

Sector Buy/Sell Review: 02-26-20

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.

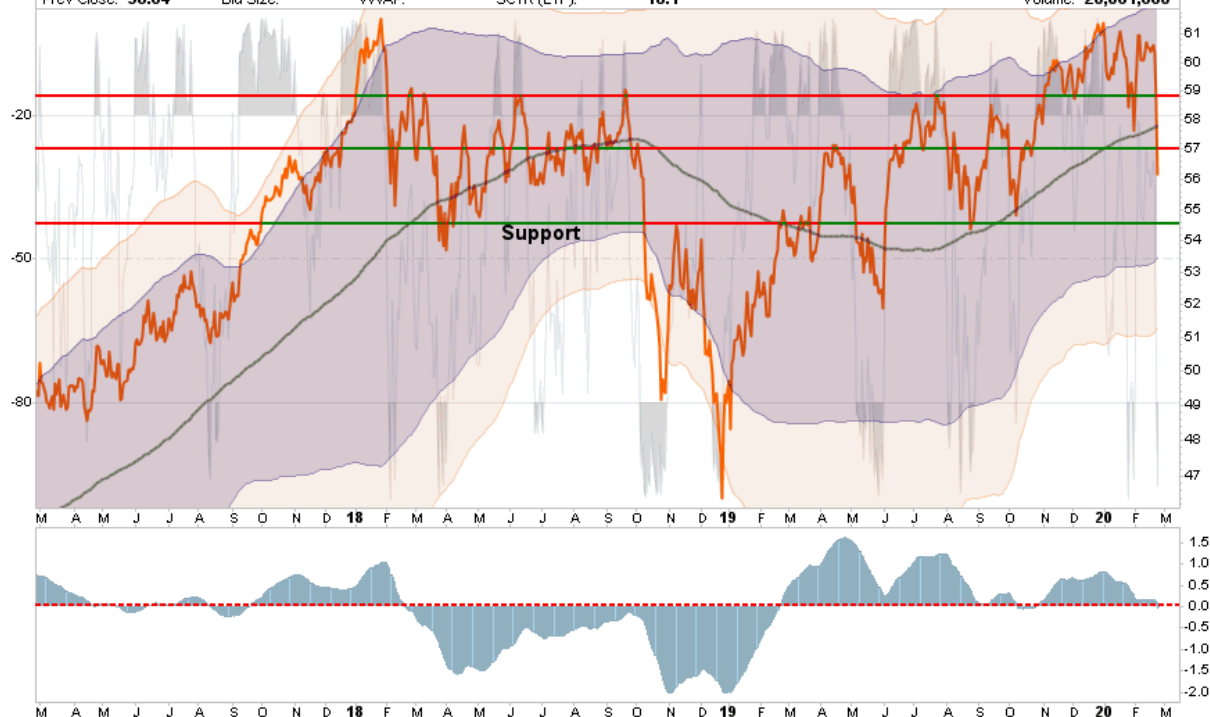
When the gray indicator is at the TOP of the chart, there is typically more risk and less reward available at the current time. In other words, the best time to BUY is when the short-term condition is over-sold. Likewise when the buy/sell indicator is above the ZERO line investments have a tendency of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



Things certainly changed fast from last week's update. Given the steepness and speed of the correction, it has likely burned a chunk of the decline out short-term. The primary theme in today's update is either entry points for a trade, or exit points on a rally.

Basic Materials

Open: 58.65	Ask:	P/E:	Options: yes	Tuesday 25-Feb-2020
High: 58.70	Ask Size:	EPS:	Annual Dividend: 1.21337	▼ -4.31%
Low: 55.96	Bid:	Last Size:	Yield: 2.16%	Chg: -2.53
Prev Close: 58.64	Bid Size:	VWAP:	SCTR (ETF): 18.1	Last: 56.11
				Volume: 20,061,660

