Sector Buy/Sell Review: 07-02-19

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:

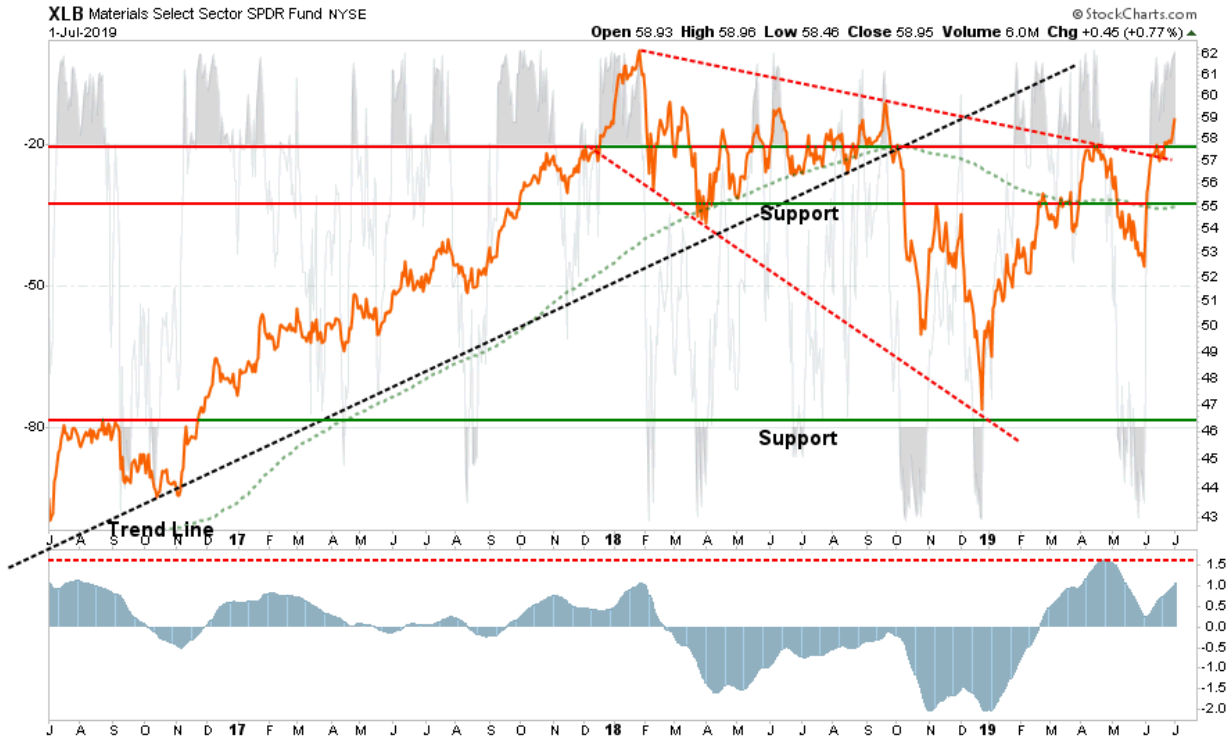
- *The price chart is in orange*
- *The Over Bought/Over Sold indicator is in gray*
- *The Buy / Sell indicator is in blue.*

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.



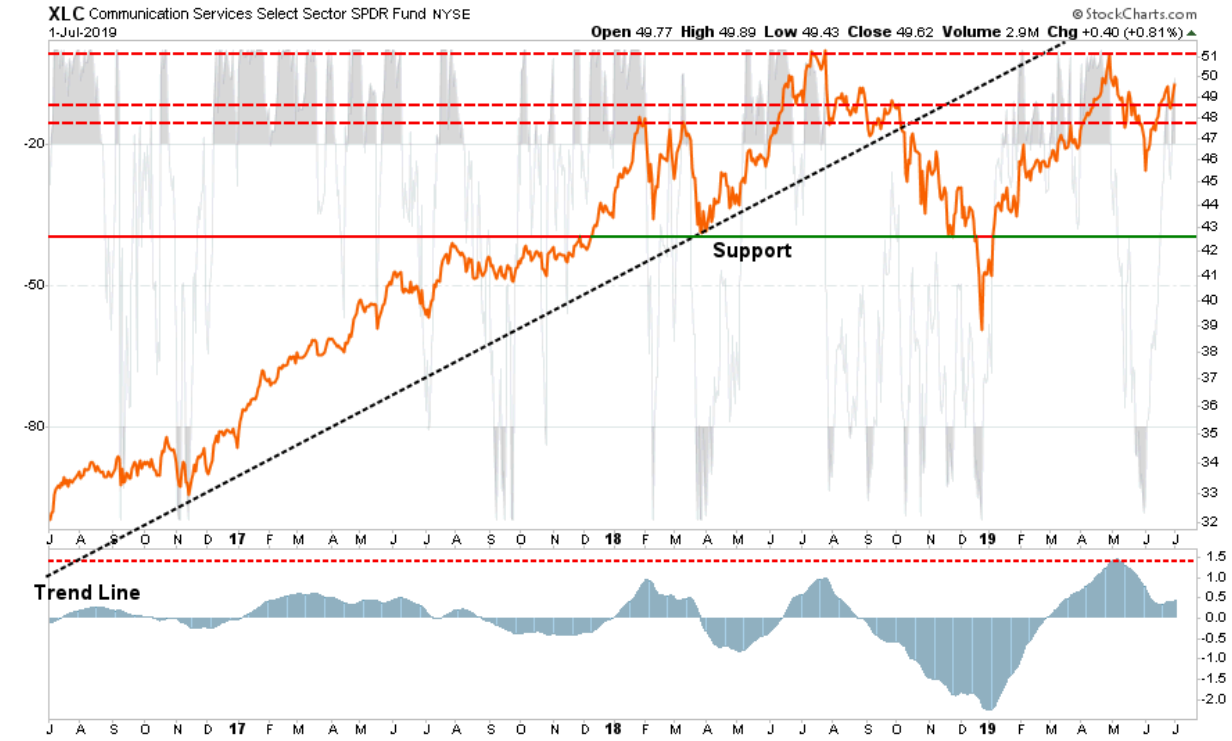
With this basic tutorial let's get to the sector analysis.

