

# EQUITIES PERSPECTIVE

December 30, 2016  
DJIA: 19,820

Dow 20,000 ... no big deal. It's good for us – something to write about. It's good, too, if you want to get to 21,000. The number, per se, doesn't mean so much as a standalone. Important to us is at 20,000, how does the rest of the market look. There the news is good with the Advance-Decline Index at a new high, its own version of 20,000. This isn't the pattern of virtually any important top, where new highs in the Dow go unmatched by the A-D Index, that is, most stocks. It's important this pattern continues, though divergences can take a few months before negative consequences. Meanwhile, as for the Dow, performance has been based on a few comebacks, turnarounds as it were. Disney (105) and Home Depot (135) stand out in this regard, but a big surprise has been a little computer company named IBM (167). We can see IBM and Microsoft (63) doing well in 2017. Goldman (238) and other Financials also have been a big part of the Dow's move.

If Santa Claus should fail to call, bears will come to Broad and Wall. This little ditty seems a bit harsh, but certainly was worth heeding this year, at least for a while. The so-called Santa Claus rally period is that between Christmas and the first two days of the new year. Last year Christmas week saw a drop of about 0.7% and a drop of 6% the next week, the worst start to a new year ever. The first week of January is said to have predictive value for the entire month, but when you start down 6%, much of the mystery is gone. According to the "January Barometer," as January goes so goes the market for the entire year, but in this case, no. The logic is simple enough – heavy investment flows in January should start the year off right. In the stock market, however, simple logic rarely works or, as we like to put it, what we all know isn't worth knowing. Over the last decade, the January barometer has been right only about half of the time.

Look, there's another "Head-and-Shoulders" pattern. This venerable technical pattern isn't as common as generally thought. To begin, an H&S and its kin, the inverse H&S, are reversal, not continuation, patterns – you don't see an H&S when a stock is in a downtrend. The biggest issue, however, is the all-important volume pattern. At the end of a downtrend, volume should be greatest at the initial decline, the left shoulder, and diminish on the subsequent declines – the head and right shoulder. Volume then should expand once again on a move through resistance, the so-called neckline. After all this, let us hasten to say pattern recognition is not our favorite part of technical analysis, unless you consider "trend" a pattern. We bring it up because Constellation Brands (154) could be forming an inverse Head-and-Shoulders, following its recent weakness. It is, by the way, a stock in a big overall uptrend, but the recent lows have to hold to keep the uptrend intact.

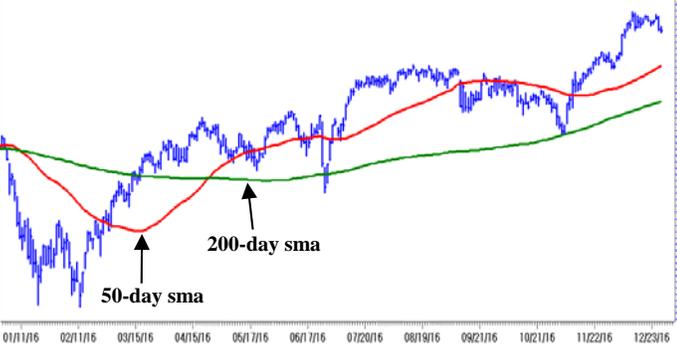
Ah for those good old days – going to school and living at home. It's happening again but this time it's because the days aren't so good. One in five males aged 25-34 lives with parents, a 75-year high. Much of this, of course, has to do with school – those student loans. In the event, it's easy to see why home sales have struggled. Pending home sales dropped 2.5% in the last report, while a 0.5% increase was expected. And these numbers were before the recent jump in rates. Despite what you might call a difficult backdrop, the stocks hold together. Meanwhile, Christmas sales always are difficult to judge, but Retail stocks have an opinion, and it's not good. From Department stores to "teen retail," the picture isn't a pretty one. Names like PVH (91) – Calvin Klein – and VF (54) – North Face – act so badly, any bad news could already be discounted.

