Wellington Shields

EQUITIES PERSPECTIVE

May 24, 2024
DJIA: 39,065

You wish you had more money to invest but you don't … that's the top. Well, if that were true for all of us, that is, when all the money is in, by definition that's it. It's money, that is, liquidity that drives markets. The question, of course is how do you know when the money is in? There are a few macro measures but best are those Advance-Decline numbers. In the short run they are important because the average stock typically leads the stock Averages. In doing so, however, they also offer an insight into liquidity. Over the last few weeks there have been only seven or eight days with fewer than 2000 advancing issues, and seven days with more than 3000 advancing issues. It takes a lot of money to push 2000-3000 stocks higher every day, meaning the liquidity for now is still there. As it diminishes, so too will the number of advancing issues.

Dow 40,000 is quite a run from Dow 5000, but somehow 5000 seemed more exciting. In reality, none of these so-called milestone numbers have mattered a whole heck of a lot, except perhaps to the media. Bloomberg's John Authers makes the point with which most agree, it's a strange measure. Security selection always seems with an eye to the past, like adding Cisco (47) well past its prime. And, of course, there was the untimely removal of an original Dow stock, GE (165). Meanwhile, Intel (30) is there with its 133 billion market cap but not Nvidia (1038) with its 2.3 trillion market cap. To be fair, over the last seven years Apple (187) contributed some 3000 points. Two other Mag 7 stocks are there, Amazon (181) and Microsoft (427), but underrepresented compared to Goldman Sachs (458) and United Healthcare (517). If denominated in Gold, the Dow has been flat since it hit 20,000, making its performance more like that of the Equal Weight S&P.

Price gaps refer to the empty space on a bar chart, left when the low price one day is well above the high price of the previous day, and vice versa. Most stocks trade actively enough we can say it takes a lot of buying or selling to cause gaps, making them important. Indeed, we find prices subsequently tend to follow in the direction of gaps. Nothing is perfect and there are some recognizable exceptions, one being this week's downside gap in Palo Alto (311). The stock had a downside gap that was quite extreme last February that quickly reversed only to die at the 50-day. The gap this week is what you might call the good kind, it didn't break the 50-day. Gaps that don't change an uptrend, as is the case here, typically are just normal corrections, and likely a buying opportunity.

The 200-day moving average seems a good definition of a medium-term trend. For the market as a whole, 73% of stocks are above this average, 70% is thought to indicate a bull market. When it comes to stock selection, clearly there's a lot to choose from. Indeed, we can't quite recall a time when Tech and Commodities were both performing well, let alone together with Utilities. So it's not just AI, and even when it comes to AI it's the many associated stocks that have also performed well. These include the Electric providers, like Constellation (221) and Vistra (96), as well as names, like Quanta (277) and Eaton (338). Meanwhile, despite what seems a fixation on Tech, even Staples like Colgate (94) act well.

The earnings heard around the world. Earnings for Nvidia were the easy part. They were good and everyone and their brother knew they would be. With a good chart, there is no reason to expect a poor reaction. Still, it's never about the news, rather how the market reacts to the news. The stock has been consolidating for 2 ½ months, and if anything should be ready for another run. Meanwhile, after all the praise we heaped on those A/D numbers, the last few days have turned a little sloppy. Weak down days are not the problem, worry about the weak up days. The S&P has seen more than 20 new highs in the first hundred days of trading. A feat often followed by weakness in a very short term, but strength always over the next six months.

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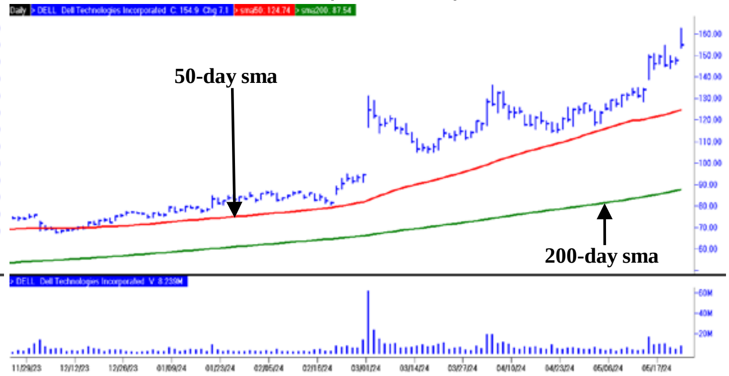
S&P 500 (SPX – 5270) – DAILY

