Wellington Shields

EQUITIES PERSPECTIVE

April 30, 2021
DJIA: 34,060

It's not easy … but it doesn't have to be complicated. From the lows this year the most important technical tool may well have been a ruler. All you had to do was draw a line under the S&P lows, and follow the bouncing ball. Another simple approach to trend analysis might have been to watch the number of advancing and declining stocks. The market is about supply and demand. As supply begins to outstrip demand, fewer and fewer stocks advance. The large-cap stocks that drive the averages continue up, the ranks of the average stock begin to diminish. It may continue a bull market in the averages, but not so in most stocks. Rather than think of the Advance-Decline index as just some technical indicator, think of it in terms of supply and demand. When there are 2000-2500 advancing stocks most days, that takes money. When there's still that kind of money out there, the uptrend should continue.

It's only human nature to worry about a market up this much, and to look for problems. We are as guilty as anyone, including a recent concern about the defensive parts of the market suddenly taking the lead. How often do you hear "overbought" or "extended," a 10% correction would be healthy? We get the point here, but losing 10% has never made us feel particularly healthy. It has been the kind of market where the simple stuff has worked so well, most of the complicated technical stuff has not. Out of 22 technical trading strategies followed by Bloomberg, only seven have shown a profit in 2021, among the lowest in 25 years. Bloomberg notes, "It's testament to the straight up trajectory of stocks that virtually all signals that told investors to do anything but buy have done them a disservice this year." So there, you technical so and so's. Every sunken ship had a chart room. Then, too, that could've been about the guy reading those charts.

All of this, of course, misses what might be the most salient feature of the market this year, the rotation. It wasn't hard to just buy and hold the market this year, but it was hard to just buy and hold almost any group. The FANG stocks have outperformed recently, for example, but this after a few months where they pretty much just yawned. Solar was one of the best groups early in the year, but has suffered since February. The same might be said of the software stocks, at least until recently. It may not have been complicated, but it hasn't been easy. Easy has been buying the S&P. Recently there were 85% of S&P components above their 50 day, while only 50% of the NASDAQ and Russell 2000 components were above their 50 day. That makes it hard to beat the S&P without owning it.

All this having been said, there's little question that where you're in the market can be as important as whether you're in. To speak generally, we still favor the re-open stocks, the commodities and industrials. Copper had a great week and got all the attention, but Steel was just as good and there are many of them. Relevant ETFs here are COPX (41), SLX (61), XLI (103), XLB (84) and PAVE (26). They don't have the volatility of Tech but, hey, they're in uptrends. Fans of low price stocks that we are, Wednesday's pickup in the energy sector caught our attention. There are many of these which might help explain Wednesday's unusual configuration – the Dow down 165 with 700 net advancing issues. Of course, Microsoft (253) didn't help the Dow. The stock market has its own logic and oil can have many influences. Still, oil seems an obvious re-open play. We would also note the improvement in precious metals.

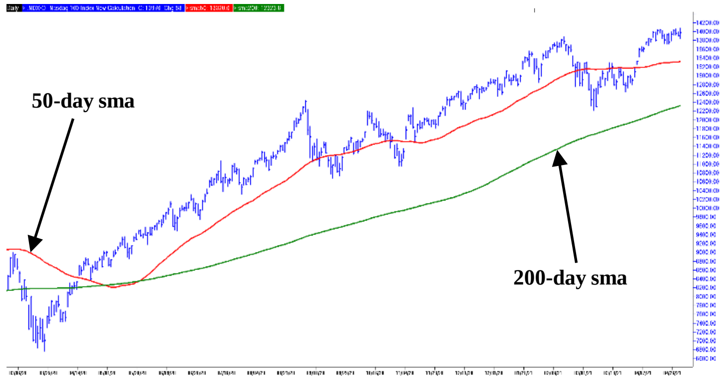
Last Thursday afternoon the Dow dropped some 300 points and there were almost 900 net declining issues. The tax news was hardly a surprise, but the announcement timing was. Weakness isn't a problem, it happens. The problem is when weak rallies follow. The next day saw the Dow rally 200 points, with a net of some 2200 advancing issues. That's not the weak rally about which we worry. Meanwhile, we confess to a knee-jerk negative reaction to the market's poor response to some seemingly good earnings numbers. If, as we strongly believe, it's the market that makes the news, in a good market good news should be treated as such. The answer may be simple – the numbers we're seeing are why the stocks are where they are. The numbers, in a sense, are just catching up to price. These poor responses, by the way, pretty much are confined to Tech, which no longer seems the real leadership. They're selling on the news to move to the cyclicals/commodities?

