

Sector Buy/Sell Review: 02-03-20

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.



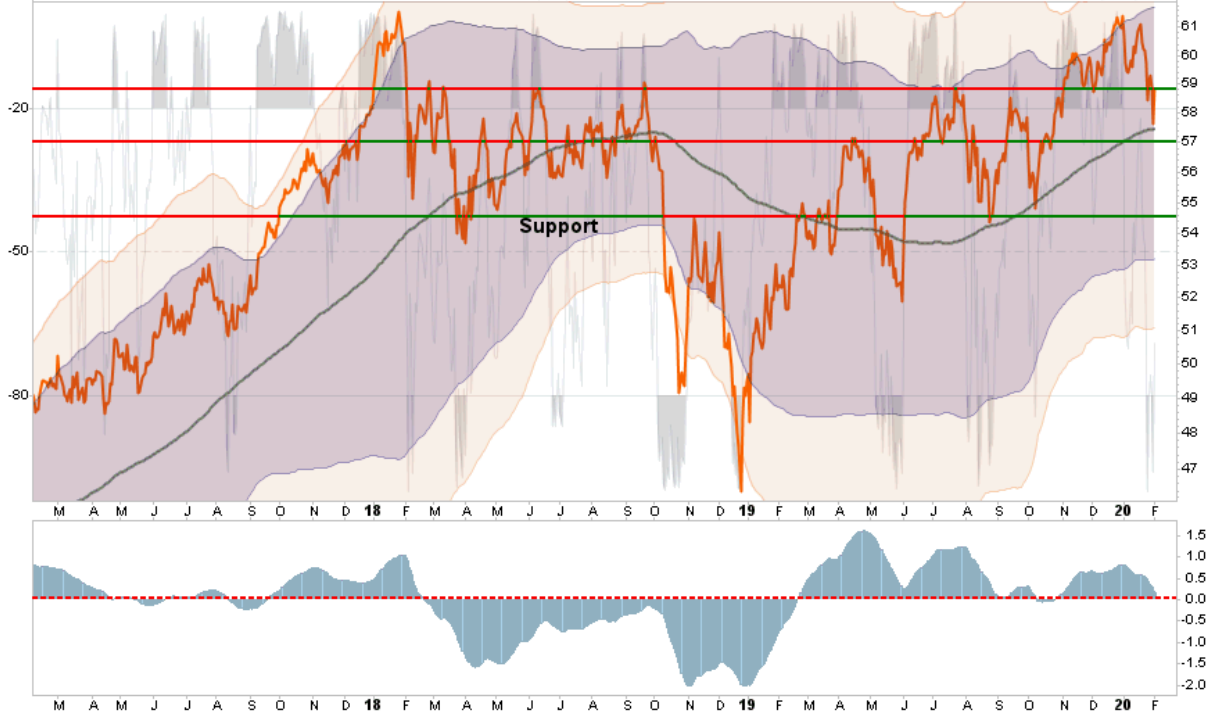
With this basic tutorial let's get to the sector analysis.

The correction we have been discussing over the last several weeks has finally come to fruition. We are now looking for entry points to add to or build exposure in portfolios as needed OR rebalancing holdings accordingly.

Basic Materials

Open: 57.85	Ask:	P/E:	Options: yes
High: 59.10	Ask Size:	EPS:	Annual Dividend: 1.21337
Low: 57.80	Bid:	Last Size:	Yield: 2.06%
Prev Close: 57.63	Bid Size:	VWAP:	SCTR (ETF): 27.6

Monday 3-Feb-2020
 ▲ **+2.10%**
 Chg: **+1.21**
 Last: **58.84**
 Volume: **12,153,948**

