

## Sector Buy/Sell Review: 10-22-19

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:

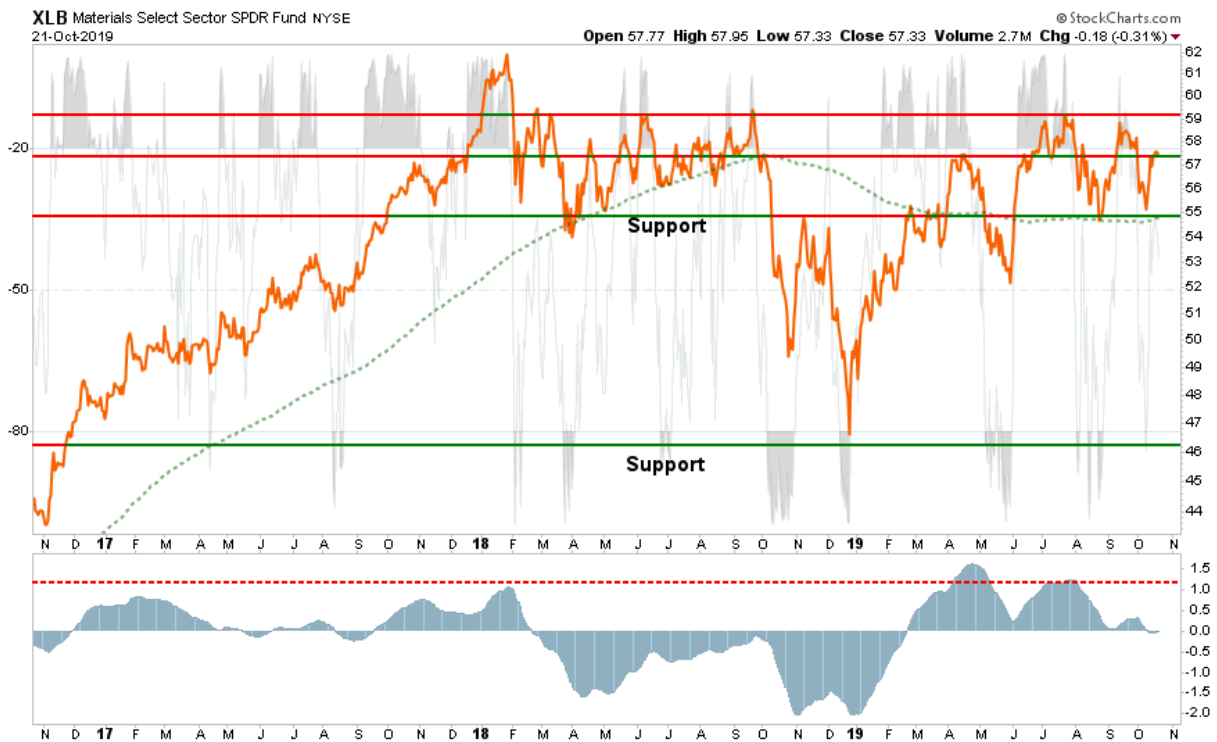
- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

