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Fairlead Strategies, LLC

AAll San Diego:
Applying Systematic Technical Analysis to Manage Risk

July 8, 2023

We use **technical analysis** to identify trends for:

- ✓ Risk management
- ✓ Market timing
- ✓ Alpha generation



These are our most valuable concepts and tools:

- ✓ Support & Resistance
- ✓ Technical Indicators
- ✓ Relative Strength
- ✓ Market Internals

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Has the SPX entered a wide long-term trading range?



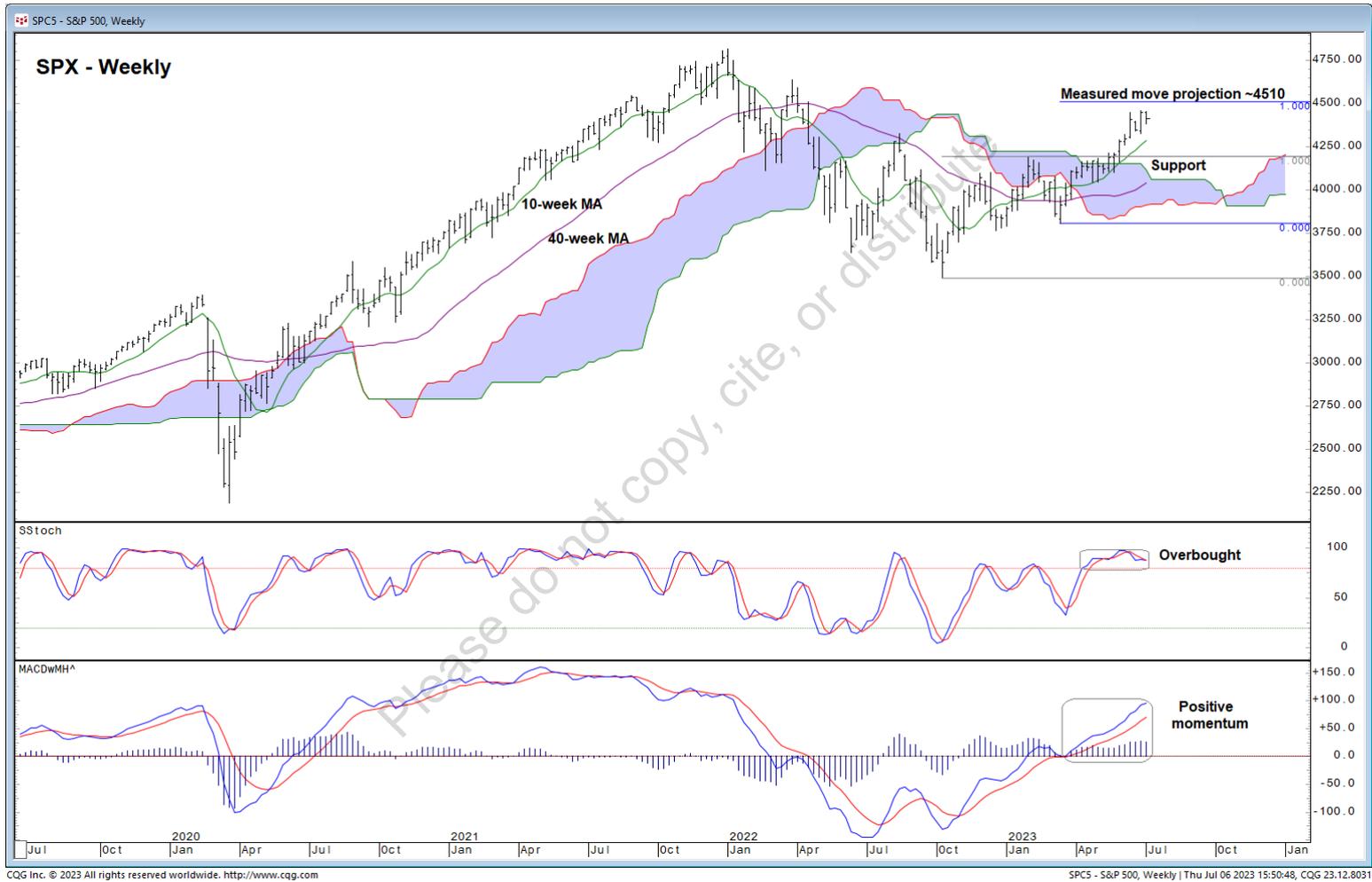
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Trend-Following Indicators

MACD. "Moving Average Convergence/Divergence."
Common momentum indicator

- ⌘ **Standard Calculation.** 12-26-9. Difference between 26-period EMA and 12-period EMA, with a 9-period EMA used for signals
- ⌘ **Crossovers.** Source of "buy" and "sell" signals
- ⌘ **MACD Histogram.** A histogram shows the spread between the MACD lines for a more complete picture
- ⌘ **Divergences.** Can be telling, but they are not always good market timing devices

The intermediate-term uptrend has room for follow-through



Overbought/Oversold Measures

Stochastic Oscillator. Common oscillating overbought/oversold measure

⌘ Compares current close relative to a specified high-low range

$$\left(\frac{\text{Today's Close} - \text{Lowest Low in \%K Periods}}{\text{Highest High in \%K Periods} - \text{Lowest Low in \%K Periods}} \right) * 100$$

⌘ Oscillates between 0% and 100%;
overbought is > 80% and oversold is < 20%

⌘ Crossovers above/below thresholds generate "buy"/"sell" signals

⌘ Components:

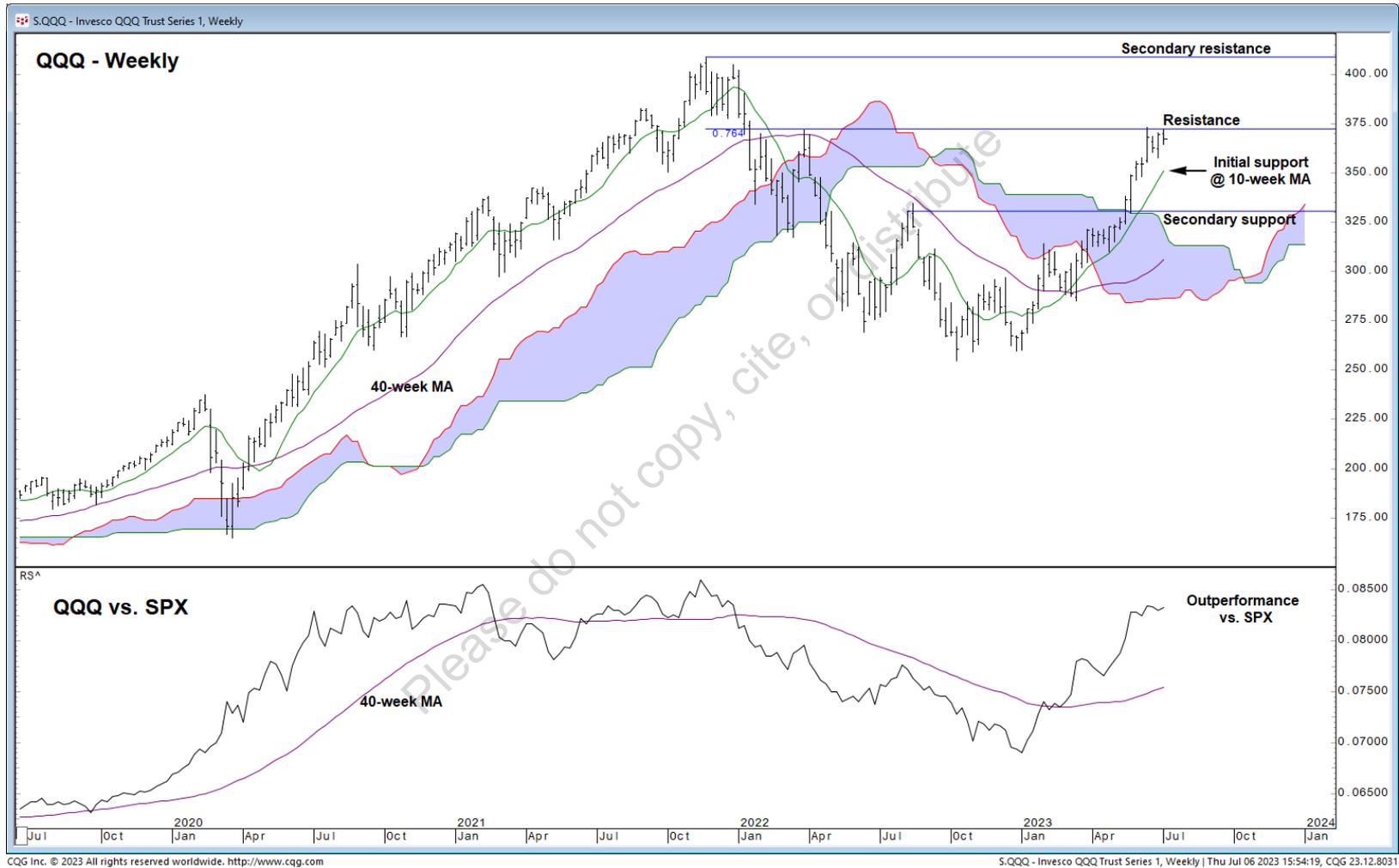
⌘ %K (period)

⌘ %D (internal smoothing of %K)

⌘ %DS (moving average of %D, to generate signals)

⌘ %DSS (additional smoothing of %DS for slowed stochastic)

Relative strength remains favorable behind QQQ vs. SPX



Megacaps continue to grind higher, even as breadth expands



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S.AAPL - Apple Inc, Daily | Thu Jul 06 2023 15:42:53, CQG 23.12.8031



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S.AMZN - Amazon.com Inc, Daily | Thu Jul 06 2023 15:43:40, CQG 23.12.8031



