Wellington Shields

EQUITIES PERSPECTIVE

May 14, 2021
DJIA: 34,021

The trend is your friend … provided it's an uptrend. We always contend the easiest way to make 50% trading is to trade a stock that doubles. Sure investing in those stocks would have done a little better, but that misses the point. Being on the right side of the trend is the easiest way to make money. As a trader, the trend bails you out when your timing is off, as often is the case. Meanwhile trying to do that mean-reversion thing can end up more mean then reverting. All this may be well and good, but you still have to find an uptrend and, hopefully, identify it early. This year the easiest trend to identify has been that of the S&P itself, the easiest to trade has been the Transports – up 14 weeks in a row. For much of the rest of the market it pretty much has been a Rorschach test. Likely because of that, now the uptrends have come into question.

The Advance-Decline index reached a new high virtually minutes ago. That's not the backdrop for important weakness. Indeed, important weakness typically only follows months of diverging action between the market averages and the average stock, that is, the A-Ds. In April an average of 96% of the S&P component stocks were above their 200 day average, the best ever for a calendar month. That number is consistent with a start of a bull market rather than with one's end. The Dow Jones hit an all-time high 24 of 87 trading days through Monday, the sixth best start to any year, another sign of great momentum. The problem is that after four months of this kind of momentum, markets tend to cool off. It's not about "sell in May," it's about four months of this kind of strength.

Given the numbers alluded to above, you might argue the market's problem is simply too much of a good thing. This idea showed up again recently in terms of 12 month new highs. Last Friday nearly one third of the S&P components reached a new high that single day. Monday followed with another big number, even after Friday's reading had been matched only seven other times in 20 years. Each of those seven, however, preceded a loss over the next month, according to SentimenTrader.com. Impressive, however, was the performance over the medium term, where there were only a few losses. This seems to confirm the concept that impressive momentum and broad participation rarely precede large losses or bear markets. The short term is another issue, especially against the backdrop in sentiment which is more like that at the end of a bull market.

The consequence of the Friday-Monday excess was Monday's reversal, causing a spike in the number of stocks having a buying climax. This occurs when a stock hits a 52-week high, and then reverses to close below a prior day's close. These reversals work unless they don't, if you catch our drift, but in large numbers can be a sign of buyer exhaustion. This, again, is short term stuff. Together with other signs of excess, the spike in new highs and Monday's reversal, point to a difficult short term. Overall momentum, however, will keep the bull market intact. As is always the case in these short term, "healthy" corrections, something comes along to make you wonder. That seems to have been the case with Wednesday's CPI number. The market can live with inflation, but not inflation that will change the mind of the Fed. The mind of the Fed and the talk of the Fed, by the way, often are two different things.

Last Friday's employment report was said to be a sign the recovery had stalled, a sign to get back to stay-at-home/ growth stocks. Indeed, they had a great day. Almost unnoticed, however, was the re-open commodities/industrials also had a great day. These still seem the leadership, and likely so for some time. The recent weakness simply seems part of the market's nature, a nature about which we warned last time. The A-D index just made a new high, but the reality is this is a market divided, and that's never a good thing. To look at a chart like Nucor (101) is to look at how most of Tech used to look. The same could be said of most Copper, Ag, Industrials, re-open stocks. We never think of losing money as healthy, but a correction would relieve some of the excess. Buying the dip Tuesday worked, but not so Wednesday. That might continue for a while. The market needs time to settle and, as they say, time takes time.

