Leavitt Brothers

LB Weekly

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The worst week since October has been followed by a solid up week that has put the indexes at or near all-time highs. The trend is up; it's been up for a while; and as of now there are no major warnings a trend change is underway.

Any fear flipping the calendar from 2016 to 2017 would act like a major news event that suddenly trumped the charts has passed. The new year has started with 3 of 4 up days, and there's nothing in the charts to suggest Wall Street even recognized a new year started. It has literally been business as usual.

The latest employment figures have been released, and while they caused a little movement in the futures market before the opening bell Friday, they too have been taken in stride.

Major events on the horizon include Trump's inauguration (Jan 20), the next FOMC meeting (Feb 1) and the next earnings season (starts mid January). These events could act as inflection points, but the technical picture remains very good.

At the risk of sounding too cocky or confident, you can't be anything but long here. The trend is too obvious and too well-supported to ignore. Only a perma bear (are there any left) that hopes for the worst and pays no attention to what's taking place could possibly not see what's happening. I know I'm preaching to the choir here because anyone reading this has had a bullish bias for a long time, but it just confuses the heck out of me that there are still gloom and doomers out there that literally will stand in front of a runaway freight train and be in total denial.

I also can't emphasize enough that tops take time to form - several months - so even if a top was destined to form in 2017, it would take several months. That means a legit correction wouldn't likely to play out until the summer or fall.

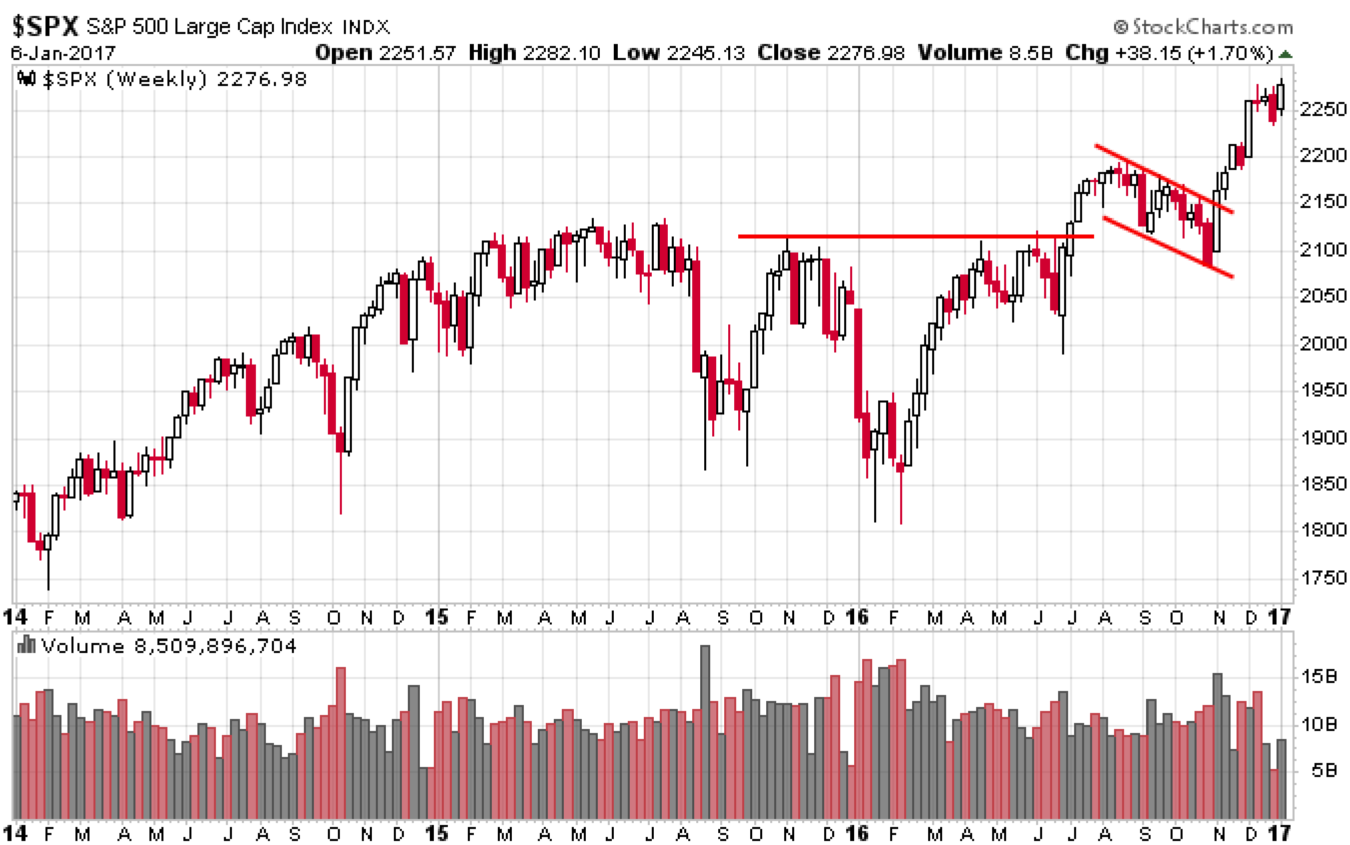
Little divergences between the indexes and breadth indicators cause mini dips that last a few weeks and go for 5%. But bigger corrections - ones that last 6-12 months, turn the public negative and induce some fear - require those same divergences to last many months before playing out. And since we don't even have the beginnings of these key divergences, we are far from "many months" of divergences.

But since I don't want to throw all caution to the wind, here are a few reasons to not be 100% all in. 1) The indexes are somewhat stretched, and if they breakout and run for a few weeks, they'll really be stretched. The S&P is, after all, 200 points off its election bottom, so if it busts out and runs another 100 points, it'll be "way up there" in nose-bleed territory. 2) Lagging groups are starting to catch a bid. Big cap tech has been lagging but is starting to move up - Facebook, Amazon, Netflix, Google, Apple and Tesla all did great last week. Health care stocks (mostly drugs and biotech) are moving up. When lagging stocks catch a bid, a conclusion we can draw is there is no longer a wall of worry. The trends which last long come with some doubt and skepticism, but when there is no doubt and things start to get euphoric, it's time to stop and think. These are my two biggest worries - a blow-off top that has the market clicking on all cylinders and no groups left behind. Irrational exuberance anyone?

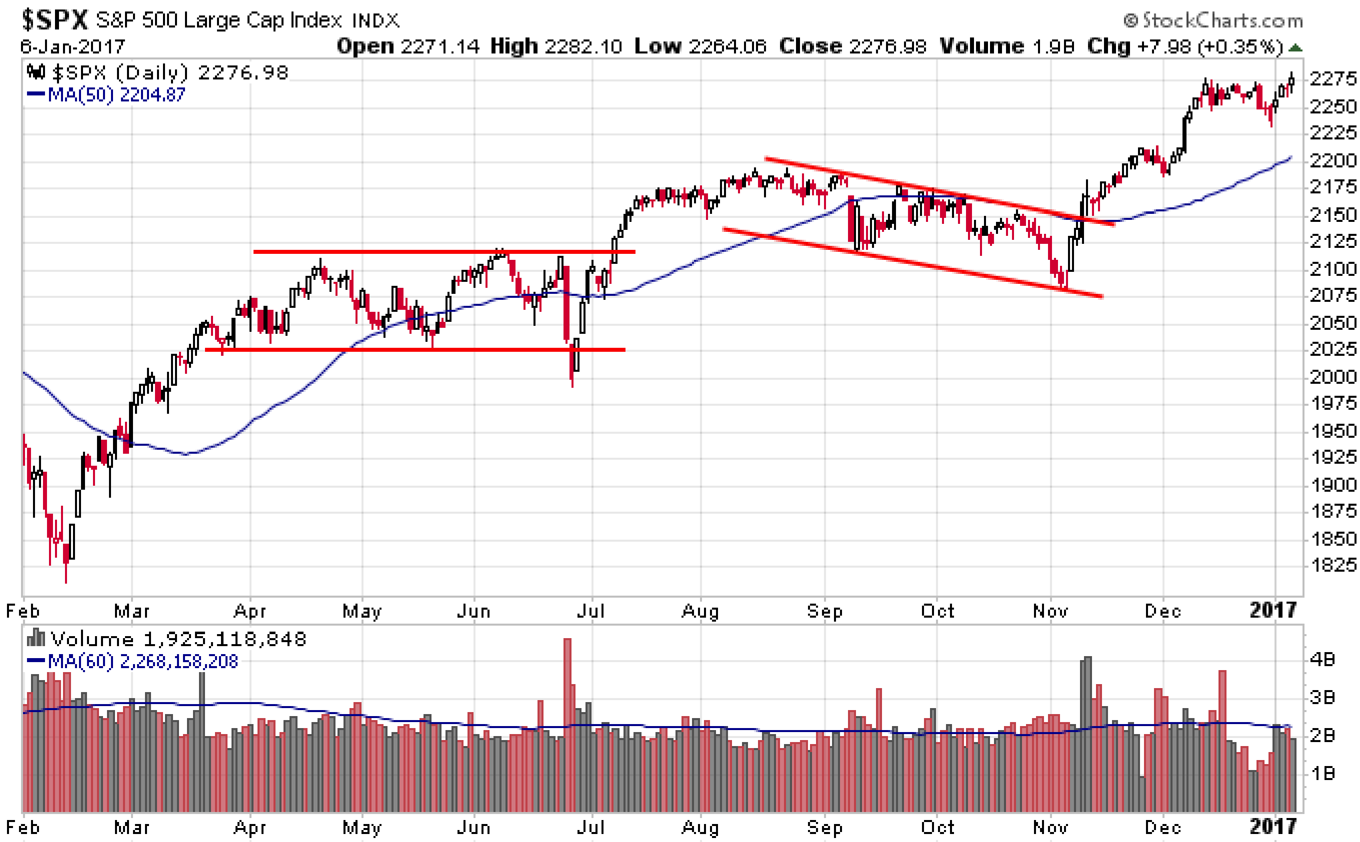
For now the long side is the only side to be on. Let's get to the charts and see if any subtle hints are forming beneath the surface.

