WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

February 5, 2016
DJIA: 16,417

You can summon the witches of the deep … but will they respond? What Shakespeare was trying to say is, just because the market is oversold, it doesn't necessarily mean it will rally. Fortunately in this case, so far, so good. Of course this wasn't your garden-variety oversold market – prices were unusually stretched to the downside. At the low, only 4% of NYSE stocks were above their 10-day moving average. These levels, however, are not absolute – last August only 1% of stocks were above their 10-day. Together with a VIX, or Volatility Index, in the low-30s, conditions seem right for a countertrend rally. Such rallies are a process, or should we say nerve-racking. Four of seven recent days saw 85% of volume either up or down. The recent Fed announcement day saw a 300-point Dow swing and Wednesday's reversal day saw a 370-point swing. The technical background, at least short term, seems very similar to last August-September. At least short term, and to a point, we expect the pattern to play out much the same – see this pattern on the other side.

Wednesday's reversal was unusual in terms of just what it was that reversed. The Dollar, for example, had what can only be described as a huge reversal. With the Fed in its tightening mode, the Dollar was supposed to rise, not fall. Then, too, Banks were supposed to benefit, all things being equal, but of course they're not – the financial worry of collapsing oil prices. Dollar weakness rallied oil and other commodities, and, of all things, the Banks reversed to the upside Wednesday. All of this makes for an interesting backdrop for more market rally. This seems particularly so in the case of Oil, where oil prices and stock prices have been pretty much inseparable. Interesting, too, for all the fretting over oil, many of the stocks are well off their lows – Schlumberger (71) some 20% for example. Similarly, while most of us weren't looking, Gold has acted quite well, even before the Dollar's drop.

Leadership here still is more than a little elusive. The "FANG" stocks are acting as we suspected, that is, like last year's stocks. This is all the more true of Biotechs, which peaked in late-July and broke again early last month. Like the market, these all seem due for at least some temporary relief. The leaders, such as they are, have been what generally might be described as defensive names like the Foods and the Kimberly-Clarks (129). These seem likely to continue to outperform, not so much because they're defensive but, rather, because they have great long-term charts. Allow us to show you again that long-term picture of McDonald's (121). Then, too, maybe "defensive" isn't such a dirty word. By far the best performing area this year has been the Utility sector ETF (XLU). In this ETF, 100% of the components are above their 10- and 50-day moving averages, a sign that, on the whole, the group is a little stretched.

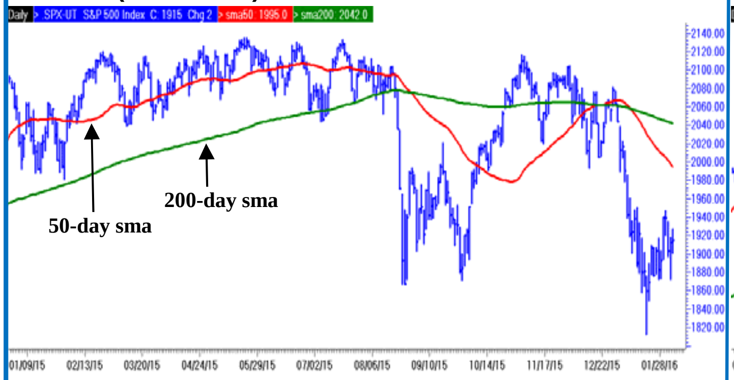
Everyone says don't worry, there's no recession. Everyone says don't worry, this isn't the financial Armageddon that was 2008. To begin, when "everyone" says don't worry, you know what to do. Lest you forget, "subprime" was not a worry, this from no less than the expert on depressions, Bernanke. To the point, perhaps there's no recession here, but the commodity world clearly is in a depression. And as for no financial crisis, so it would seem unless you look at charts like Credit Suisse (15) or Deutsche Bank (17). Somewhere there's a rat – a "technical" term. There are bear markets without recessions or worse, and without a financial crisis. It's hard to know – the subprime debacle, for example – until you're in them. However, in a sense it doesn't really matter. You have to treat all of these declines as persisting until stocks are washed out. If the commodities and Financials begin to hold, it would be a start.

When it comes to risk, we all sort of see it in the "FANG" stocks or Biotechs. However, you have to wonder how much air was in some of these others like LinkedIn (119) and Tableau (43) – down 60 and 30 points, respectively, after hours Thursday. They say bear markets are about correcting excess, but in this process often there's the collateral damage of what's in the bath water. The S&P is only down 11%, but it feels worse because so little is unscathed. A silver lining of sorts is that by the time they get to everything, it's usually an ending phase. The feeling of no place to hide usually results in enough panic to wash things out. We're still optimistic that we've seen enough, that we've become stretched enough to lift things for a while. However, when the overall trend is down as it is now, recovery doesn't mean a new bull market. For the S&P 500, the 50-day moving average is 1995 and the 200-day is 2042. All the net gains in stock prices come when the 50-day is above the 200-day.

