

Sector Buy/Sell Review: 01-14-20

Each week we produce a chart book of the S&P 500 sectors to review where money is flowing within the market as whole. This helps refine not only decision making about what to own and when, but what sectors to overweight or underweight to achieve better performance.

HOW TO READ THE CHARTS

There are three primary components to each chart:

- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

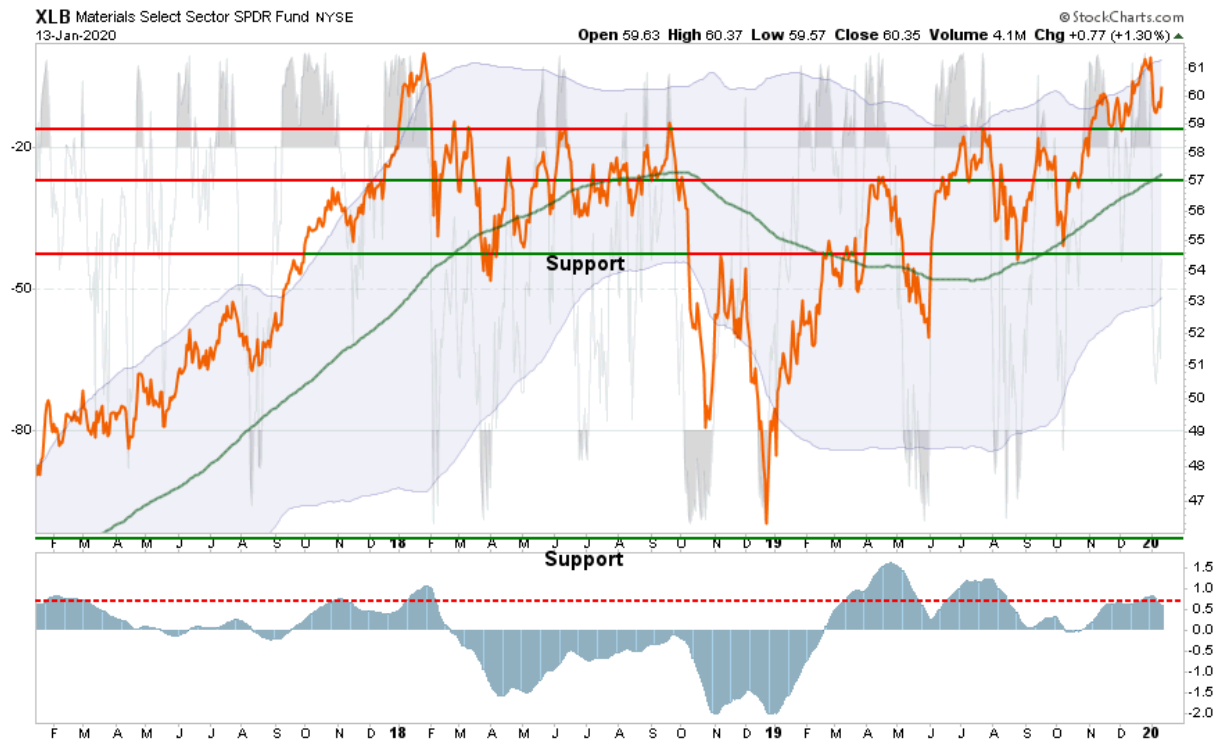
When the gray indicator is at the TOP of the chart, there is typically more risk and less reward available at the current time. In other words, the best time to BUY is when the short-term condition is over-sold. Likewise when the buy/sell indicator is above the ZERO line investments have a tendency of working better than when below the zero line.



With this basic tutorial let's get to the sector analysis.

