

## Weekly Market Analysis #314 — 14 August 2020

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#### This Week

The combined market caps of the five biggest technology (and quasi-technology) companies — Apple (AAPL), Microsoft (MSFT), Amazon (AMZN), Google (GOOG and GOOGL), and Facebook (FB) — outweigh the entire financial sector, as well as the entire energy sector. This is an unprecedented imbalance in the market. Imbalances tend to correct over time. Huge imbalances like this tend to correct abruptly.

The S&P 500 got very close to a new all-time high this week; however, only about a quarter of stocks in the index are within 5% of their own all-time highs. The bad news is that almost half of S&P 500 stocks are more than 20% away from their all-time highs.

What's going on here? In large part it is because the five biggest companies — Apple, Microsoft, Amazon, Google, and Facebook — make up practically a quarter of the S&P 500's total market cap. They also make up a third of the Russell 1000 Growth Index and almost half of the NASDAQ index. Their disproportionate size skews all three indexes away from showing us what's really going on in the US market. The market indexes follow where these big stocks go.

If these stocks fall out of favor, all three indexes will drop. Since nervous retail investors probably won't realize that the decline in the indexes is being caused by just a handful of stocks, it will probably trigger a rapid sell-off that could crash the market.

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James Montier recently mentioned:

Howard Marks of Oaktree Capital often talks about there being two kinds of investors. The two groups can be broadly distinguished by their attitudes toward the future. The first camp is best described as "I know" investors. They think that knowledge of the future course of events such as growth and interest rates is vital to investing. They are confident that such knowledge is attainable, and they "know" they can forecast accurately. They are very comfortable investing on the basis of their views. They freely admit that others will be trying to do the same thing, but their insight is better: it is their edge. Such investors are very popular at dinner parties because they will chatter on about pretty much any subject.

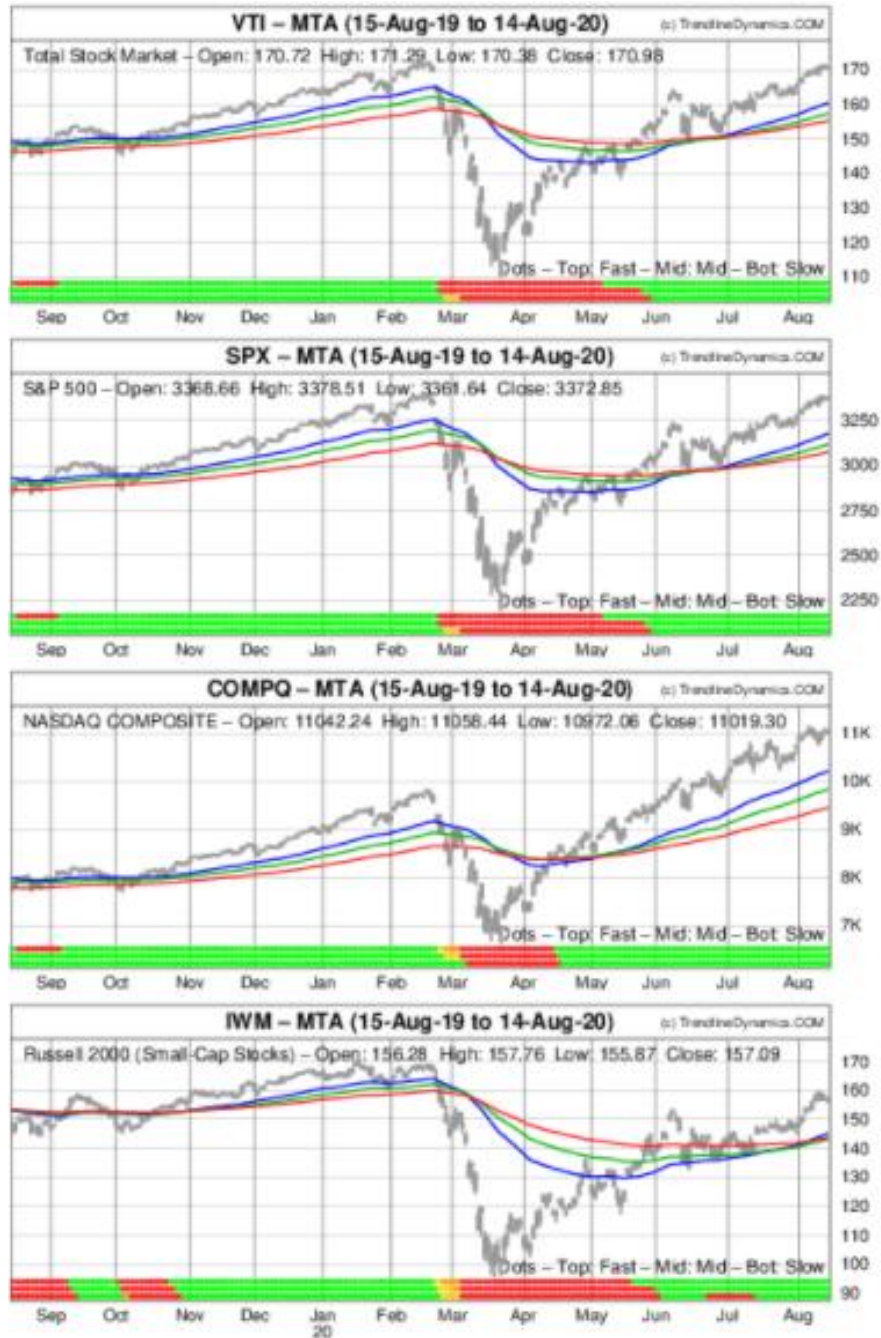
In contrast, the second group of investors studied at the "I don't know" school. They hold some very different beliefs about the way you should approach investing. They believe you can't know the future, and, in fact, you don't need to know the future in order to invest. Driven by this explicit embrace of uncertainty, they insist on a margin of safety when investing: valuation is front and foremost in their approach. This group is not particularly popular at dinner parties (or maybe it's just me) as the frequent refrain of "I don't know" in response to questions is not amazingly stimulating on the conversation front.

