LB Weekly

Jason Leavitt
jason@leavittbrothers.com

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The market woke up last week.

Slow, steady, methodical and boring with small ranges and very little intraday movement changed. We got opening gaps, two relatively big intraday sell-offs and some huge moves from individual stocks.

The closing numbers wouldn't suggest much happened, but the day-to-day movement told a different story. And it's all due to earnings season.

Most of the time, earnings season is a big nonevent. Some stocks move, but risk rarely feels elevated.

It's business as usual. Buying ahead of earnings is not wise, but staying in a position that's working is typically the right course of action as long as the structure of the chart remains intact. This season has been different.

There have been many huge earnings-related moves. And it's not just small caps that have questionable balance sheets and deteriorating technicals. It's been rock-solid charts that have provided big gains this year.

UCTT rallied more than 3X this year before falling from the mid-30's to the mid-20's. Lucky for us our targets on our trades had been hit, so we weren't in a position.

CELG, a $100 billion biotech company had dropped from the high-140's to the mid-130's, and within a matter of one week was below $100. That's a massive haircut of a large company.

BIDU, a nearly-$100 billion tech firm dropped from the mid-270's to $240, with help from earnings.

But it wasn't all bad.

AMZN jumped more than 12% to an all-time high.

GOOLG rallied more than 6% to an all-time high.

MSFT gapped up and ran 7% to an all-time high.

FB new high. NFLX is a few bucks from its all-time high. AAPL is 3 bucks from its all-time high.

The market has gotten very sensitive. It's a forward-looking mechanism that anticipates the future but wants constant feedback that it's correct. If it gets positive feedback, it rewards companies. If it gets negative feedback, if it realizes it's incorrect with regards to the path companies are on and future expectations, it brings stock prices back down to where they belong. This earnings season has been an extreme case. Some of the largest companies on the planet, companies so big it should be very hard for them to move much, have posted big gains. Other companies have taken big hits.

While some of the big moves are random - some up, some down, no way to predict what a stock will do - big caps seem to be doing better than small caps. But risk is still elevated out there.

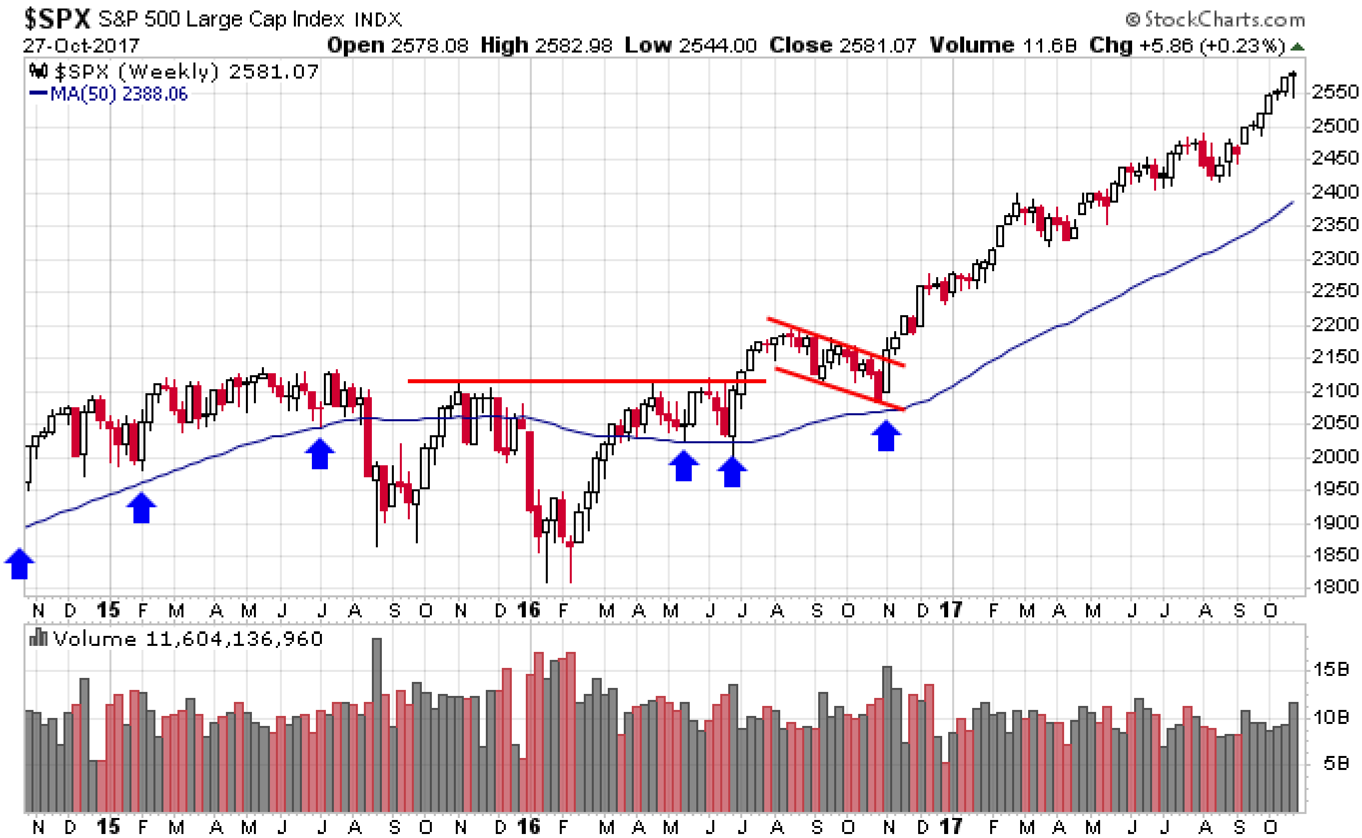
Looking forward, earnings season is just heating up. There are many more reports to come, and given what took place last week, be aware of the current state of things. Stocks are very sensitive. To a greater degree than most earnings seasons, they can move huge after a report comes out. You can wake up in the morning with a 20% gain or 20% loss on almost any stock. That sounds more like gambling than well-calculated speculation.

Long term the market looks great and is very likely to continue doing well. I'm very confident 6 and 12 months from now the indexes will be higher than they are now. But in the near term risk is high, and instead of getting logical moves based on sound technicals, we're getting random gaps without warning. Be careful. While the long term looks good, I feel much less confident saying the same thing about the near term.

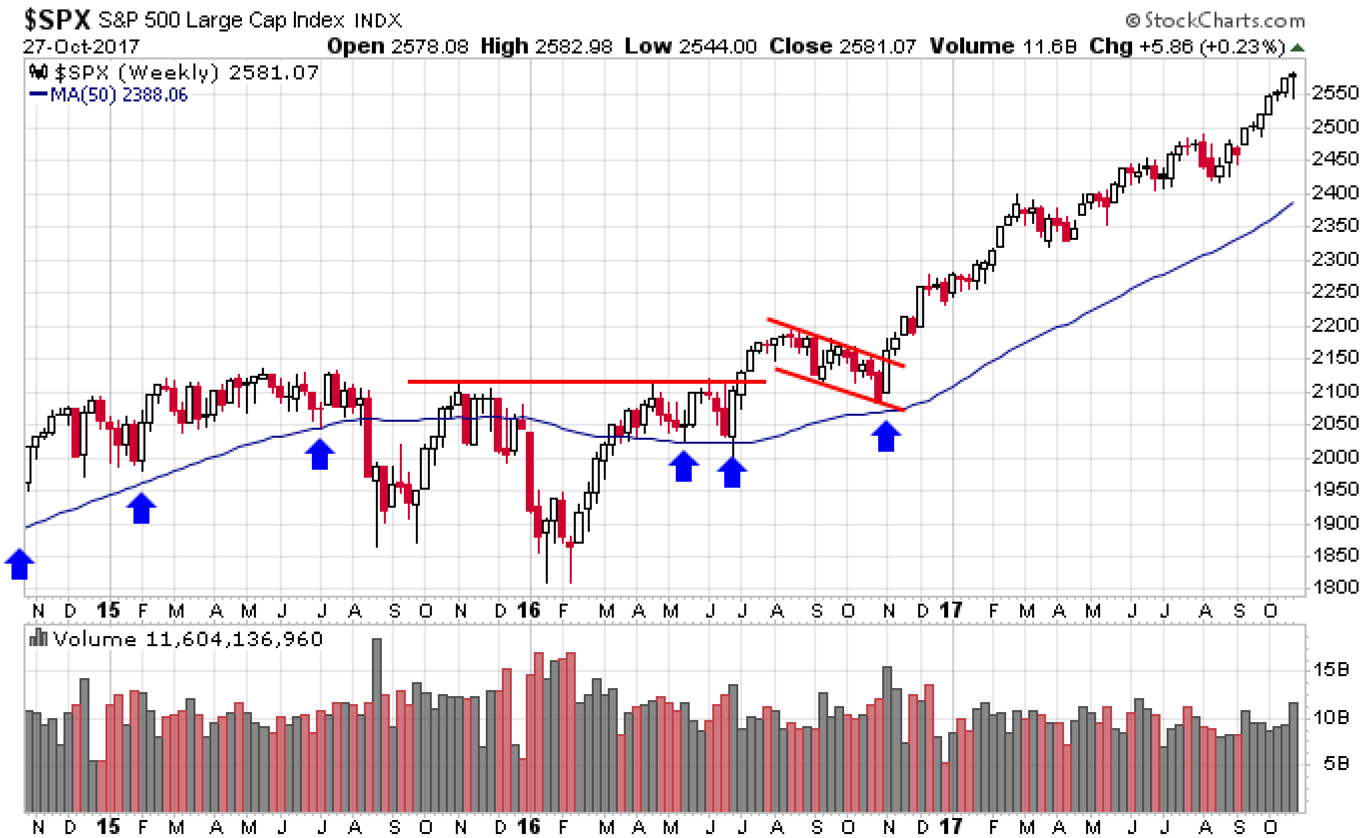
Let's get to the charts and see what they say. While many of the megacaps surged to new highs, does a look beneath the surface suggest others are coming along for the ride? Let's see.

