Leavitt Brothers

Weekly

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The market desperately wants and needs this election to be over.

Elections are always tough and hard-fought with a lot of low-blows, but I've never experienced an election where the two leading candidates are so disliked and disrespected. They have their supporters, but I think many people are voting for the lessor of two evils, not the candidate they really like. In fact I'd say if option c) "none of the above" was added to the ballot, that option would win in a landslide.

Wall Street doesn't like the uncertainty, and it doesn't like the mood in the country. The S&P 500 is in the midst of a 9-day losing streak (first since 1980), and it's no surprise that the last two 8-day losing streaks were during election years (1996, 2008).

Wall Street wants a clean and uncontested Election Day that results in clear winner and concession by the loser.

Wall Street doesn't want a repeat of Bush/Gore 2000, where the election was fought in court and wasn't decided for several weeks.

Assuming we get a smooth and peaceful day on Tuesday - and there are absolutely no guarantees of this - the market will be "free." But it will have many technical barriers to overcome if it wants to resume its uptrend. Since 1950, the market has rallied an average of 2.5% the last two months of election years (2.6% when a republican wins and 2.4% when a democrat wins, so it doesn't matter).

These technical barriers include the following (which will be discussed below):

All the indexes are trading below their 50-day moving averages, and in most cases, the 50's have been declining for almost two months.

Beneath the surface, Standard & Poor's breaks the market down into nine major industries which make up the S&P Select: materials, energy, financials, industrials, technology, consumer staples, utilities, health care, and consumer discretionary. Of these nine, five would be considered downtrends - lower highs and lower lows and trading below their declining 50-day MAs.

Leaders aren't leading to the same degree. Since the beginning of 2014, the market cap of the S&P has increased by $630 billion, but 90% of that increase is due to just four stocks (Facebook, Amazon, Netflix, Google). Despite hitting new highs in the last month, FB, AMZN and GOOGL have all suffered stiff drops. If most of the market's gains are due to these stocks, what happens if they soften?

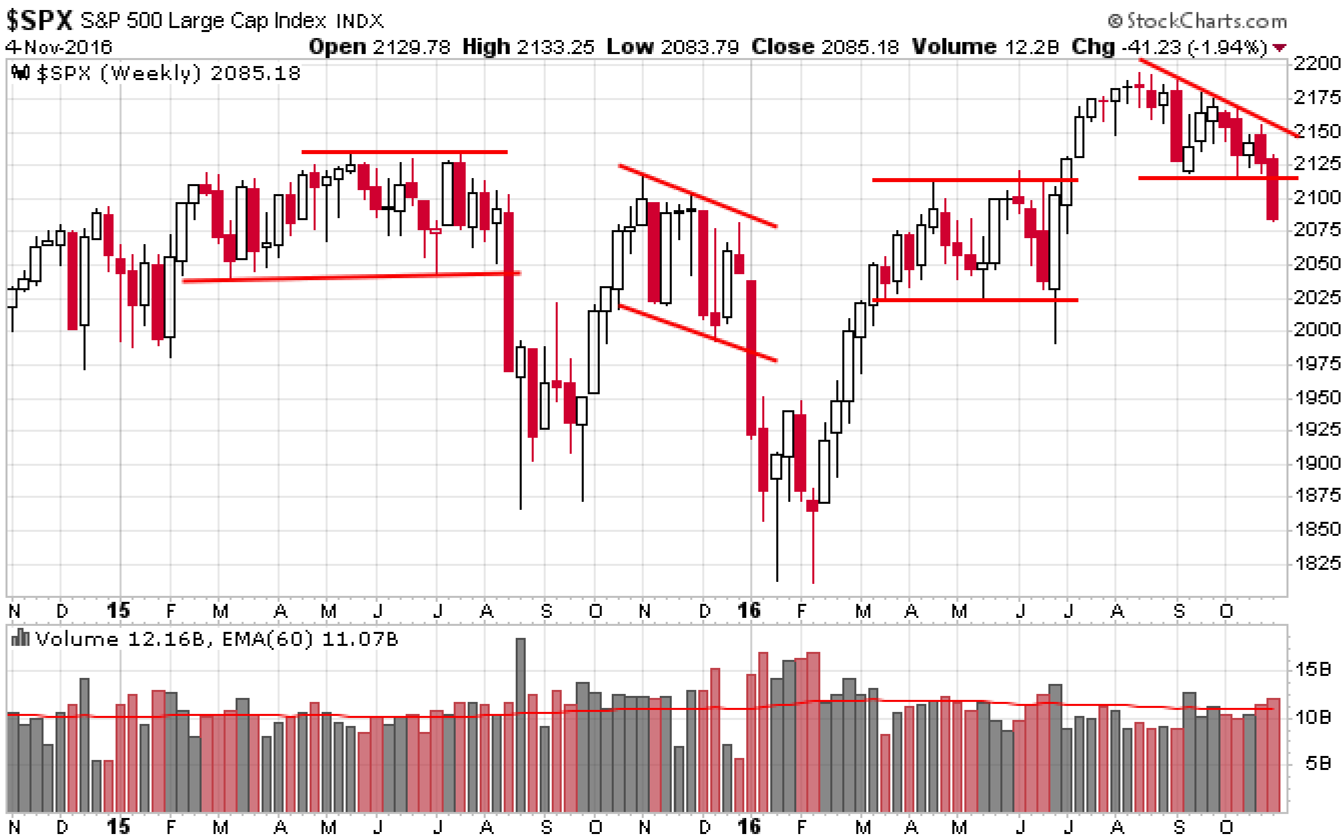
The market's breadth has been declining. The advance/decline line, new highs, bullish percent charts, percentage of stocks above various moving averages - all are weak or have been declining. This tells us weakness is broad-based and not concentrated in a couple stocks which control the indexes.

The technical picture suggests weakness. Then you have the prospect of higher rates in December. Fed talk has been more hawkish the last two months, so I think the Fed wants to raise - to at least prove they can - but that doesn't mean Wall Street wants a higher rate or has priced it in.

First Election Day must come and go as smoothly as possible. Then the market can breathe a sigh of relief until it remembers higher rates may be in the pipeline. One thing at a time. Let's get to the charts.

