

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:

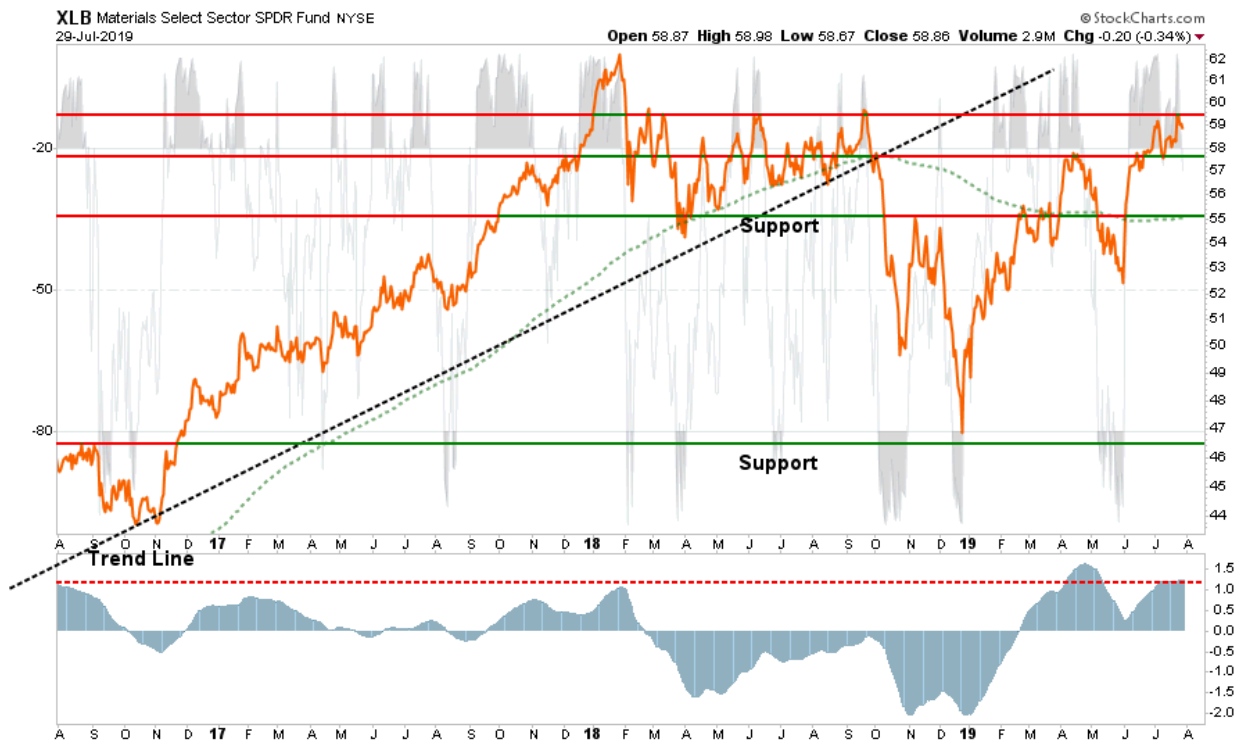
- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

