Leavitt Brothers

Weekly

Jason Leavitt jason@leavittbrothers.com	Sunday, July 24, 2016

Join our email list and get reports just like this sent directly to you.

http://www.leavittbrothers.com/email-subscribe.cfm

For the fourth consecutive week, the market posted a gain, but the action wasn't convincing. Volume was light; the energy and activity levels were low; and the intraweek range declined again.

Instead of the market galloping forward with enthusiasm, it's just drifting up. There are no noticeable pullbacks and no scary intraday corrections - just a quiet and gentle market that lacks fear but also lacks conviction.

A few weeks ago I said I was fully on board with the S&P rallying to 2300-2400. The market was in good shape, and the internals supported additional upside. Also, the lack of bulls (low AAII number) and volume of bears (George Soros and Stanley Druckenmiller coming out as bearish) told us the wall or worry was sufficiently big to keep the trend in place for a while.

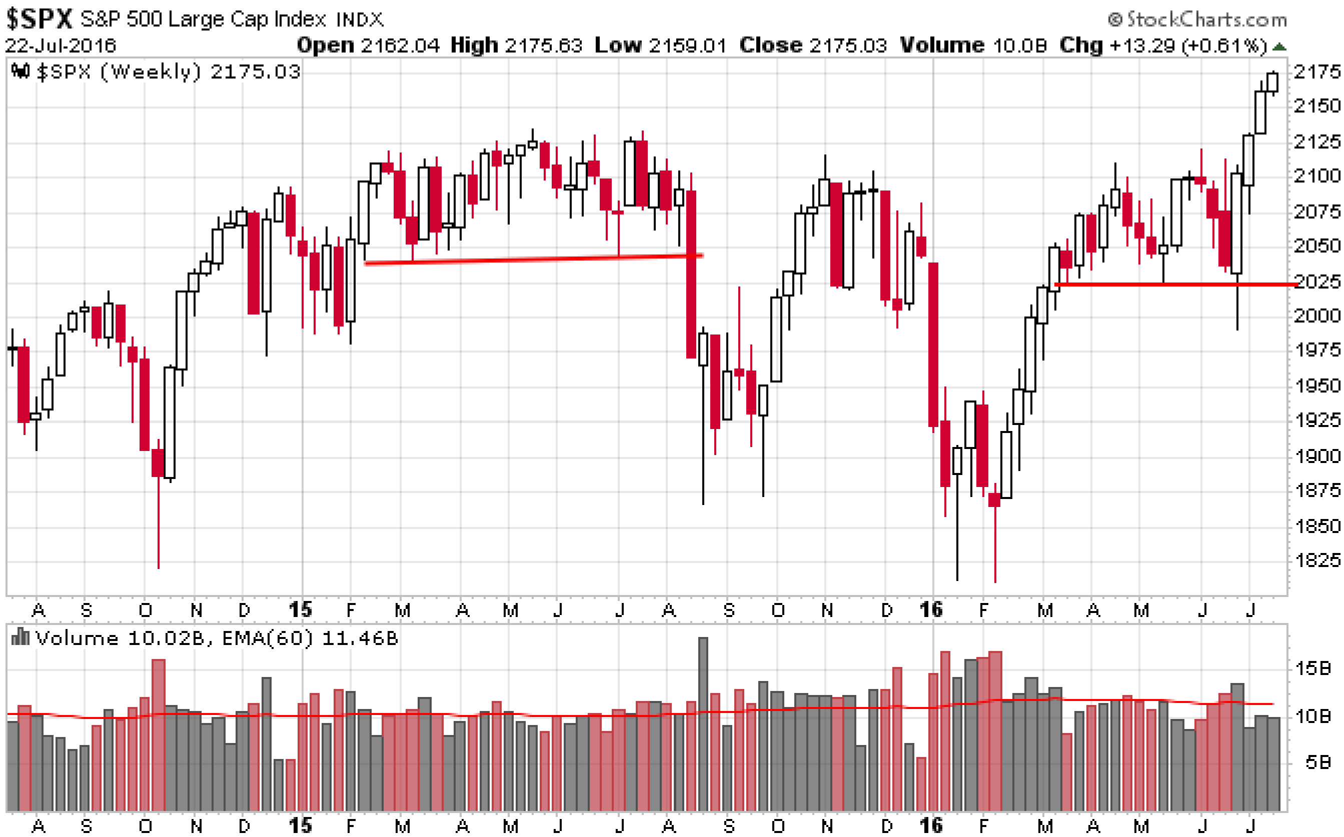
I also pondered the most likely path: 1) Breakout and run hard or 2) Quietly trade through resistance and slowly drift up while not giving under-invested bulls a chance to establish new positions or add to existing ones. At the time, my opinion was that #2 would play out. I had no reason for this other than experience of not being completely invested and watching the market go up day after day without me and not getting a good second chance to get more exposure.

This is exactly what has happened. The S&P has rallied 175 points off its June bottom, but the biggest correction has only been 35 points. Instead of two steps forward and one step back, we're getting baby steps forward. That's it. The market will sit in a small range and then gap up and then sit in a little range again. It's frustrating for the bears because they're dying a slow death. If the market would just rally hard, they'd cover, but since the moves are so slow and drawn out, every day provides another day of hope. It's frustrating for the under-invested bulls because they're on the right side of the market, but they're not making as much as they should be making. They're not fully taking advantage of what the market is offering. These two groups, the under-invested bulls and to a much lesser degree the bears, will likely put a floor under prices in the intermediate term.

