

## Major Market Buy/Sell Review: 05-13-19

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:

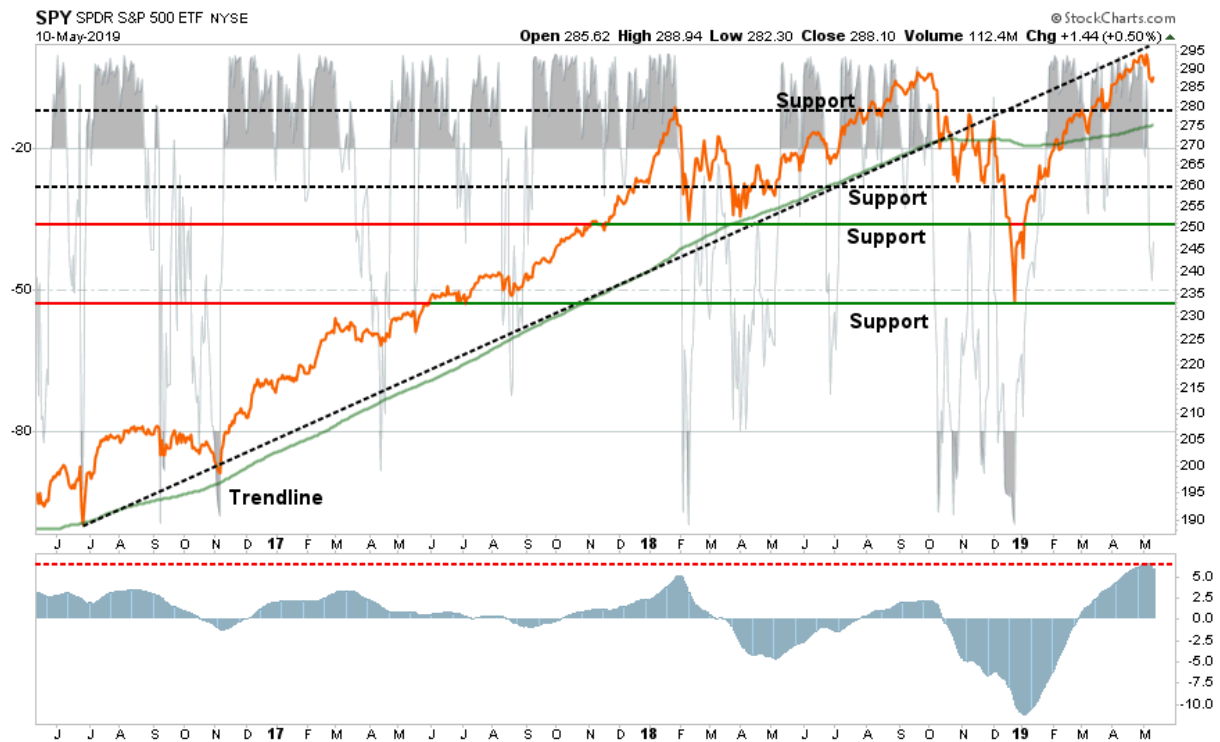
- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

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.



