Leavitt Brothers

Weekly

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By several metrics, two week ago was the market's best week of the year. The indexes posted big gains, and several groups emerged as post-election winners.

Building gains on top of gains is not easy, but that's what happened last week. The Dow, Nasdaq, small caps and mid caps all moved to new all-time highs. The S&P 500 and Nas 100 aren't far behind.

It would be hard to bet against the market right now. Yeah, it lulled much of Wall Street to sleep by trading quietly for several months into the election, but the sigh of relief that was breathed and the resulting move shouldn't be dismissed or argued with.

Here's how things played out.

Long term the trend was up. There's no disputing that. The market bottomed in 2009 and has spent the vast majority of its time either moving up or sideways. There have been a few scares, but they've been brief.

Then, starting in April of this year, the market settled into a painfully quiet range. Rallies got sold, dips got bought, and other than a quick move down and equally quick recovery after the Brexit vote in June, the market didn't do much. It was held hostage by a contentious election, and enough market participates retreated to the sidelines that volatility shrank and the price movement grinded to a virtual halt. Wall Street wanted the election over with.

Heading into the election, it was generally thought Hillary Clinton would be good for the market because she was predictable and a "more of the same" candidate. Donald Trump was an unpredictable wild card, which would not likely be greeted with much cheering.

What we found out was Wall Street didn't care who won. It only cared that someone did indeed win.

The weekend before the election, the FBI announced it would not pursue criminal charges against Clinton. The market rallied hard Monday and continued up Tuesday. Then Trump won the election, and the market rallied huge Wednesday and followed through into the weekend.

So on the prospects of a Clinton victory, the market rallied. And on the outcome of a Trump victory, the market rallied. Obvious Wall Street only cared that there was a winner, not that a particular person won.

The biggest up week of the year was posted, new leadership groups emerged and then the market followed through again this past week. With big volume behind the move, several indexes at all-time highs and the feel-good time of year upon us, there isn't much to dislike.

The odds of a rate hike at December FOMC meeting is north of 80%. This is good. It gives the market an entire month to factor in a higher rate.

Earnings season is winding down, so no more surprises there.

Massive conflicts of interest aside with Trump planning to continue running his businesses while in office, the prospects of better relations with Russia are a welcoming sign.

Financials are doing well. So is energy. So is consumer discretionary. Several big cap tech names hiccuped (perhaps just coming back down to earth), but overall it seems like the "right" groups are doing well.

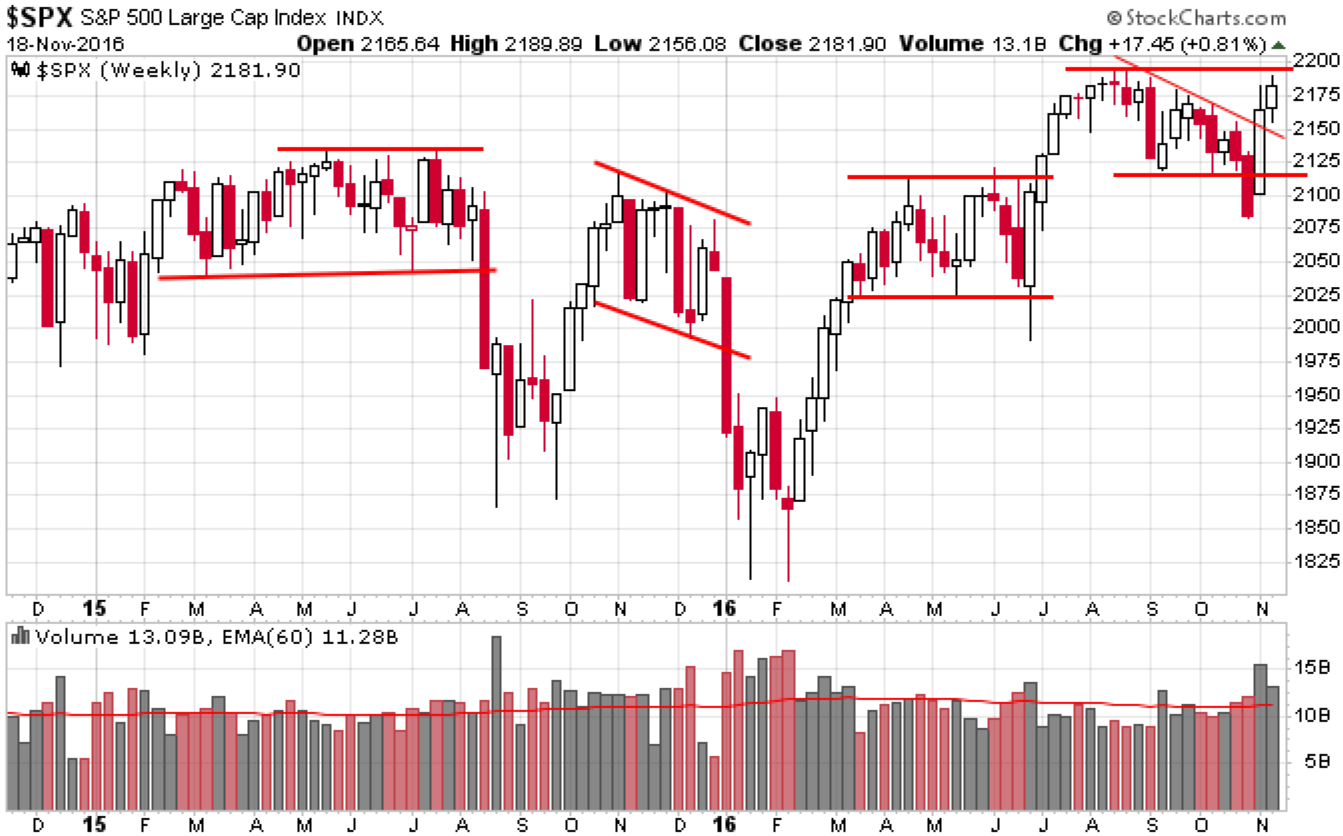
And there remains a lot of nonbelievers. There's been so much negativity since the election - people are freaking out like I've never seen before - that there's a sufficient wall of worry to climb; it's easy to see the market continue higher simply because so many people are in disbelief.

Oh, and there's another group that will add fuel to the already-uptrending market. It's the sideline bulls. These are investors who had little exposure into the election and now that they're convinced the market is headed north, they want to buy a dip. Guess what; they might not get that dip. The market is likely to keep grinding higher while the lump in those investors' stomachs grows bigger and bigger. Eventually they'll chase prices higher, and that's when the market will top. Sorry, that's how Wall Street works.