## [Long-Term Trends](#)

← Use this link to see all the market barometer charts

Markets do not change course overnight. Speculating about the future is a waste of time, but markets trend and *understanding what is happening now tells us what is most likely to happen next.*

VTI is within 1.4% of its February all-time high. So is SPX. COMPQ is at a new all-time high. And IWM (the Russell 2000 ETF) is lagging but still climbing. All four are still solid green.



## A Closer Look

On Wednesday, the SPX closed within \$6 of the all-time high on Feb 19<sup>th</sup>, but on lower than average volume, meaning there was not much conviction behind the two-week rally. NYAD confirmed price action. The VIX declined to 22, telling us only that this was a quiet week.



| Core Universe Analysis for 14-Aug-2020 |                      |       |       |         |      |       |        |
|--|----------------------|-------|-------|---------|------|-------|--------|
| Symbol                                 | Description          | Instr | MTA 3 | RelStr  | CMF  | NH/NL | MCHist |
| <a href="#">BND</a>                    | Total Bond Market    | ETF   | UP    | 0.8:3.3 | =DN= | 0/6   | -0.2   |
| <a href="#">EEM</a>                    | Emerging Markets     | ETF   | UP    | 3.9:3.3 | UP   | 0/0   | -0.3   |
| <a href="#">EFA</a>                    | Euro/Aust/Asia       | ETF   | UP    | 2.0:3.3 | =up= | 0/0   | 0.2    |
| <a href="#">GLD</a>                    | Gold                 | ETF   | UP    | 5.0:3.3 | =DN= | 0/0   | -1.0   |
| <a href="#">IBB</a>                    | Bio-Tech & Pharma    | ETF   | UP    | 2.8:3.3 | DN   | 0/0   | -1.2   |
| <a href="#">IGV</a>                    | Software             | ETF   | UP    | 5.0:3.3 | =up= | 1/0   | -0.7   |
| <a href="#">ILF</a>                    | Latin America        | ETF   | DN    | 0.5:3.3 | =DN= | 0/4   | -0.8   |
| <a href="#">IWM</a>                    | R2000 Index          | ETF   | UP    | 3.2:3.3 | UP   | 0/0   | 0.5    |
| <a href="#">IYT</a>                    | Transportation       | ETF   | UP    | 4.2:3.3 | =up= | 24/0  | 0.9    |
| <a href="#">MINT</a>                   | CASH SURROGATE       | ETF   | UP    | 0.3:3.3 | =DN= | 2/0   | -0.0   |
| <a href="#">PFF</a>                    | S&P Preferred Stocks | ETF   | UP    | 1.2:3.3 | =up= | 0/0   | 0.0    |
| <a href="#">QQQ</a>                    | NASDAQ 100 Index     | ETF   | UP    | 5.6:3.3 | UP   | 1/0   | -0.1   |
| <a href="#">SPY</a>                    | S&P 500 Index        | ETF   | UP    | 3.1:3.3 | UP   | 0/0   | 0.2    |
| <a href="#">TLT</a>                    | 20+ Year T-Bond      | ETF   | UP    | 1.7:3.3 | =up= | 0/6   | -0.8   |
| <a href="#">USMV</a>                   | US Min Volatility    | ETF   | UP    | 1.4:3.3 | =up= | 0/0   | -0.0   |
| <a href="#">VGK</a>                    | FTSE Europe          | ETF   | UP    | 2.7:3.3 | =up= | 0/0   | 0.0    |
| <a href="#">VNQ</a>                    | US Real Estate Sctr  | ETF   | DN    | 0.2:3.3 | UP   | 0/1   | 0.1    |
| <a href="#">VTI</a>                    | Total Market         | ETF   | UP    | 3.3:3.3 | UP   | 0/0   | 0.1    |

