

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:

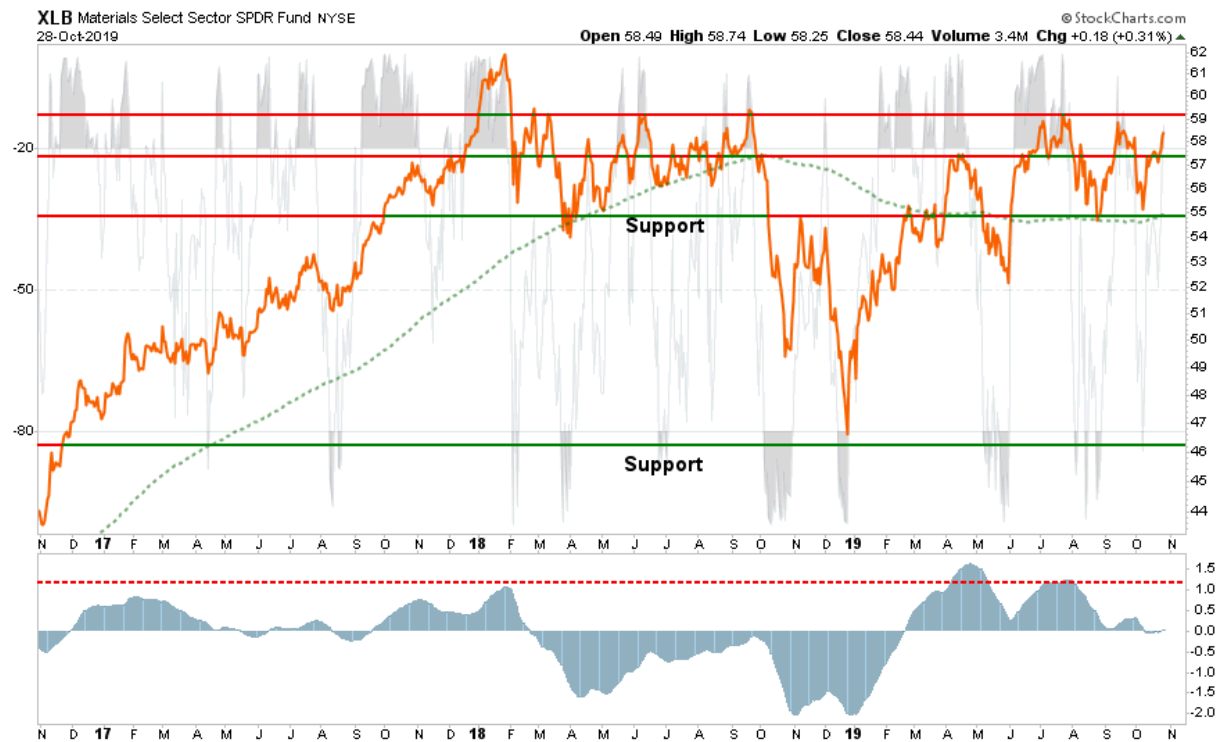
- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

