Leavitt Brothers Weekly

Sunday, March 13, 2016

The train keeps chugging along. Another week, another week of gains.

Last week the S&P closed above the key 1950 resistance level. This week it closed above the key 2000 level. The range was smaller than previous weeks, and volume fell off. But the move has been steady and consistent and relatively easy to play.

The nature of bear markets - and it doesn't matter if you call this a bear market or a range that has persisted for two years - is that they spend more time churning in place than doing anything else. And they spend just as much time going up as they do going down. In fact, even during horrible bear markets, most of the market's drop is contained within a small percentage of the days. For example, a 2-year bear market might see the market post a big loss for six of the months - broken up in (2) 3-month stretches - and a gain for the other 18 months. The net is a big loss, but with regards to how much time the market spends moving up or down, they're pretty similar.

This is the nature of a top - big swings in both directions and just as much time spent going long as going short. Since the market's personality dictates what we do and how we manage what we do, it's important to know these characteristics. For example, by several measures, this is the worst oil bear market in history. The drop is greater than any other time, and the time spend under its 200-day MA crushes the previous worst bear market. Yet, many oil stocks have doubled in the last couple weeks, and even more have simply rallied 50%. Greatest bear market in history, yet we still got a huge round of long trades. How great is that?

This tells us that even when things get nasty, being overly bearish isn't a good idea. There will be tradable bounces along the way - some of them very big. It reminds us the news cycle often runs opposite of how a responsible trader should operate. News is best at a top, luring in late-comers at a time profits should be taken, and it's worst at a bottom, causing weak hands to fold and hesitant traders to stay on the sidelines. It tells us money is made going against the crowd - although decent timing is needed - not with it.

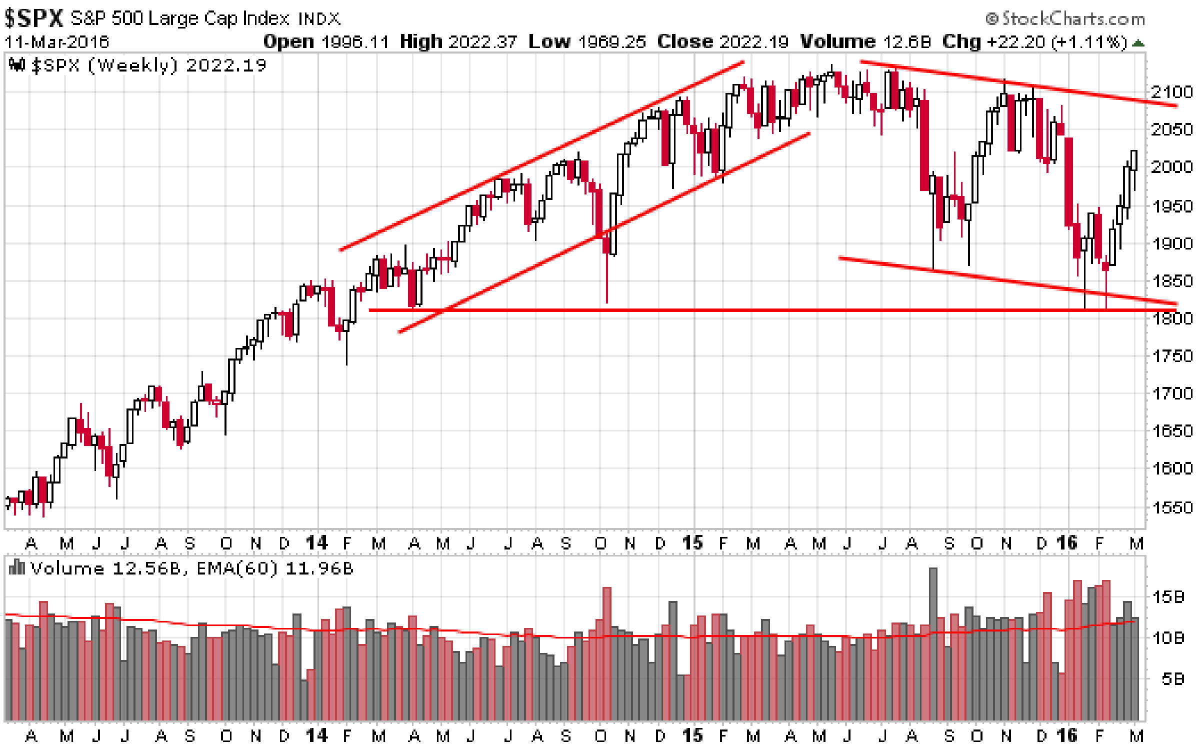
Uptrends are one-way markets. Whether you buy breakouts or buy dips doesn't matter. The market is very forgiving, and you never go short. Tops and bear markets are two-way markets. You spend just as much time going long as you do going short.

Looking forward, I have two thoughts. The market has moved vertically off its mid-February low. With the market closing at its high, there will be a lot of excitement this weekend. Be responsible here. Two, we have an FOMC meeting next week. A month ago odds heavily favored no more rate increases this year, but after this rally, considering the proximity to the highs, talk of a rate hike this summer will intensify. The Fed could throw a bucket of cold water on the market.

