WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

October 20, 2017
DJIA: 23,163

Happy Anniversary … and happy that it was 30 years ago. It's that time of year when, if you were there, you can't help but think about that fateful day. These days, figuring out the impact and risk in the algorithms is well above our pay grade or, less defensively, we're not quants, or geeks. We do believe, however, that there are aspects to this market similar to back then and, therefore, worrisome. Back then the idea of "portfolio insurance" was thought a hedge against market weakness. Instead, it proved a self-perpetuating cause of the weakness—selling futures as protection resulted in even more selling in stocks. This time around it's not portfolio insurance or the futures that worry us, it's those ETFs. If enough selling hits the ETFs, the underlying stocks need be sold. This would result in more selling in ETFs and so on. The "loop" aspect here seems a lot like portfolio insurance.

You'll be glad to know we see an important distinction between now and then. We believe something like portfolio insurance or ETFs running amok comes about against a weak technical background. You would be hard-pressed to find a weaker technical background than was the case back in 1987. The peak in the Advance-Decline Index was in March of that year and what followed was a protracted pattern of a narrowing market. Rallies in the averages like the Dow were accompanied by weaker rallies in the A-D Index. The insidious thing about this pattern of divergences was that by the time October came around, everyone was tired of hearing about divergences. And, after all, the "Averages" moving higher left the illusion that the market remained healthy. This current market could not be more different, with the Advance-Decline Index having touched a new high just a few days ago.

This market's advance has been what reasonably might be called relentless. Rallies do have a way of feeding on themselves—there's no worse feeling than that of missing out. In the process, the market has overridden a number of setups from which one might have expected short-term weakness—seasonal weakness in September's second half, or simply being overbought. Another that occurred earlier this week was the two days of new highs and negative A-Ds. Throw in those new highs in the Averages with very low volume and virtually no volatility and typically you have the backdrop for a short-term setback. This market, however, has rolled over these negative setups—no 3% corrections since last November. Even a 5%-to-8% correction, if it started today, wouldn't kill the bull market. You would need a subsequent weak rally—the divergence—to set the background for important weakness. Keep in mind, peaks in the Advance-Decline Index typically lead peaks in the Averages by four months.

It's an Amazon (987) world, but Wal-Mart (86) arguably is doing a pretty good job of living in it. What might come as another surprise, you can make a case that the WMT chart actually is a bit better, a few points from an all-time high. Few companies don't flinch at the prospect of Amazon taking aim at their businesses, prescription drugs being perhaps the latest. Even Home Depot (163) had a little problem a while back—though we wouldn't want to be under one of those lumber carrying drones. The real rarity in the world of Amazon competition is Netflix (195), which simply has been impervious, at least in regard to Amazon. This week they seemed not so impervious to their own success. The recent run-up left their decent earnings and subscriber build a "sell-on-the news" event. As much as anything, this seemed to put a damper on the rest of FANG, bad for now but perhaps a good thing. We still believe the bull market will end in a blowoff sort of move somewhere, likely the FANG stocks. The longer this doesn't happen, the longer the bull market.

IBM (161) and good news—things that haven't gone together for about 22 quarters. If you'll indulge us, it was out of the blue, but was it about the market or IBM? The chart was passable, but only just. For contrarians, however, it was a dream come true. We understand short interest in IBM is even greater than the always controversial Tesla (352). It's all about supply and demand and if the demand is via short covering, it still counts. It's also worth noting that upside gaps in IBM historically have led to higher prices, both for IBM and the market. Did we ever mention there's more than just a little rotation going on? It will be interesting to see if this goes where no analyst dares to go, that is, GE (24). Here's a case where it's the end of the world, but is it priced-in? After all, is there anything we all don't know? Meanwhile, if the year hadn't already done so, Thursday taught you to buy the dips.

