

## Weekly Market Analysis #318 — 11 September 2020

### Richard "Doc" Ahrens

#### This Week

Many of our day-to-day choices are based on heuristics — rules of thumb — that help us make quick decisions. The trouble is, some of our heuristics do not lead to the best choices. These fall under the heading of cognitive biases. StockCharts.COM provides a well-written article about the most common [cognitive biases](#). Here is the summary table from that article.

<i>Bias</i>	<i>Description</i>
Anchoring	The tendency to be over-influenced by the earliest information presented to us when making decisions, thus allowing oneself to be driven to a decision or conclusion that is biased towards that initial piece of information (the "anchor")
Loss Aversion	The tendency to strongly prefer decisions that allow us to avoid losses over those that allow us to acquire gains; shows that the human perception of a loss is as much twice as powerful as that of an equal gain
Endowment Effect	The tendency to place greater value on a good that we own than that which we place on an identical good that we do not own
Framing Effect	The tendency to react to, judge, or interpret the exact same information in distinctly different ways depending on how it is presented to us, or "framed"
Confirmation Bias	The tendency to overweight, seek out, or more readily recall information in a way that confirms our preconceived beliefs, while simultaneously undervaluing or ignoring information that disproves our preconceived beliefs
Hindsight Bias	The inclination, after an event has occurred, to see the event as having been predictable, even if there had been little to no objective basis for predicting it
Availability Heuristic	A common mental shortcut that causes individuals to rely on immediate information or examples that come to mind first when evaluating a specific topic, concept, method or decision
Sunk Cost Fallacy	The tendency to irrationally include sunk costs (costs that have already been incurred and are irrecoverable) as a factor in our forward decision making
Gambler's Fallacy	The tendency to believe that, if something happens more frequently than "normal" during a period of time, it must happen less frequently in the future, or vice versa
Hot-Hand Fallacy	The mistaken belief that an individual who has experienced success with a random event has a greater chance of continuing that success in subsequent attempts
Money Illusion	The tendency to think of currency in nominal terms rather than in real terms (i.e. consider only nominal value instead of real purchasing power)

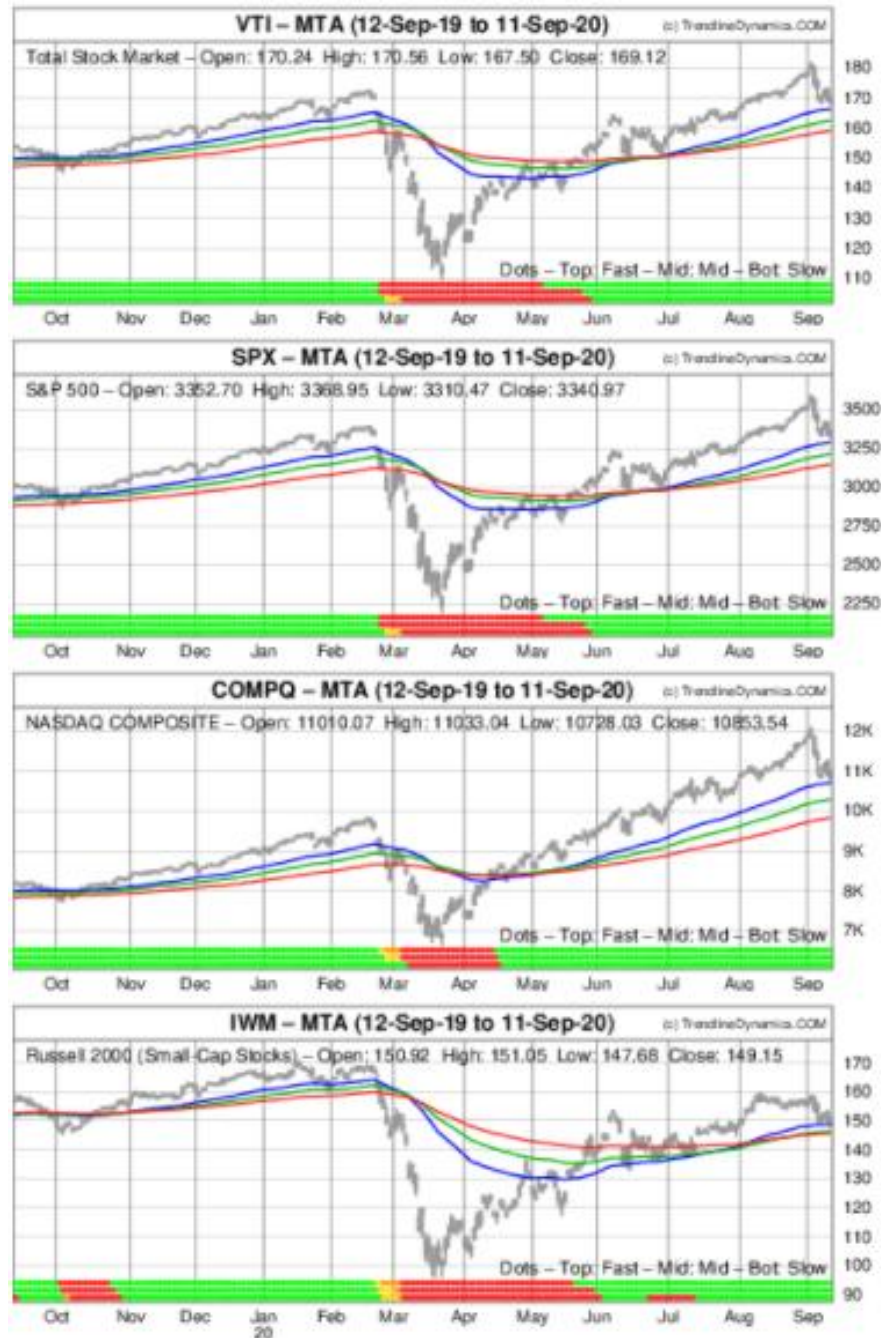
Each of those subjects is discussed in considerable detail in the article.