The market's rally is discounting what it expects to happen, but is yet to happen – the Trump changes. There's nothing wrong with this, it's what discounting is supposed to do. Still, 10% is a lot in this short time and, as you often hear, "there's many a slip 'twixt the cup and the lip." The Economist points out that during Reagan's first two years in office, tax cuts failed to prevent a recession and a 20% drop in the S&P. There is no "breadth divergence," a high in the Dow not matched by the A-Ds, so no important decline. Then, too, a 10% decline is plenty important when you're in it. Sentiment is so over the top bullish, instant gratification may not be quick enough. The VIX, what they call the "fear index," had moved below 12, support over the last five years. The NAZ 100 ETF shows the most inflows in 5 years. The oxymoronically named "Investors Intelligence Survey" shows 80% of participants not looking for a correction. This extreme has happened three other times, none of them good. The market has "discounted" a lot, for now maybe too much. Some caution seems warranted as we enter 2017.

Frank D. Gretz

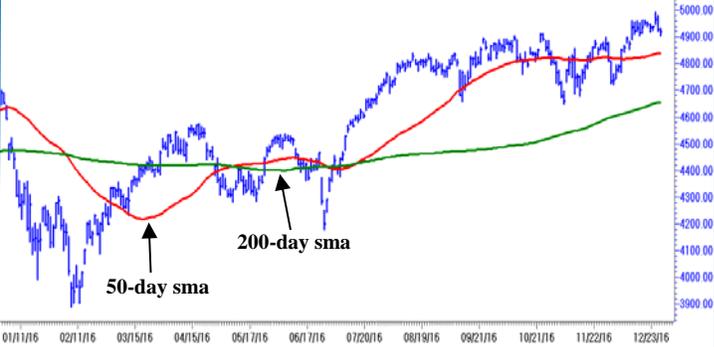
### S&P 500 (SPX - 2249) - DAILY

Daily > SPX:UT S&P 500 Index C: 2249 Chp: 0 > sma50: 2183.0 > sma200: 2135.3

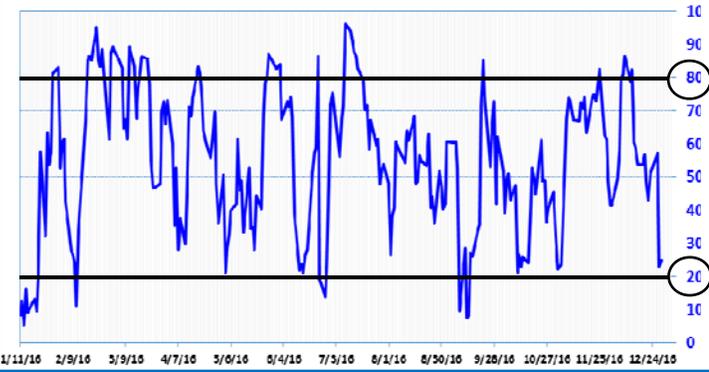


### NASDAQ 100 (NDX - 4918) - DAILY

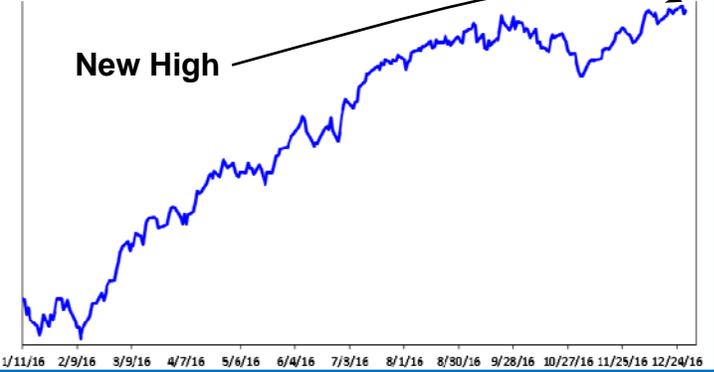
Daily > NDX:O Nasdaq 100 Index New Calculation C: 4918 Chp: 8 > sma50: 4840.1 > sma200: 4655.7



