WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

# EQUITIES PERSPECTIVE

May 26, 2017
DJIA: 21,083

Buy the weakness … at least for now. Bull markets condition you – they condition you to buy the weakness. This happens, of course, because for a long time it's right to buy the weakness. In last week's selloff, Amazon (993) sold down from 966 to 945. Granted it's a high-price stock, but seeing 20 points slip away isn't exactly fun. This, when the whole market is getting crushed and, surprise, suddenly the news is scary. It wasn't so easy to step up. A few days later, however, we learned it would have been the right thing to do – the market has taught us. Eventually we learn and then, of course, the 20-point decline turns into a 50, then 150-point decline. No one said markets can't be perverse. The longer we stay away from being comfortable buying weakness, the longer the bull market will last. Of course, how do you measure comfort versus discomfort? Last week the inverse, or bearish, ETFs did a good job, reaching the highest volume levels ever relative to overall volume.

Given the lack of technical negatives and the lack of volatility going into last Wednesday's weakness, the outsized decline was a surprise – a "shock day." Given the proximity to the highs, the averages tend to recover over time, typically by 2-to-3 months. To do so in a little more than a week is a shock in its own right. Indeed, as the recovery started on Thursday, it was generally dismissed as a you-know-what bounce. By Friday, it was clearly more. Advance-decline numbers were better than 3-to-1 up. The QCHA, a measure of breadth which also includes price change and not just price direction, also was impressive. In Wednesday's 375-point rout, the QCHA was -138, while in Friday's rally of just 142 points, the QCHA was +92. Stocks didn't just rise, price change was impressive as well. The follow-through this week has been more than adequate, renewing the overall uptrend. We contend it's not weakness, but rather weak rallies that cause problems, so the bull market remains technically healthy.

If we didn't know any better, we would be worried about Amazon. It's not the chart that worries us, it's the business, and that, because of the FedEx (195) chart, and even more still, when it comes to United Parcel (106). Are the drones amongst us? How is all that stuff filling everyone's lobby getting there? In any event, if you are a follower of the Dow Theory, and the five of you know who you are, you have to be uncomfortable now. The Transports haven't confirmed the March high in the Industrials and they haven't even confirmed the May high. The components of the "Transportation Average," Truckers, Airlines, Rails and a few misfits like Ryder (67) are in their own world, subject to everything from higher fuel costs being good, to higher fuel costs being bad. Though we respect anything older than we are, we don't worry about the Transports' non-confirmation of the Industrials. We do worry about FedEx. Time for a breakout.

There was a time, we believe in the 80s, when money managers were unable to beat the averages. They were unable to beat the averages because they literally could not own enough of the one stock that was driving the S&P, that being Microsoft (70). Much the same seems true today. With Apple (154) now in the Dow, it's tough to beat the Dow without over-owning good old Apple. Now this doesn't matter to most of us who are just out to make money in absolute terms, but it does suggest there is and will be an underlying institutional support for Apple. And when it comes to the professional managers, and their benchmark of the S&P, you can suspect the game expands to all of "FANG." You have to own them, and you have to over-own them to beat them. There is a new twist to this it seems, that being the FANG outside the S&P. Stocks like Alibaba (124), JD.com (41) and the rest of the Chinese FANG, are not in the S&P. So they can help performance, which means they have their own support group, artificial though it may be.

It comes as no surprise that Amazon is close to $1,000. It does come as a surprise that it should be so without the market having narrowed to just Amazon and the other precious few. This is a good thing. We don't care much for valuation analysis, believing stocks sell at "fair value" twice – once on their way up, and again on their way down. We realize we're pretty much alone here, and many valuation multiples suggest stocks are dangerously overvalued. Edward Yardeni, by way of Bloomberg's David Wilson, thinks otherwise. He has come up with an adjusted version of the S&P price/earnings ratio, where the adjustment is the addition of the Misery Index, which combines U.S. inflation and unemployment rates. At 25, the index is off the 2016 low under 22, but well below the peaks of 34 in 2000 and above 30 in 2010. It is, in fact, only about average.

