Leavitt Brothers

Weekly

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The market's long term uptrend had a massive news test last week. Not only did it pass, it thrived.

The US election was bigger than anything that has taken place in years. Bigger than the US having their debt downgraded. Bigger than the first rate hike. Bigger than Brexit. Bigger than everything.

Most of the time the two leading candidates are similar enough that only minor differences would be felt. Getting the uncertainty over with was more important than who the winner was.

This year was different. Getting the uncertainty over with was important - there was fear we'd have a repeat of Bush/Gore 2000. But it actually mattered who won this time around because the two leading candidates were very different. At least that's what we were led to believe.

Hillary Clinton was the predictable candidate. Any change she attempted would be small and incremental, and unless you follow politics closely, she would not be noticeable. She promised predictability, safety and "more of the same."

Donald Trump was a wild card. He was unpredictable, and even though he ran as a Republican, he was more of an outsider who had an agenda he wanted pushed through. A win by him would cause everyone to stop and wonder what would actually happen.

Heading into election night, the assumption was Clinton would win, the market would breathe a sigh of relief and it would be back to business as usual. But as polls started to close and results started being reported, Trump was the one winning. S&P futures started ticking down. Then more polls closed and more results confirmed the earlier reporting wasn't a fluke. Trump really was winning. He was doing well in states that were supposed to be close, and Clinton wasn't dominating states she was supposed to win easily. Wall Street quickly realized this wasn't a joke or a fluke. Trump was going to win.

At their worst level S&P futures were down 105 - limit down. Even though the pollsters were horribly wrong, and everyone thought there was little chance of a Trump victory, it was happening. Crying and disbelief on one side; euphoria on the other.

But by the opening bell the next morning, S&P futures were only down 30. What looked like a catastrophe the night before was just a big gap down that happens from time to time. The market then proceeded to move up during the day post solid, across-the-board gains. Then it followed though the next day. The Dow moved to an all-time high. So did the Russell 2000.

We learned something. Wall Street didn't care who the next president will be. It only wanted the uncertainty lifted. The worst case scenario was a Clinton victory followed by a contested vote. But once that didn't happen, it was back to business as usual.

Don't believe me? Look at what happened last week.

News came out over the weekend Clinton would not face criminal charges. The market rallied big on Monday and followed through Tuesday on the expectation she would win. But then Trump won and the market continued to rally the rest of the week.

So under the belief Clinton would win, the market rallied. And then when Trump won, the market rallied.

It turns out the market didn't care who won...just that someone did in fact win.

Backing up a little, the market has been trending up for several years (with minor hiccups along the way)...then it got held hostage for several months leading up to the election. Now that the election is over, the long term trend can re-assert itself.

This is how I'm approaching things. Now that this big uncertainty has been removed, the long term trend can continue.

Going forward...

The first bounce off a low level is the easy bounce. Once a winner was determined and the uncertainty was cleared, sideline money gets put to work. It's not a surprise the market rallied. But the first move is the emotional move. For an uptrend to re-establish itself the buying must continue. I don't quantify this. I just like to say there needs to be additional volume buying a week or so later to prove the initial thrust off the low wasn't a fluke or a one-time event. That's what I'll be looking for in the next two weeks. Additional buying next week would be great. A rest followed by buying the following week

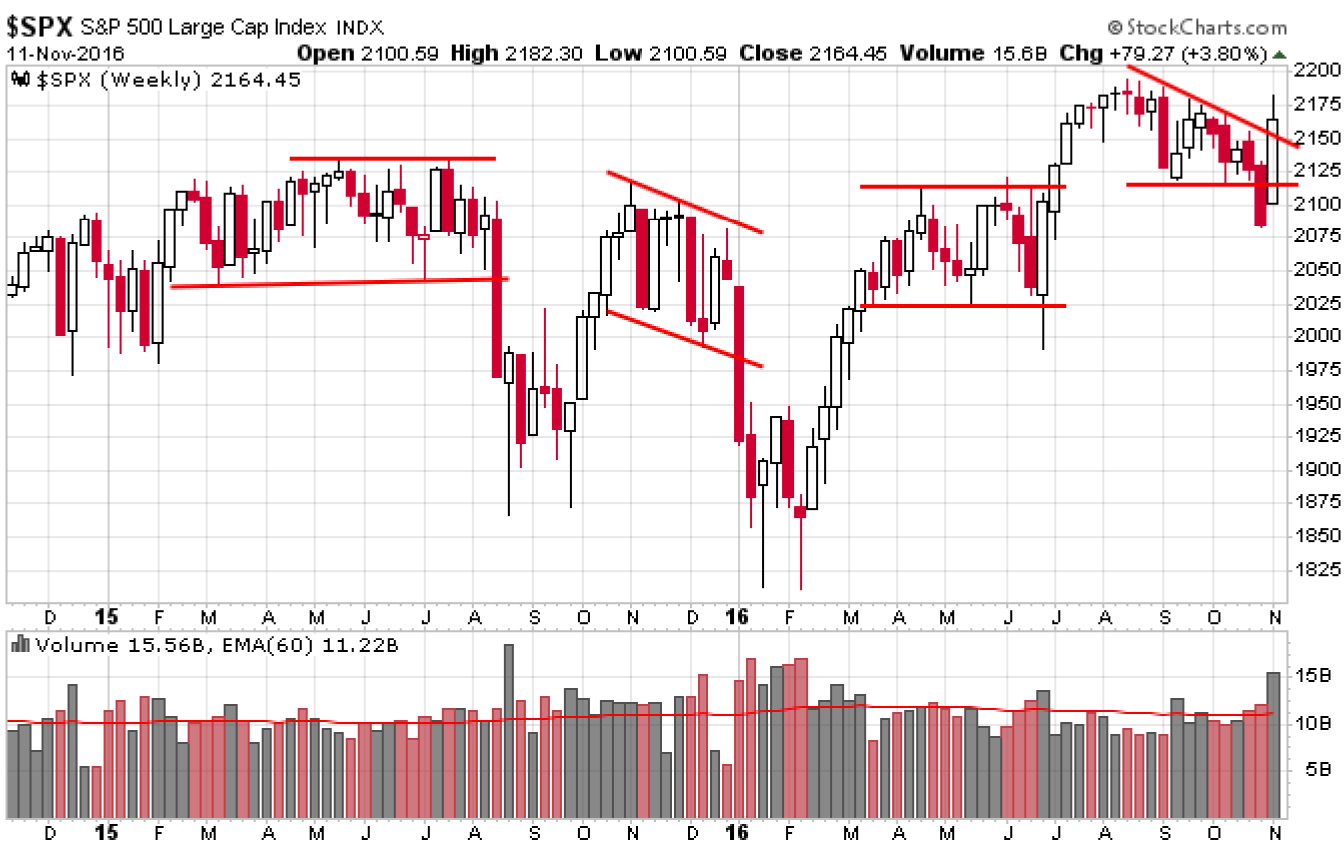
(Thanksgiving week) would be fine to. I just want to see buying take place after the initial emotional thrust is complete.