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



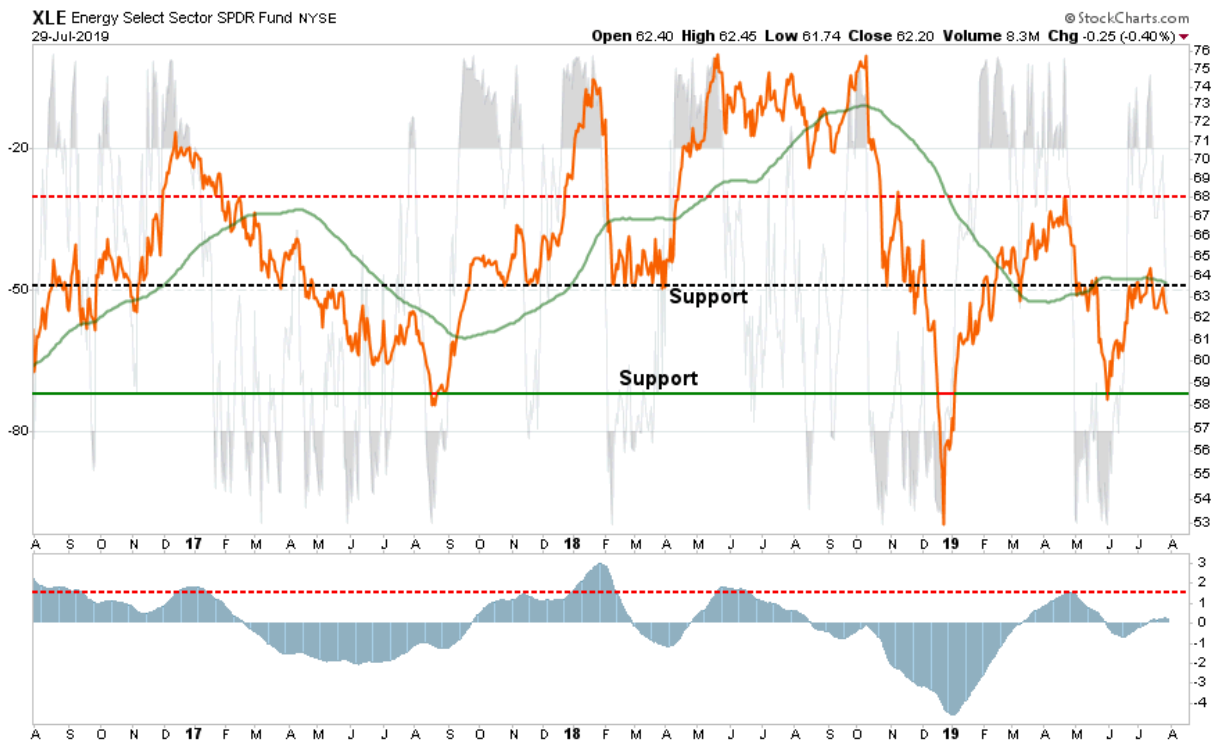
- *XLB is back to extreme overbought and failed at resistance again this week but is holding support at the May highs. That support needs to hold.*
- *XLB has gotten a lift lately but is underperforming the broad market as a whole.*
- *We are remaining underweight the sector for now.*
- **Short-Term Positioning: Neutral**
 - *Last Week: Hold current positions with a tighter stop-loss.*
 - *This Week: Hold current positions with tighter stop-loss*
 - *Stop-loss moved up to \$57*
- **Long-Term Positioning: Bearish**

Communications



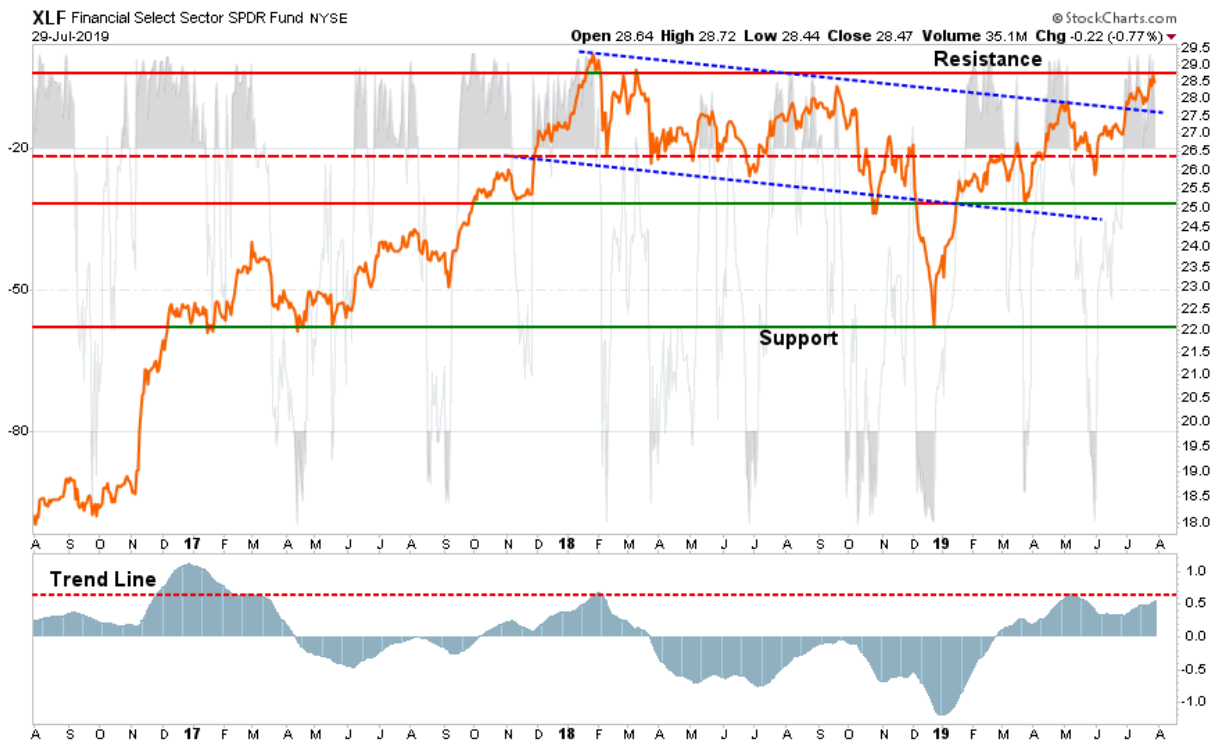
- The rally in XLC has gotten very extended and the "buy signal" is also pushing very high levels although not as extreme as we saw in May.
- XLC is fighting with resistance and is very overbought.
- Short-Term Positioning: Neutral
 - Last Week: Hold trading positions, but take profits.
 - This Week: Hold trading positions.
 - Hard Stop moved up to \$48
- Long-Term Positioning: Bearish

