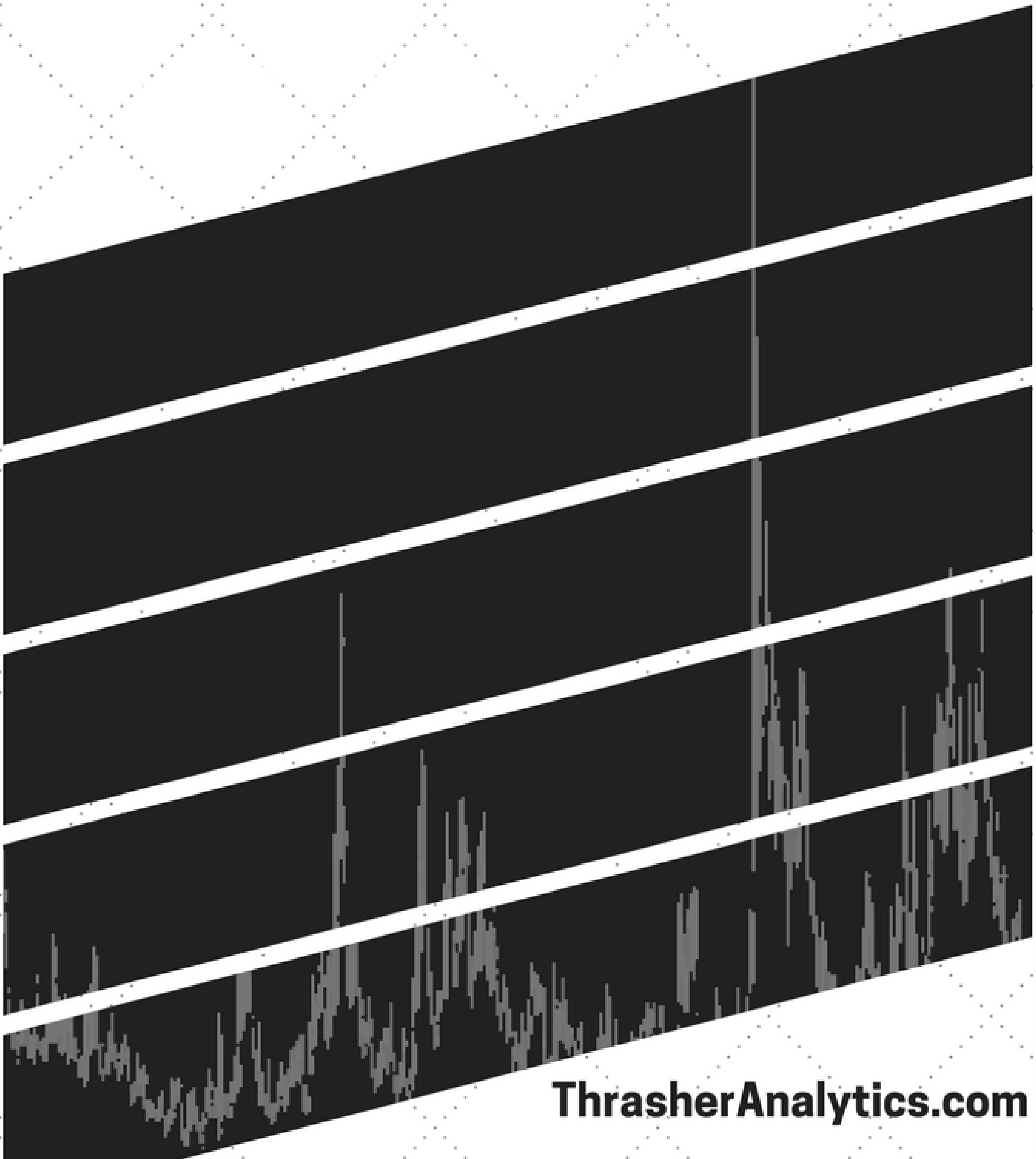
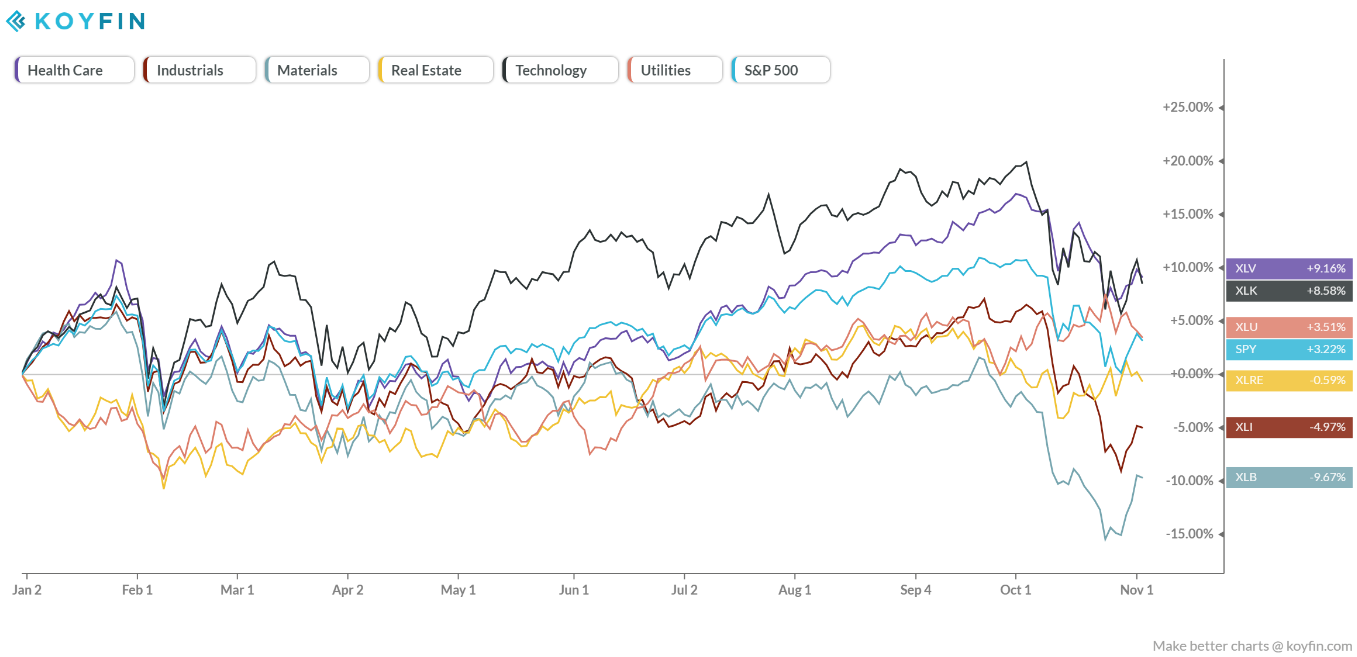
THRASHER ANALYTICS

