Sector Buy/Sell Review: 08-13-19

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:

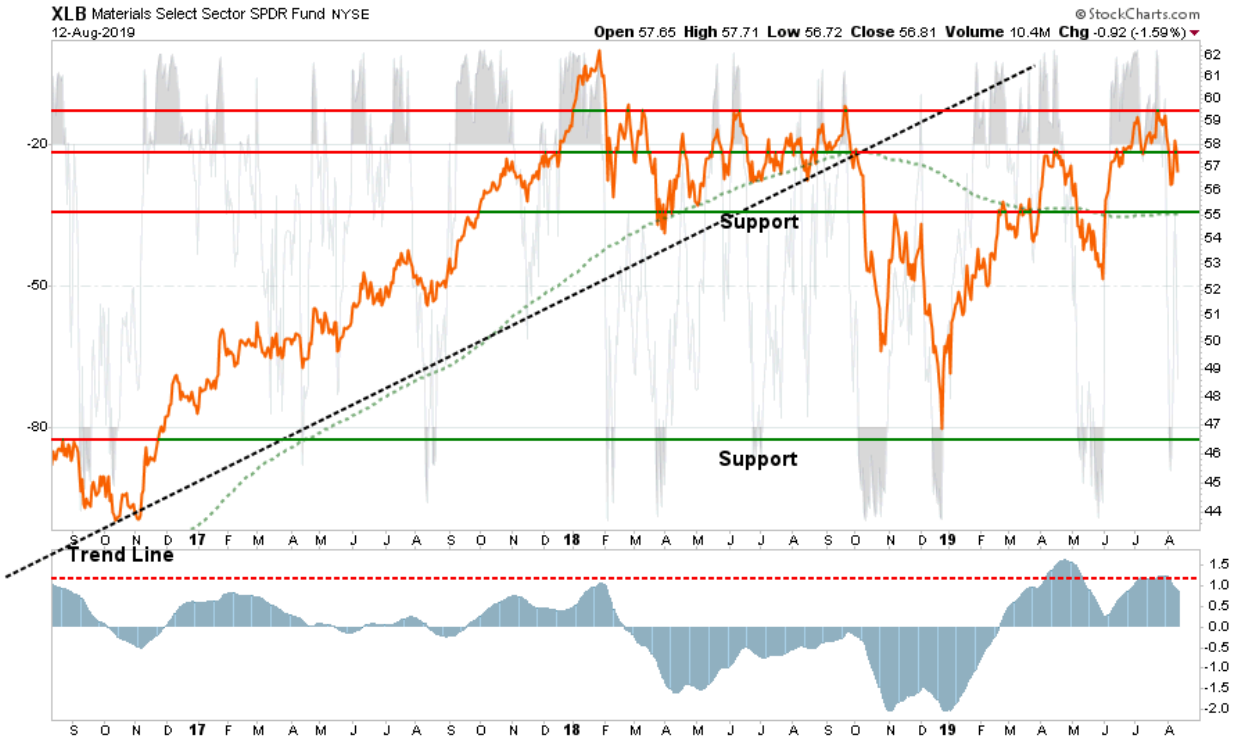
- *The price chart is in orange*
- *The Over Bought/Over Sold indicator is in gray*
- *The Buy / Sell indicator is in blue.*

