

## Sector Buy/Sell Review: 07-23-19

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:

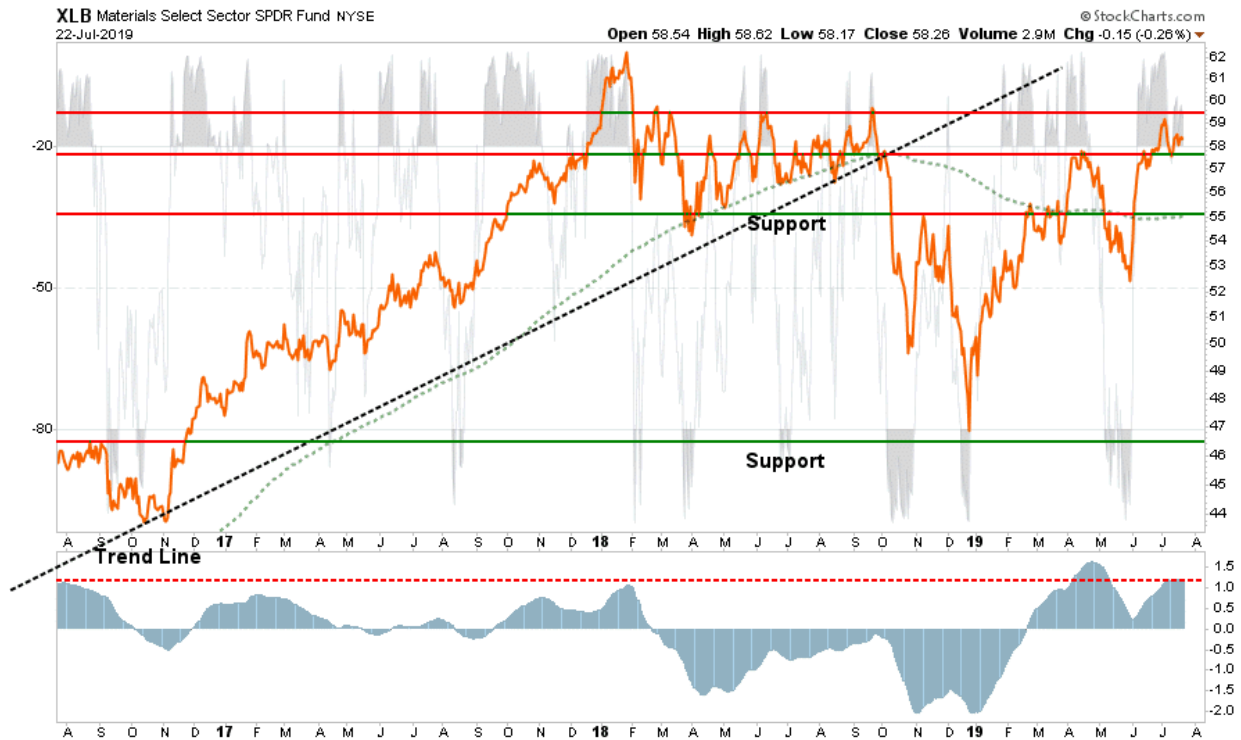
- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

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.



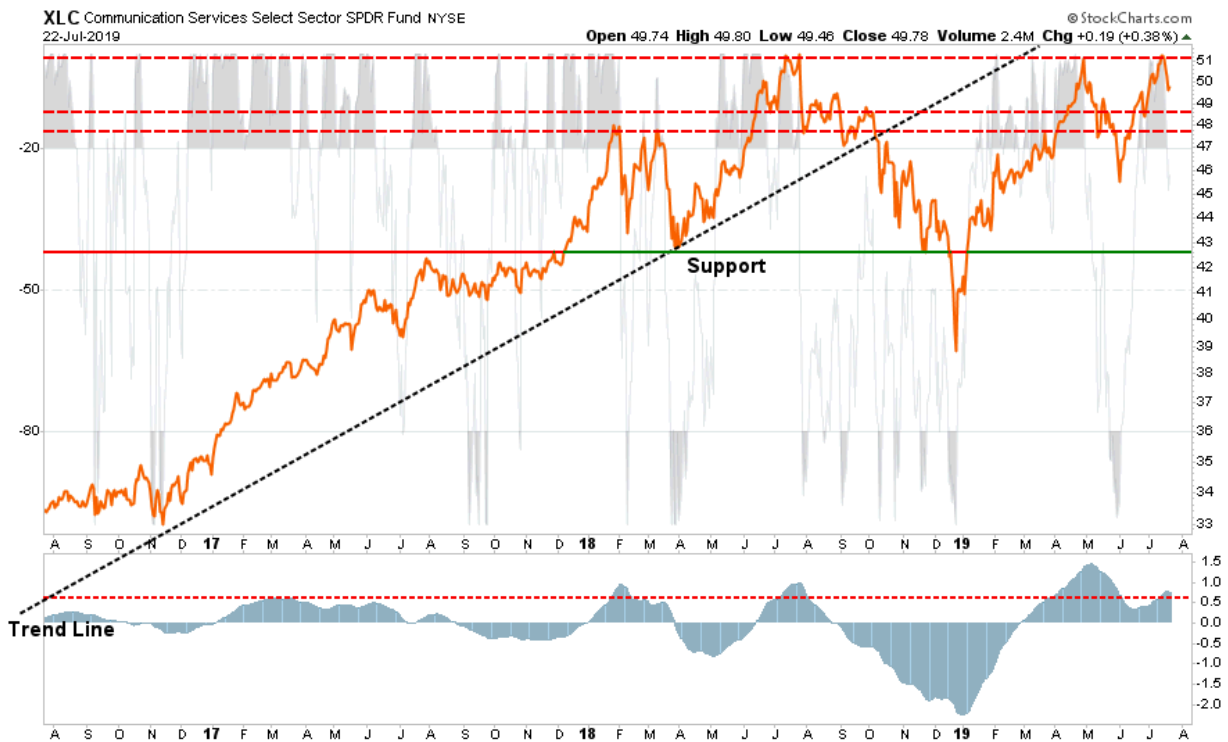
With this basic tutorial let's get to the sector analysis.

