TRADING ANALYSIS

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A New Trading Year

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POWERED BY:

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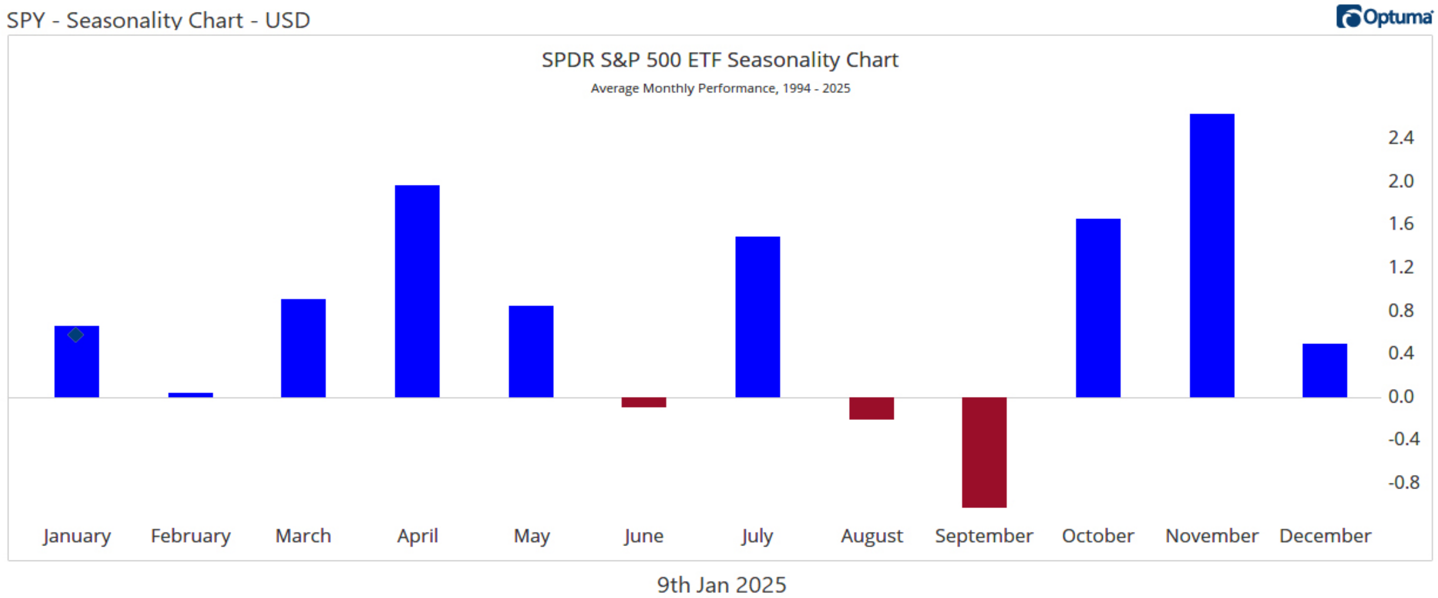
Hey Traders!

So, the first thoughts I have at the beginning of a new calendar year don't directly take me to forecasting a net year-end return of the **SPX**, but rather in the more speculative, swing-wave time horizon, I'm interested in what's setting up as possible momentum trades in the next couple of months. Just like swimming with the current is easier than swimming against the current, Trading with the momentum flow is much easier than counter-trend trading. In today's report, I'll be researching where the momentum will be carrying the markets into the first quarter of 2025.

