WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

March 13, 2020
DJIA: 21,201

Never let emotions cloud your judgement … sound advice to Sonny from Don Vito Corleone. Sound advice for markets like this as well, at least on an individual basis. When it comes to investors en masse, that's different. There you want emotion, fear, even a little panic. Selling makes market lows, not buying. Stocks go up with relative ease once you get the sellers out of the way. And that usually takes bad news—news bad enough to turn complacent, ride-it-out holders to scared sellers. Certainly Monday, and then Thursday, had that look. It's relatively rare to see 50% of stocks in an S&P sector all reach a 12-month new low. When it does happen, it's typically a sign the sellers are exhausted. Monday saw 50% of the S&P make a 12-month low. Fewer than 2% of the S&P stocks were up on Monday and they accounted for only 3% of the total volume—another sign of exhaustion selling. That said, the only way to be reasonably sure the selling is exhausted is by the way they go up. They should go up almost as though a vacuum had been left on the upside.

So what does this "vacuum," this absence of sellers, look like? After a "washout," 18-to-1 down day in the A/Ds on Monday, it looks like a 5-to-1 upside A/D day at the minimum. That's the simple rule, less simple is 90% volume days to the downside, of which we've had a few, followed by 80-90% volume days on the upside, where at 89% Tuesday, obviously seemed positive. We're a bit dubious, however, that Tuesday's up-volume number wasn't somehow distorted. It seems very strange up stocks numbered only 2,900 versus 1,090 declining stocks, not even a 3-to-1 up ratio, and yet volume was so one-sided. In any event, the up-day you should be looking for is at least 5-to-1 in terms of the A/Ds, and 80-90% up in terms of volume. The other catch is that violent declines like this one more often than not require several such days.

We've all had drummed into us, the trend is your friend. What they really mean, of course, is an uptrend is your friend. Those downtrends are friends to few. In a market like this, the question naturally arises as to whether the trend remains up, in this case the long-term or overall trend. We have our proprietary, very sophisticated method of determining the overall trend, one involving very complex equipment—a pencil and a ruler. The long-term trend remains up. A slightly more sophisticated trend analysis was offered by Ned Davis several years ago. The study involved the 50-day moving average of the DJIA compared to the 200-day moving average. We haven't seen an update of the study in a number of years, but for some 113 years, all the net gains in stock prices have come when the 50-day smoothing was above the 200-day smoothing. The DJIA 50-day (28,044) remains well above the DJIA 200-day (27,208). As you can see on the other side, that's also the case for the S&P and NASDAQ 100.

There are 28% declines and there are three-week declines—there are not many 28%, three-week declines. Precedents are hard to come by, especially when it comes to Monday's halt in trading. The only other time circuit breakers had been triggered was October 27, 1997. Once trading resumed on October 28, futures dove about 3% and then recovered. Obviously a sample size of one isn't much help. SentimenTrader.com looked at other times the S&P fell the most in the shortest amount of time, from at least a multi-year high, and even here the current plunge stands out. Others fell this much, but not as quickly. The closest comparison in time and magnitude was 1990, when the S&P fell 18% within 52 days of hitting a new high. Looking at returns going forward, by the time the S&P fell at least 18% within three weeks of a multi-year high, returns were good—the exception 1929

It's like '87 meets 9/11. Thursday markets suffered one of their worst declines ever. On the NYSE, 77% of issues traded hit a 52-week low. Everytime that figure has been above 60%, the S&P was higher one-to-two months later, according to SentimenTrader.com. On the NYSE, 95% of volume was in declining issues for the second consecutive day. That's only happened three other times, each in the midst of a selling climax. Stocks look sold out, but you could have said that last week. Before the '87 crash, we remember there being a high level of Put buying, making it unclear how so much was lost. The story told is that Put buyers turned to Call buyers half way down. Prices have become so compelling, it's difficult to keep your fingers out of the cookie jar. When stocks finally are sold out, there will be a sharp rally. Just when you think you missed the low, there will be another move down—a "test of the low." That's the safest time to buy, unless you happen to enjoy those knife wounds.

