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The market again traded in a small range last week. Little moves up got sold; little moves down got bought. No momentum. No traction in either direction. Just a quiet, spit-swapping market where nothing sticks and very little changes week to week.

There have been gap ups, which bring the bulls to the edge of their seats hoping for a breakout and rally. There have been gap downs, which offer a slight bit of hope to whatever bears remain.

But in the end, the overall market has done very little. And it's not just the last two weeks, it's the last five. Other than a brief move down and subsequent pop at the beginning of August, the market has traded in an historically small range. There is very little life out there when viewing the big picture. Beneath the surface there are pockets of strength and weakness (there's a bull market somewhere), but overall the market is very quiet.

Earnings season hasn't influenced prices. The prospect of higher rates next month isn't affecting things either (although some dividend-paying stocks have pulled back). News from overseas is either not very important, or the market just doesn't care right now.

My take is the market has a mind of its own, and when it's ready to move, it'll move. If news corresponds with the beginning of a move, I'll consider it more of a coincidence than anything else. Volume is light, the activity level is low, the range is small. When the market wants to wake up, it'll wake up. Not when Wall St. wants it to. Not when you or I want it to. When IT wants to.

Our job isn't to predict when it'll happen but instead to anticipate what we'll do when it happens. Scenarios need to be contemplated and activities need to be planned. What will you do if the market gaps up Monday morning and runs higher for five days? What will you do if the market breaks down, hits an air pocket and sells off 5%? What if it breaks down or breaks out and quickly reverses? This is trading. In the same way that football games are often won in the film room breaking down an opponent and strategizing with numerous "what ifs" and plan B's, the market is won at night and on the weekend. No

great trader who holds for more than an hour can depend on his ability to make decisions on the fly in the heat of the moment.

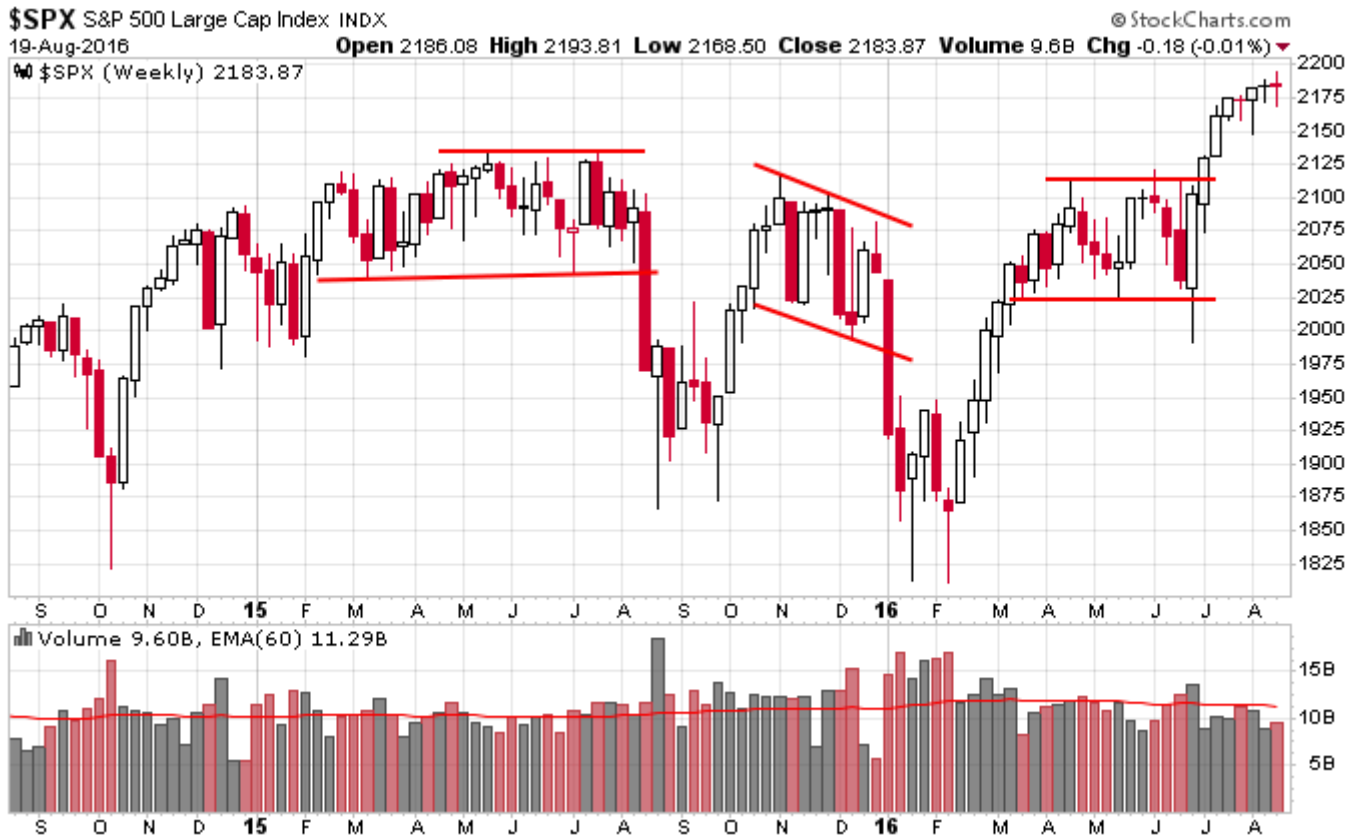
Overall I like the market and firmly believe higher prices are coming. In fact I'm so confident higher prices are coming (maybe not right now, perhaps early winter) that I'm secretly hoping for a correction here. Something big enough to cause doubt and offer a chance to buy quality stocks at lower prices would be fantastic...but not enough of a correction to destroy the technical picture.

