WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

May 13, 2016
DJIA: 17,721

It's easy to make money … all you need is a bull market. Indeed, academic studies back the importance of the market's overall trend. You often hear it said that it's a stock-picker's market. Let's face it, there are few good "stock-pickers," whereas in a bull market, few are bad. When you hear stock-picker's market, it means there's no trend and that means, good luck. There is an exception, however, and that's when it comes to groups. Like the market's overall trend, here too, academic studies support the idea that as much as 50% of a stock's movement is a function of its group. You need only think of last year when every dog of a Biotech rallied along with the worthy. This year has proved the same, except this year the move has been to the downside. It's important to note this idea of a "group" isn't always about this or that industry. In last year's fourth quarter the "FANG" stocks led, a group more concept than industry. Back in the early-70s, the "nifty-fifty" led the market – 50 companies with nothing in common operationally.

There are a few groups that stand out in a leadership way. The first is Aerospace-Defense. Unlike the gazillion of last year's Biotechs, the selection here is considerably more limited, though not as much as you might think – thought about Curtiss Wright (82) lately? When it comes to strong groups, however, it's best to start with the strongest stock or stocks. If the group is going to move higher, it will never do so without its strongest stock. In other words, go ahead and pay-up, at least to begin. The strength in these stocks is easy to understand, unless your first name is Mohandas. Unlike Defense where the world is ramping up, more mundane highway construction also seems on the rise. In this case it's not build it and they will come, it's fund it and they will build it. In the event, it seems to the benefit of Martin Marietta (187), Vulcan (116) and the like. Then, of course, there's Gold, which just might be this year's Biotech.

There's a wrecking-ball stock that seems a group unto itself. The stock is Amazon (718), and it has wrecked just about all of Retail, or what was left of it after Wal Mart (67). Now you have to wonder about the latter. With Retail, it's always something – too hot, too cold, Easter is early, Easter is late – it's never their fault. The stocks were a disaster Wednesday, Amazon rose the usual handful of points, and that says it all. It was reported on Bloomberg that by 2017, Amazon will be the biggest apparel retailer. If you can buy from a catalogue, why not Amazon? Looking at Retail, you would have to be worried about the economy, that is, consumer spending, were it not for Amazon. Technically, this seems another leadership group, in this case to the downside. Also, it's a group with many components, not a good sign for those Advance-Decline numbers. Another group that might give you pause, both economically and technically, is Homebuilding.

The market has been in a correction for a couple of weeks. It's one of those corrections barely noticeable in the S&P, but a little more so in the NASDAQ. The latter was negative 10 of 11 days through last Thursday and has done only modestly better this week. Divergences between the S&P and the NASDAQ are about Tech, and lagging Tech isn't good in an overall sense. When we refer to this correction, however, it's not so much about the averages. Measures like the percent of stocks above their 10-day moving average show a loss of momentum and that's what makes a correction. There is nothing more cyclical or short-term than stocks above their 10-day. Yet they tell their story. Being overbought, or stretched to the upside, is a good thing – it shows strength. Being overbought and staying there is even better – it shows unusual strength. While corrections are normal, you don't want to see a deep oversold, and a market that becomes oversold and can't lift. In this sense, the week hasn't been a good one.

The Advance-Decline Index is all important because it measures the "average stock," not just the stock averages. Since historically the average stock peaks before the averages, the Advance-Decline Index can offer an important warning that the market is about to turn down. Recently the A-D Index has outperformed, yet the Russell 2000, a measure of secondary stocks, hasn't made it back to even the November high. The biggest mistake made in the stock market is thinking that "this time is different." The next mistake might be thinking the numbers are wrong. When it comes to those A-D numbers, something seems wrong. New Highs are paltry. Only 40% of Consumer Discretionary stocks are above their 50-day moving average, yet the XLY is within 4% of a 52-week high. The market isn't as strong as the averages make it out to be and this poses a risk. The market short term has become oversold – it had better respond.

