Leavitt Brothers

Weekly

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If I was a quant I'd be running studies to find out how the recent lack of movement measured up against history. The S&P has traded in a 1% range the last twelve days. Certainly this is one of those things that rarely happens. Also it alternated between "up" and "down" for eleven days - an incredible string of reversals. This too can't be very common.

And when you consider that both major political parties had their conventions, we've had an FOMC meeting, and this is the heart of earnings season, it's almost unbelievable the market has been able to just sit quietly in a tight range and literally do nothing.

Luckily in today's social media world, I don't have to be a quant because there are many number-crunchers out there that freely share their work.

Enter Ryan Detrick...(note, this was written during the day Friday, not after the close)

To show just how tough it has been for the S&P 500 to make a move, in the past 11 days the S&P 500 has alternated between higher and lower closes for just the fifth time since World War II....Looking at the recent action, the S&P 500 hasn’t moved more than 0.75% (up or down) for 14 consecutive days. That is the longest such streak in 16 months. It hasn’t closed higher or lower by 0.5% for 10 straight days for just the third time the past 20 years. And the intra-day high and low range over the past 11 days has been only 0.92%, the tightest range ever in the 45 years of available data. Put it this way: 30 of the first 31 days in 2016 had a larger one day range (0.92%) than the past 11 days have had....Digging into the past 11 trading sessions a little more, the S&P 500 close has moved in a range of only 0.61%. Take note, this isn’t using intra-day highs and lows over the past 11 days, just the past 11 closes. This is the tightest range since August 1995.

What's it mean? I'm not really sure. Trading is part mechanical and part intuitive. Anyone who trades solely off historical numbers either gets burned just as much as they're victorious or they have to trade for 50 years in order to allow the law of large numbers to work out. These are the reasons I think it's fun to look at such stats, but I don't trade off them.

Here's what I see...

The market was trading in a range when the Brexit vote took place. The S&P promptly plunged for two days and took out the bottom of its range. But when the dust settled and everyone realized the UK leaving the EU wasn't a big deal, prices quickly rebounded. The S&P rallied about 175 points in 2-3 weeks and established a new all-time high just as the current range started to form.

So here we are. Trading in a tight range...within an uptrend...near the highs. From a technical standpoint, this is all bullish. It's a consolidation pattern within an uptrend. And if you want to throw a little psychology into the mix, this has taken place in the face of growing bearishness on Wall St. The wall of worry is alive and well.

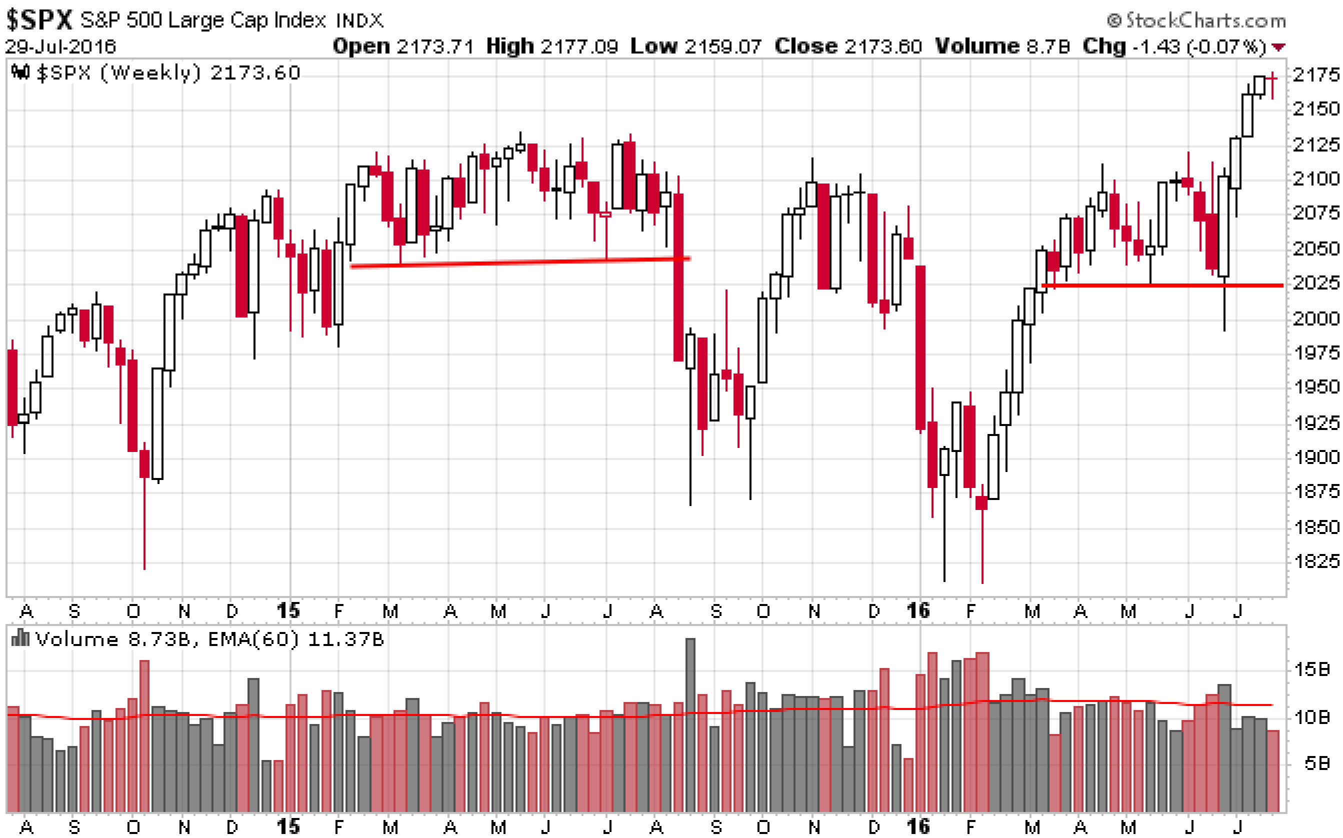
Some negative divergences had formed between the market and the underlying breadth indicators the last two weeks. Because of this I got more conservative. I never abandon my "SPX 2300-2400" expectation, but in the very near term I thought the upside was limited due to the lack of confirmation. Now two weeks have passed. The market didn't correct with a price drop; it corrected with time. The passage of time operates the same as a pullback.

