Sector Buy/Sell Review: 12-17-19

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:

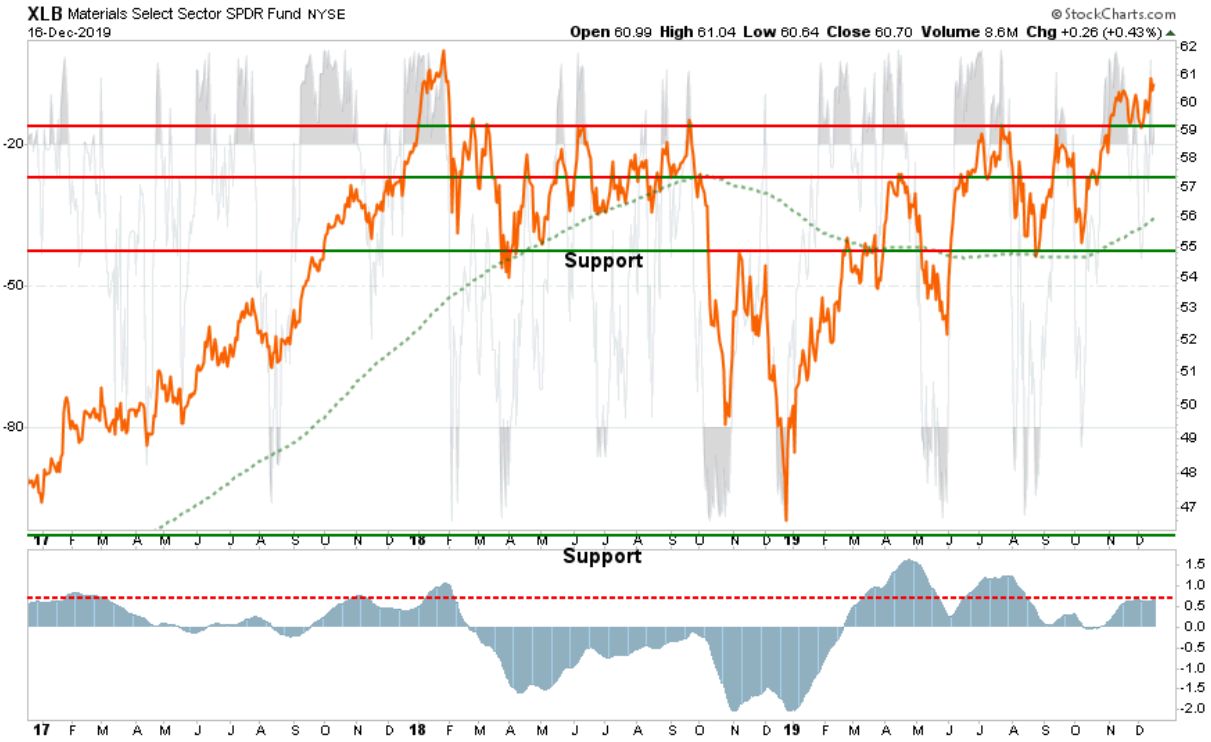
- *The price chart is in orange*
- *The Over Bought/Over Sold indicator is in gray*
- *The Buy / Sell indicator is in blue.*

