WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

June 23, 2017
DJIA: 21,397

You buy a company … your stock goes up enough to pay for it. This was the case last week when the 3% rise in Amazon (1001) more than covered the purchase price of Whole Foods (43). What can you say? Keep buying? Meanwhile, no one has totaled the losses in competitors like Costco (160) and Wal-Mart (76), or any of the suppliers like United Natural Foods (35). So much for those defensive Food stocks. It goes without saying Amazon gives new meaning to the term "disruptor." Some of the reaction may be overdone, but most of Retail doesn't seem to want to hear it, already feeling done in by the Amazon machine. It's interesting that for the most part Amazon isn't about doing something new, it's about doing something differently, especially in terms of delivery. Then, too, Amazon did come up with eBooks, Alexa and Amazon Prime – better ways to sell. We were wondering, did Amazon some place along the way get into the oil business?

Tech has had a respectable recovery after its recent selloff, and is pretty much still the mirror image of Oil. We've suggested before that the level of ownership is more important than valuation levels. At around 6% of the S&P market cap, Energy seems under-owned, yet still can't lift. At around 23% of the S&P, Tech may be over-owned, but still won't go down. There are no magic levels for this idea of ownership – Oil can become more under-owned and Tech more over-owned, and by the look of both, they seem about to do so. Whatever you may think of Tech, the market's preference for growth seems abundantly clear in the recent performance of Biotech. It's like 2015 all over again, at least 2015's first half. Just as the many Oil stocks put a damper on NYSE advance-declines, the many Biotechs are a plus for those breadth numbers on the NASDAQ.

The problems associated with trying to catch the falling knife that is Oil are significant – they're both real and psychological. Holding on to the falling knife that is Oil is different, and there are some things to consider. At 6% of the S&P, Energy is close to its lowest weighting in 27 years. More to the point, from a similar position in the past, the stocks did in fact recover in varying degrees – a couple of times in 1999-2000 and again in 2003. The weakness in Oil has helped trigger a "Hindenburg Omen," which most have never heard of and that's just as well. Suffice it to say, this in part is because of the many Oil stocks – there are an unusually high number of issues setting 12-month new lows. There are plenty of new highs, but the market still is left out of sync and, hence, the Omen. As it pertains to Oil, recently 35% of the stocks hit new lows. At past turning points, however, there have been 50%-60% of this sector at new lows, so we may not be quite there yet.

For some time after the peak in 2015, we had called Biotech "last year's stocks." Implicit being stocks that lead in one cycle don't come back to lead in the next. It has been a couple of years now and the stocks appear to be back – the downtrend is broken and the breakout this week is impressive. While there always seems to be a healthcare conference somewhere, the strength doesn't appear to be associated with any particular news, to our thinking making it all that much the better. As is typically true of these stocks, when they move, they move as a group – the weighted ETF (IBB-320) is undistinguishable from the unweighted ETF (XBI-79). Without the volatility, most of big-cap pharma acts almost as well as Biotech. Healthcare stocks aren't exactly laggards, so the rotation here seems a good thing and, to this point, the rotation isn't exactly to the exclusion of everything else.

The Advance-Decline Index is just a few issues below its recent peak, leaving a little divergence between it and the Dow's high on Tuesday. As much as we emphasize the importance of the A-Ds keeping pace with the Dow and S&P, divergences can be corrected or they can go on without dire consequences. Divergences usually lead important declines in the averages by six months and even more. By the time they matter, very often most choose to ignore them – they're making money in the dot-coms, or FANG in this case, or something, and most just won't care. You know what happens then. In this case, it's surprising that divergences in market breadth haven't been more frequent. After all, the bull market is virtually antique, though old age, per se, never killed a bull market. On a short-term basis, in Energy, Retail and now, Food stocks, the market has lost several broad groups. If the Energy weakness goes away, so too will the divergence. It's never a good idea to make excuses for the indicators, but we just did.