BI-WEEKLY RESEARCH & ANALYSIS



ThrasherAnalytics.com

Sector Dashboard

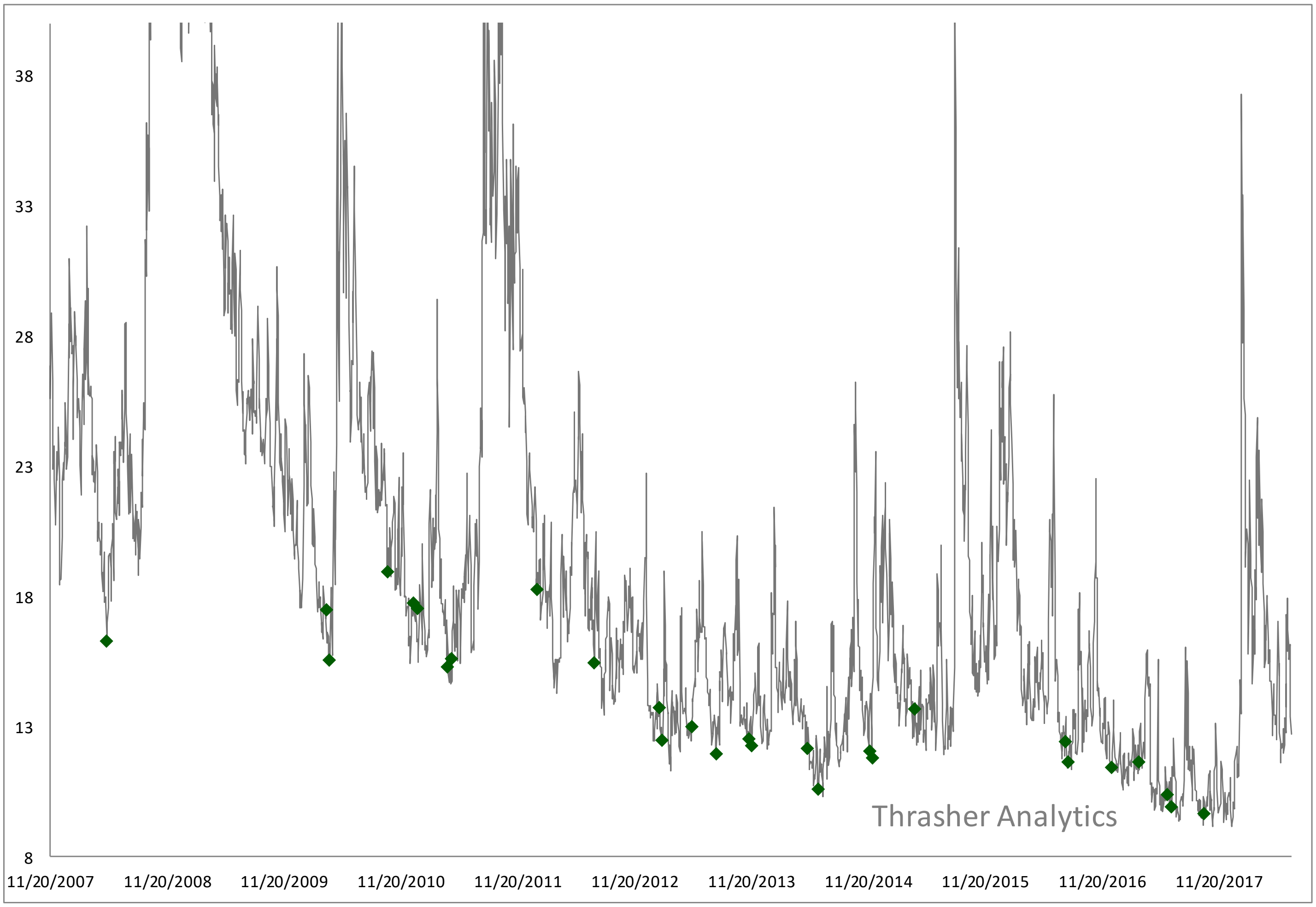


Long vs Short Sector Matrix

1D 5D MTD 1M QTD 3M 6M YTD **1Y** 3Y 5Y

	+ XLY	+ XLP	+ XLE	+ XLF	+ XLV	+ XLI	+ XLB	+ XLRE	+ XLK	+ XLC	+ XLU
– XLY	-	-8.4%	-18.9%	-13.4%	1.9%	-14.7%	-16.8%	-4.8%	-5.8%	-1.0%	3.5%
– XLP	9.2%	-	-11.4%	-5.5%	11.3%	-6.8%	-9.2%	3.9%	2.8%	8.0%	13.0%
– XLE	23.2%	12.9%	-	6.7%	25.6%	5.2%	2.5%	17.3%	16.1%	22.0%	27.5%
– XLF	15.5%	5.8%	-6.3%	-	17.7%	-1.5%	-3.9%	9.9%	8.8%	14.3%	19.5%
– XLV	-1.9%	-10.1%	-20.4%	-15.0%	-	-16.3%	-18.4%	-6.6%	-7.6%	-2.9%	1.5%
– XLI	17.2%	7.3%	-4.9%	1.5%	19.4%	-	-2.5%	11.6%	10.4%	16.0%	21.2%
– XLB	20.2%	10.1%	-2.5%	4.1%	22.5%	2.6%	-	14.4%	13.2%	19.0%	24.4%
– XLRE	5.0%	-3.8%	-14.8%	-9.0%	7.0%	-10.4%	-12.6%	-	-1.1%	4.0%	8.7%
– XLK	6.2%	-2.7%	-13.8%	-8.0%	8.2%	-9.4%	-11.7%	1.1%	-	5.1%	9.9%
– XLC	1.0%	-7.4%	-18.0%	-12.5%	3.0%	-13.8%	-15.9%	-3.8%	-4.8%	-	4.6%
– XLU	-3.4%	-11.5%	-21.6%	-16.3%	-1.5%	-17.5%	-19.6%	-8.0%	-9.0%	-4.4%	-

volatility Risk Trigger (VRT)



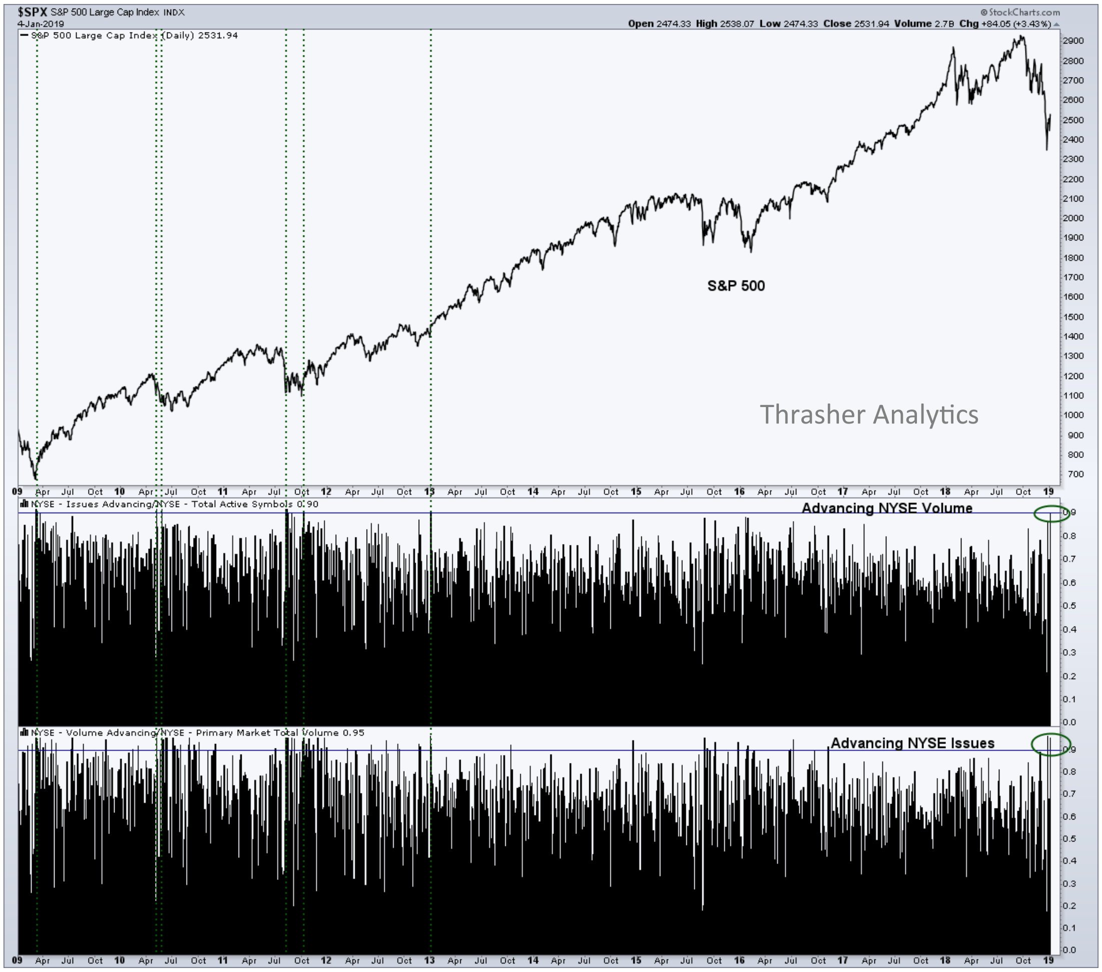
I will be rolling out an updated version to the Volatility Risk Trigger very soon. I've been in the process of getting it re-coded into a new software and with the increase in capability of the software's tools I've been able to make some tweaks to the formulas which I had been unable to do when manually maintaining in excel. I should potentially have it completed by my next two letters. I'll of course keep you abreast of any major changes in its signaling between now and then.

Broad Market Commentary

We got our bounce. I had written a letter titled "12 reasons to dip a toe into equities" which was a little early as we did see a few more days of selling before a final first low was set. The S&P 500 has now enjoyed a bounce of nearly 8% off the December low. We still remain under the major moving average as well as the early 2018 lows. Friday's price action was very strong and I'll be addressing that specifically further into the letter, but price was able to move up and kiss the 20-day moving average before backing off a few points. If we do continue to see buying in U.S. stocks I'll be keeping a close eye on the February low and October low. That gives some run room for SPX to get up to 2575-2600. I think this is were many traders have their scopes set to unload some of the longs they have accumulated in December. What had been support potentially will become resistance. Potentially is the key word, we can't make to great an assumption of what price will do, but simply have an idea of where supply could re-enter this market.

