Leavitt Brothers

Weekly

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For the second straight week, all of the S&P 500's movement took place within the high/low extremes of the previous week. Candlestick charting says this means pressure is building, but I don't get this sense. I don't get the feeling the market is "coiling" and likely to spring loose. Even if/when one of the extremes is taken out, I don't sense the odds new money is lured off the sidelines and a new directional move begin are very high. The market is trading in a range within a bigger range. Odds favor more of the same. Odds favor a breakout attempt fizzling.

I can't say rallies have gotten sold and dips have gotten bought because we've gotten very little up and down movement. It's not as if the bulls get excited by a 4- or 5-day winning streak and then the bears have the upper hand and the back of forth battle builds optimism and pessimism and hopefulness all at the same time. No move lasts long enough for anyone to get excited. Moves are so short-lived that even if they're in a trader's preferred direction, he's been trained to not get overly excited because they haven't been lasting long.

Such is the current state of things. The market has been characterized by sudden surges followed by hours of very quiet and flat trading. There have been some gaps and an equal number of quick moves, but those moves have always died down and been followed by tiny ranges. What was once considered noise (a 3-point SPX range) is normal.

Looking beneath the surface the breadth indicators aren't offering much help. Instead of rotating up and down and giving over-bought or over-sold readings, they've flat-lined with the indexes and for the most part, aren't offering any hints of what's brewing. No divergences. No extreme readings. Just sloppy movement in the middle.

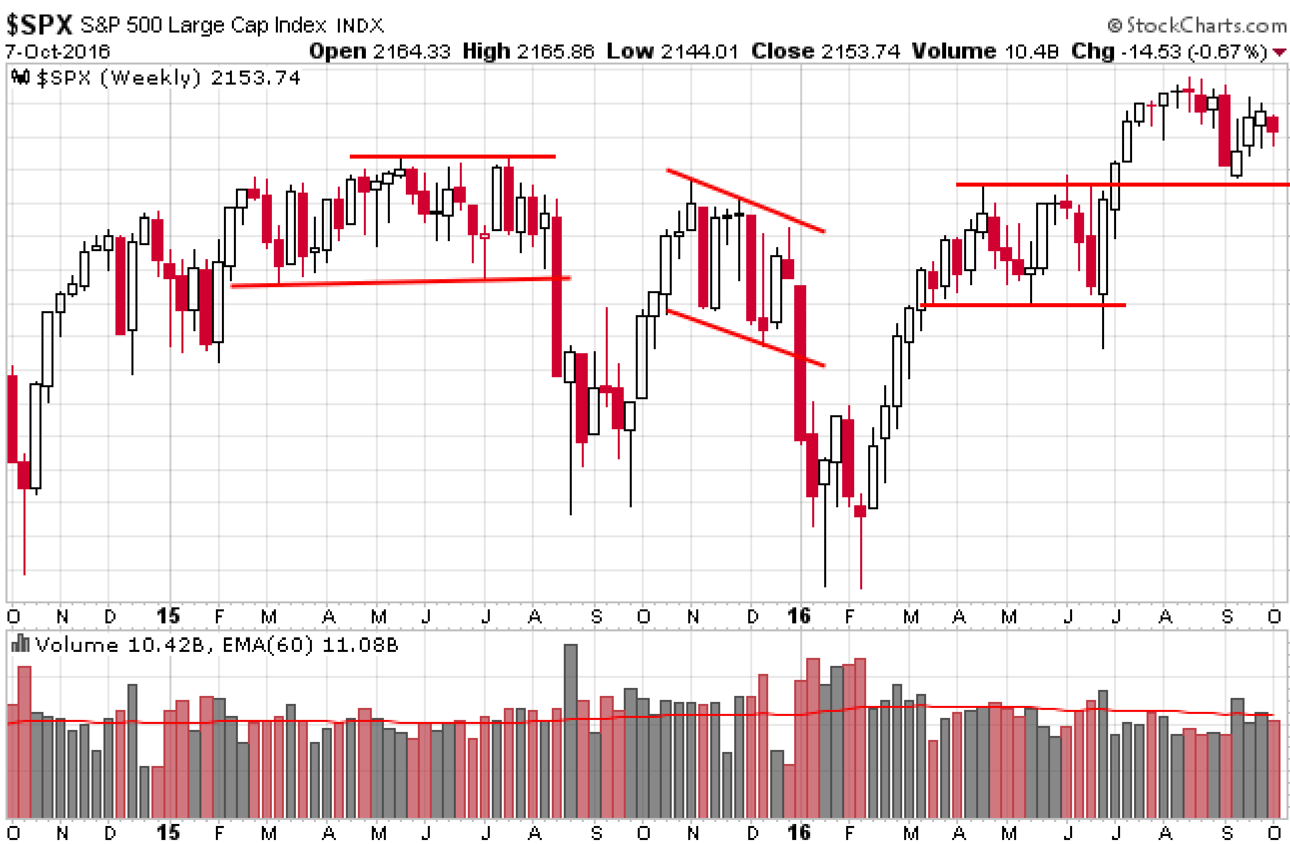
The quality and quantity of good trading set ups isn't very good either. Some look good at first glance, but when you consider how far they've traveled to get to where they are, it's legit to question how much is left in the tank. And other decent set-ups just don't have great risk/reward parameters. Many come with 2-to-1 potential, but if you demand 3-to-1 or better, there isn't much available. Oil and semiconductors are my two favorite groups right now. Otherwise it's slim pickens.

The market is waiting for something. The election? A rate hike (let's just get it over with)? To me these are the two biggies. Everything else is just secondary. Unfortunately neither will be resolved for at least another month.

