EQUITIES PERSPECTIVE

September 18, 2015
DJIA: 16,675

Death cross … or double-cross? The bearish "death cross" and the bullish "golden cross" are not so easy to use, and it's beginning to look that way again. These are what they call trend-following signals or trading systems and they are notoriously inaccurate. In a study that's a few years old now, trend following – the 50-day above the 200-day – was found to be right only 51% of the time. Indicators of mean-reversion – overbought/oversold indicators – were considerably more accurate at about 73%. There is a catch, however, and it's an important one. The 73% right mean reversion systems would have lost 82% of your money. Meanwhile, the 51% accurate trend-following systems would have made you almost 1900%. Sounds hard to believe but the answer is simple – the big money is made in the big moves. Overbought and oversold markets often become more overbought or more oversold, leaving you with small gains and big losses. The golden cross and the death cross often turn to double-crosses, but it's best to heed them.

Amidst all the talk of crosses, it is important to point out that there was no death cross in the NASDAQ. The idea that the overall picture for the NASDAQ is better than that for the Dow and S&P suggests that this is where leadership in any recovery is likely to evolve. If so, it shouldn't be terribly hard to spot – like the average itself, it should be those stocks that held together relatively well, and/or have been first to respond to market strength. Among those are the stocks we've discussed before, including those we've called "stocks which cannot be bought." Among these names are Amazon (539), Facebook (94), Google (672), Priceline (1318), Tesla (262), and the like. They can't be bought because they're "up too much," they're "too expensive," too volatile, or whatever. Meanwhile, they've held together better than most of the safe/defensive stuff and they're prime candidates to lead a recovery.

Suddenly there's talk of $20 oil. Where did that come from? Did Goldman finally change their 2008 forecast from $200? We dare say those now looking for $20 were not looking for $40 when oil was $60 but, indeed, nobody's perfect. However, $20-oil isn't so much a prediction as it is an extrapolation. And that works only until it doesn't. What seems a bit misguided in this case is the price action itself. If $20 is the next stop, what has been holding it up? Oil and the stocks have stopped going down for no good reason. Of course this doesn't mean an important turn is in place, but at least a respite in the downtrend seems more than likely. When $150, oil topped on talk of $200. Now at $40, why can't it bottom on talk of $20? Oil is like any other market – it bottoms on bad news because that's what gets the sellers out of the way.

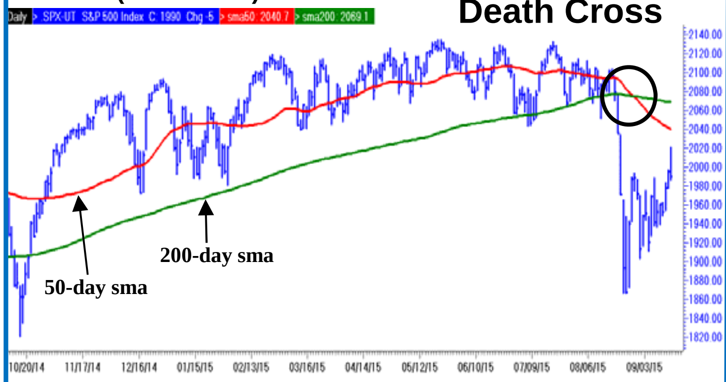
Biotechs peaked in mid-July, roughly coincident with the market. As per the IBB Biotech ETF, the price was pushing the upper bound of its uptrend channel, a logical place for the stocks to correct and where they've done so before. Hence the channel. This was not the blowoff move we have long expected, taking the price above the channel. The subsequent correction has been enough to leave a blowoff move not impossible, but moot for now. First things first, the Index has to hold the little uptrend off the recent lows, otherwise it's probably a sale. Then it has to work its way back above the 30-week moving average, around 362. One problem for the IBB is that several of the most heavily-weighted components are not the best charts. Clovis (115) only carries a 0.6% weight and Cara (22), another great chart, is only 0.08%. This is, of course, a very homogeneous group, so we would expect all to participate eventually.