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



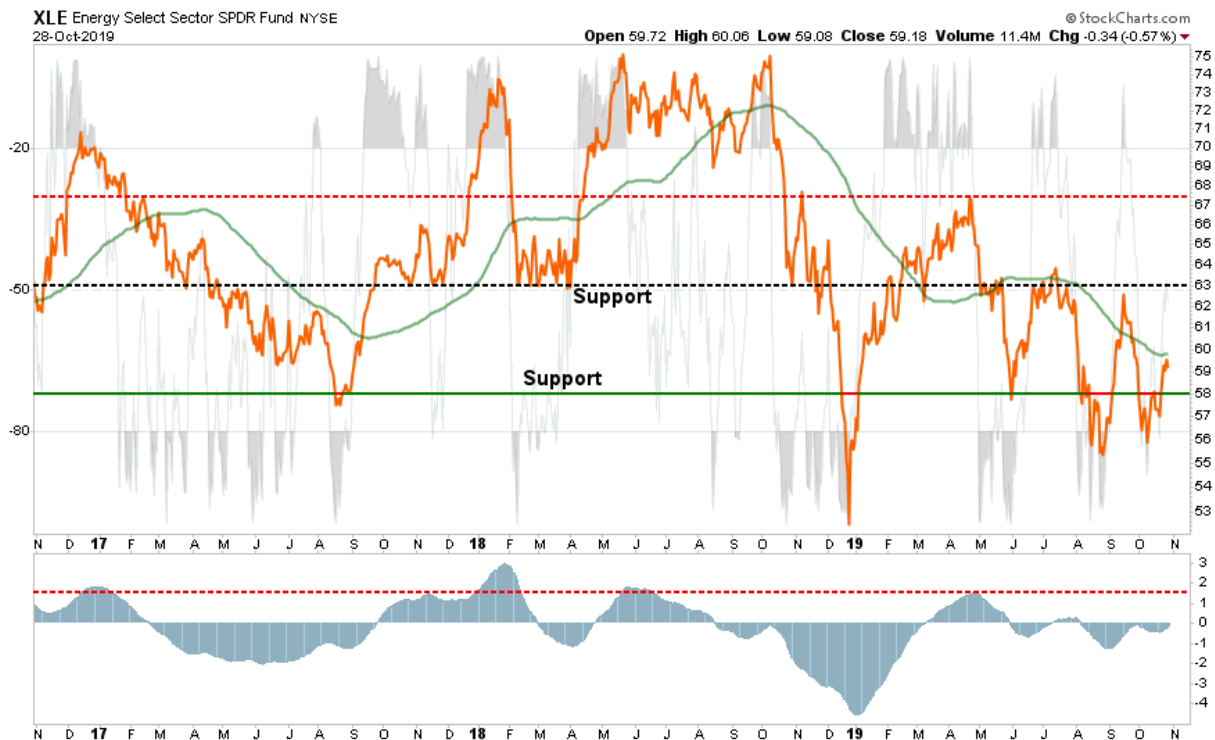
- As noted in this past weekend's newsletter, we are expecting a modest advance into year-end and that there could be a rotation back to more cyclical plays.
- We are looking to increase weighting slightly to Materials particularly if the current "sell signal" is reversed.
- Short-Term Positioning: Neutral
  - 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



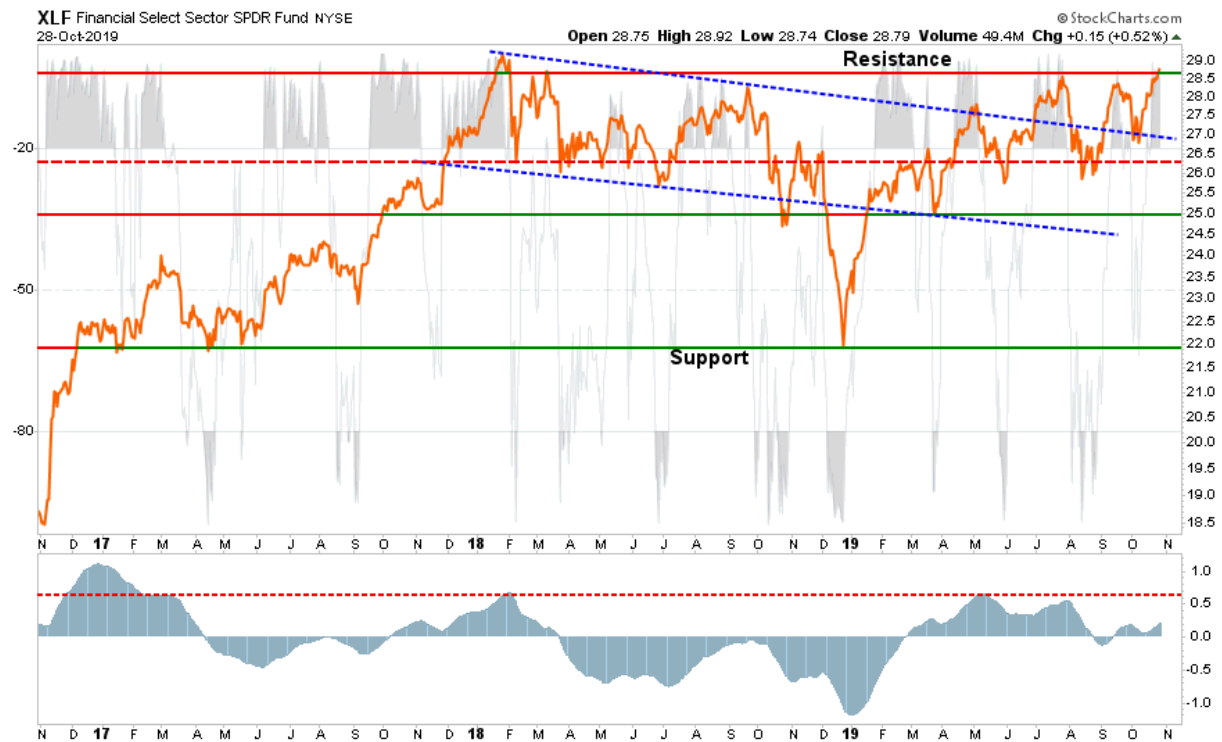
- XLC held important support and has now rallied back to previous resistance at the highs.
- XLC is currently a full-weight in portfolios but should perform better if a year-end advance ensues.
- Short-Term Positioning: Neutral
  - Last Week: Hold trading positions
  - This Week: Hold trading positions.
  - Stop adjusted to \$47.50
- Long-Term Positioning: Bearish

