WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

September 23, 2016
DJIA: 18,392

Rates unchanged … blah-blah-blah, blah-blah-blah. The odds of a hike were only 20%, so no surprise. And if the truth be known, big money never was made betting on the expected. The next surprise would be no hike and no rally. This, however, we doubt, especially after Wednesday. Wednesday was a good day technically – rising volume into strength, for a change. And after a few one-sided down days, advance-declines were 6-to-1 to the upside. Impressive, too, though less technically important, were the new highs in both the NASDAQ Composite and the NAZ 100. That these should do so right out of the chute, so to speak, says a lot about Tech. Dare we say, it leaves open the possibility that we may yet be right about the FANG guys having some sort of blowoff into year-end. The background, while weakened, never did seem right for a big decline, though a rate hike could have been good for a quick 3%-4% down. Now even history seems on the side of a market rally. When the market goes into October on the plus side, the odds of a positive fourth quarter are something like 90%.

The "never-mind" Fed move finally reawakened Gold. The negative higher rate/Gold correlation is hard to understand when a third of tradeable fixed income is at negative rates. In any event, we doubted any harm to Gold this time. The negative rates are one thing, but more important is Gold's bull market, or so we contend. As per Brangelina, if love doesn't conquer all, trend usually does. Gold has seemed in a normal consolidation in our perceived bull market, and now could be coming out of that rest for another leg up. In the meantime, it now would be doing so less the baggage of all those nouveau bulls. On a dissimilar, but positive for the market note, the rate-hike starved Financials took their bad news relatively well. Of course, they think their rate-hike time is still to come, as has been the case for what seems years now.

The breakout in the NAZ probably says it all in terms of what is likely to lead. Any lingering doubts – just look to Amazon (805) and Google (816). The first ones out usually go on to lead, and they're out. ETFs of the Semiconductors (SMH-68) and Technology (XLK-48) seem to confirm this as well, and suggest the move is about more than just a couple of stocks. Anecdotally, these stocks are easy to buy, especially if you're going into the end of the year needing to catch-up or not wanting to be left behind. Meanwhile, leaders from earlier in the year, like Consumer Staples and Consumer Discretionary, are languishing, to put it politely. Biotech is an area we've avoided, somewhat unkindly calling them last year's stocks. And, indeed, we've always found stocks that have blowoff-sort moves in one go-round don't usually come back to lead in the next. Unlike last year, not all patterns are alike and few are great. However, all are improved and this seems another one that could do well going into year-end.

We've often said, just last week perhaps, it's not weakness that gets markets in trouble, it's the weak rallies that follow the weakness. Those worthless so-and-so, no volume, no breadth rallies which serve to keep you hanging on when you should be selling. Once again, this sort of scenario seems absent, so far. Stocks above their 10-day moving average got down to the 10% level and, hence, this rally. The rally, however, has carried back to 85%, not exactly weak. A bit surprising, as it is, after all, an old bull market. Extremes in this case equate with durability. Something to think about, for now not something to worry about. The market once again has momentum on its side, the kind of momentum that doesn't turn on a dime. And it has "doubt" on its side. No one really trusts this market – the Fed, the elections, the Italian banks, name it. Even we don't trust this market but we trust our eyes – the market wants to go higher.

If the market seems back in the passing lane, the background is far from perfect. Stocks above their 10-day moving average have jumped dramatically, but stocks above their 50-day moving average are only around the 50% level. In other words, half of the S&P is in some form of correction. Obviously it's early, but you don't want to see the averages go without most stocks going as well. That thing again about divergences. All these numbers would dramatically improve if those Energy stocks ever got going. In a backhanded compliment sort of way, they don't go up, but they do hold up, regardless of what seems an endless oil glut. Meanwhile, Consumer Staples have become this year's last year's stocks, and Consumer Discretionary hasn't fared much better. As recently as a couple of days ago, fewer than 20% of the stocks were trading above their 50-day average. Due for a rally, yes, leadership, no. There's no need to complicate things, by which we mean, stick with Tech.

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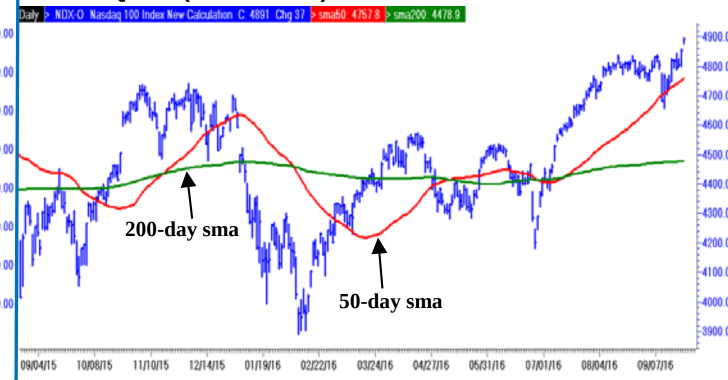
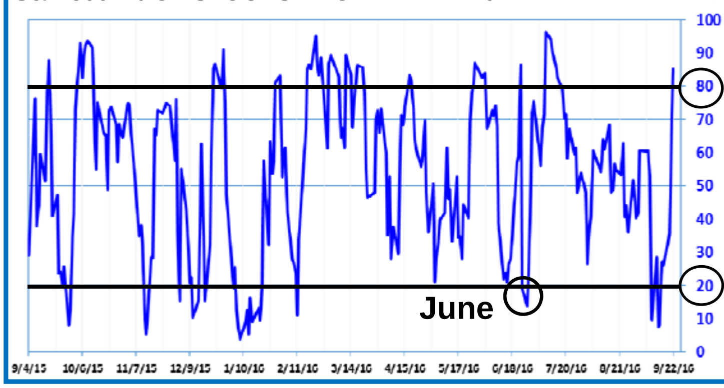
S&P 500 (SPX – 2177) – DAILY

