

## Sector Buy/Sell Review: 05-06-19

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:

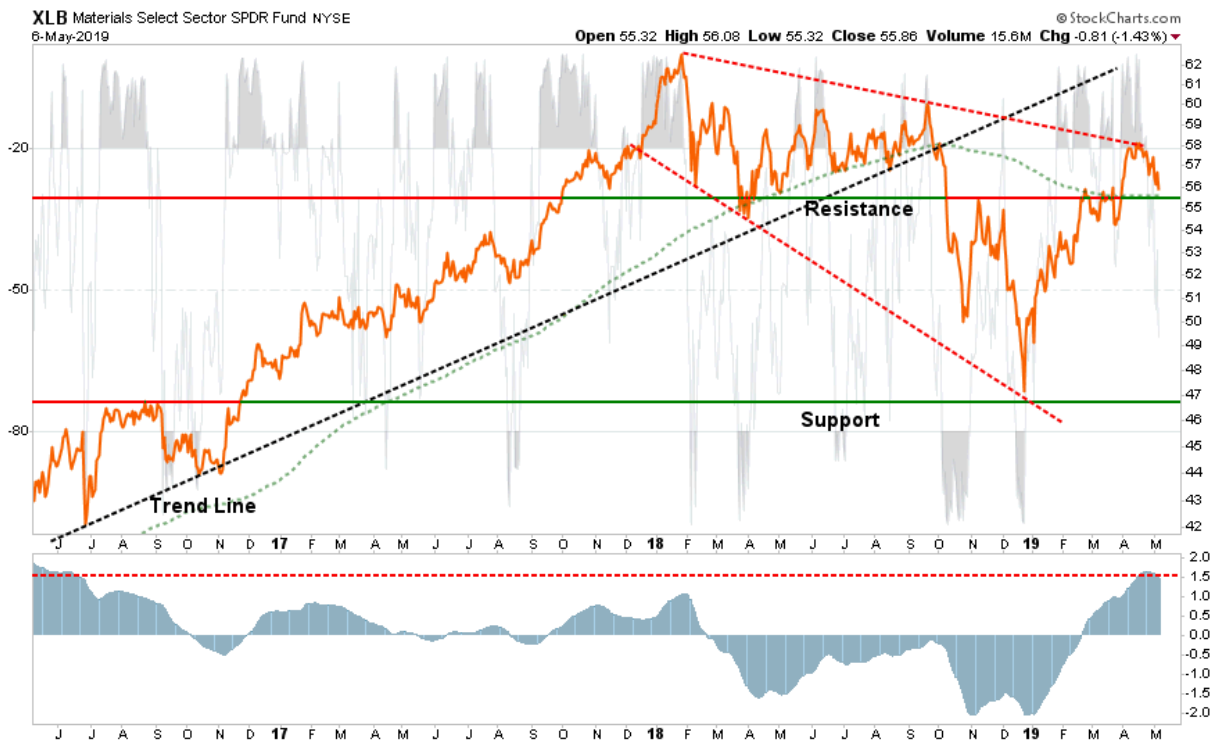
- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

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.