Energy



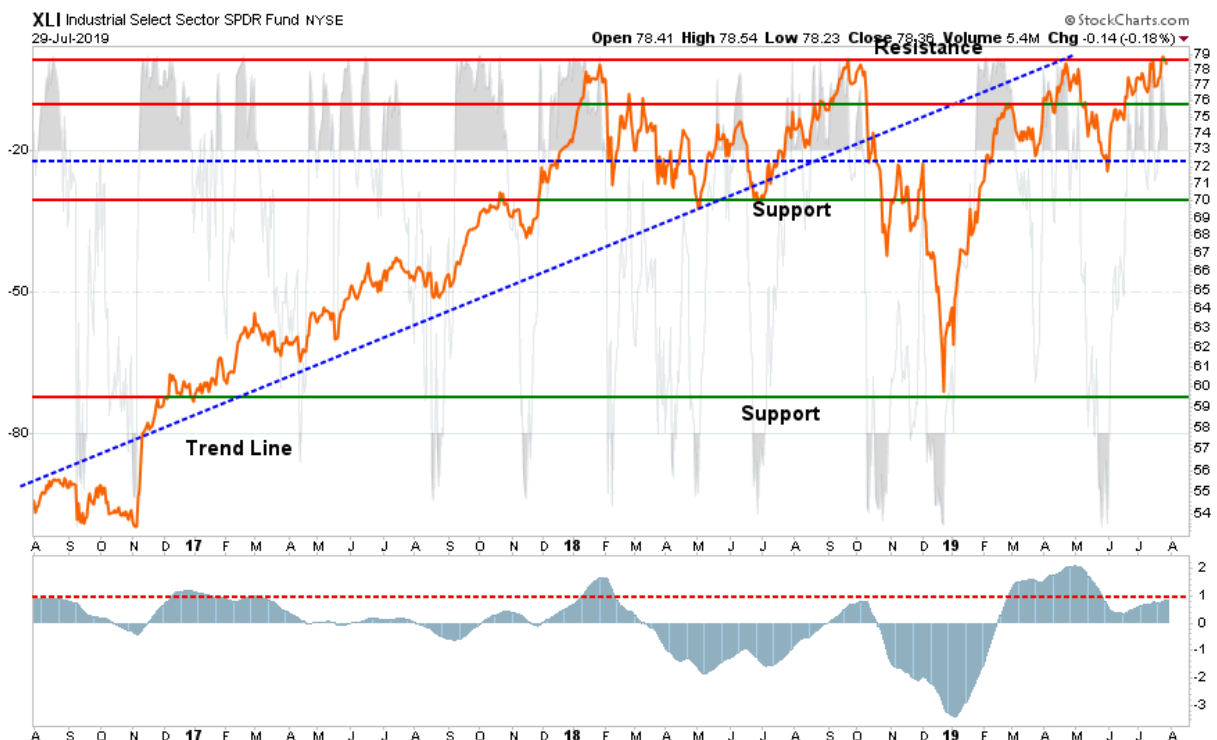
- As noted last week, XLE failed at the 200-dma keeping us cautious on the overall sector.
- XLE is working off some of the overbought condition but has more to go. It is very important the XLE hold support above \$60 or the low \$50's will come into focus very quickly.
- The buy signal is close to being reversed back to a "sell."
- Short-Term Positioning: Neutral
 - Last week: Hold current position
 - This week: Hold current position
 - Stop-loss adjusted to \$62
- Long-Term Positioning: Bearish

