

EQUITIES PERSPECTIVE

February 10, 2017
DJIA: 20,172

Seeing is believing ... what it is you want to believe. The market took last Friday's "jobs number" and ran with it to the tune of a 186-point Dow gain. True, the rally wasn't quite as good as the Dow made it look, but there is no universe in which a 3.8-to-1 up-day isn't a good day. More interesting is the idea that Friday could have been a down-day. We understand there was more going on than just the number, but taken alone the number could have been seen as an indication the Fed might well raise in March, a prospect that used to send markets into a tizzy. Instead, the market took as good news what arguably was dubious news, proving one more time it's the market that makes the news. This suggests that it's still a good market despite the list of caveats we and everyone else have discussed from time-to-time. Correlations have dropped, meaning not everything is following the S&P. Yet the Advance-Decline Index, or average stock, remains near its high – not how markets get into trouble.

It may have been Freud who said, sometimes a trading range is just a trading range. Yet, we all try to read more into these things. After the market's impressive advance, naturally the worry is we will break down out of this – the trading range will prove a top. This could be, but if so, what are they waiting for? The S&P has spent more than 40 days within a +/-1% trading range, dullness more typical of a consolidation than a top. Tops and bottoms are marked by volatility. The other case for consolidation is the NASDAQ – new highs almost daily. And, as we've said before, markets spend a surprising amount of time going nowhere. Every month can't be November, and February historically isn't a good month. The fact we're not down puts us a little ahead of the game. If there is a problem, it's that even when positively resolved, the upside doesn't carry far, but sufficient unto the day.

A chart that could be worrisome is the percent of S&P stocks above their 50-day moving average. At 66%, clearly this measure has rolled over from the early-January high of 81%. This pattern suggests diminished participation and previously has led to corrections in the averages, at least eventually. Also, the long-term pattern of lower peaks is very much one of a peaking bull-market cycle. It's never wise to make excuses for the indicators, but the cycle is old and the indicators overall reflect it. It's more worrisome that the market is within a couple percent of an all-time high and 35% of stocks are below their relatively short-term 50-day averages. However, even this may not be as bad as it seems. It could be the very low correlation we mentioned between the S&P and various sectors. The Financials are holding or going up, and there are a lot of them. Energy stocks are not, and there are a lot of them.

Tesla, still a stock everyone loves to hate. This could be changing, however, now that Tesla Motors has become Tesla Inc. (269). Tesla Motors may have been an overpriced car company, but how about Tesla, the "storage company?" Last time we mentioned Tesla, we called the long-term chart pretty much a mystery. However, now that the December-January rally has taken the stock some 80 points, or better than 40% higher, there's a bit of a moment-of-truth in the overall picture. Either like the other four times the stock has reached this area, it's time to sell, or it's your last chance, possibly very last chance, to buy. Given the roughly 4-year trading range/base pattern, and if indeed the length of a consolidation is a guide to the potential move, a breakout should mean a big move, albeit possibly over the same four years. Though not the first thing to come to mind, Tesla is also a "Trump stock." It's the only car company to manufacture all of its cars in the USA, and there's the Nevada Gigafactory. Besides, now the Prez and Elon are best buds.

February is a tough month, especially around this part of the month. Investment sentiment surveys show dangerously high bullishness. Stocks are up 10% just since the election and are at new highs. The level of 12-month New Highs has dropped sharply, but the Advance-Decline Index is at a new high. Meanwhile, most remain on "correction watch," but it just won't happen. Maybe there's more to this "rotation" idea than even we think. The rally began with some obvious "Trump stocks" like the Financials, Infrastructure and Defense stocks. Where along the way did Cummins (150) and Domino's Pizza (186) become Trump stocks as well? Despite everyone yelling "overbought," the rotation also has kept measures from real extremes – the percent of stocks above their 10-day average hasn't been much above 70 since December, and then only briefly. We've long noticed the market isn't on anyone's schedule, and certainly isn't now. Meanwhile FANG and retro-FANGs like Microsoft (64) still look attractive, as do the Semis.

