Leavitt Brothers Weekly

Sunday, February 28, 2016

Join our email list and get reports just like this send directly to you.

http://www.leavittbrothers.com/email-subscribe.cfm

Overall the market did well last week, but it closed off its high Friday and finished right at an inflection point, leaving everyone in limbo heading into the weekend.

Heading into the week, the S&P had put in double bottom and was making its way back up. It was nicely positioned to make a run at its prior high and attempt to break through and end what had been six weeks of range bound movement.

Monday, the market gapped up and flat-lined. On Tuesday, it gapped down and gave back most of the gains. A big gap down Wednesday put the index at its lowest level in six days, but buyers stepped in and steadily drove prices up for two straight days. Thursday's close was right at the high, leading traders to wonder if we'd get a gap-n-go Friday. We got a gap, but instead of going, the market fizzled. It wasn't a total loss. Volume was light, and the market didn't get hit hard. In fact both the indexes and major industries closed mixed. But given the proximity to resistance, given the market seemed to be at a sensitive level that could induce a big round of buying or quick profit taking, we headed into the weekend without questions, not resolution.

There are things to like about the market short term. Several breadth indicators have improved (how could they not, the S&P just rallied 140 points in eleven days), commodities have perked up and oil in particular has put in higher low and has put in a decent base over the last two months. But overall there are many things to dislike; in particular the wrong groups are leading. Utilities are doing great. So are gold and silver. And boring safe-havens have all done well. These include: WMT, PG, JNJ, T, VZ, KO. These are not growth companies. They aren't going to double or triple over the next year.

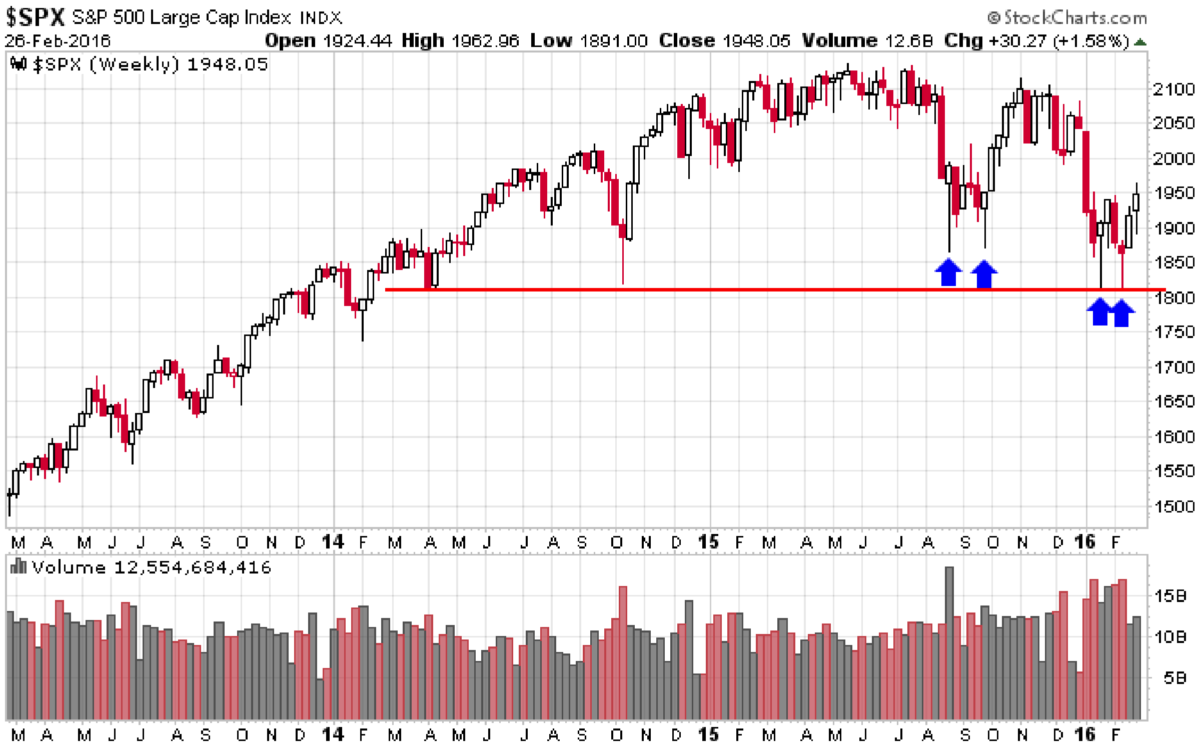
Investors seem more interested in getting a return of their money than a return on their money. Yes a couple tech names have popped recently, but overall investors favor putting their money in Walmart and getting a small dividend to shooting for stock appreciation with less proven companies. So in the near term an argument can be made for more upside, but the underlying tone remains negative.

Earnings season is winding down, so other than the latest employment figures to be released next Friday, we should get a lull in news. This means absent a shock from Asia or Europe - which is always a good possibility - the market will mostly be left alone to trade on its own - an ideal situation. The S&P sits at resistance with a thin area above. Resistance happens to be the 50% retracement level of the early-January sell-off. It's time for either the bulls or bears to take control. Or perhaps I should say it's time for the bulls to sh#t or get off the pot. I think the onus in more in their court than the bears. They need to break the market out and get some follow through. Otherwise, the market will fall by its own weight.

