Wellington Shields

EQUITIES PERSPECTIVE

January 14, 2022
DJIA: 36,113

It's a market of stocks … but this year those stocks could be different. Last year Tech drove the market. More specifically, six Tech stocks drove the market. Those are the biggest, mostest, fastest, bestest– and they're not bad. It's hard to say an unkind word about Tech, the companies. The problem is most don't distinguish between the companies and their stocks. Most understand Tech is where you want to be. The problem is most know it to the point they're already there. If six stocks are close to 25% of the S&P market cap, do you really think they're on their way to 35–40%? Anything is possible, but it's also possible that everyone who wants in, is in. Meanwhile, raise your hand if you own Hewlett-Packard Enterprise (18) or, for that matter, stocks like Cisco (62) or IBM (135). These aren't exactly over-owned and have better charts than most of Tech. Emphasis in the stock market is always changing, and it could be doing so again.

Change in this market is more than just about Tech. Change has had a lot to do with the bond market. Bonds have correlated quite well with stock prices recently in that higher yields have meant lower prices. Now that bonds seem in a clear downtrend, that should be a problem for stocks. And the higher yields have been blamed for much of the trouble in Tech, though our view is over ownership is the problem. And if a problem for Tech, higher rates have been a boon to all that is financial. As you may recall, we don't like banks – if they're not lending to some Third World country they're trying to rig LIBOR – really? That said, we do like making money, and the banks and other financials look higher. Going through the charts, there are maybe 50 or 60 you have to buy. A couple of ETFs here are the SPDR Financial (XLF-41) and the SPDR Bank (KRE-78). Somewhat forgotten is Berkshire Hathaway (321), the largest holding in XLF, a financial with a 20 percent holding in Apple.

Oil isn't really new, the stocks had a great year in 2021. Still with all the focus on EVs, and at only 3–4% of the S&P by market cap, the stocks still look dramatically under-owned. The good charts here run the gamut, from Chevron (129) to Vermilion Energy (15). The other area that makes sense this year is Staples. While Staples sounds defensive, there are those with growth stock long-term patterns, without the volatility. If Tech generally underperforms this year, these stocks, and especially those in long-term uptrends, could do quite well. Obvious names include Coke (61) and Pepsi (174), as well as Church and Dwight (104), Procter & Gamble (158), Hershey (197) and the like. Last year it was all but impossible to beat the S&P unless you over-owned the five or six stocks that dominated that average. This year could be quite different – it could be easy to beat the S&P. If those five or six stocks underperform, that's bad for the S&P. If out of favor Tech, Banks, Staples and, especially, Energy outperform, they will hardly move the S&P needle, though there's plenty of money to be made.

Amazon (3224) has become a bit controversial after its relatively poor performance last year. And most technicians will tell you don't look at the chart while dining. But that's the daily chart – each bar one day. The monthly chart – each bar one month – is much different, and to our thinking a better way to look at the FANG and other stocks that trade erratically. On that basis, it's a consolidation, not unlike the pattern between late 2018, and early 2020. Since the overall trend is up we would assume that like the last time the current consolidation will resolve to the upside, but we don't anticipate. We buy breakouts. If we were to anticipate, we at least would wait for move above the 50 day around 3450. Last time we listed a number of stocks in long-term /multi-year uptrends. Even here we would buy when the stocks are above or recover to be above their 50 day average. Included this week is Edwards Life (120) which seems to meet that criteria.

When it comes to the market overall, we're still cautious. We all know the first couple rate hikes the market typically ignores, but typically the market doesn't ignore a taper, let alone a halt to stimulus. Meanwhile, the Advance-Decline Index peaked in early November and fewer than 50% of stocks are above their 200 day average, that is, in medium term uptrends. Against the averages, which are only a few percent from their highs, that's quite a divergence, and divergences don't end well. There are many Financial and Energy stocks, and they are acting well. If you're thinking these may serve to correct the divergences, it's possible but that would be unusual. That said, divergences can linger, and that may well be the case this time. Tuesday's 3-to-1 up day leaves the feeling of a market with a divergence, but not diverging. While the overall market trend is where we tend to place our emphasis, the money may well be in being in the right areas, hopefully the aforementioned retro-Techs, Staples, Financials and Energy stocks.

