Sector Buy/Sell Review: 06-04-19

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:

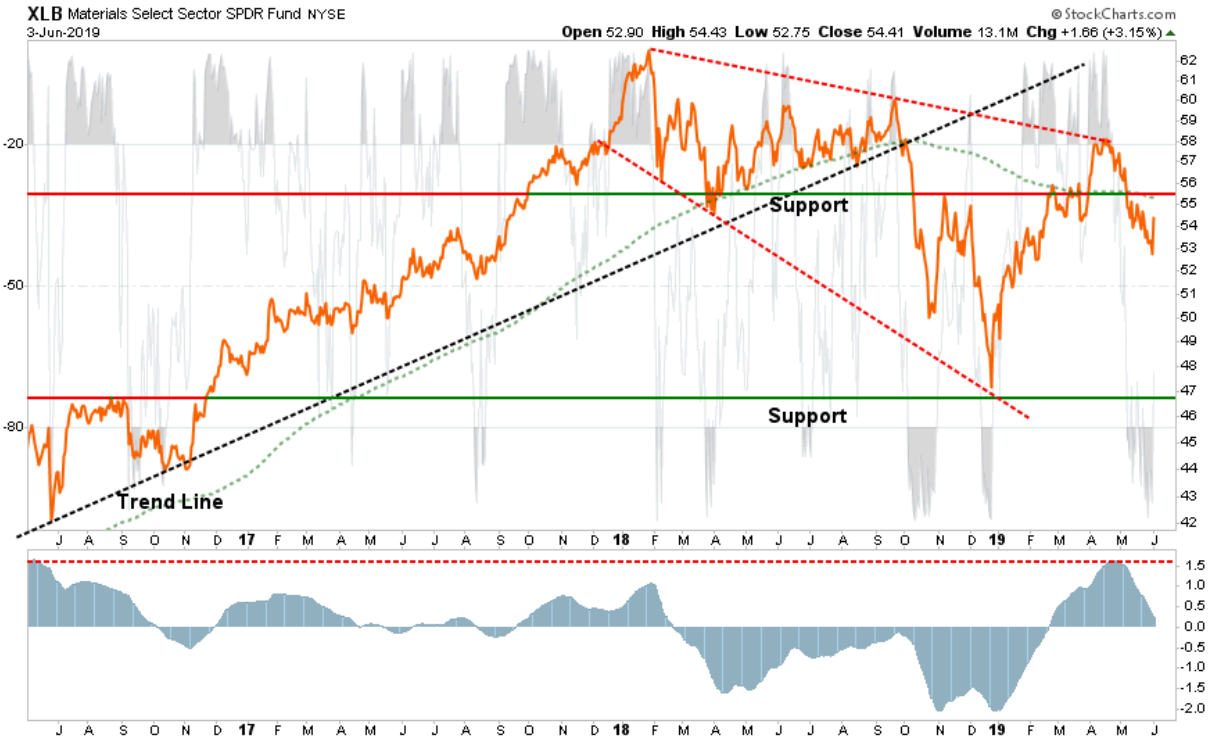
- *The price chart is in orange*
- *The Over Bought/Over Sold indicator is in gray*
- *The Buy / Sell indicator is in blue.*

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.



