Financial Research Education & Data

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The FRED Report

Summary of Market View

In Stocks, we discuss some of the pluses and minuses of Point and Figure charting, and then move into a discussion of Growth vs. Value. There is no change here, except to note that in some respects, growth has gotten a bit stronger here, by our measurement. In Fixed Income, we look at various REIT ETFs, as these have been strong lately, and still have a strong accumulation model.

In Commodities, we discuss GDX and GDXJ as well as the metals, as these had a rough week last week. We discuss the charts, as well as our accumulation models on GDX. In International, we discuss Japan and look at two types of ETF: those that are not hedged, and those that hedge the Yen. Last, in Chart of Interest, we look at Singapore. We had suggested EWS as a substitute for Japan a few months ago, and it is trading well with a higher yield.

INSIDE THIS ISSUE:

Special points of interest:

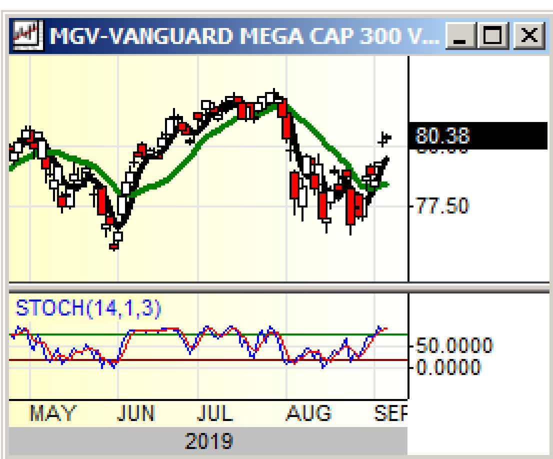
- We saw some key reversals on GLD (SPDR Gold Trust) and SLV (iShares® Silver Trust) - in particular SLV - last week. We have had, and continue to have, concerns that our accumulation models have suggested a sharp drop in the metals, and that prices were not sustainable in the 140 area.

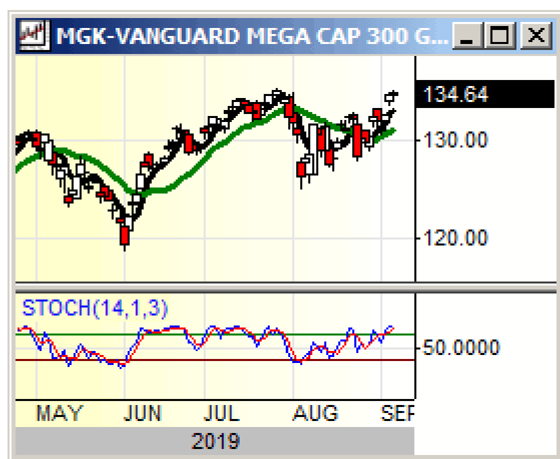
Stocks Review

We had interesting discussions with some Dorsey clients (thank you Elizabeth!) about Point and Figure charts and some indicators surrounding these, and we will discuss this before diving into the discussion of Growth vs. Value we promised clients on Thursday's conference call. Realize that this is a complex subject that needs more than a paragraph. We discuss some of our methods in a training manual, [available on the website](). We will discuss Point and Figure in general, here – but we do not use it. However, many clients use Dorsey research in conjunction with The FRED Report, and are successful. There is certainly room for both disciplines in an advisor's arsenal.

First let us say that we like Dorsey, and Point and Figure charting – Tom is a friend of mine, and has done a great job, but the method has limitations (as ALL technical methods do). The big advantage of P&F charting is that there are concrete and clear signals embedded in the charts themselves, without using any indicators to speak of. However, we think that indicators are important. P&F charting is one of the oldest forms of charting, and often functions in a similar way to trend following systems, which means a lot of the Dorsey - type signals such as Bullish% are too slow (and are hard to front run as they are concrete signals) to be helpful. They have the virtue of keeping you in long-term moves, but the cost is when the trend finally changes, they are slow to react.

Now, we will look at Growth vs. Value. We look at both large and small cap ETFs, as often the first signs of a change in the relationship between these shows up in small cap first. The ETFs we look at are: MGV (Vanguard Mega Cap 300 Value Index ETF), MGK (Vanguard Mega Cap 300 Growth Index ETF) plus VBR (Vanguard Small Cap Value ETF) and VBK (Vanguard Small Cap Growth ETF). First, we will look at the large cap area, and second we will look at small cap. As we look at MGV we note that for the first time in a while, it is underperforming MGK on all timeframes. We do not even need to discuss support and resistance or indicators – just look at the current level of the index relative to past highs. Growth continues to do better. A look at small cap shows the same pattern. Interesting, that the last time we did this analysis, the difference in the small cap units was more pronounced in favor of growth than large cap, and now large cap has followed small cap in this regard. That suggests our primary methodology of comparing large and small is a good one. We show daily charts, below, but suggest looking at the other timeframes.



