Wellington Shields

EQUITIES PERSPECTIVE

February 4, 2022
DJIA: 35,111

We have four… do we hear five? Estimated rate hikes seem where the real growth lies. It's almost surprising the market has dealt with the dreaded news this well. Or has it? Good markets ignore bad news and all that, but rather than ignore, January seemed to have discounted it. Pick your term – washed out, sold out, even our least favorite, oversold. January seems to have checked all the boxes. Last week the NAZ saw a jump in stocks down 50%, a spike in 12 months new lows and a rise in the number of lows for the S&P. Add to this a drop in sentiment to historic extremes, including record buying of Inverse ETFs and Put buying. Extremes can always become more extreme, so you never know. That said, what we have seen so far is the stuff rallies are made of, but unlikely lasting lows.

When in conversation someone says they're bearish, we can't help but ask if that means they own no stocks. Invariably the answer is well, we own this and that, for this and that reason. Depending on our mood we think or say well, you're not really bearish – if you're really bearish you don't own stocks. Technical indicators come in two main varieties. There are momentum indicators, which measure the strength of a market move, including the A/D Index which measures strength by looking at the breadth of a move. And then there are sentiment or psychological indicators, which measure investor reaction to a market move. The sentiment measures themselves can be of two varieties – as per the above, the talkers, and then there are the doers. We prefer the doers like the Put buyers – small option traders spent a record amount on protective puts last week. However, the talkers, the various investment surveys, also reached some interesting extremes last week.

The AAII, or American Association of Individual Investors Survey, seemingly has been around forever, and the rap on it is so have most of those they survey. That said, there's always something to be said for a long history. This is one of the few times in the last decade that bears are more than 50% of respondents. When not in a recession, the market rallied the next month 21 of 22 times, and that sole loss was reversed the next month. The AIM Survey looks at a handful of sentiment surveys and calculates the amount of optimism in each. It is below 50% which represents only one percent of all days since 1990. When below 5% the annualized return was 72% versus -1.6% when the model was in the top 1%. This was the first reading of pessimism in three months. Following similar spikes in pessimism the market rose 11 of 12 times over the next three months, all this according to SentimenTrader.com.

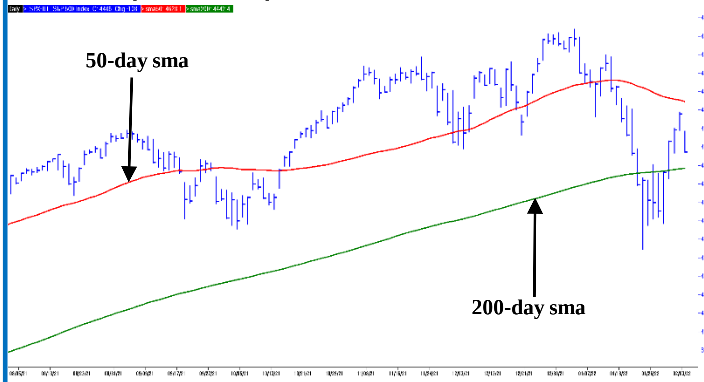
The thermos might be the greatest invention ever. It keeps things hot, it keeps things cold – how does it know? Second best might be the 50-day moving average. It stops rallies, it stops declines – how does it know? Amongst the many examples, most recent is FB (238) - we hesitate to say Meta Platforms, since after Thursday's performance it may be time for another name change. In any event, the recent strength here pretty much stopped right at the 50-day. The 50-day moving average is not the riddle of existence, though at times we wonder. It's a tool in what is the riddle of stock market existence – discipline. Not long ago we spoke well of the Biotech ETF (IBB-130), but cautioned wait for a move above the 50-day, then around 153. A little discipline here would've saved about 20 points. In this business it's not the big money you make, it's often about the big money you avoid losing. Stay with stocks above the 50- day, certainly those above the 200-day.

Anything worth doing is worth doing to excess, should be the market's motto. Markets often go to extremes, and those can become even more extreme. It's the nature of markets. Only 55% of Tech is down 50%, while the last two bear markets saw 80% down that much. Stocks above their 200-day typically fall to less than 20% and often to 10%, versus the mid- 20s now. That said, last week's extremes were enough for a tradable rally and we've seen one, which is not to say the rally is over. We can say the rally was enough to work off some of those extremes, so the easy part likely is over. We are still bothered by the Ukraine situation – did Putin go to all that trouble just to walk away? And, therefore, our added interest in oil, in this case as a possible hedge. As important as the downside is so too is the upside. Tuesday's 200+ Dow rally with only flat A/Ds doesn't exactly scream sold out, on the contrary. Those A/Ds are still important. The weakness there and in the Russell is a bear market pattern.