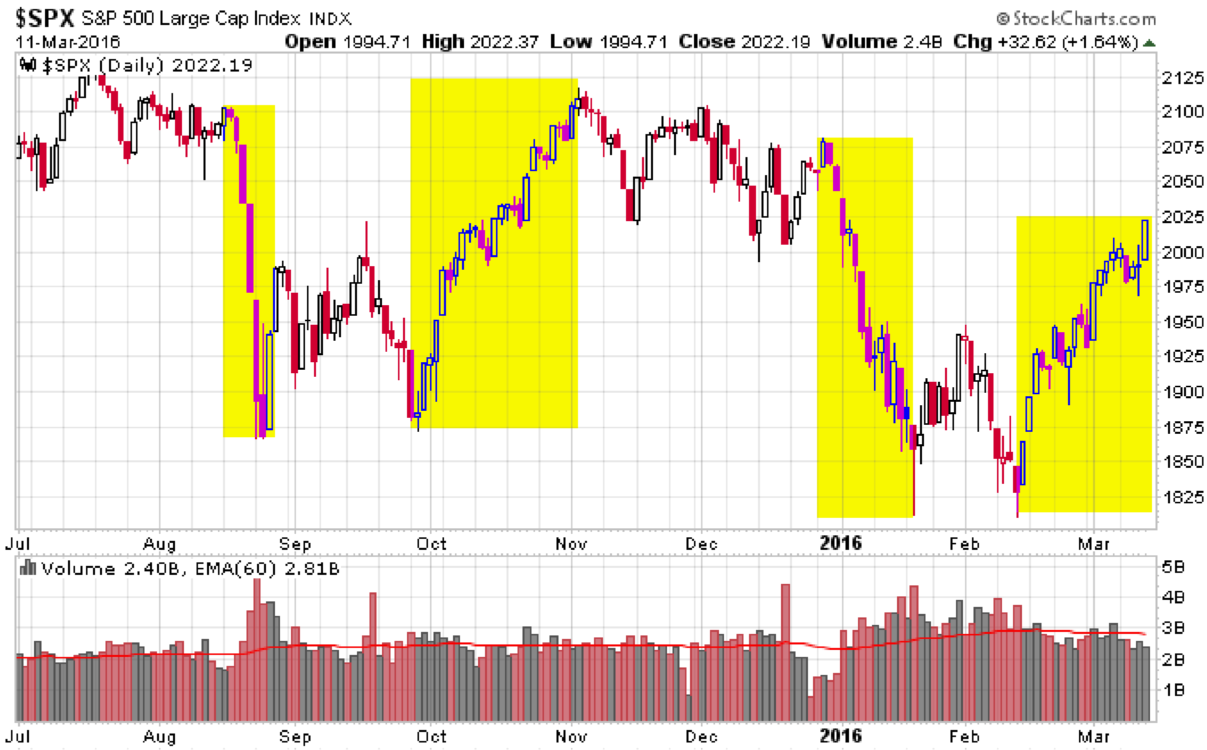
Let's get to the charts and see what they say.

SPX Monthly: The S&P monthly rode its 10-month moving average up and then chopped above and below it for several months at the end of 2015. If a downtrend is underway, it should get rejected here by the declining MA, but if a big topping pattern remains in place, expect many more prints on both sides of the line.

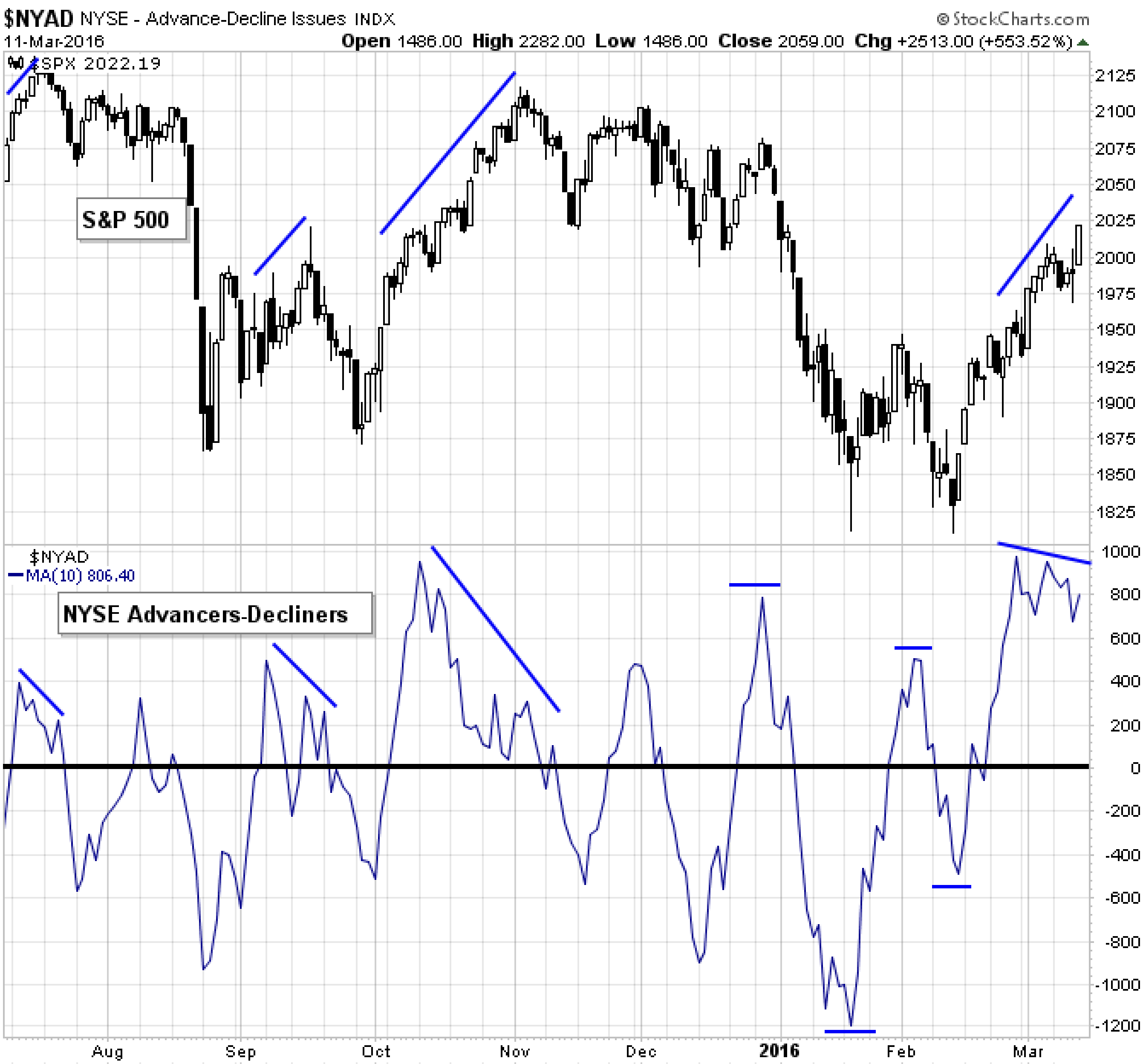
SPX Weekly: Four consecutive up weeks for the S&P. A tight up channel in 2014/15 has turned into a wide down channel in 2015/16. There is not overall trend. Rallies have gotten sold, dips have gotten bought. And no move lasts more than a handful of weeks.



