Wellington Shields

EQUITIES PERSPECTIVE

January 5, 2024
DJIA: 37,440

Wring out the old … ring in the new? Quite a change to start this or any new year. Profit-taking in last year's winners and dip buying in last year's losers. It also saw some interesting numbers on that first day of trading – the Dow modestly higher, a very weak NAZ and 1700 advancing issues. All things being equal, not a bad configuration. Those A/D numbers were pretty much the same for the NASDAQ, surprising given the weakness there. Clearly Tech was the most prominent part of the weakness, but it was almost anything that has done well recently. Meanwhile, just when you thought a stock like Hershey (191) might never lift it, other food and pharma stocks did quite well. The question, of course, for how long. With the overall background favorable, ideally this dichotomy will meet in the middle.

Despite this week's setback, history and its probabilities still seem on the market's side. The upside momentum we've seen carries with it some impressive outcomes. If we look at the broader S&P 1500, 90% of the components there are above their 50-day average, a number with a 90% probability of higher prices six months later, according to SentimenTrader.com. The Equal Weight version of the S&P (RSP-155) has cycled from a 52-week low to a 52-week high near record time, also suggesting higher prices over the next six months. Of course, probabilities are not certainties, but they should put the odds in your favor. If God told us to buy 1000 S&P call options, we would first say thanks, and then ask where to put our stop. For the S&P, the Index is teetering on its exponential 21-day weighted averages, one utilized by IBD. Granted it's a trader's measure, but the S&P has been above it since November 2, making any break somewhat noteworthy.

The worry we have about Tech is that everyone treats the stocks like they are the companies. They're not – they are pieces of paper and pieces of paper can become over owned, or just go out of favor. One of our favorite charts is a long-term chart of McDonald's (292) from the 70s and early 80s. McDonald's in 1973 peaked approximately at 75, went down to 22 in 1974, rebounded to 66 in early 1976 and then went sideways for the next five years. Interestingly, the earnings continued growing throughout the decade at a compounded rate of 25% a year and the company never missed a quarter. Despite all that, by its 1980 low McDonald's was selling at 10 times trailing 12-months earnings, compared with selling at 75 times trailing 12-months earnings in 1973. Even good stocks can become over owned and/or fall out of favor.

With the leadership dust more than a little unsettled, a stock like McDonald's might make sense. It didn't have a great year last year, thanks to a 20% drawdown in August – September, but has a more than decent uptrend going for it now. Also going for it, it could easily be among our Other Mag Seven stocks in that it has a great long-term pattern. As things sort themselves out, you might also look to Oil which also didn't have a great year in 2023, and it has failed to respond to threats in the Gulf. Still, if not quite ready for prime time, the stocks are shaping up, and are among the laggards that are a recent market focus. Among the better charts are Diamondback (156) and Phillips 66 (135).

Tech isn't going away, but it could go dormant. Not dormant like MCD in the 70s, but dormant relative to last year. Clearly it's too soon to say, weakness there is what the old westerns used to call a flesh wound. The stocks of course have had runs that deserve a break, and now there seem options. If Hershey is not on your diet, there are many healthcare stocks with good short and long-term patterns – even most of Biotech has a turn. With all the recent cross currents, the best guide to overall market health isn't the NAZ, S&P, or even the RSP, it's the average stock. Because the large caps dominate the Averages, the Averages for now can be almost misleading. Dare we say, look to the A/Ds as a better guide to market health. When most days most stocks, go up, whatever they may be, markets don't get into trouble.