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



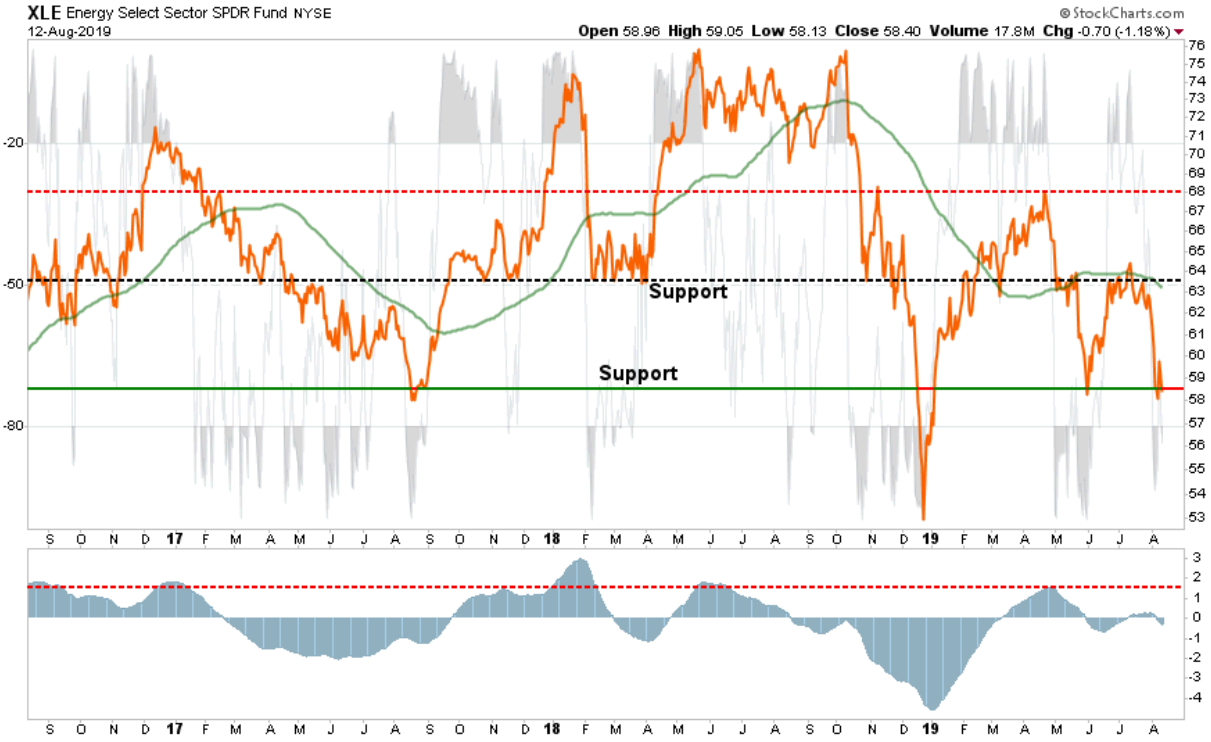
- *I previously noted XLB was back to extreme overbought and failed at resistance again. The important May support level also failed to hold as trade wars ramped up again.*
- *XLB is not extremely oversold short-term and the buy signal, which is very elevated, has begun to correct. This could well keep XLB in a trading range for a while with risk down to support at $55*
- *We are remaining underweight the sector for now.*
- *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 adjusted to $55*
- *Long-Term Positioning: Bearish*

Communications



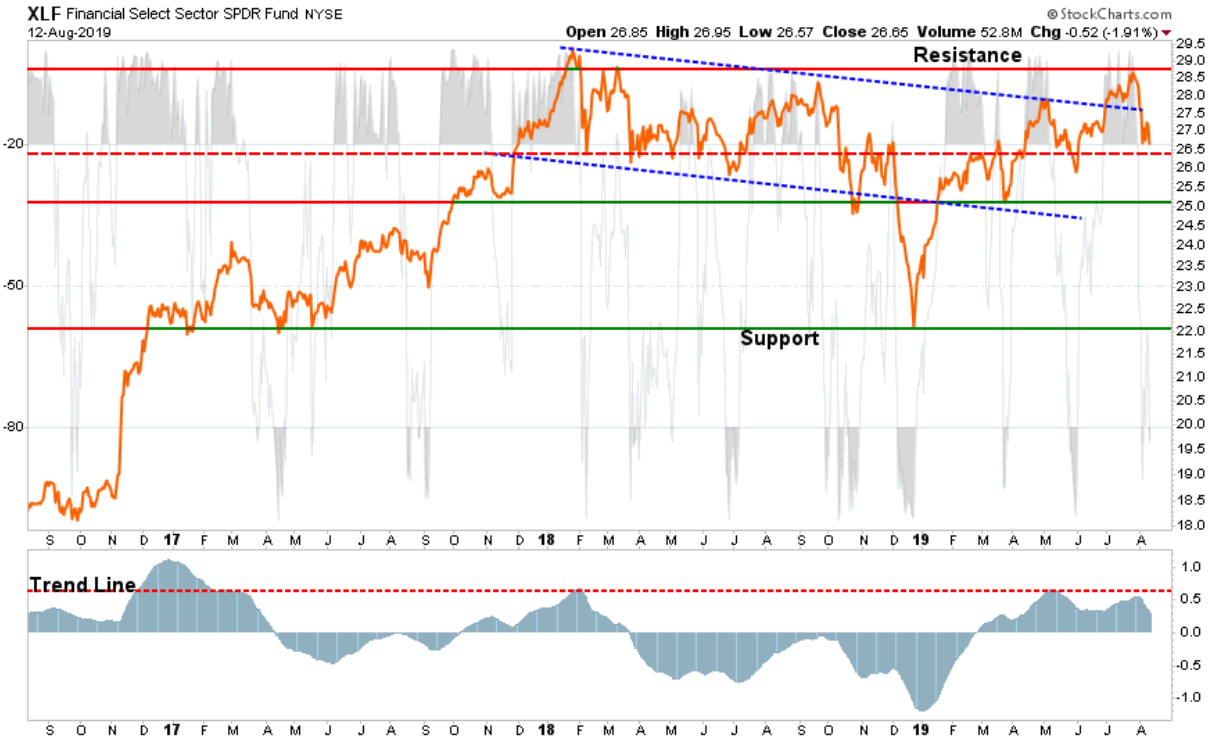
- *XLC had gotten very extended and the "buy signal" was also pushing very high levels all of which are now being reversed.*
- *XLC failed at resistance and has now established a double top. The good news is support is holding so far at $48*
- *Short-Term Positioning: Neutral*
    - *Last Week: Hold trading positions, but take profits.*
    - *This Week: Hold trading positions.*
    - *Hard Stop moved up to $48*
- *Long-Term Positioning: Bearish*

