WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

December 21, 2018
DJIA: 22,860

The Fed disappointed … the market did so even more. There was little comfort in Chairman Powell's remarks, and possibly just the opposite. Still, worse was the market's reaction. The market has gotten crushed—the worst December since the Great Depression. In terms of advance-declines, the "average stock," the market had been down nine of ten days. Some relief seemed reasonable regardless of the news. The only solace, if you can call it that, it's so bad, it's good. The percent of S&P stocks above their 10-day moving average is 2%—we predict it won't go much lower. This is basically the same level as the February low. As for those stocks above their 200-day moving average, for the S&P the number is 16%, for other market measures like Worden, it is 12%. Like any of the "mean reversion" indicators, these can always stay low or go lower. For the Worden data, since 1986 there were two instances the indicator reached single digits—10/87 and 10/08. There were only four times it fell to the mid-teens—9/98, 10/02, 1/08 and 8/15. Close doesn't count, but we're close.

When they said don't buy an up opening in a bear market, they weren't kidding. In fact, the first up open that doesn't fail may be a good sign of itself. In any case, that wasn't Wednesday. A big intraday gain turned into a big intraday loss, and stocks fell by one of the largest amounts in more than 20 years on a Fed day, according to SentimenTrader.com. And those Financials that rising rates were supposed to help, nearly 60% fell to a 12-month low, the fifth most since 1990. Numbers like these, or those for Energy, say much of the market already is washed out. For the market as a whole, a washout would be one of those 9-10-to-1 down days followed by a 5-to-1 up day in terms of the A-Ds, and then a test of the low and that sort of thing. Then, too, psychologically, Wednesday certainly set the disheartening backdrop for a low. It's just hard to get more negative when only 2% of stocks are above their 10-day moving average.

The worst bear markets come with recessions. The Economists say they don't see a recession. Then, too, they never do. Yet a survey of 500 CFOs during the recent quarter found them the least optimistic in seven years. Let's see, economists or CFOs—we'll go with the CFOs. Then there's FedEx (160), a company that really does have its finger on the pulse of the economy here and abroad. Lowering their guidance was bad enough, the stunning part was that they had raised guidance just three months ago. We realize things change, but in just three months? And yet the Fed and the economists tell us all is well? FDX helped take the Transports to new lows, but they didn't need much help—even the Airlines have not helped despite the collapse in oil. Remember the Dow Theory—it, too was about the economy—making the stuff and getting there. On a slightly less negative note, the Transports alone have not proven a good lead indicator.

If the Financials are bad, Energy by many measures is worse. According to data compiled by Bloomberg, Energy stocks are as weak as they were when oil fell to its lowest price of the 21st century. The ratio between the S&P Energy sector and the S&P has dropped to its lowest level since November 2001. West Texas Intermediate hit bottom that month at $16.70 a barrel, and has traded at more than $25 since 2003, including a recent price around $46 for January delivery. So there is a semblance of hope, though in the past there was no fracking. The stocks have been awful for so long, most of us are in 12-step programs to stay away. It is, we would point out, that time of year when low price stocks, and other tax disadvantaged shares often rally. If you haven't looked in a while, the price levels on some of these Drillers will surprise you. According to the Stock Trader's Almanac, NYSE stocks selling at their lows on December 15 will usually outperform the market by February 15.

Other than down a lot, the market doesn't have a whole lot going for it. One possibly hopeful sign is that the FANG stocks haven't really broken the October lows. Given these pretty much peaked before the Averages, if a stretch, it's something. Similarly, Emerging Markets were an early canary having peaked last January, and they have held their October low. Meanwhile, the extremes just keep coming—40% of NYSE and NAZ stocks are at 52-week lows, the most since a few days in 1987 and 2008. In those instances, the market tended to bounce. It is also the first time since 2008 the S&P has been down 1.5% to a 52-week low three of four sessions. In the past, this almost always has been indicative of a "give-up" phase. In a sign of the times, Bitcoin has rallied 50% this week, and Gold has broken out. We can't speak to Bitcoin, but Gold seems worth a look.

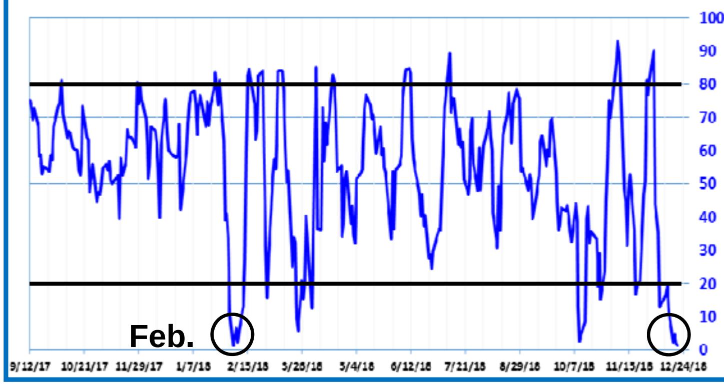
Frank D. Gretz

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

S&P 500 (SPX – 2467) – DAILY

NASDAQ 100 (NDX – 6243) – DAILY

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

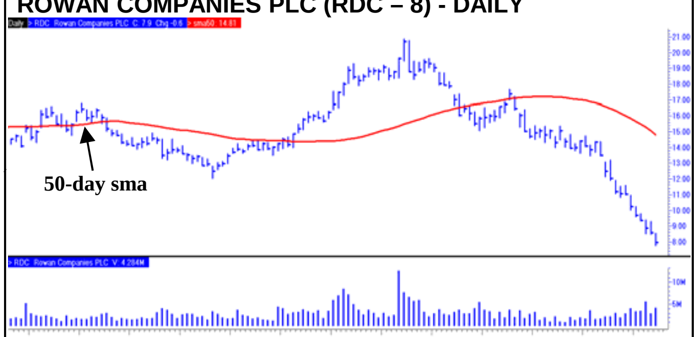


S&P 500 -% OF STOCKS ABOVE THEIR 200-DAY MA - DAILY

DOW JONES TRANSPORTS (.TRAN – 9030) - DAILY

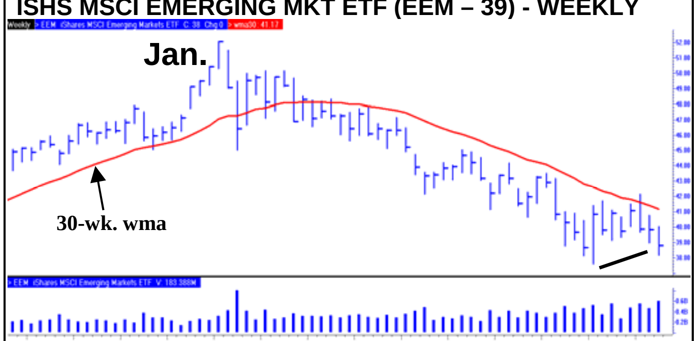
FEDEX CORPORATION (FDX – 160) - DAILY

ROWAN COMPANIES PLC (RDC – 8) - DAILY



CBOE MARKET VOLATILITY (VIX – 28) - DAILY

ISHS MSCI EMERGING MKT ETF (EEM – 39) - WEEKLY



SPDR GOLD TRUST (GLD – 119) - DAILY