Indexes

The S&P 500 Monthly: Still two more days before the October candle is complete. With a 62-point gain so far, odds heavily favor a 7th consecutive up month.

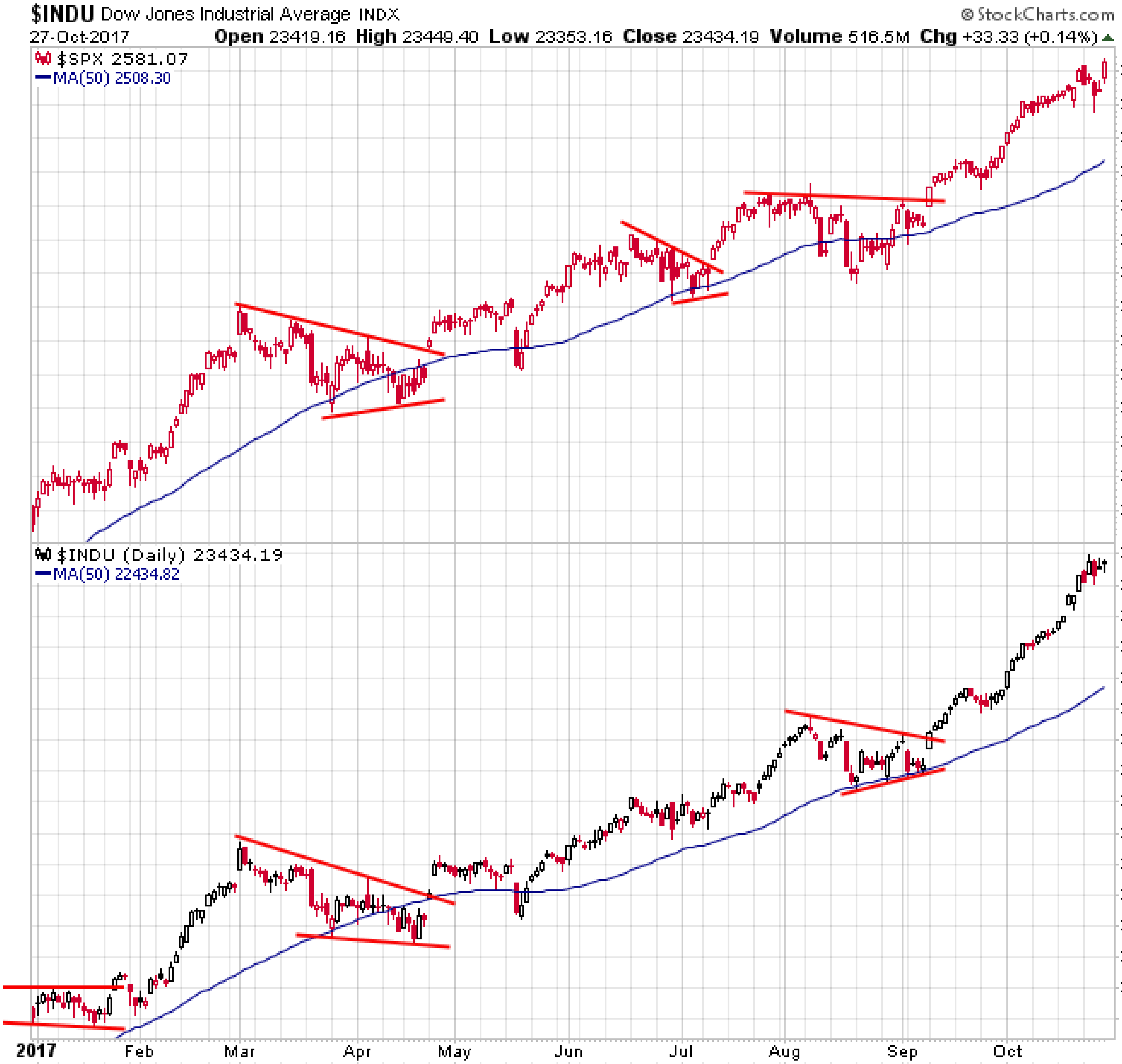


The S&P 500 Weekly: The weekly S&P traded below its previous week low and then closed above its high - an outside month. I could care less what the formation means. I only care that the long term trend is up and our bias should remain to the long side.

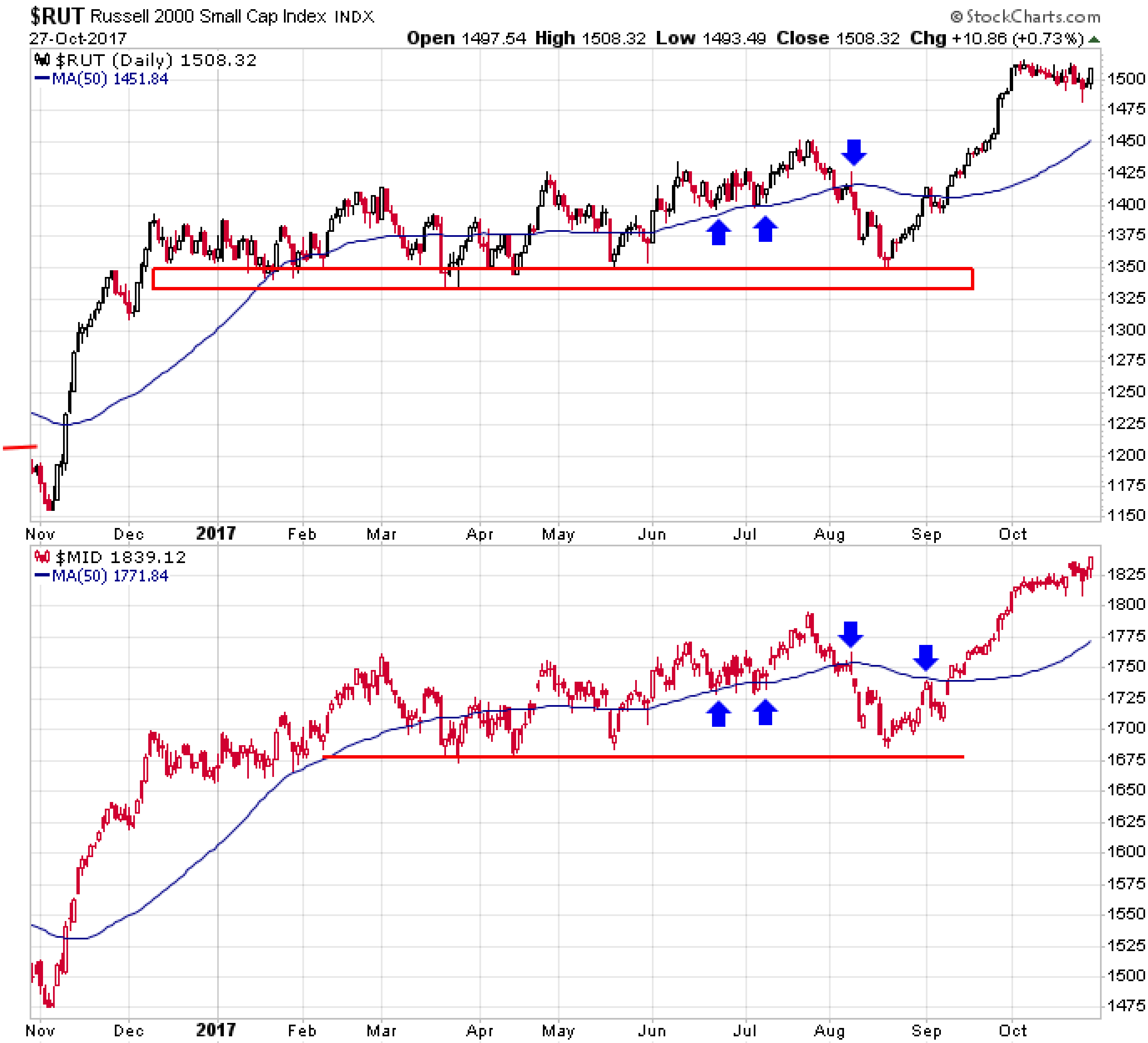


Russell 2000 Weekly: The Russell weekly took out the lows from the three previous candles and then rallied to close near its high. This is a high-n-tight pattern near an all-time high. There are no long-term warnings here.