In the near term I'm neutral. I recognize the overall trend, but I'm starting to worry a little about some beneath-the-surface deterioration taking place. New highs on multiple time frames having been declining. The AD line has sat just above 0. A few other breadth indicators have formed negative divergences. I'm not hugely concerned because the lack of life from the overall market can be expected to be accompanied by a lack of conviction beneath the surface, but the declining internals are still notable.

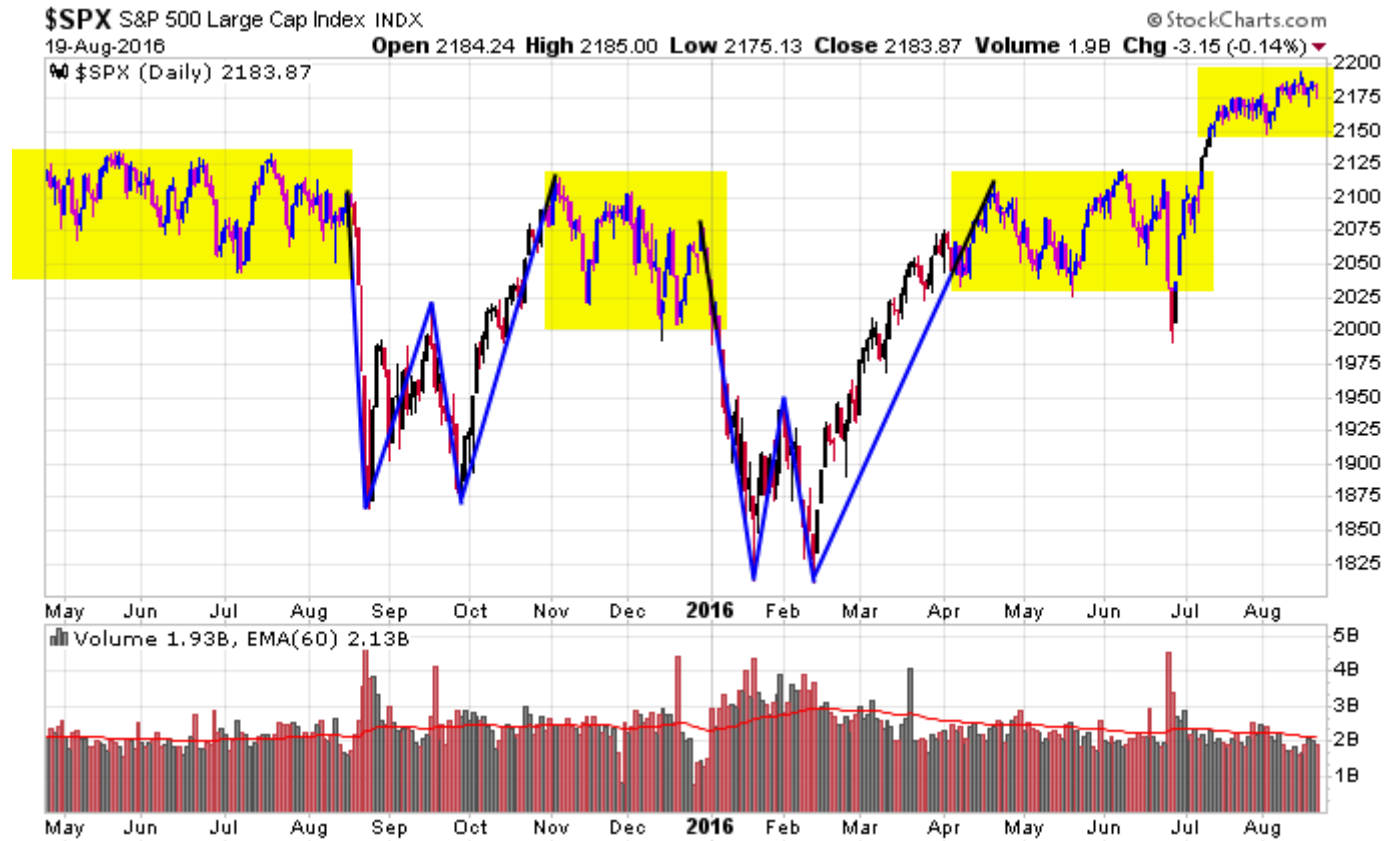
Let's get to the charts and see what they say.