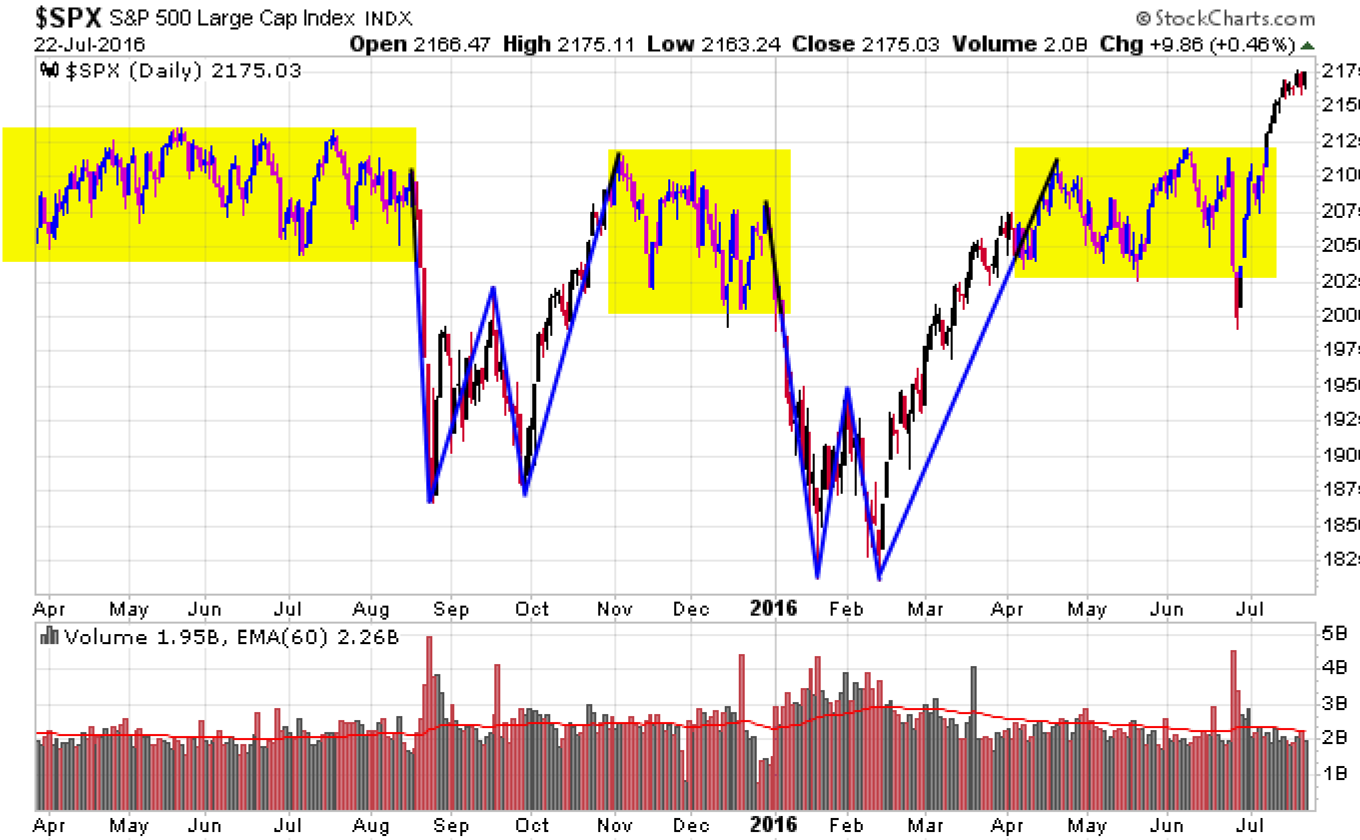
Let's get to the charts and see what they say. We know the trend is up. Let's gauge the staying power of the trend.

Indexes

The S&P 500 Weekly: A lower low has been followed by four consecutive up weeks. Volume has been light the last three weeks, and the ranges have declined. The market doesn't have to fall, but the action does somewhat warn us to be careful. At the very least, we need to shift our near-term bias to neutral. Overall I like the market, but this is not a time to be aggressively buying stocks.



The S&P 500 Daily: False move down followed by a big move up. The S&P pushed into new-high territory and has followed through a little. As long as the index doesn't fall much below 2100, I'll consider the trend to be up and the big picture to be in good shape.

