

Weekly Market Analysis #468 — 28 July 2023

Richard "Doc" Ahrens

© All Rights Reserved

This Week

A reader asked why I am holding a 50% position in BIL when all 5 major indexes are green? This seemingly simple question has many facets. First, my investing posture has always been conservative. It's hard to make up for losses, so I prefer to be cautious, making small, steady profits, and I work to avoid losses. (See appendix, "[The Asymmetry of Gains and Losses](#)")

Second, the 5 indexes that make up the "[Market Barometers](#)" page are intended to gauge the long-term trend of the market. The MTA uses 3 moving averages, and in order for the MTA to switch states, all 3 averages must turn up (or down). The slowest average has a period of 252 days (one year of market days) and the averages have a phase lag of about 50% of their respective periods. So the slowest average may take 6 months from an actual market turn until the slowest average signals the turn.

If the market is oscillating in a 3-month rising wave pattern, then it's entirely possible for the market to turn up and then turn back down again while the MTA remains bearish the entire time. That's what I designed the market barometers to do.

Imagine you are in an airplane, looking down at the stock market. The market barometers were designed to give us a measure of the market as it might appear from (conceptually) about 5 miles up the air (about 25,000 feet). There's not much detail, but you get a nice view of the big picture. That's why the MTA chart shows 2 years of price data.

Now, even when all the market barometer indexes are up, there can still be times when there are no individual ETFs in our universes that are currently worth buying. I always start from the view at 5 miles up in the air.

The price slope chart actually reacts faster to price changes than the MTA. That's because the phase lag of the slope calculation averages about 19 days, which is one sixth of the lag of the MTA. The 6 basic charts take us down to the view from about 1000 feet, showing charts with daily bars and indicators with phase lag somewhere between 1 to 5 days. Phase lag is the average lag between the turns in the data and the turns in an indicator.

As far as I know, there is no single indicator that gives consistently reliable entry and exit signals. To solve this problem, people build systems of two or more indicators, so the movements of several indicators can be compared to produce better trading results.

One simple approach that is usually reliable is to combine a long-term indicator with a short-term indicator. The long-term indicator reports on the dominant (long-term) trend, and the short term indicator provides a series of buy and sell signals. The purpose of the long-term indicator is to tell you whether or not you should act on the entry signals coming from the short term tool. The idea is that you will get better results acting on the buy signals when the longer-term trend is up.

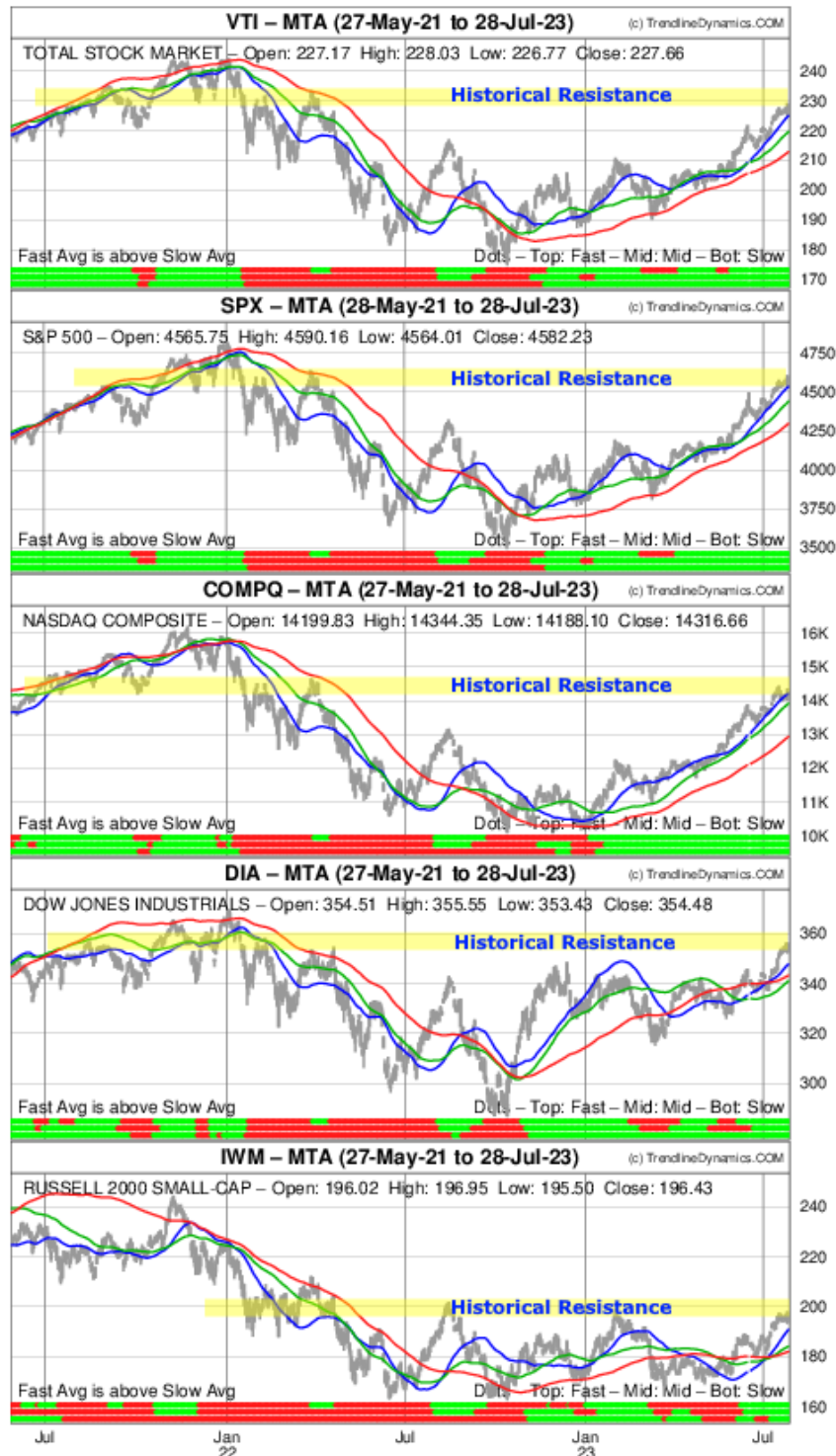
For example, one could build a system in which the long-term indicator was the MTA, and the short-term indicator could be the MACD. Or the long-term indicator could be the a 13-week/34-week average crossover, and the short-term indicator could be the ATS.

