

Sector Buy/Sell Review: 10-08-19

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:
 - "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."
- XLB failed at support and working towards a retest of the 200-dma. Unfortunately, it appears a "trade deal" may be at risk, and the recent "buy signal" is threatening to turn lower.
- 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

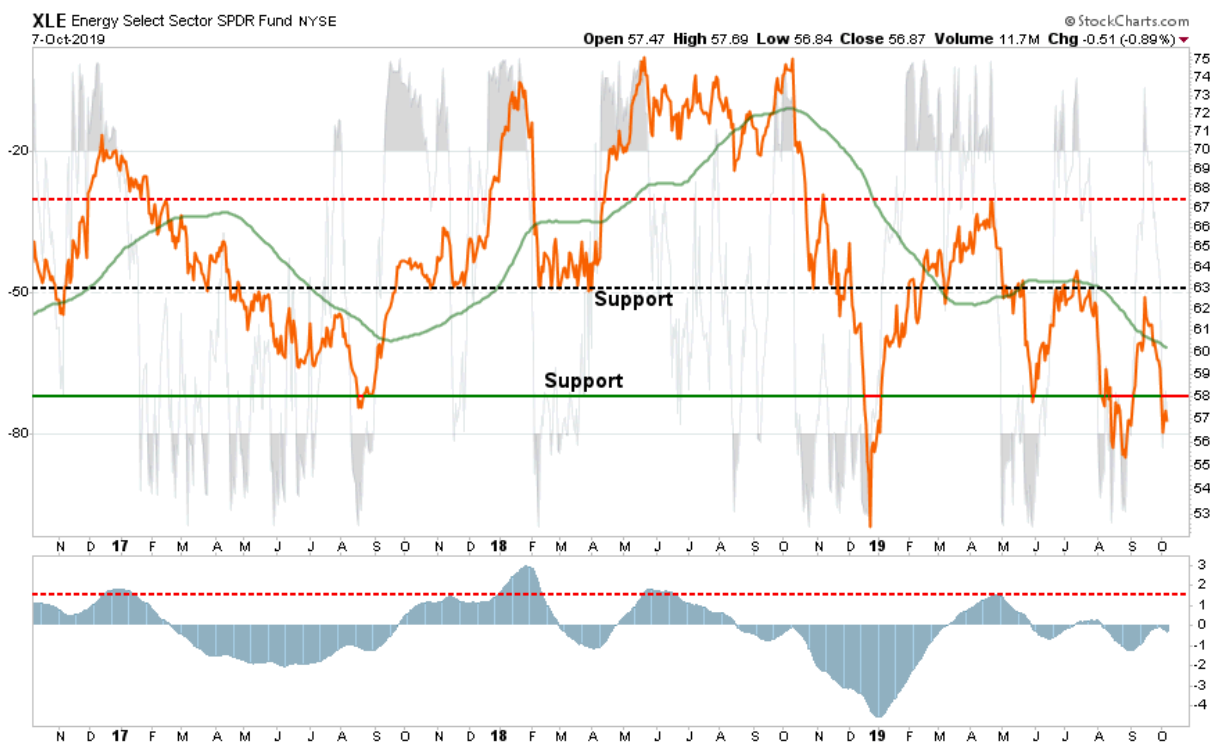
Communications



- The good news is that XLC is working off its overbought condition, and the correction is holding above short-term 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.
- One concern of the overall market is that the former "generals" of the market, namely AMZN, NFLX, and GOOG, have been not be performing well.
- Short-Term Positioning: Neutral
 - Last Week: Hold trading positions