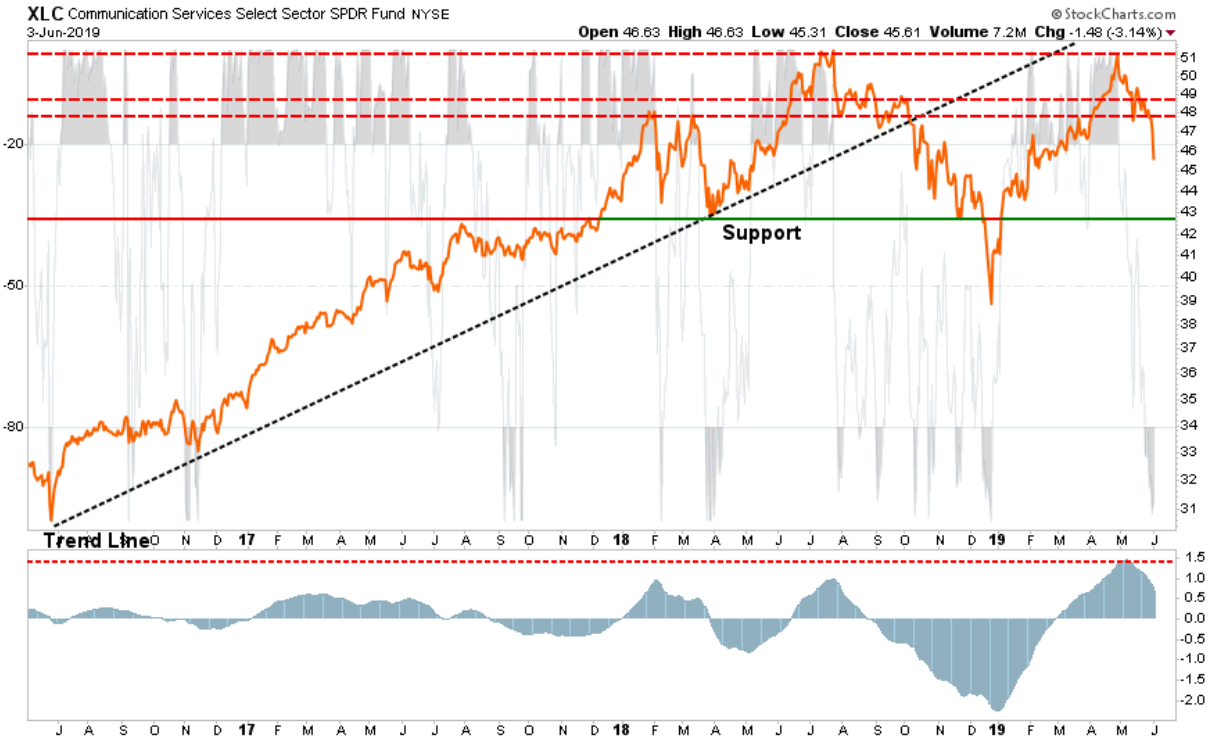
With this basic tutorial let's get to the sector analysis.

Basic Materials



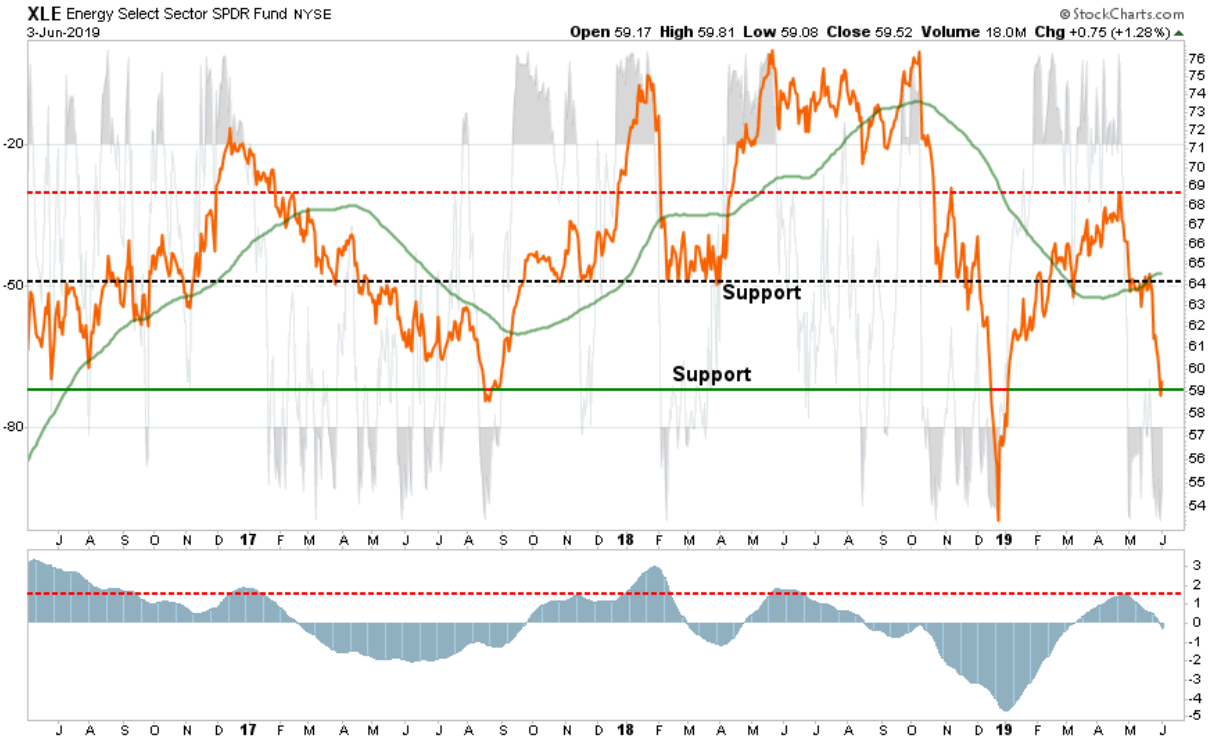
- *As I wrote in this past [weekend's missive](), The market is due for a reflexive bounce. While that bounce remained elusive on the broad index on Monday, it was due to the decline of FANG stocks due to concerns over being potentially labeled monopolies.*
- *XLB rallied sharply on Monday from deeply oversold conditions. This is an opportunity to reduce exposure to materials on a rally to the failed support line broken previously.*
- *Last week, XLB sold down towards our stop-loss level after we previously reduced 1/2 of our position. With XLB oversold, look for a short-term rally to $55.50 to sell into.*
- *Short-Term Positioning: Neutral*
    - *Last Week: Hold balance for rally to $55 to $55 1/2*
    - *This Week: Hold balance for rally to $55 to $55 1/2*
    - *Stop-loss moved up to $53, sell remaining half on rally..*
- *Long-Term Positioning: Bearish*

