

Sector Buy/Sell Review: 07-16-19

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:

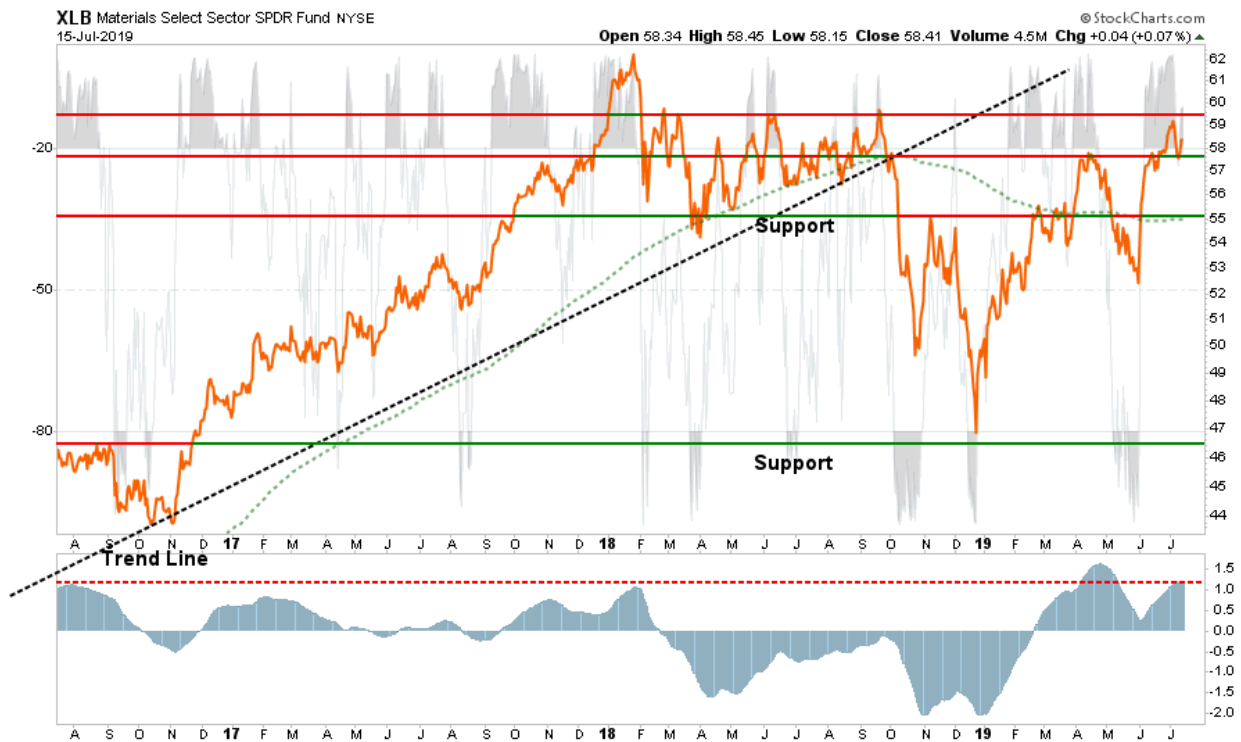
- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

