WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

July 14, 2017
DJIA: 21,553

Whew … glad that bear market is over! While not a real bear market, it fits our definition – a bear market is when they sell OUR stocks – in this case those FANG stocks. Whether the annual Russell rebalancing, end-of-quarter maneuvering, or a weird rotation away from the winners were behind the selling, it's hard to say. If the new high in Facebook is any guide, FANG is on the mend, important in that you don't like to lose market leadership. More important to most, the Dow marked a new high Wednesday. Important to us, so too did the Advance-Decline Index. This almost seems surprising in light of what is not going up, namely Retail and Energy. While not important in terms of market cap, they are important in terms of number, and that is important to the Advance-Decline Index. Financials were the beneficiaries of any rotation, but are yet to break above recent consolidations. Bank reports Friday could be important here – up on good news would be good, up on bad news would be better, and so on.

The S&P and other major averages have had the lowest correlation in more than ten years. Big deal, you may say, but a similar pattern appeared in 2000 and 2007. Like almost all divergences, however, there are many false negatives. We emphasize divergences between the averages like the Dow, and what we call the "average stock," that is, the Advance-Decline Index. Here, too, there are plenty of false negatives, and divergences here can go on for months – they typically lead by 4 or 5 months before any serious consequences. Breadth divergences, however, have preceded virtually every important decline. The averages go up while "the market" is lagging until, eventually, the market or average stock drags down even the averages. An eight-year bull market is rare. The idea of an eight-year old bull market without breadth divergences is hard to believe. Everyone says there are just a few stocks going up. The advance-decline numbers say otherwise.

Since we rely on this time-tested concept of breadth divergences, we've wondered if we're missing something, if something has changed. Decimalization is one thing – a penny change makes a stock up or down versus 12 ½ cents years ago. Of more concern, in many ways, are the ETFs. When an ETF is bought, not just one, but a handful of stocks are bought. And the Advance-Decline Index is about direction only, not price change. Up one cent is just as good as up one dollar. To check for this problem, we've also looked at an advance-decline index based on the QCHA, which measures the percentage gain of advancing stocks in the NYSE minus the percentage loss of declining stocks in the NYSE. This, too, shows no divergence and also is at a new high, confirming the market averages which are price only. ETFs, nonetheless, are a worry.

It seems reasonable to worry about the so-called Trump agenda as the drip, drip you hear is his political capital. You almost have to be impressed that the market has remained so unfazed, when most had thought the agenda was behind the post-election strength. Then, too, maybe this is another of those things that don't matter until they matter. In any event, the one area that seems safe in this regard is defense spending. The Aerospace & Defense stocks, David Rosenberg points out, are up 30% over the past year, actually matching the performance of U.S. Tech stocks. That they have done so with far less hype or enthusiasm also seems a good thing, likely leaving room for that to come. What is surprising about these stocks, however, are the long-term patterns. We like to talk about the long-term pattern in a stock like Domino's (210), but the long-term charts in the major Aerospace stocks are every bit as good, a fact that is largely overlooked.

"Death by Amazon" is an index of 54 stocks created by the Bespoke Investment Group. As the name implies, it's a group of stocks being "Amazoned." Since 2012, the index is up about 25% versus 75% for the S&P. Amazon, however, is up 300%. Things change and yet, something as simple as Scotch Tape is yet to be Amazoned, or so it would seem to look at 3M. Clearly there's more here than tape, and these big Industrials like 3M (211), Honeywell (135) and United Technologies (123) have to be counted as part of the market's leadership. The Industrial sector ETF (XLI-69), for example, is at a new high, despite the GE (27) drag. Once again, the long-term patterns here are surprisingly positive. Stocks like this have helped the Dow move to a new high.

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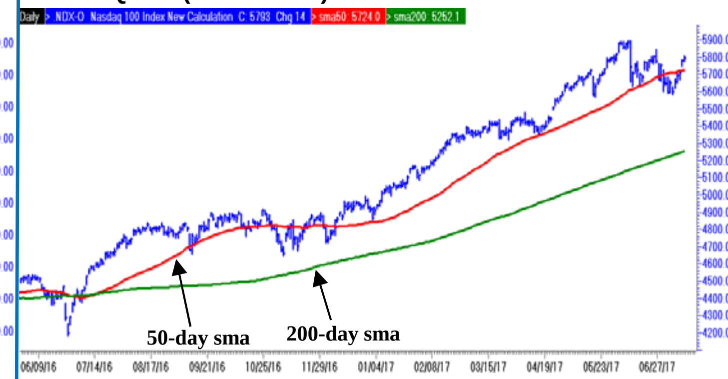
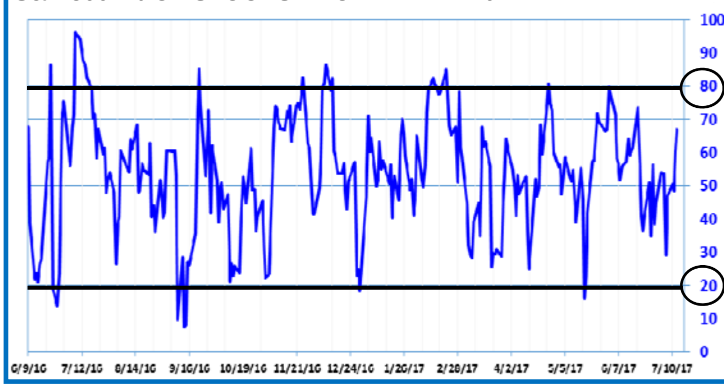
S&P 500 (SPX – 2448) – DAILY

