Leavitt Brothers

Weekly

Jason Leavitt jason@leavittbrothers.com	Sunday, October 30, 2016

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Warnings have been growing for several weeks, but the indexes have mostly stayed in range.

Going back to the beginning of April the market has traded range bound for all but about three weeks. The summer range was characterized by a couple swings in both directions while this fall range has seen many overlapping candles and a lot of churning.

When in range, it's wise to look beneath the surface for clues as to what is brewing because the indexes can often mask what's going. Sometimes a look under the hood reveals good things happening, and a once major hurdle is removed, the market is free to move up. Other times warnings are present, and at the very least they tell us to be careful because a rally attempt will not have broad-based support. The latter is the current situation.

The market's breadth has been weakening for several weeks. The advance/decline line and advance/decline volume line have fallen to levels not seen since last spring. The number of stocks hitting new highs have completely disappeared. The bullish percent charts are moving down. The number of stocks trading above key moving averages (50 & 200) are declining. Everywhere you look the market's internals tell us there's trouble brewing.

The quality and quantity of good set ups have declined. Under good conditions it's hard to narrow a trading list to workable number. Now it's hard to find even a couple good ones each week. Trading is much easier when there's a steady wind at your back - in the form of a market trend and group strength - but such a situation doesn't exist. Random charts look good, but peer support and confirmation are nonexistent and the market itself is stuck in a grinding range.

And good trades aren't following through much. Instead of three steps forward, one step back and then another leg up, we're getting a step forward and then a move back down. Instead of giving stocks room to move and having confidence 10-20% gains are doable, we're stuck taking 5% gains, and we're penalized if we don't take them. Lack of follow through is a clear sign of a market that has lost its way, even if only temporary.

The small caps are lagging. When trouble starts brewing, the smart money rotates out of riskier small caps and into safer large caps, so when the small caps suddenly start to lag, it's worth noting. This has been the case lately. Recently the Nas 100 moved up to an all-time high, but the Russell 2000 small caps fell to a 3-month low - a very noticeable divergence.

And speaking of the Nas 100, here's a big-picture stat that just doesn't seem sustainable. According the Jeff Macke, 90% of the S&P's market cap gains since the beginning of 2015 have come from the FANG stocks (Facebook, Amazon, Netflix, Google). Without these four stocks, the S&P's market cap is up $45B, but with them, the market cap is up $630B. I understand that leaders need to lead, but this top-heaviness is extreme.

And finally, more than half the S&P Select groups have rolled over. There are nine broad S&P Select groups: materials, energy, financials, industrials, tech, consumer staples, utilities, health care and consumer discretionary. Six of the nine are trading below their declining 50-day MAs. This is not the broad-based, beneath-the-surface strength the bulls want.

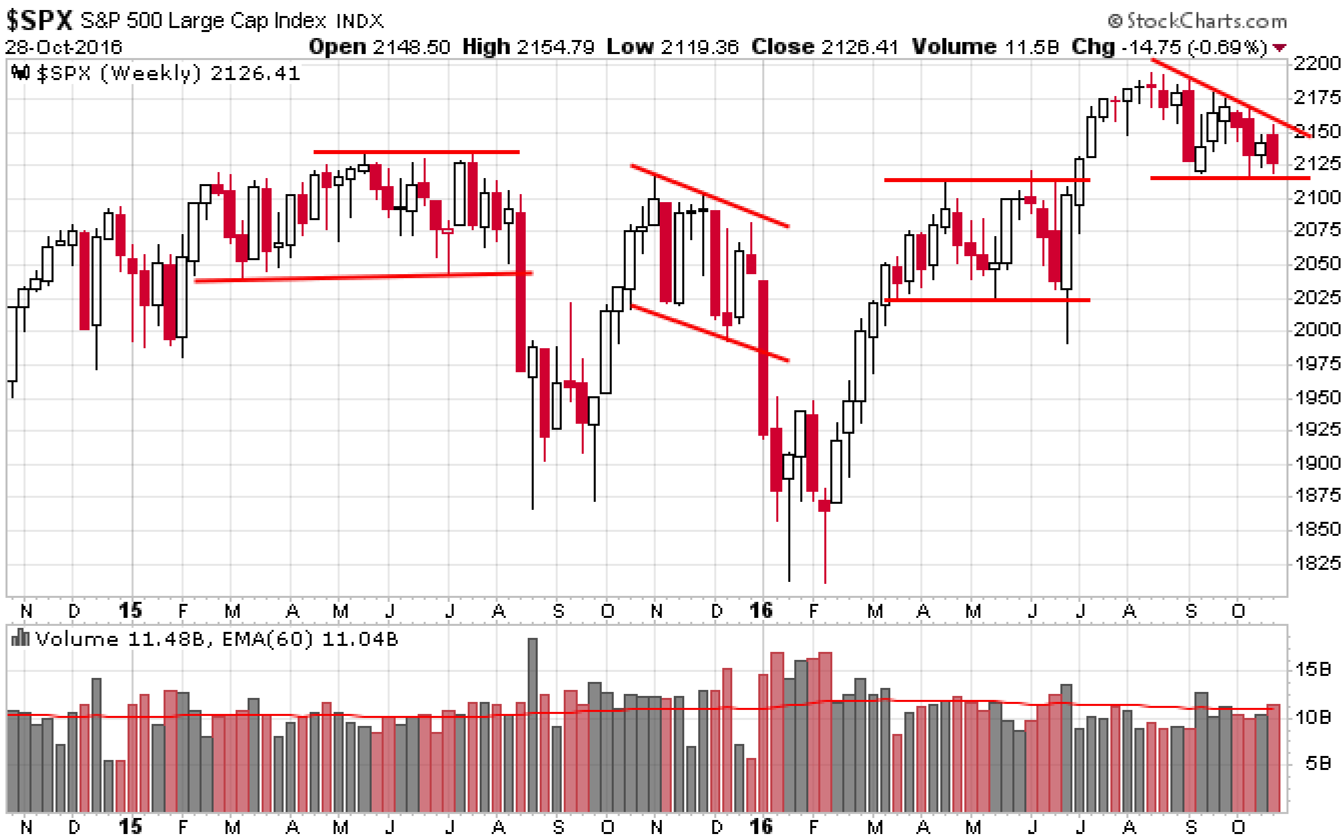
If left alone my bias would be to the downside. These issues need to be dealt with. This is not my way of saying the uptrend is over and a downtrend in its beginning stages. It's just my belief there isn't much support for gains right now; the charts need to reset, and the market needs to undergo a very normal correction, which incidentally would set the stage for bigger gains later. But the market isn't being left alone. We have an election in less than two weeks, and it's my firm belief the current administration isn't going to let the market fall. In fact they'll do everything within their power to prop the market up to increase the odds the candidate from the same party wins.

