Wellington Shields

EQUITIES PERSPECTIVE

July 7, 2023
DJIA: 33,922

What gets downgraded most days, goes up most days … and is not Ford (15) or GM (39)? It's that other car, battery, AI, autonomous driving, etc. company. Talk about the fickle finger of Funnymental analysis, with its holy grail of value, Tesla (277) is overvalued and Nvidia (421) is not? As we have suggested many times, stocks and markets sell at fair value twice – once on the way higher, and once on the way lower. The trick is to figure out whether they're on their way to becoming more overvalued or more undervalued. The figuring out is called following the trend. We trade so we use the weighted 21-day we've referred to recently. For those of you who don't mind waiting for instant coffee, the 50-day is probably best. While for the moment we're praising Tesla, we're fully aware the stock did sell for 400 back in late 2021. That's why discipline is often more valuable than thinking.

Does the market make the news, or does the news make the market. Technicians, of course, hold it's the former. In good markets, there is no bad news. When the news is bad, in good markets it's construed as good, or just simply ignored. This market has been a good example as it continues to ignore the Fed's berating, at least until Thursday. The real point is that it's not the news per se, it's how the market reacts to the news. When it comes to individual stocks, we don't really care about earnings, but we do care how stocks react to those earnings. An interesting example recently was FedEx (248) back on June 20, when the company apparently disappointed. The stock did react temporarily, only to quickly move back to its high and break out. Because of its Rorschach test like long-term pattern, the stock has never been one of our favorites. That said, the pattern we just described, the fakeout move to the downside and subsequent breakout, is pretty much money in the bank.

Sell in May and go away? That worked fine provided you were back June 1 when the S&P broke out. Seasonal tendencies are but one of the things to consider in analyzing markets, certainly not the most important. Most important, of course, is basic supply and demand – the trend. Like many aspects of market analysis often there's a message when markets don't follow the probabilities, sell in May being a perfect example. We're also intrigued by the seasonal probabilities of natural gas, which from now until almost the end of July show only a 15% chance of advancing. The average loss during this period is more than twice the gain. Nonetheless, the ETF here, UNG (7) is basing and would break out above 8. It also seems encouraging that a couple of related stocks like Southwestern Energy (6) and Comstock Resources (11) are acting better.

So, where's the worry? Sticking with the technical stuff, we're a bit surprised by the lag in stocks above their 200-day, a measure of trend as well as direction. The numbers here will vary depending on the database – all NYSE stocks versus S&P components showing 53% to about 63%. The real issue here, however, is these numbers are well below the 74% of last February. Given the improvement in the S&P Equal Weight and the Russell 2000, the divergence seems surprising. Of course, it likely lies in the poor behavior in banking shares back in March. Throw in Energy, and you have a lot of issues below their February levels. We hesitate to make excuses for the numbers, but we will at least as long as the A/D Index continues to show improvement. In other words, for now we'll take progress over perfection.

The key to a healthy market is participation. During the recent 2% setback A/Ds were negative for five consecutive days. Weakness happens, weakness doesn't kill uptrends. What kills uptrends, at least eventually, is weak rallies. Since that little setback A/Ds turned positive for six consecutive days through Tuesday. It didn't necessarily have to be that way; those numbers could've turned flat or at least mixed – it could've been a weak rally. We will see a weak rally eventually and it will be a warning, but sufficient unto the day is the evil thereof. We can see the numbers actually getting better along with stocks above their 200-day with a little more improvement from the banks and energy. Thursday's weakness was nasty but again, weakness happens, it's the recovery that will be important. Meanwhile, the Bitcoin stocks have had a good week as have some names in Quantum Computing.

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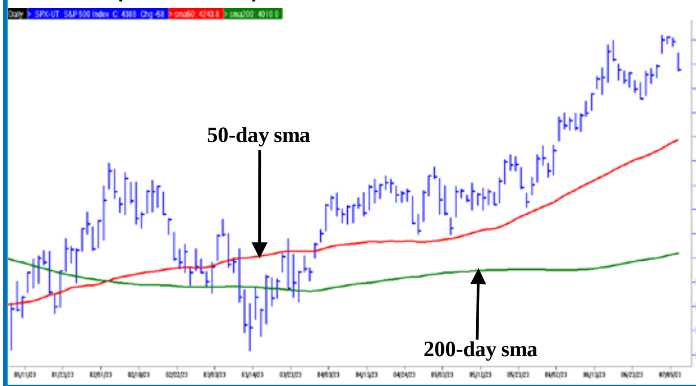
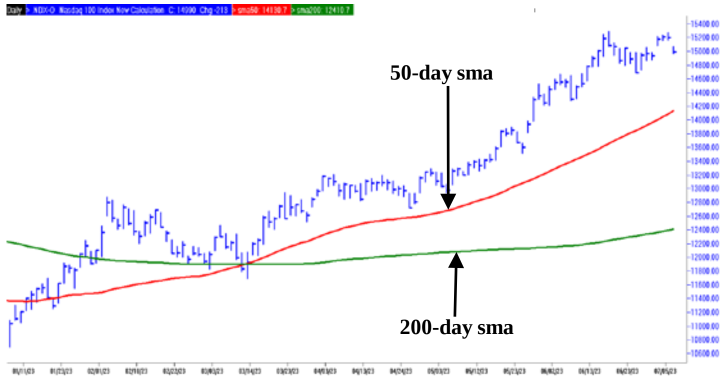
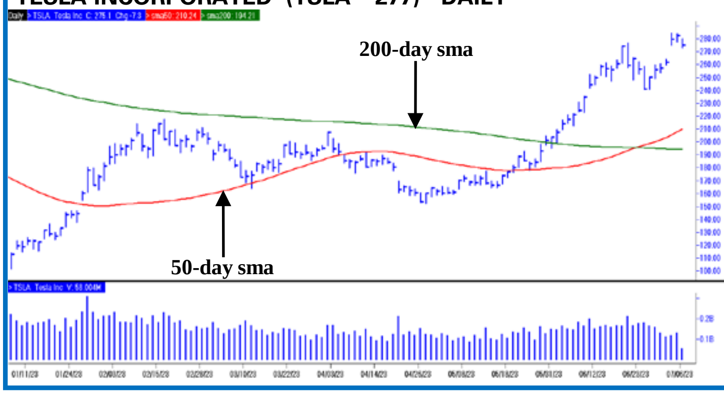
S&P 500 (SPX – 4411) – DAILY



