Wellington Shields

EQUITIES PERSPECTIVE

February 16, 2024
DJIA: 38,773

Every trend must go too far … and evoke its own reversal. Surprising how little has changed since Heraclitus made that observation back in 500 BC. The question, of course, is how far is too far? Typically, it's further than you think. Most cries of some dire consequence come far too early, to the point they're ignored when they finally come to fruition. And then there's human nature. Who wants bad news when making money is fun? Realistically, did anyone really believe by putting dot-com behind a name made a company more valuable? Now it's having some vague AI reference that does the trick. Keynes defined a speculative phase being when investors are buying merely because they believe they can soon sell for more – nothing to do with judgment or fundamentals. Think of the dot-coms, the meme stocks, and EFTs. The AI stocks are getting there, but unlikely there just yet.

If AI is in or is on its way to bubble status, unlike other bubbles there is this time an enabler called passive ETFs. ETFS have their virtues, allowing a sort of instant exposure to the market as a whole, or sectors of the market. The problem with ETFs is when like now, they seem to exaggerate an extreme. There are, for example, many ETFs which mimic an AI portfolio, passive in the sense hell or highwater, that's what they buy. To buy one of these, like the Round Hill Magnificent Seven ETF (MAGS-37), that ETF is not going to go out and buy Procter & Gamble (157). They are going to buy more of what they already own, their mandate the Mag 7, regardless of valuation or stretched prices. The Nifty 50 became a bubble before ETFs, the dot-coms with a little help from ETFs. We suspect the AI stocks are enjoying plenty of help. We would not be surprised to see the Bitcoin stocks get a little help from their ETFs.

We have likened NVDA (727) now to Cisco (49) back in the fall of 1998. NVDA owns the AI world with its GPUs as Cisco owned the Internet world with its routers. They were and are, respectively, the way to play those innovations, the breeding ground by the way for most bubbles. NVDA and SMCI (1004) pretty much are tracking CSCO during its bubble phase, which if it sounds worrisome it is not. From the start of its bubble phase in late 1998, Cisco didn't peak until March 2000. Then, too, maybe the ETFs will hasten things along. Psychologically speaking, for stocks like these the time to sell is it likely when you make up your mind you never will. As a check, every now and then look at that Cisco chart in 2000.

Tuesdays 10-to-1 A/Ds is the sort of number you might expect at market lows rather than a market making highs. With rates up a bit, blame the usual suspects – Financials. As we seem to never tire of saying, it's not the bad down days but rather the bad up days that cause problems. Wednesday's comeback was more than respectable, certainly not a bad up day, though the A/Ds still lag the Averages. Overall the backdrop has its problems, the most glaring of which shows up on the NASDAQ. Against almost daily highs in the Averages there, only 50% of those stocks are above their 200-day, that is, in uptrends. And last week there were just about as many 12-month new lows as 12-month highs there. A momentum driven market like this can override these divergences for a time. In 1987 the market ignored ongoing divergences from March to October, and then of course it didn't. For sure this is not a time you want to see those bad up days.

Often confused are stocks and their companies. Stocks are not their companies. Stocks are pieces of paper, subject to many crosscurrents, the Fed being one, but only one. Companies may remain stable, yet their stocks subject to excesses both up and down. Back in March 2000 Cisco the company was doing fine, the Internet and Cisco's routers were transforming the world. Cisco the stock fell 89%. It has been almost 25 years, best we can tell the Internet is still alive and well and so too Cisco the company. Yet Cisco the stock is still not back to its 2000 high. This is by way of perspective, not a call to sell AI. Indeed, bubbles are a wonderfully profitable time – while they last. An old Wall Street story is one of a wonderful party, enjoyed by all. Everyone knew there was a time the party would end – but the clock had no hands.

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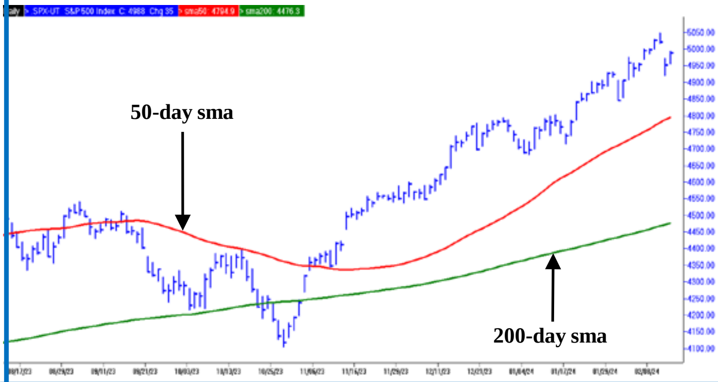
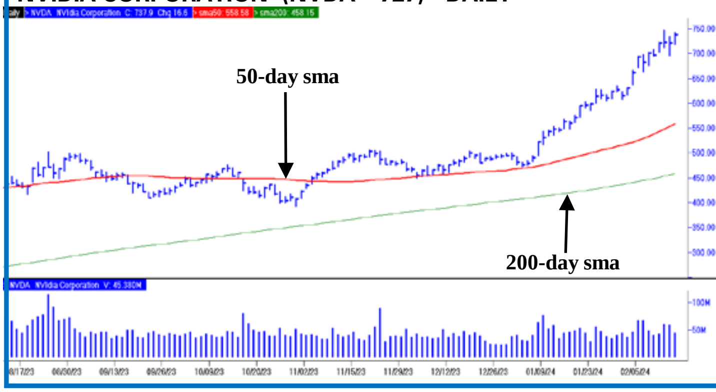
S&P 500 (SPX – 5025) – DAILY

