LB Weekly

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What is traditionally the weakest week of the year turned out to be mixed and lacking in uniformity. No description can accurately describe the movement of all the indexes because they seemed to move in different directions and weren't often on the same page intraday.

The S&P 500, Dow and S&P 400 moved in relatively small ranges and were very choppy all week (aside from a gap up Monday morning). The Russell 2000 trended up all week while the Nas and Nas 100 trended down. In all cases volume was on the lighter side.

Semiconductors gapped up to start the week but suffered a stiff drop mid-week and closed in the middle of its range. Financials put in another solid week and closed near their highs. Biotechs mostly drifted down. So did big-cap tech stocks in general. Oil stocks did well overall. Utilities got hit hard. Defense stocks surged on big volume. REITs and retail did poorly. So did health care and food.

It was a very mixed bag. A handful of groups moved up 2 - 5% and handful moved down the same amount. Weeks are typically more theme based. The week just past was more random.

Overall the market did fine. Apple dropped and caused a little domino effect in the tech space. Many dividend-paying stocks dropped after the FOMC statement was released. Otherwise not too bad. If you zoom in very close, the movement was confusing because many groups moved in opposite directions, but if you back up, it was a ho-hum week where nothing happened that would change the long or intermediate term trend.

The market is into a little news void. The FOMC has passed. The next employment report isn't for two weeks. Earnings season doesn't start until mid-October.

The August-September period is the weakest 2-month combo of the year, but so far the market has brushed off historical tendencies and moved up anyways. Hurricanes have devastated much of the Caribbean, but Wall Street has taken it in stride. Nonstop harsh talk between the US and North Korea continues to be front page news, but the market largely keeps chugging along.

Normal pullbacks are always a possibility, but if you're looking for something major that would suddenly shock the market, it doesn't seem to be on the horizon.

If Apple continues down, I can see tech stocks taking a little hit and then the rest of the market undergoing a mini correction. But this would just be a very normal dip within a healthy market.

If talk between the US and NK becomes "walk" then a much bigger shock could be in order.

Otherwise it's business as usual. I'm tempted to suggest not over analyzing things. The trend is solidly up; the long side is the only side you want to be on. It's easy to get confused if you zoom in too close, but making it a habit to stand back and see the big picture will keep you on the right side.

The media likes to assign reasons for everything that happens ("The market moved up because of X, Y, and Z."). But many times you can simply say the market moved up because the trend is up. Period. That's it.

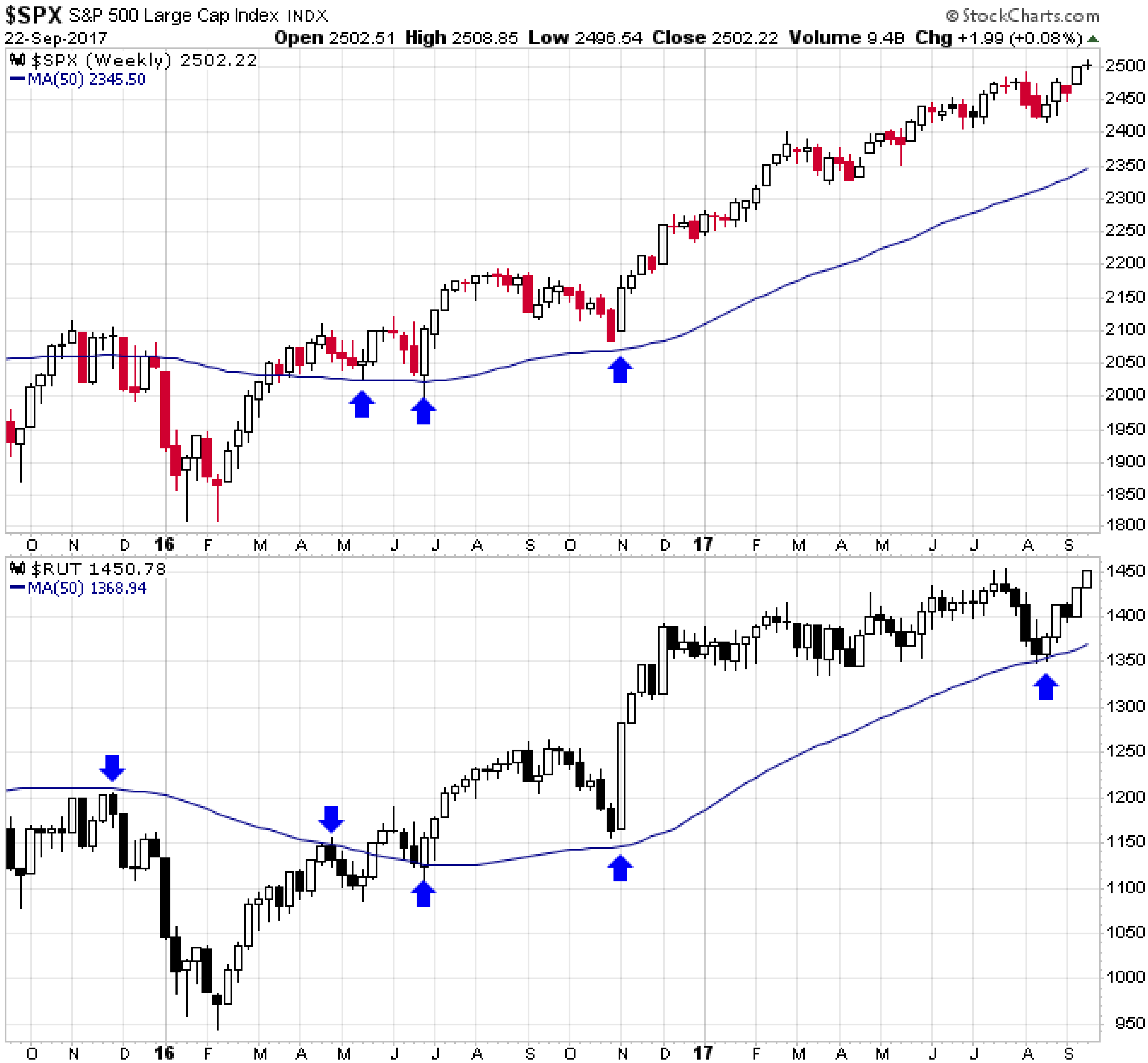
This is the current situation. Despite "stuff" going on (there's always stuff going on) and virtually nonstop posts on social media comparing the current time period to others when the market topped (buybacks dropping, percentage of net worth in the market too high, too many ETFs and index funds, and many others), from a technical standpoint, the market is doing well and is very likely to continue doing well.

The US economy is too big to change quickly, and there are enough amazing things in the pipeline to keep it going for a while. The long side is the only side to be on. The only question is whether you're partially in or all in.

