EQUITIES PERSPECTIVE

July 22, 2016
DJIA: 18,517

It's a Timex market … takes a licking and keeps on ticking. Of course, unless you're of a certain age, that being old, you may not be familiar with the Apple Watch prototype called "Timex." Indeed, we ourselves have only read about it. What we all can understand, however, is that this market has weathered its fair share of bad news, a coup here, a terrorist attack there, and has kept on ticking. Recall, too, that it was the "good news" of the employment report that got this latest move started. Was it good news or might it as easily have been reason enough for the Fed to raise rates? Another example of the adage, "it's the market that makes the news rather than the news making the market." In good markets the news always is good or, at least, the bad news is ignored. Everyone's big worry was earnings and now, suddenly, even earnings seem better than expected. When bad news becomes bad again, then begin to worry.

When you're in a year-long trading range, it's not unusual for "defensive" to lead. That certainly has been the case this time though stocks like Kellogg (82) and General Mills (71) haven't exactly been your father's defensive stocks. That said, last time we did admit to some surprise the "FANG" stocks hadn't acted better. Say the word and it shall be done – now they are acting better, including a new high in Facebook (121). The exception, of course, is Netflix (86), which is back to mid-2015 levels. Whether orange or black, we don't believe in catching falling knives. We would point out, however, over the past few months the stock has held the 80-85 support area and the overall trend remains up. FANG lives and we can't quite give up on the idea that before this all ends, there will be a blowoff move here or somewhere. Meanwhile the tide, so to speak, is lifting even last year's favorite ship, the Biotechs. More than a reflection on Biotech, however, this seems a reflection on the market's strength. Stocks which lead in one cycle typically don't come back to lead in the next, but these days, what's typical?

If new Tech in the form of the FANG stocks seems to be coming to life, so too is retro-Tech in the form of Microsoft (56). As for the likes of Cisco (31), only another 50 points to go and the stock will be back to its 2000 peak. In the here and now, however, it's at a multi-year high. If not leading, semiconductors haven't been far behind. Almost more than any other group of stocks, we have always seen the Semis as a fairly good indicator of global economic strength. Seems a stretch, but maybe they know something the rest of us don't. Meanwhile, the dividend payers haven't exactly gone away. This seeming plethora of choices could be behind Wednesday's sharp selloff in gold and Gold shares – there's competition. Then, too, the dollar has been strong, which isn't always gold-friendly, the stocks are the year's best performers, the patterns are a bit extended, and suddenly they're all the rage. A weekly versus a daily chart puts things in what we think is the correct perspective. A needed correction with no real damage.

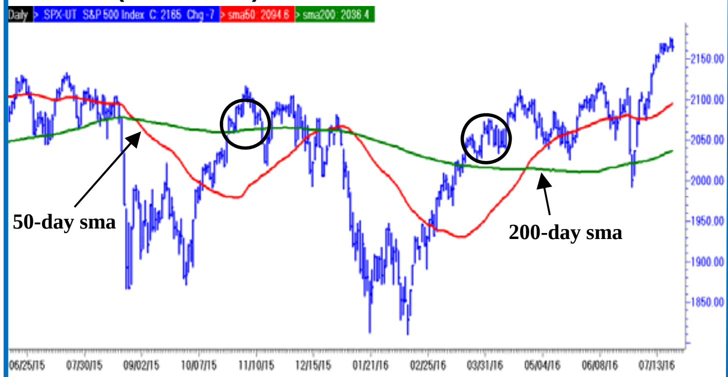
If it's things not to like that you're looking for, they're out there. The 10-day Put/Call Ratio recently matched its two-year low. CNNMoney's Fear & Greed Index is showing an extreme in the latter. The VIX, or fear index, is below 12, a level where stocks usually struggle. However, all of the above are about sentiment, or investor psychology. Sentiment is useful in terms of putting the background in perspective. It's the simple idea that when everyone is bullish, you want to be careful. Sentiment, however, is not a timing tool. Based on sentiment, it's time to worry, a lot. However, momentum always trumps sentiment. Momentum, in turn, has moved to such extremes as to suggest there will be a lengthy unwind. If you look at stocks above their 10-day moving average, coming off the August and February lows, it illustrates this point. Back then the peaks were 94% and 95% and this time 96%, so the periods produced similar upside momentum. It wasn't until you crossed back below 50% that you even wanted to think about selling. In the words of the "Almost Dead," time is on our side, yes it is.

Trend is not destiny. Just look at that Dow – up just 9 days in a row and down already. Thursday's down day with 1250 stocks up is not exactly our idea of a down day, let alone a day with any real selling. The Dow, especially, never should be the real focus. What most stocks are doing, advancing issues versus declining issues, should be the focus. The other thing to emphasize is group behavior. Last year it was easy to make money in any old Biotech, now it's hard to make money in the best of them. JPMorgan may be the best of the Banks, and they reported a surprisingly good quarter. For now it's hard to make money in the Banks and most of the Financials – then there's Gold. Don't waste your time doing research, just throw a dart. Perhaps the broadest group of all is Energy, so when it goes, it's hard not to notice. It's encouraging that after some weakness in oil itself, the stocks have given up little. Still, they're not quite there yet.

