

Major Market Buy/Sell Review: 07-22-19

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:

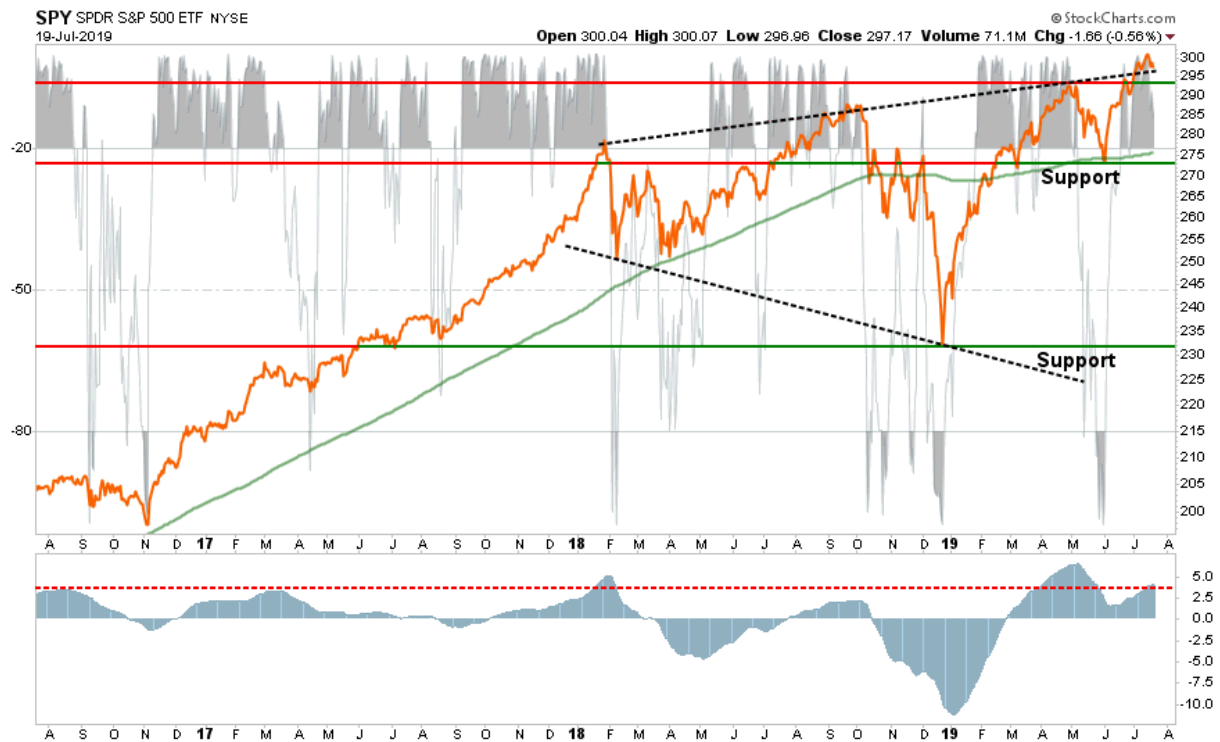
- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

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.



