Wellington Shields

EQUITIES PERSPECTIVE

November 19, 2021
DJIA: 35,870

The fear of missing out … and the fear of losing out. A little greed and the fear of job loss in part have combined to lift all manner of things to record highs. The brevity of last week's selloff we suppose will only reinforce the need to join 'em not fight 'em. Before its little pullback, the S&P last week finished its longest streak of record new highs since 1964. While the past isn't necessarily prologue, the market has a lot going for it, including the time of year. And there's the technical backdrop – the recent new high in the A/D Index, thanks to that major break out in the Russell 2000. Obviously it's money driving prices, and in this case it's a deluge of stimulus measures not just taken by the Fed but virtually worldwide. If there's any doubt as to the scope, even news of the taper caused no tantrum. Do you really think this is just all about good earnings?

If the market has a problem it is not everyone is stuck on the sidelines. Indeed, some may be playing a little too hard. On November 5 a record amount of options traded in the US, the highest trading volume on record, according to Goldman Sachs. Option trading volumes are now about 50% more in nominal dollar terms than all actual stock trading. Most of the option trading is in Calls, and is now back to those decades highs at the start of 2021, not an auspicious time for share prices. That has pushed the P/C ratio to the lowest level since June 2000, just before the dot.com bubble burst. Retail investors have been a major factor behind the surge in options trading, and a basket of stocks that are popular with day traders has gained about 150% this year, compared with the S&P's 24%. Clearly there's more than a little froth here.

News of the Fed's taper, like the CPI and pretty much everything else these days, left the market unphased. Granted the Fed is only about to start reducing its monthly security purchases by just 15 billion at month's end, therefore, still adding 400 billion to a balance sheet that has more than doubled since February 2020. Back in 2000, the Fed was withdrawing liquidity after the world didn't come to an end via "Y2K." In common with 2000 is an exceptional rise in the number of tech stocks, coupled with what seems more than a little speculation at the margin. The frequent measure of choice these days is not price to earnings, but price to sales. Bubbles always are difficult to time, they always can become more extreme. In bubbles you're not investing in Tesla (1096) the company, you're depending instead that someone will pay more for that piece of paper called Tesla. That shows up in parabolic charts, like that of Tesla. What makes this market not a bubble, however, remains clear. Bubbles are narrow – nifty-fifty, dot.coms and so on – this is not a narrow market.

When it comes to worries, inflation is all the rage. Just look at those consumer sentiment surveys. But here's the point, what we all are worried about rarely is the problem. Write down what you're worried about today, six months from now you'll likely find it unimportant. And, at least for now, the market seems to find unimportant the inflation worry, taper and what the Fed might do. That leaves one of our long-standing beliefs that it's where you're not looking that always gets you. We have always found China prime time in that regard, because it has become more and more obvious the economy has trouble, and investors don't seem to care. That said, we wrote a positive piece a few weeks ago, all which still seems true. Chinese tech stocks have become almost hated, and selling has reached washout levels. Momentum measures have started to recover, as was the case in 2008 and 2011.

Sometime back in the 80s there was a year similar to this one in that it was difficult to beat the market. It was difficult to beat the S&P back then because no one owned enough Microsoft (341). Each day Microsoft seemed to gap higher three or four points. It was almost too easy. As it happens, Microsoft now is looking easy – not extended and breaking out. And if you need to be invested, what could be easier. Meanwhile, while speculation is over the top, we always contend momentum trumps sentiment. Given the seasonally positive time of year and the professional need to perform, the market should be able to move higher. There was, however, a little cautionary note this week when the Dow rose Tuesday and there were more declining than advancing issues. Those "weak up days" usually lead to trouble. Gold has a seasonal headwind but acts much better. Those weak consumer sentiment numbers favor small caps and value.

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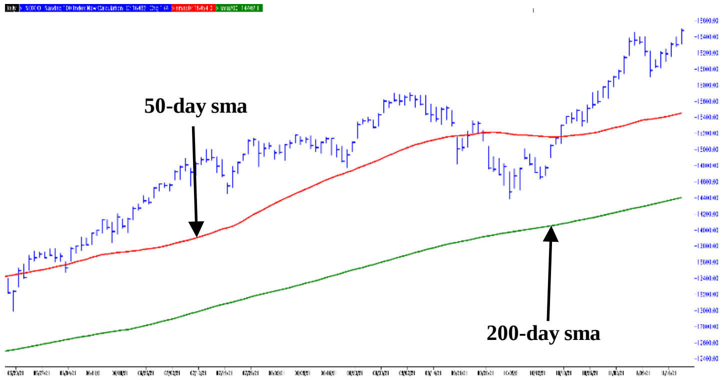
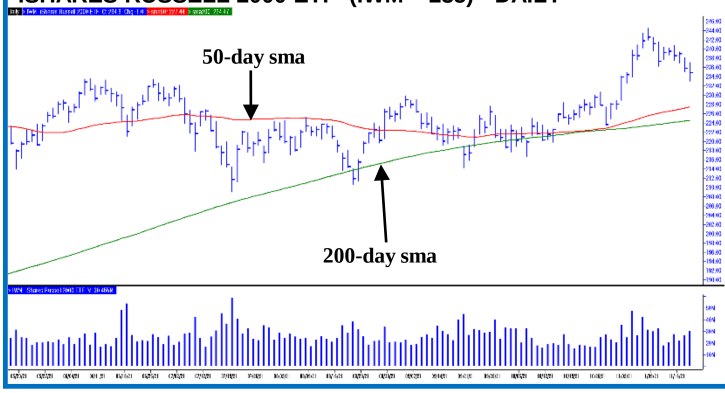
S&P 500 (SPX – 4704) – DAILY

