

EQUITIES PERSPECTIVE

December 8, 2017
DJIA: 24,211

The flip-flop in leadership ... more flip than flop. It's that time of year when the kennel doors are flung wide. To be fair, many Retailers have been improving for some time now, but when Penney (3) lifts, Christmas is near. Meanwhile, it has been tough on this year's winners. The market could have run these even further into year-end, so there is some cause for concern. Then, too, the gains are such that no one can be faulted for taking a profit. And it's not as though that Tech money has no place to go. Home Depot (182) seems the poster child here, up some 10% in a little over two weeks. Home Depot, as it happens, isn't about rotation, at least not literally. For Home Depot, a great year just got greater. With a tax rate around 32%, HD is a part of the tax bill rotation, from low or no tax Techs to taxed domestic names. The other side of this coin is repatriation, when it comes. Tech is tired, but FANG isn't going away.

Thanks to the rotation, the technical backdrop hasn't missed Tech. The Advance-Dcline Index has reached another new high, keeping pace with the Dow—no mean feat given the run there. The A-D Index just measures direction, but we can adjust it for price using the QCHA, a measure of the price change in individual stocks. Here, too, we're near new highs. Given the rotation, correlations among sectors have dropped to the second lowest in history, according to SentimenTrader.com. The only time sectors moved more independently was the year 2000, when it was "New Economy" stocks versus "Old Economy" stocks. Correlations tend to rise in bad markets, when most stocks or sectors are sold, so low correlations aren't a bad thing. The winners are being sold, but the losers are being bought. Since the beginning of November, the moves up in Consumer Discretionary and Consumer Staples have been dramatic.

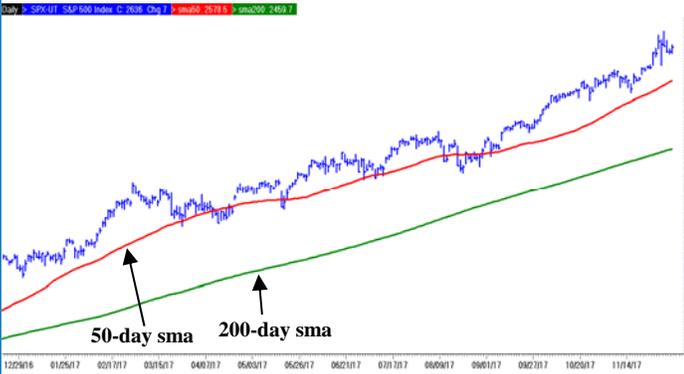
The FANG stocks get most of the attention, but the Semis are right up there in terms of the run they've had, roughly doubling from the start of 2016. Rumor has it the cycle is over, though just which cycle, the charts don't say. What the charts do say is that many of these stocks are stretched. Their problem doesn't seem so much "the cycle," as it does that technical problem called gravity. Nvidia (192) might well be the perfect example, and looking at a long-term chart, it pretty much has gone vertical. Vertical, of course, can become more vertical or stay vertical, as has this chart. It's not over until it's over, but there's plenty of room on the downside. Meanwhile, equally disturbing is the weak end of the group. Intel (43), while not exactly weak, peaked back on November 3. Skyworks (97) peaked around then and has broken below its trading range since July. Meanwhile, Broadcom (264) now wants to buy Qualcomm (65). This isn't something that happens at the beginning of a move. Despite Broadcom's good number, the stock gave up all of its overnight move in Thursday's trading.

The FANG stocks are not the Semis in terms of their long-term charts. Compared to the vertical look to several of the Semis, the long-term charts of Facebook (180), Amazon (1160) and Alphabet (1031) might best be described as orderly. Corrections happen, and they're happening now. Though often compared, the stocks don't have the look of the dot-coms. They don't even have the look of Nvidia and other of the stretched Semis. We can see more stall here, especially into the new year. There are more options now, provided the tax bill goes through more or less as posed. There may not be plenty of Home Depots, but there are plenty of Regional Banks and plenty of Restaurants that have taken a turn for the better. We haven't given up on a binge move somewhere before the bull market ends, and it's most likely the FANG stocks. Not getting it here at year end, seeing the rotation seems a good thing.