Basic Materials



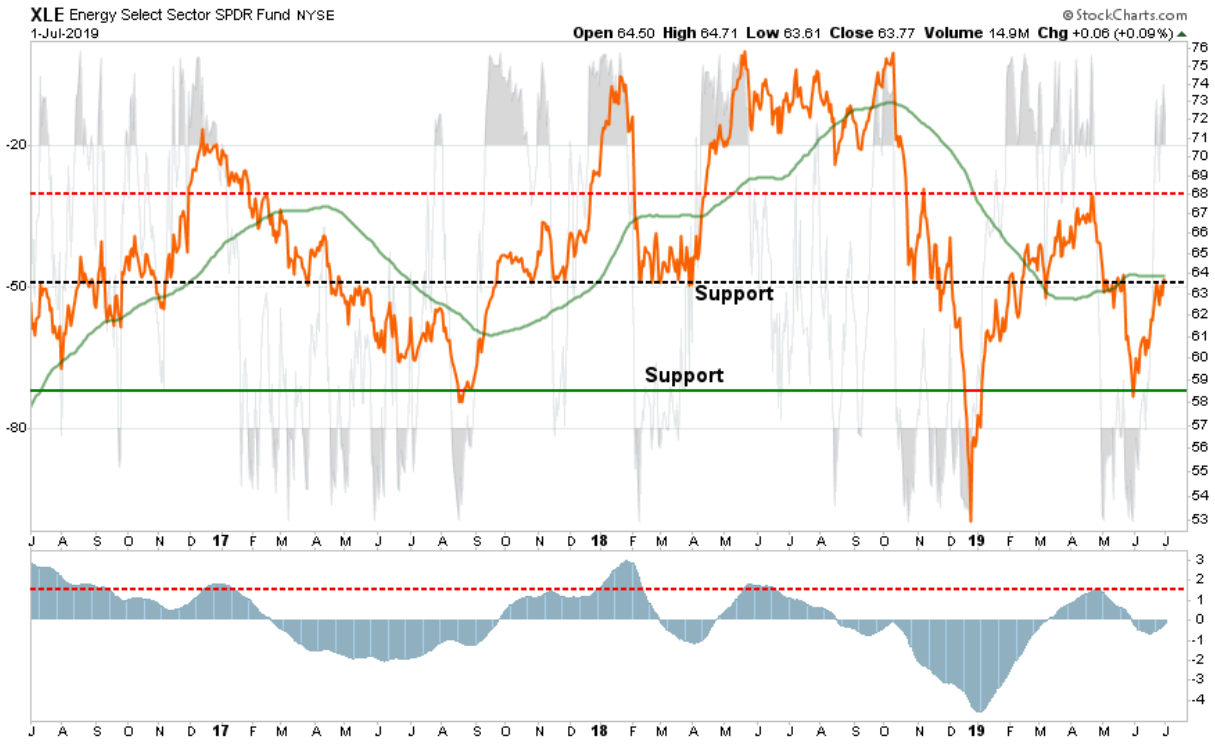
- *XLB back to extreme overbought and challenging resistance.*
- *With the trade deal put on hold, temporarily, XLB got a boost yesterday. However, it is likely more tariffs are coming so take profits and rebalance portfolio risk.*
- *Short-Term Positioning: Neutral*
    - *Last Week: Hold current positions with a tighter stop-loss.*
    - *This Week: Hold current positions with tighter stop-loss*
    - *Stop-loss moved up to $57*
- *Long-Term Positioning: Bearish*

