WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

December 13, 2019
DJIA: 28,132

The most wonderful time of the year … if often a little confusing. Hedge funds don't seem confused. After being under-exposed for much of the year, in the past week there has been an abrupt change—equity funds are now carrying their highest exposure since the beginning of the year. There must be something about "group-think," because the record here isn't altogether better than the general public. It's not a perfect indicator, but high levels of hedge fund exposure have tended to lead to below average future returns in the S&P, and vice versa. In the meantime, the new-found religion here could be help to a name like Google (1350), and should help names like Microsoft (153) and Apple (271), which don't really need much help. Meanwhile, the confusing part of this time of year is the tendency for the downtrodden to rise again. And pretty much synonymous with downtrodden is Energy, which is acting better.

Rotation is nothing new to this market, and the past week was no exception. We've touted Health Care as a leadership group, which didn't have its best week, though there were a couple of doubles in small Biotechs. While the group covers an array of very different companies, taken as a whole more than 90% of Health Care stocks are above their 50-day moving average, the most of any sector. A number like this says "overbought," but as we've pointed out, overbought isn't a bad thing. As it happens, modestly overbought can be a bad thing in that it indicates only modest momentum. Health Care has the kind of momentum consistent with trends that persist. We are also impressed with this group considering what seems a difficult political backdrop. On the good side of the rotation go-around, the recently dormant Semis, based on the Vaneck Vectors ETF (SMH-140), seem in the process of reasserting themselves.

At a basic level, technical analysis can be divided into two parts, momentum and sentiment, or investor psychology. As has been the case for much of the year, momentum trumps sentiment. Overbought doesn't mean over, the trend is your friend, we'll spare you the rest. Meanwhile, sentiment has remained rather subdued and rightly so—trade war, impeachment, dubious economic numbers, and how about that Uber (29) and the other IPOs? That said, momentum by some measures has itself been a bit dubious. Despite the market's stellar performance in 2019, for more than a year and a half, fewer than 60% of NYSE stocks have managed to move above their 200-day moving average. This could be taken negatively and it has been a concern for us. It's not just the fewer than 60% above the 200-day versus new highs in the S&P, even 60% is below the 70% in 2016-2018. That's the picture of momentum unwinding—unwinding momentum is the picture of bull market tops.

We've learned not to make excuses for the indicators. In the case of stocks above their 200-day, an excuse is hard to come by. After all, the Advance/Decline Index is at a new all-time. It's a similar case as well if we adjust for price by using the QCHA, a measure of the percentage price change in stocks up versus down. A possible explanation could be the rotation that we often mention. Stocks don't go down, but there are these rolling corrections in groups like the Semis. The good side of that is it has kept most stocks from becoming too extended, and in that sense it has kept the market healthy. You may miss the days when it was FANG and only FANG, but the balance now likely will prove more durable. In an overall sense, moving to 60% of stocks above their 200-day is good. Getting to 70% is the Holy Grail for durable uptrends.

The market has had a good year, up something like 26% in the S&P. Then, too, were it a 15-month year, it would be up only about 9%—last year's fourth quarter was that bad. There are no perfect indicators, but the Advance/Decline Index also had a good year, and that after a prescient warning last year. That most days most stocks go up is pretty much all you needed to know. That's unlikely to change in the New Year, which history suggests could be another good one. Wall Street strategists are looking for only a 4% gain in 2020, their most pessimistic call in 20 years. They have proven a modestly good contrary indicator. Also, about $200 billion has come out of funds this year, small as a percent, but surprising in light of the market's performance. The record of good years after outflows is also good, especially when outflows occur in an up year. The so close and yet so far trade deal seems one that has come down to groceries. Still, it's clearly something the market wants, if only to get it out of the way.

Frank D. Gretz

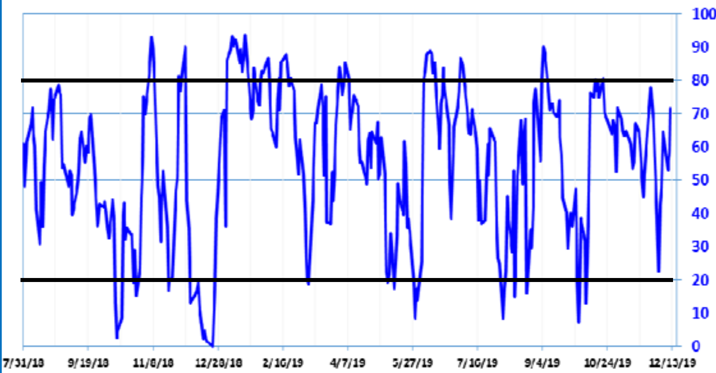
140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

THIS IS NOT AN OFFER OR SOLICITATION OF AN OFFER TO BUY OR SELL THE SECURITIES/INVESTMENTS MENTIONED HEREIN. WHILE THIS REPORT HAS BEEN PREPARED FROM ORIGINAL SOURCES AND DATA WE BELIEVE TO BE RELIABLE, WE MAKE NO REPRESENTATIONS AS TO ITS ACCURACY OR COMPLETENESS. ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST.

