Jason Leavitt jason@leavittbrothers.com	Sunday, August 28, 2016

By many historical measures, the market is as quiet as it has been in decades...which means for most of us, it's as quiet as it's ever been.

A range typically sees mini moves in both directions. The bulls take control for a week or two, and then the bears get to have the upper hand. Rallies get sold and dips get bought, but the moves in both directions go for several percent and offer a little hope to both sides along the way. Not now.

The market has sat in a tiny zone the last six weeks. Skilled short-term traders have had few opportunities, and swing traders have gotten little follow through on breakouts and few opportunities to add to winners. It's been a spit-swapping grind. There has been no follow through. Moves haven't lasted more than a couple days - just churning action that has frustrated and somewhat baffled most on Wall St.

The Bollinger Band Width on the S&P daily chart is the narrowest in two years. The Average True Range is at its lowest level over the same time period. The S&P futures have traded in a smaller 30-day range than any other 30-day period the last 30 years.

None of this helps us make money, but it does offer a little pat on the back and words of encouragement to not worry if you've noticed the recent lack of opportunities. The market has a mind of its own. It does what it wants, when it wants. I'll leave explanations to college professors and know-it-all journalists. Our job isn't to figure out why something happens (or why something doesn't happen) but instead to work out a game plan to profit from the most likely scenarios. This is where the game is won.

Like a football team that spends countless hours in the film room breaking down an opponent, we put in the time noticing the trends, assessing the staying power of the trends and the odds they continue or end and how to make money in all likely outcomes.

Given this attitude, this is what I see...

I see a market that largely traded range bound for two years and then broke out last month. Prices didn't get far before settling into the range discussed above. Longer term indicators have fully supported the market's gains, but shorter term cyclical indicators have lost their meaning. This shouldn't be a surprise. If the market trades flat for six weeks, any indicator that uses less than six weeks of data or any indicator that weights recent data over past data will also flatten out. So with the market trading flat and the shorter term indicators losing their meaning, we're left with a very neutral picture and roughly equal odds of a move in either direction.

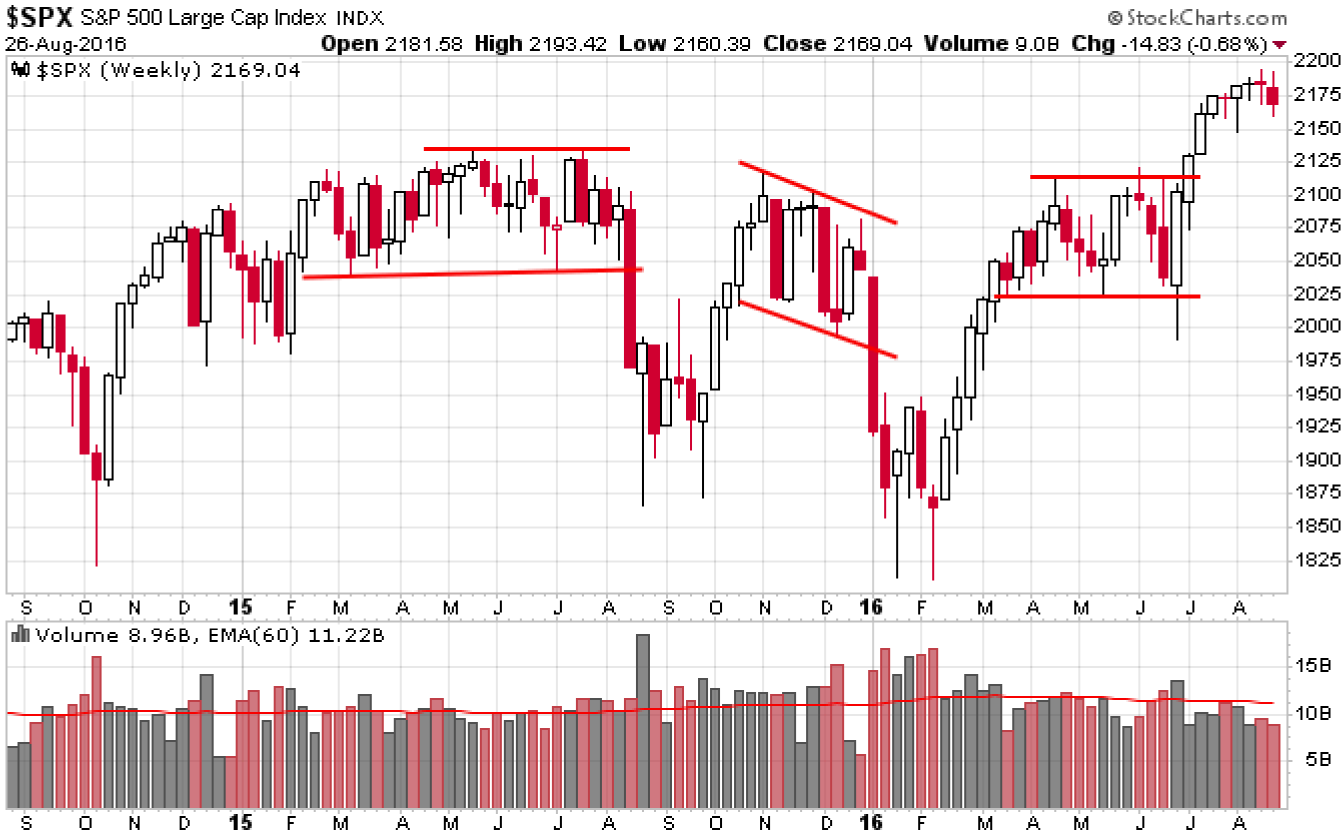
Maybe we actually get a 5% drop right now. It could happen, but we could also get a false move down followed by a quick rally that takes us to new highs. Or maybe the market rights itself after Friday's loss and puts in another round of across-the-board higher highs. It's just as possible, and of course a false breakout to the upside is on the menu too.

