-day average, for example, are a little stretched.

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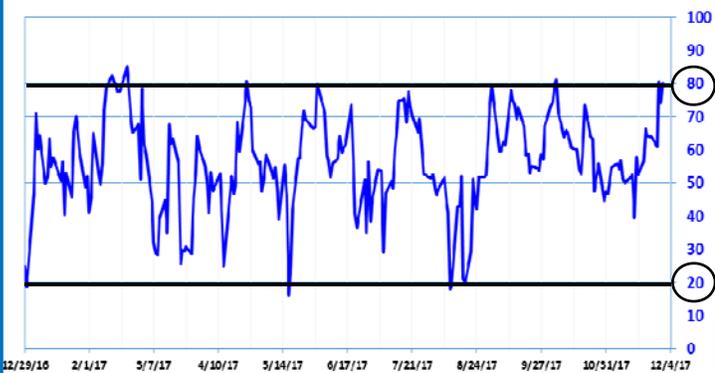
S&P 500 (SPX – 2648) – DAILY



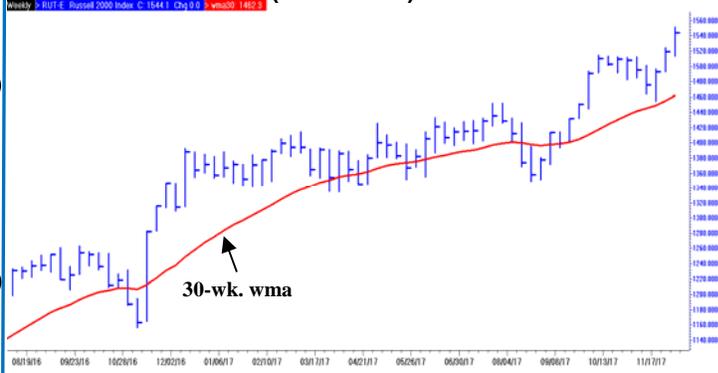
NASDAQ 100 (NDX – 6366) – DAILY



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



RUSSELL 2000 INDEX (RUT – 1544) - WEEKLY



BITCOIN INVESTMENT TRUST (GBTC – 1521) - WEEKLY



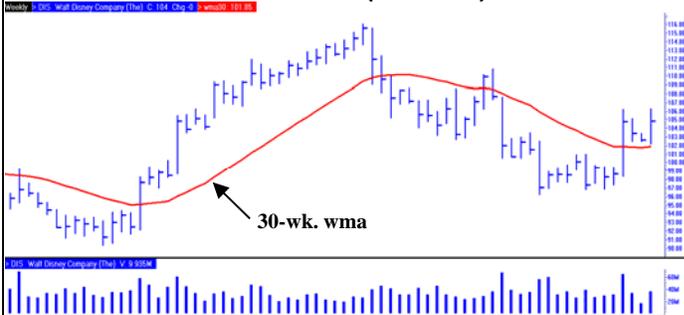
HONEYWELL INTERNATIONAL (HON – 156) - WEEKLY



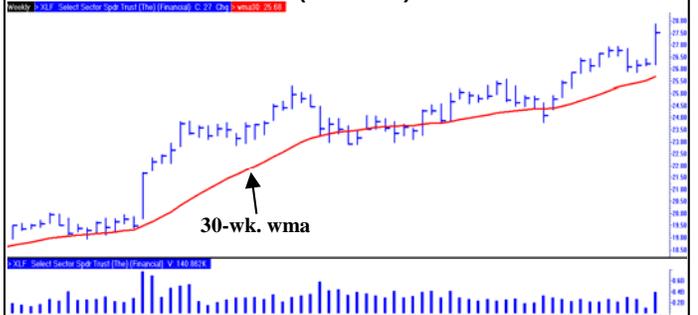
NIKE INCORPORATED (NKE – 60) - WEEKLY



THE WALT DISNEY COMPANY (DIS – 105) - WEEKLY



SPDR FUND FINANCIAL (XLF – 28) - WEEKLY



VANECK SEMICONDUCTOR ETF (SMH – 100) - WEEKLY