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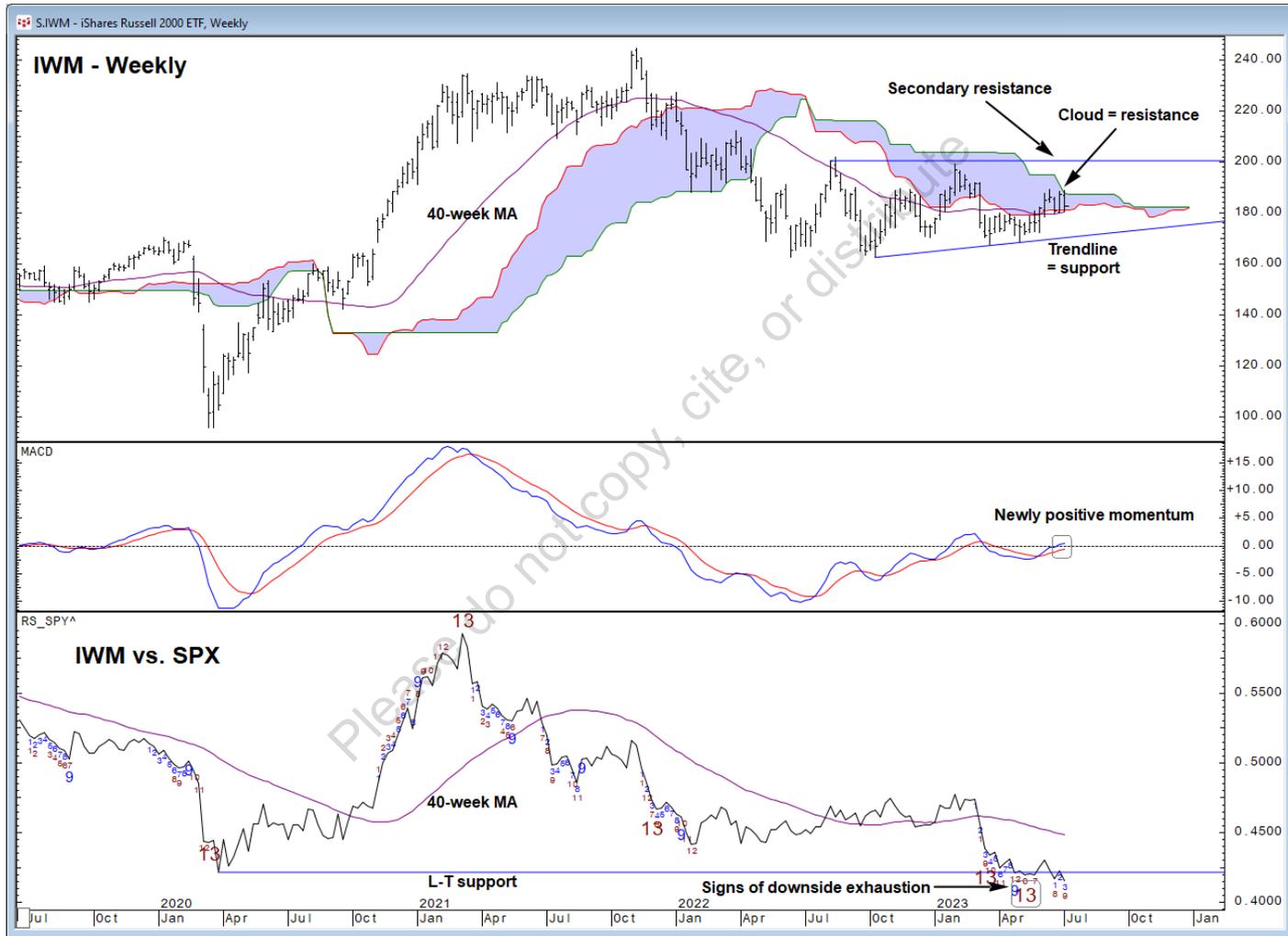
S.MSFT - Microsoft Corporation, Daily | Thu Jul 06 2023 15:44:50, CQG 23.12.8031



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S.NVDA - NVIDIA Corp, Daily | Thu Jul 06 2023 15:45:36, CQG 23.12.8031

Small-cap benchmark IWM shows improvement in its range



We watch for oversold/overbought extremes at inflections

		16-Jun	15-Jun	14-Jun	13-Jun	10-Jun
Price	S&P 500 Index (SPX)	3666.77	3789.99	3735.48	3749.63	3900.86
	SPX % Change	-3.25%	1.46%	-0.38%	-3.88%	-2.91%
Breadth	NYSE Advancers	514	3159	1442	269	653
	NYSE Decliners	3879	1171	2946	4225	3661
	SPX % > 50-day MA	2%	6%	5%	5%	12%
	SPX % Oversold	89%	90%	84%	58%	25%
	SPX % Overbought	0%	0%	0%	0%	2%
Sentiment	McClellan Oscillator	-243	-135	-255	-255	-129
	Fear and Greed Index	13	20	17	17	28
	AAll Bull-Bear Spread	-38.9	-38.9	-25.9	-25.9	-25.9
Leadership	CBOE Volatility Index (VIX)	32.95	29.62	32.69	34.02	27.75
	NYSE New 52-Week Highs	0	1	2	0	2
Volume	NYSE New 52-Week Lows	648	176	474	489	183
	NYSE Highs - Lows	-648	-175	-472	-489	-181
	NYSE Volume (Billions)	5.40	5.36	4.99	5.41	4.72
	NYSE Up/Down Volume	-16.0	3.6	-1.6	-43.2	-7.7