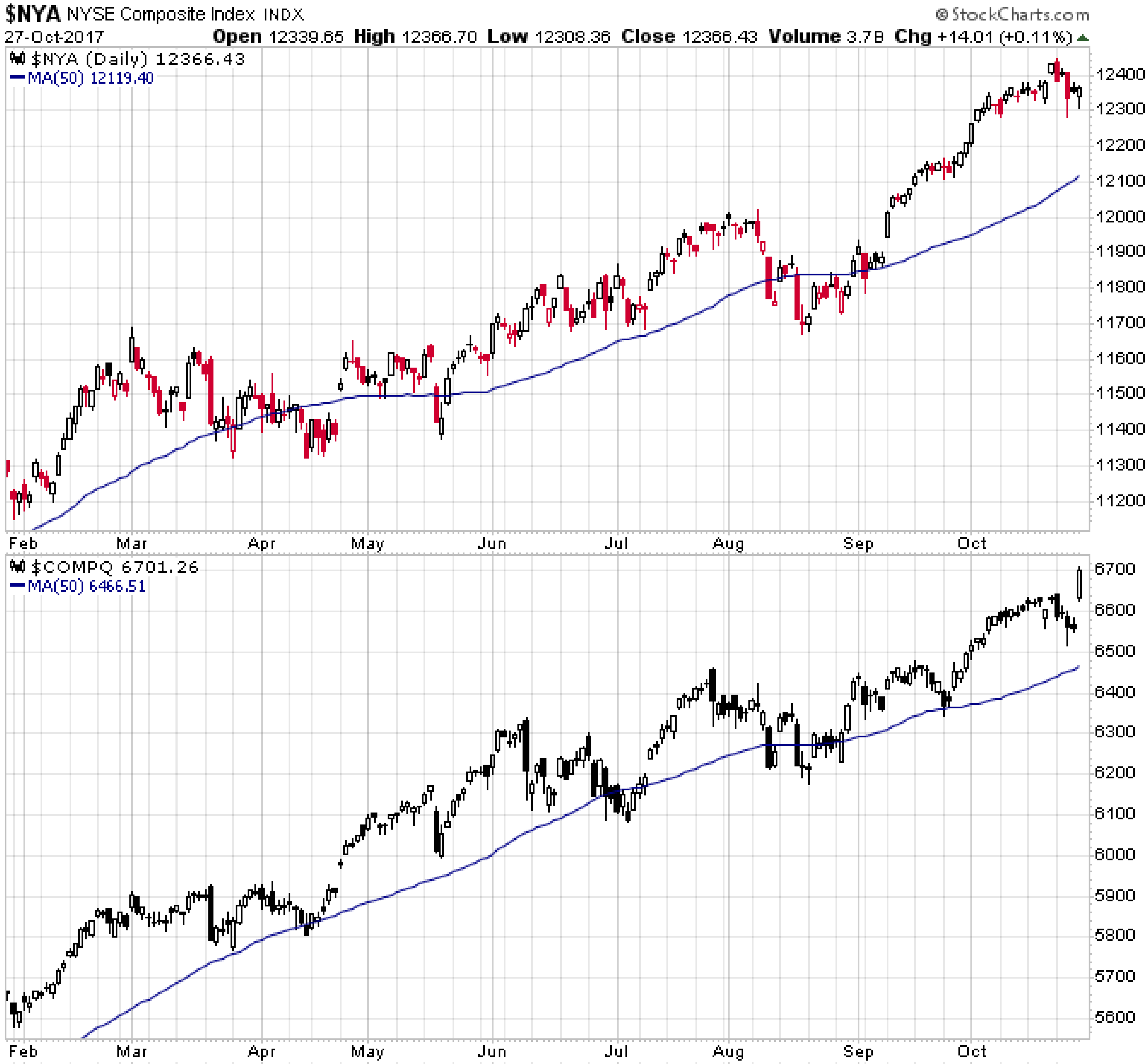
The S&P 500 and Dow Dailies: Trends don't get better than this. Don't throw all caution to the wind and get lazy managing positions. Don't fight this either.



Russell 2000 and S&P 400 Dailies: The small caps and mid-caps paused for most of October but are starting to perk up. Both posted solid candles on Friday, and the mid-caps are at a new high. No complaints.



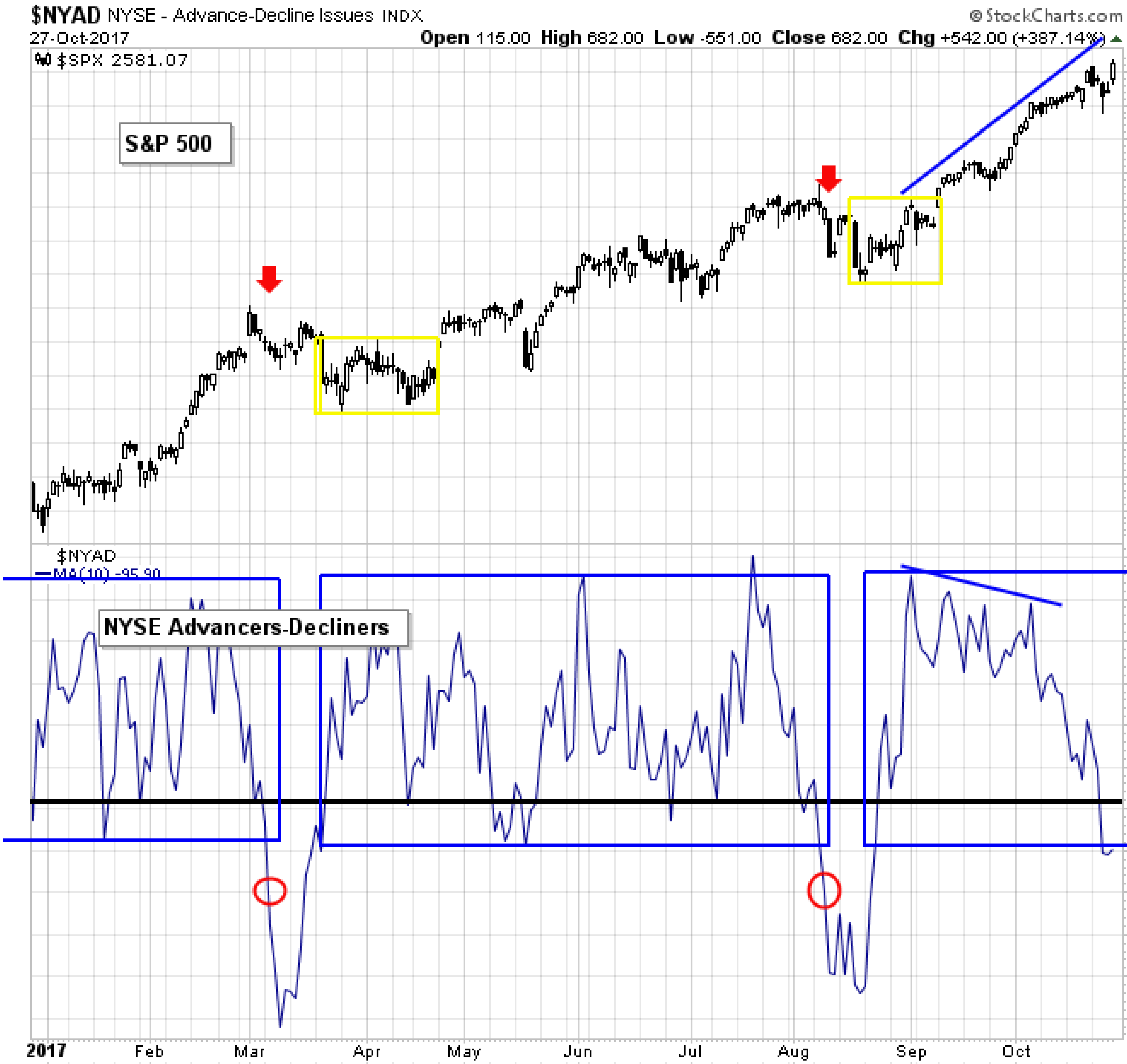
NYSE and NASDAQ Dailies: The dailies at the NYSE and NASDAQ are choppy and sloppy but remain in solid uptrends.



Indicators

NYSE Common Stock Only AD Line: Overall the common stock-only AD line at the NYSE remains in an obvious up trend, but if you look closely, it's starting to roll over. It means nothing for the overall picture, but in the near term it's notable considering several indexes are at new highs.

S&P 500 vs. 10-day MA of NYSE AD Line: The market is moving up, but the 10-day of the AD line is accelerating to the downside. It's now below 0 and at its lowest level in two months. It appears the market is being pulled higher by the large caps because there's a definite lack of participation in the near term.



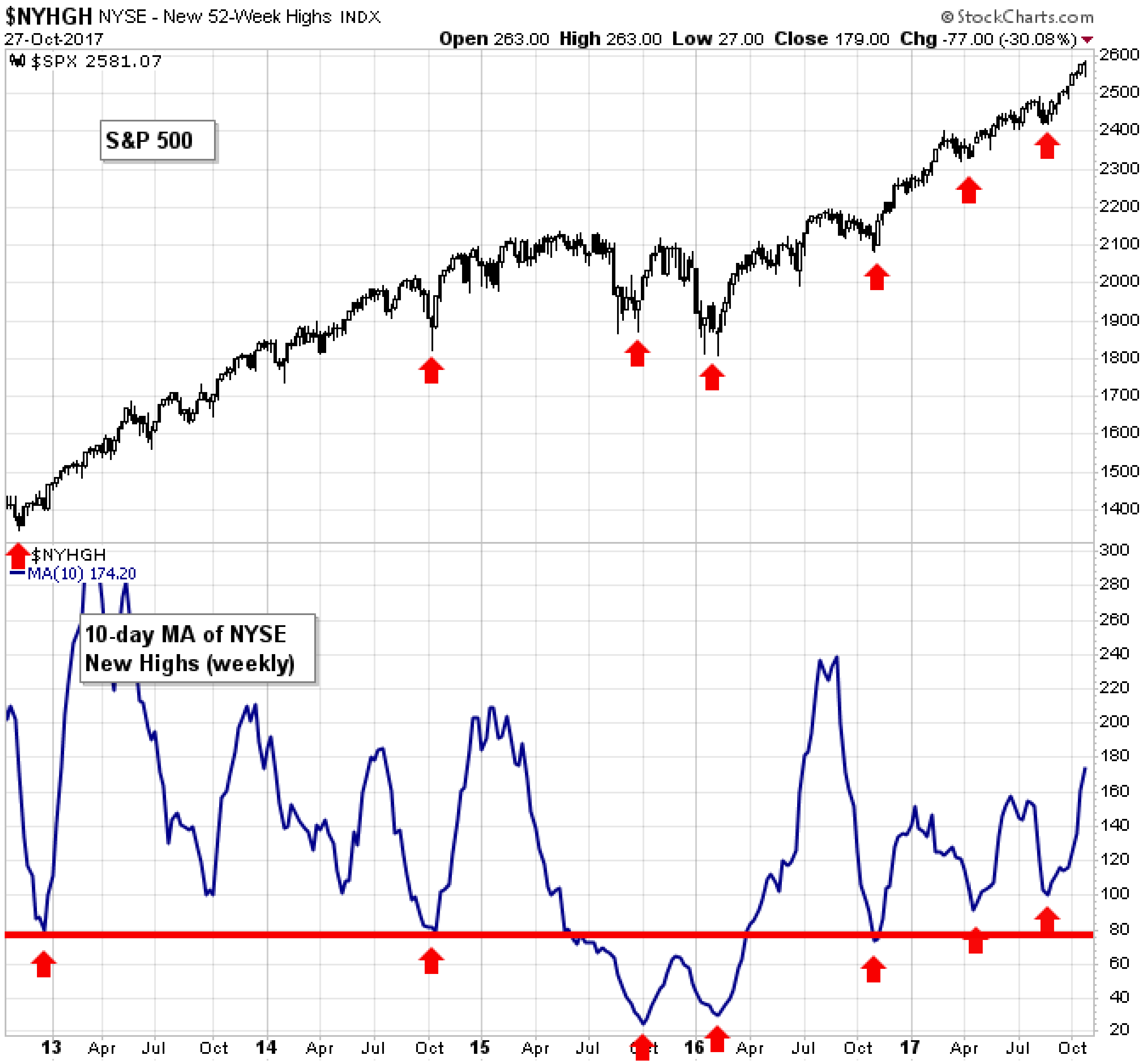
S&P 500 vs. NYSE Cumulative AD Line: Despite a lack of short-term support, the long term remains in great shape. The cumulative AD line is in a steady uptrend and is far from its 50-day MA.