Communications



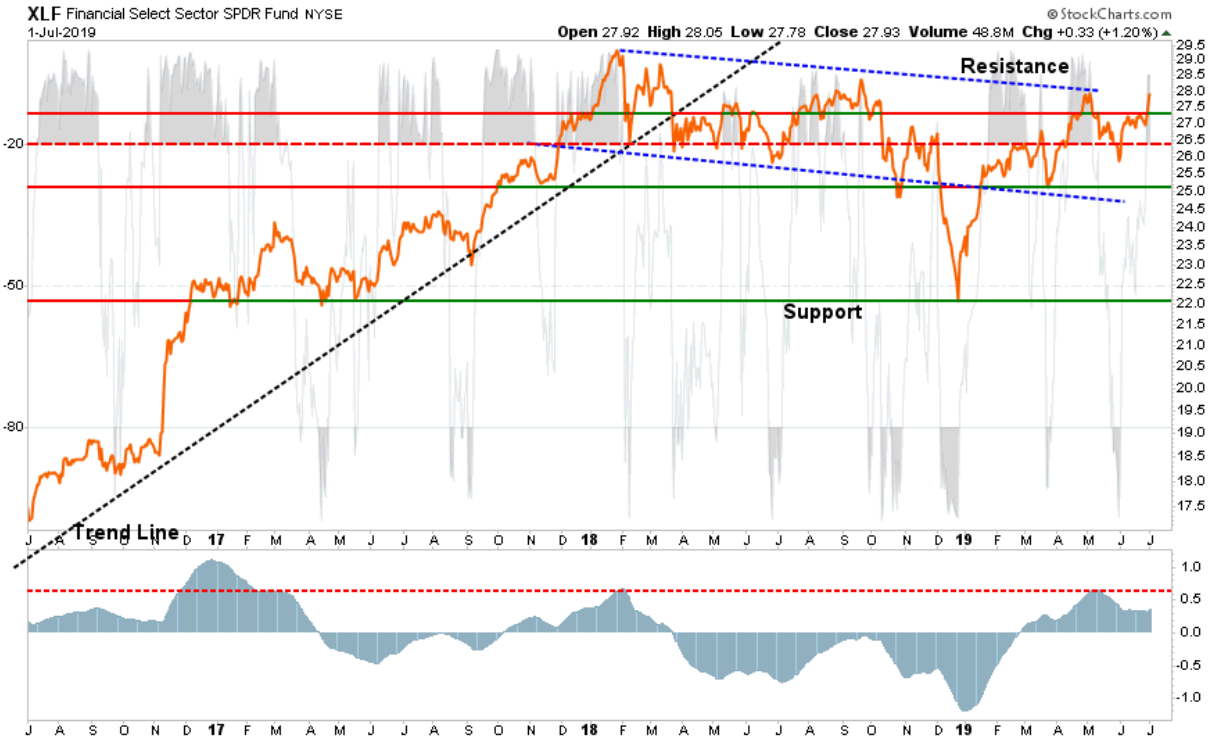
- *XLC has mustered a moderate rally which has been less than inspiring.*
- *While on a buy signal, XLC is back to very overbought. If you are still long positions, take profits and reduce exposure.*
- *Short-Term Positioning: Neutral*
    - *Last Week: Hold trading positions, but take profits.*
    - *This Week: Hold trading positions, but take profits.*
    - *Hard Stop set at $47.50*
- *Long-Term Positioning: Bearish*

Energy



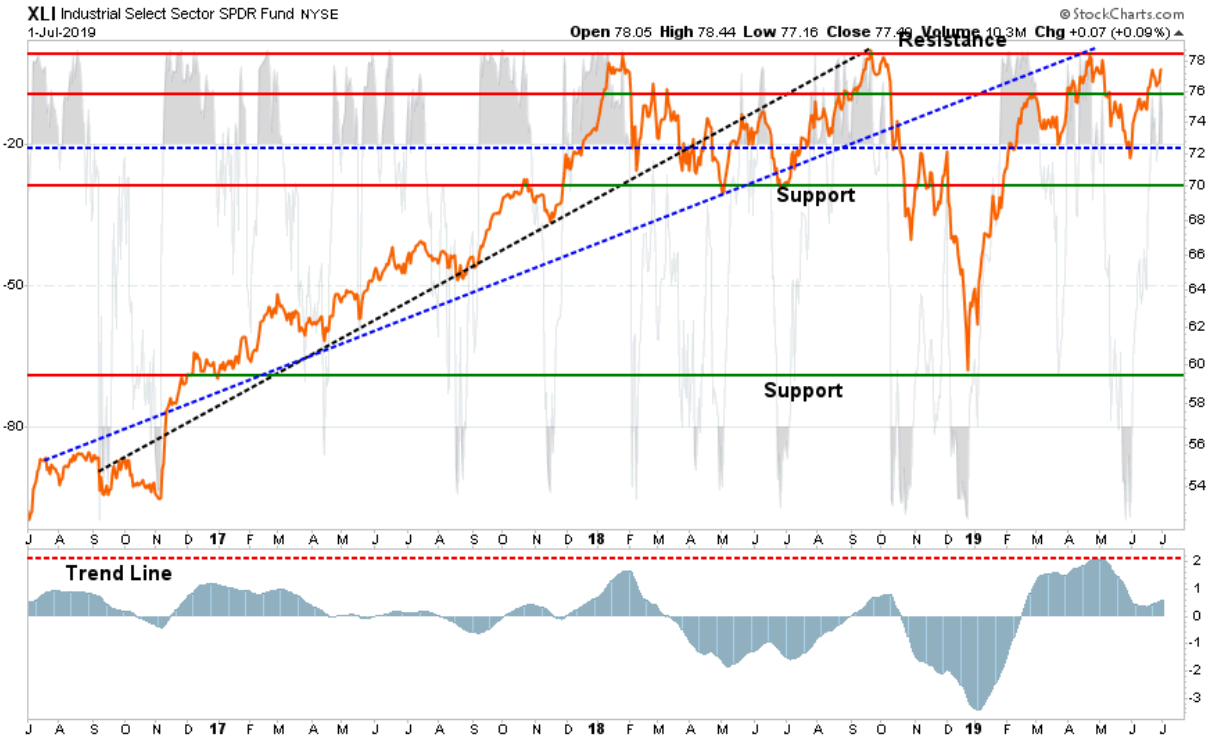
- *XLE has mustered a strong rally over the last few trading sessions as the sector rallied over Iran worries.*
- *Currently, XLE is running into the 200-dma, take profits and rebalance risk accordingly. If this level proves to be resistance, a retest of recent lows is probable.*
- *The "sell-signal" remains intact for now but is trying to reverse. A break above the 200-dma would clear the way for a move higher, but wait for the break first.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold current position*
    - *This week: Hold current position, add to holding on a break above the 200-dma.*
    - *Stop-loss adjusted to $62*
- *Long-Term Positioning: Bearish*