The Tuesday and Wednesday rallies seemed a bit odd, coming as they did ahead of the big event, an event of unknown outcome and consequence. The explanation, in its way, seems simple – the market was looking forward to any outcome. That it went higher seemed to fit with the idea that we had a washout low, a test of that low, and now were in a recovery. However, forgotten in all this is a year-long nemesis – it has been tough going when stocks above their 10-day average move above 80%. Market breadth has been respectable in the recovery, a good sign considering it has lagged since late-June. All this is good in that bull markets tend to end not out of sharp weakness but, rather, out of weak rallies.

Frank D. Gretz

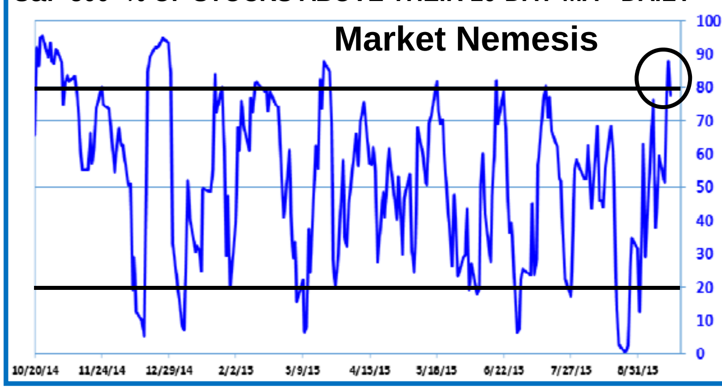
140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

S&P 500 (SPX – 1990) – DAILY

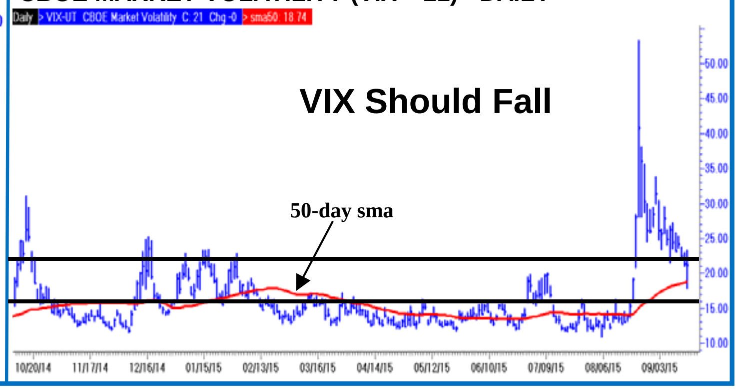


NASDAQ 100 (NDX – 4385) – DAILY

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



CBOE MARKET VOLATILITY (VIX – 21) - DAILY



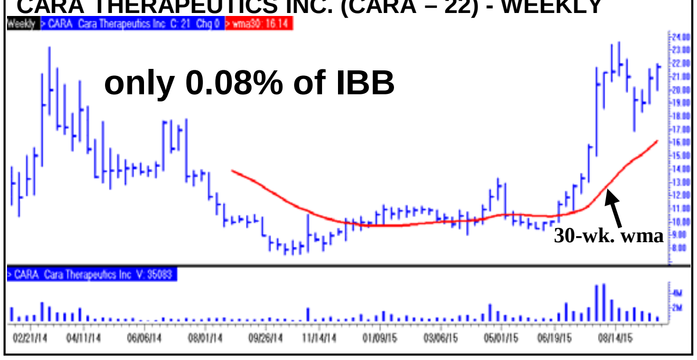
ISHARES NASDAQ BIOTECH ETF (IBB – 359) - WEEKLY

SPDR FD ENERGY (XLE – 65) - DAILY

CLOVIS ONCOLOGY INC. (CLVS – 115) - WEEKLY

GOOGLE INC. (GOOGL – 672) - WEEKLY

CARA THERAPEUTICS INC. (CARA – 22) - WEEKLY



FACEBOOK INC. (FB – 94) - WEEKLY