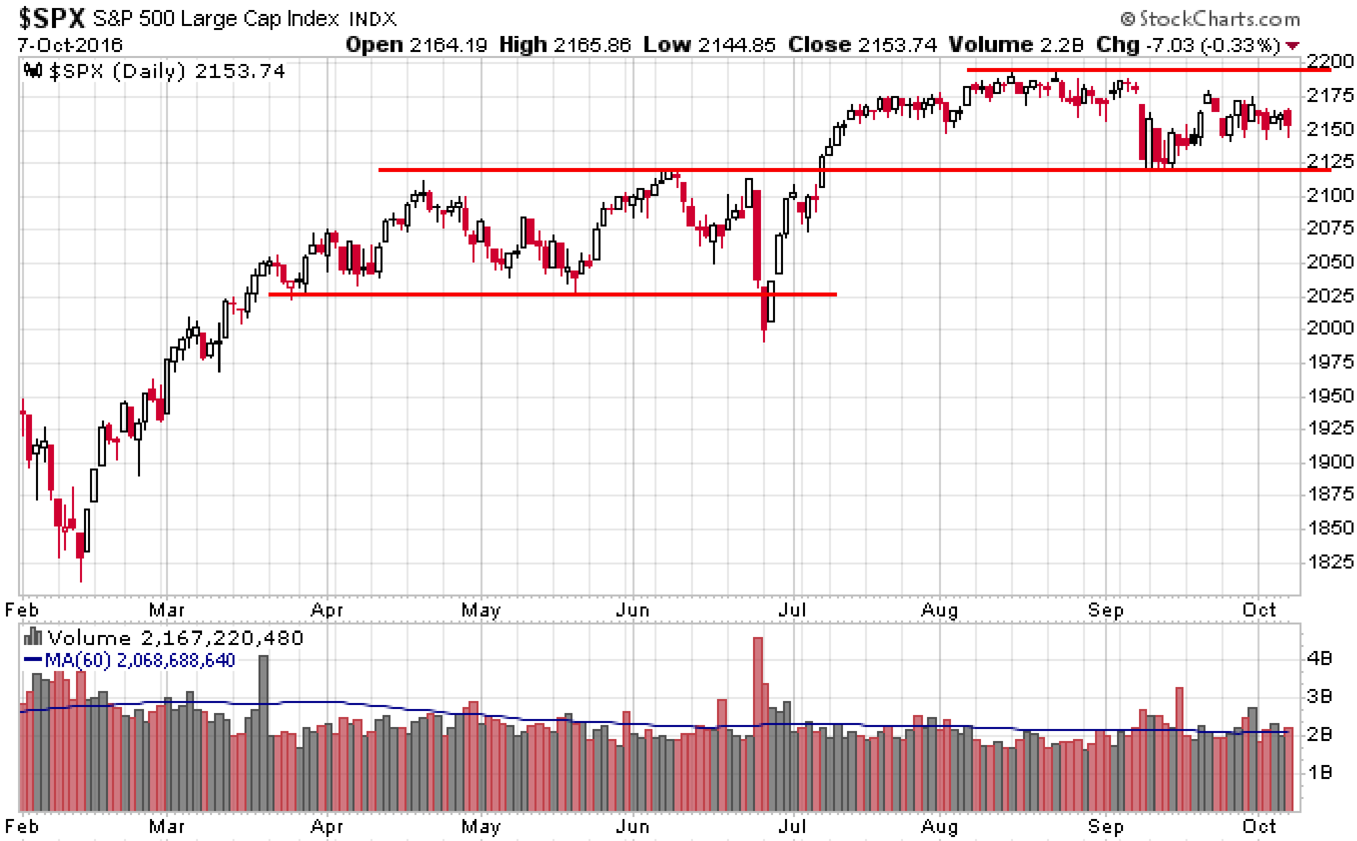
The market moves in cycles. Periods of dormancy are followed active periods characterized by daily gaps and big intraday ranges. If you wear yourself out during the former, you won't be at the top of your game when the latter comes. Let's get to the charts and see if they hint at anything.

Indexes

The S&P 500 Weekly: For the second straight week, all of last week's actin took place within the high/low extremes of the previous week. Maybe pressure is building; maybe it isn't. As consolidation patterns go, this one is pretty normal. The S&P rallied up to a new high in July and is now establishing a new trading range. Darvas called this boxes - he traded one box to the next. There are no glaring warnings here.

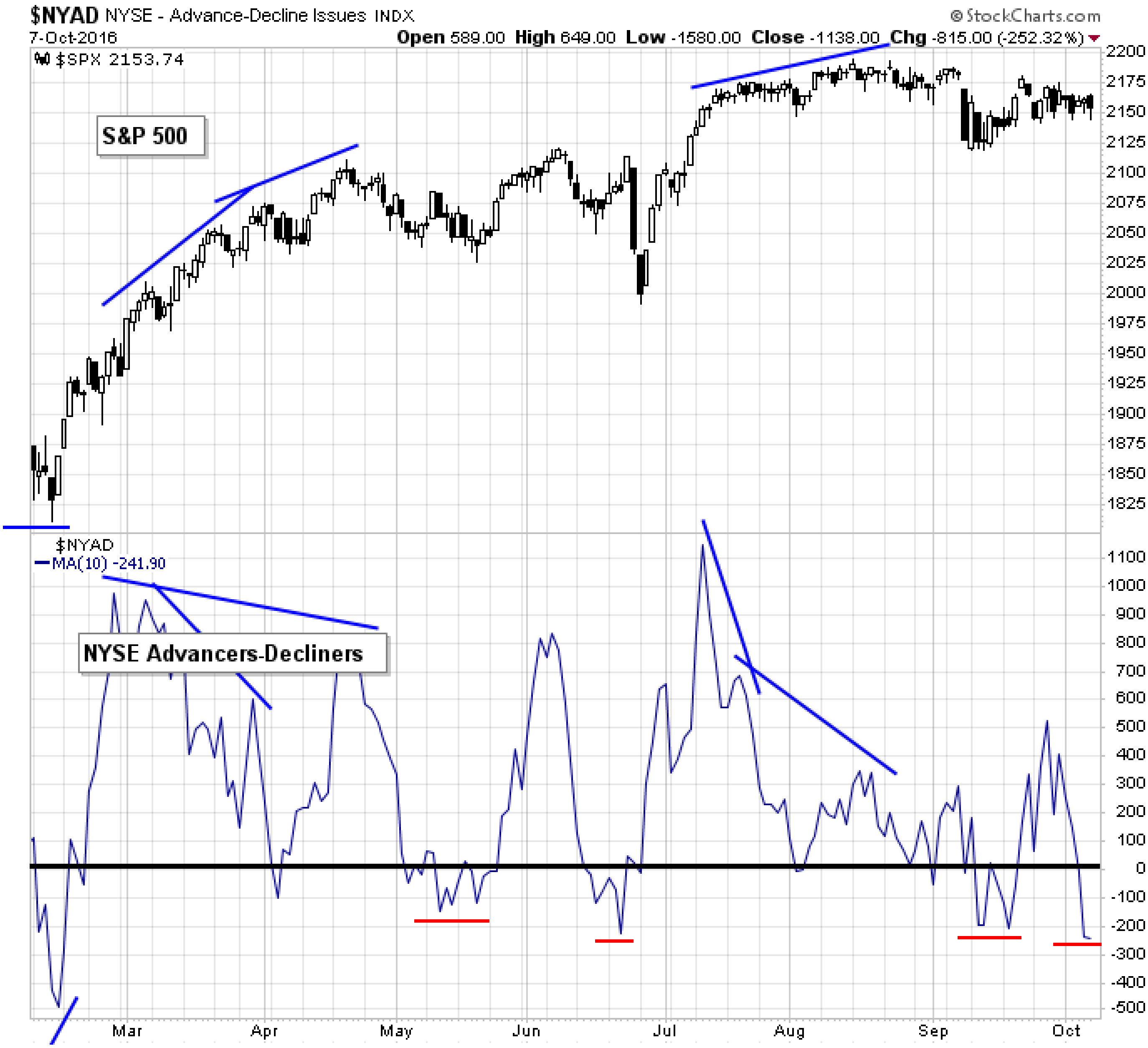


The S&P 500 Daily: Very uninspiring action on the daily chart...so uninspiring that I don't have anything to say that I haven't already said in previous weeks. The sum total of the market caps of all US stocks is in the trillions of dollars, and Wall Street has collectively agreed the current price is exactly where it should be...and there's no reason for it to move.