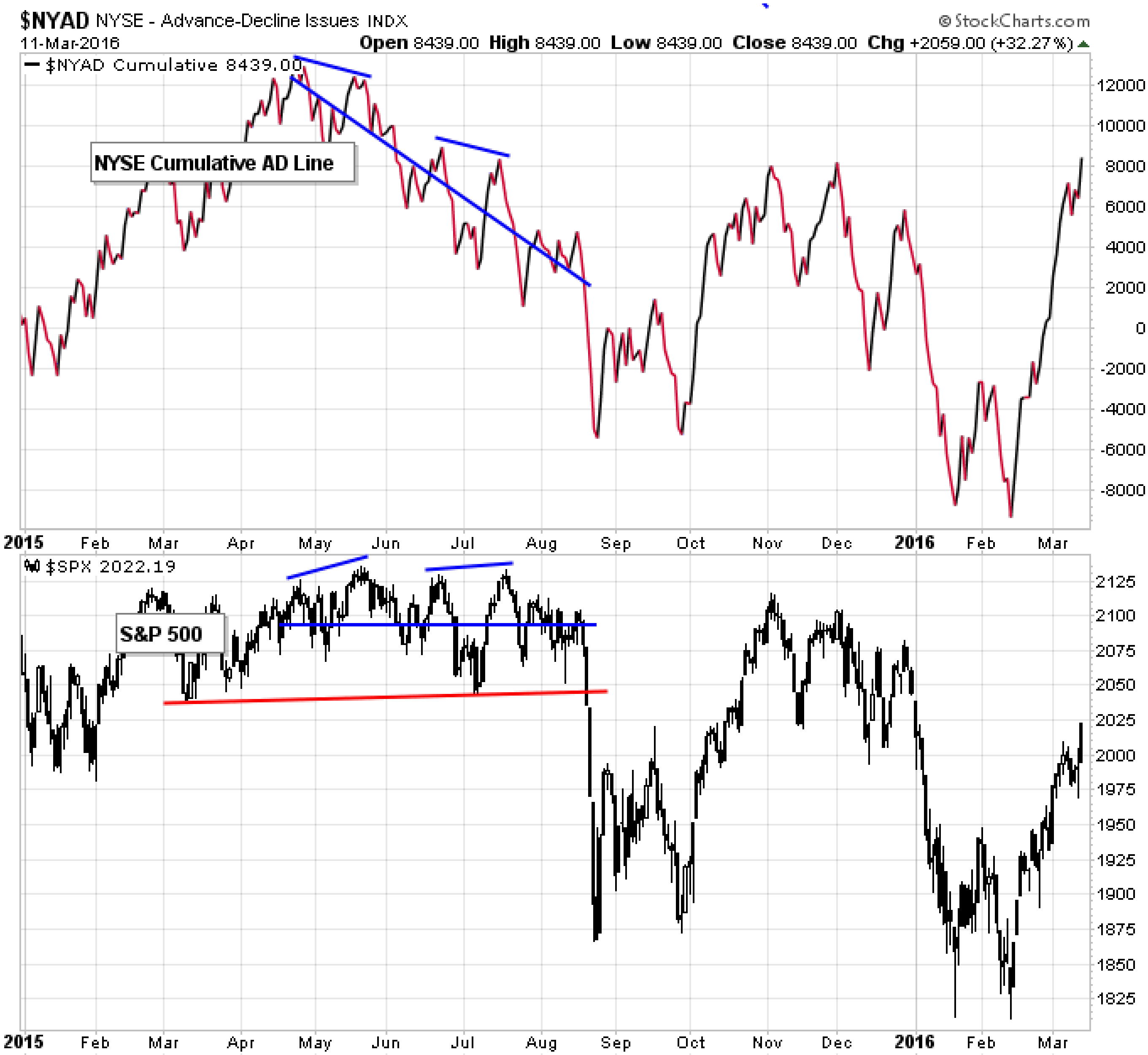
SPX Daily: Lots of up and down action - very little consistency. The character of the S&P since last summer has been churning action followed by vertical moves. This is the nature and personality of the market right now. Don't get overly excited after an extended rally; don't get overly down after a stiff sell-off. The ups and downs of the daily charts tell us to not trust anything.



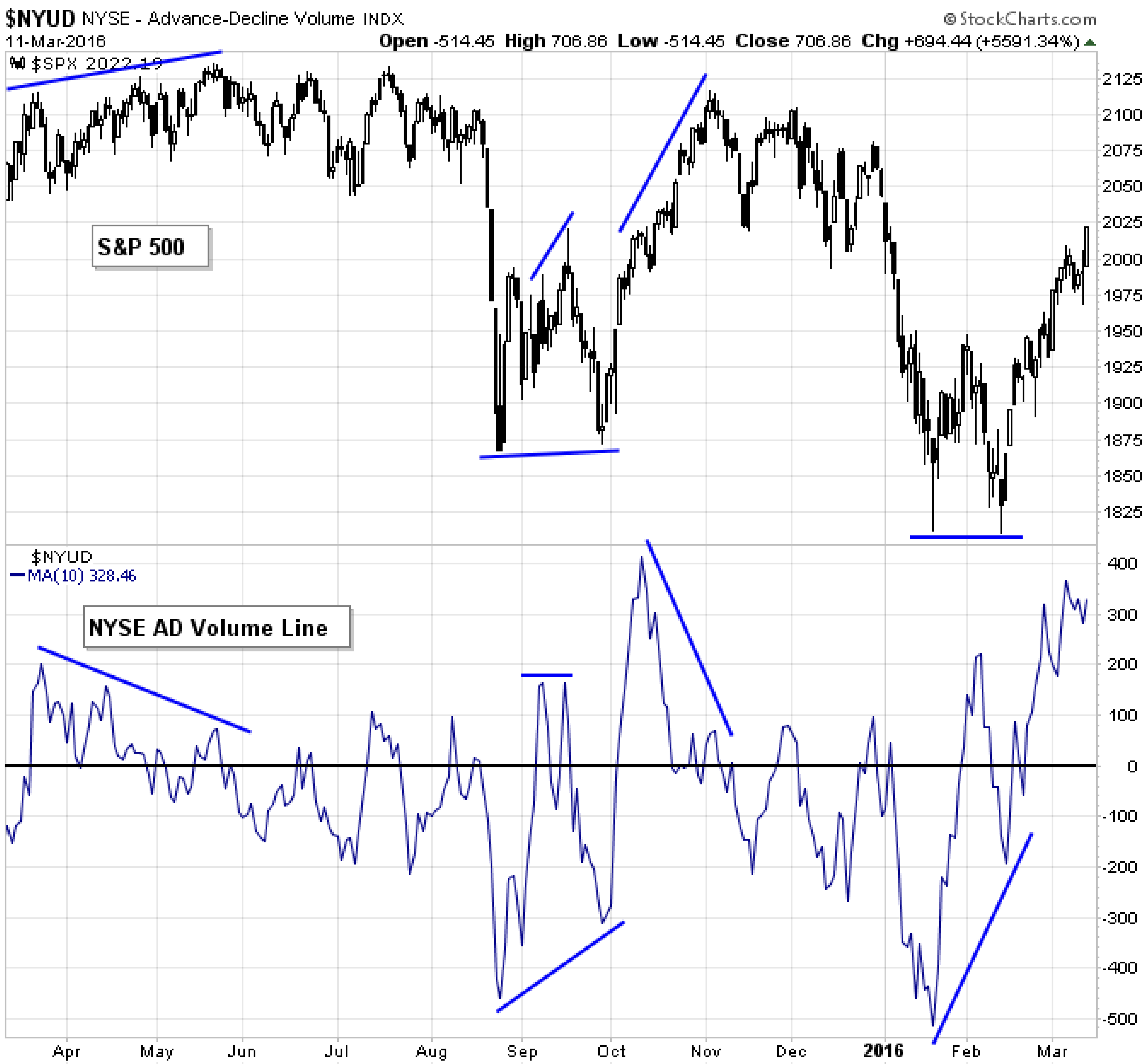
S&P 500 vs. 10-day MA of NYSE AD Line: This is the longest amount of time the 10-day of the AD line has maintained such a high level. We're starting to get a divergence, but unlike in October, when the AD line trended down, this divergence hardly registers because high levels continue to print.



