WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

June 24, 2016
DJIA: 18,011

Brexit … it's like Russian roulette. The odds of winning are good. Losing, however, has consequences that might be deemed severe. One way or the other, it seems best to let the Brexit dust settle. We don't remember seeing the market so badly fooled, not to mention those bookies. Volatile seemed an easy call for the week, though random might have been more accurate. Consecutive days appeared to have nothing in common. This week took the edge off of last week's oversold condition. Only 20% of NYSE stocks were above their 10-day moving average and by Thursday's close, we had gone back to 80%. This has proven a difficult position even when all things are equal. More worrisome is the ongoing pattern of deterioration clear in the number of stocks above their 50-day and 200-day averages. It is, after all, an old bull market.

Gold likely will rally in the event of Brexit. If the vote is stay, some setback is likely. However, other than the very short term, this doesn't seem a simple win-lose trade. What Gold has going for it is the overall uptrend, bull market, which began in December. With this in mind, any short-term setback should be just that. That said, Gold does have a few of its own possible problems. One is the rather glaring "reversal day" back on June 16. Such days are thought to mark an exhaustion in buying, and while only a few days now, GLD (125) has stalled. However, these reversal days don't seem the trend killers that perhaps they once were, and we expect this again will prove the case. More importantly, if you think the case for Gold makes sense – a Brexit hedge, negative rates and the like – apparently it makes sense to a lot of investors. Gold already is a crowded trade these days.

The recent little correction was just a couple of bad days and that was it. It followed that 80% to 20% pattern that has worked for about a year now in stocks above their 10-day moving average. The bounce back was more impressive, especially Thursday's 5-to-1 up-day. So Thursday was as wrong as the bookies. Ironically it was the polls that were right, or at least the closest to being right, at 50-50. Most expected a logical vote when the world just isn't working that way – look at our election. This is more than a little worrisome and worrisome, too, if you look to the markets for insight. Best not to over-think this, oversold is still oversold. The market will rebound. The other polls that were correct are those measuring investor complacency. You can expect those to change, which is a good thing.

If a funny thing happened on the way to breaking out, it is that the "FANG" stocks are not leading. Indeed, they seem in various states of disarray. Amazon (711) is just fine thanks, Alphabet/Google (699) meanwhile is on the other side of that coin. Netflix (90) isn't so swell and even Facebook (113) is teetering a bit. Though not among the FANG, everyone's friend Apple (96), looks a bit in the hope mode. What does it mean when leadership stocks aren't leading? Are they the proverbial canary in the coal mine? Or is it simply a matter of changing leadership – have you looked at Honeywell (115) or 3M (171) lately? Leadership does change, think of the Biotechs. Still, it does seem a bit strange to have the FANG lag in what still is a decent market. So what do you do with them? FANG or otherwise, you don't worry too much where the uptrends remain intact – Facebook and Amazon.

After Thursday's rally, the worry seemed that the good news might have become priced-in. In other words, a stay vote and no rally. Certainly after Thursday, a great day technically by the way, Brexit was not priced-in. Without the short-term divergences alluded to above, this shouldn't be the end of the world, though it could look that way for a day or two. If you're thinking October 1987, it's not. In fact, it couldn't be more different technically. The technical background then was rife with those divergences we've yet to see. As we suggested above, best to let the dust settle, but look for what they like to call opportunities. Despite the better action in Industrial names that we alluded to above, it probably would be a good time to look at small- and mid-caps. They tend to be domestic.

