Leavitt Brothers

Weekly

Jason Leavitt
jason@leavittbrothers.com

Sunday, September 18, 2016

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

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

We entered this past week with all hands on deck and everyone at the edge of their seats.

The previous Friday, the ECB announced they were keeping rates at their current level, but they wouldn't commit to any new stimulus going forward. They weren't against further stimulus. They just wanted to explore their options and didn't want to commit to anything.

On the news, markets around the world sold off hard. The US market, which had been very quiet (no 1% days in two months), dropped 2.5% - its single biggest drop since the post-Brexit plunge. The drop stunned and disrupted the market's character. Two months of very quiet, small range, low volume, low volatility action was suddenly over. Was the sudden change a 1-day, news-induced event or would it be the beginning of a character shift and possibly the start of a correction? These were the questions on investor's minds heading into last week. Hence, why everyone was at the edge of their seats.

The week started with an immediate reversal of the previous Friday's sell-off. No need for Turnaround Tuesday when it happened on Monday. At this point Wall Street was reminding itself the UK leaving the EU was only good for two stiff down days. If the ECB simply wants to contemplate its stimulus options while not committing to anything, what was that worth? We know they'll stimulate like crazy if the market falls hard, so it was worth considering if the news really did justify the big losses the previous Friday. But the market fell again Tuesday and tested the low. After an off day Wednesday, the market posted a solid gain Thursday and then a moderate loss Friday.

Two up days and three down days resulted in a small-to-moderate gain and a close near the middle of the intraweek range. There was such great anticipation heading into the week, and although day traders are now in heaven with all the movement, nothing has been resolved overall. We didn't get downside follow through, but we didn't get a robust bounce either. On a week-over-week basis, the market didn't move much, so I'd consider it in limbo and not sure of what it wants to do next. Follow through to the downside and another 90/10 down day would have set the stage for getting more aggressive on the long side. A low-volume bounce that lacked energy would have set up some shorts for another leg south, but this didn't happen either. Volume on the up days was strong. So we're in the middle and without a clear sign heading into next week.

This is probably fine considering we have a very important FOMC meeting next Wednesday. Once the January meeting came and went without a rate hike, Wall Street collectively concluded there would be no rate hikes for a while, but this feeling has subsided the last month. There's been much more hawkish Fed talk, so although the odds still favor no hike, the odds of a hike are high enough to be on everyone's mind.

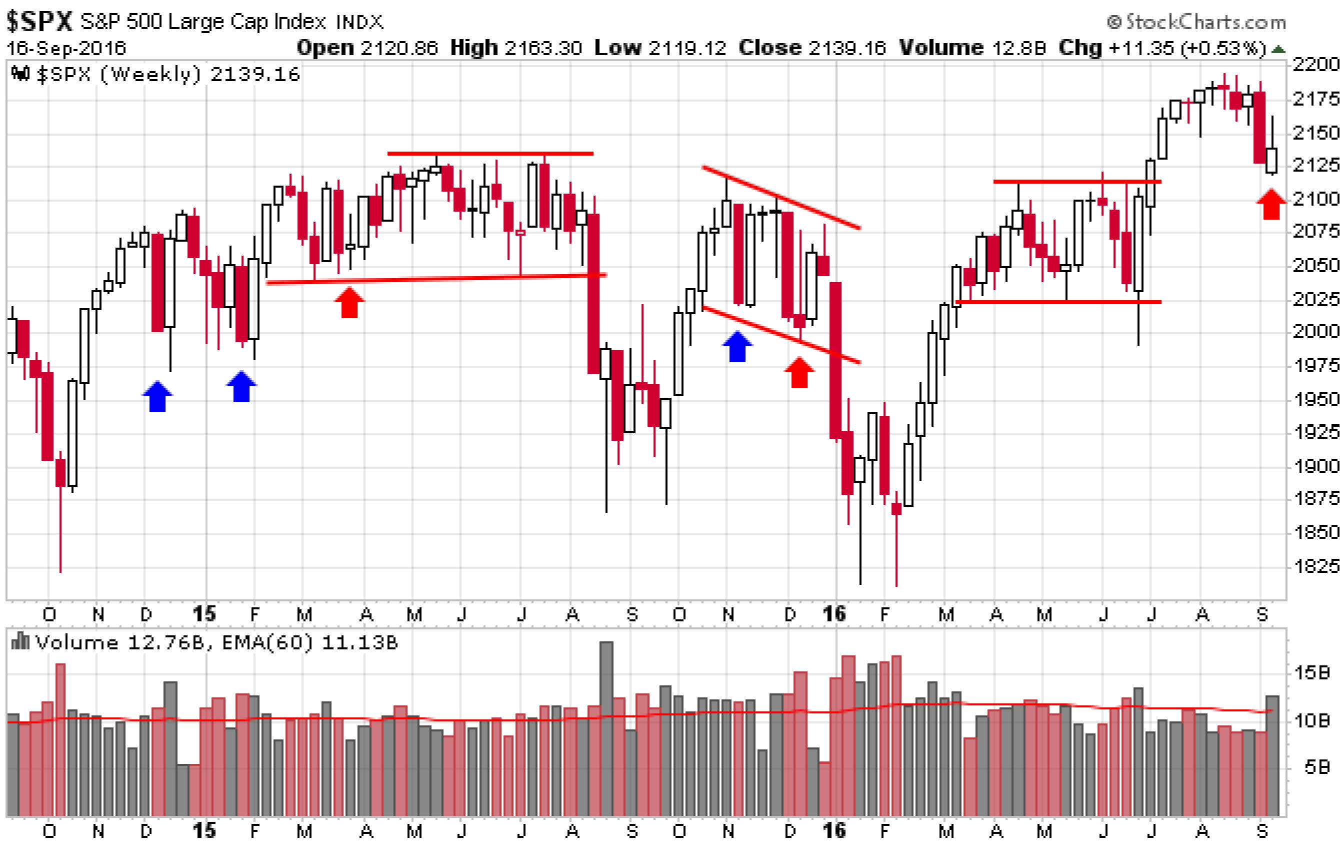
Personally I don't think they'll raise because: 1) the recent abrupt move down following the ECB news (yes the Fed does watch the stock market), and 2) with a democrat in office and a women as Chairman of the Fed and with Hillary losing ground in some polls, do you really think the Fed will raise rates and induce a pullback? I doubt it.

