

EQUITIES PERSPECTIVE

August 12, 2022

DJIA: 33,336

New bull market or bear market rally... does it really matter. This remains a technically sound rally. Sure Wednesday saw the market rip higher, but with the Dow up only 29 points on Monday advancing issues outnumbered decliners by better than two to one. That's not how markets get into trouble. Bear market rallies end but so too do bull markets. Those numbers will flip – up averages and flat A/Ds – before important weakness. The bear market rally thesis also seems to be flipping, in keeping with our long-held belief that opinions follow price. And prices themselves are on the edge of being convincing. As of last Friday the S&P had retraced 43% of its decline and was 13% off its low. With maybe one exception, that doesn't happen in bear markets. Similarly, stocks above their 50-day average have cycled from 5% to 75%, a move that typically produces sustained rallies. Call this what you like, it's better than not bad.

When it comes to stocks above the 50-day average, the Holy Grail is 90%. That has happened 30 times in 70 years, and since 1942 the market was higher one year later every time, according to SentimenTrader.com. It's the idea that strength begets strength, and strength begets opinion change. There almost seems a little FOMO in the air. It's one thing to see stocks in general go up, it's another to see stocks you wanted to buy go up without you. Opinions certainly have changed in the world of option traders. Not that long ago they were loaded for bear but lately have seen the light. If this is a new bull market that's not a problem, you have to expect traders to be bullish in uptrends. If a bear market rally, that's another matter. But if the latter, we would have expected momentum to be changing around now as well.

Semiconductors remind us of that guy with a can of tuna. The can keeps being bid higher and higher until finally he opens it to find – it's just a can of tuna. It's explained to him it wasn't for opening, it was for trading. Semis never seem just right – there's always too many or not enough. Years ago we remember shorting Micron (62) because even we had figured out the so-called shortage then wasn't real. Even we had figured out everyone had double ordered. Finally with the stock around 90 we gave up because the stock just wouldn't go down. We shorted it again around 30 when it was growing about 40% per year and selling for about four times earnings. Yet that was a much easier trade. It's hardly an insight to say semiconductors are important in many ways. It's just that they sometimes trade like tuna.

In a database we use there are over 500 stocks in the category of Biotechnology. After going through them recently we have two thoughts. First, we really need to get out more. The second, there are roughly 400 must buys. Granted many of these you could buy by the handful – they are two dollar stocks. And for most it's just about sold out bounces. But it seems more than just that, and in a way reminiscent of Energy at the start of the year. To that point, how much Biotech do you own? We are still positive on Energy particularly those that have moved above their 50-day averages. We feel the same about Biotech, which really had become underloved and likely underowned.

A thought the other day was why not just buy Microsoft (287). If we're not going to overthink this bull market/bear market rally thing, why overthink what stocks to buy. It may be hard to find a semi in a long-term uptrend, it's not hard to find other Techs in long-term uptrends, and Microsoft is one of them. And the fact is, market uptrends don't get far without Tech. Data from The Leuthold Group shows over the last hundred years, but who's counting, the S&P 500 only outperforms when the Tech sector does so as well. Of Tech's leadership cycles, only the period between December 1964 to November 1967 saw the S&P make only modest gains. The rest saw gains of up to 36%. Meanwhile, the Fed seems to be going out of his way to lean against the rally. Perhaps they're human after all – they were late to tighten, they don't want to be wrong again by being early to ease. May be time to fight the Fed.

Frank D. Gretz

S&P 500 (SPX - 4207) - DAILY



NASDAQ 100 (NDX - 13291) - DAILY



MICROSOFT CORPORATION (MSFT - 287) - DAILY



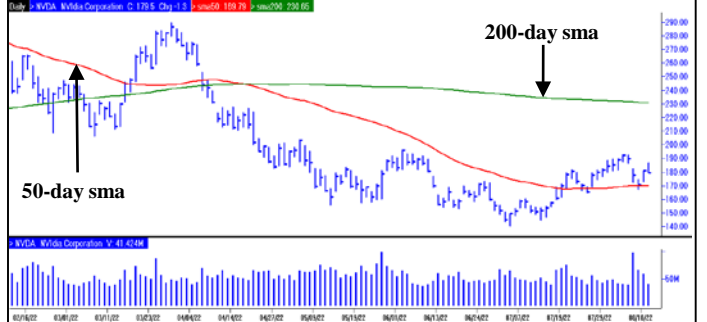
SELECT SECTOR SPDR TR - TECHNOLOGY (XLK - 148) - DAILY



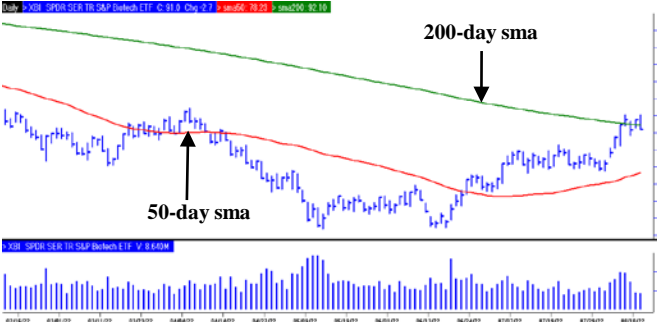
VANECK SEMICONDUCTOR ETF (SMH - 239) - DAILY



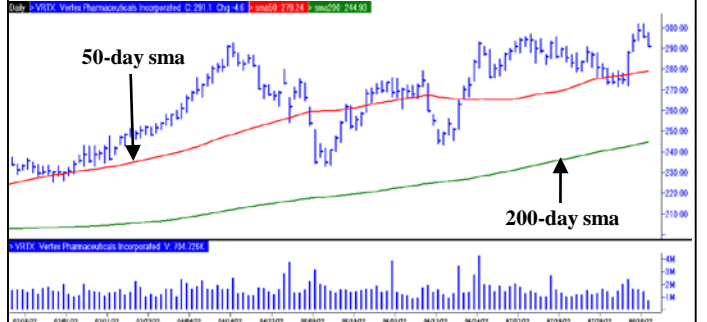
NVIDIA CORPORATION (NVDA - 179) - DAILY



SPDR SER TR S&P BIOTECH ETF (XBI - 91) - DAILY



VERTEX PHARMACEUTICALS INC. (VRTX - 292) - DAILY



SELECT SECTOR SPDR TR - ENERGY (XLE - 78) - DAILY



DEVON ENERGY CORPORATION (DVN - 64) - DAILY