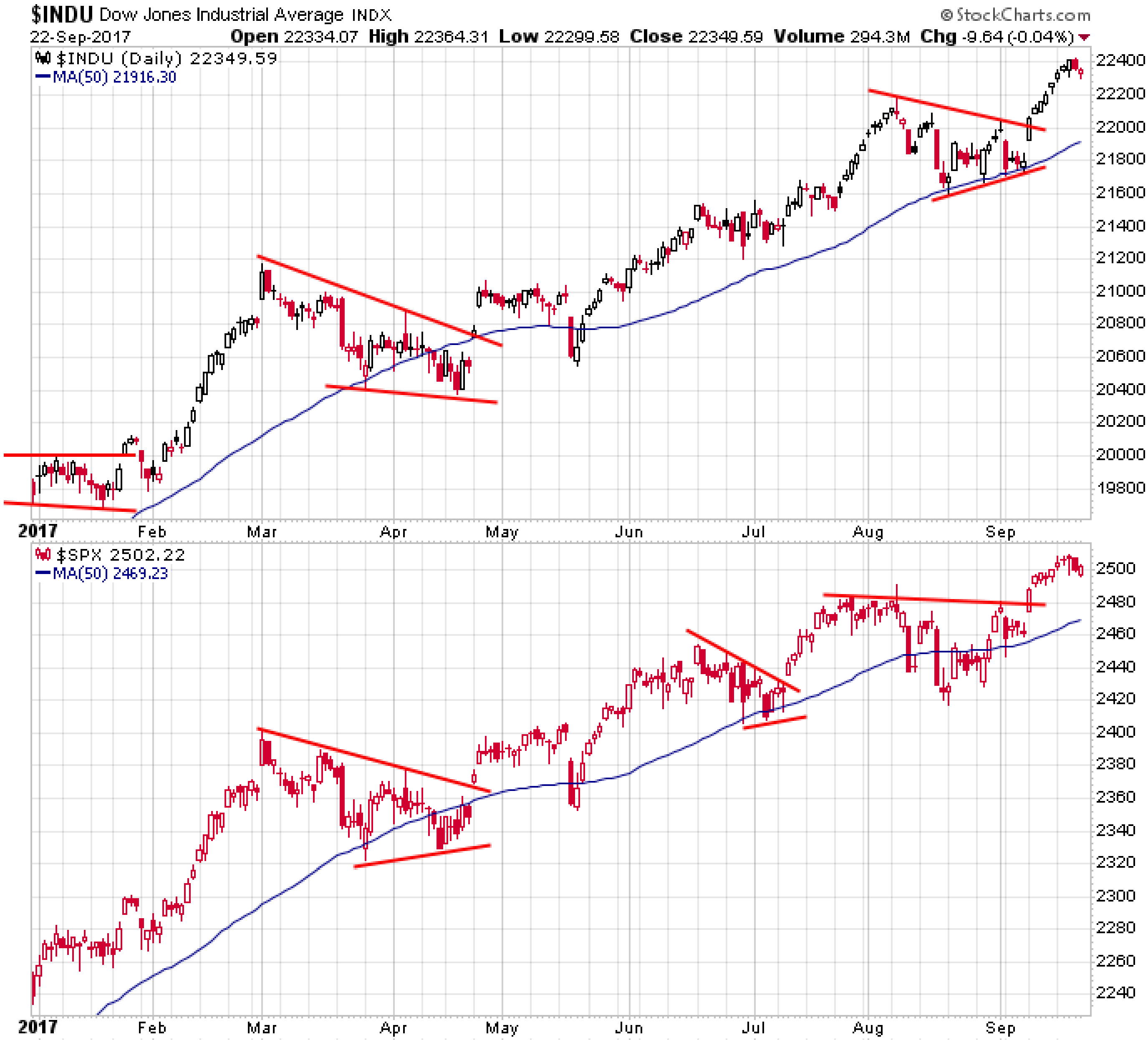
Let's get to the charts and see what they say.

Indexes

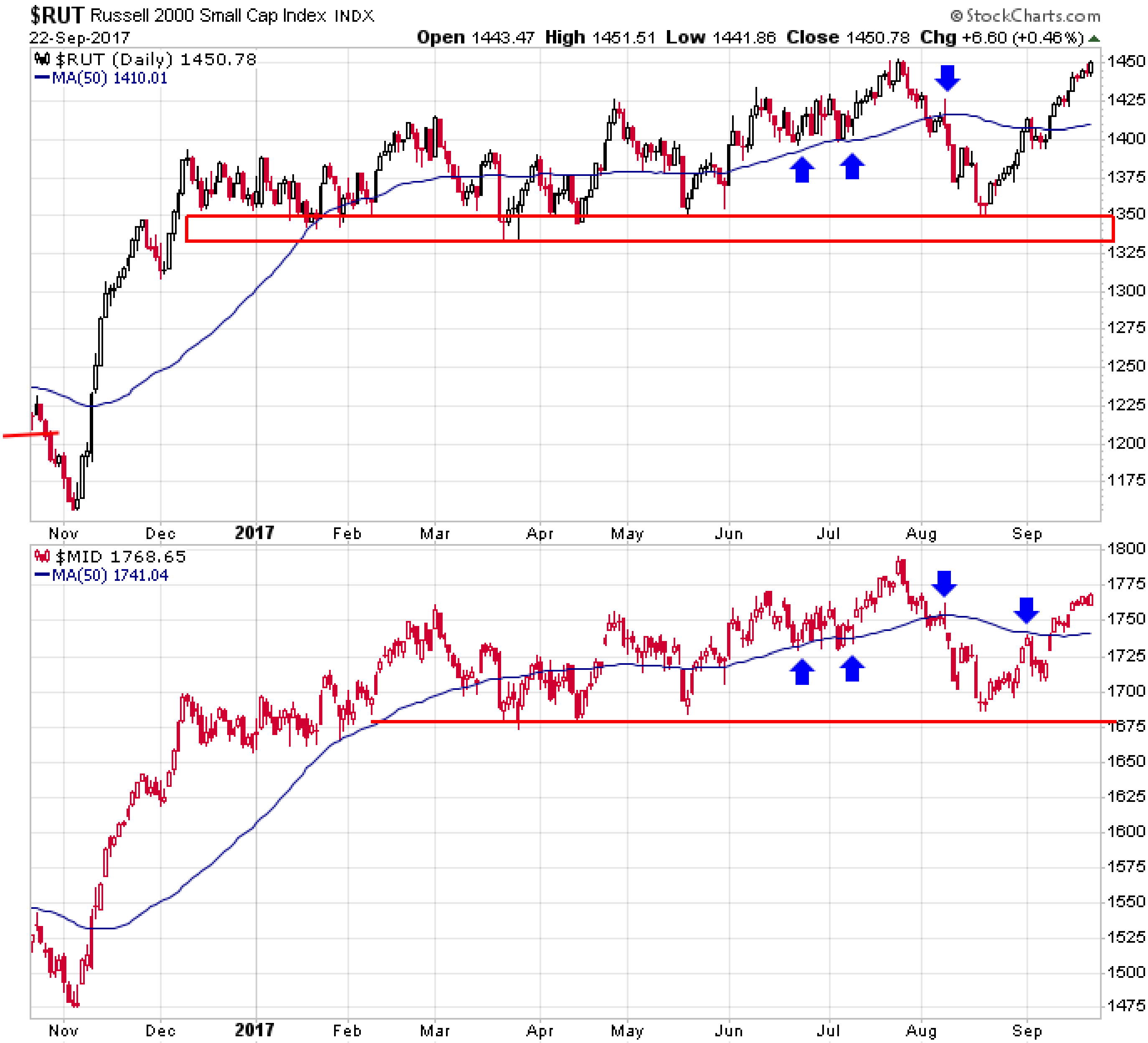
The S&P 500 and Russell 2000 Weekly: Nothing needs to be said about the S&P 500. The trend is up and very strong. Since the election, it has barely dipped. The Russell dropped to its 50-week MA and promptly rallied back to its high. The index has been neutral this entire year. Let's see if it can break out and run.