Now the market seems poised to break out and run. It could happen Monday...or later in the week...or maybe not until the following week. In any case, odds favor the market busting out and legging up. Given all that's going on in the world and the fact that the market has held up so well, the default setting remains up. The only thing out there on the horizon is the employment report on Friday. If the numbers are significantly better than expected, perhaps Wall St will start taking a rate hike more seriously. It's not likely because dividend-paying stocks are doing incredibly well, but it at least gives us something to think about so we don't get too cocky.

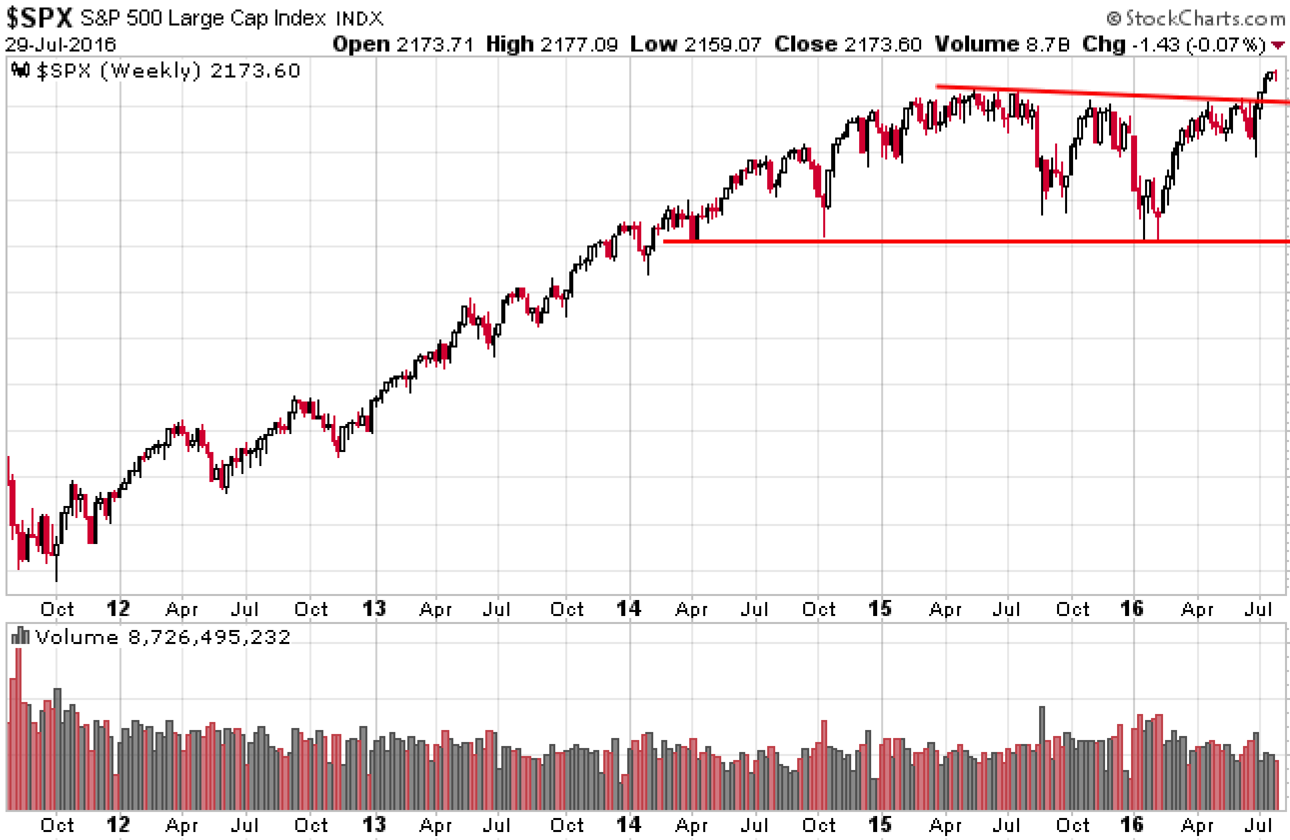
Let's get to the charts and see what they say...see if they warn us that something is going on beneath the surface.

Indexes

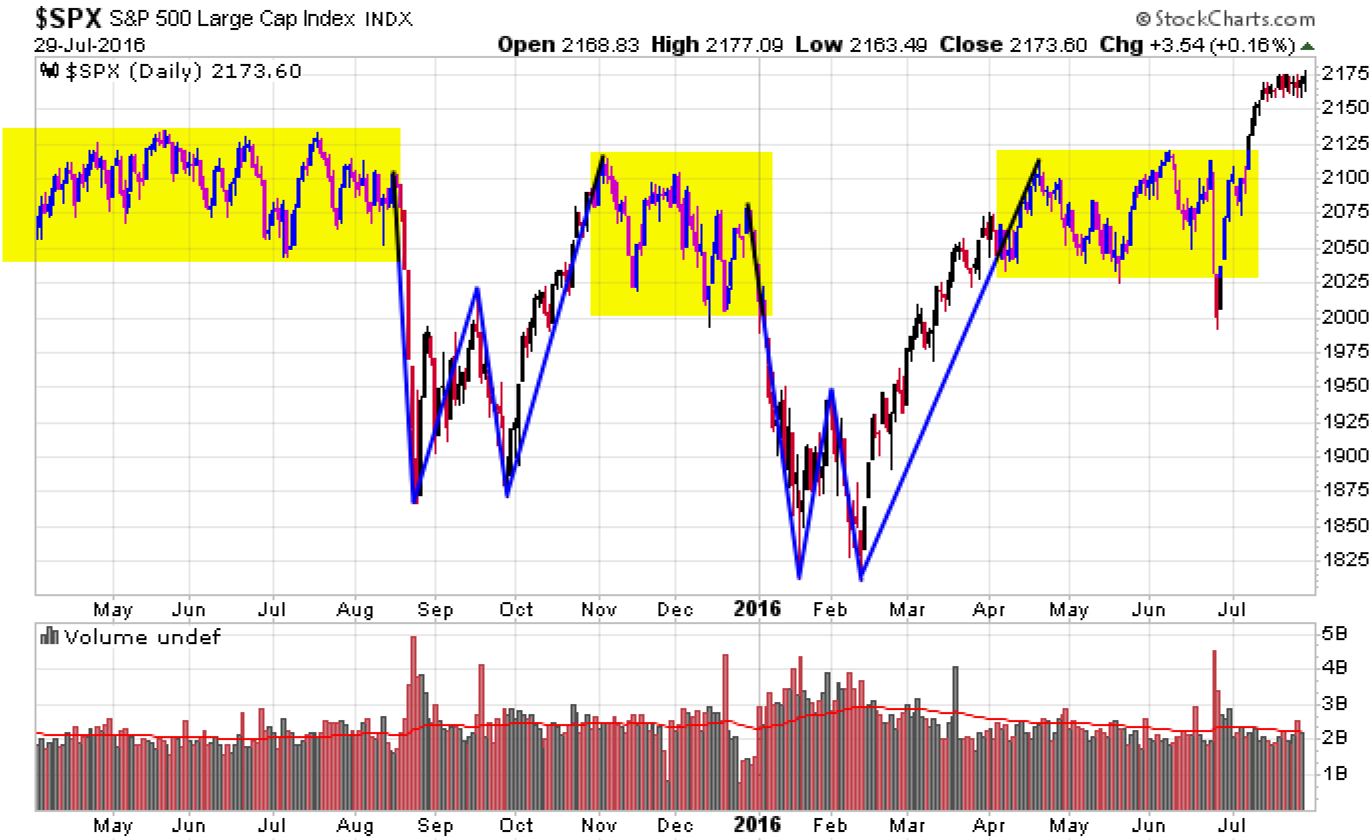
The S&P 500 Weekly: Another small-range week on below-average volume. Looking at other runs to new highs or close to new highs (Oct/Nov 2014, Feb 2015, Oct 2015, Feb 2016), there has always been at least one painful down week or a couple small or moderate down weeks. Despite the trend and market's ability to absorb everything thrown its way, you have to wonder if something like that is lingering. The default setting is up, but keep things in perspective. We've come a long way in a short period of time.