Energy



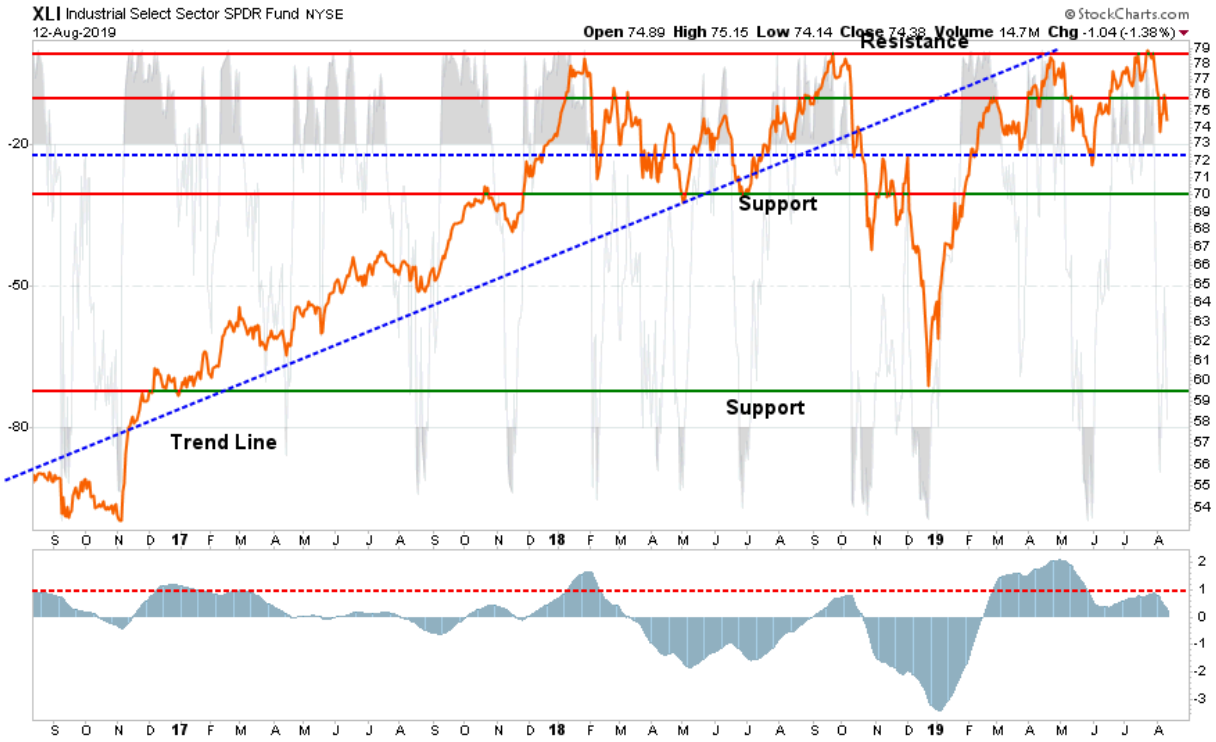
- *XLE failed at its 200-dma and remains extremely weak.*
- *XLE is now oversold and sitting on critical support, but just triggered a "sell" signal once again.*
- *We are long 1/2 position in our longer-term ETF portfolio, but we will sell if the current stop-loss is violated.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold current position*
    - *This week: Hold current position*
    - *Stop-loss adjusted to $58*
- *Long-Term Positioning: Bearish*