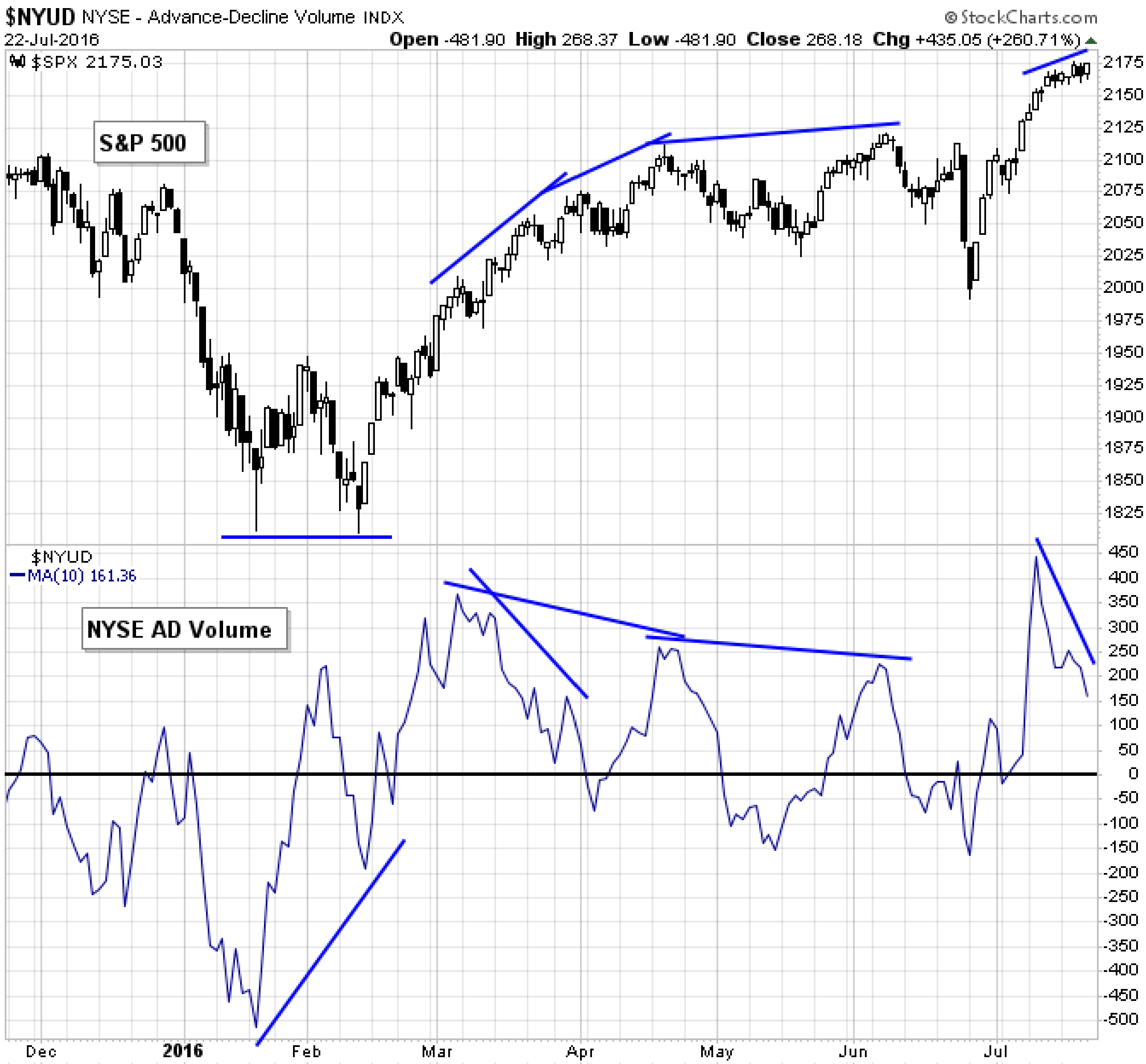


Indicators

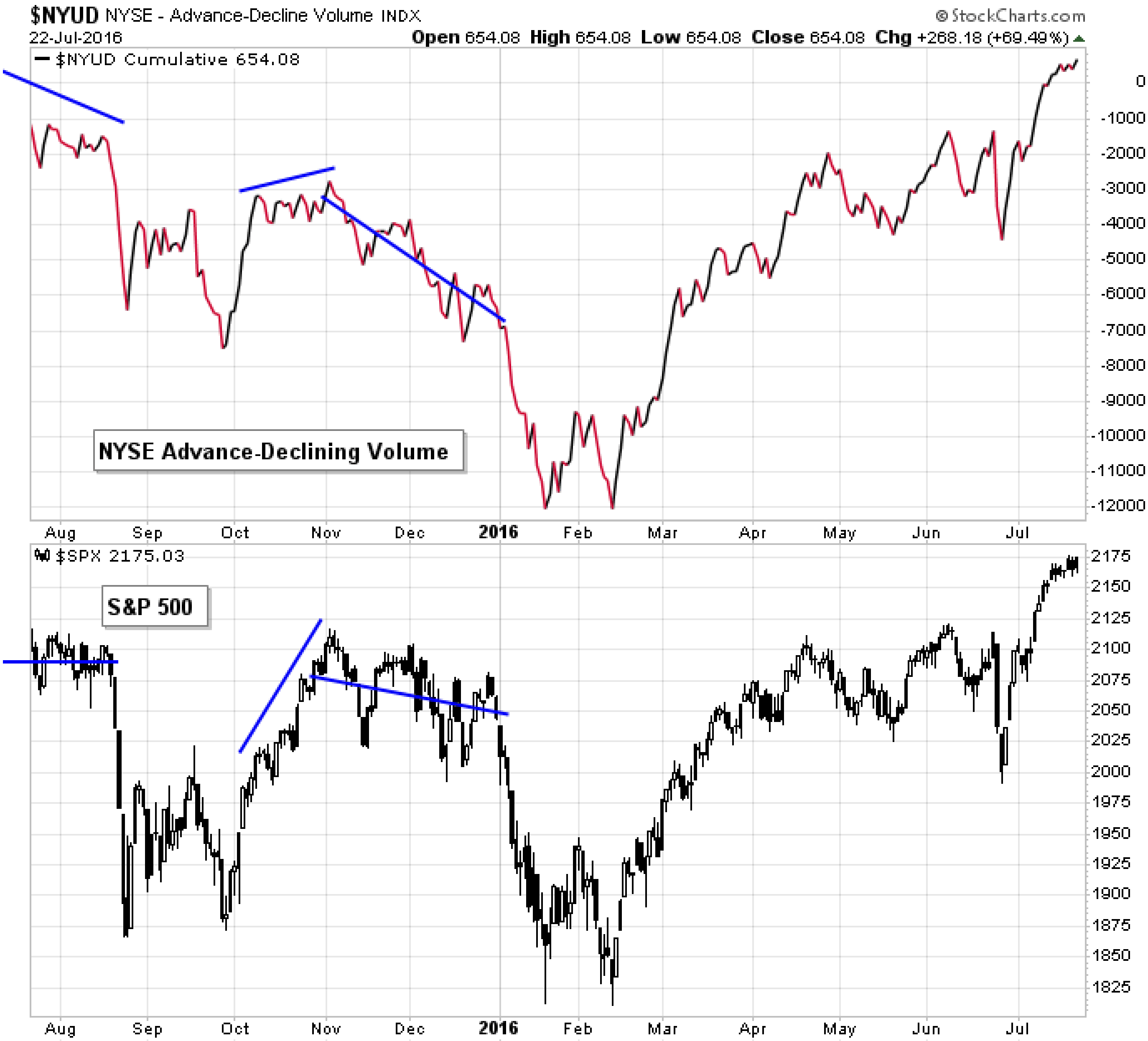
S&P 500 vs. 10-day MA of NYSE AD Line: Despite the S&P 500 pushing to a higher high last week, the 10-day of the NYSE AD line put in an obvious lower high and then took out its previous week's low. Negative divergences can be ignored in the near term, but over time they do matter. The participation rate is declining. The market's upside in the near term, in terms of time and price, is limited.

S&P 500 vs. NYSE Cumulative AD Line: Even though a negative divergence is forming between the S&P and the AD line, prints are still above 0, so the cumulative AD continues to move up. There are no warnings here. The market is in great shape overall.

S&P 500 vs. 10-day MA of NYSE AD Volume Line: A negative divergence between the S&P and AD volume line is also forming, so the story is the same when the high-volume big caps do more of the talking. The participation rate is declining.



