

Sector Buy/Sell Review: 03-05-19

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:

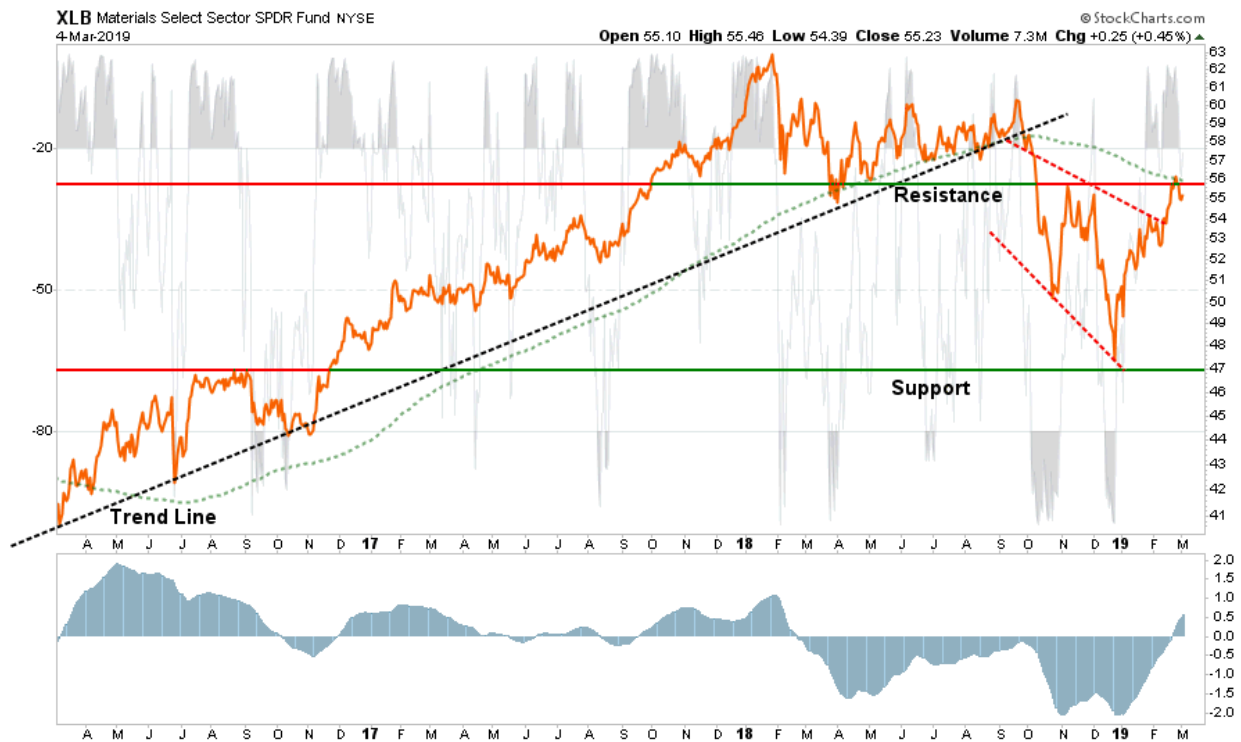
- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

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.