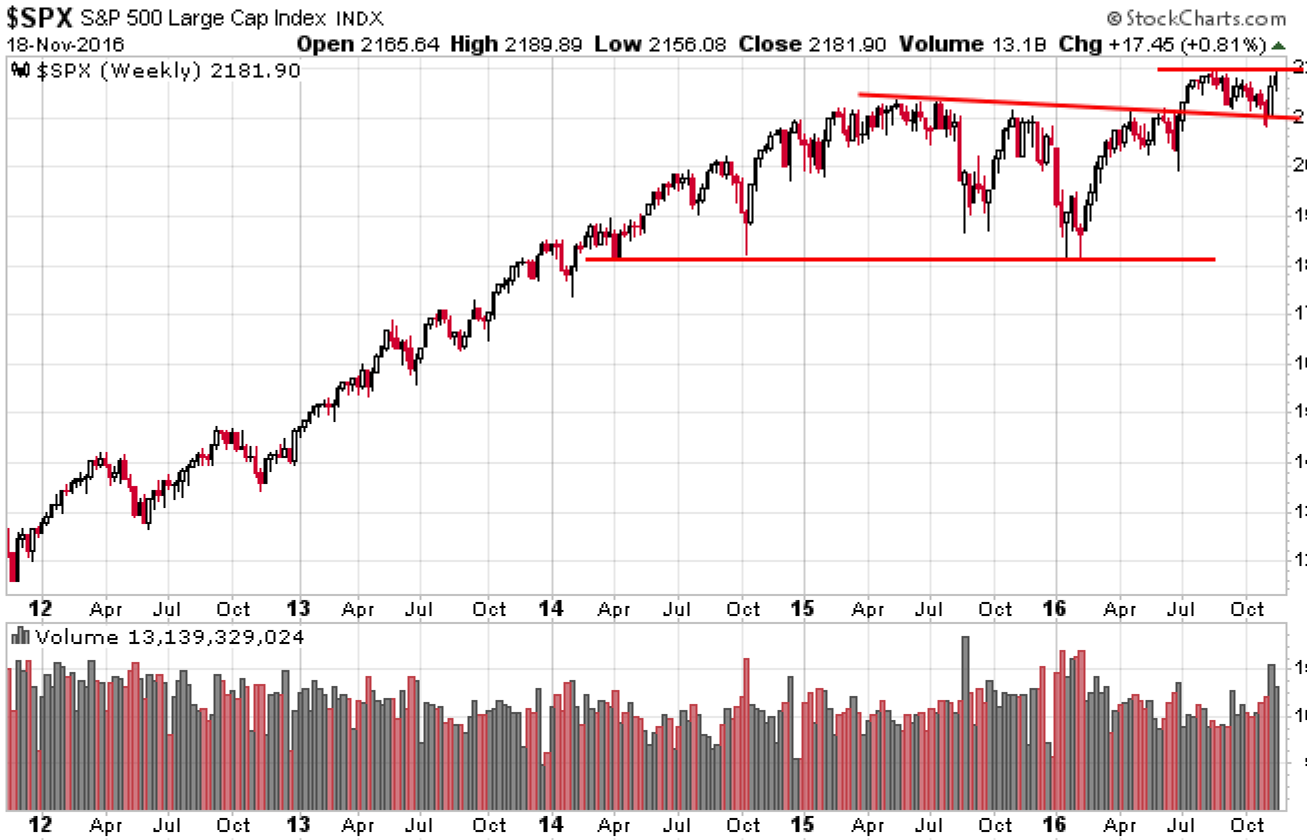
Let's get to the charts and see what they say. Do the internals support the strength of the last two weeks?

Indexes

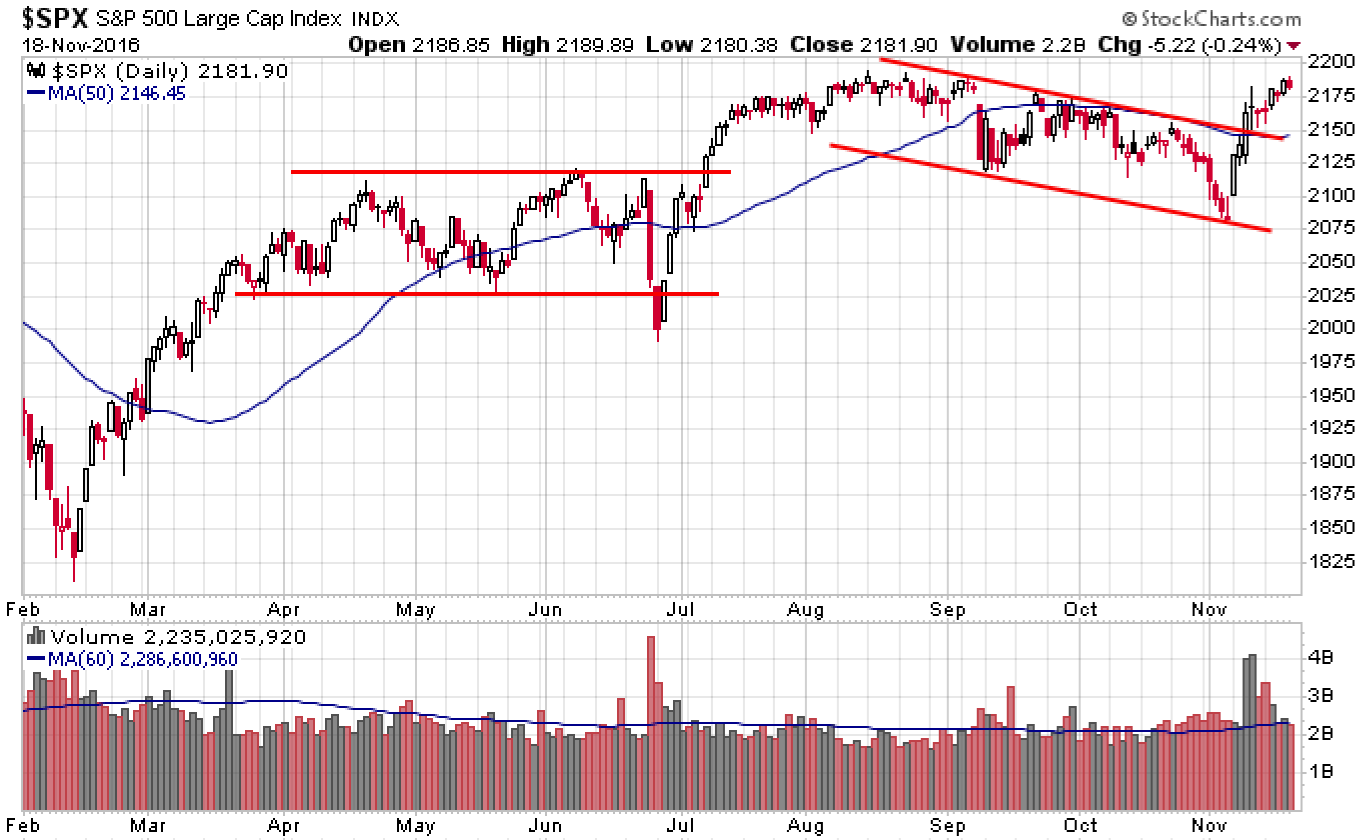
The S&P 500 Weekly: A great week has been followed by a pretty good week. Not bad. But the S&P is not "in the clear" yet, and when you consider the ranges that have taken place the last two years, you can't assume anything. Long term bias remains up.



