Weekly

Jason Leavitt jason@leavittbrothers.com	Sunday, May 22, 2016

This is what the market did last week: up, down, up, down, up.

For the week the S&P posted a small gain, but the close was near the open and well off the intraweek high and low. I can't say the week finished with either the bulls or bears being firmly in control.

The week started with the market in consolidation...and it ended in virtually the same situation. The most notable occurrence was the market's drop to a multi-week low, but as of now that move looks like a bear trap. The indexes quickly recovered. Taking out a support level and then quickly retaking the level is a good sign for the bulls. Follow through is needed for the bulls to be fully in control, but for now, because of the false breakdown, I will continue to given them the benefit of the doubt.

The most notable news story of the week was the FOMC minutes. There was absolutely nothing new in the minutes, but the market initially reacted very negatively anyways. The Fed let it be known last December they intended on raising rates 3-4 times this year, but since each FOMC meeting came and went without a raise, Wall St was lulled to sleep thinking rates weren't going anywhere. The minutes simply served as a reminder that if the economy is doing okay and the employment and inflation situations were where the Fed wanted them to be, they were ready to raise. Ground breaking? Nope. Sounds like the same old same old they've been saying for months, yet the market decided to enter panic mode. The selling didn't last long, but it was very productive.

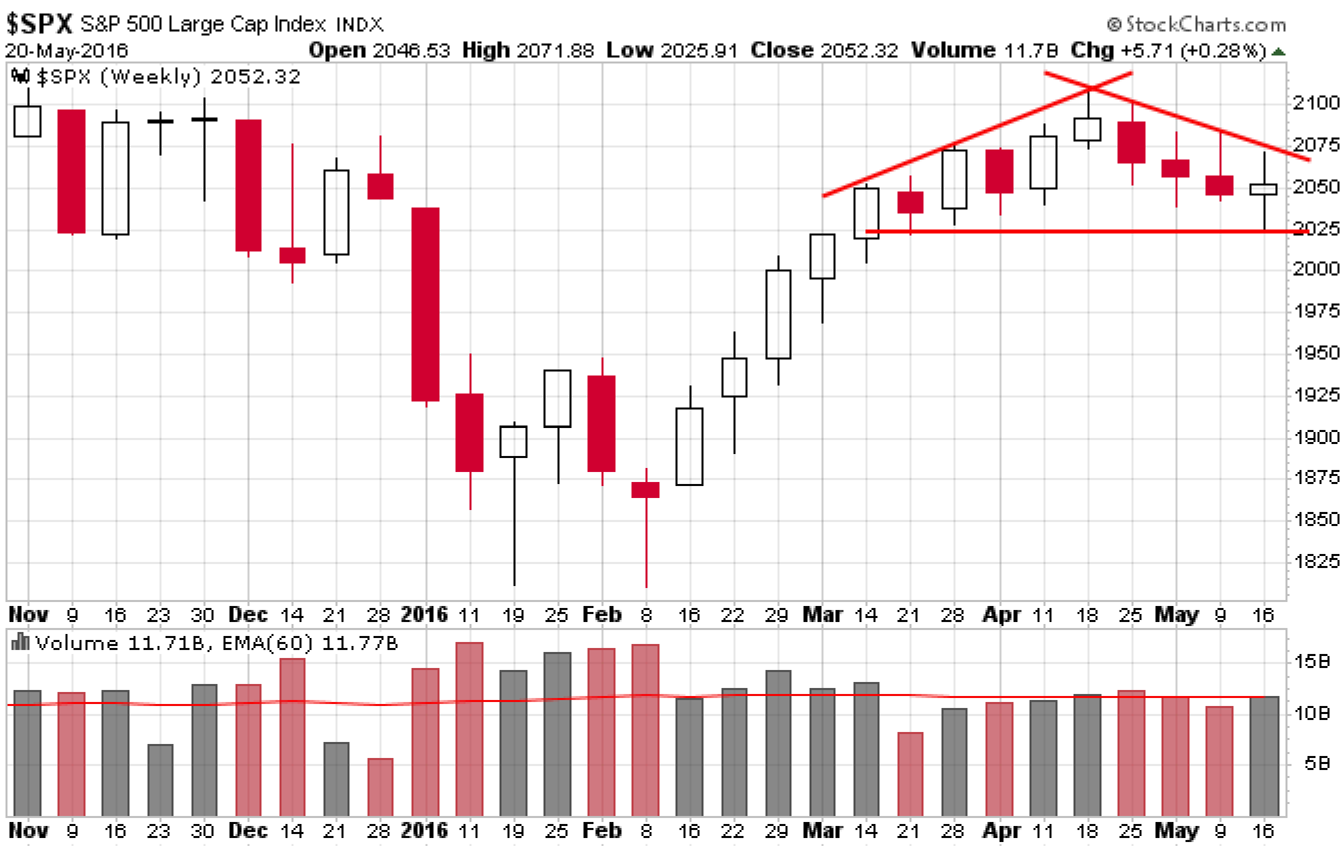
It was productive because it caused the S&P to drop to its lowest level in eight weeks. If the market jumps around in a range, we are given very little useful information. But if a support level is taken out on bad news, and then the support level is quickly recaptured, we are told sellers were unable to take control, a false breakdown has occurred and the likely path of least resistance is up.

