Leavitt Brothers

Weekly

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It has become an Energizer Bunny market - it keeps going and going. Despite resistance just overhead and some weakish and/or toppy breadth indicators, all the indexes registered higher highs last week.

The bears can't catch a break. Each dip is bought soon after. Each piece of negative news is easily absorbed or ignored. The market has a one-track mind - move up.

There was no agreement between OPEC and non-OPEC members to freeze production at January levels. Oil gapped down and then ran to higher highs. Even the the end of the strike in Kuwait, which would add over one million barrels/day to the world's supply was nothing more than a minor inconvenience.

Several big name tech stocks have gotten hit lately - some because of earnings, others just because. Netflix, Microsoft, Google, IBM - all down big. And there was weakness among those believed to be safe-havens. Starbucks, Coke, Kimberly Clark - down big too. Yet the S&P posted a gain 4 of 5 days last week and posted a weekly gain for the 8th time over the last ten weeks.

This is a very hated rally. The bears are completely frustrated the market isn't doing what "it's supposed to do." They can't even get back-to-back down days, let alone a mini downtrend. Many bulls are happy they've made money but most are regretting not fully taking advantage of the 300-point SPX move. The bears are flat-out pissed off, and the bulls want to buy dips that never materialize.

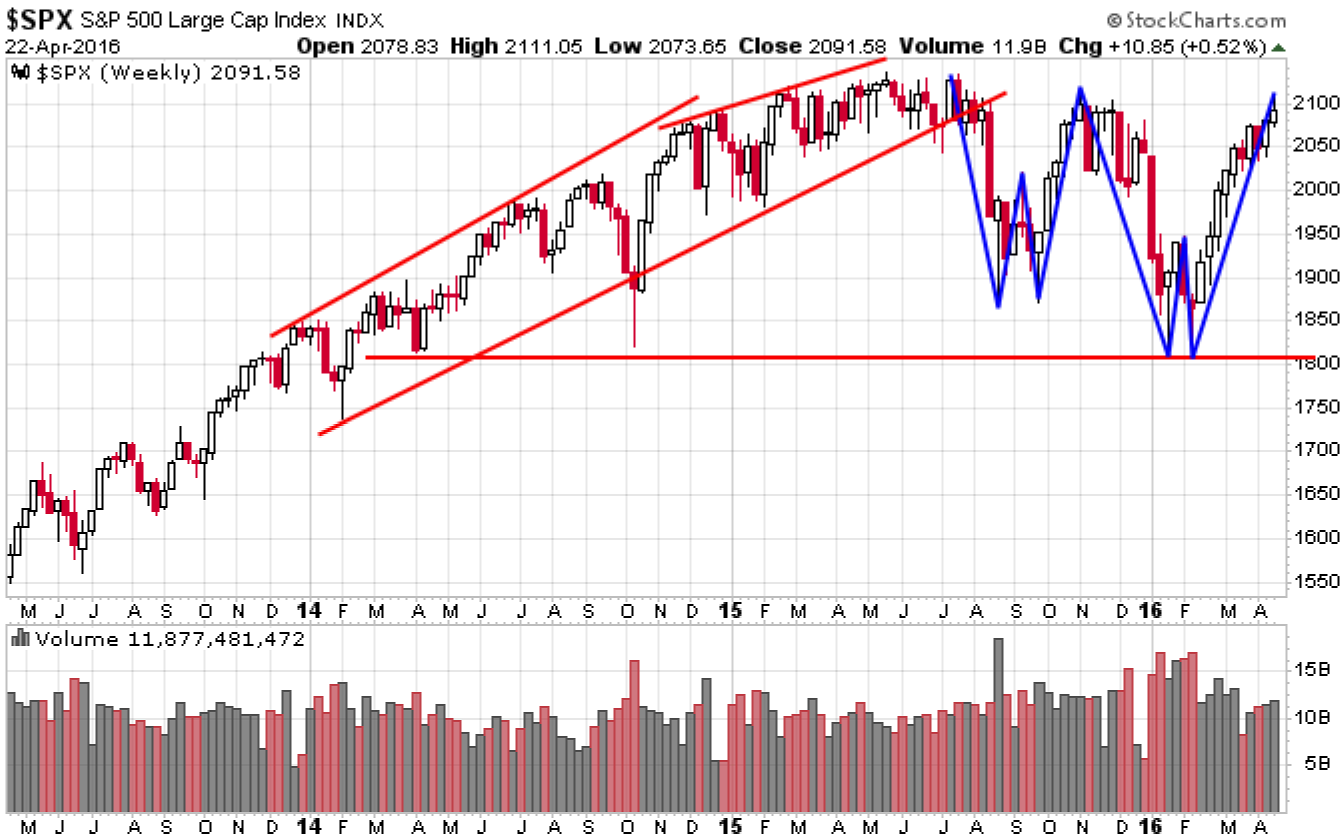
The action over the last few weeks is exactly why I don't pick tops. When a top forms and the market declines, I'll get stopped out of positions. Simply as that. I'd rather be wrong once when the market really does turn than be wrong numerous times along the way. When the trend is strong, which it obviously has been, I'm either aggressively long (this means I have lots of exposure) or much less aggressively long (meaning I have less positions and smaller size). I'll never short an uptrend. I've said numerous times the last few weeks that tops take time to form, so even if one was being put in place, it would take a few weeks, and there would be several opportunities to exit.