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



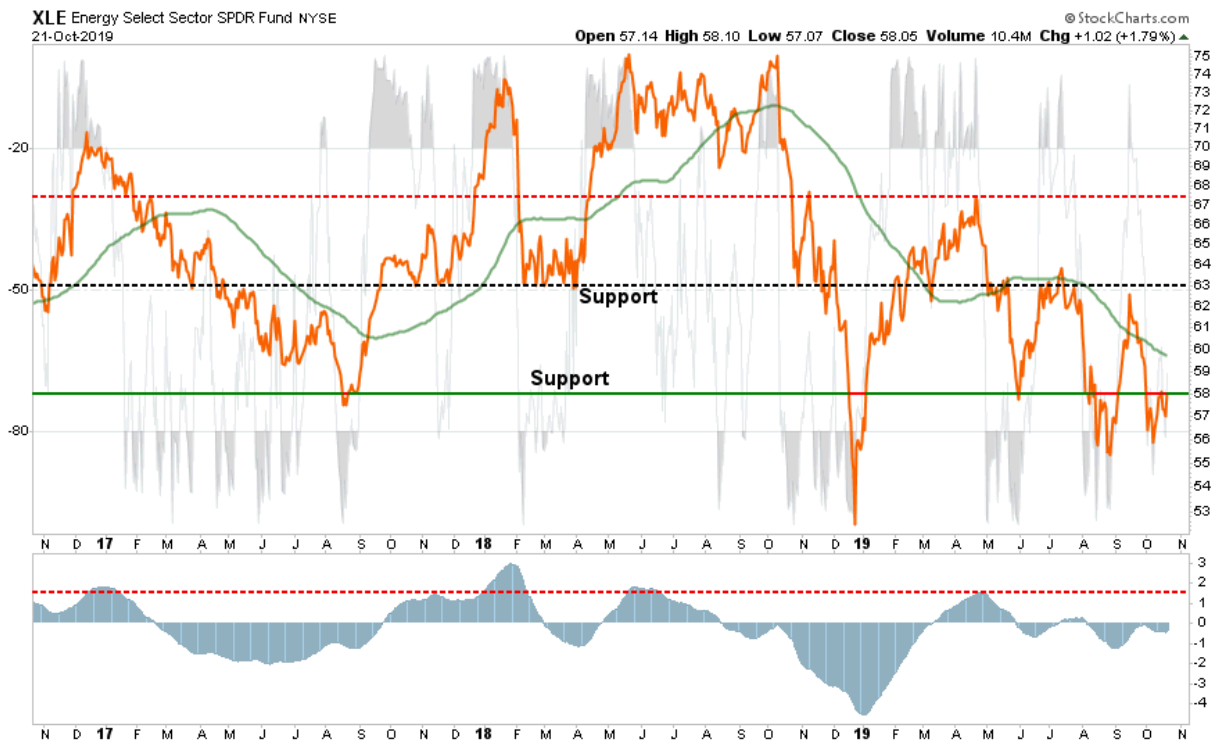
- As noted in this past weekend's newsletter, we are expecting a modest advance into year-end and that there could be a rotation back to more cyclical plays.
- We are looking to increase weighting slightly to Materials particularly if the current "sell signal" is reversed.
- Short-Term Positioning: Neutral
  - 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



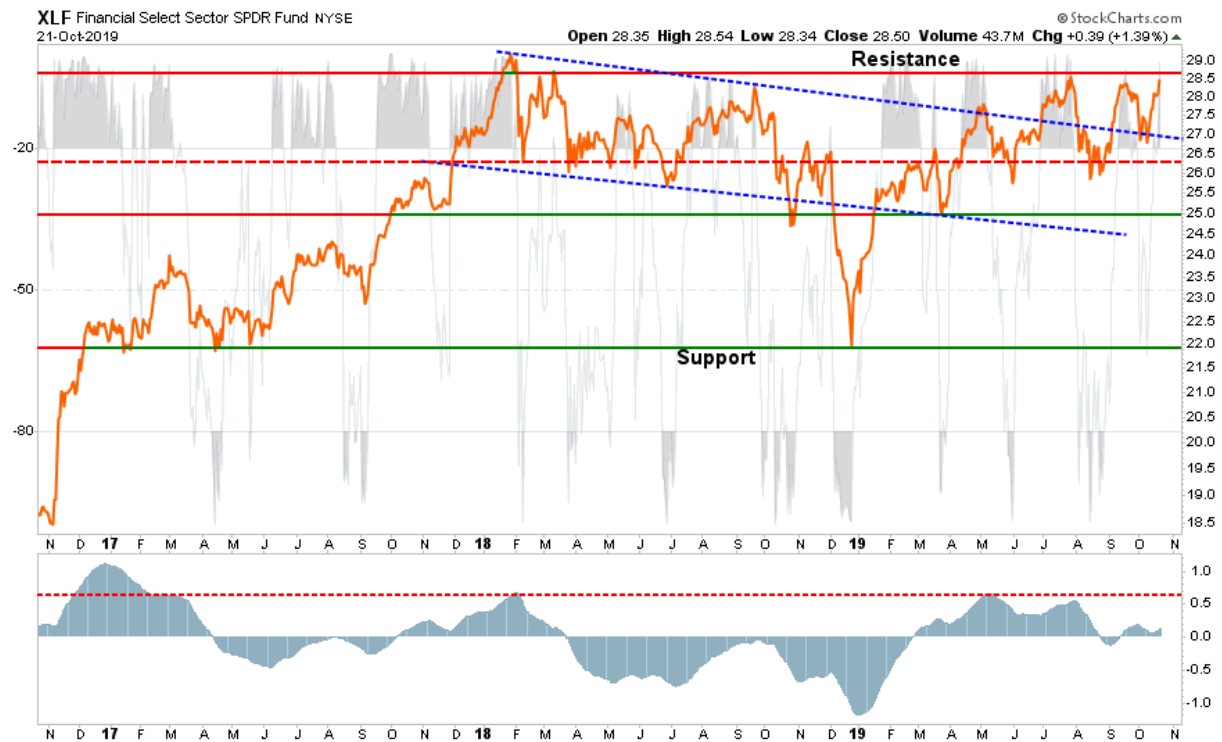
- *XLC held important support and has now rallied back to previous resistance at the highs.*
- *XLC is currently a full-weight in portfolios but should perform better if a year-end advance ensues.*
- *Short-Term Positioning: Neutral*
  - *Last Week: Hold trading positions*
  - *This Week: Hold trading positions.*
  - *Stop adjusted to \$47.50*
- *Long-Term Positioning: Bearish*

