WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

February 26, 2016
DJIA: 16,697

They call it a fortress … but it's leaking Oil. During its investor day Tuesday, JPMorgan (57) broke the news that it has $40 billion in Oil loans, more than its peers, and far more than anyone knew. We don't know, but are there any good Oil loans these days? The best part, of course, is that this comes as new news. Do you think they might still have some subprime mortgages lying around? Jamie Dimon is thought to be the best. However, the London Whale did turn out to be a rather large tempest in a teapot. The idea that buying his stock put a low in this market seems a stretch. He's no J.P. Morgan and, it's only a low for now. Everyone still frets over oil prices, but it's the Oil loans that could prove the bigger issue. JPMorgan is one thing, what about all those Southwest and Midwest Banks? Then there are the China Banks. The market there tanked overnight Wednesday, and looking at the chart, there's trouble. Typical of Banks, there's always something.

The rally has been impressive. Three consecutive days of 80% up-volume and three consecutive days which saw the market gap 0.5% higher at the open. The TRIN, a measure of volume going into up-stocks versus those declining, on Monday showed well over twice as much volume in those rising. Monday also saw a switch to more stocks making 12-month New Highs versus 12-month New Lows. What seems impressive here is that those 2000 stocks making new lows back on January 20 have stopped going down. When there's no weakness at the weak end of the market, it's a good sign. Another somewhat obscure positive is evidence of persistent buying into the close. The TICK measures how many stocks trade on an uptick versus a downtick and, on a 10-day basis, it has reached the highest level in a year. Despite the volatility January-February, this shows a willingness to hold stocks overnight. So the rally's credentials are impressive, calling for a little historical perspective – bear market rallies usually are.

Good markets don't give you a good chance to get in, and all that other stuff we like to say. Tuesday, therefore, brought into question the "goodness" of this market – down almost 200 Dow points, 2-to-1 negative breadth and rising volume. Granted the S&P was up against its declining 50-day moving average, a logical place to take a break. And stocks above their 10-day moving average had matched their highest level in the last couple of years, a good sign in terms of momentum but another excuse for weakness. Still, Tuesday wasn't pretty. Wednesday's upside reversal, for now, seems to have put any big worries to rest. If they had wanted to give it up, they had their chance. Still, it's a reminder that it's a bear market and bear market rallies come and go quickly. We can talk about this rally testing the breakdown points of Dow 17000 and S&P 2000, but, as Peter O'Toole was wont to say, nothing is written.

Healthcare, especially Biotech, has been anything but healthy this year. The stocks peaked back in July and Biotechs especially, turned down in January. You can't really blame Valeant (85) and other bad actors – those things tend to come to the fore after stocks have peaked. We say that these are last year's stocks, but this is an oversimplification. It's not just that the stocks had big moves and now are correcting, rather, the stocks had moves to the point that they became over-owned, and that's different. Imagine if everyone who wants to own a stock or a group does. By definition, the stock can't go up and this is what we mean by over-owned. It happens, and when it does, good fundamentals won't help. This obviously is a judgement call, but seems likely the problem. This could be the same problem that the FANG stocks are facing. From the time of what were blowout numbers for Google on February 1, it has been straight down from there. No one left to buy.

You probably have noticed that we pay more attention to the "average stock" than the stock averages. The former tends to lead, as per the peak in the Advance-Decline Index back in April. With the exception of Tuesday, the A-D Index has been consistently positive for almost two weeks now. However, just as important as the A-D Index, or breadth, is volume. Without wanting to rain on our own bullish parade, volume has been lacking. Bear market rallies tend to end on light volume but, as good as it has been, this rally has never had volume. Make of this what you like – at least another reason not to go "totus porcus." If Biotech seems out of favor these days, anything you can eat is in, even Spam – Hormel (44). You might just throw in all you didn't think about during last year's Biotech run – Kimberly (134), for example. Defensive and Defense as well, as per Lockheed (220).