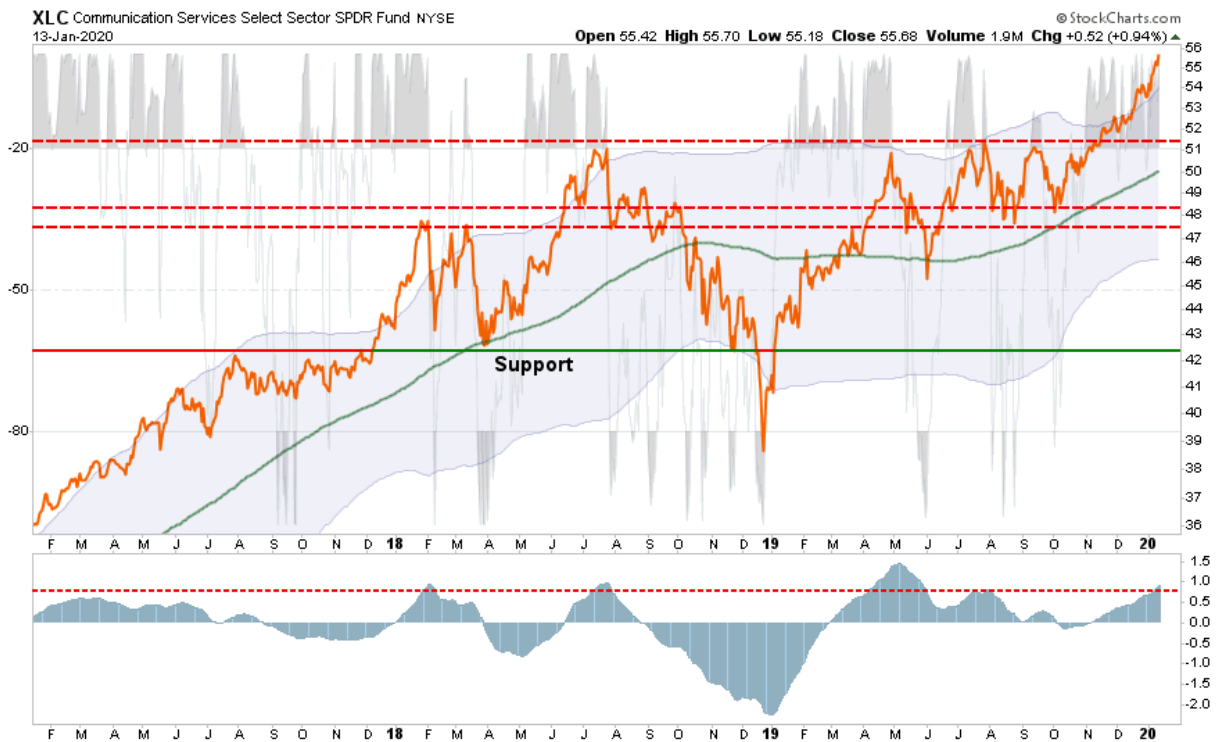
There is a common theme running through most of the sectors currently which is that they are trading more than 2-standard deviations above the 200-dma. I have added a blue shaded area to each graph which represents this band of deviation from the green line which is the 200-dma. Deviations of this extreme tend not to last long.

Basic Materials



- *XLB tested and failed at all-time highs. While support exists at the previous breakout level of \$59, XLB remains at the top of its deviation range and is on an extended "buy" signal currently.*
- *The sector is working off its previously extreme overbought condition, so a setup to add to our current position is coming. It will be important that XLB doesn't violate our stop-loss during this corrective process.*
- *We currently hold 1/2 position and are looking to add the second 1/2 during this corrective process. We will update this analysis when we add to our holdings.*
- *Short-Term Positioning: Neutral*
 - *Last Week: Hold current positions with a tighter stop-loss.*
 - *This Week: Hold current positions with a tighter stop-loss.*
 - *Stop-loss moved back to \$57 to allow for entry.*
- *Long-Term Positioning: Neutral*

