

Sector Buy/Sell Review: 10-15-19

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:

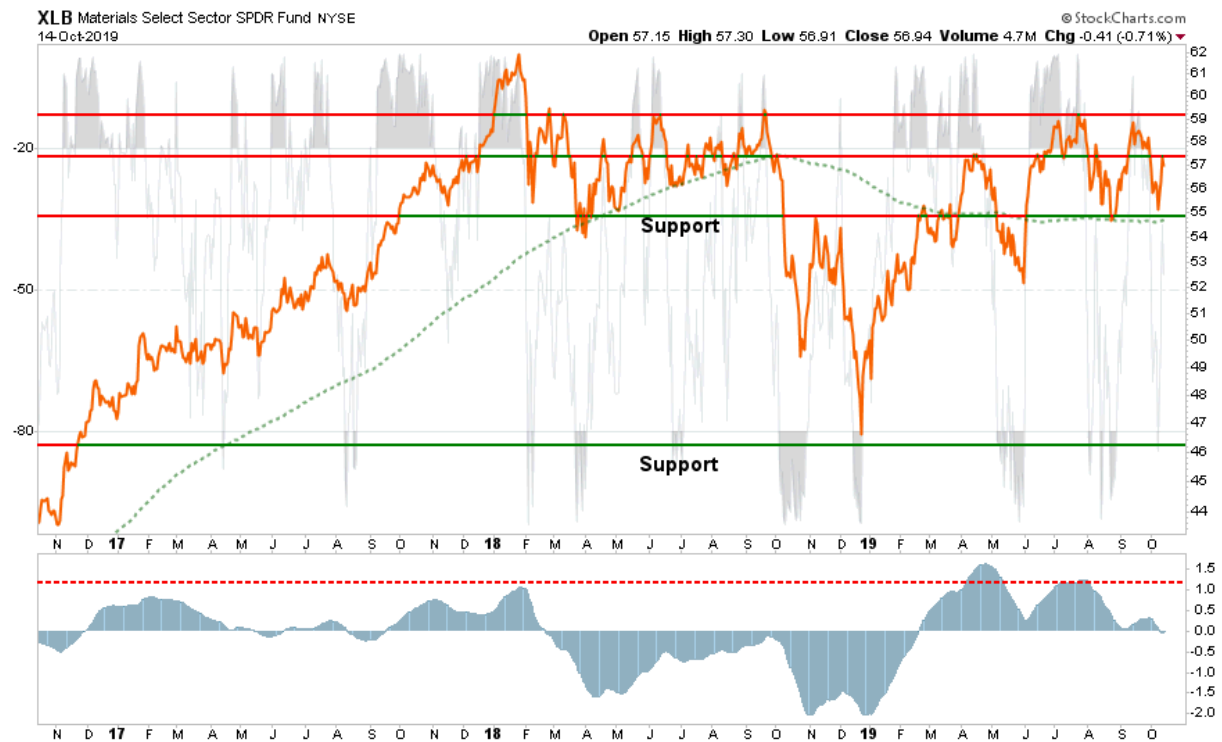
- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

