WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

# EQUITIES PERSPECTIVE

June 30, 2017
DJIA: 21,287

When things change … change your mind. So said John Maynard Keynes, himself not a bad investor. Some think of technical analysis simply as "charts." Rather, it is an analysis of supply and demand, and the charts are a tool or methodology. It is, as well, an analysis of change. On Tuesday, the NAZ 100 broke below the 50-day moving average for the first time since December 7. Whether or not it's important for now is impossible to say, except all change is worthy of attention. First you break the 50-day, then the 200-day – every important decline starts somewhere. FANG is the market leadership, yet the stocks haven't made new highs in 3 weeks, and now are in the midst of their second sharp selloff during this period – another thing that may not be a big deal, but it's another change. Losing leadership never is a good thing.

There are some positive changes as well. The Health Care stocks now seem a reasonable replacement, if needed, for FANG. The uptrends in these stocks have been broad and dynamic, making this not just a rally in the laggards. Also, the on-again, off-again Financial stocks are back on-again and a few have moved to new highs. Most dramatic, however, are the positive numbers in the advance-declines. Even in Tuesday's sharp decline, there were 1,000 advancing issues, not exactly our idea of a 100-point decline, let alone a rout. True, much of the weakness was in Tech, but even on the NAZ there were 1,000 advancing issues. When it comes to NYSE figures, the few days breadth has lagged generally have been a function of weakness in oil and the related shares and, to a lesser extent, weak Financials – there simply are many of both. The Advance-Decline Index is at another high and against that backdrop, important declines just don't happen.

Over the last few years, we haven't found seasonality helpful – they say "sell in May," but stocks rose to new highs this past May. What we're about to suggest isn't exactly seasonality, and it's very short term and conditioned on the short-term selling. It is generally recognized that markets tend to be strong pre-holidays. The odds of market strength increase dramatically when three days before an exchange holiday the market moves to a 10-day low. The same odds apply when a 10-day low is reached three days before the end of the quarter, this according to Sentiment Trader. Of course, throw in the usual suspect of the market having moved to the oversold side, and conditions for a rally do seem right. What doesn't make a lot of sense in this is that money managers usually like to show their winners at quarter's end, which would have meant holding, not selling, FANG.

Feeling less stressed, several banks announced Wednesday that they wanted to please shareholders, and, to that end, would raise dividends and buy back a bunch of stock. Dividends are fine, but buying back stock is a little more problematic. If their timing here is anything like that of their mortgage lending, lending to third world countries and all the rest, we wish them well. The Banks were similarly anxious to buy their stock in 2011, 2012 and 2015, just before pullbacks in the Financials. The stocks pretty much welcomed the news Thursday and the charts improved. Rather than dividend growth, loan growth might prove more helpful. The eight Banks that announced buybacks did so to the tune of about 5% of their market cap, more than a drop in the bucket. In a sign of excess of a different sort, ETF provider ProShares announced it was splitting the price of a number of its funds because they had risen so dramatically. The last time they split their Ultra QQQ fund was May 2015 which, after a couple of months, was followed by the autumn decline. The split in April 2012 was followed by an immediate 10% decline.

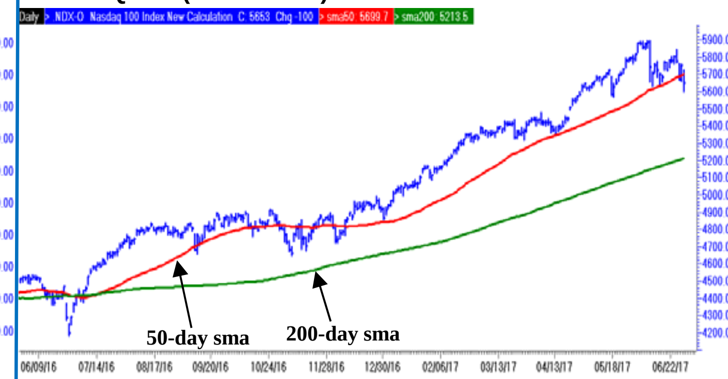
The market averages are hovering around their highs, breadth is at a new high, the Financials are rallying again and Biotech/Health Care stocks are new and solid leadership. All this having been said, we are uncomfortable with the recent action in Tech or, more generally, those up-stocks that heretofore have been leading the market. Weakness in the FANG stocks in the scheme of things has been relatively modest. The patterns vary a bit, but using Google as an example, following the break on 6/9, the stock failed to reach a new high in the recovery and it now is hovering around the lows of the last 6 weeks. While it wouldn't change the overall uptrend, a break would mean greater risk, and that much more recovery time. Many of the Semiconductor leaders are in similar or worse position. All this may just be more rotation – the stocks that lead in last year's second half didn't lead in this year's first half. Whatever the reason, patterns in Tech have turned risky.