The current system I use has three elements. The first condition is that the MTA has to be green. The candidates with a green MTA are then sorted by slope to determine which ones are the strongest. Finally, detailed technical analysis is done on the ETFs with the best slopes. If I spot problems during the technical analysis (e.g., price approaching resistance, poor money flow, negative MACD+, RSI under 50, and so on), then I look for better places to put my money, including BIL.

Market Barometers

← Use this link to see all the market barometer charts

All five indexes are up. However, all five indexes are facing historical resistance (price ranges where there was significant trading in the past). These are areas of resistance because they are areas where there will probably be significant trading in the future.



A Closer Look

After negative days on Wednesday and Thursday, the SPX ended the week with a 66-week new high. NYA broke out into 1-year new high territory (the blue line) on July 12th, and this week it confirmed price action. The percentage of stocks above their 50-day and 200-day averages retreated a little, but are still very positive, above the 70 level.



Chart links: [SPX Price](#), [Advances Minus Declines](#), [Stocks Above 50&200 Averages](#), [NewHigh-NewLows](#)

[Bullish Universe](#)

← Use this link to get to the live summary table

[Bearish Universe](#)

← Use this link to get to the live summary table

[Inflation Universe](#)

← Use this link to get to the live summary table

[Auxiliary Universe](#)

← Use this link to get to the live summary table

[Special Security Universe](#)

← Use this link to get to the live summary table

[Sector Universe](#)

← Use this link to get to the live summary table

SPX Sector Universe Analysis for 28-Jul-2023							
Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
XLY	CONSUMER DISCR (SPX 11)	ETF	UP	6.6:3.7	DN	1/3	-0.8
XHB	HOMEBUILDERS	ETF	UP	6.6:3.6	up	79/1	-0.4
XTN	TRANSPORTATION	ETF	UP	6.3:3.7	«UP»	67/2	-0.7
XLK	TECHNOLOGY (SPX 11)	ETF	UP	5.9:3.6	DN	1/2	-0.3
VOX	COMMUNICATION SRVCS	ETF	UP	4.1:3.6	DN	64/3	-0.0
SPX	S&P 500	INDEX	UP	3.5:3.6	DN	66/1	-0.0
XLI	INDUSTRIALS (SPX 11)	ETF	UP	3.1:3.7	-up-	999/2	-0.3
XLF	FINANCIALS (SPX 11)	ETF	UP	1.9:3.6	≡up≡	20/1	0.1
XRT	RETAIL	ETF	UP	1.8:3.7	up	1/1	-0.1
XLB	MATERIALS (SPX 11)	ETF	UP	1.5:3.6	-up-	57/1	0.2
XLRE	REAL ESTATE (SPX 11)	ETF	UP	1.2:3.7	«DN»	22/3	-0.5
XLV	HEALTH CARE (SPX 11)	ETF	UP	0.6:3.7	-DN-	1/1	0.3
ITA	U.S. AEROSPACE & DEFENSE	ETF	UP	0.4:3.6	≡UP≡	1/5	-0.1
XLE	ENERGY (SPX 11)	ETF	DN	0.1:3.6	«UP»	13/1	0.4
XTL	TELECOM (SPX 11)	ETF	DN	0.0:3.7	UP	1/5	-0.7
XLP	CONSUMER STAPLES (SPX 11)	ETF	DN	-0.2:3.7	-up-	10/1	0.3
XLU	UTILITIES (SPX 11)	ETF	DN	-0.4:3.7	=up=	1/1	0.2