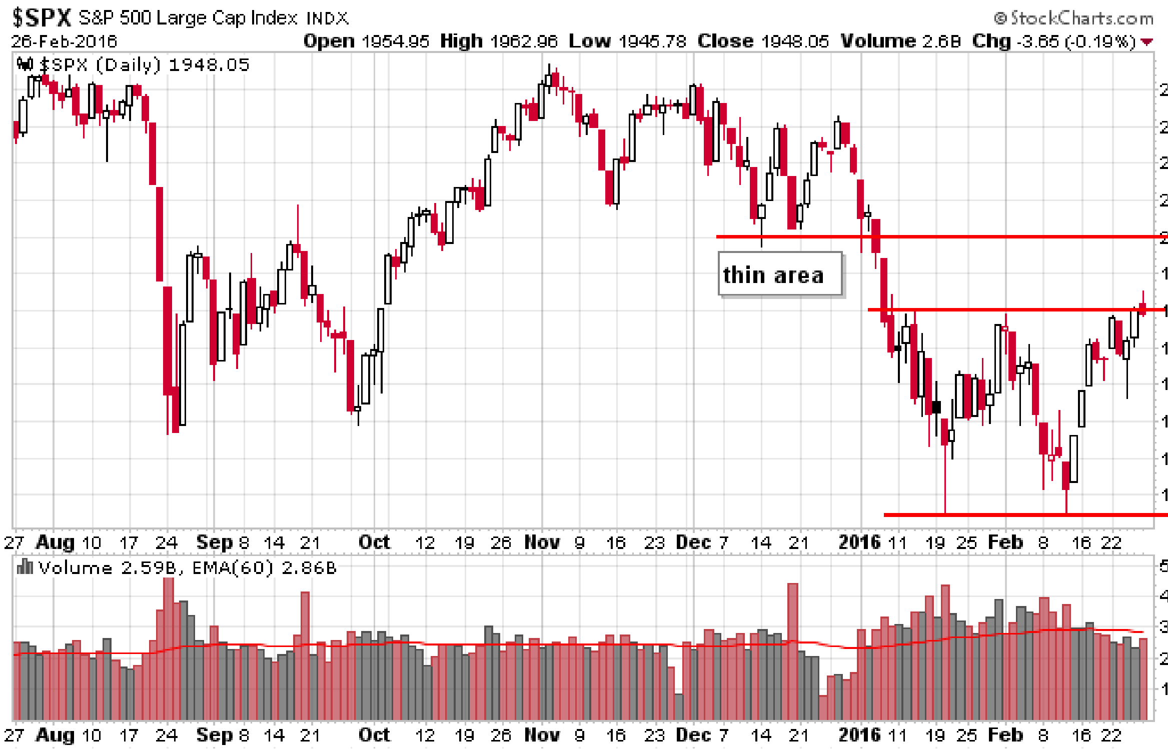
Let's get to the charts. How strong are the breadth indicators? Have we gotten a robust expansion in the percentage of stocks above certain moving averages? Let's see.

SPX Monthly: The line in the sand currently sits at 2025. With only one day of trading left in February, that level is not going to be tested this month, but next month it may come into play. The S&P rode its 10-month MA up…then traded above and below it as a top was formed…soon we'll see if the moving average acts as resistance.

S&P Weekly: Back-to-back weekly gains pushed the S&P to its highest level since early January. Like the August/September double bottom, the index put in two long lower tails separated by a couple weeks. There's nothing overly wrong with this picture – it's a 2-year range that measures about 15% off the high. For now I will trade it like a range – sell rallies and buy dips – until proven wrong.