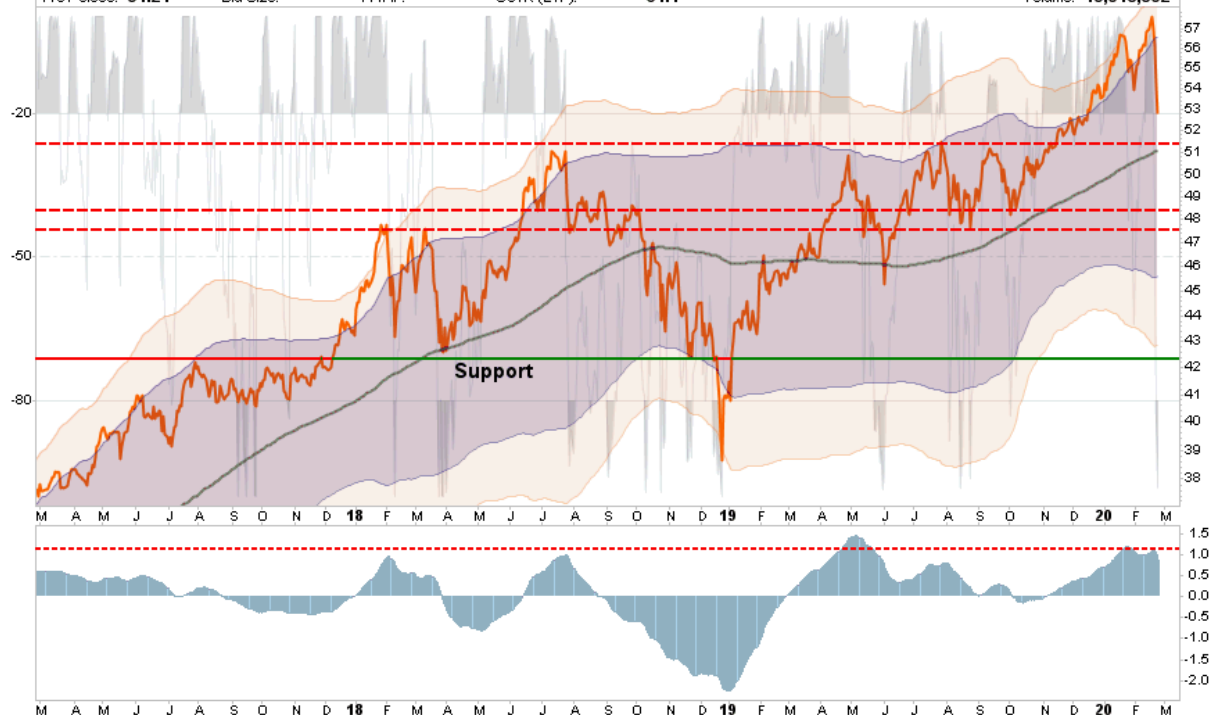


- Last week I wrote: "There is the beginning of downtrend channel forming which needs to be reversed if Materials are going to rally further. The risk of the virus to the global supply chain makes Materials tricky."
- Very quickly the realization of the supply chain came into focus. XLB broke support at the 200-dma on Tuesday, and is deeply oversold.
- We are looking for an oversold bounce to sell our position into. The impact to the global supply chain is going to be tough on material and industrial sectors. So we are going to step aside for the time being.
- Short-Term Positioning: Neutral
 - Last Week: Hold current positions with a tighter stop-loss.
 - This Week: Sell On Bounce.
 - Stop-loss moved back to \$57 to allow for entry.
- Long-Term Positioning: Neutral

Communications

Open: **54.43** Ask: P/E: Options: **yes**
 High: **54.66** Ask Size: EPS: Annual Dividend: **0.43727**
 Low: **52.69** Bid: Last Size: Yield: **0.83%**
 Prev Close: **54.24** Bid Size: VWAP: SCTR (ETF): **64.4**

Tuesday 25-Feb-2020
 ▼ **-2.67%**
 Chg: **-1.45**
 Last: **52.79**
 Volume: **13,048,802**

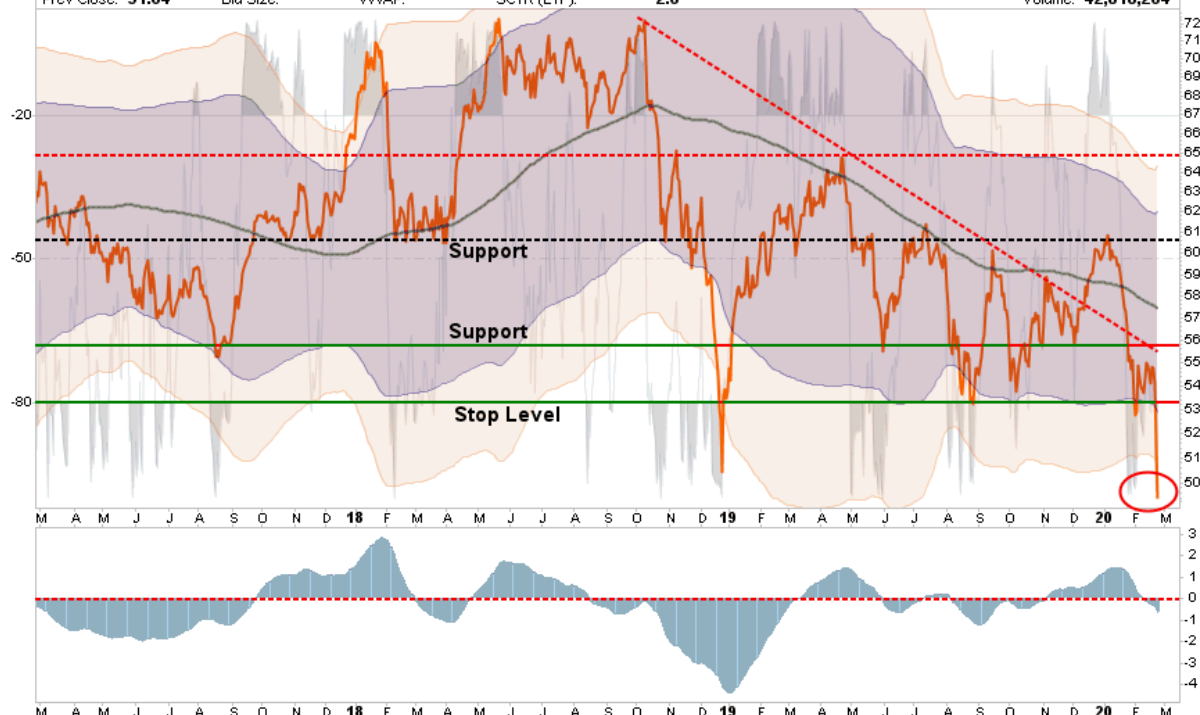


- As noted previously, we reduced our allocations slightly to the sector due to the rather extreme extension. The recent correction, and reversal, is starting to set up a decent entry point to add back to our holdings.
- With a "buy signal" in place, and a correction of the overbought condition, an entry between \$52 and \$53 is appealing if support holds.
- Short-Term Positioning: Bullish
 - Last Week: Hold positions
 - This Week: Look to add at support.
 - Stop adjusted to \$50
- Long-Term Positioning: Neutral

Energy

Open: **51.78** Ask: P/E: Options: **yes**
 High: **51.82** Ask Size: EPS: Annual Dividend: **2.24387**
 Low: **49.04** Bid: Last Size: Yield: **4.55%**
 Prev Close: **51.64** Bid Size: VWAP: SCTR (ETF): **2.0**

Tuesday 25-Feb-2020
 ▼ **-4.42%**
 Chg: **-2.28**
 Last: **49.36**
 Volume: **42,818,204**

