Wellington Shields

EQUITIES PERSPECTIVE

July 23, 2021
DJIA: 34,823

From worst … to first. That was the pattern Monday and Tuesday. The 700 point Dow loss on Monday made the headlines, but as always we are more about the average stock than the stock averages. Monday's bashing saw Advance-Declines 5-to-1 down, and up volume less than 15%. This, of course, cannot be called a complete surprise. The A/D numbers had flattened recently, negatively diverging from the averages like the Dow. The S&P was making new highs with fewer than 40% of components there above their own 50 day average. On the NASDAQ, a new high with more 12 month new lows was another warning. This deterioration simply caught up with the market on Monday. Monday did see a spike in Put/Call ratios and the S&P did hold its own 50 day average. Then pretty much out of the blue came Tuesday's rally. It was not your dead cat bounce. The Advance-Declines cycled to 4.5-to-1up and up volume was greater than 85%. Since 1962, this kind of reversal has led to higher prices a month later every time, according to SentimenTrader.com.

Covid seemed to catch the blame for Monday's selloff, though we easily could have blamed China. Covid isn't new, why was it important Monday? That's just the way the market works – news follows price. The selloff was about the technical deterioration, specifically those A/D numbers. It's important to look at them in conjunction with the averages. If the Dow is down 200 points the A/D's will be negative, and they should be. If the Dow is up 200 points and the A/D's are flat, let alone negative, that's a problem – Thursday was that kind of negative day. As we pointed out last time, the performance of the "average stock" has been the best feature of the technical background, and now that seems to have changed. This also shows up in the Equal Weight S&P which has gone nowhere since early May, and the Russell 2000, a measure of small caps, which has gone nowhere since mid-March. Both are concerns, but alone are not uptrend killers.

Rightly or wrongly, the Dow Theory doesn't get much attention these days. Wrongly, because over time it has been quite often accurate. Rightly, because in recent years, not so much. The concept is sound enough – if you're making the stuff you should be shipping the stuff. The transports should confirm the industrials. These days, of course, the Industrials are as much financials and the Transports have their airlines. And while the concept is simple enough, the nuances of the theory are a bit more complex. In any event, what seems important is that the transports peaked in early May, pretty much when the reflation trade peaked. If not a good indicator of market direction, they have seemed a good indicator of leadership, broadly speaking. Looking at the 20 component stocks, it's a stretch to find a good chart. That's even true of the truckers, which should come as a surprise if you have driven the Northeast Corridor lately. Breaking the downtrend here might suggest a move back to that reflation trade.

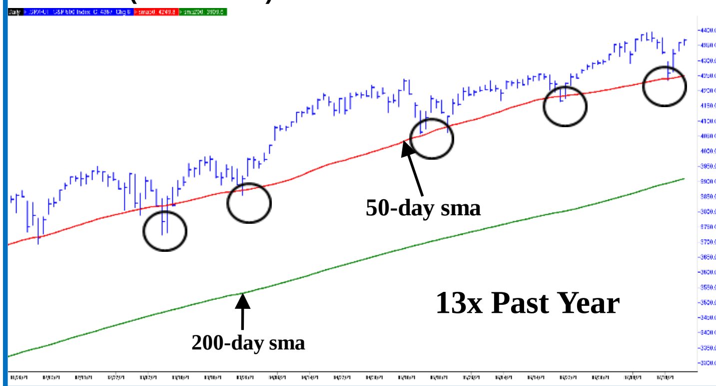
The rotation, meanwhile, has become seemingly daily. Some of this, of course, is Covid related. The recent better action in Procter & Gamble (138) is a reminder of those bad old days. Most of the other staples aren't on a par here, though Coke (56) and Pepsi (155) both have had upside breakouts. Seasonally it's a good time for staples generally. Yet to get going are stocks like Zoom Video (361) and Teledoc (152) – guess they're just not Domino's (544). The industrials have had a tough go of it, but have come through so far more neutral than negative – see for example, XLI (103). It's the metals and energy stocks that have taking the biggest hit. Together with bonds, a seeming telling commentary on inflation. Somewhat contradictory, economically sensitive real estate has done quite well.

