Financial Research Education & Data

Volume 15, Issue 1
Trading Week Starting
January 3, 2023

The FRED Report

Summary of Market View

In Stocks, we discuss sentiment indicators and show the indicators we use. The reason for this is that, after patiently waiting for all of 2022, Put/Call is finally giving some buy indications. This suggests an attempt at an up January. In Fixed Income, we discuss two Dividend Stock ETFs we recommended in 2022 that had positive returns in a difficult year.

In Commodities, we discuss the broad-based Oil Stock ETFs. In International, we discuss Canada and Australia. Canada has real potential for 2023. Last, in Chart of Interest, we discuss a Growth ETF that looks quite attractive, and suggest you check the performance with your desk or wholesaler.

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Special points of interest:

- It looks as if stocks should start January off well – daily stochastics are in buy position, some breadth tools like the McClellan Oscillator are in position to rally, and the sentiment picture, as shown here, has improved.
- While not strictly “fixed income”, dividend stocks were important in 2022, and are likely to be important in 2023 if the market remains range bound, as we expect.
- Canada has real potential for 2023.

Stocks Review

We will give a preview of our annual forecast for stocks, and then discuss sentiment indicators, as the signal we have been waiting for on Put/Call pretty much finally occurred in the last trading week of 2022. First, as to the markets for the year ahead, this week and next should be up, but in the context of a trading range year. Since the October low, our recommendation has been to be fully invested. We eliminated margin on the move above 400 on SPY. Now, the market looks to be set up to rally in January. We will watch and possibly sell this rally depending on some of the indicators. We note that our tax bounce list has been interesting: only three stocks out of ten had a second buy on December 30th, but nothing hit targets either.

"This week and next should be up, but in the context of a trading range year."

I know we published the Put/Call Ratio last week, but the readings at the end of the week have finally started to act as we have been patiently waiting for. As you can see from the chart, the indicator is finally starting to spike. Let's explain why this is important in our analysis. There are two types of sentiment indicators – those that measure what people think (usually sentiment polls) and those that measure what people do. We follow both types, and you can see the charts on the next page. We have chosen Investors' Intelligence, as it is the longest running sentiment poll, since 1962. In addition, it has measured the same type of investor throughout that time (institutional investors and newsletter writers). Indicators that measure what people do are put/call ratios, mutual fund cash ratios, among others. We use the put/call as the data is collected by the exchange, updated and published daily rather than computed and aggregated over time. Put/call is more precise, in our opinion. Throughout the year, these indicators suggested that people were negative, but not panicking. The put/call is now spiking (although not as extreme as late 2018 or 2020), indicating that people are finally putting their money where their mouth is! Sentiment is bullish here.

