Leavitt Brothers

Weekly

Jason Leavitt jason@leavittbrothers.com	Sunday, December 18, 2016

Another major news event has come and gone, and the market continues to chug along just fine. Every index has hit an all-time high at some point in the last two weeks. There are no exceptions. Among the major industries, energy, financials, consumer discretionary, materials and tech have also hit new highs. Yes tech. The one major group that had been lagging during the post-election run finally caught a bid and moved up.

First it was the Brexit vote in June, but it only took a couple days to recover the losses.

Then it was the ECB refusal to commit to future stimulus, but that selling pressure only lasted a day.

Then it was the election. Several weeks of lethargic action immediately resolved up, and the market has barely rested since.

Then it was the FOMC meeting and the first rate hike in 12 months. There was some selling after the announcement, but things calmed down pretty quickly.

News has the ability to jerk things around in the near term, but it rarely changes the market overall. This is what has happened. Major stories have induced a flood of selling, but the overall uptrend re-asserted soon after and it was back to business as usual.

The trend is up. Period. A lot of outsiders think the biggest loss on Wall Street is buying a stock at 50, not managing the position well, and then selling at 40 for a 20% loss. But this isn't true. The biggest loss on Wall Street is not participating in a rally. It's sitting on the sidelines in a state of denial while the market behaves well and prices move up. It's buying stock at 20, selling at 22 because you're afraid to give profits back and then watching the stock move to 40 over the course of six months. That's the biggest loss. More money is lost by not participating than by actual losses.

The trend really is your friend. Jesse Livermore said it 100 years ago, and it's just as relevant today. And uptrends are like large boats on the ocean - it takes a while for them to stop and turn around.

The market functions to make sure the least number of people participate. Warnings - the proverbial wall of worry - will always be present to induce

doubt or trigger a "wait and see" attitude. And then when prices move up, you shake your head and pound your desk because you missed another move.

I don't know when the current rally will end. I don't know if we'll just get an hysterical blow-off top that then leads to months of sideways movement. Or if it'll continue up and just slowly run out of gas. Or if a top is far enough off that we shouldn't even be thinking about it. I do know that I'd rather be wrong once at the top than wrong dozens of times along the way.

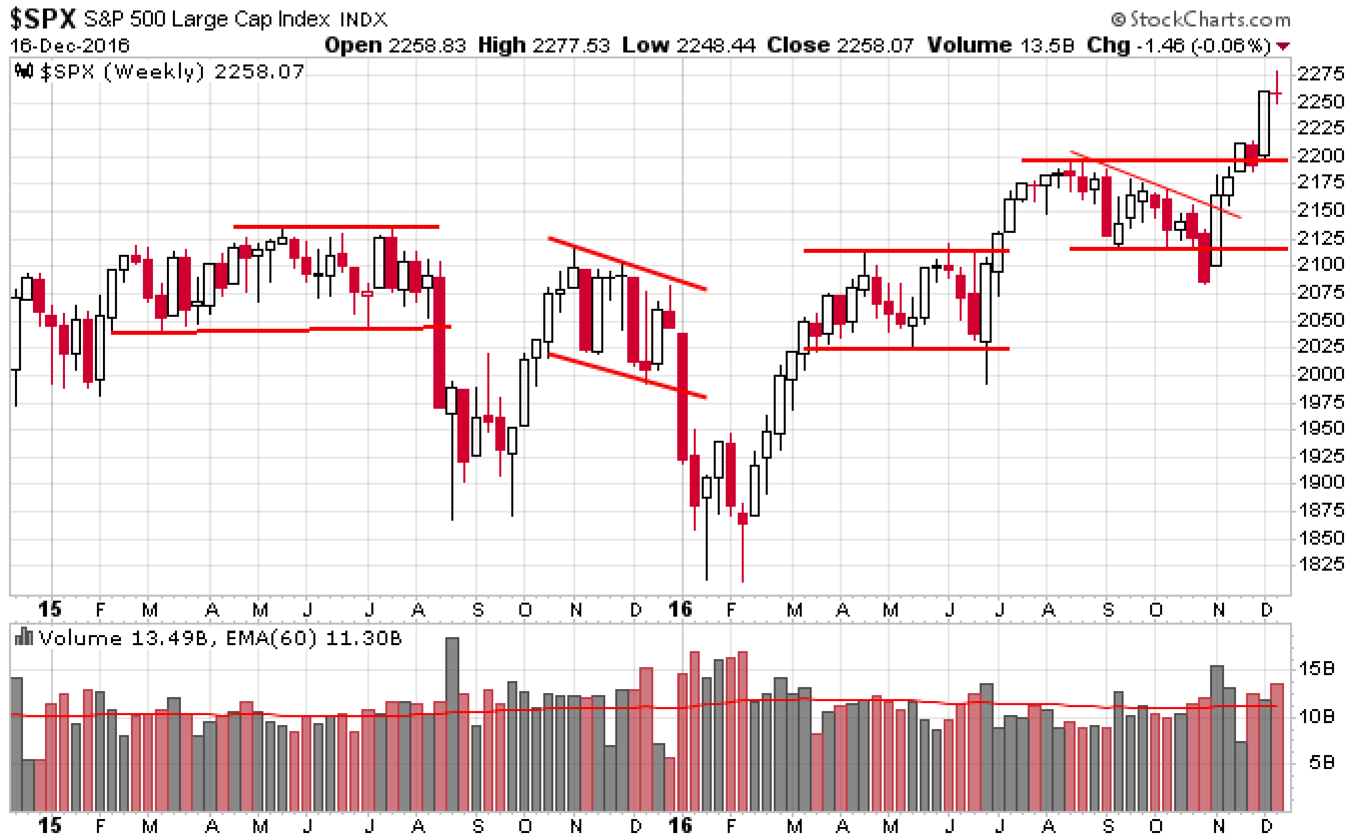
The trend is up, so we'd be wise to look beneath the surface, identify the best-performing groups, and buy stocks in those groups. Repeat, repeat, repeat until it stops working. Don't let social media influence you. Don't let the main stream media influence you. Don't let a hatred of politics or a depressed state of mind due to certain conditions in the world zap your enthusiasm. Just play the trend.

The trend is up. There are warnings that a mini correction is likely in the pipeline, so we certainly don't want to throw all caution to the wind. But you can't and shouldn't deny what is taking place and the opportunities being offered.

