WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

March 24, 2017
DJIA: 20,657

Trump stocks … dot-coms and one-decision stocks. By the time they get around to putting a name on stocks or markets, it's time to worry. Those "one-decision" stocks were a feature of the 1972 bull market. You may recall stocks of the period also were referred to as the "nifty-fifty." Bad things happen when markets narrow, making "fifty" the key here. This fifty, indeed were nifty, selling for what, at the time, were extreme multiples. Of course, those turned to a pittance when 1999-2000 and the dot-coms rolled around. You might also recall the "new economy" justified paying almost anything, while securities part of the "old economy" languished. The dichotomy became so severe, the old economy laden Dow peaked in January 2000, while the dot-coms and the rest of Tech carried the NAZ through March. Like most such periods, so much money was being made in the dot-coms, the divergence was barely noticed.

This market isn't in the same category as those above. To begin, the Trump stocks are not nearly as extreme as were the nifty-fifty or dot-coms. More important, this market isn't what you would call narrow, let alone virtually exclusive, as were those. After all, the Advance-Decline Index reached a new high just at the beginning of March. However, the periods cited above offer insight as to how divergences work. The divergences in those periods weren't some big secret, they were obvious. In both cases they actually named the divergences – "new economy-old economy" and "nifty-fifty." They were ignored for that most formidable of market drivers, greed. Investors figured out what was going up and drove them to extremes. It's like the old market story of a party, it's great fun, you know it's going to end, but the clock has no hands. We're not there yet, and based on the A-Ds, we're not all that close.

We've always thought an extreme market like those above could happen this time, with the FANG stocks being the prime candidates for a run to excess. If a couple of days were any guide, and they're not, the last couple of days did cause us to revisit the thought. Many had thought the excess might have come in the form of the "Trump stocks," – the Infrastructure, Defense and Financial stocks. However, with Trump himself now bogged down in "the swamp," this seems less likely. When it comes to the Financials, deregulation of some sort would definitely help, but a steepening yield curve would help even more. And that's not happening, thanks in part to too many bond bears. Were this not enough, bank credit data, as one analyst put it, has been disturbingly weak. The spread doesn't much matter if no one wants bank money. Getting back to the possible run/blowoff move in FANG and other Techs, it always has made sense that a bull market like this one wouldn't end in a whimper.

They call the first hour of trading "amateur hour." Call it what you like, we have noticed up-openings often are not to be trusted. However, this certainly doesn't explain what happened Wednesday when stocks began to fall soon after the opening, after the NASDAQ reached an all-time high. As we all know by now, the resulting weakness ended a 100+ day period without a 1% drop – just when you thought it would never end. This isn't the first time one of these winning streaks has ended, and the outcomes were almost surprisingly benign. Though the market gave up a month's gain in a single day, it rallied over the next two-to-three weeks virtually every time. Leading the decline Tuesday were Financials – Banks, big and small. Here the outcome wasn't quite so propitious, with the next three weeks seeing a recovery only about half the time. Banks need help from the 10-year which, as it happens, is a little stretched to the upside.

Seemingly, there is a lot riding on this Healthcare issue – like the rest of the Trump agenda. Somehow a potential trade war seems more damaging, but weakness in the largely domestic Russell 2000 says this is not happening. If it serves to temper the enthusiasm, a setback here is a healthy thing, as much as losing money can ever be healthy. According to Google Trends, searches for "index funds" recently reached their highest level of this bull market, roughly comparable to October 2008. Back then there was a panic out – this time, a panic in. The relentless nature of the uptrend may be over, but not the uptrend itself. A disappointment and another selloff wouldn't even be the worst thing. Stocks above their 10-day average got down to a near oversold level of 26%, further weakness would only up the odds of a rebound. Any weakness on this Healthcare mess should be temporary.

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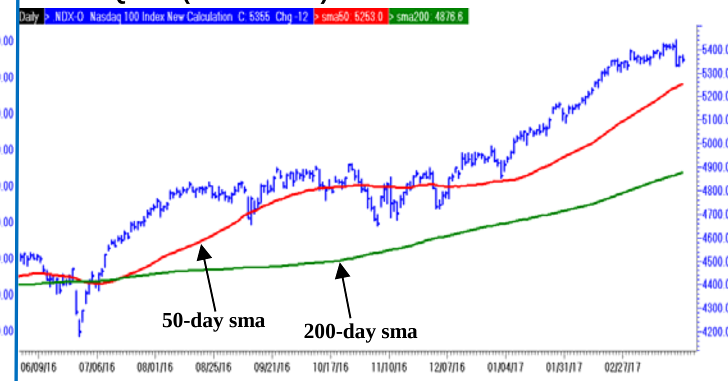
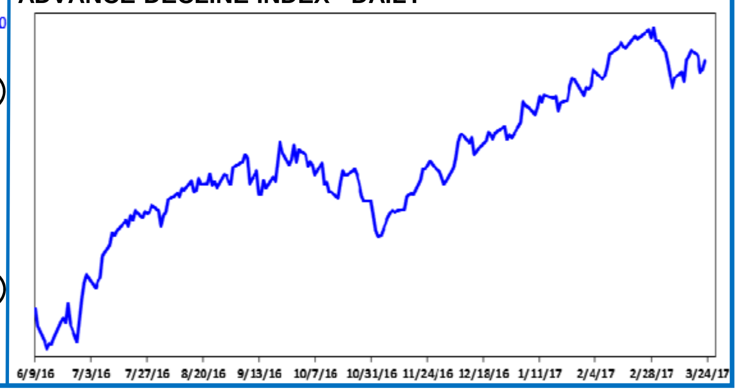
S&P 500 (SPX – 2346) – DAILY

NASDAQ 100 (NDX – 5355) – DAILY



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

ADVANCE-DECLINE INDEX - DAILY

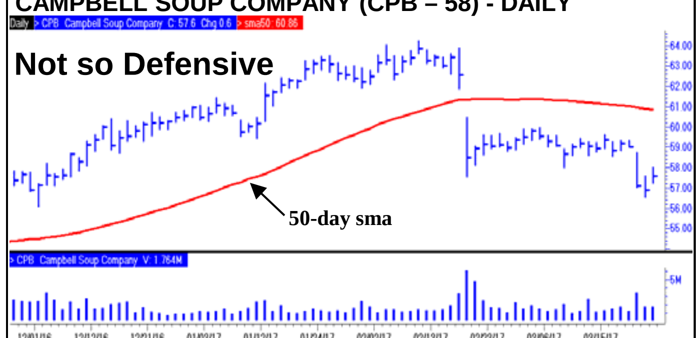


ISHS 7-10 YEAR TREASURY BOND ETF (IEF – 105) - DAILY

KBW NASDAQ BANK INDEX (BKX – 91) - DAILY

FACEBOOK INC. (FB – 139.5) - DAILY

CAMPBELL SOUP COMPANY (CPB – 58) - DAILY



MCDONALD'S CORPORATION (MCD – 129) - DAILY

GOOGLE (GOOGL – 840) - DAILY