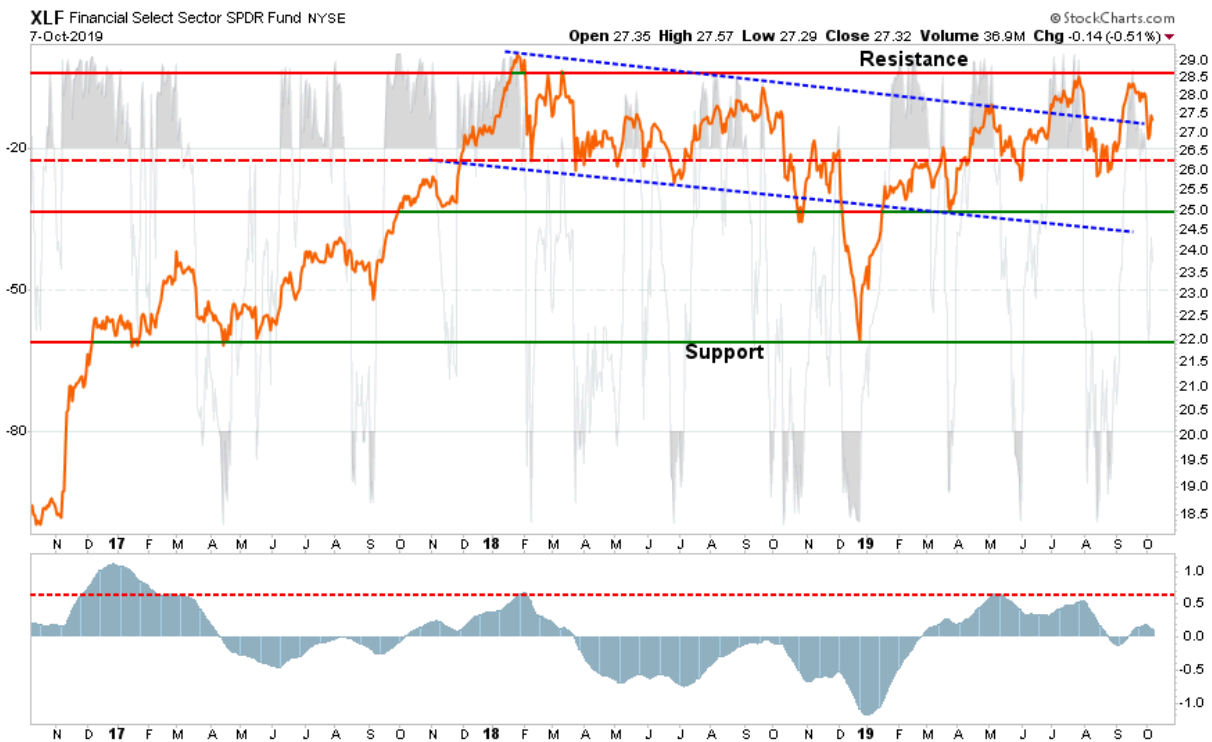
- *This Week: Hold trading positions.*
- *Stop adjusted to \$47.50*
- *Long-Term Positioning: Bearish*

Energy



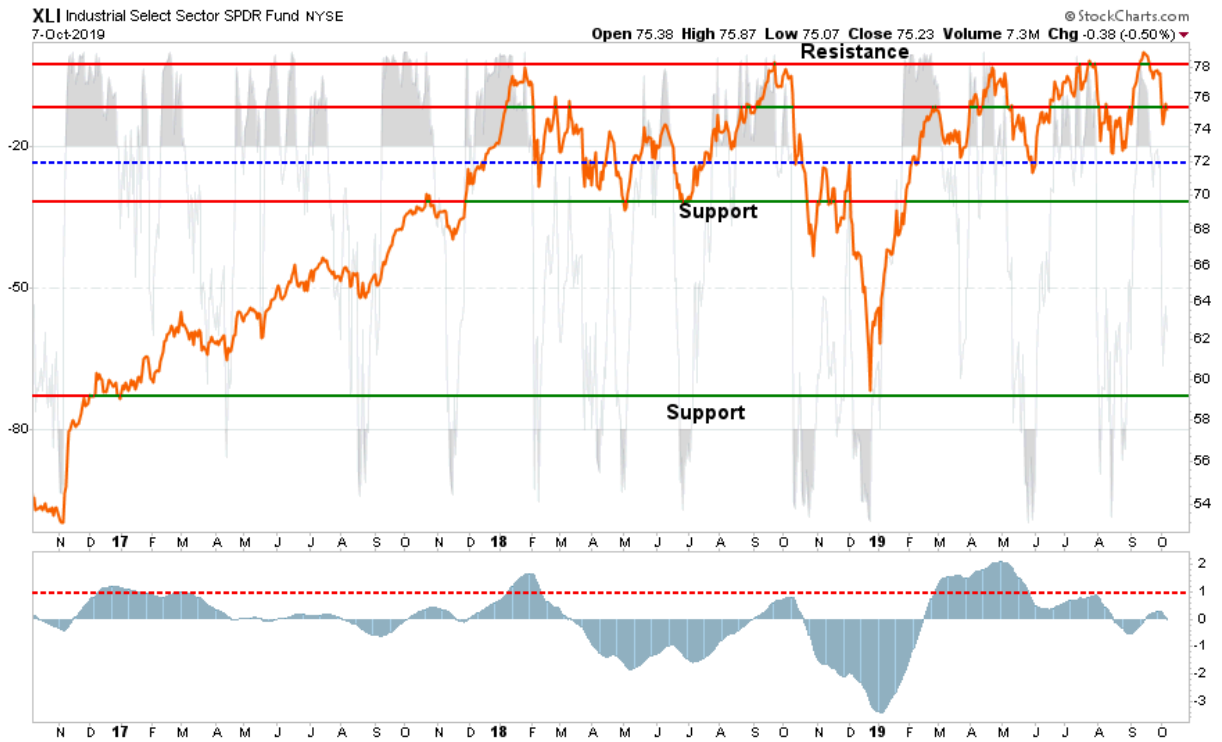
- *There isn't much to say about XLE following the complete breakdown of the recent rally.*
- *As we noted last week, the failed test of the 200-dma put \$58 as the next target of support, which has now also failed.*
- *The "sell signal" was in the process of being reversed, but that has failed also as stated last 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



