Leavitt Brothers

Weekly

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Three weeks of very quiet action may be in the process of resolving up.

Despite the conventions of the two major political parties, an FOMC meeting and virtually an entire earnings season, the market has spent most of the last three weeks in an historically small range. The S&P has mostly alternated between "up" and "down," and until Friday, its longest winning and losing streaks were only two days. Literally nothing has been happening.

The market ran up off its post-Brexit plunge, and then settled into a range. A rest made sense. A few breadth indicators started to diverge from the price action and very few charts jumped off our screens yelling "trade me." But instead of correcting with a price decline, it appears the market corrected with the passage of time. This, of course, pisses everyone off.

This rally is very much a hated rally. If you're a passive investor who's keeps putting money to work via your 401K and don't really pay close attention to the day to day activity and noise (other than reading this weekly report :)), you're content to keep on keepin' on. But if you're an active trader or investor - bullish or bearish - you likely hate this.

The bulls are under-invested. They've read the headlines about a good portion of the market's gains being due to stock buy-backs, and they keep hearing negative comments from the likes of George Soros and Stanley Druckenmiller and investment banks like Goldman Sachs, which recently lowered its equity outlook for the next three months. The bulls are long but not long enough, and they've been waiting for a chance to buy more shares at lower prices, which of course haven't been offered. It's a weird feeling to be on the right side of the market but feel like you could be doing or should be doing much better.

The bears have been getting many false hopes. They hear the stuff about stock buy-backs and prominent entities being bearish. They read about declining earnings. They see so many countries desperately trying to ignite their economies and prop up their markets, they can't help but think a perfect storm lies ahead. They're very smart and have every reason to be thoroughly confused and frustrated prices continue to move up. But prices aren't moving

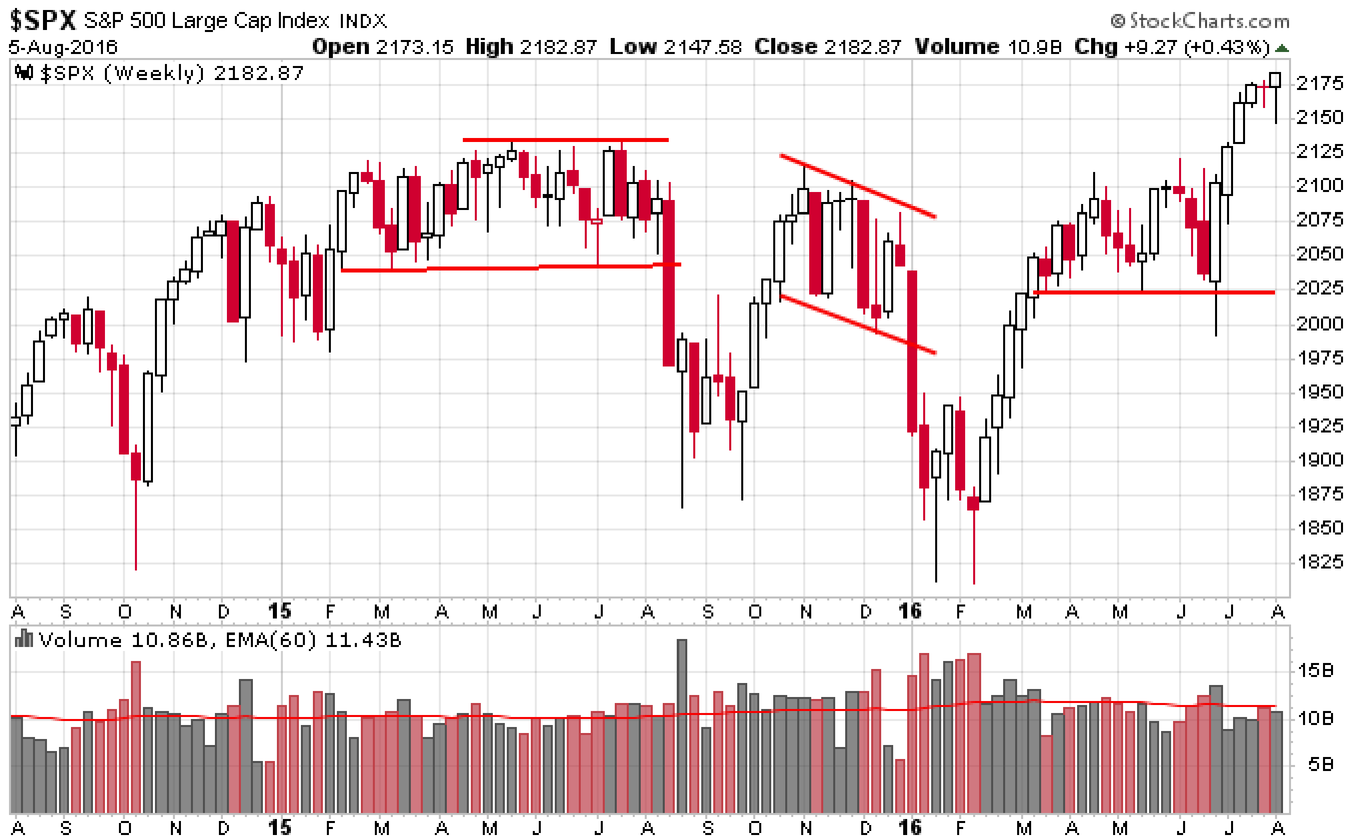
up fast enough for them to puke their short positions. They're just grinding and churning and offering little slivers of hope that keep the bears on the wrong side.