## Energy



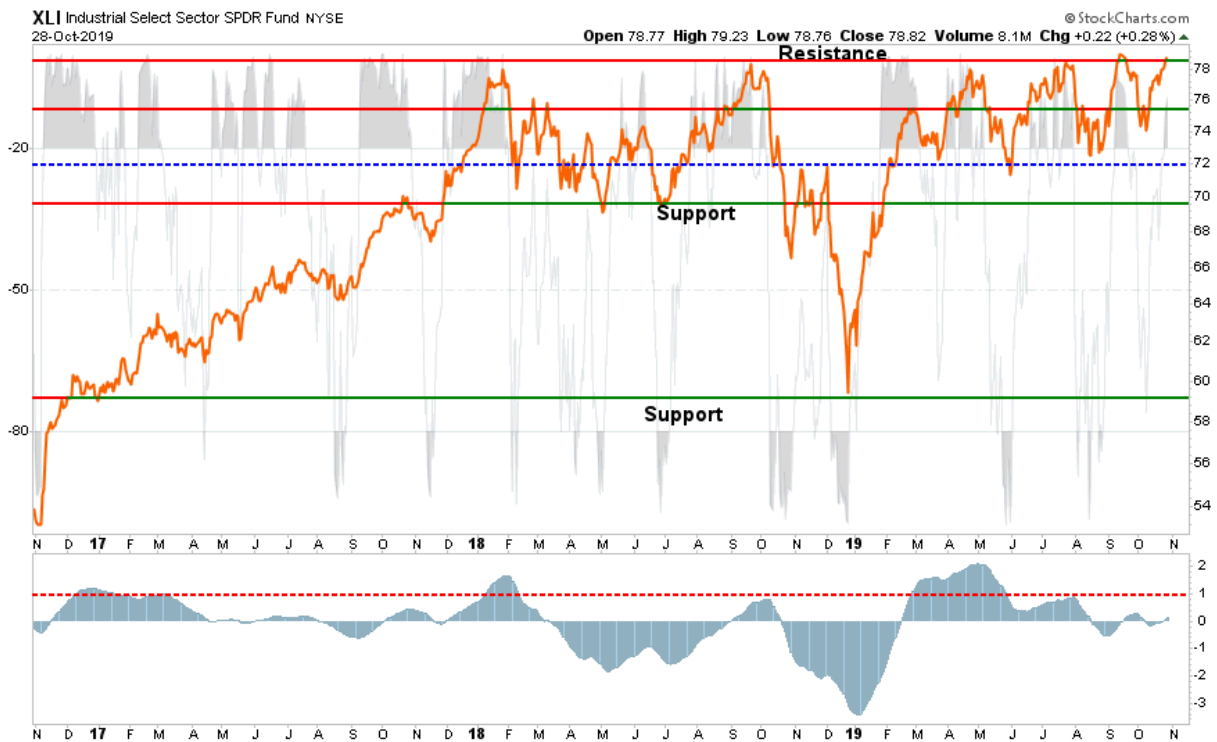
- XLE is now testing that previous support, now resistance, and needs to move higher other a potential break of recent lows becomes a real possibility.
- The "sell signal" is once again in the process of being reversed With relative performance improving, we may see more gains. However, a break of the current downtrend is a must before adding exposure.
- While there is "value" in the sector, there is no need to rush into a position just yet. The right opportunity and timing will come, it just isn't right now.
- We were stopped out of our position previously but are looking to add a small piece back to the portfolio for now as we should catch some cyclical rotation into the end of the year.
- Short-Term Positioning: Bearish
  - Last week: Stopped out.
  - This week: Stopped out.
  - No position currently
- Long-Term Positioning: Bearish