### Basic Materials



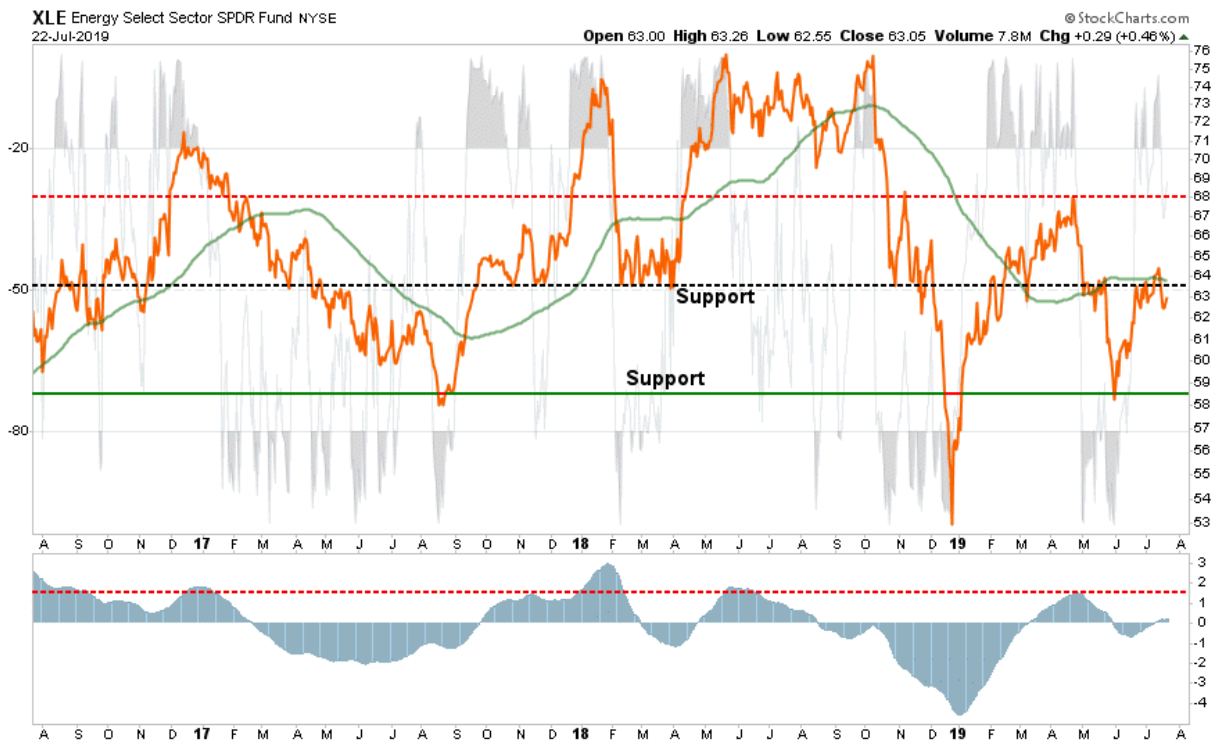
- *XLB is back to extreme overbought and failed at resistance last week but is holding support at the May highs. That support needs to hold.*
- *With the trade deal put on hold, temporarily, XLB got a lift but it is likely that "trade" will begin to weigh on the sector as we get further into earnings season.*
- *We are remaining underweight the sector for now.*
- *Short-Term Positioning: Neutral*
  - *Last Week: Hold current positions with a tighter stop-loss.*
  - *This Week: Hold current positions with tighter stop-loss*
  - *Stop-loss moved up to \$57*
- *Long-Term Positioning: Bearish*