Buying up to this level would likely also take the Relative Strength Index (RSI) back to its prior October and November highs, setting a range for momentum. All of this would be occurring under the 50-day moving average which is a level many long-term bulls want to see cleared but based on market history I just don't see that happened on the first bounce higher. However, I'm keeping an open mind to what price does and ready to adjust my expectations accordingly.

90% Up Day



Friday saw quite a bit of buying, in fact 95% of stocks on the NYSE moved higher with 90% of the volume being in stocks that were advancing. While we've seen quite a few days of 90+% stocks advancing in a single day, seeing volume concentrated in those NYSE issues is less common. In fact, we'd have to go back to 2013 to find a day where both rising issues and volume were north of 90%. I've marked with green dotted lines prior instance since the 2009 low where we've seen duel 90+% days on the NYSE.

Two occurred in the down trend in 2010, one marked the first pivot low in 2011 and then again at the second, and finally in 2013. I continue to look at 2011 and 2016 as a good examples of the type price action that's taken place in the last few months. Seeing this latest strong move resembles the action in 2011 where prices rose for a few weeks and then dropped back to test the first low. I've been pounding the table that I think we'll continue to follow market history of seeing a re-test take place, this strength on Friday does not negate that and actually helps confirm the pattern laid out in '11.

Equity Risk Appetite

Its good to see that many of our risk appetite ratios have moved slightly higher along with the broad large cap index. The only one left out is the lower high in equal weight vs. cap weight as traders continue to focus in on the largest cap stocks for their buying. Bonds saw high yield regain some strength as well as high beta and small cap stocks. It’s interesting to see equal weight be under-performing while small caps are not. While we can’t explain every zig and zag of the market, this divergence stood out to me but is not one I’ll lose sleep over. Overall, risk appetite is encouraging right now, but the bar has been set pretty low as the market comes off an extremely oversold condition.

Internet Stocks

One are of the market we want to see buyers return to are internet stocks, which is represented by the FDN ETF. The top holdings of FDN include Amazon, Facebook, Netflix, Salesforce.com, Google, PayPal, eBay, and Twitter. Basically the ‘who’s who” of the digital age and many that were market leaders before October. To get a sense of risk-taking returning to U.S. stocks, we should begin to see a continued move higher in FDN. However, the ETF remains below its 50-day moving average and volume has begun to drift lower during the rest advance. We kissed the 50-MA in November before selling continued so I want to see price clear this MA to give a boost to the broad market. We also remain below resistance in momentum, which I’d like to see cleared soon as well.

This is one char to keep a close eye on because if FDN begins to lack or price turns lower then we may begin seeing a shift back to defense overall for stocks.

