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.*

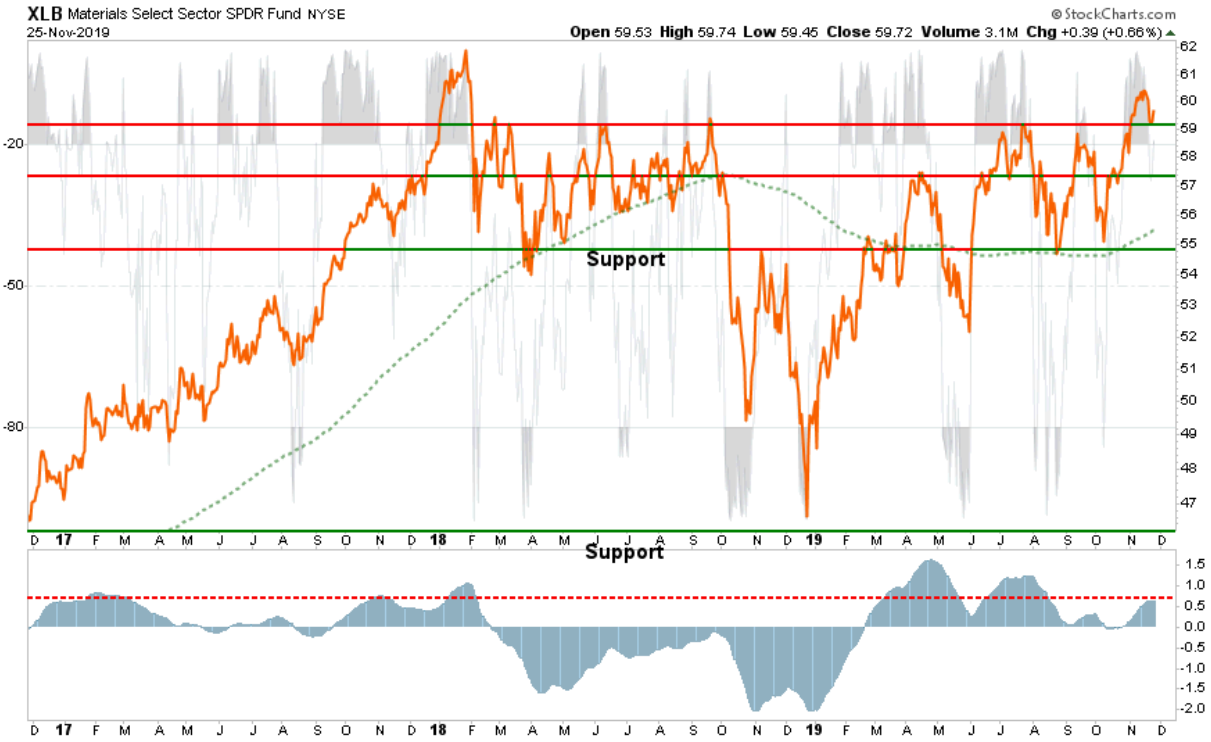
When the gray indicator is at the TOP of the chart, there is typically more risk and less reward available at the current time. In other words, the best time to BUY is when the short-term condition is over-sold. Likewise when the buy/sell indicator is above the ZERO line investments have a tendency of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



With this basic tutorial let's get to the sector analysis.

