Wellington Shields

EQUITIES PERSPECTIVE

January 19, 2024
DJIA: 37,468

And then … there were five. Of the Magnificent Seven, two now seem a bit less so – the two being Apple (189) and Tesla (212). Granted five out of seven good charts is not a bad win rate, but it makes the point the market in general has lost some participation. The market, of course, still has all that momentum going for it out of the October low, but numbers like stocks above their various moving averages show a stall, as do the level of 12-month highs. None of this is yet to show up meaningfully in the Averages, but that's not unusual. The exception perhaps is the Russell 2000 which recently had become everyone's favorite. The problem, of course, is the average stock eventually takes its toll on the rest. So while the look for now might be called mixed, it's likely to worsen. Our measure of breadth momentum recently turned negative, having been positive for a couple of months.

Going through the charts the other day we thought we had missed a nuclear war somewhere, at least to look at the Uranium stocks. Turns out the look came about for the more mundane reason of a shortage in supply. And this realization came about almost overnight? To look at the charts of URA (31), URNJ (28), URNM (56), CCJ (48) and others, you might have thought so, the moves were that dramatic. Indeed, dramatic enough to look in need of a consolidation. Meanwhile, war is hell, especially when it doesn't rally your Defense stocks, and a Middle East war that doesn't rally Oil. We don't mean to make light of war, what we're making light of is that simple logic often fails when it comes to the stock market. So should we worry why the cyber stocks act as well as they do?

We remain positive on our Other Magnificent Seven, all of which are in long-term uptrends – see the monthly rather than the daily charts. Keep in mind, not all of the original Magnificent Seven are in long-term uptrends – Microsoft (394) being one, Netflix (485) being far from it. There are still other Others that seem attractive here, names like Accenture (360), Eaton (240), Molina Healthcare (381), Costco (687) and Waste Management (184). According to IBD, and a few years of observation, as much as 75% of the movement in any stock is the function of the market's overall trend. It's therefore hard to expect any stock to be immune in a market correction. The advantage to the stocks we've mentioned is that they have those long-term uptrends as support. The exception to stocks possibly immune to a correction would be defensive names like Food, and so on. The problem here is when the correction ends, they underperform as money goes to stocks that have sold off.

Apparently even in China, the charts tell a story. The Taiwan elections seemed a worry, but Chinese stocks were undaunted to start the week. Then came the deluge. Onshore shares dropped to a five-year low, shares in Hong Kong and the US fared even worse. What happened was a bleak picture of China's recovery. Home prices fell the most in nine years, while a measure of price change recorded its largest stretch of declines since 1999. As Bloomberg's John Authers put it, investors seemed to lose patience. If it's an ill wind – deflation there is good for inflation here. Meanwhile, in the category of sell on the news/be careful what you wish for – how about that Bitcoin? Even if a small fraction of 1% of the assets under management were allocated to Bitcoin, it would have a huge impact argues Marathon Digital's CEO Fred Thiel. Perhaps, but for now is it discounted?

They say they don't ring a bell at the top. We heard it ring and the Fed's typically dovish Waller seemed to ring it. Yet he said nothing the rest of them haven't been saying for a while now in their effort to dampen the market's enthusiasm. So why this time did the market react so negatively? The answer of course is simple – it's not the same market. Heraclitus (500 BC) might well have been talking about the stock market when he said you never step in the same river twice. And the market, the river, is what matters – it's the market that makes the news. Given the momentum from the October low, we see this as a garden-variety correction. Even so, bad news somewhere could see the VIX (14) rise to last October's level in the low 20s. It's not a sell everything kind of decline, but it's time to let go of your hope stocks, the stocks not going up but you hope will.

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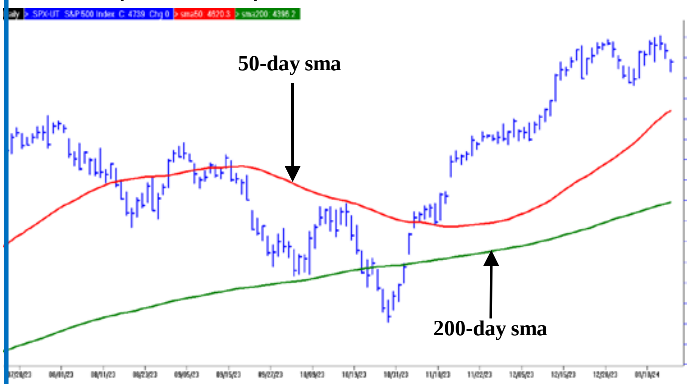
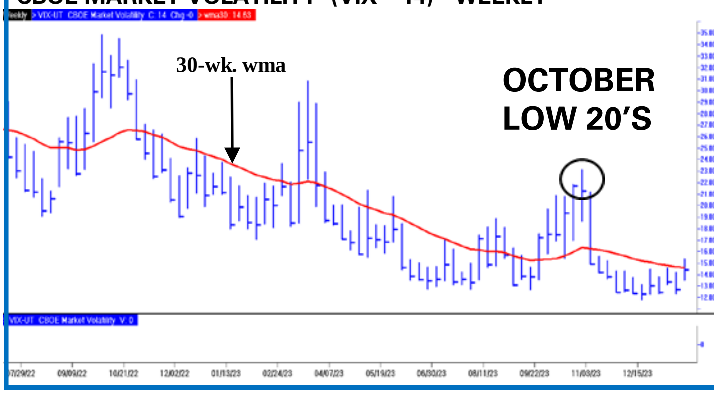
S&P 500 (SPX – 4783) – DAILY

