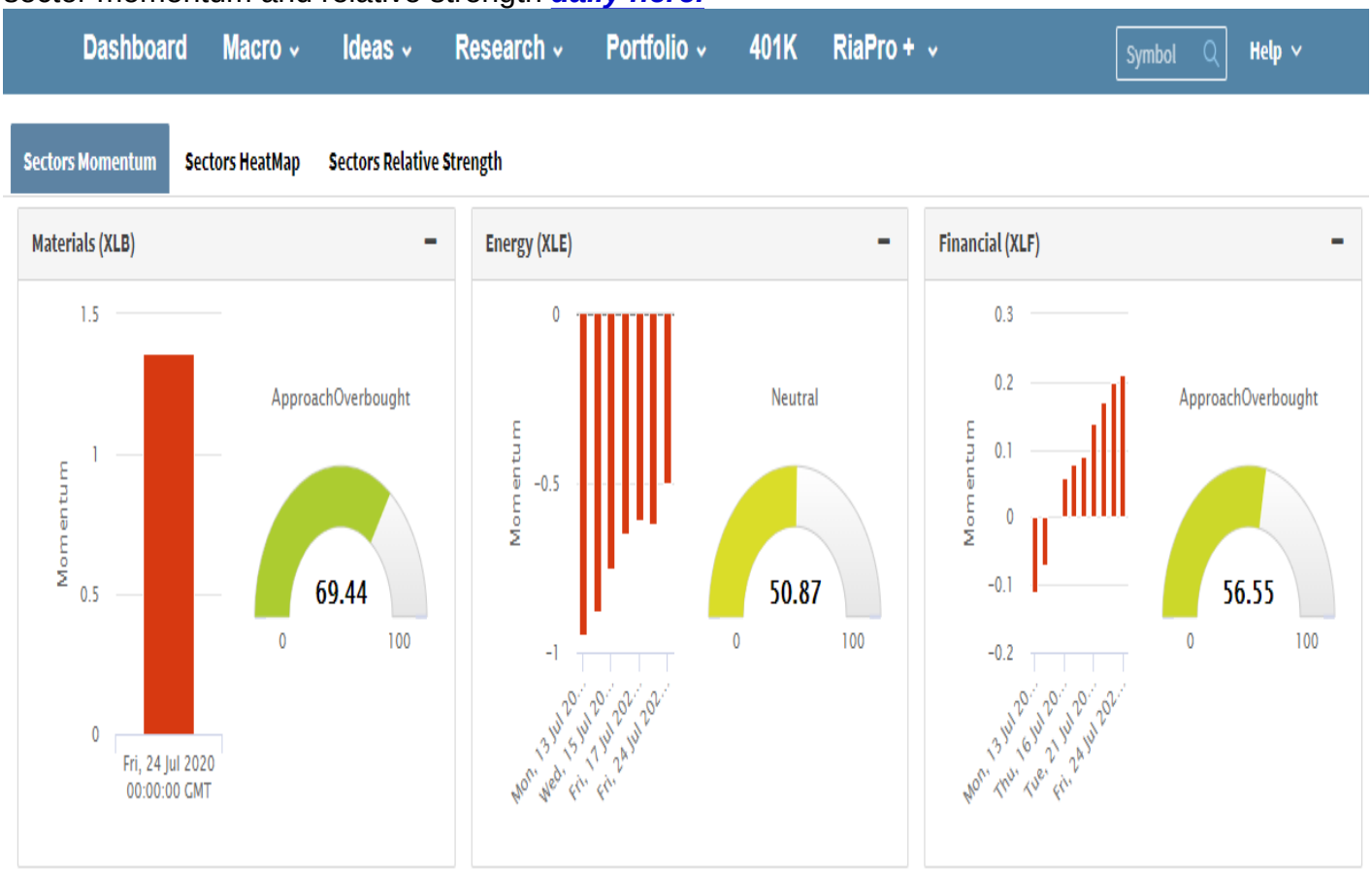
Sector Buy/Sell Review: 09-15-20

HOW TO READ THE SECTOR BUY/SELL REVIEW: 09-15-20 Each week we produce a ***"Sector Buy/Sell Review"*** chartbook of the S&P 500 sectors to review where the money is flowing within the market as a whole. Such helps refine not only decision making about what to own and when, but what sectors to overweight or underweight to achieve better performance. You can also view sector momentum and relative strength ***daily here.***



