Leavitt Brothers

Weekly

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Sunday, September 25, 2016

I'll be doing a free 45-minute webinar on Tuesday at 12:15 pm est. Click here to register.

http://investorinspiration.com/live-webinar/?utm_source=InvestorInspiration&utm_campaign=JW-Leavitt_9-27

And if you'd like to attend but can't because you'll be at work or you live in a drastically different time zone, register anyways, and a copy will be sent to you.

Week after week, the market survives scares or potential scares.

Two weeks ago it was news from Europe the ECB was not going to commit to more stimulus. The market tanked, but that was it. One day of intense selling pressure before calmer heads prevailed.

This past week we had an FOMC meeting. Despite ramped up hawkish talk lately, the consensus was the Fed wouldn't change rates. They didn't, and the market rallied hard and then followed through the next day, putting the Nas, Nas 100 and Russell 2000 at new highs.

The breadth indicators have told us all along there was underlying strength, so even if a pullback did play out, buyers were likely to step in and push prices back up. The indicators have not let us down.

The trend is up, so the bulls continue to deserve the benefit of the doubt. Everything thrown at the market is quickly absorbed, and business continues on as usual.

The Brexit vote caused two days of selling. The ECB news caused one day of selling. The latest Fed statement, along with recent comments, suggests December is a done deal for raising rates, yet the market keeps chugging along.

Picking tops is a fool's game, especially when the indicators are so strong. I sometimes get criticized, but I'd rather be wrong once when a top actually forms than wrong every month with each failed attempt to move down.

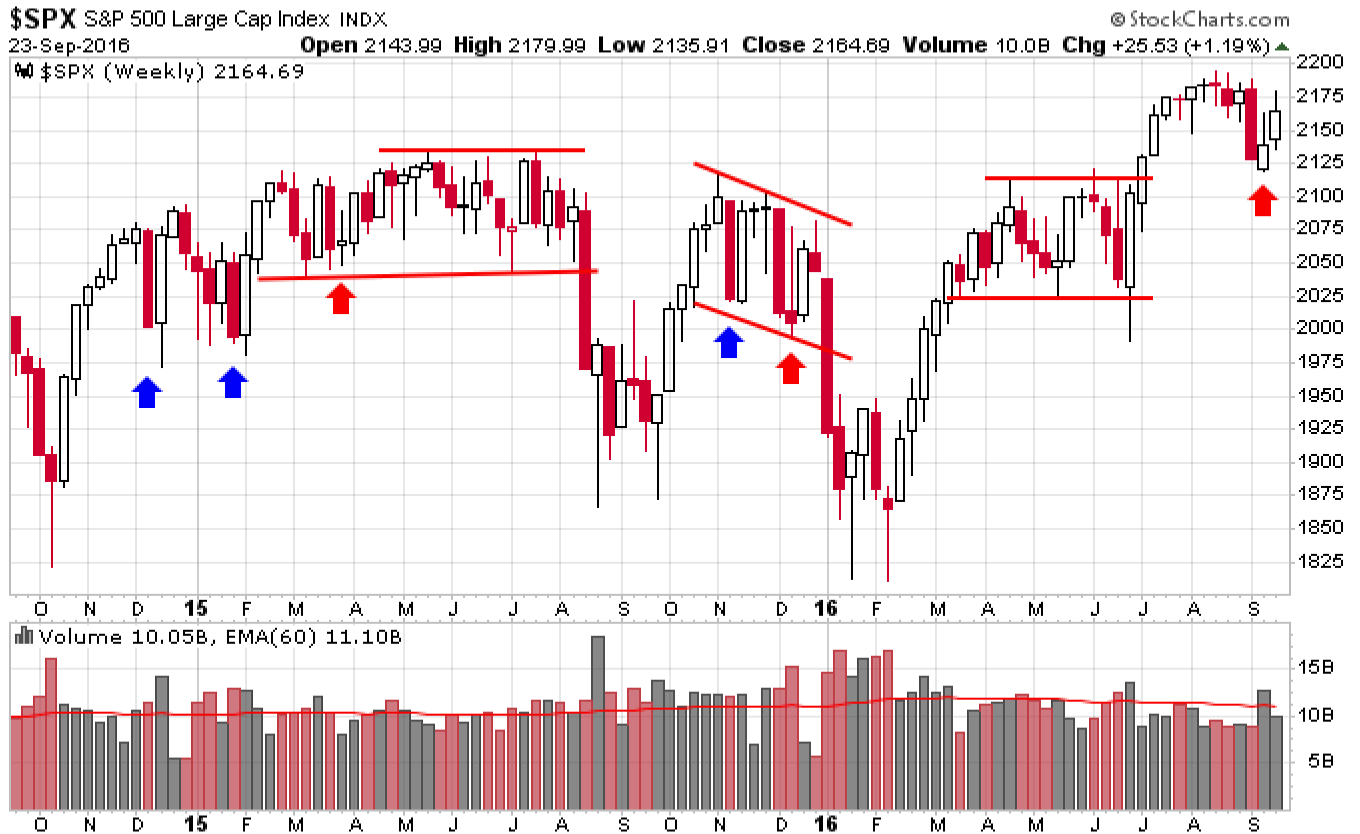
Tops take time to form. Lots of up and down movement takes place over the course of several months. During this time leading stocks will stop leading, and the breadth indicators will deteriorate. It's never a surprise. It's in the charts. You don't have to guess when it's happening (or will happen) because the charts tell you. Absent a major worldwide event that completely changes everything, markets don't just drop.

Looking forward, we have an election in 6+ weeks. I'm not going to make comments about the leading candidates, but I will comment on how the election may be intertwined with Wall Street. With a democrat in office and a woman heading the Fed and the democratic nominee being a woman, there's little chance the market tanks in the next six weeks. The executive branch and the Fed will do everything in their power to keep the market propped up into the election. No way does the Fed want to be blamed for Clinton losing. No way. This isn't my way of saying we're going to have a rip-roaring rally; it's just my way of saying the powers that be will pull out all the stops to make sure Hillary wins. Then all bets are off after the election. Whether you love Hillary or hate her doesn't matter. Don't lose money fighting what is likely to take place.