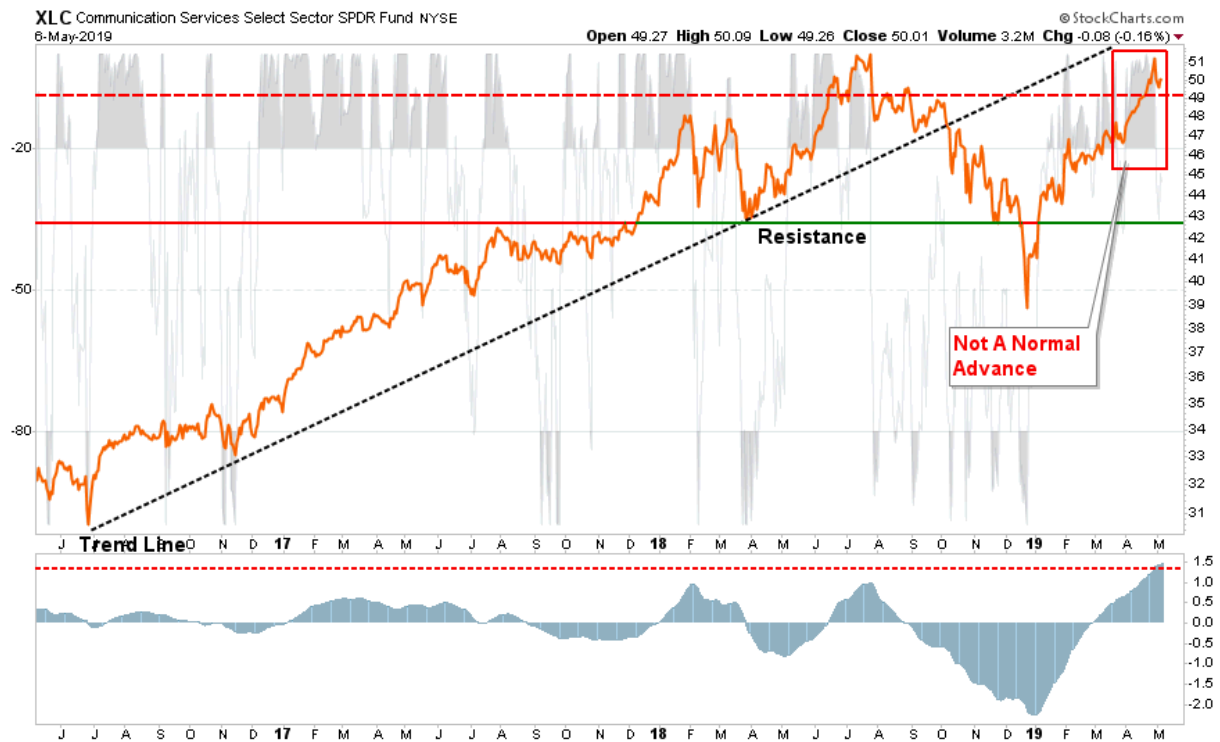
With this basic tutorial let's get to the sector analysis.

### Basic Materials



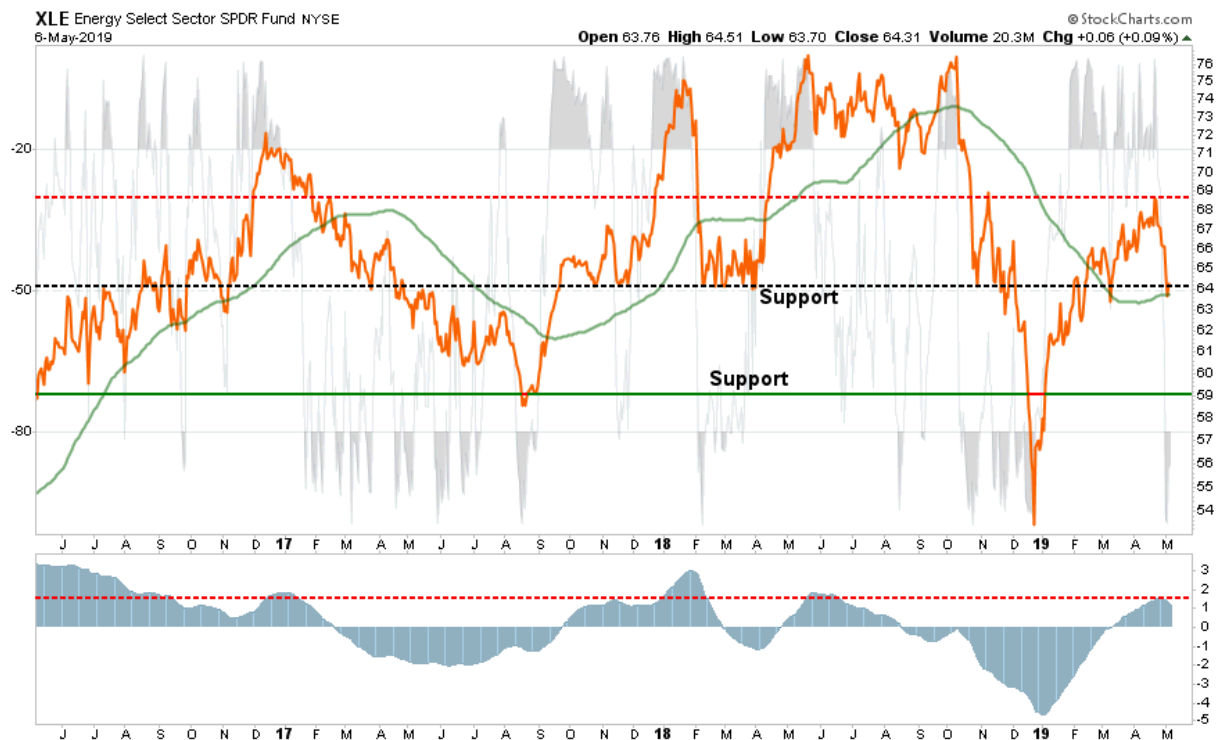
- *XLB met its initial "match" at the downtrend resistance line from the 2018 peak.*
- *With the "buy" signal extremely extended as noted by the horizontal dashed red line, a correction was inevitable.*
- *As noted last week, while the breakout cleared the path for a move higher, that move was likely complete. This is especially the case with Trump restarting the Trade War with China.*
- *Take profits and rebalance back to target weights..*
- *Short-Term Positioning: Neutral*
  - *Last Week: Hold position.*
  - *This Week: Hold position.*
  - *Stop-loss moved up to \$55.*
- *Long-Term Positioning: Bearish*