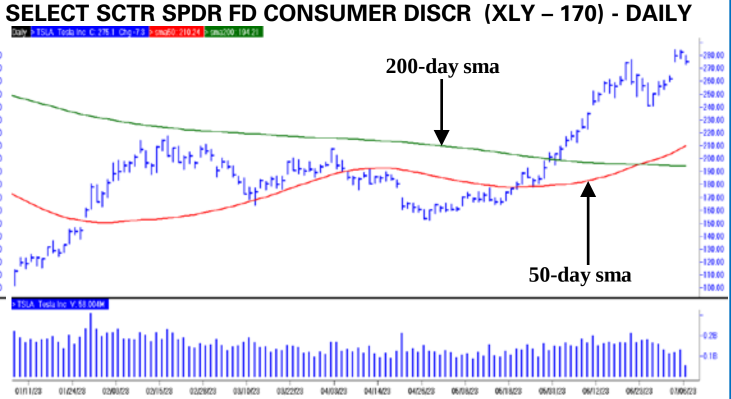
NASDAQ 100 (NDX – 15089) – DAILY



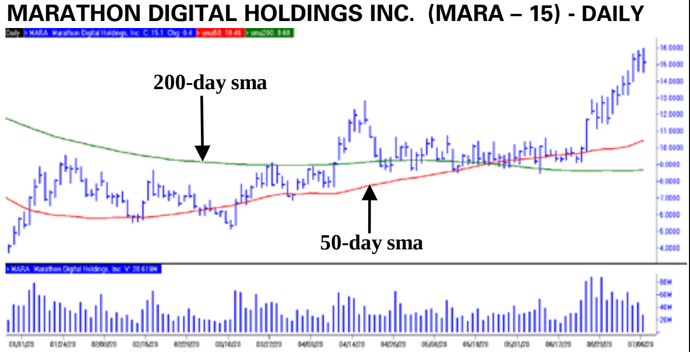
TESLA INCORPORATED (TSLA – 277) - DAILY



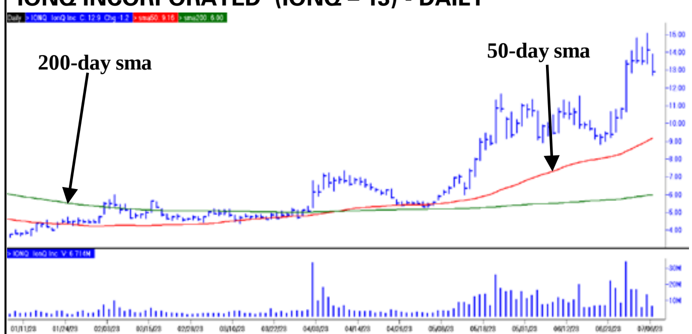
SELECT SCTR SPDR FD CONSUMER DISCR (XLY – 170) - DAILY



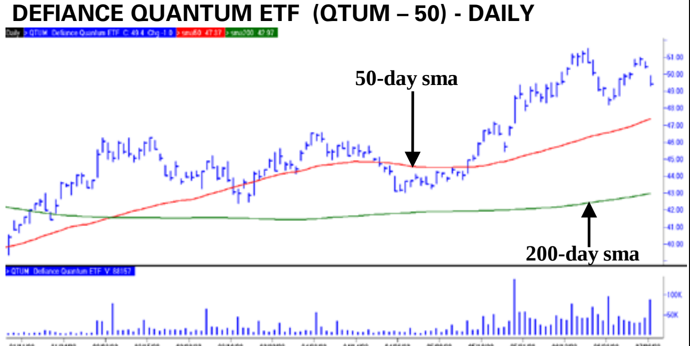
MARATHON DIGITAL HOLDINGS INC. (MARA – 15) - DAILY



IONQ INCORPORATED (IONQ – 13) - DAILY

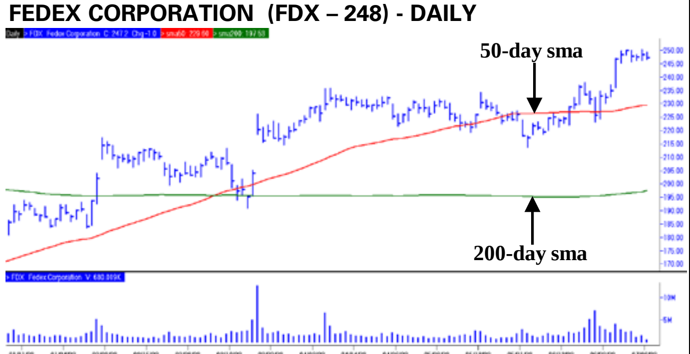


DEFIANCE QUANTUM ETF (QTUM – 50) - DAILY



C3.AI INC. (AI – 39) - DAILY

FEDEX CORPORATION (FDX – 248) - DAILY



FEDEX CORPORATION (FDX – 248) - MONTHLY