WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

June 16, 2017
DJIA: 21,360

Did we say FANG last time … we meant Financials. Our defense of FANG last week wasn't exactly timely. We are willing to double-down, however, thinking these shock days could serve to prolong the overall move. Typically the market teaches weakness is a buying opportunity. In a similar Tech rout back on May 17, it did in fact work that way. We suspect it will again, though last May was unusual in terms of the speed of the recovery. Typically these days of sharp, shocking weakness are followed by some period of regrouping, which may yet lie ahead. Meanwhile Friday's weakness was extremely unusual. It's tempting to say the weakness was in Tech, FANG and the rest, and certainly that was the focus – instigated by a negative report on NVIDIA (152). Stocks like McDonald's (151) and Domino's (210) are not exactly Tech, but certainly were weak. The selling, more accurately, was in the "up-stocks."

The weakness last Friday was so convoluted, you literally might not have noticed it. While the NASDAQ 100 was down 143 points, or 2.4%, the Dow was actually higher by 89 points. Also, advance-decline numbers were positive, even on the NASDAQ. Several times we've alluded to the QCHA, which measures the percentage gain of advancing stocks in the NYSE minus the percentage loss of declining stocks in the NYSE. It's similar to the Advance-Decline Index but, unlike that Index, which just measures the number of stocks up versus stocks down, the QCHA takes into account how much the up stocks are up versus how much the down stocks are down. In other words, it reflects price. The QCHA for the NASDAQ, symbol QCHAQ, showed the market basically unchanged last Friday. Granted it was a rotation day, where many of the down stocks and particularly Financials did well, but it's hard to believe the net of it all was a wash, even for the NASDAQ. If weakness in the market's leadership didn't drag the rest of the market with it, this seems a positive.

There is no "T" in "FANG," though we've often thought Tesla (375) should be there. It's interesting that in this recent weakness in FANG, Tesla has outperformed, perhaps in part because of a money manager's 2020 price objective of $1,000. Then, too, this follows a recent downgrade citing increased competition, presumably a little company called Apple (144). Up until Thursday, Tesla did what it usually does, that is, go along its merry way higher. What is of some concern technically is the long-term picture. The breakout above 280 is a thing of beauty, but you can argue the price objective from that breakout has been reached here, around 380. The pattern is stretched to the upside, not just relative to the base, but also relative to the moves back on 9/13 and 2/14. We wouldn't expect any weakness below, or even back to, the breakout point of 280, but some form of correction, if only a consolidation, seems increasingly likely.

Financial reform may have become more questionable these days, but the Fed's path toward "more normal" seems on track. The anticipatory rally in Bank shares late last week proved correct, and the patterns here are that much more improved. If only something would happen to help those Energy stocks. There is, however, another broad group of stocks acting much better and those would be Healthcare shares. Indeed the Health Care ETF (XLV-78) reached a new high Wednesday. The ETF is comprised of both major drug firms as well as Biotechs, where performance is much improved. At about 12%, Johnson & Johnson (133) is the largest holding and, at 3.8%, AbbVie (71) is another excellent chart. Meanwhile, the FANG stocks are struggling more than they did after last month's "memos" decline. Though Apple did move to a lower low Thursday, the others so far have not. NVIDIA, which arguably got the weakness started, has held up better than most of Tech. This seems worth watching.

FANG and the rest of Tech hardly seem done. They are the leaders and the leaders typically have blowoff-like moves near the end of bull markets like this one. Ironically, it was Energy that did so in the summer of 2008, distracting everyone from the faltering Financials. As we suggested above, if they should consolidate here, it would only serve to prolong things. This time, too, there are options like the aforementioned Healthcare stocks. There are the Gaming stocks like Electronic Arts (111), Activision (59) and Take-Two (74), where the charts are positive and pretty much indistinguishable. This suggests the group, or industry, is doing well, not just an individual company, something we like to see. However the market plays out here, keep in mind you don't want the proverbial weak rally – a rally in which the advance-declines lag.

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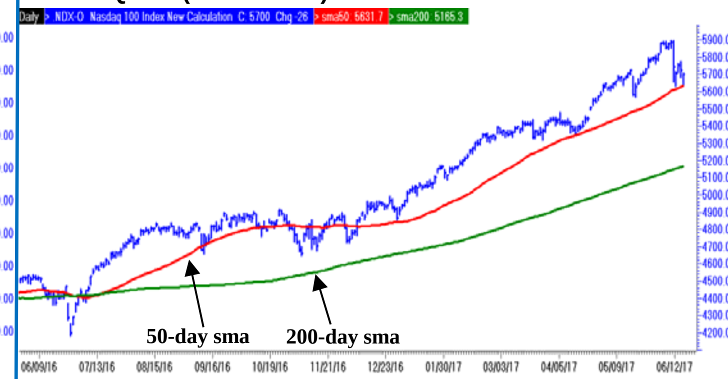
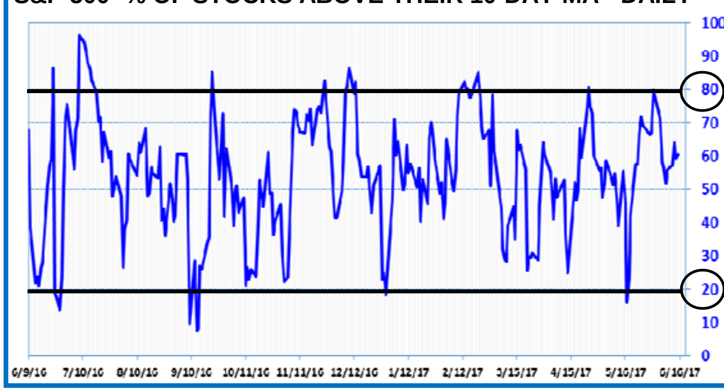
S&P 500 (SPX – 2432) – DAILY

