Leavitt Brothers

Weekly

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Last week was an unpredictable roller coaster. There were ups, there were downs. There were big gap opens (two down, one up). There were trending moves and grinding action. There was a little bit of everything, and nothing stuck.

Rallies got sold, dips got bought. No move lasted long or went far, and there was virtually no follow through. If you were long all week, you alternated between being happy and frustrated. If you were short all week, you had the same, but opposite, emotional swings.

There was nothing necessarily wrong with the action (the indexes, after all, spend more time trading in a range than trading directionally), but the inability to sustain anything for more than a day was a little frustrating.

Heading into the week, the S&P 500 had rallied 260 points in seven weeks and was approaching a stiff resistance zone, there was a complete lack of good set-ups to play and several breadth indicators were diverging from the underlying price action.

A pause made sense. Whether a pause led to a legit correction...or a pause eventually resolved up...or a pause led to a longer pause and a bigger range was not known (it's still not know), but at the very least, the easy money had been made and the risk/rewards were not as favorable as they were a month before.

A key component of successful trading is having a fairly specific set-up that works and that can be executed (it does you no good to use a friend's set-up if you yourself can't execute start to finish). But a second component - and just as important - is to pick your spots. Just as a baseball player can't swing at a curveball on the outside corner the same as he swings at fastball on the inner half, a trader can't blindly execute his set-up in all conditions. Some recognition that things have changed needs to occasionally be made. That pattern you played a month ago that is up 30%...you can't blindly do that right now. Perhaps instead of taking a breakout, you'll buy a dip within a range.

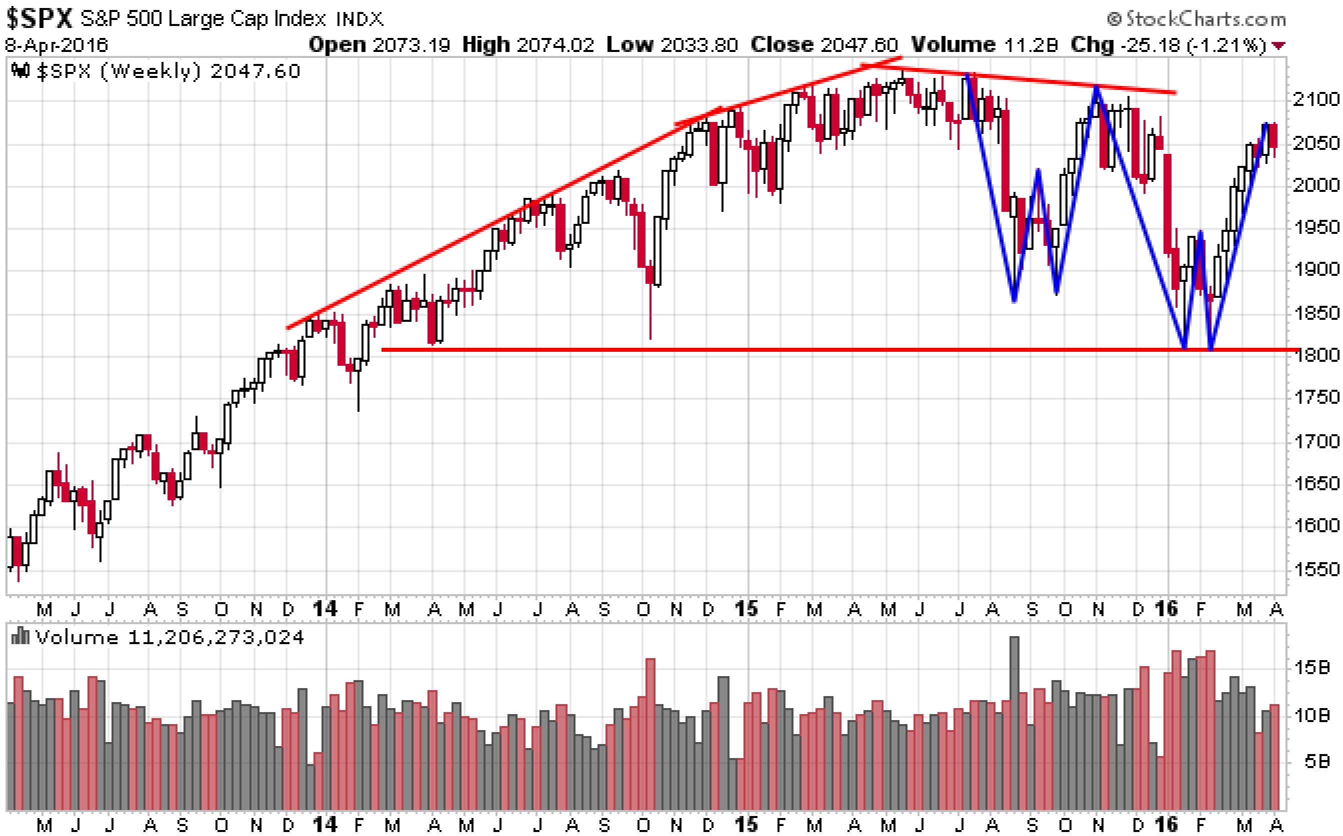
Perhaps instead of trailing a stop and giving positions time and space to play out, you'll proactively take profits at predetermined levels. Your trading style doesn't have to change per se, but expectations need to be monitored and minor adjustments need to be made. Failure to do so leads to constant frustration.

Looking forward, earnings season looms as a potential mover. FOMC minutes were released last week, and it's clear the Fed isn't really looking at inflation or the employment numbers. They're keying on the stock market and world events. If "stuff" is going on in the world or if there's a chance the market will fall, the Fed isn't going to raise rates much. Love the Fed or hate the Fed, agree with the Fed or disagree with the Fed, it's wise not to fight them. The Fed isn't going to raise rates if they believe it'll lead to stock market losses. Earnings, on the other hand, could lead to selling pressure. We'll see what happens. We still have another week before the season ramps up.