The second observation we must make is the rotation of money. Money rotates around the market; groups run hot and cold. There have been some obvious winners and losers since the election. You want to be in the strong groups. If you simply look for good-looking charts, you have to be good and lucky to make money over time. But if you restrict yourself to only playing stocks in the best-performing groups, a rising tide within those groups helps significantly. Money has very obviously rotated out of some tech, utilities, REITs, gold & silver and dividend-paying safe-havens and into financials, construction, industrials, materials and industrial metals. Stick with the best-performing groups. Your trading life will be much simpler and less stressful.

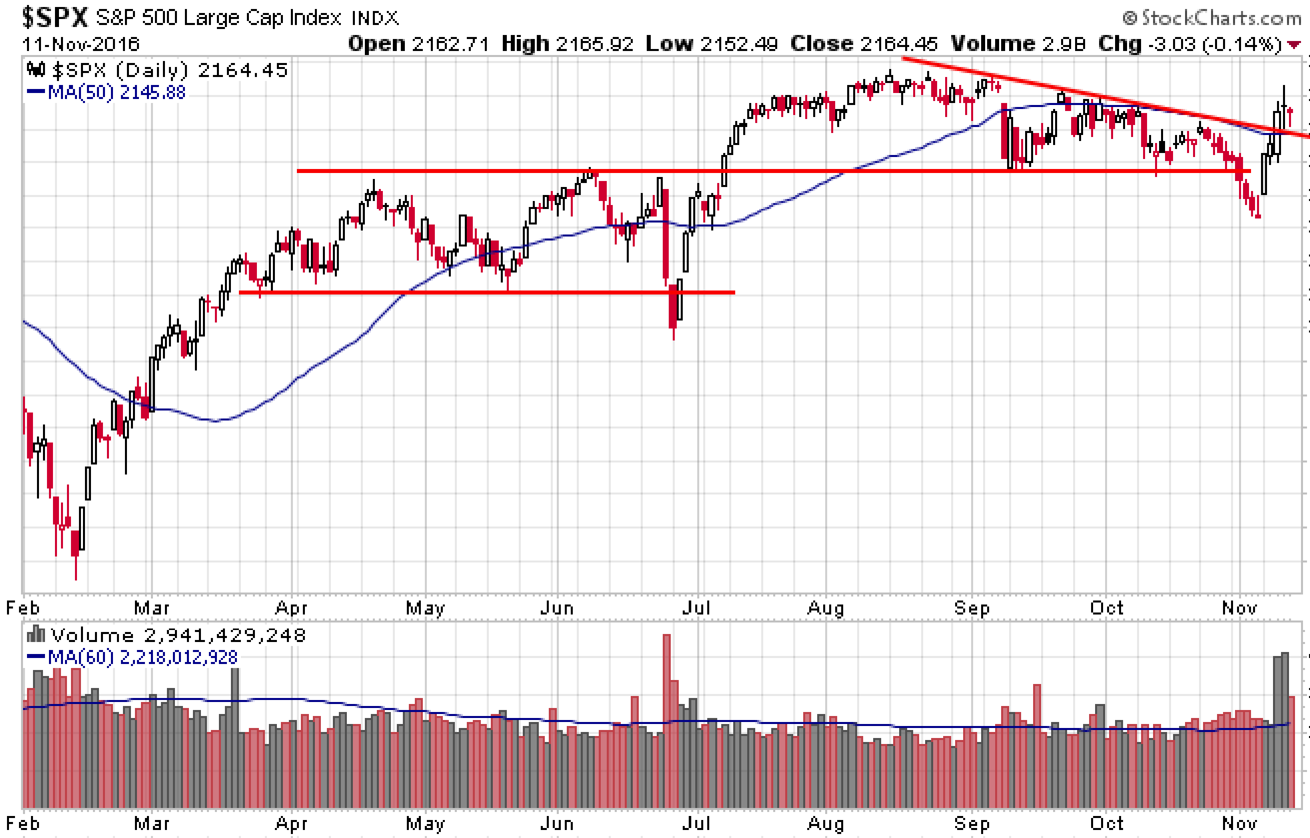
Let's get to the charts and see if last week's rally (biggest weekly gain of the year for the S&P) improved the market's breadth, which has been weak.

Indexes

The S&P 500 Weekly: The S&P took out support and then posted its biggest up week of the year. Other than the close two Friday's ago, this looks the same as the June post-Brexit movement. A slightly scary development has been averted. The overall trend remains up; now let's see if the S&P can take out its highs like the Dow and Russell 2000 have.



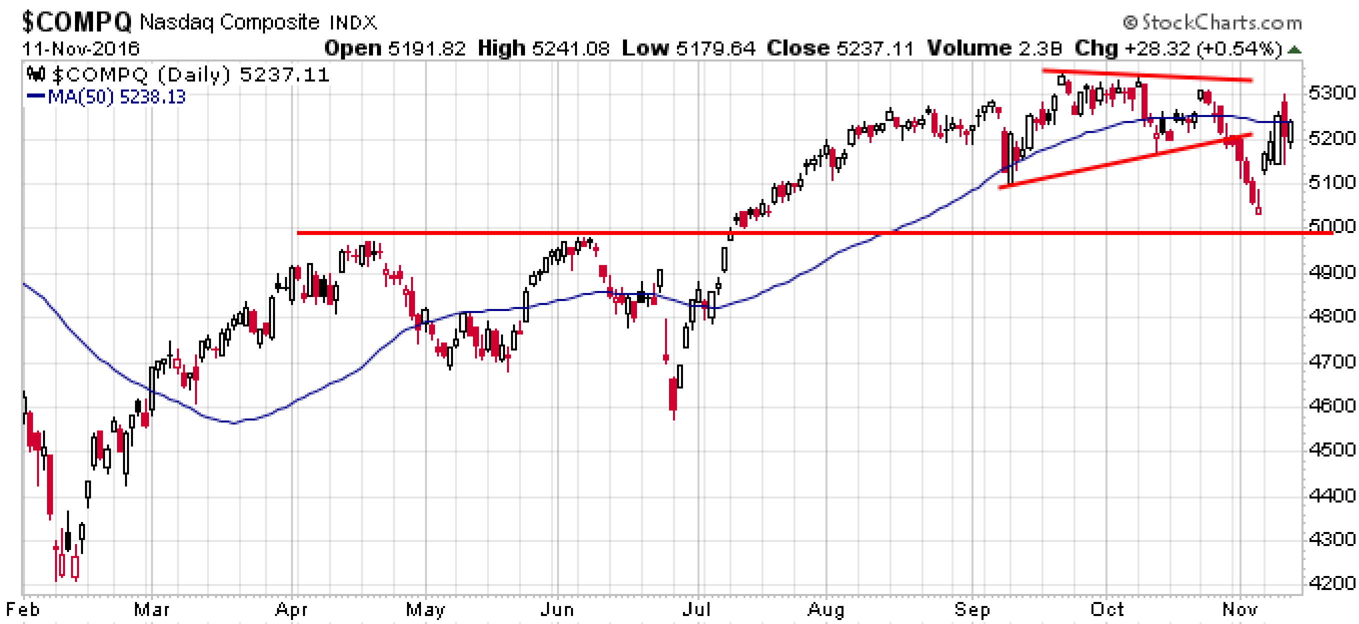
The S&P 500 Daily: The S&P daily got back above its 50-day MA and then rested on Friday. A pause here and then a continuation up would be ideal for the bulls.



