

# Weekly Market Analysis #532 — 18 October 2024

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### This Week

#### Risk ≠ Probability

Howard Marks supposedly said, "Risk is the probability of loss." Maybe he was misquoted or maybe he unintentionally oversimplified it while trying to explain a larger concept. Nonetheless, risk has two important elements. Probability is only one of them.

The two distinct parts of *risk* are: a) the probability of an unfavorable outcome; and b) the consequences of the unfavorable outcome. The simplest way of expressing this is:

$$\text{Risk} = (\text{chance of negative event}) \times (\text{cost of negative event})$$

The probability of a child dropping an ice cream cone is relatively high but the cost is low. The chance of a serious auto collision is quite low, but even if no one is injured, the cost of the repairs can be huge.

#### Investing Risk is Controllable

When you place a bet in poker and you lose, you lose the entire wager. In the stock market, when you buy a stock, you can control how much you lose if the price of the stock declines. In order to control risk, you have to have a plan and you must have the intestinal fortitude to stick to the plan when things go wrong.

Having the determination to follow your plan is what separates the serious investors from the amateurs. But when you make the commitment to yourself and your plan, even when it is uncomfortable, then you gain the power to control your risk.

"Risk is what you're willing to lose if you're wrong." — Dr. Van Tharp

Before you even buy a security, you should decide on how much you are willing to lose if the price moves the wrong way. For example, if you buy a stock at \$50 and you don't want to lose more than 10% if it declines, then you could decide to sell it if it goes below \$45. Once your decision is made, you have two choices: a) you can check on the price from time to time, and sell if it goes down too far, or b) you could place a stop-loss order with your broker to sell as soon as price touches \$45.

#### Stop-Loss Order

A stop-loss order is a risk-management tool that automatically sells a security when it reaches a certain price, known as the stop price. The purpose of a stop-loss order is to limit potential losses by selling a security if its price falls below the stop price. If the price of the security drops to \$45 or below, the sell-stop order turns into an at-the-market sell order, which generally gets filled immediately.

#### Good News, Bad News

The upside is that a stop-loss order:

- saves you from having to periodically monitor your position. If something interrupts your routine and you forget to do your regular check, it could be costly if price moves against you.
- is very efficient. If price touches \$45, even for a millisecond, then the stop loss order turns into a market sell order and you are out of the position.

The downside is:

- bad news or a burst of volatility can cause price to fall and trigger your stop just before the market calms down and your security rises back to where it was when you bought the security
- your order is visible to other traders. That's not often a problem, but it might be if the traders at some big brokerage decide it's time to run the stops.
- if price gaps down from \$50 to \$42, your stop order still turns into a market order. Of course, the sell order will get filled immediately, and somebody will grab your shares at \$42. <Ouch>

In general, I prefer to "hold" my own stops. I routinely sell when price closes below the stop, but holding the stop myself allows me to exercise some judgment if I see something unusual going on in the market. (I also prefer ETFs because they usually have less volatility than individual stocks.)

Next week I'll talk about "**When 8 = 10**".

[Market Barometers](#)

← Use this link to see all the market barometer charts

All 5 MTAs are up and solid green. VTI, SPX, and DIA made all-time highs.

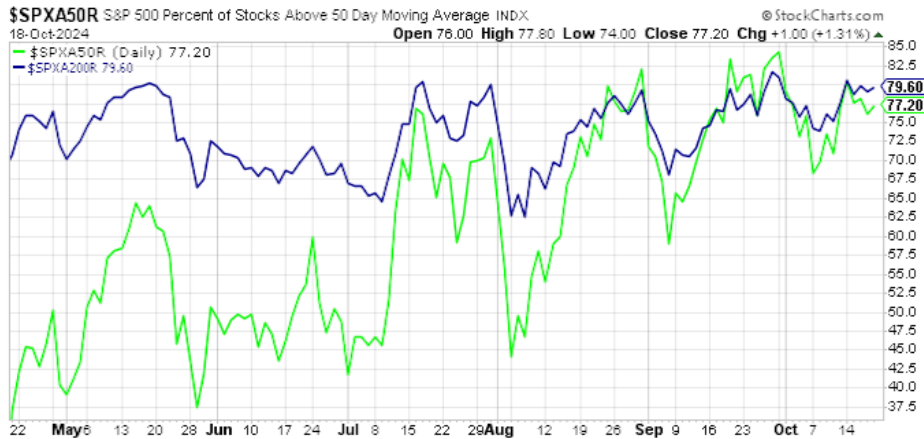


Week-over-week: VTI: 1.0%, SPX: 0.9%, COMPQ: 0.8%, DIA: 0.9%, IWM: 2.0%.

