Wellington Shields

EQUITIES PERSPECTIVE

January 28, 2022
DJIA: 34,160

Oversold … it doesn't mean over. Oversold is a technical term we pretty much dislike. Among other things, it's completely overused – two days down, all you hear is oversold. It's also what they call "mean reverting." When the market is oversold you're supposed to buy, and when overbought you're supposed to sell. Do that for a while and you'll be broke. Oversold can become more oversold and overbought more overbought. Very bad and very good markets tend to do that. What you want to look to are the trend following indicators, that's where the money is made. The easiest of these are the moving averages. Stick with stocks above the 50-day and by all means stick with stocks above their 200-day. For the overall market, all the money is made when for the S&P the 50-day is above the 200-day. The S&P is below its 200-day around 4450, but the 50-day remains well above there. That's not the case when it comes to the Russell 2000 – that's a bear market.

After all that – the market is oversold. While our saying it doesn't change the above, we know oversold when we see it. An amazing 42% of NASDAQ stocks are down 50% from their 52-week highs, a quarter of them are at 52-week lows. That's on a par with the worst numbers in 20 years. For the S&P, fewer than 8% of its components were above their 10-day average. That's oversold. Perhaps as impressive has been the sentiment side. Put buying and buying of inverse ETFs were both at record levels. This rapid swing to bearishness is surprising and typically a good contrary indicator. The VIX hit 39 Monday before reversing to 30, a sign of panic and an end to that panic. All of this led to Monday's impressive reversal. The problem is one day is just one day, and one day reversals rarely prove reliable. That said, we are oversold and sentiment has turned negative.

We're fond of most things retro, and have come to stretch that fondness to stocks as well. So you can only imagine how pleased we were to see IBM (133) finally get out of its own way. Part of our investment theme is to always look to stocks that are under owned and vice versa. At something like 3% of the S&P market cap, what could be more under owned than oil. We don't know what the number might be for retro Tech stocks like IBM and Hewlett-Packard Enterprises (16), but our guess is it's small and, therefore, the potential. And, of course, the charts have shaped up. At the other end of the spectrum is biotech, where the charts have not shaped up. Indeed it's a group so bad it's good. More than 60% of biotech shares are down 50% or more, something that has only happened 14 other times. A month later the shares were up each time, according to SentimenTrader.com. Obviously there are few commendable charts here, but at the least this might not be the best time to sell.

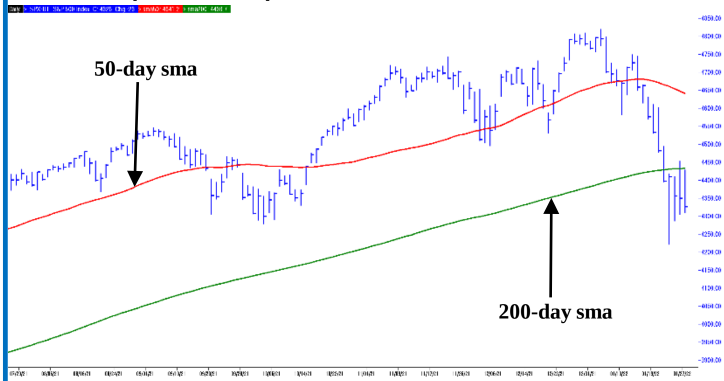
Despite the market weakness and plenty of exuberance, there doesn't seem much talk of a bubble. It's likely true in part because bubbles are hard to define, especially when you're in them. And this bubble is different. It's not a housing bubble or a bubble in dot.com's. There have been a series of bubbles, making it hard to call "the market" a bubble. Happy Anniversary, by the way, to the MEME bubble – how's that GameStop (93) working for you? If that was just an aberration, how about those SPACS? Lend money to someone to buy something and hope for the best – no more tulips please. By the time most of us figured out what EV stood for, it was over. And the IPOs act like IOUs. Finally, and still controversial are the Cryptos, loved by some smart people, thought to be a Ponzi scheme other smart people. Who are we to say except to say, history doesn't usually smile on markets like this.

There's one thing the market should like about the Fed meeting – it's over. Another should be no real mention of balance sheet reduction. We didn't expect a rate rise, but a little QT, versus QE, seemed a possibility. If you want to see what QE has done for the market, and could possibly undo, see the chart on page 7 of last week's Barron's. With the meeting out of the way and the market still oversold, some recovery makes sense. However, the technical backdrop is what got us in this mess and it's still not pretty. Declining stocks have outnumbered those advancing for 10 consecutive days. The A/Ds lead the stock averages. Despite the tailwind of higher rates, financials have not acted well, perhaps sniffing out a weak economy. Staples still makes sense, as does oil. The latter also might provide some hedge against the problem in the Ukraine, which everyone now seems convinced is not a problem.

Frank D. Gretz

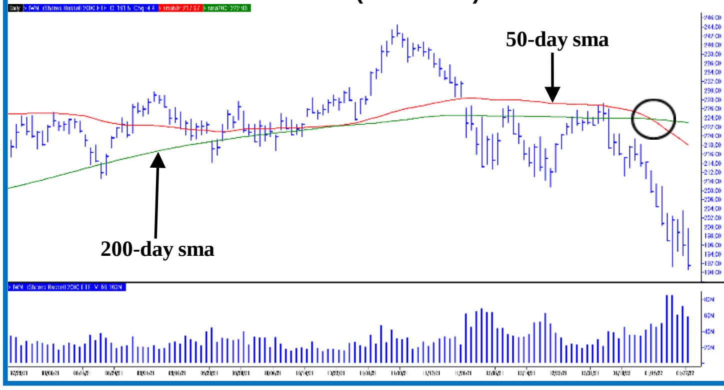
140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