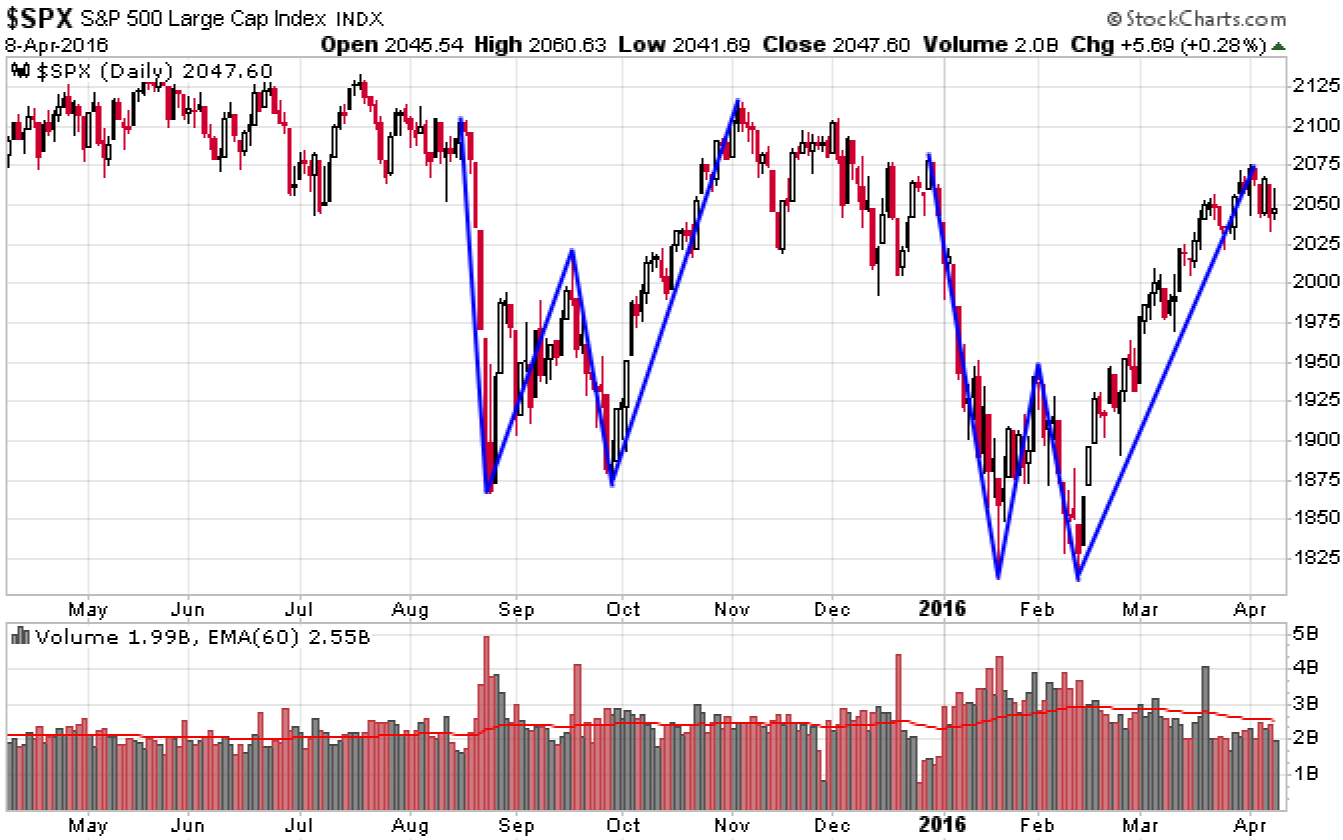
Trading wise, there still is a lack of good set-ups to play. When times are good, it's typically hard to narrow the list, but when the trading environment is so-so and individual stocks lack the market's support, great opportunities are harder to find and much are less reliable. Also the breadth indicators still hint at some beneath-the-surface lack of participation.

Overall my bias remains to the upside, but in the near term I don't think things are very clear. I said at the beginning of last week an SPX move to 2000 is just as likely as a move to 2100. I still believe this. Let's get to the charts and see what they say.

The S&P 500 Weekly: Lots of ups and downs, but since the end of 2014, the S&P hasn't gone anywhere. There's lots of resistance between 2075 and the high, so given the gains already in place, I'm wondering if a catalyst is needed to propel the market higher. Can it simply continue higher on its own, or does it need a good reason to go higher?



