

# EQUITIES PERSPECTIVE

January 22, 2016

DJIA: 15,883

Sure things look desperate ... but desperate enough to be discounted? The latter is the key to making a low. Last August we were all about to succumb to Ebola and commerce was about to grind to a halt. The market bottomed because the sellers were satiated, the bad news discounted. As it happens, the market's technical background now is in almost the same position as it was last August. Prices are stretched to the downside. Forget terms like "oversold" that everyone likes to throw around, markets are stretched. It's one thing to talk about stocks above their 10-day moving average, which at a recent low of 4% was close to the August low of 1%. More important here is something a little bigger-picture, like the percent of stocks above their 200-day moving average. The 15% number after Wednesday compares to 16% last August and is a bear market ending sort of number. Bear markets don't come and go in two weeks, but they do have sharp countertrend rallies, one of which should be at hand.

Among other measures of the extreme selling is 12-month New Lows. Of the stocks traded on the NYSE, more than 40% reached New Lows Wednesday, one of the highest readings ever. At one point Wednesday, the Advance-Decline ratio was 30-to-1 on the downside, as extreme as we can recall. Price action is only part of the backdrop for a washout low. The other part is investor reaction to the weakness. In this case, what's needed is a little panic – someone screaming Ebola. Panic causes selling, selling not buying makes market lows. In this regard, the VIX on Wednesday reached an intraday high of 32, pretty much the highest level since the spike high last August. The VIX always could move higher, and stretched always could become more stretched. However, the background does seem right for a decent rally – making a real low would involve a "test" and all that good stuff, but sufficient unto the day.

General Motors (30) raised its 2016 profit guidance the other day and Ford (12) recently predicted record earnings. However, if you believe the charts tell a story, their story is a much different one. Automakers sold a record 17.4 million cars in the U.S. in 2015. It's almost hard to connect the price action in the stocks with these sales numbers and sub-\$2 gas prices. However, already the rationale seems to be unfolding. Two weeks ago the top U.S. auto retailer, AutoNation (46), said it expects a sharp drop in Q4 earnings amid slower U.S. car sales and "significant retail discounts," especially in the premium luxury segment. What looks bad for automakers looks worse for auto suppliers. Shares of Borg Warner (29) and American Axle (13) plunged recently on weak guidance. It was much the same story for Lear (101) and Delphi (65). The already weak retail sales could get much weaker as Autos join a bear market in everything Transport.

Growth always changes and moves to new foundations, and so too does leadership in the stock market. Indeed, it is with rare exception that leadership from one cycle continues into the next. You need only think of the Housing and Banking stocks which led going into the 2008 peak, and their relatively lackluster performance since the 2009 low. And other than its peak in 2000, when was the last time Cisco (23) came close to 84.75? Keep in mind that back then Cisco was revered. Kind of reminds you of the FANG stocks – Facebook (94), Google (727), Netflix (102) and especially, Amazon (575). How can you not love Amazon, particularly now that they're actually making money? Especially in the fourth quarter, all of these stocks rallied enough to leave them stretched relative to their moving averages. And, by the way, by the time they get around to naming stocks and groups – FANG, nifty-fifty, one-decision – it's usually near the end.

Wednesday's intraday upside reversal looked impressive, though it's a telling commentary when it's a relief to only close down 250 points. Reversals like Wednesday's have a mixed record and Thursday's rally wasn't exactly a ringing endorsement of a sold-out market. When the selling is done and stocks washed out, one or two 80% up-days are not unusual – 80% of up-down volume to the upside. If a low is in place, all stocks should lift and, typically, down the most lifts the most. To some extent there was some of this Thursday in the form of a decent day in the commodity stocks. Thursday was not critical, but something good should happen in the relatively short run of the next week or so if a low is in place. There was a rumor around Wednesday that a sovereign wealth fund was liquidating. We can't mention the name, but its initials are N-O-R-W-A-Y. This is another sort of thing typical of lows. The rumor, by the way, is easily believed if you look at the many signs of oil-related financial stress.