## Communications



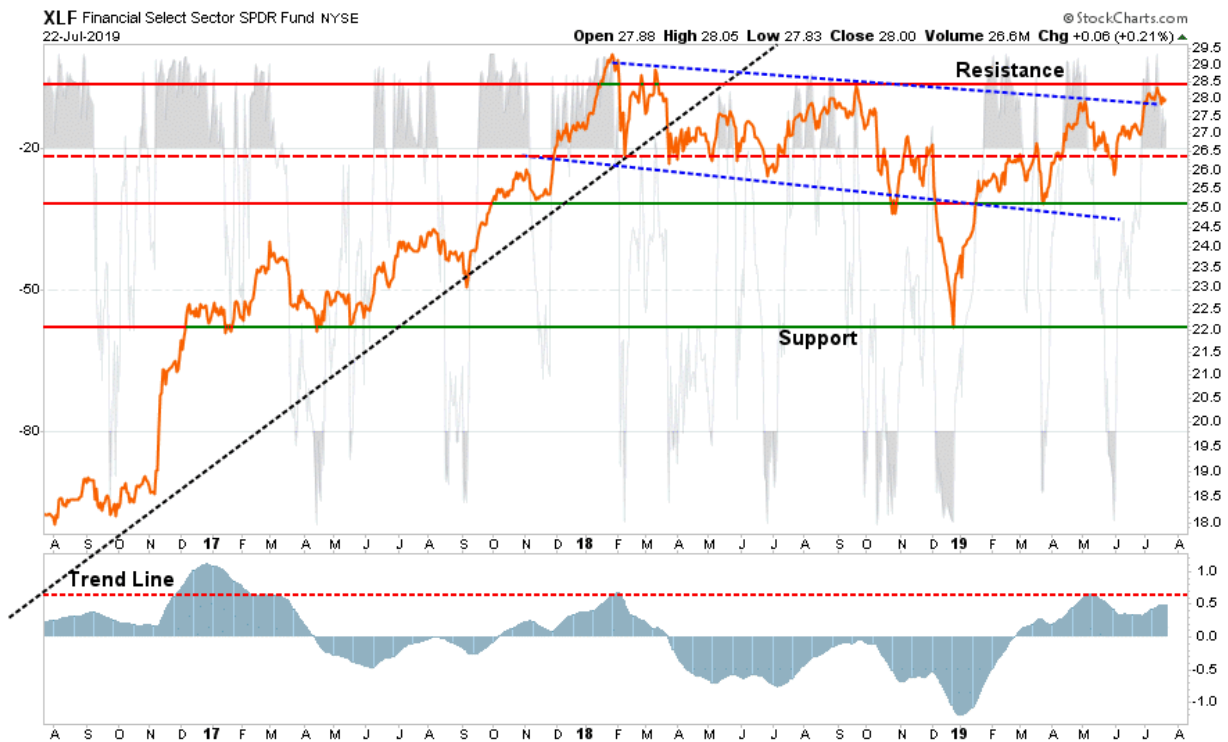
- We noted last week that XLC had mustered a decent rally even though it wasn't inspiring relative to other sectors.
- We also stated last week:
  - "While on a buy signal, XLC is back to extreme overbought. If you are still long positions, take profits and reduce exposure."
- That turned out to be good advice as XLC failed at a "triple top."
- Short-Term Positioning: Neutral
  - Last Week: Hold trading positions, but take profits.
  - This Week: Hold trading positions.
  - Hard Stop set at \$47.50
- Long-Term Positioning: Bearish