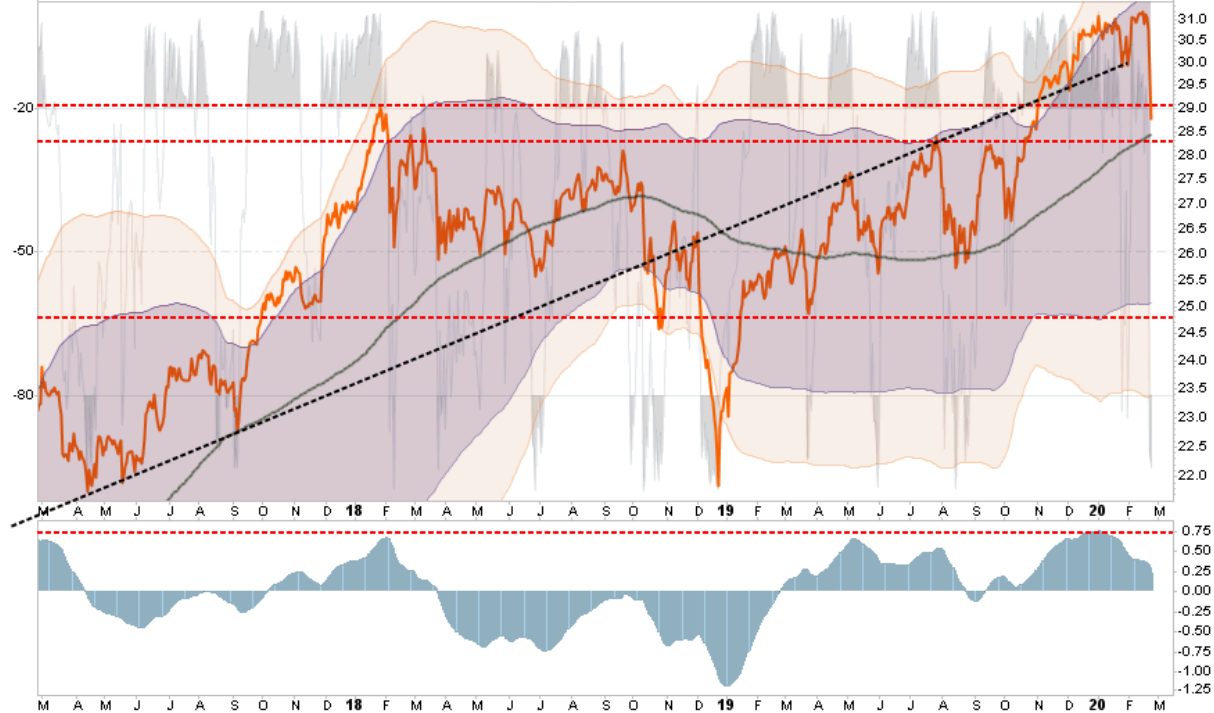


- XLE fell apart with the recent sell off in the market. Currently, it is 4-standard deviations below the 200-dma which is a prime setup for a reflexive bounce.
- With the sell signal triggered, we are looking for a bounce to evaluate rather we want to start building an allocation to this beaten up sector. It is too soon to tell, but we will update you accordingly.
- We are likely going to sell our current positions on a rally that fails and re-evaluate accordingly.
- Short-Term Positioning: Bearish
 - Last week: Sell into rally.
 - This week: Sell into rally.
 - No position currently
- Long-Term Positioning: Bearish

Financials

Open: **29.78** Ask: P/E: Options: **yes**
 High: **29.84** Ask Size: EPS: Annual Dividend: **0.57469**
 Low: **28.62** Bid: Last Size: Yield: **2.00%**
 Prev Close: **29.77** Bid Size: VWAP: SCTR (ETF): **54.2**

Tuesday 25-Feb-2020
 ▼ **-3.39%**
 Chg: **-1.01**
 Last: **28.76**
 Volume: **111,787,984**

