Wellington Shields

EQUITIES PERSPECTIVE

February 17, 2023
DJIA: 33,697

Value… it's in the eye of the beholder. And the eye of the beholder, that's likely a function of the market's trend. What they call fair value is a function of many things, but in the end does it really matter? Stocks sell at fair value twice – once on their way up and once on their way down. The rest of the time they are overvalued or undervalued, and the trick is to figure out whether they're on their way to becoming more overvalued or more undervalued. In other words, figure out the trend which determines as much as three quarters of the movement in individual stocks. Then there's group or style rotation. Most of Energy was up 50% last year, with virtually nothing to do with the market's multiple. The best performing individual names indeed are about earnings, but earnings which surprise. What multiple do you put on earnings that you're not expecting? Seems easier to go with trend versus valuations. Money is made in the stock market when for the S&P the 50-day moving average is above the 200-day moving average.

If you believe history of sorts repeats, there's plenty of reason for optimism. As we pointed out last time, there's a pre-election seasonal pattern that's quite positive, even for the usually not so wonderful month of February. And from February through July it's quite positive. Tom Lee of FundStrat published a note regarding the first 25 days of the year. When up 5% or more the market was higher at year-end 16 of 17 times. And finally, the Nasdaq Composite has outperformed the Dow Jones Average to an unusually large degree, the greatest since 2000. Over the next six months there was never a negative return for the S&P, according to SentimenTrader.com. Obviously this time could be different, though we cringe to say that. Those words have cost many of us more money than we'd like to remember.

If it's true this time is not different, the numbers seem to back that up. Stocks above their 200-day moved above 70%, historically indicative of bull markets. The level of 12-month New Highs seem to say the same. That said, this is unlikely your 2009 bull market, or others of that ilk. The washout this time was last June, so while the numbers so far have been good, they lack some of the drama of past bull markets. Even last week saw a little glitch in the rosy scenario, as some reversals took NYSE stocks above their 200-day from 74% to 64%, a not so insignificant drop in just one week. In turn, this made Monday's rally all the more important, not for its 300+ Dow points but for its 3-to-1 A/D numbers. Following what you might call a sloppy week, it's important not to rebound with what we call a weak rally – up in the averages with poor A/Ds.

Recent data seems to confirm getting inflation under control will be, as the Beatles once suggested, a long and winding road. Recent data also seems to confirm the economy is in his own world, one which seems more than fine with things. Bull markets come around when stocks become sold out. And as has been the case recently, new uptrends see stocks down the most turn to up the most. That said, there also seems a new leadership has evolved in old industrial names like Parker Hannifin (355), Eaton (174), Dover (155), and names sensitive to economic growth like Cintas (441) and Grainger (670). Obviously there's some contradiction here, as continued Fed tightening does not bode well for the growth story. So what is the market missing, or is it what are we missing? Rather than overthink it, for now we will just go with the charts.

Our comments above notwithstanding, a common complaint is about leadership. This can be pretty much summed up in saying Cathie Wood is having a good year finally, or at least so far. While short covering seems a part of this rally, what bull market ever started without short covering? We find it a bit upsetting that stocks like Deere (403) and Caterpillar (247) have not done better, but Boeing (212) and GE (84) at least have held their own. Commodity-related stocks also have been disappointing, though oil equipment/drilling stocks look poised, so to speak, more than the exploration names. Cyber and defense stocks, to look at their respective ETFs, CIBR (42) and ITA (116), are much improved — wonder what that's about? Last year's winners like Staples and Pharma are going through and out of favor phase, but this too should pass.