Financials



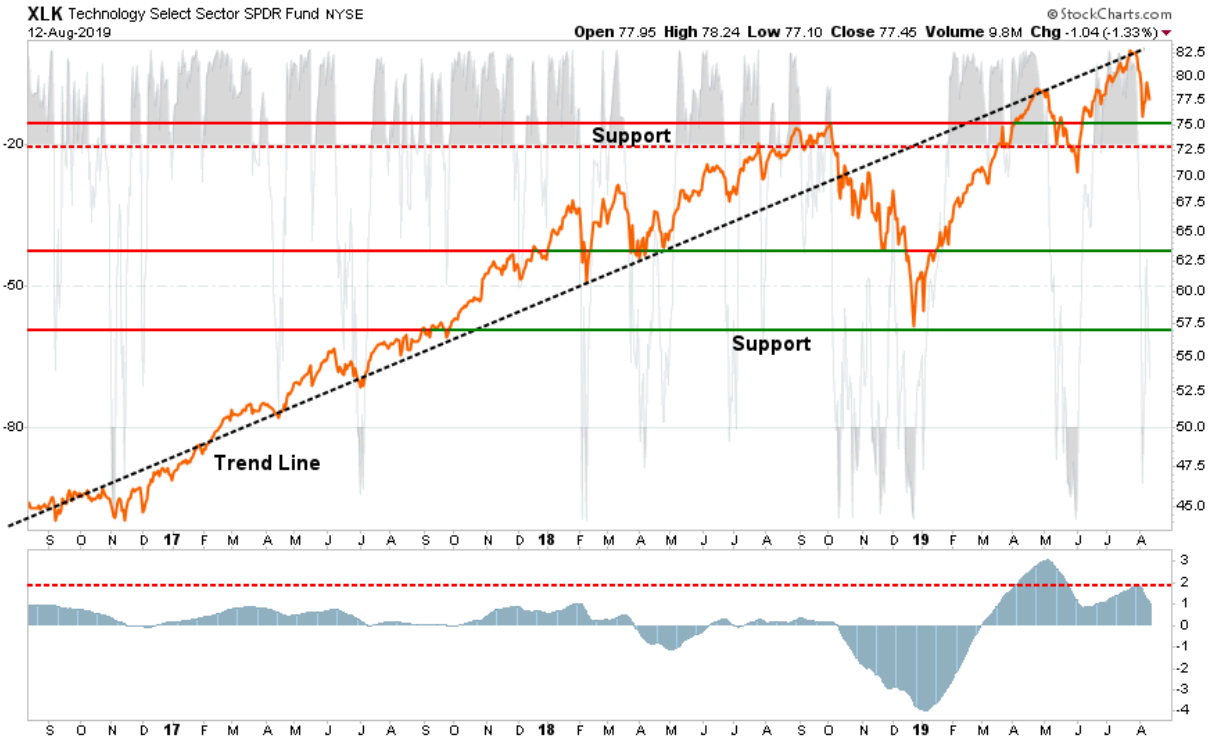
- *XLF has been in a long consolidation rage since the beginning of 2018.*
- *XLF remains on a "buy" signal currently and is back to oversold. Look for a bounce back to the top of the trend line. Support must hold at $26.50.*
- *Fed rate cuts are not "bank friendly" so we will likely reduce exposure to the sector in the ETF model soon.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold 1/2 position*
    - *This week: Hold 1/2 position*
    - *Stop-loss adjusted to $26.00*
- *Long-Term Positioning: Bearish*

