Leavitt Brothers

Weekly

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We entered this past week thinking the mini correction which began the prior week had a little more to go due to several breadth indicators that were suggesting some internal deterioration had taken place. The bullish percent charts were doing well but not great; the percentage of stocks above various moving averages was lagging, suggesting a lack of participation; the AD line and AD volume line had moved up, but didn't print as high of a number as you'd expect given the rally off the November low. Overall I liked the market and expected higher prices, but in the near term a little more weakness was likely in order.

It turns out the market had other ideas. The S&P moved up all five days last week, sandwiching a huge up day on Wednesday with small up days before and after. The lock-out, idiot mode, Energizer Bunny market that keeps going and going was back. Except for the Nas 100, which is only a fraction of a percent from its high, every index moved to a new all-time high.

Things happen very fast these days. Instead of news shifting sentiment and the market slowly reacting over several months, it's as if the market reacts all at once. And if you're not there at the beginning of the move, you either chase or get left behind because there are almost no second chances. Buying begets more buying which begets even more buying. In fact there are many consecutive days where dipping into the previous day's range doesn't happen.

The rally after the Brexit vote was swift and forceful. The one-directional move after the election has been undisputed. The new normal is sentiment changes fast, and once the ball gets rolling, it doesn't stop. The market doesn't let the under-exposed bulls in, and it keeps hammering away at the bears who constantly try to pick tops. Relentless is a good word. Even many old-timers are sitting back and shaking their heads at the state of things.

The rotation of money out of certain groups and into others has been obvious and somewhat easy to follow. Financial are strong. Industrial metals have posted big gains. Oil stocks are doing well. Airlines and restaurants have provided good trading opportunities. Gold & silver, which I turned negative on in late August, continue to be very unattractive places. Utilities are not a place to be, and many other safe-haven groups are lagging enough to not warrant our attention.

Looking forward...

There's an FOMC meeting next week. It's a virtual lock they raise rates - with the market at all-time highs, if they don't raise, they should all be fired immediately. Higher rates are fully priced in, so there should be no surprises. But Wall St. will want to know if this is a one-off event or the start of a new trend. A slow, gradual increase is something Wall St. would be perfectly fine with, but several raises in a row probably won't be welcomed. There shouldn't be a big reaction, although you never know. Fed moves are sometimes random and don't make sense. Embrace the news or sell the news? Either reaction is possible.

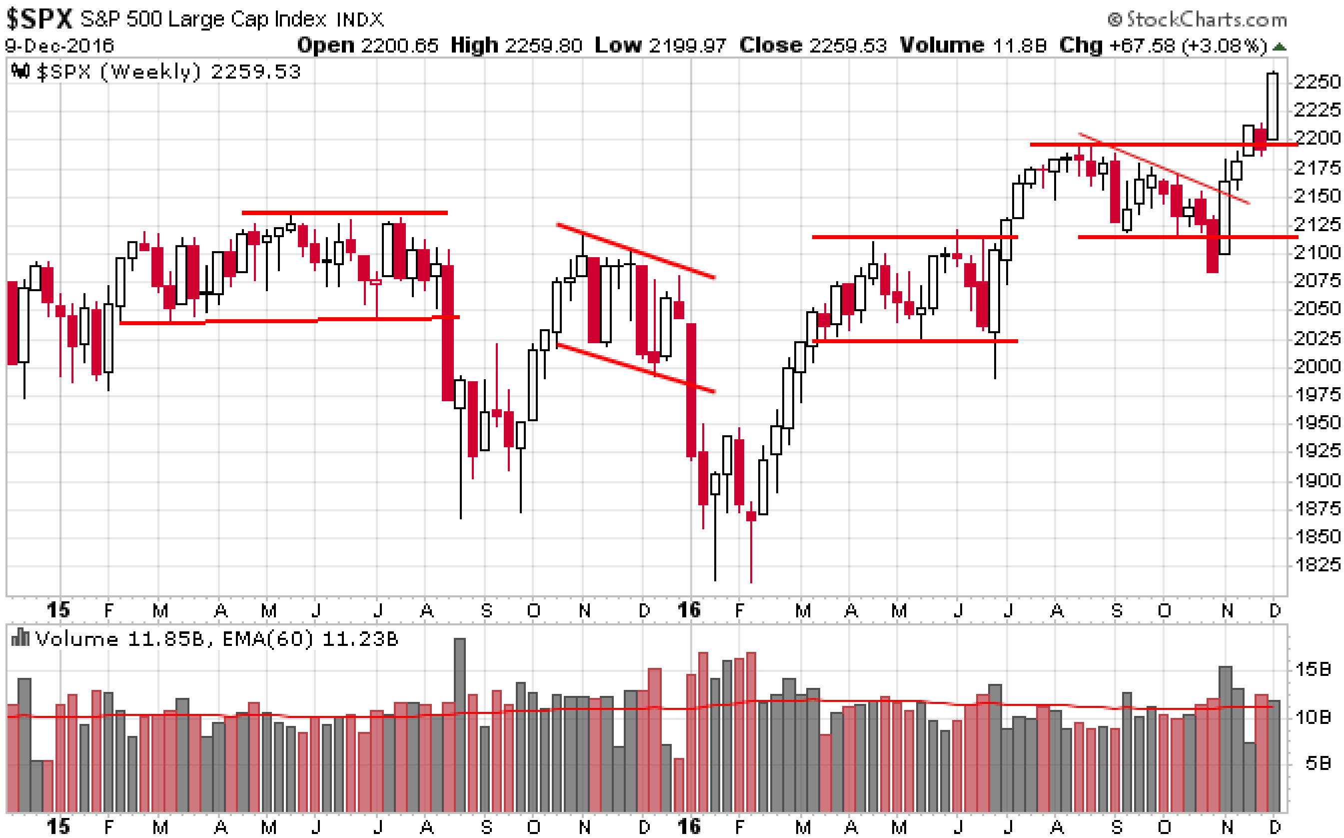
Besides this there are many economic reports out. It'll be a last chance for the market to react to something before things dramatically slow down into the end of the year.

