ALL STAR CHARTS INSTITUTIONAL

Top 10 Charts of The Week (09-18-2019)

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This week's actionable setups from our Top 10 Charts:

Long the Equal-Weighted Technology/Cap-Weighted Technology ratio (RYT/XLK) if above 2.21 | Price target 2.51 | 1-year +

Long the Taiwan/S&P 500 ratio (EWT/SPY) if above 0.12 | Price target 0.1325 | 6-12 months

Long the Solar/Energy ratio (TAN/XLE) if above 0.465 | Price target 0.597 | 1-year +

Short Uranium (URA) if below 11.75 | Price target 6.90 | 1-year +

Long Palladium Futures if above 1,615 | Price target 2,325 | 1-year +

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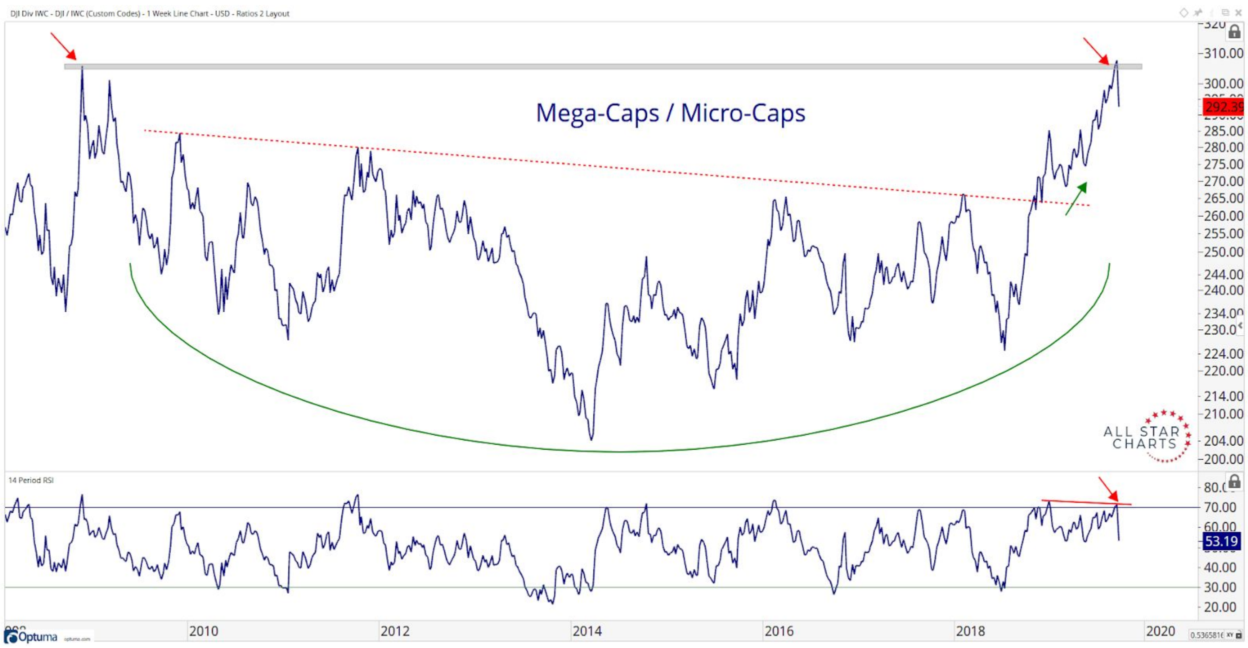
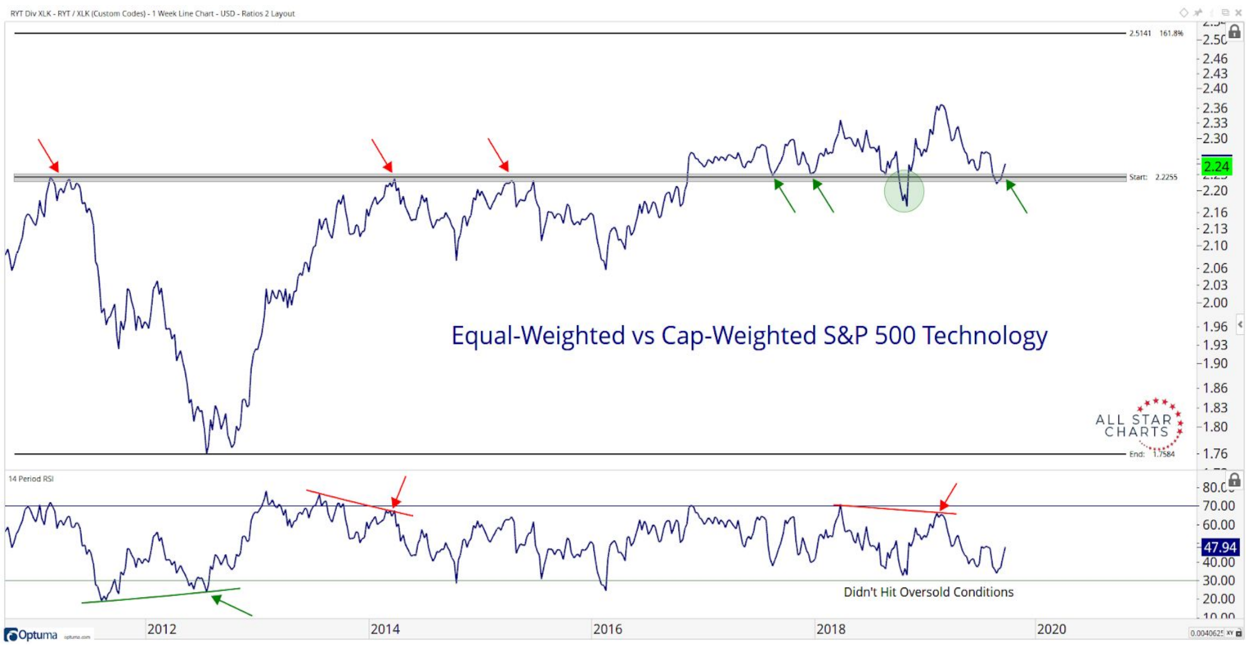
1. Upside Target Reached In Mega/Micro-Cap Ratio