Financials



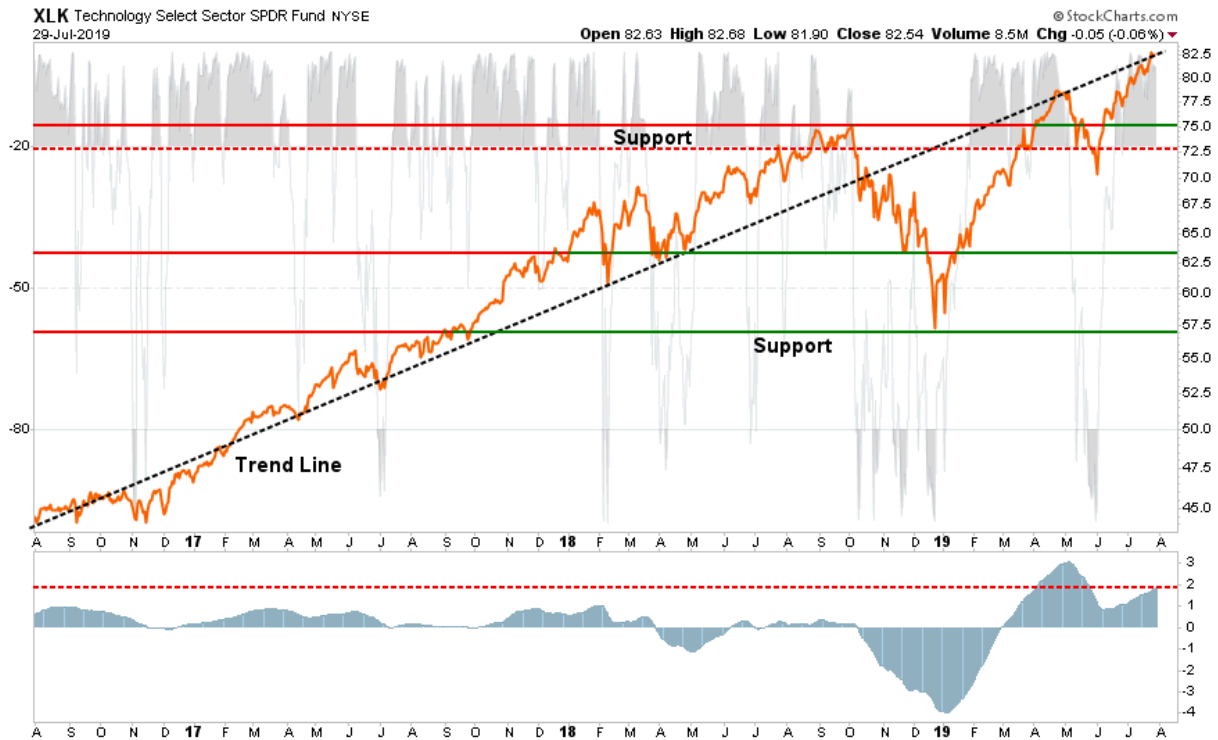
- XLF has rallied but failed to clear resistance last week. Support at the downtrend line needs to hold if XLF is going to continue to rally.
- If the Fed cuts rates, this could likely impair financials short-term.
- XLF remains on a "buy" signal currently but is back to extreme overbought.
- Short-Term Positioning: Neutral
 - Last week: Hold 1/2 position
 - This week: Hold 1/2 position
 - Stop-loss moved up to \$25.00
- Long-Term Positioning: Bearish