The S&P 500 Weekly: Here's another look at the weekly. A huge rally was followed by 2+ years of consolidation...which has been followed by a breakout and move to a new high. This is textbook action. The first target per this chart is 2400 - that's the measured move that matches the depth of the pattern.



The S&P 500 Daily: The market has spent the vast majority of the last 16 months trading range bound. The trending moves only lasted several weeks with the biggest (off the Feb 2016 bottom) going two months. Now the S&P sits in a tight range at all-time highs. Only a fool would trying to pick a top here. Eventually a top will be put in place, but I'd rather be wrong once when it happens than wrong numerous times along the way.



Indicators

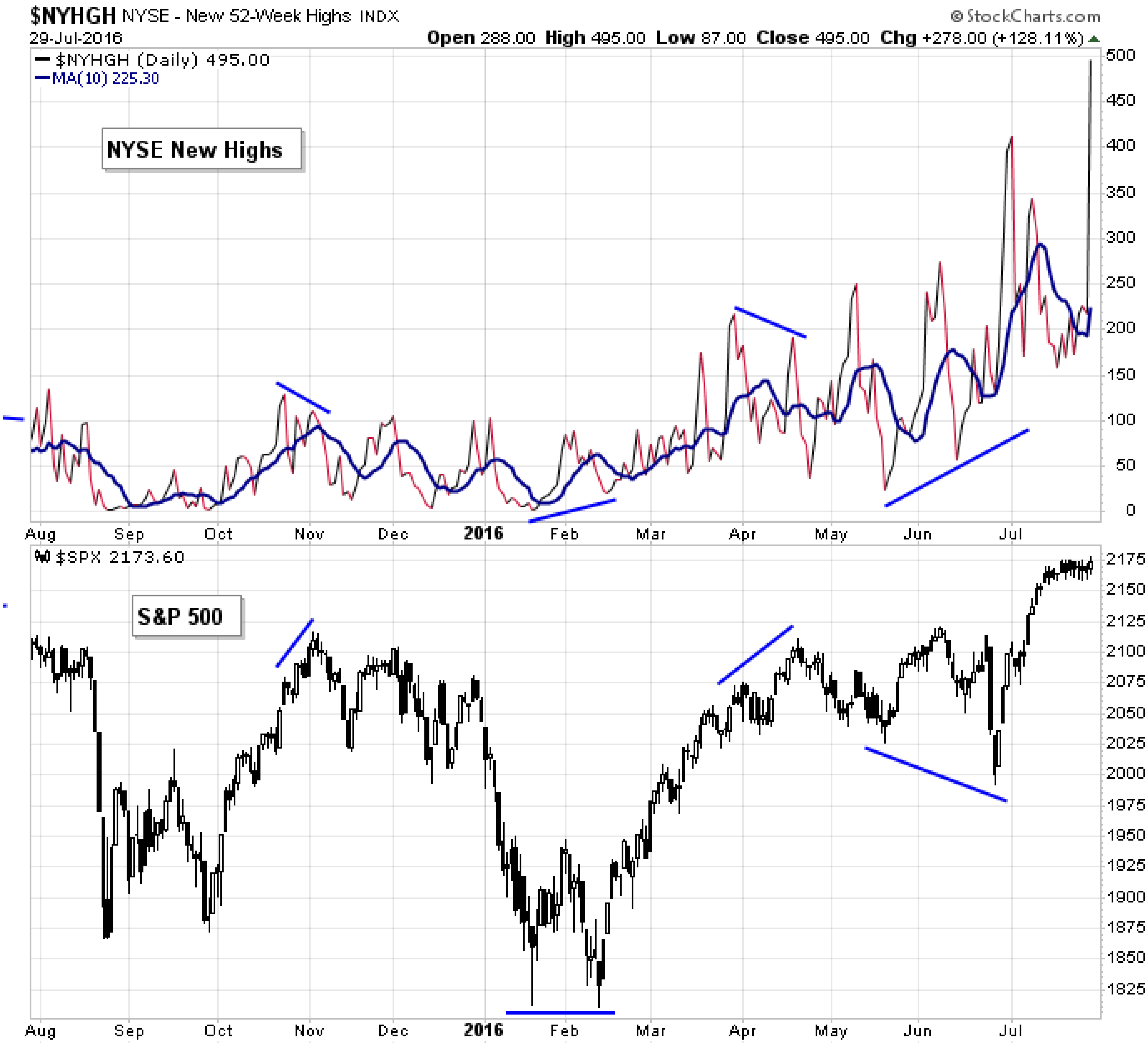
S&P 500 vs. 10-day MA of NYSE AD Line: After two weeks of range-bound movement, you'd expect the 10-day of the AD line to be near 0. This is exactly the case. The S&P has moved sideways long enough to allow the indicator to cycle down. Now it's poised to curl up and support a rally attempt.