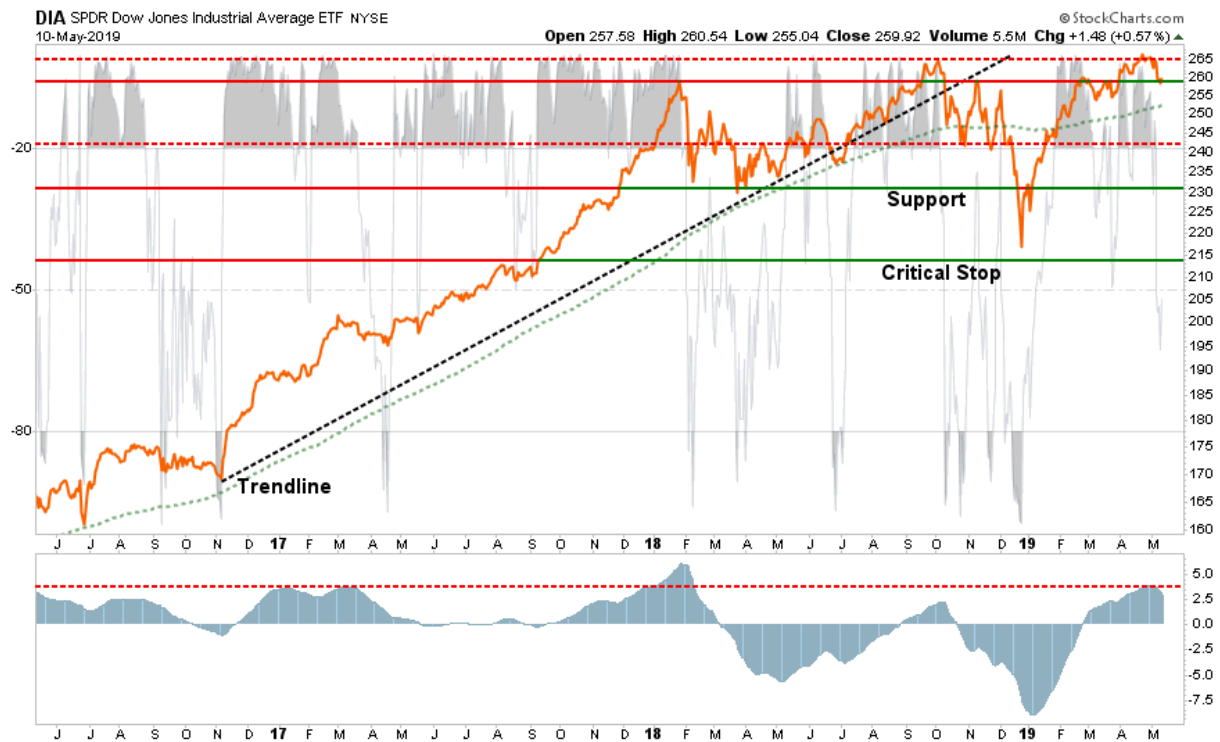
With this basic tutorial let's review the major markets.

### S&P 500 Index



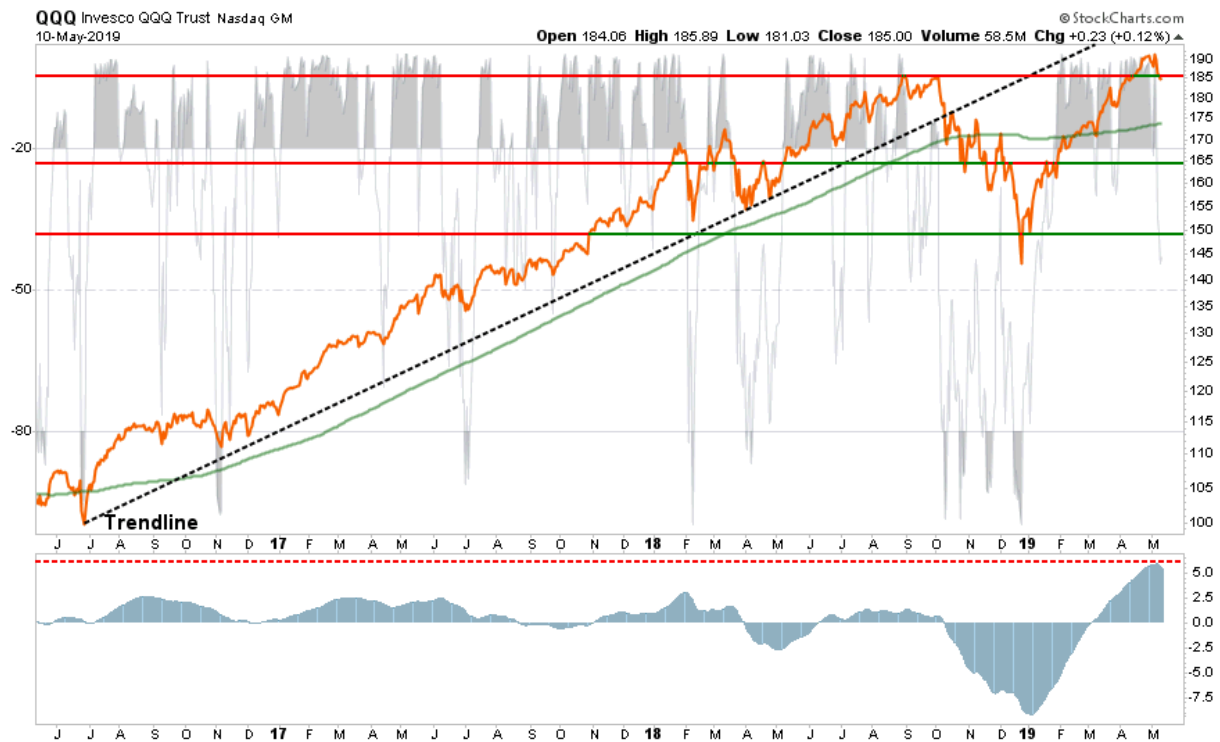
- As noted last week, the SPY was testing the bottom of the uptrend line from both the 2017 post-election bounce and the 2016 lows. It failed.
- Currently, SPY is correcting the overbought condition but is not oversold as of yet.
- Also, as we noted last week, the "buy" signal in the lower panel is at a level which has always denoted at least short-term market tops.
- Despite the correction last week, the risk still 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



