

Sector Buy/Sell Review: 10-01-19

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 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 from lows on comments from Trump that a trade deal was near, and is now back to overbought without getting above important resistance.
- There are multiple tops that are providing tough resistance for the sector to get through, so while the buy signal has turned back up, which is bullish, XLB has to get above resistance before considering adding to our position.
- We are remaining underweight the sector for now, unless trade deal negotiations appear to be improving.
- 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



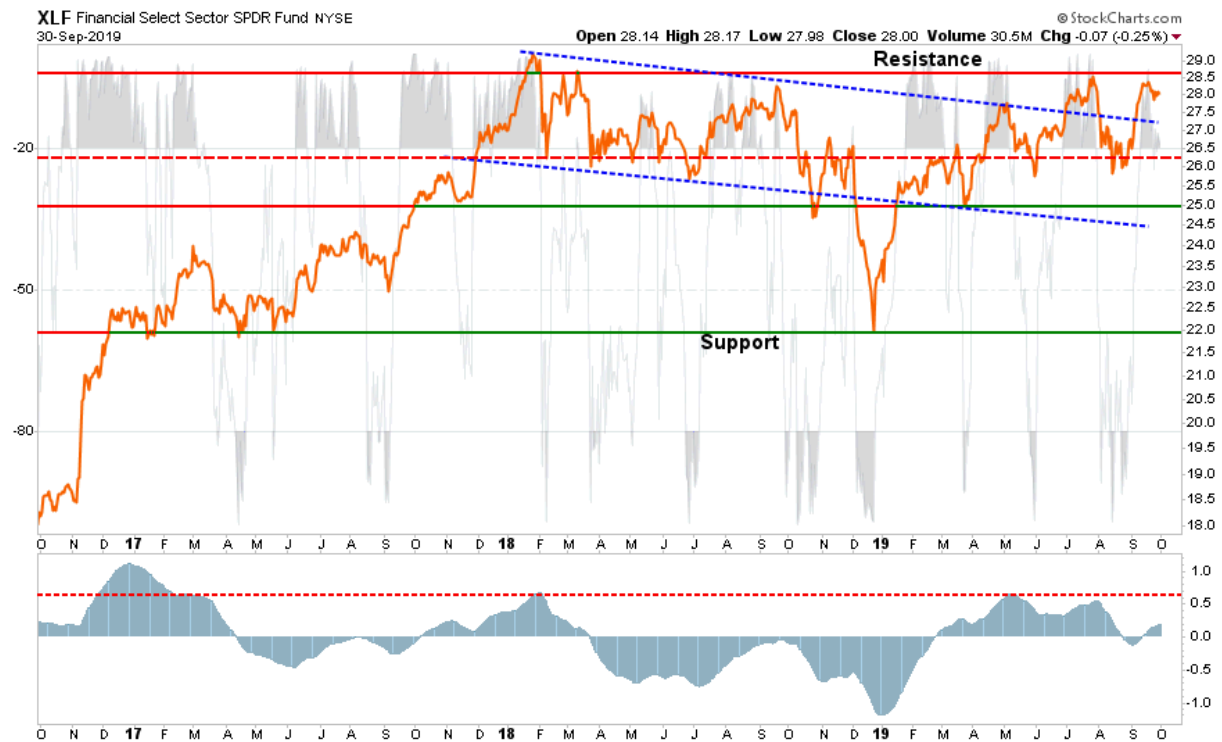
- There is a common thread to the market - multiple tops that can't seem to be broken. XLC falls into this camp and has failed at all-time highs once again.
- XLC is starting to work off its overbought condition, so this correction needs to hold above support at \$48.50
- There are two support levels 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