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



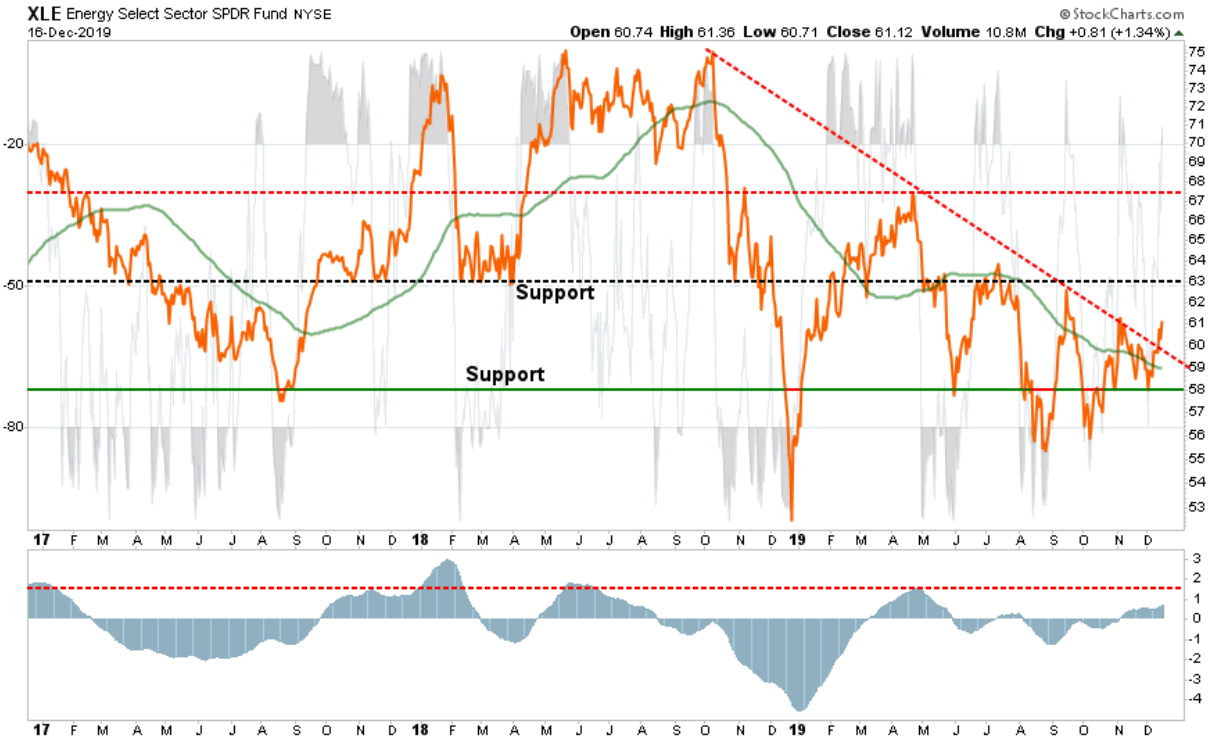
- *As noted previously, XLB was trying to reverse the overbought condition, and has successfully tested support twice.*
- *While XLB remains overbought short-term, XLB can be added for a trading position currently with a stop-loss at recent support levels.*
- *We currently hold 1/2 position and are looking to add the second 1/2. However, with the market very extended we are holding back waiting for a better entry point.*
- *Short-Term Positioning: Neutral*
    - *Last Week: Hold current positions with a tighter stop-loss.*
    - *This Week: Hold current positions with a tighter stop-loss.*
    - *Stop-loss adjusted to $59*
- *Long-Term Positioning: Neutral*

Communications



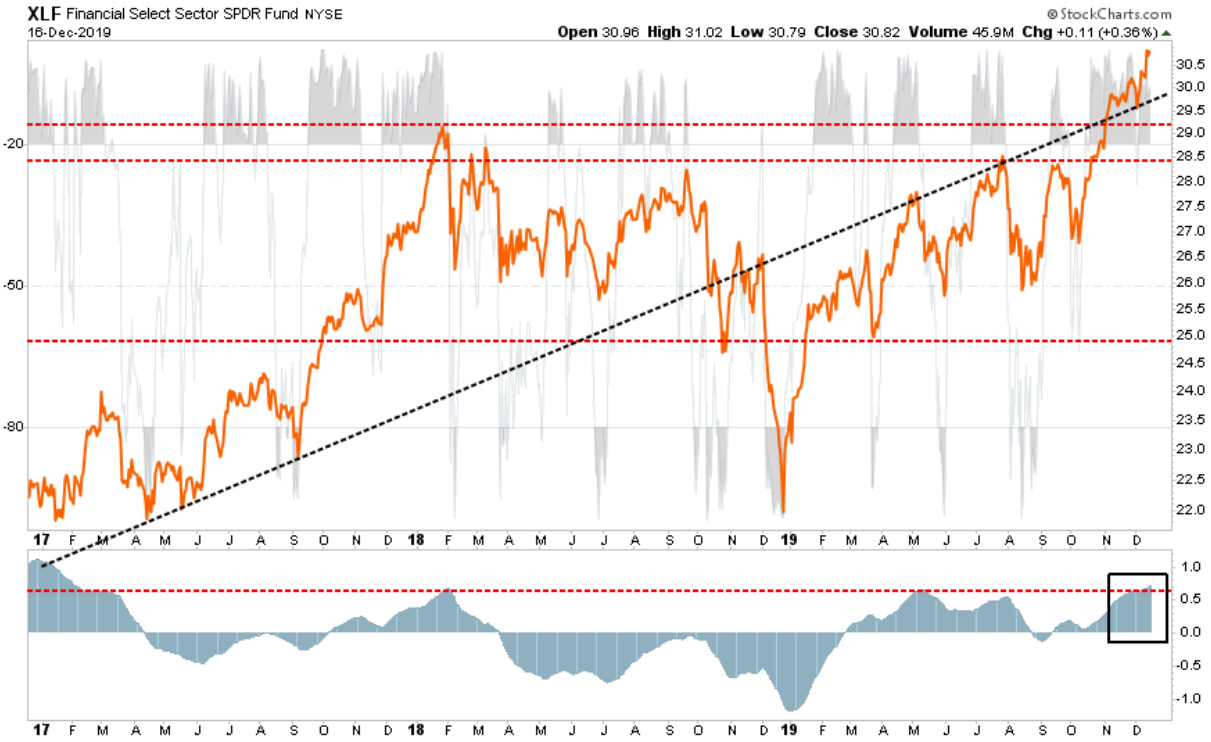
- *XLC finally broke out to new highs and joined its brethren technology sector.*
- *With a "buy signal" in place, there is little for us to do currently but wait.*
- *If you need to add a position, wait for a pull back to test the recent breakout support level and add there.*
- *XLC is currently a full-weight in portfolios but should perform better if a year-end advance ensues.*
- *Short-Term Positioning: Bullish*
    - *Last Week: Hold trading positions*
    - *This Week: Hold trading positions.*
    - *Stop adjusted to $48.50*
- *Long-Term Positioning: Neutral*

