WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

December 11, 2020
DJIA: 29,999

Over-bought, Over-loved, Over-valued ... but not Over. Overbought in a trading range is one thing, overbought in an uptrend is something else. In an uptrend, more is better. The percent of stocks above their 200 day average is a good proxy for a medium term trend. It can also serve as a good proxy for a market overbought – 80% or more, and oversold – 20% or less. On the New York Stock Exchange the number now is above 90%, clearly an overbought extreme. As it happens, when above 90% market outcomes are better than when the levels are 70 - 80%. We certainly can argue in many ways sentiment is a bit extreme, and that stocks are overvalued. As for valuations, don't get us started. Suffice it to say, stocks sell at fair value twice, once on their way to more overvalued and once on their way to more undervalued. Sentiment and valuations may matter in terms of risk when the trend changes, but they have nothing to do with the change itself. Momentum trumps the rest.

Monday saw the Dow drop 150 points, nothing these days, but still. Meanwhile, Monday saw more than 1700 stocks advance. To us, Monday was not even a down day, let alone an important one. Were the sort of opposite the case, the market up a couple hundred points with only 1700 advances - more declines then advances in an up market - that's a problem. We all watch the market averages, but more important is how the advancing and declining issues relate to the averages. It's never weakness that causes the problems, it's the weak rallies that follow the weakness. We always remember early October 2018 when the Dow made a new high for three consecutive days while each of those days saw Advance/Decline numbers that were negative. Sometimes it doesn't take much – a 20% decline followed, even into the seasonally favorable year end.

Last Friday saw what we consider a surprisingly positive Advance/Decline number of 3.4-to-1. It was surprising in that this far along in the uptrend you expect markets to start losing participation. What seems to have happened Friday was the rotation to banks and energy, where the sheer numbers have a big influence. The lift in these re-open stocks seems similar to the lift in old-economy stocks back in 2000. It's what happens when there's no one left to sell. It's almost the opposite of the FANG stocks where lately there seems no one left to buy. The "January effect" is the tendency for beaten down stocks to rally in January, when the December tax loss selling is out of the way. The energy stocks particularly, have the look of a January effect here in December. We expect the stocks to continue to rally but these are stocks to rent, not own. We don't see them as investments we see them as stocks you buy to sell. Together with the regional banks, they are also giving a nice boost to the Russell 2000.

Turnaround Tuesday turned into turnaround, again, Wednesday. A downgrade of some prominent Tech names certainly abetted the selling, and one has to wonder if the week's IPO's didn't drain some funds. One also might wonder if the markup in those IPO's didn't make all of us wonder if things had, indeed, gone a bit over the top. Yet for the loss in the Dow of some hundred points, there were 1900 stocks up. The selling included most of Tech, even Tesla. That's interesting as 12/21 looms, the day when it will be added to the S&P. When it comes to large additions, and Tesla (627) will be the largest, the stocks tend to rise into the addition date and underperform thereafter. It also was a tough day for Biotechs, but you have to say they deserved it – they have had a good run. We still think of these stocks as a solution to the re-open/stay-at-home rotation.

All the money that is anywhere must go somewhere, the adage goes. Forget the averages, it takes money to push most stocks up most days. When that changes, you want to change with it. Meanwhile, aside from the nasty day in Tech, Wednesday was an outside day down for the S&P - a higher high and lower close than the previous day. This is said to be a sign of buyer exhaustion. December is a good month, but can be sloppy in the middle. A date to keep in mind is January 5, the Georgia election. A democratic win will see the market sell off, even if temporarily. A hedge of sorts might be the solar or infrastructure stocks, stocks you probably want to own anyway. Regardless of the market, there's still the issue of where you're in as well as whether you're in. This jockeying between stay-at-home and re-open seems likely to continue.

Frank D. Gretz

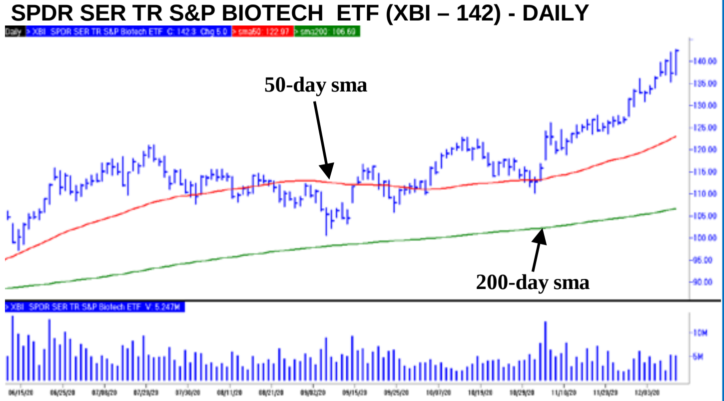
140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

