

Sector Buy/Sell Review: 08-06-19

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:

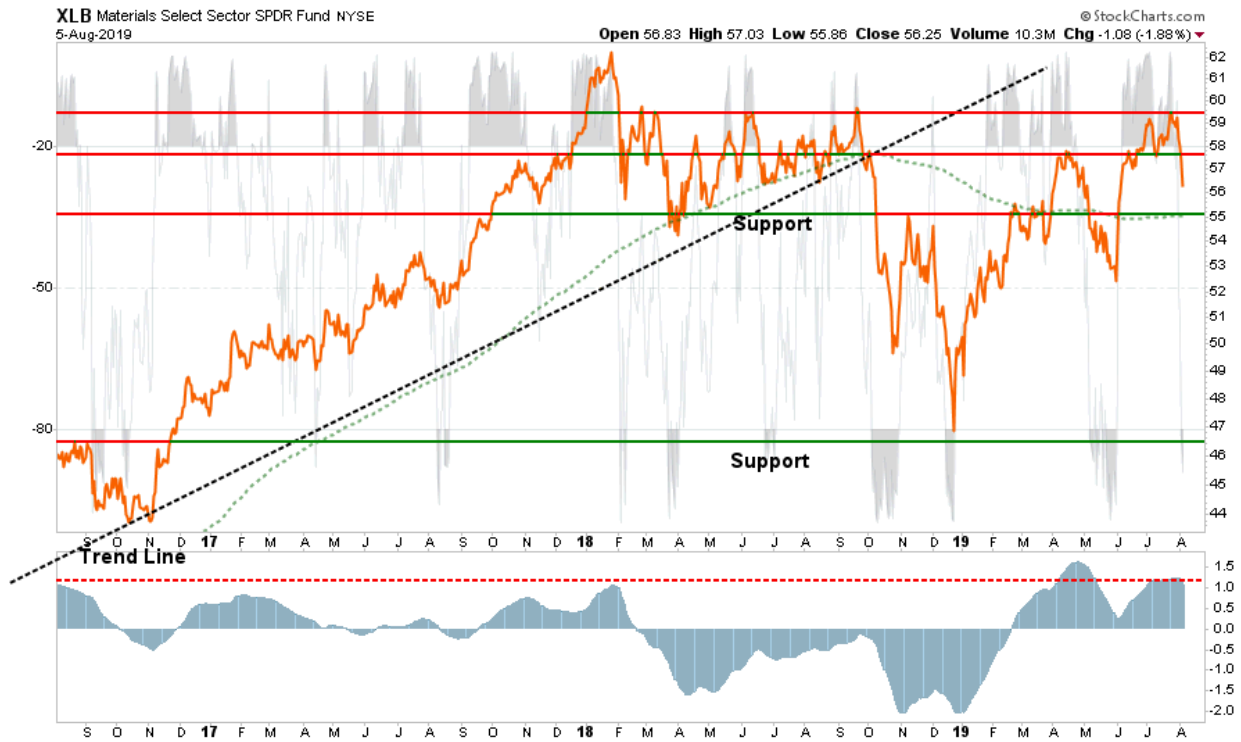
- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

