

Major Market Buy/Sell Review: 12-02-19

Each week we produce a chart book of the major financial markets to review whether the markets, as a whole, warrant higher levels of equity risk in portfolios or not. Stocks, as a whole, tend to rise and fall with the overall market. Therefore, if we get the short-term trend of the market right, our portfolios should perform respectively.

HOW TO READ THE CHARTS

There are three primary components to each chart:

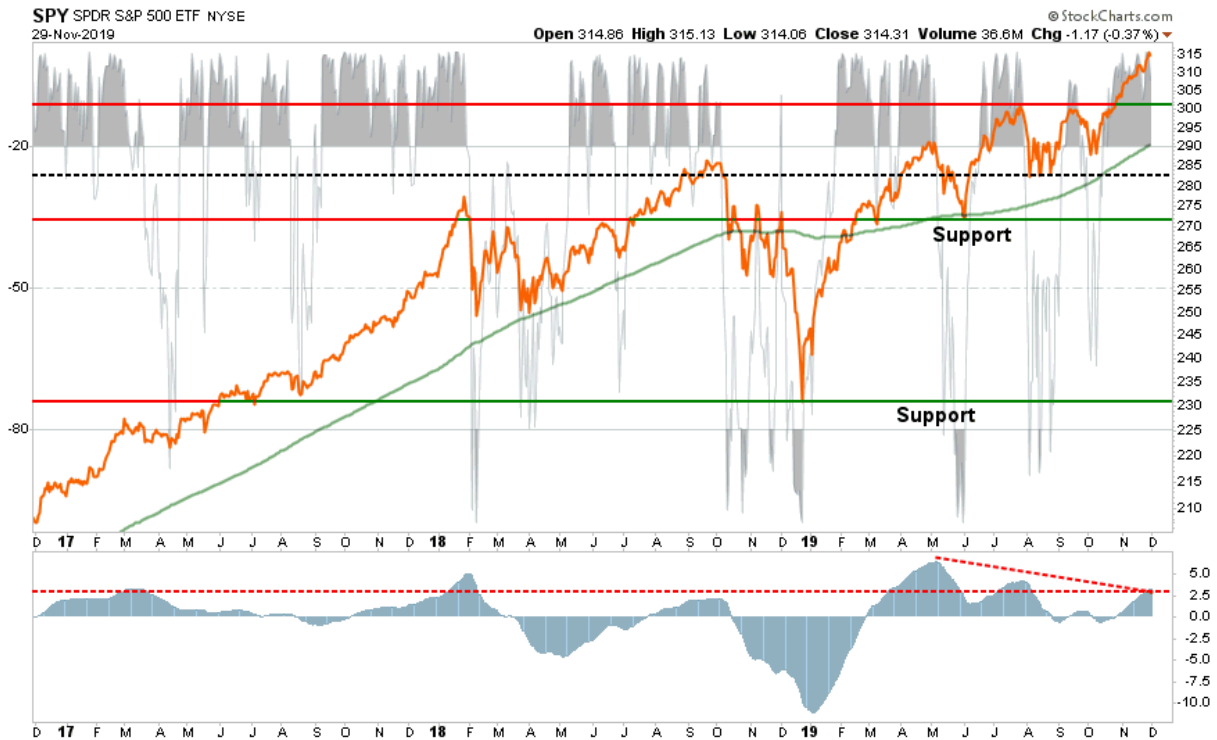
- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

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.