Industrials



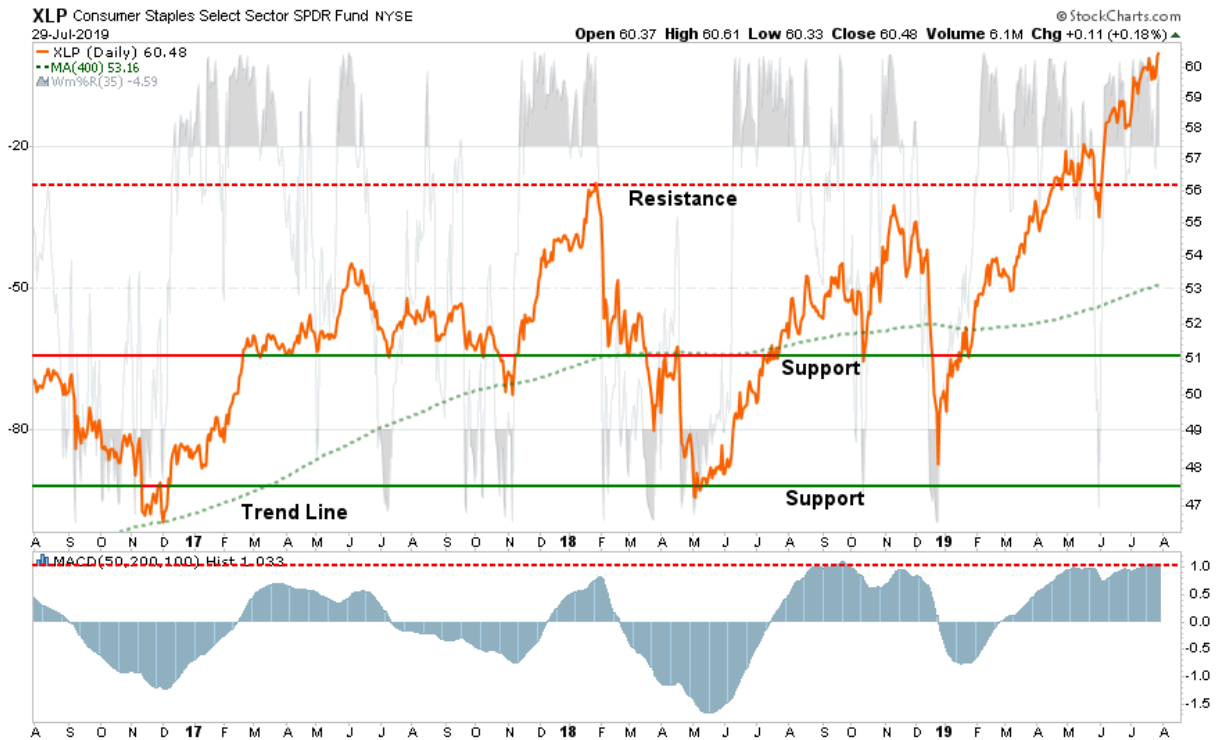
- *XLI has rallied and may be failing at a "quadruple top."*
- *XLI is extremely overbought, but a break above \$79 will set up a move higher.*
- *We reduced our risk to the sector after reaching our investment target. We will rebuild our holdings on a pullback which doesn't violate support.*
- **Short-Term Positioning: Neutral**
 - *Last week: Hold 1/2 position*
 - *This week: Hold 1/2 position.*
 - *Stop-loss moved up to \$76 to protect gains.*
- **Long-Term Positioning: Neutral**

Technology



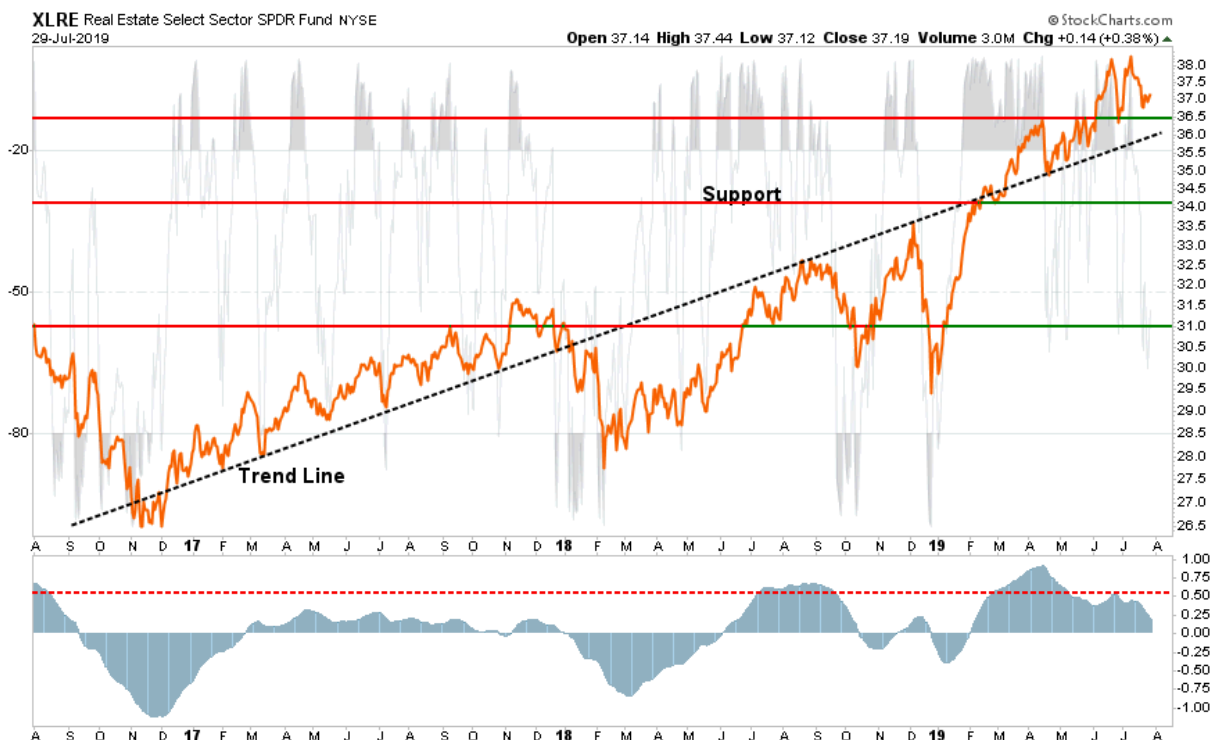
- *XLK is back to an extreme overbought condition as money is chasing a few mega-cap Tech companies. This rally is not a healthy one as money is hiding in a few highly liquid places.*
- *XLK has been driven by the largest cap-weighted companies so it may be prudent to remain cautious for now.*
- *The buy signal remains intact, which is bullish, but is back to extreme overbought. Risk vs reward is not optimal currently.*
- **Short-Term Positioning: Bullish**
 - *Last week: Hold 1/2 position*
 - *This week: Hold 1/2 position*
 - *Stop-loss moved up to \$75 to protect gains.*
- **Long-Term Positioning: Neutral**

