# EQUITIES PERSPECTIVE

June 10, 2016
DJIA: 17,985

Going for DiMaggio's record … but not quite making it. Eleven straight days of positive breadth didn't exactly put Joe at risk, however, for advancing versus declining issues, the string was impressive. And yet, what do we have to show for it? The S&P still hasn't made a new high. Of itself this tells you a lot about the nature of this market. It doesn't feel like we're 16% off the February low because the rally is a grind. We're some 80 days off that February low but only eleven days have seen a gain of 1% or more. For a market coming off a one-year low, that's the fewest number of big up-days since 1928. Another issue is that breadth isn't what it used to be or, more to the point, it doesn't measure what it used to measure. Time was the Advance-Decline Index, market breadth, offered an insight as to what stocks were doing. Now it's about "issues," that is, not common stock, but bond equivalents and all the rest that only vaguely relate to stocks.

There is a relatively obscure measure called the "QCHA." The Advance-Decline Index measures just direction – whether a stock is up or down. The QCHA is the percentage change in a stock. If looking at direction only, that is, the A-D Index, the market is at a big all-time high. Looking at the percentage change in stocks, the QCHA, it's a different story. This measure of price change shows the average stock well off its high. That's the story too if you look at stocks relative to their 12-month highs. Forty percent of domestic common stocks are down 20% or more and 15% are down 40%. As of June 2, only 8% of stocks were at a 12-month new high. Feelings aren't facts, but the fact is this market doesn't feel all that good because it isn't as good as the S&P makes it look. And certainly it's not as good as the Advance-Decline Index makes it look. Too bad because since 1965 every new high in the Advance-Decline Index has been followed by a new high in the S&P.

With a rate hike still possible and Brexit seemingly very possible, the high degree of investor complacency is somewhat surprising. The CNN poll we've mentioned in the past shows "greed" versus "fear" at its highest level in two years. The three-month average is above 80 for only the sixth time since 1948, and when last above 80 in March 2012, a multi-week correction followed. The ISE Put-Call Ratio is 2-to-1, the most extreme since March, and Investors' Intelligence showed a jump in bulls of 10 percentage points, one of the largest ever one-week gains. These measures of investor psychology typically are not short-term timing tools, but they do seem surprising given that the market is bumping against what has been resistance for a year now. A bigger picture worry is the 10% year-over-year decline in margin debt. You might think this a positive in the sense of less speculation. However, the problem is that it represents diminished demand.

Last Friday's employment report seemed to "unbake" the rate-hike cake. It's not clear why stocks sold off – suddenly they want higher rates? However, the dollar got it, and so too did Gold – big time. We're not among those who love Gold, period. We're positive here because December seemed to end Gold's long bear market. Like all bull markets/uptrends, Gold was in need of a correction and got it. Keep in mind "correction" to most means weakness, but we just as readily think of it as a rest. That's what we've seen in Gold, more rest than weakness. And there have been the headwinds of May and June, typically weak periods for Gold, and the shorting by the usually correct commercials or hedgers. So we're into June and the commercials have let up on their shorting. The employment report, leading to dollar weakness, seems the stimulus Gold needed for another leg up. If in doubt, Friday's move in Gold, and the stocks, says it all. Of all the so-called "technical patterns," head-and-shoulders and all that, our favorite is the "price gap." In a sense it's not a "pattern," but northing shows demand like an opening price above a prior day's closing price. Last Friday saw this in GLD (121) and virtually all of the stocks.

Suddenly the "smart money" has gone all bearish on us. In the case of Soros, it's not so sudden, which must have made for an uncomfortable last couple of months. The smart money often is early, though early and wrong always have seemed the same to us – patience being a virtue we're yet to grasp. Their case is about the money, negative rates, and all of the related excesses. The technical case isn't so much about excesses, rather it's about diminished participation, a certain sign of an old bull market. As yet, there is no downside momentum, but this isn't the time to join the complacent majority. It's a seasonally weak period and the S&P is back to its nemesis zone. Meanwhile, the Russell has acted better but still lags, and even the NASDAQ has been lagging. Short term, the market is still unwinding the upper range of those stocks above their 10-day moving average.