I'm thinking about changing Week-over-week to Month-over-month. The change over one week is quieter than daily change but it still has a lot of noise in it.

## A Closer Look

The SPX spent the whole week flirting with \$5846 and ended up rising less than 1%. The Advance-Decline did way better than price. And the stocks above their 50-day and 200-day did a little worse.



[S&P Price Chart](#)

[Advance-Decline Line](#)

[Stocks Above Averages](#)

[Bullish Universe](#)

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[Bearish Universe](#)

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SPX Sector Universe Analysis for 18-Oct-2024							
Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
<a href="#">ITB</a>	HOME CONSTRUCTION	ETF	UP	4.21:2.08	«UP»	930/1	0.1
<a href="#">XLU</a>	UTILITIES	ETF	UP	4.17:2.08	≡DN≡	999/1	0.0
<a href="#">ITA</a>	SPACE & DEFENSE	ETF	UP	3.49:2.08	UP	929/1	0.1
<a href="#">XLI</a>	INDUSTRIALS	ETF	UP	3.28:2.08	«UP»	999/1	0.1
<a href="#">XLY</a>	CONSUMER DISCR	ETF	UP	3.12:2.08	up	3/1	-0.2
<a href="#">PAVE</a>	INFRASTRUCTURE	ETF	UP	3.05:2.08	UP	384/1	0.1
<a href="#">KIE</a>	INSURANCE SECTOR	ETF	UP	3.03:2.08	≡UP≡	953/1	0.3
<a href="#">XLRE</a>	REAL ESTATE	ETF	UP	2.95:2.08	UP	4/1	0.1
<a href="#">KBE</a>	S&P BANK SECTOR	ETF	UP	2.71:2.08	UP	133/1	0.7
<a href="#">XLF</a>	FINANCIALS	ETF	UP	2.60:2.08	-up-	999/1	0.4
<a href="#">IYI</a>	TRANSPORT NDX	ETF	UP	2.19:2.08	UP	999/1	0.4
<a href="#">XLB</a>	MATERIALS	ETF	UP	2.18:2.08	UP	999/1	0.1
<a href="#">IGM</a>	EXPANDED TECH SECTOR	ETF	UP	2.10:2.08	≡up≡	999/2	-0.0
<a href="#">XLC</a>	COMMUNICATION SRVCS	ETF	UP	2.08:2.08	-up-	319/1	-0.1
<a href="#">SPX</a>	CAP-WTD S&P 500 INDEX	INDEX	UP	2.06:2.08	-up-	999/1	0.1
<a href="#">XLP</a>	CONSUMER STAPLES	ETF	UP	1.32:2.08	UP	3/1	0.0
<a href="#">SMH</a>	SEMICONDUCTORS	ETF	≡UP≡	0.88:2.08	-DN-	13/2	-0.1
<a href="#">XLV</a>	HEALTH CARE	ETF	UP	0.68:2.08	«UP»	4/2	0.0
<a href="#">XRT</a>	RETAIL	ETF	UP	0.40:2.08	UP	11/1	0.2
<a href="#">XLE</a>	ENERGY	ETF	DN	0.00:2.08	≡up≡	1/3	-0.2
<a href="#">BIL</a>	CASH EQUIVALENT	ETF	DN	0.00:2.08	«DN»	3/1	0.0

WoW price changes for the top 5 sectors were: ITB: 4.5%, XLU: 3.4%, ITA: 1.3%, XLI: 0.6%, XLY: 1.5%.

WoW changes for the Big 7 were: AAPL: 3.3%, AMZN: 0.1%, GOOGL: 0.1%, META: -2.3%, MSFT: 0.4%, NFLX: 5.7%, TSLA: 1.3%

## Sector Relative-Strength History

13 weeks of slope history for 20 sector ETFs and the SPX.