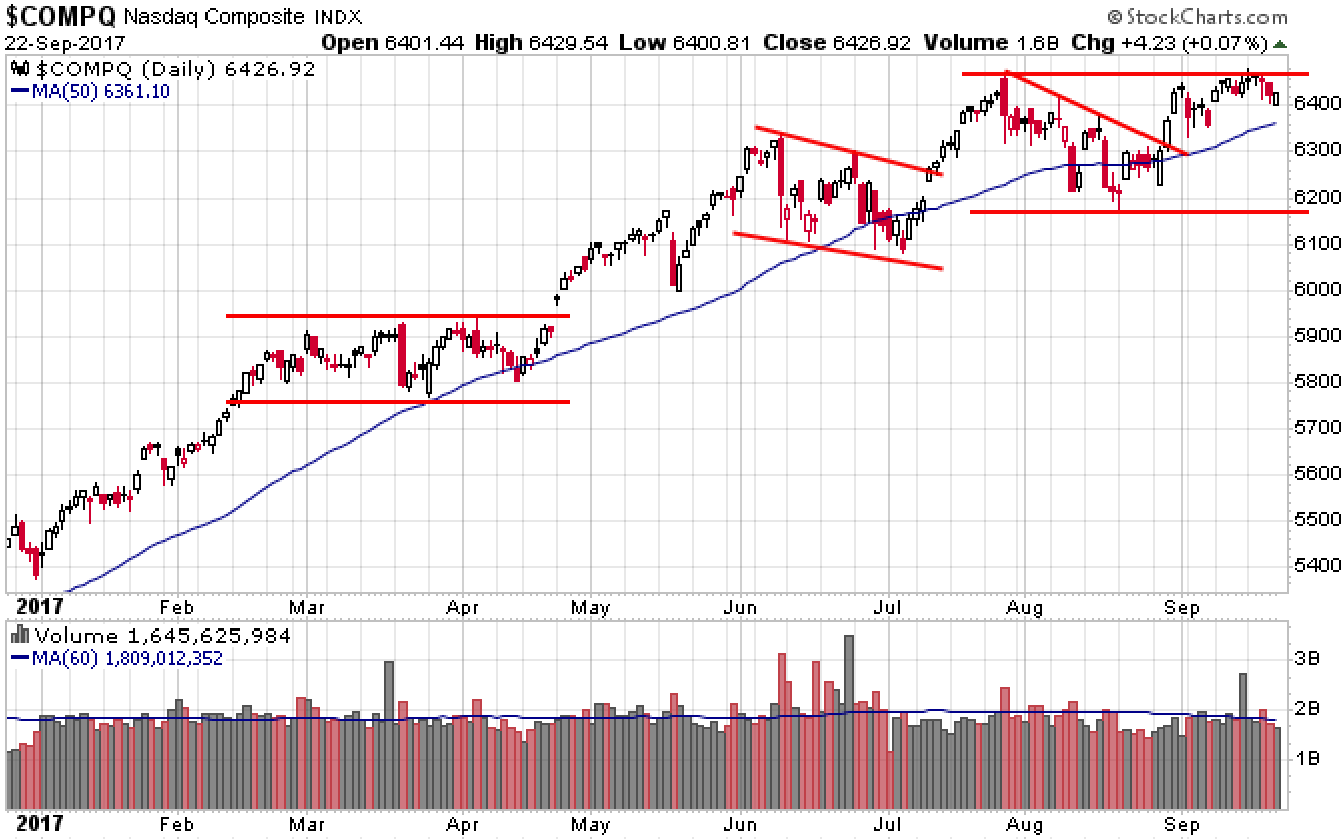
The Dow and S&P 500 Daily: The Dow and S&P 500 both moved to new highs last week. Trends don't get better than this. There's no reason to be anything but long the market.



The Russell 2000 and S&P 400: Both the small-caps and mid-caps have made great strides the last few weeks. Can they shift from their persistent neutral stance and actually trend up? That's the big question. If it happens, the market is going to run crazy the last three months of the year. Right now it's just a potential. It could happen, but It's not happening yet.

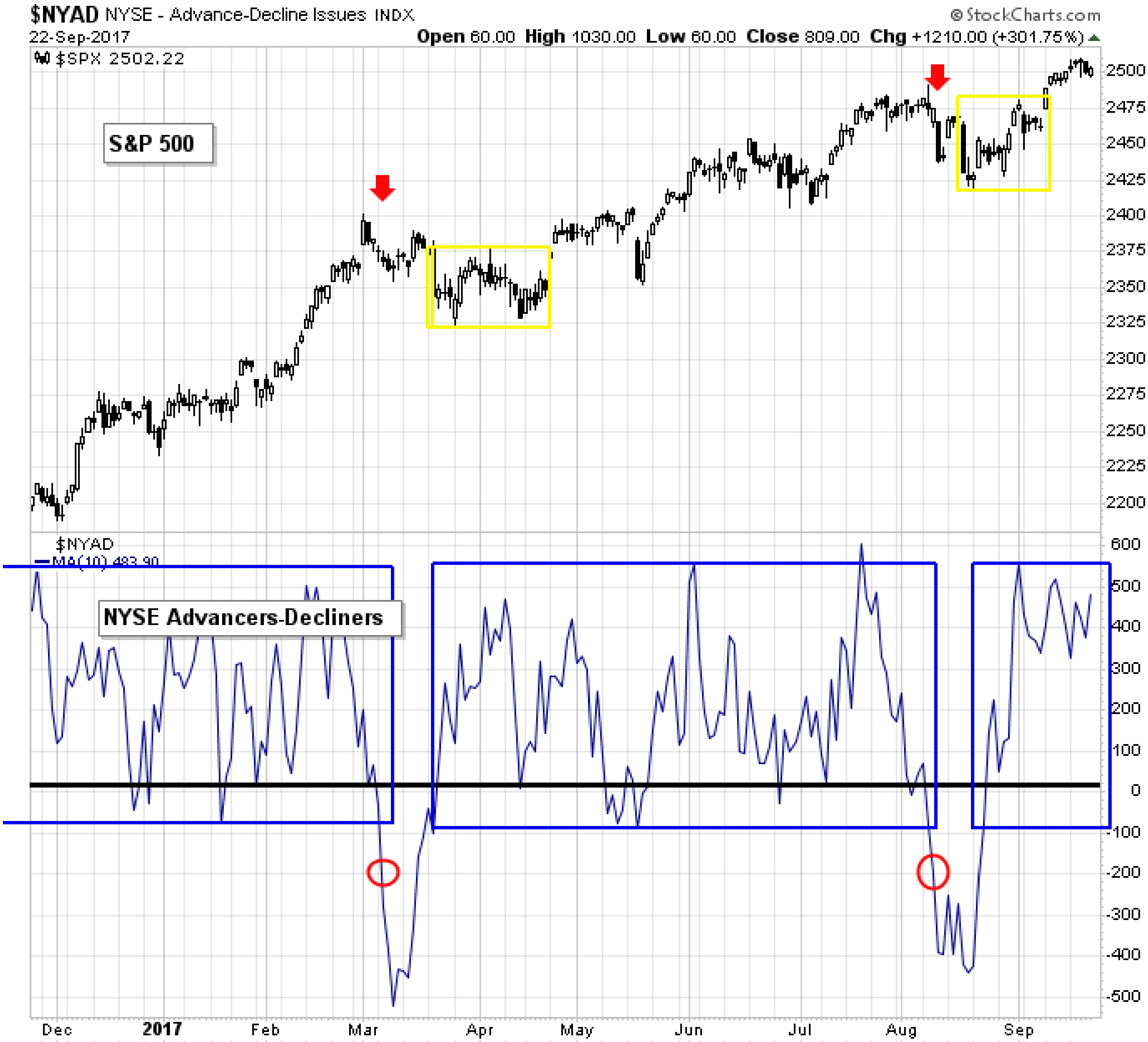


The Nasdaq: The Nas lagged last week but is still doing great overall. Don't over analyze. The trend is up. There's only one side of the market to be on.

