EQUITIES PERSPECTIVE

January 20, 2017
DJIA: 19,732

Sell Banks … buy FANG. Well, maybe. Financials like the Banks and the Goldmans led the post-election rally, while the FANG stocks lagged badly. However, after winning the 50-yard dash from the low, Financials have gone nowhere and the FANG stocks have stepped up to somewhat fill the void. As per Ecclesiastes, the race is not to the swift, nor the battle to the strong – it's time and chance. By chance, Trump's election seems the time for Financials. His spending plans should abet already rising rates, and a little less regulation is the hope. However, nowhere in anyone's rosy financial scenario is mention of the term "growth," a word part-and-parcel of FANG, granted at a price. Financial stocks are the market's leadership, and foremost among them seem JPMorgan (83) and Goldman (231). However, in what could be a chaotic period of getting things done, and while the Financials become un-stretched, the FANG stocks could fill in quite nicely.

Following their surge, financial stocks have gone dormant, arguably a well-deserved rest. However, a bad day on Tuesday sent the S&P Financial sector to its lowest level in a month, though only slightly below the recent trading range. The market itself ignored the loss in this leadership group and closed within 1% of its multi-year high. After the run Financials have had, this seems only normal, but SentimenTrader.com points out that the last time this happened was in 2007, and before that, 1999. Again, the pattern here is that of a one-month low in the Financials when the S&P 500 is within 1% of a 3-year high. Not every occurrence was dire and sometimes there was little impact on the broader market. However, prices generally were lower over the next six months. Worse was the performance of the Financials themselves. Across every time period, returns were negative. The dynamic move off the low in the Financials would seem to make "this time different," but we would deny ever having used this phrase.

If the trend is your friend, what is no trend? Certainly it's not your friend. As much as 50%-60% of the move in any stock is a function of "the market." So without this wind at your back, it's just that much more difficult. Things change and clearly Toto, we're not in November anymore. Movement is muted – the range over the last five weeks is only 2%. The good news is that while there's little upside, there's little downside. And the fact is the market spends something like two-thirds of the time going nowhere which, in polite circles, we call consolidation. Together with market trend, group or sector performance is another big tailwind, as per the Financials recently and the Biotechs and Gold for parts of last year. It's a moveable feast, but Thursday's move into Rails was quite the surprise. Mind you, the charts are good, the story is good, but what can we say, they're Rails. CSX (45.5), after all, just had a little downside gap on a disappointment only to gap 18% higher Thursday. As you might recall, we view gaps as important.

The chart worked! As purveyors of technical analysis, pardon our surprise that a chart should work. We are referring to Netflix (138), alone among the FANG stocks to reach a new high and, arguably, the best of the charts there. In this case by "working," we are referring to the company's blowout numbers Wednesday night. You would think it should always be so – good chart, good numbers. Alas, there's a reason we're still doing this. In the old days, it did pretty much always work that a good chart or good price action meant good numbers. Someone always seemed to have the scoop, and the stock showed it. Then Reg FD came along and messed up everything. Now no one seems to know, though NFLX did rally in the last 10 minutes, humm. The other problem these days is "the call." The call is the conference call following the earnings release and this sometimes puts the kibosh on even a good number.

Overall the market backdrop remains solid. Dormant though it may be, the Advance-Decline Index made a new high a couple of days ago, not how markets get into trouble, at least big trouble. However, the lack of upside momentum always leaves things a bit vulnerable – they say you need buying for stocks to rise but they can fall of their own weight. Then there's the sentiment background which, in this case, shows too many on the same side of the boat. When it comes to the Russell, for example, there is a record net speculative long position. Against this, it's hard to surprise up, not so hard to surprise down. Not that anyone would expect Donald to surprise. More likely the market will become impatient with the lack of surprises – at least positive ones. Generally speaking, stocks declined in the month of February of a new administration 8 of the past 11 times, and by an average of 4%. Getting down to 20% in stocks above their 10-day moving average might prove a better entry point, even for the FANG stocks.

