

Sector Buy/Sell Review: 03-19-19

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:

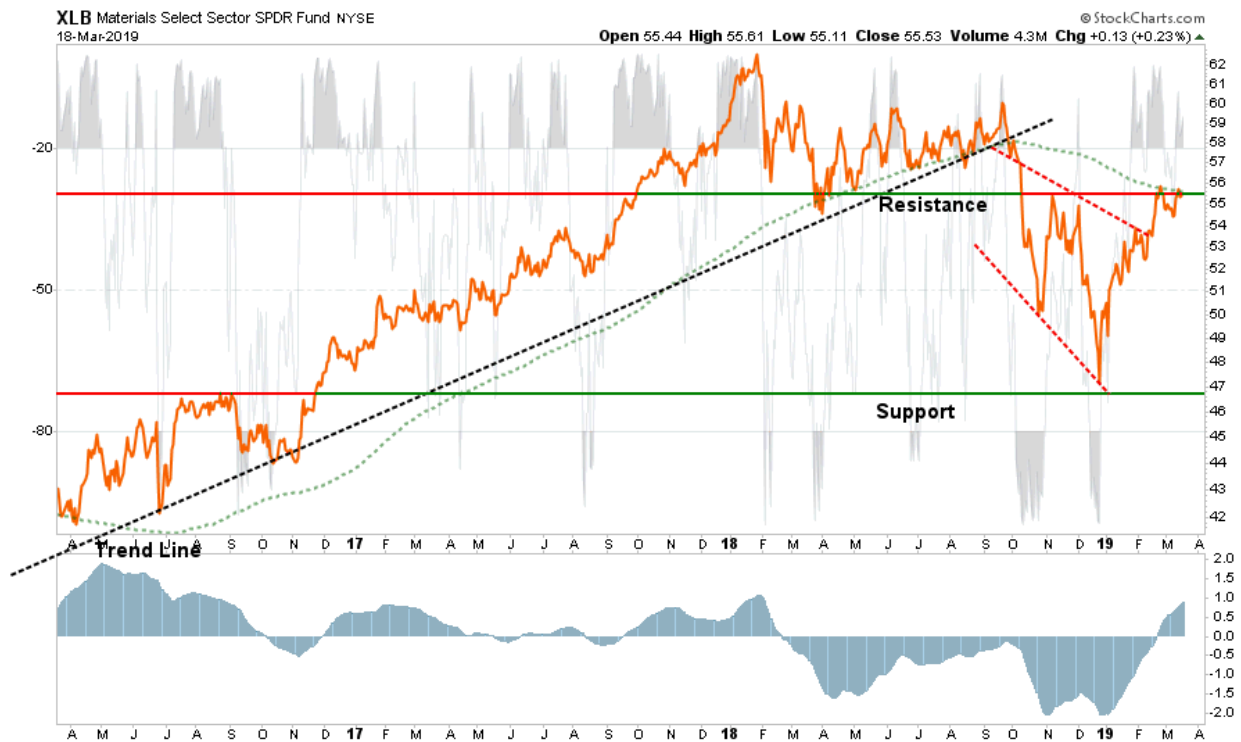
- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

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.