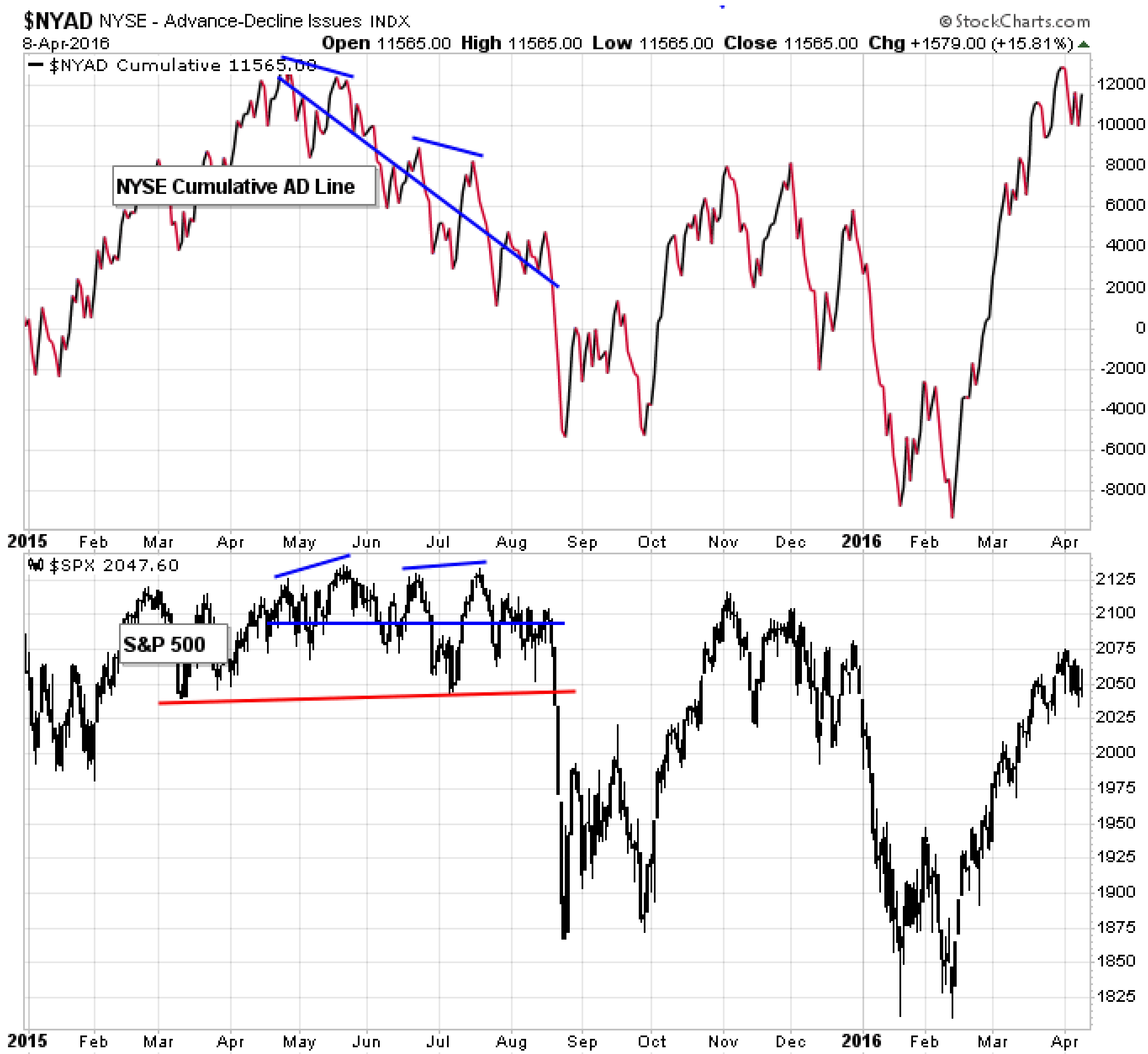
The S&P 500 Daily: The daily chart shows a better shot of the two W formations - not that they have any meaning or significance. The easy money has been made, the risk/reward isn't very good right here, and with earnings season beginning, I'm guessing the market isn't going to just leg up. It'll want to see a handful of reports before it attempts to attack the highs.



Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: The 10-day of the AD line has been diverging from the S&P since the beginning of March. Tops take time to form, and then dips tend to play out very quickly. Check out the beginning of November - it took a month for the divergence to fully form, and then after drifting down in choppy fashion, the S&P fell hard for two straight days. But that was it. A bottom was put in place, and the index rallied. It's not easy or fulfilling to wait an entire month to get a grand total of two big down days.

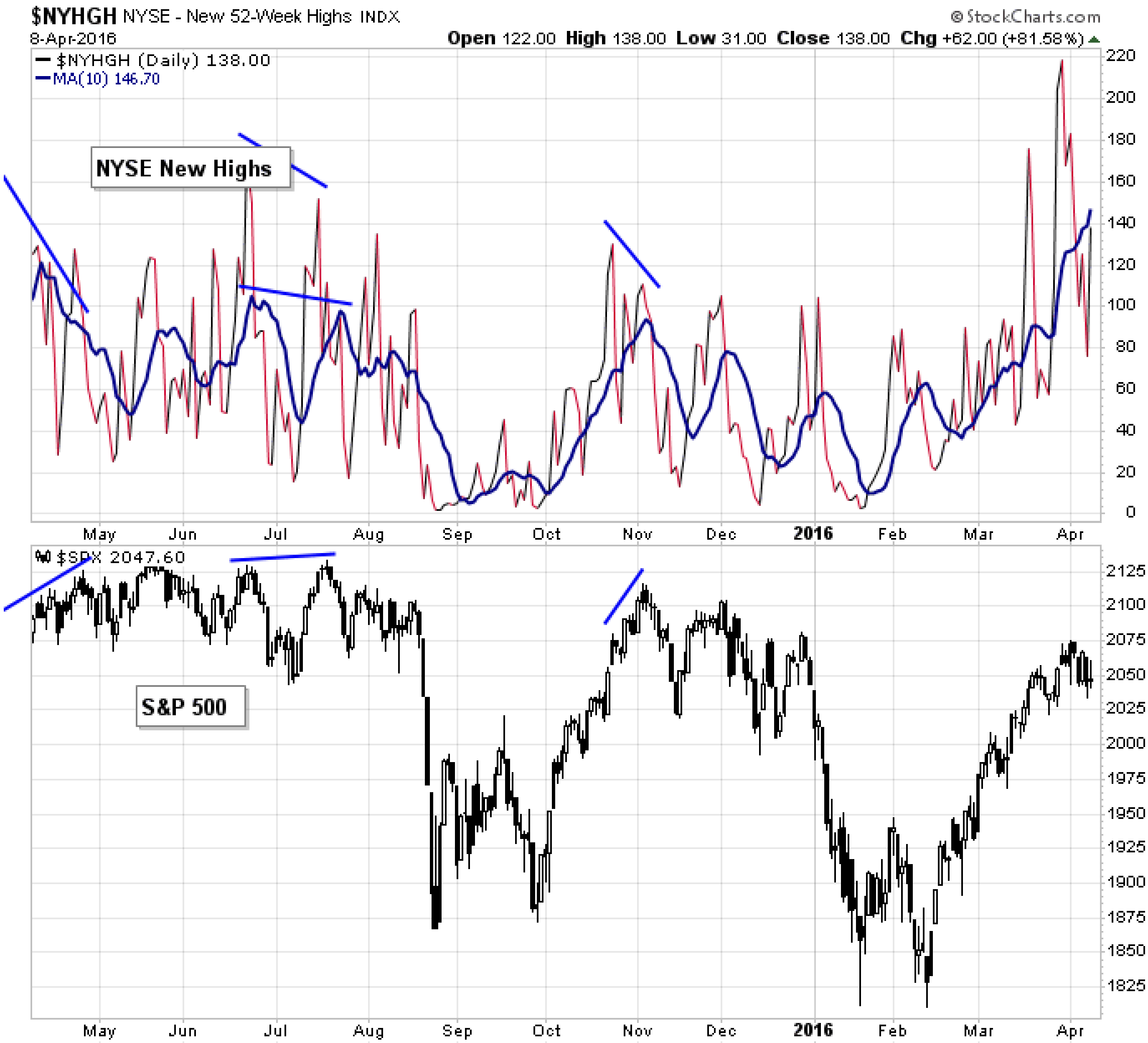
S&P 500 vs. NYSE Cumulative AD Line: The cumulative AD line backs up and looks at the bigger picture. It remains in good shape and doesn't hint at any longer term issues brewing. It's one of the reasons I lean to the upside overall.