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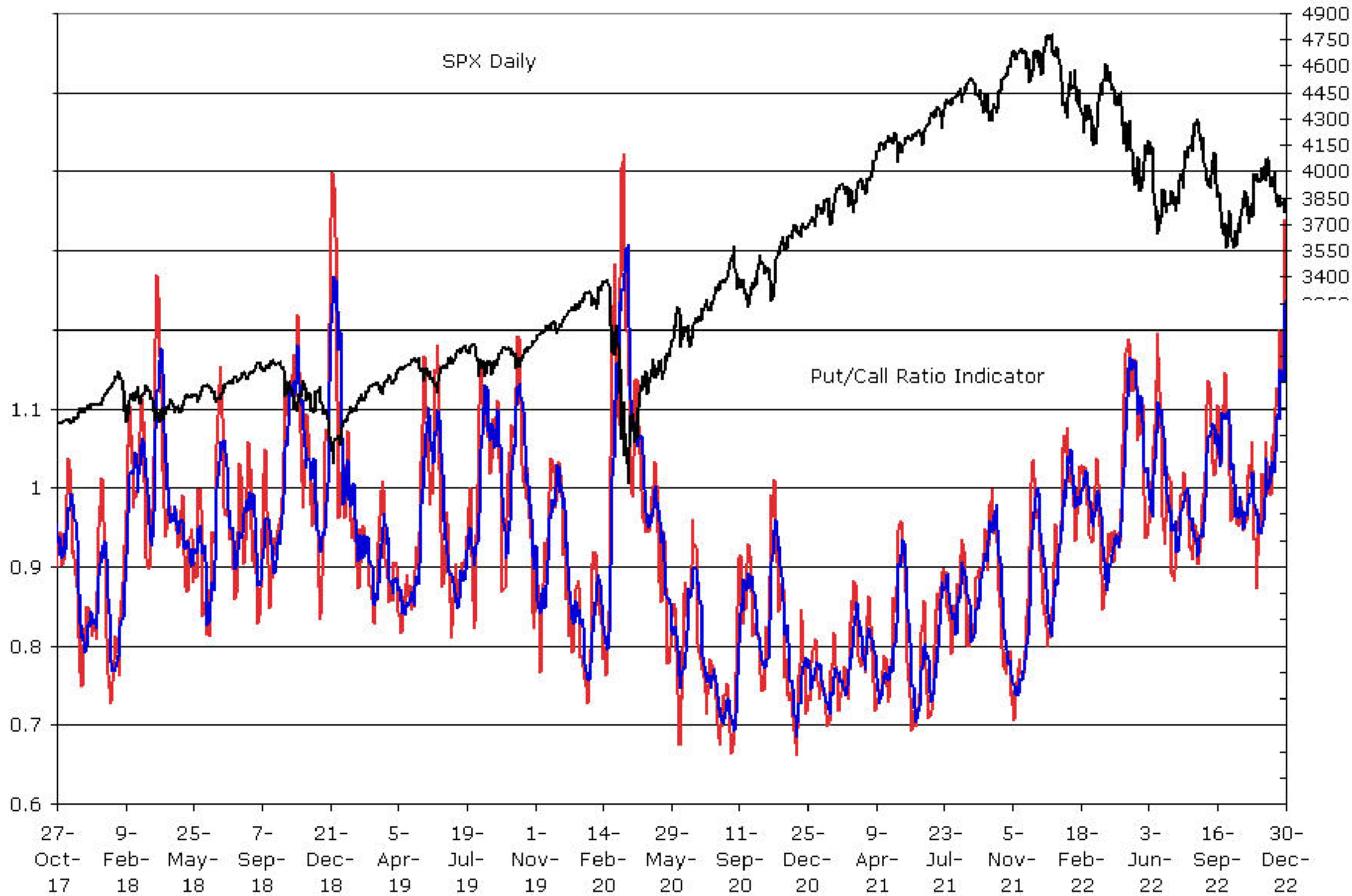
SPX Daily
Put/Call Ratio Indicator
4900
4750
4600
4450
4300
4150
4000
3850
3700
3550
3400
1.1
1
0.9
0.8
0.7
0.6
27-Oct-17
9-Feb-18
25-May-18
7-Sep-18
21-Dec-18
5-Apr-19
19-Jul-19
1-Nov-19
14-Feb-20
29-May-20
11-Sep-20
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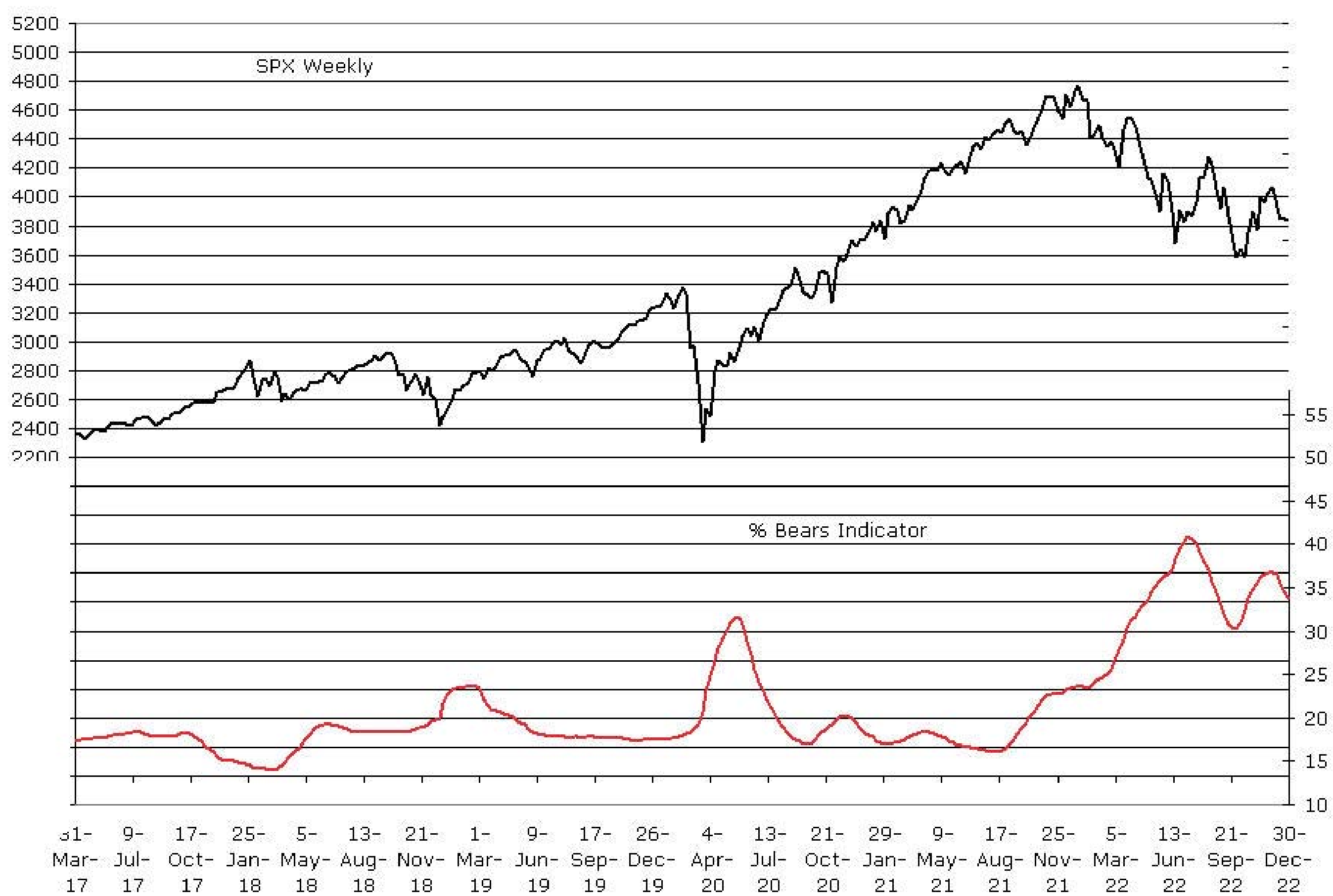
3-Jun-22
16-Sep-22
30-Dec-22


