WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

July 1, 2016
DJIA: 17,930

They look like they're never going up again … then they look like they're never going down again. Granted, there was a little news, but it was bad news and news that won't soon go away. The good news about the bad news – this is not how bear markets begin. Indeed, bear markets begin gradually, as the market loses participation. Often the news is more than just a little good, resulting in a final burst of speculation – nifty-fifty, dot-com, Japan Inc., and the "$200 oil" rally in the summer of 2008. By contrast, it's bad news that ends bear markets rather than begins them. Lehman, the housing bubble – the news gets so bad, how can you not sell? The Brexit will have ongoing consequences, roiling markets, as they say. However, for some blissful interval, no one really knows for sure the extent of those consequences, giving markets a chance to adjust. The bad news served a useful purpose – it got the selling out of the way.

Last Friday, and again on Monday, selling was intense. Index losses are one thing, but when 90% of the volume is in declining issues, that is intense. As you will recall, however, this is only half of the "washout" process. If sold out, they should lift with relative ease – the sellers should be satiated. Typically, 80%-90% up volume is the key here, and Tuesday's rally saw the 90% level reached, as well as 80%+ advancing versus declining stocks. What we've seen, in other words, is a low much like that of August and again in January, but we've seen it in less than a week. After these "washout" sort of lows, a "test," or move back to the low, is not uncommon. However, like August and January, there likely now is a positive reset to the market. Both Tuesday and Wednesday saw upside volume greater than 85%. Of the 41 other times such consecutive days occurred, the market three months later was higher 80% of the time.

Some likened Brexit to Lehman or even October '87. The background then was much different. Even if you look at QCHA, which measures price change in NYSE stocks versus just direction change, and has lagged the conventional Advance-Decline Index, since the February low there's been no divergence. Naturally, not all of the market's problems have been absolved with a couple days of rally. The Transports remain what might be called awful and, at least as measured by the Russell 2000, secondary stocks still lag. We confess to a little surprise there since secondary stocks tend to be domestic, and domestic seems where you want to be. The obvious exception there being the Financials, where avoidance is all-encompassing. U.S. Banks have seen the worst revenue growth in 80 years, at least until next year. It's hard to make money with a mantra of de-risk and deliver.

We have pointed out the usefulness of one of the most simplistic "technical indicators" out there – the percent of stocks trading above or below their 10-day moving average. Perhaps if we called it our "super-secret" technical indicator, more would pay attention. Apparently most don't, because it still works. Of course, it's too short term for "professionals" who, after all, are not "traders" and don't "market-time." Buy high, sell low, make it up on volume is, we suppose, an investment strategy. The 20%-80% levels are not carved in stone, they're more of a guide to the market's relative position. The recent low, for example, was 14% for the S&P 500 stocks. Similarly, 80% isn't necessarily a signal to sell. Good markets become overbought and stay overbought. They don't give you a good chance to get in. Already we've seen the most net 12-month New Highs since October 2014. Getting to 80% and staying there would be a good sign.

If domestic seems the place to be, it's hard to explain how Exxon (94) has come to be one of the best charts around. The real answer to the Exxon performance could simply be yield. Those dividend payers continue to outperform, including a new high Thursday in the S&P Dividend Index (SDY-84). That said, the worst seems over for Oil, and the second half could offer a pleasant surprise. Defense stocks aren't particularly domestic, but they seem impervious to most problems and often benefit. Construction stocks, particularly those with an infrastructure leaning, also seem attractive. The woes besetting much of Retail seem to have left Dollar Tree (94) and Dollar General (94) unscathed, at least by the look of those charts. Despite Hershey's (113) kiss-off to Mondelez (46), every food stock now seems in play. And, finally, the bull market in Gold still remains in place, both in terms of the commodity (GLD-126) and the stocks (GDX-28).

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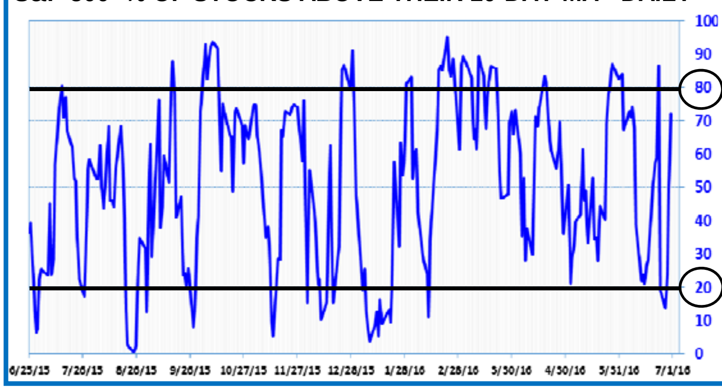
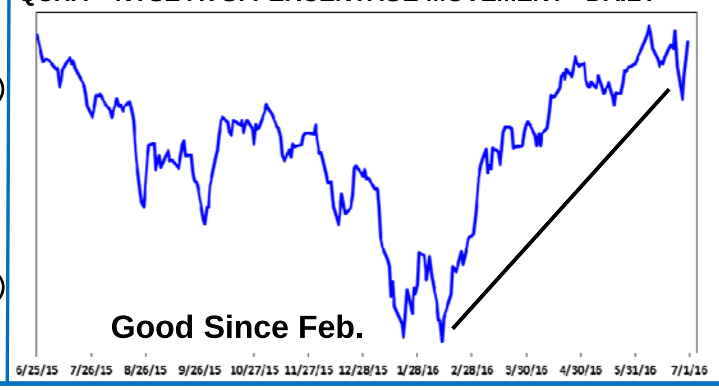
S&P 500 (SPX – 2098) – DAILY