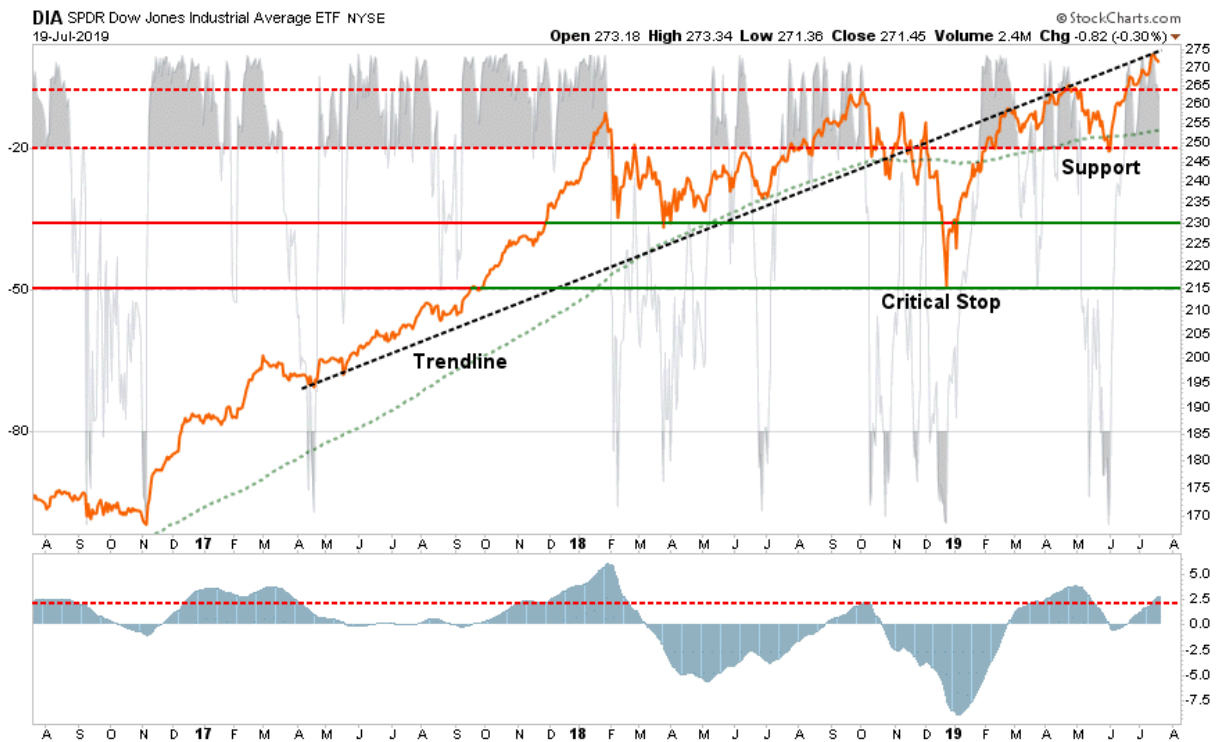
With this basic tutorial let's review the major markets.

S&P 500 Index



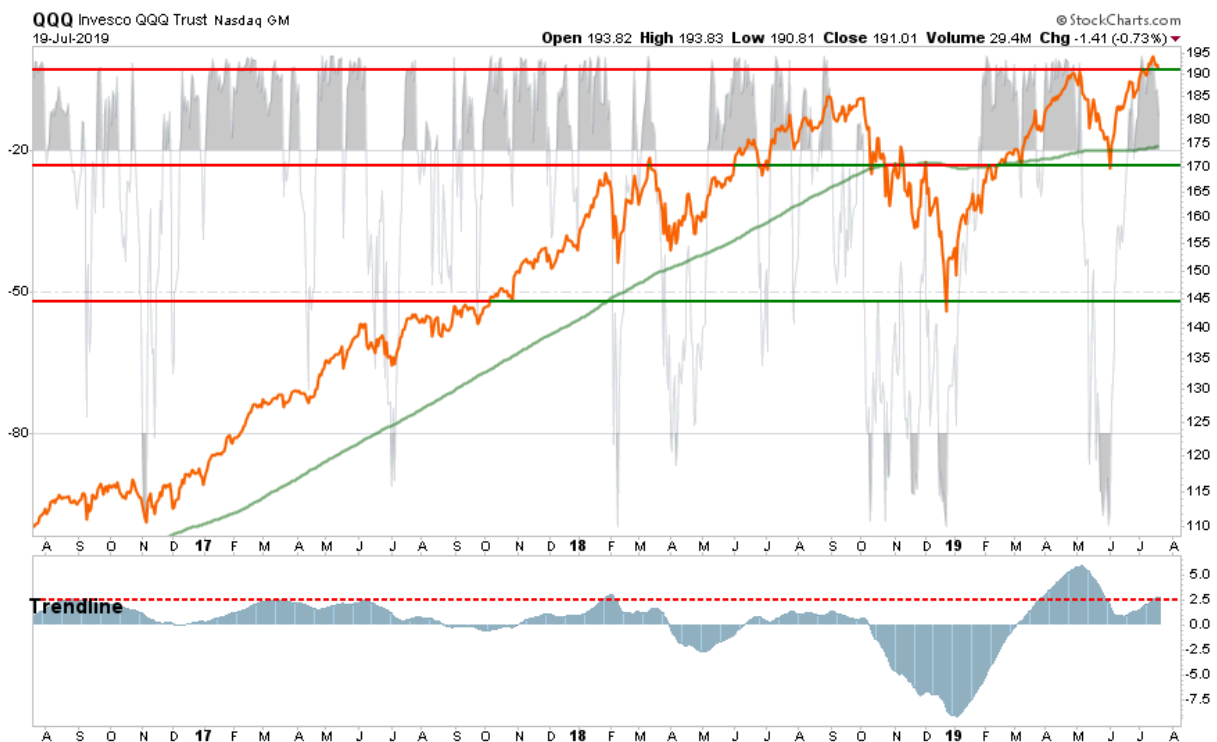
- As reported last week, the market cracked 3000 driven by hopes of a "Fed rate cut" at the end of the month.
- As we noted then, on a technical basis the breakout is constructive and suggests higher highs BUT the near-term extremely overbought condition suggested a bit of a correction was coming.
- That correction started last week, and may continue into next week. We did add a 2x-Short S&P 500 position to the **Equity Long-Short** portfolio to hedge this pullback.
- Short-Term Positioning: Bullish
 - Last Week: Hold position
 - This Week: Hold position.
 - Stop-loss remains \$275
 - Long-Term Positioning: Neutral due to valuations

