

Sector Buy/Sell Review: 09-03-19

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:

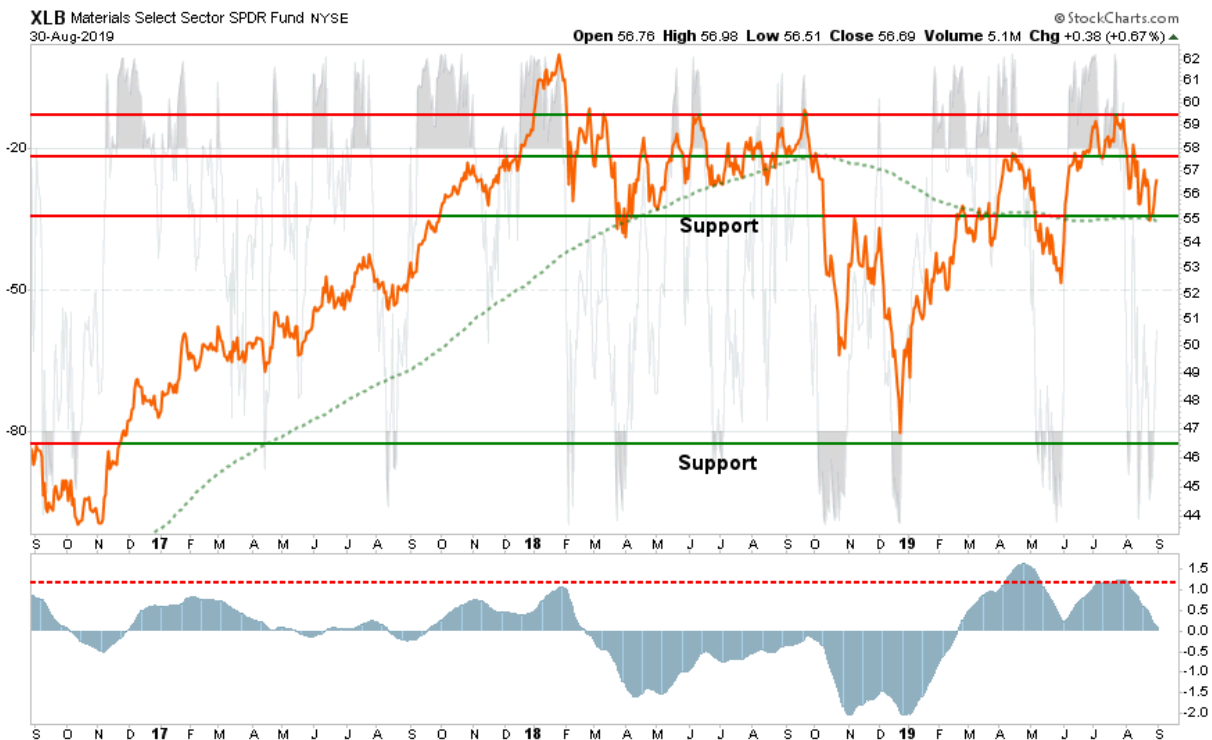
- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

