

# EQUITIES PERSPECTIVE

December 16, 2016  
DJIA: 19,852

Trump giveth ... and Trump tweeteth away. This certainly seemed true for Lockheed Martin (251), the perceived beneficiary of an expected emphasis on defense. Alas, apparently we will defend ourselves, save lives, et cetera, only if the price is right. Then, too, we're beginning to see the Trump Method – attack, then negotiate. Lockheed's reaction wasn't pretty, but let's be fair, as a "Trump stock," and like the rest of them, it was extended and looking for any excuse to come in. This has been a risk in the market for a while now – the good have been too good. Thank goodness for Energy, and others enjoying rotations. There is, however, "the market," which itself has been a bit too good. We believe strong markets stay strong, overbought doesn't mean over and all the other clichés – we really do. However, mean reversion does exist. Suppose tax revisions don't happen. Even under Reagan they didn't happen until his second term.

Financial stocks have been all the rage. The S&P Bank ETF (KRE-56) is up almost 30% just since the election, Bank of America (23), 35% and JPMorgan (86), 23%. We have trouble warming up to "Banks" as they seem serial mess-ups. From loans to Latin America in the 80s to "see-through" office buildings in the 90s, infinite is their capacity to, well, mess-up. Though those foreigners were to blame – they even tried to fix interest rates via LIBOR. And how about all those new accounts at Wells Fargo? If there's a way, they always seem to find it. So our "warm-up" doesn't come easily, and is almost by chance. By chance, we happened to come by a 6-year chart of JPM. As they say in Technical Analysis, that's a base! Long base patterns imply good things to come, usually the longer the base, the gooder the things. Speaking of long base patterns, a while ago we spoke of Microsoft (63), which after 26 years leaves no one with a loss. Arguably MSFT is the best acting "Tech" stock around.

The base pattern in JPM has brought us to the belief that this is not just a temporary move in the Banks. This said, the stocks are extended. Recently 73% of the Financials reached 52-week highs, the second most since 1990. A consolidation, therefore, would not come as a surprise, though "consolidations" can be a sideways movement rather than outright weakness. Banks typically behave as a group, though the long-term charts certainly are not created equal – see, for example, the long-term chart of Citigroup (60). Though still a mere shadow of their former selves, the FANG stocks at least seem to have found a pulse. Leadership stocks typically lead right out of the chute, so the stocks could continue to underperform vis-à-vis the Trump stuff. Much of Tech is mixed, but not so the Semiconductors. After their hiccup a couple of weeks ago, they seem to have resumed a leadership position.

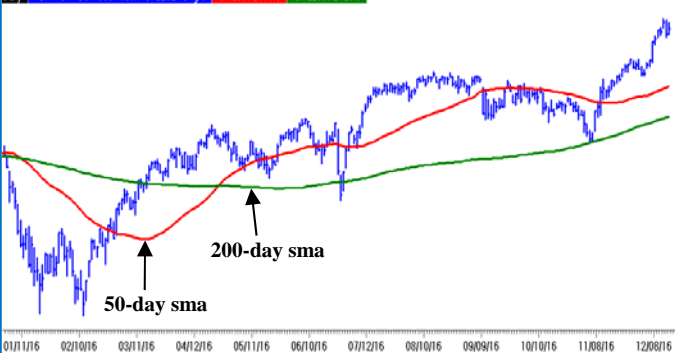
The Fed gave the markets what they wanted – the markets didn't know what to do with it. For bonds, the dollar and gold, the reactions were among the largest of the 106 rate hikes over the last 40 years, according to SentimenTrader.com. Wednesday's selloff seems a case of the well-guarded secret of a hike having been discounted. Then, too, this is one of those times, and they happen, when rates don't matter. You always have to ask why rates are rising – here it seems for the right reason. Historically the big moves in gold and the dollar provoked mean-reverting moves, though not always – does this help? The same is true for the Dow, which briefly poked to a new high on the FOMC announcement and then reversed. However, for the market, six-month returns were positive every time. Aside from Wednesday's weakness, a sign of some exhaustion is in the investor stampede into ETFs. For the NASDAQ 100, the buying was the most in five years.

Last Friday saw the Dow rise to a multi-month high while advance-decline numbers were modestly negative on the day. This last happened March of 2000, the peak of the dot.com bubble. Back then, of course, there were divergences everywhere – that's not the case now. Indeed divergences between the Dow and Advance-Decline Index lead to problems, but typically do so with a lead time of about four months. Recent poor breadth numbers, including Wednesday's 4-to-1 down day, are a bit surprising given the positive action in all those Financials. However, we can forgive, if not forget, as year-end numbers often are distorted and Trump-inspired rotation has made it all the more so. With many managers behind their benchmarks and the seasonally strong Christmas week nearby, muddle-through seems the call for now. Come the new year, things could sort out and they had better. After all, things are stretched, and those reversions can be mean.

