EQUITIES PERSPECTIVE

April 9, 2021
DJIA: 33,502

Gap and go, or … gap and go nowhere. Monday's low in the S&P futures was 0.5% above the prior day's close. It then rallied another 0.5%, seemingly a set up to gap-and-go. Like most such patterns, the follow-through has been mediocre at least so far. Another seeming anomaly was the Monday action of a week ago, which saw the Dow rise about 100 points while only 35% of stocks rose. When this close to an all-time high, this was the worst configuration in more than 60 years, according to SentimenTrader.com. The market subsequently was lower both one and two months later. Recently, the Russell 2000 dropped below its 50 day average for the first time in three months. When after a five-year high it typically leads to a prolonged period of underperformance, though in this case the index continues to dance around that 50 day. Then came Thursday a week ago, which saw a 4-to-1 up day in Advance-Declines, numbers we just can't fight.

While the bull market is the ongoing market story, as much a narrative has been the jockeying for leadership. Whether it's correlation or causality time will tell, to coin a phrase, but the stabilization in rates seems to have stopped the bleeding in Tech. At the quarter's end, Tech ranked last among the 11 industry sectors. At some 26%, Tech is the S&P's biggest weight, making it very unusual for the S&P to rise when Tech trails, let alone runs last. So, for the market's sake, stabilization here seems important. And, of course, not all Tech is equal. Semi's trade like they're re-open stocks, what we've called retro Tech, the Cisco's (52), Intel's (67) and Oracle's (75) are having their renaissance. Oracle lost a legal battle with Google (2251), and both rallied, which pretty much says it all.

Tesla (684) delivered, and then some. In the first quarter, so the headline read, the company produced just over 180,000 vehicles and delivered nearly 185,000 vehicles. That's a pretty good trick. If they continue to double charge some customers, they could really have a good year. Rest assured, we're not here to knock Tesla. After more than a good run, the stock simply seems to be taking a needed rest. As it happens, the rest is taking place right on the October uptrend line – funny how that happens. After some five weeks, the stock seems to be trying to come out of its respite, something close to 750 should do the trick. That's the look of the weekly chart – each bar one week. The daily chart shows a declining 50 day around 730, which could be a bit of resistance. The daily also shows little volume expansion, and that should change to confirm any breakout

The key to making money in the stock market is to not lose a lot. You can lose often and, indeed, it's part of the business. You just can't absorb big losses. Cutting your losses, of course, is something we all talk to talk about, but stocks have their way of doing a Paul Simon, slip sliding away. You can use a rigid 8–10% rule, but that needs to be adjusted for volatility. For one of the Bitcoin stocks 8% could be an hour or two. Moving averages are our preferred stop method, but often they're not close enough in uptrending stocks to prevent more damage than you might like. A more esoteric stop is what we call a time stop. You buy a stock because you think it's going up. If it doesn't go up, at some point you have to say you're wrong, and sell. The stock itself may do nothing wrong, but given enough time it probably will. As much as we like Disney (187), we've given it just about enough time. Here at the 50 day, it is also running out of room.

As suggested above, it's hard to fight markets that still can generate Advance-Declines of 4-to-1. The other insight here is that it takes money to generate those days of 2500 net advancing issues. There's still money out there – the bull market remains intact. Still there is some conflict in the technical backdrop. The measures related to momentum and breadth are those seen in the early phases of a bull market. Measures of sentiment, particularly measures of speculation, are those seen near the end of a multi-year bull market. As we have suggested many times, momentum trumps sentiment, and so far it has done so. Then, too, there has been quite a bit of under the surface rotation, and that seems the biggest challenge in the weeks ahead. Tech won't go away, but it can underperform. To generalize about the stocks we like, we think of them as the under-owned.

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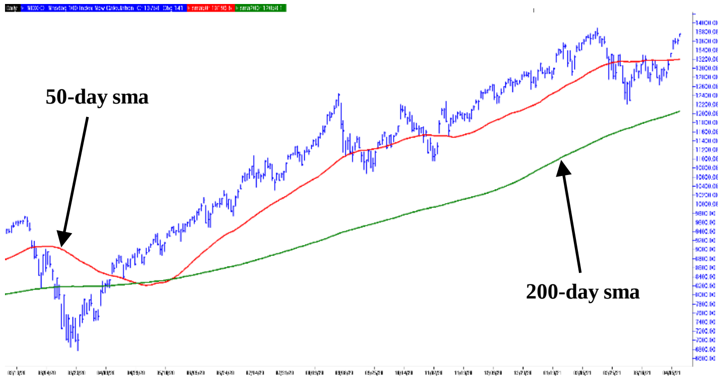
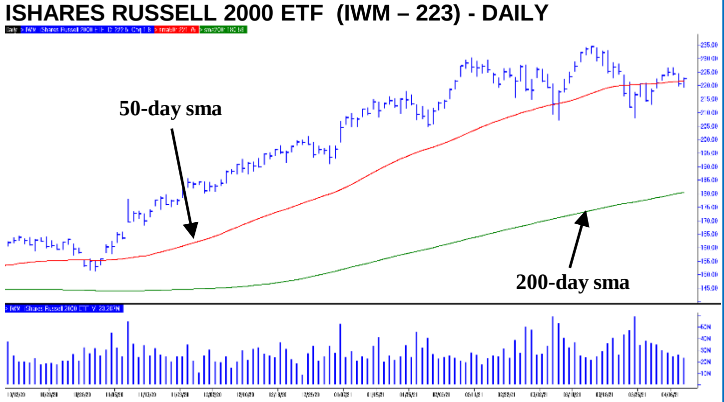
S&P 500 (SPX – 4094) – DAILY