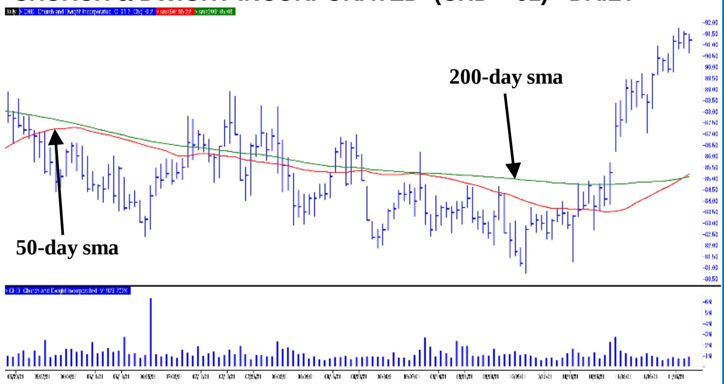
NASDAQ 100 (NDX – 16482) – DAILY



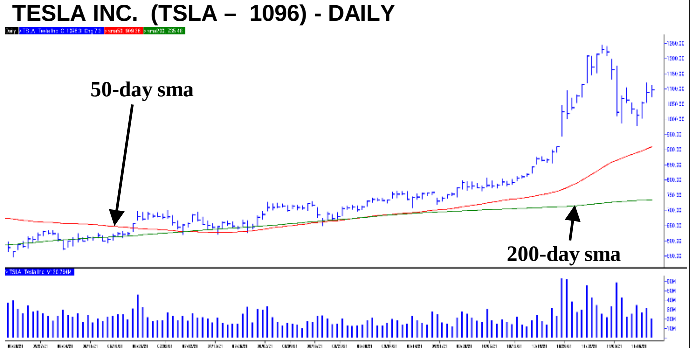
ISHARES RUSSELL 2000 ETF (IWM – 235) - DAILY



CHURCH & DWIGHT INCORPORATED (CHD – 91) - DAILY

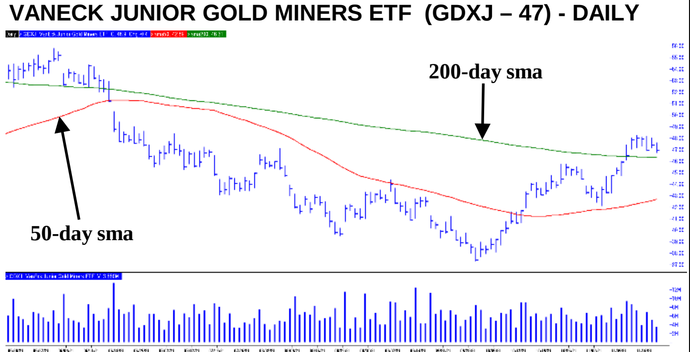


TESLA INC. (TSLA – 1096) - DAILY

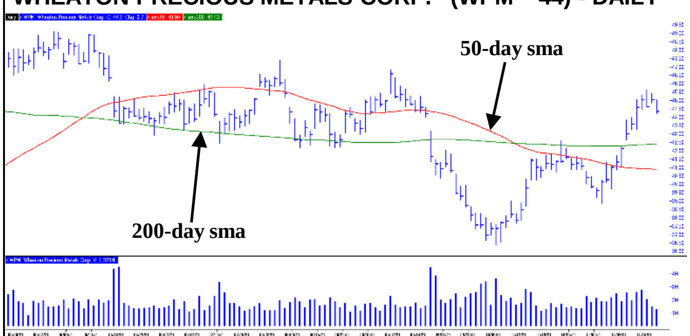


NVIDIA CORPORATION (NVDA – 317) - DAILY

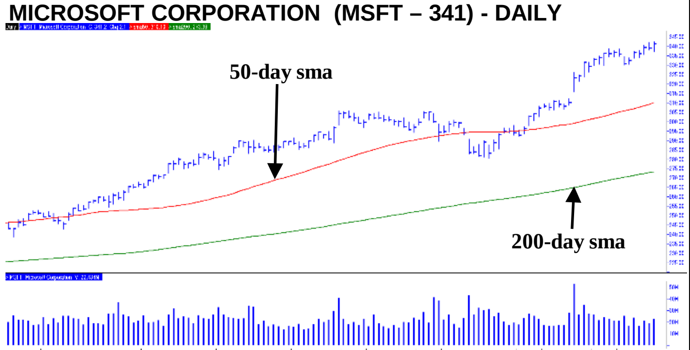
VANECK JUNIOR GOLD MINERS ETF (GDXJ – 47) - DAILY



WHEATON PRECIOUS METALS CORP. (WPM – 44) - DAILY



MICROSOFT CORPORATION (MSFT – 341) - DAILY



KRANE SHARES CSI CHINA INTERNET ETF (KWEB – 48) - DAILY