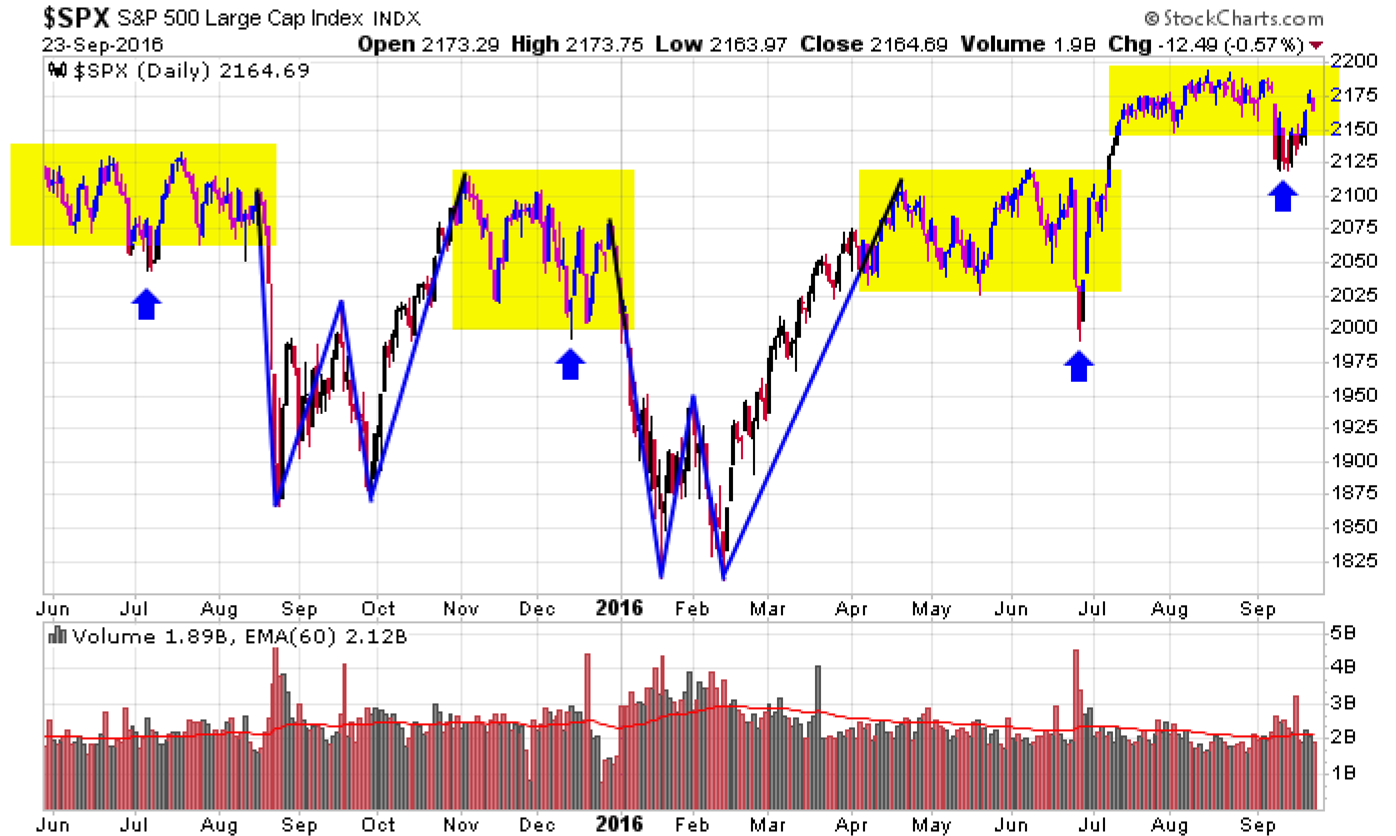
Let's get to the charts and see what they say. The indexes are at new highs or very close. Do the breadth indicators support the strength? Let's see.

Indexes

The S&P 500 Weekly: The S&P followed a potential high-volume reversal week with a less convincing performance. Volume wasn't nearly as high, and thanks to a moderate drop Friday, the weekly close was off the high. I'm going to call the last two months neutral. The index broke out at the beginning of July and is now establishing a range between about 2120 and 2200. Nothing wrong with this. In fact trading in a range has been the norm for two years.