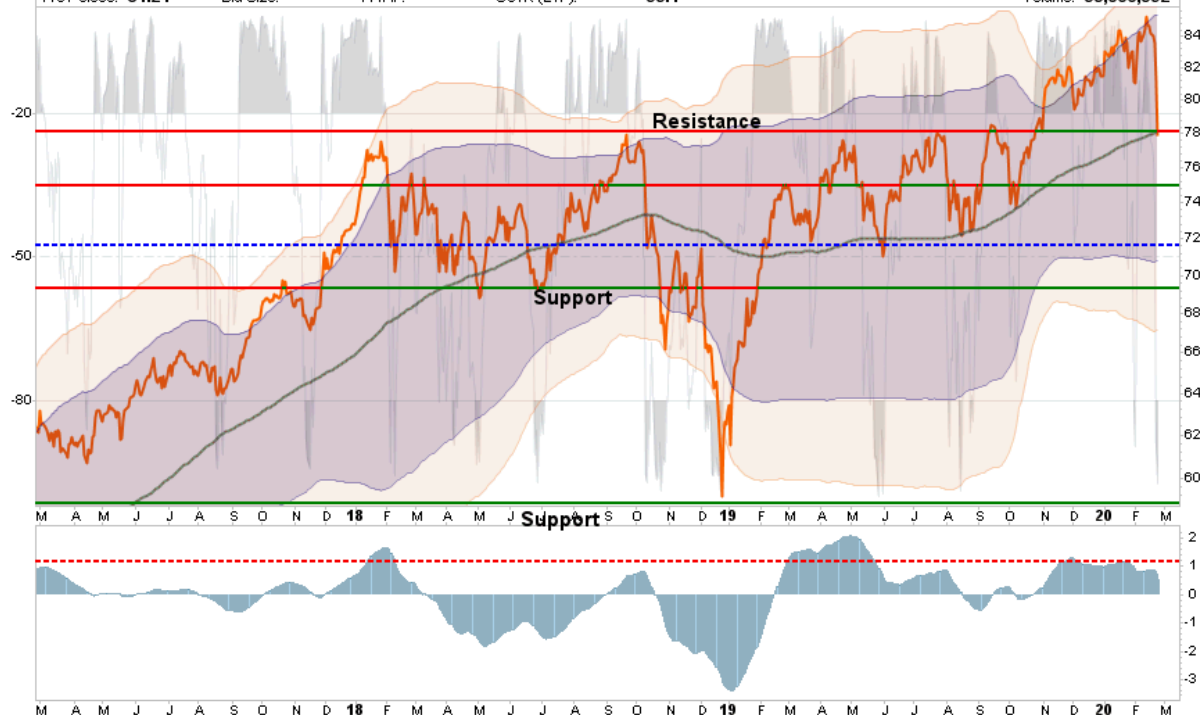


- As noted previously, XLF was extremely extended above the 200-dma which put the sector at risk of a more severe correction.
- The correction in XLF is heading back to the 200-dma and needs to hold there. We will look to add to our positions accordingly if that level holds without triggering a "sell signal."
- XLF is very oversold so a counter-trend rally is likely in the next few days.
- Short-Term Positioning: Bullish
 - Last week: Hold for now.
 - This week: Hold for now.
 - Stop-loss adjusted to \$28
- Long-Term Positioning: Neutral

Industrials

Open: **81.38** Ask: P/E: Options: **yes**
 High: **81.62** Ask Size: EPS: Annual Dividend: **1.58305**
 Low: **77.69** Bid: Last Size: Yield: **2.03%**
 Prev Close: **81.21** Bid Size: VWAP: SCTR (ETF): **33.1**

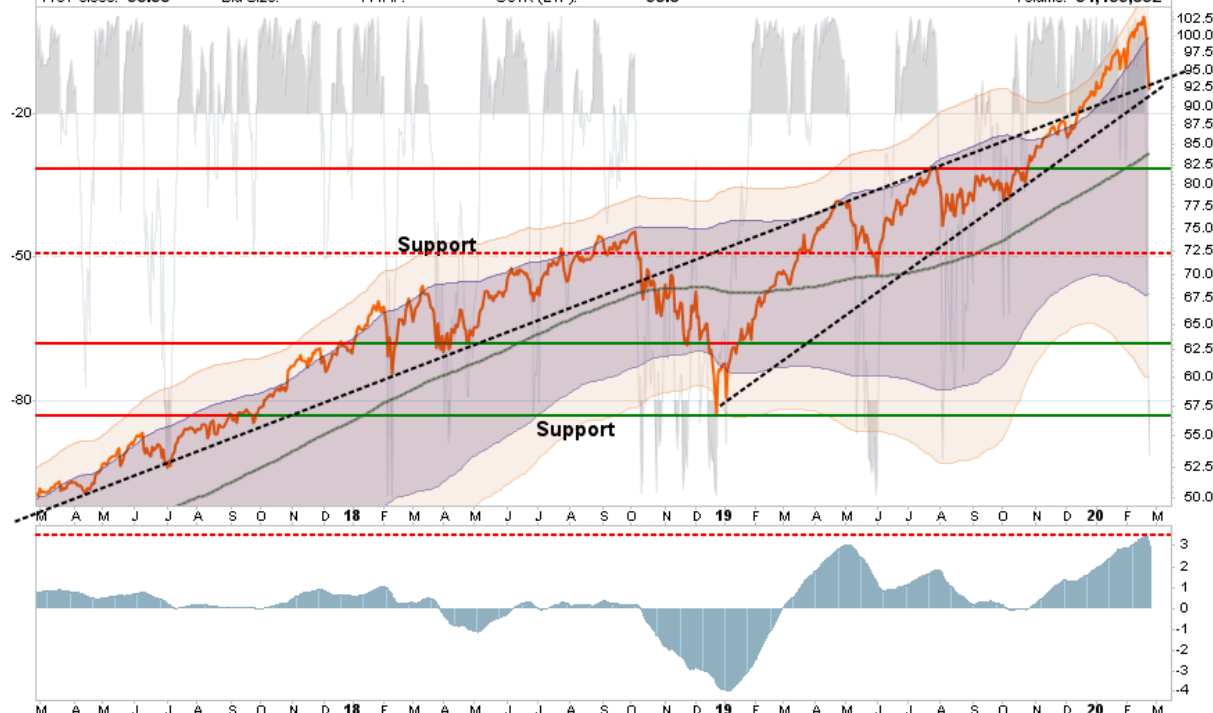
Tuesday 25-Feb-2020
 ▼ **-4.08%**
 Chg: **-3.31**
 Last: **77.90**
 Volume: **33,000,592**



- As noted last week: "XLI remains exceedingly overbought short-term and the "buy signal" remains very extended as well. No rush chasing the sector currently. Also, there is a good risk the "coronavirus" will have a direct impact on the global supply chains of industrial companies."
- That risk showed up this week along with XLB above.
- We are holding reduced position weightings and will look for an oversold, counter-trend rally to exit our exposures entirely for now.
- We have adjusted our stop-loss for the remaining position.
- Short-Term Positioning: Neutral
 - Last week: Hold 1/2 position
 - This week: Sell on rally.
 - Stop-loss adjusted to \$77
- Long-Term Positioning: Neutral

Technology

Open: 96.19	Ask:	P/E:	Options: yes	Tuesday 25-Feb-2020
High: 96.54	Ask Size:	EPS:	Annual Dividend: 1.05906	▼ -3.20%
Low: 91.94	Bid:	Last Size:	Yield: 1.15%	Chg: -3.05
Prev Close: 95.33	Bid Size:	VWAP:	SCTR (ETF): 93.8	Last: 92.28
				Volume: 31,459,852

