Wellington Shields

EQUITIES PERSPECTIVE

August 19, 2022
DJIA: 34,000

Forget the bad down days … worry about the bad up days. Wednesday was certainly the former. The Dow muddled around all day before closing slightly lower. Advance-Decline numbers, however, were 4-to-1down, our idea of a bad day. The market can live with that, it's those days when the averages rise and the A/Ds are flat that cause problems. This measure of the average stock has probably been this market's best feature. The A/D Index for the 500 stocks in the S&P just reached an all-time high, impressive in its own right, but more impressive is it has done so while the S&P Index itself remains some 10% below its own high. This divergence, new high in the A/Ds versus the Index, has led to higher prices one year later every time, according to SentimenTrader.com. Similarly, stocks above their 50-day average have moved above 90%, a level which also has led to higher prices every time. Over the years betting "this time is different" has cost a lot of people a lot of money. Then, too, you never know. Heraclitus, the famed technical analyst of 550 BC once observed, you never step in the same river twice.

So bad down days aren't the problem, they are to be expected. The market averages don't go up every day and when they go down it's more than likely more stocks will decline than advance. A little less than 4-to-1 down would have been nice on Wednesday, but it's more about the next up day and how the numbers recover. Rallies quit when they start to lose participation. Monday was a bit of an interesting day in that the Dow reversed to rally some 150 points while the A/Ds were barely positive. The overnight China news sent oil and other commodities stocks lower, and financials seemed weak as well. Simply put, there are a lot of commodity stocks and a lot of financial stocks to the point we were a little surprised the A/Ds were positive at all. That said, you don't want to start making excuses for the numbers. And that said, typically it takes a pattern of bad up days to cause problems.

Last time, courtesy of the Leuthold Group, we pointed out that the S&P outperforms when Tech outperforms. While that may seem obvious, less obvious is Tech performs best when it performs slowly. The Nasdaq Composite and other Tech indexes have rallied more than 20% off their 52-week lows. The rally took 40 days, relatively long by historical standards. These rallies that took longer, however, had more staying power, according to SentimenTrader.com. When we think of good rallies this seems somewhat counterintuitive – good rallies don't give you a good chance to get in, and all that. Especially when it comes to Tech, however, the quick rallies, even if 20%, often can be about short covering. The more drawn out rallies are where, dare we say it, the fundamentals have a chance to evolve. If you're keeping score, this seems another plus on the rally's side.

There once was a time we used to talk as much about volume as we do now about A/Ds. That was when volume was NYSE volume, and that was pretty much it. The importance of volume cannot be overstated. The problem for us became, whose volume? These days volume seemingly comes from everywhere. For sake of consistency, and because it is in many ways THE market, we've been tracking SPY (428) volume, that's volume in the SPX ETF. The market and stocks should go up on rising volume and fall on declining volume, it's that simple. We recently resurrected an indicator combining volume with A/Ds. By now you know we consider A/Ds more important than the averages, so we have an A/D index using only days when volume is higher than the previous day's volume. The indicator bottomed on 7/14, but it's the direction that's important. Since then it has been in a consistent uptrend.

As the A/Ds would suggest, there's more to this market than just Tech. Indeed, at what might be thought of as the other end of the spectrum, Staples have performed quite well. And utilities these days are not your father's Oldsmobile. In any event, on the back of green names like Nextera (90) and Constellation Energy (82), XLU (78) is probably outperforming XLK (151). The area we really think deserves attention is energy, and probably commodities generally. Energy led the market into early June before declining sharply into mid-July. Since then most of the stocks, and ETFs like XLE (79) have moved back above their 50-day averages, which now should act as support on any pullback. With the commodity itself having been under pressure lately, the hype seems to have corrected as well.

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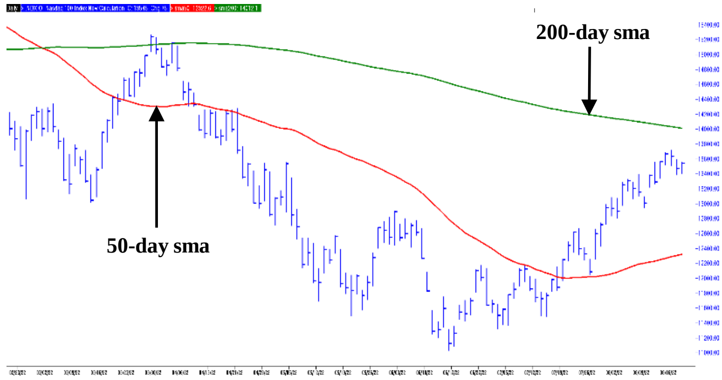
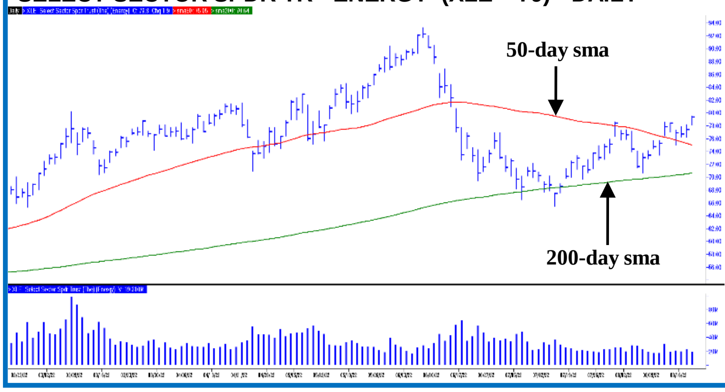
S&P 500 (SPX – 4289) – DAILY