Communications



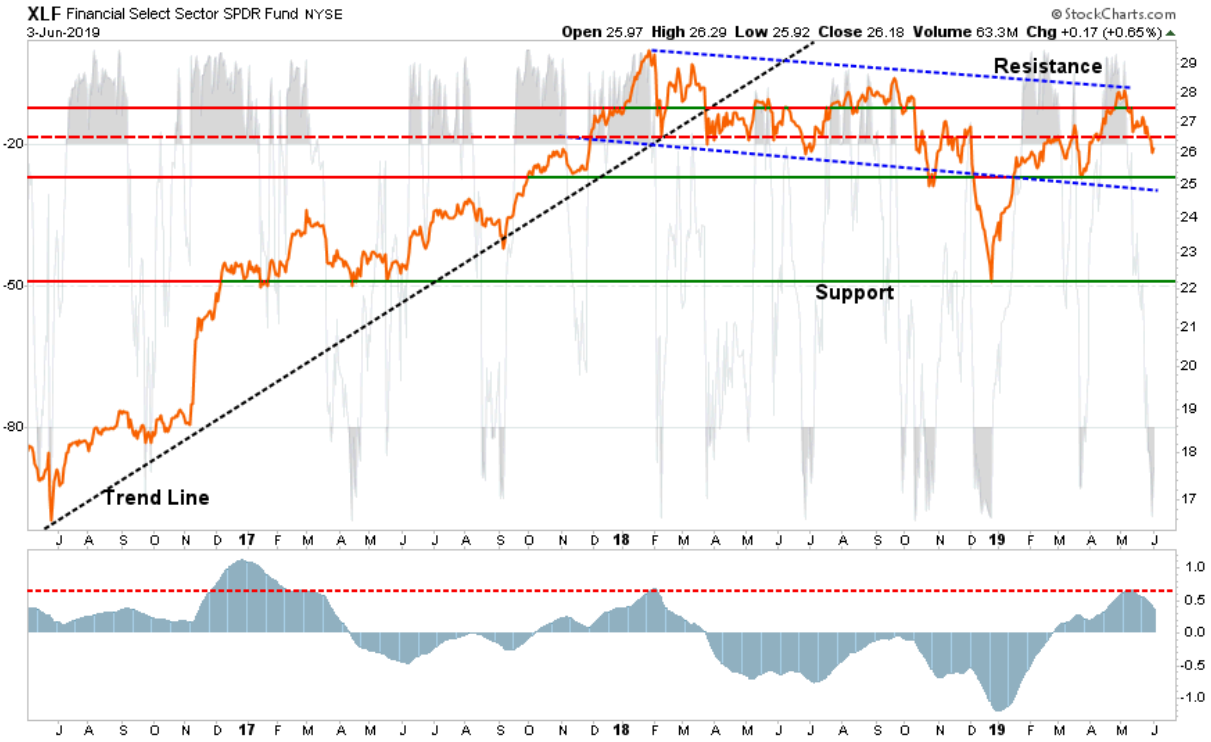
- *As noted last week:*
  - *XLC broke support previously and failed at a rally turning support into resistance. Support is holding at current levels but just barely.*
- *XLC sharply broke support on Monday on "Monopoly" concerns as listed above.*
- *Stop-loss was violated, look for a bounce to $47 to $47 1/2 to sell position.*
- *Short-Term Positioning: Neutral*
  - *Last Week: Hold 1/2 position*
  - *This Week: Sell on rally to $47-47 1/2*
  - *Hard Stop set at $45*
- *Long-Term Positioning: Bearish*