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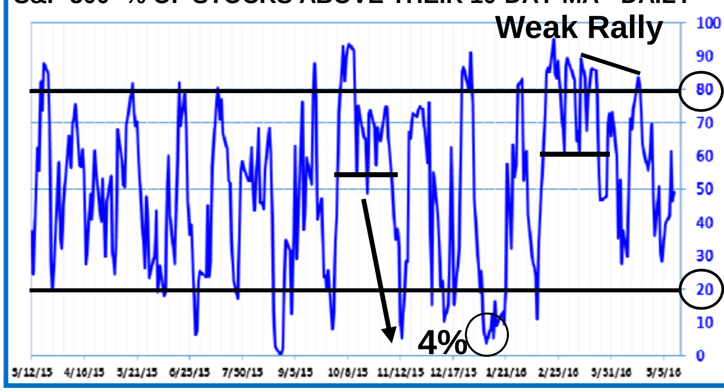
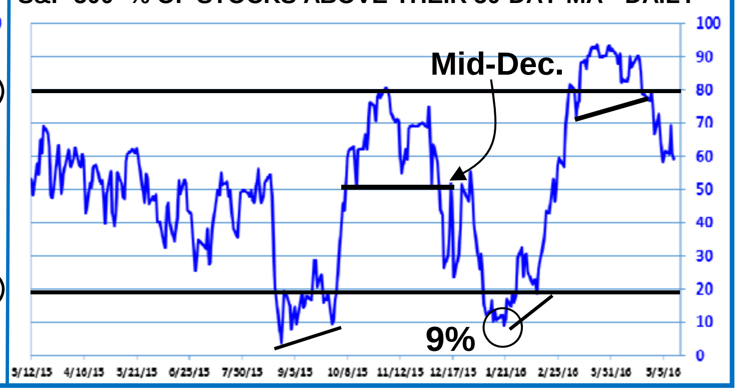
S&P 500 (SPX – 2064) – DAILY

NASDAQ 100 (NDX – 4343) – DAILY

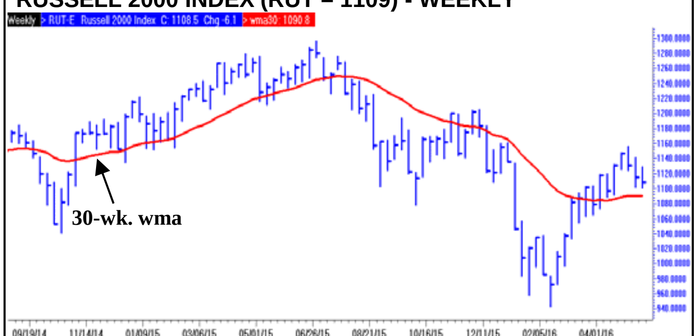
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



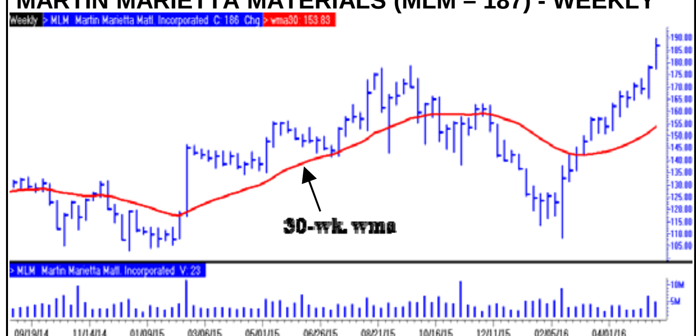
S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY



RUSSELL 2000 INDEX (RUT – 1109) - WEEKLY

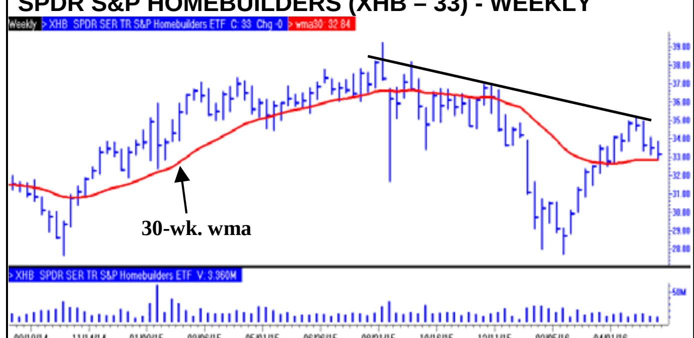


MARTIN MARIETTA MATERIALS (MLM – 187) - WEEKLY



MACY'S INC. (M – 31) - WEEKLY

SPDR S&P HOMEBUILDERS (XHB – 33) - WEEKLY



AMAZON.COM INC. (AMZN – 718) - WEEKLY

CURTISS WRIGHT CORPORATION (CW – 82) - WEEKLY