NASDAQ 100 (NDX – 13758) – DAILY

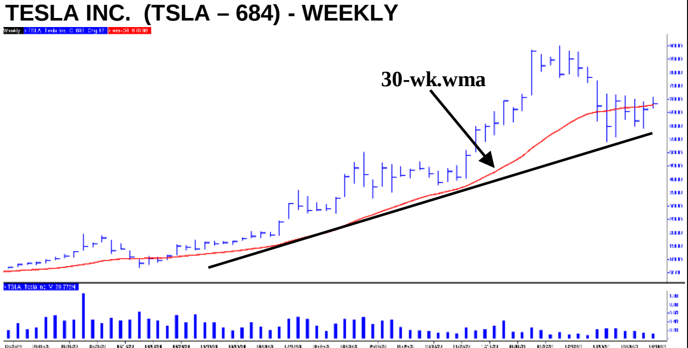


ISHARES 7-10 YEAR TREASURY BOND ETF (IEF– 114) - DAILY

ISHARES RUSSELL 2000 ETF (IWM – 223) - DAILY

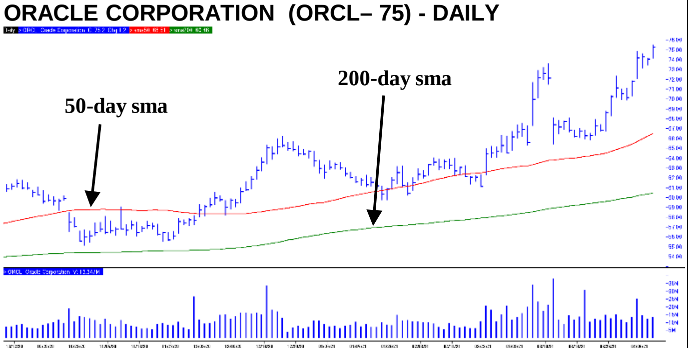


TESLA INC. (TSLA – 684) - WEEKLY

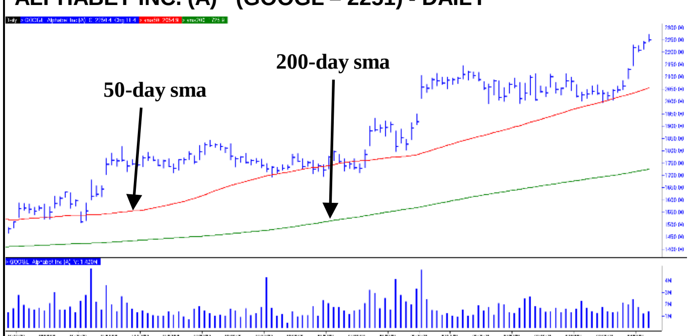


TESLA INC. (TSLA – 684) - DAILY

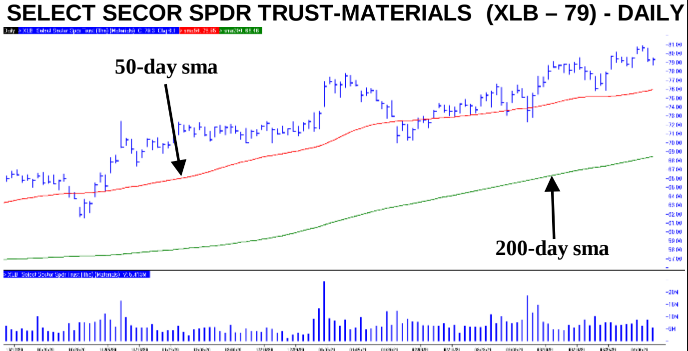
ORACLE CORPORATION (ORCL– 75) - DAILY



ALPHABET INC. (A) (GOOGL – 2251) - DAILY



SELECT SECOR SPDR TRUST-MATERIALS (XLB – 79) - DAILY



SPDR SER TR S&P METALS & MINING (XME – 40) - DAILY