That's what we're looking at as the new week begins - a very possible false breakdown that could spring the market upward. Overall the indexes are still in consolidation ranges, so there are no guarantees. But it's very notable the bears had a great opportunity to push the market down, but they failed.

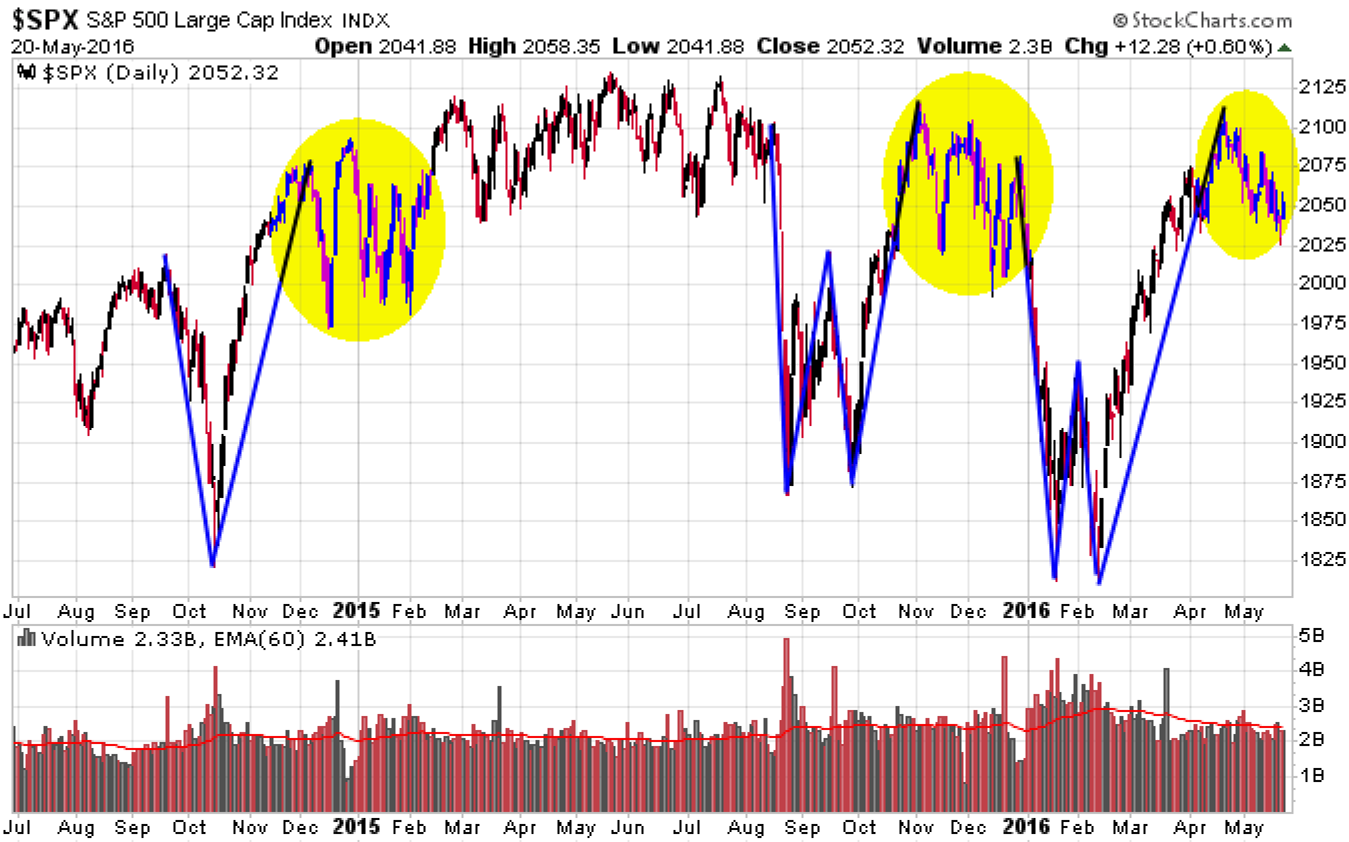
Let's get to the charts and see what they say.

Indexes

The S&P 500 Weekly: The S&P posted a gain for the week, but the close was close to the open, and the long upside and downside tails tell us neither the bulls nor bears were in complete control. There was some selling; there was some buying. And in the end nobody won. The 3-week losing streak is over, and there's nothing in this chart that tells us to have a strong bias heading into next week.