The S&P 500 Weekly: A different look at the weekly. The S&P rallied up...traded in a range for two years...and then attempted to break out in July - from a big consolidation pattern to a small one. Odds favor a continuation of the trend, which is obviously up.

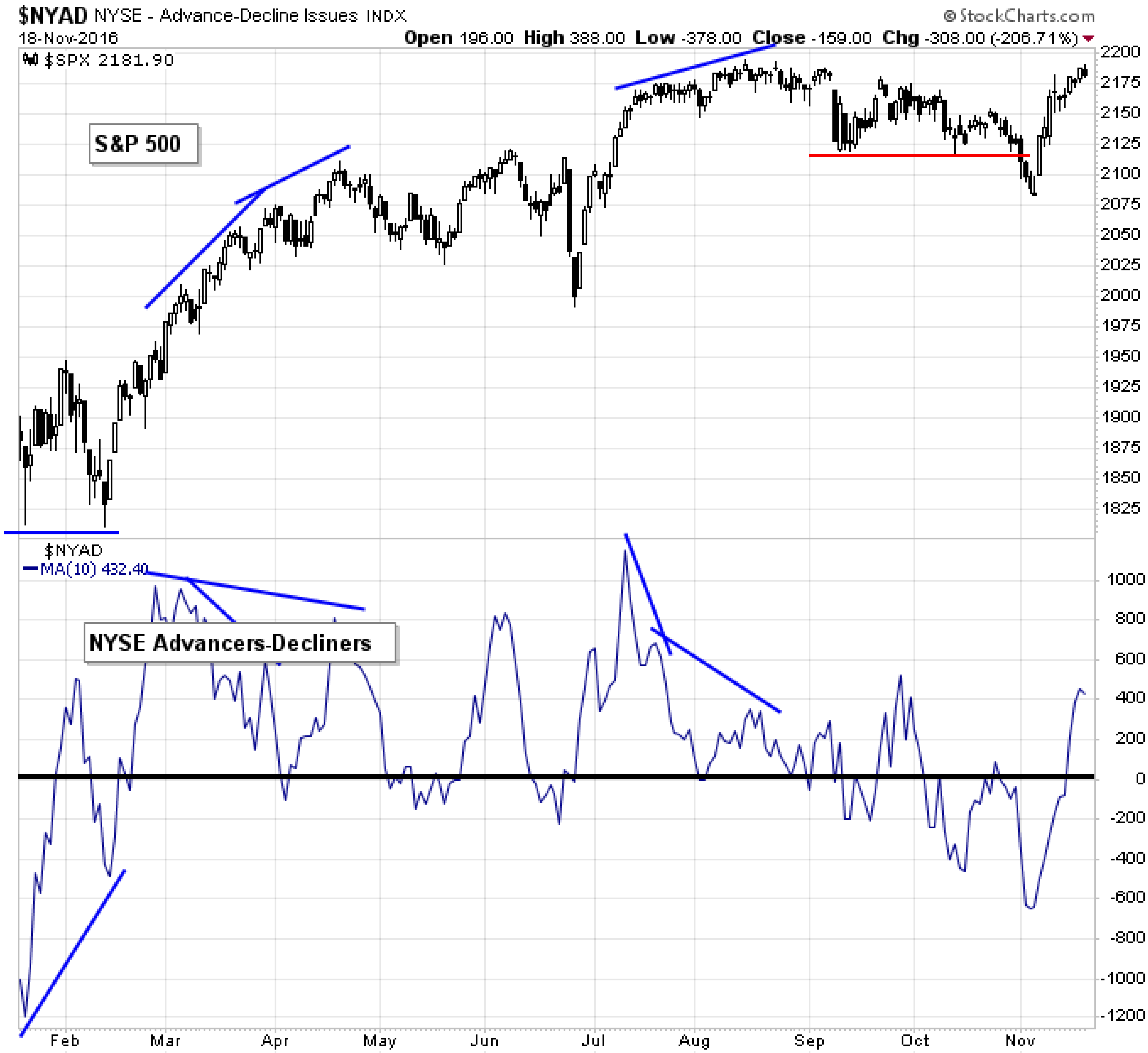


The S&P 500 Daily: The S&P traded through resistance and its declining 50-day MA on huge volume. Now it's up against the previous high - not something to be worried about. Step 1 was reversing the small amount of negativity that had built the last two months. If the index wants to rest, fine. The next step is continuing and leaving no doubt the uptrend is re-asserting.