Looking forward, earnings season will continue in full force next week. So far earnings have influenced individual companies but have not had much influence on the overall market. The big economic news will be the FOMC, which meets Wednesday. They claim to have always had a dual mandate (unemployment and inflation) guiding their decisions but have admitted to closely monitoring world events too. What they won't admit is that their #1 metric is the stock market. They do not, under any circumstance, want the stock market to drop. Any hint of weakness brings out the doves pounding the table that rates can continue to be held low. The opposite is only partially true and must be kept in mind. With the market being near its high, the Fed has some wiggle room. They have a cushion to work with. They could raise, and the market would have time and space to absorb the increase without doing too much damage to the charts. It's something to keep in mind. Despite their other metrics, the Fed governors literally may look at each other and say: If we want to raise, now's our chance.

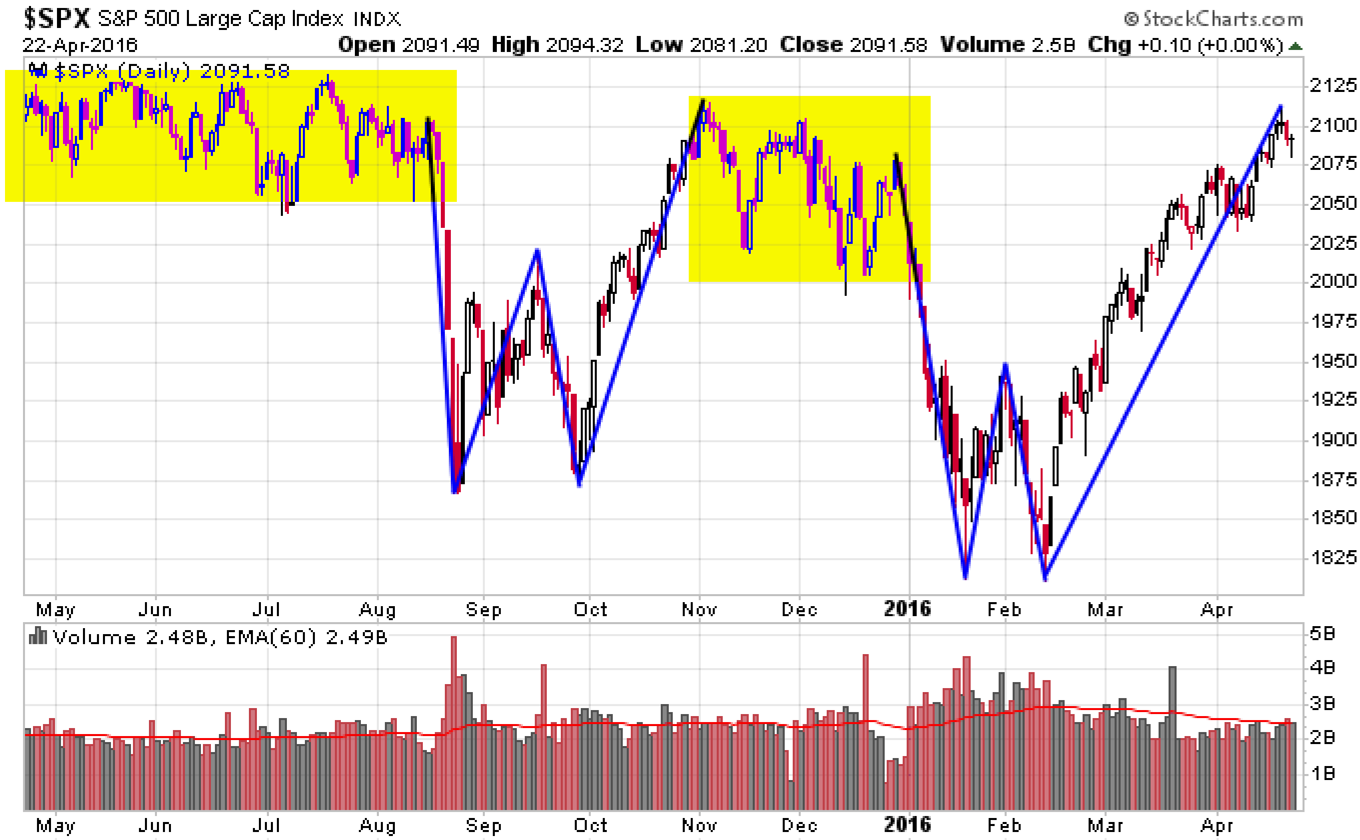
Otherwise the market situation remains the same. The trend is up, but the risk/rewards up here are not very good. Be long but have a defensive posture. Let's get to the charts and see what they say.

Indexes

The S&P 500 Weekly: The S&P gained 11 points last week but closed in the bottom-half of its range - the furthest off its weekly high it has closed since early-February. It's hard to be super excited about establishing large long positions right now. Perhaps the market can pushed to another higher high next week. Still, the risk/rewards aren't very good.



The S&P 500 Daily: Even if a top were to form soon, there would be at least a couple weeks of back and forth movement (see yellow areas). It's just the market's nature. There are so many investors who are regretting not getting in or not getting in with bigger size the last two months...there will be lots of bids at lower levels should the market pull back.

