

Sector Buy/Sell Review: 01-22-20

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.

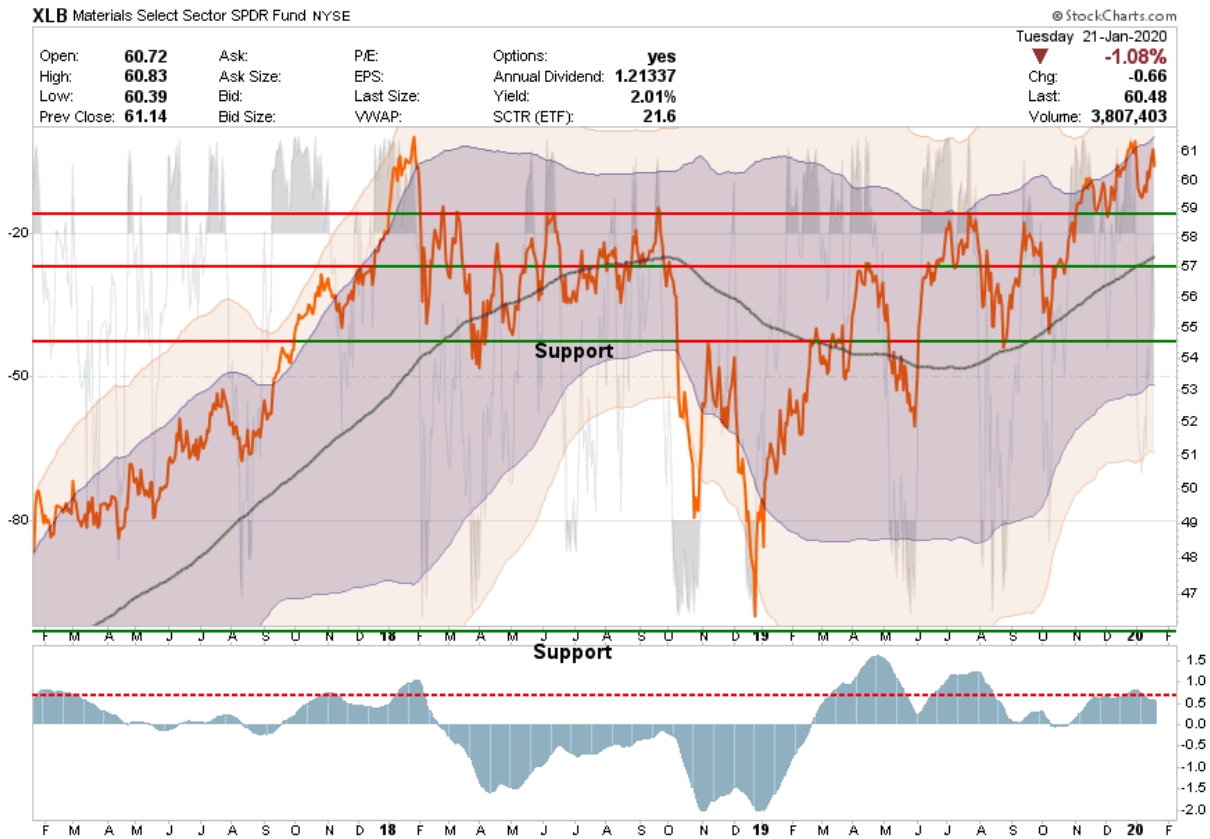
When the gray indicator is at the TOP of the chart, there is typically more risk and less reward available at the current time. In other words, the best time to BUY is when the short-term condition is over-sold. Likewise when the buy/sell indicator is above the ZERO line investments have a tendency of 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 BOTH 2- AND 3-Standard Deviation levels (blue and tan shaded areas) to each graph which represents the bands of deviation from the green line which is the 200-dma. Deviations of this extreme tend not to last long.

