

Sector Buy/Sell Review: 12-24-19

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.

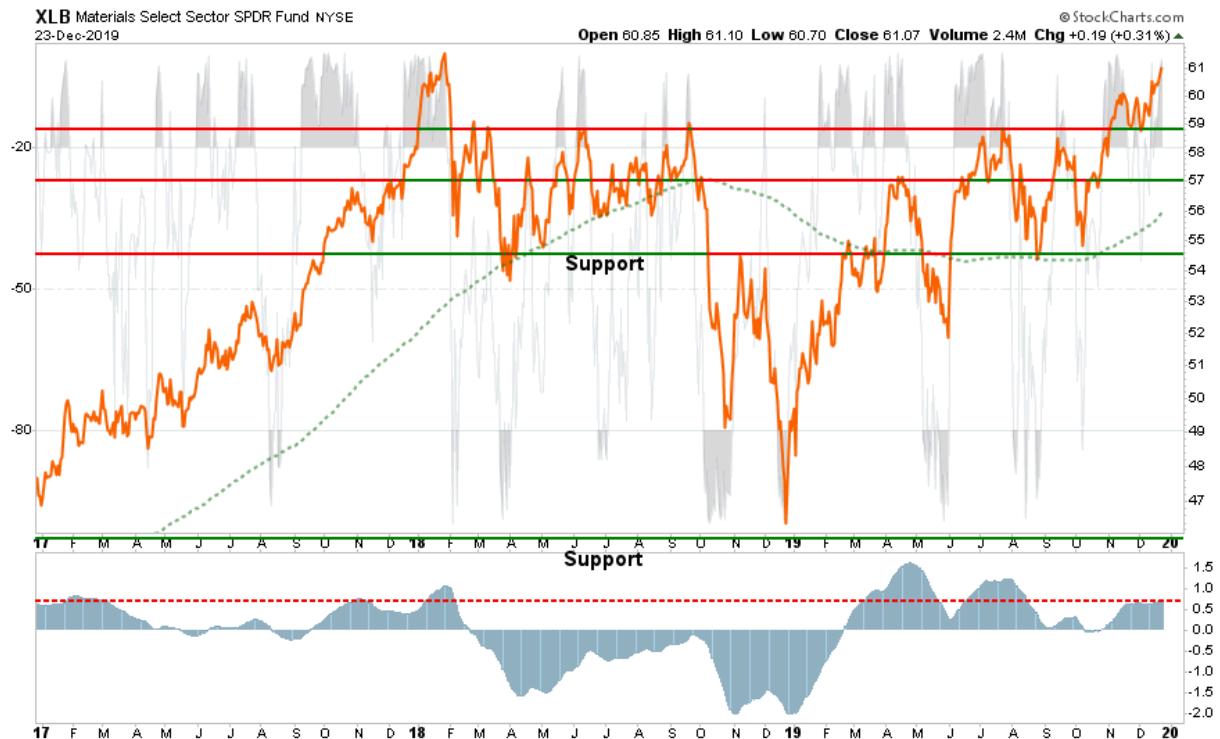
When the gray indicator is at the TOP of the chart, there is typically more risk and less reward available at the current time. In other words, the best time to BUY is when the short-term condition is over-sold. Likewise when the buy/sell indicator is above the ZERO line investments have a tendency of working better than when below the zero line.



With this basic tutorial let's get to the sector analysis.

The *"meltup"* continues. This week, not much of the analysis changes as we head into the end of the year. For the most part, everything that was extremely overbought is even more overbought this week. With most of our positioning already long biased, be patient for pullbacks to add exposure.