## Energy



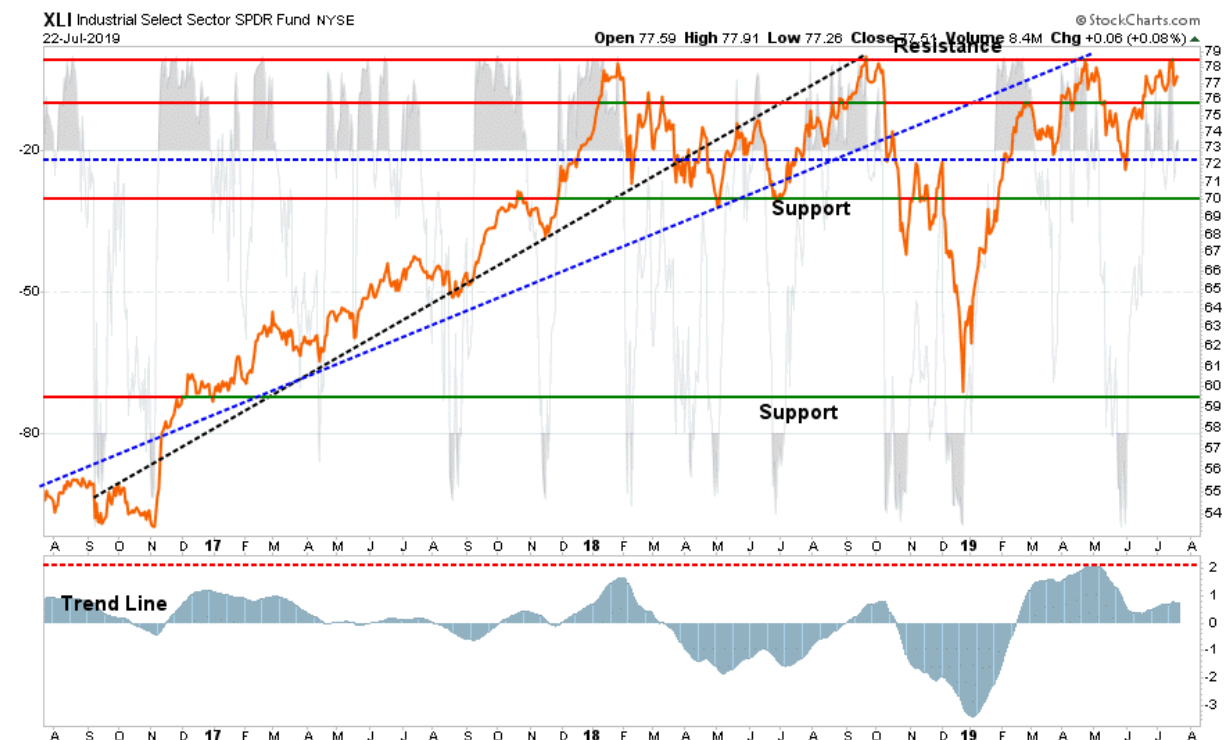
- As noted last week, XLE is wrestling with the 200-dma. \$WTIC has broken down as well putting more pressure on XLE as well.
- XLE remains overbought and is subject to further weakness in oil prices and earnings from the sector.
- A convincing break above the 200-dma would clear the way for a move higher, but wait for the break first.
- The sell signal is being reversed to a "buy" which is a good sign.
- Short-Term Positioning: Neutral
  - Last week: Hold current position
  - This week: Hold current position
  - Stop-loss adjusted to \$62
- Long-Term Positioning: Bearish

## Financials



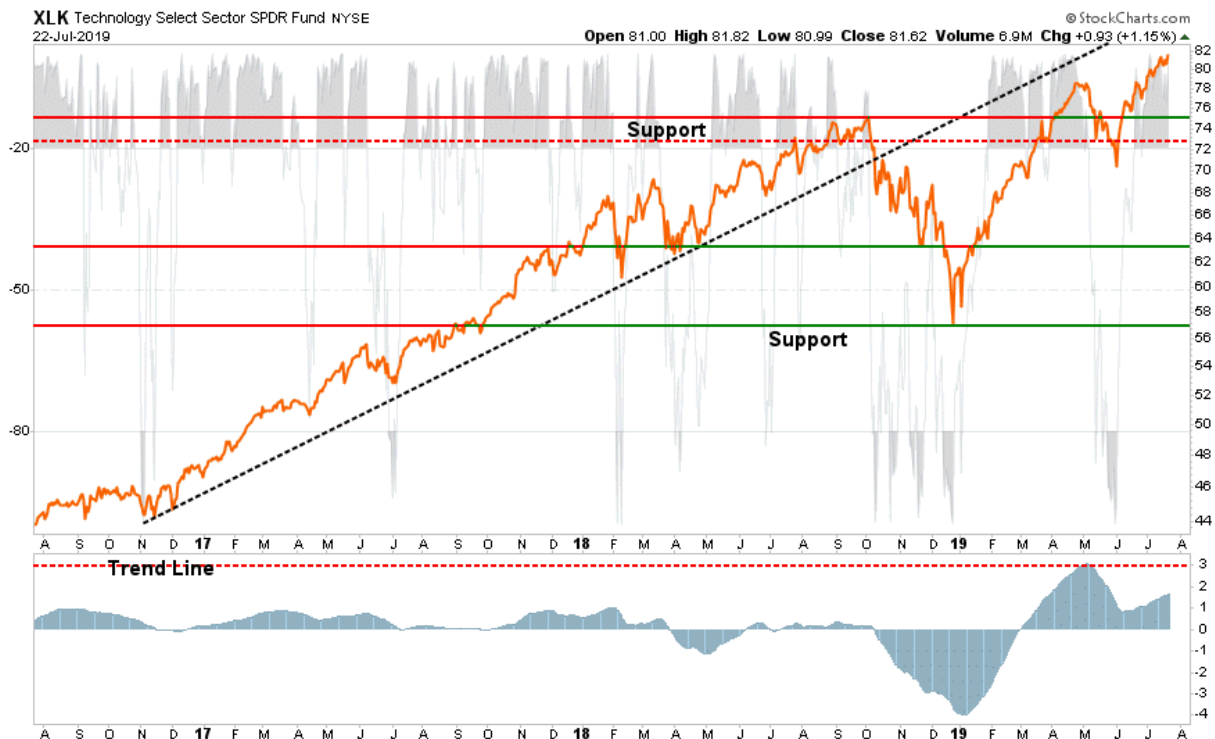
- XLF has rallied but failed to clear resistance last week. Support at the downtrend line needs to hold if XLF is going to continue to rally.
- If the Fed cuts rates, this could likely impair financials short-term.
- XLF remains on a "buy" signal currently but is back to extreme overbought.
- Short-Term Positioning: Neutral
  - Last week: Hold 1/2 position
  - This week: Hold 1/2 position
  - Stop-loss moved up to \$25.00
- Long-Term Positioning: Bearish