[Sector Charts](#)

Last week's selections were: BND 20% (my stop at \$88.15), EEM 10% (5% stop \$42.55), GLD 20% (5% stop \$184.20), IGV 20% (5% stop open a bit to \$287.85), QQQ 20% (5% stop \$260.91), and MINT 10%.

GLD and IGV both dropped below their 5% stop levels on Aug 11<sup>th</sup> so they are out for now. GLD appears to have found support near \$180. IGV is banging up against resistance at \$300 so we'll revisit it if it breaks through it.

BND is close to its 5% stop of \$85.01. Its money flow is negative, but its RSI is also close to being oversold so there's nothing to do but to wait and see whether the bond bulls or the bears win the current tug-of-war. EEM is advancing toward the \$45 level but hasn't broken it yet. QQQ is running ahead of its MTA so it is safe for now.

IYT has a RelStr of 4.2, but it is coming up against psychological, historical, and trendline resistance at \$200, so it won't be interesting until it breaks through that level.

So this week's allocations are: BND 20% (5% stop at \$85), EEM 10% (5% stop still at \$42.55), GLD out, IGV out, QQQ 20% (5% stop at \$260.91), and MINT 50%.

[Sector Universe](#)

← Use this link to get to the live Sector Universe Table and column descriptions

| <b>Sector Universe Analysis for 14-Aug-2020</b> |                       |       |       |          |      |       |        |
|---|-----------------------|-------|-------|----------|------|-------|--------|
| Symbol  | Description           | Instr | MTA 3 | RelStr   | CMF  | NH/NL | MCHist |
| <a href="#">XAR</a>                             | Space & Defense Sctr  | ETF   | DN    | -0.1:3.1 | UP   | 0/1   | 0.8    |
| <a href="#">XLB</a>                             | Materials Sctr        | ETF   | UP    | 4.3:3.1  | -UP- | 128/0 | -0.1   |
| <a href="#">XLC</a>                             | Communication Sctr    | ETF   | UP    | 3.7:3.1  | ≡up≡ | 1/0   | 0.1    |
| <a href="#">XLE</a>                             | Energy Sctr           | ETF   | DN    | -2.8:3.1 | «UP» | 0/1   | 0.8    |
| <a href="#">XLF</a>                             | Financial Sctr        | ETF   | DN    | 0.2:3.1  | -up- | 0/0   | 0.4    |
| <a href="#">XLI</a>                             | Industrial Sctr       | ETF   | UP    | 2.4:3.1  | «UP» | 0/0   | 0.7    |
| <a href="#">XLK</a>                             | Technology Sctr       | ETF   | UP    | 5.1:3.1  | UP   | 1/0   | 0.1    |
| <a href="#">XLP</a>                             | Consumer Staples Sctr | ETF   | UP    | 2.0:3.1  | UP   | 0/0   | 0.1    |
| <a href="#">XLRE</a>                            | Real Estate Sctr      | ETF   | UP    | 0.5:3.1  | «up» | 0/0   | -0.1   |
| <a href="#">XLU</a>                             | Utilities Sctr        | ETF   | UP    | 0.6:3.1  | «up» | 0/0   | -0.1   |
| <a href="#">XLV</a>                             | Health Care Sctr      | ETF   | UP    | 2.5:3.1  | =UP= | 0/0   | -0.2   |
| <a href="#">XLY</a>                             | Consumer Discret Sctr | ETF   | UP    | 4.8:3.1  | UP   | 0/0   | 0.4    |
| <a href="#">XRT</a>                             | Retail Sctr           | ETF   | UP    | 7.4:3.1  | UP   | 96/0  | 0.5    |
| <a href="#">XTN</a>                             | Transportation Sctr   | ETF   | UP    | 2.5:3.1  | =up= | 0/1   | 0.7    |

