WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

July 28, 2017
DJIA: 21,797

Change partners … and dance. The stock market probably wasn't what Fred Astaire had in mind, but the concept certainly seems to fit the action on Tuesday. Inspired perhaps by Alphabet's (934) little disappointment, every dog had its day, even teen retailers. As night follows day, any let-up in FANG buying seems to inspire the Financials. We've seen this movie before and charts like Citi (68) and JPMorgan (92) are, plain and simple, good. If you get the feeling we don't like Banks, you're right, but we're pretending to be open-minded. We do like stocks that go up, and the stocks are going up. As for the Retail revival, it's hard to see. If you think the FANG stocks are extended, so too is Retail, in the opposite direction. It is what those technicians call rotation. Just as the last go at this in early-June, we doubt it will prove durable. In the meantime, amidst the impromptu rotation, advance-declines remain positive.

With the FANG stocks in mind, it's easy to think 2000. The real question might be, what month? There's a lot of money to be made in the final stages of a bull market, that's why investors get sucked in. Even Keynes was said to have tried to squeeze out one more trade in '29, before giving up and cutting his loss. We could argue FANG and the like are not as stretched as the dot-coms, but that is a "beauty in the eye of the beholder" kind of thing. What we will argue is that the overall background doesn't look much like 2000 in the sense that back then, the uptrend was exclusive to the dot-coms. If you recall, back then the dichotomy was such they coined "new economy" and "old economy." When they start naming things — "nifty-fifty," "one-decision stocks" — it is usually a bad sign, and this likely will prove true of "FANG." It's all about the timing. With the majority of stocks still acting well and the Advance-Decline Index hitting another new high — there still seems time.

More than earnings per se, it's the surprise in earnings that typically is the real driver of share prices. Boeing (241) is an example on the positive side, while Domino's (182) is an example in the opposite direction. There are, as well, times when good just isn't good enough — the good news is priced-in. This likely was the case with Microsoft (73), where the stock did nothing on its good news. This also seems the case with Freeport-McMoRan (14.5), where bad news was priced-in and the stock rallied sharply. Our hardly scientific observation is that the news is more good than bad, and stocks have responded accordingly. Meanwhile, let's have a moment of silence for those who bailed on Facebook (170) as it sold down 3 or 4 points after-hours Wednesday, only to open a net 15+ points higher Thursday. If the truth be known, after its recent run, Facebook looked to be a real sell-on-the-news candidate. Have they been Amazoning Google?

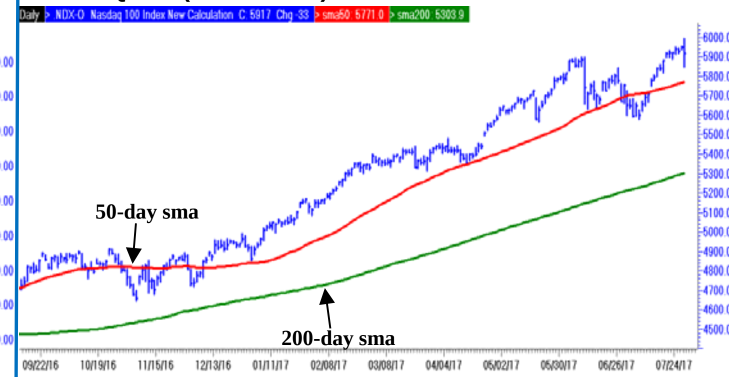
Sentiment, or investor psychology, is a difficult measure, especially at times like this when most are bullish, but uncomfortably so. Investors tend to be wrong at extremes, but right in between. We don't seem at an extreme, but more of the Netflix/Facebook sort of action could do the trick. The news always will be best at the top, why else would investors buy at the top? There are many measures of sentiment, including Put-Calls, the VIX, and all the various surveys. Less well known, perhaps making it more useful, is the CNN Fear & Greed Index. Over the last three years, when the Index was this high, stocks struggled over the next few weeks. The average return during that time, however, was not disastrous, though only 27 of 62 days were positive, according to SentimenTrader.com. This being said, sentiment measures are a poor timing tool. Moreover, when they are at extremes, they're ignored.