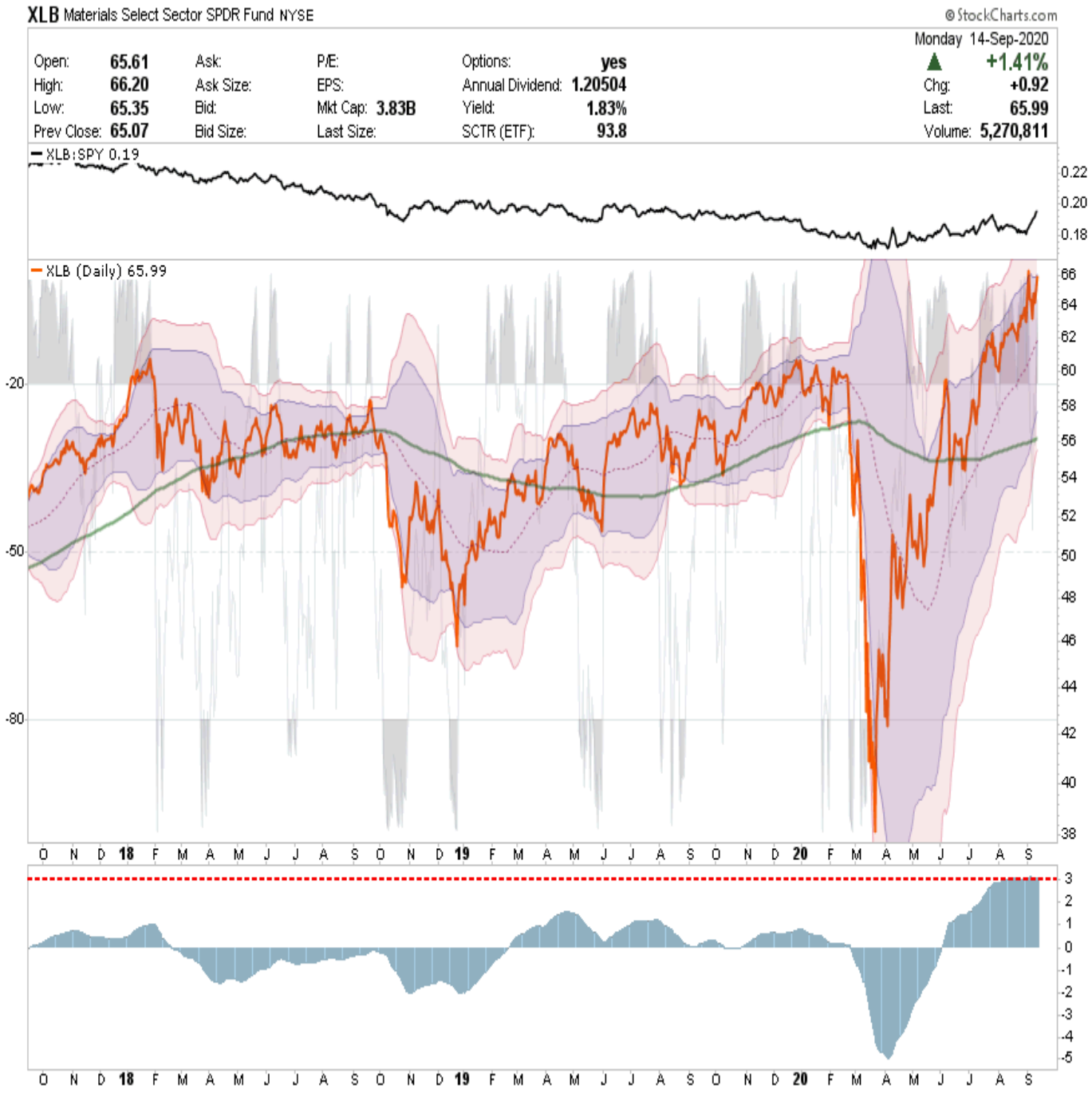
There are three primary components to each chart below:

- *The price chart is in orange.*
- *Over Bought/Over Sold indicator is in gray in the background.*
- *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 tend to work better than when below the zero lines. **We added 2- and 3-standard deviation extensions from the 50-dma this week. Currently, markets and sectors are back to *"stupid"* overbought on many levels. We advise caution.**