Staples



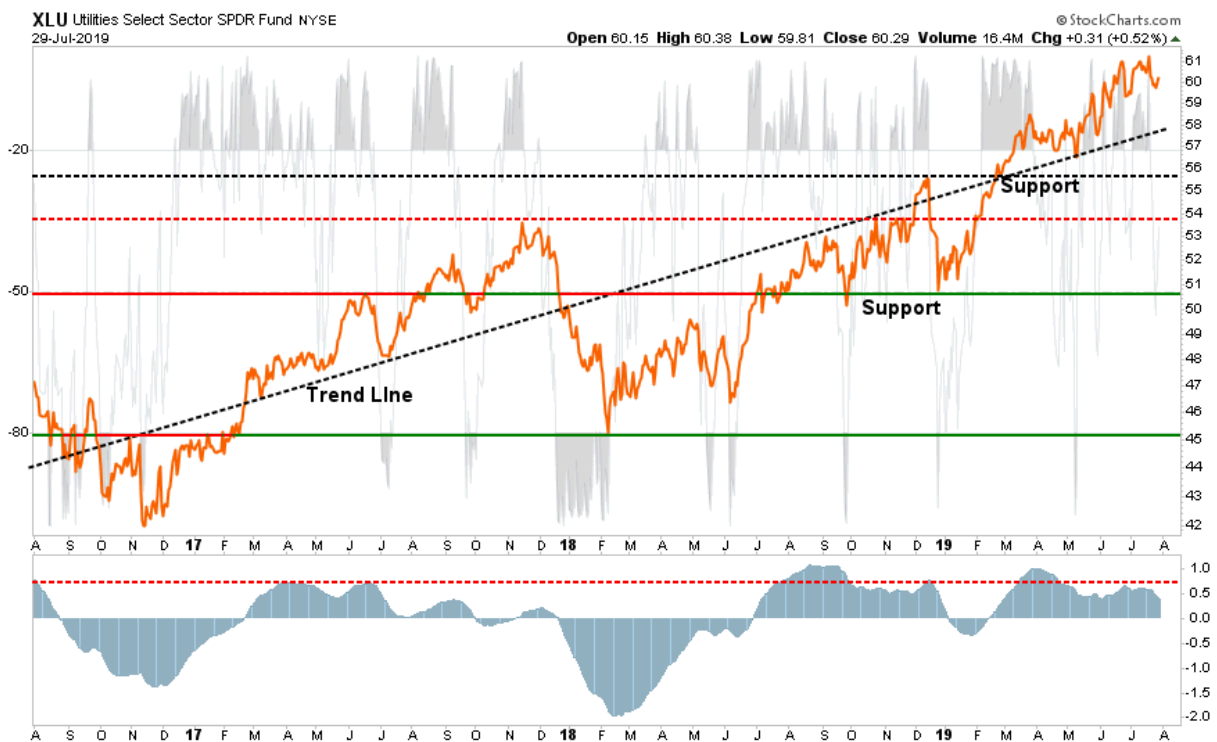
- *XLP is grossly extended. and the buy signal is very elevated. We have taken profits out of our position and rebalanced risk accordingly.*
- *The "buy" signal (lower panel) is still in place and is back to very extended. We continue to recommend taking some profits if you have not done so.*
- **Short-Term Positioning: Bullish**
 - *Last week: Hold positions, take profits if needed.*
 - *This week: Hold positions, take profits if needed.*
 - *Profit stop-loss moved up to \$58*
- **Long-Term Positioning: Bullish**