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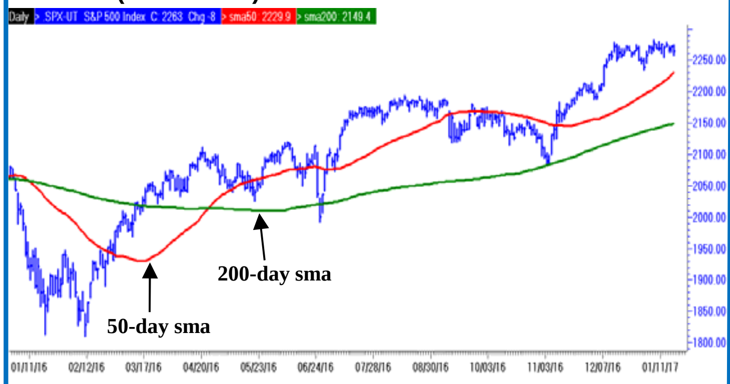
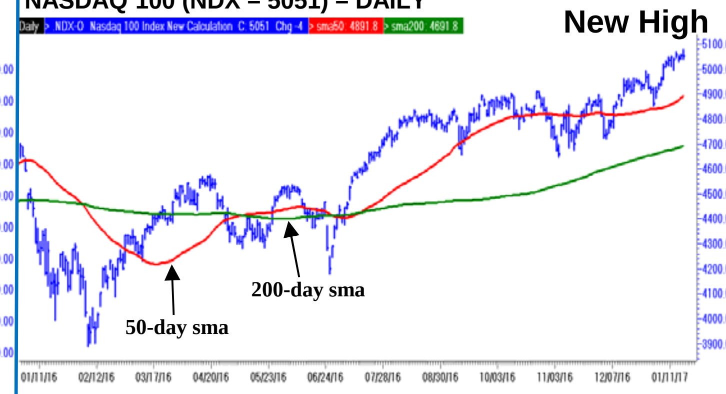
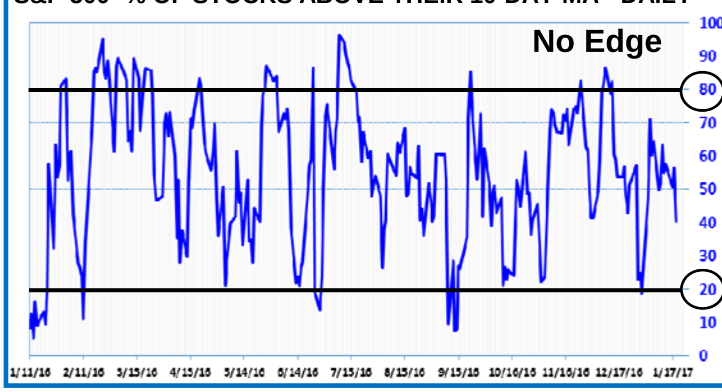
S&P 500 (SPX – 2264) – DAILY



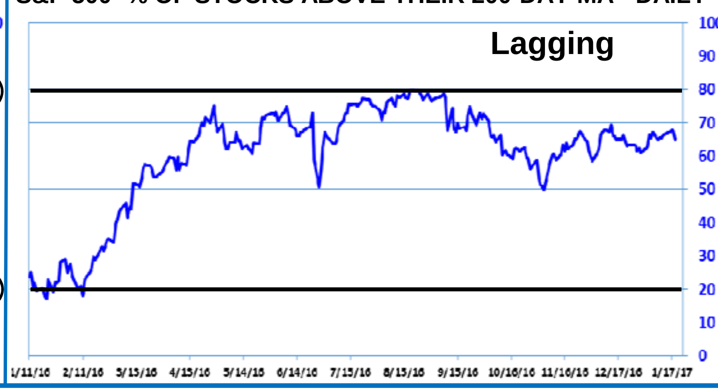
NASDAQ 100 (NDX – 5051) – DAILY



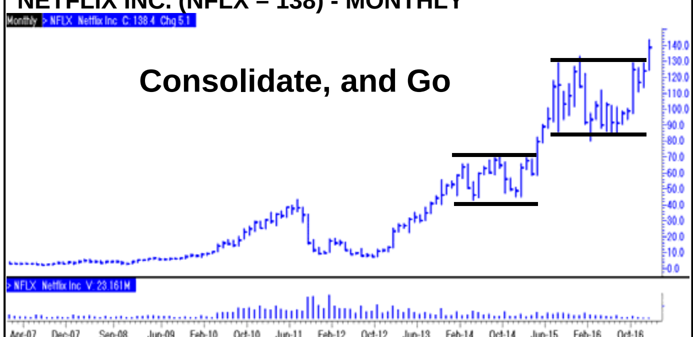
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



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



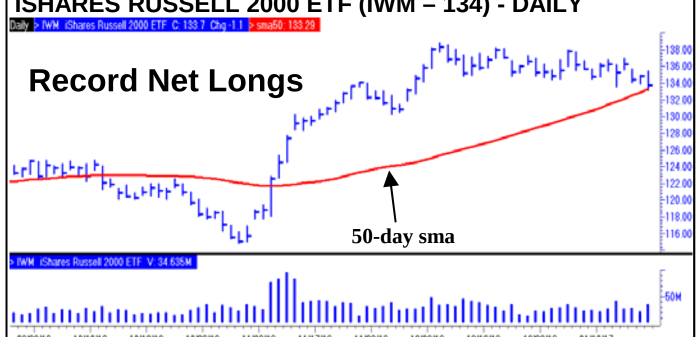
NETFLIX INC. (NFLX – 138) - MONTHLY



CSX CORPORATION (CSX – 45.5) - DAILY

SPDR FD FINANCIAL (XLF – 23) - DAILY

ISHARES RUSSELL 2000 ETF (IWM – 134) - DAILY



FACEBOOK INC. (FB – 127.5) - DAILY

ALPHABET INC. (GOOG – 805) - DAILY