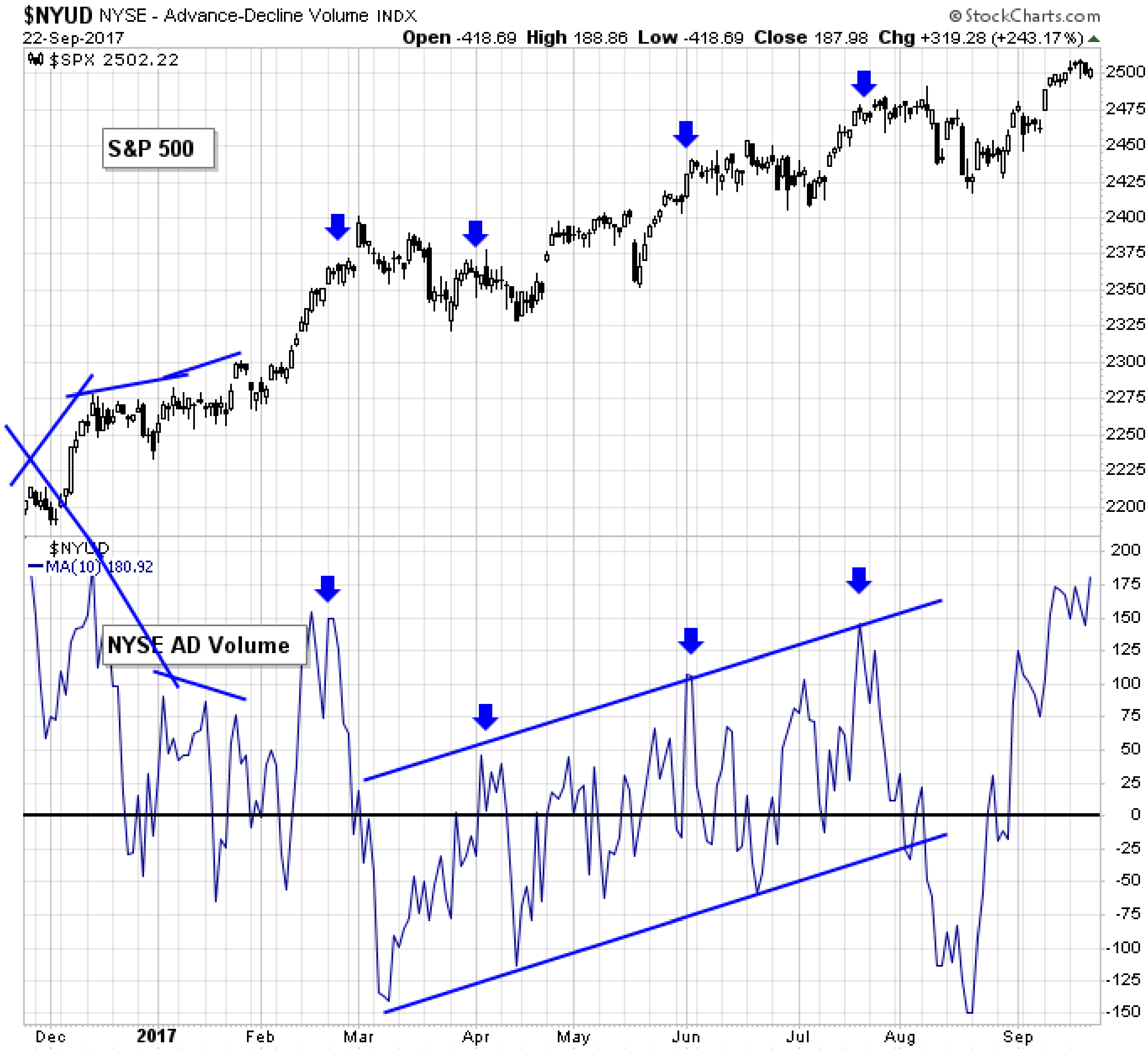


Indicators

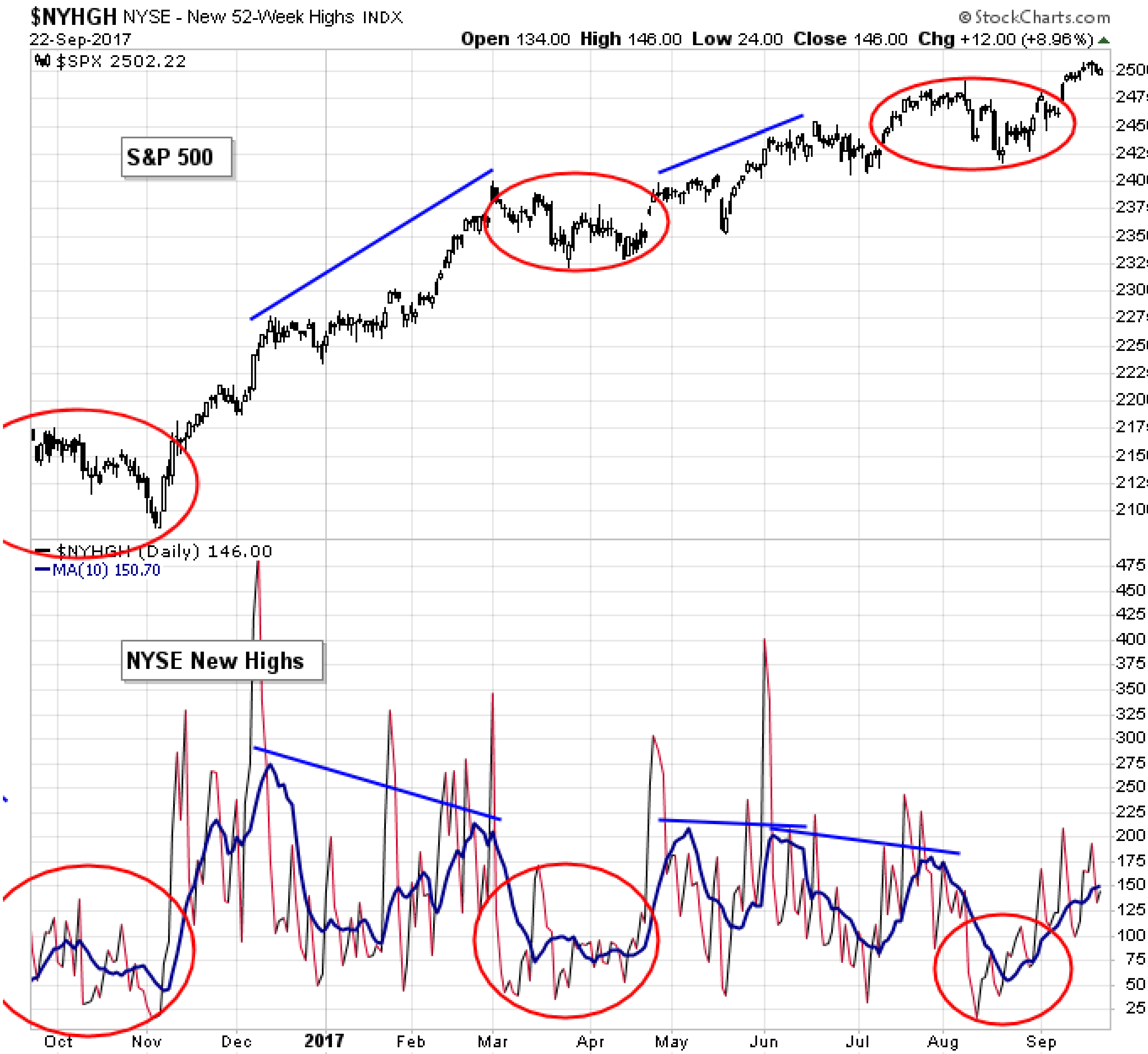
S&P 500 vs. 10-day MA of NYSE AD Line: The 10-day of the AD line has maintained itself at a high level for much longer than it typically does. Advancers are steadily beating decliners, virtually every day. Prints in the past have been higher, but they are rarely this steady.



