Major Market Buy/Sell Review: 05-06-19

Each week we produce a chart book of the major financial markets to review whether the markets, as a whole, warrant higher levels of equity risk in portfolios or not. Stocks, as a whole, tend to rise and fall with the overall market. Therefore, if we get the short-term trend of the market right, our portfolios should perform respectively.

HOW TO READ THE CHARTS

There are three primary components to each chart:

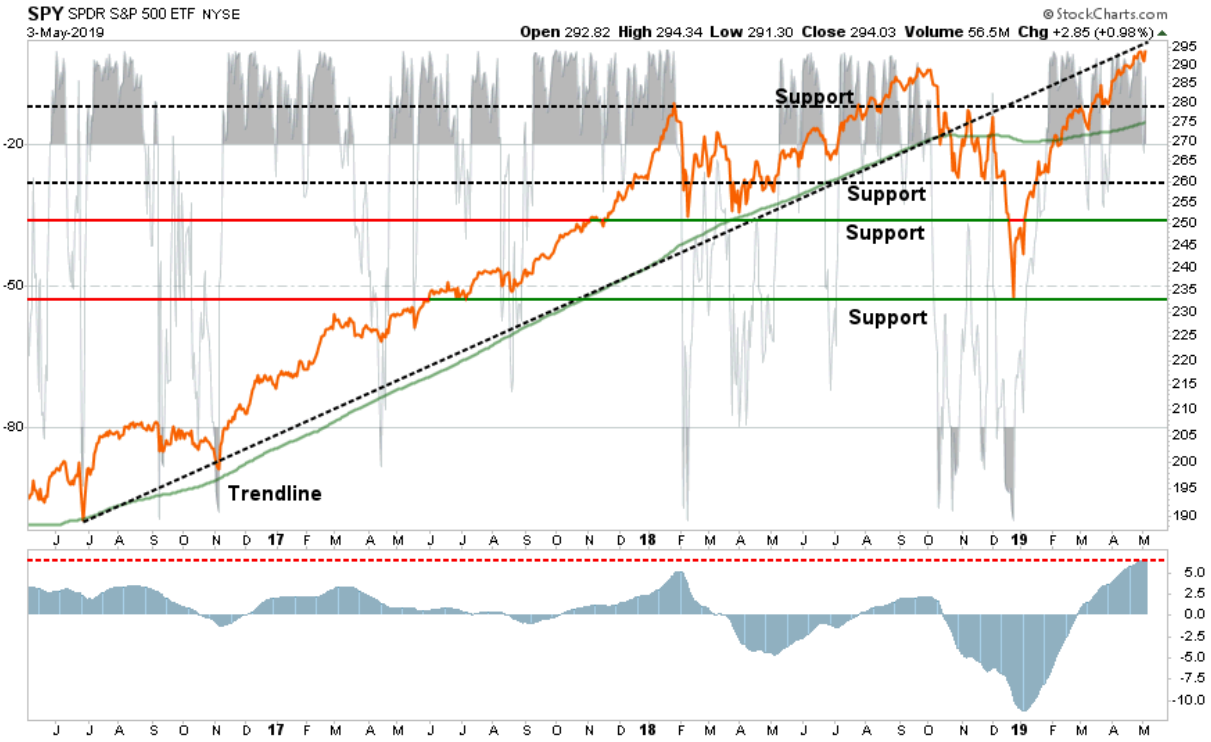
- *The price chart is in orange*
- *The Over Bought/Over Sold indicator is in gray*
- *The Buy / Sell indicator is in blue.*

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.