S&P 500 vs. NYSE Cumulative AD Line: Consistent prints above 0 have kept the cumulative AD line in an uptrend. This indicator has told us all along dips were likely to get bought. Advancers have steadily beaten decliners since mid February.

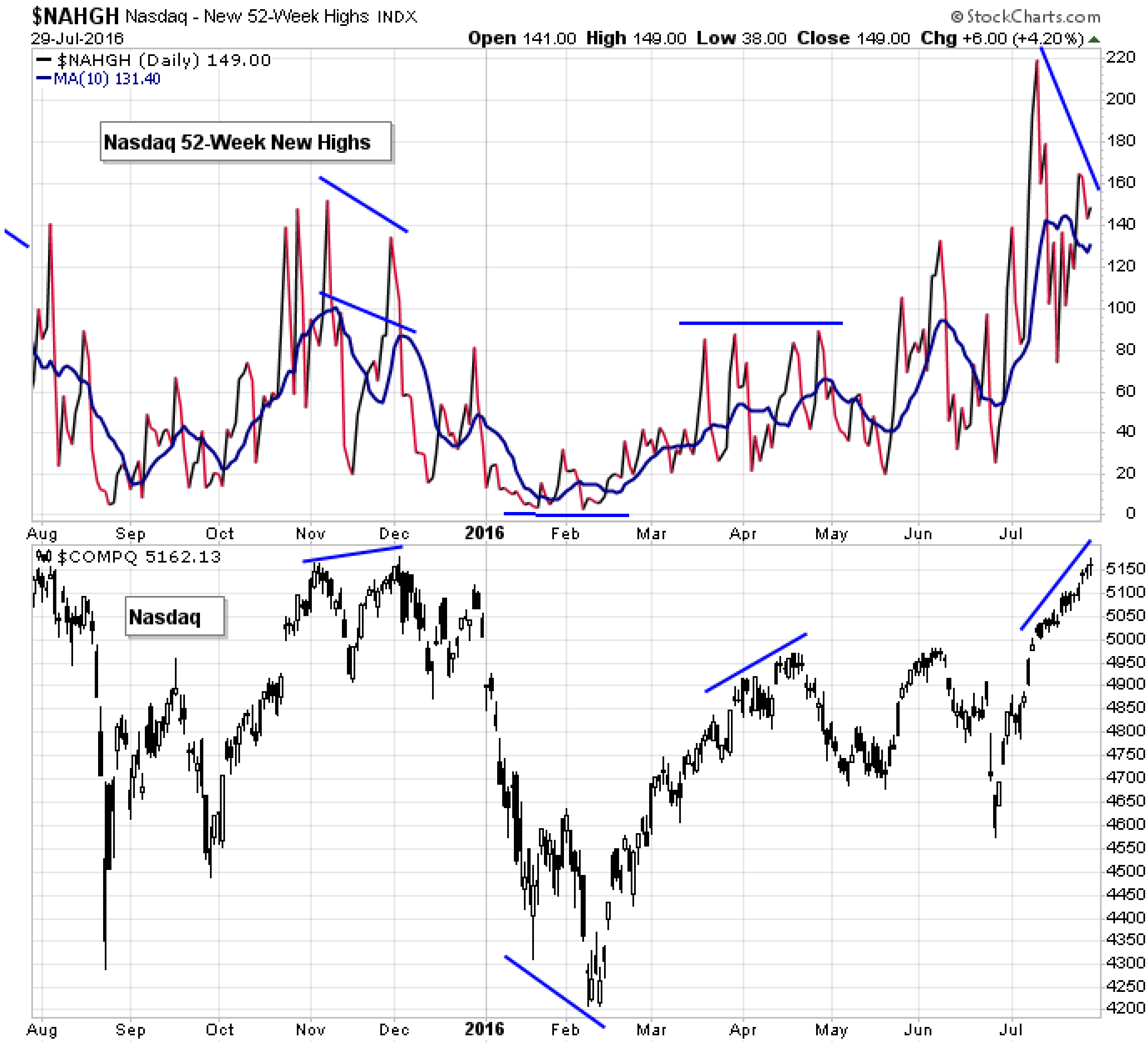
S&P 500 vs. 10-day MA of NYSE AD Volume Line: Like the AD line, the AD volume line has cycled down while the market has quietly drifted sideways. This is textbook - a shorter term indicator cycles within a longer term trend.

S&P 500 vs. NYSE Cumulative AD Volume Line: And the cumulative version of the AD volume line has continued up. This indicator never trended down like it did in November and December - it told us all along the market was in good shape.

