

EQUITIES PERSPECTIVE

December 22, 2017

DJIA: 24,782

Better to travel ... than to arrive? The travel to this tax cut seems hard to beat in terms of market performance. Even the post-electoral rally gave way to “wait-and-see,” as the new year began. There was none of that for AT&T (39). We applied for a job there, retroactively of course, to cash in on Wednesday’s announced \$1,000/employee distribution. Remind us, are they involved in some merger? Much good can come of this whether companies do the AT&T thing, capital invest, or just bonus themselves. Whatever, you have to believe in the short run much has been discounted, as they say. Like March of this year, the S&P gapped 0.25% higher on Monday and held that gain all day. Historically, however, the market went back to test the breakout in a couple of weeks, in this case, Dow 24,650. For the Averages, unlike individual stocks, there are few of what they call “runaway gaps.” Meanwhile, the Advance-Decline Index is at an all-time high, not the backdrop for important problems.

Bonds had a tough day Tuesday, to put it mildly. Just what was behind this is hard to say. The news, tax cut, deficits, are hardly new, leaving open the possibility it was just another of December’s aberrations. Whatever the reason, Utilities certainly paid attention. The Utility ETF (XLU-52) has dropped through its 200-day moving average for the first time in over 200 days and fewer than 15% of the stocks are above their 10-day moving average, both conditions which should lead to some short-term relief. The overall market, however, is in a somewhat opposite position. The S&P 500 is at a new high and the previously weak Telecom and Energy sectors have pushed above their 200-day moving average. Depending on how the Utilities fare, this would leave all the major sectors above their respective 200-day averages. Sounds good, but remember, this is the stock market we’re talking about. In the short term, this condition has led to weaker than average returns, according to SentimenTrader.com.

Rock and roll is here to stay, much like Technology stocks. If you look at the Tech ETF (XLK-65), however, the stocks basically are where they were a month ago. We suspect we could see more of this, or even a little worse. Tech, FANG, and the rest have had a more than good run and, who doesn’t own them? Then there’s this simplistic idea of the new year, when leadership often changes. Most important in all of this is there now are alternatives. We’re intrigued by the idea that Home Depot (188) will go from a 36% tax rate to 21%, and what this seems to mean. Lest you fear we’ve turned funny-mental, we’re intrigued because of the way effected stocks are behaving. We know Retail is better and Costco (187) had some good numbers, but the run in the stock seems more than just that. Meanwhile, Wal-Mart (98) is at its all-time high. There are Food companies that will go to a 21% rate from a current 35%. The same seems true of many of the restaurants. These areas could provide a fresh leadership, or at least some competition for Tech.

It’s a riot, literally and figuratively. RIOT is the symbol for Riot Blockchain Inc. (28) and, as to the latter, it’s a riot what this stock has done. The company didn’t begin life in the bitcoin/blockchain business and, just a month ago, was trading around \$10. It’s more than a little reminiscent of when companies wanted to stick a dot-com behind their name. An even more egregious example is something called LongFin (46), which recently started life around \$5. Then there’s Overstock.com (67), a real company doing well enough, but much better now that it, too, is associated with bitcoin. We’ll go out on a limb and say there’s a little speculation here. A recent graphic, courtesy of Elliott International, depicts some famous asset bubbles—Tulip Mania, the Mississippi Bubble, and the Tech Bubble. Bitcoin already has outstripped them all. An undoing of bitcoin would be a problem for bitcoin, but that’s likely all. This isn’t subprime lending, mortgage-backed securities and the entire banking system.

If leadership often changes in the new year, Oil stocks decided not to wait. After their washout in July, the stocks had been acting better for some time, but Thursday seemed to seal the breakout deal. As we’ve suggested many times, where you’re in is as important as whether you’re in. The problem of late is keeping up. We still like “good again” names like Microsoft (85), Cisco (39) and Corning (32), but Energy fits in here as well. If you’re worried about too much bullishness, you should be—you’re the only one. Then, too, investor sentiment is not much help when it comes to timing. Market momentum—those advance-decline numbers—trumps sentiment. At a new high now, peaks in the Advance-Decline Index lead peaks in the market averages by 4-to-5 months. Despite closing in the bottom quarter of their range the last three days, prices don’t seem to want to go down. Let’s hear it for seasonality, and there’s more. The day before Christmas and the three days after are positive more than 70% of the time, and the odds are even better when the S&P is at a new high.