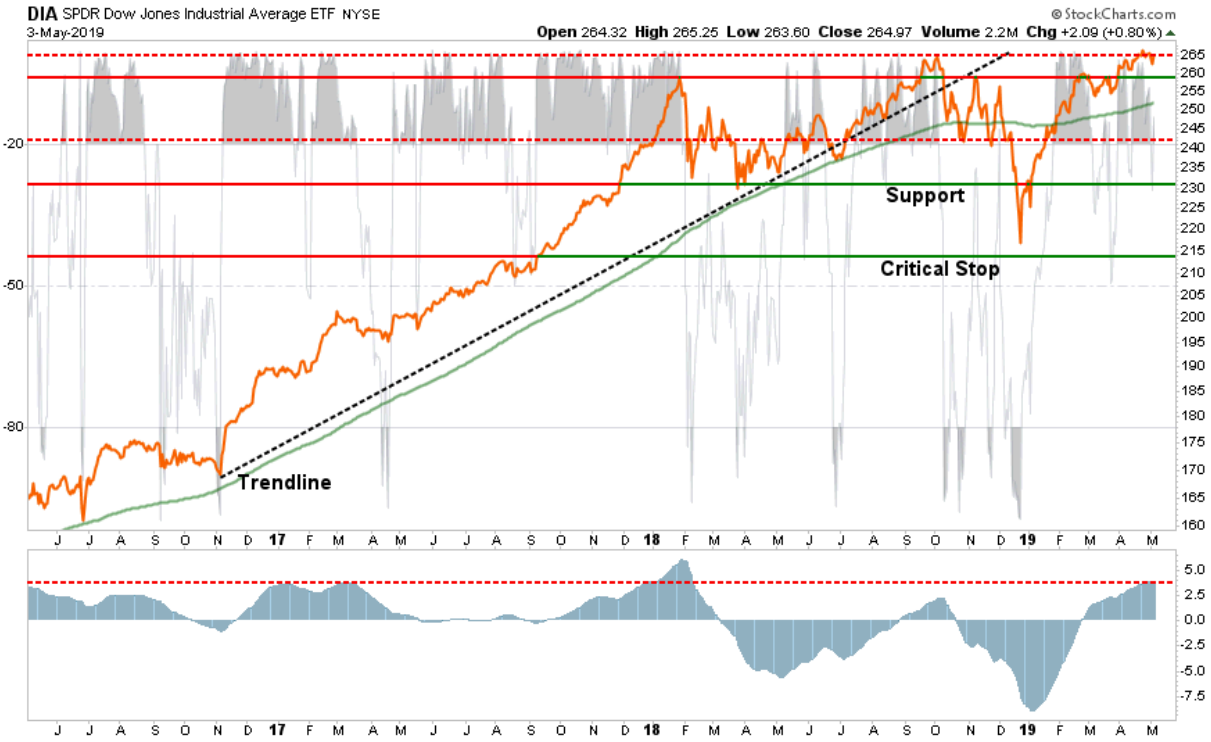
With this basic tutorial let's review the major markets.

S&P 500 Index



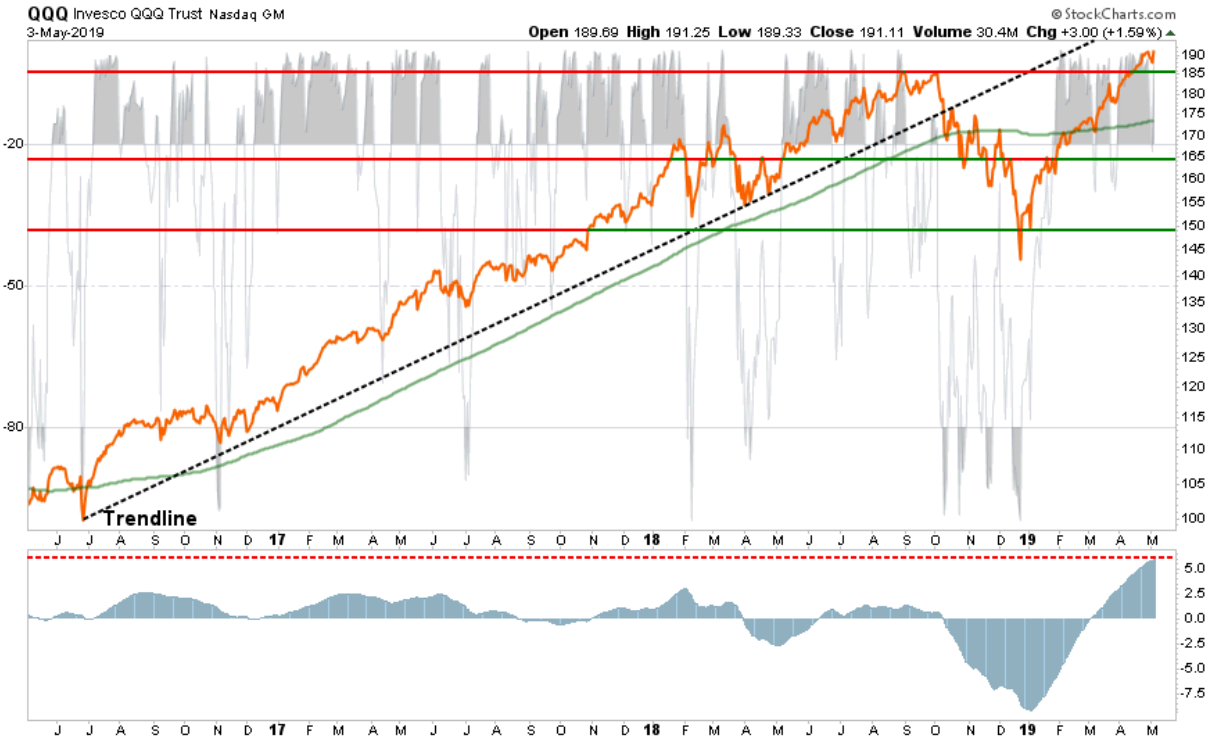
- *SPY is currently testing the bottom of the uptrend line from both the 2017 post-election bounce and the 2016 lows.*
- *Currently, SPY is extremely overbought, so a test and failure at these levels will not be surprising.*
- *Note the "buy" signal in the lower panel is at a level which has always denoted at least short-term market tops. So currently risk outweighs further reward. As discussed in this past weekend's newsletter, there is a high probability of a correction during this summer to allow for better entry points.*
- *Short-Term Positioning: Bullish*
    - *Last Week: Recommended taking profits*
    - *This Week: If you haven't taken profits and rebalanced previously, now is the time.*
    - *Stop-loss remains at $280*
- *Long-Term Positioning: Neutral*

