

Sector Buy/Sell Review: 05-14-19

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:

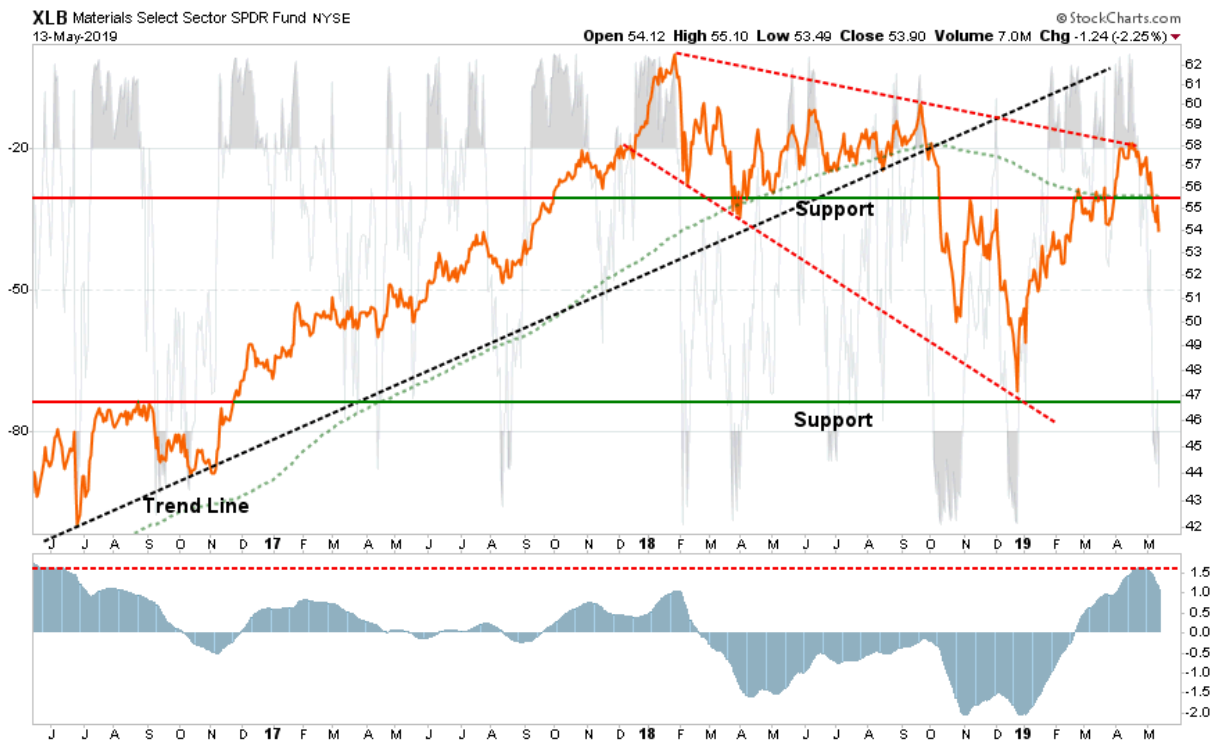
- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

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.



