Leavitt Brothers

Weekly

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The market has become the Energizer Bunny market - it keeps going and going and going. It continues to build gains on top of gains.

From a **technical** standpoint, there isn't much to dislike. The S&P tripled off its 2009 bottom, traded in a 300-point range for about 18-24 months, and is now in the process of breaking out. From a charting perspective there are only positive observations to be made. If the S&P was independent operating company, there's would be no reason to be anything but optimistic.

Beneath the surface, the breadth indicators support the movement of the market. The advance/decline line has looked great; the advance/decline volume line has done just as well. New highs are expanding; new lows are nonexistent. The bullish percent charts and percentage of stocks above various moving averages are in good shape. The purpose of studying market breadth is to gauge the participation rate. Sometimes the indexes tell one story, but the beneath the surface something else is going on. But this isn't the case right now. Breadth is in good shape; participation is good, or at least good enough (if you wait for everything to line up perfectly, it's too late; the move is over).

From a **fundamental** standpoint, there are reasons to be concerned. Earnings have declined. The fallout from the UK leaving the EU is not yet known (which means companies may opt to play it safe). Currency wars are taking place all over the globe. Many countries are taking on more debt than their GDPs. You couldn't be blamed for wondering if there's something pent up in the system, and if so, what will happen when it's unwound.

From a **world events** standpoint, I can't remember a time when the world was worse off. There is nonstop fight taking place. The Middle East has been a permanent war zone for decades, but it's spreading. Terrorist attacks in Europe. Bickering over a rock/island off the coast of China. Fears over crime at the Olympics. American is a divided country on many fronts. The world is no better off.

From a **psychological** standpoint, expecting higher prices is the only stance to harbor right now. Remember, analysts called the dot com bubble two years too soon. There is so much worry out there, so much fear. The AAII bulls recently dropped to a multi-decade low. Prominent operators who have long track records of success (George Soros, Stanley Druckenmiller) have become very bearish lately. Many Wall St. analysts have become completely baffled the market continues up. Heck, on Friday Credit Suisse warned stocks haven't looked this worrisome since the tech bubble. The bearish tone it thick. This is the proverbial "wall of worry." And in a sick way, this all sets the stage for prices to continue up.

So from a fundamental standpoint, there are reasons for concern. From a world events standpoint, you have to wonder who's buying given all that's taking place. From a psychological standpoint, Wall St. is very bearish. Yet, despite all this, the S&P just broke out to a new all time high.

If the invisible hand of the market is determined to confuse the most number of people at any given time...if it wants to make sure as few participants as possible benefit from a move...if it wants to piss off the most number of people...it's doing a great job, and it's very likely to continue moving up.

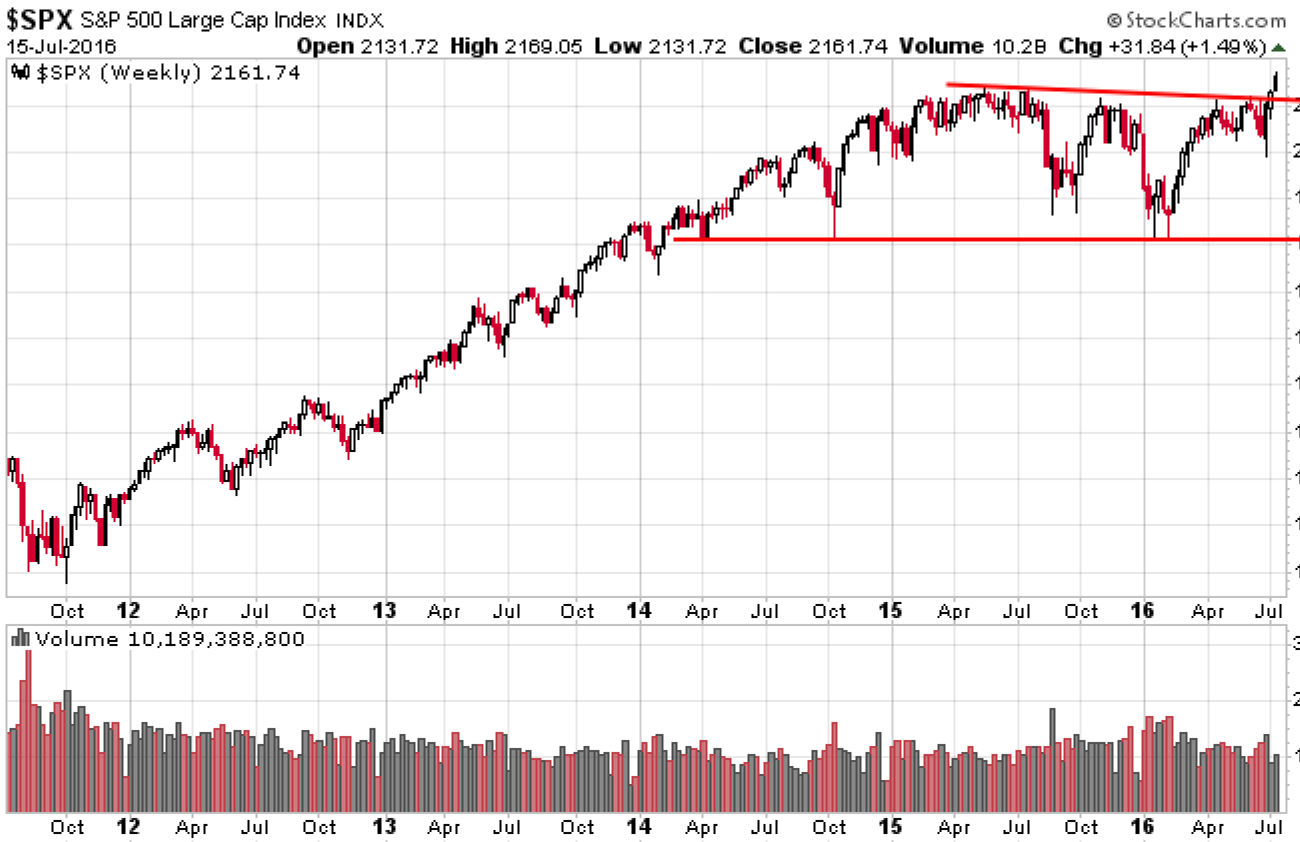
So many things point towards caution, yet the market just broke out to a new all-time high. It makes no sense, yet it makes perfect sense.