One of the major themes we've discussed over the last year or so has been the outperformance of Large and Mega-Caps over Mid, Small and Micro-Cap stocks. We use this as a gauge of risk appetite because it helps identify whether market participants are positioning in larger, naturally more defensive stocks or smaller, riskier ones. Our upside objective at the ratio's 2009 highs was met earlier in the month and now we're seeing prices begin to correct. This is a very logical area for some consolidation, either through time or price, to occur and digest the strong gains experienced since June 2018.



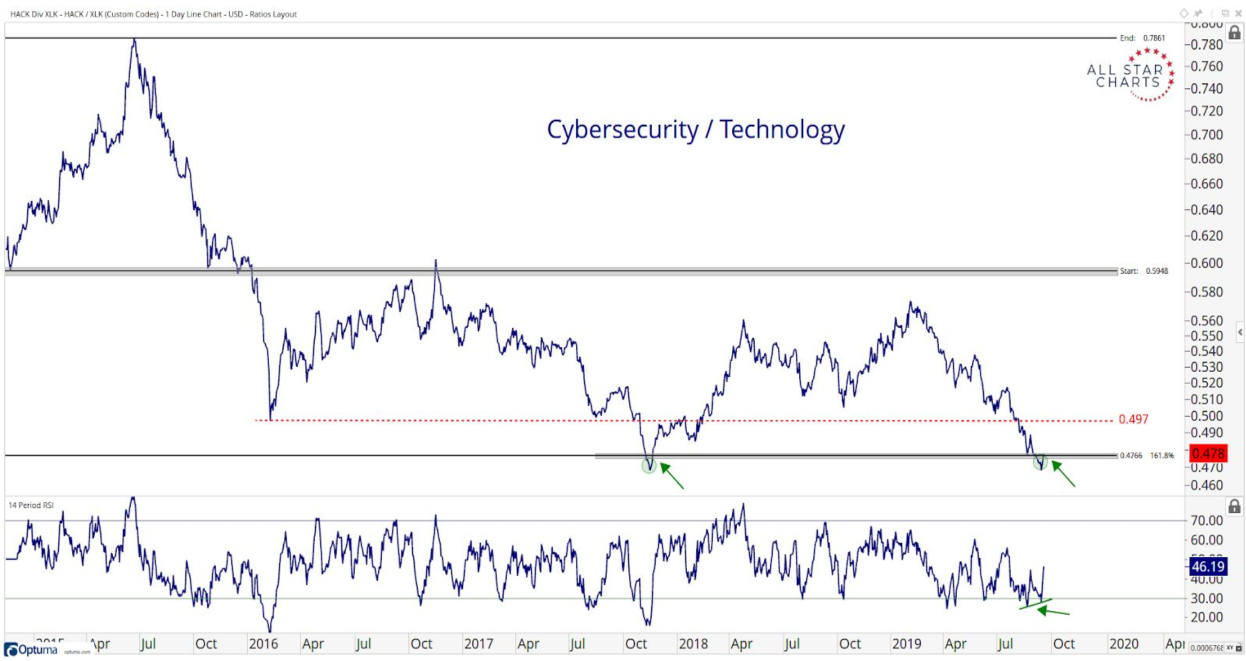
2. Technology Sector Participation To Broaden Out?

One concern we've been discussing over the last few months has been the weakening absolute and relative performance of several Technology subsectors. Last week we discussed the last man standing, Software, which finally experienced some meaningful selling pressure as well. With that said, we're seeing the Equal-Weighted vs Cap-Weighted S&P 500 Technology ratio find support again at its breakout area and begin turning higher. This, combined with the fact that momentum did not get oversold during this corrective period, suggests that we're likely to see some rotation back into Technology and expect participation within the sector to broaden.



3. Cybersecurity Defending Important Support Level

Within that same theme we're looking at the Cybersecurity subsector finding support at its all-time low relative to the overall Technology sector. While all-time lows are not something we find in uptrends, when prices quickly reverse from a support level as momentum diverges, it provides an opportunity for some counter-trend mean reversion to occur. That's exactly what we're looking for here as long as the price of this ratio stays above its recent low. This setup is very similar in nature to the Social Media/Technology ratio we outlined in a previous issue of our Top 10 Charts Report and is now stabilizing and attempting to work its way higher.



4. Global Confirmation Of Semiconductor Strength

We monitor the absolute and relative performance of Taiwan in both local currency form and via the US ETF (EWT). One reason we find its performance important is because of its correlation to US Semiconductors, which is a major subsector of Technology. Recently the performance of US Semiconductors has improved dramatically on both an absolute and relative basis, however, Taiwan has more or less gone sideways relative to US equities.That changed last week when prices were able to break above the downtrend line from their 2018 highs and reclaim their 2016 lows, confirming a failed breakdown and trend reversal. The recent strength here is encouraging and should bode well for US Semiconductors going forward.