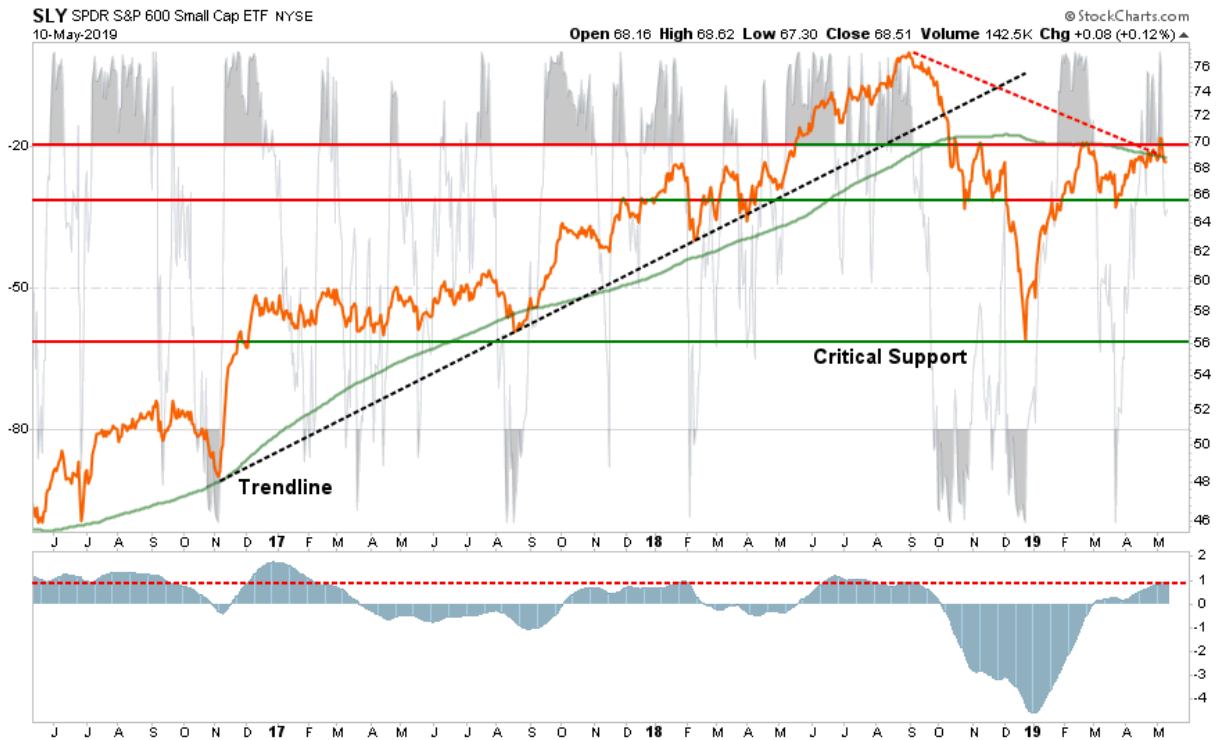
- From last week: "DIA is currently in the process of potentially setting up a double top. With earnings season drawing to a close focus will return back to fundamentals and economics which, beyond headlines, are showing significant weakness." That double top process is sitting on important support currently.
- Also from last week: "The 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." Remain cautious again this week.
- Market is working off the overbought but 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