Dow Jones Industrial Average



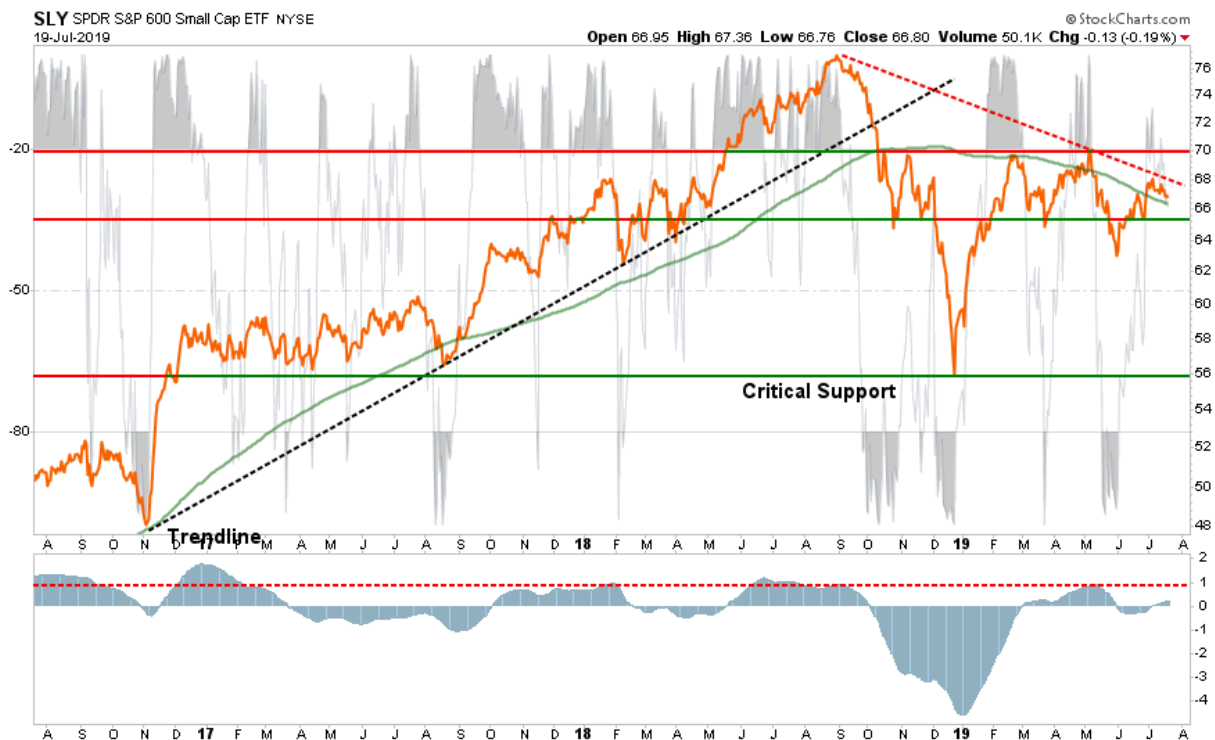
- Last week, we noted DIA did break out to new highs and triggered a short-term buy signal.
- DIA is very overbought short-term, so like SPY above, we will look for a better entry point to suggest adding weighting to portfolios.
- Short-Term Positioning: Neutral
 - Last Week: Hold current positions
 - This Week: Hold current positions.
 - Stop-loss moved up to \$252.50
- Long-Term Positioning: Neutral