This puts us in a situation where the market should drop but probably won't - at least not for the next 7 trading days.

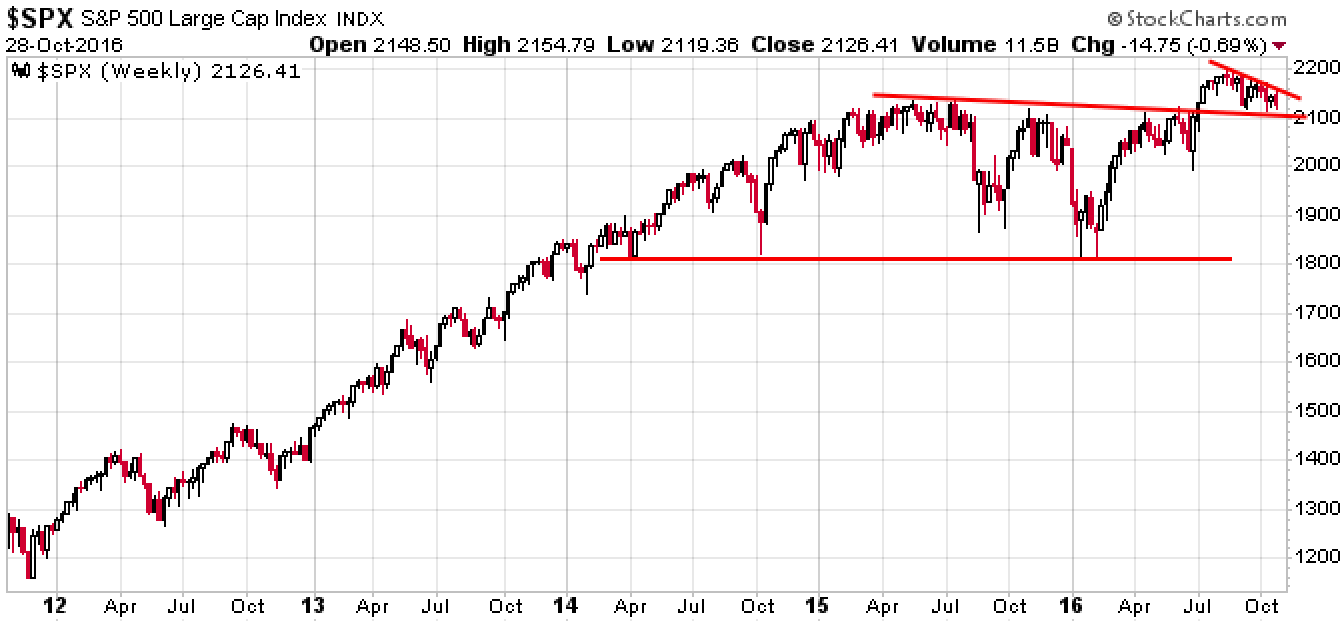
Let's get to the charts and see what they say.

Indexes

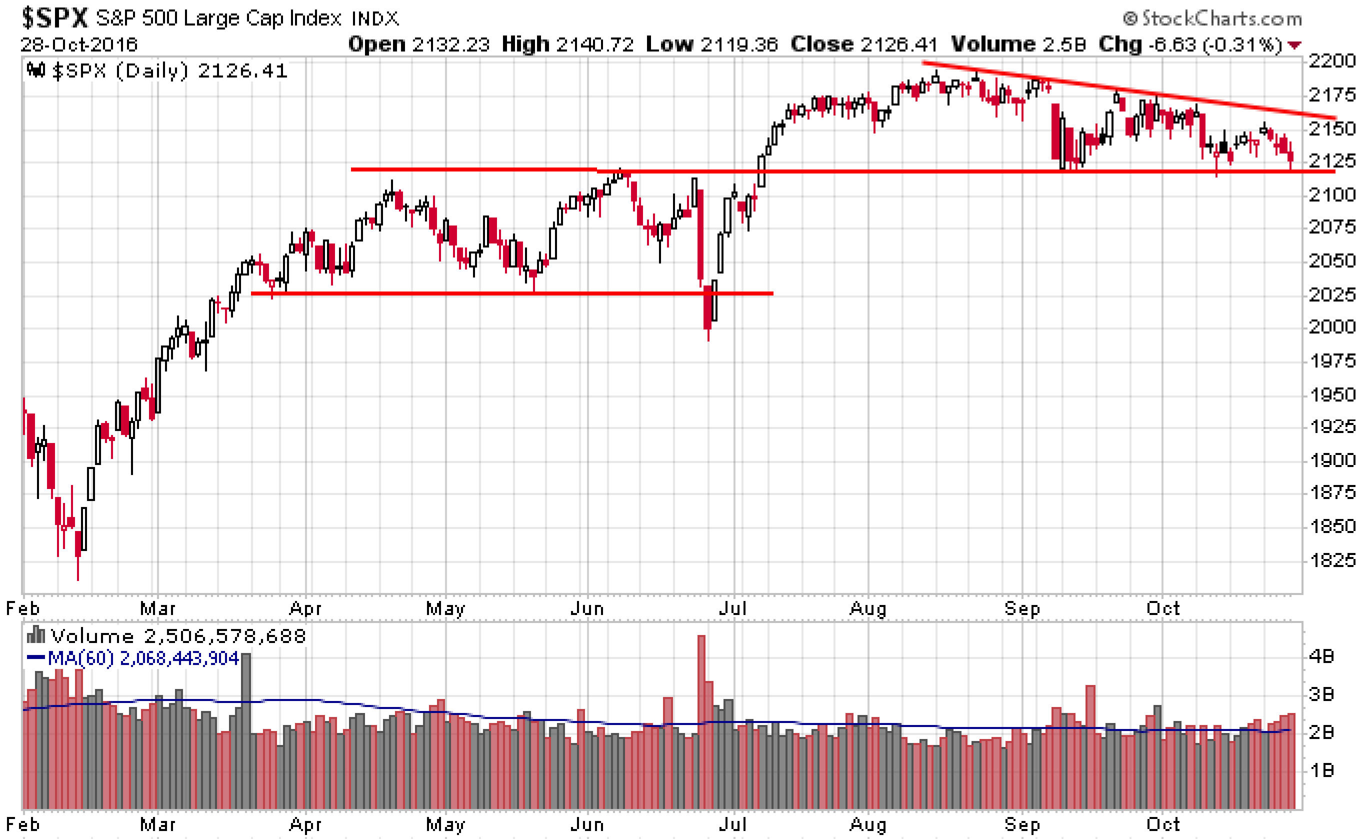
The S&P 500 Weekly: There's nothing horribly wrong with the weekly S&P chart. The index broke out in July, and after following through a little, it settled into a range that still persists. The price action is getting squeezed by converging trendlines which act to build pressure and energy into the setup, often resulting in an explosive move. We still need to consider this a consolidation pattern within an uptrend.



