Wellington Shields

EQUITIES PERSPECTIVE

May 27, 2022
DJIA: 32,637

Down 20% so it's a bear market… now they tell us. Why didn't they tell us when it was only down 5%? Just the other week more than half of the stocks on the NYSE and NAZ were at 12 month lows – no kidding it's a bear market! Now that it's more or less official, now we're supposed to sell everything? Or now that it's more or less official, does that mean it's more or less over? Trying to define this or any bear market is almost tilting at windmills. We will stick with our definition which is – how's your portfolio doing? It was looking fine if you only owned Hershey (210) – whoops, until last week. And so it goes in bear markets, they get to everything. It's all well and good until they get to your stocks, especially those you're "never going to sell." That, of course, changes to "they're down too much to sell." Finally comes bad news in that stock you'll never sell, now you have an excuse to stop the pain, and you sell. That's how bear markets end. Is that what we just saw?

Other than we all need something to write about, we don't understand these downside price targets in the averages. Are we really supposed to believe even 30, let alone 500 stocks know at what level they're supposed to stop going down? Some specific level is supposed to be "fair value" as the funnymentalists like to say. Stocks trade at fair value twice, once on their way up and once on their way down. What's important is to figure out whether they're about to become more overvalued or more undervalued, in other words, the trend. To go by value, stocks are getting cheaper, but that's an illusion. They're getting cheaper because of the P in P/E, not the E. They will become less cheap later because of the E. We don't have targets on the averages but we do have a target idea on indicators like the percent of stocks above their 200-day average. Our target there is somewhere around 15%, making our Dow target wherever it happens to be at that time.

All of this is not to say we can't see a decent interim rally, maybe even something similar to that 10% rally in March. You don't have the washout sort of numbers in the VIX (28), but sentiment is otherwise pretty negative, in this case a good thing. That's what happens when you get to that get to everything phase. If you look at the charts of the various ETFs on the other side, Energy is pretty much the only one still standing. And now divergences are beginning to show up on the positive side. There were those washout numbers in New Lows a couple weeks ago and only half that number last week, despite lower lows in the S&P and DJIA Thursday and Friday. And despite lower lows in those averages the Russell 2000 held it low of a couple weeks ago and so too did the Advance-Decline Index. Its all still tentative, but the potential is there. Encouraging was 3-to-1 move up after those not so wonderful Fed minutes, and the better than 5-to-1 follow through on Thursday.

Energy and pretty much Energy alone is where the best charts are to be found. The global slowdown could dampen the outlook here, a China re-opening the opposite. We also worry about our unanswered "get well" card to Putin. His demise likely would result in a knee-jerk selloff in Energy stocks, but a knee-jerk rally in markets overall. We think stocks like Chevron (107), Devon (74) and pretty much the gamut look higher. As you might have guessed, refiners like Valero (128) and Phillips (99) also are among the best charts. Given the overall market weakness and the "get to everything" recent nature of the decline, good charts are not so easy to come by. A few big Pharma names do stand out, Lilly (313) and Merck (92) specifically, and Johnson & Johnson (179) and Pfizer (54) have improved. When it comes to Tech, now we're starting to learn why the stocks are down so much. But they are down, and should do their typical Tech rebound as the overall market gets a lift.

Buy good sound stocks, hold them until they go up. If they don't go up, don't buy them. Such was the investment strategy of Will Rogers. Ours is only slightly different. Buy anything you like as long as it's in an uptrend. When it breaks that uptrend, sell it. While they may seem different the strategies are basically the same – don't hold losers. Everyone makes money in the stock market, the reason they don't make more is they give too much back. On the premise you're buying stocks in uptrends, how do you know when the trend is broken? One very complicated and sophisticated method involves an expensive and hard to use device – a ruler. If you find rulers too intimidating, recalling your time with the nuns, moving averages work just as well. For most a 50-day should do the job, or if you're truly a long-term investor, then the 200-day. For those of us who find instant coffee not fast enough, there are the exponential 10 and 21-day moving averages.

