Wellington Shields

EQUITIES PERSPECTIVE

December 17, 2021
DJIA: 35,897

Sure it's the end of the world … but we think it's discounted. A hawkish Fed is not the end of the world, and we do think it is discounted – at least it should be. If you didn't know it had become a more hawkish fed, you have to be under that proverbial rock. And when it comes to the stock market, what we all know isn't worth knowing – it's discounted. Sure the market could have reacted negatively to the meeting, after all, you never know. But having sold off in the days prior to the meeting that seemed unlikely. And the market could have taken the bad news as the bad news it really is, but that's on the market – the market makes the news. Half the news in a bull market is bad news but the market ignores it. That the market seems to have ignored this particular bad news is a good sign, at least for now. But it is bad news. Don't fight the Fed, and all that.

We first became involved with the technical analysis for a simple reason – we noticed when "the market" went up we made money, and in market corrections we lost money. We decided a better understanding of what moves markets might be helpful, so we enrolled in the Bob Farrell school of technical analysis. We've become somewhat proficient at recognizing market trends, not so good at recognizing their duration. In any event, we believe things have changed, in part at least because of the significant degree of passive investing. Back in the day market trend was most important – academic studies showed the overall trend accounted for as much as 50 to 60% of the movement in any individual stock. Group performance was another 20% and fundamentals the rest. We've seen no recent academic studies, but our take is those numbers may well be reversed. Group behavior now seems to dominate. Where you're in has become more important than whether you're in.

Tech has been the place to be this year, as it was for much of the 1990s, but it hasn't always been that way. Consumer stocks dominated the 1980s and back in the 1970s when inflation ruled, it was mining and energy stocks that performed well. Coca-Cola (59) sold for 40x earnings in 1972 and only 9x earnings in 1981. Had you bought Coke at the end of 1972 – a real buy and hold stock – you didn't break even until 1985. Leadership in the stock market does change, and we think an important one likely has begun. We're not saying sell your Apple (172) and Microsoft (325), but "multiple of sales" Tech is likely to lose out as consumer staples stocks likely continue to outperform. Of the 33 stocks in the XLP (77), the Consumer Staples ETF, 10 have very positive charts – PepsiCo (172), CVS (101), Hershey (192), Procter & Gamble (161), Estee Lauder (363), Costco (533), you get the picture. As for XLP itself, it has cycled from fewer than 5% of component stocks above their 10 day average to more than 95%. That typically signals the start of an important move.

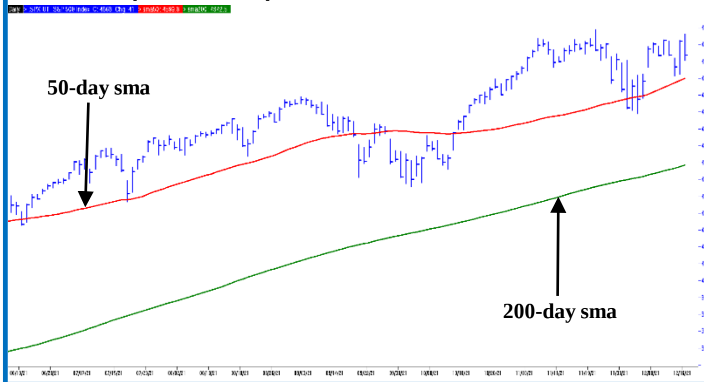
Aside from being in the right groups or sectors, the easiest way to make money in stocks is to be on the right side of the trend. In this case we're talking about the long-term trend. Many claim to be long-term investors, yet they own stocks in long-term trading ranges. You don't need to predict here, just look for stocks in five year steady uptrends. Those trends tend to persist. And when your timing is a little off, the trend bails you out. There are ample examples even in consumer staples, including Pepsi, Costco and Procter & Gamble. Two others that qualify here are Accenture (401), which gapped higher Thursday, and Intuit (634) which is consolidating. Even for those of us who don't know the meaning of "long term," trend is important. The easiest way to make 50% trading is to trade stocks in the process of doubling.

In November the market worried inflation was out of control, now the market is worried the Fed will be out of control. Despite the apparent demise of Evergrande, still no worry about China. And still no worry about Russia and the Ukraine, though we keep checking those defense stocks for a sign. It seems doubtful that financial conditions can tighten without some sort of market accident, and the technical back drop has begun to bear that out. The A/D Index peaked in early November, this measure of the average stock typically does so well before the averages themselves. More importantly, with fewer stocks advancing and in uptrends, it has become even more difficult in this already difficult year. The for sale sign on most of Tech here at year end may seem a dirty trick, but more likely is simply about crowded trades. And, did we mention, leadership does change. Meanwhile, with the Fed worry out of the way, we expect the market for now to muddle through, including Tech.

