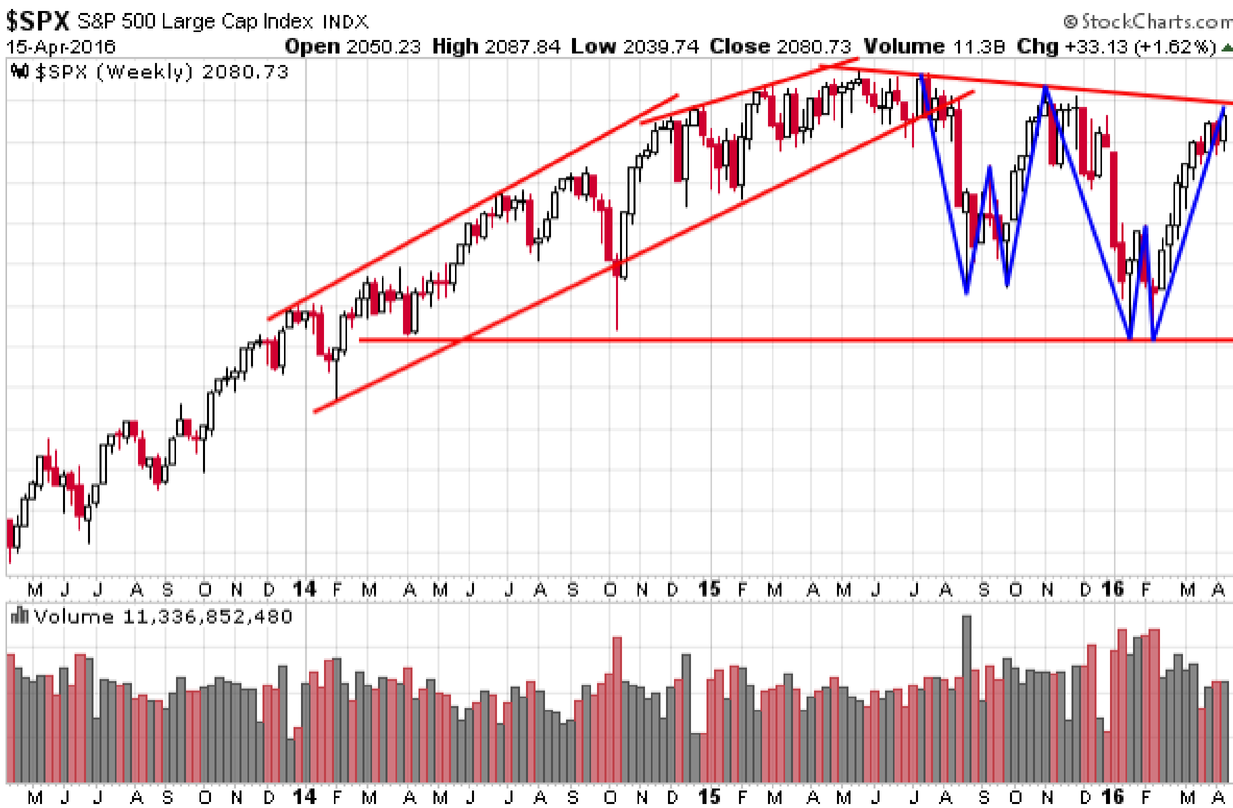
Stock Market Update

4-20-16

The S&P500's uptrend slowed in 2015 and we had the first big pullback in the market at the end of summer into early this year.



Price quickly recovered beginning in mid February, when the price of oil bottomed at $26 a barrel. The market bottomed with it because the risk of oil company bankruptcy is reduced as the price of oil rises. The S&P500 rallied up to resistance and formed the right side of the 2nd W pattern shown above. This chart shows us the character of the market has changed we have seen much more violent moves to the downside in recent months than we saw in the previous few years. Let's take a look at the market internals and gauge the overall health of this rally.

S&P500 vs. 10-dayMA of the NYSE Advance-Decline Line

Measuring how many stocks advance during a rally helps us better understand the strength of a rally. Are just a few giant stocks like Apple, GE, McDonalds, and Amazon holding up the market? Or are all stocks participating, indicating an overall stronger rally? If more stocks are doing well, theoretically it helps us understand the overall health of the economy. If the economy is humming along, almost all companies should benefit.

As this rally from the February low has gone higher, the A-D line has diverged and is making lower highs. This is not supportive of higher prices. Look back in Sep and Oct, as the market went higher, the A-D line went lower and eventually the S&P500 rolled over as well. I will need to see the A-D line begin to improve soon in order to expect the stock market rally to continue. This indicates caution is warranted.