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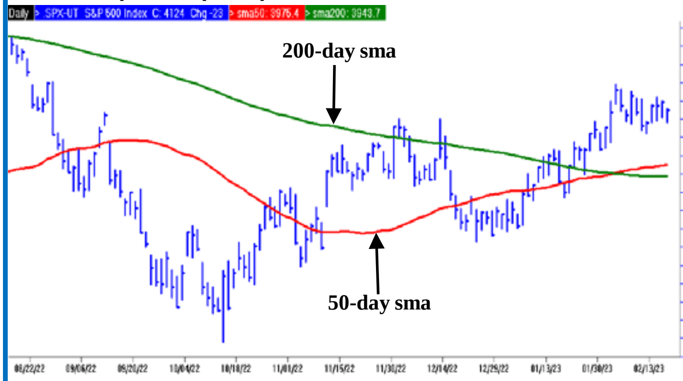
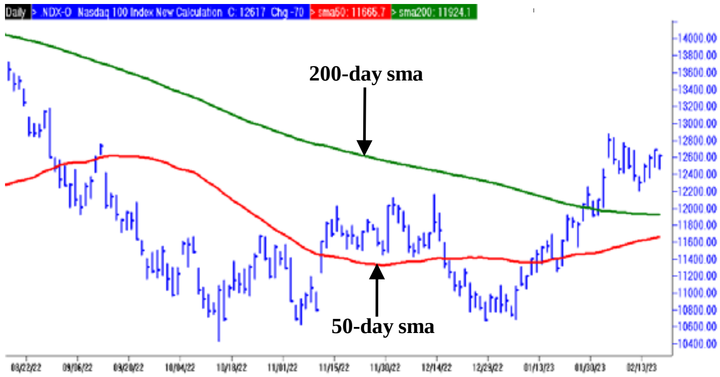
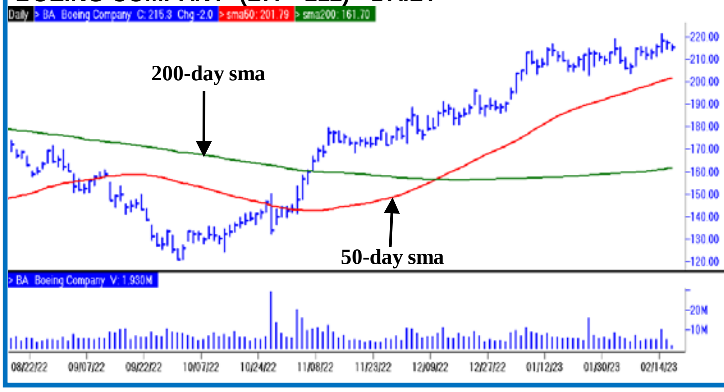
S&P 500 (SPX – (4097) – DAILY



NASDAQ 100 (NDX – 12442) – DAILY



BOEING COMPANY (BA – 212) - DAILY



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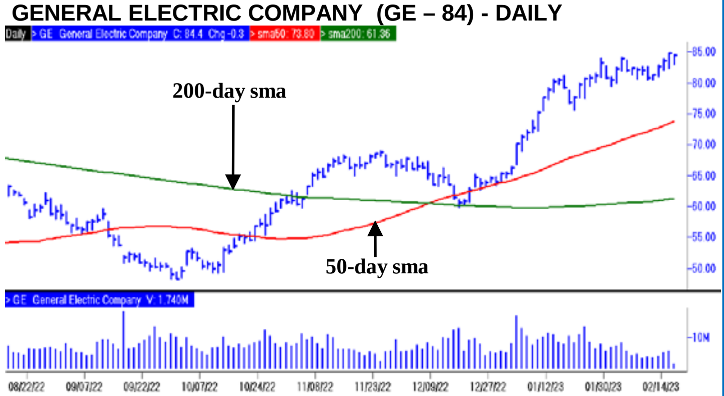
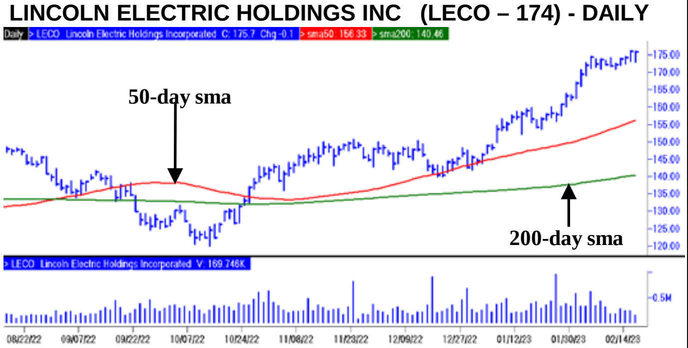
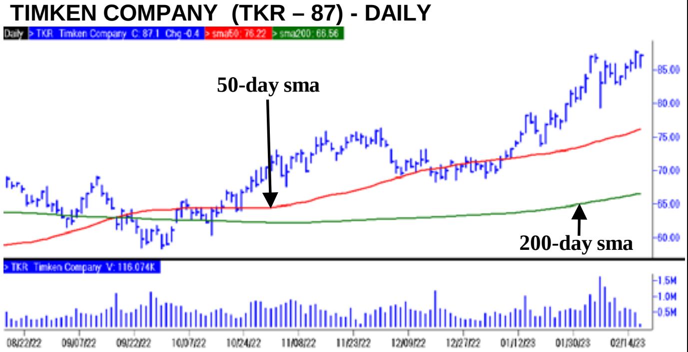


LINCOLN ELECTRIC HOLDINGS INC (LECO – 174) - DAILY



DOVER CORPORATION (DOV – 155) - DAILY

TIMKEN COMPANY (TKR – 87) - DAILY



EATON CORPORATION PLC (ETN – 174) - DAILY

VISTA ENERGY SAB DE V (VIST – 18) - DAILY

SPDR S&P OIL & GAS EQUIPMENT & SVCS (XES – 88) - DAILY