WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

January 19, 2018
DJIA: 26,018

Melt 'em up, melt 'em down … the word volatile comes to mind. They say volatility occurs at tops and at bottoms—we'll stick our neck out—this isn't a bottom. Then, too, it's unlikely a top, at least for now. The volatility is just another of those vexing things like Tuesday's intraday reversal. The Dow had traded up 280+ points to a new high, only to close down on the day. That's pretty much "textbook reversal" and not the textbook that says up 300+ points the next day. These reversals, if you must know, are given more credence than they deserve. It's a "they work unless they don't" kind of thing, but in this market, the obvious and the expected just don't work. Another thing that doesn't work is investor sentiment or, should we say, another thing that works—eventually. Forget the sentiment surveys, look at what investors actually are doing. For small options traders it's the most buying since 2011.

Facebook's (180) news last Friday sent the stock reeling, at least for Facebook. The downside gap is never something we like to see, but eight points in a $180 stock is hardly consequential. Then, too, it's not the size of the gap, but what it does to the pattern. For Facebook, the uptrend is such that the uptrend remains an uptrend. Still, it's usually best to see stocks settle after this sort of action. In the meantime, if you're one of those for whom instant coffee isn't fast enough, we wonder if Twitter might benefit here. Twitter (24), though it has since pulled back, actually gapped up out of a short-term consolidation pattern on Monday, extending the overall uptrend in place for 10 months. Always controversial, we've noticed the stock is owned by some of last year's better-performing funds.

Sad to think GE (17) as we know it could soon be gone. Sad unless you're of the age that thinks the investing world began with the Google (1130) IPO. We like what we call the "good again" names, formerly what we called "retro-tech." Naturally, we like them when their charts are good and few had been better than IBM (169), even before its upgrade pop on Wednesday. Then, too, IBM has looked good before and wore them out, including that guy in Omaha. That just makes it all the more interesting—good chart, but psychologically hard to buy. It's okay to lose money in Facebook but, these days, not IBM. The others we like in this good again, or retro category, are Microsoft (90), Corning (35), Cisco (41), Wal-Mart (104) and Nike (64). They're not the FANG, which in part is why we like them. In varying ways fundamentally, they all seem to have gotten it together again.

We alluded above to the over-the-top call buying, an indicator we like because it's about what investors are doing and not just saying. Investors' Intelligence is of the latter category and measures the opinions of market letter writers, a drop-dead smart group—wrong at the turns like everyone else. The recent survey showed the fewest number of bears in 30 years, a worrisome backdrop, but not worrisome in the short term. This indicator rarely gets the credit it deserves because its lead time is such that most give up on it before a correction begins. On top of that, the numbers usually improve before a correction begins, leading investors to worry even less. If we were to speculate how the next few months might play out, typically a fruitless endeavor, those sentiment numbers would fit pretty well. February usually is a tough month, especially after a good January. This would set things up for a March-April correction if, and it's an all-important if, the momentum indicators have rolled over as well.

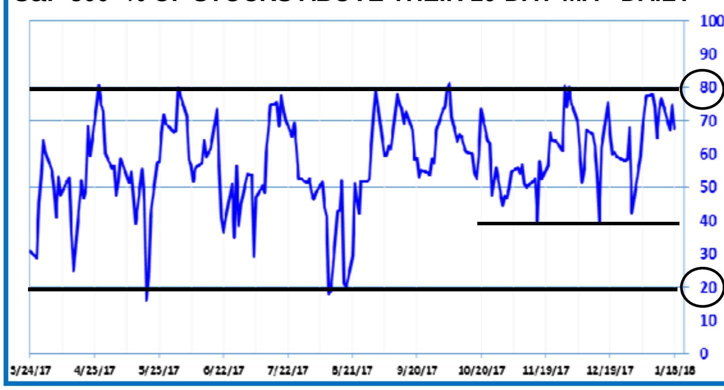
Seasonality, overbought levels and most of the "should-ofs" of technical analysis simply haven't worked. The momentum has trumped them all. It's intimidating to allude to what is "normal," when none of that seems to apply. We'll venture that it will again, leaving a couple of things to consider. This wouldn't be the first good January to be followed by, at best, a lackluster February. Tuesday's reversal carried no consequences, but it did seem a warning shot—they can go down, and in a hurry. Amazon (1304), Google, and Netflix (220) are stretched and failed to participate in Wednesday's 300+ point gain. Meanwhile, Facebook got out ahead of what likely will become problems for the rest—those being political. The market didn't ignore bad news, at least out of IBM and American Express (98) Thursday night. And, finally, on a very, very short-term basis, the advance-decline numbers have a setup that typically leads to weakness. Overall, however, stay the course.

Frank D. Gretz

S&P 500 (SPX – 2798) – DAILY

NASDAQ 100 (NDX – 6811) – DAILY

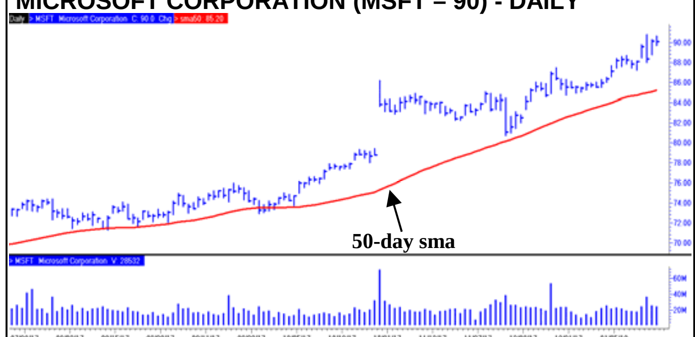
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



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

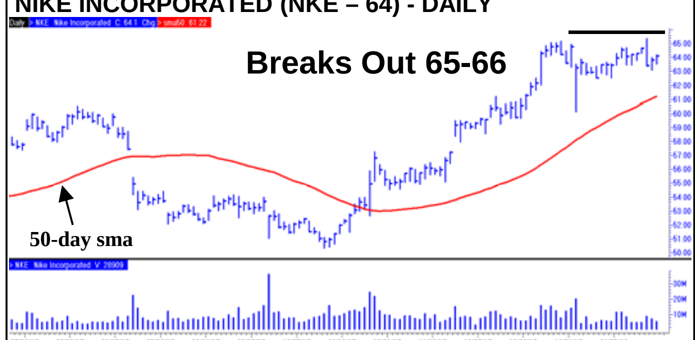
FACEBOOK INC. (FB – 180) - DAILY

MICROSOFT CORPORATION (MSFT – 90) - DAILY

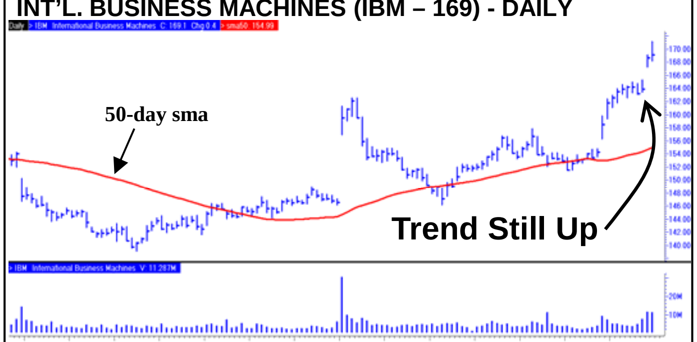


TWITTER INC. (TWTR – 24) - DAILY

NIKE INCORPORATED (NKE – 64) - DAILY



INT'L. BUSINESS MACHINES (IBM – 169) - DAILY



WAL-MART STORES INC. (WMT – 104) - DAILY