

Weekly Market Analysis #534 — 1 November 2024

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This Week

Position Sizing (a term coined by the late Dr. Van Tharp in the 1990s)

Position sizing is a critical aspect of investing that determines how much capital to allocate to each individual purchase. Its primary purpose is to manage risk, which helps optimize returns in a portfolio. Position sizing provides a systematic approach to determining how much to buy, removing emotion from the decision-making process. It helps limit potential losses on any single position to a predetermined amount of the overall account. The two most popular approaches to position sizing are the Fixed Percentage Method and Volatility-Based Sizing.

The Fixed Percentage Method is based on using a predetermined portion of the investor's account on each position. For example, in Dynamic Sector allocation, I use 10% of my account for each position.

In Volatility-Based Sizing, the investor adjusts the position size based on the asset's volatility, typically measured by an indicator like Wilder's Average True Range (ATR). In this approach, higher volatility says you should use smaller position sizes and lower volatility allows larger positions.

The whole reason for position sizing is to limit risk. For example, let's say you have \$10,000 to invest and you are using a fixed percentage of 10%. This means each position can be no more than \$1,000. Now the question is, how much are you risking. In order to accurately answer this question, you also have to know about what exit strategy you are using. So let's further say you are using an 8% stop, which will usually get you out of a position at around a 10% actual loss (or a 10% "give back" on a position that has moved in your favor).

So if:

1. you have a \$10,000 account and
2. take a 10% position with a stop that should get you out with a 10% average loss, then
3. your expected risk on the position is 1% of your account, or \$100.

Professional investors typically risk between 1% to 2% on any given position. And this is what you get by using a combination of a 10% exit and a 10% position size.

Newcomers to investing are almost always preoccupied with two things: picking a good stock and getting a good entry price. Professionals know that the two most important elements are actually correct position sizing and good, unemotional exit.

By implementing effective position sizing strategies, investors can better manage risk, preserve capital, and improve their overall performance.

Note: If you would like to explore some more sophisticated approaches to position sizing, have a look at: [The Kelly Criterion](#) and [Optimal f](#).

[Market Barometers](#)

← Use this link to see all the market barometer charts

All 5 MTAs remain up, but IWM is showing a little spot of red. Ironically, the top WoW score went to IWM, which went absolutely nowhere (went from \$218.89 all the way to \$218.98, rising 9 whole cents). Month over month, COMPQ was the only one above zero.



Week-over-week: VTI: -1.2%, SPX: -1.4%, COMPQ: -1.5%, DIA: -0.2%, IWM: 0.0%.

Month-over-month: VTI: -0.2%, SPX: -0.4% , **COMPQ: 0.6%** , DIA: -0.7% , IWM: -0.1%

A Closer Look

Monday and Tuesday the SPX advanced. Then on Wednesday it declined, and on Thursday the bottom fell out, with the SPX falling to \$5705.45. In that price range, a drop of \$108 (from the previous day's close) is not a big deal, but the gap and the long red bar on Thursday is far taller than the average close-to-close change for the last 8 weeks. The Advance-Decline line looked a lot like price action on a smaller scale. And the stocks above their 50-day and 200-day averages were similar in shape to what price did, so this week was a broad-spectrum decline.



