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EQUITIES PERSPECTIVE

October 27, 2017
DJIA: 23,401

GM … it's not your father's Oldsmobile! That GM (45) stopped making the Olds seems a bit of forward thinking. As the owner of a '64 Jetstar 88 convertible—top goes down, price goes up—take it from us, you wouldn't want to see one of those coming at you without a driver. Besides, Buick is the big seller in China where GM pretty much has its way, and we hear China is growing. The market seems excited about electric—not the General (21) one. By the look of the poor action in Tesla (326) lately, they could be onto something. No doubt things at GM are going well and the future suddenly seems bright. We can't help but think, nonetheless, that the market has a lot to do with this kinder view. After all, in a market where IBM (154) and Wal-Mart (89) gap higher, GM is only logical. It's even more logical in a market where rotation is the name of the game, where Texas Instruments (96) and Intel (41) are two of the best performing Semiconductors.

With no reason to be bearish, no one is. Or is this the reason to be bearish? Complacency is rampant, but complacency doesn't cause weakness. What complacency can do is exaggerate weakness. Complacency suggests most are fully invested, or close, so there may not be any urgency to buy weakness. We don't believe all the money is in, so to speak, as in a major top. The Advance-Decline Index made a new high just a few days ago, suggesting there's still enough money out there to push up the majority of stocks. The market hasn't narrowed as it would were all the money in, if everyone was fully invested. As it happens, however, those advance-decline numbers did turn a little sloppy this week, with Monday's nearly 2-to-1 decline the worst in almost two months. Important weakness takes important divergences and we're just not there. As we often say, it's weak rallies rather than weakness per se that get markets in trouble. Weak rallies are just another way of saying divergences.

Price gaps, especially to the downside, are like roaches—there's rarely just one of them. Put differently, there's often more than one piece of bad news. We're not talking about speculative stocks here. We're talking about a quality stock and leader in its field like Celgene (100). We don't like downside gaps, at least those that change the medium-term trend, as is the case now with Celgene. To cast CELG in a different light, you might look at a longer-term chart, which is a different light. It's just back to the lower end of the two-year consolidation in its overall uptrend. This having been said, best not to catch a falling knife. Declines like this are followed by a period of consolidation. Biotechs in general are more mixed, both good and bad, than has been the case in recent memory. It's hard to even categorize them by big-cap versus small-cap. The Healthcare ETF (XLV-82) contains some Biotechs, but some big Pharma as well. The largest position there is Johnson & Johnson (142). Its products may cause cancer but, hey, it's a great chart.

The advance-declines are not the only sign of recent sloppiness. Monday the market opened in the upper 20% of the range and closed at the bottom 20% of the range. They call the open "amateur hour," while it's said the smart money plays at the end. Of a bit more concern is the surprising jump in NYSE New Lows, given the proximity to all-time highs in the Averages. Historically this has left the market struggling for a couple of months, though we know in this market history hasn't been a good guide. We can say, historically the market has been on a long streak of being overbought, that is, extended to the upside. Strong markets do this—become overbought and stay overbought. Stocks above their 10-day average, however, are teetering around the 50% level, where a break would mark a change. All of this is more worrisome, but not bull-market-ending worrisome.

We'll stick with the idea that got us here—new highs in the Advance-Decline Index are not the backdrop for important weakness. Seasonal patterns haven't been of much help this year, but weakness this time of year would be unusual. Once again it seems about staying ahead of the rotation—note the strength in a laggard like Nike (57). Then, too, note the weakness in the heretofore impervious Defense stocks. This earnings season seems to be causing more than its usual share of outsized moves in both directions. We're not quite ready to move to the dark side of "funnymentals," but the charts haven't always helped—good charts, bad numbers and vice versa. At least there are those now politically incorrect "FANG" stocks, where the Thursday night numbers were impressive, at least in terms of the responses in Amazon (1055) and Google (1036). These stocks likely will have blowoff sort of moves before this all ends, as we've mentioned before—every week for three or four years, according to some.