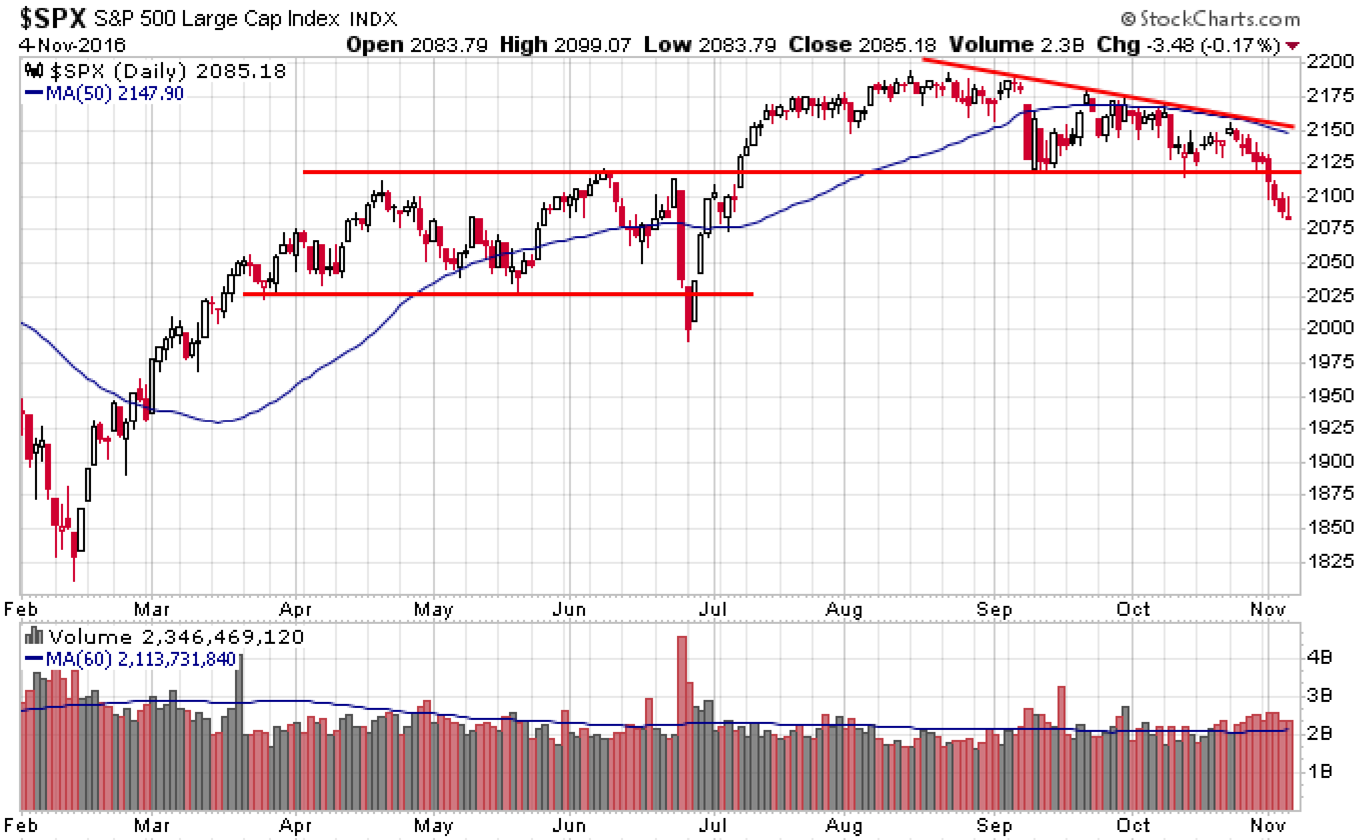
Indexes

The S&P 500 Weekly: After two painful months of getting squeezed by converging trendlines, the S&P finally got pushed out the bottom of its pattern. The move was convincing; the bears were in total control. In the grand scheme of things, I'd consider this a breakout that has become a false breakout. Perhaps the timing was off. Or perhaps it just wasn't meant to be. In either case, the S&P is back in its range (1800 - 2100).



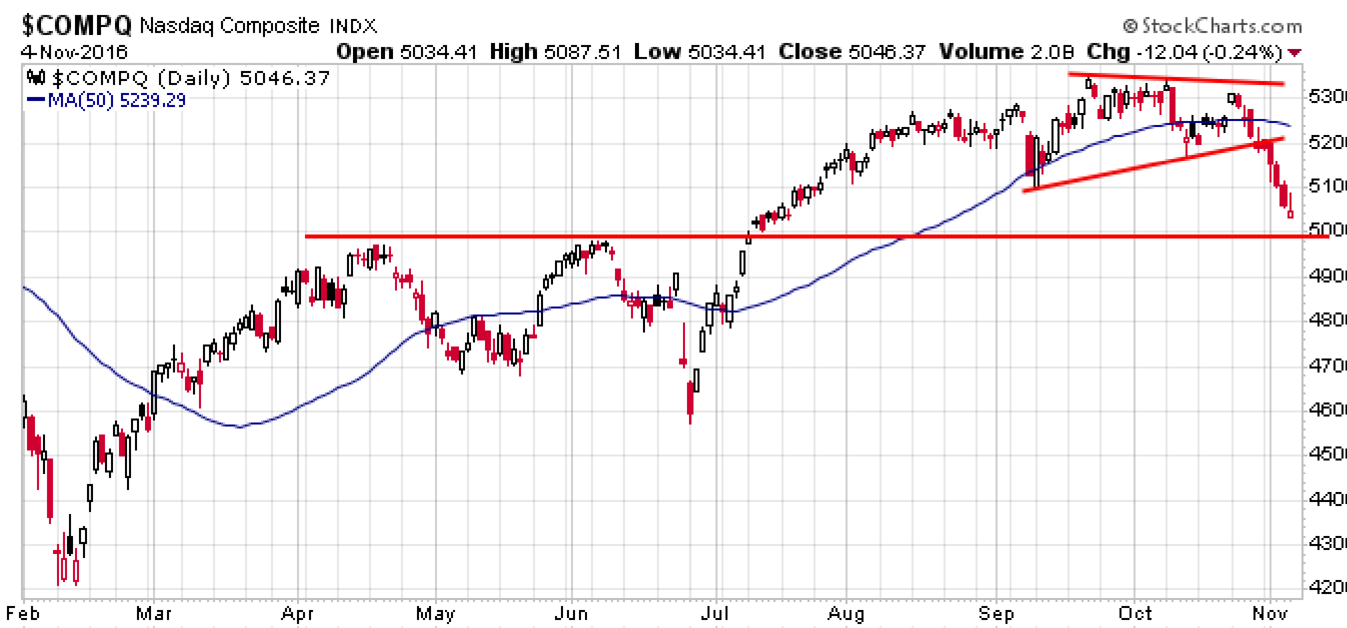
The S&P 500 Weekly: Here's a better look at the range and trend, which looks very much intact. If the index's drop into the range is shallow, I'll consider the failed breakout to be salvageable, but if the drop is big, the entire pattern will be neutralized, and we may have to get used to a continuation of flat trading.

The S&P 500 Daily: The S&P has put in lower highs and lower lows and has been below its declining 50-day moving average for five weeks. If we get a post-election bounce, the 50 must be taken out with force. Otherwise there'll be a lot of downside potential. Think about it...right now the market's weakness is being blamed on the election. What if Election Day comes and goes without any hiccups and the market still drops?