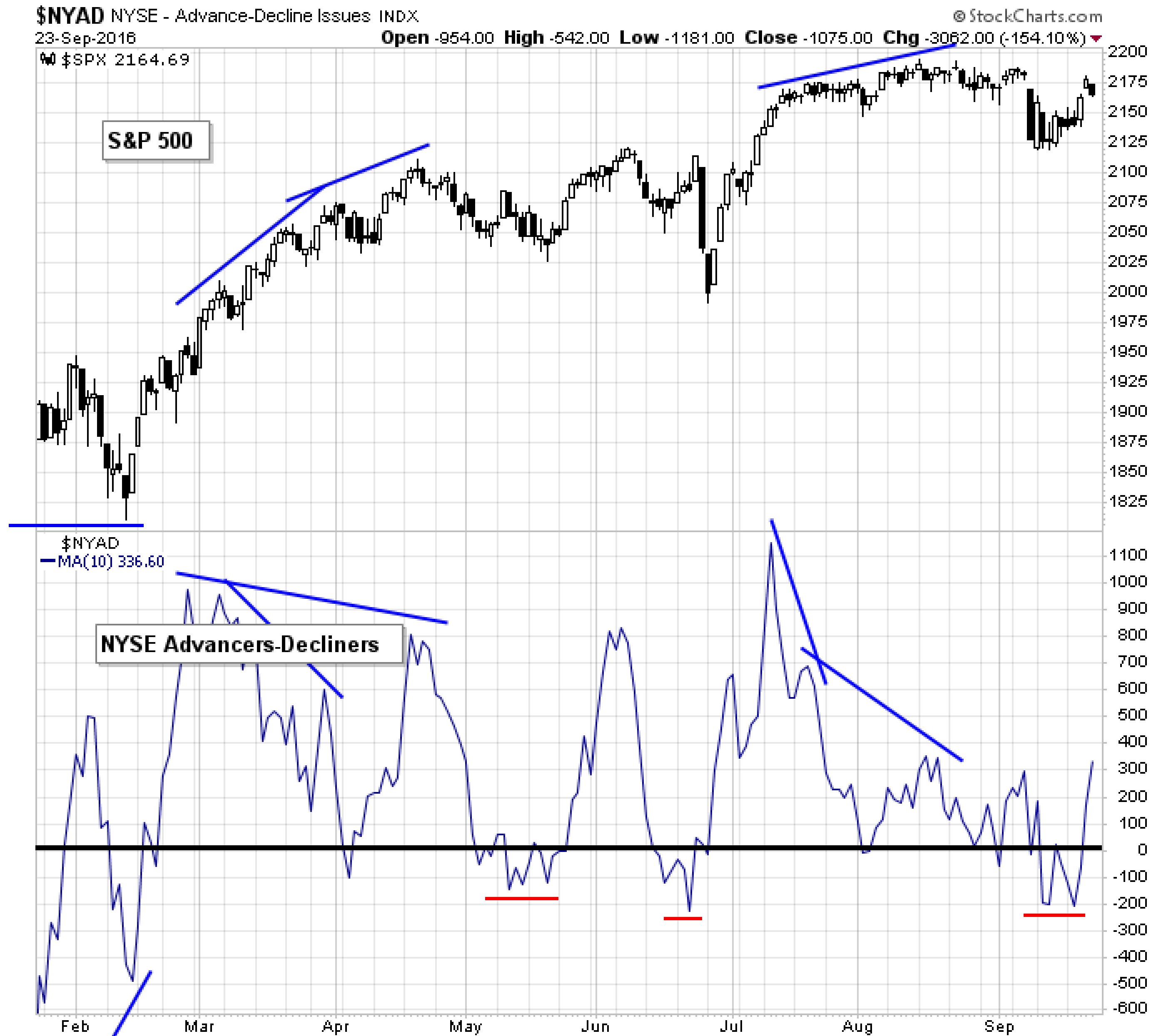


The S&P 500 Daily: The daily dropped out of its range...then it recovered. It happens. July 2015 is an example. So is December of 2015. And June 2016. You can get yourself in a lot of trouble if you draw a line in the sand and assume something has to happen just because a level is breached. The market isn't that cut n dry. There's lots of play in the system. Overall this chart looks fine.



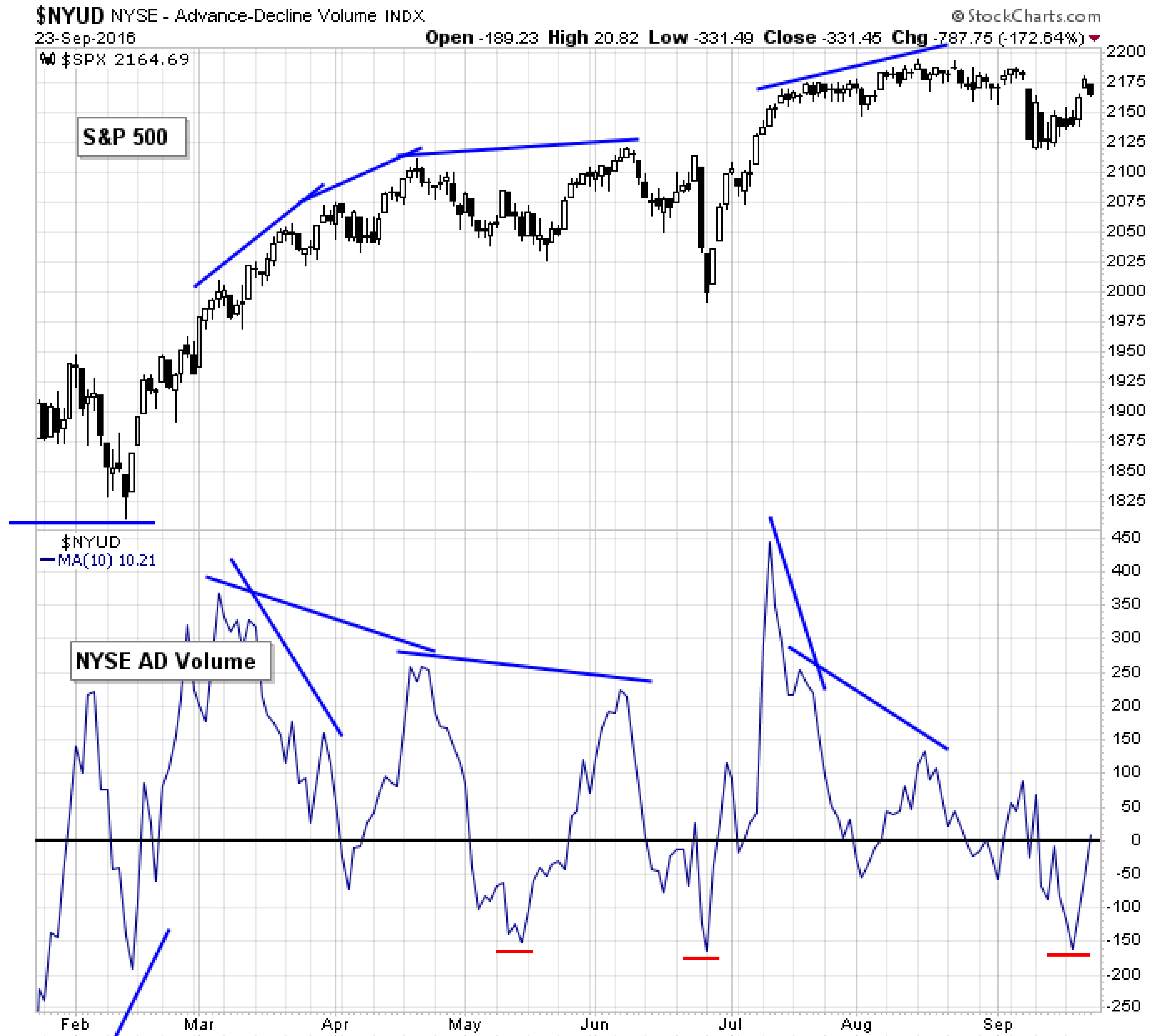
Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: The AD experienced what should be considered a normal drop. It fell to -200 and then bounced with force. This is very typical for an uptrending market that alternates between moving up and resting. Perfectly normal action here.



S&P 500 vs. NYSE Cumulative AD Line: The cumulative AD line moved to another new high last week. No warnings here. This indicator has told us all along there is solid underlying strength. It will take sideways or downward movement for the message to change.