Was that it? For a while Thursday it seemed that way, but Facebook managing to stay positive helped stem the tide. Then, too, the Amazon miss may let us do it all over again Friday. A number of stocks like the FANGS are stretched, but that's always a backdrop for a sharp decline and not a reason for a decline. The stretched can stay stretched. What drove the Transports lower is more difficult to say, and therefore, worrisome. Forget the Dow Theory, the stocks actually are economically sensitive. While you will find plenty of excuses for the Thursday weakness, even important declines don't need an excuse. The 1929 decline self-triggered, so to speak. Then, too, with the possible exception of October 2000, markets don't go straight down. Even 2000 was preceded by plenty of divergences. A sharp correction would not be a disaster — the disaster would be the weak rally to follow. It should take some time for the dust to settle, so enjoy your Verizon (48) and AT&T (39).

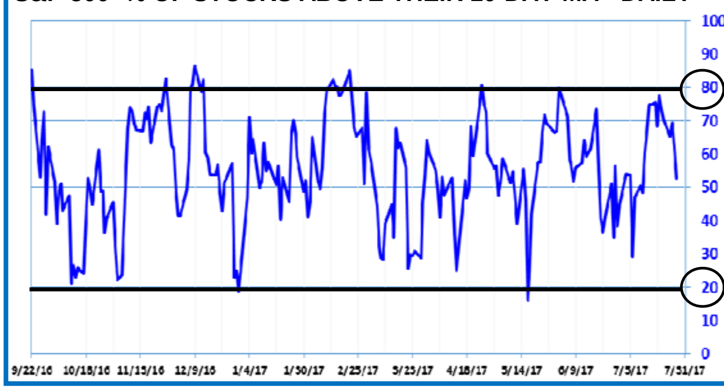
Frank D. Gretz

S&P 500 (SPX – 2475) – DAILY

NASDAQ 100 (NDX – 5917) – DAILY



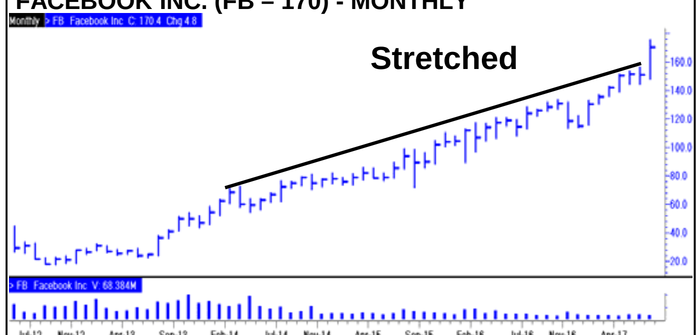
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



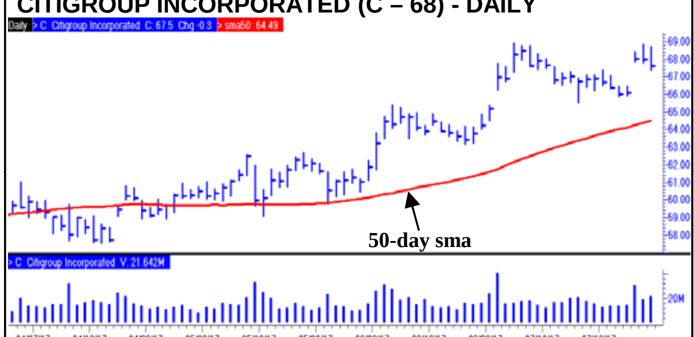
S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY

ALPHABET INC. (GOOG – 934) - DAILY

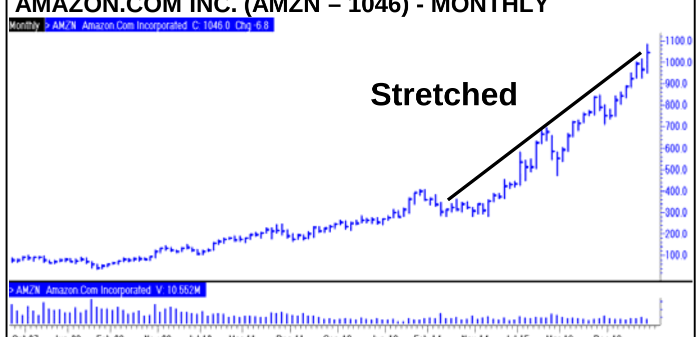
FACEBOOK INC. (FB – 170) - MONTHLY



CITIGROUP INCORPORATED (C – 68) - DAILY



AMAZON.COM INC. (AMZN – 1046) - MONTHLY



AT&T INC. (T – 39) - DAILY

DOW JONES TRANSPORTS (.TRAN – 9190) - DAILY