Nasdaq Composite



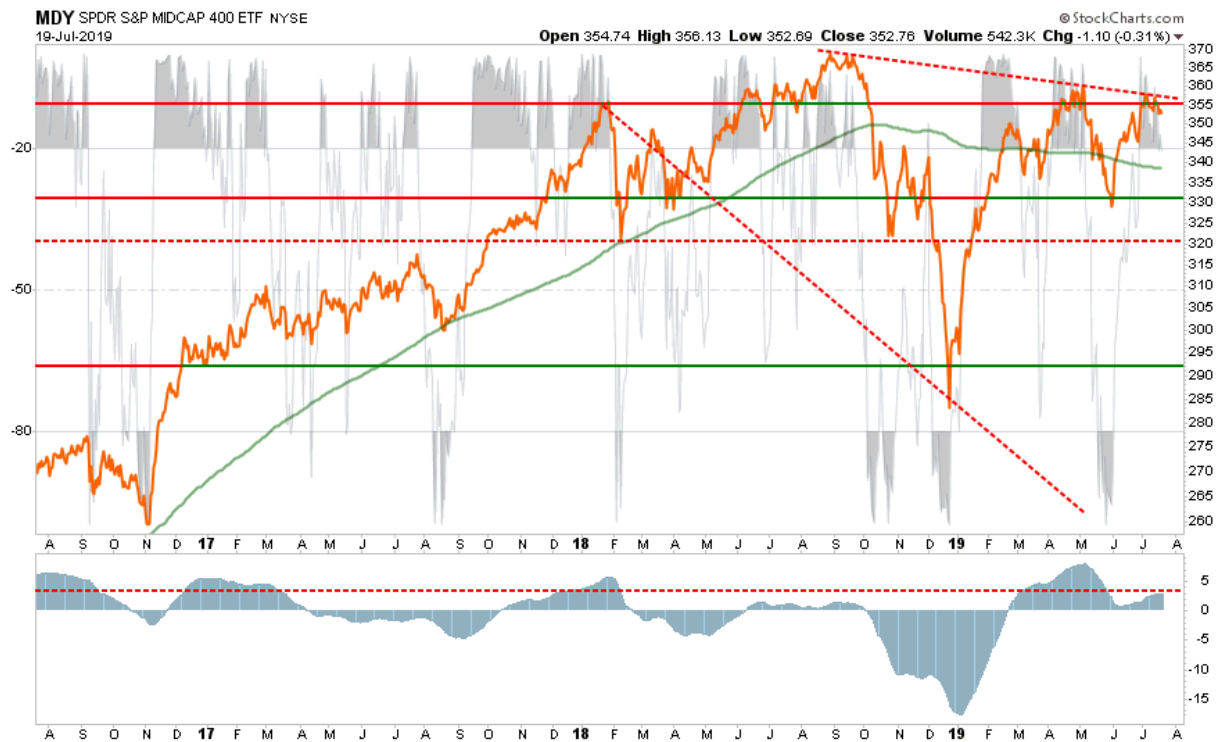
- QQQ rallied from the oversold condition and is now back to **EXTREMELY** overbought.
- While QQQ did breakout to new highs along with DIA and SPY it is lagging in terms of relative performance.
- With the "buy signal" getting elevated towards levels that have previously signaled short-term peaks, use corrections that do not violate support to add to positions.
- Short-Term Positioning: Bullish
 - Last Week: Hold position
 - This Week: Hold position
 - Stop-loss moved up to \$175
- Long-Term Positioning: Neutral

