EQUITIES PERSPECTIVE

November 17, 2017
DJIA: 23,458

It's that most wonderful time of the year … and investors know it. In the stock market, what we all know isn't worth knowing. In this case, it might actually be harmful. We all know this is a positive time of year for stocks. If knowing this we all load the boat, so to speak, that's a problem. The idea that hedge funds have loaded the boat is one thing, the idea that those advance-decline numbers have changed suggests it's more than just the hedge funds. We went through the summer with nary a day of declining issues outnumbering those advancing. Through September, 21 of 24 days saw more stocks up than down, and 12 of 17 were positive through October 10. Over the last three weeks, or so, there have been four days of positive breadth. This against the backdrop of rising market averages, often including new highs. This is a backdrop that can lead to problems, but for now, it's more serious than desperate.

To begin, this is not a bull market ending problem. Were it four or five months from now, the story would be different. Divergences are never good, especially those involving lagging advance-declines—a narrowing market. Bull market ending divergences, however, take time. By the time they matter, most will take them for granted. Another saving grace in the recent pattern is that it seems more about a lack of buying versus any real selling. Amidst the gruesome pattern in advance-declines described above, since the beginning of September there have been only two days with fewer than 1000 advancing issues, the last on October 25. When there are 1000 or more stocks up, including in Wednesday's 138-point Dow decline, that's not what we call real selling. As Thursday made clear, declines with no real selling are easily reversed. This pattern, however, will eventually cause problems unless a new surge is dawning.

Is it time to talk about the Wal-Mart effect? Even before Thursday's impressive number, WMT (100) was flirting with an all-time high, if you can believe it. Impressive given their competition, laying waste to what they say about "old dogs." Then there's that Children's Place (124), seemingly another triumph of management over merchandise. Meanwhile, rumors of an Amazon foray into furniture sent those stocks reeling, but not Restoration Hardware (105)—a triumph of good taste and a large short position. By the look of their reversal Wednesday, Amazon could be getting into the Utility business. The stocks had been on quite a run, with more than 70% of the stocks hitting a 12-month high, an extreme for this, and almost any, group. Following a strong open on Wednesday, the stocks reversed, leaving what seems to be an exhaustion move, or buying climax. Such reversals at a 52-week high have led to poor 3-6 month returns according to SentimenTrader.com.

There's Tech, and there's Biotech. The latter has had its troubles of late, as has much of Pharma. For Biotech, it all seemed to begin with those problems at Celgene (103) where the chart, now replete with gaps, has taken on the look of that well-known technical pattern, "Swiss Cheese." To be fair, it's not alone, but it did get the ball rolling in the demise of the cap-weighted IBB (311). For that Index, it looks to be a struggle, though it is back on support. It also has become a bit irrelevant—the group is that mixed. They all can't be the Bluebird (160) of happiness. Rather than a Biotech, could we interest you in a nice Consumer Staple, perhaps something that has to be good, with a name like Smucker (117)? Nothing looked worse a few days ago, but those pets finally came through, gapping the stock about 10% higher on Thursday. We also would point out, it is that time of year when those dogs and cats tend to have their day.

For the S&P, the 50-day moving average is above the 200-day—it's a bull market. Short term, Thursday was a great day, but there are no "great days." The upside case needs more upside—a follow-through to Thursday. It's certainly possible. After a good year, no one needs to be a hero, but no one likes to be left behind. A rally based on a tax plan seems a triumph of hope over experience, as Samuel Johnson said about second marriages. That the market can take this as rally news is to the credit of the bull market. Tech didn't suffer much during the recent stall, and already the NAZ is at a new high. This keeps in place the idea of a speculative binge in Tech. Amazon (1137) usually rallies in the Black Friday shopping window, but not so much after. Meanwhile, the binge moves, of sorts, were in retro names like Cisco (36) and Wal-Mart, another positive for the bull market's longevity.