Basic Materials

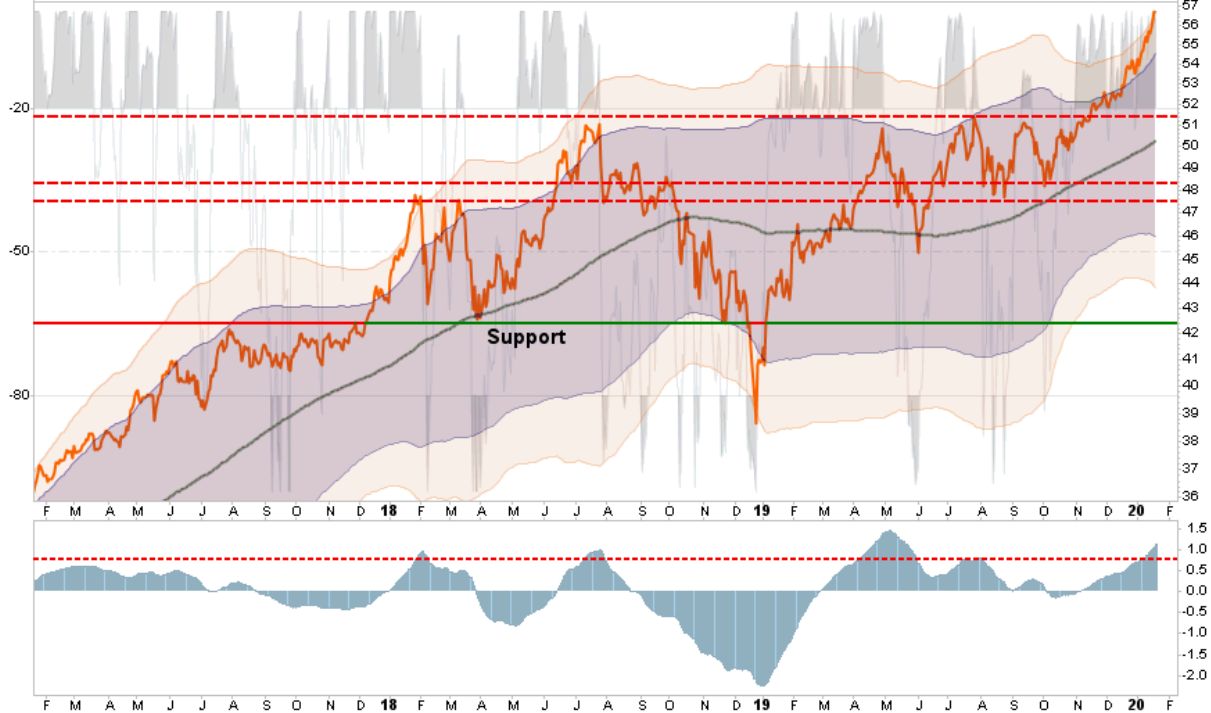


- *XLB tested and failed at all-time highs. While support exists at the previous breakout level of \$59, XLB remains at the top of its deviation range and is on an extended "buy" signal currently.*
- *The sector started to work off its previously extreme overbought condition, but quickly reversed back to overbought without providing a decent entry point.*
- *We currently hold 1/2 a position and are still looking to add the second 1/2 during a corrective process.*
- *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

Open: 56.58	Ask:	P/E:	Options: yes
High: 56.73	Ask Size:	EPS:	Annual Dividend: 0.43727
Low: 56.34	Bid:	Last Size:	Yield: 0.77%
Prev Close: 56.68	Bid Size:	VWAP:	SCTR (ETF): 94.1

Tuesday 21-Jan-2020

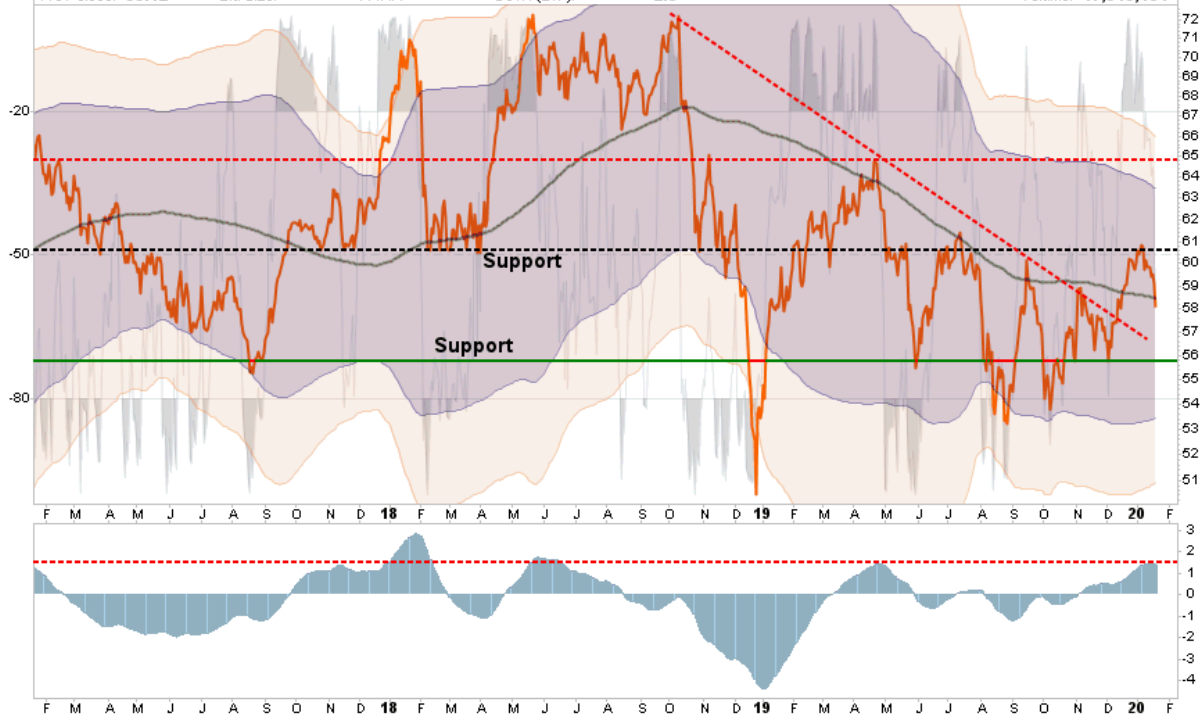
▼ **-0.09%**Chg: **-0.05**Last: **56.63**Volume: **3,181,953**

- As noted previously, XLC finally broke out to new highs and is now more than 3-standard deviations above the 200-dma. This is rare, and the last time we saw this was at the peak of the market in January and June of 2018 both of which preceded significant corrections.
- 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 our 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

Open: **58.79** Ask: P/E: Options: **yes**
 High: **58.80** Ask Size: EPS: Annual Dividend: **2.24387**
 Low: **57.96** Bid: Last Size: Yield: **3.86%**
 Prev Close: **59.12** Bid Size: VWAP: SCTR (ETF): **2.8**

