

Sector Buy/Sell Review: 09-24-19

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

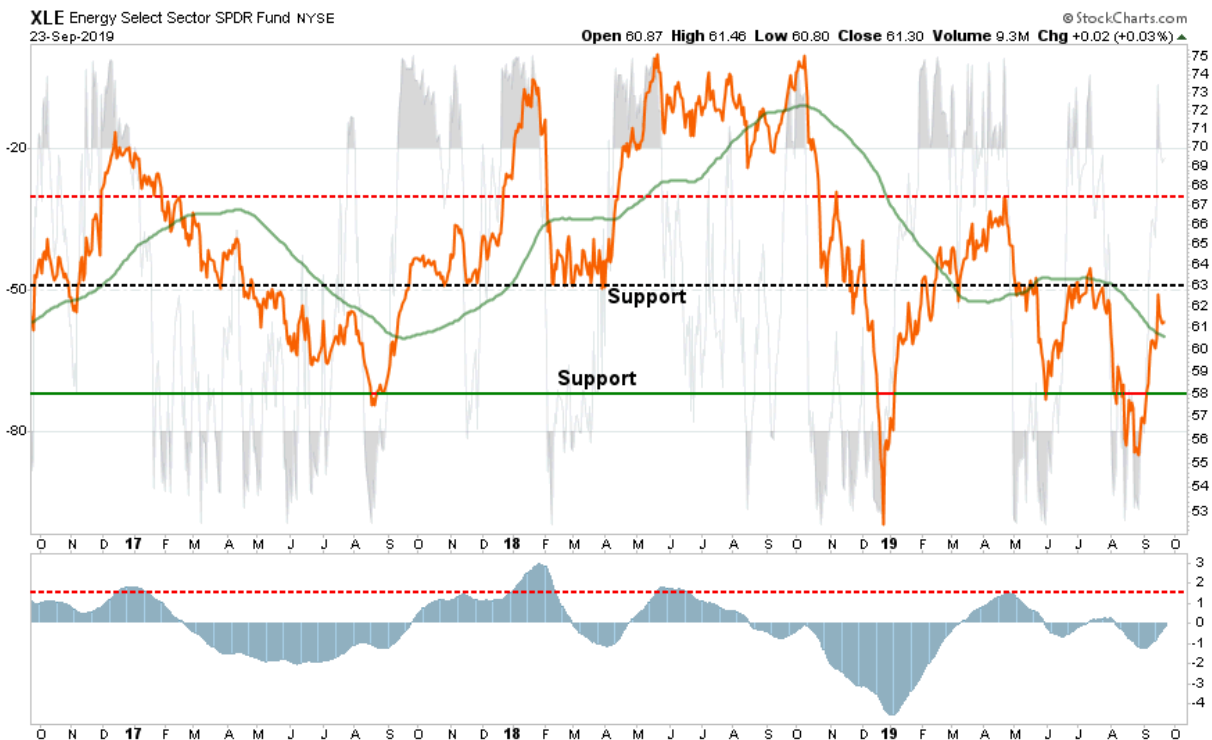


- *XLB remains confined to a very broad topping pattern currently BUT it continues to hold onto support at the 200-dma as rumors of a "trade deal" seem to always come just in the "nick of time."*
- *XLB rallied last week and is now back to overbought without getting above important resistance.*
- *The buy signal has turned back up which is bullish, however, XLB has to get above resistance before considering adding to our position.*
- *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 adjusted to \$55*
- *Long-Term Positioning: Bearish*