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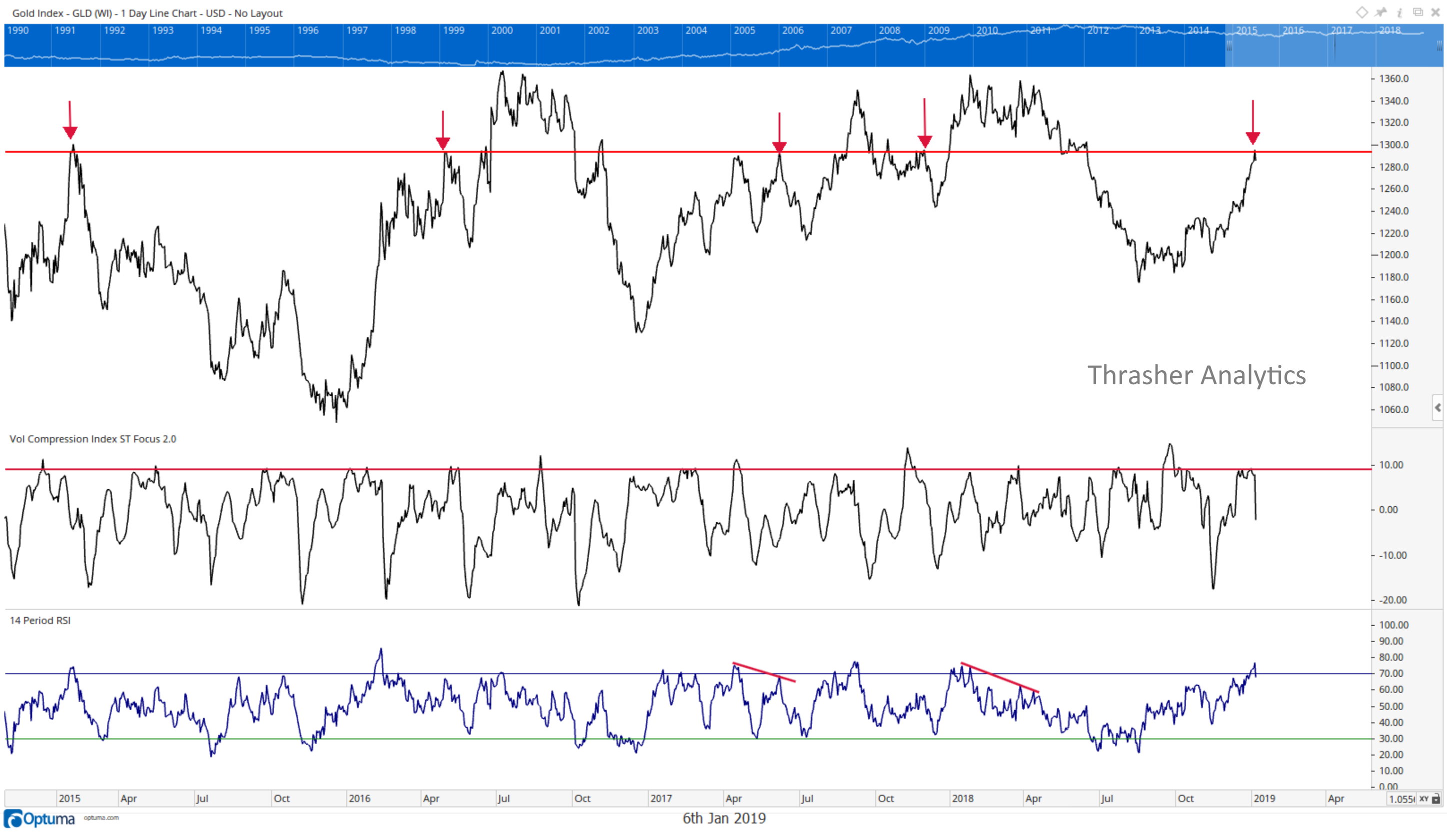
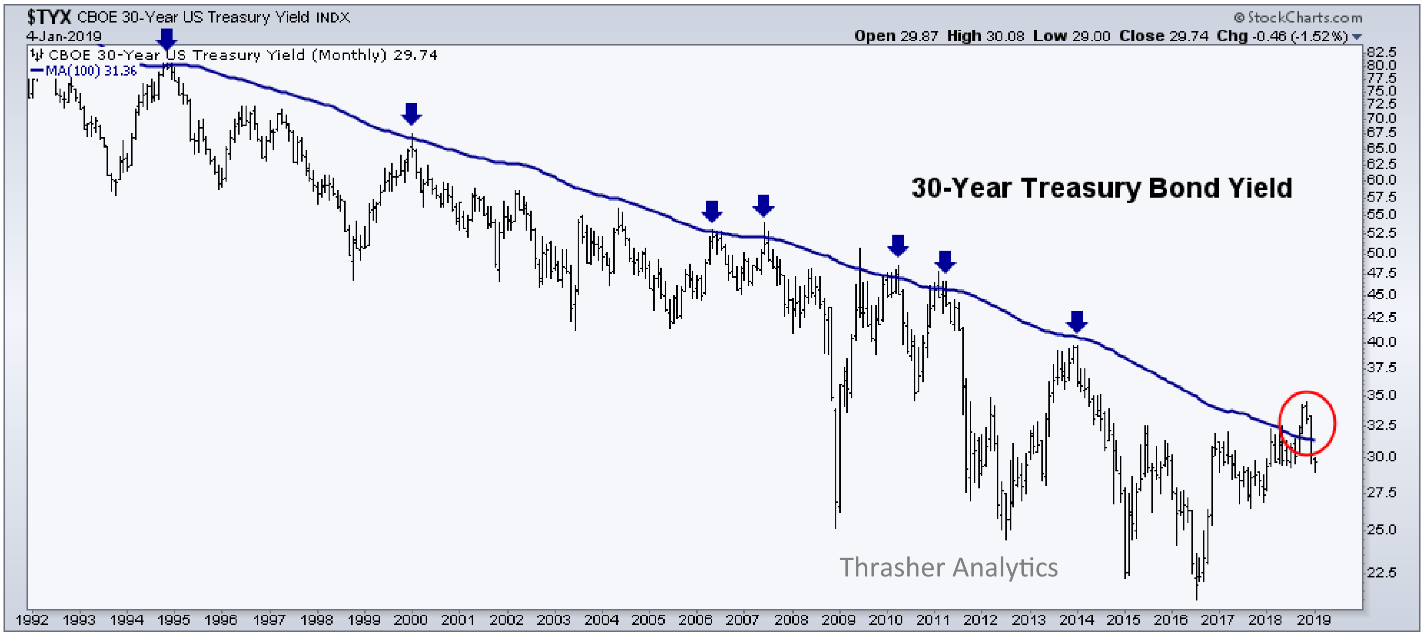
Gold Rises to Resistance



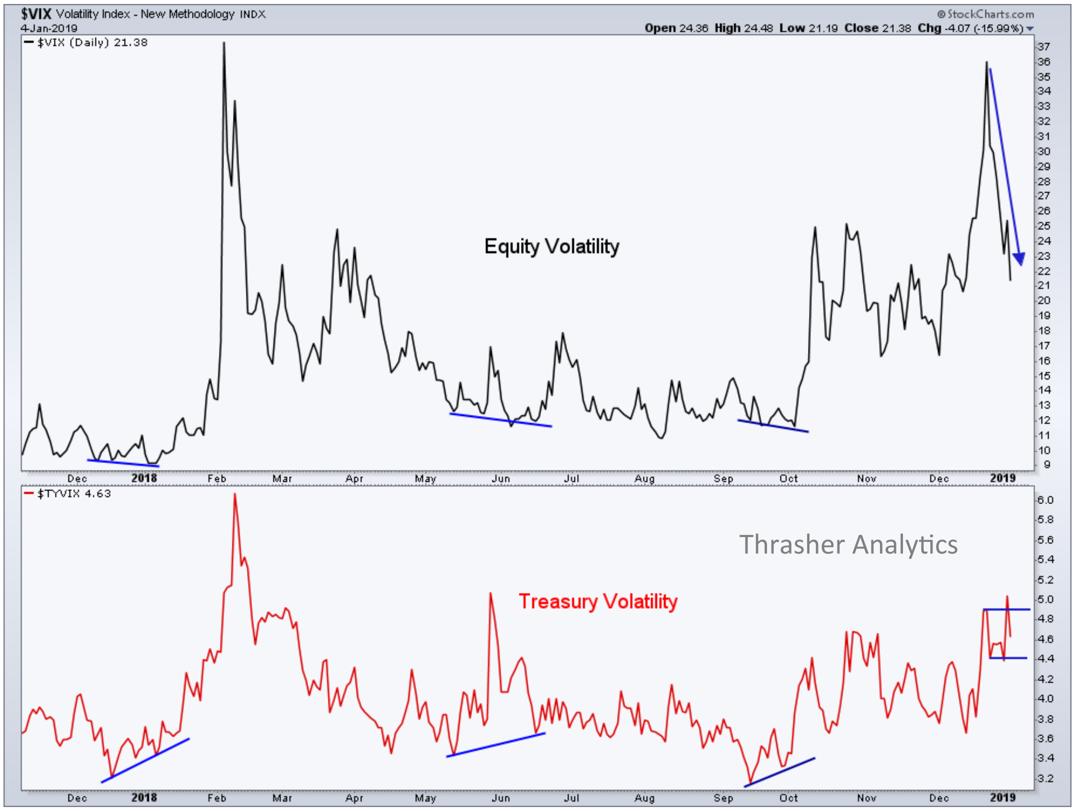
Gold has had a strong last several months after bottoming in August and really getting its engines in gear in December as selling intensified in equities. The precious metal has now risen back to prior resistance of $1,300/oz. As you can see with the five arrows on the chart above, this price level has been important as marking pivot points since 2015, albeit of varying degrees. The Volatility Compression Index has risen back near 10, a sign of complacency and excessive bullishness within gold. The 14-day RSI has also gotten to an elevated level north of 70. It's possible we see a bearish divergence develop in gold, similar to earlier in 2018 as price consolidates or breaks out above $1,300/oz. If we do see gold move higher then the next important price level will be the prior 2016/2018 high at $1,360/oz.