Indexes

The S&P 500 Weekly: Pretty chart. After consolidating for two years, the S&P broke out last summer. It ran up for a few weeks and then traded in a downward-sloping channel for three months. A volume breakout followed, and now the index is at an all-time high. Textbook bullish action.

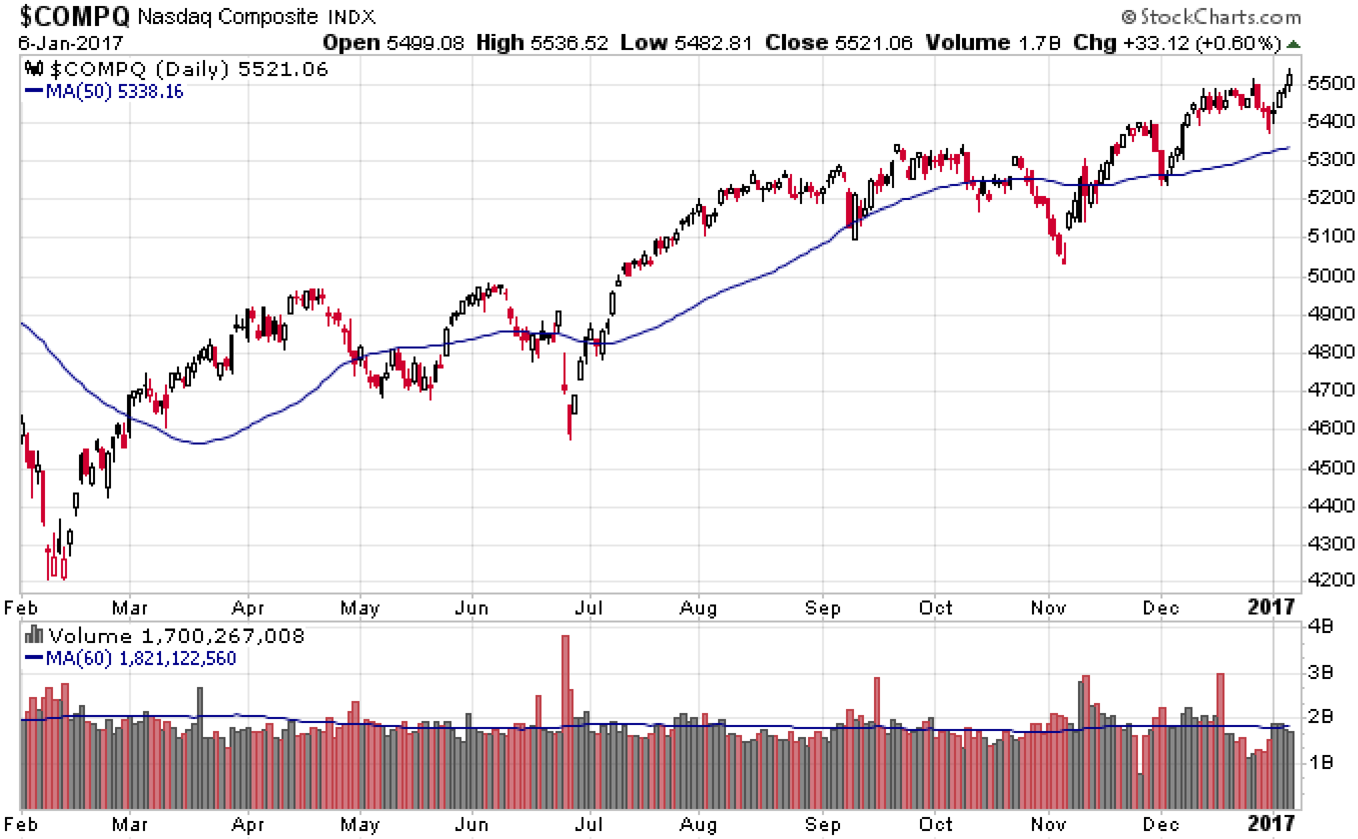


The S&P 500 Daily: Zooming in on just the last year, the daily price action is very orderly. The index moved up and then consolidated. Then it moved up and consolidated again. Now it's rallying. A little extended? Maybe. But overall it looks great.



The Dow: The Dow is also doing great.

The Nasdaq: The Nas has moved to a new all-time high.

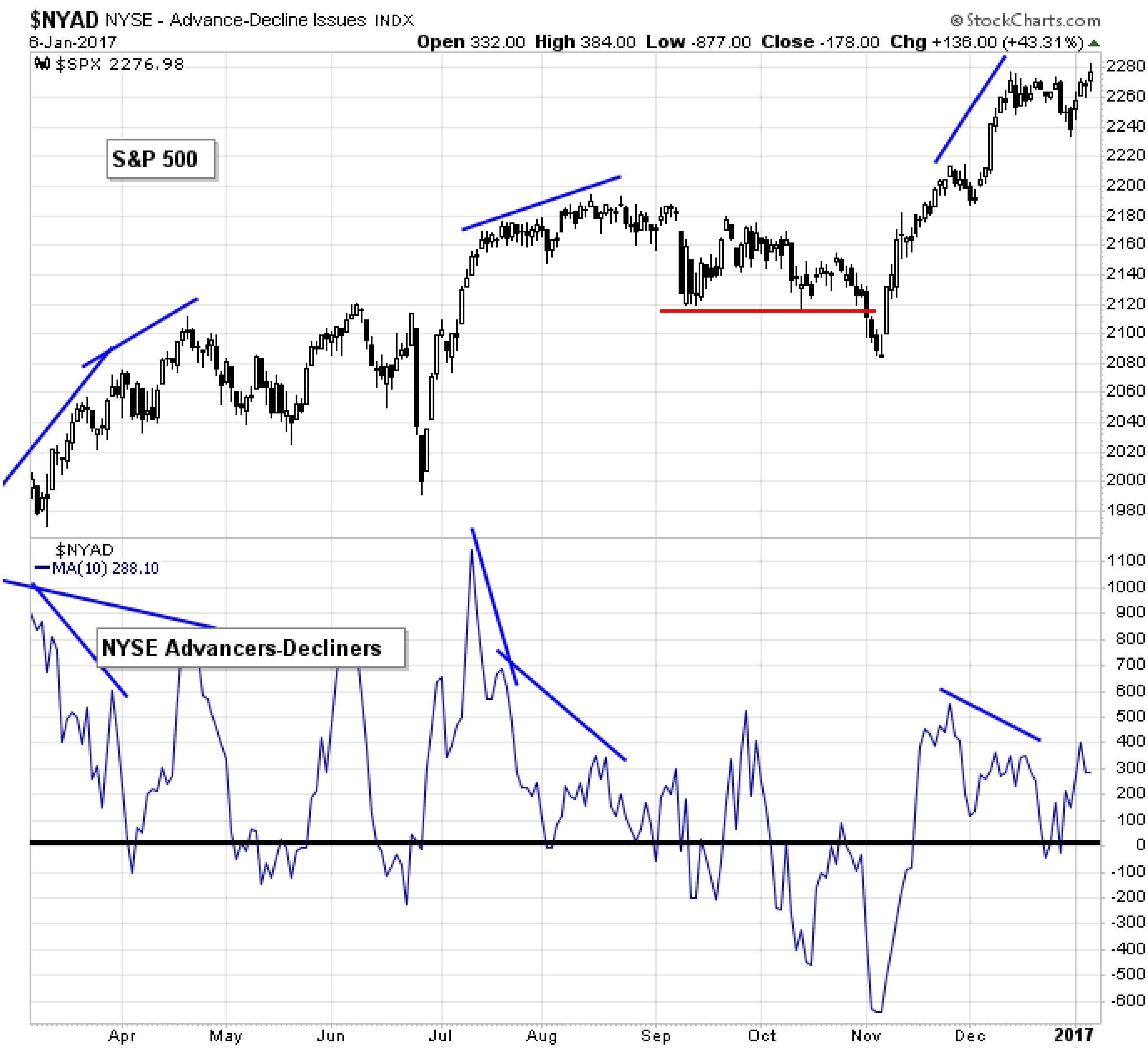


Russell 2000: The Russell small caps are quietly trading in a small range near their high. Subtle hint they didn't move to a new high with the other indexes? We'll see.