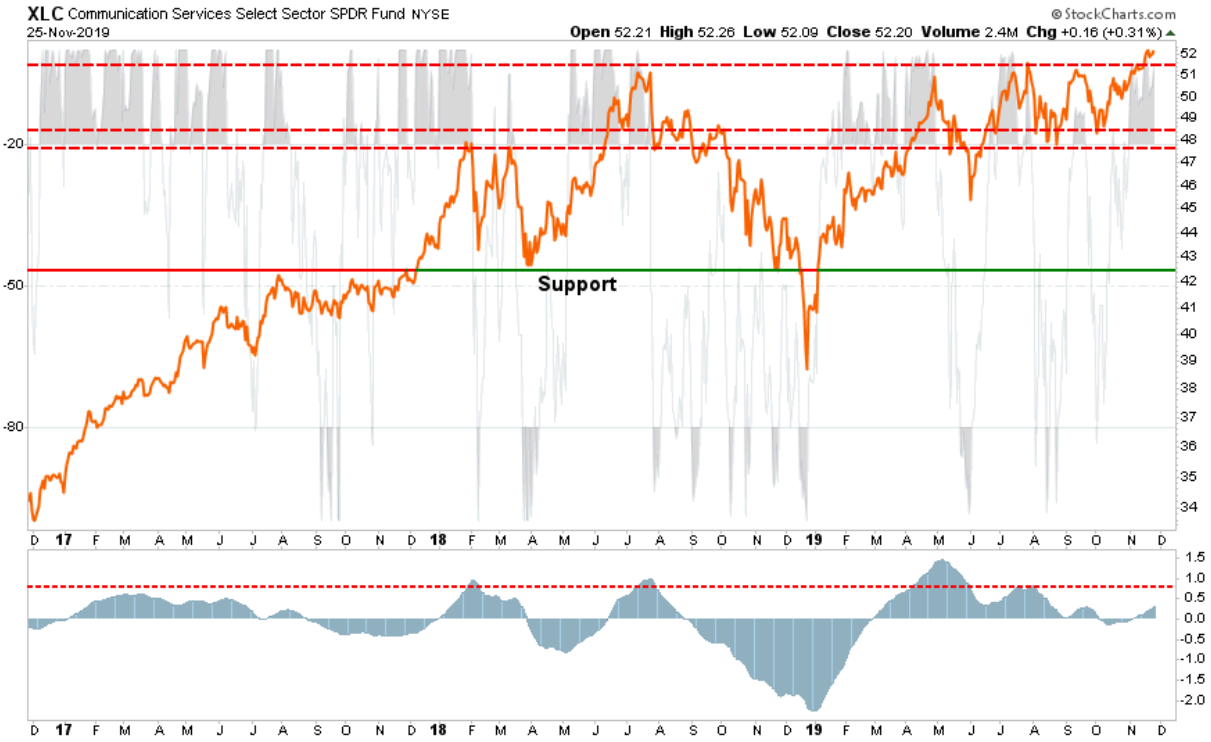
NOTE - Not much changed in the charts from last week. So recommendations remain primarily the same. With markets and sectors EXTREMELY overbought, it is likely best to wait for some corrective action before adding exposure. Hence the "short position" we added into portfolios to hedge risk. See portfolio commentary on home page.

Basic Materials



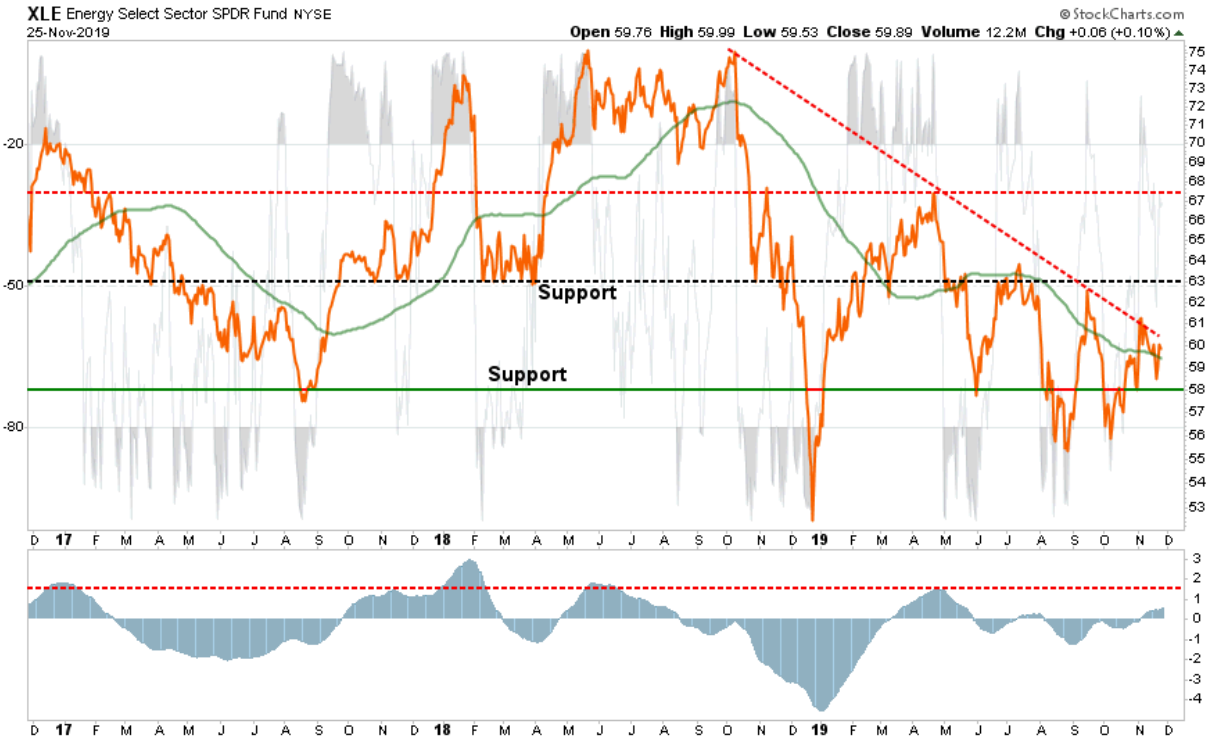
- *XLB is extremely overbought short-term, but the recent pullback to test breakout support is encouraging.*
- *Given the pullback, add exposure if you have no exposure to materials currently.*
- *With the market as a whole extremely overbought, we are likely to see a bit of correction over the next couple of weeks at which point we will bring our weighting up to target.*
- *Short-Term Positioning: Neutral*
    - *Last Week: Hold current positions with a tighter stop-loss.*
    - *This Week: Add 1/2 position if no holdings currently.*
    - *Stop-loss adjusted to $55*
- *Long-Term Positioning: Bearish*

