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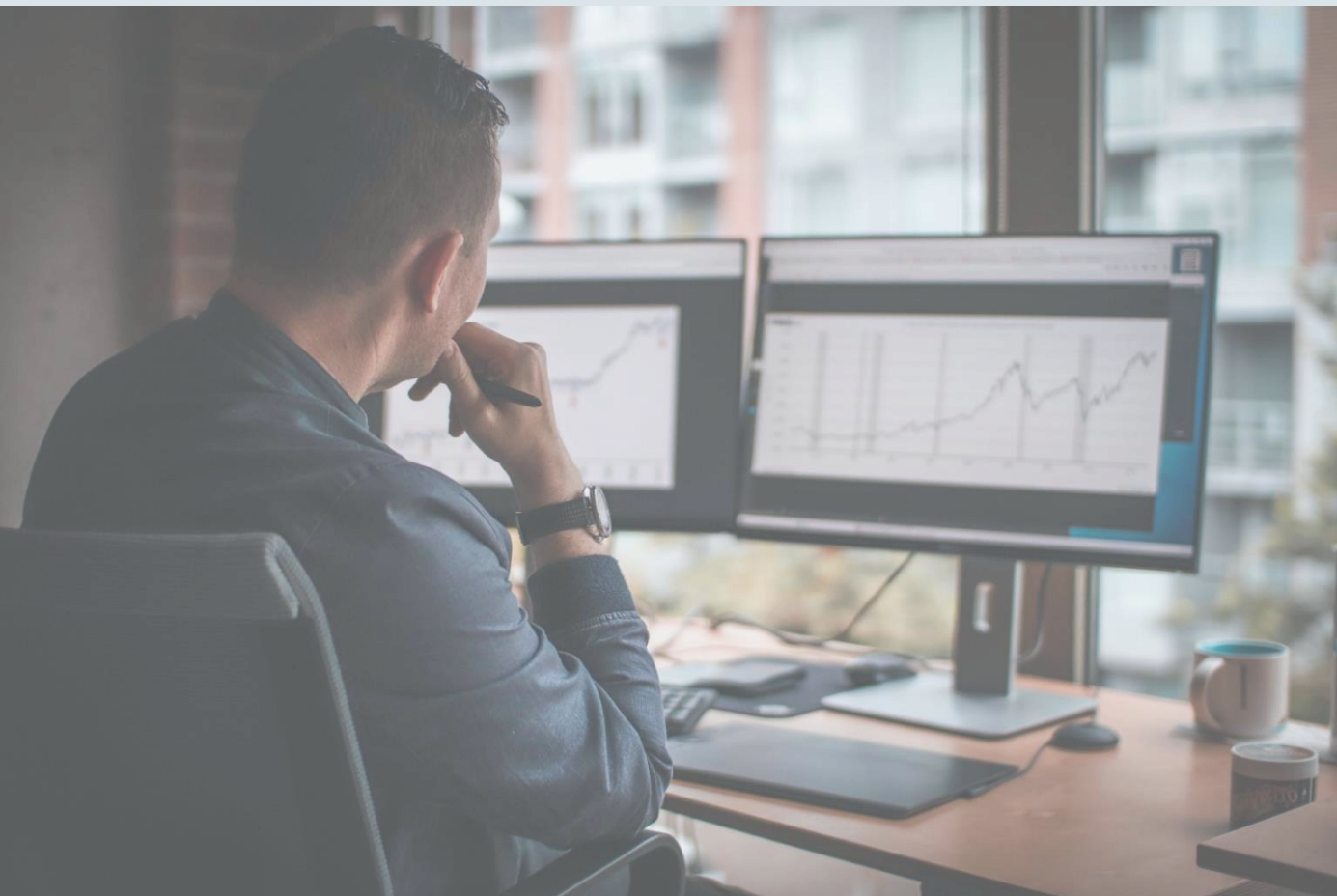
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U S S T O C K M A R K E T A N A L Y S I S - T O P D O W N

OCTOBER 2019 – Part 2

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BY : MOHAMED ABBAS KANJI



Analysis : October 2019
Part 2

introduction

Who I
Am
and
Why I
do
what I
do

Brief history

My name is Mohamed Abbas Kanji. I hold a Masters degree in Investment and Risk Finance from the University of Westminster. My expertise lies in technical analysis and fundamental analysis. My interest in the financial markets began from an early age through the trading of CFD's. As my knowledge of trading grew so did my curiosity into data analysis and statistical frameworks for forecasting.

I developed risk management strategies that involved diversification of assets through the use of derivatives.

I also have experience in advising and managing family wealth for long term growth by working closely with relationship managers and selecting the right investment products through careful fundamental analysis.

My entrepreneurial background in several industries, from digital marketing to e-commerce allowed my analytical skills to grow by thinking outside the box.