S&P 500 vs. 10-day MA of NYSE AD Volume Line: The 10-day of the AD volume line also suggests some weakness. On the surface, FB, AMZN, MSFT, GOOGL and others are doing great, but there are enough stocks not doing well to cause this indicator to trend down for an entire month and hit 0 for the fist time since August.

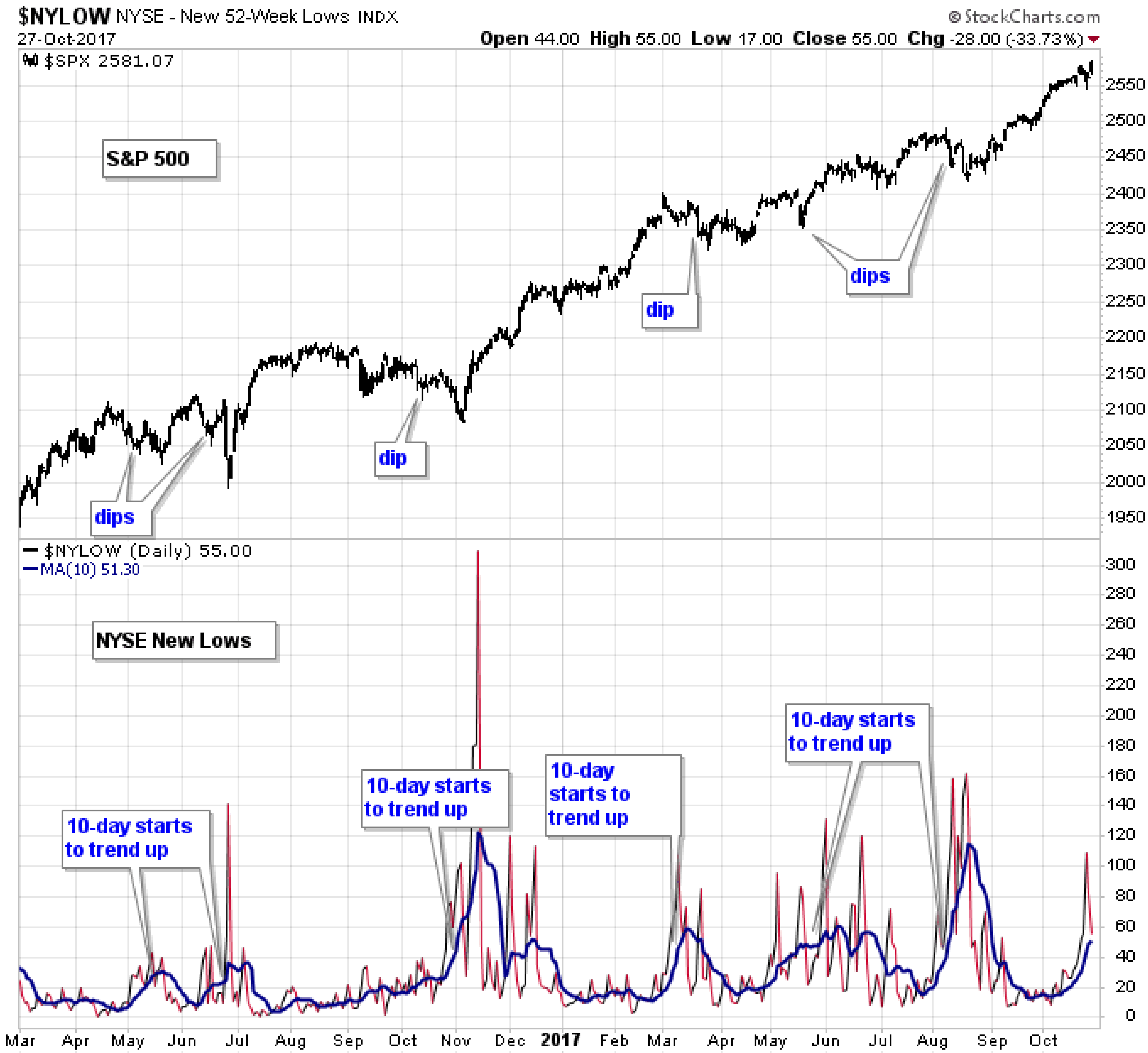
S&P 500 vs. NYSE Cumulative AD Volume Line: But the longer term picture remains rock solid with the cumulative AD volume line having broken out last month and currently sitting at a high.

S&P 500 vs. NYSE New Highs: New highs at the NYSE have been trending down this entire month - enough that the 10-day rolled over two weeks ago. This is another near term warning. With the entire market near all-time highs, why aren't more individual stocks matching the movement?

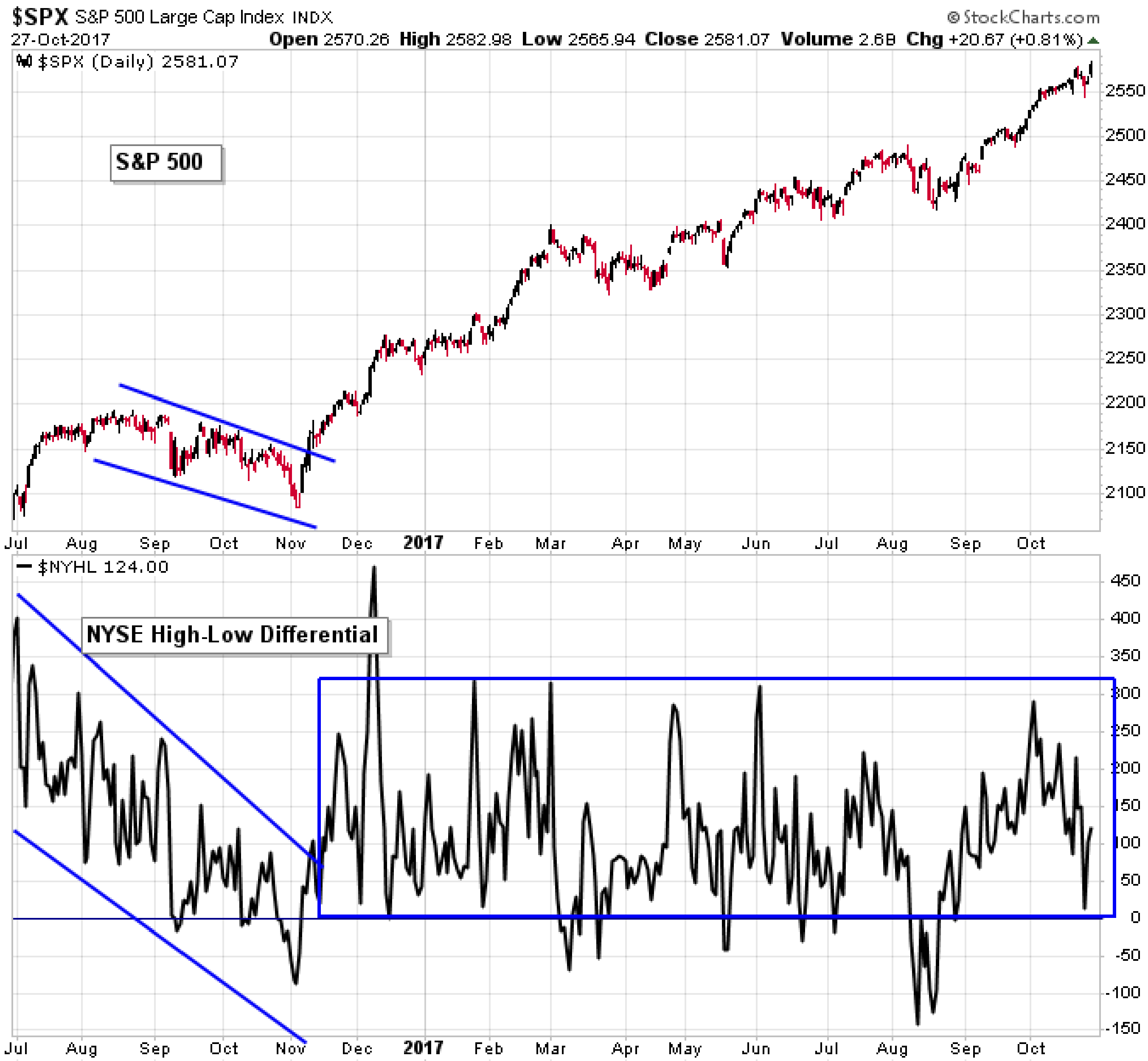
S&P 500 vs. Weekly NYSE New Highs: But despite the near-term warning, weekly new highs are at a 52-week high (and there's still room to move up before being considered overbought). The long term picture looks great.