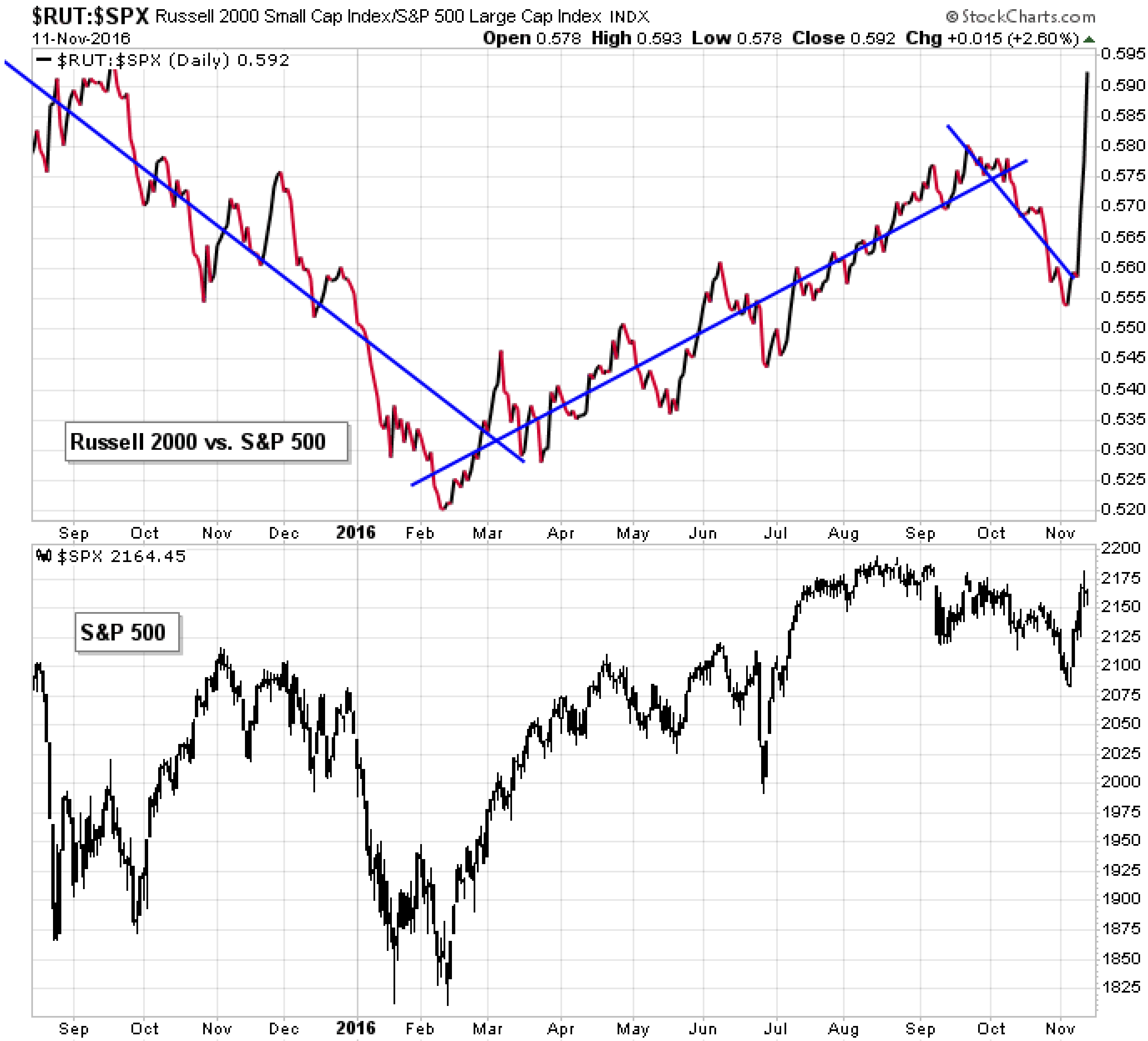
The Russell 2000 Daily: The Russell broke down and then posted its biggest weekly gain in five years. All-time high territory. The dollar is strong, and small caps, which have much less international exposure, aren't affected as much as the large, multi-nationals.

Dow Daily: The Dow also rallied to a new high.

Nasdaq Daily: But the Nas is lagging. Large cap tech stocks didn't do nearly as well as the rest of the market. Don't ignore this. The Nas needs to participate.

