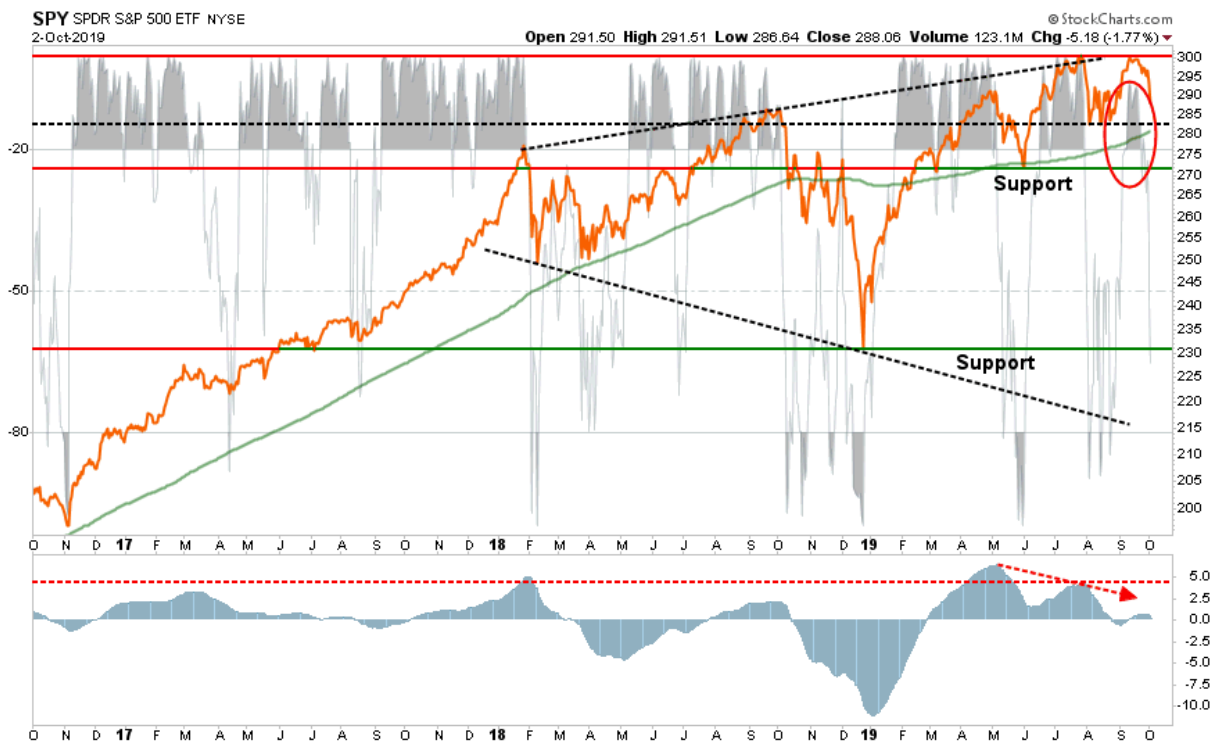


Special Report: Market Review & Update 10-03-19

With the sell off this week, I have been getting a lot of emails asking if anything has changed technically. Normally, on Thursday, we produce a Long-Short Idea List. However, I wanted to use the opportunity today to update a few of the major markets and five sectors that warrant some attention.

Feel free to email me with any questions.

