Tech and Consumer Discretionary Sector Rebalance

eResearch Corporation is pleased to provide an article by Keith Richards of **VALUETREND**.

In this article, Mr. Richards looks at the changes that took place this past week in the tech and discretionary sectors.

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Wednesday, September 26, 2018

Tech and Consumer Discretionary Sector Rebalance, and What It Means To You

By: Keith Richards (bio at end)

The S&P technology sector, as reflected in the SPDR ETF "XLK-US", was overhauled this week. It no longer holds some big players like Facebook, Google, Twitter, and Activision Blizzard.

So, too, was the S&P Consumer Discretionary index (XLY-US) – it lost big players like Netflix, Comcast, and Disney. All of these stocks are being shuffled into the S&P Communications Service sector index. For those interested, Amazon (arguably the biggest and most dominantly trending player in the tech sector) is staying. The SPDR ETF for the Communications index is XLC-US.

One of our readers asked me to comment on these changes. Today, I will highlight these dominant players, and what it might mean to the two indices.

To jump to the conclusion before presenting the charts – my thoughts are that the changes might prove to improve the Tech sector's performance, and the Discretionary sector's outlook, going forward. The current technical profile of a number of these stocks may be a bit questionable as for their continuation of their former uptrends (if any). Let us get into a few of the charts to explore why I feel this way.

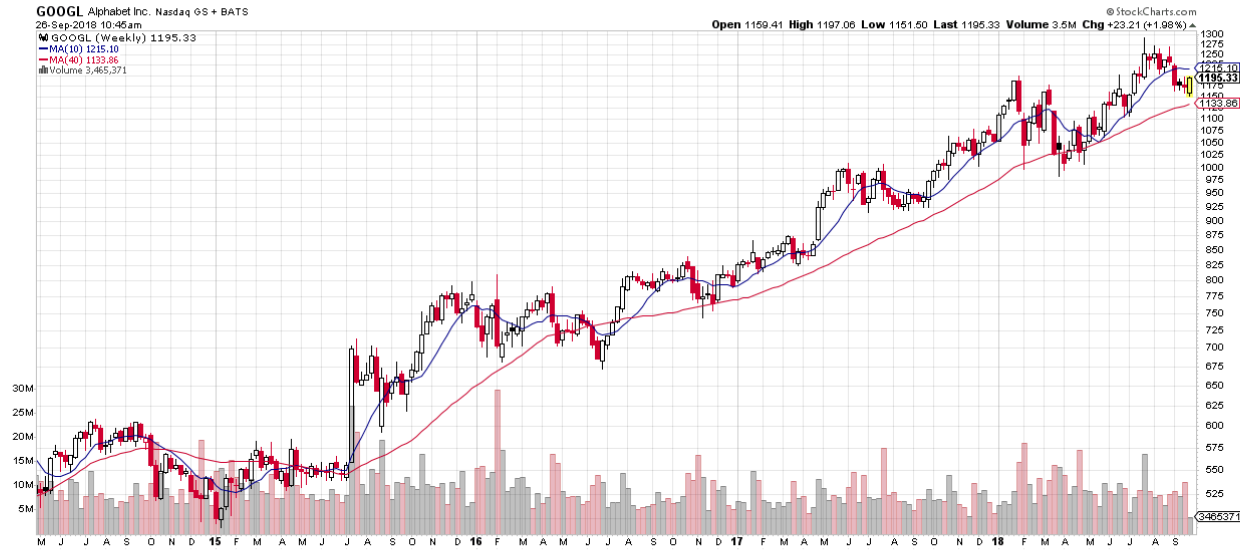
Tech changes

I did not take the time to reference the weighting within the index of these sectors prior to this week's change – but I am sure you could find them if you spend a moment perusing the internet.

I can tell you that **Google** was likely the largest position within the group of stocks being punted from the sector. As you can see from the chart below, it has been in a very nice uptrend.

This loss negatively impacts the XLK ETF, and is likely bullish for the communications sector.

Google



Activision is still in an uptrend, but it has been consolidating for most of this year. The loss of this stock form the tech index is probably a negative thing longer term, but neutral for the time being.