May 2022 peak
overbought readings

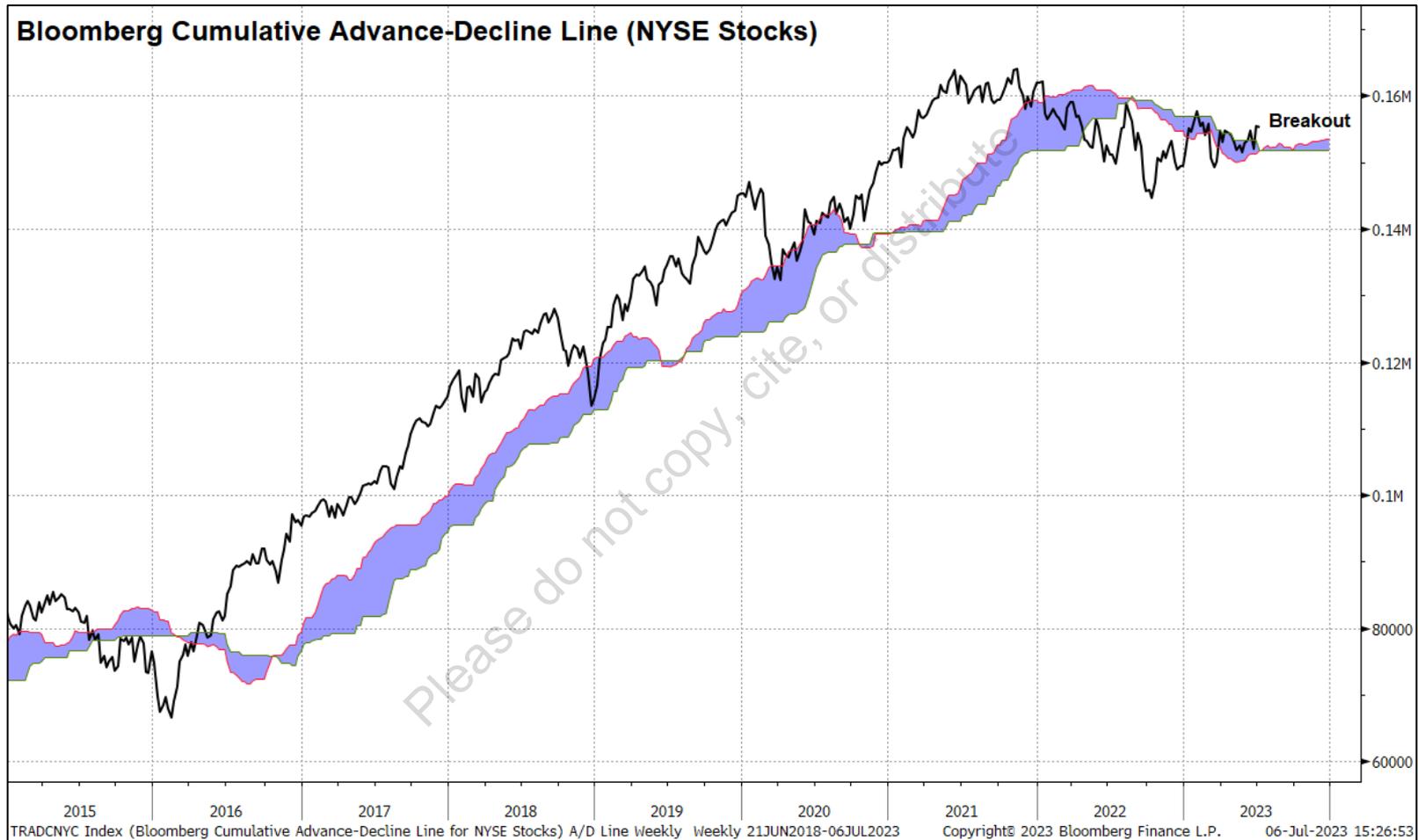


June 2022 low
oversold readings

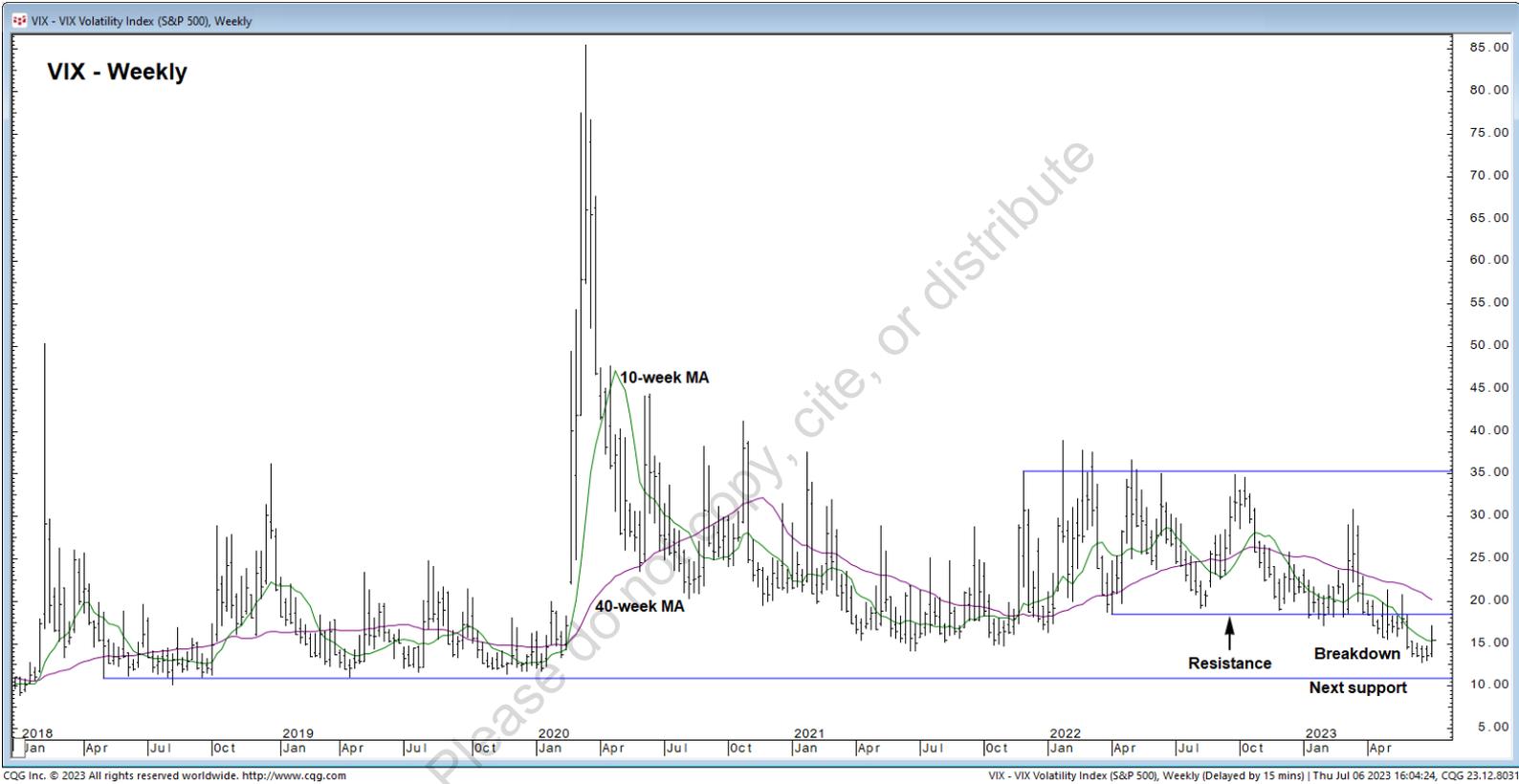
		2-Jun	1-Jun	31-May	27-May	26-May
Price	S&P 500 Index (SPX)	4176.82	4101.23	4132.15	4158.24	4057.84
	SPX % Change	1.84%	-0.75%	-0.63%	2.47%	1.99%
Breadth	NYSE Advancers	3318	1647	1539	3695	3574
	NYSE Decliners	994	2642	2797	589	706
	SPX % > 50-day MA	44%	33%	40%	46%	32%
	SPX % Oversold	1%	0%	0%	0%	1%
	SPX % Overbought	49%	58%	66%	50%	30%
Sentiment	McClellan Oscillator	262	200	261	351	257
	Fear and Greed Index	25	26	21	21	13
	AAll Bull-Bear Spread	-5.1	-5.1	-33.7	-33.7	-33.7
Leadership	CBOE Volatility Index (VIX)	24.72	25.69	26.19	26.54	27.5
	NYSE New 52-Week Highs	52	43	92	81	74
Volume	NYSE New 52-Week Lows	13	21	12	12	25
	NYSE NH - NL	39	22	80	69	49
	NYSE Volume (Billions)	4.21	4.33	6.63	4.16	4.53
	NYSE Up/Down Volume	4.7	-2.1	-2.8	7.1	6.1

Sources: Bloomberg Finance, L.P. & Fairlead Strategies

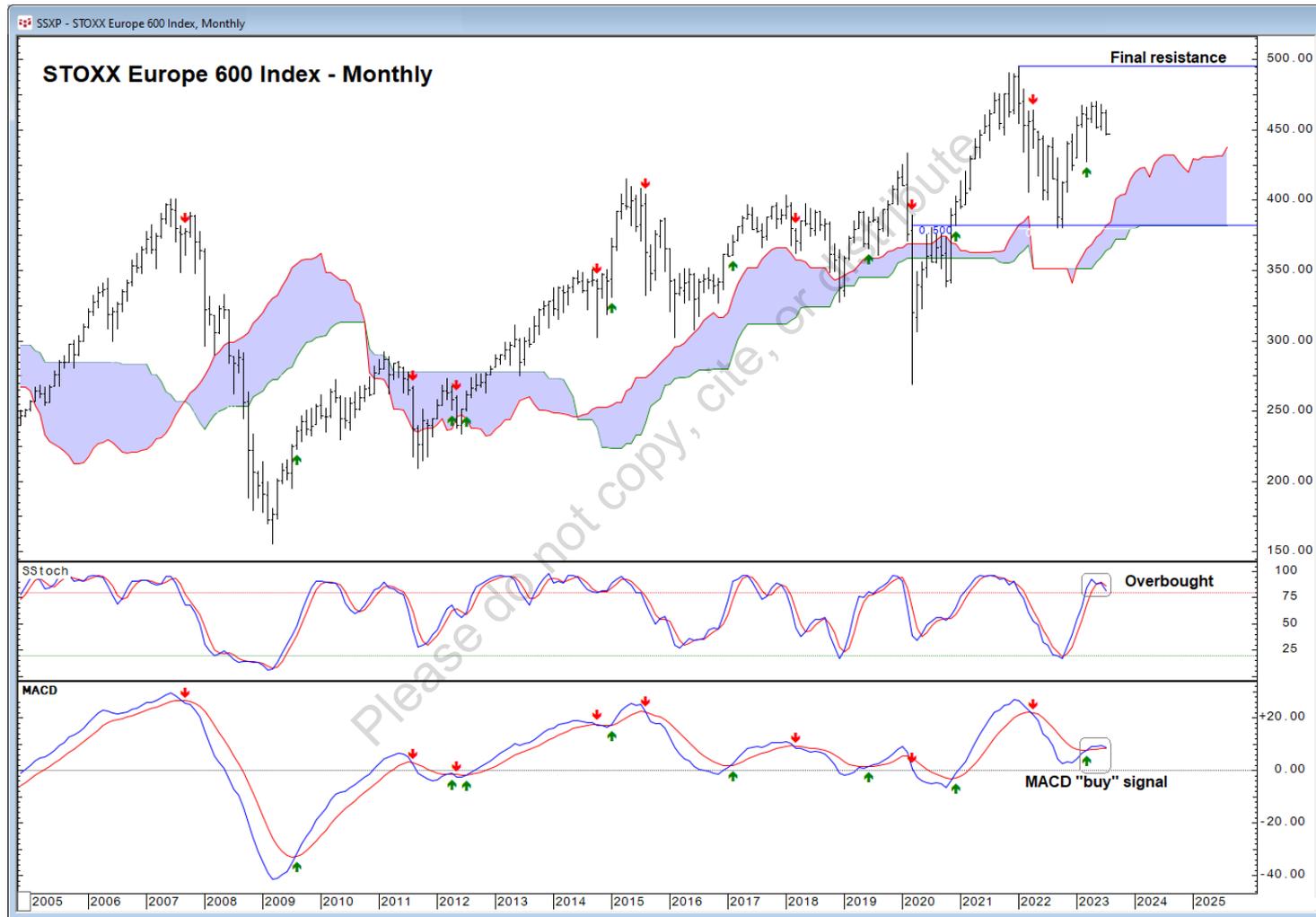
Market breadth, or participation, is now confirming price