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



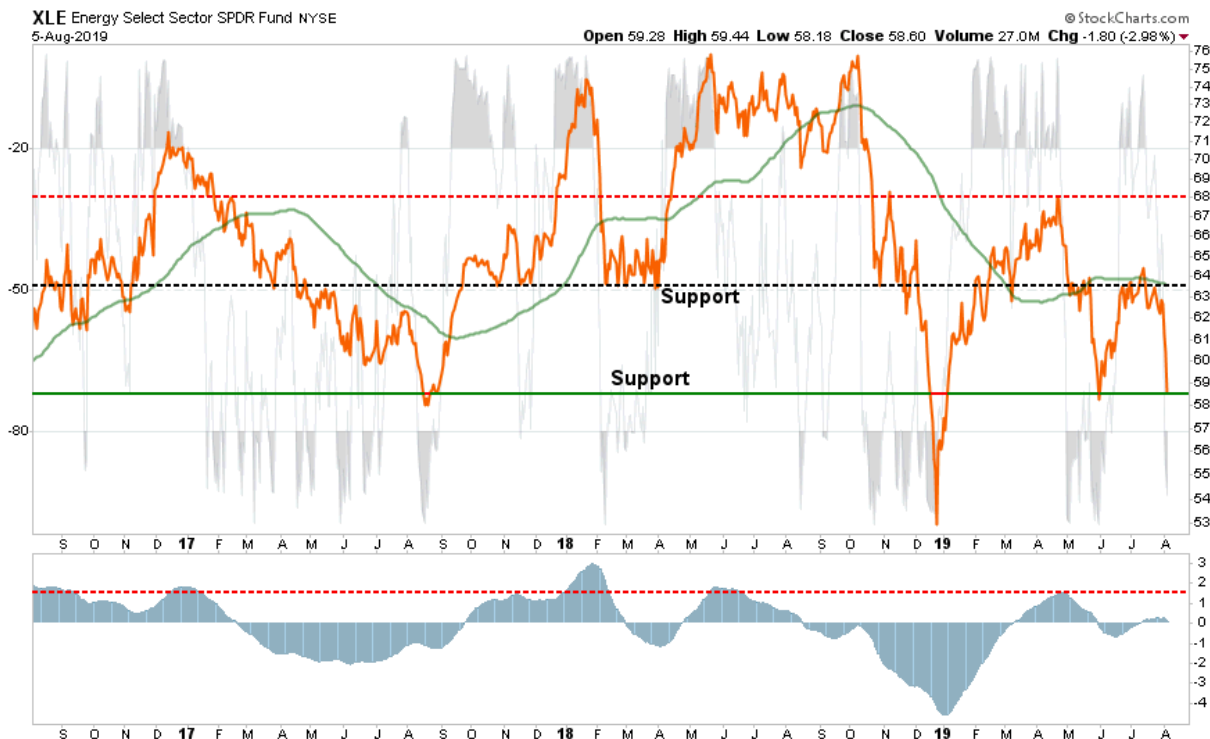
- Last week I noted that XLB was back to extreme overbought and failed at resistance again. The important May support level also failed to hold as trade wars ramped up again.
- XLB is oversold short-term but the buy signal is still very elevated.
- We are remaining underweight the sector for now.
- Short-Term Positioning: Neutral
 - Last Week: Hold current positions with a tighter stop-loss.
 - This Week: Hold current positions with tighter stop-loss
 - Stop-loss adjusted to \$55
- Long-Term Positioning: Bearish