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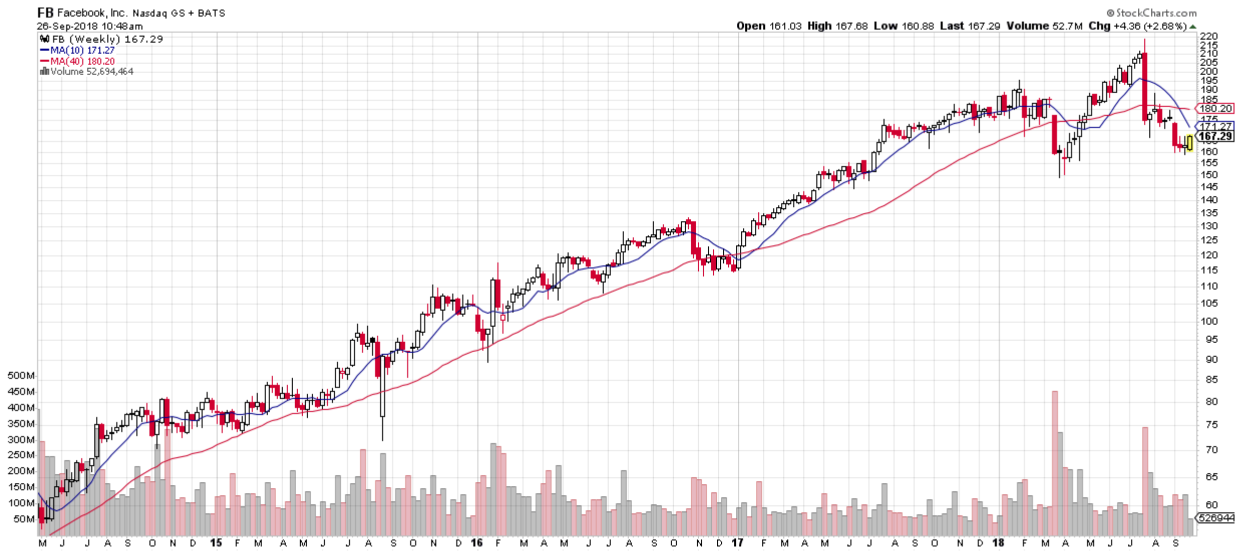
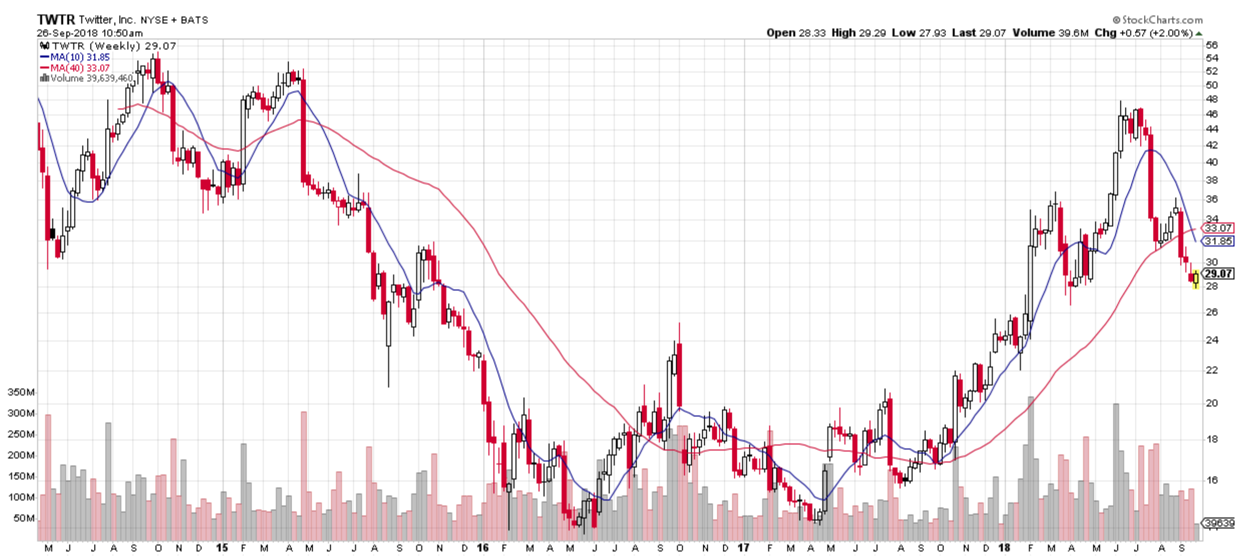
Facebook, on the other hand, is showing the potential of topping. It has taken out its 200-day (40-week) SMA. Should the stock bust $150, I would think this would be a top. I would not want to own this stock until the possible topping formation proves incorrect – losing this stock from the index is probably bullish for XLK, and bearish for the communications sector.