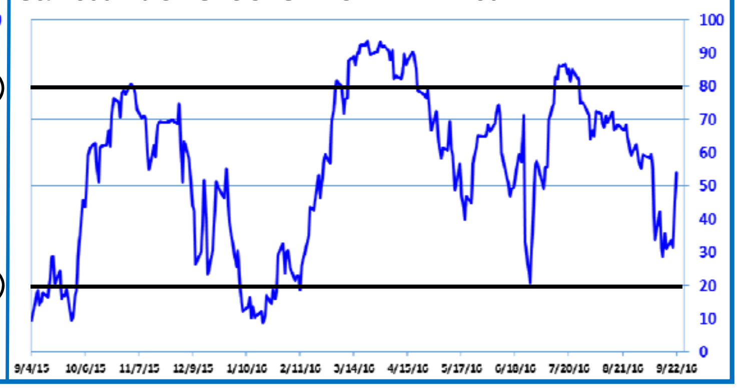
NASDAQ 100 (NDX – 4891) – DAILY



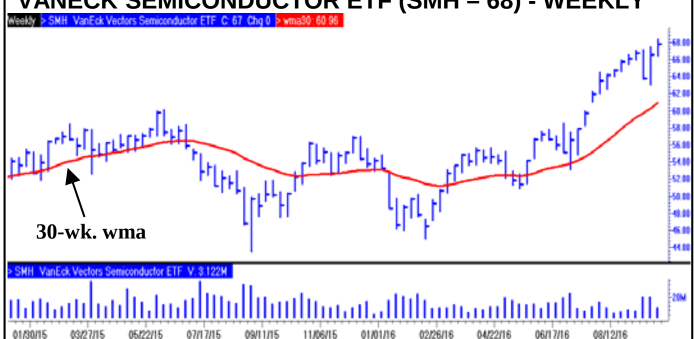
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



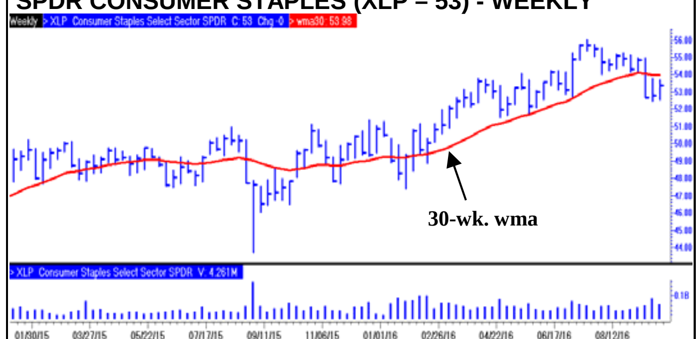
S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY



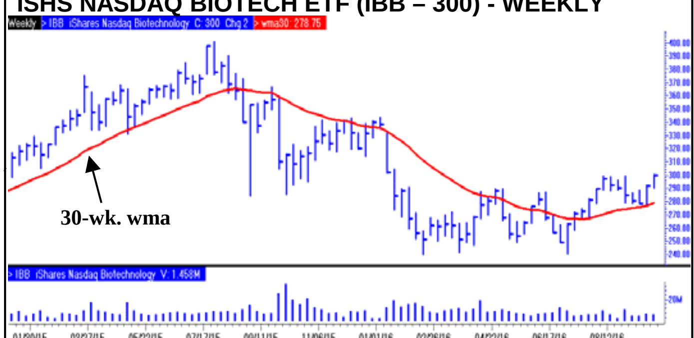
VANECK SEMICONDUCTOR ETF (SMH – 68) - WEEKLY



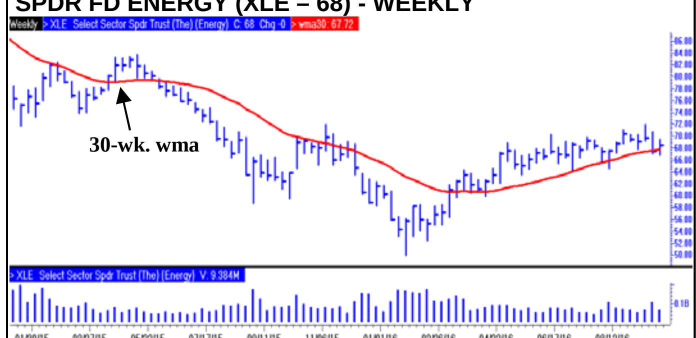
SPDR CONSUMER STAPLES (XLP – 53) - WEEKLY



ISHS NASDAQ BIOTECH ETF (IBB – 300) - WEEKLY



SPDR FD ENERGY (XLE – 68) - WEEKLY



ABIOMED INCORPORATED (ABMD – 124) - WEEKLY

AMAZON.COM (AMZN – 805) - WEEKLY