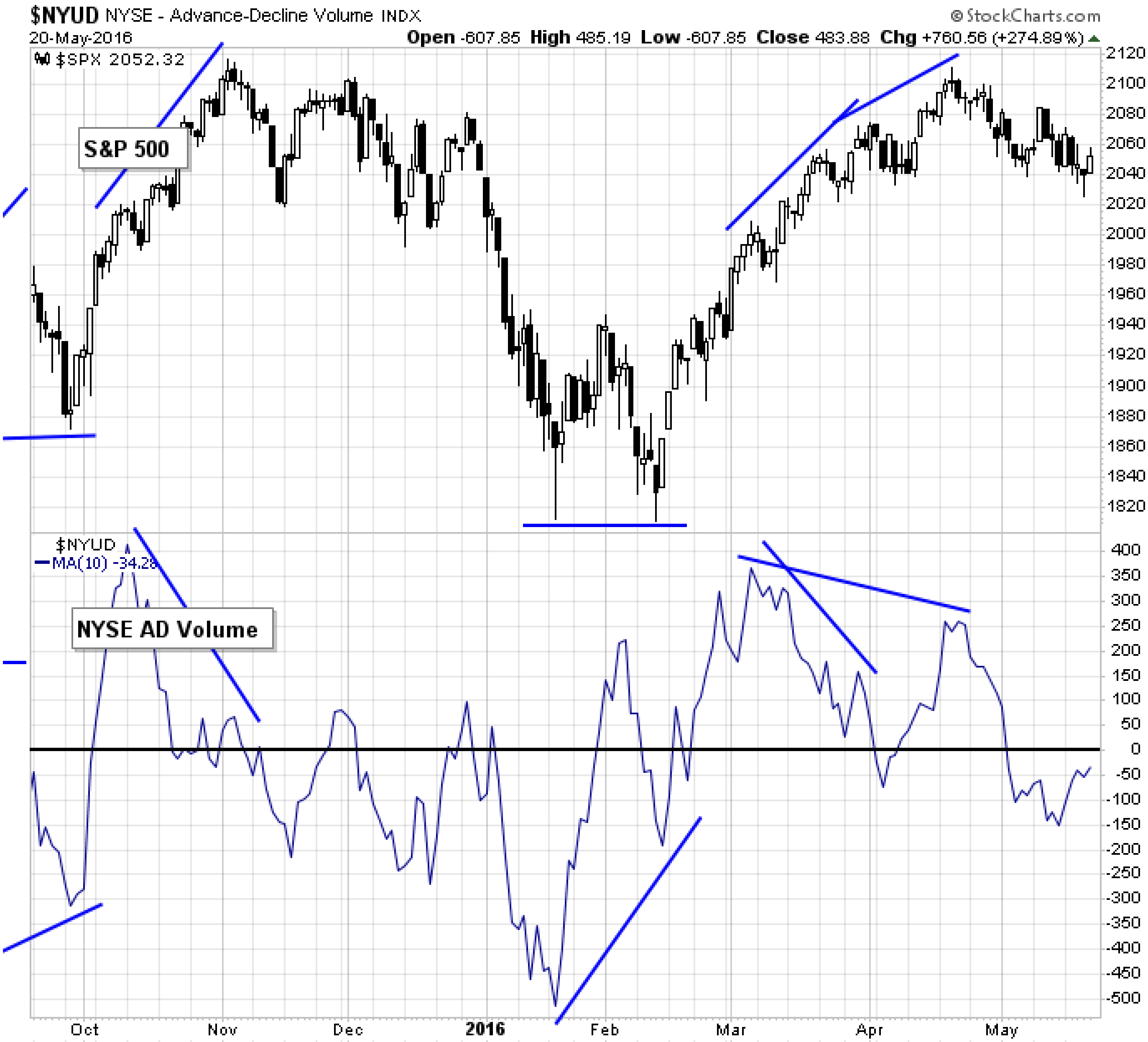


The S&P 500 Daily: The daily is doing exactly what it did the last two times it rallied vertically -> it's consolidating. After the October/November 2014 rally, the S&P traded in a wide range for about two months and then broke out to the upside. After the October 2015 rally, the S&P again traded in a wide range and then broke down and gave everything back. Tops/continuations take time to form. We could easily get several more weeks of up and down action before resolution.



Indicators S&P 500 vs. 10-day MA of NYSE AD Line: The 10-day of the AD line has spent this entire month in a small range just below 0. Nobody is in control here. Advancers have been about equal to decliners.