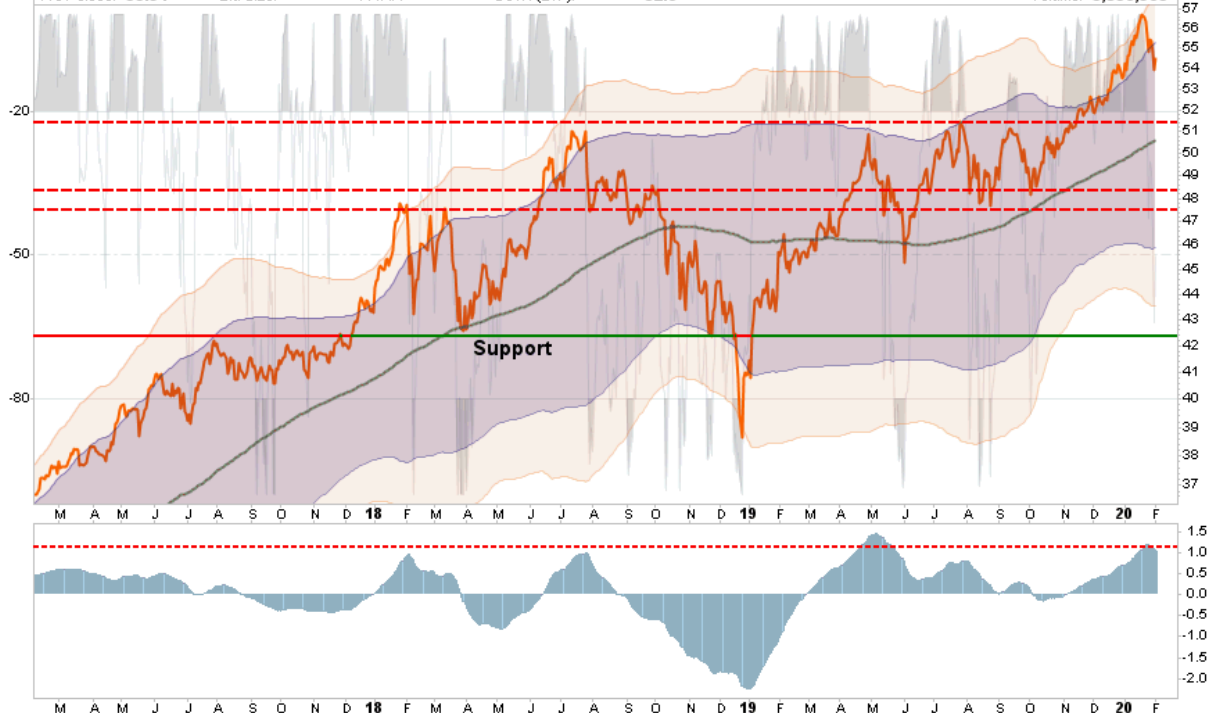


- *XLB tested and failed at all-time highs. Furthermore, the break below the breakout support level has completed a "head and shoulders" formation which suggest lower levels are coming.*
- *The sector has gotten back to short-term oversold, and the buy signal is still intact, so it will be critical this correction holds the 200-dma which was tested yesterday.*
- *We currently hold 1/2 a position and have been looking to add the second 1/2 during a corrective process. We are watching support levels closely.*
- *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: 54.35	Ask:	P/E:	Options: yes
High: 54.81	Ask Size:	EPS:	Annual Dividend: 0.43727
Low: 54.35	Bid:	Last Size:	Yield: 0.80%
Prev Close: 53.91	Bid Size:	VWAP:	SCTR (ETF): 82.6

Monday 3-Feb-2020
▲ **+1.19%**
Chg: **+0.64**
Last: **54.55**
Volume: **5,856,965**



- As noted previously, XLC was 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 are now watching the correction to see if a successful test of the previous breakout level, which should coincide with the 200-dma, is successful. We will look to use that pullback to support to reweight the sector.
- With a "buy signal" in place, but extended, there is more correction likely. This is particularly the case since XLC has not reversed its extreme overbought condition as of yet. XLC must hold support at \$50. With GOOG missing earnings yesterday, we expect to see a further decline.
- XLC is currently 2/3rds weight in our portfolios.
- Short-Term Positioning: Bullish
 - Last Week: Reduced weighting in portfolio.
 - This Week: Hold positions.
 - Stop adjusted to \$50
- Long-Term Positioning: Neutral

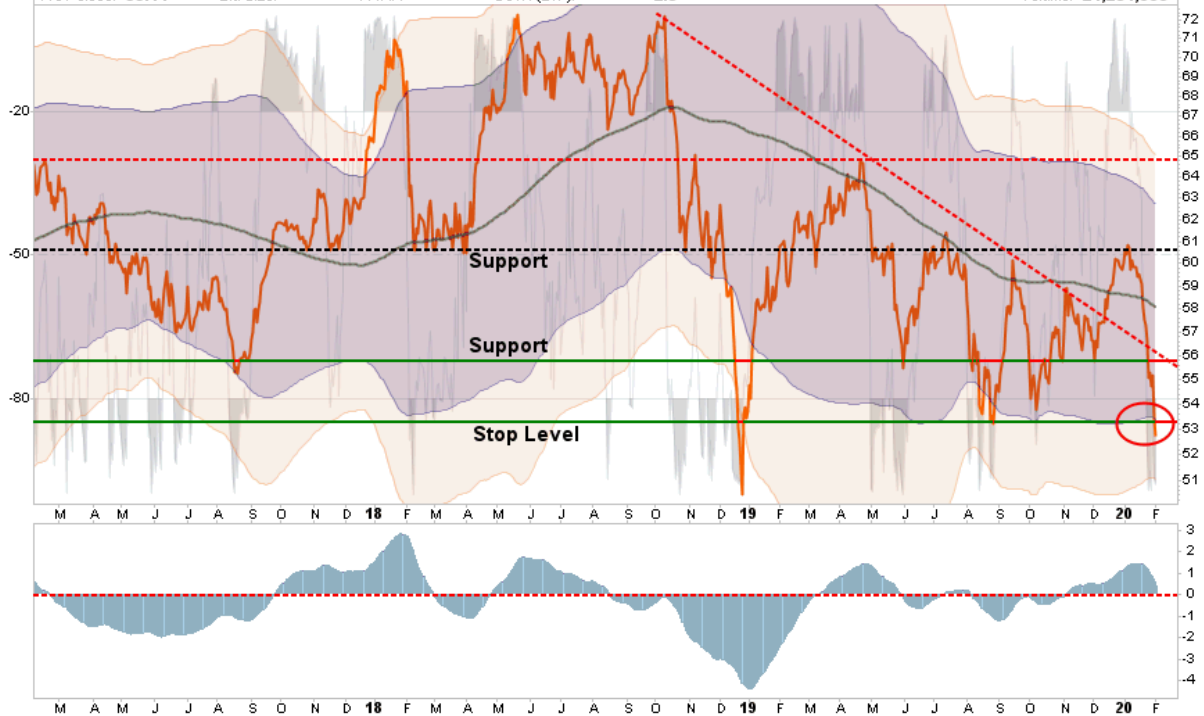
Energy

XLE Energy Select Sector SPDR Fund NYSE

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Open: **53.37** Ask: P/E: Options: **yes**
 High: **53.45** Ask Size: EPS: Annual Dividend: **2.24387**
 Low: **52.55** Bid: Last Size: Yield: **4.25%**
 Prev Close: **53.44** Bid Size: VWAP: SCTR (ETF): **2.8**

Monday 3-Feb-2020
 ▼ **-1.31%**
 Chg: **-0.70**
 Last: **52.74**
 Volume: **21,284,000**