SPX Weekly
% Bears Indicator
5200
5000
4800
4600
4400
4200
4000
3800
3600
3400
3200
3000
2800
2600
2400
55
50
45
40
35
30
25
20
15
10
9-Jul-17
17-Oct-17
25-Jan-18
5-May-18
13-Aug-18
21-Nov-18
1-Mar-19
9-Jun-19
17-Sep-19
26-Dec-19
4-Apr-20
13-Jul-20
21-Oct-20
29-Jan-21
9-May-21
17-Aug-21
25-Nov-21
5-Mar-22
13-Jun-22
21-Sep-22
30-Dec-22

Fixed Income Review

While not strictly “fixed income”, dividend stocks were important in 2022, and are likely to be important in 2023 if the market remains range bound, as we expect. We will look at a couple of these here. Two units we recommended in 2022 are PEY (Invesco® High Yield Equity Dividend Achievers) and SPHD (Invesco® S&P 500 High Dividend/Low Volatility Portfolio ETF). These both have high yields (PEY is 4.22%, and SPHD is 3.89%) and good charts. For new subscribers, we have had a rule that any Dividend ETF we use must yield at least twice that of SPY, currently 1.65%. We are often asked about NOBL. The yield on NOBL is 1.94%, which does not meet our criteria as described for yield. PEY uses a broader index and stocks only have to increase their dividends for ten years instead of twenty-five. Because of these differences, the yield is double. PEY has resistance at 21.50 to 22 and support around 20. The daily stochastic is in buy mode and the weekly is a sell pattern.