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



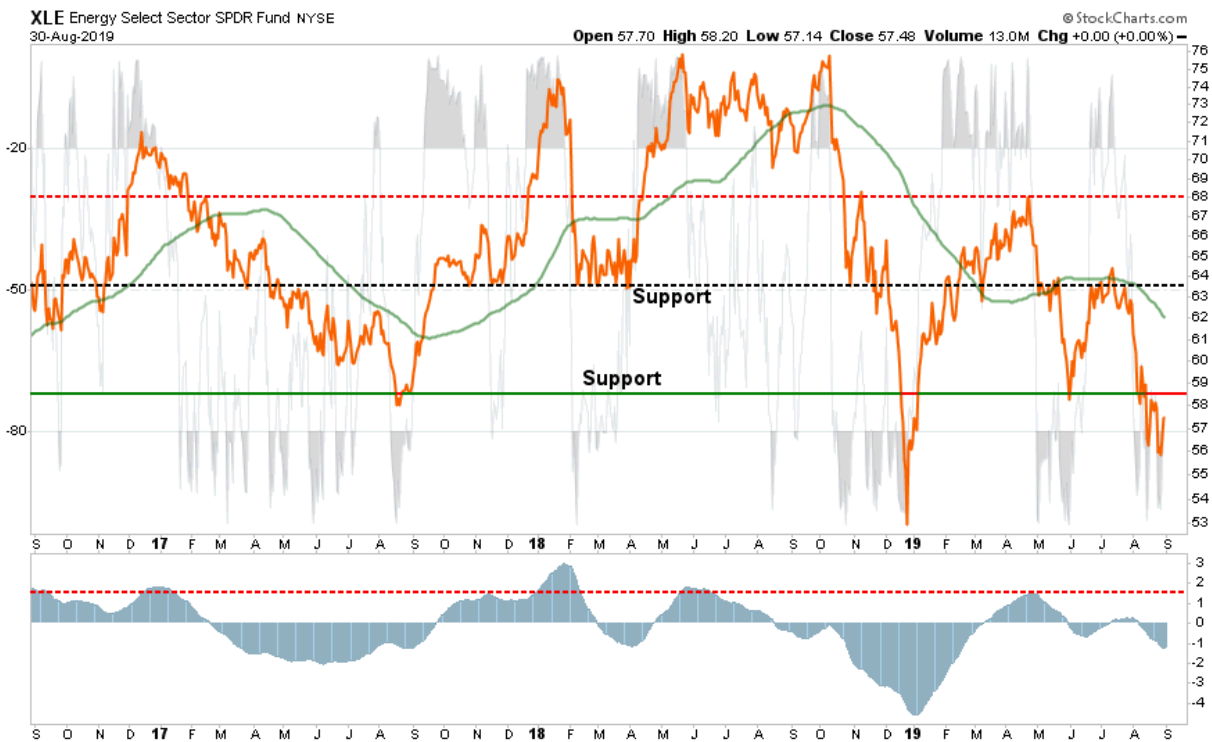
- *XLB remains confined to a very broad topping pattern currently BUT it continues to hold onto support at the 200-dma as rumors of a "trade deal" seem to always come just in the "nick of time."*
- *With the buy signal fading the risk remains to the downside for now particularly as trade wars continue to linger on and tariffs were hiked over the weekend.*
- *XLB is oversold short-term which could provide a bounce. That bounce should be used to sell/reduce holdings as needed.*
- *We are remaining underweight the sector for now, but are close to being stopped-out at current levels.*
- *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 adjusted to \$55*
- *Long-Term Positioning: Bearish*

Communications



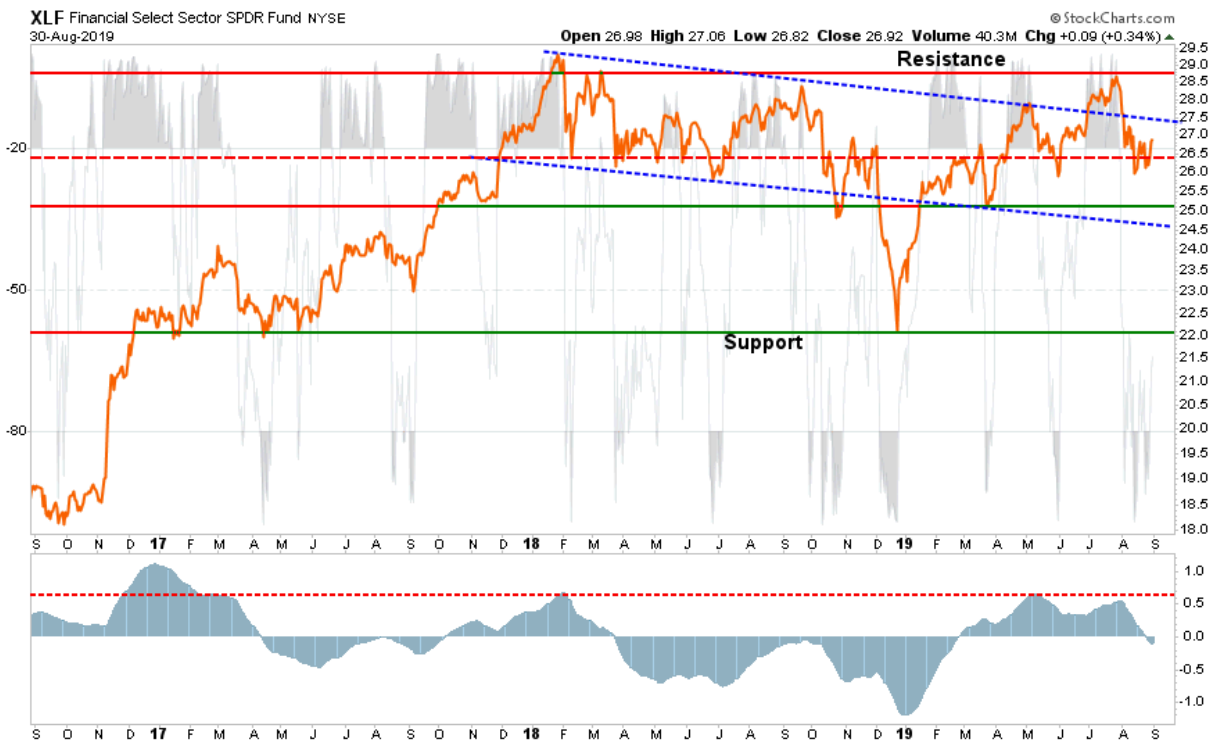
- XLC held support last week and did bounce back. A further rally is possible if the market trades up this week but risk is currently to the downside.
- Support is holding so far at \$48.
- XLC has a touch of defensive positioning from "trade wars" and given the recent pullback to oversold a trading position was placed in portfolios.
- Short-Term Positioning: Neutral
 - Last Week: Hold trading positions
 - This Week: Hold trading positions.
 - Stop adjusted to \$46
- Long-Term Positioning: Bearish