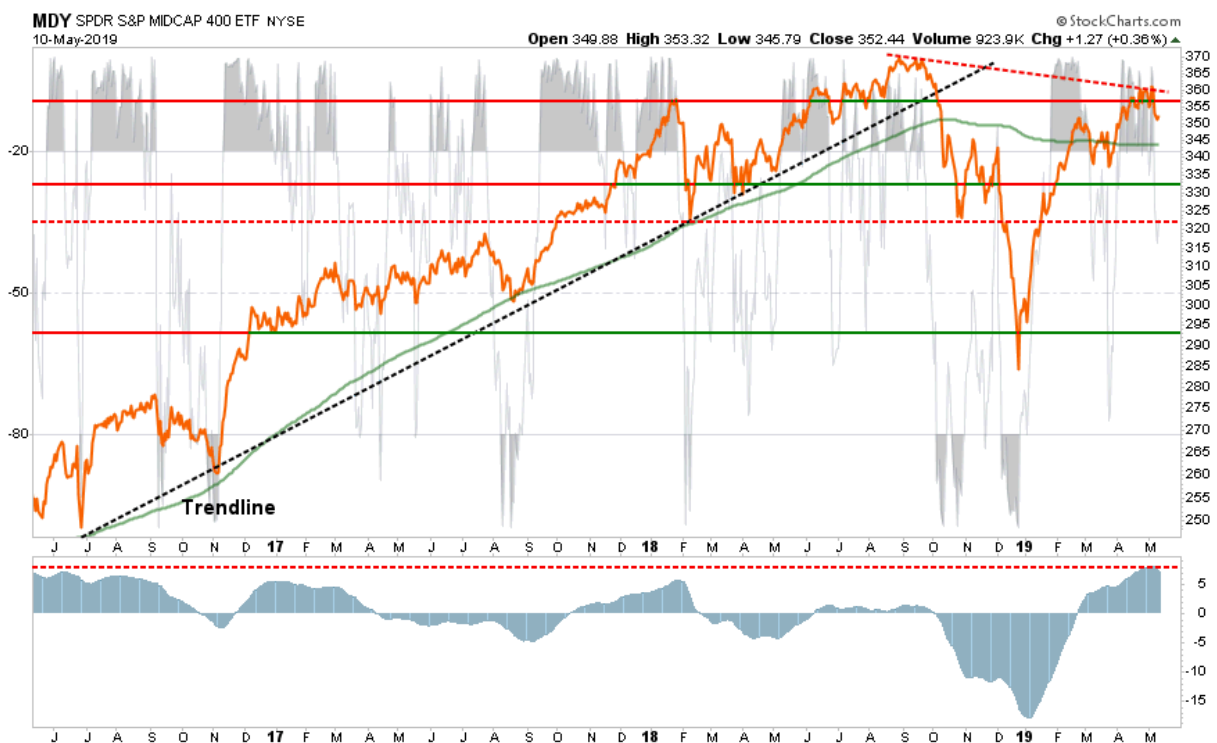
- While QQQ broke out to all time highs, it has been a narrow push with MAGA stocks driving index higher (MSFT, AAPL, GOOG, AMZN)
- From last week; "With the market and the underlying "buy signal" extremely stretched to the highest levels we have seen in several years, an initial failure at these levels would not be surprising. The breakout to highs was not on inspiring volume."
- Support at \$185 is important this coming week.
- 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)



