WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

February 2, 2018
DJIA: 26,187

Just when you thought the market would never go down … bam, right upside the head. The market was due, they say. We would say it was due two weeks ago. The flattening breadth should have been a warning, some might say. We would throw in back-to-back closes in the bottom 25% of the range as a warning. The truth of the matter is, the market has blown right through these little warning signs for long enough to make them embarrassing to mention. Then, too, statements like this might be the real warning sign. As one analyst put it—not sure these things matter anymore. When it comes to sentiment measures like Investors' Intelligence numbers, or when we get truly bad advance-decline numbers, they'll largely be ignored. The reality of making money trumps the reality of rising risk. The idea "this time is different" becomes the rallying cry, as it was in 2000 and 2007-08. We're there in terms of sentiment, but not in terms of breadth and other momentum measures. Fortunately, momentum trumps sentiment.

What gets you in the stock market rarely is seen coming. Certainly that was true this week when Warren and his pals decided to take on Health Care, leaving many of the stocks in the wake. You would have thought Hillary suddenly had won in a recount. The damage is important because of the number of stocks affected—the "Gamer" stocks broke out this week, but there are only three of them. And, of course, Health Care is important to the averages. This could result in more weakness as the dust settles. Another problem for markets late in the week was the not uncommon "sell on the news" phenomenon. We even saw it Wednesday night with Facebook (193), though the stock was more than fine Thursday. For Alibaba (193), it was not so fine. Google (1120) had not been sold in anticipation and suffered. Amazon (1476) had been sold and came out a winner. This pre-earnings selling and selling on the news seems bad—good news should be great news—but it happens.

Seasonal patterns haven't been much help in the market, but it's not difficult to expect the seasonally not-so-wonderful month of February to prove true to form this year. Another more conceptual worry is the Semiconductors—in what coal mine might they be the canary? Ironically, Intel (48) pretty much has gone from worst to first, while Texas Instruments (110) has gone from first to dubious. The real concern here, however, is the Apple (168) suppliers and, by extension, Apple. It's hard to be negative on Apple and we're not going there—the chart doesn't warrant it. If these Semis are a leading indicator of sorts, perhaps we're being too cavalier. For now, it's simply clear Apple hasn't been part of the strength over the last two weeks, something of itself a little worrisome. Were the stock to get down to 160 and break the uptrend, this would be worrisome. Meanwhile, Amazon has been the rally and to this point, much more would be worrisome in a too much of a good thing sort of way.

Consumers surveyed over the past month are the most confident in 15 years that more bull market lies ahead. The current readings far surpass any others during the past two bull markets. Though prices tended to trade higher for a while, the S&P's annualized return following such readings was 2.7%, according to SentimenTrader.com. These seemingly incongruous results make sense if you think of the market in terms of supply and demand—when investors are bullish they're likely fully invested. When investors are fully invested, by definition, the market can't go higher. The saving grace here, so to speak, is that the Advance-Decline Index made a new high a little over a week ago. The market averages are one thing, but it takes a lot of money to push up enough stocks to result in a new high in the A-D Index. It's another reason to watch those numbers, despite the distraction of Amazon and Boeing (353), especially after their bad days this week.

The Dow dropped a little less than 500 points this week, granted doing so in back-to-back days made it seem worse. The real change was in market breadth—back-to-back 4-to-1 down days, that is, days where fewer than 20% of stocks traded advanced. Once again, let us point out that while weakness is no fun, weakness doesn't kill uptrends. Rather, it's weak rallies that cause the real problems, leaving divergences in the Advance-Decline Index, for example, and other bad technical stuff. For the first time in a while, this is where good A-D numbers in a rally will be important. Divergences can be important in the short term, but any real problems take time. Divergences in the Advance-Decline Index typically precede uptrend-ending problems by 4-to-6 months—another of those things you will have stopped worrying about by the time they're important. In the meantime, there's no assurance this little correction is over. Were it to go by historical standards, we would expect something closer to the 20% level in stocks above their 10-day moving average. Then, too, what does history have in common with the market?

