Leavitt Brothers

Weekly

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We entered this past week with the market being somewhat of a mixed bag.

Long term things have been mostly neutral. The S&P 500 is, after all, in a 2-year range. Rallies to the high have gotten sold; dips have gotten bought; and at any given time, you could have looked at the chart and noted prices were virtually unchanged over the previous X months, where X changed month to month based on where we were in the range.

On an intermediate term basis (over the last couple months), the trend has been up. In fact it's been very steadily up, with no noticeable corrections, and the strength has been supported by internals which have far-exceeded the previous rally attempt (October). But the move had felt like it was getting tired. The quality and quantity of trading set-ups had declined, the internals had diverged from the price action, and with resistance just overhead and earnings season ramping up, it didn't seem like an opportune time for the market to shoot higher.

I don't think last week's movement cleared anything up. A weak Monday was followed by strong days Tuesday and Wednesday. Thursday and Friday were slow and range bound and very uninteresting. Yes the indexes registered higher highs and a solid gain for the week, but volume was light and there was no follow through.

When a trend really is strong and obvious in the intermediate term, you can close you eyes and buy almost anything when it dips and make money. I don't have this feeling right now. Despite the market appearing in good shape, I would not feel comfortable being all-in right now. Maybe I'm wrong. Maybe the market will shoot higher, and I'll make money but not nearly as much as I could have if I had more exposure. Oh well. It happens. Trading is such an imperfect activity.

The first step in becoming a successful trader is finding a set-up or trade that works, one that jives with your personality and one that you can execute (just like a baseball player can't copy the stance and swing of another player, traders can't exactly copy each other).

The second step is realizing you have to pick your spots because you're particular trade won't work equally in all environments (just like a baseball player can't swing the same at a low-and-away curve ball as a thigh-high fastball on the inner-half). This is the step that takes so-so traders up several levels - they realize that just because the current set-up they're considering is virtually identical to one they did last month doesn't mean it'll work out the same. Last month's trade could have been held for three weeks. The current trade may only be held for three days. A trailing stop could have been used with last month's trade. The current trade is exited at a predetermined level and doesn't get the same wiggle room or benefit of the doubt.

Most traders never make it to the second step. They keep pounding away at something that sometimes works and sometimes doesn't, and they fail to make slight adjustments during the year as the market changes.

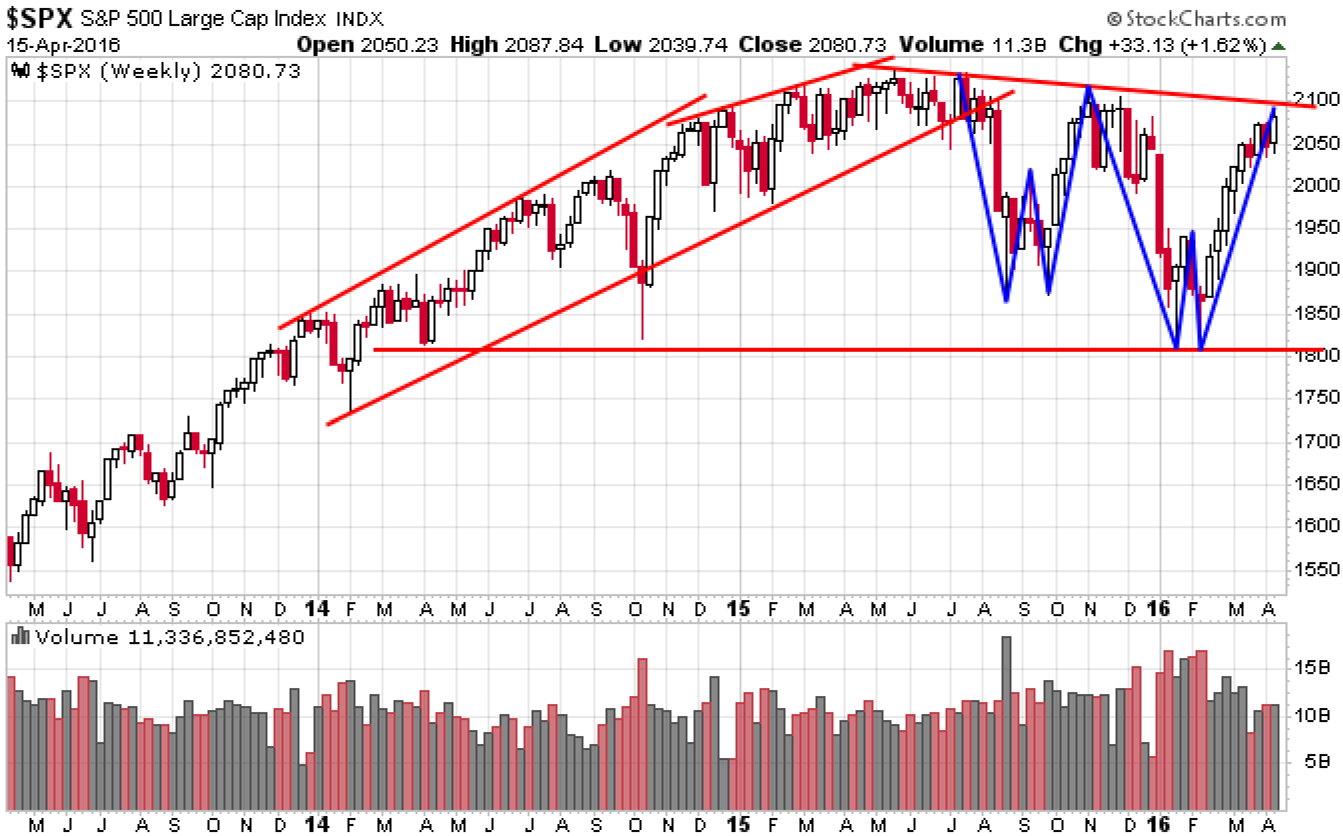
I bring this up to illustrate where I am with my thinking. For almost two months I was comfortable having a lot of exposure, but for the last couple weeks, I've taken position size down and kept my expectations in check. In baseball terms, I've been swinging for singles, not home runs.