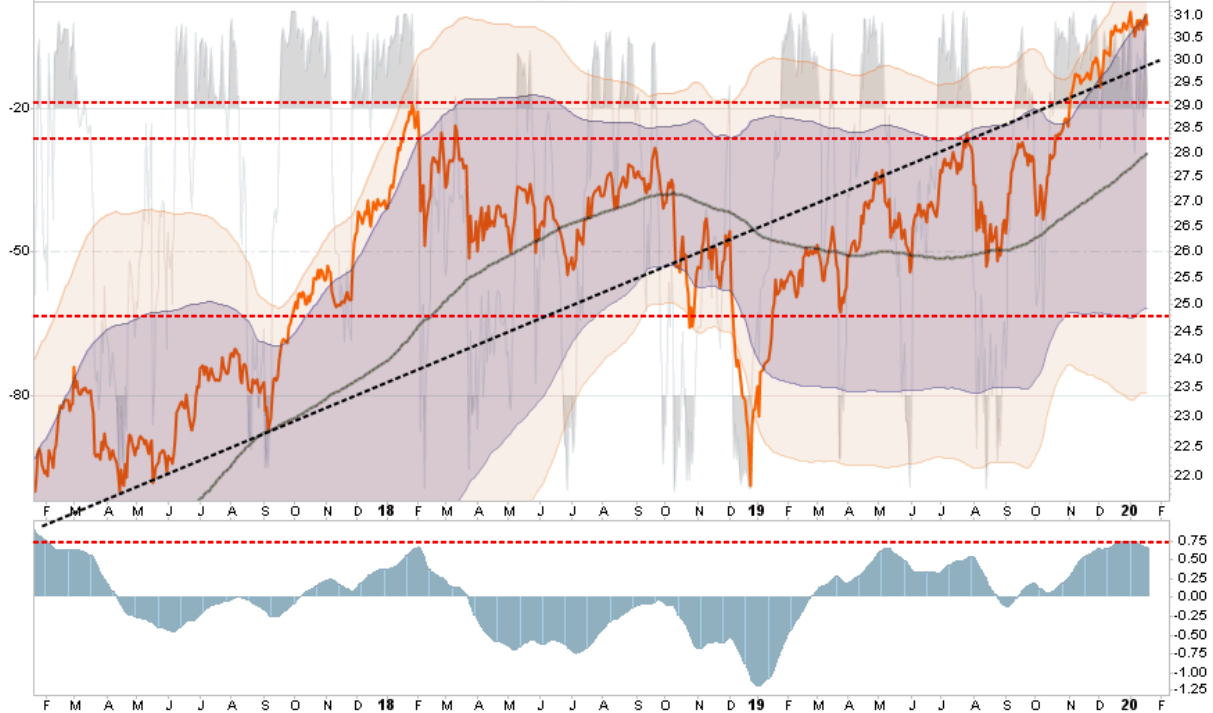
Tuesday 21-Jan-2020

▼ **-1.79%**Chg: **-1.06**Last: **58.06**Volume: **17,349,484**

- *Unlike most other sectors of the market, XLE is not extremely extended.*
- *Unfortunately, we have been trying to add XLE to our portfolios but XLE broke back below the 200-dma which puts the top of the previous downtrend line into focus. We may be able to add if it holds support between \$56-57.*
- *The buy signal is extended and this correction will start to reduce that.*
- *The reason we are cautious is that these rallies have repeatedly failed in the past and it appears it has happened again.*
- *Short-Term Positioning: Bearish*
 - *Last week: Looking to add 1/2 XLE - patience.*
 - *This week: Looking to add 1/2 XLE - patience.*
 - *No position currently*
- *Long-Term Positioning: Bearish*

