WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

September 1, 2017
DJIA: 21,948

Flood, nuclear war … where's the pestilence? Much like Harvey, the bull market just won't go away. Like Harvey, it may have lost a little momentum, but market tops are a process, they are a big unwind. The process is all about narrowing, losing participation. The percent of stocks above their 200-day moving average is useful here, 200 days being a working definition of uptrend versus downtrend. Important here is the group of stocks you're measuring, with the number as high as 63% for the S&P itself, and below 50% for others. The others, we would assume, simply have more of the bad stuff like Retail and Energy. In any event, a gauge compiled by Bloomberg dropped to less than 50% within the last two weeks. After two dozen similar declines since 1994, the S&P almost always ended at or below its own 200-day moving average, according to Thomas J. Lee of Fundstrat Global Advisors. This would be about 1200 Dow points to the downside from here.

This analysis may be a little too mechanical for your taste, but the theory makes sense. Stocks peak a few at a time until, eventually, the average stock pulls down the stock averages. We had never focused on 50% as some trigger point, and in truth, we doubt it really matters. What matters is that the averages eventually give it up after all around them gradually have done so. It's tempting to think of some sort of restart here, especially after what has been a good week, including Tuesday's impressive reversal. Anything is possible, but momentum typically doesn't work that way. There can be plenty of respites in the unwinding process, but typically it moves to some sort of washout conclusion. In their way, the Biotechs offer some insight here in that once they started down, they went through an entirely new basing process. Rather than resuming the old bull market, this looks to be the onset of an entirely new one.

Stop us if you've heard this fewer than 10 or 20 times—it's not weakness that gets markets in trouble, it's the weak rallies that follow. The NASDAQ already is at a new high, but the market averages often are a poor measure. We're talking about what these days they like to call "market internals," things like advance-declines. These numbers have improved recently, including Thursday's almost 3-to-1 ratio against a Dow rise of just 50 points. What should prove an even better guide, however, is the percent of stocks above their 10-day moving average. This measure has been mired in a series of weak rallies going back to July, the last couple failing to move much above 50%. Already the rally this time has reached 72%, and for this measure, the higher the better. It means "overbought," but overbought is better than weak.

Did Kim Jong-un ever meet Saddam Hussein? They could have a lot in common when it comes to hustling a buck. Iraq's former head often threatened to cut off the country's oil supply, sending prices higher. He would do so, as the story goes, after going long oil futures and, therefore, profiting handsomely—shrewd trader that man. We got to thinking about this after seeing Gold's sharp rise Monday, wondering why, of all days, it would choose to have such a move this particular day? Then the news that evening that Kim was misbehaving again. Had he gone long Gold futures? He might just as well have gone long Defense stocks, but we digress. The move in Gold took the metal above 1300 for the first time in a while and does seem significant. Our suspicious nature aside, this seems more than a knee-jerk reaction to Korea's missile. Then, too, Gold does seem a reasonable hedge given life's little uncertainties these days.

The market had a much better tone this week, including the recently lagging advance-decline numbers. And for all our talk about moving averages, money is made in the stock market when the 50-day moving average is above the 200-day. In terms of trend, this is all you need to know—it's a bull market. Don't tell this to Campbell (46) and the other Food stocks, the Food Retailers, or most of Retail and all of Energy. Here, too, the same rule applies. You want to be in the uptrends until they turn down, and out of the downtrends until they turn up. When there is enough of the former, the averages will follow. The numbers say we're getting there, but it's a process. Big uptrends don't turn on a dime and any ending phase can be profitable. Usually there's something that gets hot—FANG or, in this case, Biotechs. The Biotechs now are all takeovers. The right thing to do is sell your losers, but you can't do that—every $10 retailer is bouncing. So there's that hope thing again.

Frank D. Gretz

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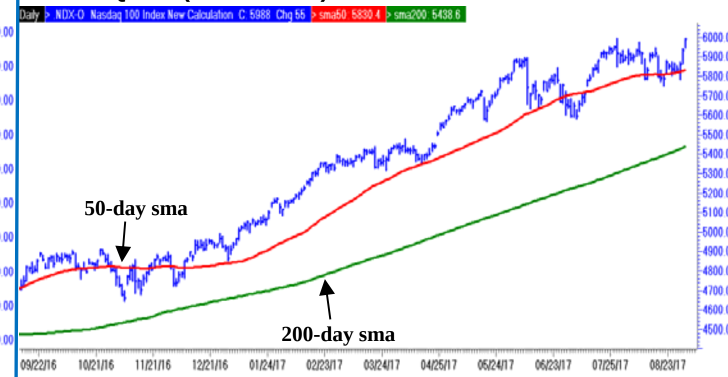
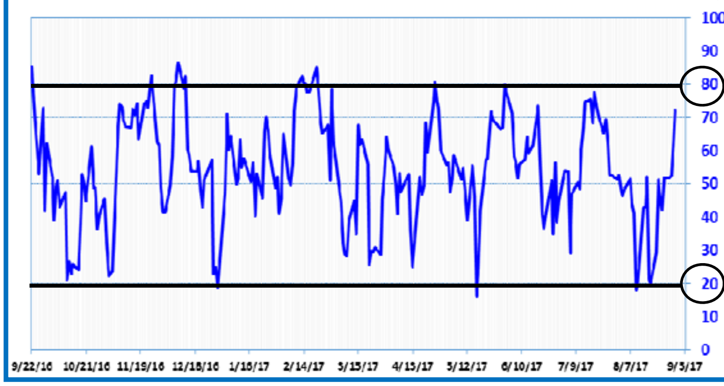
S&P 500 (SPX – 2472) – DAILY

