WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

May 12, 2017
DJIA: 20,919

Straight Path … buying a stairway to heaven. If Led Zeppelin was not enough, how many times have we been told to stay on the straight path? The stair-step pattern of Straight Path (178) is perhaps the most unusual we've ever seen, though apparently now over, with Verizon's successful bid. This, following the 130-point move in roughly one month. For the most part, however, earnings have been the driver of late, and they've done just that. Both Coherent (250) and the controversial Nvidia (126.5) had outsized upside moves on Wednesday, keeping the FANG/Tech thesis intact. However, on the other side of the spectrum so to speak, there's the much-hyped SNAP (18). The trouble with being much hyped is that it leaves room for much disappointment. The obvious defense here is that Facebook (150) also faltered at its start, before becoming Facebook. However, there's a big difference – Facebook didn't have to compete with Facebook!

The good news is earnings have been good. Indeed, not just good, they have "surprised" – by some estimates it was the best quarter for earnings and revenue beats in 13 years. Just as important, stocks responded. So much for the past, from here it gets harder. What we've seen for the most part are Tech numbers – now we get to reports by consumer companies. If Macy's (24) is any guide, or even Disney (110), the tailwind of earnings likely now is a headwind. The other area not exactly helping are those Trump stocks. As the year began, the two sure things were thought to be Oil and the Financials. Oil has been awful and Financials haven't exactly lived up to the high hopes. It has been Tech that, in retrospect, has been the easy go-to trade. Adolfo Rueda of New Albion Partners LLC did an analysis of these stocks relative to their various moving averages. Surprisingly, the stocks are not that extended.

The FANG stocks may have gotten a boost this week from, of all people, famed "value" investor Warren Buffett. It's known that he owns Apple (154) and, in an interview, he put his seal of approval on the company's recent dubious quarter. We're all just waiting on the "8," was his contention, a man with a flip phone. Sounds like a sell-on-the-news event, particularly if the stock keeps discounting it. Even more interesting, perhaps, was his praise of Bezos and Amazon (948). Though we haven't spoken to Warren of late, such was his enthusiasm, we wouldn't be surprised to find he's a buyer, though Amazon seems to have plenty of buyers without him. Warren also was fascinated that anyone could run two companies, in this case, Amazon the retailer and Amazon the cloud provider. If he likes Bezos, he should love Musk, who arguably runs three or four. Then, too, if you can send a rocket to space, bring it back, and land it on a dime, making a car might not be a big deal. This week we're thinking TFANG.

Rather than Trump, could be China has been the reflation trade. The promise of fiscal stimulus and deregulation that has helped boost confidence, may have been overstated, and the real focus should be on China and their growing problems. We know, we know – they call the short China trade the widow maker and we're not about to say this time is different. However, China is experiencing tighter liquidity during a crackdown on risk, with money market rates at their highest level in two years. What catches our attention is more mundane – the sharp weakness in commodities like iron ore, copper and coking coal. In terms of what can come out of left field, so to speak, China usually is our go-to worry. A saving grace is that the chart of the China large-cap ETF isn't bad. The more domestic-oriented Dow Jones Shanghai Index (409) is a different story. China's problems haven't gotten all that much attention, another worry. Rather than rates, it's usually where you're not looking that gets you.

If only a distraction, the Comey event would seem to push back what the Administration wants to get done on the economic front. So let's hope the market is more about corporate profits than corporate hope. On the technical side, it's still a happy place, though the Advance/Decline Index is blowing with the wind of Energy stocks. Only 6% of the S&P, but a whole lot of stocks. Interestingly, the QCHA, a price measure of breadth – not just up or down, but how much – has made a new high. Have we ever mentioned that this is not the backdrop for big problems? Big, of course, is in the eye of the beholder, and we likely are more than ever subject to some negative news from both earnings and politics. What can we say, the trend is up – where you're in still seems the key versus whether you're in. FANG isn't so much about those 5 or 6 stocks as it is about a concept. It's a concept not even domestic – look at Alibaba (120) and even the more impressive MercadoLibre (286). The FANG concept is international, which tells its own story.