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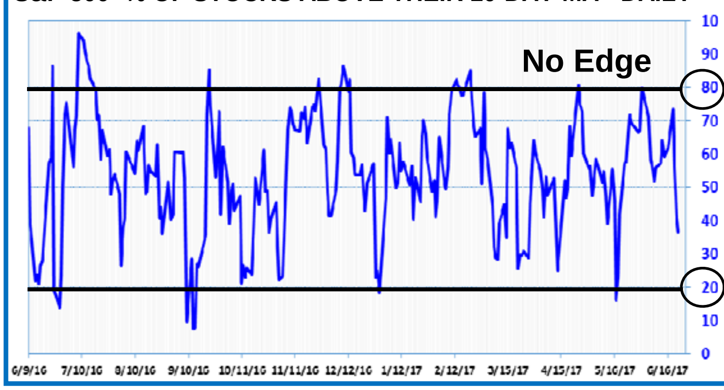
S&P 500 (SPX – 2435) – DAILY

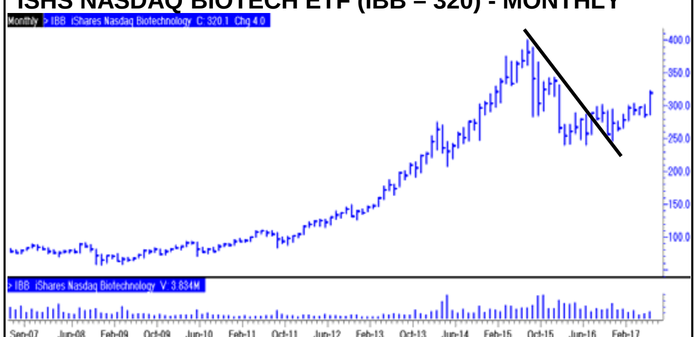
NASDAQ 100 (NDX – 5780) – DAILY

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

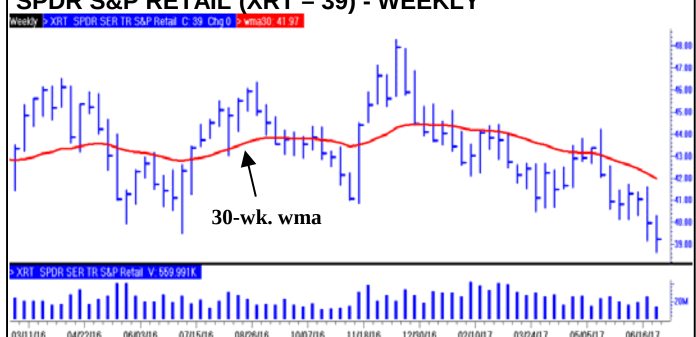


ADVANCE-DECLINE INDEX - DAILY

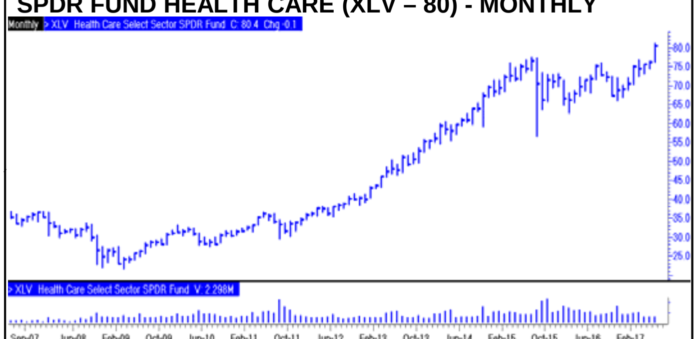
ISHS NASDAQ BIOTECH ETF (IBB – 320) - MONTHLY



SPDR S&P RETAIL (XRT – 39) - WEEKLY

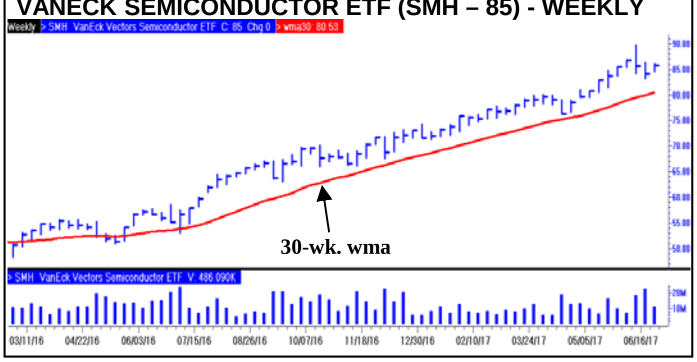


SPDR FUND HEALTH CARE (XLV – 80) - MONTHLY



SPDR FUND ENERGY (XLE – 64) - WEEKLY

VANECK SEMICONDUCTOR ETF (SMH – 85) - WEEKLY



INTEL CORPORATION (INTC – 34) - WEEKLY