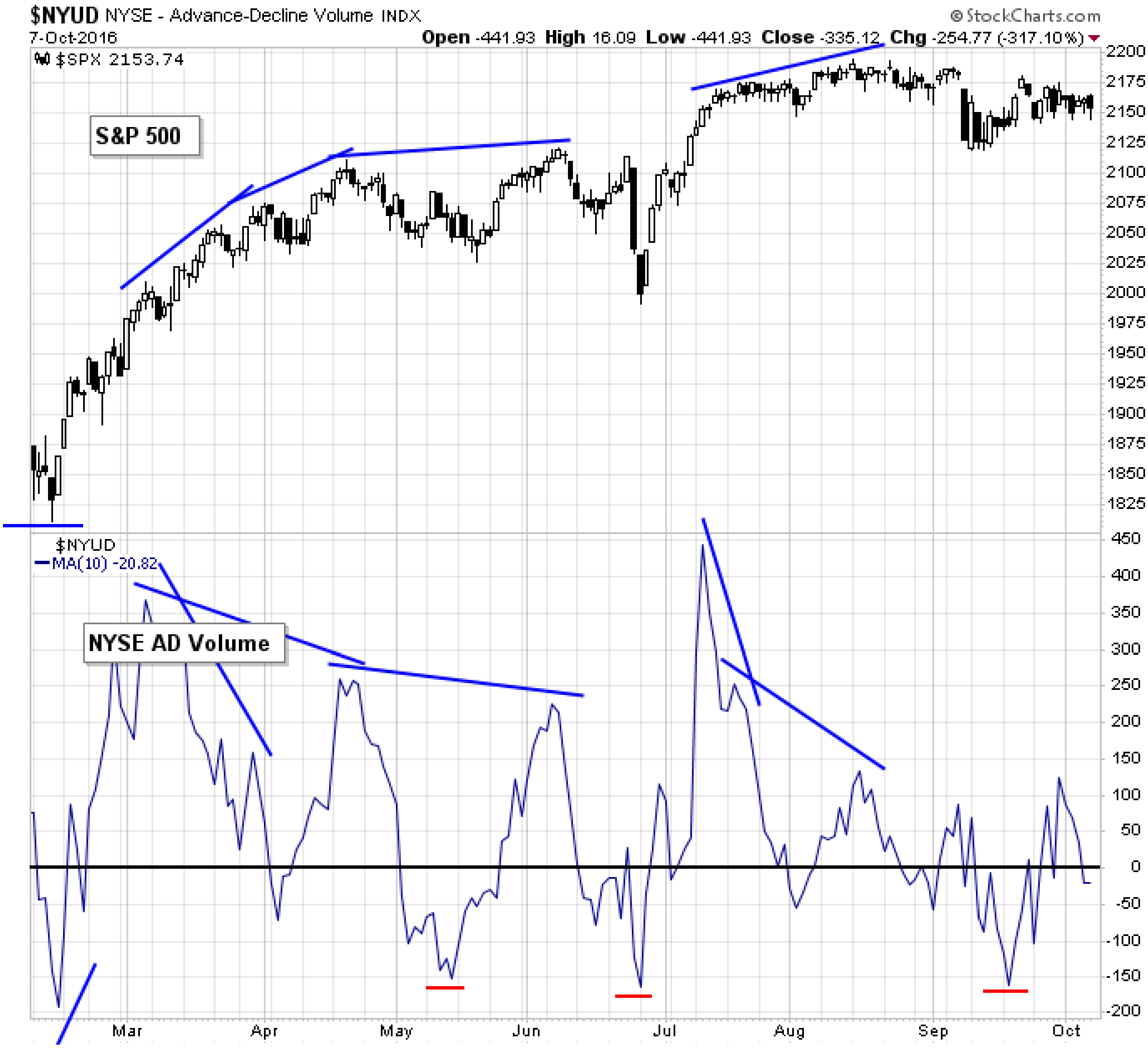
Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: The 10-day AD line at the NYSE has dropped to its lowest level since February. It's salvageable, but there's little room for error. A little nudge from here could easily induce a quick market sell-off. The last two quick drops (late-June (Brexit) and early-September (ECB stimulus news)) were news-induced and short-lived. A drop that stems from technical weakness would last longer.



S&P 500 vs. NYSE Cumulative AD Line: The cumulative AD line at the NYSE has turned down but is still in great shape overall. Other pauses (blue ovals) coincided with mini pullbacks, and you can argue the market has been correcting with time for 6 weeks. This indicator tells us the market is doing fine overall, and even it it did correct in the near term, it would likely right itself and move up again.

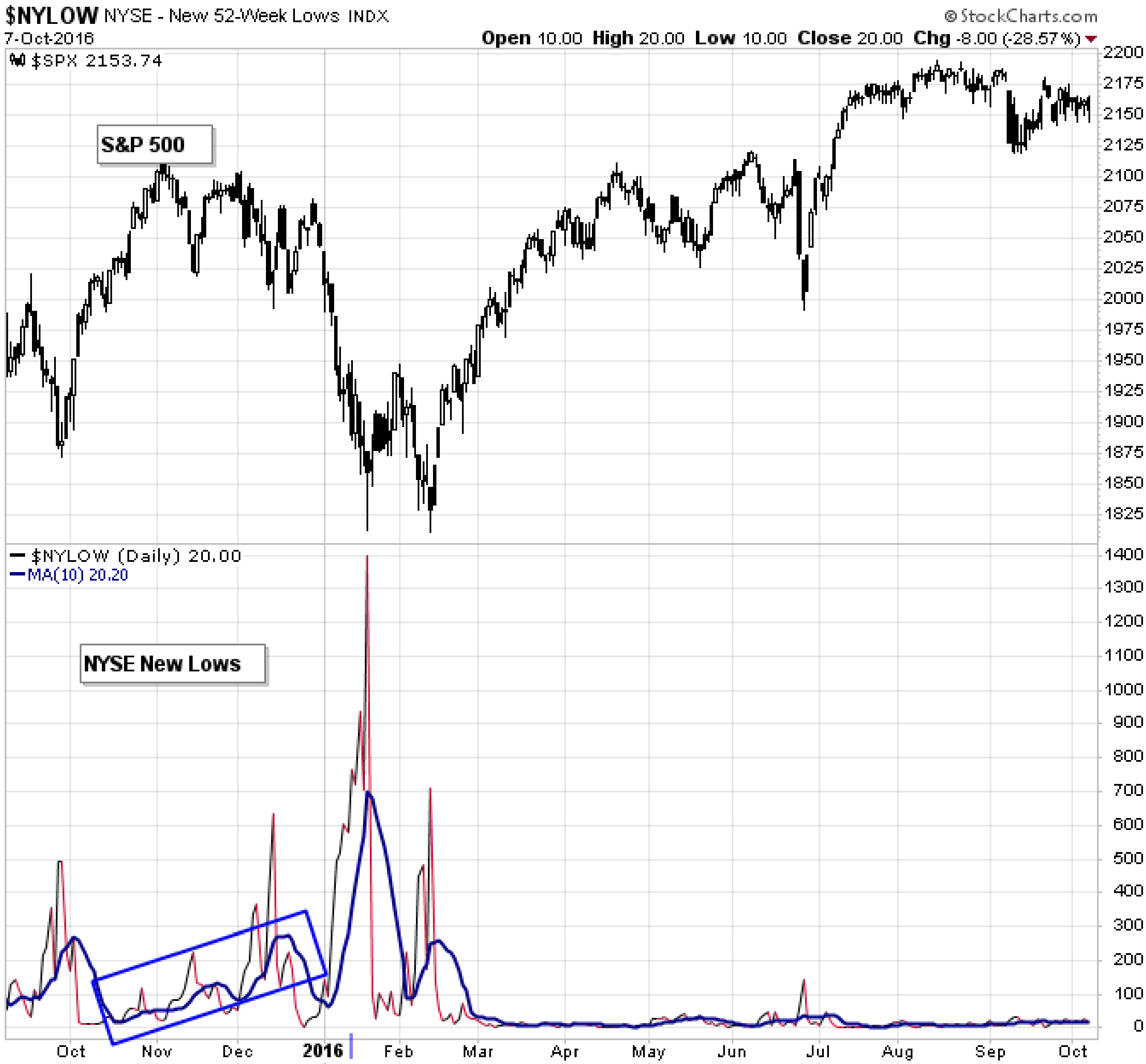
S&P 500 vs. 10-day MA of NYSE AD Volume Line: The 10-day of the AD volume line hasn't printed above 150 since July. Within an uptrend, this indicator oscillates between 0 and high prints, while occasionally losing 0 very briefly. This obviously hasn't been the case lately. There is no underlying strength. The market has been very neutral the last two months. It's salvageable, but there's little room for error.