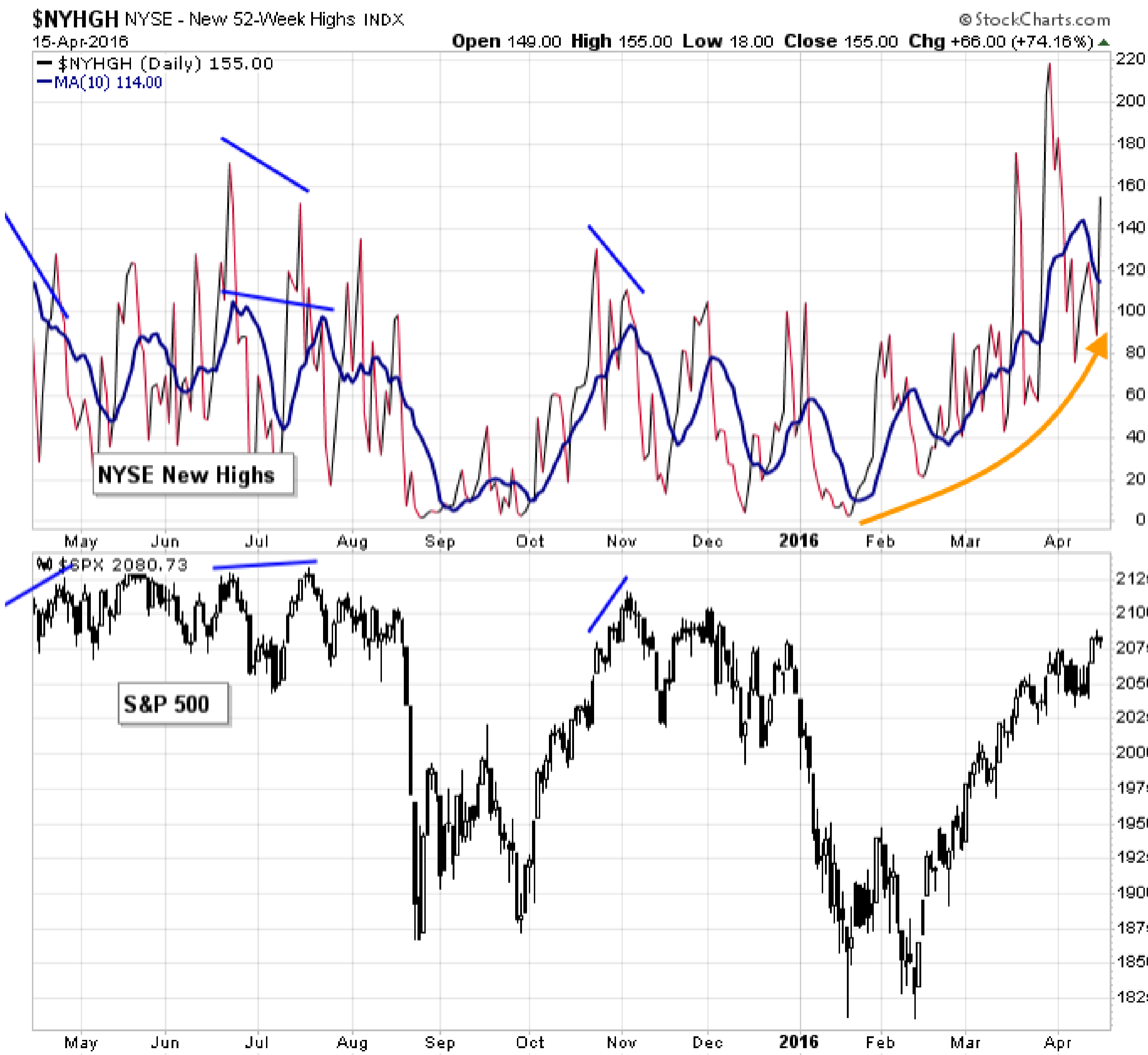
S&P500 vs. 10-dayMA of the NYSE Advance-Decline Volume Line

This line measures the advance-declining volume of shares traded. So bigger companies carry more weight (vs. the above chart that treats all companies equally) since many more shares of the mega cap stocks like Apple, GE, Wal-Mart, etc. are traded each day over smaller companies like Manitowoc Co. or Verifone...exactly...never heard of them.

This indicator is also trending down. Indicating the same message as the A-D line in the first chart. We will need to see this pick up strength for the market to continue higher.