If the market shoots higher here I'll be under-exposed. Oh well. There are times when I want to make a lot of money, and there are times I'm more interested protecting what I have. Despite the indexes pushing to higher highs last week, I'm erring on the side of being defensive.

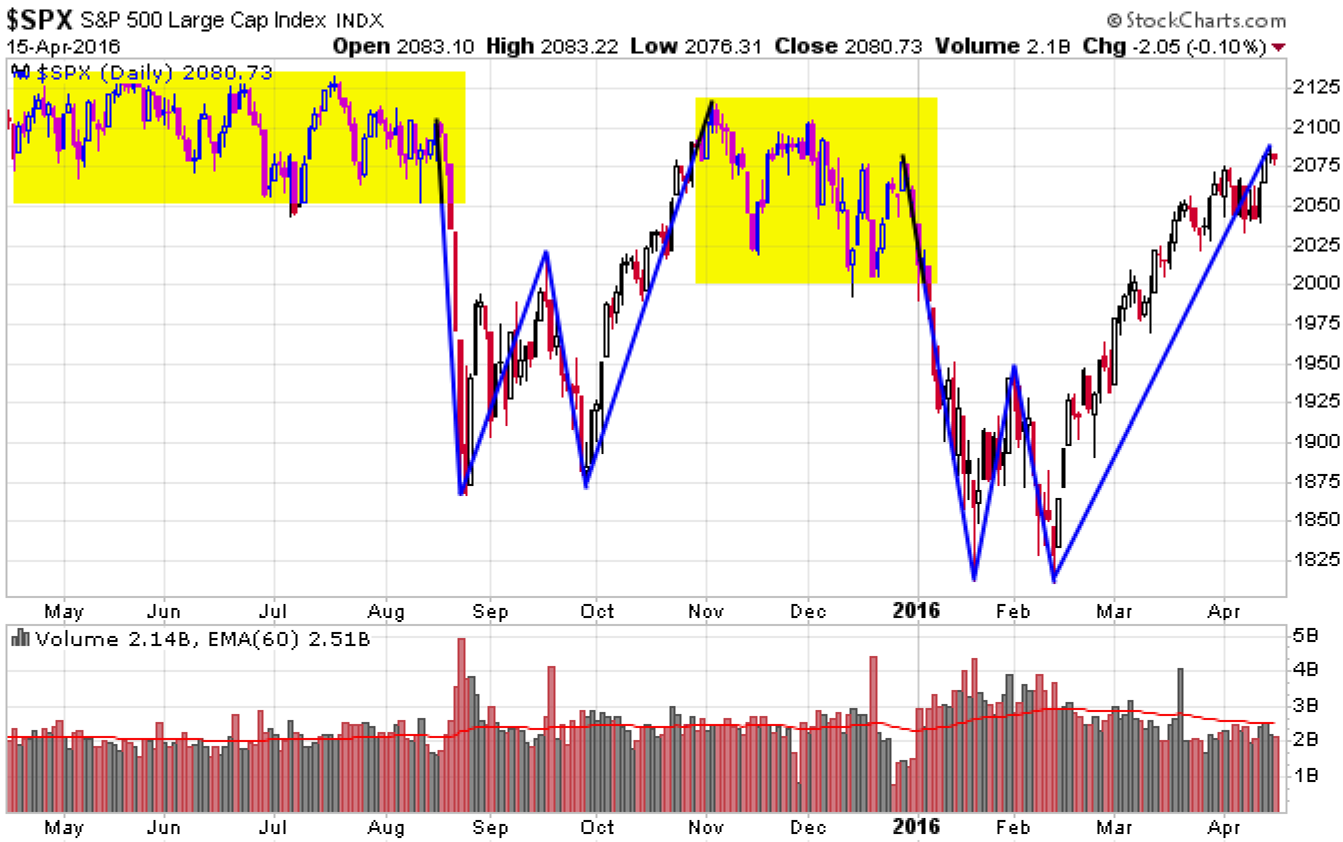
Let's get to the charts and see what they say.

Indexes

The S&P 500 Weekly: The S&P's up-trend ended last summer, and since then we've gotten lots of up and down action. A big move down last August led to a double bottom and subsequent rally. Then a big move down to start this year led to another double bottom and subsequent rally. This chart reminds us things can change fast, so it's probably not wise to dig our feet in and defend a stance.