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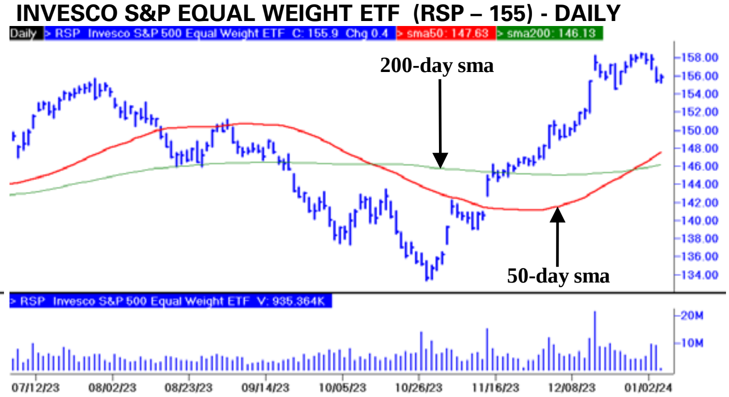
S&P 500 (SPX – 4689) – DAILY

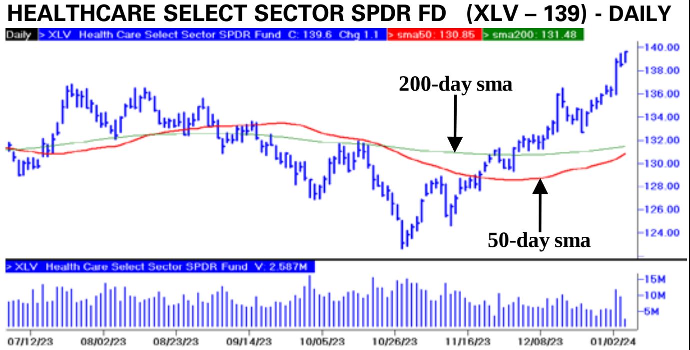
NASDAQ 100 (NDX – 16282) – DAILY

ROUNDHILL MAGNIFICENT SEVEN ETF (MAGS – 32) - DAILY

INVESCO S&P EQUAL WEIGHT ETF (RSP – 155) - DAILY

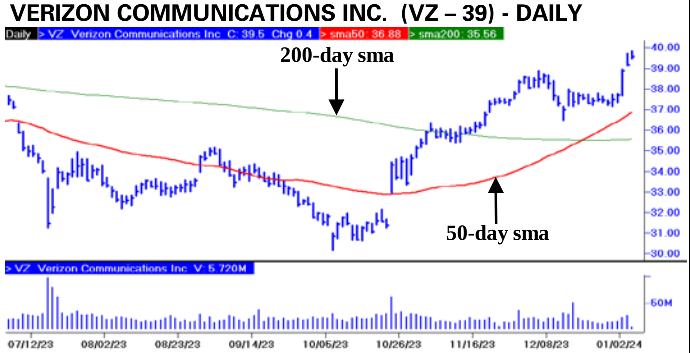


HEALTHCARE SELECT SECTOR SPDR FD (XLV – 139) - DAILY



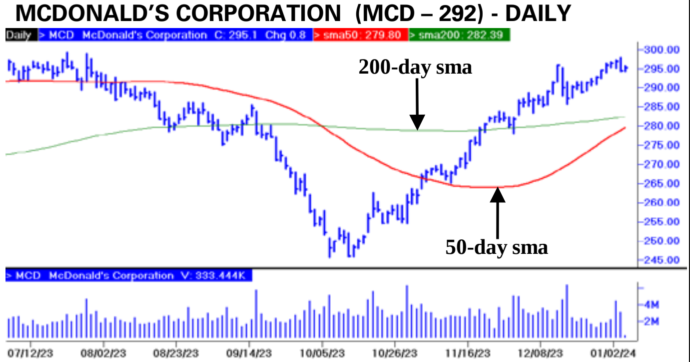
CONSUMER STAPLES SEL SECTOR SPDR (XLP – 72) - DAILY

VERIZON COMMUNICATIONS INC. (VZ – 39) - DAILY



DIAMONDBACK ENERGY INC. (FANG – 156) - DAILY

MCDONALD'S CORPORATION (MCD – 292) - DAILY



MCDONALD'S CORPORATION (MCD – 292) - MONTHLY