Basic Materials



- *XLB is now testing previous all-time highs.*
- *While XLB is extremely overbought short-term, previous recommendations to add XLB for a trading position are now sidelined.*
- *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



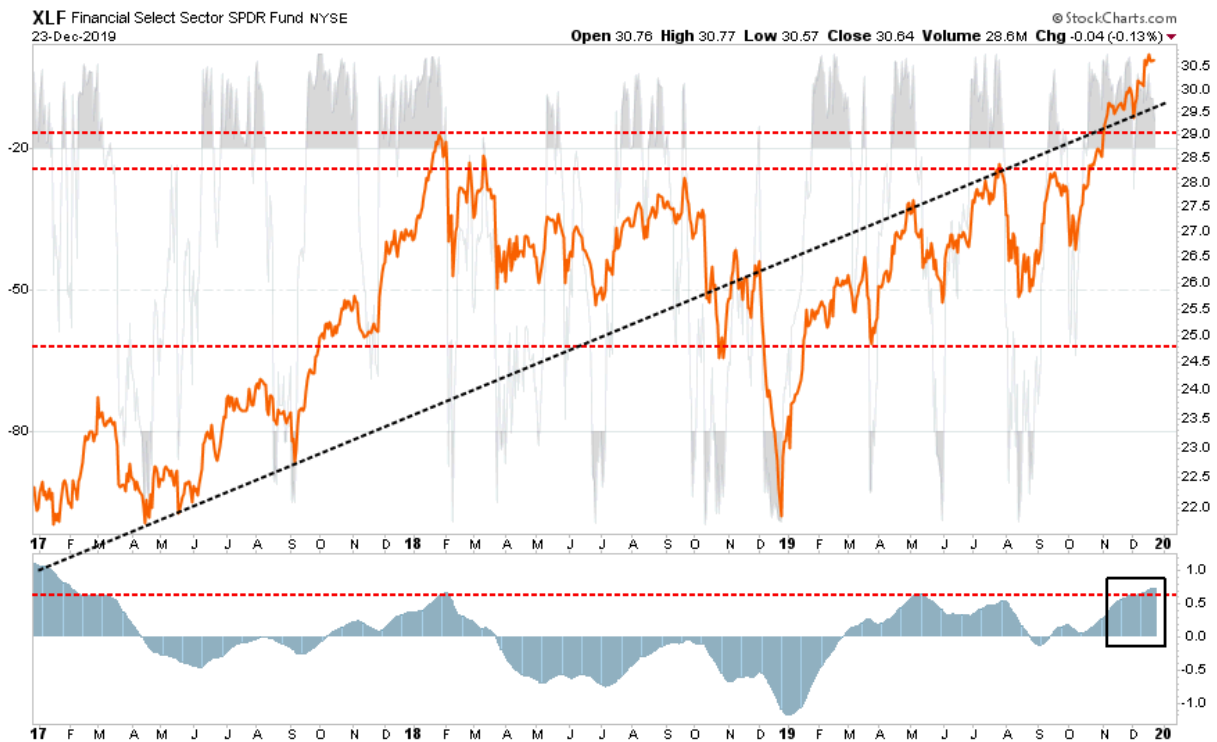
- XLC finally broke out to new highs and joined its brethren technology sector. Since the breakout, the advance has gone vertical.
- With a "buy signal" in place, there is little for us to do currently but wait.
- If you need to add a position, wait for a pull back to test the recent breakout support 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 \$51
- Long-Term Positioning: Neutral

