Wellington Shields

EQUITIES PERSPECTIVE

February 12, 2021
DJIA: 31,430

The January effect … in February. The “January effect” is the tendency for beaten up stocks, many of them low price, to rally when December’s tax loss selling is over. Somewhat ironically, we’ve found even the January effect to have become discounted, that is, of late it has started in November. Yet here we are in February looking at the January effect of a lifetime. A colleague recently pointed out every low price stock is up, something we had noticed as well. We screen for stocks with a change in volume – not an increase in volume, an increase in a stock’s own volume. We realized of the 250 stocks in the screen this particular day, half or more were $5 or less. Volume in these lottery tickets, the so-called penny stocks, has been the highest in a decade, according to SentimenTrader.com. Similarly, NASDAQ versus New York Stock Exchange volume is at a record high, perhaps a proxy for speculating versus investing.

With the lift in so many low price stocks, it should come as little surprise that the Advance-Decline numbers have been better than good. There’s the catch 22 that the numbers, abetted by these low price stocks, reflects the speculation binge, but the numbers are the numbers. The Advance-Decline numbers, of course, just reflect direction – stocks up or down. That more than 90% of stocks are above their 200 day average would seem to confirm the breadth of the rally. On a longer term basis, it seems important to recognize the durability of the strength here. More than 80% of the S&P stocks have been above their 200 day for three months. That’s the longest streak in seven years and among the longest since 1928. When dealing with mediocre momentum numbers, overbought means risk. When dealing with momentum numbers like those above, overbought is a good thing, the strength tends to persist.

Momentum typically trumps sentiment and it has recently. Still, the over the top Call buying does pose a risk. Two weeks ago in the midst of the GameStop (51) speculation we saw a risk similar to that of last August, prior to the September 9% selloff. A couple of days of heavy selling and a near historical spike in the VIX made a correction seem likely. The market, however, was able to right itself, perhaps coincident with the peak in GME. Last week saw 2-to-1 up days four of the five days, while the VIX collapsed, meaning the panic was over. Monday this week saw better than 3-to-1 Advance-Decline’s, while on the NASDAQ 700 stocks hit 12 month new highs, the highest since the late 1980s. Tuesday saw positive Advance-Declines despite minor weakness in the averages. That’s the opposite of strength in the averages against weakness in the Advance-Declines – the pattern we refer to as a weak rally. It’s that pattern that causes problems.

As we suggested last time we’ve grown a bit weary of typing re-open/stay-at-home trades, in many cases a difference without a distinction. We have opted instead to just go with good versus evil, in terms of the charts. That’s said, we find many of the good charts in the relatively unexploited area of commodities, which, of course, is pretty much a reopen trade. They are also, we suppose, a China trade for those of us who would rather not actually buy China. Last time we picked up on a commodities article in Barron’s, and mentioned the copper stocks like Freeport (31), and ETFs like DBA (17) and DBC (16). This past week there was a Barron’s article on Platinum, suggesting its importance as a component of hydrogen fuel cells is likely to grow. Among the ETF‘s mentioned the GraniteShares Platinum Trust (12), is an excellent chart. We continue to like Lithium, and names like Lithium America (22) and Piedmont (53). Finally, we still expect another leg up in Energy.

The market in 2021 clearly is about re-opening. The commodity stocks as much as anything make that clear, as do the semiconductors. Even the better action in Disney (191) versus Netflix (560) seems to tell that story – it’s about the parks, the re-opening. As for the market, speculation is simply over the top, or is a market led by crypto and pot stocks a good thing? Some of this will prove self-correcting – there’s a reason they called it the January effect and not the January/February/March effect. If you’re one of those looking for trouble, there’s something called the Smart Money Index. It measures market performance in the last hour where it is thought more informed investors trade. It’s currently near its lows while the S&P is near its highs. We prefer instead to stick with our own brand of in-depth analysis – most days most stocks go up. The Advance-Decline numbers have been positive eight consecutive days through Wednesday, come what may in the averages.

