WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

March 4, 2016
DJIA: 16,944

Down 125 … and more stocks up than down. This is not how markets get into trouble. Not only did this market not get into trouble, the next day, Tuesday, it rallied 300+ points. Before you start to write this down, you can't take a negative Dow and positive Advance-Declines as a sign that they're about to rally 300 points. Rather, it's just a sign that the market is not in trouble. Markets follow the "average stock," not a stock average. In its run from the February 11 low, there has been only one day of negative A-Ds – a remarkable run. Yet until Tuesday, there wasn't all that much to show for it. It was pretty much a dribble higher, led by anything digestible. However, Tuesday seemed to change this as, for goodness sake, even Apple (101.5) had a little breakout. It's enough to make you wonder if this bear market is over. It's not, but bear market rallies usually do that.

So just where might this rally lead? An obvious place would be those breakdown points to which we keep alluding – S&P 2000 and around DJIA 17000. These should present rather formidable resistance areas, that is, areas where previous buyers would be happy to get even. Another area could be around S&P 2020 and DJIA 17800, areas where you would meet a falling 200-day moving average. However, the 200-day didn't stop anything back in October and we've never found much use for support and resistance in the averages, except they're good for a half-paragraph. It's likely too much to hope for, but the rally could end in a fashion opposite that of Monday. Instead of weakness in the market averages but positive breadth, a couple of good days in the averages against flat breadth would be a real warning. Most don't even look at breadth – Advances and Declines – and if they do, who's not willing to ignore a couple of bad A-D days if the Dow is up a couple hundred points?

Another sign things are going awry might come from the level of 12-month New Highs and New Lows. The level of New Lows was key to the market's "test" back on February 11 when the number was only about half that of the 2000 New Lows on January 20. Those New Lows on the 20th were extreme, something like 40% of issues traded, indicating a probable washout. In turn, the fewer New Lows on the 11th indicated less selling pressure, that is, a successful test. As it happens, this pretty much was the same pattern at the low back on August 24 and the test on September 28. New Lows dropped sharply into October and have done so again this time. Say what you like or don't like about the rally, stocks have stopped going down. Many seem worried about the relatively mediocre level of New Highs, but New Highs take time. We worry more about a re-expansion of New Lows, as this would suggest selling had again picked up and the rally had likely run its course.

None of this is to say that the rally is about to end, but it will end, and it's best to know what this might look like. It's easy to quip that you'll question whether it is just a bear market rally before it ends, and there are some signs of this. Investors' Intelligence shows market letter writers are positive for the first time in seven months, having just been even less positive than at the March 2009 low. Looking at stocks above their 10-day moving average, the market is overbought, but overbought to a point that indicates the kind of strength which persists – it's overbought and staying there. The rally to this point has taken the market up about 9%, but the average bear market rally is about 12%. The average bear market rally lasts about 10 weeks, so if the low was February 11, the rally still has time on its side. Perhaps more striking, according to Sentimentrader.com, were the rally to end today, only one other bear market rally would have been shorter.

They still try to say Gold is a "fear trade," but fear of what? The market goes up pretty much every day and so too does Gold. What are we missing? Gold went down or nowhere until it wore everyone out and they got out – even Paulson, who said it was a hedge. It was a "hedge" until he got tired of losing money. Over these many years of Gold's bear market there have been plenty of times to be fearful, and Gold did nothing. This is an important change. Hand-in-hand with Gold's rally is a lift in most commodities. What's going on there, however, seems different – a sold-out rebound. As we often say, when markets turn, usually down the most rallies the most – think of the Metals. Along lines more mundane, if it rings you want to own it, especially if it is Verizon (52) or Telephone (38).

Frank D. Gretz

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

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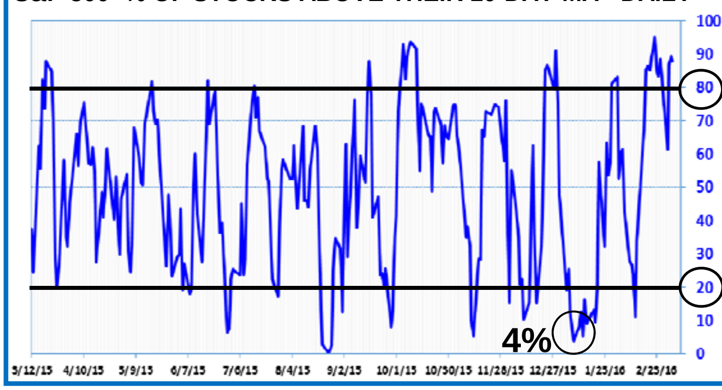
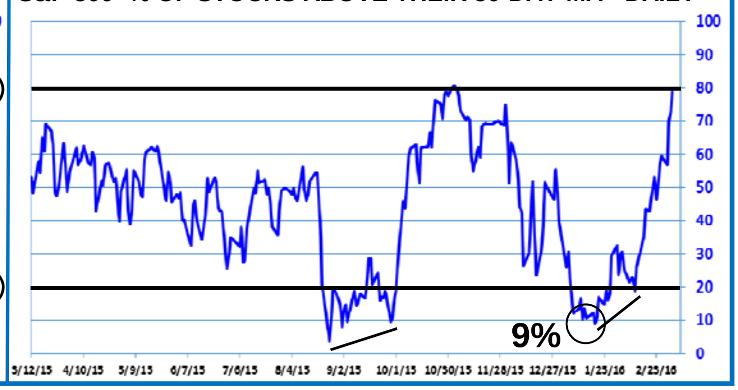
S&P 500 (SPX – 1993) – DAILY