S&P 600 Index (Small-Cap)



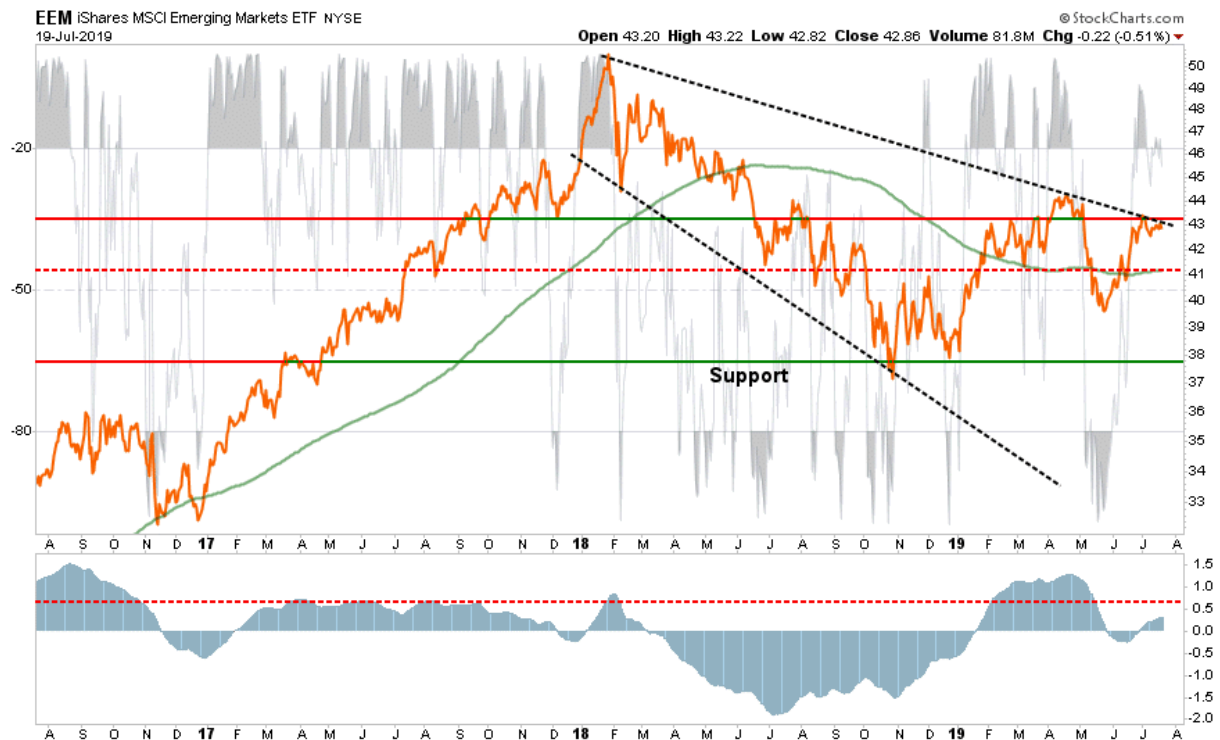
- SLY continues to be a technical disaster. Small-caps are also not confirming the exuberance of its large-cap brethren because small-caps do not engage in massive stock repurchase programs.
- Last week, SLY did break above the 200-dma but remains confined to a very negative downtrend.
- SLY has triggered a short-term buy signal so that could help small-caps gain ground if they can hold up.
- There are a lot of things going wrong with small-caps currently so the risk outweighs the reward of a trade at this juncture.
- Short-Term Positioning: Bearish
 - Last Week: No position
 - This Week: No position.
 - Stop loss violated.
- Long-Term Positioning: Bearish

S&P 400 Index (Mid-Cap)



