

ENGINEERING THE MARKETS:

PRECISION, PATTERNS, & PROFITABILITY

**Harnessing Economic Insight
and Technical Precision**

December 18, 2024



POWERED BY:



by TERRY LONG

[TRADINGANALYSIS.COM](https://tradinganalysis.com)

INTRO

Hey Traders!

'Tis the week before Christmas and all through the house, not a creature was stirring . . . LOL, sorry, just getting into the season, I guess.

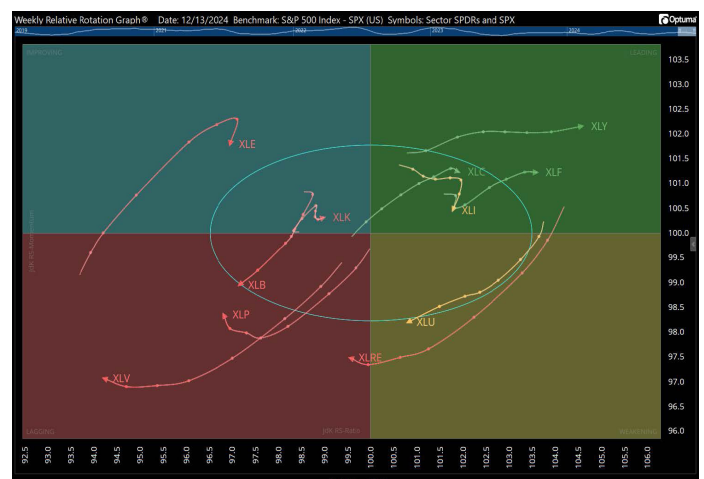
The markets continue to rally with many stocks continuing to push to new highs, while others are only getting started. This is where I want to be looking for new positions to add to my portfolio and the herd is getting bigger.



When the market is trending and a broad rally is in place, it can become even more difficult to identify stocks that are delivering outperformance versus the benchmark SPX. Moving in a **“herd-mentality”** even the average stocks might be perceived as being an outperformer. So how do we recognize true outperformance? We like to use the measures of Relative Strength and Relative Momentum as developed by our friend and colleague

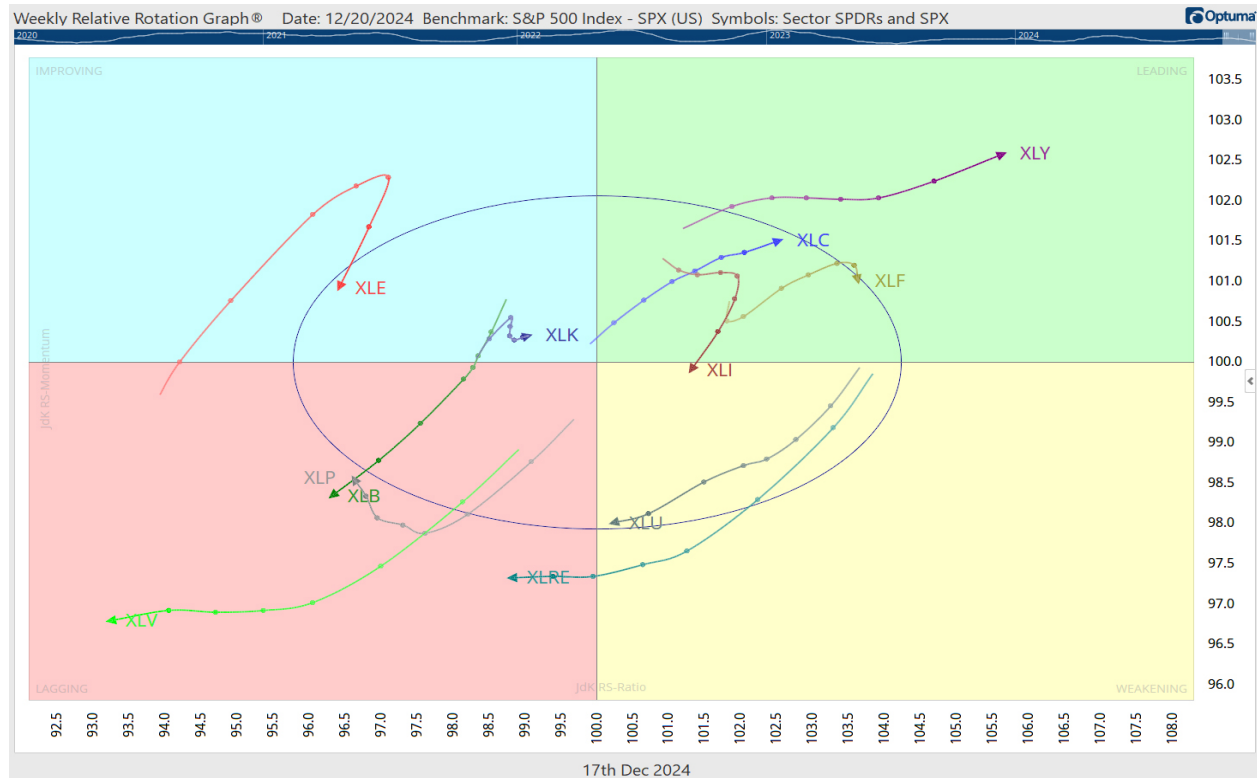
Julius deKempnaer in his Relative Rotation Graphs. To apply this technique, we'll use our tools in the Optuma Platform to analyze a collection of stocks, usually grouping them within some common framework, mostly, but not always by Sector. Then we'll take the results down and apply Elliott Wave Theory to see where they stand.