SECTOR BUY/SELL REVIEW: 09-15-20

Basic Materials



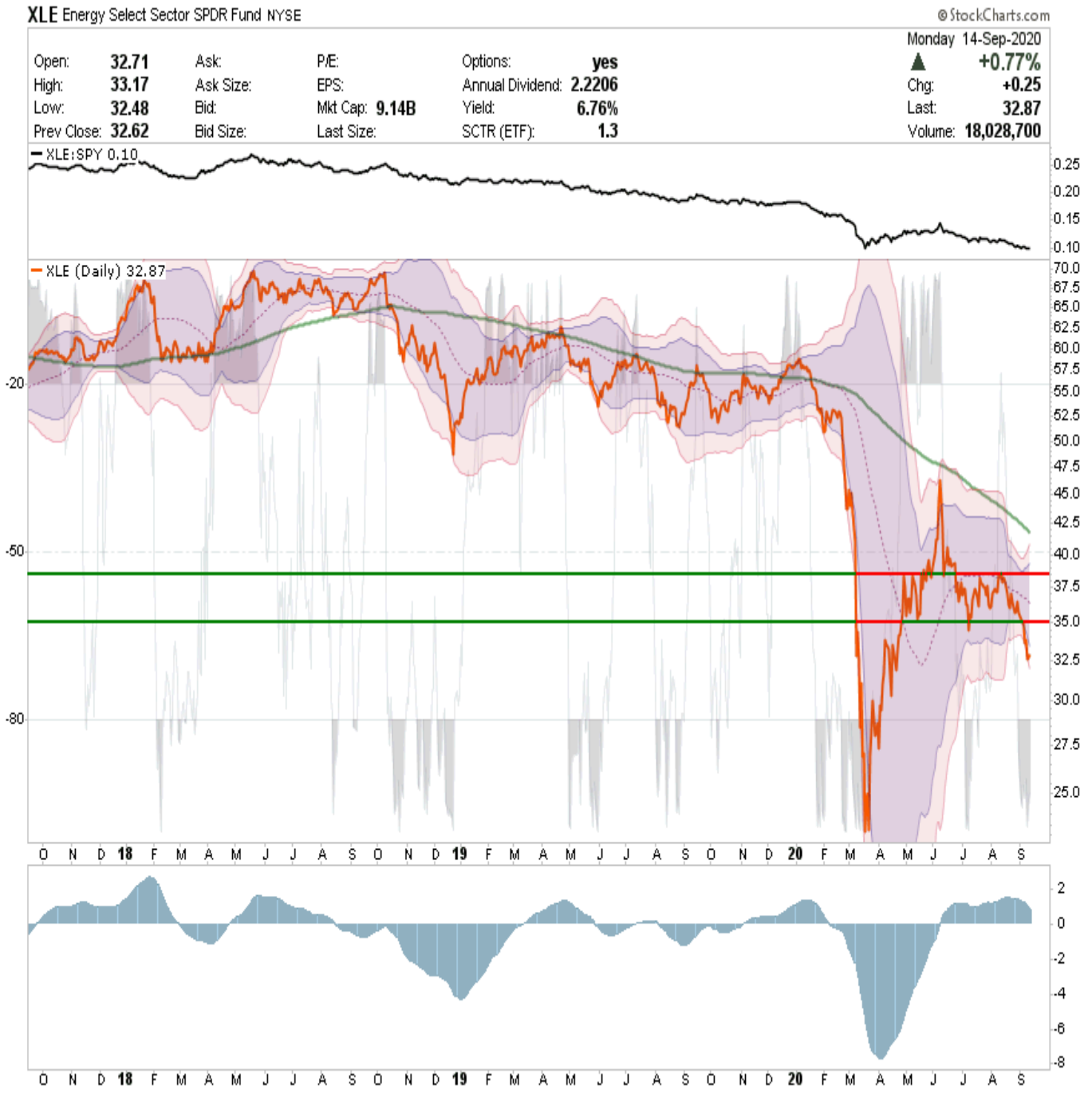
- *Looking at XLB, you would not guess we were in an economic recession. Nonetheless, XLB is outperforming the S&P 500 index for the first time in a long while.*
- *With XLB pushing into very overbought conditions with a historically high "buy signal," there* ***seems to be a lot less reward in the sector currently.&#2013266080;***
- *It isn't advisable to chase the sector currently. Look to buy on dips and short-term oversold conditions.*
- *Short-Term Positioning: Bullish*
    - *Last Week: No Positions*
    - *This Week: No Positions*
    - *Stop-Loss moved up to $60*
- *Long-Term Positioning: Bearish*