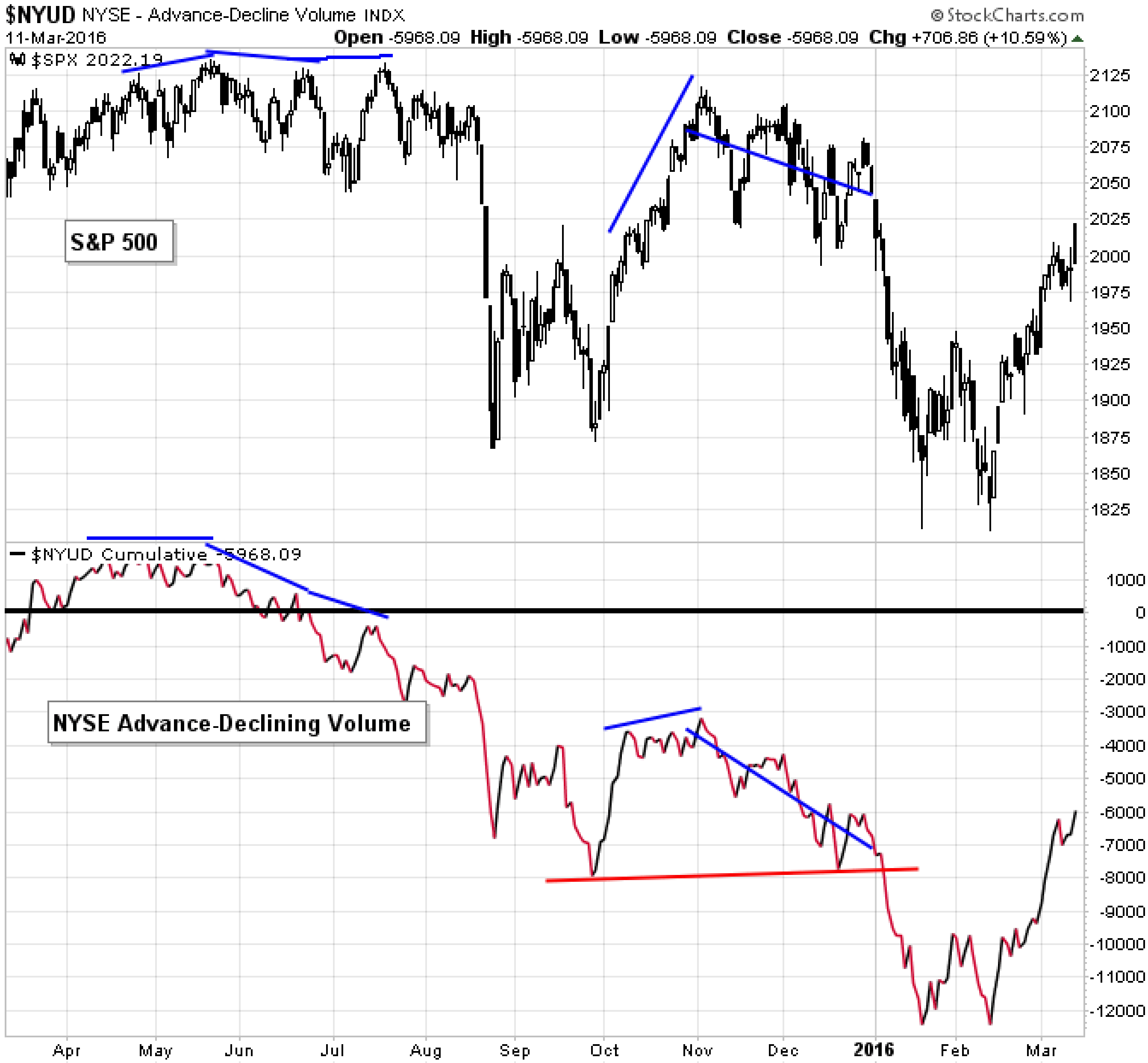
S&P 500 vs. NYSE Cumulative AD Line: The consistently-high AD prints has led to the cumulative AD line moving to its highest level since last summer. So even though the S&P is still 80-90 points below its early-winter high, advancers on this rally have been more forceful than decliners were on the way down.



S&P 500 vs. 10-day MA of NYSE AD Volume Line: This is the best-sustained uptrend for the AD volume line in a long time, and no divergence is forming yet. And since divergences tend to take a couple weeks to form, the market rally likely has legs.