Twitter, below, looks to have broken out of a rounded bottom that formed between 2015 – 2018. But, recently, it appears that the break-out is failing. I view the pattern as bearish, or neutral, at the very best. Thus, losing this stock is likely a win for XLK, and a loss for the communications sector.



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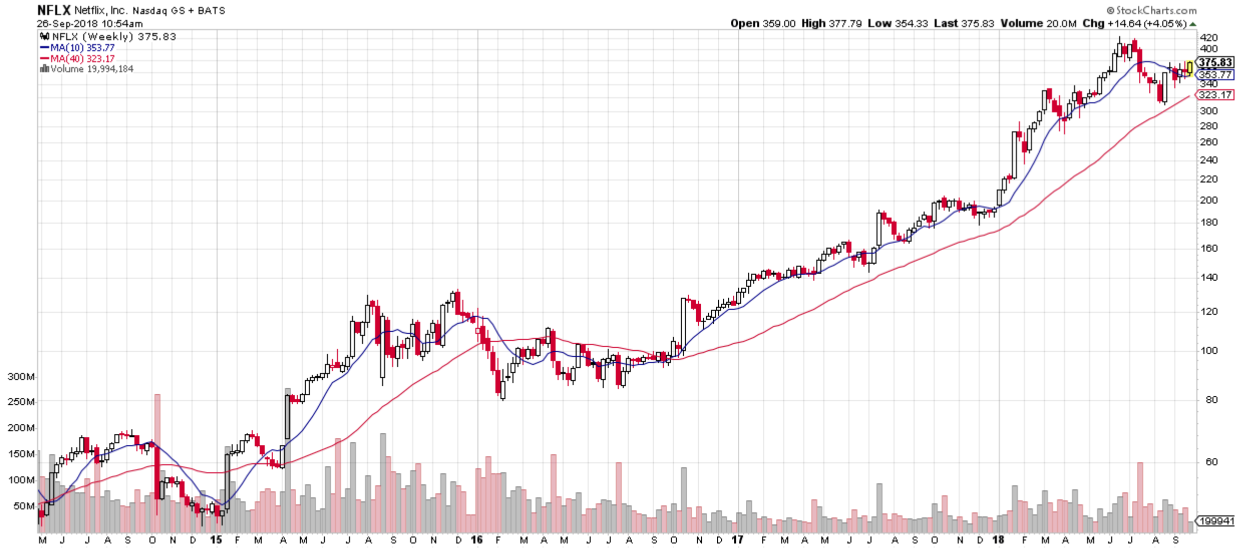
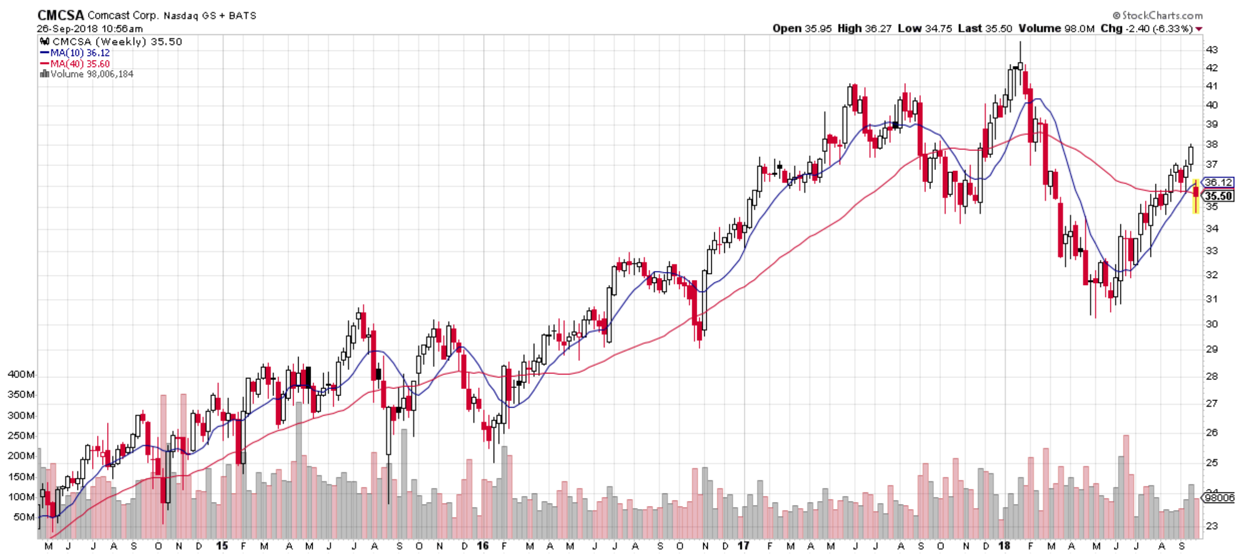
Consumer Discretionary Changes