## Energy



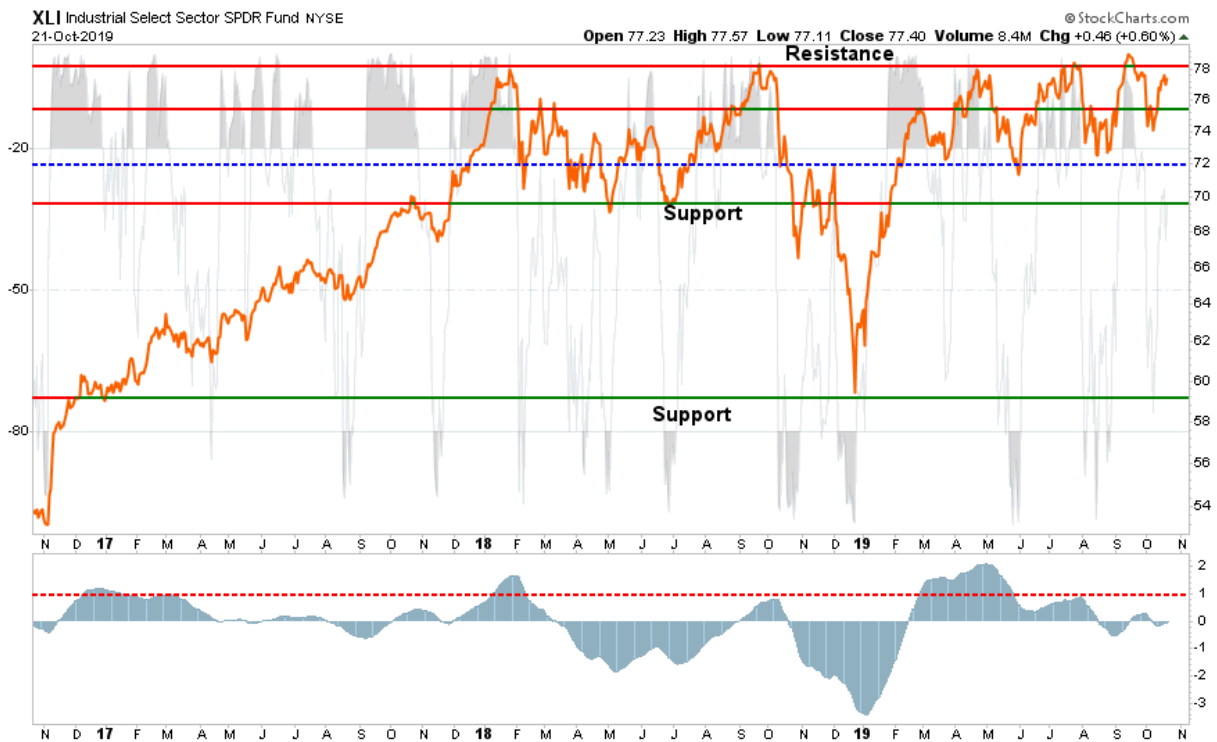
- *XLE is now testing that previous support, now resistance, and needs to move higher other a potential break of recent lows becomes a real possibility.*
- *The "sell signal" was in the process of being reversed, but that has failed also as stated last week.*
- *While there is "value" in the sector, 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 but are looking to add a small piece back to the portfolio for now as we should catch some cyclical rotation into the end of the year.*
- *Short-Term Positioning: Bearish*
  - *Last week: Stopped out.*
  - *This week: Stopped out.*
  - *No position currently*
- *Long-Term Positioning: Bearish*