- *Energy has failed at all levels.*
- *We have been trying to add XLE to our portfolios but XLE broke back below the 200-dma, the downtrend line, and now sits at the last level of support and the stop level.*
- *With the buy signal close to reversing, but with the sector very oversold. a short-term bounce is likely. Use that bounce to sell into for now.*
- *We had noted previously, we were remaining cautious as rallies had repeatedly failed in the past. And, as expected, it happened again.*
- *Short-Term Positioning: Bearish*
 - *Last week: Hold positions*
 - *This week: Sell into rally.*
 - *No position currently*
- *Long-Term Positioning: Bearish*

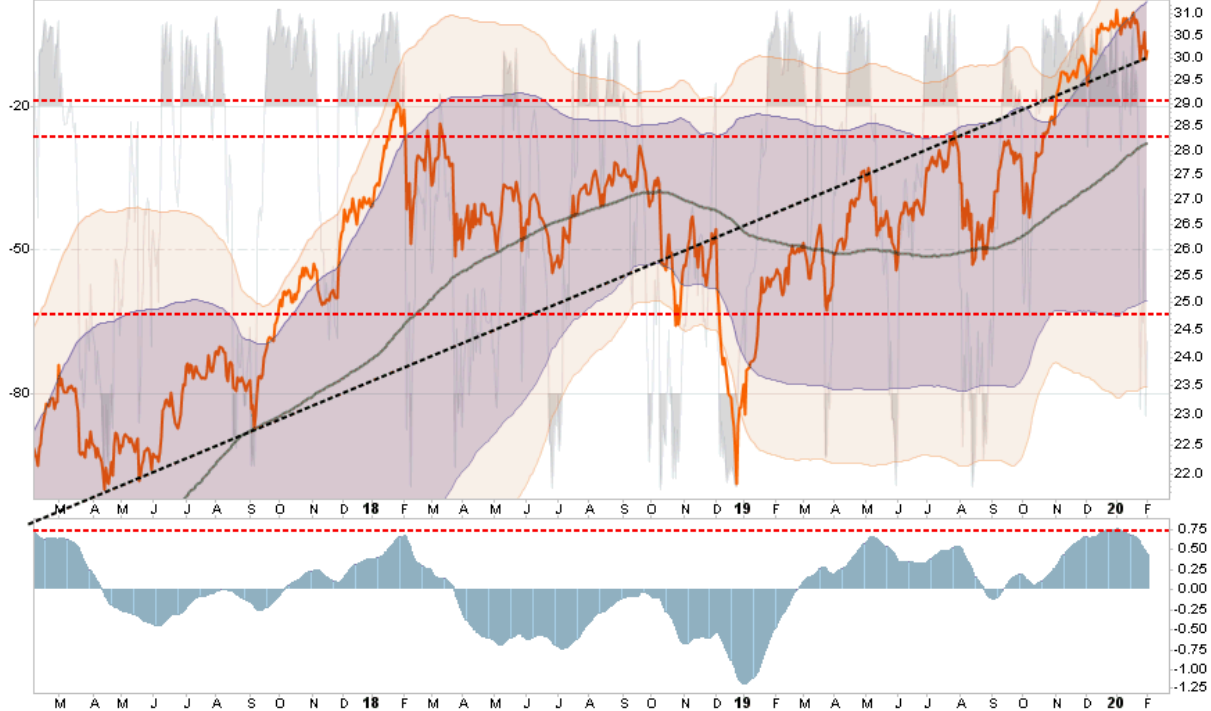
Financials

XLF Financial Select Sector SPDR Fund NYSE

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Open:	30.17	Ask:		P/E:		Options:	yes
High:	30.47	Ask Size:		EPS:		Annual Dividend:	0.57469
Low:	30.15	Bid:		Last Size:		Yield:	1.90%
Prev Close:	29.96	Bid Size:		VWAP:		SCTR (ETF):	77.5