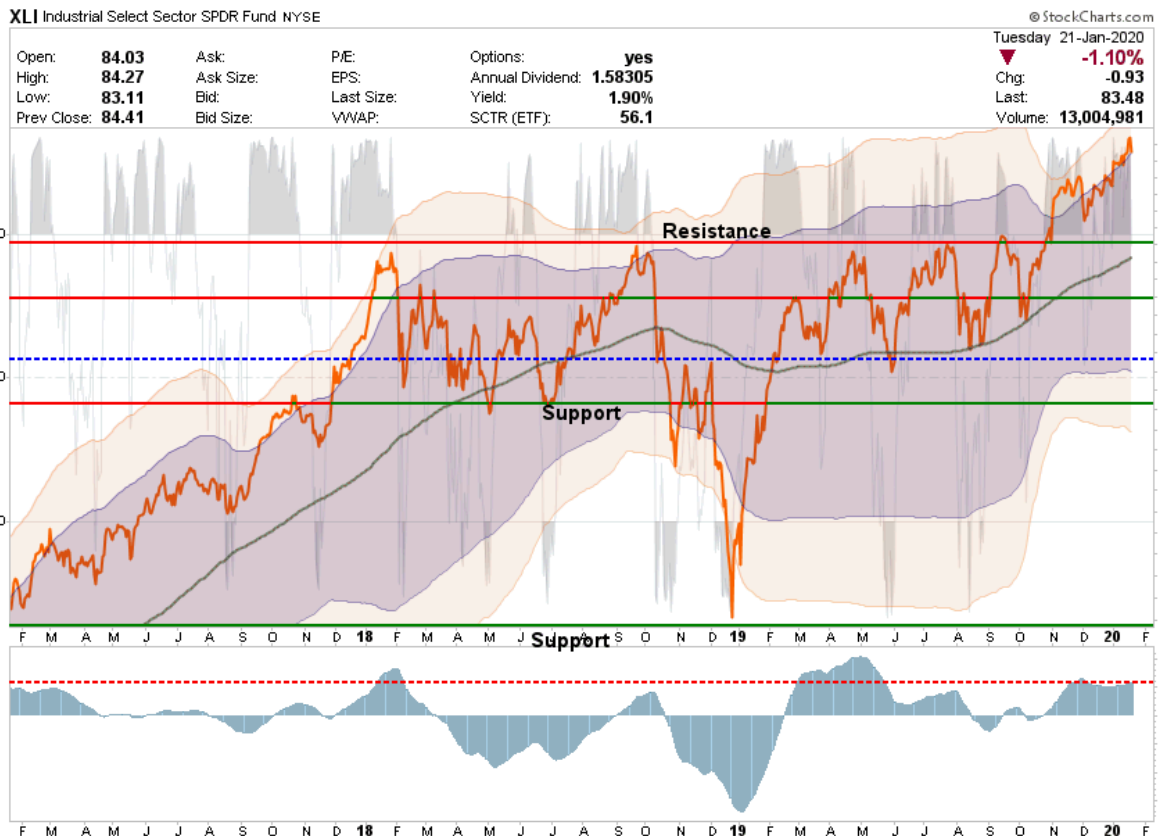
Financials

Open: 30.88	Ask:	P/E:	Options: yes	Tuesday 21-Jan-2020
High: 31.02	Ask Size:	EPS:	Annual Dividend: 0.57469	▼ -0.84%
Low: 30.77	Bid:	Last Size:	Yield: 1.87%	Chg: -0.26
Prev Close: 31.03	Bid Size:	VWAP:	SCTR (ETF): 60.8	Last: 30.77
				Volume: 41,274,588



- *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. The buy signal has started to reduce and XLF has stalled in its recent advance. A correction is more likely than the 200-dma catching up to price, but either will give us an entry point.*
- *Short-Term Positioning: Bullish*
 - *Last week: Hold Positions*
 - *This week: Hold Positions*
 - *Stop-loss adjusted to \$28*
- *Long-Term Positioning: Neutral*

Industrials

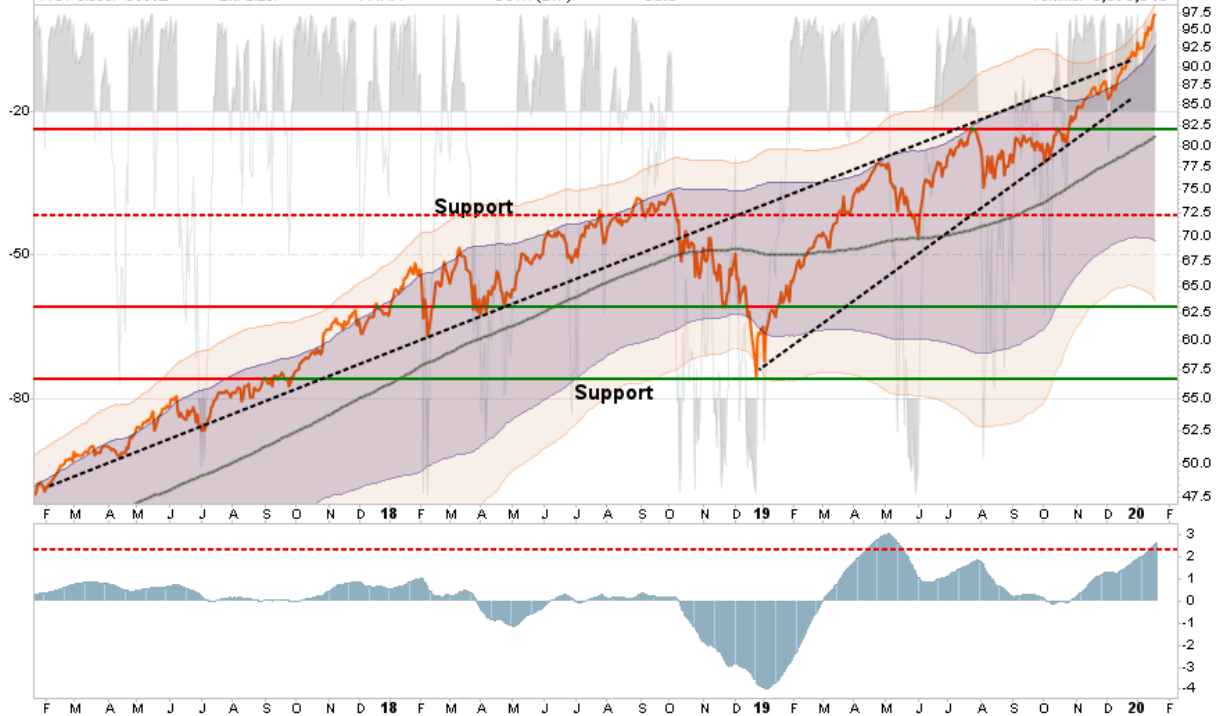


- *XLI also is pushing well above the 200-dma with such previous extensions having led to fairly sharp corrections.*
- *With XLI exceedingly overbought short-term, and on a very extended buy signal, be cautious chasing the sector currently.*
- *We are looking for a bit of consolidation and/or pullback 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

Open:	96.82	Ask:		P/E:		Options:	yes
High:	97.64	Ask Size:		EPS:		Annual Dividend:	1.05906
Low:	96.80	Bid:		Last Size:		Yield:	1.09%
Prev Close:	97.12	Bid Size:		VWAP:		SCTR (ETF):	98.6

