

# EQUITIES PERSPECTIVE

November 11, 2016  
DJIA: 18,808

It's not how they open ... it's how they close. For sure, it's not how they trade overnight. If you take into account the overnight decline of 800+ Dow points, the Tuesday night-Wednesday reversal was as impressive as they get. The textbook says the market should follow-through. This period could prove similar to the period when the ground war started in Iraq. The market had been drifting lower but rallied when the fighting finally started. Regardless of the outcome, it's easy to see this rally as one of relief. Wednesday also was interesting in terms of what did and did not rally, and there was plenty that did not. We don't recall too many 250-point Dow rallies with only 300 net advancing issues. And we don't recall too many 250-point rallies with Tech, particularly those FANG stocks, doing so poorly. Then, too, guess we know why the Steel stocks and other Industrial Metals had been acting better.

With Hillary out of the picture, it should come as no surprise Health Care feels the relief. This was particularly true for Biotech, though the connection there is a little more nuanced. Other obvious winners were anything to do with infrastructure – Martin Marietta Materials (234) was up 10%. Then there was Aerospace/Defense, which rallied as though Reagan had been elected. Of course, anything to do with Mexico was on the other side of the election coin. Don't worry about the Fed raising rates, the perceived jump in spending has done it for them. Bonds have had two of their worst days in quite some time. Rising rates aren't so good for Gold, which rallied as a "fear trade" only to reverse as the market recalculated. Those higher yields also offer a little competition for all those dividend stocks, leading to a new break in the Utility average. There are many moving parts.

The real mystery of Wednesday and Thursday were those FANG stocks and pretty much all of Tech. We understand leadership change and this seems at least part of the explanation. However, the explanation would be more plausible if the stocks were holding rather than selling down so dramatically. Instead of a blowoff move in the FANG stocks, we're about to see a blowoff move in the Steel stocks. It's still a little too soon to tell, but we suspect the weakness is overdone. They may have lost that leadership luster, but we doubt the weakness will prove more than temporary, provided the overall market does follow-through to the reversal. For now, this dichotomy is making for some strange numbers. Thursday the Dow reached a new high, rising more than 200 points. The NASDAQ Composite lost 42 points and the NAZ 100 78 points, thanks to those FANG stocks. Meanwhile, advance-decline numbers were positive by only 300 on Wednesday and actually negative Thursday.

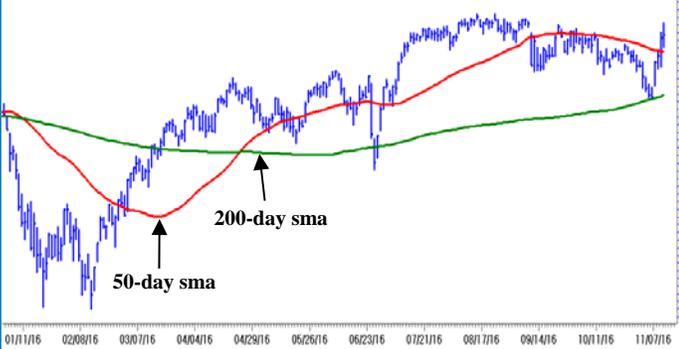
SentimenTrader.com looks at the total number of points gained and lost in the component stocks of the S&P 500. Over the last 15 years there have been only about 50 days when points gained were 700 or more. On those days the most points lost was 100. On Wednesday, the number of points gained was 810 while declining stocks in the S&P lost 400. More than any other day in 15 years, Wednesday literally was a mixed day. The disparity between stocks doing well and those doing poorly persisted into Thursday's new high. By some measures, what was bad on Wednesday got worse on Thursday. On Thursday, 9% of stocks on the NYSE reached a 52-week high but nearly 6% reached a 52-week low. At a new high in the Dow, these numbers are without precedent. These figures likely are affected by rate-sensitive securities and that weakness in bonds. However, this is not new. Divergences like this tend not to be good.