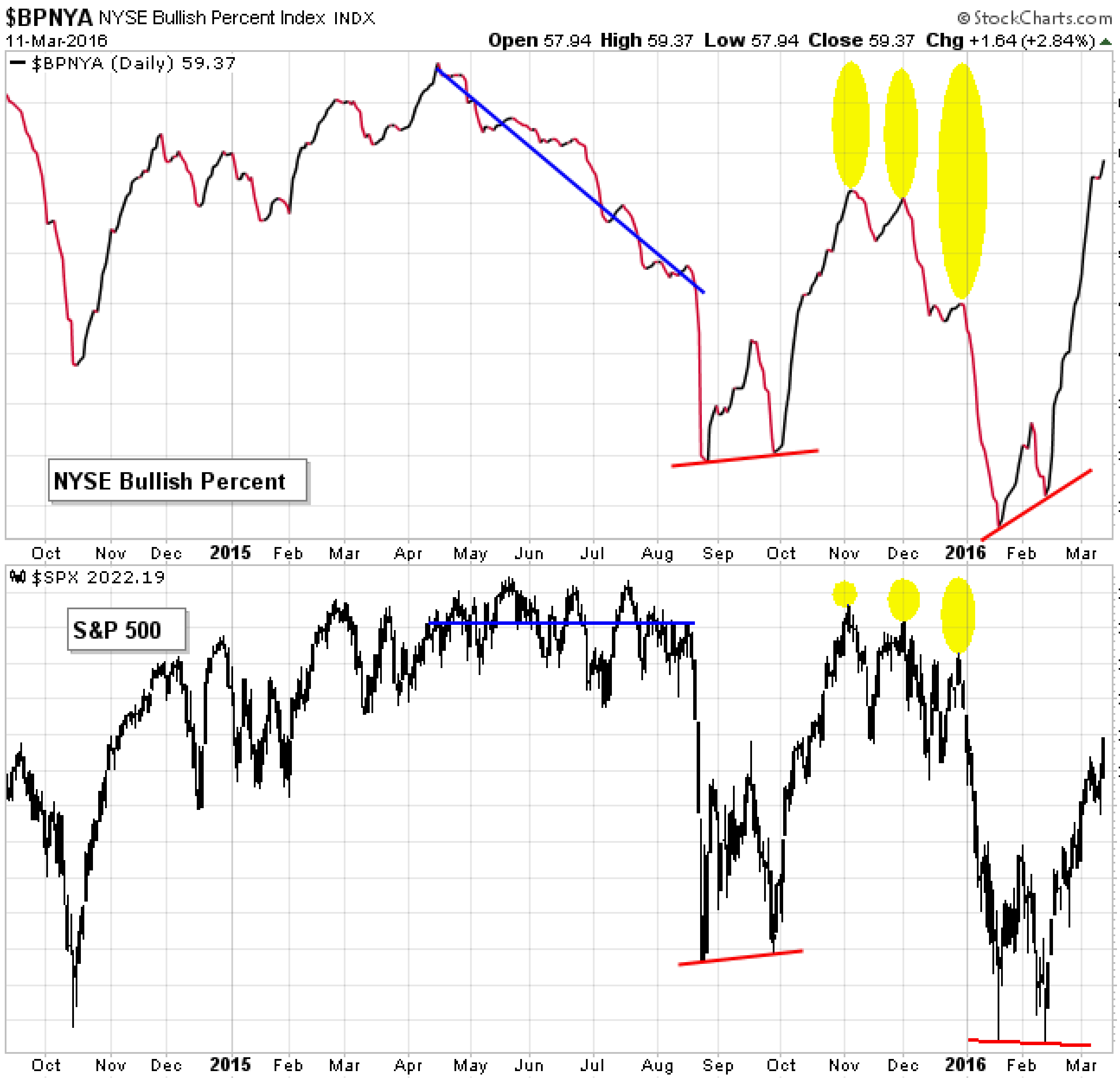
S&P 500 vs. NYSE Cumulative AD Volume Line: The cumulative AD volume line has moved impressively off its double-bottom low. Compared to three months ago, it's doing great, and it supports the market's strength. Unlike the late-September bottom, where the indicator jumped and then grinded in a tight range, the current version continues up.



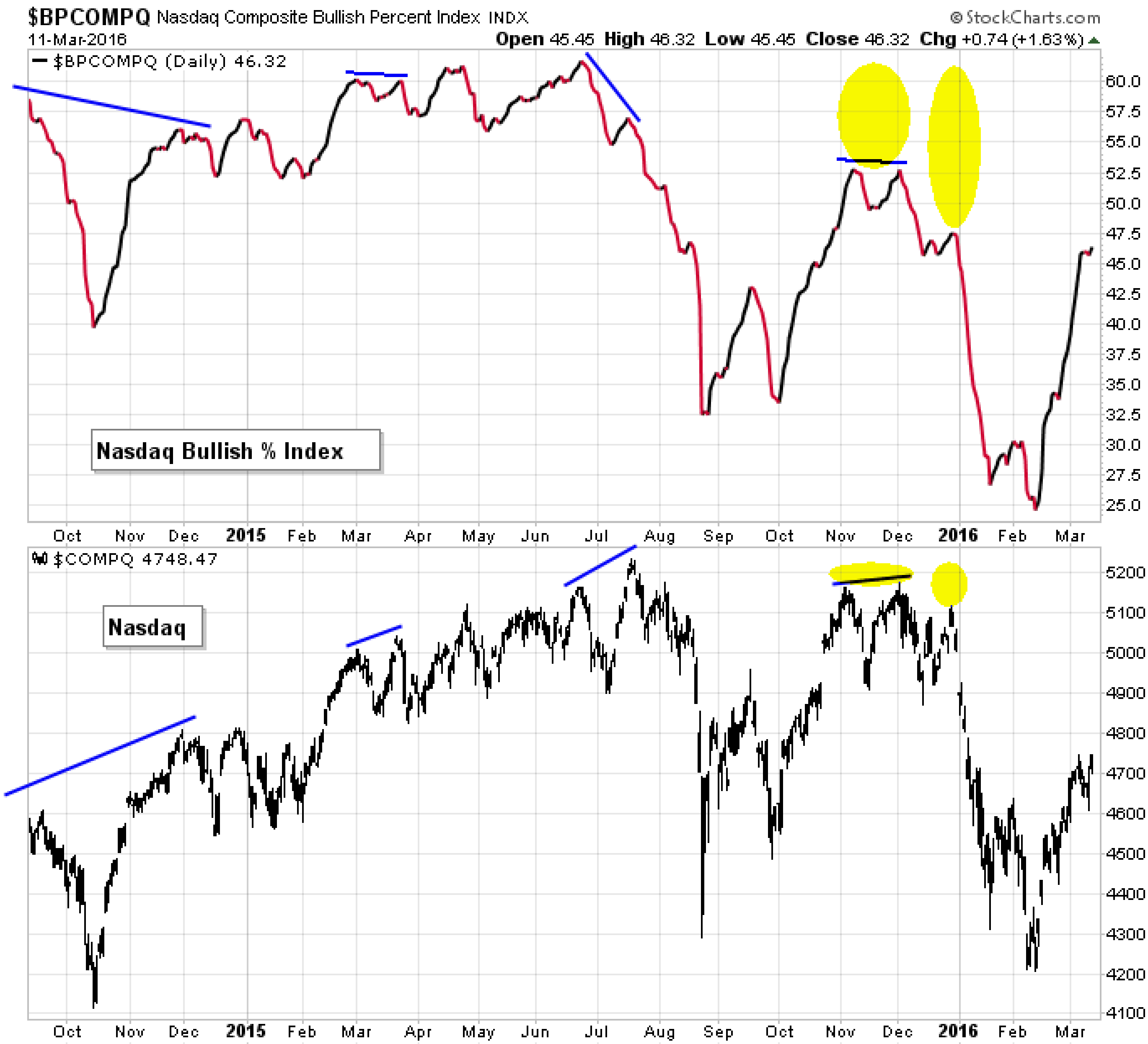
S&P 500 vs. NYSE New Highs: New highs at the NYSE were delayed and then spiked last week. No divergence is forming on the day-to-day data or the 10-day moving average.

