

EQUITIES PERSPECTIVE

September 11, 2015
DJIA: 16,330

Sure it's the end of the world ... but is it discounted? Discounted is what happens when you get the selling out of the way. By definition, they can't go lower, no matter what. As measured by down volume as a percent of up-down volume, selling has been extreme, including 87% on August 20th, 93% on August 21st, 97% on August 24th and 96% on September 1st. Of course, when stocks indeed are washed out they should move up with relative ease, and hence the 80%+ up-days on September 3rd and again this past Tuesday. In the past this type of price action has signaled a market that is sold out and higher prices have followed. Sure this time we may get another 90% down-day – if four, why not five. You never know for certain about these things, but you can know the probabilities. The probabilities say a low is in. Keep in mind, however, the hallmark of these panic or crash-like declines is volatility, followed by more volatility.

Another take on the selling are the extremes reached by many of the indicators. For S&P stocks, at the recent lows stocks above their 10-day average were 1%, stocks above their 50-day average were 4% and stocks above their 200-day average were 16%. The total number of 12-month New Lows was close to 1900 and the 10-day average was the highest since 2011. The Investors Intelligence Survey, a measure of newsletter opinion, showed the lowest bullish percentage since 2010 and the highest bearish percentage since 2013. Meanwhile the VIX, a measure of panic or fear, reached its highest level since the lows in 2008. All of these measures show unusual extremes, those typically associated with important lows in the market. A caveat, however, is that measures such as these can and have reached extremes and remained there for a time.

After six years almost any weakness conjures up the thought that the bull market may be over. If beauty lies in the eye of the beholder, so too a bull versus a bear market. For most it's all about the averages, and for most it's a 20% decline that constitutes a bear market. There's nothing wrong with this idea, but it hardly tells the whole story. Sticking with the averages, at the August 25th low, 38% of S&P stocks were down 20% or more. Perhaps most worrisome, this compares to only about 13% during last October's weakness when the averages were around the same level. Moreover, it's typical of bear markets that the large-caps, that is, the market averages, peak last, which seems true in this case. At the low, more than 50% of a broad group of stocks already were down 20%. Finally, consider that at the low fewer than one-fifth of S&P stocks were above their 200-day moving average. If the 200-day is a good proxy for a medium-term uptrend, this means regardless of whether they're down 10%, 20% or more, most S&P stocks are in downtrends.

So if you're into name-calling, a case can be made that this is a bear market. The real issue, however, is where do we go from here, and, whether bull or bear, we don't think it's down. Bull market peaks are a process and we don't think that process is far enough along. The Advance-Decline Index peaked in late-June, but a more typical lead time to a bear market is six months. Bull markets also don't typically peak off a wall of worry – don't tell anyone but we hear the Fed may raise rates. As per the above, the technical background has its problems. Still, the weakness we've seen has been more crash than correction. A crash happens when there is some mechanical-like event that causes the selling – think of “portfolio insurance” in 1987 or the fictitious trades in the “flash crash.” Think of ETFs this time, where F is for fiasco. In general, inverse ETFs, which are short selling without the uptick rule, are akin to portfolio insurance, which means they're another accident waiting to happen. The point simply is this – the flash crash or the '87 crash didn't begin bear markets. Panic or crash-like selling don't begin bear markets.

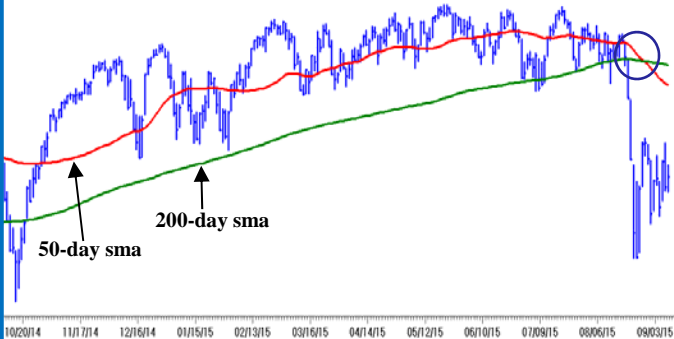
Regrettably we failed to heed the signal of the recent “death cross.” Regrettably because for a change it did accurately signal the recent weakness. Regrettably, too, the signal was more than a little late. However, this event of the 50-day moving average crossing below the 200-day moving average does have significance other than just as a signal. Going back to 1929 all the net gains in stock prices have come when the 50-day is above the 200-day. So even if you're “long term” and even if you don't really believe technical hocus-pocus, you had best start hoping for a “golden cross,” a move by the 50-day above the 200-day. Were that to happen in the relative short term, the area would be around the same as the downside crossing. Meanwhile, look for stocks which have held together relatively well through the decline, and those which have been quick to get back on track – Amazon (525), Chipotle (728), Vulcan (98), Lockheed (206), and the like.