Frank D. Gretz

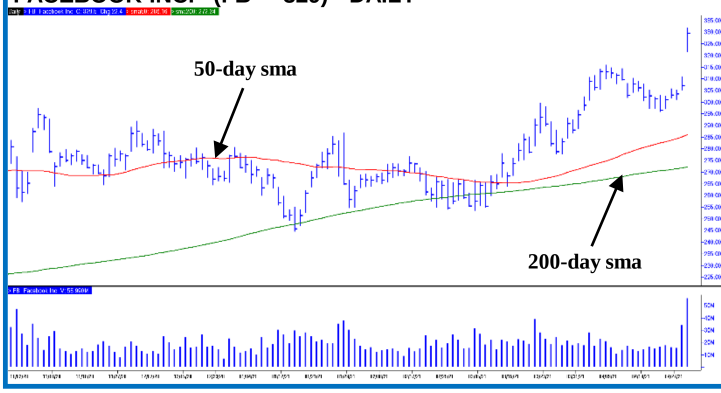
140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

S&P 500 (SPX – 4213) – DAILY

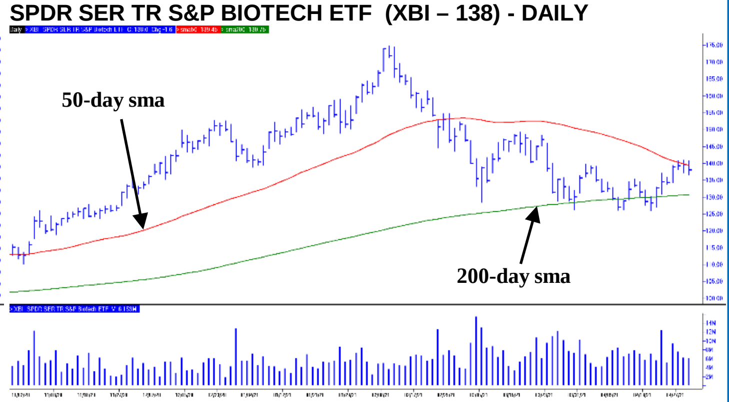
NASDAQ 100 (NDX – 13970) – DAILY



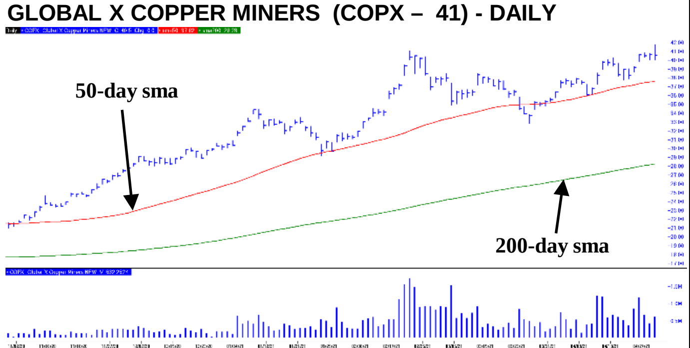
FACEBOOK INC. (FB – 329) - DAILY



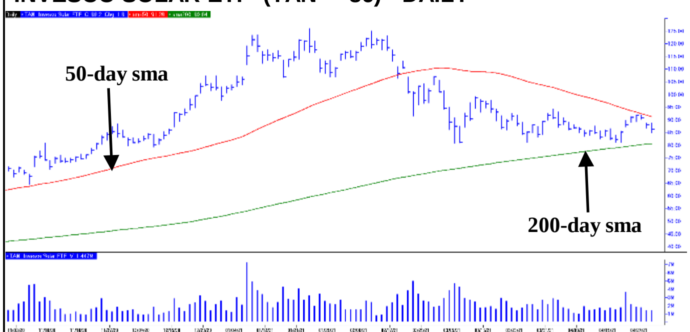
SPDR SER TR S&P BIOTECH ETF (XBI – 138) - DAILY



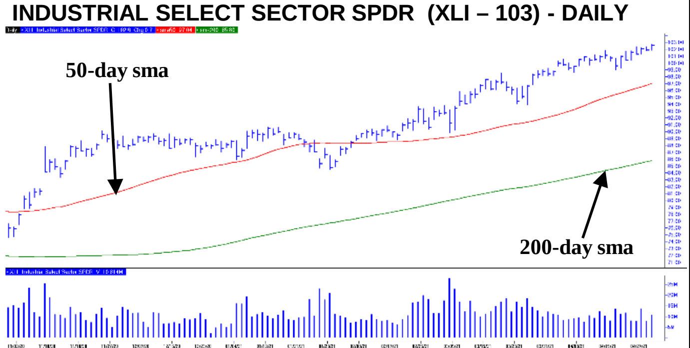
GLOBAL X COPPER MINERS (COPX – 41) - DAILY



INVESCO SOLAR ETF (TAN – 86) - DAILY

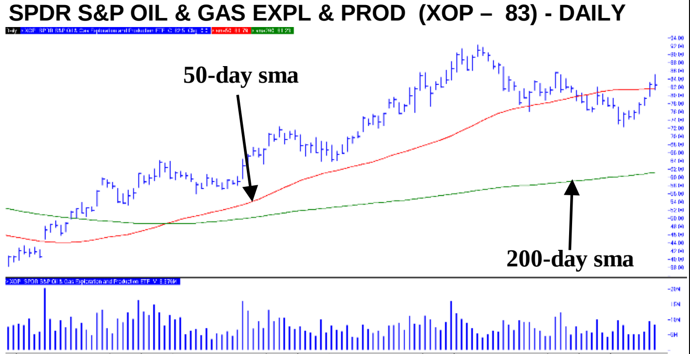


INDUSTRIAL SELECT SECTOR SPDR (XLI – 103) - DAILY



ISHARES EXP TECH SOFTWARE ETF (IGV – 365) - DAILY

SPDR S&P OIL & GAS EXPL & PROD (XOP – 83) - DAILY



VAN ECK VECTORS GOLD MINERS ETF (GDX – 35) - DAILY