Tuesday 21-Jan-2020
▼ -0.04%
Chg: -0.04
Last: 97.08
Volume: 8,873,045



- *XLK is extremely overbought on both a price and momentum basis like most other sectors of the market. Like XLY, XLK is also pushing into the upper deviation bands.*
- *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*

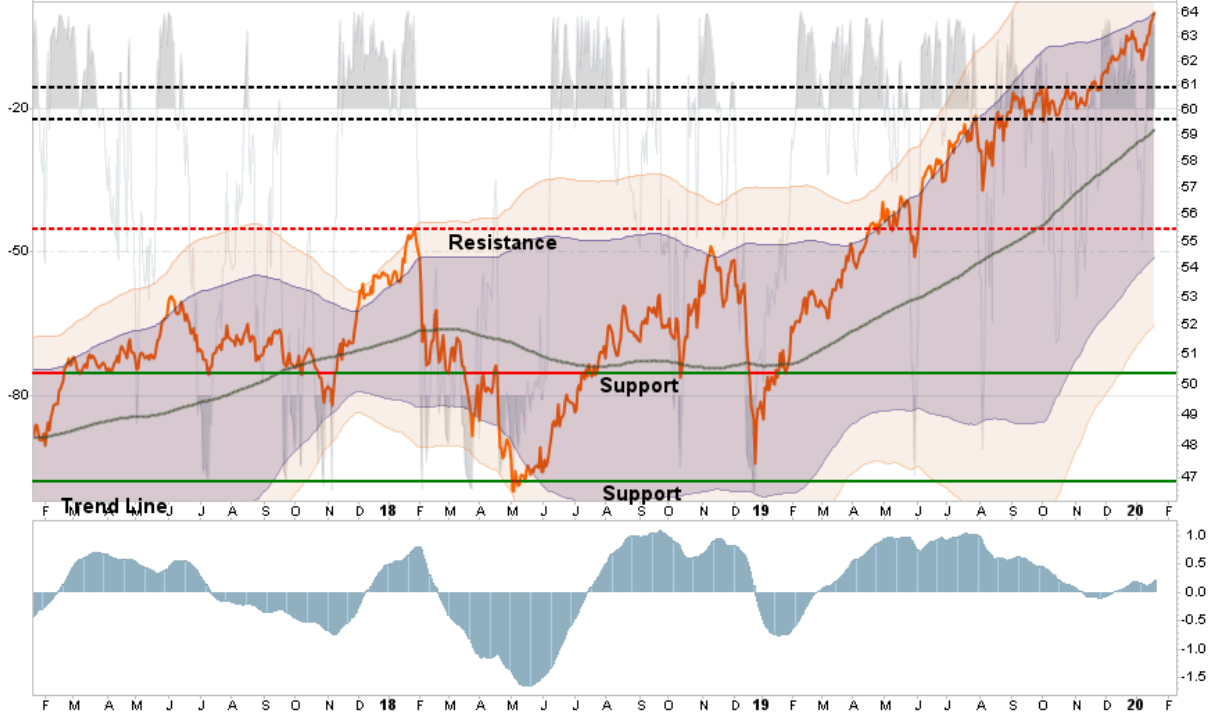
Staples

XLP Consumer Staples Select Sector SPDR Fund NYSE

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Open: 63.73	Ask:	P/E:	Options: yes
High: 64.07	Ask Size:	EPS:	Annual Dividend: 1.61675
Low: 63.51	Bid:	Last Size:	Yield: 2.52%
Prev Close: 63.82	Bid Size:	VWAP:	SCTR (ETF): 68.9

Tuesday 21-Jan-2020
 ▲ **+0.34%**
 Chg: **+0.22**
 Last: **64.04**
 Volume: **11,300,331**