## Communications



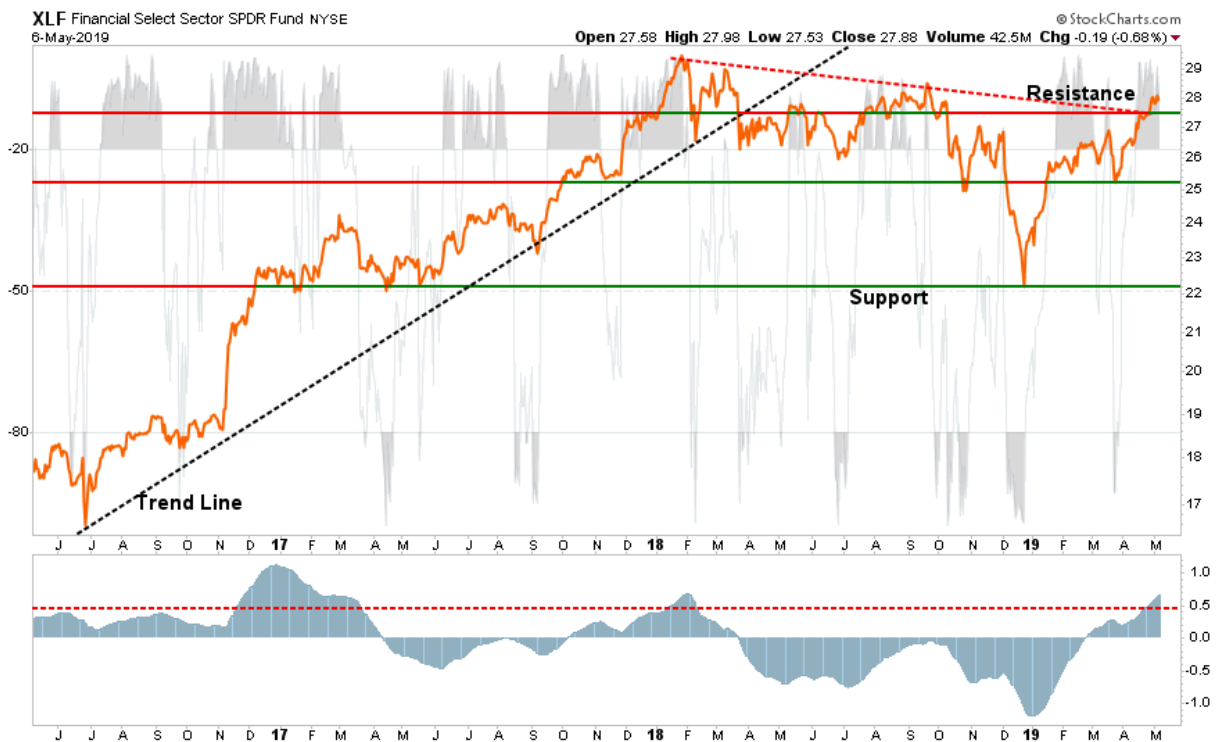
- Over the last couple of weeks, XLC has gone parabolic as only a few number of stocks are driving the market now.
- With the current "buy" signal very extended, and the sector very overbought, be patient for a better entry point.
- **Short-Term Positioning: Neutral**
  - Last Week: Hold 1/2 position
  - This Week: Hold 1/2 position
  - Stop-loss moved up to \$47
- **Long-Term Positioning: Bearish**