A month ago I contemplated two different rallies up to 2300-2400. 1) A breakout and forceful move or 2) A slow grind that frustrates everyone. I picked #2, simply because I've been there, done that. I'm never on the wrong side of the major trend, because I learned my lesson in 2000. And I know the painful feeling of being under-invested and not being offered decent entries once the train has left the station. And since the market has a mysterious way of causing the most pain and frustration, it wasn't hard to operate under the belief the overall market move in a way that wouldn't allow the bulls to add to positions and wouldn't force the bears to cover shorts.

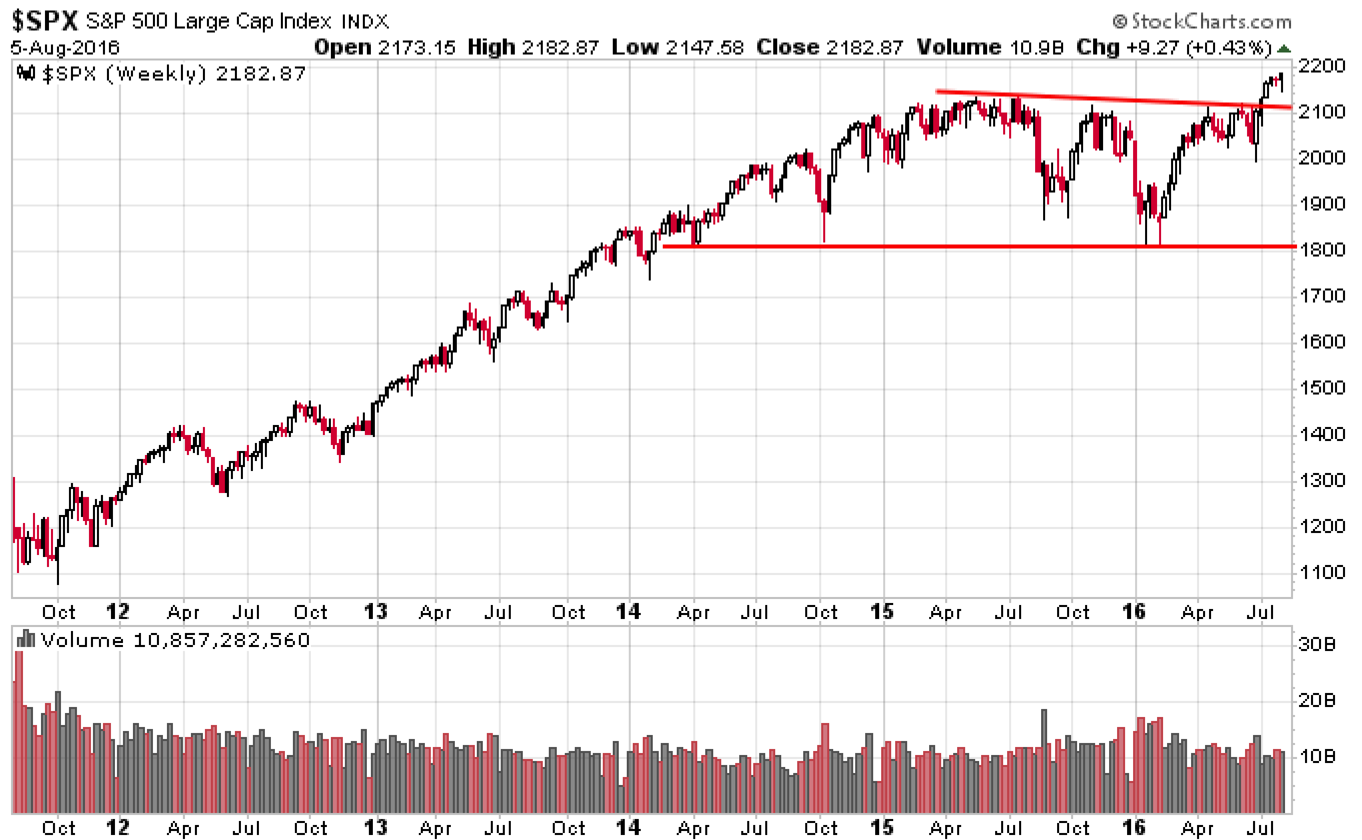
Looking forward I have no reason to abandon my "SPX 2300-2400" opinion. Although there are a few warnings in the near term, structurally the market is in good shape overall. And the more bearish entities that come out of the woodwork, the more comfortable I get. Let's get to the charts and see what they say.