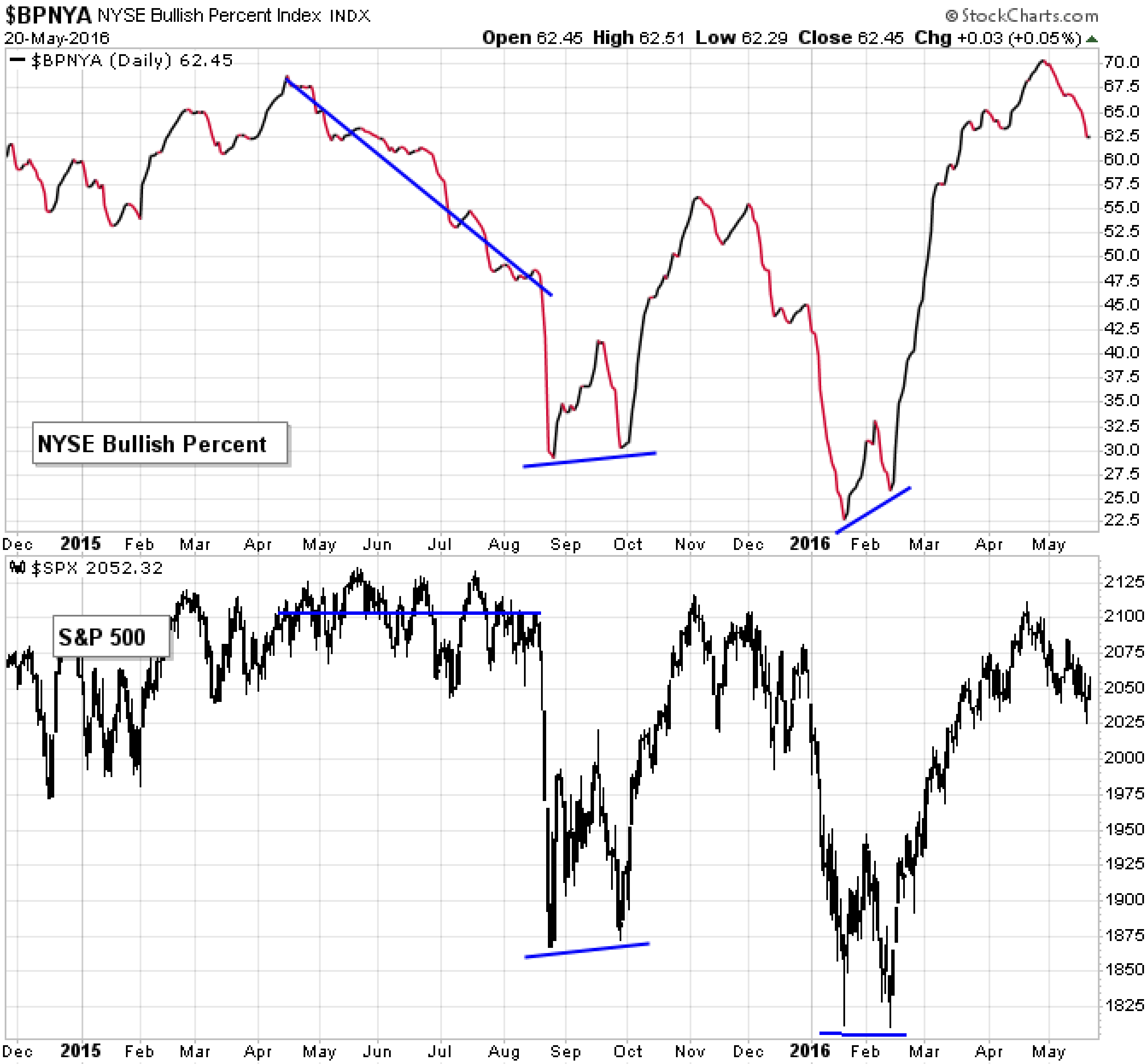
S&P 500 vs. 10-day MA of NYSE AD Volume Line: When allowing the high-volume stocks to have more influence, the picture is more negative but still salvageable. The AD volume lines has been trending down since topping in early-March, but from the current level, there's no clear sign it will definitely move one way or the other.



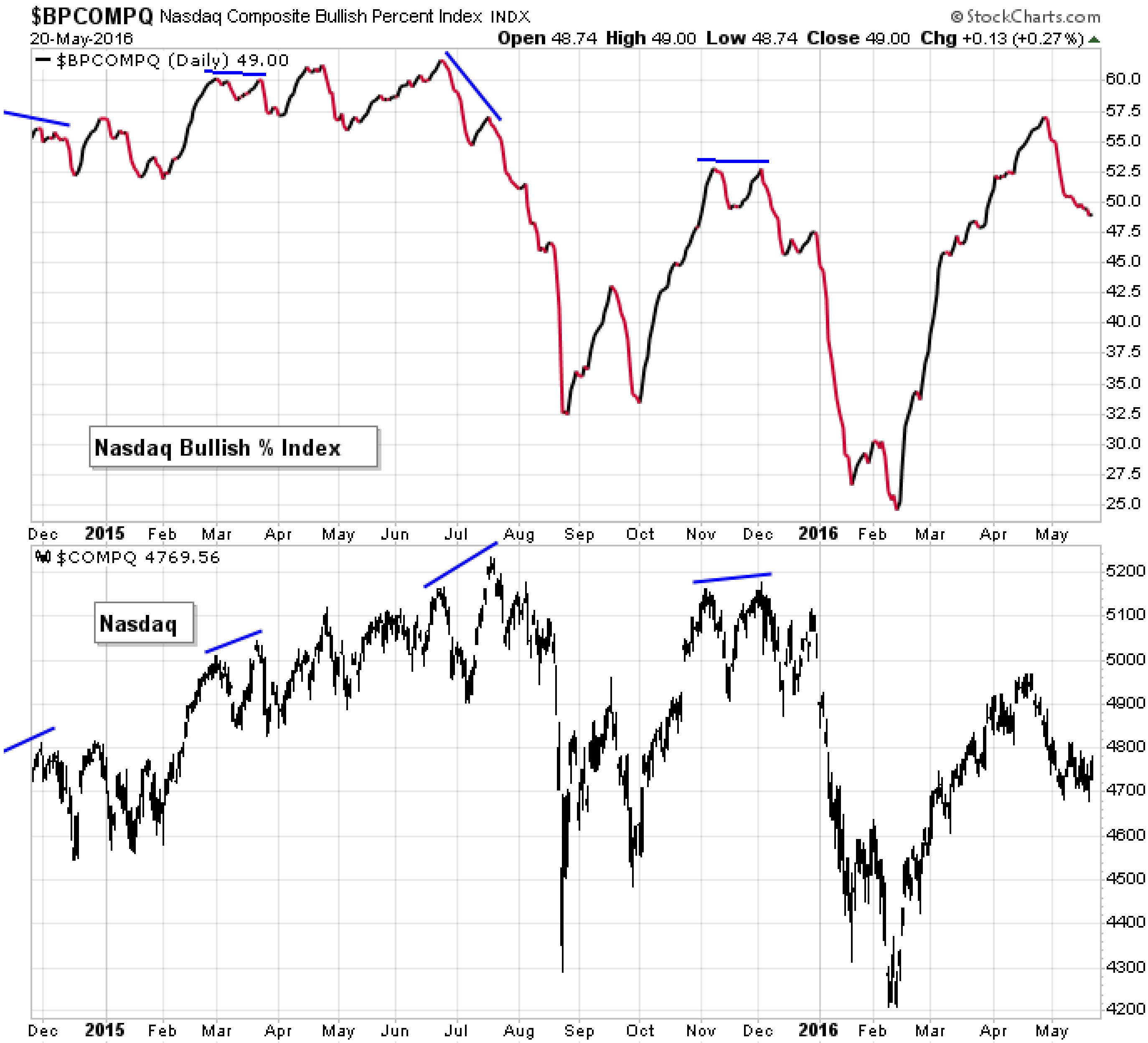
S&P 500 vs. NYSE New Highs: New highs at the NYSE moved to a 52-week high and then plunged to a 3-month low. The 10-day is still trending up, so although new highs in the near term have fallen off (not a surprise since the S&P is 80 points off its high), the overall picture is constructive. This tells us the market has some internal strength.