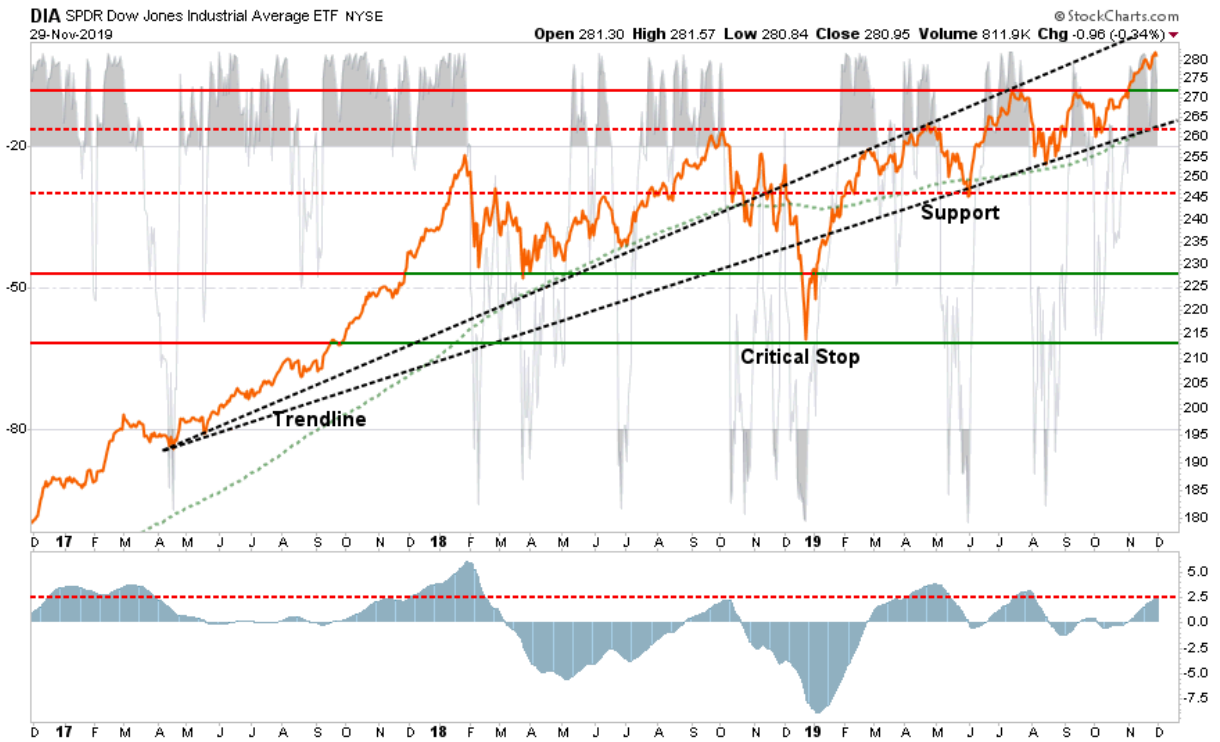
With this basic tutorial let's review the major markets.