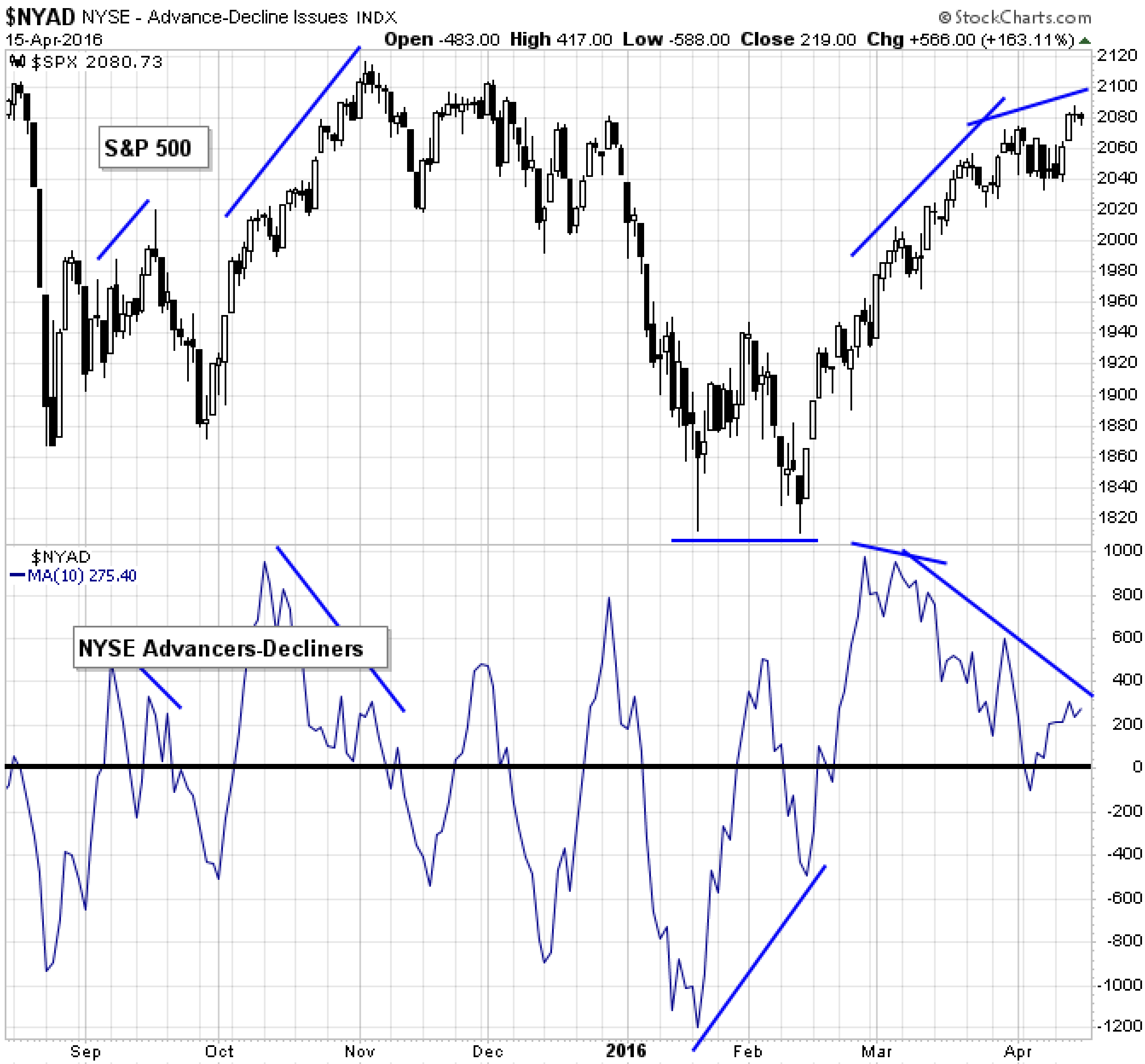


The S&P 500 Daily: Here's a daily, which offers a close-up of the two double-bottoms. I said things change fast. Actually they tend to change fast when forming a bottom but slowly when forming a top (yellow areas). Tops take time to form. It's one of the reasons I can maintain a bullish bias overall - because even if a top is forming, there'll be some up and down movement and at least one or two opportunities to get out of longs and get short. It would take a major event for the market to just roll over and not at least attempt to bounce soon after.



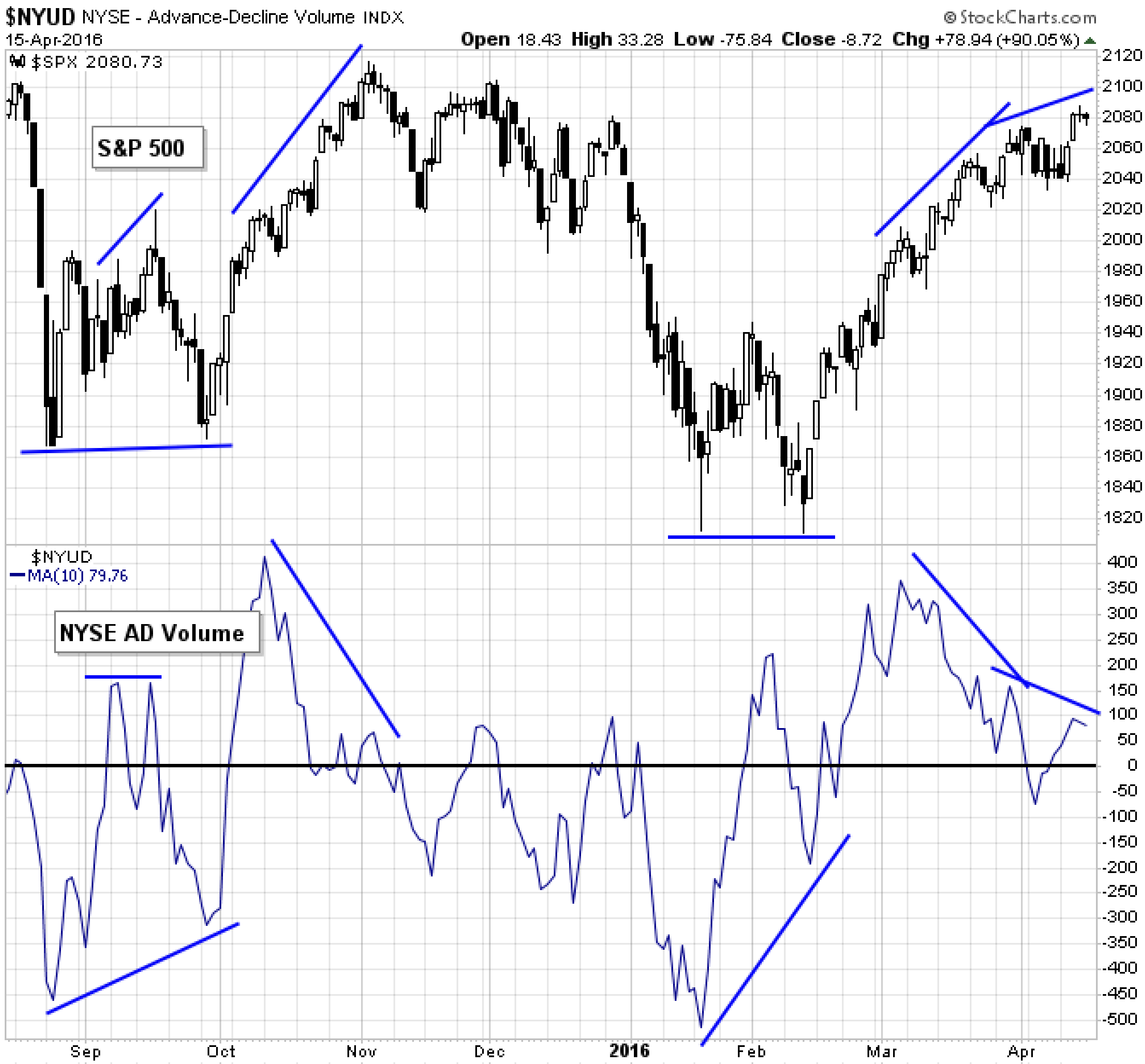
Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: The 10-day of the AD line dropped below 0 and then quickly bounced - perfectly normal behavior - but the trend is still down and another divergence is in place. For me to believe last week's higher high has legs, I'll need to see the AD line quickly improve. We need healthy prints from this indicator to confirm any rally attempt.