Communications



- XLC finally broke out to new highs and is now more than 2-standard deviations above the 200-dma.
- Because of the extension we did reduce our allocation to the sector modestly. We will look to use a pullback to support to reweigh the sector.
- With a "buy signal" in place, there is a bias to the upside, but a correction is coming. XLC must hold support at \$50.
- If you need to add a position, wait for a pull back to test the recent breakout support level and add there.
- XLC is currently 2/3rds weight in portfolios.
- Short-Term Positioning: Bullish
 - Last Week: Hold trading positions
 - This Week: Reduced weighting in portfolio
 - Stop adjusted to \$50
- Long-Term Positioning: Neutral

Energy



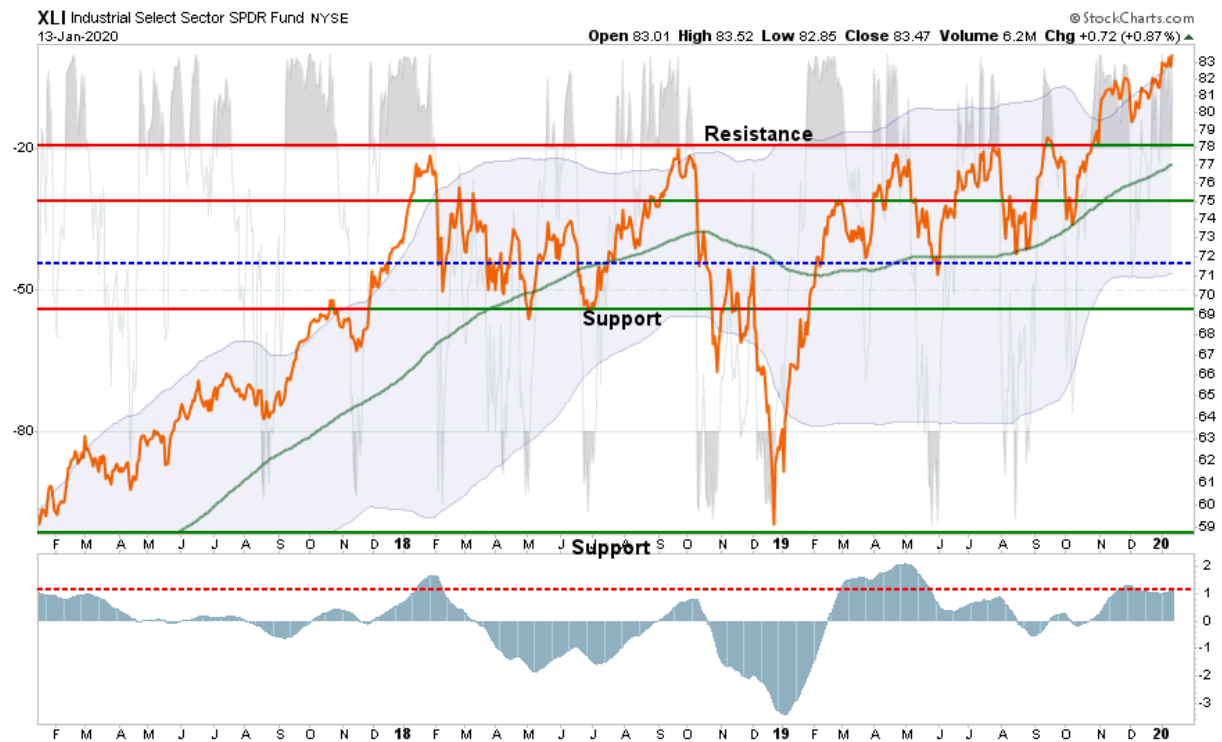
- Unlike most other sectors of the market, XLE is not extremely extended.
- XLE finally broke above the 200-dma but is currently wrestling with previous support, now resistance, and is extremely overbought. The buy signal is also getting extended.
- As noted previously, we added 1/2 position of AMLP to our portfolios. On any weakness which does not violate the 200-dma we will add 1/2 position of XLE to the portfolio. The reason we are cautious is that these rallies have repeatedly failed in the past.
- Short-Term Positioning: Bearish
 - Last week: Added 1/2 AMLP to Portfolios
 - This week: Looking to add 1/2 XLE - patience.
 - No position currently
- Long-Term Positioning: Bearish