Volatility has contracted, moving the VIX into a new cycle



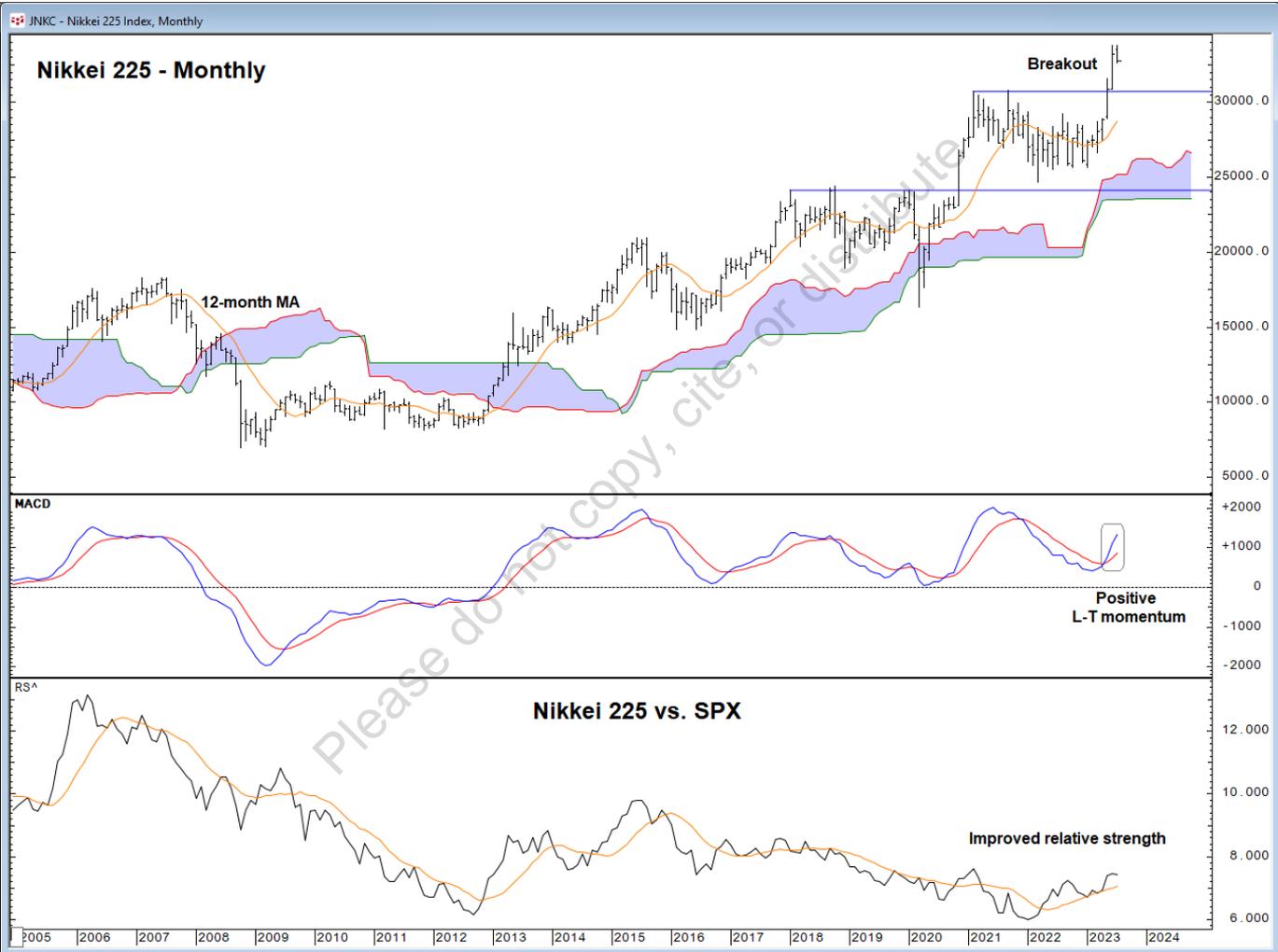
Europe's STOXX 600 is overbought from a long-term perspective



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SSXP - STOXX Europe 600 Index, Monthly (Delayed by 15 mins) | Thu Jul 06 2023 16:06:47, CQG 23.12.8031

Japan's Nikkei-225 has broken out on strong momentum

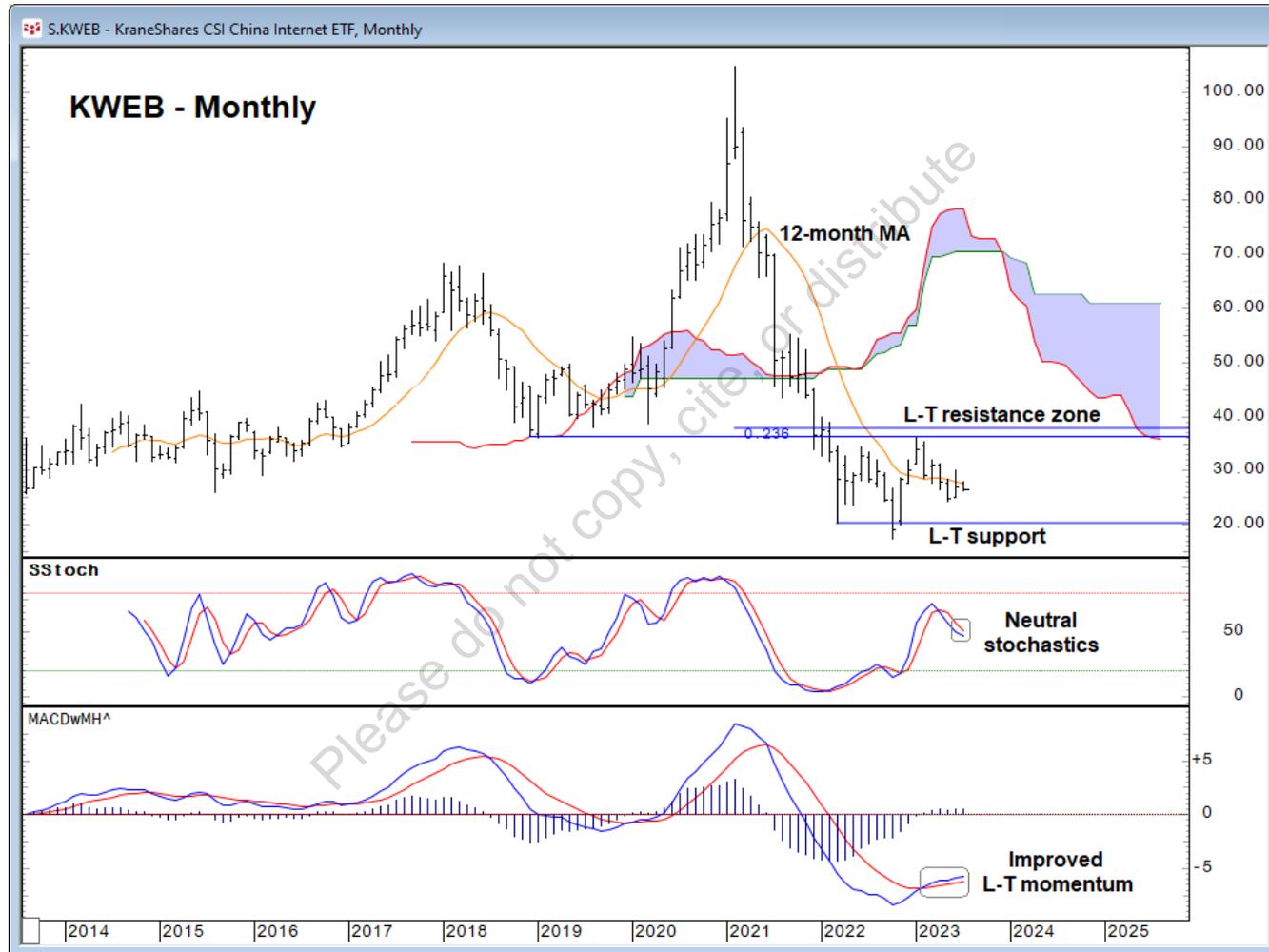


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JNKC - Nikkei 225 Index, Monthly (End of Day data) | Thu Jul 06 2023 16:09:07, CQG 23.12.8031



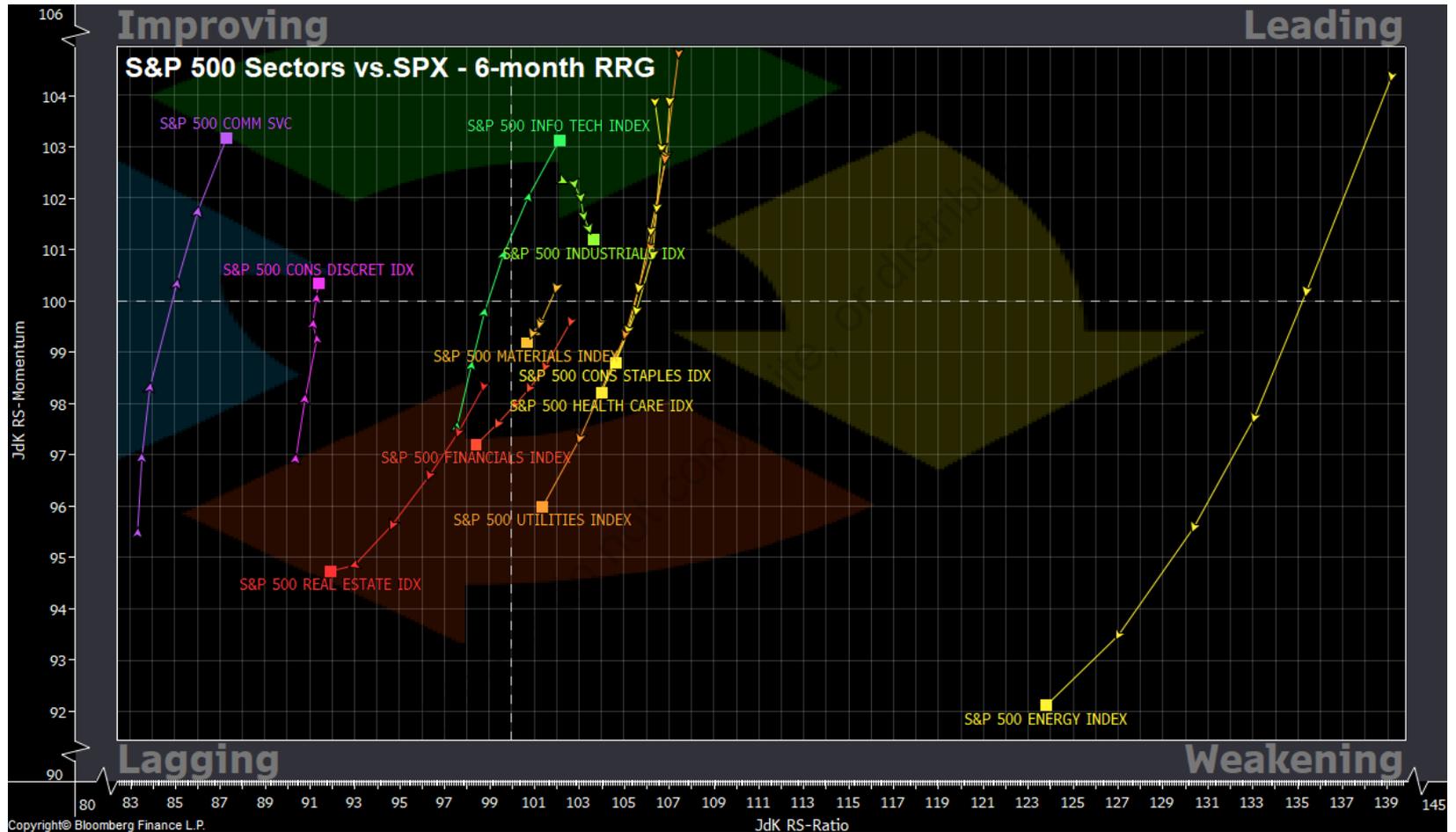
China's equity market appears to be bottoming