First, Let's take a look at a chart of

Seasonality of the SPX

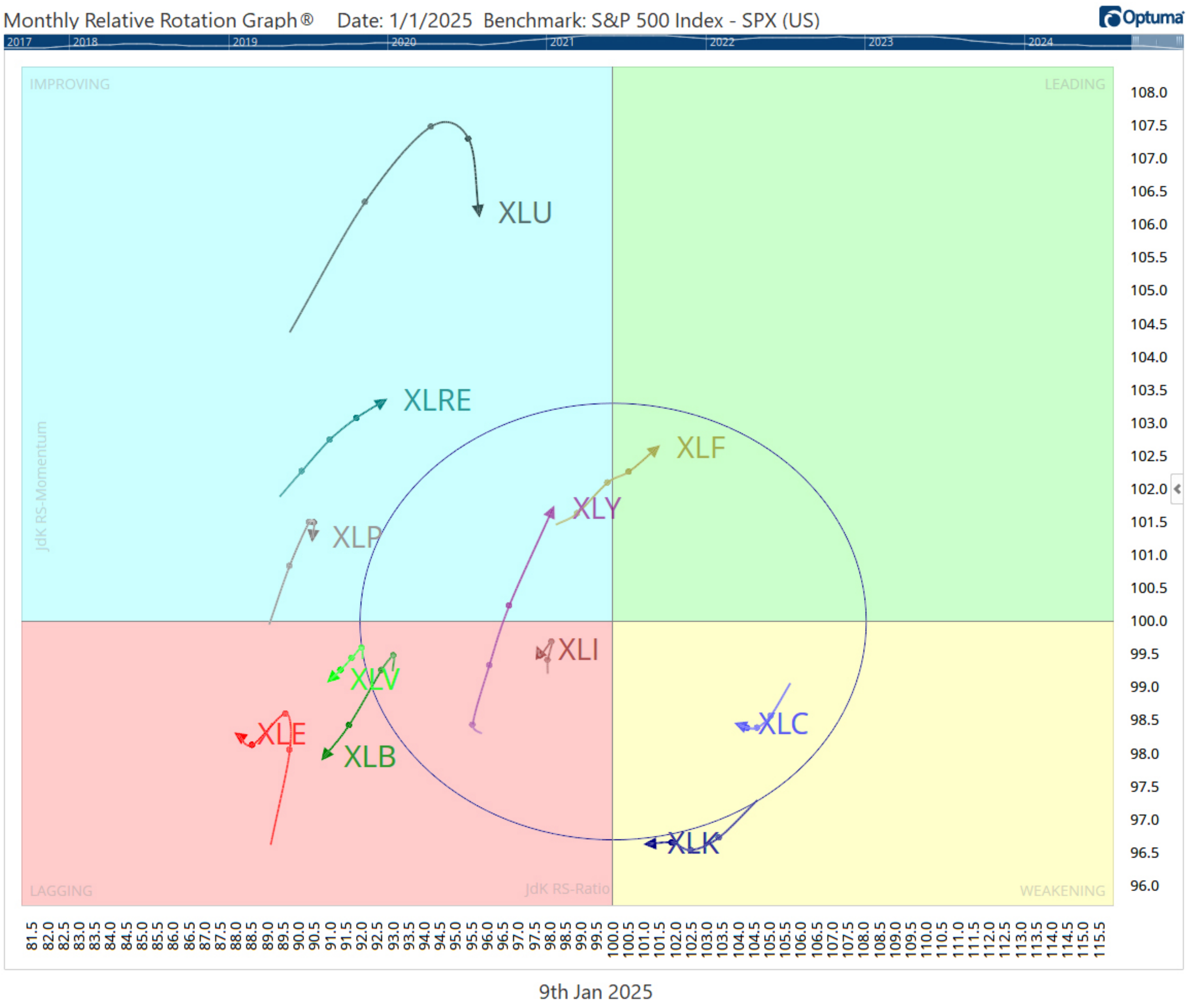


This seasonality chart shows the average monthly performance of the **S&P500** over the past 30 years. True, there is no guarantee that past performance will predict future performance but this information is only one piece of the puzzle that will help identify tradable avenues. Markets haven't established a foothold yet as we are only into the second week of January. Still, the current performance, as represented by the diamond in the January bar, seems to be on par with the average monthly performance for the whole month. Looking forward into February, it usually is a neutral performing month, with almost no change but positive performance picks up into March and April and settles down again in May. June typically sees a small pullback while July shows to be the 4th strongest month for market gains. Don't be fooled by the old saying "Sell in May and go away" In today's digital marketplace where information flows nearly instantaneously, this saying really has no justification as it may have had decades ago. August and September are usually when the bear rears its ugly head and can increase investors' fears to the point of capitulation upon which, the 4th quarter of the year typically sees substantial gains.