S&P 500 Index



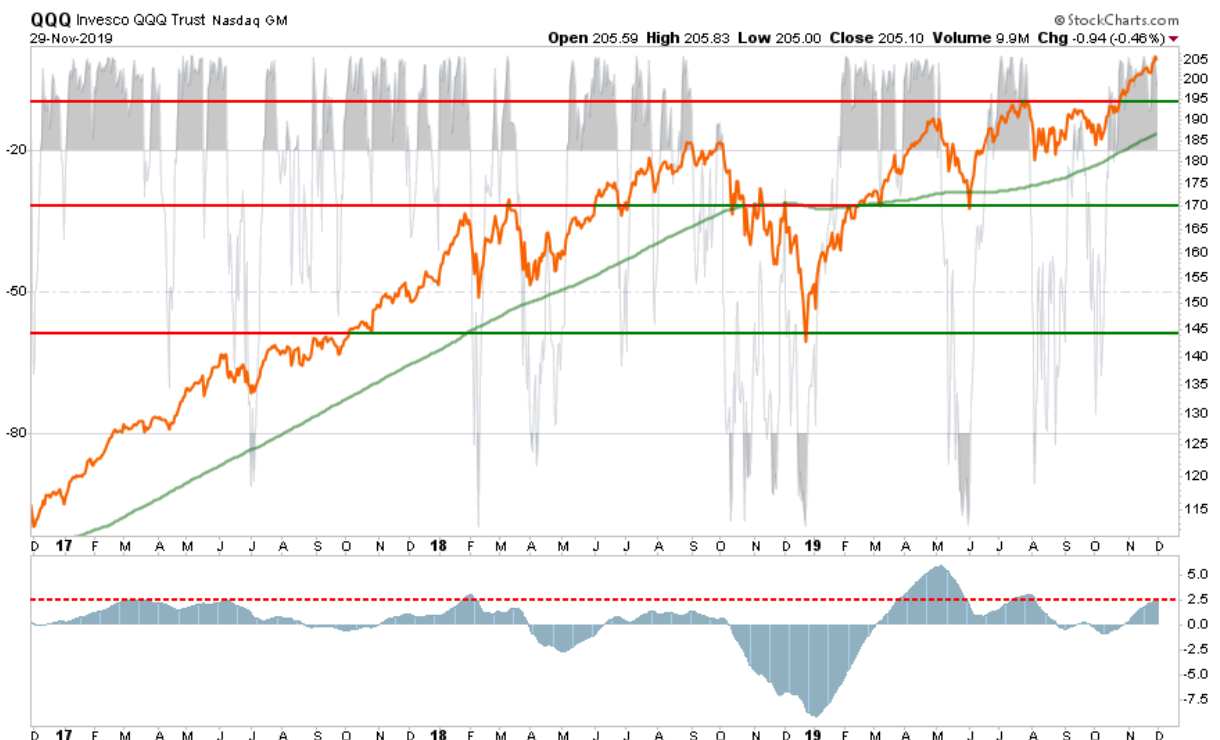
- With a "buy signal" triggered, there is a positive bias, however with both the price and "buy signal" very extended we expect a short-term correction for a better entry point to add exposure.
- As noted previously, we did add a "short S&P 500" index hedge to both the Equity and ETF portfolios. We are okay with the little bit of performance drag it provides relative to the risk reduction we get in the portfolio.
- Given the deviation from the mean, and the more extreme overbought condition, it is advisable to wait for some consolidation/correction before increasing equity allocations.
- Short-Term Positioning: Bullish
 - Last Week: Hold position
 - This Week: Hold position with a bias to add to holdings.
 - Stop-loss moved up to \$290
 - Long-Term Positioning: Neutral due to valuations

Dow Jones Industrial Average



- *DIA broke out to new highs with the reversal of the "buy" signal to the positive. However, that buy signal is pushing some of the higher levels seen historically so a correction is likely.*
- *Hold current positions, but as with SPY, wait for a correction before adding further exposure.*
- **Short-Term Positioning: Neutral**
 - *Last Week: Hold current positions*
 - *This Week: Hold current positions.*
 - *Stop-loss moved up to \$265.00*
- **Long-Term Positioning: Neutral**