Energy



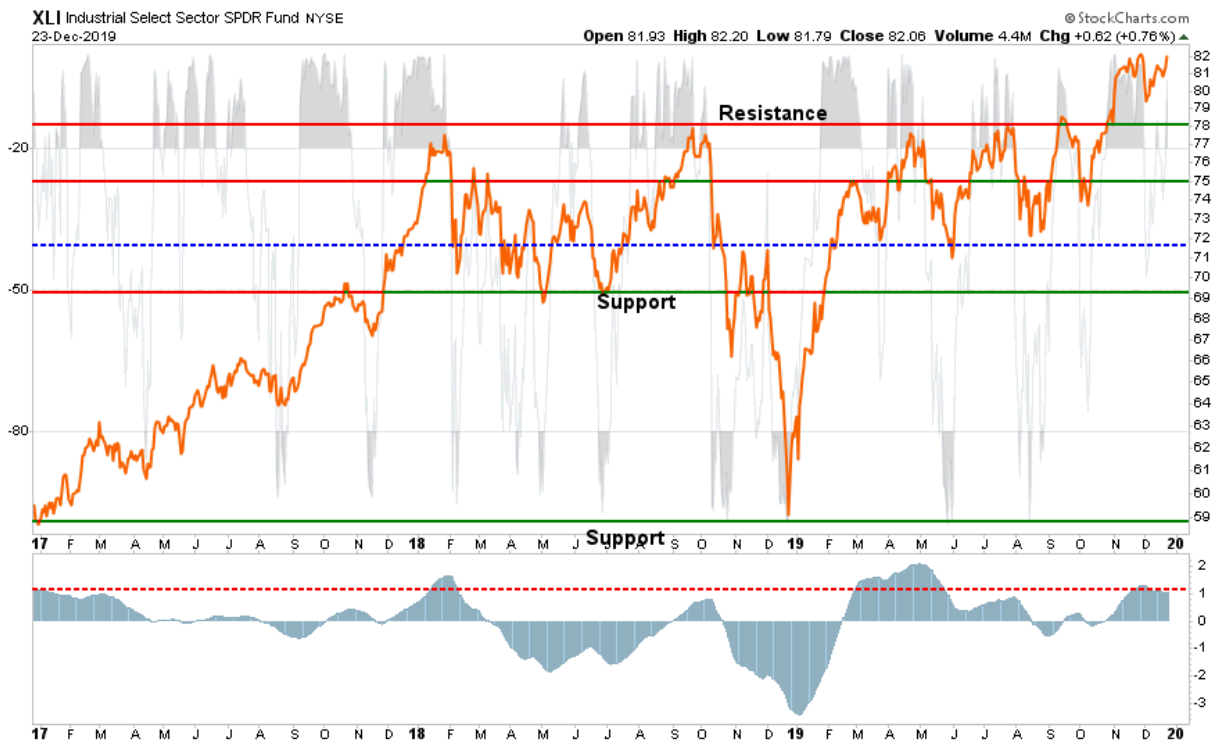
- *XLE has been stuck in a downtrend since the end of 2018. However, last week, XLE finally broke above its downtrend.*
- *With relative performance improving, we have added 1/2 position of AMLP to our portfolios. We will now look to add 1/2 position of XLE to the portfolio if it can hold this breakout. 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



