WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

December 20, 2019
DJIA: 28,377

Turtle Dove … or Black Swan? The trade war, impeachment, Brexit, all have had their moments, but none have proven the market's undoing. And so it goes. The "knowns" rarely prove the problem, it's those nasty unknowns. The obvious catch is how to know the unknowns. In some cases, the overall market sniffs out trouble and it shows up in breadth divergences and the like. There is, however, a specific indicator designed to detect Black Swans called the SKEW. What the SKEW measures, and what it is telling us now, is that traders are paying up for out-of-the-money Put options. They're buying insurance on what who knows, and they're paying up for it. Like the "Titanic Syndrome" and other esoteric measures, the SKEW has had its moments, but fortunately not that many. Ironically, the Volatility Index, or VIX, a short-term measure of fear, is only around 12-13, well below the average of around 19 since 1990.

A Black Swan is a significant and market moving event. Most important, it's unforeseen. That makes any prediction little more than a guess, other than it's not where you're looking. And, indeed, that would describe most of the market's problems, they're never where you're looking. The impeachment, rather than a Black Swan, has proven a non-event. Then, too, a conviction in the Senate might well qualify. We're thinking, however, a little further from home, specifically China. It's not our trouble with China, it's trouble in China. China's financial system is struggling under the weight of an enormous borrowing spree. Companies piled up plenty of debt as they expanded, as the world's investors rushed to lend even more money. Now defaults are rising, a sign the world's No. 2 economy is feeling the stress from its worst slowdown in nearly three decades. Fortunately for the rest of the world, that's yet to show up in the China charts, so no worries for now. That said, we'll keep bird watching.

It has been a great year despite the lack of true believers, or maybe because of it. Investors have fled funds this year despite the market's performance. That is among the reasons for optimism about next year—good years typically follow years with outflows. Then there are the Wall Street strategists who are looking for only a 4% gain next year, their smallest projected gain in 20 years. Historically they've proven a modestly good contrary indicator, much like fund outflows. Following double-digit up years, the odds of being up the next are 85%, it's as simple as that. Earlier this week 7% of NYSE and NAZ stocks reached 12-month New Highs. Last year at this time, 40% were at 12-month New Lows. The Advance/Decline Index is at an all-time high—peaks here typically lead peaks in the market averages by 4-to-6 months. It's reasonable to worry that we may be borrowing something from next year, and at the start it could be true. The end and start of years can be tricky, but there's no reason to think next year won't be another good one.

Many so-called long-term investors didn't start that way. They were poor short-term investors who didn't sell. The obvious key to long-term investing is to find stocks in long-term uptrends. Even when it comes to short-term investing or trading, life is that much easier when you have the wind of that long-term uptrend at your back. Still everyone likes to buy low, who doesn't like a bargain? They do come around, and in the context of long-term uptrends. We're thinking here of Home Depot (220) and McDonald's (197). Both have had a 30-point, or 10%-15% corrections, with barely a dent to their long-term uptrends. Both also have patterns that have stabilized, MCD is even about to cross back above its 50-day moving average. Even good companies have their problems, or their stocks simply fall out of favor. More than a specific business, long-term uptrends more often than not are a reflection on management.

Seeing the light? For most of the year we've seen how pessimistic individual investors have been, and how persistently so. Given the myriad of reasons—trade war, impeachment, economic malaise—they were expecting the market to drop. Historically, the market rarely does so when so many are expecting it. It has taken a while, a historic high, but those investors finally may be beginning to believe. The latest AAII survey shows bulls to bears above 67% for the first time in nine months. While this may seem worrisome, it's hardly so. When it comes to individual investor or public sentiment, they are wrong at the extremes, but right in between. We are, at worst, at the start of in between. Meanwhile, if momentum trumps sentiment, the number of daily advancing issues has been 2000 or more each of the last 7 days, and 10 of the last 12. It takes a lot of money to push up that many stocks. When it's finally all in, the numbers will change.