The trend on all time frames is up. The only side of the market to be on is the long side. But despite this, we need to be more careful here. I'm not going to call a top, but the pace of the advance isn't sustainable. Be careful initiating new longs and have a plan for existing positions. If you're shorter term, you can't give them much room to move against you. If you're longer term, sitting through a dip within a strong uptrend is necessary if you wish to nail bigger moves.

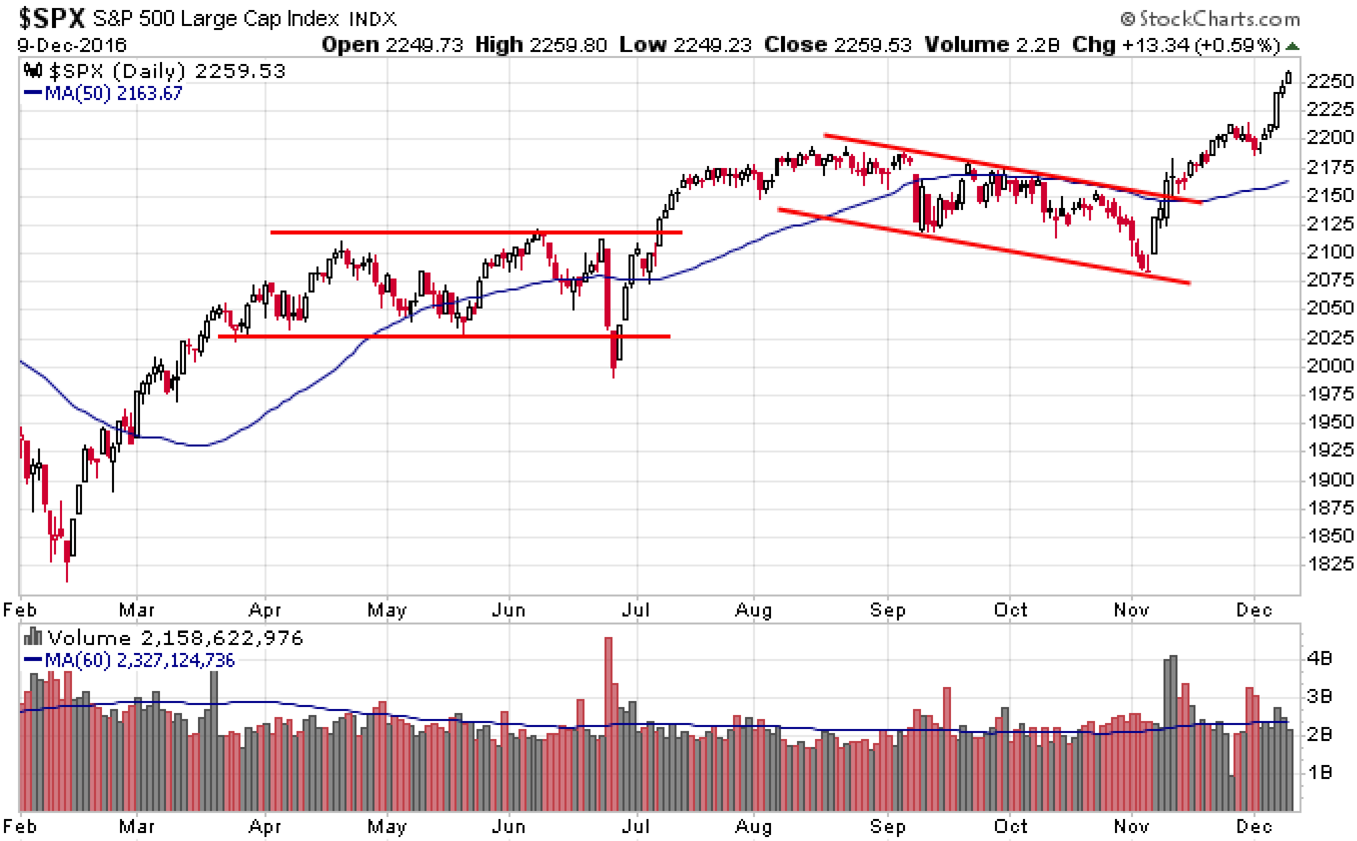
Let's get to the charts and see what they say. Have the breadth indicators improved? Do they support the continuation of the rally? Let's find out.

Indexes

The S&P 500 Weekly: Boom! One week break and then off to the races again. The S&P broke out over the summer, drifted down and tested the pivot area and then took off. Textbook stuff here. The trend is up. Period.