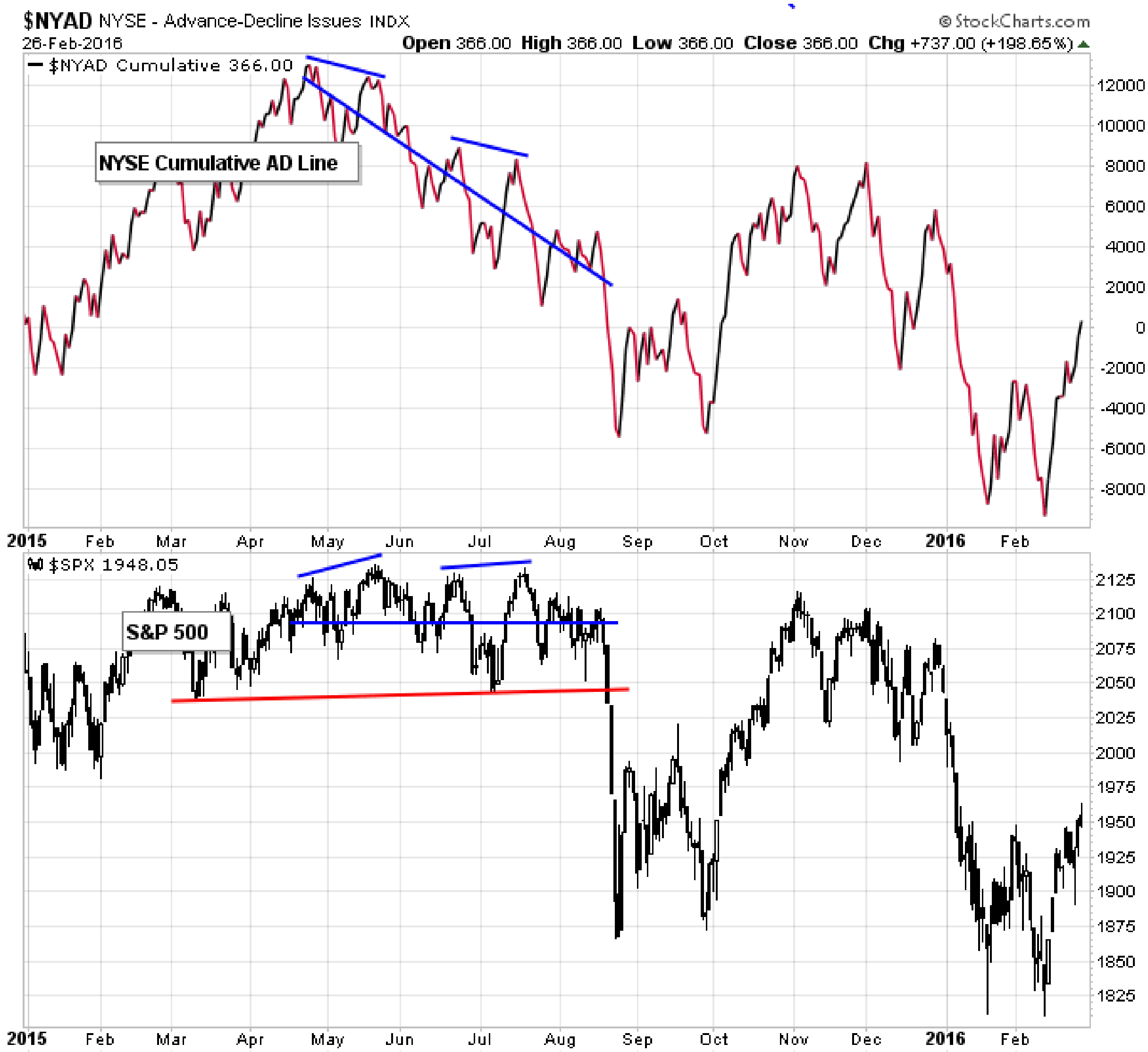


S&P Daily: The S&P moved up 3 of 5 days last week and closed just under resistance at 1950. A thin area lies just overhead, so it wouldn't take much to rally up to 2000. The obvious take-away from this chart is that despite the market topping and trending down, the S&P has spent very little time moving down. Most of the price action has taken place within ranges, and then there are a few short-lived rallies and sell-offs. The net is lower prices, but the day-to-day and week-to-week hardly matches the overall movement. It's put up or shut up time.

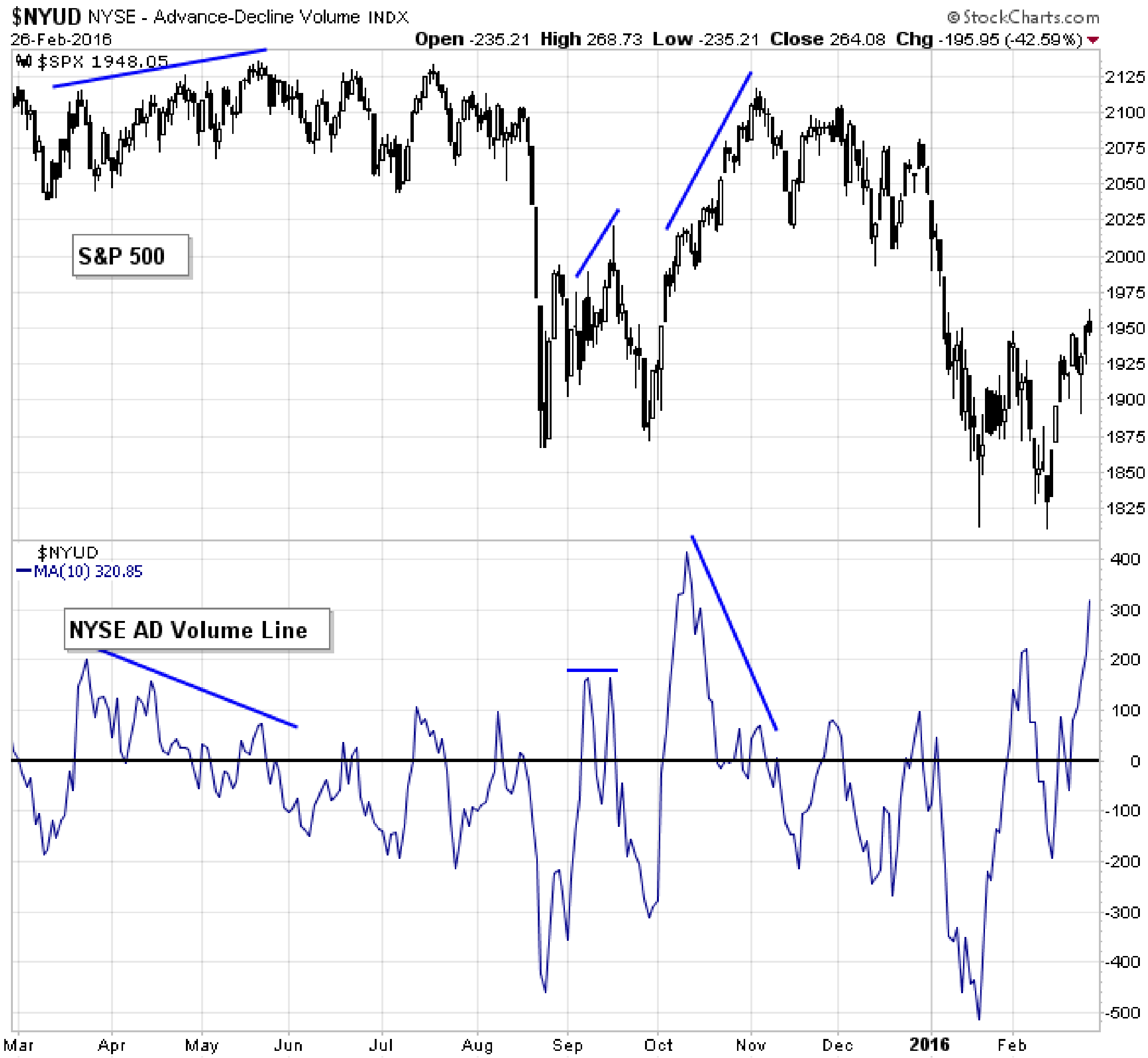


S&P 500 vs. 10-day MA of NYSE AD Line: Boom! The 10-day of the AD line has exceeded its October high. This means over the last 10 days, advancers have beaten decliners by a bigger margin than any other 10-day period going back to last summer. And unlike downward spikes, that often pinpoint bottoms, high prints signal strength and high odds the strength continues. Even if a top is inevitable, it'll take a few weeks to form, so our short term up bias remains in place.