Indexes

The S&P 500 Weekly: The S&P has closed close to where it opened three of the last four weeks. Doubt, indecision or just plain old inability or lack of interest to push prices forcefully in one direction? It probably doesn't matter. Seven straight weeks a new high has been made, but only the first couple got decent follow through. The market feels tired up here, but as it trades sideways, odds of a quick move in either direction increases.



The S&P 500 Daily: The daily didn't change last week. Another new high but zero follow through and another close in the middle of its range.



The S&P 500 60-Minute: The 60 shows the S&P expanding and then contracting the last two weeks. Some would consider this a diamond top that more often than not results in a reversal than a continuation. To me, it's nice to see price getting compressed, but to put odds on anything right now, given how slow things are, doesn't seem wise. Don't over-analyze.



Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: Over the last 10 days advancers have beaten decliners by a small amount - exactly what you'd expect considering the market itself is only up a small amount over the same time period. A divergence is in place, but I'm not overly concerned about it. If the indicator drops to -200, I'd say the bulls will have their backs against the wall, but for now, there is no urgency.



S&P 500 vs. NYSE Cumulative AD Line: The cumulative AD line continues up. The overall market strength is well supported. Even if a top was forming right now, it'll take time (several weeks and likely longer) before a down trend began. This doesn't mean we can't get a quick move down - just that a move down won't turn into a full-blown downtrend.



S&P 500 vs. 10-day MA of NYSE AD Volume Line: The AD volume line tells the same story as the AD line - by a small margin, advancing volume is greater than declining volume.



S&P 500 vs. NYSE Cumulative AD Volume Line: The cumulative AD volume also continues up. There is no warning here...and certainly nothing like last November and December when it trended down prior to the January plunge.



S&P 500 vs. NYSE New Highs: New highs at the NYSE dropped to their lowest level in two months. They've been trending down since early July. It's a small concern. The S&P has moved to a new high seven consecutive weeks but less stocks are moving to their own new highs. Less stocks are participating.