Communications



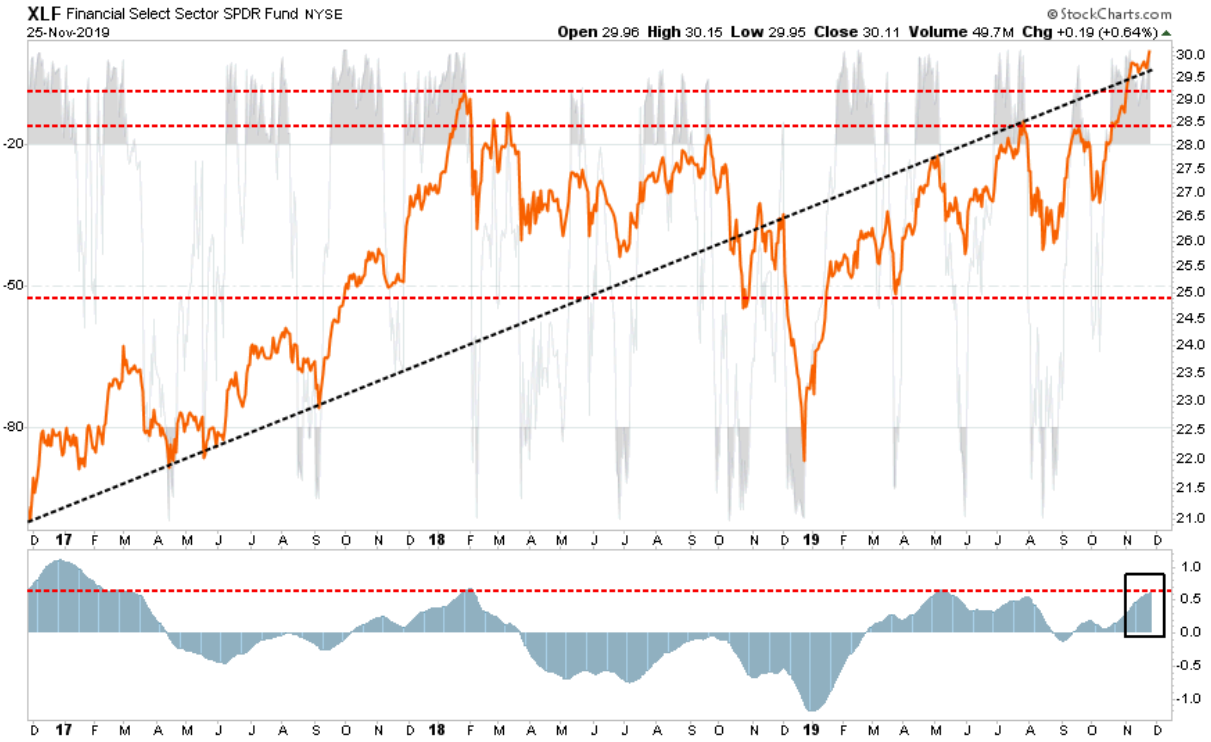
- *XLC finally broke out to new highs and joined its brethren technology sector as $AMZN finally mustered a rally.*
- *With the reversal of the "sell signal" it should lift the sector higher, but in the short-term XLC is extremely overbought.*
- *XLC is currently a full-weight in portfolios but should 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