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



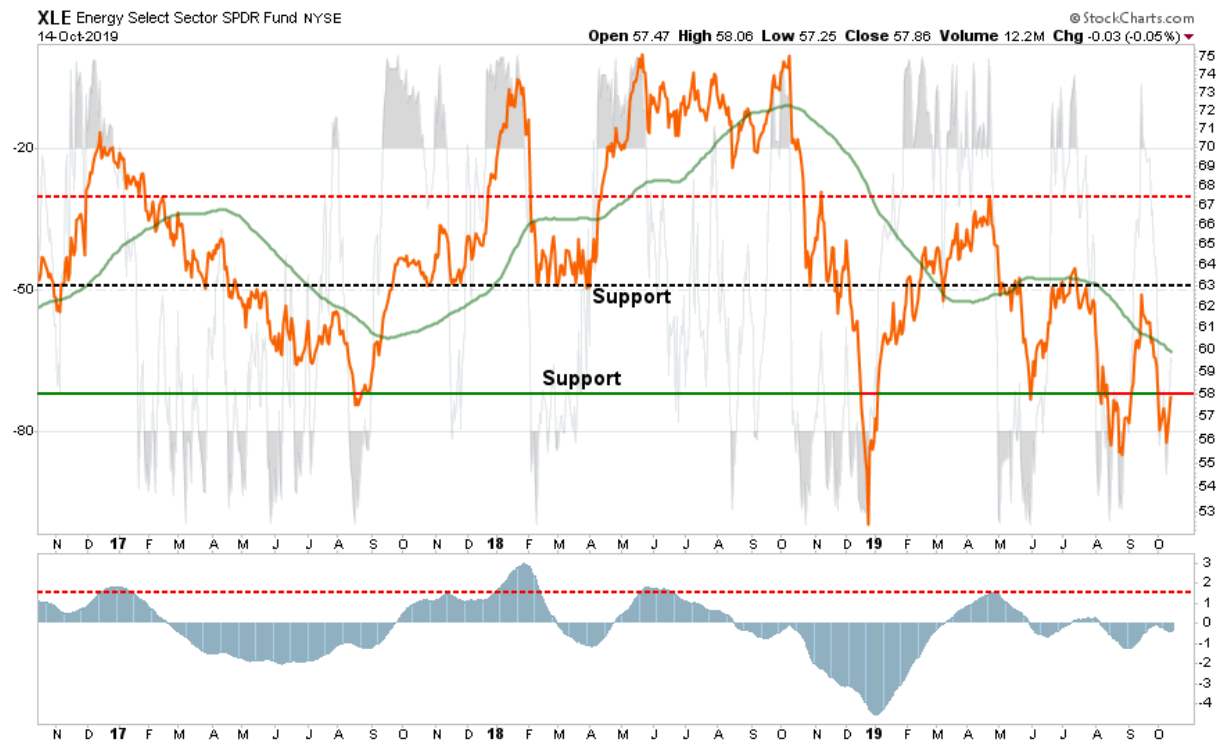
- *As noted previously:*
 - *"There are multiple tops that are providing tough resistance for the sector to get through, so while the buy signal has turned back up, which is bullish, XLB has to get above resistance before considering adding to our position."*
- *The bad news is that XLB not only failed at resistance, a "sell signal" has also now been triggered.*
- *Given the "trade deal" wasn't really a "deal" at all, we are remaining underweight the sector for now, unless performance begins to improve.*
- *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



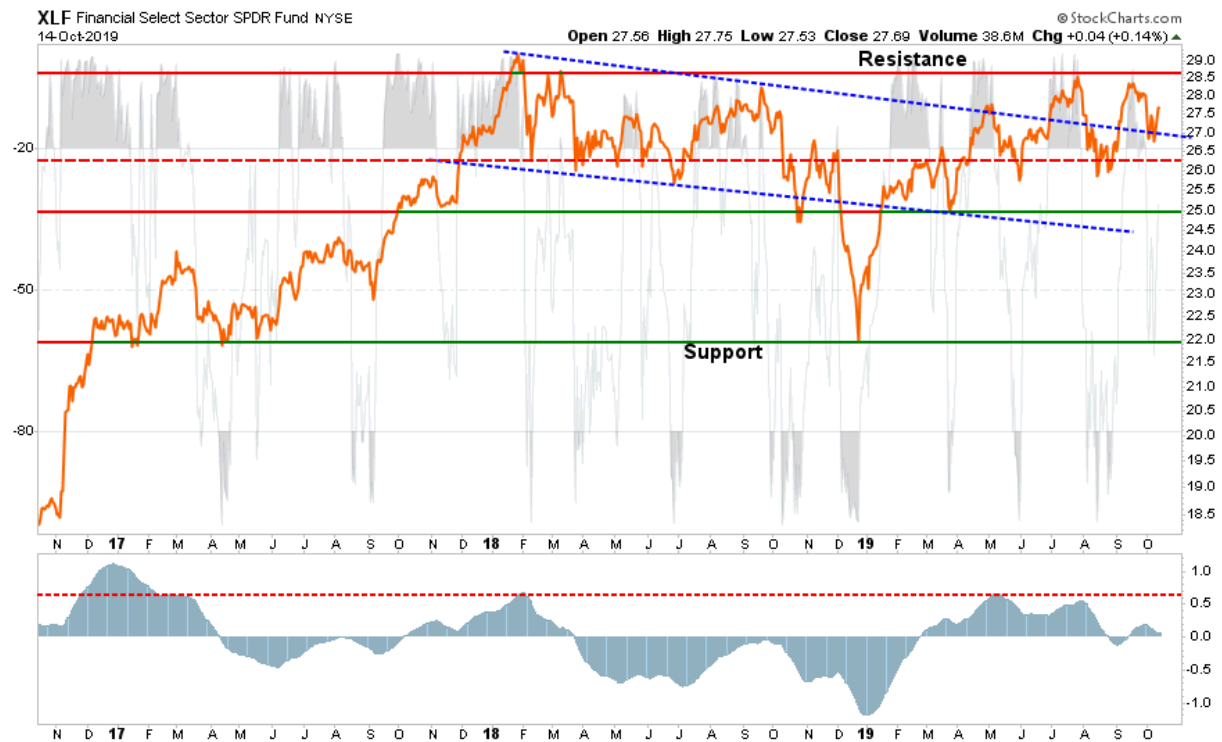
- The good news is that XLC worked off its overbought condition, and the correction is holding above short-term support at \$48.50
- There are two support levels between \$47.50 and \$48.50. A violation of the lower support level will take us out of our position for now.
- XLC has a touch of defensive positioning from "trade wars" and given the recent pullback to oversold, a trading position was placed in portfolios.
- One concern of the overall market is that the former "generals" of the market, namely AMZN, NFLX, and GOOG, have been not performing well.
- Short-Term Positioning: Neutral
 - Last Week: Hold trading positions
 - This Week: Hold trading positions.
 - Stop adjusted to \$47.50
- Long-Term Positioning: Bearish