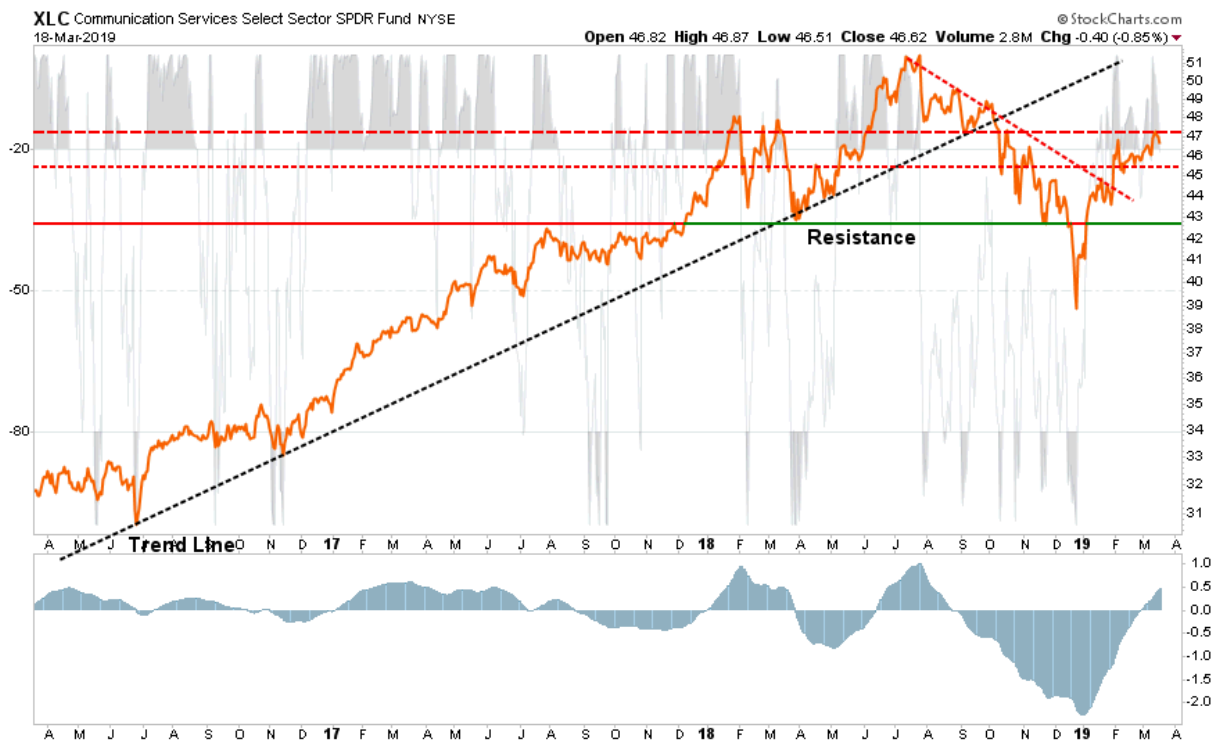
With this basic tutorial let's get to the sector analysis.

Basic Materials



- Previous support from February lows has been broken and remains resistance.
- XLB has triggered a "buy" signal but is wrestling with resistance at the 200-dma.
- XLB is still very overbought (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