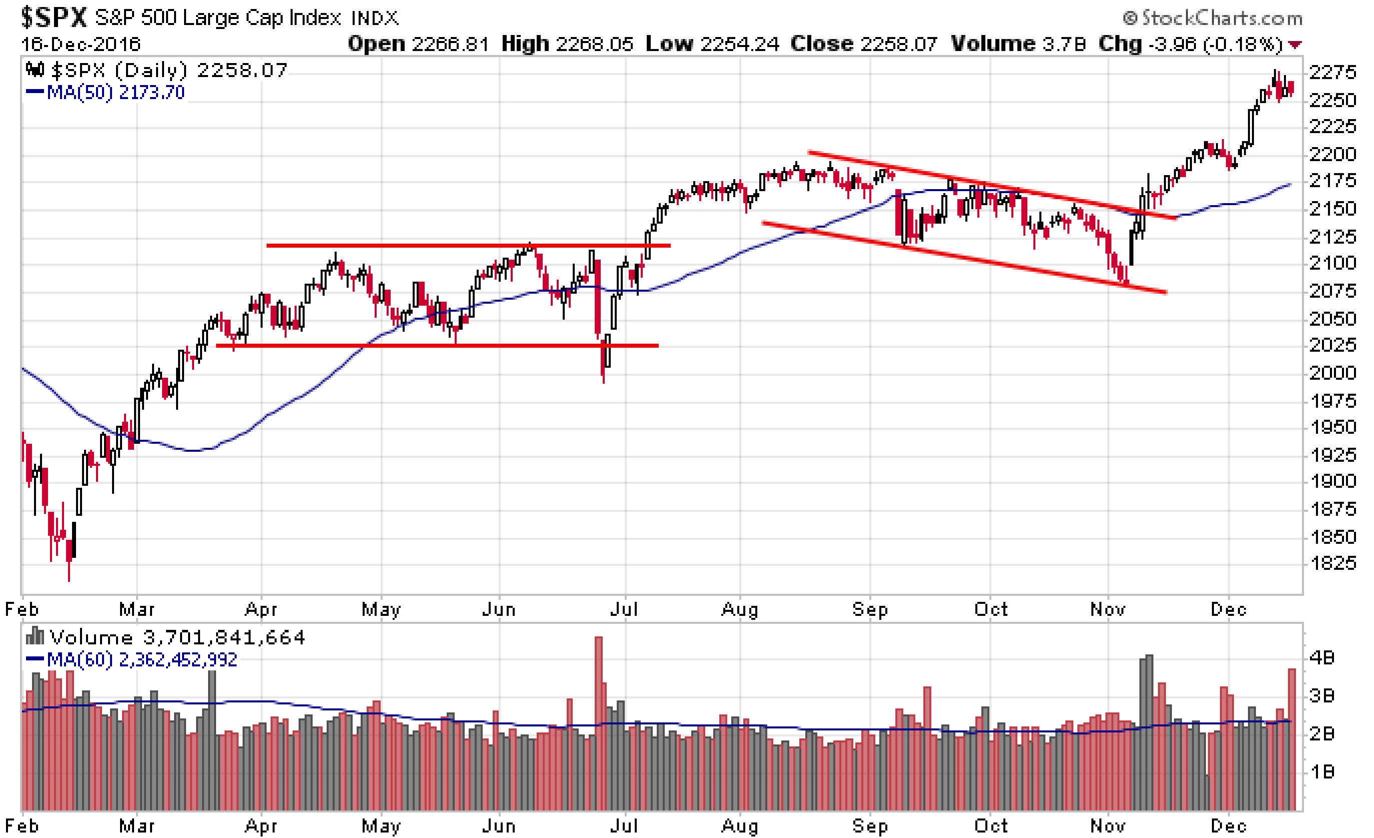
Off my soap box (sorry for the mini rant; sometimes I just go off topic and just type whatever is on my mind). Let's get to the charts and see what's going on beneath the surface.

Indexes

The S&P 500 Weekly: Not a pretty candle. It's been a while since the market moved to a new high but then closed far off its high within the same week. Overall I'd say the market is in good shape, but last week's candle does kind of cast some negative light heading into next week.



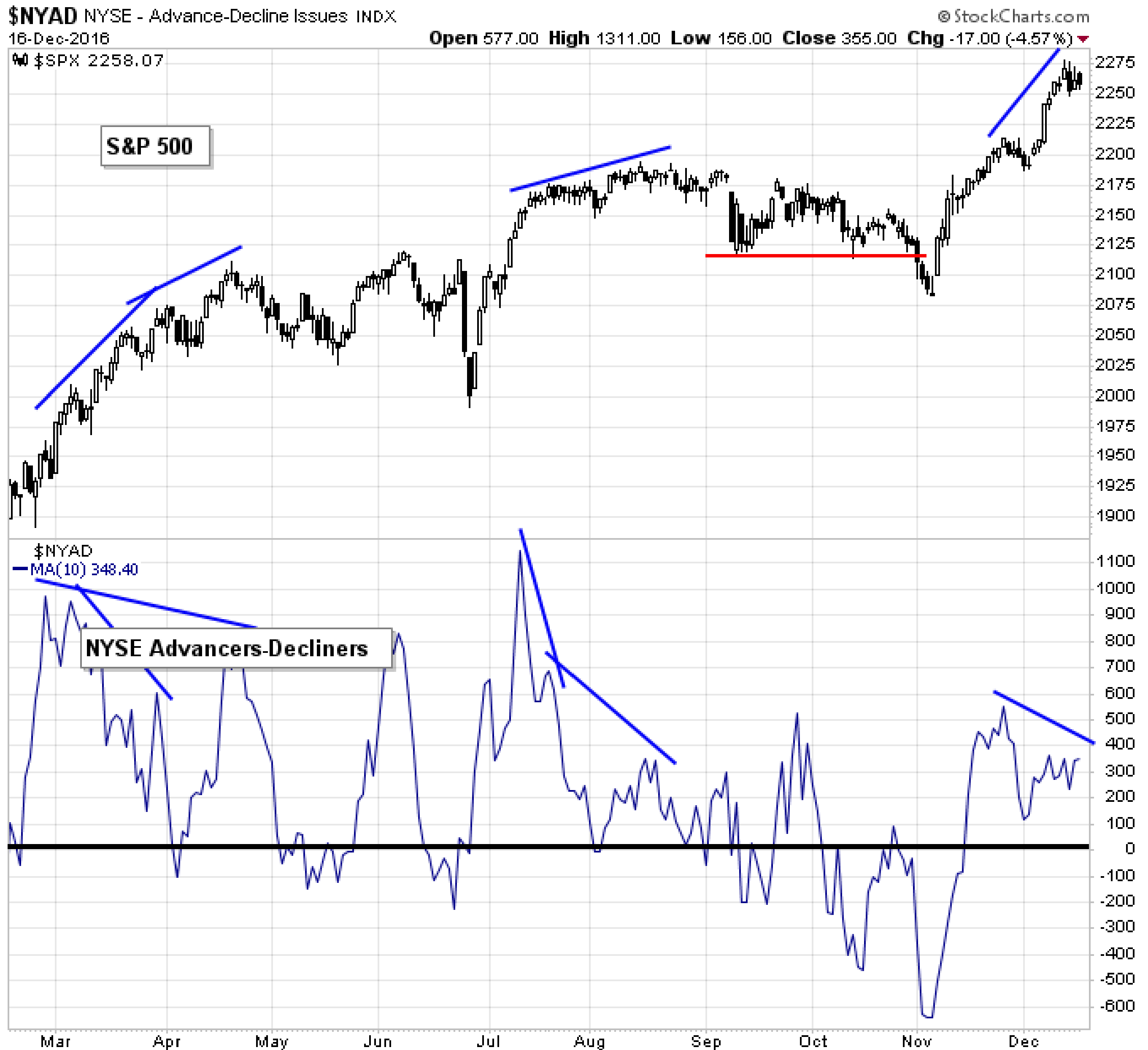
The S&P 500 Daily: There's nothing wrong with the daily chart. The weekly candle may be ugly, but the overall daily looks rock solid. Maybe we get a dip that tests 2200 and the up-trending 50-day MA. I don't know. Overall I see little indication a trend change is coming (less volume would be nice).



