RIA Advice

The scorecard report uses a series of technical studies to quantify how various sectors, factors, and indexes score on a technical basis versus the S&P 500 (relative value) or versus a more appropriate benchmark, as well as on an absolute stand alone basis (absolute value).

Relative Value Graphs

- On a relative basis, Utilities were the most overbought sector, beating the S&P 500 by over 5% last week. Its outperformance is likely a function of the fact that most utilities are purely domestic with near-zero reliance on foreign revenue. High dividends and lower valuations also tend to outperform when investors seek to de-risk. Similarly, Real Estate beat the market by 4.5% last week as it too is a domestic industry with the comfort of higher dividends and lower betas.
- Staples are overbought, but their scores continue to slip. We venture it will become harder for many of these companies to pass on higher costs. Many grain prices are at or near record highs and shipping costs will rise quickly in the coming weeks.
- Many of the scores moved a lot last week, and there is now a considerable divergence between many sectors and factor/index scores. We share the logic of Brett Freeze- ?*The market?s reaction to reduced diversity is non-linear. As diversity falls, market fragility rises. But the higher asset price obscures it. At criticality, an incremental increase in diversity leads to a large drop in the asset price. Crowded trades work until they don?t.? ?* In a nutshell, Brett implies as sectors and stocks all move as one markets become riskier. When diversity among stocks and sectors starts occurring again, market prices drop. We are currently seeing a fragmented market. When the market was increasing much of last year, the scores were much more aligned with each other. Today there is a wide variety in both the relative and absolute graphs.
- Not surprisingly, emerging and developed markets are underperforming due to the Russian invasion. These countries are much more affected by the conflict.
- Small-Cap, Value, and Equal Weighted (RSP) continue to be the most overbought factors, pointing to the broad majority of stocks outperforming the generals.
- Junk bonds are now the most oversold sector. We suspect that as long equities stay weak and recession odds increase, this will continue to be the case.

Absolute Value Graphs

- The S&P 500, in the lower right corner, is oversold but not to a concerning degree. Our proprietary model is still on a buy signal, although it may likely flip to sell in the coming week or two.
- Energy remains grossly overbought. This may continue as the price of oil skyrockets. Conversely, developed and emerging markets are grossly oversold, but they too may stay in this condition as long as the Russian invasion continues. Developed markets are now over four standard deviations from their 200-day moving average. Such would typically be a good place to buy it, but we offer caution until the Russian invasion cools off.