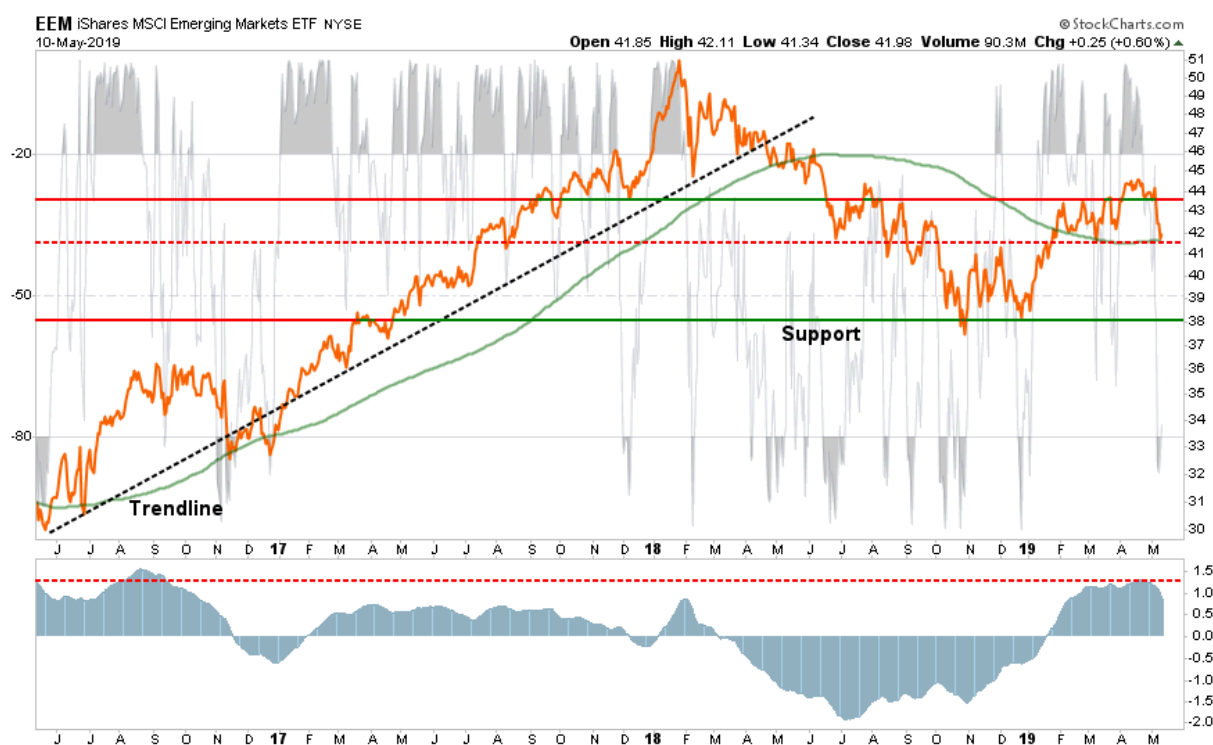
- Last week, we noted that Small Caps broke above resistance at the 200-dma. It didn't last long and the SLY broke support last week.
- Currently on a modest "buy" signal but now back to overbought, for now small-caps continue to lag the overall market.
- Short-Term Positioning: Bearish
  - Last Week: Add initial 1/2 position.
  - This Week: Hold
  - Stop is at \$67
- Long-Term Positioning: Bearish

## S&P 400 Index (Mid-Cap)



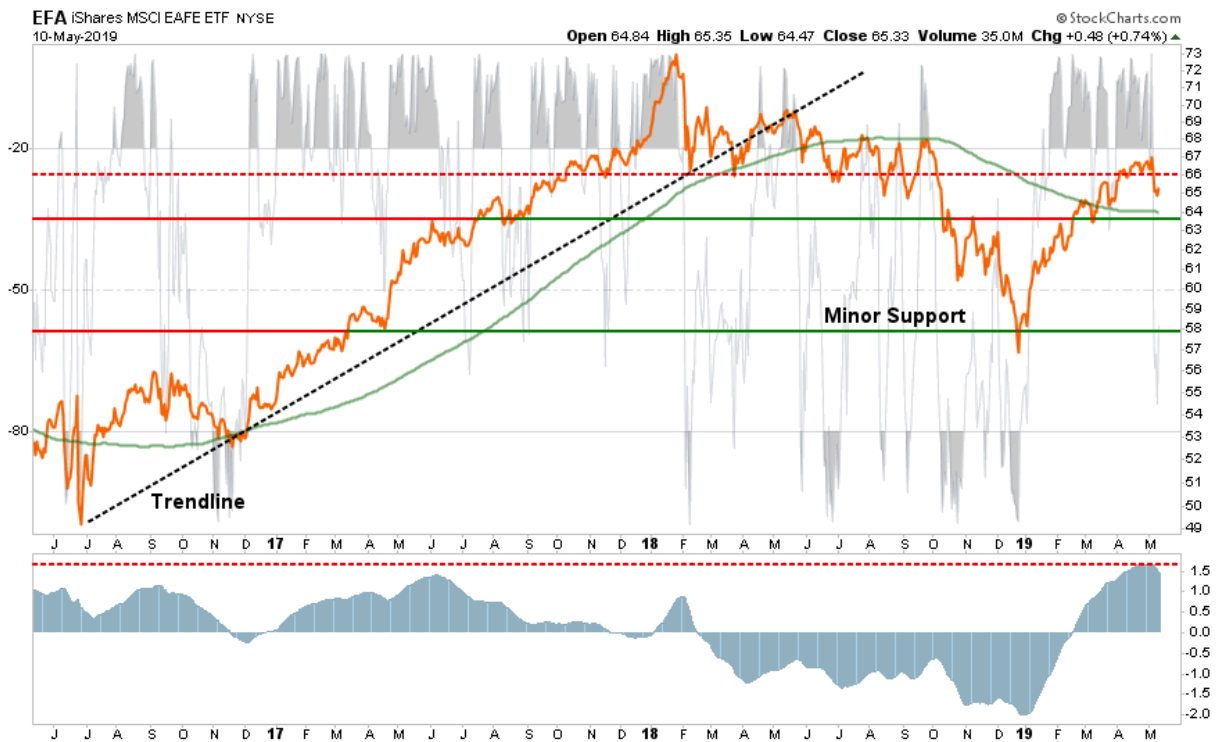
- MDY failed at its support last week with the rise of the trade war.
- Mid-caps are on a buy signal, however, that signal is at more extended levels with extreme overbought levels. The short-term overbought condition is being worked off.
- Support needs to hold this week.
- Short-Term Positioning: Neutral
  - Last Week: Add 1/2 position on any weakness that holds support.
  - This Week: Add 1/2 position on any weakness that holds support at \$350
- Long-Term Positioning: Bearish