But the market is acting like it's anticipates a rate hike. Dividend-paying safe-havens, which have done great this year with the lack of a rate hike, have all pulled back. Telecoms (T, VZ), REITs and many others have suffered lately. Bonds have also dropped hard. Even gold and silver, which have been on the leader board all year and have popped after each Fed meeting, have pulled back. If the charts look 6-9 months into the future, then I'm probably getting ahead of myself. But if they more predictive value in the near term, they're telling us a rate hike is coming soon.

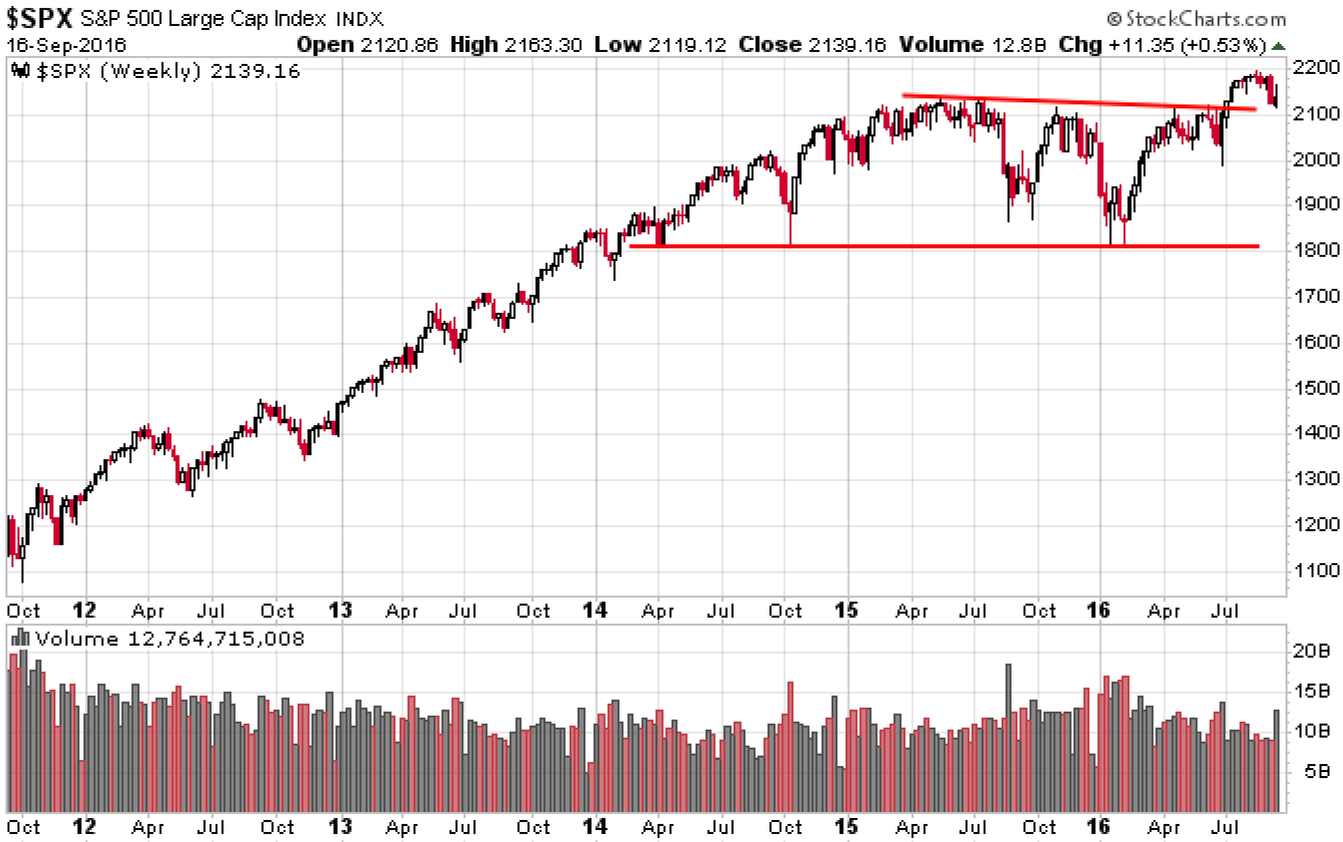
Take the easy and obvious trades. Don't be shy about passing on the mediocre set-ups and opting to wait for some truly good ones. Let's get to the charts and see what they say.