Monday 3-Feb-2020	▲	+0.70%
Chg:		+0.21
Last:		30.17
Volume:		40,163,408

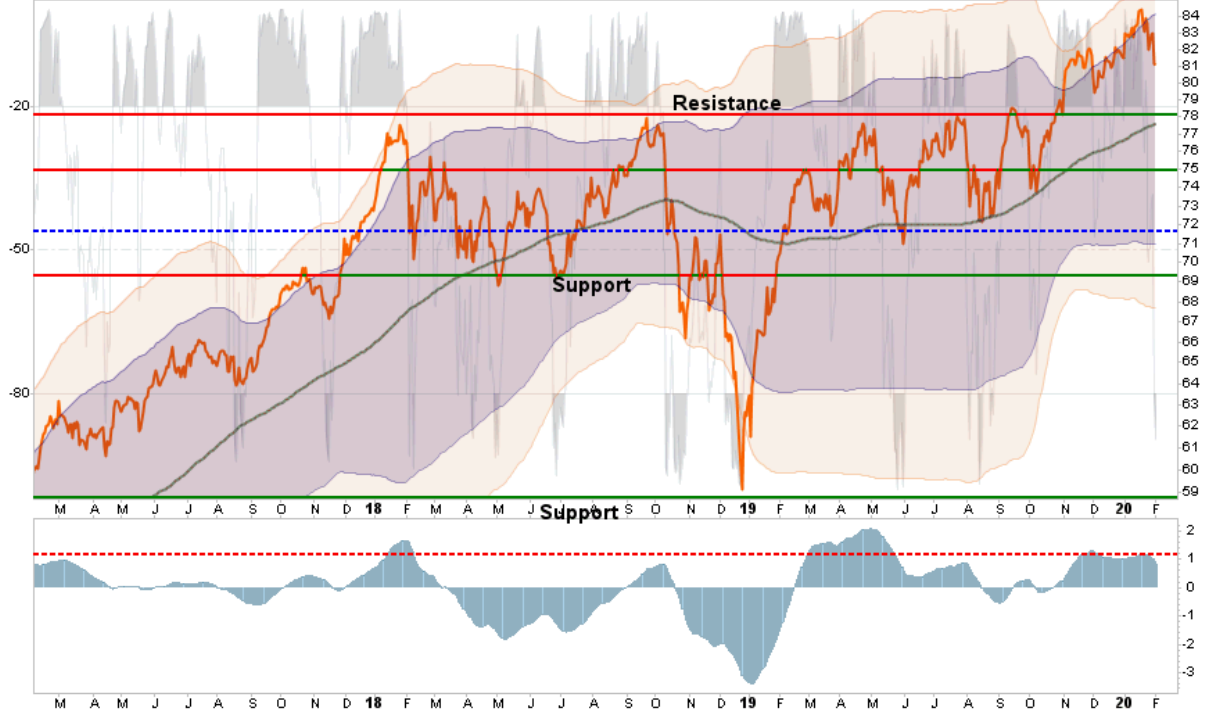


- *As noted previously, XLF was extremely extended above the 200-dma which put the sector at risk of a more severe correction.*
- *The buy signal is correcting but remains a bit extended along but the sector is now approaching oversold.*
- *XLF is currently testing the bullish trend line, which may give us an opportunity to add 1/2 position to our portfolio currently. We will wait and see if the trendline support can hold, otherwise, the 200-dma comes into focus.*
- *Short-Term Positioning: Bullish*
 - *Last week: Take profits and rebalance risk.*
 - *This week: Hold for now.*
 - *Stop-loss adjusted to \$28*
- *Long-Term Positioning: Neutral*

Industrials

Open: 81.55	Ask:	P/E:	Options: yes
High: 82.23	Ask Size:	EPS:	Annual Dividend: 1.58305
Low: 80.99	Bid:	Last Size:	Yield: 1.95%
Prev Close: 81.11	Bid Size:	VWAP:	SCTR (ETF): 52.3

Monday 3-Feb-2020

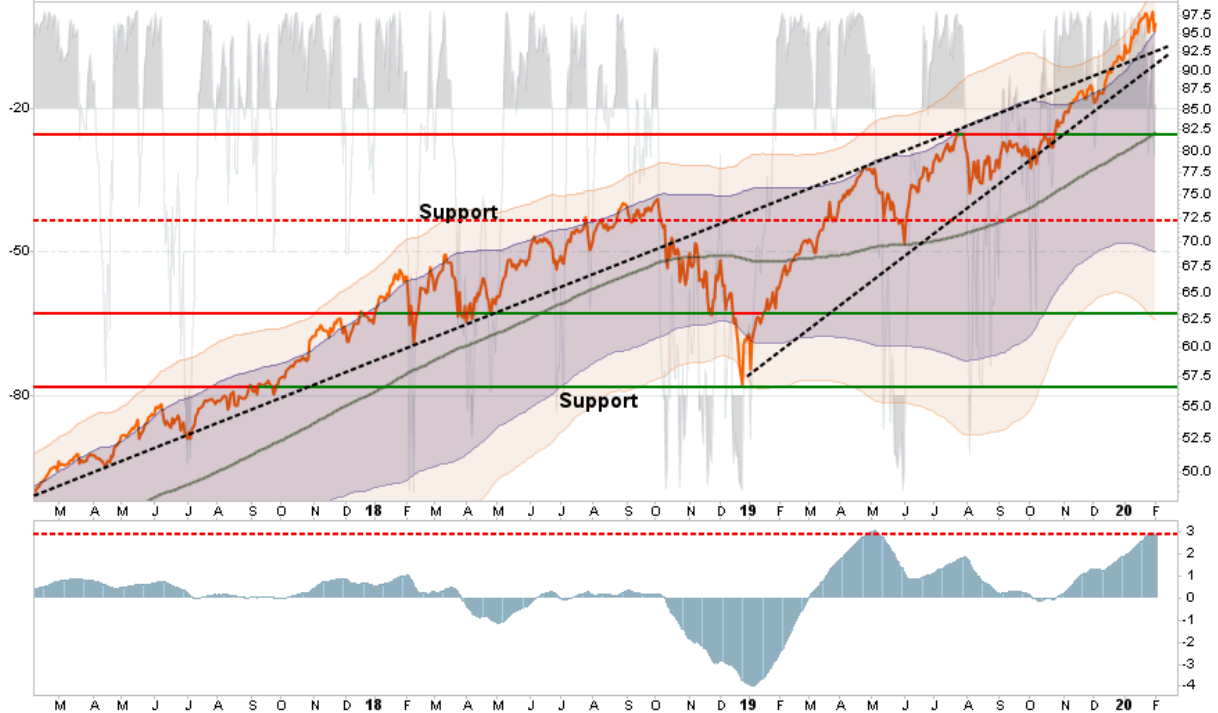
▼ **-0.04%**Chg: **-0.03**Last: **81.08**Volume: **15,660,711**

- *XLI had pushed well above the 200-dma and a correction was inevitable.*
- *While XLI remains exceedingly overbought short-term, the "buy signal" remains very extended as well. No rush chasing the sector currently.*
- *We have been looking for a pullback to work off some of the extreme overbought condition before increasing our weighting. We will continue to patient for now.*
- *We have adjusted our stop-loss for the remaining position.*
- *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:	95.44	Ask:		P/E:		Options:	yes
High:	96.82	Ask Size:		EPS:		Annual Dividend:	1.05906
Low:	95.33	Bid:		Last Size:		Yield:	1.10%
Prev Close:	95.33	Bid Size:		VWAP:		SCTR (ETF):	99.2