Communications



- *We noted previously that "XLC has pushed into extremes with the largest deviation from the 200-dma in its history, 3-standard deviations above the 50-dma, and the most overbought buy signal ever.&#2013266080;A correction is coming. It is just a question of "when" and "what causes it."*
- *We suggested taking profits and reducing risks, and that correction has now happened.&#2013266080;*
- *Currently, XLC is trying to hold the 50-dma but has not become oversold as of yet.*
- *Adding a trading position is possible with a very tight stop at $58.*
- *Short-Term Positioning: Bullish*
    - *Last Week: Hold positions*
    - *This Week: Reduced position by 1%. Will continue doing so until a correction occurs.*
- *Long-Term Positioning: Bearish*

Energy



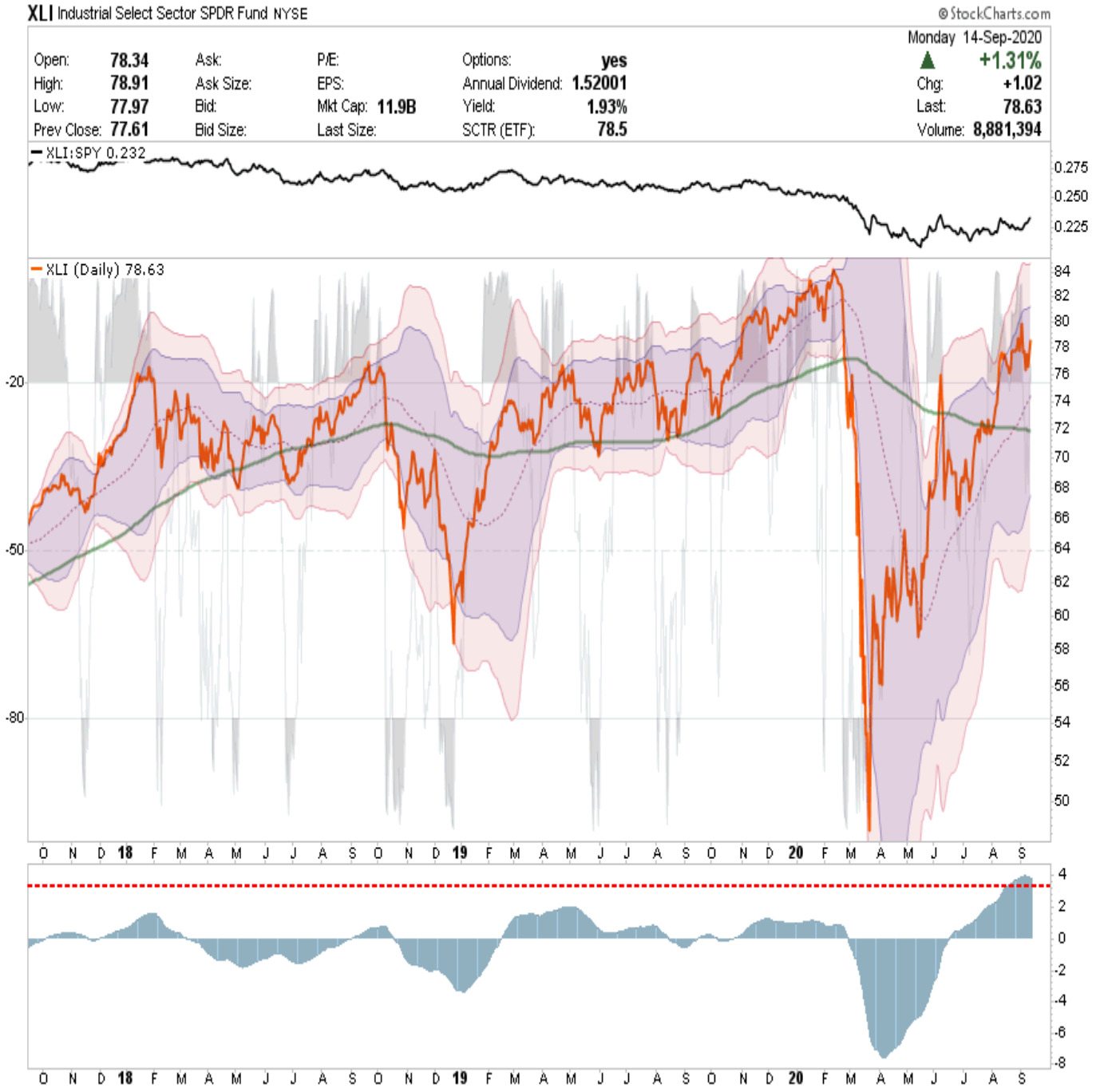
- *Energy continues to fail. We were stopped out of our XOM position last week.&#2013266080;*
- *Energy is deeply oversold and due for a bounce. However, there is not a lot of support for the sector currently, particularly if we get a dollar rally.&#2013266080;*
- *With supports taken out, there is no reason to add exposure here. Wait for a bottom to form and the sector to show some signs of life first.*
- *Short-Term Positioning: Bearish*
    - *Last week: Hold positions*
    - *This week: Sold XOM in both portfolios.*
- *Stop-loss violated.*
- *Long-Term Positioning: Neutral*

