

Sector Buy/Sell Review: 05-28-19

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:

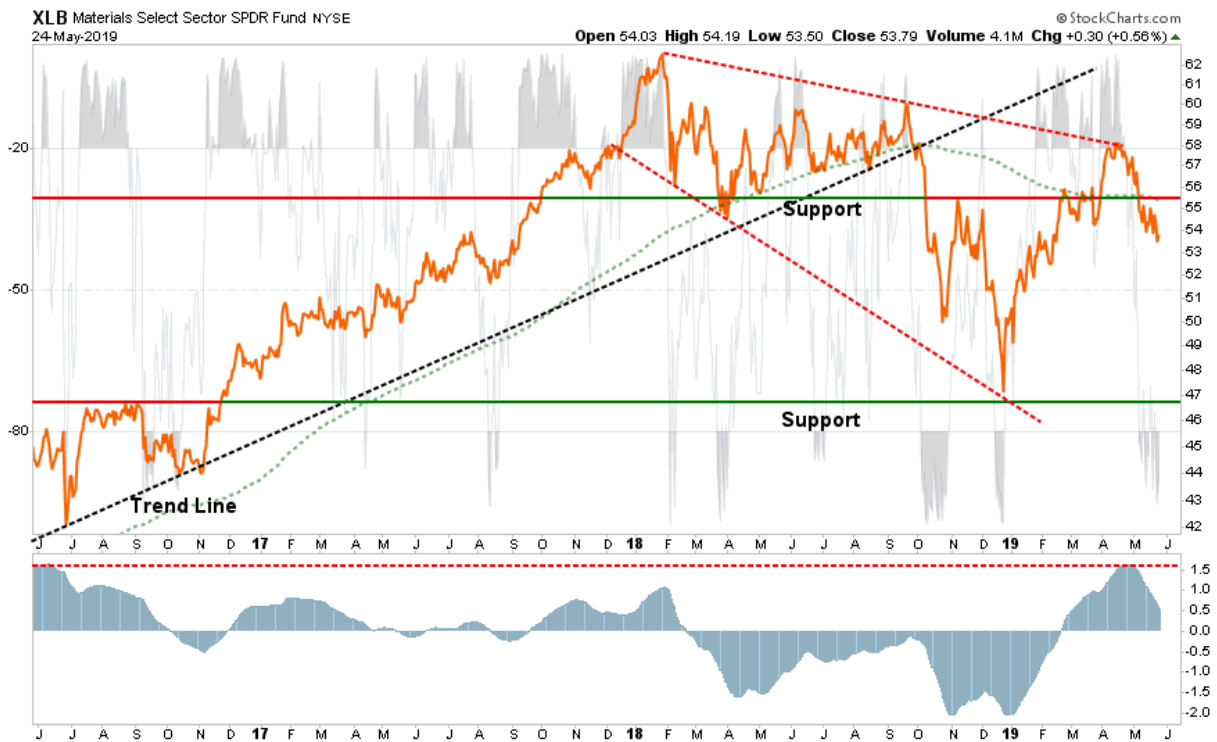
- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

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.