Communications



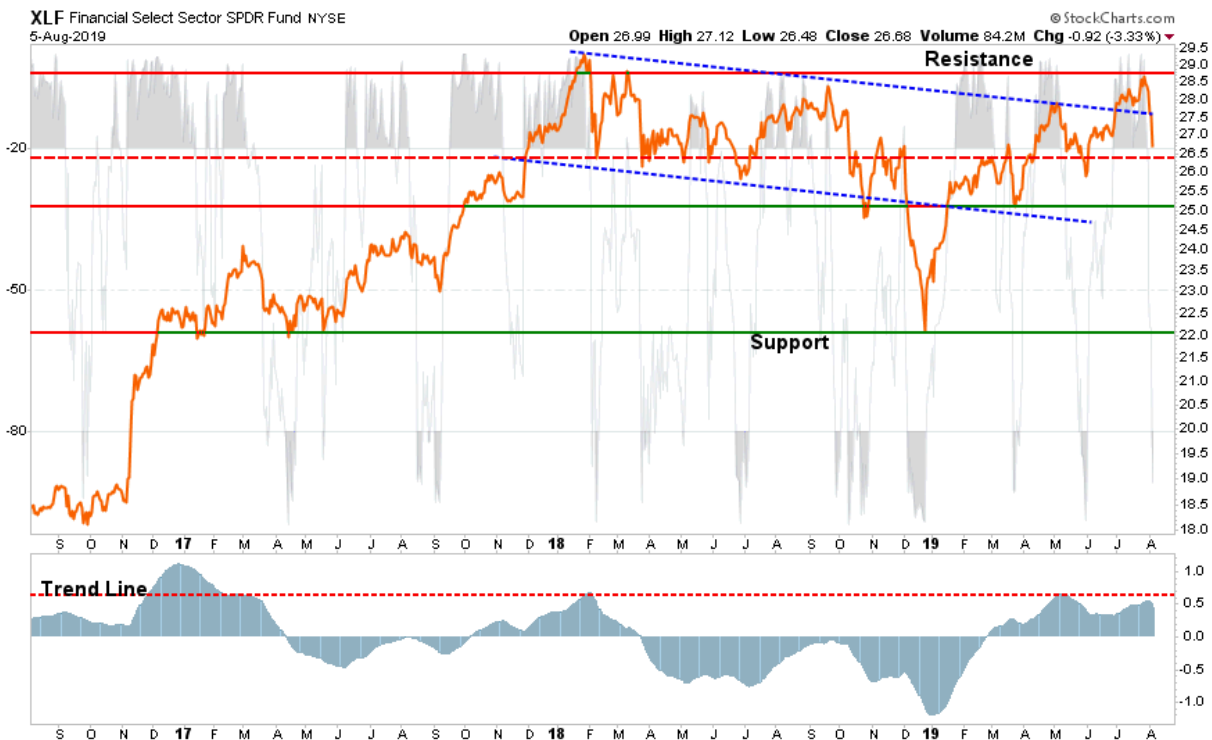
- Last week we noted the rally in XLC had gotten very extended and the "buy signal" was also pushing very high levels.
- XLC failed at resistance and has now established a double top.
- Support must hold at \$48.
- Short-Term Positioning: Neutral
 - Last Week: Hold trading positions, but take profits.
 - 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 now oversold and sitting on critical support.
- 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 \$58
- Long-Term Positioning: Bearish

