WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

February 19, 2016
DJIA: 16,413

From fear of the abyss …. to fear of being left behind. Measures of fear come in a couple of types. Our preference is what you might call the transactional variety – the VIX being an example. These measure what investors actually are doing. This avoids the "talk is cheap" problem, where investors say they're bearish while remaining fully invested. Then there are the more anecdotal measures which really are about what investors are saying. Though not our favorites, it seems worth noting that these recently had reached extremes. Perhaps the oldest of these, Investors' Intelligence, recently showed a lack of bullishness to a historical degree. Then, too, this is a measure of "market letter" writers, and what do they know? Another measure, the American Association of Individual Investors, as its name implies, looks at the average investor. It shows the most bearishness in 20 years. High levels of bearishness don't make the market go up, however, when the market does go up, it means there's a whole lot of scrambling to be done.

The fear of being left behind can be a great motivator. This is especially so when suddenly the news turns better – a rally in Oil amidst cooperation between Russia and the Saudis. Easy to say in retrospect, but we were due. And there were those positive divergences we mentioned last time – measures like stocks above their 10- and 50-day moving averages failing to take out their January 20 lows. Particularly impressive here, again in retrospect, is the divergence in stocks above their 50-day moving average as it appears very similar to the divergence last August-September which led to an impressive rally into November. Divergences always are important, in this case suggesting most of the selling had been done back on January 20. That low didn't exactly look like a panic/washout low, so the proof will be in this rally, where more is better, especially more without any significant setback.

The bear market isn't over. However, all markets have their counter-trend rallies and those in bear markets often are better than most. According to Louise Yamada, of the 20 largest point gains since 1896, 18 occurred in bear markets. It's easy to be impressed and obviously there's money to be made, but they come undone rather quickly. All bear market rallies, by definition, are retraced, so tread carefully. As a guide, a possible target for the rally would be S&P 2000, Dow 17200 and 4500 for the NASDAQ 100. Those are the areas from which these averages broke down – you can see that if achieved, the rally would be rather convincing, though only normal. Even more convincing, bear market rallies often overshoot. All this, of course, is dependent upon the market staying out of trouble in the meantime – negative divergences and the like.

The three days of 300, 220 and 250 point rallies were impressive. However, their giving up only 40 points on Thursday seemed almost as impressive – and breadth was positive. Thursday also came against a backdrop of 80% of stocks above their 10-day moving average, a place where rallies have trouble. Strong markets stay strong, they don't give you a good chance to get in. The less the market gives up here, the better it is for its eventual longevity. Meanwhile, it has been a tide that lifts all ships. Often down the most have been up the most – Freeport from 5 to 7. There's better action generally in commodity stocks, and the 6- to-12-month prospect for Oil seems particularly hopeful. Historically 10% rally days in the commodity – and there were two in January – have produced positive long-run returns. Meanwhile, soup is still good food, and Campbell (61) has one of the better charts around.

Goldman is bearish on Gold. They see it as a "fear trade." They see Wednesday's $10 rally as an aberration given the market's 250-point rally that day. We too found Wednesday surprising, but in a very positive way. If Gold is only a fear trade, it should have been down. The other so-called fear trade, Treasuries, were down Wednesday. Since its peak in August 2011, there have been plenty of fear-filled opportunities for Gold to rally, and yet it did not. The idea of Gold being just a fear trade seems all wrong. This seems a real change. Rather than fear, an excuse, this seems about supply and demand. Gold has become not just under-loved, it has become despised. Having always contended his Gold holding was a hedge, John Paulson sold more of his position in December. Contrary opinion makes for good lows but it doesn't make lows. A trend change makes lows. Both the bullion ETF, GLD (118), and the stock ETF, GDX (19), seem about to break their long-term downtrends.

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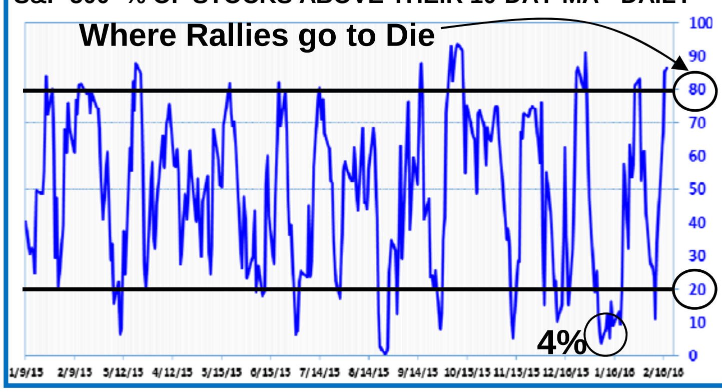
S&P 500 (SPX – 1918) – DAILY