S&P 500 vs. 10-day MA of NYSE AD Volume Line: The AD volume line, which lets high-volume stocks do more of the talking, mirrors the movement of the AD line. A month-long divergence is in place, and you get the feeling the floor can be pulled out at any moment, but if the floor gets pulled out, absent major news, I wouldn't expect a stiff sell-off to last long or go far. A couple stiff down days to cast a lot of doubt would likely set up some good long trades.

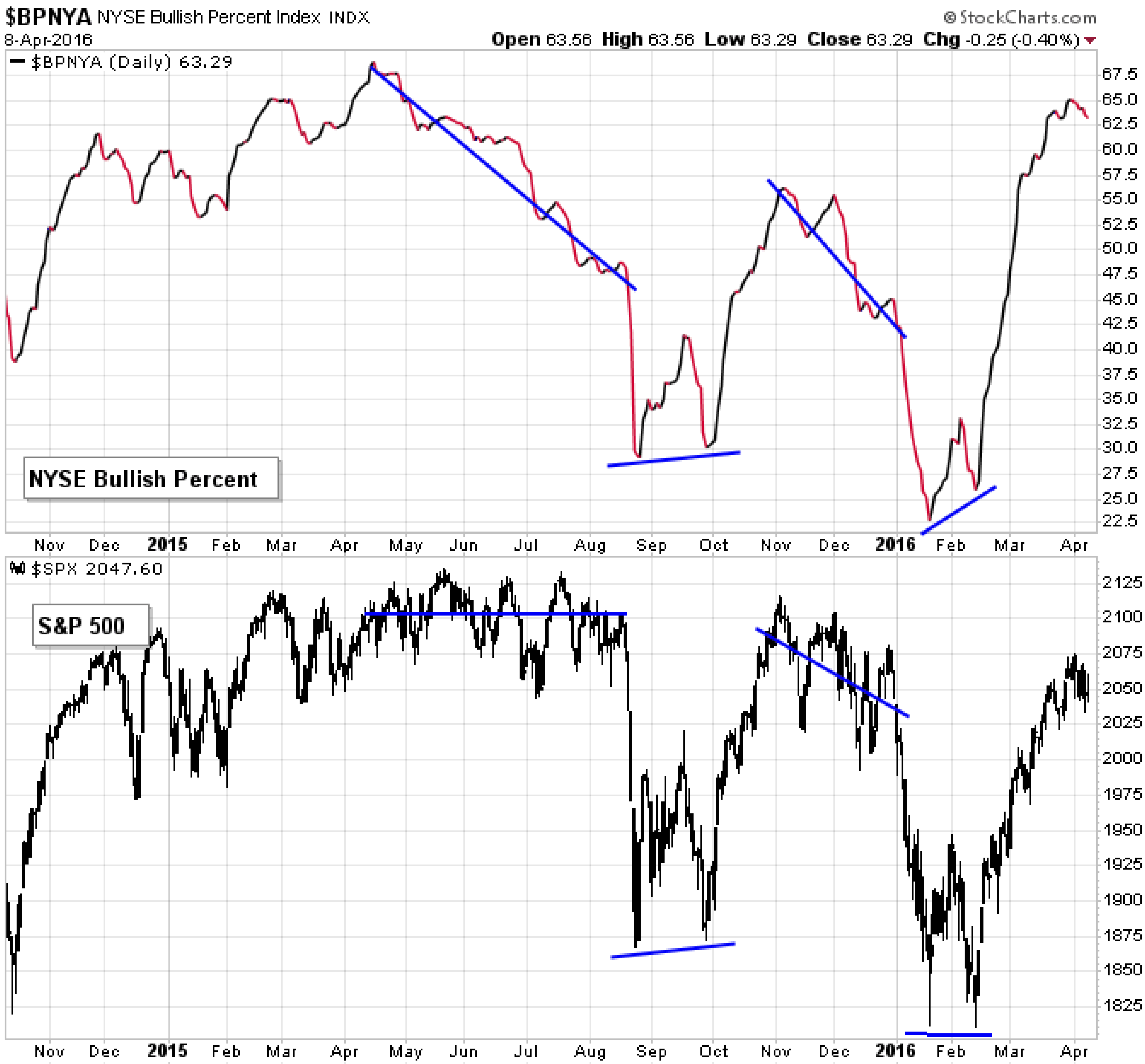
S&P 500 vs. NYSE Cumulative AD Volume Line: The cumulative AD volume line is becoming less supportive of a continuation of the uptrend. Unlike off the September bottom, where the indicator moved up for less than two weeks before flattening out, it moved up for an entire month off the February bottom. This is a good sign, but the last couple weeks are bothersome. A brief dip would be fine, but a series of lower highs and lower lows would be a warning.