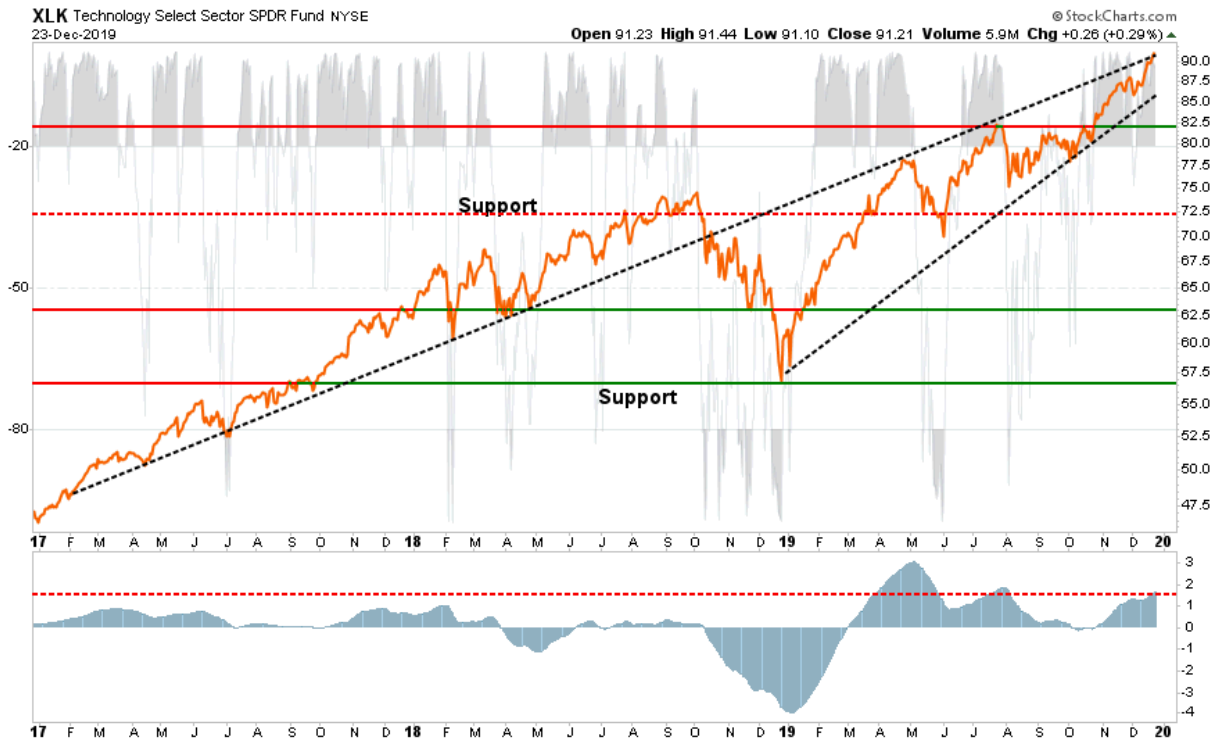
- After XLF broke out to new highs the advance has been sharp and has not provided a decent entry point.
- The sector remains extremely overbought, and the buy signal is extremely extended as well. A pull back or consolidation is required to add holdings into the portfolio.
- If you are long positions 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



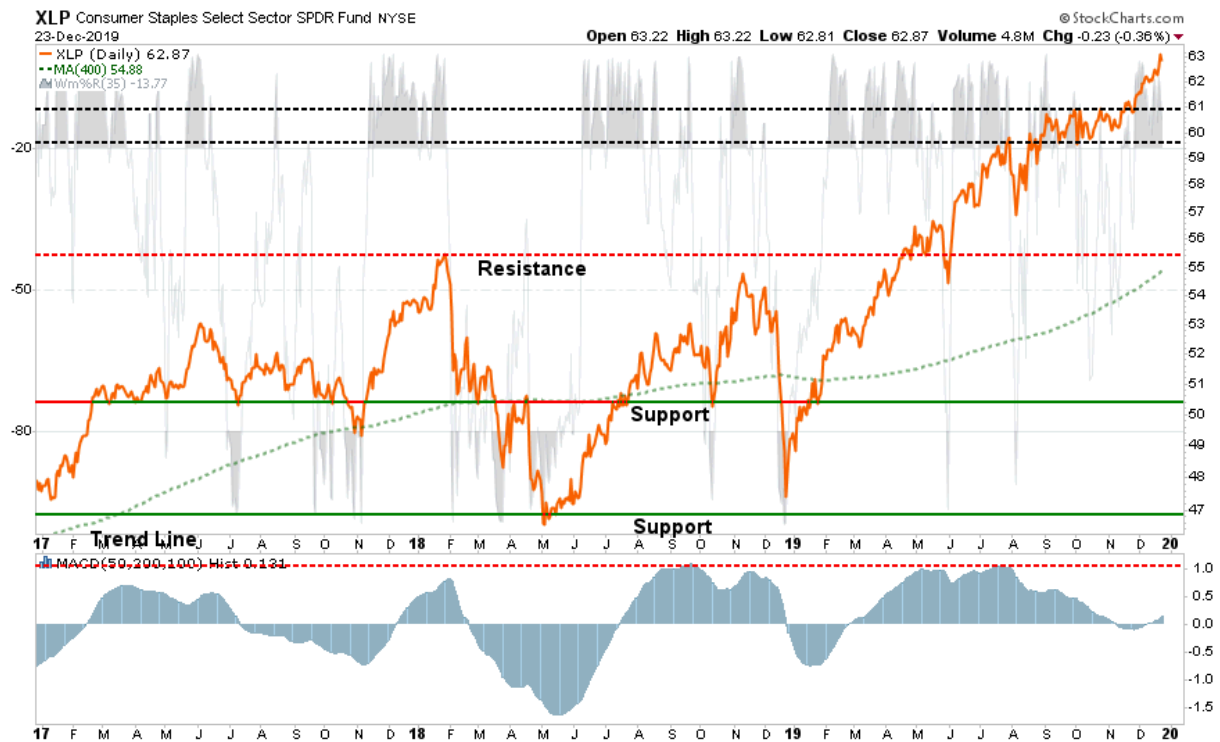
- XLI has not established new highs this past week after its recent mini-correction.
- That mini-correction was not enough to work off the extreme overbought condition.
- We are looking for a bit of consolidation and/or pullback to work off some of the extreme overbought condition before increasing our weighting.
- 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