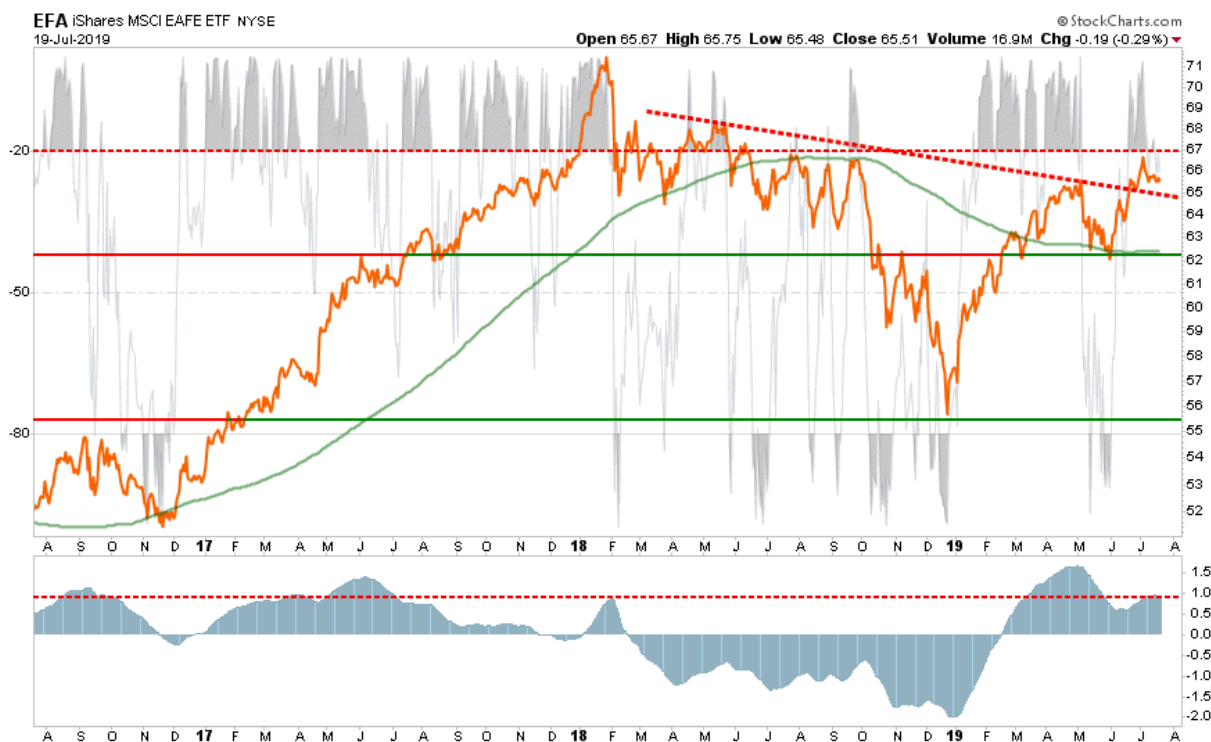
- MDY, like SLY, is technically not in great shape. Mid-caps, like small-caps, also do not participate in major share repurchase programs and are economically sensitive. Both suggest the overall market environment is weaker than headlines suggest.
- MDY did regain its 200-dma but the rally has been weak and has failed at resistance.
- Mid-caps are also very overbought so take profits if you are long and tighten up stops.
- Short-Term Positioning: Neutral
 - Last Week: Use any further rally this week to sell into.
 - This Week: Use any further rally this week to sell into.
- Long-Term Positioning: Bearish