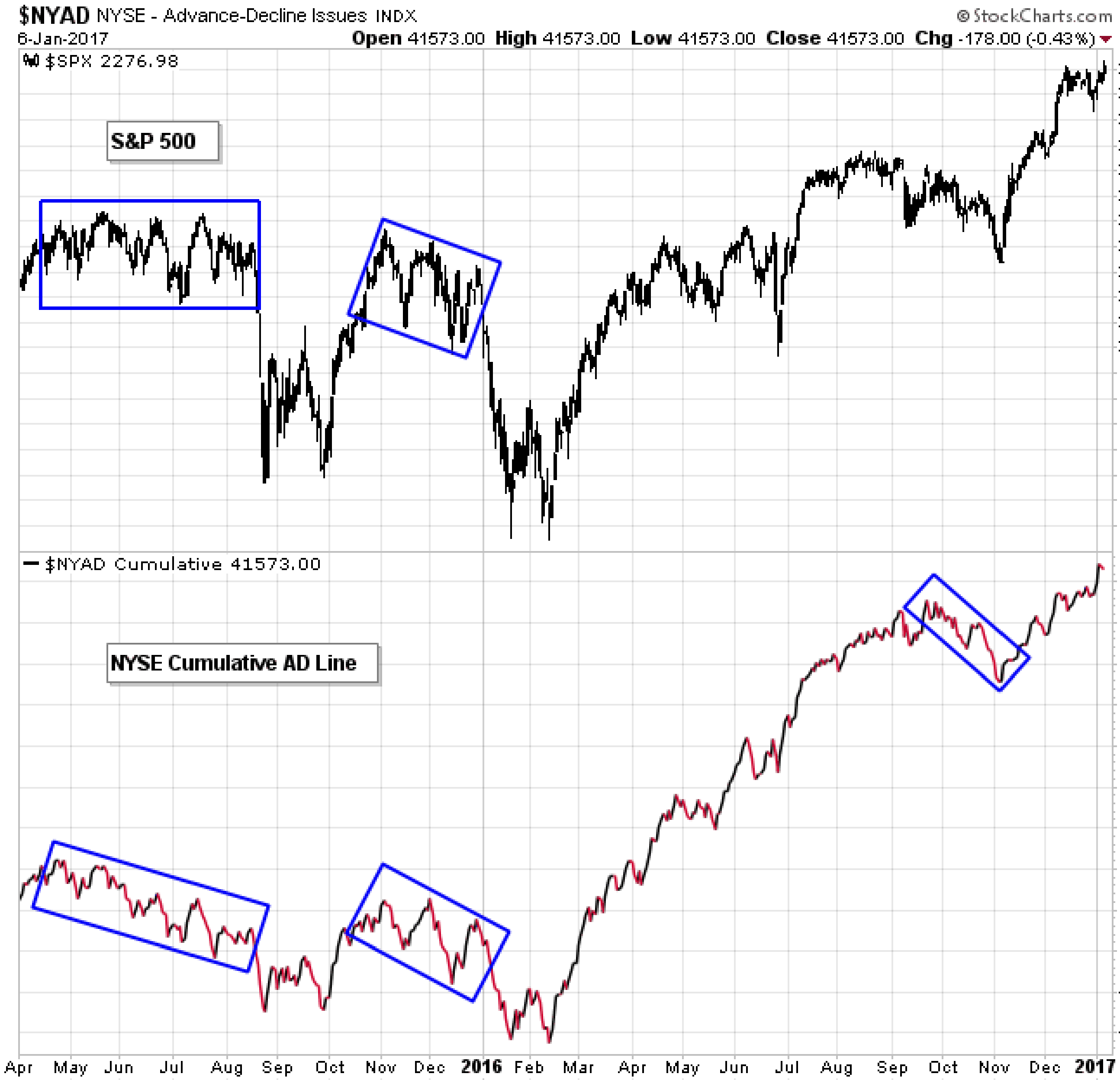
So the indexes are all on board. Every one is at or near their all-time high. There are no major laggards or divergences.

Indicators

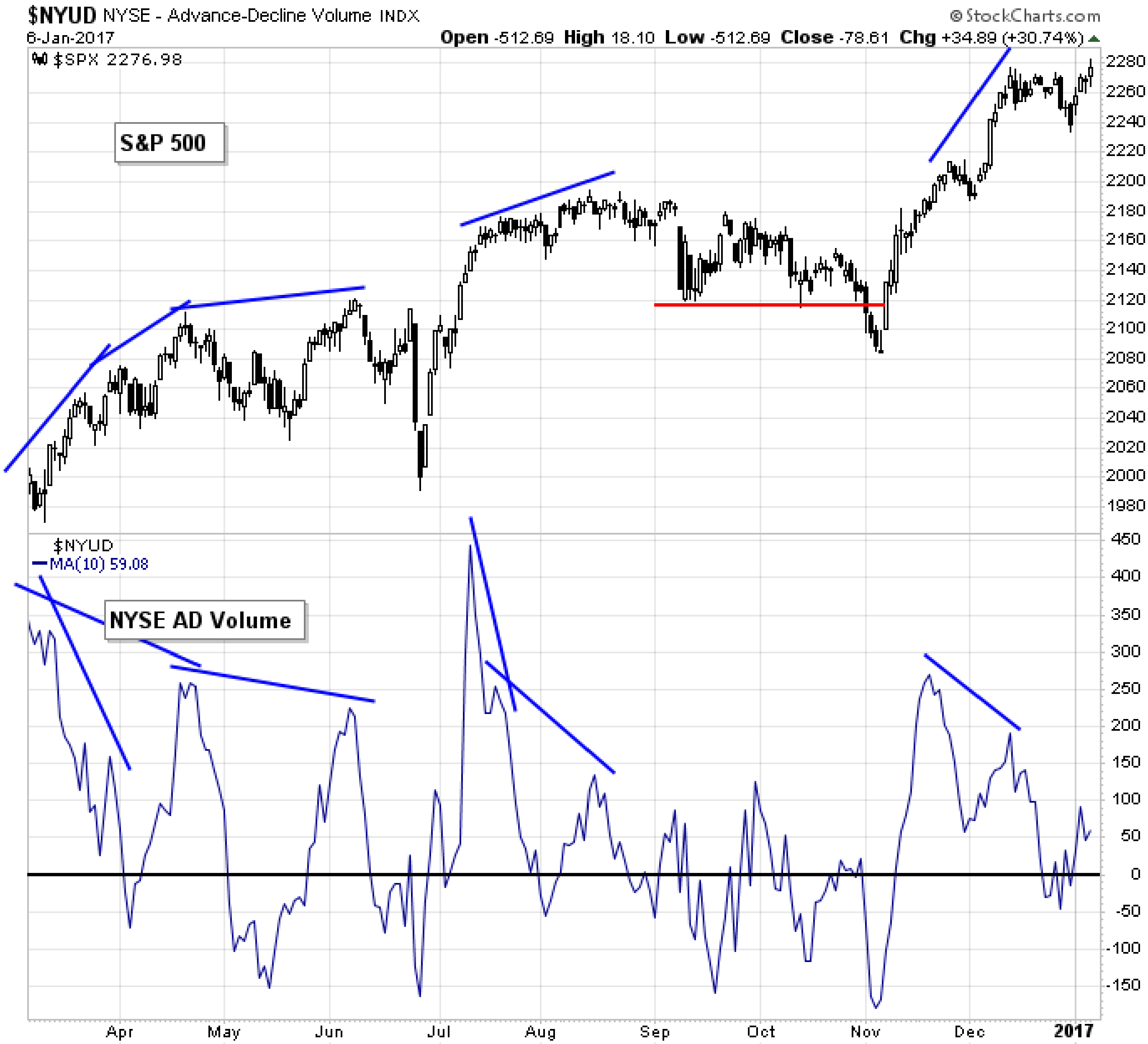
S&P 500 vs. 10-day MA of NYSE AD Line: The 10-day of the AD line moved to a higher high but couldn't match its last two highs or come close to its summer high. This should change next week when one of those big down candles fall off the calculation. In any case, steady prints above 0 are bullish - advancers are consistently beating decliners. This is good support for an uptrend.