Financials



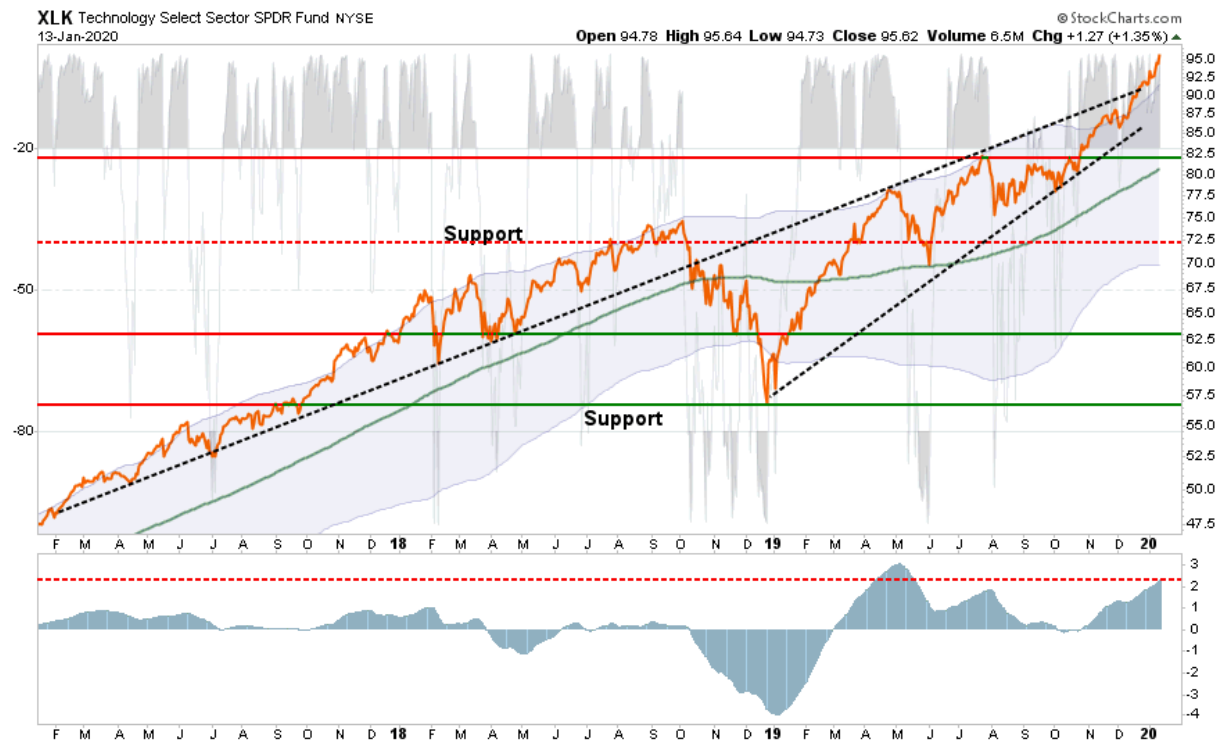
- *XLF is extremely extended above the 200-dma which puts the sector at risk of a more severe correction.*
- *The buy signal is also extremely extended which suggests that you should be taking profits and reducing risk if you are long the sector.*
- *We will look to add XLF to our portfolio on a pullback that doesn't violate long-term support or break the current bullish trend.*
- *Currently, XLF is holding near highs but not participating with the rally in the broader market.*
- *Short-Term Positioning: Bullish*
 - *Last week: Hold Positions*
 - *This week: Hold Positions*
 - *Stop-loss adjusted to \$28*
- *Long-Term Positioning: Neutral*