Energy



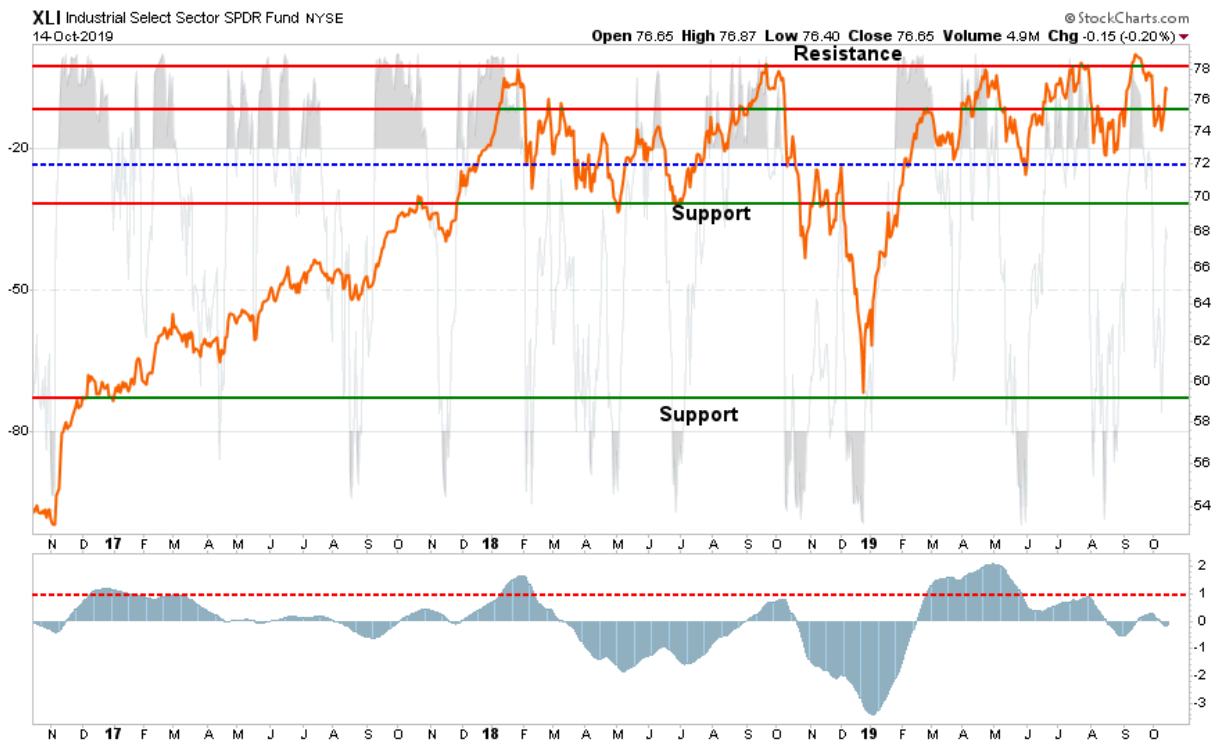
- As we noted previously, the failed test of the 200-dma put \$58 as the next target of support, which has now also failed.
- XLE is now testing that previous support, now resistance, and needs to move higher other a potential break of recent lows becomes a real possibility.
- The "sell signal" was in the process of being reversed, but that has failed also as stated last week.
- While there is "value" in the sector, there is no need to rush into a position just yet. The right opportunity and timing will come, it just isn't right now.
- We were stopped out of our position previously.
- Short-Term Positioning: Bearish
 - Last week: Stopped out.
 - This week: Stopped out.
 - No position currently
- Long-Term Positioning: Bearish

