Wellington Shields

EQUITIES PERSPECTIVE

January 20, 2023
DJIA: 33,044

Rock 'n' roll is here to stay… and Tech will never die. Don't tell that to Digital Equipment, Sun Microsystems, Burroughs, Control Data or Sperry Rand. Tech may never die, but the names do change. There are very few durable technology franchises. Years ago Bernstein did a study which showed over a 40-year period, there was 1 chance in 7 that a "recognized" high growth tech stock could sustain that status for five years, and a 1 in 14 chance for 10 years. Tech may be forever, but the players shift. As it happens, this is a very positive seven months for Tech, at least as measured by the NAZ 100, the NDX or Q's. Since its inception the NAZ has rallied all nine years between January 1 and July 31 in pre-election years, showing an average gain of 24%, according to SentimenTrader.com. We suspect, however, RCA will not be among those Techs, though RCA really did change the world.

It's not how you start the race, rather it's how you finish. After a fairly dismal December, it's nice to see January start well, particularly as January has some forecasting value. Last week's pair of days with close to 4-to-1 A/Ds is what you like to see, and Friday's upside reversal was impressive. Perhaps most important in the overall pattern has been the increase in stocks above their 200-day to a recent peak of 57%. As we noted, readings around 60% are indicative of good markets, 70% are associated with bull markets. For now it seems a credible turn, but as Wednesday made clear, it won't be easy. When you think of market turning points it's tempting to think straight up. That's rarely the case, and even less likely here. This wasn't a climax, washout low – that was back in May-June. Any low here will be work.

Market strategists and stock analysts both basically analyze earnings. The analysts nickel and dime you with their estimates – pretty much raising and lowering them to follow the price of any stock. They are almost more "trend followers" than technical analysts. Strategists are more big picture. The analysts have trouble figuring out what one company will earn, strategists think they can figure out what 500 companies will earn, and then know what those earnings are worth. Granted that in the long run companies that grow earnings do well, but that can be a long run. Academic studies have found the stocks that outperform each year are those that beat analyst's estimates, and vice versa. So the best and worst performers are pretty much stocks where analysts are wrong.

Strategists assign multiples to overall earnings to determine valuations, and therefore the likely trend in the overall market. The problem here is not in the use of earnings, but in the dependency on earnings. Assuming that earnings are knowable, they're only but one of the factors affecting stock prices. Studies show as much as 70% of a stock's price is determined by the overall market trend. Throw in the importance of group rotation – think of Energy last year – and there's not a whole lot left for the importance of earnings. One of our favorite examples here is McDonald's (264) back in the 70s and early 80s. MCD in 1973 peaked around 75, fell to 22 in 1974, and recovered to 66 in 1976. It then did nothing for the next five years, though earnings continued to grow at a compounded rate of 25%. All the time, the company never missed a quarter. Despite that by its 1980 low MCD was selling at 10x trailing 12 months compared with selling at 75x in 1973.

It's Groundhog Day – again. It's surprising and disappointing the market keeps reacting to the same news. Rates are going higher – who knew? At some point bad news gets discounted. Then, too, after a good run the market may have been due for a little reality check. In any event, a couple of bad days don't negate a surge in the ADs, stocks above their 200-day and the pickup in 12-month new highs. This wasn't a washout low. If a viable low it would be the kind you have to work for. We still favor Commodity-related stocks like Freeport (44) and Caterpillar (246) – China re-opening. The pre-election year seasonal pattern for the NAZ is hard to ignore, but the winners of last cycle, the FANG+, seem unlikely to win again. We've highlighted a few that we favor.