## Industrials



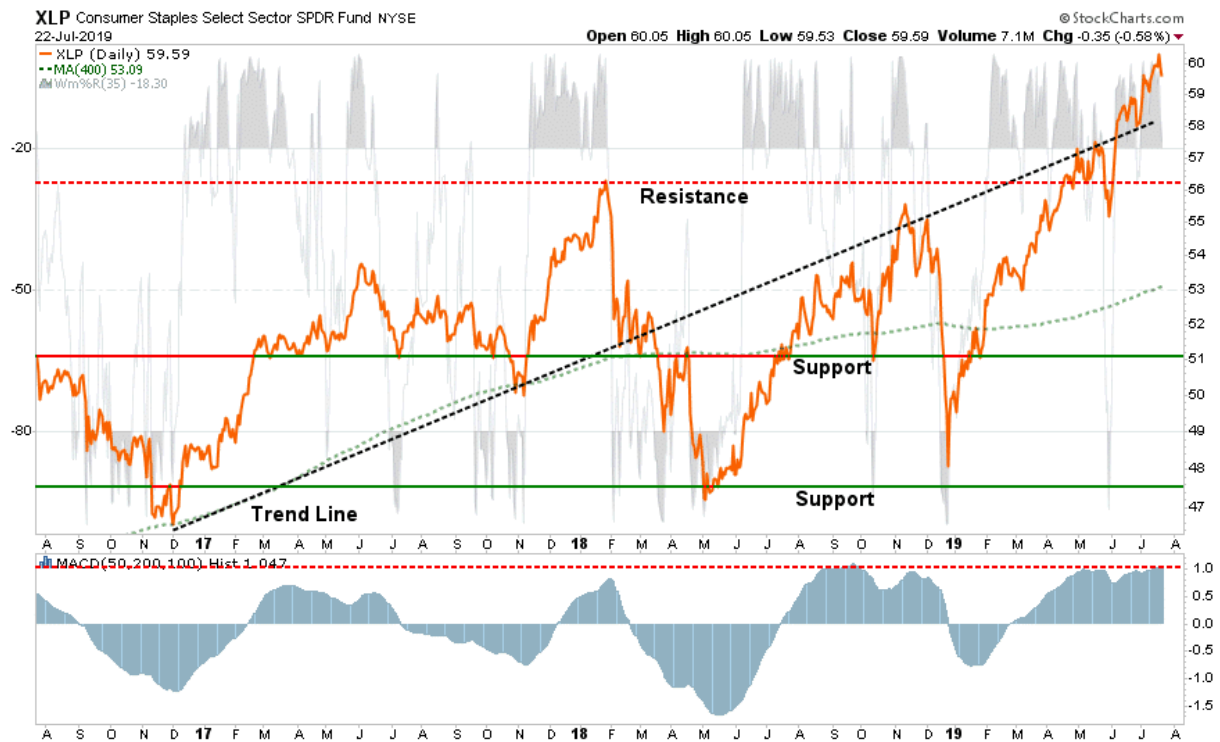
- *XLI has rallied and may be failing at a "quadruple top."*
- *XLI is extremely overbought, but a break above \$79 will set up a move higher.*
- *As stated previously, with the "trade war" on hold for now, there is upside to the "triple top."*  
*We have reached our target so take profits and rebalance risk.*
- **Short-Term Positioning: Neutral**
  - *Last week: Hold 1/2 position*
  - *This week: Hold 1/2 position.*
  - *Stop-loss moved up to \$76 to protect gains.*
- **Long-Term Positioning: Neutral**