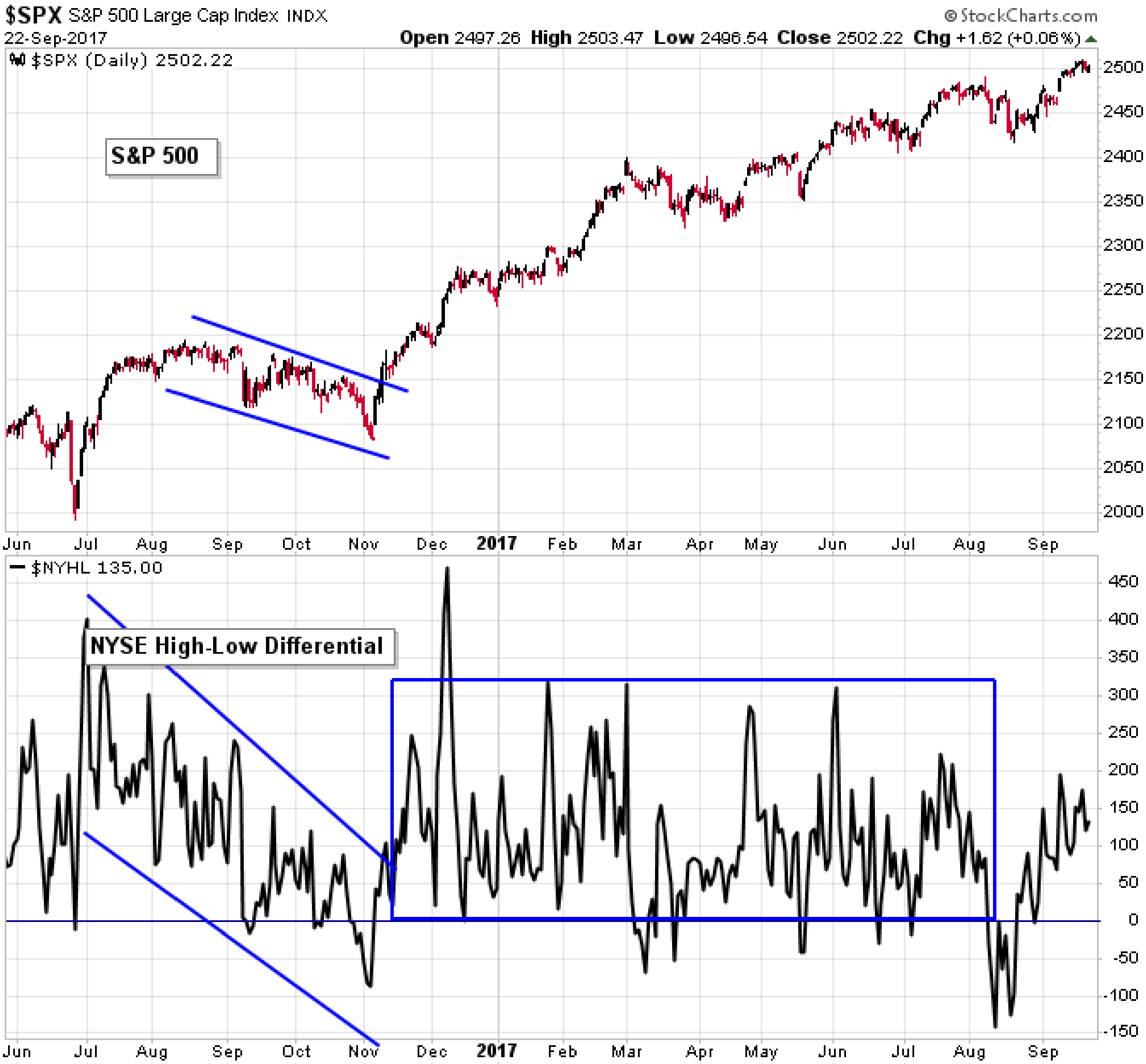
S&P 500 vs. 10-day MA of NYSE AD Volume Line: Prints of the 10-day AD volume line have also maintained a high level for an extended period. Eventually buyers will need a rest, but this indicator tells us the underlying strength is easily good enough to absorb a little selling pressure and eventually push the market back to its high.



S&P 500 vs. NYSE New Highs: New highs at the NYSE continue to trend up, but I wouldn't say they're exploding. Given several indexes hit new highs last week, you'd expect a higher print here. Still, they're confirming the market's trend.

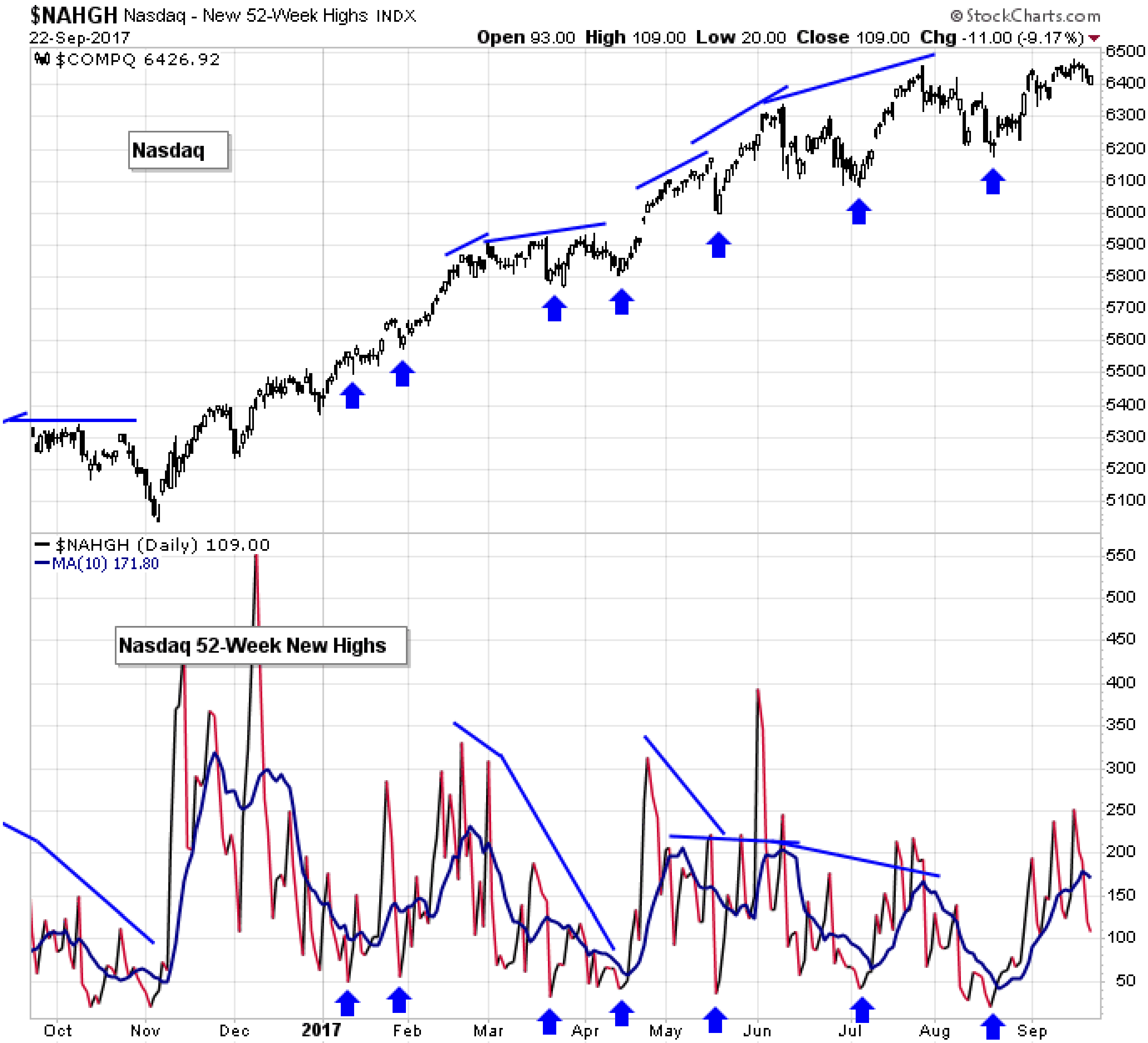


S&P 500 vs. NYSE High-Low Differential: New lows at the NYSE remain nonexistent, so the high-low differential continues to support the trend. It's not until this indicator hangs out near 0 or drops below for an extended period that the trend is in jeopardy.