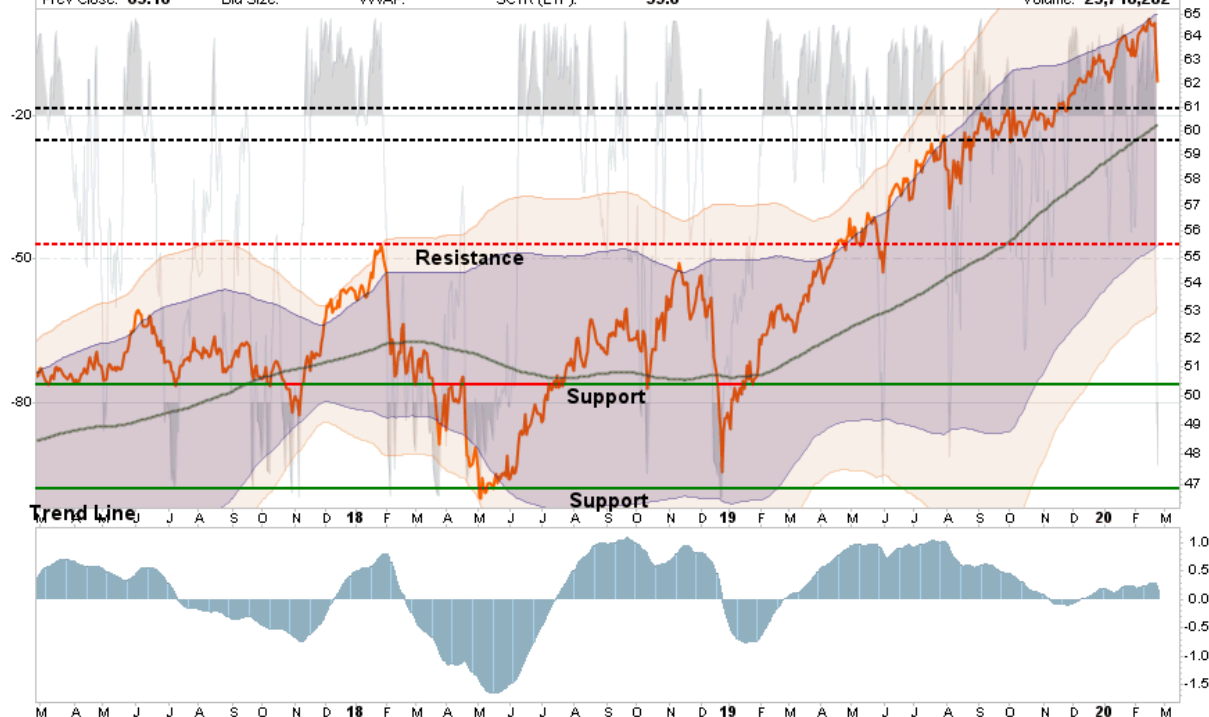


- As noted last week: "We reduced our position in XLK from overweight to target portfolio weight due to the extreme extension and noted a correction is coming. That is still the case currently."
- Well the correction finally showed up and, so far, XLK is holding the bullish uptrend support. The sector is still extended from its long-term mean but is short-term oversold so a reflexive bounce is likely.
- The bullish trend line is the first level of support XLK needs to hold while reversing the overbought condition. A failure at that support is going to bring the 200-dma into focus.
- Take profits and rebalance risks accordingly.
- Short-Term Positioning: Bullish
 - Last week: Reduce Overweight to Target Weight
 - This week: Rebalance on a rally.
 - Stop-loss adjusted to \$80
 - Long-Term Positioning: Neutral

Staples

Open: **63.20** Ask: P/E: Options: **yes**
 High: **63.51** Ask Size: EPS: Annual Dividend: **1.61675**
 Low: **61.81** Bid: Last Size: Yield: **2.61%**
 Prev Close: **63.16** Bid Size: VWAP: SCTR (ETF): **59.6**

Tuesday 25-Feb-2020
 ▼ **-1.80%**
 Chg: **-1.14**
 Last: **62.02**
 Volume: **25,718,282**

