Wellington Shields

EQUITIES PERSPECTIVE

June 11, 2021
DJIA: 34,466

Hedge fund, or … hedge fun. Back when we frequented the Hamptons, we were impressed by those hedges surrounding, though not quite completely hiding, the Estates. We also were impressed to learn the price of a trim, so to speak. So much so, we came up with a name for our new, though theoretical business, something to do with fun. The two things that worry us are not about technical analysis. We worry about a cyber 9/11 and a variant the vaccines don't overcome. Both, of course, would do significant damage to share prices. It's a bull market, making hedging very difficult. The cyber security stocks and ETF's seem to make sense when it comes to hedging the likely ongoing threat there. HACK, the Prime Cyber Security ETF (HACK-61) and CIBR (46), the First Trust Security ETF should be useful there. As for a Covid problem, the VAC makers BioNTech (240) and Moderna (217) should be useful.

If be bearish you must, Goldman Sachs has a model which predicts the probability of a bear market. The model is cleverly named the Bear Market Probability Model, and consists of unemployment, ISM manufacturing, the yield curve, inflation rate and P/E's. As the model cycles from below 40% to above 65% the odds of a bear market are said to increase. When above 65% the S&P has returned an annualized +3.4%, according to SentimenTrader.com, which hardly sounds like a bear market to us. Then, too, that's only a sixth of the return when the probability is below 40%. Currently around 67%, the model is not high enough to be a major concern, but the model has cycled from below 40% to above 65% in just 11 months, the fastest turnaround ever. The model, obviously, is based on those funnymentals. As we mentioned last time, were we one of those types we likely would be more concerned about the Cyclically Adjusted P/E. Instead, with the Advance-Decline index making new highs and 80% of stocks above the 200 day, that is, in uptrends, we think any bear market is yet some time away.

Energy is the best performing sector this year. Like anything up, especially anything at 45%, most aren't interested when you are positive. This proved true in a recent discussion when the retort was just that – they're up too much. When we asked how many oil stocks this person owned, the answer was none. And there it is. When it comes to the oil stocks most own little or none. They're under-owned and that's why they'll keep going. Add to that, as is always the case, now the news is getting better. Activists are leaning on big oil to drill less, the rig count is down 35% from pre-Covid levels, oil inventories are below their five-year average – all this as demand continues to climb. The news is better but the stocks are up too much to buy, most think. When the stocks keep going the news will become almost compelling, to the point that you have to buy. It's just the way the market works. XOP (97), the SPDR Oil and Gas ETF is a good start.

Sentiment or market psychology is an important part of technical analysis. Simply put, traders and even investors tend to be wrong at the extremes. Sentiment, of course, isn't easy to measure or to follow. When bullishness is extreme we are all likely to be part of it, and hesitant to give up that lovin' feeling that comes with making money. And at such times, it's nice to be around those who share a similar sentiment, so to speak. This might explain the enthusiasm for last weekend's Crypto conference. Attendance was 12,000 versus 2,000 the prior year, and the $600 ticket price was selling for $1200 before the conference started – a better investment than Bitcoin recently. The real concern here is the price action. Using the Grayscale Bitcoin Trust as a proxy, it's a look that can't be described in polite company. As for the market overall, it's easy to say sentiment is over the top, but it's difficult to measure. Mechanical measures didn't capture the dot.com's back then, and now don't capture Crypto, SPACS, and Memes. Fortunately, momentum trumps sentiment.

We tend to fixate on the A/D's rather than the market averages. The A/D index is at new highs, and the daily numbers have been positive nine of the last 11 days. What's not to like? That said, even we are surprised at the lack of movement in the S&P – stocks go up most days but not enough to break out the average? Of course, when they do break out the concern will be about a false breakout, one which quickly reverses. Ever notice, there's always something. What has come to be of a bit more concern than the S&P is the Transports. They peaked the middle of May and are now teetering on their 50 day average. This doesn't seem a concern for the market overall, but it is from a leadership standpoint. We still believe leadership lies in Cyclicals and Commodities, but we would like a little reassurance from the Transports. Meanwhile, annoying as the incessant rotation may be, it is at least intriguing. One of the best acting Tech stocks these days is a little company that makes "business machines." And, by the way, war may be nigh to look at the defense stocks.

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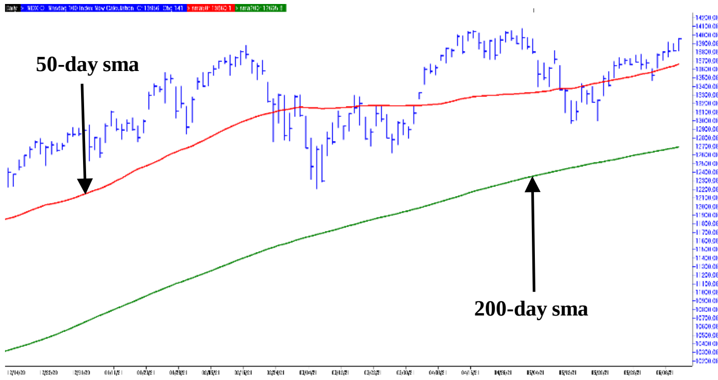
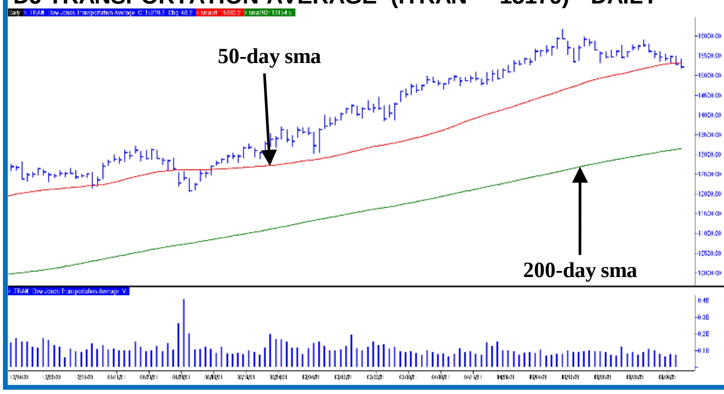
S&P 500 (SPX – 4239) – DAILY