Financials



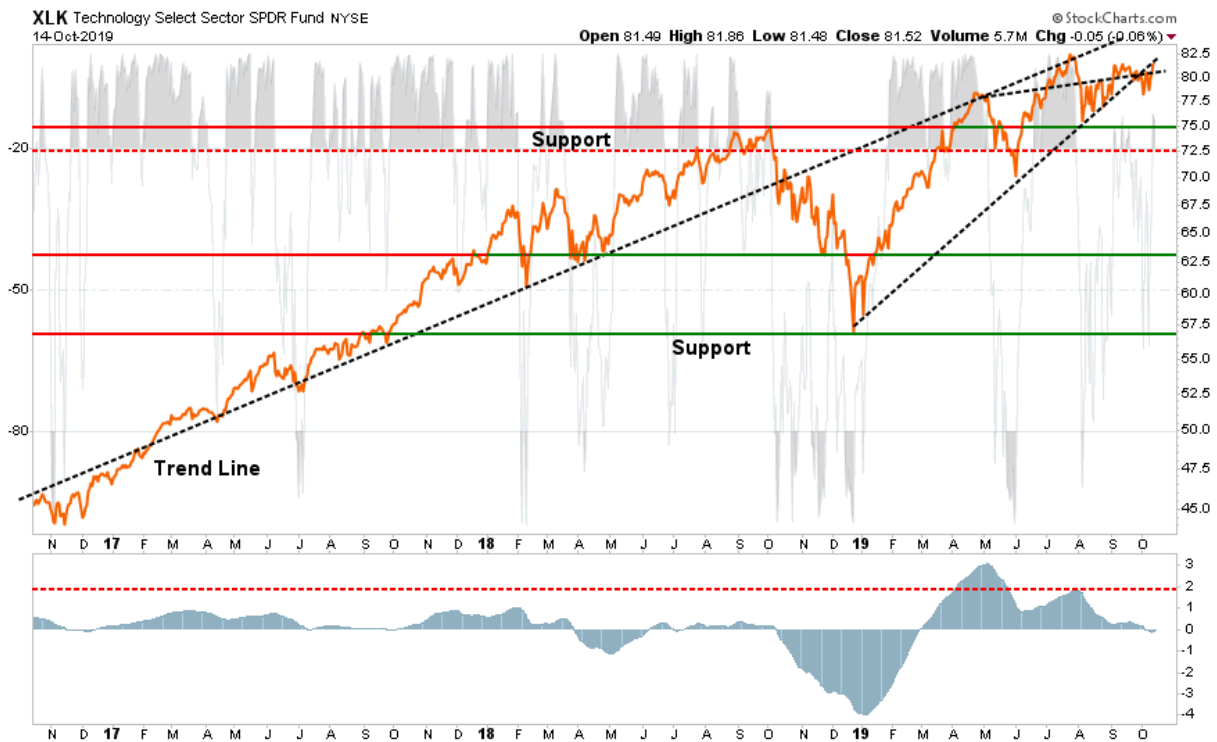
- *XLF is another sector trapped below multiple highs.*
- *XLF has reversed its "sell" signal" on a short-term basis, but is threatening to turn lower.*
- *The good news is that XLF held support above the previous downtrend line. If we get a reversal to a buy signal we can review adding back into a position.*
- *We previously closed out of positioning as inverted yield curves and Fed rate cuts are not good for bank profitability.*
- *Short-Term Positioning: Neutral*
 - *Last week: Closed Out/No Position.*
 - *This week: Closed Out/No Position.*
 - *Stop-loss adjusted to \$26.00*
- *Long-Term Positioning: Bearish*