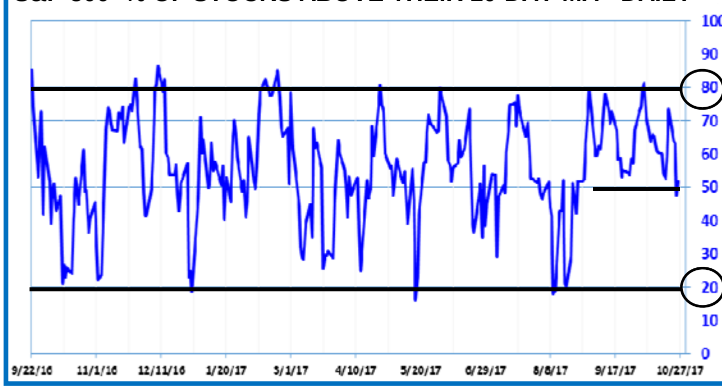
Frank D. Gretz

140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

S&P 500 (SPX – 2560) – DAILY

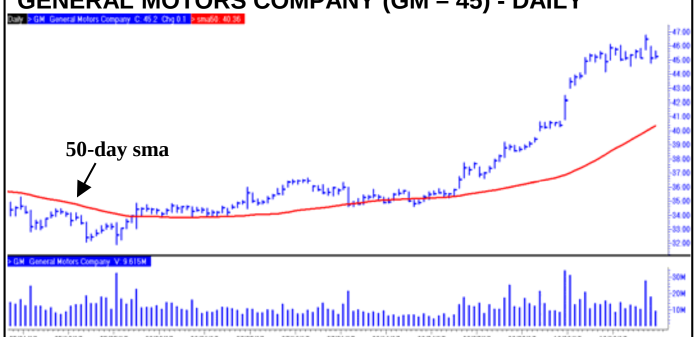
NASDAQ 100 (NDX – 6038) – DAILY

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

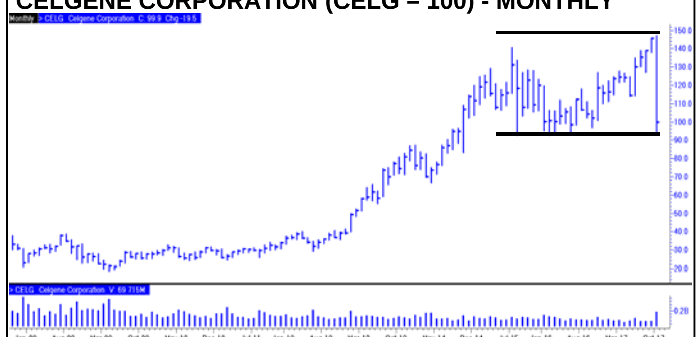


S&P 500 -% OF STOCKS ABOVE THEIR 200-DAY MA - DAILY

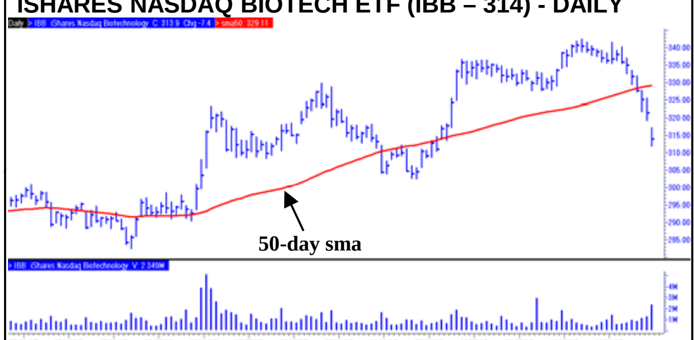
GENERAL MOTORS COMPANY (GM – 45) - DAILY



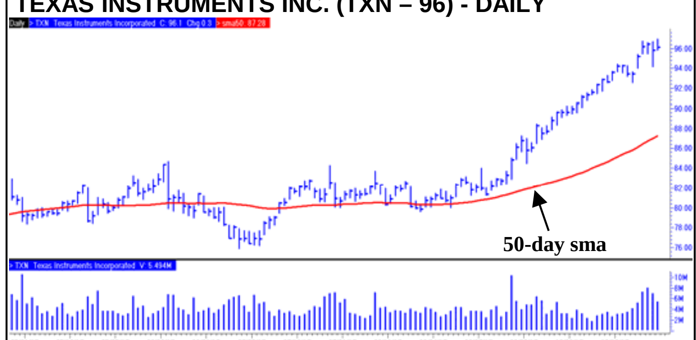
CELGENE CORPORATION (CELG – 100) - MONTHLY



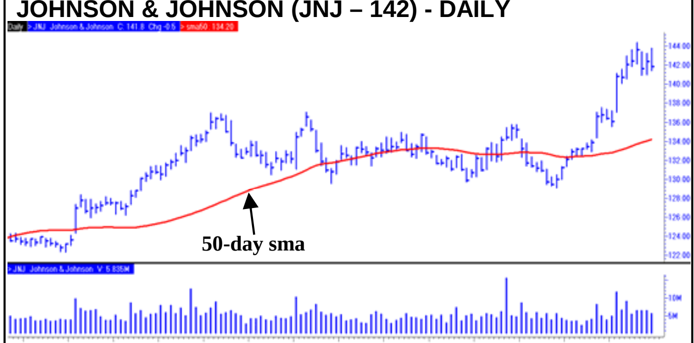
ISHARES NASDAQ BIOTECH ETF (IBB – 314) - DAILY



TEXAS INSTRUMENTS INC. (TXN – 96) - DAILY



JOHNSON & JOHNSON (JNJ – 142) - DAILY



NIKE INCORPORATED (NKE – 57) - DAILY