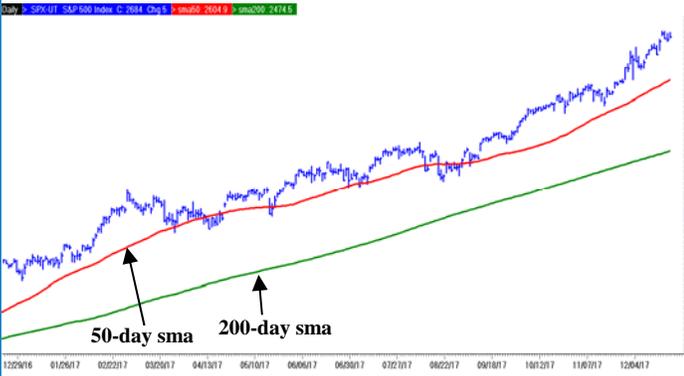
Frank D. Gretz

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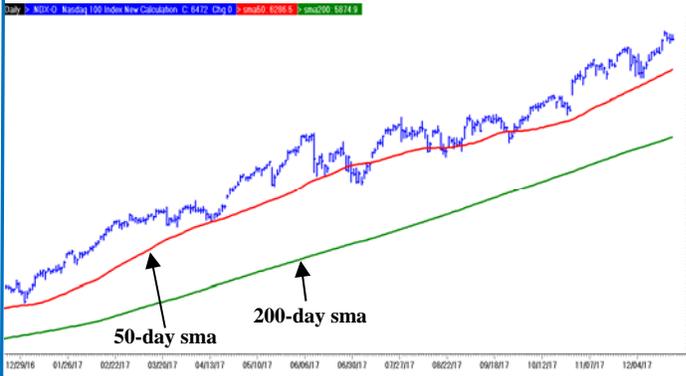
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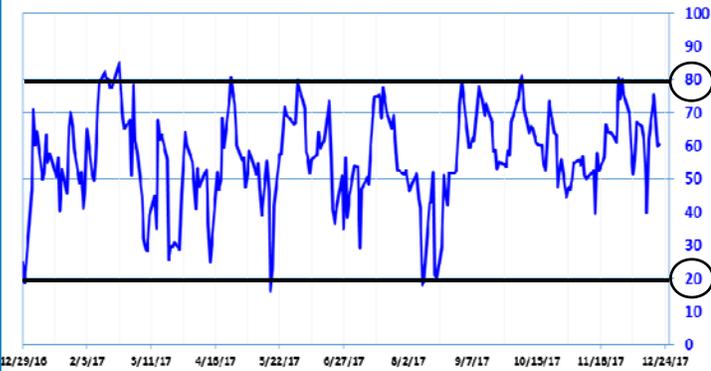
S&P 500 (SPX – 2685) – DAILY



NASDAQ 100 (NDX – 6473) – DAILY



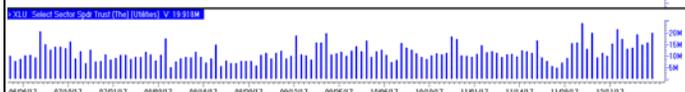
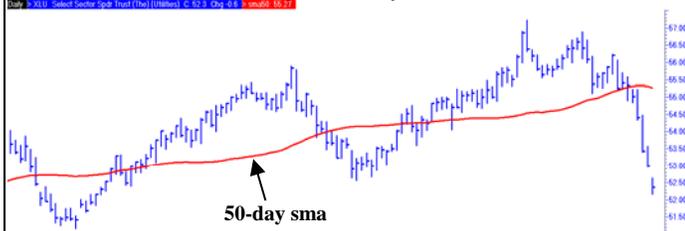
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



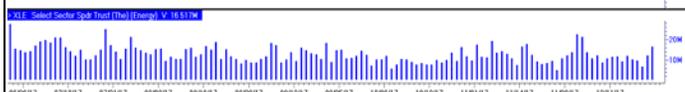
S&P 500 -% OF STOCKS ABOVE THEIR 200-DAY MA - DAILY



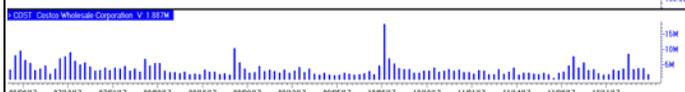
SPDR FUND UTILITIES (XLU – 52) - DAILY



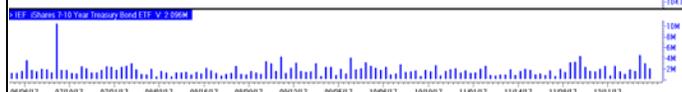
SPDR FUND ENERGY (XLE – 72) - DAILY



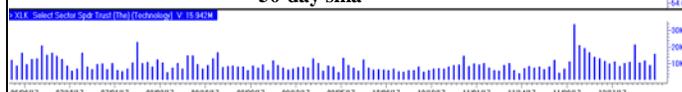
COSTCO WHOLESALE CORP. (COST – 187) - DAILY



ISHS 7-10 YEAR TSY BOND ETF (IEF – 105) - DAILY



SPDR FUND TECHNOLOGY (XLK – 65) - DAILY



WENDY'S COMPANY (WEN – 16) - DAILY