Industrials



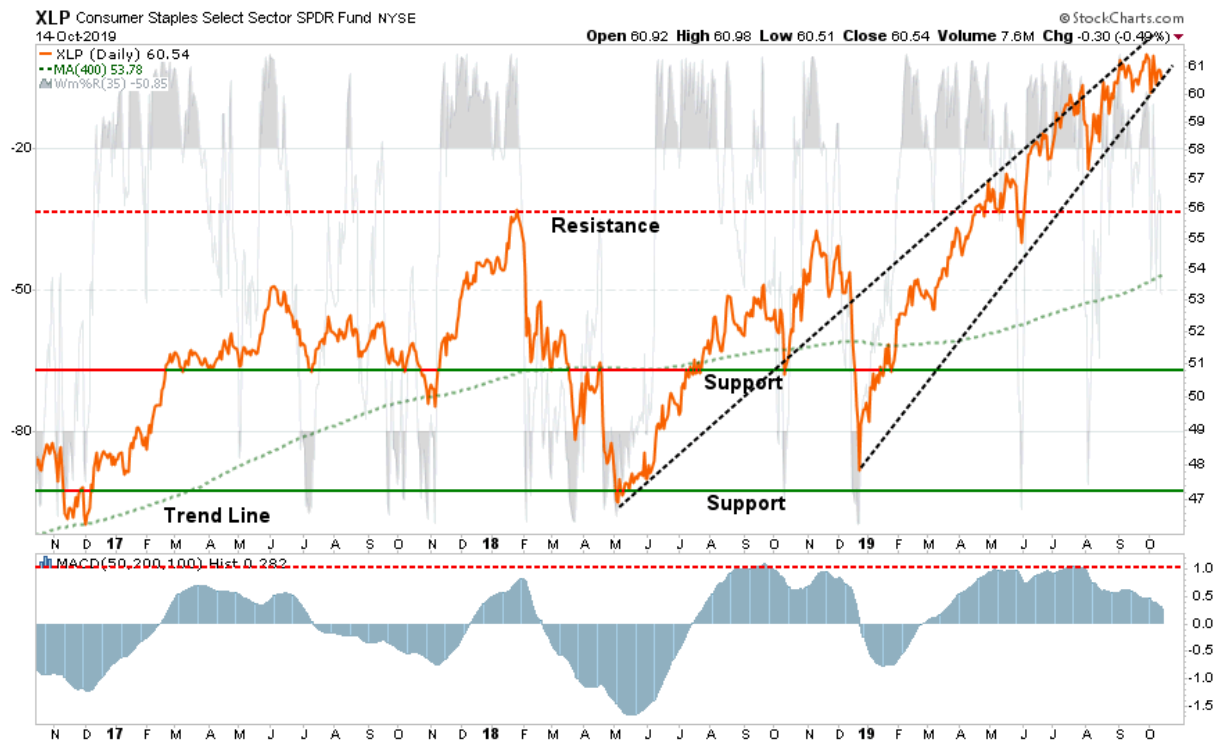
- XLI also, after failing a breakout, remains trapped below multiple highs.
- The breakout failed, and as we suggested might be the case, the retracement back to initial support has occurred.
- XLI did work off some of the overbought condition but has triggered a "sell signal." While it appears that XLI wants to make another attempt at all-time highs, it is going to take some work to move above that resistance.
- We have adjusted 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