Financials

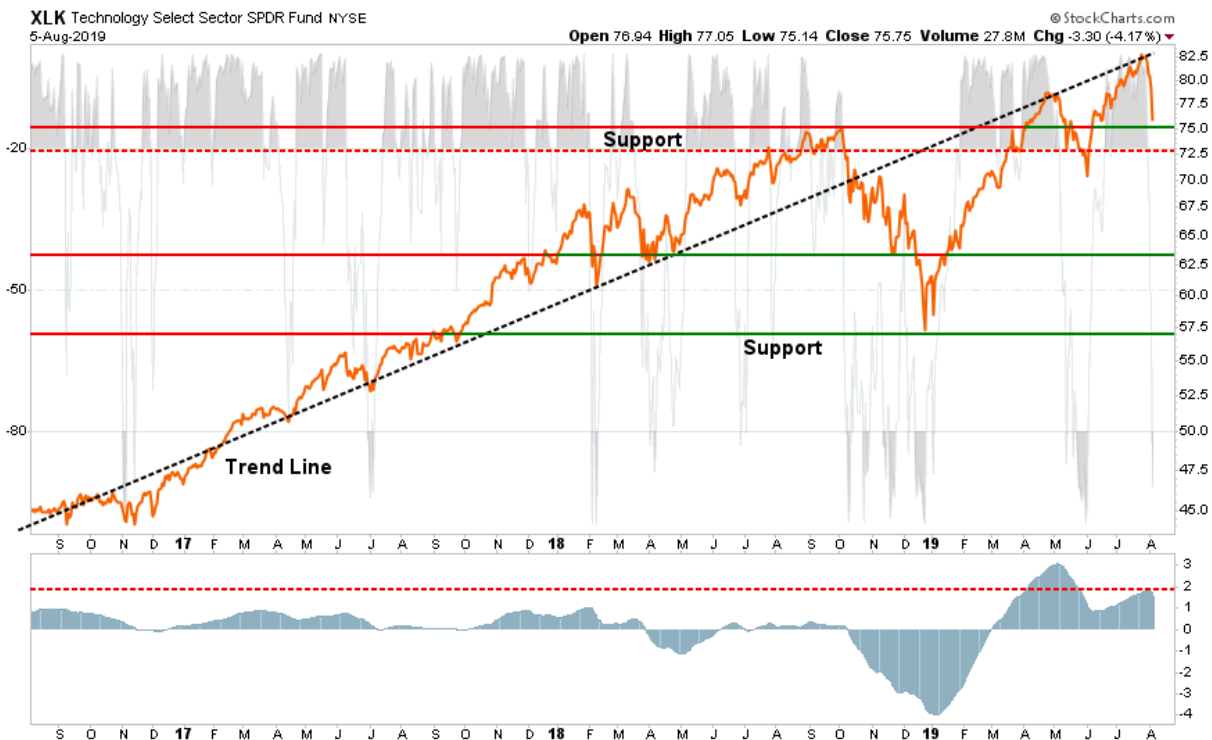


- *XLFF had rallied above the downtrend, but failed to clear resistance last week. Support also failed at the downtrend putting XLFF back into the previous trading range.*
- *XLFF remains on a "buy" signal currently but is back to oversold. Look for a bounce back to the top of the trend line. Support must hold at \$26.50.*
- *Short-Term Positioning: Neutral*
 - *Last week: Hold 1/2 position*
 - *This week: Hold 1/2 position*
 - *Stop-loss adjusted to \$26.00*
- *Long-Term Positioning: Bearish*

Industrials

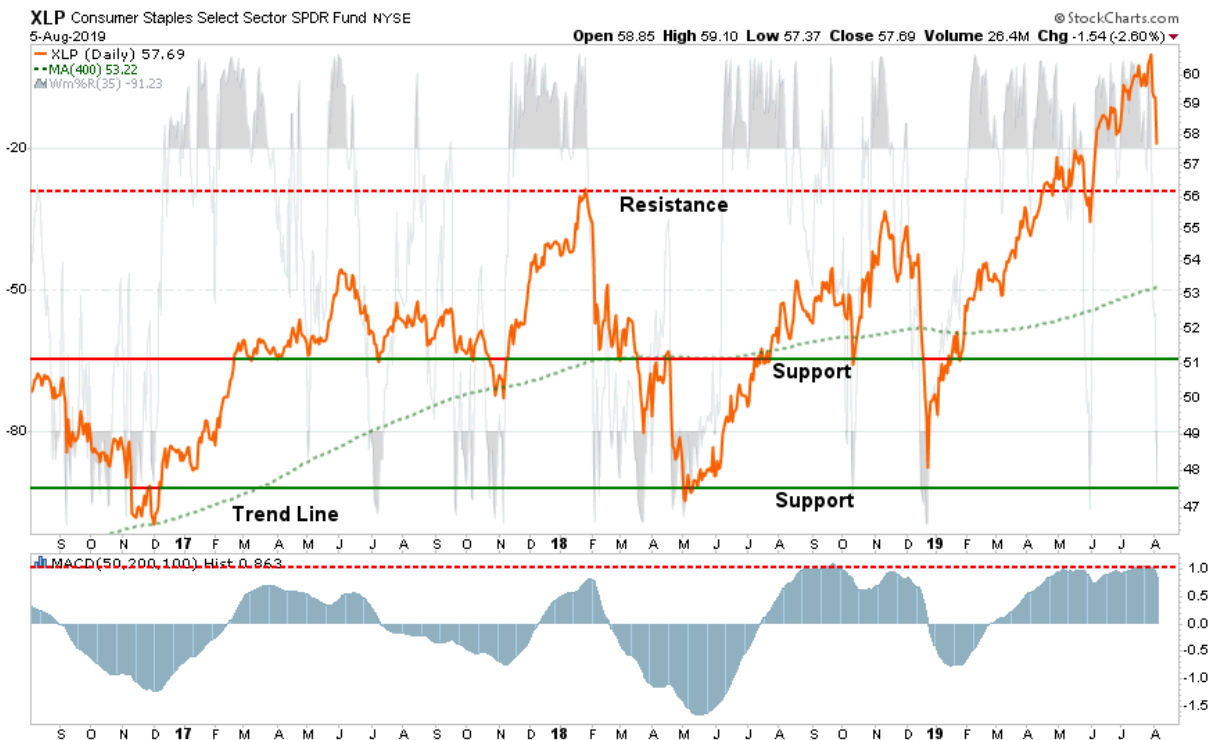
- *XLI failed at a "quadruple top" which puts a tremendous amount of overhead resistance on the sector.*
- *XLI is back to oversold and the buy signal is being reduced.*
- *We reduced our risk to the sector after reaching our investment target. We are now adjusting our stop-loss for the remaining position.*
- *Short-Term Positioning: Neutral*
 - *Last week: Hold 1/2 position*
 - *This week: Hold 1/2 position.*
 - *Stop-loss adjusted to \$72*
- *Long-Term Positioning: Neutral*