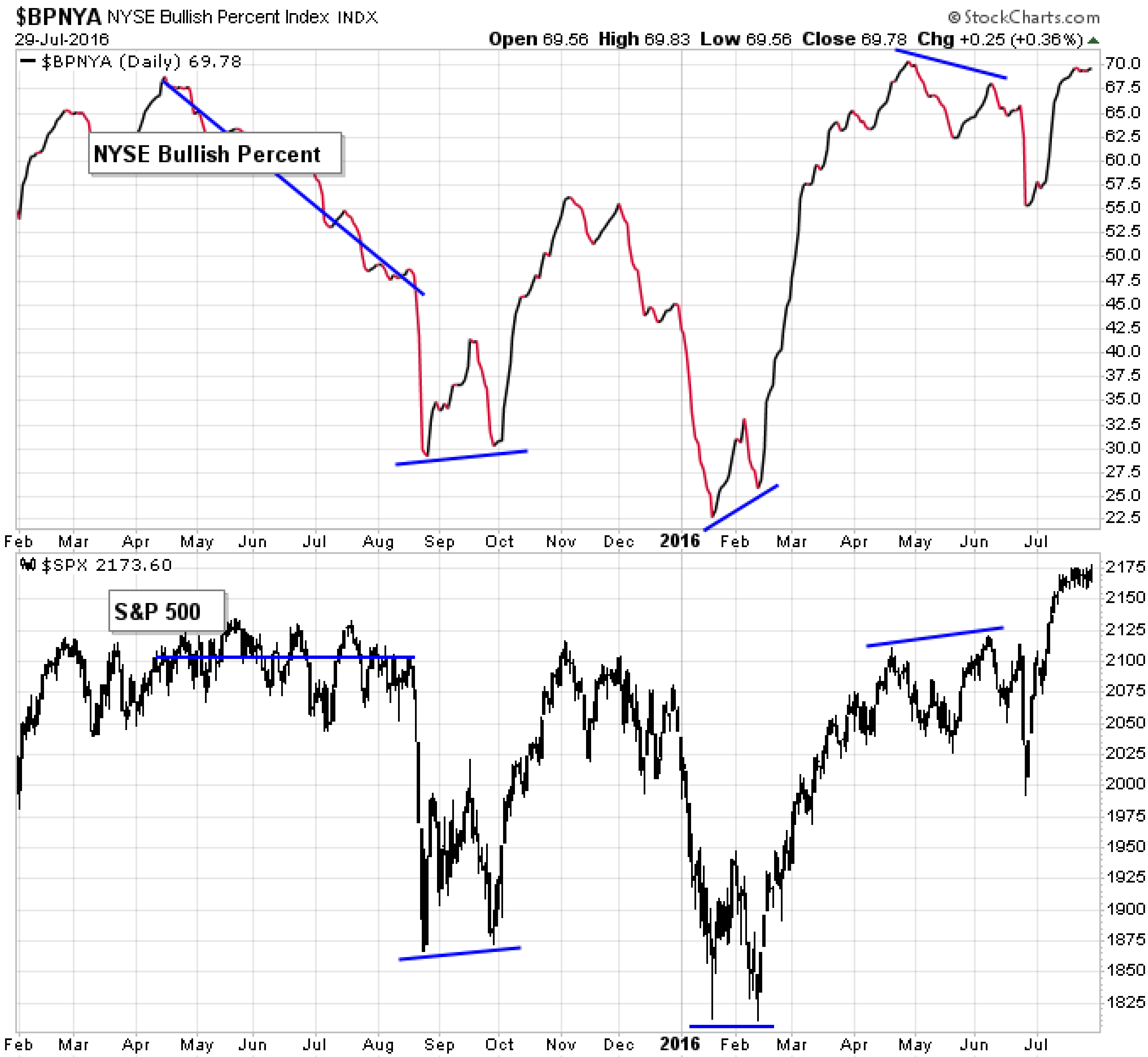
S&P 500 vs. NYSE New Highs: Another spike for the NYSE new highs. The market's strength is well-supported.



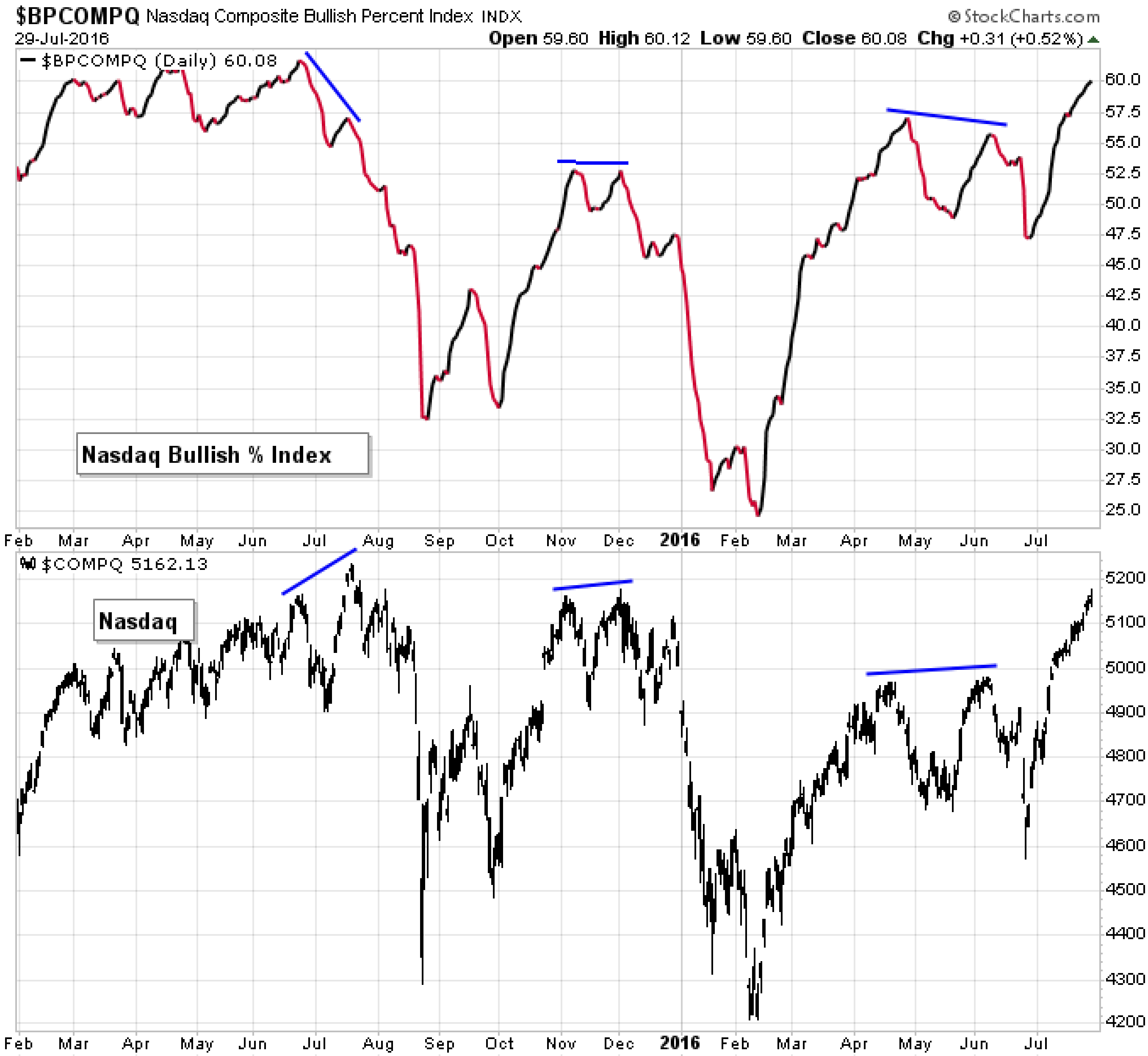
NASDAQ vs. NASDAQ New Highs New highs at the Nas are clocking in at a lower rate than a few weeks ago when the index was at a lower level. It's one of the market's few warnings.