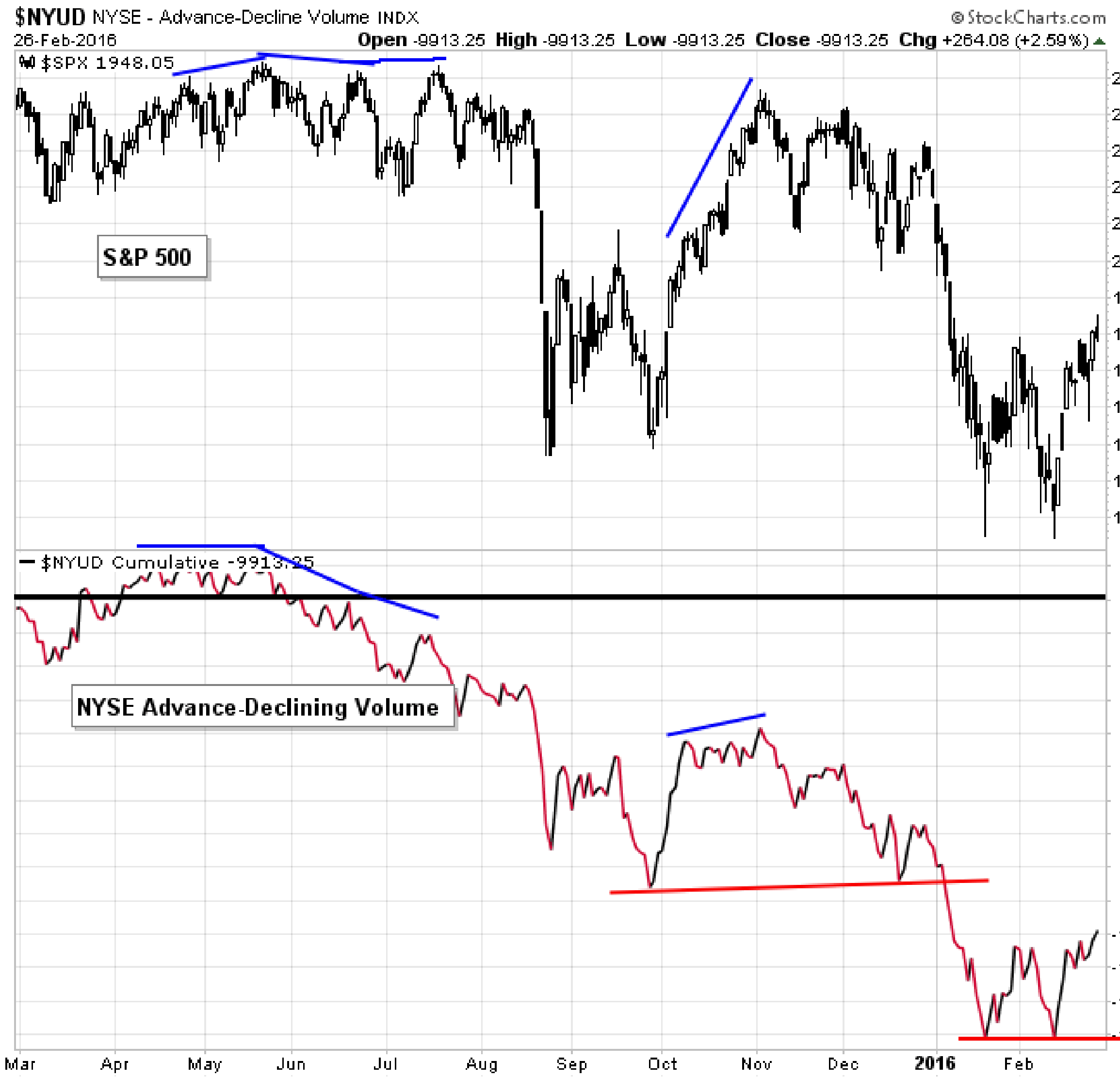
S&P 500 vs. NYSE Cumulative AD Line: The recent AD strength has put cumulative AD line at a level not seen since early-January. The S&P is lagging the indicator some, so if this is a leading indicator, it hints at future market strength.



S&P 500 vs. 10-day MA of NYSE AD Volume Line: The AD volume line, which favors high-volume, big caps, has also surged. This too bodes well for the next few weeks. High prints tend to lead to more upside for the market in the near term.

