

EQUITIES PERSPECTIVE

February 3, 2017
DJIA: 19,885

Don't fight the Fed ... or the Federal Reserve. If you are unaware that love means nothing, "the Fed" is Roger Federer, winner last weekend of the Australian Open. To win any of the majors is impressive, to do so at 35 is roughly the equivalent of 50 in tennis years. Then, too, the 35-year old Serena Williams beat her older sister for the women's title. We don't know what's in the water down under, but we want some. Apparently the market has drunk its share, now approaching its ninth year, the bull market doesn't show the usual signs of aging. By this time, you would not have expected the "average stock" to be keeping pace with new highs in the averages. The focus these days, good and bad, is Trump, and everyone likes the Reagan comparison. However, best not to forget the other Fed, which caught Reagan in a 25% bear market that didn't end until the fall of 1982. In the post-war period, there have been 13 Fed tightening cycles, 10 of which led to recession.

We all make mistakes, new presidents are no exception. However, it took George W 3 years to reach a 50% disapproval rating – Trump has done it in just 8 days. This might explain why when there's a new president, February on average declines 4%. What makes such a move even more likely this year isn't the man himself, it's those expectations. There is little room for anything to go wrong, witness the 100+ Dow drop on Monday. In the scheme of things, just a blip followed by a strange Tuesday. The Dow lost another 100 points against the backdrop of 800 net advancing issues and, in a real go-figure move, it was Biotech leading the way. Then, too, Trump stocks like the Financials still are correcting, deservedly so. To say there's a little rotation, even day-to-day, is an understatement. Though Google (799) suddenly can't get out of its own way, the FANG stocks almost seem a haven, especially if you replace Google with Apple (129).

Like the FANG stocks, Semiconductors seem similarly well-positioned. Indeed, many are connected at the hip to Apple, so given the Apple move Wednesday, some of the Semi strength was only to be expected. Cirrus Logic (55), for example, always has been one of these, and this time around somewhat foreshadowed Apple's good news. Ironically, they actually missed on their own numbers and the stock slid after hours Wednesday – no one said this was easy. Perhaps most impressive among those stocks has been Skyworks (91) and ASML (123), both of which pretty much wore you out before impressive breakouts in the last two weeks. Skyworks is another Apple child while ASML, it's said, can outdo Applied Materials (35). Along more mundane lines, few charts are better than Micron (25) or Advanced Micro (12). If the chart is to be believed, it's not your father's AMD.

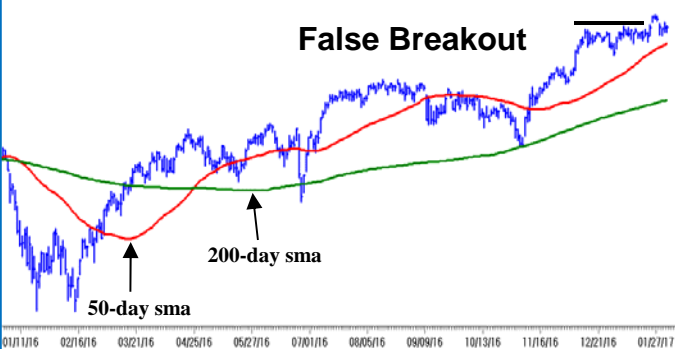
A divergence of sorts has come about within the Consumer Discretionary Index (XLY-85), pointed out by the Sentiment Trader report. The index itself is less than 1% from its high, yet 5% of the components have made 12-month lows. When last there were that many lows, the index was down about 9%, suggesting the index itself has some risk here. However, what really seems at play are the Retail stocks, where the charts give "weak" new meaning. Despite their good showing the other day, Biotechs and most of Pharma are mixed, but certainly improved. Still in good shape are what you might call the retro-FANG, stocks like IBM (175) and Microsoft (63). Unlike the real FANG, these also pay you 2-3%. Meanwhile, this is no time to forget Gold. Still dollar-correlated, the dollar trends well and the trend now is down. GDX (24), the ETF for the miners, seems to have broken above its recent trading range.

Bull markets don't die of old age and even 5% corrections are on their own schedule. In the case of the latter, it's fortunate, because we're due. According to InvesTech Research, since 1932 the S&P has averaged a 5% correction every 7.1 months, that is, about now. If you don't count the Brexit mishap, at 11.2 months we're overdue. Then there's the matter of the S&P's recent breakout. The S&P's move above its narrow six-week trading range looked impressive, new highs and all that, but historically these moves have shown little follow-through. Now we're at risk of a "false breakout" were we to move back below the original breakout point around 2280. Sounds like technical mumbo-jumbo, but false breakouts typically follow-through to the downside. Keep in mind, too, with all the talk of building a wall, an important one has been torn down – the "wall of worry." The VIX is around 12 versus 23 this time last year.