Communications

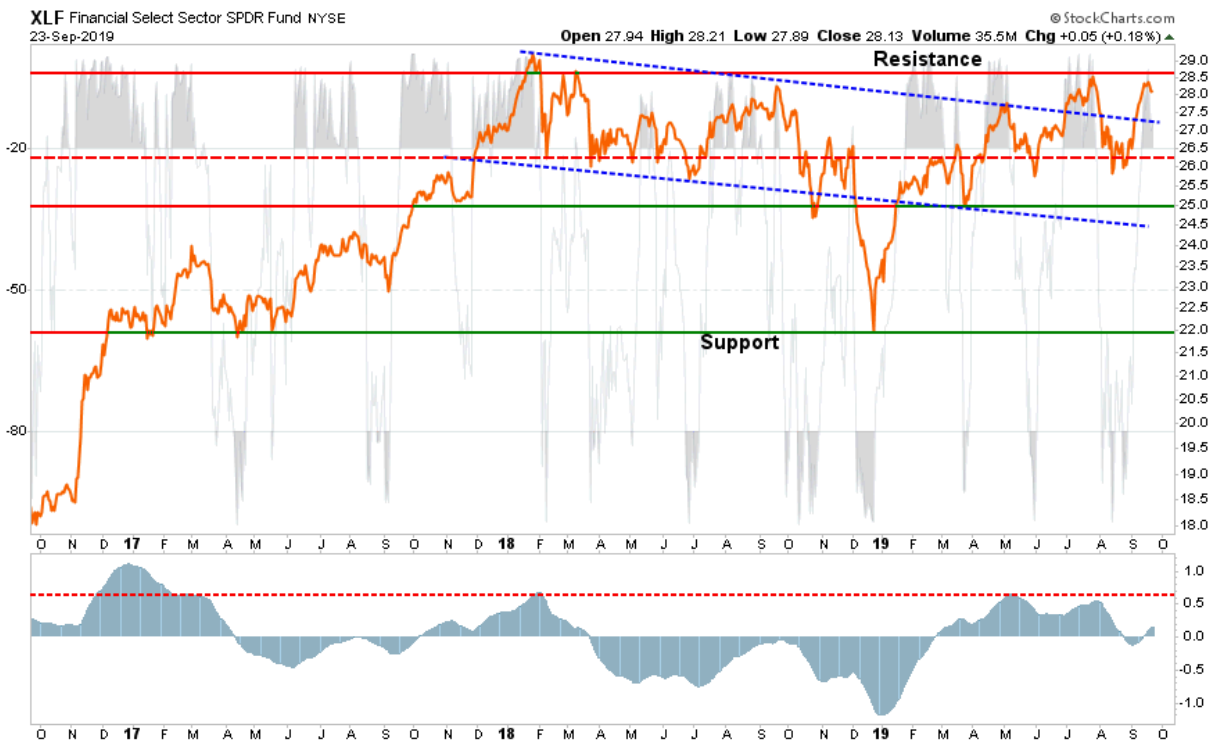
- *XLC has rallied into resistance at previous highs and has turned lower once again.*
- *With XLC back to overbought, a correction has become more likely short-term but must stay contained above \$48.50*
- *There are two support levels between \$47.50 and \$48.50. A violation of the lower support level will take us out of our position for now.*
- *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 \$47.50*
- *Long-Term Positioning: Bearish*