Nasdaq Composite



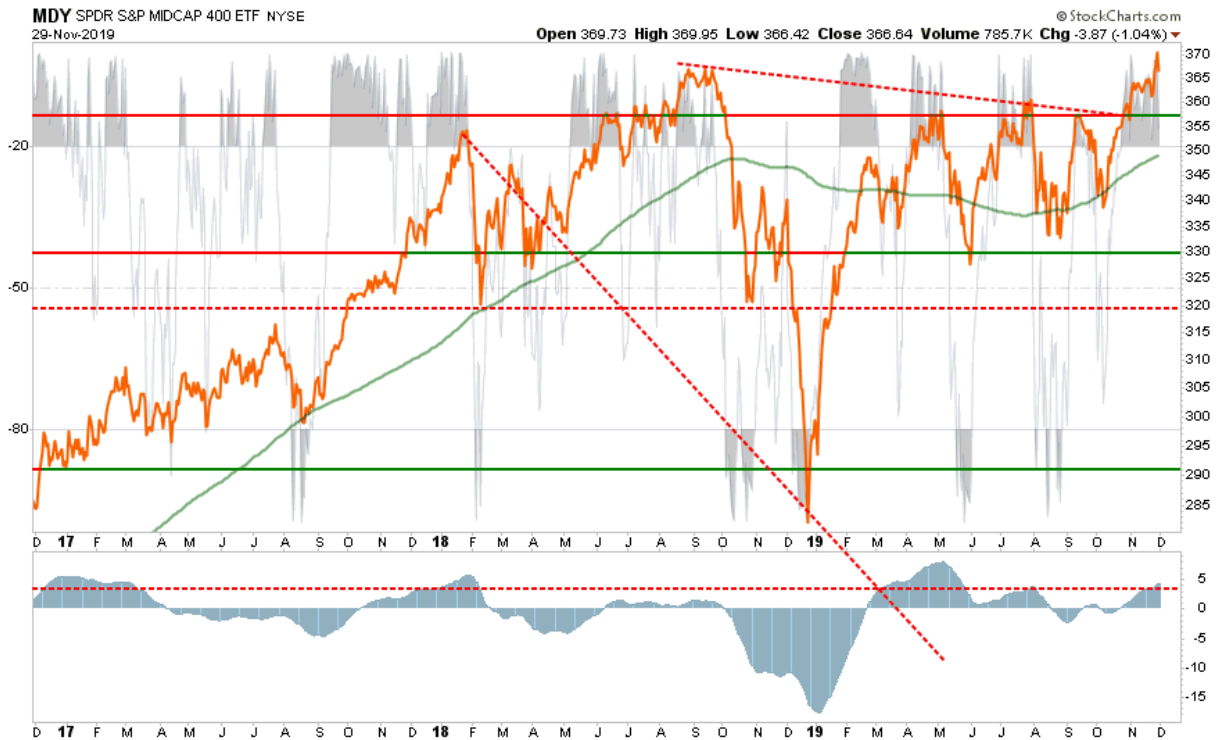
- Like SPY and DIA, the technology heavy Nasdaq has broken out to new highs but is pushing very extended levels.
- The Nasdaq "buy signal" is also back to extremely overbought levels so look for a consolidation or correction to add exposure.
- However, as with SPY, QQQ is EXTREMELY overbought short-term, so remain cautious adding exposure. A slight correction that alleviates some of the extension will provide a much better entry point.
- Short-Term Positioning: Bullish
 - Last Week: Hold position
 - This Week: Hold position
 - Stop-loss moved up to \$185
- Long-Term Positioning: Neutral

S&P 600 Index (Small-Cap)