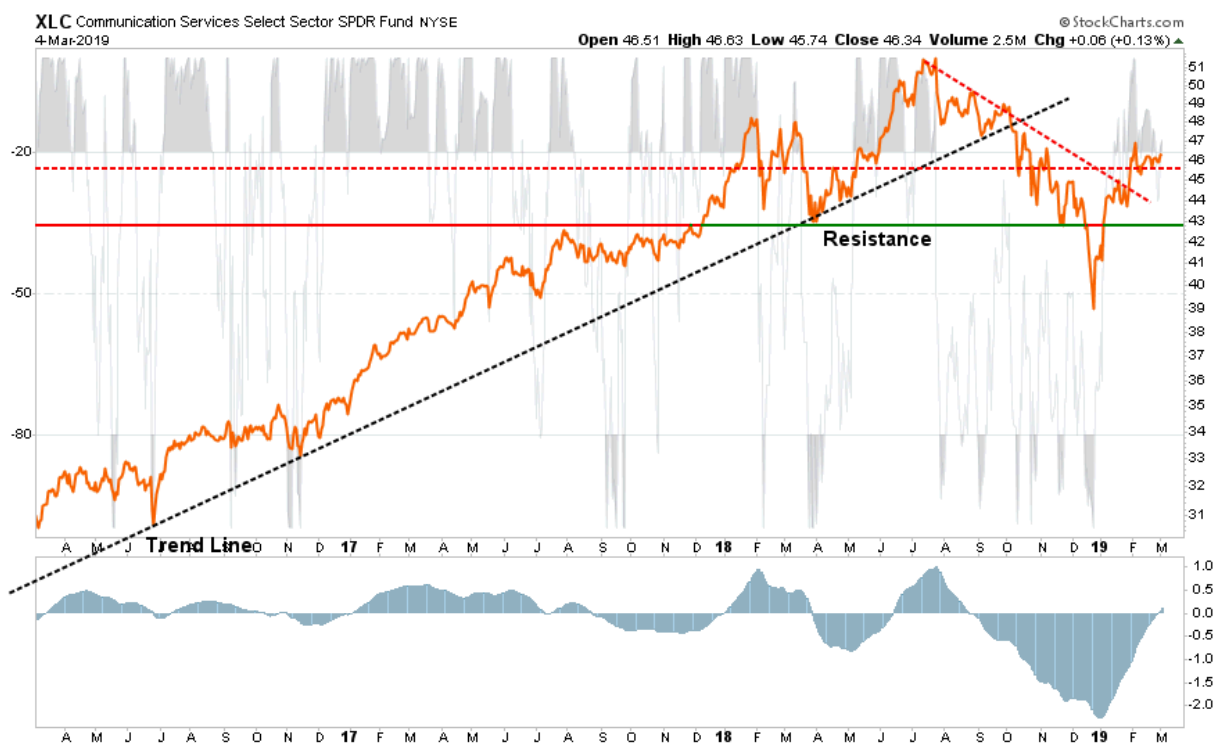
With this basic tutorial let's get to the sector analysis.

Basic Materials



- Previous support from February lows has been broken and is now resistance.
- XLB has triggered a "buy" signal but is wrestling with resistance at the 200-dma.
- XLB back to extreme overbought conditions (top panel) and the failure at resistance is troubling given materials and industrials both stand to benefit from a "trade deal."
- Short-Term Positioning: Neutral
 - Last Week: Hold 1/2 position.
 - This Week: Hold
 - Stop-loss remains at \$53
- Long-Term Positioning: Bearish