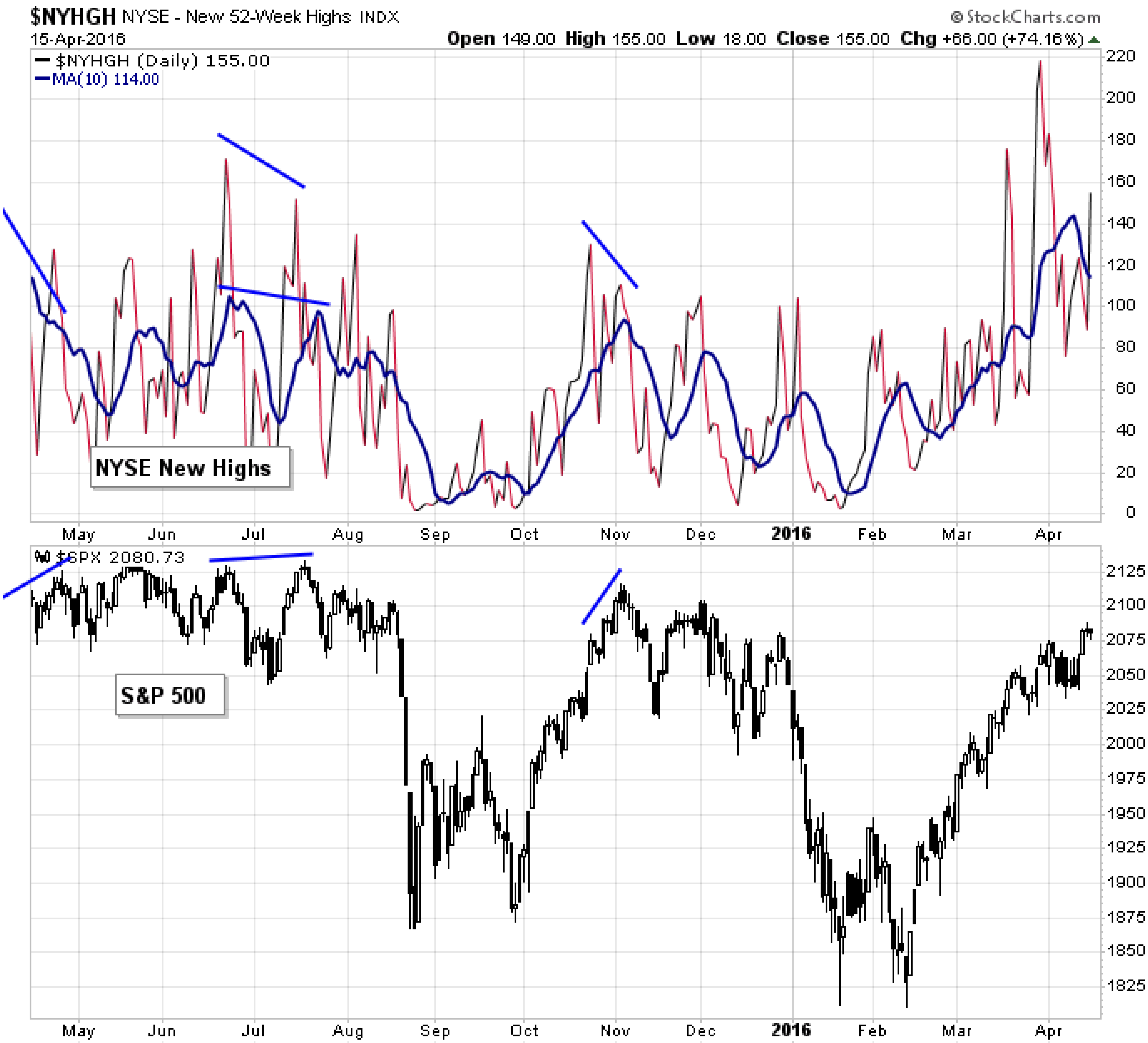
S&P 500 vs. NYSE Cumulative AD Line: Since most AD prints have been above 0, the cumulative AD continues to trend up. The indicator is at a new high, so advancers have been more dominant during this rally than decliners were on the way down. A positive sign.