Financials



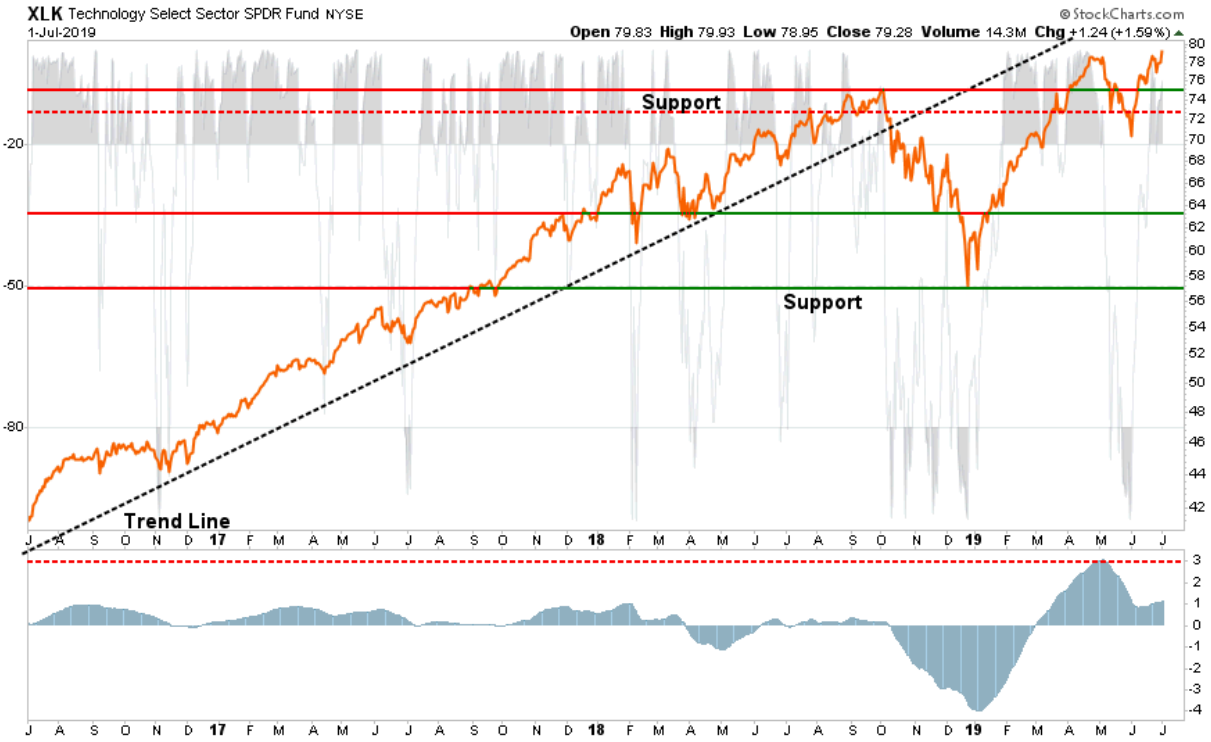
- *XLF has rallied and is now testing, and struggling with previous resistance.*
- *XLF remains on a "buy" signal currently but the oversold condition has almost been fully reversed.*
- *Short-Term Positioning: Neutral*
    - *Last week: Recommended "hold" 1/2 position*
    - *This week: Hold 1/2 position*
    - *Stop-loss moved up to $25.00*
- *Long-Term Positioning: Bearish*