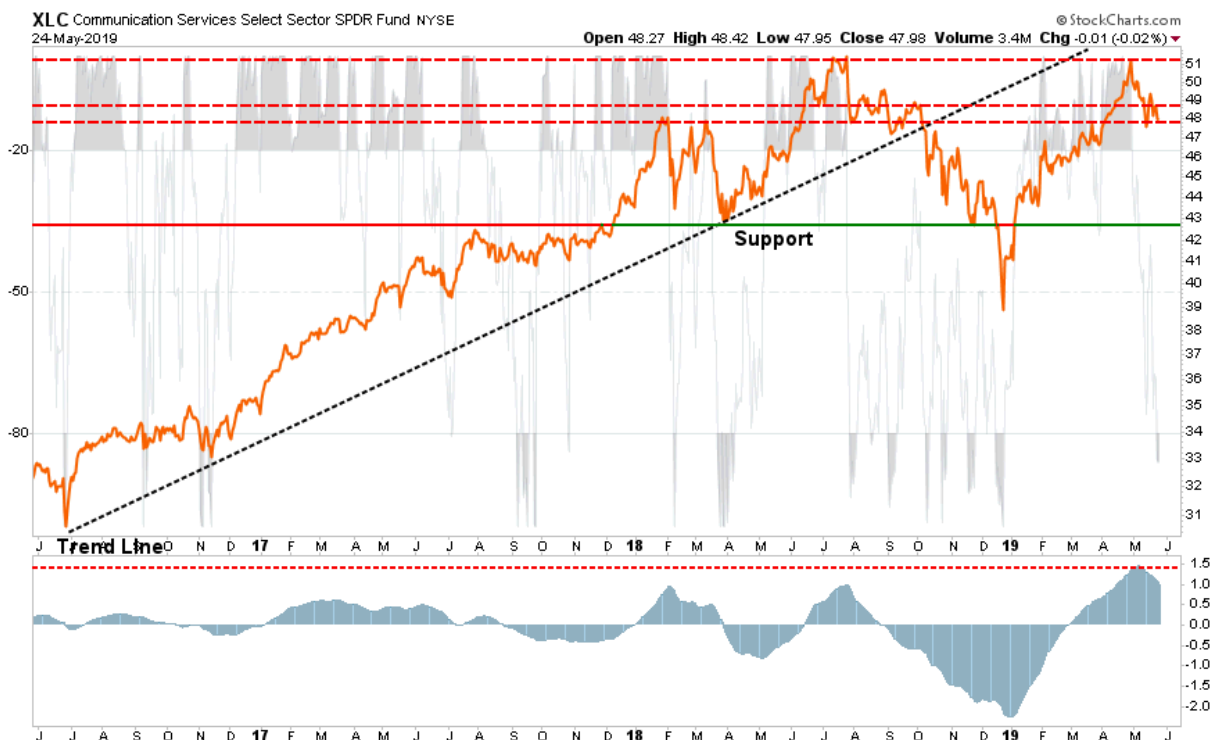
With this basic tutorial let's get to the sector analysis.

Basic Materials



- The sell-off in Materials continued last week as "trade war" continues to weigh on the outlook for the sector.
- Last week, XLB sold down towards our stop-loss level after we previously reduced 1/2 of our position. With XLB oversold, look for a short-term rally to \$55.50 to sell into.
- Short-Term Positioning: Neutral
 - Last Week: Sold 1/2 position.
 - This Week: Hold balance for rally to \$55 to \$55 1/2
 - Stop-loss moved up to \$53, sell remaining half on rally..
- Long-Term Positioning: Bearish

Communications



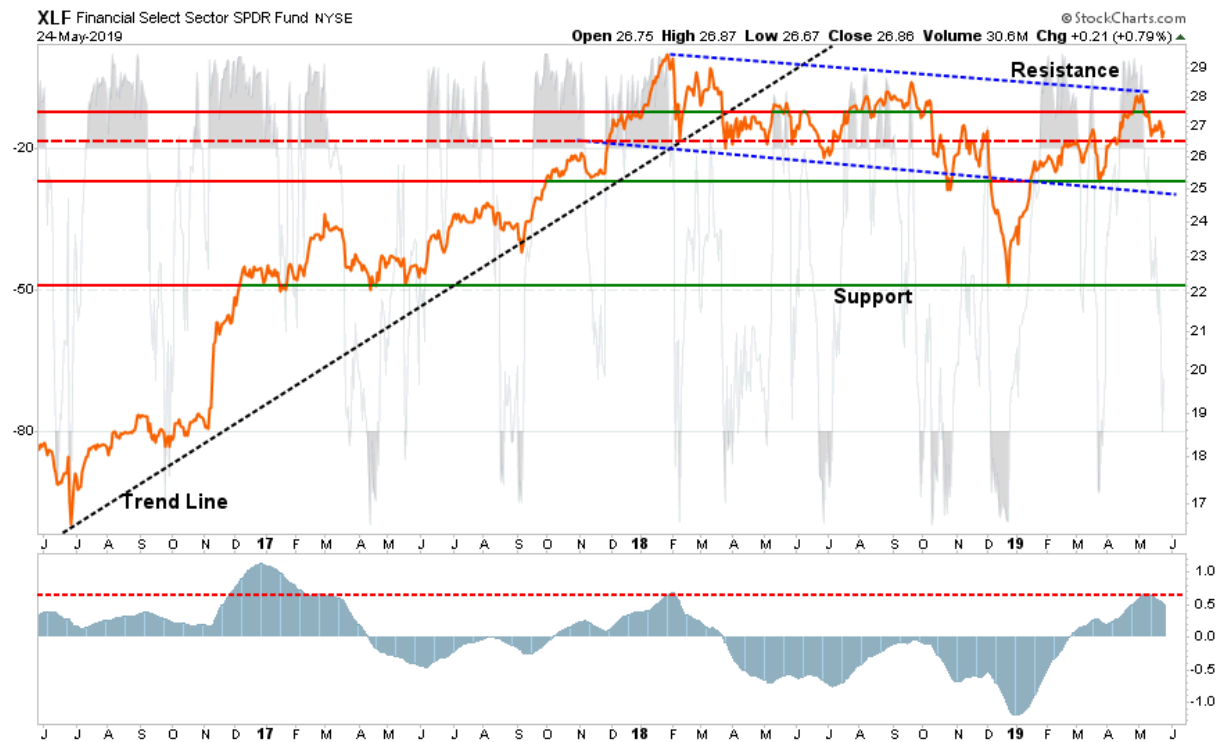
- XLC broke support previously and failed at a rally turning support into resistance. Support is holding at current levels but just barely.
- XLC is heading toward oversold and remains on a buy signal currently.
- Short-Term Positioning: Neutral
 - Last Week: Hold 1/2 position
 - This Week: Hold 1/2 position
 - Stop-loss moved up to \$47
- Long-Term Positioning: Bearish