## Financials



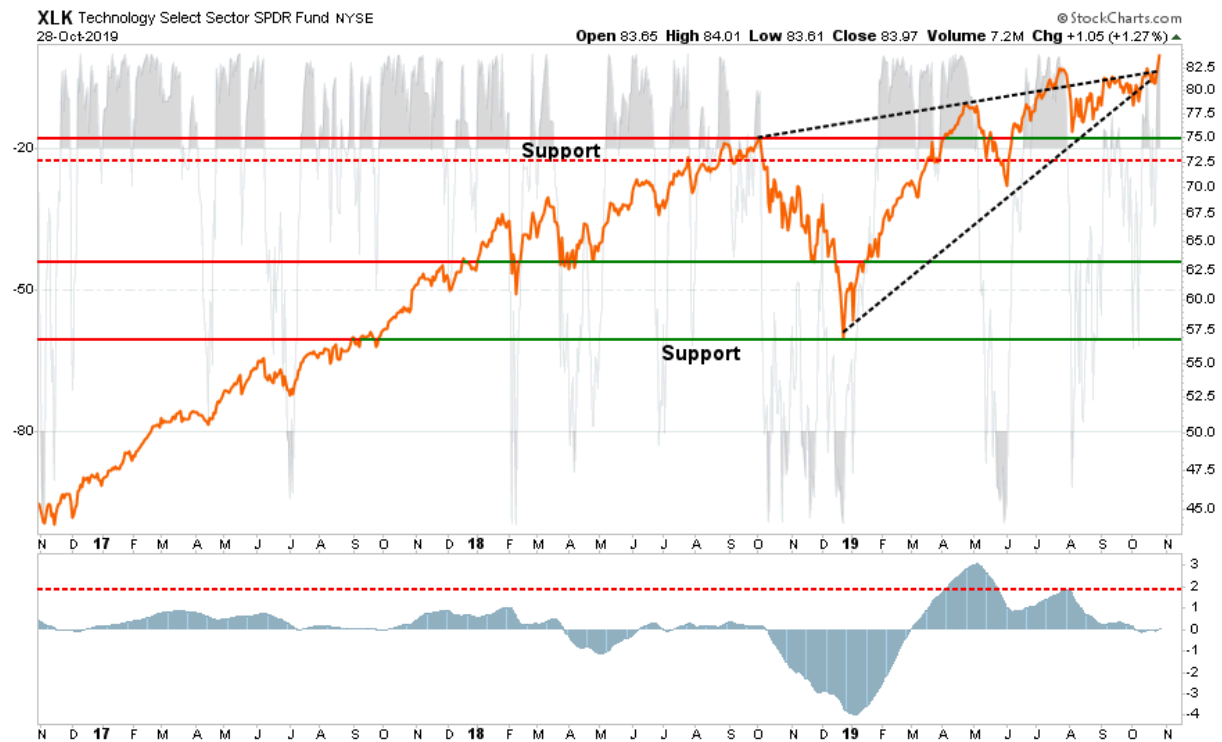
- *XLF is another sector trapped below multiple highs but has reversed its "sell" signal" on a short-term basis.*
- *We previously closed out of positioning as inverted yield curves and Fed rate cuts are not good for bank profitability. That is still the case, however, the sector is performing technically which we can not ignore.*
- *We will see if a break above resistance can hold before adding exposure back into portfolios for a "trading basis" only.*
- *Short-Term Positioning: Neutral*
  - *Last week: Closed Out/No Position.*
  - *This week: Closed Out/No Position.*
  - *Stop-loss adjusted to \$26.00*
- *Long-Term Positioning: Bearish*