The market has been flat for six weeks. There's lots of pent of pressure on both sides. Anything goes here, and I see no point taking a stand and fighting that I'm right. Over the intermediate term (next couple months, I'm confident higher prices are coming, and the S&P will rally up to 2300-2400. But in the near term, it's been such an uninteresting sloppy mess, I'm somewhat losing interest. Patiently waiting for very good set ups that offer serious upside potential seems like a better bet than taking mediocre trades in such an uninspiring environment.

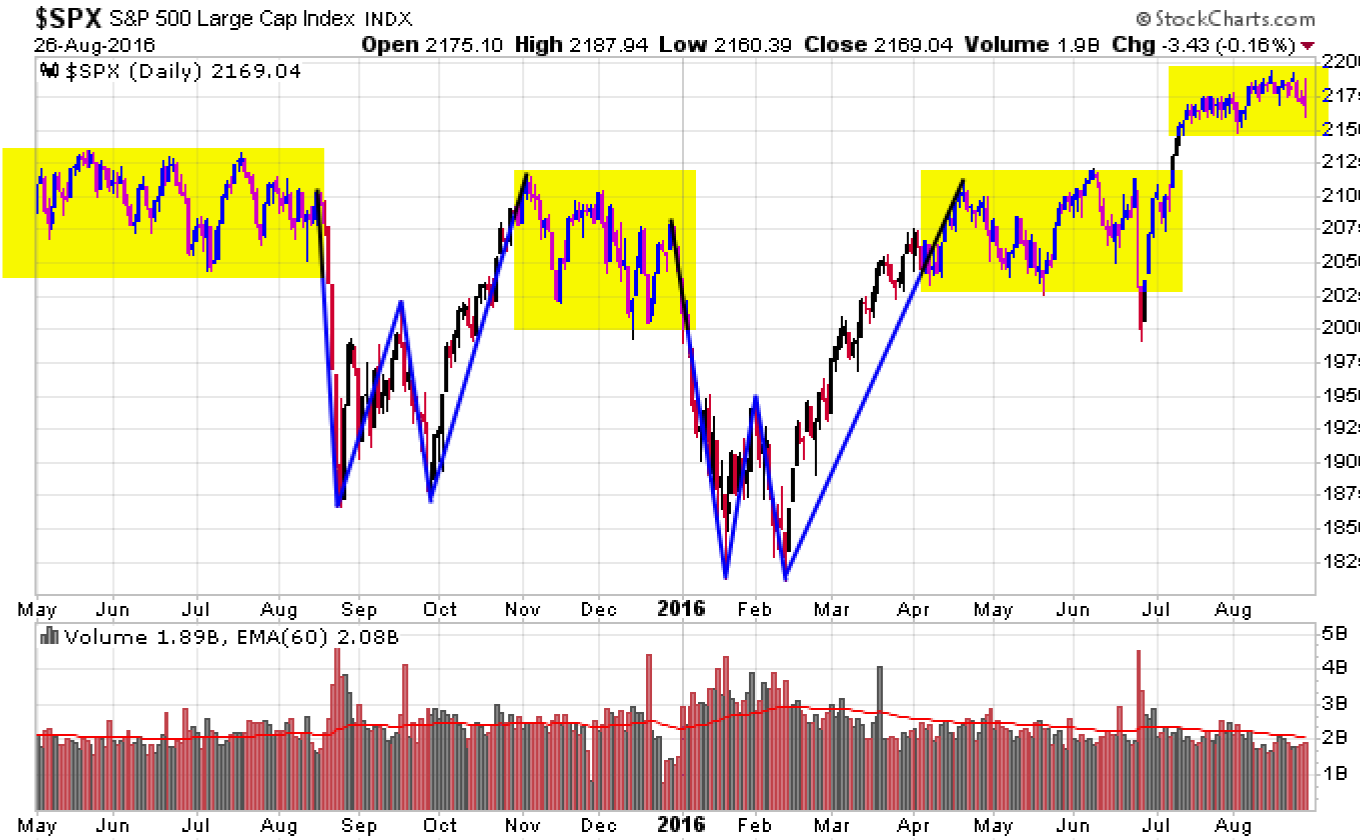
Let's get to the charts and see if they offer any clues.