Indexes

The S&P 500 Weekly: Last week the S&P dropped to a lower low and then rallied to a new high. It was the sixth consecutive week the market closed very close to its intraweek high. Even the previous week's down week closed much closer to its high than its low. The market can change fast (there are many big white candles followed by big red candles), but a lot of money is lost guessing tops or not participating in rallies. Get into quality set ups and play good defense. Don't think too much.



The S&P 500 Weekly: Another shot of the weekly. A 2+ year consolidation pattern has resolved up. I'd like further follow through to confirm the move, but for now there's no reason to be anything but long.



The S&P 500 Daily: Nothing wrong with the daily. It broke out of a 100-point, 3-month consolidation pattern, rallied up and is now in the process of breaking out of a little 3-week pattern. If this was the chart of an individual stock, you'd be long and looking to add on dips.

Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: The S&P has moved to a higher high (which happens to be an all-time high), but the 10-day of the AD line has barely lifted off zero. I get it! Over the last 10 days the market has been quiet, so you'd expect the AD line to be close to 0. But if the market actually legs up here, we'll need to see immediate improvement from this indicator. Advancers must start beating decliners by a solid margin.

S&P 500 vs. NYSE Cumulative AD Line: With consistent prints above 0, the cumulative AD continues its stealth pace.

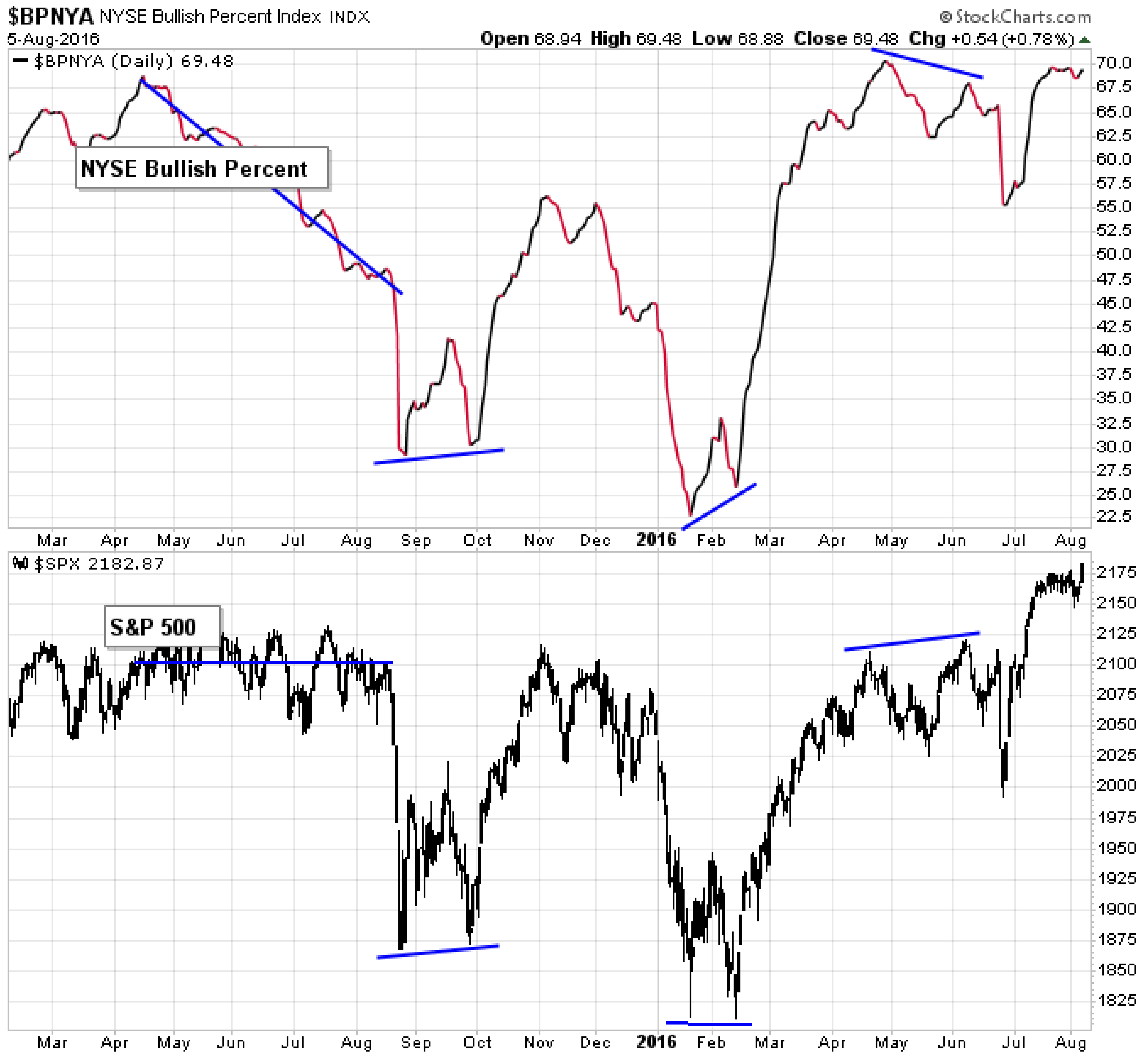
S&P 500 vs. 10-day MA of NYSE AD Volume Line: The AD volume line looks the same as the AD line. Despite some high-volume, big-cap tech stocks doing very well, when letting these names have more influence over the indicator, the story is the same. Now it needs to move up in order to support a market rally.

S&P 500 vs. NYSE Cumulative AD Volume Line: And the cumulative AD volume continues to offer no warnings. You see what happened in November and December - the market traded flat while the AD volume line trended down. It's not happening. There are no subtle, beneath-the-surface warnings here.

