EQUITIES PERSPECTIVE

November 10, 2017
DJIA: 23,462

As the days dwindle down to a precious few … so, too, does market breadth. One analyst called it the worst breadth in 50 years—we didn't double-check. The reference is to what has been going on in the Market Averages, rather than the Advance-Decline Index. Those market averages have made a series of new highs recently with surprisingly few stocks within the averages advancing, let alone making new 12-month highs. Tuesday saw the Dow spurt to a higher close and new high, while fewer than half the components managed to advance. On Monday, the S&P reached a new high while 4% of the stocks there hit a 52-week low. For the NASDAQ, a new high there saw fewer than 30% of stocks advancing, the worst in 30 years according to SentimenTrader.com. Wednesday was more of the same. If narrowing markets are the worry we say they are, this looks ominous. We're not so sure about ominous, though they're certainly not good.

In the past month, there have been four days of new highs in the averages while the number of declining issues outnumbered those advancing. This last happened back in 1999, which sounds more than a little worrisome. It was negative, indeed, leading to the major top in 2000, yet in the early days of 2000, there was plenty of time left to make plenty of money. We don't mean to dismiss these divergences or any divergences, they all can result in selloffs in the short term. These short-term divergences, however, don't kill bull markets. Like 1999-2000, important weakness follows a pattern—months of divergences. In 1999-2000, the key was to stay in the "new economy" stocks—the dot-coms then, the Techs now. As important then was to stay away from the "old economy" stocks—Retail and the Staples now. Sure there are fewer winners, but there are winners. The Advance-Decline Index is less than three weeks off its high.

The lagging advance-decline numbers come as a bit of a surprise given the rally in Energy shares, of which there are many. Then, too, there are many Retailers, which after their late-summer lift seem headed lower again, at least to look at the Retail ETF (XRT-40). A problem Wednesday was that group everyone loves to love, the Banks. This could be the result of Tuesday's elections, suggesting the Trump agenda is more at risk, and even more so Thursday. For the Banks, it seems a minor setback, but one worth watching in a group over-loved. It also seems worth noting the recent poor action in the Transports. Divergences here, Dow Theory sell signals, haven't proven particularly useful in recent years. We mention it because while the Industrials are hitting new highs, the Transports aren't just lagging, they're declining. Back in August, this pattern did lead to a spate of weakness in the Industrials.

You have to be old to remember weakness in November. How should we put this—we remember. Worrisome is how often we're told this is a positive time of year, and it is. Talk is one thing, the worry part is if everyone acts on this positive seasonality. It seems worth noting hedge funds apparently have acted on it, increasing their exposure to stocks to near the highest ever. When it got almost this high back in February, stocks corrected. Hedge funds, of course, are not the only source, or even the primary source, of investable funds. Looking at hedge fund, mutual fund or ETF numbers doesn't tell you what you really want to know—are most of those investable funds already invested? We argued a while back that all the money was not in—the Advance-Decline Index was making new highs. It takes a lot of money to do that, therefore suggesting money still was out there. Those A-D numbers of late suggest there's less of it.

Like many things, divergences don't matter until they matter. In a big picture sense, it takes months rather than a few days for them to matter. Short term, divergences can sometimes matter, as likely was the case Thursday. The tax bill news was bad, but it's funny how that happens when the technical background has turned weak. Nothing has gotten done all year, but there weren't these divergences all year. The market makes the news. Typically it's not weakness that's the worry, but a weak rally that might follow. There's still plenty of rotation going on, Energy being the obvious example. And there are the Base Metals—who can forget National Lead, now NL Industries (12). Disney's (106) rally on bad news Thursday night also seems encouraging—it has been a while. There are only three Telecoms these days—AT&T (34), Century (15) and Verizon (45), but taken as a whole, they have the backdrop of Oil in August.