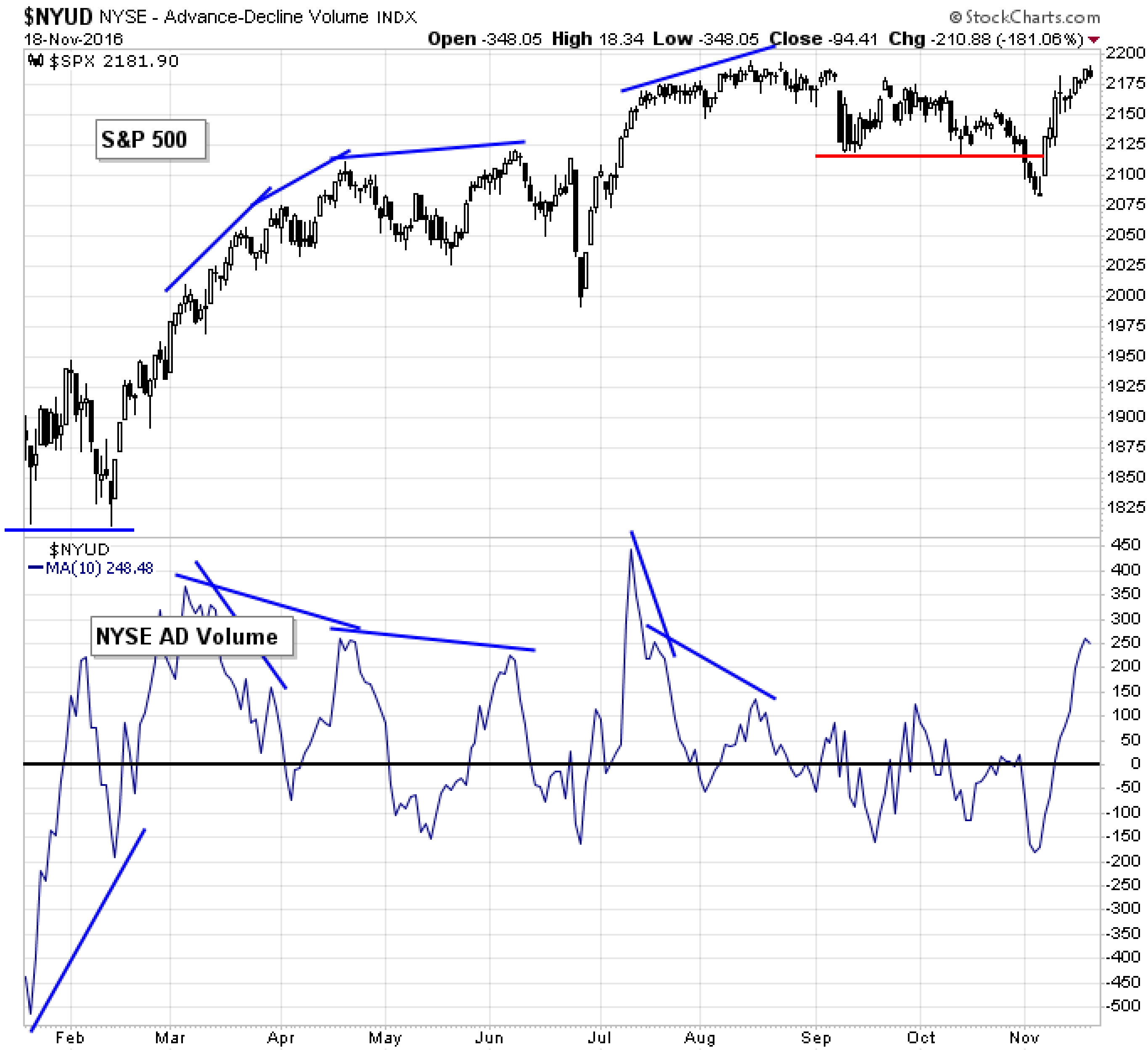
Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: The market is in the midst of a massive 2-week rally. Why isn't the 10-day MA of the AD line, which of course incorporates only the last two weeks' worth of data into its calculation, at an extreme level? There have been several days the market posted a decent gain, but the AD line was barely above 0. Keep this in mind. Despite the small caps doing so well, not all stocks are participating.



S&P 500 vs. NYSE Cumulative AD Line: The cumulative AD line is moving up, but it's not moving with force. In fact despite many indexes being at new highs and several others being close, this indicator hasn't even gotten back to its mid-October high. Don't ignore this. The market needs better participation.

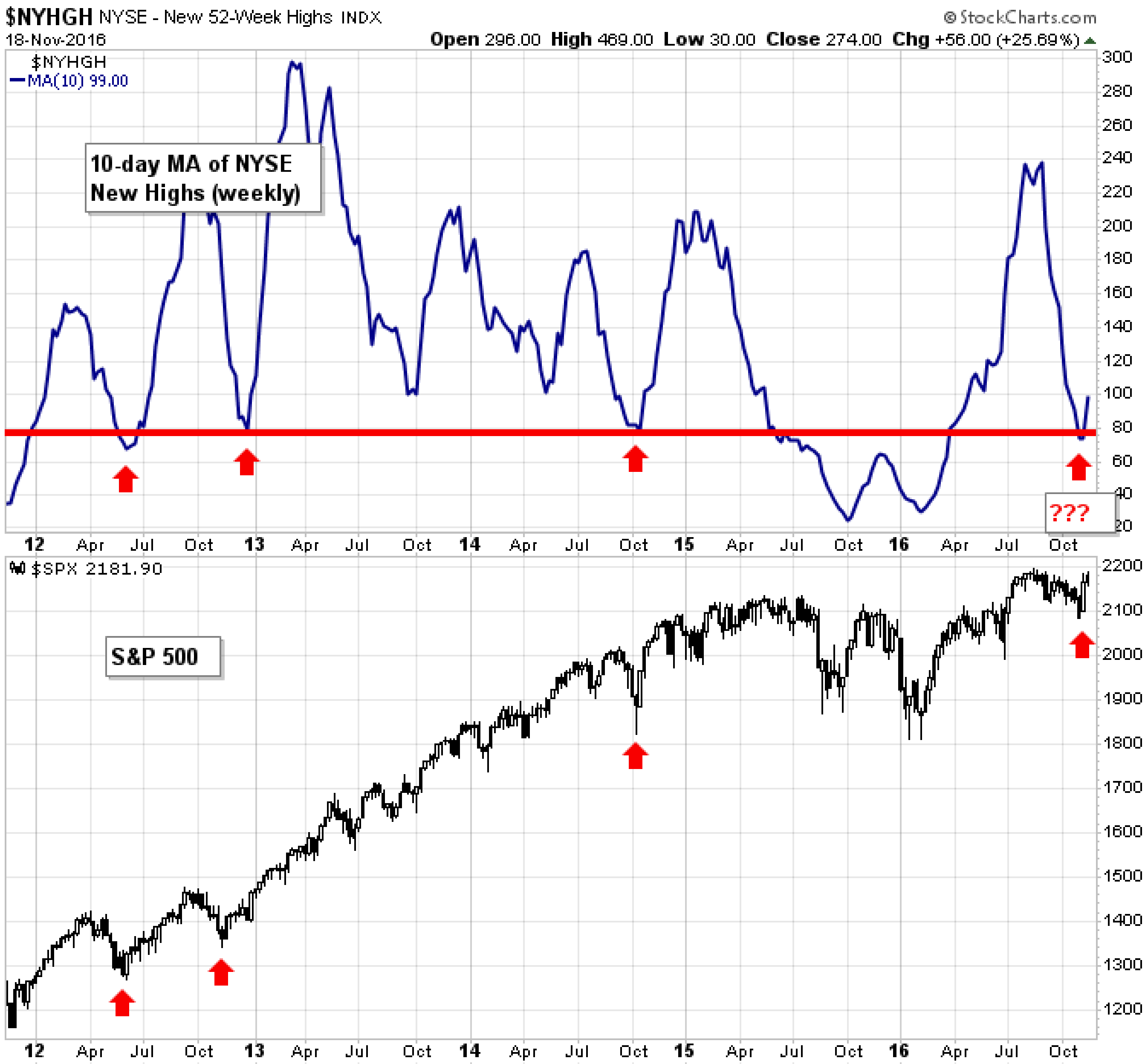
S&P 500 vs. 10-day MA of NYSE AD Volume Line: The 10-day of the AD volume line has moved to its highest level since post the Brexit vote. Not bad. To confirm a newly-started uptrend, this indicator needs to stay above 0, while allowing for only brief moves below.



