Wellington Shields

EQUITIES PERSPECTIVE

May 28, 2021
DJIA: 34,464

P/E's ... or A/D's? P/E's, even we know, are a measure of valuation. Of course, we contend stocks sell at "fair value" twice, once on their way up and once on their way down. The trick is to figure out whether they're on their way to becoming more overvalued or more undervalued. There are, however, some historical guidelines, and there the news isn't so good. Like many market measures, choose the one that suits your purpose. For P/E's, you got your trailing, you got your forward and, you have which seems most reasonable, the CAPE. Robert Schiller's Cyclically Adjusted P/E is the price to average real earnings over a period of 10 years. Currently around 37, it is far more expensive than any time with the exception of the top of the dot.com bubble. So from a funnymental viewpoint, at least one viewed through the valuation lens of P/E's, this would seem a time for some concern.

The good news – the technicals are here to save the day. The P/E's may be worrisome but the A/D's are not. Markets get into trouble when the average stock begins to lag the stock averages. These divergences, higher highs in the big cap averages that go unmatched by a similar high in the A/D Index, historically have preceded virtually every important market decline, and most lesser ones as well. The Advance-Decline Index just surpassed its peak of May 7, leading rather than lagging the averages. Looking at this measure from a different perspective, there was a 2-to-1down day last Wednesday, and the 6-to-1 down day on the CPI news. Both were followed by positive up days – positive Dow days and positive A/D's as well. Even in the very short term, no divergences, no weak rally. Weakness happens, it's part of the whole thing, it's something that alone doesn't change the trend. If followed by a weak rally, that's different.

Thinking about buying a little Microsoft to hedge your commodity holdings? We still favor the re-open/reflate, cyclical/commodity trades. They have, however, stalled a bit of late. There is the threat of Iran coming back online hurting Oil, and China leaning on commodities generally. Given the news backdrop, it's impressive the stocks haven't given up even more, especially after their run. A good guide here might be the Dow transports. They had a down week last week for the first time since early February. A drop below the 50 day – around 265 – in the IYT ETF (275) would be cause for concern. Meanwhile, after a few poor rally attempts many of the Techs have improved – stocks like Microsoft (249) and Adobe (498) fall into that group. The stay-at- home variety of Tech is a different story. The semi's are a house divided, with equipment makers like Applied Materials (138) better than the rest.

An area we haven't given its due is healthcare. Many stocks here are acting well, virtually all are acting better. Healthcare typically isn't concerned with inflation or rising rates, and for the most part are consistent growers – a compromise in the growth/cyclical debate. To look at the hospitals like Tenet (66) or Universal (159), they seem to be out of the pandemic woods and then some. The same can be said of stocks like UnitedHealth (413) and Centene (74). The Healthcare Providers ETF (IHF-271) pretty much covers you there. Then there is the SPDR Healthcare ETF (XLV-123) which includes UNH and many of the major pharmas. Johnson & Johnson (169) is nearly 10% of the ETF. Teladoc (149) is among the top 10 holdings, but not one of our favorites. Down about 50 percent, it's also one of the top holdings of Cathie Wood who continues to add to her position.

Don't fight the Fed, don't fight the tape, don't fight the A/D's. The average stock matters more than the stock averages. For all the jockeying around between growth and cyclicals, most days most stocks go up – not how markets get into trouble. The market has had a couple of days of selling, but has come right back. It's a perverse way to look at things, but we are impressed when the market has a chance/excuse to go down, and does not. The market hasn't had a 5% correction in six months, one of the longer such streaks. This may seem a concern, but these periods more often are followed by choppy action rather than weakness. Choppy seems a good description of what we've seen lately. It's summer and probably a good time not to expect too much or push too hard. Don't forget gold and silver.

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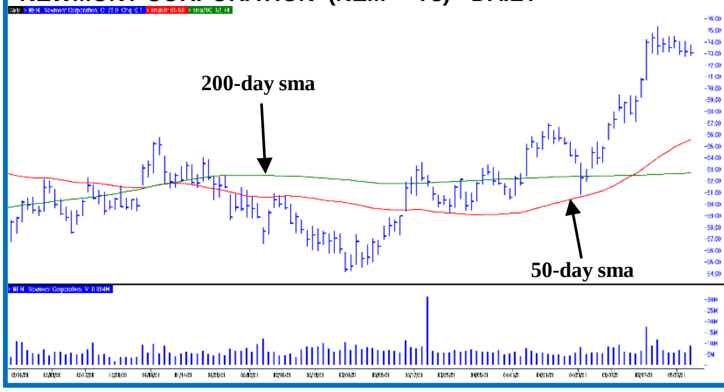
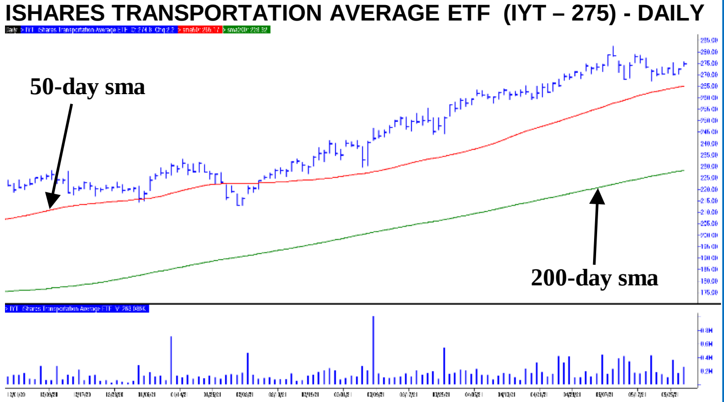
## S&P 500 (SPX – 4200) – DAILY


