Wellington Shields & Co.
Member New York Stock Exchange

Equities Perspective

March 3, 2017
DJIA: 21,003

Markets make the news … or was the speech really that good. The market gapped higher Wednesday morning and never looked back. When markets don't give up an opening gap in the first hour, typically they don't give it up the rest of the day. When it comes to individual stocks, upside gaps usually indicate the start of a powerful move, all things being equal. The idea that gaps have to be filled is a myth. The story is a different one, however, when it comes to gaps in the market averages. The last upside gap was this past July, which was followed by a trading range and then a move down to fill the gap two months later. This pattern is typical, though there were a couple of occasions when gaps were never filled – March 1986 and June 1997. According to SentimenTrader.com, since 2009 it took an average of 25 days and an average gain of another 2% before gaps were filled. However, they were all filled, meaning we will likely see a lower close than Tuesday's – which by definition would fill the gap – over the next couple of months.

The Dow and S&P get all the attention but the Utilities actually outperformed in February. However, Utilities were just part of the bigger picture in which defensive sectors outperformed the more aggressive ones. This is a very unusual pattern in a bull market, and changed in Wednesday's rally as strength reverted to what we've come to know as the "Trump stocks." According to Strategas, more than 90% of Financials, Technology, Industrials, Energy and Materials stocks finished higher on Wednesday, while REITs and Utilities underperformed. The rotational nature of the rally goes on, and helps explain the advance-decline numbers. With the A-D Index consistently making new highs, overall weakness has been muted, but you might say the same of the overall strength. Even Wednesday's 2-to-1 up-day wasn't special given the strength in the averages. This rotation is an unusual pattern and can leave you feeling you're missing out. As for the A-D Index itself, it's the higher highs that matter, and not how you get there.

Things are about as good as they get, which of itself sometimes can be a problem. In one of the bigger one-day moves we can remember, stocks above their 10-day average jumped to 79% Wednesday from 51% the day before. By this measure, finally you can say the market is overbought. Good markets, however, tend to get overbought and stay overbought – time will tell. The level of 12-month New Highs offers another look at this idea. More than a quarter of the stocks in the S&P reached a 12-month new high Wednesday, the most in a few years, and a relatively rare occurrence. Over the next couple of weeks performance wasn't special, but over a period of six months-to-a year, markets were virtually always higher. In general, this is the pattern of markets like this one that begin with big upside momentum. They may go dormant for a time, but they come back again and move higher.

Too many bulls never killed a rally, let alone a bull market. However, bull markets die when all the money is in, and too much bullishness often indicates this is the case. The Investors Intelligence Survey tracks the opinions of market letter writers, a notoriously brilliant group, who nonetheless prove consistently wrong at the turns. In its survey of the past week, it found 63% looking for higher prices. This may not seem terribly high, but over the years extremes have become more muted. In any event, it is the highest since 1987. In many cases, the warning offered by this indicator is early. This would seem the case again. If too much bullishness means all the money is in and hence the uptrend is over, it would show up in terms of participation. In other words, were all the money in, so to speak, we wouldn't be watching the Advance-Decline Index make new highs every day.

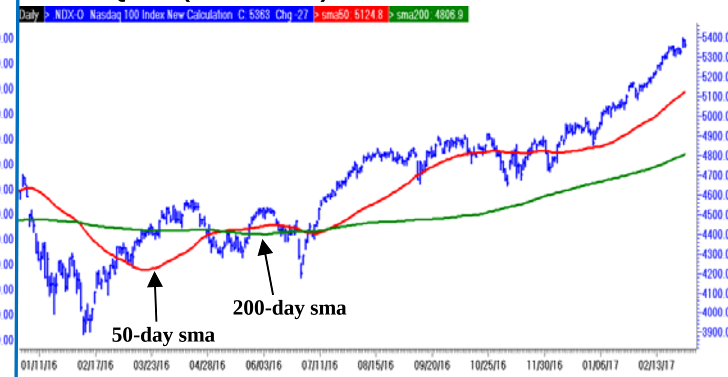
Suddenly a March rate hike is all the rage. As market rates already have adjusted, you wouldn't expect much damage. Then, too, it's a reminder that we're in a "Fed tightening cycle," which historically has had unpleasant consequences. Higher rates are being perceived as a good thing for most of the Financials, though you wouldn't know it from their action Thursday. They didn't close their own 2% gap on Wednesday, but they did take out the subsequent 1% move. It's easy to write-off Thursday as "due," but it was a bit more than we would have liked. A leader like Broadcom (217) was up 12 points after hours Wednesday, but closed Thursday up only 2 – that says tired. The Semis generally failed to make new highs. There was a surge in S&P Index buying Wednesday – as a percent of assets, the most since 2015. This doesn't mean all the money is in, but in the past it has led to some consolidation. Meanwhile, Biotechs and most of Health Care continue to improve.

