WELLINGTON SHIELDS & Co.
MEMBER NEW YORK STOCK EXCHANGE

# EQUITIES PERSPECTIVE

October 6, 2017
DJIA: 22,775

The economy and the stock market … they are not the same thing. A good thing back in 2009 or that bear market would have lasted a lot longer. As for now, it's tricky. Monday's ISM Manufacturing Index was the highest in years. Sounds good, but last time it was this high, it preceded a deep correction, and other high readings have led to mixed returns according to SentimenTrader.com. Where's the logic there, you might ask—the answer is simple. The stock market is a function of supply and demand. Just as bad news back in 2009 served to build sideline cash, good news now serves to use that sideline cash. Suppose we all found ourselves saying things are so good we wish we had more to invest, but we don't. By definition, that's the peak—all the money is in. It's supply and demand. All the money is in at the top because, surprise, the news is good, if not great.

Nice to philosophize, but how do you know when all the money is in? The NAAIM, or National Association of Active Investment Managers, in a recent survey showed the most optimism in its history. Managers are showing heavy exposure and, based on minor deviations in the responses, they're confident. Perhaps a more telling commentary, even the most negative managers are almost fully invested. Sounds somewhat dire. More to the point, sounds like all the money just might be in. It's not. When all the money is in, you won't be seeing the Advance-Decline Index making daily new highs, as it has done for a while now. Or, think of it this way. Until Wednesday, there had been only three days all month with fewer than 1400 advancing issues, and Wednesday was close. It takes a lot of money to push up 1400+ stocks every day. The money is still there.

We've worried that this time around the Advance-Decline Index is somehow distorted. Historically, the A-D Index peaks months before the big-cap averages. Then, too, historically, stocks didn't trade in decimals and there weren't ETFs, where buying one security can move ten. To test this, we've adjusted an Advance-Decline Index using the QCHA. The A-D Index measures just direction—net stocks up or down—while the QCHA also takes into account the price movement of stocks up and down. This Index also is at a high, confirming the A-D Index itself, and confirming the big-cap averages. Still, there is an indicator that concerns us and that's the percent of stocks above their 200-day moving average. The 200-day is a reasonable proxy for stocks in medium-term uptrends. The A-D numbers say stocks are going up, keeping pace with the averages and all that, but apparently only 72% of S&P 500 stocks are in medium-term uptrends. More important, it's less than the 77% back in April. A move above that level would be another positive.

There is another more esoteric reason to expect the market not just to trudge higher, but possibly to accelerate higher. Bull markets like this one typically see a blowoff sort of move in one group or another before they end. Back in 2007, it was the Oil stocks of all things, seemingly unlikely candidates this time around, though the stocks finally are acting better. Despite their recent lag, it's also a good reason not to forget those FANG stocks, which could look good again in a hurry—Netflix (194) already does. And then there are the Biotechs, where the rest could mimic stocks like Puma (124). Finally, those forever hopeful Financials may pay off after nearly a year's worth of basing. We understand stocks are up a lot, but we don't see the kind of speculative moves you might expect before this ends. For now, that's a good thing, but we still expect it. They call this an unloved bull market, but it will be loved before it's over. A little speculation should do the trick.

If the big picture seems just peachy, so too does the short term. There's the matter of being a little stretched to the upside, overbought if you prefer, but in this case even this seems a good thing. In terms of stocks above their 10-day moving average, we haven't dipped below 50% since late-August. Markets that become overbought and stay overbought are strong markets. Of course, with sentiment so one-sided, almost anything could tip things short term. For now, it has been more about rotation than correction. The Celgene (140) downgrade hurt the Bios Thursday, but come what may, Defense stocks have held their own and Boeing (259) seems on the verge of another little breakout. The S&P 500 has rallied a remarkable eight straight days, the longest streak since 2013, no doubt prompting a fear of buying at the top. The greater fear, however, might be the fear of missing out.