Dow Jones Industrial Average



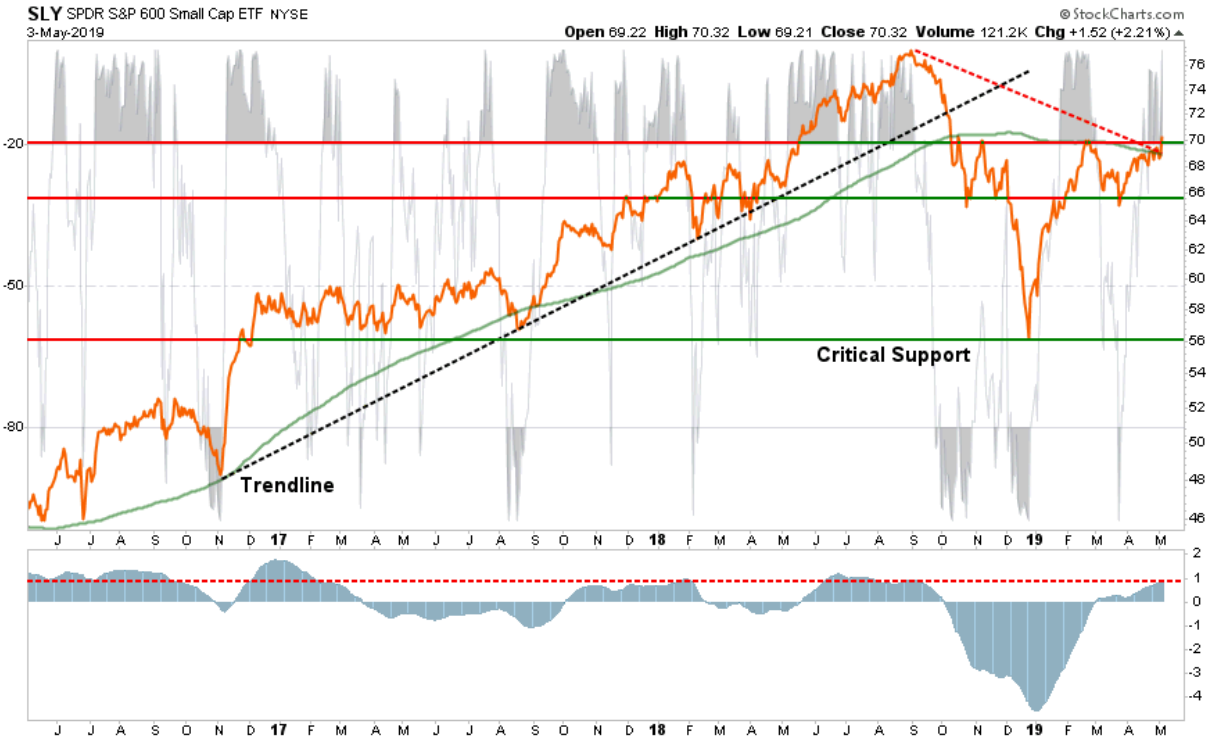
- *DIA are currently in the process of potentially setting up a double top. With earnings season drawing to a close focus will return back to fundamentals and economics which, beyond headlines, are showing significant weakness.*
- *As with SPY above, and QQQ below, a test of highs in next few days will not be surprising. However, a failure at those levels, as stated will also not be a surprise.*
- *Market is extremely overbought and the current buy signal is extremely extended.*
- *Short-Term Positioning: Neutral*
    - *Last Week: Hold 1/2 of position*
    - *This Week: Hold 1/2 of position*
    - *Stop-loss moved up to $255*
- *Long-Term Positioning: Neutral*

