

EQUITIES PERSPECTIVE

July 15, 2016
DJIA: 18,506

Sell in May ... buy in July? Though not the typical “seasonal pattern,” after December-January, typical hasn’t worked. Where it may be working is in keeping investors a little uncomfortable. Nothing new there, of course, fund flows have been poor for some time. Then, too, sideline cash always has seemed a mystery. All the sideline cash in the world won’t of itself produce higher prices. Yet, when cash levels seem low, we’ve noticed that if they want to, prices rally nonetheless. It’s a mystery. What is not a mystery is that money is falling all over itself, so to speak, to get in. This suggests that most are underinvested, a good idea when Brexit was all the rage. Money has poured in to an extent rarely seen. Up-volume has been 70%+ for the past two weeks, a buying interest not seen since coming off the 2009 low. The S&P has gained 7.5% in two weeks, the largest gain in nearly five years. If good markets don’t give you a good chance to get in, clearly it’s a good market.

Brexit, of course, was behind the most recent bout of panic and liquidity-build – evident in those back-to-back 90% down-days in terms of volume. In turn, that enough was enough was confirmed by the subsequent 90% up-day. When prices are washed out, they should move up with relative ease, as in a 90% up-day. What we’ve seen since has the look of a world that was completely underinvested. This pattern of 90% volume-days, down and then up, was the pattern both at the low last August and, again, this January. In this case there has been no “test,” or no move back to the washout low, which is not unusual. The best we can tell, a test of a washout low happens, except when it doesn’t. Using August and January as precedent, these washout lows produce reasonably durable rallies, sometimes even bull markets.

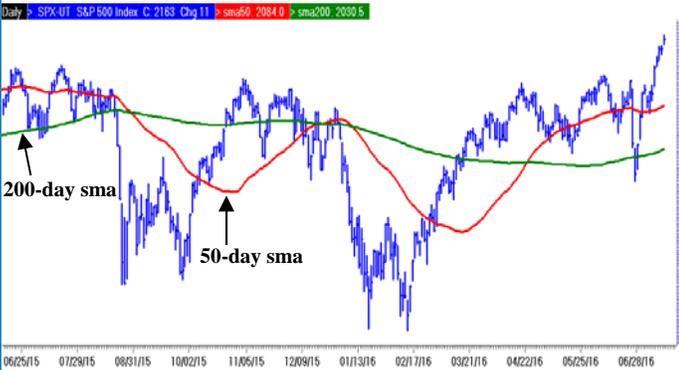
The concern now is that the market is up, overbought to use the over-used technical term. However, overbought doesn’t mean over – it depends. There are good overbought levels, and there are the garden variety, mean-reverting overbought levels. After a year of trading range, it’s the latter to which we’ve become accustomed and, hence, the concern. However, there also are what can be called “good overbought levels,” or ones which go to an extreme. The extreme indicates an unusual degree of buying, and one which tends to persist. The percent of stocks above their 10-day moving average is, among others, a useful measure of this overbought/oversold idea. Here, the 20%/80% levels have proven useful guides as to when you might get ready to buy or get ready to sell, respectively, at least on a short-term basis. In this case, however, stocks above their 10-day reached 96% a few days ago, the highest level in years. It can’t stay there, of course, but don’t expect 50%, let alone 20%, for quite some time.

Advance-Decline numbers have been stellar, and even a cumulative index of the QCHA, a measure of the price change in NYSE stocks, reached a new high. The Transports are well off their high of late-2014, but even here there’s good news, of sorts. There’s a divergence, but the Transports aren’t “diverging” in the sense that they’ve performed well enough recently. The NASDAQ is lagging, but there you’re only a week away from a new high if the “FANG” stocks get going. The big drag for the NAZ, at a market cap weighting of 14%, has been the Biotechs. Day-to-day, Gold is trading a bit inversely to the averages – market up, precious metals down. With Brexit worries having waned, and the stocks somewhat extended and suddenly loved, they could correct. However, we’ve never seen Gold as a Brexit play, or, for that matter, a play on negative rates. Gold is a play, so to speak, on its six-year bear market having ended in December.