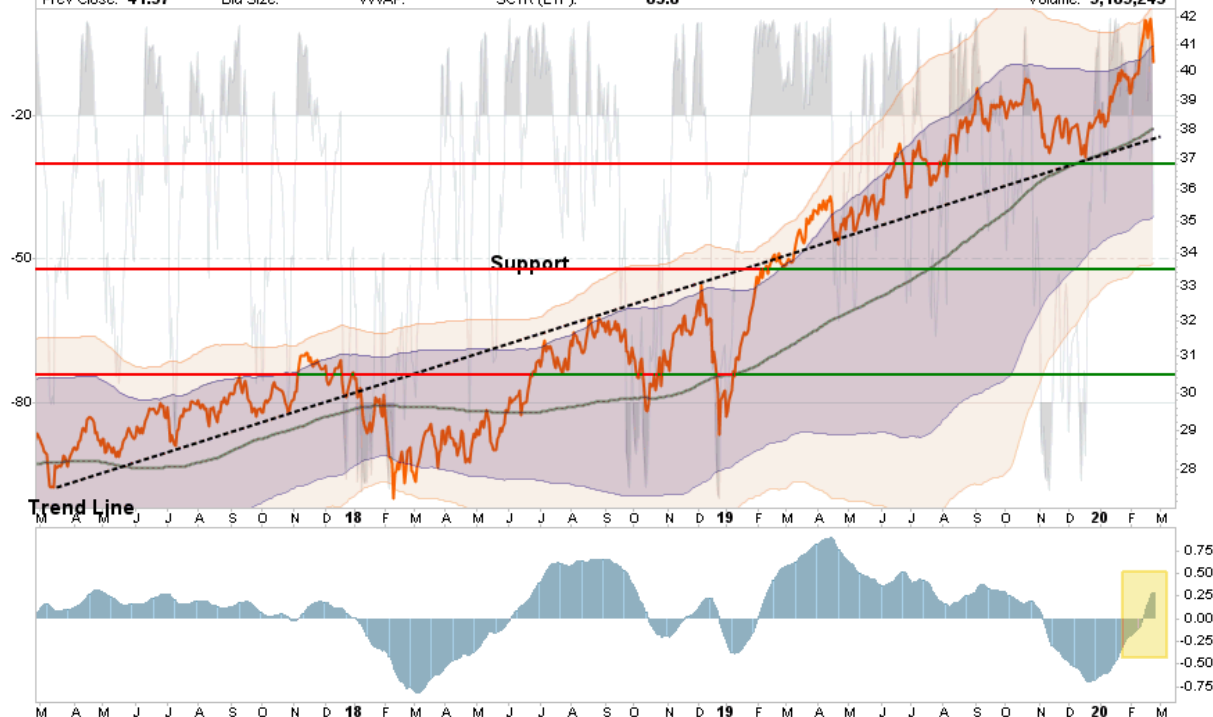


- As noted previously: "XLP continues to hold its very strong uptrend and remains close to all-time highs. XLP is back to extreme overbought and extended above the 200-dma, however, the "buy signal" has been registered. Look for pullbacks to support to add weight to portfolios.
- That correction came this past week as everything got sold. XLP needs to hold support at the 200-dma but this is the first good opportunity to add to our positions currently.
- 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: Look for a reflexive bounce, but support needs to hold before adding.
 - Stop-loss adjusted to \$59
 - Long-Term Positioning: Bullish

Real Estate

Open: 41.48	Ask:	P/E:	Options: yes
High: 41.62	Ask Size:	EPS:	Annual Dividend: 1.18275
Low: 40.18	Bid:	Last Size:	Yield: 2.93%
Prev Close: 41.37	Bid Size:	VWAP:	SCTR (ETF): 85.8

Tuesday 25-Feb-2020
 ▼ **-2.51%**
 Chg: **-1.04**
 Last: **40.33**
 Volume: **9,189,245**

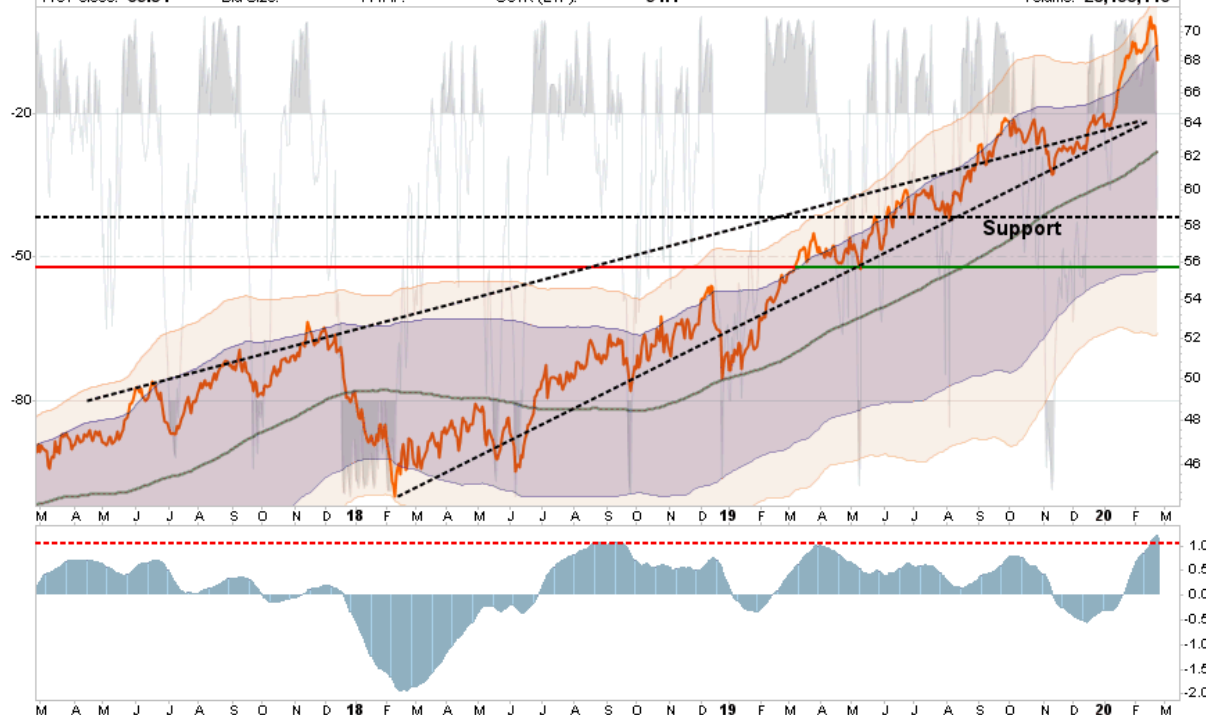


- Last week we noted that XLRE had broken out back to new highs. We took profits recently, and reduced our risk a bit in the position as interest rates are extremely overbought.
- The short-term reversal in XLRE has started but likely has bit more work to do which would coincide with a bounce in rates and a reflexive rally in stocks over the next few days.
- Such a pullback would give us the opportunity to add back to our holdings.
- Short-Term Positioning: Bullish
 - Last week: Hold position.
 - This week: Add to holdings on further correction.
 - Stop-loss adjusted to \$37.00 for profits.
- Long-Term Positioning: Bullish

Utilities

Open: **69.58** Ask: P/E: Options: **yes**
 High: **69.70** Ask Size: EPS: Annual Dividend: **1.90898**
 Low: **67.93** Bid: Last Size: Yield: **2.81%**
 Prev Close: **69.51** Bid Size: VWAP: SCTR (ETF): **94.4**

Tuesday 25-Feb-2020
 ▼ **-2.10%**
 Chg: **-1.46**
 Last: **68.05**
 Volume: **28,135,116**

