EQUITIES PERSPECTIVE

January 15, 2016
DJIA: 16,379

Don't buy an up opening … in a bear market. A similar piece of lore is, don't buy during amateur hour – wait until 10:30. As to the former, when do they tell you it's a bear market? Then, too, you might know it's a bear market when you can't buy up-openings, something certainly true of late. Of course, when it comes to the market, it's not where they open that counts, it's where they close. This week it hasn't been about bad openings, it has been about bad closes – incessant selling. And this week isn't just about this week, this week has had its technical prequel. After all, the Russell 2000 is down 20% from its peak, and that didn't all just happen this week. Bull markets end in a process, and the end to this one arguably has been going on since June. However, you also can't expect a bear market to be done in 9 days, even 9 days as bad as these. At least the process has begun.

When it comes to making a low, the key to the process is getting the selling out of the way. What might be missing here is a piece of real bad news. Seeing your net worth slip always creates a certain amount of fear, but there's nothing like bad news to provide the excuse to sell. By selling, we're not talking about your garden-variety selling, we're talking about your 90%-down day type of selling, days where 90% of the up-down volume is to the downside. This is not so easy as even Wednesday's 365-point loss saw only an 89% reading. However, with a few such readings now under our belt, we're not about to quibble if we see some upside confirmation. This would come in the form of an 80-90% up-day. If prices are washed-out, they should move up with relative ease. Everyone likes to throw around the term "oversold," but we are oversold. Looking at the percent of S&P 500 stocks above their 10-day average, Friday's reading was 4%. Granted last August-September we saw 1%, but it's close enough for government work, and close enough for us.

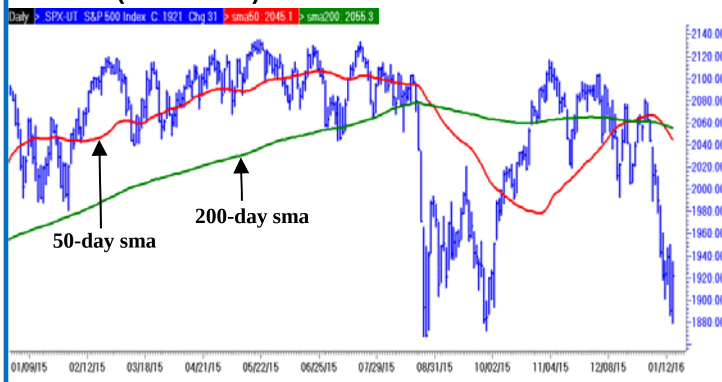
Another end of a decline event is about the stocks which are sold. Down 20%, the Russell has been sold for a while now. Even the Biotechs, last year's great group, have been sold for a while now. However, still hovering around their highs are the "nifty 10," the "FANG" stocks, call them what you like. When they get to them, of itself it creates a bit of a "give-up" phase, and Wednesday they got to them. Wednesday left nothing sacred. As much as anything, this explains Thursday's mixed open, and sharp rally. Selling the Russell could go on forever and likely will. However, it's the old story of it being a bear market when they sell my stocks. This is what might have happened Wednesday, they sold "my stocks" if you have been a relatively immune institutional investor. Mind you, Thursday was just one day, and at that, not the technically best rally. Taking the background as a whole, a couple of near-90% down days, an oversold extreme, a relatively high VIX and Thursday's reversal, we should be close to a tradeable rally.

You may be surprised to know the Russell is down 20%, but you likely would be even more surprised to know the Shanghai is down 20%. Having started December 22, it is one of the fastest 20% declines in history. Given authorities there are constantly tampering with the markets, for now the backdrop seems less than hopeful. Markets bottom when they're left to fall to some equilibrium of supply and demand, rather than when they're manipulated, especially ineptly. In its quest to go consumer, China has a long, hard road ahead, so we can only hope we don't rise and fall everyday on the outcome of China's overnight trading. You might recall this used to be the case with Japan's day-to-day, or night-to-night trading. That pretty much went away, and Japan with it, when the time was right – when finally U.S. markets made their own low. Markets in China have little enough to do with their own economy, let alone with ours. Commodity prices won't get over China, but stock prices eventually will.

Together with China, Oil prices are the market's other nemesis. Like China, Oil also doesn't seem at a low. So the market will just have to learn to live with lower Oil and lower China. Imagine the market were to reverse to the upside Friday, it would mean the market had learned to live with weak Oil and weak China. By the way, this isn't a prediction. The market also may have to learn to live with bankruptcies among the frackers and lenders like the Midwest Banks. Meanwhile, who said all the QE didn't help, if by help you mean create more excess. If China and Oil are in their own bear markets, the worry now is what's left. Those would be last year's leaders like the FANG stocks and the Biotechs. There are few stocks unscathed, and these could go on to lead – Kimberly (127), McDonald's (117), Constellation Brands (143) and the Tobacco companies.