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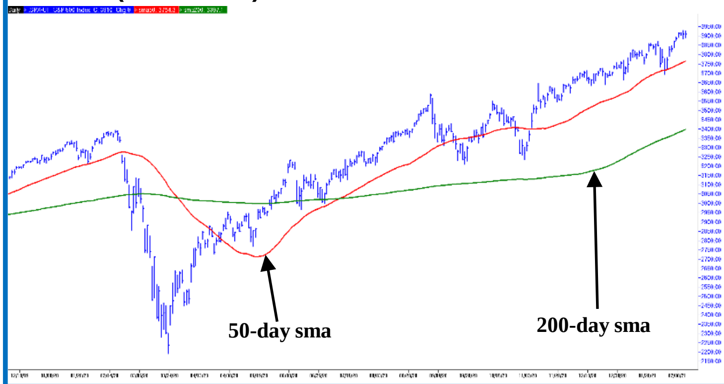
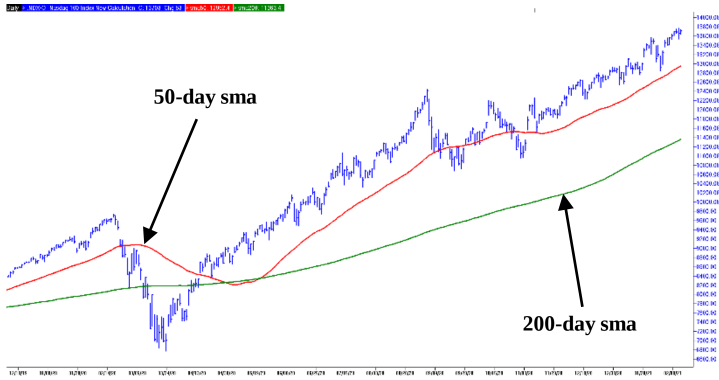
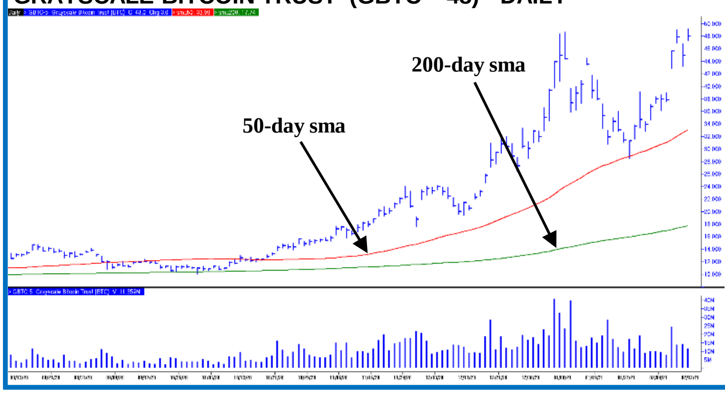
S&P 500 (SPX – 3910) – DAILY