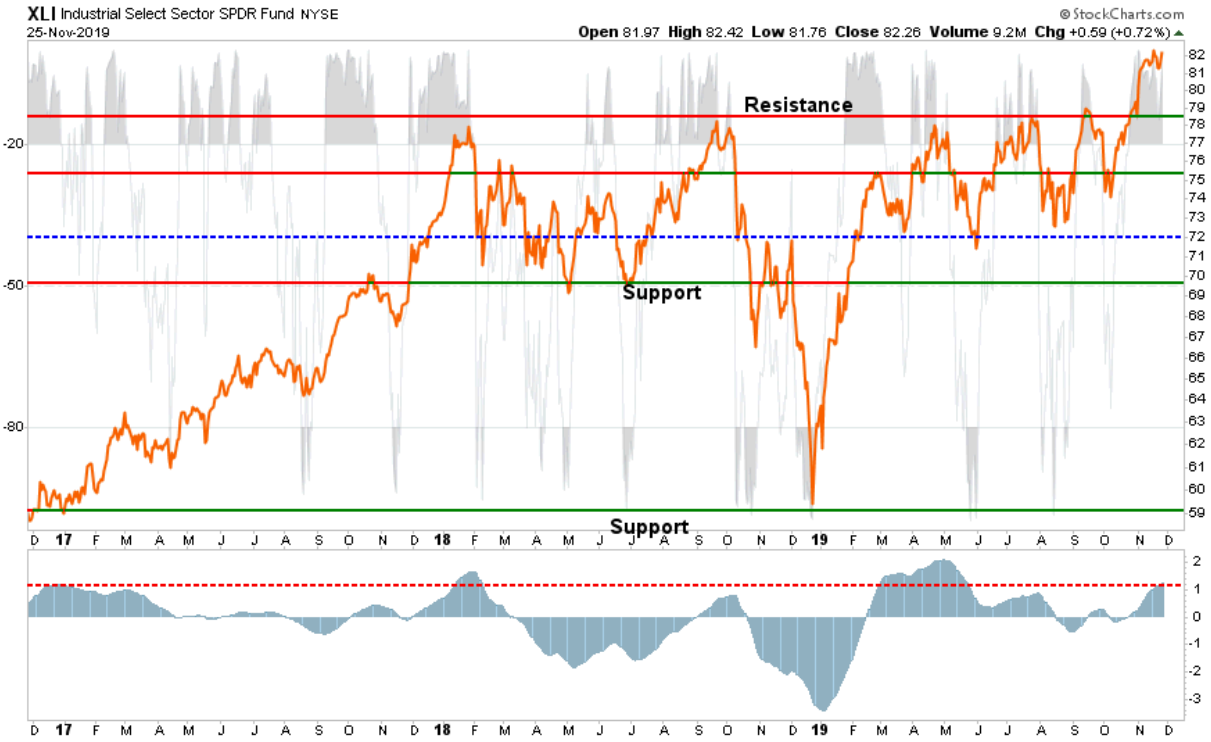
- *XLE failed at downtrend resistance which is disappointing.*
- *The "sell signal" has been reversed. With relative performance improving, we may see more gains but the failure to break above resistance keeps us out of the sector for now.*
- *While there is "value" in the sector, there is no need to rush into a position just yet. The right opportunity and timing will come, it just isn't right now.*
- *Short-Term Positioning: Bearish*
    - *Last week: No Position - looking to add*
    - *This week: No Position - looking to add*
    - *No position currently*
- *Long-Term Positioning: Bearish*

Financials



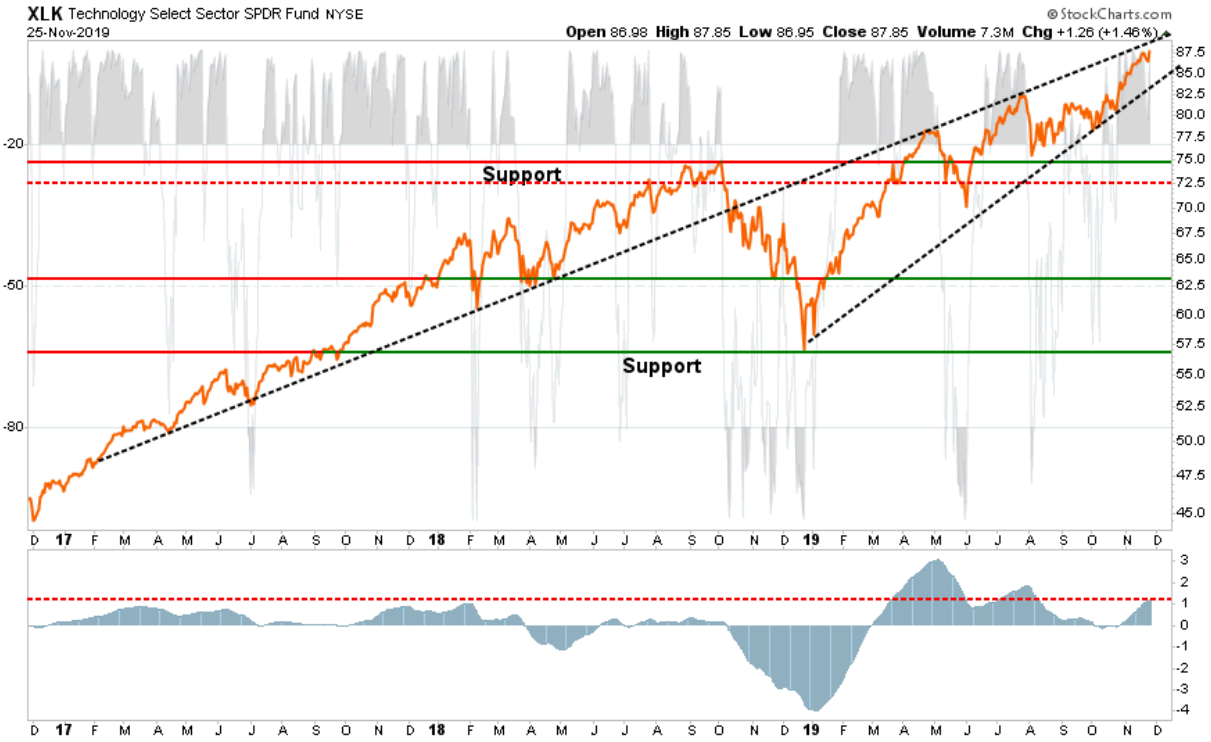
- *XLF finally broke out to new highs which makes it much more interesting to add to the portfolio. The recent bounce off of the uptrend line is also bullish.*
- *However, the sector is extremely overbought, and the buy signal is extremely extended as well. A pull back or consolidation is required to add holdings into the portfolio.*
- *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: Hold Positions*
    - *This week: Hold Positions*
    - *Stop-loss adjusted to $26.00*
- *Long-Term Positioning: Bearish*

