Leavitt Brothers

Weekly

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The last full week of the year was a total dud. The range was small, and volume was light. All the action took place within the high and low of the previous week. There were a couple up days and a couple down days, and overall nothing happened. Wall Street seems content on not forcing anything right now.

I consider this good timing. Given the S&P rallied 200 points in about six weeks, a rest was needed. It's a nice coincidence heading into what is traditionally the slowest time of year. Two birds can be killed with one stone when a needed rest coincides with when a rest was likely going to happen anyway.

Overall the market remains in very good shape. There are short term warnings a further rest or mini correction is needed because beneath the surface participation is waning, but there's no reason to think the uptrend will end.

The default setting is a continuation of what is currently taking place, not a drastic change. This isn't a suggestion to back up the truck and get long, but it is a reminder tops take time to form. Even if a top was being put in place right now, there would be a lot of up and down movement over the next several months. Many warnings signs would be flashed, and there would be plenty of time to read them and react.

Bottoms may form in a single flurry of selling followed by hysterical buying. But tops take time - lots of time. When indicators diverge from the price action for a few weeks, the market tends to correct a little or move sideways. It's when the longer term indicators diverge for many months that something else is likely in store. We are nowhere near that, so we'd be wise to keep on keepin' on.

The overall trend is up, so we focus on the long side. The trend, after all, is your friend.

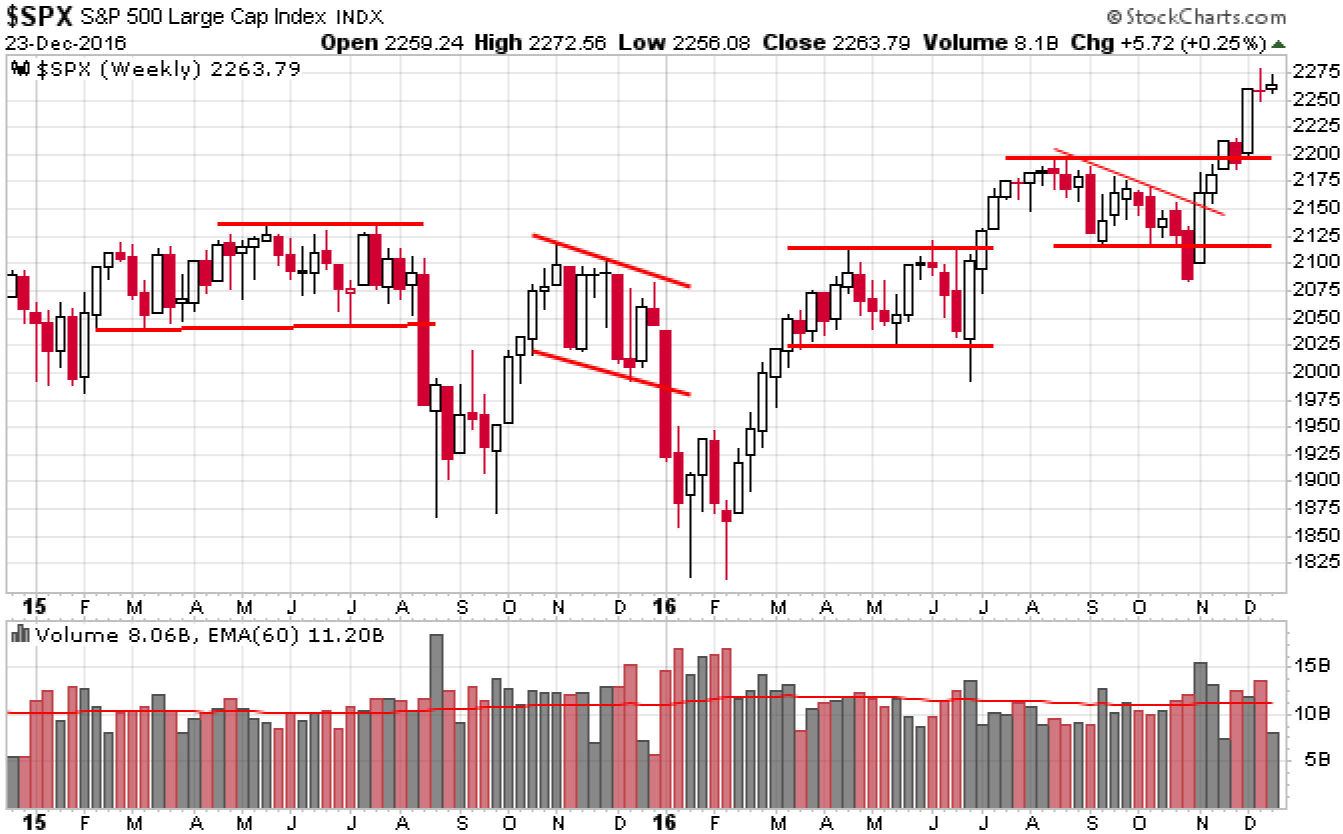
Then we look beneath the surface and identify which groups are leading. There is, after all, a bull market somewhere.

This is our one-two punch. What is the trend? Where are the bull markets?