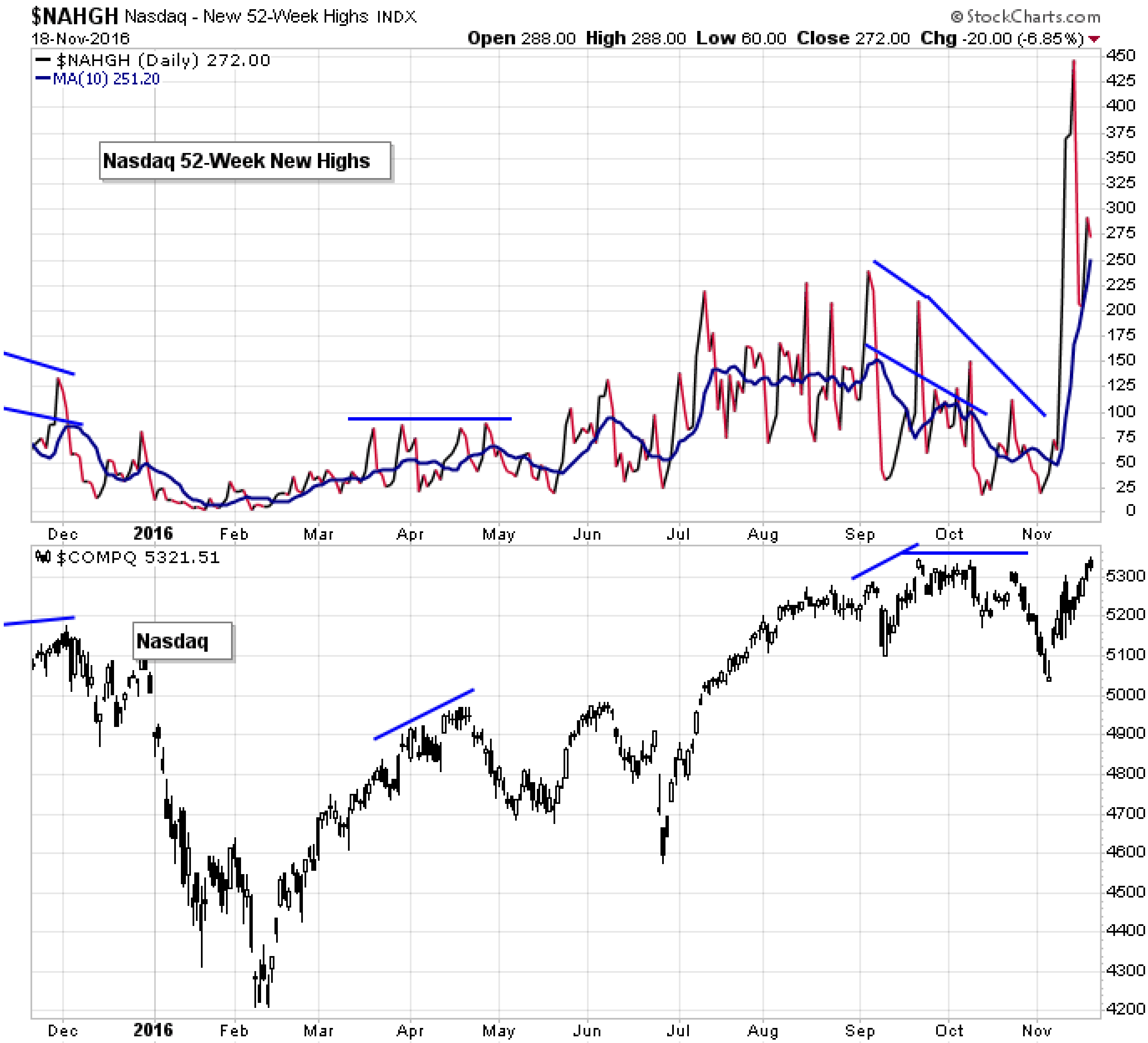
S&P 500 vs. NYSE Cumulative AD Volume Line: The cumulative AD volume line has broken out from a 2-month decline. This is exactly what the bulls want to see to increase the odds a repeat of January and August 2015 don't happen.

S&P 500 vs. NYSE New Highs (daily): New highs at the NYSE jumped after the election, and they've maintained a high level since. This is the only acceptable development. With the indexes at or near new highs, individual stocks need to be doing the same.