The S&P 500 Daily: The S&P has alternated between trending up and resting. If you zoom in very close, there have been some frustrating dips, but if you back up and see the bigger picture, the long term bias has always been to the upside. A measured move takes the index to about 2300, the target I set over the summer.

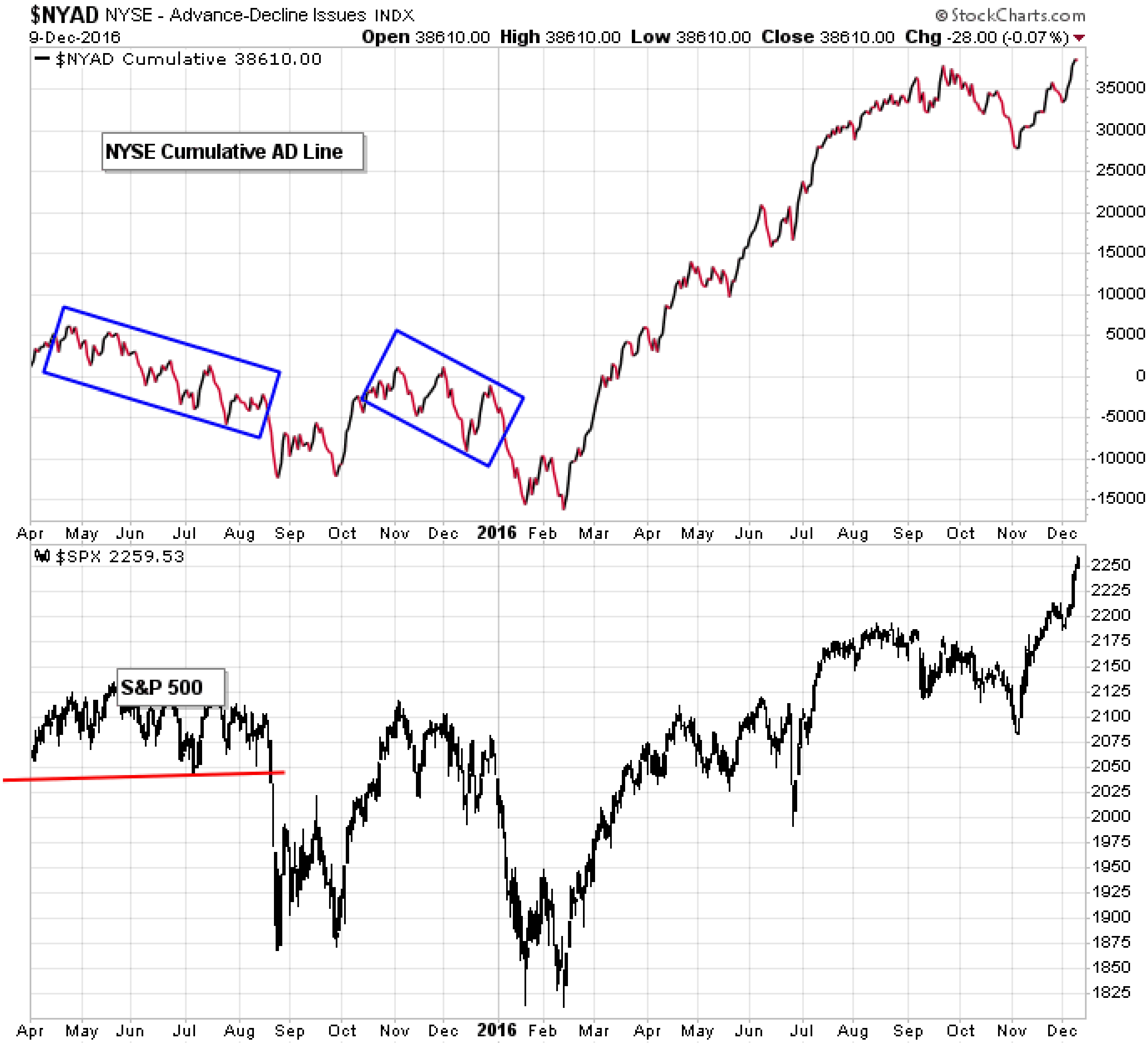


Small Caps (Russell 2000) vs. Large Caps (S&P 500): The market clearly does better when the small caps lead, which is the current case.

Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: Five consecutive up days last week couldn't help push the 10-day of the AD line up. Next week those down days will fall off the calculation, so if this indicator can't move up, it'll definitely be something to note - the fact that advancers are beating decliners but not dominating them.

S&P 500 vs. NYSE Cumulative AD Line: Consistent prints above zero have enabled the cumulative AD line to move to a new high. And unlike summer and early-winter of 2015, when the indicator moved down, there are no warnings. The market's upside is well supported.