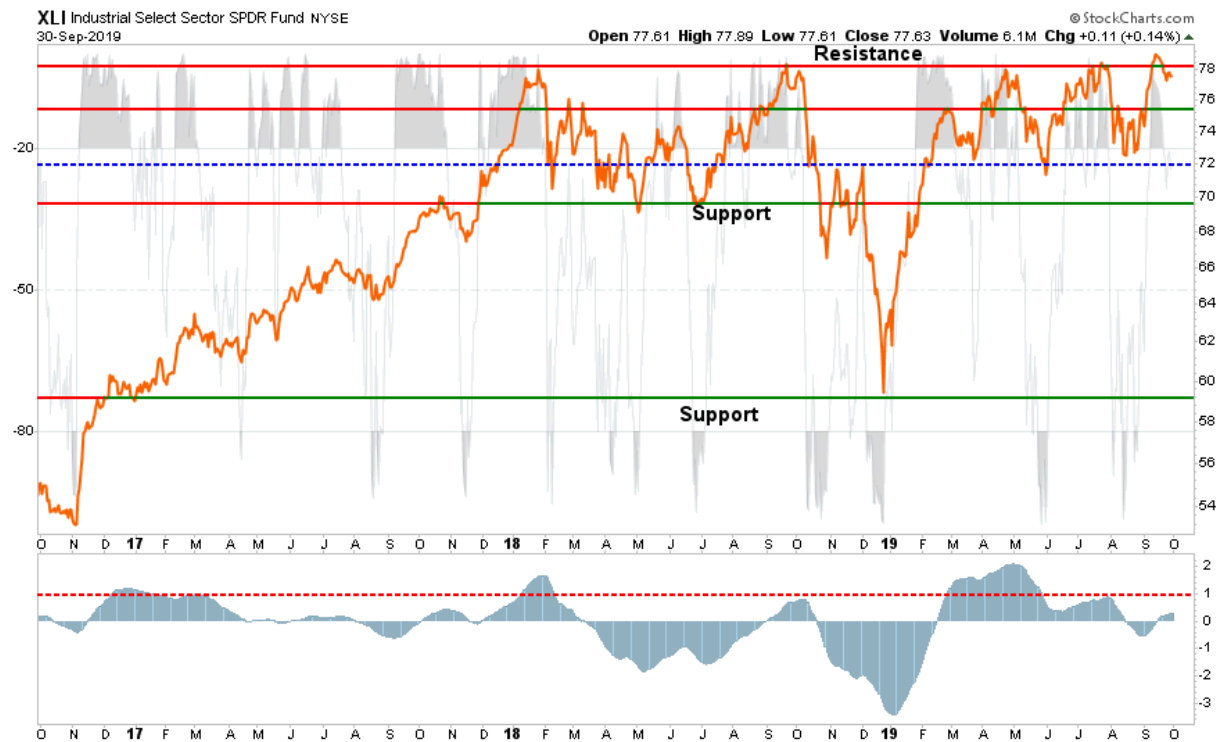
- Two weeks ago we discussed the surge in XLE due to the bombing in Saudi Arabia. That surge is over as oil prices have fully retraced the spike.
- XLE broke below the test of the 200-dma which puts \$58 as the next target of support.
- The "sell signal" was in the process of being reversed, but that will fail also if prices don't pick up this week.
- While there is "value" in the sector, there is no need to rush into a position just yet. The right opportunity and timing will come, it just isn't right now.
- 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



- *XLF is another sector trapped below multiple highs.*
- *XLF 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



- XLI also, after failing a breakout, remains trapped below multiple highs. Hopes of a trade war "resolution" has kept the sector elevated, but not enough to sustain higher levels.
- The breakout failed, as we suggested might be the case, and we will now look for a retracement back to initial 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 have also adjusted 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



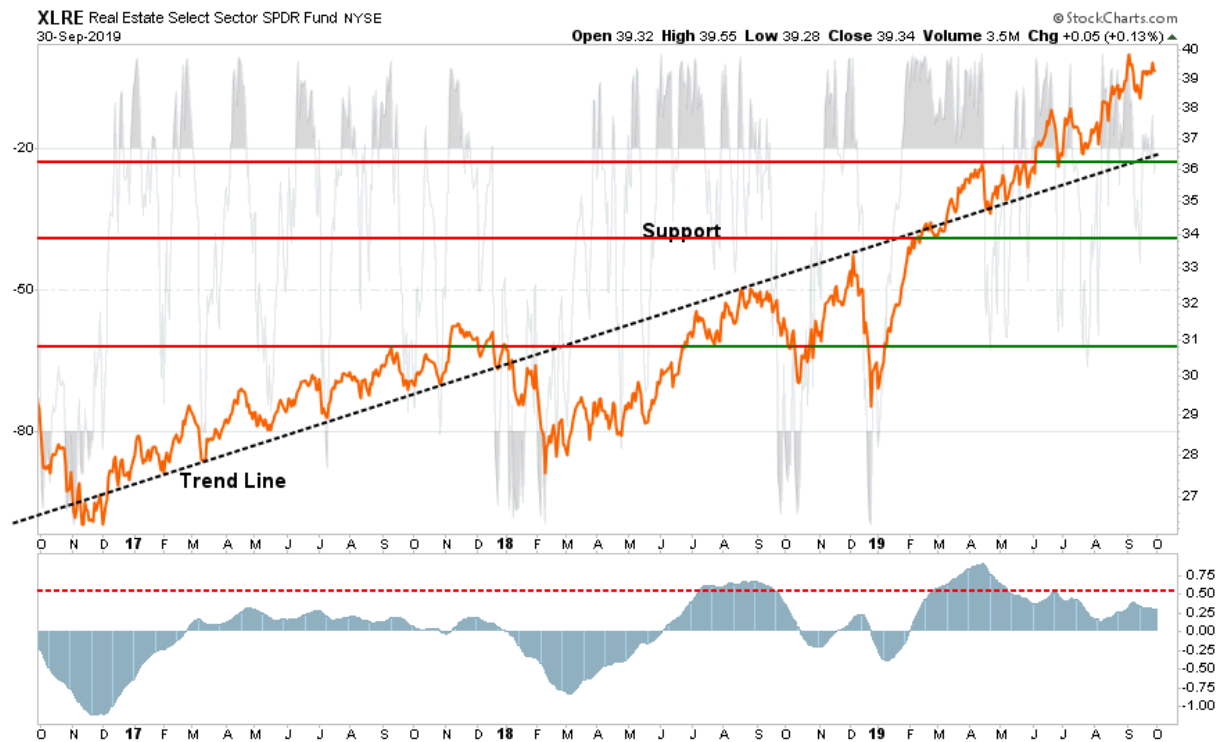
- *XLK remains one of the "safety" trades against the "trade war."*
- *XLK has moved back to short-term overbought, and remains a fairly extended and crowded trade.*
- *XLK held support at \$75 and broke above its short-term consolidation. This breakout needs to hold if old highs are going to be tested.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