Monday 3-Feb-2020	▲ +1.32%
Chg:	+1.26
Last:	96.59
Volume:	12,533,314



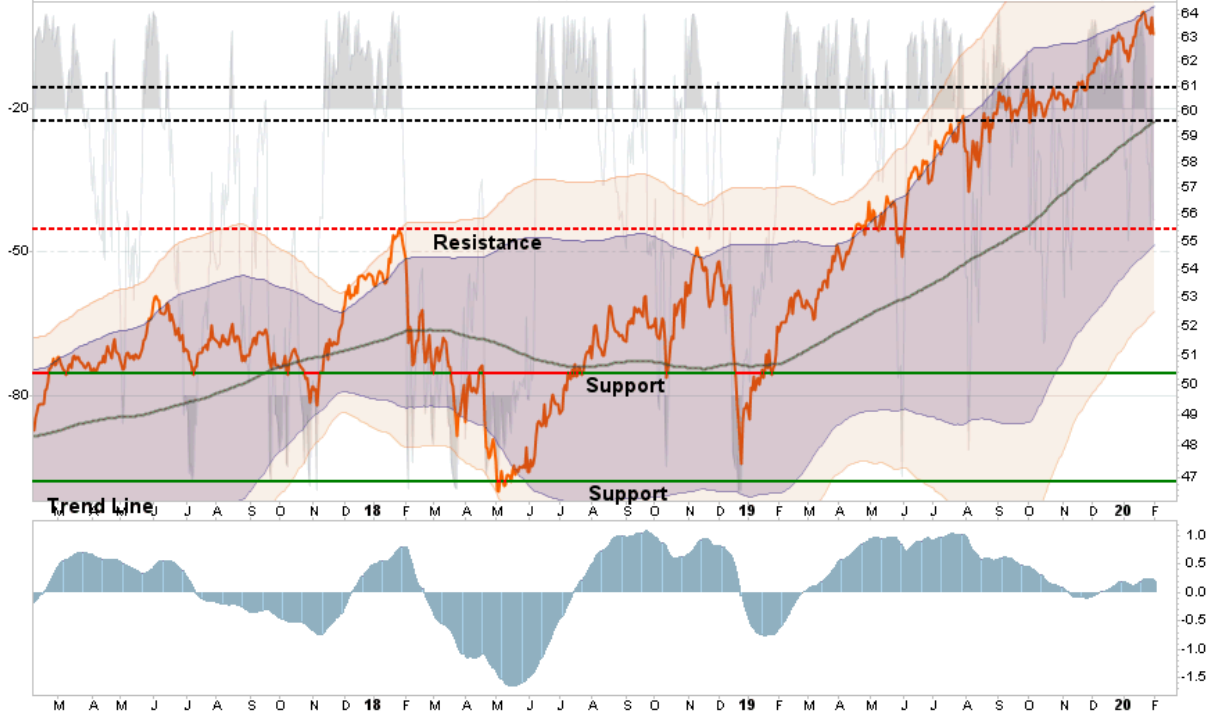
- *XLK has only had a very SLIGHT correction at this point and remains extremely overbought on both a price and momentum basis.*
- *We reduced our position in XLK from overweight to target portfolio weight due to the extreme extension and noted a correction is coming.*
- *The bullish trend line is the first level of support XLK needs to hold while reversing the overbought condition. A failure at that support is going to bring the 200-dma into focus. \$AAPL and \$MSFT will likely determine the fate of XLK during this earnings season.*
- *Be careful chasing the sector currently. Take profits and rebalance risks accordingly.*
- *Short-Term Positioning: Bullish*
 - *Last week: Reduce Overweight to Target Weight*
 - *This week: Rebalance To Target Weights*
 - *Stop-loss adjusted to \$80*
 - *Long-Term Positioning: Neutral*

Staples

XLP Consumer Staples Select Sector SPDR Fund NYSE

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Open: 63.41	Ask:	P/E:	Options: yes	Monday 3-Feb-2020
High: 63.65	Ask Size:	EPS:	Annual Dividend: 1.61675	Chg: +0.00%
Low: 63.13	Bid:	Last Size:	Yield: 2.56%	Last: 63.18
Prev Close: 63.18	Bid Size:	VWAP:	SCTR (ETF): 77.1	Volume: 21,797,630