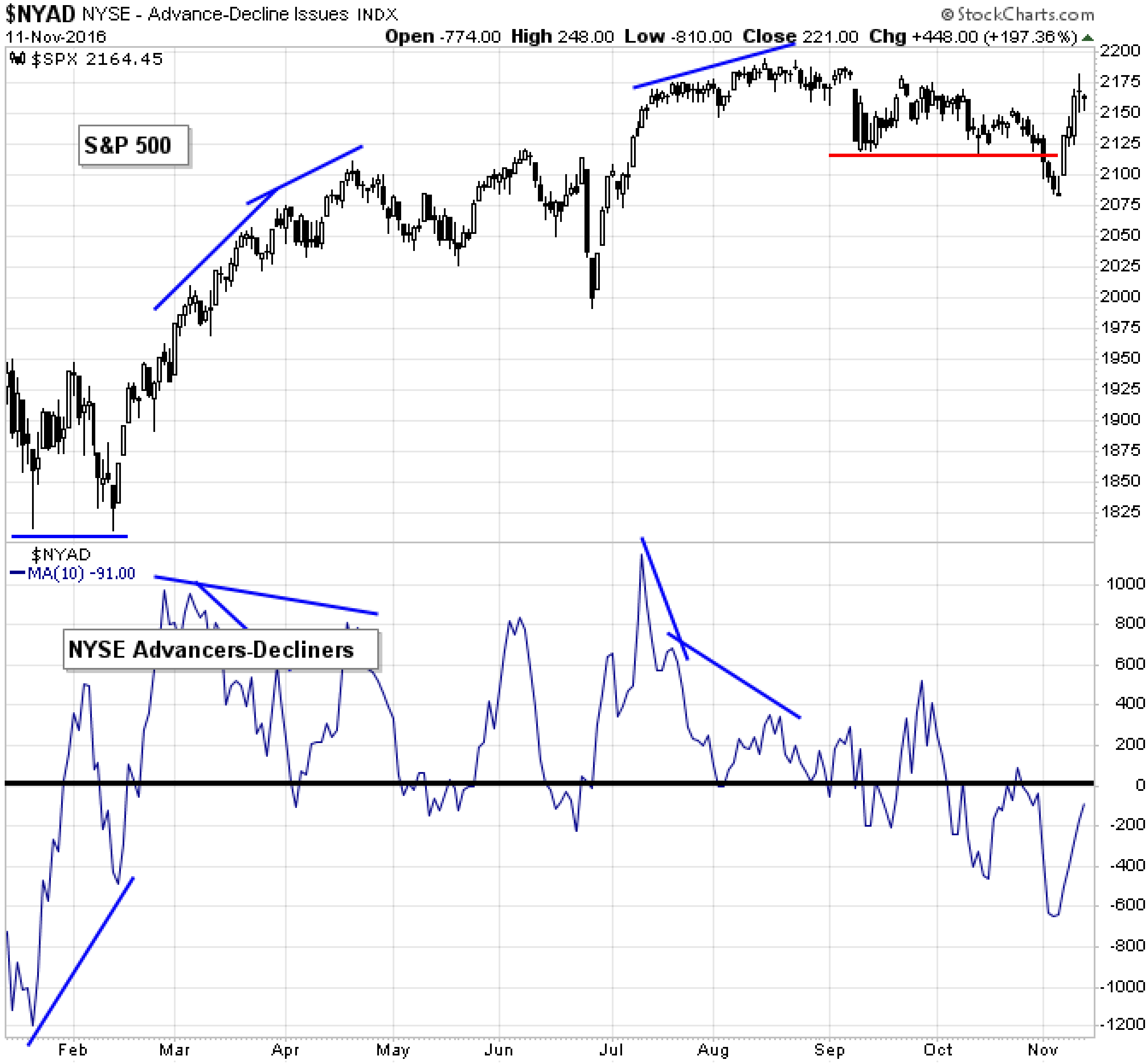


Small Caps (Russell 2000) vs. Large Caps (S&P 500): When the small caps do better than the large caps (February - September), the market does well. The out-performance is reasserting itself.



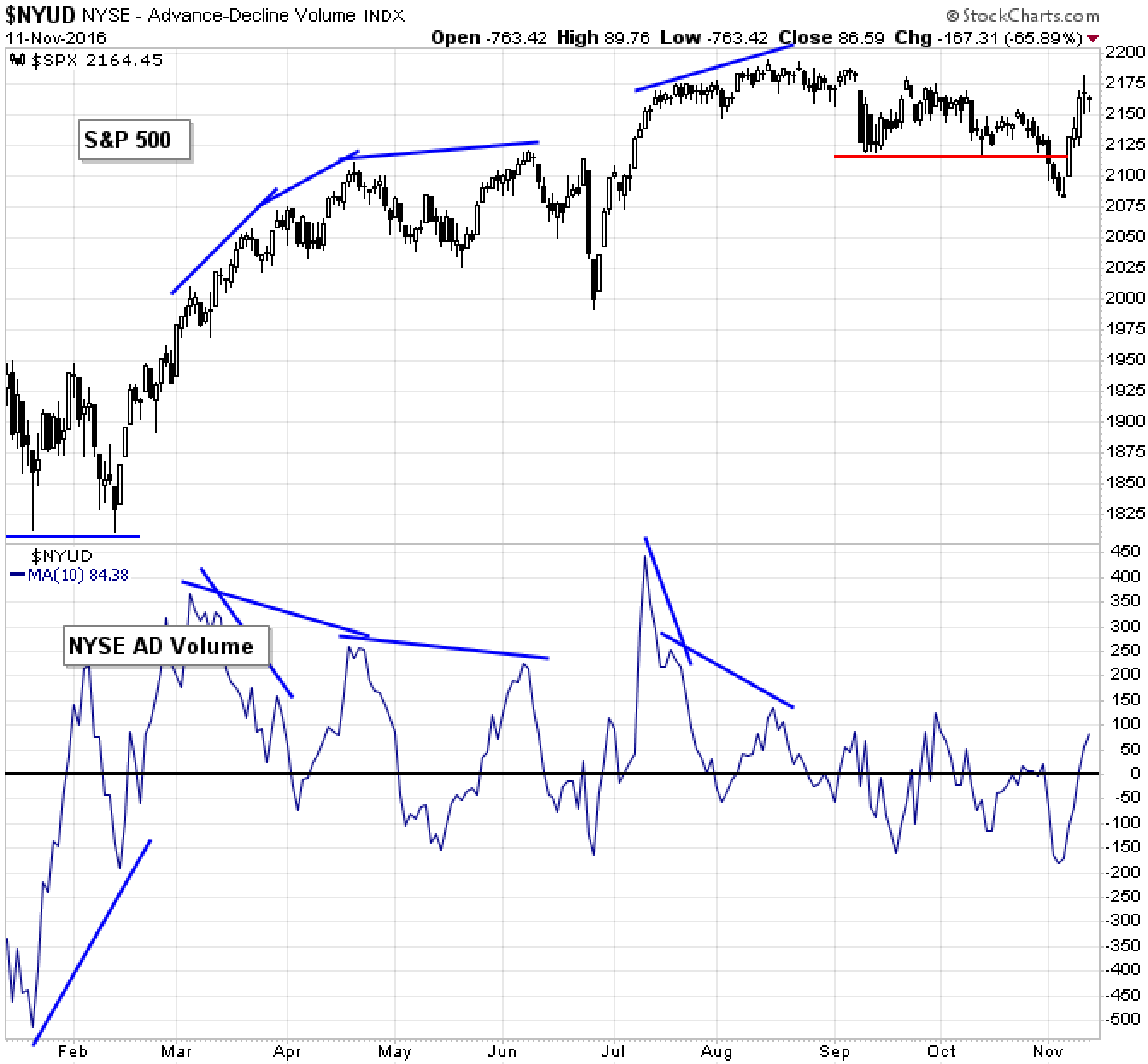
Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: The 10-day of the AD line jumped last week, but I wouldn't say it jumped enough. Considering it was the biggest up week of the year for the S&P and the biggest up week in five years for the Russell 2000, you'd think this indicator would have surged more. It only uses 10 days of data. Last week's five up days couldn't counter the previous five down days?