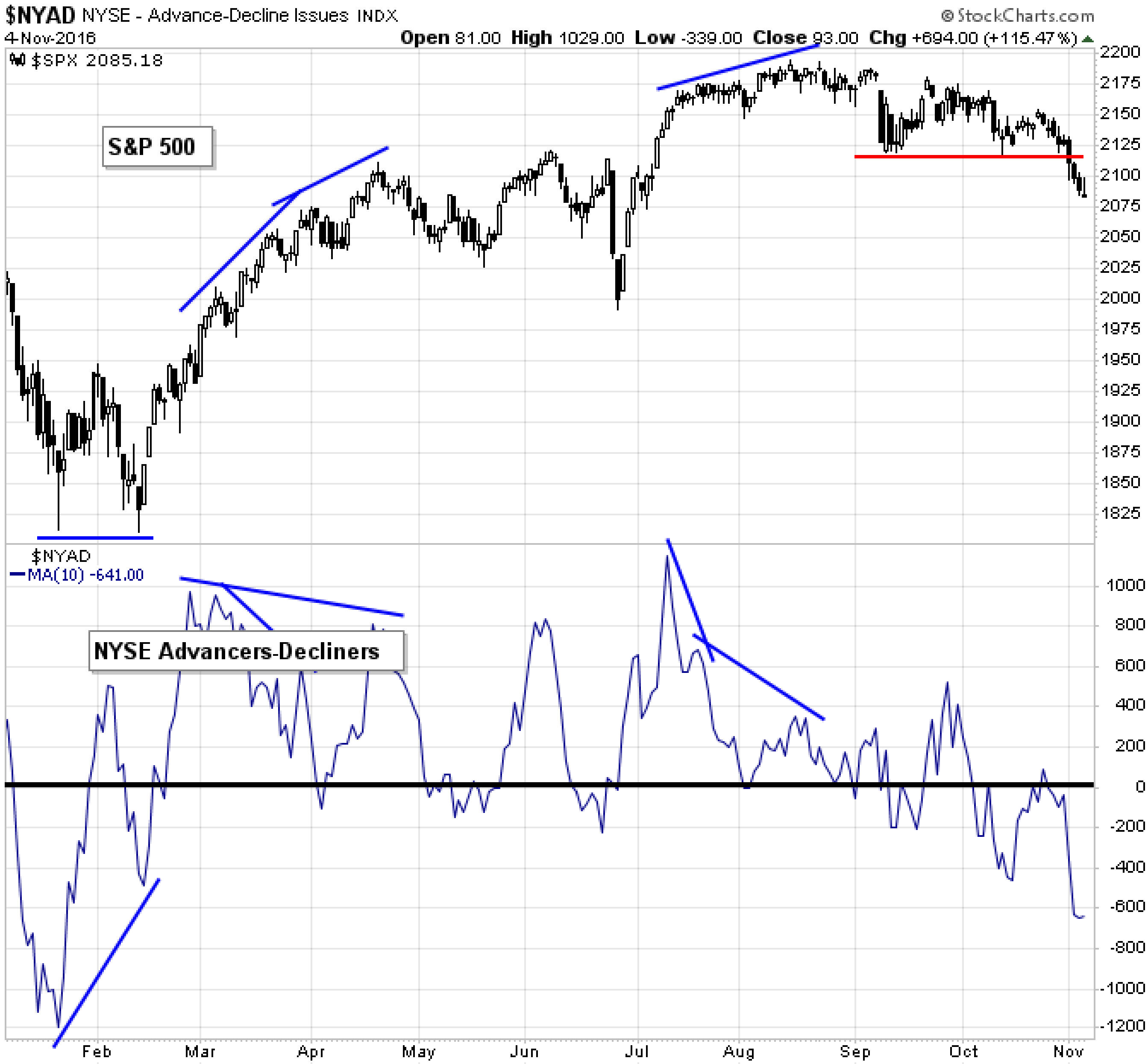
Russell 2000 Daily: The Russell, which took out a support level two weeks ago, is the furthest below its 50-day since the February bottom. The big test will come when the index bounces...and assuming Election Day isn't a mess, it will bounce soon. If it gets rejected by the former support level or the declining moving average, look out below.

Nasdaq Daily: The Nas has also taken out is 50, which is now rolling over. It's not in bad shape, but it is frustrating when the index essentially goes from one consolidation pattern (4700 - 5000) to another (5000 - 5300). You really have to be a good stock picker to make money in this market because matching the market's performance has resulted in flat trading most of the year.



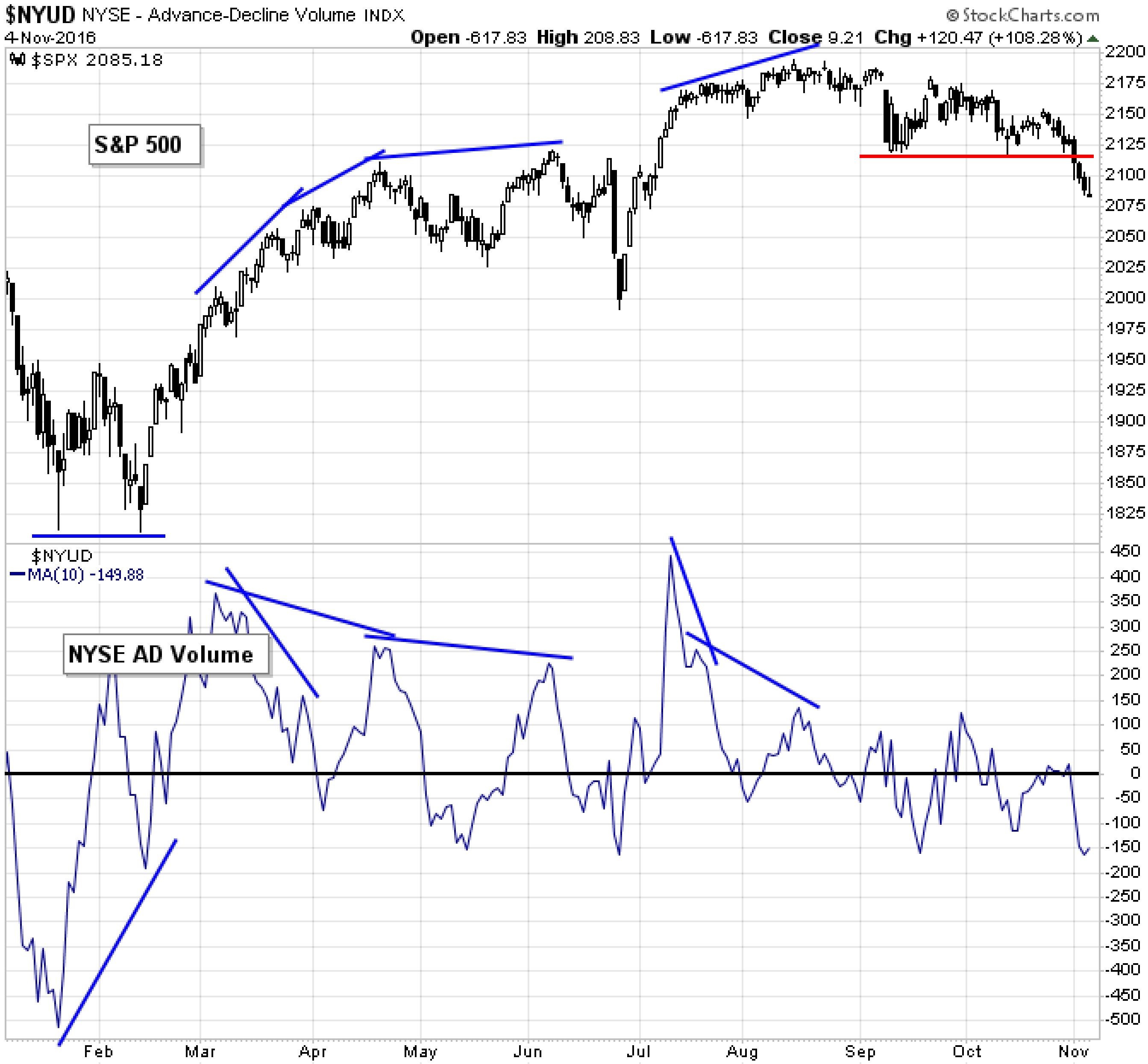
Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: The divergence between the market and 10-day NYSE AD line in July and August led to 2+ months of sideways movement. Now we have the lowest print since February, but it's not low enough to be considered a complete washout. The market can bounce at any time, but one or two more down days would be ideal.



