EQUITIES PERSPECTIVE

January 13, 2017
DJIA: 19,891

Note to self … don't own Pharma before a Trump press conference. Just when you thought that it was safe to go back into the water called Pharma, that drug pricing was old news, it seems not. We're a bit surprised, after their better recent action, to see the stocks still discounting the same news, and expect this too will pass. On the bright side, these press conferences could prove buying opportunities. Time will tell, to coin a phrase. Perhaps more worrisome is picking a fight with China, that is, a trade war. There was enough to that to rally Gold on his remarks. Meanwhile, there was no criticism of GM (38), which has turned into one of the better acting stocks around. Lifting guidance Tuesday didn't hurt. The impressive part of Wednesday was market breadth – not just the 2-to-1 positive close, those A-Ds stayed positive even in the midday selloff. The market has seen Trump's upside and may have discounted much of that. Now we get a look at the Trump downside.

The press conference offered a hint of what worries us. It's not so much that the market is stretched in terms of price or valuations, it's stretched in terms of expectations. There isn't much room for anything to go wrong and, as per the press conference, things do go wrong. The market got over it, so to speak, on Wednesday, but certainly had second thoughts on Thursday. With the averages having just made new highs, the NASDAQ on Wednesday, and the Advance-Decline Index as well, we're talking about a possible correction, nothing more. However, even if an "entry point," corrections are no fun when you're in them, and often they carry further than you might think. At a minimum, we would be surprised to get out of any weakness without getting down to the 20% area in stocks above their 10-day average, and as of Thursday's close, we're not quite there.

Typically a strong dollar is a headwind for Gold. So the strong dollar helps explain Gold's poor performance for much of last year. Indeed, even recent rallies in the dollar in September and November correlated very well with the end of Gold's strength. Gold has acted well of late as the dollar has turned down, and is flirting with the 50-day. While it's always possible the correlation could end, another contrary possibility is the dollar doesn't rally. It's assumed Fed tightening means dollar strength. Historically, however, this hasn't always been the case. There is no inflation, but the market often gets stuck in the brain-freeze of history – Fed tightening means inflation. The recent strength is close, but Gold rallies since August have failed to break the downtrend, which would be an encouraging sign. As they say, stay tuned. Meanwhile, a much better pattern among the Metals is Copper. Gold is about many things, Copper is about the economy, especially the economy in China. After all, they call it Dr. Copper for a reason – a Ph.D. in economics.

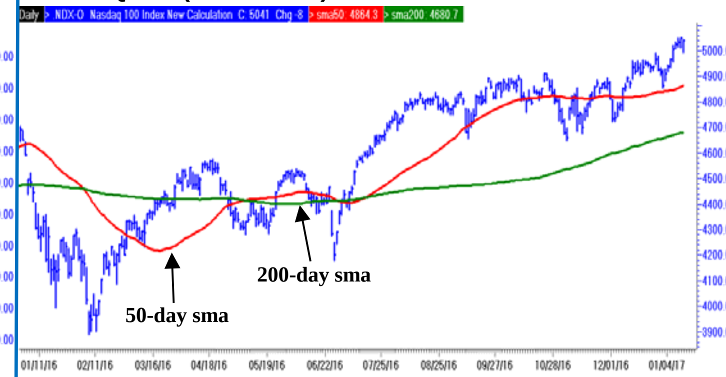
Financials have led the market's rally but have stalled over the last five weeks, and deservedly so. Whether they correct or continue to consolidate makes little difference in the leadership scheme of things – they are the leaders. Much of the Trump-trade is stalled as well – Aerospace/Defense, Infrastructure and so on. In the void has stepped the FANG stocks, which had gotten off to a slow start after the election. A bit ironically, it's the least favored Netflix (132) that is alone in making a new high, but the other three are greatly improved. Trump had a few unkind words for Amazon (814) during the campaign, perhaps making Thursday's job creation comments preemptive. In all, this rotation from Trump stocks to FANG stocks seems healthy. Elsewhere, we noticed in the press conference, Energy was left unscathed, and many patterns there are on the verge of breakouts.