## Energy



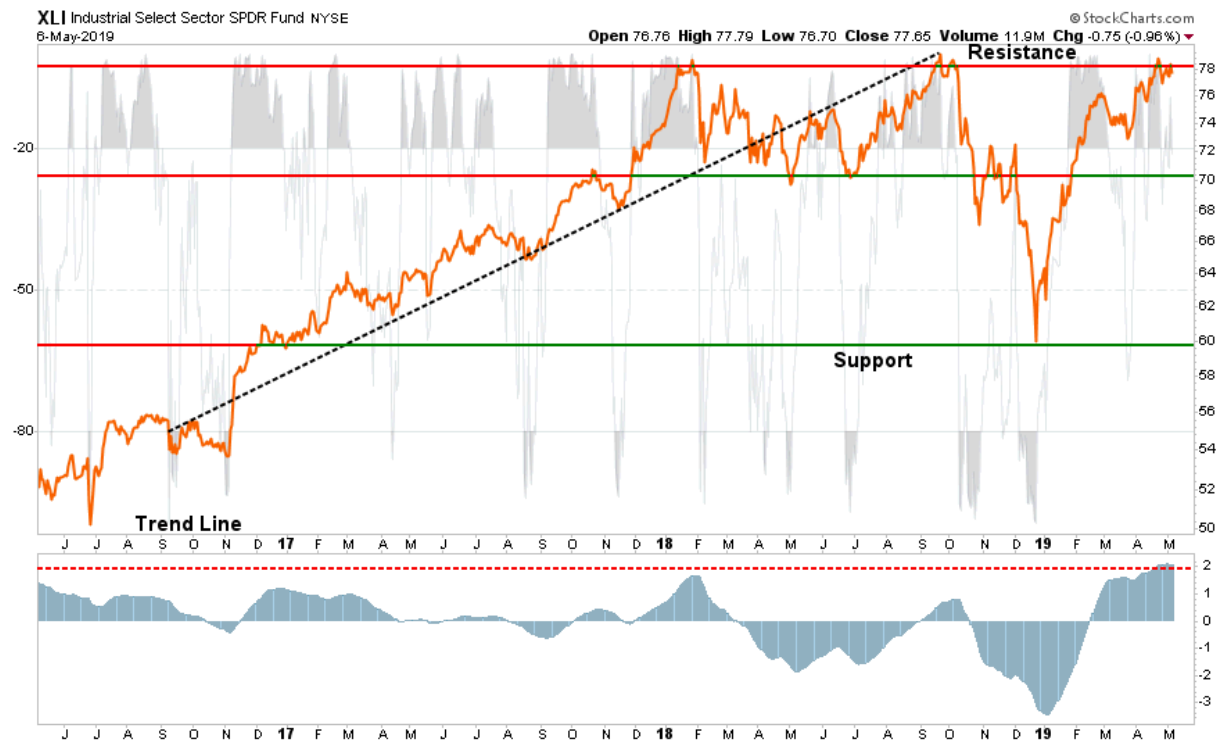
- As noted previously, the rally in oil prices pushed XLE into further resistance back at the November highs. The move failed at that level and the risk was to the downside.
- The current "buy signal" remains intact but the signal is starting to weaken as oil prices reversed course sharply.
- XLE is currently testing support at the critical 200-dma. It must hold here to add to our current holdings.
- **Short-Term Positioning: Neutral**
  - Last week: Hold and wait for a pullback to support to add.
  - This week: Same recommendation this week, wait for support to be found.
  - Stop-loss moved up to \$63
- **Long-Term Positioning: Bearish**