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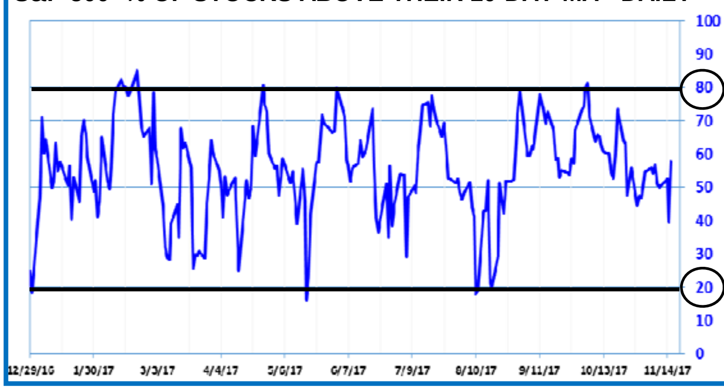
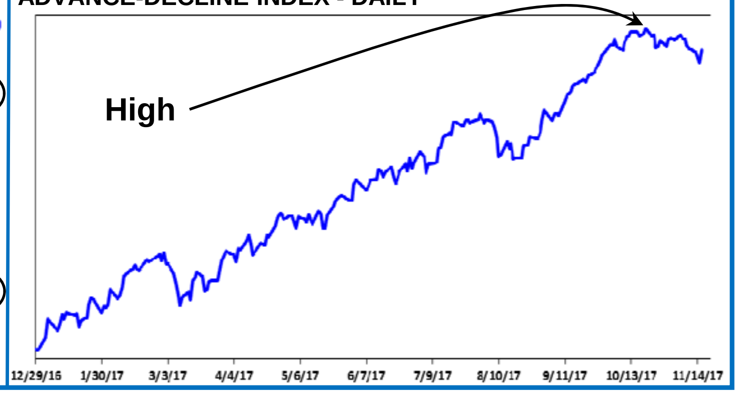
S&P 500 (SPX – 2586) – DAILY

NASDAQ 100 (NDX – 6339) – DAILY

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

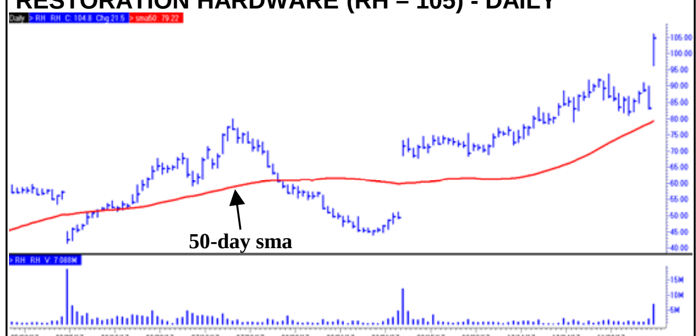


ADVANCE-DECLINE INDEX - DAILY

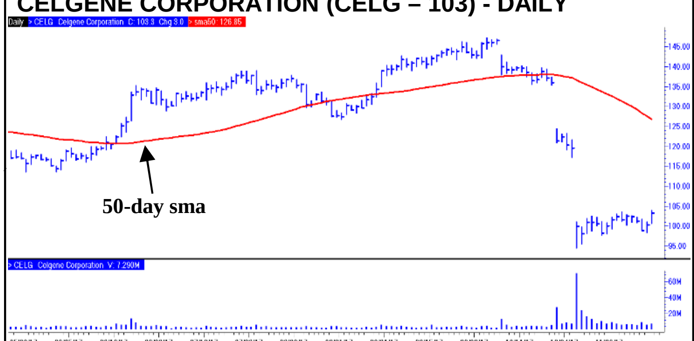


WAL-MART STORES INC. (WMT – 100) - DAILY

RESTORATION HARDWARE (RH – 105) - DAILY

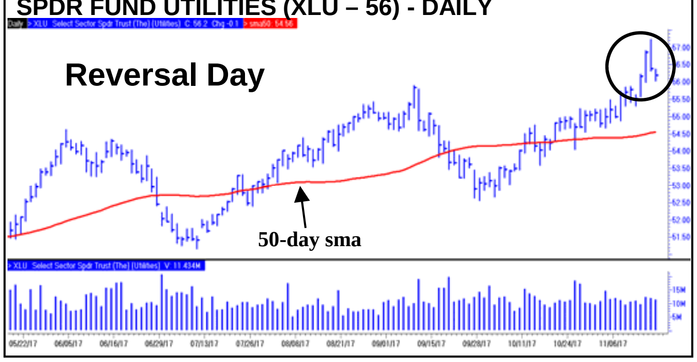


CELGENE CORPORATION (CELG – 103) - DAILY



BLUEBIRD BIO INC. (BLUE – 160) - DAILY

SPDR FUND UTILITIES (XLU – 56) - DAILY



JM SMUCKER COMPANY (SJM – 117) - DAILY