S&P 500 vs. NYSE Cumulative AD Line: With steady prints above 0, the cumulative AD line continues to do well. It takes a several-week divergence to induce a correction. It takes a several-month divergence to cause a legit pullback. Neither are even in beginning stages.



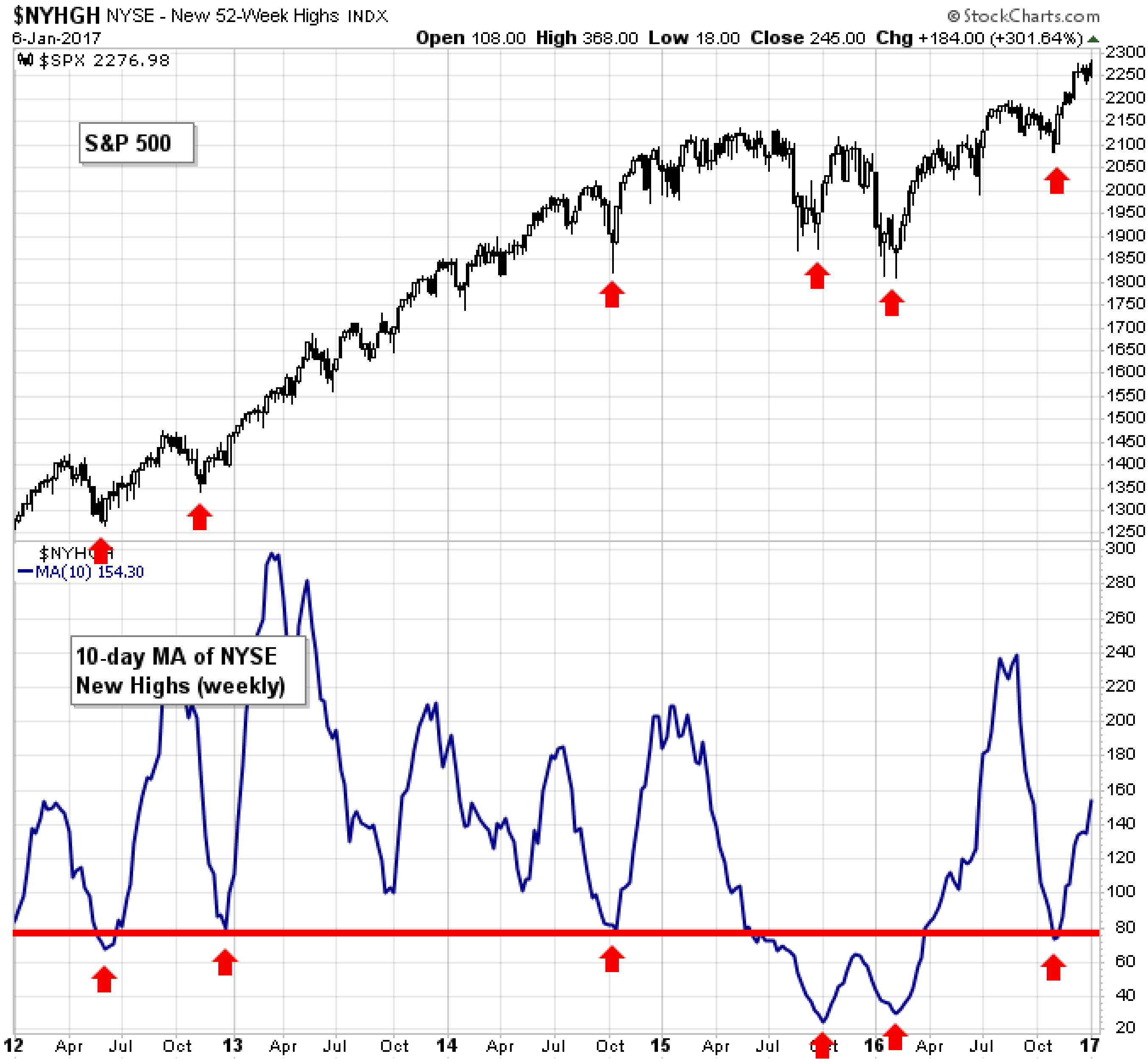
S&P 500 vs. 10-day MA of NYSE AD Volume Line: Despite the market "clicking," the 10-day of the AD volume line hasn't been able print a high level in several weeks. With all the indexes at or near new highs, this indicator tells us that while advancers are beating decliners, volume isn't very strong. It's notable.



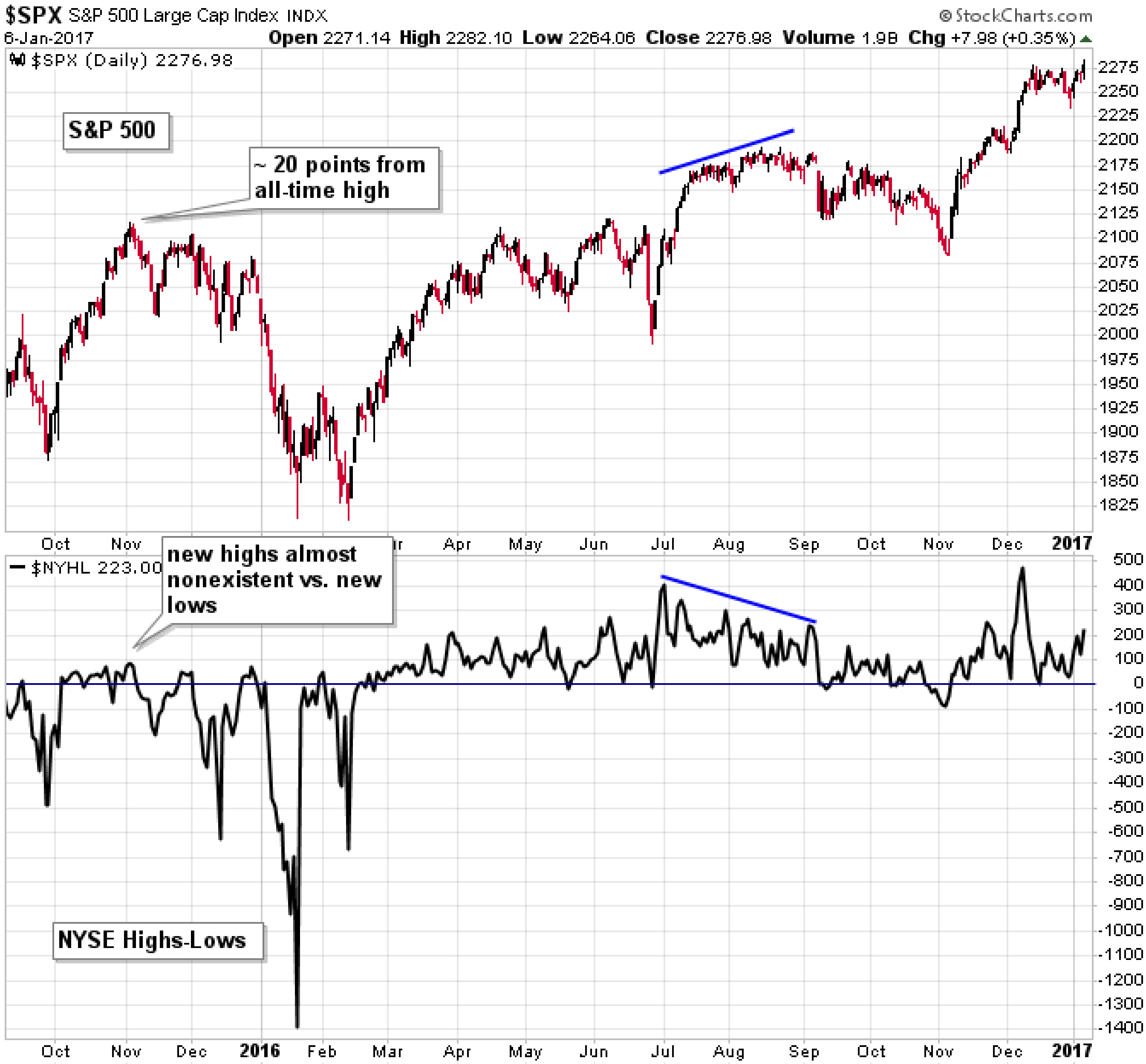
S&P 500 vs. NYSE Cumulative AD Volume Line: But despite the lack of spikes from the 10-day AD volume line, steady prints have kept the cumulative version in an uptrend. A new high tells us the current rally has legs.