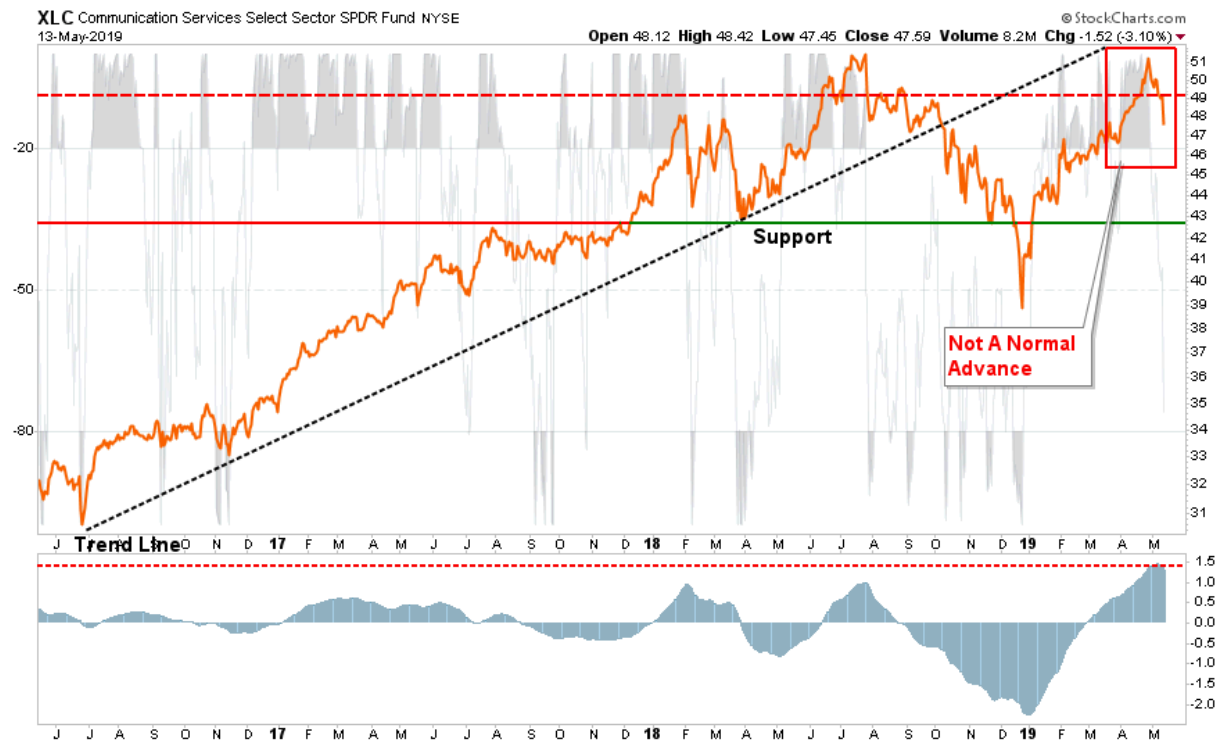
With this basic tutorial let's get to the sector analysis.

Basic Materials



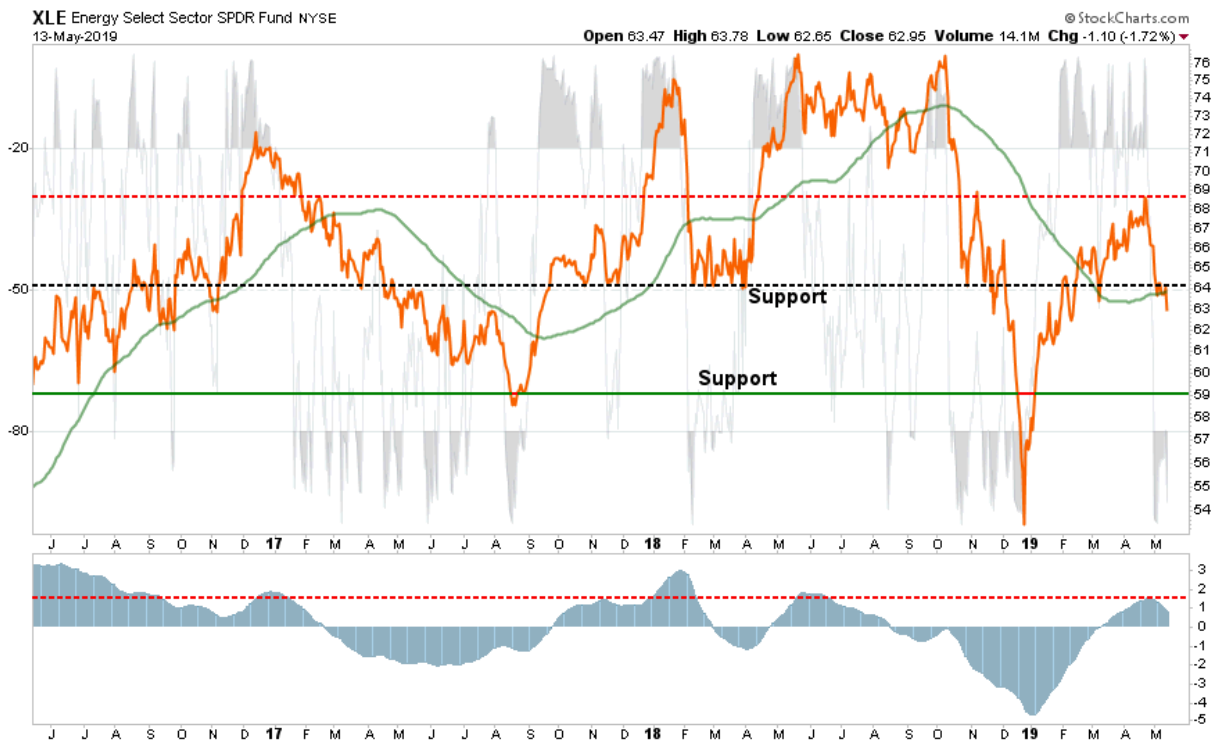
- As noted last week, XLB met its initial "match" at the downtrend resistance line from the 2018 peak. With the "buy" signal extremely extended as noted by the horizontal dashed red line, a correction was inevitable.
- That correction begin in earnest last week and continued Monday with the resurgence of the trade war with China.
- Short-Term Positioning: Neutral
 - Last Week: Hold position.
 - This Week: Sold 1/2 position on Monday with violation of Stop-loss.
 - Stop-loss moved up to \$52, sell remaining half on rally..
- Long-Term Positioning: Bearish