S&P 500 vs. 10-day MA of NYSE AD Volume Line: The AD volume line lets the high-volume, big-caps do more of the talking (whereas the AD line treats all stocks equally), but the message is the same. The trend of the indicator is down, and another negative divergence has formed.



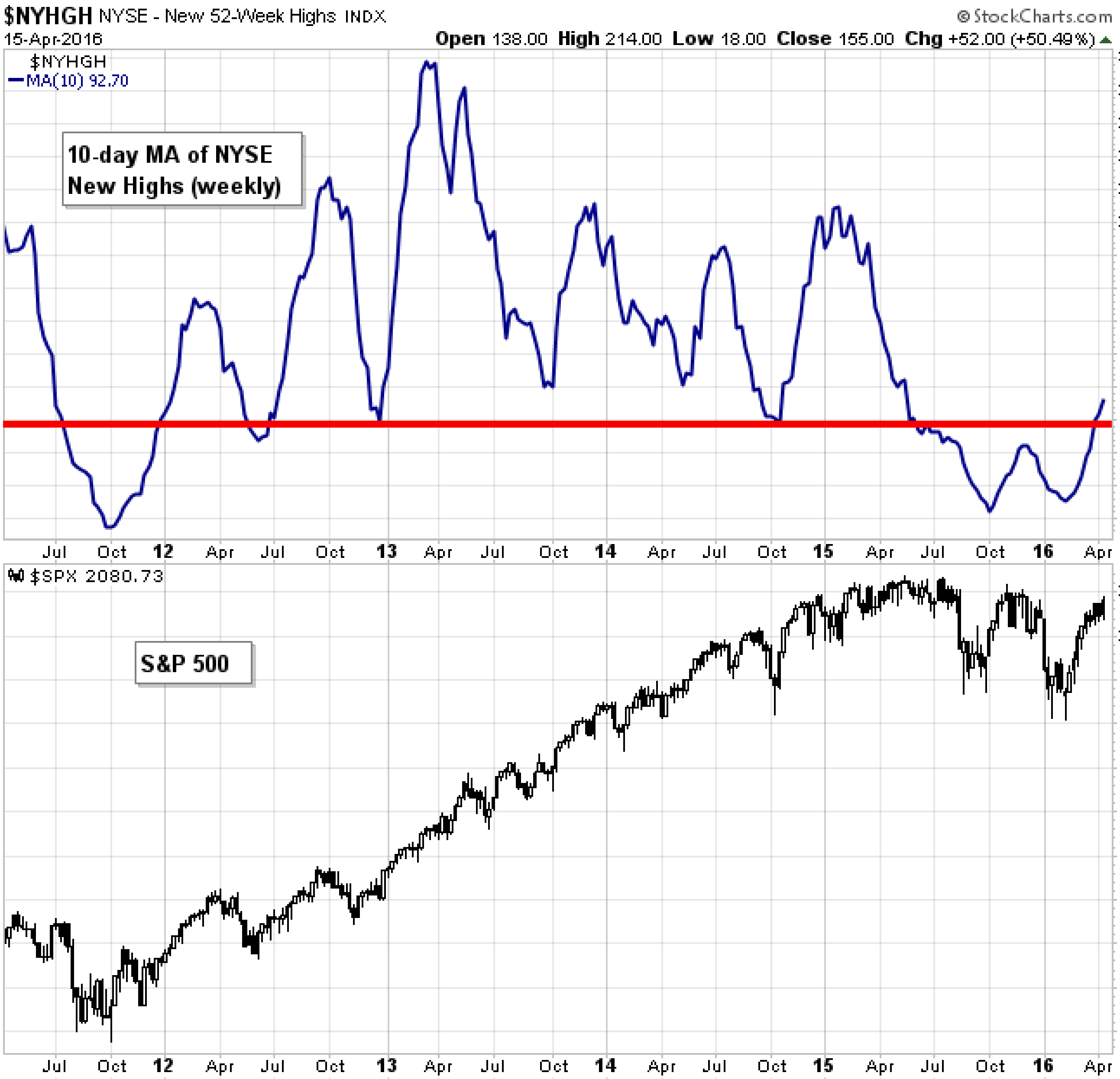
S&P 500 vs. NYSE Cumulative AD Volume Line: Unlike off the September low, when the cumulative AD volume line jumped and then traded range bound, the current version continues to move up. This is a positive sign overall, even if the very near term is much less bullish.

S&P 500 vs. NYSE New Highs: New highs continue to put in higher lows. This is a very good sign overall. And the number of stocks consistently hitting new highs (10-day MA) is higher than when the S&P hit its all-time high last summer.