Energy



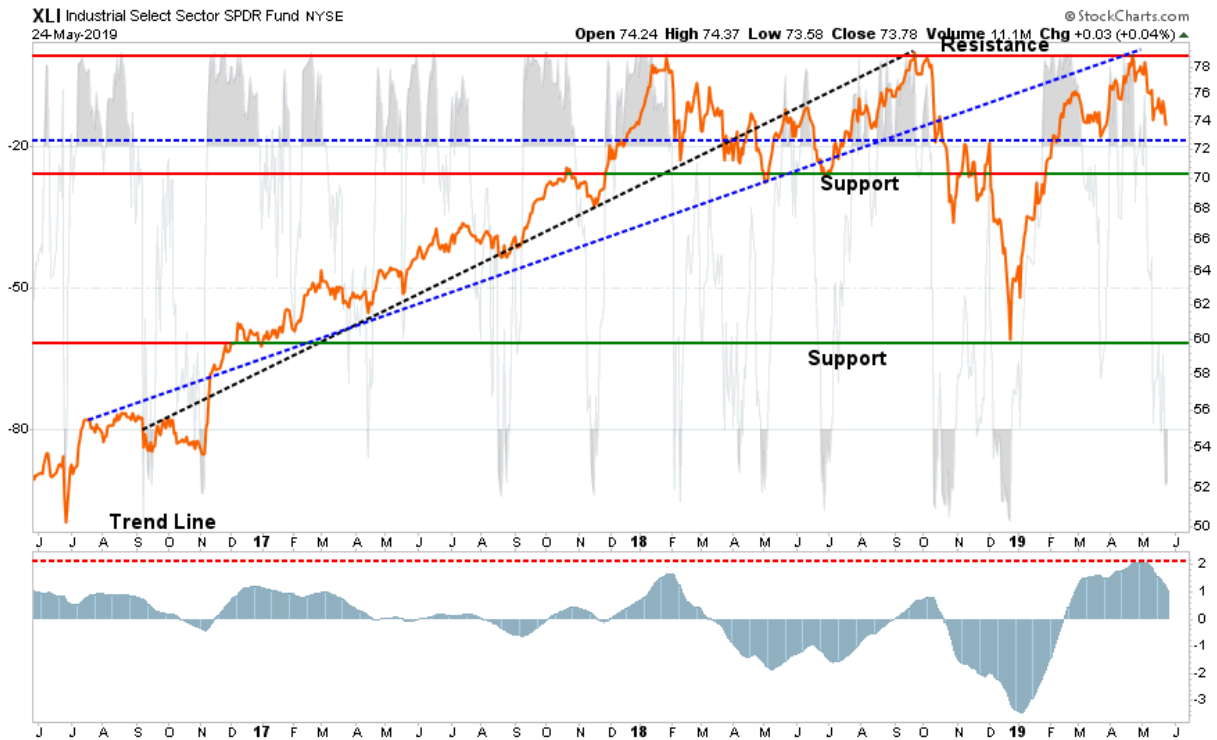
- Last week, I stated that XLE was currently at a critical juncture. A failure below the 200-dma was going to bring the low-\$60's into focus.
- That break happened last week and XLE is now testing the low 60's.
- The current "buy signal" remains intact but is close to turning into a sell signal. However, in the short-term, the sector is oversold. Use any rally to reduce exposure to the sector for now.
- Short-Term Positioning: Neutral
 - Last week: Stop violated, sell on rally that fails to get above \$64.
 - This week: Stop violated, sell on any rally.
 - Stop-loss adjusted to \$63
- Long-Term Positioning: Bearish