Emerging Markets



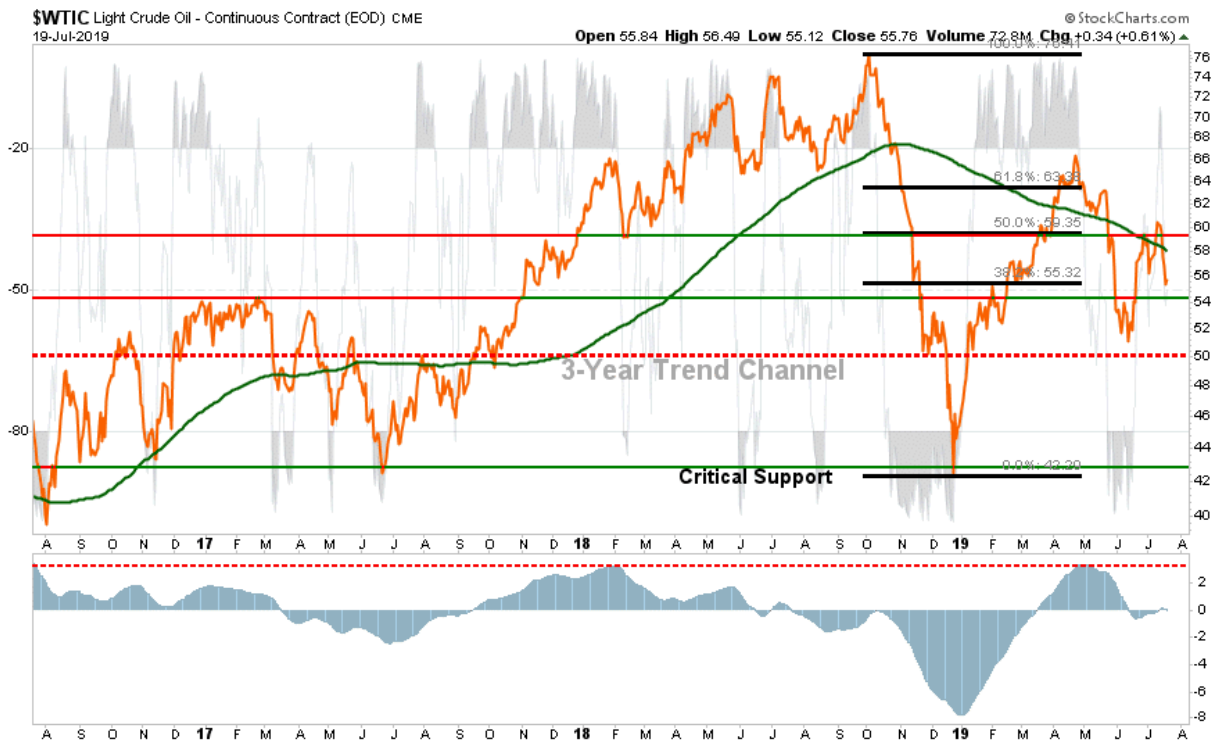
- *EEM rallied back to the top of its downtrend channel on news that the ECB will potentially cut rates and increase QE programs.*
- *EEM is back on a "buy signal" but is confined to a more major downtrend currently.*
- *We previously added a small trading position to the long-short portfolio which we closed out this past week due to lack of performance. We may retry a position if the technicals firm up.*
- **Short-Term Positioning: Bearish**
 - *Last Week: Hold current position*
 - *This Week: Hold current position*
 - *Stop-loss set at \$41*
- **Long-Term Positioning: Neutral**

International Markets



- *Like EEM, EFA rallied on news the ECB will leap back into action to support markets.*
- *Last week, EFA broke above its downtrend line while maintaining a "buy signal." That "buy signal" is now very extended.*
- *We did add a trading position to our long-short portfolio model but it, like EEM, really was not performing well so we closed it out last week. We will try again later if technicals improve.*
- **Short-Term Positioning: Neutral**
 - *Last Week: Hold position*
 - *This Week: Hold position.*
 - *Stop-loss is set at \$64*
- **Long-Term Positioning: Neutral**

West Texas Intermediate Crude (Oil)