Energy



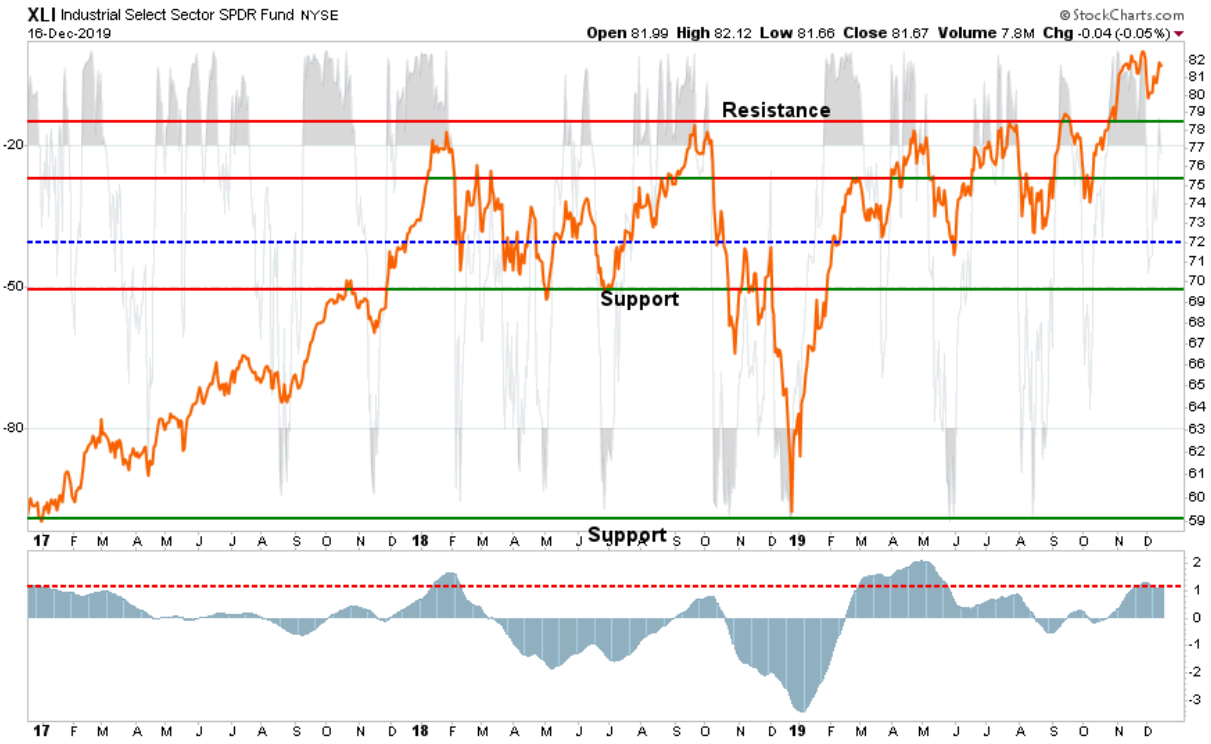
- *XLE has been stuck in a downtrend since the end of 2018. However, this week, XLE finally broke above its downtrend.*
- *With relative performance improving, we have added 1/2 position of AMLP to our portfolios. We will now look to add 1/2 position of XLE to the portfolio if it can hold this breakout. We aren't in a rush to add, as we have been repeatedly disappointed in recent past.*
- *Short-Term Positioning: Bearish*
    - *Last week: Added 1/2 AMLP to Portfolios*
    - *This week: Looking to add 1/2 XLE - patience.*
    - *No position currently*
- *Long-Term Positioning: Bearish*