S&P 500 vs. NYSE New Highs: New highs at the NYSE continue to support a continuation of market's strength, but to chip away at overhead resistance and rally to new highs, I'd like to see prints up near 300.



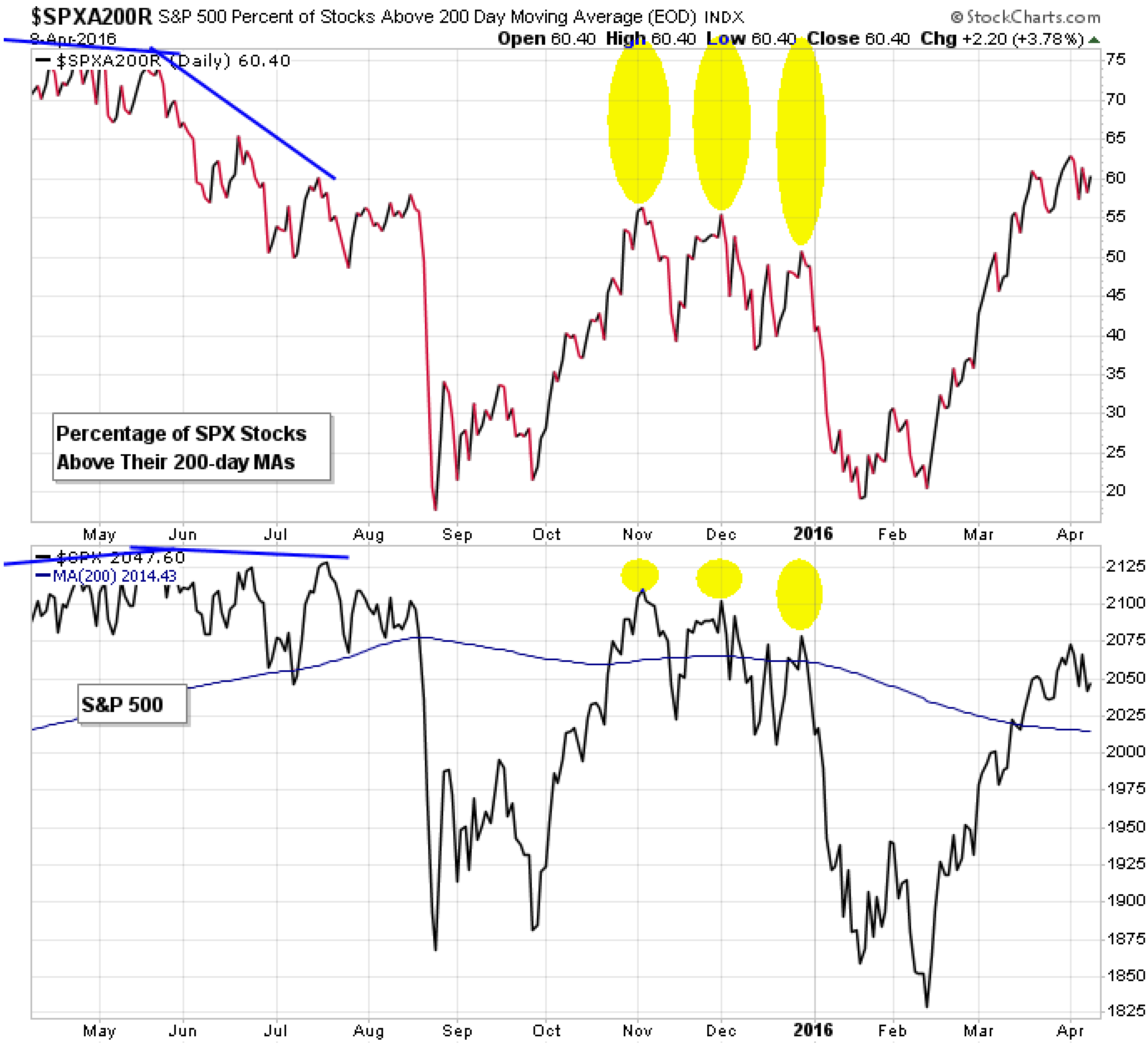
NASDAQ vs. NASDAQ New Highs New highs at the Nas have been less supportive of the market's move off the February low. Previous uptrends which lasted several months and consistently pushed to new highs saw consistent new high prints at the Nas above 100 and spikes above 200. We're not there yet.

S&P 500 vs. NYSE Bullish Percent: The NYSE bullish percent is starting to roll over. That's fine. It's not going to move up uninterruptedly. As long as it maintains this lofty level, the market's intermediate term strength will be supported.

