WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

March 18, 2016
DJIA: 17,481

Convincing … about to be on the way to compelling. After being down 10% year-to-date, the S&P now is but one "good day" away from being up on the year. However, this hardly tells the story, a story of real technical strength. The percent of stocks above their 10-day moving average has been overbought and has stayed overbought, a sign of unusual strength. The unusual technical strength is perhaps even clearer in the percent of stocks above their 50-day moving average. This measure has moved from 9% to 90%, the highest level in quite some time. Then there is the McClellan Summation Index, a long-term view of the momentum of the market's breadth. This isn't a measure we follow closely, but we do have respect for anyone who has been in this business as long as us. The last time this Index moved in its recent extreme fashion was the bear market bottom in March 2009. Indeed, similar moves in the Index almost universally led to positive returns in the weeks and months ahead. Then, too, there's the little matter of history. Of the 20 best rallies known to mankind – those since 1900 – 18 occurred in bear markets.

We remain in the "still a bear market" camp, but we can see how the bull case might become almost compelling. It's a rally which has lifted all ships, many of them sunken ships. Seadrill (4) comes to mind. That hasn't been true of Biotech, which apparently had become more over-owned than even we had thought, and recently could be adding a leg down. To a lesser degree, the so-called "FANG" stocks also have been absent. Like Biotech last summer, the fourth quarter saw the stocks become a little overcooked as well. We doubt they become the leaders of yesteryear, but Facebook (111) and Google (758) have shaped up enough for a decent leg up. Such a move also would fit in with a final phase of the rally, at least in terms of sentiment. It's hard to stay sitting on the sidelines, when your precious Apple (106) is going up. That's what we mean by compelling.

When you're making money, when your Apple is going up, you tend to ignore a lot of technical sins. If the FANG stocks start to go, are you really going to pay attention to market breadth – which most don't anyway. Are you really going to worry that suddenly there are more stocks down than up most days, the opposite of what got us here? It's unlikely you will, but you should – this is the pattern that gets markets into trouble. The market has steered clear of such action, that is, any divergence between the average stock and the stock averages. However, build it, a rally, and they will come. As buyers become exhausted, it's secondary stocks, that is, market breadth, which will show it first. Tuesday could have been a little hint of this with the Advance-Declines almost 3-to-1 down while the Dow gained 20 points. However, while bear market rallies end quickly, they don't end overnight. Most likely there will be a pattern of days like Tuesday before it's time to worry. And Wednesday's 4-to-1 positive breadth, for now, seemed to clear that air.

Other than defensive stocks, arguably it has been a rally in the laggards – down the most turns to up the most. When it comes go Gold, however, there could be more to it. If markets bottom when the last seller has sold, and investor psychology offers a guide to that likelihood, Gold is under-loved to the point it likely is sold out. For GDX (20), the Gold Miners ETF, breaking the long-term downtrend offers some evidence in that regard. As it happens, Gold also has hit upon a scenario that is the perfect bullish storm. Janet's move, or the lack thereof, sent the dollar tanking. The woman must be long commodities. For most of them, it does seem just an overdue rally within a downtrend, but for Gold, and Silver, a new overall uptrend looks in place. Sentiment here is a bit over the top, but if Gold were to just hold here, it would be another long-term positive sign.

Perhaps not snow white, but Janet turns out to be a dove after all. As much as a run in Apple, the Fed's more benign look at rates seems another compelling reason to fear being left behind. The news came as a surprise, but it's no surprise good news would follow price. Stocks peak on good, not bad news. For now, however, there is no sign of a peak. As we've mentioned once or twice, most days most stocks go up and this will change before any important problem. The averages are up against those levels we thought might pose a problem, and the historical norm of roughly 10% for counter-trend rallies. However, there are no rules and bear market rallies often overshoot. They become convincing/compelling. If you're feeling either, it's time to be careful – it's still a bear market.