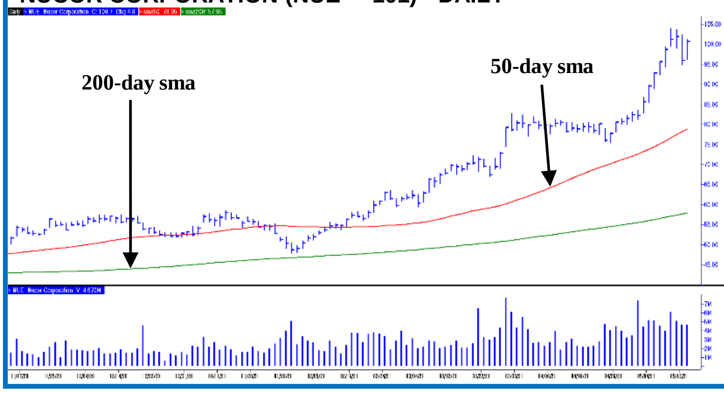
Frank D. Gretz

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

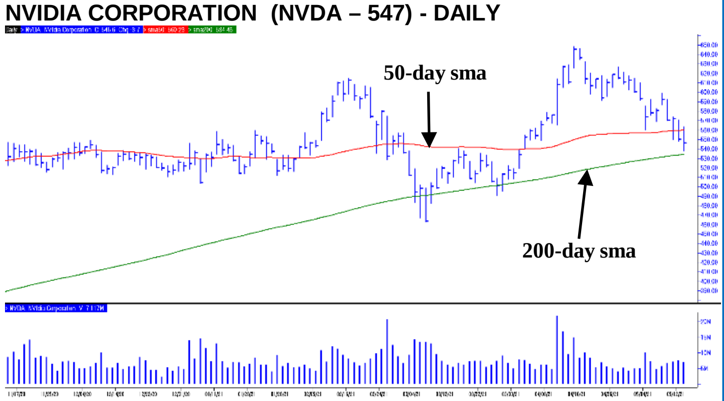
S&P 500 (SPX – 4112) – DAILY

NASDAQ 100 (NDX – 13109) – DAILY

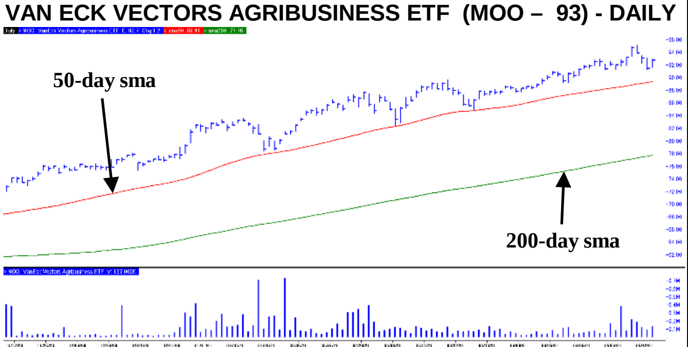
NUCOR CORPORATION (NUE – 101) - DAILY



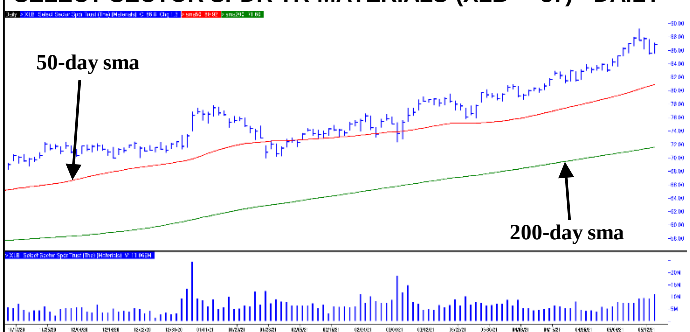
NVIDIA CORPORATION (NVDA – 547) - DAILY



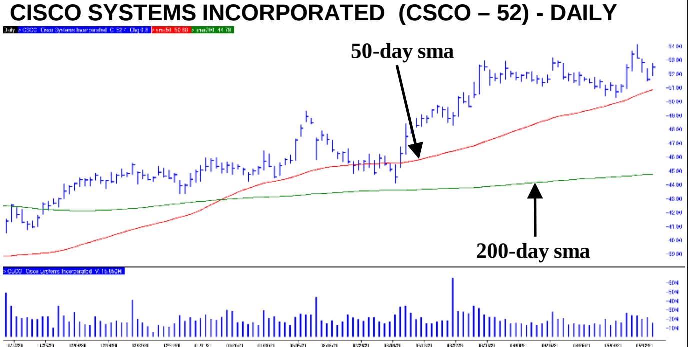
VAN ECK VECTORS AGRIBUSINESS ETF (MOO – 93) - DAILY



SELECT SECTOR SPDR TR-MATERIALS (XLB – 87) - DAILY



CISCO SYSTEMS INCORPORATED (CSCO – 52) - DAILY



ORACLE CORPORATION (ORCL – 78) - DAILY

NETFLIX, INC. (NFLX – 487) - DAILY

AMAZON.COM INCORPORATED (AMZN – 3161) - DAILY