Financials



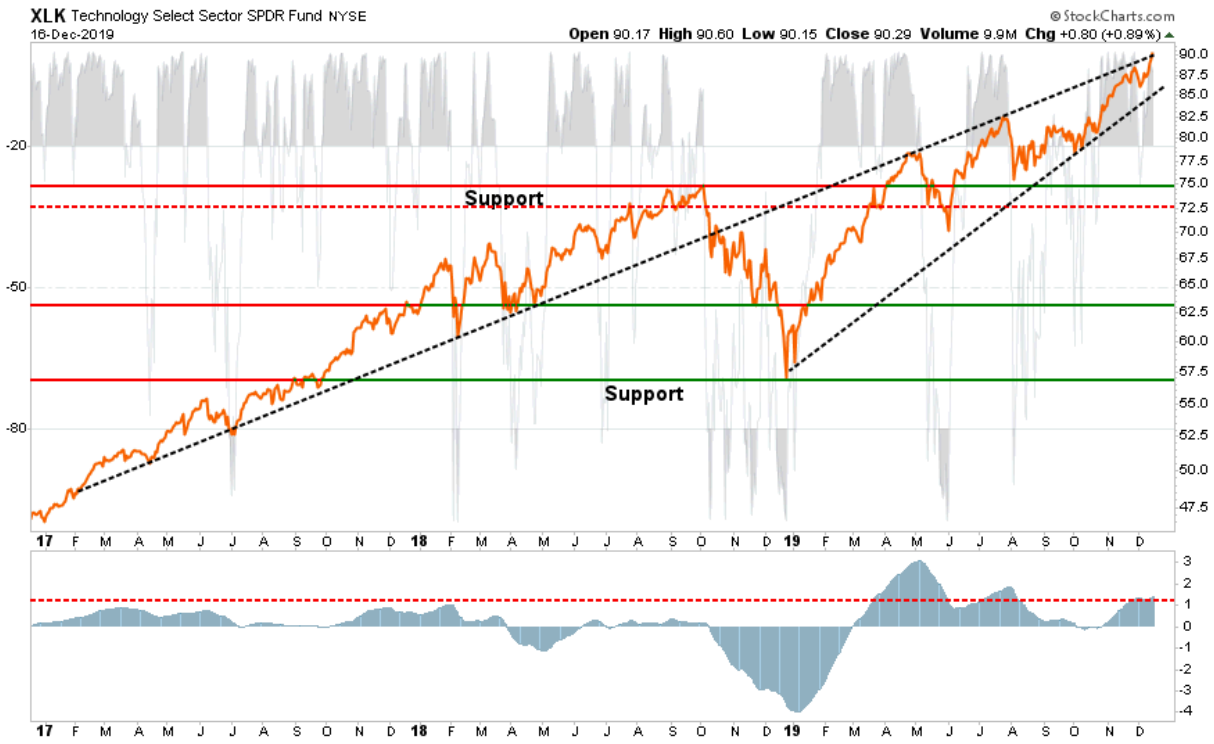
- *XLF finally broke out to new highs and has not provided a decent entry point.*
- *The sector remains extremely overbought, and the buy signal is extremely extended as well. A pull back or consolidation is required to add holdings into the portfolio.*
- *If you are long positions currently, take profits and rebalance. Move stops up accordingly.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold Positions*
    - *This week: Hold Positions*
    - *Stop-loss adjusted to $29*
- *Long-Term Positioning: Neutral*

