WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

November 3, 2017
DJIA: 23,516

There's FANG … and there's FANG. FANG, now a loosely fitting acronym, represents Facebook (179) and its cohorts we all know and, if price is any guide, have come to love. FANG is also a stock symbol, in this case that of Diamondback Energy (109), which of late has come to act as though it's a part of the acronym. Given that the Oil stocks are one of the more homogenous groups, it's not alone. Just why the stocks have come to look upon $50 oil as the new $80 is difficult to say. For the stocks, we would venture it has something to do with that supply/demand thing. The Energy ETF (XLE-68) put in its low, test and all, back in August, just when we all came to believe the stocks would never bottom. An interesting part of this at the time was that 50% of the stocks in the S&P Oil sector hit 12-month lows. That's like throwing crude out with the baby and the bath water—a washout. Historically this pattern has been good for at least a tradeable low, and now has turned into something even better.

The better action in Oil stocks seems more than just rotation, at least rotation in a temporary sense. Certainly there's plenty of the latter, and it has left the Averages a bit confused. Looking at the S&P itself, last Friday's new high came with the third smallest participation in 27 years—281 of the S&P up, 222 down. Monday's new high in the NAZ saw only 35% of the stocks higher, the worst in 30 years while at a new high. For someone who worries about signs that the market is narrowing, you might be surprised if we try to defend this obvious narrowing. In markets where there is a well-defined leadership—FANG in this case, dot-coms in years past, and the single stock Microsoft (84) in years further past—the Averages can be dominated by a couple of exceptionally strong stocks. We find this sort of divergence less worrisome than one between the Averages and the rest of the market. Last Friday's advance-decline numbers were good, no problem there—Monday's were less so. Certainly the pattern we've described here is less than perfect, but also not bull-market deadly, at least not yet.

Another among the very unusual patterns in this market was the 1% drop in the Russell 2000 on Monday as the NAZ made a new high. It's a rare divergence and only of short-term consequence, but historically it has led to weakness. More important, November and December are not the best months for this Index, though when the market is up going into these months, it's positive for the market as a whole. The Russell has been in a narrow trading range since the beginning of October, so a resolution one way or another would not take much. As a measure of secondary stocks, similar to the Advance-Decline Index, naturally we prefer up to down. Once again, however, this isn't the kind of thing that threatens the bull market and, once again, divergences even in the Advance-Decline Index take time.

With Amazon (1094) and Google (1026) in mind, Facebook seems a dud. Amazon and Google weren't exactly wallflowers going into their numbers, but they hadn't quite the look of Facebook going into its number. After Amazon and Google, everyone was ready for a good number and they got it—it just happened to be priced-in. Thursday also happened to be a day when a lot of good news wasn't rewarded, or rewarded only temporarily. Meanwhile, you might ask whether those moves in Amazon and Google were our much-vaunted blowoff moves. Amazon could be close psychologically. Now that we've all figured out Amazon could or will control just about any business, that there is no brand loyalty, only Amazon loyalty, it does sound a bit like Cisco (34) back in 2000. Ironically the chart, even after the recent move, doesn't look like a blowoff. The move up from the beginning of 2015 looks downright orderly.

It is not earnings per se, but the surprise in earnings that moves stocks. This is not the first reporting rodeo we've seen, but stocks' reaction to earnings, both good and bad, seems almost violent. This is due, in some part, to no one splitting their stock anymore, making everything a $100+ stock and making the point moves look that much greater. Clearly not all the news is good, but when it is good, as it was for Apple (173), and if we give Facebook a pass, the rest of the FANG stocks should rally, and they did. As we suggested above, it's okay for these stocks to outperform as long as the rest perform, so to speak. Even little divergences, however, like Thursday's—DJIA +81 and A-Ds slightly negative—can cause short-term weakness. And those Apple earnings may be good for Apple, but in the short term, not so good for the market. According to SentimenTrader.com, since 2010 there have been 8 times the stock gapped 2% or more when the S&P was at a new high. Market performance for a few days was poor.