Had you somehow anticipated this outsized market move, quite naturally you might have anticipated an equally outsized move in the “FANG” stocks. Another example of how, in the stock market, simple logic rarely works. In the event, while Amazon (741) actually had a little “breakout,” even there it’s a story of little follow-through so far. The performance of the other three, Netflix (98), Facebook (117) and Google (736) has been subpar, to be kind. The same goes for everyone’s fav, Apple (99). However, the night is still young. Despite JPMorgan’s (64) surprisingly good numbers, it’s hard to see the Banks and most of the Financials going anywhere, let alone leading. That said, the tide will lift all ships, to coin a phrase. Leadership remains in the big dividend payers, as per the S&P Dividend Index (SDY-86), where a new high preceded that of the S&P itself. General Mills (72) and Kellogg (85) look like you might have expected the FANG stocks to look. Other areas that remain positive include Aerospace/Defense and those construction stocks, like Vulcan (124).

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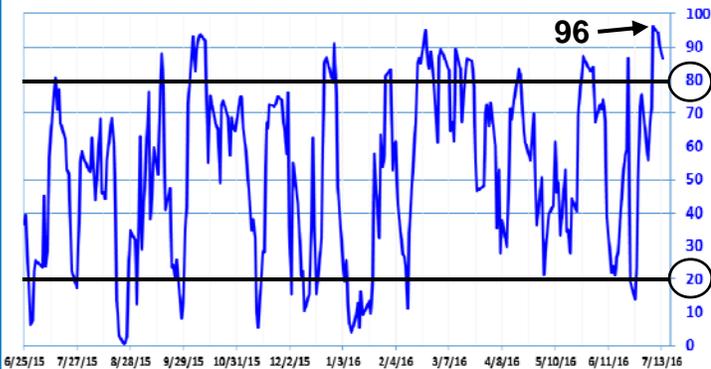
S&P 500 (SPX - 2164) - DAILY



NASDAQ 100 (NDX - 4596) - DAILY



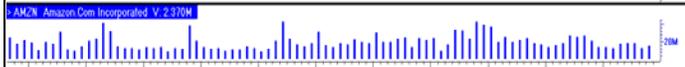
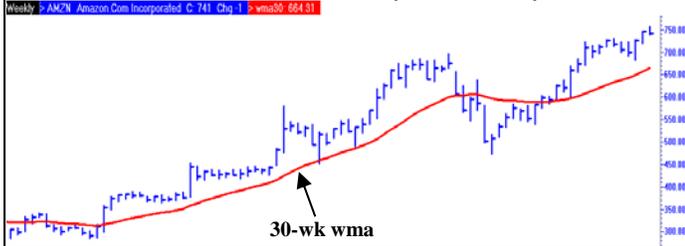
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



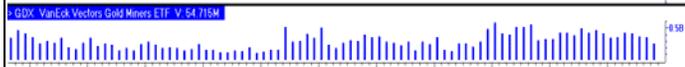
QCHA - NYSE AVG. PERCENTAGE MOVEMENT - DAILY



AMAZON.COM INCORPORATED (AMZN - 741) - WEEKLY



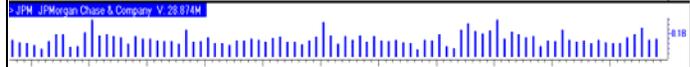
VANECK VECTORS GOLD MINERS (GDX - 30) - WEEKLY



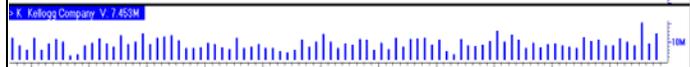
SPDR S&P DIVIDEND INDEX (SDY - 86) - WEEKLY



JPMORGAN CHASE (JPM - 64) - WEEKLY



KELLOGG COMPANY (K - 85) - WEEKLY



VULCAN MATERIALS COMPANY (VMC - 124) - WEEKLY