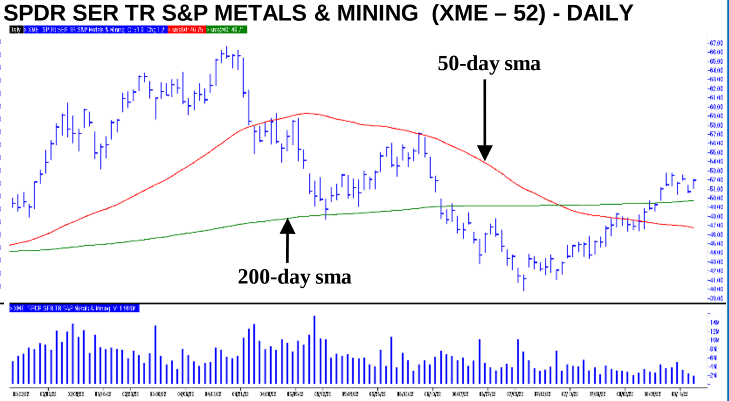
NASDAQ 100 (NDX – 13506) – DAILY



SELECT SECTOR SPDR TR - ENERGY (XLE – 79) - DAILY



SPDR SER TR S&P METALS & MINING (XME – 52) - DAILY



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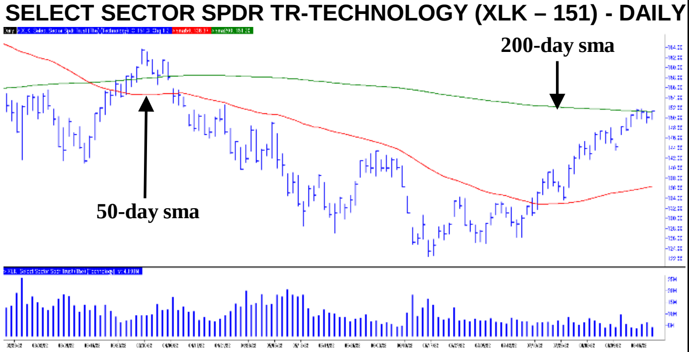
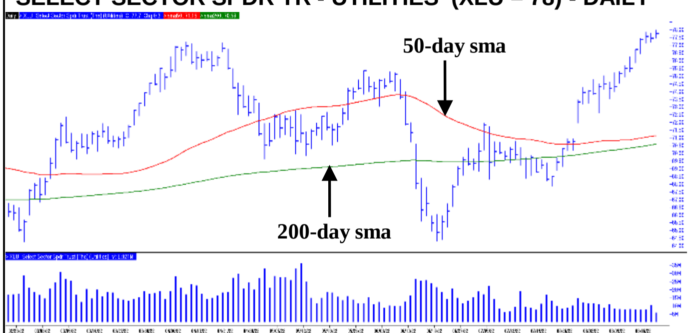
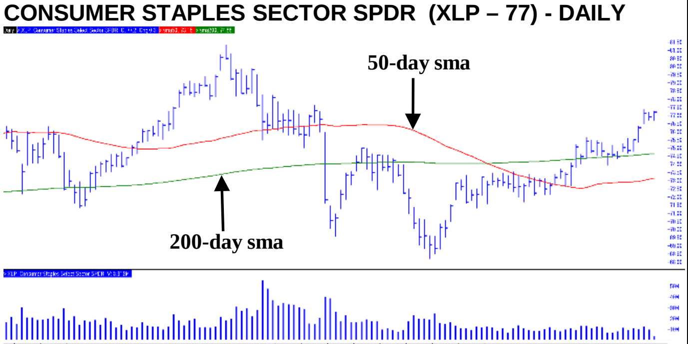


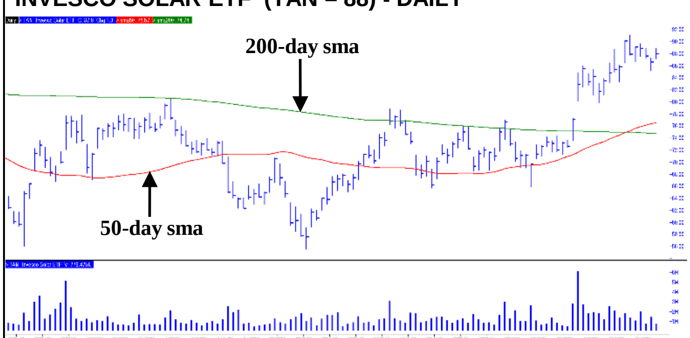
SELECT SECTOR SPDR TR - UTILITIES (XLU – 78) - DAILY



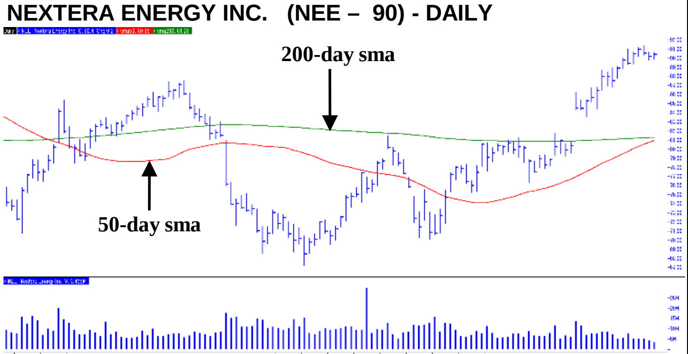
CONSUMER STAPLES SECTOR SPDR (XLP – 77) - DAILY



INVESCO SOLAR ETF (TAN – 88) - DAILY



NEXTERA ENERGY INC. (NEE – 90) - DAILY



CONSTELLATION ENERGY CORP. (CEG – 82) - DAILY