WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

April 24, 2020
DJIA: 23,515

The virus … that's so yesterday's news. Well, maybe not for you and me, but for the market. The virus had its bear market—down some 34% worth. Then diminished fear of the virus, the "plateauing," had its bull market—some 28% worth. It's time to give something else a chance and unfortunately, that could be the economy. As Matthew Klein of Barron's put it, the U.S. Economy has likely shrunk more in the past six weeks than it did in the entire Great Depression. Back then people were living in Central Park, now there's a hospital there. Back then there were soup lines, now there are food banks, the unemployed back then numbered 20 million, now it's 27 million—only 12% of the workforce versus more than 30% back then. We don't see a great depression, but what we do see we doubt is discounted. Back then the Fed actually raised rates. More important, back then we were on the Gold Standard—the Fed couldn't print money. They can now, which seems a compelling reason to own Gold.

A credible low seems in place. History favors some sort of retracement from these washout lows and the sheer magnitude of that retracement rally—some 50%—would itself suggest some period of retracement. If the market now focuses on the economic repercussions of the pandemic, this could take a while. A paper written by Oscar Jorda of the Federal Reserve Bank of San Francisco looked at 15 major pandemics and armed conflicts since the 14th century. He found wars had little lasting effect while the fallout from pandemics lasted about 40 years. That's not good news for Airlines, while it also suggests Zoom (177) and the other stay-at-homes are more than a flash in the pan. It also suggests for the market as a whole it will be a slog, with enough volatility to make you doubt your opinion more than a few times, regardless of what that opinion might be. History isn't much help when it comes to these retracements—they've varied from 25% to 75%.

Riddle this: what rallies $47.64 to close at $10.01? That would be the May WTI futures contract where, for a time, they were paying you to take the stuff. Tango, fandango, contango, someone got stepped on. Surprisingly, oil stocks didn't seem to care. Last Friday crude fell sharply and the stocks rallied sharply. Typically there's a very high correlation here. So much so a day like Friday has come around only six times in the last 30 years, according to SentimenTrader.com. Five of those times oil shares continued higher in the short term. The decline in oil demand has exceeded the decline in production, so it's hard to see much upside. As it happens, much the same seems true of the economy as a whole. The saving grace for oil stocks and stocks generally might simply be both are pretty much sold out. And there are those special situations like Cabot Oil & Gas (20)–less drilling means less gas, a plus for COG.

The stay-at-home stocks, you might say, seem here to stay, whether we're at home or back in the office. Whether it's Zoom or Microsoft's Team and the others, now that we've used them, they're not going away. That's not the best long-term news for Airlines. If you think about where people will go when we come out of this, we all probably will have enough left to buy a cup of coffee, even at Starbuck's (75) prices. And they do have their China experience in terms of coming out of this. Technically it's a correction in a five-year uptrend, and much the same can be said of McDonald's (182). Then there's Shopify (618), which may not be as well-known as Amazon (2408) and Netflix (426), but the picture is the same—a little stretched, but definitely leadership. Our favorite "investment" and we're not bugs, is Gold. They're printing money—that's inflationary and good for Gold. Look at Oil—that's deflationary and good for Gold. A 10% position in Homestake Mining back in the deflationary Depression offset the losses in the rest of your portfolio.

We've seen a credible low, a buying surge that left the low even more credible, and now a market that is stretched to the upside of all things. Following these "washout lows" typically there is a retracement of varying degrees. They call it a "test of the lows," which here seems a misnomer. The test we see is that of your patience. A low is one thing, a new uptrend another. The test we see is one of time more than price and, time takes time. Monday the Dow was down 600, Tuesday down 600, Wednesday up 450. What you're seeing likely is what you're going to be seeing. As Will Rogers sagely advised, buy good stocks and hold them until they go up. If they don't go up, don't buy them. We would advise, buy stocks you consider an "investment," like a Microsoft (171). Don't chase it, don't be afraid of buying weakness and don't be afraid to take a trading profit on some.

