WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

January 29, 2021
DJIA: 30,603

If you hear T-A-P, start selling … just in case an E-R follows. Powell's comments didn't suggest taper is coming. Then, too, you just can't have it both ways – recovery and a Fed stoked market. The havoc of the latter is clear in a word, GameStop (194). A few years ago we had dinner with the man who put together Activision (91), and asked what he thought of GameStop. His answer – think Blockbuster. In the one or two years we've been doing this, we've always found short sellers better than most analysts. We've also always found that when people talk about running the shorts, they miss the point. You don't run the shorts when the stocks are going their way. As GME has made clear, that's the key. Whether it's the short-sellers, the cryptos, or whatever, the real point is that speculation is over the top.

All Gaul is divided into three parts, we seem to recall from our high school Latin class. Our style of technical analysis basically has only two parts. The most important is momentum, or the strength of a move. There are many measures here – stocks above their 10 day moving average for the short term, stocks above the 200 day moving average for the medium to long term. The latter should be the focus here, and around 90% it says strong market. It's overbought, but it's that good overbought. Think of momentum as a physics term, and in that construct any object with this kind of momentum is hard to stop. And, perhaps there we should. The other part of our style of analysis is investor psychology, what we like to call sentiment. Here GameStop and its cohorts pretty much say it all.

We like to say momentum trumps sentiment, and it has. Still, the excesses we are seeing now are extreme. Investing is a matchup of greed and fear. Bubbles happen when greed becomes excessive, and when fear ceases to exist. Bubbles are not so much about valuations as they are the Greater Fool Theory. In the case of GME, there really is no narrative, making it a bubble in the purest form. It's that condition where investor behavior is dominated solely by an attempt to sell to someone else something for a higher price. There is no rational assessment of value. The entire market doesn't seem a bubble, the rally remains too broadly based. The bubble stocks, however, have affected sentiment enough to leave the overall market at risk. Over the last three weeks small traders have bought 60 million Calls. That's 20% greater than the bubble-like environment last summer.

We're sure you've noticed we place little emphasis on valuations, believing stocks sell at fair value once on the way up and once on the way down. The trick is figuring out whether they will become more overvalued or more undervalued, in other words, the trend. That said, we have come across a couple of things to suggest here, too, things may be a bit over the top. One is a creation by the Bespoke Investment Group called the Ludicrous indicator. It looks at US companies with a market cap of $500 million or more, that trade at a multiple of 10 or more times last year's sales, and that have doubled in the last three months. There are 600 companies on the list, dwarfing anything in the last decade. You'll be glad to know, however, the number still is half that of the dot.com era. Another take on excess is by Goldman. They have an index of unprofitable Tech companies which shows a fivefold gain since last March. By way of perspective, that is more than five times the gain in the S&P Tech index

All good things must end someday, the not so good ones as well. GameStop, of course, is a bit of both. What we've seen this week is an extreme, but a natural extension of the speculation that has been going on for some time. Powell is as much behind this as the traders. He wasn't close to saying taper, but had he, you could kiss GameStop goodbye. All this, of course, is more than a little disruptive, including Wednesday's 600 points down day, with losers close to 5-to-1. Speculation is not new, what we're seeing now is new, but still just speculation. Monday saw a new high in the S&P, with only 45% of its components above their own 10 day average – a first little crack in momentum. The recent new high in the A.D. index says no big problem for now. Still, this seems similar to last August which was followed by a 10% decline in September. Keep in mind it's not weakness that's the worry, it's any weak rally which may follow.

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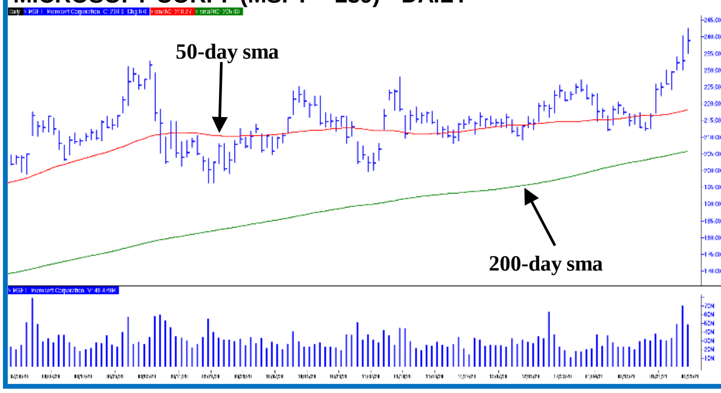
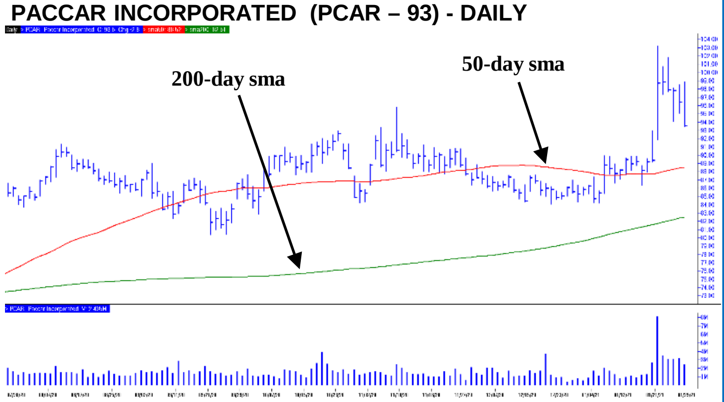
S&P 500 (SPX – 3799) – DAILY