NASDAQ vs. NASDAQ New Highs New highs at the Nasdaq have been trending down for a month. Not a surprise considering the index has been doing the same. We need improvement here. If the Nas legs up - even if it just moves back to its April high - new highs need to expand.

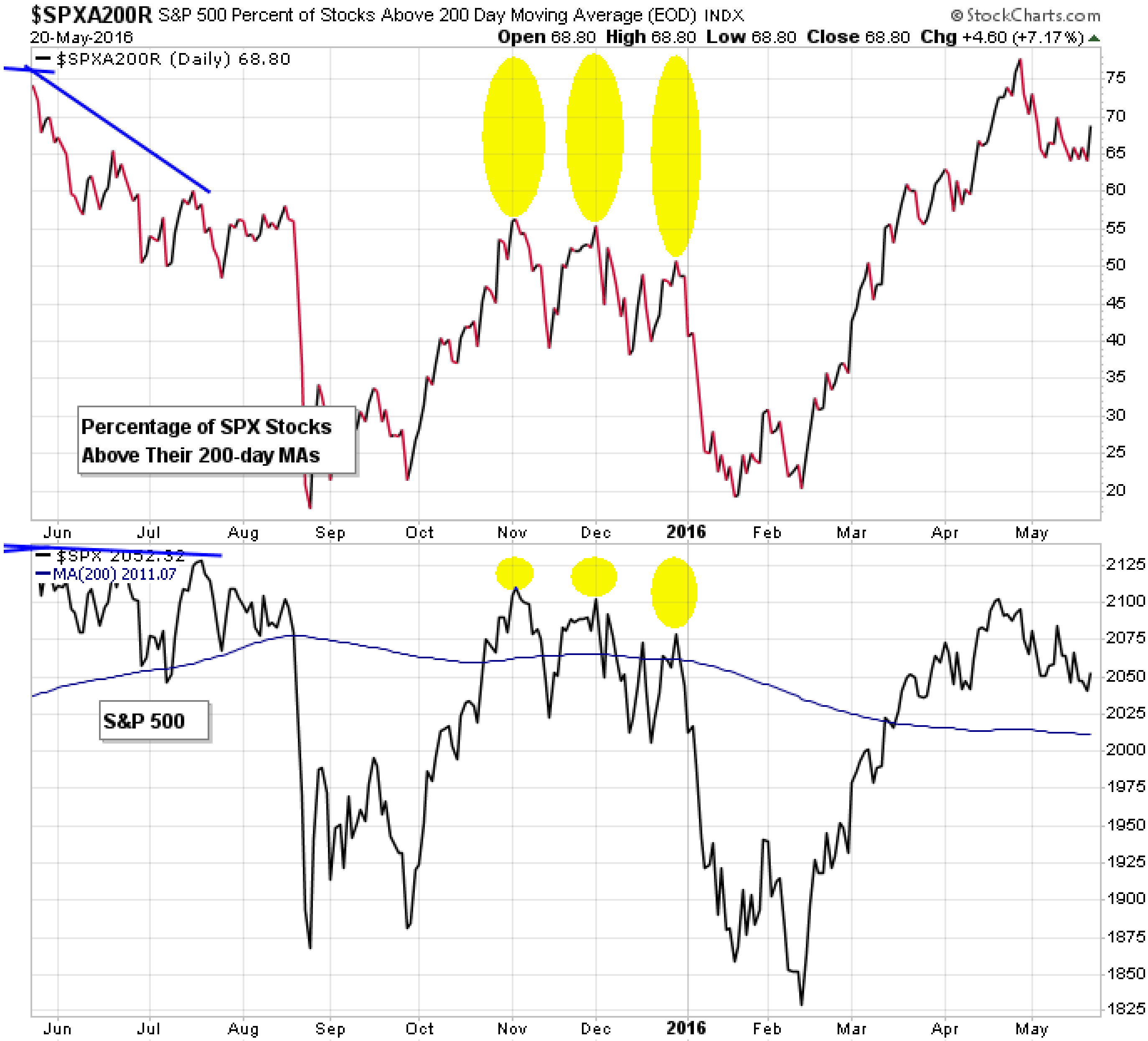
S&P 500 vs. NYSE Bullish Percent: The NYSE bullish percent has matched the movement of the S&P. It's now sitting at a 2-month low but is still at a healthy level. Failure to bounce much along with the market would be a warning.