Nasdaq Composite



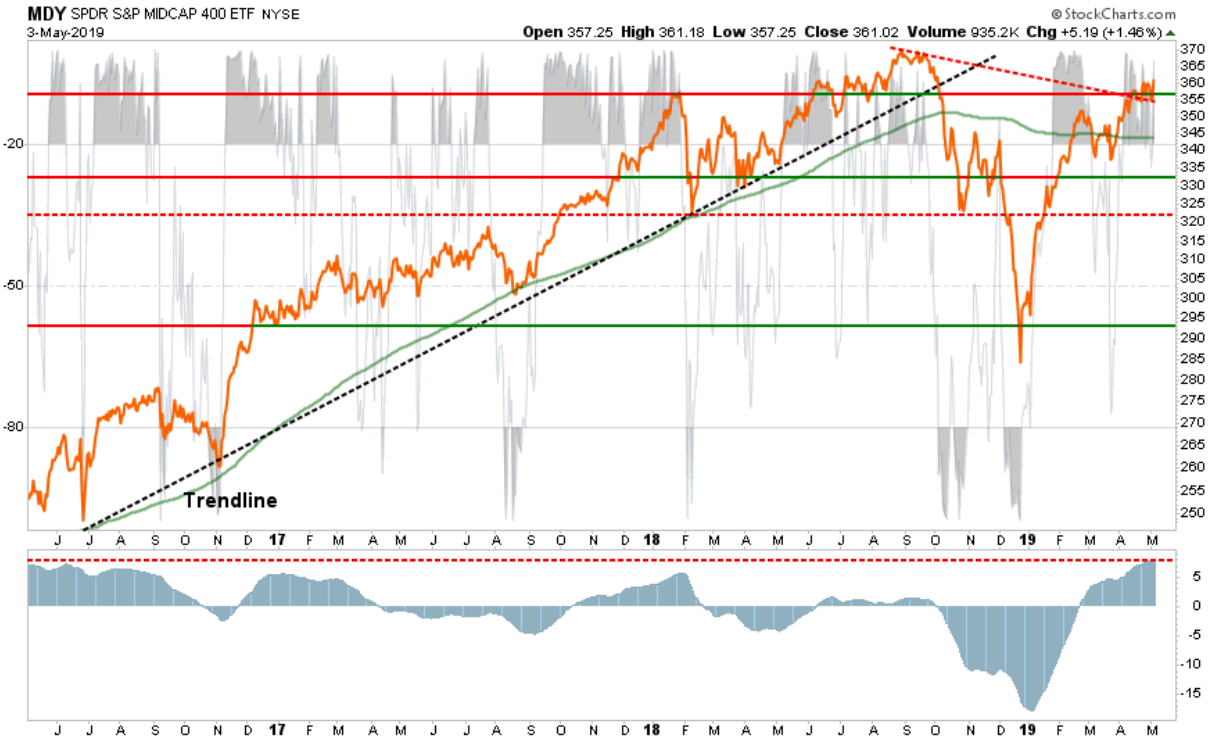
- *While QQQ has broken out to all time highs, it has been a narrow push with MAGA stocks driving index higher (MSFT, AAPL, GOOG, AMZN)*
- *With the market and the underlying "buy signal" extremely stretched to the highest levels we have seen in several years, an initial failure at these levels would not be surprising. The breakout to highs was not on inspiring volume.*
- *Short-Term Positioning: Bullish*
    - *Last Week: Hold position, take profits, and rebalance holdings.*
    - *This Week: Same advice this week.*
    - *Stop-loss moved up to $180*
- *Long-Term Positioning: Neutral*

S&P 600 Index (Small-Cap)



- *On Friday, Small Caps broke above resistance at the 200-dma.*
- *Currently on a modest "buy" signal but now back to overbought, it is now or never for small-caps to join the broader market rally.*
- *Short-Term Positioning: Bearish*
  - *Last Week: No Holding*
  - *This Week: Add initial 1/2 position*
- *Long-Term Positioning: Bearish*