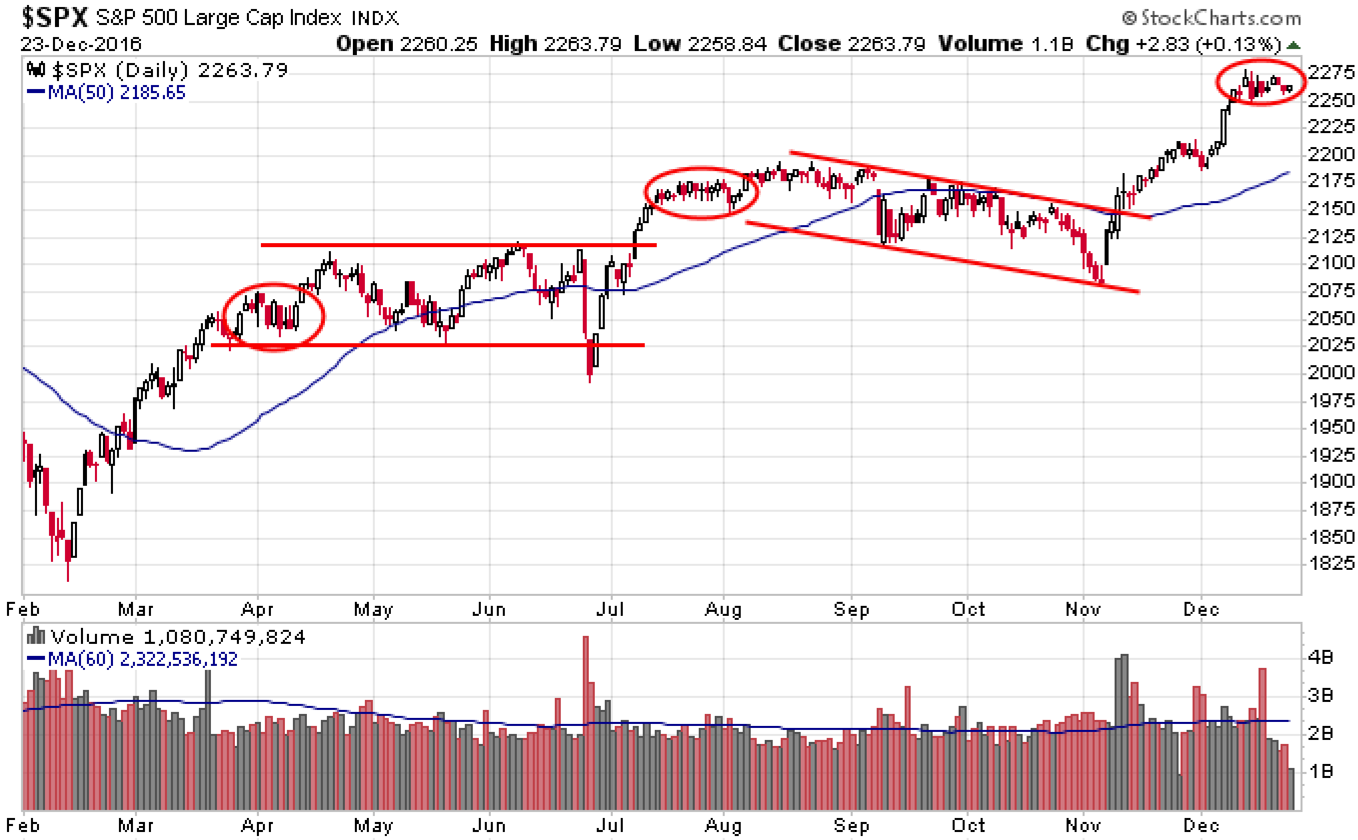
Let's get to the charts and see how things look heading into the last few weeks of the year.

Indexes

The S&P 500 Weekly: It was a pause week. All of last week's movement took place within the high and low of the prior week, and for the second straight week, the close was near the open. The overall trend remains in place; don't over-analyze the short term.



The S&P 500 Daily: Once again a big rally has been followed by a lot of churning. Keep expectations in check right now. A rest that allows the 50 to catch up would not be out of the ordinary.



Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: Over the last 10 days advancers and decliners have been virtually equal - no surprise considering the market is flat. The divergence has worked itself off with sideways movement, not a price drop.

