Wellington Shields

EQUITIES PERSPECTIVE

May 5, 2023
DJIA: 33,127

Follow the soldiers … not the generals. In the stock market the average stock is often likened to the soldiers, the big-cap stocks that dominate the averages the generals. Where the analogy breaks down is that in the stock market, it's the soldiers that lead. It may not always appear that way, but when all is well with Microsoft (305) and the like, it doesn't mean all is well. In reality, of late there has been distribution under the guise of strength in the averages. The Advance-Decline Index is a reasonable proxy for the soldiers, the average stock, and that Index peaked in early February. An easier and similar look is the percent of stocks above their 200-day average, the equivalent of looking at stocks in medium-term uptrends. This measure peaked at 74% in February, while the April peak was only 49%. As the S&P and NASDAQ touched highs on Monday, the number was down to 43%.

This is the anatomy of a market peak. When markets diverge like this, the averages versus the average stock, it doesn't end well. Market lows are characterized by big volume and volatility. Stocks become washed out and make lows pretty much all together. Market peaks are almost the opposite. Stocks tend to peak a few at a time or a group and a time – market peaks are a process. As buying power is depleted, it's typically the smaller or secondary stocks that give it up first. It's the bigger stocks that hold up. Since these dominate the averages, the averages hold up as well. This creates the divergences between the averages and measures like the A/D Index and stocks above their 200-day. It's tempting to think or hope the averages will drag up the rest, but it doesn't work that way. These divergences are about depleted sideline cash, and that's typically only restored in a correction.

If market peaks are a process that eventually gets around to everything, this includes the big-caps that dominate the averages. The key word here, of course, is eventually. You do have to be careful of falling into the trap of thinking these are immune, thinking the few will drag up the many. History is not on that side. Meanwhile, there is a bull market in stocks that can only be called defensive – Staples and Healthcare. It's easy to think of this as temporary, as just another sign of a weak market and investors seeking shelter from the storm. While there has to be some of that, it's not quite that simple. If you look at many of the long-term charts here, charts of Hershey (275), Lilly (429), Merck (117), Mondelez (77), Pepsi (193) and McDonald's (295), you're not exactly hiding out here. In a really weak market these won't be immune, but these are stocks you should be comfortable owning in any market.

Seems prudent to be more cautious here, perhaps considerably more cautious. It's not every day you see Regional Banks down 10-15% while the same day Brent falls 5%. If caution seems sage advice, it's also vague advice. Regional Banks may be cheap and they may survive, that's not a reason buy them. At the risk of dancing on the dark side of funnymentals, their road to profitability seems more than a little difficult. Ironically they're likely to be hiring staff – to deal with those new regulations. It also seems a good time to let go of those "hope stocks," stocks like Zoom Video (62) where you're still hoping it will get back to 600. This seems the case when it comes to all of the stay-at-home stocks. Bubbles may come and go, but when they go they stay gone.

Some time ago something went wrong in the office, and someone said blame the temp. Amusingly, it was the temp who said it and who though innocent, didn't run away from responsibility. It's somewhat amusing then that the weakness in bank shares to some extent is being blamed on short sellers. In his little diatribe the other day Powell reassured us the banks are "sound and resilient," though any need to reassure somewhat defeats the purpose. It's interesting that amongst the Fed there never seems a dissenter – apparently they don't get out much. The recent backdrop of course is hospitable to Gold, but we would argue the uptrends here have been well-established. And we would further argue news often comes along to explain what the charts already were seeing. Meanwhile, the dollar seems about to break, which would only reinforce Gold's longevity.

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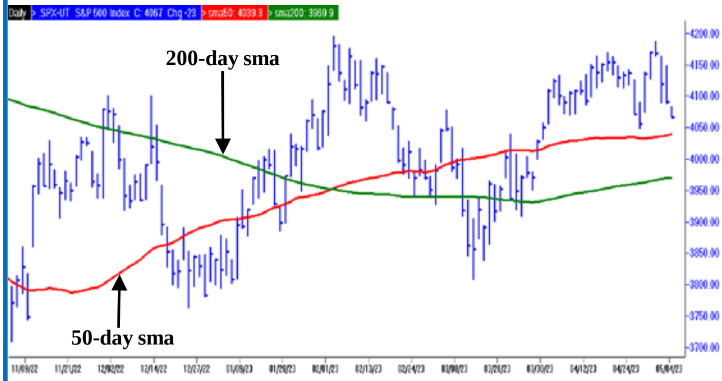
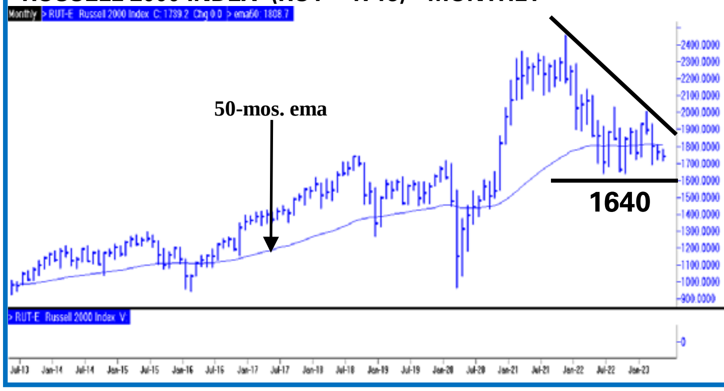
S&P 500 (SPX – 4061) – DAILY