## Financials



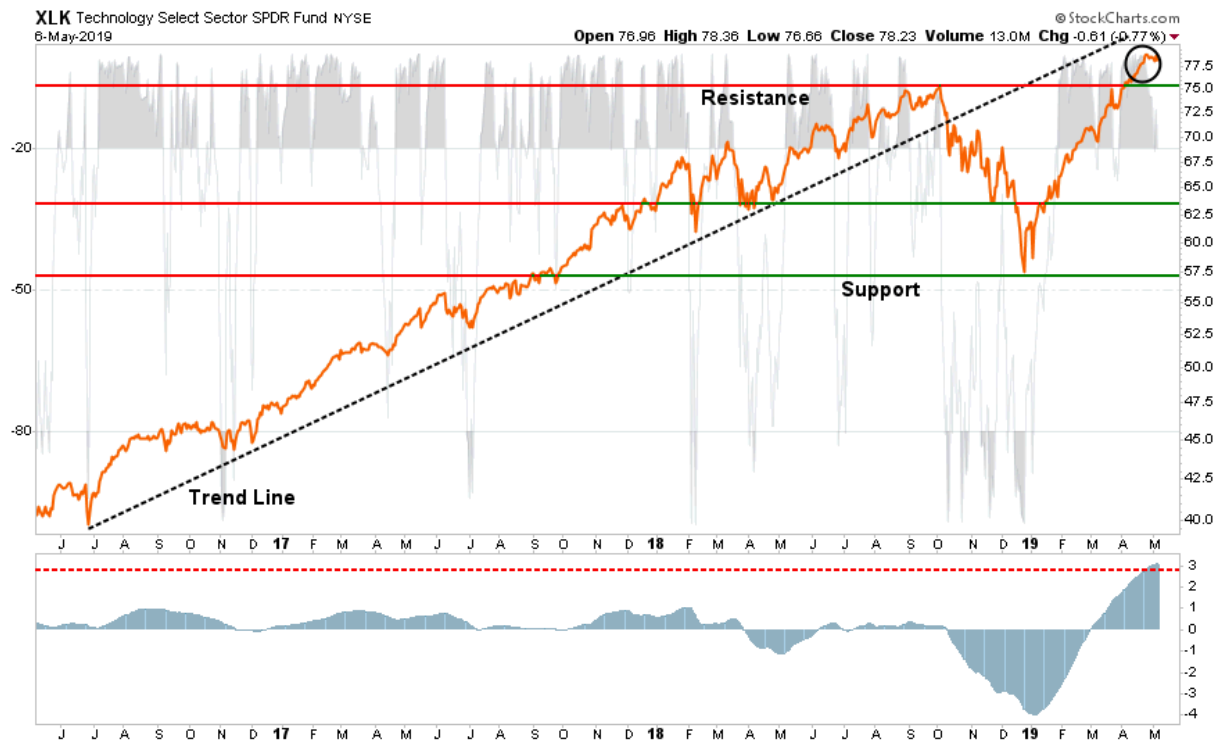
- XLF broke out above initial resistance but is running into a cluster of previous tops from last year.
- While a "buy" signal has been triggered (bottom panel) the recent rally has pushed sector back to overbought.
- **Short-Term Positioning: Neutral**
  - Last week: Recommended "hold" 1/2 position
  - This week: Hold 1/2 position, add on a pullback to \$26-27
  - Stop-loss moved up to \$25.00
- **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. Trump will not put that thesis to the test along with XLB.
- Buy signal in lower panel is very extended and at the highest levels we have seen in recent history.
- XLI has completely reversed back to overbought as well and is currently testing previous tops.
- Short-Term Positioning: Bullish
  - Last week: Recommended "rebalance" and "hold" 1/2 position
  - This week: Hold 1/2 position
  - Stop-loss moved up to \$72
- Long-Term Positioning: Neutral