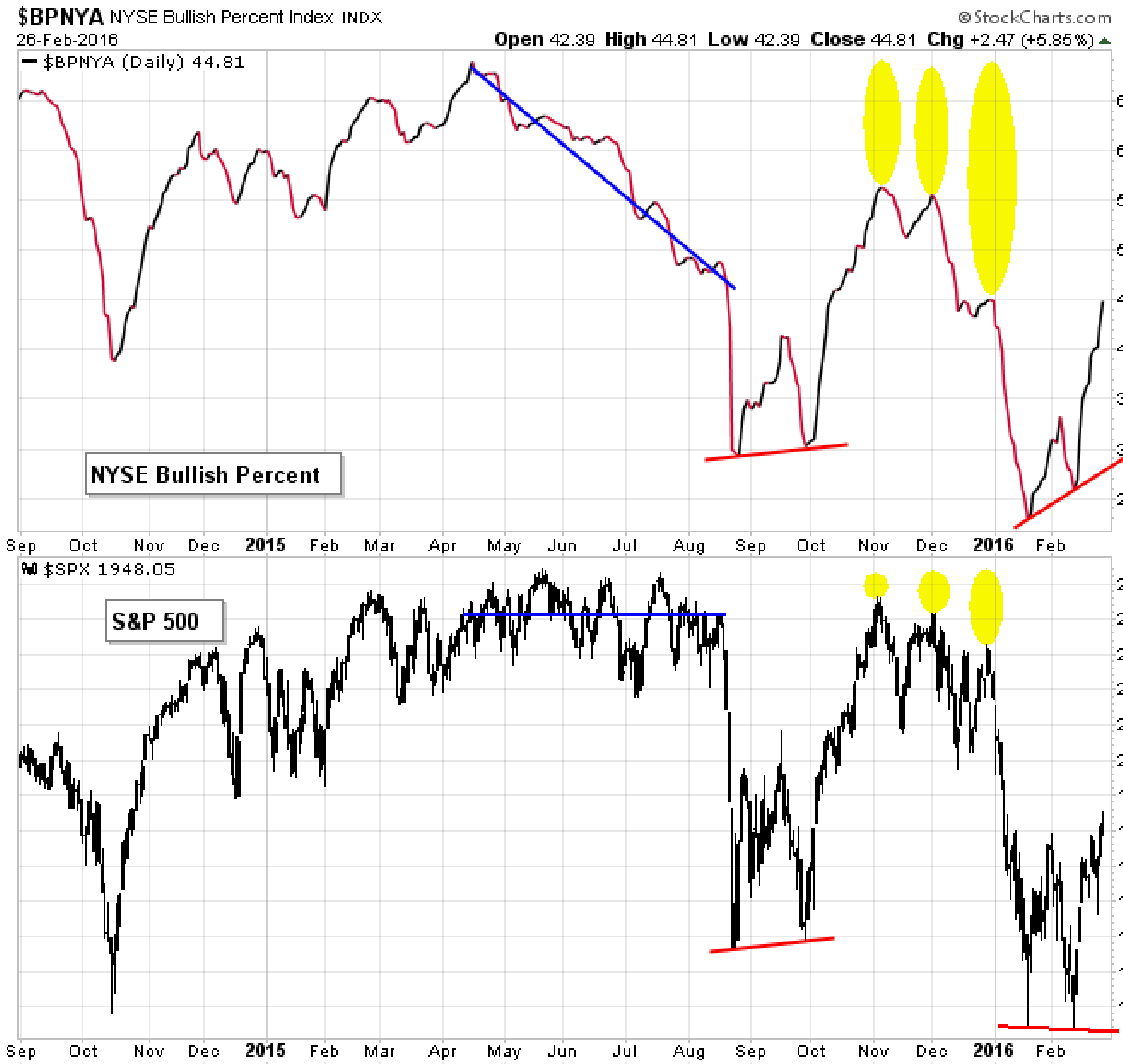


S&P 500 vs. NYSE Cumulative AD Volume Line: The cumulative AD volume line has remained somewhat subdued. If the market rallies, we'll want to see this catch up some. Otherwise a negative divergence will form.

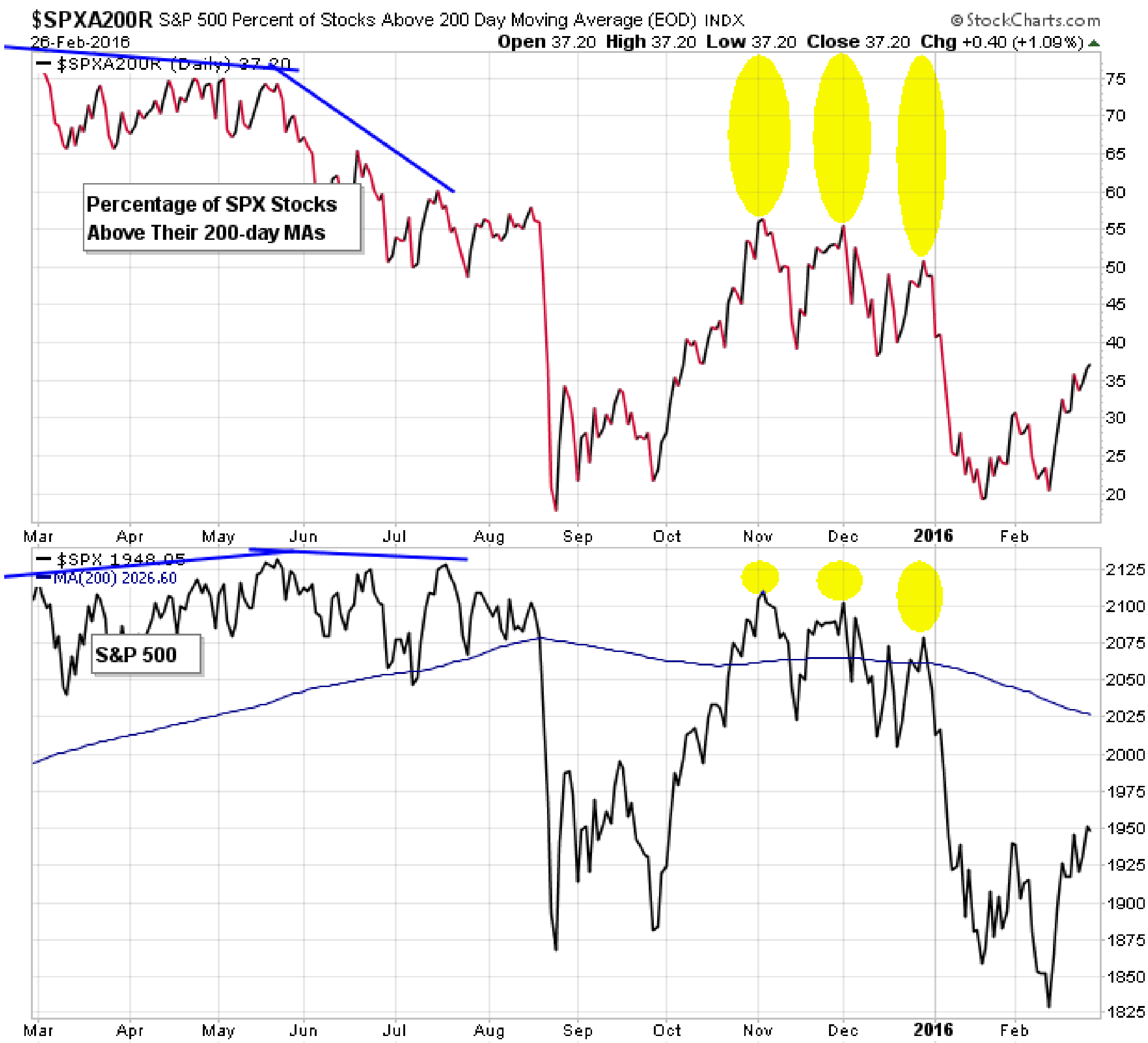


S&P 500 vs. NYSE New Highs: New highs are not expected to increase when the market first bounces, but after a couple weeks, the bulls do want to see an expansion. We're there now. The market has moved up enough (140 S&P points) for long enough (2+ weeks) for new highs to increase. Failure to do so would be a warning.