S&P 500 vs. NYSE Cumulative AD Line: With the 10-day (above) not surging like one would expect given last week's rally, it's not a surprise the cumulative version of the indicator didn't move up much. This must change. A rally without this indicator will not last.

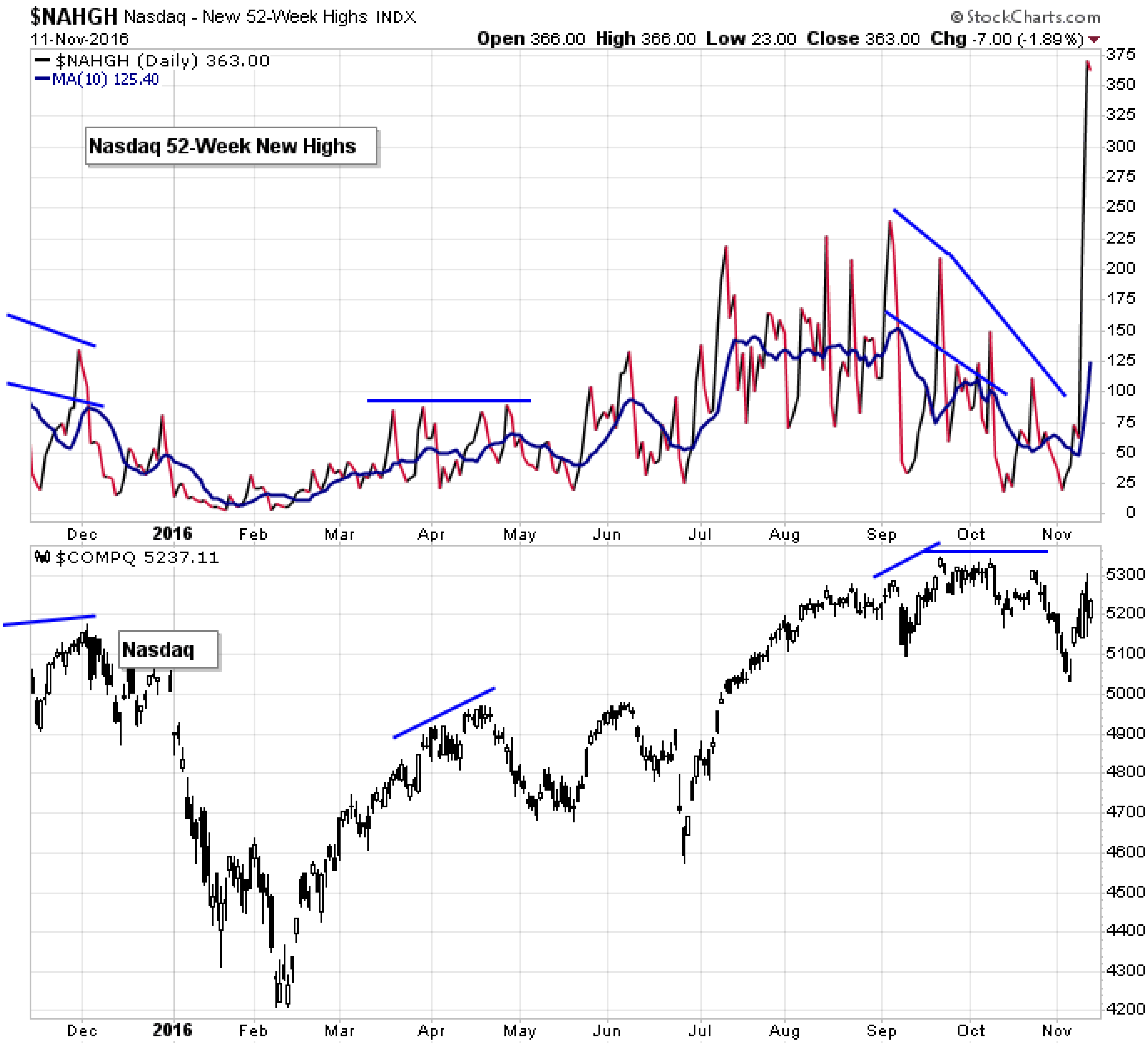
S&P 500 vs. 10-day MA of NYSE AD Volume Line: The 10-day of the AD volume has gotten above 0, but this too is unimpressive. Last week's volume was the biggest since the Brexit vote and the second biggest since June, yet this indicator barely countered the previous week's sell-off.



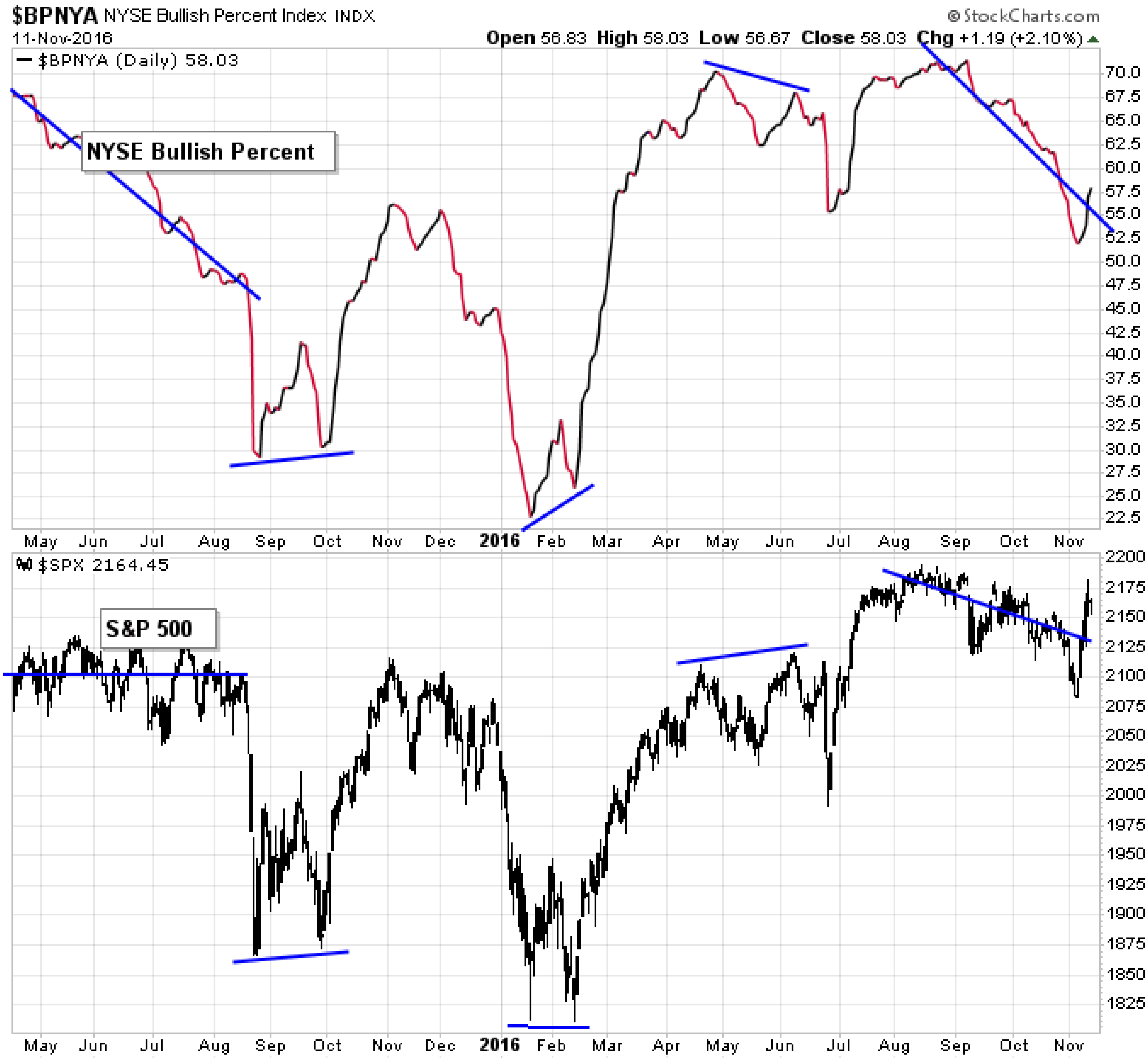
S&P 500 vs. NYSE Cumulative AD Volume Line: The cumulative AD volume line has recovered back to its previous high. That's step one. Now it needs to continue up and reverse this little falling channel.