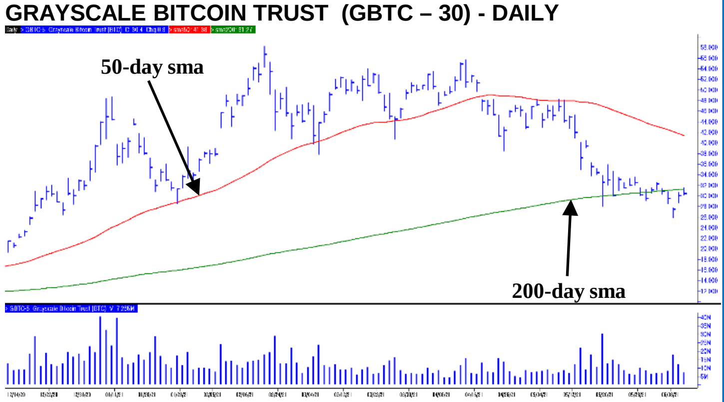
NASDAQ 100 (NDX – 13960) – DAILY



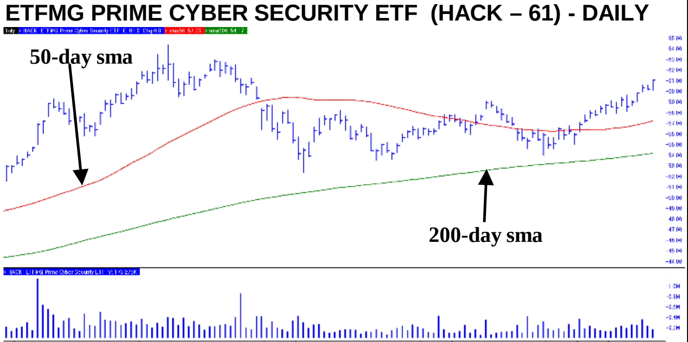
DJ TRANSPORTATION AVERAGE (.TRAN – 15179) - DAILY



GRAYSCALE BITCOIN TRUST (GBTC – 30) - DAILY

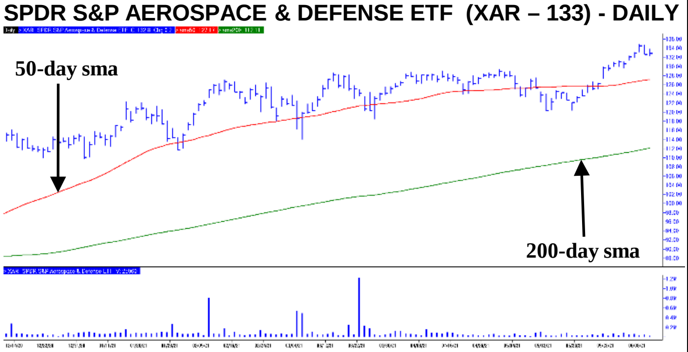


ETFMG PRIME CYBER SECURITY ETF (HACK – 61) - DAILY

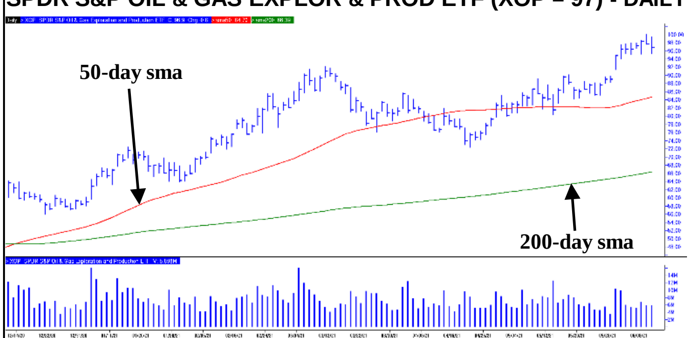


BIONTECH SE (BNTX – 240) - DAILY

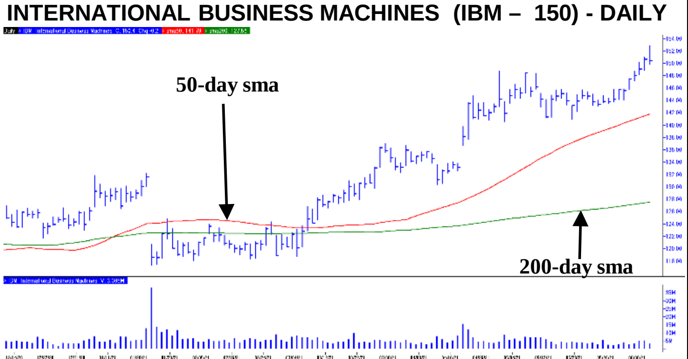
SPDR S&P AEROSPACE & DEFENSE ETF (XAR – 133) - DAILY



SPDR S&P OIL & GAS EXPLOR & PROD ETF (XOP – 97) - DAILY



INTERNATIONAL BUSINESS MACHINES (IBM – 150) - DAILY



MICROSOFT CORPORATION (MSFT – 257) - DAILY