Energy



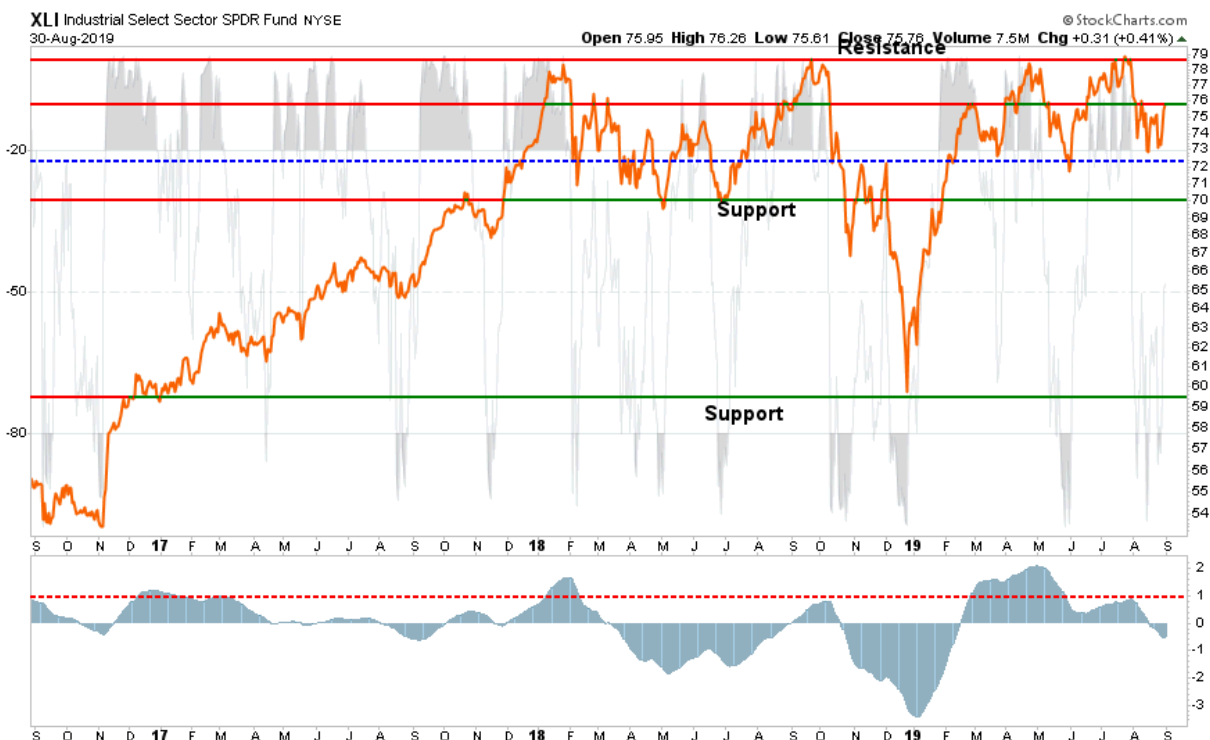
- *XLE continues to struggle with supply builds and a weakening economy.*
- *The sector is pretty oversold and the "sell signal" is getting extended. So there is a decent probability for a retracement.*
- *Any rallies should be used as clearing rallies for now to reduce weightings to the sector until the technical backdrop improves.*
- *We were stopped out of our position recently.*
- *Short-Term Positioning: Bearish*
 - *Last week: Hold current position*
 - *This week: Stopped out.*
 - *No position currently*
- *Long-Term Positioning: Bearish*