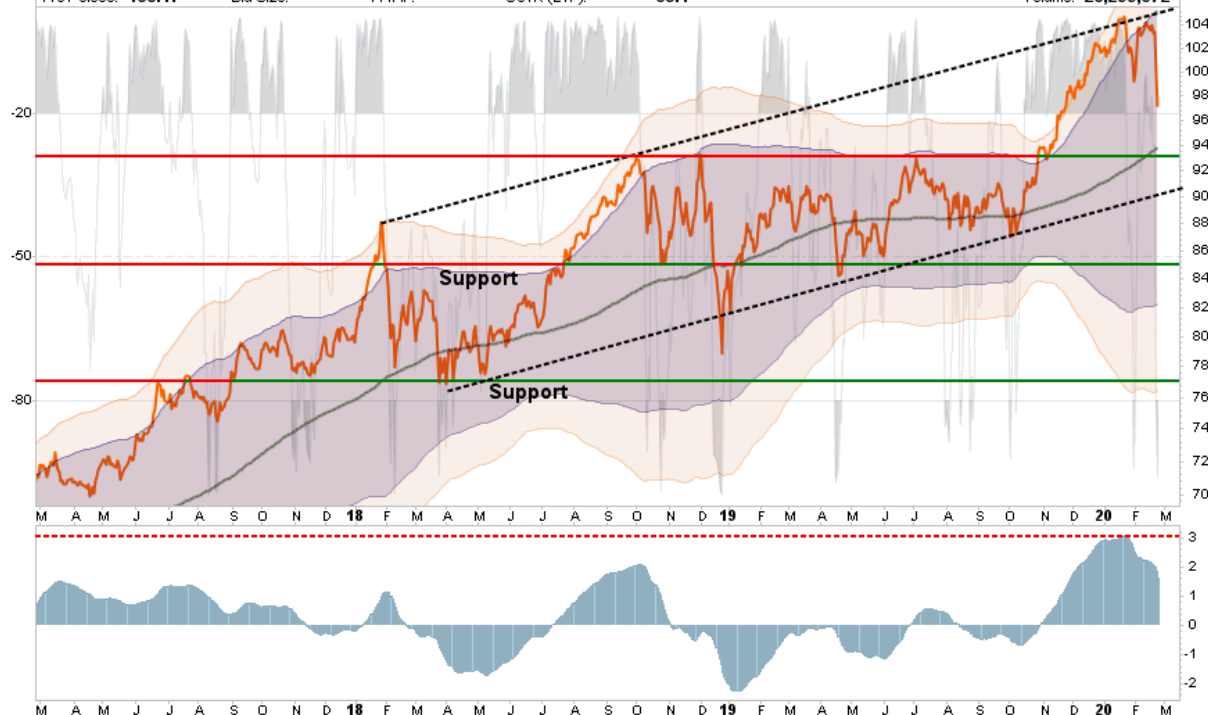


- *XLU, like XLRE, is finally working off the extreme overbought condition. XLU is NOT oversold yet and is still very extended on its buy signal.*
- *As with XLRE look for a bounce in stocks and interest rates to pull the froth out of the sector and provide a better entry point to add to holdings.*
- *The long-term trend line remains intact.*
- *We are currently at 2/3rds weight.*
- *Short-Term Positioning: Bullish*
 - *Last week: Hold position.*
 - *This week: Add to holding on a correction back to support.*
 - *Stop-loss adjusted to support at \$64.00*
- *Long-Term Positioning: Bullish*

Health Care

Open: **100.53** Ask: P/E: Options: **yes**
 High: **100.75** Ask Size: EPS: Annual Dividend: **1.54065**
 Low: **96.79** Bid: Last Size: Yield: **1.59%**
 Prev Close: **100.17** Bid Size: VWAP: SCTR (ETF): **63.4**

Tuesday 25-Feb-2020
 ▼ **-3.03%**
 Chg: **-3.04**
 Last: **97.13**
 Volume: **20,299,672**