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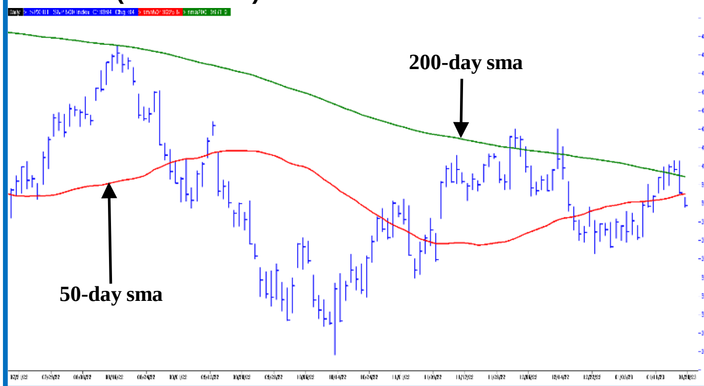
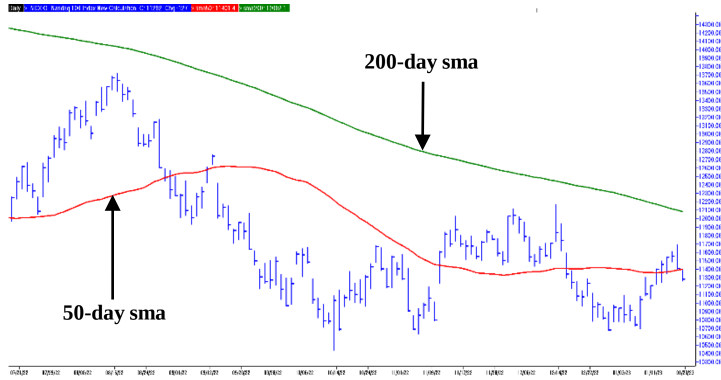
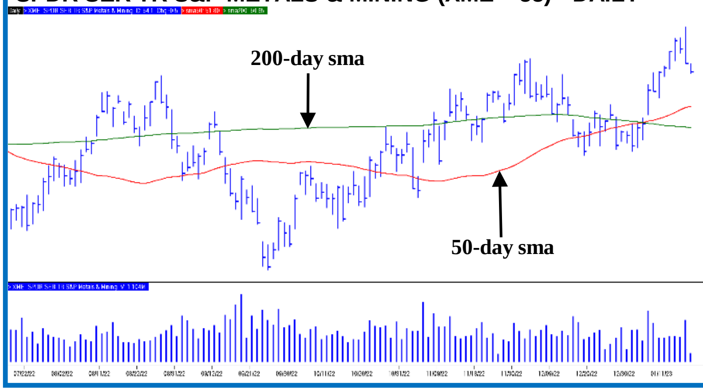
S&P 500 (SPX – 3898) – DAILY



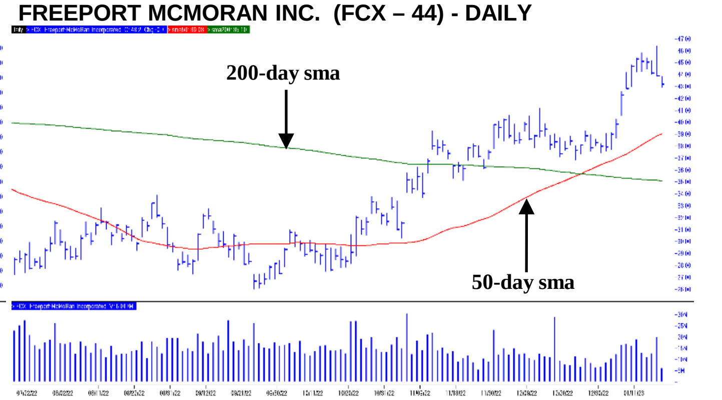
NASDAQ 100 (NDX – 11295) – DAILY



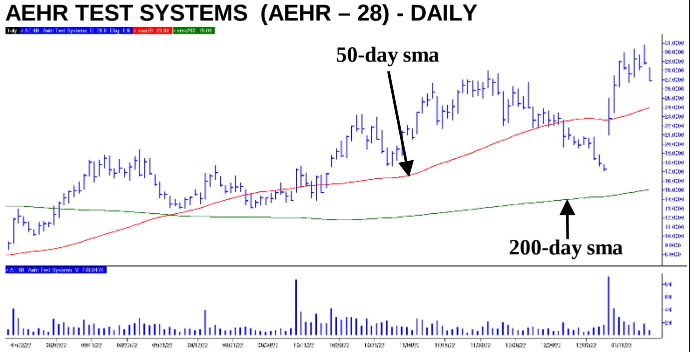
SPDR SER TR S&P METALS & MINING (XME – 55) - DAILY