Financials



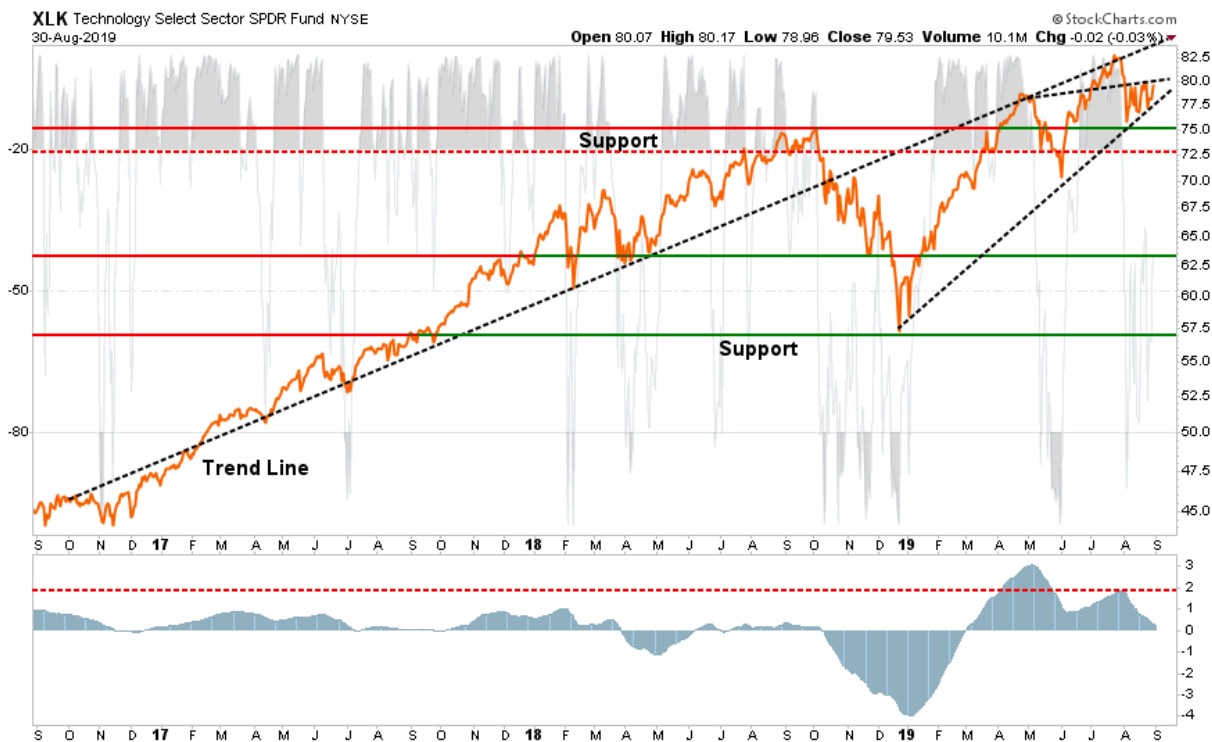
- *XLF has been in a long consolidation range since the beginning of 2018.*
- *XLF has triggered a "sell" signal and has gotten oversold.*
- *We closed out of positioning previously as inverted yield curves and Fed rate cuts are not good for bank profitability. Use rallies to reduce holdings accordingly.*
- *Short-Term Positioning: Neutral*
 - *Last week: Hold 1/2 position*
 - *This week: Closed Out/No Position.*
 - *Stop-loss adjusted to \$26.00*
- *Long-Term Positioning: Bearish*

Industrials



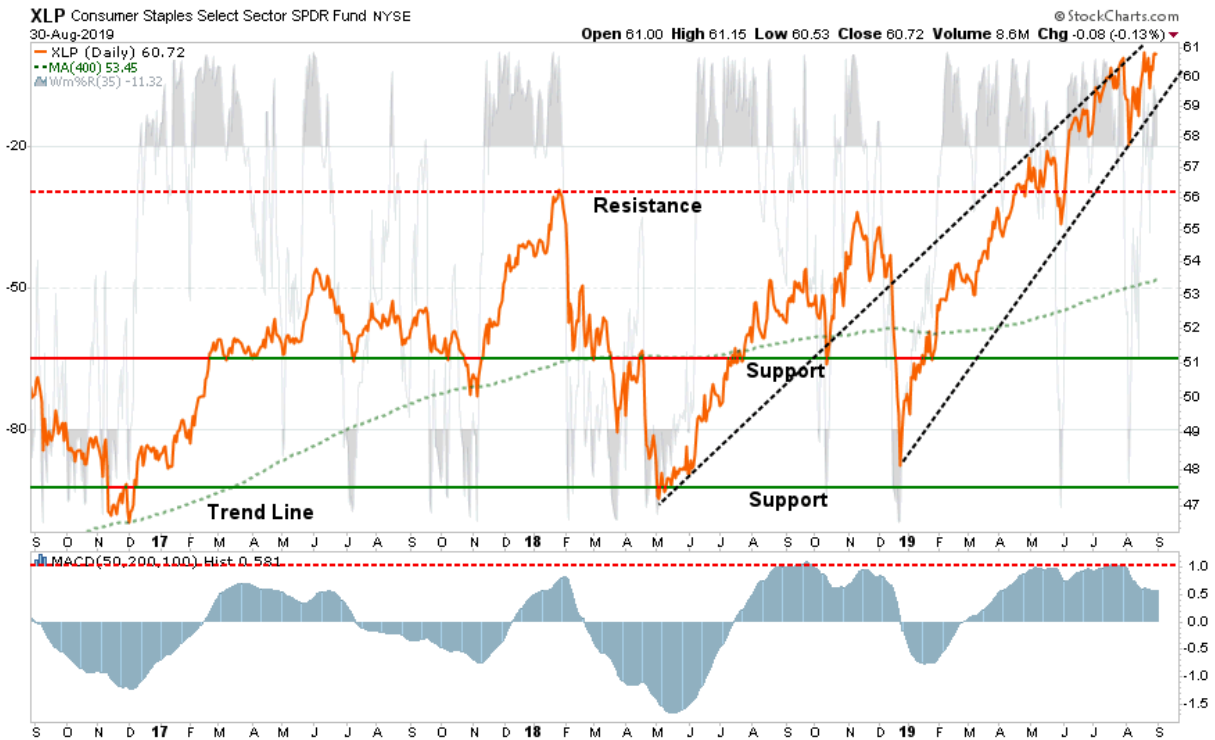
- XLI bounced back last week on hopes of a trade war "cease fire" which failed to come to fruition over the weekend.
- XLI is back to oversold and the buy signal has reversed to a sell signal.
- We reduced our risk to the sector after reaching our investment target. We are now adjusting our stop-loss for the remaining position. We will look to sell on this rally.
- Short-Term Positioning: Neutral
 - Last week: Hold 1/2 position
 - This week: Hold 1/2 position.
 - Stop-loss adjusted to \$72
- Long-Term Positioning: Neutral