Indexes

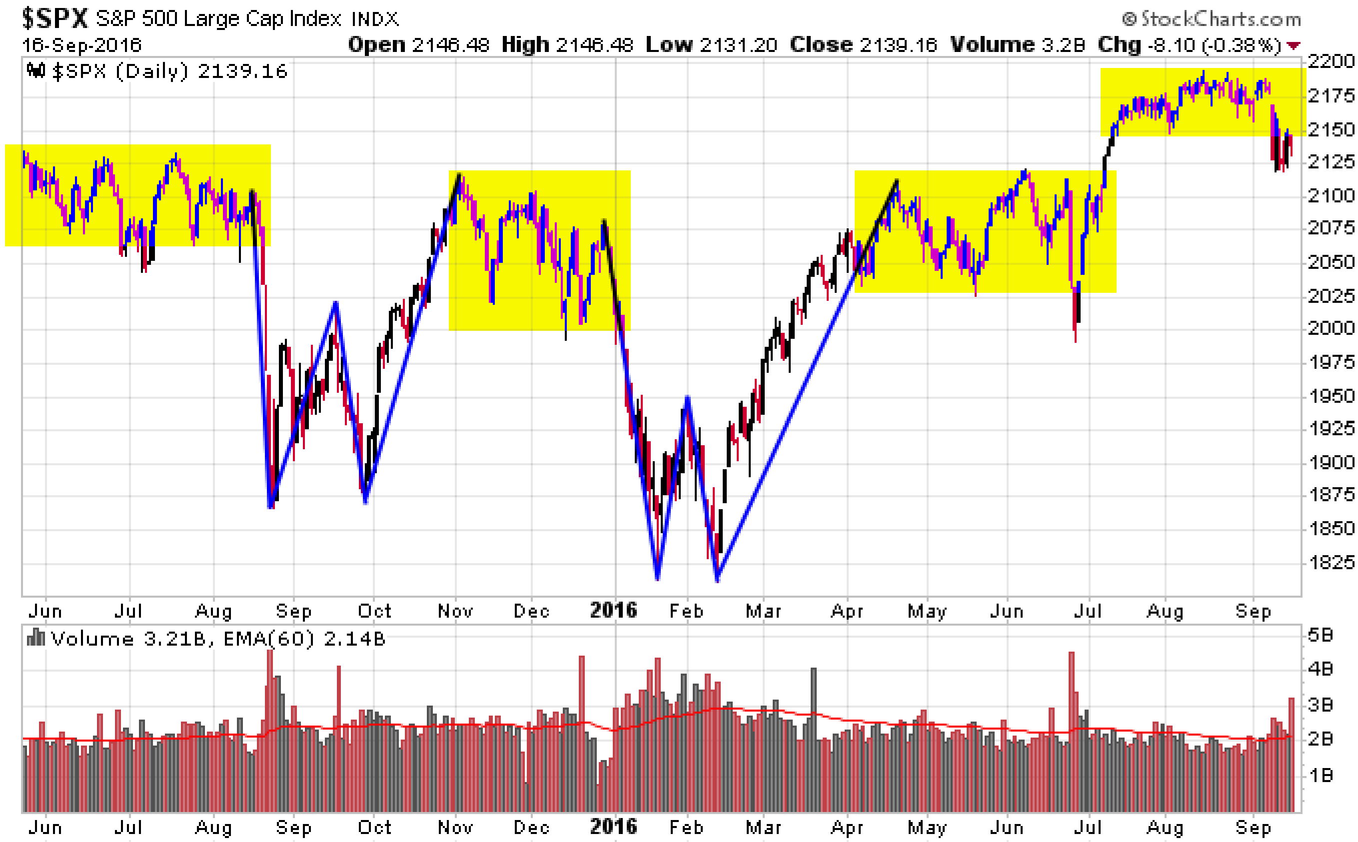
The S&P 500 Weekly: Last week's candle was middle of the road. It wasn't a rip-roaring week that recaptured all of the previous week's loss (blue arrows are examples), but it wasn't a complete dud either (red arrows). It was better than a loss but not great overall. If we entered the week at the edge of our seats eagerly interested in seeing what would happen next, we're still there because we didn't get an answer. Everything carries through to next week, where we have a mid-week FOMC meeting.



The S&P 500 Weekly: A quick glance at the bigger picture. A huge rallied was followed by a 2-year, 300-point consolidation pattern. A July breakout pushed the index to a new all-time high, but it didn't get too much follow through before topping and rolling over. The most amount of trading that took place the last five years took place between 2000 and 2100, so there will be a massive amount of support on any move down from the current level.