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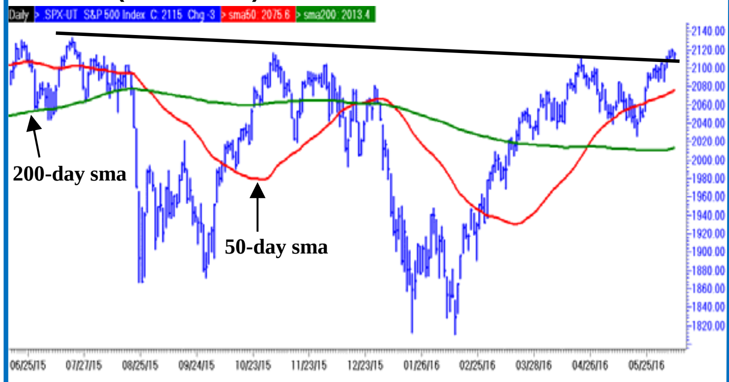
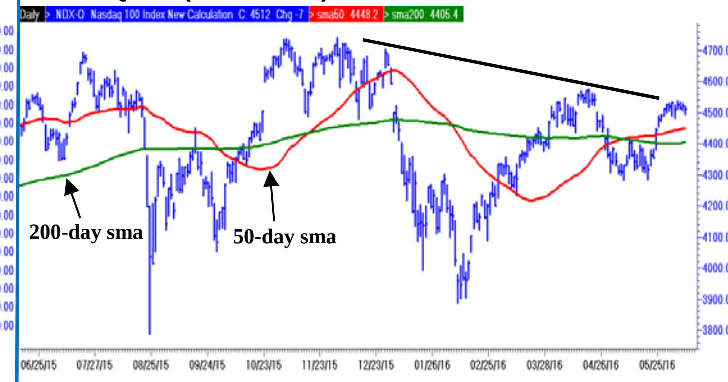
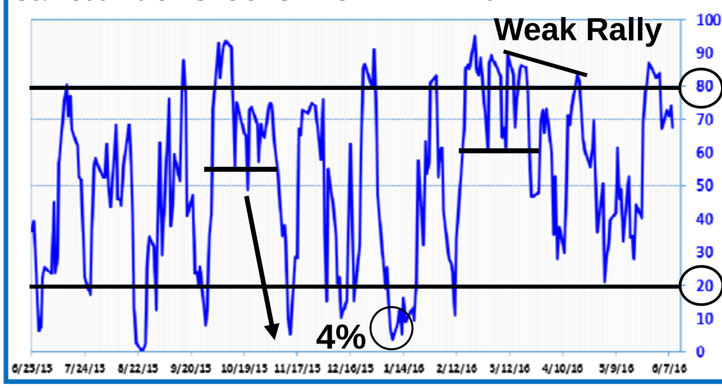
## S&P 500 (SPX – 2115) – DAILY



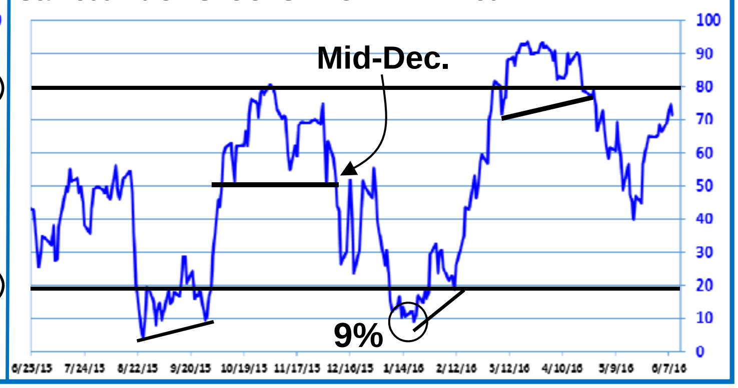

## NASDAQ 100 (NDX – 4513) – DAILY




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




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



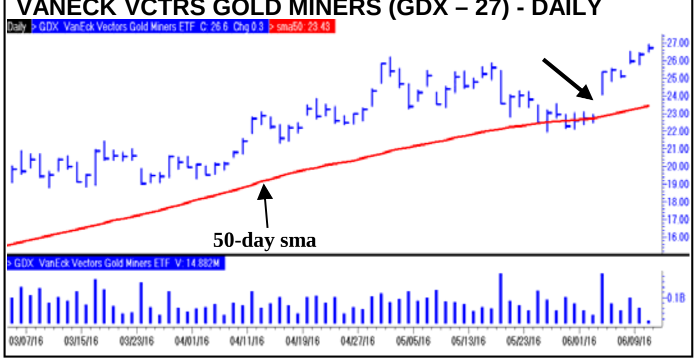

## RUSSELL 2000 INDEX (RUT – 1169) - WEEKLY


## ADVANCE-DECLINE INDEX - DAILY


## PWR SH DB US $ INDEX BULLISH FD (UUP – 24) - DAILY


## BARRICK GOLD CORPORATION (ABX – 20) - DAILY


## VANECK VCTRS GOLD MINERS (GDX – 27) - DAILY




## GLOBAL X SILVER MINERS (SIL – 39) - DAILY