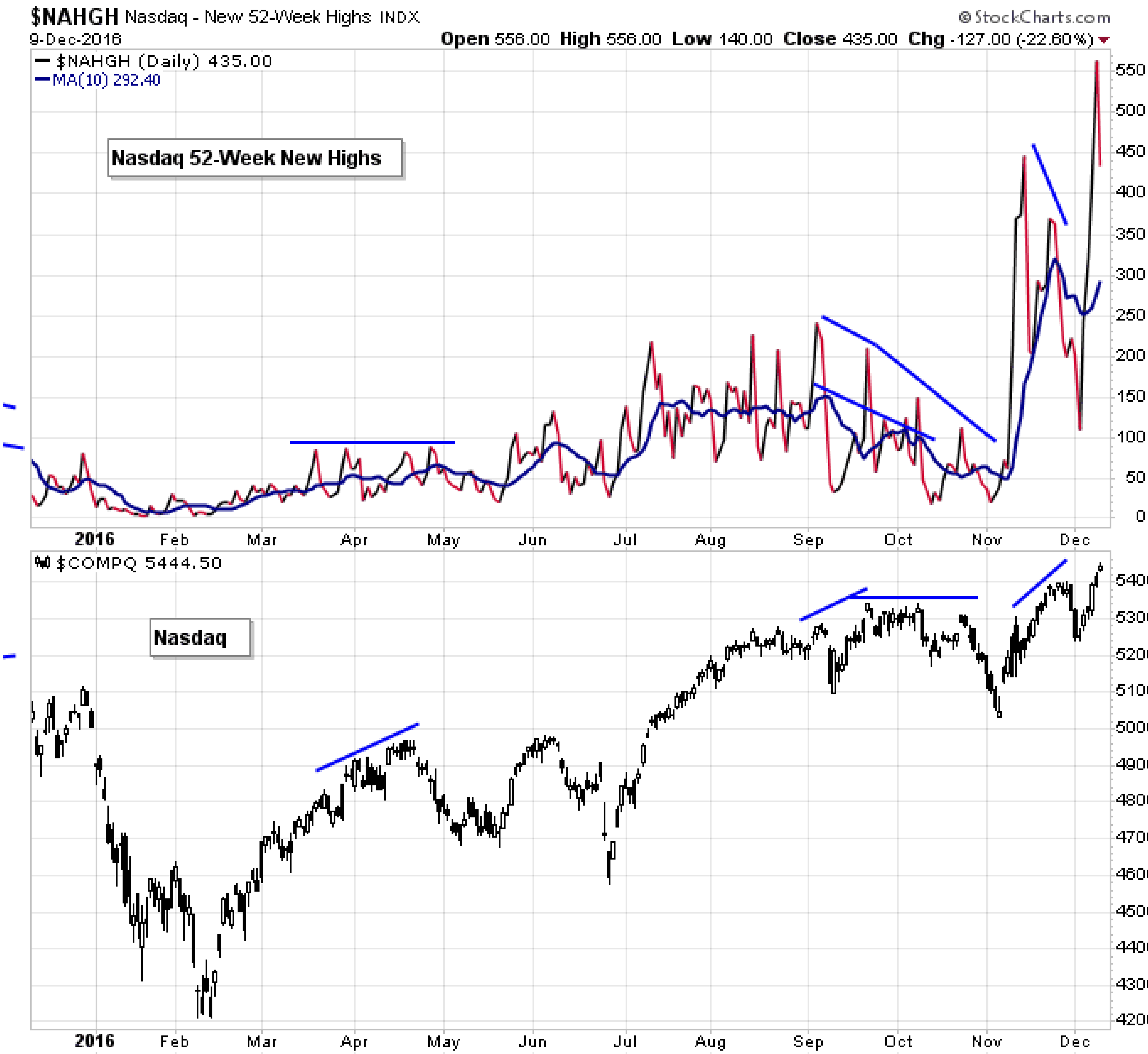


S&P 500 vs. 10-day MA of NYSE AD Volume Line: The AD volume line hasn't moved much off its recent low. The market's move last week had energy, but a look beneath the surface tells us advancers are not dominating. Ideally we'd see a higher print, suggesting strong support. Instead we're getting moderate support.

S&P 500 vs. NYSE Cumulative AD Volume Line: The cumulative AD volume line is well into new high territory, so although advancing volume hasn't dominated declining volume, it's winning the long and steady race.