Communications



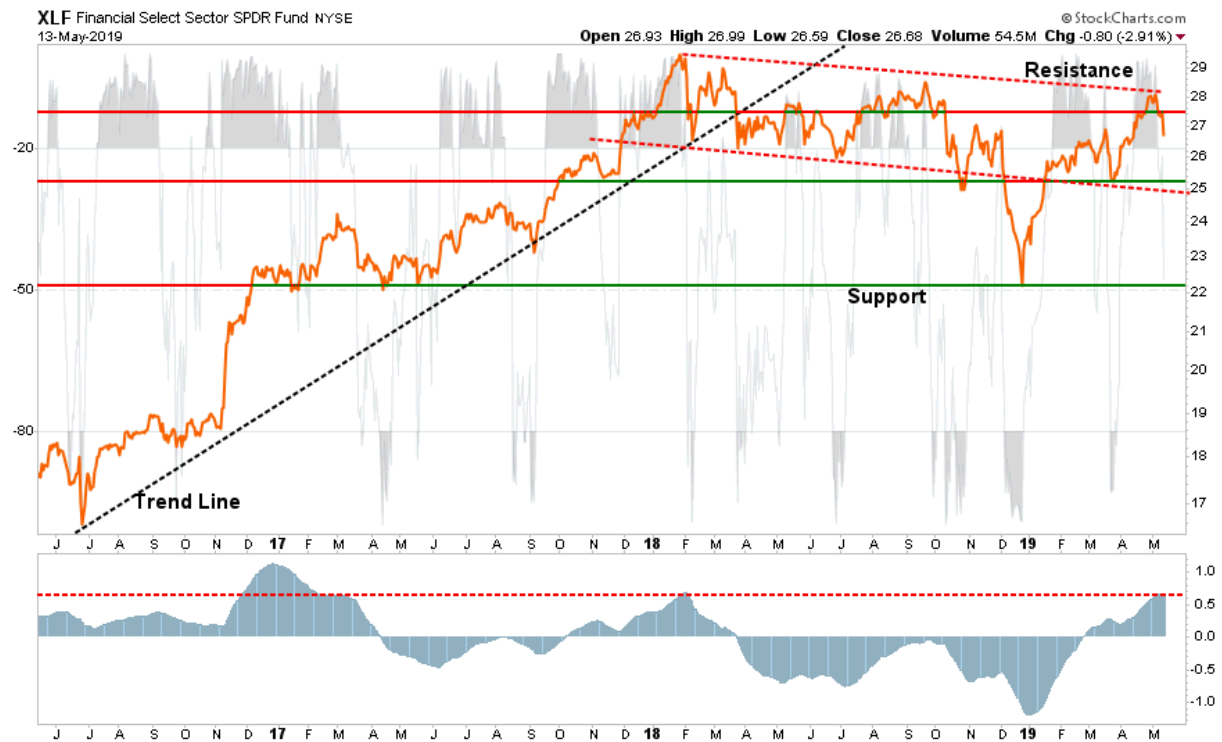
- We noted that over the last few of weeks, XLC has gone parabolic as only a few number of stocks are driving the market now. As noted, it wasn't a normal advance. We also stated that with the current "buy" signal very extended, and the sector very overbought, be patient for a better entry point.
- The trade war hit the sector hard on Monday, violating support. XLC is not oversold yet so remain patient.
- Short-Term Positioning: Neutral
 - Last Week: Hold 1/2 position
 - This Week: Hold 1/2 position
 - Stop-loss moved up to \$47
- Long-Term Positioning: Bearish