Frank D. Gretz

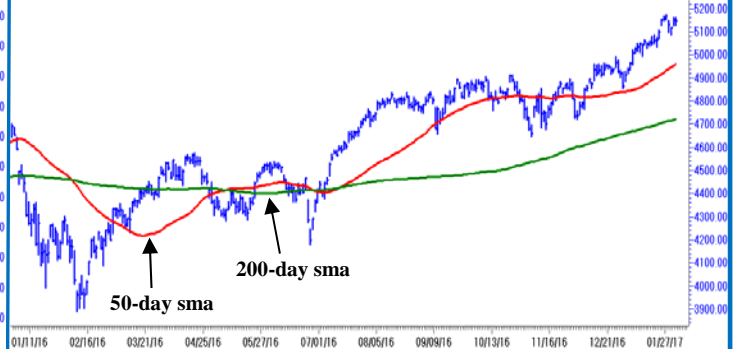
S&P 500 (SPX - 2281) - DAILY

Daily > SPX:UT S&P 500 Index C: 2280 Chg 1 > sma50 2263.9 > sma200 2160.0

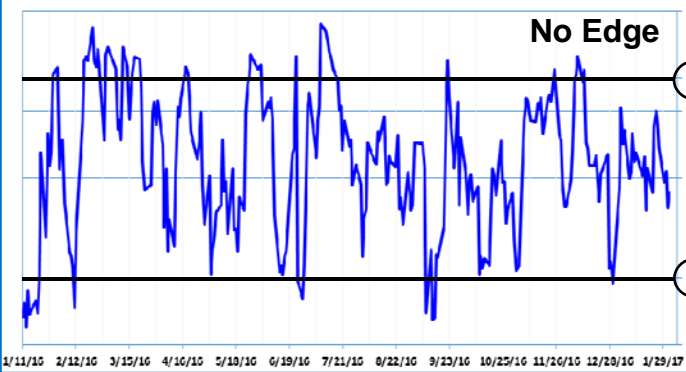


NASDAQ 100 (NDX - 5148) - DAILY

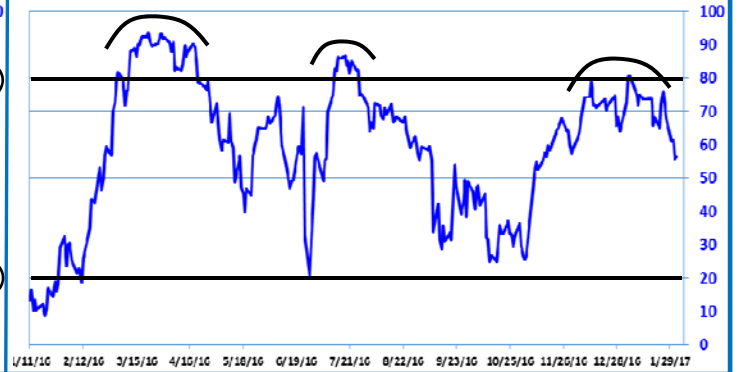
Daily > NDX:O Nasdaq 100 Index New Calculation C: 5147 Chg 4 > sma50 4960.9 > sma200 4722.0



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

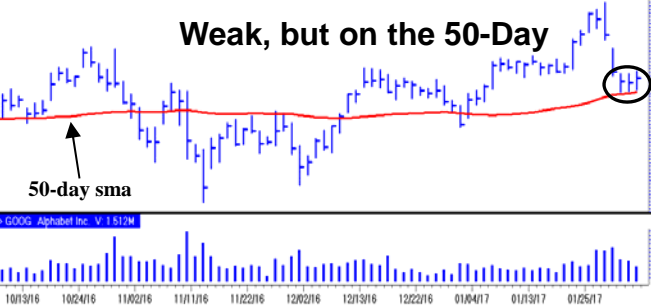


S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY



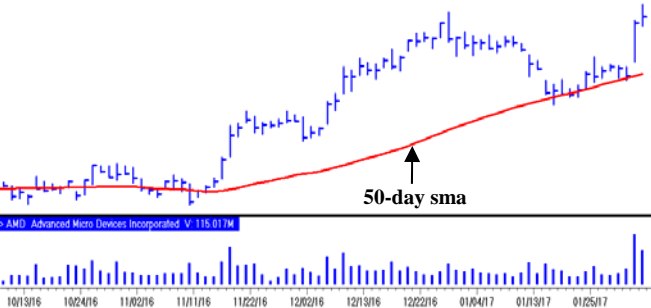
ALPHABET INC. (GOOG - 799) - DAILY

Daily > GOOG Alphabet Inc. C: 798.5 Chg 2.8 > sma50 790.70



ADVANCED MICRO DEVICES (AMD - 12) - DAILY

Daily > AMD Advanced Micro Devices Incorporated C: 12.7 Chg 0.5 > sma50 10.45



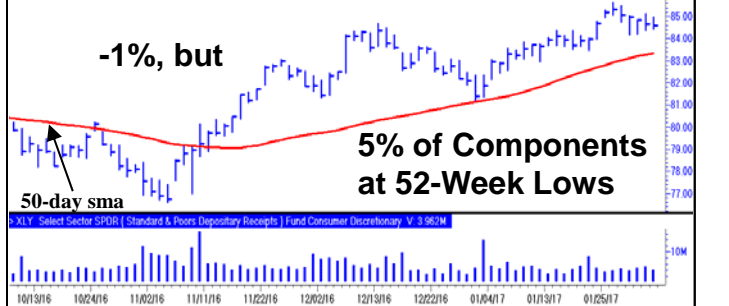
ASML HOLDING N.V. (ASML - 123) - DAILY

Daily > ASML ASML Holding N.V. New York Registry Shares C: 122.7 Chg 1.4 > sma50 111.11



SPDR FD CONS. DISCRETIONARY (XLY - 85) - DAILY

Daily > XLY Select Sector SPDR (Standard & Poors Depository Receipts) Fund Consumer Discretionary C: 84.5 Chg 0.0 > sma50 83.55



VANECK GOLD MINERS ETF (GDX - 24) - DAILY

Daily > GDX VanEck Vectors Gold Miners ETF C: 24.8 Chg 0.8 > sma50 21.62



INT'L. BUSINESS MACHINES (IBM - 175) - DAILY

Daily > IBM International Business Machines C: 174.5 Chg 0.2 > sma50 167.58