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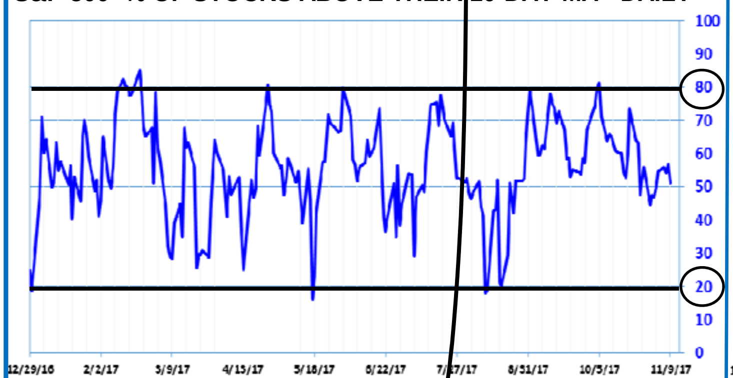
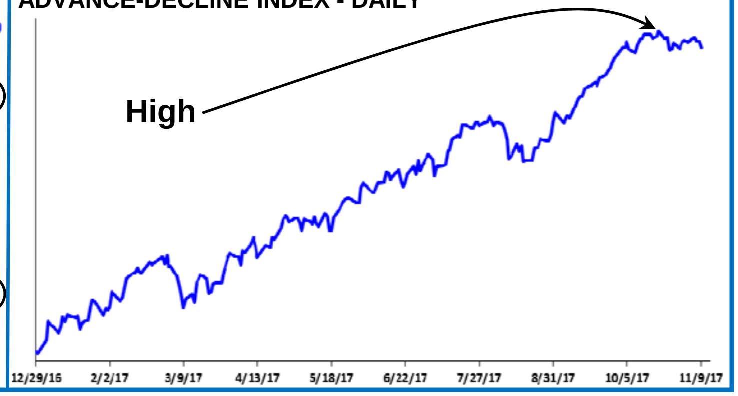
S&P 500 (SPX – 2585) – DAILY

NASDAQ 100 (NDX – 6312) – DAILY

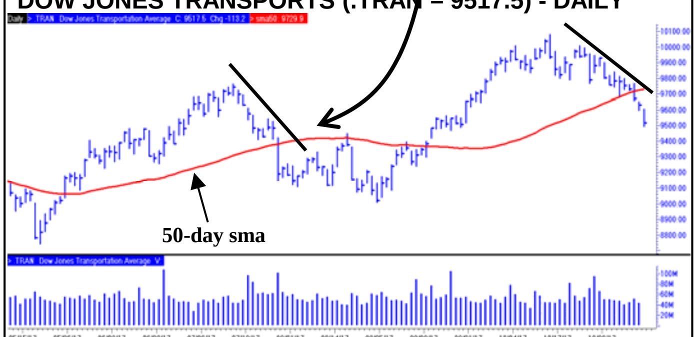
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



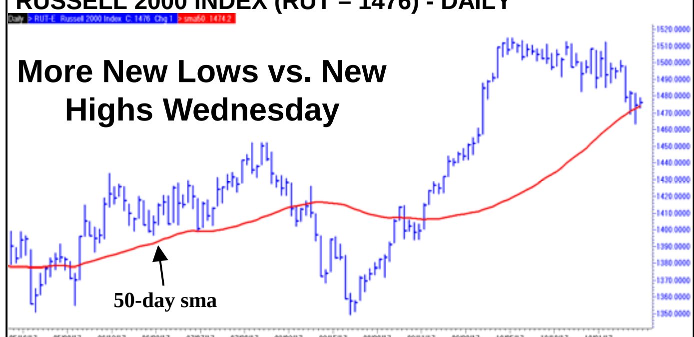
ADVANCE-DECLINE INDEX - DAILY



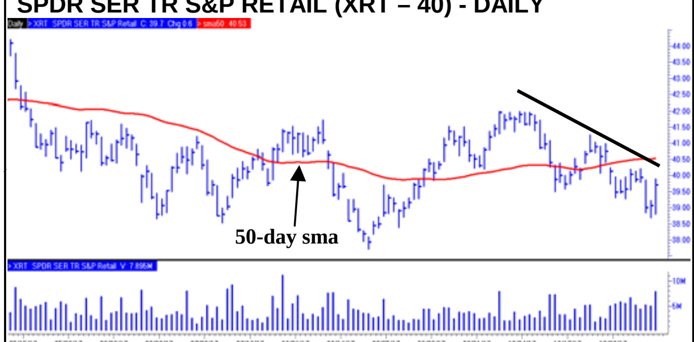
DOW JONES TRANSPORTS (.TRAN – 9517.5) - DAILY



RUSSELL 2000 INDEX (RUT – 1476) - DAILY



SPDR SER TR S&P RETAIL (XRT – 40) - DAILY



WALT DISNEY COMPANY (DIS – 106) - DAILY

SPDR S&P BANK ETF (KBE – 44) - DAILY

NL INDUSTRIES INC. (NL – 12) - DAILY