Staples



- *Defensive sectors continue to rally. It is now an EXTREMELY crowded trade, and we suggest taking profits. IF there is a trade deal, these defensive sectors will likely get hard very quickly as money rotates back to non-defensive trades.*
- *The "buy" signal (lower panel) is still in place but has been worked off to a good degree. Risk is clearly elevated.*
- *Last week, we took profits in XLP and reduced our weighting from overweight. We will likely look to reduce further when opportunity presents itself.*
- **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



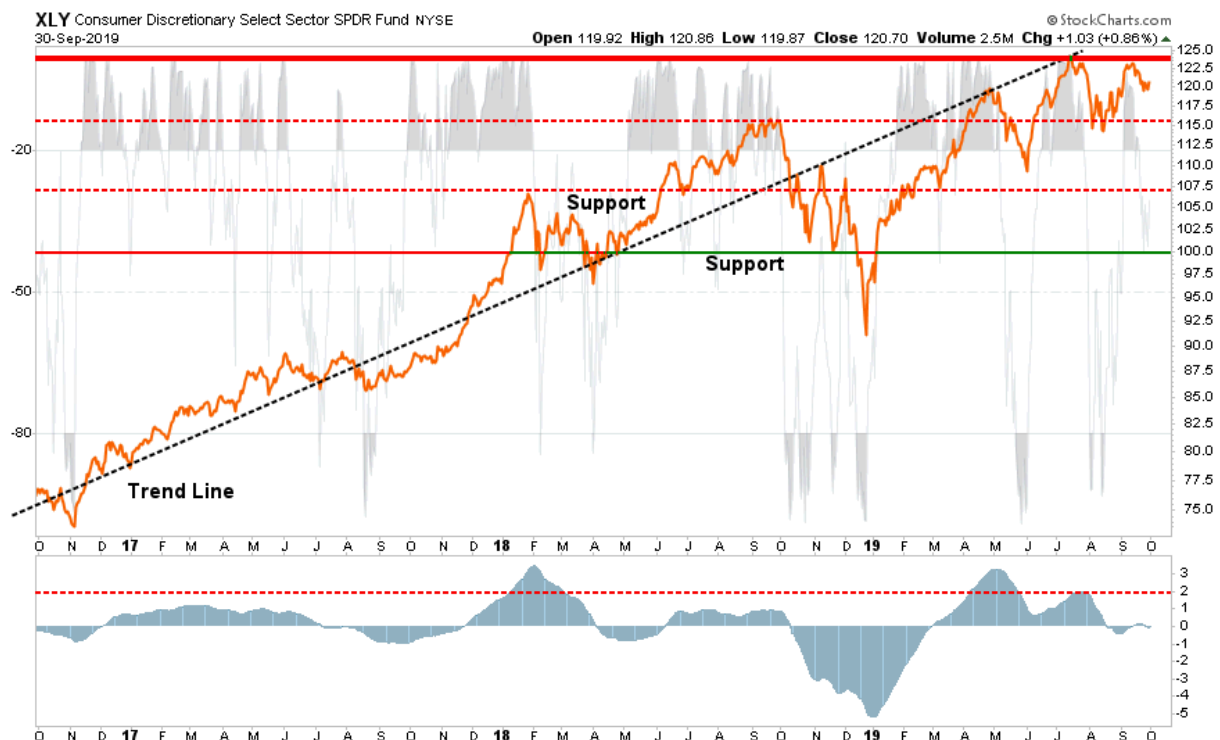
- *XLRE and XLU are virtually the same commentary.*
- *After taking profits, we have time to be patient and wait for the right setup. We haven't gotten one as XLU continues to rally and last weeks surge is making owning this sector seriously more dangerous.*
- *Long-term trend line remains intact but XLU is grossly deviated from longer-term means. A reversion will likely be swift and somewhat brutal.*
- *Buy signal reversed and held and has now turned higher. Take profits and reduce risks accordingly.*
- *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