NASDAQ 100 (NDX – 4418) – DAILY

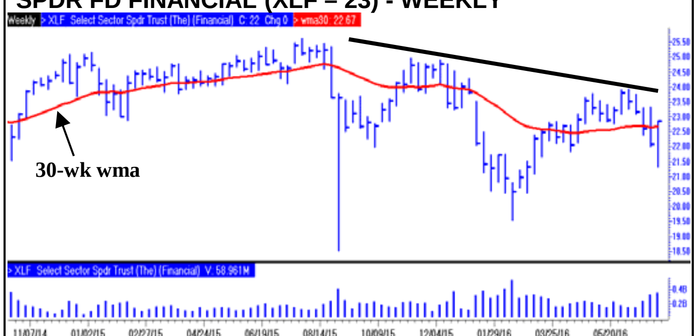
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



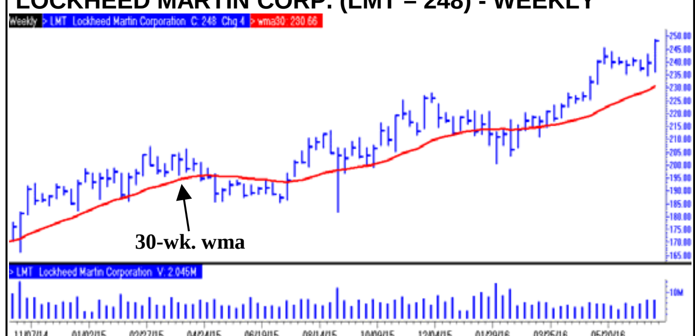
QCHA – NYSE AVG. PERCENTAGE MOVEMENT - DAILY



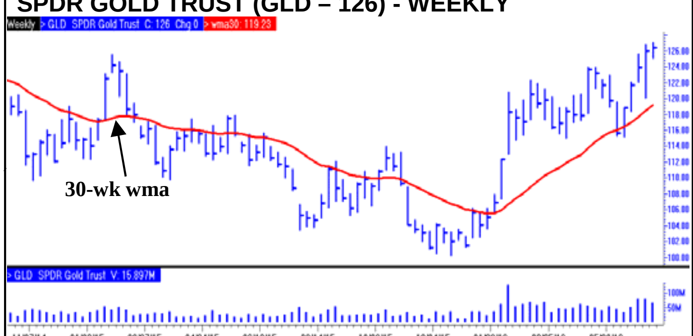
SPDR FD FINANCIAL (XLF – 23) - WEEKLY



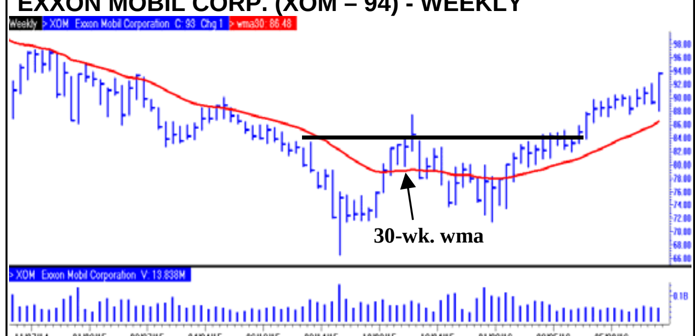
LOCKHEED MARTIN CORP. (LMT – 248) - WEEKLY



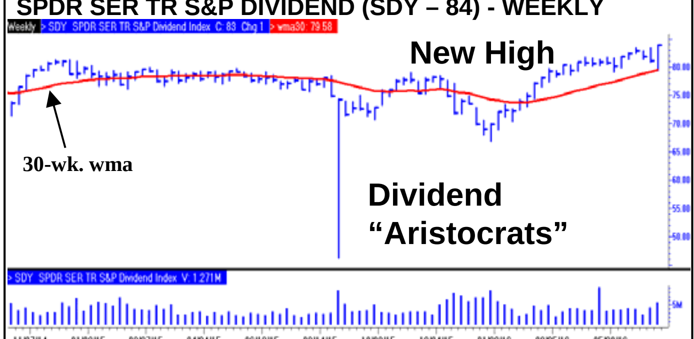
SPDR GOLD TRUST (GLD – 126) - WEEKLY



EXXON MOBIL CORP. (XOM – 94) - WEEKLY



SPDR SER TR S&P DIVIDEND (SDY – 84) - WEEKLY



DOLLAR GENERAL CORP. (DG – 94) - WEEKLY