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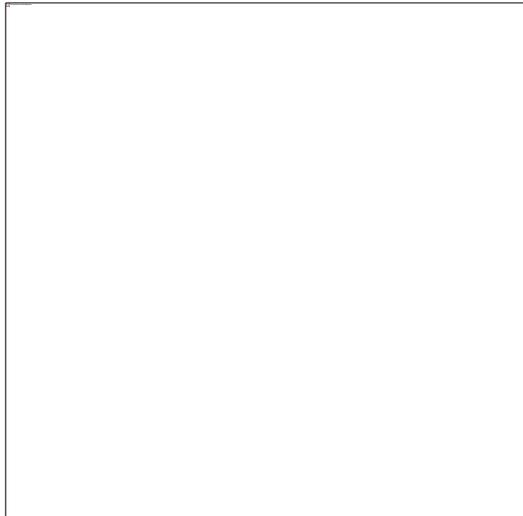
S.KWEB - KraneShares CSI China Internet ETF, Monthly | Thu Jul 06 2023 16:11:02, CQG 23.12.8031

Sector relative strength is on the offensive per an RRG®

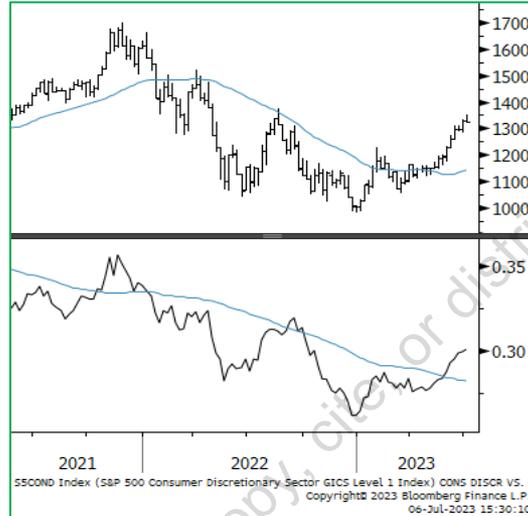


Watching the ratios can help find sources of outperformance

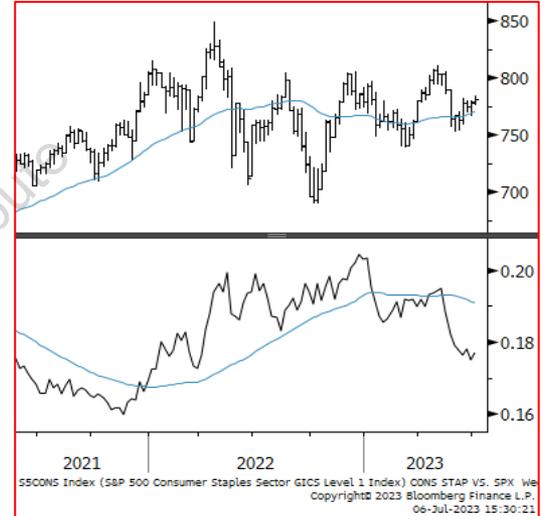
Communication Services



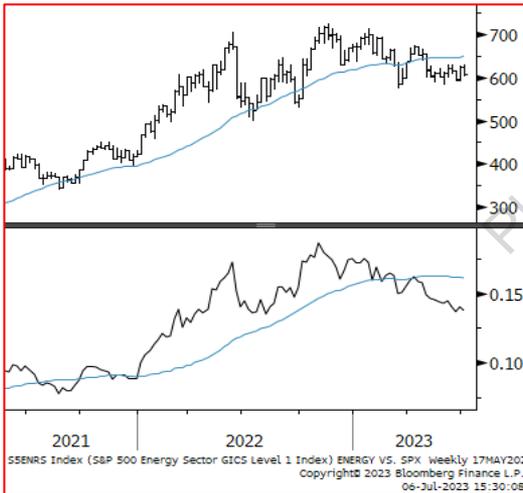
Consumer Discretionary



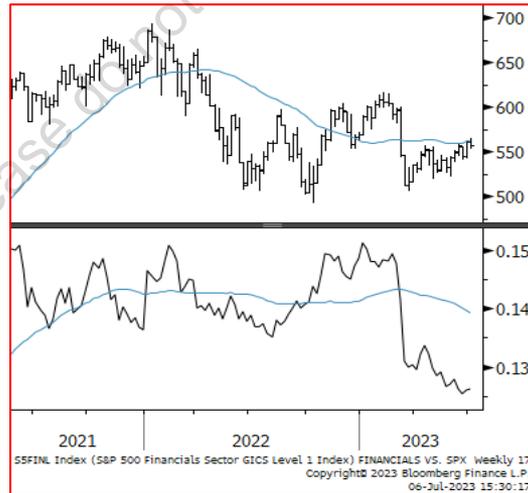
Consumer Staples



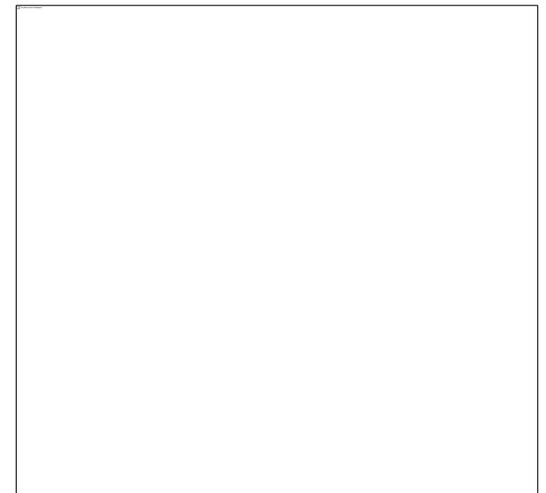
Energy