## Financials



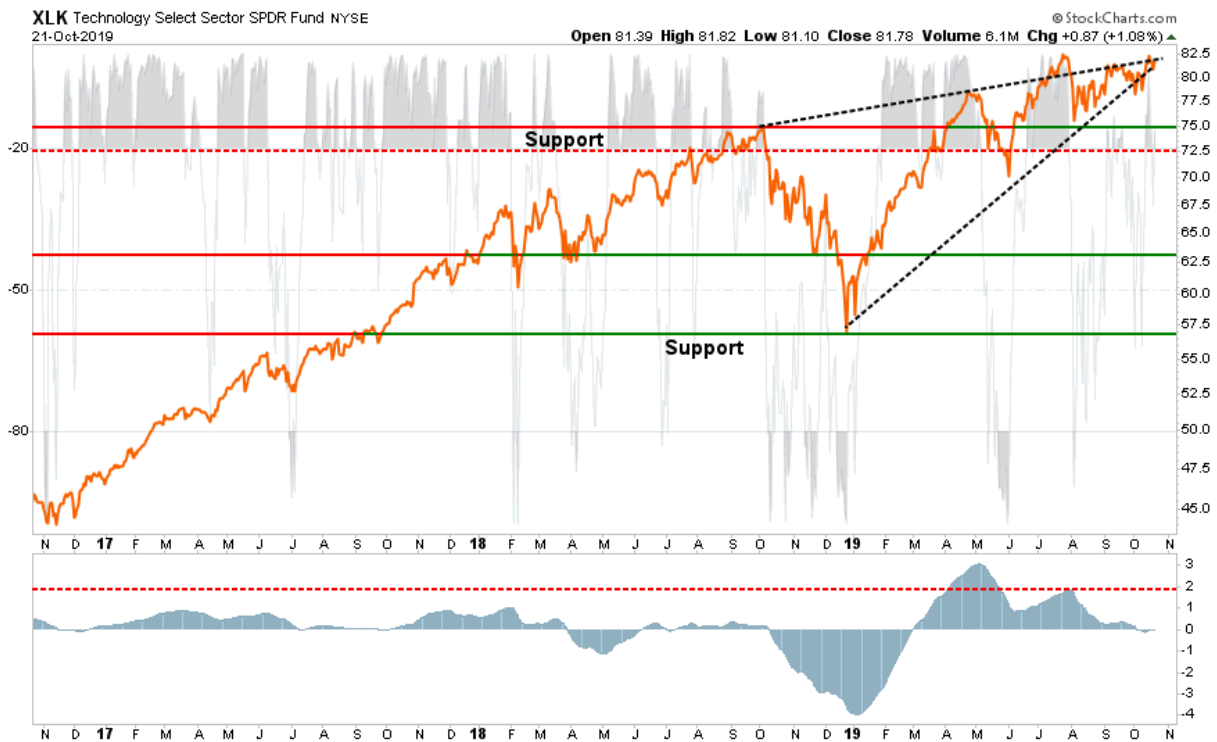
- *XLF is another sector trapped below multiple highs but has reversed its "sell" signal" on a short-term basis.*
- *The good news is that XLF held support above the previous downtrend line. With the reversal to a buy signal we can review adding back into a position.*
- *We previously closed out of positioning as inverted yield curves and Fed rate cuts are not good for bank profitability. That is still the case, however, the sector is performing technically which we can not ignore.*
- **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