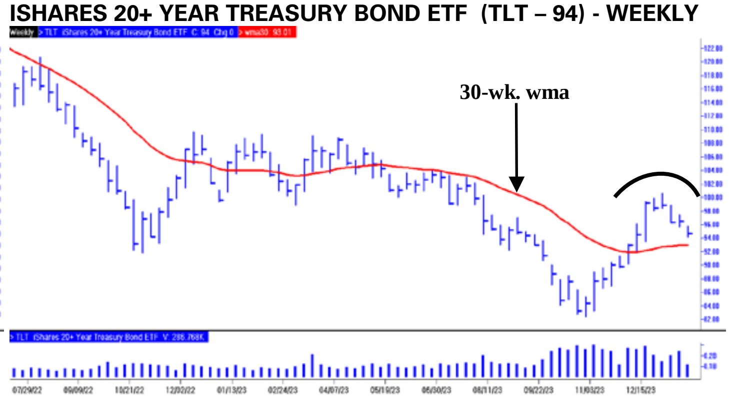


NASDAQ 100 (NDX – 16982) – DAILY

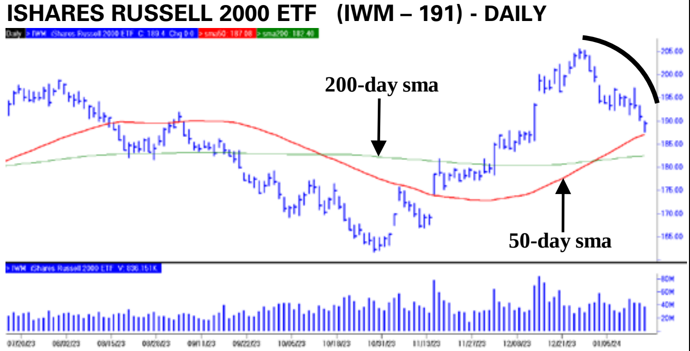
CBOE MARKET VOLATILITY (VIX – 14) - WEEKLY



ISHARES 20+ YEAR TREASURY BOND ETF (TLT – 94) - WEEKLY

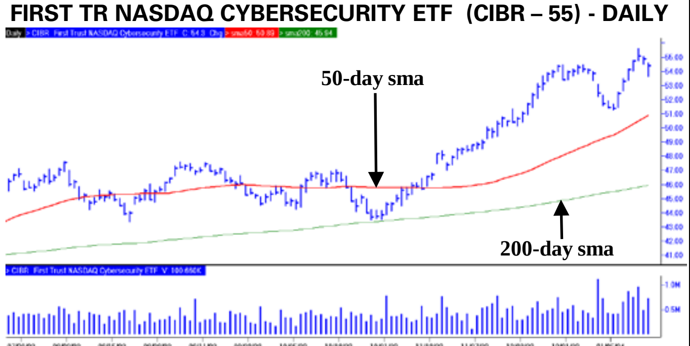


ISHARES RUSSELL 2000 ETF (IWM – 191) - DAILY



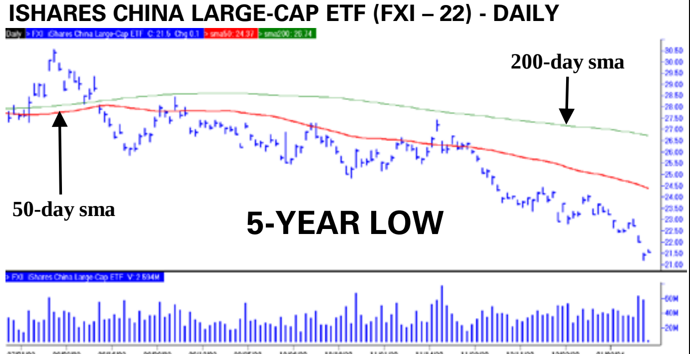
ROUNDHILL MAGNIFICENT SEVEN ETF (MAGS – 34) - DAILY

FIRST TR NASDAQ CYBERSECURITY ETF (CIBR – 55) - DAILY



SPROTT URANIUM MINERS ETF (URNM – 56) - DAILY

ISHARES CHINA LARGE-CAP ETF (FXI – 22) - DAILY



MARATHON DIGITAL HOLDINGS, INC. (MARA – 16) - DAILY