## Technology



- Currently XLK is on a "Buy" signal (bottom panel) but that signal is "crazy" extended like many other sectors of the market.
- The market is becoming very confined to a smaller number of stocks leading the charge higher. Technology has become the poster child for momentum.
- Look for a correction back to \$75 in the near-term that must hold.
- Short-Term Positioning: Bullish
  - Last week: Hold 1/2 position, Add on test of previous resistance levels which will become support.
  - This week: Hold 1/2 position
  - Stop-loss moved up to \$70
- Long-Term Positioning: Neutral

## Staples



- XLP has pushed out to all-time highs along with more offensive sectors of the market (both XLY and XLK.)
- The chase for defensive holdings remains concerning given the current market backdrop.
- XLP's "buy" signal (lower panel) is back to extreme levels. So, taking profits is advised.
- Currently still overbought, however the pullback to \$54-\$54.50 can be used to add exposure.
- Short-Term Positioning: Bullish
  - Last week: Holding full position, take profits and rebalance.
  - This week: Take profits if you haven't done so.
  - Stop-loss moved up to \$53.50
- Long-Term Positioning: Bullish

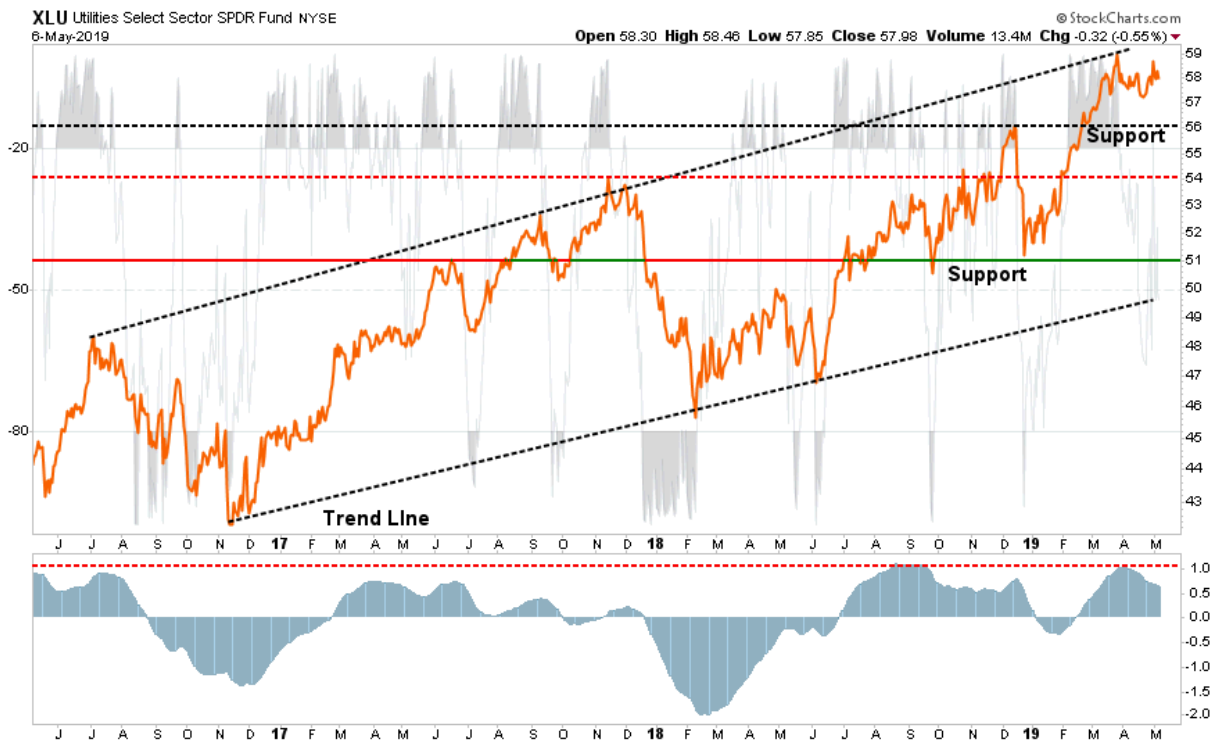
## Real Estate



- We previously recommended taking profits and rebalancing risk. That is still advisable as Real Estate goes through a mild corrective process along with Utilities.
- Buy signal has reached extreme levels (bottom panel) and the highest seen in recent history and is now reversing. This will set up an opportunity to add XLRE to portfolios here soon.
- Overbought condition is correcting. Be patient.
- Short-Term Positioning: Bullish
  - Last week: "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 \$33.50
- Long-Term Positioning: Bullish