Energy



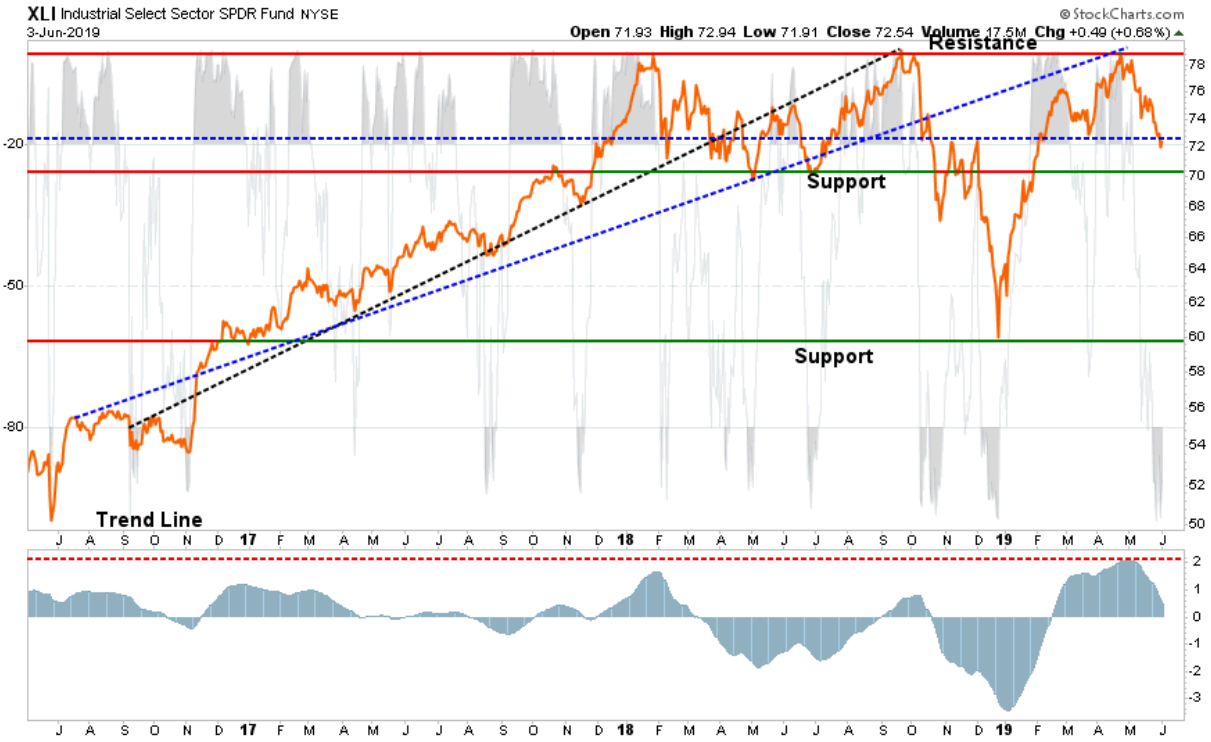
- *Two weeks ago, I stated that XLE was currently at a critical juncture. A failure below the 200-dma was going to bring the low-$60's into focus.*
- *That break happened last week and XLE is now testing the $59-60 level.*
- *The previous "buy signal" has reversed putting more pressure on the sector currently. Use any rally to reduce exposure to the sector for now.*
- *Short-Term Positioning: Neutral*
    - *Last week: Stop violated, sell on rally*
    - *This week: Stop violated, sell on any rally. Target is $61-63*
    - *Stop-loss adjusted to $59*
- *Long-Term Positioning: Bearish*