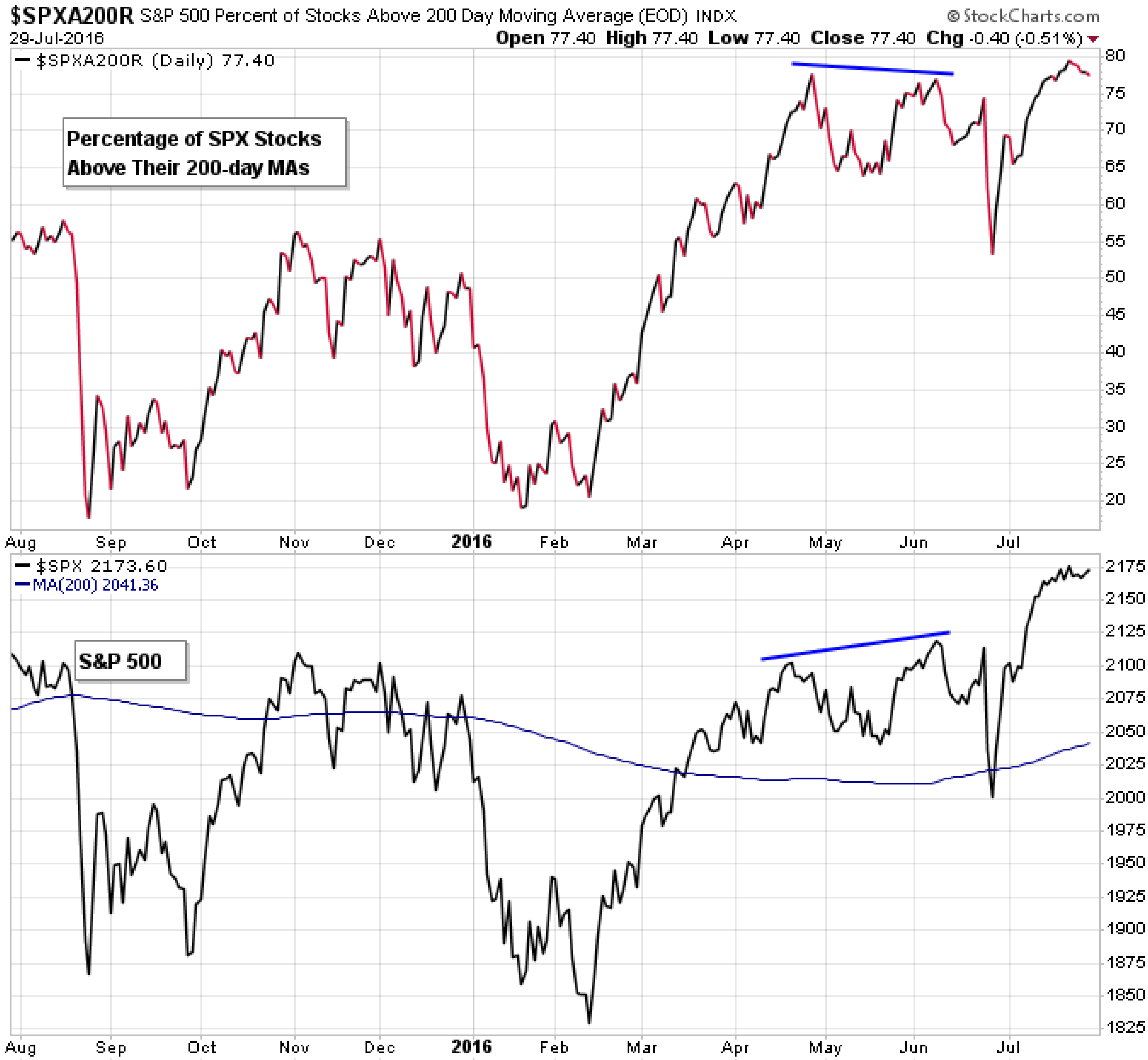
S&P 500 vs. NYSE Bullish Percent: The NYSE bullish percent has flattened out. This is a little bit of a divergence. Sometimes its virtually mathematically impossible for certain indicators to go beyond a level, but this isn't the case here. You don't have to go back far to see prints above 80.



NASDAQ vs. NASDAQ Bullish Percent: In lock-step with the Nas, the Nas bullish percent continued up last week. No warnings here.