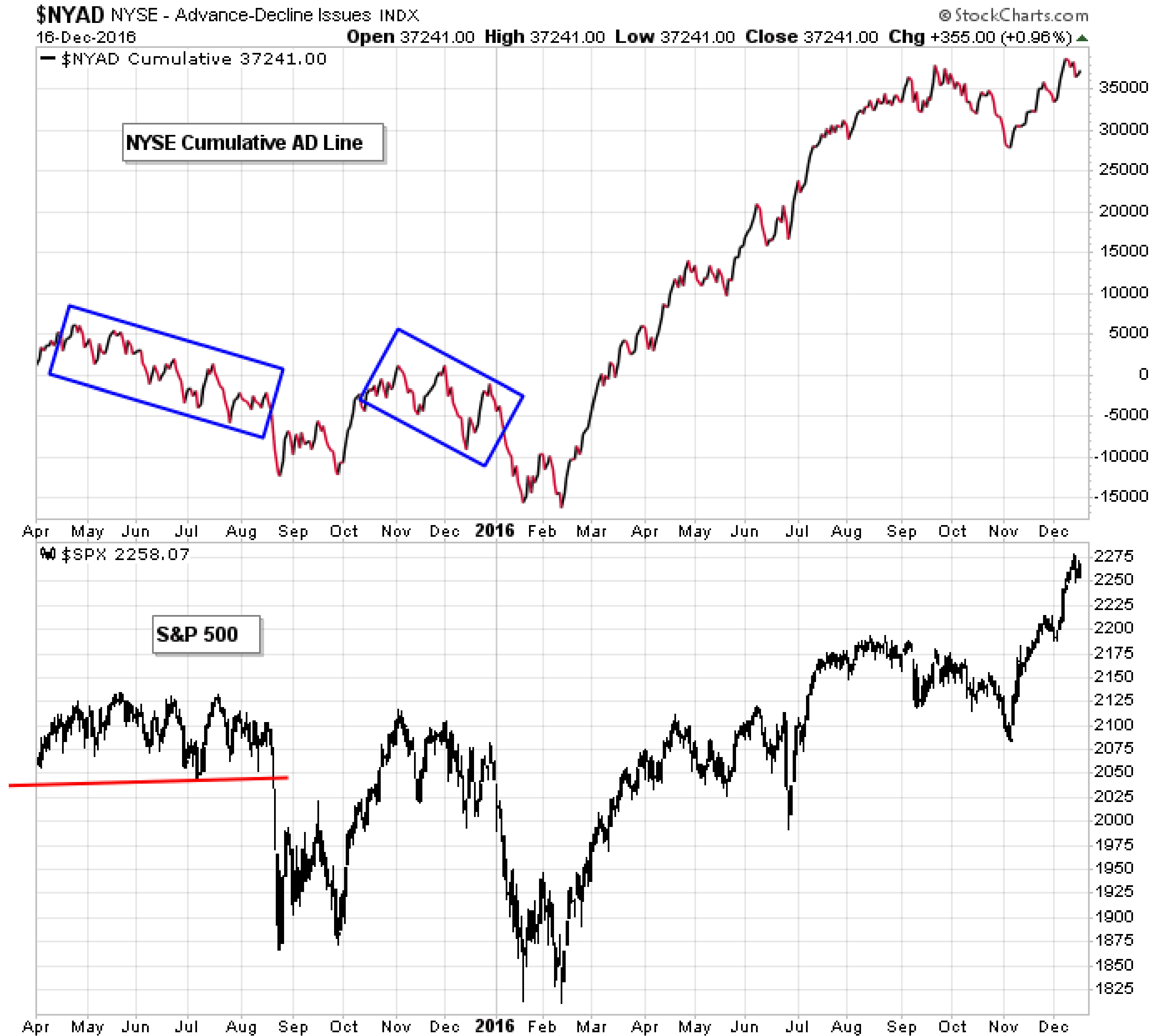
Small Caps (Russell 2000) vs. Large Caps (S&P 500): The market does do better when the small caps out-perform the large caps. This is the current case.

Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: The 10-day of the AD line is up but is not up as much as one would expect given what the market has done since early November. The absolute value of the indicator isn't very high, and the current print is lower than the late-November print. Less stocks have participated in the December pop. This is a warning things are weakening beneath the surface.



S&P 500 vs. NYSE Cumulative AD Line: Consistent prints above 0 have kept the cumulative AD line in an uptrend. There are no warnings here. We haven't gotten many extreme daily prints, but the consistent prints should be noted. Previous tops tended to be preceded by this indicator moving down for a couple months, and with a new high recently registered, we are far from it trending down.