Industrials



- *XLI also is pushing well above the 200-dma with such previous extensions having led to fairly sharp corrections.*
- *With XLI exceedingly overbought short-term, and on a very extended buy signal, be cautious chasing the sector currently.*
- *We are looking for a bit of consolidation and/or pullback to work off some of the extreme overbought condition before increasing our weighting.*
- *We have adjusted our stop-loss for the remaining position. We are looking to add back to our holdings on a reversal to a buy signal.*
- *Short-Term Positioning: Neutral*
 - *Last week: Hold 1/2 position*
 - *This week: Hold 1/2 position.*
 - *Stop-loss adjusted to \$77*
- *Long-Term Positioning: Neutral*

Technology



- *XLK is extremely overbought on both a price and momentum basis like most other sectors of the market.*
- *We reduced our position in XLK from overweight to target portfolio weight due to the extreme extension currently. A correction is coming.*
- *Be careful chasing the sector currently. Take profits and rebalance risks accordingly.*
- *Short-Term Positioning: Bullish*
 - *Last week: Hold position*
 - *This week: Reduce Overweight to Target Weight*
 - *Stop-loss adjusted to \$80*
 - *Long-Term Positioning: Neutral*

Staples



- Defensive sectors have started to perform better as money is just chasing "everything" now.
- XLP continues to hold its very strong uptrend as has now broken out to new highs. However, XLP is back to more extreme overbought and extended above the 200-dma.
- Importantly, a "buy signal" has been registered. Look for pullbacks to support to add weight to portfolios. Maintain a stop at the 200-dma.
- We previously took profits in XLP and reduced our weighting from overweight.
- Short-Term Positioning: Bullish
 - Last week: Hold positions, take profits if needed.
 - This week: Hold positions, take profits if needed.
 - Stop-loss adjusted to \$59
 - Long-Term Positioning: Bullish

Real Estate



- XLRE has been consolidating its advance within a very tight pattern but is holding support at previous support levels and the uptrend line.
- We had previously recommended taking profits and rebalancing risk as the overbought condition needed to be corrected which has now been completed.
- XLRE is now on a VERY deep "sell signal" and is very oversold. Both of those conditions are showing signs of reversing.
- With support holding current longs, and trading positions can be added to portfolios. We are fully weighted the sector currently so there isn't any change required in our portfolios at this time.
- Short-Term Positioning: Bullish
 - Last week: Hold position.
 - This week: Hold position.
 - Stop-loss adjusted to \$35.00 for profits.
- Long-Term Positioning: Bullish

Utilities



- XLU continues to maintain its bullish trend and recently rallied to test previous highs.
- If the "sell signal" is reversed, this will be very bullish for XLU, and should suggest a decline in interest rates is simultaneously occurring.
- We noted previously that after taking profits, we had time to be patient and wait for the right setup. That opportunity came last week, so if you added exposure, hold for now with a stop at \$61. If you need to add exposure to Utilities, you can still do so with a tight stop.
- The long-term trend line remains intact but XLU and the sell signal are beginning to reverse.
- We are currently at full weight, so no change is required currently.
- Short-Term Positioning: Bullish
 - Last week: Hold position.
 - This week: Hold current position / Add trading positions if needed
 - Stop-loss adjusted to support at \$59.00, \$61 for new positions.
- Long-Term Positioning: Bullish