S&P 500 vs. NYSE New Lows: With the near term drop in new highs, new lows have ramped up. A single spike isn't a big deal, but a cluster of spikes would be a warning. Keep an eye on this.



S&P 500 vs. NYSE New Highs - New Lows: With new highs waning and new lows moving up, the high-low differential dropped to 0. It's notable but not a concern unless the indicator hangs out at 0 or drops below it and fails to immediately recover.



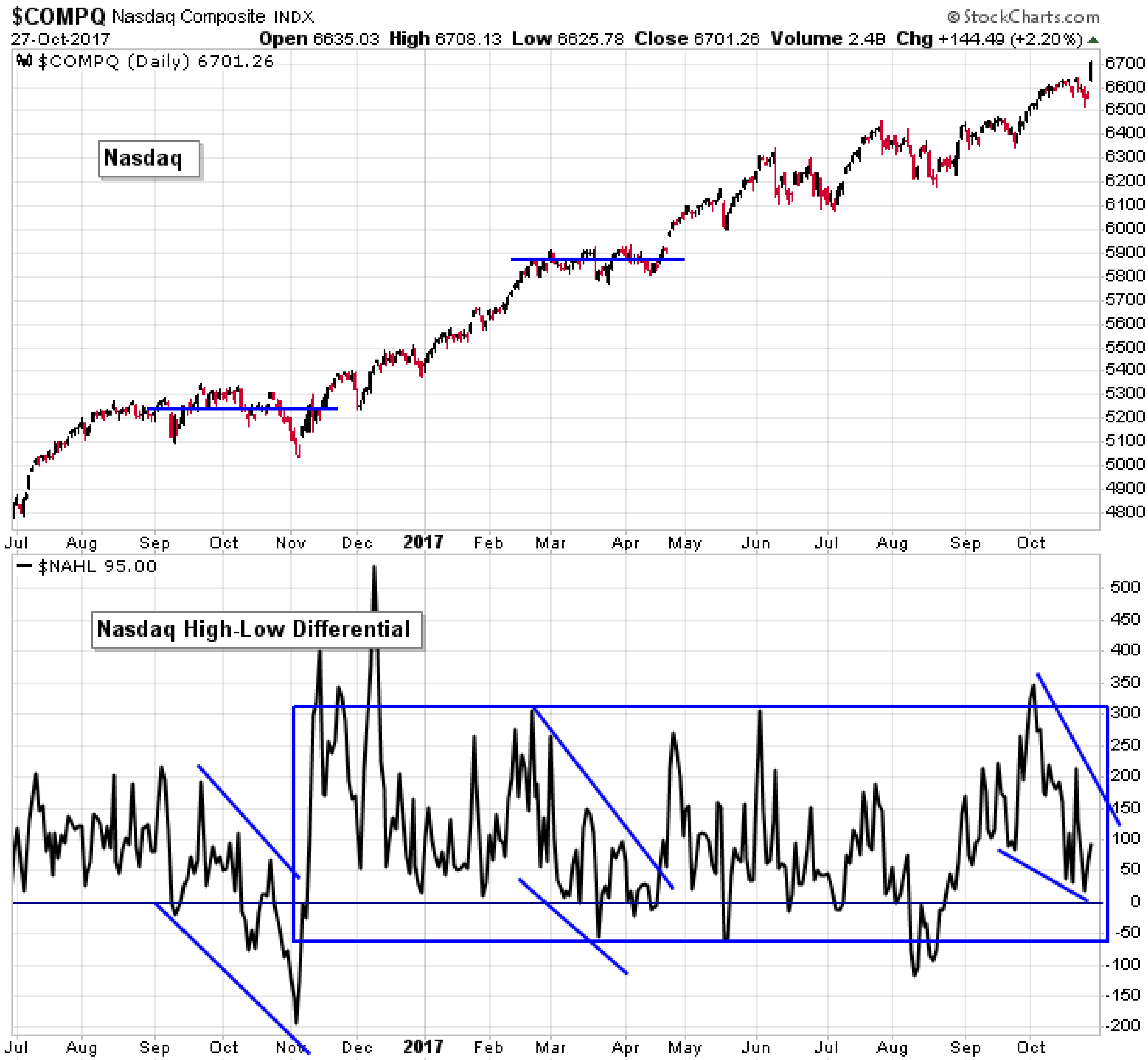
S&P 500 vs. Cumulative NYSE New Highs-New Lows: The cumulative high-low is still in great shape. In fact it continues to distant itself from its 50-day MA.

NASDAQ vs. NASDAQ New Highs Despite the Nas gapping up to a new high, new highs from individual stocks listed at the exchange have been declining all month. Not all stocks are participating.

NASDAQ vs. Weekly NASDAQ New Highs But weekly new highs just surged to their highest level since early-January. It's not until this indicator trends down for a while that the bulls should be worried about the intermediate term, so for now the market is in good shape.

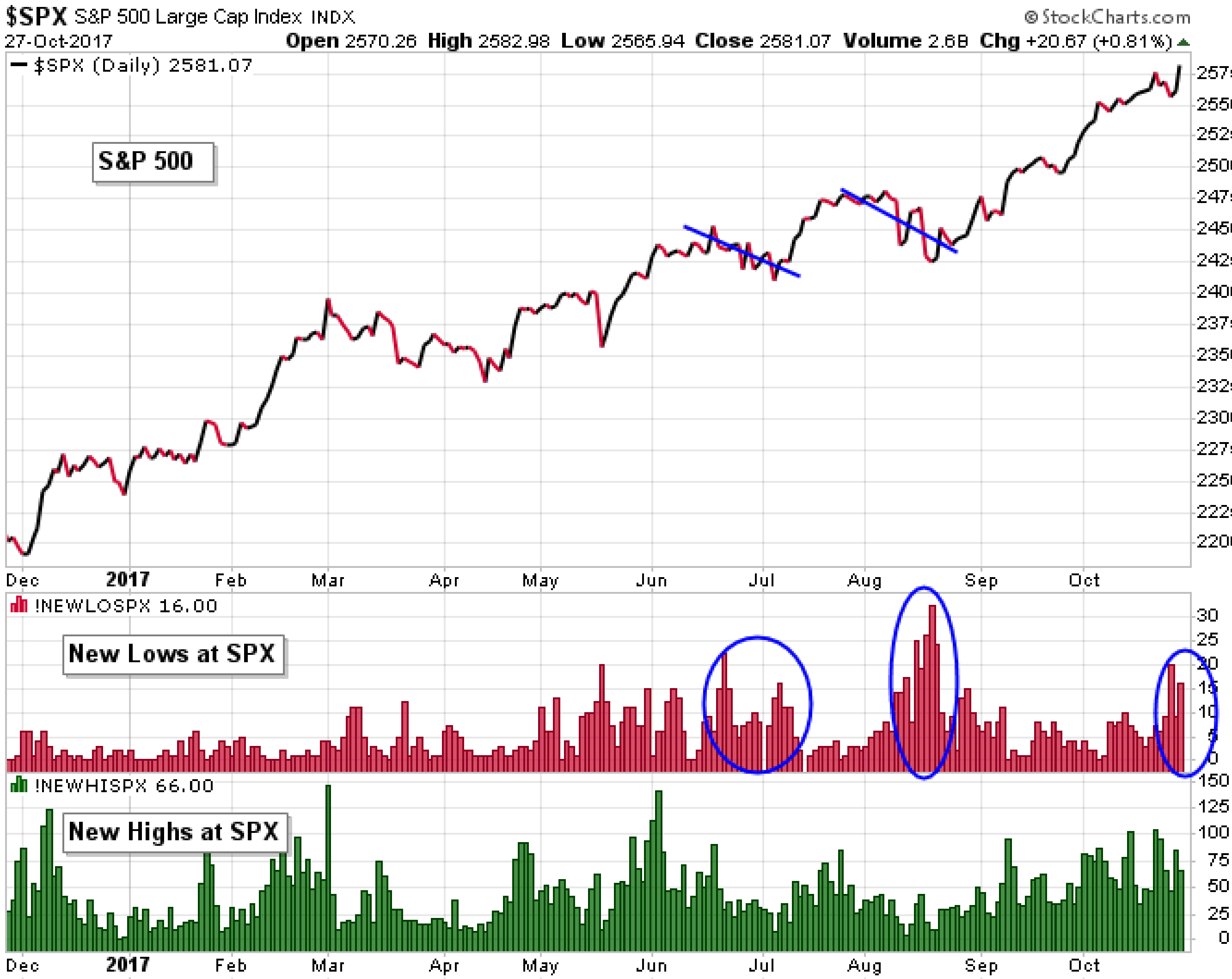
NASDAQ vs. NASDAQ New Lows New lows at the Nas have been moving up for three weeks. This chart is posted for the sake of completeness. I find the NYSE version to be much more telling and reliable.

NASDAQ vs. NASDAQ New Highs-New Lows It doesn't seem right the high-low differential is trending down while the Nas is not just trending up, but as of Friday's close is at an all-time high.