## NASDAQ 100 (NDX – 13657) – DAILY

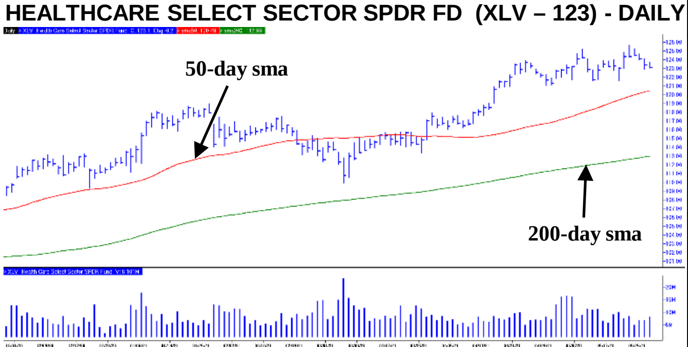

## NEWMONT CORPORATION (NEM – 73) - DAILY




## ISHARES TRANSPORTATION AVERAGE ETF (IYT – 275) - DAILY

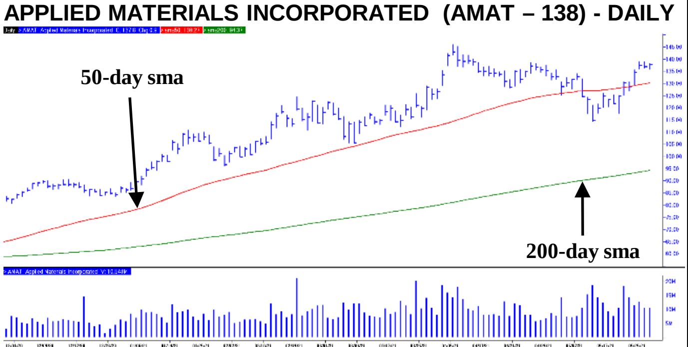



## HEALTHCARE SELECT SECTOR SPDR FD (XLV – 123) - DAILY

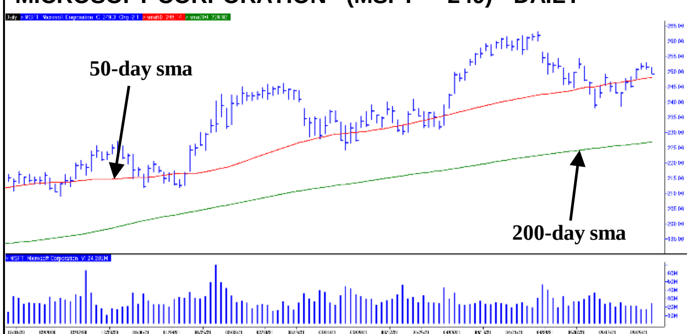



## ISHARES US HEALTHCARE PROVIDERS ETF (IHF – 271) - DAILY

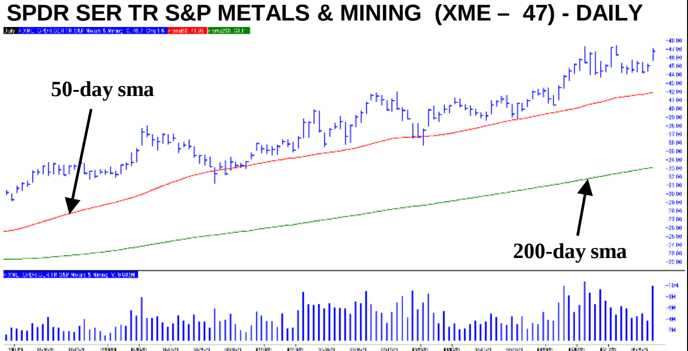

## APPLIED MATERIALS INCORPORATED (AMAT – 138) - DAILY




## MICROSOFT CORPORATION (MSFT – 249) - DAILY




## SPDR SER TR S&P METALS & MINING (XME – 47) - DAILY




## INDUSTRIAL SELECT SECTOR SPDR (XLI – 105) - DAILY