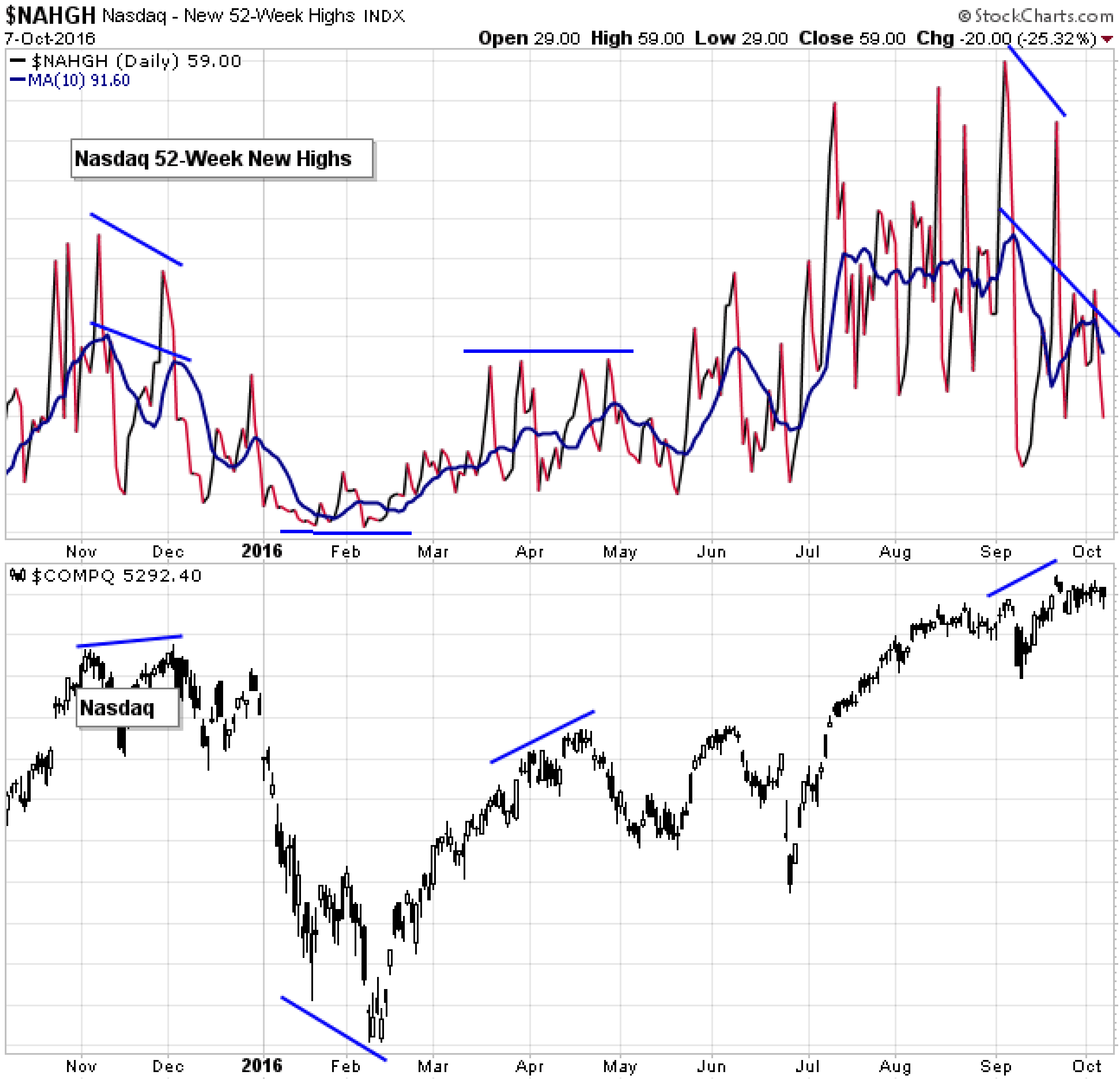
S&P 500 vs. NYSE Cumulative AD Volume Line: The cumulative AD line has flattened out the last two months to match the market's trading range. This isn't great, but it's not horrible either. At least it's not trending down like the end of last year when the market experienced two sudden drops. The lack of deterioration tells us a market pullback is likely to be short-lived.

S&P 500 vs. NYSE New Highs: New highs are virtually nonexistent. This is fine considering the market has made no upside progress in several weeks, but if the market attempts to move up, the bulls will need to see rapid improvement here.