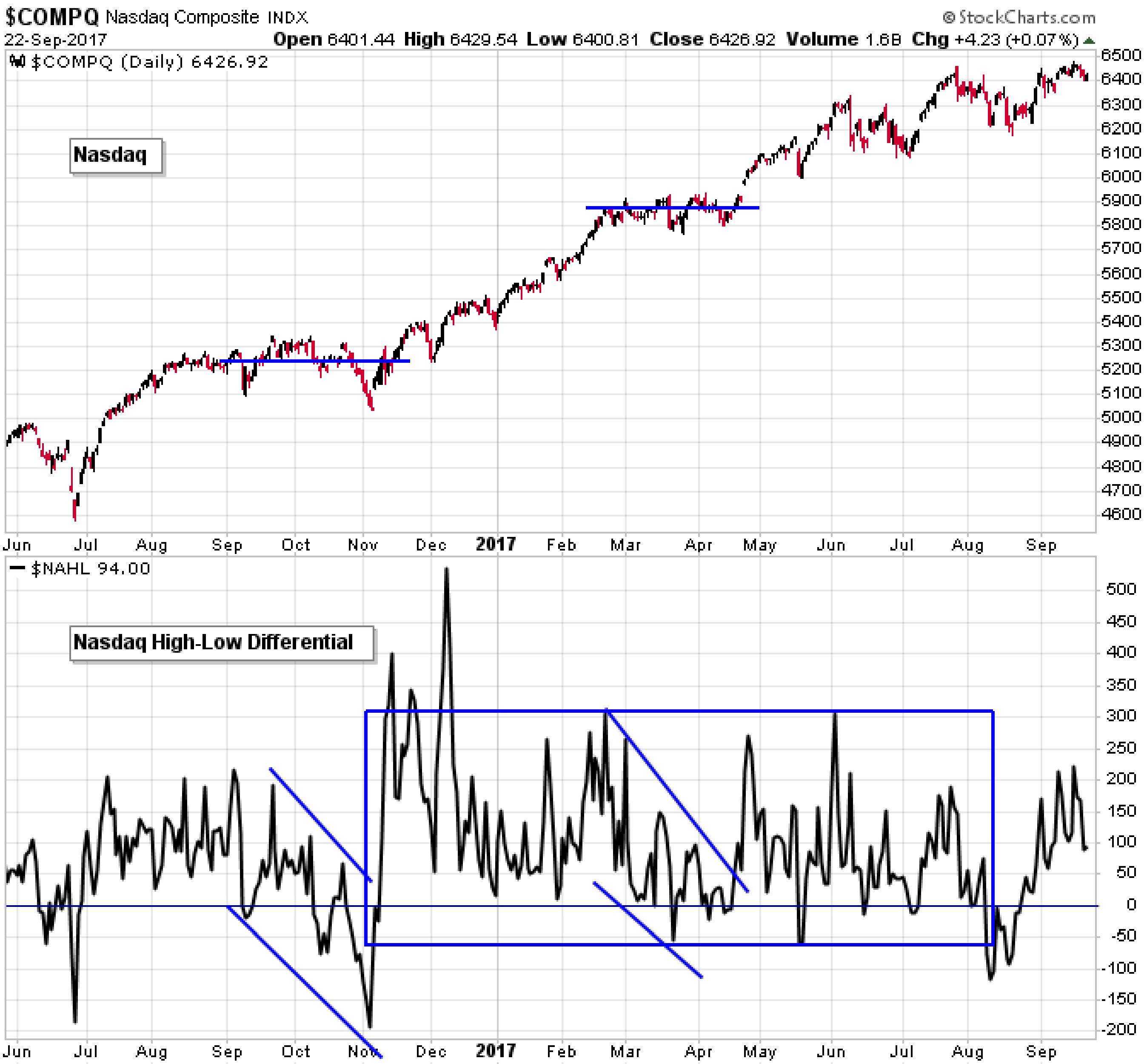


S&P 500 vs. NYSE High-Low Differential (cumulative): The cumulative high-low differential at the NYSE is distancing itself from its 50-day MA, not being pulled into it. On an intermediate term basis, this bodes well for the market. It's not until this indicator crosses down that I'd start looking for a more meaningful dip.

NASDAQ vs. NASDAQ New Highs: New highs at the Nas matched their lowest level of the month on Friday - not a big surprise given the Nasdaq's weakness last week. This is not an urgent warning, but it's definitely something to keep an eye on. If this divergence continues, the market will correct before allow the leading indexes to continue up.

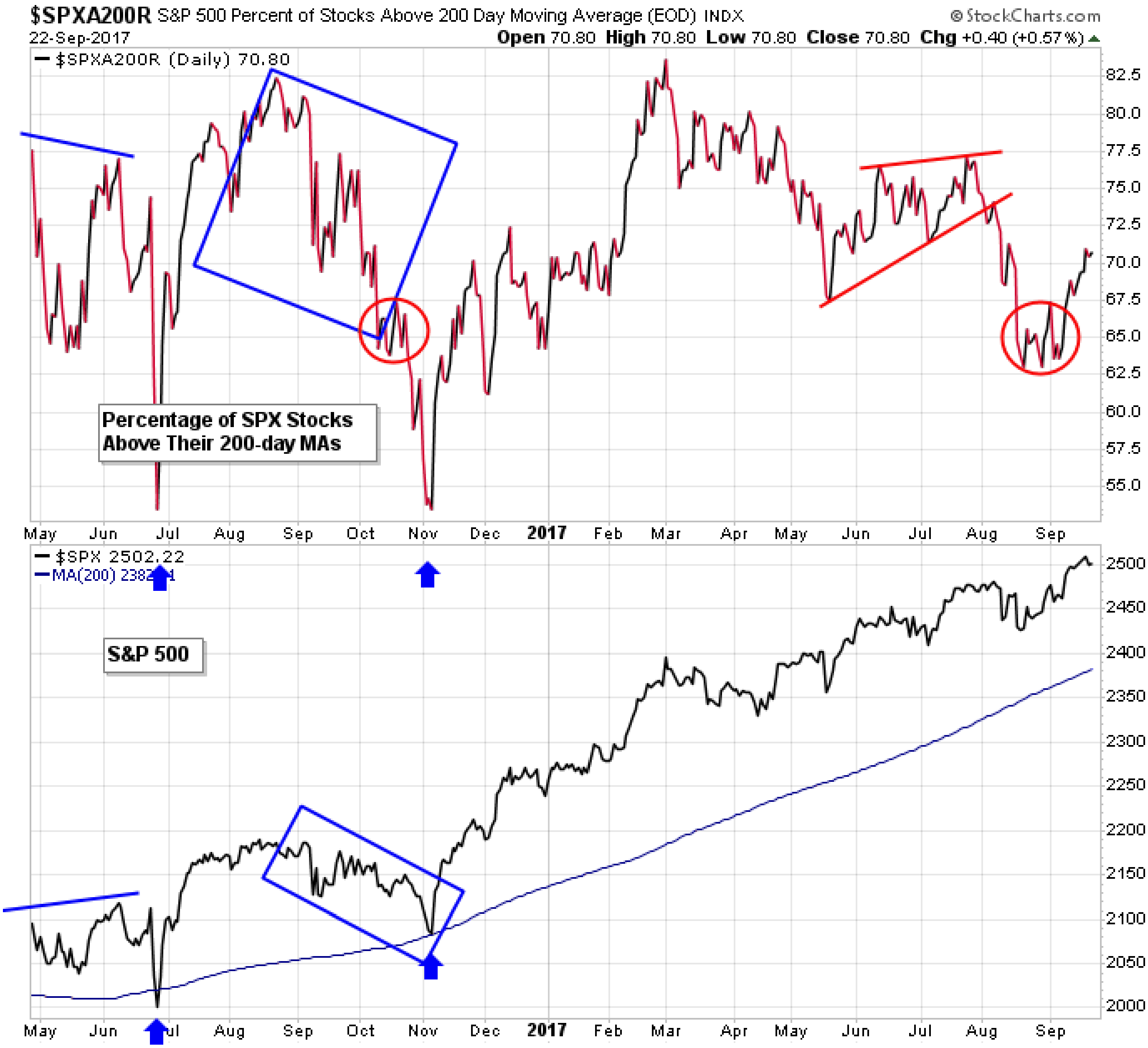


NASDAQ vs. NASDAQ High-Low Differential: Even though the Nas weakened last week, new lows were nowhere to be found. This keeps the high-low differential firmly in positive territory and in support of the overall market trend.