Communications



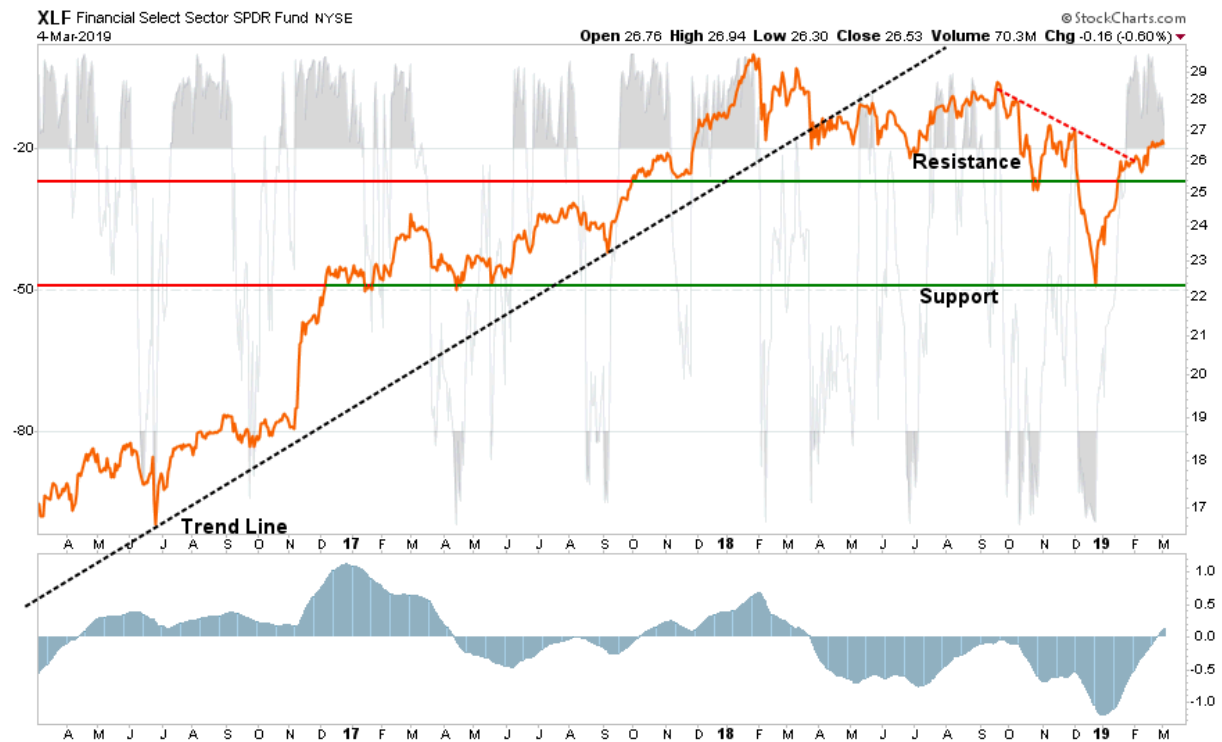
- XLC has broken above resistance and is holding that support.
- As expected the "sell" signal reversed to a "buy" this past week.
- Sector back to extreme overbought.
- Short-Term Positioning: Neutral
 - Last Week: Recommended to "hold" 1/2 position
 - This Week: Hold 1/2 position
 - Stop-loss moved up to \$45
- Long-Term Positioning: Bearish