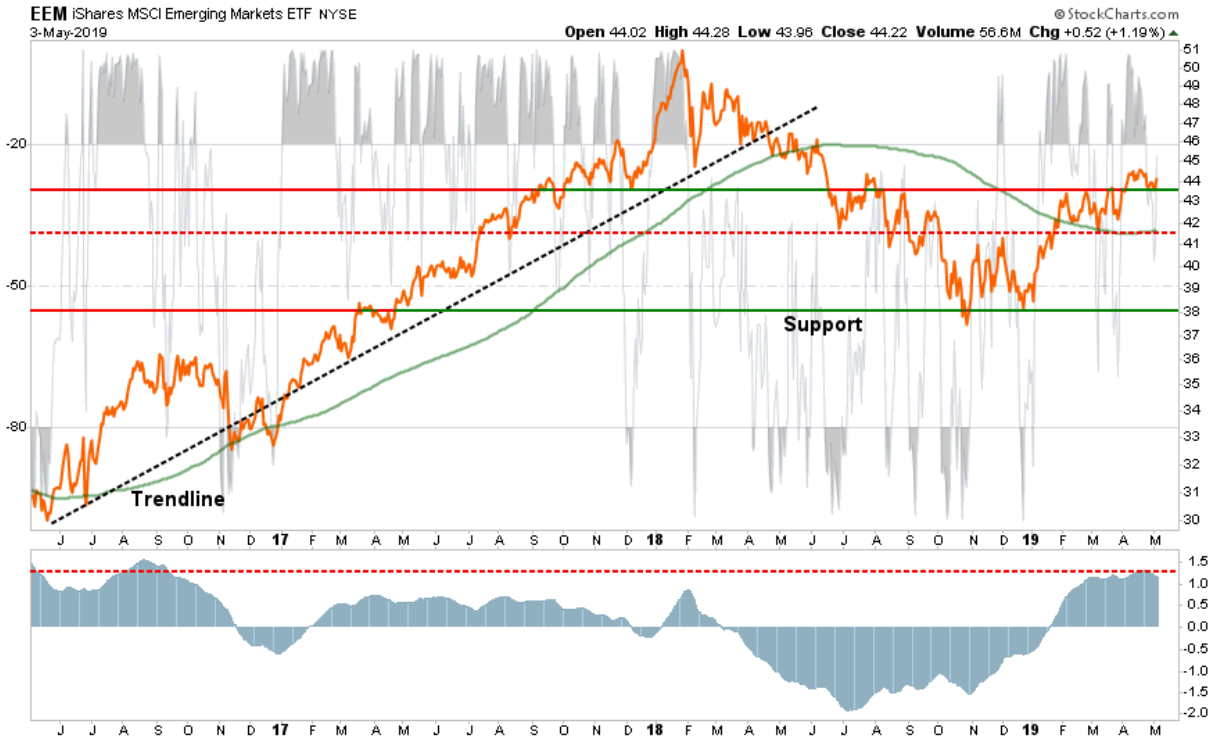
S&P 400 Index (Mid-Cap)



- *MDY continues to consolidate above previous resistance build support.*

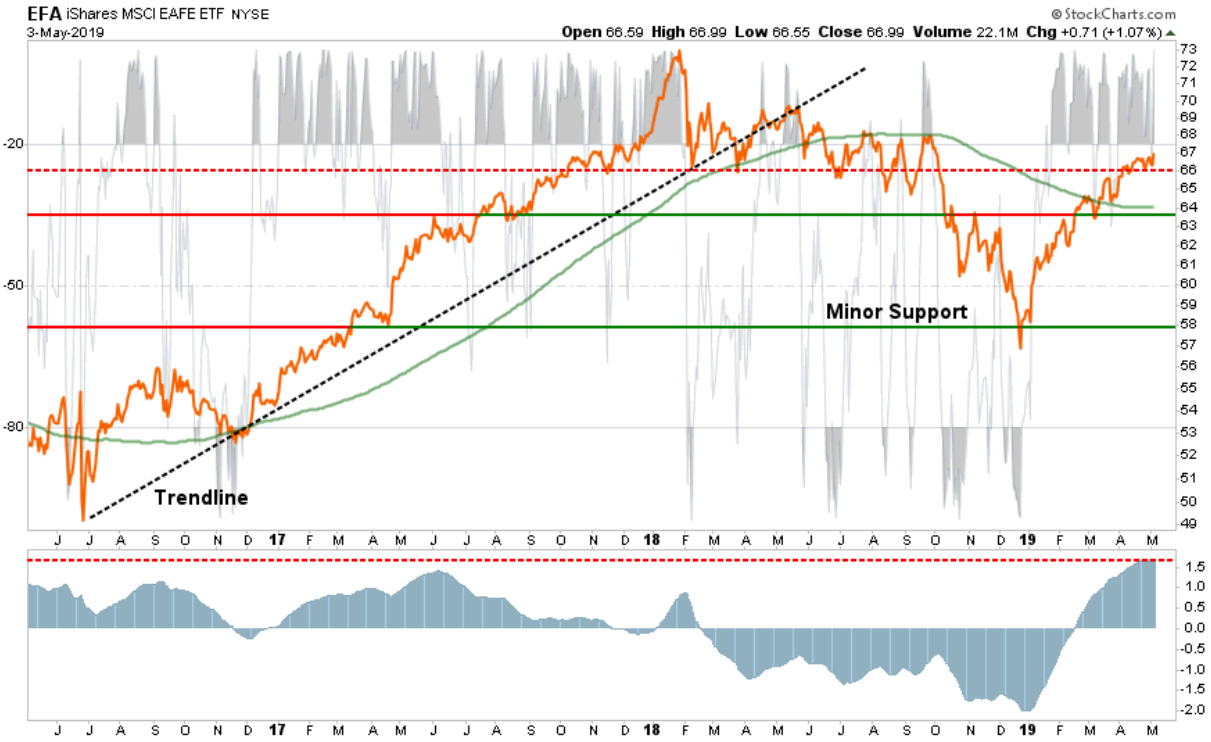
- *Mid-caps are on a buy signal, however, that signal is at more extended levels with extreme overbought levels.*
- *Short-Term Positioning: Neutral*
    - *Last Week: No position*
    - *This Week: Add 1/2 position on any weakness that holds support.*
- *Long-Term Positioning: Bearish*