30-year Yield Falls Below Prior Resistance



I last showed this monthly chart of the 30-year Treasury Yield several months ago when the 100-month moving average. This ultra-long term moving average has defined the down trend in yield since the early 1990s, putting a lid on counter-trend rallies during this 30+ year bond bull market. With the Fed raises rates this resistance level was once again tested and temporarily broken as the 30-year yield moved to 3.45% at the start of November. With the buying of bonds the yield has once again fallen back below the 100-month MA and back below the prior April and July lows. This 'resets' the resistance level as it becomes an important point to watch on any future bond selling that moves yield back to 3.13% (current level of the 100-MA).

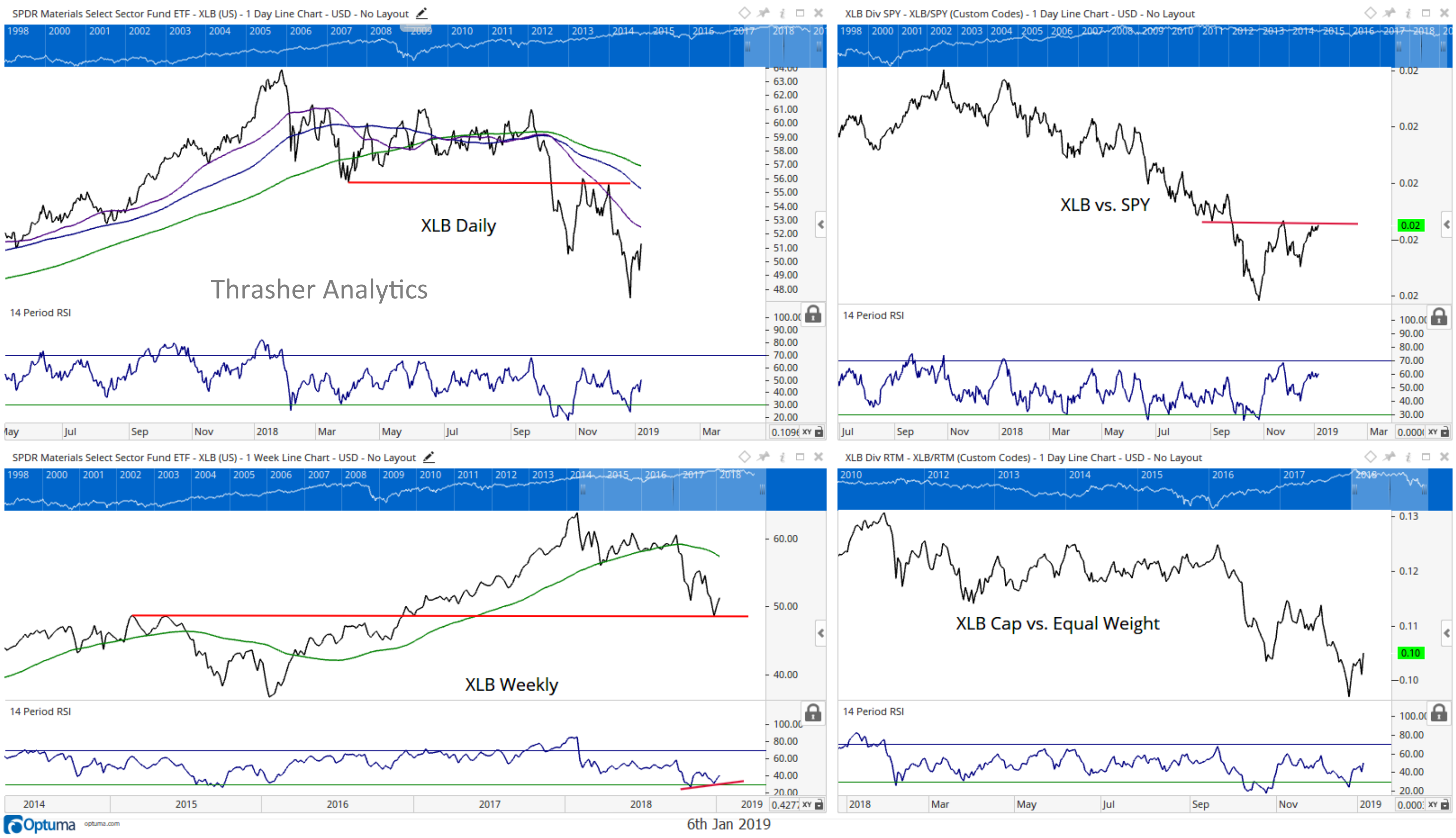
Treasury Volatility Not Matching Equity Volatility's Decline



Treasury (TVIX) and equity (VIX) volatility often move in similar directions. When these two diverge and primarily when we see more strength in TVIX compared to the VIX, it's often the Treasury volatility that gets confirmed by a trend change in the VIX. Most notably we saw this in early 2018 when TVIX began making higher lows while the VIX was making a lower high. Again we saw a bullish volatility divergence in June before the VIX rose from 12 to 19, again in September just before the broad equity selloff began to intensify and VIX rose from 12 to 28.

