Wellington Shields

EQUITIES PERSPECTIVE

August 27, 2021
DJIA: 35,213

The trick divergences play… they make you think they're not working. If you prefer the movie version, in *The Usual Suspects*, the line was the biggest trick the devil ever played was making you think he doesn't exist. So what's a divergence, and what do we mean by not working? The divergence in this case is between the large-cap averages, the Dow and S&P, and the average stock, measured by the Advance-Decline index. As demand lessens the average stock and, hence, the A/D index peaks, while large-cap winners continue to climb higher. As we have suggested before, the A/D index is more than just another technical indicator, it's an insight into demand. It takes money to push up 2500 stocks every day. As demand lessens so, too, will the number of advancing issues. Eventually the bad drag down the good, the average stock drags down the stock averages. All well and good in both theory and reality, the problem comes down to timing. In 2018 a few days resulted in a 20% decline, in 1987 the divergences lasted months.

Therein lies the problem. There's risk in a backdrop like this, a two month plus divergence between the averages and the A/D index, yet there's plenty of money to be made. By definition, the big stocks go up – will Nvidia (221) ever stop? The dangerous part is that if you're not in Nvidia, Microsoft (299) or the S&P, but instead you're in the average stock, you're in the A/D index. You're not making money but it's okay because there's hope. As long as the S&P moves higher most days, there's hope, hope your stocks will catch up. Hope is a virtue in life, but a curse in the stock market. The virtue in the stock market is discipline – stay with uptrends, cut your losses. Divergences can go on and you can reap the S&P, or you can hope for the rest. The longer these divergences last, the more you come to believe they don't matter. We're not saying do nothing, we are saying whatever you do, do it carefully.

The market has taken on a better tone in the last few days, as often has been its way. Just how it can go from three consecutive 2-to-1 down days to three consecutive 2-to-1 up days in a market that really isn't trending, is a bit of a mystery. Then, too, this market has tended to dodge technical pitfalls all year. That said, there are still technical issues. In a market that was at or near its high, NYSE new highs and new lows were even last week, while on the NASDAQ new lows were close to 3-to-1the number of new highs. If you look to the percent of stocks above their 200 day average, that is, in uptrends, the number is around 50%–60% depending on whether you're looking at NYSE stocks or a broader measure. The markets, the big stocks, are making new highs with limited participation. As a practical matter, to participate you pretty much have to go big.

A colleague recently pointed out a couple of stocks that no longer are what they may seem – in this case, a good thing. SVB Financial (561) recently dropped "bank" from its name, appropriate since the long term chart here looks nothing like that of a bank. The chart is more that of a Tech stock, fitting given the former name of Silicon Valley Bank. If not share alike, seems SVB has contrived to share and not just bank. Another company possibly misunderstood is Honeywell (231). It seems there's more here than just the thermostat on your wall – not very techy, tech, as Penny would say. Seems they're now big in quantum computing, whatever that is, and other things that are techy, tech.

If you're reading this hot off the presses, so to speak, Jay Powell may well be offering his much anticipated comments at Jackson Hole. Nothing dire is anticipated, not even mention of "taper." Still, if he mentions the Fed balance sheet something could be made of that. It has been pointed out that there is a correlation between the Fed's balance sheet and the performance of secondary stocks, and we know the Russell 2000 has gone nowhere since early February. The overall backdrop also makes his remarks worrisome – it's one of those, the market makes the news sort of things. The S&P is making new highs while there are as many 12-month lows as highs, and only about half of stocks are in uptrends – you don't need us to tell you that's not healthy. Yet there are stocks acting well, the Big, making it hard to keep your hands out of the cookie jar. Just know there's a risk.

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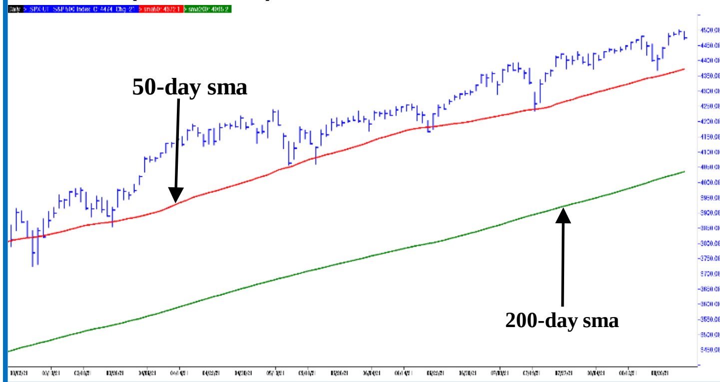
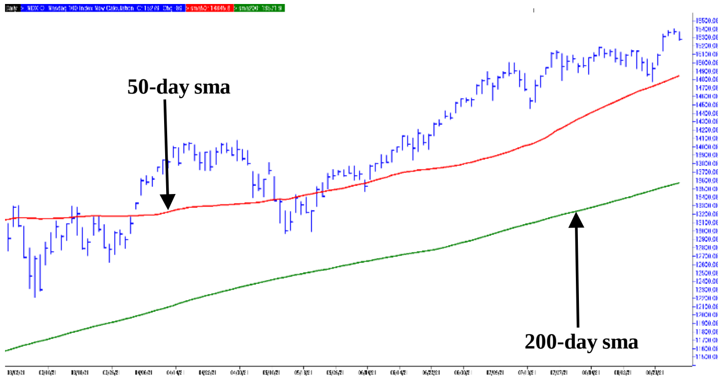
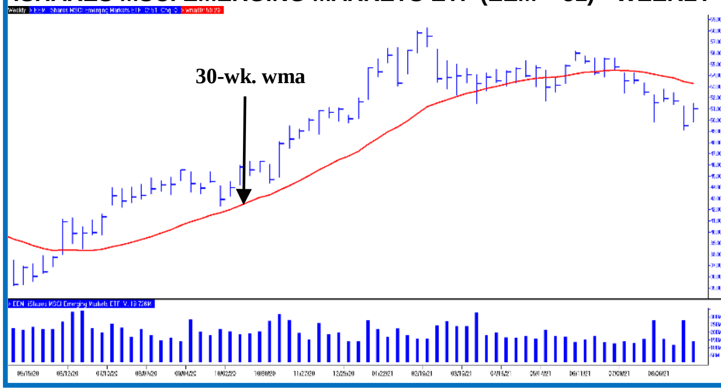
S&P 500 (SPX – 4470) – DAILY