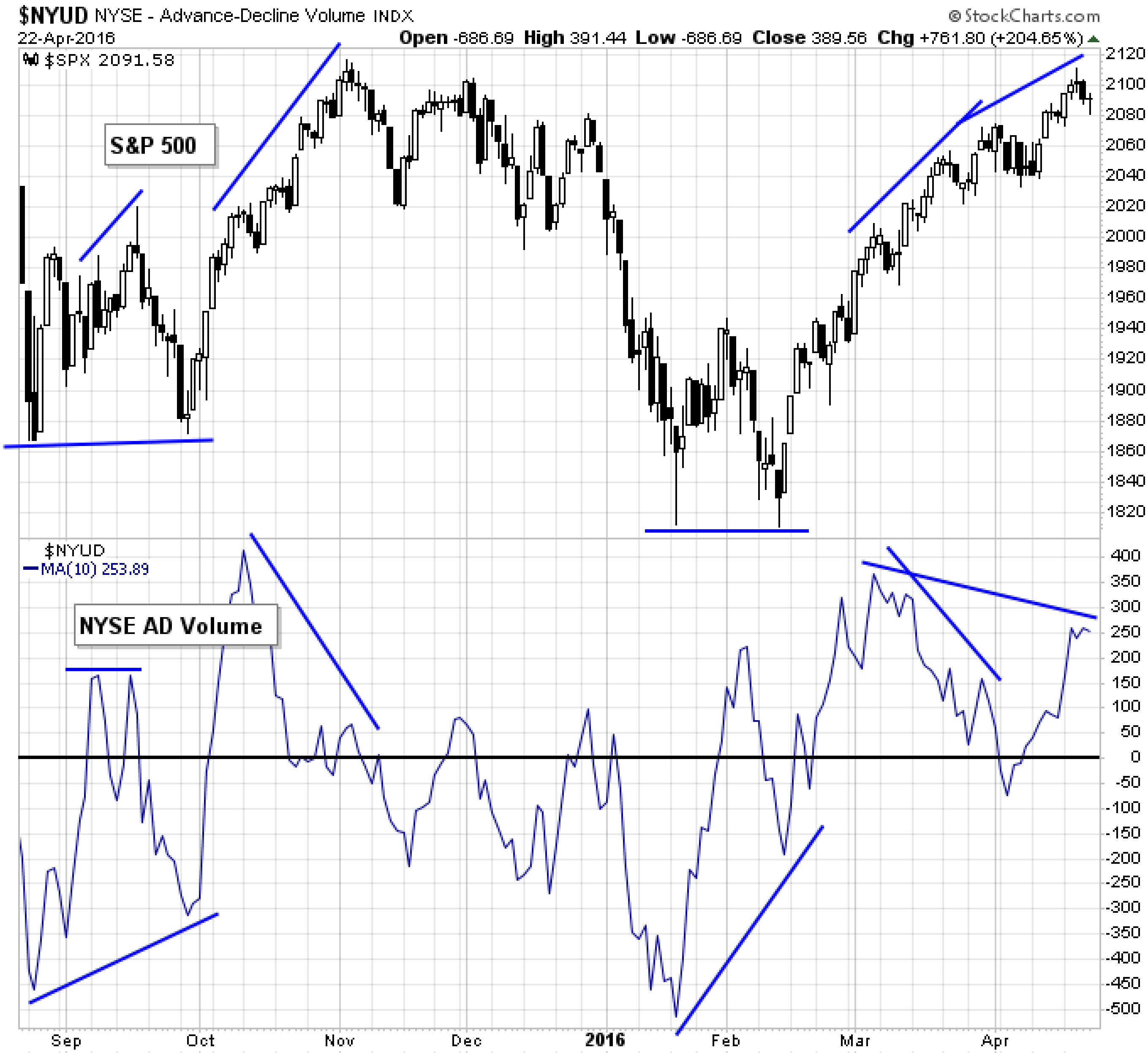


Indicators

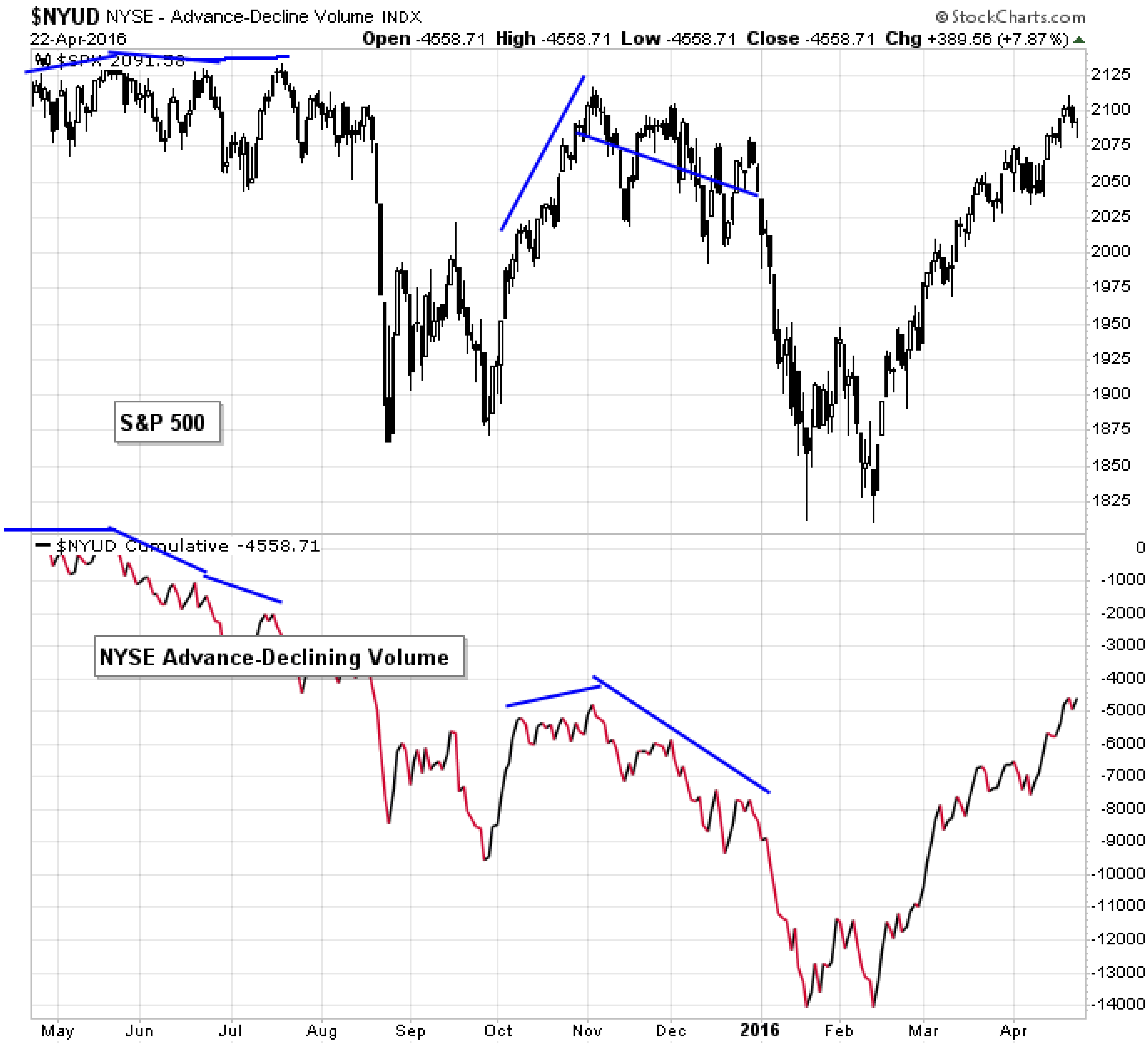
S&P 500 vs. 10-day MA of NYSE AD Line: When the 10-day of the NYSE AD line diverged from the S&P, the S&P corrected with time, not a price decline. Approx. three weeks of sideways movement at the end of March and beginning of this month has resolved up. Now the AD line back in support mode, but its current level is lower than its early-March high. I'd consider this a negative divergence on a longer time frame and would use it as a reason to be defensive with longs.

S&P 500 vs. NYSE Cumulative AD Line: We have not gotten a run-up in the cumulative AD line like this since the first half of 2014. The market did have a couple interruptions back then, but the trend resumed. I'd expect the same today.