S&P 500 vs. NYSE New Highs: New highs at the NYSE jumped last week. Exactly what the bulls what to see. If the indexes move to new highs, individual stocks need to do the same. So far, so good.

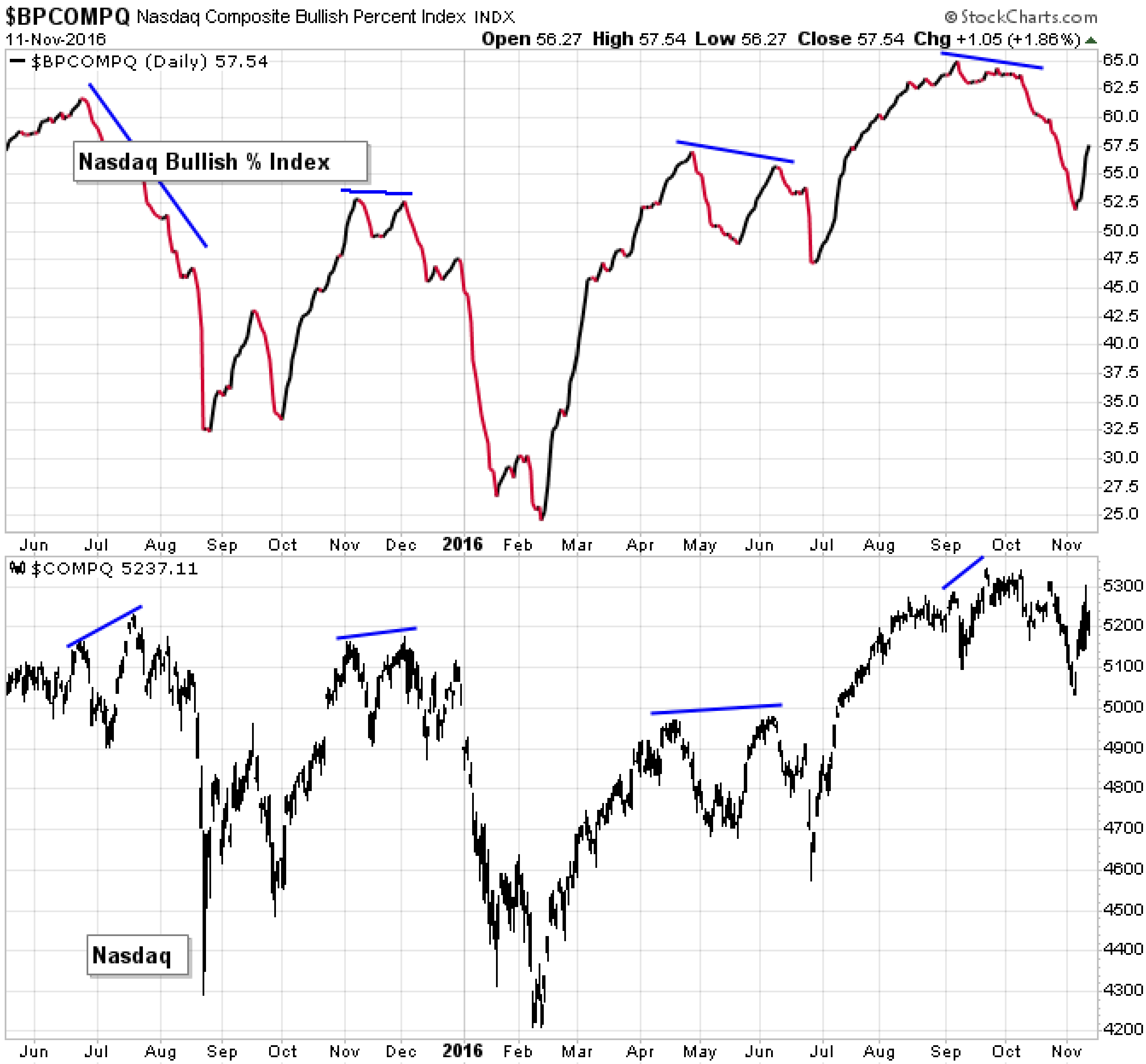
NASDAQ vs. NASDAQ New Highs: Big cap tech stocks, which control the Nas and Nas 100, didn't participate last week, but the fact that new highs at the Nas jumped is a good sign the strength was pretty broad-based (minus the big caps).



S&P 500 vs. NYSE Bullish Percent: The bullish percent at the NYSE has started to bounce, but considering the indexes are at or near new highs, the bulls want to see more rapid improvement here. Other bullish percent bounces (October, February/March, July) happened quickly. The same needs to take place now.