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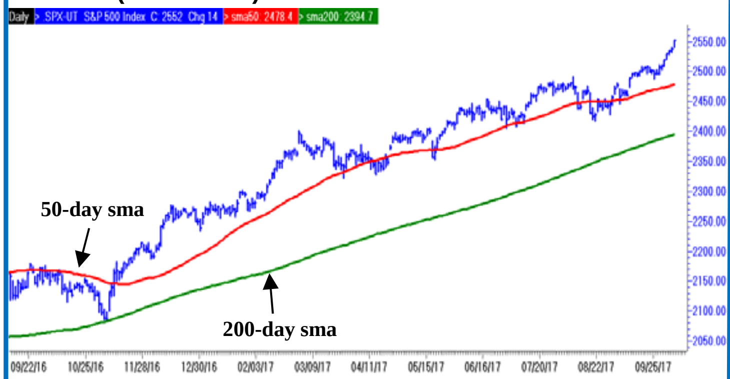
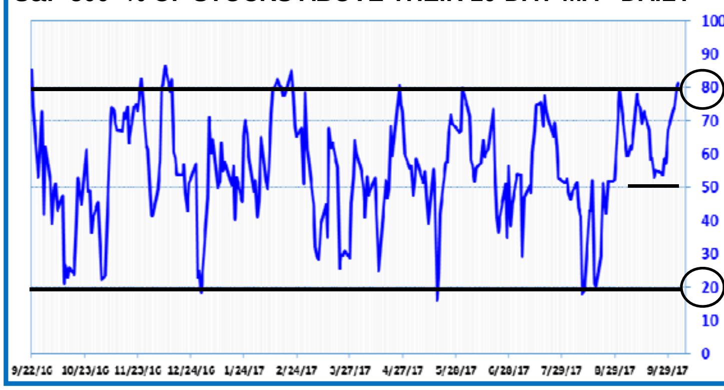
### S&P 500 (SPX – 2552) – DAILY




### NASDAQ 100 (NDX – 6057) – DAILY

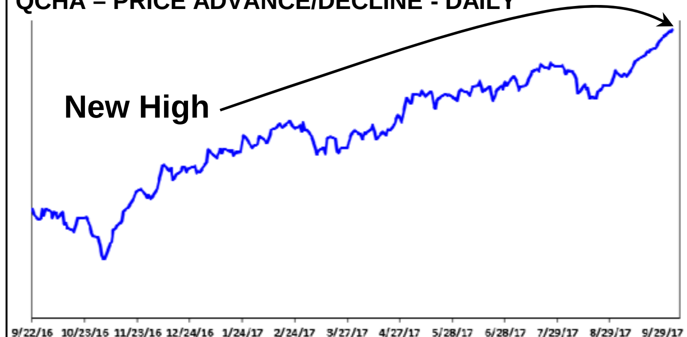

### S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



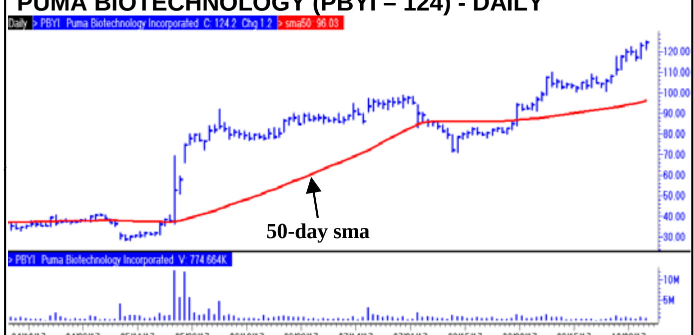
### S&P 500 -% OF STOCKS ABOVE THEIR 200-DAY MA - DAILY

### NETFLIX INC. (NFLX – 194) - DAILY

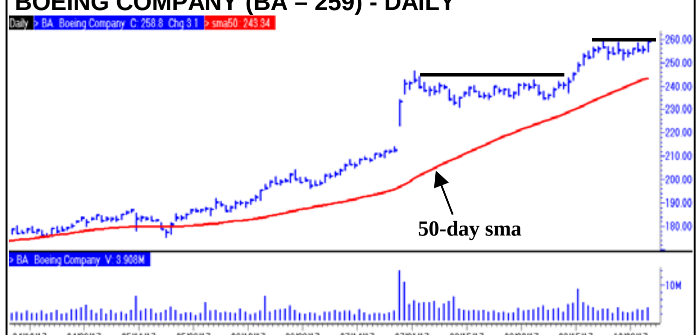

### QCHA – PRICE ADVANCE/DECLINE - DAILY




### PUMA BIOTECHNOLOGY (PBYI – 124) - DAILY




### BOEING COMPANY (BA – 259) - DAILY




### MICROSOFT CORPORATION (MSFT – 76) - DAILY


### SPDR FD FINANCIAL (XLF – 26) - WEEKLY