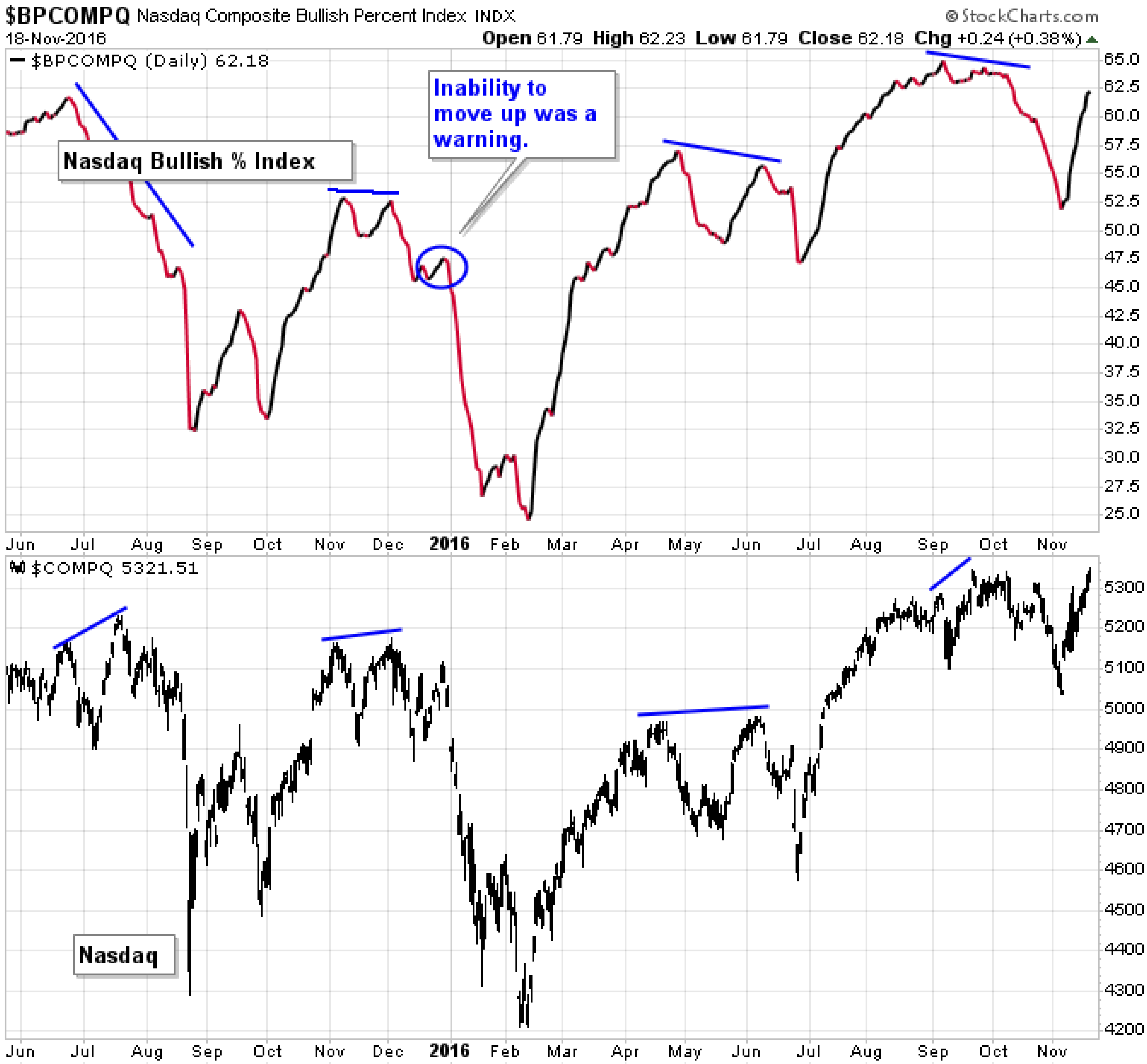
S&P 500 vs. NYSE New Highs (weekly): This chart was posted several weeks ago. I argued a drop to previous lows (red arrows) was perfectly normal for the 10-week MA. It happened, and now the market is heading north again. Right on cue.



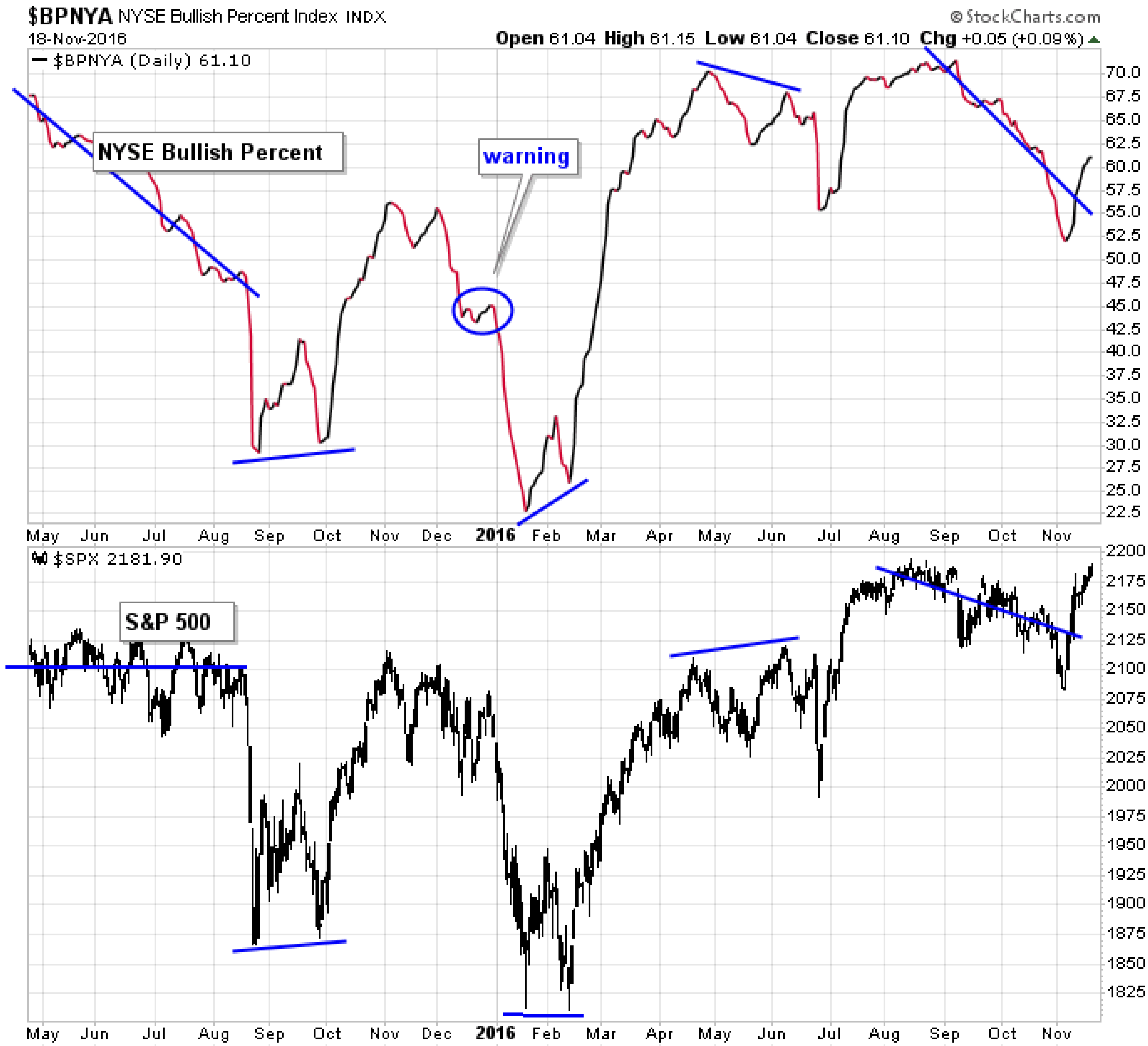
NASDAQ vs. NASDAQ New Highs: We've also seen a big spike in new highs at the Nas. That's good, considering the Nas and Nas 100 lagged for several days after the election.