Again, I'm not promising that this year will be exactly the same as that seasonality chart; just that those are the 30-year average returns by month for the SPX. We'll look into the seasonality of key sectors and drill further down into the market.

Let's move on over to a monthly RRG of the Sectors. A longer-term horizon will show where the current strength and momentum are and the vectors will give us a hint as to where the longer-term momentum will carry each sector. Then we'll drop down into the Weekly RRG to give us a more near-term perspective that will guide us over the next couple of months of the new year.

Here's the monthly RRG:



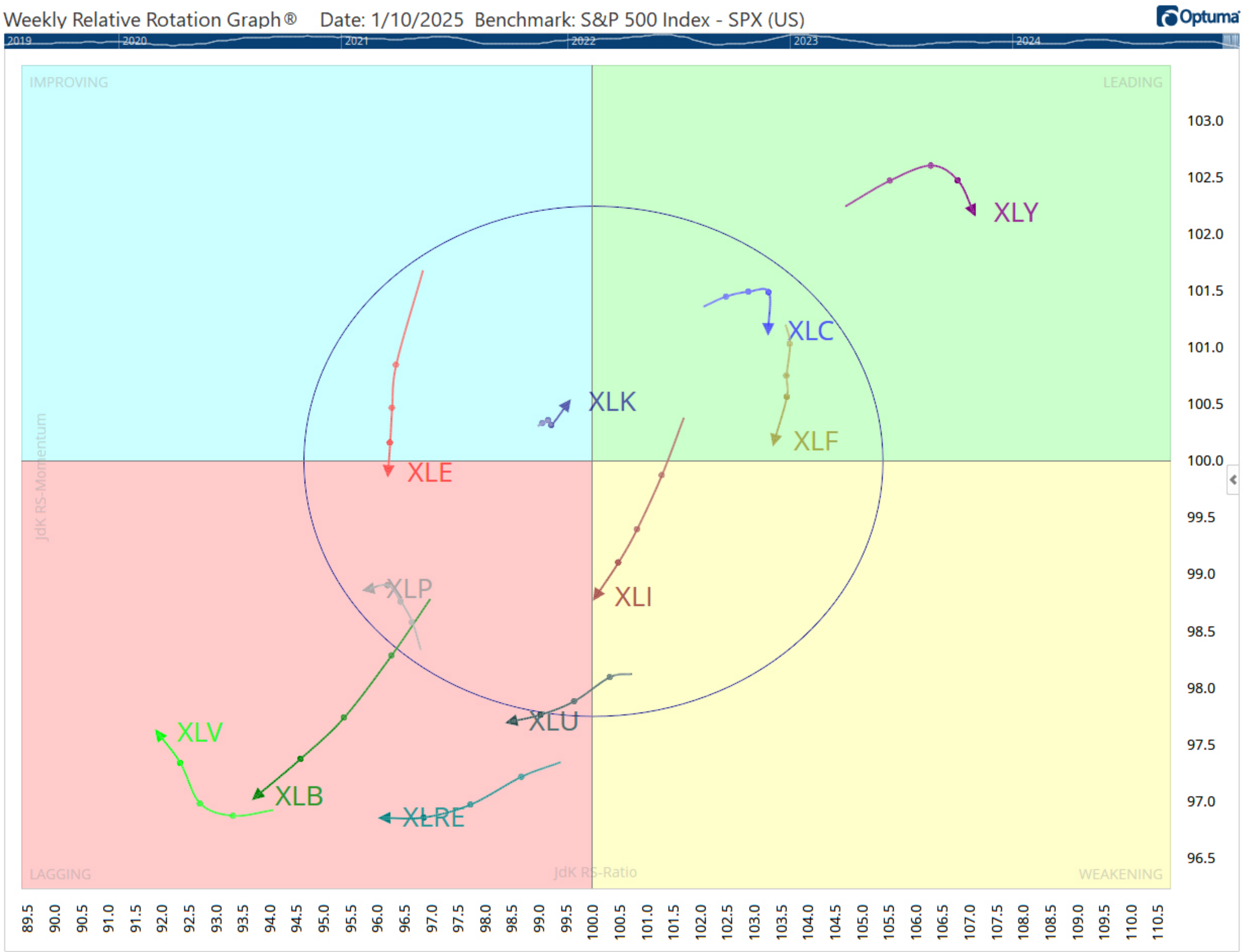
To calibrate yourself, Relative Strength vs the benchmark **SPX** is plotted on the X-axis, and Relative Momentum vs the benchmark **SPX** is plotted on the Y-axis. outperformance happens when the Relative Strength ratio is greater than 100. Investor interest is growing when Relative Momentum is rising and is outperforming when that ratio exceeds 100. When both of these are in outperforming conditions, the quadrant is known as the “Leading Quadrant”. When only Relative Momentum is > 100, this Quadrant is known as the “Improving Quadrant”. We want to search for new potential trading opportunities generally from within these two quadrants.