NASDAQ vs. NASDAQ Bullish Percent: No improvement from the Nasdaq bullish percent. It's not moving down with force, but there are no subtle hints of strength beneath the surface either.

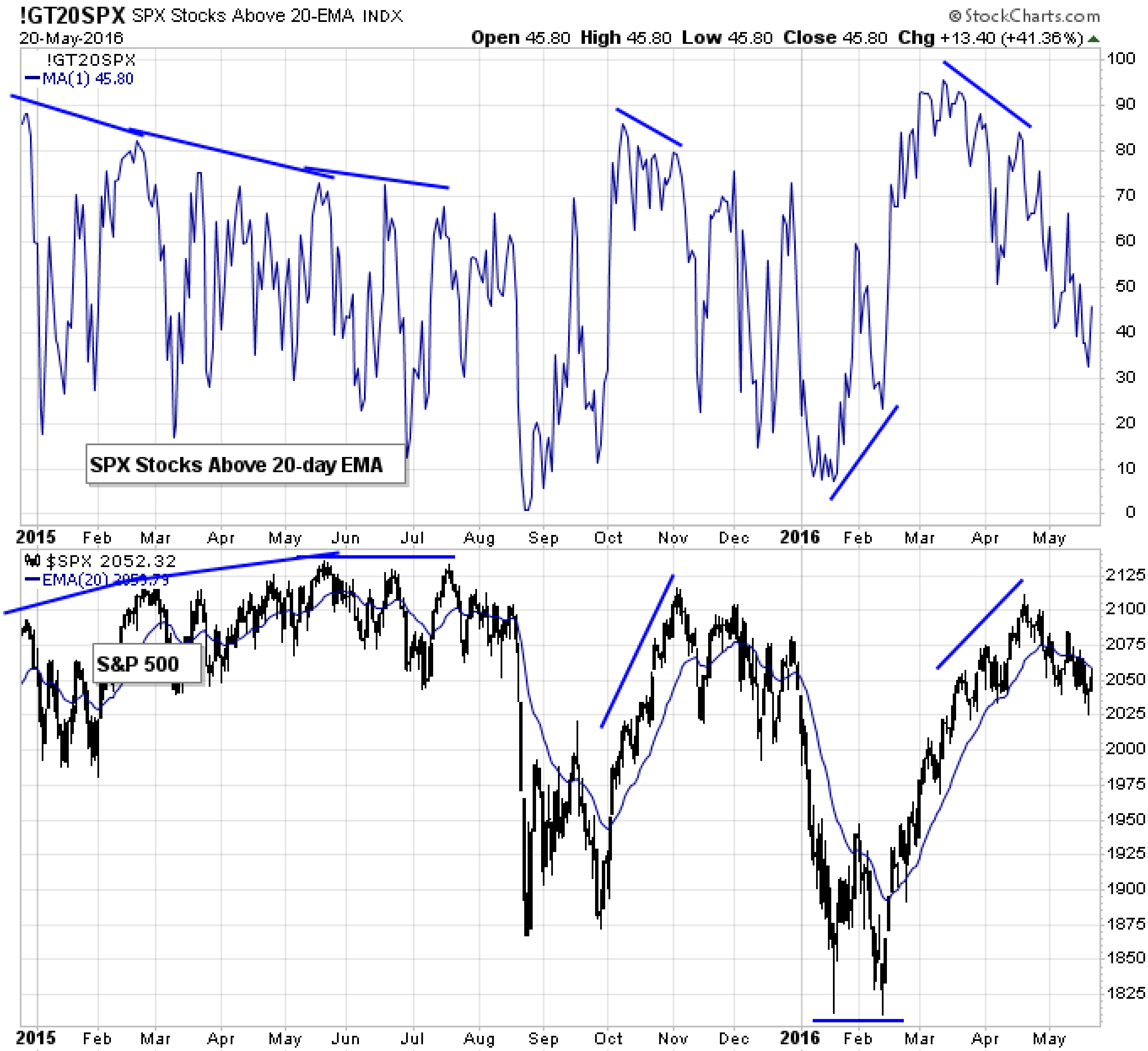


S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: I don't see anything alarming here. The market moved off its high; the percentage of SPX stocks above their 200-day moving averages did the same. There are no hints here.

