WELLINGTON SHIELDS & CO. LLC

EQUITIES PERSPECTIVE

August 2, 2019
DJIA: 26,583

Where you're in … versus whether you're in. The former has become a bit more confusing, though the bull market seems to roll on. Last Friday it almost looked as though those cloud/software stocks could blowoff on the upside, only to reverse on Monday—Atlassian (144) up 11 to break out Friday, down 7 Monday. The patterns here remain intact, but failed breakouts are a sign of buyer exhaustion. Then, too, two weeks ago within the S&P were the largest number of failed breakouts since January 2018, a real warning back then. This time, however, not all breakouts have failed—look at the likes of Starbucks (95), Procter & Gamble (117) and, one of our favorites, Twitter (42). If the micro seems a bit confused, the macro is not. The Advance/Decline Index is only a few issues from a new high. Even Wednesday's debacle saw close to 1,400 advancing shares, not exactly what we think of as a Dow -300 day.

While we sometimes trade like we're double parked, over the years we've become increasingly enamored of long-term charts. The easiest way to make 50% trading is to trade a stock that's going to double, that is, trading a stock in a big old uptrend. This idea holds true of investing as well as trading. Find a stock that's been trending higher for five years or so, and there are plenty, it only makes sense they will prove the best investments. In most cases, it seems clear it's not what the company does, rather the way they do it—take Procter & Gamble versus Microsoft (138). If these long-term uptrends seem the easiest way to make money, there is another benefit as well. Should your entry point prove poor, or should you catch a market downdraft, the stocks bail you out—long term the trend is up. Aside from PG and MSFT, Church & Dwight (74), McCormick (157), Coke (52), McDonald's (211), Roper (361), Oracle (56) and many others fit our description of long-term uptrends.

A little different take on long-term charts involves base patterns, or protracted periods of consolidation. The recent rise in Starbucks has been nothing short of stunning. The move up is not new, having begun late last year. It began out of a period of consolidation, a base pattern, which began in late-2015. This is pretty much textbook stuff—the bigger the base, the bigger the potential move. The stock pattern here is extended, which is not to say the move is over, but rather, this doesn't seem a good entry point. There is, however, a very similar pattern, less extended, and that's Disney (142). Disney's recent strength began this April, following a period of consolidation which, like Starbucks, began in late-2015. Again, if the duration of the base is a guide, DIS seems to have further upside potential.

Long-time Fed watcher Rod Stewart once observed, "The first cut is the deepest." The market seemed to agree—that's it for easing. The two "dissenters" also would help markets lean that way. When the Fed last lowered rates back in 2008, a careful perusal of the minutes—actually we heard it on Bloomberg—revealed a concern about tight financial conditions and concerns about foreign economies. Now the domestic seems good, the global not so much. Even here, it's not so simple. Domestic is good in terms of the consumer, but not so in terms of business investment. The latter is about trade, and Powell acknowledged as much. In our less than humble opinion, rightly so. No one sees a recession coming, and they are rarely recognized even when in one. An ounce of prevention and all that. Meanwhile, remember when the market was all atwitter over the inverted yield curve? Well, it's no longer so. Markets can be hard to please.

If not what it wanted, the market got from the Fed what it expected. Sure it could have gotten more and sure the Fed could have promised to lower every month. Give us a break. If they had given more, then the market could have played the "what do they know game." It's the market that makes the news. Momentum trumps sentiment, but a look at stocks above their 10-day moving average shows momentum waning. Days like Wednesday happen when there's too much complacency, too many on the same side of the boat. In any event, if it's more cuts you're looking for, you may not have to wait long. This latest tariff proposal, which won't take effect until September 1, would mean a tariff on everything coming out of China. The usual suspects like the Semis took a hit Thursday, but this time Retail took a bigger hit. Depending on your color preference, there's always Gold and Silver.

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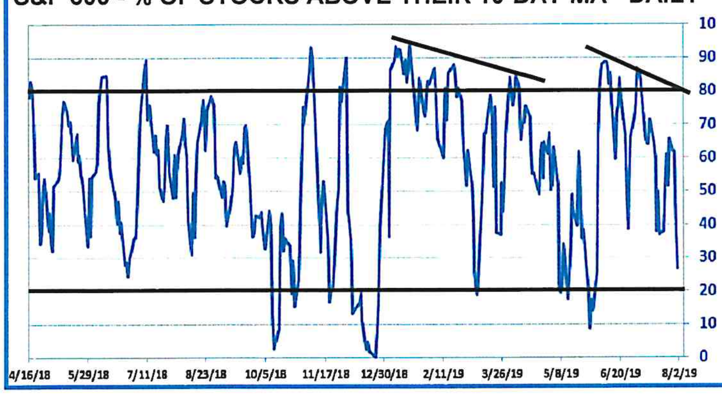
S&P 500 (SPX – 2954) – DAILY

NASDAQ 100 (NDX – 7801) – DAILY

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



QCHA ADVANCE/DECLINE INDEX - DAILY

STARBUCKS CORPORATION (SBUX – 95) - MONTHLY

WALT DISNEY COMPANY (DIS – 142) - MONTHLY

ISHARES CHINA LARGE-CAP ETF (FXI – 40) - DAILY

ATLASSIAN CORPORATION PLC (TEAM – 144) - DAILY

TWITTER INCORPORATED (TWTR – 42) - DAILY

VANECK GOLD MINERS ETF (GDX – 28) - DAILY