## Industrials



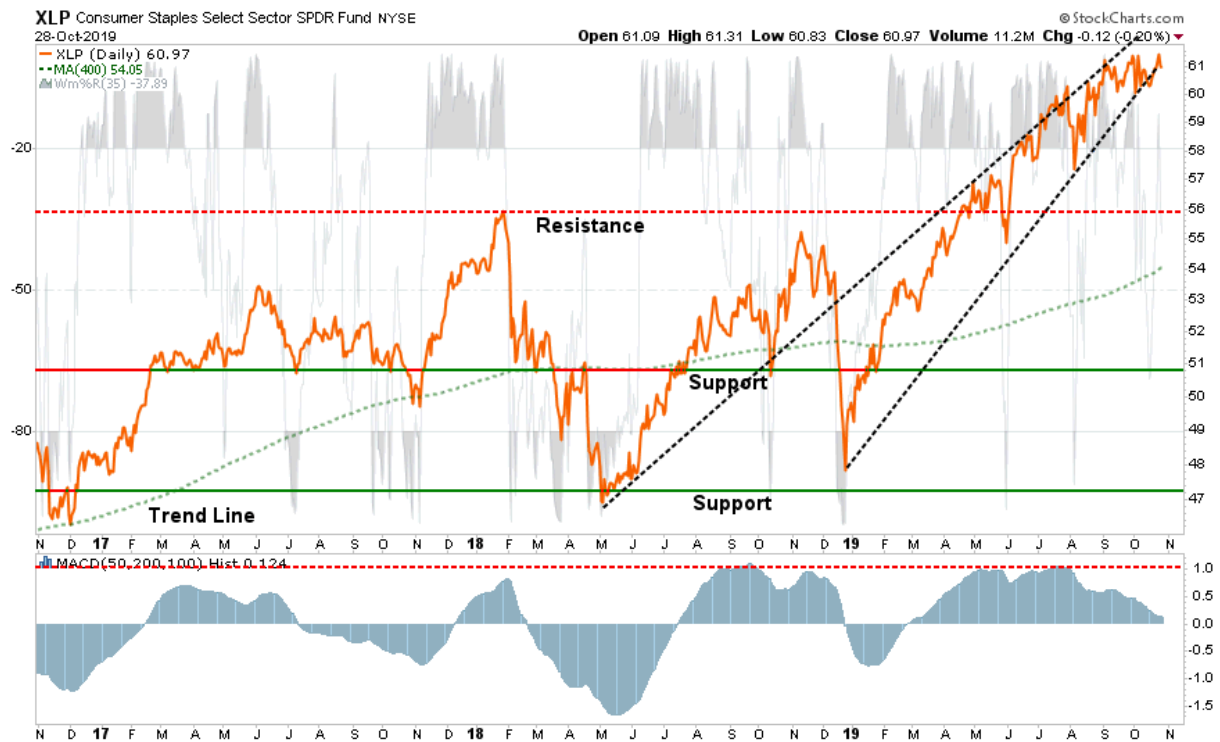
- XLI also, after failing a breakout, remains trapped below multiple highs.
- As with Materials above, a rotation into cyclical exposures is likely heading into year end.
- While it appears that XLI wants to make another attempt at all-time highs, it is going to take some work to move above that resistance.
- 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 \$72
- Long-Term Positioning: Neutral

## Technology



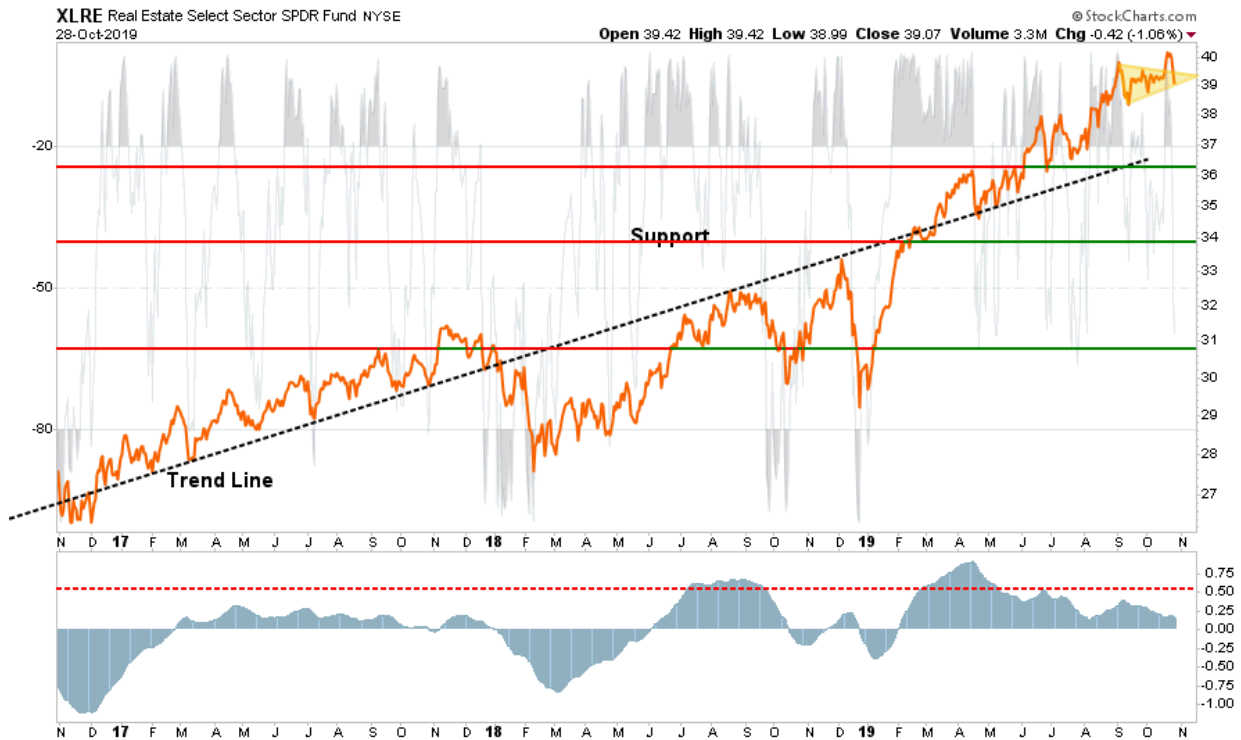
- *XLK is back to a more extreme overbought condition, but has now broken out of the consolidation. Given technology makes up about 1/5th of the S&P 500 weighting, this sector is dragging the whole market higher.*
- *We are currently target weight on Technology, but may increase to overweight on a confirmed breakout. (A retest of the breakout that holds)*
- *Short-Term Positioning: Bullish*
  - *Last week: Hold position*
  - *This week: Hold position*
  - *Stop-loss adjusted to \$75.00*
- *Long-Term Positioning: Neutral*