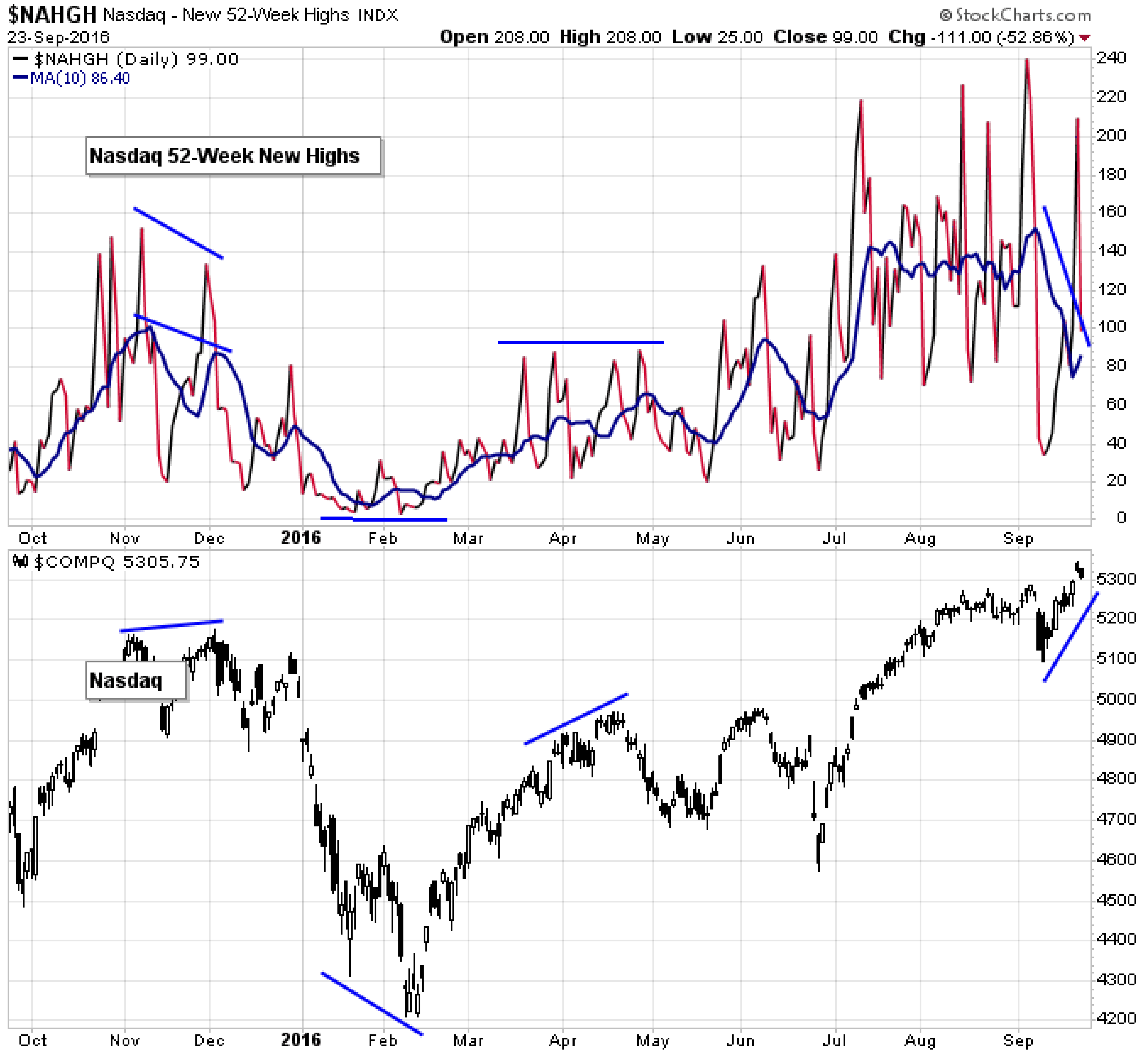
S&P 500 vs. 10-day MA of NYSE AD Volume Line: The AD volume line moved like the AD line - it experienced an acceptable drop - on par with what took place in May and June - and is now bouncing. Good action so far, but if the market is to leg up, this indicator will need to actually print a high number, not just get above 0.



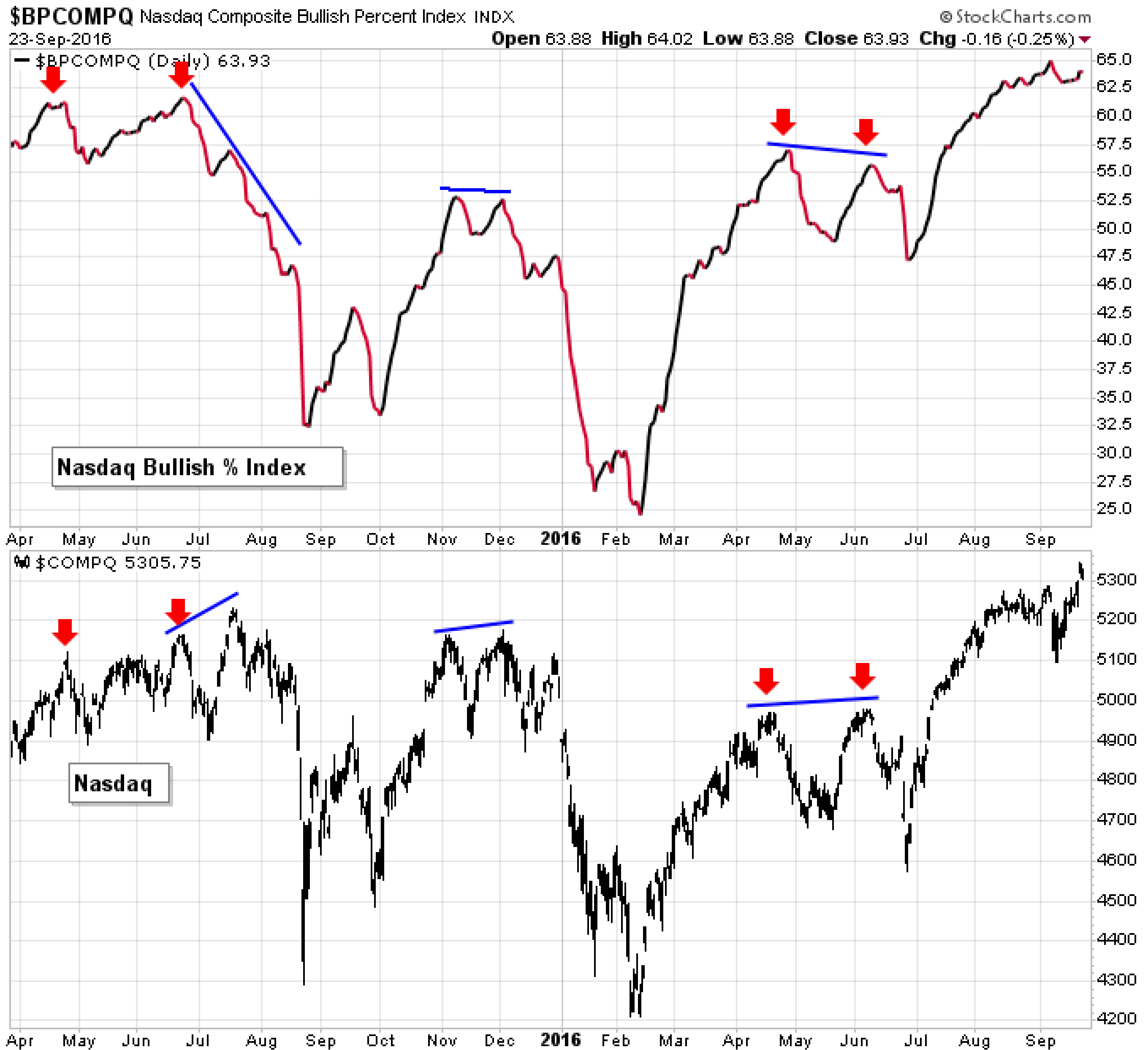
S&P 500 vs. NYSE Cumulative AD Volume Line: The cumulative AD volume line has moved with the S&P. It dropped after the ECB news and has now recovered and is in the top-half of its recent range. The market will go as this indicator goes, so unless it takes out its low and moves down, I'll be maintaining my bullish bias.