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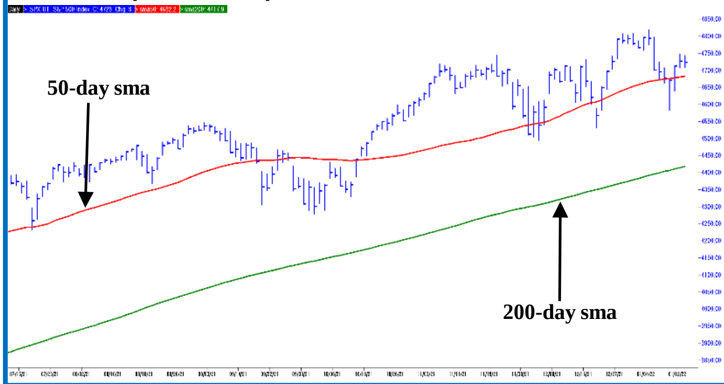
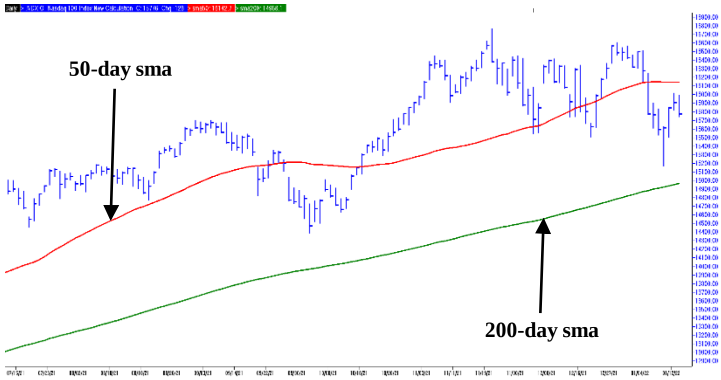
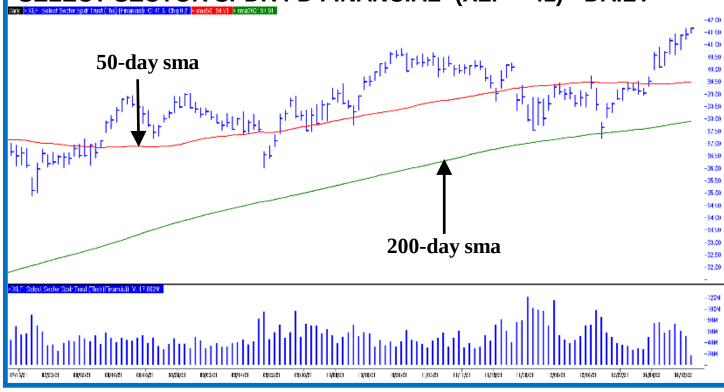
S&P 500 (SPX – 4659) – DAILY



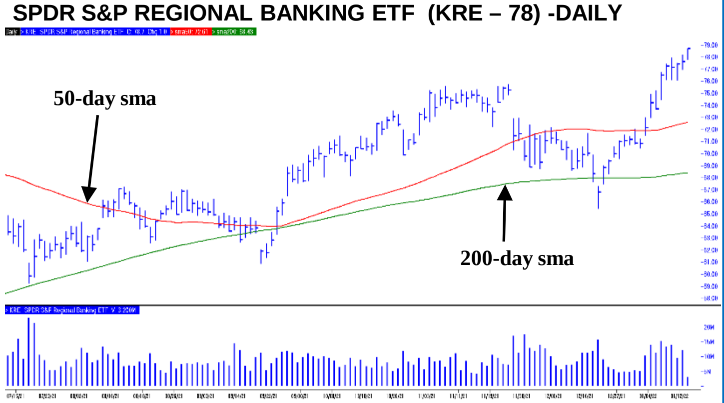
NASDAQ 100 (NDX – 15495) – DAILY



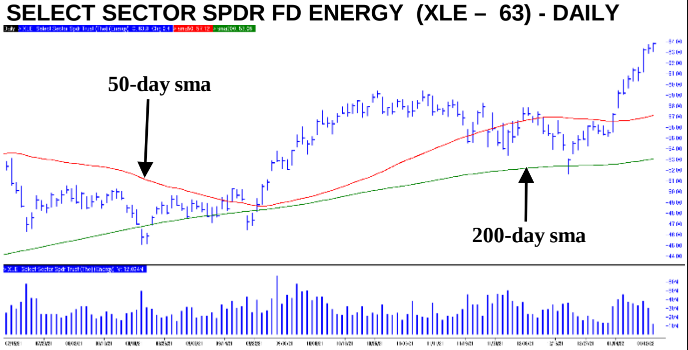
SELECT SECTOR SPDR FD FINANCIAL (XLF – 41) - DAILY