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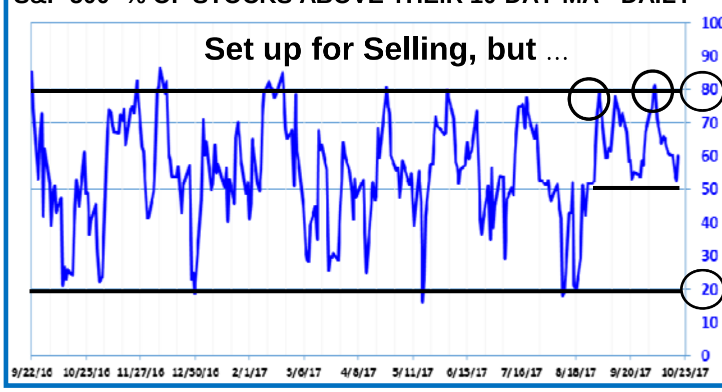
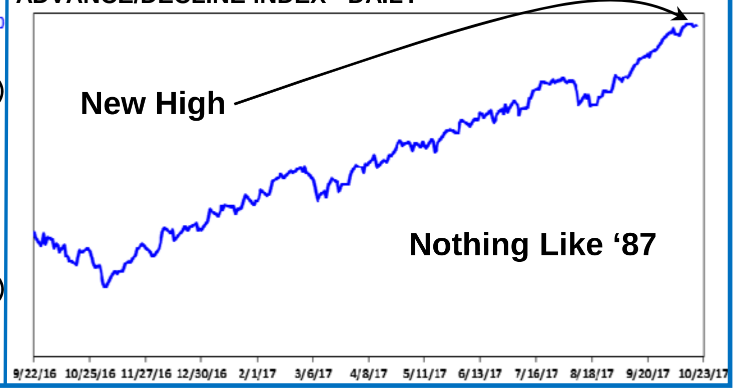
S&P 500 (SPX – 2562) – DAILY

NASDAQ 100 (NDX – 6093) – DAILY

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

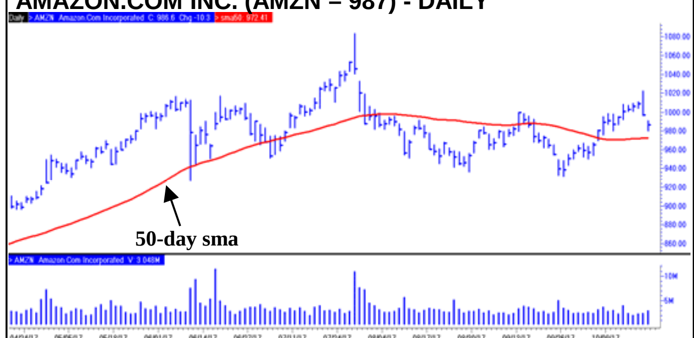


ADVANCE/DECLINE INDEX - DAILY

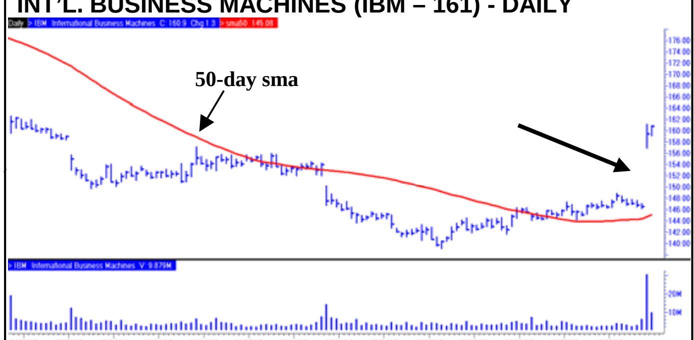


NETFLIX INC. (NFLX – 195) - DAILY

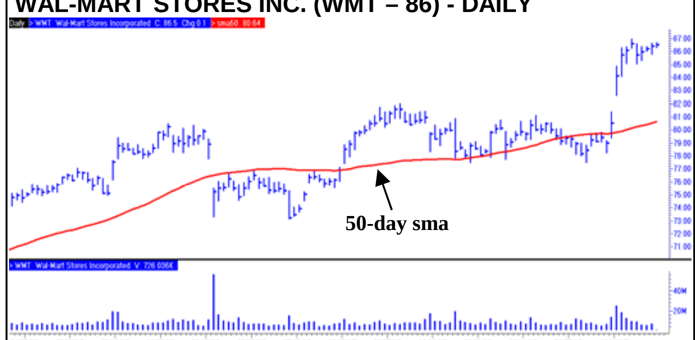
AMAZON.COM INC. (AMZN – 987) - DAILY



INT'L. BUSINESS MACHINES (IBM – 161) - DAILY



WAL-MART STORES INC. (WMT – 86) - DAILY



HEALTH CARE SLCT SCTR SPDR (XLV – 84) - DAILY

GENERAL ELECTRIC COMPANY (GE – 24) - DAILY