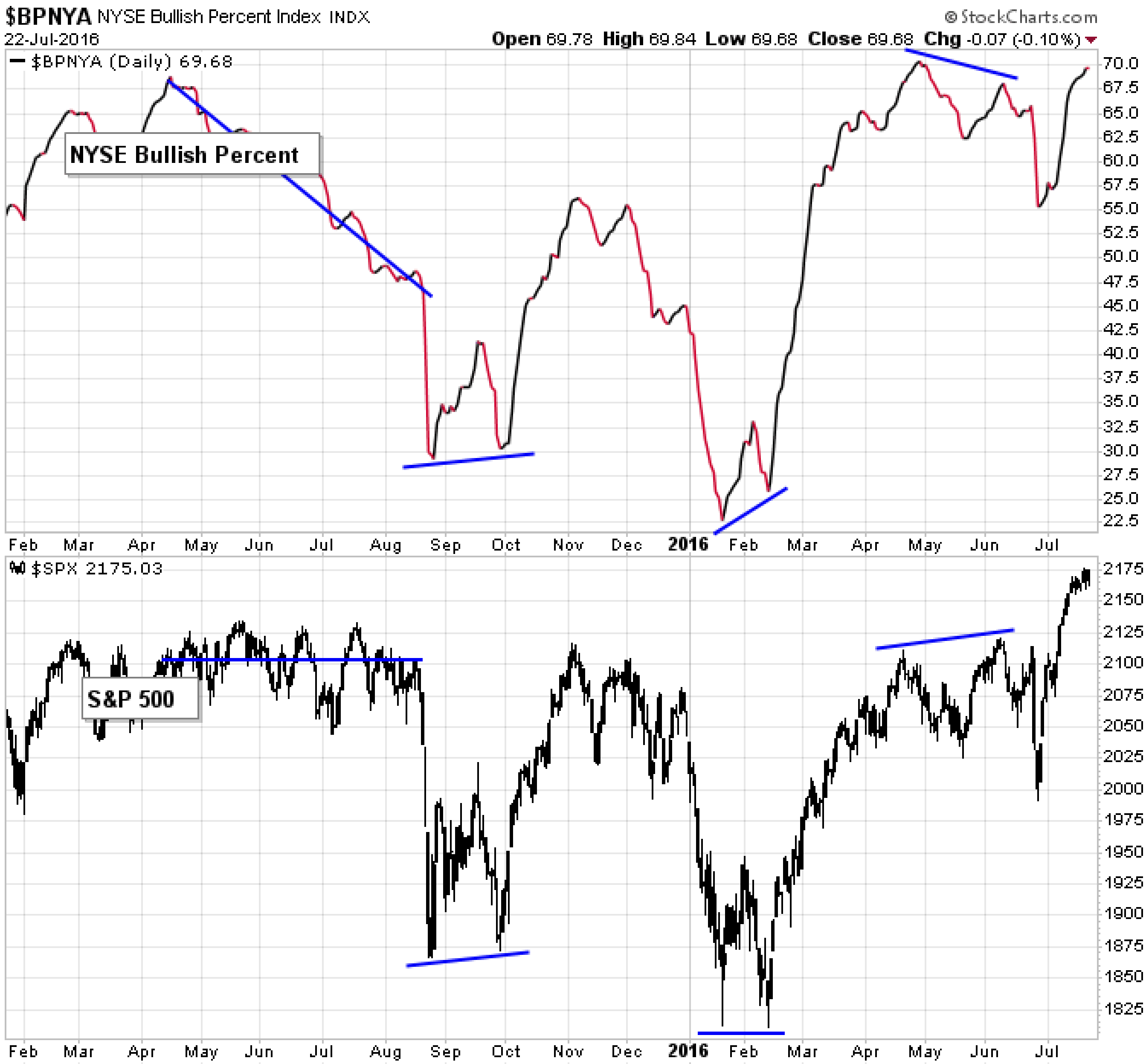
S&P 500 vs. NYSE Cumulative AD Volume Line: Like the cumulative AD line, the cumulative AD volume line is also in good shape. It takes time for negative divergences to form, so even if a top was in its beginning stages, it'll take at least a month before prices head south for more than just a minor correction.