Technology



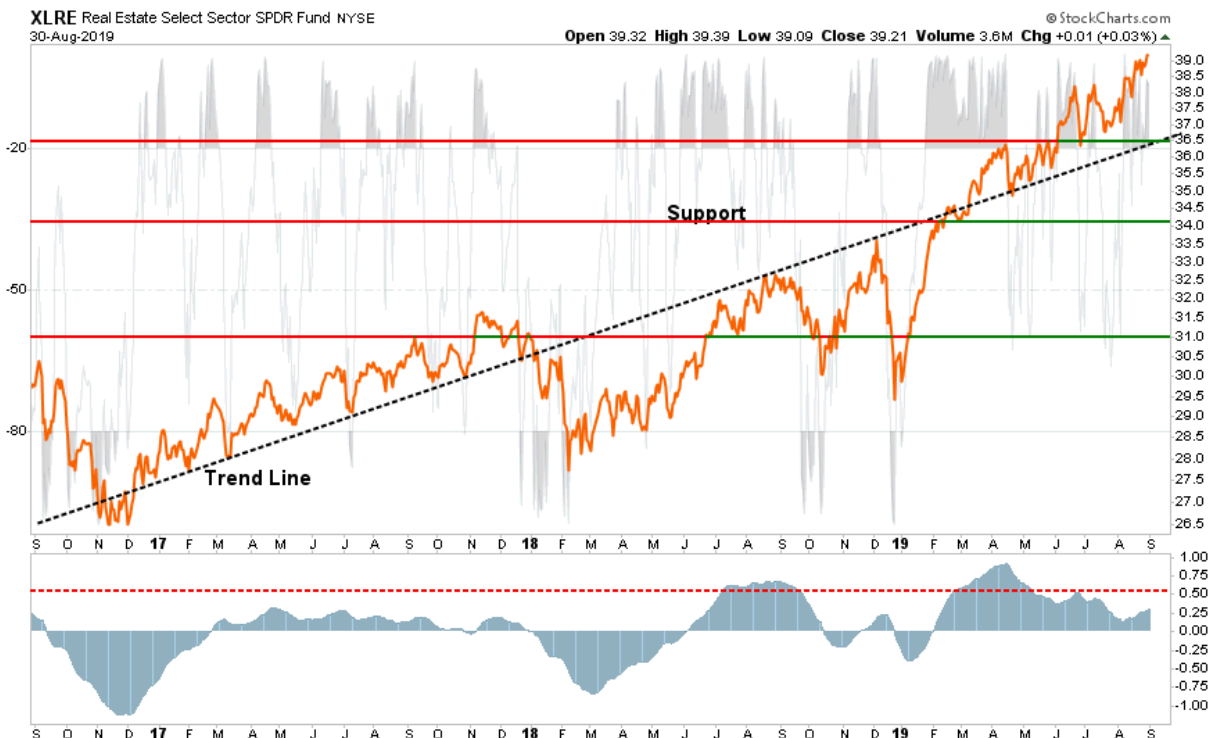
- XLK remains one of the "safety" trades against the "trade war."
- While XLK is not overbought, it is still fairly extended and a crowded trade.
- XLK failed at the uptrend line so it must hold support at \$75. It is currently in a very tight consolidation. A break to the downside will be bearish.
- The buy signal is close to reversing to a "sell."
- Short-Term Positioning: Bullish
 - Last week: Hold 1/2 position
 - This week: Hold 1/2 position
 - Stop-loss adjusted to \$75.00
- Long-Term Positioning: Neutral