## Staples



- Defensive sectors have started to perform a little "less well" as of late as money is rotating from some defensive areas.
- XLP continues to hold its very strong uptrend but is threatening to break that support. If it does, it could lead to a rather abrupt sell off.
- The "buy" signal (lower panel) is still in place but is threatening to turn into a sell if performance doesn't pick up soon.
- We previously took profits in XLP and reduced our weighting from overweight. We will likely look to reduce further when opportunity presents itself.
- Short-Term Positioning: Bullish
  - Last week: Hold positions, take profits if needed.
  - This week: Hold positions, take profits if needed.
  - Stop-loss adjusted to \$58
  - Long-Term Positioning: Bullish

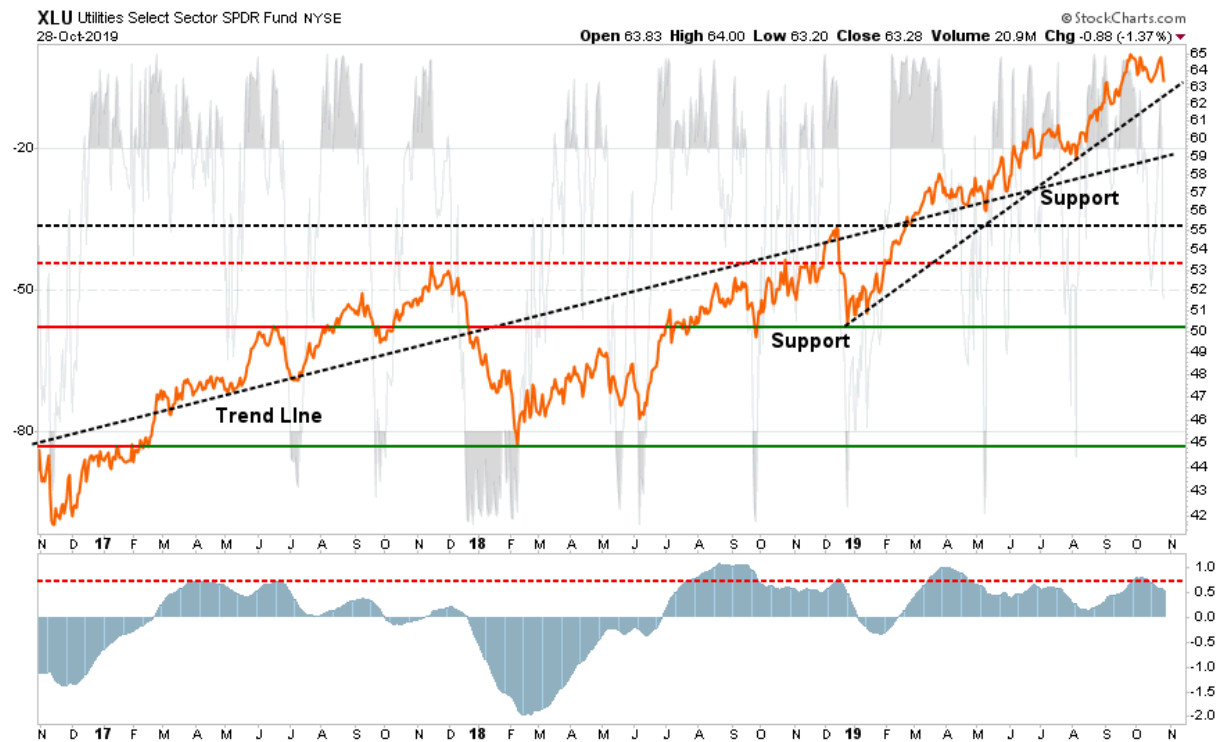
## Real Estate



- As noted last week, XLRE was consolidating its advance within a very tight pattern, and that consolidation broke to the upside leading to new highs.