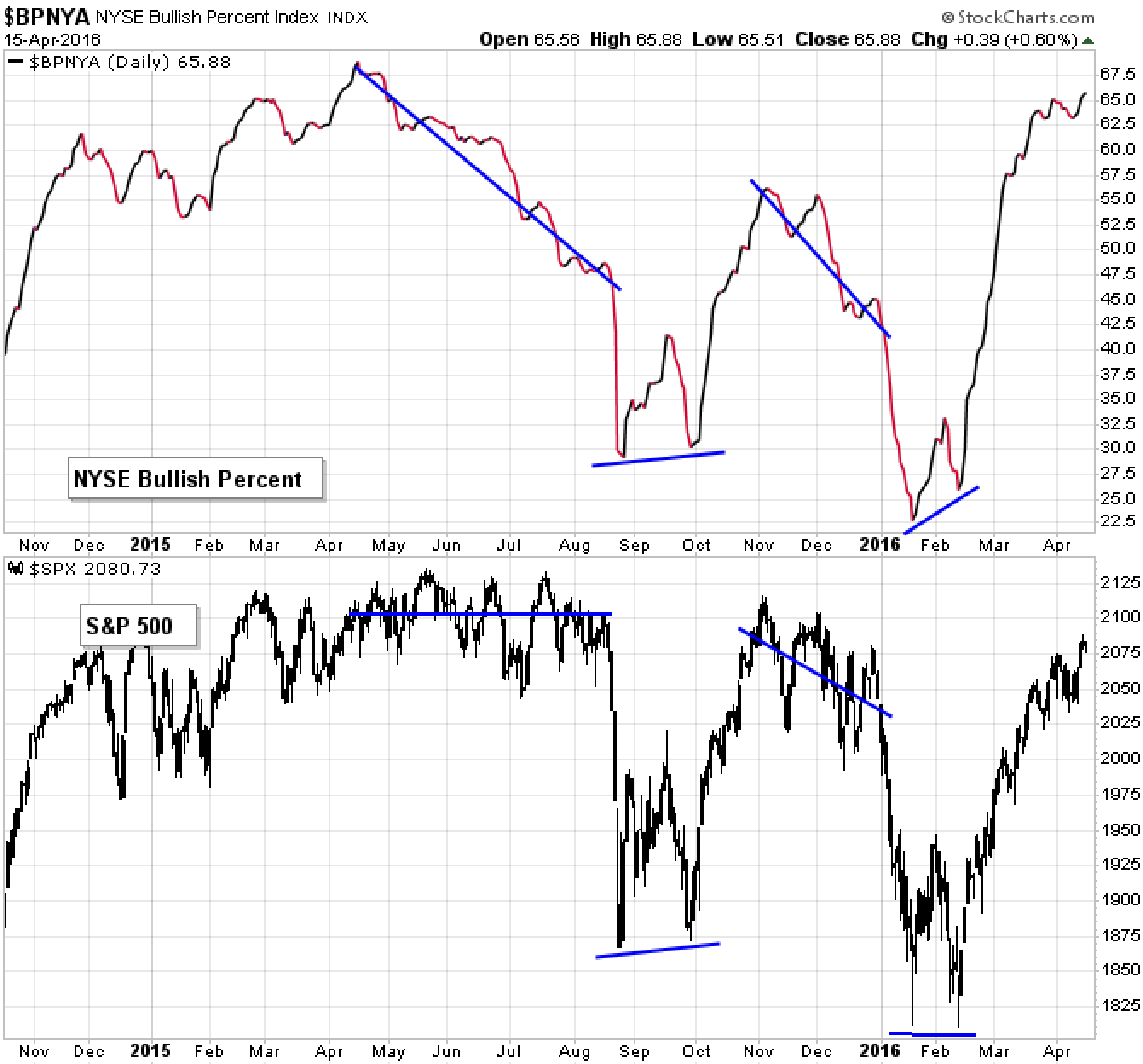


NASDAQ vs. NASDAQ New Highs But new highs at the Nas are still very weak. They haven't matched last November or last summer, when the market was at or near its highs.

S&P 500 vs. 10-weekly MA of NYSE New highs: And as a reminder, this is what new highs look like when the market trends up. From early-2012 until mid-2015 the market steadily trended up, and the 10-week of the new highs oscillated between 80 and the low-200's (with a high print in 2013). For me to trust the current move has legs, I'll want to see this indicator continue up and act like it did back when the uptrend was a no brainer. It's simply not possible for the market to consistently register new highs while individual stocks are not doing the same.

