WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

February 3, 2012
DJIA: 12,705

Sell in January and go away . . . why wait for May? Can things really get any better? After last year, January's 4% gain looked like a good year, and the "January effected" small-caps did even better. Januarys used to be fun, but this was the first up January since the +6% of 1997. And after last year's tortuous swings, January was downright restful – for the first time ever January didn't see a drop of more than 0.6% the entire month. Perhaps a reason not to go away is January's predictive ability. As January goes so goes the year used to be gospel, and an unchanged January last year led to an unchanged year. But down Januarys in 2009 and 2010 were well of the mark, like much of the seasonal stuff. One interesting stat, however, involves really good Januarys like this one. When January is up 4% or more, it has gained an additional 4% or more in the next three months 87% of the time. So maybe sell in May and go away is still the right call.

Unfortunately seasonality and these historical precedents, surprise, often don't work. After all, this year should be weak in the first half, and still could be of course, given that it's a Presidential year and a year ending in "2." And last year should have been a "good" year as has been every third year in the Presidential cycle. Things change and, for sure, this market isn't your father's Oldsmobile. Fortunately there's more to this technical stuff than just seasonality and the like. There's "momentum" and the picture there is positive – they're going up, and doing so without dramatic flaws. The march higher, and that seems an apt description, may not be dynamic but it's nothing if not consistent. In terms of advancing versus declining issues, still a good measure of the performance of the "average stock," only 5 of the 22 days this year have been negative. That's nothing short of remarkable. Just as remarkable, and perhaps more so, there have been 7 days of positive A/D readings despite a lower down. When the average stock outperforms the stock averages, it's rare that the market has big problems.

Despite all this, there is an almost curious short term divergence. NYSE stocks above their 200 day moving average have reached 70%, and that too is impressive. It seemingly has been a slog getting there but, again, 70% is impressive. Meanwhile, the percent of stocks above their 50 day average still hovers around 80%, having reached 90% with its array of positive implications. However, the percent of stocks above their 10 day moving average recently dropped to almost 40%. Now we know the market is in a correction – not the type involving weakness but, rather, the type involving consolidation. The market, after all, peaked about five days ago. But given the lack of price weakness, the deterioration in stocks above their 10 day could be a prelude of weakness in the offing. And the sentiment/complacency level by now has come pretty much full circle as well. From December's knee-deep gloom, the world is a better place since, as per usual, opinions follow price.

Despite the positives, the overall background remains suspect. True the S&P is well above the 200 day, but the rally remains below that trendline from March 2009 low. Mind you, all this is a bit intellectual in that there has never been a rally we haven't tried to play. But the big picture helps focus attention on to what degree you watch the exit. This remains, in a strictly mechanical way a rally in a downtrend, but a rally that has gotten better – expanding 12 month New Highs and expanding stocks above their 200 day. Some short term wear and tear – stocks above their 10 day – and the complacent sentiment background – no one is buying the inverse ETF's – at anytime could result in some weakness. But even a sharp selloff wouldn't mean it's straight back down. There has been enough strength to suggest you need a decline and poor rally sequence, an unwind of the momentum, for big risk to be back on the table.

A more calm if not cured Euroland seems behind more normalcy in the markets. Gone are the up and down openings of 200-300 points, followed by five hours of nothing. Also adding to a better feel to things is some leadership, particularly in terms of the Biotechs. The group tops the list of IBD's 197 industry sub-group rankings, and has gained about 18% since January 1. And unlike big-pharma, there are a whole bunch of Biotechs, and these run the gamit from Amgen (70) to what we call the X's – many small Biotechs have symbols that end in "x." Meanwhile, better action in the Homebuilders has everyone all a twitter about a turnaround there. Anything is possible but even "the guy," Shiller doesn't believe it. And let's face it, every turnaround here has been like a new dawn in a winter in Helsinki – brief. Similarly, we don't see that the better action in the Financial or Uranium shares implies a big fundamental shift, versus just a turnaround from being beaten-up at year end – thank you, "January effect."