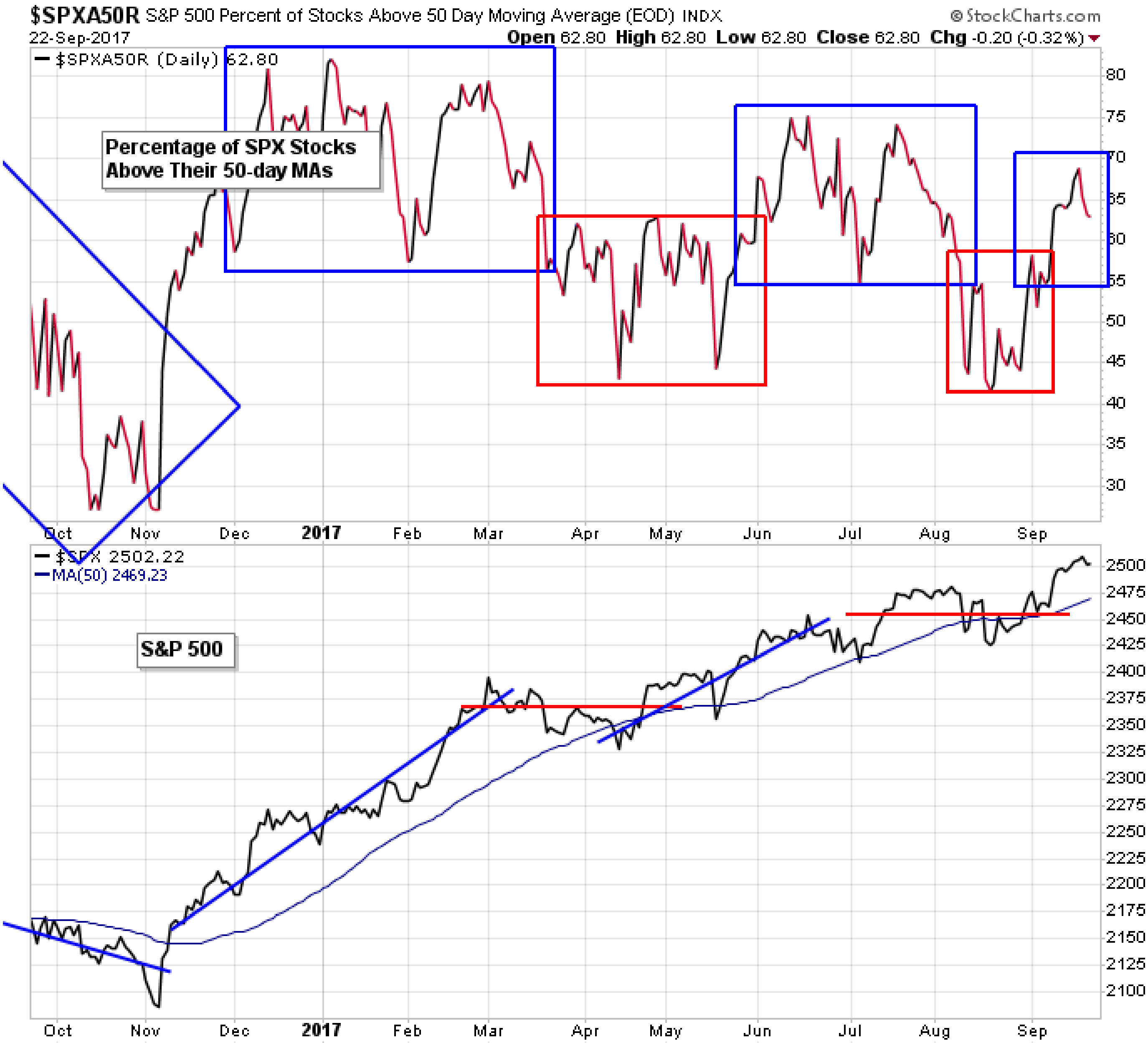


S&P 500 vs. NASDAQ High-Low Differential (cumulative): The cumulative version of the above chart also fully supports the market's trend. It's not until the indicator crosses its 50 that the bulls should be worried about their multiyear party coming to an end.

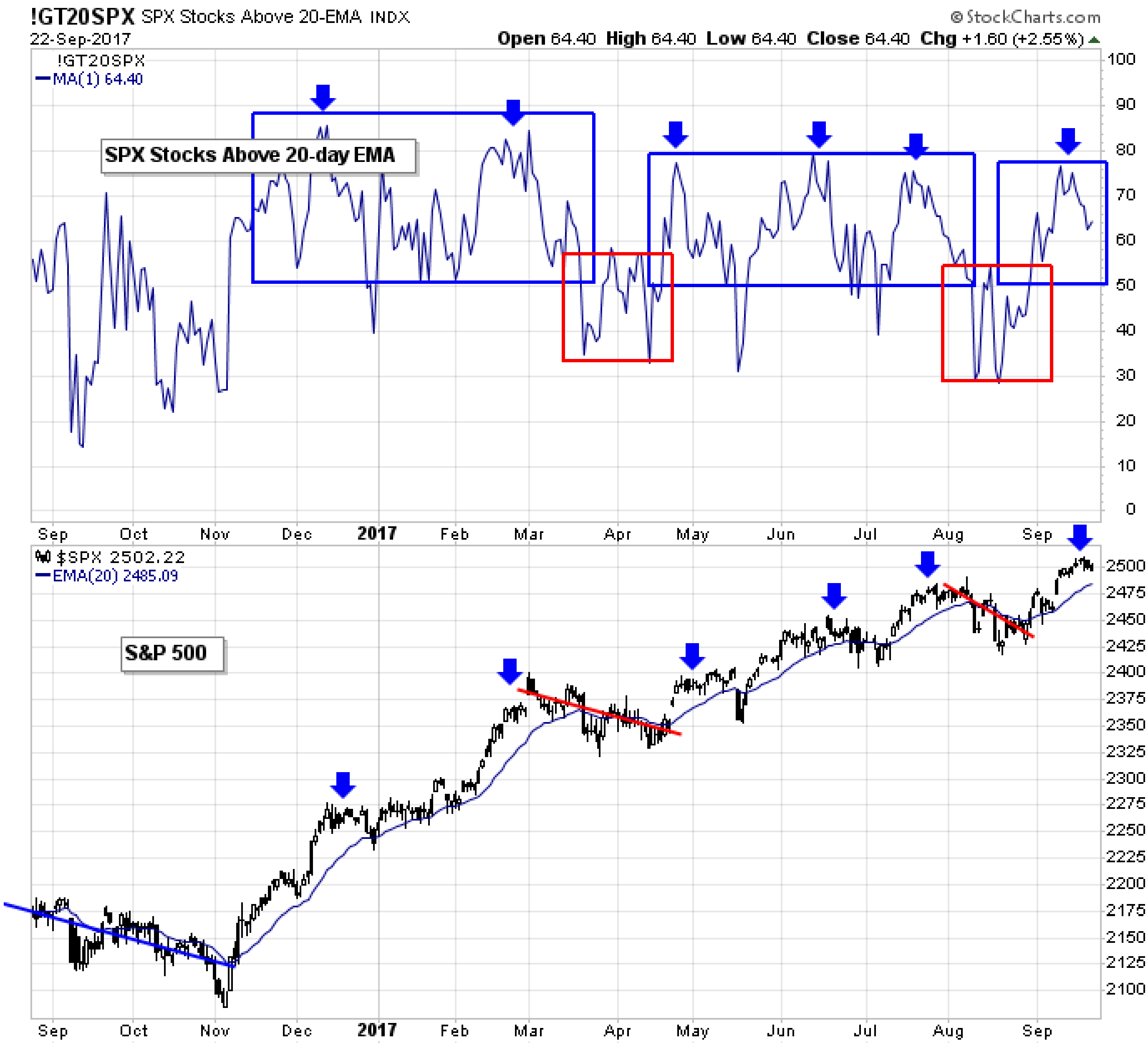
S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: The percentage of SPX stocks above their 200-day moving averages has improved a bunch the last two weeks, but I'd like to see more. Given the steadiness of the trend and complete lack of corrections, you'd think more stocks would be above this key longer term MA.