Technology



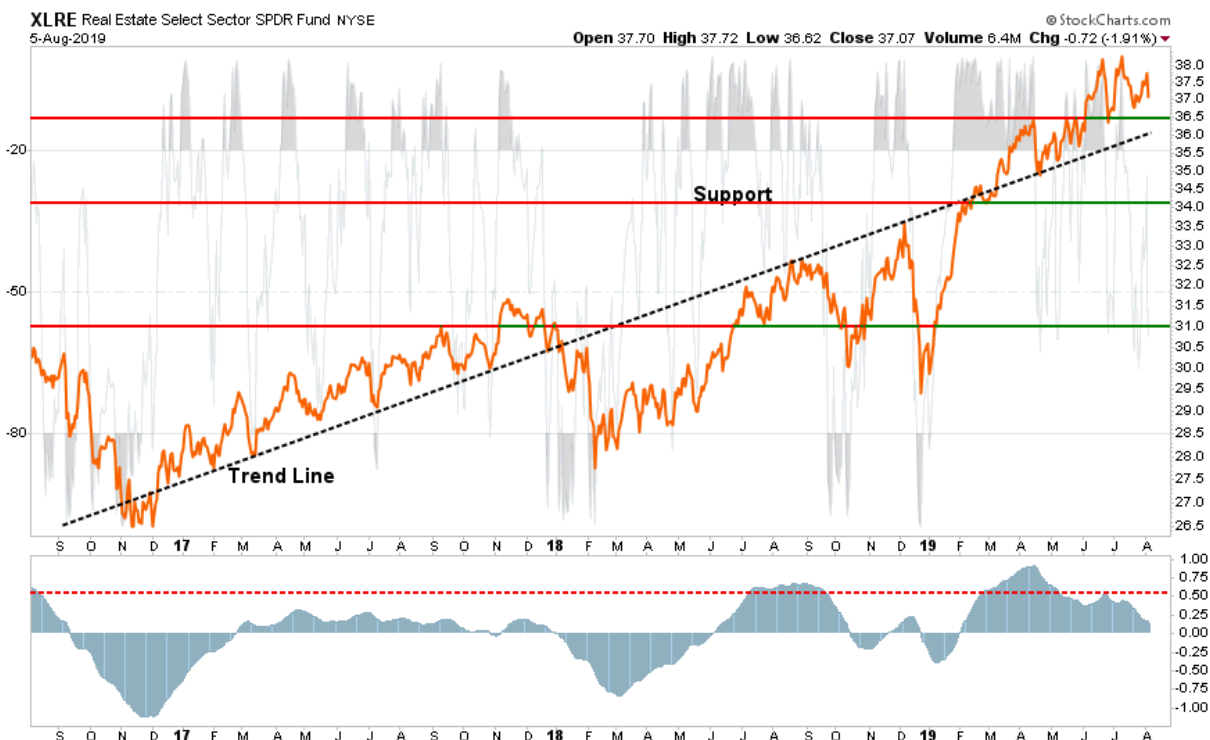
- As stated last week, XLK is back to an extreme overbought condition as money is chasing a few mega-cap Tech companies. This rally is not a healthy one as money is hiding in a few highly liquid places.
- XLK failed at the uptrend line and while back to oversold temporarily must hold support at \$75.
- The buy signal remains intact but is weakening.
- Short-Term Positioning: Bullish
 - Last week: Hold 1/2 position
 - This week: Hold 1/2 position
 - Stop-loss adjusted to \$70.00
- Long-Term Positioning: Neutral