The S&P 500 Weekly: Here's another look at the weekly. A 2-year, 300-point range resolved up but didn't go far. If the index moves back into the range we have to consider the possibility the breakout was a false move, and the 300-point range is still in play. At the very least it's one of the scenarios we have to consider.

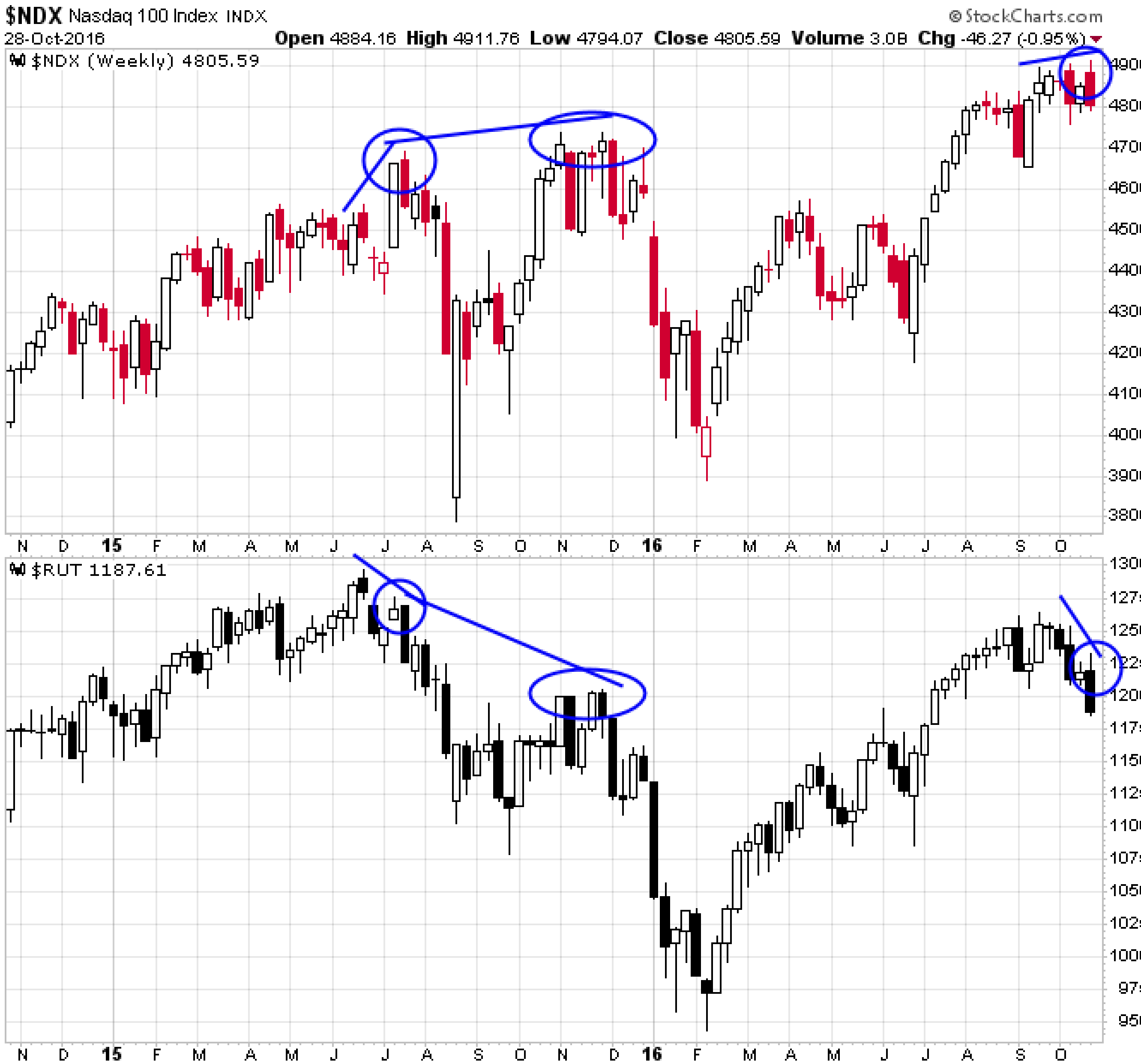


The S&P 500 Daily: Ugh! Absolutely nothing going on with the daily chart.



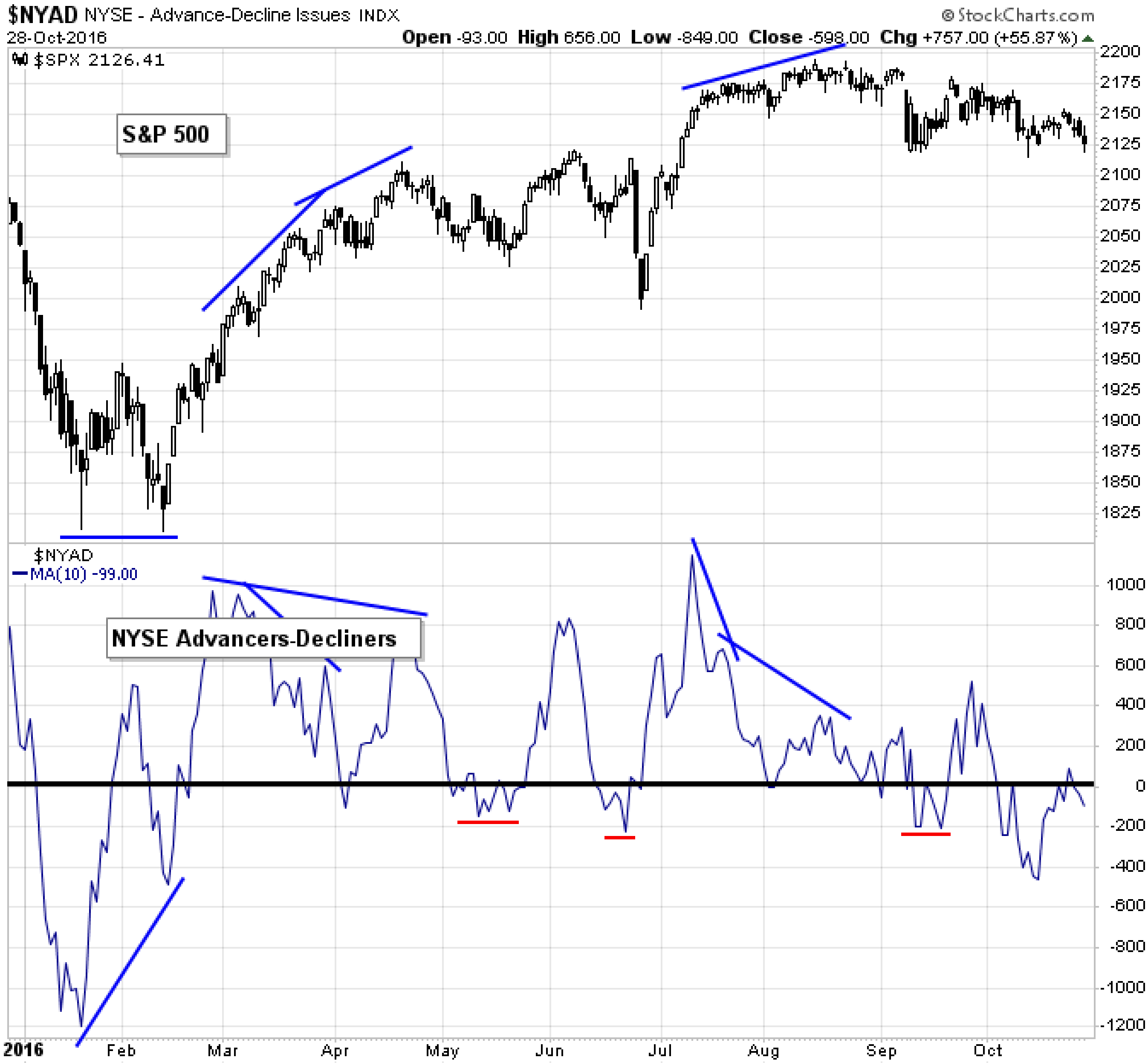
Small Caps (Russell 2000) vs. Large Caps (S&P 500): The Russell small caps have under-performed the S&P large caps this month. Generally speaking when this is the case the market is more chaotic and less predictable. It's another reason to be very careful going long.