Financials

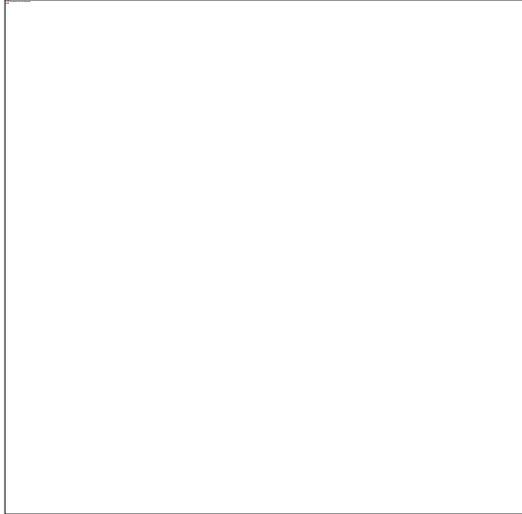


Healthcare

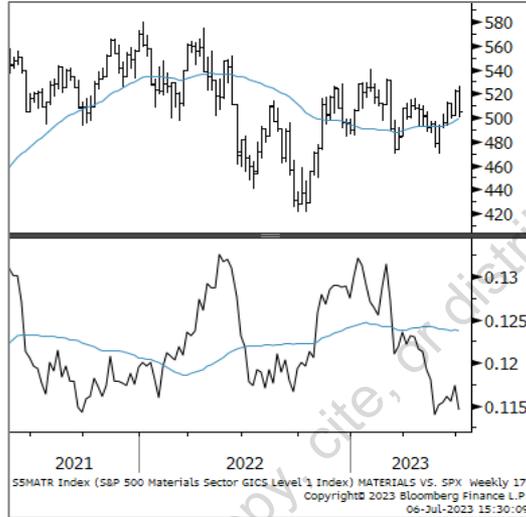


The technology sector has exhibited upside leadership

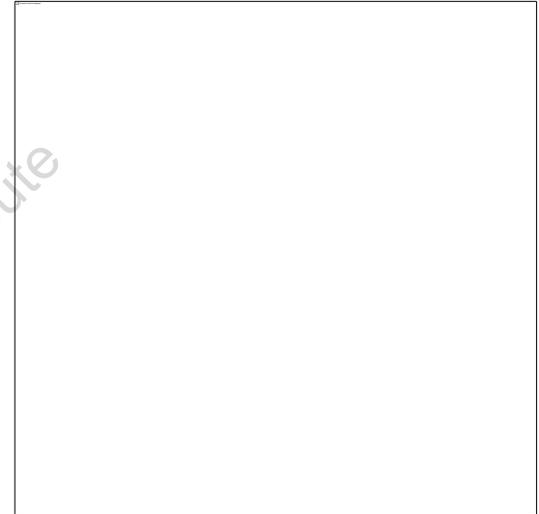
Industrials



Materials



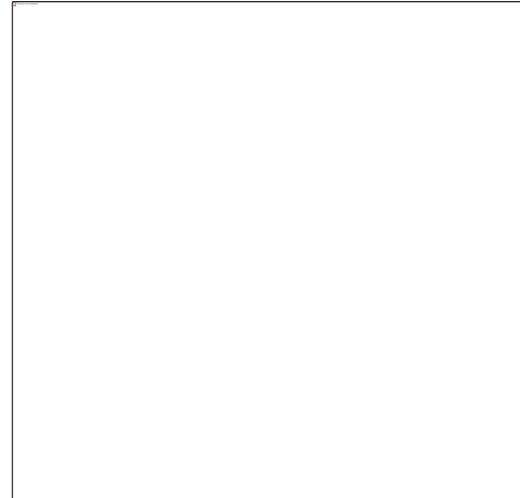
Real Estate



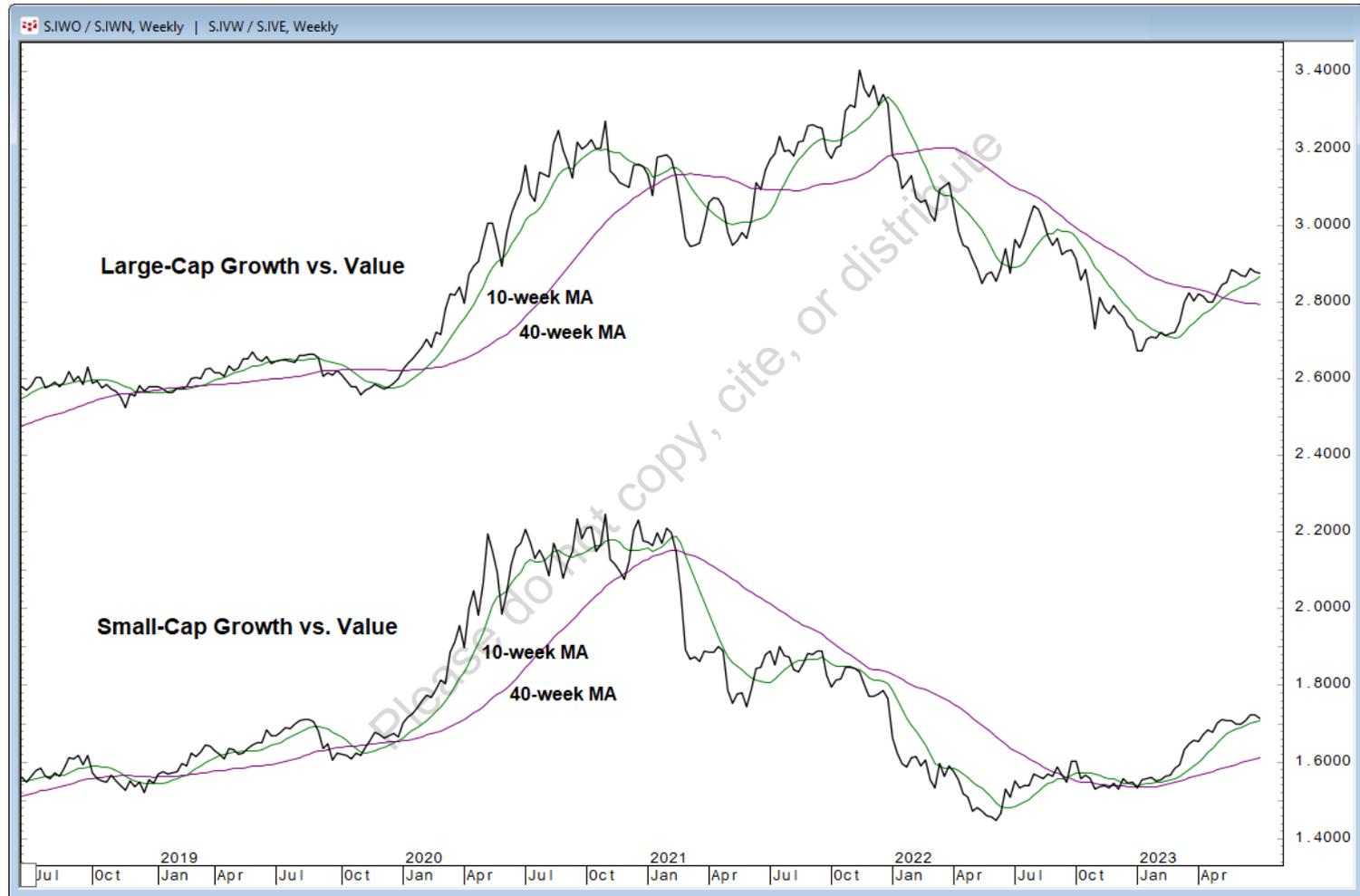
Technology



Utilities



Growth stocks have recovered relative to value stocks



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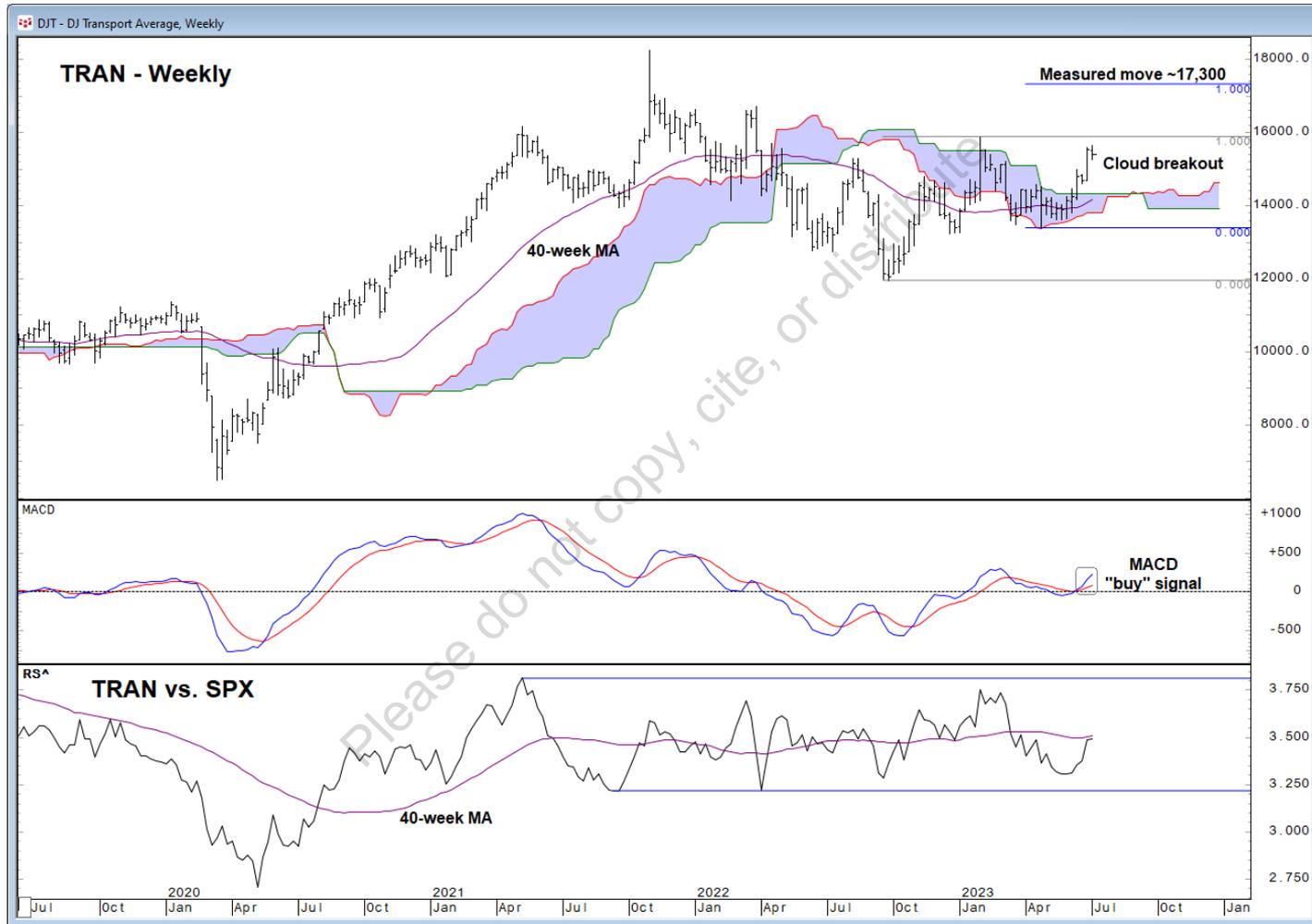
S.IWO / S.IWN, Weekly | S.IVW / S.IVE, Weekly | Fri Jul 07 2023 09:15:46, CQG 23.12.8031



