Wellington Shields

EQUITIES PERSPECTIVE

December 3, 2021
DJIA: 34,639

Don't blame the Covid variant … blame the technical variant. Blaming the weakness on the technical background seems a bit of a stretch, but not as much as you might think. Against the backdrop of the S&P and NASDAQ dancing around their highs, NYSE declining issues outnumbered those advancing for seven consecutive days. That's a pattern that almost always leads to trouble. Throw in the recent over the top Call buying, and risk increases all the more. The Covid variant didn't cause the weakness, it was instead an excuse for the weakness. Similarly, Powell's testimony Tuesday was yet another excuse for the day's decline. What is ignored in good markets gets punished in technically weak ones. It's the market that makes the news. The market needs to get to the point where bad news is no longer bad.

Hindenburg is back, the omen that is. Scorned for its name, the indicator is as useful as most. That's because the premise is sound. Markets internally out of sync are not healthy, and are a warning. Divergences between the market averages and the Advance/Decline Index, for example, mean the large-cap stocks that dominate the averages are out of sync with the average stock as measured by the A/D Index. The Hindenburg rather than looking at A/D's, looks instead at 12 month new highs and new lows. It's not whether one is greater than the other, it's when in an uptrend they are more or less equal. That's a market divided, and you know how that saying goes. That equality in new highs/new lows took sides last week. On the NYSE new lows were more than double the number of new highs and more than triple on the NASDAQ. This speaks to the almost superficial aspect of the strength in the averages.

As a result of the above the market has narrowed. In the process the Russell 2000 has forfeited its break out which had been so encouraging. After some seven months of literal hibernation this measure of secondary stocks joined the S&P/NAZ party in late October and, as the chart shows, did so in dramatic fashion. Now back below the breakout point, the rule of thumb says sell half, it's unlikely it will work. By the way, this applies to individual stocks with similar patterns. The other part of the story here seems big is where you want to be. It's not the most healthy thing for the market, but it is what it is. And when it comes to big, big Tech seems the place to be. They held together in the heart of the pandemic, and by the look of Apple (164), Microsoft (329), and the semis, seem likely to at least outperform.

Cathie Wood of the ARK ETF fame has had a tough go of it this year. So much so that new on the scene is the Tuttle Capital Short Innovation ETF (SARK-37) – payback time for the Everly Brothers. The object of the ETF is to mimic ARK Innovation (ARKK-99) inversely. After knocking the cover off the ball last year, Cathie has been a little out of sync this year, but who among us is without our rotation faux pas. What is a bit troublesome here is that she seems to lean to "stay at home" stocks, like Zoom Video (192), Teladoc (97), Roku (210) and the like. Come what may with the new variant, we don't see anything like the previous lockdown when those stocks were big winners. And the charts more than bear that out, as does the chart of ARK Innovation itself – and this despite a 10% holding in Tesla (1085). With its stay at home emphasis, news of the variant helped the fund last Friday, but that proved brief. The variant doesn't seem to be helping ARKK, its going away likely also wouldn't help.

We have seen a couple of days of extreme selling – near 90% down volume days. That's a good thing when you understand sellers, not buyers, make lows. Prices can move up with relative ease when selling is out-of-the-way. You do need proof of that, however, like an 80% up volume day. The spike in the VIX (28) is also encouraging, but it's not the level per se that counts. What is needed is a reversal from a high-level to indicate the panic has passed. With fewer than 6% of S&P issues above their 10 day average, a rally of sorts was due. THE low seems doubtful, but a big up day would change our mind. They say never buy an up opening in a bear market. Wednesday's opening and dramatic reversal argue for a bear market. Thursday's up opening and decent close argue – never mind. We expect this year to muddle through, talk of bear market possibly is next year's story.

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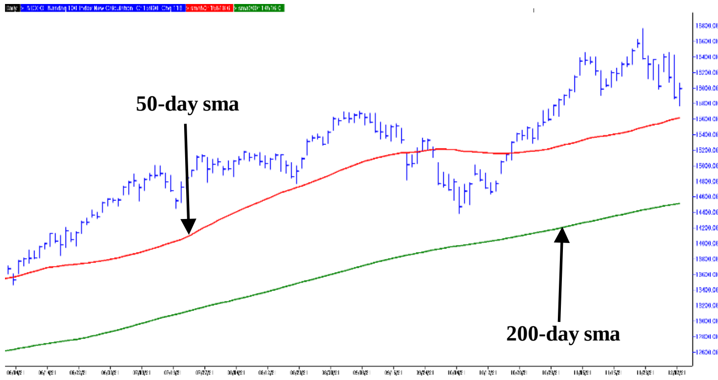
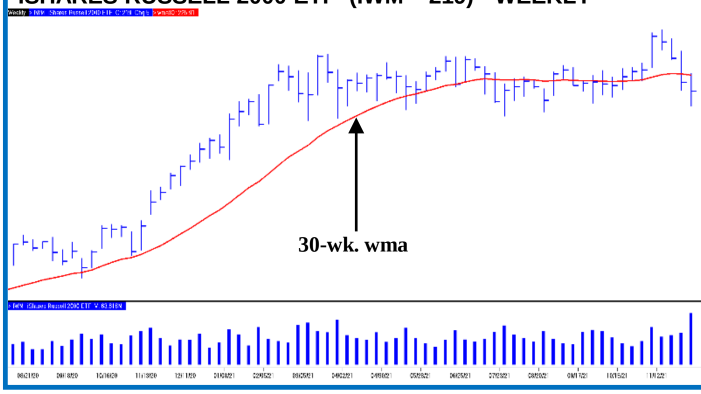
S&P 500 (SPX – 4577) – DAILY

