



Research Note – Sector Analysis (C)

MAEG SECTOR ETF SG 2010 # Aug 18

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We have picked up charts that has some distinct characteristics and values from last weeks observation at Inflection points:

RUT / SPX

XLF

OIL,USO, OIL/SPY

Sector Analysis

S&P SECTOR THEMES: QUITE A FEW BEARISH KEY REVERSAL PATTERNS FORMED LAST WEEK

SMALL CAP IS POISED TO UNDERPERFORM:

- S&P Small cap (IWM) – IWM /SPY is forming a “head & shoulders” topping pattern, which suggests Small cap weakness moving forward.

FINANCIALS ARE WEAKENING:

- S&P Financials (XLF) – XLF/SPY has broken below the lower boundary of the bullish consolidation, which is putting more distance between it and the relevant overhead moving averages. This is clearly supportive of lower equity prices.

TECH IS POISED TO UNDERPERFORM:

- S&P Technology (XLK & SMH) – XLK & SMH/SPY is forming a “head & shoulders” topping pattern, which suggests broader technology weakness moving forward.

STAPLES ARE POISED TO OUTPERFORM:

- S&P Consumer Staples (XLP) – XLP/SPY is forming a bullish “head & shoulders” bottom pattern, which suggests staples outperformance.

SPX – Closed @ 1093

SPX – “Our Current Signals & Projections”

- ***On 6th Aug – POM 14 – Re run was triggered at 1125***
- ***We have decisive weekly close below 1085 which is intermediate bearish conformation***
- ***On 16th Aug, we had price projection of +/- 1060 SPX for reversal (We hit 1069 and reversed but it is not POM 13 although we had price target on the bounce at 1110. It hit a high of 1100 yesterday We think it is half way move***



RUT / SPX - 100 – Correlation

While the larger stocks rallied as expected, the small stocks are likely to underperform on the rally. Clearly, distributional pressure is high in the Russ 2000 as the money flow line continues to sink. (**This sector may be best to be looked at for setup 2 stocks in this category**)

Relative performance of Semis and small-caps is another way to measure the appetite for risk. Comparing the Russ 2000 to the SPX 100. Small-caps outperformed from early February to mid May and then underperformed from mid May to now. The \$RUT:\$OEX ratio (price relative) hit a new low for the move this week. Next decline this should show more weakness.





XLF

The SPY had a decent rally and XLF barely bounced and suggest XLF is in a very weak position. Bigger trend is down. The weekly Bollinger bands have rolled over and suggest the trend is down. The pattern has a measured downside target near 10.00 and is also a 61.8% retracement of the rally from the July 09 low and is a possible target on this decline. When the weekly RSI reaches near 30 then XLF may not be far from a low.





OIL / USO

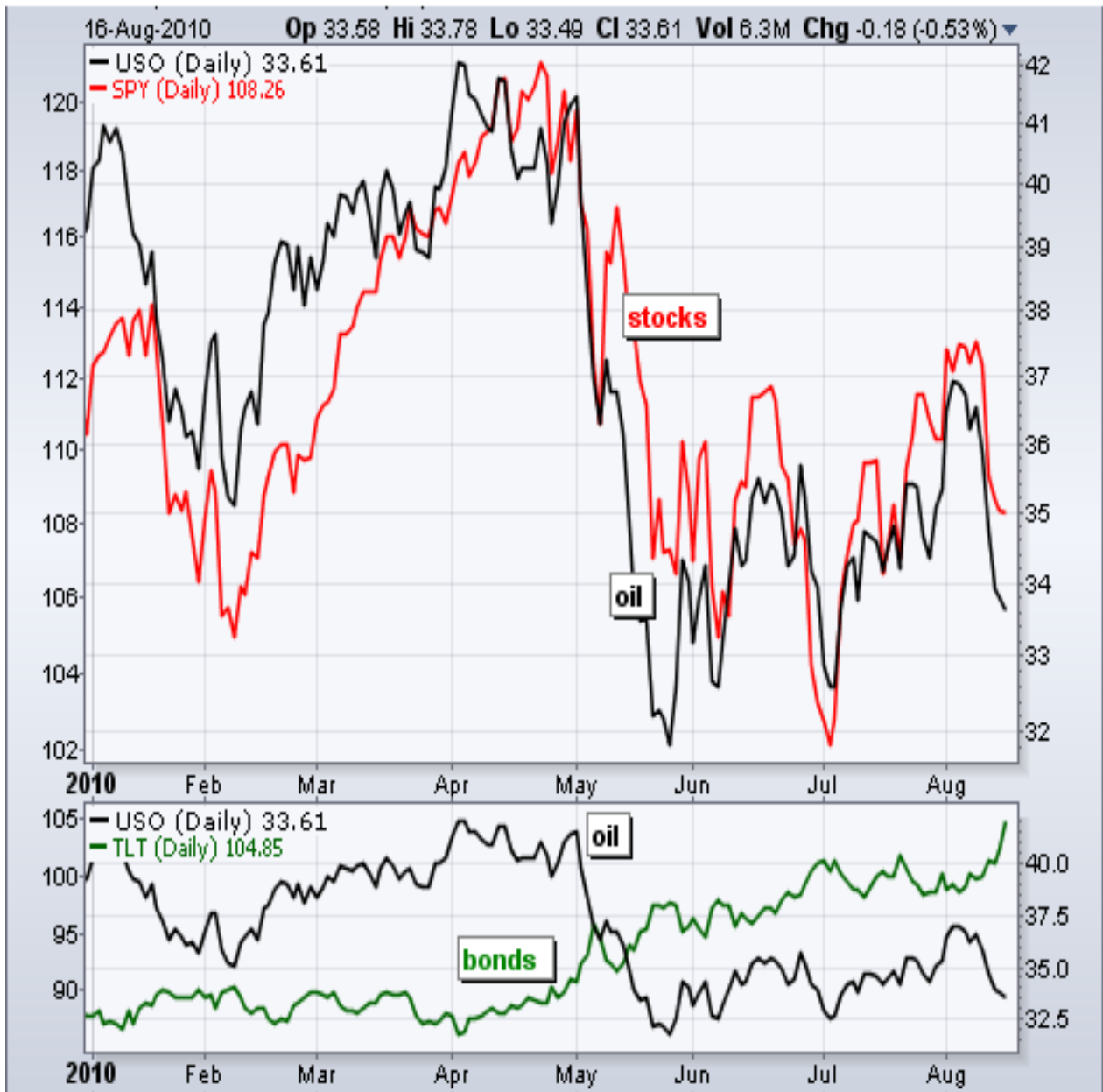
US Oil (USO) breaking support in May and then forming a rising wedge the last few months. Notice that this wedge retraced 50-62% of the prior decline. Technically, wedge support is still holding as it stopped just short of a trendline break last week. With some further weakness today, USO is trading right at trendline support. A break signal a continuation lower and target further weakness towards the 26-28 area. This would be negative for the stock market. The indicator window shows the MACD- turned negative last week.





OIL / SPX - Relation

Oil and stocks have been joined at the **hip** USO with SPX since January. The **positive correlation is clear** as these two continue to rise and fall together.





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