Industrials



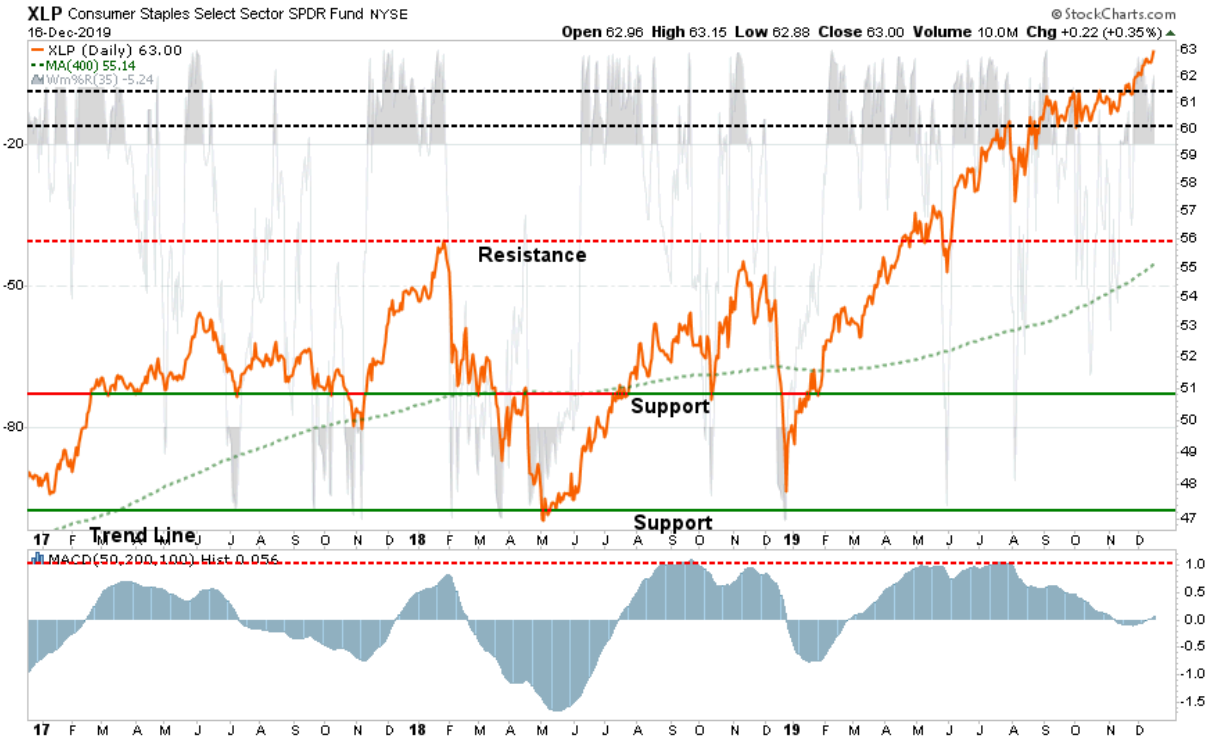
- *Like XLB, XLI broke out to new highs, but the trade war now threatens the sector.*
- *The current correction is working off the extreme overbought condition, but support needs to hold at the breakout level.*
- *We are looking for a bit of consolidation and/or pullback to work off some of the extreme overbought condition before increasing our weighting. And, as with XLB, we are waiting to see what happens to tariffs this weekend.*
- *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 $78*
- *Long-Term Positioning: Neutral*

Technology



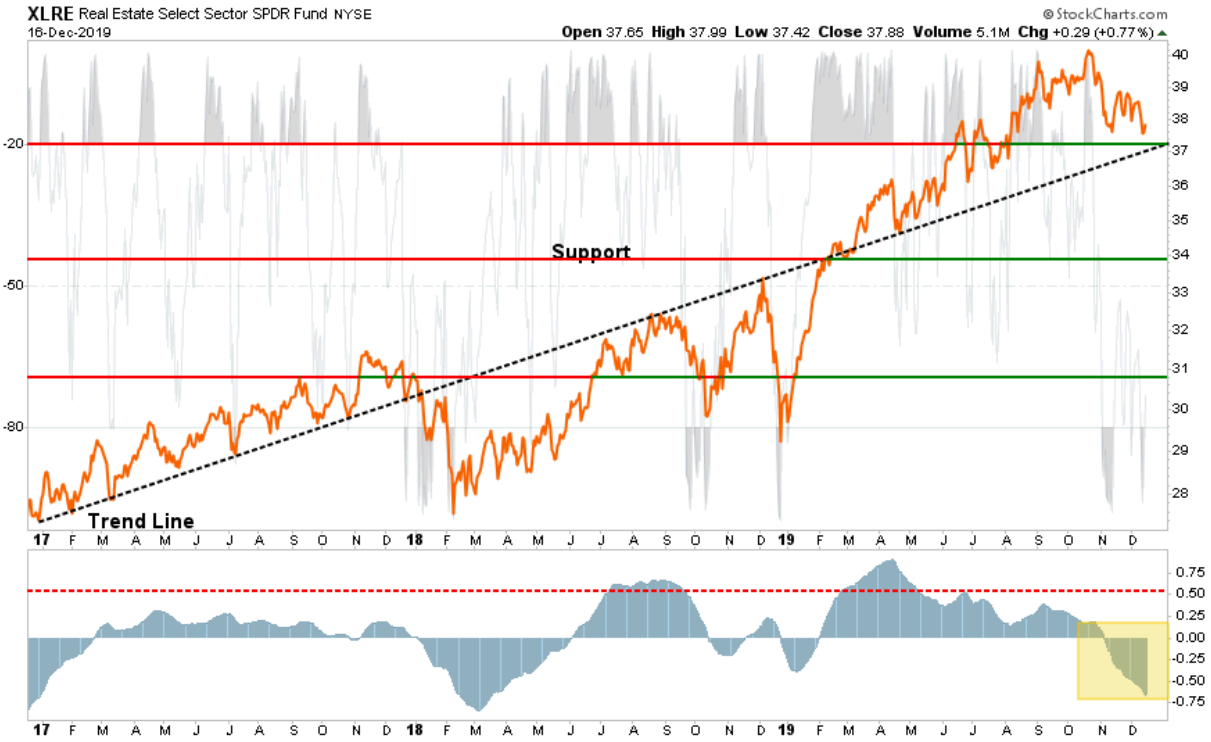
- *XLK is extremely overbought on both a price and momentum basis.*
- *We are currently target weight on Technology, but may increase exposure on a pullback to support within the overall uptrend. (A retest of the breakout that holds) The upper rising trendline is also providing resistance so look to add on a pullback that holds the lower trendline support.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold position*
    - *This week: Hold position*
    - *Stop-loss adjusted to $77.50*
    - *Long-Term Positioning: Neutral*