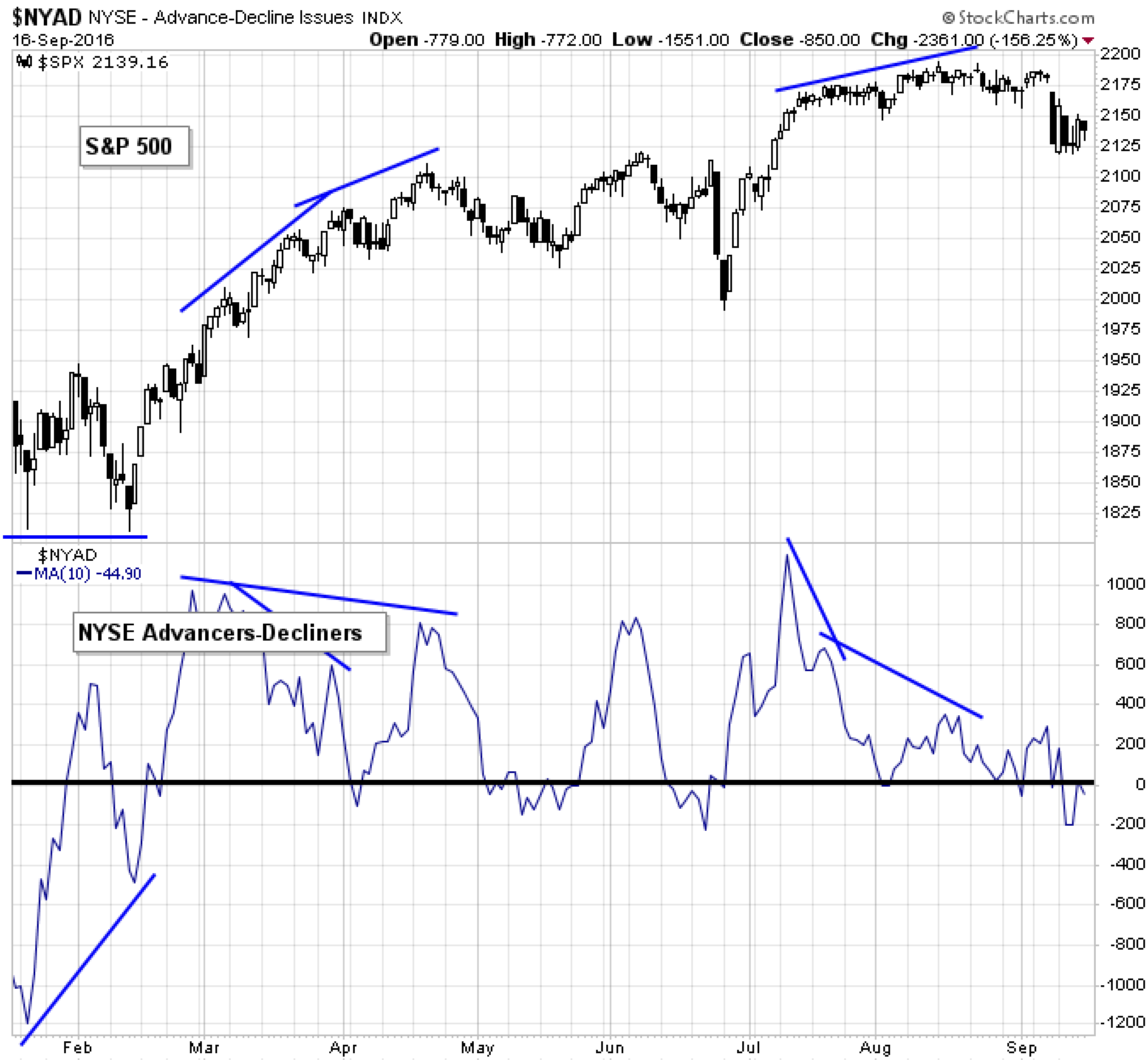


The S&P 500 Daily: The daily dropped out of its box and so far has found support at the top of the previous box. At times the lack of movement can be frustrating, but we have to remind ourselves the market spends more time doing nothing than doing something. At least we now have some parameters to work with - last week's low, the overall high and volume as the index travels between the two.



