Wellington Shields

EQUITIES PERSPECTIVE

October 27, 2023
DJIA: 32,784

War is Hell … the bond market not much better. It's hard to talk about markets considering the suffering in the Middle East, but both have had their impact on stocks. We just don't recall a time when for bonds it has been so much so. The week started with the 10-Year teetering around 5% for the first time since the summer of 2007. Just when all seemed lost, stepping up to save the day was not the Fed but Bill Ackman – well, covering a short position. Credit where credit is due, but this hardly seems the rationale. Consider Ackman's Pershing Square has some $18 billion under management versus the $24 trillion value of the Treasury market. Such is the rate concern these days that the relief rally in bonds briefly lifted stocks. Of course, as Bloomberg's John Authers points out, the risk is that rates will keep rising until they break something, which only then will cause them to fall.

If not breaking, Financials certainly are bending. And not just the Regional Banks, which look more broken than bended. Weak too have been the credit card guys like Capital One (90) and Discover (81), and the same day lenders – what could go wrong there? Or look at Blackstone (92), not exactly in the above category, but with its own recent downside gap. In this market there's pretty much no place to hide, for Financials it seems particularly so. In terms of making a low this isn't such a bad thing. If you're reading this, you have been through this kind of market before and know the feeling – pretty much one of the nausea. This sort of feeling probably tells you as much as the VIX which so far is only around 20, while a number closer to 30 seems more likely for a low.

Price gaps as you know are one of our favorite chart patterns. The textbook says these come in different varieties with somewhat different implications. For now suffice it to say stocks tend to follow through in the direction of a gap be it up or down. There have been several gaps recently, perhaps none more noteworthy than last week's gap in Netflix (404), one which historically at least makes our point. A gap occurs when the low in a stock is some two or more percent above the previous day's high. Last Thursday NFLX opened 17% higher, the 15th time it had done so by 15% or more. After a few days of consolidation, the stock moved higher over the next 15 sessions, at a win rate of some 80% or more, according to SentimenTrader.com. Of course, Russian roulette has the same win rate, but with considerably more risk.

Investor psychology is tricky, and sometimes almost amusing. Take Nvidia (403). Back at the end of August it was a must own, have to have it stock, with everyone just hoping for the elusive pullback. Now that the pullback looks more like a bottomless decline, it's hard to buy. Granted it's a different market than back then, the war, rates, and so on, but still. Meanwhile, Verizon (34) is a hard stock to buy mainly because it's Verizon. It's one thing to lose money in a cool stock like NVDA but sort of embarrassing to lose money in a stock like Verizon. And even if you make money, are you going to belly-up to the bar and brag about it? What's cool is making money however you do it. Verizon has been kicked around long enough you might think whoever wanted to sell it has done so. The stock has a turn, including a gap higher the other day.

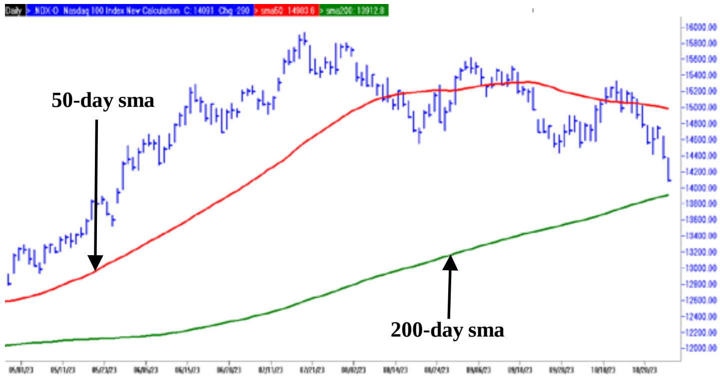
There are lows of the garden variety, and there are lows of the washout variety. Stocks above their 200-day average already are around the mid-20s, close to the garden variety low of March. Washout variety lows like last October saw a number around 17%. And even March saw a VIX around 30, October around 35. Financials as you know are many, and therefore impact the A/D Index. Long ago we were told that's why the A/D Index works – Financials are important. The A/D Index has significantly underperformed relative to the Averages themselves, opposite of a bull market. Against this pattern It seems increasingly likely the market will see a washout sort of low. Plenty of things could provoke that, the unknowns associated with the war, another spike in rates, it's hard to say. Then, too, it could be the Magnificent Seven themselves that do it.