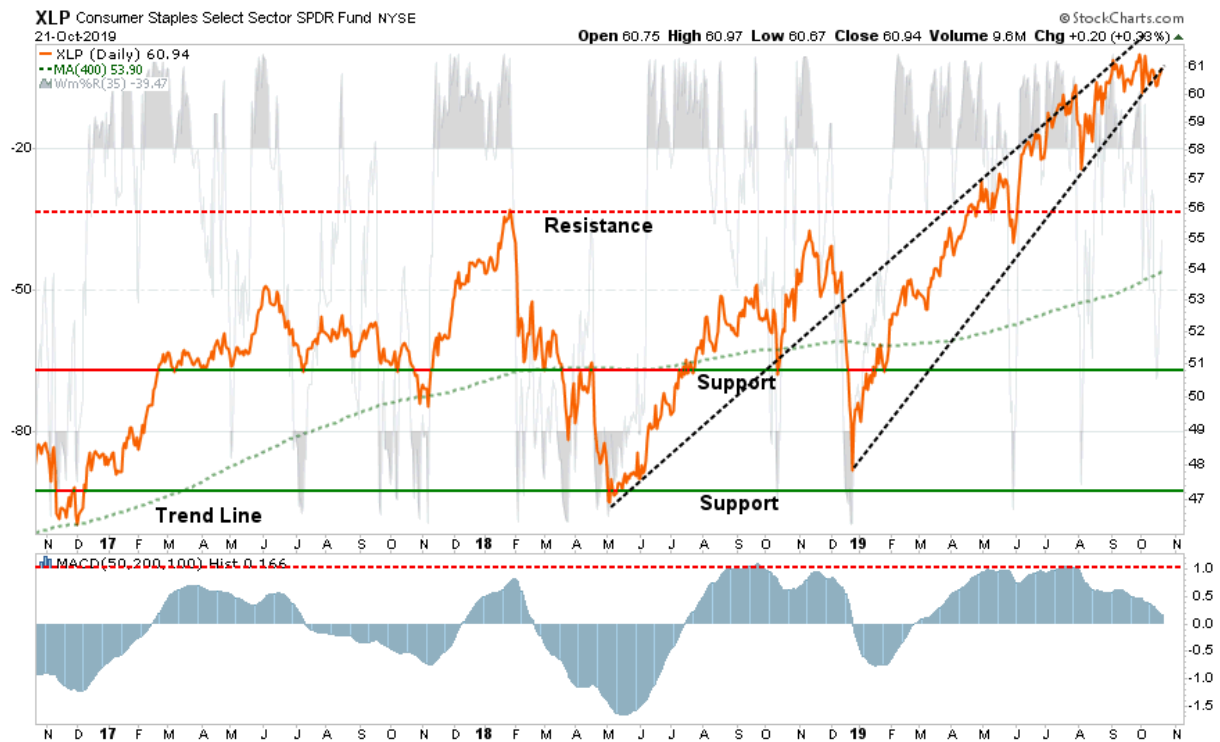
- *XLI also, after failing a breakout, remains trapped below multiple highs.*
- *As with Materials above, a rotation into cyclical exposures is likely heading into year end.*
- *While it appears that XLI wants to make another attempt at all-time highs, it is going to take some work to move above that resistance.*
- *We have adjusted our stop-loss for the remaining position. We are looking to add back to our holdings on a reversal to a buy signal.*
- *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



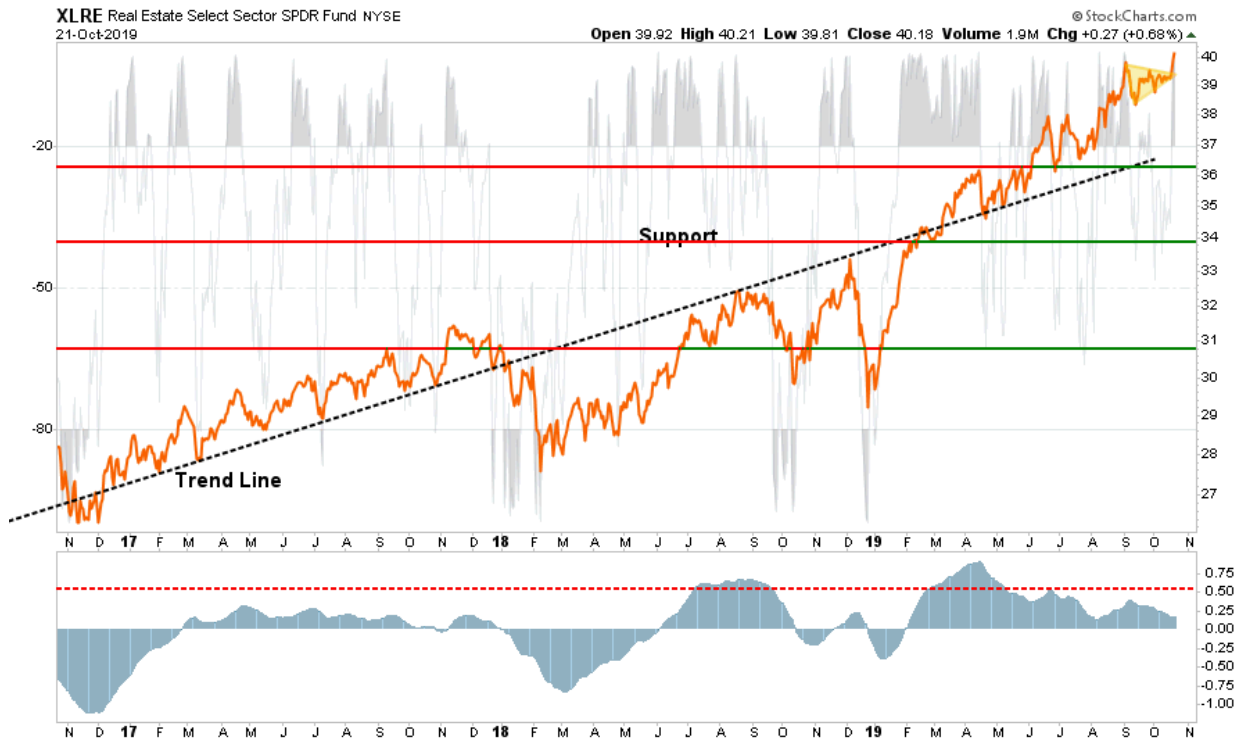
- *XLK is back to an overbought condition, and is testing previous broken support which is now resistance.*
- *The rising consolidation trend will be an important breakout and will lead to higher highs if it occurs.*
- *We are currently target weight on Technology, but may increase to overweight on a confirmed breakout.*
- *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 have started to perform a little "less well" as of late as money is rotating from some defensive areas.
- 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 is threatening to turn into a sell if performance doesn't pick up soon.
- 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