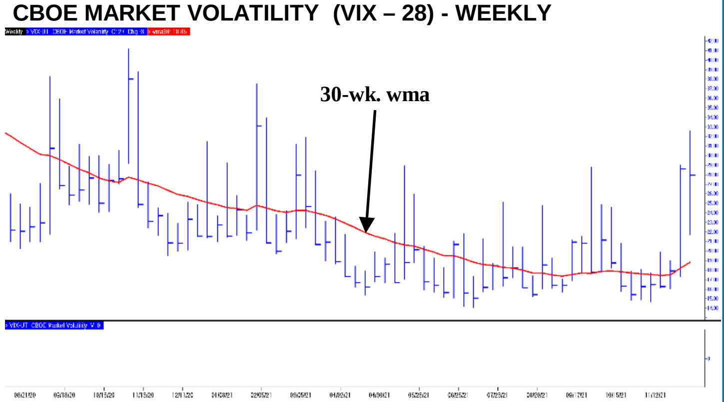
NASDAQ 100 (NDX – 15990) – DAILY



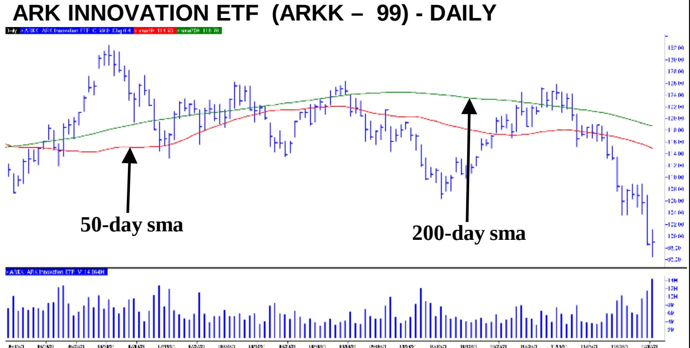
ISHARES RUSSELL 2000 ETF (IWM – 219) - WEEKLY



CBOE MARKET VOLATILITY (VIX – 28) - WEEKLY

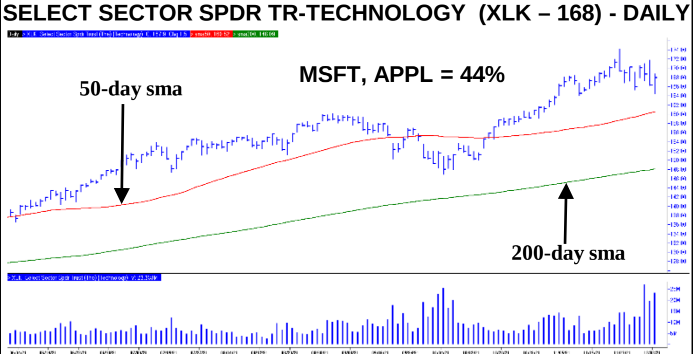


ARK INNOVATION ETF (ARKK – 99) - DAILY

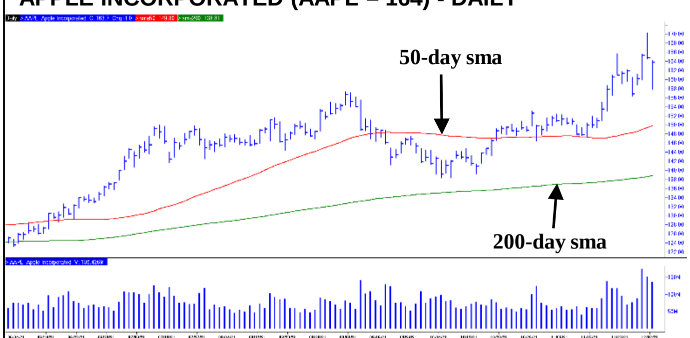


TELADOC HEALTH INC. (TDOC – 97) - DAILY

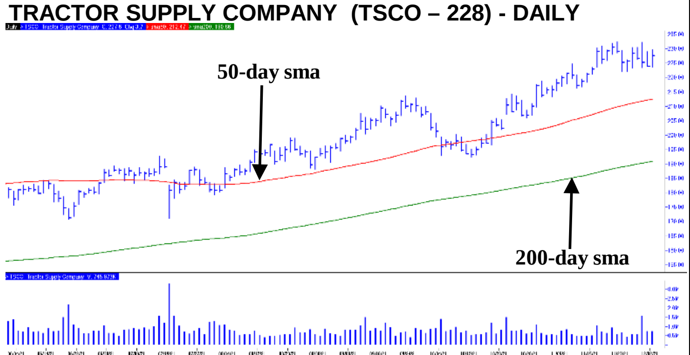
SELECT SECTOR SPDR TR-TECHNOLOGY (XLK – 168) - DAILY



APPLE INCORPORATED (AAPL – 164) - DAILY



TRACTOR SUPPLY COMPANY (TSCO – 228) - DAILY



A.O. SMITH CORPORATION (AOS – 81) - DAILY