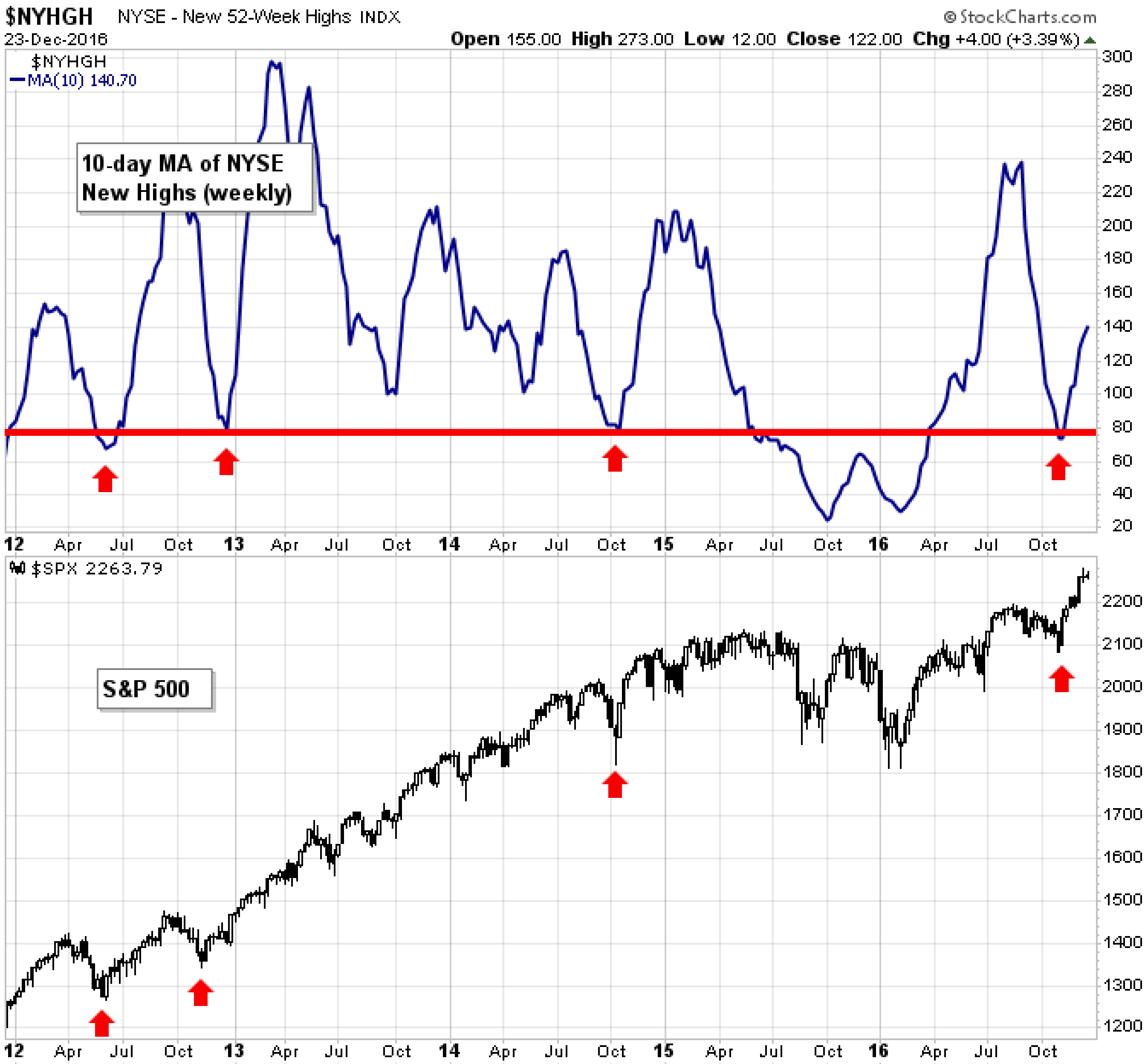
S&P 500 vs. NYSE Cumulative AD Line: The cumulative AD line has flattened out. This is perfectly normal and nothing to be concerned about considering the indicator is still at a high. Per this chart, the market's uptrend is well supported.

S&P 500 vs. 10-day MA of NYSE AD Volume Line: The AD volume line has dipped below 0. This too is normal. During rallies this indicator moves up, and when the market rests, it moves back to 0 and often below. It's only when the indicator falls below 0 and stays there that there is a concern.