S&P 500 vs. NYSE Cumulative AD Line: The cumulative AD line has been declining for about six weeks. Tops take time to form, which is why previous similar developments persisted for at least two months before the floor was pulled out. Without the election I'd say as long as this indicator points down, the path of least resistance will be down. But the election has the ability to change everything.

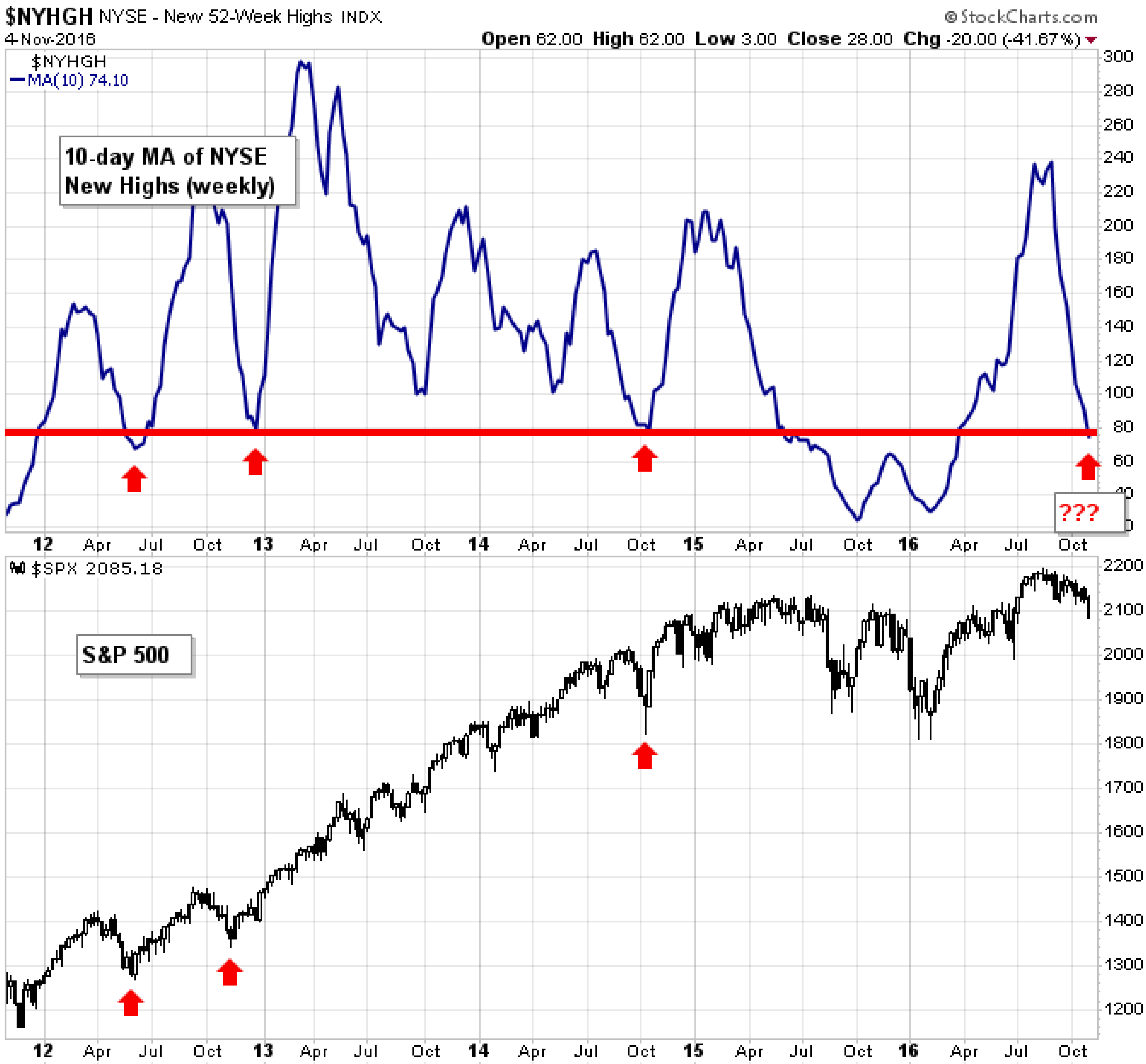
S&P 500 vs. 10-day MA of NYSE AD Volume Line: The 10-day of the AD volume line has dropped to a level that has produced bottoms in the past...just in time for the election. It happens...news hits just as the technicals line up.