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

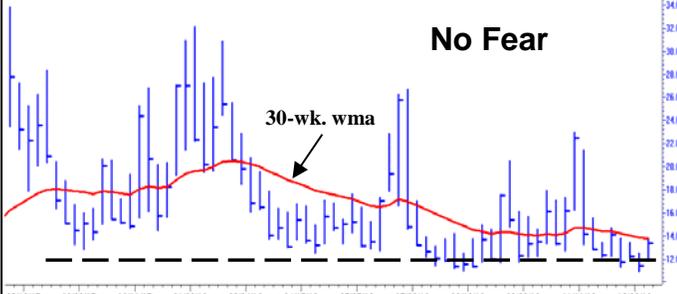


### ADVANCE-DECLINE INDEX - DAILY



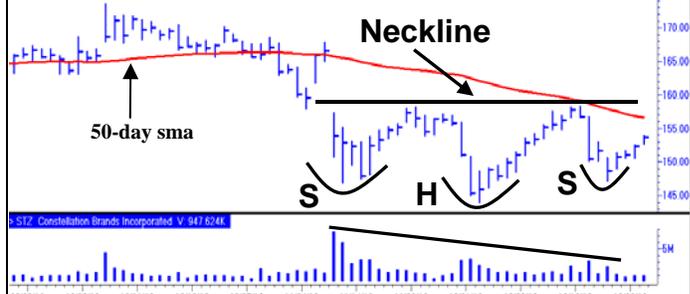
### CBOE MARKET VOLATILITY (VIX - 13) - WEEKLY

Weekly > VIX:UT CBOE Market Volatility C: 13.3 Chp: 0.4 > vma30: 13.82



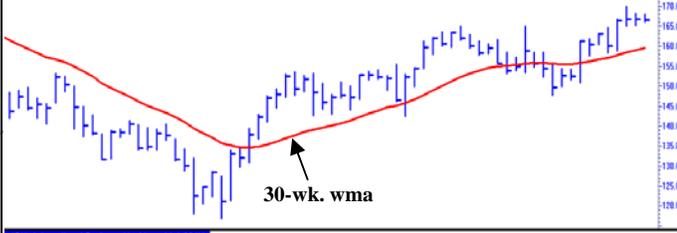
### CONSTELLATION BRANDS INC. (STZ - 154) - DAILY

Daily > STZ: Constellation Brands Incorporated C: 153.7 Chp: 1.3 > sma50: 158.62



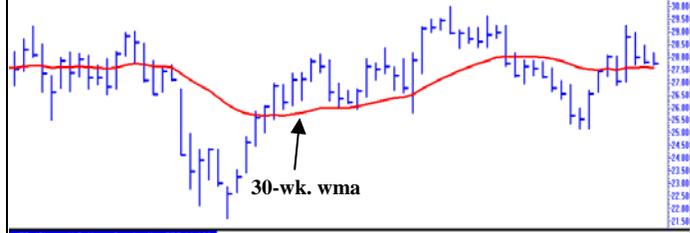
### INT'L. BUSINESS MACHINES (IBM - 167) - WEEKLY

Weekly > IBM: International Business Machines C: 166 Chp: 0 > vma30: 159.04



### ISHS US HOME CONSTRUCTION ETF (ITB - 28) - WEEKLY

Weekly > ITB: iShares U.S. Home Construction ETF C: 27 Chp: > vma30: 27.52



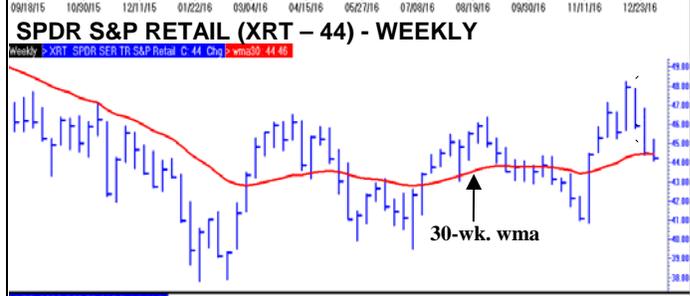
### GOLDMAN SACHS GROUP (GS - 238) - WEEKLY

Weekly > GS: Goldman Sachs Group Incorporated C: 238 Chp: 2 > vma30: 194.53



### SPDR S&P RETAIL (XRT - 44) - WEEKLY

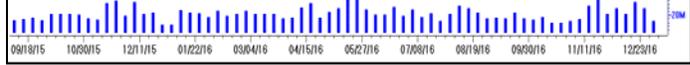
Weekly > XRT: SPDR S&P Retail C: 44 Chp: > vma30: 44.46



IBM: International Business Machines V: 1.664M



ITB: iShares U.S. Home Construction ETF V: 100



GS: Goldman Sachs Group Incorporated V: 2.619M



XRT: SPDR S&P Retail V: 1