Relative Strength History													26-Jul-2024 to 18-Oct-2024	
26 Jul	02 Aug	09 Aug	16 Aug	23 Aug	30 Aug	06 Sep	13 Sep	20 Sep	27 Sep	04 Oct	11 Oct	18 Oct		
SEMIS	BANKS	BANKS	BANKS	BANKS	BANKS	REALE	REALE	REALE	REALE	BLDRS	UTILS	BLDRS		
BANKS	BLDRS	REALE	REALE	REALE	REALE	BANKS	UTILS	BLDRS	BLDRS	UTILS	BLDRS	UTILS		
TECHS	REALE	BLDRS	BLDRS	BLDRS	BLDRS	BLDRS	BLDRS	UTILS	UTILS	REALE	REALE	DFEND		
SP500	SEMIS	UTILS	UTILS	UTILS	UTILS	UTILS	INSUR	INSUR	INSUR	INSUR	DFEND	INDUS		
DISCR	TECHS	INSUR	DFEND	DFEND	INSUR	INSUR	BANKS	BANKS	BANKS	DISCR	DISCR	DISCR		
REALE	UTILS	DFEND	INSUR	INSUR	DFEND	DFEND	STAPL	STAPL	DFEND	DFEND	INSUR	INFRA		
COMMS	SP500	FINAN	HLTHY	HLTHY	HLTHY	STAPL	DFEND	FINAN	STAPL	INDUS	INDUS	INSUR		
FINAN	INSUR	HLTHY	FINAN	STAPL	STAPL	FINAN	FINAN	DFEND	DISCR	BANKS	INFRA	REALE		
UTILS	FINAN	STAPL	STAPL	FINAN	FINAN	HLTHY	HLTHY	HLTHY	FINAN	FINAN	FINAN	BANKS		
BLDRS	DISCR	SP500	COMMS	INDUS	INDUS	INDUS	INDUS	INDUS	INDUS	STAPL	BANKS	FINAN		
HLTHY	DFEND	COMMS	SP500	SP500	SP500	SP500	SP500	DISCR	HLTHY	MATER	MATER	TRANS		
INSUR	HLTHY	INDUS	INDUS	COMMS	COMMS	COMMS	DISCR	SP500	MATER	INFRA	COMMS	MATER		
DFEND	COMMS	DISCR	MATER	MATER	MATER	MATER	MATER	MATER	SP500	SP500	SP500	TECHS		
STAPL	STAPL	TECHS	INFRA	SALES	SALES	DISCR	COMMS	COMMS	TRANS	COMMS	STAPL	COMMS		
INDUS	INDUS	INFRA	SALES	INFRA	INFRA	TRANS	TRANS	TRANS	INFRA	TRANS	TRANS	SP500		
SALES	SALES	MATER	TECHS	TECHS	TECHS	SALES	INFRA	INFRA	COMMS	HLTHY	TECHS	STAPL		
INFRA	INFRA	SALES	DISCR	DISCR	DISCR	INFRA	TECHS	TECHS	TECHS	TECHS	HLTHY	SEMIS		
MATER	MATER	ENRGY	ENRGY	TRANS	TRANS	TECHS	SALES	SALES	SALES	SALES	SALES	HLTHY		
ENRGY	ENRGY	SEMIS	TRANS	ENRGY	ENRGY	ENRGY	ENRGY	ENRGY	SEMIS	SEMIS	SEMIS	SALES		
TRANS	TRANS	TRANS	SEMIS	SEMIS	SEMIS	SEMIS	SEMIS	SEMIS	ENRGY	ENRGY	ENRGY	ENRGY		