Nasdaq 100 vs. Russell 2000: The Russell 2000 has also been lagging the Nas 100 lately, a development that typically leads to market drops. In July of 2015 nonconfirmation from the small caps led to a late summer selloff. Then in November it led to a sizable drop in January of this year. This does not bode well for the intermediate term.



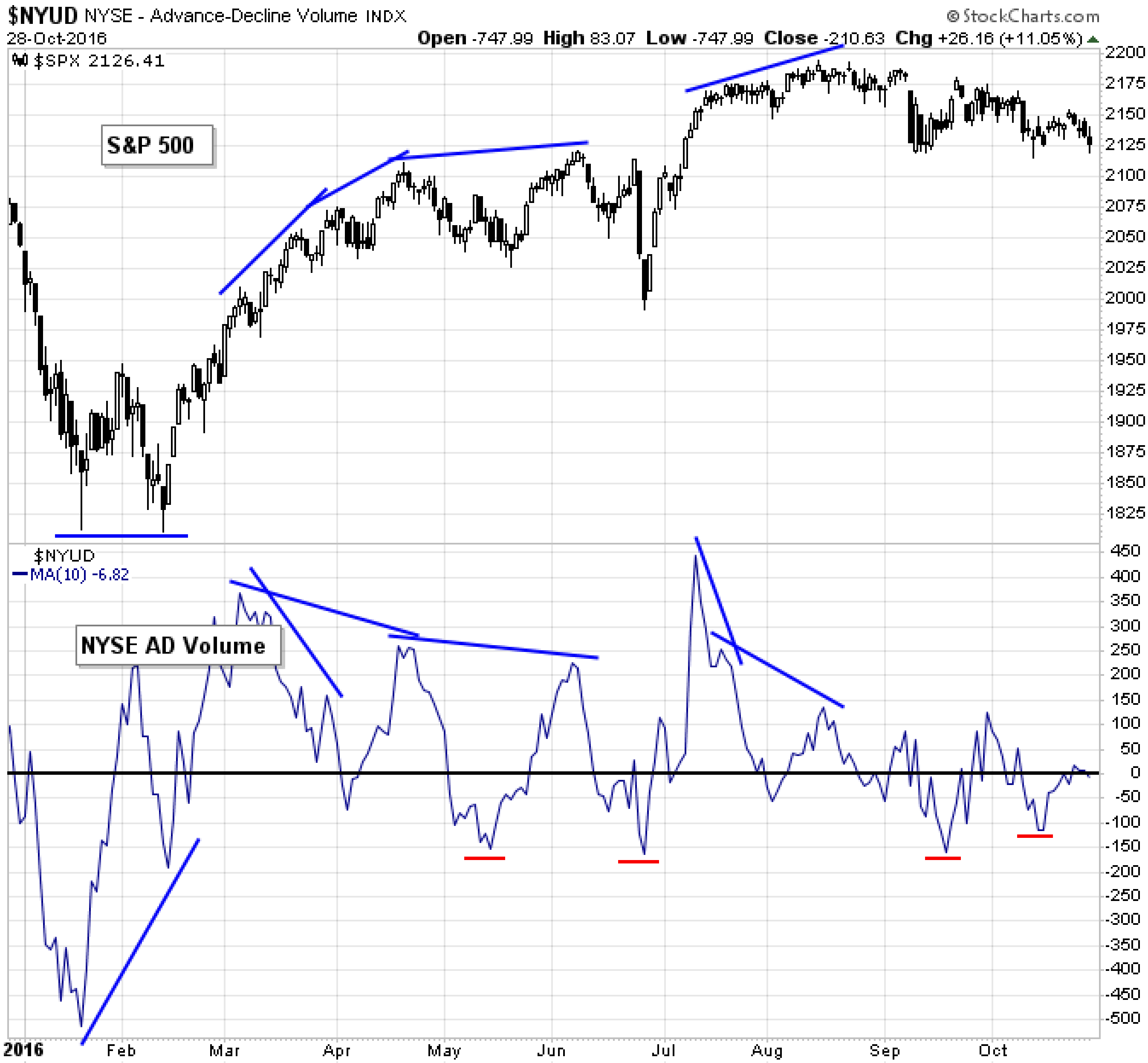
Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: It's been three months since we've gotten an extreme print from the 10-day MA of the AD line. That means not a single 10-day period has had enough buying or selling to send it up or down. Clear evidence there has been no staying power with any move.



S&P 500 vs. NYSE Cumulative AD Line: The cumulative AD line has been range bound for two months but is currently sitting at a low...and you could make a case it's been trending down the last month. The bulls need to see improvement here, otherwise the market will eventually hit a downside air pocket.