NASDAQ vs. NASDAQ New Highs: New highs at the Nas remain almost nonexistent - it's even worse than the October rally. There's a definite lack of participation from the Nas.

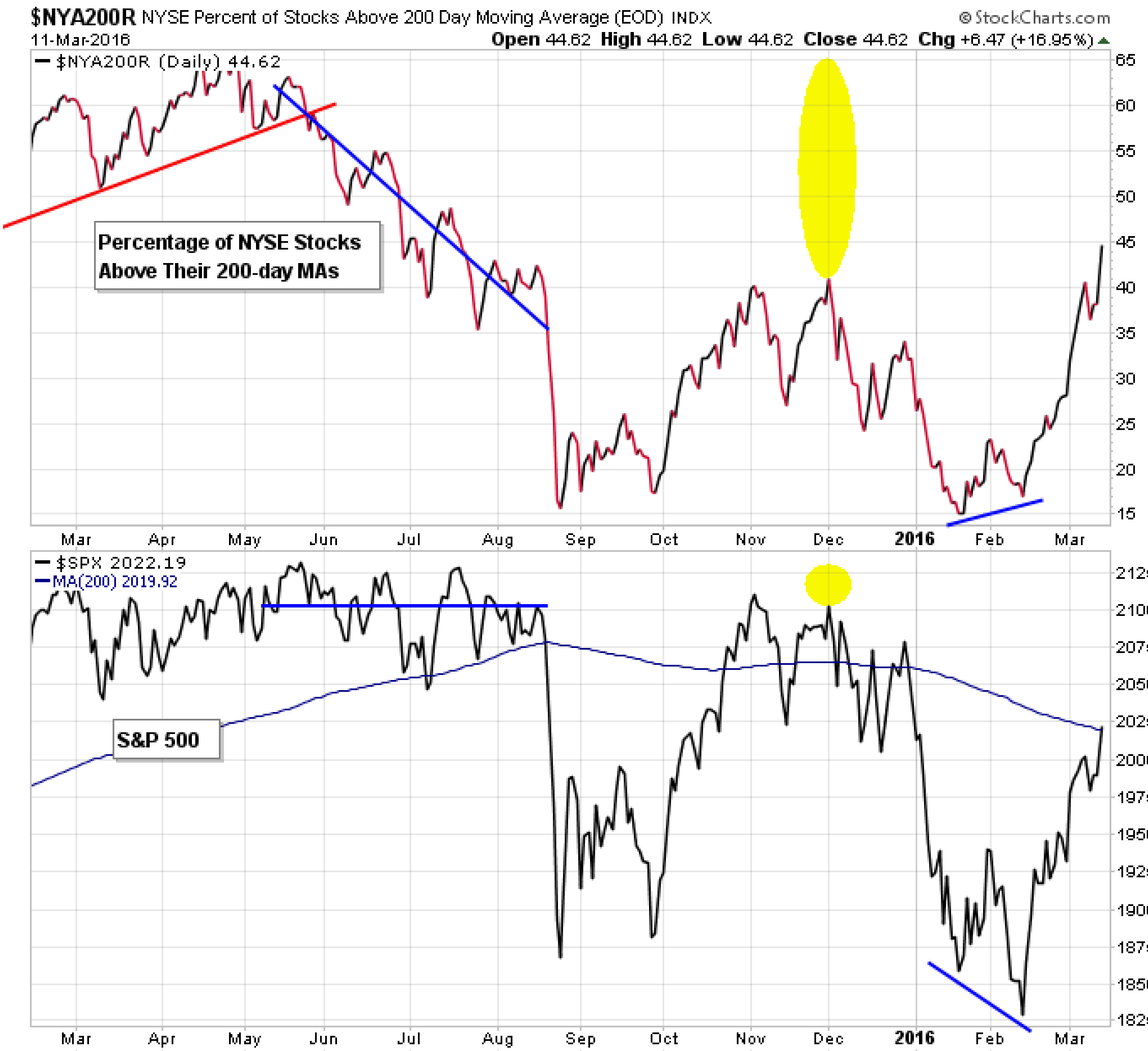
S&P 500 vs. NYSE Bullish Percent: The bullish percent chart at the NYSE has moved to its highest level since last summer, easily exceeding its highs from November and December. Tops tend to follow divergences, and divergences take time to form. Hence, the rally should have legs.