[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 01-Nov-2024							
Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
XLU	UTILITIES	ETF	UP	3.35:1.87	DN	1/6	-0.8
PAVE	INFRASTRUCTURE	ETF	UP	2.94:1.87	«DN»	2/3	-0.5
KBE	S&P BANK SECTOR	ETF	UP	2.90:1.87	-up-	2/1	-0.1
XLF	FINANCIALS	ETF	UP	2.77:1.87	-DN-	2/3	-0.2
XLY	CONSUMER DISCR	ETF	UP	2.73:1.87	-DN-	141/1	-0.1
XLI	INDUSTRIALS	ETF	UP	2.71:1.87	DN	1/6	-0.6
ITA	SPACE & DEFENSE	ETF	UP	2.50:1.87	DN	1/7	-0.7
IYT	TRANSPORT NDX	ETF	UP	2.34:1.87	-DN-	2/3	-0.3
KIE	INSURANCE SECTOR	ETF	UP	2.33:1.87	DN	1/4	-0.6
XLC	COMMUNICATION SRVCS	ETF	UP	2.25:1.87	=DN=	321/1	0.0
IGM	EXPANDED TECH SECTOR	ETF	UP	2.22:1.87	=DN=	999/4	-0.5
SPX	CAP-WTD S&P 500 INDEX	INDEX	UP	1.91:1.87	=DN=	2/4	-0.4
XLRE	REAL ESTATE	ETF	UP	1.90:1.87	≡DN≡	1/10	-0.4
ITB	HOME CONSTRUCTION	ETF	UP	1.85:1.87	«DN»	1/8	-1.0
XLB	MATERIALS	ETF	UP	1.57:1.87	≡DN≡	1/7	-0.6
SMH	SEMICONDUCTORS	ETF	UP	1.19:1.87	DN	3/5	-0.7
XLP	CONSUMER STAPLES	ETF	UP	0.47:1.87	≡DN≡	1/11	-0.4
XRT	RETAIL	ETF	UP	0.16:1.87	≡DN≡	2/3	-0.2
BIL	CASH EQUIVALENT	ETF	UP	0.00:1.87	-UP-	5/4	-0.0
XLE	ENERGY	ETF	DN	0.00:1.87	≡DN≡	1/5	-0.5
XLV	HEALTH CARE	ETF	UP	-0.40:1.87	DN	1/12	-0.6

WoW price changes for the top 5 sectors were: XLU: -2.8%, PAVE: 0.1%, KBE: 0.9%, XLF: 0.0%, XLY: -0.4%.

MoM price changes for the top 5 sector were: XLU: -3.9%, PAVE: 0.6% , KBE: 3.6% , XLF: 2.2% , XLY: 1.0%.

MOM changes for the Big 7 were: AAPL: -1.7%, AMZN: 6.1% , GOOGL: 2.5% , META: -4.8%, MSFT: -1.4%, NFLX: 5.1% , TSLA: -0.4%.

Sector Relative-Strength History

13 weeks of slope history for 19 sector ETFs and the SPX.