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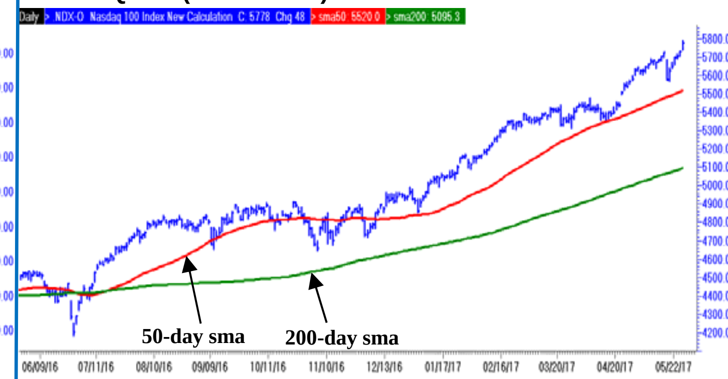
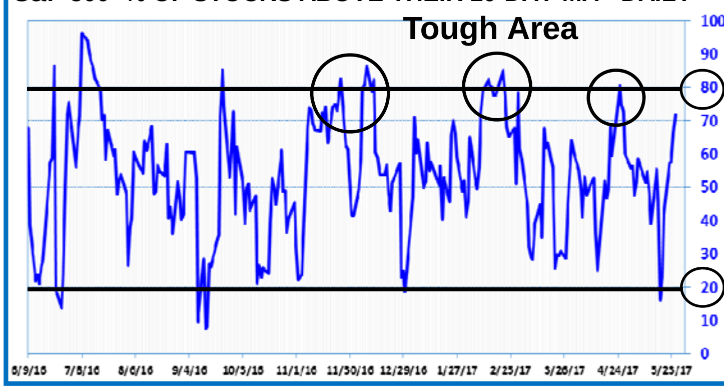
**S&P 500 (SPX – 2415) – DAILY**


**NASDAQ 100 (NDX – 5778) – DAILY**

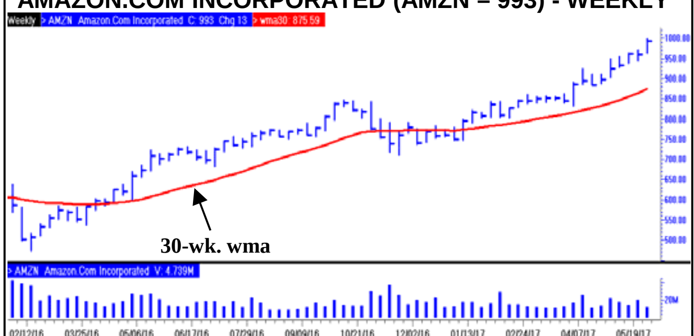



**S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY**

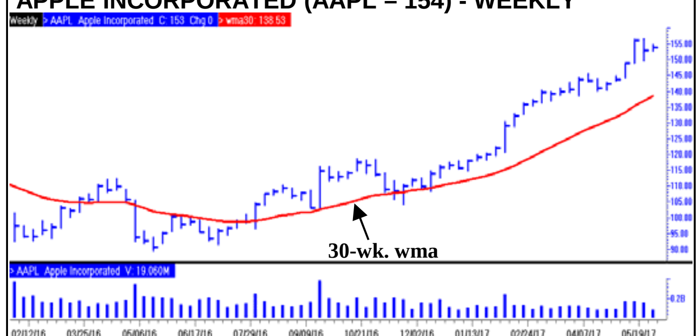



**QCHA – PRICE ADVANCE/DECLINE - DAILY**

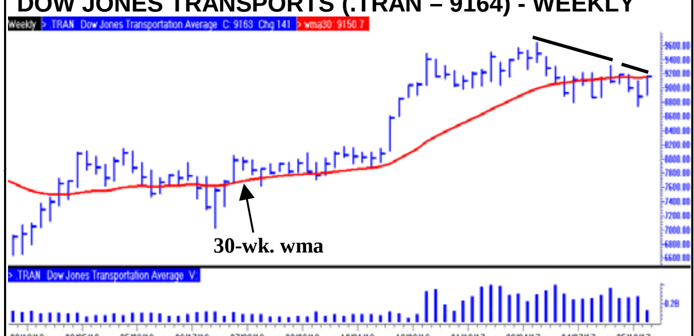
**AMAZON.COM INCORPORATED (AMZN – 993) - WEEKLY**



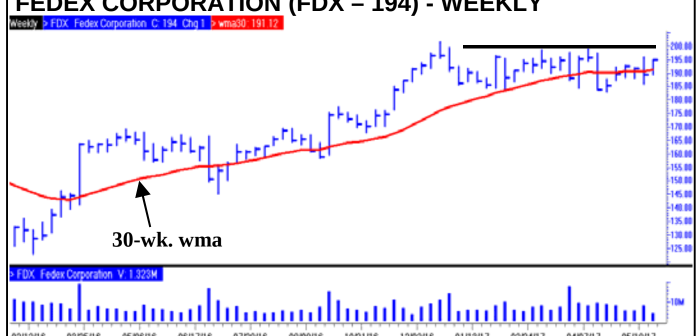

**APPLE INCORPORATED (AAPL – 154) - WEEKLY**




**DOW JONES TRANSPORTS (.TRAN – 9164) - WEEKLY**




**FEDEX CORPORATION (FDX – 194) - WEEKLY**




**ALIBABA GROUP (BABA – 124) - WEEKLY**


**DOMINO'S PIZZA INC. (DPZ – 208) - WEEKLY**