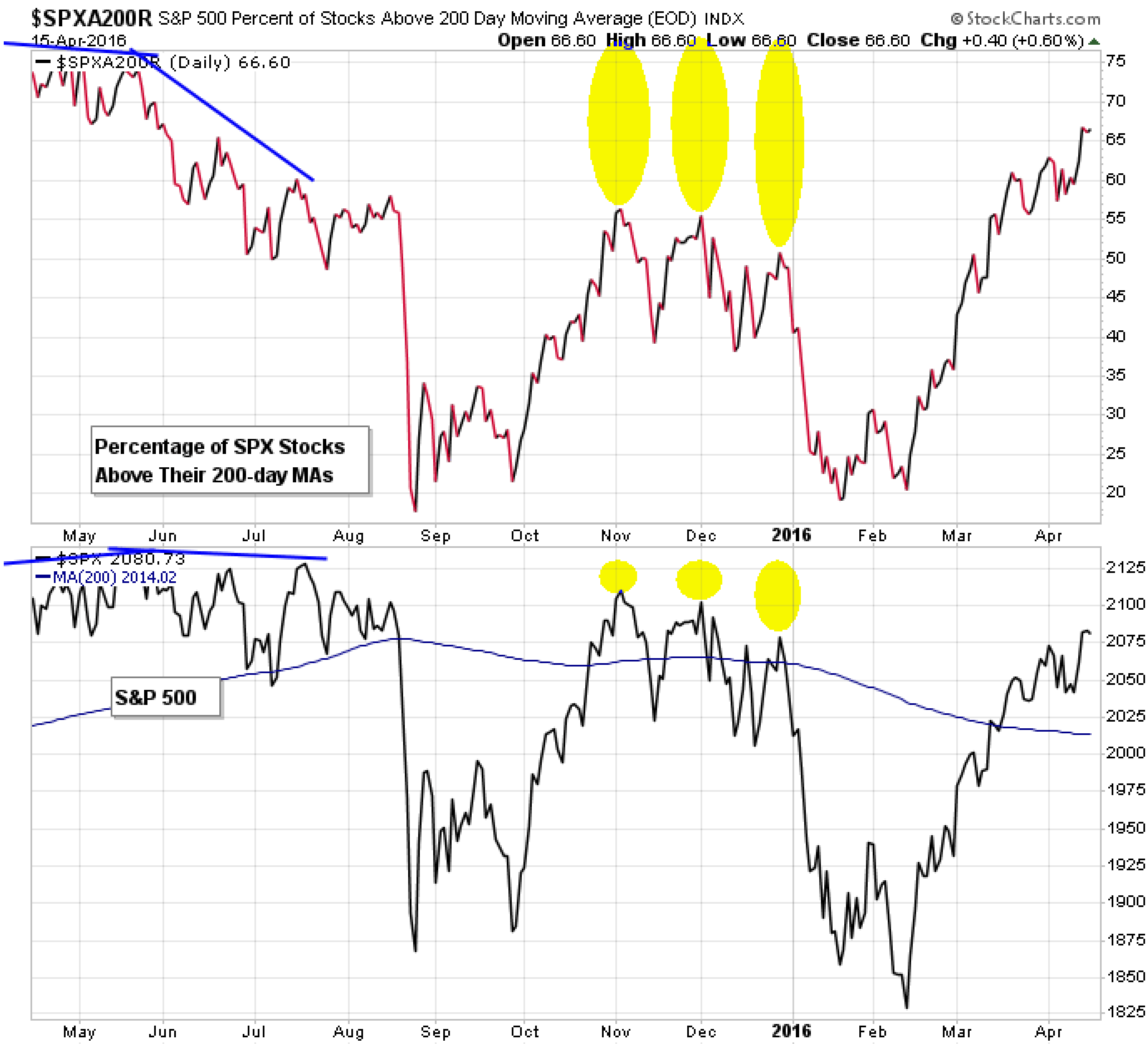


S&P 500 vs. NYSE Bullish Percent: The NYSE bullish percent pushed to a new high last week - another very good sign overall. Even if a top was forming, it'll take a month for a divergence to form and a move down to actually begin.