Energy



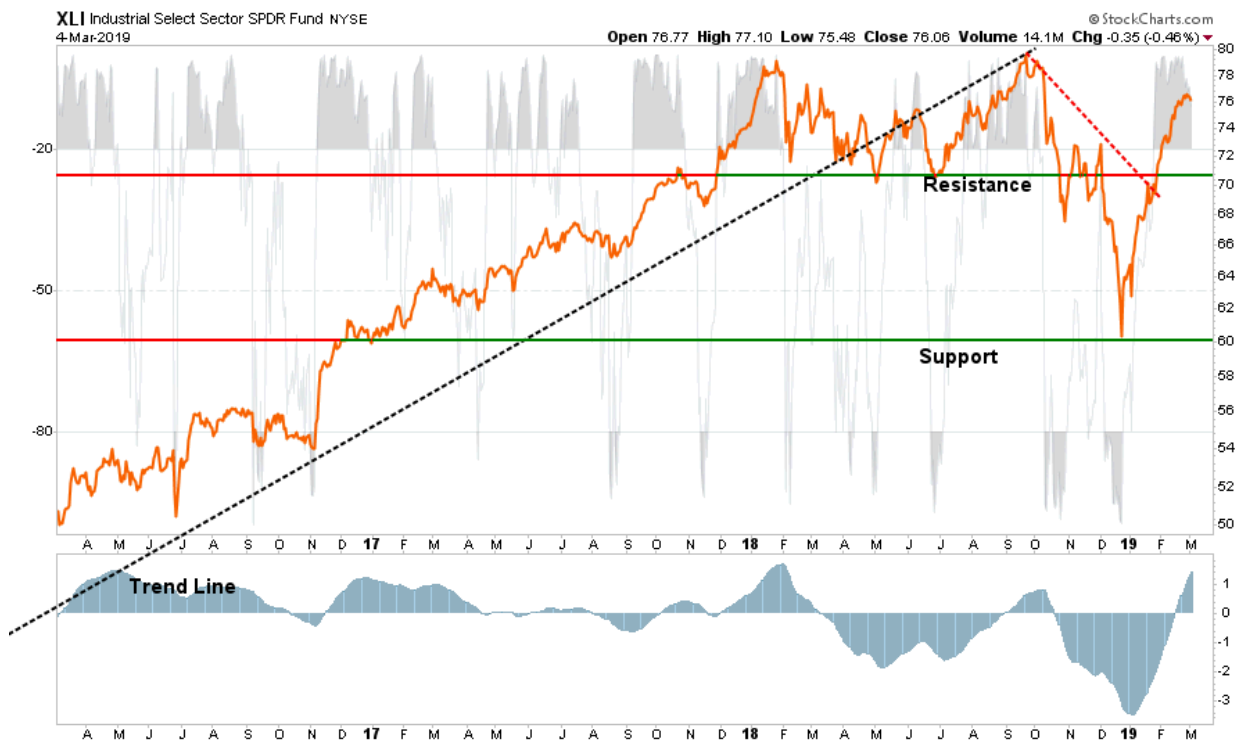
- XLE broke above the 200-dma and has retested that support.
- Sell-signal (bottom panel) should reverse this week.
- Currently, XLE is very overbought but the backdrop is turning more bullish.
- Short-Term Positioning: Neutral
 - Last week: Recommend "hold" 1/2 position
 - This week: Hold 1/2 position. Or add 1/2 position if no exposure currently.
 - Stop-loss moved up to \$63
- Long-Term Positioning: Bearish

Financials



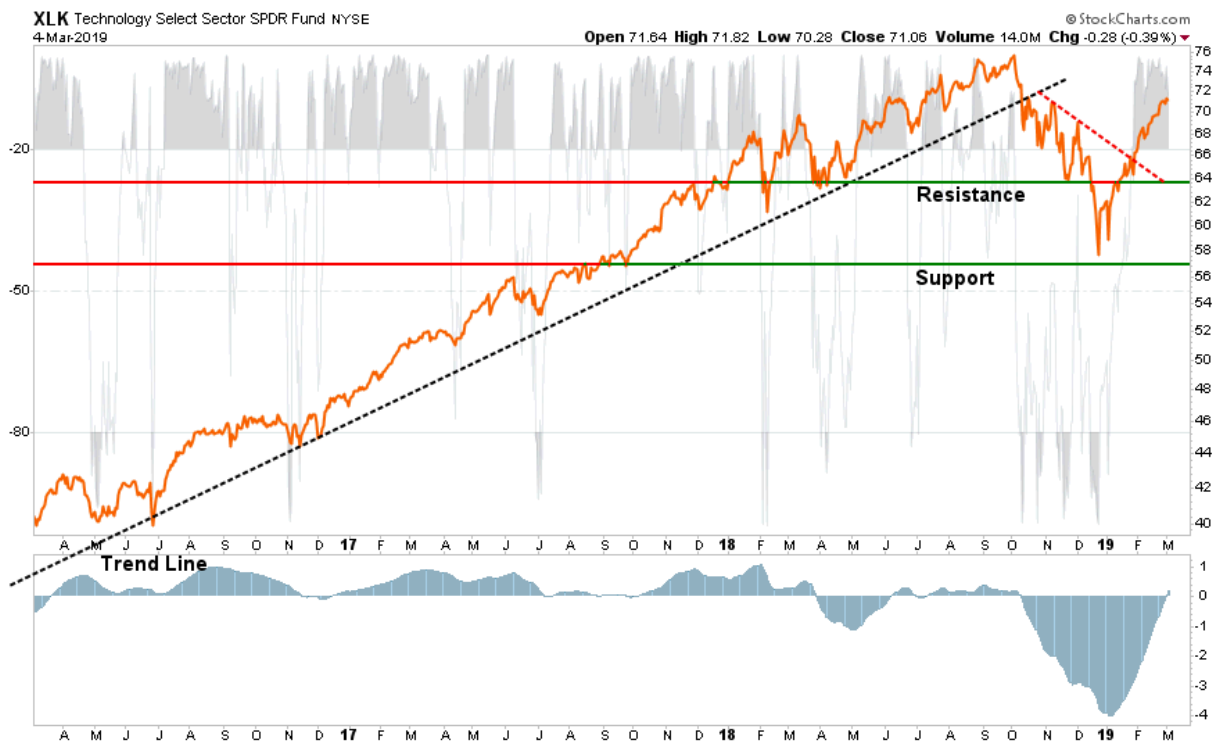
- XLF finally broke above downtrend resistance but lots of resistance from 2018 remains.
- A "buy" signal has been triggered (bottom panel)
- XLF back to extreme overbought condition short-term. Look for a reversal which doesn't violate support to add exposure.
- Short-Term Positioning: Neutral
 - Last week: Recommended "hold" 1/2 position
 - This week: Hold 1/2 position
 - Stop-loss moved up to \$25.50
- Long-Term Positioning: Bearish