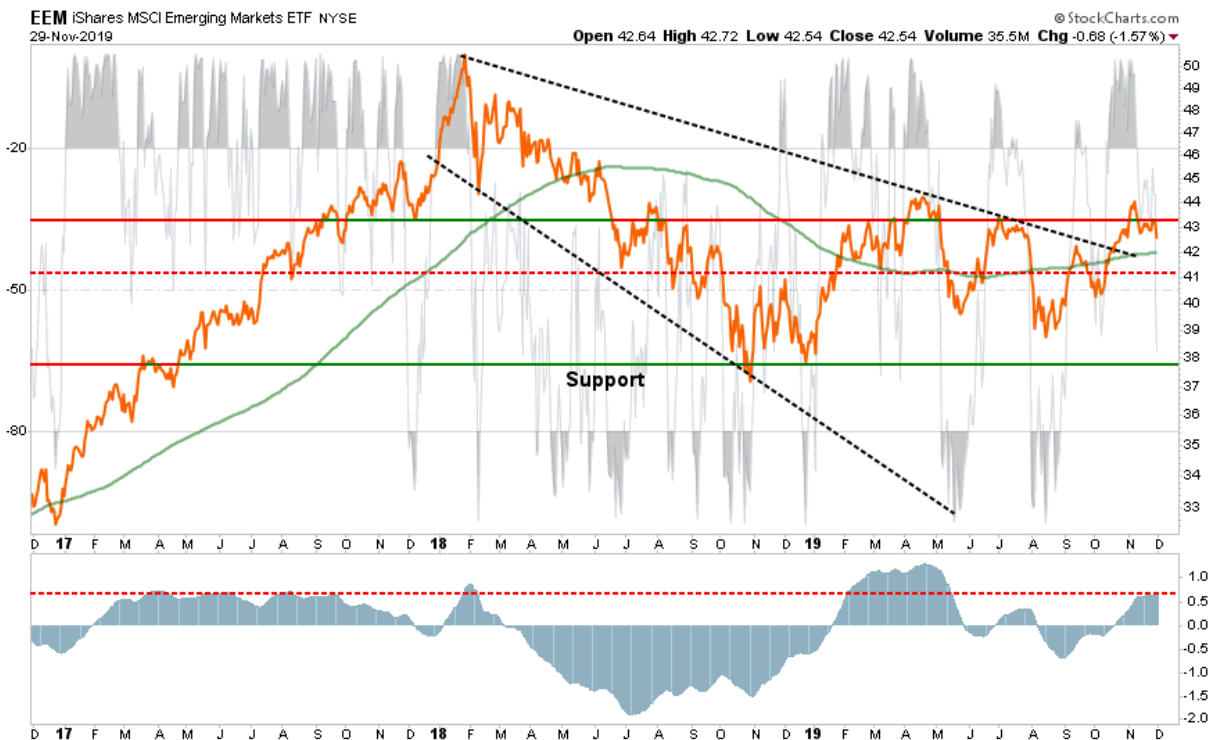
- As noted previously, small-caps broke out above previous resistance but have been struggling.
- Last week, small-caps successfully tested the breakout level, there is now a bias to add exposure.
- However, as suggested, be patient as these historical deviations tend not to last long. SLY is extremely overbought and deviated from its longer-term signals.
- We will wait to see where the next oversold trading opportunity sets up.
- Short-Term Positioning: Bearish
 - Last Week: No position
 - This Week: No position.
 - Stop loss previously violated.
- Long-Term Positioning: Bearish

S&P 400 Index (Mid-Cap)



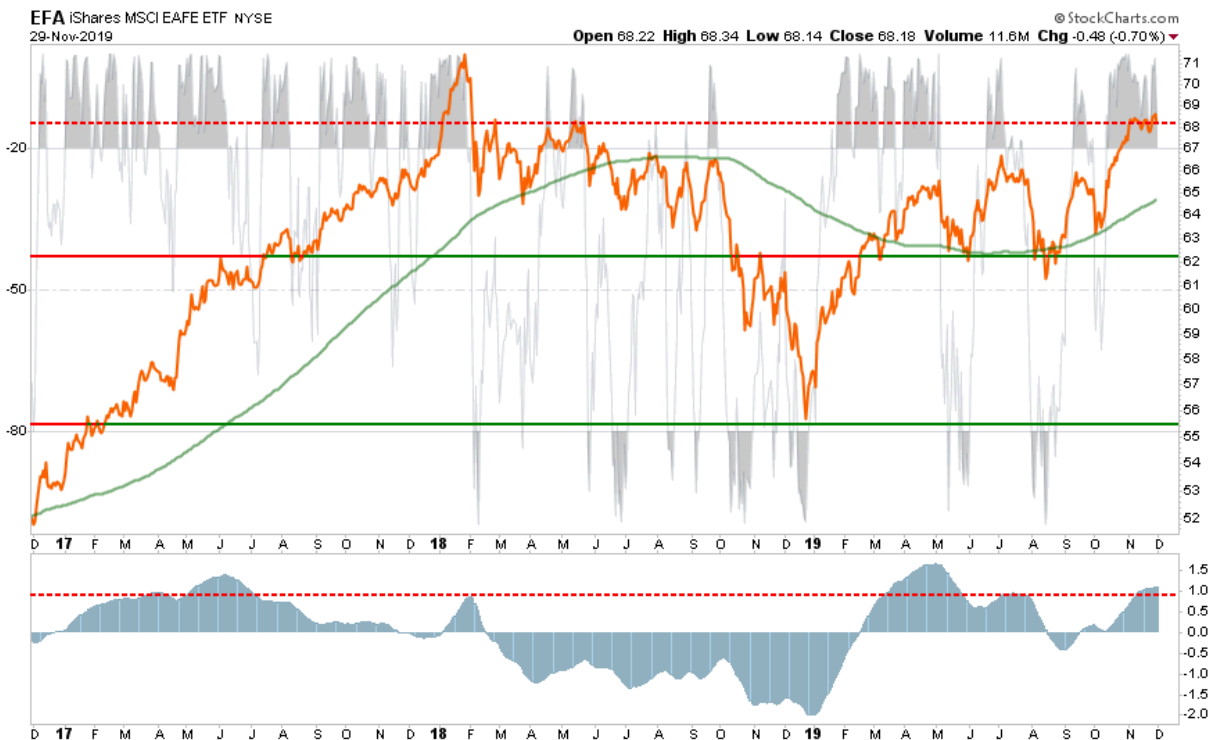
- MDY is holding up better than SLY and has not broken back down into its previous consolidation range.
- MDY has now registered a short-term "buy" signal, but needs a slight correction/consolidation to reduce the extreme overbought and extended condition. The buy signal is very extended as well.
- Look to add exposure to the market on a pullback that doesn't violate support.
- Short-Term Positioning: Neutral
 - Last Week: No holding
 - This Week: No holding
- Long-Term Positioning: Bearish

