WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

January 6, 2017
DJIA: 19,899

It's not how you start … it's how you finish. You might think this a reference to some of those come-from-behind wins by Secretariat. However, we're thinking about the market, where good and bad starts have proven tricky. Many call the first hour of trading "amateur hour," after which direction often changes. And so it did both Tuesday and Wednesday, when relatively impressive openings saw prices peak a little after 10 am each day. The finishes, though, at least were adequate. Impressive, even in any intraday weakness, were those advance-decline numbers. There was no weakness there, even as the averages went down. We can only say, as we have ad infinitum, this just isn't how markets get into trouble. The "average stock," of which the Advance-Decline Index is a good proxy, peaks before the stock averages. Meanwhile, a poor Christmas week typically doesn't bode well for a good January. However, a good start to January typically does bode well for some follow-through.

It's a new year and, by the look of it, a Cole Porter one – anything goes, up, that is. This has nothing to do with the Trump stocks, which did take a little break in December's second half. It's about the "January Effect," or the tendency for beaten-up stocks to lift in January. Groups to catch a bid this week were the Biotechs and other much-maligned Health Care shares, including big pharma. For virtually all of last year, these were "last year's stocks," but this just might be changing. Last year they were under the political thumb and, of course, this won't completely go away. By now, however, much of the bad news seems discounted, or in the stocks, as they're wont to say. In the event, stocks like Johnson & Johnson (117), Bristol-Myers (60), Pfizer (34) and Lilly (76) have come a long way, chart-wise, from the dark days. They are big-caps when small-caps are all the rage, but the market has broadened and they have been dormant for a while.

A new high in the Advance-Decline Index means no big problems for now. And, while there's no point looking for problems, there are at least a couple of technical issues out there. The 10% post-election rally has been impressive, granted, in some places more than others, like Financials. And there's all the hoopla over DJIA 20,000, yet even after the rally this week, only 67% of stocks are above their 200-day moving average. It seems a bit odd that for all the rally, the new high in the A-D Index and all the rest, only two-thirds of the S&P stocks are in medium-term uptrends, that is, above their 200-day moving average. Granted, things could change, but so far we're not even back to the 70% level of just a few weeks ago. Moreover, even the rally off the 50% level of early-November managed only 70%, well short of the 80% level of the summer. Given the short-term backdrop, for now this really is no big deal. However, market tops are about unwinding momentum, and unwinding momentum looks like the picture of stocks above their 200-day average.

Last week we suggested the new year might be time for a little caution, among other things a weak Christmas week often leads to a weak January. Clearly this was a little less than prescient and, as we mentioned, a good start to January usually results in some follow-through. However, now that we find ourselves in this January Effect rally, keep in mind there's a reason they call it the "January" Effect. A week ago, too, stocks above their 10-day moving average were 20%, set up to rally. Now they're 71%, set up for a rest. More important is why the market already is up 10% – the idea that all that is promised will get done, which it won't. You often hear the market is "stretched" in terms of price or in terms of valuations. This market is stretched in terms of expectations, so it's still time for some caution, probably after we finally get 20,000 out of the way. Meanwhile, much of the Energy sector is on the verge of breaking out, and don't look now, but Gold acts better.

Tesla (227) missed its delivery target – the stock sold off for about 5 seconds. Tesla almost always misses this target so perhaps, after the brief selloff, everyone got it. However, Tesla seems to have almost an uncanny ability to escape bad news. It's almost reminiscent of Amazon (780) a few years back when the company always lost money because they were "investing," but we all wondered. Now we know, and many seem to think the same about Tesla. For years the mainstream automakers picked on the mileage issue. Ford (13) recently announced plans to build a car with a 300-mile range. However, they plan to build it by 2020 and Tesla is already there. Mainstream automakers obviously have plenty of resources. Over the years, however, the history of auto making and technology has been anything but remarkable. Tesla stock has acted better but the chart overall is a bit of a Rorschach test.

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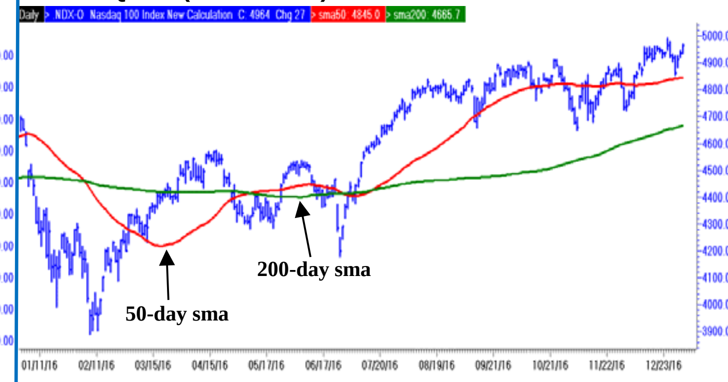
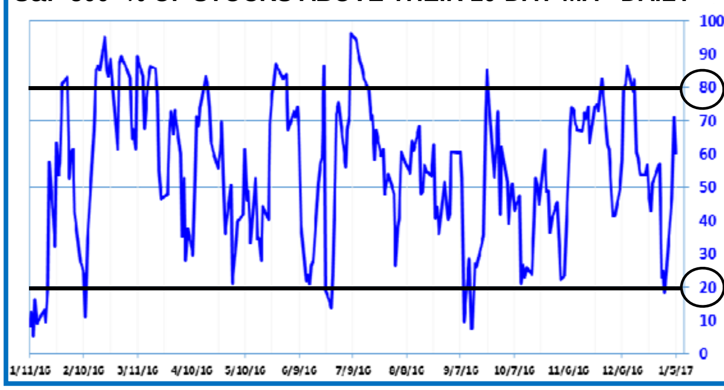
S&P 500 (SPX – 2269) – DAILY

NASDAQ 100 (NDX – 4965) – DAILY



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



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

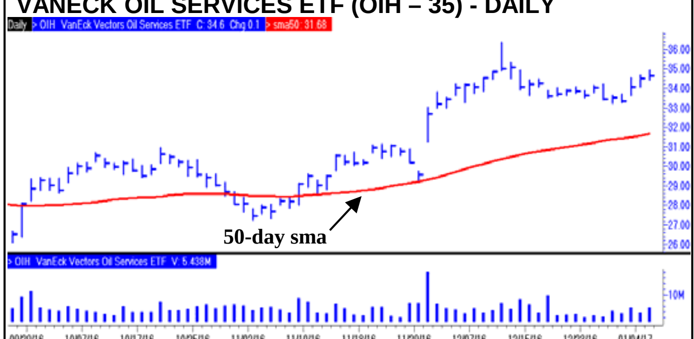
TESLA MOTORS INC. (TSLA – 227) - MONTHLY

VANECK VECTORS GOLD MINERS ETF (GDX – 23) - DAILY

HEALTHCARE SELECT SECTOR SPDR (XLV – 71) - DAILY

AMGEN INC. (AMGN – 153) - DAILY

VANECK OIL SERVICES ETF (OIH – 35) - DAILY



ENSCO PLC (ESV – 11) - DAILY