S&P 500 vs. 10-day MA of NYSE AD Volume Line: The 10-day of the AD volume line, which lets the high-volume, large caps do more of the talking, has mirrored the movement of the AD line. A divergence led to a 3-week pause, and after bouncing off a low, there is now a negative divergence on a longer time frame.



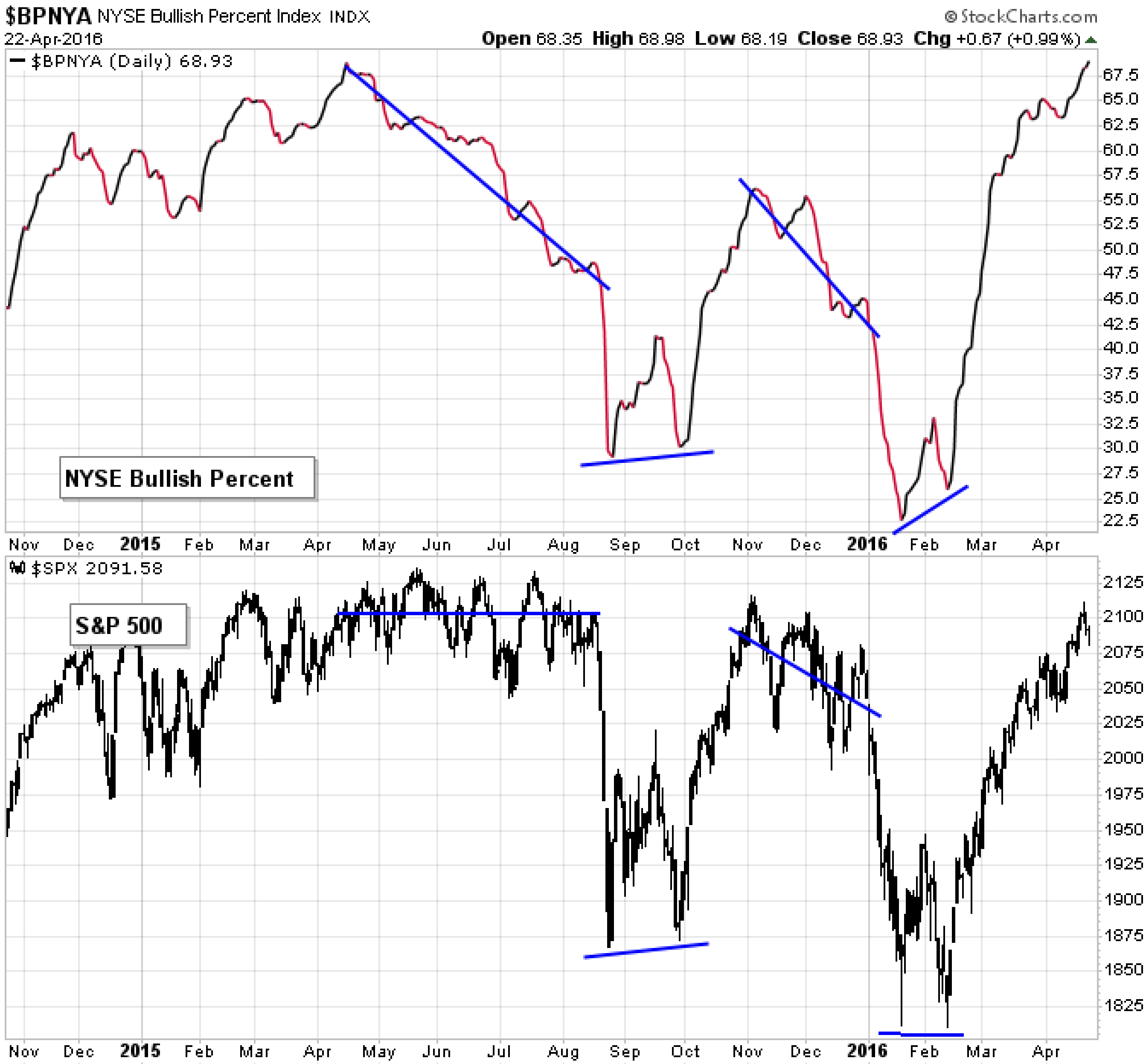
S&P 500 vs. NYSE Cumulative AD Volume Line: The AD volume line, which was an issue coming off the October bottom, has fully supported the market's strength this time around. Both the indicator and the S&P are approx. unchanged going back to early-November.