[Auxiliary Universe Charts](#)

XRT continues to lead the sectors with a relative strength of 7.4. The other 4 came up in the same order as before: XLK, XLY, XLB, and XLC.

| <b>Auxiliary Universe Analysis for 14-Aug-2020</b> |                          |       |       |           |      |       |        |
|--|--------------------------|-------|-------|-----------|------|-------|--------|
| Symbol   | Description              | Instr | MTA 3 | RelStr    | CMF  | NH/NL | MCHist |
| <a href="#">FIVG</a>                               | 5G Networking Sctr       | ETF   | UP    | 4.7:3.3   | UP   | 0/0   | -0.1   |
| <a href="#">HACK</a>                               | Cyber Security           | ETF   | UP    | 4.7:3.3   | «DN» | 0/3   | -0.6   |
| <a href="#">IHI</a>                                | U.S. Medical Devices     | ETF   | UP    | 4.3:3.3   | =UP= | 1/0   | -0.4   |
| <a href="#">IYT</a>                                | Transportation           | ETF   | UP    | 4.2:3.3   | =up= | 24/0  | 0.9    |
| <a href="#">QTUM</a>                               | Quantum Computing Sctr   | ETF   | UP    | 5.3:3.3   | UP   | 0/0   | -0.1   |
| <a href="#">ROBO</a>                               | Robot/Automation Sctr    | ETF   | UP    | 5.0:3.3   | UP   | 0/0   | 0.1    |
| <a href="#">SLV</a>                                | Silver Trust             | ETF   | UP    | 15.8:3.3  | =up= | 0/0   | -1.1   |
| <a href="#">SNSR</a>                               | Internet of Things       | ETF   | UP    | 5.7:3.3   | UP   | 0/0   | 0.1    |
| <a href="#">SOXX</a>                               | Semiconductor Sctr       | ETF   | UP    | 5.7:3.3   | UP   | 0/0   | -0.0   |
| <a href="#">SRVR</a>                               | Data & Transmission REIT | ETF   | UP    | 2.7:3.3   | DN   | 0/0   | -0.4   |
| <a href="#">USO</a>                                | US Oil                   | ETF   | DN    | -19.6:3.3 | «dn» | 0/0   | 0.2    |
| <a href="#">XBI</a>                                | Bio-Tech Sctr            | ETF   | UP    | 4.7:3.3   | «DN» | 0/0   | -1.0   |
| <a href="#">XHB</a>                                | Homebuilders Sctr        | ETF   | UP    | 7.6:3.3   | UP   | 520/0 | 0.1    |
| <a href="#">XHE</a>                                | Healthcare Equip Sctr    | ETF   | UP    | 4.6:3.3   | up   | 1/0   | -0.7   |
| <a href="#">XME</a>                                | Metals & Mining Sctr     | ETF   | UP    | 4.7:3.3   | UP   | 0/1   | 0.2    |
| <a href="#">XOP</a>                                | Oil+Gas Expl+Prod        | ETF   | DN    | -0.9:3.3  | UP   | 0/1   | 1.1    |
| <a href="#">XPH</a>                                | Pharmaceuticals Sctr     | ETF   | UP    | 1.7:3.3   | =DN= | 0/0   | -0.1   |

[Core Universe Charts](#)

SLV fell back over 13% on Tuesday. As Ted Todd said, "Beware the spike lest it become the shaft."

SOXX's 5% stop for SOXX moved up to \$287.44 and the index ended the week at \$299.38.