"If this correction plays out like standard corrections of the past our base case is that revisiting the 2,530 S&P lows from February remains likely".

- April 2018 Technical Analysis piece.

After our April Newsletter, the S&P 500 dropped again down to a low of 2,553 and has since rallied back to the high/mid 2700's. That drop back down to the 2,550's satisfied a standard corrective wave that we had described in the Spring Technical Analysis piece. The question now is: are we in the beginning stages of the march to 3000+ on the S&P 500? Or do we need more time and consolidation? This is where Technical Analysis really shines.

The 3 sectors largely driving the S&P 500 YTD are Consumer Discretionary, Tech and Energy up 11%, 8% and 5% respectively. The S&P 500 is trading up 2% on the year. Health-care is the only other sector trading up on the year at +1%. All of the other 7 sectors are negative on the year. Now when you add those 3 outperforming sector weights together it comprises 45% of the S&P 500. The other 8 account for the remaining 55%.

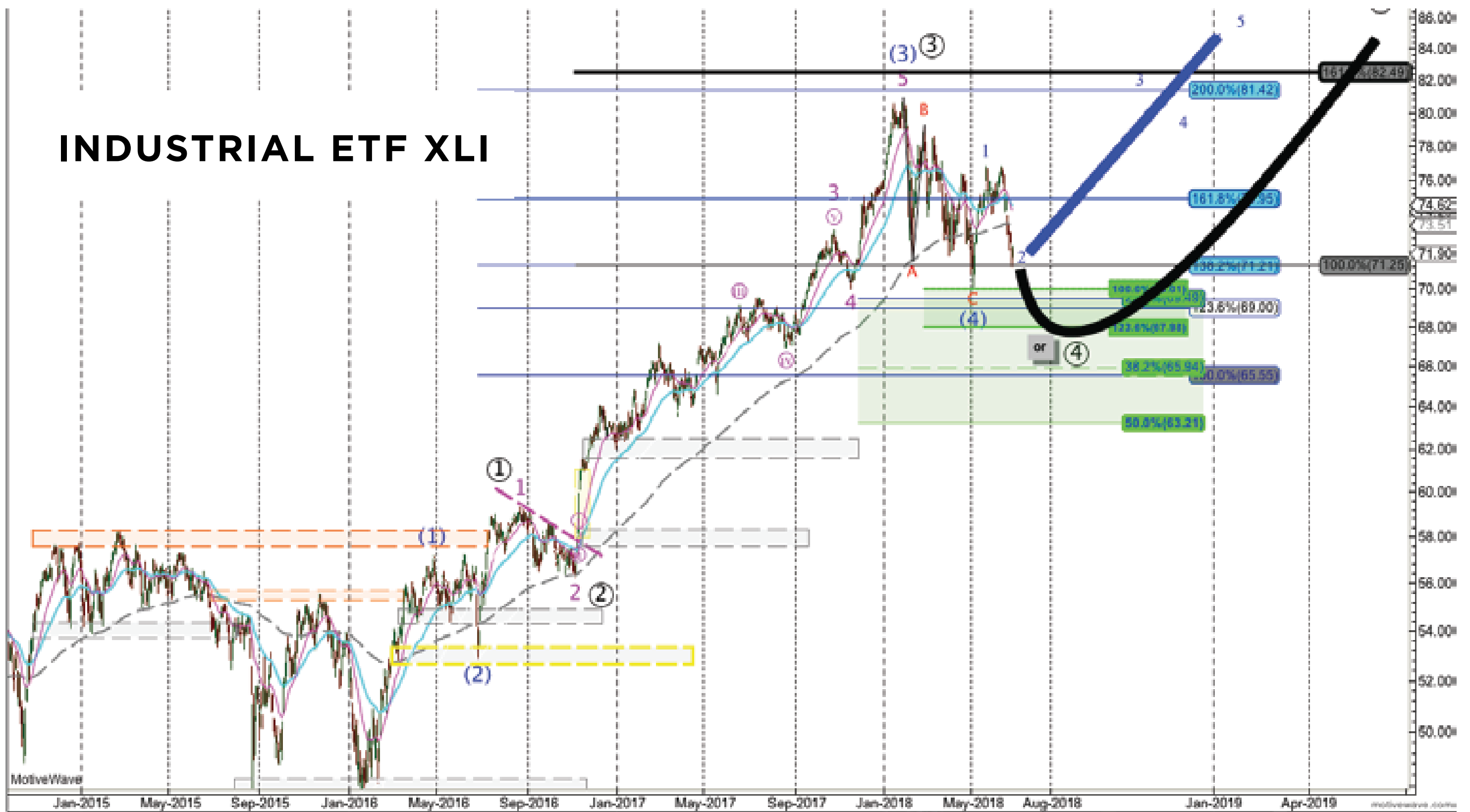
It's quite remarkable that the S&P 500 is actually positive on the year when 7 sectors are trading lower on the year. This weakness has been more represented in the Dow Jones Industrial Average which is trading slightly Red on the year. The underpinning to the Market makes this path unsustainable. We've seen broad pull-backs in Financials, Industrials, Materials, Health-care and Consumer Staples off the January highs. This is where the weakness has been.

The Market is clearly what we consider "Late cycle" as we are in the heart of the 9th year of this Bull Market. Using quantitative historical returns, this is where leadership needs to be driven from Industrials, Materials, Financials, Energy, and Consumer Discretionary. We are getting the last 2 ingredients right now, but the salad dressing is not going to taste very good with more than half of the ingredients missing. It's time for Industrials, Materials and Financials to take over leadership.

We are seeing positive Technical developments form in those 3 sectors since early May. We will use Industrials as an example via XLI, the Industrial ETF. XLI bottomed in May exactly where it needed to technically. It exhibited a perfect 3 wave structure, measuring obligations were met almost to the penny. $70.01 was the perfect measuring obligation for XLI to bottom; it bottomed at $70.03. Since then, it staged a very nice rally up to $76+ and is now bullishly pulling back to the $72 region.

As shown on the chart in **BLUE** we have a very nice completed corrective pattern into the May lows and a very constructive 1-2 pattern up (extremely bullish) if it can hold this current structure. This is becoming a great indicator to us, because the options for many areas like Industrials are becoming less and less as the patterns become much cleaner. Industrial stocks will either start to bottom here on the short run and begin a very strong impulsive rally, thus carrying everything else with it, or they continue to get held up in the "trade war headlines" and languish for a few more months which is shown in **BLACK**.

VIEW THE CHART ON THE NEXT PAGE



Our expectation is either scenario will ultimately result in a bullish outcome, one path just happens faster than the other as you can see on the chart.

We have begun positioning our portfolios for this transition in leadership and remain constructive that a march to new highs in the Market is coming before year's end.