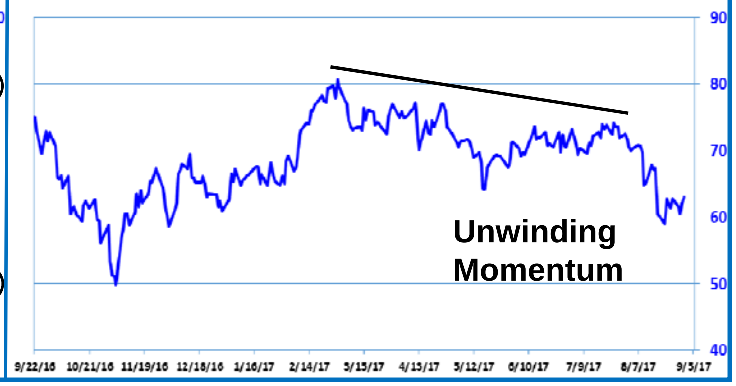
NASDAQ 100 (NDX – 5989) – DAILY



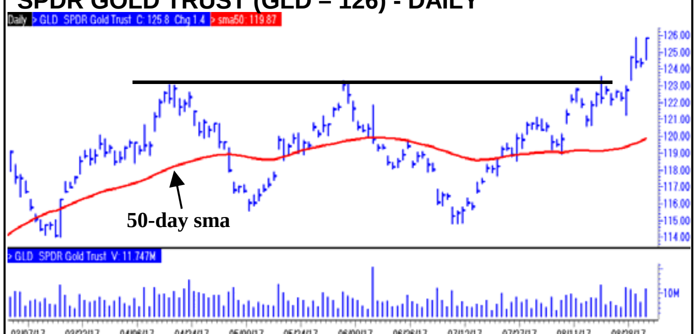
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



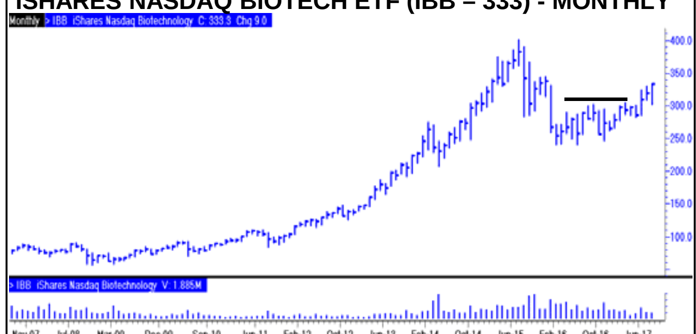
S&P 500 -% OF STOCKS ABOVE THEIR 200-DAY MA - DAILY



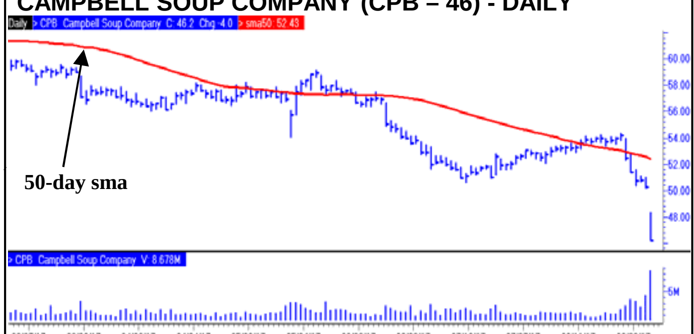
SPDR GOLD TRUST (GLD – 126) - DAILY



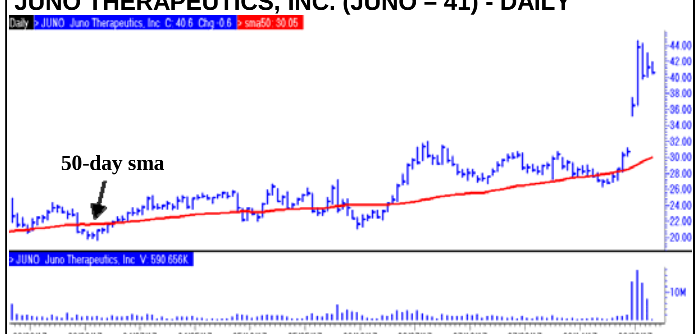
ISHARES NASDAQ BIOTECH ETF (IBB – 333) - MONTHLY



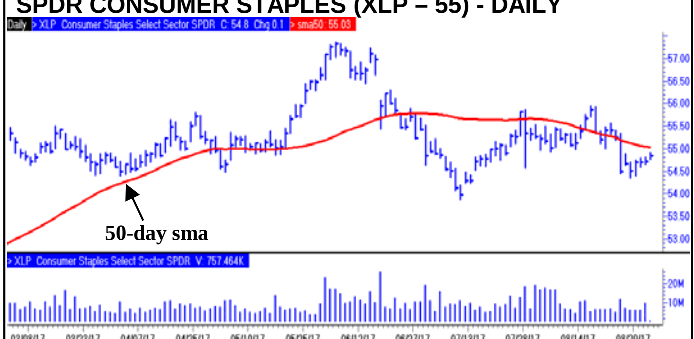
CAMPBELL SOUP COMPANY (CPB – 46) - DAILY



JUNO THERAPEUTICS, INC. (JUNO – 41) - DAILY



SPDR CONSUMER STAPLES (XLP – 55) - DAILY



RAYTHEON COMPANY (RTN – 182) - DAILY