S&P 500 vs. NYSE New Highs: New highs at the NYSE continue to trend down. Is it a concern? Yes. If the market is near its all-time high but very few individual stocks are pushing to new highs, it means the market is being pulled higher by a small number of influential stocks, as opposed to the strength being more broad-based. We want better participation. If the market attempts to leg up, this indicator needs to surge.

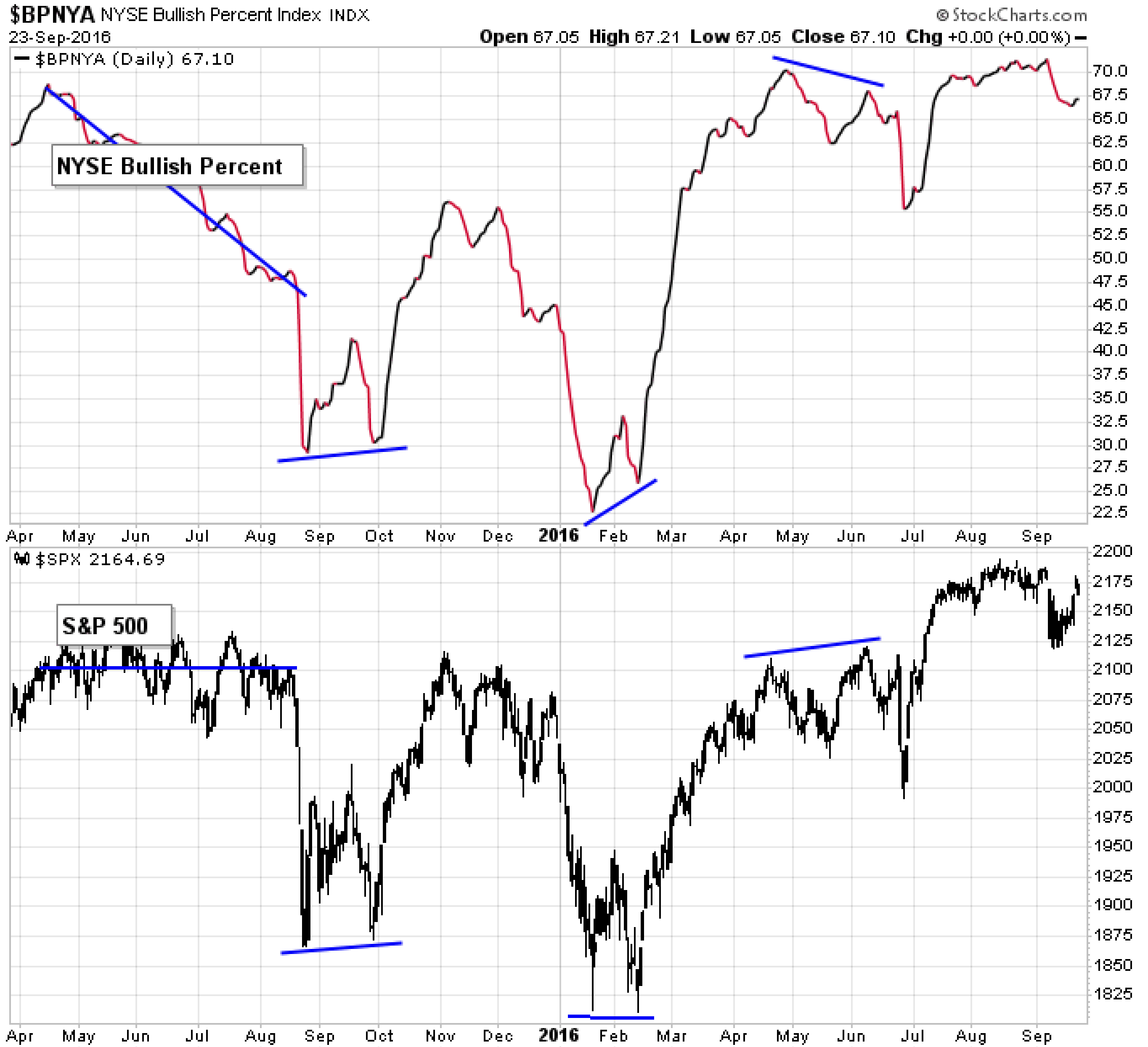
NASDAQ vs. NASDAQ New Highs The Nas and Nas 100 rallied to new highs last week. New highs among individual stocks also jumped, but not to the same degree as three weeks ago. We need to see improvement here to support a market rally. The 10-day stinks.



NASDAQ vs. NASDAQ Bullish Percent: The Nas bullish percent is holding steady. This supports the market strength and doesn't hint at beneath-the-surface weakness, but as a point of reference, prints in the low 70's were common at previous stages of the 7-year rally.