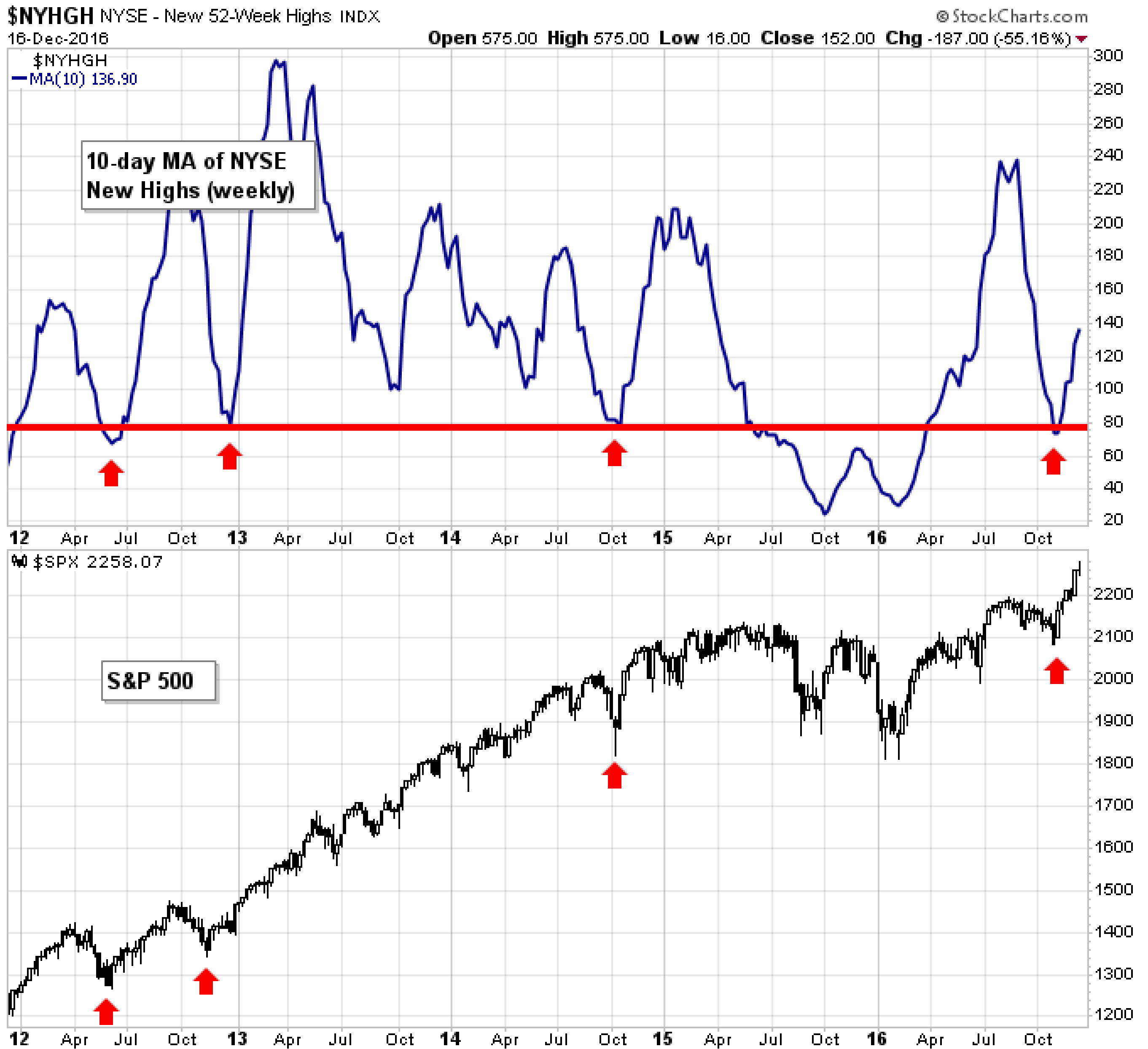


S&P 500 vs. 10-day MA of NYSE AD Volume Line: The 10-day of the AD volume line is also diverging from the S&P. On the surface, the price action looks great, but behind the scenes, less energy has gone into the most recent move.

S&P 500 vs. NYSE Cumulative AD Volume Line: But like the AD line above, the cumulative version of the AD volume line continues to trend up. There haven't been many extreme prints, but they've been consistent, and right slow and steady is winning.

S&P 500 vs. NYSE New Highs (daily): New highs at the NYSE spiked and plunged. Overall I'd consider the prints to be very good and supportive of the market action. If the indexes are moving to new highs, we definitely want to see individual stocks doing the same. So far, so good. There are no major warnings here.

S&P 500 vs. NYSE New Highs (weekly): And the 10-week of the weekly new highs would suggest this run has room to continue before hitting an over-bought level.

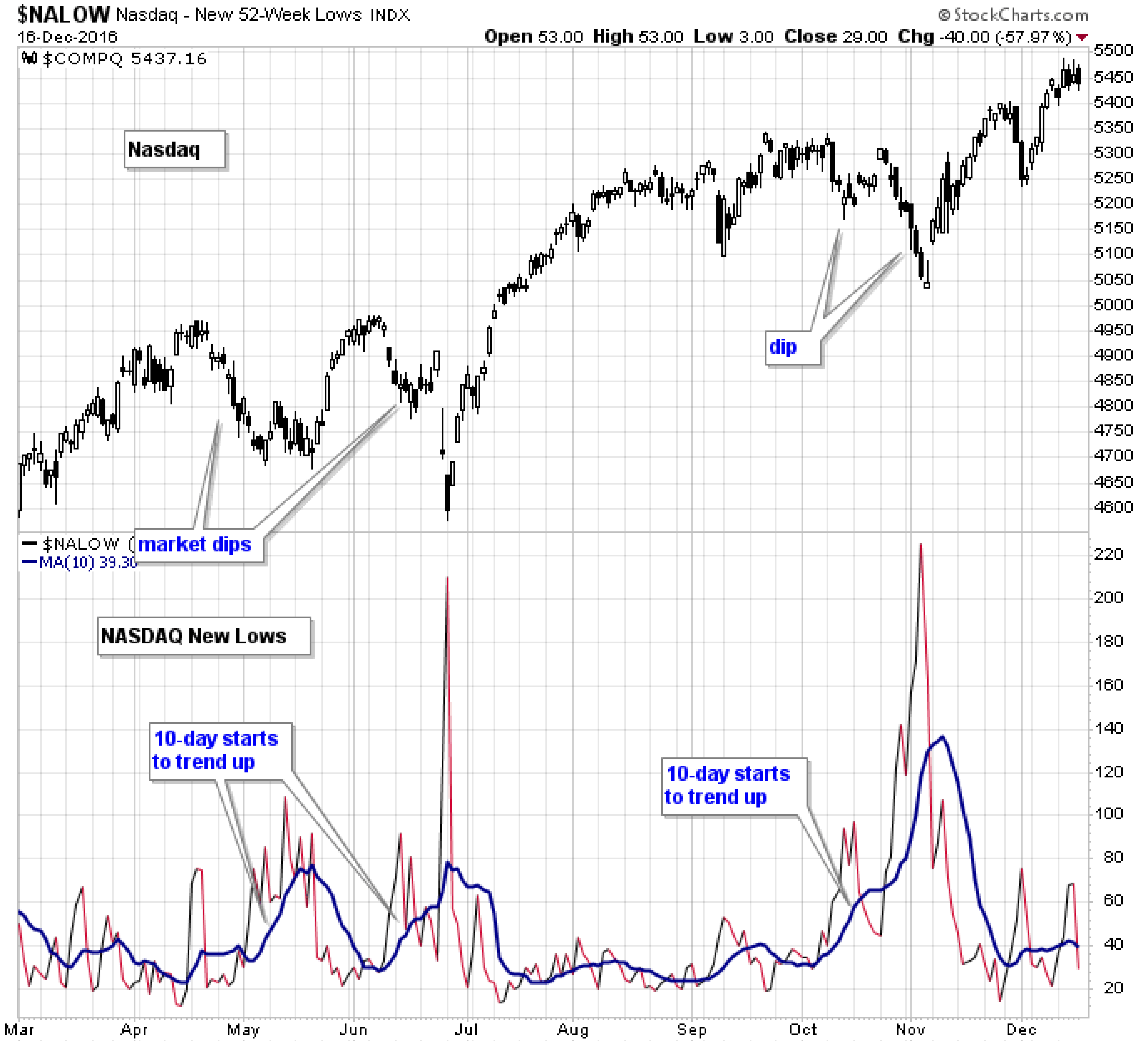


NASDAQ vs. NASDAQ New Highs (daily): With the 10-day of new highs at the Nas sitting at a high level, there are no arguments the uptrend is not supported.