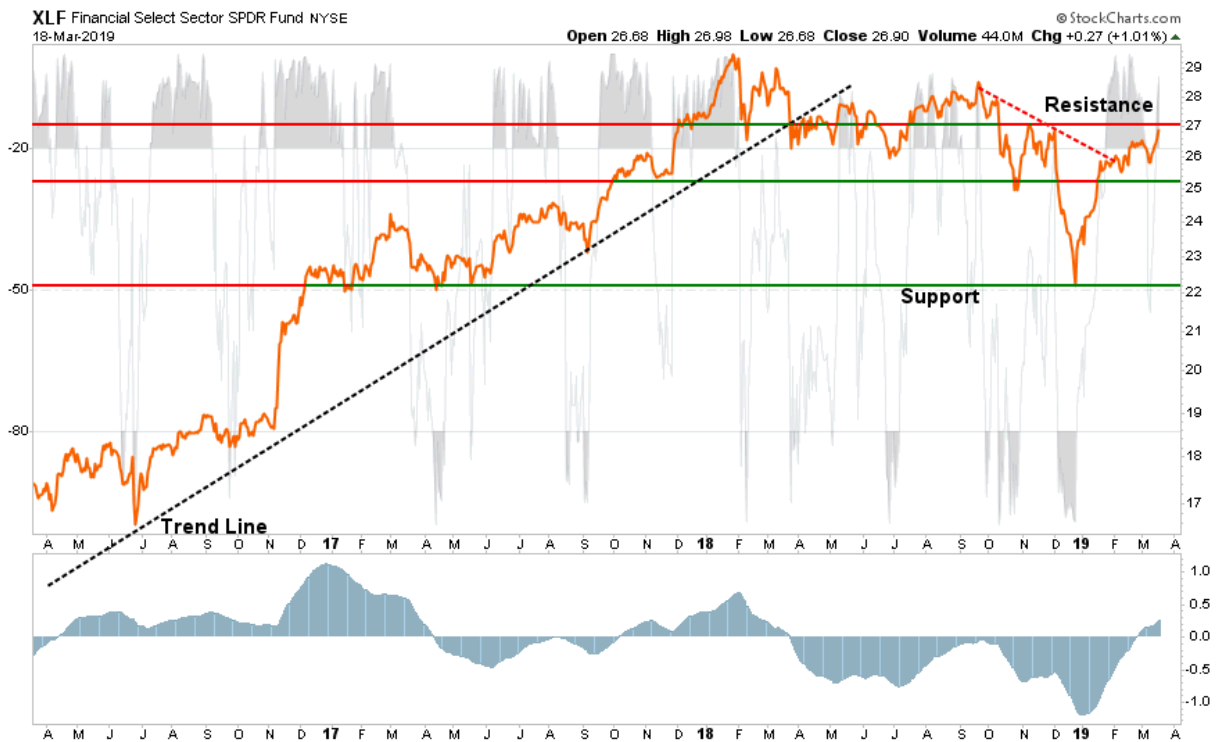
- XLC broke above previous resistance and held that support. But now is testing another level of overhead resistance.
- Currently on a "buy" signal.
- Sector back to extreme overbought.
- Short-Term Positioning: Neutral
 - Last Week: Recommended to "hold" 1/2 position
 - This Week: Hold 1/2 position
 - Stop-loss moved up to \$45
- Long-Term Positioning: Bearish

Energy



- XLE broke above the 200-dma and has retested that support and held.
- Sell-signal (bottom panel) has reversed to a "buy signal"
- Currently, XLE has reversed back up to extreme overbought short-term.
- Short-Term Positioning: Neutral
 - Last week: We added 1/2 position.
 - This week: Hold and wait for a pullback to support, or a break out, to add.
 - Stop-loss moved up to \$64
- 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 has reversed back to overbought limiting the ability to add exposure currently.
- **Short-Term Positioning: Neutral**
 - Last week: Recommended "hold" 1/2 position
 - This week: Hold 1/2 position and look for a breakout above resistance to add.
 - Stop-loss moved up to \$25.50
- **Long-Term Positioning: Bearish**

Industrials



- We noted previously that XLI had 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.
- The extreme overbought condition is being corrected short-term, after taking profits in current holdings continue to be patient 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