Staples



- *Defensive sectors have started to perform better as money is just chasing markets now.*
- *XLP continues to hold its very strong uptrend as has now broken out to new highs. However, XLP is back to more extreme overbought.*
- *Importantly, a "buy signal" has been registered. Look for pullbacks to support to add weight to portfolios.*
- *We previously took profits in XLP and reduced our weighting from overweight.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold positions, take profits if needed.*
    - *This week: Hold positions, take profits if needed.*
    - *Stop-loss adjusted to $60*
    - *Long-Term Positioning: Bullish*

Real Estate



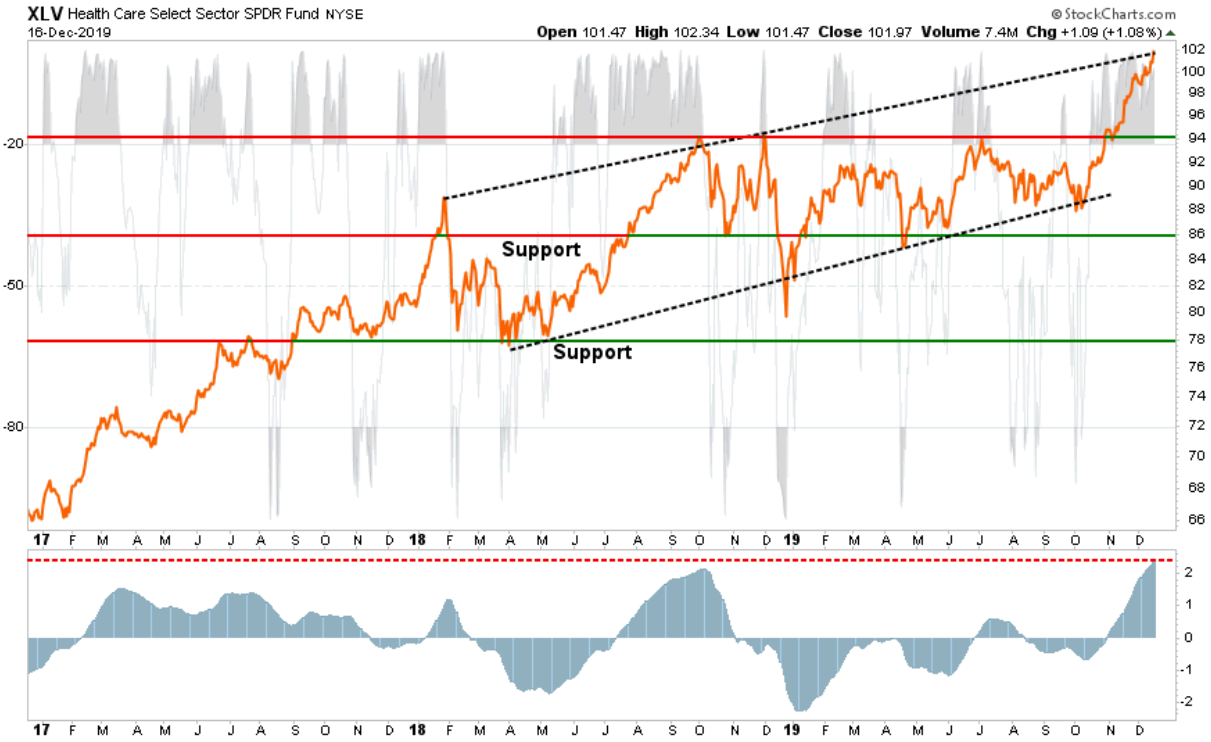
- *As noted last week, XLRE was consolidating its advance within a very tight pattern but broke to the downside. The subsequent rally failed to move back above previous support so the risk is to the downside currently.*
- *We had previously recommended taking profits and rebalancing risk as the overbought condition needed to be corrected which has now been completed.*
- *XLRE is now on a VERY deep "sell signal" and is very oversold. With support holding, trading positions can be added to portfolios. We are fully weighted the sector currently so there isn't any change required in our portfolios at this time.*
- *You can add to positions if you are underweight but maintain a stop at recent lows for new purchases.*
- *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