Had you just picked up your first book on Technical Indicators, you would scream that this is the top. We don't believe this and, if we did, we probably wouldn't say it. Divergences of any sort, even the current one between the Dow and the NASDAQ, are bad, but those between the Dow and the Advance-Dcline Index always are an ending pattern. However, let's give those A-Ds a chance to catch-up – something always said at tops. Seriously, though, topping is a process that takes time. We would expect a pattern of divergences before problems, rather than one so obvious. Historically, divergences go on to the point they are ignored rather than embraced, and then the consequences. For the Dow and the NASDAQ, by the way, the pattern is opposite 1999-2000 when the Dow lagged the NASDAQ for three or four months before it all ended. Meanwhile, stocks above their 10-day moving average are back around 80%. As indicators go, this is not exactly rocket science in its sophistication. However, let's just say it has been helpful as a short-term guide.

Frank D. Gretz

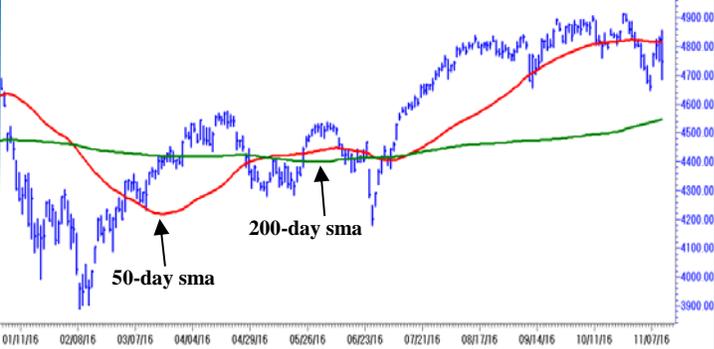
### S&P 500 (SPX - 2167) - DAILY

Daily > SPX:01 S&P 500 Index C: 2167 Chg 4 > sma50 2146.0 > sma200 2088.4

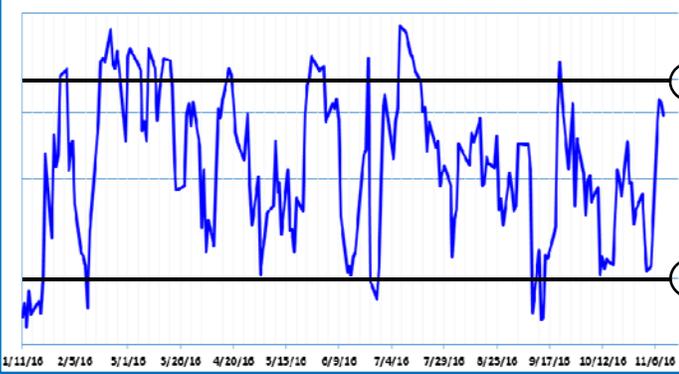


### NASDAQ 100 (NDX - 4747) - DAILY

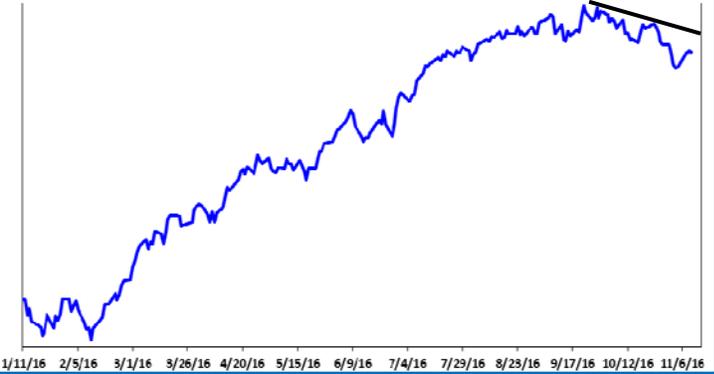
Daily > NDX:01 Nasdaq 100 Index New Calculation C: 4747 Chg 78 > sma50 4816.3 > sma200 4546.0