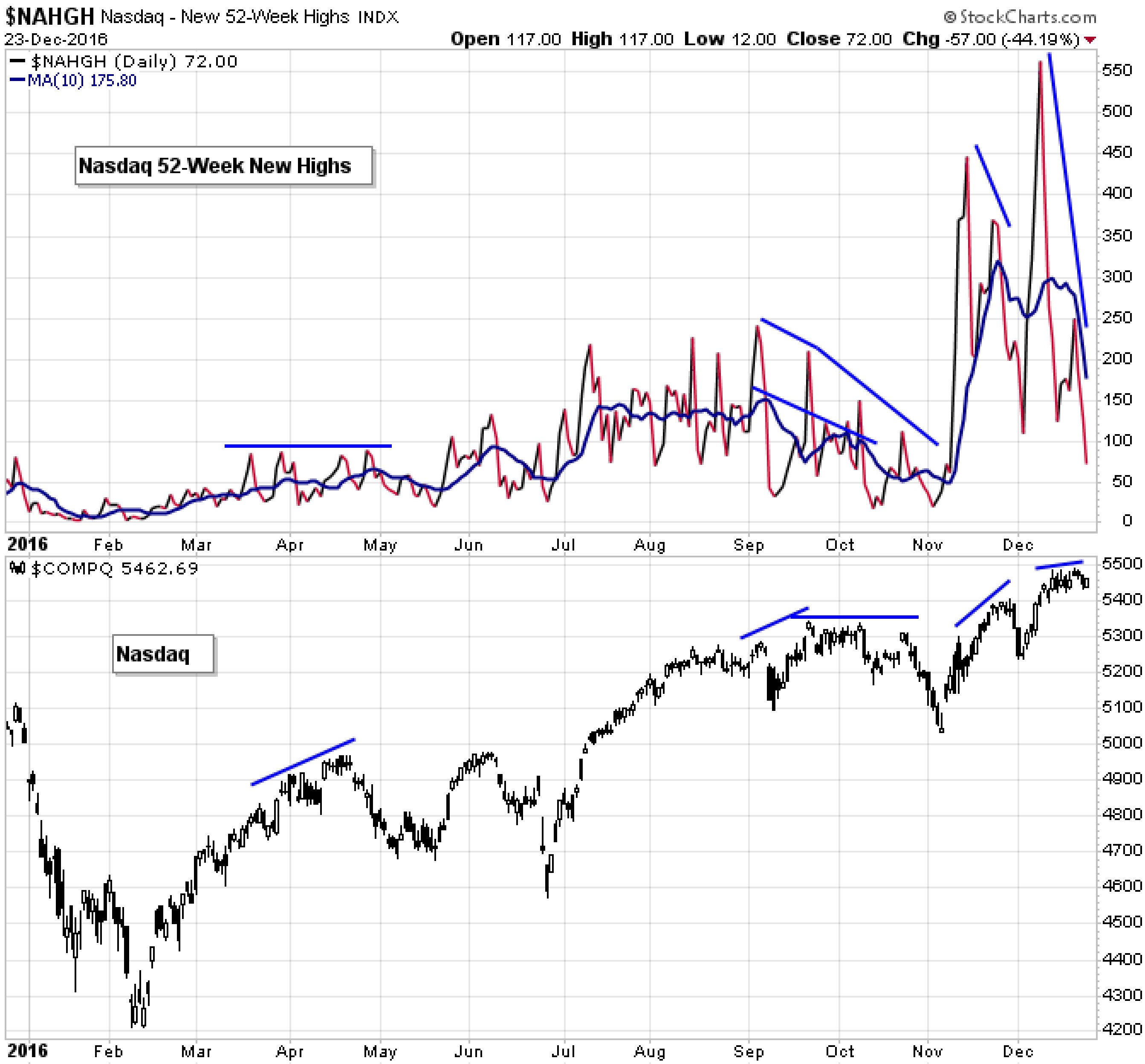
S&P 500 vs. NYSE Cumulative AD Volume Line: The cumulative AD volume line remains in great shape. And considering it usually takes a couple months of declines before the market rolls over, we're being told the long side is the only side to be on.

S&P 500 vs. NYSE New Highs: The S&P last hit a new high 9 days ago, so it makes sense new highs among individual stocks have fallen off. At this time of year I would not expect many new highs - the buying interest just isn't there. But starting next year, if the indexes leg up again, we'll definitely want to see an expansion in new highs among individual stocks.

S&P 500 vs. NYSE New Highs (weekly): Weekly new highs still have room to grow before being considered overbought. And even if they get overbought, it's not til they dip to 0 and fail to bounce that we should be concerned.