Financials



- We noted previously that XLF broke out above initial resistance but was running into a cluster of previous tops from last year. That rally failed last week with the decline in the yields weighing on earnings outlook.
- XLF remains on a "buy" signal currently and the overbought condition has almost been fully reversed.
- 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



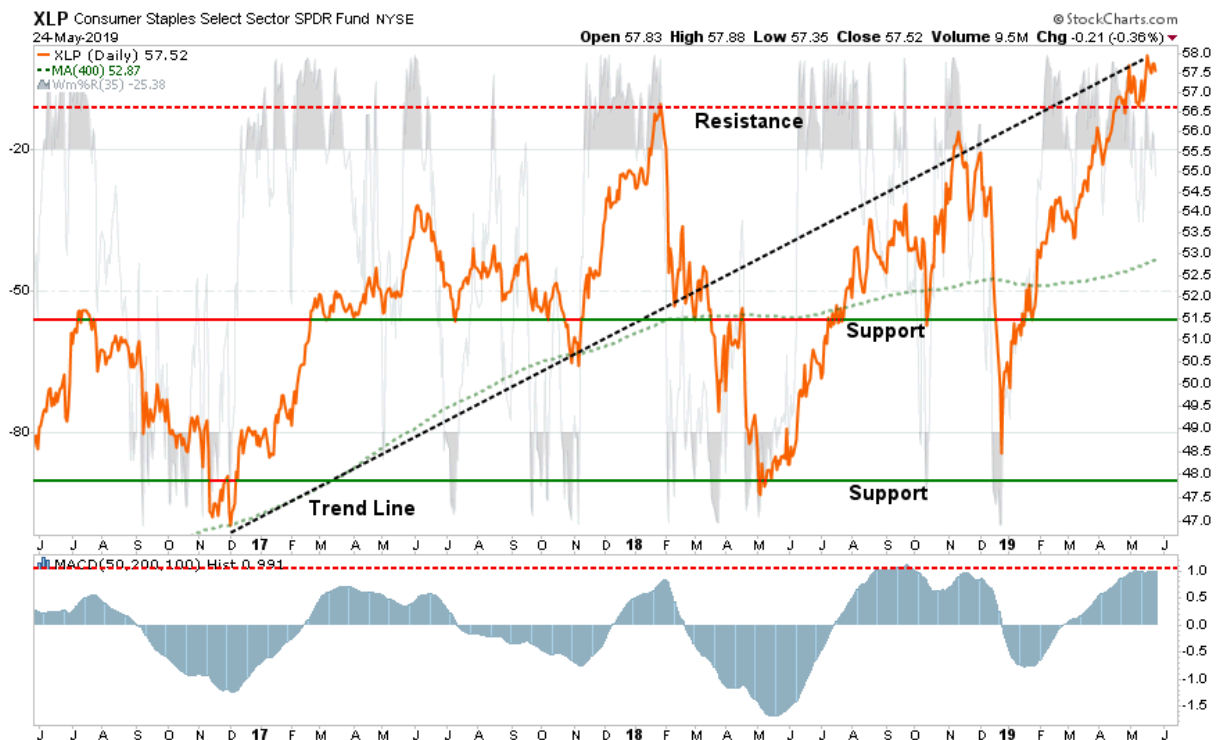
- XLI has put in a "triple top" at recent highs which makes that resistance level critically important.
- For now, the buy signal in lower panel is reversing and industrials are now oversold. With "trade war" rhetoric ramping up, watch for a break below support. XLI must hold \$72.
- Short-Term Positioning: Neutral
 - Last week: Hold remaining 1/2 position
 - This week: Look to sell on failed rally to \$77
 - Stop-loss moved up to \$72
- Long-Term Positioning: Neutral