Industrials



- *XLI has rallied sharply on hopes of a resolution on trade. However, whatever deal is struck, it has likely already been priced in.*
- *Buy signal in lower panel is very extended.*
- *Given the extreme overbought conditions short-term, take profits in current holdings and look for a pullback to support to add exposure.*
- *Previous all-time highs remain a likely target.*
- **Short-Term Positioning: Bullish**
 - *Last week: Recommended "hold" 1/2 position*
 - *This week: Rebalance holdings. Hold 1/2 position, add on pullback to \$72*
 - *Stop-loss moved up to \$70*
- **Long-Term Positioning: Neutral**

Technology



- *A "Buy" signal (bottom panel) has been triggered.*
- *Given the current extreme overbought conditions short-term, look for a pullback to add exposure to portfolios.*
- *Pushed above downtrend resistance and is looking to test old highs.*
- **Short-Term Positioning: Bullish**
 - *Last week: Recommended sell "hold" 1/2 position*
 - *This week: Hold 1/2 position, Add on pullback to \$65-66*
 - *Stop-loss moved up to \$64.00*
- **Long-Term Positioning: Neutral**

Staples



- After breaking above the 400-dma, XLP is running into old resistance approaching previous highs.
- XLP has triggered a "buy" signal (lower panel)
- Currently back to extreme overbought conditions, wait for a pullback to \$53.50 to add exposure.
- Short-Term Positioning: Bullish
 - Last week: Recommended "hold" 1/2 position
 - This week: Hold 1/2 position, look to add 1/2 position on pullback to \$53.5.
 - Stop-loss remains at \$52.50
- Long-Term Positioning: Bullish

Real Estate



- Long-term trend line is currently holding.
- After breaking out to all-time highs, it has just kept going. The recent spike in rates has pulled some of the froth off of XLRE.
- Buy signal reaching more extreme levels (bottom panel)
- Remains at more extreme overbought condition short-term. (top panel)
- Short-Term Positioning: Bullish
 - Last week: Recommended "hold" 1/2 position
 - This week: Hold 1/2 position
 - Add on any weakness that works off over-bought condition or holds support at \$33
 - Stop-loss adjusted to \$32.50
- Long-Term Positioning: Bullish