Relative Strength History 09-Aug-2024 to 01-Nov-2024

09 Aug	16 Aug	23 Aug	30 Aug	06 Sep	13 Sep	20 Sep	27 Sep	04 Oct	11 Oct	18 Oct	25 Oct	01 Nov
BANKS	BANKS	BANKS	BANKS	REALE	REALE	REALE	REALE	BLDRS	UTILS	BLDRS	UTILS	UTILS
REALE	REALE	REALE	REALE	BANKS	UTILS	BLDRS	BLDRS	UTILS	BLDRS	UTILS	BLDRS	INFRA
BLDRS	BLDRS	BLDRS	BLDRS	BLDRS	BLDRS	UTILS	UTILS	REALE	REALE	DFEND	DFEND	BANKS
UTILS	UTILS	UTILS	UTILS	UTILS	INSUR	INSUR	INSUR	INSUR	DFEND	INDUS	INFRA	FINAN
INSUR	DFEND	DFEND	INSUR	INSUR	BANKS	BANKS	BANKS	DISCR	DISCR	DISCR	INDUS	DISCR
DFEND	INSUR	INSUR	DFEND	DFEND	STAPL	STAPL	DFEND	DFEND	INSUR	INFRA	BANKS	INDUS
FINAN	HLTHY	HLTHY	HLTHY	STAPL	DFEND	FINAN	STAPL	INDUS	INDUS	INSUR	INSUR	DFEND
HLTHY	FINAN	STAPL	STAPL	FINAN	FINAN	DFEND	DISCR	BANKS	INFRA	REALE	DISCR	TRANS
STAPL	STAPL	FINAN	FINAN	HLTHY	HLTHY	HLTHY	FINAN	FINAN	FINAN	BANKS	FINAN	INSUR
SP500	COMMS	INDUS	INDUS	INDUS	INDUS	INDUS	INDUS	STAPL	BANKS	FINAN	REALE	COMMS
COMMS	SP500	SP500	SP500	SP500	SP500	DISCR	HLTHY	MATER	MATER	TRANS	TRANS	TECHS
INDUS	INDUS	COMMS	COMMS	COMMS	DISCR	SP500	MATER	INFRA	COMMS	MATER	TECHS	SP500
DISCR	MATER	MATER	MATER	MATER	MATER	MATER	SP500	SP500	SP500	TECHS	COMMS	REALE
TECHS	INFRA	SALES	SALES	DISCR	COMMS	COMMS	TRANS	COMMS	STAPL	COMMS	SP500	BLDRS
INFRA	SALES	INFRA	INFRA	TRANS	TRANS	TRANS	INFRA	TRANS	TRANS	SP500	MATER	MATER
MATER	TECHS	TECHS	TECHS	SALES	INFRA	INFRA	COMMS	HLTHY	TECHS	STAPL	SEMIS	SEMIS
SALES	DISCR	DISCR	DISCR	INFRA	TECHS	TECHS	TECHS	TECHS	HLTHY	SEMIS	STAPL	STAPL
ENRGY	ENRGY	TRANS	TRANS	TECHS	SALES	SALES	SALES	SALES	SALES	HLTHY	SALES	SALES
SEMIS	TRANS	ENRGY	ENRGY	ENRGY	ENRGY	ENRGY	SEMIS	SEMIS	SEMIS	SALES	ENRGY	ENRGY
TRANS	SEMIS	SEMIS	SEMIS	SEMIS	SEMIS	SEMIS	ENRGY	ENRGY	ENRGY	ENRGY	HLTHY	HLTHY

Details

Symbol	Slope	Synonym	Sector Name	Symbol	Slope	Synonym	Sector Name
1. XLU	3.35	UTILS	UTILITIES	11. IGM	2.22	TECHS	TECHNOLOGY
2. PAVE	2.94	INFRA	INFRASTRUCTURE	12. SPX	1.91	SP500	S&P 500
3. KBE	2.90	BANKS	BANKS	13. XLRE	1.90	REALE	REAL ESTATE
4. XLF	2.77	FINAN	FINANCIALS	14. ITB	1.85	BLDRS	HOMEBUILDERS
5. XLY	2.73	DISCR	CONSUMER DISCR	15. XLB	1.57	MATER	MATERIALS
6. XLI	2.71	INDUS	INDUSTRIALS	16. SMH	1.19	SEMIS	SEMICONDUCTORS
7. ITA	2.50	DFEND	AEROSPACE & DEFENSE	17. XLP	0.47	STAPL	CONSUMER STAPLES
8. IYT	2.34	TRANS	TRANSPORTATION	18. XRT	0.16	SALES	RETAIL SALES
9. KIE	2.33	INSUR	INSURANCE	19. XLE	0.00	ENRGY	ENERGY
10. XLC	2.25	COMMS	COMMUNICATION SRVCS	20. XLV	-0.40	HLTHY	HEALTH CARE

Utilities remained in first place while Home Builders declined rapidly, dropping from 2nd place to 14th. Infrastructure advanced from 4th to 2nd, rising for the 6th straight week. Banks moved up 3 rows to become #3. And Financials jumped 5 rows to #4.

The presence of the defensive Utilities sector in either 1st place or 2nd place for the last 5 weeks implies a lot of nervousness among the professional investors. Another defensive security, gold (GLD, GLDM) has a Smoothed Slope of 3.83. If gold were a sector, it would be at the top of the sector list, ahead of Utilities. This confirms the jittery mood of the professionals and their desire to be in safe haven investments.

This week I added GLD to the sector universe. Of course, gold is not a sector; however, when gold is going up faster than every SPX sector, I think it's important to consider it as an alternative investment. That being said, all the short-term basic charts just turned south and the rally in GLD could be over. GDX already fell almost 10%.