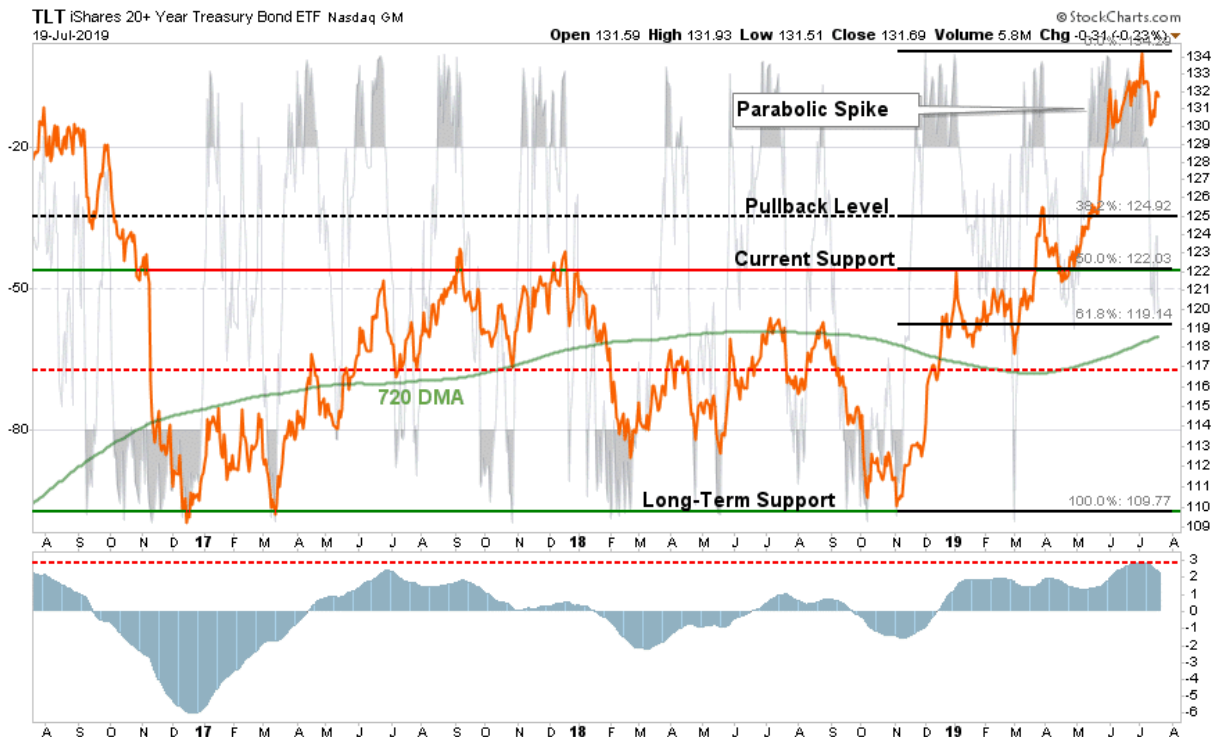
- We noted previously that Oil was able to push above the 50% retracement line on a bigger than expected crude draw and "Tropical Storm Barry" shutting down production in the Gulf.
- That push is over, and economic realities have come back into focus. It is critically important oil holds support at \$54 otherwise the low \$50's will come into focus very quickly.
- Short-Term Positioning: Neutral
 - Last Week: Add trading position on pullback that holds \$58
 - This Week: No position as support failed to hold.
 - Stop-loss for any existing positions is \$54.
- Long-Term Positioning: Bearish

Gold



- Gold has quickly reversed its oversold condition to extreme overbought including its longer-term "buy signal."
- Gold broke above short-term resistance on Friday as news from the Fed suggested the Fed may "go big" at the end of the month on a rate cut.
- Gold is too extended to add to positions here. Look for a pullback to \$127-128 to add.
- Short-Term Positioning: Neutral
 - Last week: Hold positions.
 - This week: Hold positions
 - Profit-stop is at \$130
 - Stop-loss for whole set at \$126
- Long-Term Positioning: Neutral

Bonds (Inverse Of Interest Rates)



- As noted previously,
 - "Bond prices have gone parabolic and are now at extremes. Even the "buy" signal on the bottom panel has reached previous extremes which suggests a reversal in rates short-term is likely."
- That correction started two weeks ago and the consolidation has continued. The overbought condition is being reversed with the "buy" signal still intact.
- If bonds continue to consolidate, an entry could form at \$129-130.
- Prices could pullback to the \$126-127 range which would be an ideal entry point.
- Short-Term Positioning: Bullish
 - Last Week: Hold positions after taking profits.
 - This Week: Hold positions
 - Stop-loss is moved up to \$125
 - Long-Term Positioning: Bullish

U.S. Dollar



- The dollar has rallied above, and is holding support, at its 200-dma.
- There is likely more rally to go next week particularly if it looks like the Fed may not be as accommodative as the market expects.
- The dollar is starting to reverse its oversold condition, and the rally to \$97 last week has put the dollar back on our radar as suggested last week. A break above resistance at \$97 will suggest another leg higher for the dollar.
- Short-Term Positioning: Bullish
 - Last Week: No Position
 - This Week: No Position