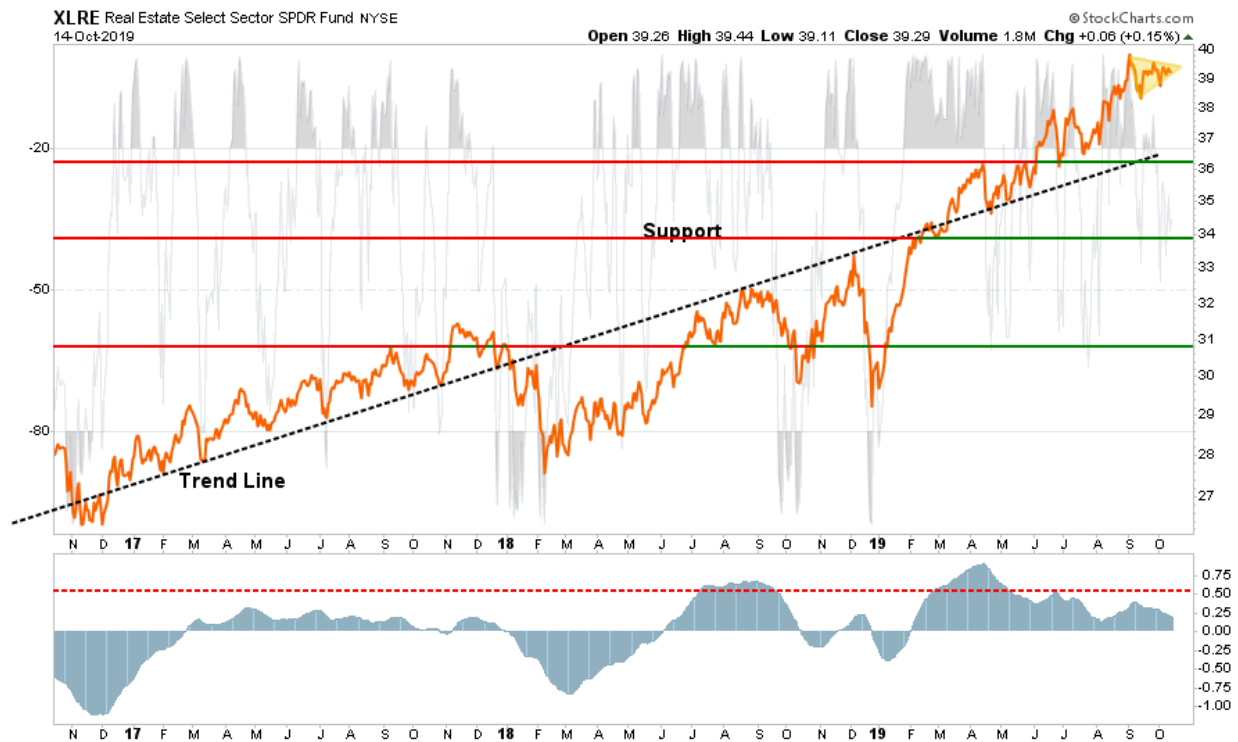
- *XLK is back to an overbought condition, and is testing previous broken support which is now resistance.*
- *The buy signal has reversed to a "sell," which increases holding risk currently.*
- *It is likely not a bad idea to take some profits on current holdings and rebalance risk accordingly.*
- *A retest of \$75 is likely the market doesn't improve very quickly.*
- *Short-Term Positioning: Bullish*
 - *Last week: Hold position*
 - *This week: Hold position*
 - *Stop-loss adjusted to \$75.00*
- *Long-Term Positioning: Neutral*

Staples



- Defensive sectors continue to perform well, and we suggested taking profits previously.
- XLP continues to hold its very strong uptrend but is threatening to break that support. If it does, it could lead to a rather abrupt sell off.
- The "buy" signal (lower panel) is still in place but has been worked off to a good degree. Risk is clearly elevated.
- We previously took profits in XLP and reduced our weighting from overweight. We will likely look to reduce further when opportunity presents itself.
- Short-Term Positioning: Bullish
 - Last week: Hold positions, take profits if needed.
 - This week: Hold positions, take profits if needed.
 - Stop-loss adjusted to \$58
 - Long-Term Positioning: Bullish

Real Estate



- As with XLP above, XLRE is consolidating its advance within a very tight pattern. If that consolidation breaks to the downside we will see a quick retracement to \$37
- Be careful adding new positions and keep a tight stop for now. A pullback to \$37-38 would be a better entry.
- We previously recommended taking profits and rebalancing risk as the overbought condition needed to be corrected. That advice remains.
- Buy signal has been reduced which is bullish for now.
- 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



