WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

# EQUITIES PERSPECTIVE

September 2, 2016
DJIA: 18,419

When news breaks … someone should fix it. That someone, of late, has been the market itself – the bad or questionable, the market simply has ignored. It did so last week after Jackson Hole and might have a chance to do so again on a likely good jobs number. In this case, of course, good takes on a whole new meaning – that of a rate hike in September. So how bad might good be? As always, it depends on the market. The market has been able to ignore some dubious news because it has been a good market. However, the market itself has been a bit more dubious, losing, as it has, a number of former leadership groups. So a good number, one which says a hike is likely, will be another of those fun little learning opportunities. That said, it looks like there's a hike coming in September. We're not saying this just because our brother works at the Fed. We're saying this because that's what those interest-rate sensitive stocks, like the Banks, are saying.

There have been a few false starts when it comes to better action in Bank shares. However, if there is to be no hike, or no hike until December, Bank shares would seem unusually anticipatory. And why would they talk about the possibility of two more hikes this year if they're not going to raise in September? They are, after all, chomping at the bit. Higher rates don't help the REITs, and they've begun to show it. However, stocks that are helped far outnumber those that aren't, and we don't recall an important market peak with Financials acting well. Going opposite of the Financials is Health Care, which is vulnerable to being politicized. To be fair, raising the price of the EpiPen by 500% was the equivalent of sticking yourself in the foot with one. And, in a gee-thanks sort of way, Mylan's move has soured the whole group of Health Care stocks, especially the PBMs. Something about raising and then lowering prices the market never seems to like. On a positive note, come November, this too shall pass.

As indicators go, the percent of stocks above their 10-day moving average, with its swings between 20% and 80%, has been useful. However, indicators both come and go as markets change. In this case, because of the market's painfully narrow range, even a short-term measure like the 10-day doesn't have much to offer. Again, this too will pass. The more important focus for investors versus traders should be on something like the percent of stocks above their 200-day moving average. We used to quip that if we could have only one indicator, it would be this one – buy 'em below 20% and sell 'em above 80%. Naturally, there are a few nuances we could throw in but as a standalone, it does a good job of depicting the big picture. At the moment, this measure is hovering around 80%, something to think about. However, one of the nuances that might be thrown in is that you want to see an actual turn, back above 20% or back below 80%, before pulling the proverbial trigger. This long-term measure tends to become overbought and stay overbought.

We have espoused that macro supply/demand numbers never seem to matter. When seemingly there is no sideline cash or any other source of demand, nonetheless prices find a way to move higher when they want to. The opposite is true but that at least makes sense – sideline cash, per se, is not demand but, rather, potential demand. Just last week we noted that only corporations seem buyers here, as, even net of ETF buying, the public is bailing on their fund holdings. As it happens, another macro demand factor, margin debt, has turned positive. Growing margin debt often is mistaken as a negative thing. It's only negative when the dollar value of margin debt is too high compared to the dollar value of the stock market, as was the case in 2000 and 2007, but not now. For the first time in more than a year, margin debt has moved above its average level, that is, above its 12-month average. According to The Sentiment Trader service, stocks have tended to perform significantly better when margin debt is above average but not excessive.

We've never quite understood why interest rates and the price of Gold should be inversely correlated. We know the theory – competition for non-yielding Gold. However, on a relative basis, Gold in fact is high yielding, where "relative" is in relation to negative interest rates. That said, in another of those who are you going to believe, me or your eyes sort of ways, all you need do is look at Gold's recent action and the spike up Friday morning, as "the number" diminished the likelihood of a hike. Diminished is not to say completely ruled out, so we wouldn't just now go totus-porcus back to Gold. The trends still are up, there still seems a bull market which began in December-January, but charts now could use a little backing and filling. The jobs number could be viewed as a disappointment for Banks and other Financials, but they gave up little Friday a.m. Stay tuned.

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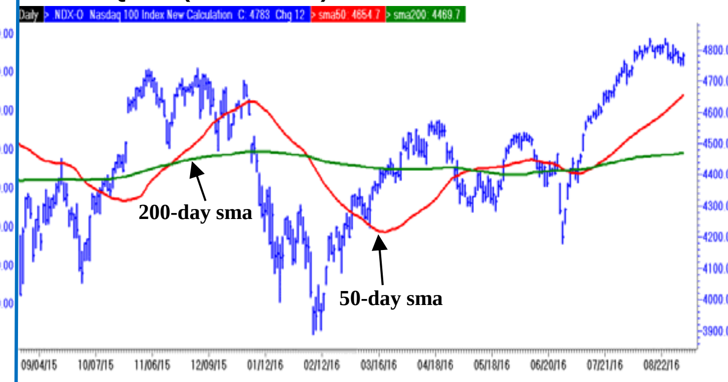
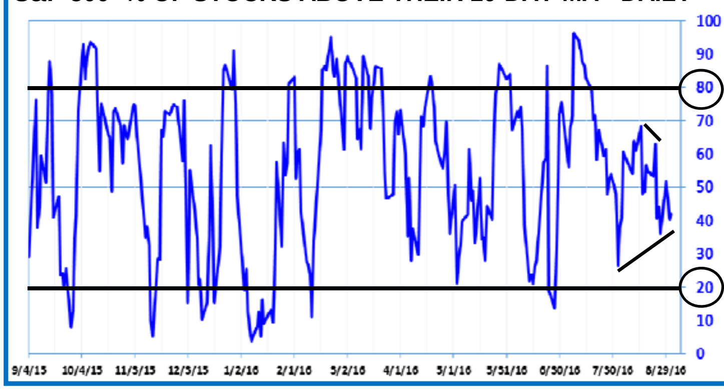
## S&P 500 (SPX – 2171) – DAILY