Emerging Markets



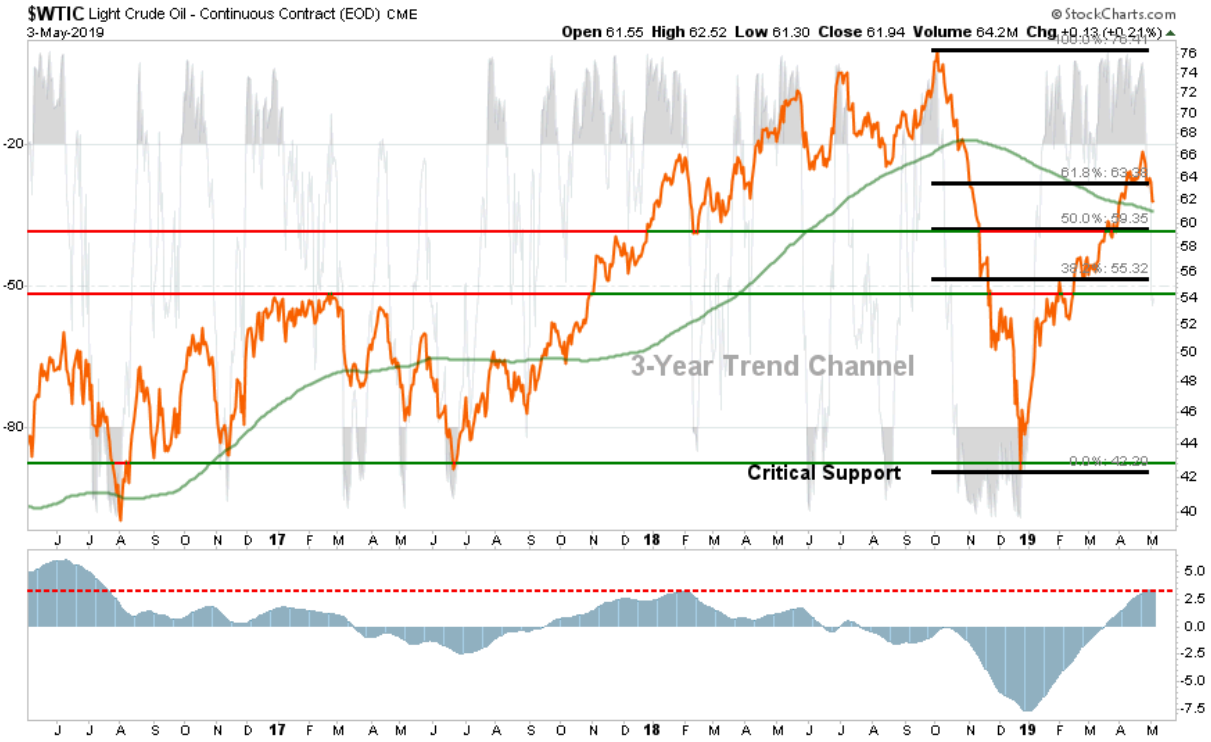
- *Last week, EEM continued to hold support after breaking above previous resistance.*
- *Last week we noted with the current "buy" signal, and the market itself extremely overbought, look for a pullback to support at the tops of the previous consolidation which works off some of the overbought condition to add to holdings.*
- *That pullback is process and support is holding. Look for additional consolidation this week to add to positions.*
- *Short-Term Positioning: Bullish*
    - *Last Week: Hold current position.*
    - *This Week: Hold current position.*
    - *Stop-loss moved up to $43*
- *Long-Term Positioning: Neutral*