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



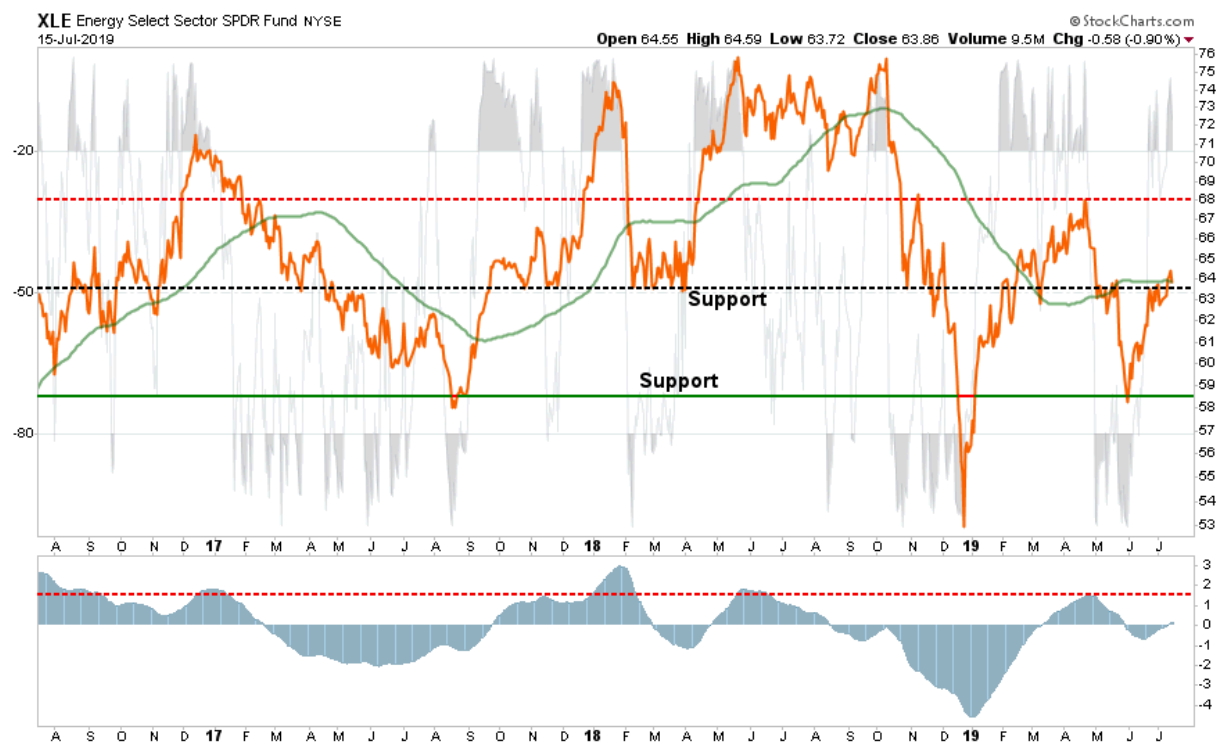
- *XLB is back to extreme overbought and failed at resistance last week.*
- *XLB is testing support which must hold.*
- *With the trade deal put on hold, temporarily, XLB got a boost on hopes one may be completed someday. However, it is likely more tariffs are coming so take profits and rebalance portfolio 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



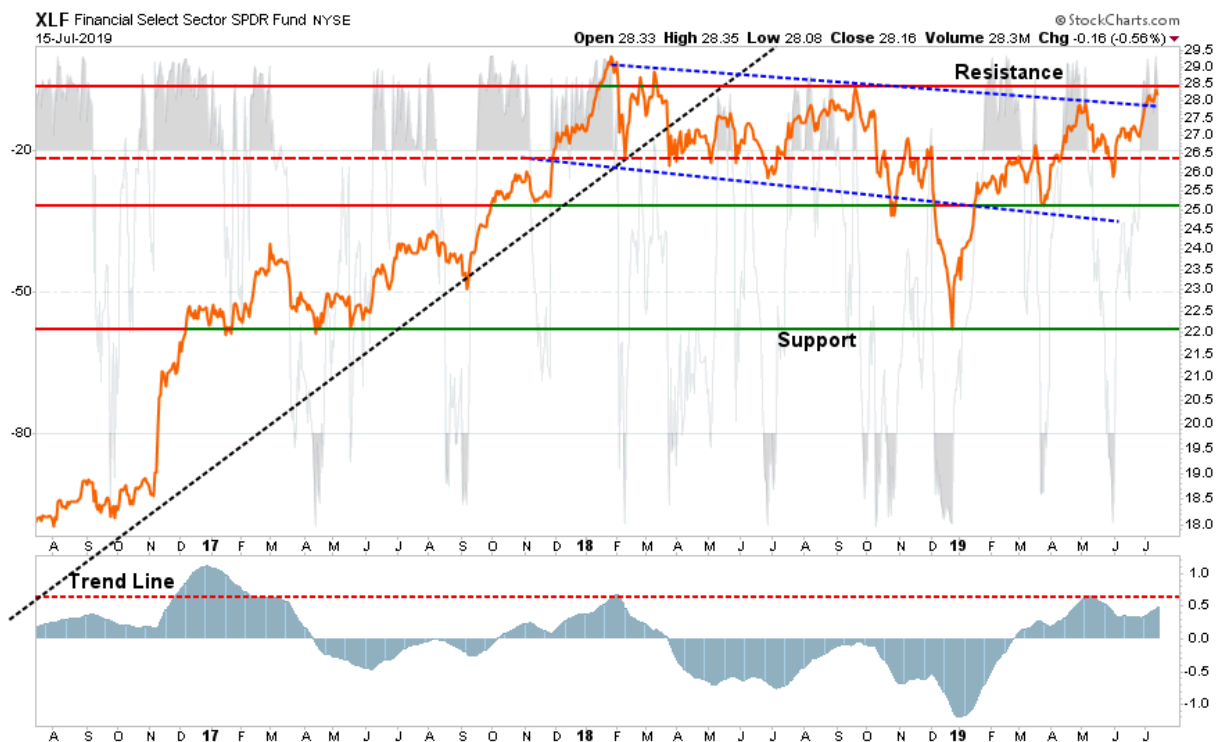
- XLC has mustered a decent rally which has been less than inspiring relative to other sectors.
- While on a buy signal, XLC is back to extreme overbought. If you are still long positions, take profits and reduce exposure.
- Short-Term Positioning: Neutral
 - Last Week: Hold trading positions, but take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