Energy



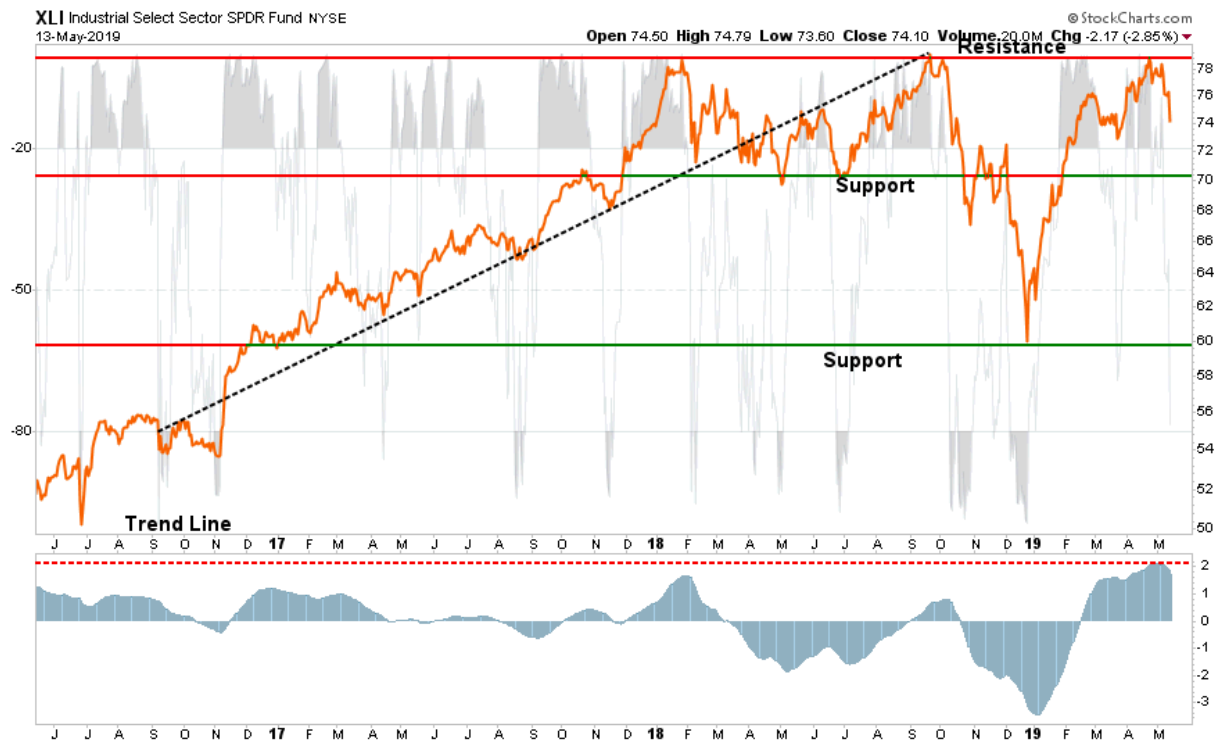
- As noted last week, the rally in oil prices pushed XLE into further resistance back at the November highs. The move failed at that level for now. With XLE impacted by trade disputes, the sector broke important support and the 200-dma on Monday.
- The current "buy signal" remains intact and the sector is oversold short-term. Use any rally to reduce exposure to the sector for now.
- Short-Term Positioning: Neutral
 - Last week: Hold and wait for a pullback to support to add.
 - This week: Stop violated, sell on rally that fails to get above \$64 this week.
 - Stop-loss moved up to \$64
- Long-Term Positioning: Bearish