Frank D. Gretz

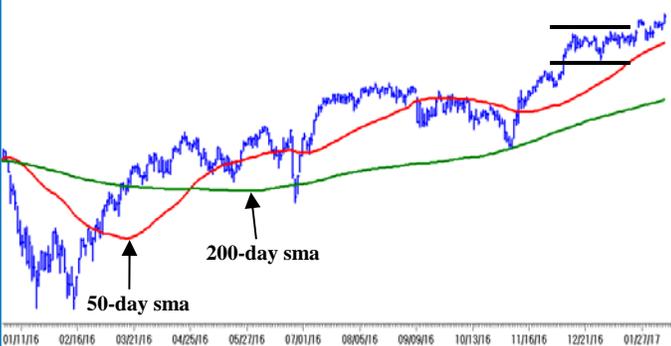
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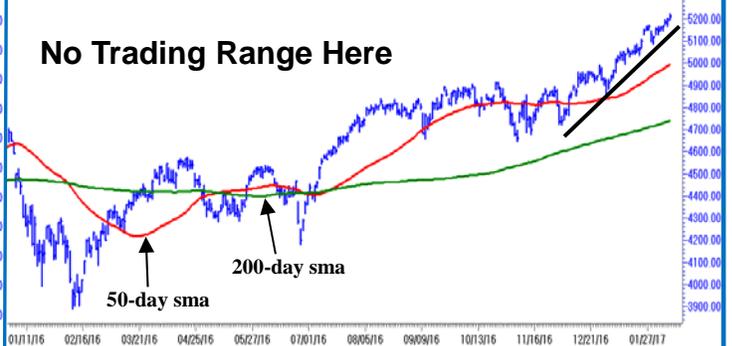
S&P 500 (SPX - 2308) - DAILY

Daily > SPX-01 S&P 500 Index C: 2307 Chg 15 > sma50 2263.6 > sma200 2165.1

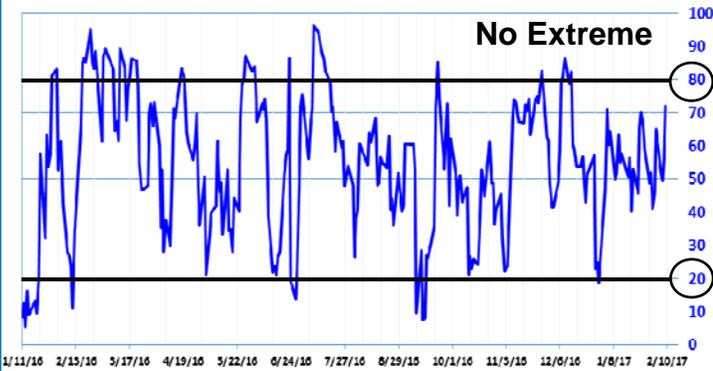


NASDAQ 100 (NDX - 5212) - DAILY

Daily > NDX-01 Nasdaq 100 Index New Calculation C: 5212 Chg 15 > sma50 4993.1 > sma200 4789.2