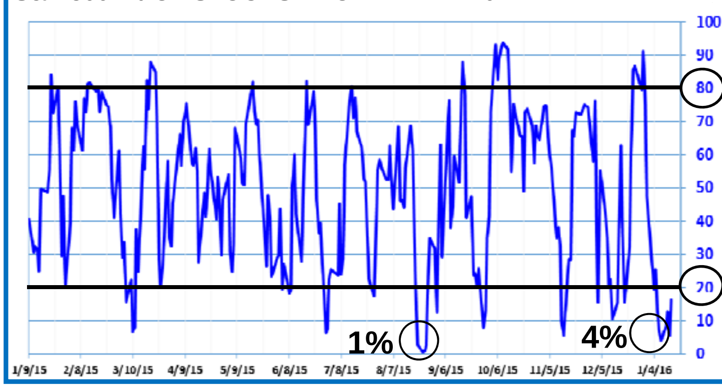
Frank D. Gretz

S&P 500 (SPX – 1922) – DAILY



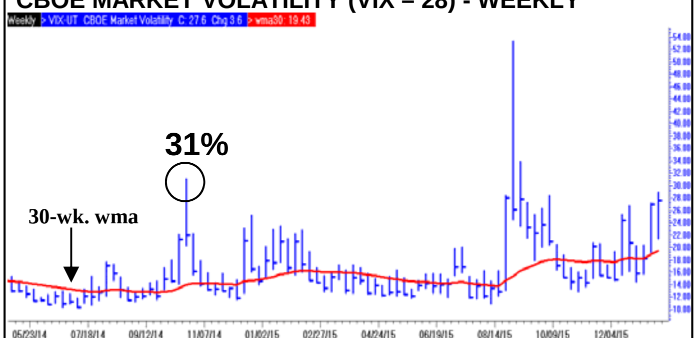
NASDAQ 100 (NDX – 4273) – DAILY

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



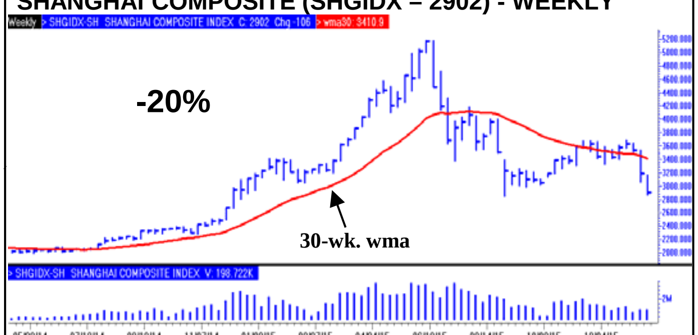
S&P 500 -% OF STOCKS ABOVE THEIR 200-DAY MA - DAILY

CBOE MARKET VOLATILITY (VIX – 28) - WEEKLY

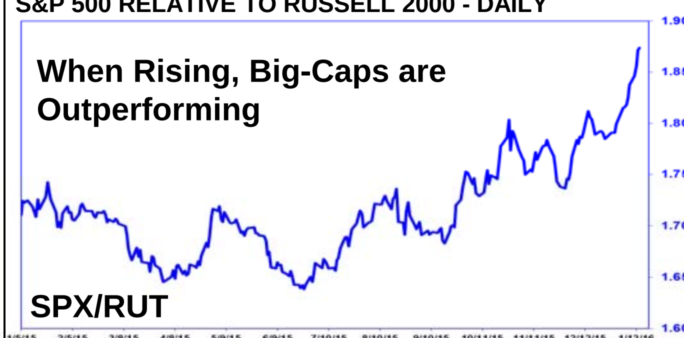


ADVANCE-DECLINE INDEX - DAILY

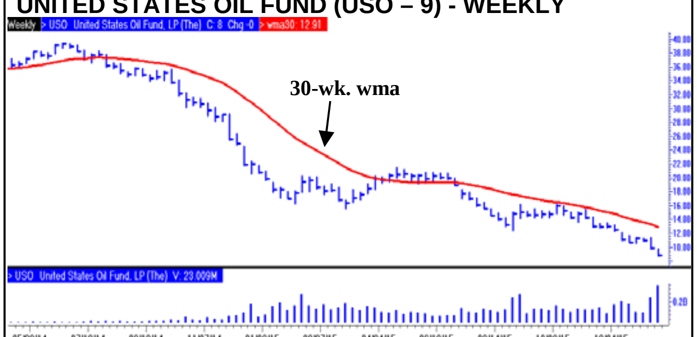
SHANGHAI COMPOSITE (SHGIDX – 2902) - WEEKLY



S&P 500 RELATIVE TO RUSSELL 2000 - DAILY



UNITED STATES OIL FUND (USO – 9) - WEEKLY



AMAZON.COM INCORPORATED (AMZN – 571) - WEEKLY