S&P 500 vs. NYSE New Highs: New highs at the NYSE ticked up last week, but considering the S&P moved to a new all-time high, you'd think or expect the number of individual companies accomplishing the same feat to be greater. We need more rapid expansion here.

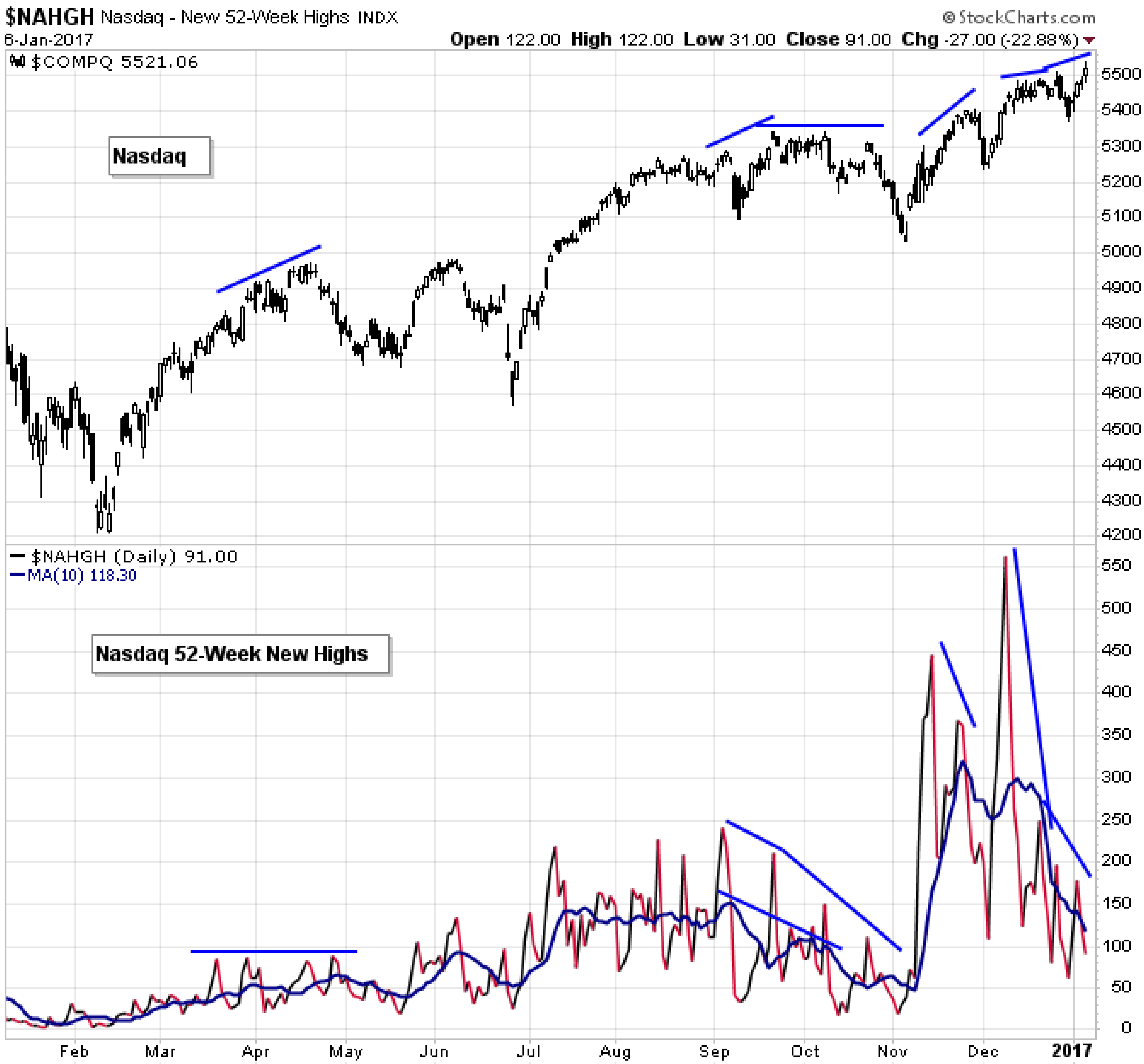
S&P 500 vs. NYSE New Highs (weekly): Weekly new highs at the NYSE have room to move before being considered overbought...and even when they do become overbought, we're told the market is strong and the trend tends to continue. It's not until the indicator drops below 0 that we're warned something more ominous is on the horizon. And that won't happen for a while.



S&P 500 vs. NYSE Highs-Lows: Highs aren't as high as we'd like, but lows are nonexistent such that the highs-lows chart is still in good shape. Prints near 0 should concern us; prints below 0 would be a definite warning. Neither are taking place right now.

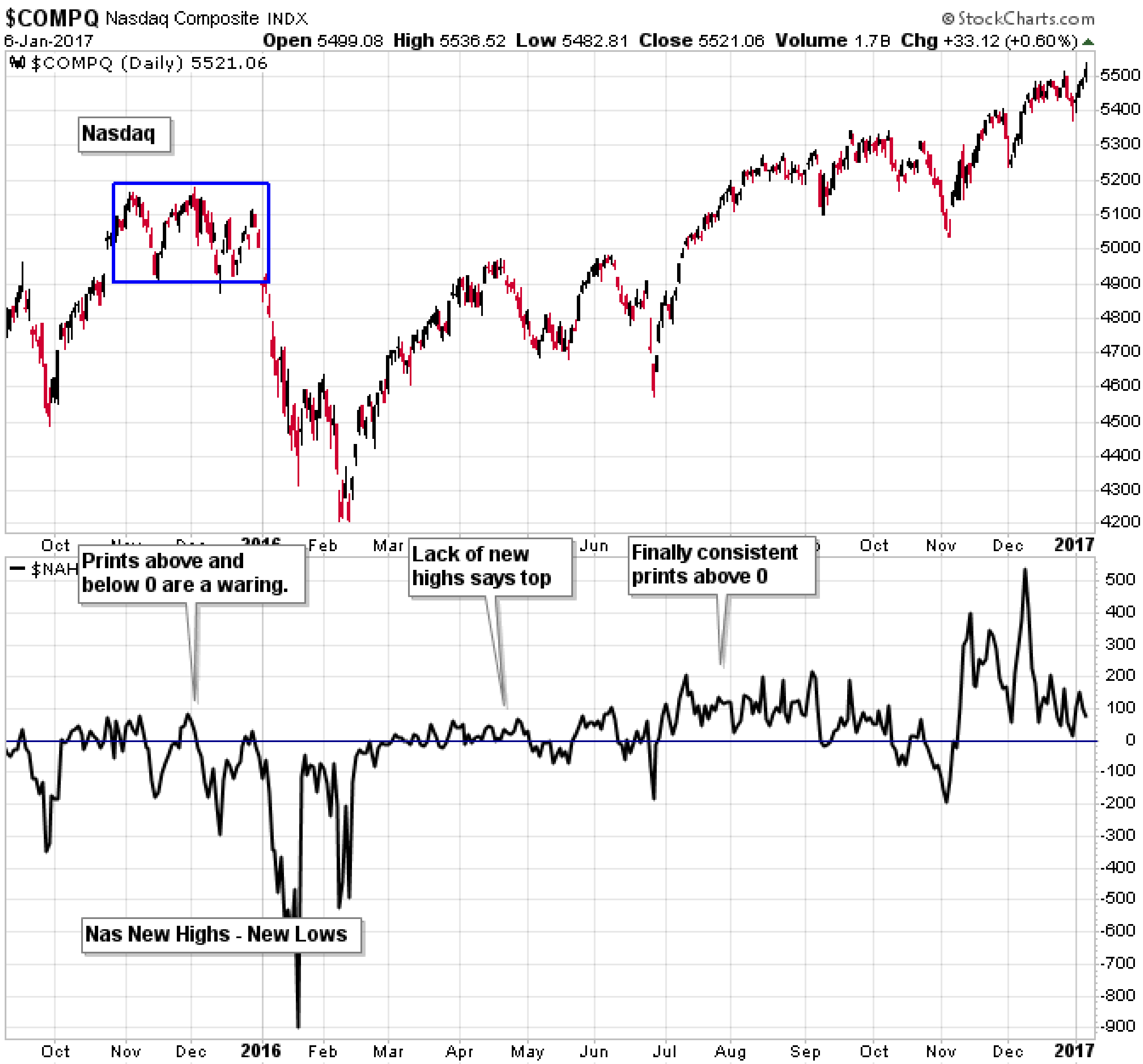


NASDAQ vs. NASDAQ New Highs: New highs at the Nas aren't much better off now than they were after the Brexit vote. There's a definite lack of participation here. The Nas is at an all-time high, but very few Nas stocks are doing the same.