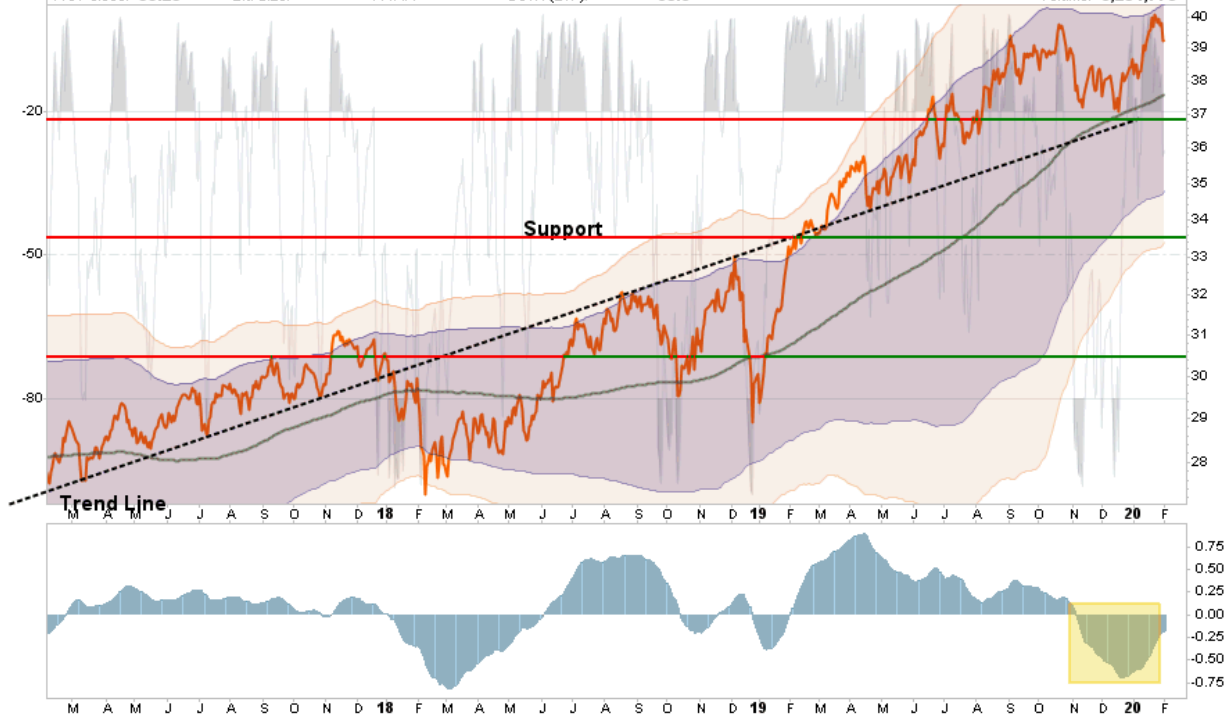


- As we noted last week, defensive sectors have started to perform better suggesting a risk-off trade might be coming.
- XLP continues to hold its very strong uptrend and remains close to all-time highs.
- XLP is back to more extreme overbought and extended above the 200-dma, however, the "buy signal" 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:	39.39	Ask:		P/E:		Options:	yes
High:	39.64	Ask Size:		EPS:		Annual Dividend:	1.18275
Low:	39.24	Bid:		Last Size:		Yield:	3.01%
Prev Close:	39.23	Bid Size:		VWAP:		SCTR (ETF):	65.6

Monday 3-Feb-2020	▲ +0.10%
Chg:	+0.04
Last:	39.27
Volume:	6,254,770

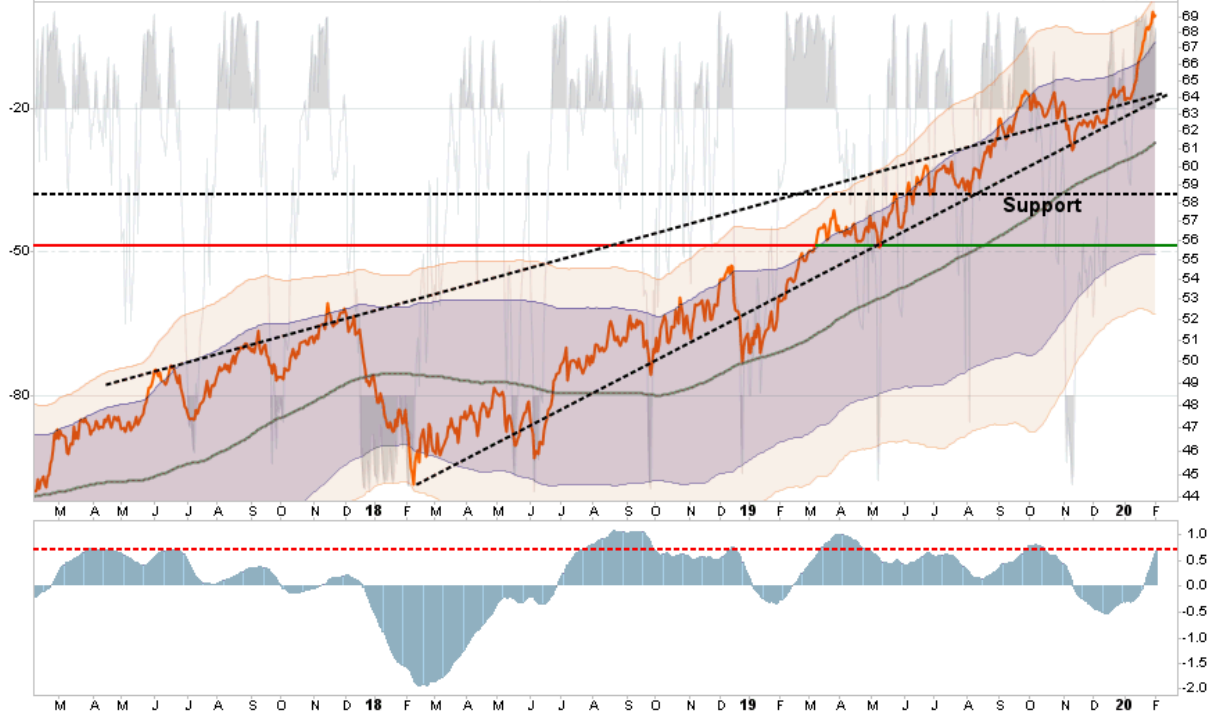


- Last week we noted that XLRE had broken out back to new highs. We took profits yesterday, and reduced our risk a bit in the position as interest rates are extremely overbought.
- With XLRE very extended short-term, we previously suggested looking for a short-term reversal in interest rates to create an entry point. That is occurring which should give us a better entry point to increase our holdings at a better entry point.
- We had previously noted that while we are holding our long-position, trading positions could be added to portfolios. Hold off adding any new positions currently and wait for this correction to complete.
- Short-Term Positioning: Bullish
 - Last week: Hold position.
 - This week: Took profits and reduced weighting slightly.
 - Stop-loss adjusted to \$35.00 for profits.
- Long-Term Positioning: Bullish

Utilities

Open: 69.09	Ask:	P/E:	Options: yes
High: 69.28	Ask Size:	EPS:	Annual Dividend: 1.90898
Low: 68.93	Bid:	Last Size:	Yield: 2.76%
Prev Close: 68.98	Bid Size:	VWAP:	SCTR (ETF): 98.4

Monday 3-Feb-2020

▲ **+0.32%**Chg: **+0.22**Last: **69.20**Volume: **13,543,229**

- As noted last week, XLU is extremely extended above the 200-dma, and the "buy signal" is now extremely extended.
- We took profits in our holdings yesterday and will wait for a correction back to support to bring our holdings back to overweight. Such will give us a much better risk/reward entry.
- The long-term trend line remains intact.
- We are currently at 2/3rds weight.
- Short-Term Positioning: Bullish
 - Last week: Hold position.
 - This week: Took profits and reduced weight slightly.
 - Stop-loss adjusted to support at \$59.00, \$61 for new positions.
- Long-Term Positioning: Bullish