Frank D. Gretz

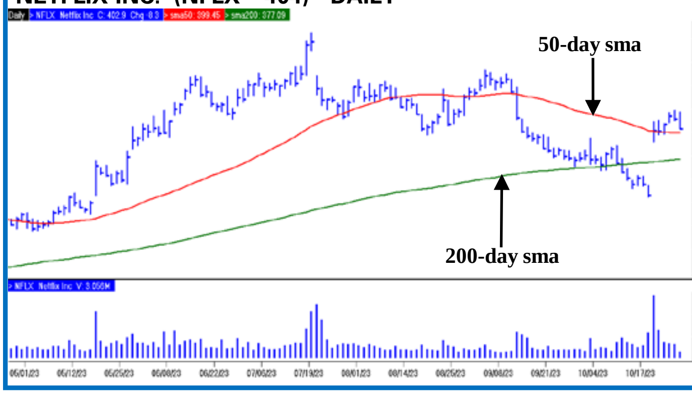
140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

S&P 500 (SPX – 4137) – DAILY

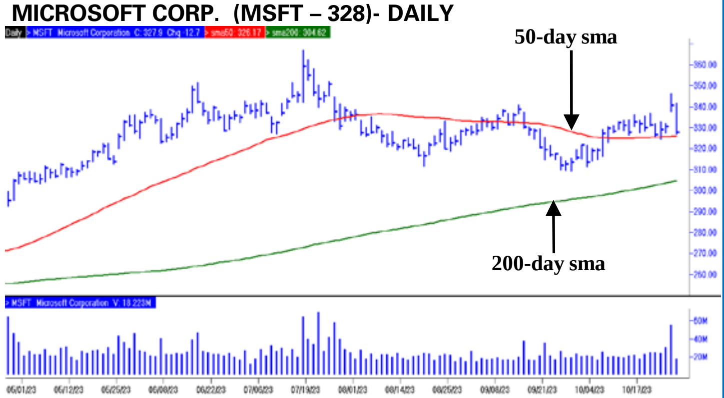
NASDAQ 100 (NDX – 14109) – DAILY



NETFLIX INC. (NFLX – 404) - DAILY

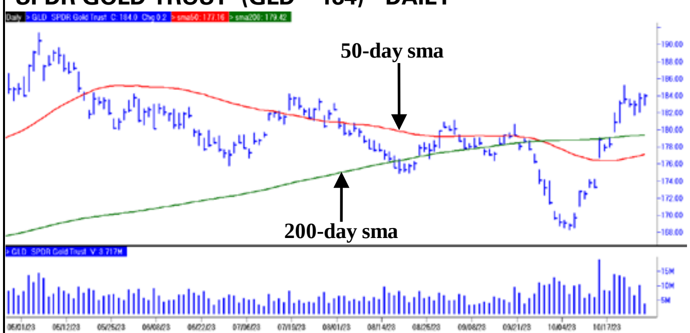


MICROSOFT CORP. (MSFT – 328)- DAILY

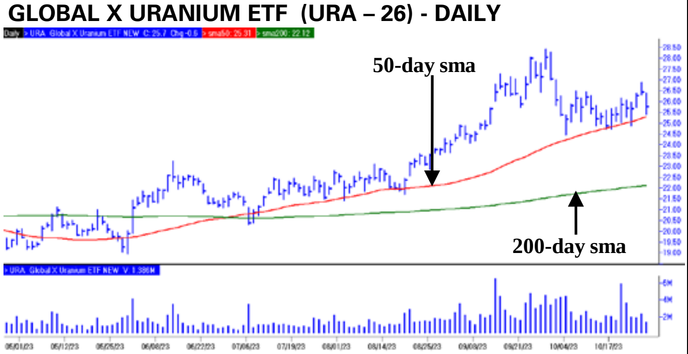


VERIZON COMMUNICATIONS INC. (VZ – 34) - DAILY

SPDR GOLD TRUST (GLD – 184) - DAILY

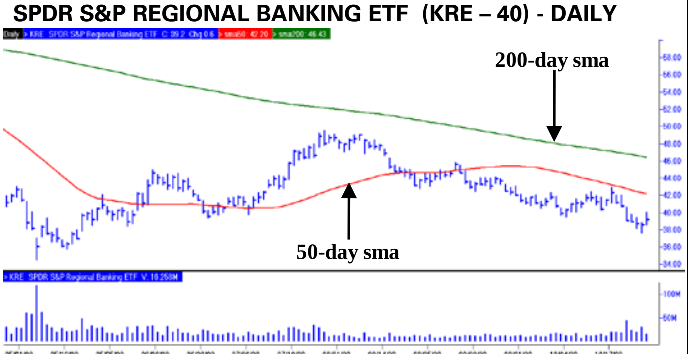


GLOBAL X URANIUM ETF (URA – 26) - DAILY



PROSHARES BITCOIN STRATEGY ETF (BITO – 17) - DAILY

SPDR S&P REGIONAL BANKING ETF (KRE – 40) - DAILY



SPDR SER TR S&P HOMEBUILDERS ETF (XHB – 70) - DAILY