WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

July 21, 2017
DJIA: 21,612

Netflix … the stock they love to hate. If the truth be known, the FANG stocks generally are not exactly embraced — seems they're overvalued, as they have been all the way up. Up some 13% Tuesday, it's not the number that matters, it's the "surprise" that matters, in this case, subscriber growth. In a world where "Death by Amazon" is actually an index of stocks, there is a certain irony here — Amazon already is in this business, but apparently is being out-Amazoned. The move and all-time high in Netflix (184) may be important beyond the stock itself. It's a little early to say for certain, but Netflix may give a spark to the heretofore somewhat languishing FANG group. For that matter, the Vertex (159) news could give a lift to the consolidating Biotechs. We've long thought a bull market like this one would not go out with a whimper, but would go out with a blowoff move somewhere. The FANG or the NAZ generally seem prime candidates.

As July began things were about as good as they get, technically speaking. All of the market averages were at their highs and, perhaps more important, so too was the Advance-Decline Index. That's the good news and, without question, it is good news. There is, however, a big however here. For whatever reason, new highs in July lead to no better than random results, according to SentimenTrader.com. Since 1928, the market has made a new high in July 149 times but 30 days later was positive only 40 of those times. This average return, though, was a not so horrible -1.5%. While a bit disappointing in terms of technical theory, there may be a simple technical explanation as well. When, like now, the market is at a new high, chances are it's overbought, or stretched to the upside. And, indeed, this is exactly the case, with stocks above their 10-day average recently around 78%, about as good as it gets so far this year.

In the category of "there's always something," there are a few things. There's the idea that July typically is a tough month, especially when you go into it with a technically perfect background. And, over the last four years, the S&P peaked around this time. There's the idea that this perfection has left the market a bit stretched to the upside, overbought as they like to say. There are less obvious negatives like Tuesday's NAZ new high with only 45% of the stocks up, versus a typical average of 60%. There's the ongoing weakness in Oil, which doesn't matter until it matters. Then there's the "agenda," which the market seemed to use as a reason to rally. Trump's approval rating isn't much better than Nixon's 19% the day he resigned. Famous last words, but none of this is something the market can't live with, or not.

While we're no experts on ETFs, it's worrisome that there may be no experts on ETFs. Does anyone really know what will happen when push comes to shove in ETF-land? Can selling in the underlying stocks keep up with selling in the ETFs? Already we've seen a few times when it wasn't so and, as to the result, disruptive is putting it kindly. Disturbing, too, is the feeding-on-itself idea like portfolio insurance of yester-year. Sell futures as insurance, stocks as a result are sold and, before you know it, it's October 1987. It seems important to keep in mind, however, portfolio insurance did not cause October 1987. It turned it into a disaster, but it wasn't the cause. The cause was a market that had peaked. The Advance-Decline Index peaked in May of that year and began a series of divergences, finally ending in October. There was going to be a bear market — portfolio insurance made it a one-day bear market. This market, instead, is still healthy. We worry about ETFs, but not so much until the trend turns down.

Have you noticed the number of triple-digit stocks? How about quadruple-digit? Naturally everyone took note of Amazon (1029) crossing $1,000 because it is, after all, Amazon. It's a mere pittance, however, compared to Priceline, which Thursday crossed $2,000. Doesn't anybody split their stock anymore? There was a time we used to use the number of stock splits as a not terribly profound market indicator — the more splits, the more likely a top, which isn't much better than saying the more stocks are up, the more likely it's a top. In this market, maybe we should be counting the number of triple-digit stocks as a guide to a top. For now we'll just stick with those breadth divergences, which are yet to appear. Meanwhile, Tech remains leadership. Over the last two weeks, breadth in this sector is about the best ever, impressive in that the sector is at a high rather than coming off a low. Similar periods led to mixed results short term, but higher prices later. Biotech/Healthcare looks good, and is less extended.