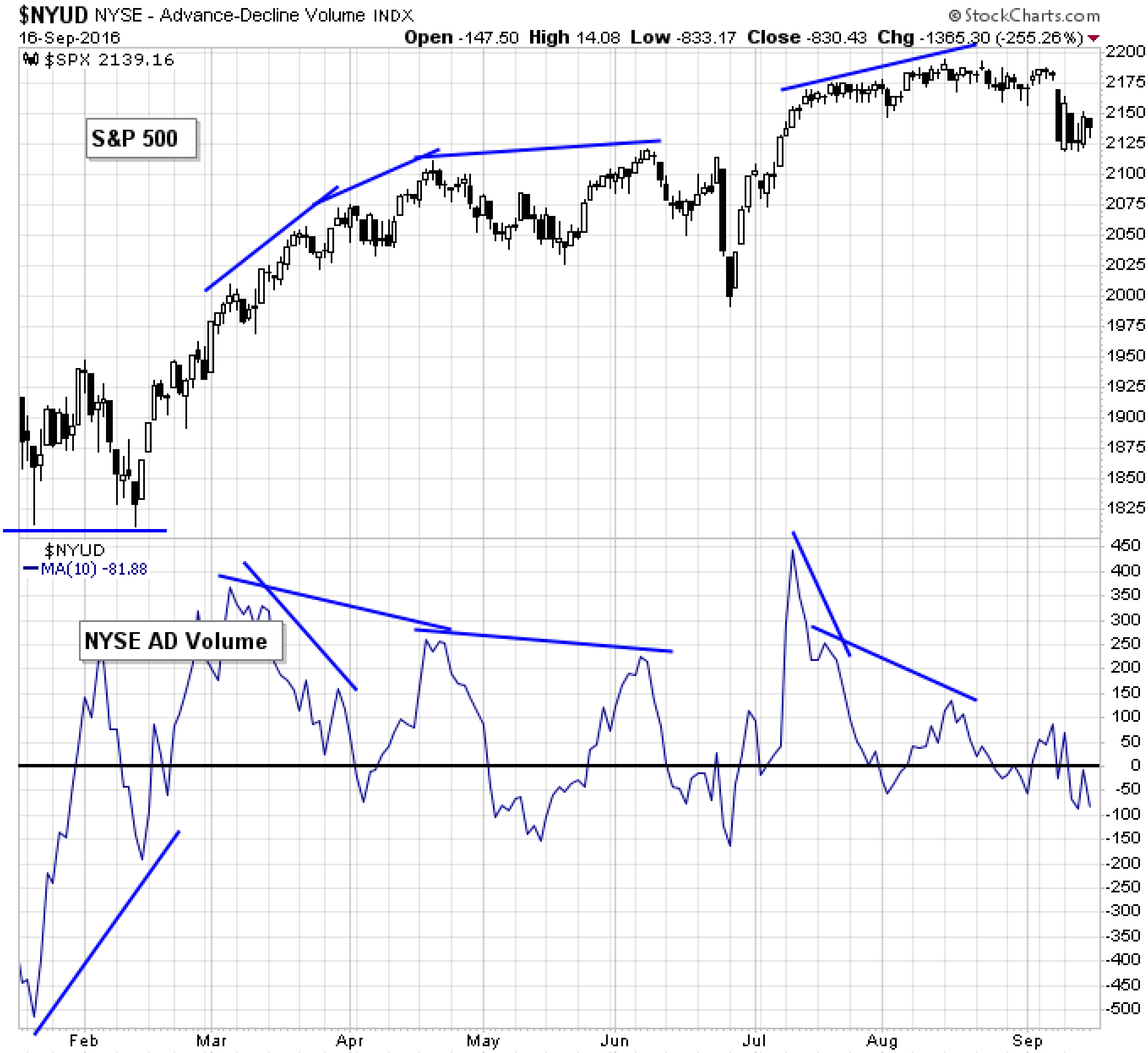
Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: Advancers on up days have been strong enough to counter decliners on down days. The 10-day of the AD line hasn't dropped much below 0, so as of now we're told this is a typical correction within a downtrend. If last week's low is taken out, the story changes. For now this is normal and salvageable.



S&P 500 vs. NYSE Cumulative AD Line: No warnings from the cumulative AD line - and nothing like May-August 2015 and last November-December when the indicator trended down. This indicator tells us the market has underlying strength, so even if there is selling pressure after the Fed meeting, it'll won't lead to a big move down.

S&P 500 vs. 10-day MA of NYSE AD Volume Line: The AD volume line dropped to a 2+ month low but is still in line with previous pullbacks. Things can change (the indicator only uses 10 days of data), but for now this indicator isn't signaling anything worse than a pretty normal pullback.