NASDAQ vs. NASDAQ Bullish Percent: It's been mentioned numerous times the bullish percent charts have the ability to quickly right themselves, so a low or a steeply-falling line shouldn't be overly alarming. Bingo. The NYSE bullish percent has indeed gotten back to a respectable level, unlike last December when the market bounced but the indicator went nowhere.



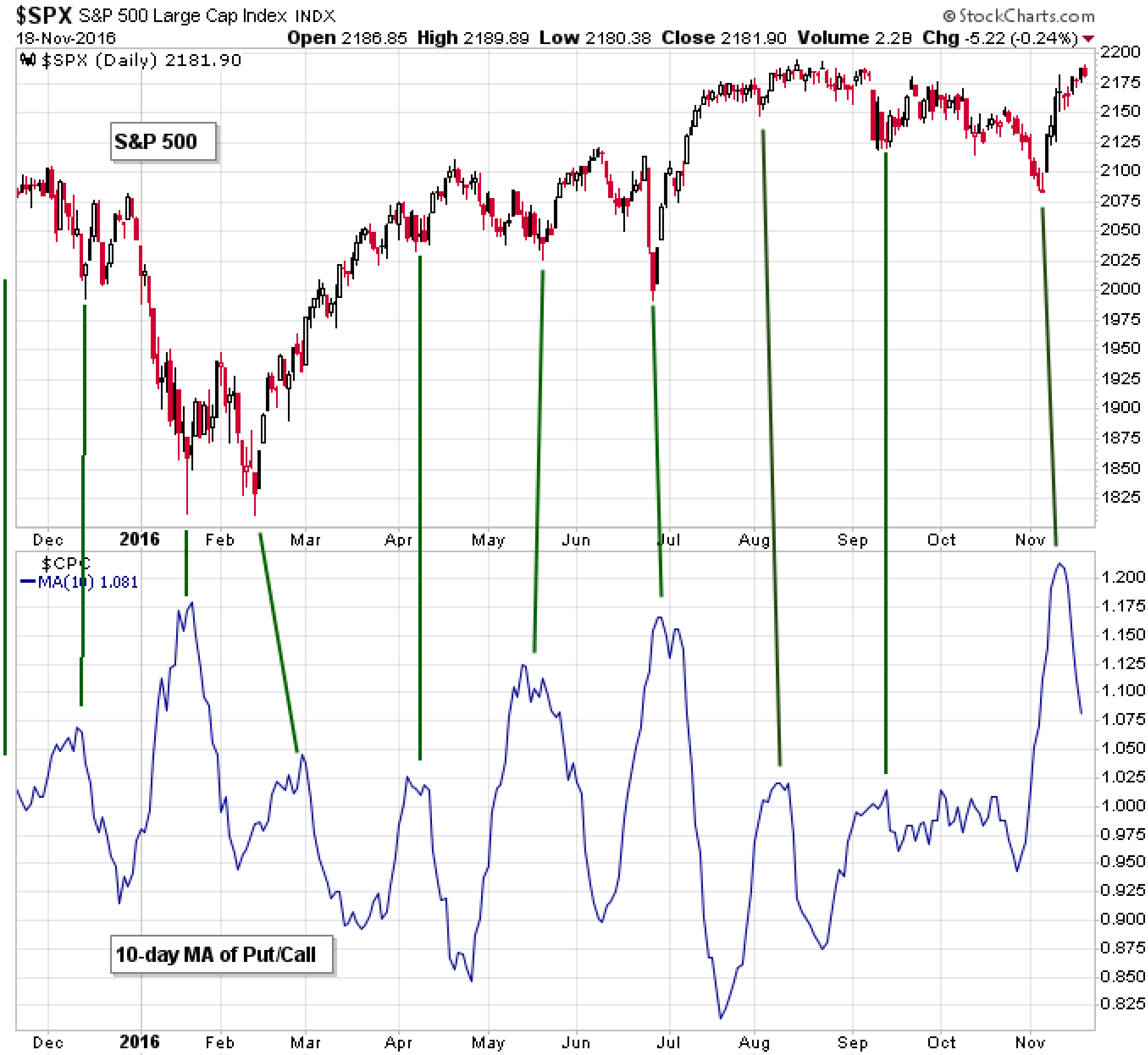
S&P 500 vs. NYSE Bullish Percent: The NYSE bullish percent has also moved off a low, but Friday's closing print isn't impressive. The bulls will want to see better action here. Otherwise the odds of a double bottom increase.



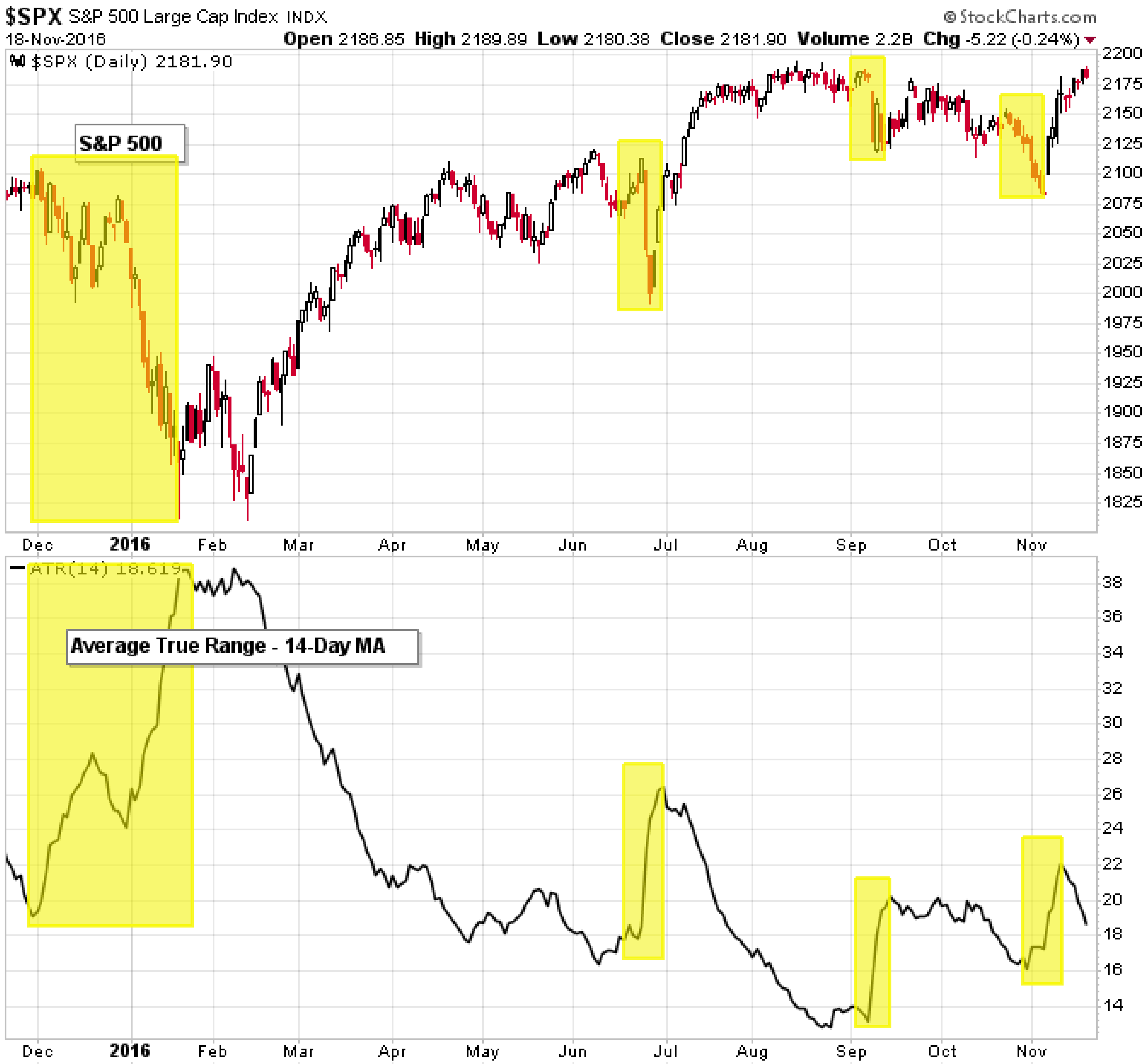
S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: The percentage of SPX stocks above their 200-day MA has improved, but considering the S&P is close to an all-time high, you'd think the print would be higher. This tells me despite the headline SPX level, beneath the surface, participation is not broad-based.