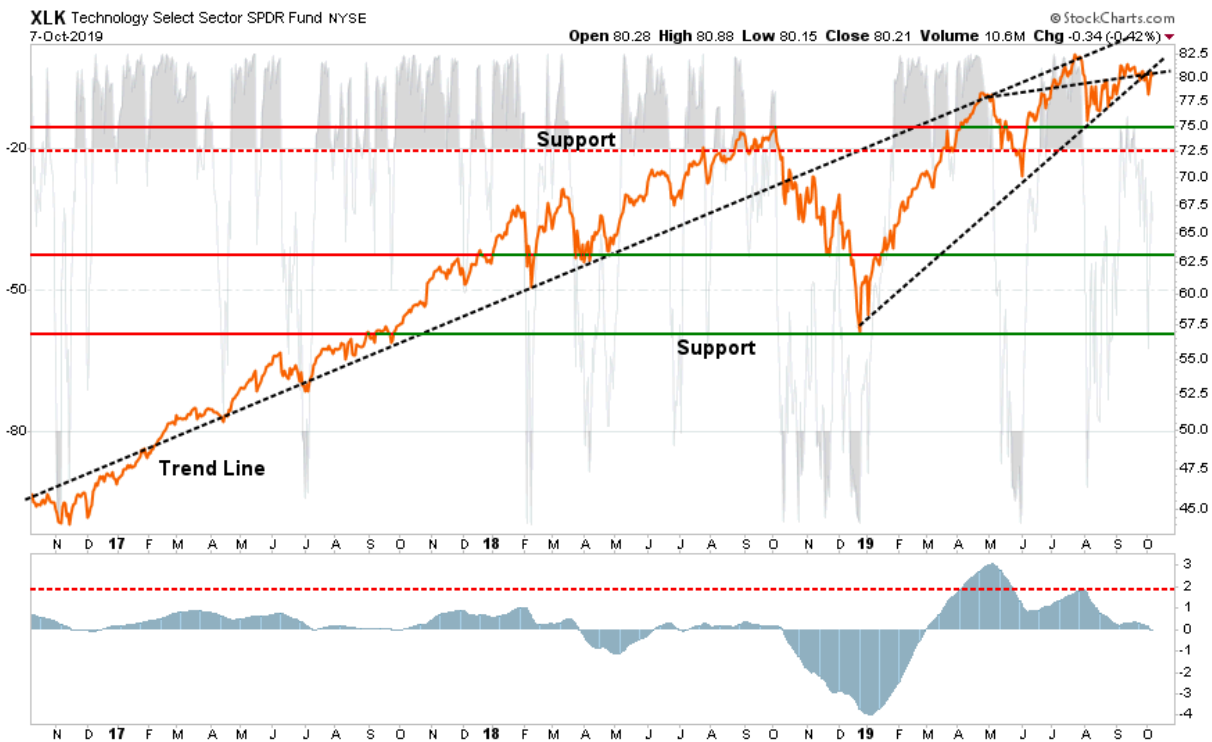
- *XLF is another sector trapped below multiple highs.*
- *XLF has reversed its "sell" signal" on a short-term basis, but is threatening to turn lower.*
- *We previously closed out of positioning as inverted yield curves and Fed rate cuts are not good for bank profitability. The "trading opportunity" we discussed last week, has not yet coalesced either.*
- *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.*
- *The breakout failed, as we suggested might be the case, and now the retracement back to initial support is also threatening to fail.*
- *XLI is working off the overbought condition but is close to triggering a "sell signal." If a "trade deal" doesn't manifest soon, we will likely be stopped out of our reduced position.*
- *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 is beginning to reverse its short-term overbought condition, but has now broken previous support at two different levels, most importantly, the bullish trend line from the December lows.*
- *The buy signal is close to reversing to a "sell," which if it does, will suggest lower prices.*
- *A retest of \$75 is likely the market doesn't improve very quickly.*
- *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 and, as noted last week, "Is now an EXTREMELY crowded trade, and we suggest taking profits."*
- *We also suggested that if there is a trade deal, these defensive sectors could 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.*
- *The recent correction held important support and XLP is retesting all-time highs.*
- *We previously 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