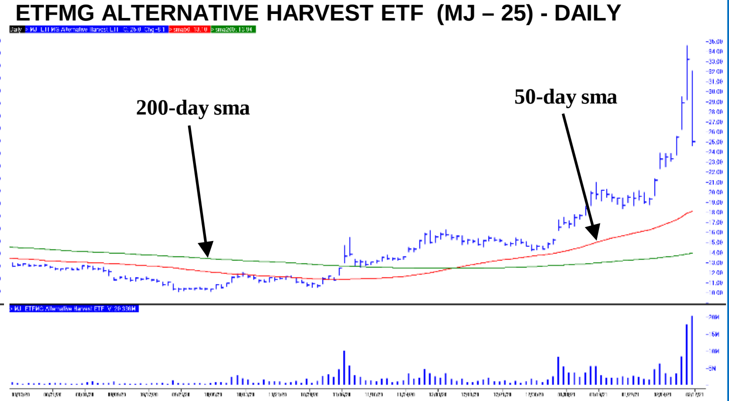
NASDAQ 100 (NDX – 13708) – DAILY



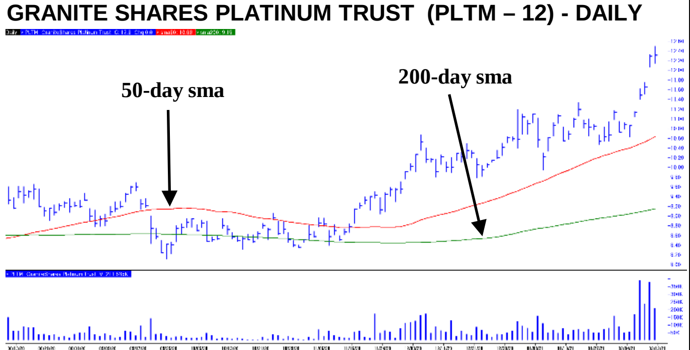
GRAYSCALE BITCOIN TRUST (GBTC – 48) - DAILY



ETFMG ALTERNATIVE HARVEST ETF (MJ – 25) - DAILY

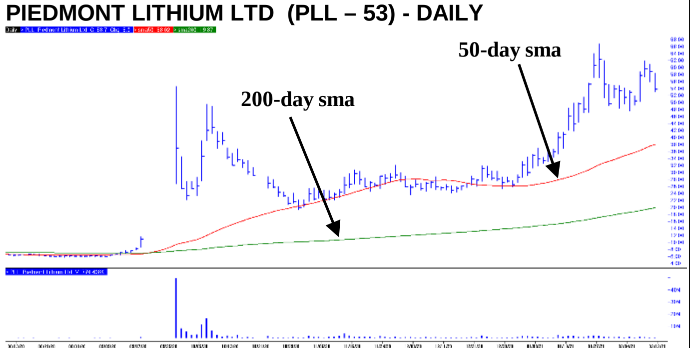


GRANITE SHARES PLATINUM TRUST (PLTM – 12) - DAILY

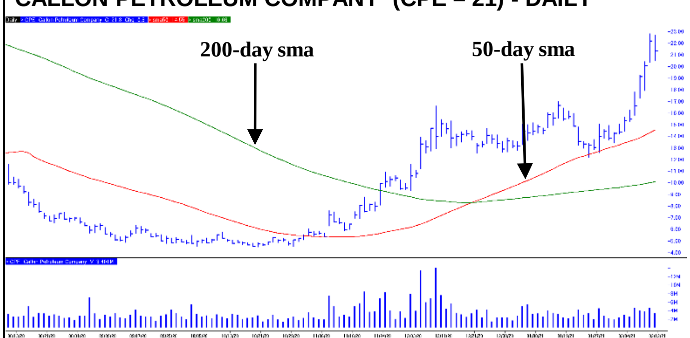


VAN ECK VECTORS SEMICONDUCTOR ETF (SMH – 252) - DAILY

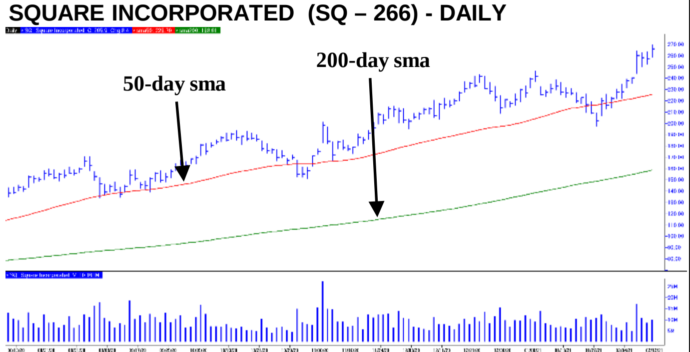
PIEDMONT LITHIUM LTD (PLL – 53) - DAILY



CALLON PETROLEUM COMPANY (CPE – 21) - DAILY



SQUARE INCORPORATED (SQ – 266) - DAILY



GAMESTOP CORPORATION (GME – 51) - DAILY