Wellington Shields

EQUITIES PERSPECTIVE

July 22, 2022
DJIA: 32,036

We beseeched the Lord, we summoned the witches … and we finally got a 90% up volume day. Let's hope it's not much ado about nothing. To rain just a little bit on our own parade, some lows have involved a few of these 90% up days, interspersed with a couple of 90% down days. Market bottoms can be a process. Make no mistake, however, Tuesday's 90% up day is a positive. Two of the last three days actually have seen better than 87% up volume, and since 1962 that has resulted in double digit gains virtually every time. Speaking of 1962, this year has its similarities. Stocks were down almost 20% in the first half of that year, culminating in a similar pattern of 2% intraday declines. Prices in 1962 went on to rally 15% in that year's second half. Even if this year does prove similar, you have to realize volatility is a given.

To go with Tuesday's 90% day, the market indices were able to push through their respective 50-day averages where, as it often happens, they had stalled. For the S&P it was its first time back above the 50-days since April. A move through the 50-day by no means guarantees follow through, and several stocks including Microsoft (265) have danced around their own 50-day for a while now. For the averages the move is another incremental sign of improvement. Now it's important to stay there – the 200-day is around 4350 which, speaking of no guarantees, the March rally briefly surpassed. As we suggested above, expect plenty of dancing around, hopefully all of it above the 50-day. Price objectives have never been one of our favorite endeavors. We would rather go with the idea rallies end when they do something wrong, the obvious here would be lagging Advance/Decline figures against strength in the averages.

Tuesday's 90% up day was made possible by those former leaders, the commodity stocks. As measured by the Energy ETF (XLE-72) the peak here was early June, and relative to its 50-day it had become even more stretched to the downside than it had been to the upside. Again, no guarantee, but something. As measured by the Metals and Mining ETF (XME-45), commodities in general peaked in late April, found a temporary low in mid-May, and seem to have at least done so again. What makes this important is that these commodity stocks are many. It's difficult to get a 90% up day while they're going down. There should be more to this commodity stock rally, if only because of what hopefully will be a rising tide. Meanwhile, we don't see commodities back to their leadership position which for now seems a role being played by Pharma and Biotechs.

This week's positive price action comes against the backdrop of some extreme negativity on the part of traders and investors. We pointed to the Citi Panic Euphoria Index and its reading of "panic," and the panic of sorts in analysts' downgrades. And small option traders, among the worst market timers, are pretty much all in on a big leg down. Anyone will tell you these measures of investor sentiment are not for market timing. Still, if you're buying put options chances are you have already sold a lot of stock, and it's the selling that makes market lows. To that point, the latest edition of Bank of America's monthly survey of global fund managers finds they are now more underweight in stocks than at any time since March 2009, the month the stock market hit bottom after the financial crisis.

This Monday the market wiped out a 1% gain in the S&P, obviously annoying if not disconcerting. Two weeks ago the S&P erased a 2% loss, meaningless like most intraday reversals. It's easy to be thrown off by the recent volatility, and it has been volatile. The S&P has closed 1% or more above or below intraday levels the second most times in 40 years, according to SentimenTrader.com. Sometimes it's a wicked game the market plays, so when the real deal comes along it's hard to trust. This seems the case now. When it comes to volatility certainly Amazon (125) and Tesla (815) come to mind, yet while positive they have been anything but volatile. They act more like safe havens. Meanwhile, many of those long-term uptrend stocks we often allude to have moved above their own 50-day averages, taking them out of the category of falling knives. Long-term trends here are compelling, examples plentiful – Estee Lauder (263), Intuit (435), Dominos (406), Accenture (288), Zoetis (181), and Edward's Life (104). Get our list and check for the 50-day.

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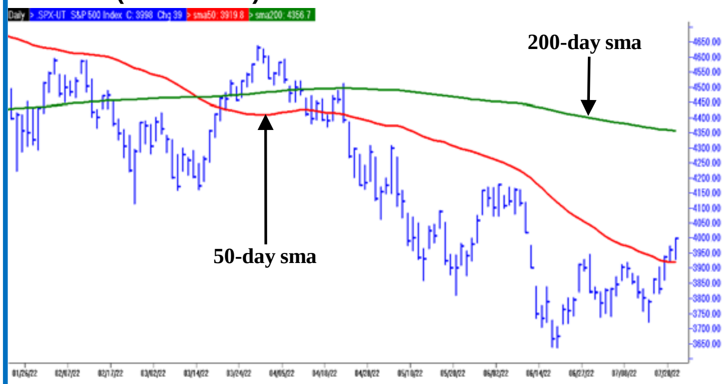
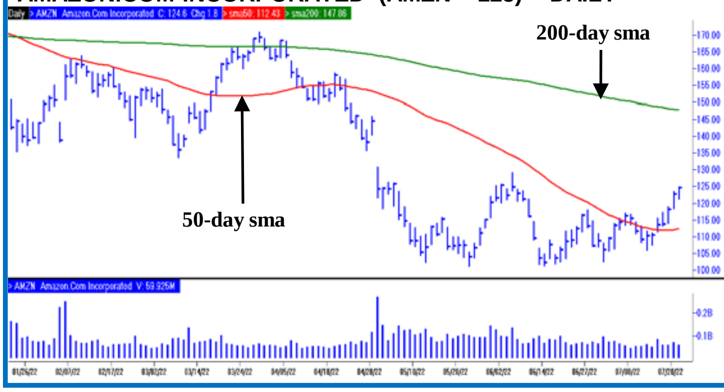
S&P 500 (SPX – 3998) – DAILY