The more negative I see and hear, the more confident I become my S&P target (2300-2400) will be hit. Sick? Yes, but that's how Wall St. works. I learned long ago the market often doesn't make sense.

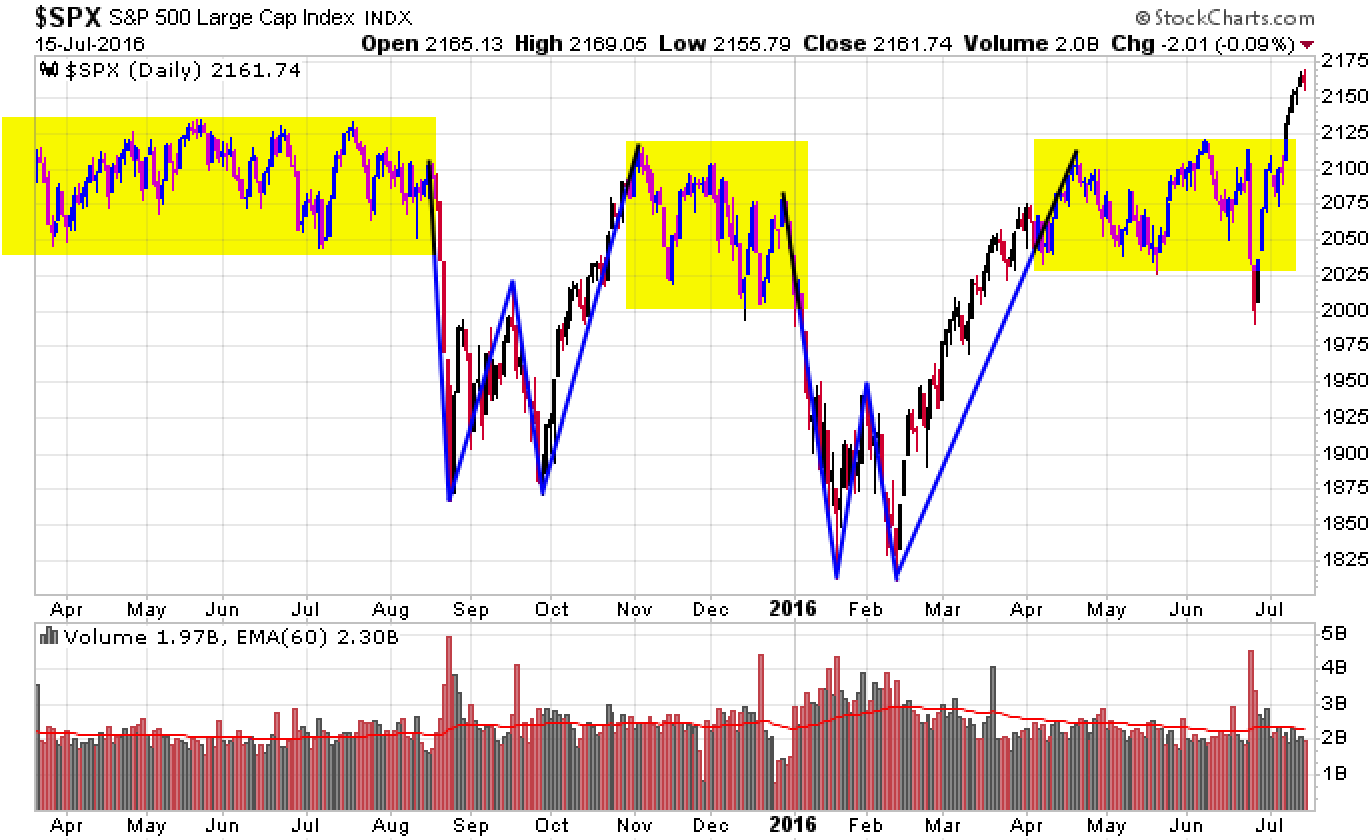
Let's get to the charts and see if there are any warnings out there.