SPHD is a low volatility, high yielding strategy that uses only the S&P 500 stocks. So PEY might overlap in some names, but not in most of them, because PEY is around 70% Small and Mid-Cap names. One nice thing about SPHD is that it has some sector constraints due to the relatively small universe. So, it is not just a Utility fund, for example. Support on SPHD is 42 or so, and resistance is the 46-area. If this is exceeded then a new high is possible. The daily stochastic is in buy mode, and the weekly is in sell mode suggesting a rally, and then be a bit careful. Both of these ETFs should work as income vehicles in 2023 and may give some chances for appreciation. In addition, both were positive in 2022.

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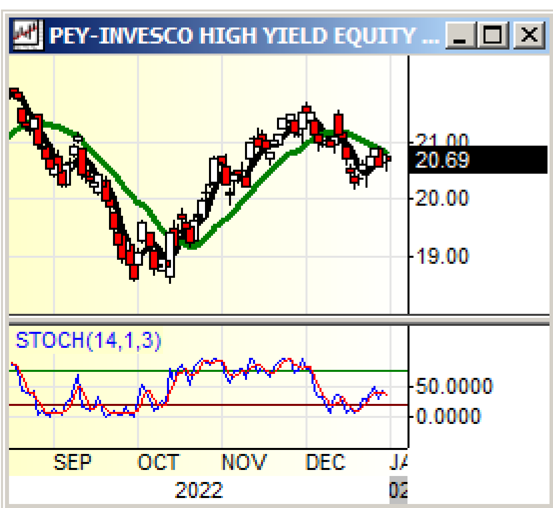
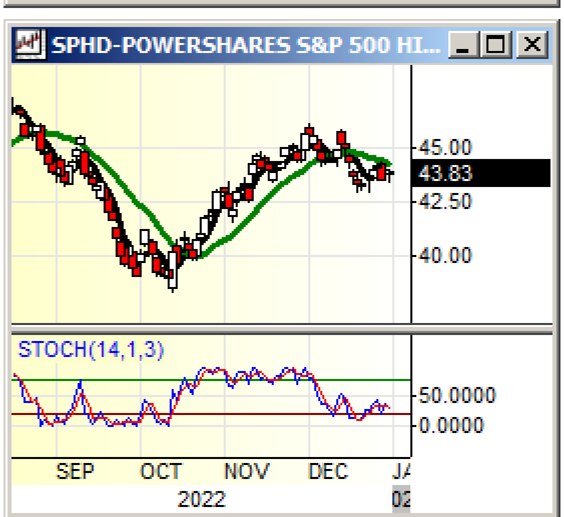




Commodity Review

We will look at oil stock ETFs as that sector was one of the only positive sectors in 2022. There are three broad-based ETFs we follow. These are XLE (SPDR® Select Sector Energy ETF), RYE (Invesco® Equal Weight Energy Index), and PSCE (Invesco® Small Cap Energy Sector ETF). XLE is the biggest of these in terms of volume, but there are problems with the ETF, as we have discussed in other reports. The biggest is that CVX and XOM are around 46% of the ETF. For us, RYE is a better choice, although it is thinner – and our recommendation has consistently been to buy RYE and add a position in either CVX or XOM for yield. We have been asked why we are not looking more at the exploration and production subgroups. Our answer is that we DO look at them, but because of the current administration policies against drilling, they may underperform the integrateds. There are some exploration stocks that may fare better, but the problem with XOP (SPDR Oil and Gas Exploration and Production ETF) or IEZ (iShares® Dow Jones Oil Equipment and Services ETF) is that they are broad based and may not have as much potential as the integrated units. Let's take a look at these.