Financials



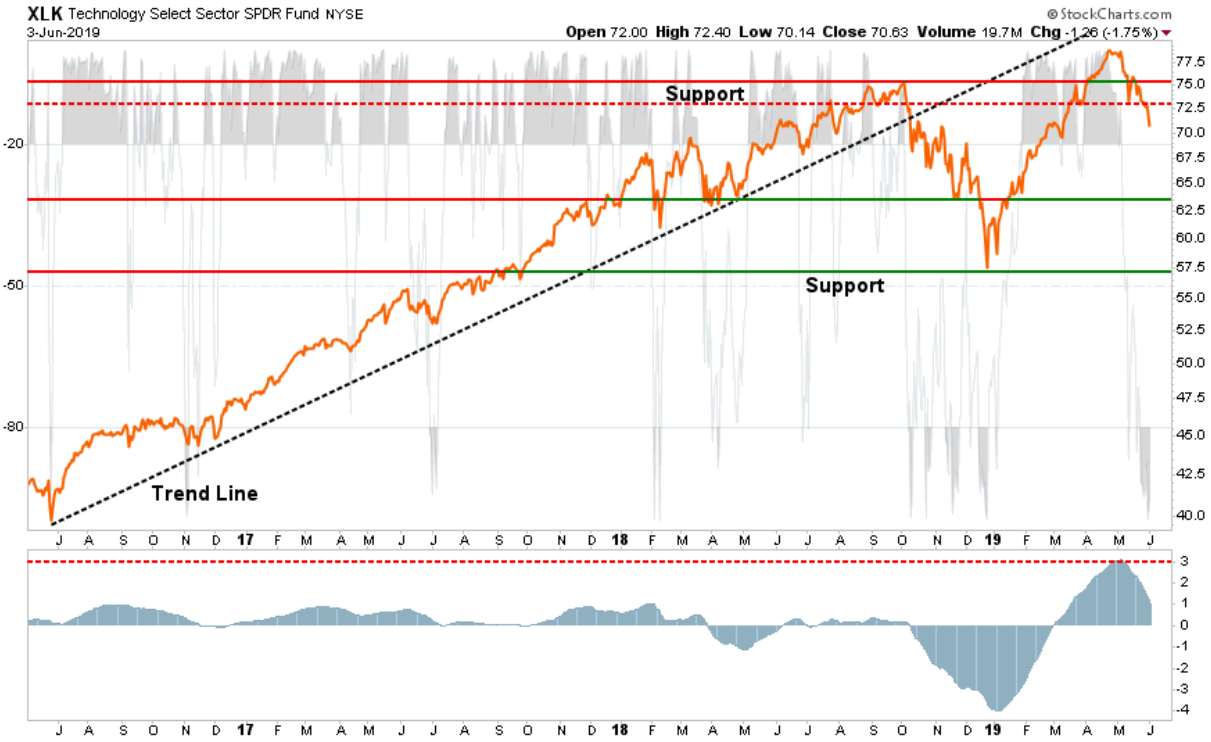
- *We noted previously that XLF broke out above initial resistance but ran into a cluster of previous tops from last year. That rally failed two weeks ago with the decline in the yields weighing on earnings outlook.*
- *XLF remains on a "buy" signal currently and the overbought condition has been fully reversed.*
- *Short-Term Positioning: Neutral*
    - *Last week: Recommended "hold" 1/2 position*
    - *This week: Hold 1/2 position, add on a pullback to $25 that holds.*
    - *Stop-loss moved up to $25.00*
- *Long-Term Positioning: Bearish*

Industrials



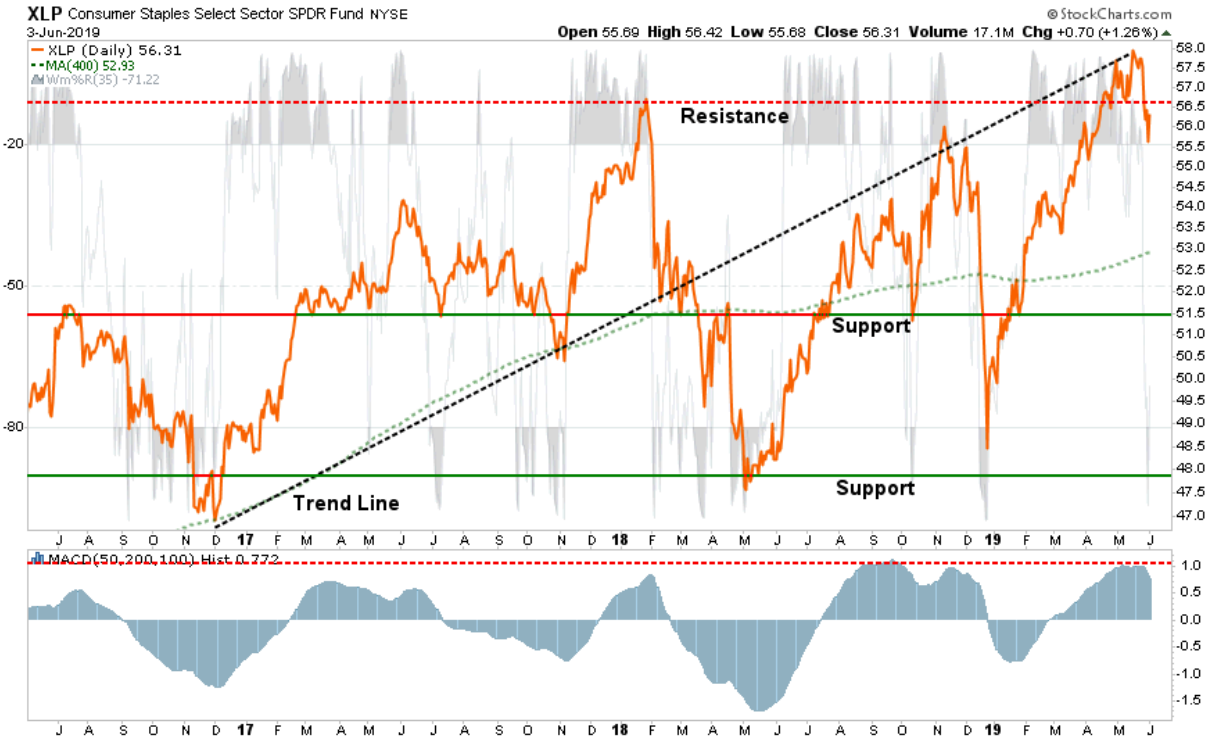
- *XLI has put in a "triple top" at recent highs which makes that resistance level critically important.*
- *As stated last week:*
  - *For now, the buy signal in lower panel is reversing and industrials are now oversold. With "trade war" rhetoric ramping up, watch for a break below support. XLI must hold $72.*
- That support failed on Monday, but our stop-level has not been violated, yet.
- *Short-Term Positioning: Neutral*
  - *Last week: Hold remaining 1/2 position*
  - *This week: Look to sell on failed rally to $75-76*
  - *Stop-loss moved up to $72*
- *Long-Term Positioning: Neutral*