S&P 500 Index

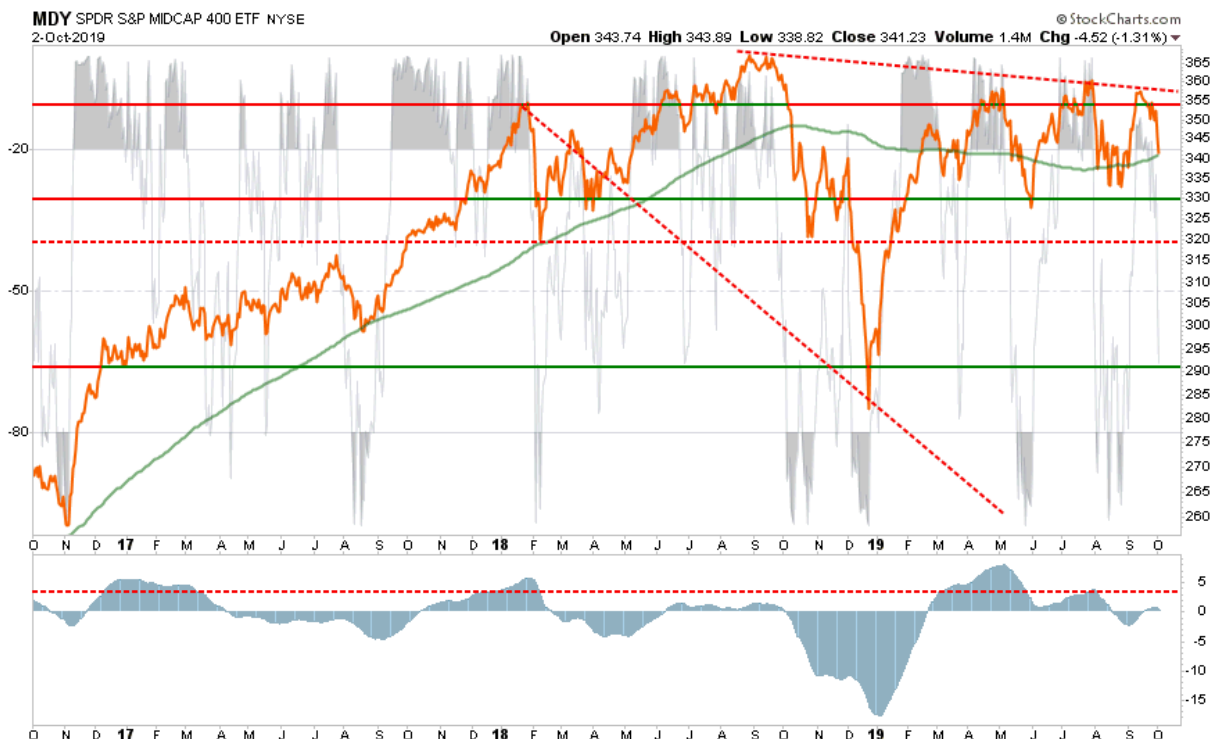


- We are still maintaining our core S&P 500 position as the market has not technically violated any support levels as of yet. However, it hasn't been able to advance to new highs either.
- Yesterday's sell-off did NOT violate support, but is also NOT oversold as of yet, which suggests further downside is possible.
- There is likely a tradeable opportunity approaching for a reflexive bounce given the depth of selling over the last couple of days. We will look to add a 2x long-S&P 500 to the long-short portfolio if the market looks like it is going to try and firm up.
- Short-Term Positioning: Bullish
 - Last Week: Hold current core positions
 - This Week: Hold current core positions.
 - Stop-loss moved up to \$282.50
 - Long-Term Positioning: Neutral due to valuations

S&P 600 Index (Small-Cap)

- The sell-off was more brutal in small and mid-cap stocks as economic weakness hits smaller capitalization companies harder.
- SLY had gotten overbought, and the sell-off has not retraced back to oversold as of yet.
- The "buy signal" is still intact at the moment but the technical trend is terrible. If support is broken at \$85, a retest of \$82 is likely. Below that it gets ugly quickly.
- The risk outweighs the reward of a trade at this juncture.
- Short-Term Positioning: Bearish
 - Last Week: No position
 - This Week: No position.
 - Stop loss previously violated.
- Long-Term Positioning: Bearish

S&P 400 Index (Mid-Cap)



- MDY, like SLY, is technically not in great shape. Importantly, MDY has now failed at the top of the downtrend line.
- While MDY registered a short-term "buy" signal, the inability to follow through is disappointing and a failure at the 200-dma will lead to a retest of previous lows.
- We have no exposure to Mid-caps currently and the risk/reward of a trade setup really isn't there.
- Short-Term Positioning: Neutral
 - Last Week: No holding
 - This Week: No holding
- Long-Term Positioning: Bearish

Emerging Markets

- *EEM continues to underperform. The sector did rally previously on hopes of a trade resolution, and the ECB cutting rates, but that rally is simply another rally in a long-term downtrend.*
- *A sell signal has been triggered as well, but is trying to reverse.*
- *Unfortunately, EEM failed at resistance, and has violated the 200-dma and support.*
- *As noted previously we closed out of our trading position to the long-short portfolio due to lack of performance.*
- *Short-Term Positioning: Bearish*
 - *Last Week: No position*
 - *This Week: No position*
 - *Stop-loss violated at \$41*
- *Long-Term Positioning: Neutral*

