EQUITIES PERSPECTIVE

January 21, 2022
DJIA: 34,715

A stock picker's market … let's hope not. The idea of a "stock picker's" market seems one which is narrow and selective, one in which we are supposed to be smart enough to pick the relatively few winners. To that we say – good luck. In Barron's 2021 forecasting challenge, the toughest question was predict the best Dow stock. Mind you, we're not talking about the whole market, just 30 stocks. It was Home Depot (350), which less than one percent got right. Under 2% correctly forecast the worst, Disney (148). Forget stock picking – it's hard. Give us instead those days of 2000-3000 stocks up every day. That's when we're all good stock pickers. Those days may be gone for now, yet the concept could be alive and well in a somewhat different format. It could be easy to be a good stock picker provided you're picking a Regional Bank, Oil or a Staple. There are plenty of stocks here, and they all look higher.

It's a bit of a stretch to expect most to back off of Tech – there's not even a 12 step program. And it's probably not all Tech, it's the price to sales Tech you probably want to avoid. And if Tech underperforms, it's likely the S&P will as well. If you find that hard to believe, there are studies about the first week of the year that seem even more of a stretch – the idea that five days have predictive value for the year. The numbers, however, back that up. In this year's first week Energy was up 11%, Financials 5%. The rest of the year Energy was up 90% of the time for a median gain of 19%. Defensive stocks were up 82% of the time for median gain of 14%. Against this backdrop the S&P had median loss of 2.3%, according to SentimenTrader.com.

If Tech/Growth is to underperform, a flat to down S&P would hardly come as a surprise. Last year to outperform you had to over own the five or six stocks that made up 25% of the S&P market cap. If they come in flat this year that would make outperformance easier especially if Oil, Staples and Financials follow the pattern described above. But there's more to this than just relative performance, this year should offer some real upside, provided you're in the right areas. Those areas, however, could be very different than those last year. In chart form, what rather dramatically says it all are the Invesco Pure Value ETF (RPV-83) versus the Pure Growth ETF (RPG-183). The Value Index might be compared to the SPDR ETF (XLP-76) and the growth matches up with any number of those for Tech. The other area to look to is financials, preferably ex stocks like Goldman (348) and JP Morgan (148). The SPDR Regional Bank ETF (KRE-73) would seem to work here.

Money has come out of bonds and doesn't seem to have gone to Crypto. That's not much of a surprise since Crypto seems a world unto itself, unrelated to rates or the dollar. We thought the bond money could go to Gold because they're both inflation related, but that hadn't been the case until this Wednesday, when most precious metal shares were at least able to move above their 50 day averages. Like oil, this is a fairly homogeneous group, where getting the trend right is more important than stock picking. Now that they at least are above the 50 day, the uptrend has a start, and the dynamic nature of the moves Wednesday also seems a positive sign. As it happens, should we be right, money from inflation fearing bonds could move to inflation loving Gold. The difference in the size of those markets would result in a significant move in Gold.

The Advance-Decline Index peaked in early November while the market averages subsequently continued to bounce around their highs. Divergences here don't end well. Hope may spring eternal, but rarely are these divergences self-correcting. Divergences can linger however, and last week's 3-to-1 up day and Thursday's 400 point decline with modestly negative A/D's made a trading range a possibility. This week's 5-to-1 and 3-to-1down days, and the break in the NAZ and Russell, suggest a low will await more pessimistic extremes – a VIX (26) in the low to mid 20s won't get it done, despite an already oversold market. Tech and, therefore, the NAZ is where the greatest weakness lies. Thursday's rally was impressive, while it lasted. Bear in mind, and the pun is intended, most of the best one day rallies happen in bear markets

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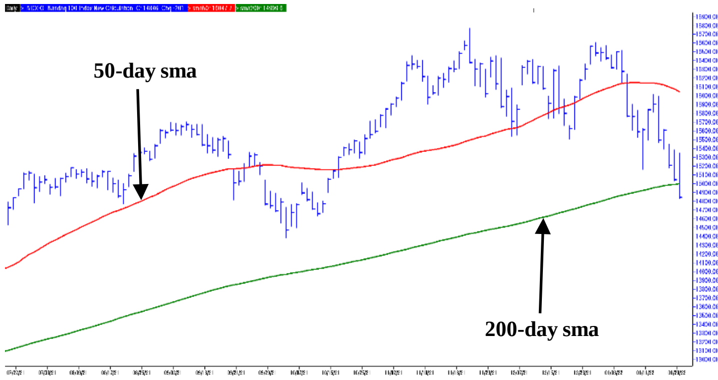
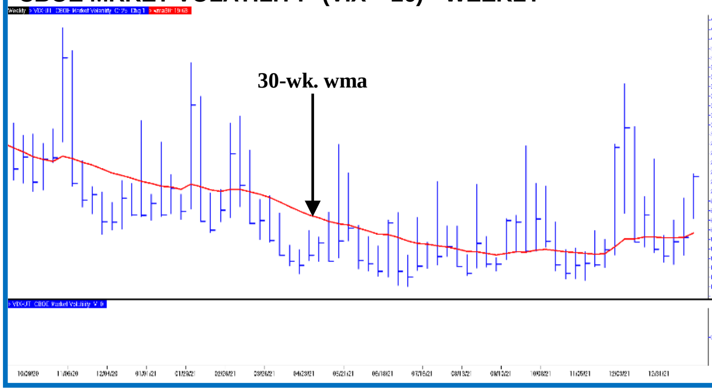
S&P 500 (SPX – 4483) – DAILY