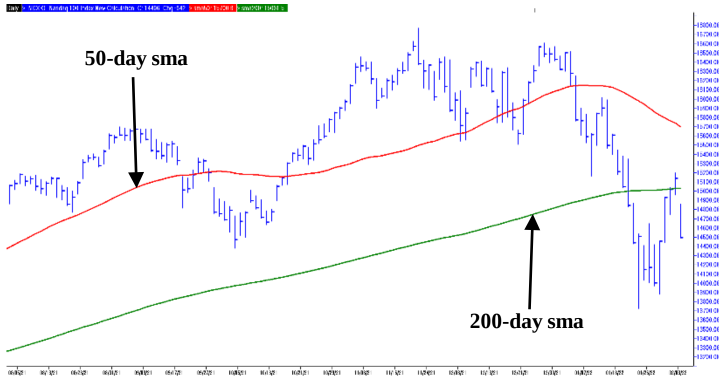
Frank D. Gretz

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

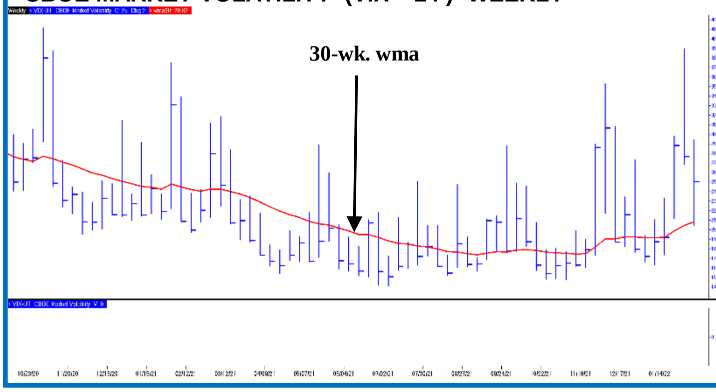
S&P 500 (SPX – 4477) – DAILY



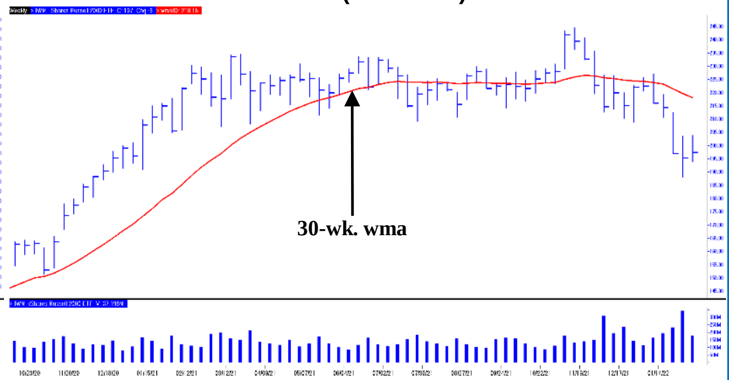
NASDAQ 100 (NDX – 14501) – DAILY



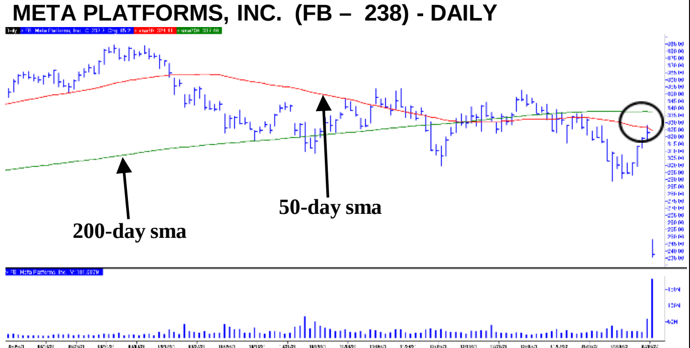
CBOE MARKET VOLATILITY (VIX – 24) -WEEKLY



ISHARES RUSSELL 2000 ETF (IWM – 198) - WEEKLY

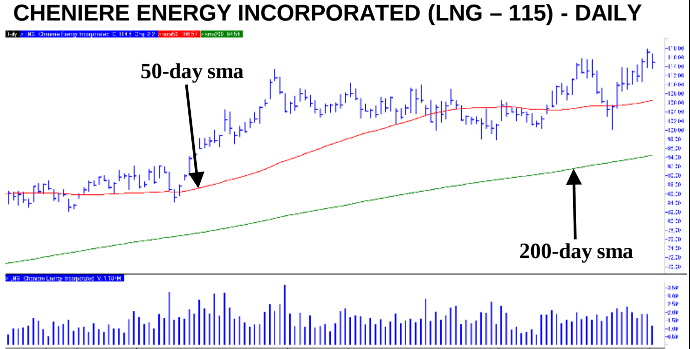


META PLATFORMS, INC. (FB – 238) - DAILY

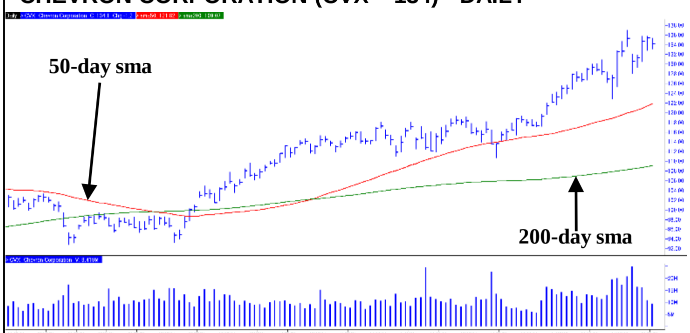


BERKSHIRE HATHAWAY INC. CL B (BRK'B – 315) - DAILY

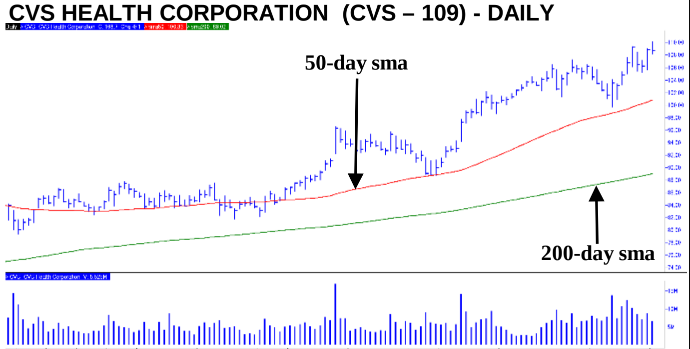
CHENIERE ENERGY INCORPORATED (LNG – 115) - DAILY



CHEVRON CORPORATION (CVX – 134) - DAILY



CVS HEALTH CORPORATION (CVS – 109) - DAILY



HERSHEY COMPANY (HSY – 204) - DAILY