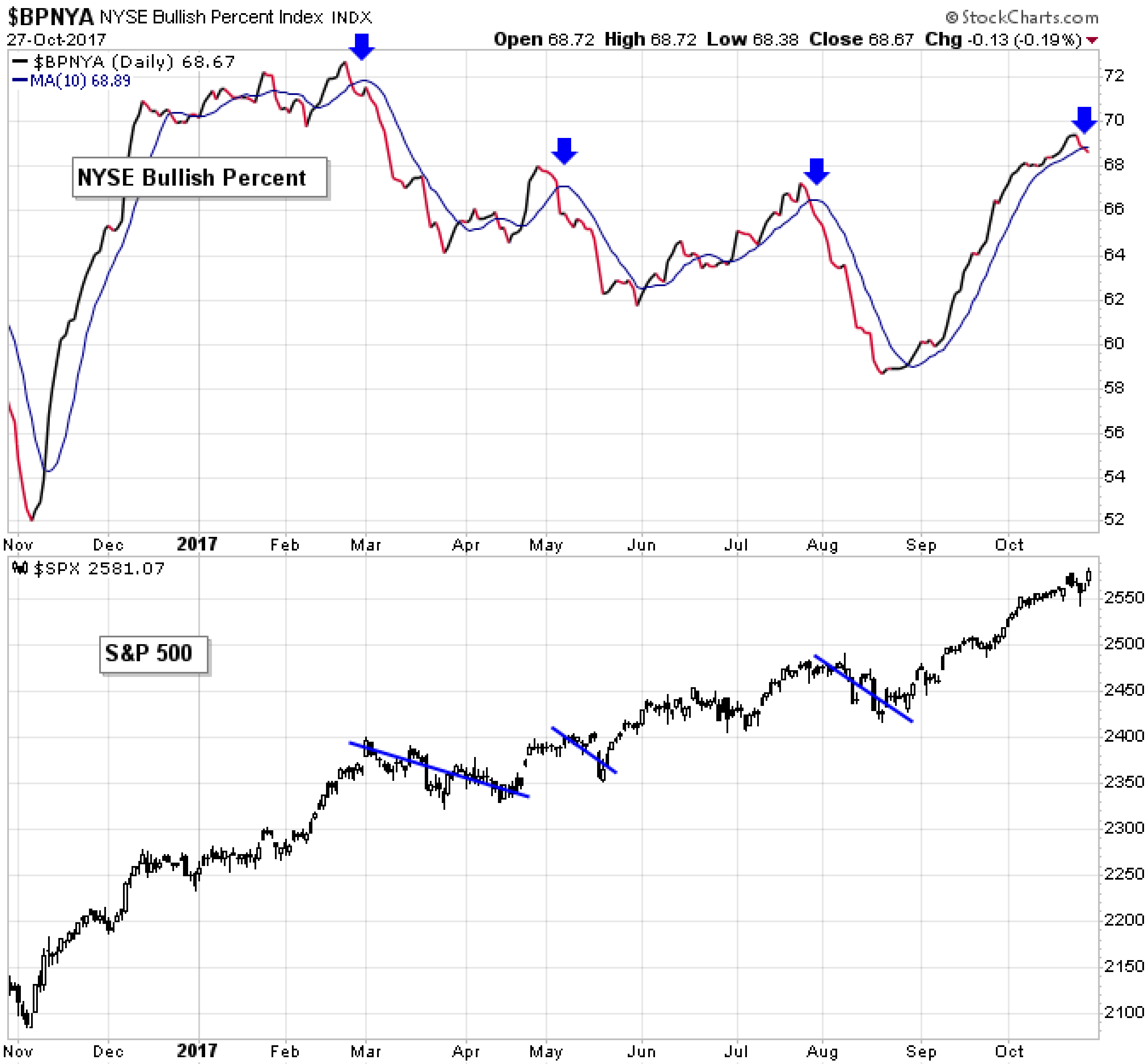


NASDAQ vs. Cumulative NASDAQ New Highs-New Lows But the cumulative version of the Nas high-low continues to push higher. The intermediate term is in solid shape.

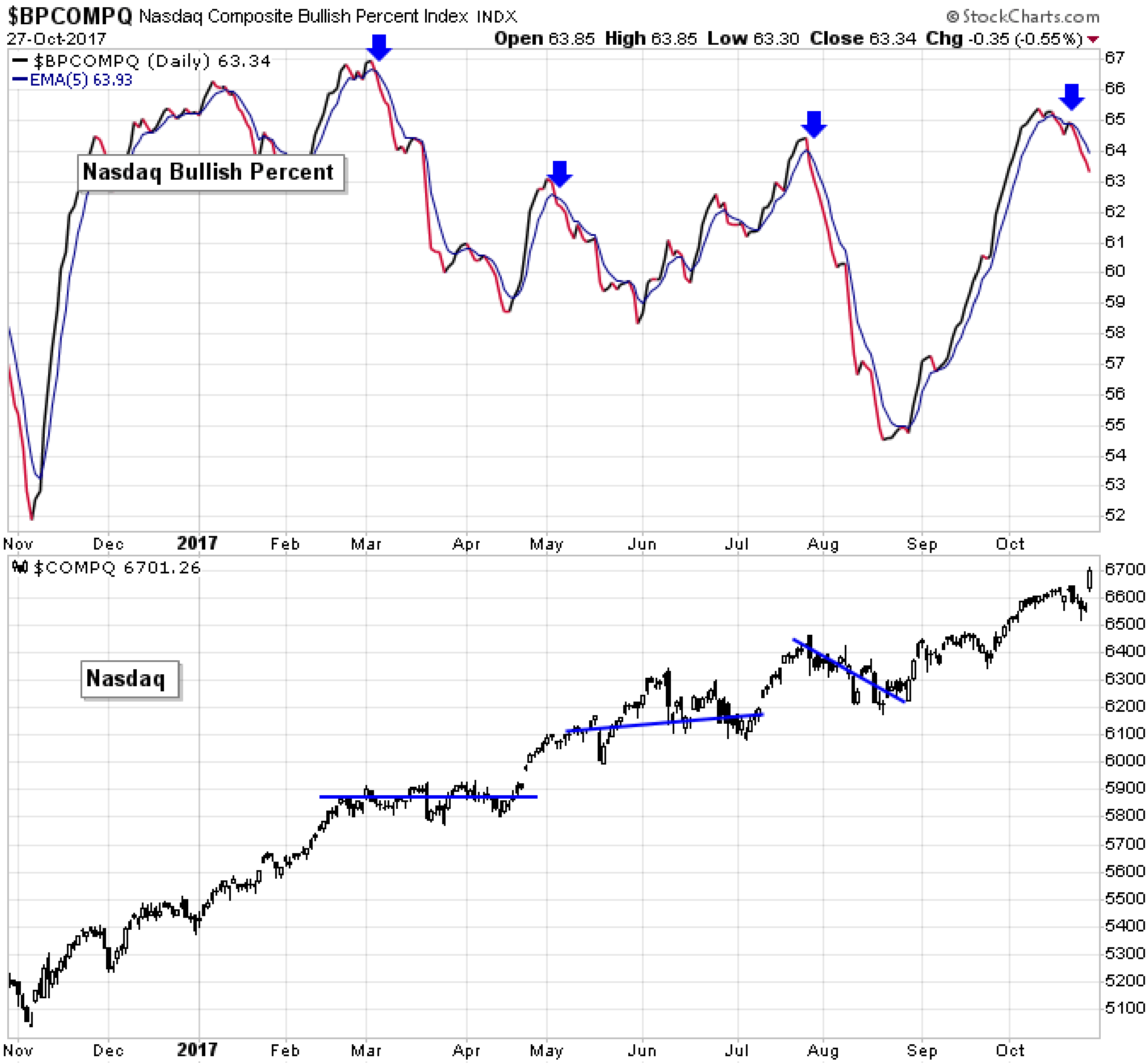
S&P 500 vs. SPX New Lows and New Highs: Here are new highs and new lows at the S&P 500. Previous new low spike clusters have accompanied market resting periods. We got a couple spikes last week. If we get a few more, odds will favor a slight correction.