Energy



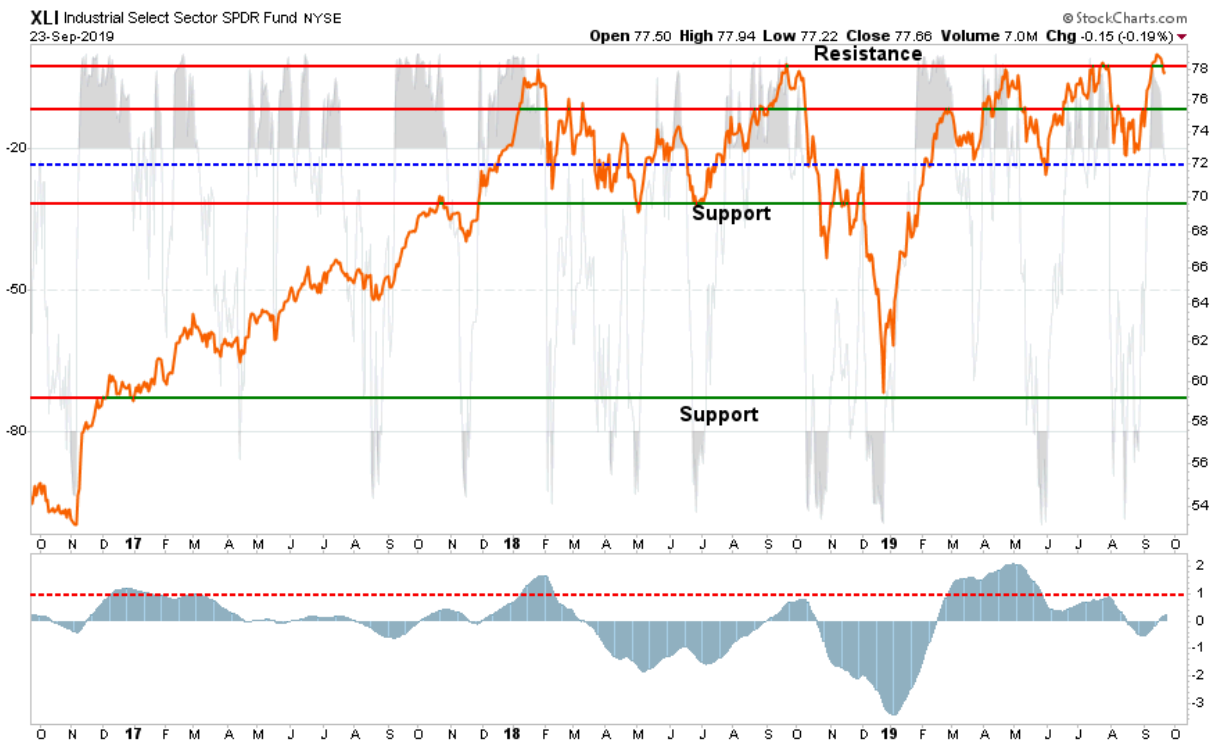
- Last week, we discussed the surge in XLE due to the bombing in Saudi Arabia. However, it appears that since supply continues to overwhelm the market, oil prices are slipping once again.
- XLE is about to test the 200-dma and must hold if XLE is going to trigger a buy signal and make a move higher. There is no need to rush into a position just yet.
- As noted last week, "We need to see a bit of consolidation of this advance which is now extremely overbought. A pullback to the 200-dma that holds would be an ideal entry point to add weightings."
- We were stopped out of our position previously.
- Short-Term Positioning: Bearish
 - Last week: Stopped out.
 - This week: Stopped out.
 - No position currently
- Long-Term Positioning: Bearish

Financials



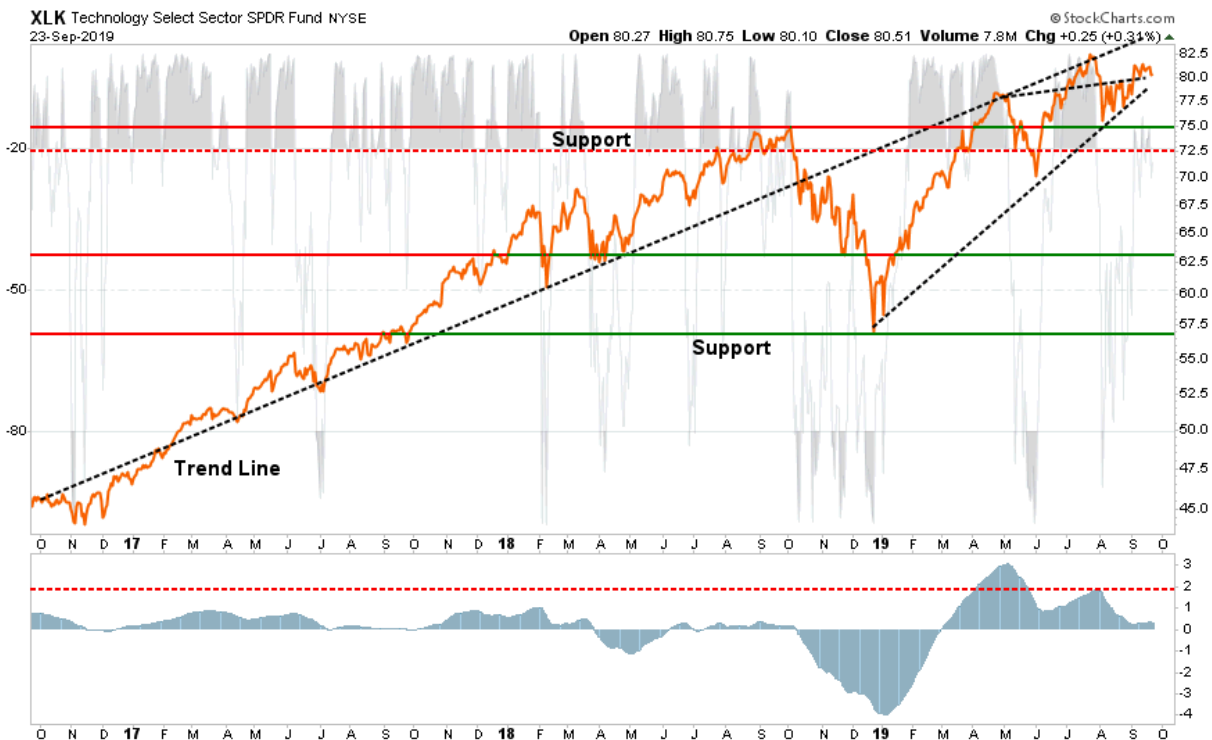
- *XLFF remains in a long consolidation range since the beginning of 2018.*
- *XLFF has reversed its "sell" signal but is back to very overbought. Look for a pullback that retests the breakout of the downtrend to add exposure to the sector.*
- *We previously closed out of positioning as inverted yield curves and Fed rate cuts are not good for bank profitability. However, there is a trading opportunity present with the right setup.*
- *Short-Term Positioning: Neutral*
 - *Last week: Closed Out/No Position.*
 - *This week: Closed Out/No Position.*
 - *Stop-loss adjusted to \$26.00*
- *Long-Term Positioning: Bearish*