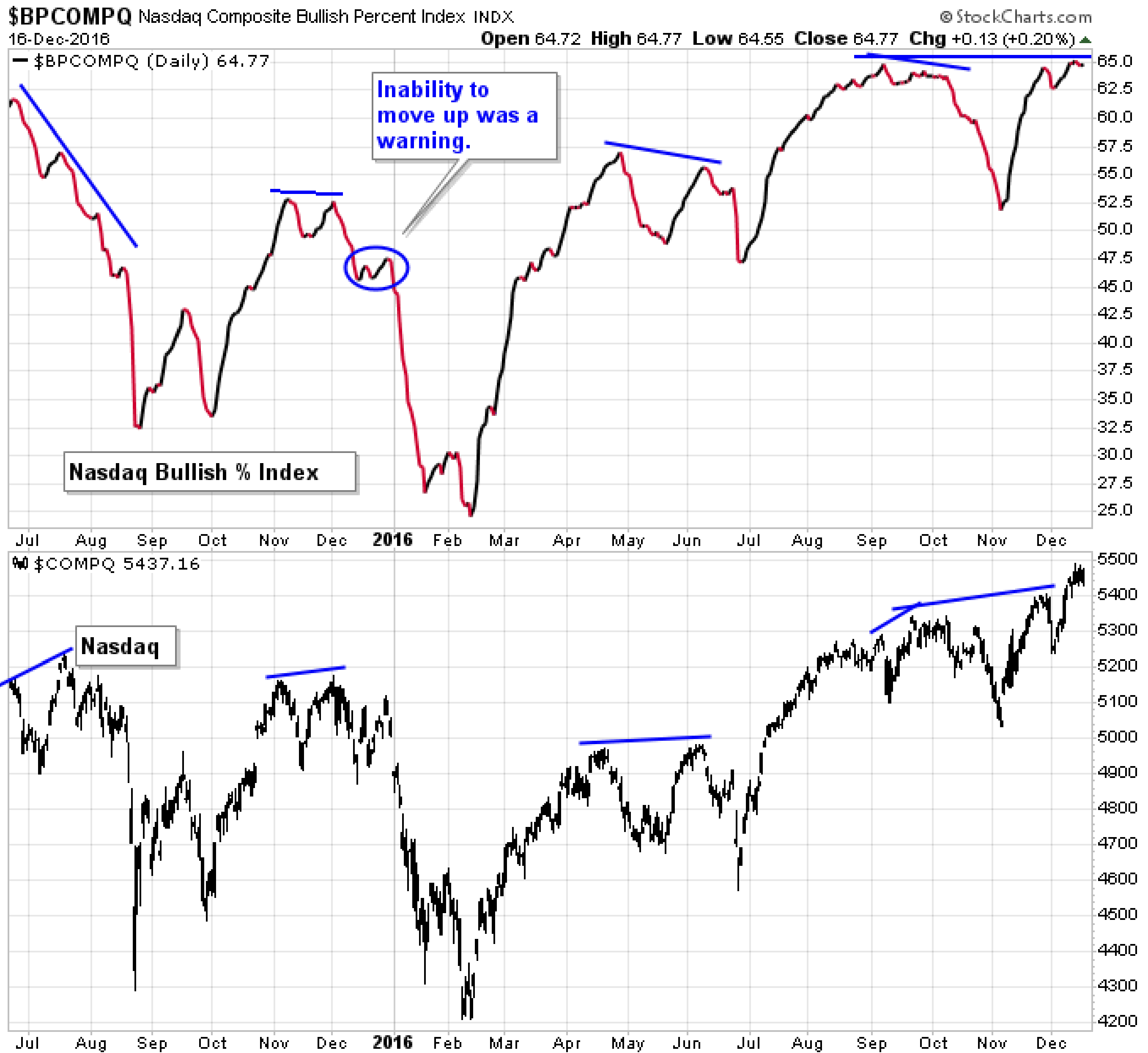
NASDAQ vs. NASDAQ New Highs (weekly): The 10-week of new highs is at its highest level in almost three years. And going back 10 years reveals a need for this indicator to trend down before a significant market correction.

S&P 500 vs. NYSE New Lows: New lows at the NYSE have been jumpy lately. It's a definite warning. If the index is at new highs, why are new lows registering?

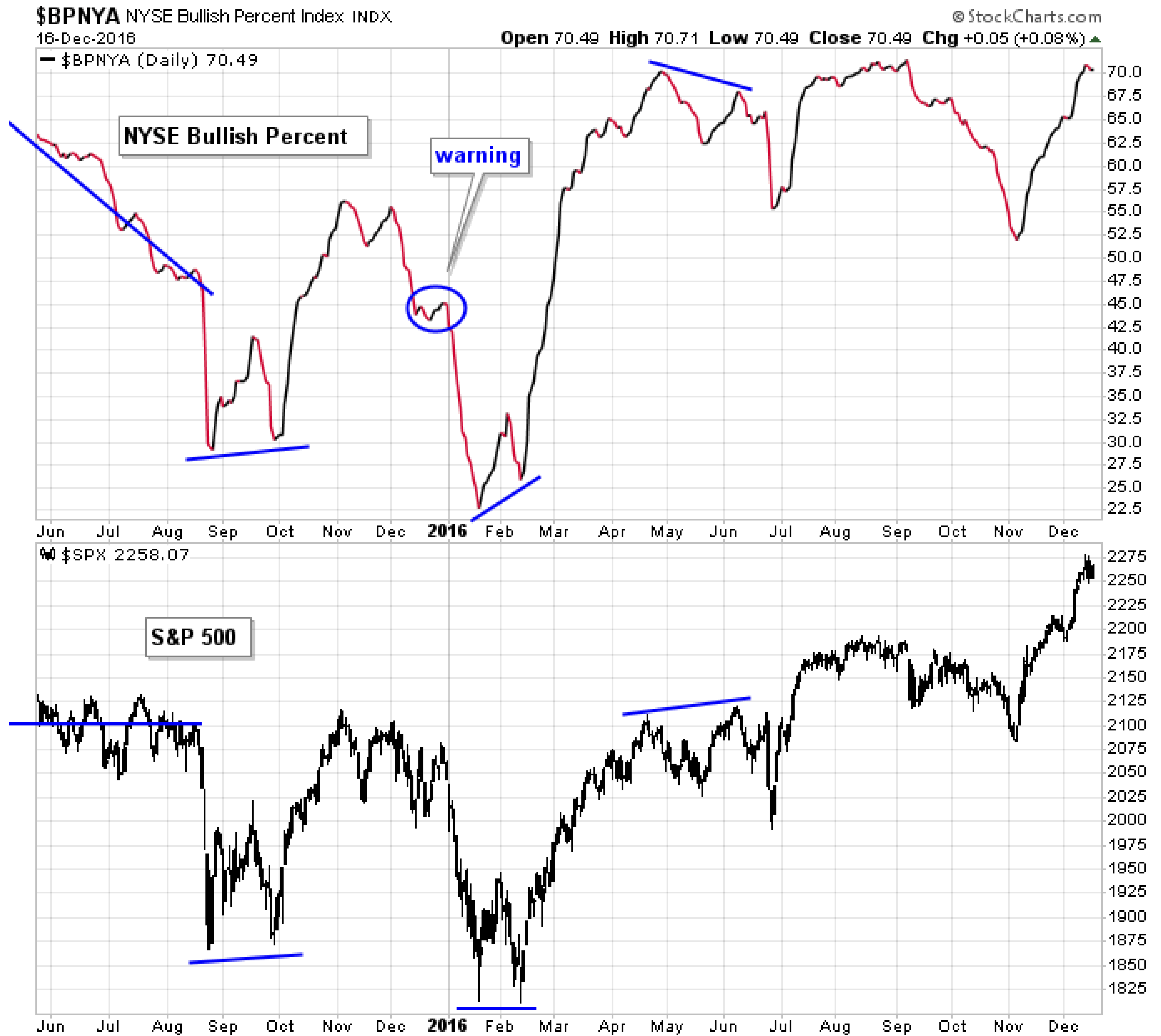
NASDAQ vs. NASDAQ New Lows New lows at the Nas have ticked up a little, but the 10-day isn't trending up yet.