Indexes

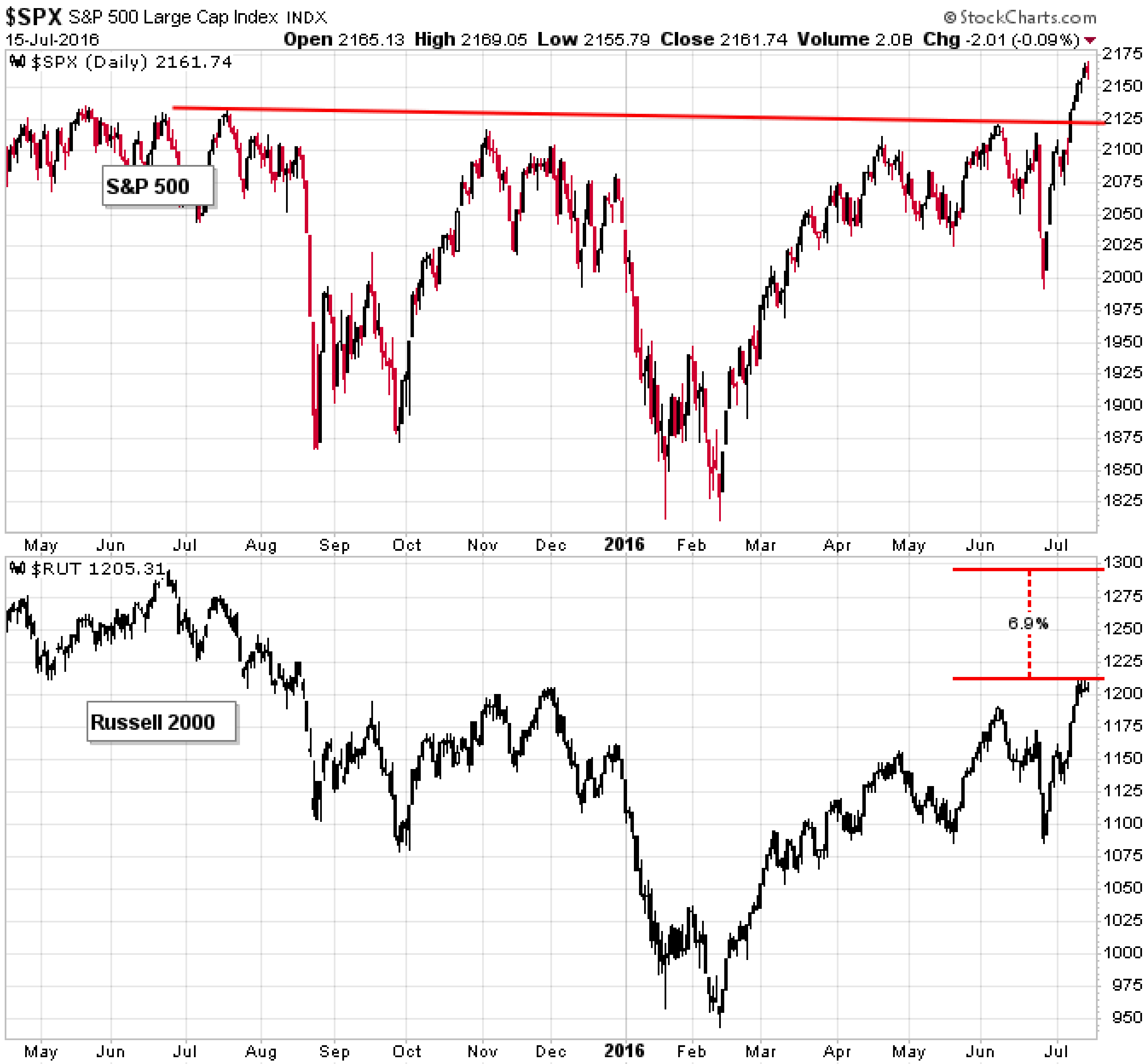
The S&P 500 Weekly: This is what I mentioned in the open. A big rally was followed by a 300-point range, and now we have a breakout attempt. It would be nice to get some follow through. Classic TA says we need 3% separation to confirm a move. This requires the S&P getting to about 2200. For now the trend is up, and the first measured target is 2400.



The S&P 500 Daily: First a move down to scare the bulls and get the bears excited, then a vertical move up...and the move up hasn't paused long enough to allow the bulls to add to positions. Gotta love this game. The market operates to make sure as few traders and investors as possible participate.