Industrials



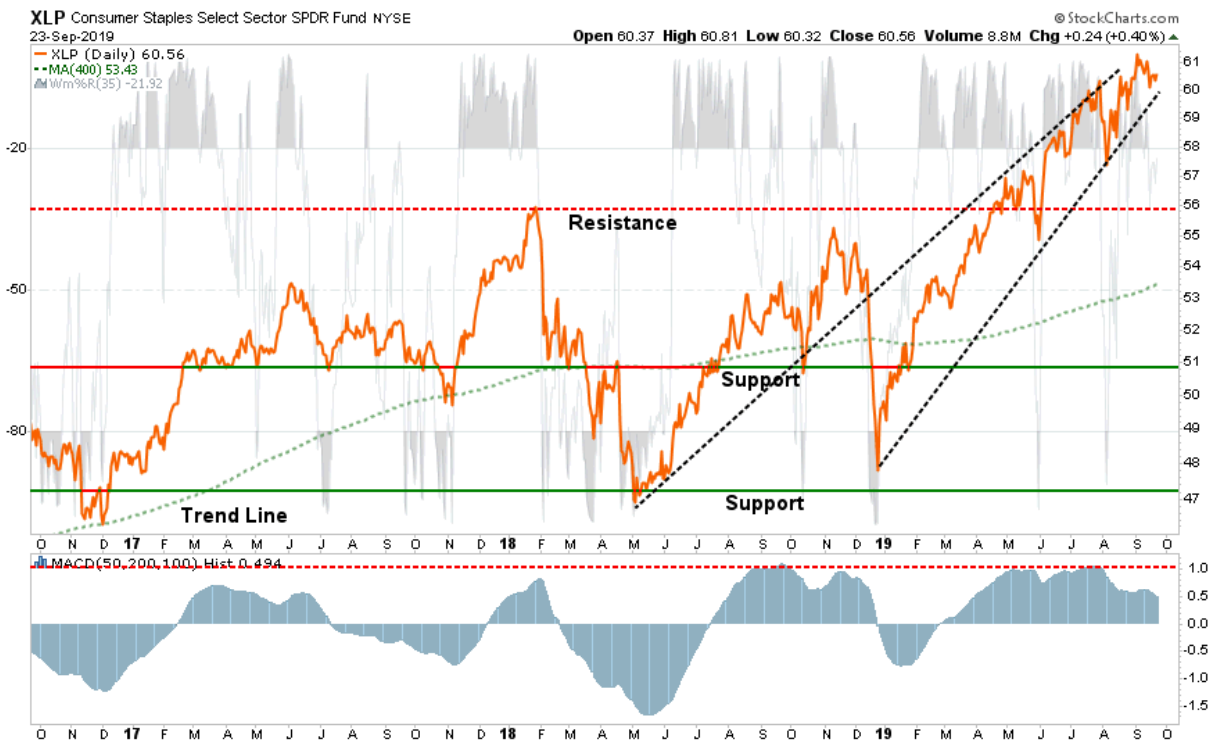
- We stated last week: "XLI bounced back over the last week on hopes of a trade war "resolution" and is trying to break above a series of previous tops. This is very bullish if it holds."
- We need to wait through Friday to see if XLI can recover the breakout. If not, it will be a failed breakout and will suggest a retracement back to support.
- XLI is back to overbought but the sell signal has reversed to a buy.
- We reduced our risk to the sector after reaching our investment target. We are now adjusting 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 \$72
- Long-Term Positioning: Neutral