Financials



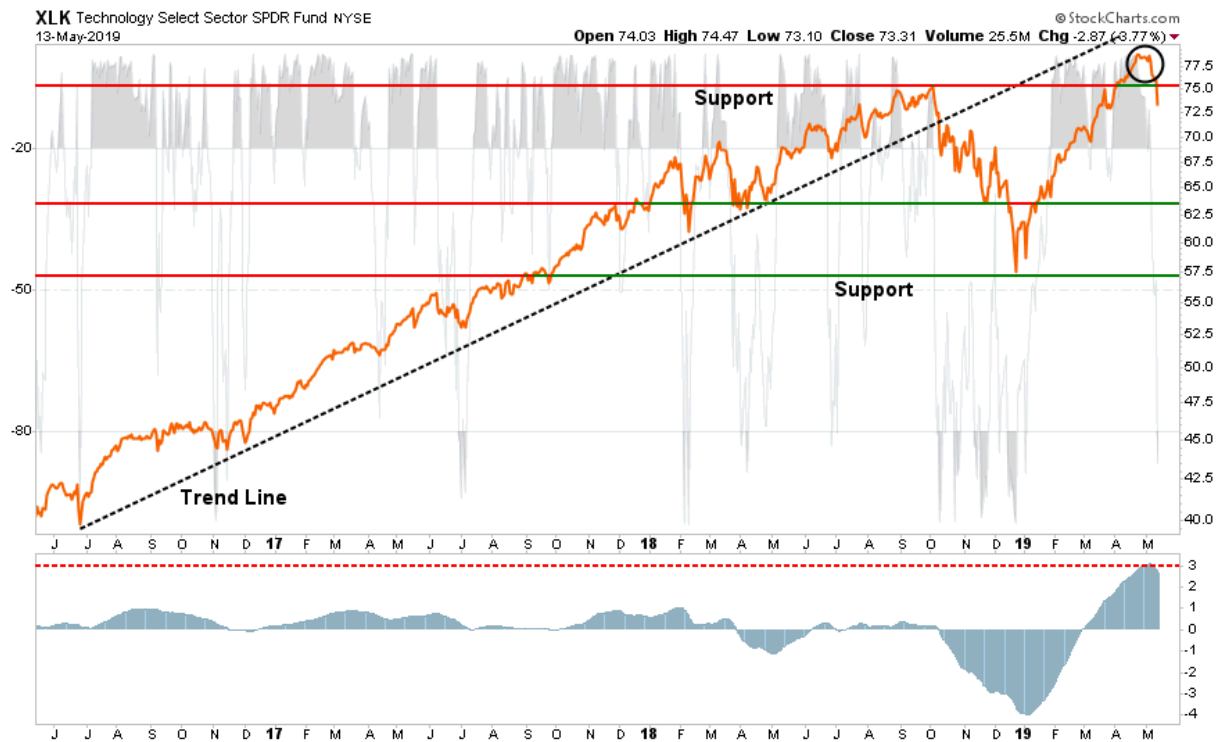
- We noted last week that XLF broke out above initial resistance but was running into a cluster of previous tops from last year. That rally failed on Monday with the decline in the broad market.
- While a "buy" signal has been triggered (bottom panel) the recent rally has pushed sector back to overbought.
- Short-Term Positioning: Neutral
 - Last week: Recommended "hold" 1/2 position
 - This week: Hold 1/2 position, add on a pullback to \$25 that holds.
 - Stop-loss moved up to \$25.00
- Long-Term Positioning: Bearish

Industrials



- We noted previously that XLI had rallied sharply on hopes of a resolution on trade. However, with the failure of trade deal over the weekend, the risk is to the downside currently.
- Buy signal in lower panel is very extended and at the highest levels we have seen in recent history. While XLI is not completely oversold yet, use a rally to reduce positioning in the sector for now.
- Short-Term Positioning: Neutral
 - Last week: Recommended "rebalance" and "hold" 1/2 position
 - This week: Sell 1/2 position on rally.
 - Stop-loss moved up to \$72
- Long-Term Positioning: Neutral

Technology



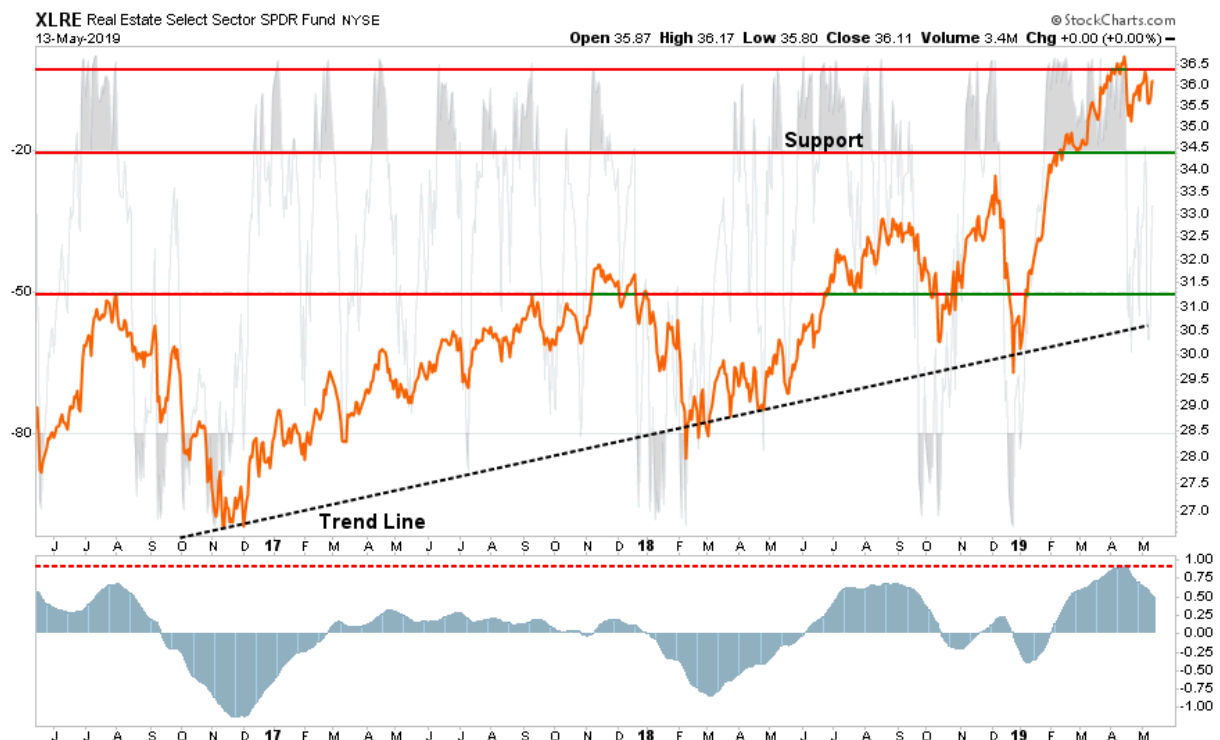
- As noted last week, XLK is on a "Buy" signal (bottom panel) but that signal is "crazy" extended like many other sectors of the market. The market is becoming very confined to a smaller number of stocks leading the charge higher. Technology has become the poster child for momentum.
- That all came undone on Monday with the rise of the trade war and XLK broke support at the previous highs from 2018.
- The correction back to \$75 in the near-term failed to hold which puts the sector at risk of a deeper decline.
- Short-Term Positioning: Bullish
 - Last week: Hold 1/2 position
 - This week: Look to reduce holdings further on a failed rally back to \$75
 - Stop-loss moved up to \$70
- Long-Term Positioning: Neutral