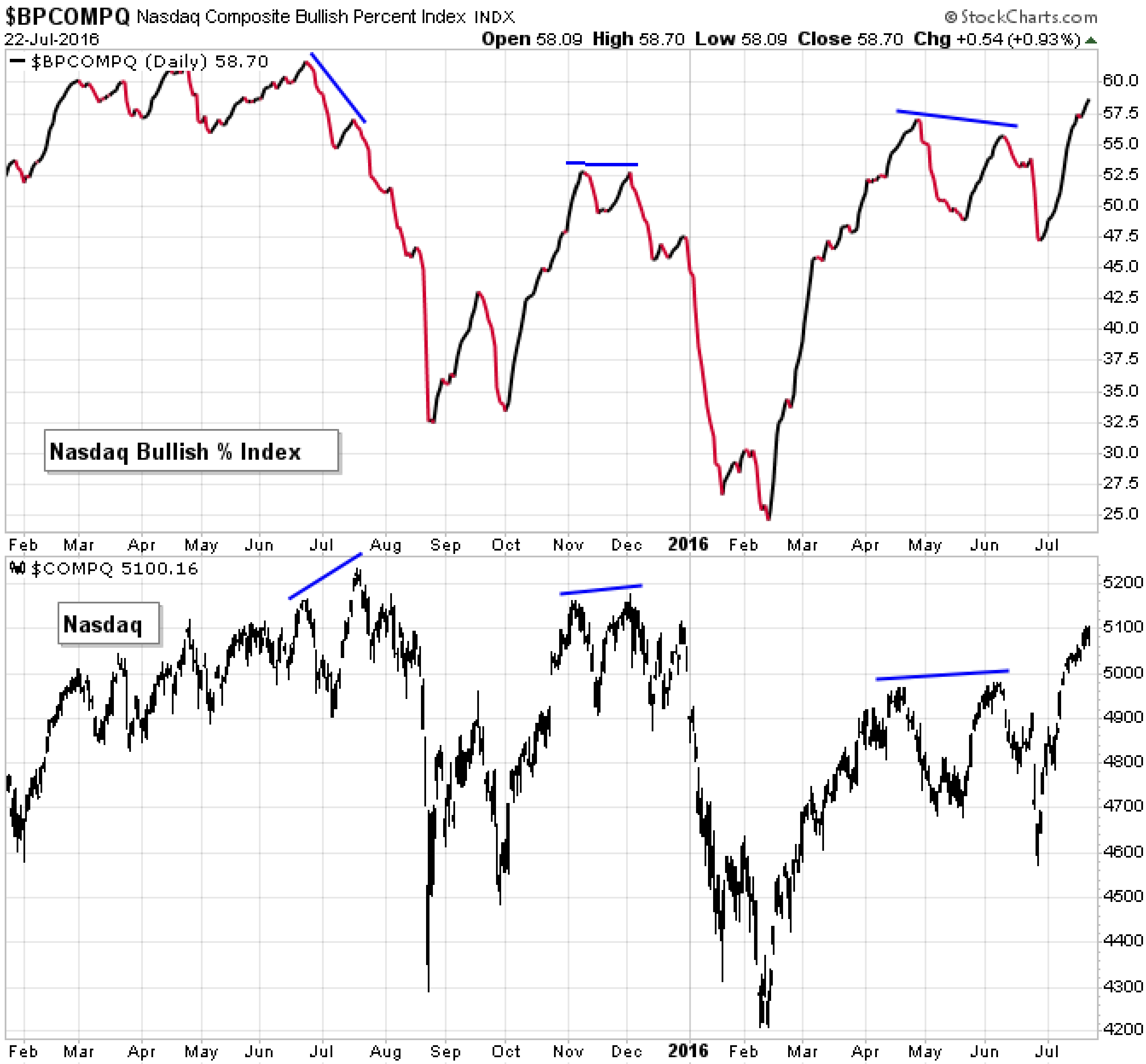
S&P 500 vs. NYSE New Highs: New highs have put in a second lower high (not a huge deal because they're still registering at a healthy level), and the 10-day is also off it high - not encouraging considering the S&P pushed to a new all-time high last week. Overall I'd consider new highs to be doing just fine, but in the near term cracks are starting to form.

NASDAQ vs. NASDAQ New Highs New highs at the Nasdaq have also dropped off the last two weeks. It's notable less stocks participated in last week's rally.

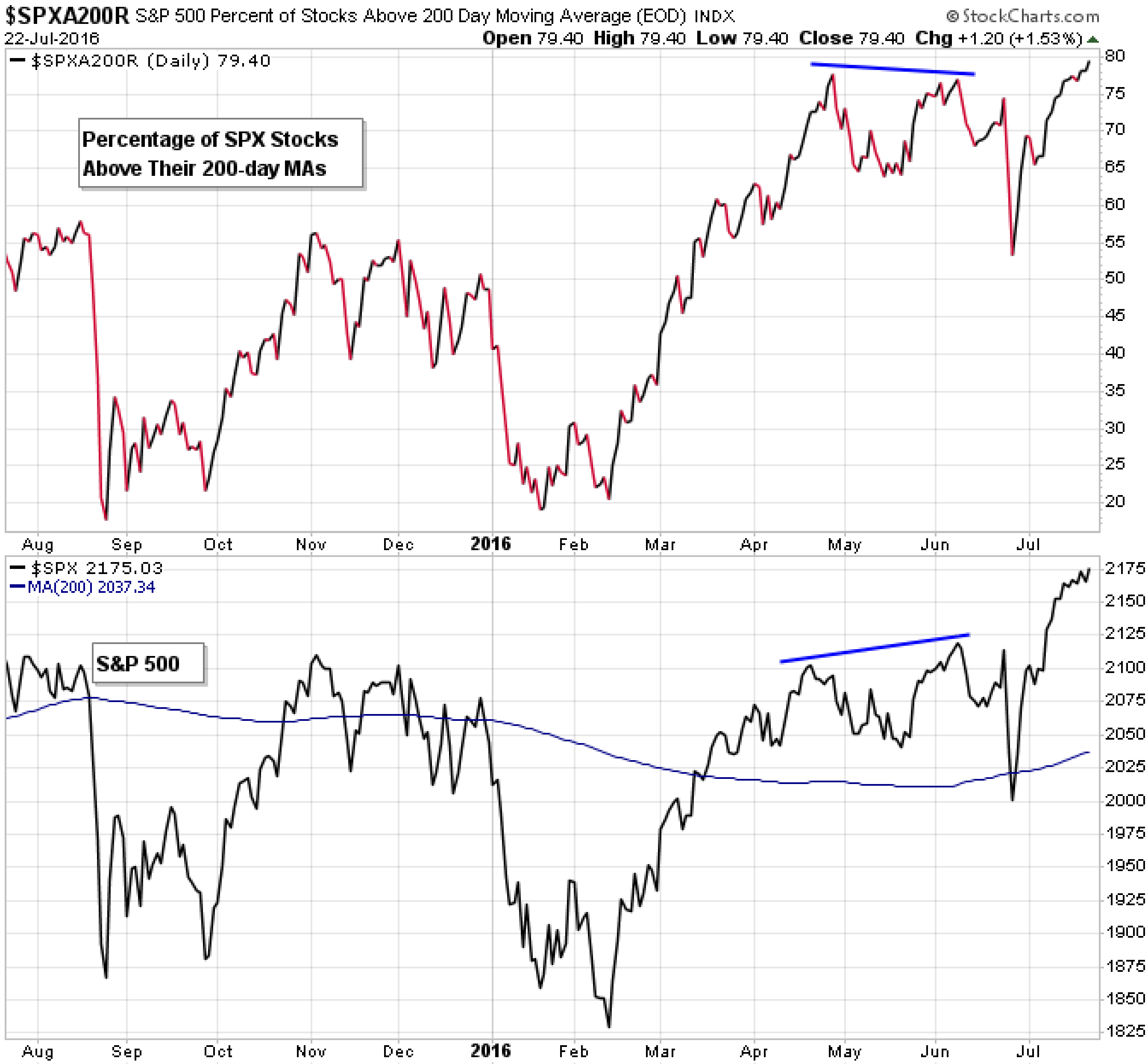
S&P 500 vs. NYSE Bullish Percent: The bullish percent at the NYSE is back at its high. Despite the quick post-Brexit drop, stocks have recovered and are back in bull mode per their point-n-figure charts.