Technology



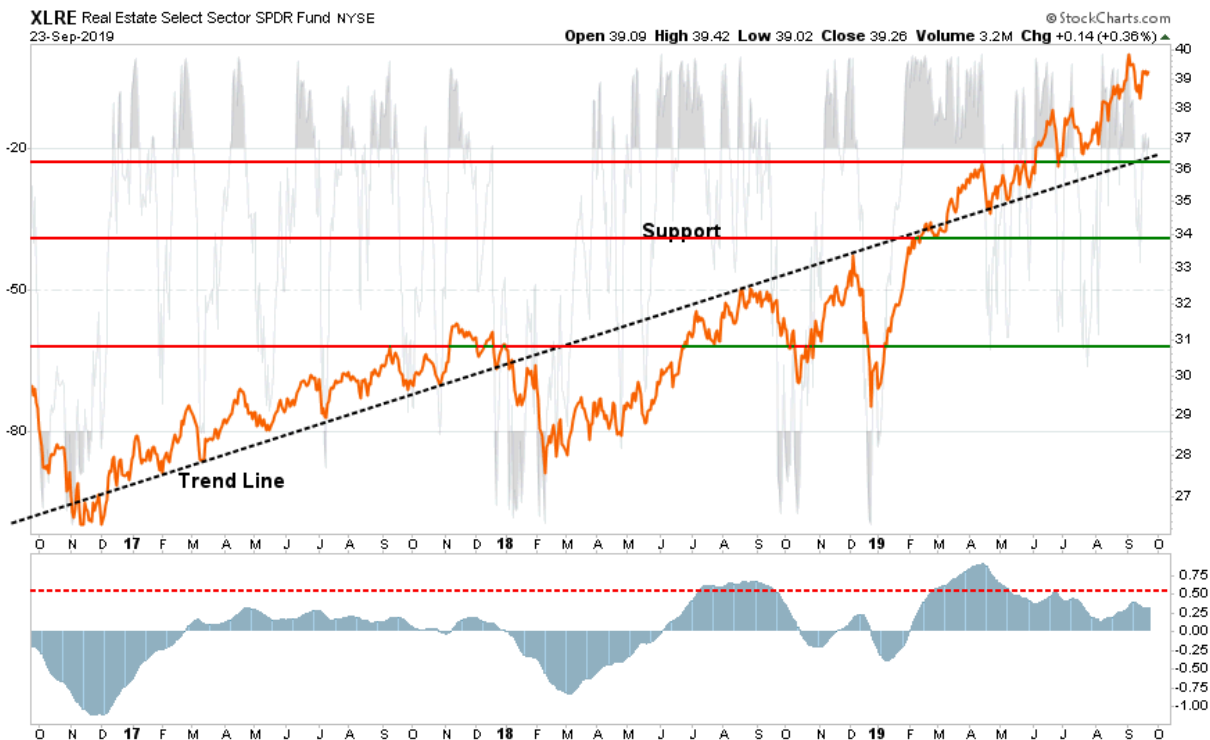
- *XLK remains one of the "safety" trades against the "trade war."*
- *XLK has moved back to short-term overbought, and remains a fairly extended and crowded trade.*
- *XLK held support at \$75 and broke above its short-term consolidation. This breakout needs to hold if old highs are going to be tested.*
- *The buy signal is close to reversing to a "sell."*
- *Short-Term Positioning: Bullish*
 - *Last week: Hold position*
 - *This week: Hold position*
 - *Stop-loss adjusted to \$75.00*
- *Long-Term Positioning: Neutral*

Staples



- As noted previously, defensive positioning remains a VERY crowded trade.
- The "buy" signal (lower panel) is still in place but has been worked off to a good degree. We continue to recommend taking some profits if you have not done so.
- XLP is no longer a "defensive play," it has become a momentum trade and that will be dangerous when the markets turn. Take profits, as stated, and watch the bottom uptrend line for a signal to close out the position entirely.
- Short-Term Positioning: Bullish
 - Last week: Hold positions, take profits if needed.
 - This week: Hold positions, take profits if needed.
 - Stop-loss adjusted to \$58
 - Long-Term Positioning: Bullish