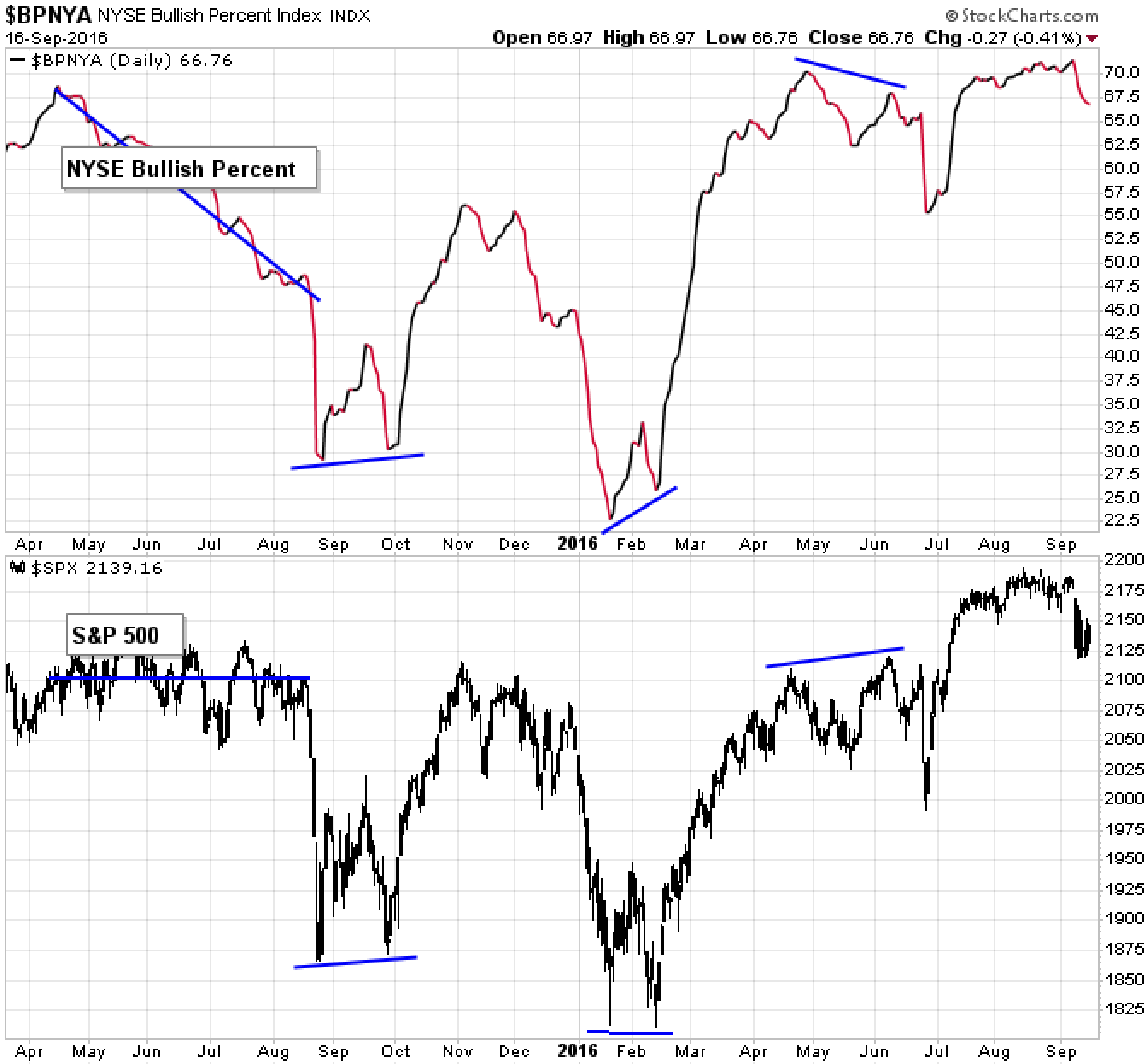


S&P 500 vs. NYSE Cumulative AD Volume Line: There are no warnings here either with the cumulative AD volume line. Previous market plunges were preceded by this indicator trending down for a few months. It's not happening. There's no hint a top is forming, let alone a legit correction brewing.

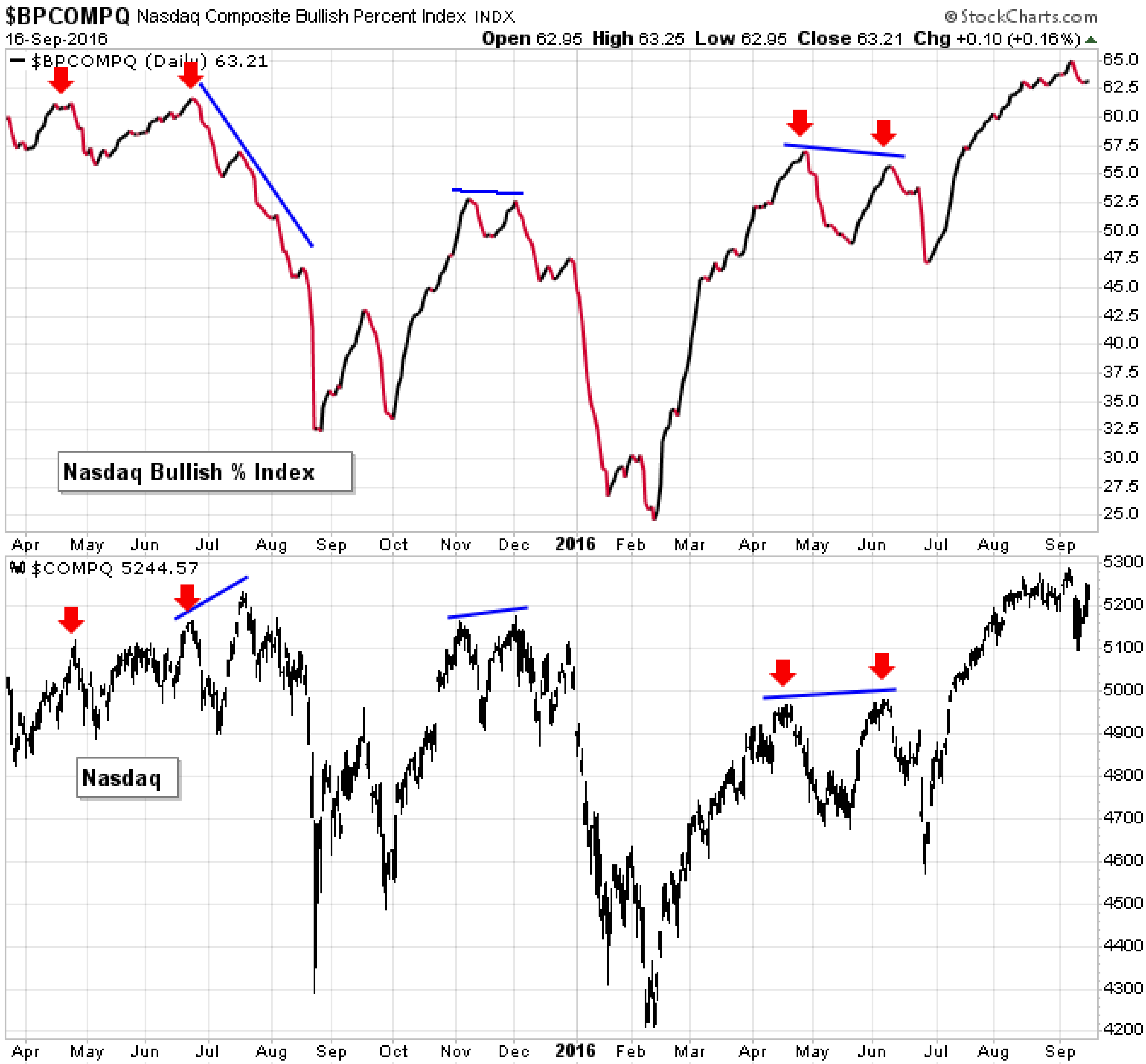
S&P 500 vs. NYSE New Highs: New highs at the NYSE have been declining for 2+ months. Even when the S&P was near its high, new highs among individual companies were falling off. However the big difference between now and the last big correction (January) was new highs back then fluctuated between 0 and 100 while until recently, they were still printing at a decent level.