Staples



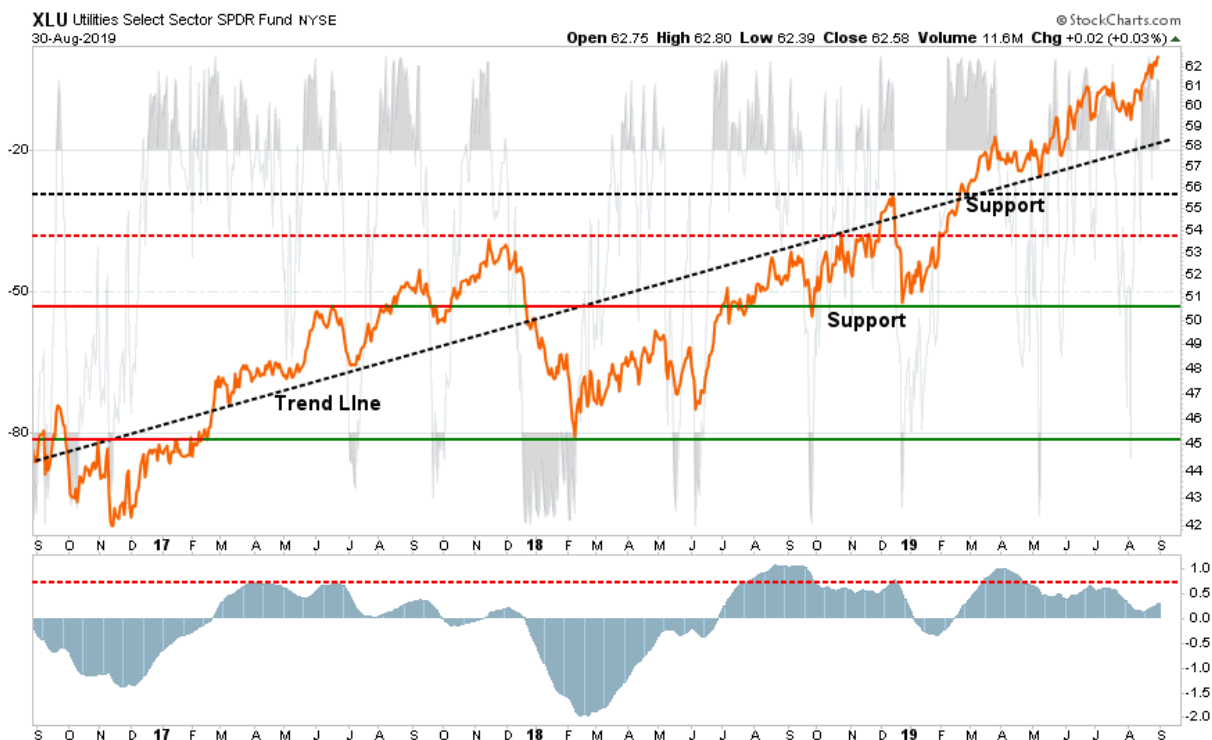
- *Defensive positioning is now a VERY crowded trade. I don't know when a rotation is going to occur, but there is little safety anywhere in the market currently.*
- *The "buy" signal (lower panel) is still in place and is very extended. We continue to recommend taking some profits if you have not done so.*
- *Short-Term Positioning: Bullish*
 - *Last week: Hold positions, take profits if needed.*
 - *This week: Hold positions, take profits if needed.*
 - *Stop-loss adjusted to \$57*
- *Long-Term Positioning: Bullish*