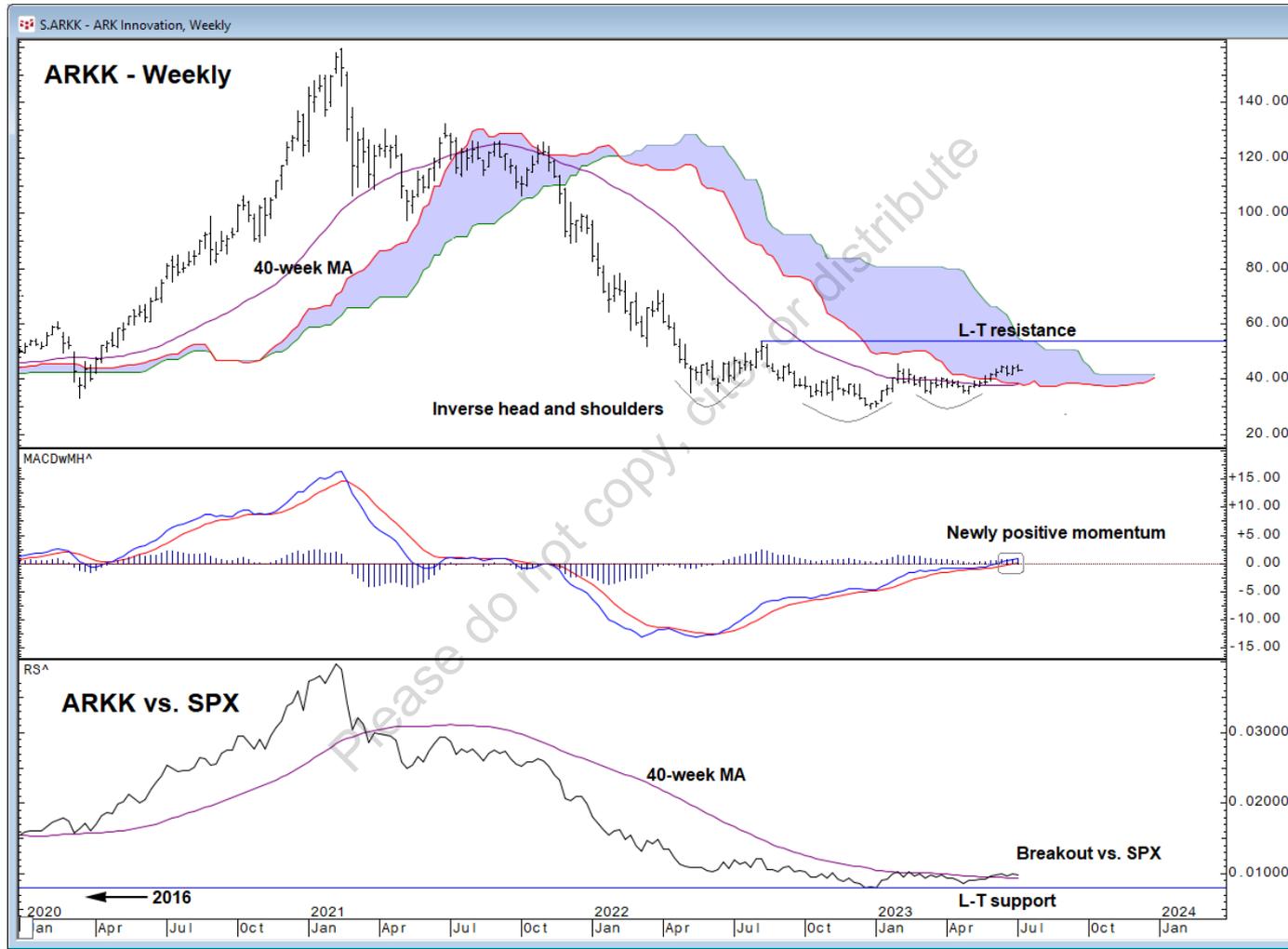
Regional bank stocks are coming off oversold levels



Transports show improved momentum with other cyclicals



High-growth stocks appear to have built bases



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S.ARKK - ARK Innovation, Weekly | Fri Jul 07 2023 09:20:32, CQG 23.12.8031

10-year Treasury yields are consolidating in their uptrend



Gold is oversold after correcting from final resistance

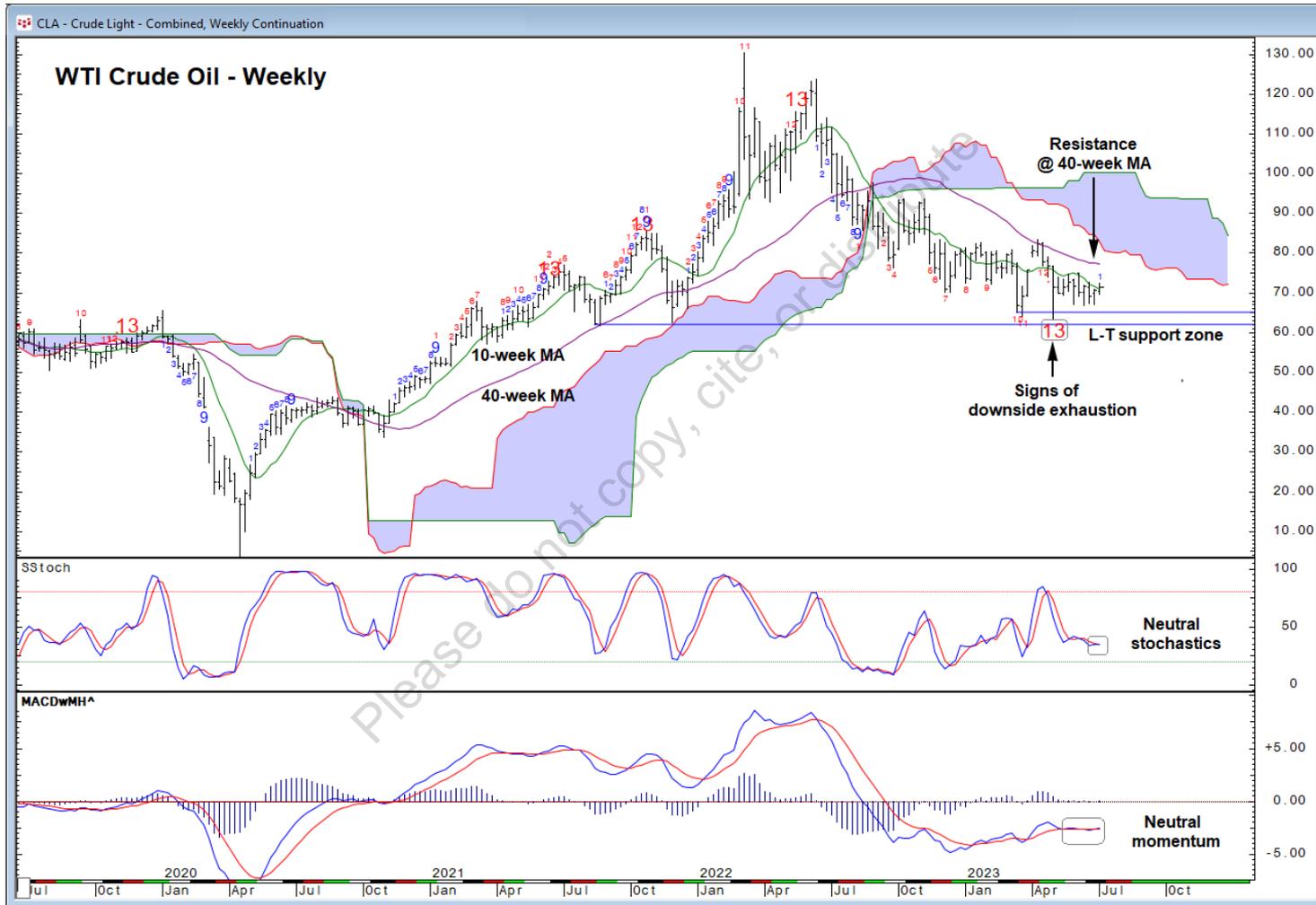


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GCA - Gold - Combined, Weekly Continuation (Delayed by 10 mins) | Fri Jul 07 2023 09:23:40, CQG 23.12.8031



WTI crude oil is trying to find a footing in its downtrend



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CLA - Crude Light - Combined, Weekly Continuation (Delayed by 10 mins) | Fri Jul 07 2023 09:25:15, CQG 23.12.8031

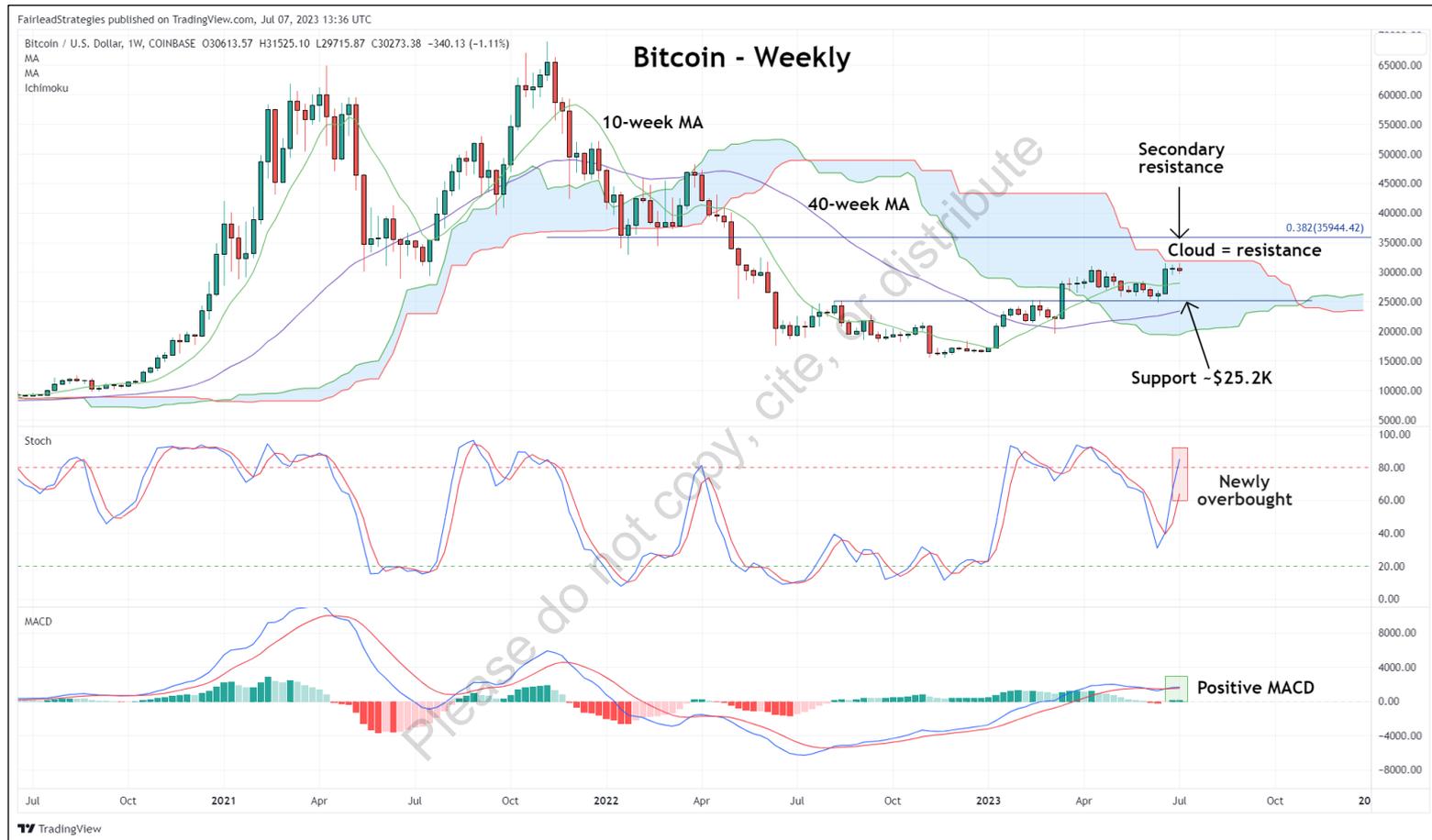
The Dollar Index is range-bound after pivoting lower last year