Real Estate



- As with XLP above, XLRE was consolidating its advance, then pushed to new highs and is back to extremely extended.
- XLRE is also a VERY CROWDED defensive trade like XLP and XLU.
- Be careful adding new positions and keep a tight stop for now. A pullback to \$37-38 would be a better entry.
- We previously recommended taking profits and rebalancing risk as the overbought condition needed to be corrected. That advice remains.
- Buy signal has been reduced which is bullish 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



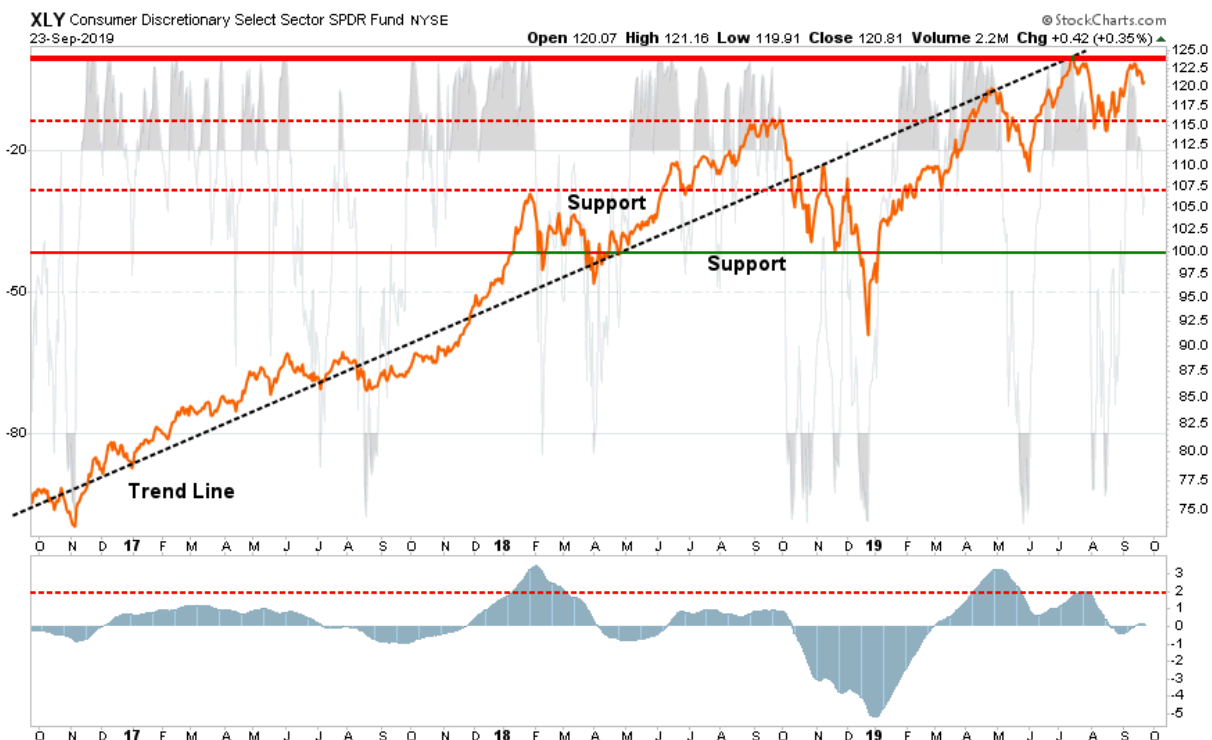
- *XLRE and XLU are virtually the same commentary.*
- *After taking profits, we have time to be patient and wait for the right setup. We haven't gotten one as XLU continues to rally.*
- *Long-term trend line remains intact and the recent test of that trend line with a break to new highs confirms the continuation of the bullish trend.*
- *Buy signal reversed and held and has now turned higher.*
- *Short-Term Positioning: Bullish*
 - *Last week: Hold position.*
 - *This week: Hold position*
 - *Stop-loss adjusted to support at \$58.00*
- *Long-Term Positioning: Bullish*