Currently the VIX has fallen from 36 to 22 in a matter of just seven trading days while TVIX has begun to consolidate, not seeing the same type of decline shown by equity volatility. This is something I'll be watching closely to see if TVIX begins to move out of its short-term consolidation and if volatility snapback after fall under the October and December highs.

Material Sector

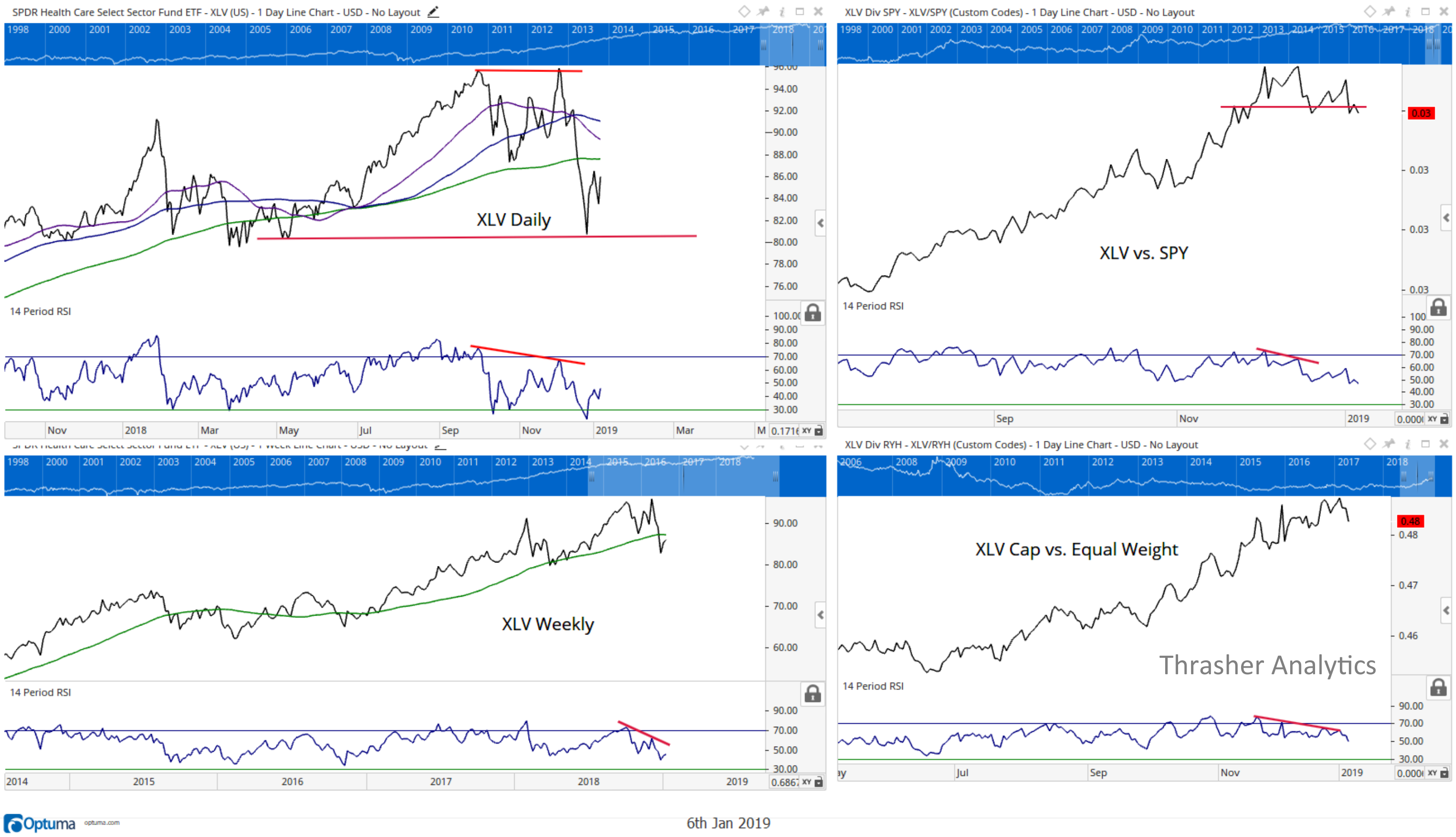


Materials: The weekly chart for XLB stands out the most, as it bounced off its 2015 high and has now made a higher low in momentum. The daily chart also made a higher low but the recent low was still below 30 so I give it less credence. Relative performance has risen back to its prior November pivot point, this will be an important level for XLB to clear relative to SPY.

Energy Sector

Energy: A slight improvement has been made in relative performance as the XLE vs. SPY ratio has found a bullish momentum divergence. However it’s concerning to see the cap vs. equal weight ratio begin to decline, a sign that more preference is being given to the largest cap energy stocks as traders potentially get defensive in their energy sector exposure.

Health Care Sector



Health Care: XLV bounced off its May low on the daily chart however the sector's relative performance is still below resistance and the cap vs. equal weight has also not reversed yet with the ratio and momentum both still trending lower, which means the largest cap health care companies are seeing the strength rather than equal buying across the map cap landscape.

Financial Sector

Financials: XLF has moved back above its Sept. 2017 low as the daily chart moves off an 'oversold' level in momentum. Relative performance has also improved but like health care, it's the largest cap financial stocks that are seeing strength has cap vs equal weight moved slightly lower last week.