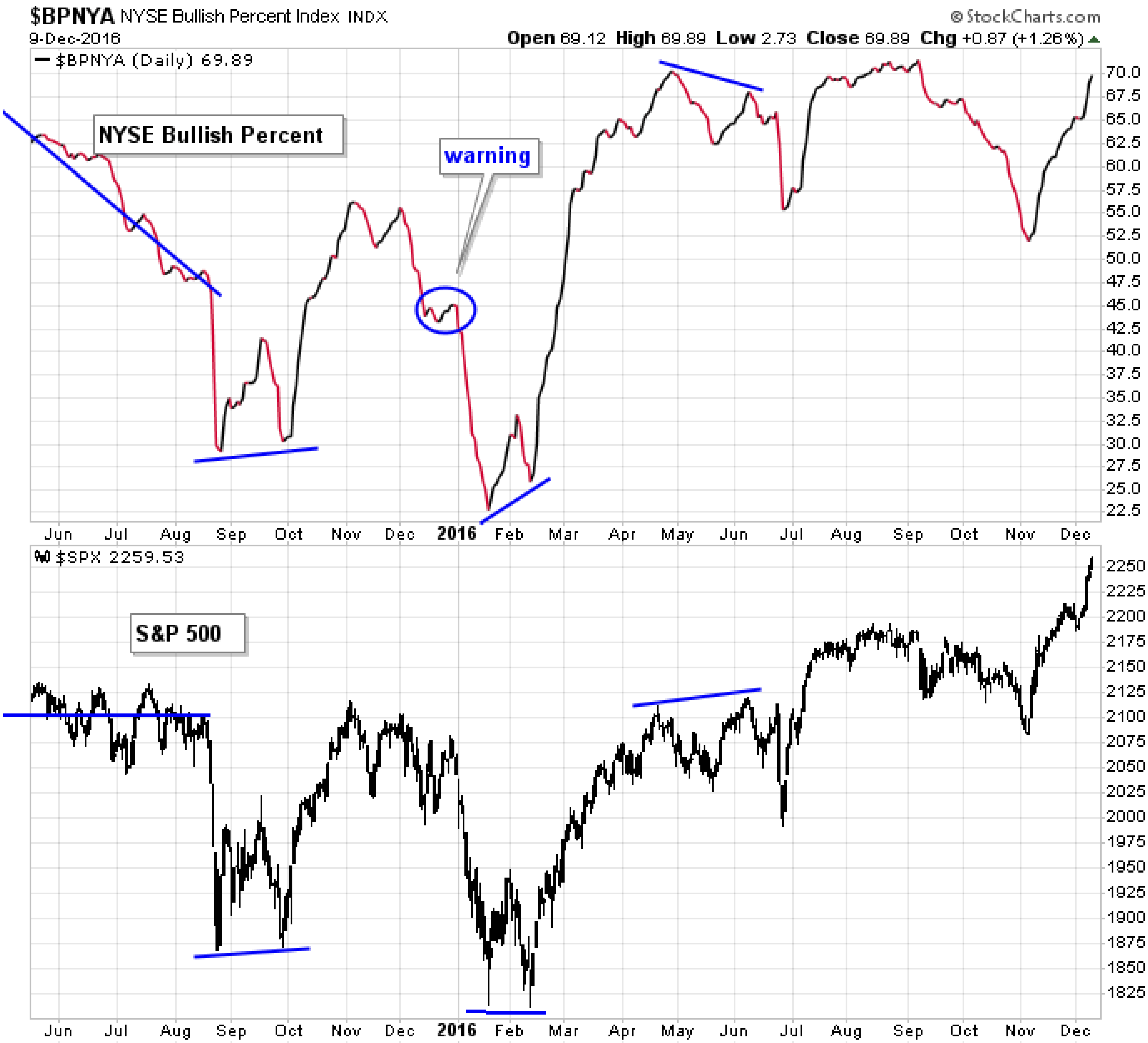
S&P 500 vs. NYSE New Highs: New highs at the NYSE spiked last week - exactly what the bulls want to see. The 10-day is close to taking out its July high, which was the highest print since 2013. And as a point of reference, tops typically don't form until the 10-day trends down for a month or two, forming a negative divergence with the price action, so the rally should have legs.

NASDAQ vs. NASDAQ New Highs New highs at the Nasdaq also spiked last week. This is the highest single-day print and 10-day print (last month) in more than 10 years. With the Nas at a new all-time high, this is exactly what you want to see.