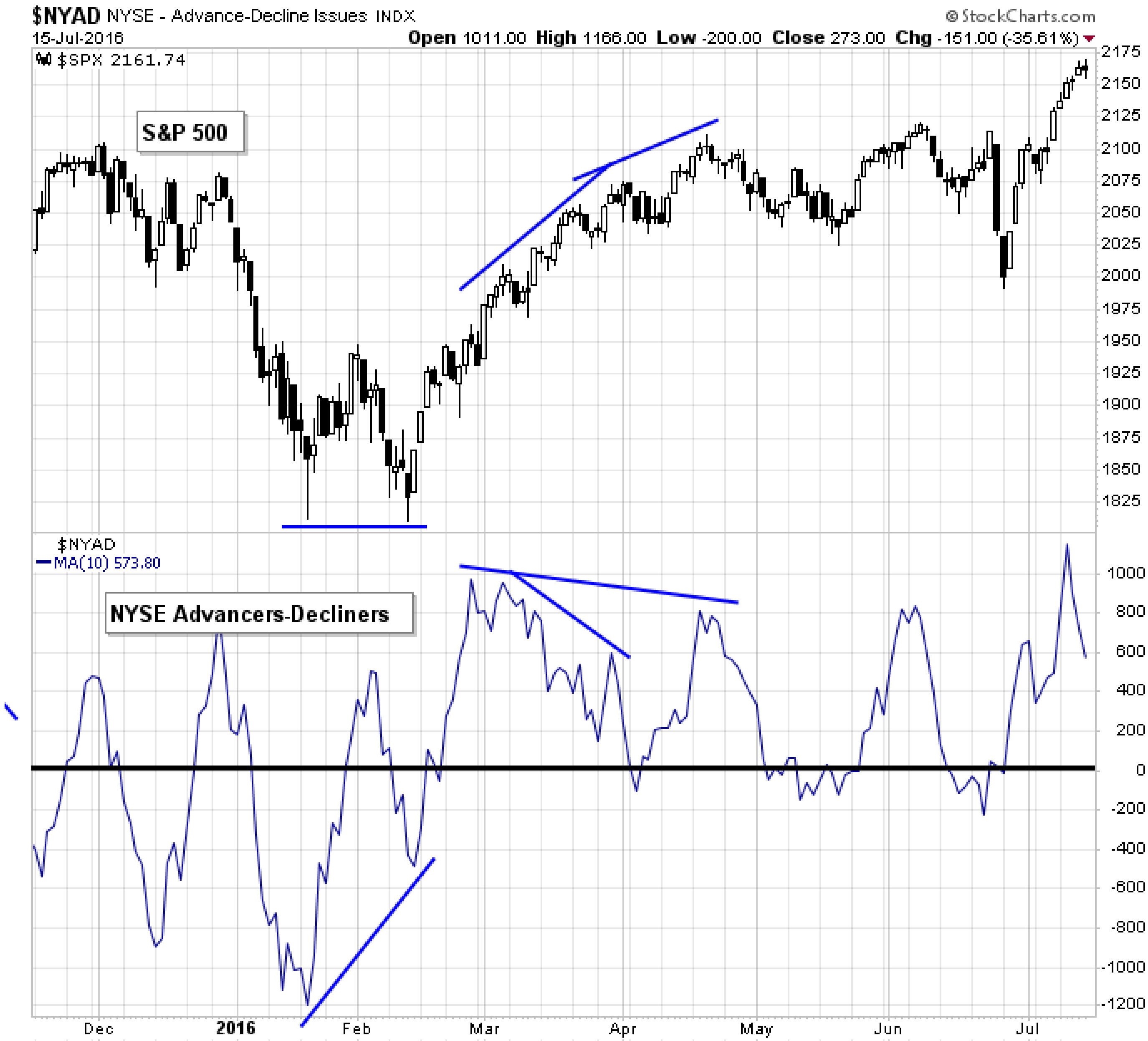


Small Caps (Russell 2000) vs. Large Caps (S&P 500): If there was a small technical warning it would come from the lagging small caps. The S&P is at a new high; the Russell is about 7% below it's high. But since the beginning of 2016, on virtually any time frame that encompasses this year's data only, the Russell is leading. I'm not going to read too much into this divergence right now, but by the time the S&P gets to 2200, I would like to see the Russell at its high.



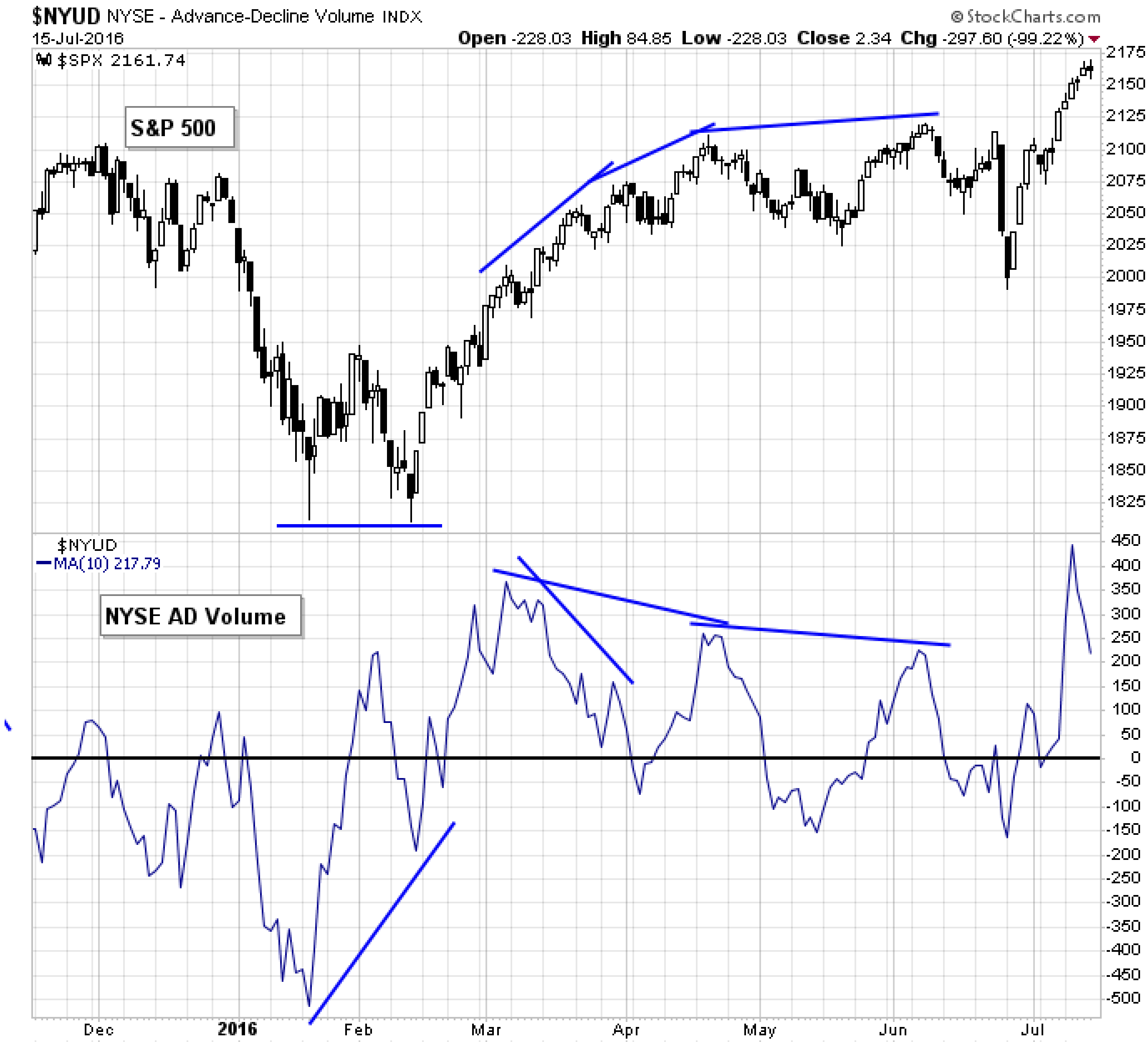
Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: The divergence between the S&P and the AD line that formed at the end of June has been invalidated. New highs for both. The participation rate is very good.