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

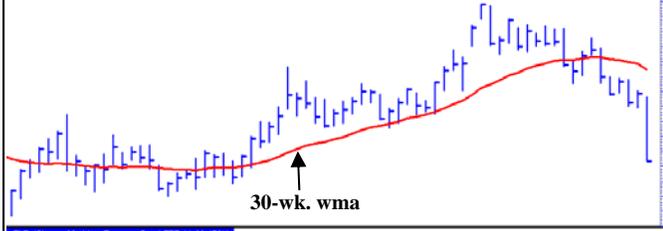


### ADVANCE-DECLINE INDEX - DAILY



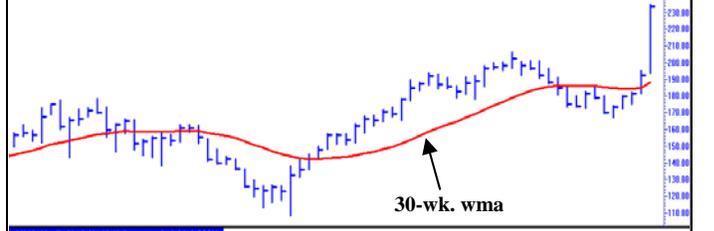
### ISHS 20+ YEAR TSY BOND ETF (TLT - 123) - WEEKLY

Weekly > TLT iShares 20+ Year Treasury Bond ETF C: 122 Chg 1 > sma50 134.90



### MARTIN MARIETTA MATERIALS (MLM - 234) - WEEKLY

Weekly > MLM Martin Marietta Mall Incorporated C: 233 Chg 8 > sma50 188.10



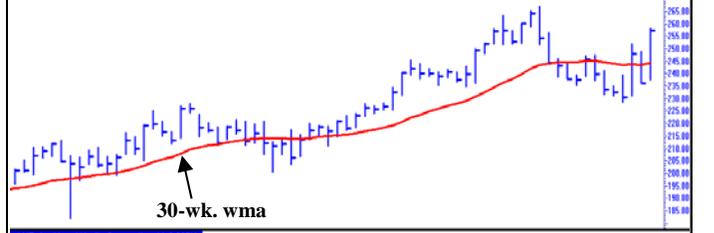
### ISHS NASDAQ BIOTECH ETF (IBB - 285) - WEEKLY

Weekly > IBB iShares Nasdaq Biotechnology C: 285 Chg 3 > sma50 277.28



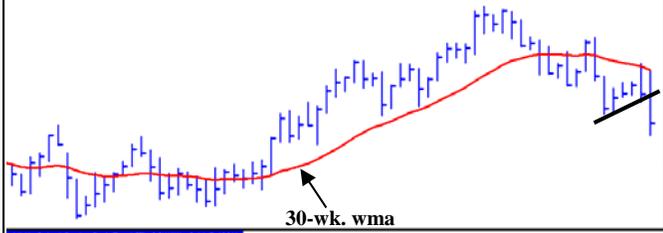
### LOCKHEED MARTIN CORP. (LMT - 257) - WEEKLY

Weekly > LMT Lockheed Martin Corporation C: 257 Chg 5 > sma50 244.40



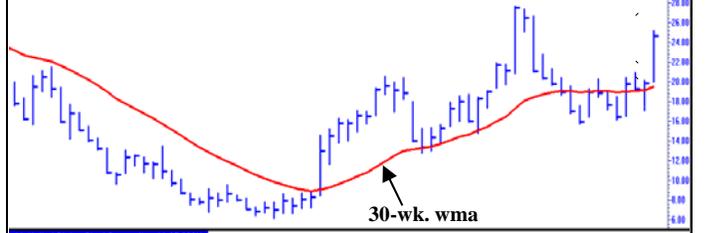
### SPDR FD UTILITIES ETF (XLU - 46) - WEEKLY

Weekly > XLU Select Sector Spdr Trust (The) (Utilities) C: 46 Chg 0 > sma50 49.58



### UNITED STATES STEEL (X - 25) - WEEKLY

Weekly > X United States Steel Corporation C: 24 Chg 0 > sma50 19.50



Better, however ...