Health Care



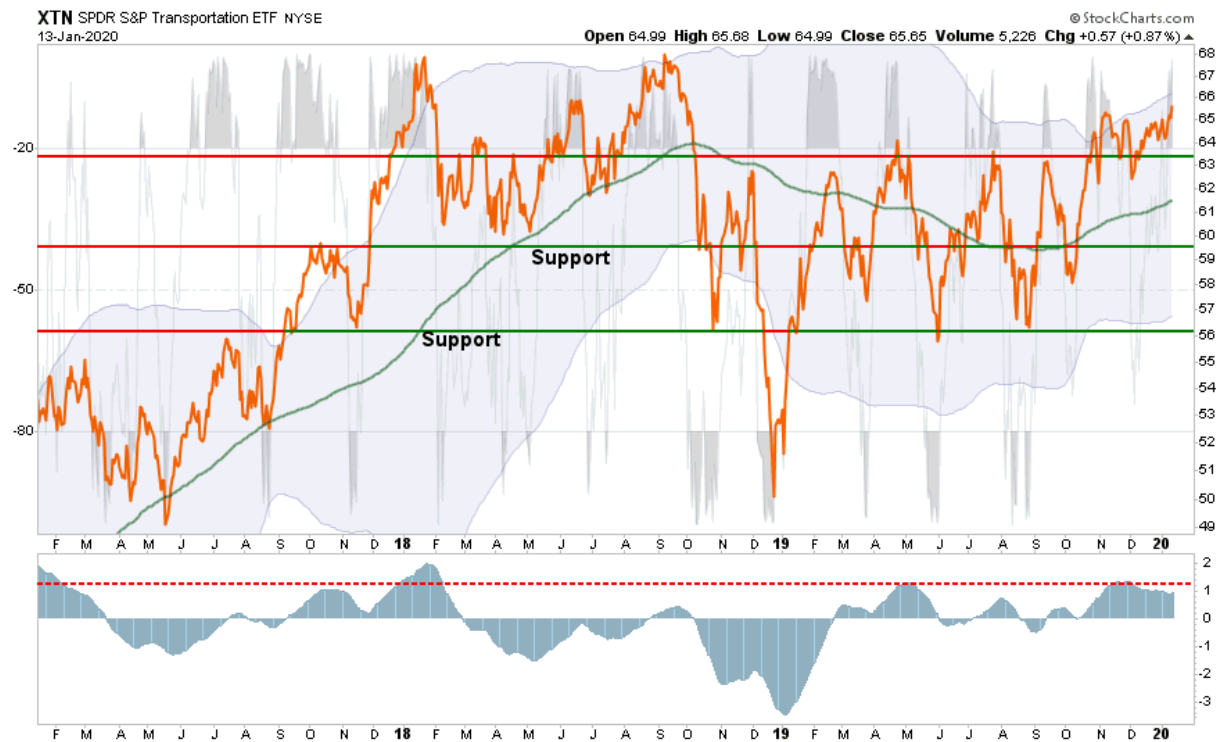
- *XLV has remained intact and is now more extended than we have seen it in quite some time.*
- *XLV is extremely overbought which will give way sooner than later. Because of the extension we reduced the overweight position in our portfolios to target weight.*
- *The move in Healthcare has been parabolic, and the sector is too extended to add positions currently.*
- *Short-Term Positioning: Neutral*
 - *Last week: Hold position.*
 - *This week: Took profits - reduced overweight to target weight.*
 - *Stop-loss adjusted to \$94*
- *Long-Term Positioning: Bullish*

Discretionary



- We added to our holdings previously to participate with the current rally, but XLY is now pushing an extreme extension above the 200-dma.
- We took profits last week and reduced the position slightly.
- Hold current positions for now, but take profits and rebalance risks accordingly. New positions can be added on a pullback to the breakout level that holds and works off the overbought condition.
- Short-Term Positioning: Neutral
 - Last week: Hold position
 - This week: Hold position
 - Stop-loss adjusted to \$120.
- Long-Term Positioning: Neutral

Transportation



- *XTN has broken out of consolidation but quickly ran into resistance at the 2-standard deviation level above the 200-dma.*
- *If XTN can breakout above current resistance there is a potential to test old highs.*
- *Be patient, XTN has a good bit of work to do to prove its position in portfolios.*
- *Short-Term Positioning: Neutral*
 - *Last week: No position*
 - *This week: No position*
- *Long-Term Positioning: Bearish*