S&P 500 vs. NYSE Cumulative AD Line: With the consistent prints above 0, the cumulative AD has been in stealth mode since double-bottoming in January and February. There are no warnings here. The market rally is well supported.

S&P 500 vs. 10-day MA of NYSE AD Volume Line: The AD volume line has also negated its negative divergence. The recent high print near 450 is the highest print going back several years.

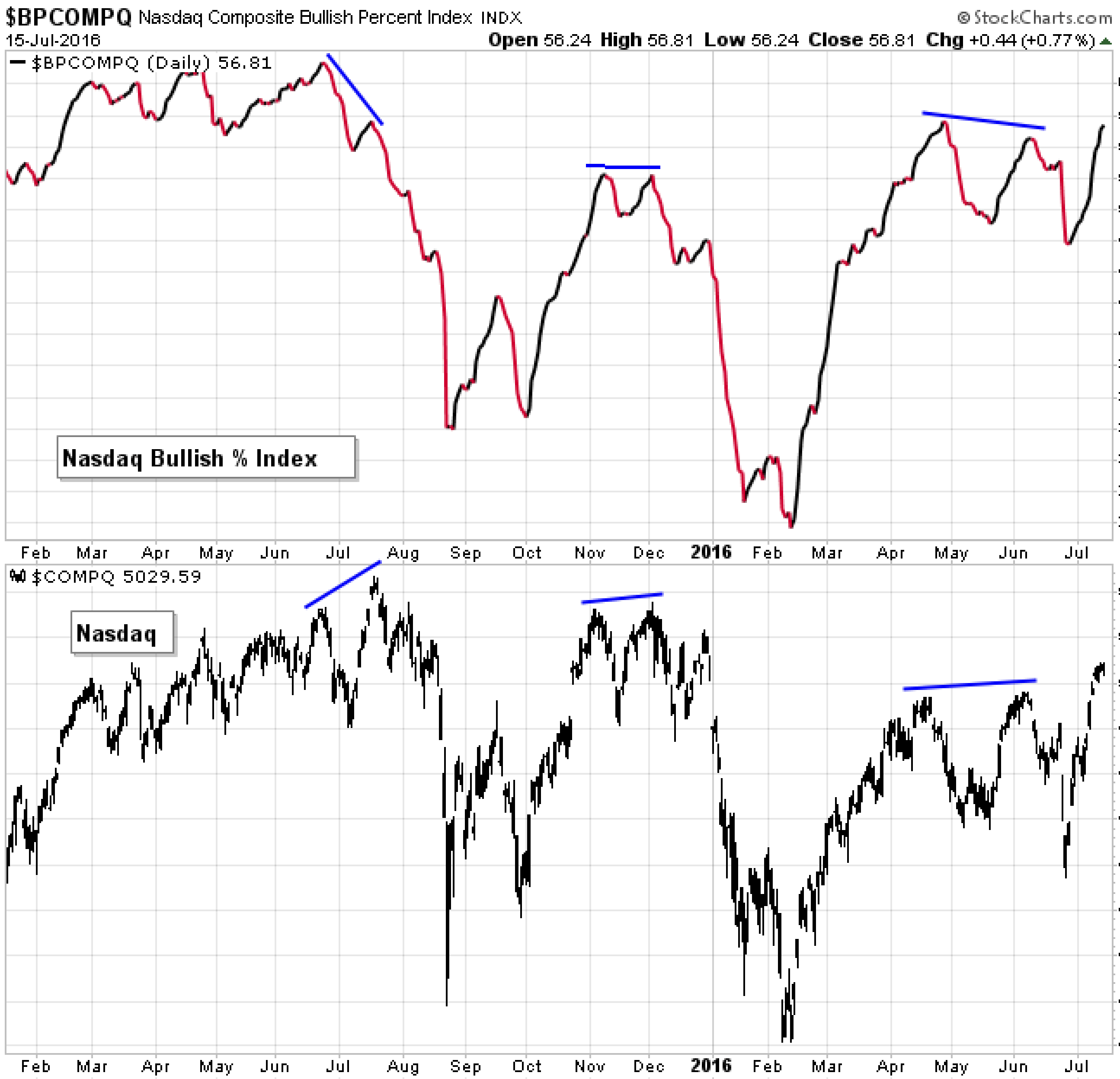


S&P 500 vs. NYSE Cumulative AD Volume Line: The cumulative AD volume line flattened out in May and June but never trended down. Then it broke out to a new high. There are no warnings here. The AD line gives equal weight to all stocks; the AD volume line allows the high-volume stocks to have more influence. In either case, the market's strength is supported.