## Technology



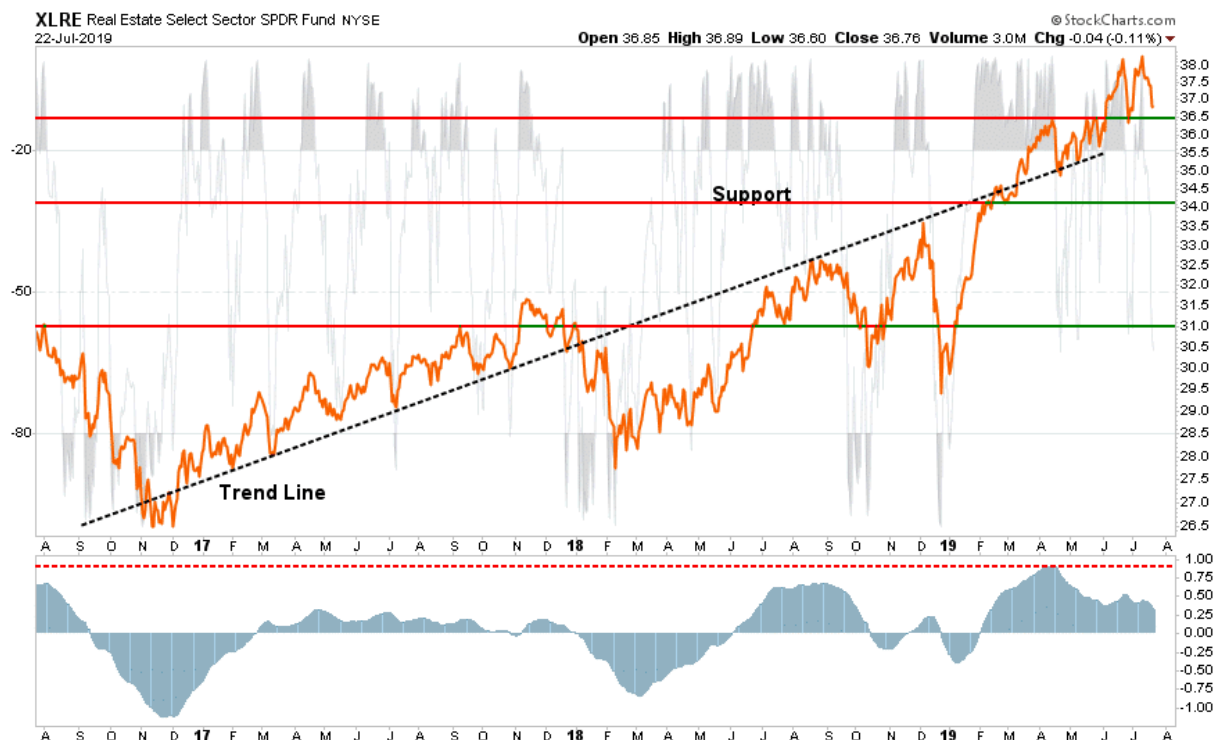
- *XLK is back to an extreme overbought condition as money is chasing a few mega-cap Tech companies. This rally is not a healthy one as money is hiding in a few highly liquid places.*
- *XLK has been driven by the largest cap-weighted companies so it may be prudent to remain cautious for now.*
- *The buy signal remains intact, which is bullish, but is back to extreme overbought. Risk vs reward is not optimal currently.*
- **Short-Term Positioning: Bullish**
  - *Last week: Hold 1/2 position*
  - *This week: Hold 1/2 position*
  - *Stop-loss moved up to \$75 to protect gains.*
- **Long-Term Positioning: Neutral**

## Staples



- *XLP is grossly extended. and the buy signal is very elevated. We are taking profits out of our position and rebalancing risk accordingly.*
- *The "buy" signal (lower panel) is still in place and is back to very extended. We continue to recommend taking some profits if you have not done so.*
- **Short-Term Positioning: Bullish**
  - *Last week: Hold positions, take profits if needed.*
  - *This week: Hold positions, take profits if needed.*
  - *Profit stop-loss moved up to \$58*
- **Long-Term Positioning: Bullish**