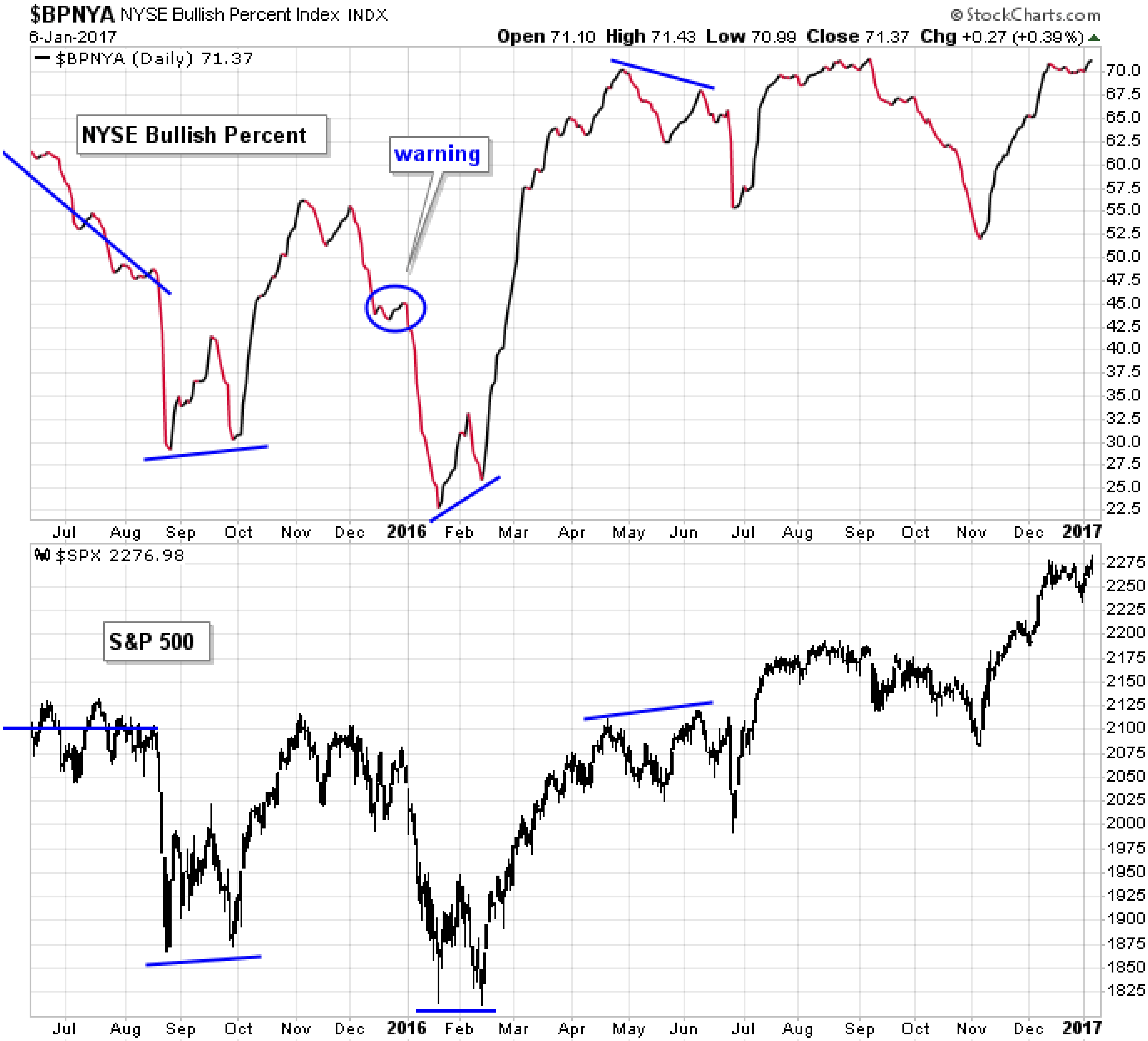


NASDAQ vs. NASDAQ New Highs (weekly): Weekly new highs at the Nas are doing well. This is a sign of strength, and strength often leads to more strength.

NASDAQ vs. NASDAQ Highs-Lows: Consistent prints above 0 for the Nas highs-lows chart are positive, but it's trending down. It's not a concern yet, but it's something to keep an eye on. A lack of new highs or an uptick in new lows could push this indicator below 0 - something that should not happen if the market is strong.

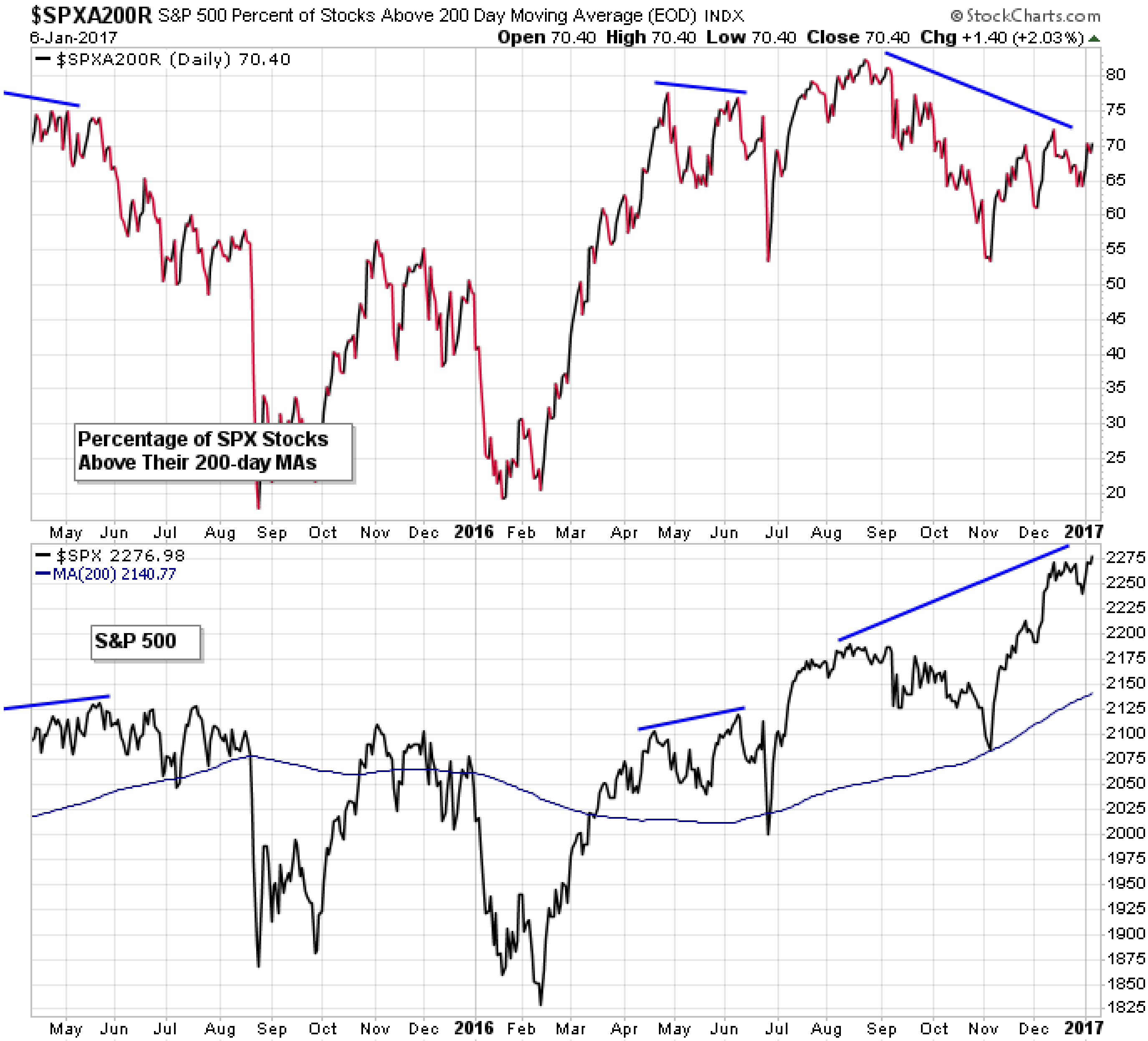


S&P 500 vs. NYSE Bullish Percent: The bullish percent at the NYSE still can't budge. During the 2013 bull run, this indicator consistently printed in the high 70's.