Real Estate



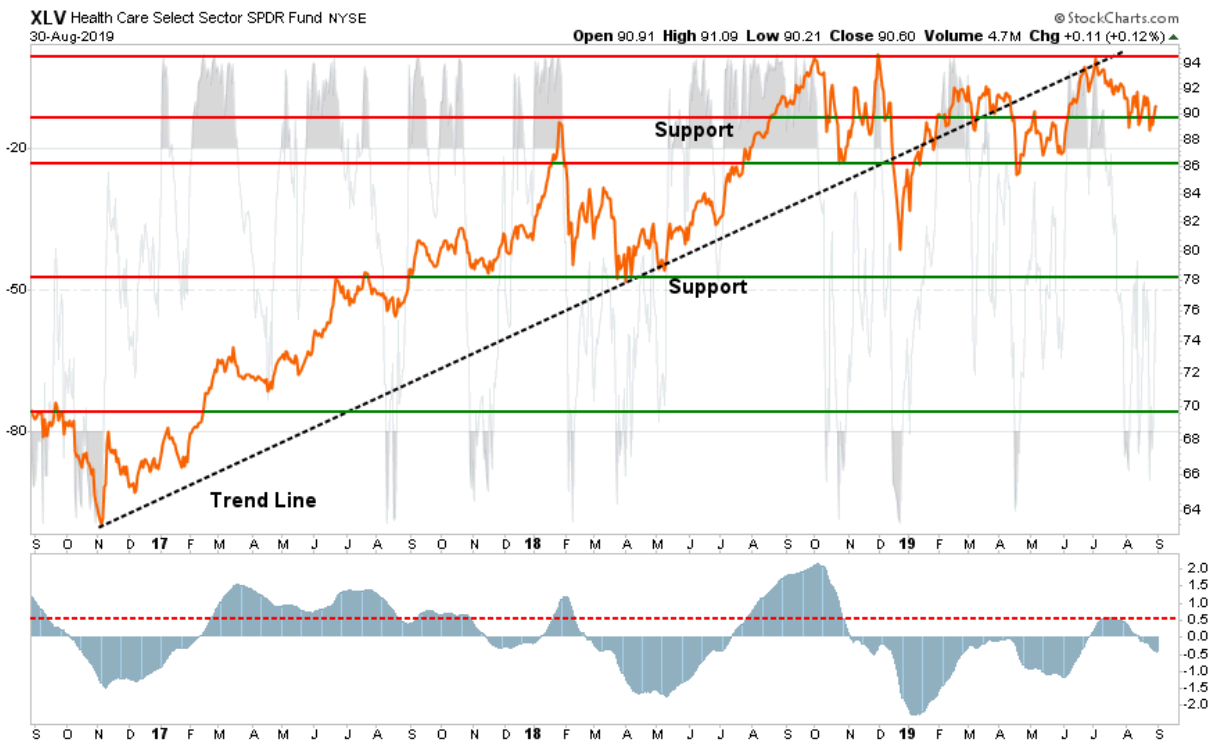
- As with XLP above, XLRE was consolidating its advance and has now pushed to new highs.
- XLRE is also a VERY CROWDED defensive trade.
- XLRE is back to very overbought so be careful adding new positions and keep a tight stop for now.
- We previously recommended taking profits and rebalancing risk as the overbought condition needed to be corrected. That occurred.
- Buy signal is being reduced along, but is holding for now.
- 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



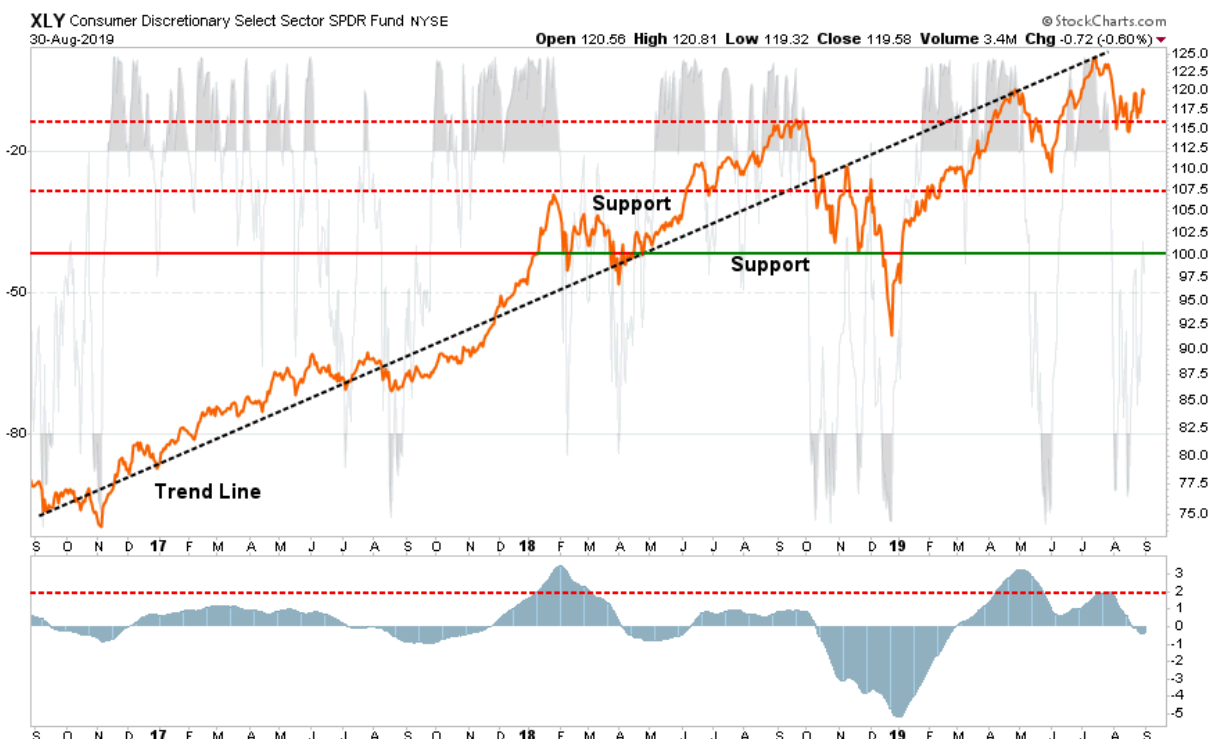
- XLU is also a very overcrowded defensive trade.
- After taking profits, we have time to be patient and wait for the right setup.
- Long-term trend line remains intact and the recent test of that trend line with a break to new highs confirms the continuation of the bullish trend.
- Short-Term Positioning: Bullish
 - Last week: Take profits and rebalance holdings.
 - This week: Hold position
 - Stop-loss adjusted to support at \$58.00
- Long-Term Positioning: Bullish