NASDAQ 100 (NDX – 5793) – DAILY

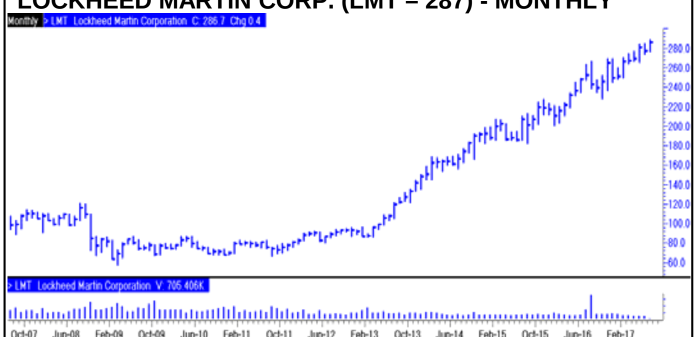


S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY

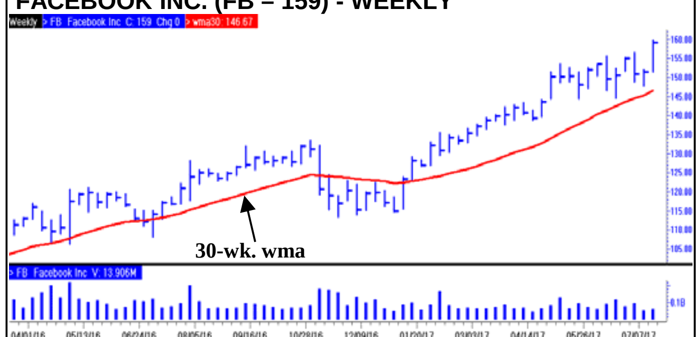


S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY

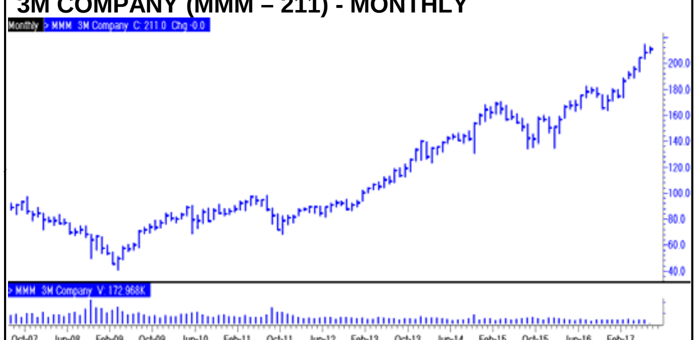
LOCKHEED MARTIN CORP. (LMT – 287) - MONTHLY



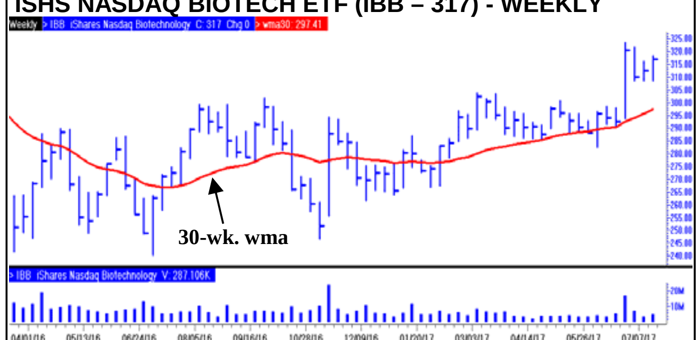
FACEBOOK INC. (FB – 159) - WEEKLY



3M COMPANY (MMM – 211) - MONTHLY



ISHS NASDAQ BIOTECH ETF (IBB – 317) - WEEKLY



INDUSTRIAL SECTOR SPDR (XLI – 69) - WEEKLY

KBW NASDAQ BANK (BKX – 96) - WEEKLY