S&P 500 (SPX – 3169) – DAILY

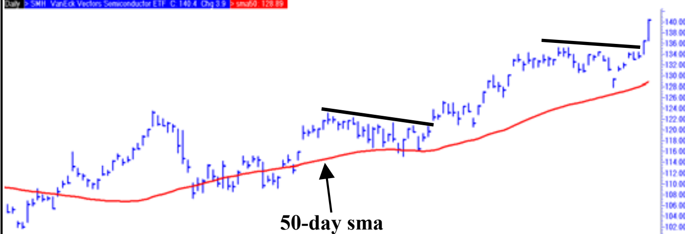
NASDAQ 100 (NDX – 8467) – DAILY

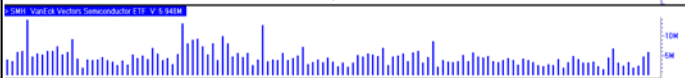
S&P 500 - % OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



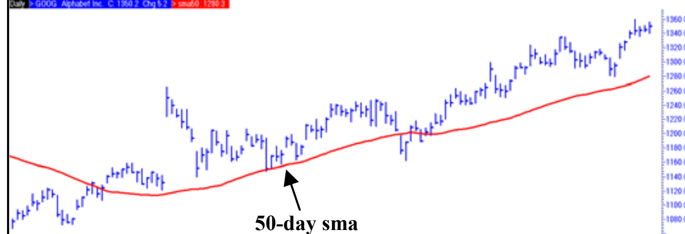
S&P 500 - % OF STOCKS ABOVE THEIR 50-DAY MA - DAILY

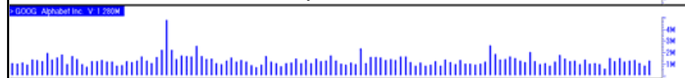
VANECK SEMICONDUCTOR ETF (SMH – 140) - DAILY



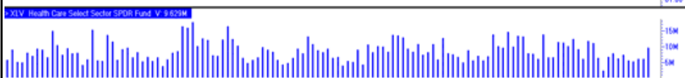


ALPABET INC. C (GOOG – 1350) - DAILY

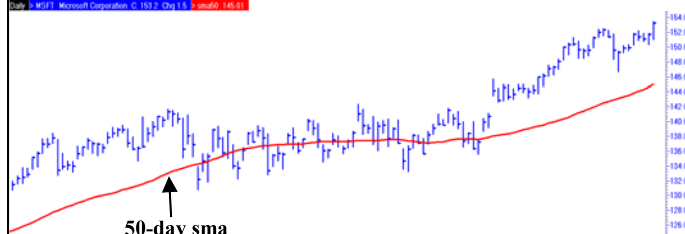


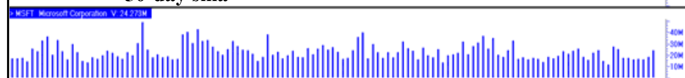


HEALTHCARE SELECT SPDR FUND (XLV – 101) - DAILY

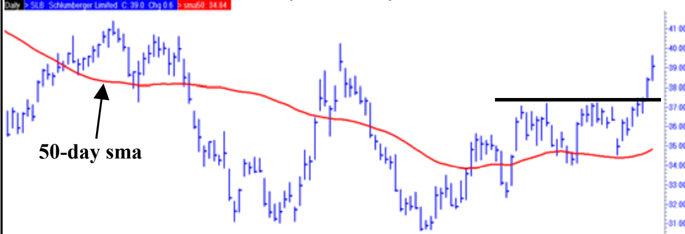


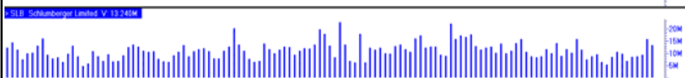
MICROSOFT CORPORATION (MSFT – 153) - DAILY





SCHLUMBERGER LTD. (SLB –39) - DAILY





INGERSOLL RAND PLC (IR – 134) - DAILY