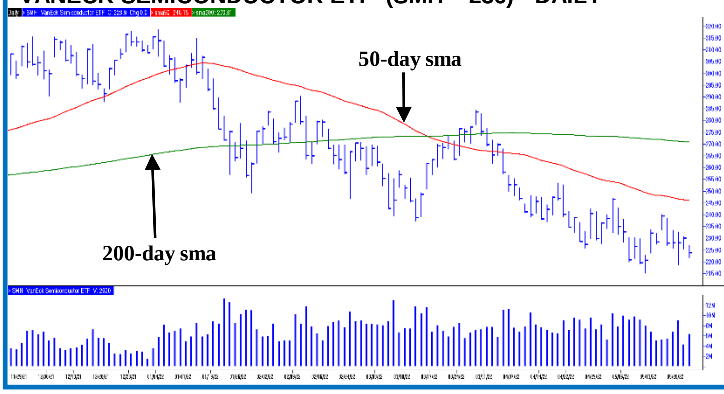
Frank D. Gretz

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

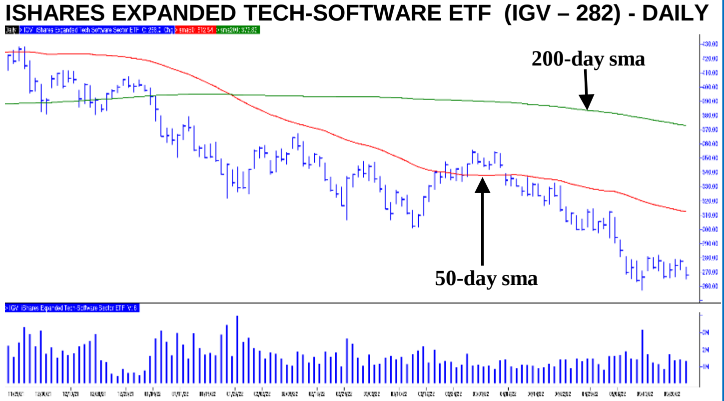
S&P 500 (SPX – 4057) – DAILY

NASDAQ 100 (NDX – 12276) – DAILY

VANECK SEMICONDUCTOR ETF (SMH – 236) - DAILY



ISHARES EXPANDED TECH-SOFTWARE ETF (IGV – 282) - DAILY



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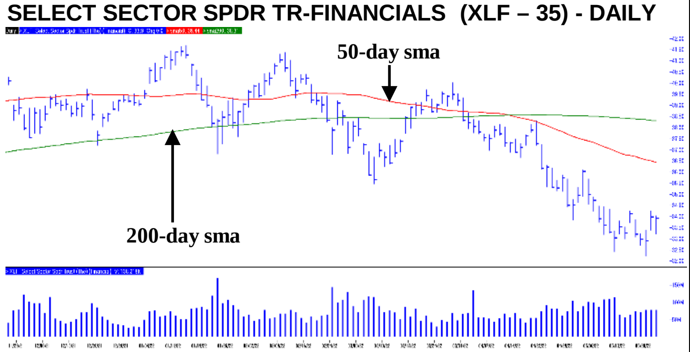
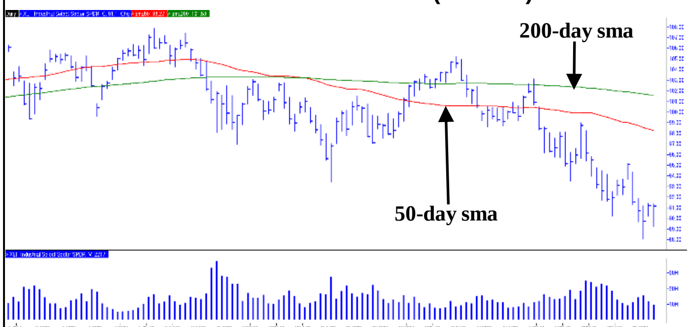


INDUSTRIAL SELECT SECTOR SPDR (XLI – 94) - DAILY



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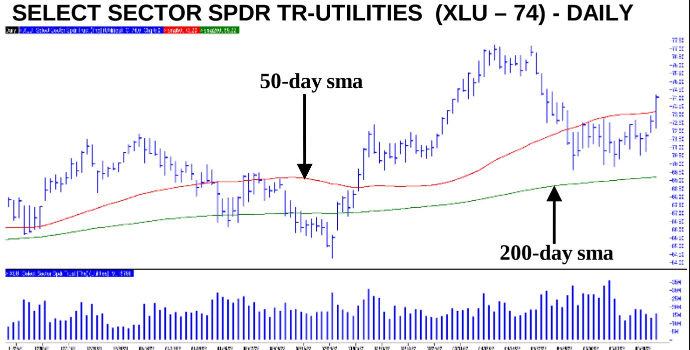
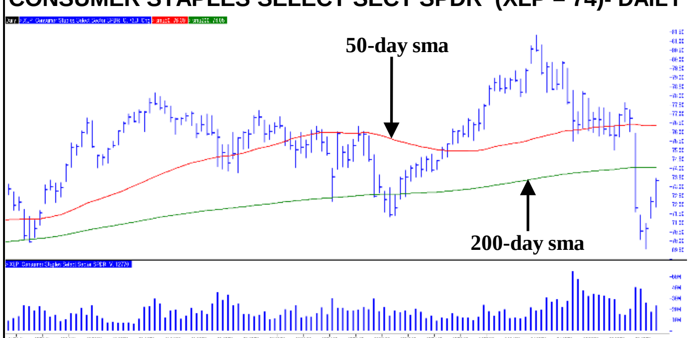


CONSUMER STAPLES SELECT SECT SPDR (XLP – 74)- DAILY



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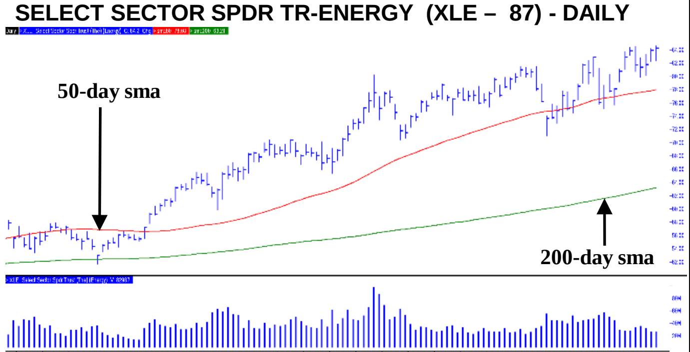

SPDR SER TR S&P METALS & MINING (XME – 55) - DAILY