S&P 500 vs. 10-day MA of NYSE AD Volume Line: The picture of neutrality. There have been no extreme prints from the 10-day AD volume line, and Friday's close was a stone's throw from 0. So even though the large caps have done better than the small caps, they haven't done well enough to move the needle.

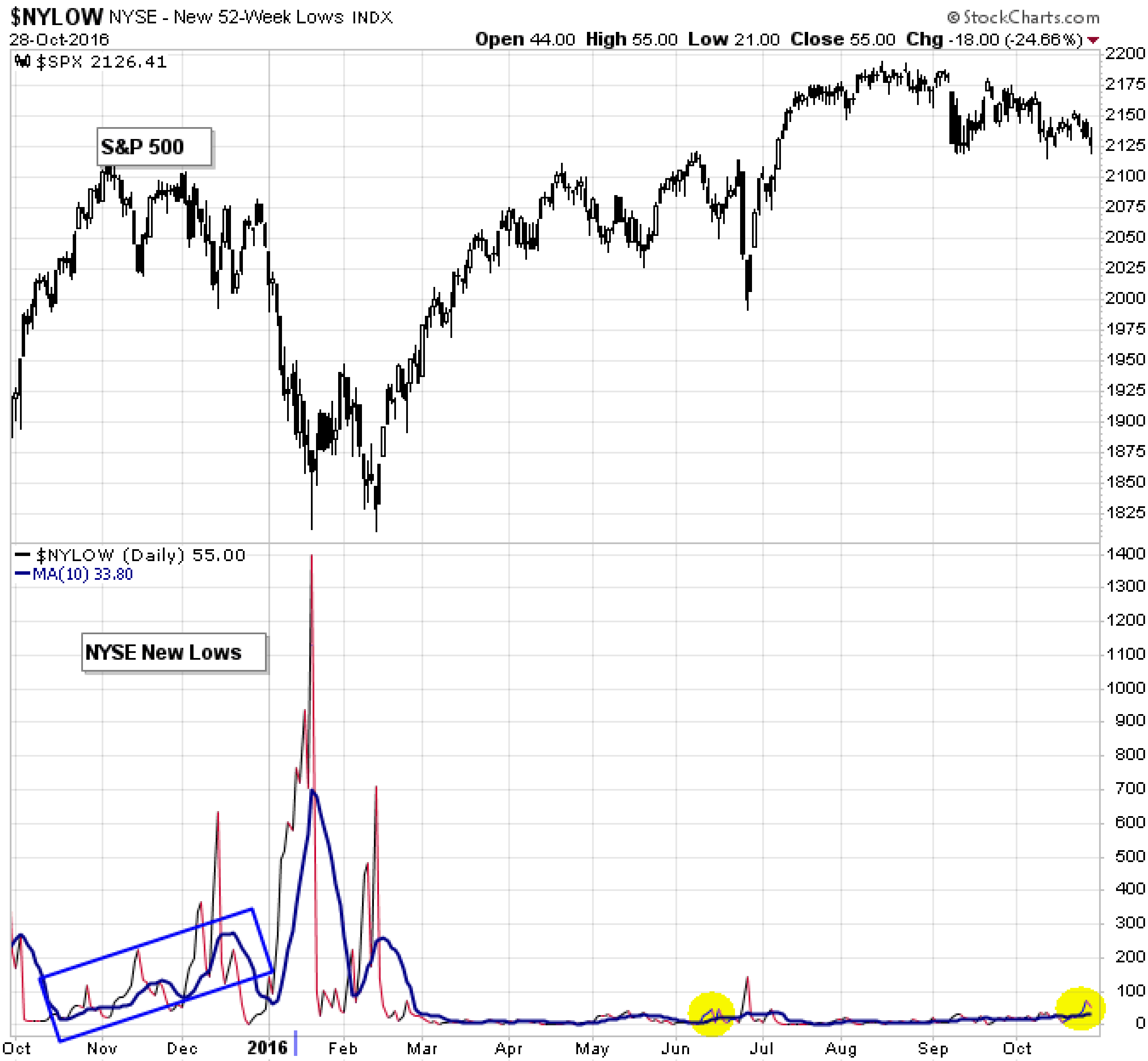


S&P 500 vs. NYSE Cumulative AD Volume Line: The cumulative AD volume line is not bullish or bearish. Periods of neutrality have resolved both up and down. There are no hints of strength or weakness here.

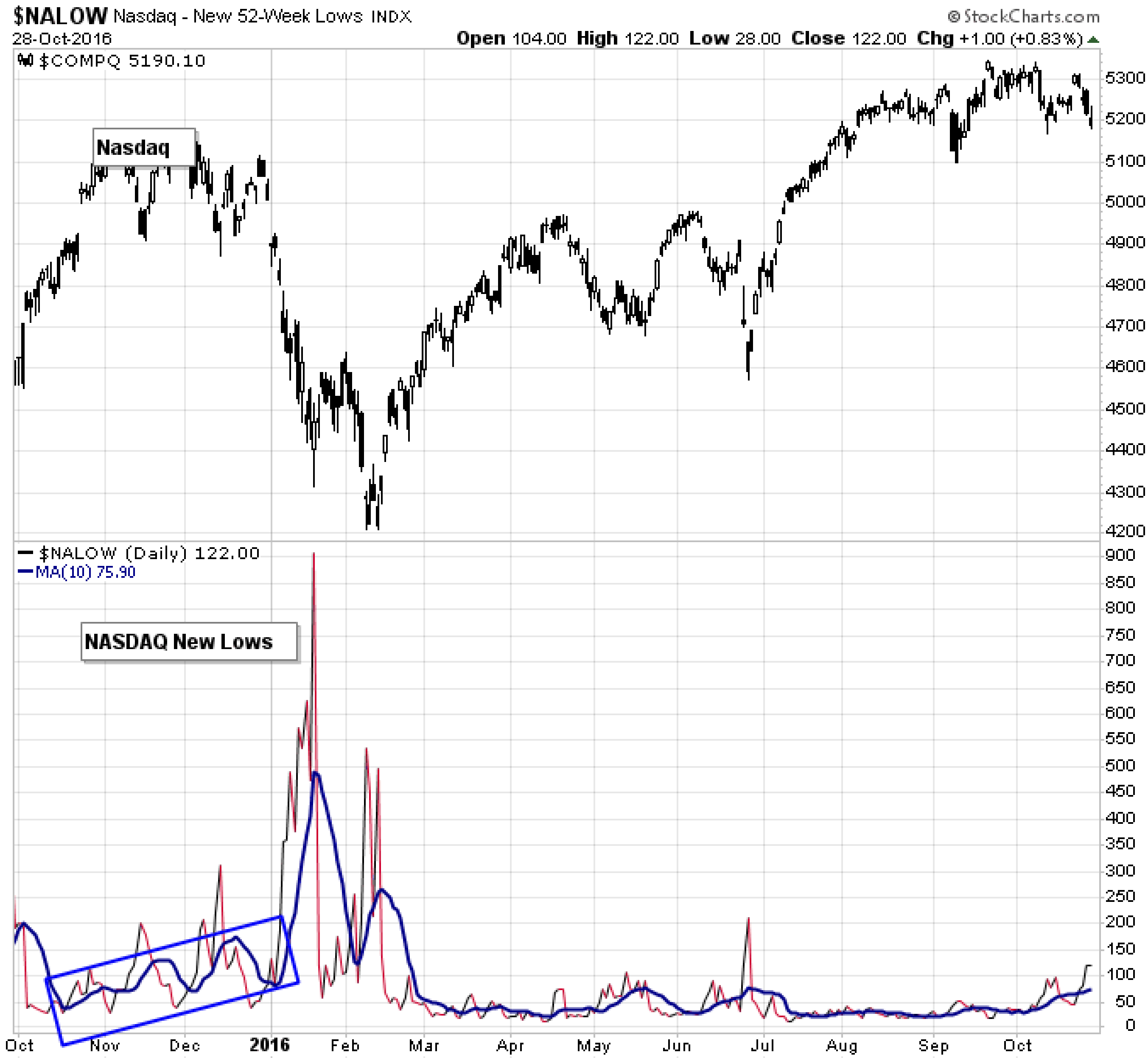
S&P 500 vs. NYSE New Highs: New highs continue to be nonexistent. Not a surprise. But considering the market has been dead money for 3-1/2 months, I don't consider this to be a negative warning. If the market attempts to move up, the bulls will want to see immediate improvement. Otherwise we'll get a nonconfirmation.