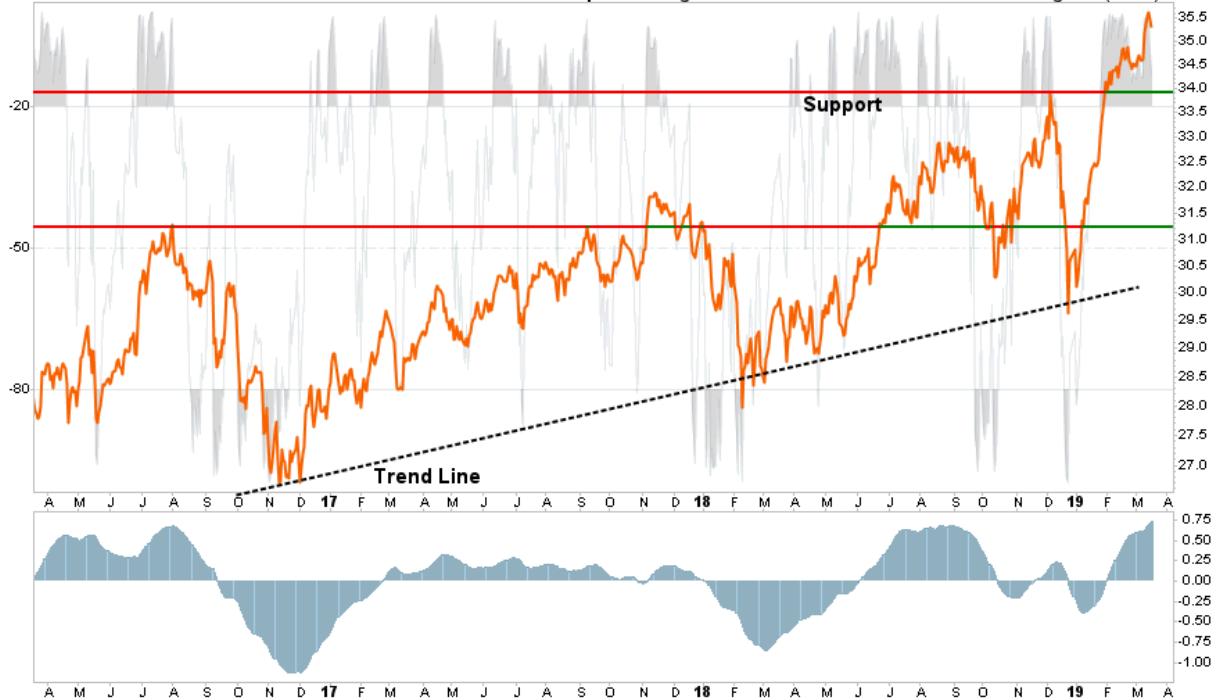
- Currently XLK is on a "Buy" signal (bottom panel)
- Given the current extreme overbought conditions short-term, look for a pullback to add exposure to portfolios.
- We noted previously the push above the downtrend resistance set up a test of old highs.
- Short-Term Positioning: Bullish
 - Last week: Recommended "hold" 1/2 position
 - This week: Hold 1/2 position, Add on pullback to \$68-70
 - Stop-loss moved up to \$66.00
- Long-Term Positioning: Neutral

Staples



- After breaking above the 400-dma, XLP broke above resistance and is approaching previous highs.
- XLP has triggered a "buy" signal (lower panel)
- Currently still overbought, however the pullback to \$53.50 hit our target to add exposure.
- Short-Term Positioning: Bullish
 - Last week: Added 1/2 position with pullback to \$53.50
 - This week: Add 1/2 position on pullback to \$54.50 which turns previous resistance into support.
 - Stop-loss moved up to \$53
- Long-Term Positioning: Bullish

Real Estate



- *"This is just nuts." Real estate is now incredibly extended to the upside, along with utilities (XLU), as the "defensive" play in markets continues. Take profits and be careful.*
- *Long-term trend line is currently holding.*
- *After breaking out to all-time highs, it has just kept going. There has not been a decent risk/reward opportunity to increase exposure.*
- *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 \$34*
 - *Stop-loss adjusted to \$33*
- **Long-Term Positioning: Bullish**