## [Long-Term Trends](#)

← Use this link to see all the market barometer charts

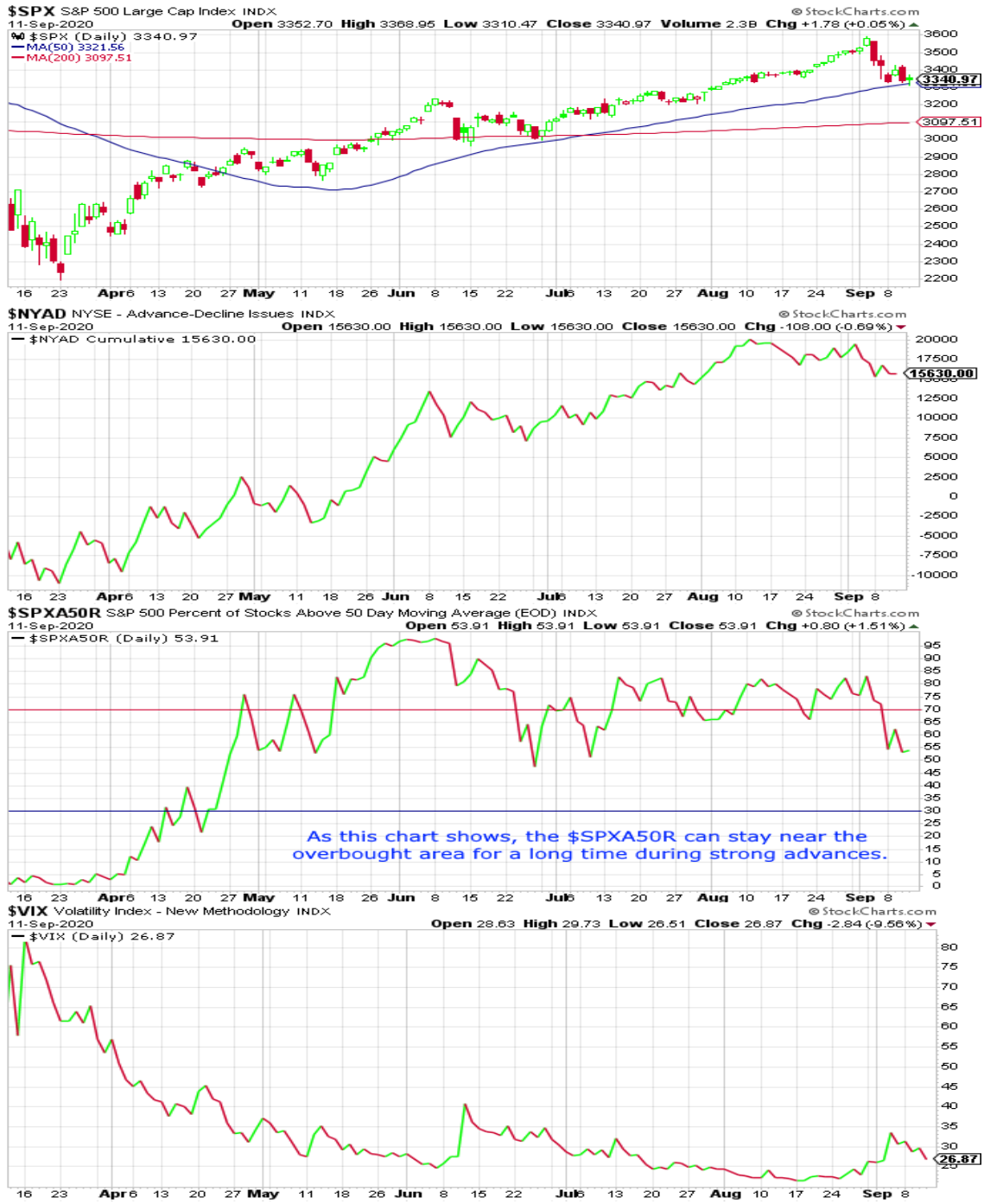
Markets do not change course overnight. Speculating about the future is a waste of time, but markets trend and *understanding what is happening now tells us what is most likely to happen next.*