International Markets



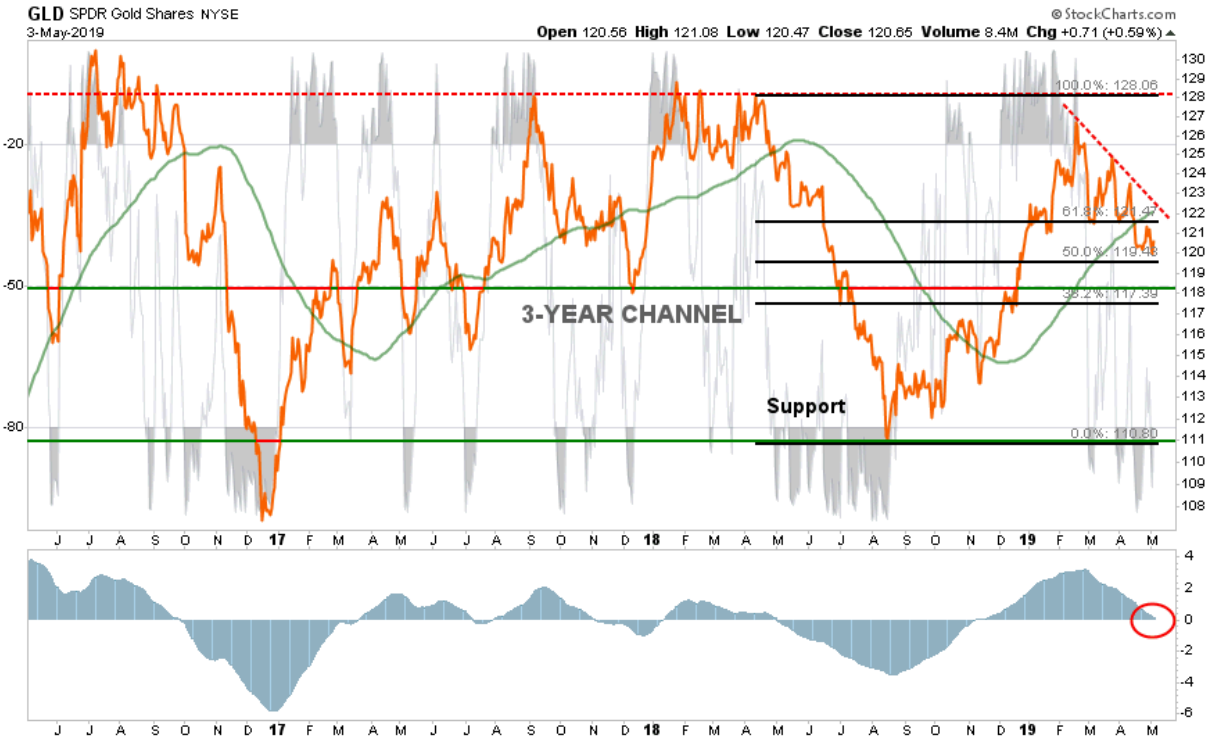
- *EFA has pushed above previous resistance and has now turned that into support.*
- *However, the downtrend from all-time highs remains and EFA is not back to extremely overbought levels.*
- *The "buy signal" also remains extremely overbought in the short-term*
- *Use weakness that continues to hold support to add to holdings..*
- *Short-Term Positioning: Neutral*
    - *Last Week: Hold 1/2 position*
    - *This Week: Looking to add second 1/2 on a small correction that works off overbought conditions.*
    - *Stop-loss moved up to $64*
- *Long-Term Positioning: Neutral*

West Texas Intermediate Crude (Oil)