Energy



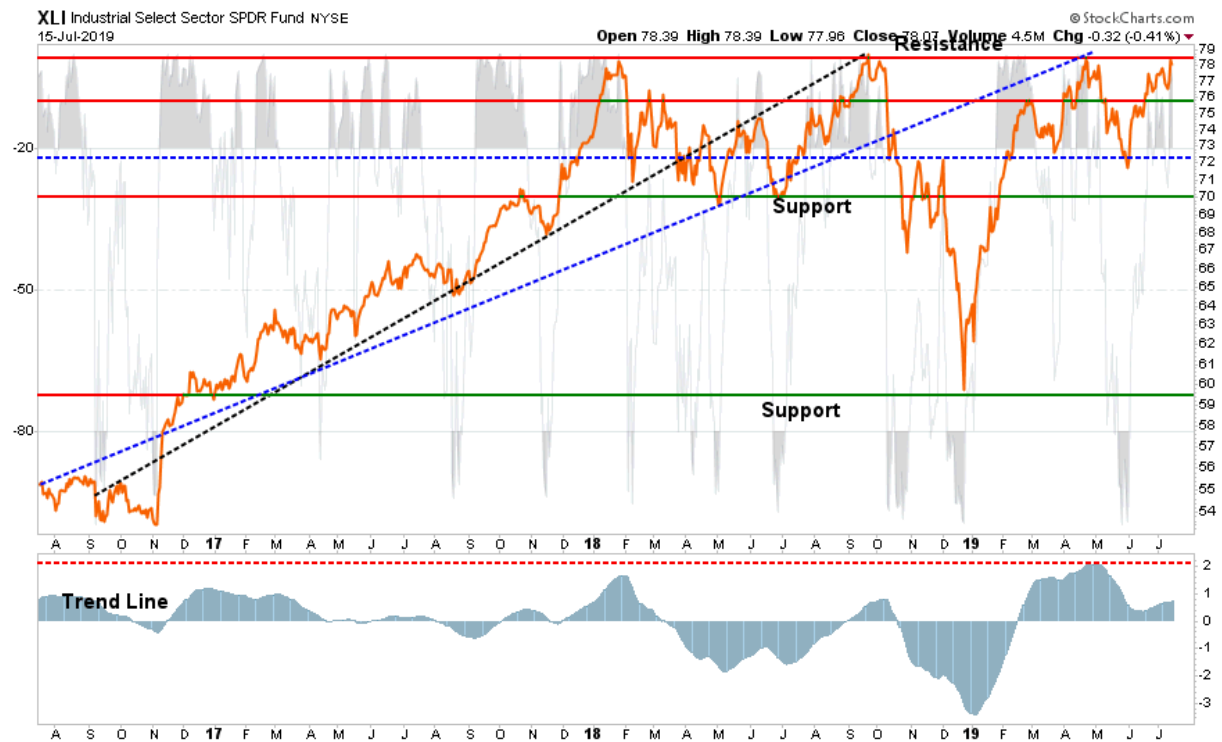
- Currently, XLE is wrestling with the 200-dma. While, as noted yesterday, \$WTIC has broken above resistance, energy shares are still lagging behind a bit.
- With XLE back to overbought, take profits and rebalance risk accordingly.
- A convincing break above the 200-dma would clear the way for a move higher, but wait for the break first.
- The sell signal is being reversed to a "buy" which is a good sign.
- 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