## Emerging Markets



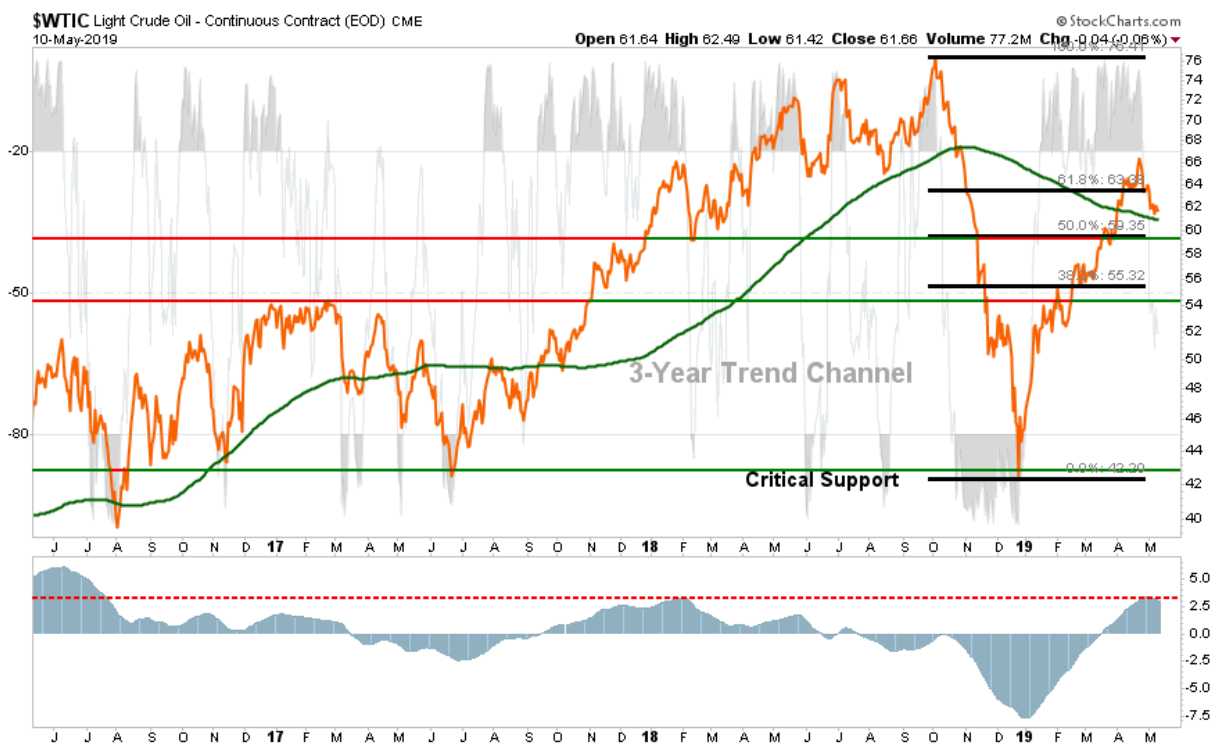
- Last week, EEM failed support with the initiation of tariffs which will have an adverse effect on those economies.
- Last week we noted with the current "buy" signal, and the market itself extremely overbought, **look for a pullback to support at the tops of the previous consolidation** which works off some of the overbought condition to add to holdings.
- The failure at support negates that recommendation.
- Short-Term Positioning: Bullish
  - Last Week: Hold current position.
  - This Week: Hold current position but stops are adjusted to \$41
  - Stop-loss moved up to \$41
- Long-Term Positioning: Neutral

