WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

June 9, 2017
DJIA: 21,183

Don't worry about overvalued … worry about over-owned. Valuation measures like price/earnings ratios rarely prove useful. A stock that has become almost synonymous with over-priced is Amazon (1010), yet the stock won't stop going up. At a P/E of around 150x this year's expected earnings, no wonder the price seems just a bit excessive. The problem is most call 100x excessive or even 50x excessive. So what's the point of looking at P/Es at all? The charts themselves typically prove a good measure of excess. When a chart starts to go parabolic, you have to know you're nearing the end. Amazon, by the way, isn't there yet. Another approach to this issue of excess is ownership. Stocks always will go down when there's no one left to buy – when they're over-owned. Tech is 23% of the S&P versus an average weight of 15%. In September 1999, however, Tech was 34%. We think Tech – the FANGs – still has room.

These periods when a group of stocks goes on a tear never end well, but also never end until most are convinced they never will. Back in 1972 there were a group of stocks known as the "nifty-fifty." You might not remember that they also were known as "one-decision" stocks because it was thought you would never have to sell them. Imagine! Then in 1999 there were the dot-coms, where valuation wasn't an issue because most had no earnings. Earnings are a distinguishing characteristic this time around, though it won't much matter when the stocks become over-owned. There was another little stock caught up in the dot-com excess and it wasn't even a dot-com. Everyone fell in love with the myth of Jack Welch and took GE (28) to excess. Because it became so over-owned, it took the stock years to make any recovery. As for Cisco (32), arguably the stock that defined the period, it's yet to see 82 again.

Something that could temper the Tech march is, of all things, bonds. Looking at the 10-year, the yield has dropped below its 200-day moving average for the first time in six months. This tends to lead to better performance among the market's "defensive" areas, that is, the dividend payers. If the Utilities are any guide, there indeed has been a rather dramatic breakout in the last couple of weeks, and much the same is true for Consumer Staples. Mind you, Tech is not going away – leaders are the last to give it up. In the meantime, anything that broadens the market is a good thing. Likely due in part to this improvement, stocks above their 50-day moving average are up to around 66% versus about 54% two weeks ago. Some have said the market has narrowed, but these numbers say otherwise. The market will narrow, it's just the way bull markets end. The idea that such a process doesn't seem to have begun is obviously very positive.

At around 23% of the S&P versus around 6%, Tech and Energy find themselves at opposite ends of the ownership spectrum. The case for Oil is tempting inasmuch as these measures tend to be mean-reverting. The problem for now with Oil is that you're catching a falling knife, while Tech is in an uptrend. There's worry about the outsized rally in Tech, while the worry maybe should be the decline in oil prices. This doesn't seem an issue, however, given the steady performance of the high-yield bond market, where more than a fair share of oil debt trades. Stay tuned. Oil isn't alone in being under pressure. Despite the surprisingly positive action in Wal-Mart (79), most of Retail can be thought of as being in their own bear market. While not nearly as severe, Financials also are underperforming. Trump's stalled agenda is one thing, but the flattening of the yield curve easily is as important. The stocks should start discounting a better outlook, and this week was the first sign they might have begun to do so.

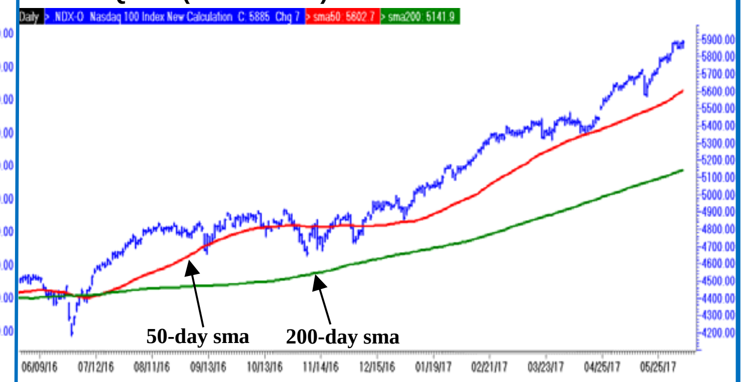
Stocks are not driven by valuation. They're driven by supply and demand. FANG and the rest of Tech are over-weighted by 70% of money managers, according to Bank of America. Given that FANG, together with Microsoft (72), has accounted for almost 5% of the S&P's gain of around 8%, being overweight likely just means keeping up. A more relevant number would be how much overweight. We think the group's weight in the S&P likely will prove a better guide. It seems unlikely that this bull market will go out with a whimper, without a likely excess in these stocks. Some think we're there now, but we doubt it. When they're done, the talk will be why you should be buying, "one-decision" stocks and all that, not why you should be selling. At important turning points the market teaches everyone to be wrong, not right. Meanwhile, the FANG concept is alive and well in China. Alibaba (142) gapped higher Thursday on news it expects to grow a few hundred percent this year, if you care about that sort of thing.

Frank D. Gretz

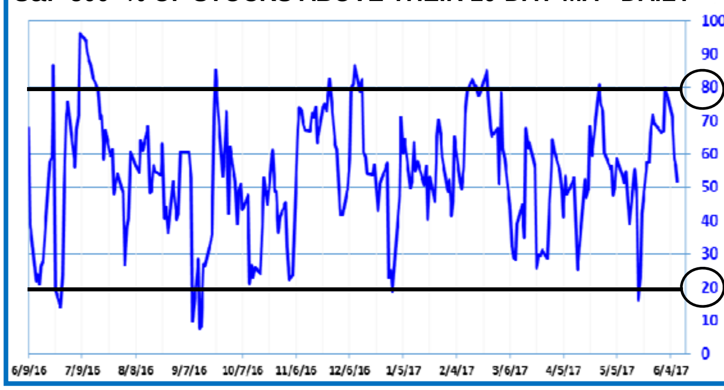
140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

S&P 500 (SPX – 2434) – DAILY

NASDAQ 100 (NDX – 5885) – DAILY



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



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

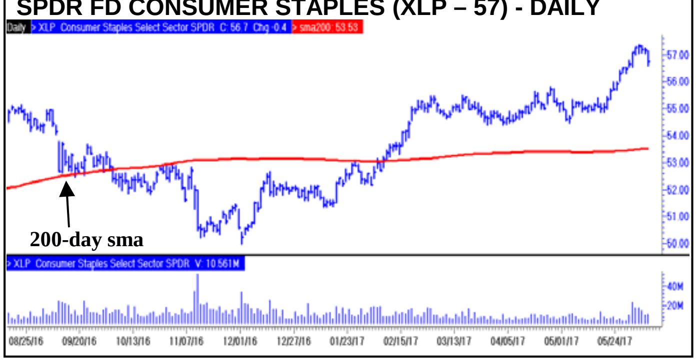
ISHS 7-10 YEAR TSY BOND ETF (IEF– 107) - DAILY

SPDR FUND FINANCIAL (XLF – 24) - DAILY

SPDR FUND UTILITIES (XLU – 54) - DAILY

AMAZON.COM INCORPORATED (AMZN – 1010) - DAILY

SPDR FD CONSUMER STAPLES (XLP – 57) - DAILY



ALIBABA GROUP (BABA – 142) - DAILY