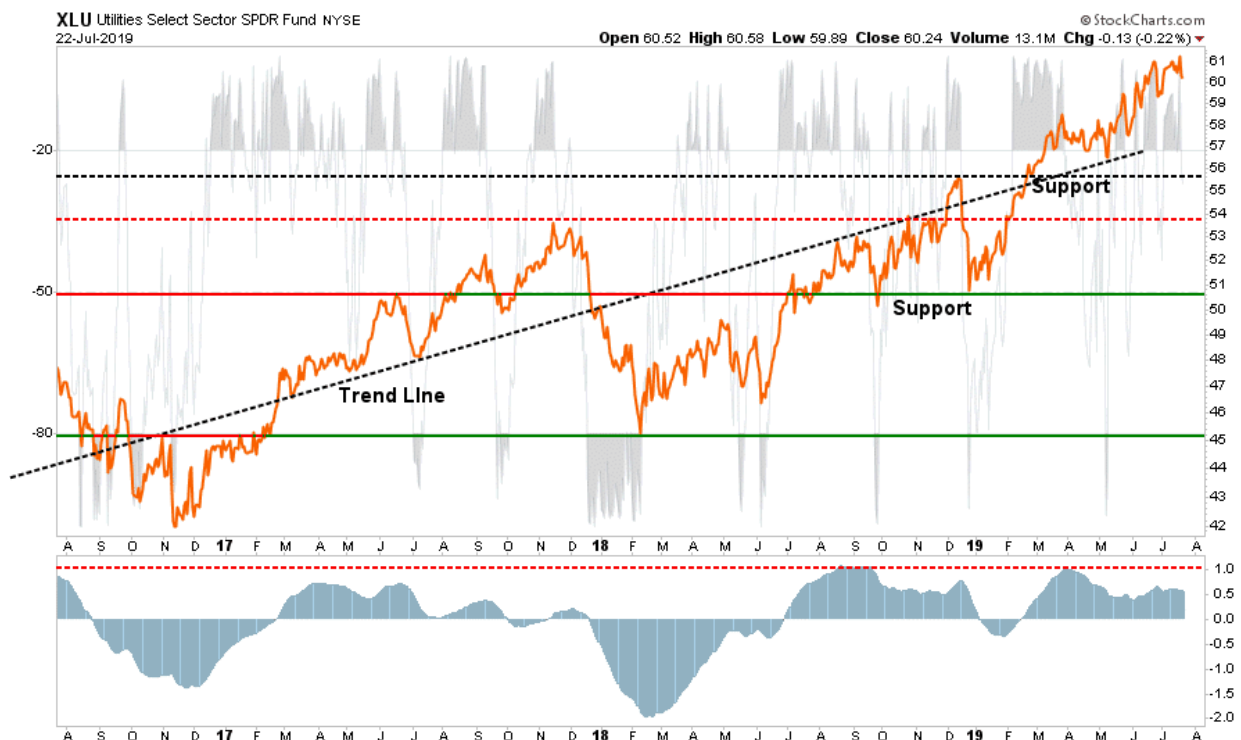
## RealEstate





- XLRE also broke out to "new highs," retested support, tested old highs, and is pulling back to support once again. The volatility is working off the overbought condition which is good and will allow us an opportunity to increase our weighting.
- We previously recommended taking profits and rebalancing risk as the overbought condition needed to be corrected.
- Buy signal is being reduced along with the "buy signal" but more work needs to be done.
- Short-Term Positioning: Bullish
  - Last week: Hold position.
  - This week: Hold position.
  - Stop-loss adjusted to \$36.00 for profits.
  - Long-Term Positioning: Bullish

## Utilities



- XLU, is back to extremely overbought and we are taking profits in our positions.
- 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) but is still elevated.
- Short-Term Positioning: Bullish
  - Last week: Hold overweight position
  - This week: Take profits and rebalance holdings.
  - Stop-loss moved up to \$57.50.
- Long-Term Positioning: Bullish