5. A Breakout In The Largest Small-Cap Sector

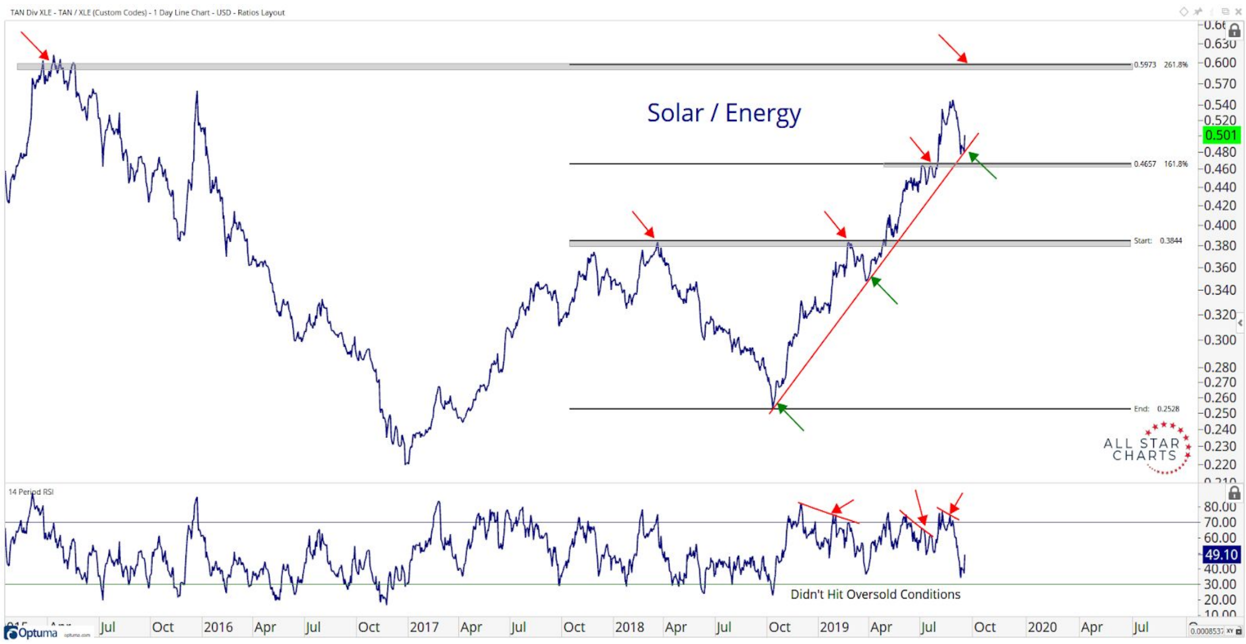
We've spoken about the strength of the Industrials sector across market-cap segments and we've pointed out the recent rotation into Small-Cap stocks. Today we want to highlight the breakout in the S&P 600 Small-Cap Industrials Index. Prices had been stuck in a range for most of this year and are now resolving to the upside and look ready to challenge the all-time highs set in mid-2018. This development is significant because Industrials are the largest weighting in the S&P 600, with Financials and Technology just behind it. If this breakout holds and Financials and Technology follow it up with their own subsequent breakouts, then we'd expect for this recent outperformance in Small-Cap stocks to continue. If that's happening, then we're likely in an environment where equities as an asset class are performing well.

6. Potential Catalyst To Get Railroads Back On Track

Railroads have been one of the leading Industrial subsectors and the strongest area of the Transportation sector, however, that began to change over the last few months. Relative performance began to wane and prices of the S&P 500 Railroads/S&P 500 ratio broke below several uptrend lines and their 2014 highs. This called the ratio's 3.5-year uptrend into question, however, prices are now attempting to confirm a failed breakdown and bullish momentum divergence by closing back above their 2014 highs. From failed moves come fast moves in the opposite direction, so this could potentially be the catalyst to get Railroads back on track and into a leadership role once again. We're watching this development closely.

7. Buying The Dip In This Energy Subsector

Solar Energy has been a great trade for us on an absolute and relative basis, so we want to stick with that trend and buy this pullback in Solar ETF (TAN) relative to the Energy ETF (XLE). As long as prices are above our former price objective of 0.465, then we can be long with a 6-12 month upside objective near 0.597. It's also worth noting that prices of TAN relative to the S&P 500 and on an absolute basis are also near points that warrant a look on the long side.