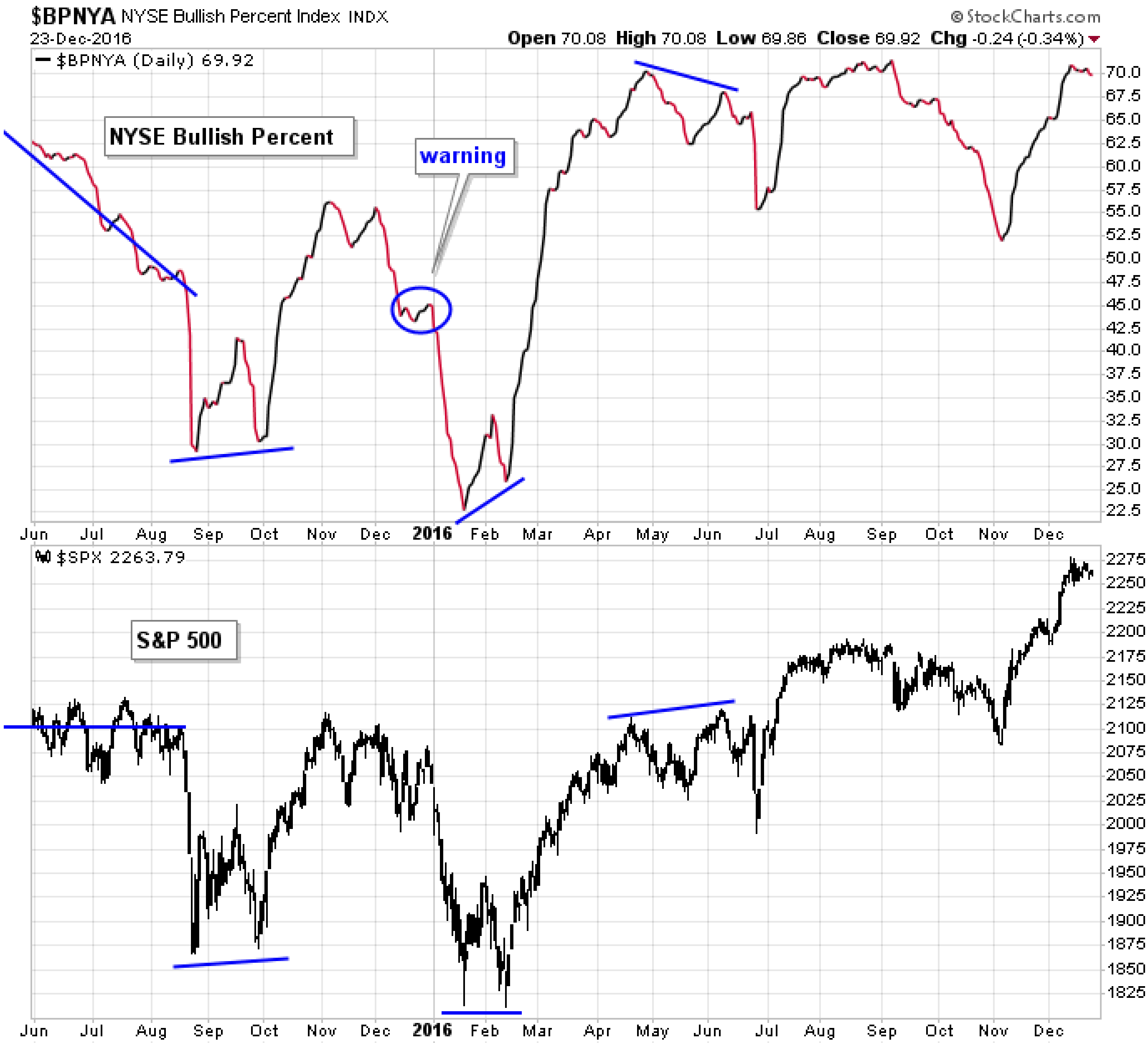


NASDAQ vs. NASDAQ New Highs: New highs at the Nas have also disappeared. I'm willing to look past it right now, but after next week, we'll want to see this chart expand again.