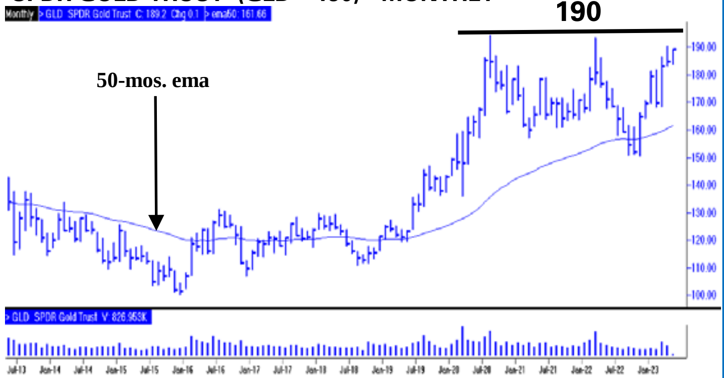


NASDAQ 100 (NDX – 12982) – DAILY

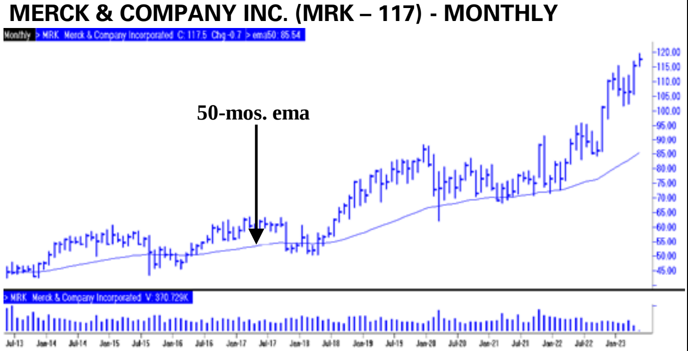
RUSSELL 2000 INDEX (RUT – 1718) - MONTHLY



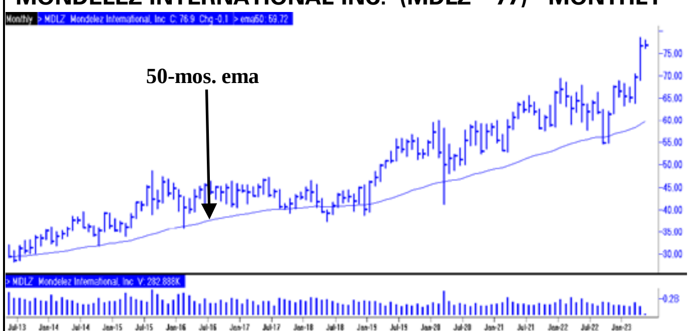
SPDR GOLD TRUST (GLD – 190) - MONTHLY



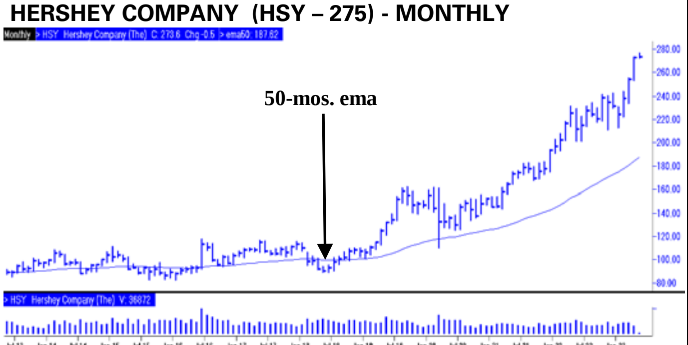
MERCK & COMPANY INC. (MRK – 117) - MONTHLY



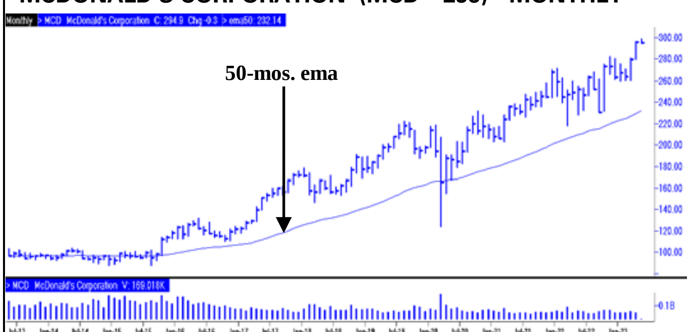
MONDELEZ INTERNATIONAL INC. (MDLZ – 77) - MONTHLY



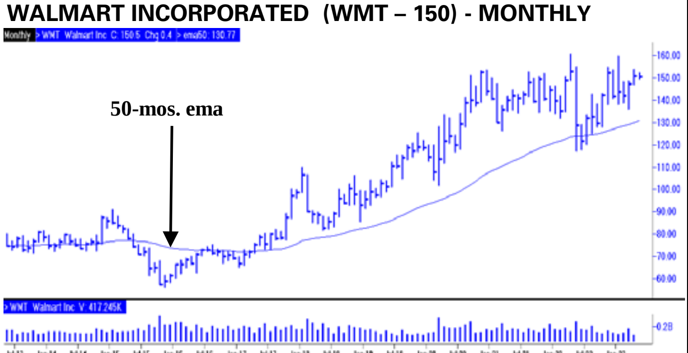
HERSHEY COMPANY (HSY – 275) - MONTHLY



MCDONALD'S CORPORATION (MCD – 295) - MONTHLY



WALMART INCORPORATED (WMT – 150) - MONTHLY



PEPSICO INCORPORATED (PEP – 193) - MONTHLY