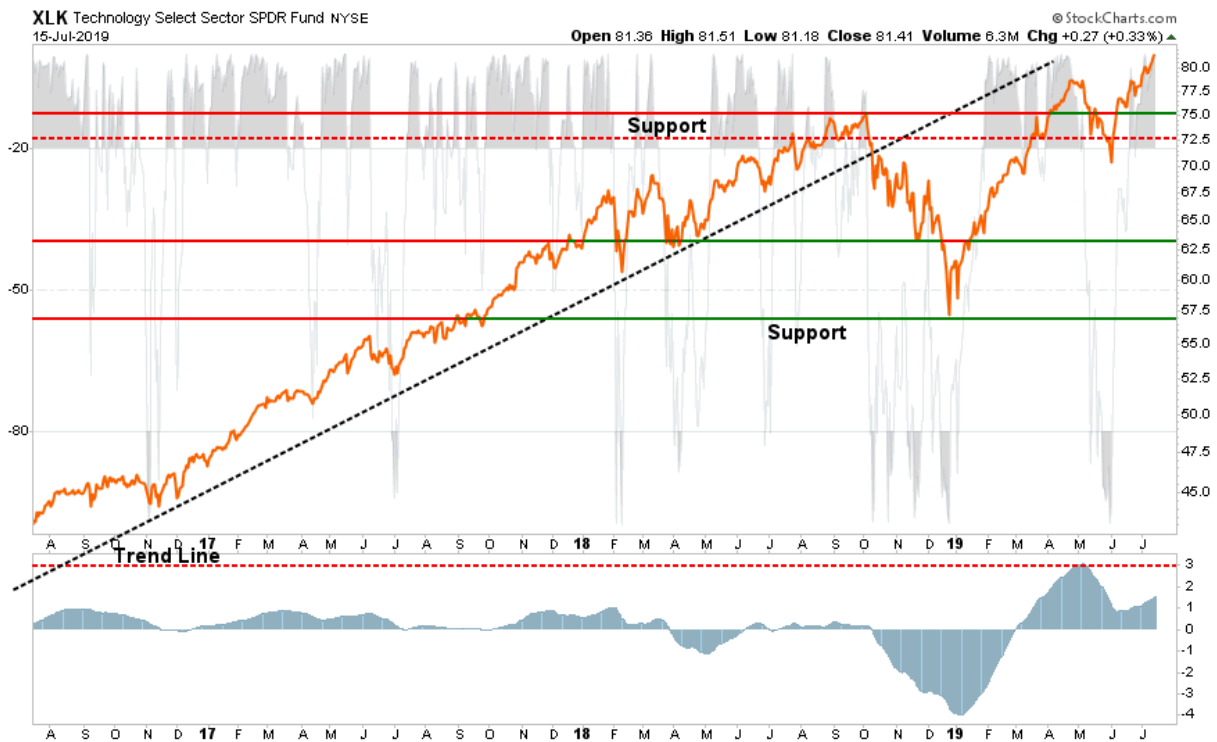
- XLF has rallied and is now testing, and trying to clear previous resistance.
- XLF remains on a "buy" signal currently but is back to extreme overbought.
- Short-Term Positioning: Neutral
 - Last week: Recommended "hold" 1/2 position
 - This week: Hold 1/2 position
 - Stop-loss moved up to \$25.00
- Long-Term Positioning: Bearish

Industrials



- *XLI has rallied and is now testing a "quadruple top." It is now, or never, for industrials to breakout and move higher.*
- *XLI is extremely overbought, but a break above \$70 will set up a move higher.*
- *As stated previously, with the "trade war" on hold for now, there is upside to the "triple top."*
- *Take profits for now and wait for the next setup.*
- *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



