Wellington Shields

EQUITIES PERSPECTIVE

February 9, 2024
DJIA: 38,726

Bubble, bubble … no toil or trouble, yet. The idea of a bubble of course carries a negative connotation. That's about the bursting of a bubble, but obviously there's plenty of money to be made before then. They say you don't recognize a bubble when you're in one, but this AI bubble seems pretty clear. Like this one, bubbles most often are associated with some innovation, in this case it's AI, not that long ago it was the internet and the dot-coms. But bubbles were also associated with what might now be considered mundane like autos, railroads, and even canals. Even the meme bubble was associated with an innovation of sorts, day trading. Bubbles are not new, and great while they last.

Timing bubbles, of course, is more than a little tricky. Our guess, with a little recollection, is there will be a sizable correction someplace along the line, followed by a sizable recovery. The latter is to teach you to buy the next selloff, the one you should be shorting rather than buying. The good news is any end to this should be some time off, if history a guide. The rally, the melt up from 1998 to March 2000, began coincidentally on a surprise pivot by the Fed in October. If you take Nvidia (696) as the poster child now, it is pretty much tracking the internet poster child back then, Cisco Systems (50). If you recall, routers were the GPUs of their day. History doesn't repeat, and doesn't rhyme, but it does offer some perspective. Cisco didn't peak until March 2000.

As the year began, hope sprang eternal that the fourth quarter's secondary stock performance would continue. Hope there still springs eternal, but a distinction need be made on how to measure that performance. The Russell 2000 may be considered the go to Index here, but its 20% weighting in Regional Banks has put it at a disadvantage. Meanwhile the Equal Weight S&P (RSP-159) has found itself in a trading range since mid-December. Somewhat ironically, the largest equity position in the Russell is Super Micro Computer (698), up some 300 points in the last three weeks. Like virtually all Russell positions, however, the weighting is such it has failed to move the Index.

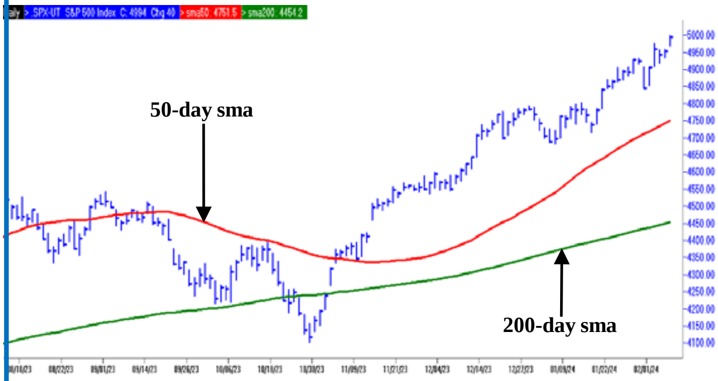
Sell on the news isn't exactly a new idea when it comes to markets, but rarely have we seen it happen so dramatically as it has with Bitcoin. To be fair the real weakness seems in what they call the Miners, where a representative ETF might be WGMI (15). From its peak around 22 at the end of December it touched 11 just a few weeks ago, and since has recovered slightly. Faring better have been pre-existing ETFs like Grayscale (41), which from its peak a few weeks ago around 44, fell to a low round 34 and now is back above its moving averages. Bitcoin isn't going away and as last quarter's anticipatory binge settles in, it seems likely to have another good run. After all, something like GBTC remains a correction in the uptrend which began in late 2022.

Last Friday saw what we call a bad up day – up in the Averages with negative A/Ds. We paid the price for that, so to speak, with a 4-to-1 down day on Monday, but no follow through. You wouldn't know it to look at the Averages, but the market has lost some of its loving feeling, a.k.a., momentum. As the Averages have moved higher, the A/D Index – the summation of the daily numbers – peaked back on December 27. And the market has become more divided, with both a large number of 12-month new highs and 12-month new lows. Also, stocks above their various moving averages – 10, 50 and 200 day – have been rolling over since December. It seems time for a little more caution. Meanwhile, the S&P Healthcare sector recently saw 18% of components at 12-month highs, a number with significant implications. The stocks moved higher over the next six months virtually every time. Indeed, all of the momentum measures since the October low suggest the same for the market as a whole.