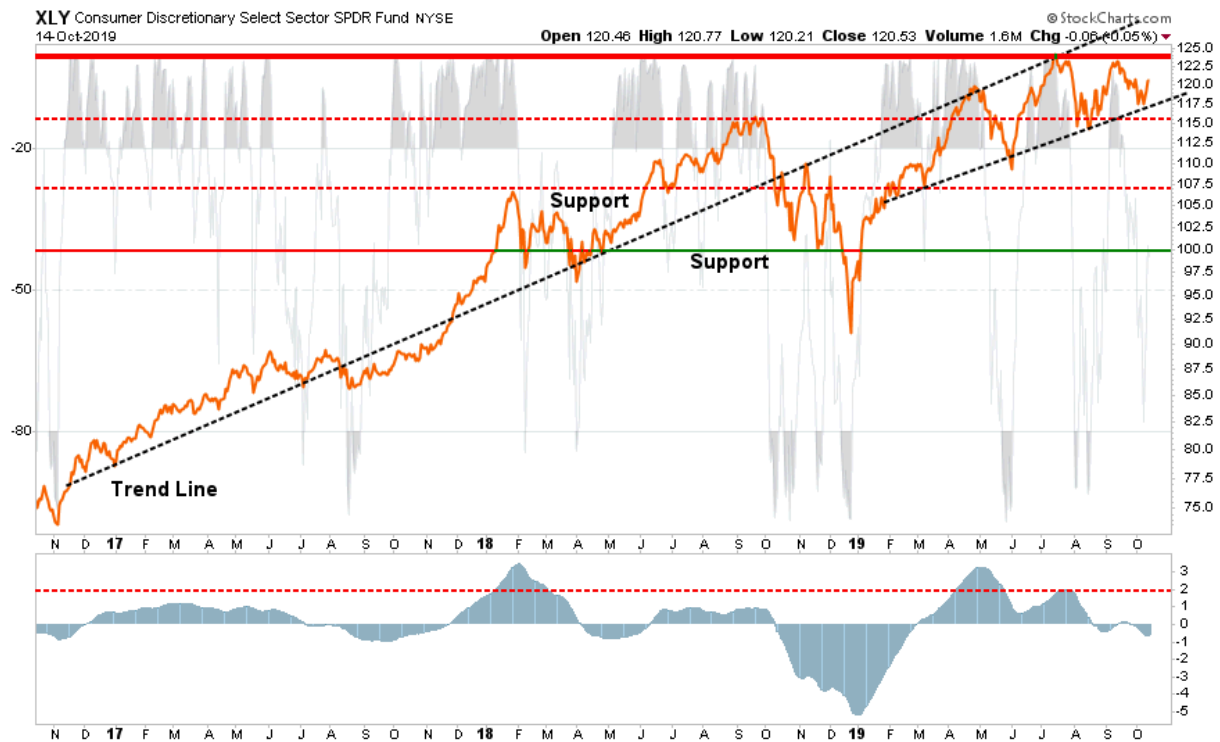
- *XLRE and XLU are virtually the same commentary.*
- *After taking profits, we have time to be patient and wait for the right setup. We haven't gotten one as XLU continues to rally and last weeks surge is making owning this sector seriously more dangerous.*
- *Long-term trend line remains intact but XLU is grossly deviated from longer-term means. A reversion will likely be swift and somewhat brutal.*
- *Buy signal reversed, held, and is now back to extremely overbought. Take profits and reduce risks accordingly.*
- *Short-Term Positioning: Bullish*
 - *Last week: Hold position.*
 - *This week: Hold position*
 - *Stop-loss adjusted to support at \$58.00*
- *Long-Term Positioning: Bullish*

