EQUITIES PERSPECTIVE

May 20, 2016
DJIA: 17,435

Et tu … Home Depot? Home Depot (132) is close to being revered. For a retail stock these days that's saying something. The big thing going for them is that they're somewhat immune to Amazon. However, they're not immune to elevated expectations which, in this case, likely were a big part of the weakness. On the other side of those expectations there's Wal-Mart (69), pretty much given up for dead. WMT makes you wonder if Retail is bad or if the retailers are bad. Besides the over-and-under expecting thing, we always think it's the market that makes the news. It was a pretty big hit to Home Depot for what seemed a nuanced miss or misguidance. The poor action on the NASDAQ, that is, Tech, suggests the market has become more risk averse, not usually a good sign. Then, too, defensive stocks had a particularly poor day Wednesday. When low volatility stocks outperform high volatility stocks, as they have over the last 12 months, historically this hasn't been good either. Go figure.

Hopefully the Fed will go ahead and raise rates. It would be a shame to waste a good correction. Those "Minutes" did come as a surprise, however, as per the market's initial reaction. No one took a rise in April seriously just as they're not taking Brexit seriously. The latter, of course, apparently always seemed reason not to expect a Fed move in June. Banks rallied initially on the news, as they should, and it will be interesting to see if they can follow through. Everybody loves to love Jamie Dimon, but the charts still are in downtrends. If June is when it's happening, the Banks should begin to respond. For most groups, the problem is the market's malaise. From more than 90% back in March, the percent of stocks above their 50-day moving average has slipped to less than 40%. This is a pretty significant momentum unwind and, as back in December, usually leads to lower prices. A measure like this may not go all the way back to 20% or less, but it would be unusual to see it hold here and go back to 90%.

Gold was slammed Wednesday, a real casualty of the "Fed Minutes," that is, the probable rise in rates. We dislike the Wall Street expression that this or that "needed a correction," but this could be said of Gold. In this case, it's not necessarily about price – it's not all that extended. However, the Soros buy seemed to get a lot of attention, and those usually perceptive "commercials" hang in there on the short side. Rising rates, they say, are not good for Gold. If the past is a guide, we say let them rise. Gold made its low virtually the day the Fed hiked, back in December. To be fair, that was the end of the bear market and now Gold has had a good run. The key here is Gold's bear market seems over. Gold may not need a correction, but it won't hurt. Like all corrections, less is better.

Unlike the February-March period when the market was overbought or stretched to the upside, recently the market has been hovering around oversold levels. All markets become oversold to differing degrees, good markets don't stay there. Back-to-back weeks now have seen impressive one-day rallies, 3-to-1 up on the 10th and again this past Monday. In both cases, the market fell reasonably hard the next day, and for three consecutive days overall. When the market can't put together even two up-days in a row, something is not right. We may yet see the market respond despite the recent two failures, in which case the look of that response is all important. A weak rally is as bad as no rally – a rally with, finally, poor breadth and poor volume. It's the weak rallies more than the weakness itself that set the stage for big declines.

Everybody likes to say "sell in May." This is worrisome because what everybody likes to say or do rarely works. Sure enough, last year it wasn't until August that you wanted to sell, though selling in May didn't hurt. The record here is impressive. According to the Stock Trader's Almanac, the six consecutive months of November through April have gained almost 18,000 Dow points over the last 65 years. The remaining May through October months lost over 1,000 points. Despite the numbers, the evidence as it were, we've never been quite comfortable because it's hard to understand why it should be so. In the event, the deteriorating background makes it easier to understand this year, and another reason for more than a little caution. Divergences in the Transports, the Russell, New Highs and operating company Advance-Declines have been warning of a bear market for some time. With little compelling leadership, unlike the Biotechs last summer and with the unknown of higher rates just around the corner, enjoy the summer if not the market.

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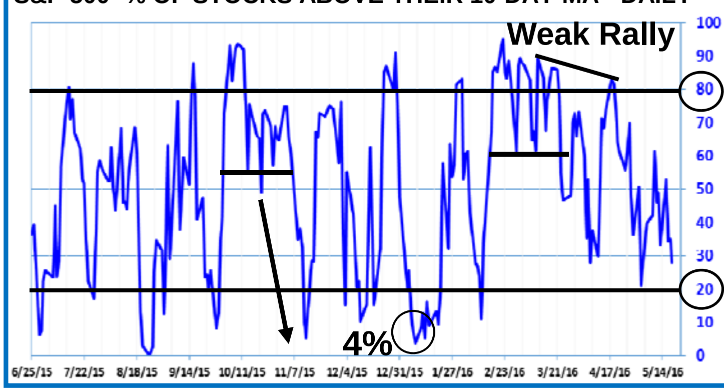
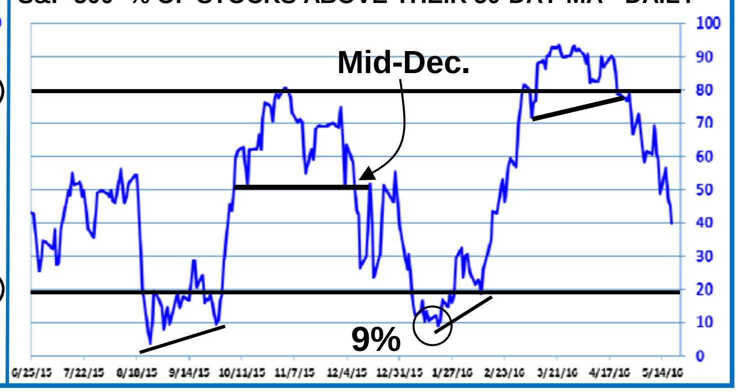
S&P 500 (SPX – 2040) – DAILY

NASDAQ 100 (NDX – 4316) – DAILY

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



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

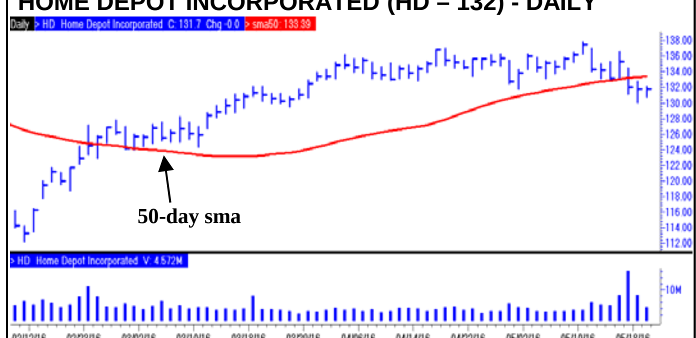


JPMORGAN CHASE (JPM – 63) - WEEKLY

SPDR FD TECHNOLOGY (XLK – 42) - DAILY

SPDR GOLD TRUST (GLD – 120) - WEEKLY

HOME DEPOT INCORPORATED (HD – 132) - DAILY



S&P 500 LOW VOL. PORT. (SPLV – 40) - WEEKLY

WAL-MART STORES INC. (WMT – 69) - DAILY