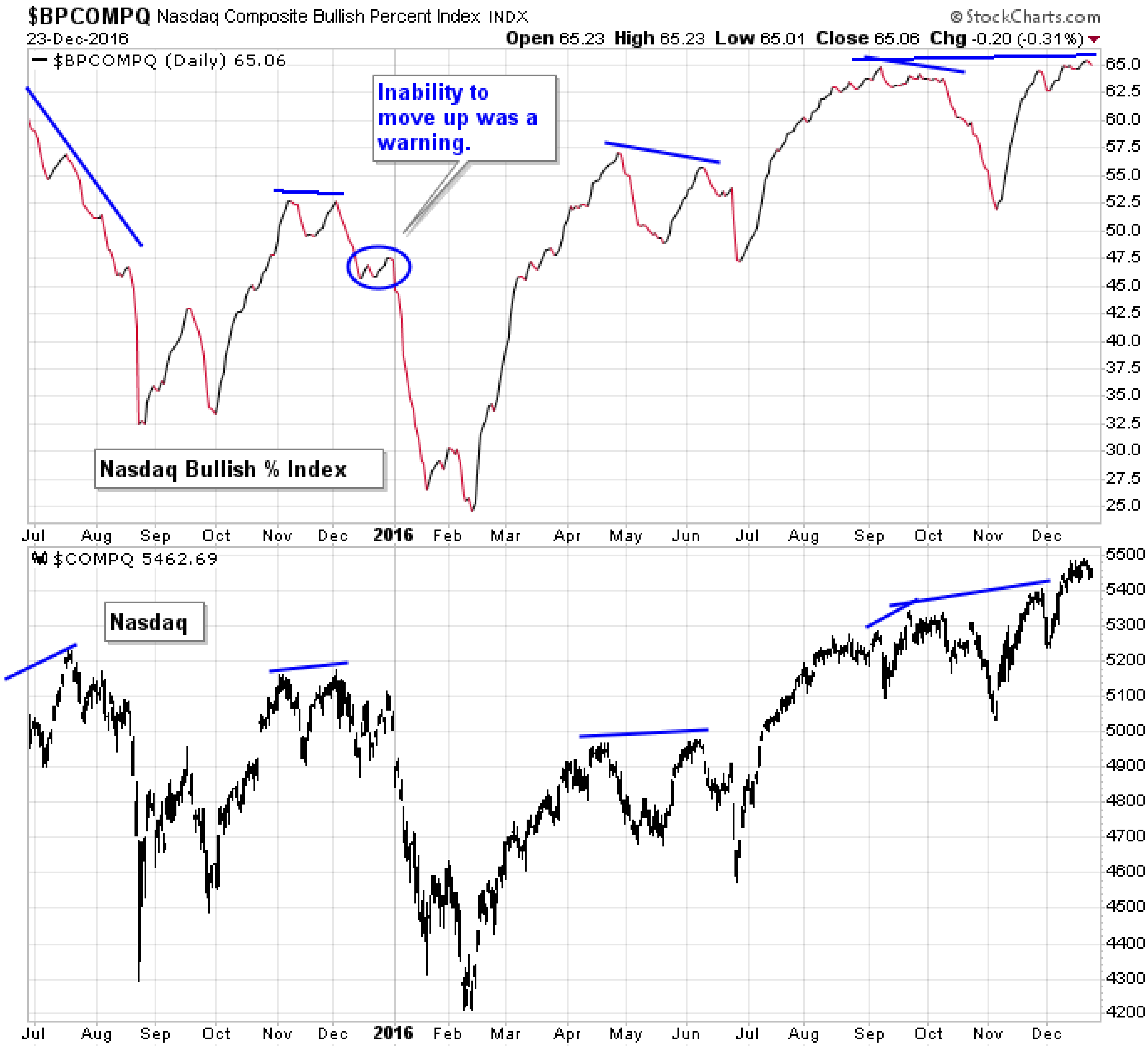


NASDAQ vs. NASDAQ New Highs (weekly): Weekly new highs at the Nas are getting extended, but in the past it took a 2-month divergence before the market corrected.

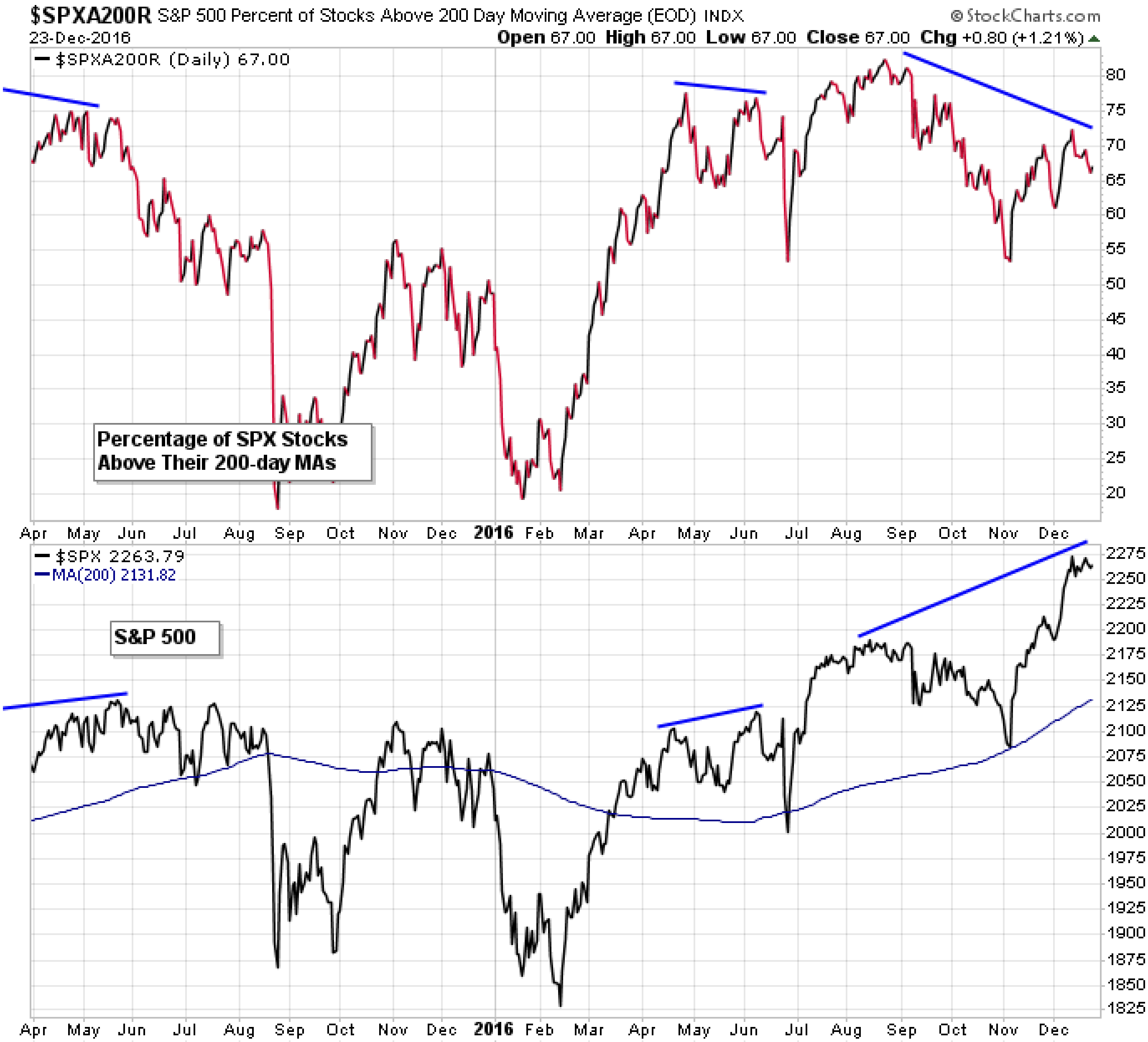
S&P 500 vs. NYSE Bullish Percent: The bullish percent at the NYSE still can't expand. It's sitting at a high level, which is good, but its inability to move up suggests a few stocks are being left behind.