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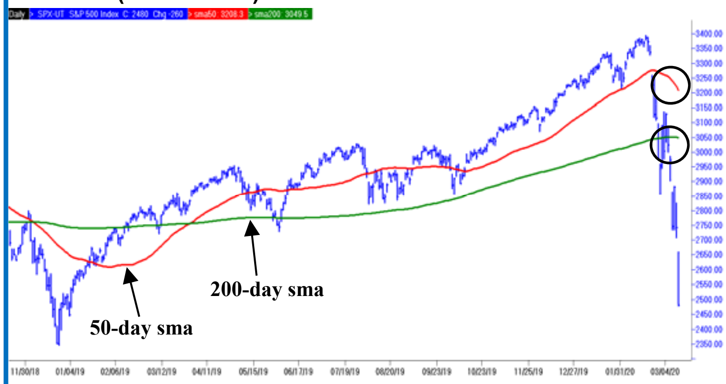
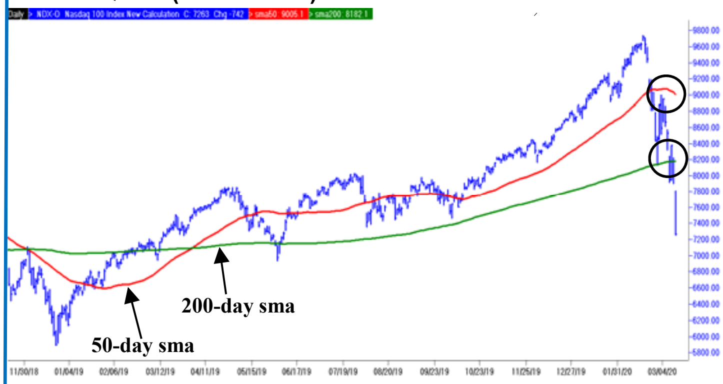
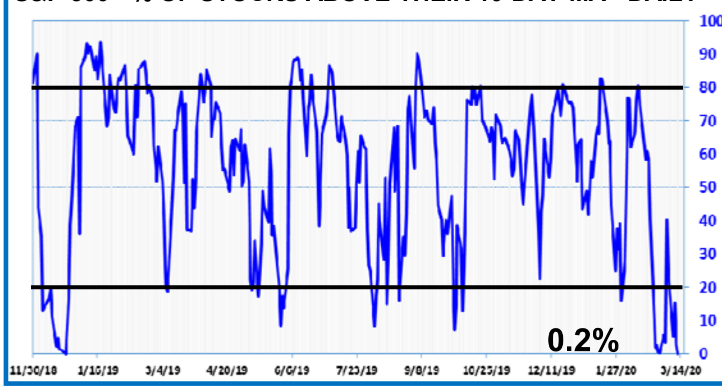
S&P 500 (SPX – 2481) – DAILY



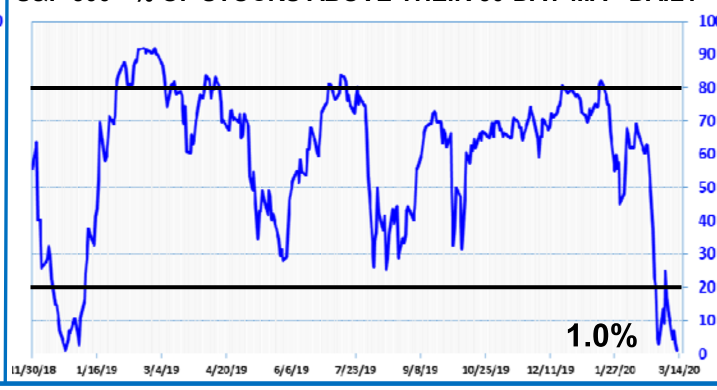
NASDAQ 100 (NDX – 7264) – DAILY



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



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



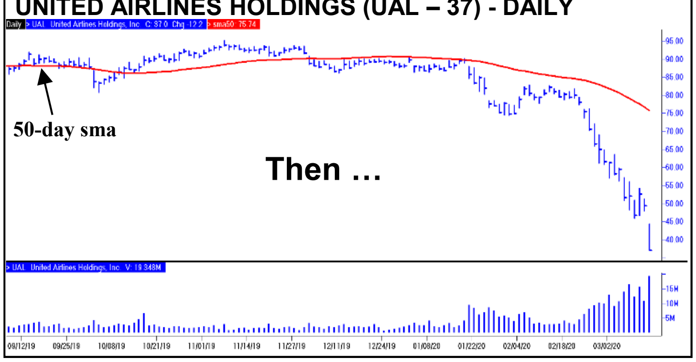
DOW JONES INDUSTRIALS (.DJIA – 21201) - MONTHLY

SPDR FUND UTILITIES (XLU – 55) - DAILY

ZOOM VIDEO COMMUNICATIONS (ZM – 109) - DAILY

NETFLIX INC. (NFLX – 315) - DAILY

UNITED AIRLINES HOLDINGS (UAL – 37) - DAILY



CBOE MARKET VOLATILITY(VXO – 90) - DAILY