S&P 500 (SPX – 3668) – DAILY

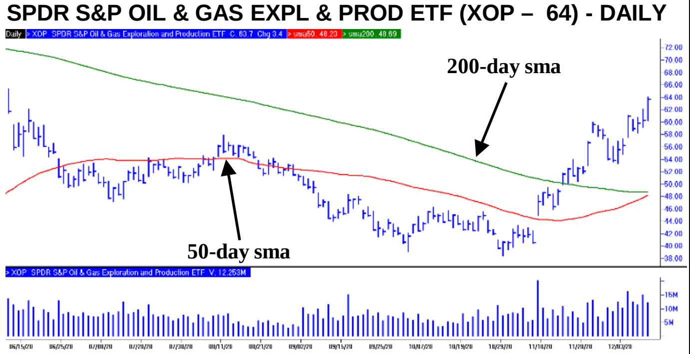
NASDAQ 100 (NDX – 12401) – DAILY

ARK GENOMIC REVOLUTION ETF (ARKG – 97) - DAILY

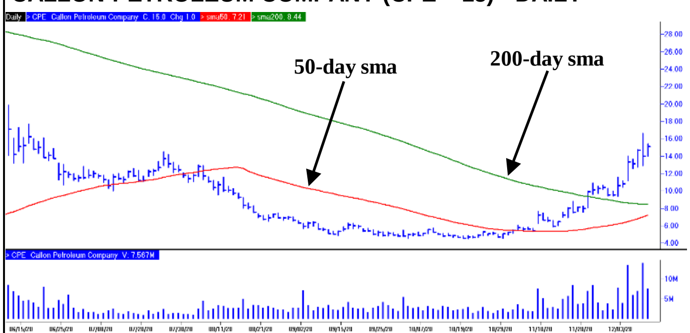
SPDR SER TR S&P BIOTECH ETF (XBI – 142) - DAILY



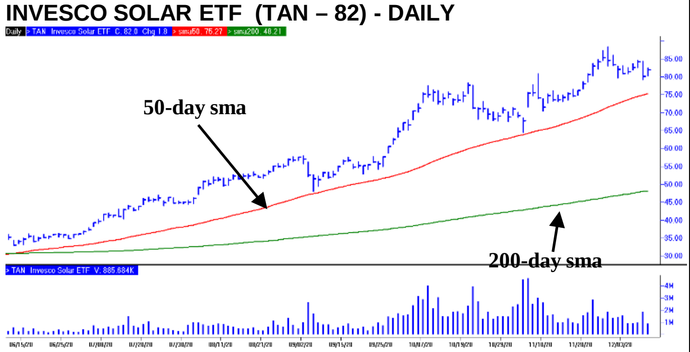
SPDR S&P OIL & GAS EXPL & PROD ETF (XOP – 64) - DAILY



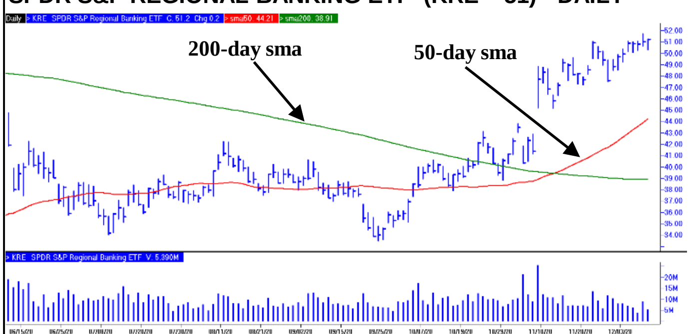
CALLON PETROLEUM COMPANY (CPE – 15) - DAILY



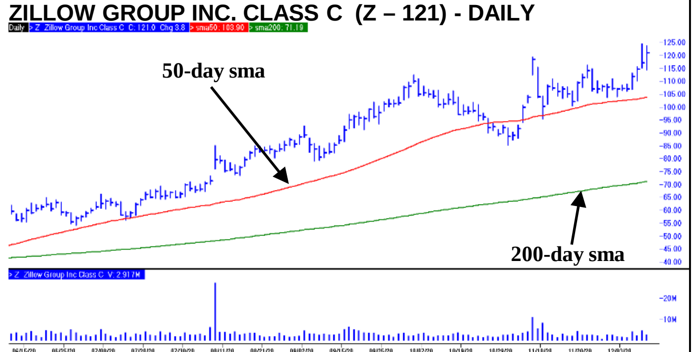
INVESCO SOLAR ETF (TAN – 82) - DAILY



SPDR S&P REGIONAL BANKING ETF (KRE – 51) - DAILY



ZILLOW GROUP INC. CLASS C (Z – 121) - DAILY



TESLA INC. (TSLA – 627) - WEEKLY