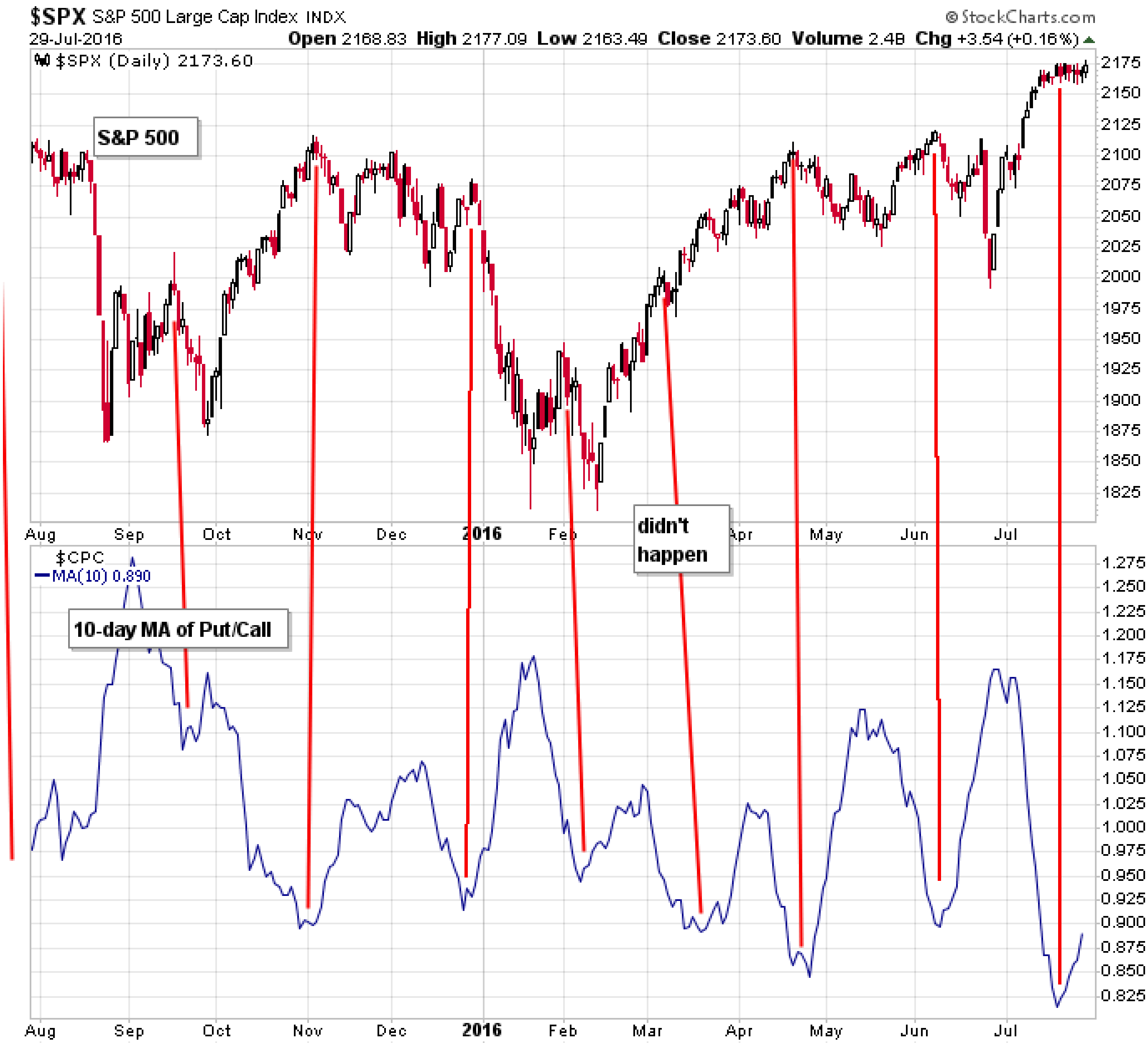
S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: Relative to recent prints, the percentage of SPX stocks above their 200-day moving averages is near a high, but if you back the chart up, you'd see many prints between 80 - 90. Those prints were in multi-year trends, so considering the newness of this trend, let's cut it some slack. Still I'd like to see some improvement here.



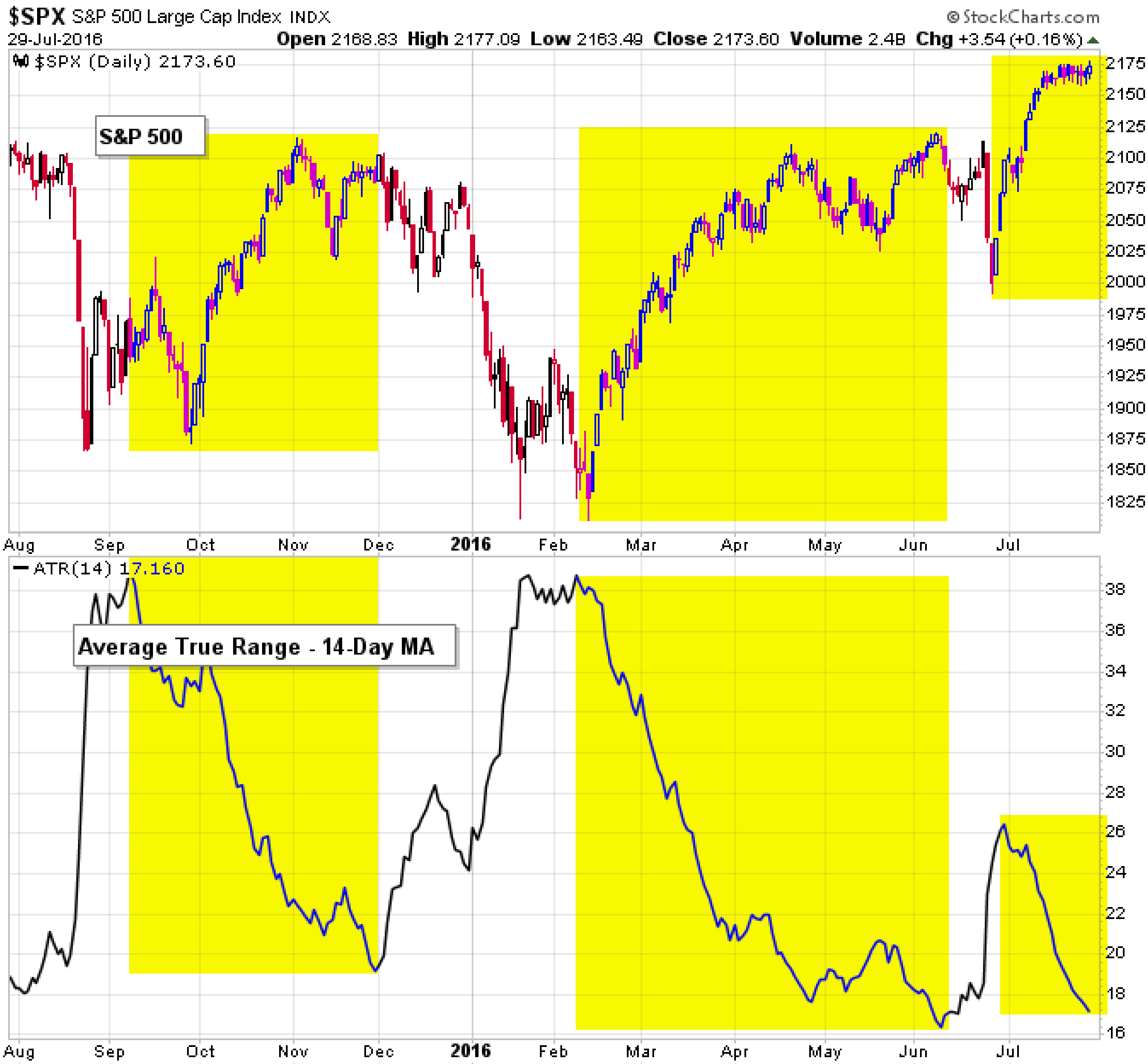
S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: The market traded flat last week and barely moved to a new high on Friday, but the percentage of SPX stocks above their 50-day moving averages declined. Moving sideways allows the MAs to catch up, but there have also been many earnings-related gap downs that have contributed. Let's not ignore this. Some deterioration is fine. Too much deterioration will be too much to overcome.