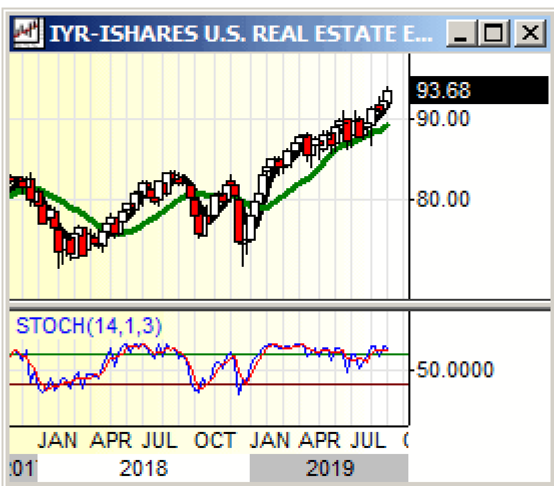


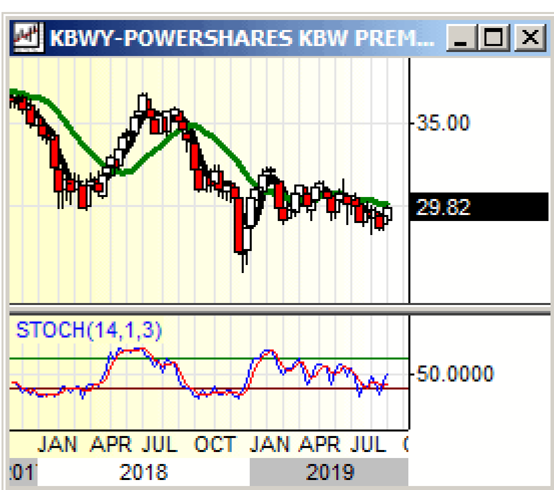
Fixed Income Review

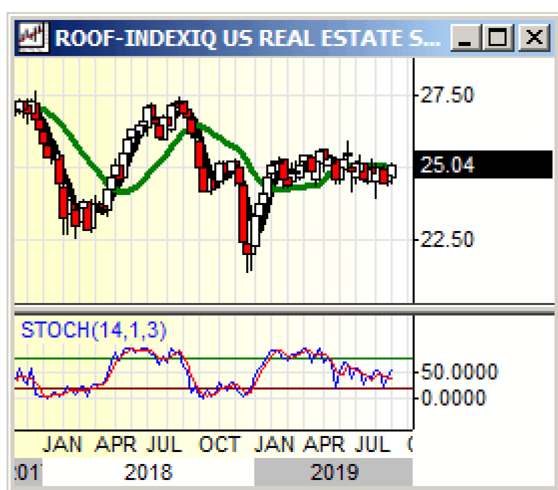
REITS have been strong this year, and we remain over weight these in our Sector Review. The main sector REIT is XLRE (Select SPDR® Real Estate Fund), and this has limited data, so we will look at IYR (iShares® Dow Jones Real Estate Index Fund, plus a couple more that are interesting – VNQ (Vanguard REIT ETF), KBWY (Invesco® Premium Yield Equity REIT ETF), and ROOF (IQ Small Cap Real Estate Fund).

The first thing to note is that the chart of XLRE is a close to perfect fit with IYR, when superimposed on that unit. Both have been coming out of very long bases, and IYR is close to the all-time high set in 2007. A move above 95 would be a breakout. Since this is so strong, of course stochastics are elevated on all timeframes. IYR has support in layers from 92 to 87, and very strong accumulation models. VNQ has improved relative to all of the REIT ETFs and is now at all-time highs vs. the 2007 high. For a while this was one of the worst of these ETFs, but now it has improved sufficiently to be either our favorite or second favorite for investment – IYR is the big competition. VNQ has support, also in layers, from 87 (the 2007 high) to 72. The yield on IYR is 2.7%, and on VNQ it is 3.8%.

The small cap REIT ETFs are more nuanced. Our favorite remains KBWY, which is building a base on both the weekly and monthly charts. Support is the 28-area, and resistance is in layers from 31 to 33 or just below. Weekly and monthly stochastics are in buy mode, and the daily is overbought. The yield is around 6.4%. ROOF is a slightly worse chart and has difficult liquidity. Support is 24 or so, and resistance is from 25 to 26. The yield on this is high, but lower than KBWY at around 6.2%. We include ROOF as an example of a small cap REIT but would not use it. We have been recommending a combination of IYR and KBWY but could expand that to include VNQ given the recent strong performance there. We show weekly charts, below.