Financials



- *Financials continue to underperform and remain a sector to avoid currently.*
- *However, XLF did hold up better than the market during the recent decline.&#2013266080;*
- *As noted previously, the 200-dma continues to be a problem for XLF.*
- *The bit of pickup on rotation was disappointing, and banks remain out of favor for now.*
- *Short-Term Positioning: Neutral*
    - *Last week: No position*
    - *This week: No position*
- *Long-Term Positioning: Bearish*

Industrials



- *Industrials remain extremely extended and overbought.*
- *Like materials, industrials are well ahead of the underlying fundamentals. We have grossly reduced our exposure to the sector and are looking for a better opportunity to add back to our position.*
- *As suggested previously, take profits and rebalance risk.&#2013266080;*
    - *Short-Term Positioning: Bullish*
    - *Last week: No change.*
    - *This week: No change.*
- *Long-Term Positioning: Bearish*

Technology



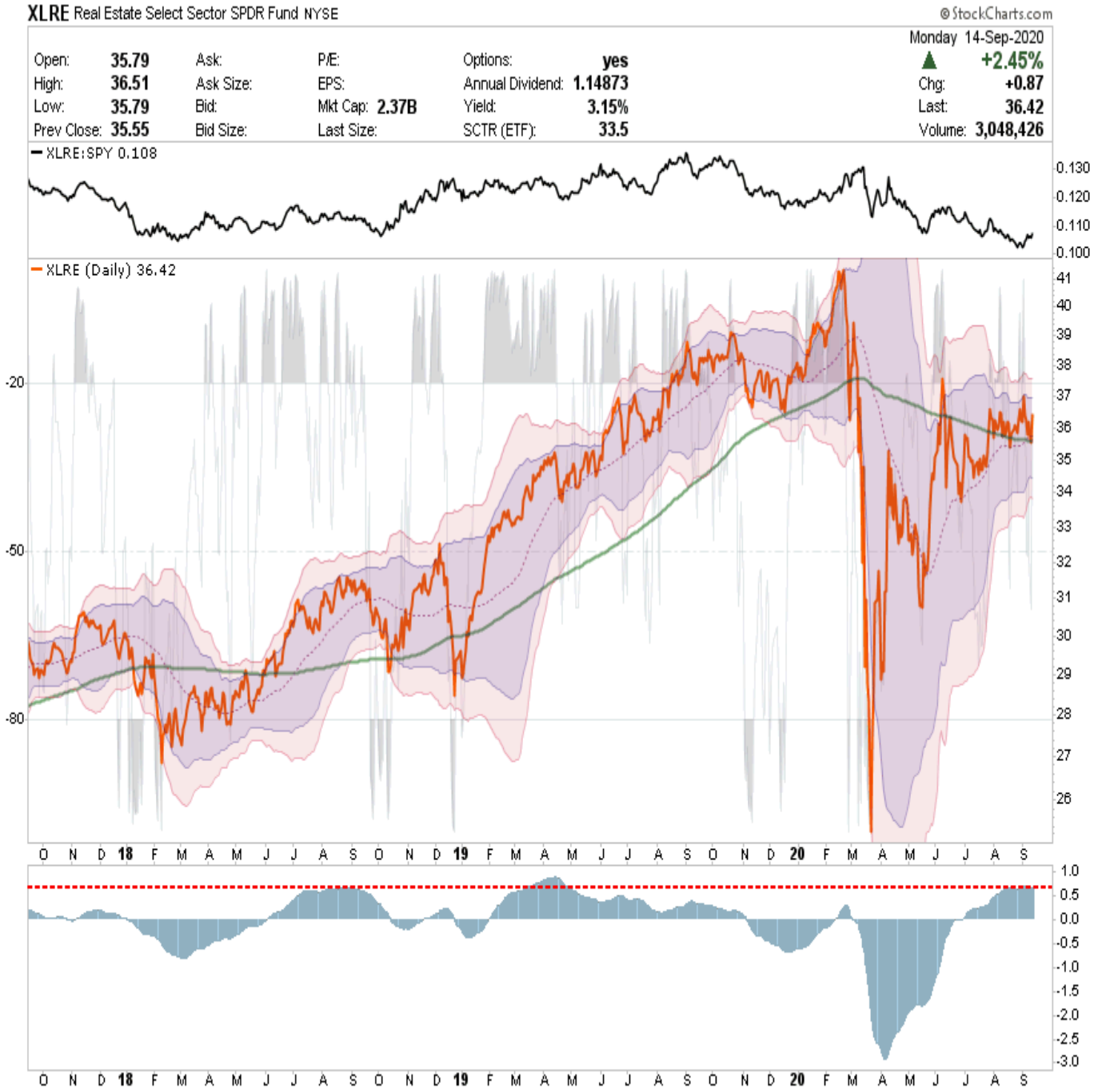
- *Technology stocks, and the Nasdaq, have finally started the long-overdue correction.&#2013266080;*
- *While the sector remains overbought and extended well above long-term means, the index is trying to hold the 50-dma and the breakout support of the upper bullish trendline.&#2013266080;*
- *We used the pullback to add mildly to our technology positions after taking profits previously. These are "rental trades" we will sell into any short-term rally.&#2013266080;*
- *The risk remains to the downside for now.*
- *Short-Term Positioning: Bullish*
    - *Last week: No changes.*
    - *This week: Added 1% to XLK previously.*
- *Stop-loss set at $105*
- *Long-Term Positioning: Bullish*