Indexes

The S&P 500 Weekly: For the first time in eight weeks the S&P failed to put in a higher high. Even strong markets do some backing and filling, so I just don't see anything overly alarming here. The market is simply consolidating a 10% rally, so for now pullbacks will continue to be buyable.



The S&P 500 Daily: There nothing overly alarming here either. Longer term traders who are holding quality positions should not panic. Manage them wisely, but there's no reason to freak out just because the market dropped a few days last week. Even if many Fed governors came out in favor of higher rates, the news would quickly get absorbed and life would continue on. I see no reason to believe anything other than a minor drop may be in the works.

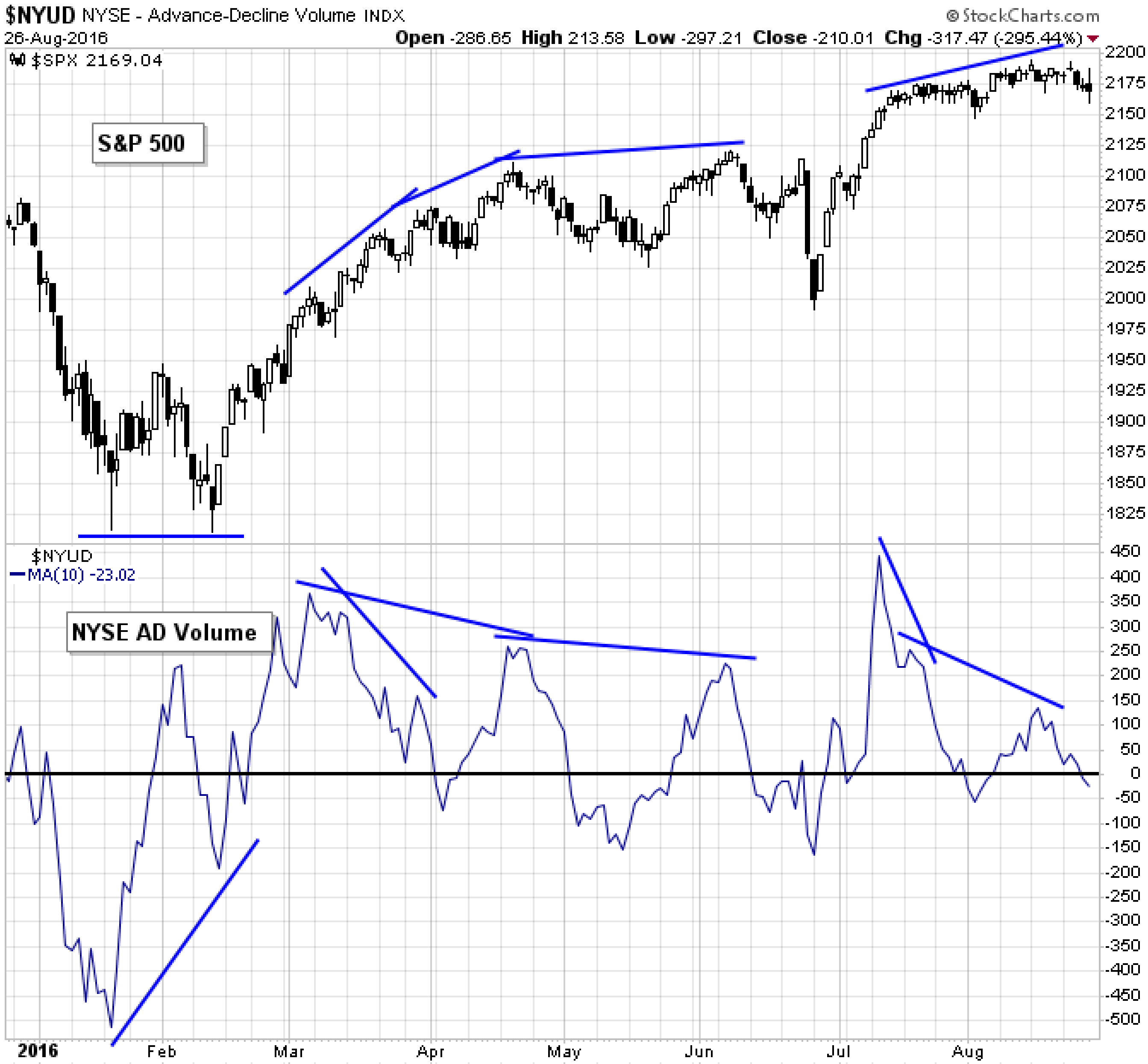


Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: The market is down a little over the last ten days, and the 10-day MA of the AD line sits right at 0. What else could we expect? If it was stronger or weaker it'd be a subtle hint, but it's not. While the market goes nowhere, this indicator hasn't told us anything.