## NASDAQ 100 (NDX – 4784) – DAILY



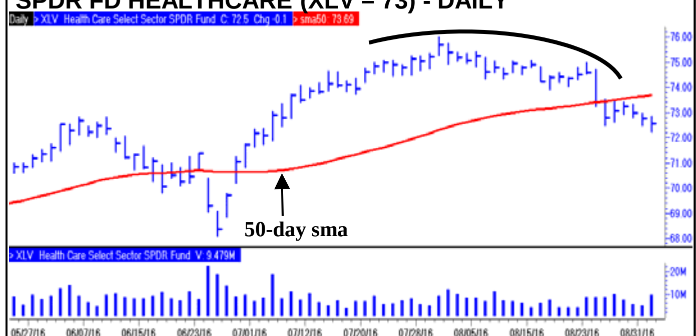

## S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



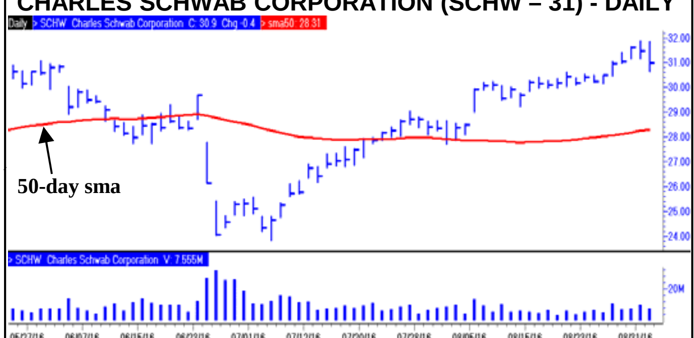

## S&P 500 -% OF STOCKS ABOVE THEIR 200-DAY MA - DAILY


## SPDR FD FINANCIAL (XLF – 24) - DAILY

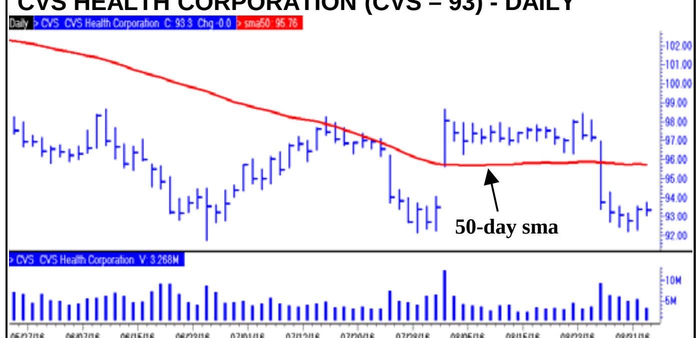

## SPDR FD HEALTHCARE (XLV – 73) - DAILY



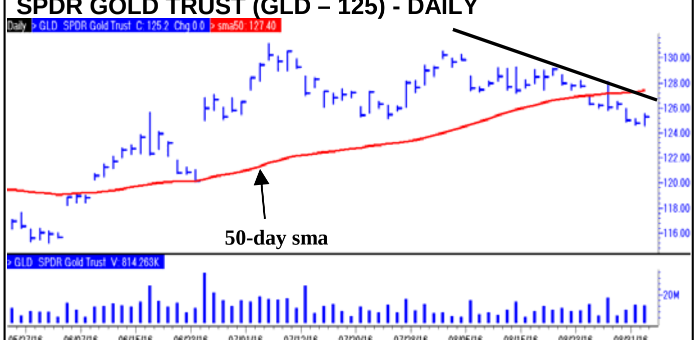

## CHARLES SCHWAB CORPORATION (SCHW – 31) - DAILY




## CVS HEALTH CORPORATION (CVS – 93) - DAILY




## SPDR GOLD TRUST (GLD – 125) - DAILY




## ISHARES U.S. REAL ESTATE ETF (IYR – 82) - DAILY