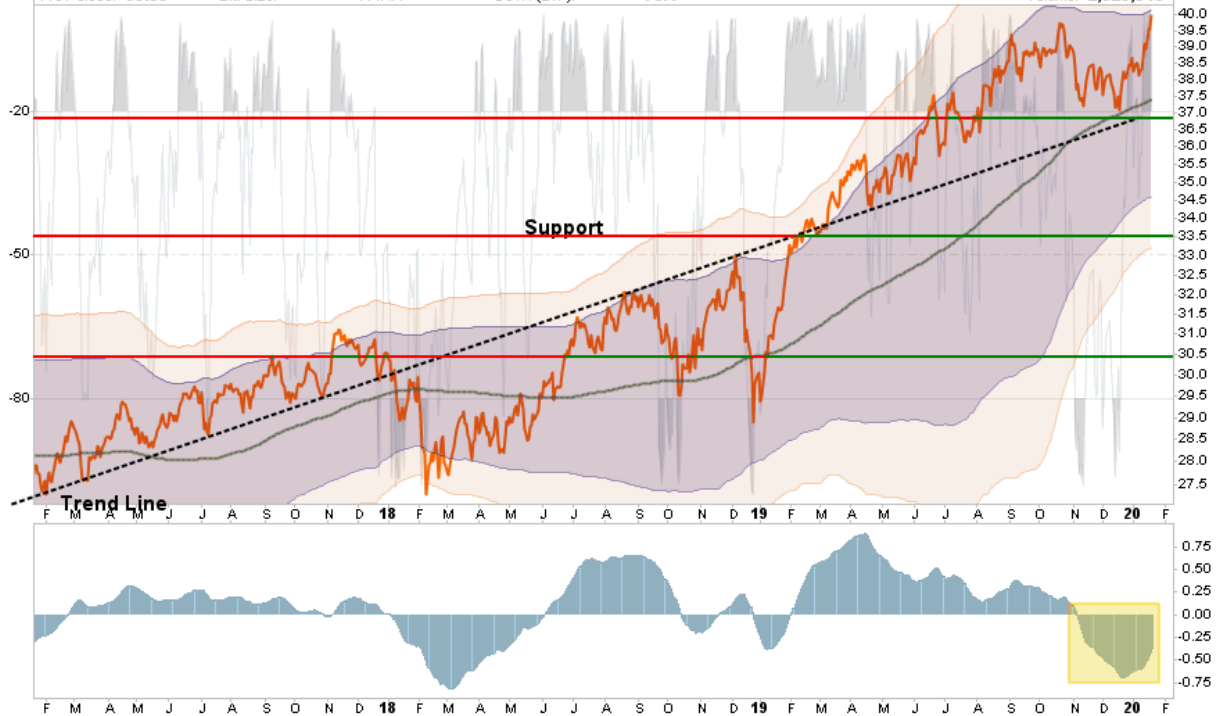


- *Defensive sectors have started to perform better as money is just chasing "everything" now.*
- *XLP continues to hold its very strong uptrend as has now broken out to new highs. However, XLP is back to more extreme overbought and extended above the 200-dma.*
- *Importantly, a "buy signal" has been 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

Open:	39.60	Ask:		P/E:		Options:	yes
High:	40.02	Ask Size:		EPS:		Annual Dividend:	1.18275
Low:	39.53	Bid:		Last Size:		Yield:	2.96%
Prev Close:	39.59	Bid Size:		VWAP:		SCTR (ETF):	78.4

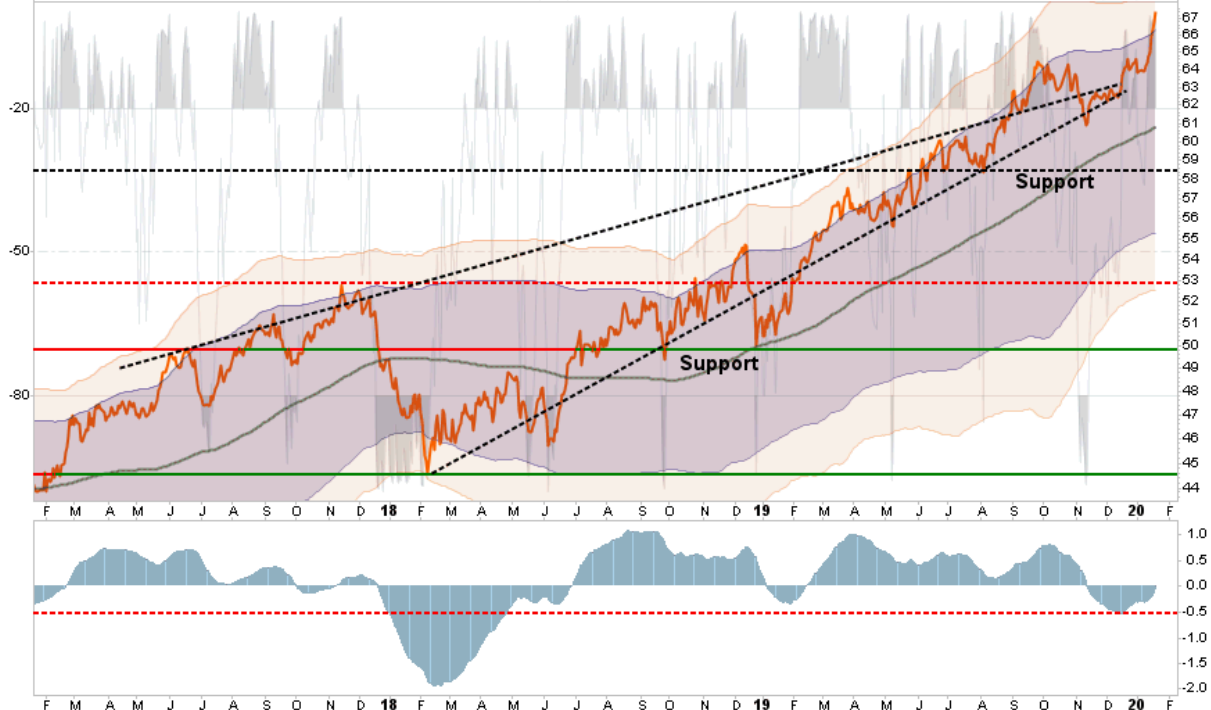
Tuesday 21-Jan-2020
 ▲ +1.01%
 Chg: +0.40
 Last: 39.99
 Volume: 2,329,540



- *XLRE was consolidating its advance within a very tight pattern but has now broken out back to new highs.*
- *We had previously recommended taking profits and rebalancing risk as the overbought condition needed to be corrected which has now been completed.*
- *XLRE is beginning to reverse its deep "sell signal" and while no longer-oversold, the breakout is bullish in the short-term.*
- *As noted previously, we are holding our long-position, but 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

Open: 66.91	Ask:	P/E:	Options: yes	Tuesday 21-Jan-2020
High: 67.40	Ask Size:	EPS:	Annual Dividend: 1.90898	▲ +0.91%
Low: 66.64	Bid:	Last Size:	Yield: 2.83%	Chg: +0.61
Prev Close: 66.76	Bid Size:	VWAP:	SCTR (ETF): 94.1	Last: 67.37
				Volume: 23,875,700

