Wellington Shields

EQUITIES PERSPECTIVE

August 4, 2023
DJIA: 35,215

Sometimes it's not about what the market does … it's about what the market doesn't do. These days most stocks go up, and that has been key to the uptrend's longevity. Last Thursday was an exception, when despite the Meta (313) news most stocks reversed to close lower by a margin of almost 3-to-1. We would not have been surprised to see some follow-through the next day, despite the benign inflation number. Instead, the market retraced most of the previous day's loss, including in the A/D numbers. After Thursday's poor action, Friday easily could've seen what we call a weak rally – up in the Averages but poor breadth. While this speaks to the market's strength, we may be in for another health check this week. Tuesday's positive Dow against A/Ds that were 2-to-1 to the downside is not what you like to see.

Divergences between the DJIA and the A/Ds lead to problems/corrections. They can but don't usually happen overnight. In late 2018 The Dow saw three consecutive days of higher highs against three days of negative A/Ds, and the market quickly fell 20%. For some reason they like to compare this market to 87, though technically they're completely different. In 87 the A/Ds peaked in March, and there was a pattern of higher highs in the Dow against a pattern of lower highs in the A/Ds going into the October Crash. Divergences mean markets have narrowed. Markets narrow when there's less sideline cash/buying power. When that happens the large-cap stocks that dominate the Averages are the last to give it up, which offers hope for the laggards. You know what they say about hope as an investment strategy. While all of this is a sort of playbook for a market top, the market recently has broadened, and has too much momentum for important problems.

The upside momentum we have seen in this market brings to mind a trading system which has worked particularly well recently. The system calls for being long or short at the start of each month, depending on whether the S&P the previous month was up or down, respectively. Recently that would have meant going long at the end of March and capturing some 500 S&P points by the end of July. While the system does work, it's unusual to have the S&P up for five consecutive months. And to the point of momentum, all streaks end but this kind of momentum doesn't go away in a hurry. Another way you might have captured this momentum run is through moving averages. The S&P crossed above its 50-day moving average in early April and has remained above it ever since. A word of warning about "systems," they all have their flaws, mainly whipsaws. And then there's human nature. There are good trading systems, but few good systems traders.

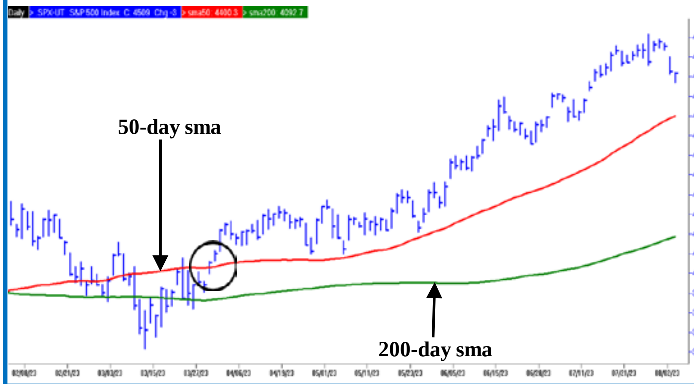
Sentiment or investor psychology is often taken just as contrary thinking. While there is a big part of that in these indicators, that's very much an oversimplification. A Wall Street Journal article recently cited an array of indicators suggesting sentiment is over the top. Those include the AAII Survey, the University of Michigan Survey, P/C Ratios and a disappearing VIX. How should we put it, investors aren't stupid. They would have to be to not be bullish/positive in a market like this. Our favorite quip about this is that investors are wrong at extremes, but right in between. So just what is an extreme? It's when you're sitting there wishing you had more money to invest, but you don't. Chances are you're not alone, and tops are about the money. When it comes to surveys we prefer Investors Intelligence, which is a measure of those drop-dead smart market letter writers. The record here is a jump often results in a temporary pullback, but then a higher market more than 90% of the time.

So when you catch a Sovereign downgrade you're supposed to sell all your Tech? Or was Tech a bit over-loved and looking for an excuse to correct? Before this spate of weakness, did you notice how the rally ran in the shorts? The shorts in this case were not just stocks like TUP (4) and TDOC (26), the shorts included every negative Strategist. That's the market, doing what he does best – confounding the most number of people. Things change, nowhere more than in Bonds and the Dollar – not a good thing. While not exactly a scientific survey, our take is there have been more surprises down than up, including among the good charts. That's not good for job security – in this case our own. The Market has dug itself into a bit of a hole in terms of the poor recent A/Ds, so we're likely in this correction phase for a while.