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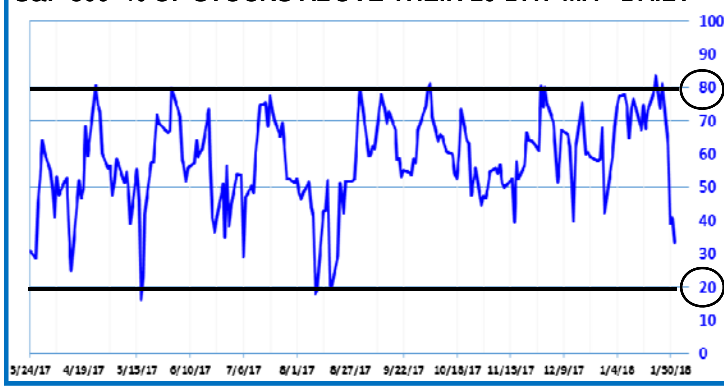
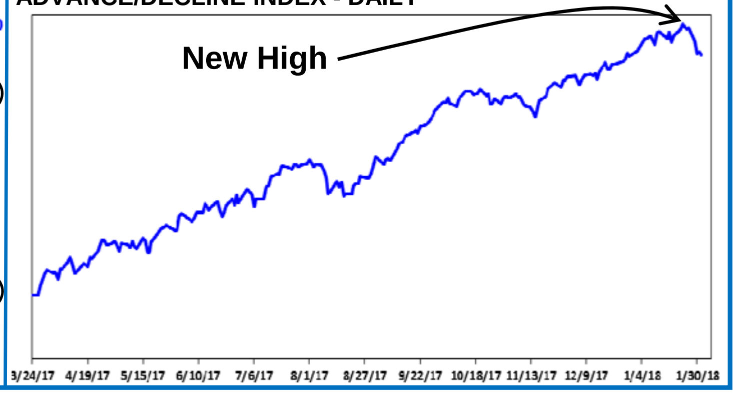
S&P 500 (SPX – 2822) – DAILY

NASDAQ 100 (NDX – 6902) – DAILY

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



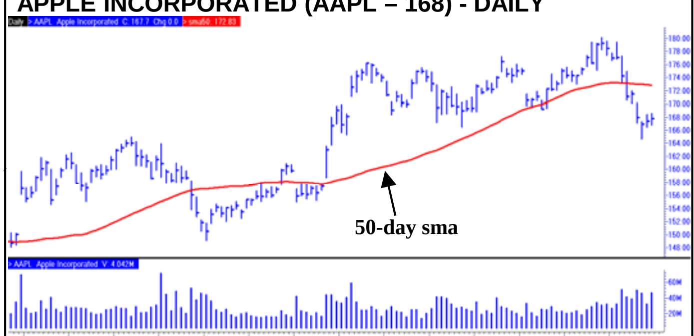
ADVANCE/DECLINE INDEX - DAILY



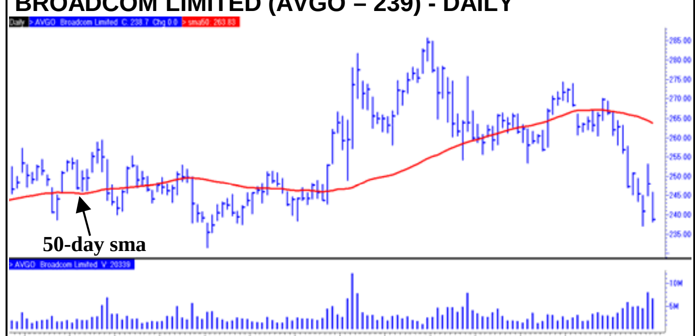
FACEBOOK INC. (FB – 193) - DAILY

ALPHABET INC. (C) (GOOG – 1120) - DAILY

APPLE INCORPORATED (AAPL – 168) - DAILY



BROADCOM LIMITED (AVGO – 239) - DAILY



ELECTRONIC ARTS INC. (EA – 128) - DAILY

UNITEDHEALTH GROUP INC. (UNH – 235) - DAILY