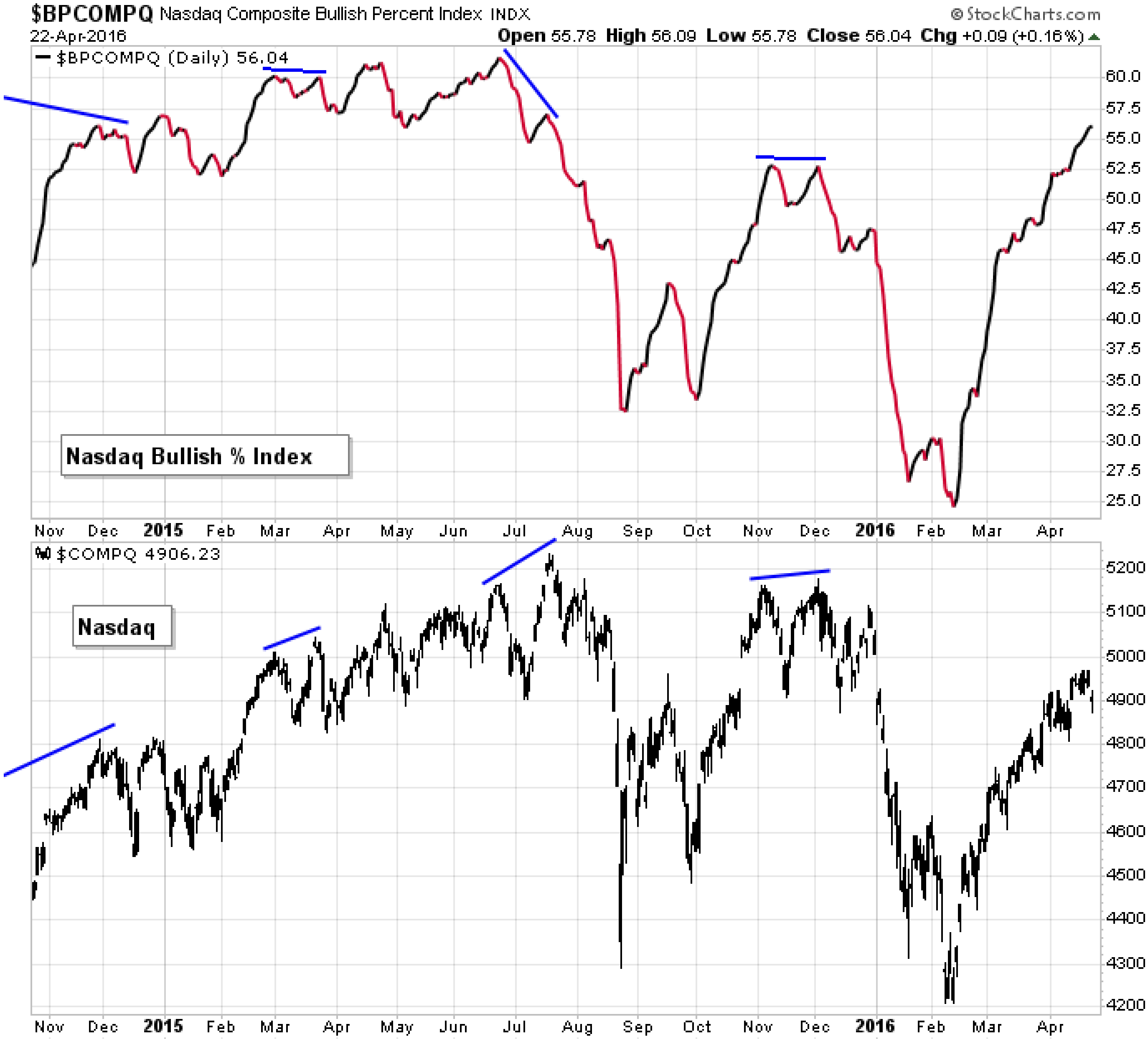
S&P 500 vs. NYSE New Highs: New highs backed off during last week's push to a higher high. The market pushed to a new high...but less stocks came along for the ride. Longer term it doesn't carry much meaning yet, but short term it should not be ignored.

NASDAQ vs. NASDAQ New Highs New highs at the Nas also put in a lower high and overall are still well-below previous high prints.