Last week, I presented you a grouping of stocks that had pushed to new All-Time Highs and then worked those into a Weekly RRG to demonstrate the difference among the group. Some had been and still are significantly outperforming the benchmark index while a few were showing us a pattern that suggested they were only just now getting into position to become outperformers over the next 6 - 8 weeks. This is where I like to look to find new candidates to add to my existing portfolio. The search begins by reviewing which market sectors are seen as improving or outperforming.



Weekly Relative Rotation Graph - 12/13/2024

Weekly RRG

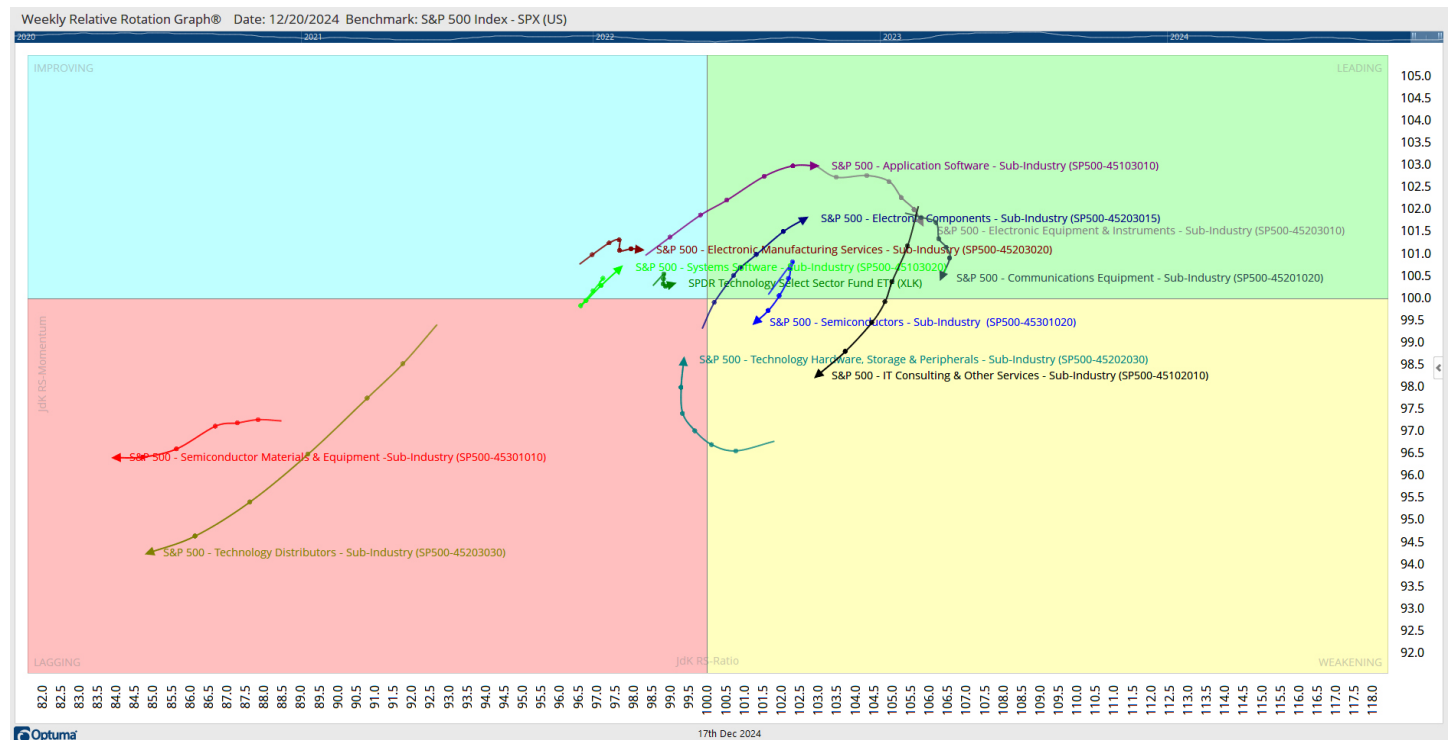


This is my starting reference point, looking at how the eleven sectors that compose the SPX have been performing over the last 6 or 7 weeks. Using these Relative Rotation Graph vectors, we can see the path that these sectors have taken. Vectors contain both direction and magnitude. Think of the length of the vector as representing velocity and the tip of the arrow is pointing in the heading that it is moving, so we have a sense of where we could see these vectors move in future weeks. Don't worry, I'm not going to give you a physics lesson here, but essentially many of these concepts are borrowed from the physics of motion. Of course, as an engineer, this makes perfect sense to me!

This week, I see The XLY as being the biggest outperformer relative to the SPX, so I might want to dig deeper into the Consumer Discretionary Sector for opportunities. Also, the XLC continues to move in a northeasterly direction inside the Leading quadrant. Moving north on these charts means gaining Relative Momentum while moving east on these charts means gaining Relative Strength, so a northeasterly move sees a combination of both Relative Strength gains and Relative Momentum gains.

Although the XLF is firmly established inside the Leading Quadrant, the heading has started turning south, meaning that there is now a loss of Relative Momentum occurring within this sector. You can see a more pronounced loss of Relative Momentum in the XLI with the addition of westward movement there, it is also shedding Relative Strength. This vector is giving us clues as to where we should be searching for our next opportunities.

In the Improving Quadrant, don't forget about the Technology Sector, the XLK. The weekly segments are short and close together, indicating a slower velocity or pace of development but the heading is now pointing eastward suggesting the possibility of a return to outperformance soon. I'm going to dig into the XLK makeup in this next RRG to show you the composition of this sector. What I discovered is that semiconductor and software have been playing a game of tug-of-war, with the group of software stocks outperforming while the group of semiconductor stocks have been underperforming. If the semiconductors begin to recapture relative strength, we could see a rapid acceleration of the XLK back towards the Leading quadrant.