Emerging Markets



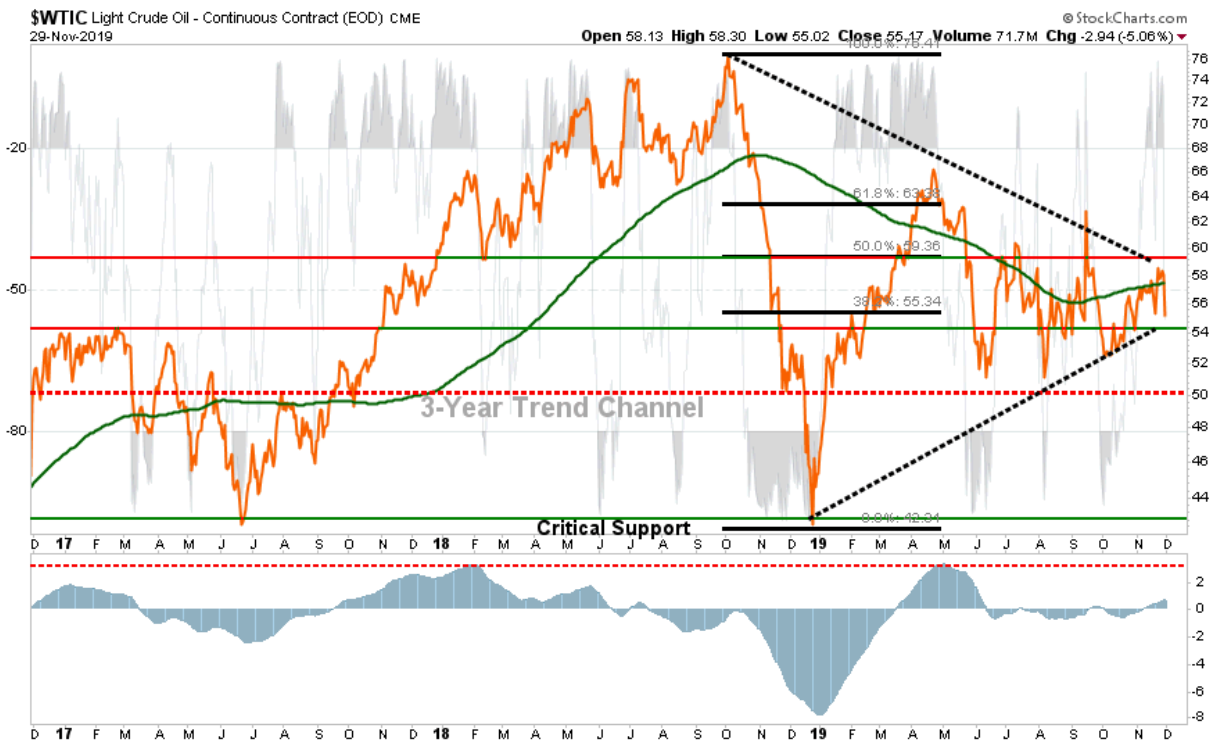
- *EEM continues to underperform and failed to hold its breakout.*
- *With the "buy signal" extremely extended, the set up to add exposure here is not warranted. Watch the US Dollar for clues to EEM's direction.*
- *As we noted last week, PAY ATTENTION to the Dollar (Last chart). If the dollar is beginning a new leg higher, EEM and EFA will fail.*
- *Short-Term Positioning: Bearish*
 - *Last Week: No position*
 - *This Week: No position*
 - *Stop-loss violated at \$41*
- *Long-Term Positioning: Neutral*