S&P 500 vs. NYSE Cumulative AD Line: The cumulative AD line has moved up at a faster pace than the overall market, so there are no beneath-the-surface hints of deterioration here.

S&P 500 vs. 10-day MA of NYSE AD Volume Line: The AD volume line has slipped slightly below 0 - no big deal. If it takes out the early-August low while the market stays range bound I'll consider it a warning, but as long as there are no drastic moves, there's nothing to see here.

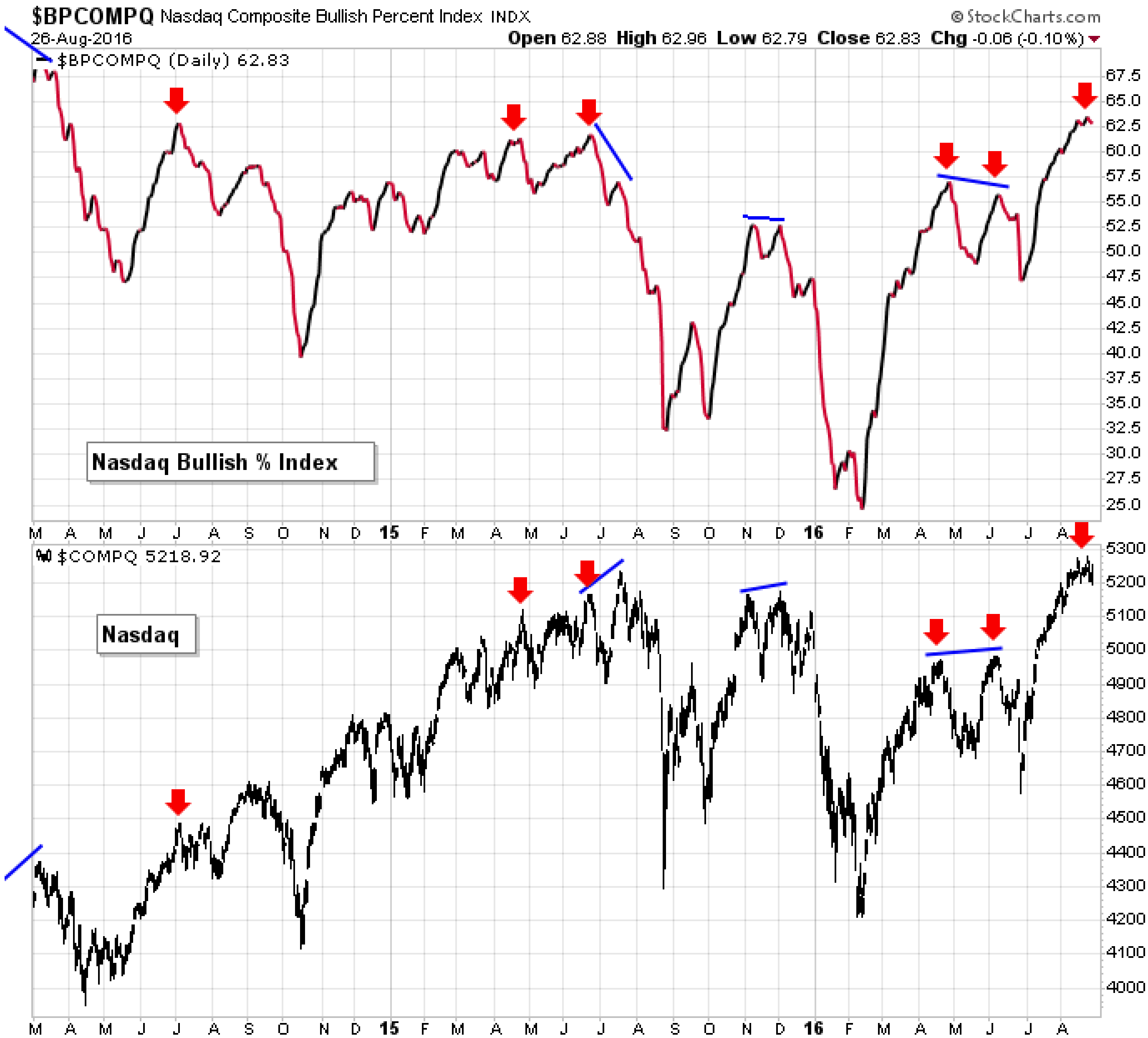


S&P 500 vs. NYSE Cumulative AD Volume Line: And even though the cumulative AD volume line is starting to roll over it looks nothing like it did last November and December when it trended down for two months ahead of the January plunge. If the market does pull back right now, it'll be buyable.