Real Estate



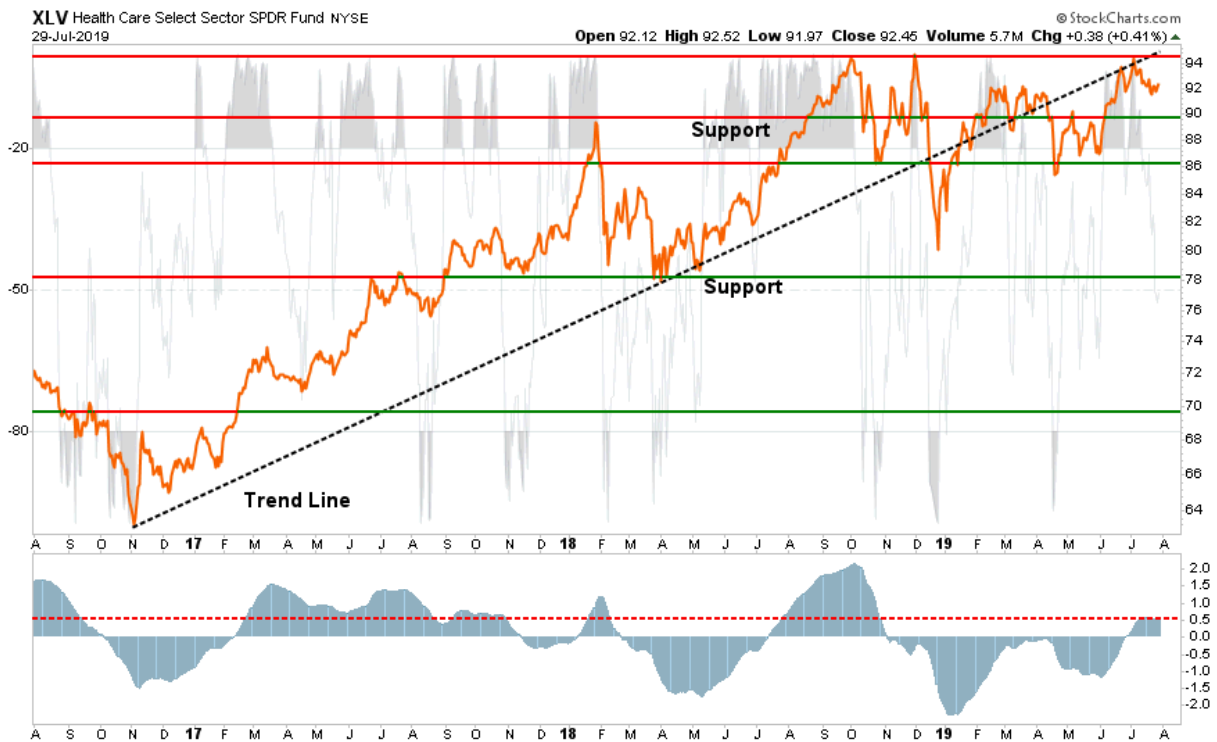
- *XLRE also broke out to "new highs," retested support, tested old highs, and is pulling back to support once again. The volatility is working off the overbought condition which is good and will allow us an opportunity to increase our weighting.*
- *We previously recommended taking profits and rebalancing risk as the overbought condition needed to be corrected.*
- *Buy signal is being reduced along with the "buy signal" and we are getting close to an entry point to add to our current holdings.*
- **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 is beginning to work off its overbought condition as well setting up an opportunity to potentially add to our holdings.*
- *After taking profits, we have time to be patient and wait for the right setup.*
- *Long-term trend line remains intact and the recent test of that trend line with a break to new highs confirms the continuation of the bullish trend.*
- *Buy signal worked off some of the excess. (bottom panel) but is still elevated.*
- **Short-Term Positioning: Bullish**
 - *Last week: Take profits and rebalance holdings.*
 - *This week: Hold position*
 - *Stop-loss adjusted to support at \$55.50.*
- **Long-Term Positioning: Bullish**