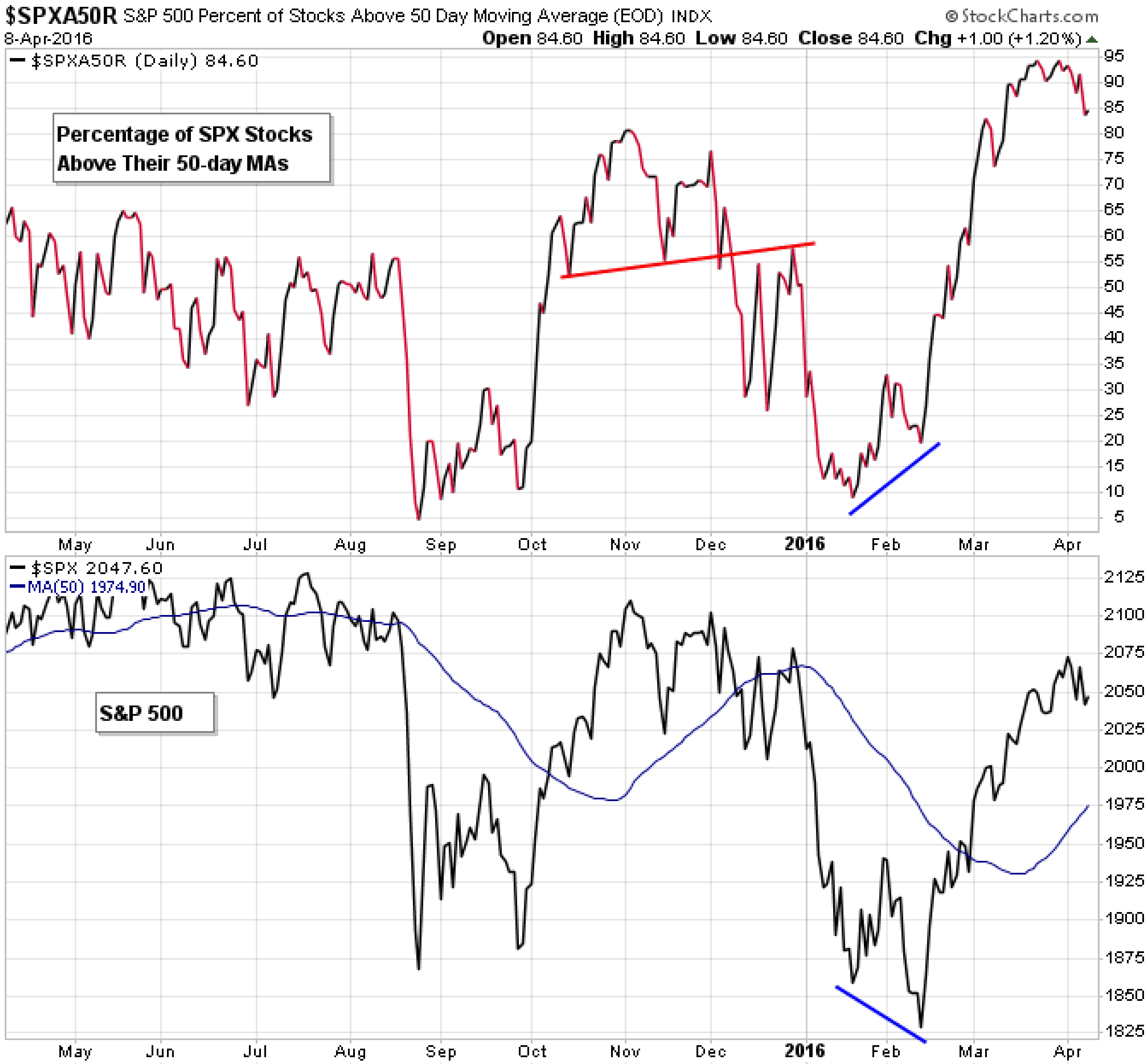


NASDAQ vs. NASDAQ Bullish Percent: The Nas bullish percent continues to improve. I'm content with its progress, but I believe prints in the high-60's will be needed to support the Nas moving to its high.