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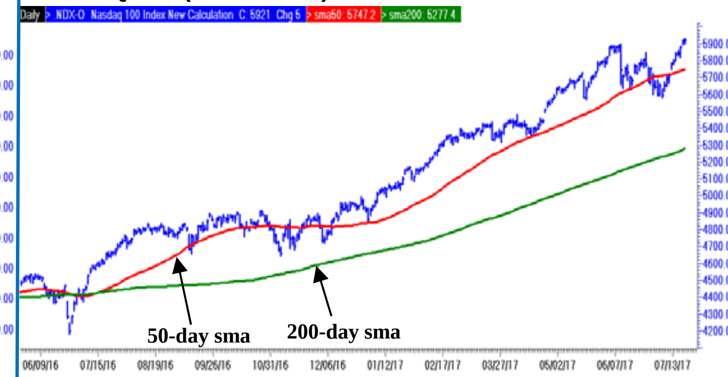
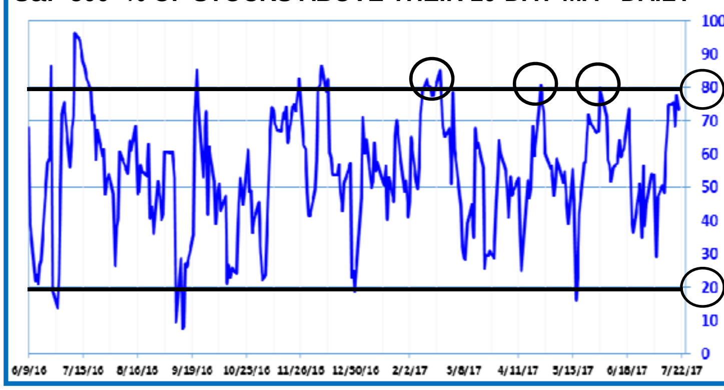
S&P 500 (SPX – 2473) – DAILY

NASDAQ 100 (NDX – 5921) – DAILY



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

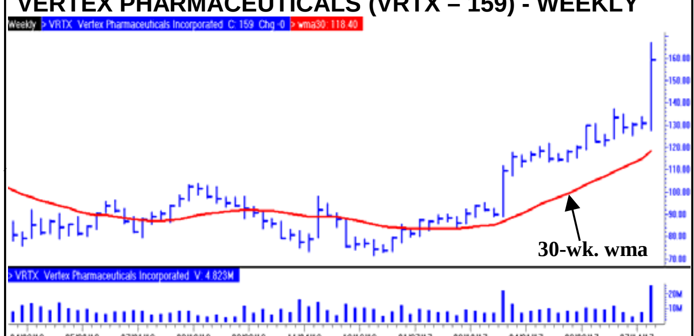


S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY

NETFLIX INC. (NFLX – 184) - WEEKLY

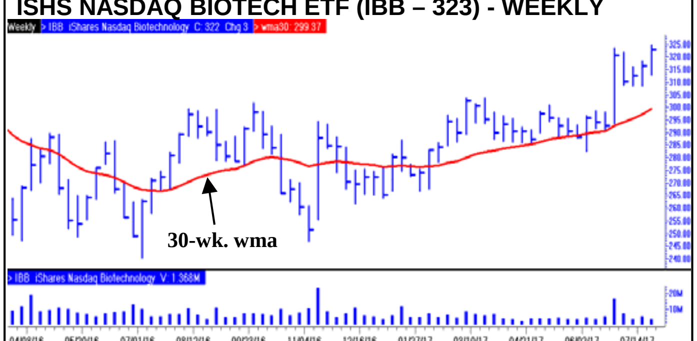
MICROSOFT CORPORATION (MSFT – 74) - MONTHLY

VERTEX PHARMACEUTICALS (VRTX – 159) - WEEKLY



HOME DEPOT INC. (HD – 147) - DAILY

ISHS NASDAQ BIOTECH ETF (IBB – 323) - WEEKLY



RUSSELL 2000 INDEX (RUT – 1442) - WEEKLY