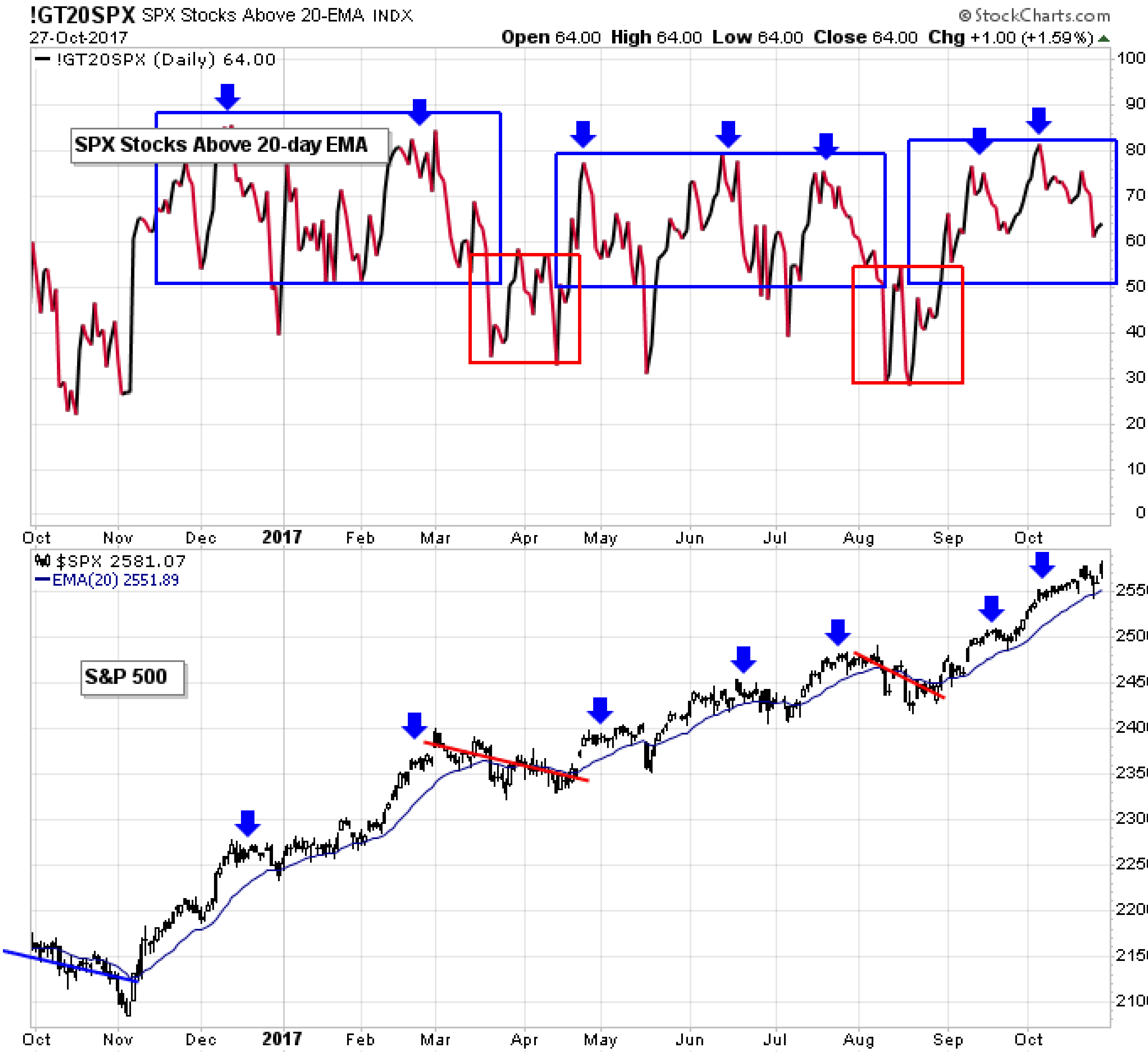
S&P 500 vs. NYSE Bullish Percent: The bullish percent at the NYSE is rolling over and has taken out its 10-day MA. It could recover, and we can get a repeat of December, January and February, but if it doesn't, the market will pull back some.



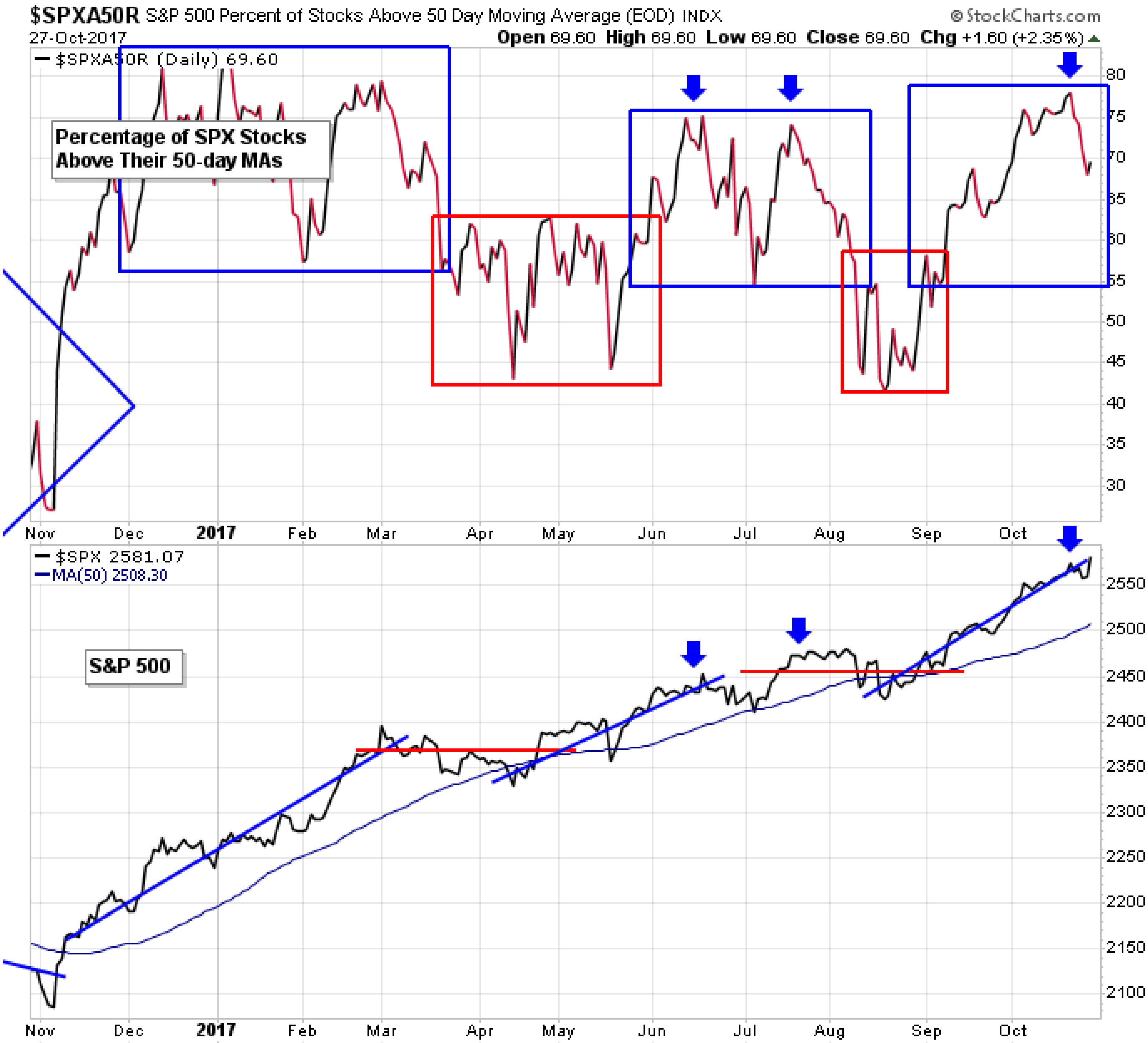
NASDAQ vs. NASDAQ Bullish Percent: The bullish percent at the Nas has also taken out its 10-day.



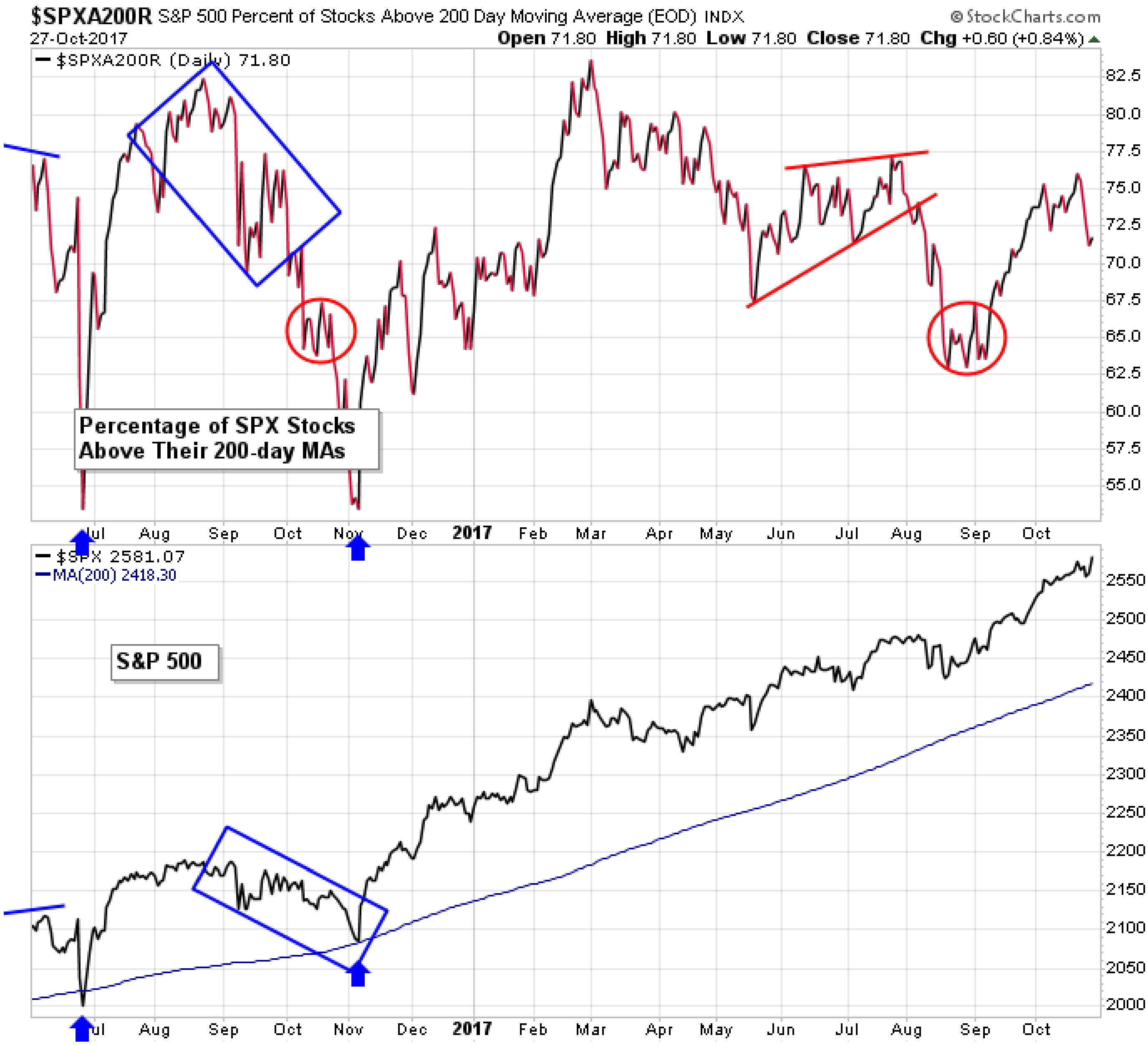
S&P 500 vs. Percentage of SPX Stocks Above 20-day MA: The percentage of SPX stocks above their 20-day EMA is supportive of the overall trend, but since it rolled over at the beginning of the month, it's not exactly supporting more upside in the near term.