I hope this analysis can demonstrate the skills I have learnt over time and help to provide an insight into where we are headed in terms of the financial markets.

*Mohamed Abbas
Kanji*

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Disclaimer:

Past performance may not be indicative of future results. The content in this analysis is intended to be used for informational purposes only. All the views and opinions expressed in this analysis are my own and do not represent the opinions of any entity whatsoever.

About this analysis

Top Down

In this analysis we will be continuing our industry analysis by looking at the Technology, Industrial and Consumer Retail Industry.

To do this we will be examining the following ETF's:

- XLK (Broad Tech ETF)
- XLI (Broad Industrial ETF)

Some of the studies that will be conducted are technical analysis, impact analysis from stock movements based on news releases, volatility analysis, and a fundamental analysis on some of the heavier weighted companies.

The goal of conducting this analysis is to get an overall look on the health of the US economy , to better guide future investments.



US Markets Summary

Range bound. Could breakout in either direction. Currently risk levels in the market are **Risk-Off**.

Developments in Trade War Progress and Impeachment progression to be watched carefully.

Tools used



TradingView



AmiBroker

Technology Industry Analysis

We can analyse the US equity broad tech market through the use of an ETF. The Technology Select Sector SPDR Fund. (XLK). XLK contains some of the big names in technology such as Apple, Microsoft and Cisco. With an approximate AUM of \$22.17 billion, XLK has got an MSCI ESG Fund rating of A.

Issuer : State Street Global Advisors

Inception Date : 16/December/1998

AUM (\$) : 22.17 Billion

Average Daily Volume (\$) : 1.00 Billion

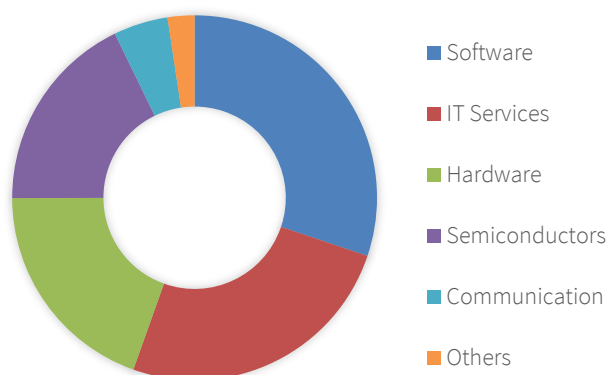
Price / Earnings Ratio : 23.35

Price / Book Ratio : 7.47

Top 10 Holdings

Microsoft Corp.	MSFT	19.55%
Apple Inc.	AAPL	17.52%
Visa Inc – Class A	V	5.47 %
Mastercard Inc	MA	4.47%
Intel Corp.	INTC	4.20%
Cisco Systems Inc	CSCO	3.86%
Adobe Inc	ADBE	2.47%
Salesforce	CRM	2.40%
IBM	IBM	2.37%
Accenture – Class A	ACN	2.26%

Sector Analysis



2019 Performance



XLK – Technical Analysis

2019 TA



XLK has been in an uptrend from the start of the year with returns up to 30%. We can see from the chart to the left that it tested an all time high level of \$82.78 followed by a fall back to the yearly trendline. The Fibonacci level of 50% held as a strong support in confluence with the upward trendline.



The RSI levels have reached the lower limit of 30.00 when the price of XLK has touched the upward trendline. The black line on the chart on the left is the Simple 200 day Moving Average. We can see that the price has maintained a level above the 200 day SMA.

! October Update

On the 2nd of October, XLK broke through the upward trendline, a trend that has not been broken since the start of 2019. The general negative sentiment towards the US economy, sent the S&P into free fall on the 2nd of October. Thus impacted XLK as well which represents technology stocks within the S&P.