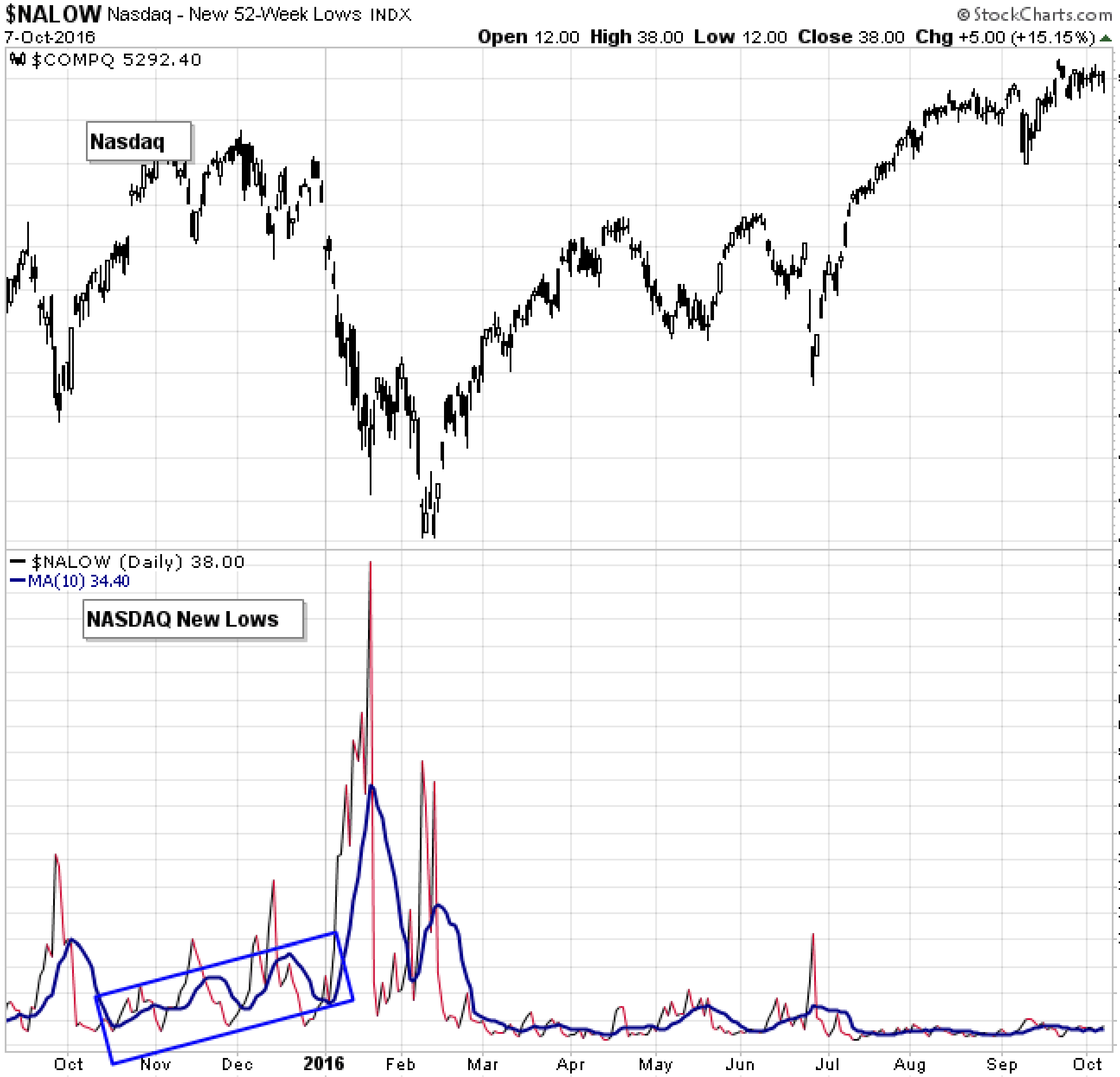
S&P 500 vs. NYSE New Lows: There has been no uptick in new lows. This gives me more confidence a mini correction in the near term will be bought. Previously, when the market was weakening and on the verge of a bigger drop (10%), new highs slowly expanded for two months before the floor was pulled out. This isn't the case right now.



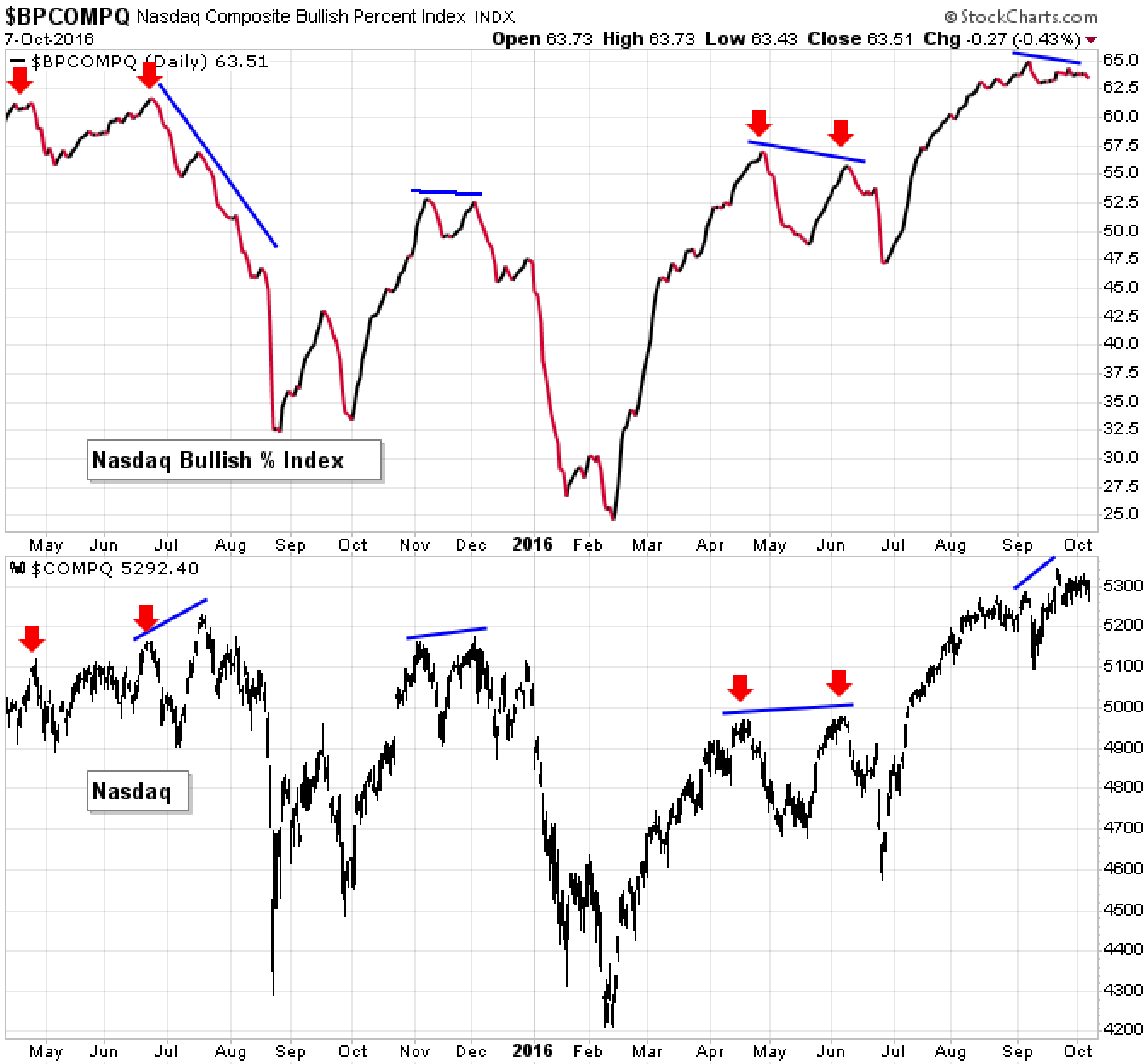
NASDAQ vs. NASDAQ New Highs New highs at the Nas have also been lacking, and like at the NYSE, the 10-day is trending down. Considering the proximity to the highs, this is not a great sign and doesn't necessarily bode well for the near term.