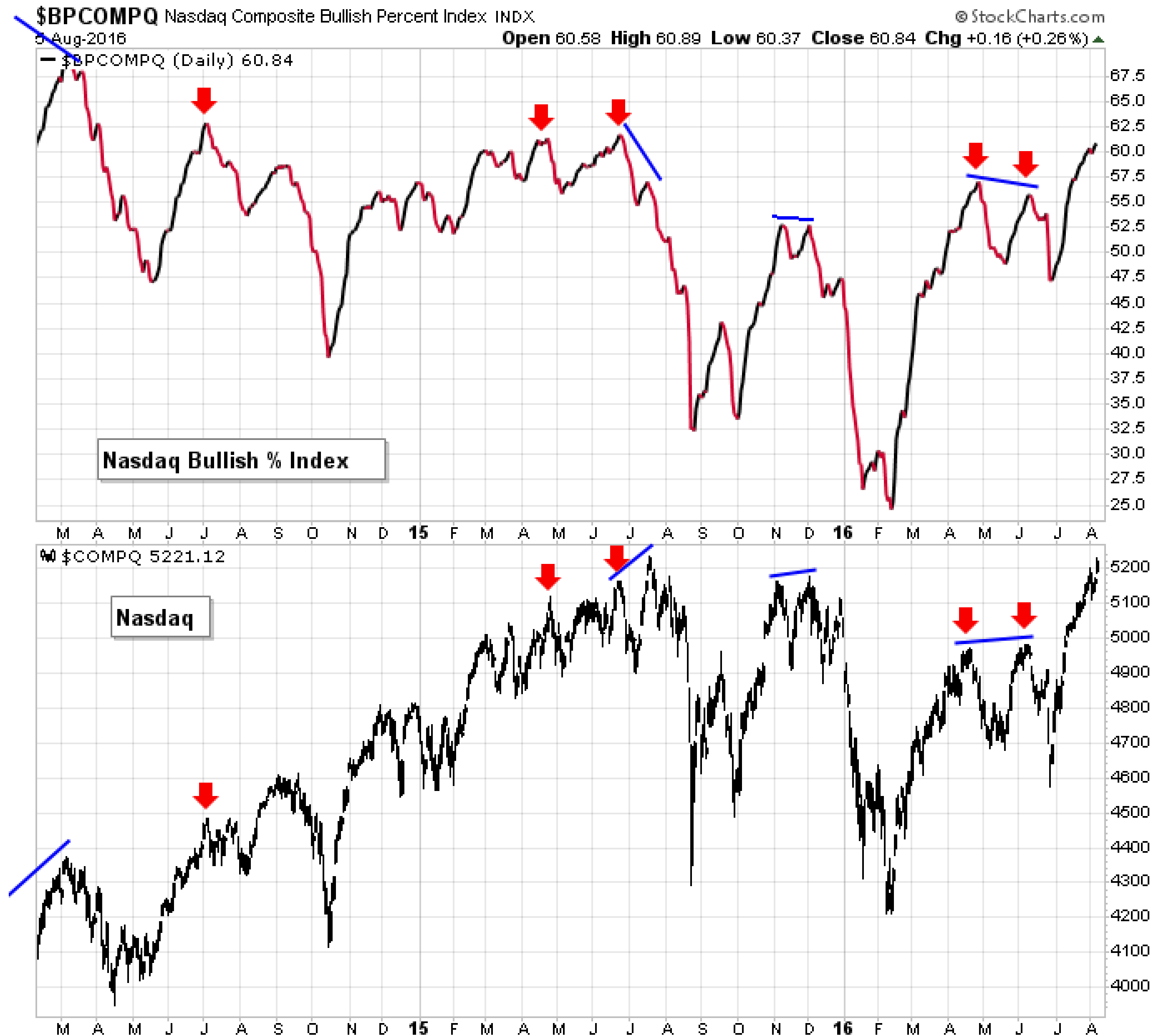
S&P 500 vs. NYSE New Highs: With Friday's spike the divergence between the S&P and new highs at the NYSE is small enough to be ignored, but the 10-day is lagging. If the market legs up here, we'll want to see new highs continue to clock in at a steady rate. Prints in the +500 area are fairly common within strong trends.

NASDAQ vs. NASDAQ New Highs New highs at the Nas are lagging the movement of the underlying index. It's not a huge concern because we're still getting healthy prints, but it does mean fewer stocks are doing the heavy lifting. Overall I'd say the market is in good shape here. Prints now are higher than last November when the market topped.