Industrials



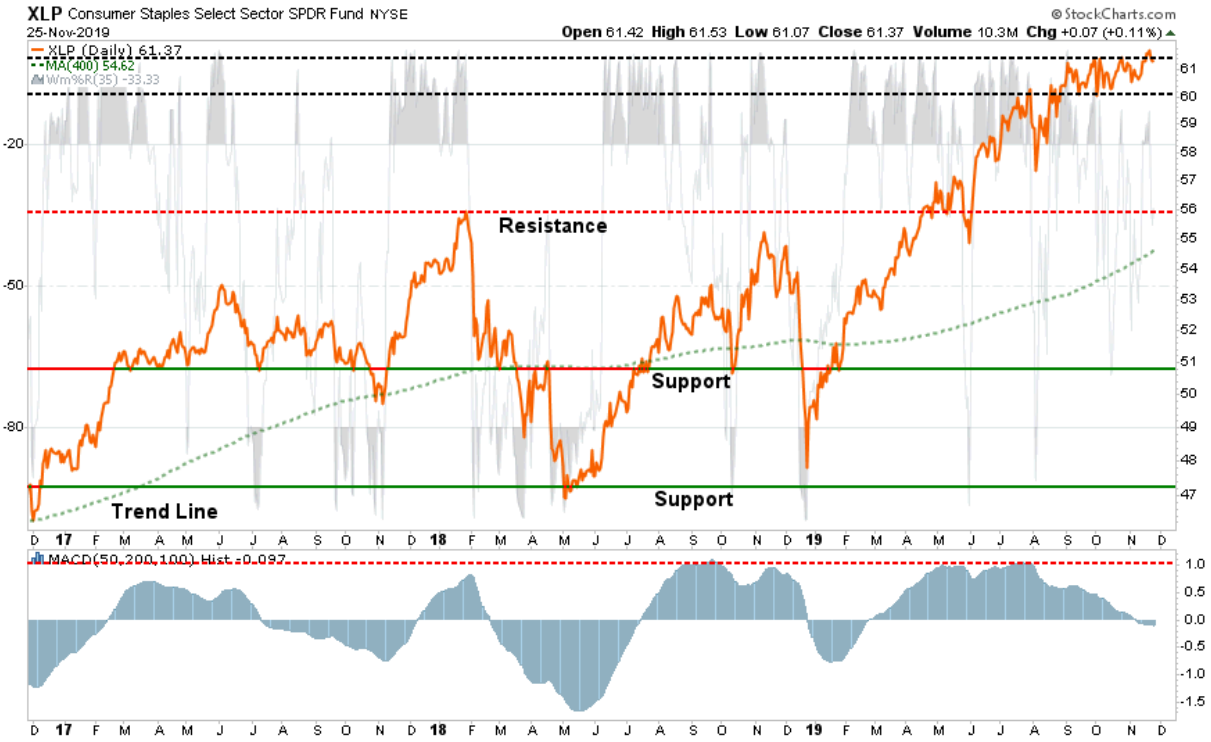
- *Like XLF, XLI broke out to new highs. After a long-consolidation, this is an important development.*
- *As with Materials above, a rotation into cyclical exposures is likely to continue as QE and Trade Deals are hoped for.*
- *We are looking for a bit of consolidation and/or pullback to work off some of the extreme overbought condition before increasing our weighting.*
- *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 $75*
- *Long-Term Positioning: Neutral*