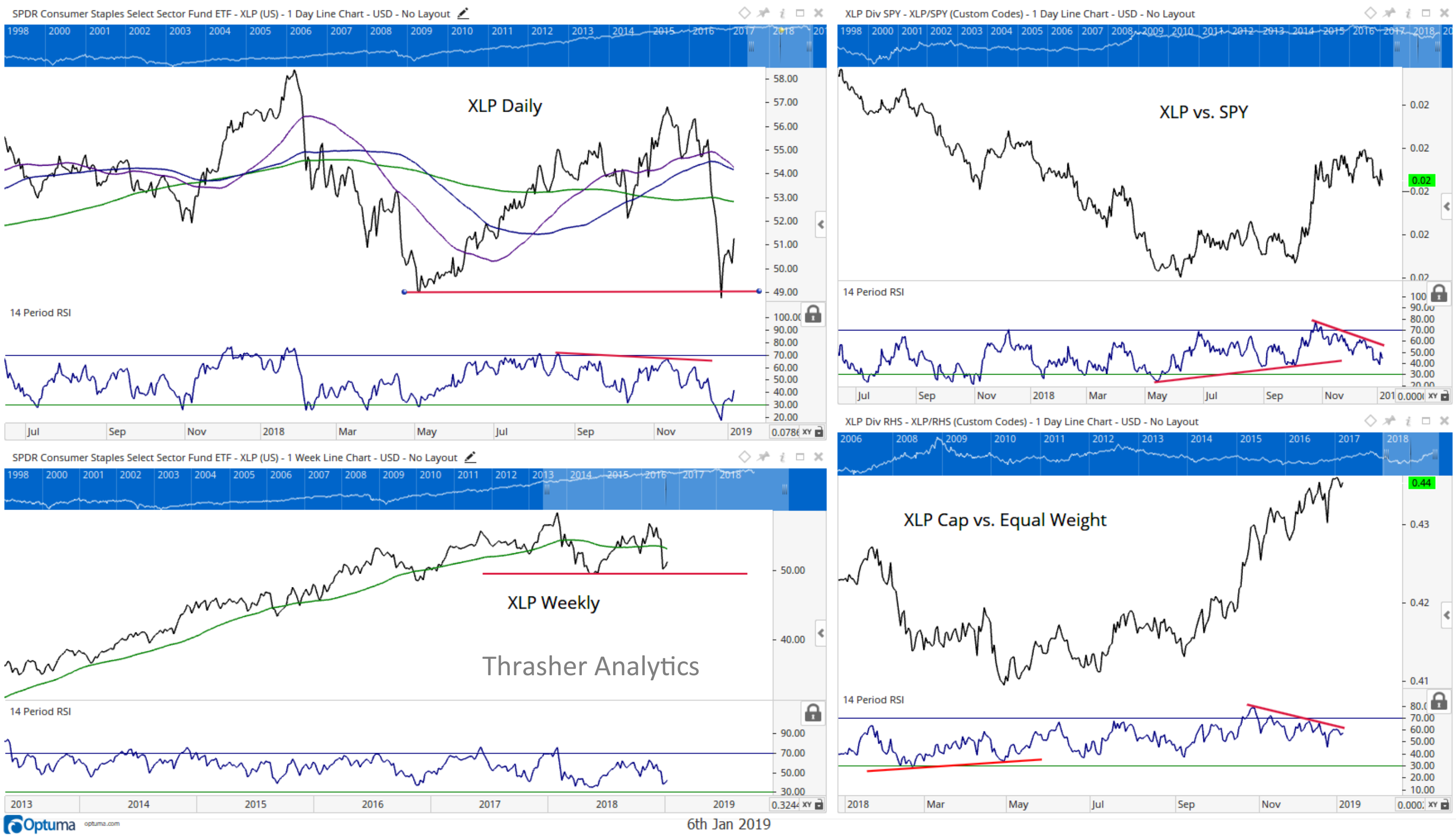
Industrial Sector

Industrials: XLI is still working its way back near some form of support, it has a way to go before recovering its prior 2018 lows. However, equal weight industrials have improved since the October/November selling, creating a large range of cap vs. equal weight. A bullish divergence has developed in relative performance as the XLI vs. SPY ratio made a lower low in December, the RSI made a higher low – a positive development for the sector.

Technology Sector

Technology: Tech has yet to recover its prior 2018 low and is still in a well-defined down trend of lower highs and lower lows. The daily, weekly, relative performance, and cal vs. equal weight charts each has yet to show signs of strength from the tech sector, an important part of the market we'll need to see improve to get confidence in another leg higher in broad equity indices.

Consumer Staples Sector



Consumer Staples: XLP has been one of the stronger sectors during the recent down turn in U.S. equities as trader shift to the lower beta pockets of the market. Staples had a slight break of its prior May low but quickly recovered it. As broad indices have bounced there's been a little bit of rotation out of staples as shown in the XLP vs. SPY daily chart after a bearish momentum divergence was developed at the ratio's most recent high.

Real Estate Sector

Real Estate: XLRE has seen some solid gains in relative performance has it moves with the defensive sectors in an up trend since October but then has given a piece back with traders moving short-term back to offensive sectors. The double top in the weekly chart has still yet to be cleared and the real estate sector remains near its prior 2018 low.

Utilities Sector

Utilities: A false breakout has developed on the weekly chart of XLU that's been accompanied by a bearish momentum divergence. However, the weakness in XLU has still been stronger than the broad market as the XLU vs. SPY ratio rose back to its July high before moving lower as the broad market bounced and traders shifted out of defensive stocks.

Consumer Discretionary Sector

Consumer Discretionary: Discretionary stocks are one area of the market that has seen solid improvement to equal weighting with smaller companies getting some strength as the cap vs equal weight ratio has moved back near its prior year high. The relative performance chart experienced a bullish divergence off the November low.

DISCLAIMER: