

QUICK TAKES PRO

"TECHNICAL ANALYSIS FOR EVERYONE"

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December 19, 2015 – As the year winds down I cannot help but think it was the most bizarre ever. Politics blasts 24/7 all over the media and that includes the Fed and its antics. Did I just say antics? Yes indeed. They are so behind the curve and overly concerned with telegraphing things so as not to surprise that they have become totally ineffective. Are we really better off with a Fed that is more than an actual central bank lending money and collecting interest income? This balance sheet fiasco is a killer.

The weather is also bizarre as we here in the Northeast have been treated to an unusually mild few months. True story – my neighbor swims laps in his backyard pool and it is still open. Sure, it is not sun tan floating temperature but it is nice enough for exercise. His heating bill, thanks to bizarrely low energy prices, is not the killer it could have been.

And then there is the Middle East, Paris and San Bernardino. However, there has been no reaction in financial markets. And if one plan is to wipe out Iraqi and other oil fields then there is no hint of that in the oil market.

Is it any wonder that this time of year tries to shift our attention to happier things? Too bad the stock market is not cooperating as Friday wiped not only the entire gain from earlier in the week but the Dow also took out its reversal low last Monday. It was not quite so bad for the other major indices but the week did end up red everywhere.

And considering that oil also hit a new closing low, the transports decline was remarkable in its weakness. Even airlines were red on the week and truckers were crushed. Again, these two live and die on energy input costs and they still lost. What does that tell you about the economy? Hint – it's not good.

Here are some news bits that may or may not affect the markets:

- The Republican debate was Tuesday. The Dems are up Saturday.
- Star Wars was released and did well. So why did Disney (**DIS**) tank Friday?
- Martin Shkreli evoked shades of Al Capone as the price gouging drug CEO was arrested on securities fraud. Ah karma. They could not nail Capone for his mobster crimes so they got him on tax evasion.
- Orlando theme parks raised their security levels on terrorism fears.

We take notes of market events during the week and here are some of the biggies.

- Beleaguered Lumber Liquidators (**LL**) jumped on news a big short seller gave up
- 3M (**MMM**) was crushed on Tuesday to lead a new breakdown across the industrial sector. And that does not mean the DJIA which is far from an actual gauge on the industrial sector.
- FedEx (**FDX**) jumped on earnings but the market rejected it. True, it was up nicely Thursday but it closed near its low and gave up the rest of the gain and more on Friday. This stock is at the crossroads of transports and industrials.
- CarMax (**KMX**) was killed on earnings and dragged the entire car retail group down. Car makers did not do well either.
- High Grades (**LQD**) broke support to join junk bonds (**JNK**, **HYG**) in a general corporate bond sell-off.
- Industrial metals continued their bear market with Zinc leading the way down.
- Japan announced more stimulus and the Nikkei reversed to the downside. Now that is bizarre! Actually, the stimulus was not what is seemed to be on the surface so we have to pull back on that observation.
- Stocks bought the rumor pre-Fed and sold off on the news, albeit a bit delayed.
- The dollar seemed to emerge from its post-ECB correction to move higher.
- Solar stocks got a boost as the new congressional budget included more incentives for the industry.

Technically, the S&P 500 is still in a trading range. The bias for sure is down but until Monday's reversal low is taken out on more than one index we cannot declare full charge for the bears. It is close.

But what is seriously bearish is the new high and new low list. On Friday, there were 22 new highs and 228 new lows on the NYSE. That sort of stat would actually be bullish if the market were near its own 52-week low but now it is just – you guessed it – bizarre.

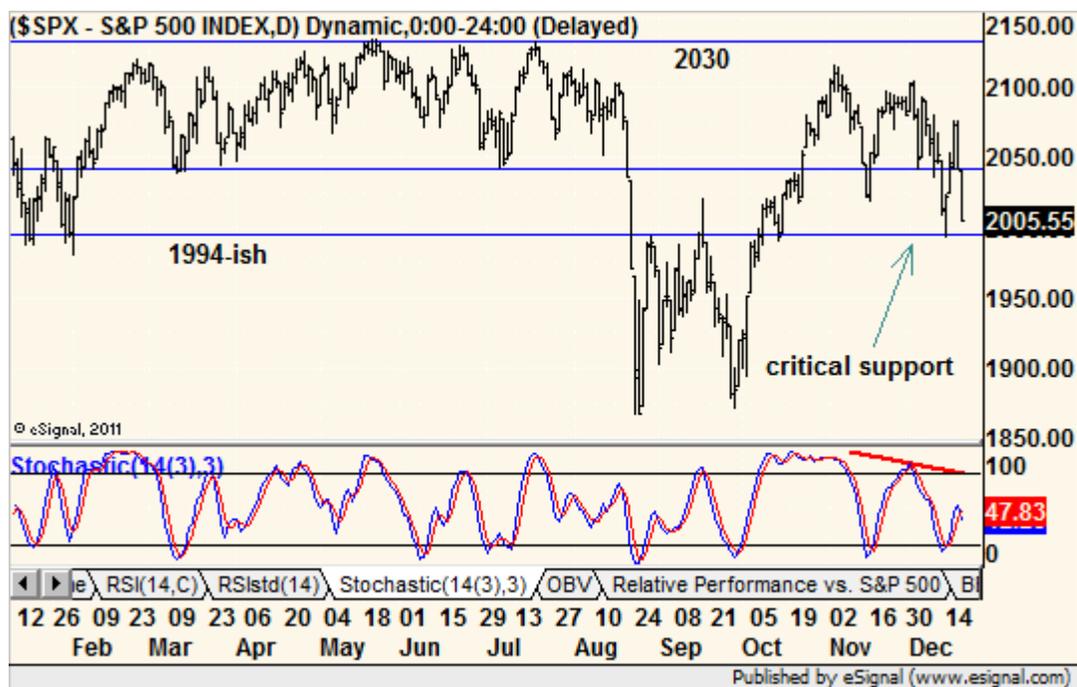
We had to dig into these highs to see what they were. It was not a clear theme but we did see some utilities, REITs and municipal bond funds.

In sectors, things are starting to look rather uniform across the groups as correlation moves to 1 in bear markets (oops, did we say that?). Not all sectors, of course, but it was difficult to pick out things that were doing something unique. We can say that banks were one of the words groups Friday. Homebuilding had a bad week. And while the FANGs and other leaders are still holding up better than most they do not look as invincible as they used to be.

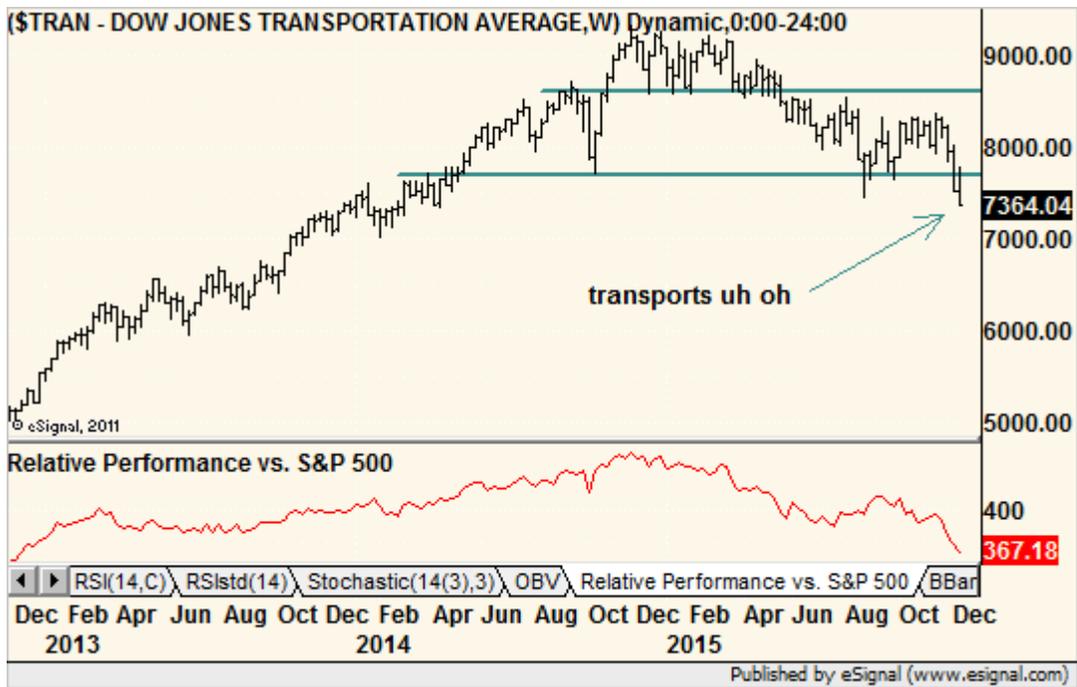
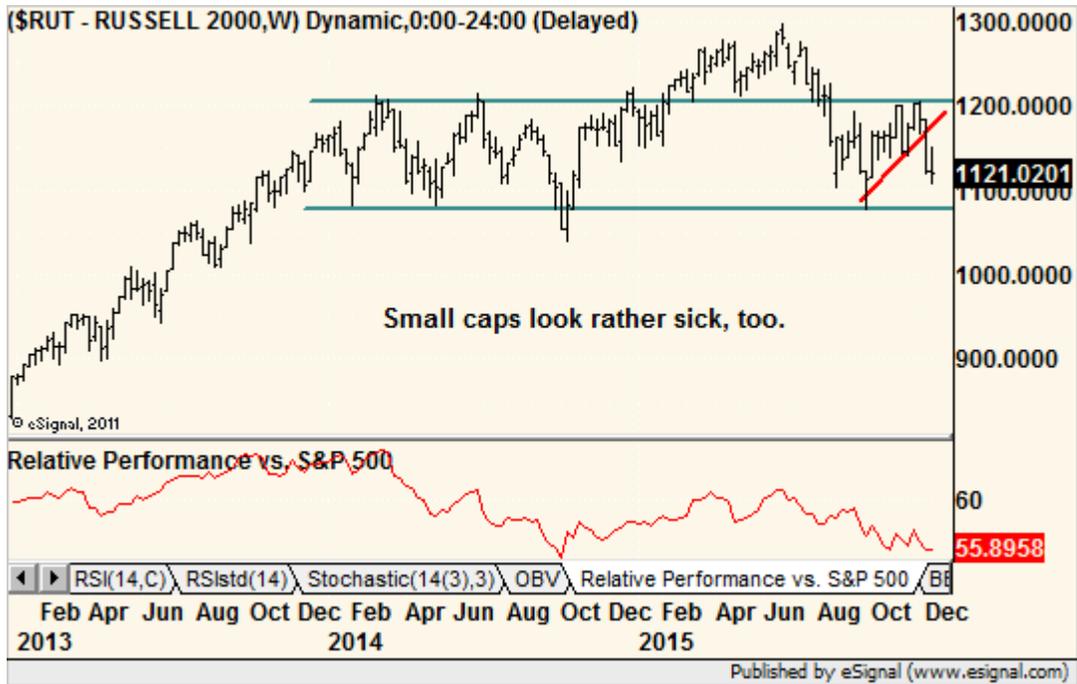
The bottom line is that the stock market is topy and the long-term head-and-shoulders pattern on the S&P 500 is back on the table. A weak open to the coming week would target the August lows again. If that breaks then look out below but let's not cross that bridge.....

The strategy remains caution in stocks. It seems to be too early to scoop of cheap energy shares. However, I wrote up **IBM** for MarketWatch as a long-term good bet. Unfortunately, one other we thought to be cheap got even cheaper as **BBBY** broke down below long-term support. And the last cheap holdover from the earlier in the year **M** broke down but is now approaching another level of interest.

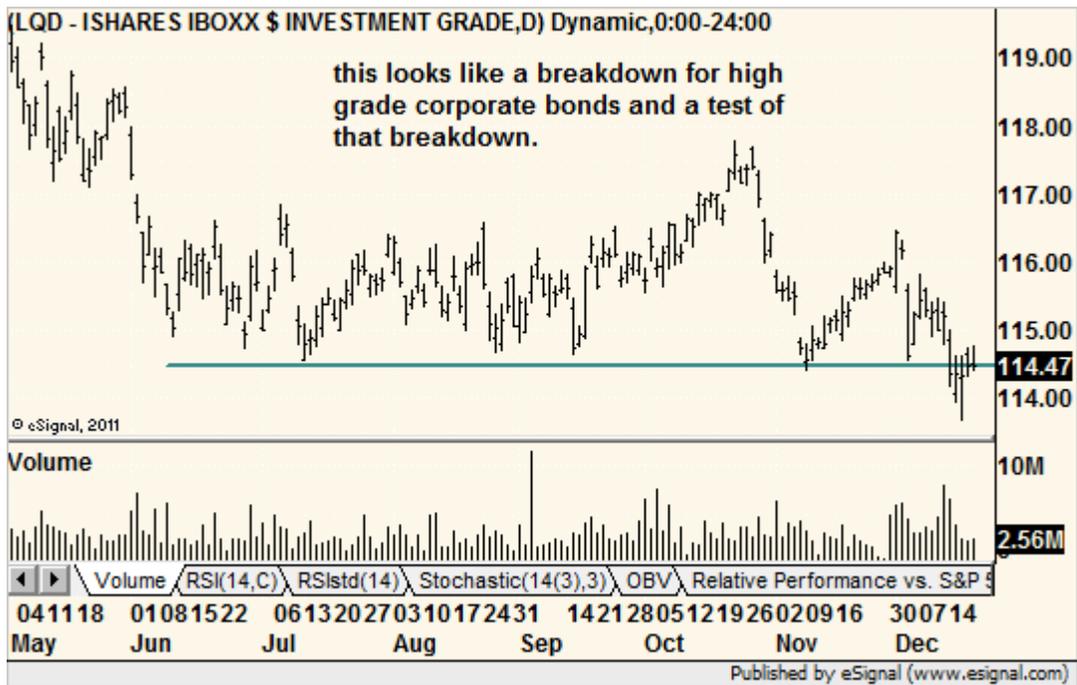
Index Charts of the Week







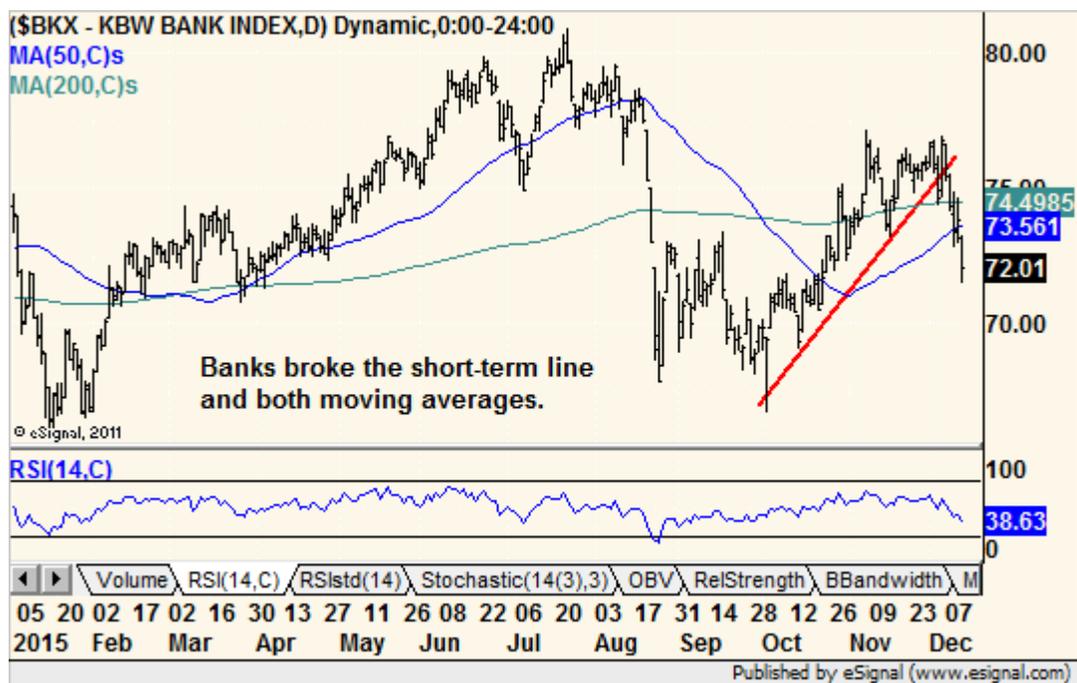
Other Markets

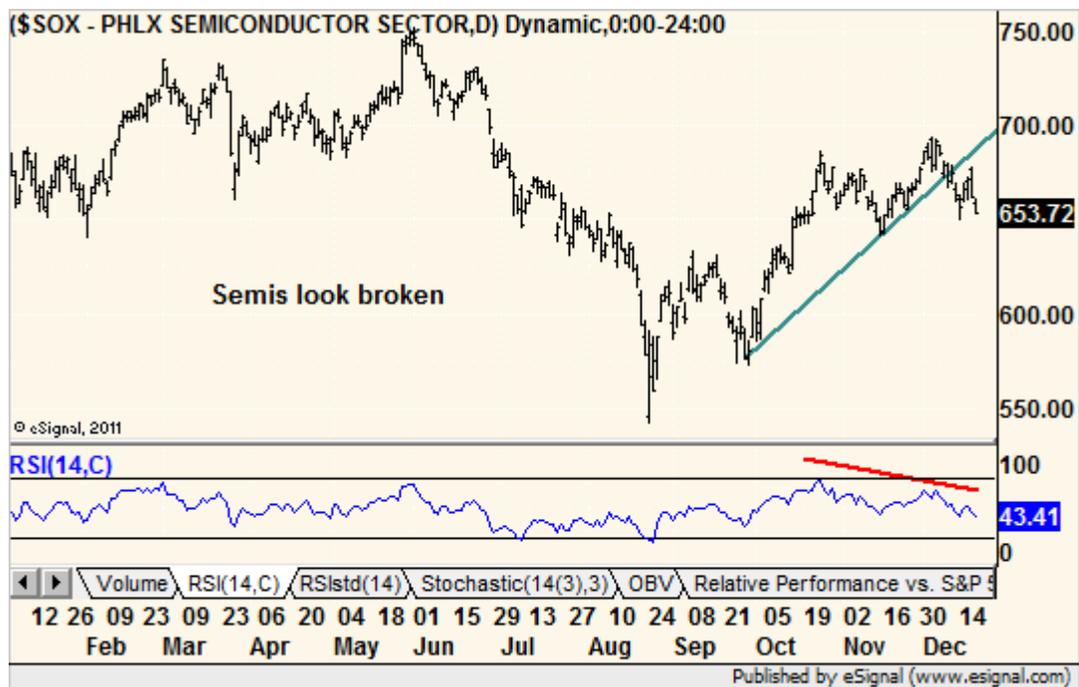


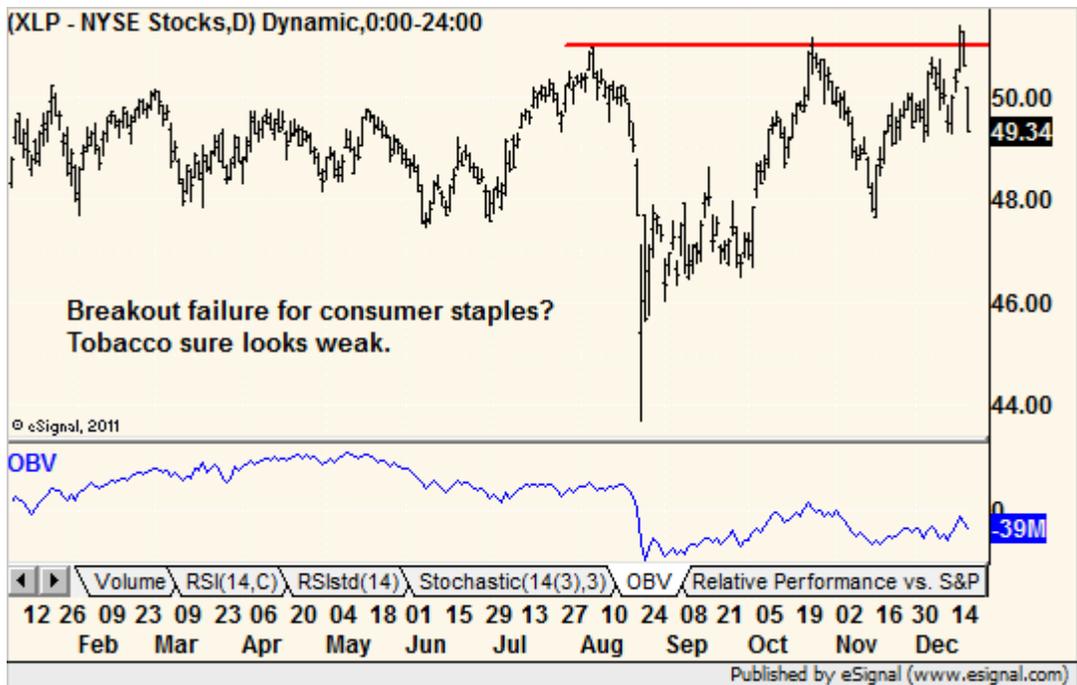
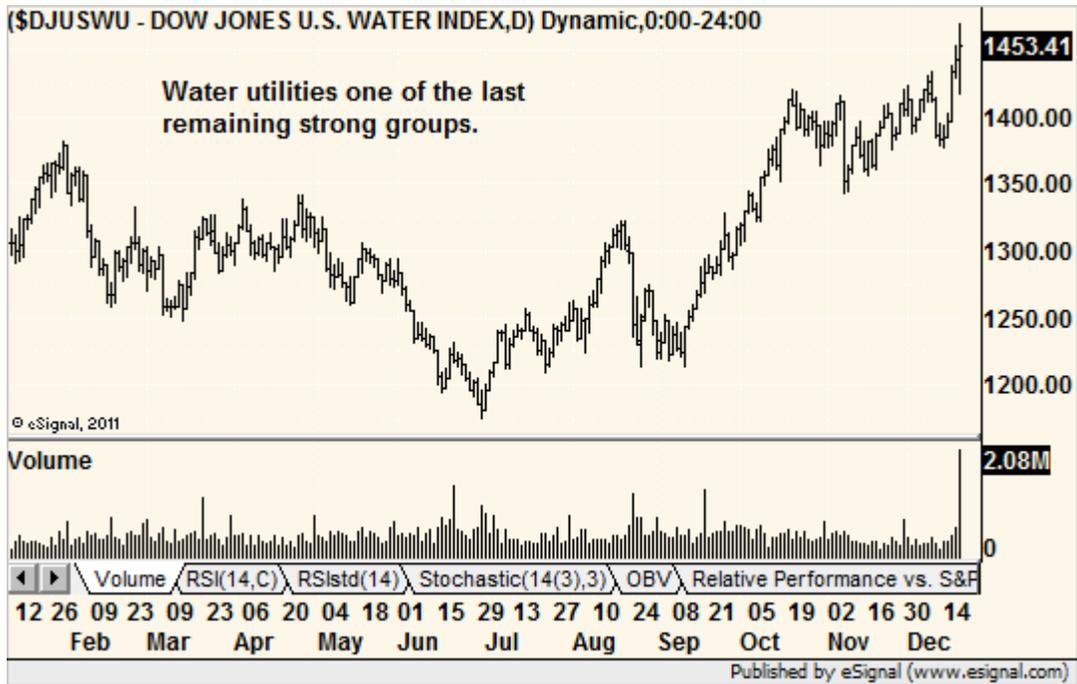


Sector Watch

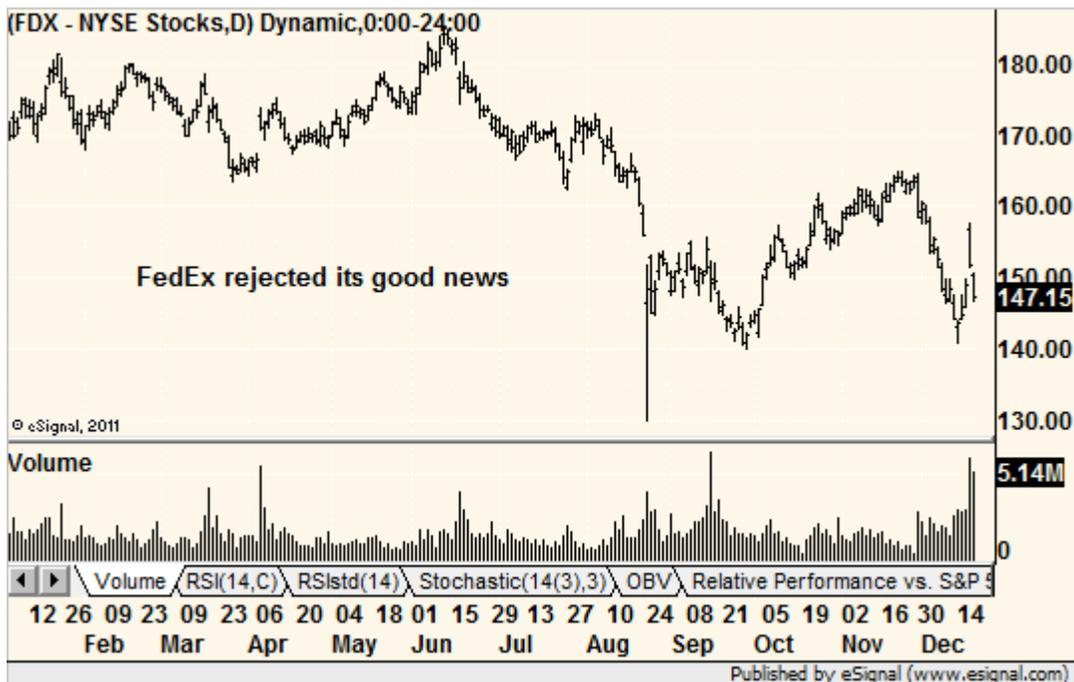


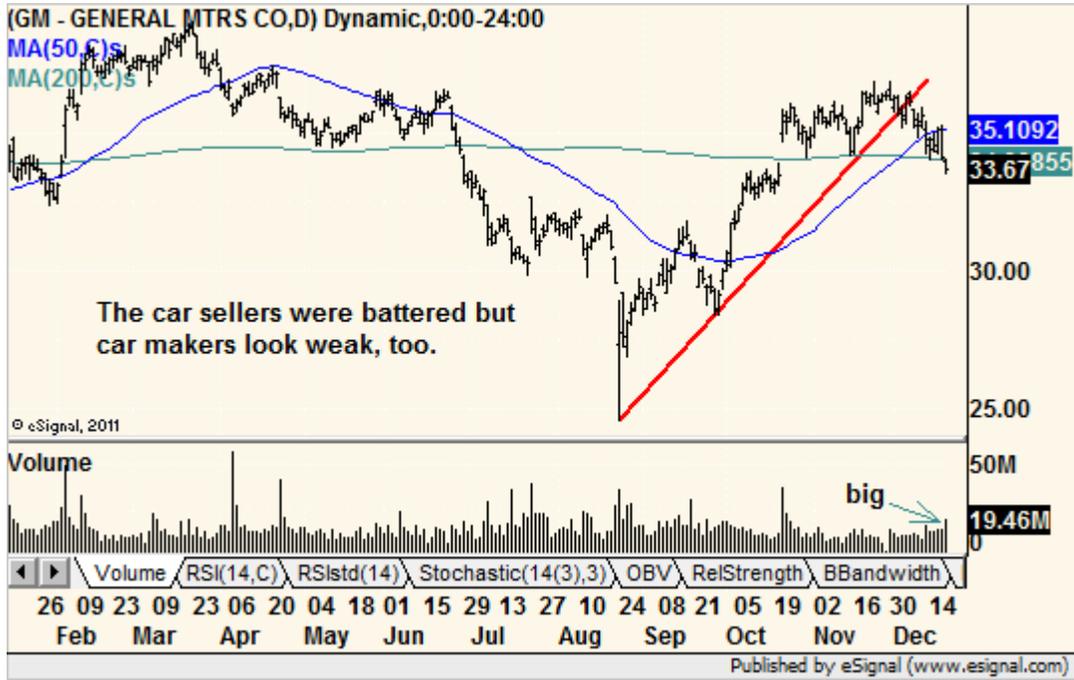


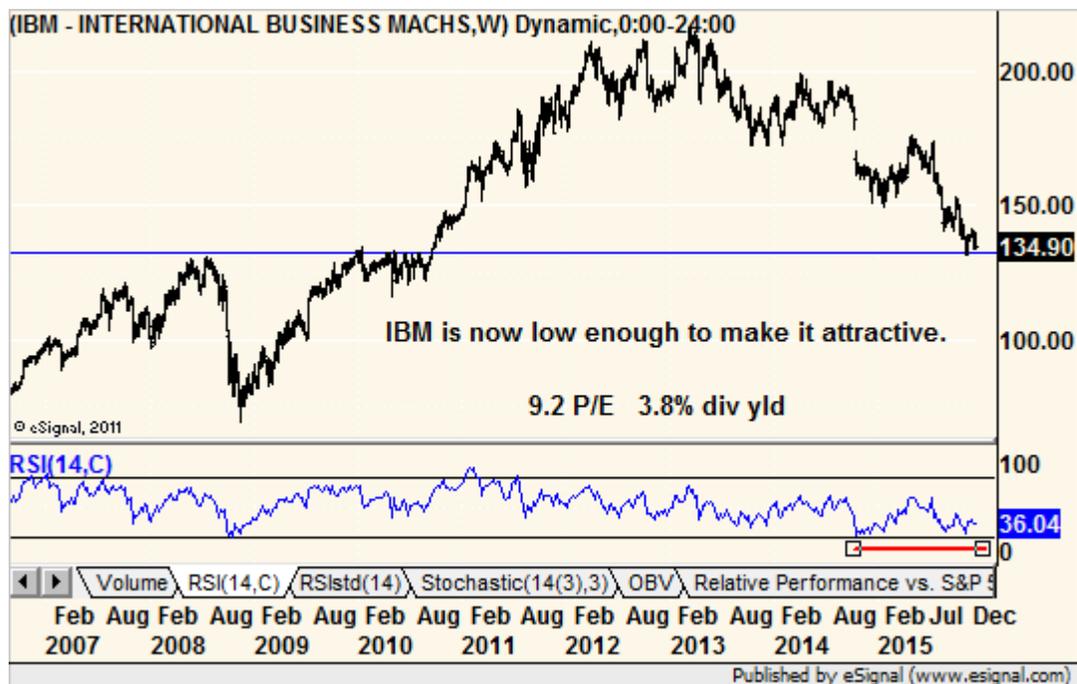


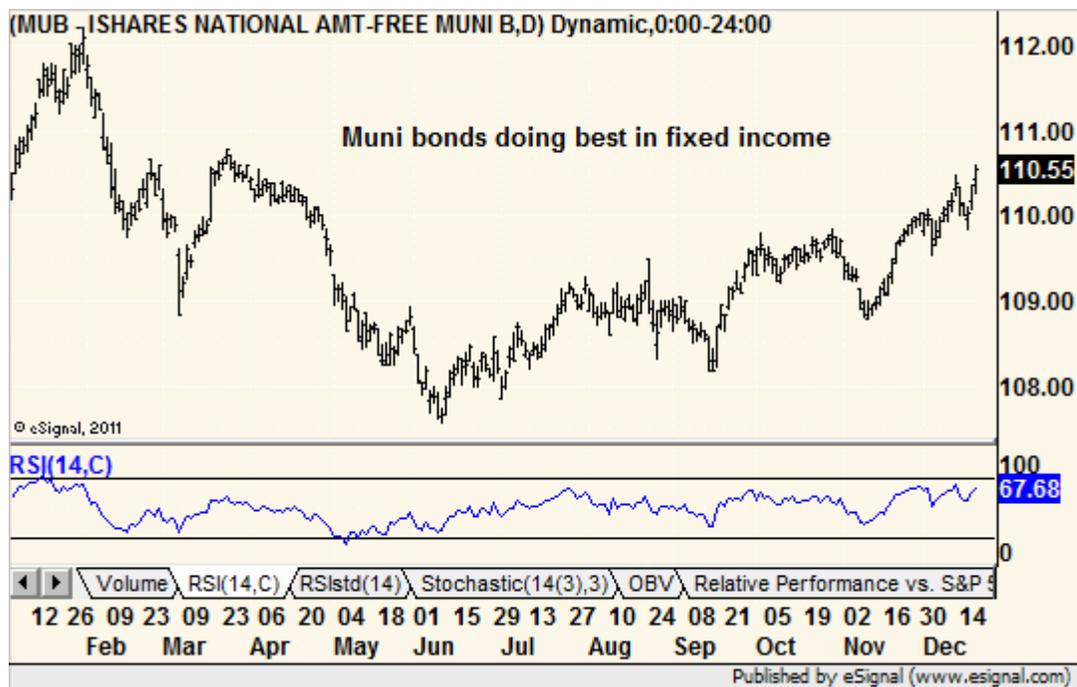
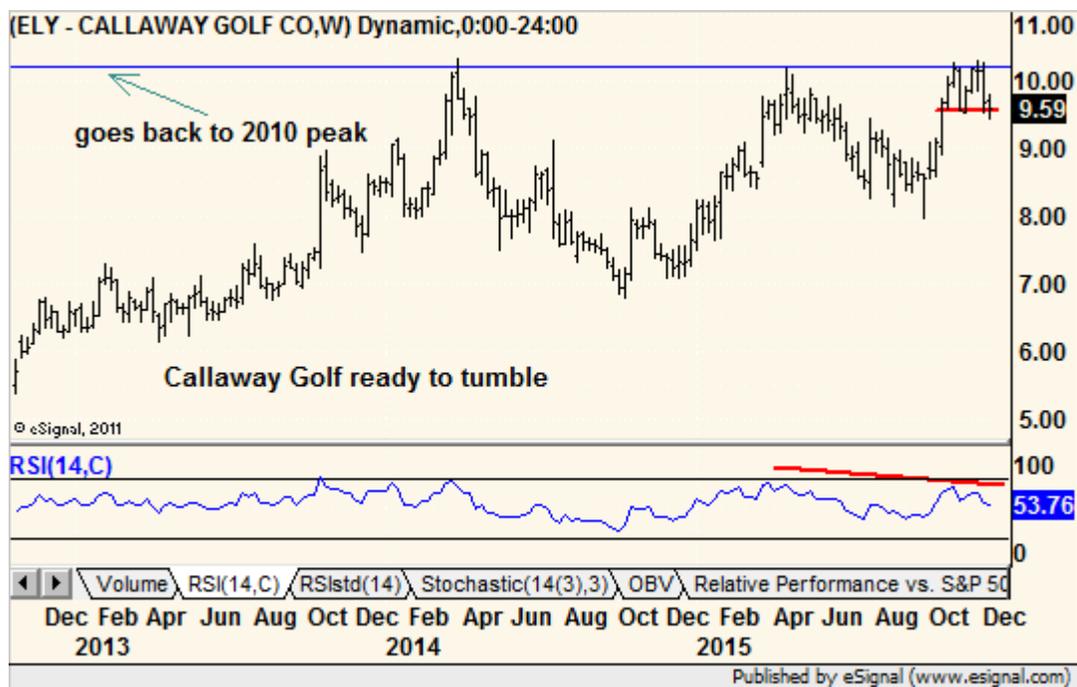


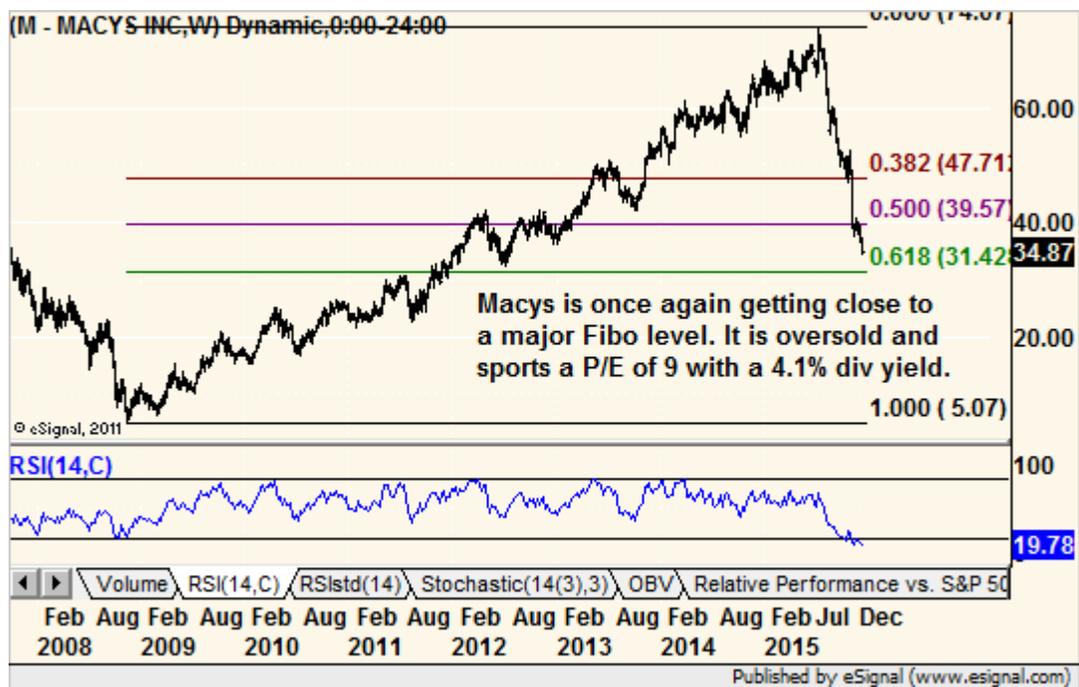
Stocks in the News











Other Information

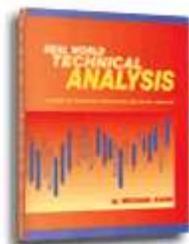
About - Michael Kahn, CMT, has been working with charts and technical analysis since 1986 and currently writes the twice-weekly “Getting Technical” column for Barron's Online. He is also a regular contributor to MarketWatch.com. Michael was formerly Chief Technical Analyst for BridgeNews and seen frequently on financial television including PBS' Nightly Business Report.



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