Frank D. Gretz

### S&P 500 (SPX - 1869) - DAILY

Daily > SPX:01 S&P 500 Index C: 1868 Chg 9 > sma50: 2026.7 > sma200: 2051.3

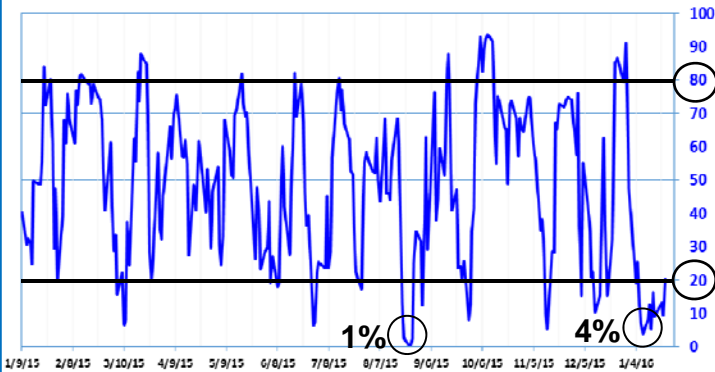


### NASDAQ 100 (NDX - 4143) - DAILY

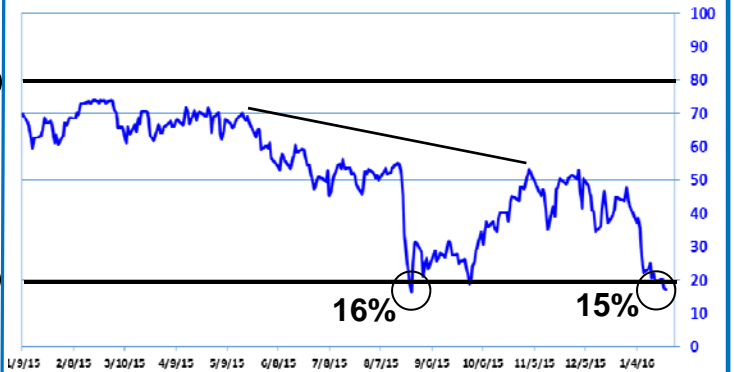
Daily > NDX:01 Nasdaq 100 Index New Calculation C: 4140 Chg 6 > sma50: 4539.5 > sma200: 4469.5



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

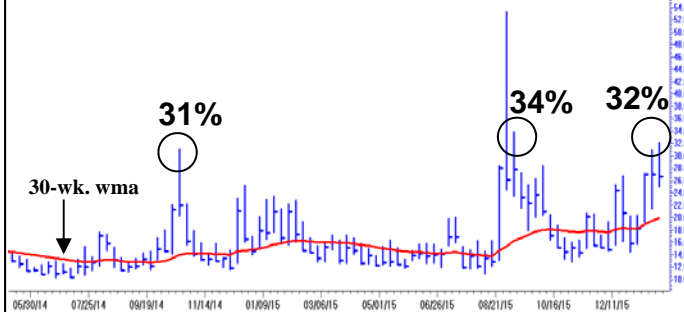


### S&P 500 -% OF STOCKS ABOVE THEIR 200-DAY MA - DAILY



### CBOE MARKET VOLATILITY (VIX - 27) - WEEKLY

Weekly > VIX:01 CBOE Market Volatility C: 25.6 Chg 0.9 > sma50: 19.92

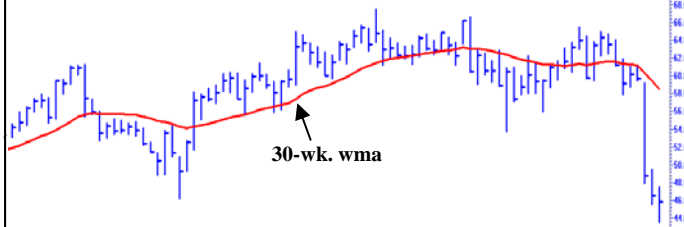


### ADVANCE-DECLINE INDEX - DAILY



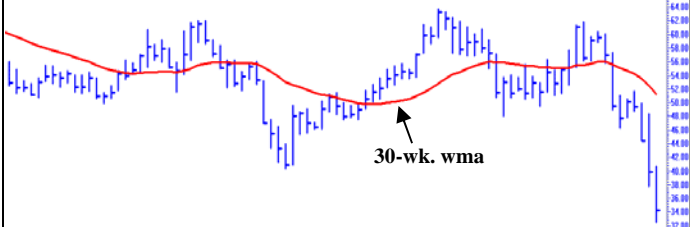
### AUTONATION INCORPORATED (AN - 46) - WEEKLY

Weekly > AN: Autonation Incorporated C: 45 Chg 4 > sma50: 58.60



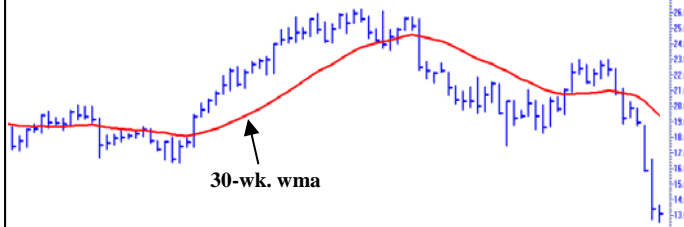
### TEXAS CAPITAL BANCSHARES (TCBI - 34) - WEEKLY

Weekly > TCBI: Texas Capital Bancshares Inc C: 34 Chg 6 > sma50: 51.25



### AMERICAN AXLE (AXL - 13) - WEEKLY

Weekly > AXL: American Axle and Manufacturing Holdings Incorporated C: 13 Chg 0 > sma50: 19.41



### AMAZON.COM INCORPORATED (AMZN - 575) - MONTHLY

Monthly > AMZN: Amazon Com Incorporated C: 688.4 Chg 13.4