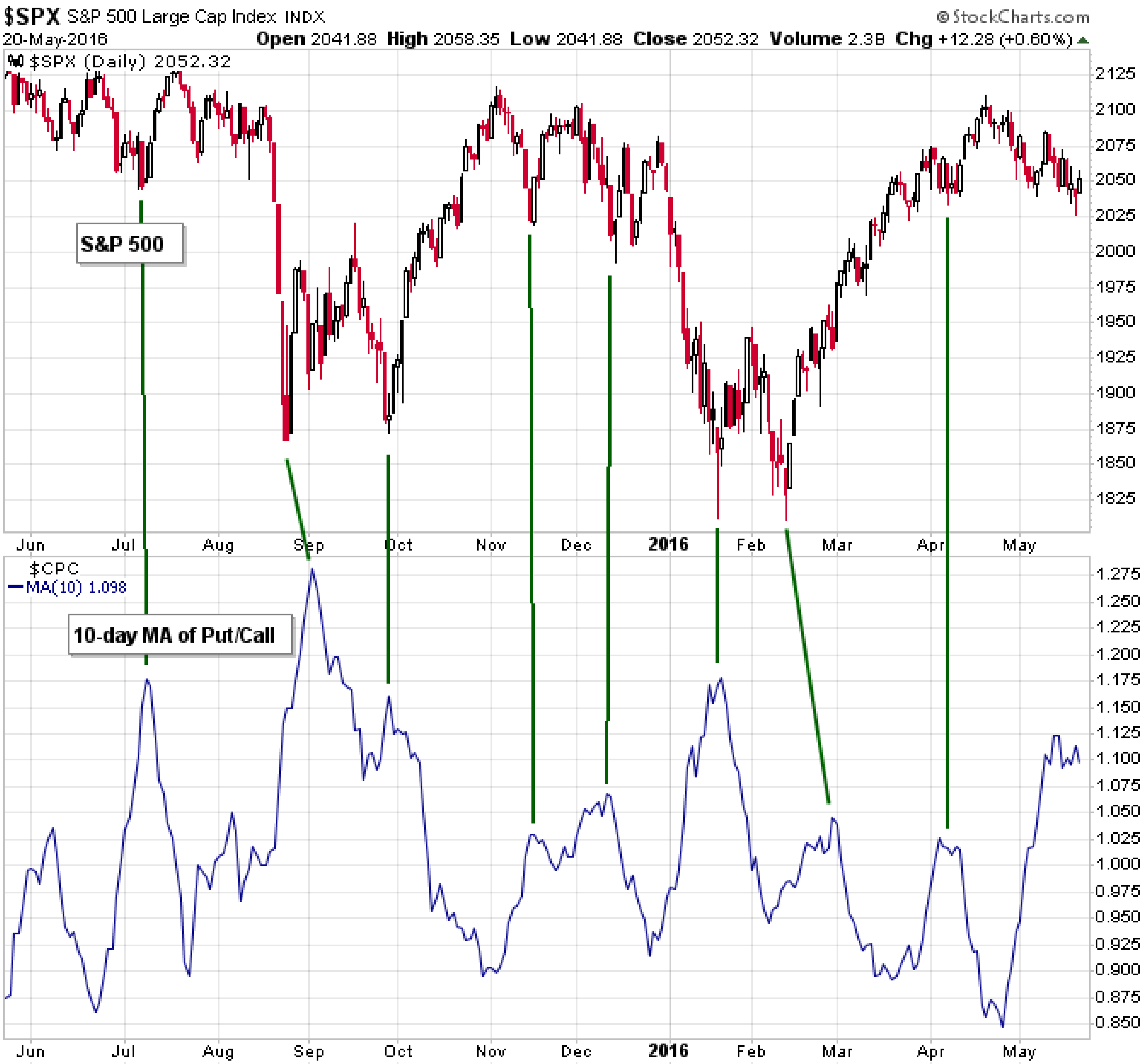


S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: This is becoming a bit of an issue. The market held steady last week, but the percentage of SPX stocks above their 50-day MAs took a big dump. The math is not hard. If stocks trade in a range for two months (approx. 40 days), a move to the bottom of the range would likely be a move below the 50. It's very notable. The movement resembles early December when this indicator plunged while the market traded in a range...and eventually led to a stiff sell-off.