Frank D. Gretz

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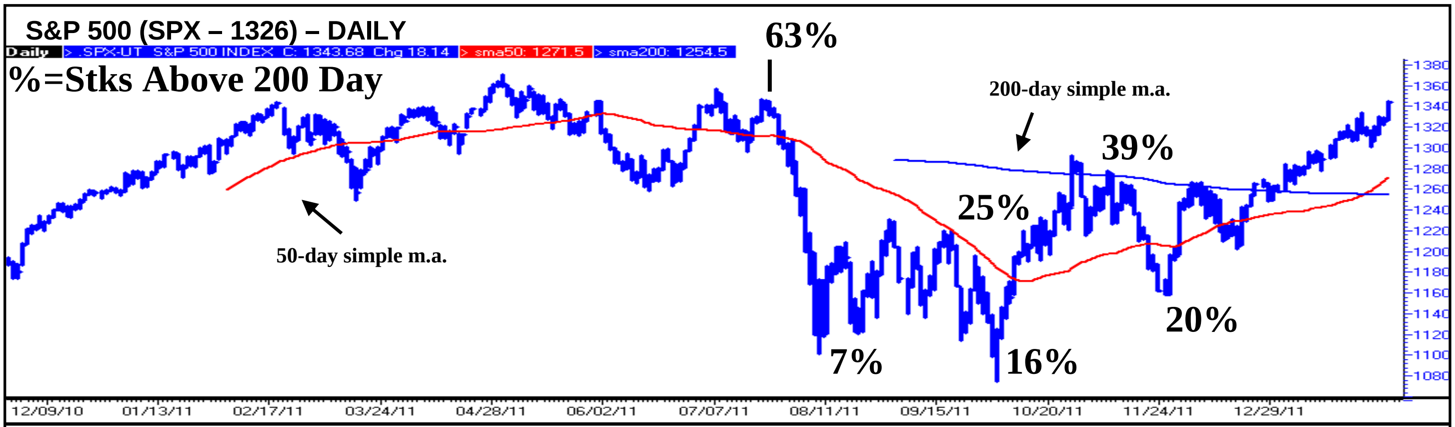
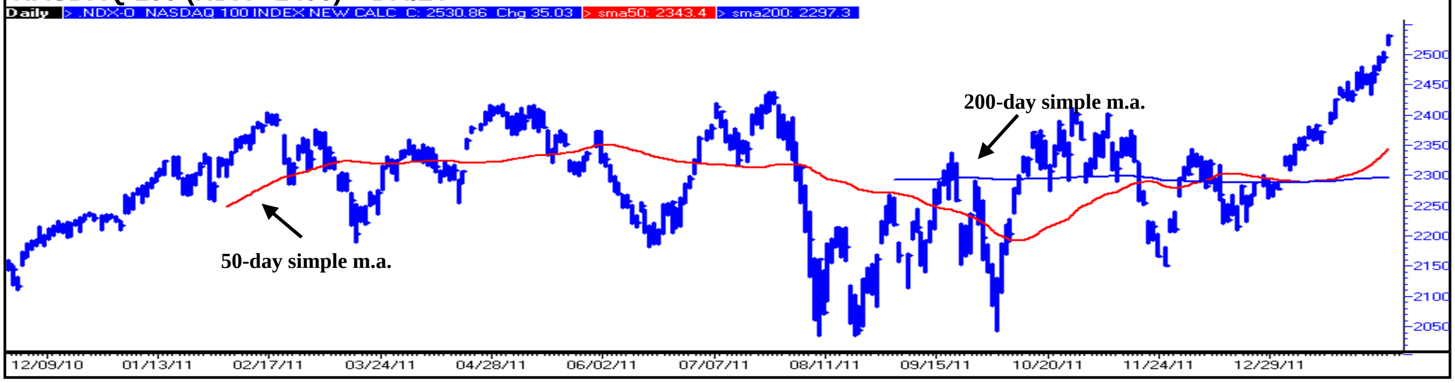
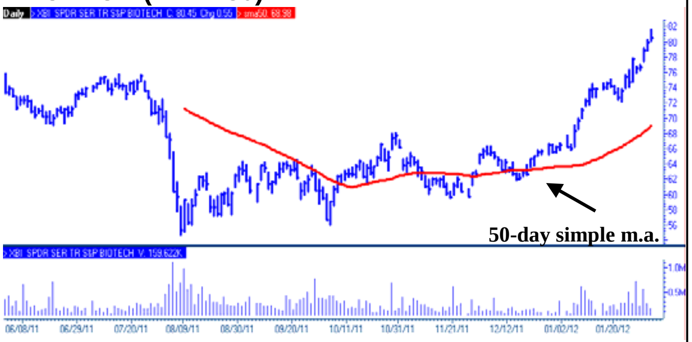
S&P 500 (SPX – 1326) – DAILY