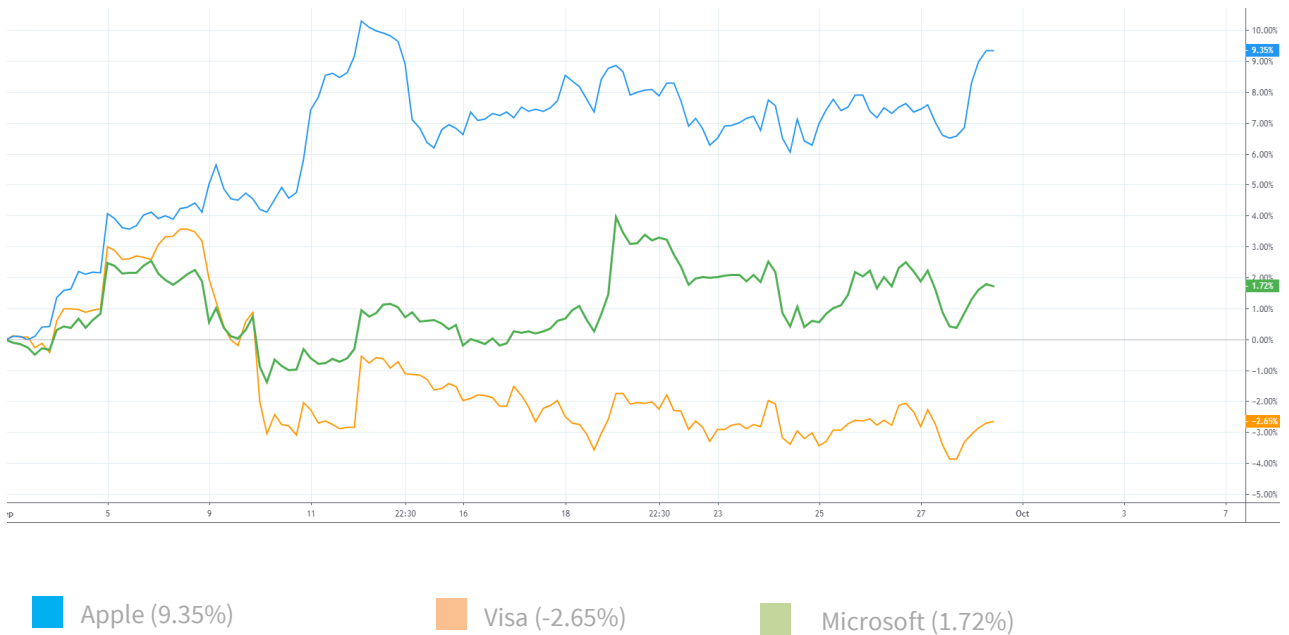


XLK September Analysis



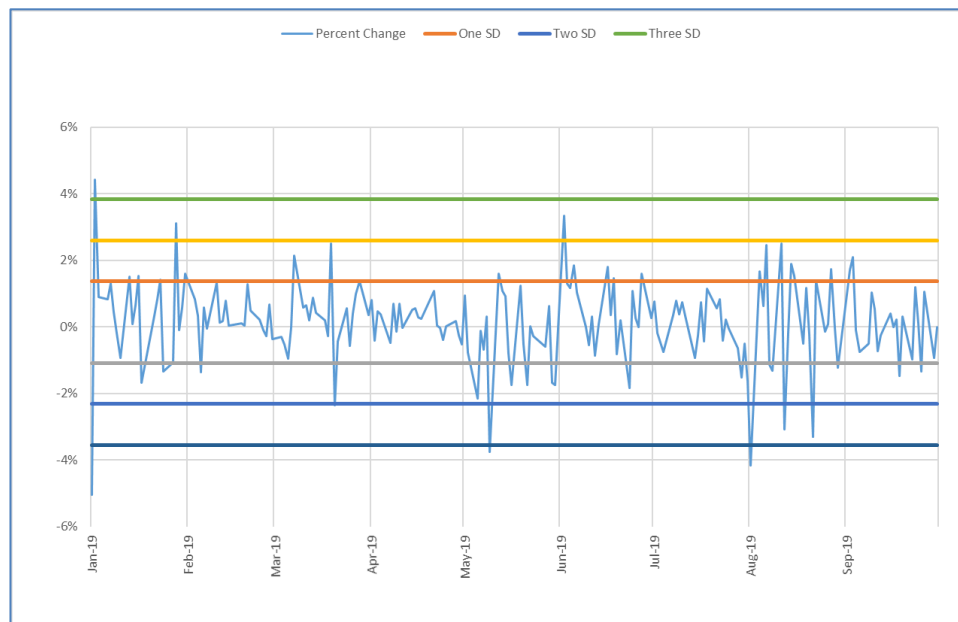
September price levels for XLK has been ranging between \$78 and \$83, aside from the first trading day of October. If we reduce the time frame to hourly candles we can see an MA crossover of the 100 and 50 day moving averages turning bearish.

XLK Top 3 Return Analysis



XLK – Return Volatility

XLK Return Volatility - 2019



Average Daily Change:

0.14%

Skewness:

-0.59

Kurtosis:

2.98

XLK Return Volatility – September 2019



Average Daily Change:

0.08%

Skewness:

0.35

Kurtosis:

-0.39

XLK Key Company Developments

APPLE (AAPL) : On September 10th Apple has a bag full off gifts for its consumers. It revealed Apple arcade, Apple TV new streaming service, Apple Watch Series 5, and the new iPhone 11.



The release of these services sent the stock soaring up between the 10th and 11th of September. The new Apple TV+ streaming service would take on Netflix. Apple announced that the monthly subscription to their streaming service would be \$4.99 per month compared to \$8.99 charged by Netflix. This news sent Netflix share price down by approximately 3%.