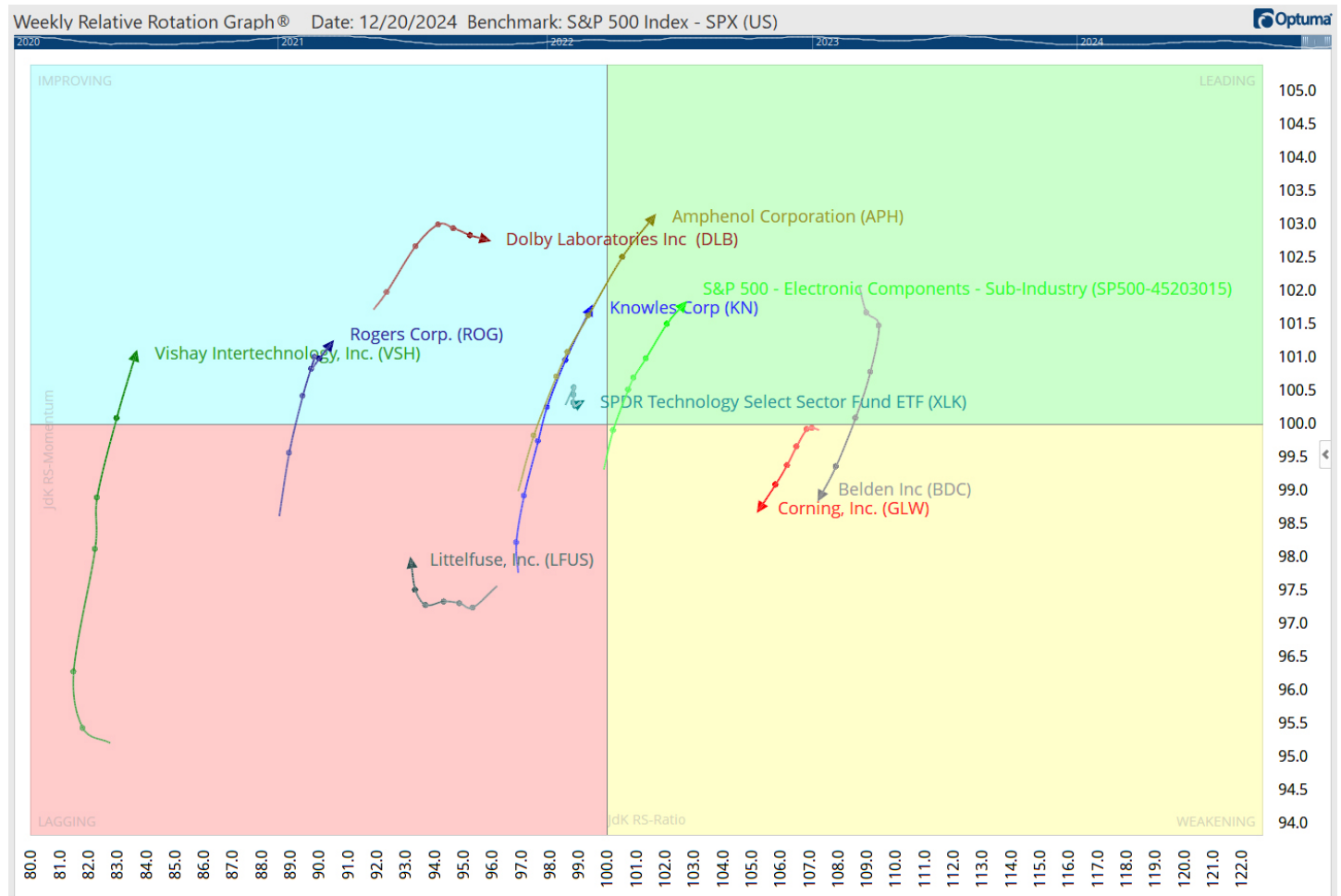


In this RRG above are the Industry sub-groups that comprise the whole of the XLK Technology Sector. Indeed, after looking at this chart, we can see that Technology as a whole has not been underperforming the benchmark, only a few industry groups are seen left of center, but the combined market cap and price action of those on the left have offset those on the right such that the collective XLK appears to be stagnant and left of center (the SPX). What we see moving NE in the Leading Quadrant is the Application Software and Electronic Components sub-industries. Semiconductors are moving southwest into the Weakening quadrant while the Semiconductor Materials & Equipment sub-industry is way far to the left in the Lagging Quadrant along with Technology Distributors. Rising vertically though still inside the Lagging Quadrant is Technology Hardware, Storage & Peripherals (think AAPL here as it's mighty market cap essentially drives this sub-industry group).

Groups that I see as Improving are Systems Software and Electronic Manufacturing Services. Both currently are underperforming the benchmark SPX as well as the overall XLK but they do have northeasterly headings indicating gains in Relative strength happening there.

SCREEN of the WEEK

Looking inside the **Electronic Components** Industry group, we have these eight stocks and their corresponding Weekly RRG vectors:



Applying the same logic as we did for the Sectors, these individual stocks are being compared to the SPX as the benchmark. The overall group is shown in light green inside the Leading Quadrant. The distribution of stocks across the graph shows which have been outperforming and which have been underperforming. Corning and Belden have recently been outperforming but are now fading, thus pulling the overall group's vector off of its rising heading. But it appears to me that those rising Relative Momentum conditions in stocks such as Amphenol and Knowles are stronger than the downdraft created by Corning and Belden, thus why the overall group remains in a rising condition.

KNOWLES CORP (KN)

is potentially now rising in what appears to be a 3rd of a 3rd of a 3rd as shown here. It's only recently started developing this motive behavior as a longer-term look at the chart should reveal to you. This looks to me like a stock that's running with the momentum to the upside. Key Fib levels are indicated on the chart with the next significant resistance level seen at \$23.81 corresponding to a high set back in January 2022



Dolby Laboratories (DLB)

All you audiophiles out there should recognize Dolby Labs, but as a stock trader, maybe not so much. Here's a long-term chart of DLB, from 2005 onward showing a long-term uptrend channel. Since January 2021, though, this stock has not really been making much of a name for itself.