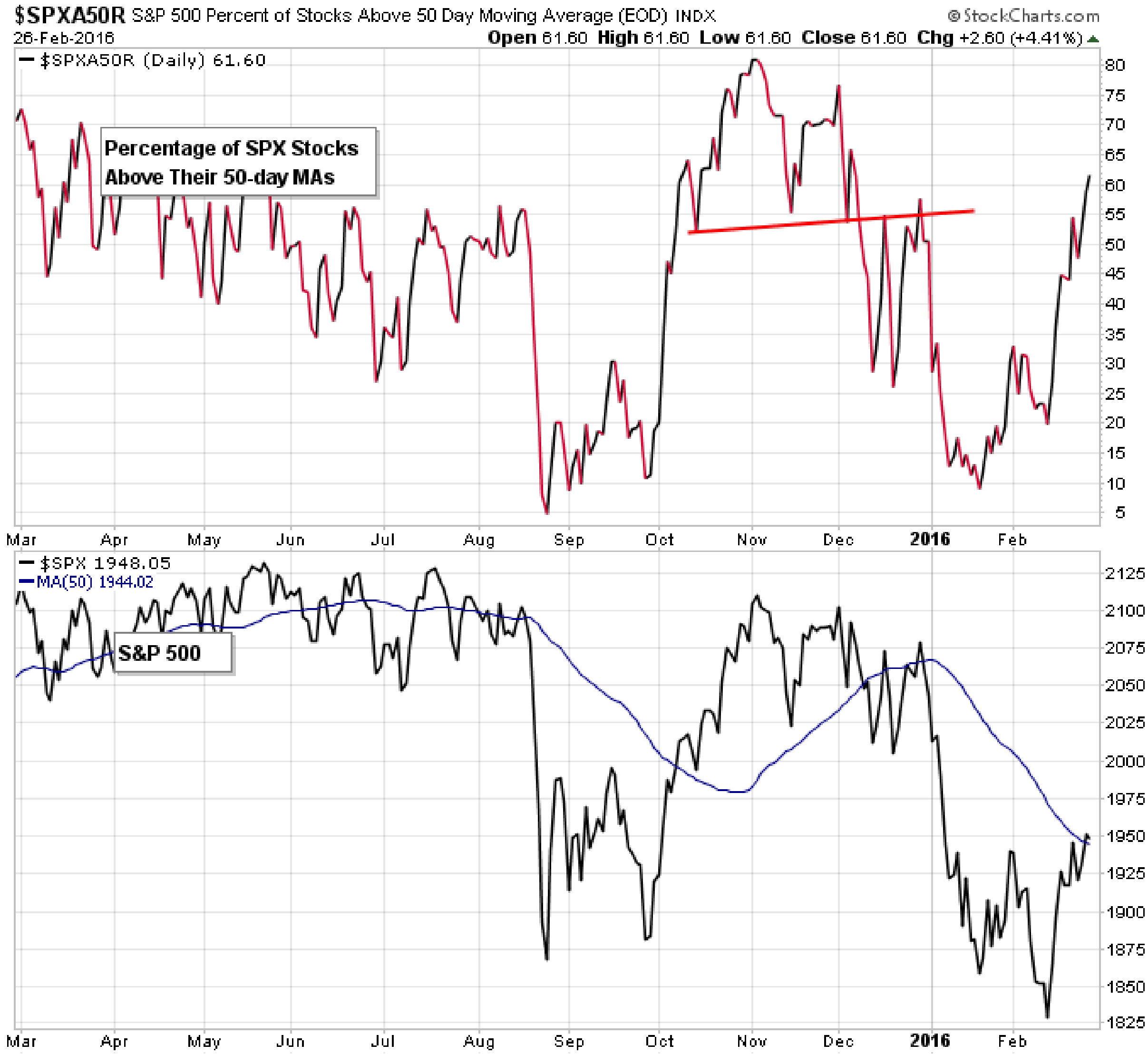
S&P 500 vs. NYSE Bullish Percent: The NYSE bullish percent chart continued to surge last week (the S&P version is doing even better). This tells us the current move is broad-based, which is a key ingredient for a continuation.



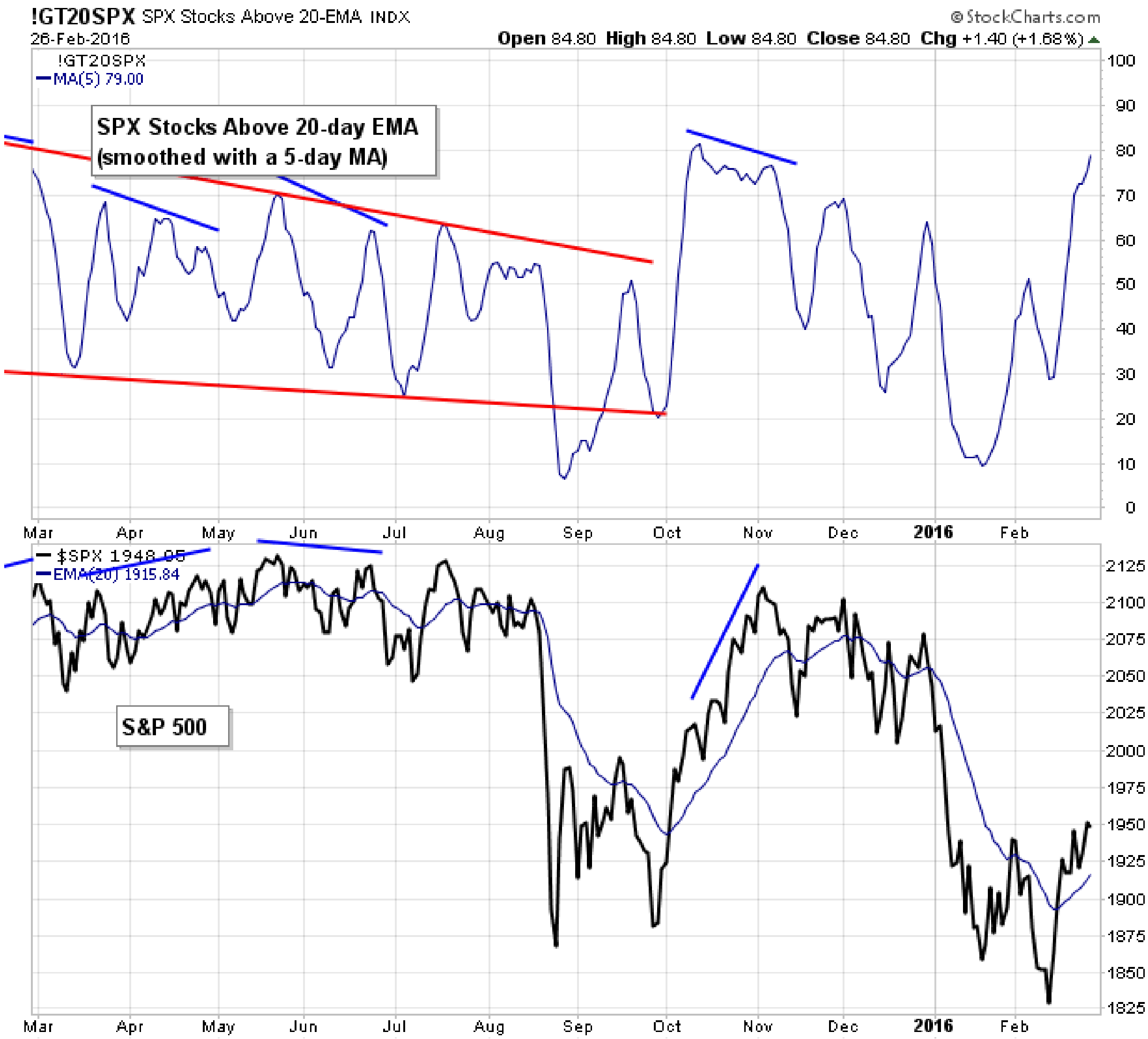
S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: The percentage of SPX stocks above their 200-day moving averages continues to inch up. The S&P is still 75 points below its own 200-day, so we can't expect this indicator to expand to quickly. Slow progress is good enough for now.