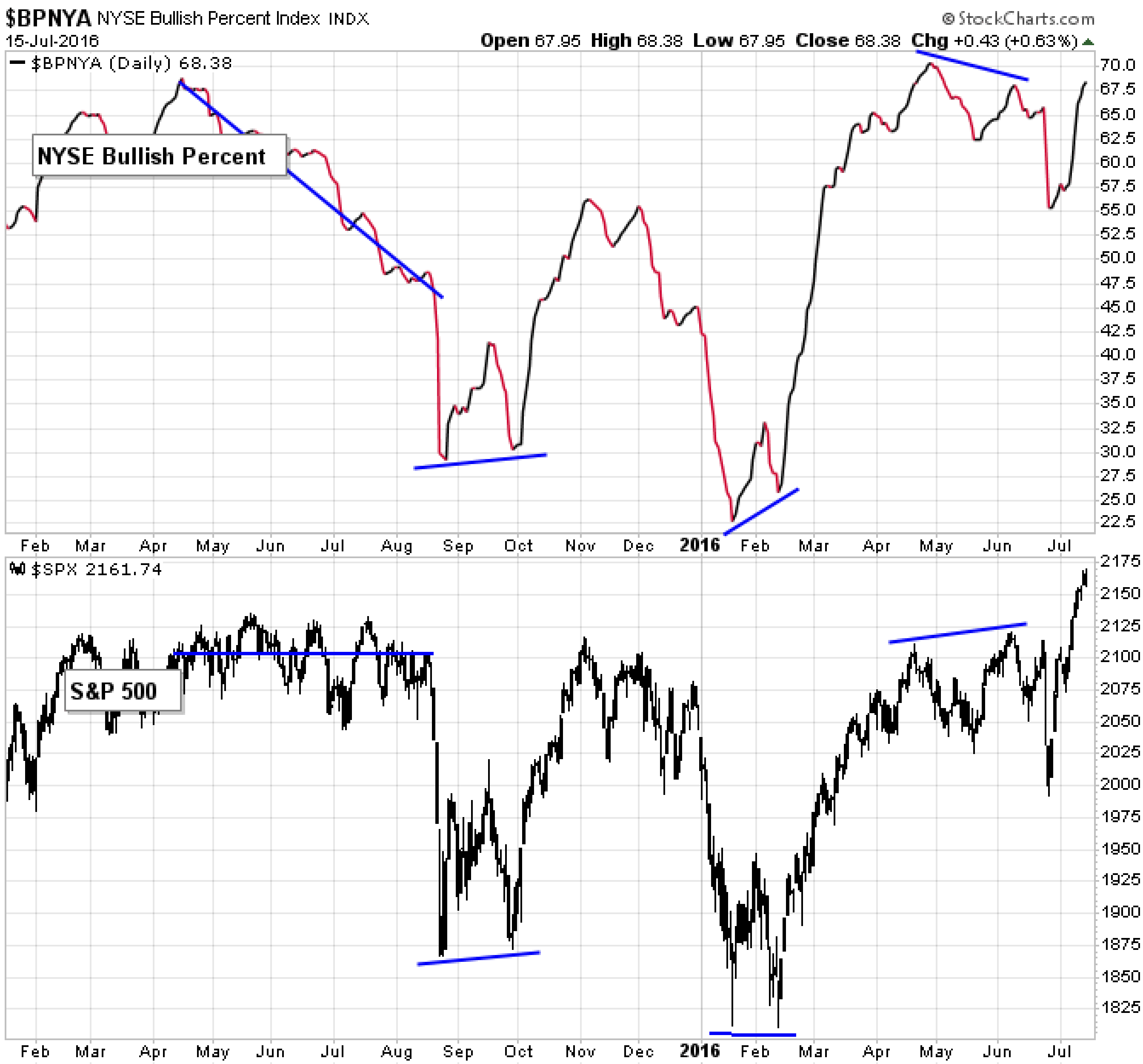
S&P 500 vs. NYSE New Highs: New highs continue to expand; the 10-day has reached its highest level since 2013. If new highs backed off while the market pressed to its own new high, it'd be a warning. But this hasn't happened.

NASDAQ vs. NASDAQ New Highs New highs at the Nas, which lagged for a while, continue to catch up. They're expanding and supportive of the market's strength.

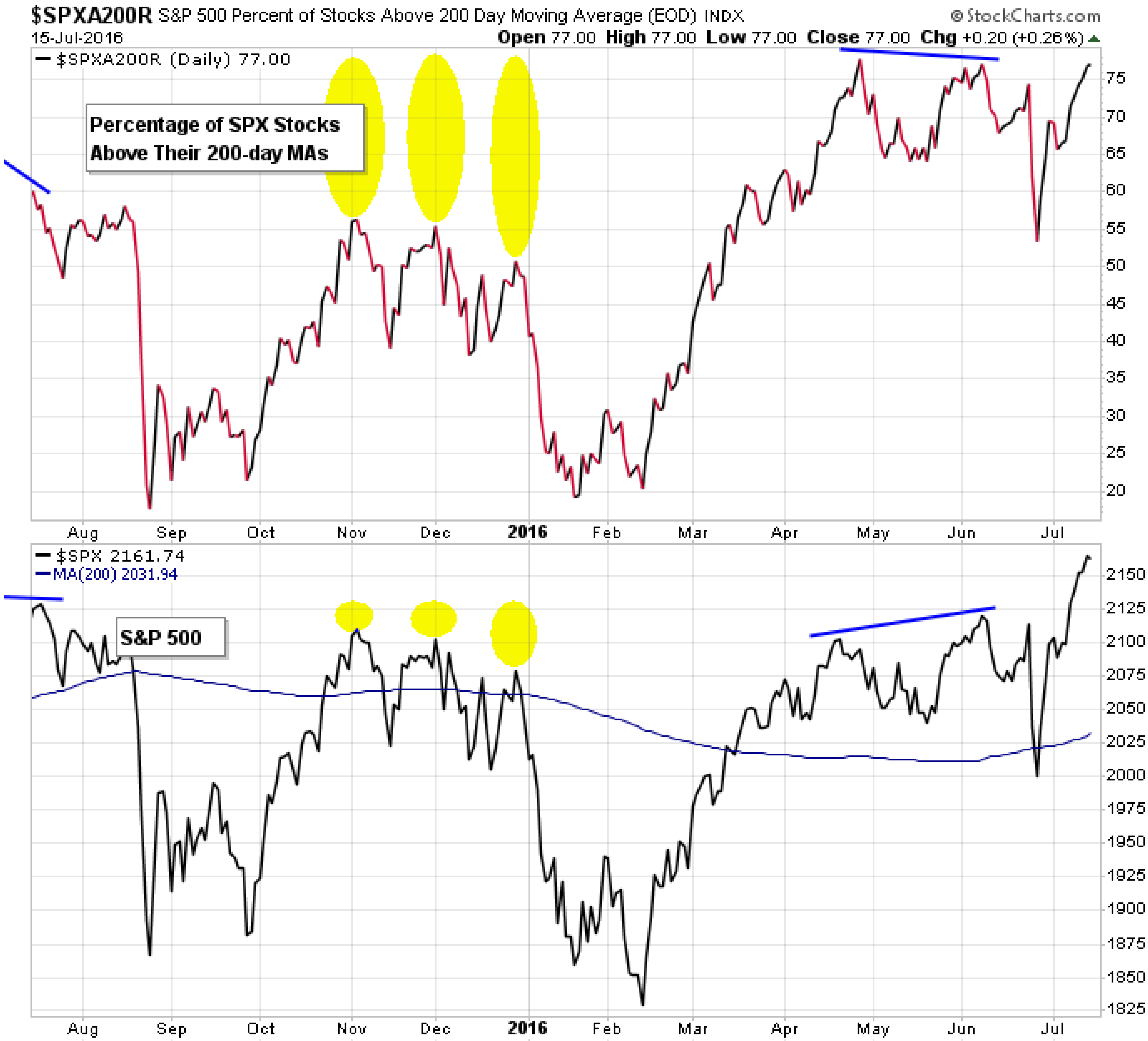
NASDAQ vs. NASDAQ Bullish Percent: The Nas bullish percent, which formed a minor negative divergence in early June, has quickly recovered from its late-June lower low. It's now back near its high and is supportive of the Nasdaq's recent strength.