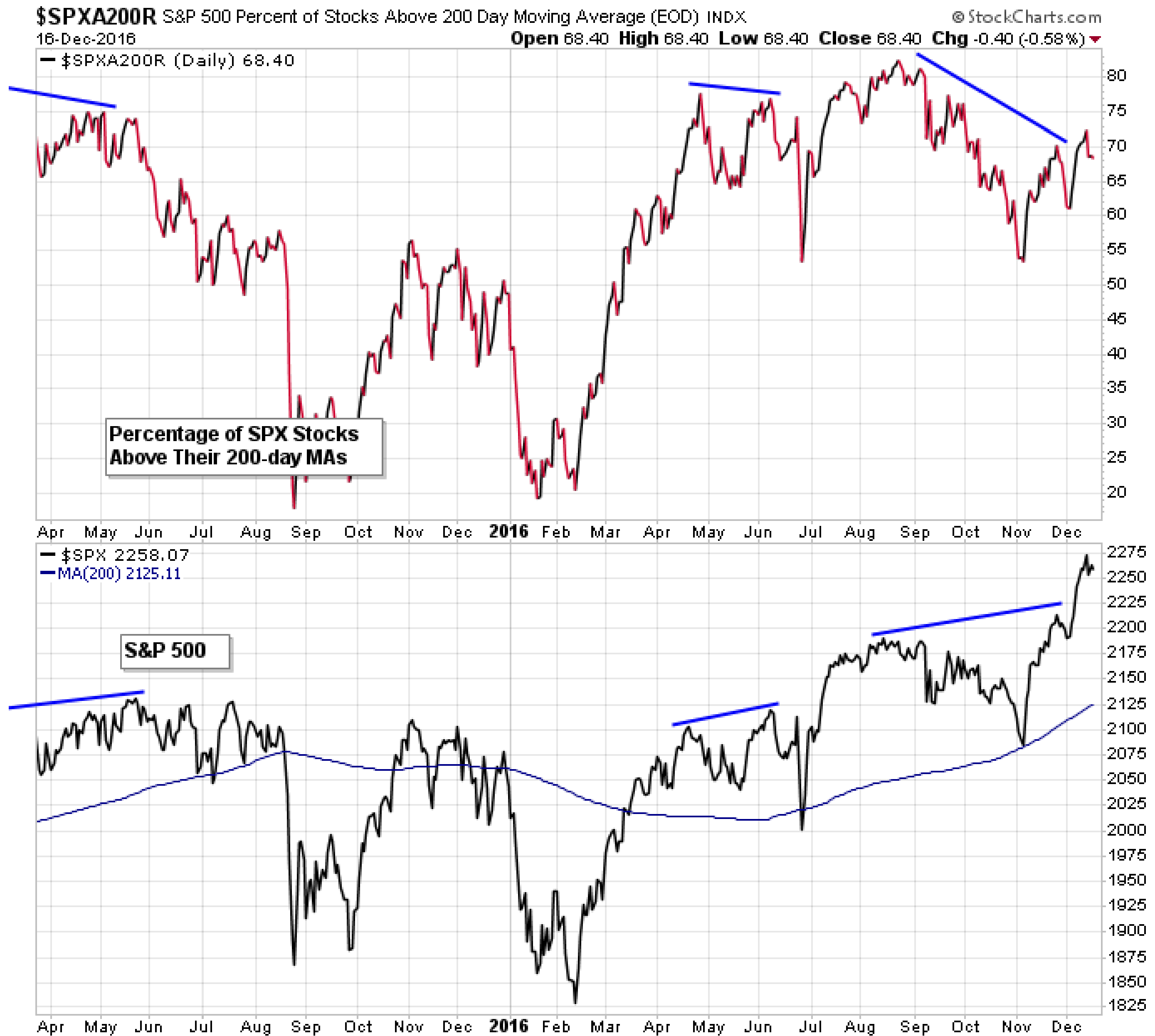
NASDAQ vs. NASDAQ Bullish Percent: Despite the Nas and Nas 100 moving to new all-time highs last week the Nas bullish percent went nowhere.



S&P 500 vs. NYSE Bullish Percent: The S&P has rallied almost 200 points the last six weeks, but the NYSE bullish percent has only managed to match its early-September level. Prints between 70-80 have been common in the past, so it's not like there's a mathematical limitation in play.

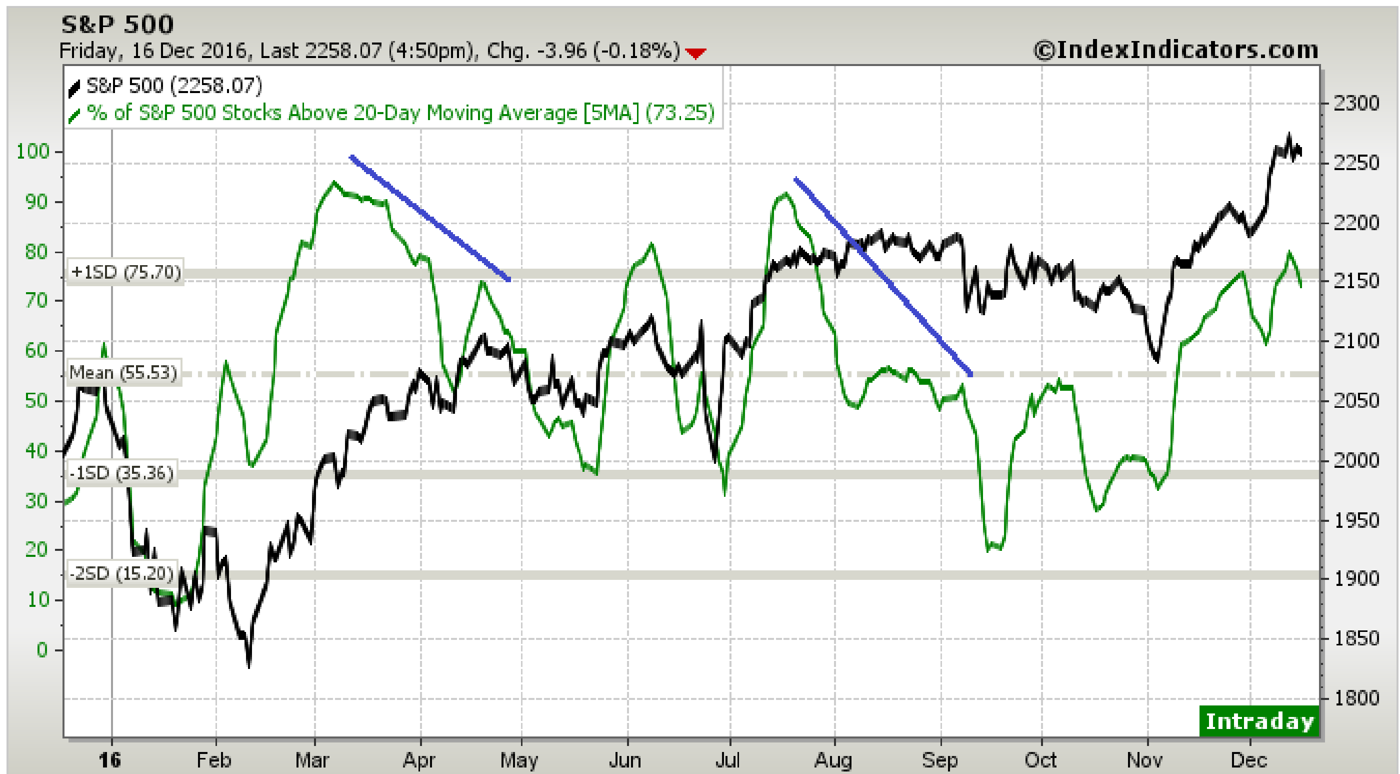


S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: The percentage of SPX stocks above their 200-day moving averages put in a higher high but is still well below its August high. It doesn't make sense. The S&P has rallied vertically almost 200 points, and there's an entire group of stocks that have not participated. And as an historical reference, prints in the 80-90 range are very common.