So, looking again at the Monthly RRG, we can see that the **Financial** sector is currently in an outperforming condition for both Relative Strength and Relative Momentum. In the Improving quadrant, **Consumer Discretionary** is rising rapidly and the most recent segment of the vector is increasing in length from prior segments. This means that velocity is increasing, or accelerating. This is a good sign for us to focus our search within these two sectors. Yes, the **Utilities**, **Real Estate**, and **Staples** sectors also are positioned inside the Improving quadrant. But both Utilities and Staples are showing a rapid reversal of Relative Momentum and likely aren’t good prospects for trading opportunities. I wouldn’t rule out the **Real Estate** sector, but it has a much lower Relative strength ratio than **Financials** and **Discretionary** so if it truly is going to make it to the Leading quadrant, I think it won’t necessarily be happening any time soon.

The only other two sectors that still maintain outperformance from a Relative Strength perspective are the **Communications** and **Technology** sectors, which are seen down in what we call the “Weakening Quadrant”. One promising feature of their vectors is the turn from the southerly heading to a more westerly heading. We’d like to see these continue to rotate northward, and turns from here in the Weakening quadrant back to the northeast would certainly provide opportunities for further advancement in select securities within these two sectors.

Hold that focus on where the longer-term strength is and we'll now look to see if that pairs up with a shorter time horizon by looking at the Weekly RRGs

