

## Weekly Market Analysis #317 — 4 September 2020

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#### This Week

The Map is not the Territory (or in this case, The Index is not the Market)

Options trading expert Don Kaufman has been talking for weeks about the stock market being bifurcated (i.e., divided into two parts). You have probably wondered why the SPX and NASDAQ indexes keep moving up while the IWM (Russell 2000 index) has been dragging along.

The SPX and the NASDAQ Composite are both heavily weighted in big tech stocks like Apple, Amazon, Facebook, Google and so on. Like most indexes, they are capital weighted, which means that the monsters of tech have a huge influence on them.

Steve Blumenthal's [On My Radar](#) shared a study from Kevin Malone of Greenrock Research. Kevin talks about the disparity between the economy and the market. The economy was badly damaged by the pandemic, but the market seems to keep going up anyway.

Kevin and his team divided the SPX into two groups of stocks. One group consisted of Apple, Microsoft, Amazon, Alphabet, Facebook, and Netflix. The other group consisted of the remaining 494 SPX stocks. Here are the results:

**Table 1**

<u>Name</u>	<u>Weight</u>	<u>YTD 8/31/20</u>	<u>Contribution</u>
Apple Inc	7.00	78.28	5.48
Microsoft Corp	5.98	44.25	2.64
Amazon.com Inc	4.91	86.85	4.26
Alphabet Inc (Google)	3.35	21.63	2.14
Facebook Inc	<u>2.43</u>	43.44	<u>1.06</u>
Top 5 Subtotal	23.67		15.58
Netflix Inc (21 <sup>st</sup> largest)	<u>0.79</u>	63.79	<u>0.51</u>
Subtotal	24.46		16.09

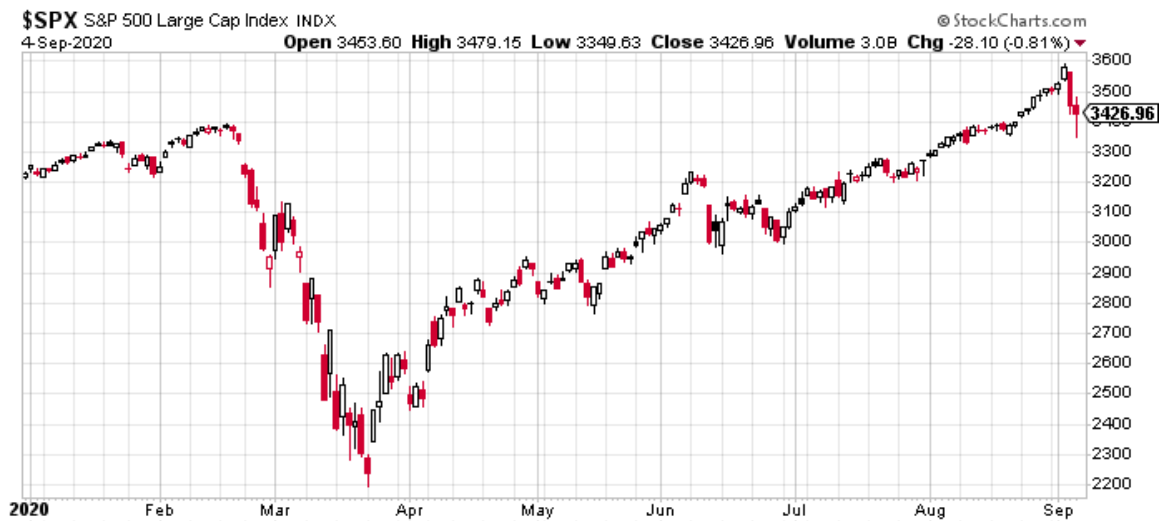
S&P 500		9.74	
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This table shows that the six monsters of tech added 16.09% to the index YTD, even though the other 494 stocks are actually down -6.35%. That means the SPX we see on the charts is up 9.74% YTD, but what the index is showing us is not really an accurate representation of the market.

The same skew that has distorted the SPX has also distorted the NASDAQ Composite. It did not affect the Russell 2000 (IWM) because that index is all small-cap stocks and the monsters of tech aren't included in it.

On the next page we'll show charts of the capitalization-weighted SPX index versus the equal-weighted SPXEW index.

Here is a chart of the capitalization-weighted SPX index — the index you see on market websites and in all the newspapers.