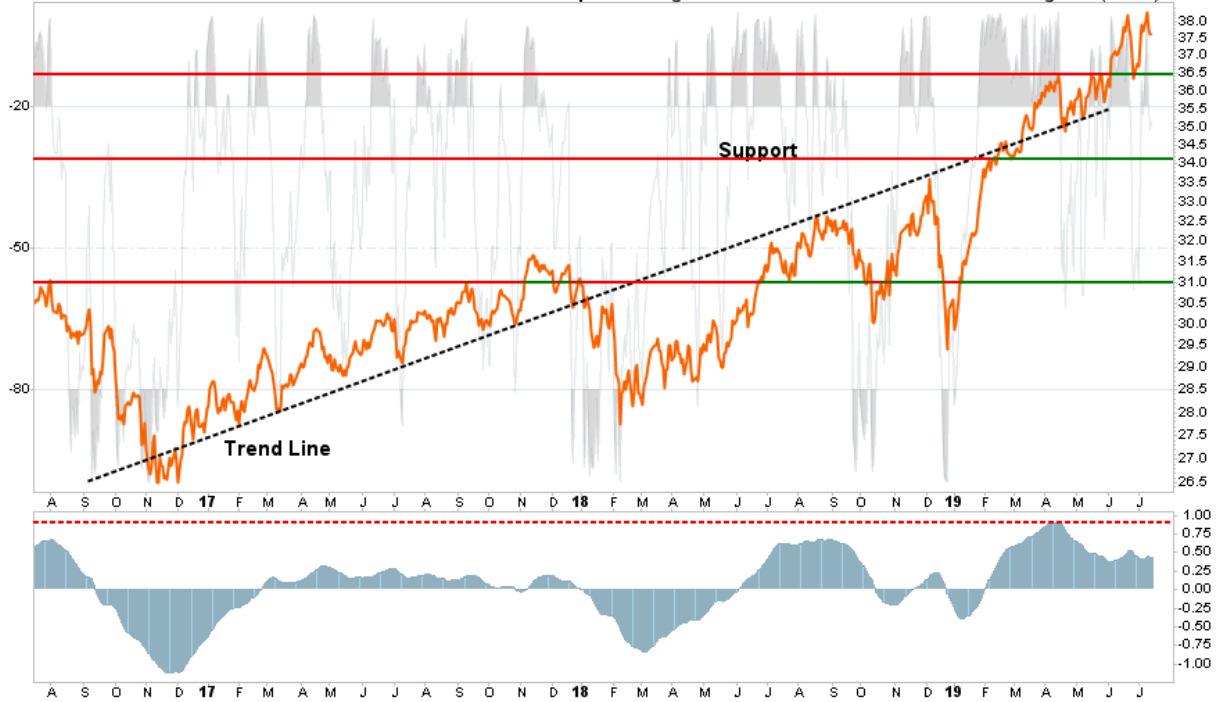
- *XLK has reversed back to an overbought condition and has pushed out to new highs although the breadth of that breakout remains suspect.*
- *XLK has been driven by the largest cap-weighted companies so it may be prudent to remain cautious for now.*
- *The buy signal remains intact, which is bullish, but is back to extreme overbought. Risk vs reward is not optimal currently.*
- *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



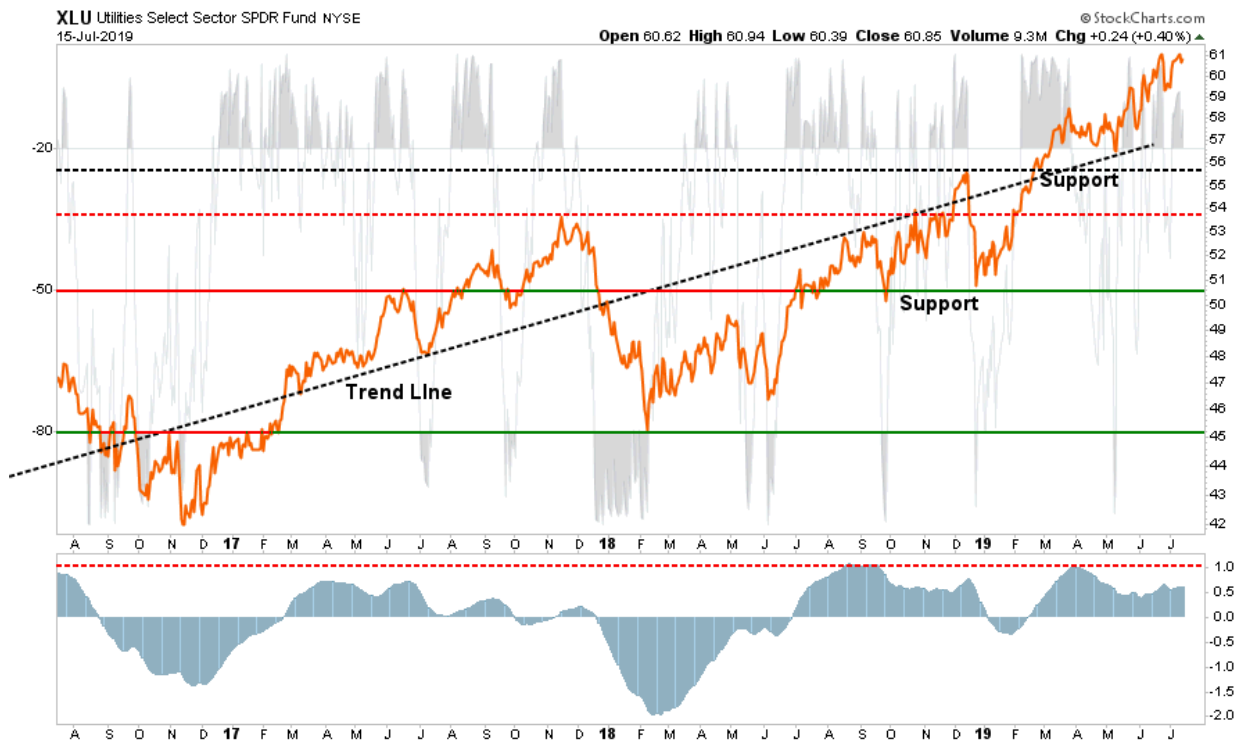
- Defensive positions cooled off a bit after an exceptionally strong rally. It didn't last long as "defensive positioning" continues to lead the markets higher.
- XLP is grossly extended. and the buy signal is very elevated.
- We previously recommended taking profits but maintaining holdings.
- The "buy" 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.
- 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 \$58
- Long-Term Positioning: Bullish