Frank D. Gretz

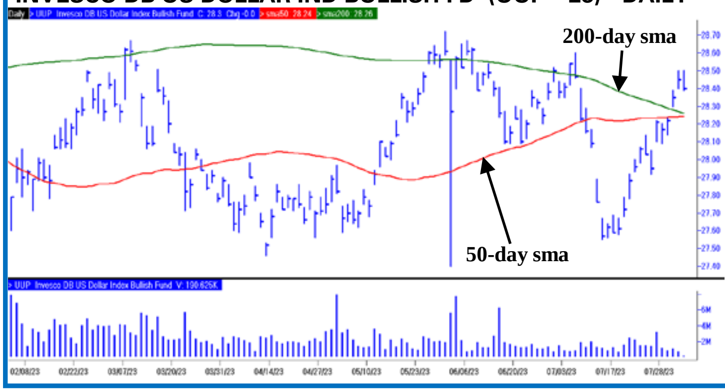
140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

S&P 500 (SPX – 4501) – DAILY

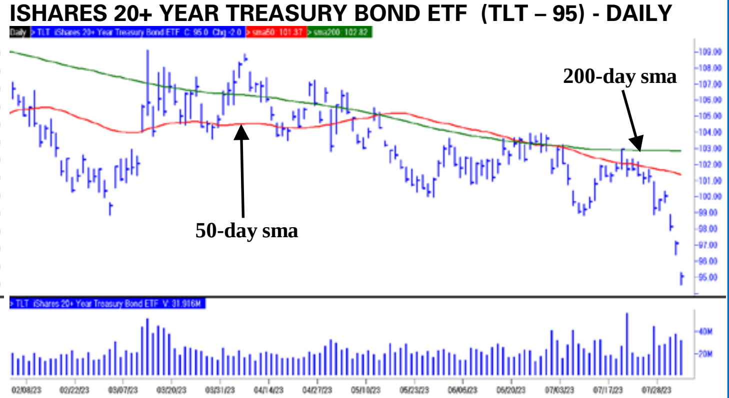


NASDAQ 100 (NDX – 15353) – DAILY

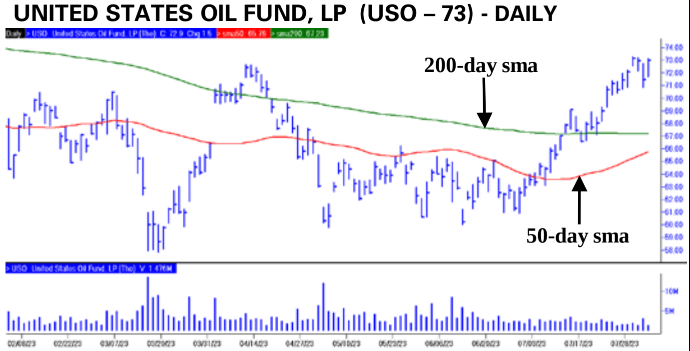
INVESCO DB US DOLLAR IND BULLISH FD (UUP – 28) - DAILY



ISHARES 20+ YEAR TREASURY BOND ETF (TLT – 95) - DAILY

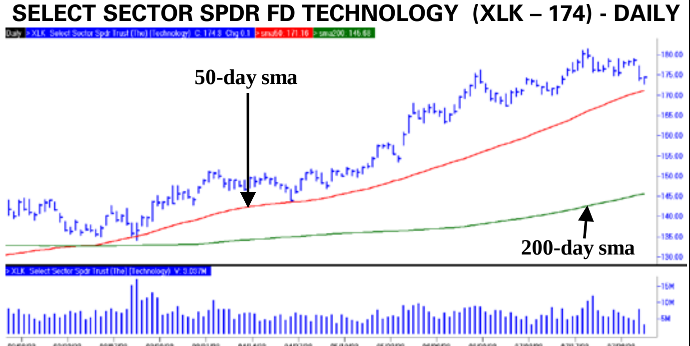


UNITED STATES OIL FUND, LP (USO – 73) - DAILY

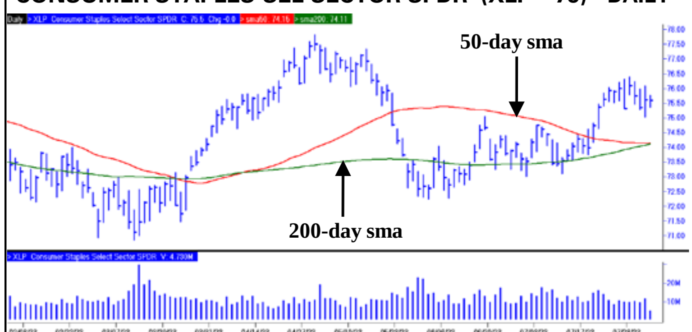


SPDR S&P OIL & GAS EXPL & PROD ETF (XOP – 143) - DAILY

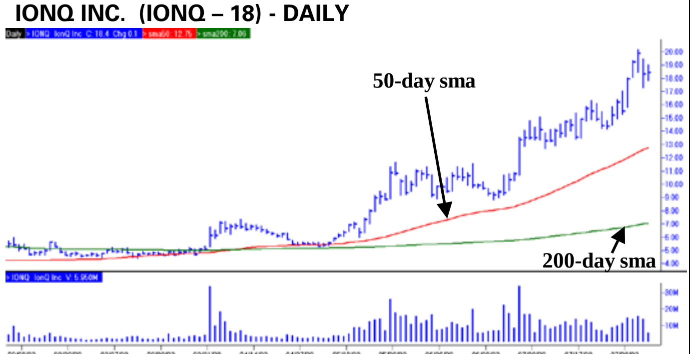
SELECT SECTOR SPDR FD TECHNOLOGY (XLK – 174) - DAILY



CONSUMER STAPLES SEL SECTOR SPDR (XLP – 75) - DAILY



IONQ INC. (IONQ – 18) - DAILY



PALANTIR TECHNOLOGIES INC. (PLTR – 19) - DAILY