This Week's Selections

My sector choices last week were: 10% IYT, 10% KIE, 10% PAVE, 10% XLF, 10% XLI, 10% XLU, and BIL 40%.

Top Sector ETFs By Slope

Symbol	MTA	Slope	8%-Stop	21D-Stop	Close	Position
XLU	UP	3.35	\$71.88	\$80.29	\$78.13	SOLD
PAVE	UP	2.94	\$37.98	\$41.41	\$41.28	Hold
KBE	UP	2.9	\$49.87	\$54.32	\$54.21	No
XLF	UP	2.77	\$42.91	\$46.65	\$46.64	Hold
XLY	UP	2.73	\$184.08	\$198.45	\$200.09	No
XLI	UP	2.71	\$123.29	\$135.87	\$134.01	SELL
ITA	UP	2.5	\$132.98	\$149.70	\$144.54	No
IYT	UP	2.34	\$64.14	\$69.71	\$69.72	Hold
KIE	UP	2.33	\$51.35	\$57.01	\$55.82	SELL
XLC	UP	2.25	\$85.01	\$91.09	\$92.40	Buy
IGM	UP	2.22	\$88.45	\$97.18	\$96.14	No
SPX	UP	1.91	\$5,270.50	\$5,788.29	\$5,728.80	INDEX

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

Analysis

[XLU](#) – broke below my hard stop on Tuesday, sold Wednesday morning. [PAVE](#) – Last week I set a hard stop at \$40.65. This week's low was \$41.12. [KBE](#) is back below \$55 and basic charts are mixed. [XLF](#) declined less than the SPX on Thursday, ending the week within 1 cent of its 21D-Stop.

[XLY](#) has not escaped the gravity (due to lots of buy and sell orders) of the \$200 level. [XLI](#) broke down through my hard stop of \$134.57 pm Thursday and did not recover on Friday. [ITA](#) has been declining for 2 weeks. [IYT](#) basic charts are mixed but IYT is clearly in a short consolidation near \$70.

[KIE](#) closed below my hard stop at \$55.65 on Friday. [XLC](#) made another 6 year high this week. It has risen away from \$90, and all basic charts are up except CMF. [IGM](#) again failed to close above \$100 this week..

Thoughts and Decisions

I sold XLU on Tuesday. I'm going to sell KIE and XLI, and I'm going to buy XLC. So my choices for this week are 10% IYT, 10% PAVE, 10% XLC, 10% XLF, and BIL 60%.

New Highs

Five all-time highs this week. And DFS made a 16.8 year high.

SECURITIES MAKING NEW HIGHS ON 01-Nov-2024					
SYMBOL	COMPANY	INSTR	MTA	SLOPE	WEEKS
COMPQ	NASDAQ COMPOSITE	INDEX	UP	1.95	999
GLD	SPDR GOLD SHARES	ETF	UP	3.80	999
IGM	EXPANDED TECH SECTOR	ETF	UP	2.22	999
IGV	SOFTWARE	ETF	UP	2.94	999
VGT	INFORMATION TECHNOLOGY	ETF	UP	2.29	999
DFS	DISCOVER FINANCIAL SERVICES	STOCK	UP	4.15	876
VUG	LARGE CAP GROWTH	ETF	UP	2.01	400
XLC	COMMUNICATION SRVCS	ETF	UP	2.25	321
GLDM	GOLD MINISHARES	ETF	UP	3.83	320
ABBV	ABBVIE INC	STOCK	UP	1.38	266
INFL	INFLATION BENEFICIARIES	ETF	UP	4.55	192
T	A T & T	STOCK	UP	4.26	174
COF	CAPITAL ONE FINANCIAL	STOCK	UP	4.38	152
XLY	CONSUMER DISCR	ETF	UP	2.73	141
KBWB	BIG BANKS	ETF	UP	3.69	131
ARKW	NEXT GENERATION INTERNET	ETF	UP	4.16	130
ARKQ	AI & ROBOTICS	ETF	UP	4.61	128

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