Industrials



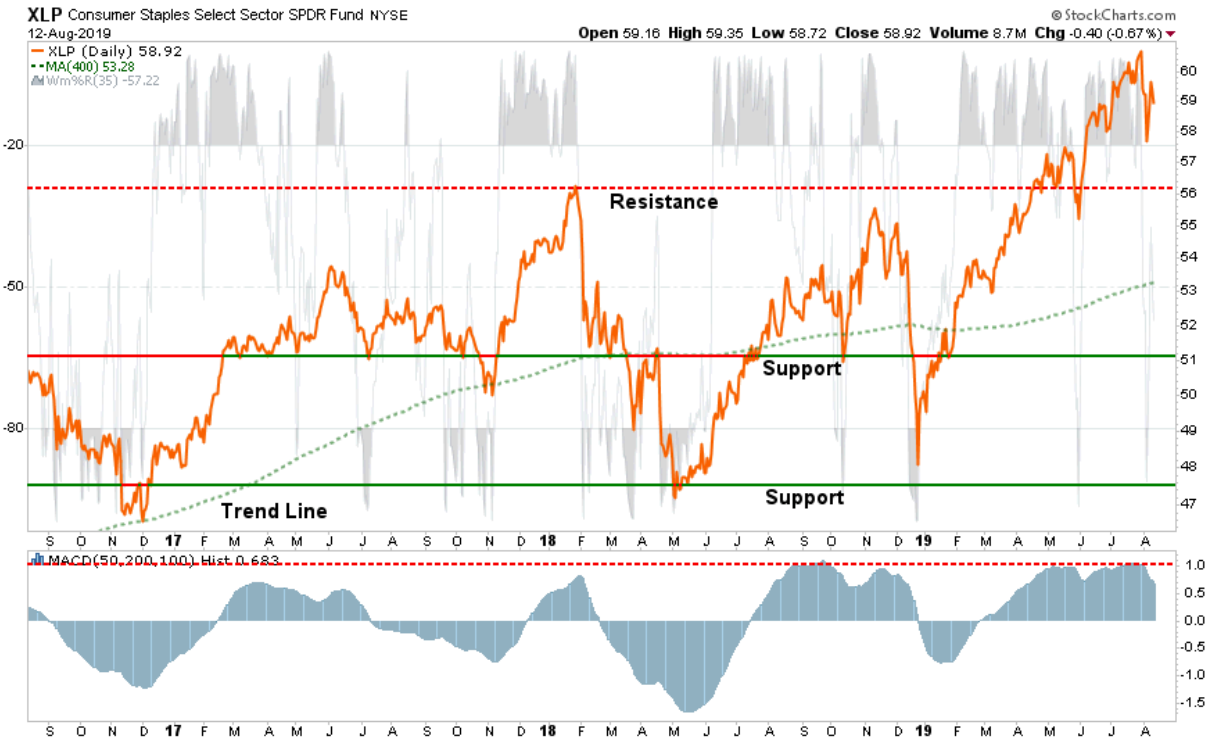
- *XLI failed at a "quadruple top" which puts a tremendous amount of overhead resistance on the sector.*
- *XLI is back to oversold and the buy signal is close to reversing to a sell signal.*
- *We reduced our risk to the sector after reaching our investment target. We are now adjusting our stop-loss for the remaining position.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold 1/2 position*
    - *This week: Hold 1/2 position.*
    - *Stop-loss adjusted to $72*
- *Long-Term Positioning: Neutral*

Technology



- *XLK remains one of the "safety" trades against the "trade war."*
- *While XLK is not overbought,it is still fairly extended and a crowded trade.*
- *XLK failed at the uptrend line so it must hold support at $75.*
- *The buy signal remains intact but is weakening.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold 1/2 position*
    - *This week: Hold 1/2 position*
    - *Stop-loss adjusted to $70.00*
- *Long-Term Positioning: Neutral*