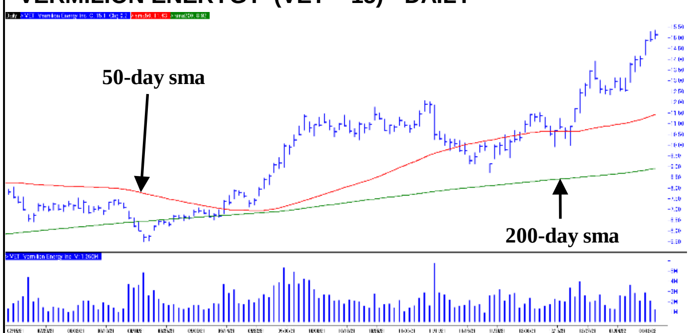
SPDR S&P REGIONAL BANKING ETF (KRE – 78) -DAILY



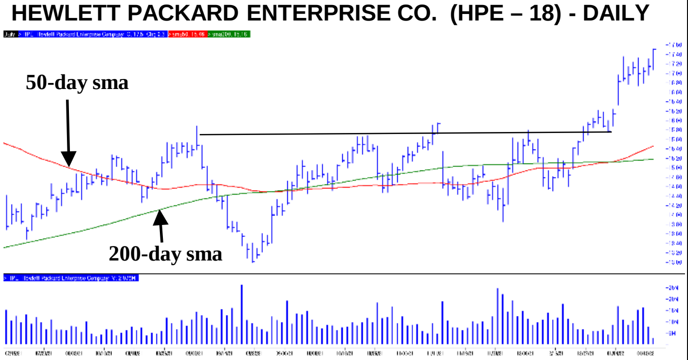
SELECT SECTOR SPDR FD ENERGY (XLE – 63) - DAILY



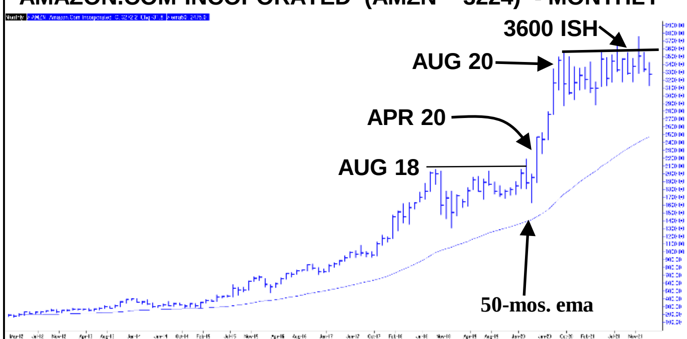
VERMILION ENERYGY (VET – 15) - DAILY



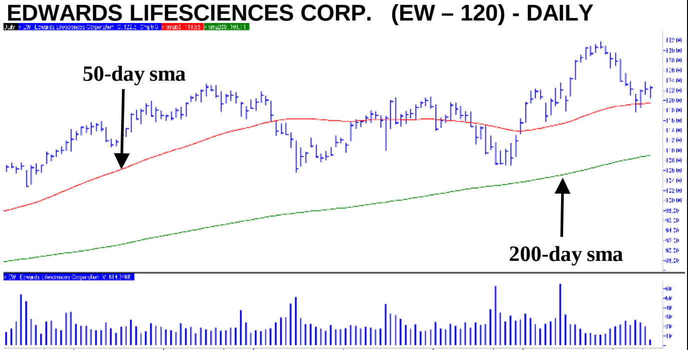
HEWLETT PACKARD ENTERPRISE CO. (HPE – 18) - DAILY



AMAZON.COM INCOPORATED (AMZN – 3224) - MONTHLY



EDWARDS LIFESCIENCES CORP. (EW – 120) - DAILY



EDWARDS LIFESCIENCES CORP. (EW – 120) - MONTHLY