Nasdaq 100 vs. Percentage of Nasdaq 100 Stocks Above 20-day MA: A divergence also shows up here between the Nas 100 and the percentage of NDX stocks above their 20-day EMAs. One by one stocks are losing some key moving averages.

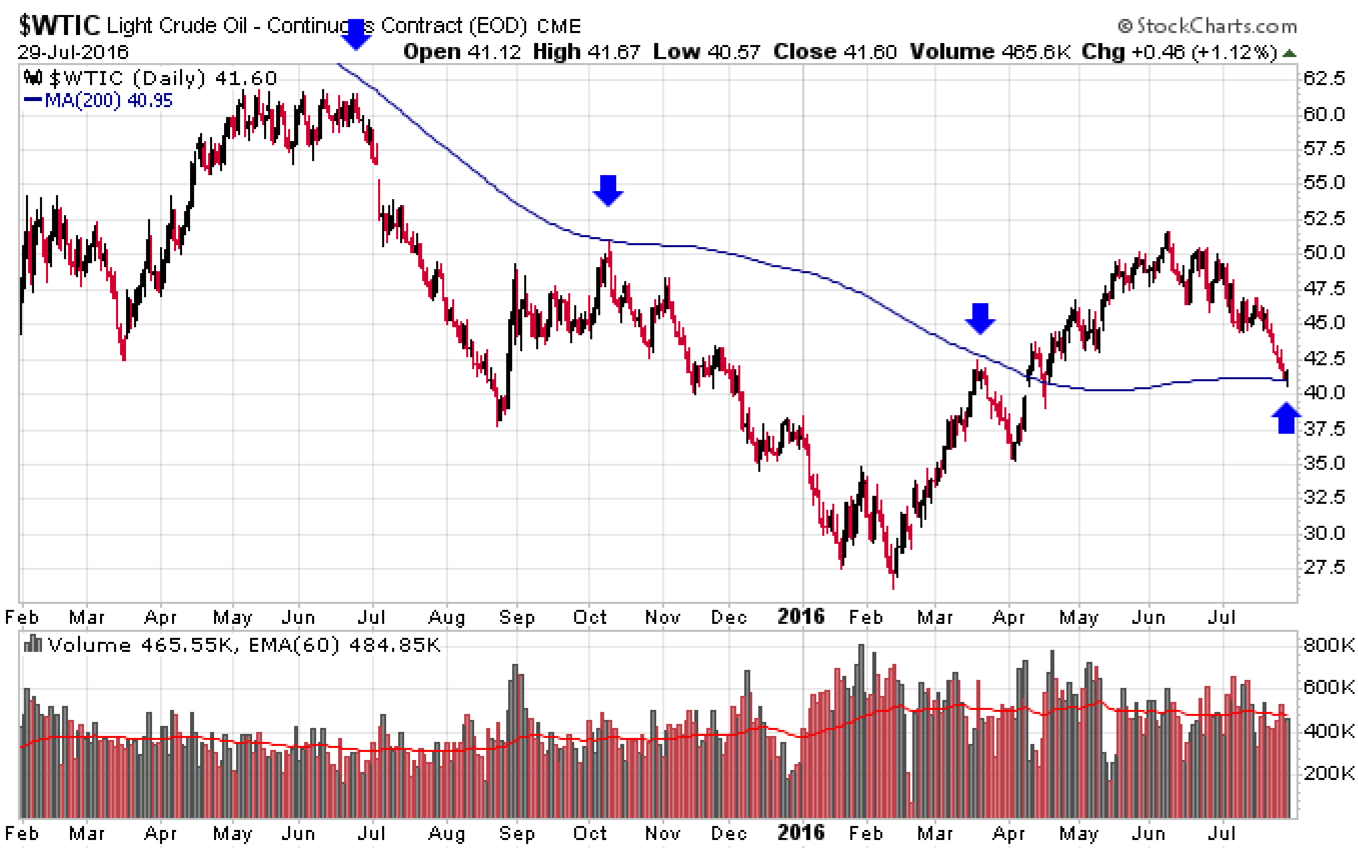
S&P 500 vs. 10-day MA of Put/Call Ratio: The 10-day of the put/call ratio has curled up. Most of the time, this leads to a price drop. The only time the market was able to ignore this warning was in March, when the market was only at the midpoint of a 2-month rally.



S&P 500 vs. 14-day Average True Range: It's no surprise the ATR has continued to drop with the market trading so quietly in a small range. A declining or low ATR is characteristic of an up-trending market.



Oil and Gold: These groups have provided us with literally dozens of good trades this year. Gold (and silver) stocks bottomed in January and then started making appearances on the Long List in February. Oil did a double bottom in January and February and provided us with a steady flow of trades until crude topped last month. The charts below are longer term charts. As long as gold stays above its 65-week MA, I'll consider the trend to be up and the stocks to be playable on dips and on breakouts. And oil is now trying to bounce off its 200-day MA. If successful, oil stocks, which I've mostly avoided the last couple weeks, will be back in play.



The Bottom Line

The overall market has done almost nothing the last two weeks. We have an historically tight range and a complete lack of initiative on the part of the bulls and bears. Literally nothing has taken place.

This is incredible considering both major political parties held their 4-day conventions, we had an FOMC meeting and over 1000 companies have released earnings. All this and the market just sat there in a tight range .

The trend is up, and I remain fully on board with the S&P running up to 2300-2400. There are a few warnings out there in the form of more stocks losing key moving averages, but even if we do get some short-term weakness, the intermediate and long term up trends shall remain solidly in place.

Have a great week.

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