S&P500 vs. NYSE New Highs

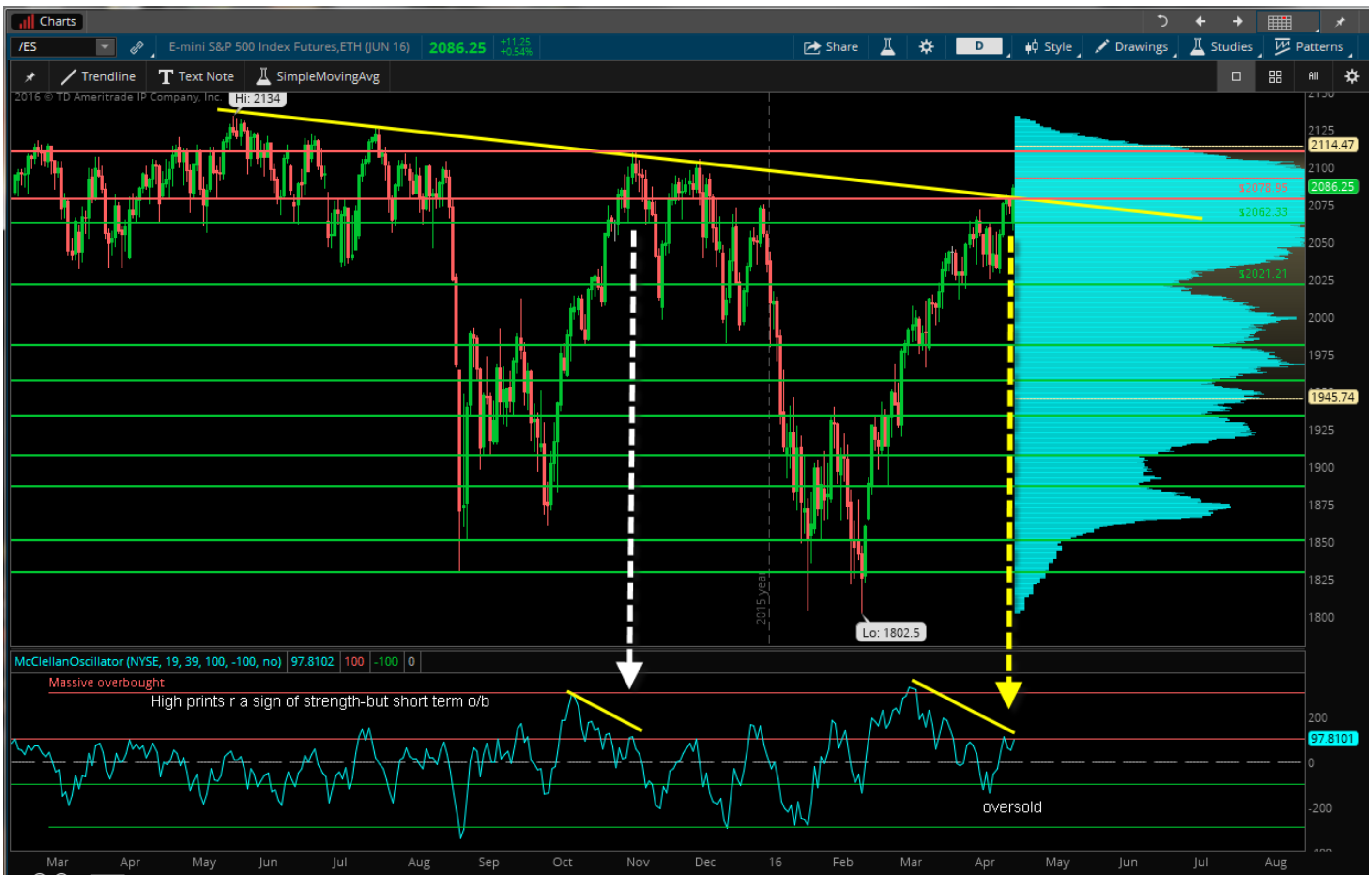
This indicator measures the number of stocks making a 52 week high each day and smoothes it with a 10 day moving average. New highs continue to expand and put in higher lows, yellow line on the chart below:



Higher lows on this indicator is a very good sign. It signals more stocks are putting in 52 week highs on a consistent basis. Also, the peak in March is higher than the peak in July, before the two big selloffs in the market. This is very positive overall. Usually, rallies do not end until the number of stocks making 52 week highs begins to contract.

S&P500 vs. McClellan Oscillator:
This oscillator is a market breadth indicator that is based on the difference between the number of advancing and declining stocks on the NYSE. Once again, it helps us measure the health of the stock market. When this indicator isn't making new highs with the stock market, it give us hints the market isn't healthy.

In November, the McClellan Oscillator (in the bottom of the chart below) started making lower highs as the stock market (top of below chart) made higher highs, a negative divergence marked by the white dashed arrow.



A similar pattern is being made today...in fact it is almost exactly the same pattern as last November...dashed yellow arrow. This characterizes a weakening rally.

The market rally is showing signs the big corrections may be over but I am not quite convinced. Some key indicators are diverging from the price of the stock market and until the breadth of the rally expands, I am not on board the all clear signal has been given to get aggressively back in the stock market.

Earnings reports are starting to come in and unless we get a bunch of great earnings reports, I think we need to lean towards a defensive posture. So less vs. more stock exposure.

Be at peace,

David

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