NASDAQ 100 (NDX – 13201) – DAILY

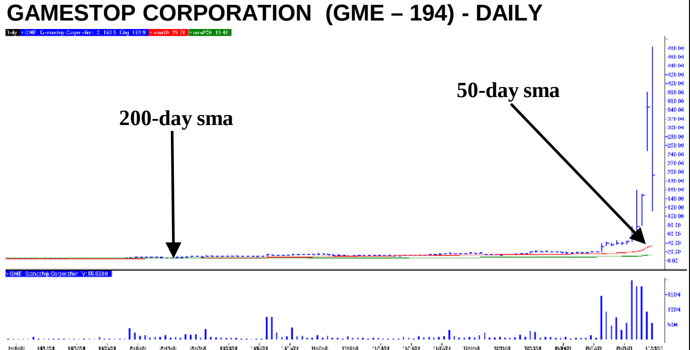
MICROSOFT CORP. (MSFT – 239) - DAILY



PACCAR INCORPORATED (PCAR – 93) - DAILY



GAMESTOP CORPORATION (GME – 194) - DAILY



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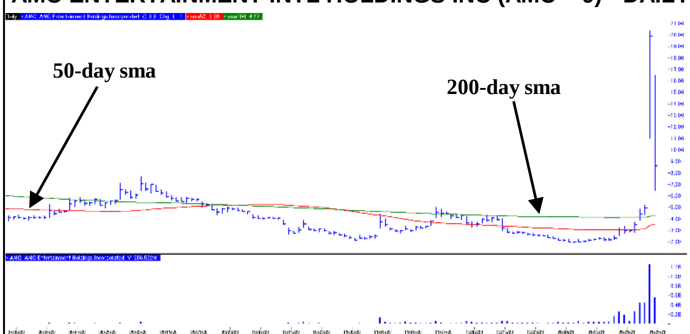
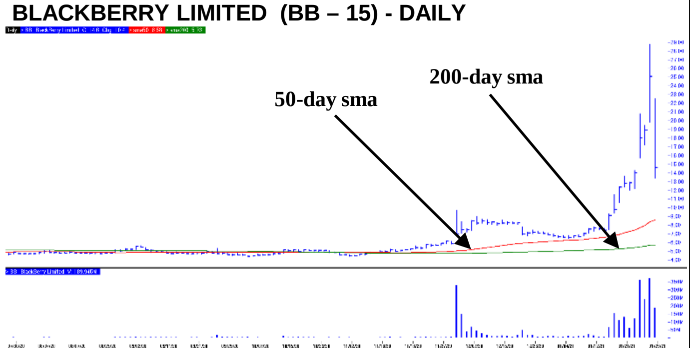
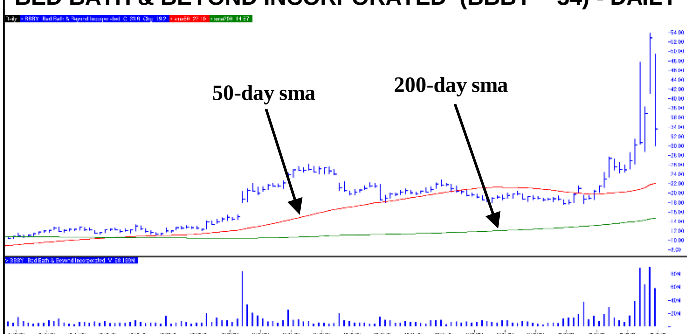


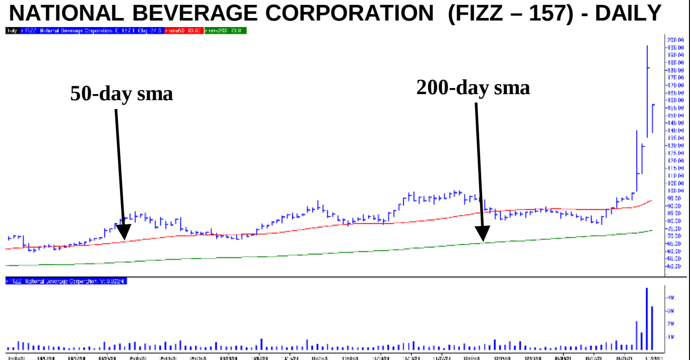
BLACKBERRY LIMITED (BB – 15) - DAILY



BED BATH & BEYOND INCORPORATED (BBBY – 34) - DAILY



NATIONAL BEVERAGE CORPORATION (FIZZ – 157) - DAILY



TOOTSIE ROLL INDUSTRIES INCORPORATED (TR – 39) - DAILY