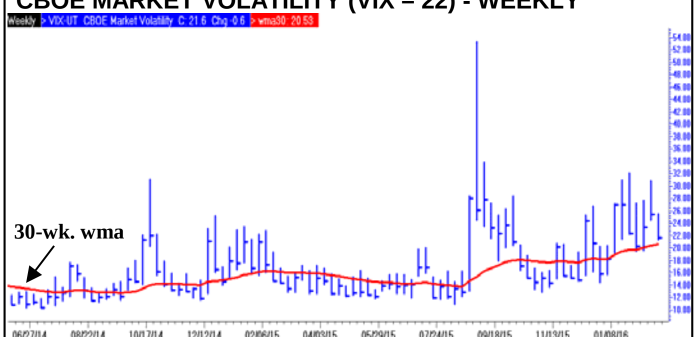
NASDAQ 100 (NDX – 4151) – DAILY

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

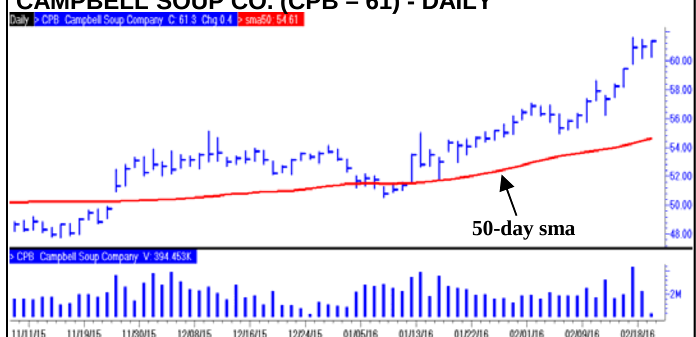


S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY

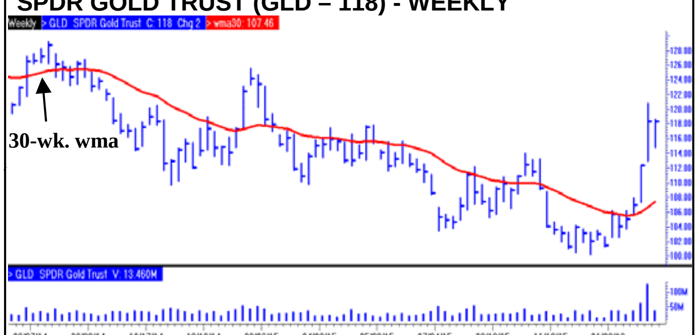
CBOE MARKET VOLATILITY (VIX – 22) - WEEKLY



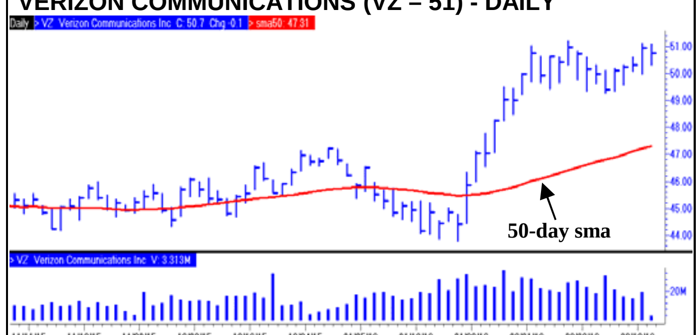
CAMPBELL SOUP CO. (CPB – 61) - DAILY



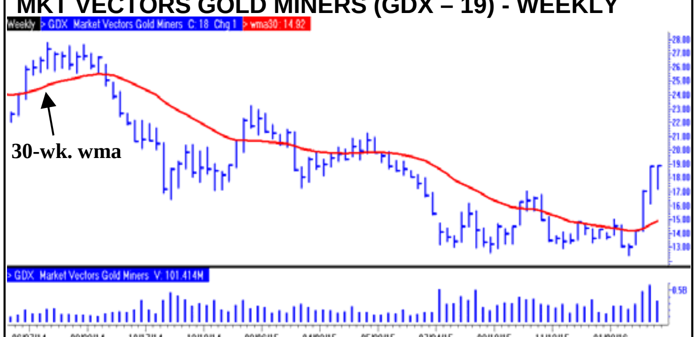
SPDR GOLD TRUST (GLD – 118) - WEEKLY



VERIZON COMMUNICATIONS (VZ – 51) - DAILY



MKT VECTORS GOLD MINERS (GDX – 19) - WEEKLY



NORTHROP GRUMMAN (NOC – 192) - DAILY