Weekly RRG



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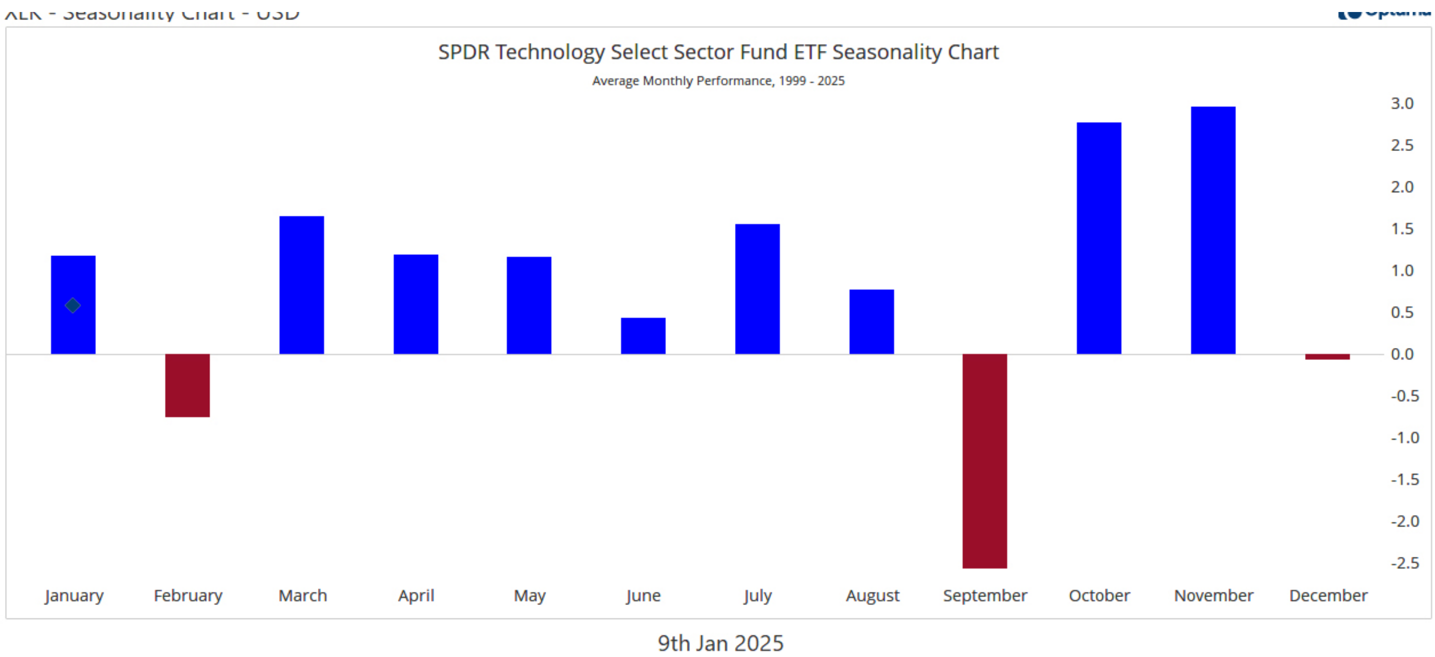
Same concepts, just a shorter time frame for performance measuring. In the Leading Quadrant, I see the **Consumer Discretionary**, **Communications**, and **Financial** sectors. In the Improving Quadrant, the only sector I see there is the **Technology** sector but I do like the shape of the vector that is just recently formed. The **Financials** sector has shown a southerly heading over the past four weeks which is indicative of a consolidation pattern, thus the loss of Relative Momentum. However, it hasn't shed much Relative Strength, and this pattern, by itself, doesn't make a Sell signal. We've also seen a turn to the south in the past week in **Communications** and in the past two weeks, for the **Discretionary** sector, however, they both continue to hold on to their Relative Strength outperformance and, while they may begin some period of consolidation, this isn't a signal to head for the exits. That said, it also isn't necessarily a place to start looking to add new positions, though, existing positions with strong uptrends could still be added to on pull-backs during this type of pattern consolidation.

Where I see new opportunities is inside the **Technology** sector once again. It's a sector that fell off the radar late last August as Relative Strength on the Weekly RRG moved from right to left, into the Lagging Quadrant. Now, we are looking at a sector that is showing us a northeasterly heading and is very close to crossing over from the Improving into the Leading Quadrant, possibly within the next couple of weeks we could see the **XLK** penetrate that border.

OK, let's return to the Seasonality chart, only this time, it will be the Seasonality of the **Technology** Sector.

XLK Seasonality



This chart shows the average monthly performance of the **XLK** over the past 25 years. January is typically a strong positive month and current performance as indicated by the diamond in the middle of the bar suggests that the **XLK** is currently below average, thus increasing the probability of regression to the mean with more gains to come. Unlike **SPX**, February's average monthly performance of the **XLK** would suggest that we see a pullback before setting up another six-month trading opportunity within this sector. September is historically a significantly negative month for Technology while October and November are seen as the highest-performing months for the **XLK.**