NASDAQ vs. NASDAQ Bullish Percent: The Nas bullish percent has matched the movement of the Nasdaq by pushing to a higher high. There are no warnings here. The indicator supports the market.

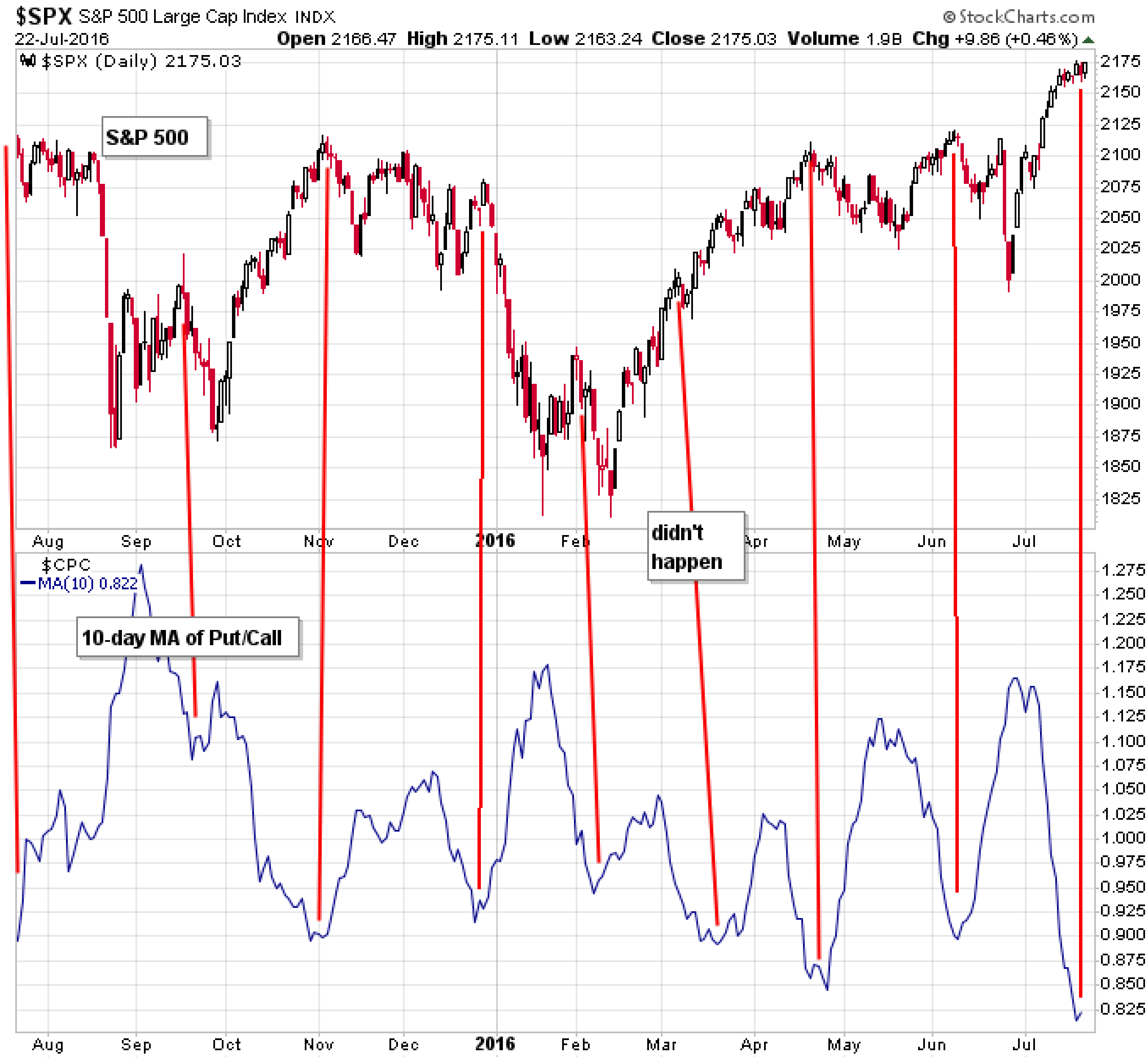


S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: Both the S&P and the percentage of SPX stocks above their 200-day moving averages are at new highs. Local tops do get put in place when the indicator pulls back, so watch for that in the near term. But overall, a high print is a positive sign - at least for the next couple months.