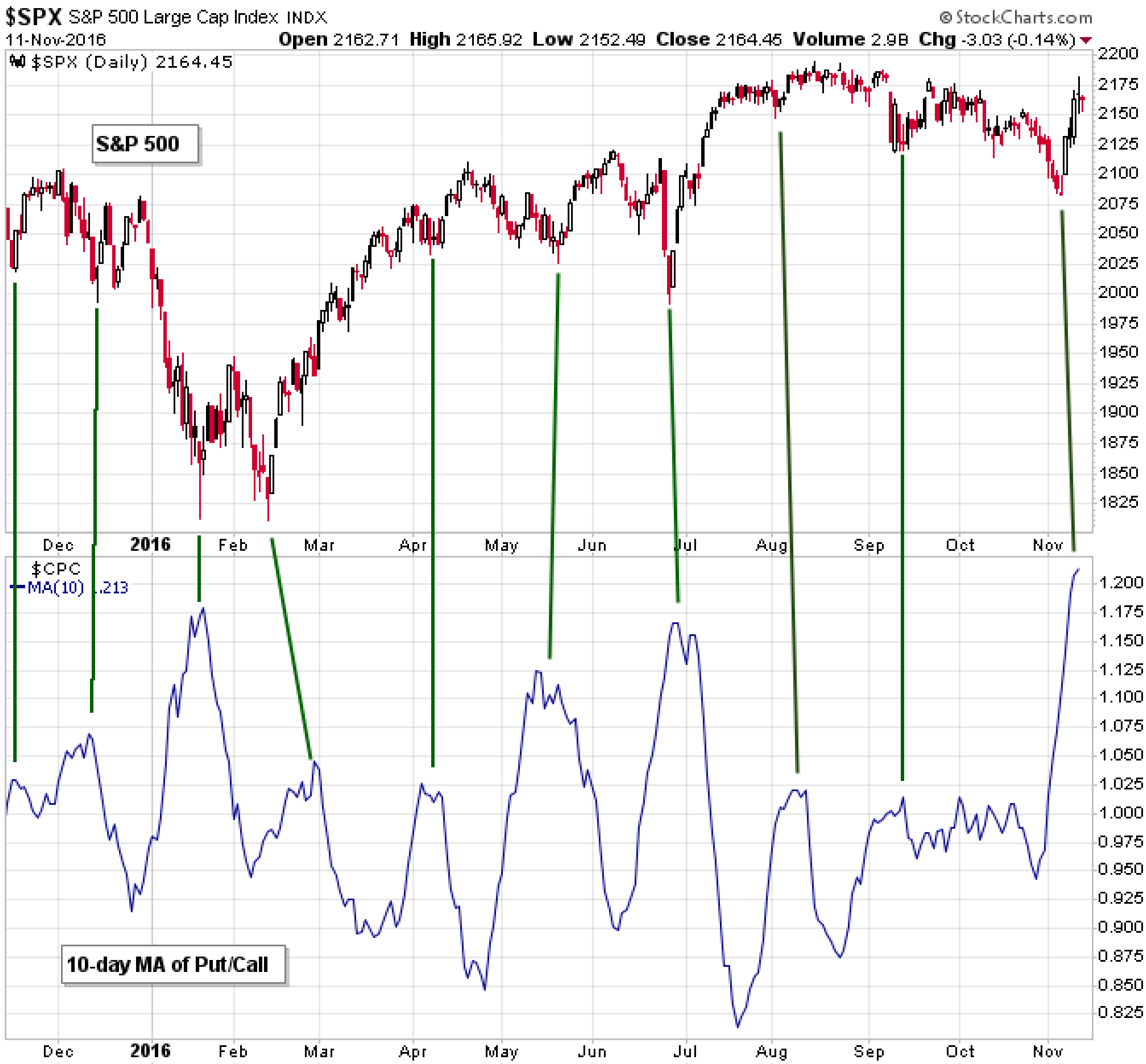
NASDAQ vs. NASDAQ Bullish Percent: The bullish percent at the Nas also has some catching up to do. The Nas wasn't very strong last week, so the indicator has an excuse. Still, it needs to better-support the rally attempt.



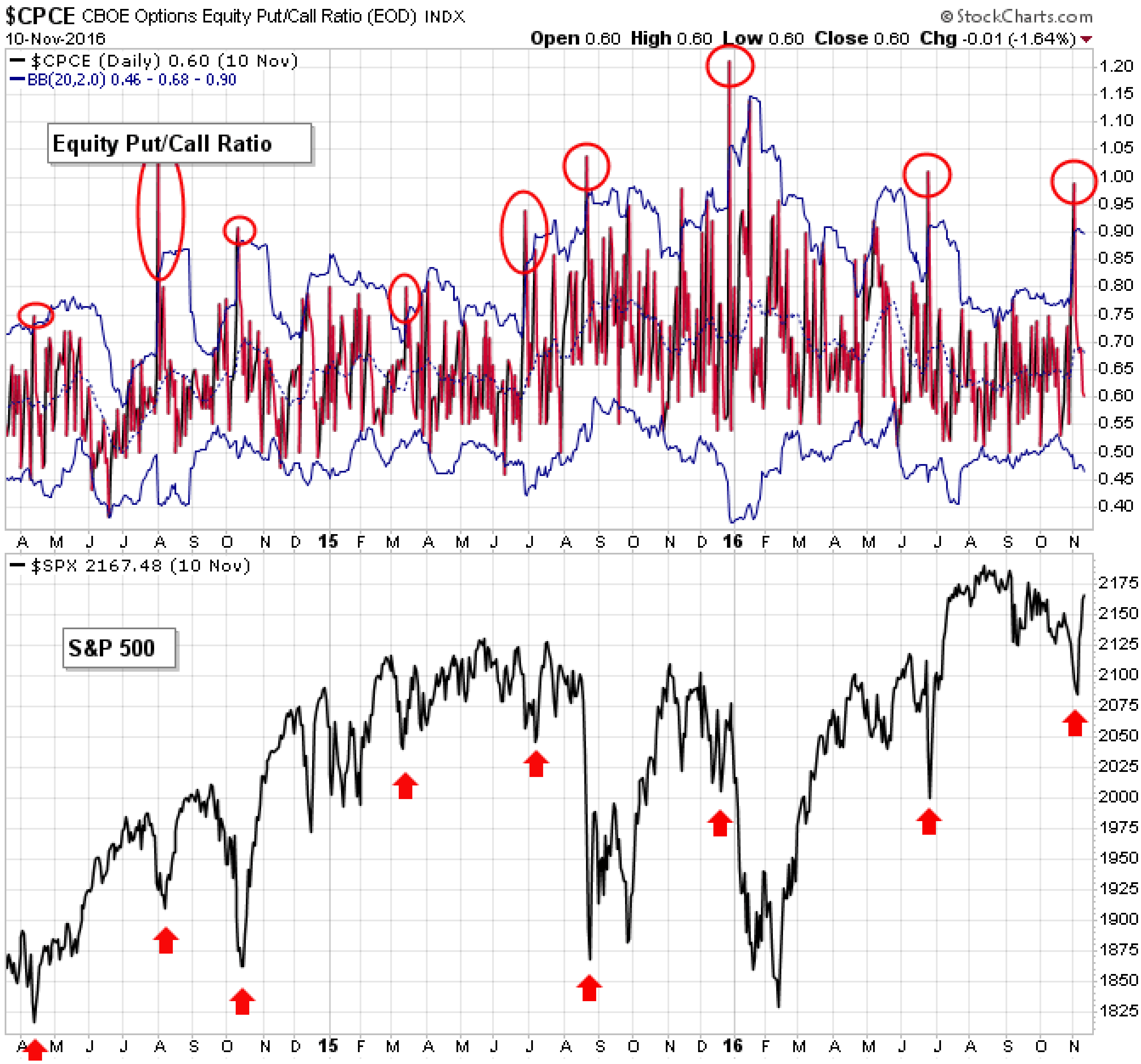
S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: Despite the S&P bouncing off its 200-day and now being a full about 75 points off the moving average, the percentage of stocks above their 200's is not very impressive. This needs to improve.