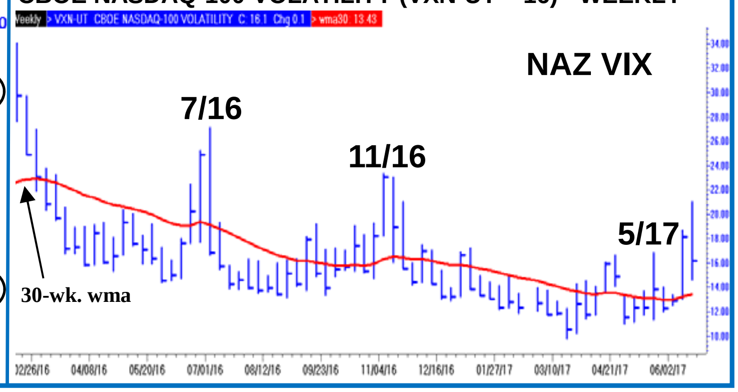
NASDAQ 100 (NDX – 5701) – DAILY



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

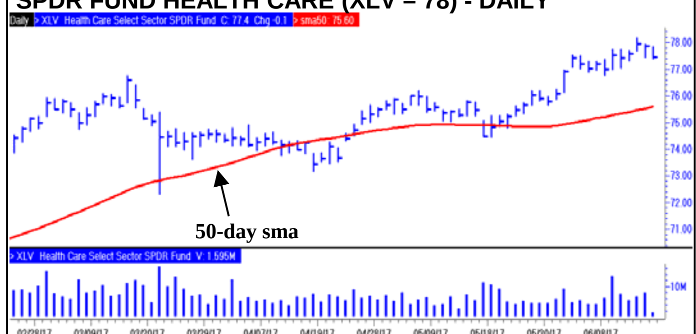


CBOE NASDAQ-100 VOLATILITY (VXN-UT – 16) - WEEKLY

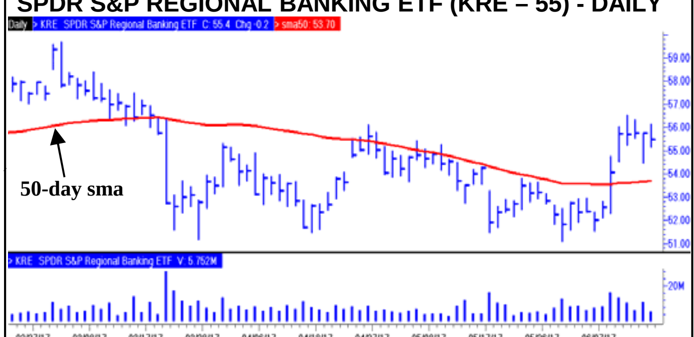


TESLA INC. (TSLA– 375) - MONTHLY

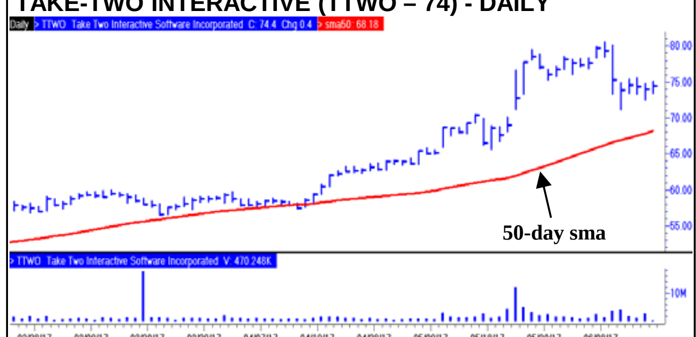
SPDR FUND HEALTH CARE (XLV – 78) - DAILY



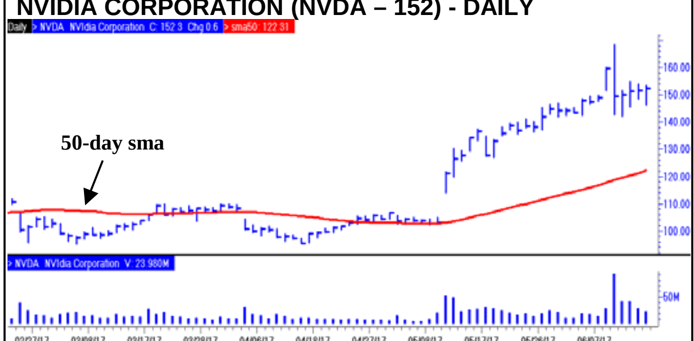
SPDR S&P REGIONAL BANKING ETF (KRE – 55) - DAILY



TAKE-TWO INTERACTIVE (TTWO – 74) - DAILY



NVIDIA CORPORATION (NVDA – 152) - DAILY



ABBVIE INC. (ABBV – 71) - DAILY