It's only in the recent time frame that we are seeing some rising relative momentum. Go back and look at the RRG for DLB and you'll find it to the left of center, indicating that it has been in a period of underperformance relative to the benchmark SPX but inside the Improving Quadrant indicates that it recently underwent a period of rising momentum. Will it continue to gain relative strength and momentum? We can't answer that definitively but we could consider this a candidate for a breakout move. It still needs to test and break the 78.6% retracement of the most recent downtrend which I have marked as the end of 5 of what might turn out to be a new longer-dated uptrend in DLB



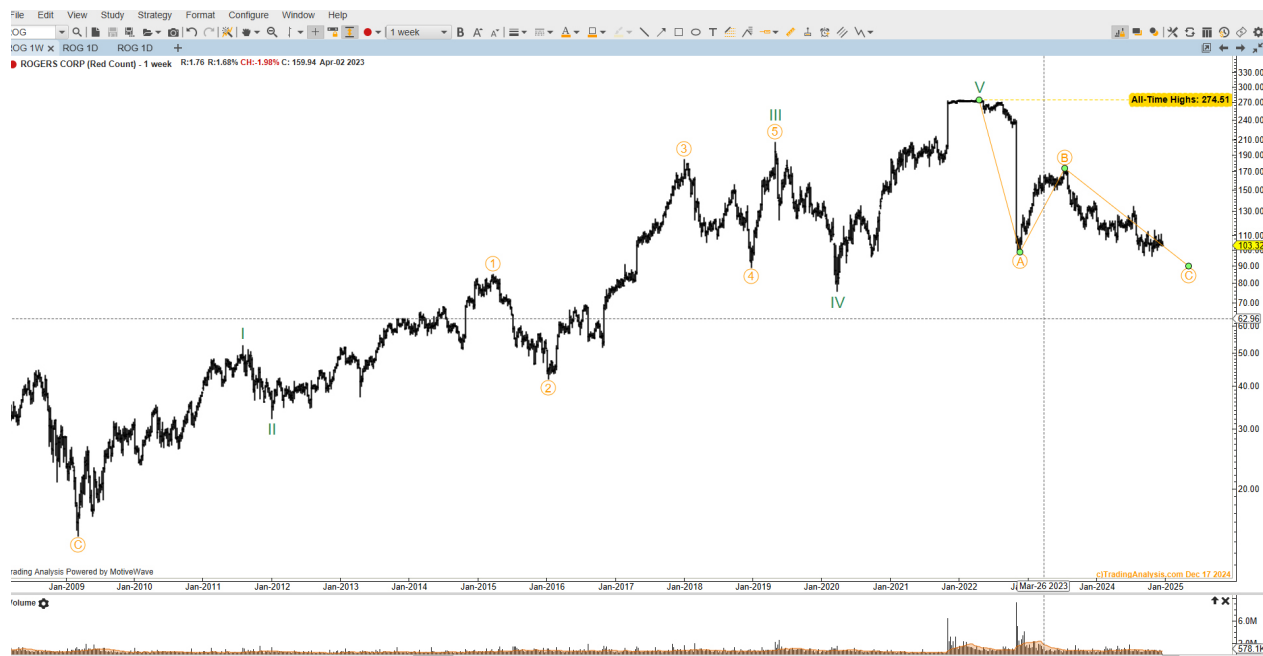
Little Fuse (LFUS)

This stock has been underperforming as indicated by its location down inside the Lagging Quadrant, though the recent upturn in its vector suggests investor interest may be gathering. However, the vector also shows us that it has yet to produce a move to the right to signal increasing relative strength. Looking at the long-term price chart here in MotiveWave, this stock has seen a multi-year sideways consolidation zone. As yet, there is no technical indication of an end to this corrective period except for the rising weekly RRG vector. Let's give this stock a bit more time to demonstrate a move towards outperformance, just keep it on your radar for now.



Rogers Corp (ROG)

I'm being honest here that I don't know anything about the history of this stock beyond what I see here in the price chart. What I see here is a stock that continues to underperform the benchmark SPX and you'll find this stock has a Relative Strength index of approximately 91 with a Relative Momentum of 101.5, putting it up into the Improving Quadrant but the low Relative Strength ratio means this stock has a potential to continue underperforming in the near future. I won't be looking to do any speculative trading on a stock with these characteristics.



Vishay Intertechnology (VSH)

Here's another stock that I've never heard of, and it has also been significantly underperforming the benchmark for quite some time. In the Weekly RRG, we show the Relative Strength at about 84 and the Relative Momentum at 101, so it is weaker than ROG and has much further to go to prove itself as a future leader. I've shown an uptrend channel from a swing low starting in late 2105 through the most recent low seen in 2024 to give a possible framework for future price action. Any break below that trend channel and this stock could easily move even lower. The stock is currently trading around \$17.50 and has the next upside resistance level at \$24.68 but the wave count that I've drawn here suggests we are moving inside a Flat ABC move and now down in the C-wave, suggesting much lower prices ahead. The upside momentum could just be a head-fake move higher in a counter-trend corrective move. Personally, I'm going to avoid this one.