S&P 500 (SPX – 4326) – DAILY

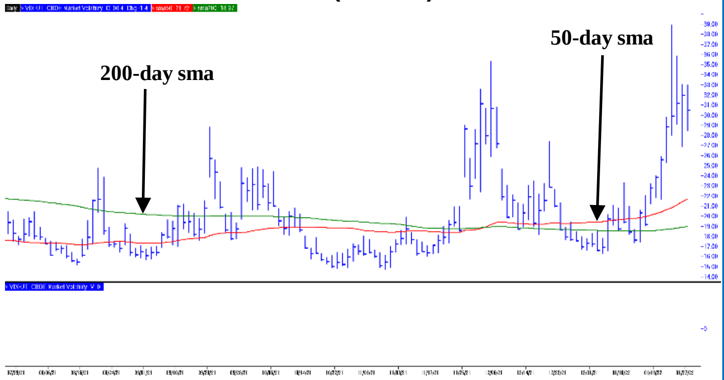


NASDAQ 100 (NDX – 14003) – DAILY

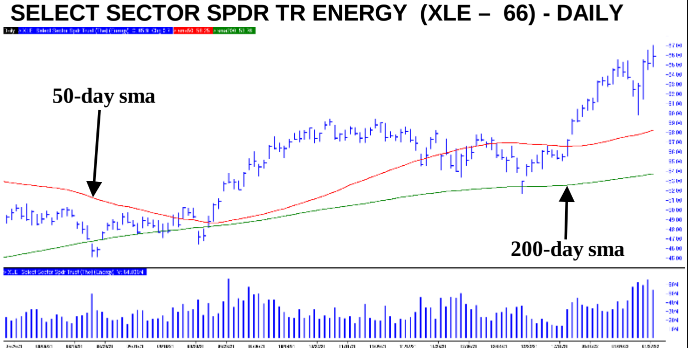
ISHARES RUSSELL 2000 ETF (IWM – 191) - DAILY



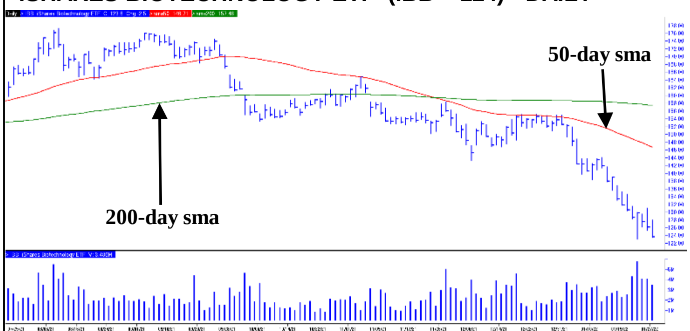
CBOE MARKET VOLATILITY (VIX – 31) - DAILY



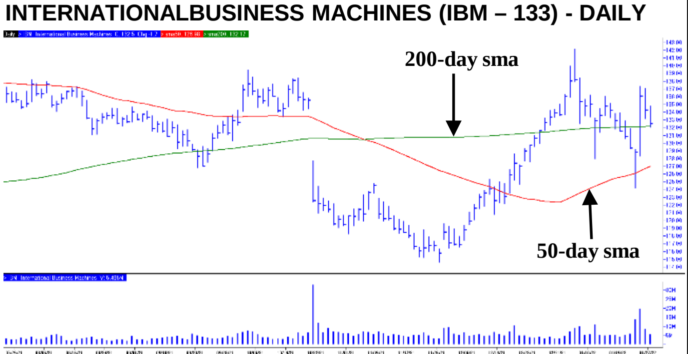
SELECT SECTOR SPDR TR ENERGY (XLE – 66) - DAILY



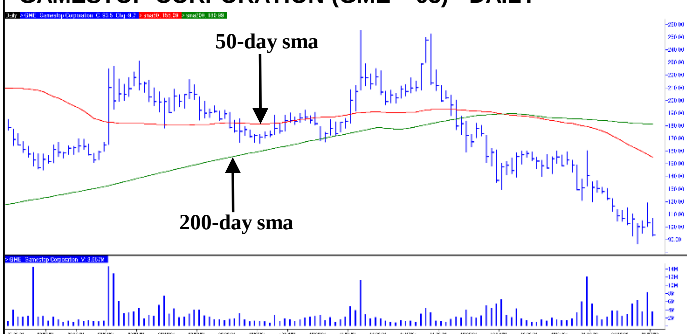
ISHARES BIOTECHNOLOGY ETF (IBB – 124) - DAILY



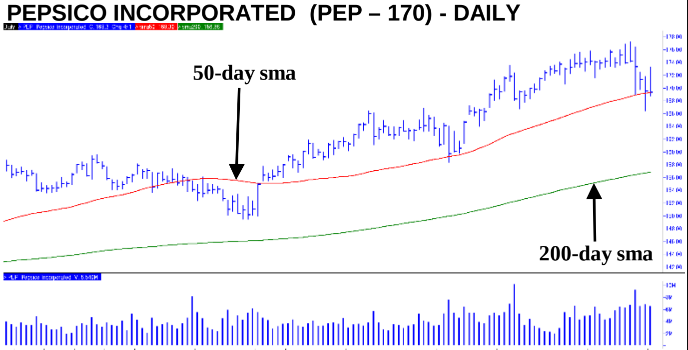
INTERNATIONALBUSINESS MACHINES (IBM – 133) - DAILY



GAMESTOP CORPORATION (GME – 93) - DAILY



PEPSICO INCORPORATED (PEP – 170) - DAILY



PEPSICO INCORPORATED (PEP – 170) – MONTHLY