All hail the 50 day! Where would we be without it? That's easy – lower. We are referring to the S&P and its 50 day moving average, though most apply it to individual stocks as well. Including a few minor dips below it, the S&P has bounced off its 50 day 13 times in the past year. It's enough to make you wonder – could there be more chart guys than funnymental guys? You have to pay attention if only because most do. It's with rare exception that we buy or hold a stock below its 50 day. Everyone likes to talk about the 200 day, but in an uptrend like this, by the time you get to the 200 day you have given up, or lost a lot of money. That said, the 200 day is important. It's important in that it's your last chance to remain solvent. The S&P remains some 11% above its 200 day, versus an average 13% in this year's first six months. Perhaps more importantly, the 50 day is some 8% above the 200 day. All the money is made against this backdrop – the 50 day above the 200 day.

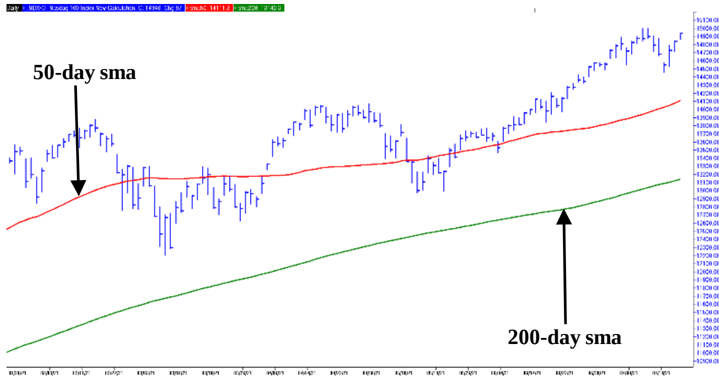
Frank D. Gretz

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

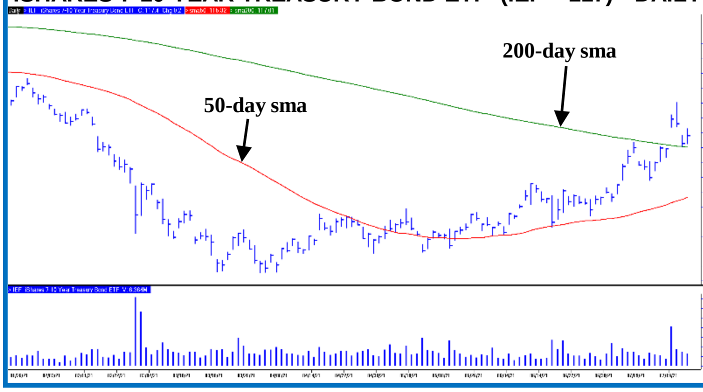
S&P 500 (SPX – 4367) – DAILY



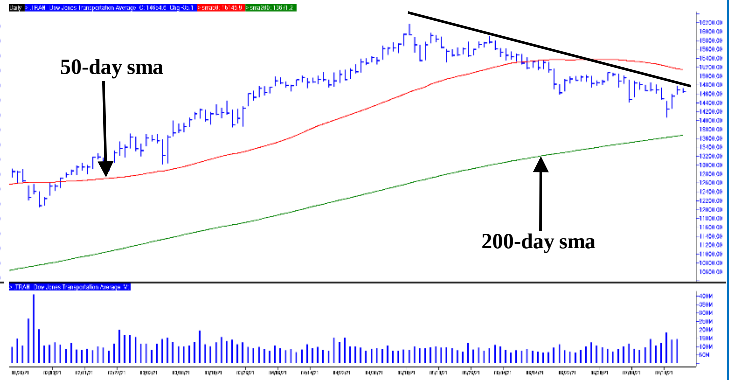
NASDAQ 100 (NDX – 14940) – DAILY



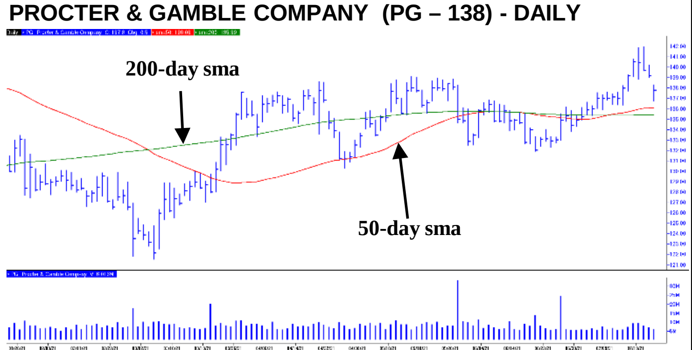
ISHARES 7-10 YEAR TREASURY BOND ETF (IEF – 117) - DAILY