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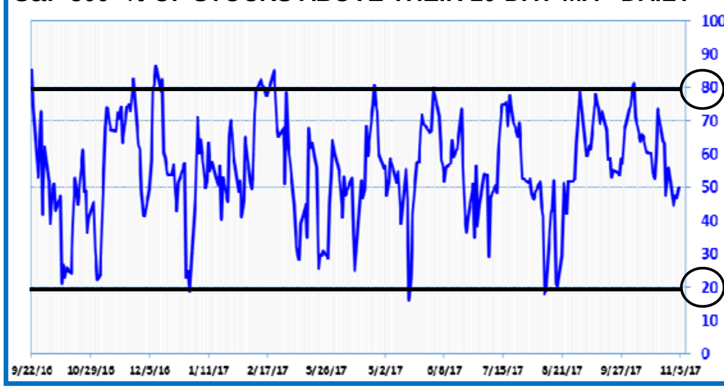
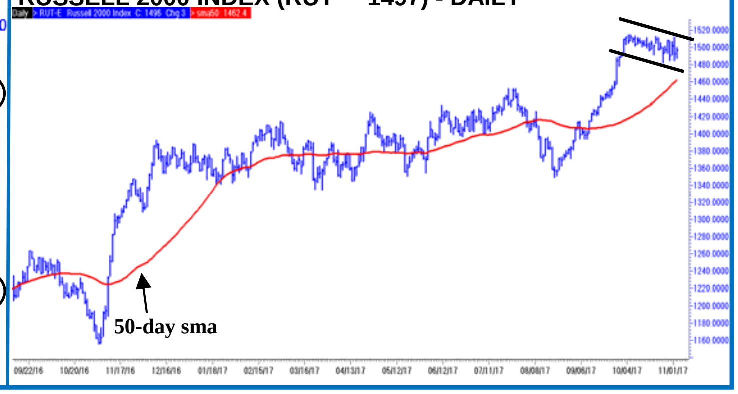
S&P 500 (SPX – 2580) – DAILY

NASDAQ 100 (NDX – 6236) – DAILY

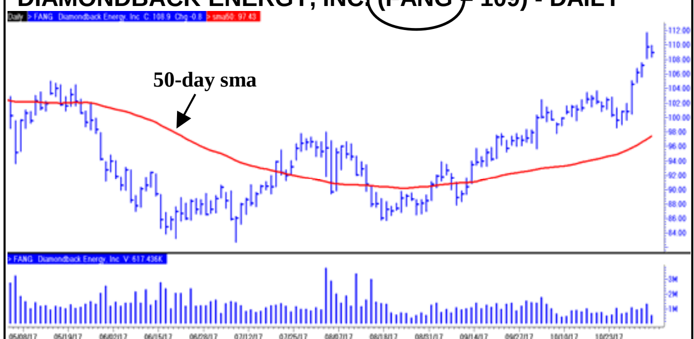
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



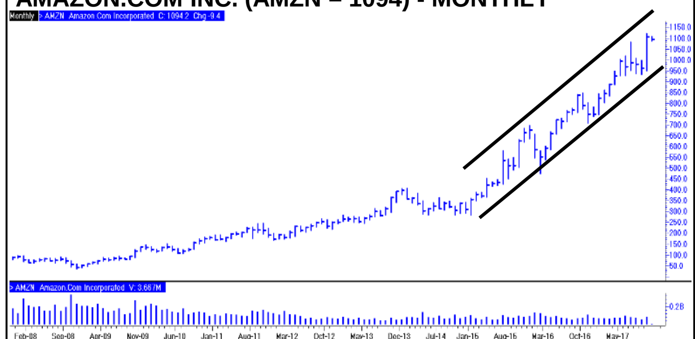
RUSSELL 2000 INDEX (RUT – 1497) - DAILY



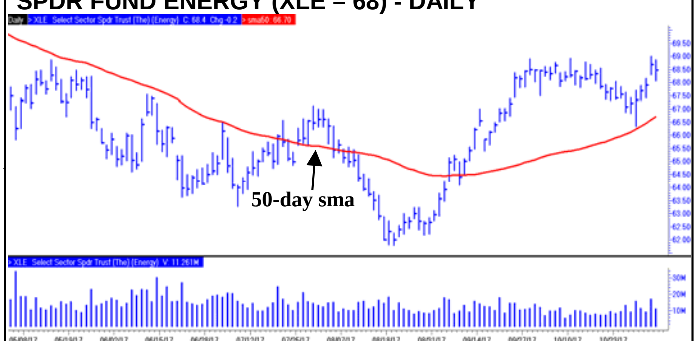
DIAMONDBACK ENERGY, INC (FANG – 109) - DAILY



AMAZON.COM INC. (AMZN – 1094) - MONTHLY

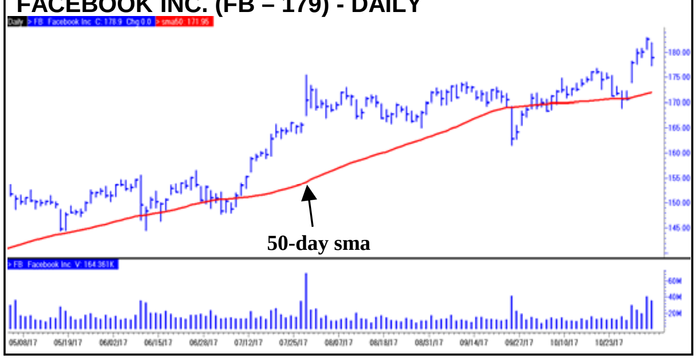


SPDR FUND ENERGY (XLE – 68) - DAILY



MERCK & COMPANY INC. (MRK – 55) - DAILY

FACEBOOK INC. (FB – 179) - DAILY



BOEING COMPANY (BA – 263) - DAILY