NASDAQ vs. NASDAQ New Highs Day-to-day new highs are hard to decipher, but the 10-day has been telling. It trended down last November and December, just before the bottom fell out of the market in January. It failed to match the market's higher high in April, leading to a tradable move down. Let's see what happens right now. The 10-day dropped to its lowest level in two months, but I wouldn't consider it to be trending down. Let's see what happens going forward, especially since the Nas isn't far from its high.

S&P 500 vs. NYSE Bullish Percent: The NYSE bullish percent has dropped to a 2-month low, but it still sits at a high level. And unlike the summer of 2015 and last December when the indicator either trended down or suddenly dropped, there's no indication of beneath-the-surface weakness.



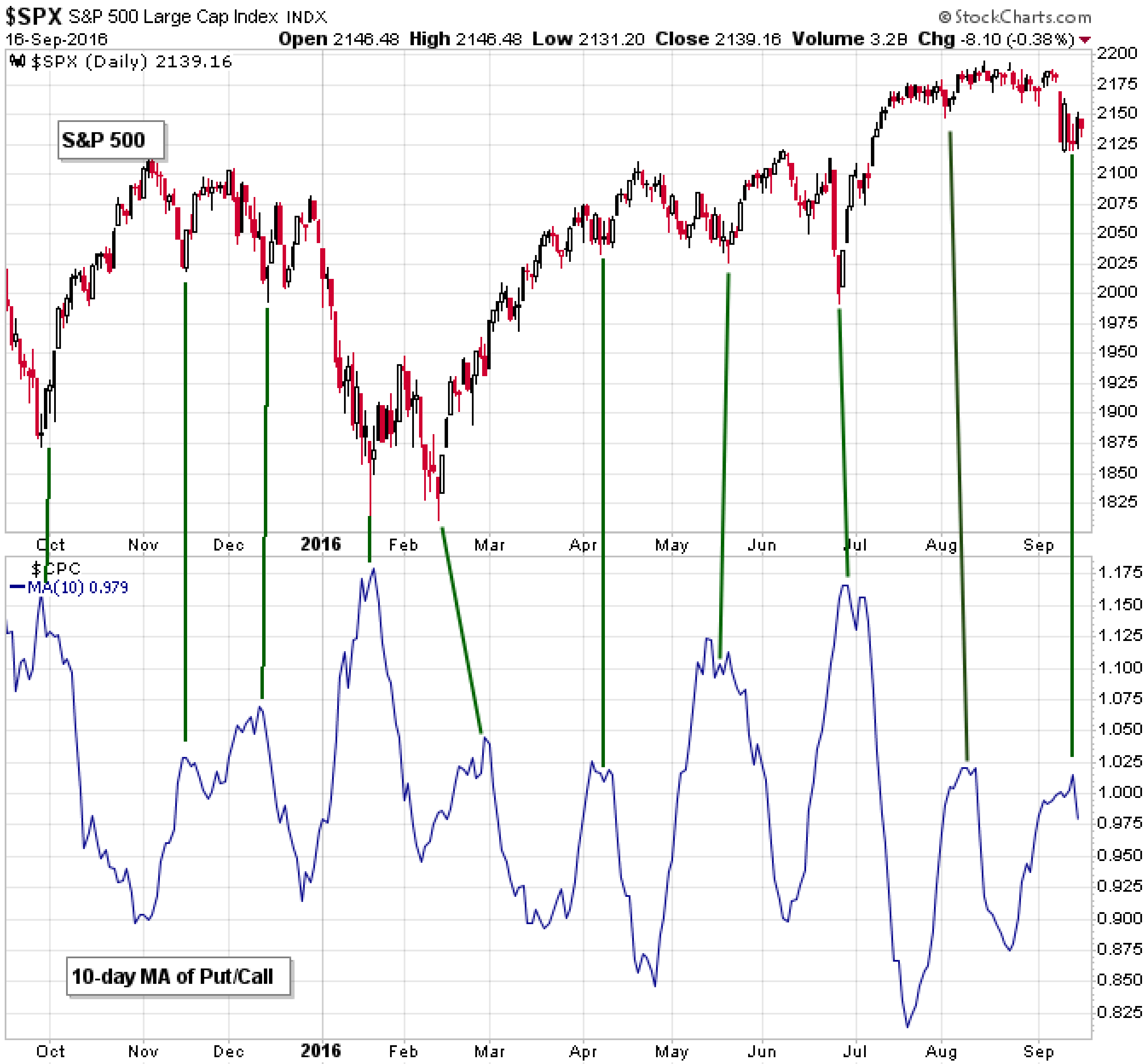
NASDAQ vs. NASDAQ Bullish Percent: And there are no warnings at the Nas bullish percent either.