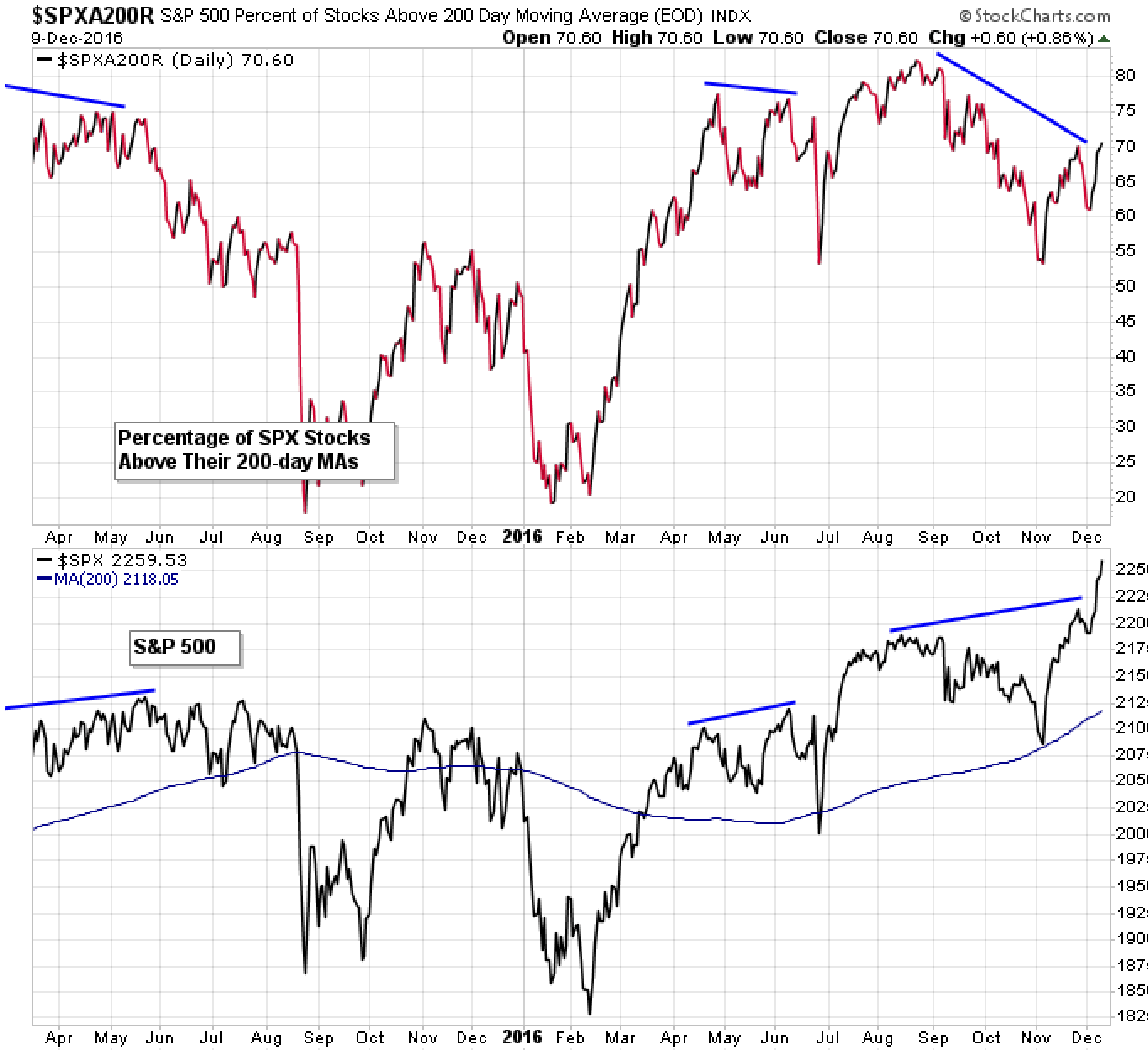


NASDAQ vs. NASDAQ Bullish Percent: The bullish percent at the Nas moved to a new high, but it isn't exactly surging. Despite the index itself being at an all-time high, there is a slight lack of participation. The indicator is still in great shape...just think it should be doing a little better. But on the bright side, it has room to improve.

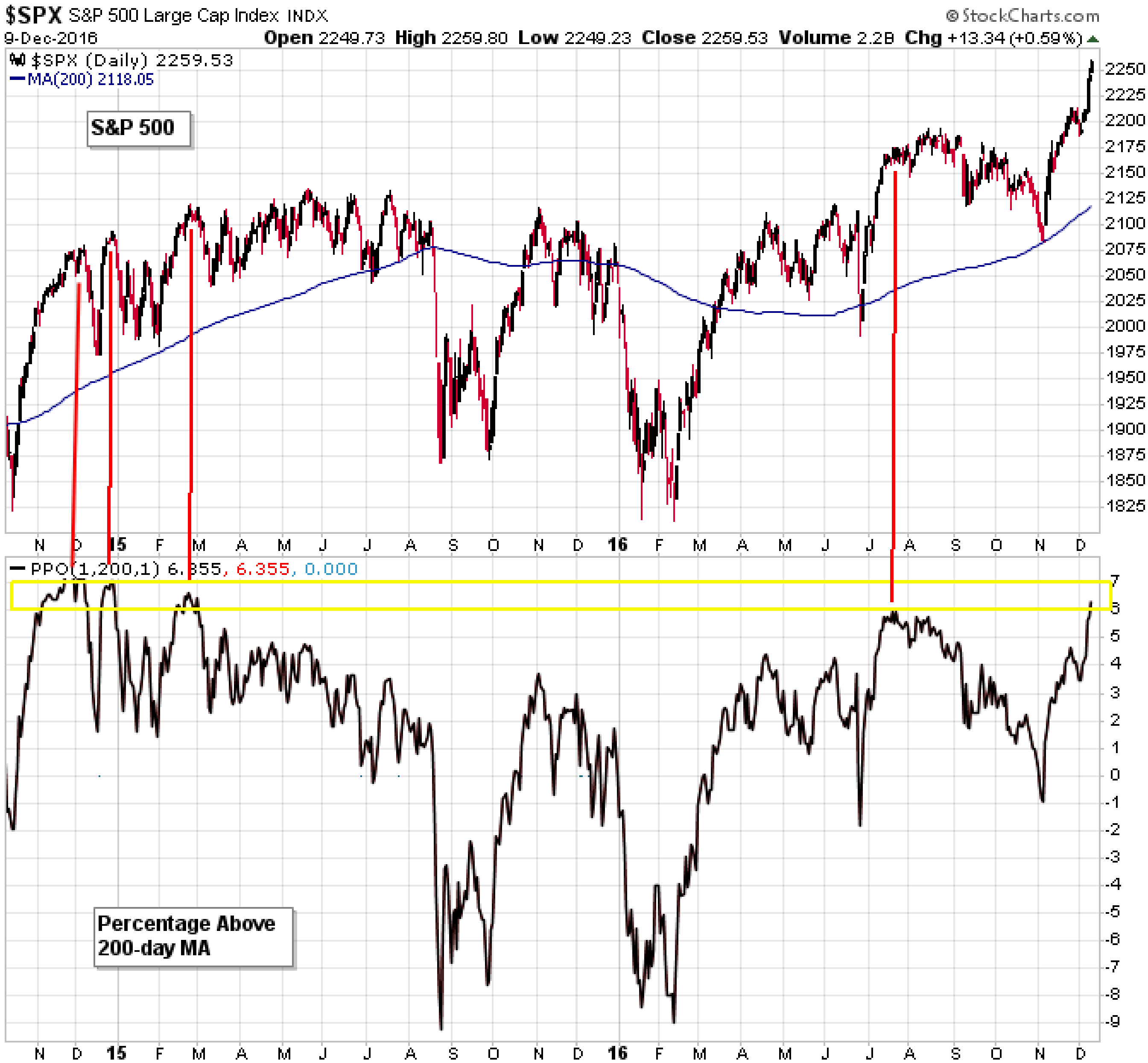
S&P 500 vs. NYSE Bullish Percent: The bullish percent at the NYSE continues to improve. The print is not where the bulls want it to be, but the trend certainly is.