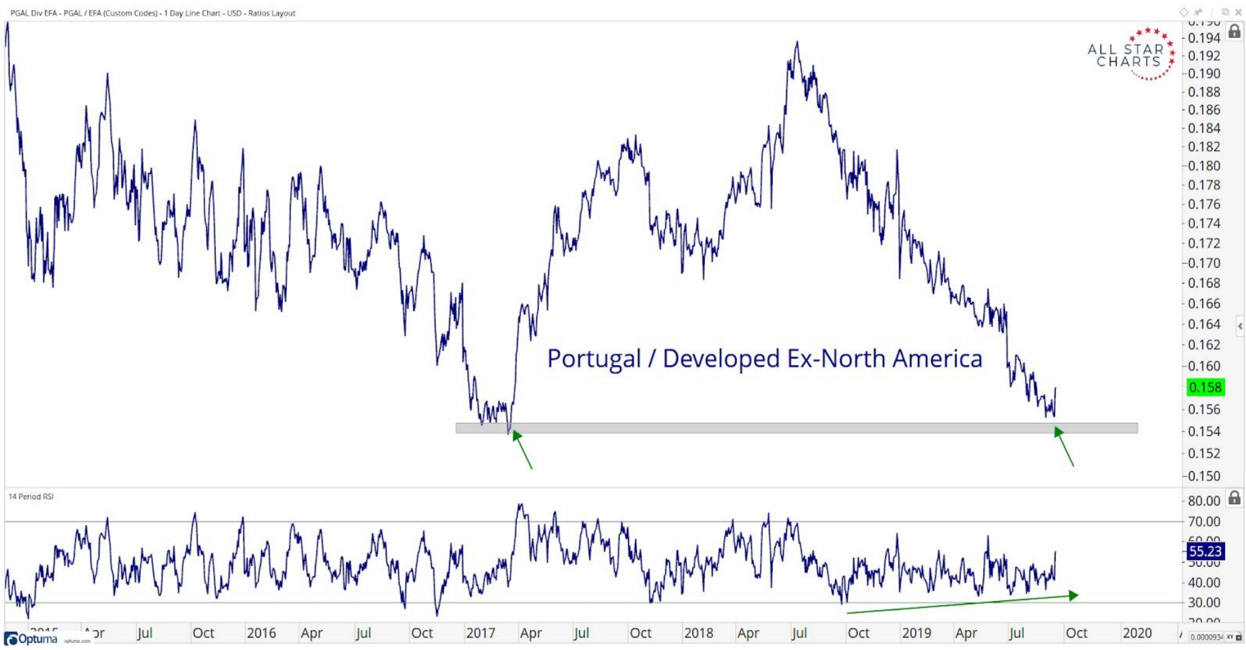


8. Sticking With The Trend In Uranium

Sticking with clear trends is what we do as Technicians, catching the meat in the middle and not worrying about the exact start or finish. One trend that's been intact now for years is Uranium's dismal absolute and relative performance. On an absolute basis prices are at a level where the reward/risk favors re-entering the trade on the short side. As long as prices are below 11.75, we can be short with a 1-year + price target of 6.90.

9. Portugal Due For Some Relief

In past notes and our International ETF Report we outlined several countries, Portugal included, meeting downside objectives and beginning to mean-revert higher relative to the S&P 500. Now we're beginning to see Portugal find its footing relative to Developed Markets Ex-North America as well, coinciding with some interesting moves in other relationships we track. Point being, a lot of these ratios have had great moves to the downside and now look ready for a correction, either through price or time, so we're watching them closely to see how they develop. The question remains whether these are short-term counter-trend moves or longer-term structural changes in trend. The weight of the evidence continues to suggest the former, but we're remaining open-minded and monitoring/incorporating new data as we get it.



10. Palladium Eyeing New All-Time Highs

Palladium has been a great trade for years, with our most recent purchase in May being rewarded with new all-time highs. The "ascending triangle" formation prices have formed is a continuation pattern that suggests new highs are likely, however, from a risk management perspective we want to wait for a move above 1,615 to confirm this breakout and target 2,325 on the upside over the next 1-year +. After prices break above 1,615 and we get involved, we can then use its former highs of 1,585 as our risk management level. We just want to wait for an initial thrust higher before getting involved so that we can avoid the whipsaws that occur as prices work through the remaining overhead supply at current levels.

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