Technology



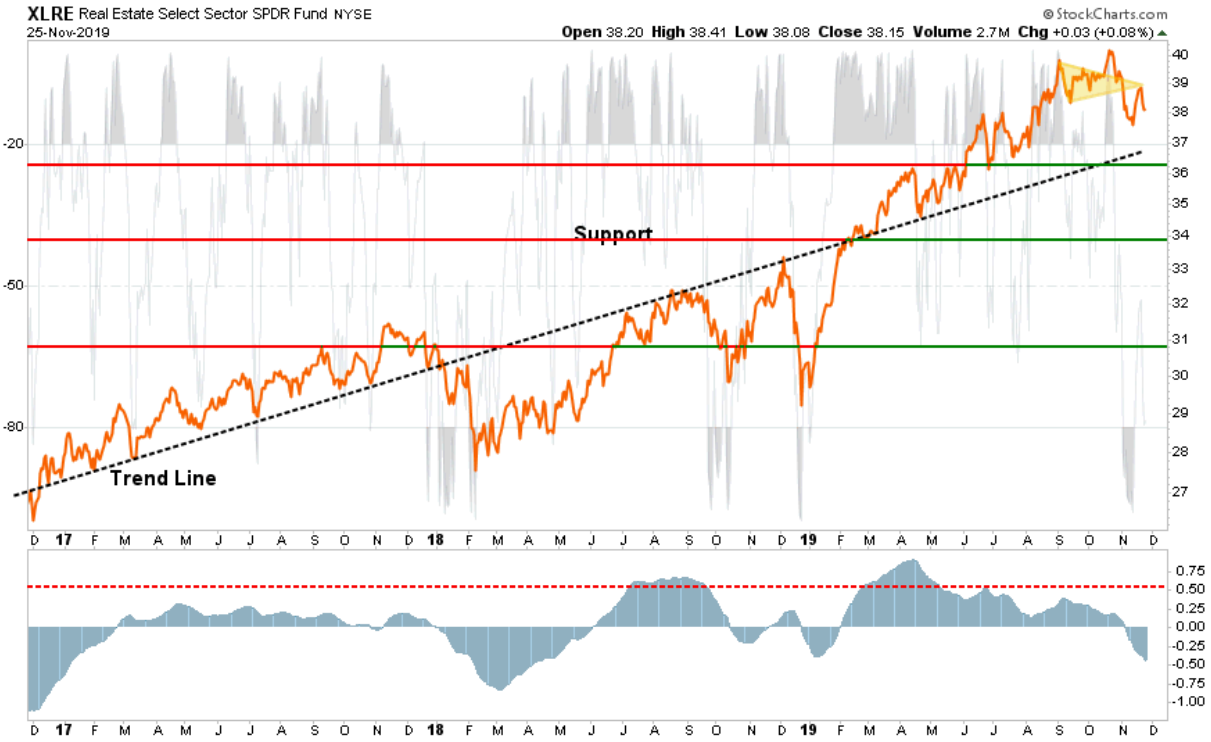
- *XLK is back to a more extreme overbought condition, but has now broken out of the consolidation. Given technology makes up about 1/5th of the S&P 500 weighting, this sector is dragging the whole market higher.*
- *We are currently target weight on Technology, but may increase exposure on a pullback to support within the overall uptrend. (A retest of the breakout that holds) The upper rising trendline is also providing resistance so look to add on a pullback that holds the lower trendline support.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold position*
    - *This week: Hold position*
    - *Stop-loss adjusted to $77.50*
    - *Long-Term Positioning: Neutral*

Staples



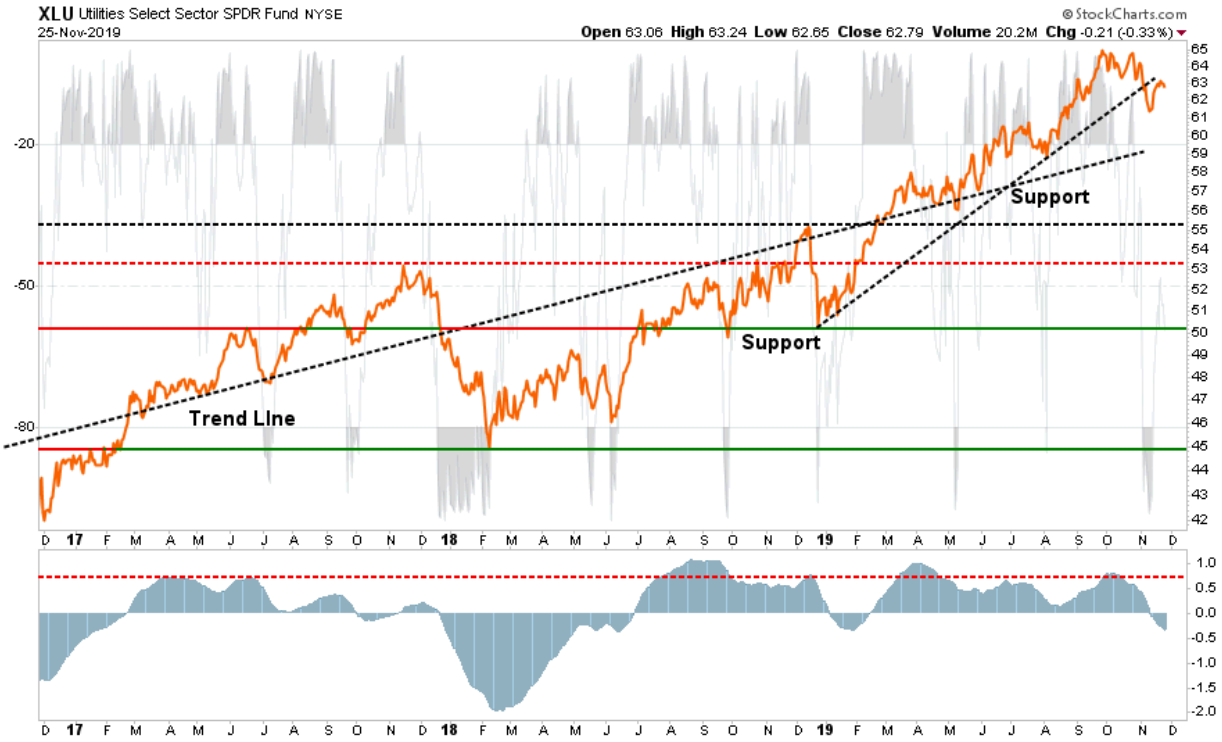
- *Defensive sectors have started to perform better as money is just chasing markets now.*
- *XLP continues to hold its very strong uptrend as has now broken out to new highs. However, XLP is back to more extreme overbought.*
- *If the short-term "sell signal" is reversed, it could provide additional lift to the sector.*
- *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: 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 but broke to the downside. The subsequne rally failed to move back above previous support so the risk is to the downside currently.*
- *We had previously recommended taking profits and rebalancing risk as the overbought condition needed to be corrected which has now been completed.*
- *XLRE Registered a deep "sell signal" and is oversold. A trading opportunity is approaching but be cautious currently.*
- *You can add to positions if you are underweight but maintain a stop at recent lows for new purchases.*
- *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