XLY and XLK swapped places.

1. XLY
2. XHB
3. XTN
4. XLK
5. VOX

Sector Relative-Strength History

13 weeks of slope history for the 16 sector ETFs and the SPX.

Sector Relative Strength History													05-May-2023 to 28-Jul-2023			
May 05	May 12	May 19	May 26	Jun 02	Jun 09	Jun 16	Jun 23	Jun 30	Jul 07	Jul 14	Jul 21	Jul 28				
XLK	XLK	XLK	XLK	XLK	XLK	XLK	XLK	XLK	XLK	XLK	XLK	XLY	XLY			
VOX	VOX	VOX	VOX	VOX	VOX	VOX	XLY	XLY	XLY	XLY	XLY	XLK	XHB			
XLY	XLY	XLY	XLY	XLY	XLY	XLY	VOX	VOX	XHB	XHB	XHB	XHB	XTN			
XHB	XHB	XHB	XHB	XHB	XHB	XHB	XHB	XHB	VOX	XTN	XTN	XTN	XLK			
SPX	SPX	XLP	XLP	SPX	SPX	SPX	SPX	SPX	SPX	VOX	VOX	VOX	VOX			
XLP	XLP	SPX	SPX	XLP	XLP	XLP	XTN	XTN	XTN	SPX	SPX	SPX	SPX			
XLU	XLU	XLU	XLU	XLV	XLV	XTN	XLI	XLI	XLI	XLI	XLI	XLI	XLI			
ITA	XLV	XLV	XLV	XTN	XTN	XLV	XLP	XLV	XLV	XLB	XLB	XLB	XLB			
XLV	ITA	ITA	XTN	XTN	XTN	XLI	XLV	XLP	XLP	XLV	XLV	XLV	XRT			
XLI	XLI	XLI	XLI	XLI	XLI	XTN	XTN	ITA	ITA	ITA	ITA	XRT	XLB			
XLB	XLB	XLRE	ITA	ITA	ITA	ITA	ITA	XTN	XLB	XLB	XLB	XLRE	XLRE			
XLRE	XLRE	XTN	XLRE	XLRE	XLRE	XLRE	XLRE	XLRE	XLRE	XLRE	XLRE	ITA	XLV			
XTN	XTN	XLB	XLB	XLB	XLB	XLB	XLB	XLRE	XLF	XLP	XLV	ITA	ITA			
XLE	XLE	XLE	XRT	XLV	XLV	XLV	XLV	XLV	XTN	XRT	XTL	XLE	XLE			
XRT	XRT	XRT	XLV	XRT	XLE	XLE	XLE	XRT	XRT	XTN	XLP	XTL	XTL			
XTL	XLV	XLV	XLE	XLE	XRT	XRT	XRT	XLE	XTL	XTL	XTN	XTL	XLP			
XLV	XTL	XTL	XTL	XTL	XTL	XTL	XTL	XTL	XLE	XLE	XLE	XLE	XTN			

Legend and Most Recent Slopes

ITA 0.4 U.S. AEROSPACE & DEFENSE	XLI 3.1 INDUSTRIALS	XLY 6.6 CONSUMER DISCR
XHB 6.6 HOMEBUILDERS	XLK 5.9 TECHNOLOGY	XRT 1.8 RETAIL
XLB 1.5 MATERIALS	XLP -0.2 CONSUMER STAPLES	XTL 0.0 TELECOM
VOX 4.1 COMMUNICATION SRVCS	XLRE 1.2 REAL ESTATE	XTN 6.3 TRANSPORTATION
XLE 0.1 ENERGY	XTN -0.4 UTILITIES	SPX 3.5 S&P 500
XLV 1.9 FINANCIALS	XLV 0.6 HEALTH CARE	-----

XLY is still leading. XHB has climbed into 2nd place with XTN following it up. XLK has dropped from first to fourth in two weeks. And VOX has been declining for 6 weeks, while SPX seems pretty steady between 5th and 6th.