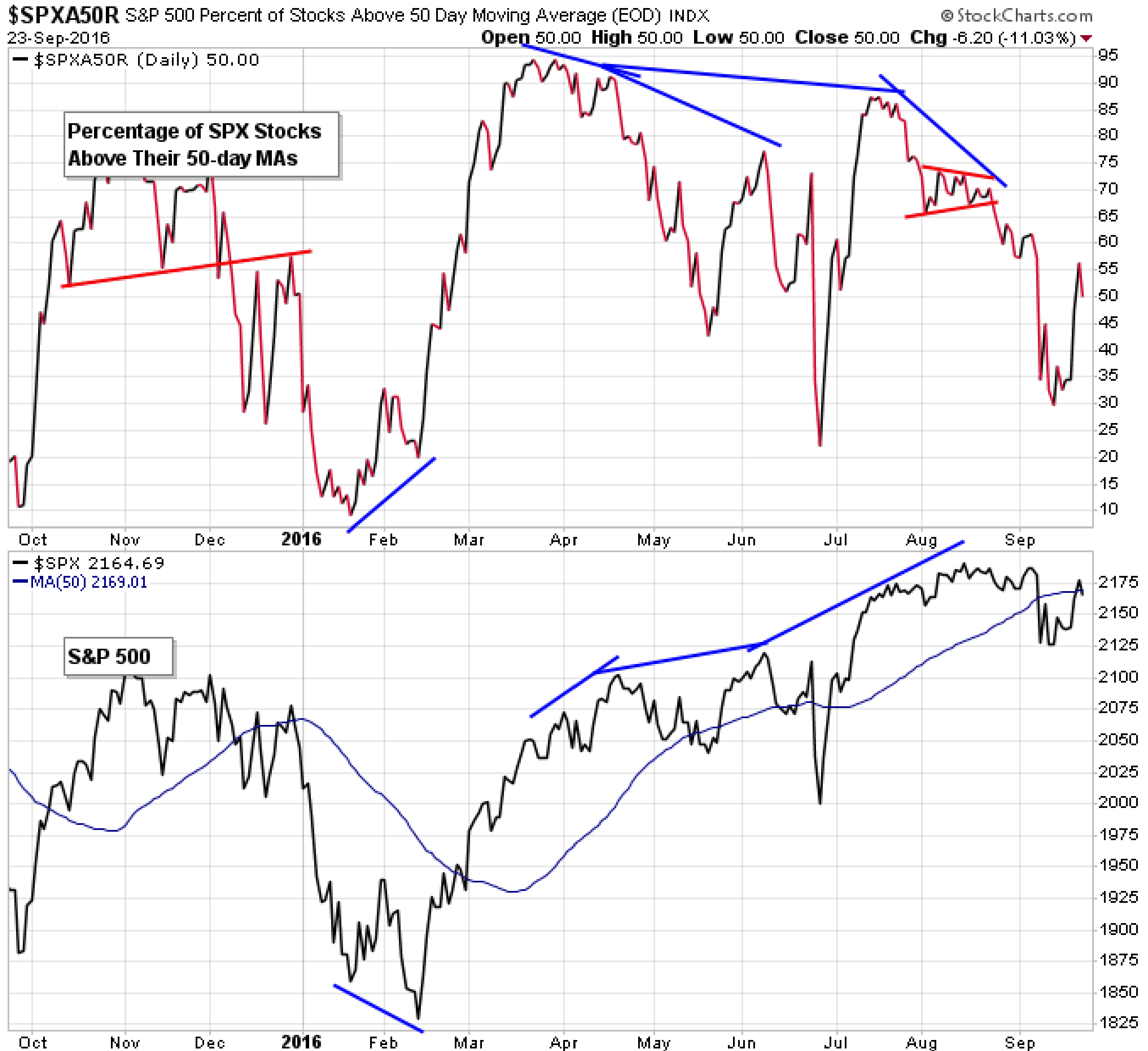


S&P 500 vs. NYSE Bullish Percent: Similar story here with the NYSE - healthy prints but below the 2013-2014 prints that were in the 70-80 range.

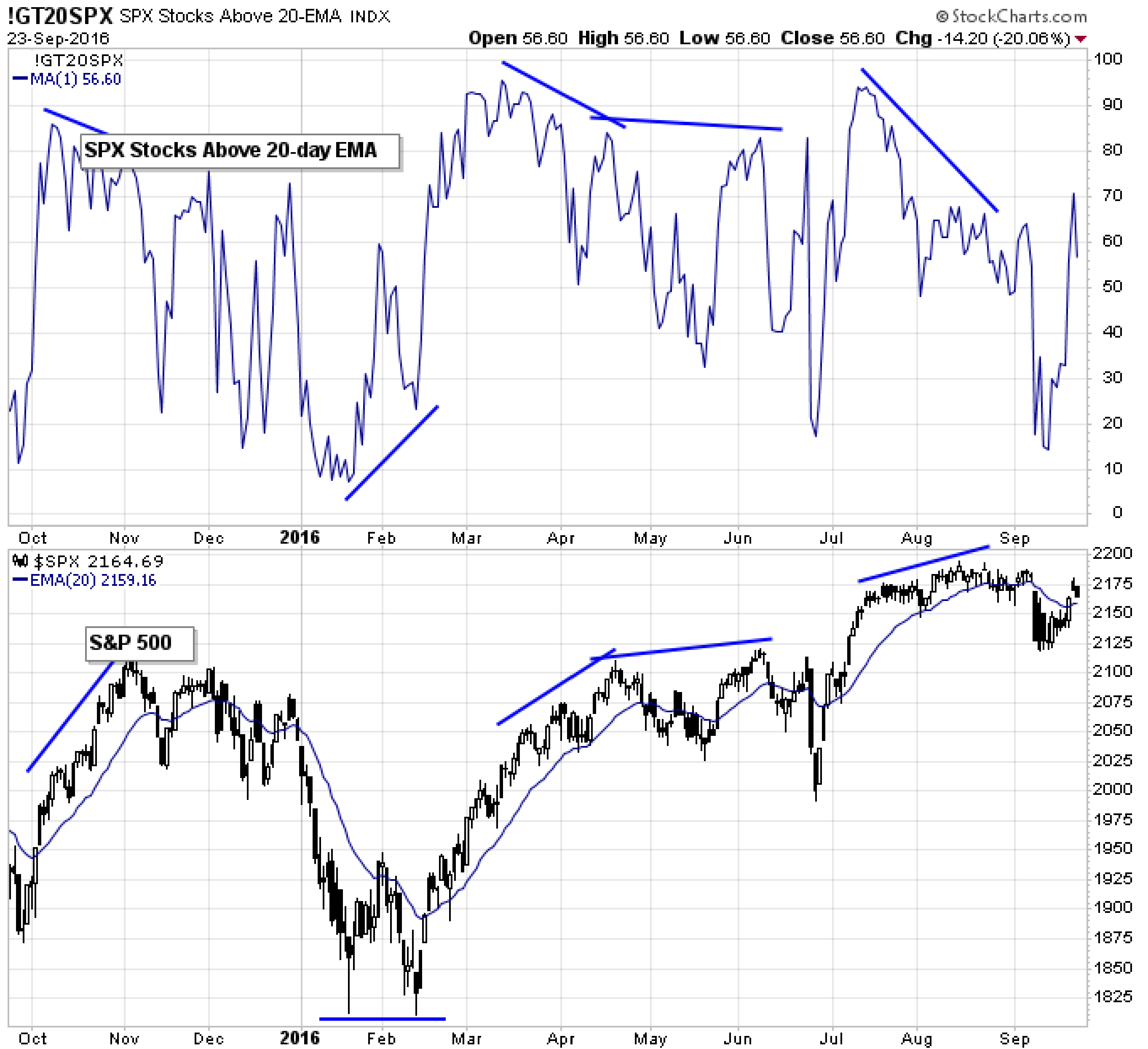


S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: The percentage of SPX stocks above their 200-day moving averages dipped with the market and is now recovering. I've backed this chart up two years so you can see what typically happens as a rally starts to lose strength. In March/April/May of 2015, this indicator started to put in lower highs, and then it suddenly dropped even though the market continued sideways. This type of action isn't happening now.