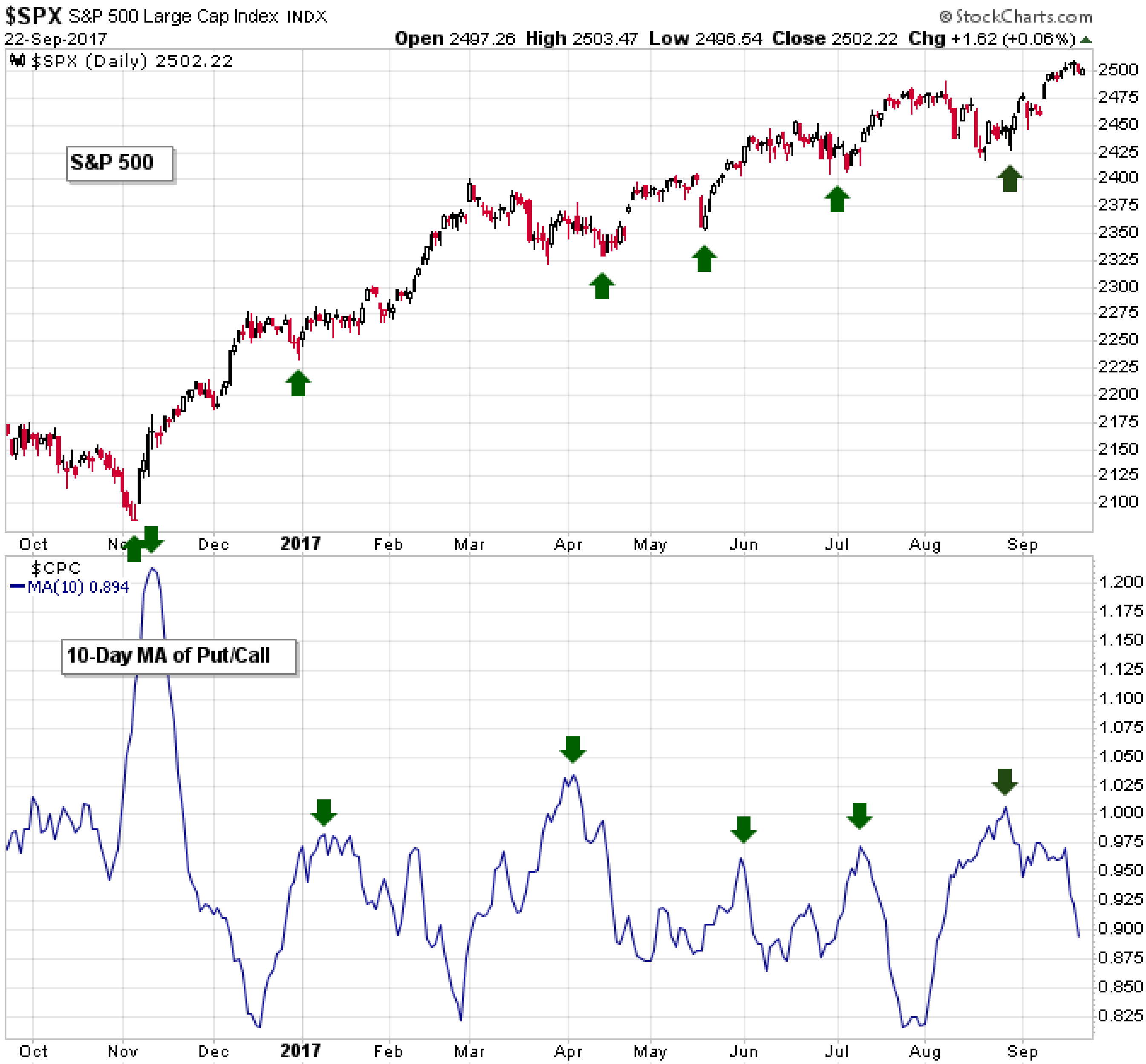
S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: The percentage of SPX stocks above their 50-day MAs climbed to a supportive level and then dropped at the end of last week. The market's trend is being supported but not to the same extent as during the previous two leg ups. In fact each leg up has come with slightly less participation.



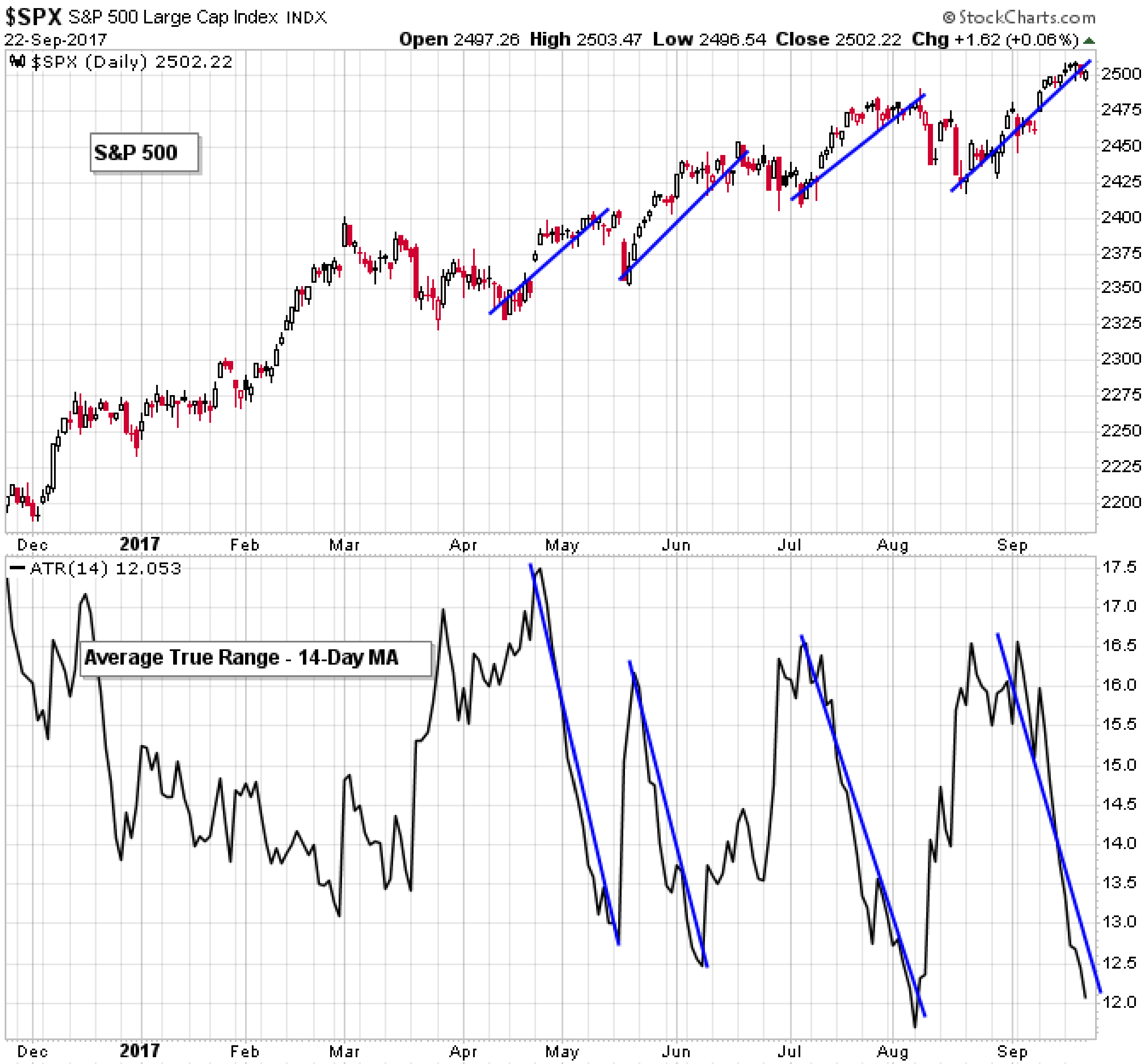
S&P 500 vs. Percentage of SPX Stocks Above 20-day MA: The percentage of SPX stocks above their 20-day MAs put in a mini double top and then fell into the weekend. This has typically coincided with the market either pausing or pulling back some. Don't ignore this in the near term. The market can be pulled higher by a small number of stocks for a period, but eventually the declining participation exerts a force that is too much for the bulls to overcome.



S&P 500 vs. 10-day MA of Put/Call Ratio: It took few weeks. The put/call eventually started heading south. This supports the market's leg up.



S&P 500 vs. 14-day Average True Range: The 14-day ATR hung out at a high level but eventually dropped to support the market's trend. This is exactly what the bulls want to see - they want volatility to contract when the market moves up.



Bonus Chart - AAPL: Apple has headed straight south this entire month. Not even the launch of their newest iPhones could prop the stock up. If this continues, the market will eventually be pulled down. AAPL is 11% of the NDX, and since it has so many suppliers, there could be a domino effect. Apple is a great company, but it has fallen out of favor. If it continues, Wall Street won't be able to ignore it for long.

The Bottom Line

The market's trend is up and strong and pretty steady. The small and mid caps have done great to catch up.

Overall there's only side of the market to be on. If you buy and hold for a couple months at a time, there is nothing to be overly worried about.

But in the very near term the percentage of SPX stocks above their 20-day EMAs and Apple's decline are a little concerning. I have no concerns overall and strongly believe the market will move much higher the next few months, but in the very near term there are reasons to believe some sideways movement may be in order.

Be long but be mindful of some possible near-term weakness.

Have a great week.

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