NASDAQ vs. NASDAQ Bullish Percent: The story is the same at the Nas - the bullish percent is at a high, but it's having a hard time improving. Overall this is still bullish and supportive of the market.

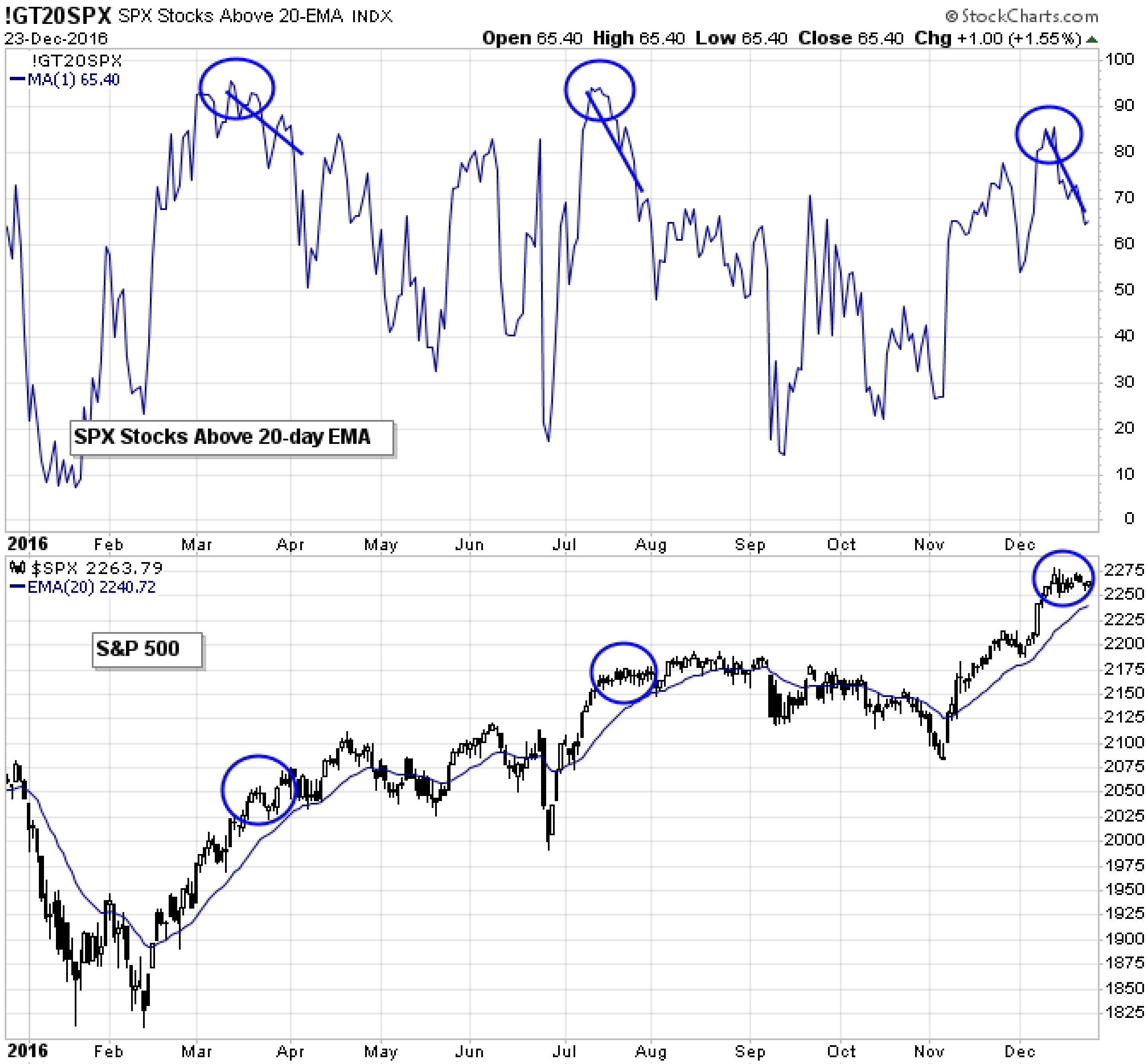


S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: The divergence between the S&P 500, which is 200 points above its 200-day MA, and the percentage of individual S&P stocks above their own 200-day MAs is as clear as can be. Many less stocks have participated in the post-election rally than the post-Brexit rally. It's a concern. A market that is pulled higher by an ever smaller number of stocks cannot continue for long.