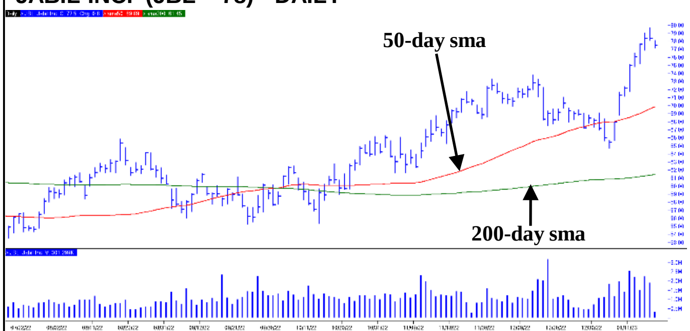
FREEPORT MCMORAN INC. (FCX – 44) - DAILY



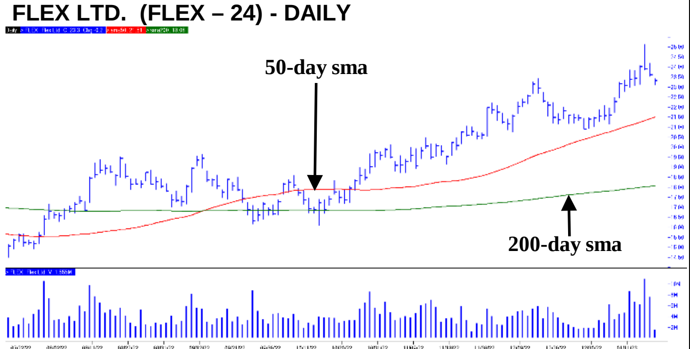
AEHR TEST SYSTEMS (AEHR – 28) - DAILY



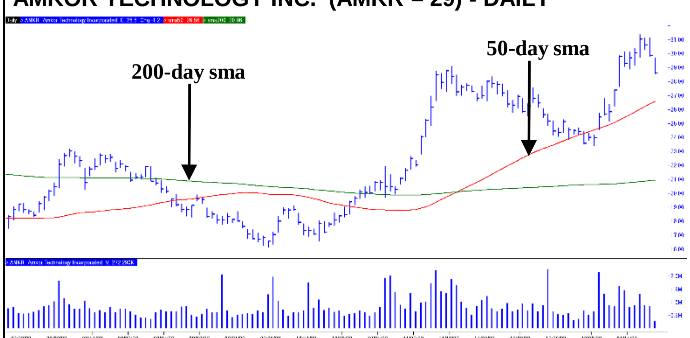
JABIL INC. (JBL – 78) - DAILY



FLEX LTD. (FLEX – 24) - DAILY



AMKOR TECHNOLOGY INC. (AMKR – 29) - DAILY



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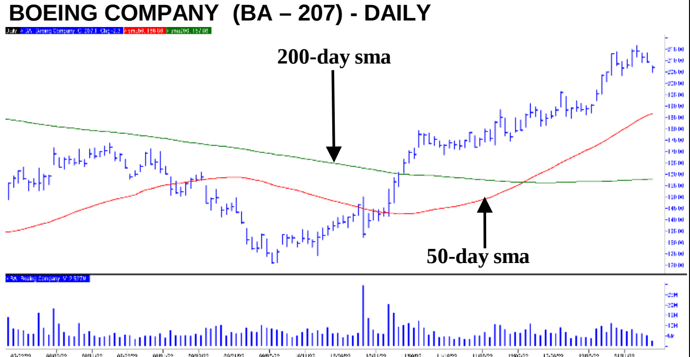

ORACLE CORPORATION (ORCL – 86) - DAILY