Health Care



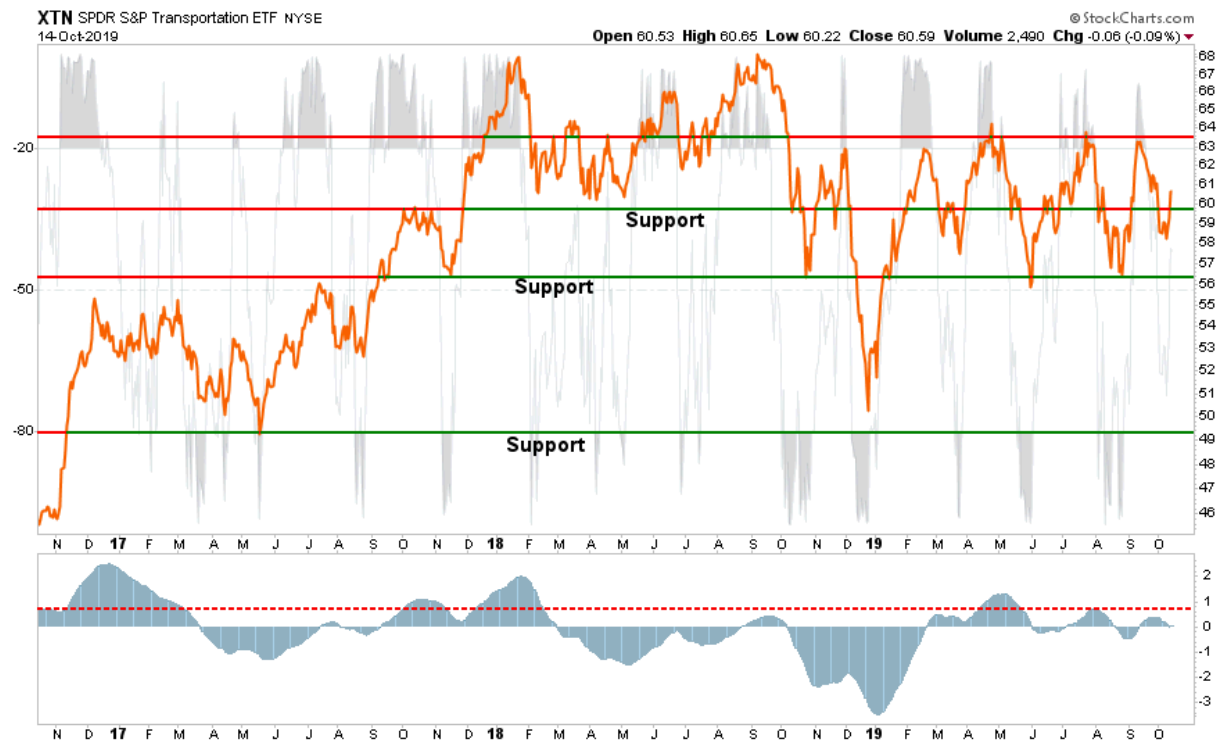
- *XLV has triggered a sell signal but has remained intact and is trying to recover with the market. If a buy signal is issued that may well support a higher move for the sector.*
- *XLV continues to hold support levels but is lagging the overall market.*
- *Healthcare will likely begin to perform better soon if money begins to look for "value" in the market. We are looking for entry points to add to current holdings and potentially some new holdings as well in the Equity portfolio.*
- *We continue to maintain a fairly tight stop for now.*
- *Short-Term Positioning: Neutral*
 - *Last week: Hold position.*
 - *This week: Hold position*
 - *Stop-loss adjusted to \$88*
- *Long-Term Positioning: Neutral*

Discretionary



- The rally in XLY failed at previous highs where resistance sits currently.
- We added to our holdings previously to participate with the current rally, but are carrying a tight stop on the whole position.
- XLY has reversed its "buy signal" to a "sell" which could pressure prices lower in the near-term so take profits and watch support at the current uptrend line.
- Short-Term Positioning: Neutral
 - Last week: Hold position
 - This week: Hold position
 - Stop-loss adjusted to \$115.
- Long-Term Positioning: Neutral

Transportation



- *XTN has been a trading nightmare for investors with a fairly broad and volatile range.*
- *As we noted previously:*
 - *"This rally is most likely going to fail at the previous highs for the range. It is now make or break for the sector."*
- *The rally failed and XTN is clinging to initial support.*
- *XTN has is close to reversing its "buy" signal which could pressure prices back to previous lows.*
- *We remain out of the position currently.*
- *Short-Term Positioning: Neutral*
 - *Last week: No position*
 - *This week: No position*
- *Long-Term Positioning: Bearish*