Real Estate



- *XLRE also broke out to "new highs," retested support and is now testing old highs once again.*
- *If XLRE can break out to new highs, that will confirm the previous breakout and keep allocations in place.*
- *We previously recommended taking profits and rebalancing risk as the overbought condition needed to be corrected.*
- *That correction did not last long and real estate is back testing all-time highs, take profits and rebalance once again.*
- *Buy signal is being reduced along with the "buy signal" but more work 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



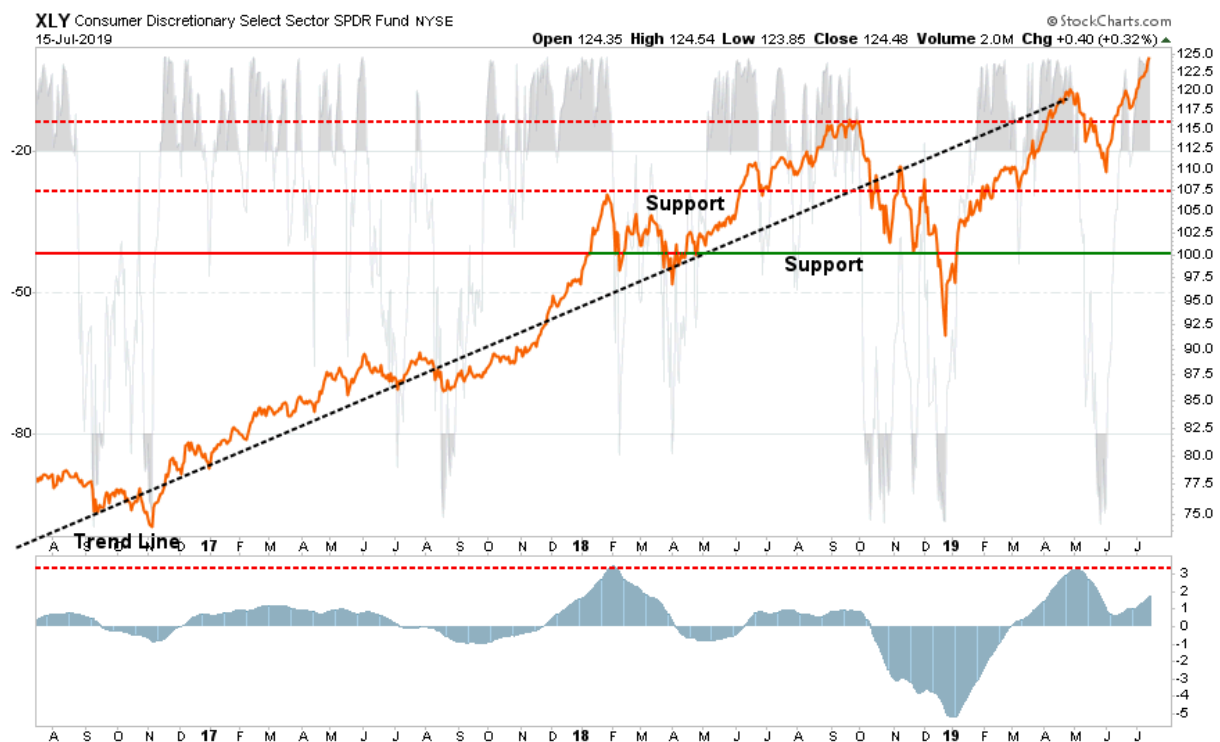
- *XLU, is back to extremely overbought so a correction is expected again.*
- *Like XLRE, XLU is testing highs once again.*
- *Long-term trend line remains intact and the recent test of that trend line with a break to new highs confirms the continuation of the bullish trend.*
- *Buy signal worked off 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