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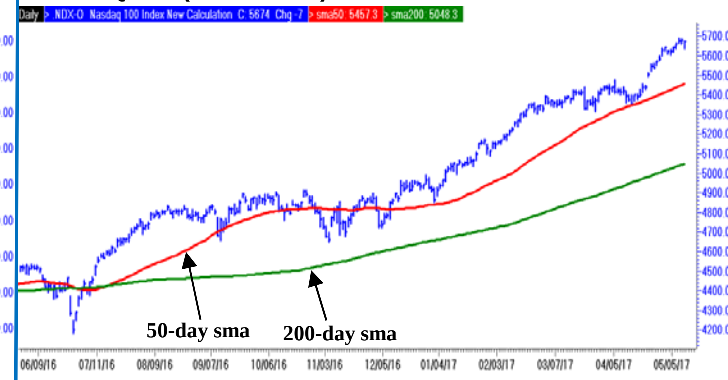
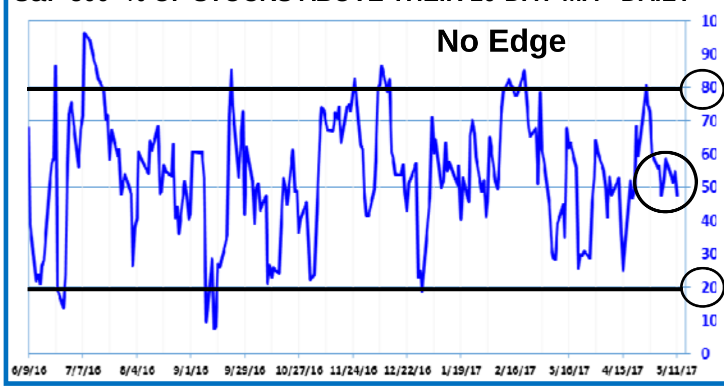
S&P 500 (SPX – 2394) – DAILY

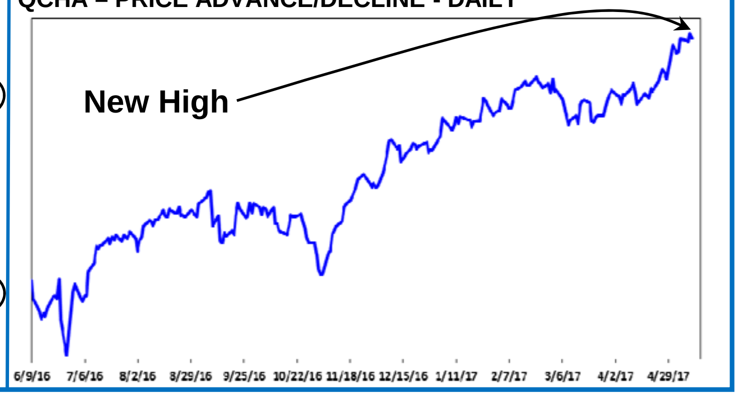
NASDAQ 100 (NDX – 5674) – DAILY



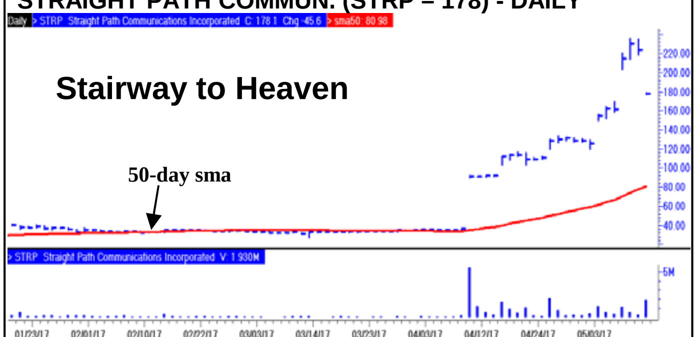
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



QCHA – PRICE ADVANCE/DECLINE - DAILY



STRAIGHT PATH COMMUN. (STRP – 178) - DAILY



NVIDIA CORPORATION (NVDA – 126.5) - DAILY

ISHARES CHINA LARGE-CAP ETF (FXI – 39) - WEEKLY

DOW JONES SHANGHAI (.DISH – 409) - WEEKLY

TESLA INC. (TSLA – 323) - WEEKLY

MERCADOLIBRE INC. (MELI – 286) - WEEKLY