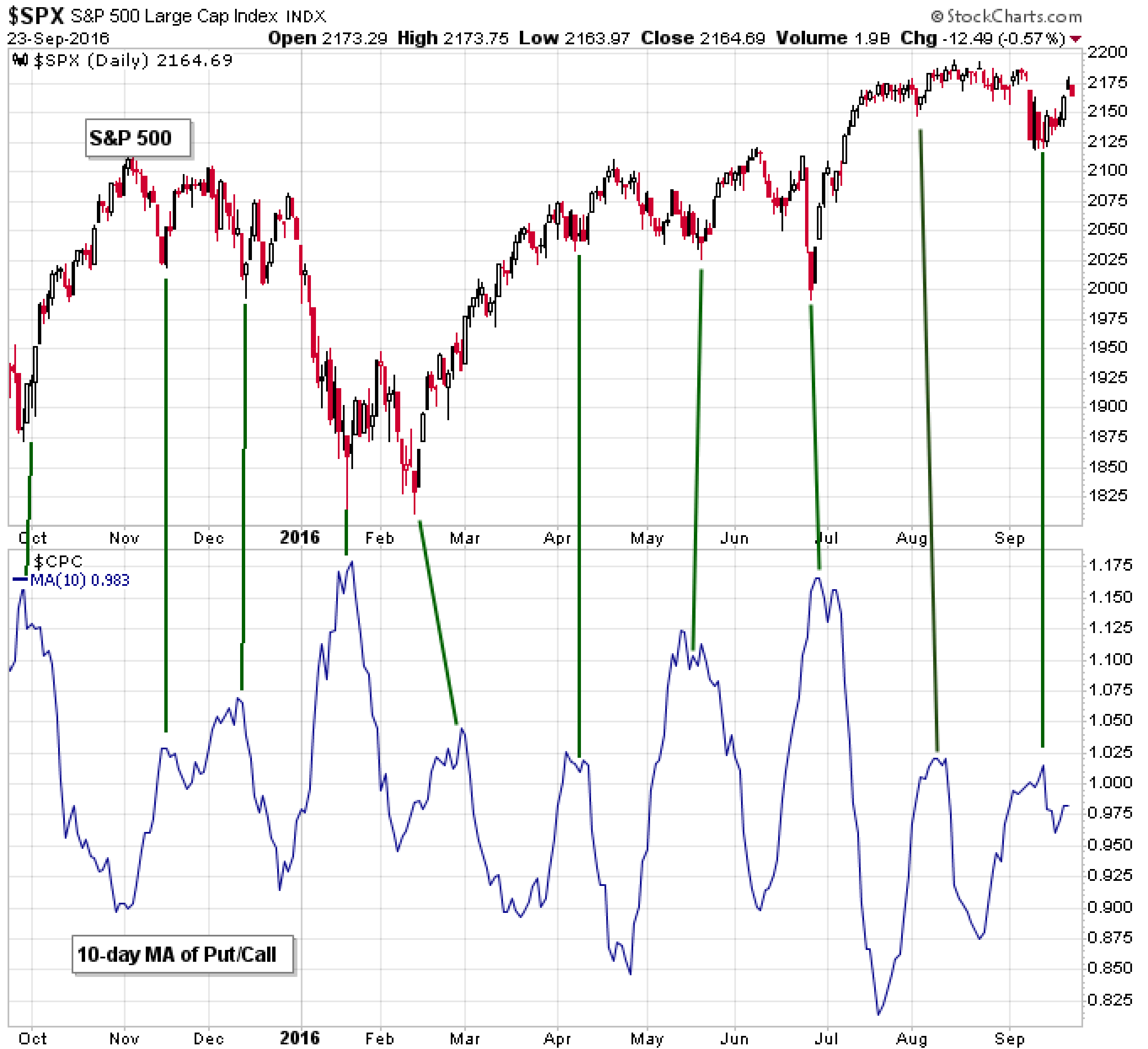
S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: This indicator has been the single-biggest thorn in the market's side the last two months. One by one stocks were losing their 50-day MAs, even though the market was holding up well. Not anymore. The S&P itself briefly reclaimed its 50 last week, and this indicator is now at the 50% level. The bulls will want to see more improvement. If the market moves up, this indicator must do the same.



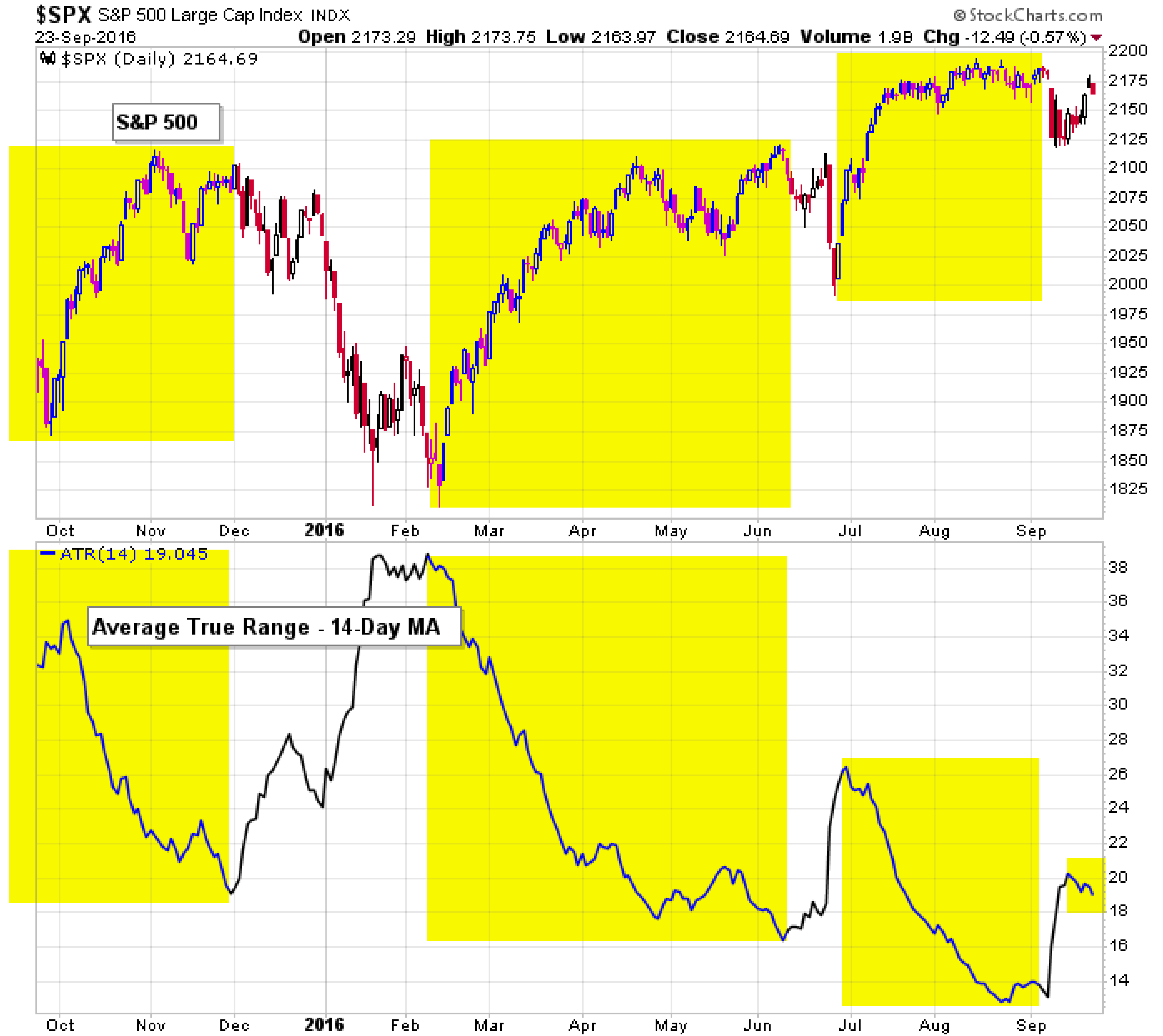
S&P 500 vs. Percentage of SPX Stocks Above 20-day MA: The percentage of SPX stocks above their 20-day EMAs jumped to its highest level in two months. Another sign the market's strength is better supported.