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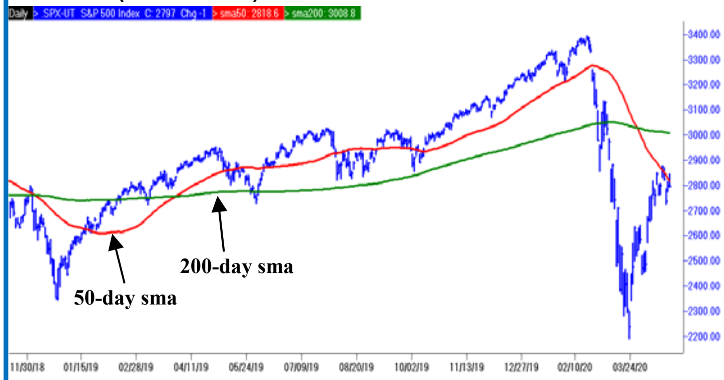
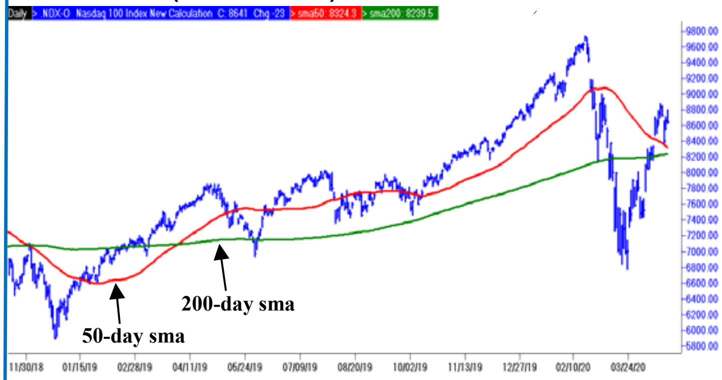
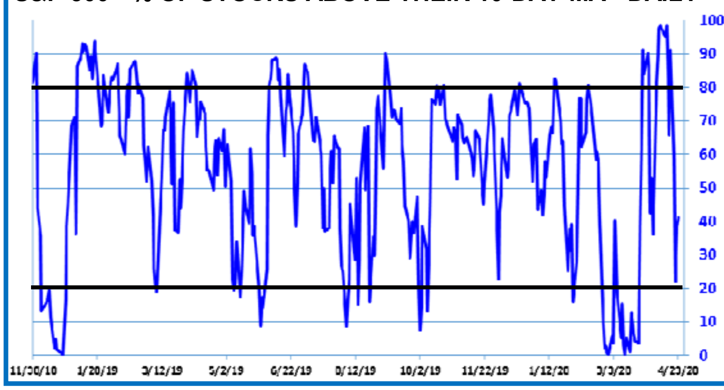
S&P 500 (SPX – 2798) – DAILY