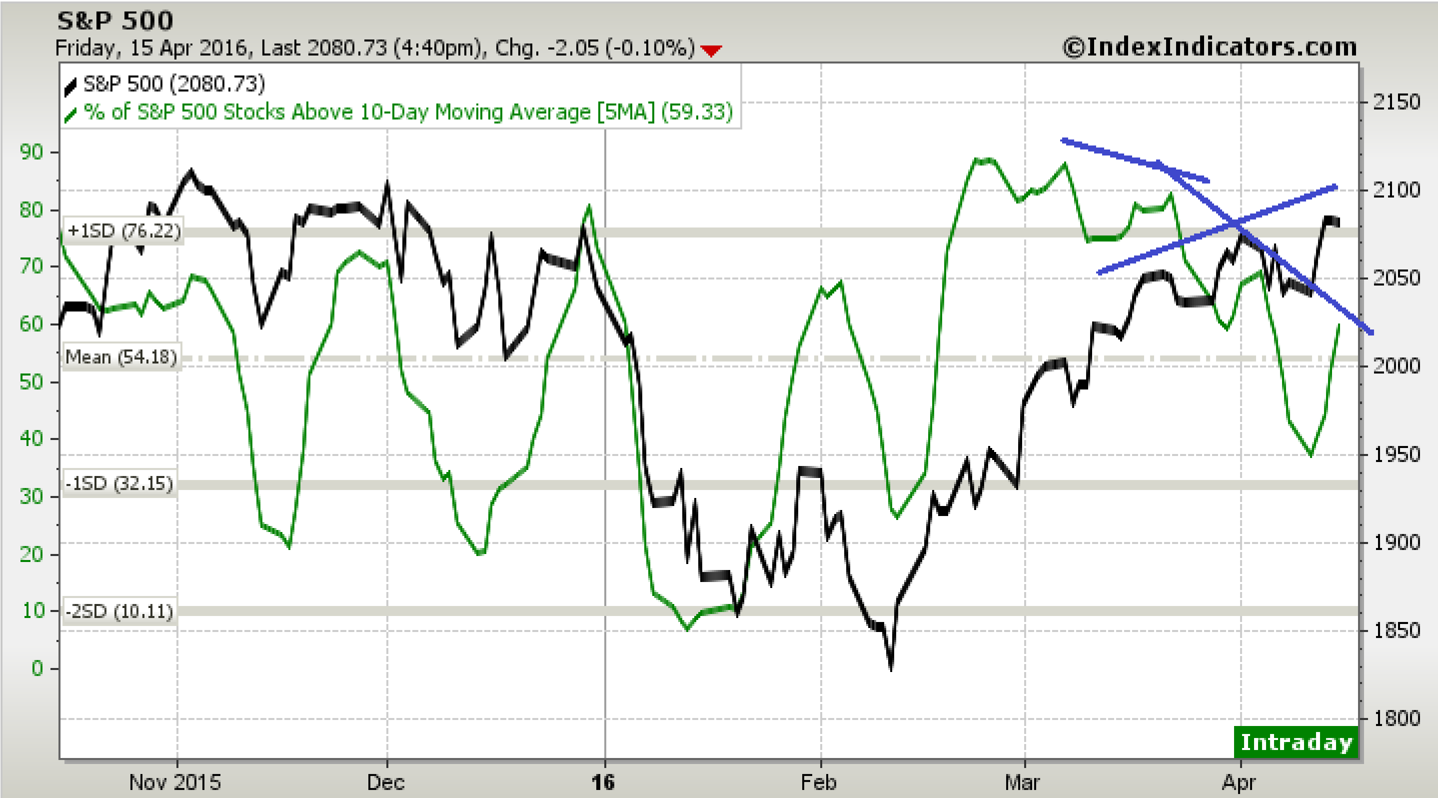


NASDAQ vs. NASDAQ Bullish Percent: The Nas bullish percent is not as well-off as the NYSE version, but it's still doing just fine. It has taken out the November and December highs and continues to trend up.

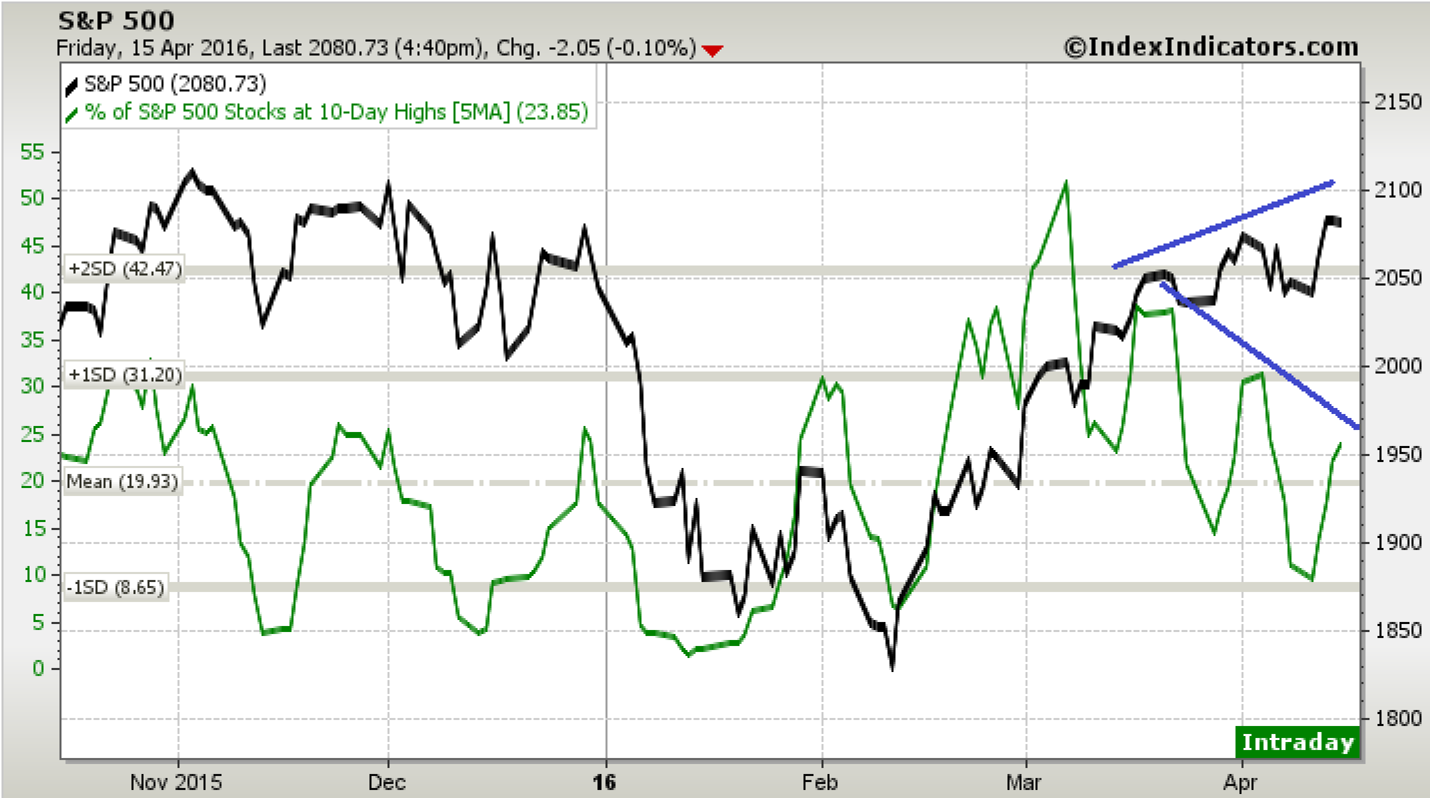
SPX vs. Percentage of SPX Stocks Above 200-day MA: The percentage of SPX stocks above their 200-day moving averages continues to expand. Overall strength is broad-based.



SPX vs. Percentage of SPX Stocks Above 10-day MA: But the percentage of SPX stocks above their 10-day MAs (smoothed with a 5-day moving average) has been declining, so the near term doesn't have quite the same support.



SPX vs. Percentage of SPX Stocks At a 10-day High: And the percentage of SPX stocks at a 10-day high has also been declining.



The Bottom Line

Despite all the indexes moving to higher highs last week, I'm not completely on board with a leg up here.

Some indicators are still diverging from the underlying price action, and others have rolled over recently and are pointing down.

Overall I like what I see and would not be surprised if the S&P eventually attempted to test its high, but in the near term I'm not convinced.

Unless we get a bunch of great earnings reports, I'm sticking with my current defensive posture.

I'm not overly eager to have huge long exposure.

Have a great week.

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