Frank D. Gretz

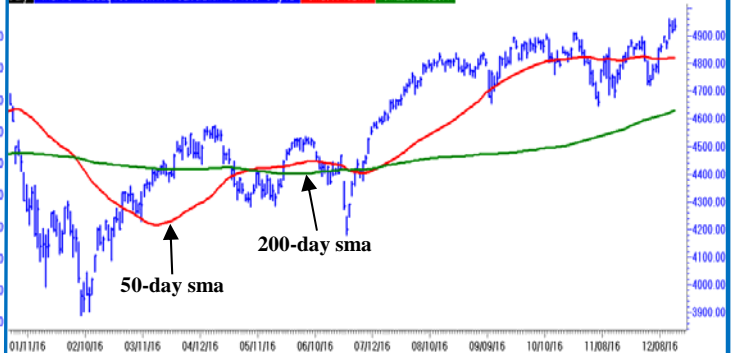
### S&P 500 (SPX - 2262) - DAILY

Daily > SPX:01 S&P 500 Index C: 2262 Chg:8 > sma50 2171.8 > sma200 2128.8

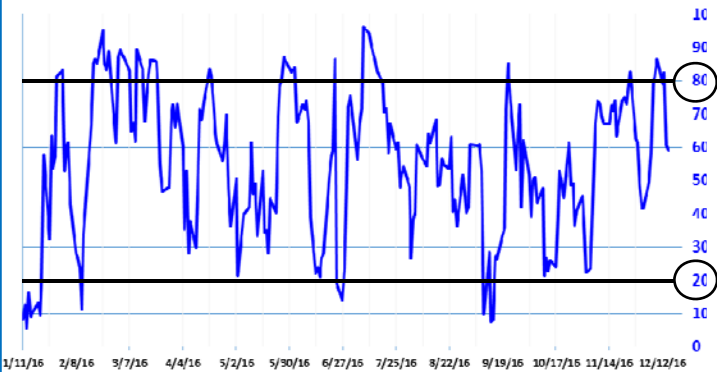


### NASDAQ 100 (NDX - 4933) - DAILY

Daily > NDX:01 Nasdaq 100 Index New Calculation C: 4933 Chg:12 > sma50 4821.7 > sma200 4626.4



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



### ADVANCE-DECLINE INDEX - DAILY

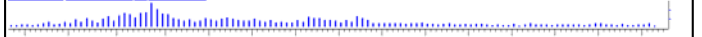


### JPMORGAN CHASE & COMPANY (JPM - 86) - MONTHLY

Monthly > JPM JPMorgan Chase & Company C: 86 Chg:1.2

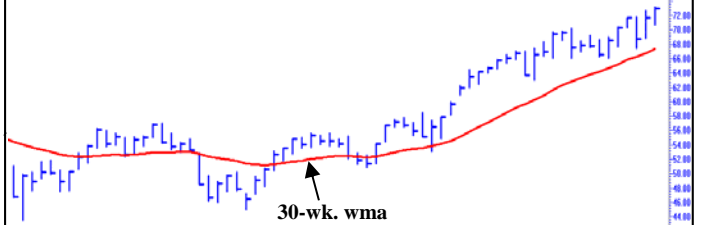


JPM JPMorgan Chase & Company V: 19.270M



### VANECK SEMICONDUCTOR ETF (SMH - 73) - WEEKLY

Weekly > SMH VanEck Vectors Semiconductor ETF C: 73 Chg:1 > sma50 67.93



SMH VanEck Vectors Semiconductor ETF V: 5.974M



### MICROSOFT CORPORATION (MSFT - 63) - WEEKLY

Weekly > MSFT Microsoft Corporation C: 63 Chg:0 > sma50 58.43

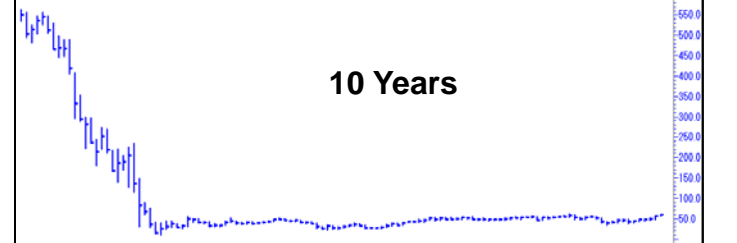


MSFT Microsoft Corporation V: 27.422M

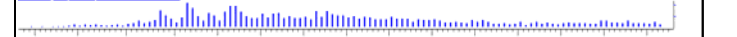


### CITIGROUP INCORPORATED (C - 60) - MONTHLY

Monthly > C Citigroup Incorporated C: 60 Chg:0.7

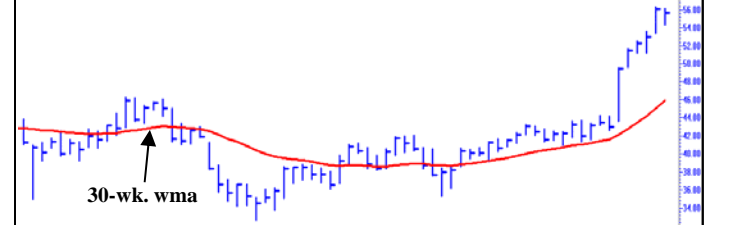


C Citigroup Incorporated V: 22.007M



### SPDR S&P REGIONAL BANKING ETF (KRE - 56) - WEEKLY

Weekly > KRE SPDR S&P Regional Banking ETF C: 56 Chg:0 > sma50 46.58

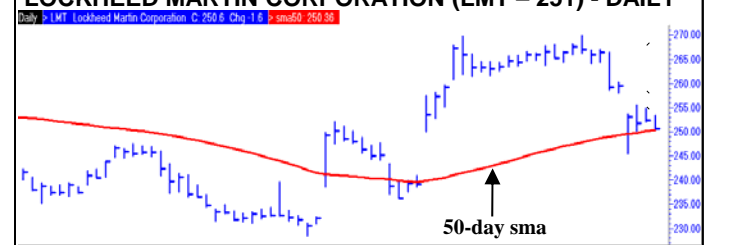


KRE SPDR S&P Regional Banking ETF V: 9.894M



### LOCKHEED MARTIN CORPORATION (LMT - 251) - DAILY

Daily > LMT Lockheed Martin Corporation C: 250.6 Chg:1.6 > sma50 250.58



LMT Lockheed Martin Corporation V: 1.762M

