WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

January 18, 2019
DJIA: 24,370

Rumors of their death are greatly exaggerated … said Mark Twain about the FANG stocks. From September 20, when the S&P peaked at a record, the FANG stocks on average had fallen 27% through Christmas Eve. Since then, there has been what you might call a resurgence, led by a 52% gain in Netflix (353) from December 24th through Tuesday. This is the most in the S&P and has helped the NAZ to be the first to rise above its 50-day moving average, though that of itself has little forecasting value. Meanwhile, Facebook (148) and Amazon (1693) also have outpaced the gains in the S&P, and Google (1090) has come close. Netflix remains under-loved by the analysts as it reports Thursday evening. Rather than wait to comment, let us just say, does it matter? In the end the movie is a happy one, weakness being another chance to buy. It is, after all, one of those big overall uptrends. As for FANG per se, it strikes us as a positive for the market that confidence in these volatile stocks is back.

Always knew we liked the Banks—just kidding. What we do like are stocks that are sold out. After their 10%+ drubbing in December alone, you might have thought Financials fit that bill. Perhaps the best definition of sold out, however, is an ability to ignore bad news. Citigroup (62) got the earnings ball rolling earlier this week with news that was more dubious than good, but the stock rallied. The telling commentary, however, was JPMorgan (103), where the news was such the stock actually traded down for an hour before its sharp rally. We're still not particular fans here, but sold out is sold out, there should be more rally. Perhaps the best thing is the implication for the market. If one of last year's biggest disappointments finally can respond to dubious news, it goes a long way to suggesting the market itself is sold out. Overall market numbers say this is so—the two 95% up-volume days—but it's also nice to see it in a tangible way.

They all laughed at Christopher Columbus and even more at Hindenburg and his Omen. Then wouldn't you just know it, last September the thing worked. Divergences of any sort are never good, the Hindenburg being an unusual one. The typical divergence involves one measure up and another not up or not up as much. Think of the Dow Theory, the Industrials up, but the Transports not confirming. Rather than the market averages or the advance-declines, the Hindenburg looks at New Highs and New Lows, and comes about when there are too many of both—a market internally out of sync. The signals only work when they appear in a cluster and, in our experience, even then rarely live up to their name. Since it did work recently, however, it seems worth a mention that the opposite of the Hindenburg now is taking place. With the market still in a downtrend, there are a very small number of New Highs and New Lows, and a cluster of such days. In the past this had led to positive one-to-two month returns, according to SentimenTrader.com.

These sort of washout market lows often see a "test" of the lows, which is a move back to, or even below, the washout low. We're still within the time parameter of a test and the market is up enough to correct, call it a test or whatever you like. We have our doubts about a test because getting to the December 24th low was itself such a process. And there's been ample excuse for a test, including even Apple's hiring freeze announced Thursday, to which even Apple (156) didn't react. BlackRock's assets during the fourth-quarter meltdown sank $468 billion and all together, investors pulled a net $48 billion from developed world equity markets in the quarter. That pretty much tells you why we've seen the market numbers we have. Impressive is what has happened in the three weeks since the low period. In ETFs, Bloomberg noted that leveraged funds betting on the S&P 500 rally have been seeing an outflow, while inverse funds that bet on a decline have been seeing an inflow. This kind of skepticism seems another reason we may avoid a test.

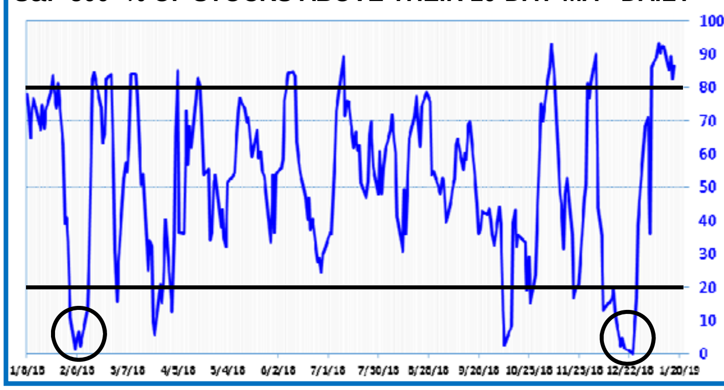
The "funnymentalists" will tell you the fourth quarter created value. We will tell you stocks sell at "fair value" twice—once on the way up, and once on the way down. For the rest, they're over or under valued, the trick being will they become more of the one or the other. Stock markets are about supply and demand. What the fourth quarter did was create a vacuum. Stocks are where they are now because the sellers became accommodated. Stretched to the upside, as we are now, is not so difficult when those sellers are out of the way. News on the trade war front is getting better, but when doesn't the news follow price? Sure the market can correct, but, then too, good markets don't give you a good chance to get in. Markets can yo-yo between overbought and oversold for months, but there are markets that get overbought and stay overbought, and vice versa. These markets are their own indicators—they tell a story.

Frank D. Gretz

S&P 500 (SPX – 2636) – DAILY

NASDAQ 100 (NDX – 6718) – DAILY

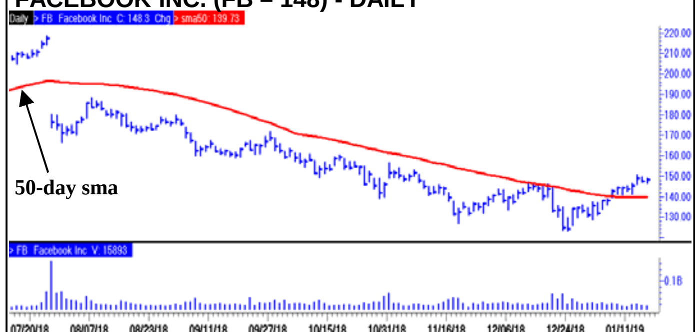
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



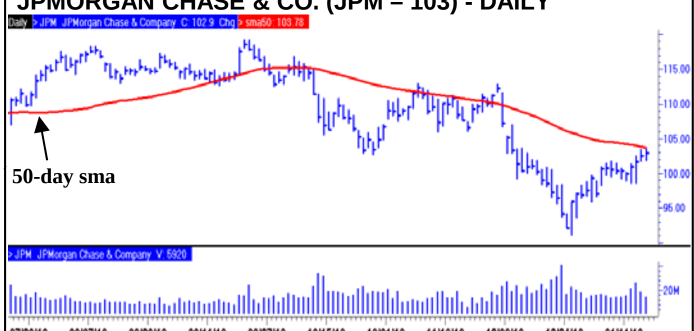
ADVANCE/DECLINE INDEX - DAILY

NETFLIX INC. (NFLX – 353) - DAILY

FACEBOOK INC. (FB – 148) - DAILY

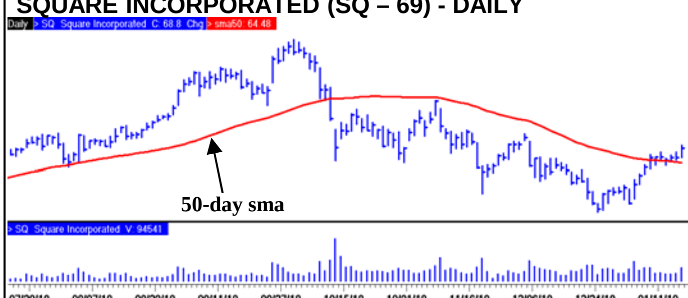


JPMORGAN CHASE & CO. (JPM – 103) - DAILY



APPLE INC. (AAPL – 156) - DAILY

SQUARE INCORPORATED (SQ – 69) - DAILY



CHENIERE ENERGY INC. (LNG – 64) - DAILY