Industrials



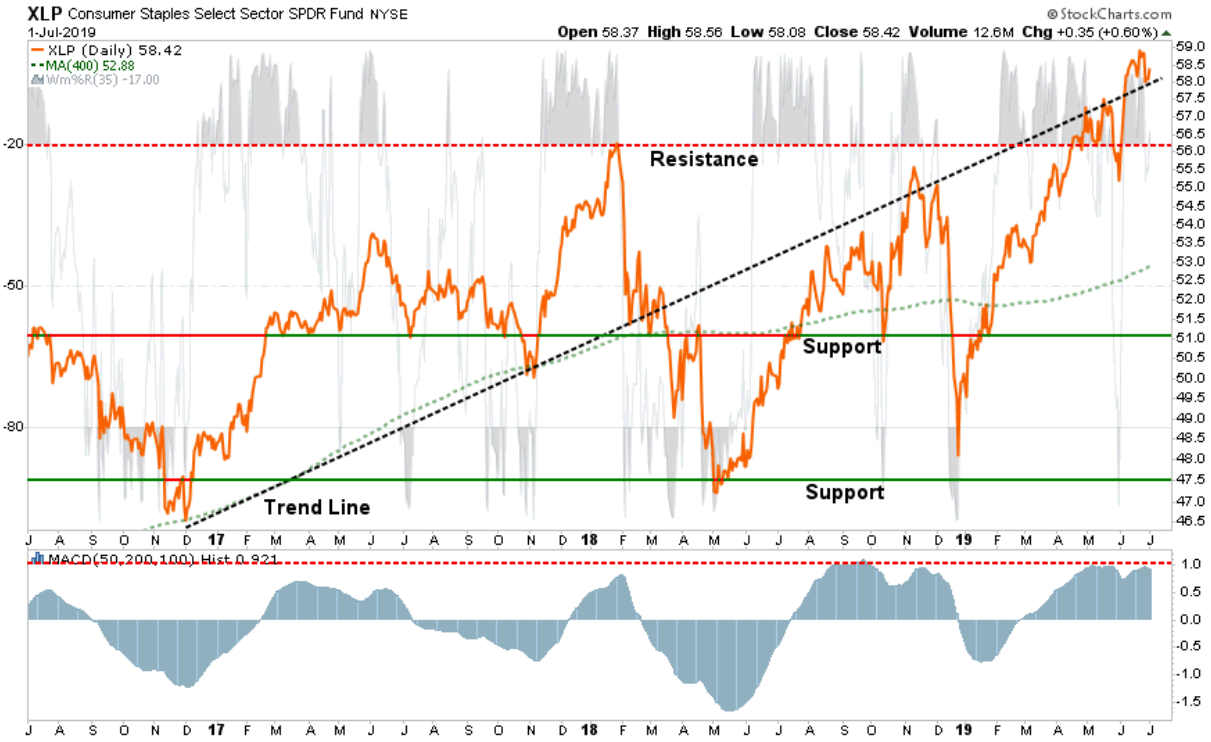
- *XLI has failed to rally to a new high, and the previous triple top remains formidable resistance.*
- *Our stop level has held for now and XLI is rallying back to overhead resistance.*
- *With the "trade war" on hold for now, there is upside to the "triple top." Take profits.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold 1/2 position*
    - *This week: Hold 1/2 position.*
    - *Stop-loss moved up to $76 to protect gains.*
- *Long-Term Positioning: Neutral*

Technology



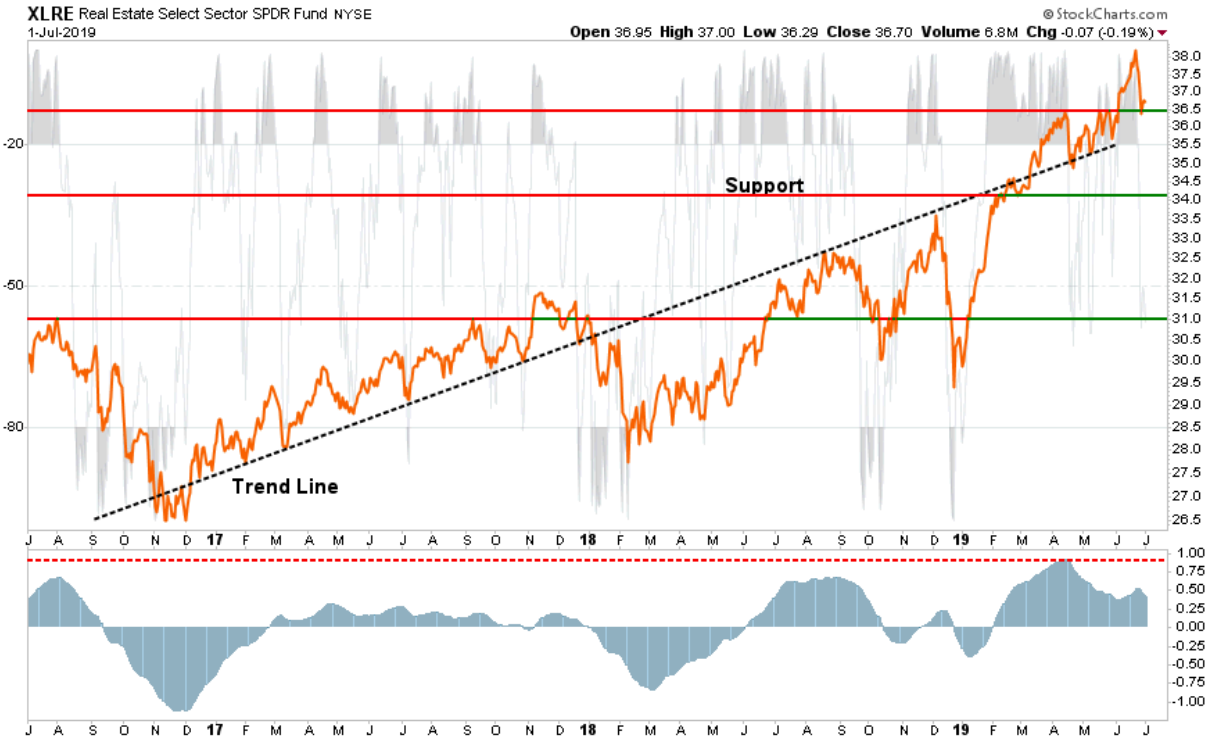
- *XLK has reversed back to an overbought condition and is challenging the previous highs.*
- *XLK has been driven by the largest cap-weighted companies so it may pay to remain cautious for now.*
- *The buy signal remains intact, which is bullish, so remain long positions for now.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold 1/2 position*
    - *This week: Hold 1/2 position*
    - *Stop-loss moved up to $75 to protect gains.*
- *Long-Term Positioning: Neutral*