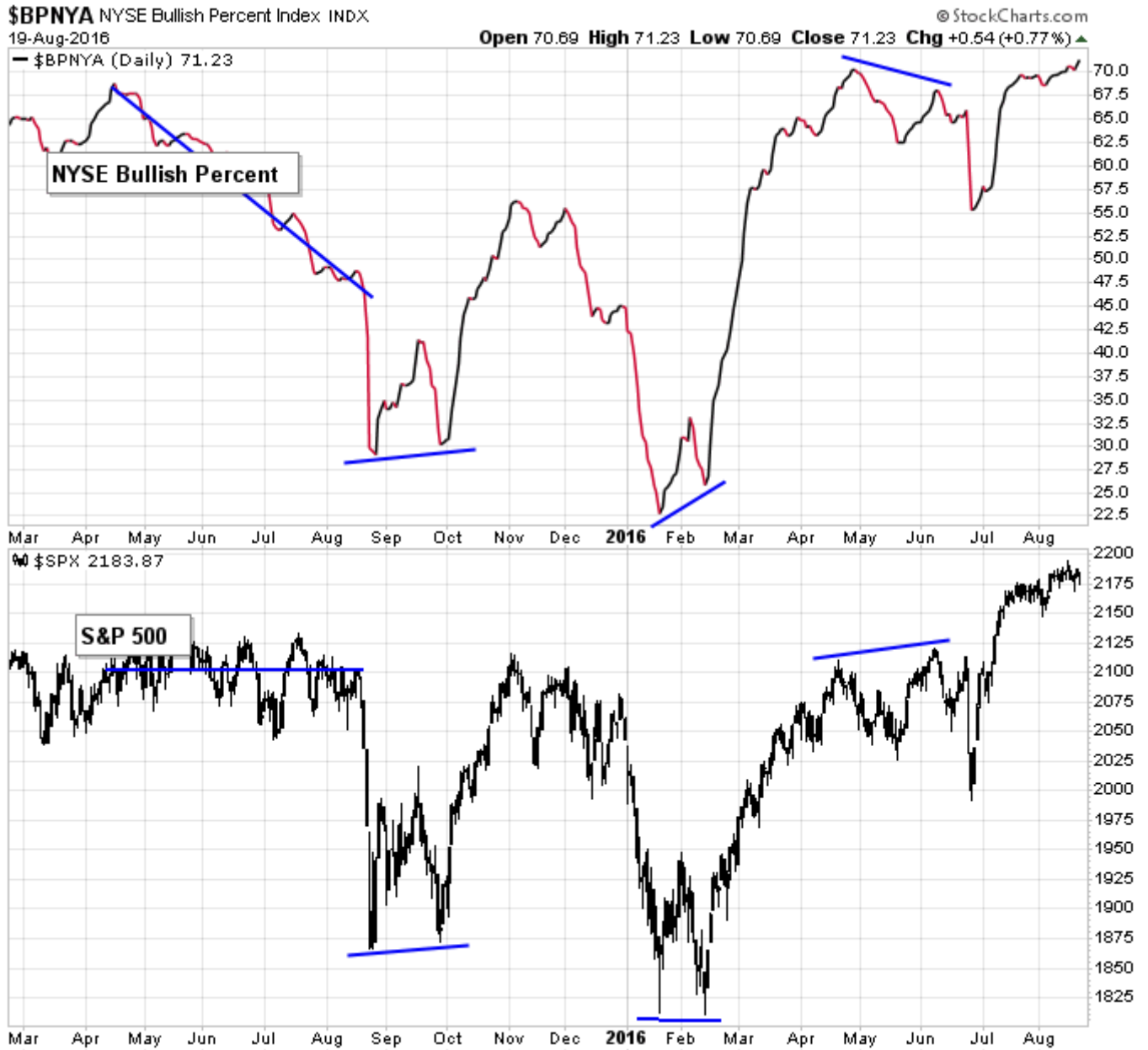
S&P 500 (black) vs. SPX 10-day Highs (green): And on a shorter term basis, the number of SPX stocks just moving to a 10-day high is not entirely supportive of the market's slight uptrend either.



S&P 500 vs. 10-weekly MA of NYSE New Highs (weekly): But on a longer term basis, weekly new highs fully support the market's trend.