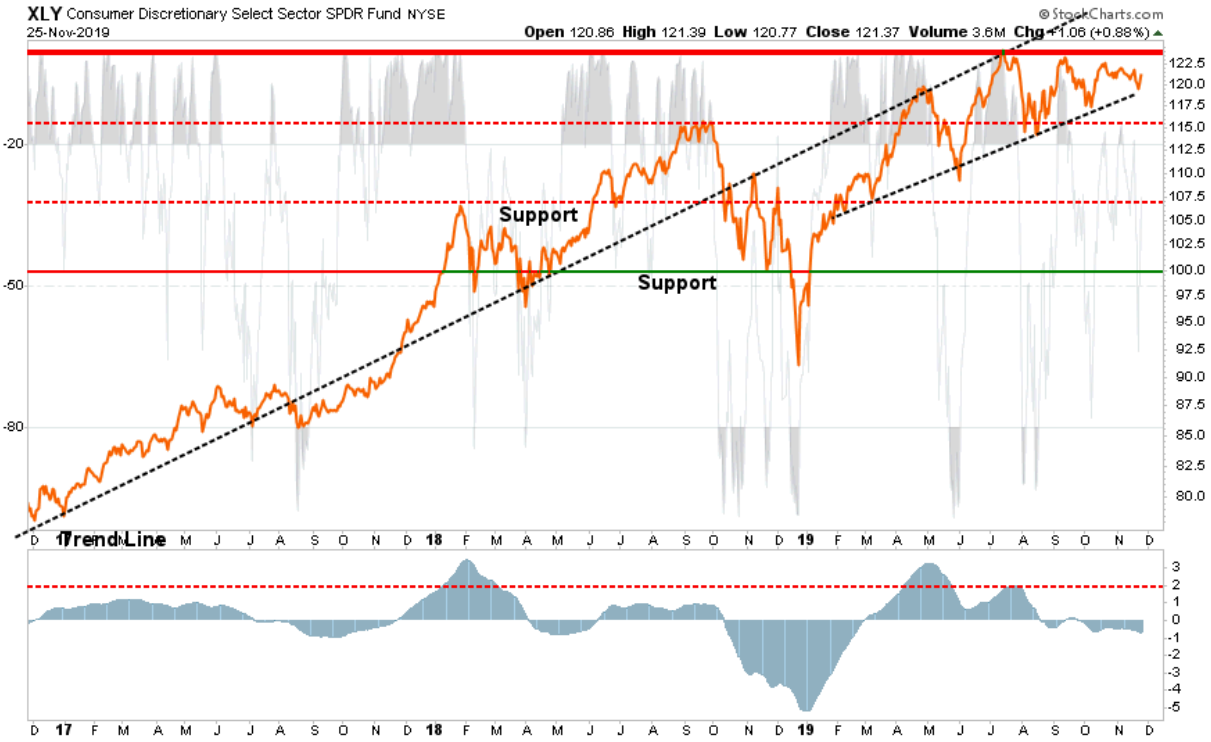
- *XLRE and XLU are virtually the same commentary with XLU rallying to test previous support. Unfortunately, the test of support failed which now turns it into future resistance.*
- *After taking profits, we have time to be patient and wait for the right setup. We may be getting an opportunity here soon if support can hold as the overbought condition is reversed.*
- *Long-term trend line remains intact but XLU and the sell signal is now triggered. A reversal of the sell signal will provide more lift.*
- *Hold off adding new positions currently.*
- *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