Frank D. Gretz

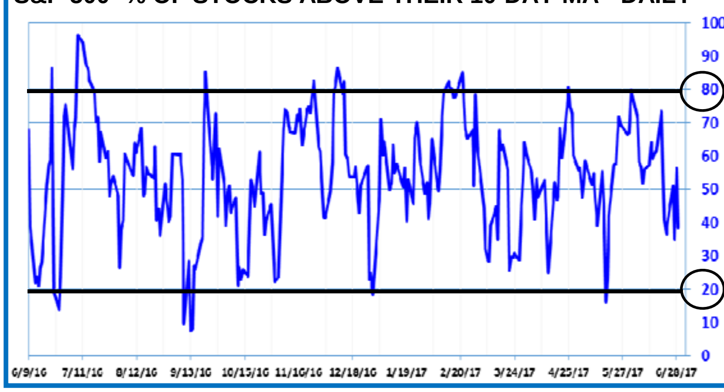
140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

## S&P 500 (SPX – 2420) – DAILY


## NASDAQ 100 (NDX – 5653) – DAILY

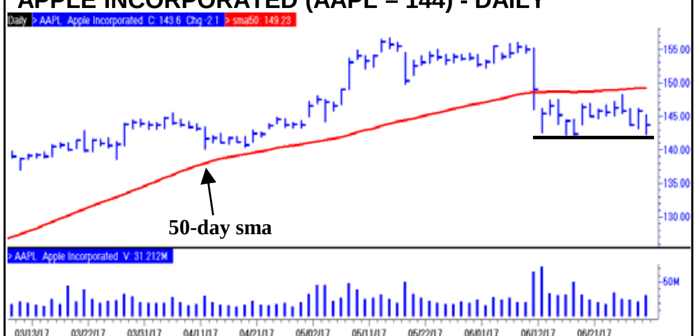



## S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY

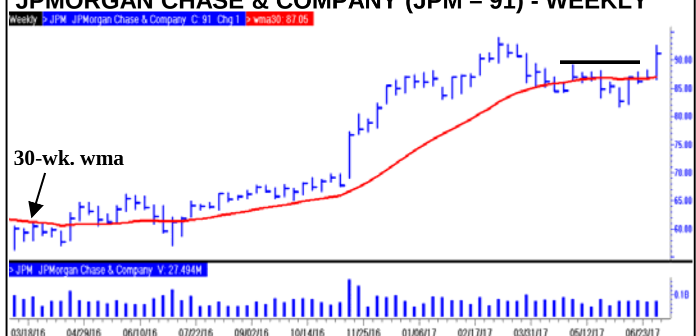



## ADVANCE-DECLINE INDEX - DAILY

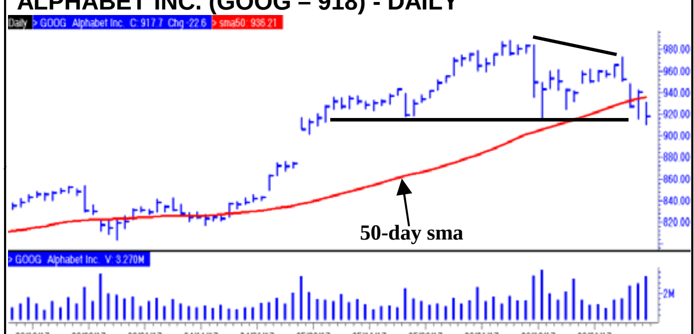

## APPLE INCORPORATED (AAPL – 144) - DAILY



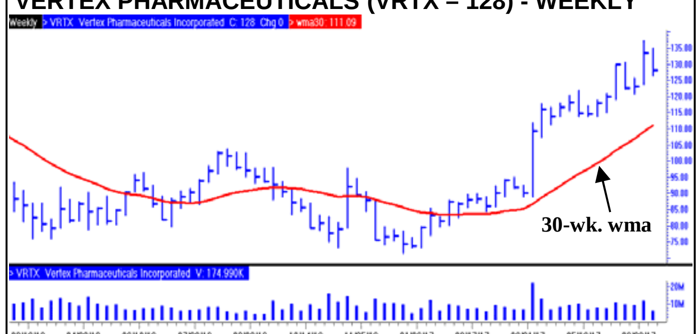

## JPMORGAN CHASE & COMPANY (JPM – 91) - WEEKLY




## ALPHABET INC. (GOOG – 918) - DAILY




## VERTEX PHARMACEUTICALS (VRTX – 128) - WEEKLY




## SKYWORKS SOLUTIONS INC. (SWKS – 96) - DAILY


## JOHNSON & JOHNSON (JNJ – 133) - WEEKLY