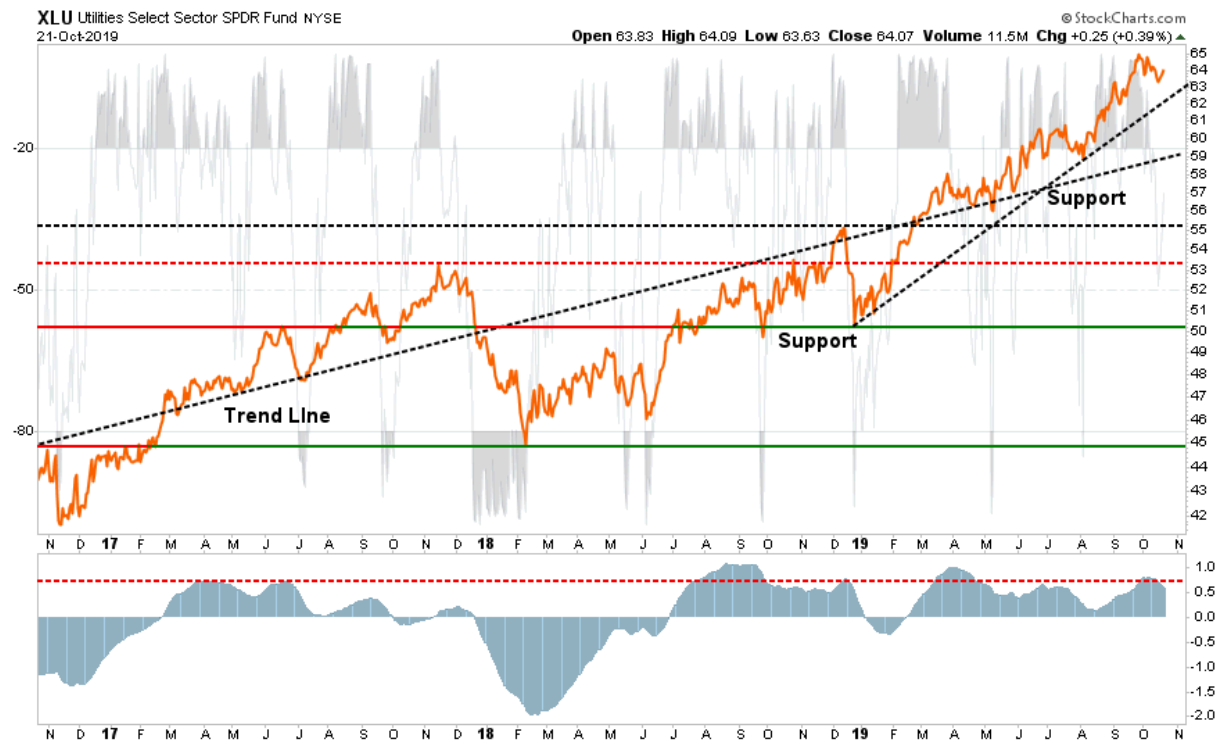
## Real Estate



- As noted last week, XLRE was consolidating its advance within a very tight pattern.
- However, that consolidation broke to the upside leading to new highs.
- We previously recommended taking profits and rebalancing risk as the overbought condition needed to be corrected. That advice remains as XLRE is now back to EXTREME overbought.
- 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