Technology



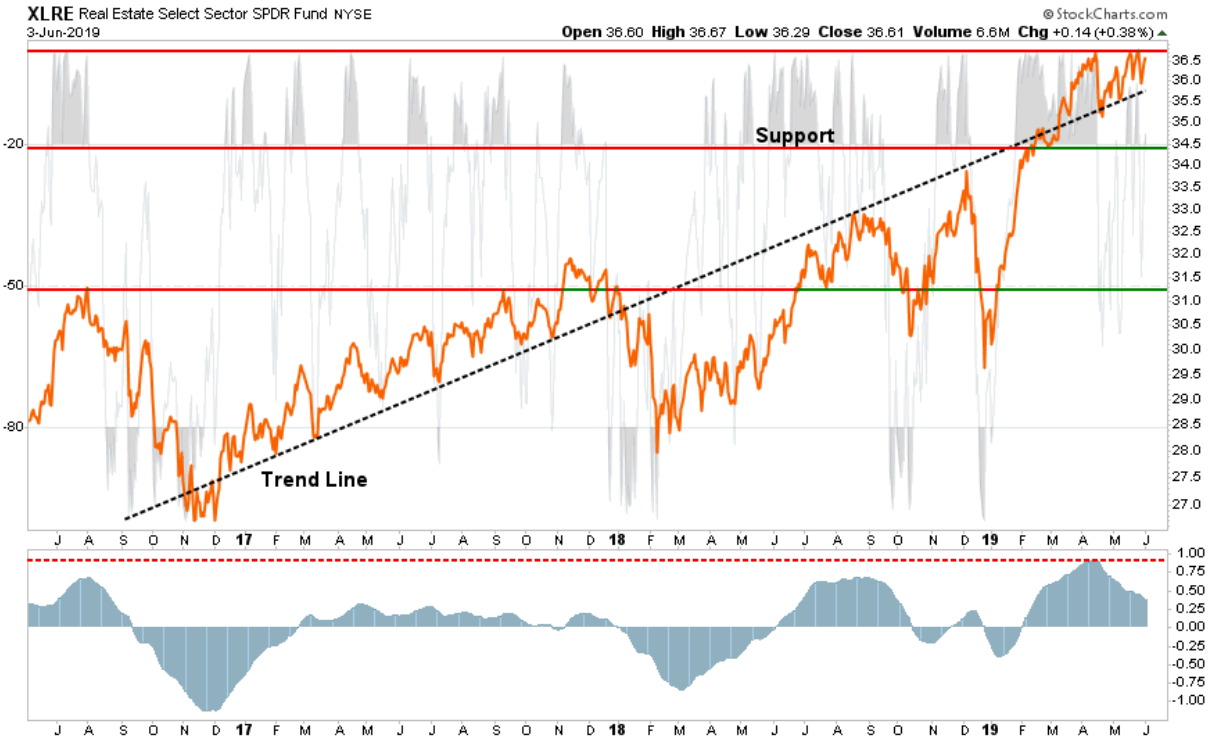
- *Like XLC, XLK was under pressure on Monday from the potential "monopoly" issues with the major FANG stocks.*
- *XLK is now back to oversold and violated support at $72.5.*
- *With the sector now grossly oversold, look for a short-term counter-trend rally to reduce exposure into.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold 1/2 position*
    - *This week: Hold 1/2 position*
    - *Stop-loss remains at $70*
- *Long-Term Positioning: Neutral*