Staples



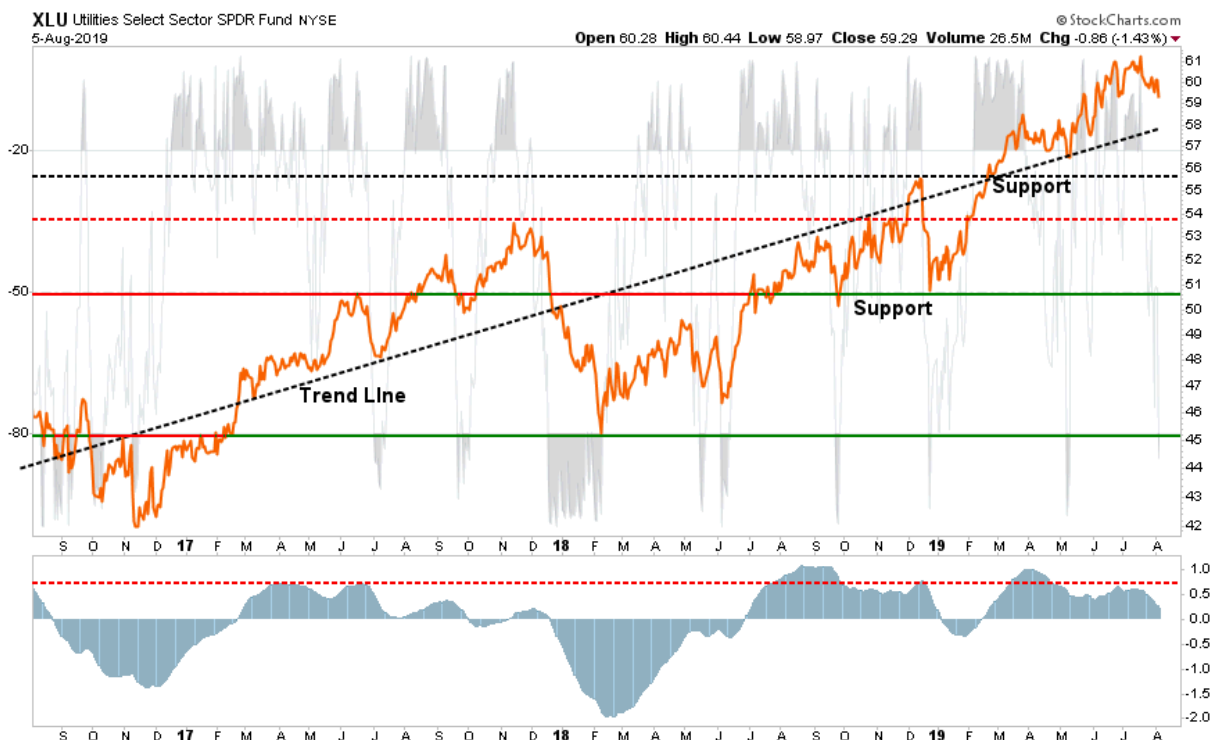
- After taking profits in the sector, we are finally getting a much needed correction to work off the excess.
- The "buy" signal (lower panel) is still in place and is very extended. We continue to recommend taking some profits if you have not done so.
- Short-Term Positioning: Bullish
 - Last week: Hold positions, take profits if needed.
 - This week: Hold positions, take profits if needed.
 - Stop-loss adjusted to \$56
- Long-Term Positioning: Bullish