Here is the equally-weighted version of the index, where even the smallest stocks count as much as the biggest ones. Although it has been climbing since March, it is not even close to exceeding the all-time highs of February.



Neither representation is perfect, but the first chart shows what happens when a few stocks overwhelm the averaging process.

What do I mean by 'overwhelm'? In August Apple's market capitalization exceeded two trillion dollars. That made it about 500 times bigger than the market cap of the average SPX company, bigger than the GDP for the country of Italy (the world's eighth-largest economy), and bigger than the entire market cap of the Russell 2000.

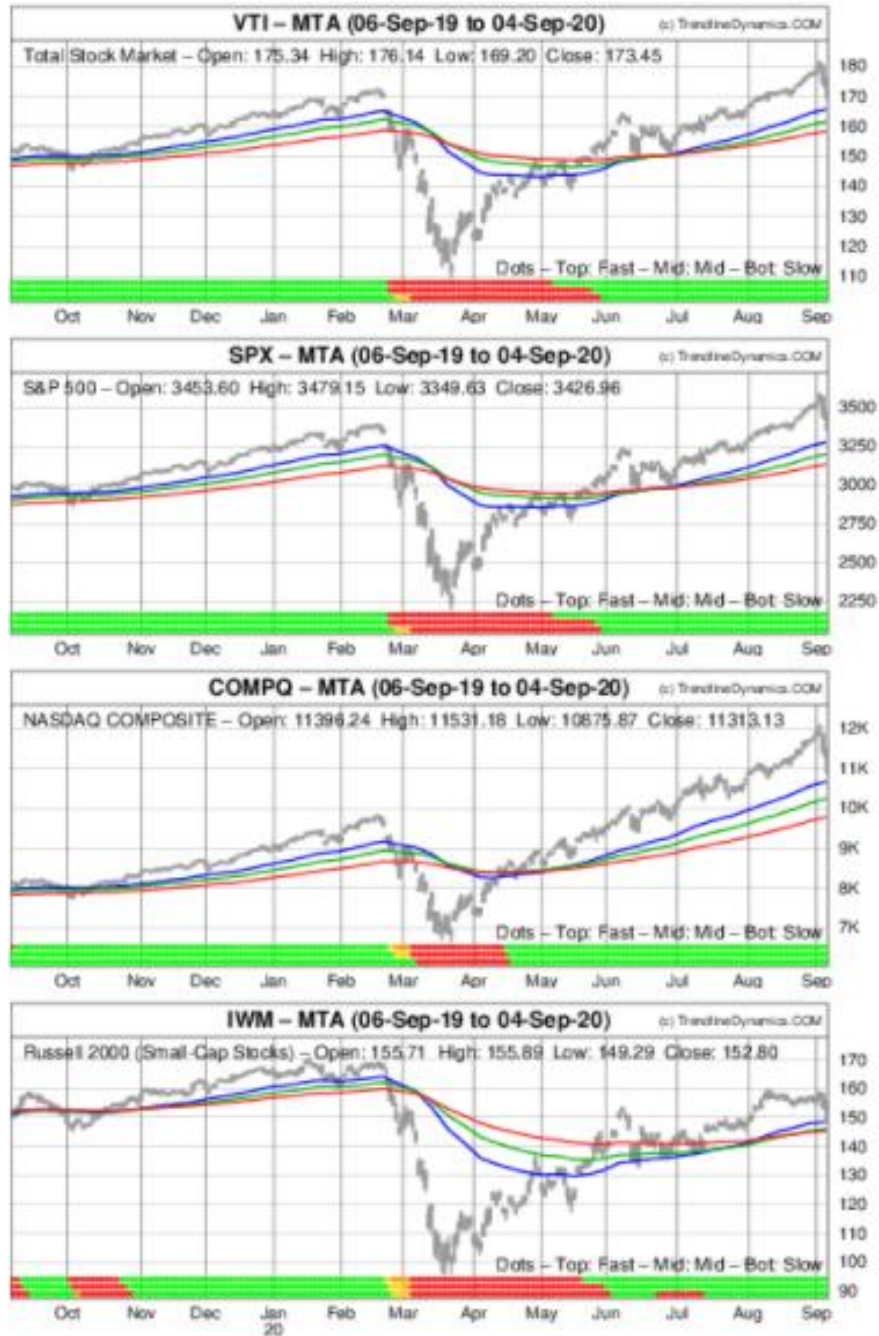
With that kind of disparity, capitalization-weighting breaks down and the index is no longer a credible representation of what is going on in the market.