Staples



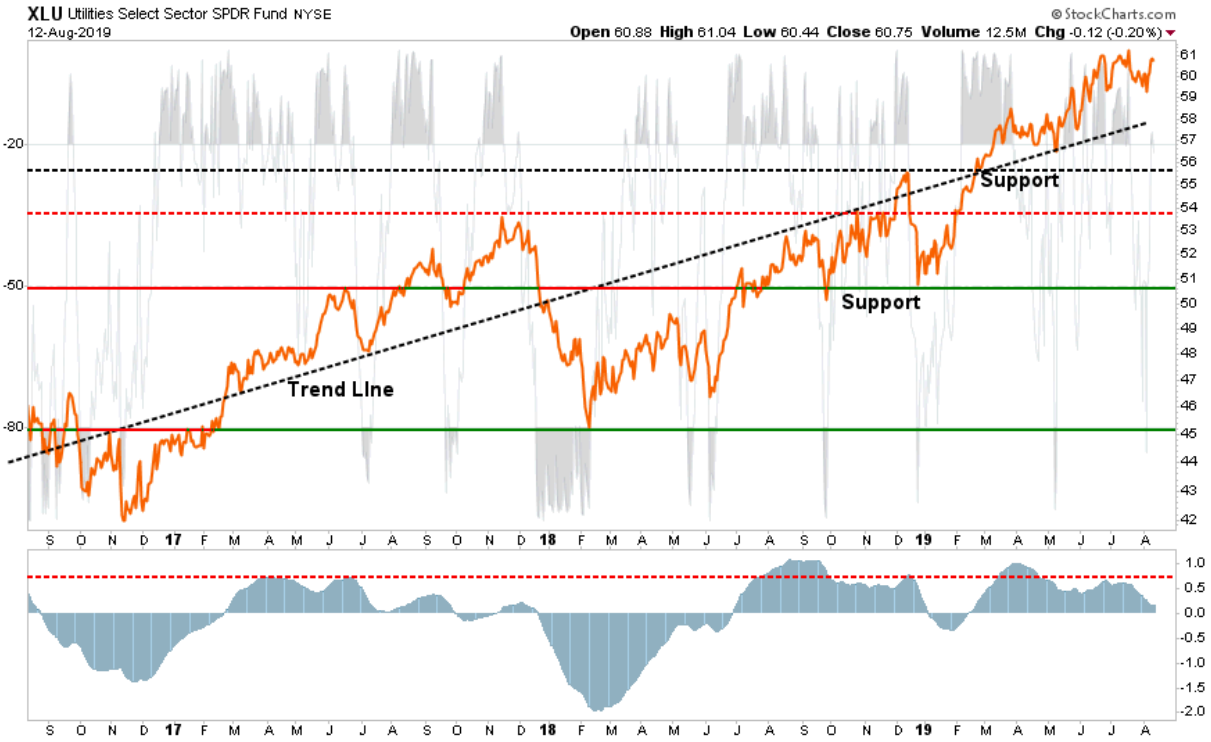
- *After taking profits in the sector, we are finally getting a much needed correction to work off the excess.*
- *The "buy" signal (lower panel) is still in place and is very extended. We continue to recommend taking some profits if you have not done so.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold positions, take profits if needed.*
    - *This week: Hold positions, take profits if needed.*
    - *Stop-loss adjusted to $56*
- *Long-Term Positioning: Bullish*

Real Estate



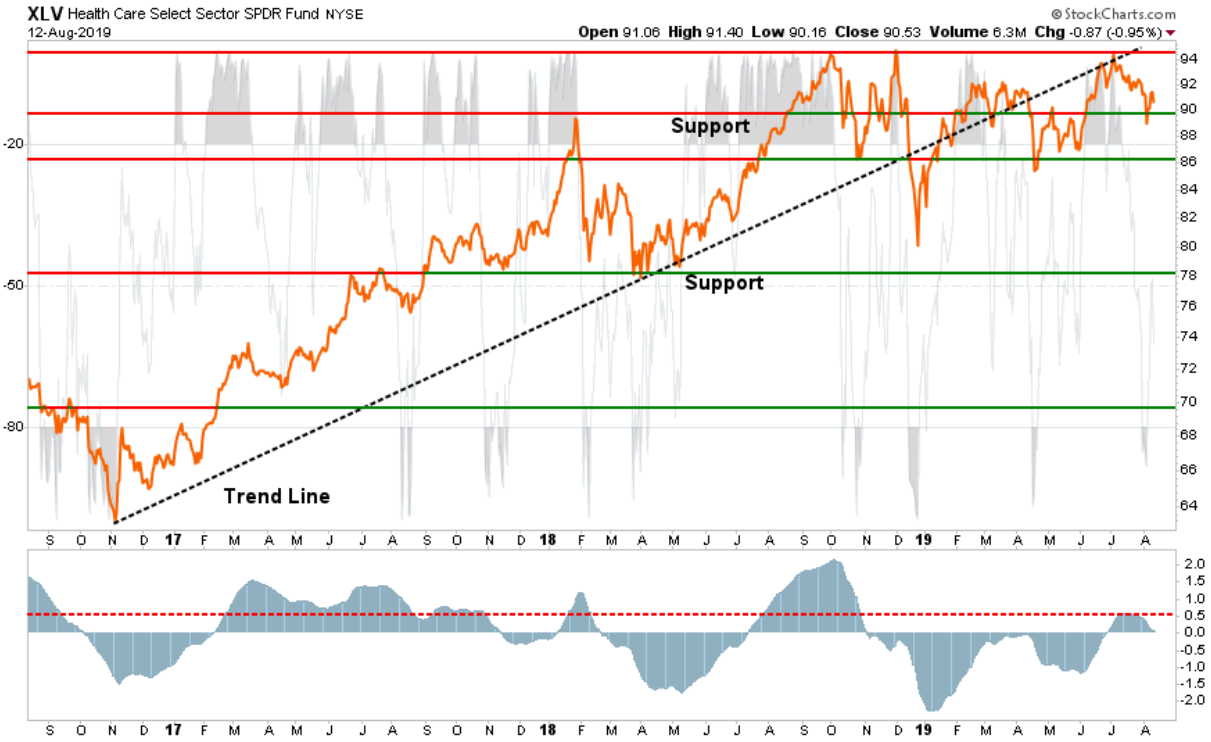
- *XLRE had been consolidating its advance and the drop in rates over economic concerns has pushed the sector to new highs.*
- *XLRE is back to very overbought so be careful adding new positions and keep a tight stop for now.*
- *We previously recommended taking profits and rebalancing risk as the overbought condition needed to be corrected. That occurred.*
- *Buy signal is being reduced along, but pay attention if it reverts to a "sell" as that has accompanied very sharp short-term drops.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold position.*
    - *This week: Hold position.*
    - *Stop-loss adjusted to $36.00 for profits.*
    - *Long-Term Positioning: Bullish*