Staples



- *XLP rallied on Monday as money sought "safety" and "defense" once again.*
- *XLP's "buy" signal (lower panel) is still in place and extended. We continue to recommend taking some profits if you have not done so.*
- *XLP is just coming off of oversold conditions so additional gains are likely. $56.50 is initial resistance. Also, $55 was tested successfully so trading positions can be added.*
- *Short-Term Positioning: Bullish*
    - *Last week: Holding full position, take profits and rebalance.*
    - *This week: Add to current holdings if needed. We are currently carrying an overweight position.*
    - *Profit stop-loss moved up to $55.50*
- *Long-Term Positioning: Bullish*

Real Estate



- *XLRE, along with XLU, has continued to attract money flows for defensive positioning amidst falling interest rates.*
- *We previously recommended taking profits and rebalancing risk. That is still advisable.*
- *After a brief sell-off last week, XLRE is once again trying to test all-time highs.*
- *Buy signal is being reduced along with the overbought condition.*
- *We recently added to our XLRE position and are now carrying a full weight.*
- *Short-Term Positioning: Bullish*
    - *Last week: Holding full position.*
    - *This week: Hold position.*
    - *Stop-loss adjusted to $34.50*
- *Long-Term Positioning: Bullish*

Utilities



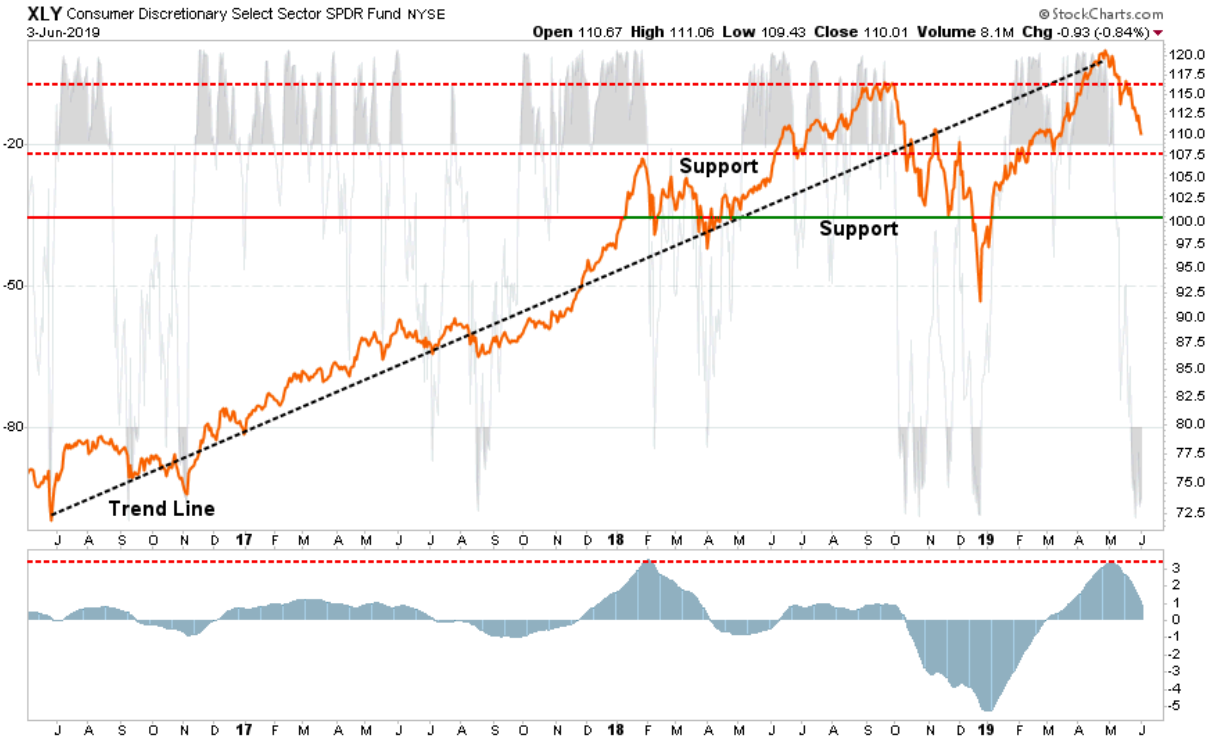
- *After breaking out to all-time highs, XLU took a quick breather and retested previous highs.*
- *Long-term trend line remains intact and the recent test of that trend line with a break to new highs confirms the continuation of the bullish trend.*
- *Buy signal worked off some of the excess. (bottom panel) and the sector has reduced some of the overbought condition.*
- *Short-Term Positioning: Bullish*
    - *Last week: Overweight position*
    - *This week: Hold position*
    - *Stop-loss moved up to $56.*
- *Long-Term Positioning:&#2013266080;Bullish*