## [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.*

Although the MTA for all 4 of the indexes remain green, all the indexes declined significantly this week.



## A Closer Look

After the SPX made a new all-time high on Wednesday, it fell 3.6% on Thursday and another percent on Friday. The NYAD has been declining for over 3 weeks. The VIX rose to 34 by Thursday and backed off a little to about 31 on Friday. Declines before a 3-day weekend are often followed by further declines the following week because investors have 3 days to sit and stew about the declines leading into the holiday weekend.



Core Universe Analysis for 04-Sep-2020							
Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
<a href="#">BND</a>	Total Bond Market	ETF	UP	0.4:4.1	«DN»	2/1	-0.0
<a href="#">EEM</a>	Emerging Markets	ETF	UP	3.7:4.1	UP	0/2	-0.4
<a href="#">EFA</a>	Euro/Aust/Asia	ETF	UP	2.2:4.1	«dn»	0/2	-0.3
<a href="#">GLD</a>	Gold	ETF	UP	3.7:4.1	«dn»	0/2	-0.6
<a href="#">IBB</a>	Bio-Tech & Pharma	ETF	UP	1.0:4.1	«UP»	0/12	-0.1
<a href="#">IGV</a>	Software	ETF	UP	5.5:4.1	UP	0/2	0.3
<a href="#">ILF</a>	Latin America	ETF	DN	-0.6:4.1	«UP»	1/0	0.2
<a href="#">IWM</a>	R2000 Index	ETF	UP	3.8:4.1	«UP»	0/5	-0.6
<a href="#">IYT</a>	Transportation	ETF	UP	6.7:4.1	UP	0/1	-0.3
<a href="#">MINT</a>	CASH SURROGATE	ETF	UP	0.2:4.1	-UP-	1/0	-0.0
<a href="#">PFF</a>	S&P Preferred Stocks	ETF	UP	1.5:4.1	-DN-	0/4	-0.3
<a href="#">QQQ</a>	NASDAQ 100 Index	ETF	UP	6.6:4.1	UP	0/2	-0.1
<a href="#">SPY</a>	S&P 500 Index	ETF	UP	4.0:4.1	-up-	0/2	-0.1
<a href="#">TLT</a>	20+ Year T-Bond	ETF	UP	0.3:4.1	«DN»	2/0	-0.0
<a href="#">USMV</a>	US Min Volatility	ETF	UP	1.7:4.1	UP	0/2	-0.0
<a href="#">VGK</a>	FTSE Europe	ETF	UP	2.7:4.1	«UP»	0/4	-0.3
<a href="#">VNQ</a>	US Real Estate Sctr	ETF	DN	0.7:4.1	UP	0/0	0.0
<a href="#">VTI</a>	Total Market	ETF	UP	4.1:4.1	UP	0/2	-0.1

[Sector Charts](#)

Last week's selections were: QQQ 20% (5% stop \$277.90). New IYT 20% (5% stop \$190.71). IGV 20% (5% stop \$308.74). EEM 20% (5% stop \$43.27). VTI 20% (5% stop \$168.80).

IGV and QQQ fell below their 5% stops this week. We got into IGV 2 weeks ago near \$301 and, if we exited before the close on Friday, we would have sold near \$306 for a small profit. Selling at the open on Monday will probably be at breakeven or a small loss. We got an entry signal for QQQ on 8-May-2020 when it closed at \$224.86. Today it closed at \$283.58, below its 5% stop (\$287.62) for a gain near 25%.

EEM continues its 5-week consolidation in the \$44-\$45 area. It is soft but it held up well to the US drop on Thursday and Friday. [GLD](#) continues to fumble around above \$180. Of course, the MTA investors who bought GLD in Dec 2019 are laughing because they're up 50% now. (There's something to be said for the longer-term approach.) IYT edged below the \$200 level but did well this week and is still above its \$192.99 5% stop. USMV is down a bit but worth watching next week. VTI got hit pretty hard but remained above its \$172.18 5% stop.

This week's allocations are: EEM 20%(5% stop \$43.27), IYT 20% (5% stop \$192.99), VTI 20% (5% stop \$172.18), and MINT 40%. I recommend keeping a watchful eye on VTI. If the market continues down on Tuesday, VTI will get stopped out.