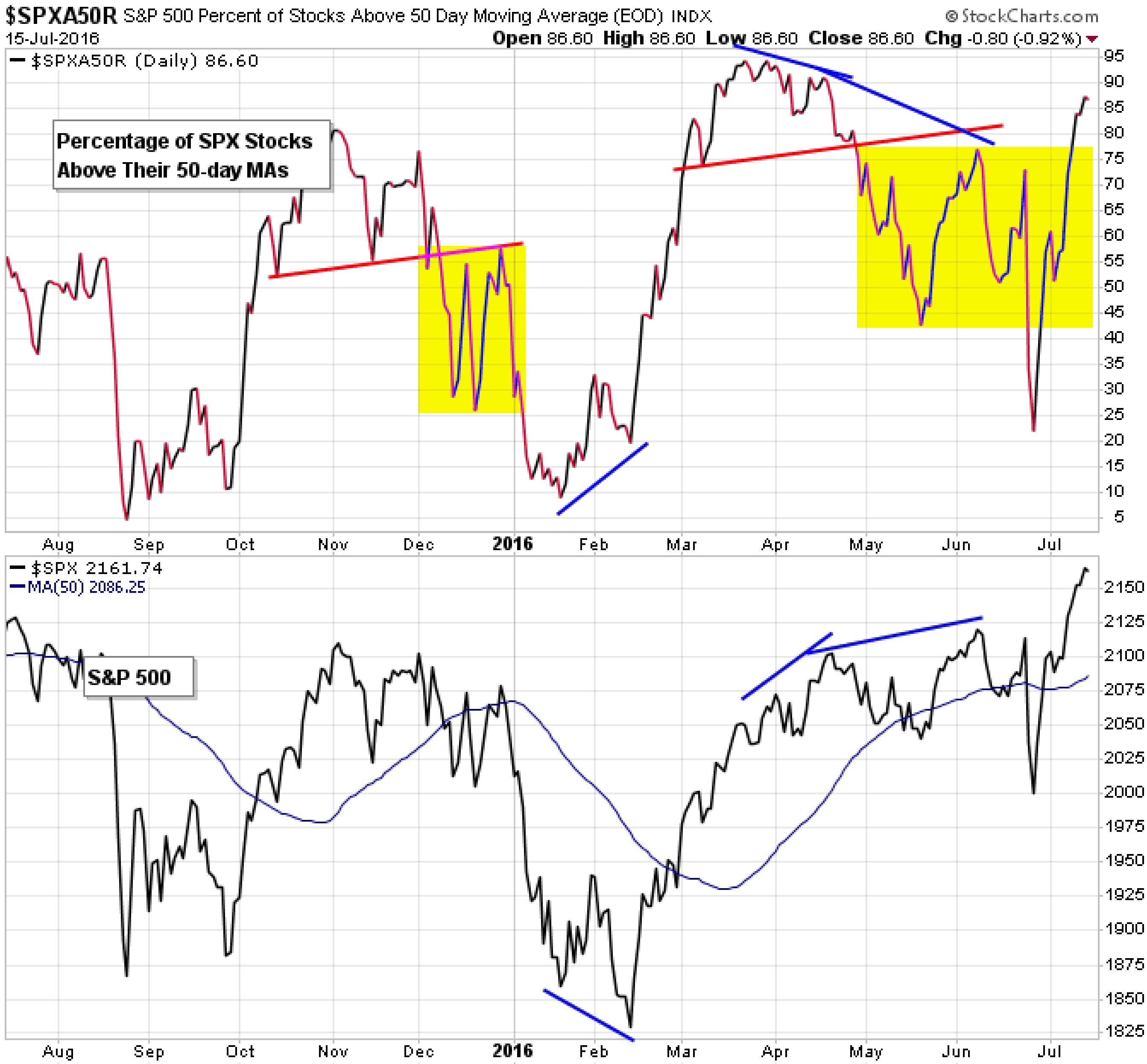
S&P 500 vs. NYSE Bullish Percent: The bullish percent at the NYSE quickly recovered from its sudden post-Brexit dump. If the market wasn't well-supported, this indicator would have chopped around down there in the mid-50's. It didn't happen. As fast as stocks provided a little scare, they recovered soon after.