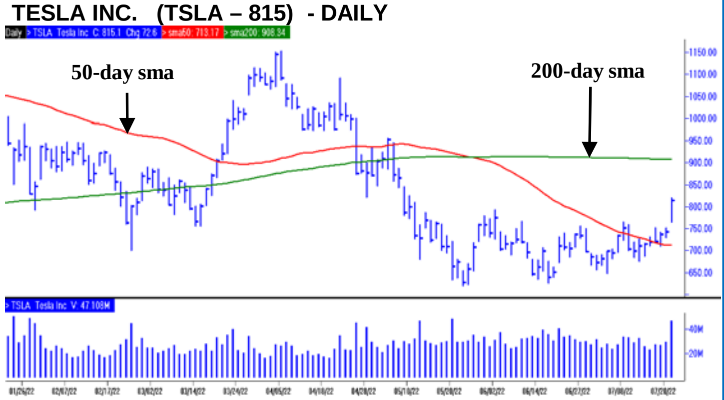


NASDAQ 100 (NDX – 12619) – DAILY

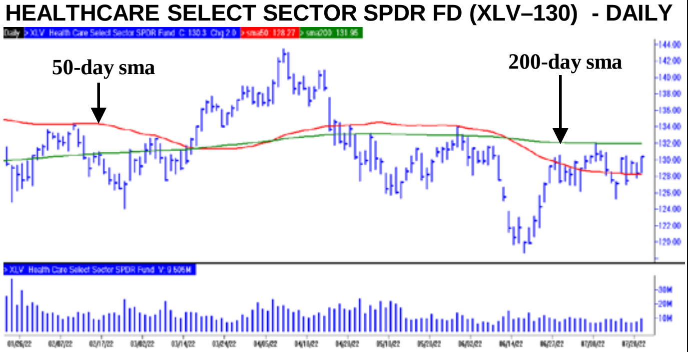
AMAZON.COM INCORPORATED (AMZN – 125) - DAILY



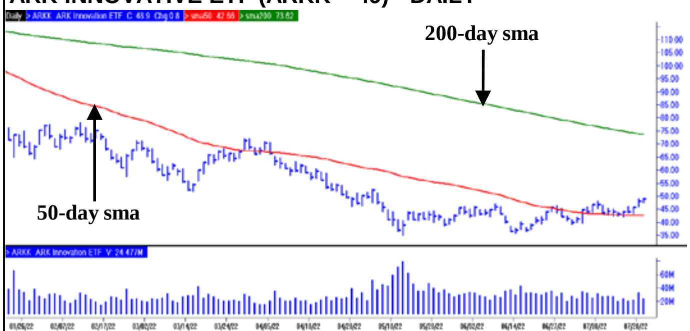
TESLA INC. (TSLA – 815) - DAILY



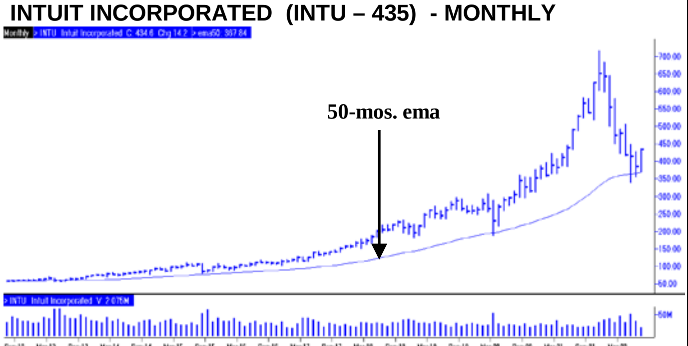
HEALTHCARE SELECT SECTOR SPDR FD (XLV–130) - DAILY



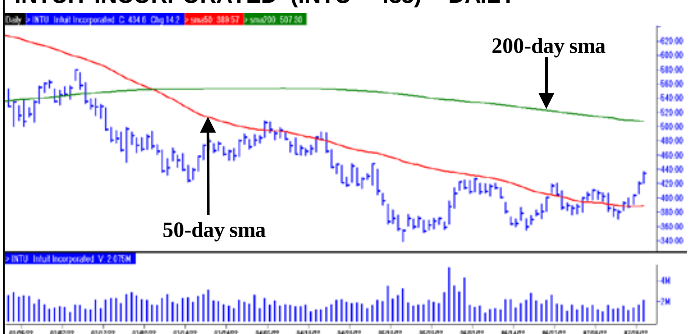
ARK INNOVATIVE ETF (ARKK – 49) - DAILY



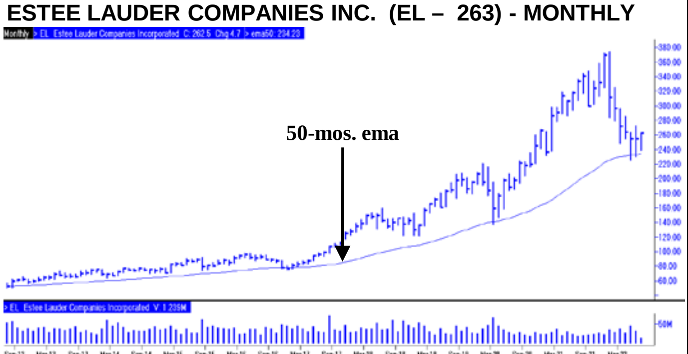
INTUIT INCORPORATED (INTU – 435) - MONTHLY



INTUIT INCORPORATED (INTU – 435) - DAILY



ESTEE LAUDER COMPANIES INC. (EL – 263) - MONTHLY



ESTEE LAUDER COMPANIES INC. (EL – 263) - DAILY