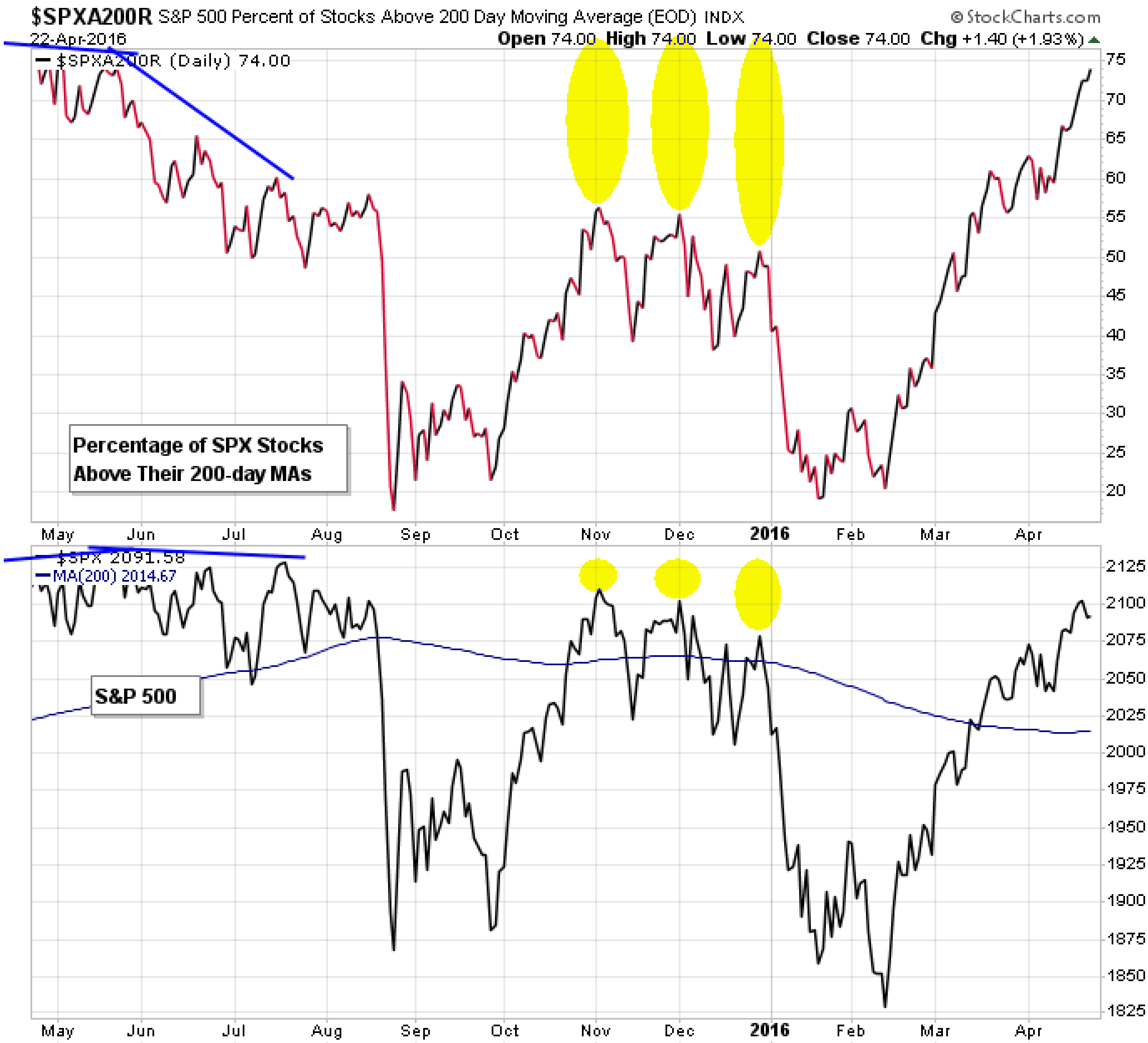
S&P 500 vs. NYSE Bullish Percent: The NYSE bullish percent continues to suggest this rally has strong internal strength.



NASDAQ vs. NASDAQ Bullish Percent: And the Nas bullish percent is doing the same.