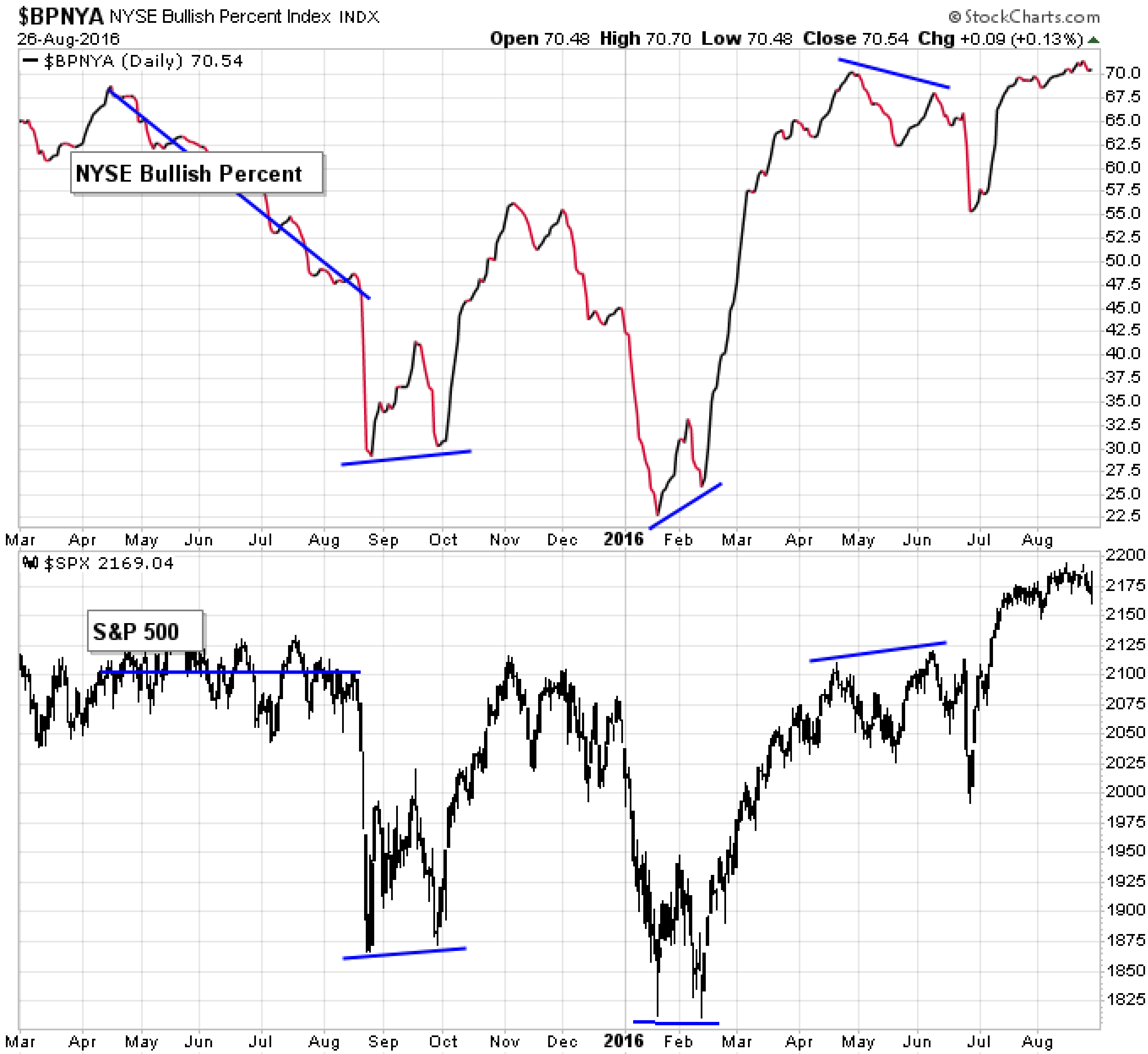
S&P 500 vs. NYSE New Highs: New highs have been trending down for two months, but by and large, they're still registering at a decent clip. The trend is notable, but I don't see a screaming warning here.

NASDAQ vs. NASDAQ New Highs While the Nas has moved up and over the last two months, new highs have jumped around at a relatively high level. They haven't been consistent, but they've maintained a decent level and aren't offering any warnings here either.