The MTA for all 4 of the major indexes continues to be green. The recent decline has not lowered price far enough to close below the 3 averages for any of the indexes, although IWM was briefly below the blue line on Friday.



## A Closer Look

The SPX found support at its 50-day average several times this week. Price and the VIX moving together is very unusual. We're adding a 4<sup>th</sup> indicator starting this week. I've been watching the \$SPXA50R for some time. It is the percentage of stocks above their 50-day average. When it's above 70, it's a sign the market is overheated. Below 30 means the market is oversold. It provides a measurable perspective on market internals.



[Core Universe](#)

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

Core Universe Analysis for 11-Sep-2020							
Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
<a href="#">BND</a>	Total Bond Market	ETF	UP	0.3:3.8	-dn-	1/0	-0.0
<a href="#">EEM</a>	Emerging Markets	ETF	UP	3.4:3.8	-up-	0/6	-0.6
<a href="#">EFA</a>	Euro/Aust/Asia	ETF	UP	2.0:3.8	-DN-	0/0	-0.3
<a href="#">GLD</a>	Gold	ETF	UP	3.4:3.8	«up»	0/0	-0.3
<a href="#">IBB</a>	Bio-Tech & Pharma	ETF	UP	0.6:3.8	-DN-	0/0	-0.7
<a href="#">IGV</a>	Software	ETF	UP	5.4:3.8	≡up≡	0/0	-0.9
<a href="#">IWM</a>	R2000 Index	ETF	UP	3.1:3.8	-DN-	0/6	-1.1
<a href="#">IYT</a>	Transportation	ETF	UP	6.5:3.8	-up-	1/0	-0.5
<a href="#">MINT</a>	CASH SURROGATE	ETF	UP	0.2:3.8	=UP=	520/0	-0.0
<a href="#">PFF</a>	S&P Preferred Stocks	ETF	UP	1.4:3.8	DN	1/0	-0.4
<a href="#">QQQ</a>	NASDAQ 100 Index	ETF	UP	6.2:3.8	-DN-	0/0	-1.3
<a href="#">SPY</a>	S&P 500 Index	ETF	UP	3.7:3.8	-DN-	0/0	-1.0
<a href="#">TLT</a>	20+ Year T-Bond	ETF	UP	0.2:3.8	DN	1/0	0.1
<a href="#">USMV</a>	US Min Volatility	ETF	UP	1.5:3.8	«UP»	0/0	-0.4
<a href="#">VGK</a>	FTSE Europe	ETF	UP	2.5:3.8	-DN-	0/0	-0.3
<a href="#">VNQ</a>	US Real Estate Sctr	ETF	DN	0.6:3.8	=up=	0/3	-0.2
<a href="#">VTI</a>	Total Market	ETF	UP	3.8:3.8	≡up≡	0/0	-1.0

[Sector Charts](#)

Last week's selections were: 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.

As I guessed, the market opened lower and VTI got stopped out on Tuesday. Looking through the core universe, the only two securities that are even vaguely interesting are EEM and IYT. And right now EEM is within 1.5% of being stopped out. GLD is not going down, but it's not going up, either. If the market continues to decline, I would expect GLD to advance, but for now it's still stuck in the \$180-\$185 range.

So the coming week's choices are: EEM 20% (5% stop \$43.27), IYT 20% (5% stop \$192.99), and MINT 60%.

Recently we've been making changes fairly rapidly. It happens when the market gets choppy. If you're implementing these changes in a normal brokerage account, it creates a lot of potentially taxable events and bookkeeping work. This system was intended to be used in a 401K or IRA account. In a 401K or IRA account you don't have to worry about bookkeeping because there are no taxable events when you buy and sell securities. (And if you get a good IRA account, there are now very low commissions.)

[Sector Universe](#)

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

<b>Sector Universe Analysis for 11-Sep-2020</b>							
Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
<a href="#">XAR</a>	Space & Defense Sctr	ETF	DN	0.3:3.7	-DN-	0/6	-0.8
<a href="#">XLB</a>	Materials Sctr	ETF	UP	4.4:3.7	-up-	1/0	-0.0
<a href="#">XLC</a>	Communication Sctr	ETF	UP	4.7:3.7	-DN-	0/4	-1.1
<a href="#">XLE</a>	Energy Sctr	ETF	DN	-3.6:3.7	DN	0/20	-1.5
<a href="#">XLF</a>	Financial Sctr	ETF	UP	0.9:3.7	DN	0/3	-0.3
<a href="#">XLI</a>	Industrial Sctr	ETF	UP	3.7:3.7	≡DN≡	0/0	-0.5
<a href="#">XLK</a>	Technology Sctr	ETF	UP	6.0:3.7	-DN-	0/0	-1.4
<a href="#">XLP</a>	Consumer Staples Sctr	ETF	UP	2.6:3.7	-DN-	0/0	-0.4
<a href="#">XLRE</a>	Real Estate Sctr	ETF	UP	0.7:3.7	-DN-	0/3	-0.2
<a href="#">XLU</a>	Utilities Sctr	ETF	UP	-0.2:3.7	DN	0/1	-0.1
<a href="#">XLV</a>	Health Care Sctr	ETF	UP	1.9:3.7	-DN-	0/0	-0.4
<a href="#">XLY</a>	Consumer Discret Sctr	ETF	UP	5.9:3.7	-DN-	0/0	-1.1
<a href="#">XRT</a>	Retail Sctr	ETF	UP	7.8:3.7	-DN-	0/5	-1.7
<a href="#">XTN</a>	Transportation Sctr	ETF	UP	4.4:3.7	UP	0/0	-0.3

[Auxiliary Universe Charts](#)

While reviewing the Sector Universe, I noticed that 2 of the sector funds are below the 500K shares per day I consider necessary for good liquidity. XAR has an average volume of 96K shares per day and XTN has only 20K shares per day.

I could remove those two from the universe. Losing XTN is not a big deal because we have IYT covering transportation in the core universe. I'll go search for a qualified ETF to use in place of the thinly-traded XAR.

<b>Auxiliary Universe Analysis for 11-Sep-2020</b>							
Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
<a href="#">FIVG</a>	5G Networking Sctr	ETF	UP	3.4:3.8	-DN-	0/0	-1.3
<a href="#">HACK</a>	Cyber Security	ETF	UP	3.4:3.8	-DN-	0/8	-1.7
<a href="#">IHI</a>	U.S. Medical Devices	ETF	UP	3.6:3.8	-up-	0/0	-0.5
<a href="#">QTUM</a>	Quantum Computing Sctr	ETF	UP	4.2:3.8	up	0/0	-1.3
<a href="#">ROBO</a>	Robot/Automation Sctr	ETF	UP	4.4:3.8	-DN-	0/0	-0.9
<a href="#">SLV</a>	Silver Trust	ETF	UP	13.8:3.8	up	0/0	-1.9
<a href="#">SNSR</a>	Internet of Things	ETF	UP	4.5:3.8	DN	0/0	-1.1
<a href="#">SOXX</a>	Semiconductor Sctr	ETF	UP	5.1:3.8	-DN-	0/0	-1.3
<a href="#">SRVR</a>	Data & Transmission REIT	ETF	UP	1.3:3.8	≡DN≡	0/11	-0.9
<a href="#">USO</a>	US Oil	ETF	DN	-16.3:3.8	-up-	0/0	-0.8
<a href="#">XBI</a>	Bio-Tech Sctr	ETF	UP	1.9:3.8	-DN-	0/0	-0.9
<a href="#">XHB</a>	Homebuilders Sctr	ETF	UP	7.5:3.8	-DN-	1/0	-1.5
<a href="#">XHE</a>	Healthcare Equip Sctr	ETF	UP	3.0:3.8	«up»	0/0	-0.3
<a href="#">XME</a>	Metals & Mining Sctr	ETF	UP	4.9:3.8	«DN»	0/5	-0.9
<a href="#">XOP</a>	Oil+Gas Expl+Prod	ETF	DN	-1.9:3.8	DN	0/20	-2.3
<a href="#">XPH</a>	Pharmaceuticals Sctr	ETF	UP	1.1:3.8	≡DN≡	0/0	-0.1

[Core Universe Charts](#)

SLV has been in a horizontal channel between ~\$24 and ~\$26 for the last few weeks.

9 of the ETFs in this auxiliary universe are thinly traded. Here are their average volumes: FIVG (133.7K), HACK (234.8K), IHI (115.8K), QTUM (3.8K), ROBO (151.6K), SNSR (31.2K), SRVR (38.9K), XHE (22.6K), and XPH (80.9K).

SOXX is right on the liquidity border with an average volume of 505K shares per day.

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