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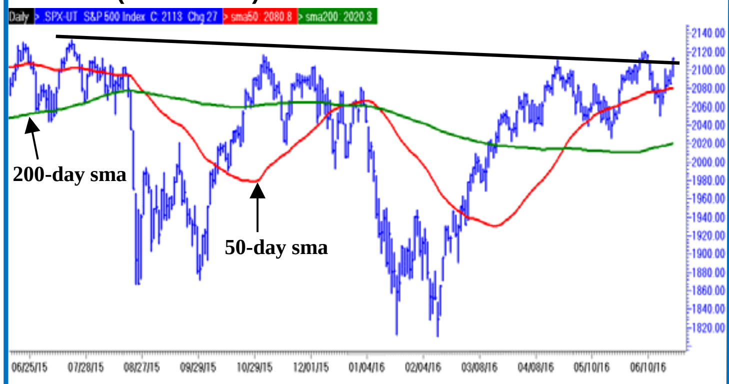
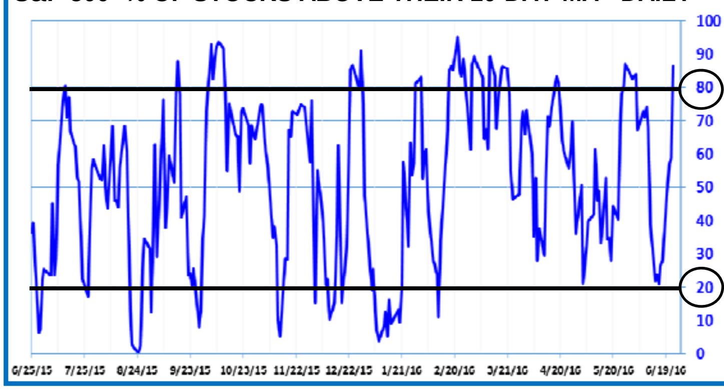
S&P 500 (SPX – 2113) – DAILY

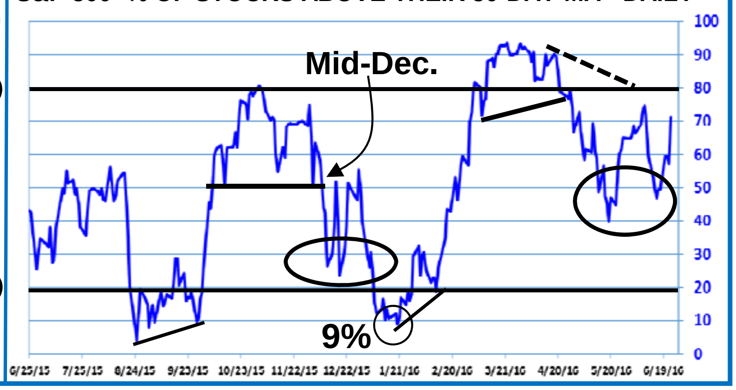


NASDAQ 100 (NDX – 4467) – DAILY

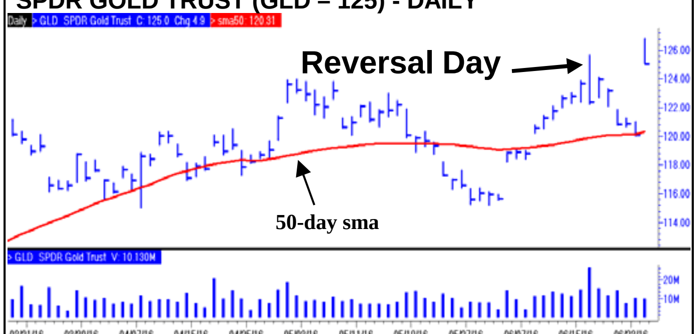
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



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

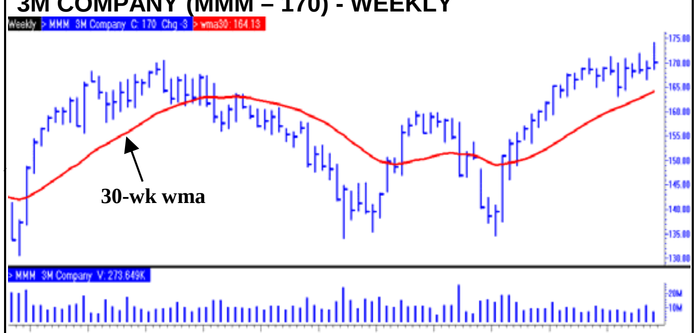


SPDR GOLD TRUST (GLD – 125) - DAILY



ADVANCE-DECLINE INDEX - DAILY

3M COMPANY (MMM – 170) - WEEKLY



AMAZON.COM INC (AMZN – 711) - WEEKLY

HONEYWELL (HON – 115) - WEEKLY

ALPHABET INC (GOOGL – 699) - WEEKLY