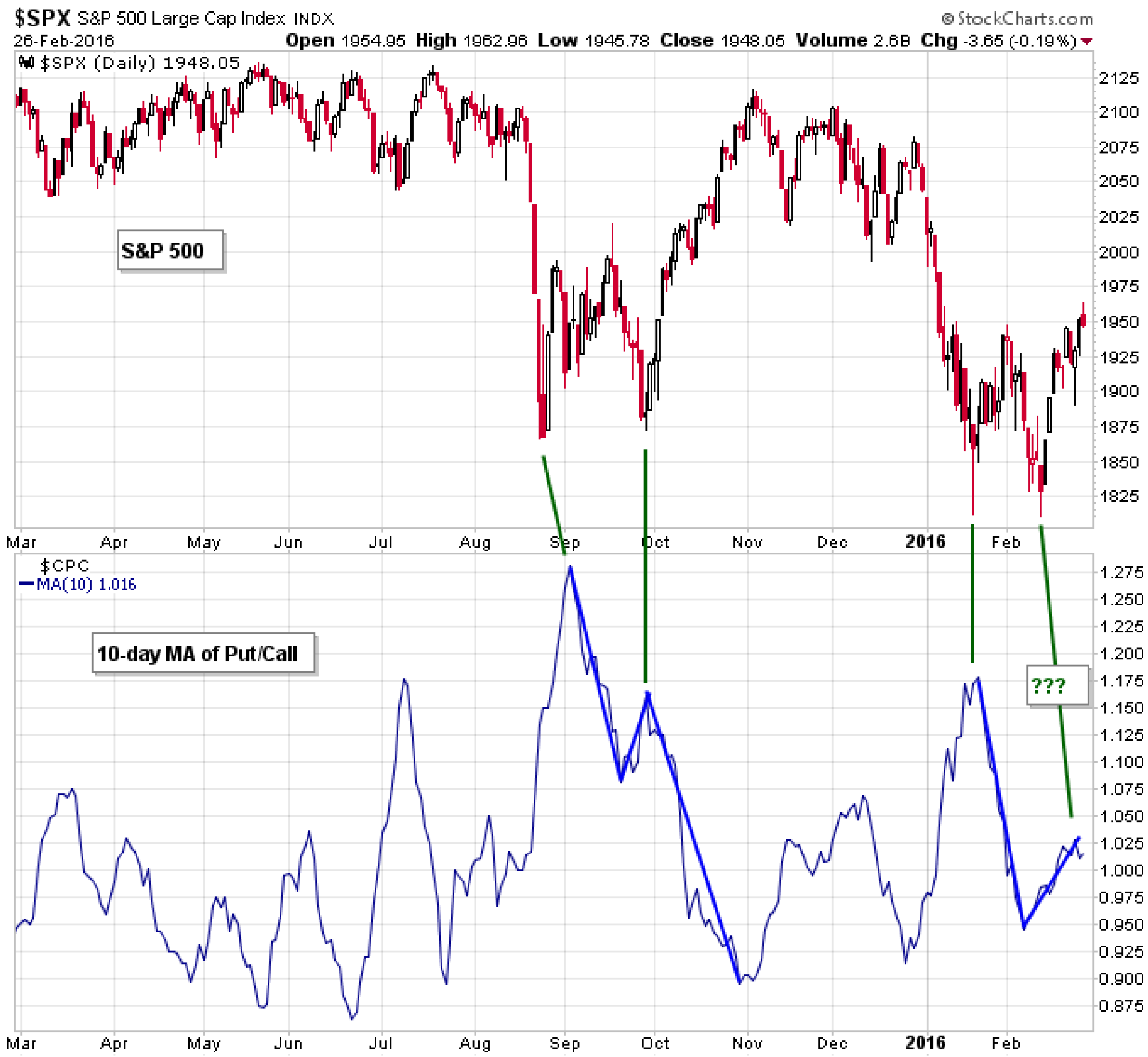
S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: The percentage of SPX stocks above their 50-day moving averages has tripled in just two weeks. This is great progress, but it's expected considering the S&P itself is above its 50. Broad-based strength is important if a rally is to have legs.