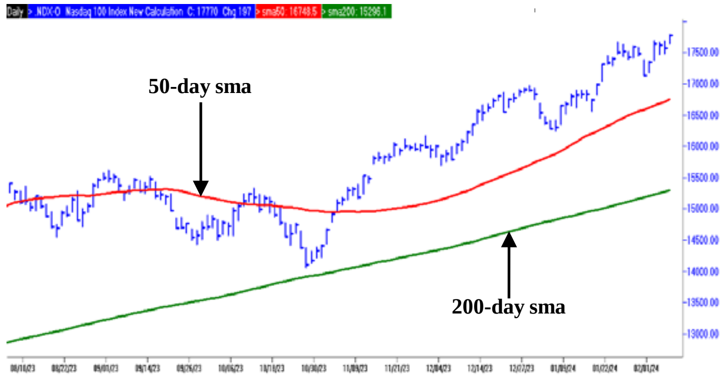
Frank D. Gretz

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

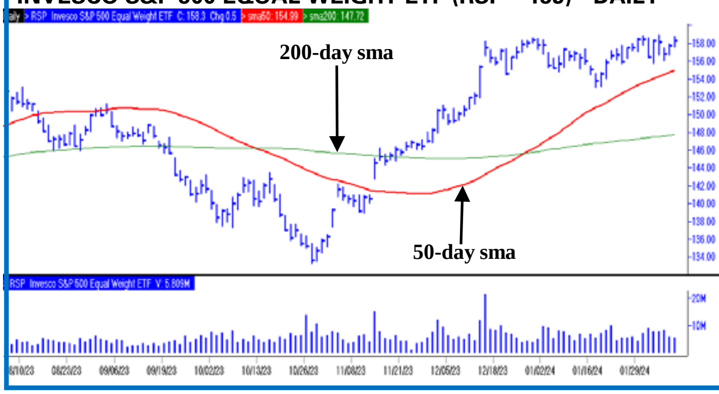
S&P 500 (SPX – 4996) – DAILY



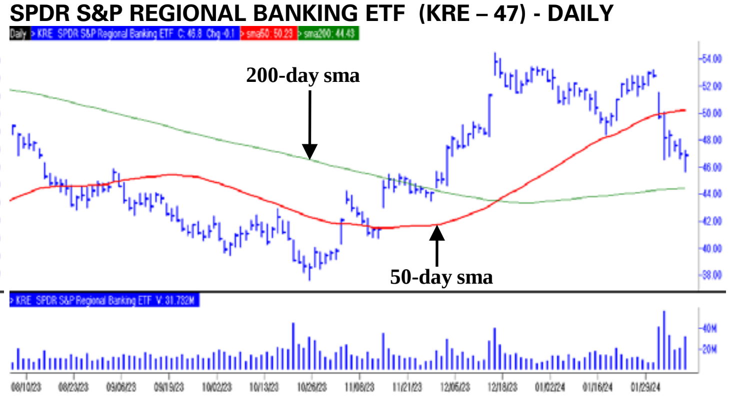
NASDAQ 100 (NDX – 17783) – DAILY



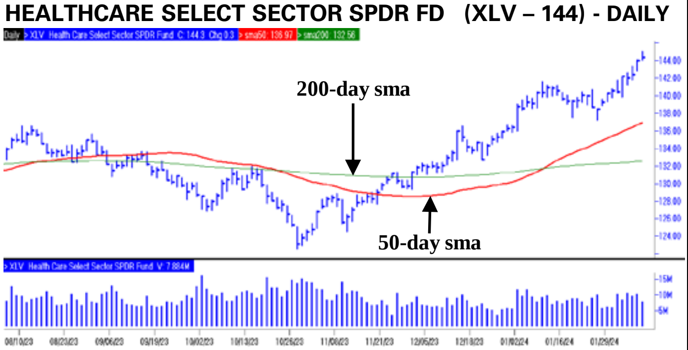
INVESCO S&P 500 EQUAL WEIGHT ETF (RSP – 159) - DAILY