Staples



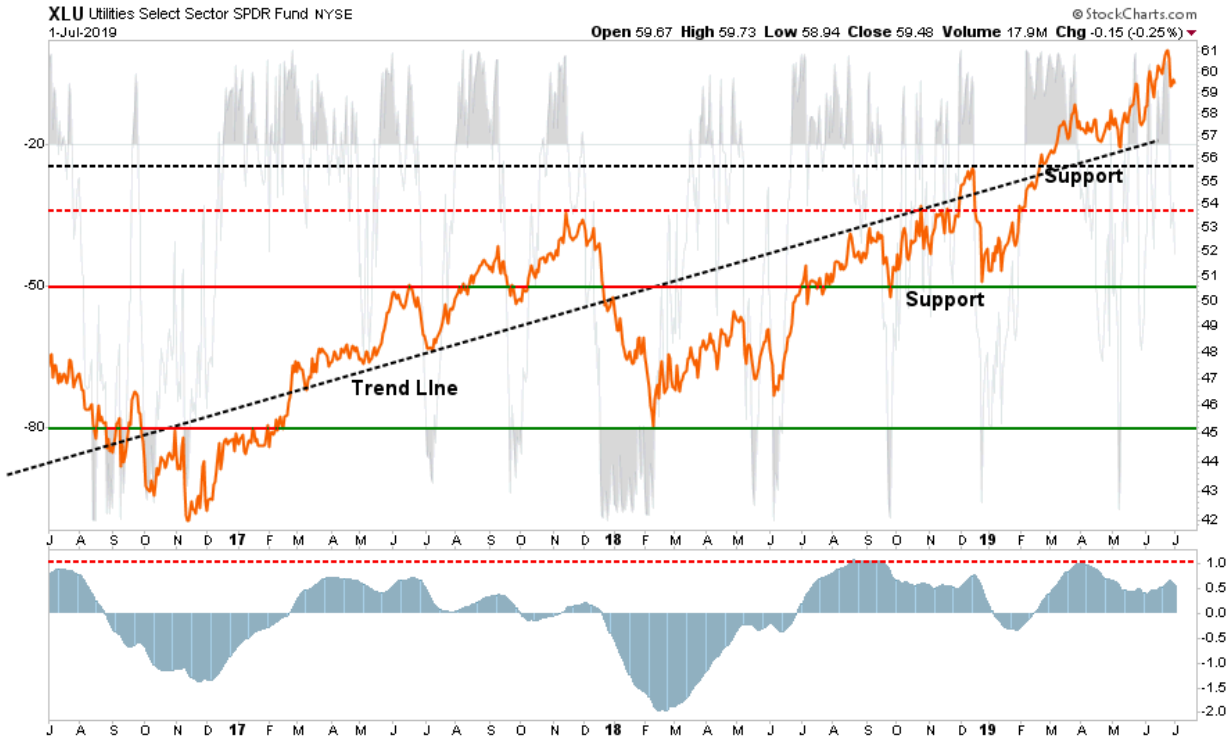
- *Defensive positions cooled off a bit after an exceptionally strong rally. This may give us an opportunity to add to positions in the not too distant future.*
- *XLP is grossly extended. and the buy signal is very elevated.*
- *We previously recommended taking profits but maintaining holdings.*
- *The "buy" signal (lower panel) is still in place and is back to very extended. We continue to recommend taking some profits if you have not done so.*
- *XLP was oversold and we stated additional gains were likely. $56.50 was initial resistance which was taken out with new all-time highs.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold positions, take profits if needed.*
    - *This week: Hold positions, take profits if needed.*
    - *Profit stop-loss moved up to $57.50*
- *Long-Term Positioning: Bullish*