[Sector Universe](#)

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

<b>Auxiliary Universe Analysis for 04-Sep-2020</b>							
Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
<a href="#">FIVG</a>	5G Networking Sctr	ETF	UP	4.1:4.1	-up-	0/6	-0.6
<a href="#">HACK</a>	Cyber Security	ETF	UP	4.1:4.1	-DN-	0/6	-0.3
<a href="#">IHI</a>	U.S. Medical Devices	ETF	UP	3.9:4.1	UP	0/2	-0.1
<a href="#">QTUM</a>	Quantum Computing Sctr	ETF	UP	4.9:4.1	-up-	0/5	-0.5
<a href="#">ROBO</a>	Robot/Automation Sctr	ETF	UP	4.8:4.1	-up-	0/2	-0.3
<a href="#">SLV</a>	Silver Trust	ETF	UP	15.1:4.1	up	0/2	-1.9
<a href="#">SNSR</a>	Internet of Things	ETF	UP	5.1:4.1	-DN-	0/5	-0.6
<a href="#">SOXX</a>	Semiconductor Sctr	ETF	UP	5.8:4.1	-up-	0/2	-0.2
<a href="#">SRVR</a>	Data & Transmission REIT	ETF	UP	1.7:4.1	«dn»	0/7	-0.1
<a href="#">USO</a>	US Oil	ETF	DN	-16.1:4.1	«up»	0/8	-0.8
<a href="#">XBI</a>	Bio-Tech Sctr	ETF	UP	2.5:4.1	«UP»	0/11	-0.5
<a href="#">XHB</a>	Homebuilders Sctr	ETF	UP	8.1:4.1	-up-	0/4	-1.3
<a href="#">XHE</a>	Healthcare Equip Sctr	ETF	UP	3.3:4.1	UP	0/7	-0.1
<a href="#">XME</a>	Metals & Mining Sctr	ETF	UP	5.5:4.1	up	0/1	-0.5
<a href="#">XOP</a>	Oil+Gas Expl+Prod	ETF	DN	-0.3:4.1	DN	0/8	-1.3
<a href="#">XPH</a>	Pharmaceuticals Sctr	ETF	UP	1.4:4.1	«UP»	0/5	-0.1

[Core Universe Charts](#)

In the short-term view, XLB, XLP, and XTN are holding up. XLF and XRT are both in a 4 week consolidation pattern. The rest of the sectors are looking weak right now for various reasons.

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<a href="#">HACK</a>	Cyber Security	ETF	UP	4.1:4.1	-DN-	0/6	-0.3
<a href="#">IHI</a>	U.S. Medical Devices	ETF	UP	3.9:4.1	UP	0/2	-0.1
<a href="#">IYT</a>	Transportation	ETF	UP	6.7:4.1	UP	0/1	-0.3
<a href="#">QTUM</a>	Quantum Computing Sctr	ETF	UP	4.9:4.1	-up-	0/5	-0.5
<a href="#">ROBO</a>	Robot/Automation Sctr	ETF	UP	4.8:4.1	-up-	0/2	-0.3
<a href="#">SLV</a>	Silver Trust	ETF	UP	15.1:4.1	up	0/2	-1.9
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<a href="#">SOXX</a>	Semiconductor Sctr	ETF	UP	5.8:4.1	-up-	0/2	-0.2
<a href="#">SRVR</a>	Data & Transmission REIT	ETF	UP	1.7:4.1	«dn»	0/7	-0.1
<a href="#">USO</a>	US Oil	ETF	DN	-16.1:4.1	«up»	0/8	-0.8
<a href="#">XBI</a>	Bio-Tech Sctr	ETF	UP	2.5:4.1	«UP»	0/11	-0.5
<a href="#">XHB</a>	Homebuilders Sctr	ETF	UP	8.1:4.1	-up-	0/4	-1.3
<a href="#">XHE</a>	Healthcare Equip Sctr	ETF	UP	3.3:4.1	UP	0/7	-0.1
<a href="#">XME</a>	Metals & Mining Sctr	ETF	UP	5.5:4.1	up	0/1	-0.5
<a href="#">XOP</a>	Oil+Gas Expl+Prod	ETF	DN	-0.3:4.1	DN	0/8	-1.3
<a href="#">XPH</a>	Pharmaceuticals Sctr	ETF	UP	1.4:4.1	«UP»	0/5	-0.1

[Core Universe Charts](#)

IHI broke down through its 5% stop. SLV closed the week just above the \$25 level. SOXX is still above the \$300 level. And XHB has been in a mild decline for 2 weeks.