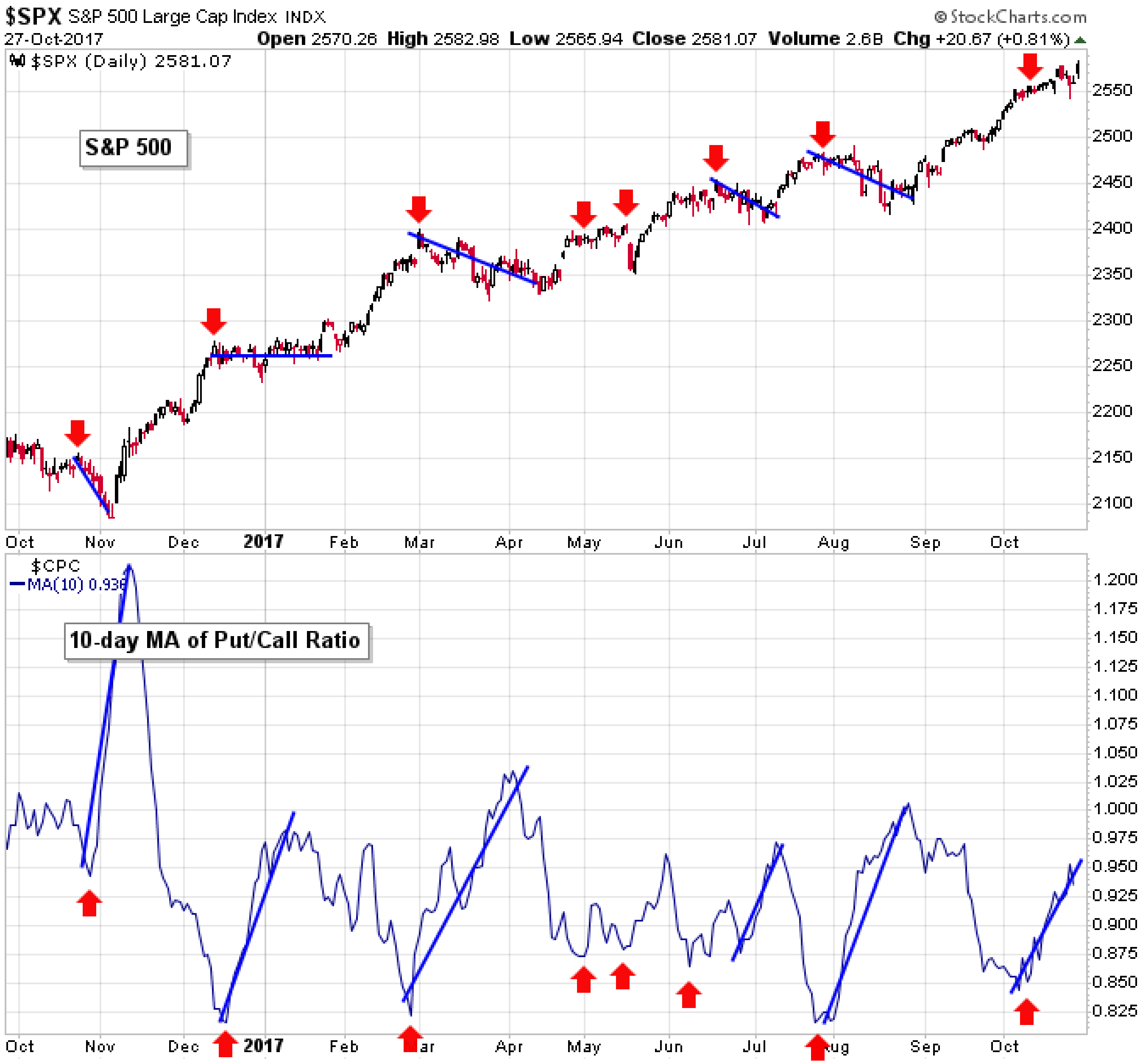
S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: The percentage of SPX stocks above their 50-day MAs is also heading down. Despite the indexes being at their highs, the number of stocks above this key moving average has declined. This isn't necessarily urgent, but something will have to give eventually.



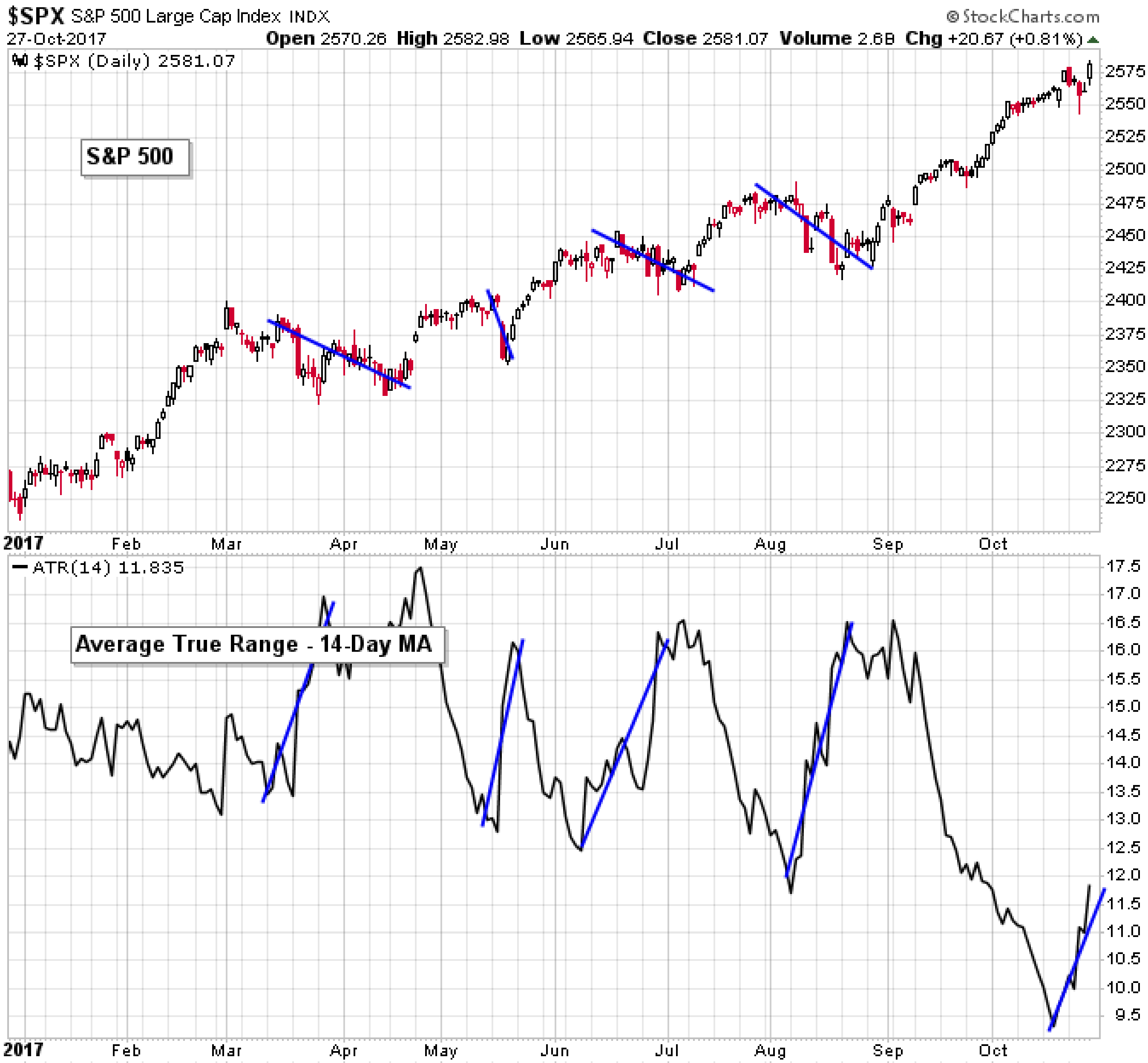
S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: Ditto for the percentage of SPX stocks above their 200-day MAs. It's heading south again despite the market moving up.



S&P 500 vs. 10-day MA of Put/Call Ratio: The put/call continues to move up - something that tends to accompany pullbacks. But it's not happening. Something has to give.



S&P 500 vs. 14-day Average True Range: The average true range is also move up. This also accompanies pullback. Pressure is building.



The Bottom Line

There's a pretty consistent theme here. The long term trend is strong and healthy and well supported. The near term is not. The AD line is declining. New highs are falling off. The bullish percent charts are starting to roll over. The percentage of stocks above key moving averages are heading south. The put/call and ATR are moving up. Beneath the surface some deterioration is taking place, despite the indexes moving up.

Something has to give. Either the short-term indicators need to quickly improve, or Friday's gap up and strong finish will prove to be a blow-off top (in the near term).

I'm not rooting either way. Just noting the market isn't going to keep pressing higher unless more stocks participate.

Have a great week.

Jason Leavitt
Jason@leavittbrothers.com