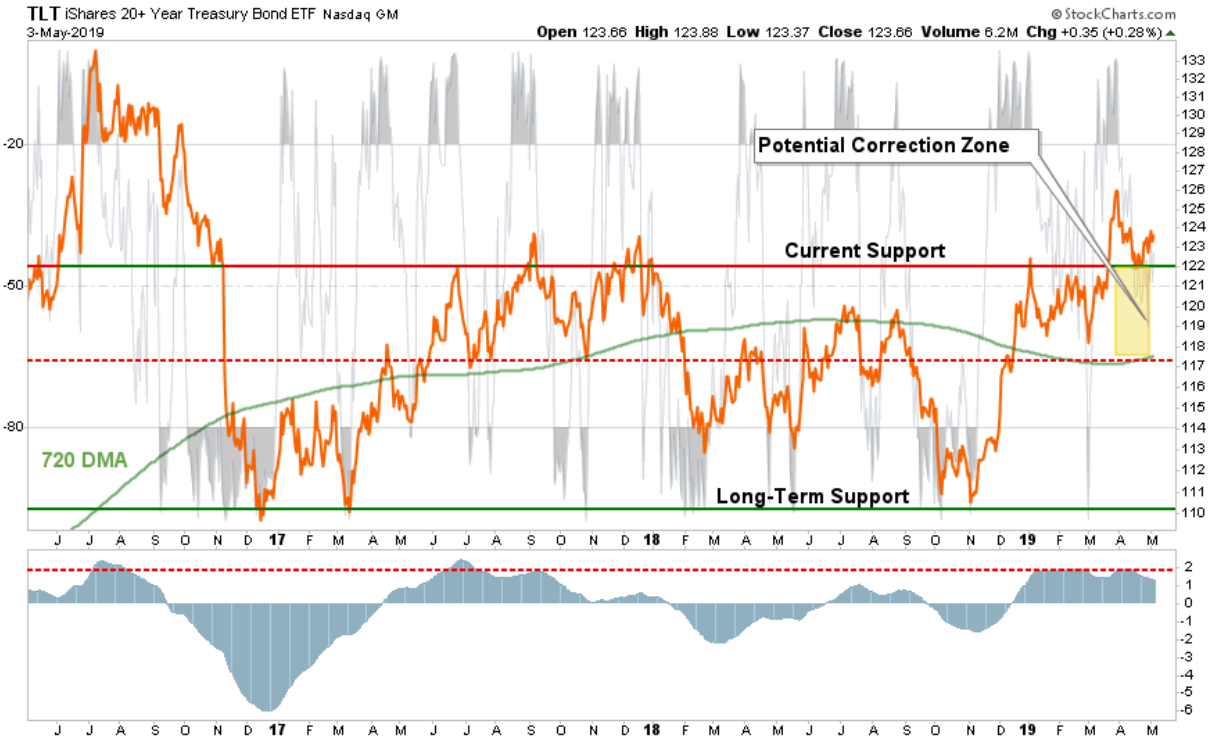
- *As noted, the rally in oil had gotten way ahead of itself in the face of building supplies. A correction began last week as prices broke support at $63.*
- *There is support at $60 which needs to hold, otherwise we are looking at mid-$50's in pretty short order if it doesn't.*
- *As noted last week the "decent risk of a short-term reversion to work off some of the extreme overbought condition" is in process so give it a little room.*
- *Advice remains, this is a good opportunity to scalp some profits and reduce risk currently.*
- *Short-Term Positioning: Neutral*
    - *Last Week: After taking profits, hold 1/2 position*
    - *This Week: Hold 1/2 position, look for a correction that holds the 50% retracement to add to holdings.*
    - *Stop-loss adjusted to $57.50*
- *Long-Term Positioning: Bearish*

Gold



- *Last week, Gold broke critical support at the 61.8% retracement level of the previous decline. GLD is back to oversold but the "buy" signal is about to trigger a "sell." It is critical the 50% retracement level holds.*
- *Gold broke support at $121 which was our stop. However, with the more extreme oversold condition, and support at the 50% retracement level, look for a bounce to sell into unless the $121 level can be regained.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold positions.*
    - *This week: Sell into rally that doesn't clear $121.*
    - *Stop-loss for whole position adjusted to $120*
- *Long-Term Positioning: Neutral*

Bonds (Inverse Of Interest Rates)



- *As we discussed three weeks ago, bonds had gotten EXTREMELY overbought and a pullback was likely. That pullback process continues but bonds bounced off of initial support at $122.50 firming up that support level.*
- *Currently on a buy-signal (bottom panel), bonds had swung from oversold to overbought and are now beginning to work that condition off and holding support. This is bullish for bonds.*
- *If support holds between $122 bonds can be added to portfolios. However, given the current backdrop and complacency of the equity markets, our guess is we could well see TLT trade between $118 and $122.*
- *Strong support at the 720-dma (2-years) (green dashed line) which is currently $118.*
- *Short-Term Positioning: Bullish*
    - *Last Week: Trimmed 1/4th of holdings to take profits.*
    - *This Week: Hold current positions and look to add exposure if support holds.*
    - *Stop-loss adjusted to $120*
    - *Long-Term Positioning: Bullish*

U.S. Dollar



- *Last week, we added the US Dollar index to our weekly update as it is important to the overall market complex. With roughly 40-50% of corporate profits coming from exports, all commodities globally traded in dollars, and the dollar impact on the bond market, this is a key measure to watch.*
- *Currently, the dollar is breaking out of previous resistance and has now registered a buy signal. The combination of these two catalysts suggests the dollar could rise toward $100 on the index.*
- *Short-Term Positioning: Bullish*
    - *Buy a full position at current levels*
    - *Target for trade is $101-102*
    - *Stop loss is set at $96*