Health Care



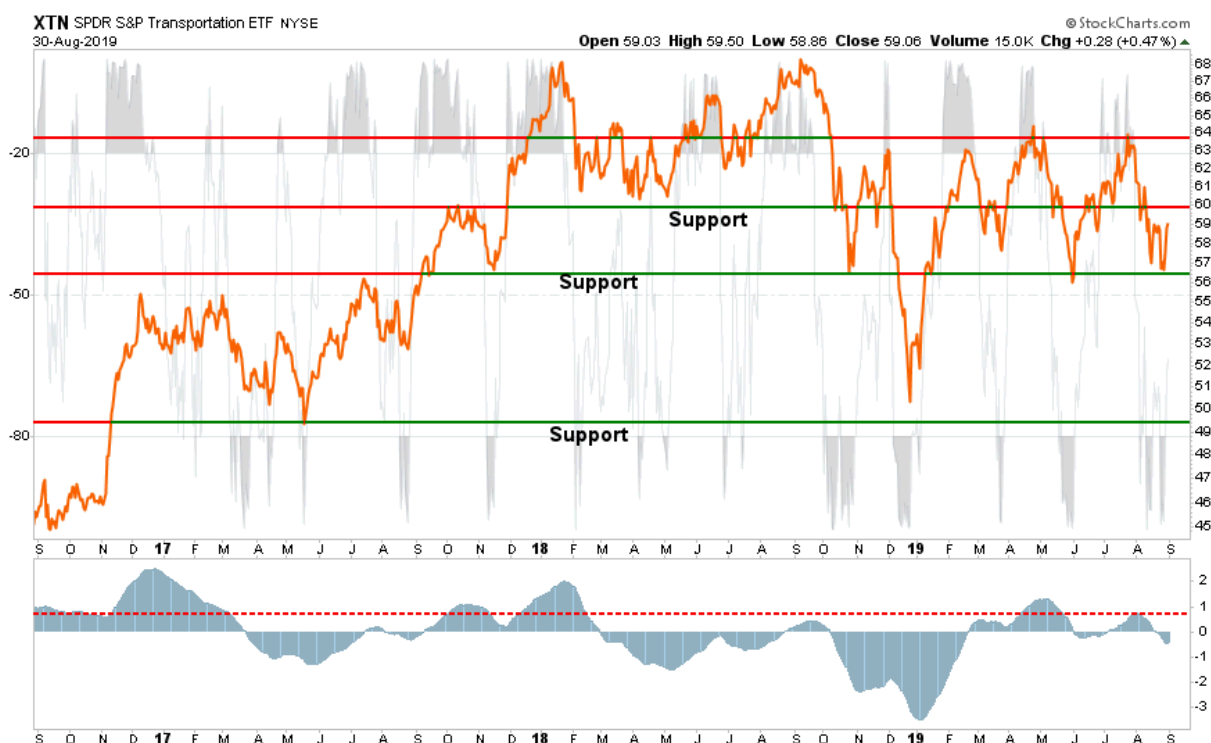
- *XLV has triggered a sell signal and will likely threaten our stop-loss.*
- *While the current correction was expected, support is looks to failing.*
- *We will honor of stop-loss.*
- *Short-Term Positioning: Neutral*
 - *Last week: Reduce to portfolio weight*
 - *This week: Hold position*
 - *Stop-loss adjusted to \$88*
- *Long-Term Positioning: Neutral*

Discretionary



- With the latest round of "tariffs" directly targeting consumer goods, XLY is under a threat. While it rallied last week on hopes of a "cease fire" that failed to occur. Look for pressure this week.
- We recommended taking profits previously. But XLY has now triggered a "sell signal." If current support at \$115 is violated we will consider selling out the rest of the position to avoid downside risk.
- 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 "sell" signal but remains confined to a consolidation which has lasted all year. The continued topping process continues to apply downward pressure on the sector.
- 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