NASDAQ vs. NASDAQ Bullish Percent: The bullish percent at the Nas is stalling. That's it. It's stalling. If it starts to head south, then odds favor a market pullback, but this hasn't happened yet.



S&P 500 vs. NYSE Bullish Percent: The bullish percent at the NYSE is no more worrisome. It's stalling too and looks nothing like the minor pullbacks that took place over the summer.

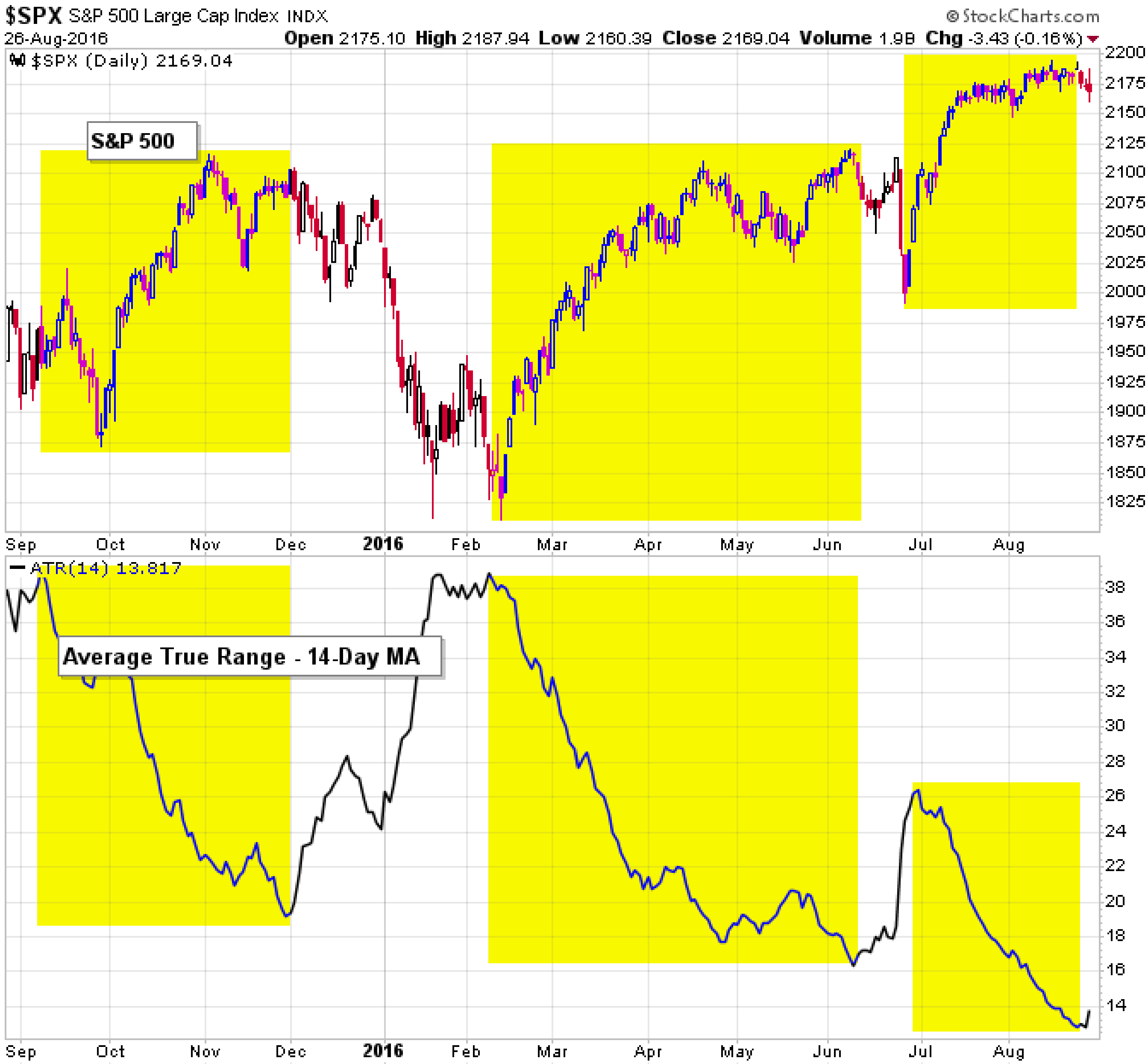


S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: At a relatively high level, a mini negative divergence is forming between the S&P and the percentage of S&P stocks above their 200-day moving averages. A minor pullback makes sense here.