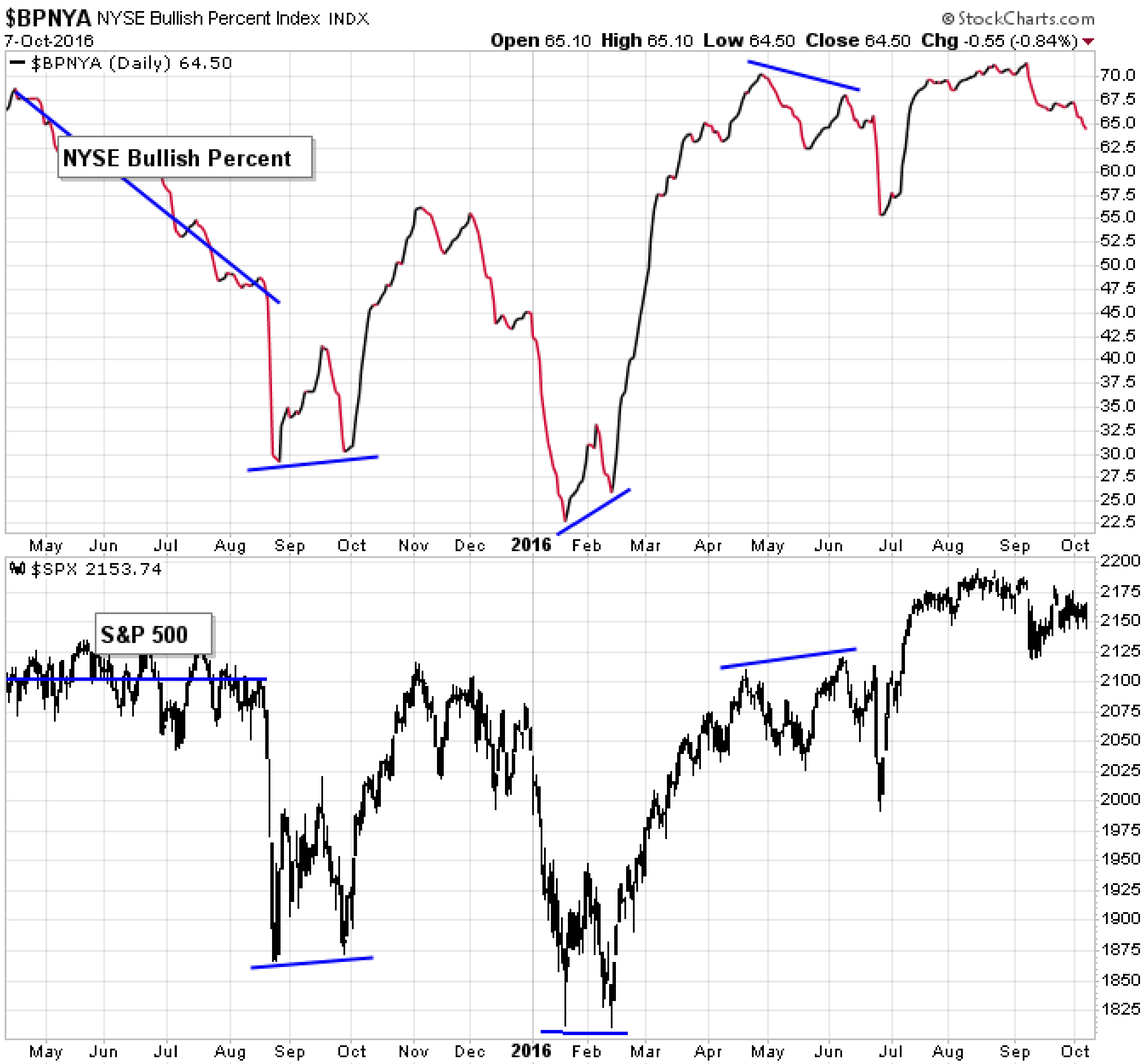
NASDAQ vs. NASDAQ New Lows At least there's no uptick in new lows at the Nas either.



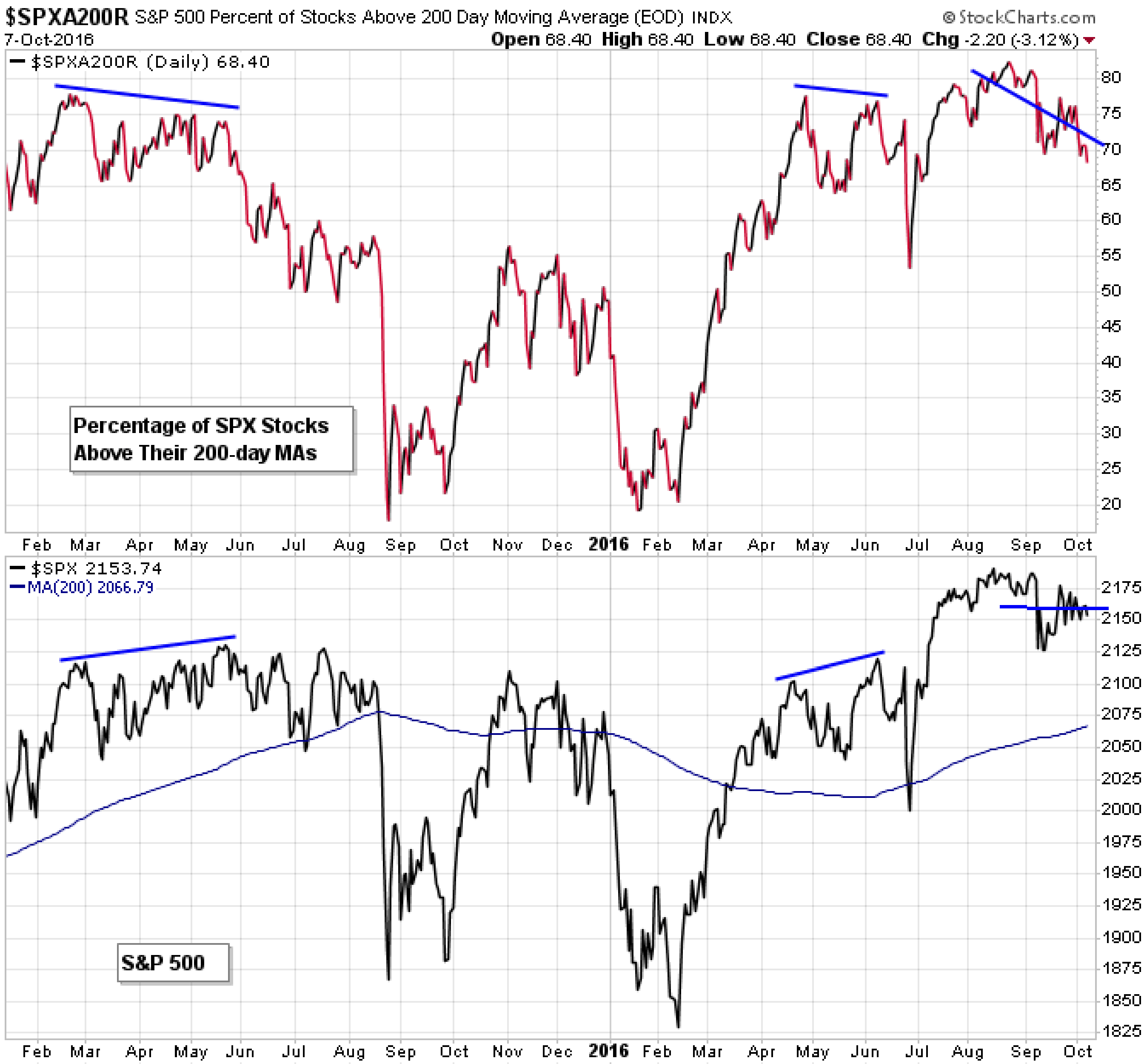
NASDAQ vs. NASDAQ Bullish Percent: The bullish percent at the Nas remains flat-lined. This isn't bad. At least it's not trending down and suggesting beneath-the-surface weakness.



