

EQUITIES PERSPECTIVE

January 5, 2018
DJIA: 25,075

Let's party like it's 2017 ... again. The Christmas lull proved just that, and demonstrated once again it was a good year for many things, but seasonality was not among them. As the new year begins, one can't help but think we're due for a long-overdue correction. In the stock market, however, momentum often takes on a life of its own. What could be simpler than a "trading system" based on monthly performance? You go long or short based on the prior month's performance—given that March was the only down month last year, the system worked well as, indeed, it has historically. Last year's 20% return was impressive, but since 1943, the S&P has done so 26 times. Of those, the market followed with another positive return 20 times. Naturally, up doesn't mean straight up. To further rain on the bullish parade, four of the six down years were when the Fed was tightening, as we hear tell they're doing now.

Other than nuclear war, the Fed and rates seem the "what could go wrong." The market knows this too, of course, and while the big-cap averages can ignore it, there are plenty of stocks negatively impacted by higher rates. Everyone thinks the Banks love higher rates, but we're not so sure. Certainly, the Utilities and most REITs do not. In any event, when, or if, higher rates do impact stocks, it will show up in the advance-decline numbers. With the Advance-Decline Index at new highs, obviously there's no impact as yet. Keep in mind, too, peaks in the A-D Index precede peaks in price by 4-to-6 months. So no important problems for now, but this doesn't mean straight up. More often than not, breadth divergences develop out of a decline followed by a weak rally in breadth. The rally looks just fine because the market averages recover, but breadth doesn't quite make it. All looks well and the lagging breadth can go on long enough to make you think all is well, though it's not. For now, sufficient unto the day.

It's looking like the same-old in terms of the overall market—those boring new highs most days. It's also looking like the same-old in terms of the FANG stocks—Netflix (206) is the surprise there, turning around a dubious short-term pattern. Even the Semis and the rest of Tech could be good again, though it's a bit early to say. This is not a negative, it's just too early to distinguish a mean reversion from an uptrend resumption. The thing that could hold back, or even disrupt, this leadership is the new tax bill. It has to mean a lot to those going from a 30%-35% tax rate to 21% and this shows up in stocks like Restaurants, Retail, Foods and basically most that are domestic. It's not that everything can't go up, it's just that they usually don't, and you can't ignore the run Tech has had. At the very least, let's just say there's more to choose from—Wal-Mart (100) as well as Amazon (1210). Have you noticed the commodity stocks? It's more than just Oil.

Now that we're through the first three trading days of the year, so far, so good, according to the Stock Trader's Almanac. The last 42 positive first five days were followed by full-year gains 35 times, or 83%. Then, too, 14 of the 25 negative first five days were followed by up years, leaving you with a dubious insight in that most years are up. Then there's the "January Indicator" itself, which states that as the S&P goes in January, so goes the year. According to the Almanac, there have been only nine "major errors" since 1950, for an 86% accuracy ratio. What is interesting here are the down Januaries. Since 1950, every down January has been followed by a new or continuing bear market, a 10% correction, or a flat year. There's no telling, of course, when such weakness might begin. Unlikely as it might now seem, there's another negative that sometimes takes place in January. When weakness in January breaks the December low, S&P 2606 in this case, it's typically a bad sign.

They like to say this is the most unloved bull market in history, yet according to the latest poll by the American Association of Individual Investors of how individual investors are positioned, they have one of the most exposed positions in 30 years. Sentiment like this measure is not a timing tool and those advance-decline numbers are far from perfect, but momentum trumps sentiment. There are virtually no significant declines without divergences. Sentiment and momentum indicators tell you something about the state of things, but they're always anticipatory and invariably early. Ironically, a here-and-now analysis can be much simpler—just look at the trend. In this case, "analysis" may be too strong a term for something that need involve only a ruler. You can make it more complicated and more precise by using moving averages, specifically the 50- and 200-day. The S&P has been above its 200-day since June 2016, that is, it's a bull market. All the gains in stock prices occur when the 50-day is above the 200-day.