NASDAQ vs. NASDAQ New Highs New highs at the Nas are also at a low level. For now it's not an issue, but if they don't move up during a rally attempt, a big warning will be flashed.

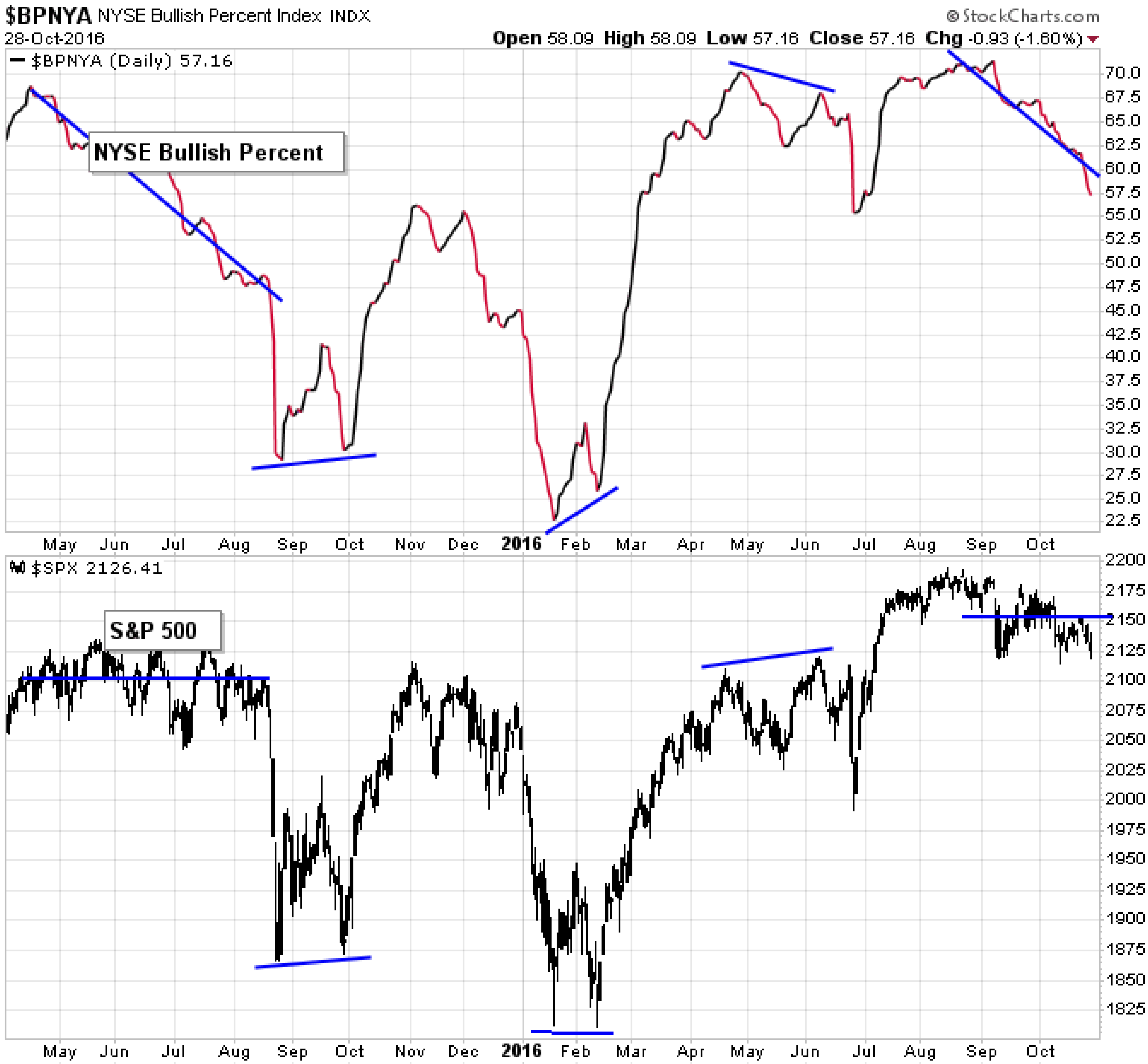
S&P 500 vs. NYSE New Lows: New lows at the NYSE ticked up to their highest level since June, during and prior to the Brexit vote. It's nothing like last November and December when they trended up for two months, but it's still noticeable.