## International Markets



- EFA also broke below important support last week, which also negates previous recommendations.
- The downtrend from all-time highs remains and EFA is heading back to oversold levels.
- The "buy signal" also remains extremely overbought in the short-term
- Short-Term Positioning: Neutral
  - Last Week: Hold 1/2 position
  - This Week: Hold 1/2 position.
  - 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. The correction continues again this week.
- 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 three weeks there was a "decent risk of a short-term reversion to work off some of the extreme overbought condition." That process continued this week.
- 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
  - Stop-loss adjusted to \$58
- Long-Term Positioning: Bearish

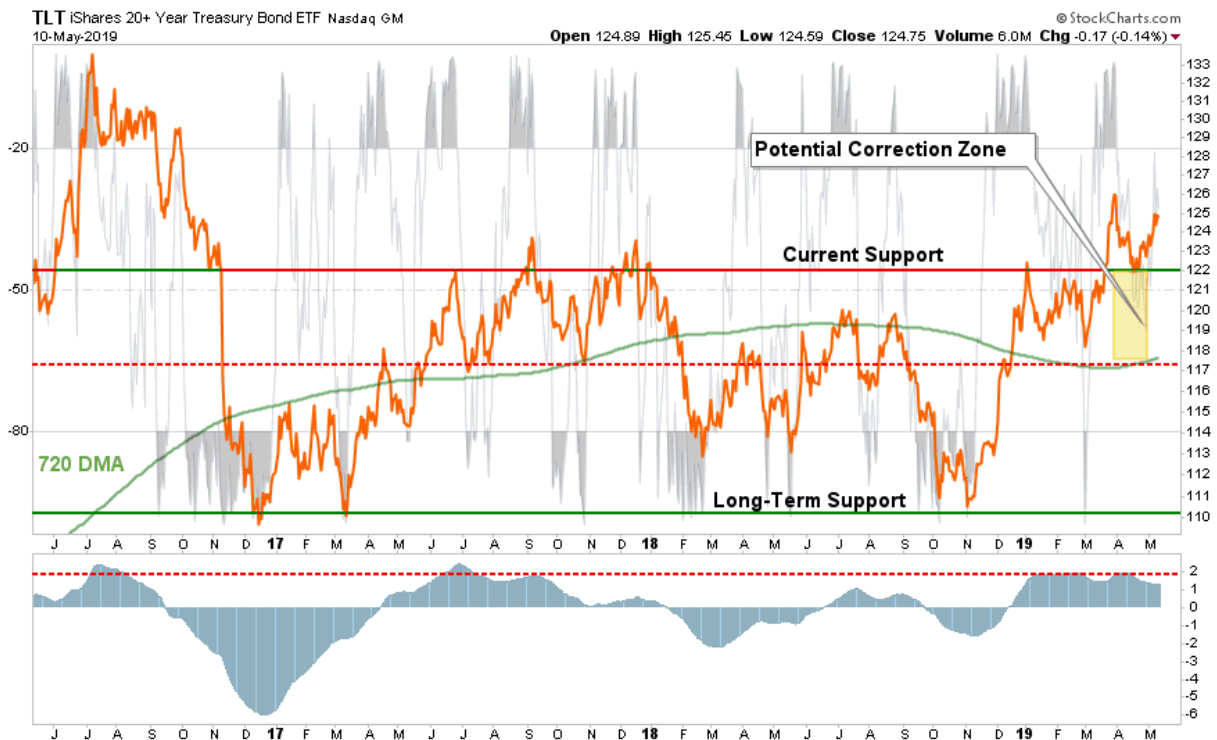
## Gold



- Two weeks, 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 which it did last week.
- As noted last week: "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." Gold closed the week above that level...so we are back on hold for now.
- Short-Term Positioning: Neutral
  - Last week: Hold positions.
  - This week: Hold positions
  - Stop-loss for whole position adjusted to \$120
- Long-Term Positioning: Neutral

## Bonds (Inverse Of Interest Rates)





- Bonds rallied again this week as "trade war" rattled the equity markets sending money searching for "safety."
- Currently on a buy-signal (bottom panel), bonds are working their way back to short-term overbought currently.
- Support continues to hold at \$122, but there is risk to the trade still back into our range of \$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



- 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. Trade war will have an impact across many sectors of the market and the dollar will likely tell the story.
- 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