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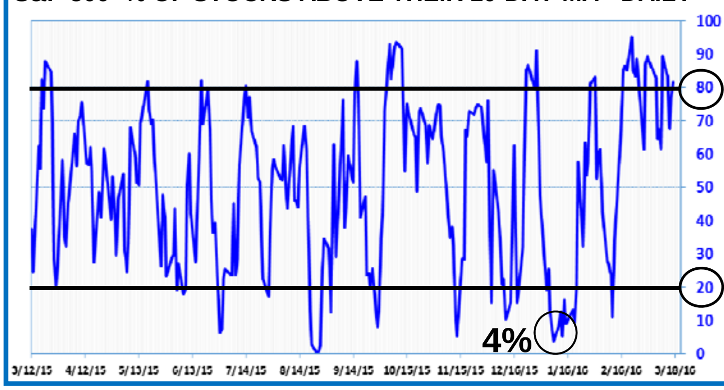
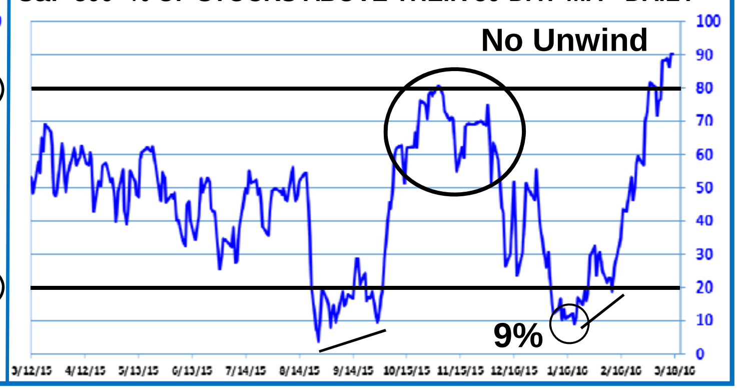
S&P 500 (SPX – 2040) – DAILY

NASDAQ 100 (NDX – 4400) – DAILY

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

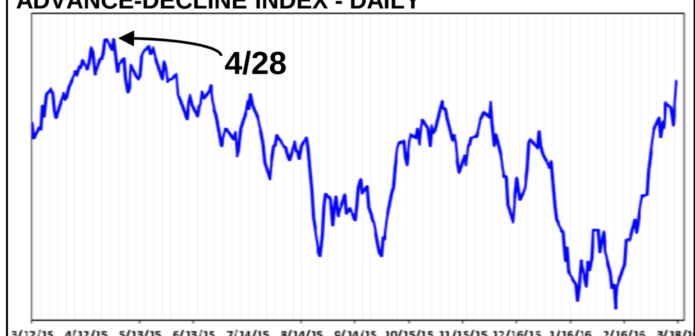


S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY

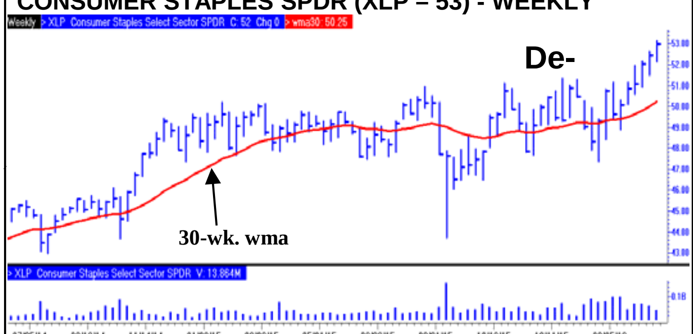


APPLE INCORPORATED (AAPL – 106) - WEEKLY

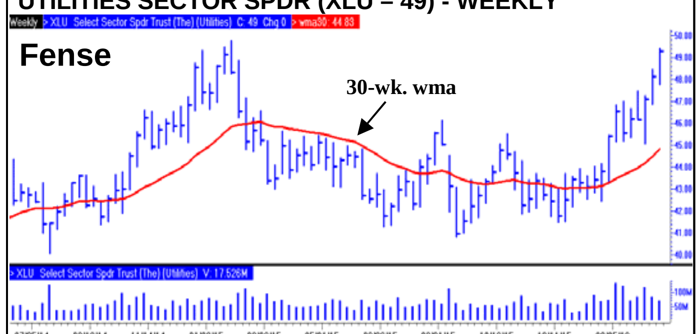
ADVANCE-DECLINE INDEX - DAILY



CONSUMER STAPLES SPDR (XLP – 53) - WEEKLY



UTILITIES SECTOR SPDR (XLU – 49) - WEEKLY



MKT VECTORS GOLD MINERS (GDX – 20) - WEEKLY

ISHS NASDAQ BIOTECH ETF (IBB – 247) - WEEKLY