Wellington Shields

EQUITIES PERSPECTIVE

July 12, 2024
DJIA: 39,753

Show us market breadth …and we'll show you the money. Liquidity and the lack thereof drives markets. When you say to yourself you wish you had more money to invest but you don't, if that's true for everyone that's the top. When all the money is in – that's it. How do you measure liquidity, sideline cash? Back in the dark ages we used to watch mutual fund cash levels, thinking that cash on the sidelines was a good thing. It wasn't. When the market wanted to go higher the money always seemed to come from somewhere – foreign buying, whatever. The best measure of liquidity is market breadth, the Advance/Decline Index. It takes a lot of money to push up 3000 stocks a day and earlier in the year that happened with regularity. Now 2000 at best is more the norm. The numbers are not a disaster but they have deteriorated, meaning so too has liquidity and the health of the bull market.

The market should be in sync, the A/Ds should keep pace with the Averages even day to day. Down days in the Averages likely will see negative ADs. Bad days happen. It's the up days with negative A/Ds, what we call bad up days, that cause problems. Again, it's about enough money to push up the Averages, but not most stocks. Divergences are an important insight, but it's easy to lose focus. The Averages are the last to give it up, which means there has been money to be made in the FANGs, Semis, LLYs and so on. And if you're in the rest and not making money, you have hope your turn will come – hope being a wonderful part of life, but a terrible part of the stock market. When the Averages continue to act well, it's hard to sell even if it's time to do so.

Tesla (241) could be a case study in contrary thinking. EV sales are in decline, the company is being outsold in China, yet the stock rallied on what had to be considered dubious news – the old not as bad as expected. In this case, it's not the "news" that was important, it was the "expected" that mattered. When it comes to the stock market, what is expected, what we all know, isn't important. It's priced-in discounted, whatever. Not every contrary opinion works this well, of course, and in this case the chart was a big help. The day of the news the stock was down pre-market, suggesting someone had gotten it wrong. It wasn't the chart.

Summers are great, but not so much for stocks. The history of June, July and August is pretty much that of a trading range, especially when the seasonal pattern of particularly strong days ends this Friday. The world will not end, but it has been a good run recently leaving the market a bit stretched to the upside. And there's a peculiarity in bonds, wherein the spread between the AAA and BBBs recently was at a 35-day high. This is more typical of weak markets rather than one at new highs. It suggests bonds don't see the same rosy scenario that stocks are seeing, and historically bonds typically have won out. The Transports generally and stocks like Parker Hannifin (528) and PACCAR (103) also pose some economic concern.

Wednesday finally saw a 3-to-1 up day, the first since mid-May. Then came Thursday, which might have been called revenge of the nerds – Tech hammered, everything else up. The Russell was up more than 3% and the A/Ds were better than 4-to-1. Not exactly the look we were expecting, but some change can't be a complete surprise. If Thursday is any guide, a reset could be a healthy one – any broadening of the market can't be bad. One day is just that, but admittedly we had expected the market to just continue to narrow in a trading range summer. And while one day is just that, there are many stocks outside of Tech that have more than good one-day patterns. We're thinking here of stocks like Ingersoll Rand (96), Eaton (329), Cintas (716), Intuitive Surgical (444), Trane (345) and others.

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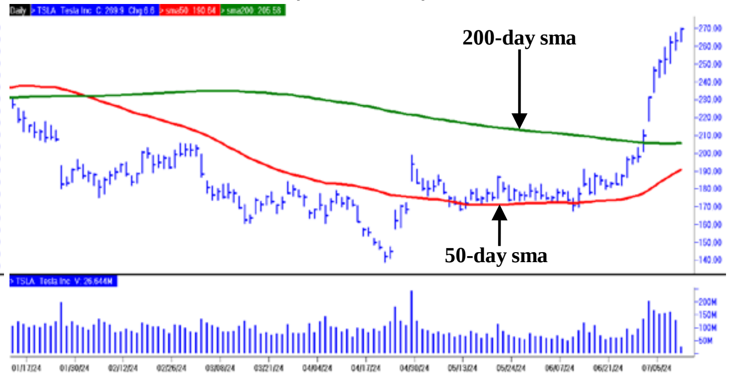
S&P 500 (SPX – 5585) – DAILY

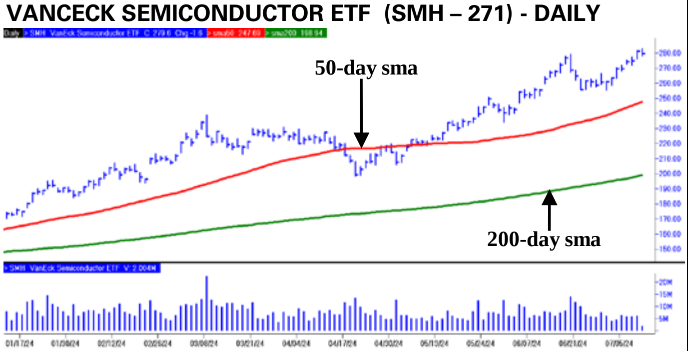
NASDAQ 100 (NDX – 20211) – DAILY

ROUNDHILL MAGNIFICENT SEVEN ETF (MAGS – 48) - DAILY

TESLA INCORPORATED (TSLA – 241) - DAILY

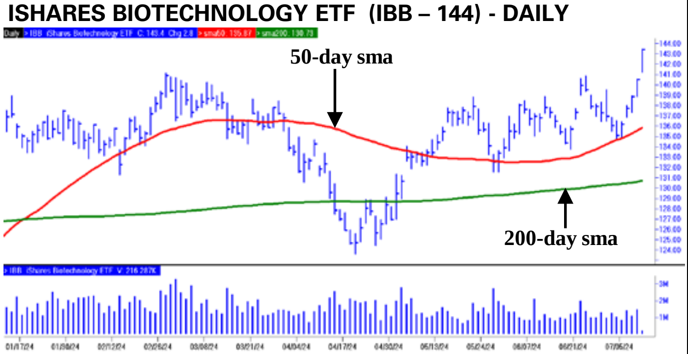


VANECK SEMICONDUCTOR ETF (SMH – 271) - DAILY



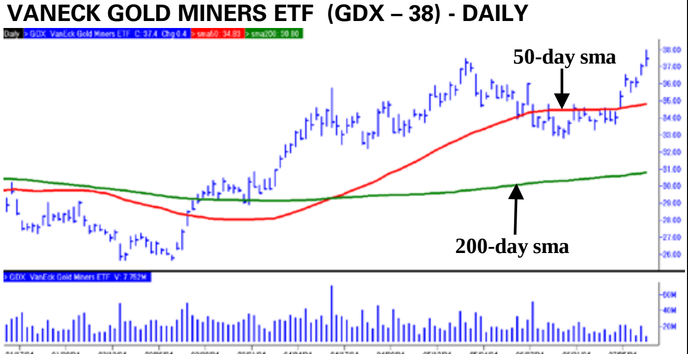
NVIDIA CORPORATION (NVDA – 127) - DAILY

ISHARES BIOTECHNOLOGY ETF (IBB – 144) - DAILY



CURTISS WRIGHT CORPORATION (CW – 282) - DAILY

VANECK GOLD MINERS ETF (GDX – 38) - DAILY



VALKYRIE BITCOIN MINERS ETF (WGMI – 21) - DAILY