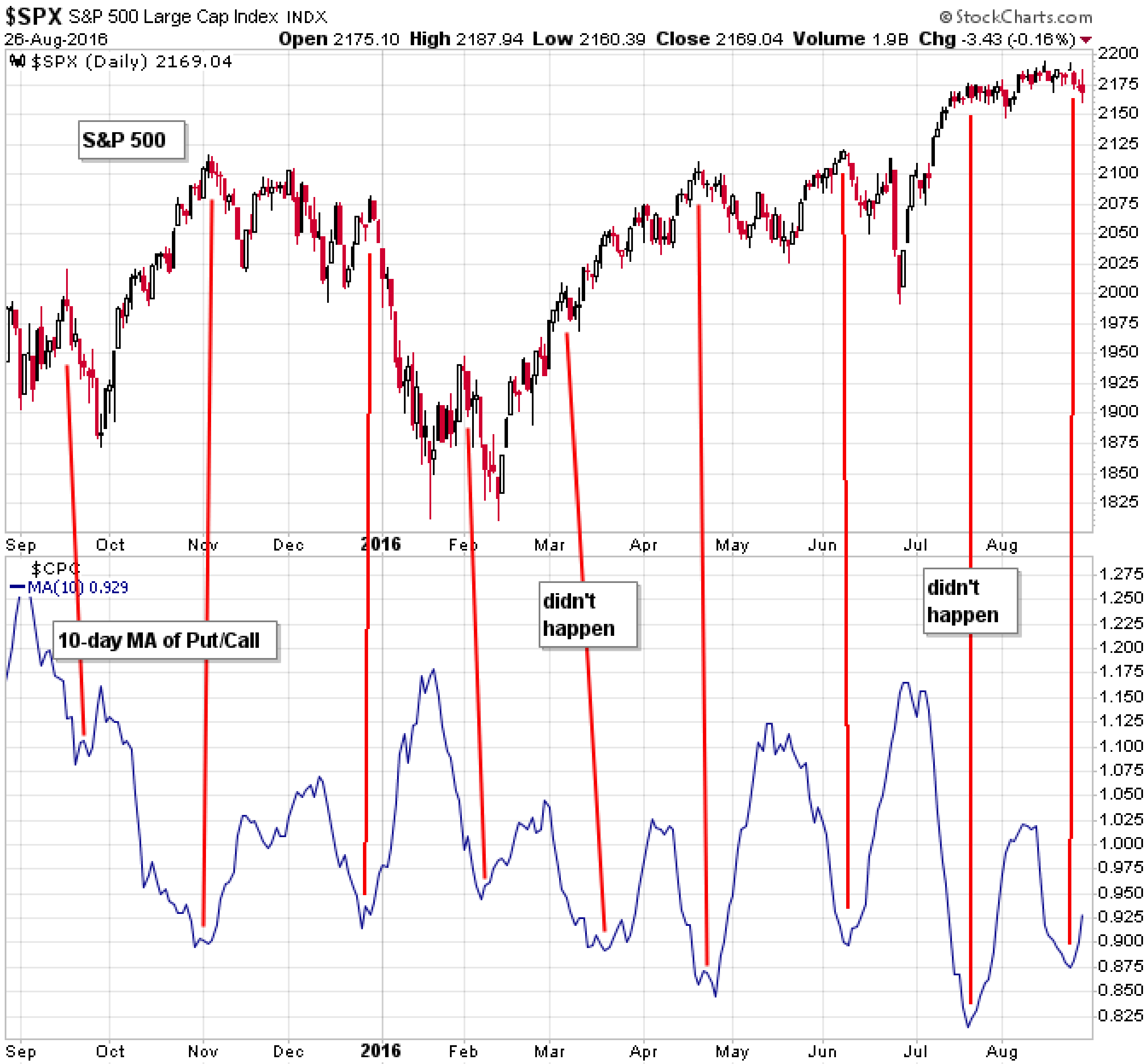
S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: This indicator has gone from bad to worse. Despite the S&P being a short distance from its all-time high, the percentage of SPX stocks above their 50's is at a 6-week low. On an intermediate term basis, deterioration is taking place beneath the surface.

Percentage of Nas 100 Stocks Above Their 50-day MAs/Percentage of Nas 100 Stocks Above Their 200-day MAs vs the Nasdaq: This indicator continues to deteriorate. Little by little over the last two months, even though the Nas has mostly moved up, Nas 100 stocks have lost their 50's. If you don't want to go short that's fine. But odds don't favor long trades working out in the near term.