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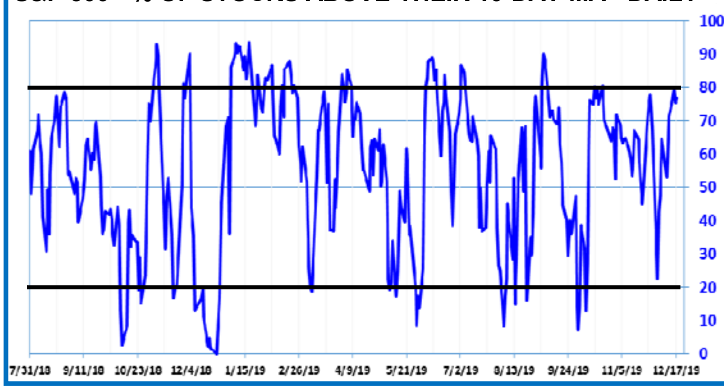
S&P 500 (SPX – 3205) – DAILY

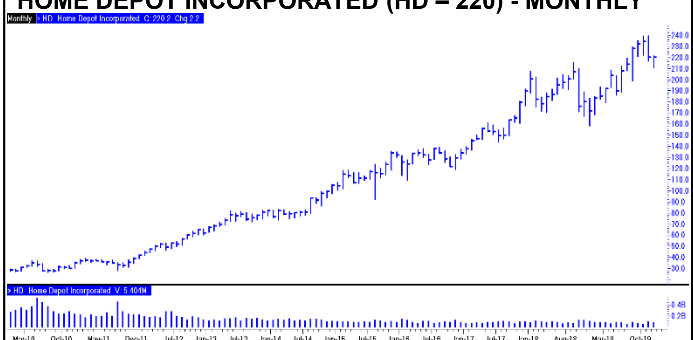
NASDAQ 100 (NDX – 8641) – DAILY

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

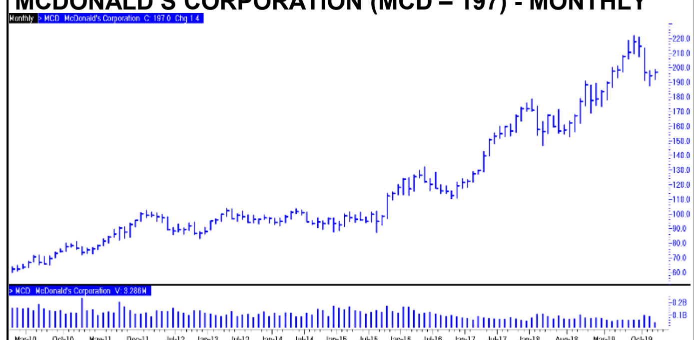


S&P 500 - % OF STOCKS ABOVE THEIR 200-DAY MA - DAILY

HOME DEPOT INCORPORATED (HD – 220) - MONTHLY

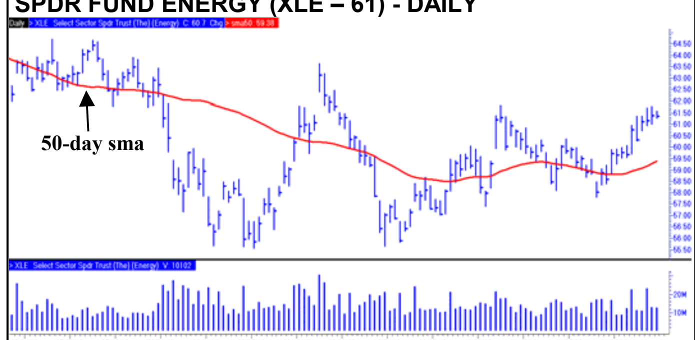


MCDONALD'S CORPORATION (MCD – 197) - MONTHLY

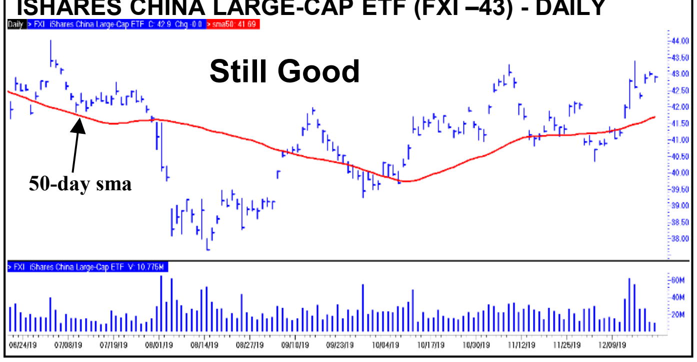


VANECK SEMICONDUCTOR ETF (SMH – 142) - DAILY

SPDR FUND ENERGY (XLE – 61) - DAILY



ISHARES CHINA LARGE-CAP ETF (FXI –43) - DAILY



SPDR BARCLAYS HI YIELD BD FD ETF (JNK – 109) - DAILY