Netflix – After rising since 2016, this stock seems to be basing. The uptrend is not over, but it is certainly consolidating. I view this loss as neutral for the XLY, and the communications sector.



Comcast is rising, but the longer pattern is chaotic. Losing this stock from the tech index might be temporarily negative – but longer term bullish for XLY. I view it as bearish for the communications sector in the longer run.



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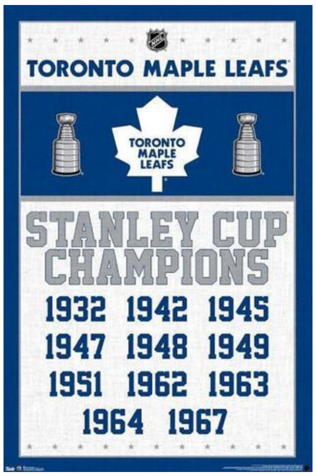
Since 2015, **Disney** has been a traders dream, and a buy/hold investors frustration. Right now, it is at the top of its trading range, near $115. Could it break out? Sure. But it has tried doing so 5 times since 2015 with no success. I would bet on the Toronto Maple Leafs winning the "Cup" this season before betting DIS will be much higher than $115 at this time next year. But, then again, the Leafs did win the Cup in 1967 – so stranger things could happen. I was 5 years old when the Leafs last won – unaware of much television entertainment beyond what Fred Flintstone was up to. I am sure my dad was excited, for the last time, about that Leaf win.



Perhaps we will watch The Mouse break out. But I won't hold my breath. Bullish for XLY to lose The Mouse. Bearish for the Communications sector.

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ABOUT THE AUTHOR

ValueTrend Founder and Owner, Keith Richards, has been in the securities industry since 1990. ValueTrend manages over $100 million through a discretionary investment service for high-net-worth clients.

Keith Richards has been in the securities industry since 1990 and is a highly regarded member of the small, exclusive community of Chartered Market Technicians in Canada. Mr. Richard's articles appear regularly in INVESTORS DIGEST, MONEYLETTER, GLOBE AND MAIL, and the TORONTO STAR newspapers.

His appearances on BNN Television have inspired producers to acknowledge him as **"one of [our] most accurate technical analysts."** Mr. Richard's first book, SMARTBOUNCE: 3 ACTION STEPS TO PORTFOLIO RECOVERY, is available in bookstores and directly through his blog page **www.valuetrend.ca/blog/**. His second book, SIDEWAYS: USING THE POWER OF TECHNICAL ANALYSIS TO PROFIT IN UNCERTAIN TIMES was released in late 2011. He has been critical of the commission-based, follow-the-pack approach to investing – where brokers succeed regardless of performance.

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