WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

January 10, 2020
DJIA: 28,957

From black to white … in the world of swans. One can only hope it's back to business, literally. Business doesn't seem so bad if the stock market is the guide it's supposed to be. While last year we had to wake up to the threat of new tariffs most days, it would be pleasant if this year we don't have to wake up to new attacks somewhere. No doubt plenty of trouble may still come from the Middle East, but the Tuesday-Wednesday events seem to mark Phase I of a peace deal. Now the stock market can go along its merry way seemingly toward some euphoric binge. Already in a bubble for more than a year, the NASDAQ managed to further surge 76% from October 7, 1999, until its March 10 peak in 2000. As it happens, back then the Federal Reserve flooded the market to prevent any disruption from the "Y2K" bug. The moves it has made in the last few months following the September seizure of the repo market are proportionately just as big, according to Bloomberg's John Authers.

Speaking of 2000, some measures of sentiment are back to those happy days. Options are one thing, leveraged options quite another. Speculative activity in leveraged instruments has risen dramatically in the last month, with one of the biggest spikes since 2000. Meanwhile, those ETFs protecting against a fall are losing assets. During dynamic uptrends, traders tend to pile into leveraged funds faster than they have the inverse funds, according to SentimenTrader.com. Over the past month, the long funds have gained more than 15%, while the short funds have lost more than 10%. Every time since 2010 spreads were this wide, returns weren't all that bad—after all, the trend was up. Short term, however, the next 1-to-3 months, the S&P's median was below a random return. We could look at call buying alone and get pretty much the same picture. These sentiment measures are simply telling us what we already know—things have gotten frothy. Sentiment gives you an insight into risk, but it's not a timing tool. When those A/D numbers change, then worry, and maybe a lot.

Momentum numbers like the advance/declines still have the market's back. Another measure we favor is stocks above their 200-day moving average, that is, stocks in medium-term uptrends. For the S&P, this measure nudged above 80% a few days ago, its highest level in a year. So much for the "unwind" in momentum characteristic of bull market tops. As is often the case, when it comes to all stocks on the NYSE, they're lagging a bit at a recent peak of only 68%. We take this to mean the large-cap stocks of the S&P simply are outperforming NYSE stocks taken as a whole—not unusual. As long as those A/D numbers hold together, we don't see this as an important divergence, and hopefully one soon corrected. When coming from an oversold level as it did last year, a move above 60% of NYSE stocks above their 200-day has been followed by above-average returns in the S&P. Spikes to 70% marked new bull markets in 1995, 2003, 2009, 2013 and 2016.

One technician's top is another's consolidation. We've worried for some time just what those FANG stocks were up to, especially Facebook (218) and Amazon (1901). Just two weeks ago Amazon looked particularly risky, but managed to dramatically move higher on 12/16. This kind of surge of itself often means higher prices, moving the stock, as it did, above some four months of trading. The stock, like Netflix (336), has gone nowhere since the end of 2018, so the consolidation/top issue remains unresolved. It is, however, much easier to give the stocks the benefit of the doubt. Meanwhile, both Facebook and Google (1420) have made it pretty clear their respite since 2018 was just a consolidation. On the whole, we can see all four on their way back to the good old days, even if not quite the FANG of old. If the volatility here seems a bit too much, we would note that over 40% of the Communications Services ETF (XLC-55) is Facebook and Alphabet.

The war hedges—Gold, Oil, Defense stocks—came undone on Wednesday. Gold and the Defense stocks have particularly good charts and may have to settle-in, so to speak, but should be fine. Energy is trying, and trying in more ways than one. As for the hedge aspect, clearly fears eased Wednesday, but when isn't the devil dancing in the Middle East? To assassinate the second most powerful person in Iran seems to have taken things to a new level. For now, the market agrees with Trump—all is well. Wednesday was the first time in the history of the S&P futures that they fell to a multi-week low and rallied to a 52-week high in the same session—Tuesday night and Wednesday. Lesser reversals generally led to higher prices. The positive seasonality will begin to fade, some prices are becoming stretched and sentiment is over the top. The Advance/Decline Index, however, just hit a new high—not how markets get into trouble.

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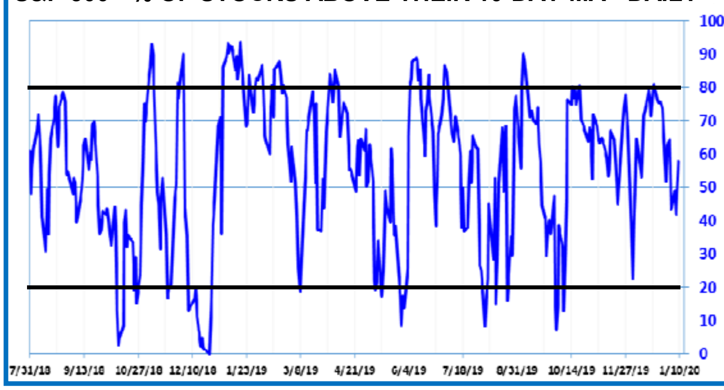
S&P 500 (SPX – 3275) – DAILY

NASDAQ 100 (NDX – 8990) – DAILY

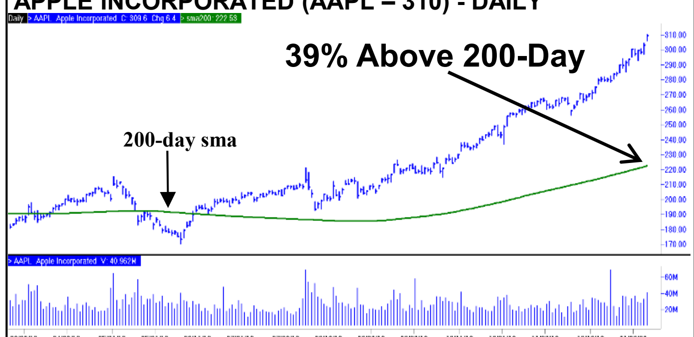
S&P 500 - % OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



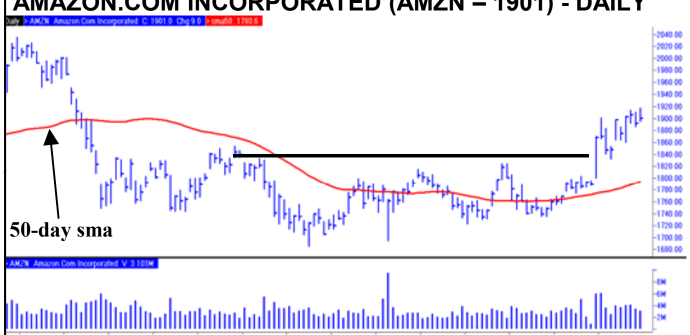
S&P 500 - % OF STOCKS ABOVE THEIR 200-DAY MA - DAILY

NETFLIX INC. (NFLX – 336) - MONTHLY

APPLE INCORPORATED (AAPL – 310) - DAILY



AMAZON.COM INCORPORATED (AMZN – 1901) - DAILY



SPDR S&P AERO & DEFENSE (XAR – 115) - WEEKLY

COMMUN. SERVICES SPDR (XLC – 55) - DAILY

SPDR GOLD TRUST (GLD – 146) - WEEKLY