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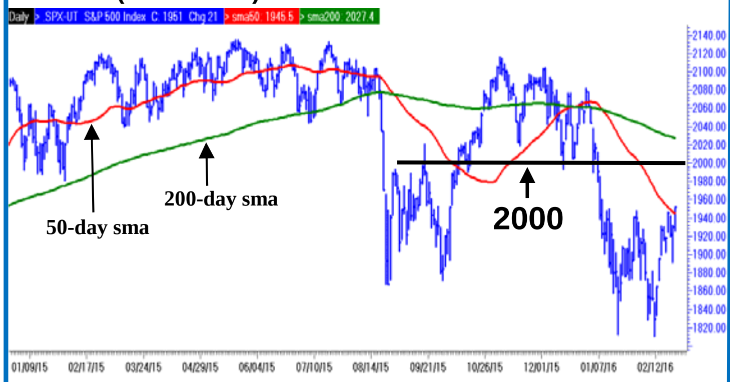
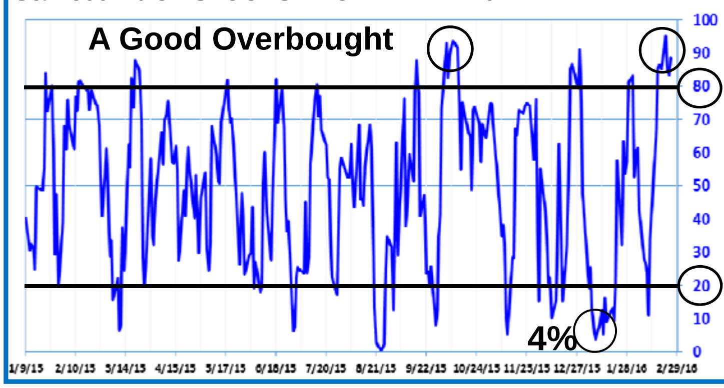
S&P 500 (SPX – 1952) – DAILY

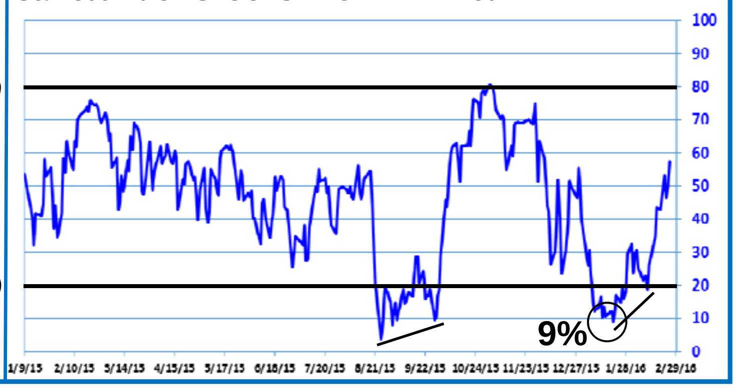


NASDAQ 100 (NDX – 4241) – DAILY

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



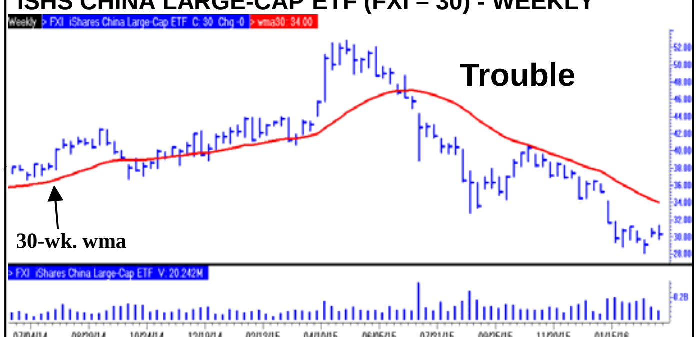
S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY



JPMORGAN CHASE & CO. (JPM – 57) - WEEKLY

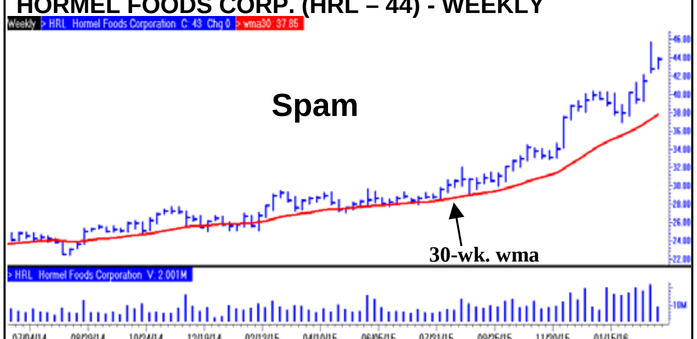
CULLEN FROST BANKERS INC. (CFR – 48) - WEEKLY

ISHS CHINA LARGE-CAP ETF (FXI – 30) - WEEKLY



ISHS NASDAQ BIOTECH ETF (IBB– 259) - WEEKLY

HORMEL FOODS CORP. (HRL – 44) - WEEKLY



LOCKHEED MARTIN CORP. (LMT – 220) - WEEKLY