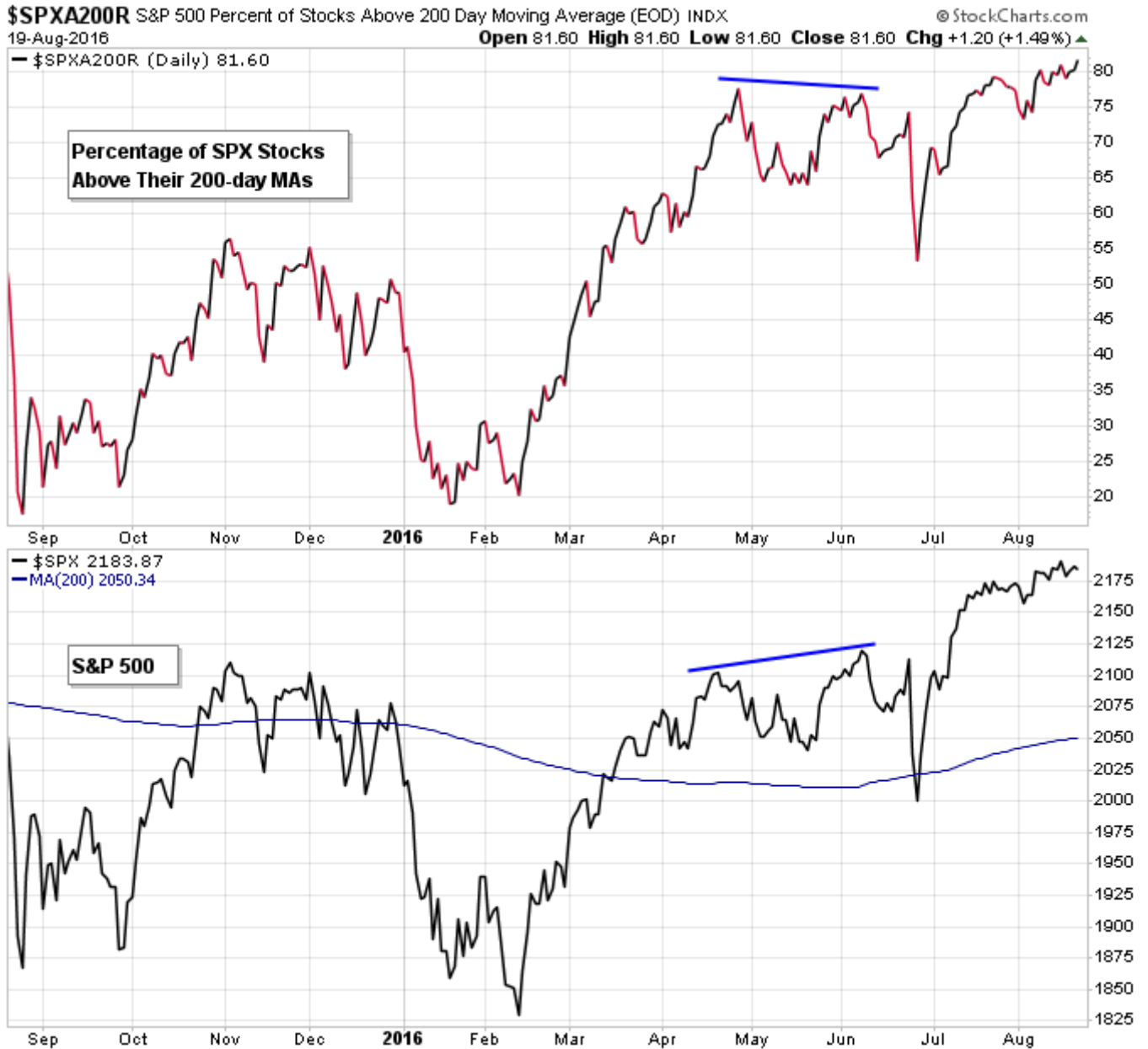
S&P 500 vs. NYSE Bullish Percent: The bullish percent at the NYSE, which measures the percentage of stocks that have buy signals on their point-n-figure charts, moved to a higher high.



NASDAQ vs. NASDAQ Bullish Percent: The bullish percent at the Nas is starting to roll over. If it actually happens, if it starts moving down, odds favor a near-term pullback (see all those arrows that line up).



S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: The percentage of SPX stocks above their 200-day moving averages moved to a new high. The longer term charts continue to very slowly get more support.



S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: But the percentage of stocks above their 50's has been lagging this month. It's salvageable, but under no circumstance would the bulls like to see this indicator break down...unless you're like me and are secretly rooting for a pullback that will give us a chance to buy quality stocks at lower prices.



