WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

March 1, 2019
DJIA: 25,916

They say all good things must end … in markets they just get priced-in. The trade news Monday morning was plenty good enough for a rally, and the market did just that—for all of two hours. The good news we're seeing now is why markets are up the last nine weeks in a row. We're pretty much at the other end of the December spectrum, when the bad news didn't go away but, rather, also got priced-in. The idea of "priced-in" simply refers to the response, or lack of response to either good or bad news. That "markets make the news" is one of the great insights of Technical Analysis. Another might be the distinction between the "average stock" and the stock averages. And here it's nothing but good news—the Advance/Decline Index is at new highs. Should this, by chance, be the peak day, there's little risk. Important peaks just don't look like this. Important peaks come with a pattern of weak rallies, that is, divergences. Much seems priced-in, but even if done for now, the rally likely isn't done.

Like Monday, what is or isn't priced-in is only known in retrospect. At that, Monday is just one day. And there is that lack of divergences—the A/D Index is actually outperforming. And the momentum—more than 90% of the S&P is above its 50-day moving average, among only 13 other times since 1990. The market was subsequently higher all but once in the next 3- and 12-month periods. Momentum like this does take time to unwind. Still, markets don't go straight up and in terms of time, despite the momentum and lack of divergences, this one has gone as far as they usually go. The market has been up for 9 weeks in a row, its best run since 1945. Since 1900, it has done so 12 times, according to SentimenTrader.com, after which a two-week or more pause is typical. Perhaps more noteworthy, this September to February decline rally pattern can be overlaid against 19 other occurrences. In those cases peaks occurred in the 70-to-100 day timeframe, that is, around now.

Caterpillar (137) was hit the other day by a double downgrade—once for tomorrow, once just for today, as Jim Morrison would say. To our thinking, the analyst is missing the big picture, which is, this is what you might call a "China Trade" stock. The poster child there, of course, is Boeing (440), outperforming just about everything, even those software numbers. Caterpillar is no Boeing, but the pattern is just fine, and likely to move more with the market, and even more with the "concept" than the fundamentals. Meanwhile, when it comes to Boeing, it's tempting to take profits, but this is where "cut your losses, let your profits run" seems the sage advice. Not only that, this is "market leadership," and that's important in terms of longevity of a trend. Finally the chart, daily or weekly, is in a very orderly uptrend. Should it, heaven forbid, break out of the trend to the downside, the rule says to sell. Should it break out of the trend to the upside, the rule says sell some and call us in the morning.

When we go through the ETFs for a perspective on group action, it's surprising how positive they are and even more surprising, how similar they are. Even at some basic level like Consumer Discretionary versus Consumer Staples, from the lows in December you can't tell them apart. We suppose this shouldn't come as a surprise given the advance-decline numbers, and it's certainly the sign of a healthy market. Then, too, you can't help but miss those unhealthy days when only the FANG stocks went up, but at least they did so day in and day out. The Software stocks like Workday (198) have been pretty wonderful, but adjusted for beta, not much more so than Procter & Gamble (99). In what is supposed to be a rising rate environment you might not expect Utilities to do well, but they're back to their December highs, after their own 10% decline. All of the S&P Utilities are above their 50- and 200-day moving averages, though Utilities are an exception to the momentum rules. Historically the next month has been up only 30% of the time.

The three down days this week won't kill the rally, especially when all three saw more than 1500 advancing issues. Even in terms of price, the S&P has spent 38 days above even its 10-day moving average, the longest streak since April 2010. That says momentum, one side of the technical coin. The other is sentiment, or investor reaction. The Investors' Intelligence Survey of newsletters turned bearish in January after years of being bullish, doing their contrary thing. It comes as no surprise they've seen the error of their ways, and now are back to the bullish side, but not extremely so. Keep in mind, momentum always trumps sentiment so here, too, there is no big worry. The worst day in a while seems Monday when the market actually rose, but with flat A-Ds and a news backdrop that could have produced more. Then, too, "priced-in" is not altogether objective. We've come a long way from late-December, but we're a long way from late-September.