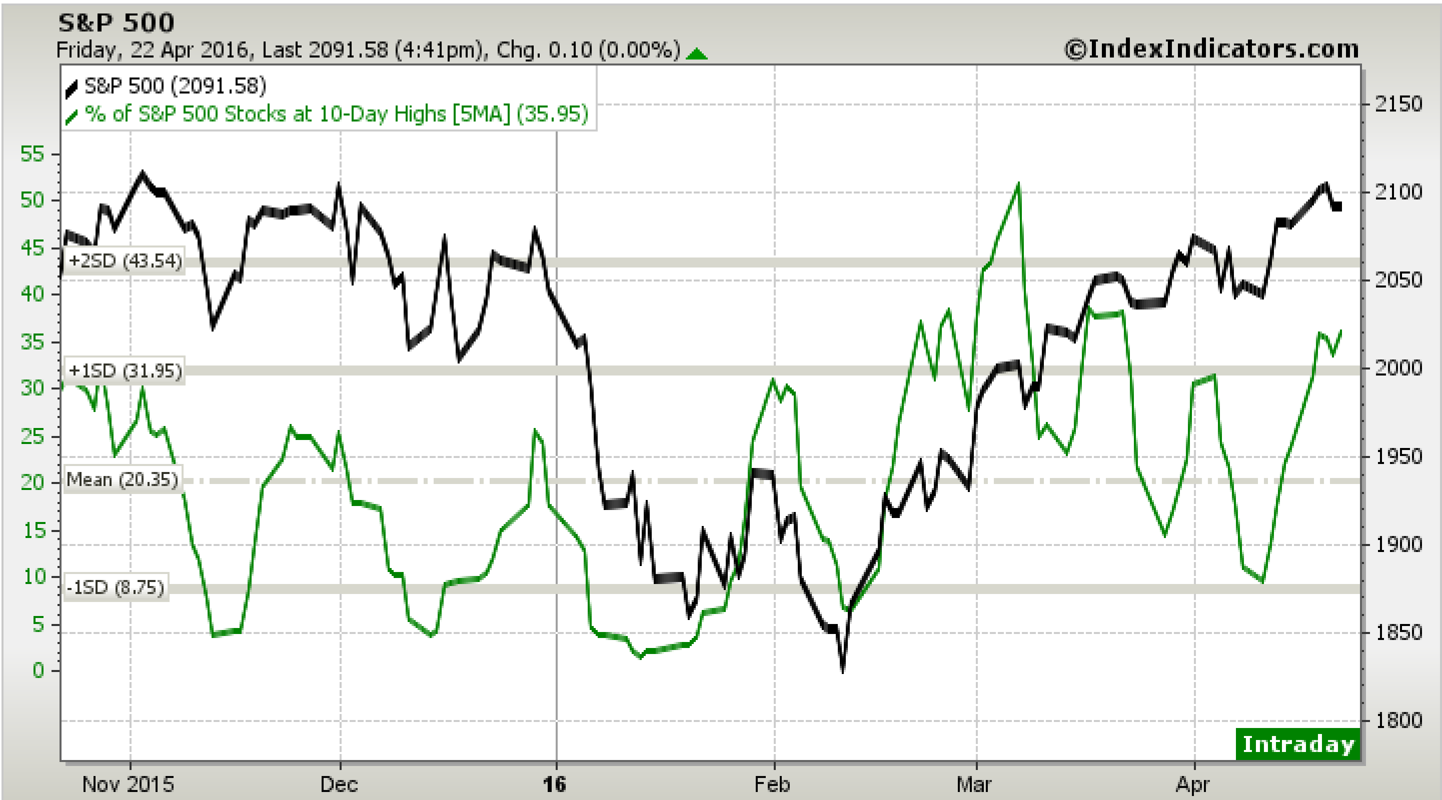
S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: 74% of S&P stocks are above their 200-day moving averages. Relative to the last year, this is a high print, but relative to the 2013/14 bull run, when the indicator fluctuated between 75 and 90, there's still room for improvement.



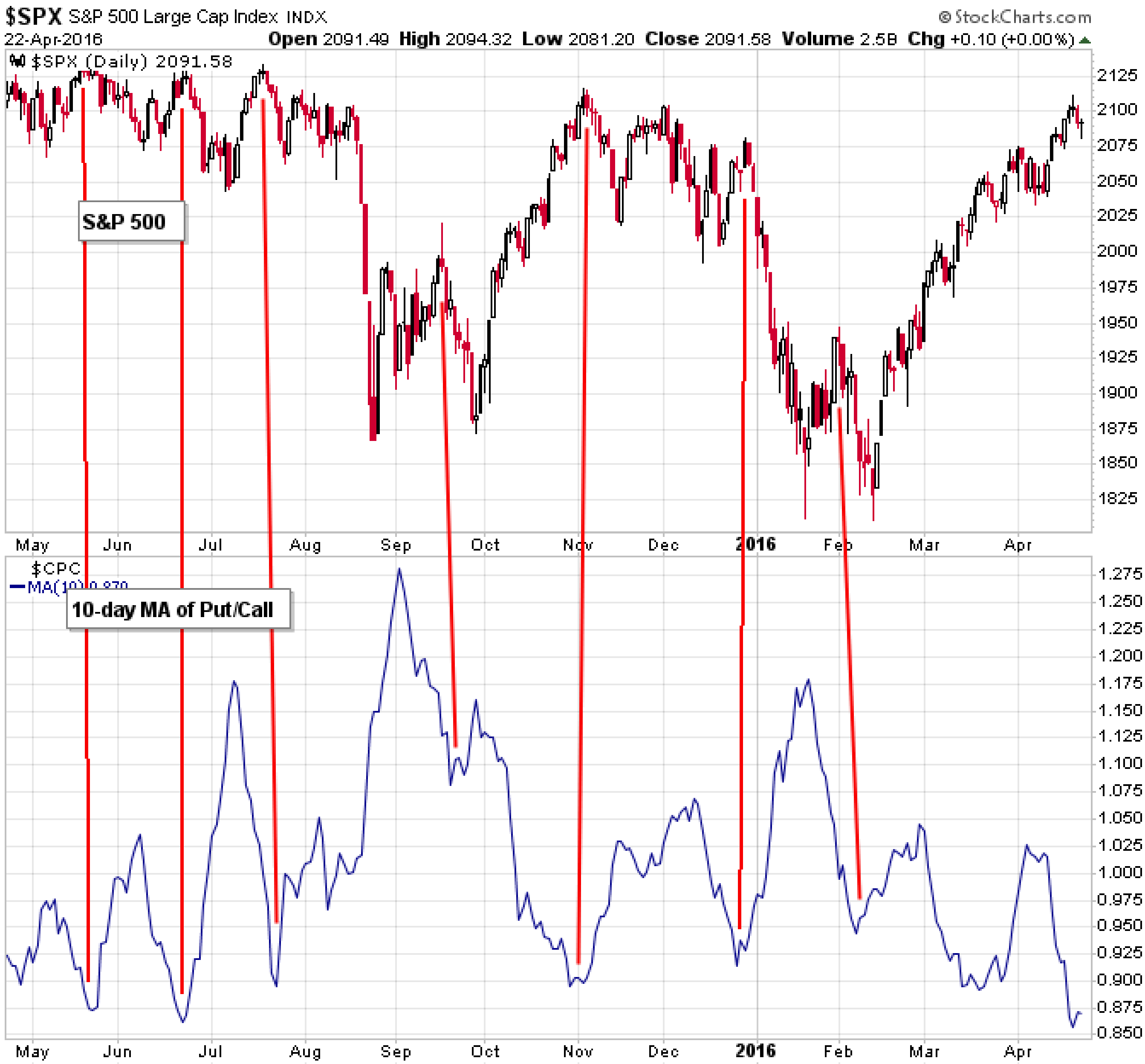
S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: While the S&P pushed to a higher high last week, the number of SPX stocks above their 50-day moving averages put in a lower high and then dropped to its lowest level since early-March. So less stocks participated in this latest jump.