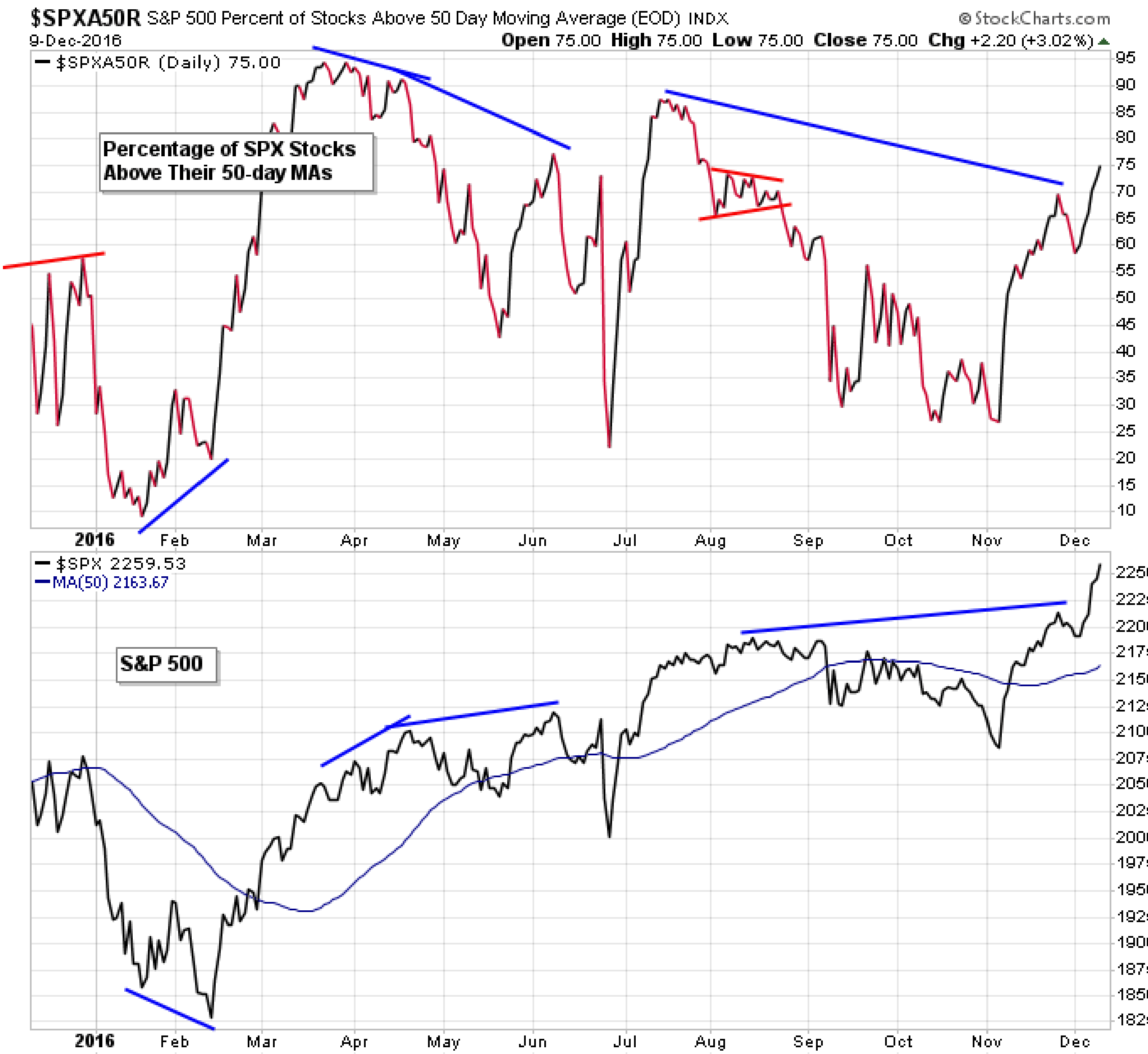
S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: The S&P bounced off is 200-day last month and is now 130 points above it, but some stocks are being left behind. Only 70% of S&P stocks are above their own 200-days. That's a decent print, but not as good as you'd expect given what the market has done.