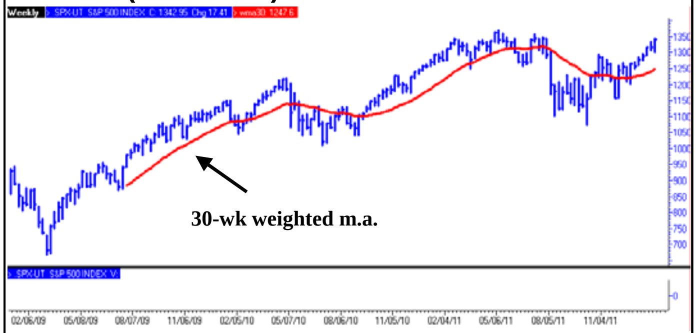
NASDAQ 100 (NDX - 2496) – DAILY



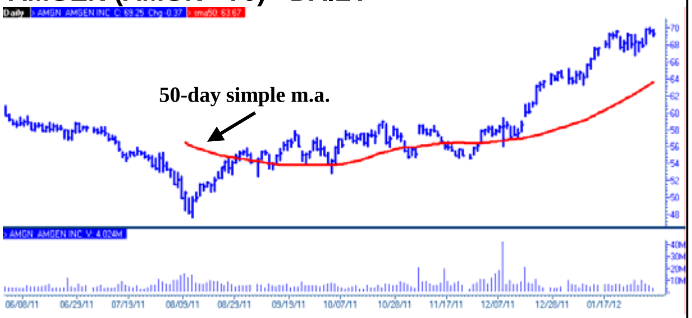
BIOTECH (XBI – 80) – DAILY



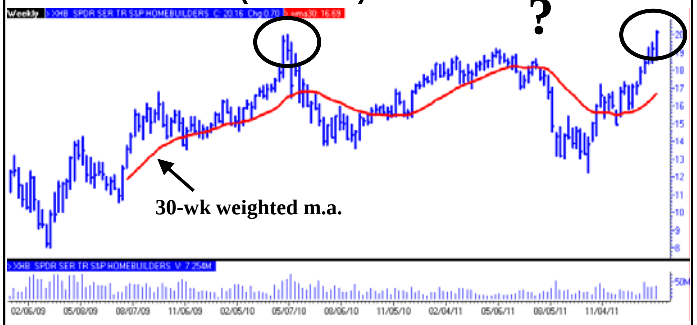
S&P 500 (SPX - 1326) – WEEKLY



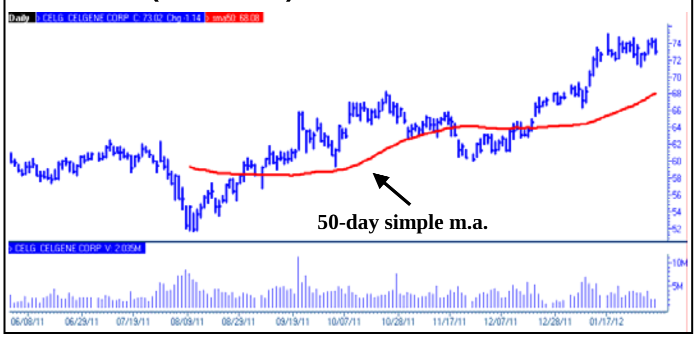
AMGEN (AMGN - 70) - DAILY



HOMEBUILDERS (XHB - 19) - WEEKLY



CELGENE (CELG - 74) - DAILY



FINANCIAL (XLF - 14) - WEEKLY