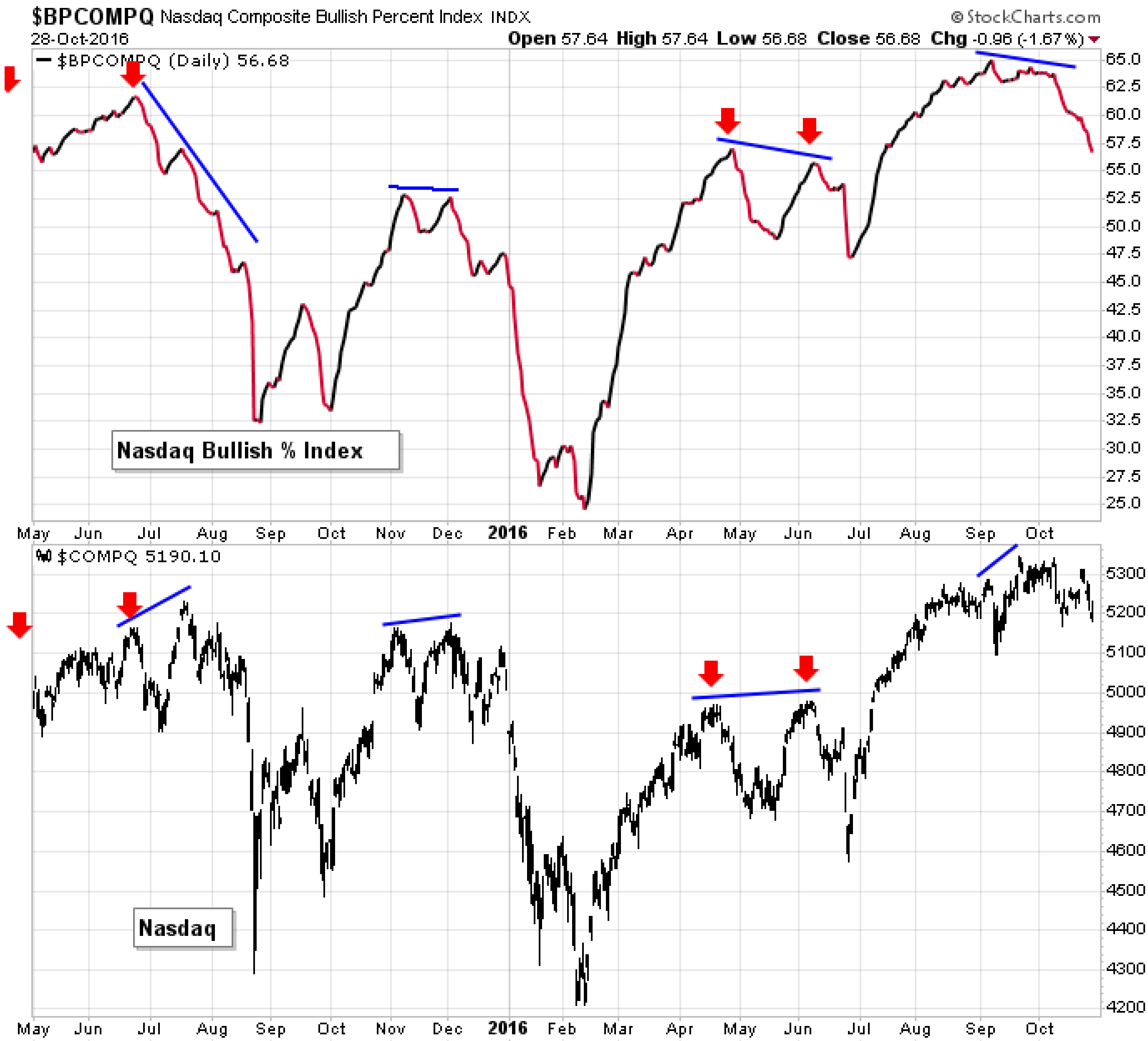
NASDAQ vs. NASDAQ New Lows New lows at the Nas have also climbed to their highest level since June.



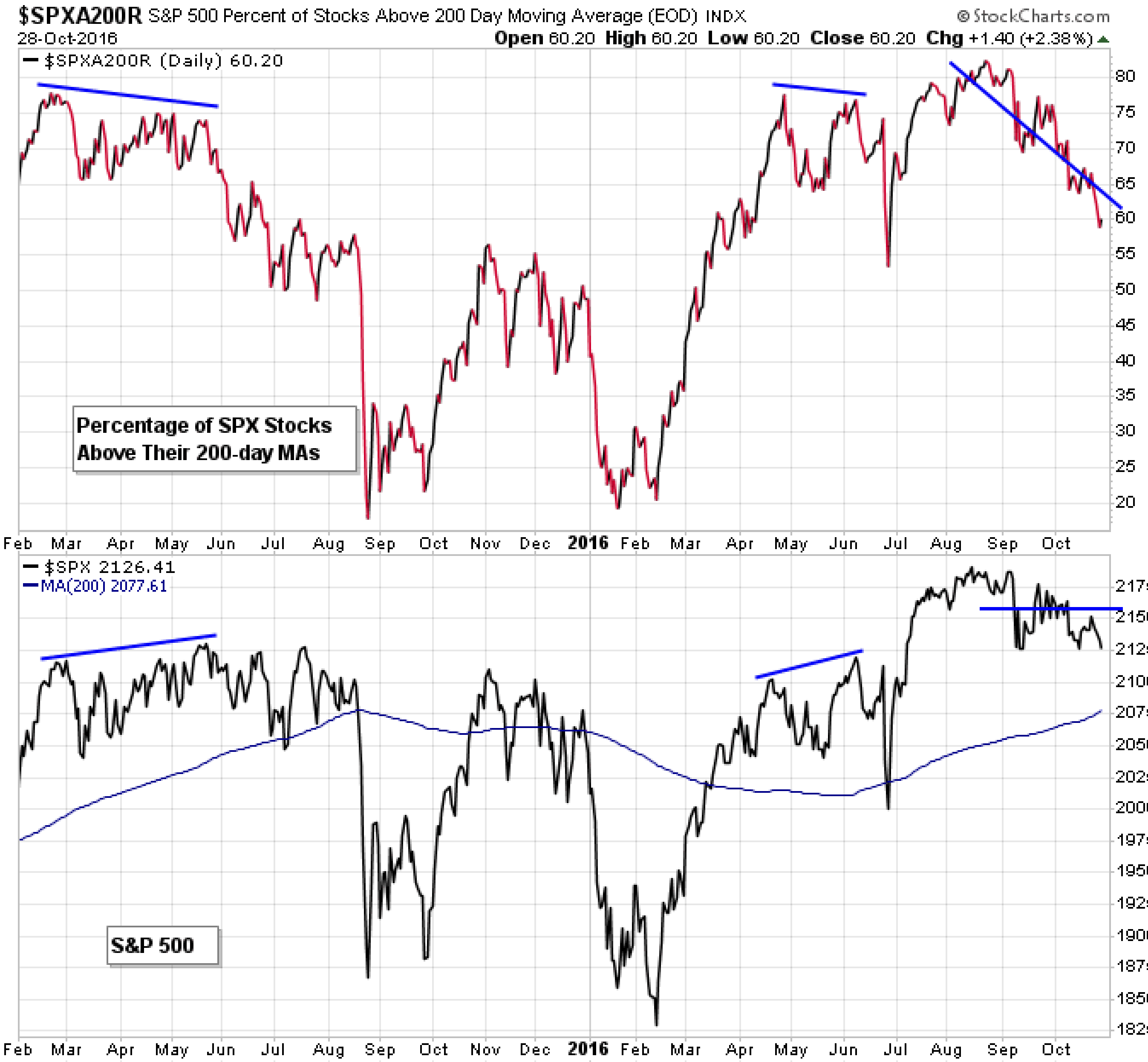
S&P 500 vs. NYSE Bullish Percent: The bullish percent at the NYSE is starting to look like the summer of 2015. A counter move while the market rests and consolidates is fine, but at some point there's just too much weakness beneath the surface for prices to hold up. This indicator has to right itself.