Staples



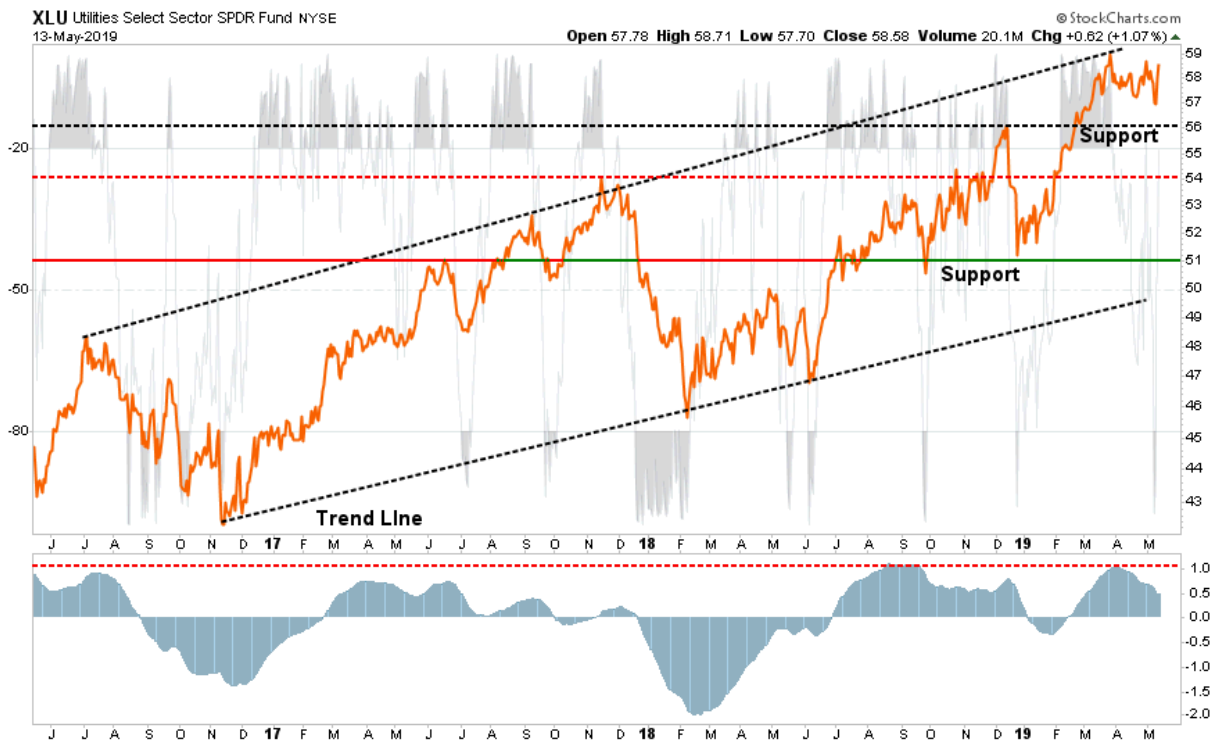
- XLP held up much better than the broad market yesterday and money sought out safety in defensive sectors and fixed income.
- XLP's "buy" signal (lower panel) is back to extreme levels. So, taking profits remains advised.
- Currently still overbought, however the pullback to \$54-\$54.50 can be used to add exposure.
- Short-Term Positioning: Bullish
 - Last week: Holding full position, take profits and rebalance.
 - This week: Take profits if you haven't done so.
 - Stop-loss moved up to \$53.50
- Long-Term Positioning: Bullish