Technology



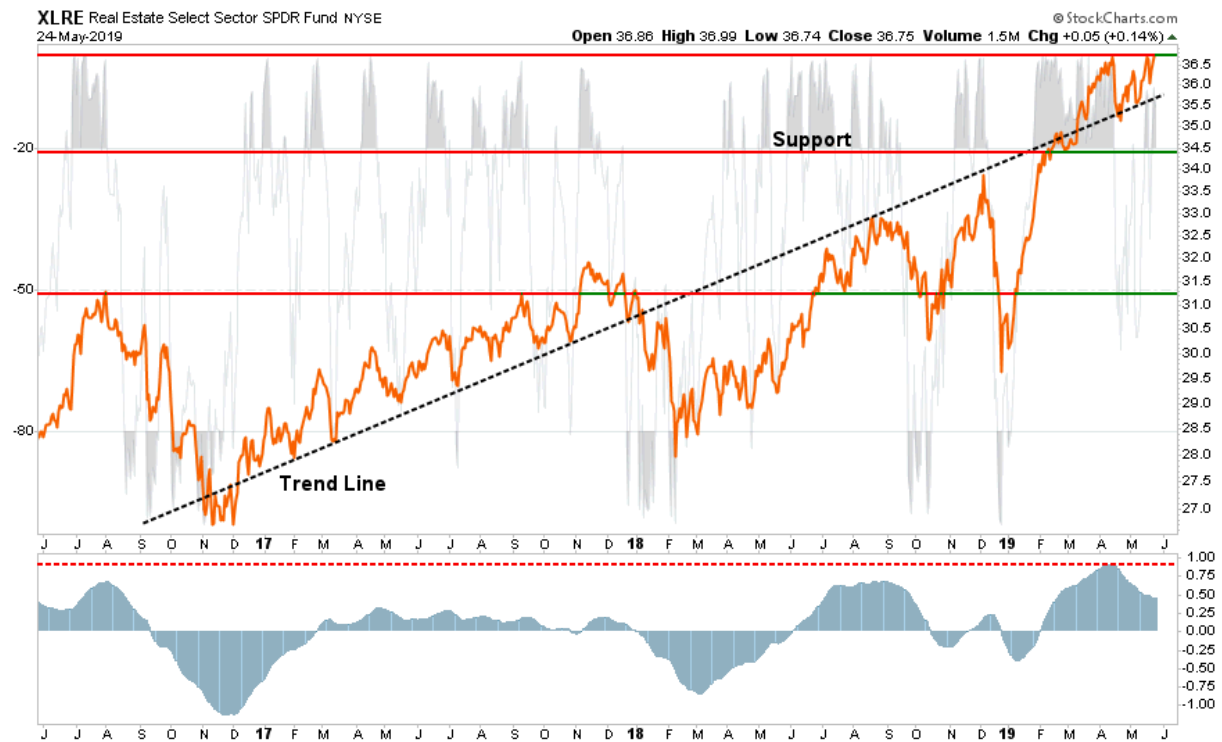
- *XLK remains on a "Buy" signal (bottom panel) but is now reversing it.*
- *XLK is now back to oversold and is sitting on support at \$72.5. That level must hold or we are going to see a deeper correction in this sector.*
- *The correction failed to hold support at \$75 and the rally failed turning that previous support into resistance. With the sector not grossly oversold look for more selling pressure this week.*
- **Short-Term Positioning: Bullish**
 - *Last week: Hold 1/2 position*
 - *This week: Hold 1/2 position*
 - *Stop-loss moved up to \$70*
- **Long-Term Positioning: Neutral**

Staples



- *XLP held up much better than the broad market as the rotation into "defensive" positioning continues. We continue to hold positions in this sector. As money seeks defense, XLP and XLU have been the "go to."*
- *XLP's "buy" signal (lower panel) is back to extreme levels. So, taking profits remains advised. XLP is also flirting with the trendline from the 2016 lows.*
- *Currently overbought, however a pullback to \$53-55 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.*
 - *Profit stop-loss moved up to \$55.50*
- **Long-Term Positioning: Bullish**