Health Care



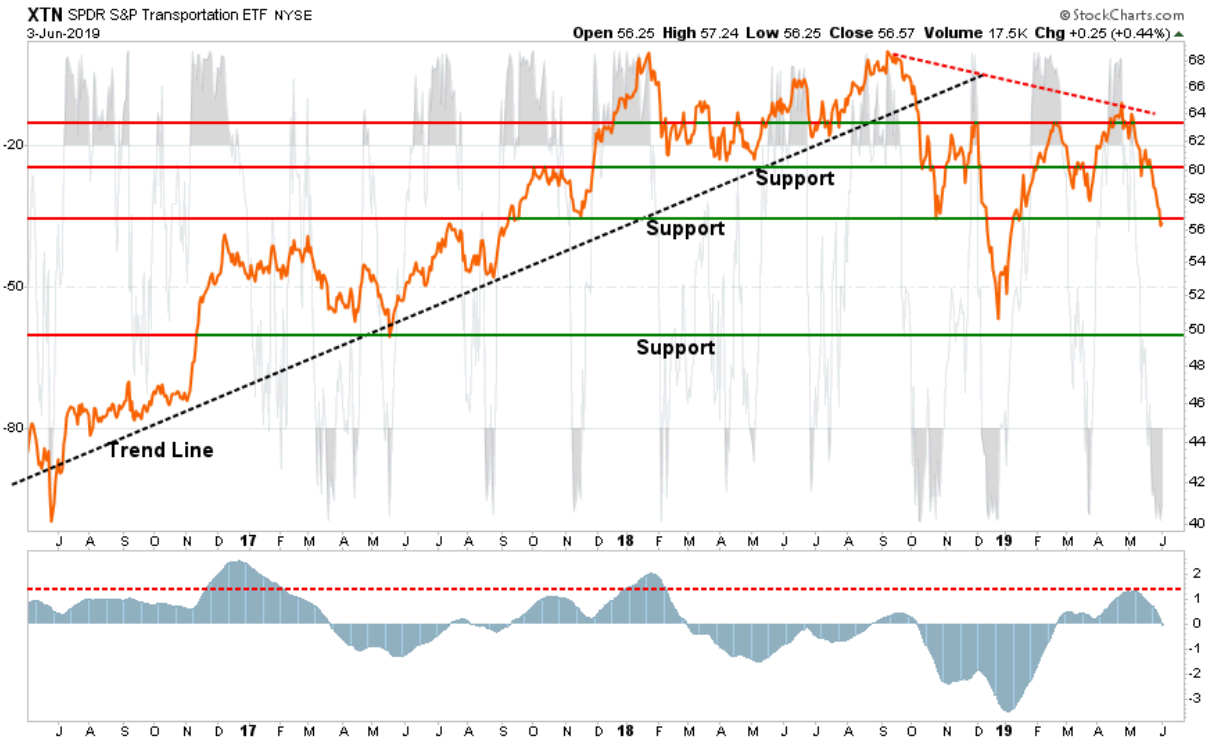
- *Sell-signal (bottom panel) remains intact currently but previous support is holding.*
- *While Healthcare is holding up for now, there is a downtrend forming in the sector. Keeps stops in place.*
- *XLV has been in a consolidation for the last 18-months. So whichever direction healthcare breaks out to will be a big move.*
- *XLV not overbought or sold currently. Patience is advised.*
- *Short-Term Positioning: Neutral*
    - *Last week: Overweight position.*
    - *This week: Hold current position.*
    - *Stop-loss set $86*
- *Long-Term Positioning: Neutral*

Discretionary



- *With AMZN and AAPL now condsidered discretionary stocks, it is not surprising to see XLY slide along with XLK and XLC as those two major stocks were under pressure on Monday.*
- *The "buy" signal has been reduced and is potentially threatening a reversal.*
- *XLY is oversold so look for a rally to rebalance holdings into.*
- *Short-Term Positioning: Neutral*
  - *Last week: Sold 1/2 of position.*
  - *This week: Hold 1/2 position with stops in place.*
  - *Stop-loss adjusted to $107.50 after sell of 1/2 position.*
- *Long-Term Positioning: Neutral*

Transportation



- *XTN has continued to lag the overall market and continues to suggest there is "something wrong" economically.*
- *While XTN is on a buy signal. (bottom panel) the sector is now oversold. Look for a failed rally to $60 to sell into if you are still long positioning..*
- *As we have been saying for several weeks, our "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: Looking to add a position that holds support at $56-57 if support holds.*
- *Long-Term Positioning: Bearish*