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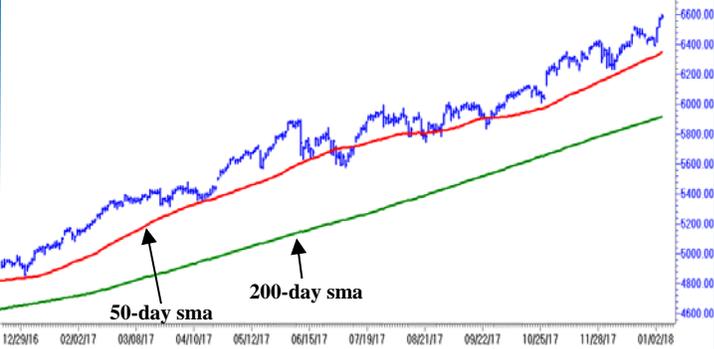
S&P 500 (SPX – 2724) – DAILY

Daily | SPX-01 | S&P 500 Index | C: 2723 | Chg 10 | sma50 2626.0 | sma200 2467.4

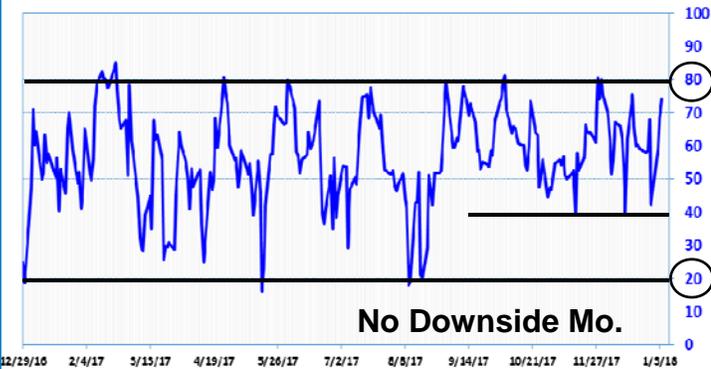


NASDAQ 100 (NDX – 6585) – DAILY

Daily | NDX-0 | Nasdaq 100 Index New Calculation | C: 6584 | Chg 8 | sma50 6347.7 | sma200 5918.4



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

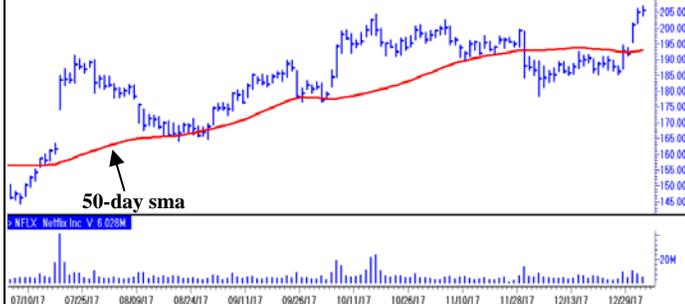


ADVANCE-DECLINE INDEX - DAILY



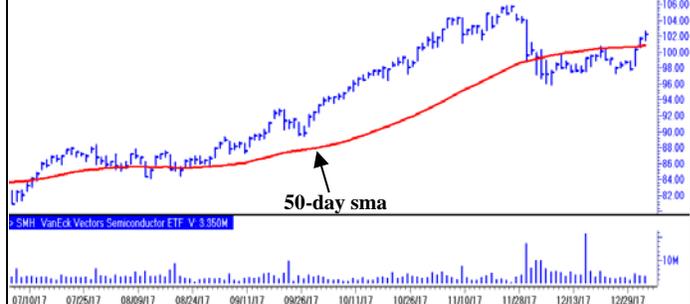
NETFLIX INC. (NFLX – 206) - DAILY

Daily | NFLX | Netflix Inc. | C: 205.6 | Chg 0.5 | sma50 192.96



VANECK SEMICONDUCTOR ETF (SMH – 102) - DAILY

Daily | SMH | VanEck Vectors Semiconductor ETF | C: 102.3 | Chg 0.5 | sma50 100.84



FORD MOTOR COMPANY (F – 13) - DAILY

Daily | F | Ford Motor Company | C: 12.3 | Chg 0.3 | sma50 12.37



POWERSHARES DB BASE METALS FUND (DBB – 19) - DAILY

Daily | DBB | PowerShares DB Base Metals Fund | C: 18.3 | Chg 0.1 | sma50 18.53



CISCO SYSTEMS INC. (CSCO – 39) - DAILY

Daily | CSCO | Cisco Systems Incorporated | C: 38.9 | Chg 0.3 | sma50 38.57



MICROSOFT CORPORATION (MSFT – 87) - DAILY

Daily | MSFT | Microsoft Corporation | C: 87.1 | Chg 0.3 | sma50 84.05