This Week's Selections

My choices for last week were: IGV 10%, QQQ 10%, VUG 10%, XLK 10%, XLY 10%, and BIL 50%.

Top ETFs By Slope

Current Holdings				Other High-Slope ETFs			
Sym	Slope	Stop	Last	Sym	Slope	Long	Last
XLY	6.6 ↑↑	\$168.75	\$172.76 ↑	ARKW	8.4	no	\$65.51 ↑
IGV	6.5 ↑↑	\$354.75	\$359.46—	ARKK	7.9	no	\$49.44 ↑
QQQ	6.3 —	\$368.35	\$383.48↑↑	ARKG	7.8	no	\$37.29 —
XLK	5.9 ↓↓	\$174.35	\$177.94↑↑	ARKQ	7.1	no	\$57.57 —
VUG	5.5 —	\$281.75	\$291.86↑↑	SMH	7.0	no	\$160.50 ↑
				ITB	6.7	no	\$88.96 ↑
				XHB	6.6	no	\$84.45 ↑
				XTN	6.3	no	\$87.79 ↑↑

Legend: Up: ↑, Down: ↓, Flat/Stable: —

Analysis

[XLY](#) and [IGV](#) basic charts look bad. [QQQ](#) and [XLK](#) basic charts look weak. [VUG](#) basic charts are either bad or weak.

[ARKW](#) – if MACD+ to turns up and price remains above \$65, buy it. [ARKK](#) wait for price above \$50. [ARKG](#) wait for MACD+. [ARKQ](#) wait for price above \$60 and MACD+.

[SMH](#) – **WATCH** – Buy if price remains above \$160 and basic charts confirm. [ITB](#) wait for price above \$90 and MACD+. [XHB](#) wait for price above \$85 and MACD+. [XTN](#) – **WATCH** – made new high, positive money flow, wait for MACD+ to turn up.

Thoughts and Decisions

It looks like XTN is about to make a move. SMH closed above \$160 and I think it's going to go for it.

My choices for this week are still: IGV 10%, QQQ 10%, VUG 10%, XLK 10%, XLY 10%, and BIL 50%; however, I think this will change in the coming week. Watch the market action and be ready to move.

Appendix

Asymmetry of Gains and Losses

Steve Blumenthal calls this ""The Merciless Math of Loss" because "compounding works differently on the way up than it does on the way down".

Consider losing 10% on a position, then making 10% on a later position. If you start with \$100 and you lose 10%, then that leaves you with \$90. Now if you make 10% on your \$90, you have \$99. If you are persistent enough to do that over and over again, eventually you wind up with nothing.

In order recover from a 10% loss, you must make a gain of slightly over 11%. As such:

If you lose this much	You must make this much to recover
10%	11.11%
20%	25.00%
30%	42.86
40%	66.67%
50%	100.00%

©2023 Trendline Dynamics ("TLD") is not a registered investment advisor. The purpose of this educational newsletter is to impart technical analysis and trading skills by showing how they are used in real time and on real securities. The contents of this newsletter are only my opinions and descriptions of how I trade. No mention of a particular security, index, derivative, or other instrument in the newsletter constitutes a recommendation to buy, sell, or hold that or any other security, nor does it constitute an opinion on the suitability of any security, index, or derivative for anyone other than myself. TLD hereby expressly disclaims any and all representations and warranties that: (a) the content of its newsletters is correct, accurate, complete, or reliable; (b) any of its newsletters will be available at any particular time or place, or in any particular medium; and (c) that any omission or error in any of its newsletters will be corrected. TLD's newsletter is published and distributed in accordance with applicable United States and foreign copyright and other laws. Without the prior written consent of TLD, no person or entity, directly or indirectly, may copy, reproduce, recompile, decompile, disassemble, reverse engineer, distribute, publish, display, perform, modify, upload to create derivative works from, transmit, or in any way exploit all or any part of TLD's website, its newsletter, or any other material belonging to TLD. At any given time TLD's principals may or may not have a financial interest in any or all of the securities, funds, bonds, and/or commodities mentioned.