Real Estate



- XLRE, along with XLU, found support on Monday and caught money looking for defense against the "trade war."
- We previously recommended taking profits and rebalancing risk. That is still advisable.
- Buy signal is being reduced along with the overbought condition. This will set up an opportunity to add XLRE to portfolios here soon.
- Short-Term Positioning: Bullish
 - Last week: "Hold" 1/2 position
 - This week: Looking to add 1/2 position this week.
 - Add on any weakness that works off over-bought condition or holds support at \$34.50
 - Stop-loss adjusted to \$33.50
- Long-Term Positioning: Bullish

Utilities



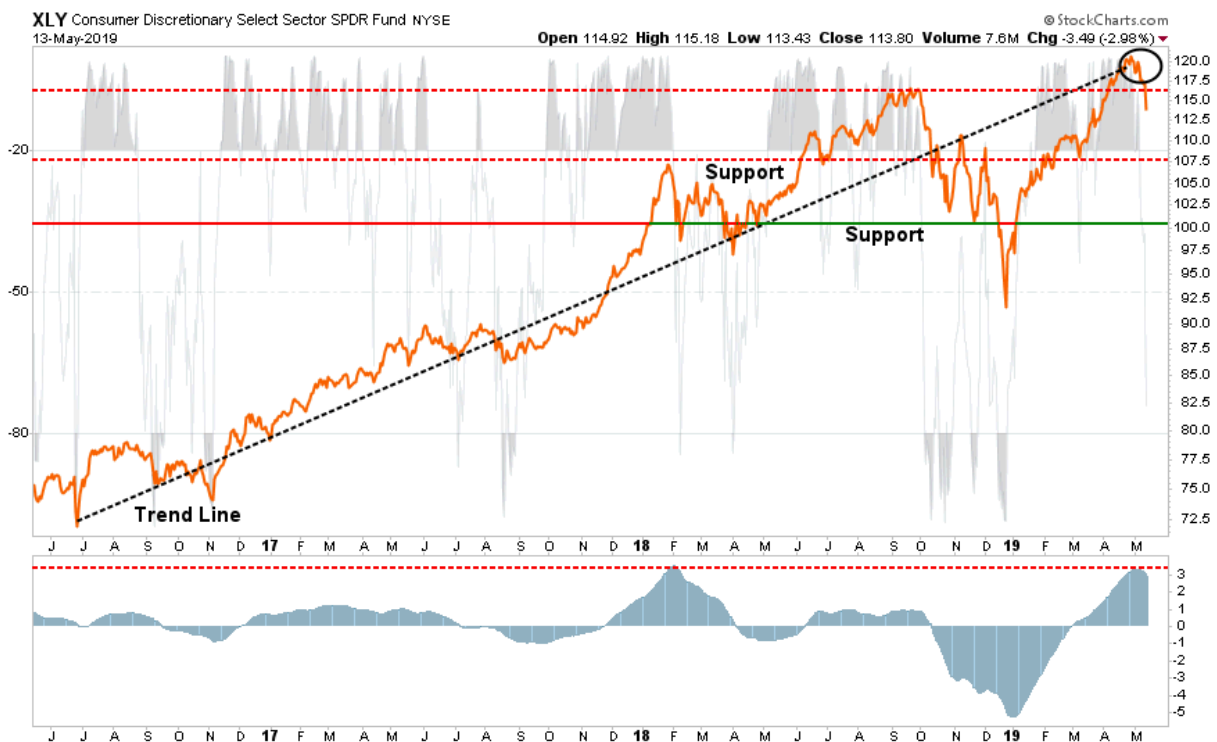
- Like Real Estate above, XLU has finally taken a breather from its recent advance but not much of one.
- Long-term trend line remains intact, and money is chasing XLU in defense from the trade war.
- Previous support continues to hold.
- Buy signal is beginning to work off some of the excess. (bottom panel) and the sector is once again oversold.
- Short-Term Positioning: Bullish
 - Last week: Rebalance holdings and continue to hold.
 - This week: Hold position, look to add 1/2 position to portfolios.
 - Stop-loss moved up to \$54.
- Long-Term Positioning: Bullish