- We had previously recommended taking profits and rebalancing risk as the overbought condition needed to be corrected. XLRE reversed the breakout this past week, and is now testing support again.
- Buy signal has been reduced which is bullish for now.
- 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





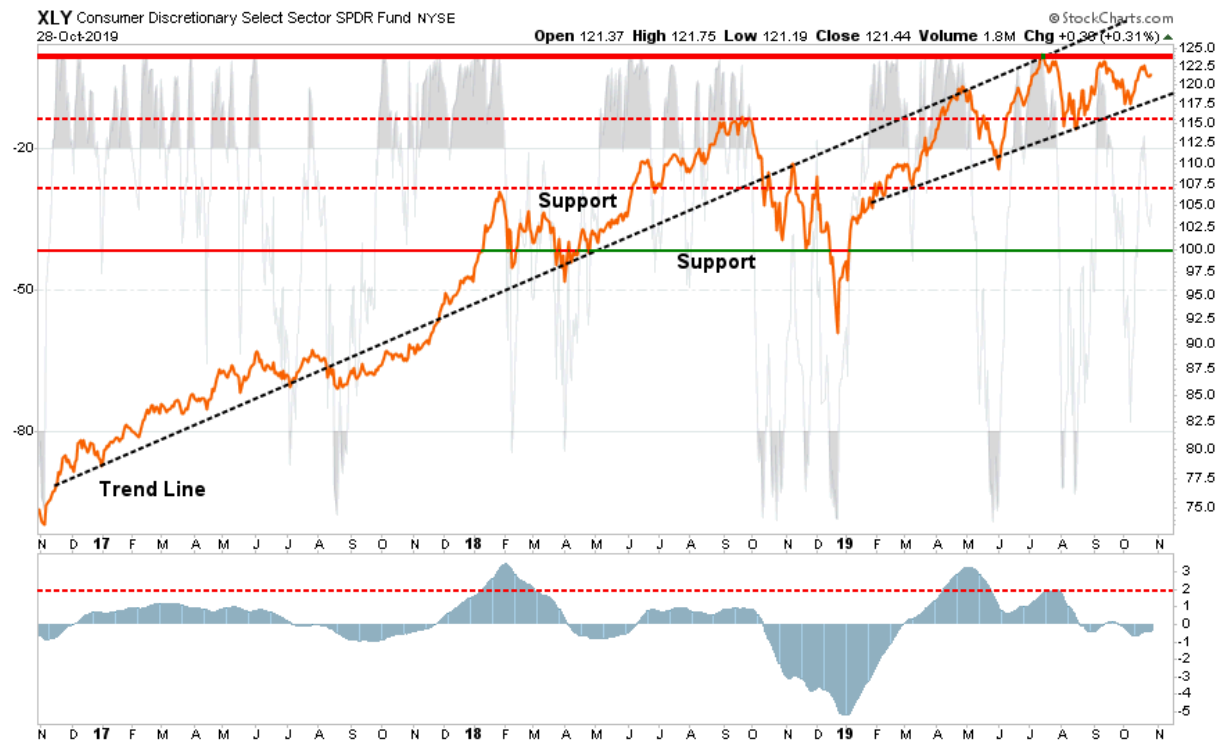
- *XLP and XLU are virtually the same commentary.*
- *After taking profits, we have time to be patient and wait for the right setup. We haven't gotten one as XLU continues to rally and last weeks surge is making owning this sector seriously more dangerous.*
- *Long-term trend line remains intact but XLU is grossly deviated from longer-term means. A correction back to the uptrend is underway and needs to hold without breaking lower.*
- *Interest rates will be key here.*
- *The buy signal is intact but the sector is very overbought. We took profits recently but will likely do more if performance continues to struggle.*
- *Short-Term Positioning: Bullish*
  - *Last week: Hold position.*
  - *This week: Hold position*
  - *Stop-loss adjusted to support at \$58.00*
- *Long-Term Positioning: Bullish*