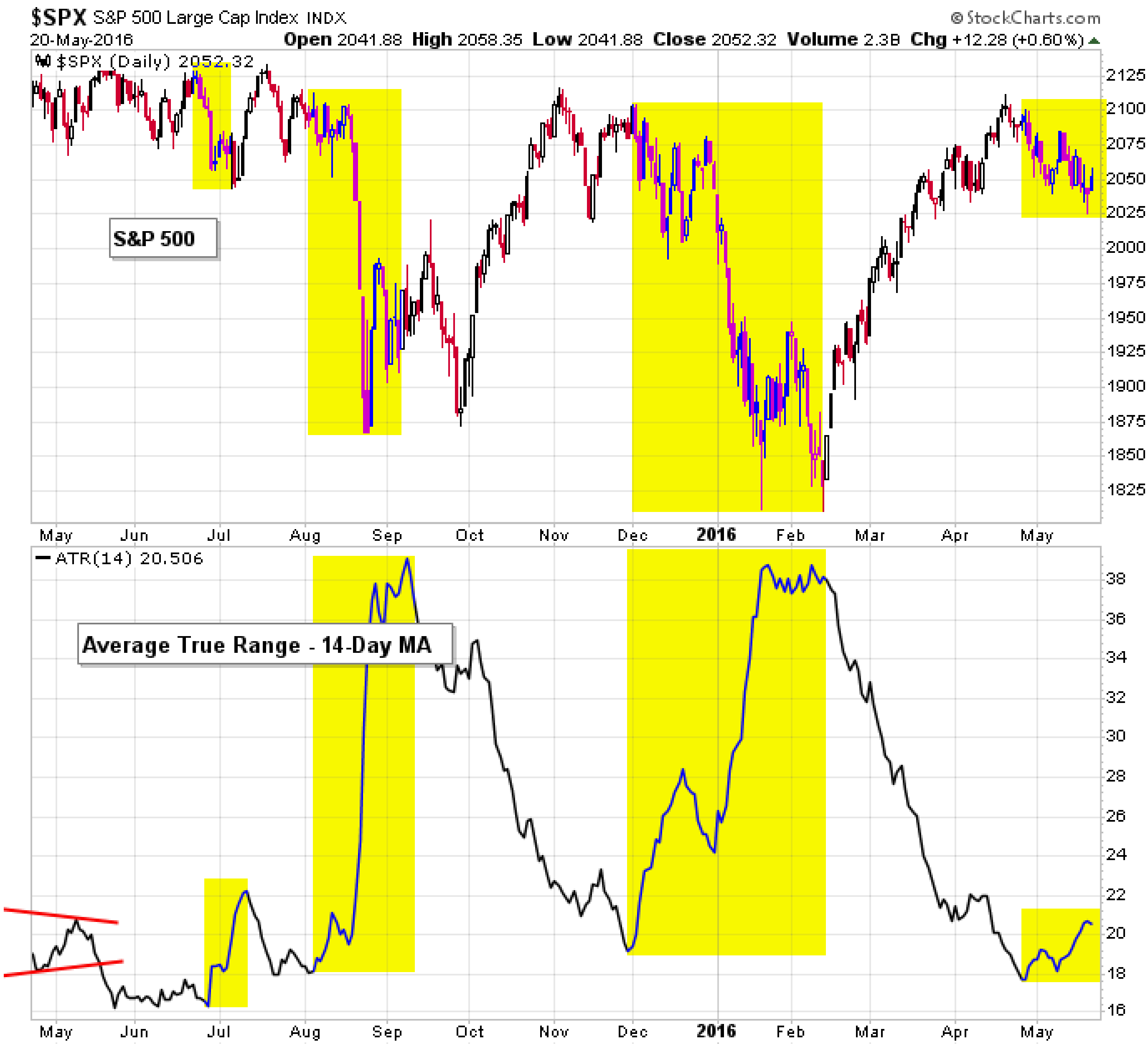
S&P 500 vs. Percentage of SPX Stocks Above 20-day MA: The percentage of stocks above their 20-day is also declining. This indicator is prone to quick swings in both directions, but if the market has some internal strength, we'll want to see it move up with the market and then resist falling if the market does a double bottom.



S&P 500 vs. 10-day MA of Put/Call Ratio: Tops in the put/call often coincide with local market bottoms, so if the market attempts to follow through on Friday's strength, we'll want to see the PC roll over.



S&P 500 vs. 14-day Average True Range: The average true range, a measure of volatility, expands when the market moves down and contracts when it moves up. And when the market trades in a range, it's not uncommon to get little hints of what's brewing beneath the surface because the ATR moves first. Since late-April the ATR has slowly moved up. It's not a swift move, like we got in December. It's a slow move, somewhat like we got last July. Nothing is urgent right now, but if the market attempts to rally, we'll want to see the ATR reverse back down. Otherwise I'll question the staying power of the rally attempt.



The Bottom Line

Overall the market remains in a consolidation pattern, and neither the bulls nor bears are fully in control.

If all the movement took place in the middle of the range, there would be almost nothing for me to say. It would be a spit-swapping exercise with the only winners being brokers and those who sell premium.

But the movement didn't take place in the middle of the range; it took place near the bottom...which gave us a chance to gather valuable information, namely the bears' ability to take over when given the chance.

The negative FOMC news and the bears' failure to take control is telling. They had their opportunity, but they failed. The indexes moved down and quickly bounced. This puts my bias in the bulls' camp as the new weeks begins.

It's not a super strong bias, but in my view the bulls continue to deserve the benefit of the doubt.

Have a great week.

Jason Leavitt
Jason@leavittbrothers.com