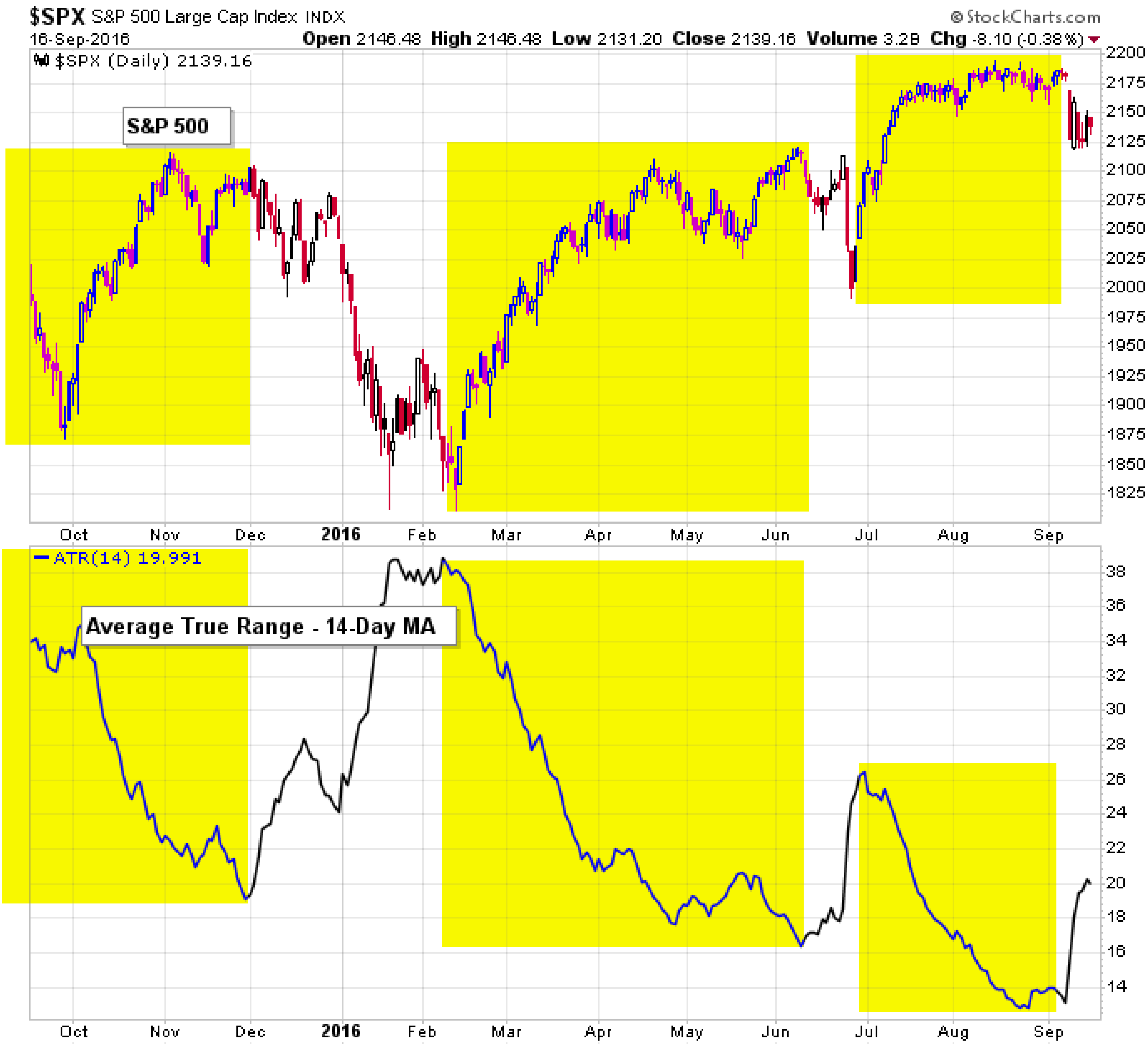
S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: There's a strong correlation between the S&P and the percentage of S&P stocks above their 200-day moving averages, so when slight differences form, little hints are given. Right now there are none, or at least none worth noting.

S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: This has been a thorn in the market's side lately. The market traded quietly for so long, many of the 50's caught up to the price action. Then a move down from this indicator told us many stocks were dropping despite the S&P still being close to its high. Then a drop from the market caused the number of stocks above their 50's to get cut in half. Any rally attempt must be accompanied by this indicator moving up. There are no exceptions. Failure to also move up would be a big warning in my eyes that a bigger move down is coming.

S&P 500 vs. 10-day MA of Put/Call Ratio: Market bottoms tend to coincide with the put/call topping and rolling over. It's not a done deal yet, but it's starting to look like the beginning stages of a drop.



S&P 500 vs. 14-day Average True Range: If the market is going to reverse course and head back north, the ATR must head down. Markets move up on low or declining volatility and move down in high or rising volatility. Right now vol is expanding.



The Bottom Line

The market didn't follow through much on its previous week's loss, but it didn't bounce with force either. Because of this the jury is still out. Was the ECB news-induced sell-off a 1-day event or just the beginning of a bigger move down?

Going forward we now have lots of parameters to work with, lots of indicators that will help us determine if a move should be trusted or not.

If the market moves up, does volume stay strong? Does the ATR decline? Does the number of stocks trading above their 50-day moving averages increase? Favorable answers will likely lead to more upside and eventually new highs. But unfavorable answers, coupled with the S&P failing to get back above its own 50, will likely lead to another leg down.

It's not always easy, but at least we have something to work with now...as opposed to the 2-month range when many of the indicators lost their value.

Have a great week.

Jason Leavitt
Jason@leavittbrothers.com