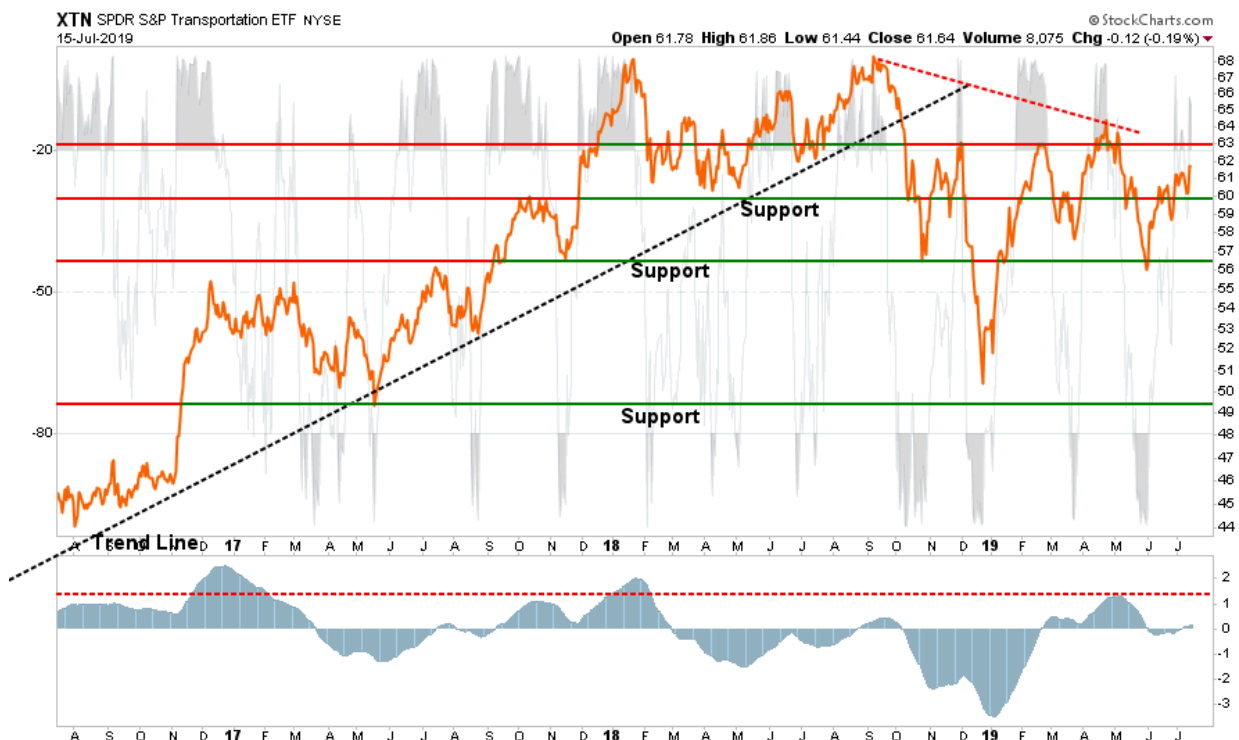
- *Sell-signal (bottom panel), as anticipated, has reversed to a buy signal.*
- *XLV performance improved markedly but after a big run, the current correction was expected.*
- *XLV is back to overbought so \$90 is important support.*
- **Short-Term Positioning: Neutral**
 - *Last week: Hold current position (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 breaking out to all-time highs although participation remains weak.
- 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 triggered a "buy" signal but remains confined to an overall downtrend.
- There is still no compelling reason at this juncture to add XTN to portfolios. We will watch and see what happens.
- Short-Term Positioning: Neutral
 - Last week: No position
 - This week: No position
- Long-Term Positioning: Bearish