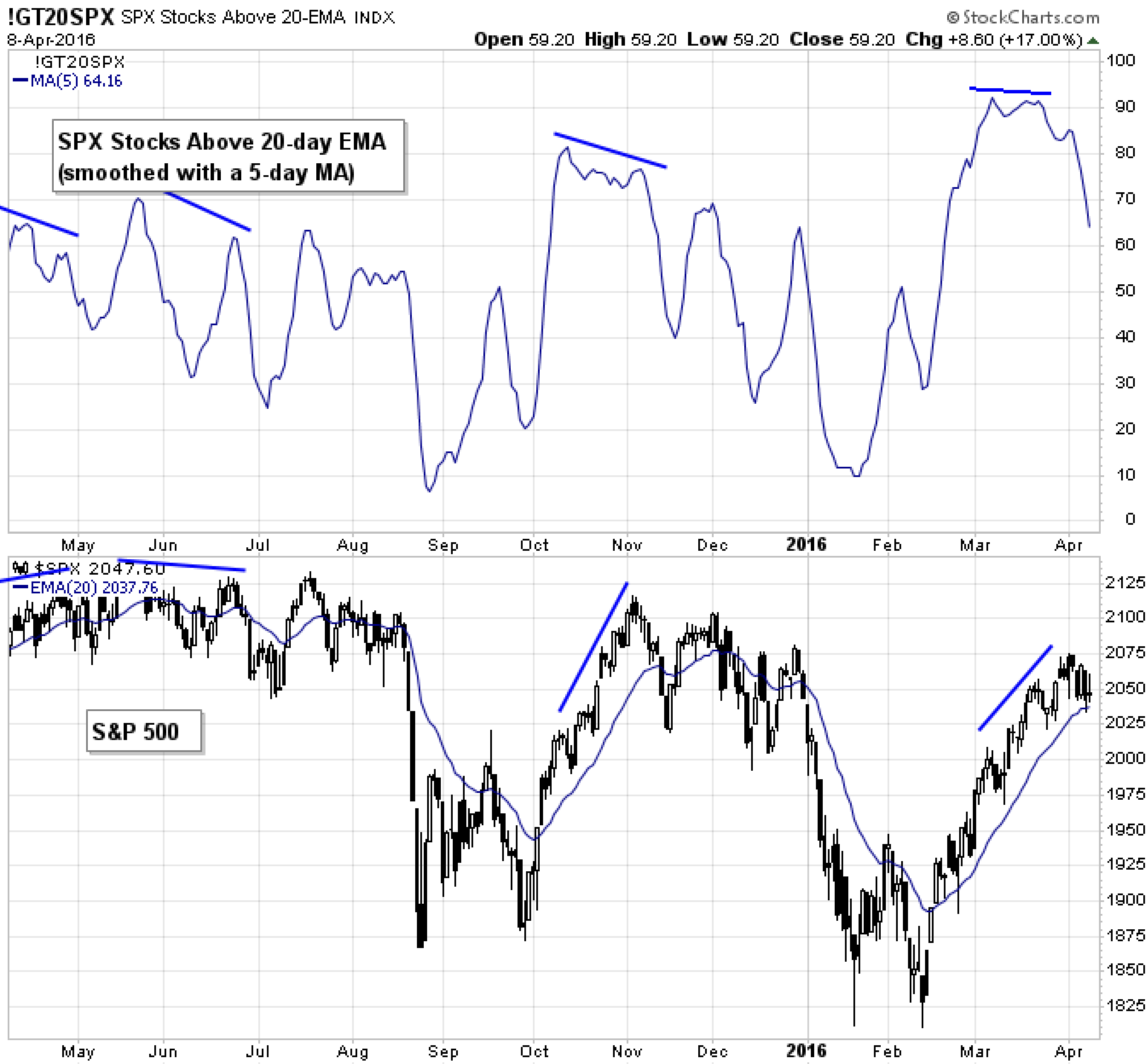
S&P 500 vs. Percentage of S&P 500 Stocks Above 200-day MA: The percentage of SPX stocks above their 200-day moving averages has moved in lock-step with the S&P. For now it supports the index's progress. If a divergence forms, we'll know a change is taking place.



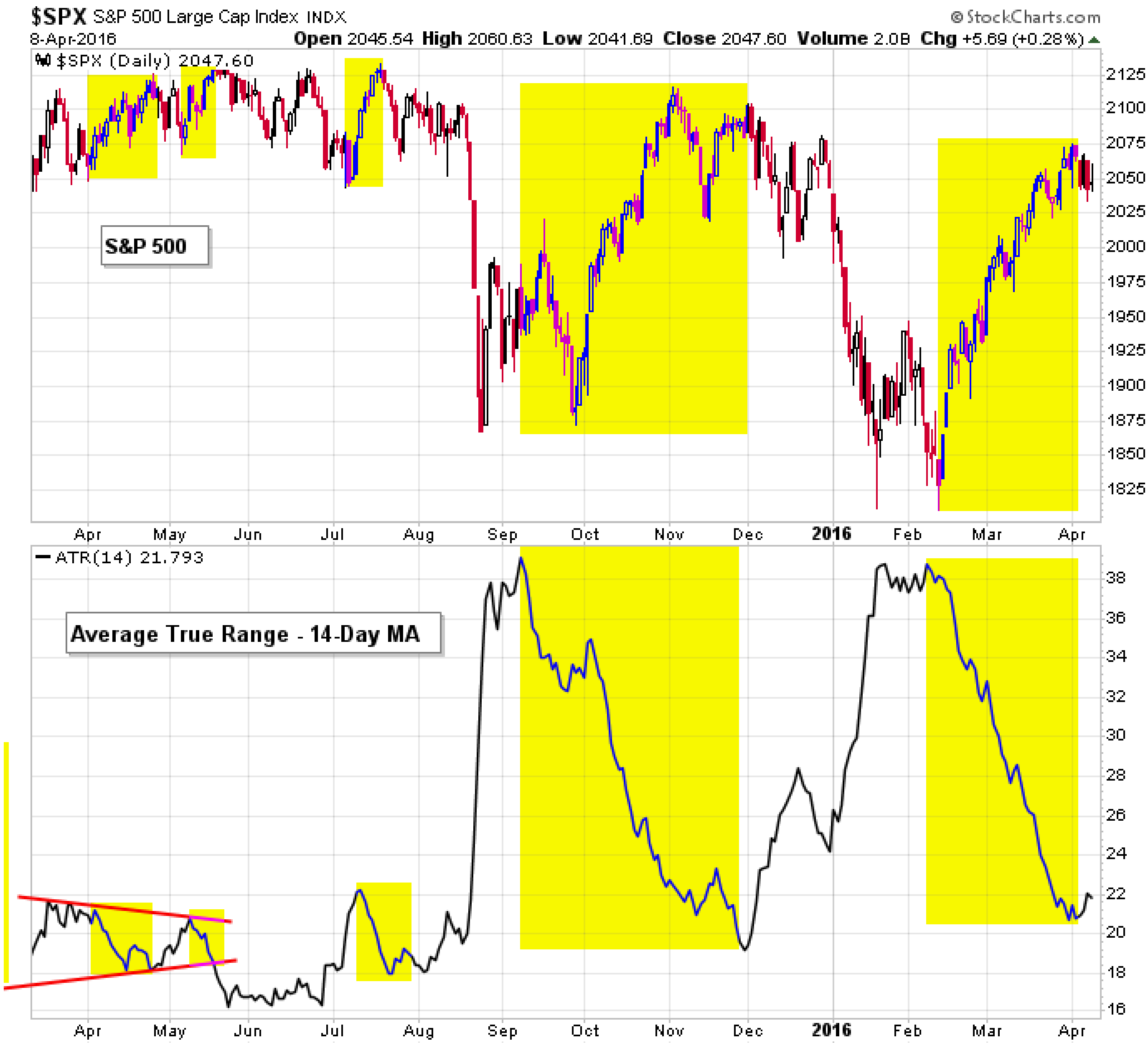
S&P 500 vs. Percentage of S&P 500 Stocks Above 50-day MA: The percentage of SPX stocks above their 50-day moving averages has started to decline. Given the high level it reached, this is not a concern when considering the big picture, but in the very near term, yeah it would be hard to justify being all-in on the long side.