Health Care



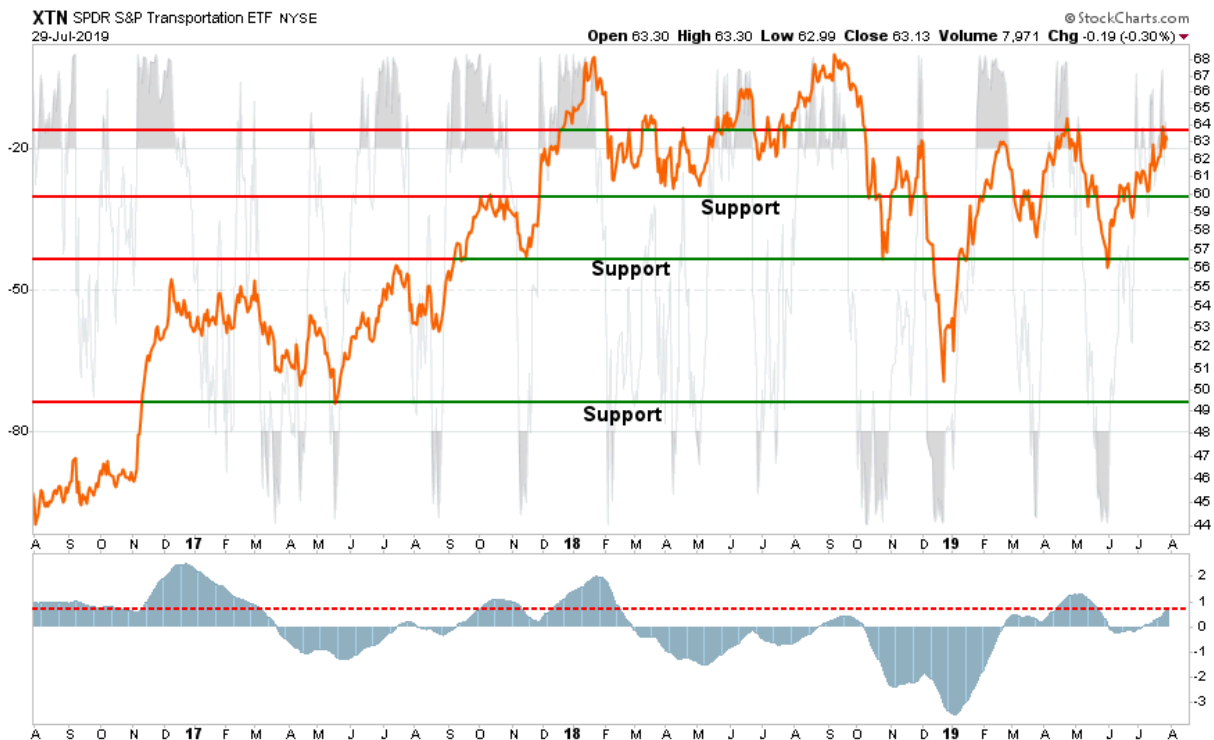
- *XLV remains on a buy signal but failed at important resistance.*
- *While the current correction was expected, the big issue is the if support will hold and if a breakout to new highs is viable.*
- *XLV is working off the overbought condition so \$90 remains important support.*
- **Short-Term Positioning: Neutral**
 - *Last week: Hold current position (overweight)*
 - *This week: Hold current position (overweight)*
 - *Stop-loss moved up to \$90 to protect profits.*
- **Long-Term Positioning: Neutral**

Discretionary



- *XLY has pushed up to the bottom of the long-term bullish trend-line.*
- *The "buy" signal is now becoming extended with the sector extremely overbought.*
- *Take profits on this rally and wait to see what happens next.*
- **Short-Term Positioning: Neutral**
 - *Last week: Hold 1/2 position.*
 - *This week: Hold 1/2 position*
 - *Stop-loss adjusted to \$107.50 after sell of 1/2 position.*
- **Long-Term Positioning: Neutral**

Transportation



- *XTN has continued to lag the overall market and continues to suggest there is "something wrong" economically.*
- *XTN has triggered a "buy" signal but remains confined to a consolidation which has lasted all year.*
- *There is still no compelling reason at this juncture to add XTN to portfolios. We will watch and see what happens.*
- **Short-Term Positioning: Neutral**
 - *Last week: No position*
 - *This week: No position*
- **Long-Term Positioning: Bearish**