

The Intermarket Report January 4, 2008

Contributed by Matt Caruso CMT
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The Futures / Inter Market Report Trading the World's Markets January 4, 2007 Matthew Caruso, CMT If you have any questions, send them to: e-mail: matt.caruso@analyzingmarkets.com Stock market leadership going forward The U.S. stock market sold off again this past week with the averages racing back down near the August and November lows. Once again financials led the way down as the market sold off. That trend has been persistent for some time now and has been mentioned in past reports. This week we'll be taking a look back at the market sectors which we reviewed on August 31st (<http://tradesystemguru.com/content/view/83/58/>) and November 9th (<http://tradesystemguru.com/content/view/110/58/>) and look at what sectors will likely outperform in the New Year. It is important to remember that all charts are of the sectors relative to the S&P 500. For example if technology stocks fall less than the S&P 500 the relative strength lines will climb because technology will be outperforming on a relative basis. The financial sector which has been a terrible place to have money invested in the past few months and will likely continue to under perform the market for months to come. The financials etf (xlf) relative to the S&P 500, which can be seen in figure 1, has formed a very large double top formation which formed over 4 years. A top of that size and that time will take a long time to complete its downward move. The dotted vertical line in the following charts are the dates which I last spoke of and the thick horizontal blue lines are prices at which they were at that day. As you can see, the XLF has severely underperformed since last mentioned here on August 31st. With no sign of a bottom it is my opinion that the financials will continue to be an underperforming sector in the months to come. The health care sector which initially looked bearish relative to the S&P and was in a down trend relative to the S&P in August, turned higher and became bullish on November 9th. The newly established relative up trend remains healthy and that sector will likely remain a leader in the coming month. Figure 1 chart by metastock

The next chart, figure 2, shows the material and industrial sectors. Both remain in strong up trends relative to the S&P as forecasted back in August. Strength continues in the material stocks (bullish setup for Gold & silver stocks mentioned last week) and will likely continue with the commodity bull market that is in existence. Industrials have a strong tendency to have large swing in performance. Given the stock market weakness and the inability for relative strength to pick up in recent months I would avoid this sector in preference for Health care, Materials, Energy and technology. Figure 2 chart by metastock The next two sectors to analyze are the energy and technology sectors which I stated would be strongest going forward back in August. Energy has continued to be a stellar performer and technology has outperformed the S&P 500 although not as much as materials and energy. The relative performance of energy stocks is still strong and will likely remain so. Technology stocks have seen some recent selling but overall are still positive vs. the S&P. Going forward these two sectors will likely remain strong. Figure 3 chart by metastock

The sectors that will be the best for investment in the coming months will be Energy, Materials, Health and Technology. The two sectors I would avoid are Financials and Industrials. Of course I'm speaking here on a relative basis. These sectors may fall but fall less than the S&P or climb more than the S&P. In addition to these sectors outperforming, large caps will likely continue to outperform small caps as mentioned on September 14th (<http://tradesystemguru.com/content/view/87/58/>). The following chart shows how the out performance of the Dow (large cap) vs. the Russell 2000 (small cap) has accelerated and remains in a strong uptrend. Greater allocation to large cap names vs. small caps is best for 2008. Figure 4 chart by metastock -----

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