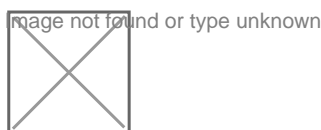
- *XLRE and XLU are virtually the same commentary.*
- *After taking profits, we have time to be patient and wait for the right setup. We haven't gotten one as XLU continues to rally and last weeks surge is making owning this sector seriously more dangerous.*
- *Long-term trend line remains intact but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



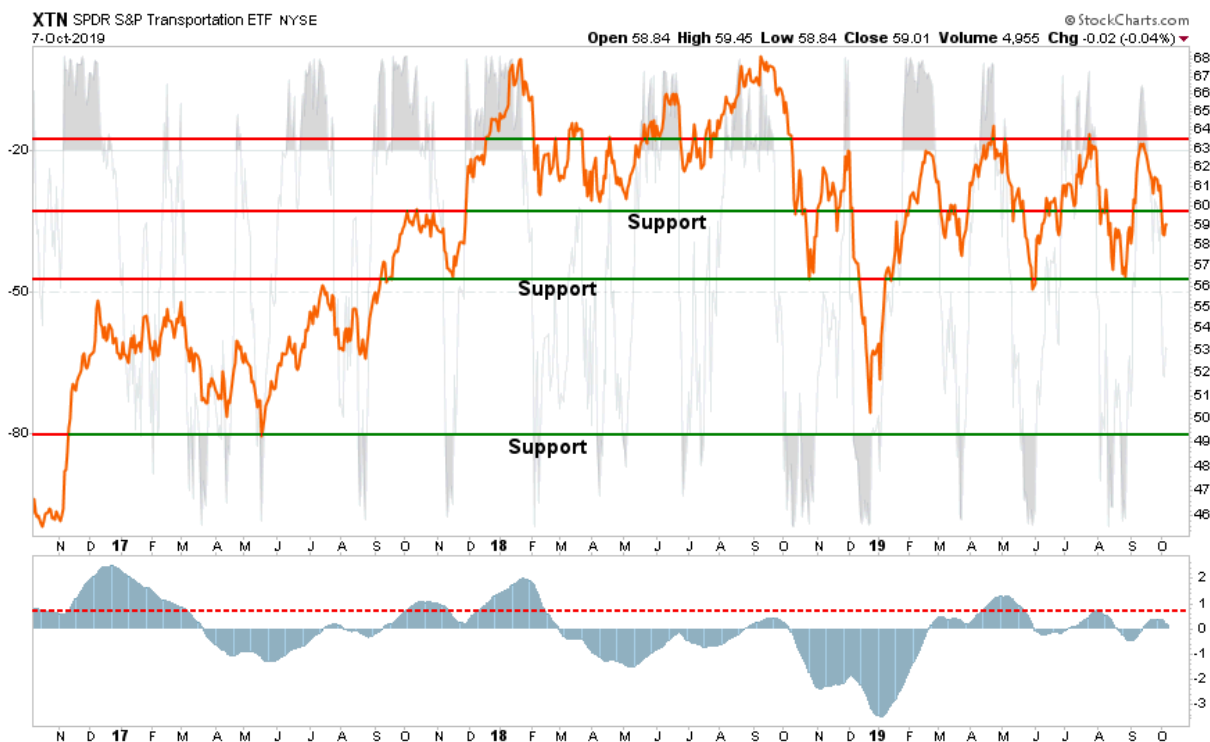
- *XLV has triggered a sell signal but has remained intact and is trying to recover with the market. If a buy signal is issued that may well support a higher move for the sector.*
- *XLV continues to hold support levels but is lagging the overall market.*
- *Healthcare will likely begin to perform better soon if money begins to look for "value" in the market. We are looking for entry points to add to current holdings and potentially some new holdings as well in the Equity portfolio.*
- *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 and is trying to work off the overbought condition.*
- *We remain out of the position currently.*
- *Short-Term Positioning: Neutral*
 - *Last week: No position*
 - *This week: No position*
- *Long-Term Positioning: Bearish*