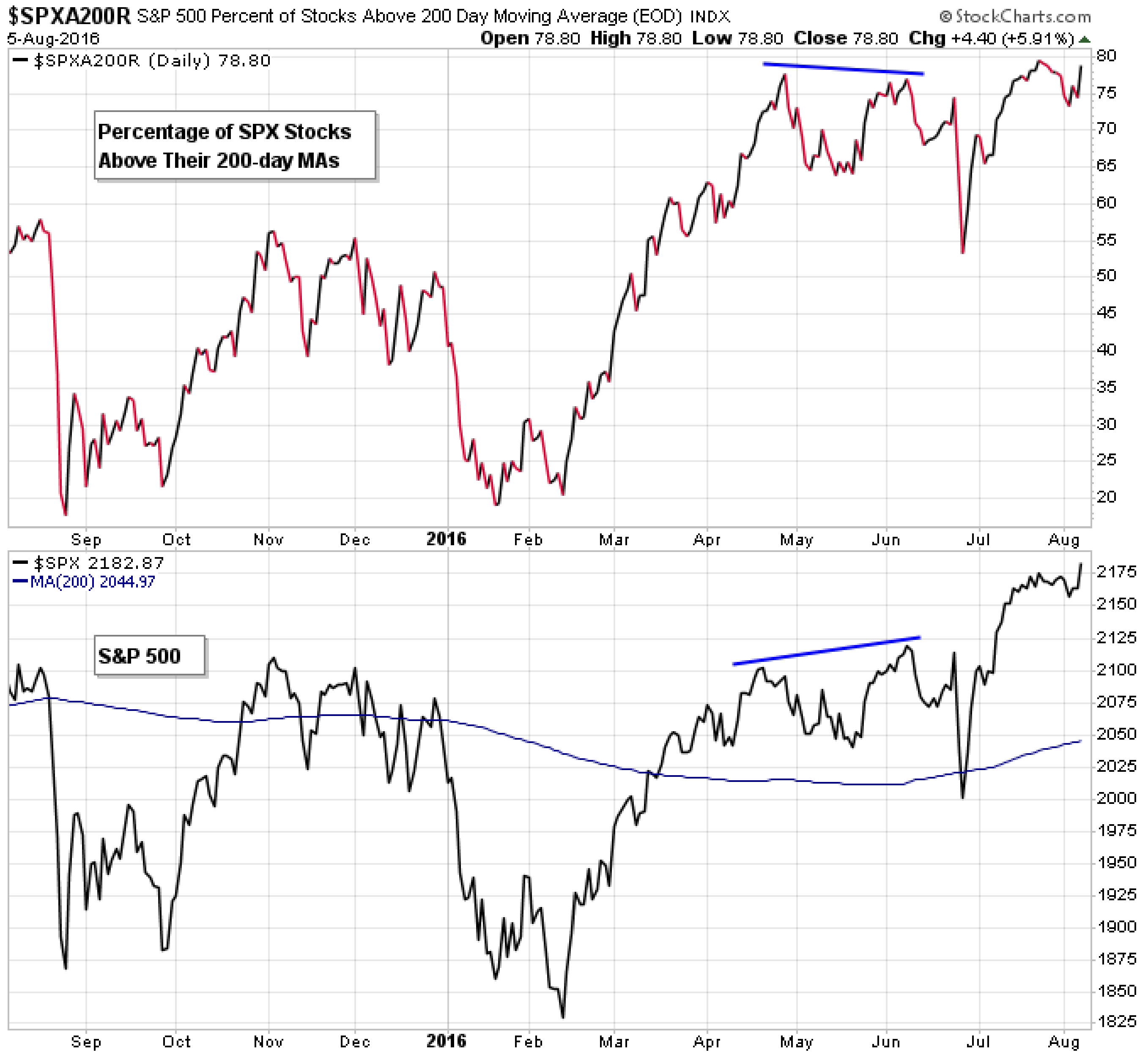
S&P 500 vs. NYSE Bullish Percent: The NYSE bullish percent still can't bust through 70. Previous rallies have seen steady prints between 70 and 80, so if the market legs up here and this indicator doesn't also breakout, I'll consider it a warning that something is brewing beneath the surface.