NASDAQ 100 (NDX – 4325) – DAILY

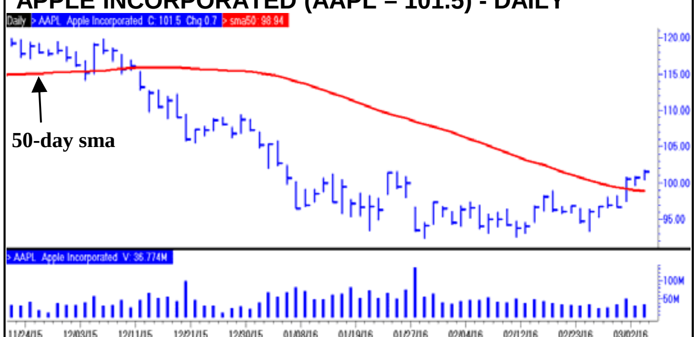
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



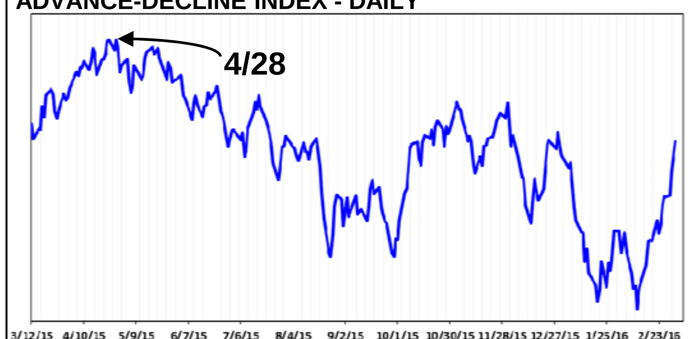
S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY



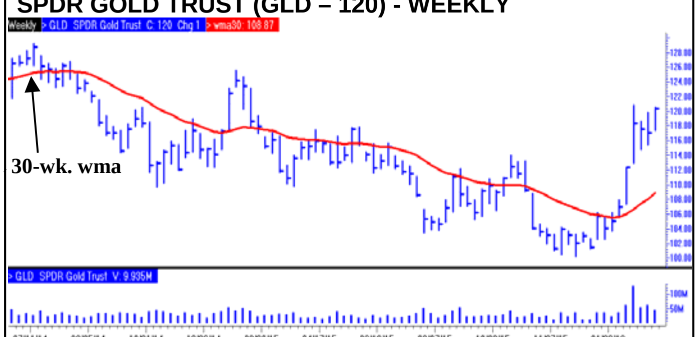
APPLE INCORPORATED (AAPL – 101.5) - DAILY



ADVANCE-DECLINE INDEX - DAILY

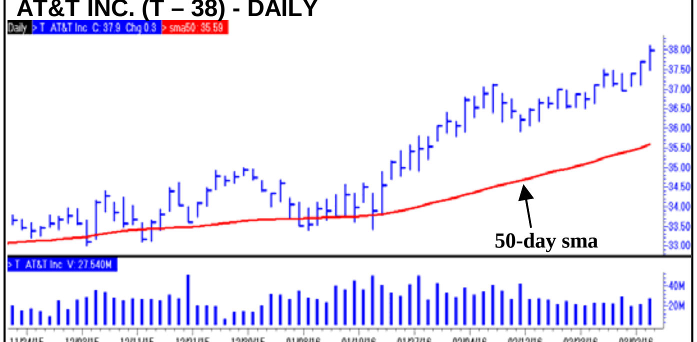


SPDR GOLD TRUST (GLD – 120) - WEEKLY



SPDR S&P METALS & MINING (XME– 19) - WEEKLY

AT&T INC. (T – 38) - DAILY



EXXON MOBIL CORP. (XOM – 82) - WEEKLY