Health Care



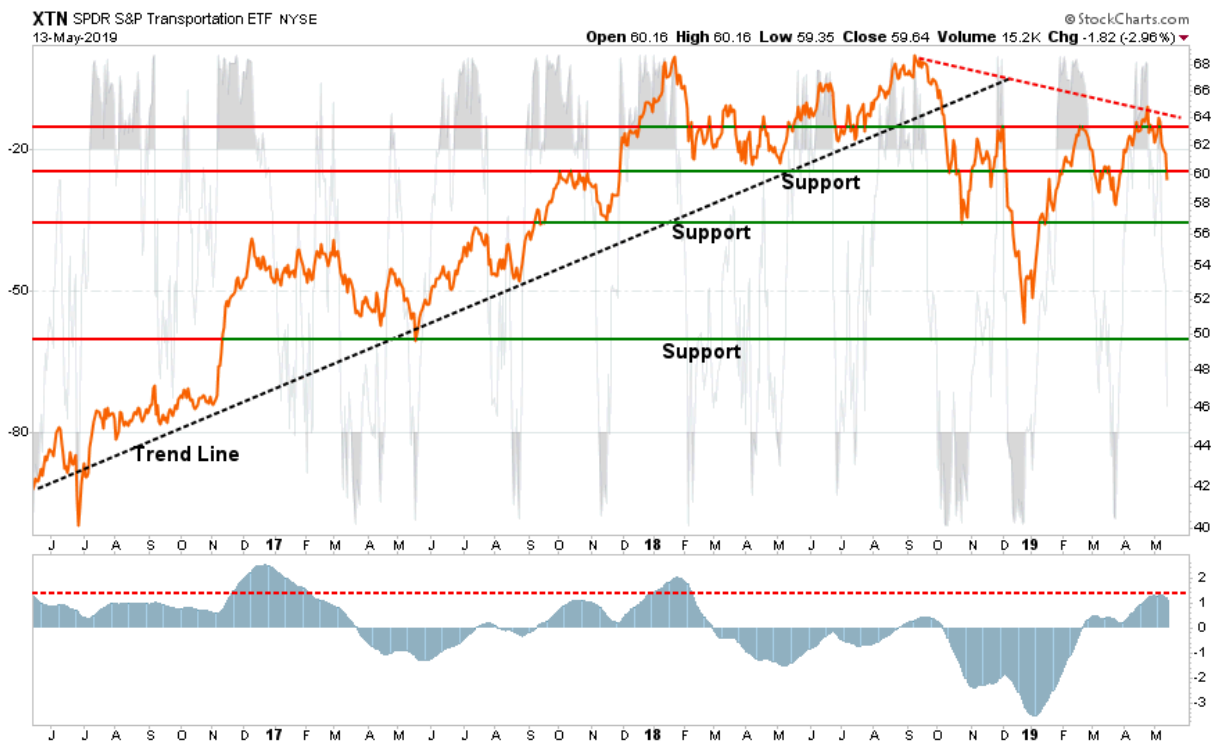
- *Sell-signal (bottom panel) remains intact currently but previous support is holding.*
- While Healthcare is holding up better for now, there is a downtrend forming in the sector. Keeps stops in place.
- *XLV is reversing the oversold condition.*
- *Short-Term Positioning: Neutral*
 - *Last week: Hold current position.*
 - *This week: Hold current position.*
 - *Stop-loss set \$86*
- *Long-Term Positioning: Neutral*

Discretionary



- XLY was running well ahead of where it should be given the sensitivity to the U.S. consumer. The trade war put a little reality back in the sector on Monday.
- The "buy" signal has been registered (lower panel) and is at extreme levels and was pushing Extreme overbought conditions.
- The decline broke support at the 2018 highs which puts the January 2018 highs into focus.
- Short-Term Positioning: Neutral
 - Last week: Rebalance, Take profits, Hold current position..
 - This week: Look to sell 1/2 position on a rally that fails at overhead resistance.
 - Stop-loss moved up to \$112.50
- Long-Term Positioning: Neutral

Transportation



- While Transportation was finally trying to play catch up with the rest of the market, that came to a halt at the downtrend resistance line on starting last week.
- Buy signal. (bottom panel) is maintaining itself and the short-term overbought condition is being reversed.
- As we have been saying for several weeks, our "sell stop" was triggered previously. No real need to rush back into adding a new position. We will watch and see what happens.
- Short-Term Positioning: Neutral
 - Last week: No position
 - This week: Looking to add a position that holds support at \$56-57
- Long-Term Positioning: Bearish