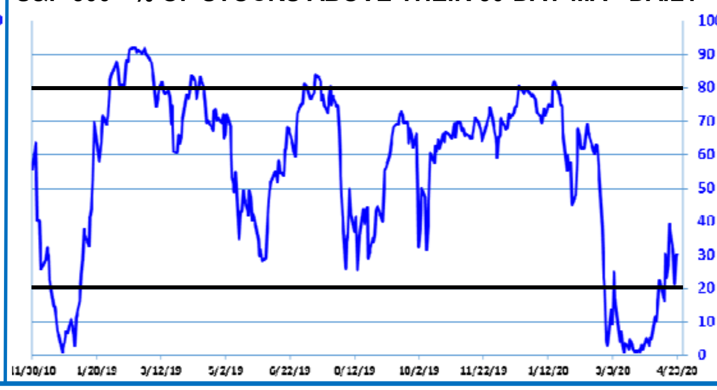
NASDAQ 100 (NDX – 8641.5) – DAILY



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

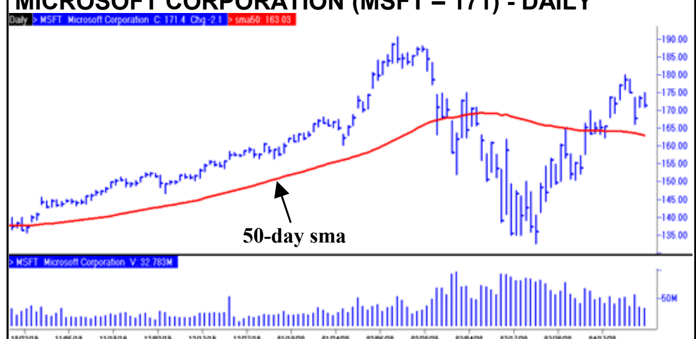


S&P 500 - % OF STOCKS ABOVE THEIR 50-DAY MA - DAILY

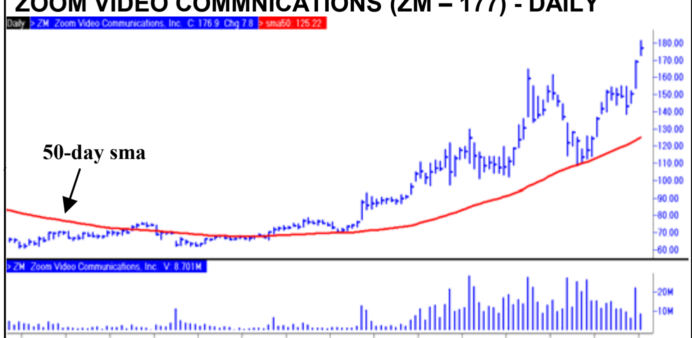


VANECK GOLD MINERS ETF (GDX – 33) - DAILY

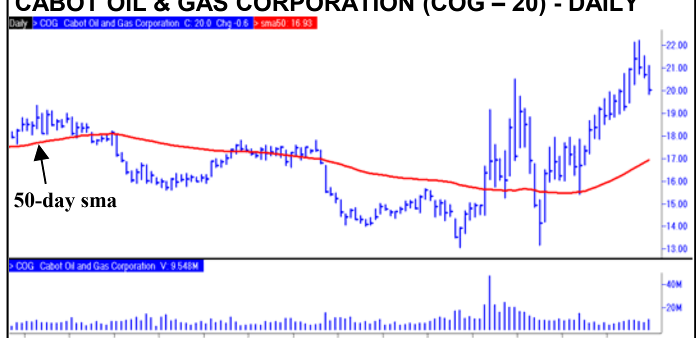
MICROSOFT CORPORATION (MSFT – 171) - DAILY



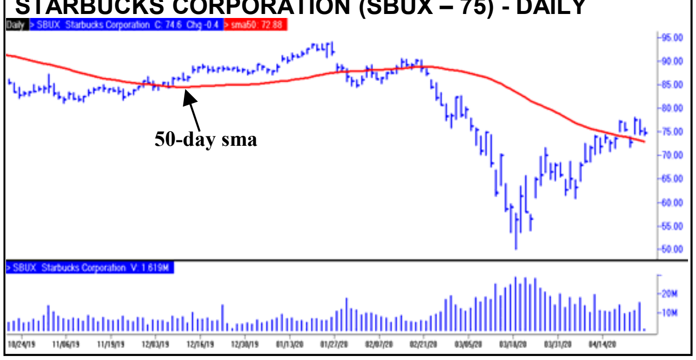
ZOOM VIDEO COMMNICATIONS (ZM – 177) - DAILY



CABOT OIL & GAS CORPORATION (COG – 20) - DAILY



STARBUCKS CORPORATION (SBUX – 75) - DAILY



SHOPIFY INCORPORATED (SHOP – 618) - DAILY