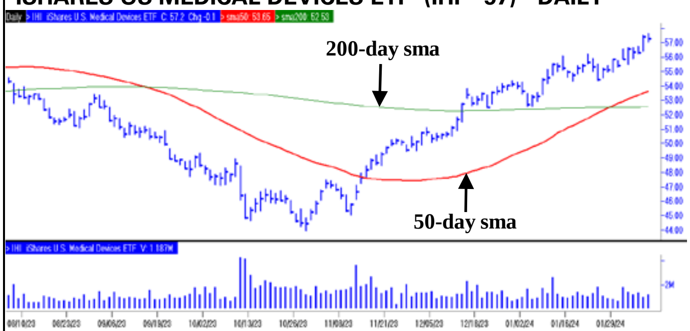
SPDR S&P REGIONAL BANKING ETF (KRE – 47) - DAILY



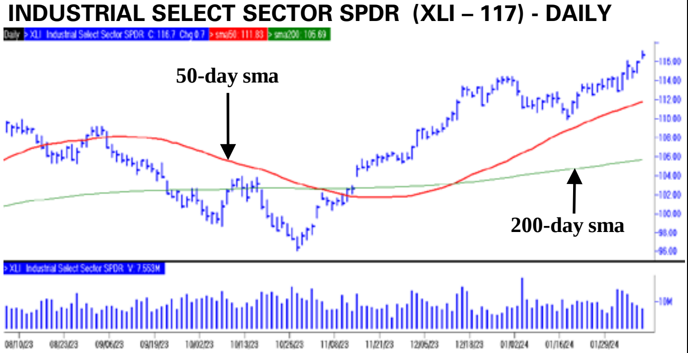
HEALTHCARE SELECT SECTOR SPDR FD (XLV – 144) - DAILY



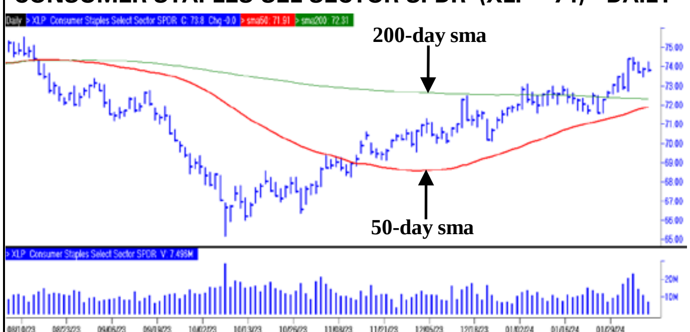
ISHARES US MEDICAL DEVICES ETF (IHI – 57) - DAILY



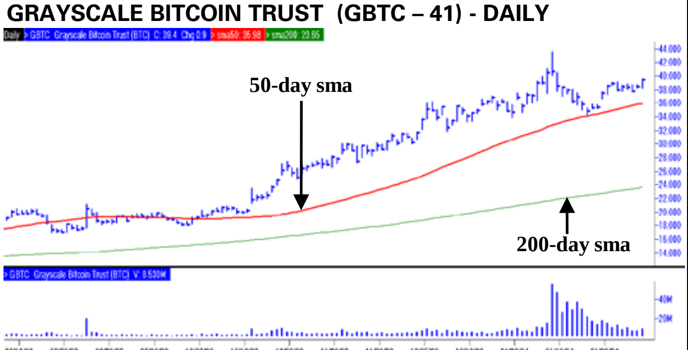
INDUSTRIAL SELECT SECTOR SPDR (XLI – 117) - DAILY



CONSUMER STAPLES SEL SECTOR SPDR (XLP – 74) - DAILY



GRAYSCALE BITCOIN TRUST (GBTC – 41) - DAILY



ROPER TECHNOLOGIES, INC. (ROP – 545) - DAILY