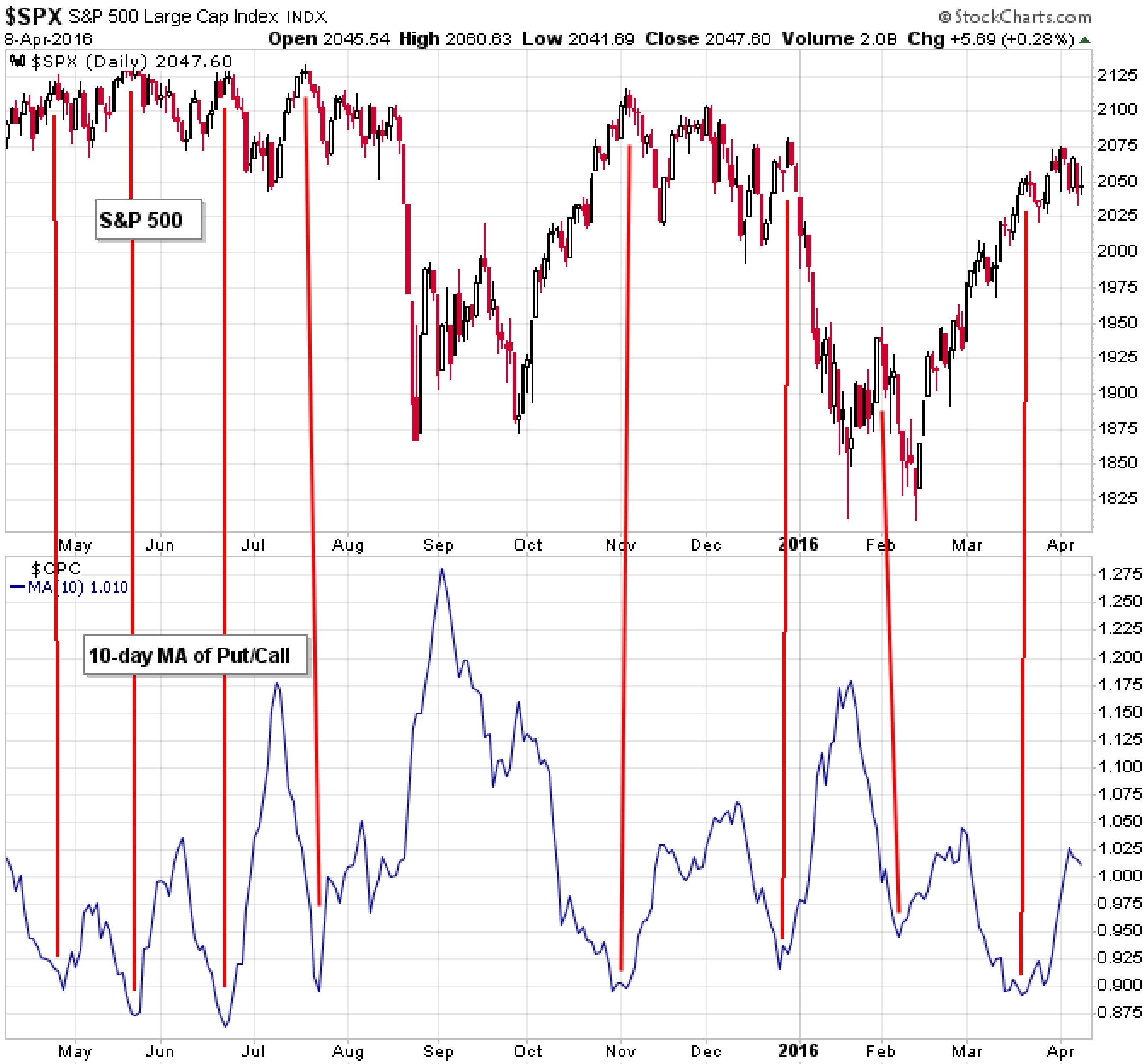
S&P 500 vs. Percentage of S&P 500 Stocks Above 20-day MA: The percentage of SPX stocks above their 20-day moving averages diverged from the underlying price action last month and is now falling. Another reason to not be optimistic in the near term.



S&P 500 vs. 14-day Average True Range: The daily ATR is curling up. This happened the second week of November when the market dipped. Brief bounces are fine. As long as the ATR resists moving up much, I'm going to assume dips will be bought.



S&P 500 vs. 10-day MA of Put/Call Ratio: The put/call continued up last week - a development that typically leads to short-term market corrections. But it hasn't happened yet.



The Bottom Line

When the market trends, as it did in 2013 and most of 2014, the trend on all time frames is the same. This isn't the case right now. The big picture says the market has been in consolidation mode for two years. The intermediate term - going back a couple months - looks good and has looked more promising than the October rally. But the short term trend points down. Breadth has been declining for a month, and a several indicators point towards a need to recycle before supporting a rally attempt.

Overall I remain bullish on the market. Absent a terrible earnings season, extremely hawkish comments from Fed officials or a major event in the world, I think the highs get tested.

But in the near term, in my opinion, the path of least resistance is down. Pressure has been building beneath the surface, so the market needs to let out some air.

Be very defensive with long trades right now.

Have a great week.

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