Health Care



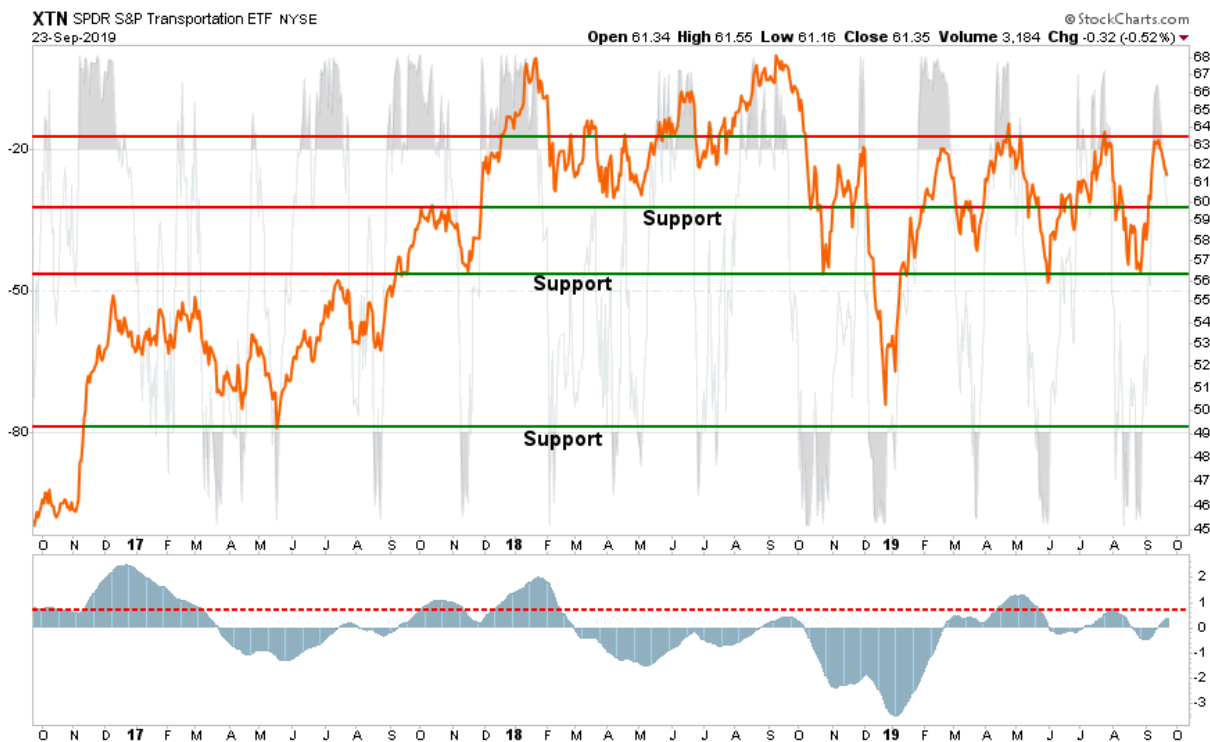
- *XLV has triggered a sell signal but has remained intact and is trying to recover with the market. If a buy signal is issued that may well support a higher move for the sector.*
- *XLV continues to hold support levels and has turned higher.*
- *We continue to maintain a fairly tight stop for now.*
- *Short-Term Positioning: Neutral*
 - *Last week: Hold position.*
 - *This week: Hold position*
 - *Stop-loss adjusted to \$88*
- *Long-Term Positioning: Neutral*

Discretionary



- The rally in XLY failed at previous highs where resistance sits currently.
- We added to our holdings previously to participate with the current rally, but are carrying a tight stop on the whole position.
- XLY has reversed its "sell signal" to a "buy" which could support a move to new highs. However, we are going to need to see the market move higher as a whole.
- Short-Term Positioning: Neutral
 - Last week: Hold position
 - This week: Hold position
 - Stop-loss adjusted to \$115.
- Long-Term Positioning: Neutral

Transportation



- XTN spiked higher over the last couple of trading sessions on an "oversold" bounce and is now extremely overbought once again.
- XTN remains in a very broad trading range, and this rally is most likely going to fail at the previous highs for the range. It is now make or break for the sector.
- XTN has reversed its "sell" signal but is extremely overbought.
- The failure at resistance is keeping XTN confined to a more bearish formation for now and keeps us out of the position currently.
- Short-Term Positioning: Neutral
 - Last week: No position
 - This week: No position
- Long-Term Positioning: Bearish