Staples



- *As noted previously, "XLP is overbought and is trading at 3-standard deviations above the mean. A correction is coming; timing is the only question."*
- *That correction came but has likely not concluded as of yet. XLP remains elevated above both short and long-term means.&#2013266080;*
- *Rebalance holdings and tighten up stop-losses.*
- *We are moving our stop-loss alert to $60 as our stop-level.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold positions*
    - *This week: Sold PG and added slightly to CLX*
- *Long-Term Positioning: Bullish*

Real&#2013266080;Estate



- *XLRE has triggered a buy signal and is holding support at the 200-dma.&#2013266080;*
- *We added some exposure back to REITs previously, and we expect some offsetting pickup if the rest of the market begins to correct.&#2013266080;*
- *Move stops up to $35.*
- *Short-Term Positioning: Neutral*
  - *Last week: No change.*
  - *This week: Looking to add more the XLRE if the sector maintains performance.*
- *Long-Term Positioning: Bullish*

Utilities



- *XLU has been struggling with resistance at the 200-dma.*
- *However, Utilities are holding support at the 50-dma, and we expect we should see a pick up in performance if interest rates pull back.&#2013266080;*
- *The sector is oversold and is potentially in a better position relative to other sectors of the market, particularly for "defensive" positioning.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold positions*
    - *This week: Hold positions*
- *Long-Term Positioning:&#2013266080;Bullish*