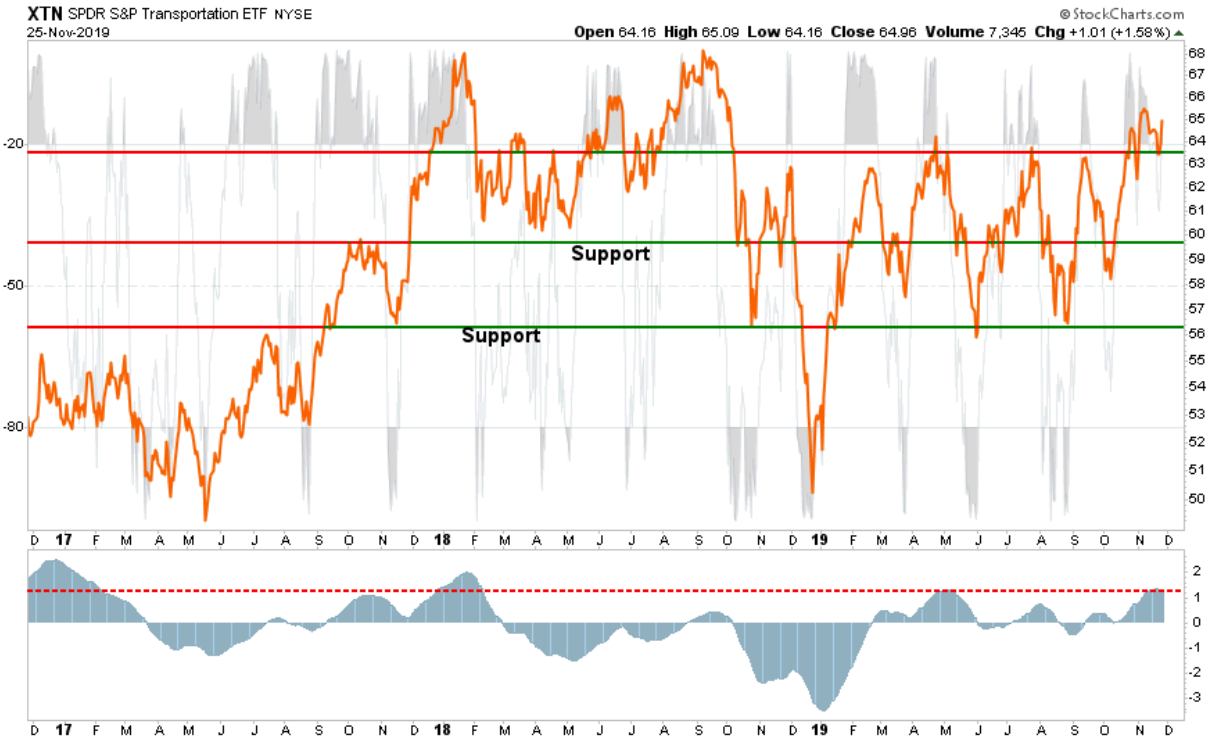
- *XLV has remained intact and broke out to new highs.*
- *However, the rapid acceleration of the sector has taken XLV to extreme overbought conditions.*
- *We noted previously, healthcare would begin to perform better soon as money looked for "value" in the market. That has been the case as of late, but has gone too far, too quickly.*
- *We are looking for entry points to add to current holdings, but it is too overbought currently.*
- *We are moving our stop up for now, but look for a reduction of the overbought condition to add weight to the sector.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold position.*
    - *This week: Hold position*
    - *Stop-loss adjusted to $90*
- *Long-Term Positioning: Neutral*

Discretionary



- *The rally in XLY has not participated as much as other sectors like Financials, Industrials and Materials, and has failed to break above resistance.*
- *We added to our holdings previously to participate with the current rally, but are carrying a tight stop on the whole position.*
- *XLY is struggling to reverse back to a buy signal, and overhead resistance is going to problematic short-term.*
- *Hold current positions for now, as the Christmas Shopping Season is approaching, which should help push the sector higher. However, the dismal performance relative to other sectors of the markets suggests not adding new/additional exposure currently.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold position*
    - *This week: Hold position*
    - *Stop-loss adjusted to $115.*
- *Long-Term Positioning: Neutral*

Transportation



- *XTN has broken out of consolidation but will quickly run into previous highs. The chase into previously "out of favor" sectors is likely going to end as quickly as it began.*
- *With a "buy" signal in place, combined with the fact XTN is not overbought, a better setup is forming to add holdings. Take profits if long, and wait for a pullback to add to holdings.*
- *Short-Term Positioning: Neutral*
    - *Last week: No position*
    - *This week: No position*
- *Long-Term Positioning: Bearish*