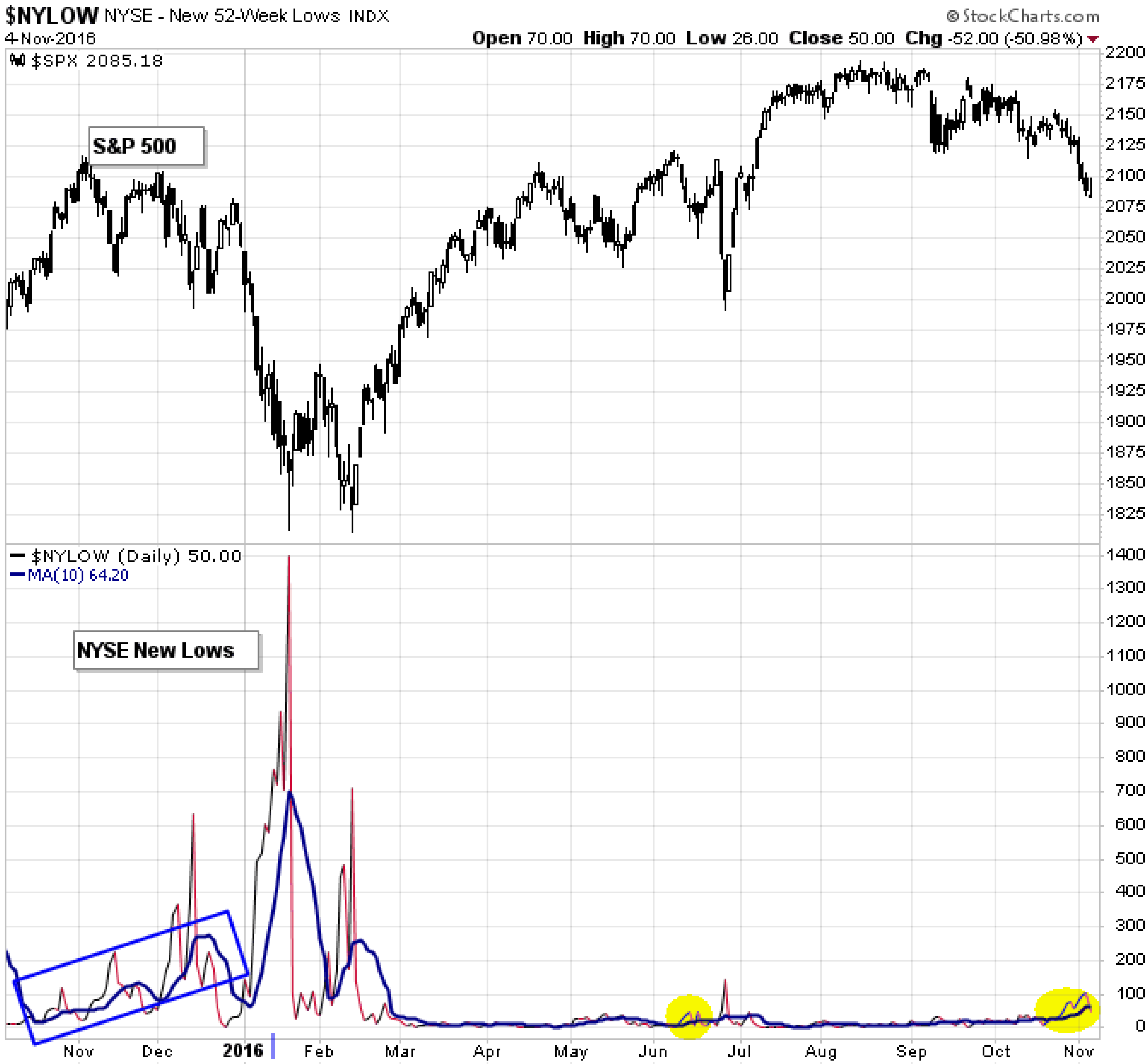
S&P 500 vs. NYSE Cumulative AD Volume Line: The cumulative version of the AD volume line has been trending down for two months. Similar "bleeding" has led to market corrections, so this indicator needs to right itself soon.

S&P 500 vs. NYSE New Highs: No surprise here. New highs at the NYSE are nonexistent. When the market bounces, and it should bounce soon if Election Day takes place without any major issues, we'll need to see an expansion of new highs. Without this, a bounce won't go far.

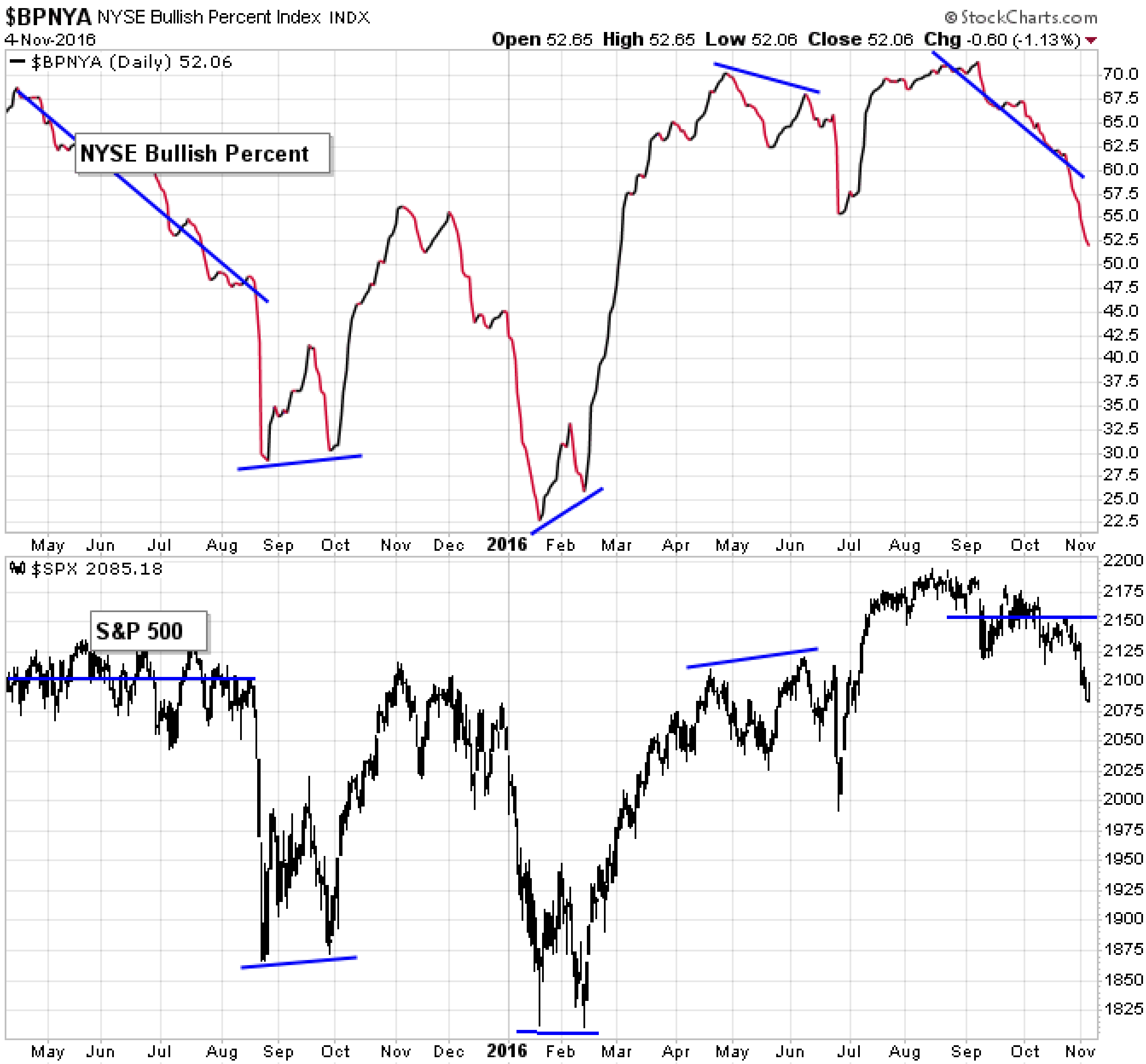
S&P 500 vs. NYSE New Highs (weekly): The longer term weekly new highs chart has dropped to a level that has produced bottoms in the past...just in time for the election.