S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: This is the biggest jump in SPX stocks above their 50-day MAs. It's a start, but it needs to continue.

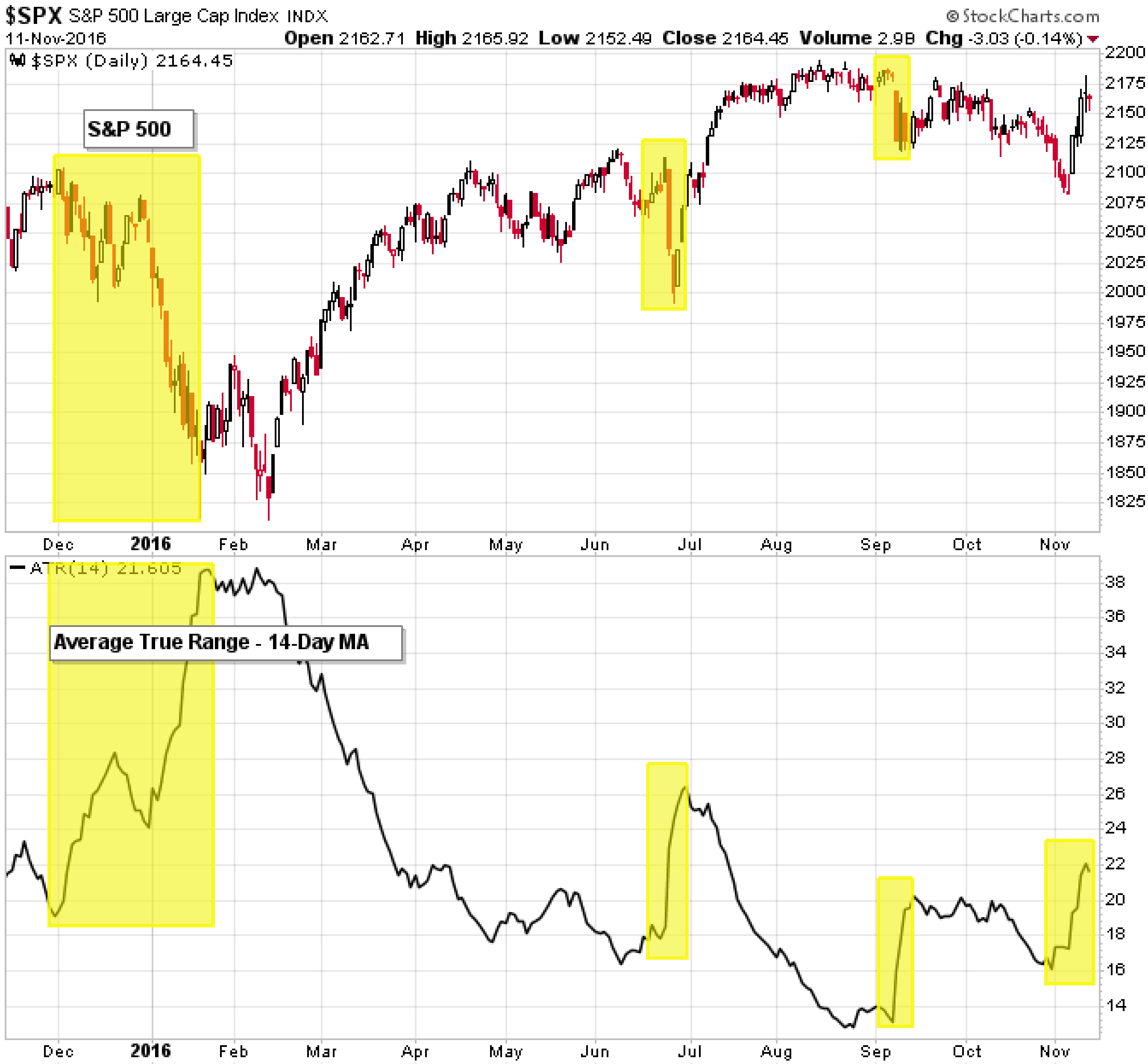
S&P 500 vs. 10-day MA of Put/Call Ratio: Tops in the 10-day put/call tend to coincide with market bottoms. We knew coming into this week the stage was set for a rally, but the PC hasn't rolled over yet. The bulls don't want to see this stay elevated.



S&P 500 vs. Equity Put/Call Ratio: Bingo. We don't get many signals from this indicator, but when we get one, it's usually pretty darn good.



S&P 500 vs. 14-day Average True Range: The market declines on high or surging volatility and rallies on low or declining vol. Right now the market is moving up and vol is surging - these two usually don't go hand in hand. Once the post-election emotions subside, the bulls will want to see the ATR move down.



US Dollar: The dollar posted a solid gain last week. It has some short term resistance at 99, but the big test comes at 100. If it breaks out, all bets are off. Everything will need to get evaluated from scratch.

The Bottom Line

Now that the election is over (without a fight), we need to entertain the possibility the long-term uptrend, which has been in place since the 2009 bottom, is going to re-assert itself. This puts SPX 2300-240 back in play.

I consider last week to be step one. The indexes rallied, but the first move is the easy move. Now we need the breadth indicators to improve and there to be a second wave of buying. This would be step two.

After that, I'd say the rest of the year should be pretty good.

Don't let politics prevent you from making money. The long term trend is trying to re-assert itself.

Have a great week.

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