## Utilities





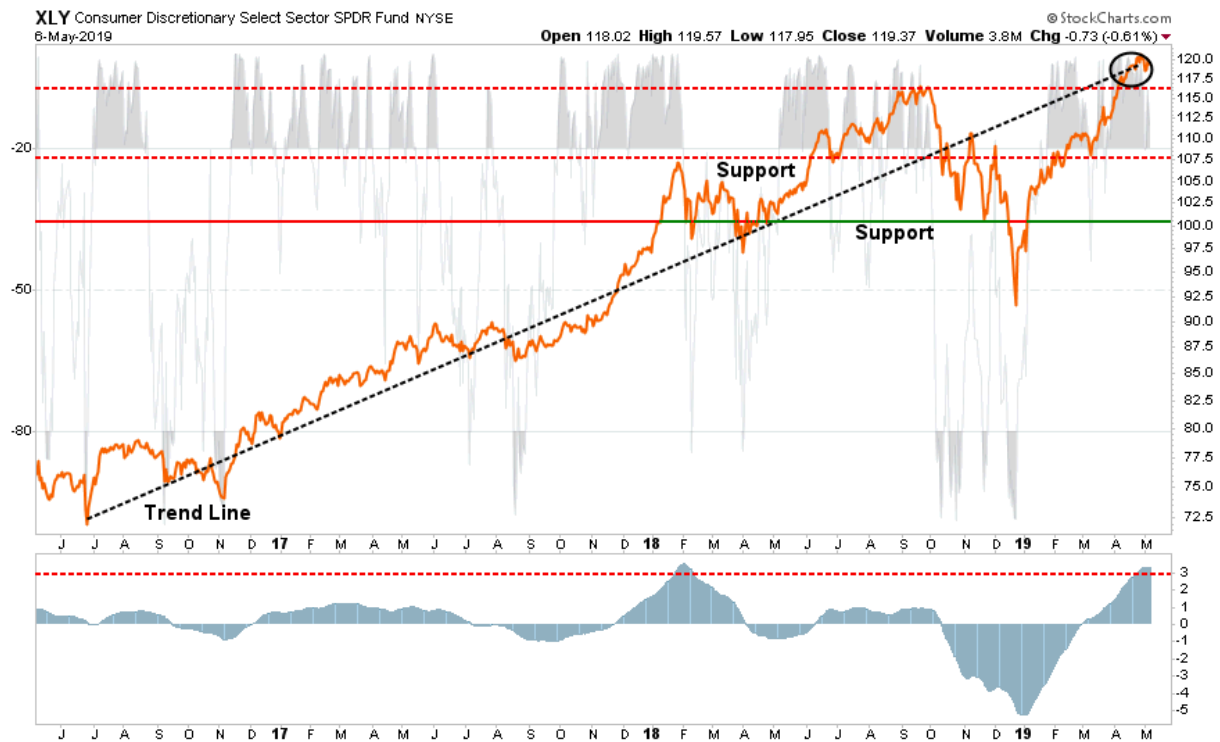
- Like Real Estate above, XLU has finally taken a breather from its recent advance but not much of one.
- Long-term trend line remains intact.
- Previous support continues to hold.
- Buy signal is beginning to work off some of the excess. (bottom panel)
- Recent correction was not enough to work off much of previous overbought condition, yet.
- Short-Term Positioning: Bullish
  - Last week: Rebalance holdings and continue to hold.
  - This week: Hold position, take profits if you haven't.
  - Stop-loss moved up to \$54, we got to within \$1 of our \$60 target from January
- Long-Term Positioning: Bullish