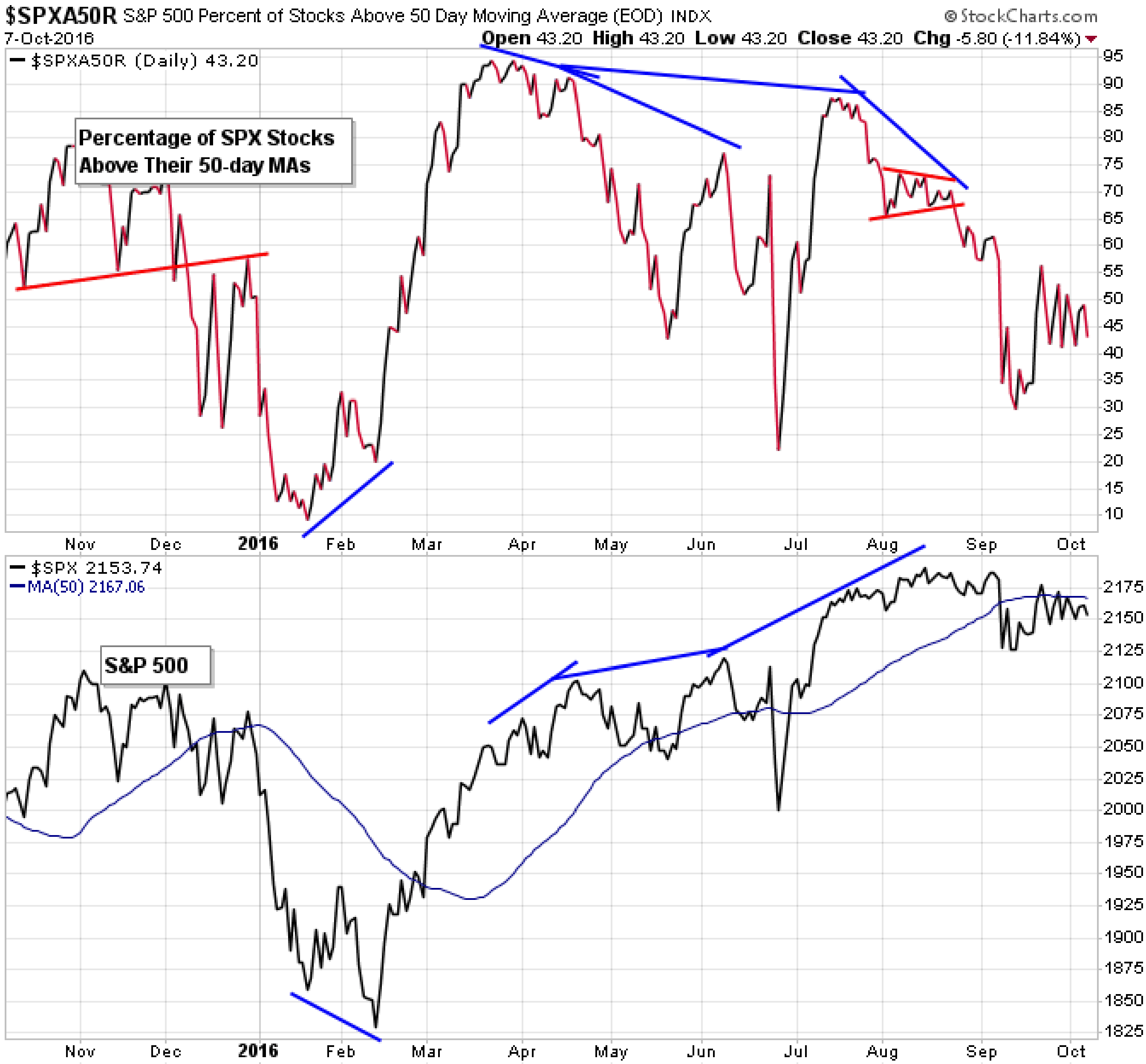
S&P 500 vs. NYSE Bullish Percent: But the bullish percent at the NYSE is trending down. The move is not as mature as the 2015 summer downtrend and is salvageable, but it's still notable because all moves have to start somewhere. As the market has traded calmly the last month, a handful of stocks have lost their buy signals.



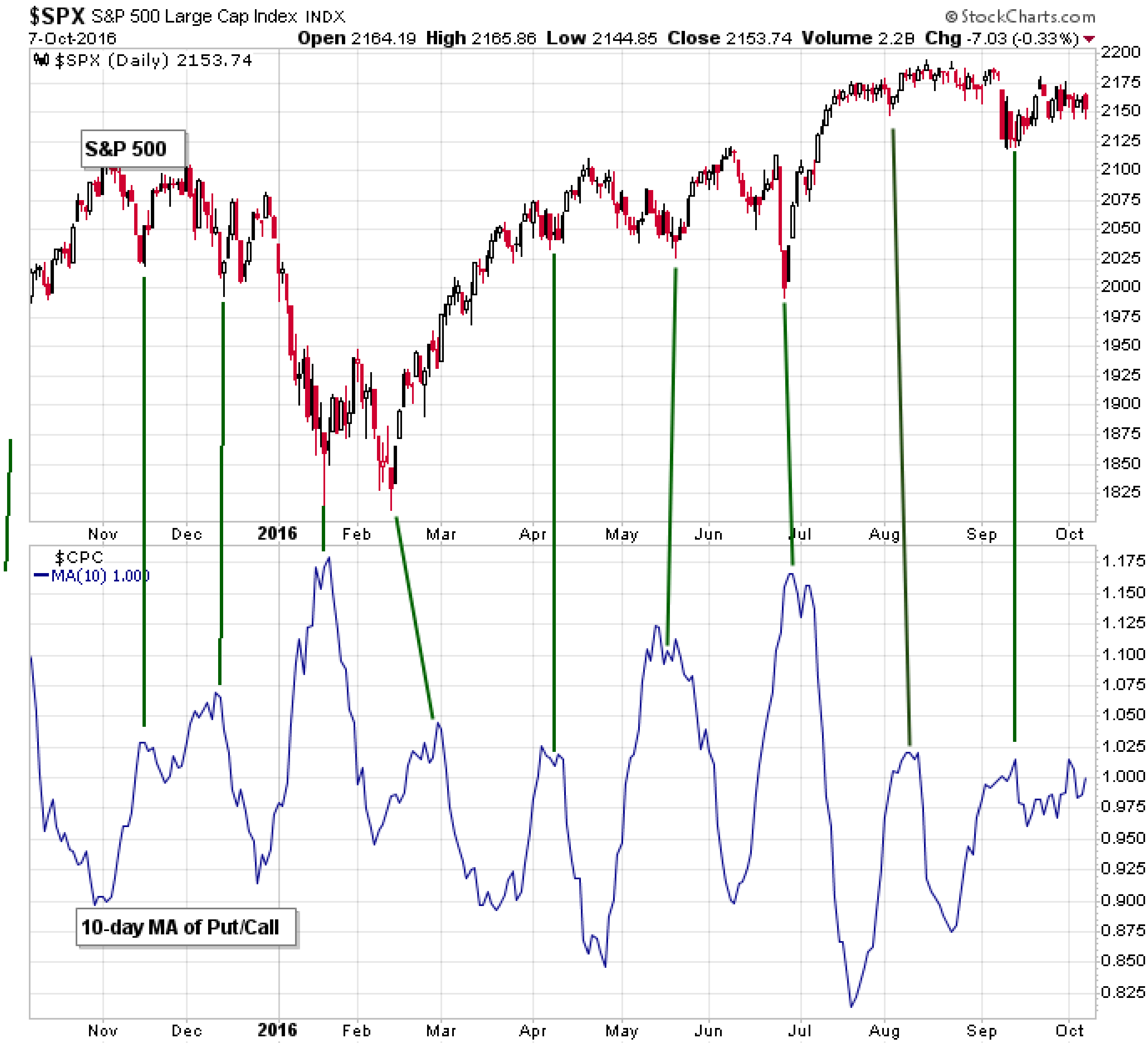
S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: The percentage of SPX stocks above their 200-day moving averages has been declining the last 5 weeks and currently sits at its lowest level since early July. You can explain the reason by saying a flat market allows the MAs to "catch up" to the price action, so simple noise will cause some stocks to move below their moving averages, but I prefer to take things at face value. Beneath the surface a little weakness is brewing.