Utilities



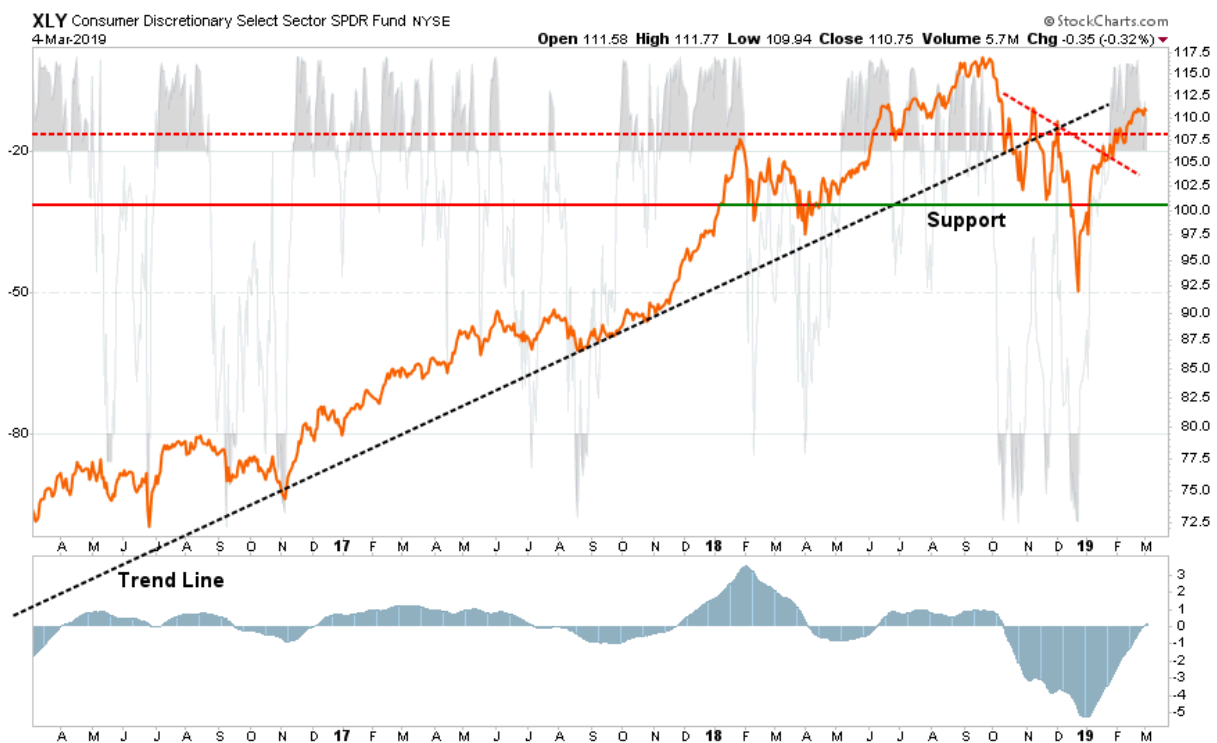
- Long-term trend line remains intact.
- Previous support continues to hold.
- Buy signal has been registered.. (bottom panel)
- Back to extreme overbought conditions.
- Broke above resistance and moved to all-time highs.
- Short-Term Positioning: Bullish
 - Last week: Recommended "buy" 6-weeks ago. Wait for a pullback to \$65 to add exposure.
 - This week: Rebalance holdings and continue to hold
 - Stop-loss moved up to \$54 with a target of \$60
- Long-Term Positioning: Bullish

Health Care



- *Sell-signal (bottom panel) is being reversed.*
- *Back to extreme overbought conditions (top panel) and pushing into resistance at all-time highs.*
- *Short-Term Positioning: Neutral*
 - *Last week: Recommended "hold" 1/2 position*
 - *This week: Hold 1/2 position*
 - *Stop-loss moved up to \$88*
- *Long-Term Positioning: Neutral*