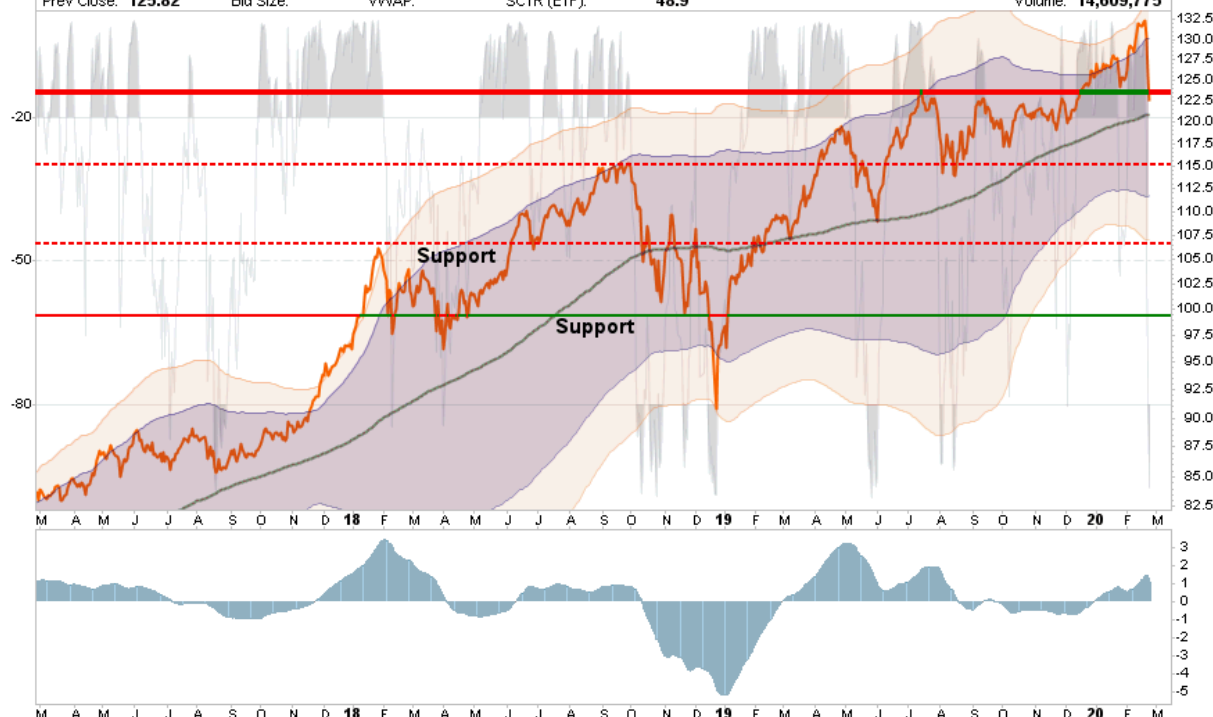


- *XLV has remained intact and has started to correct with the rest of the market. Support is running at the 200-dma which needs to hold.*
- *The sector has now gotten back to oversold, so we are going to look to add to our holdings as long as support holds.*
- *Short-Term Positioning: Neutral*
 - *Last week: Hold positions*
 - *This week: Look to add if support holds.*
 - *Stop-loss adjusted to \$94*
- *Long-Term Positioning: Bullish*

Discretionary

Open: **126.92** Ask: P/E: Options: **yes**
 High: **127.19** Ask Size: EPS: Annual Dividend: **1.60343**
 Low: **122.17** Bid: Last Size: Yield: **1.31%**
 Prev Close: **125.82** Bid Size: VWAP: SCTR (ETF): **48.9**

Tuesday 25-Feb-2020
 ▼ **-2.67%**
 Chg: **-3.36**
 Last: **122.46**
 Volume: **14,609,775**

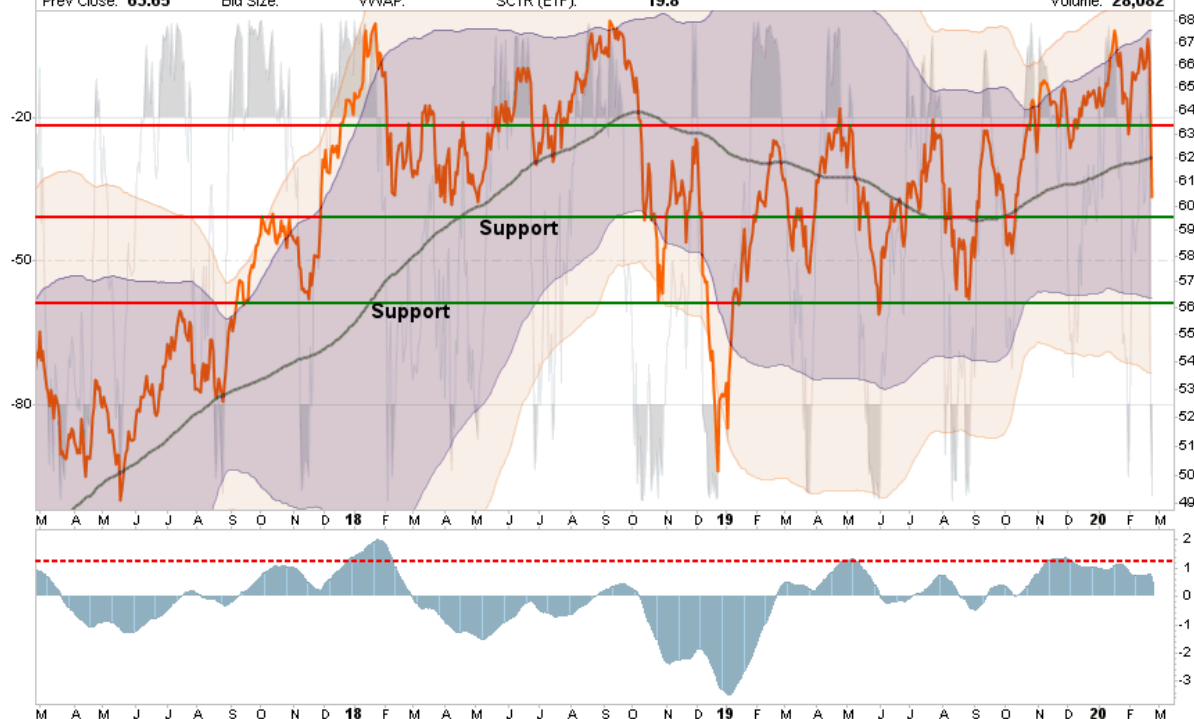


- We took profits in XLY previously and reduced the position slightly.
- As noted last week, hold current positions for now, New positions can be added on a pullback to the breakout level that holds and works off the overbought condition.
- XLY is testing that previous breakout level and is oversold. With the 200-dma just below this level support is good for a counter-trend bounce.
- Trading positions can be added for now, but the impact from the virus is still likely to filter through which could limit returns for a while.
- **Short-Term Positioning: Neutral**
 - Last week: Hold position
 - This week: Hold positions, Trading position can be added.
 - Stop-loss adjusted to \$120.
- **Long-Term Positioning: Neutral**

Transportation

Open: **63.65** Ask: P/E: Options: **no**
 High: **63.75** Ask Size: EPS: Annual Dividend: **0.75315**
 Low: **60.24** Bid: Last Size: Yield: **1.25%**
 Prev Close: **63.65** Bid Size: VWAP: SCTR (ETF): **19.8**

Tuesday 25-Feb-2020

▼ **-5.26%**Chg: **-3.35**Last: **60.31**Volume: **28,082**

- *XTN failed to hold its previous breakout level.*
- *We have remained out of the economically sensitive sector and as noted last week the impact of the "coronavirus" will likely have global supply chain impacts.*
- *The sector is oversold short-term, which could elicit a reflexive bounce. However, such a bounce should be used to sell positions into for now.*
- *Short-Term Positioning: Neutral*
 - *Last week: No position*
 - *This week: No position*
- *Long-Term Positioning: Bearish*