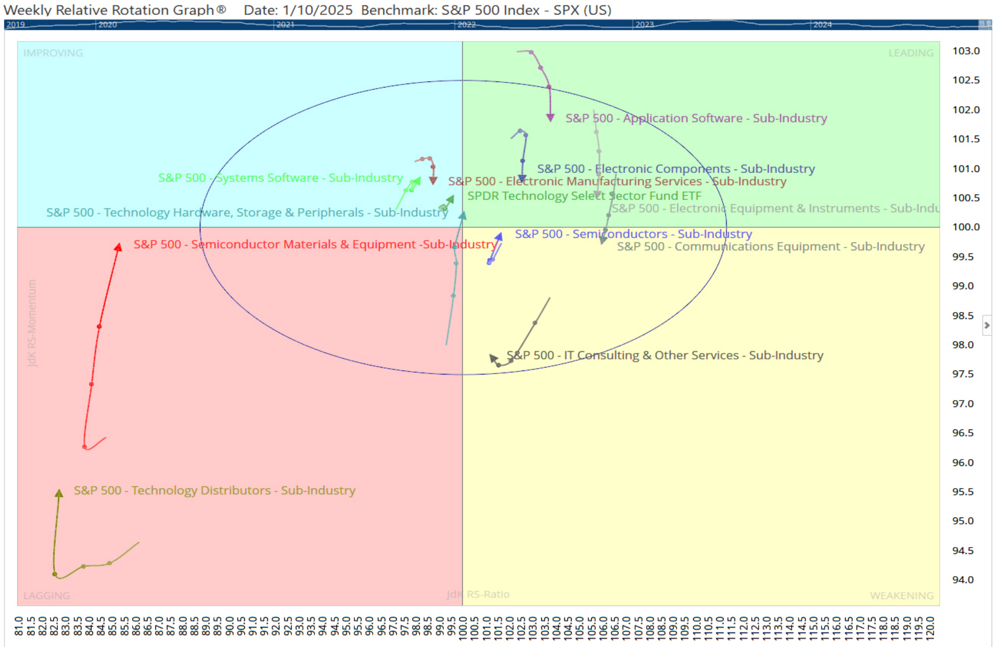
So what's the next layer? Each Sector is organized by Industry sub-groups. There is a Global Industry Classification System, referred to as GICS that give us the breakdown of the Technology Sector thusly:

XLK GICS Sub-Industries

Code	Name	RS Ratio
CNT: 12		
SP500-45201020	S&P 500 - Communications Equipment - Sub-Industry	105.9
SP500-45203010	S&P 500 - Electronic Equipment & Instruments - Sub-Industry	105.7
SP500-45103010	S&P 500 - Application Software - Sub-Industry	103.7
SP500-45203015	S&P 500 - Electronic Components - Sub-Industry	102.5
SP500-45301020	S&P 500 - Semiconductors - Sub-Industry	101.6
SP500-45102010	S&P 500 - IT Consulting & Other Services - Sub-Industry	101.2
SP500-45202030	S&P 500 - Technology Hardware, Storage & Peripherals - Sub-Industry	100.0
XLK	SPDR Technology Select Sector Fund ETF	99.5
SP500-45203020	S&P 500 - Electronic Manufacturing Services - Sub-Industry	98.7
SP500-45103020	S&P 500 - Systems Software - Sub-Industry	98.1
SP500-45301010	S&P 500 - Semiconductor Materials & Equipment -Sub-Industry	85.3
SP500-45203030	S&P 500 - Technology Distributors - Sub-Industry	82.7

As you can see, I have them sorted in descending order by their Weekly Relative Strength Ratio. Currently, the **Communications Equipment** sub-industry holds the highest relative strength and the **Technology Distributors** sub-industry has the lowest relative strength. Stocks are classified by these sub-industry groupings and we can drill down into whichever group catches our attention based on whatever criteria we are researching at the time. This is one method we use to search for trading opportunities. When you find possible candidates that fit your criteria, you can further refine that list by digging into the fundamentals of the individual company, analyst forecasts, etc. Ultimately, at some point in your research, you will have determined that you have adequately analyzed to a point where you understand your risks and potential rewards. After this point, you can develop your trade plan and follow that with management of your reward/risk as the trade plays out.