- *XLP 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. We took profits recently but will likely do more if performance continues to struggle.*
- *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



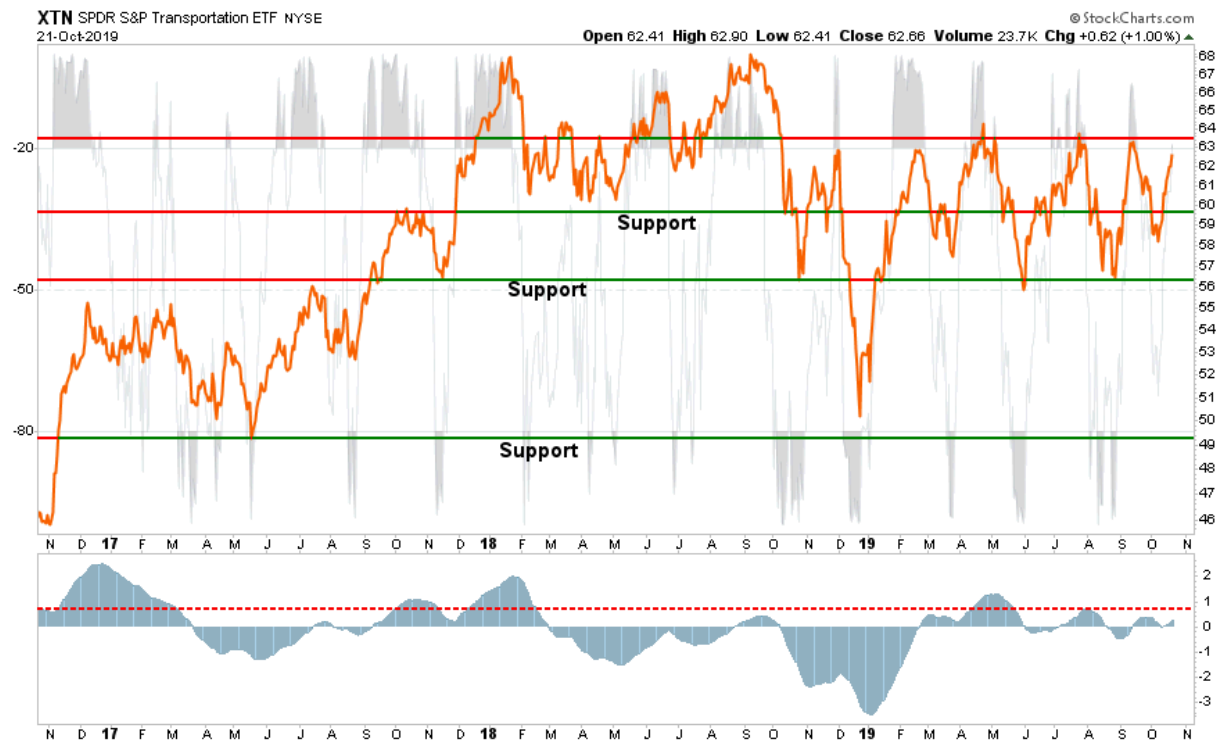
- *XLV has triggered a sell signal but has remained intact and is trying to recover with the market. If a buy signal is issued that may well support a higher move for the sector.*
- *XLV continues to hold support levels but is lagging the overall market.*
- *Healthcare will likely begin to perform better 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 has take the sector back to 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 is close to reversing back to a buy signal which could signal higher-highs heading into the end of the year.
- 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.*
- *XTN is making another attempt at recent highs.*
- *The good news is a "buy" signal has been triggered which, combined with the fact XTN is not overbought, may provide the setup needed to break out of this long consolidation.*
- *We remain out of the position currently and will just wait to see what happens. If we get a breakout we will look to add, but there is not a rush to do anything.*
- *Short-Term Positioning: Neutral*
  - *Last week: No position*
  - *This week: No position*
- *Long-Term Positioning: Bearish*