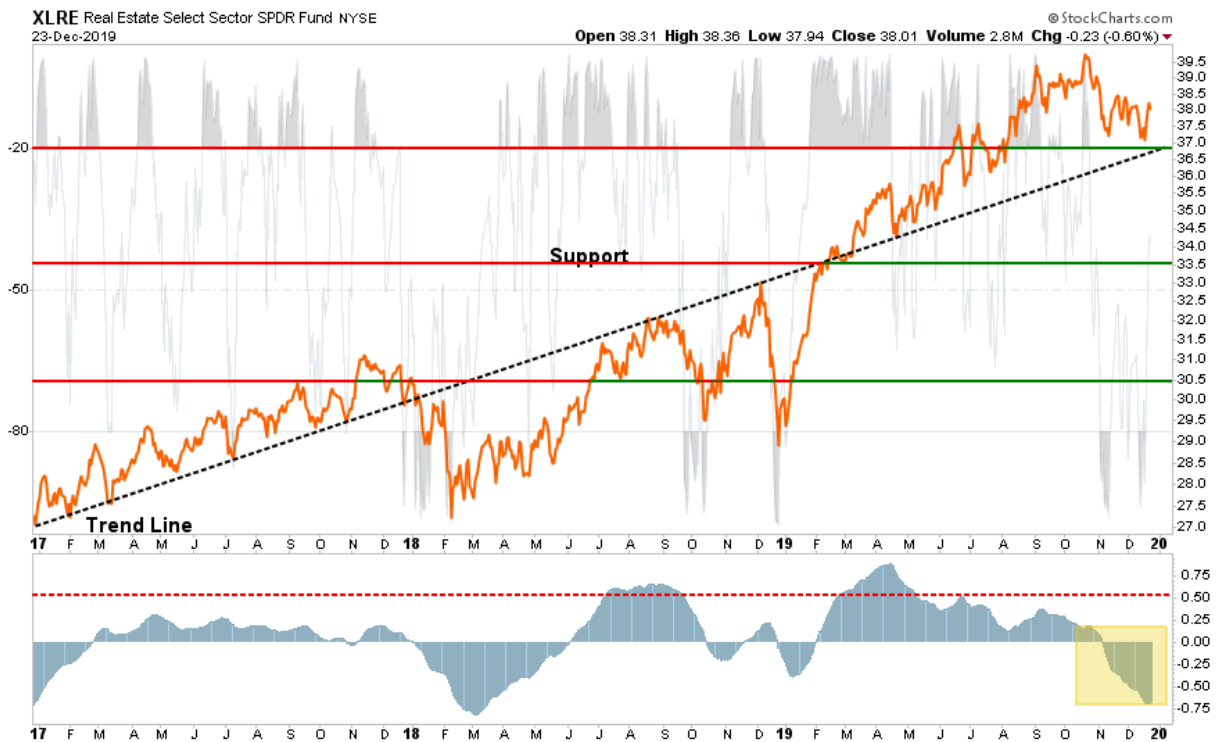
- *XLK is extremely overbought on both a price and momentum basis.*
- *We are currently target weight on Technology, but may increase exposure on a pullback to support within the overall uptrend. (A retest of the breakout that holds) The upper rising trendline is also providing resistance so look to 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 "everything" 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