Tech Sub-Industry Weekly RRG



Plots

FQCS	Name	Ratio	Momentum
SP500-45201020:USSP	S&P 500 - Communications Equipment - Sub-Indu	105.9	99.8
SP500-45203010:USSP	S&P 500 - Electronic Equipment & Instruments - S	105.7	100.5
SP500-45103010:USSP	S&P 500 - Application Software - Sub-Industry	103.7	101.8
SP500-45203015:USSP	S&P 500 - Electronic Components - Sub-Industry	102.5	100.8
SP500-45301020:USSP	S&P 500 - Semiconductors - Sub-Industry	101.6	99.9
SP500-45102010:USSP	S&P 500 - IT Consulting & Other Services - Sub-Inc	101.2	97.8
SP500-45202030:USSP	S&P 500 - Technology Hardware, Storage & Periph	100.0	100.2
XLK:US	SPDR Technology Select Sector Fund ETF	99.5	100.5
SP500-45203020:USSP	S&P 500 - Electronic Manufacturing Services - Sub	98.7	100.8
SP500-45103020:USSP	S&P 500 - Systems Software - Sub-Industry	98.1	100.8
SP500-45301010:USSP	S&P 500 - Semiconductor Materials & Equipment -	85.3	99.7
SP500-45203030:USSP	S&P 500 - Technology Distributors - Sub-Industry	82.7	95.5

Type Code or Name to add an item to the chart

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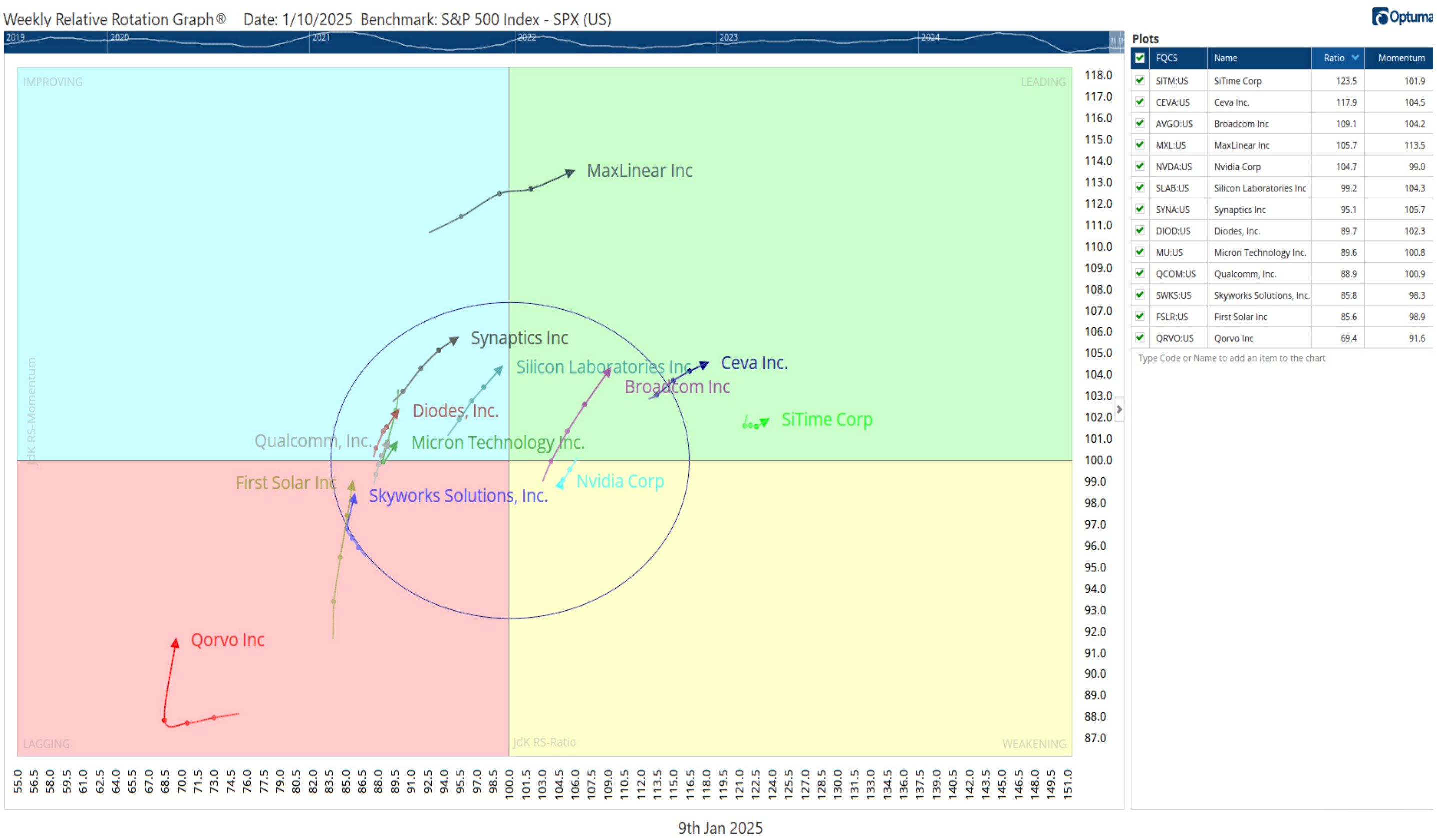
Here's the Weekly RRG showing the individual industry sub-groups, again, ranked by Relative Strength Ratio. One vector that stands out to me now is the Semiconductors sub-industry that just made a hook reversal from down inside the Weakening Quadrant and has a northeasterly heading. Of course, without looking, if you've been following this market, you could probably guess which stock in that industry subgroup is the primary reason for this hook. Did you say **NVDA**? You'd probably be right. Let's now look to see if it is indeed the sole reason behind this move or if other semiconductor companies may be looking to make a return to Leading status any time soon.