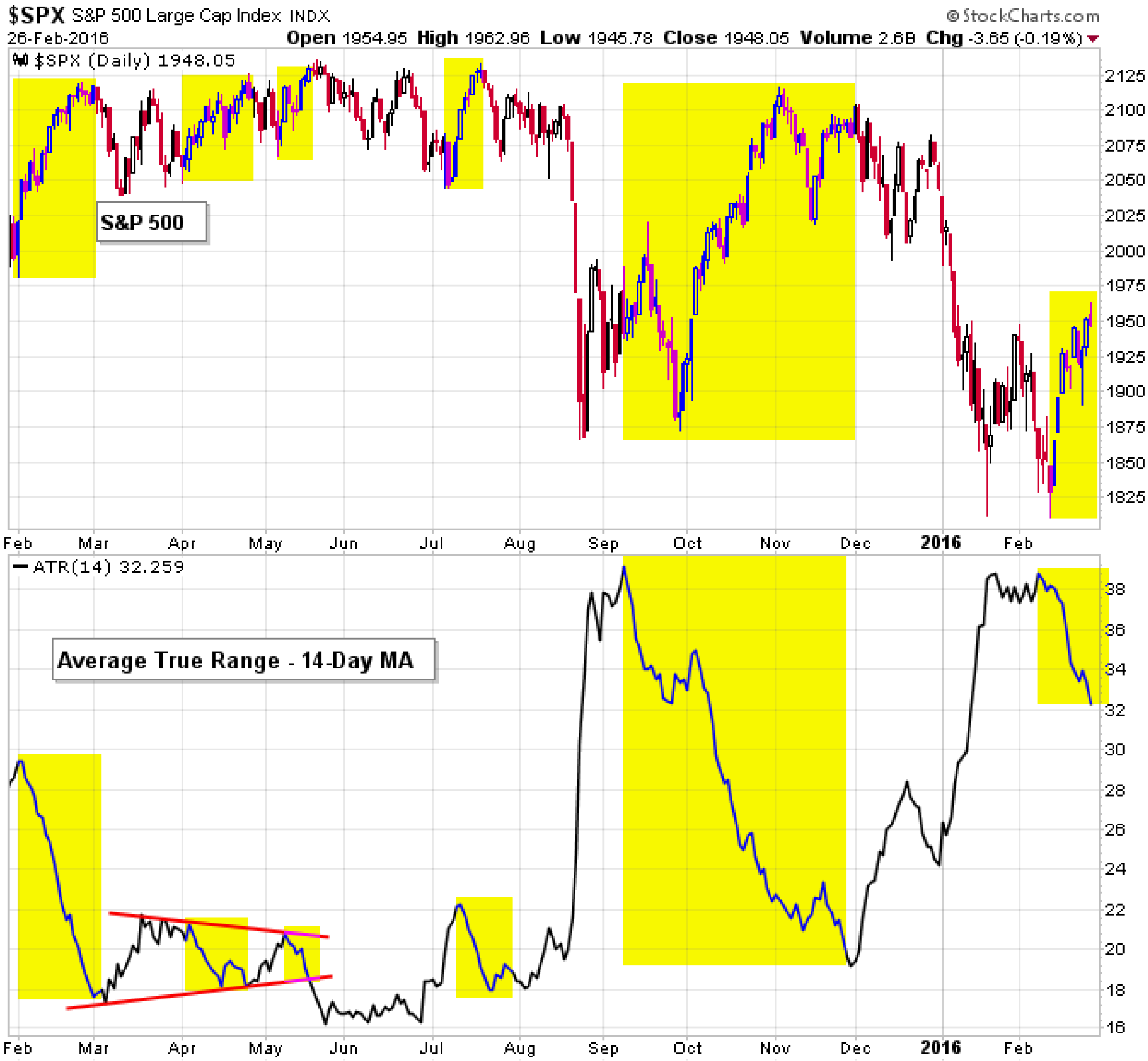
S&P 500 vs. Percentage of SPX Stocks Above 20-day EMA (smoothed with a 5-day MA): The percentage of stocks above their 20-EMAs has surged. High prints tend to lead to higher prices, even if prices back off in the very near term.



S&P 500 vs. 10-day MA of Put/Call Ratio: The recent movement of the put/call is not typical. Normally the PC moves opposite the market and therefore either confirms or does not confirm moves. For the last two weeks the S&P has moved up, and the PC has also moved up, albeit very slowly. The bulls will want the put/call to drop, like it did in October.



S&P 500 vs. 14-day Average True Range: The ATR, my measure of volatility, continues to move down - exactly what the bulls want to confirm a short-term uptrend.



S&P 500 vs. 21-week Average True Range: But backing up and looking at the weekly ATR paints a different picture. Like the 2007/08, the ATR continues up. This is characteristic of an overall downtrend, so unless this indicator rolls over, we should treat all bounces like bounces within downtrends, not the beginning of an uptrend.

US Dollar: Commodities have greatly improved the last couple weeks while the dollar headed south. I consider last week's dollar strength to be notable and not something to be ignored. If the market moves up...and the dollar moves up...and then everyone suddenly realizes the dollar is about to breakout and run, the market could come down hard. Wall St. tends to conveniently forget things...and then suddenly remembers them days/weeks later. Keep an eye on this. Bulls will not want to see a dollar breakout.

Oil: Oil and the market have become increasingly correlated recently, so if the market attempts to leg up, the bulls will want to see oil do the same.

The Bottom Line

The market did well last week...not fantastic, just well.

Some indicators have climbed to levels not seen since last summer. Others simply continued to improve.

The near term looks good. Advancers are beating decliners, and the progress of the bullish percent charts and the percentage of stocks above various moving averages tell us the strength is broad-based, not isolated in a small handful of out-performers.

But longer term I don't think anything has changed. The wrong groups are leading and volatility remains high.

In the near-to-intermediate term, I'm see more upside coming. But overall, my bias remains to the downside.

In my eyes any long trade is just a trade, probably not lasting more than a week or so.

Have a great week.

Jason Leavitt
Jason@leavittbrothers.com