- XLRE has been consolidating its advance within a very tight pattern but is holding support at both previous levels and the uptrend line.
- 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



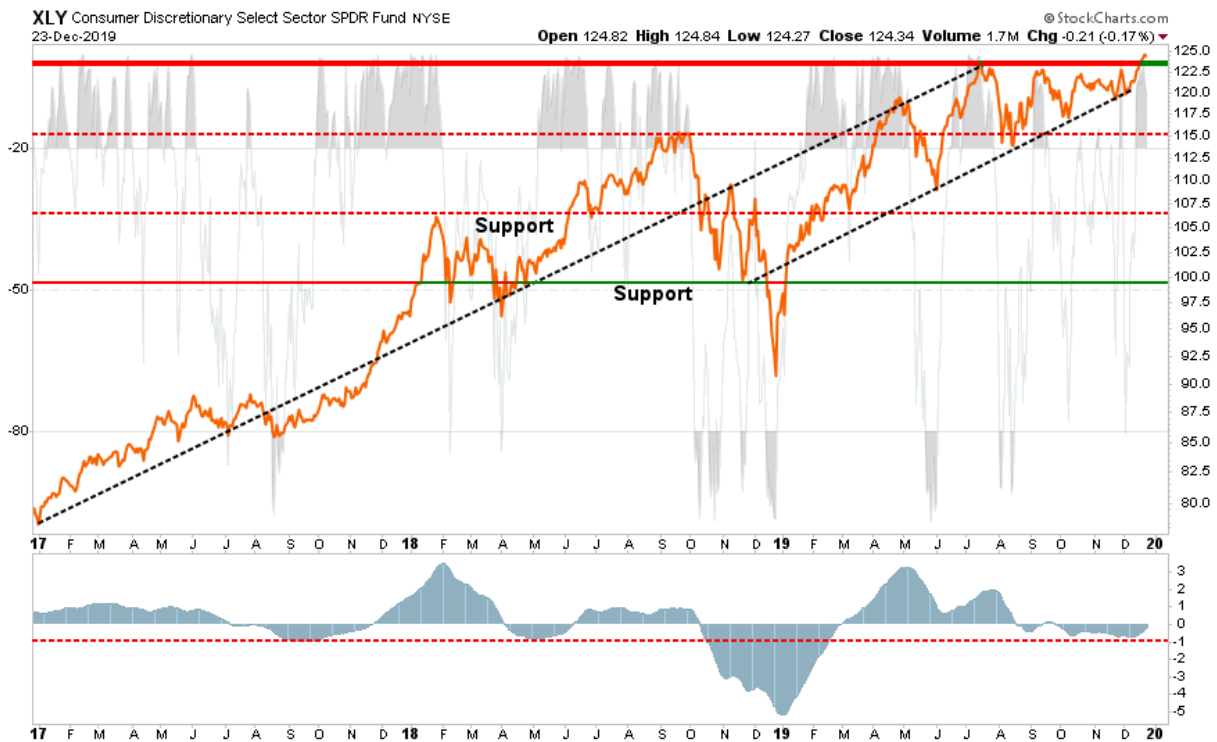
- XLU rallied the past week to test previous highs and broke out of its consolidation.
- If the "sell signal" is reversed, this will be very bullish for XLU, and should suggest a decline in interest rates is simultaneously occurring.
- We noted last week that after taking profits, we had time to be patient and wait for the right setup. That opportunity came this past week. If you need to add exposure to Utilities, you can do so now with a tight stop.
- 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 current position / Add trading positions if needed
 - Stop-loss adjusted to support at \$59.00, \$61 for new positions.
- Long-Term Positioning: Bullish