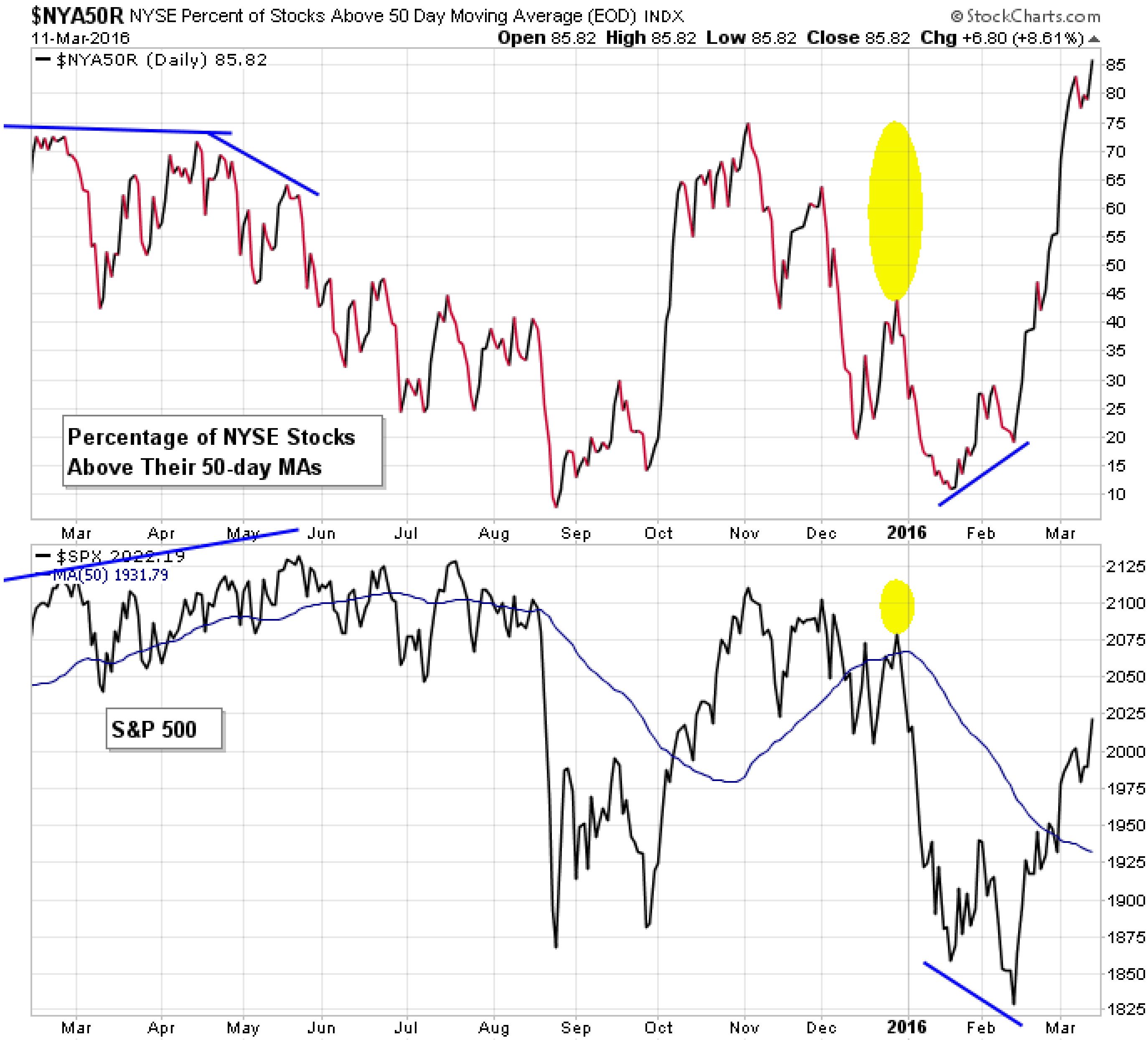
NASDAQ vs. NASDAQ Bullish Percent: The bullish percent chart at the Nas is lagging - no surprise considering tech stocks have not kept up lately. It's notable. Money has flowed into three distinct groups: commodities, utilities and safe-havens (T, VZ, PG, JNJ, WMT etc). How long can these groups lead the market higher?



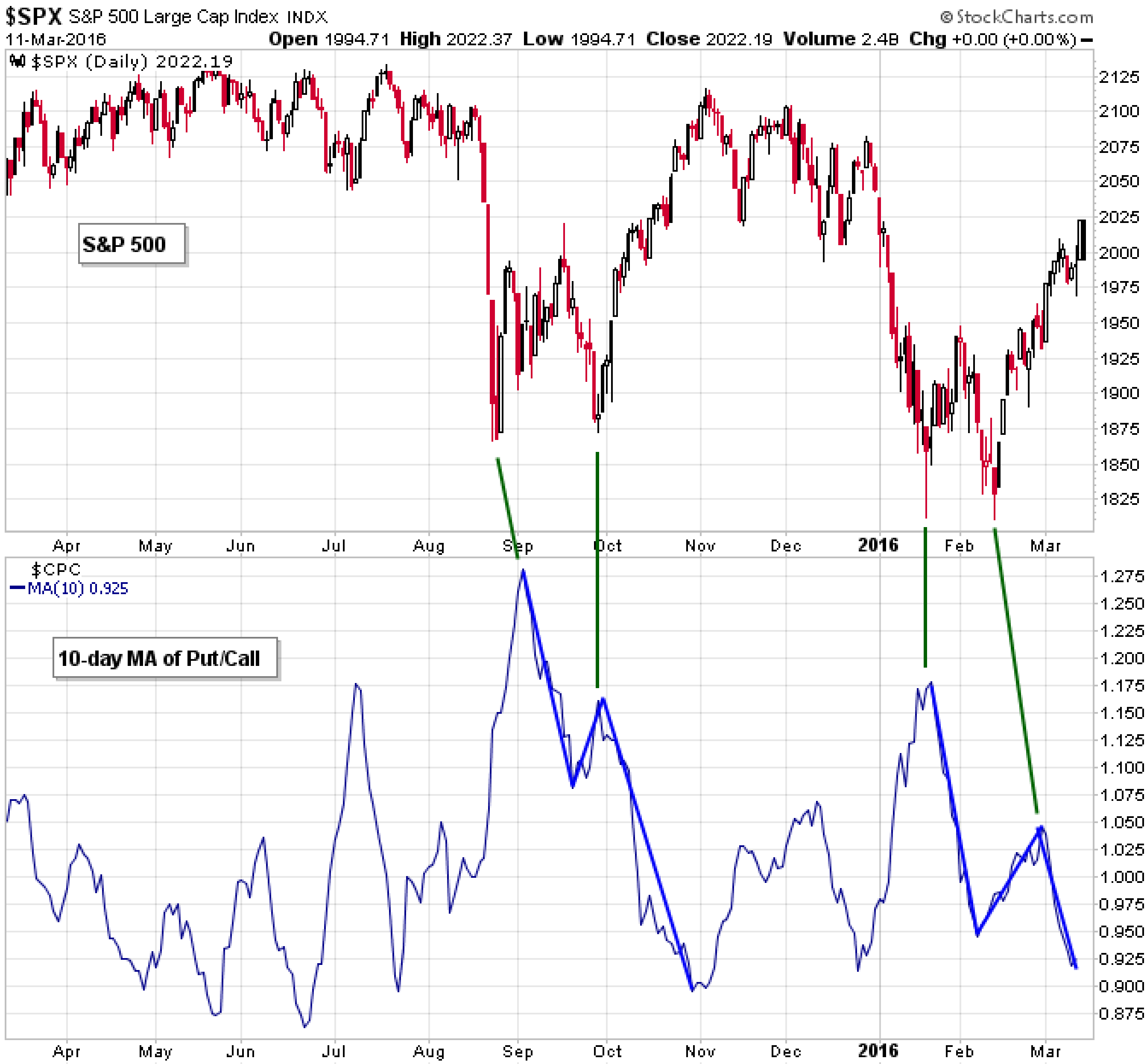
S&P 500 vs. Percentage of NYSE Stocks Above 200-day MA: The S&P has rallied right up to its 200-day MA, and the percentage of SPX stocks above their own 200-days is near 45% - acceptable, and it's better than November when the S&P was 50 points above its 200-day. This tells us the participation rate on this rally is better than the last rally.