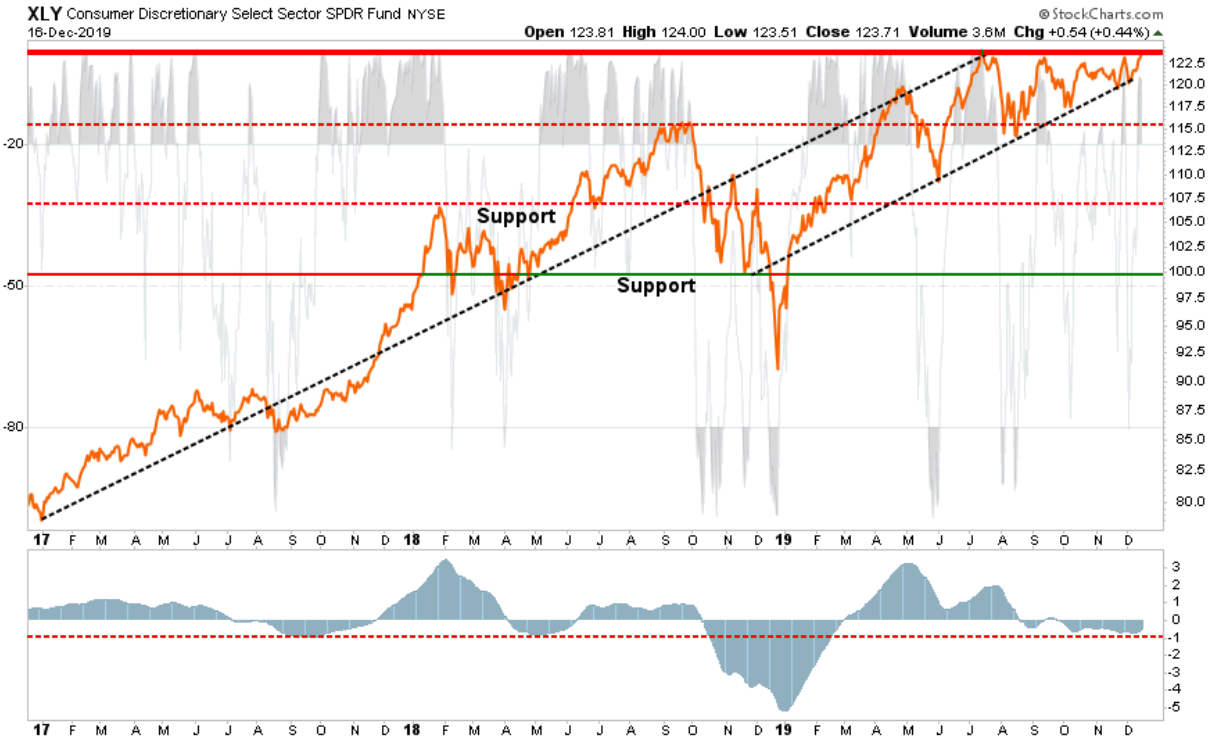
- *XLRE and XLU are virtually the same commentary with XLU rallying to test previous resistance but holding a very tightening support line.*
- *This week, XLU broke above resistance and looks to be headed back to all-time highs. If the "sell signal" is reversed, this will be bullish for XLU.*
- *After taking profits, we have time to be patient and wait for the right setup. That opportunity is likely approaching.*
- *Long-term trend line remains intact but XLU and the sell signal is now fairly deep which suggests we may see a rotation back into defensives soon.*
- *We are currently at full weight, so no change is required currently. However, trading positions can be added with a very tight stop.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold position.*
    - *This week: Hold position*
    - *Stop-loss adjusted to support at $59.00*
- *Long-Term Positioning: Bullish*