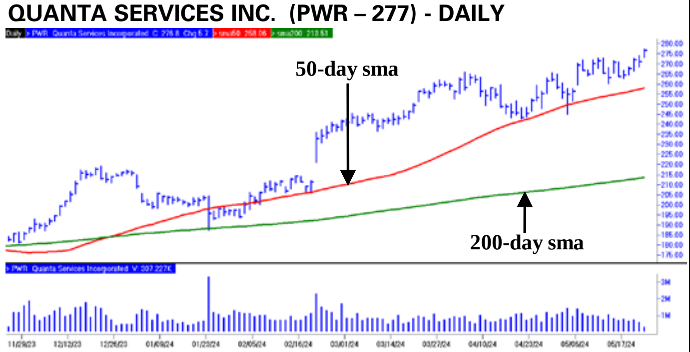
NASDAQ 100 (NDX – 18623) – DAILY

TAIWAN SEMICONDUCTOR MFG CO ADS (TSM – 157) - DAILY

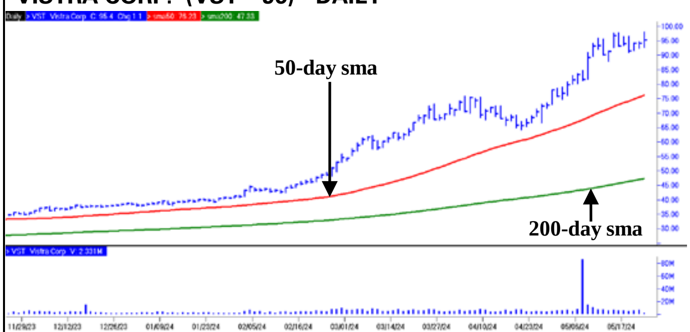
DELL TECHNOLOGIES INC. (DELL – 154) - DAILY



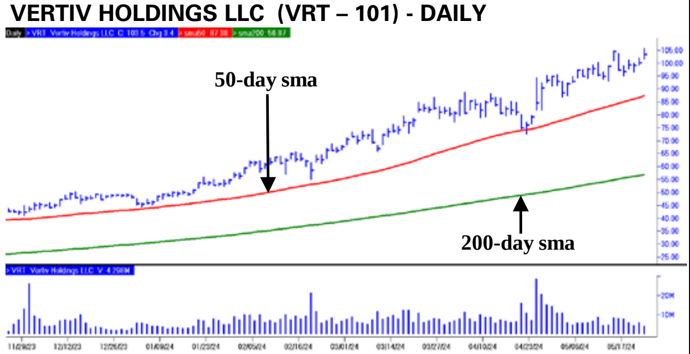
QUANTA SERVICES INC. (PWR – 277) - DAILY



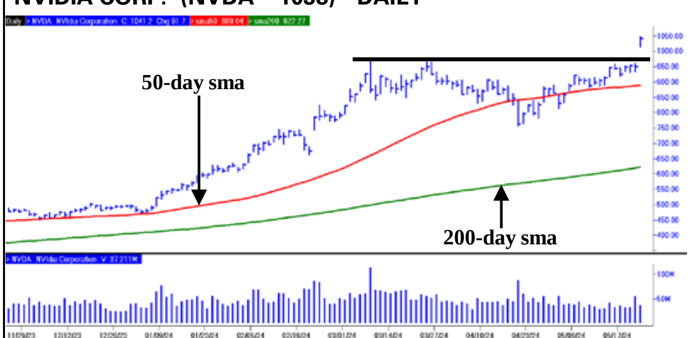
VISTRA CORP. (VST – 96) - DAILY



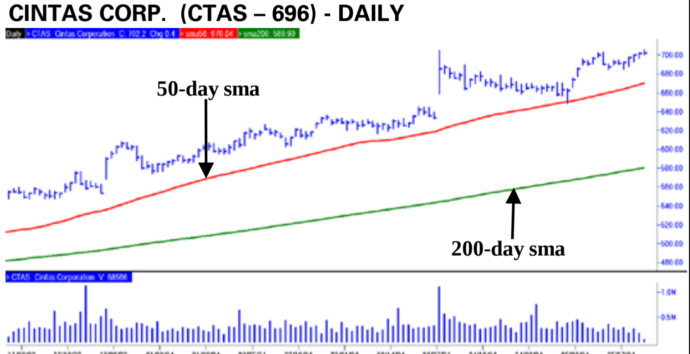
VERTIV HOLDINGS LLC (VRT – 101) - DAILY



NVIDIA CORP. (NVDA – 1038) - DAILY



CINTAS CORP. (CTAS – 696) - DAILY



COLGATE PALMOLIVE COMPANY (CL – 94) - DAILY