Frank D. Gretz

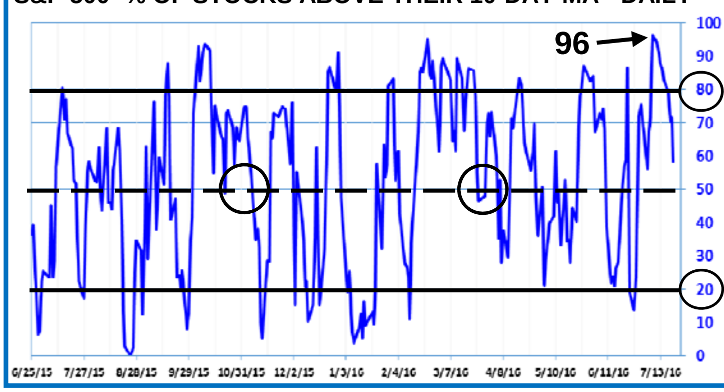
140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

S&P 500 (SPX – 2165) – DAILY

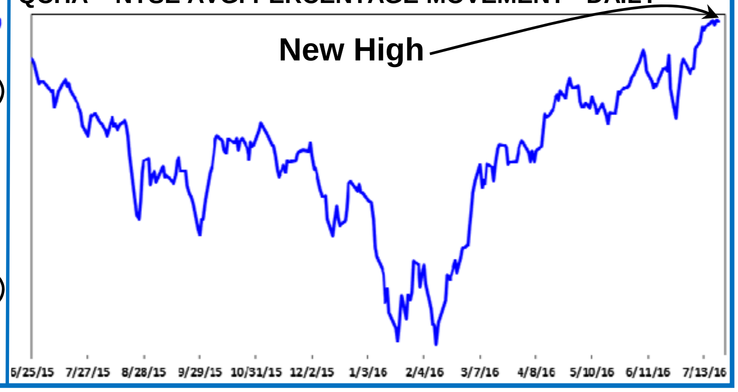


NASDAQ 100 (NDX – 4647) – DAILY

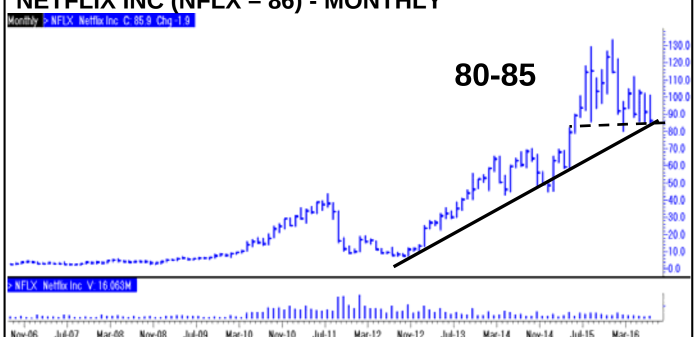
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



QCHA – NYSE AVG. PERCENTAGE MOVEMENT - DAILY

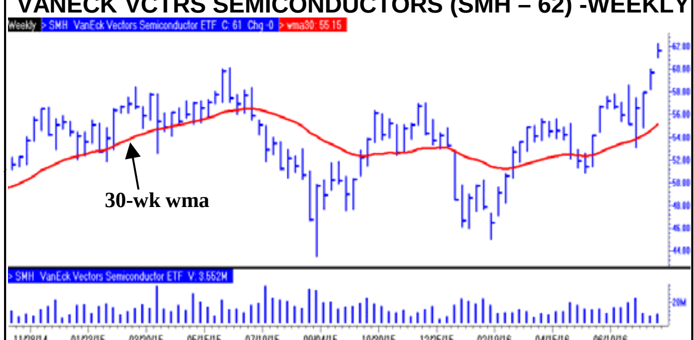


NETFLIX INC (NFLX – 86) - MONTHLY

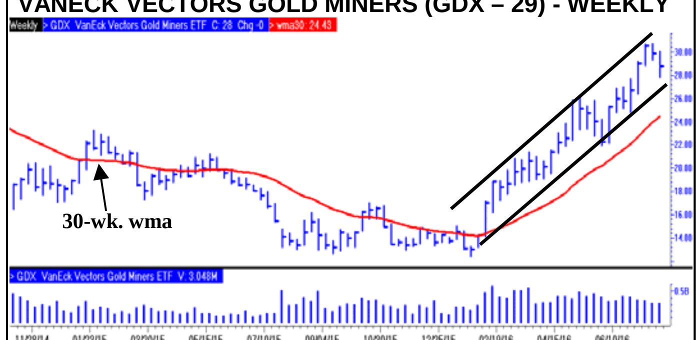


ISHS NASDAQ BIOTECH ETF (IBB – 280) - WEEKLY

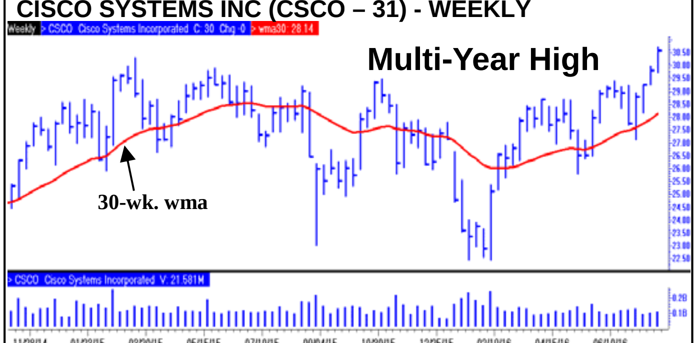
VANECK VCTRS SEMICONDUCTORS (SMH – 62) -WEEKLY



VANECK VECTORS GOLD MINERS (GDX – 29) - WEEKLY



CISCO SYSTEMS INC (CSCO – 31) - WEEKLY



SPDR FD ENERGY (XLE – 68) - WEEKLY