December comes in three parts—up in the beginning, down in the middle and up at the end. December also is the best month for small-cap stocks, with the Russell 2000 up 2.9% on average. After making a new high, the Russell fell four consecutive days through Wednesday, a pattern that typically leads to even more weakness. Not to worry, or rejoice—the typical or historical haven't worked very well this year. We will go with the simple historical idea that there just are not many bad Decembers. It would seem particularly unlikely this time around given the basically sound technical backdrop—no divergences. Seasonal rotation is one thing, but who knows how big a roll the tax bill played in the Tech weakness—you have to sell something to buy that Home Depot. Then, there's Bitcoin—a little speculation isn't necessarily a bad thing.

Frank D. Gretz

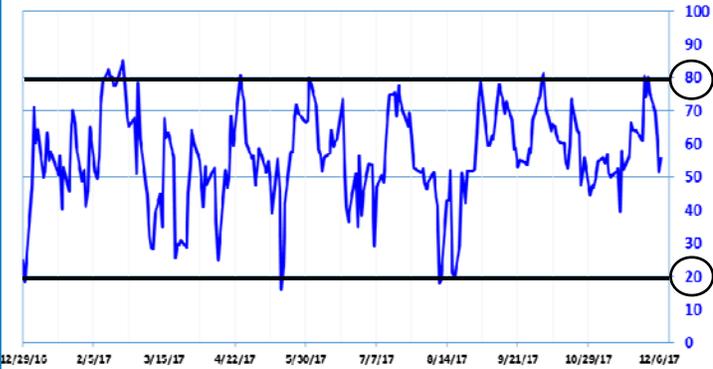
S&P 500 (SPX – 2637) – DAILY



NASDAQ 100 (NDX – 6316) – DAILY



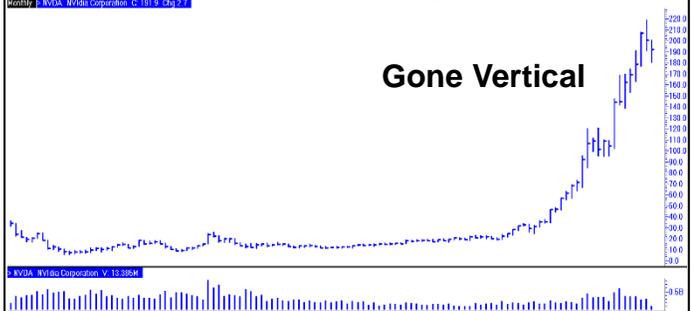
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



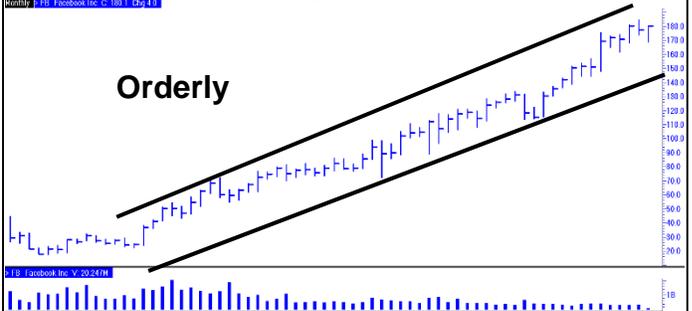
QCHA – PRICE ADVANCE/DECLINE - DAILY



NVIDIA CORPORATION (NVDA – 192) - MONTHLY



FACEBOOK INC. (FB – 180) - MONTHLY



SPDR FUND CONSUMER STAPLES (XLP – 56) - DAILY



SPDR FUND CONS. DISCRETIONARY (XLY – 97) - DAILY



SPDR FD S&P REGIONAL BANKS (KRE – 59) - DAILY



HOME DEPOT INC. (HD – 182) - DAILY