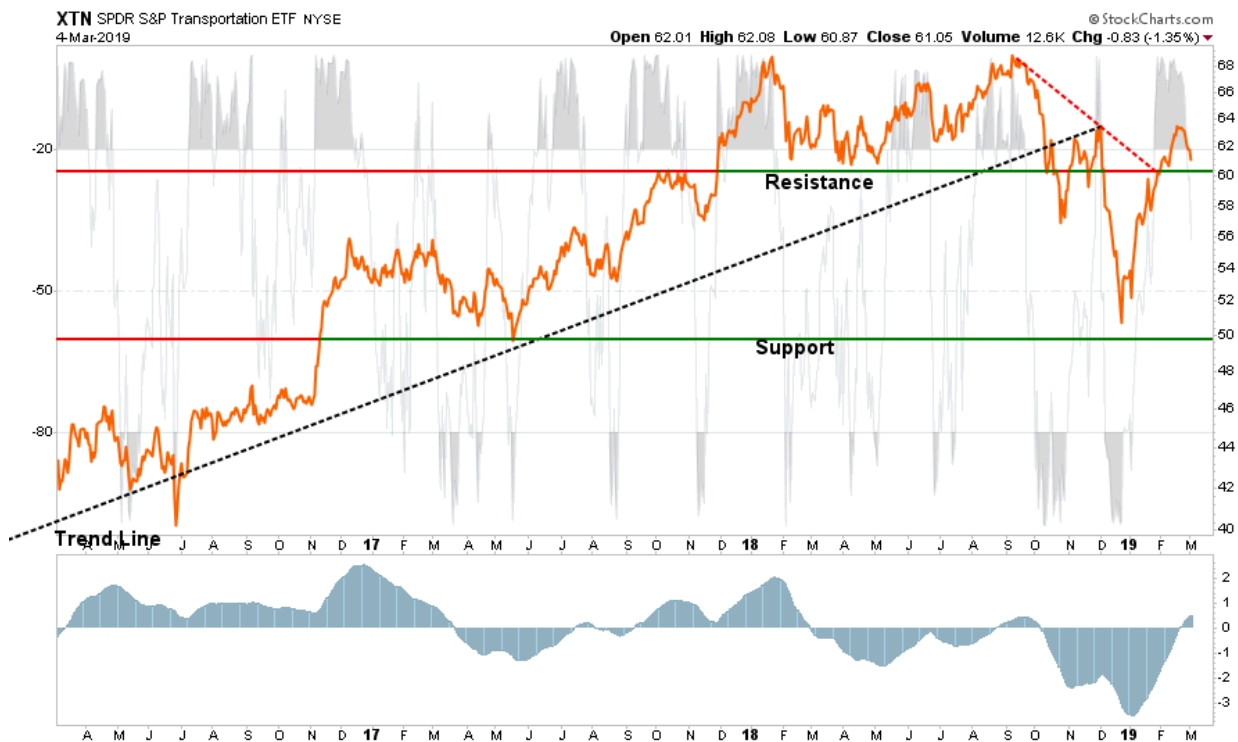
Discretionary



- *Long-term trend line has been broken.*

- Previous support was violated but was reclaimed.
- Downtrend resistance has been broken but overhead resistance remains short-term. Rally testing resistance.
- A "buy" signal has been registered (lower panel)
- Back to extreme overbought conditions short-term, wait for a correction to \$108 to add exposure.
- Short-Term Positioning: Neutral
 - Last week: Recommended "hold" 1/2 position
 - This week: Hold 1/2 position
 - Stop-loss moved up to \$106.00
- Long-Term Positioning: Neutral

Transportation



- Previous support is holding for now.
- Buy signal. (bottom panel) has been triggered..
- Extreme overbought on a short-term basis. But XTN broke above downtrend resistance.
- Use current pullback to add exposure at \$60 with a tight stop at \$58.
- Short-Term Positioning: Neutral
 - Last week: Recommended "hold" 1/2 position
 - This week: Hold 1/2 of position or add exposure at \$60.
 - Stop-loss adjusted to \$58
- Long-Term Positioning: Bearish