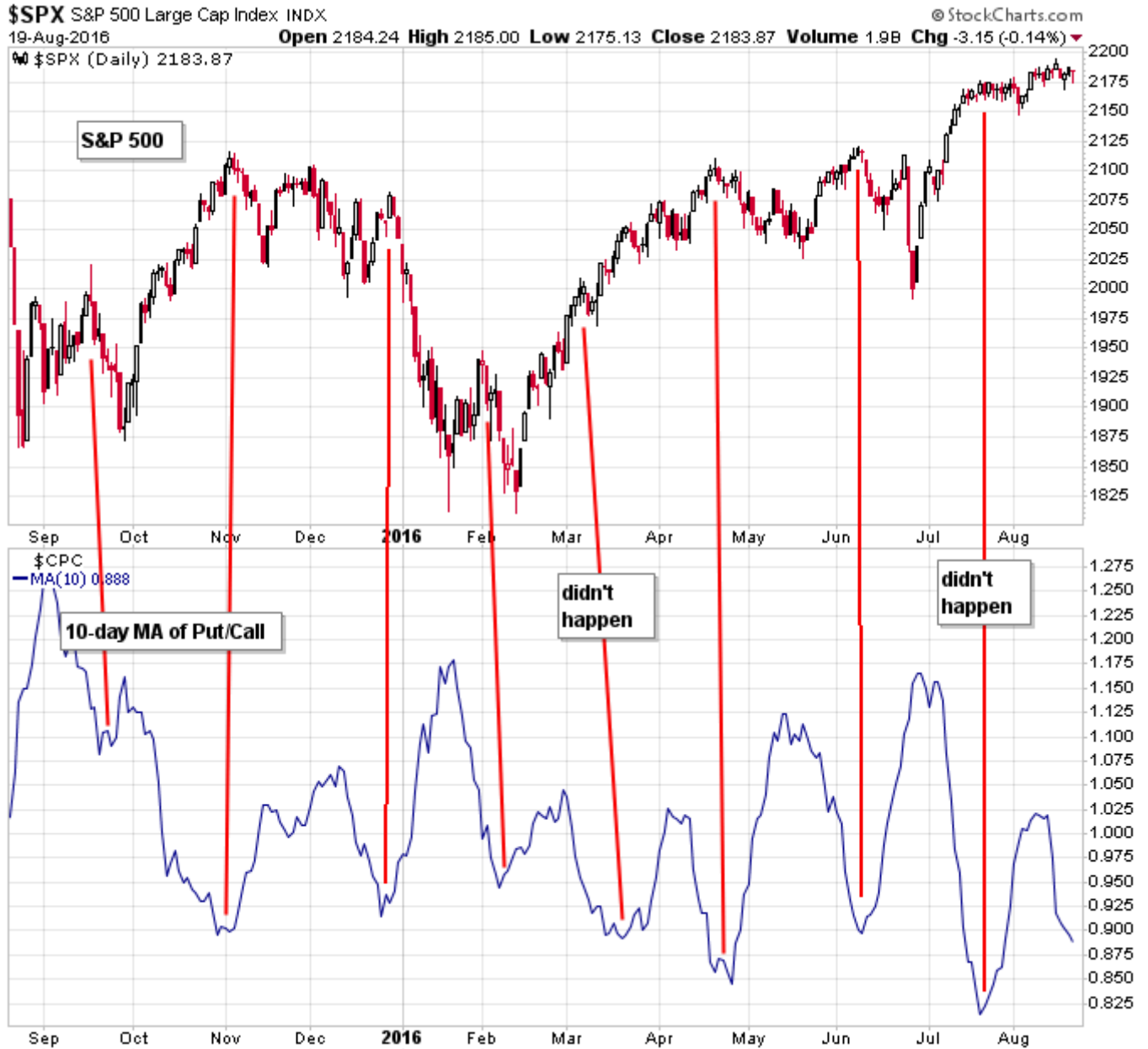
Nas 100 vs. 5-day MA of Percentage of NDX Stocks Above their 20-day EMA: The divergence also shows up between the Nas 100 and the percentage of stocks above their 20-day EMAs. The participation rate has fallen off some.



S&P 500 vs. Average 14-day RSI for SPX Stocks: Short-term divergences are showing up in many places. The average 14-day RSI for SPX stocks has been dropping for five weeks.



S&P 500 vs. 10-day MA of Put/Call Ratio: The falling put/call continues to support the market trend. If it curls up, watch for sideways or down movement.



The Bottom Line

Very little happened last week. The S&P closed where it opened and in the middle of its 2-week range.

August is living up to its summer doldrums reputation.

Overall I like the market and continue to believe it'll move higher...not necessarily right now but at some point between now and the end of the year.

In the near term I'm neutral. A strong enough case can be made some deterioration has taken place, and while I wouldn't expect a big or lasting move down, I wouldn't be surprised if a little downside air pocket was hit and we got some selling pressure.

Don't over-analyze.

Have a great week.

Jason Leavitt

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