WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

March 16, 2018
DJIA: 24,874

Good news or bad news … you have to ask the market. The market makes the news. This seemed simple enough last Friday on the better-than-expected employment number—this time without the scary wage growth. The market took this as good news to the tune of a 400+ point rally, when it might well have taken it as bad news, resulting in a sharp decline. After all, the number all but assured more rate hikes. They say not to worry when hikes are predicated on economic growth—they also say "don't fight the Fed." Money is made in the stock market when rates are falling, not rising. Then, too, money is made in stocks when the 50-day moving average of the S&P 500 is above its 200-day moving average, as it is now. Meanwhile, the "trade news" that didn't seem to matter last week, suddenly seemed to matter this week.

Downside reversals like Tuesday's are never fun, and this one seemed more strange than most. After all, it followed the good day Friday and decent day Monday, leaving the S&P above 2780, which some viewed as a breakout level. It also seemed strange in that the bad news—Tillerson, China—was there in the morning when the market was up 200. It is what it is, and you can quote that. Just as the market seemed on its way, it wasn't. The recent lows by no means seem at risk. The risk, so to speak, is that it's not just up, up and away. That said, the NASDAQ is at a new high, and this is where this trade war aspect of the weakness, such as it is, really comes into play. Amazon (1582) hasn't blinked, Boeing (330) has, and then some. Even when it comes to the Boeing-driven DJIA, there were 1200 advancing stocks Wednesday, not what we call a 250-point decline.

Looking at this pattern, we can't help but be reminded of 2000, though not in the same ominous way. Back then it was new economy versus old economy, the dot-coms versus the rest. The NAZ outperformed, more specifically, the Dow languished. The rationale now is completely different, but the same pattern in the averages has started to evolve. It's early, and things could change, but it could prove important—very important if it continues. It's also potentially important from a technical standpoint. Just as 2000 didn't end well, divergences of any sort cause problems. Worst are those involving the Advance-Decline Index—the average stock versus the stock averages—and there the market remains on sound footing. Divergences can go on long enough to make you forget they're there. What's important in this case is to duck the trade-war stocks—for now, even a Boeing.

If all this sounds like the perfect backdrop for the Russell 2000, apparently it has been. The Index is nudging its highs and has been outperforming the Dow Industrials since the end of 2016. Small companies that comprise the Russell tend to be domestically focused, which, against a trade war backdrop, is an obvious advantage. The Russell 2000 does have its drawbacks. It trades at 26 times 12-month forward earnings while the S&P 500 trades at 18 times, if you care about such things. More important seems the point made in a recent Barron's article noting that the recent performance gap between small caps and the Dow is a warning sign. When it last happened following the 2016 election, the Russell underperformed over the next three months. Then, too, relating performance to any market average may be the wrong emphasis. It might make more sense to simply say buy any old stock, as long as it's a Regional Bank.

After getting over the February setback with a sound bottoming process, the lack of follow-through is disappointing. The lack of follow-through to even last week's decent week, is disappointing. The answer simply may be February is over, but this isn't January. It's 2018, not 2017, and this is just the way it's gonna be—a year of fits and starts, a year where you don't chase the market and, though against our nature, buy the weakness. Just last week the "trade war" idea seemed overblown. Boeing has made us think otherwise. Unlike Boeing, however, most of this area doesn't have 13% of sales directly to China. Tech exposure became a worry this week as well though, ironically, Apple (179) had a good week. An area that never went away, but has come on again is Cyber Security, the ETF symbol for which appropriately is HACK (36). There are plenty of good charts—64% of the S&P stocks are above their 200-day moving average—seemingly most of them Tech.

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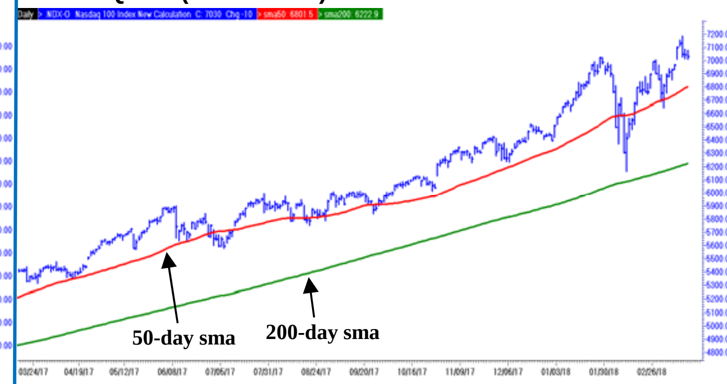
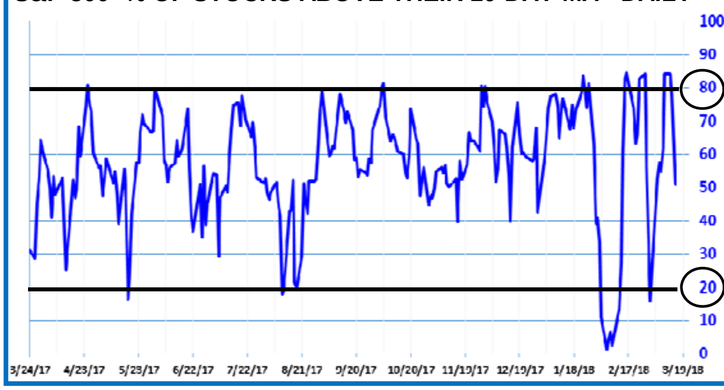
S&P 500 (SPX – 2747) – DAILY