Health&#2013266080;Care



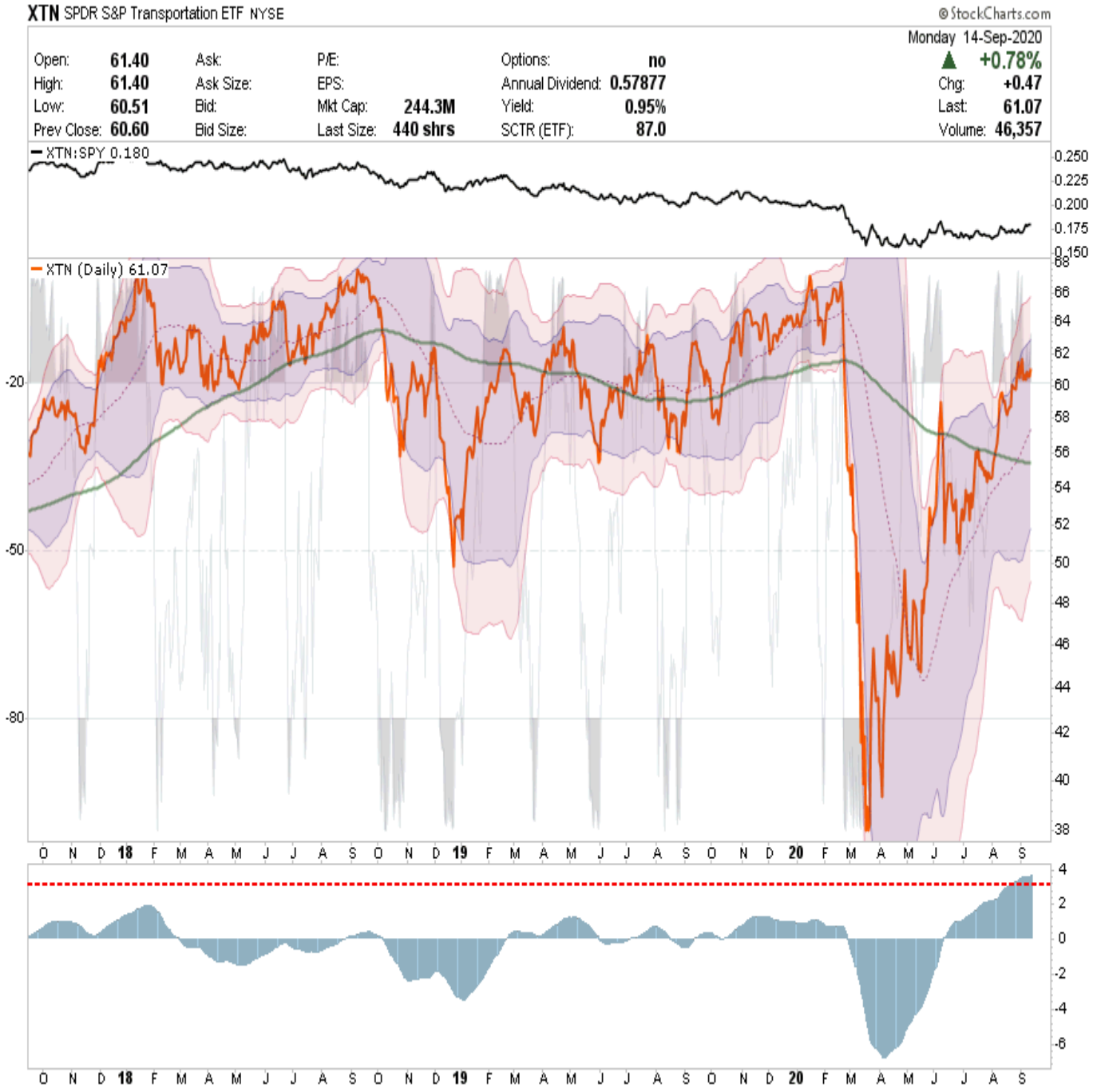
- *XLV finally corrected back to the 50-dma and is holding.&#2013266080;*
- *With the sector back to oversold short-term, there is a tradeable opportunity.&#2013266080;*
- *Trading positions are possible. Put a stop at $104.*
- *The 200-dma is now essential support for XLV and needs to hold, along with the previous tops going back to 2018.&#2013266080;*
- *We are moving our absolute stop to $100*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold positions*
    - *This week: Hold positions.*
- *Long-Term Positioning: Bullish*

Discretionary



- *XLY continues to trade at extremes and is at the most significant deviation from its 200-dma in history.&#2013266080;*
- *The same goes for its buy signal.&#2013266080;*
- *I have no idea what trips this sector up, but it is coming, and the correction will be substantial. For now, the sector continues to hold up as the chase for AMZN continues.*
- *Take profits and hedge risk.&#2013266080;*
- *Stop-loss set at $130*
- *Short-Term Positioning: Bullish*
    - *Last week: No position*
    - *This week: No position*
- *Long-Term Positioning:&#2013266080;Neutral*

Transportation



- *The rally in XTN remains exceptionally extended.&#2013266080;*
- *The sector is performing better but is grossly overbought. Much of the sector also maintains relatively weak fundamentals.&#2013266080;*
- *We took profits in the sector and will wait for a correction to add back to our holdings.&#2013266080;*
- *Maintain an absolutely stop-loss at $56*
- *Short-Term Positioning: Neutral*
    - *Last week: No change*
    - *This week: No change*
- *Long-Term Positioning:&#2013266080;Bearish*