- Interestingly, TLT has a slightly positive score. This is due to investors chasing the safety of U.S. Treasuries and favoring duration during periods of equity volatility. The stronger dollar also plays a role as foreign holders of dollars tend to invest them in Treasury bonds.
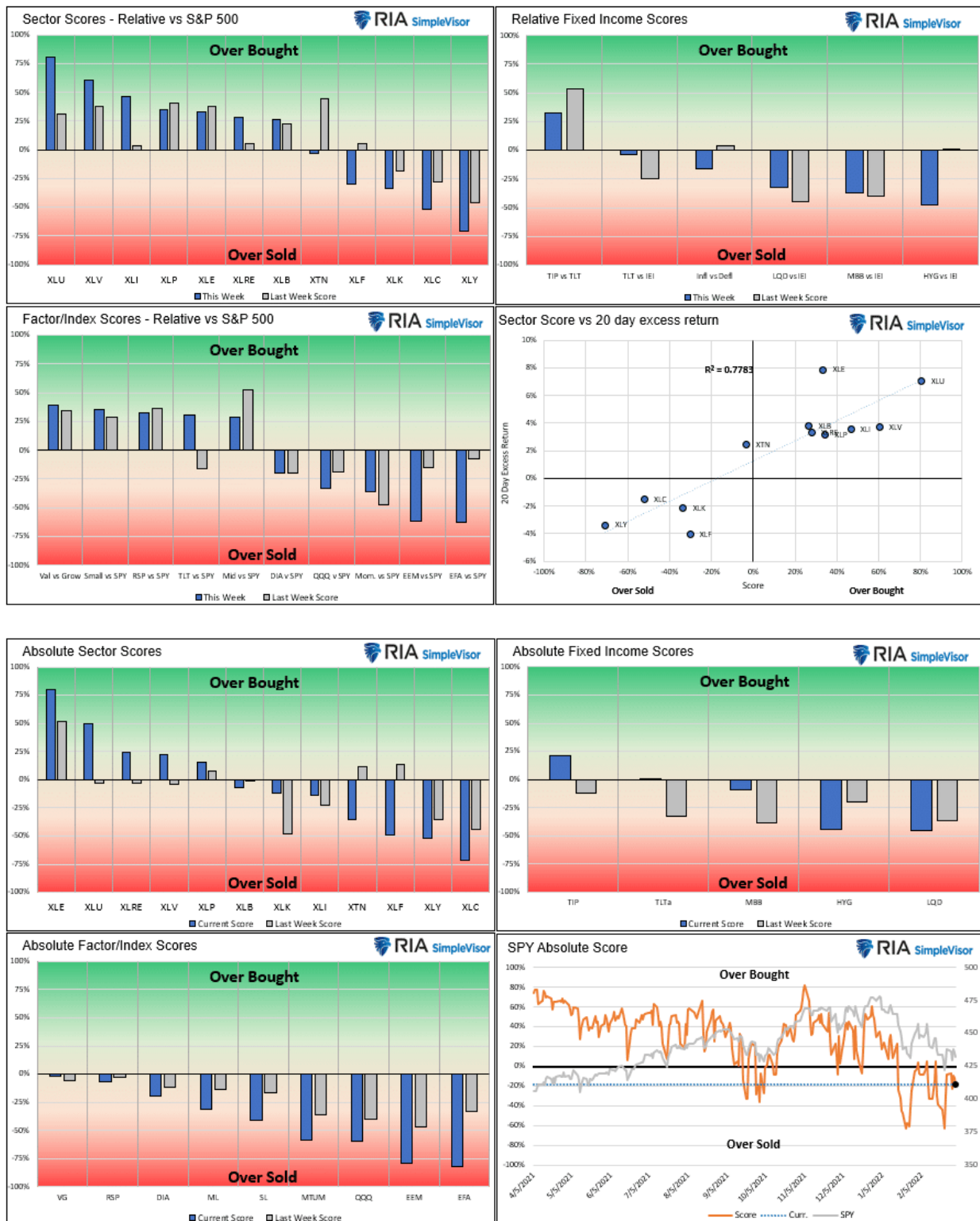
Users Guide

The technical value scorecard report is one of many tools we use to manage our portfolios. This report may send a strong buy or sell signal, but we may not take action if other research and models do not affirm it.

The score is a percentage of the maximum score based on a series of weighted technical indicators for the last 200 trading days. Assets with scores over or under +/-70% are likely to either consolidate or change the trend. When the scatter plot in the sector graphs has an R-squared greater than .60, the signals are more reliable.

The first set of four graphs below are relative value-based, meaning the technical analysis is based on the ratio of the asset to its benchmark. The second set of graphs is computed solely on the price of the asset. At times we present ?Sector spaghetti graphs,? which compare momentum and our score over time to provide further current and historical indications of strength or weakness. The square at the end of each squiggle is the current reading. The top right corner is the most bullish, while the bottom left corner is the most bearish.

The ETFs used in the model are as follows:

- Staples XLP
- Utilities XLU
- Health Care XLV
- Real Estate XLRE
- Materials XLB
- Industrials XLI
- Communications XLC
- Banking XLF
- Transportation XTN
- Energy XLE
- Discretionary XLY
- S&P 500 SPY
- Value IVE
- Growth IVW
- Small Cap SLY
- Mid Cap MDY
- Momentum MTUM
- Equal Weighted S&P 500 RSP
- NASDAQ QQQ
- Dow Jones DIA
- Emerg. Markets EEM
- Foreign Markets EFA
- IG Corp Bonds LQD
- High Yield Bonds HYG
- Long Tsy Bonds TLT
- Med Term Tsy IEI
- Mortgages MBB
- Inflation TIP
- Inflation Index- XLB, XLE, XLF, and Value (IVE)
- Deflation Index- XLP, XLU, XLK, and Growth (IWE)