Frank D. Gretz

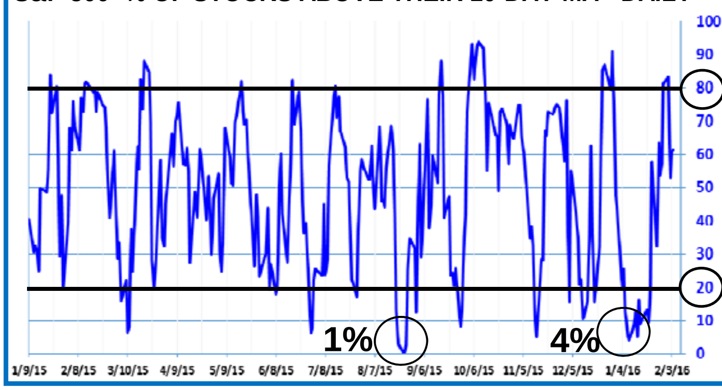
140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

S&P 500 (SPX – 1915) – DAILY

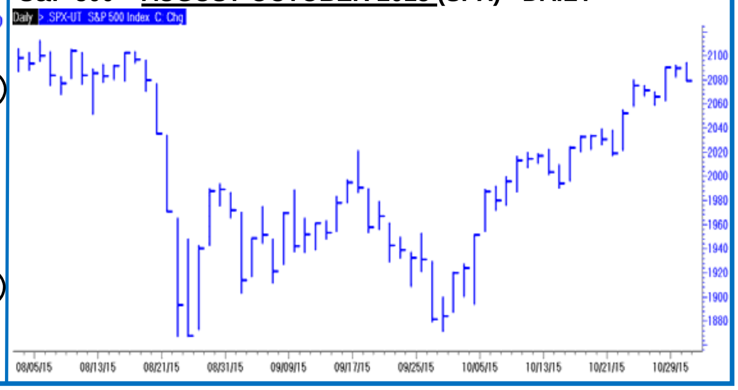


NASDAQ 100 (NDX – 4168) – DAILY

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

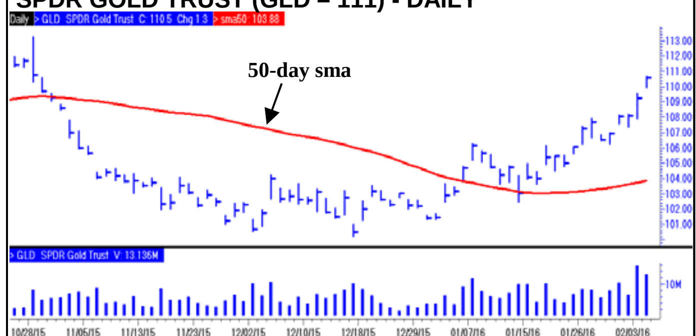


S&P 500 – AUGUST-OCTOBER 2015 (SPX) - DAILY



ISHS NASDAQ BIOTECH ETF (IBB – 265) - WEEKLY

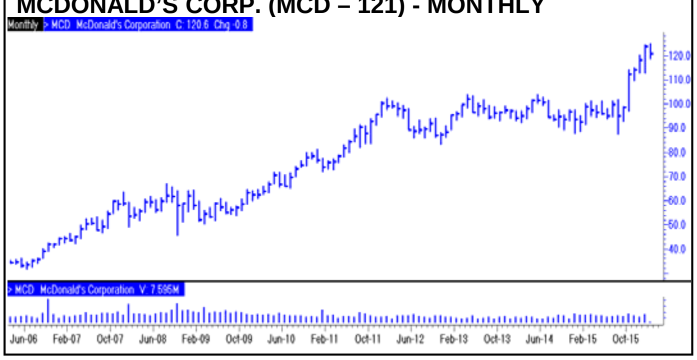
SPDR GOLD TRUST (GLD – 111) - DAILY



CREDIT SUISSE GROUP (CS – 15) - WEEKLY

PWR SH DB US $ INDEX BULLISH FD (UUP – 25) - DAILY

MCDONALD'S CORP. (MCD – 121) - MONTHLY



SPDR FD UTILITIES (XLU – 46) - DAILY