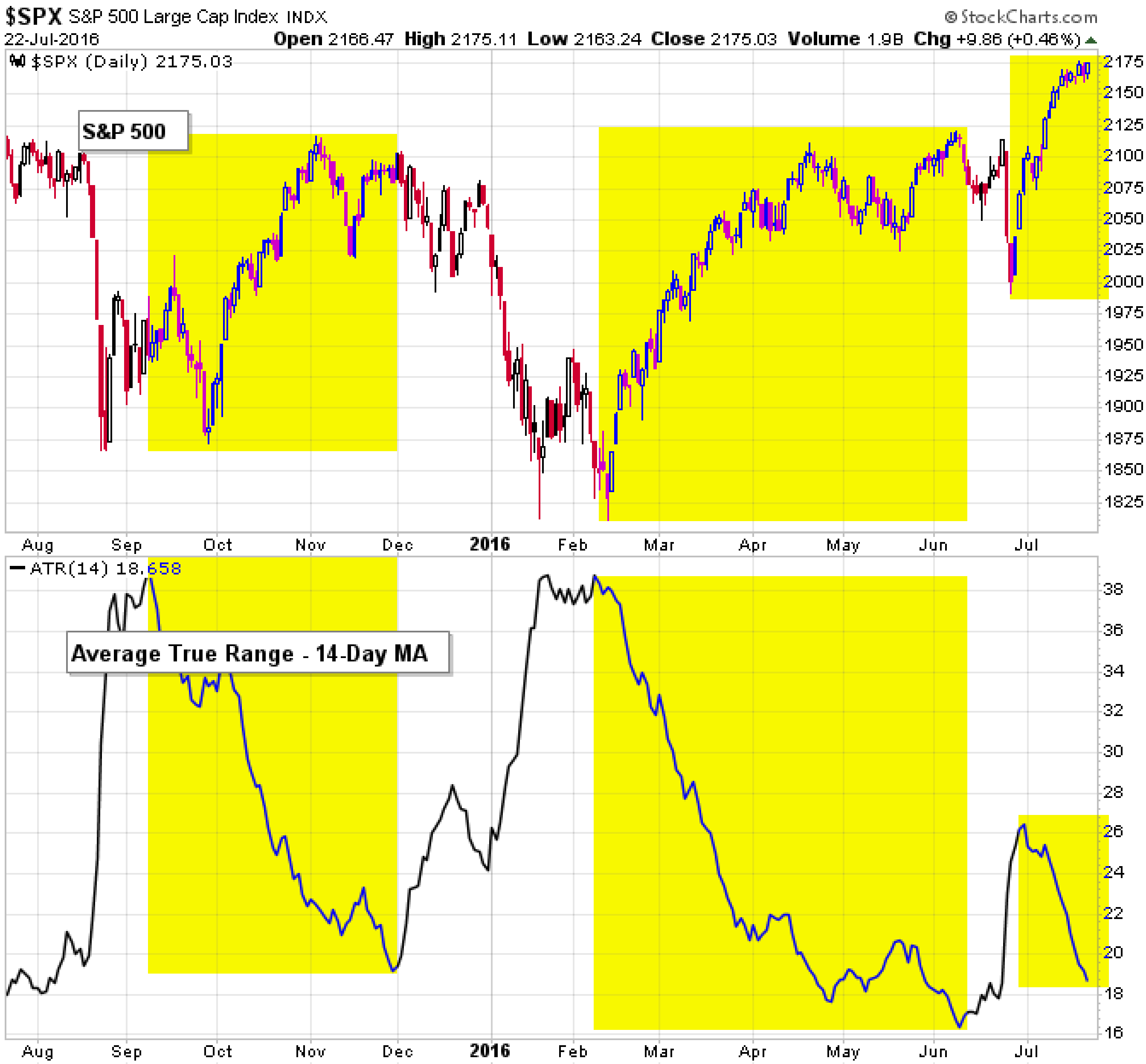


S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: The percentage of SPX stocks above their 50-day MAs is sitting at a respectable level, but it's still below the March high. That high was put in place 6-7 weeks after the February bottom, so perhaps a little more time is needed before an apples-to-apples comparison can be made. Overall I'd say this indicator is in good shape.

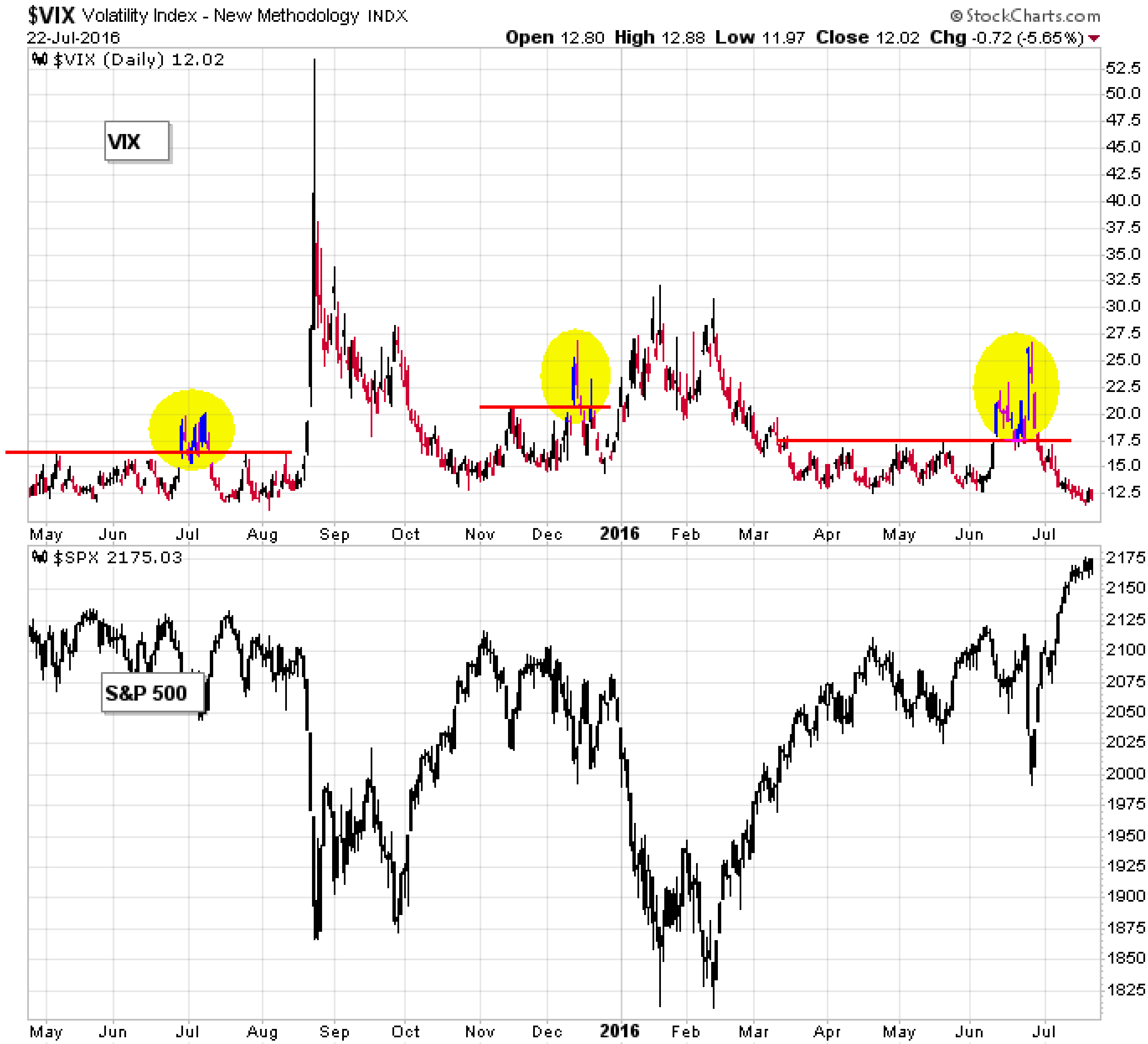
S&P 500 vs. 10-day MA of Put/Call Ratio: The put/call has dropped to its lowest level since 2014 - lots of complacency out there. But if the 10-day curls up, it'll likely lead to the market topping in the near term.