International Markets



- Like MDY, EFA rallied out of its consolidation channel and is holding that level but is struggling with previous resistance.
- Like EEM, it and the market are both **EXTREMELY** overbought.
- Be patient for now and wait for a confirmed breakout before adding exposure, and again, watch the U.S. Dollar for important clues.
- Short-Term Positioning: Neutral
 - Last Week: No position
 - This Week: No position.
 - Stop-loss was violated at \$64
- Long-Term Positioning: Neutral

West Texas Intermediate Crude (Oil)



- While commodities tend to perform well under liquidity programs due to their inherent leverage. Oil has continued to languish under the problems of over-supply and weak sector dynamics.
- There is a short-term buy signal for oil, but the price failed at the downtrend and has now broken back down below the 200-dma.
- We are starting to dig around the sector for some trading opportunities, but setups look terrible. We will keep you apprised in our weekly position report.
- Short-Term Positioning: Neutral
 - Last Week: No position
 - This Week: No position
 - Stop-loss for any existing positions is \$54.
- Long-Term Positioning: Bearish

Gold



- Gold got back to oversold and broke support at the 200-dma previously.
- We are sitting on our stop-loss for the position currently, and had previously sold half our position.
- With the "QE4" back in play, the "safety trade" may be off the table for a while. So, if we get stopped out of our holdings, we will look to buy them back at lower levels.
- Short-Term Positioning: Neutral
 - Last week: Hold remaining position.
 - This week: Hold remaining position.
 - Stop-loss for whole position adjusted to \$132.50
 - Long-Term Positioning: Neutral

Bonds (Inverse Of Interest Rates)



- Like GLD, Bond prices also broke support and triggered a sell-signal.
- However, this past week, as "trade deal turbulence" returned, bonds rallied back to the top of its current downtrend channel.
- Watch your exposure and either take profits or shorten your duration in your portfolio for now.
- As noted last week, with the oversold condition in place, the bounce we were looking for arrived. Given bonds are still oversold, an equity correction will like move bond prices higher short-term. Use any bounce to rebalance holdings.
- Short-Term Positioning: Bullish
 - Last Week: Hold positions
 - This Week: Hold positions
 - Stop-loss is moved up to \$132.50
 - Long-Term Positioning: Bullish

U.S. Dollar



- *Despite much of the rhetoric to the contrary, the dollar remains in a strongly rising uptrend. Given a "strong dollar" erodes corporate profits on exports (which makes up 40% of corporate profits overall) a strong dollar combined with tariffs isn't great for corporate bottom lines. Watch earnings carefully during this quarter.*
- *Furthermore, the dollar bounced off support of the 200-dma and the bottom of the uptrend. If the dollar rallies back to the top of its trend, which is likely, this will take the wind out of the emerging market, international, and oil plays.*
- *The "sell" signal is also turning up. If it triggers a "buy" the dollar will likely accelerate pretty quickly.*