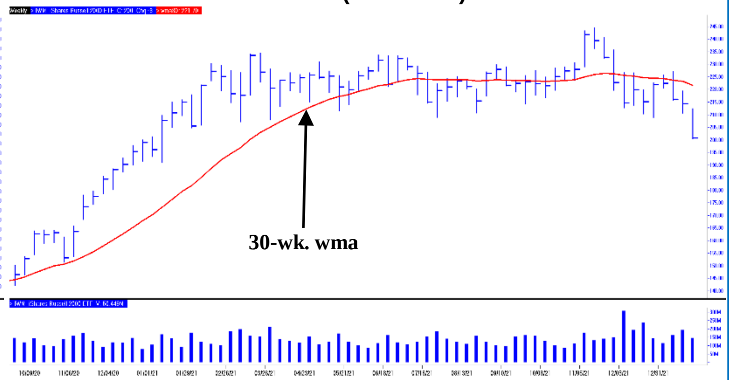
NASDAQ 100 (NDX – 14846) – DAILY



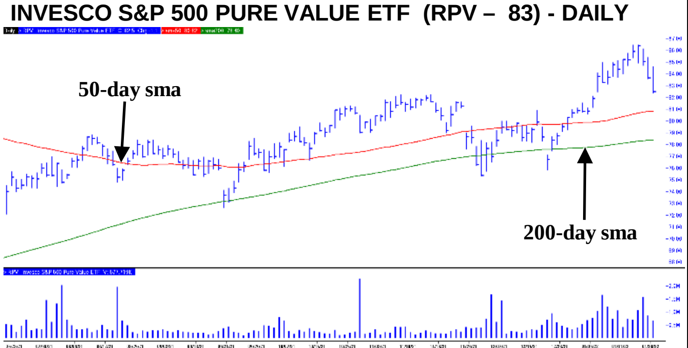
CBOE MRKET VOLATILITY (VIX – 26) - WEEKLY



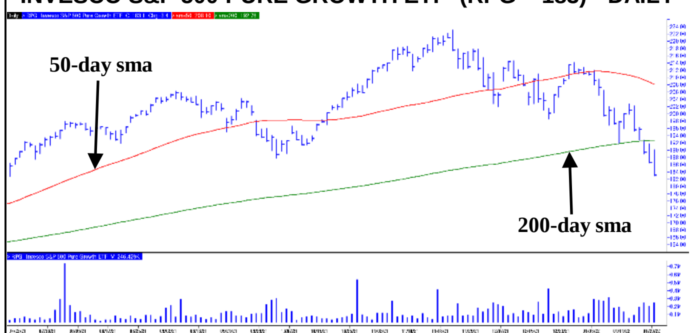
ISHARES RUSSELL 2000 ETF (IWM – 201) - WEEKLY



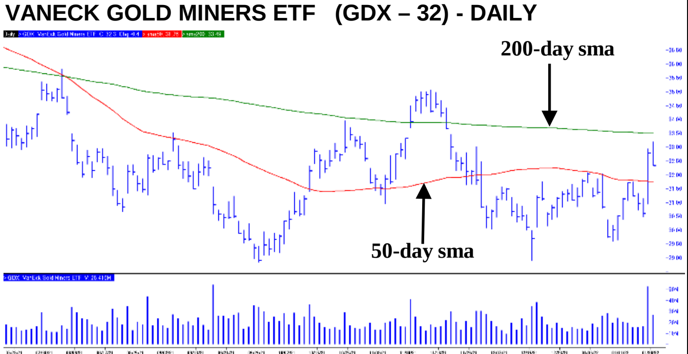
INVESCO S&P 500 PURE VALUE ETF (RPV – 83) - DAILY



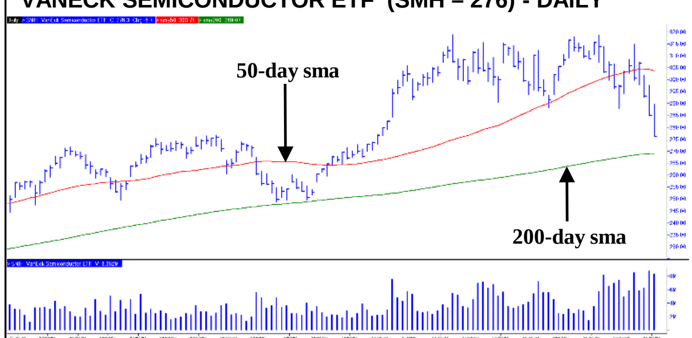
INVESCO S&P 500 PURE GROWTH ETF (RPG – 183) - DAILY



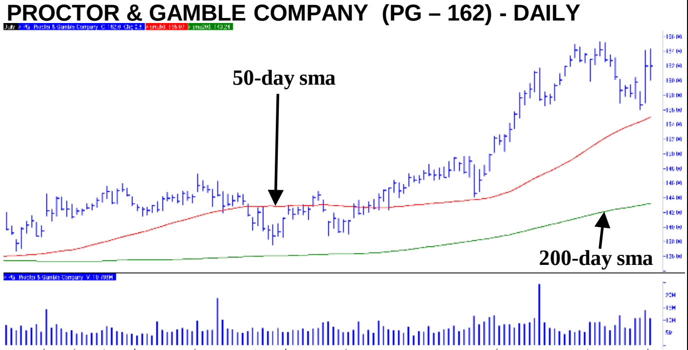
VANECK GOLD MINERS ETF (GDX – 32) - DAILY



VANECK SEMICONDUCTOR ETF (SMH – 276) - DAILY



PROCTOR & GAMBLE COMPANY (PG – 162) - DAILY



PROCTOR & GAMBLE COMPANY (PG – 162) – MONTHLY