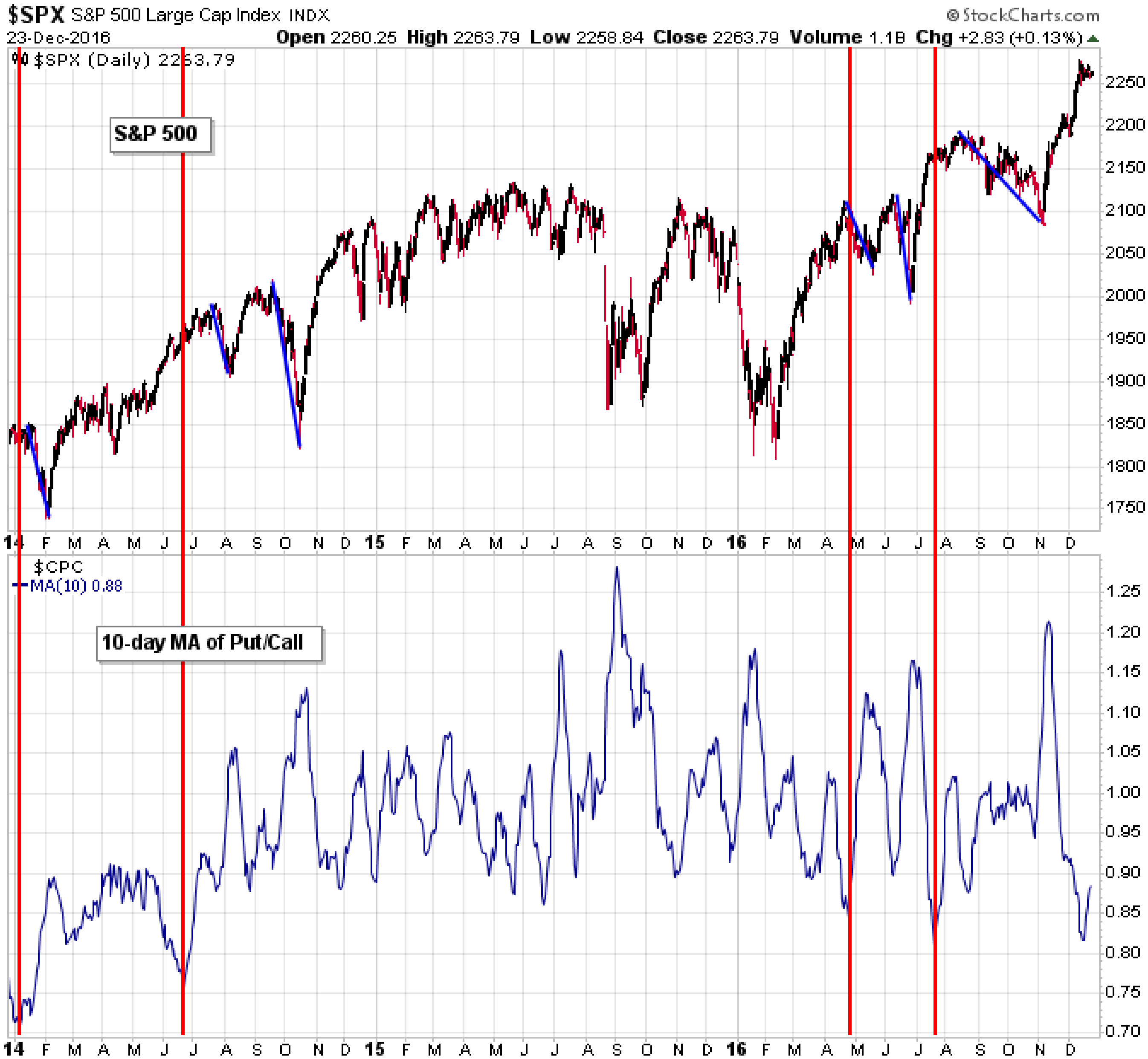


S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: The percentage of stocks above their 50-day MAs is less than what was registered in March and July, but it's still at a decent level. I'm going to say it's good enough, but if it declines much, the market's upside will be limited.

S&P 500 vs. Percentage of SPX Stocks Above 20-day EMA: The percentage of stocks above their 20-day EMAs suggests a further rest is needed. This shouldn't be overly alarming. The market has spent this entire year moving up and then sideways. Given the gains in place since early November, an extended rest simply continues the pattern.



S&P 500 vs. 10-day MA of Put/Call Ratio: The 10-day of the put/call is bouncing. In the past, the market tended to correct immediately or a month later. In either case, a drop did take place.



US Dollar: From a chart pattern standpoint, the dollar looks fantastic. A 20-point rally was followed by nearly two years of consolidation, which has been followed by a breakout and a little follow through. First target 108; second target 120.

US Dollar vs. the Ratio of the Russell 1000 Large Caps/Russell 2000 Small Caps: When the large caps have under-performed the small caps, indicated by the bottom pane of this chart moving down, dollar rallies have stalled and dropped. It's the one sliver of hope for those who don't want the dollar to rally.

The Bottom Line

Overall the market looks great. The trend is solidly up, and there are no major, long-term warnings.

There are however some short-term warnings, so odds right now favor either a minor pullback at some point in the next few weeks or at the very least more sideways movement that allows the indicators to cycle down and the charts to reset themselves.

This is what I'm looking for - limited upside or a minor dip to play out...then a continuation of the uptrend and more, across-the-board new highs.

If you're a longer term trader or investor, you can probably sit tight...although always have a plan for each position.

If you're shorter term, trades to the long side are still doable, but recognize we're looking for quicker traders, not the beginning of big moves.

Have a great week (if you're around). I doubt much will happen.

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