Frank D. Gretz

S&P 500 (SPX - 1952) - DAILY

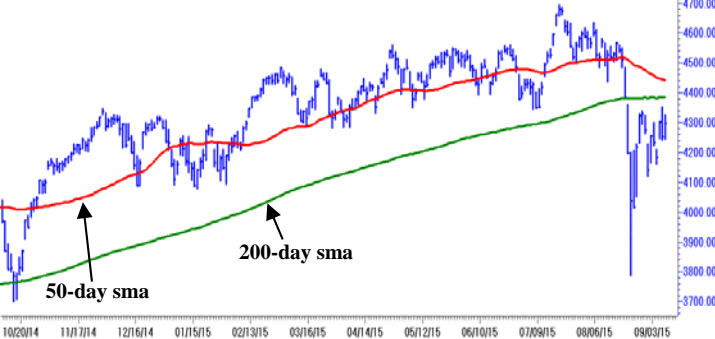
Daily > SPX:UT S&P 500 Index C: 1952 Chg 10 > sma50 2050.1 > sma200 2071.4

Death Cross

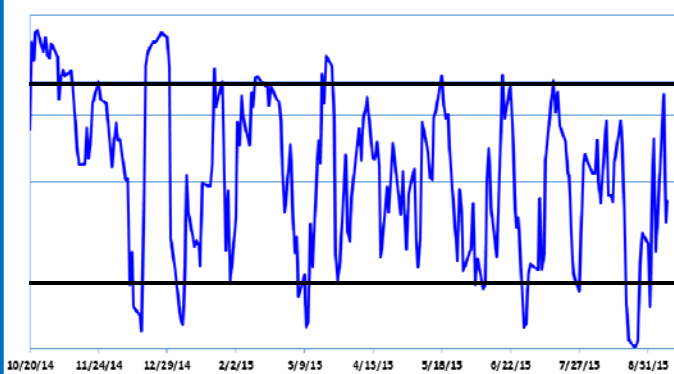


NASDAQ 100 (NDX - 4296) - DAILY

Daily > NDX:O Nasdaq 100 Index New Calculation C: 4296 Chg 42 > sma50 4443.3 > sma200 4384.0



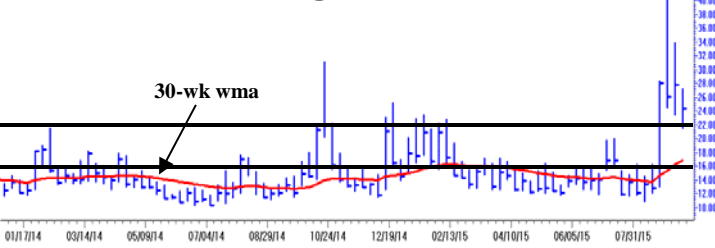
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



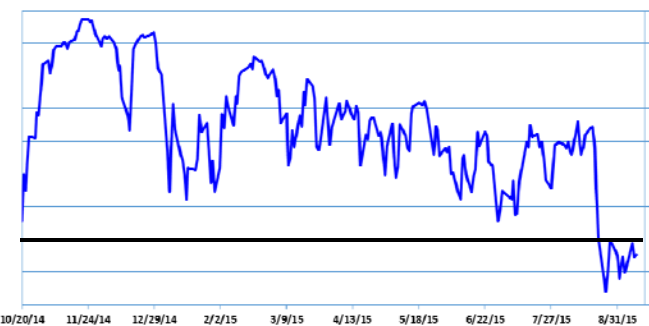
CBOE MARKET VOLATILITY (VIX - 24) - WEEKLY

Weekly > VIX:UT CBOE Market Volatility C: 24.2 Chg -1.8 > sma30 16.82

Highest Since 2008



S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY

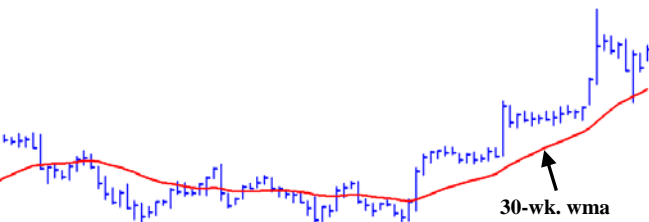


S&P 500 -% OF STOCKS ABOVE THEIR 200-DAY MA - DAILY



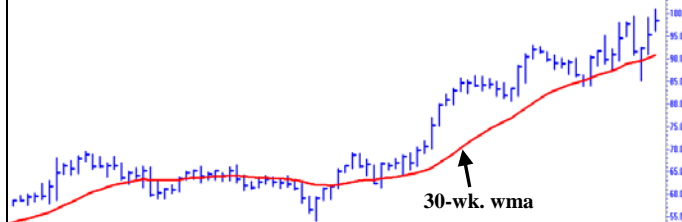
AMAZON.COM INC. (AMZN - 525) - WEEKLY

Weekly > AMZN Amazon Com Incorporated C: 524 Chg 2 > sma30 469.31



VULCAN MATERIALS CO. (VMC - 98) - WEEKLY

Weekly > VMC Vulcan Materials Company (HOLDING COMPANY) C: 98 Chg 0 > sma30 90.80



CHIPOTLE MEXICAN GRILL INC. (CMG - 728) - WEEKLY

Weekly > CMG Chipotle Mexican Grill Inc. C: 728 Chg 1 > sma30 678.64



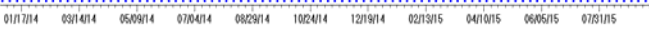
LOCKHEED MARTIN CORP. (LMT - 206) - WEEKLY

Weekly > LMT Lockheed Martin Corporation C: 206 Chg 0 > sma30 188.90



CHIPOTLE MEXICAN GRILL INC. (CMG - 728) - WEEKLY

Weekly > CMG Chipotle Mexican Grill Inc. V: 977.64



LOCKHEED MARTIN CORP. (LMT - 206) - WEEKLY

Weekly > LMT Lockheed Martin Corporation V: 234.424k