Health Care



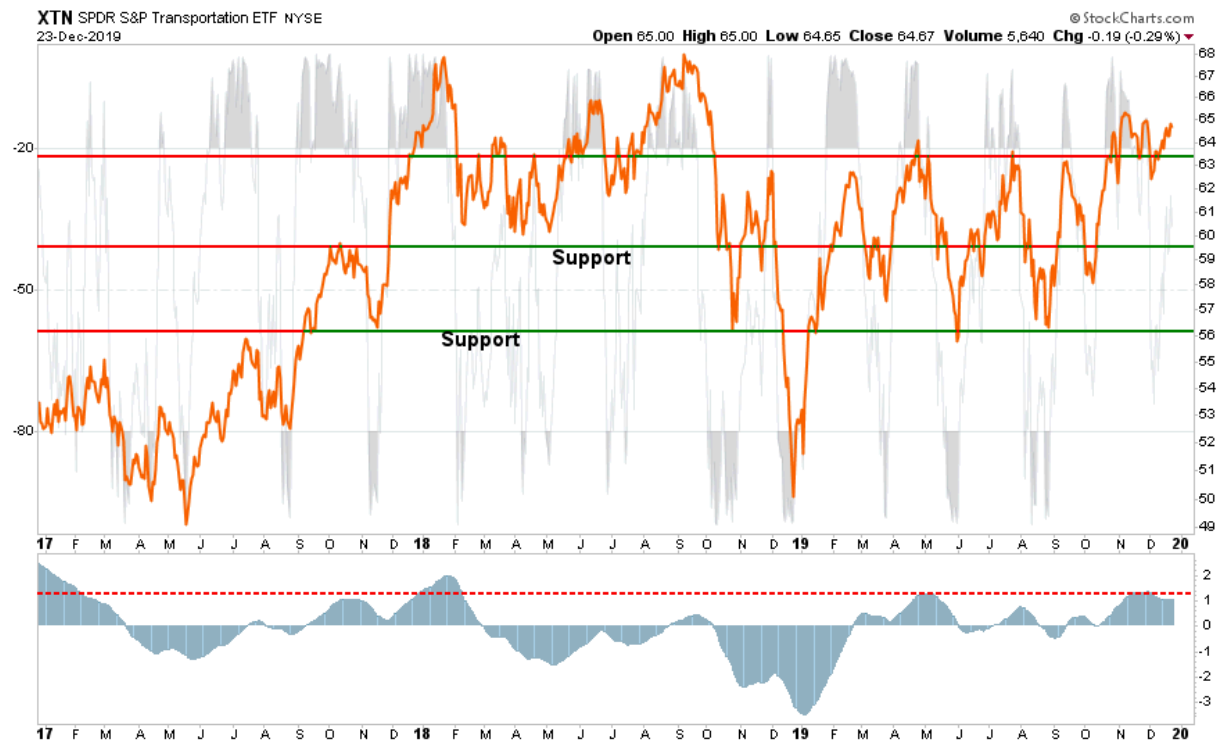
- *XLV has remained intact and broke out to new highs but has gotten to extended.*
- *XLV is extremely overbought which will give way sooner than later. Take profits and rebalance holdings.*
- *The move in Healthcare has been parabolic, and the sector is too extended to add positions currently. We took 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



- We added to our holdings previously to participate with the current rally, but are carrying a tight stop on the whole position.
- XLY finally broke above overhead resistance which will likely trigger a "buy signal" soon. This is bullish for the sector.
- Hold current positions for now, as the Christmas Shopping Season is in full swing, let's see if the "Santa Clause" rally is kind to retailers this 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 broken out of consolidation but quickly ran into resistance and has been unsuccessful and clearly breaking out.*
- *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*