S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: The percentage of SPX stocks above their 50-day MAs has moved forcefully off its low. It's a good start, but to confirm a lasting move, we'll need a move similar to February-March, when the indicator kept moving up, not the end of May-beginning of June, when a 3-week uptrend is all we got before the indicator put in a negative divergence and headed south.

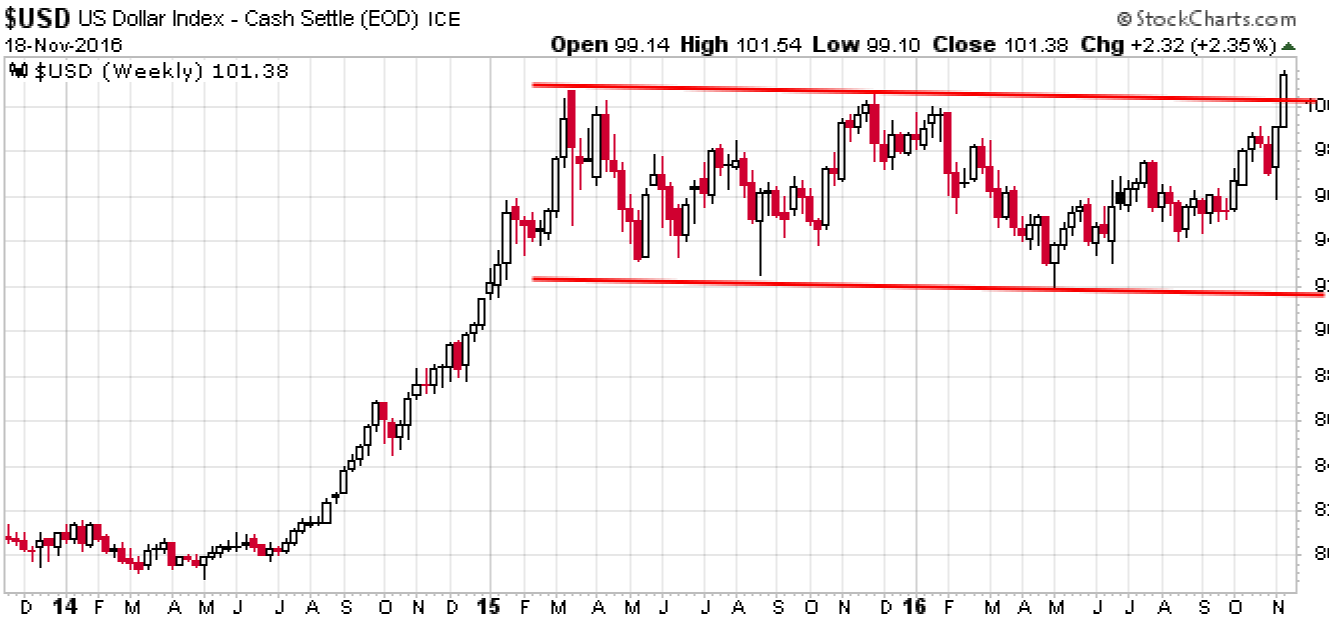
S&P 500 vs. 10-day MA of Put/Call Ratio: After almost two months of uselessness (September-October), it looks like the put/call is back to give us signals. A high print followed by a rollover (what just happened) typically coincides with market bottoms. Now we wait for a bottom, which will likely be followed by at least a pause.



S&P 500 vs. 14-day Average True Range: The ATR is now trending down. This is an absolute requirement for any uptrend to maintain itself. Markets move higher on low or declining volatility.



US Dollar: The US dollar has officially broken out. It took out the $100 level and its previous highs. Dollar rallies going back a few years are mixed with regards to correlating with market uptrends and downtrends, so initially this isn't cause for concern. But the dollar hasn't been this high since 2000, and we all know what happened back then. Here's the weekly.



US Dollar (1996-2001): The last time the dollar broke out near 100 and rallied up to 120, the market topped in route. History doesn't have to repeat, but I do wonder if there's a tipping point somewhere where multinationals won't be able to easily handle the unfavorable currency exchange.

The Bottom Line The market followed up a great week with a good one. Most of the indexes are at or very near all-time highs.

Most of the indicators support the price action. The bulls will want to see improvement from the AD line.

Earnings season is winding down, and the feel-good time of year is upon us. Heck, this is the beginning of the "best 6 months of the year" (November-April).

A rate hike is being priced in.

Odds favor a continuation to higher prices. There's no reason to fight it. Maybe we get a pause and then a continuation up. Maybe prices just continue to grind higher. In either case I'm confident higher prices are coming, so the long side is the only side I'm interested in.

Don't fight what's happening. And don't let a political opinion stop you from making money.

Have a great week.

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