Real Estate



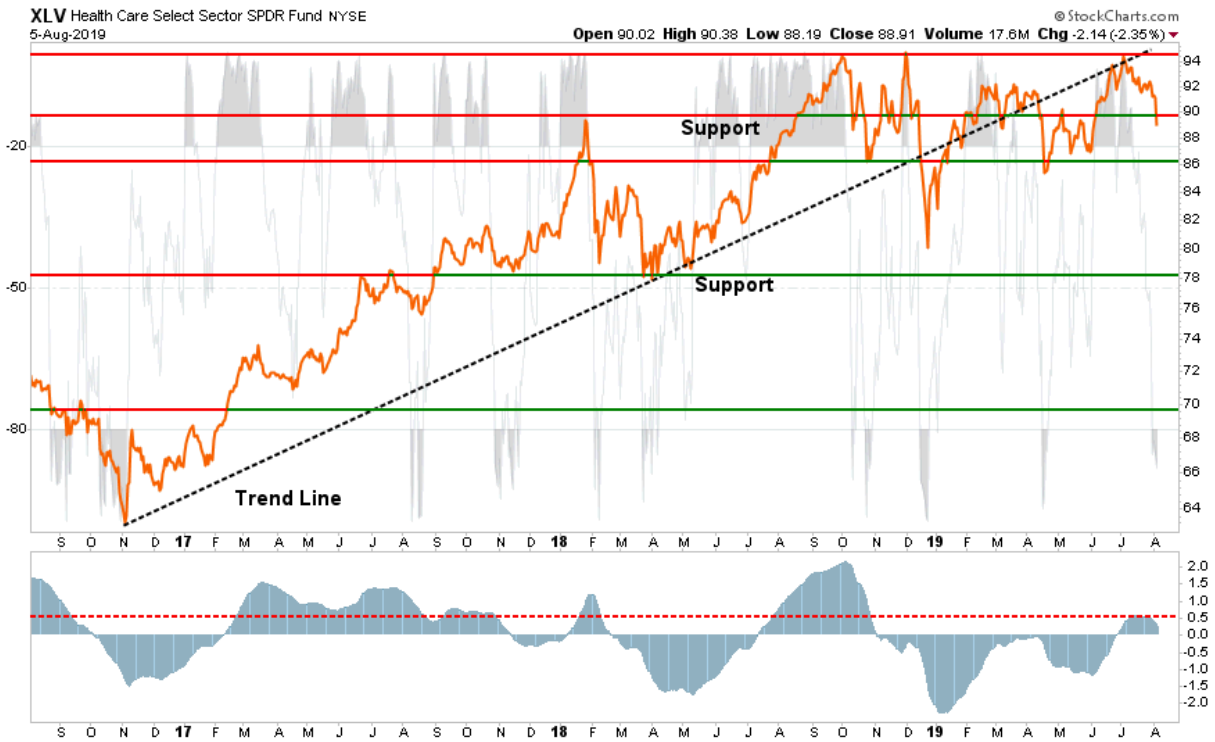
- *XLRE has been consolidating its advance to new highs for several weeks now.*
- *While the sector is not oversold, the "buy" signal has been reversed.*
- *We previously recommended taking profits and rebalancing risk as the overbought condition needed to be corrected. That is occurring.*
- *Buy signal 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 likewise is back to oversold and the previously extended buy signal is being reduced.*
- *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.*
- *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