RealEstate



- XLRE, along with XLU, has continued to attract money flows for defensive positioning amidst falling interest rates.
- We previously recommended taking profits and rebalancing risk. That is still advisable. However, XLRE is getting ready to break out to new highs.
- Buy signal is being reduced, but XLRE remains overbought short-term.
- We recently added 1/2 position of XLRE and will add the second 1/2 on a pullback to support at \$36.
- Short-Term Positioning: Bullish
 - Last week: Holding full position.
 - This week: Hold position.
 - Stop-loss adjusted to \$34.50
- Long-Term Positioning: Bullish

Utilities



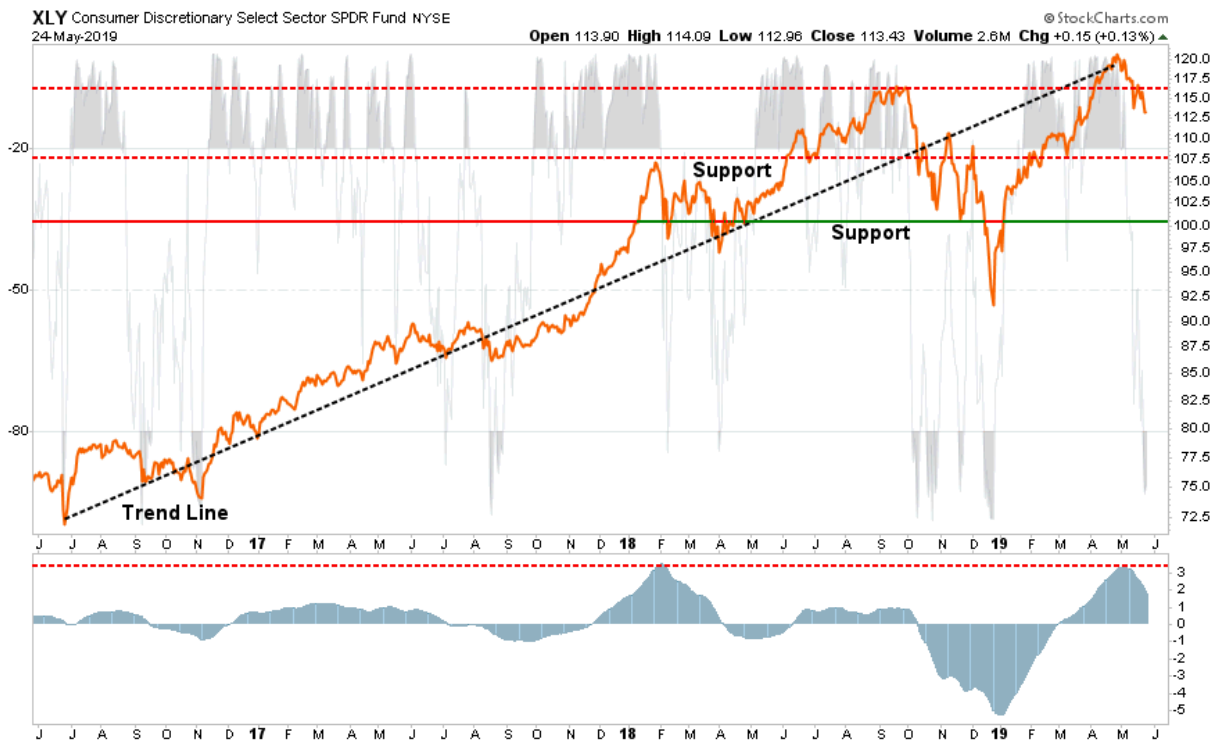
- Like Real Estate above, XLU has finally taken a breather from its recent advance but not much of one. It has now broken out to all-time highs.
- Long-term trend line remains intact and the recent test of that trend line with a break to new highs confirms the continuation of the bullish trend.
- Buy signal worked off some of the excess. (bottom panel) and the sector is currently back to overbought.
- Short-Term Positioning: Bullish
 - Last week: Overweight position
 - This week: Hold position
 - Stop-loss moved up to \$54.
- Long-Term Positioning: Bullish

