WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

May 19, 2017
DJIA: 20,663

Bad news doesn't matter … until it matters. Economic data from China, a global ransomware attack, another North Korean missile launch, and the firing of the FBI head, all couldn't stop the market's run. If it's the market that makes the news, we've been living the dream. However, even strong markets have their breaking points and, for this one, it was Wednesday. We half expected this at the firing rather than over a memo, but the only thing predictable was it wasn't predictable. That's true both in terms of the news itself and the markets, or should we have paid more attention to that divergence in the Transportation Average? We will stick with the idea that if this is the start of something big, it's just that, the start. It's not weakness that gets you, it's weak rallies. As good as those advance-decline numbers have been, you don't want to see this quit on us now.

Wednesday's outsized decline was unusual in and of itself, but also for its proximity to the recent highs. Indeed, we went from a multi-year high to below the 50-day moving average in just 3 days. In part, this is because the S&P and Dow have flat-lined recently, but the precedents are either good or outright scary. The scary are those of both 2000 and 2007. However, since 1928, the market has tended to regroup for a few weeks, but then was higher in 2-to-3 months, according to SentimenTrader.com. With little real technical deterioration, this scenario makes sense, including being whipped around by the news flow in the short run. Then, too, the number of stocks above their 10-day average got down to 16% on Wednesday, the lowest level since last September.

The big worry here, of course, isn't Trump, it's the Trump agenda. If Goldman (215) and other Financials are a proxy, at least this part of the plan seems at risk. Some of the Regional Banks were particularly hard hit in the Wednesday decline. What seemed surprising, on the other hand, was that money didn't go to the non-Trump trade – the FANG and other Tech stocks. Part of this might have been about liquidity. It was clear that sentiment turned in a hurry Wednesday, as evidenced by the record buying in inverse ETFs relative to NYSE volume. It sometimes happens that in markets like Wednesday, cash is raised by selling the stocks that can be sold – it's about liquidity. Whatever you may think of the FANG stocks, they are liquid. Overall, the damage hardly was severe, especially given that a stock like Amazon (958) recouped almost 65% of the loss the next day.

With the Advance-Decline Index and the QCHA adjusted measure just coming off new highs, the so-called "average stock" would seem in good shape. However, things aren't quite as in sync as those numbers might suggest. When it comes to the S&P, even back at the highs only about 60% of stocks were above their 50-day moving average. True, 70% were above the more important 200-day, but a lot of stocks have been doing nothing, albeit doing nothing in uptrends. There is no hard and fast rule here, but with the market at all-time highs, one might have expected more participation. The idea that Wednesday's decline saw more 12-month new lows than new highs only a few days from an all-time high, also speaks to a bit of fragility here. We mention this, not so much as a commentary on market risk, but rather as a commentary on why it seems difficult to make money. In terms of ETFs, it has been the Technology stocks (XLK-55) and the Semiconductors (SMH-83), and that's about it.

It may be damning with faint praise, but Oil stocks have stopped going down. Stocks don't go from straight down to up, so stabilization at least is a start. We, of all people, are bothered by the fundamental problem of profitable frackers at $20. Still, the stocks are stretched and probably due for a countertrend rally. Retail and Oil together help explain why market breadth can be decent while stocks above their 50-day average lag. After the disasters that were Macy's (23) and J.C. Penney (5), even Retail may be trying to stabilize. It seems that better chart in Wal-Mart (78) wasn't lying. With Wal-Mart, the "earnings season" now is pretty much over, and in recent years stocks subsequently have tended to lag. Then, too, after Wednesday, some backing and filling seems needed, in any event. And earnings aren't everything – there's the next iPhone. In the period prior to a new phone's release, Apple (153) has rallied around 20%.