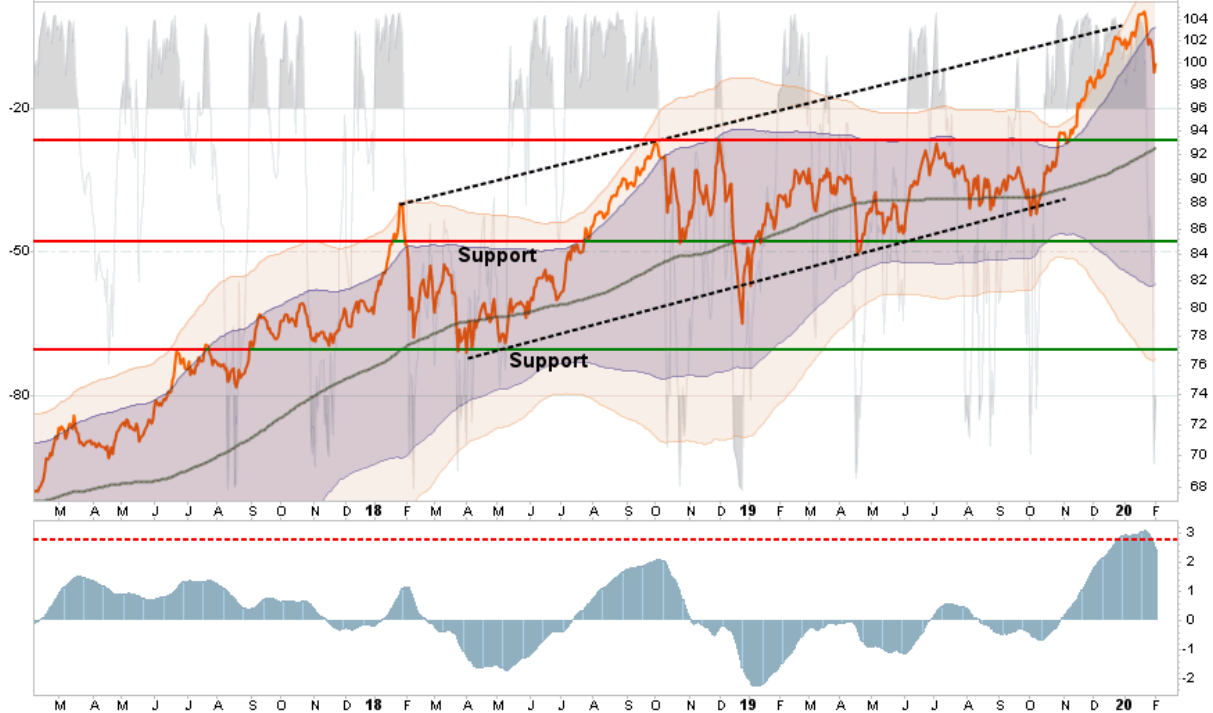
Health Care

XLV Health Care Select Sector SPDR Fund NYSE

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Open: 99.83	Ask:	P/E:	Options: yes
High: 100.76	Ask Size:	EPS:	Annual Dividend: 1.54065
Low: 99.83	Bid:	Last Size:	Yield: 1.54%
Prev Close: 99.14	Bid Size:	VWAP:	SCTR (ETF): 75.2

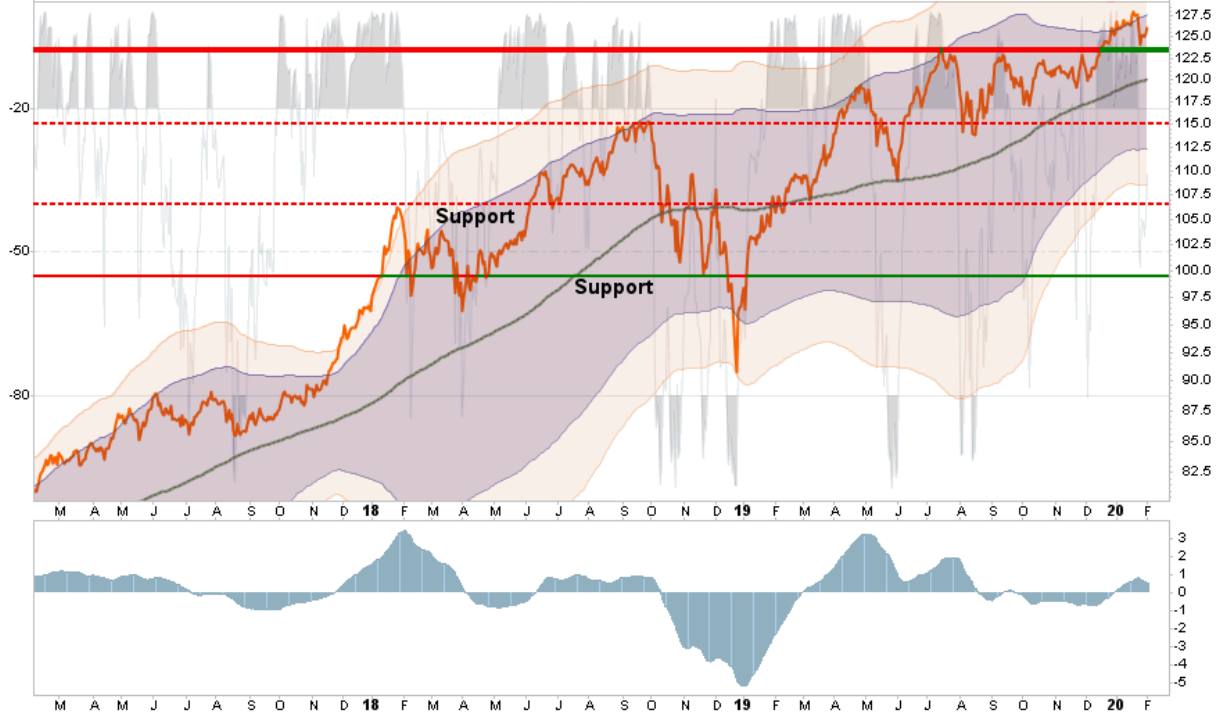
Monday 3-Feb-2020
 ▲ **+0.91%**
 Chg: **+0.90**
 Last: **100.04**
 Volume: **11,849,505**