Health�Care



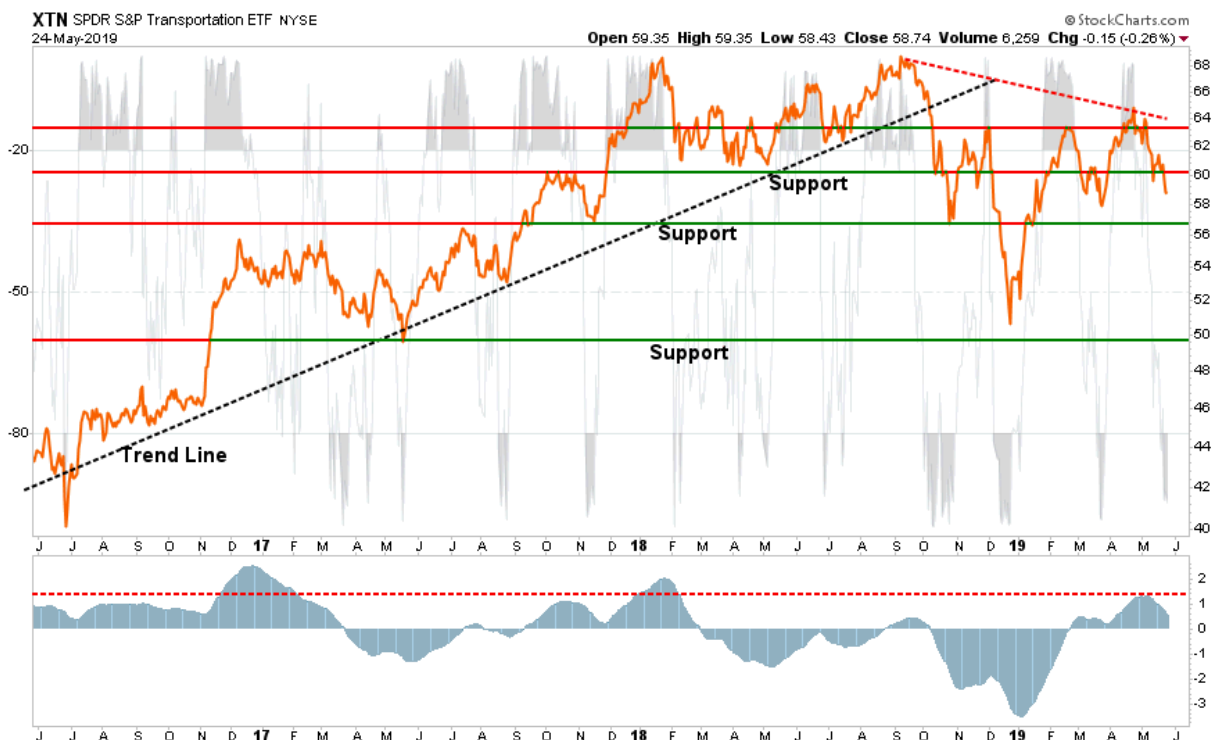
- Sell-signal (bottom panel) remains intact currently but previous support is holding.
- While Healthcare is holding up for now, there is a downtrend forming in the sector. Keeps stops in place.
- XLV has been in a consolidation for the last 18-months. So whichever direction healthcare breaks out to will be a big move.
- XLV is reversing the oversold condition but still has upside from current levels.
- Short-Term Positioning: Neutral
 - Last week: Overweight position.
 - This week: Hold current position.
 - Stop-loss set \$86
- Long-Term Positioning: Neutral

Discretionary



- XLY, like XLK above, broke back below its previous high turning that support back into resistance for now.
- The "buy" signal remains elevated but is being reduced currently. XLY is oversold so look for a rally next week to rebalance holding into.
- Short-Term Positioning: Neutral
 - Last week: Sold 1/2 of position.
 - This week: Hold 1/2 position with stops in place.
 - Stop-loss adjusted to \$107 after sell of 1/2 position.
- Long-Term Positioning: Neutral

Transportation



- *XTN has continued to lag the overall market and continues to suggest there is "something wrong" economically.*
- *While XTN is on a buy signal. (bottom panel) the sector is now oversold. Look for a failed rally to \$60 to sell into if you are still long positioning..*
- *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 if support at \$60 gives way.*
- *Long-Term Positioning: Bearish*