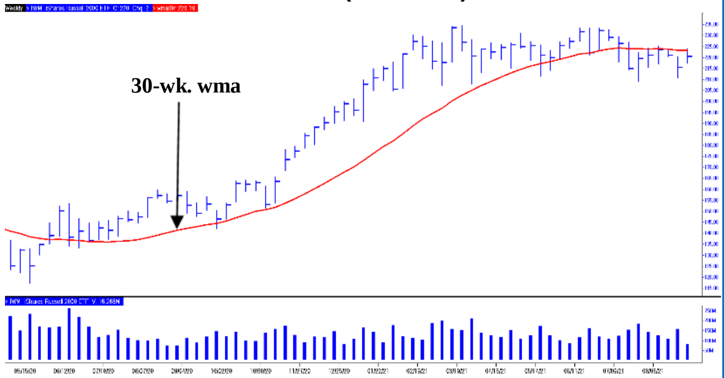
NASDAQ 100 (NDX – 15278) – DAILY



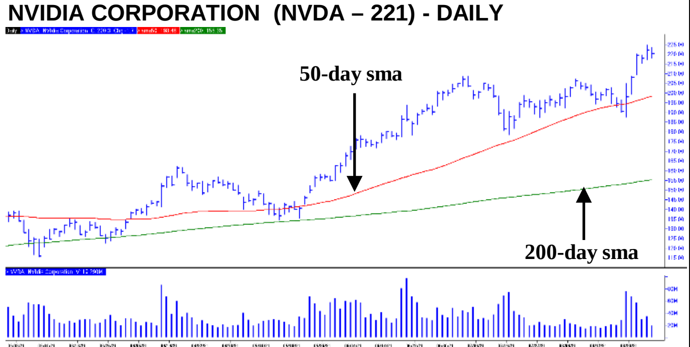
ISHARES MSCI EMERGING MARKETS ETF (EEM – 51) - WEEKLY



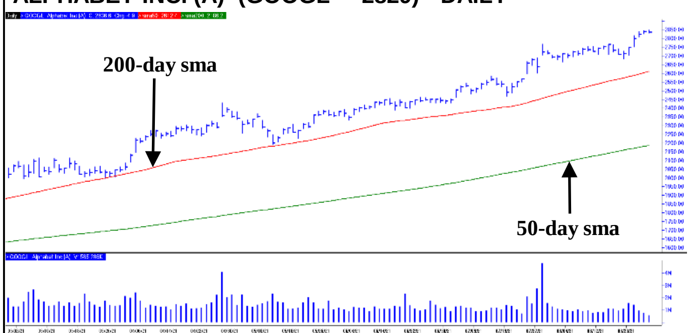
ISHARES RUSSELL 2000 ETF (IWM – 220) - WEEKLY



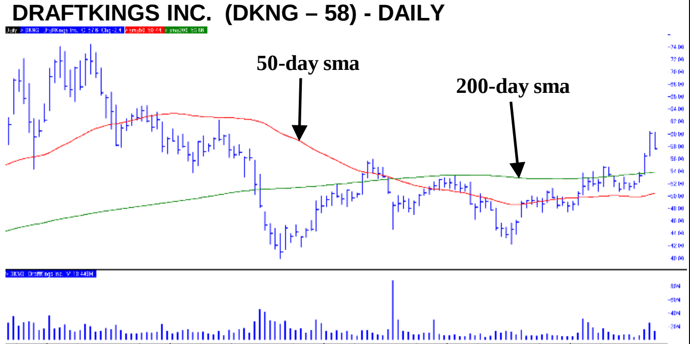
NVIDIA CORPORATION (NVDA – 221) - DAILY



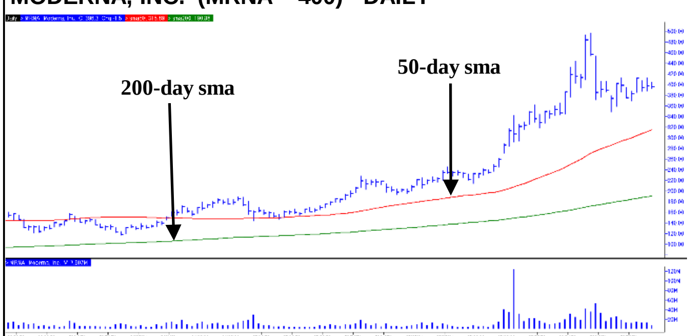
ALPHABET INC. (A) (GOOGL – 2829) - DAILY



DRAFTKINGS INC. (DKNG – 58) - DAILY



MODERNA, INC. (MRNA – 400) - DAILY



HONEYWELL INTERNATIONAL INC. (HON – 231) - MONTHLY

SVB FINANCIAL GROUP (SIVB – 561) - MONTHLY