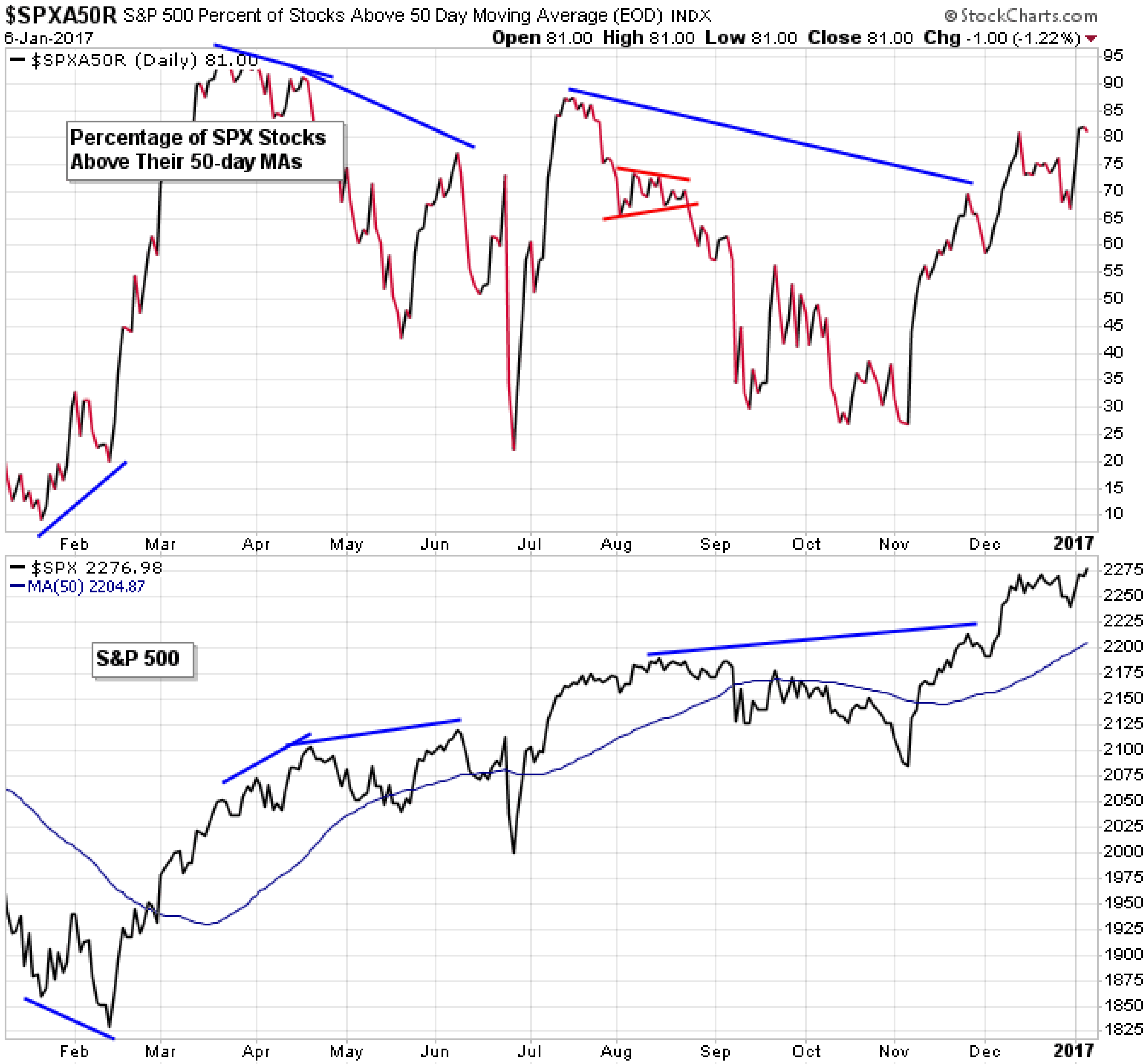


NASDAQ vs. NASDAQ Bullish Percent: The bullish percent at the Nas has finally ticked off the 65 level and has matched the market's higher high.

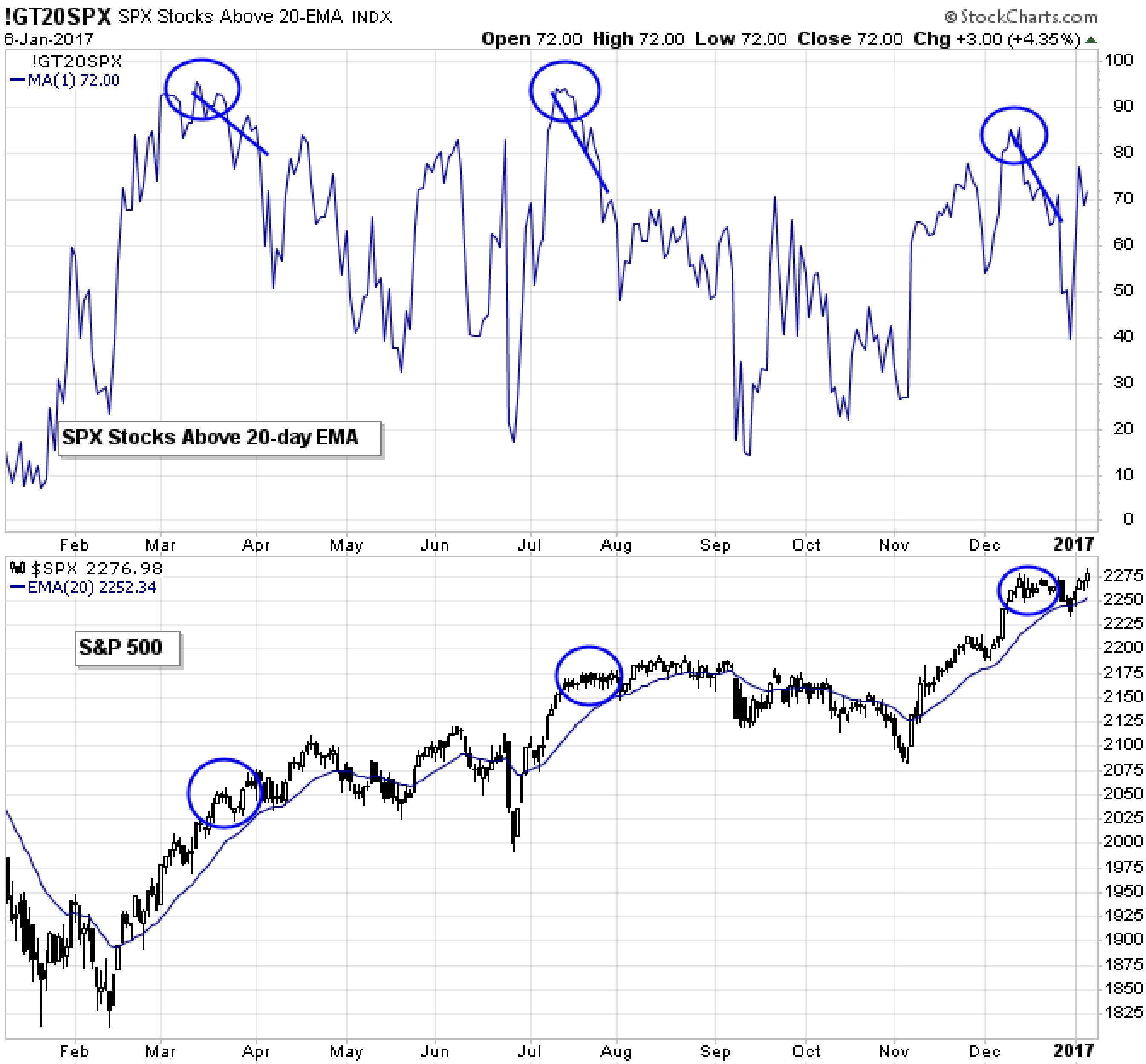
S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: Despite the S&P being further above its 200-day MA than last August, the number of S&P stocks above their own 200-day moving averages hasn't come close to matching the previous high. It's notable. The 12% gap between the two prints means 60 fewer companies have participated in the rally to the same extent. The participation rate must improve.