S&P 500 vs. Percentage of SPX Stocks Above 20-day EMA: Zooming in even further, the percentage of stocks above their 20-day EMA has also diverged from the underlying price action. The market doesn't typically escape such a situation without correcting.

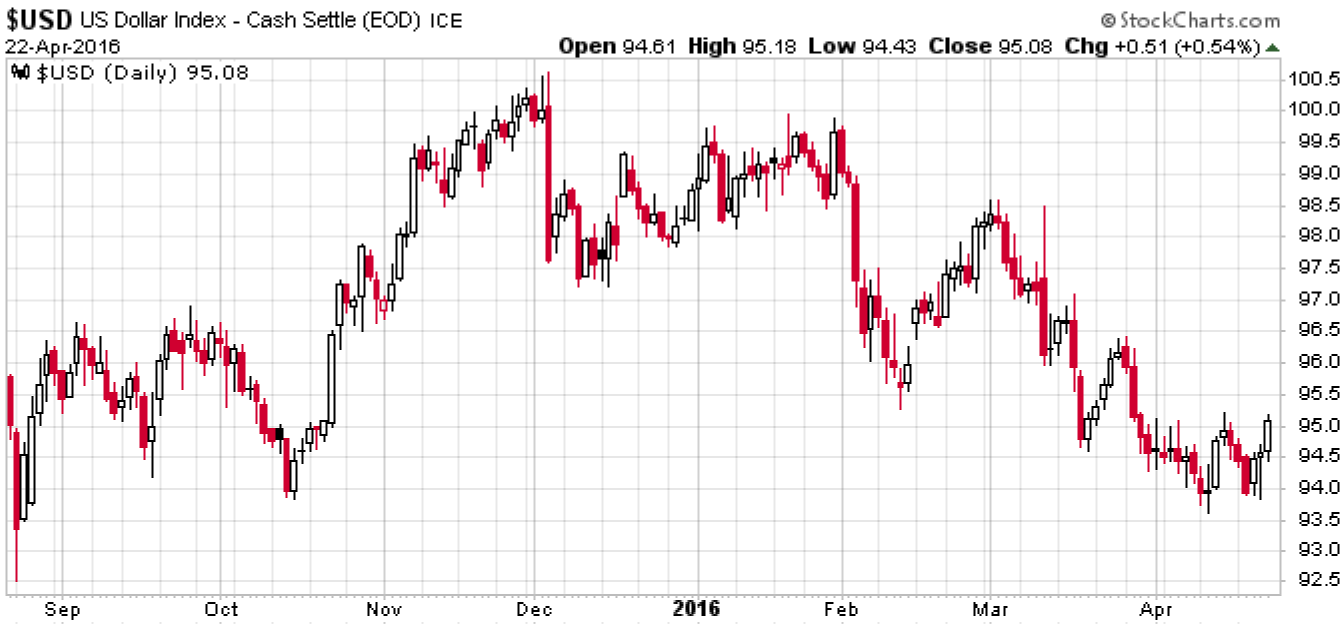
S&P 500 (black) vs. Percentage of SPX Stocks at a 10-day High (green): Instead is looking at the percentage of SPX stocks above certain moving averages, let's look at the percentage of stocks at a 10-day high. The market has been putting in higher highs practically every week for two months, so you'd think the percentage of stocks moving to a 10-day high would be expanding. But it's not. It improved the last two weeks but it's inability to match previous highs is notable.



S&P 500 vs. 10-day MA of Put/Call Ratio: Many times bottoms in the 10-day of the put/call have coincided with local tops in the market. It's something to keep in mind if the PC is curling up here.



US Dollar: The market's strength has been primarily due to significant improvement in the commodity space. The dollar finished last week with three consecutive up days and at its highest close of the month. If the dollar moves up, commodities may come under some pressure. Just saying.



The Bottom Line

The market continues to act well overall, but there are still warnings in the near term. Specifically the lower number of new highs printed during this most recent move to a higher high, the declining percentage of stocks above their 20- and 50-day moving averages and the lower number of stocks at a 10-day high tell us this last push up came with less participation.

Overall I like what I see and believe dips will continue to get bought and new highs made, but in the near term I'm much less excited and think a defensive posture is warranted. The risk/rewards up here are not great, and internally support for this rally is declining.

Be patient. Be defensive.

Have a great week.

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