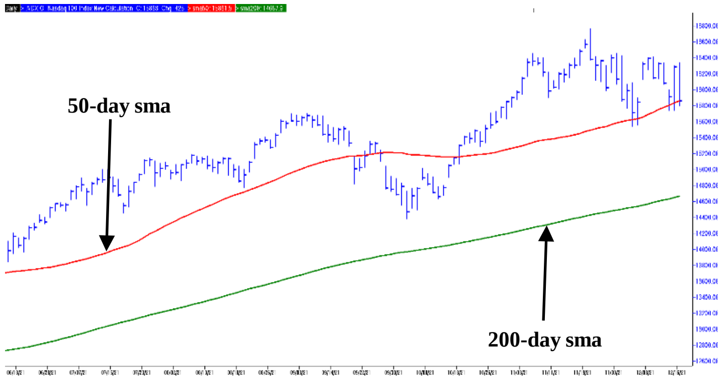
Frank D. Gretz

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

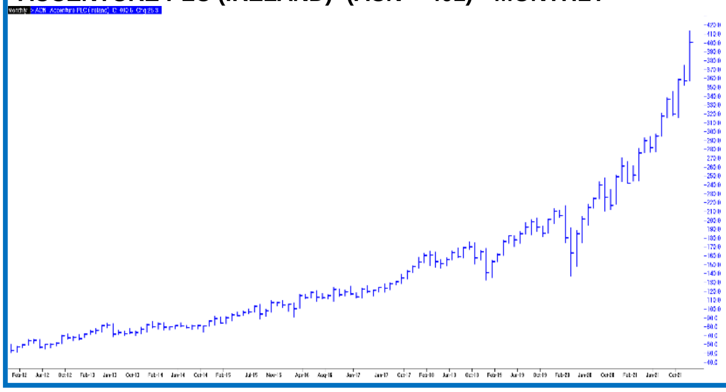
S&P 500 (SPX – 4668) – DAILY



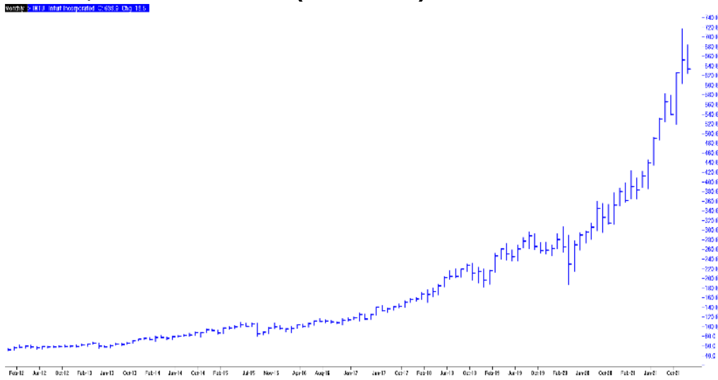
NASDAQ 100 (NDX – 15863) – DAILY



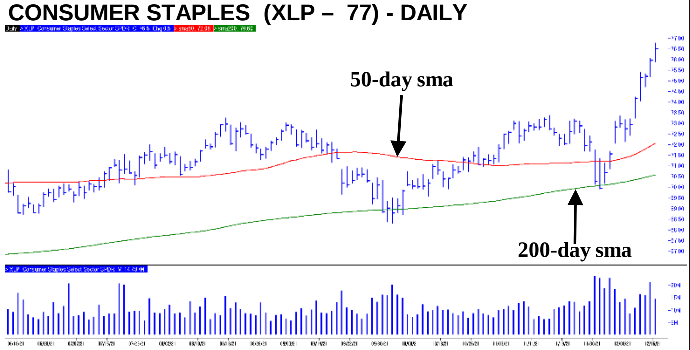
ACCENTURE PLC (IRELAND) (ACN – 401) - MONTHLY



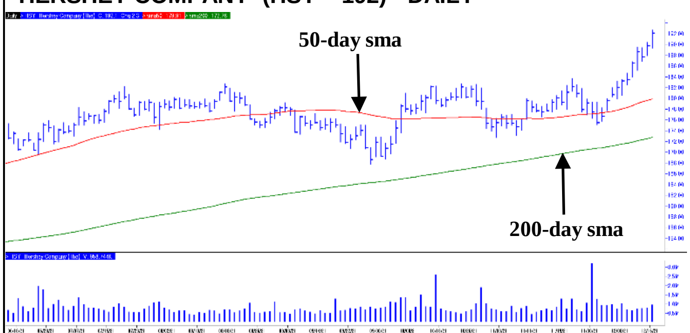
INTUIT, INCORPORATED (INTU – 634) - MONTHLY



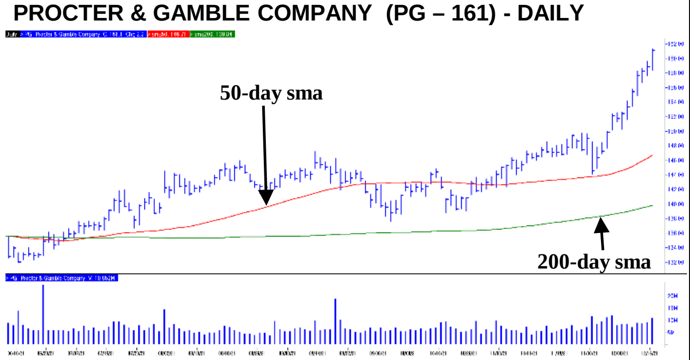
CONSUMER STAPLES (XLP – 77) - DAILY



HERSHEY COMPANY (HSY – 192) - DAILY

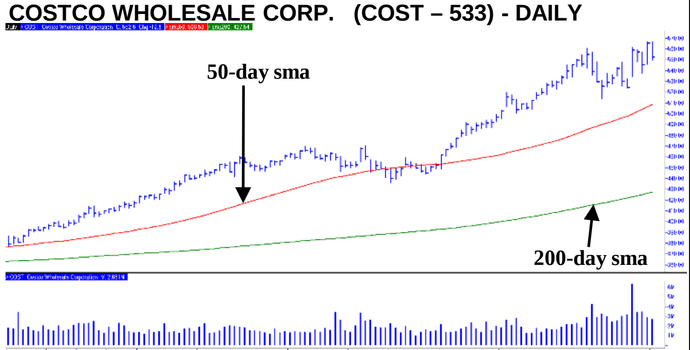


PROCTER & GAMBLE COMPANY (PG – 161) - DAILY



ESTEE LAUDER COMPANIES INC. (EL – 363) - DAILY

COSTCO WHOLESALE CORP. (COST – 533) - DAILY



PEPSICO INCORPORATED (PEP – 172) - DAILY