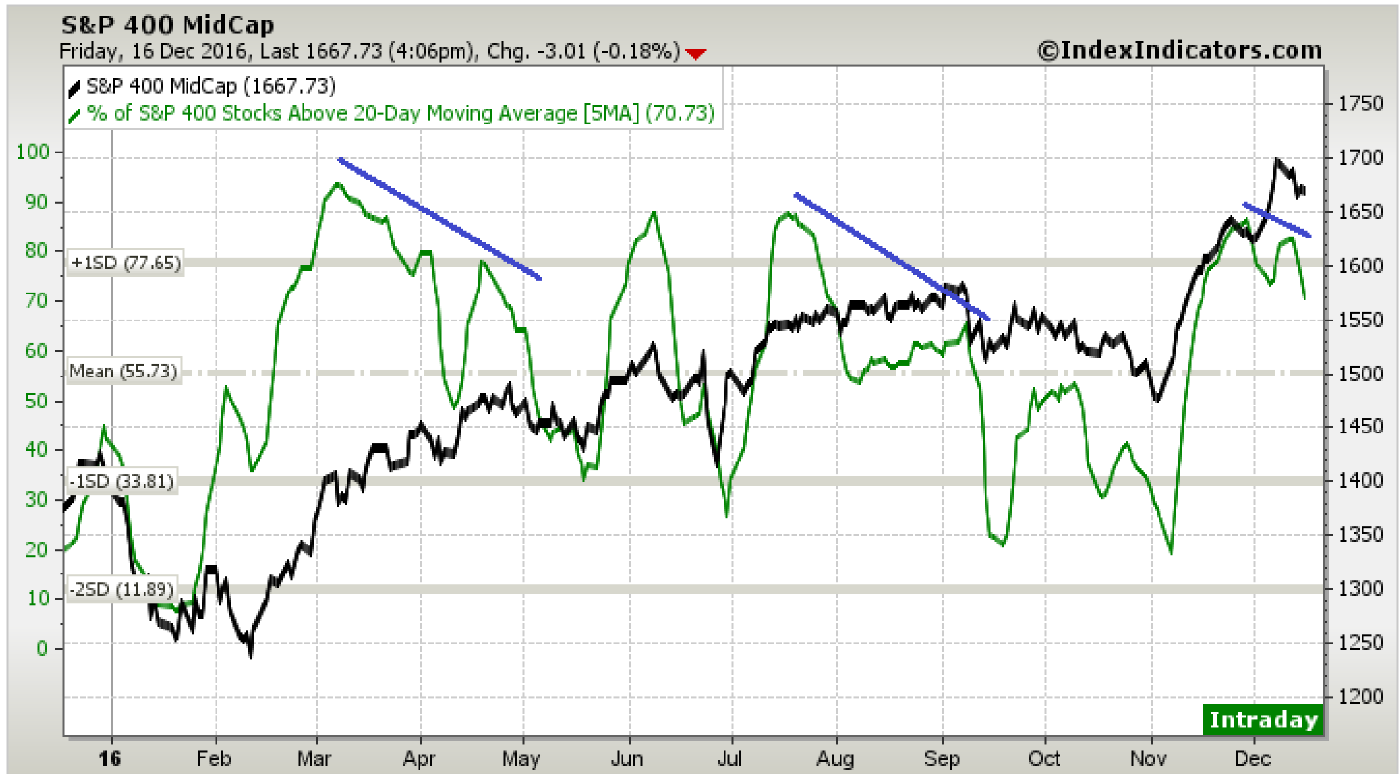


S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: The percent of SPX stocks above their 50-day MAs has improved but still hasn't matched previous highs. Currently the S&P is about 3% above its MA - an historically high print - so it's legit to note many stocks have been left behind on this most recent leg up.

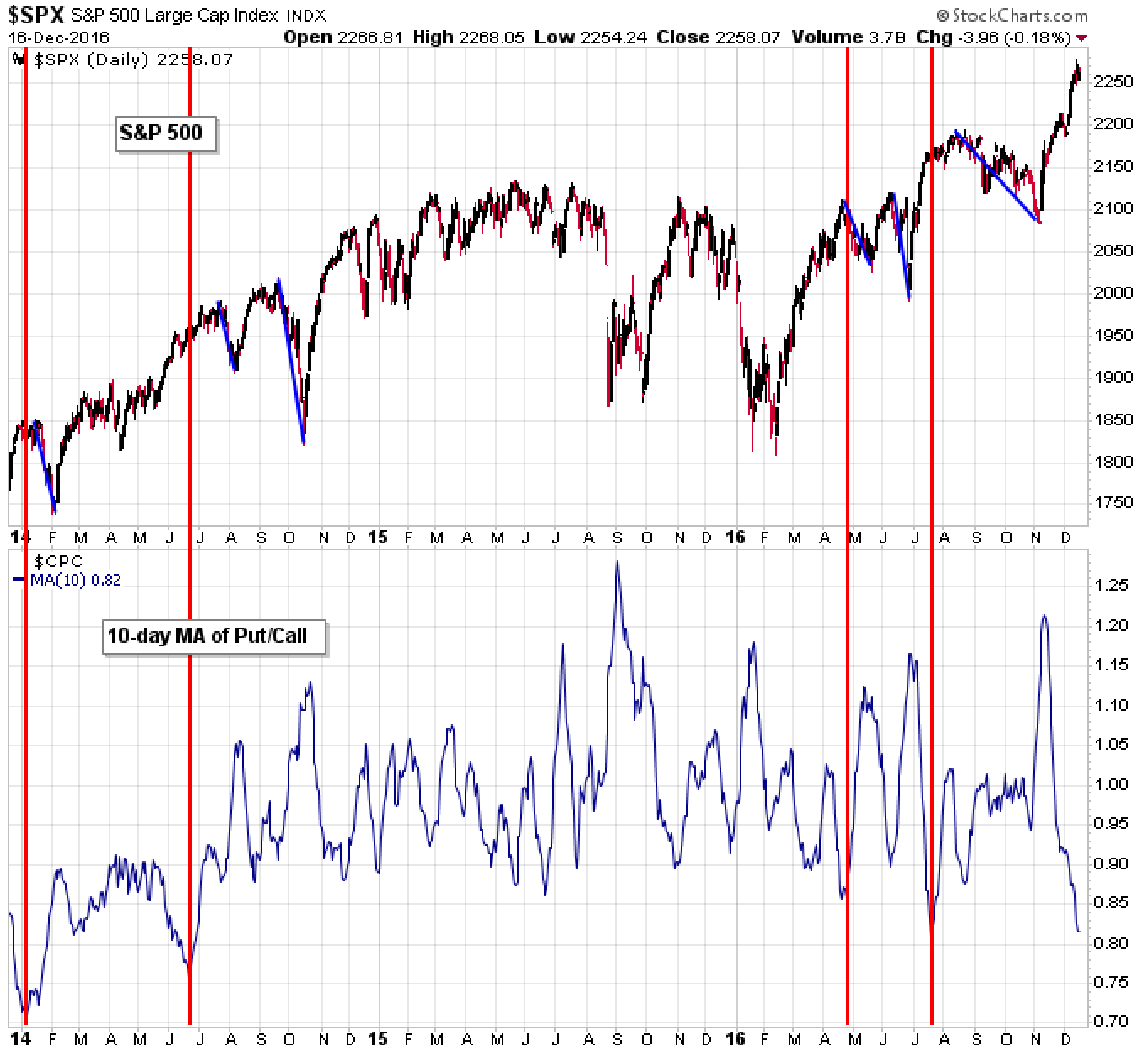
S&P 500 vs. Percentage of SPX Stocks Above 20-day MA: Zooming in a little, here is the percentage of SPX stocks above their 20-day moving averages. A higher high is in place, but previous high prints haven't been matched despite the S&P moving virtually straight up the last six weeks.