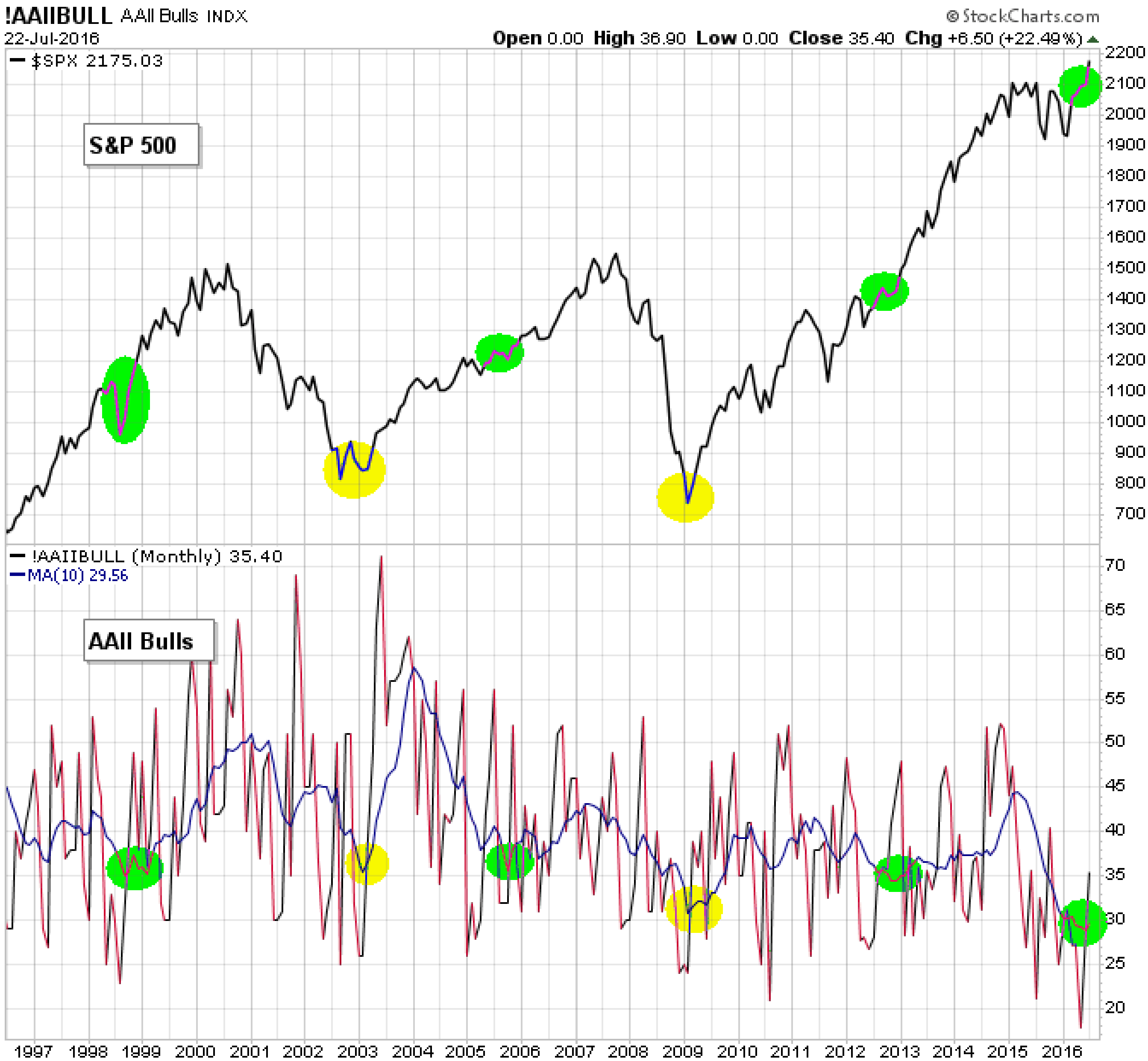
S&P 500 vs. 14-day Average True Range: Given the lack of movement, there's no surprise the ATR continues to move down. This is characteristic of an uptrend, so it'll continue to support the overall trend.



S&P 500 vs. VIX: The VIX has dropped to its lowest level since last August. That's nice considering it can stay down there for a long time. But the June spike still lingers. In the past, sudden spikes while the market traded calmly often led to eventual sell-offs. Nothing is imminent, but it is something to keep in mind.



S&P 500 vs. AAII Bulls: Third week in a row posting this. Within a market uptrend, when the 10-day of the AAII bulls drops and then curls up, the market trend continues. The lack of bulls (i.e. lack of optimism and enthusiam) is the perfect back drop for the market to piss everyone off and rally higher. This is exactly what's happening.



The Bottom Line

Overall the market is in good shape. We're in the midst of a 4-week win streak, and the intermediate term indicators continue to support the trend.

But in the near term cracks are forming. Per the AD line, AD volume line, and new high charts, less stocks participated in the recent action. The market isn't extremely sensitive to negative divergences, but they still linger and will likely cap the market's upside until a little pullback can take place.

I like the market overall and remain fully on board with the S&P rallying to 2300-2400, but in the near term a break is needed. Maybe we'll get one this coming week; maybe it'll take place the week after. In either case, we're not in the beginning stages of a leg up, so our level of aggressiveness needs to be adjusted.

Have a great week.

Jason Leavitt
Jason@leavittbrothers.com