- *XLV has remained intact and is now more extended than we have seen it in quite some time.*
- *As noted last week, XLV was extremely overbought and would give way sooner than later. That started this week and may have more to go. 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. We will look to add to our holdings but need a bit more corrective action first. The sector is back to short-term oversold.*
- **Short-Term Positioning: Neutral**
 - *Last week: Took profits - reduced overweight to target weight.*
 - *This week: Hold positions*
 - *Stop-loss adjusted to \$94*
- **Long-Term Positioning: Bullish**

Discretionary

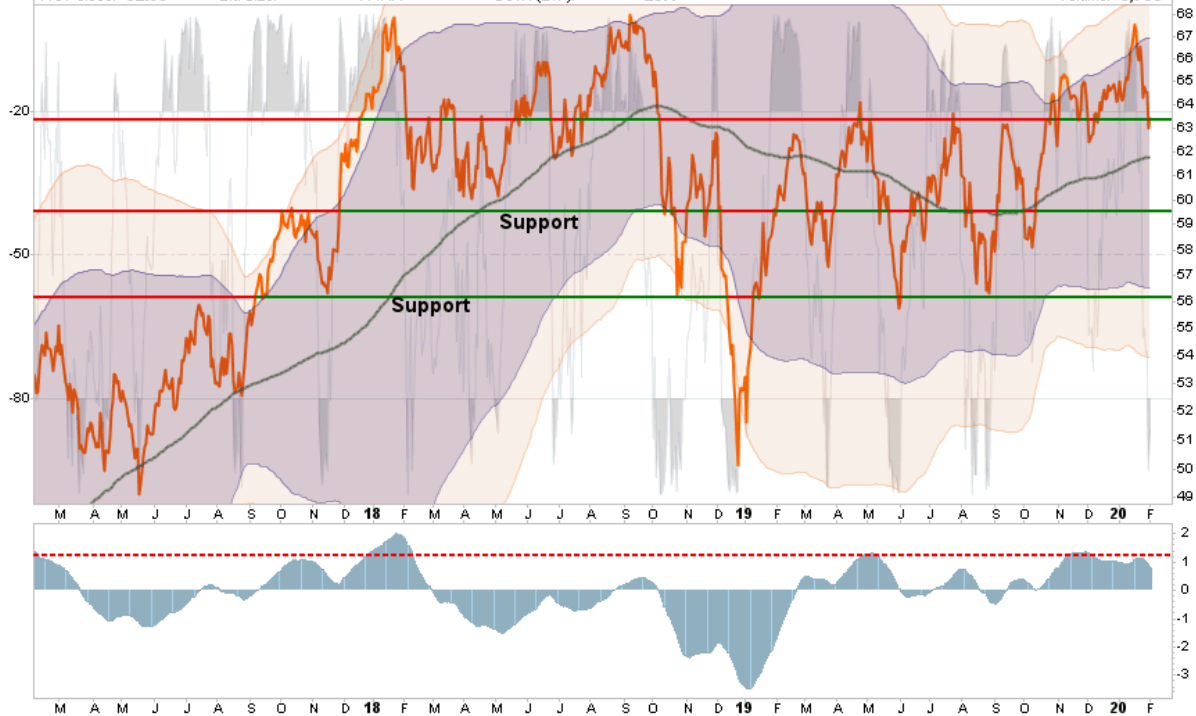
Open: 126.02	Ask:	P/E:	Options: yes	Monday 3-Feb-2020	▲ +0.71%
High: 127.77	Ask Size:	EPS:	Annual Dividend: 1.60343	Chg: +0.89	
Low: 126.01	Bid:	Last Size:	Yield: 1.27%	Last: 126.21	
Prev Close: 125.32	Bid Size:	VWAP:	SCTR (ETF): 76.3	Volume: 8,009,461	



- The correction in XLY started this week and is testing the breakout support level. While XLY is holding support currently, a failure will bring the 200-dma into focus.
- 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.
- A "buy signal" has been triggered which gives the sector support.
- Short-Term Positioning: Neutral
 - Last week: Hold position
 - This week: Hold position
 - Stop-loss adjusted to \$120.
- Long-Term Positioning: Neutral

Transportation

Open: 63.08	Ask:	P/E:	Options: no	Monday 3-Feb-2020
High: 63.79	Ask Size:	EPS:	Annual Dividend: 0.75315	▲ +0.69%
Low: 63.08	Bid:	Last Size:	Yield: 1.19%	Chg: +0.43
Prev Close: 62.99	Bid Size:	VWAP:	SCTR (ETF): 29.4	Last: 63.42
				Volume: 8,785



- *XTN broke back below its breakout level yesterday, negating the previous bullish setup.*
- *We remain out of the economically sensitive sector currently particularly due to the impact of the "Wuhan Virus" which will likely have global supply chain impact.*
- *As noted last week: "A pullback to \$63 must hold if positions are going to be added. However, with the global economy slowing, I have a hunch it won't."*
- *We are testing that level currently. Let's see if it can hold.*
- *Short-Term Positioning: Neutral*
 - *Last week: No position*
 - *This week: No position*
- *Long-Term Positioning: Bearish*