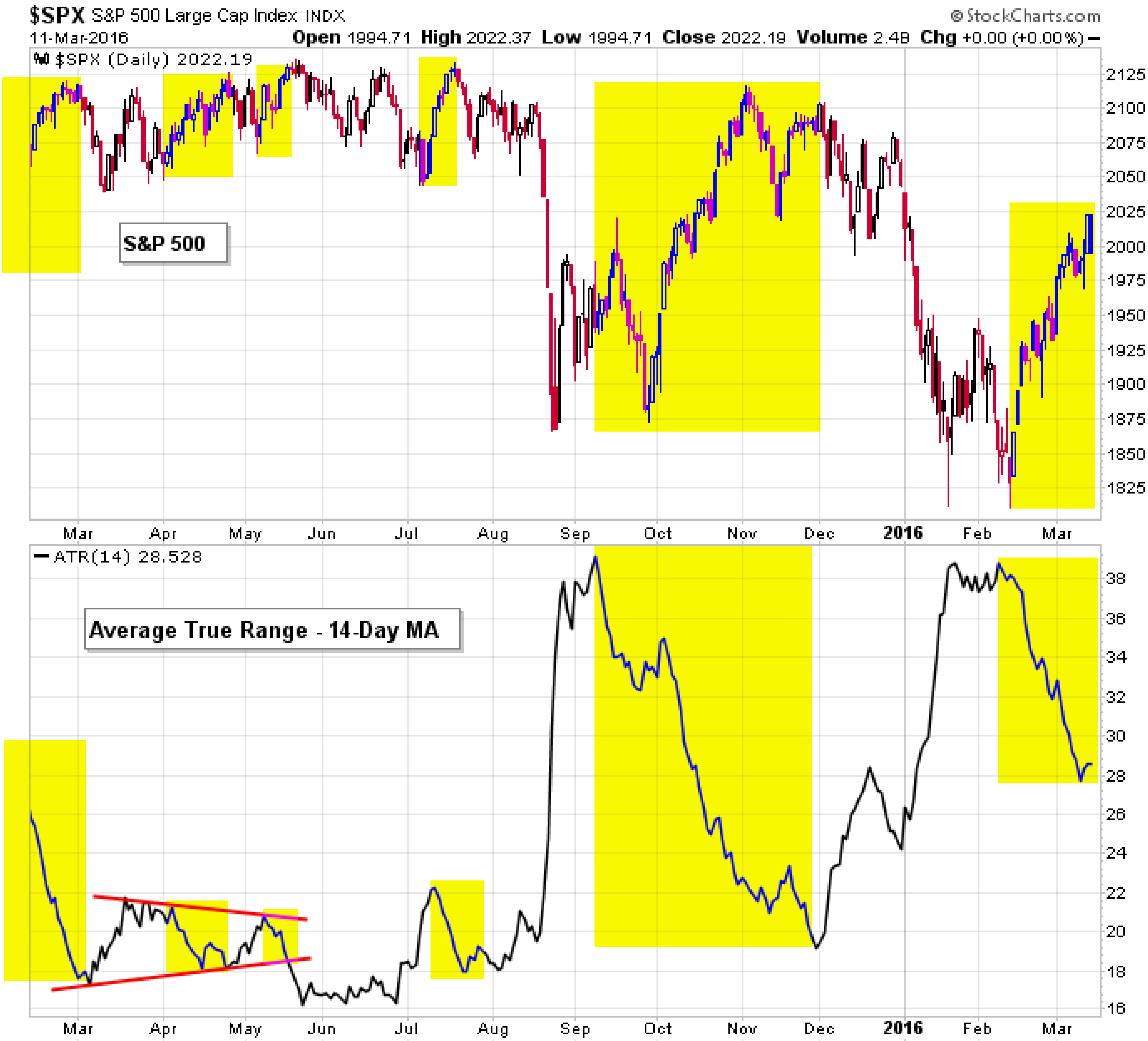
S&P 500 vs. Percentage of NYSE Stocks Above 50-day MA: This is the highest print for the percentage of NYSE stocks above their 50-day MAs in almost two years. The participation rate on this rally is better than the previous rally. This was an issue last summer, but it doesn't seem to be an issue now. Unlike before, when the market was being pulled up by a small number of stocks, many stocks are participating now. This is a good sign.



S&P 500 vs. 10-day MA of Put/Call Ratio: After a delay, the movement of the put/call more closely resembles the movement in September and October. Until the PC curls up, the market's trend is likely to continue.



S&P 500 vs. 14-day Average True Range: The ATR continues to trend down. This is characteristic of an uptrend. No warnings offered.



S&P 500 vs. VIX: The S&P and VIX have been moving opposite each other, so if the VIX suddenly perks up, the market is likely to roll over. It's not happening yet, but keep an eye out.

US Dollar: Despite currencies being devalued and various forms of QE being employed around the world, the US dollar has been trending down the last couple months and is flat over the last year. Weakness here helps commodities a lot.

The Bottom Line

The market moved up 4 of 5 days last week and posted a solid weekly gain.

The indicators continue to support the strength. Whether you look at the AD line, AD volume line, bullish percent charts, percentage of stocks above their 200- and 50-day moving averages, the ATR or the put/call ratio...the indicators are in good shape. The warnings come from the Nas, which has lagged and not participated to the same degree. It's worth noting. The stocks that pulled the market up in 2015 are taking a breather in 2016.

I like what I see and believe we have more upside to go. But with three stiff drawdowns in the last 17 months, we'd be wise to not get too giddy. Be long, but don't get carried away.

Have a great week.

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