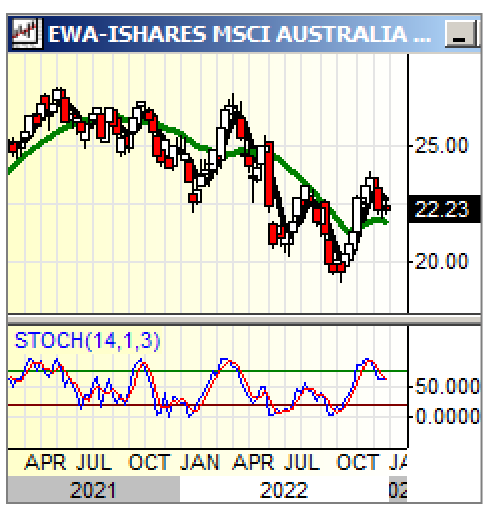
XLE is a high-level consolidation between 70 and 95, with short-term support around 82 to 80, and resistance is 90 to 95. The daily stochastic is in slight sell mode, as is the weekly. This is not a surprise as this is very close to the top end of the range, but it is a bit of a concern. Oil enters a seasonally weak period in March so we would watch this carefully. The yield on XLE is strong at 3.7%. RYE is a similar chart – the high-level consolidation here is from 60 to 80 or so, and RYE has short-term support at 70. Short-term resistance is the 75-area. The stochastic pattern is the same as XLE, and the yield is a touch less, at 3.4%. Our favorite speculation in oil ETFs has been PSCE. This small cap unit has made several large percentage moves and has potential although it is the worst chart of the three. This is also a consolidation pattern, from 8 or so to 12 or thereabouts. We recommended taking profits in this at 11, but would consider buying it just below the 9-area short-term support. The stochastic pattern on PSCE is actually the strongest of these three ETFs, although the basic pattern is the same. The yield is 1.7%, much less than the others. If you want to speculate on equipment, or exploration, this is probably the way to do it, as some of these small companies may have potential. We show charts.

International Review

We have not looked at Canada and Australia in a while, and these markets should do well in 2023. We will look at EWC (iShares® MSCI Canada Index Fund) and EWA (iShares® MSCI Australian Index Fund). One thing interesting about these is that these are natural resource economies so they should have some advantages in this environment. Of these two markets – EWC is the stronger on an intermediate basis. It has support around 30, the 2020 high. Resistance is 35, then 37. The daily stochastic is in buy mode, but not showing huge momentum, while the weekly is a sell pattern. The short-term chart resembles SPY but the intermediate chart is a bit cleaner. This is probably a good addition to portfolios – in general, international doesn't look as strong as the US, and this does.

"EWC is probably a good addition to portfolios – in general, international doesn't look as strong as the US, and this does."

EWA is a worse chart, although the trading pattern is the same – the reason we say that is that it is below the 2020 low. We would not buy this unless it can move back above 24, which is functioning as resistance. That is the 2020 high. We note that it did move above there but has fallen below, a concern. Support is the 22 area short-term, and 20 longer-term, but we are not confident this is going to hold up. The daily stochastic is in buy mode but showing little momentum, and the weekly is in sell mode, similar to, but a weaker pattern than EWC. One key difference in these two countries is that Canada has substantial oil reserves. Another is that Canada's principal trading partner is the USA, instead of China like Australia. We show charts, below.



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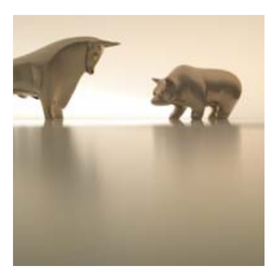
Weekly Chart of Interest

Last fall, we recommended slowly adding some growth back into portfolios. We would continue to do this slowly and found an interesting ETF for that purpose. Have a look at SPGP (Invesco® S&P 500 GARP ETF). You can check the performance vs. SPY for yourself, but according to ETF.com it shows broad outperformance over one, three, and five-year periods. Short-term support is the 80-area, and above 90 resistance would be very strong. The daily stochastic is close to a buy recycle, while the weekly is in sell mode. This suggests short-term rally potential but more consolidation later in 2023. Also compare this chart to MGK (Vanguard Mega Cap 300 Growth Index ETF) and MGV (Vanguard Mega Cap 300 Value Index ETF), it is growth trading more like value.

About Our Organization



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