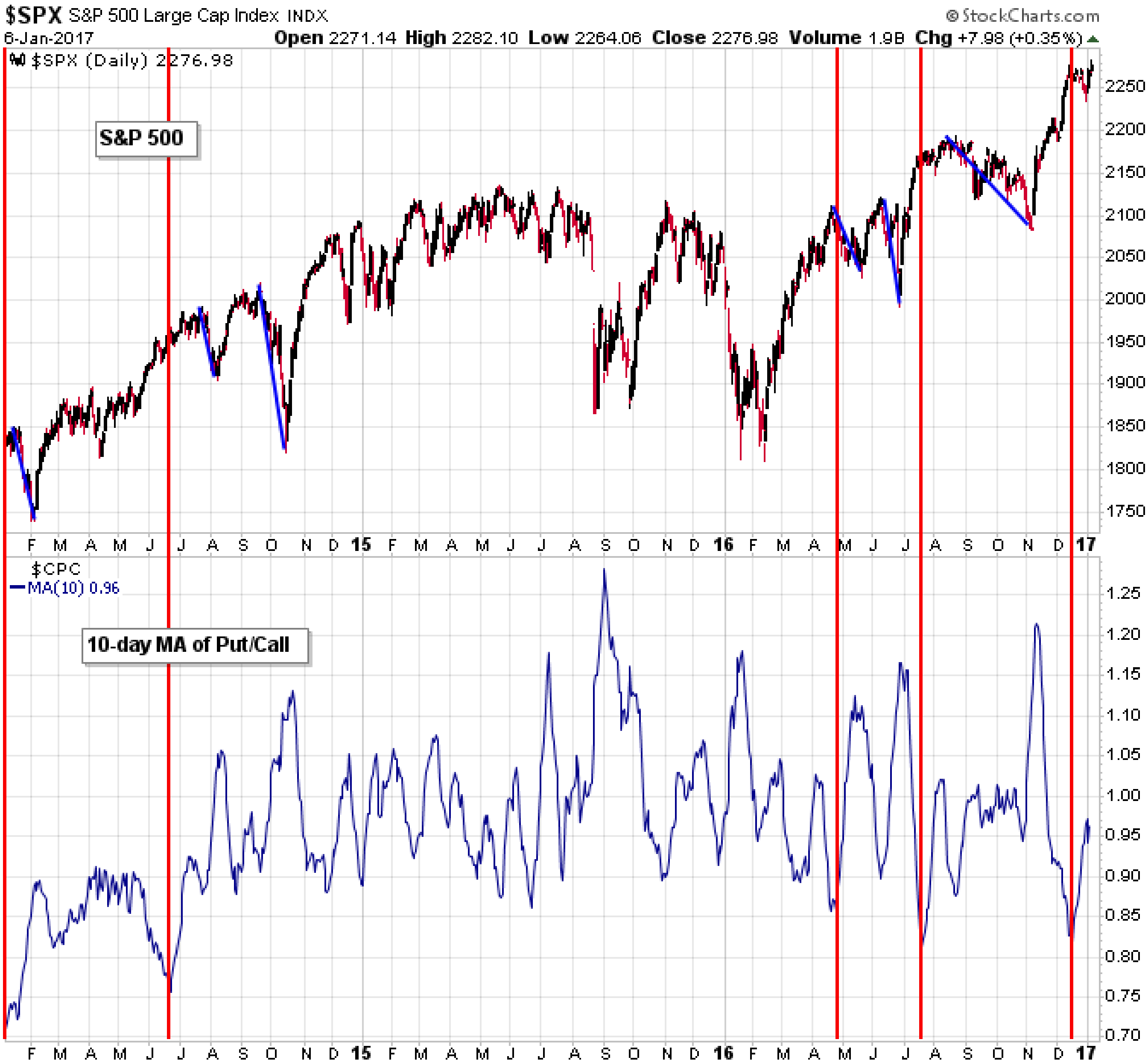
S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: Per the percentage of stocks above their 50-day MAs, the participation rate has improved a bunch. It's not quite what it was at previous high points, but it's at a healthy-enough level to not be a big concern.



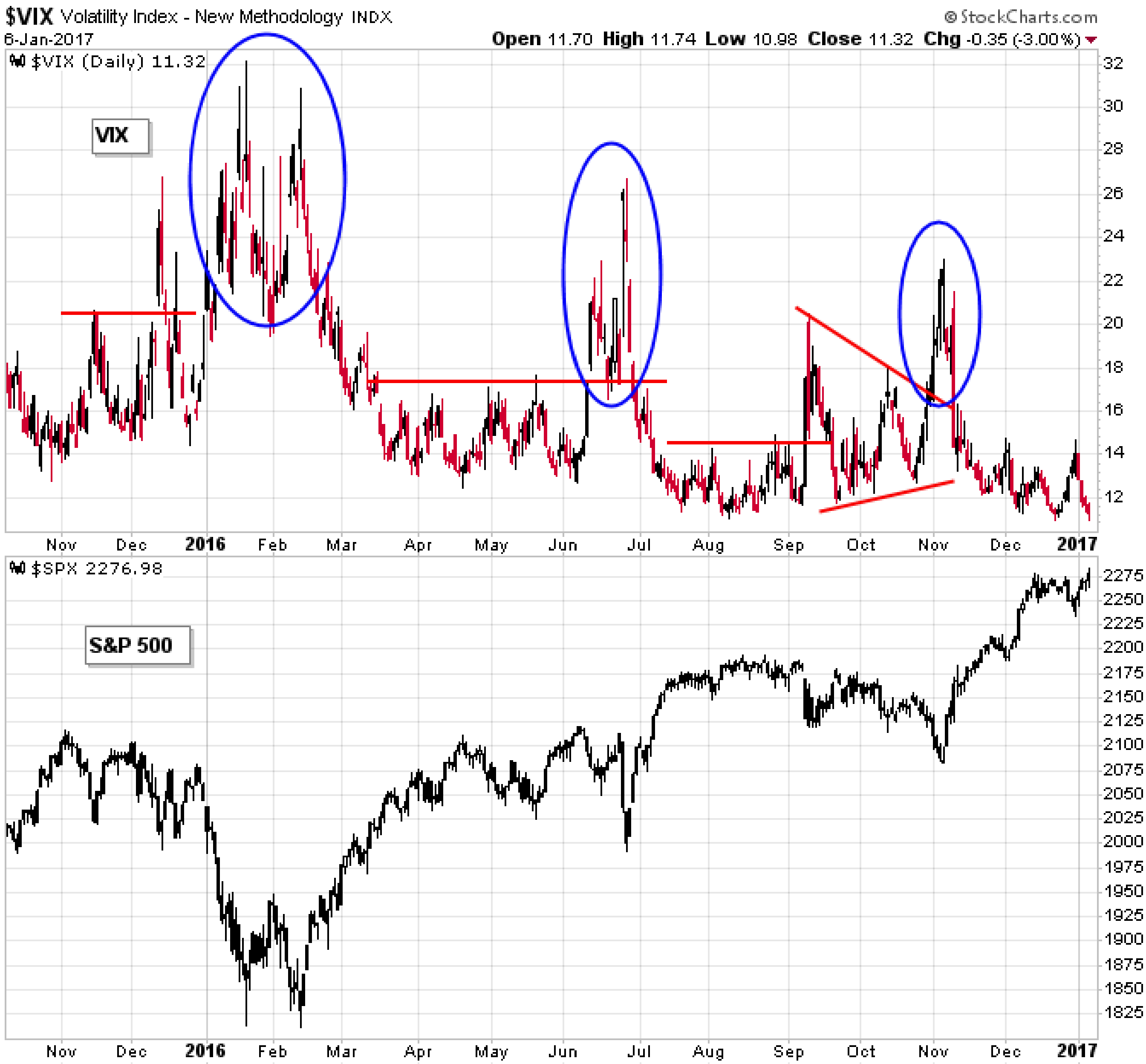
S&P 500 vs. Percentage of SPX Stocks Above 20-day MA: The percentage of SPX stocks above their 20-day EMA moved up but hasn't taken out its previous high. It's notable. A lack of participation hints at weakness brewing.



S&P 500 vs. 10-day MA of Put/Call Ratio: Bottoms from the put/call tend to coincide with local market tops. We got a small move down off the mid-December high, but that's been it. For now the market is completely ignoring this indicator.



S&P 500 vs. VIX: The VIX has dropped to a new low...and since it tends to base for a while before moving up, odds favor the current market environment continuing.



The Bottom Line

The trend remains up.

And a simple indicator, such as the cumulative AD line, which is trending up, tells us the current move has legs.

Bias remains to the upside. If the Dow can take out 20K, and the Russell 2000 can break out from its consolidation pattern, the market could run up another 5% very quickly. Last summer I set my S&P target at 2300-2400. A leg up from here puts the index near the top of this range.

The only side of the market to be on is the long side. Even if we get a pullback, you'll want to buy it. We are months away from a noticeable correction.

Have a great week.

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