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

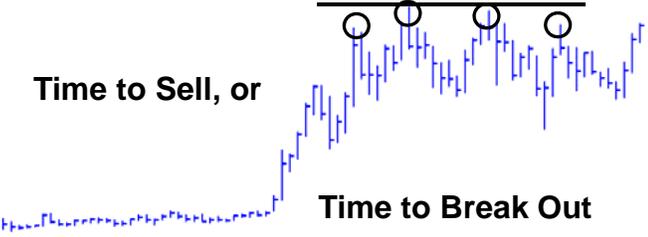


S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY



TESLA INC. (TSLA - 269) - MONTHLY

Monthly > TSLA Tesla Inc. C: 269 Chg 7.1

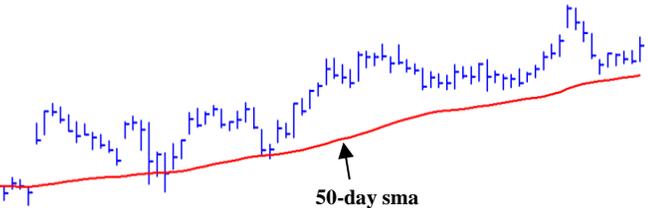


TSLA Tesla Inc. V: 7.786M

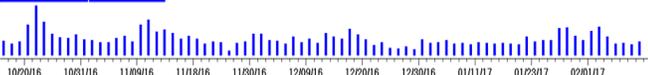


MICROSOFT CORP. (MSFT - 64) - DAILY

Daily > MSFT Microsoft Corporation C: 64.0 Chg > sma50 62.69

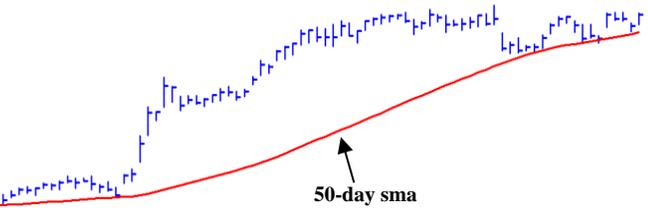


MSFT Microsoft Corporation V: 20923

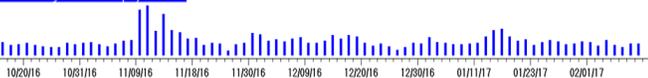


JPMORGAN CHASE & CO. (JPM - 87) - DAILY

Daily > JPM JPMorgan Chase & Company C: 87.2 Chg > sma50 85.27

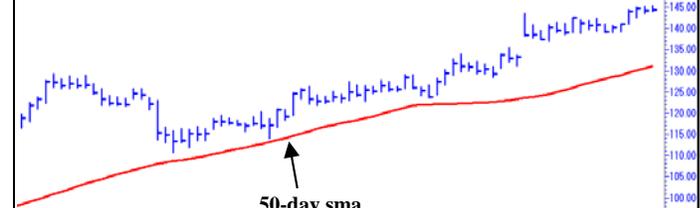


JPM JPMorgan Chase & Company V: 35144

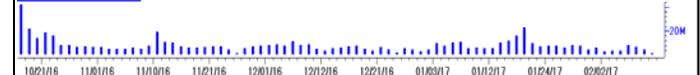


NETFLIX INC. (NFLX - 144) - DAILY

Daily > NFLX Netflix Inc. C: 144.3 Chg 0.1 > sma50 131.14

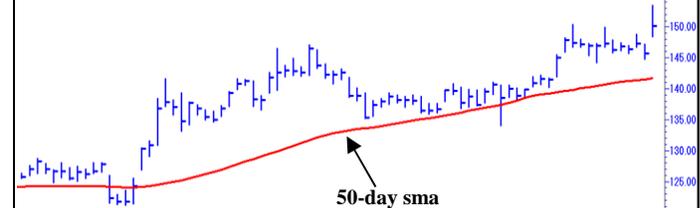


NFLX Netflix Inc. V: 1.638M

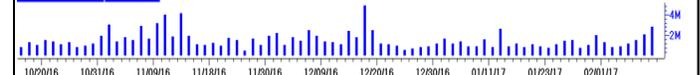


CUMMINS INC. (CMI - 150) - DAILY

Daily > CMI Cummins Incorporated C: 150.1 Chg > sma50 141.78

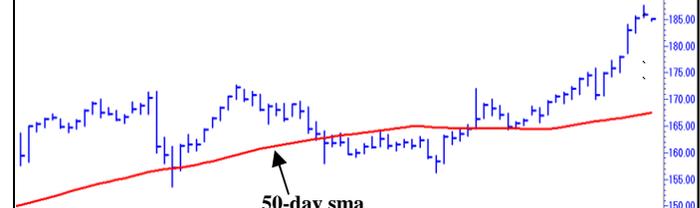


CMI Cummins Incorporated V: 8



DOMINO'S PIZZA (DPZ - 186) - DAILY

Daily > DPZ Domino's Pizza Incorporated C: 185.0 Chg -0.8 > sma50 167.58



DPZ Domino's Pizza Incorporated V: 9612