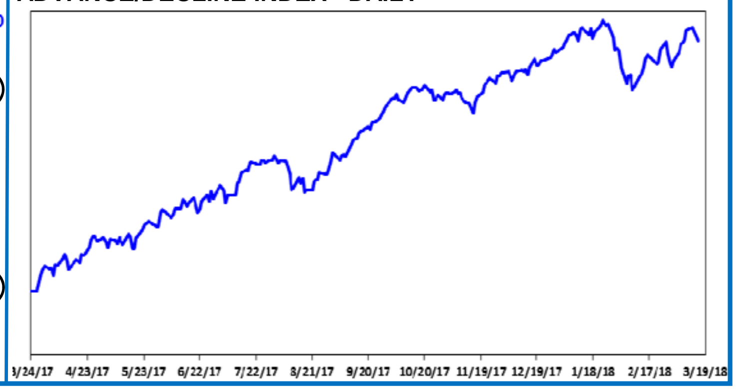
NASDAQ 100 (NDX – 7031) – DAILY



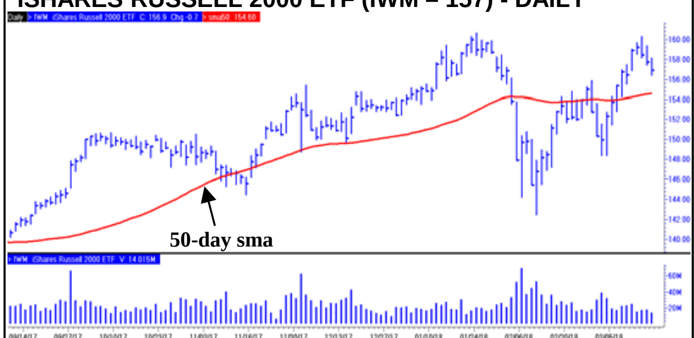
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



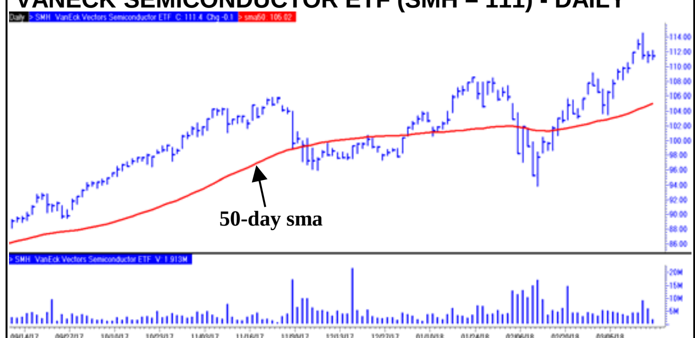
ADVANCE/DECLINE INDEX - DAILY



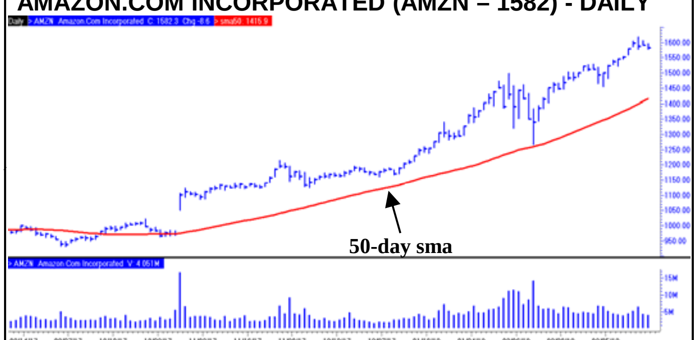
ISHARES RUSSELL 2000 ETF (IWM – 157) - DAILY



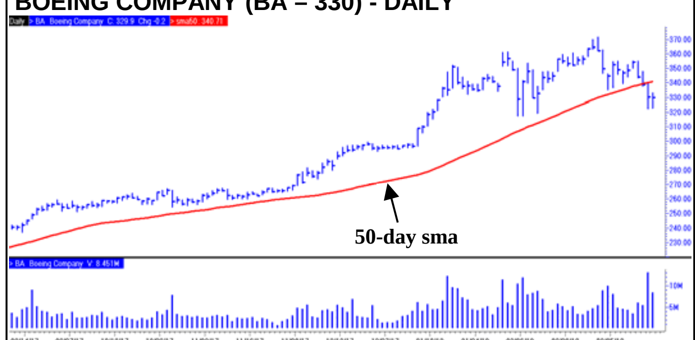
VANECK SEMICONDUCTOR ETF (SMH – 111) - DAILY



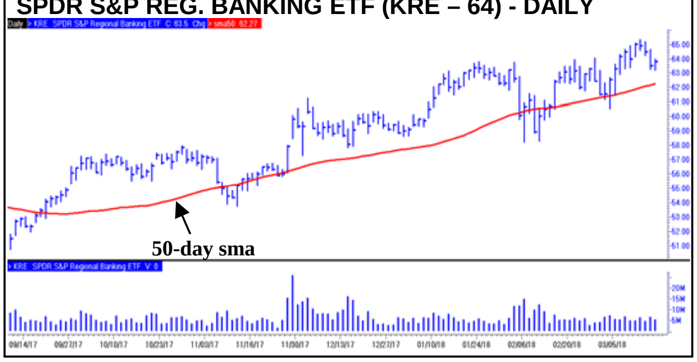
AMAZON.COM INCORPORATED (AMZN – 1582) - DAILY



BOEING COMPANY (BA – 330) - DAILY



SPDR S&P REG. BANKING ETF (KRE – 64) - DAILY



ETFMG PRIME CYBER SECUR. ETF (HACK – 36) - DAILY