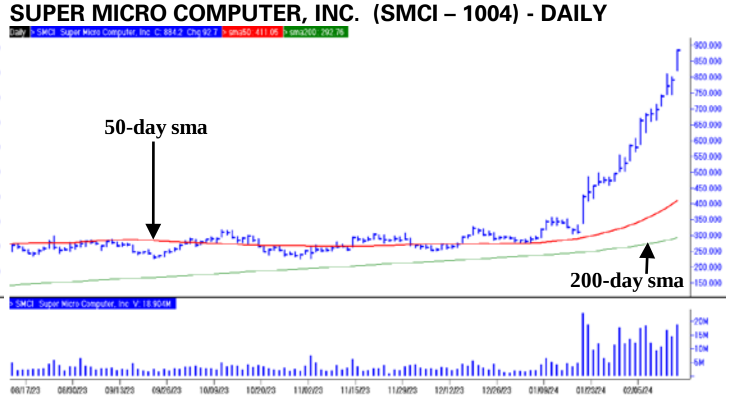


NASDAQ 100 (NDX – 17845) – DAILY

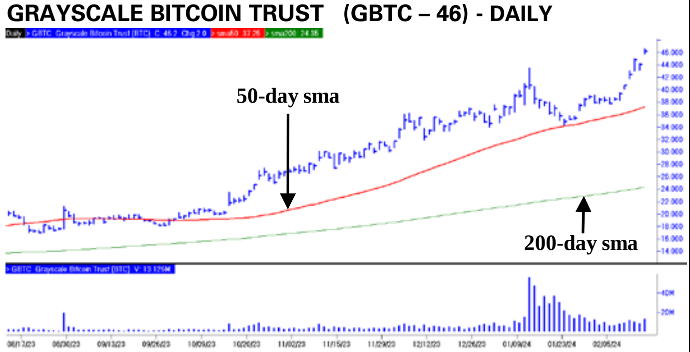
NVIDIA CORPORATION (NVDA – 727) - DAILY



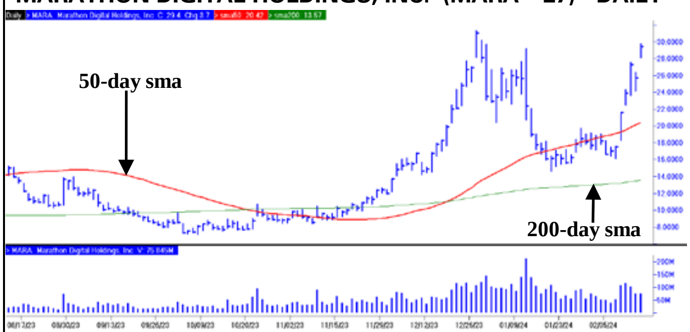
SUPER MICRO COMPUTER, INC. (SMCI – 1004) - DAILY



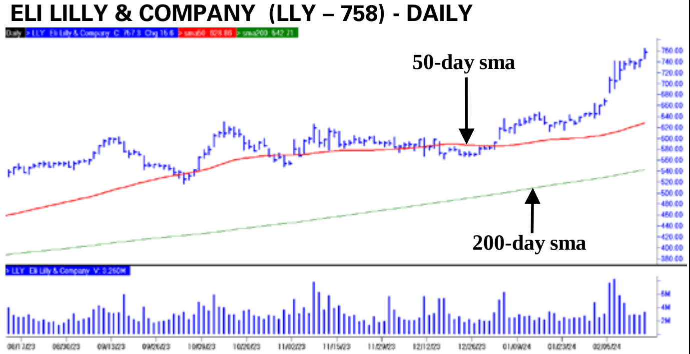
GRAYSCALE BITCOIN TRUST (GBTC – 46) - DAILY



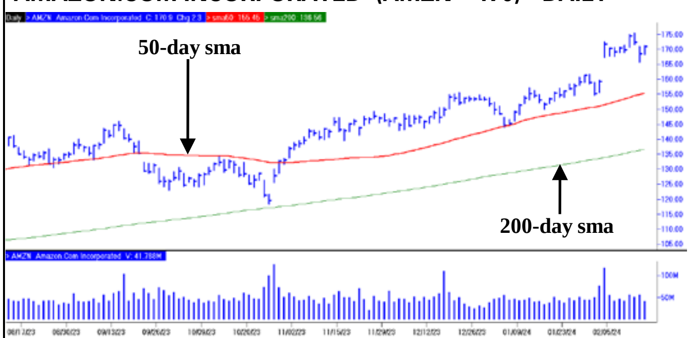
MARATHON DIGITAL HOLDINGS, INC. (MARA – 27) - DAILY



ELI LILLY & COMPANY (LLY – 758) - DAILY



AMAZON.COM INCORPORATED (AMZN – 170) - DAILY



DELL TECHNOLOGIES INC. (DELL – 83) - DAILY

ROUNDHLL MAGNIFICENT SEVEN ETF (MAGS – 37) - DAILY

Chart Courtesy of Worden