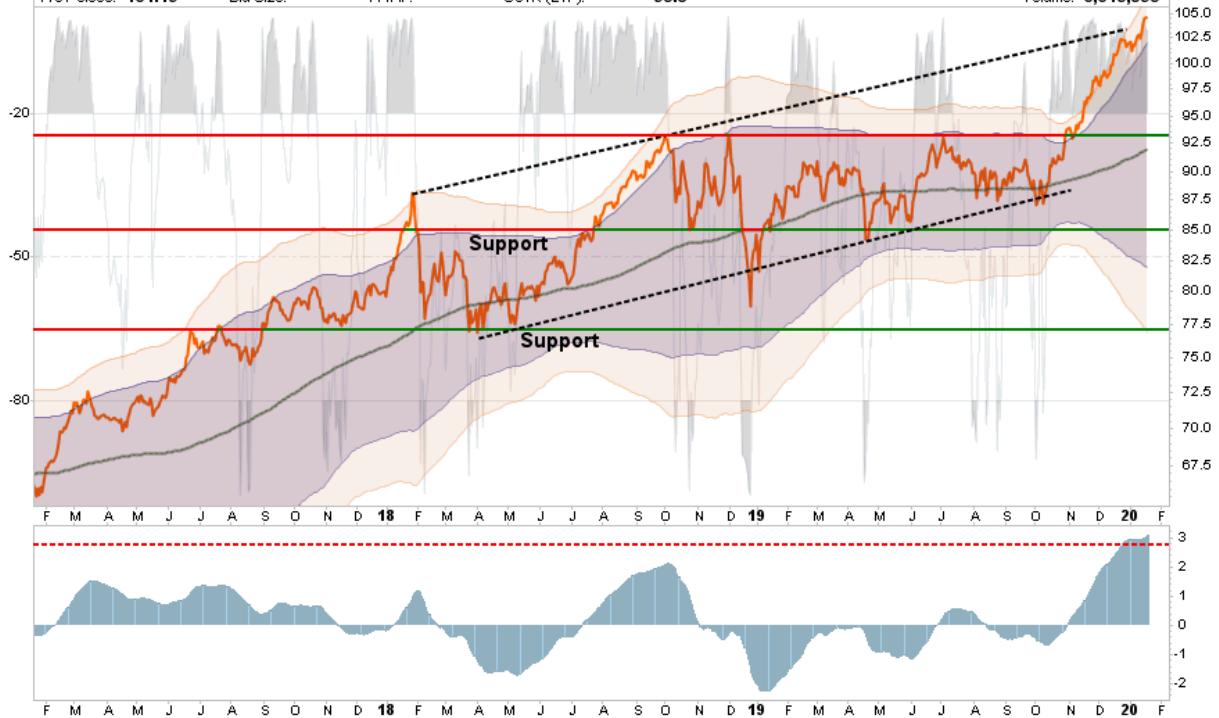


- XLU continues to maintain its bullish trend and recently rallied to break out to new highs.
- XLU is also extremely extended above the 200-dma so look for a pullback to add holdings.
- With the "sell signal" close to reversing, the bullish backdrop for XLU continues. As noted previously, the surge in XLU was confirmed by a drop in interest rates.
- As noted two weeks ago, after taking profits, we had time to be patient and wait for the right setup. That opportunity came previously, so if you added exposure, hold for now with a stop at \$61. If you need to add exposure to Utilities, you need to wait for a small correction.
- The long-term trend line remains intact.
- 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 / Use correction to add positions.
 - Stop-loss adjusted to support at \$59.00, \$61 for new positions.
- Long-Term Positioning: Bullish

Health Care

Open:	104.25	Ask:	P/E:	Options:	yes
High:	104.84	Ask Size:	EPS:	Annual Dividend:	1.54065
Low:	104.21	Bid:	Last Size:	Yield:	1.47%
Prev Close:	104.49	Bid Size:	VWAP:	SCTR (ETF):	93.8

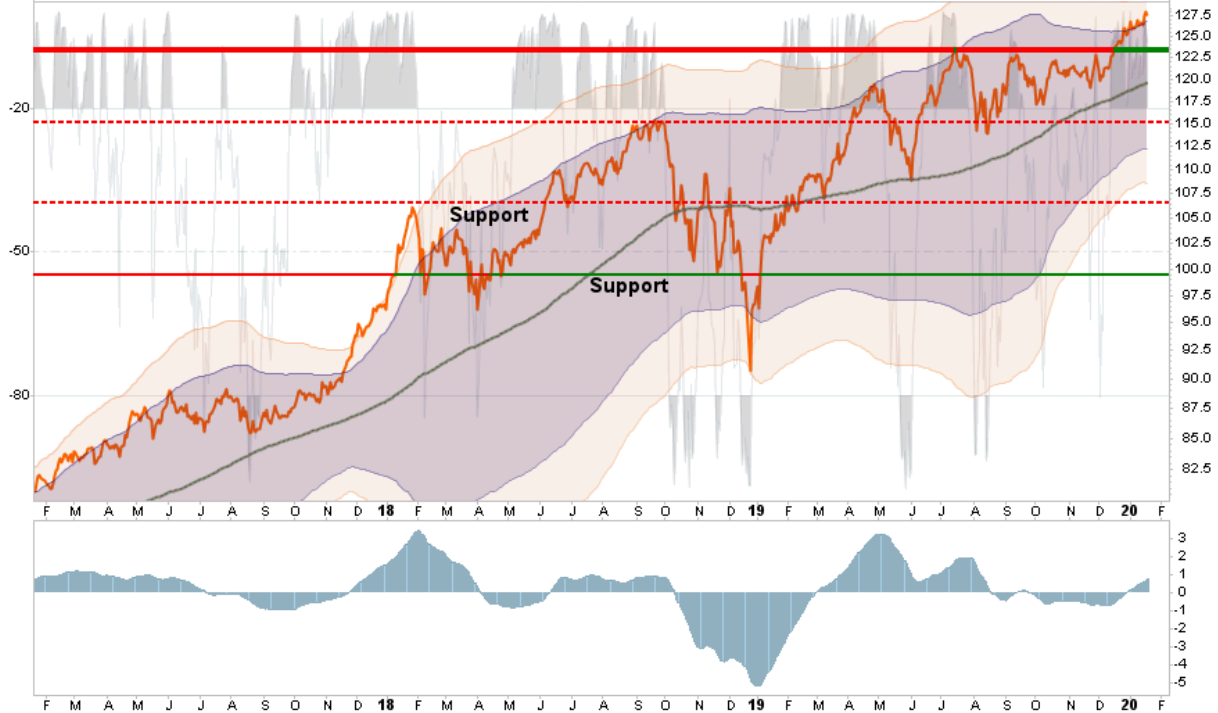
Tuesday 21-Jan-2020
 ▲ **+0.11%**
 Chg:
 Last: **104.60**
 Volume: **6,643,593**