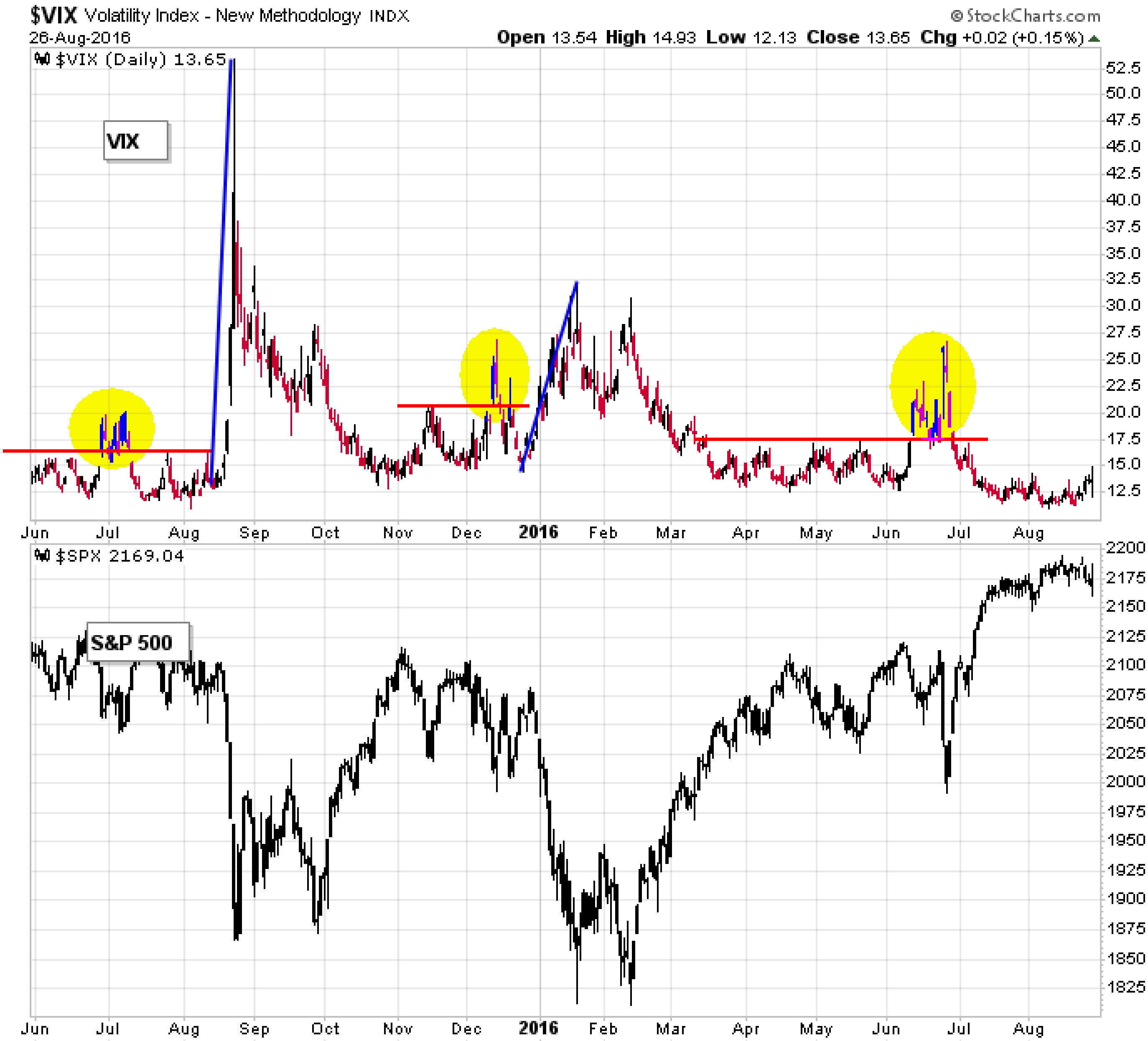
S&P 500 vs. 14-day Average True Range: For the first time since late June the ATR is starting to curl up. You never know when a bounce will morph into a full-blown up trend, but for now, since the bulls deserve the benefit of the doubt, I'm treating this like a bounce within a downtrend, which will coincide with a very minor market pullback.



S&P 500 vs. 10-day MA of Put/Call Ratio: The put/call is curling up. More times than not this tends to coincide with the market rolling over, even if for only a week or two.



S&P 500 vs. VIX: For the first time since early June the VIX moved up five consecutive days. Will history repeat? In the past, initial surges (in yellow) were followed by slow periods, which were then followed by a much bigger move. We'll see. After such a long quiet period, it's notable volatility has picked up.



The Bottom Line

Overall the market is in good shape, but in the near term things have been slowly deteriorating. The beneath-the-surface weakness is not drastic, so I don't think there's reason to panic. But I can certainly make the case for a minor pullback right now.

This is what I lean towards - a minor drop.

But any drop that takes place should be treated like a pullback within an uptrend. I believe higher prices will come later this year and a new round of higher highs put in place. The bulls deserve the benefit of the doubt (overall, not at all times).

Have a great week.

Jason Leavitt
Jason@leavittbrothers.com