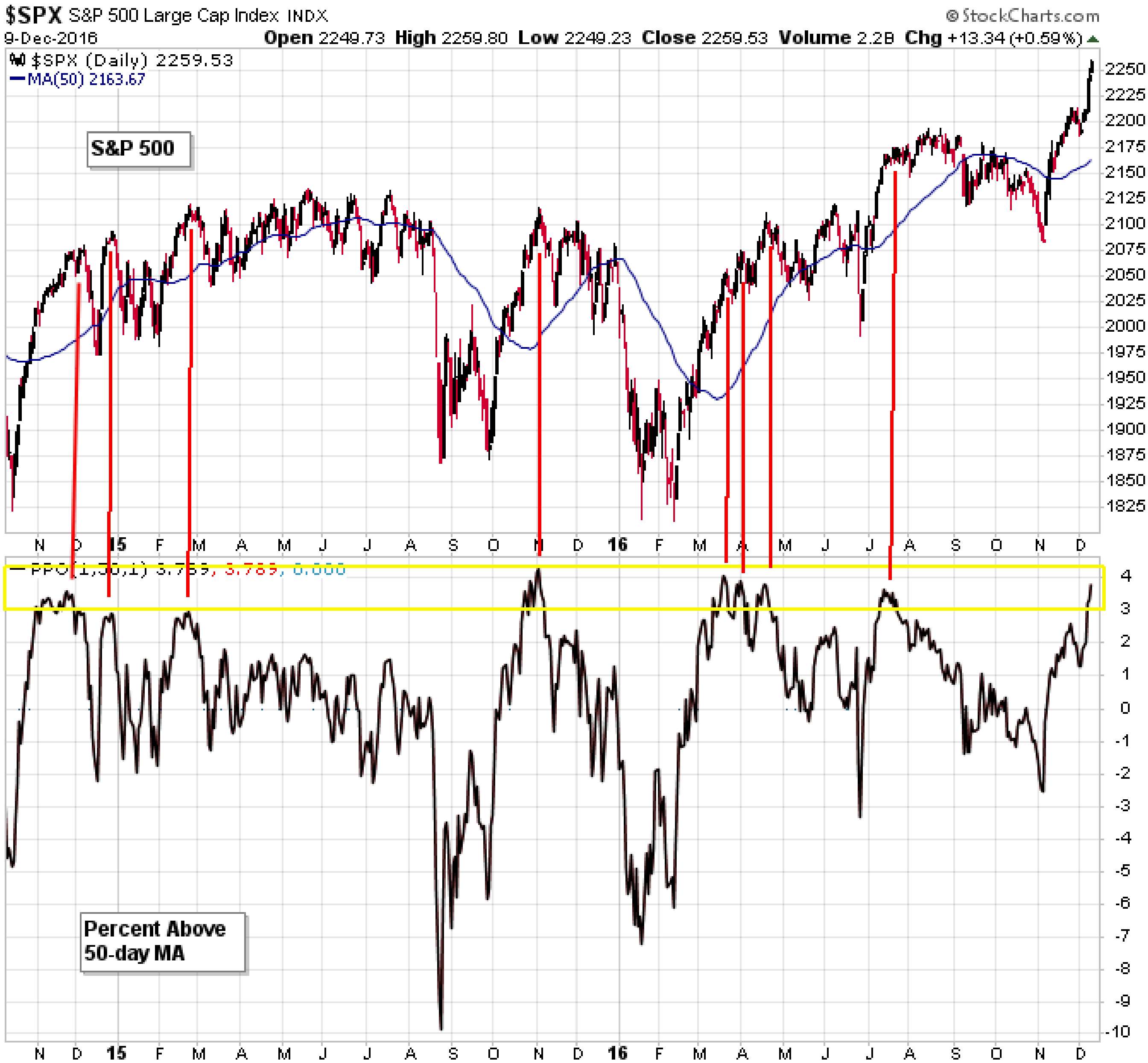
S&P 500 vs. Percent Above 200-day MA: And in case you're wondering, the S&P is currently 6.4% above its 200. The range between 6-7% has produced some tops the last two years. This at least puts things in perspective. The market is getting a little extended.



S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: The S&P is also stretched from its 50-day MA, but the percentage of SPX stocks above their own moving averages is well below previous highs this year. Like I said above, perhaps we should look on the bright side and note the upside improvement potential instead of the negative divergence. What else can I say? The market is going up and doesn't seem to care about these indicators.



S&P 500 vs. Percentage Above 50-day MA: As another point of reference, the S&P is also extended from its 50. Other extensions into the 3-4% range resulted in minor dips (March/April) or bigger pullbacks. In either case, the indicator wasn't ignored for long.



US Dollar: The dollar started the weak on a down note but ended strong. First target remains 108; second target 120. Higher dollar and higher rates? Fun stuff.

The Bottom Line

The market ignored some short-term warnings and jumped again last week. All the indexes are at or very near all-time highs.

The market cannot continue at this pace, but it would not be wise to guess when the momentum will slow.

The FOMC meeting next week could be a turning point - not a turning point with regards to the trend, a turning point with regards to the pace of the advance. Perhaps once it's officially over, Wall Street will realize enough is enough and a little prudence is necessary.

Anything goes in the near term, but I'm confident more highs will be made in the weeks and months ahead. For now the long term trend is well supported, so the rally should have legs into the new year.

Have a great week.

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