### Details

Symbol	Slope	Synonym	Sector Name	Symbol	Slope	Synonym	Sector Name
1 ITB	4.21	BLDRS	HOMEBUILDERS	11. IYT	2.19	TRANS	TRANSPORTATION
2 XLU	4.17	UTILS	UTILITIES	12. XLB	2.18	MATER	MATERIALS
3. ITA	3.49	DFEND	AEROSPACE & DEFENSE	13. IGM	2.10	TECHS	TECHNOLOGY
4. XLI	3.28	INDUS	INDUSTRIALS	14. XLC	2.08	COMMS	COMMUNICATION SRVCS
5 XLY	3.12	DISCR	CONSUMER DISCR	15. SPX	2.06	SP500	S&P 500
6. PAVE	3.05	INFRA	INFRASTRUCTURE	16. XLP	1.32	STAPL	CONSUMER STAPLES
7. KIE	3.03	INSUR	INSURANCE	17. SMH	0.88	SEMIS	SEMICONDUCTORS
8 XLRE	2.95	REALE	REAL ESTATE	18. XLV	0.68	HLTHY	HEALTH CARE
9. KBE	2.71	BANKS	BANKS	19. XRT	0.40	SALES	RETAIL SALES
10. XLF	2.60	FINAN	FINANCIALS	20. XLE	0.00	ENRGY	ENERGY

This week, the first 2 sectors switched places, Defense moved up. Real estate fell to 8<sup>th</sup> place. Industrials jumped from 7<sup>th</sup> to 4<sup>th</sup>. Consumer Discretionary held steady at 5<sup>th</sup>.

## This Week's Selections

My sector choices last week were: 10% ITA, 10% KIE, 10% PAVE, 10% XLB, 10% XLF, 10% XLI, 10% XLU, and BIL 30%.

### Top Sector ETFs By Slope

Symbol	MTA	Slope	8%-Stop	21D-Stop	Close	Position
ITB	UP	4.21	\$118.99	\$125.45	\$129.34	No
XLU	UP	4.17	\$75.39	\$80.04	\$81.95	Hold
ITA	UP	3.49	\$142.47	\$151.20	\$154.86	Hold
XLI	UP	3.28	\$128.13	\$136.01	\$139.27	Hold
XLY	UP	3.12	\$183.55	\$196.83	\$199.51	No
PAVE	UP	3.05	\$39.07	\$41.17	\$42.47	Hold
KIE	UP	3.03	\$53.74	\$57.09	\$58.41	Hold
XLRE	UP	2.95	\$41.16	\$44.00	\$44.74	No
KBE	UP	2.71	\$51.17	\$53.55	\$55.62	No
XLF	UP	2.6	\$43.81	\$46.04	\$47.62	Hold
IYT	UP	2.19	\$65.22	\$69.12	\$70.89	BUY
XLB	UP	2.18	\$89.82	\$95.51	\$97.63	Hold
IGM	UP	2.1	\$90.18	\$96.38	\$98.02	No
XLC	UP	2.08	\$83.93	\$89.95	\$91.23	No
SPX	UP	2.06	\$5,395.50	\$5,762.35	\$5,864.67	INDEX

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

## Notes

I try to be objective and avoid letting last week's status for an ETF influence my analysis of it. So when I'm doing the weeklies I try not to think about what a fund looked like last week until I'm pretty far into the analysis.

## Analysis

[ITB](#) came back up and made a 930-week high. It also hit psychological and historical resistance near \$130, so I'd like to see it get above that before buying it. [XLU](#) made an all-time high and is far enough above \$80 to be free to continue climbing. [ITA](#) made a 929-week high and is a small consolidation near \$155. [XLI](#) made another all-time high. It has hit some resistance near \$140 but all basic charts are up. [XLY](#) has hit psychological and historical resistance near \$200. It will become interesting when it gets above that. [PAVE](#) made a 384-week high. All basic charts are now up.

[KIE](#) made a 953-week high. Smoothed slope is down a little but the rest of the basic charts are up. [XLRE](#) is above its 21-day stop and most basic charts are up. But it needs to get above \$45. [KBE](#) is above \$55 and it made a 133-week high. All basic charts are up except Slope. Which appears to be turning up. [XLF](#) made an all-time high and the basic charts are up. [IYT](#) made an all-time high and the basic charts are all up. [XLB](#) has 7 basic charts up, MACD is turning up and it made an all-time high.

[IGM](#) is up, but right under \$100, and you know what that means. [XLC](#) — Basic charts are up. MACD says this rally ended on the 10<sup>th</sup> but price just made a 319-week (6 year) high.