- *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

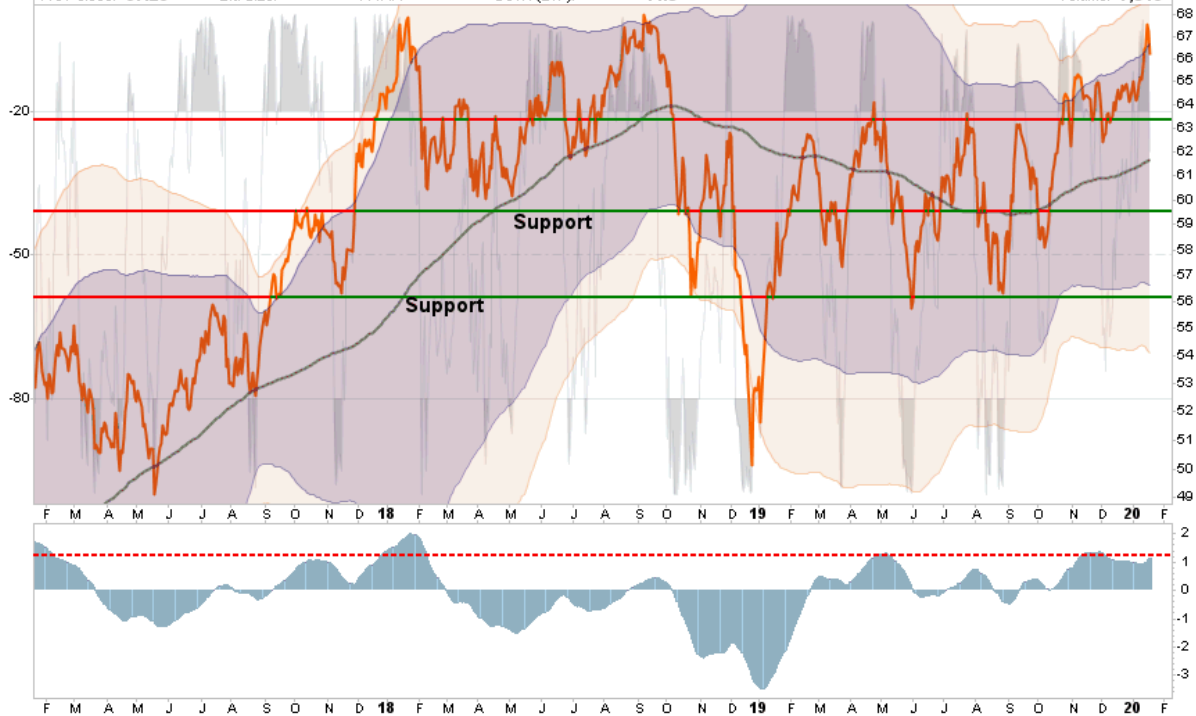
Open: 127.34	Ask:	P/E:	Options: yes	Tuesday 21-Jan-2020
High: 127.79	Ask Size:	EPS:	Annual Dividend: 1.60343	▼ -0.30%
Low: 126.92	Bid:	Last Size:	Yield: 1.26%	Chg: -0.39
Prev Close: 127.99	Bid Size:	VWAP:	SCTR (ETF): 48.0	Last: 127.60
				Volume: 4,001,934



- 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

Open: 66.82	Ask:	P/E:	Options: no	Tuesday 21-Jan-2020
High: 66.99	Ask Size:	EPS:	Annual Dividend: 0.75315	▼ -1.61%
Low: 66.18	Bid:	Last Size:	Yield: 1.14%	Chg: -1.08
Prev Close: 67.26	Bid Size:	VWAP:	SCTR (ETF): 44.8	Last: 66.18
				Volume: 7,816



- *XTN has broken out of consolidation but quickly ran into resistance at the 2-standard deviation level above the 200-dma.*
- *We noted last week, that if XTN can breakout above current resistance there is a potential to test old highs. That occurred last week and failed.*
- *Be patient, XTN has a good bit of work to do to prove its position in portfolios, look for a pullback to \$64 to add holdings.*
- *Short-Term Positioning: Neutral*
 - *Last week: No position*
 - *This week: No position*
- *Long-Term Positioning: Bearish*