Utilities



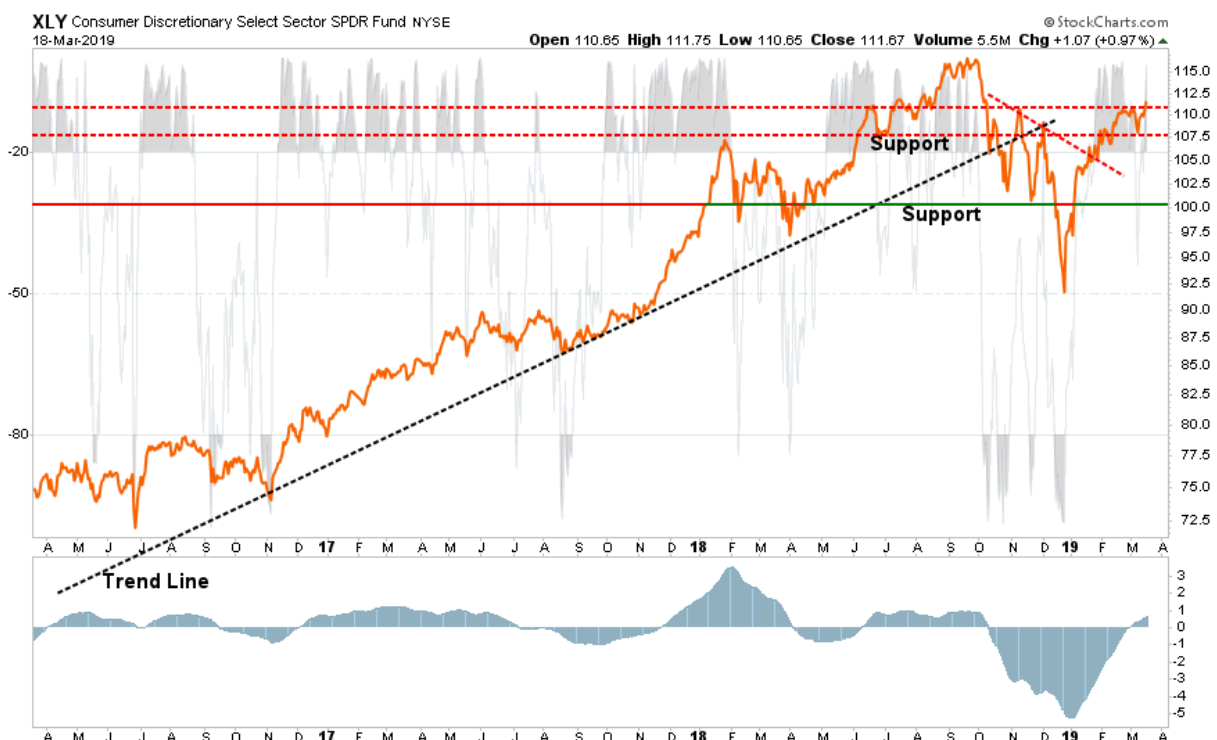
- As noted above - "This is crazy."
- Long-term trend line remains intact.
- Previous support continues to hold.
- Buy signal has been registered.. (bottom panel)
- Back to extreme overbought conditions.
- Broke above resistance and moved to all-time highs.
- Short-Term Positioning: Bullish
 - Last week: Rebalance holdings and continue to hold.
 - This week: If you didn't take profits last week, do so now and hold target weight.
 - Stop-loss moved up to \$54 with a target of \$60
- Long-Term Positioning: Bullish

Health Care



- *Sell-signal (bottom panel) is being reversed.*
- *The current overbought condition was being worked off, but reversed back up after the recent dip.*
- *XLV is holding support currently at the long-term uptrend line.*
- *Short-Term Positioning: Neutral*
 - *Last week: Add a full position to portfolios last week.*
 - *This week: Hold current positions.*
 - *Stop-loss remains at \$89*
- *Long-Term Positioning: Neutral*

Discretionary



- Long-term trend line remains broken.
- Previous support was successfully tested in recent sell off.
- A "buy" signal has been registered (lower panel)
- Extreme overbought conditions currently limit upside.
- The recent correction to \$108 hit our target to add exposure.
- Short-Term Positioning: Neutral
 - Last week: Added 1/2 position.
 - This week: Hold current position, add on breakout or retest of support.
 - Stop-loss moved up to \$107
- Long-Term Positioning: Neutral

Transportation



- Previous support failed in recent sell-off. Rally on Monday also failed to solidly reclaim that level.
- Buy signal. (bottom panel) has been triggered..
- Overbought condition is being relieved on a short-term basis.
- The recommendation to add exposure at \$60 with a tight stop at \$58 remains.
- Short-Term Positioning: Neutral
 - Last week: Recommended "hold" 1/2 position
 - This week: Hold 1/2 of position or add exposure at \$60 for a "catch-up trade"
 - Stop-loss adjusted to \$58
- Long-Term Positioning: Bearish