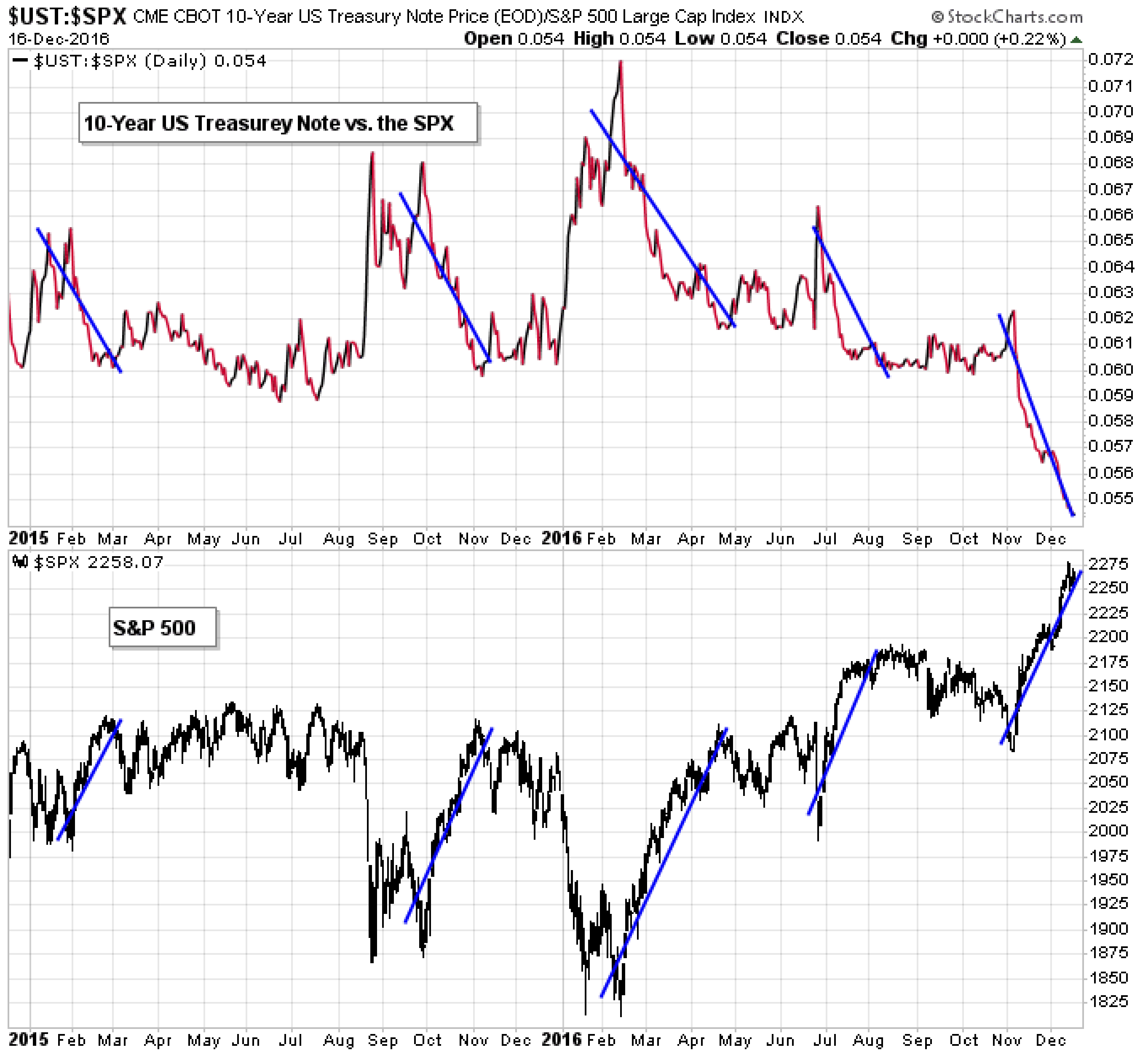
S&P 400 vs. Percentage of MID Stocks Above 20-day MA: and **S&P 600 vs. Percentage of SML Stocks Above 20-day MA:** The percentage of mid caps and small cap stocks above their 20-day MAs has matched previous highs but are now diverging. While this may seem ominous in the near term, there tends to be a delayed reaction - indicators move down, market drops a few weeks later. Something is in the pipeline...but it's not imminent.



S&P 500 vs. 10-day MA of Put/Call Ratio: The current 10-day put/call reading is among the lowest going back three years, so I backed this chart up to see what happened following other low prints. Two corresponded to pullbacks playing out immediately. The other two offered a warning a correction was coming but was not yet imminent. But in all cases, the market did top within about a month.



S&P 500 vs. the Relative strength of Bonds/S&P 500: When bonds under-perform, indicative of the top pane of this chart trending down, the market does well. This is another reason to believe the market has room to run. Bonds are weak.



The Bottom Line

The market is doing well overall, and I continue to believe more highs will be made into the new year.

But several breadth indicators suggest we likely have a mini correction in the pipeline.

This is a time to be long but to be taking profits on positions that have run far and to be less aggressive with new positions.

This is how I'm playing it - that we're likely to get a pullback within the uptrend...but then the uptrend should remain in place overall.

Have a great week.

Jason Leavitt
Jason@leavittbrothers.com

©2016, Leavitt Brothers, LLC, P.O. Box 19132, Golden, CO 80402, www.leavittbrothers.net
This copyrighted report is published once-a-week (most of the time on Sunday) by Leavitt Brothers, LLC and is intended solely for use by paying subscribers. No reproduction, retransmission, or other use of the information or images is authorized. News media, blogs and other websites may quote representative passages, in context and with full attribution, for the purpose of reporting on our opinions. Analysis is derived from data believed to be accurate, but such accuracy or completeness cannot be guaranteed. All trading and investment decisions are the sole responsibility of the reader. We reserve the right to refuse service to anyone for any reason. The principals of Leavitt Brothers, LLC may have open positions in the stocks or markets covered. Subscription cost: $149/year or $25/month. Subscribers paying monthly agree to accept automatic subscription renewal by credit card.