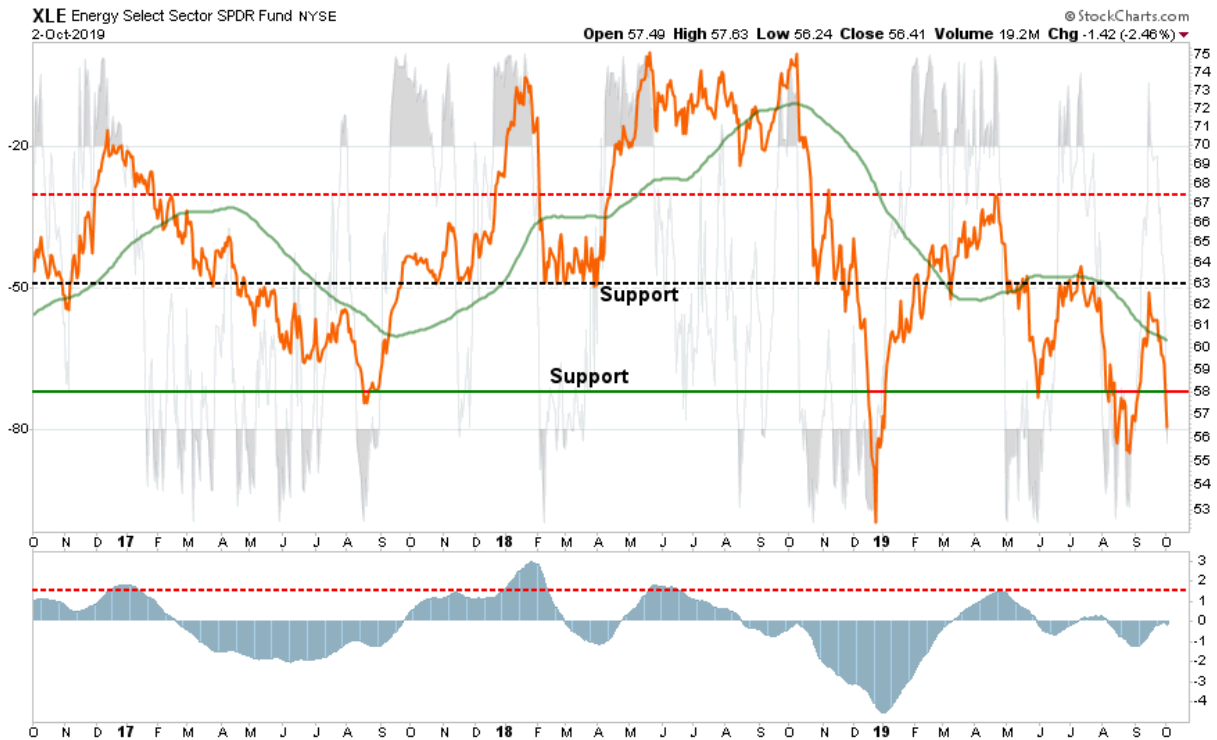
International Markets

- *Like EEM, EFA continues to drag.*
- *EFA remains in a downtrend, and failed at the downtrend resistance line.*
- *While EFA has triggered a buy signal, the failure to advance keeps the market unattractive as a trading opportunity currently.*
- *If the 200-dma is violated we will see a retest of previous lows.*
- *As with EEM, we did add a trading position to our long-short portfolio model but it, like EEM, was not performing so we closed it.*
- *Short-Term Positioning: Neutral*
 - *Last Week: No position*
 - *This Week: No position.*
 - *Stop-loss was violated at \$64*
- *Long-Term Positioning: Neutral*

Basic Materials

- *?XLB remains confined to a very broad topping pattern currently BUT it continues to hold onto support at the 200-dma.*
- *The sharp sell-off yesterday comes as data has begun to really address the economic weakness we have been forecasting for a while.*
- *XLB is set to retest recent lows and the 200-dma. However, with multiple failures at recent highs, the risk/reward for a trade isn't that appealing. This is particularly the case if economic data continues to weaken.*
- *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*

Energy



- Previously, 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 and has now violated the support level we noted on Tuesday at \$58. Next support is previous lows.
- The ?sell signal? was in the process of being reversed, but that failed as prices didn't pick up.
- 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

Industrials

- XLI failed at previous tops and has turned lower and broken through initial support.
- XLI is not oversold which puts \$72 as the next support level that must hold.
- The recent buy signal is also at risk of reversing.
- 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" but that sector was unable to avoid the selloff yesterday.
- XLK is reversing its short-term overbought condition but is getting close to reversing its current buy signal and uptrend line from the 2018 lows.
- XLK held support at \$75 previously, and needs to do so again or things could get dicey for the sector.
- 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 took a hit yesterday along with everything else.
- As noted previously, defensive sectors are an **EXTREMELY** crowded trade, and we suggested taking profits.
- The "buy" signal (lower panel) is still in place but has been worked off to a good degree. Risk is clearly elevated.
- We previously took profits in XLP last week 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

Health Care



- *XLV remains on a sell signal but failed to hold support at previous lows.*
- *XLV has been underperforming as of late and after reducing our position previously, we will look to reduce further if the next support levels are violated.*
- *We continue to maintain a fairly tight stop for now.*
- *Short-Term Positioning: Neutral*
 - *Last week: Hold position.*
 - *This week: Hold position*
 - *Stop-loss is at \$86*
 - *Long-Term Positioning: Neutral*