The technical background is solid – new highs in the averages and the A-D Index. Not that we want to temper your enthusiasm, but let us offer a piece of data that might – the market's average annual range is 27% and here's a scoop, it is not all 27% to the upside. Indeed, in 9 of 10 years, part of this range is below where it started January 1. The good news is most of this rally came in November, not even in December, and not in the new year. And, we're talking "on average." When it comes to timing, they say investors are right in-between, but wrong at the extremes – there was record ETF buying in December, mutual fund cash is at an all-time low, and short interest in the S&P ETF is the lowest since June 2007. We're just saying. In case you missed it, the Wall Street Journal recently asked, "has the rally just begun."

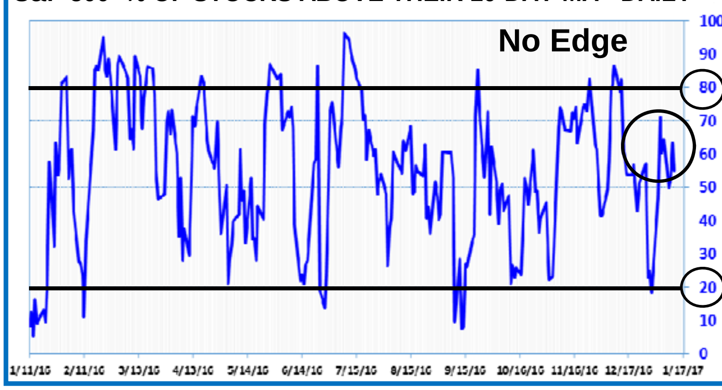
Frank D. Gretz

S&P 500 (SPX – 2270) – DAILY

NASDAQ 100 (NDX – 5041) – DAILY



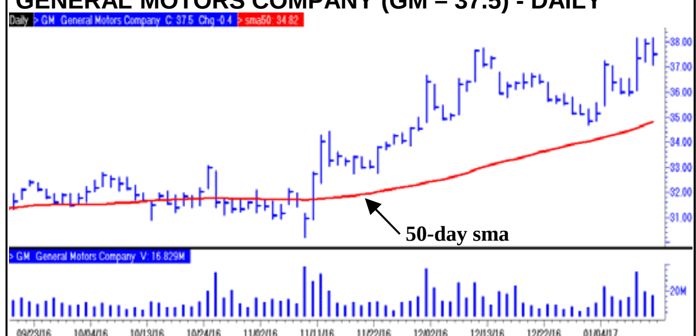
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



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

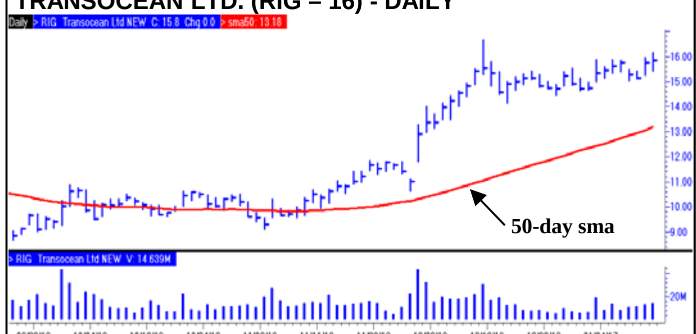
VANECK VECTORS GOLD MINERS ETF (GDX – 23) - DAILY

GENERAL MOTORS COMPANY (GM – 37.5) - DAILY



DB US DOLLAR INDEX BULLISH FUND (UUP – 26) - DAILY

TRANSOCEAN LTD. (RIG – 16) - DAILY



SPDR FD FINANCIAL (XLF – 23) - DAILY

NETFLIX INC. (NFLX – 132) - DAILY