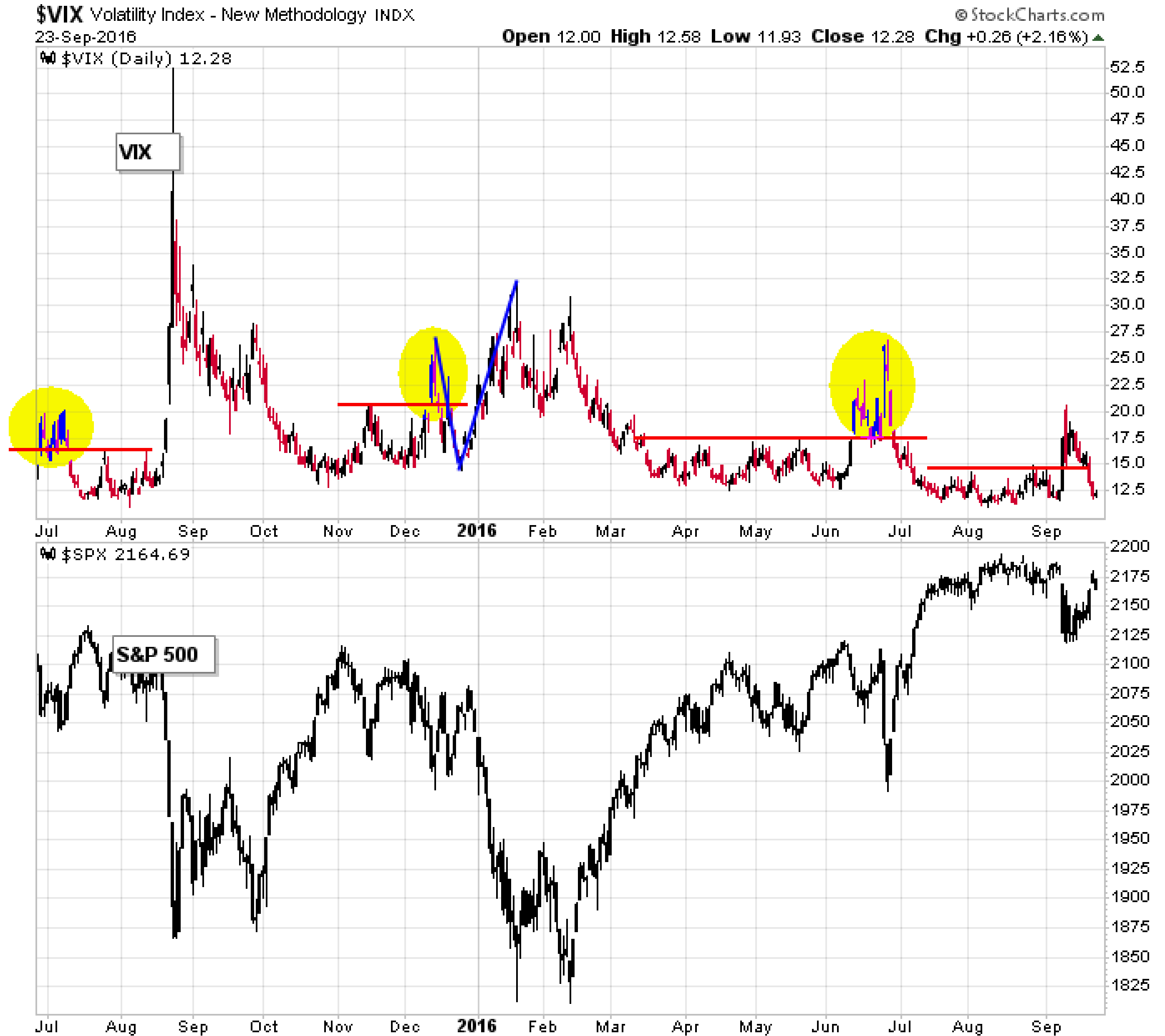
S&P 500 vs. 10-day MA of Put/Call Ratio: Tops from the put/call tend to closely coincide with market bottoms. So far, so good if you're looking for higher prices. Now the bulls need the PC to continue down.



S&P 500 vs. 14-day Average True Range: After surging, the ATR has started to roll over. This is exactly what is needed to support a market rally. In the past, whether this indicator moved down, as it did soon after the Brexit vote when the market rallied, or continued up, as it did in December and January when the market continued down, was a reliable "tell" for what was in the pipeline.



S&P 500 vs. VIX: There's only one instance in the last 20 months where the VIX did a V-bottom - where it dropped hard and immediately reversed and jumped. That was last December and January when many breadth indicators were already trending down. This obviously isn't the current situation.



The Bottom Line

The market is doing just fine. The Nas, Nas 100 and Russell 2000 are at new highs; the other indexes are not far behind.

The indicators support the strength, and a few of them, which had cycled down, are now bouncing.

And the market has absorbed several potential big announcements.

Things look good right now. There isn't much to say.

Bias remains to the upside. I continue to think 2300-2400 is in the cards for the S&P 500.

Have a great week.

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