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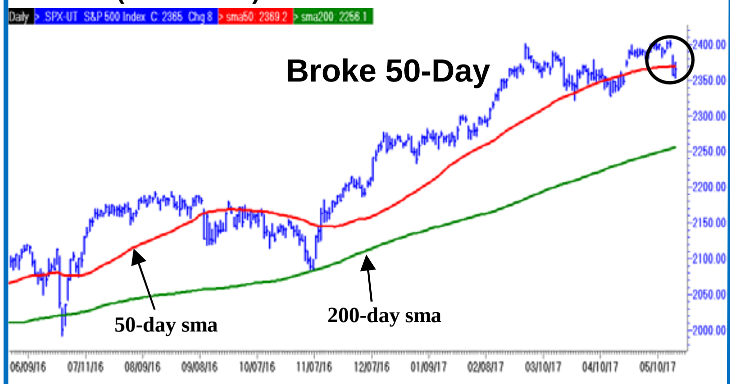
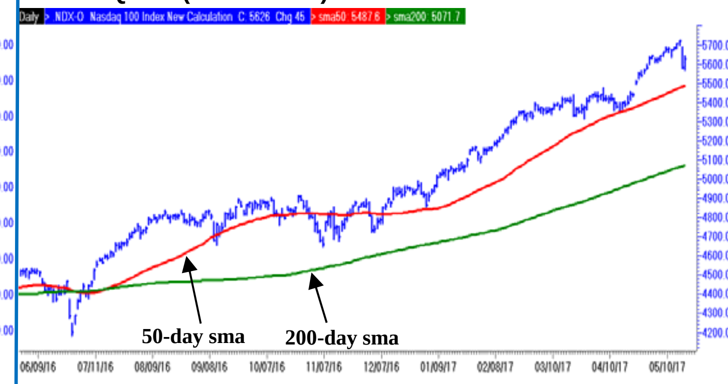
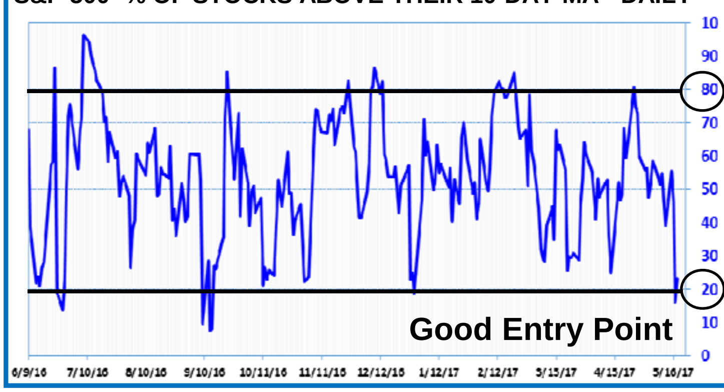
S&P 500 (SPX – 2366) – DAILY



NASDAQ 100 (NDX – 5626) – DAILY

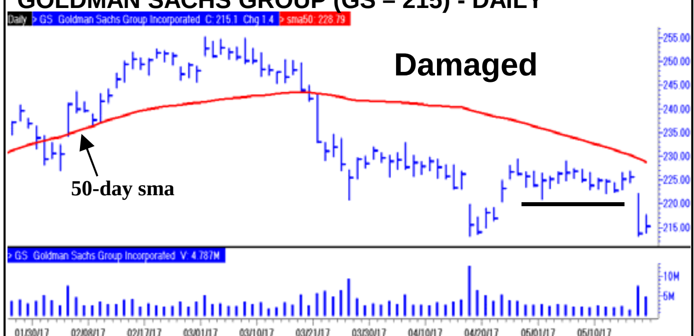


S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



ADVANCE/DECLINE INDEX - DAILY

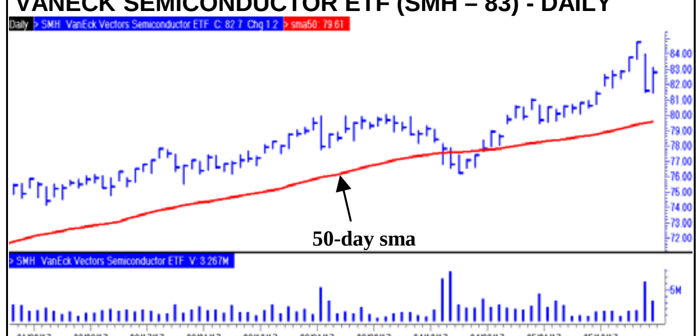
GOLDMAN SACHS GROUP (GS – 215) - DAILY



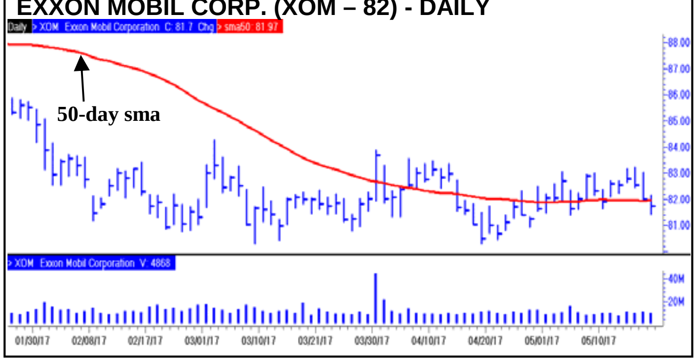
SPDR FUND FINANCIAL (XLF – 23) - DAILY

SPDR FUND TECHNOLOGY (XLK – 55) - DAILY

VANECK SEMICONDUCTOR ETF (SMH – 83) - DAILY



EXXON MOBIL CORP. (XOM – 82) - DAILY



WAL-MART STORES INC. (WMT – 78) - DAILY