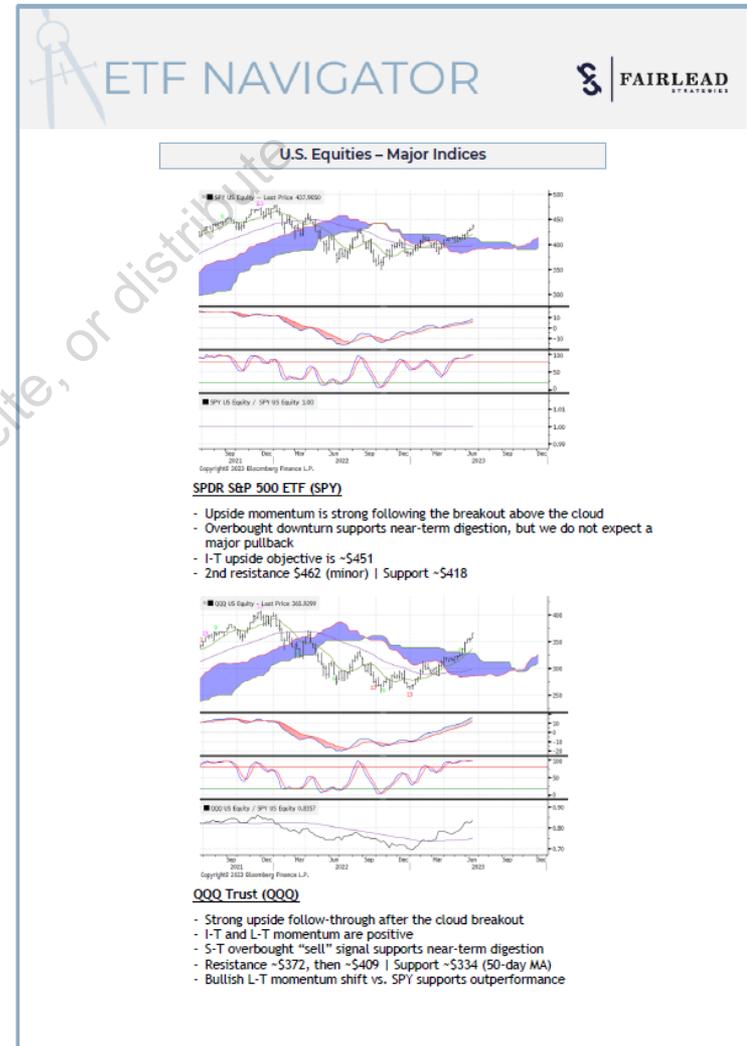
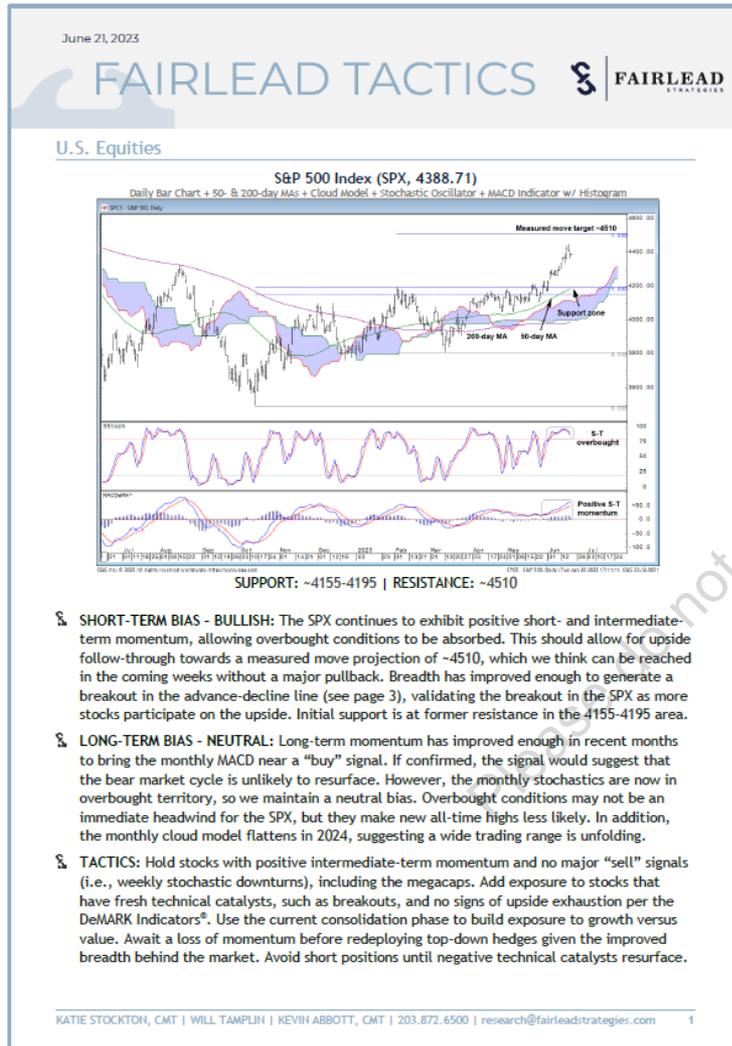
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DXC5 - Dollar Index, Weekly (Delayed by 10 mins) | Fri Jul 07 2023 09:29:32, CQG 23.12.8031

Bitcoin has completed a basing phase, but faces resistance



Putting it all together – Fairlead Strategies research



Putting it all together - Fairlead Tactical Sector ETF (TACK)



RISK ON:

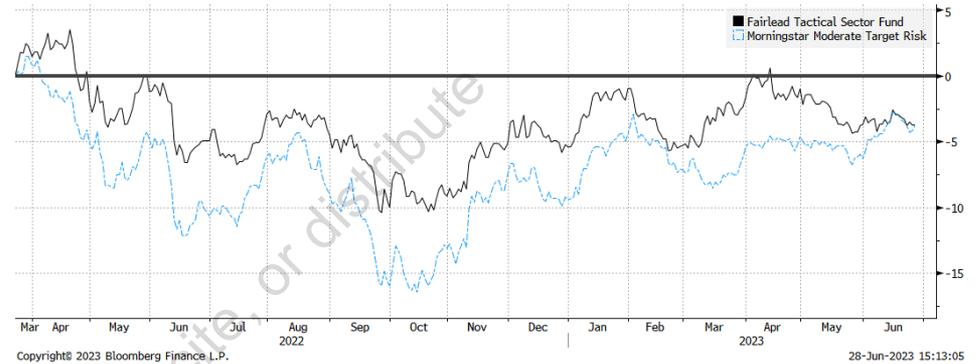
- Materials Select Sector SPDR Fund (XLB)
- Communication Services Select Sector SPDR Fund (XLC)
- Energy Select Sector SPDR Fund (XLE)
- Financial Select Sector SPDR Fund (XLF)
- Industrial Select Sector SPDR Fund (XLI)
- Technology Select Sector SPDR Fund (XLK)
- Consumer Staples Select Sector SPDR Fund (XLP)
- The Real Estate Select Sector SPDR Fund (XLRE)
- Utilities Select Sector SPDR Fund (XLU)
- Health Care Select Sector SPDR Fund (XLV)
- Consumer Discretionary Select Sector SPDR Fund (XLY)



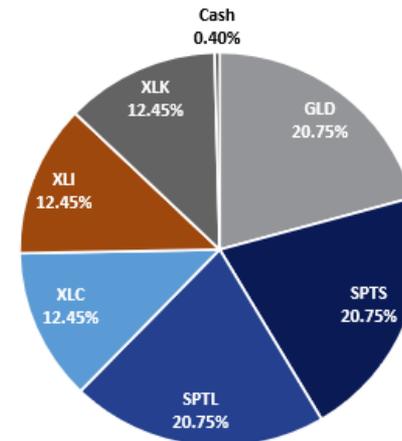
RISK OFF:

- SPDR Portfolio Long Term Treasury ETF (SPTL)
- SPDR Portfolio Short Term Treasury ETF (SPTS)
- SPDR Gold Shares (GLD)

TACK Comparative Returns



Current TACK Model



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