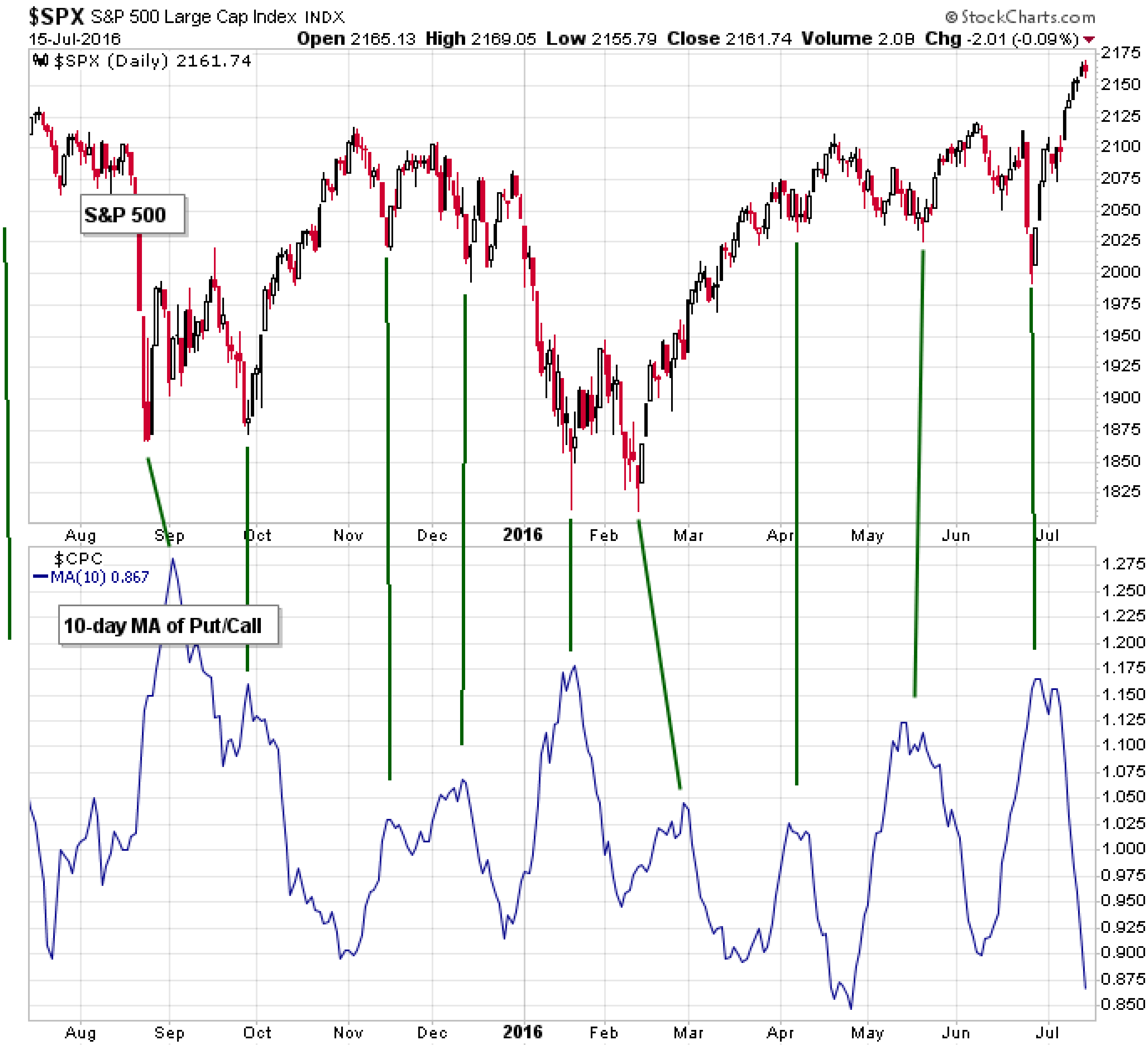
S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: The percentage of SPX stocks above their 200-day MAs dropped quickly after the Brexit vote, but it has recovered just as fast. The indicator is back at its high and fully supportive of the market's strength. A lack of support would come in the form of less stocks participating, and so far this isn't the case.



S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: The percentage of SPX stocks above their 50-day MAs lagged for two months but is finally catching up. It recently moved to its highest level since April and no longer hints at trouble brewing beneath the surface. This is the exact opposite of what took place at the beginning of the year.



S&P 500 vs. 10-day MA of Put/Call Ratio: It took a week (slightly rounded top instead of a point top), but the put/call has been moving down while the market has moved up. This is exactly what the bulls want to see. Now, if the PC curls up, it'll be a little warning in the near term.



S&P 500 vs. 14-day Average True Range: The ATR, a measure of volatility, has been falling since the calendar flipped to July. This is characteristic of an uptrend. Markets tend to move up on declining vol and move up on expanding vol.

S&P 500 vs. AAII Bulls: Re-posting this chart from last week. When the market is in the midst of an uptrend and the AAII bulls spike down, it ends up being nothing more than a short term blip and the uptrend continues. This is what's happening right now. A low reading while the market is at a new high? Really? The wall of worry is big and will help this market go higher.

The Bottom Line

The world is not in good shape, but the market is doing just fine. The proverbial wall of worry is big, but the indexes have moved straight up recently and the internals support the strength.

I continue to fully believe the S&P is heading to 2300-2400, even though there is a long list of reasons to not believe the current strength.

I just wish we had more good set ups among traditional operating companies. Most of our good plays have been in the commodity space. Oh well. Money is money. It still counts.

Have a great week.

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