Real Estate



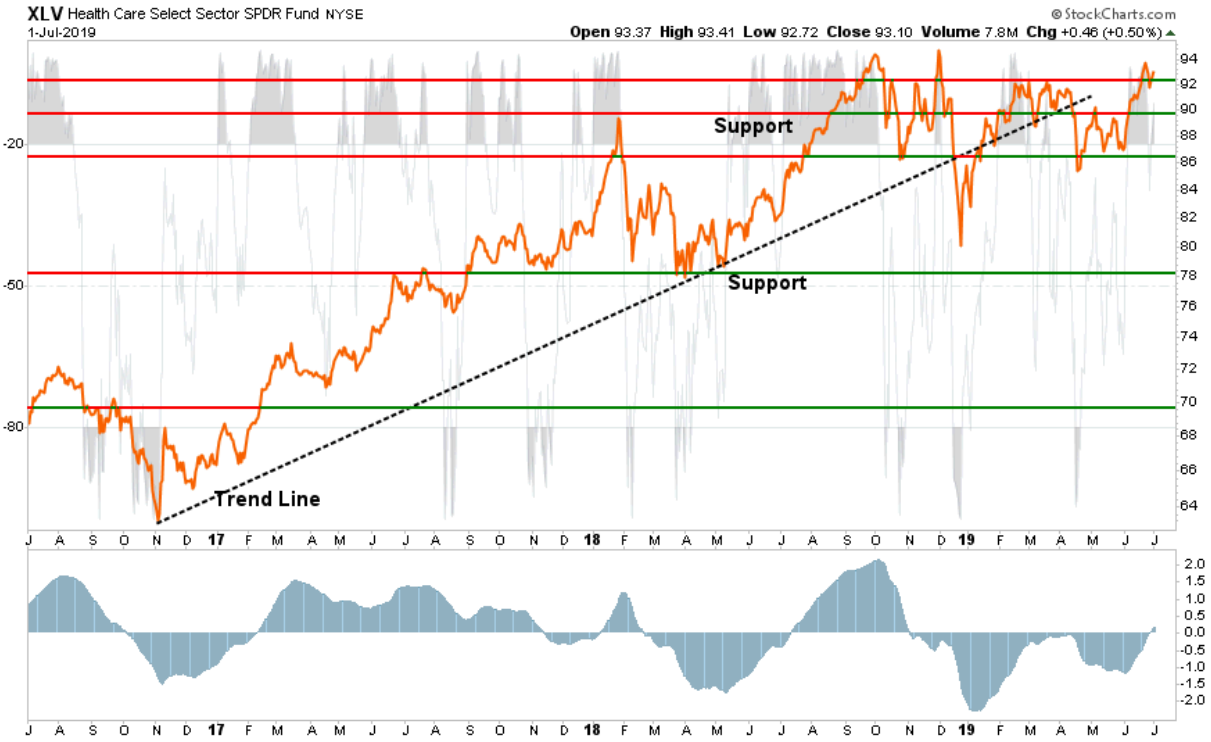
- *XLRE, like XLP, had broken out to all-time highs as "defense" was attracting flows.*
- *We previously recommended taking profits and rebalancing risk as the overbought condition needed to be corrected.*
- *That correction has started and XLRE is testing its first support level.*
- *Buy signal is being reduced along with the "buy signal" but more works needs to be done.*
- *Short-Term Positioning: Bullish*
    - *Last week: Holding position.*
    - *This week: Hold position.*
    - *Stop-loss adjusted to $36.00 for profits.*
    - *Long-Term Positioning: Bullish*

Utilities



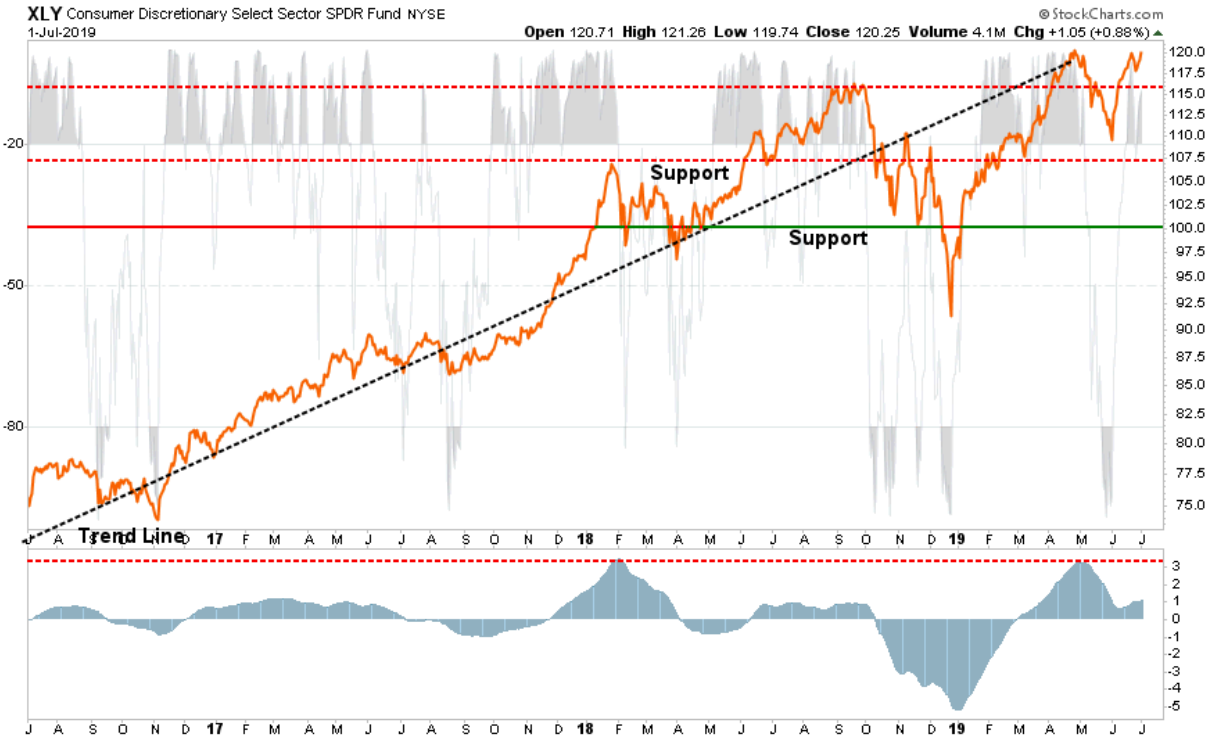
- *XLU, like XLRE and XLP above, had gotten extremely overbought so a correction was expected.*
- *Long-term trend line remains intact and the recent test of that trend line with a break to new highs confirms the continuation of the bullish trend.*
- *Buy signal worked off some of the excess. (bottom panel) and the overbought condition is also on the mend.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold overweight position*
    - *This week: Hold overweight position*
    - *Stop-loss moved up to $57.50.*
- *Long-Term Positioning: Bullish*