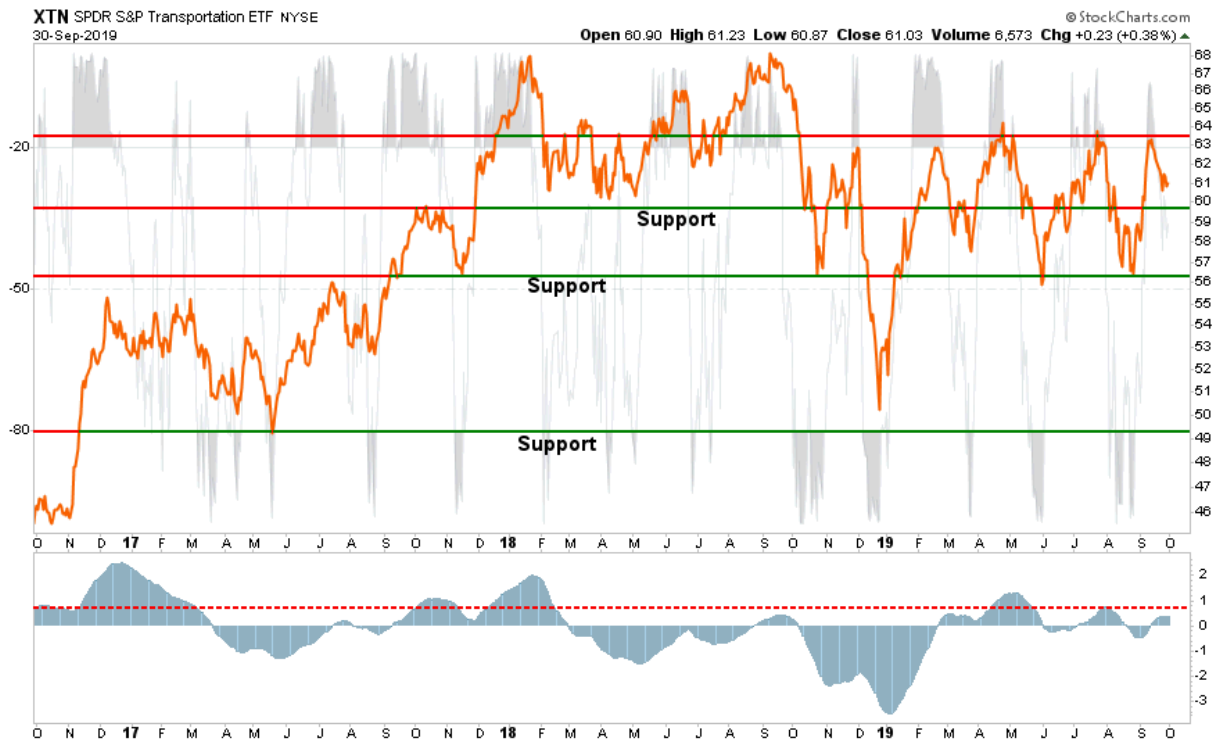
- *XLV has triggered a sell signal but has remained intact and is trying to recover with the market. If a buy signal is issued that may well support a higher move for the sector.*
- *XLV continues to hold support levels and has turned higher.*
- *We continue to maintain a fairly tight stop for now.*
- **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 if it holds. Currently that is questionable.
- 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 as we noted last week:
 - "This rally is most likely going to fail at the previous highs for the range. It is now make or break for the sector."
- The rally failed and a retest of support is likely.
- XTN has reversed its "sell" signal but is extremely overbought.
- We remain out of the position currently.
- Short-Term Positioning: Neutral
 - Last week: No position
 - This week: No position
- Long-Term Positioning: Bearish