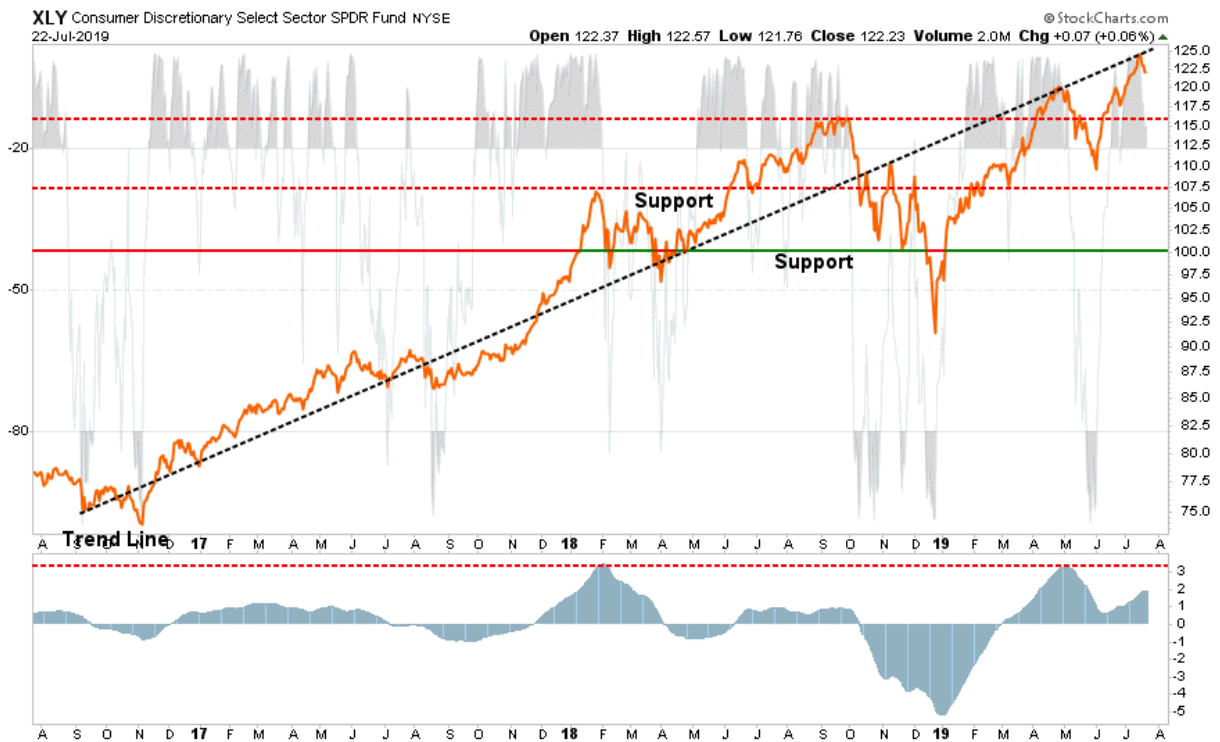
## Health&#2013266080;Care





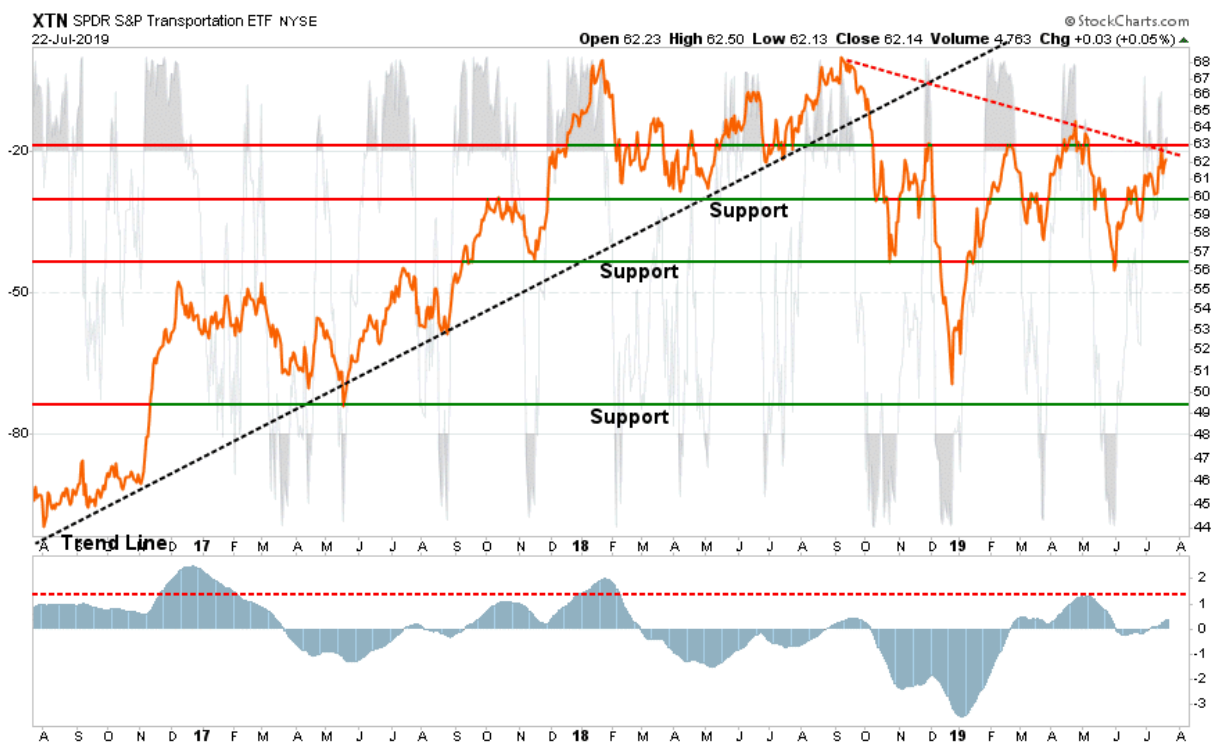
- Sell-signal (bottom panel), as anticipated, has reversed to a buy signal.
- XLV performance improved markedly but after a big run, the current correction was expected. The big issue at the moment is the failure at a "triple top" and the trendline from the 2016-lows.
- XLV is back to overbought so \$90 is important support.
- Short-Term Positioning: Neutral
  - Last week: Hold current position (overweight)
  - This week: Hold current position (overweight)
  - Stop-loss moved up to \$90 to protect profits.
- Long-Term Positioning: Neutral

## Discretionary



- XLY has pushed up to the bottom of the long-term bullish trend-line.
- The "buy" signal is now becoming extended with the sector extremely overbought.
- Take profits on this rally and wait to see what happens next.
- Short-Term Positioning: Neutral
  - Last week: Hold 1/2 position.
  - This week: Hold 1/2 position
  - Stop-loss adjusted to \$107.50 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.*
- *XTN has triggered a "buy" signal but remains confined to an overall downtrend.*
- *There is still no compelling reason at this juncture to add XTN to portfolios. We will watch and see what happens.*
- *Short-Term Positioning: Neutral*
  - *Last week: No position*
  - *This week: No position*
- *Long-Term Positioning: Bearish*