Health Care



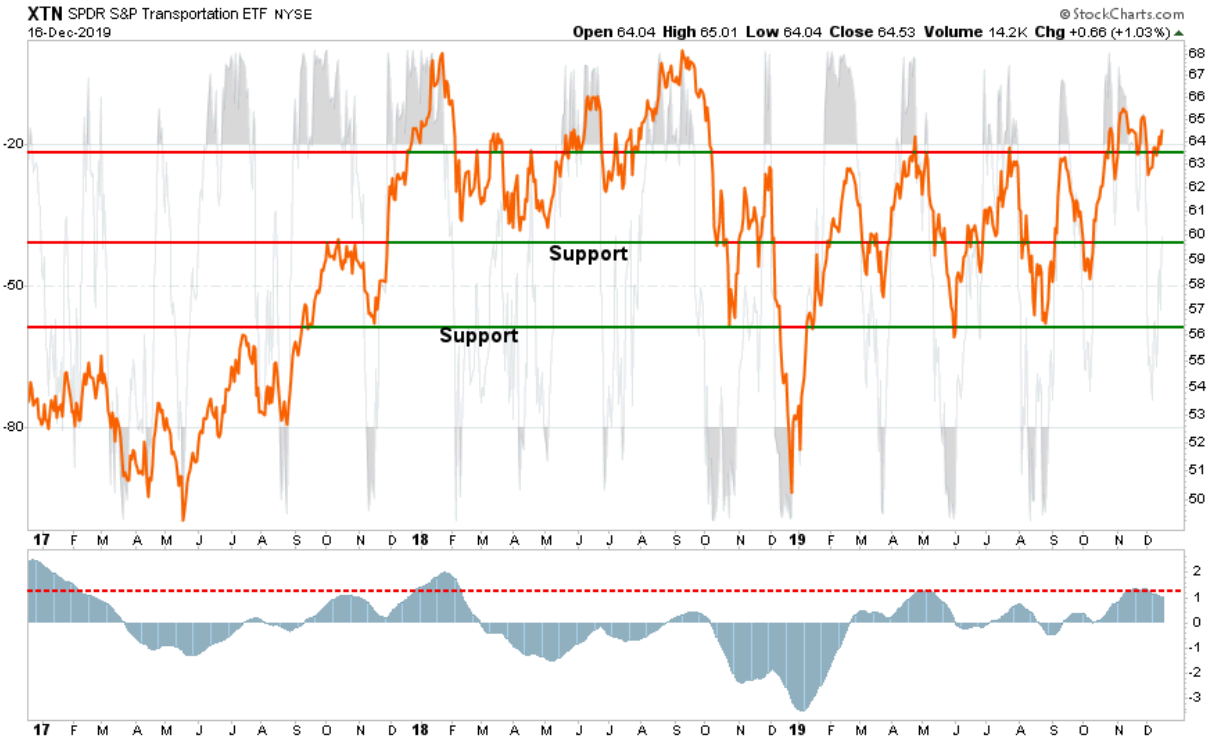
- *XLV has remained intact and broke out to new highs and has accelerated that advance.*
- *However, the rapid acceleration of the sector has taken XLV to extreme overbought conditions which will give way sooner than later. Take profits and rebalance holdings.*
- *The move in Healthcare has been parabolic, and the sector is too extended to add positions currently. We took profits last week and reduced our overweight to target portfolio weight for now.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold position.*
    - *This week: Took profits - reduced overweight to target weight.*
    - *Stop-loss adjusted to $94*
- *Long-Term Positioning: Bullish*

Discretionary



- *The rally in XLY has not participated as much as other sectors like Financials, Healthcare, and Technology, and has failed to break above resistance.*
- *We added to our holdings previously to participate with the current rally, but are carrying a tight stop on the whole position. XLY Is testing overhead resistance, and a breakout above resistance the triggers a "buy signal" will be very bullish.*
- *Hold current positions for now, as the Christmas Shopping Season is in full swing, but the market doesn't seem to be "buying" the strong "retial numbers" we have been told are happening. Either the sector is wrong and will catch up, or the sector is telling us the economy is weaker than it looks.*
- *The dismal performance relative to other sectors of the markets suggests not adding new/additional exposure currently. But a break of the consolidation pattern will determine the direction of the next move.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold position*
    - *This week: Hold position*
    - *Stop-loss adjusted to $115.*
- *Long-Term Positioning: Neutral*

Transportation



- *XTN has broken out of consolidation but quickly ran into resistance and has been unsuccessful and clearly breaking out.*
- *Like XLY, XTN is closely tied to economic activity. So, if XTN breaks down from current levels, there may be other issues we need to deal with.*
- *With a "buy" signal in place, and very extended, a better setup is forming to add holdings.*
- *Be patient, XTN has a good bit of work to do to prove its position in portfolios.*
- *Short-Term Positioning: Neutral*
    - *Last week: No position*
    - *This week: No position*
- *Long-Term Positioning: Bearish*