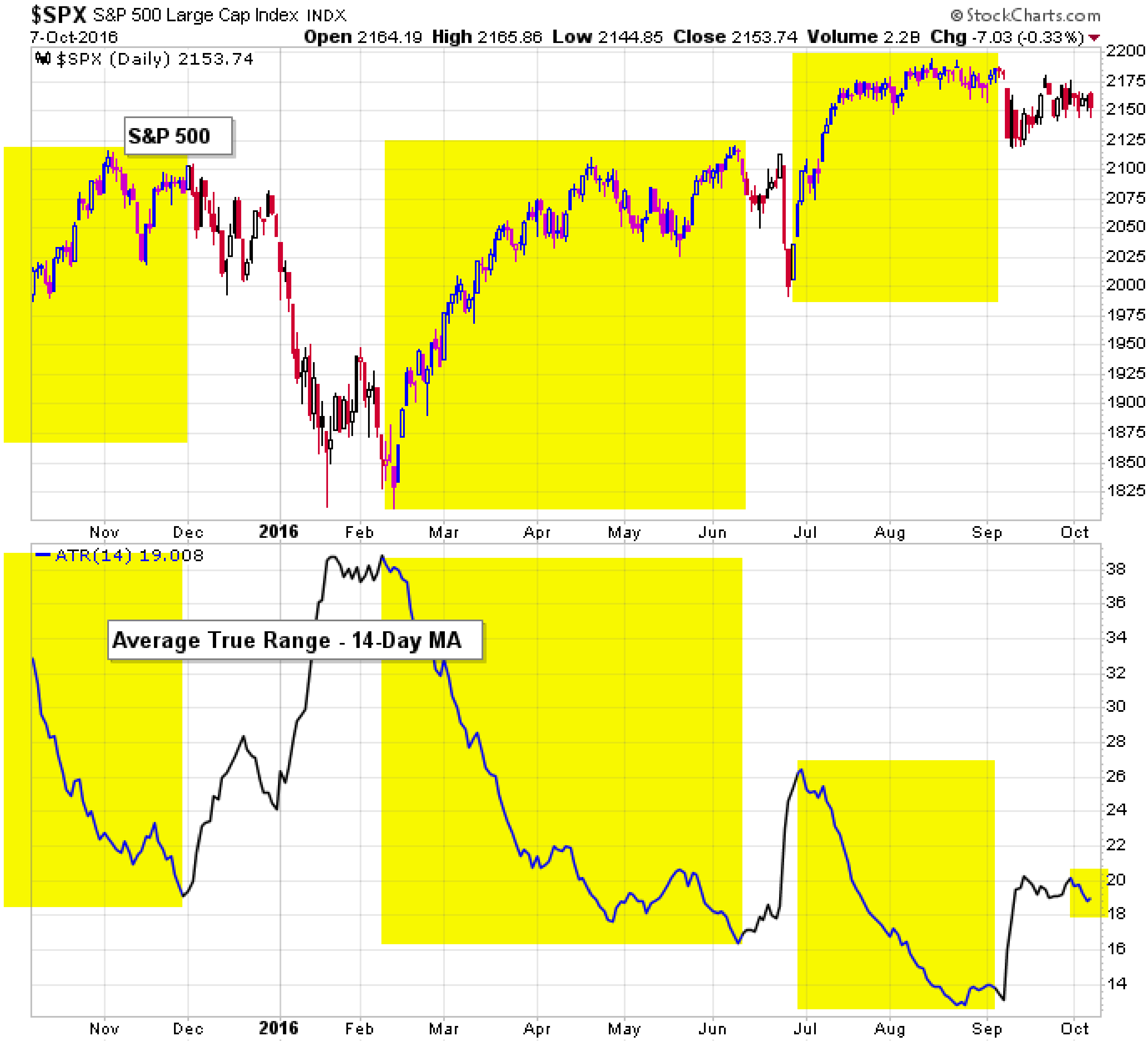
S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: The S&P is starting to consolidate below its 50, and the percentage of SPX stocks above their own 50's is jumping around in the 40-50% range. The indicator is moving in lock-step with the market, and there are no beneath-the-surface hints of strength or weakness brewing. So we get no help right now, but when the market moves, we'll either get confirmation or a divergence.



S&P 500 vs. 10-day MA of Put/Call Ratio: The put/call remains useless. Instead of oscillating up and down and giving us overbought/oversold readings, it's just sitting in a range. Ignore it until it gets moving again.



S&P 500 vs. 14-day Average True Range: The ATR has dropped to its lowest level in a month. This is a positive sign because the market tends to move up on declining volatility. It has to continue. A move to the upside would not be a good omen in the near term.



The Bottom Line

Within a range that already existed, the market has flattened out the last couple weeks. The market is either waiting for something or nothing is going on. Perhaps earnings season can get the ball rolling in one direction or the other.

The breadth indicators suggest a little weakness has developed, but overall I'm still encouraged by what I see and am confident if the market corrects, the weakness will get bought. Things can change, but that's how I'm approaching it.

For now, no big bets. There aren't many set-ups that "jump off the screen" at us, so be content with small gains until opportunities improve.

Have a great week.

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