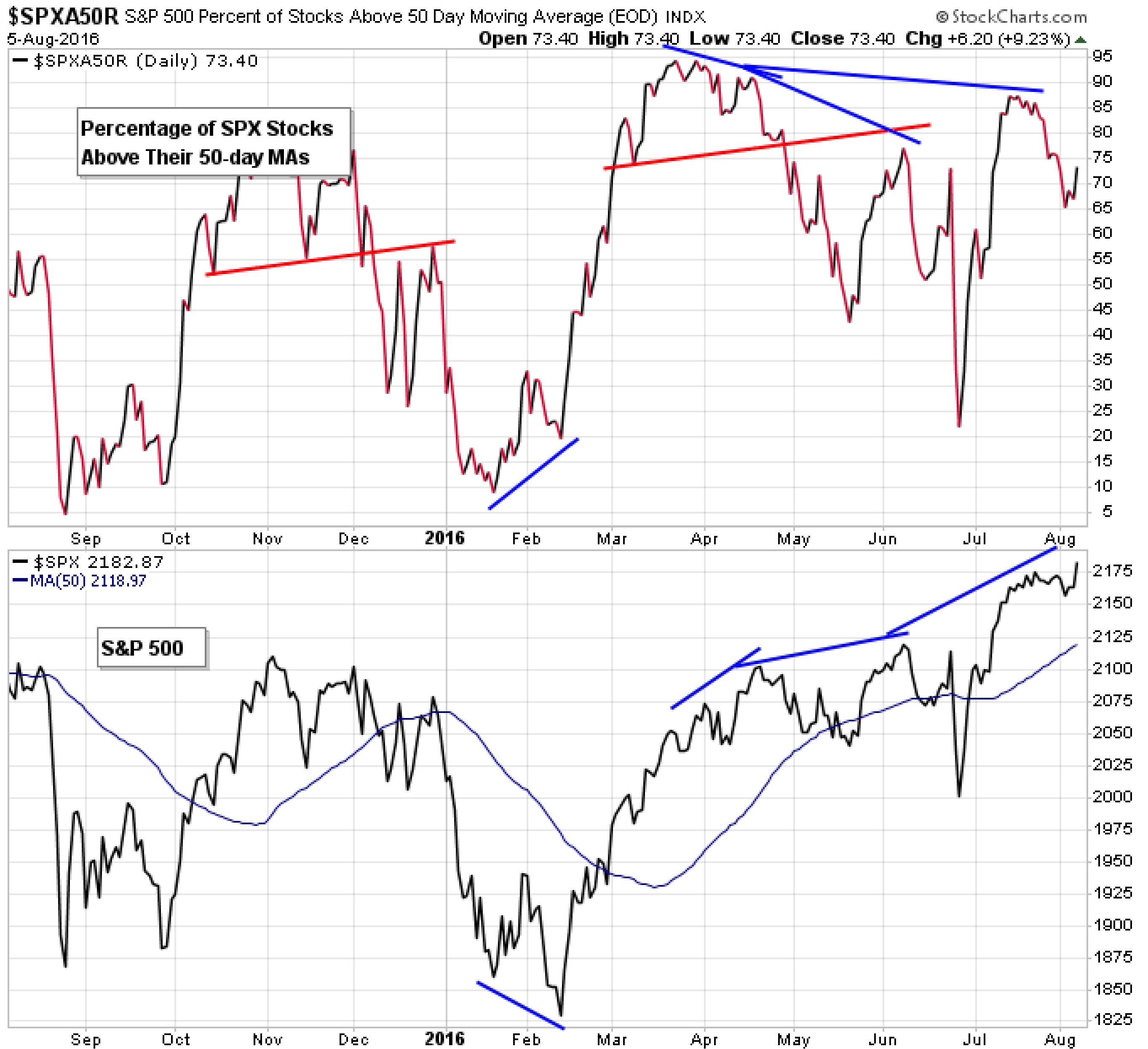
NASDAQ vs. NASDAQ Bullish Percent: The Nas bullish percent continues to slowly move up. It's nice, but it's getting close to a level that has turned prices back. Tops from the indicator closely correlate with tops in the market, so don't ignore the warning if this rolls over.



S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: Despite the S&P being 120 points (5.9%) above its 200-day, the percentage of SPX stocks above their own 200-day MAs is not expanding. Steady prints between 75 and 90 are normal during extended rallies, so we'll want to see some improvement here if the market follows through on last week's move.