Utilities



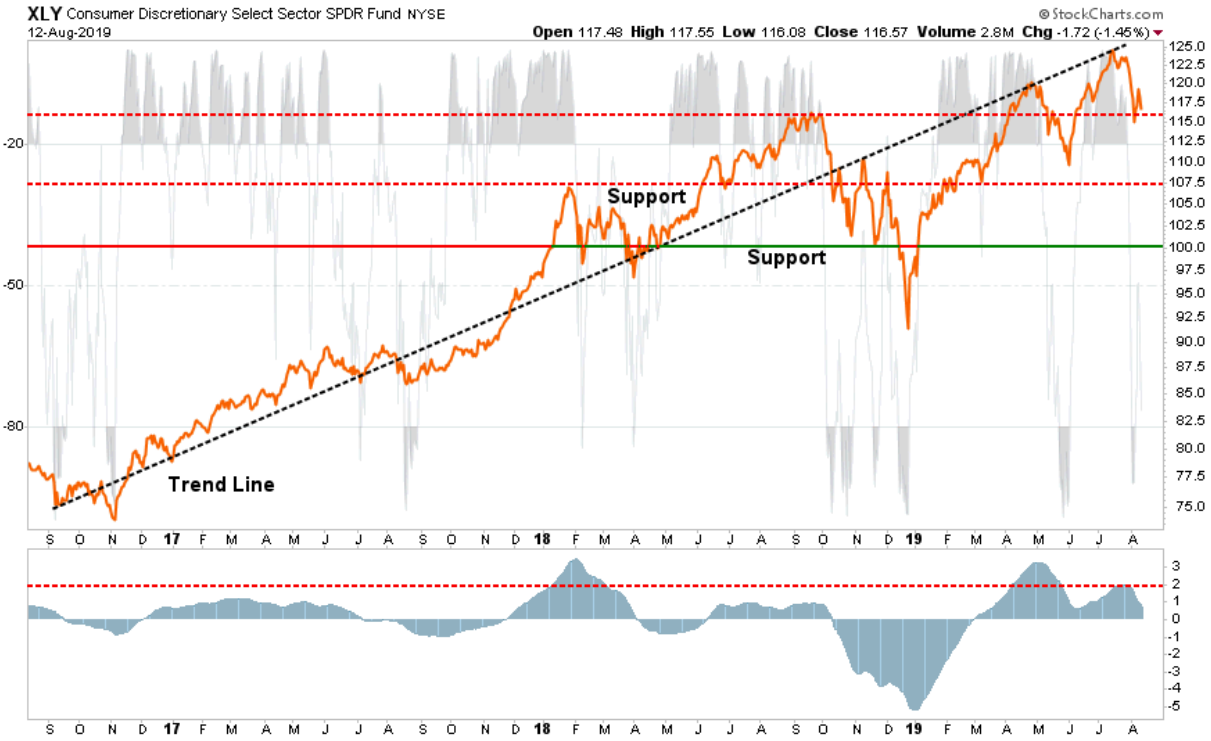
- *XLU likewise is back to overbought but the previously extended buy signal is very close to triggering a sell signal.*
- *Like XLRE above, those "sell signals" have tended to be short-lived but produced rather brutal sell-offs short term.*
- *After taking profits, we have time to be patient and wait for the right setup.*
- *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.*
- *Short-Term Positioning: Bullish*
    - *Last week: Take profits and rebalance holdings.*
    - *This week: Hold position*
    - *Stop-loss adjusted to support at $55.50.*
- *Long-Term Positioning: Bullish*