NASDAQ vs. NASDAQ Bullish Percent: The bullish percent at the Nas has been trending down this month but still sits at a decent level. It's not an issue yet, but if it continues it will be. Two months seems to be the amount of deterioration the market can handle before the bottom falls out.

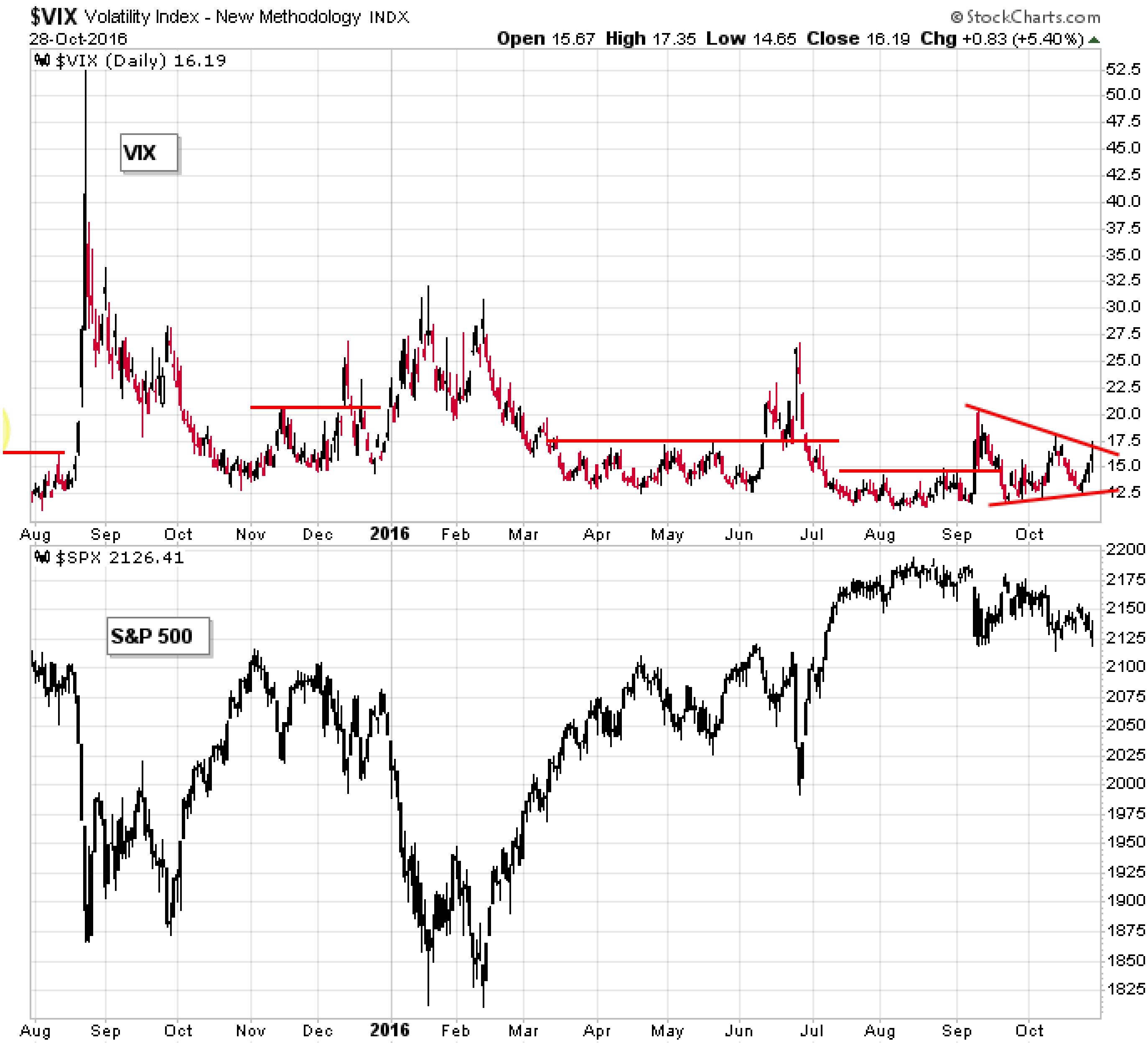


S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: The percentage of SPX stocks above their 200-day MAs continues to move down. One by one stocks are trading below this key moving average that institutions use to differentiate between and uptrend and downtrend. At first it wasn't a concern, but it's starting to get more noticeable. The bulls do not want to see much more deterioration here.



S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: This indicator has been moving down for three months. This isn't a surprise considering so many stocks are trading range bound and their 50-day moving averages have flattened out in the middle of the ranges. Any rally attempt will need to see immediate improvement here or else the rally will not have legs.

S&P 500 vs. VIX: For what it's worth, pressure seems to be building with the VIX. A higher low and lower high suggest something may be imminent - a quick burst, which would coincide with the market tanking, or a quick drop, which would continue the market's listless action, are both possible.



US Dollar: The dollar remains in range. As long as this is the case, the market can focus elsewhere for guidance, but if this chart breaks out, all bets are off, and everything will need to be re-evaluated.

The Bottom Line

The market is struggling. Looking out 1-2 months, there isn't much for the bulls to cling to.

If left alone the market should correct - not necessarily a big correction or one that persists for months - just a normal and healthy correction that allows the charts to reset and start over.

But the market won't be left alone. There's a Fed meeting next week and an election the week after. The FOMC meeting is a nonevent - no way they change rates. The election could be a market mover. Heck, Clinton-related news on Friday sent the indexes down hard.

This is not a time to trade heavily or with size. There aren't many good set ups, and the ones we've had recently haven't been following through lately.

Be conservative. Preserve capital for a time when the environment is better.

Have a great week.

Jason Leavitt
Jason@leavittbrothers.com