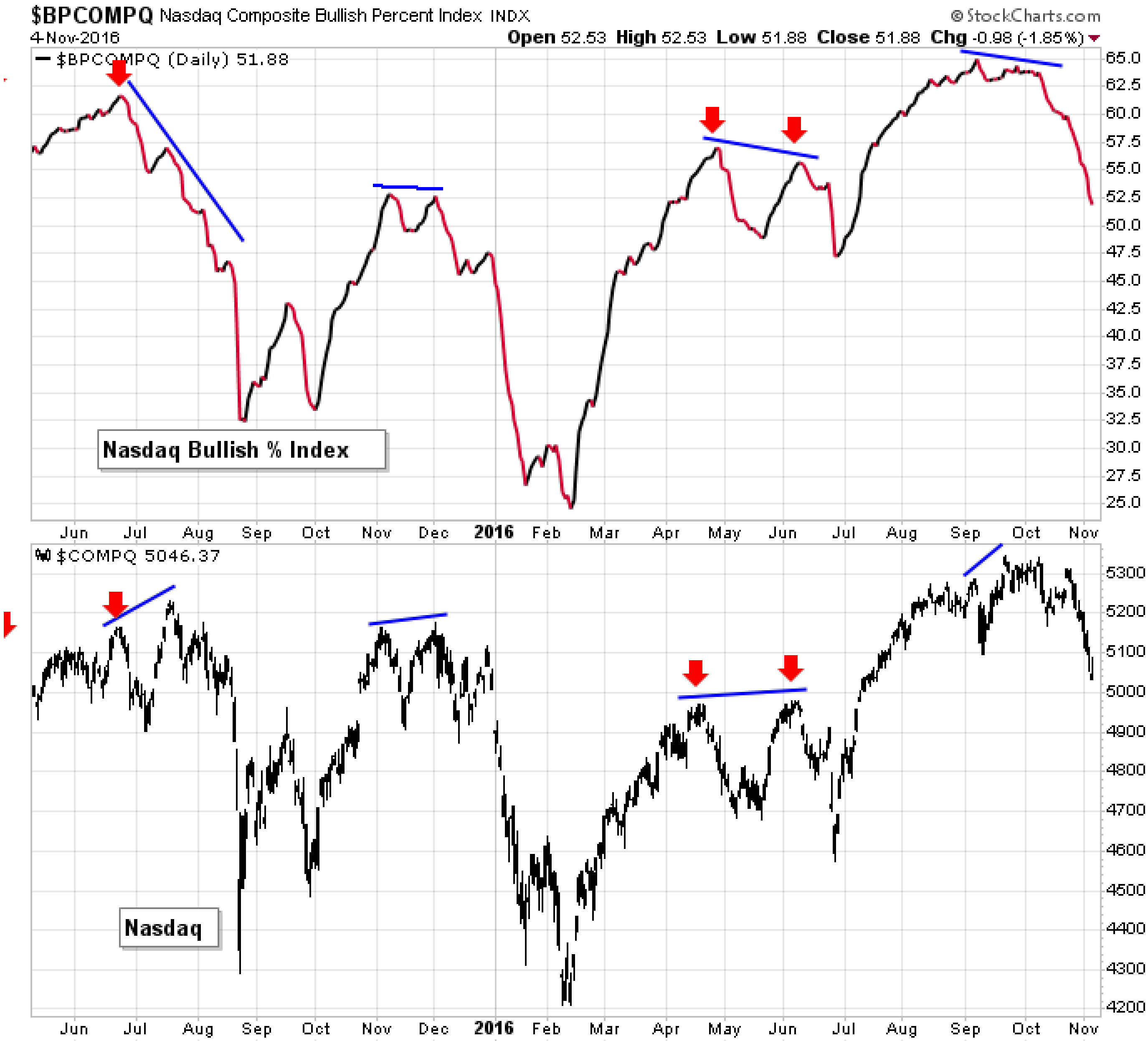
S&P 500 vs. NYSE New Lows: New lows at the NYSE have ticked up further but still remain somewhat subdued. This is more similar to June, when the market experienced a shallow pullback and quickly recovered, than last November and December, when the market tell much further and for much longer. Beneath the surface the market is still doing fine.



S&P 500 vs. NYSE Bullish Percent: The bullish percent at the NYSE accelerated down last week. If it can right itself soon, fine, the market's downside will be limited. But if it pauses and then moves down again (like December of last year), that June low near 2000 is likely to get tested.