## Health Care



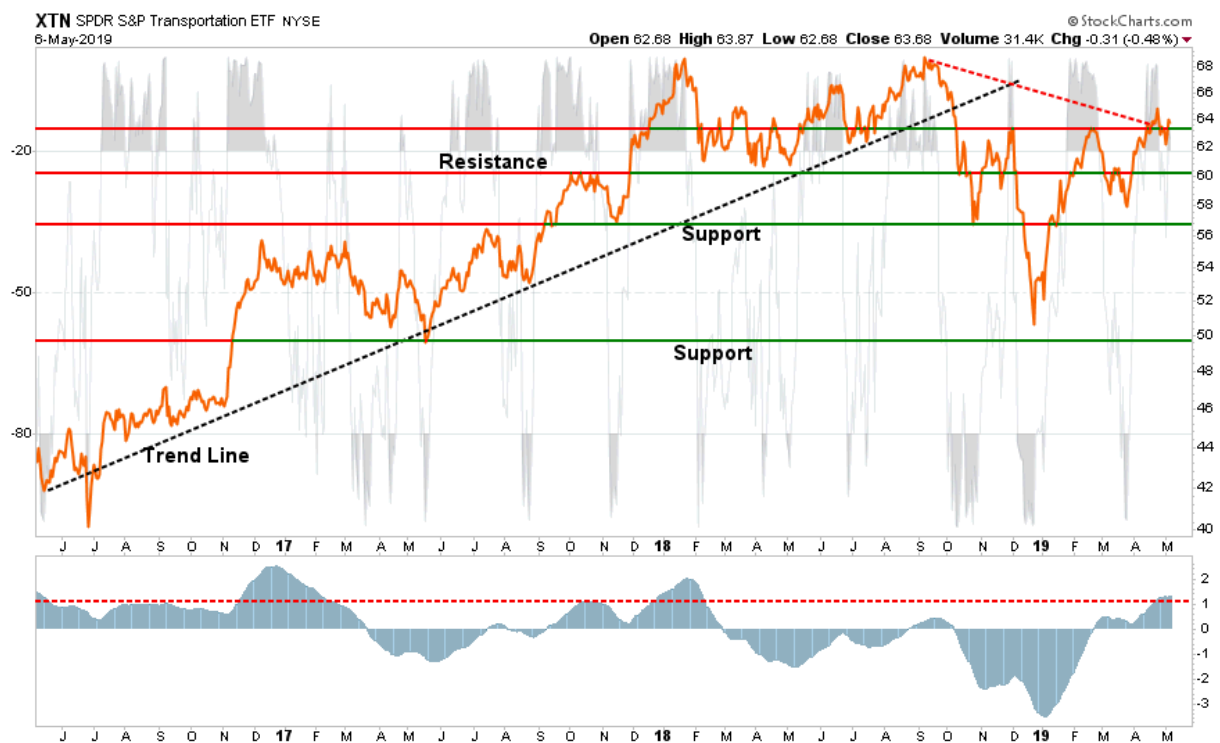
- Sell-signal (bottom panel) remains intact currently and previous support has been broken.
- As we stated previously:
  - "With the sector very oversold, look for a reversal that reclaims support over the next week. "
- That bounce came and is testing overhead resistance. The rotation into Health Care was expected which is why we overweighted the position as noted.
- XLV is reversing the oversold condition.
- Short-Term Positioning: Neutral
  - Last week: Hold current position. (We overweighted healthcare two weeks ago)
  - This week: Hold current position.
  - Stop-loss set \$87
- Long-Term Positioning: Neutral

## Discretionary



- As with XLK and XLP, XLY has broken through to all-time highs.
- The "buy" signal has been registered (lower panel) and is at extreme levels.
- Extreme overbought conditions currently limit upside.
- Short-Term Positioning: Neutral
  - Last week: Rebalance, Take profits, Hold current position..
  - This week: Rebalance and take profits if you didn't last week.
  - Stop-loss moved up to \$112.50
- Long-Term Positioning: Neutral

## Transportation



- Transportation is finally trying to play catch up with the rest of the market.

- *The rally last week, while nice, is still confined to the current downtrend line and is wrestling with resistance from previous highs.*
- *Buy signal. (bottom panel) is maintaining itself currently and has improved modestly.*
- *The short-term oversold condition has been fully reversed to overbought.*
- *The "sell stop" was triggered previously. No real need to rush back into adding a new position. We will watch and see what happens.*
- *Short-Term Positioning: Neutral*
  - *Last week: No position*
  - *This week: No position*
- *Long-Term Positioning: Bearish*