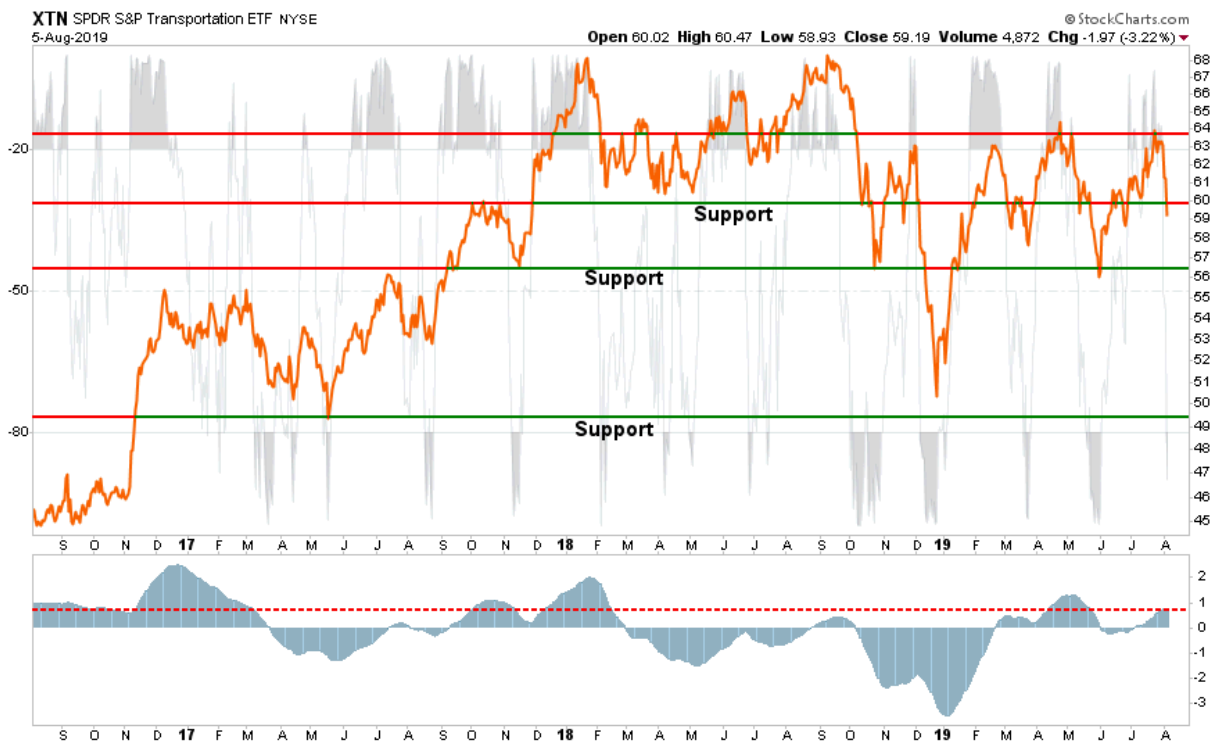
- *XLV remains on a buy signal but failed at important resistance.*
- *While the current correction was expected, the big issue is the if support will hold. That support is threatening to be violated.*
- *Short-Term Positioning: Neutral*
 - *Last week: Hold current position (overweight)*
 - *This week: Take profits and reduce to portfolio weight.*
 - *Stop-loss adjusted to \$88*
- *Long-Term Positioning: Neutral*

Discretionary



- With the latest round of "tariffs" directly targeting consumer goods, XLY is now under attack.
- Like XLK, it also failed at resistance from the uptrend line.
- The "buy" signal is now becoming extended but has reversed short-term back to an oversold condition.
- We recommended taking profits previously.
- 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