Frank D. Gretz

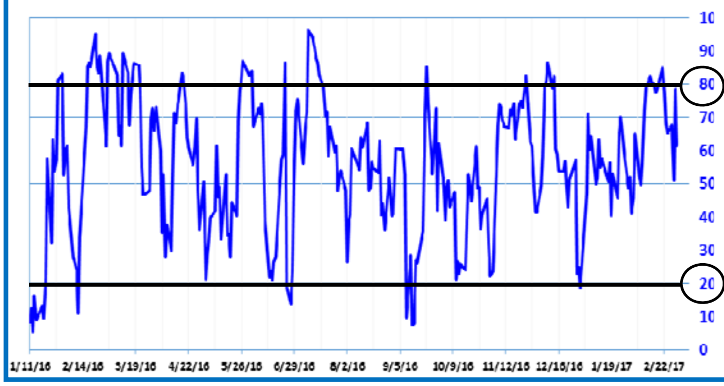
140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

S&P 500 (SPX – 2382) – DAILY

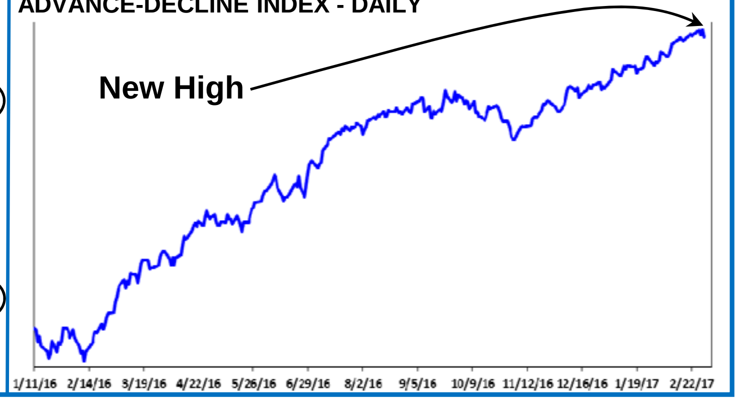
NASDAQ 100 (NDX – 5363) – DAILY



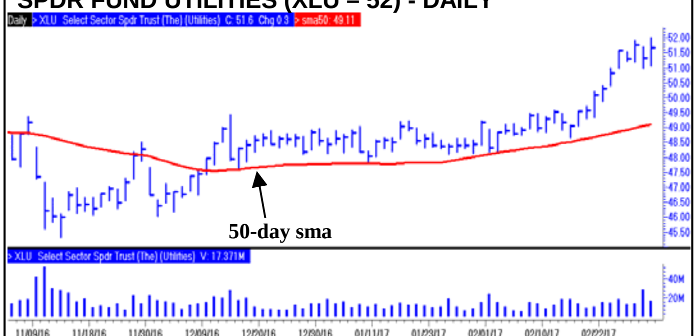
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



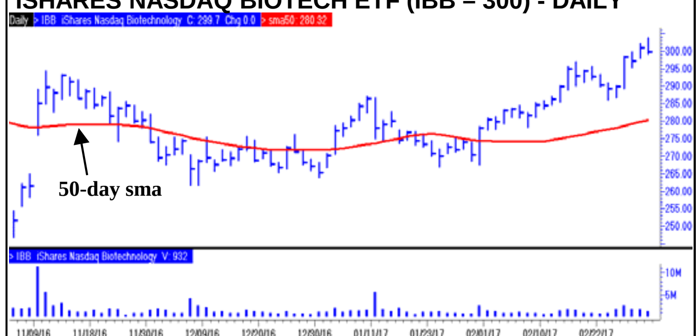
ADVANCE-DECLINE INDEX - DAILY



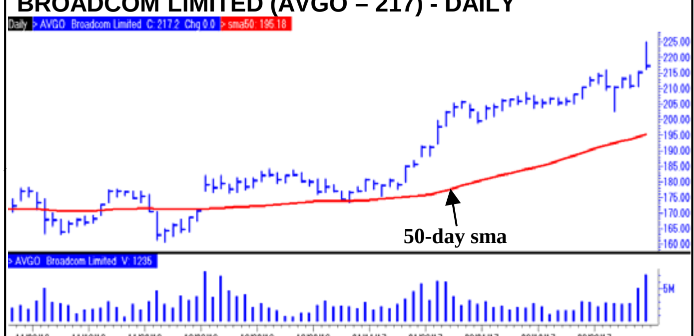
SPDR FUND UTILITIES (XLU – 52) - DAILY



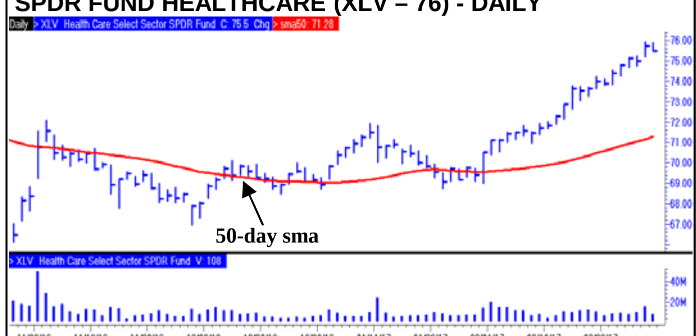
ISHARES NASDAQ BIOTECH ETF (IBB – 300) - DAILY



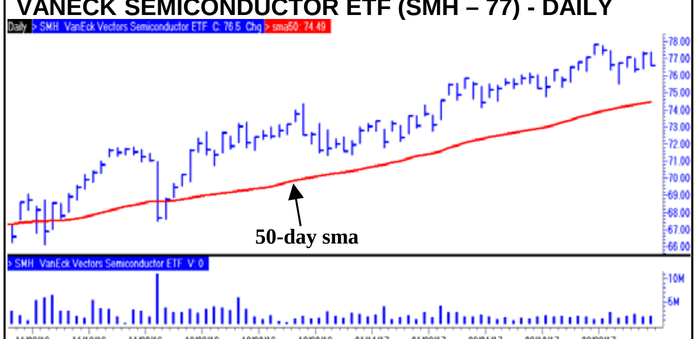
BROADCOM LIMITED (AVGO – 217) - DAILY



SPDR FUND HEALTHCARE (XLV – 76) - DAILY



VANECK SEMICONDUCTOR ETF (SMH – 77) - DAILY



SPDR FUND FINANCIAL (XLF – 25) - DAILY