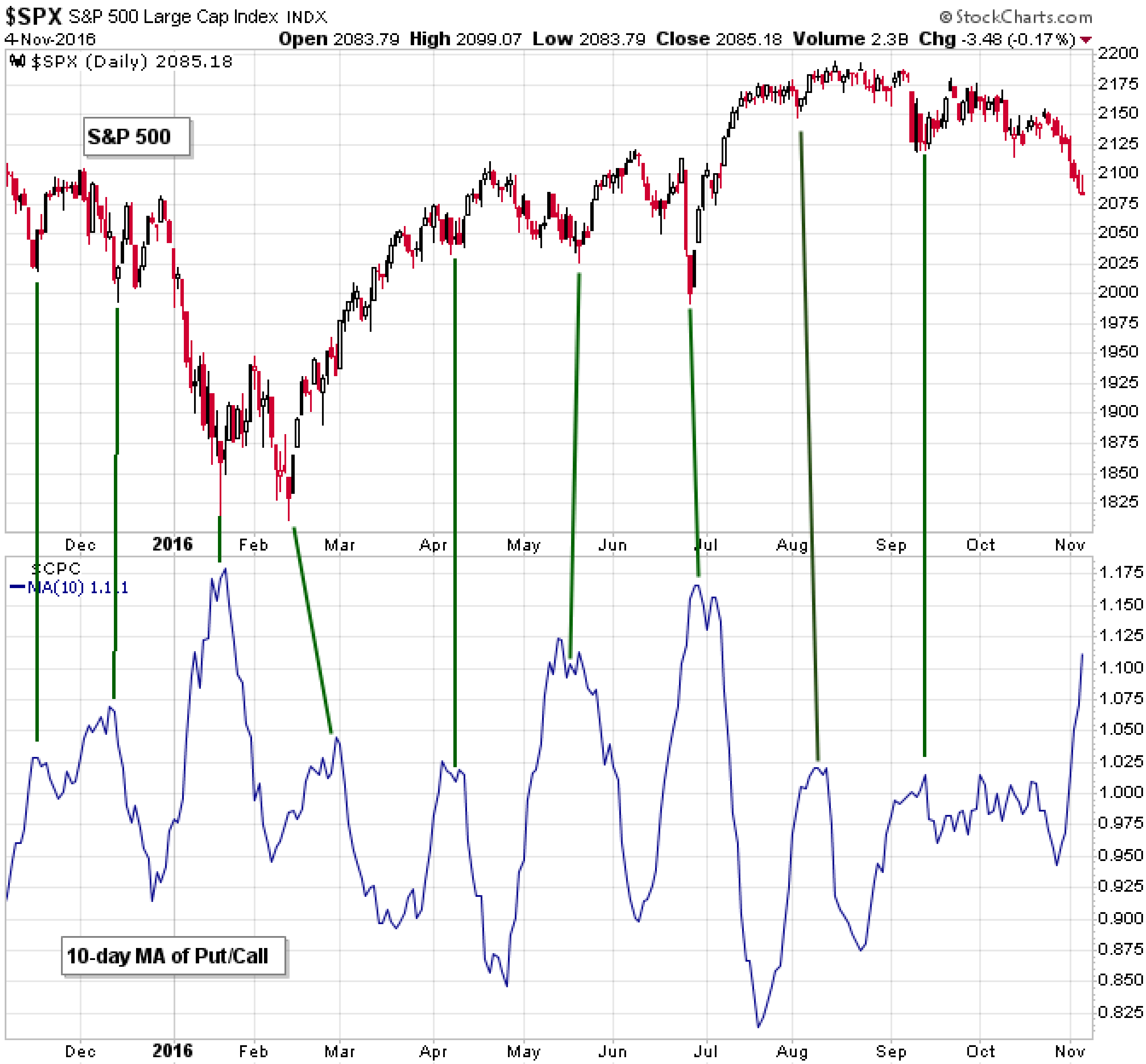
NASDAQ vs. NASDAQ Bullish Percent: The Nas bullish percent has been moving down for an entire month. This is the biggest drop since the beginning of the year - evidence this pullback has come with more force than any other pullback this year. A market bounce must be accompanied by a improvement here. Otherwise the bounce won't go very far.



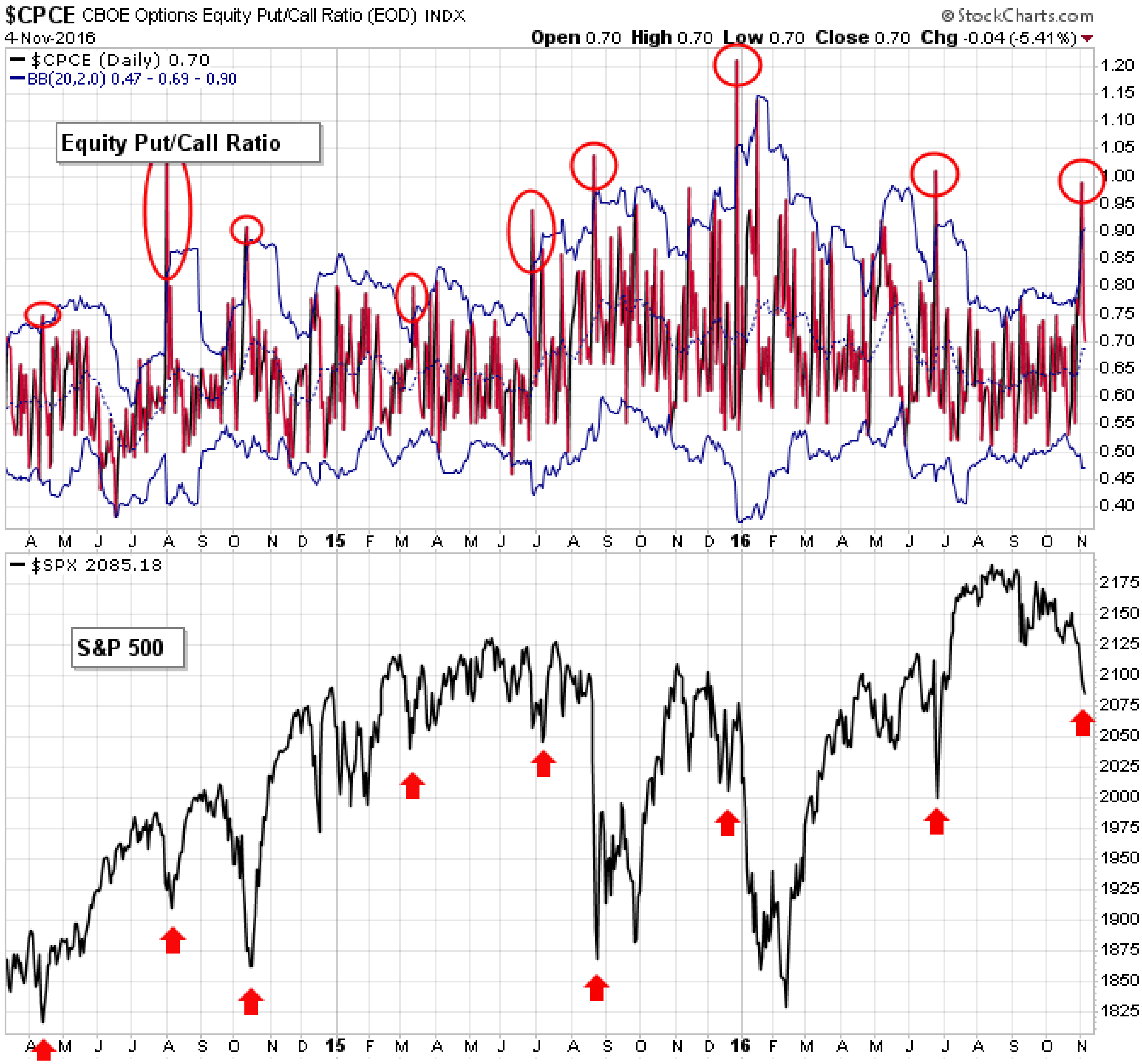
S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: The percentage of SPX stocks above their 200-day moving averages has been declining for two months. There is little room for error here. This indicator must right itself soon, or we're going to get a full-blown correction.