Health Care



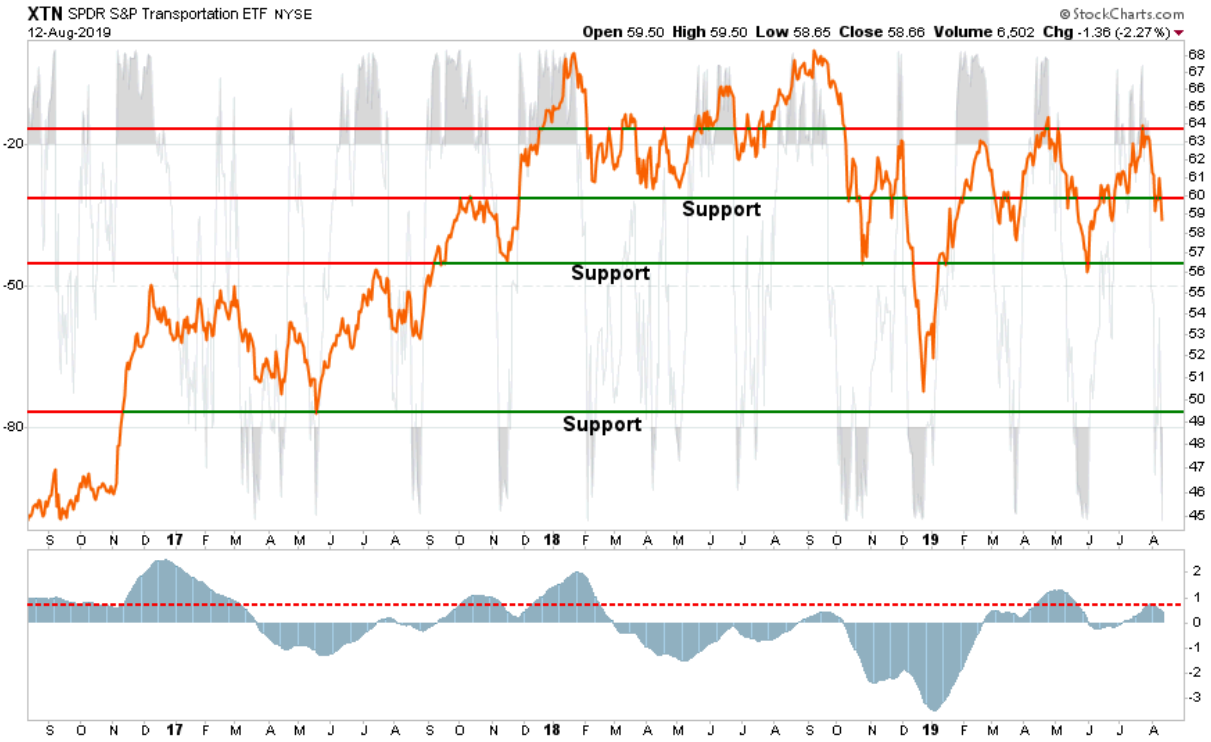
- *XLV remains on a buy signal but failed at important resistance.*
- *While the current correction was expected, the big issue is the if support will hold. That support is threatening to be violated, but continued to hold so far this week.*
- *Short-Term Positioning: Neutral*
  - *Last week: Reduce to portfolio weight*
  - *This week: Hold position*
  - *Stop-loss adjusted to $88*
- *Long-Term Positioning: Neutral*

Discretionary



- *With the latest round of "tariffs" directly targeting consumer goods, XLY is now under attack.*
- *Like XLK, it also failed at resistance from the uptrend line, but is holding support for now.*
- *The "buy" signal is reversing and is threatening to revert to a sell signal.*
- *We recommended taking profits previously.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold 1/2 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 a consolidation which has lasted all year. The continued topping process continues to apply downward pressure on the sector.*
- *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*