## Thoughts and Decisions

The charts for IYT (all-time high) and XLC (6-year high) both look very attractive. So much so that I started looking under the covers to choose one over the other. And I found something that really bothers me about XLC – maybe enough to drop it from my sector universe. When I look at the [top 10](#)

[holdings for IYT](#), they are all transportation companies. When I look at the [top 10 companies for XLC](#), they seem to be all over the place. In XLC, I have to go down to 6<sup>th</sup> place, CMCSA, to find a company that is actually in the communications business. So I'm going to buy IYT and look for a replacement for XLC. Suggestions are welcome.

In alphabetical order, my choices for this week are 10% ITA, 10% IYT, 10% KIE, 10% PAVE, 10% XLB, 10% XLF, 10% XLI, 10% XLU, and BIL 20%.

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When I am building a list of ETFs for a new universe, The first things I look at for each candidate are:

- expense ratio (cost to hold it),
- assets under management (stability),
- average daily volume (liquidity, so you won't have trouble getting out when it's time to sell,
- low volatility (high volatility makes technical analysis, trailing stops, and so on less effective),
- dividends (if the dividend is greater than the expense ratio, it's a free ride)
- method (do they track an index, follow a rule-based approach, or is it the fund manager's-choice (I don't mind manager's-choice if the manager is a market wizard))
- duration (how long has this fund existed)

When I'm going through a list of a dozen or more candidates to fill a slot in a universe, I have generally taken the fund's description of itself at face value. In hindsight, that appears to have been a naïve thing to do. It looks like I need to add a couple more:

- holdings (what do they actually invest in)
- weightings (top-heavy funds make me nervous)
- overlap (how many stocks in fund ABCD are the same as the stocks in EFGH? (I need to write a program to do this comparison — combinatorics are always heavy-going))

As always, I'm open to suggestions from my readers. What are things you would check?



## New Highs

SPX, RSP, DIA, IYT, and VTI made all-time highs again. The actual Dow Jones Transports Index still hasn't topped the \$16,843 close it made on 1-Nov-2021.

SECURITIES MAKING NEW HIGHS ON 18-Oct-2024					
SYMBOL	COMPANY	INSTR	MTA	SLOPE	WEEKS
AAPL	APPLE	STOCK	UP	2.38	999
DIA	DOW JONES INDUSTRIALS	ETF	UP	2.25	999
IGM	EXPANDED TECH SECTOR	ETF	UP	2.10	999
IGV	SOFTWARE	ETF	UP	2.78	999
IYT	TRANSPORT NDX	ETF	UP	2.19	999
NVDA	NVIDIA	STOCK	UP	4.16	999
PRU	PRUDENTIAL FINANCIAL	STOCK	UP	1.70	999
RSP	EQU-WTD S&P 500 INDEX	ETF	UP	2.29	999
SPX	CAP-WTD S&P 500 INDEX	INDEX	UP	2.06	999
SPY	S&P 500 (LARGE-CAP)	ETF	UP	2.02	999
VGT	INFORMATION TECHNOLOGY	ETF	UP	2.03	999
VTI	TOTAL STOCK MARKET	ETF	UP	2.05	999
WMT	WALMART STORES	STOCK	UP	5.20	999
XLB	MATERIALS	ETF	UP	2.18	999
XLF	FINANCIALS	ETF	UP	2.60	999
XLI	INDUSTRIALS	ETF	UP	3.28	999
XLU	UTILITIES	ETF	UP	4.17	999
KIE	INSURANCE SECTOR	ETF	UP	3.03	953
ITB	HOME CONSTRUCTION	ETF	UP	4.21	930
ITA	SPACE & DEFENSE	ETF	UP	3.49	929
DFS	DISCOVER FINANCIAL SERVICES	STOCK	UP	3.23	874
XME	METALS AND MINING	ETF	UP	2.65	666
USMV	USA MIN VOLATILITY	ETF	UP	2.11	654
SLV	SILVER TRUST	ETF	UP	3.25	590
FIW	POTABLE/WASTE WATER	ETF	UP	1.55	398
URA	URANIUM	ETF	-UP-	3.83	398
VUG	LARGE CAP GROWTH	ETF	UP	1.86	398
VIG	DIVIDEND APPRECIATION	ETF	UP	2.20	394
IVE	S&P 500 VALUE	ETF	UP	1.90	392
SPYV	S&P 500 (VALUE)	ETF	UP	1.90	389

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