Health Care



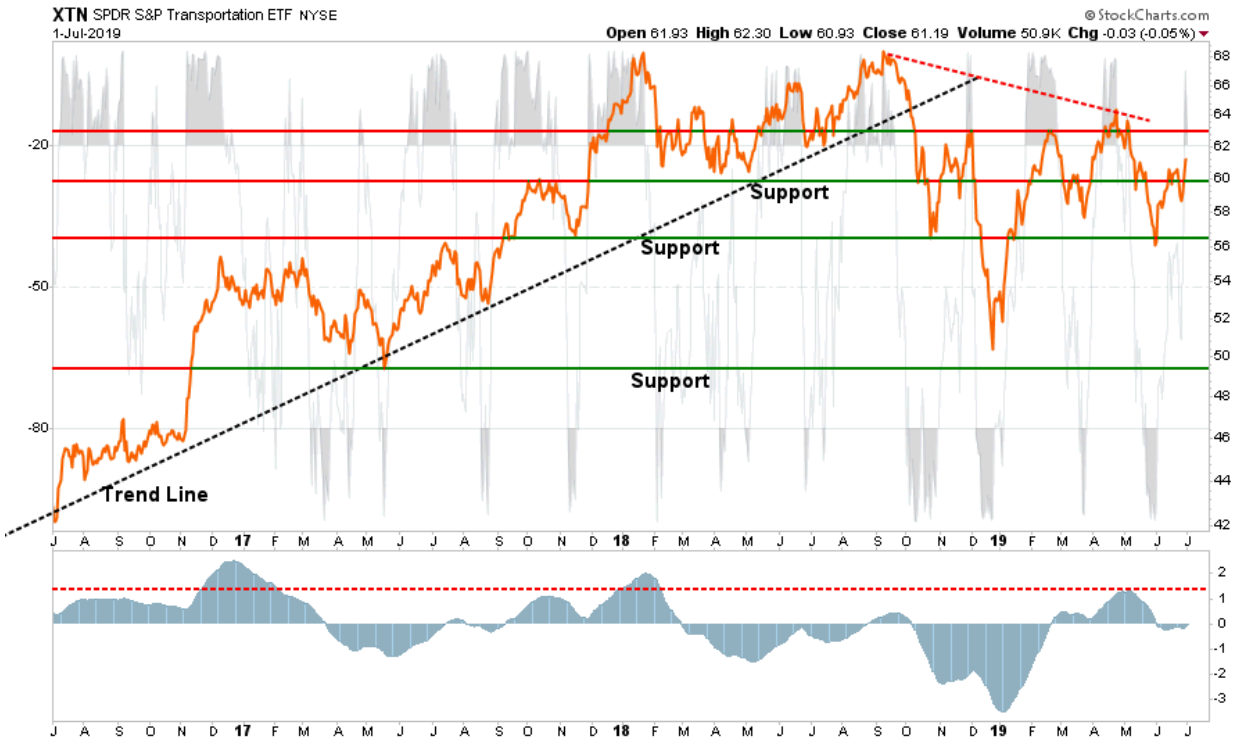
- *Sell-signal (bottom panel), as anticipated, has reversed to a buy signal.*
- *XLV performance improved markedly but after a big run, the current correction was expected.*
- *XLV is back to overbought so $90 is now important support.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold current position (overweight)*
    - *This week: Hold current position (overweight)*
    - *Stop-loss moved up to $90 to protect profits.*
- *Long-Term Positioning: Neutral*

Discretionary



- *With AMZN and AAPL now considered discretionary stocks, it is not surprising to see XLY rise and fall with XLK and XLC as those two major stocks rallied last week and on Monday.*
- *The "buy" signal has been reduced and is holding up and XLY is now challenging all-time highs.*
- *XLY is back to extreme overbought, so take profits on this rally and wait to see what happens next.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold 1/2 of position.*
    - *This week: Hold 1/2 position*
    - *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.*
- *XTN has reversed its buy signal (bottom panel) and while the sector is bouncing off of an oversold condition, there is a lot going wrong.*
- *We noted two weeks ago to "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: No position*
- *Long-Term Positioning: Bearish*