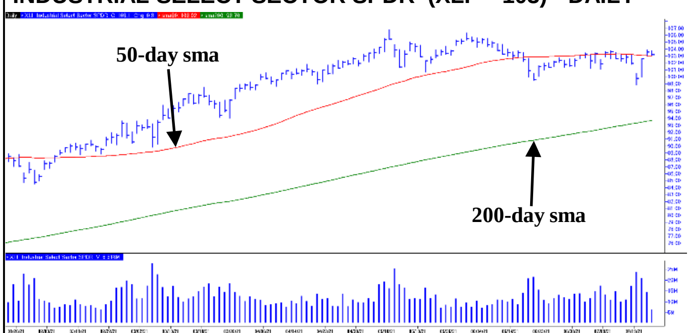
DOW JONES TRANSPORTATION AVERAGE (.TRAN – 14654) - DAILY



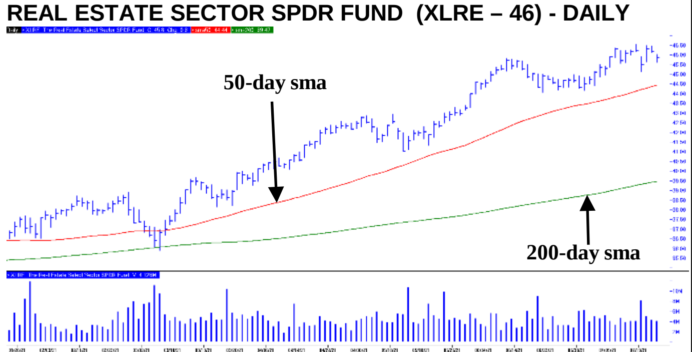
PROCTER & GAMBLE COMPANY (PG – 138) - DAILY



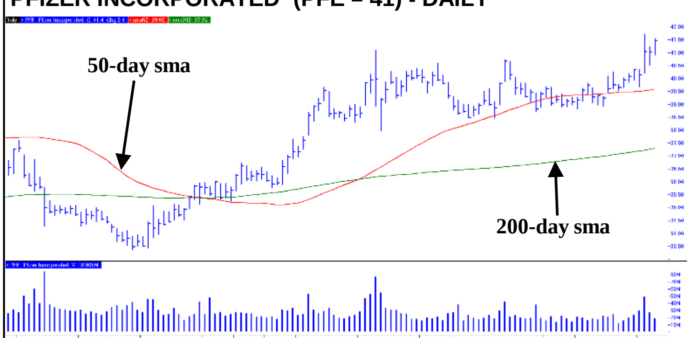
INDUSTRIAL SELECT SECTOR SPDR (XLI – 103) - DAILY



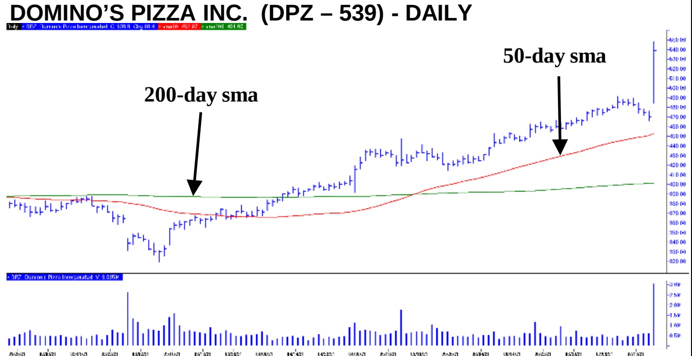
REAL ESTATE SECTOR SPDR FUND (XLRE – 46) - DAILY



PFIZER INCORPORATED (PFE – 41) - DAILY



DOMINO'S PIZZA INC. (DPZ – 539) - DAILY



NOVAVAX INCORPORATED (NVAX – 210) - DAILY