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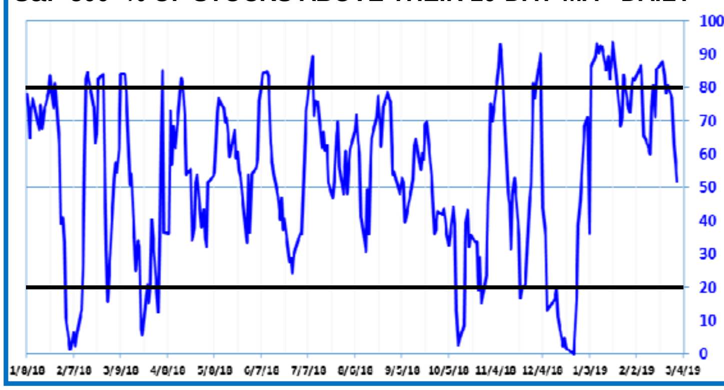
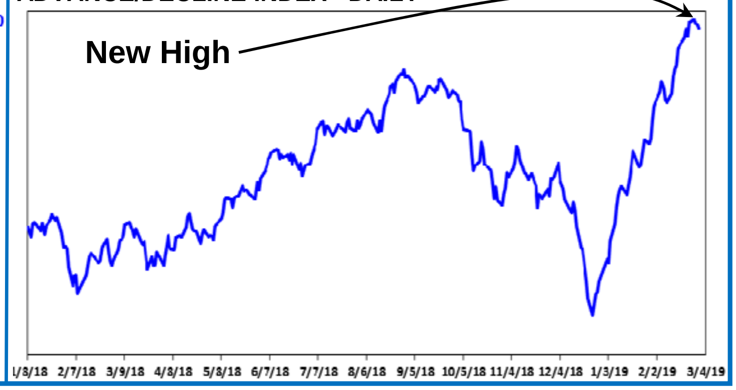
S&P 500 (SPX – 2784) – DAILY

NASDAQ 100 (NDX – 7098) – DAILY

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



ADVANCE/DECLINE INDEX - DAILY

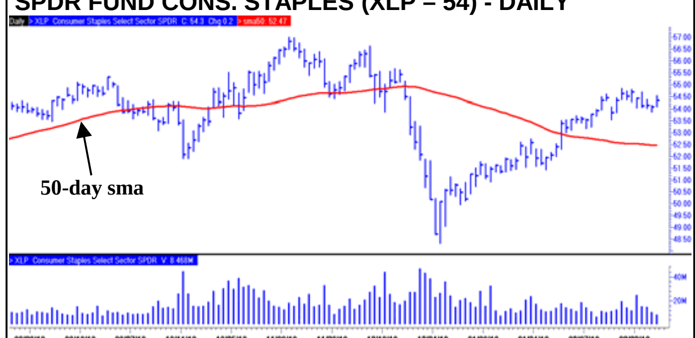


CATERPILLAR INCORPORATED (CAT – 137) - DAILY

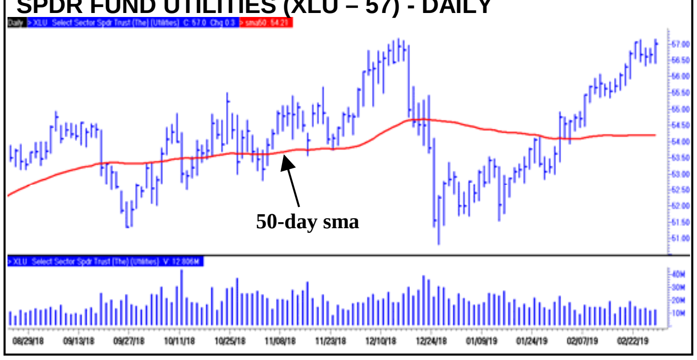
BOEING COMPANY (BA – 440) - DAILY

SPDR FUND CONS. DISCRETIONARY (XLY – 110) - DAILY

SPDR FUND CONS. STAPLES (XLP – 54) - DAILY



SPDR FUND UTILITIES (XLU – 57) - DAILY



WORKDAY INCORPORATED (WDAY – 198) - DAILY