I found a total of 28 stocks within this particular GICS subgroup and I've taken an additional screen to identify those with northeasterly headings as you know, indicating outperformance is ongoing, and narrowed that list down to these 13:

Select Semiconductors



	FQCS	Name	Ratio	Momentum
✓	SITM:US	SiTime Corp	123.5	101.9
✓	CEVA:US	Ceva Inc.	117.9	104.5
✓	AVGO:US	Broadcom Inc	109.1	104.2
✓	MXL:US	MaxLinear Inc	105.7	113.5
✓	NVDA:US	Nvidia Corp	104.7	99.0
✓	SLAB:US	Silicon Laboratories Inc	99.2	104.3
✓	SYNA:US	Synaptics Inc	95.1	105.7
✓	DIOD:US	Diodes, Inc.	89.7	102.3
✓	MU:US	Micron Technology Inc.	89.6	100.8
✓	QCOM:US	Qualcomm, Inc.	88.9	100.9
✓	SWKS:US	Skyworks Solutions, Inc.	85.8	98.3
✓	FSLR:US	First Solar Inc	85.6	98.9
✓	QRVO:US	Qorvo Inc	69.4	91.6

At this point, you can take this list down further, applying your own personal additional criteria before deciding which, if any, of these stocks are worthy of opening a trading position. There's quite a broad range of Relative Strength ratios in this list and I'm certain as you look into the price charts, you will see some stocks with favorable patterns and others that you know you shouldn't touch with a ten-foot pole. Safe trading out there and drop us a line at info@tradinganalysis.com and let me know how you like this new report. Want more? Why not take a trial of our MAPS trader service and see what you are missing out on?

As I said last week, the new trading year should prove as equally as engaging as 2024 turned out to be. Come join us at TradingAnalysis.com.

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