S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: The percentage of SPX stocks above their 50-day MAs has been declining since July. It was the first indicator to roll over, and in hindsight it was dead on. The market's uptrend literally stopped as soon as this indicator reversed. For me to believe a market bottom is in, the percentage of stocks above their 50's needs to improve. Otherwise bulls should sit back and wait for a total washout.

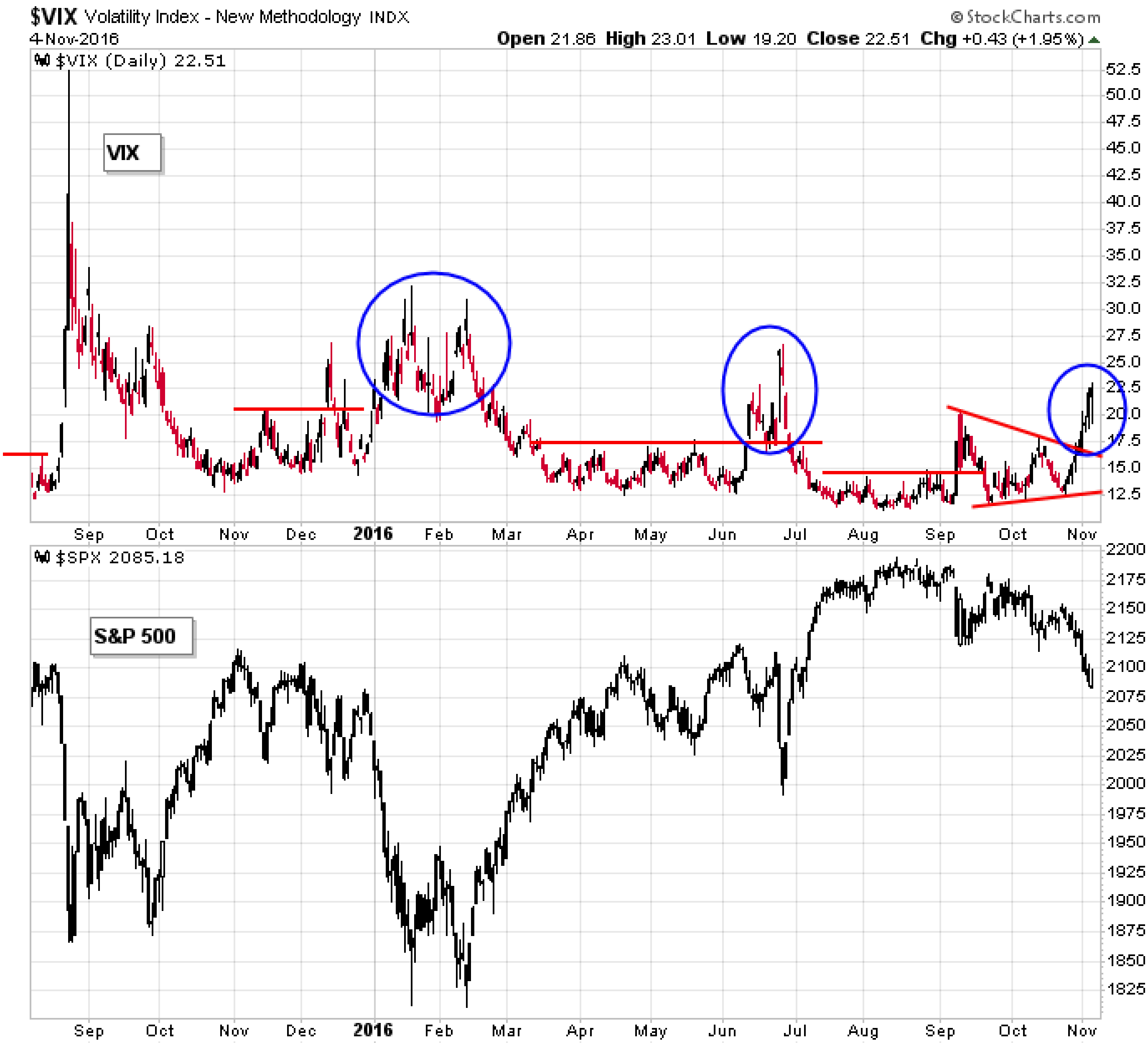
S&P 500 vs. 10-day MA of Put/Call Ratio: The 10-day of the put/call is heading up...exactly what you'd expect when the market moves south. When it rolls over, a bottom will not be far off.



S&P 500 vs. Equity Put/Call Ratio: Different look at the put/call. This is equity-only, and it appears with a Bollinger Band. Spikes above the upper band, like what happened late last week, have been pretty darn good calling market bottoms going back several years.



S&P 500 vs. VIX: The VIX has jumped in the last two weeks. The blue circles show it's more likely to have a double surge instead of a single, so even if things calm down, there may be one more thrust before the real bottom is put in place.



Lack of Support from the S&P Select

I mentioned in the open market weakness was not just appearing in the indexes, which sometimes are not an accurate picture of what's truly taking place, but also appeared via the nine major industries defined by Standard & Poors. All nine are trading below their 50-day MAs. Five of them would be considered in downtrends, having put in lower highs and lower lows. Health care is probably worst off. Four are neutral but still trading below this key moving average.

Here are the five worst industries.

And here are the four best.

This is what's going on beneath the surface. If there was a glimmer of hope, it comes from the leaders being energy, financials and tech.

Leaders Not Leading?

According to Jeff Macke, the S&P has increased in market cap $630 billion since the beginning of 2015, but 90% of that gain was due to just four stocks (Facebook, Amazon, Netflix and Google). What happens if a couple of those stocks flatten out or decline? What group of stocks is going to take the baton and play a leadership role? It's a legit question, considering FB, AMZN and GOOGL have all pulled back recently.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4-Nov-2016
Open 119.59 High 121.93 Low 119.25 Close 120.75 Volume 30.5M Chg +0.75 (+0.63%)
FB (Daily) 120.75
MA(50) 128.47
Facebook
AMZN 755.05
MA(50) 800.63
Amazon
NFLX 122.03
MA(50) 106.05
Netflix
GOOGL 781.10
MA(50) 804.97
Google
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The Bottom Line

The bottom line is pretty simple here. We have an event (Election Day Tuesday) which is probably the biggest known single-day event in many years. Yes, bigger than any Fed meeting. Bigger than the Brexit vote. Bigger than anything. It has the ability to single-handedly move the market.

If Election Day comes and goes without any major hiccups, and we know before we got to sleep that night who the next president is going go be, the market should rally huge.

But if the election is contested, and it looks like we'll have a repeat of Bush/Gore, look out below.

I consider the odds of one of these scenarios to be very high and the odds of all other scenarios to be very low.

News trumps the charts. There hasn't been a news item this big in many years. Anything goes Tuesday and Wednesday. It would not be wise to put yourself in a position to lose a lot of money heading into such an uncertain time.

Have a great week.

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