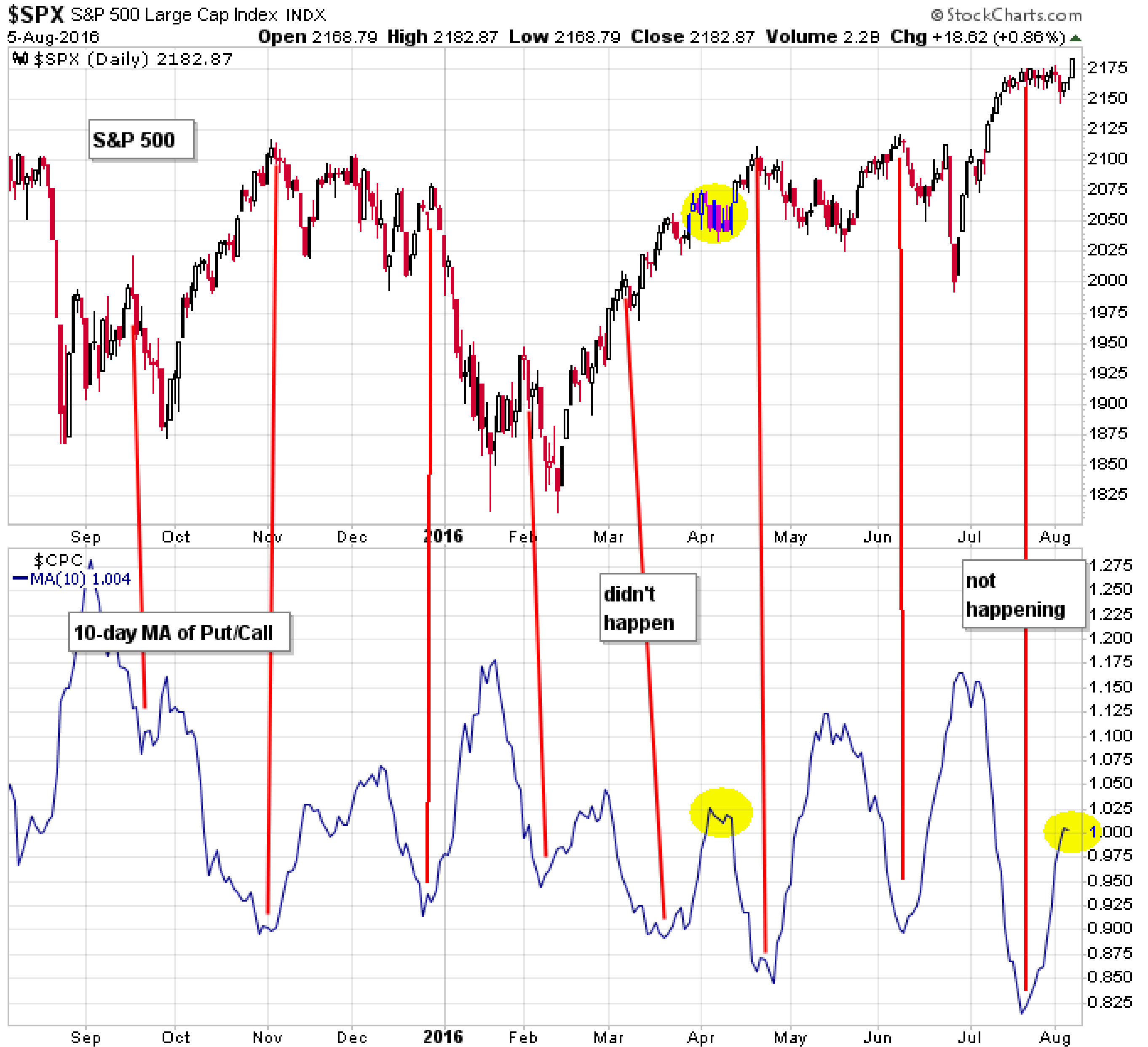
S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: The percentage of SPX stocks above their 50 has dropped 20% points the last couple weeks, even though the gap between the S&P and its own moving average only narrowed slightly.



Percentage of Nas 100 Stocks Above Their 50-day MAs/Percentage of Nas 100 Stocks Above Their 200-day MAs vs the Nasdaq: Yeah that's a mouth full. Try to visualize this. When a stock is steadily trending up, it'll be above both its rising 50-day and 200-day moving averages. But when it starts to pull back, it'll lose its 50 while staying above its 200. When this happens, this indicator will move down (the numerator will decrease while the denominator stays the same). If the market was flat, I'd say fine, but with the Nas continuing up the last month, it's notable this indicator has been declining. Let's not ignore this. Something has to give.

Nasdaq 100 vs. Percentage of NDX Stocks Above 20-day MA: And it's not just the longer term moving averages that are hinting at some deterioration; the percentage of stocks above their 20 has been declining for month, despite the NDX powering forward.

S&P 500 vs. 10-day MA of Put/Call Ratio: Like March, the rising put/call did not coincide with a market top forming. I guess when the market is strong, it's strong - it has the ability to temporarily ignore certain indicators in the same way it has the ability to ignore bad news. Temporarily. We'll see.



S&P 500 vs. 14-day Average True Range: No surprise here. Characteristic of an uptrend, the ATR continues down and is now at its lowest level of the last year. No subtle warnings here.

The Bottom Line

When the market traded quietly in a range, I was okay with some deterioration of breadth. After all, you'd expect the AD line to drop and fewer stocks to hit new highs. But if the market is in the process of breaking out and running, all the times the last two weeks I said "if the market attempts to leg up, we'll want to see this improve" are going to come into play. This seems to be where we are.

Earnings season is winding down. Major news items are nowhere to be found on the list of soon-to-be released economic numbers. August is not known for big rallies. Yet here we are with the S&P trying to break out and run. If successful, it would frustrate many people - bears and under-invested bulls. To confirm the attempt we'll need to see improvement from the breadth indicators, which are doing well but not well enough to support an extended move without themselves doing better.

Overall I like the market and continue to believe the S&P is headed for 2300-2400. In the near-and intermediate term I want to see the AD line improve, new highs expand and the percentage of stocks above various moving averages to improve. Otherwise a pent up negative force will build and likely lead to a quick price correction.

Have a great week.

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