## Health Care



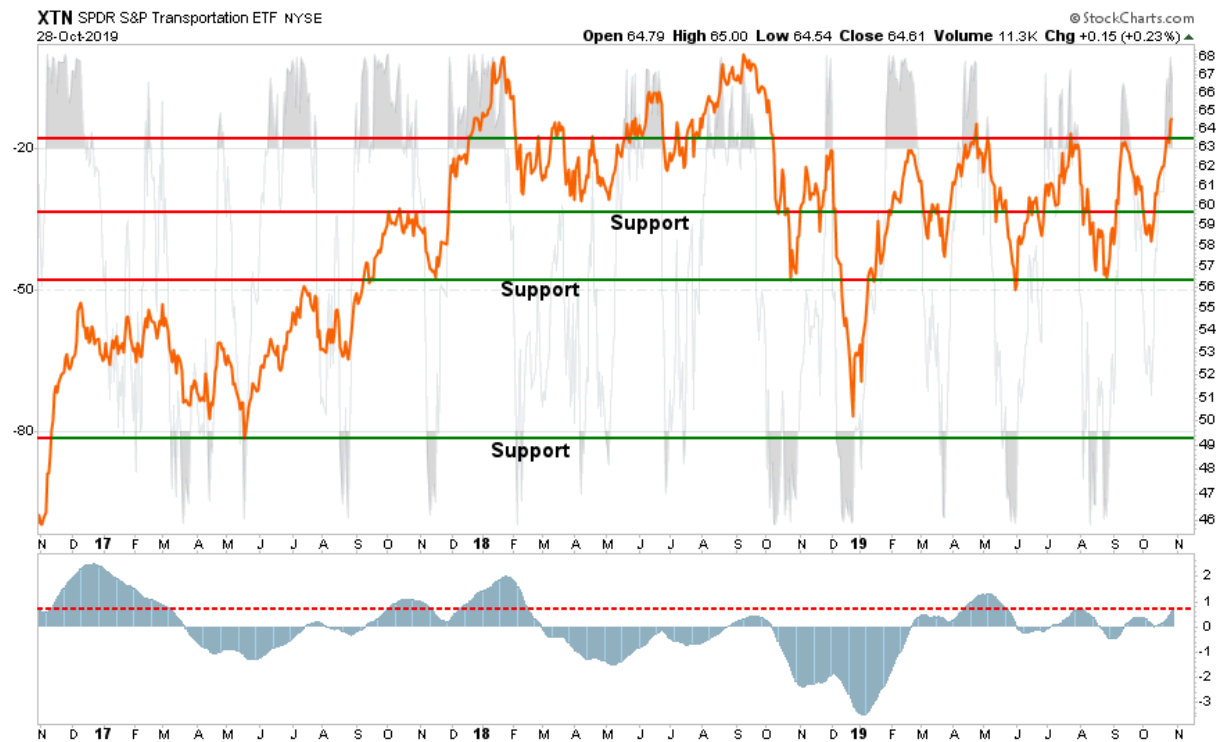
- *XLV has remained intact and is trying to retest previous highs. If a buy signal is issued that may well support a higher move for the sector.*
- *As noted previously, healthcare will likely begin to perform better soon if money begins to look for "value" in the market. We are looking for entry points to add to current holdings and we added a new holding in the Equity portfolio.*
- *We continue to maintain a fairly tight stop for now.*
- *Short-Term Positioning: Neutral*
  - *Last week: Hold position.*
  - *This week: Hold position*
  - *Stop-loss adjusted to \$88*
- *Long-Term Positioning: Neutral*

**Discretionary**



- The rally in XLY has take the sector back to previous highs where resistance sits currently. However, the drag from AMZN has XLY testing previous highs without breaking out.
- We added to our holdings previously to participate with the current rally, but are carrying a tight stop on the whole position.
- XLY is close to reversing back to a buy signal which could signal higher-highs heading into the end of the year, but the sector needs to break out to new highs and hold.
- Short-Term Positioning: Neutral
  - Last week: Hold position
  - This week: Hold position
  - Stop-loss adjusted to \$115.
- Long-Term Positioning: Neutral

## Transportation



- *XTN is making another attempt at recent highs and will be interesting to see if this breakout can hold.*
- *With a "buy" signal in place, combined with the fact XTN is not overbought, a better setup is forming to add holdings.*
- *If this breakout holds we will look to add, but there is not a rush to do anything.*
- **Short-Term Positioning: Neutral**
  - *Last week: No position*
  - *This week: No position*
- **Long-Term Positioning: Bearish**