Commodity Review

We saw some key reversals on GLD (SPDR Gold Trust) and SLV (iShares® Silver Trust) - in particular SLV - last week. We have had, and continue to have, concerns that our accumulation models have suggested a sharp drop in the metals, and that prices were not sustainable in the 140 area. This could mean a sharper than expected drop into the low 130's on GLD is possible. Be a little careful with this area here. Since most of our clients are trading GDX (Market Vectors Gold Miners ETF) and GDXJ (Market Vectors Junior Gold Miners ETF), we will look at these ETFs. These are trading better than the metals themselves, but still have reversal patterns. First, we will look at GDX.

Like the metals, GDX is in a long base and has failed (for now!) at the top end of it. Resistance on GDX is in layers from 31 to 32, then 38. Support is also in layers from 24 to 20, with the upper end close at hand. The monthly and weekly stochastics are overbought but not yet in sell mode, while the daily is a sell pattern now. That probably needs to recycle before this makes another run at the highs. Our ultimate target is the 35-area, but below 24 would negate that – so cautious players may want to sell some here.

GDXJ is similar but the monthly chart is much weaker. It has resistance in layers from 43 to 50, which so far has failed. Support is 35 to 30. The monthly stochastic is up but weaker and has almost moved into sell mode. The weekly is very close to a sell signal as it has come very close to going below 80. The daily is in sell mode and is a bad pattern to boot. One way to play this area would be to sell and take profits in GDXJ while moving some of that money into GDX as it is cheaper – an advisor could buy the same amount of shares and have money left over. We show weekly and monthly charts, below.

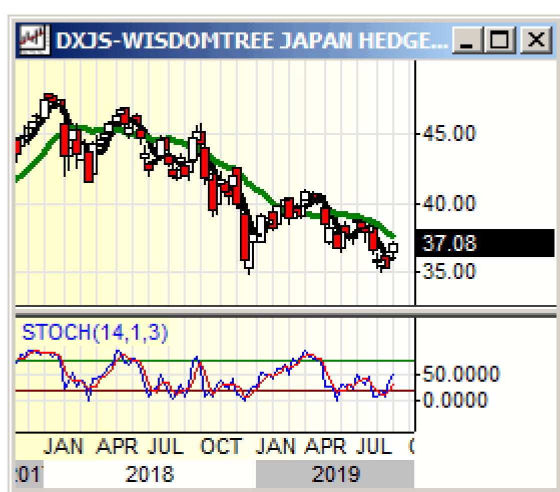
International Review

This week we will look at Japan. There are two main types of ETFs in this market – the ones that hedge the currency and the ones that do not. We look at two of each: EWJ (iShares® MSCI Japan Index Fund), SCJ (iShares® MSCI Japan Small Cap Fund) plus DXJ (Wisdom Tree Japan Hedged Equity Fund ETF), DXJS (Wisdom Tree Small Cap Japan Hedged Equity Fund ETF). While there are other Japanese ETFs these are the main ones used in models. From looking at the volume, we can see that most of the money is flowing into the larger cap units.

First, we'll look at the unhedged ETFs. EWJ is in a base with support in the 53 to 52 area, and resistance is 55 to 56. The daily stochastic is overbought as this has moved up short-term, and the weekly is in buy mode, along with the monthly. This is not a bad chart (in fact, it is the best of these four ETFs), and is the most liquid of these. SCJ is slightly worse after many years of being the strongest of these. It has support in the 66 area, and there are layers of resistance between 69 and 71. This chart is thin right now but looks ripe for investment. It is the second strongest of these units.

In the hedged ETFs, DXJ, the large cap unit is the most liquid and is also the best chart, but not by much. The reason these are weaker is Yen strength over the last few months (we will cover this in the midweek). DXJ has support from 45 to 44, and resistance is 50 to 52 or so. The daily stochastic is overbought, while the weekly and monthly are in buy mode but not as strong as EWJ, above. DXJS is weaker with support at 35 to 34, and resistance is in layers from 38 to 41. The monthly stochastic is almost a failed buy, while the weekly is in buy mode but weaker than the rest of these. The daily is also up and overbought.

The last time we wrote about these we suggested using the unhedged units as we will stick with that recommendation here. The only difference between then and now is that we have been emphasizing EWJ, but now will suggest adding a bit more to SCJ. It should do better into yearend (perhaps because of an easing of trade tensions, but who really knows?). We show weekly charts, below – and suggest looking at the other timeframes.



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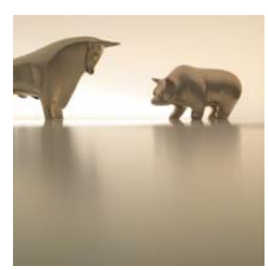
Weekly Chart of Interest

EWS is a good alternative to Japan, as it yields more than DXJ while having a very similar chart pattern. Like all of the Japanese ETFs, it is in a base. Support is 22 or so, and so far, has held. The weekly stochastic has recycled, as has the monthly. The daily stochastic is overbought but has not turned down. The yield on this is around 3.8%, which compares favorably to EWJ 1.63%, and DXJ 1.79%. We show charts, below.

About Our Organization



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