Apple Analyst Estimates

Firm	Position	Price Target
Morgan Stanley	Buy	\$247
UBS	Buy	\$235
Nomura	Hold	\$185
HSBC	Sell	\$190
New Street	Sell	\$155

Industrial Industry Analysis

We can analyse the US equity broad industrial market through the use of an ETF. The Industrial Select Sector SPDR Fund. (XLI). XLI has exposure to a wide range of industrial sectors including aerospace, defense, machinery, transportation and construction. All of the companies within the ETF are listed on the S&P500.

Issuer : State Street Global Advisors

Inception Date : 16/December/1998

AUM (\$) : 9.80 Billion

Average Daily Volume (\$) : 792.04 Million

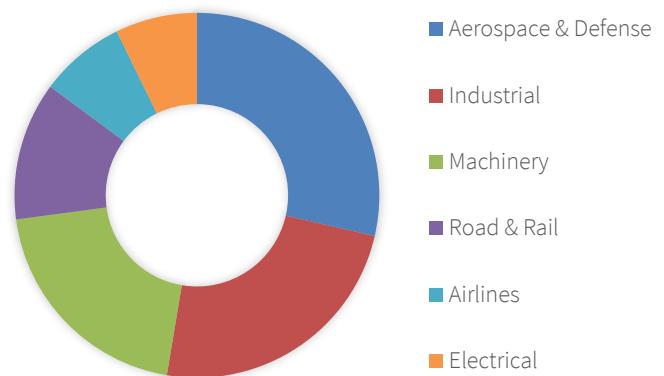
Price / Earnings Ratio : 25.74

Price / Book Ratio : 4.70

Top 10 Holdings

Boeing Company	BA	8.80%
Honeywell Int.	HON	5.27%
Union Pacific Corp.	UNP	4.94 %
United Technologies	UTX	4.79%
Lockheed Martin	LMT	4.19%
3M Company	MMM	4.09%
United Parcel Service	UPS	3.62%
General Electric	GE	3.38%
Caterpillar Inc	CAT	3.07%
Northrop Grumman Corp	NOC	2.55%

Sector Analysis



2019 Performance



XLI – Technical Analysis

2019 TA



XLI has been in an uptrend from the start of the year with returns reaching as high as 23% in early September. That being said the price action crossed below the upward support trendline on the 1st of August becoming a resistance line and tested on 13th of September when it reached the 2019 high. A support range was formed marked in green on the chart above. The black line is the 200 day Simple Moving Average. We can see that XLI is now range bound as observed by the flat 200 Day SMA.

2019 RSI Divergence



Between 1st and 5th August XLI took a sharp dive due to multiple poor earnings reports. The lows however in comparison to the RSI showed a divergence. This would mean that there was a Hidden Bullish divergence. Which usually points towards an upcoming bull run. To further confirm the bull run, XLI formed an inverted head and shoulders which confirmed the price swing high beginning September.

September TA



From earlier on in the month we notice 2 gap ups adding to the bullish sentiment which rose close to the highs of September and October 2018. However at the top on the 1 hour time frame the prices formed an engulfing evening star which indicated towards a reversal from bullish to bearish. This was confirmed by the trend going down up to the end of the month.

It is important to note that the bottom resistance after the evening star formation did not cross into the area of the gap up made at the start of the month.

! October Update

XLI continued the downtrend through the start of October, crossing the previous gap up mentioned. The volume towards the end of the month spiked to levels that were experienced at the start of September. The price rejected the lows of August.



PMI vs XLI



The PMI Index is an index that summarizes market conditions as expressed by purchasing managers. The chart above shows PMI figures from the start of the year 2000 all the way up to October 2019. The 2 red highlighted boxes indicate a recession. If we ignore the 2 drops outside the PMI range (that occur during a recession) we can see that the PMI ranges between 46 and 61. It is however important to note that the speed at which we have gone from the upper range to the lower range over the past 1 year has been uncomfortably quick.

The chart below shows the 2019 fall in PMI versus the range bound XLI figures.



Date	Pmi	% Change
12/31/2001	45.3	3.189066
12/31/2002	51.6	13.90728
12/31/2003	60.1	16.47287
12/31/2004	57.2	-4.82529
12/31/2005	55.1	-3.67133
12/31/2006	51.4	-6.71506
12/31/2007	49	-4.66926
12/31/2008	33.1	-32.449
12/31/2009	55.3	67.06949
12/31/2010	57.5	3.9783
12/31/2011	53.1	-7.65217
12/31/2012	50.4	-5.08475
12/31/2013	56.5	12.10317
12/31/2014	55.1	-2.47788
12/31/2015	48	-12.8857
12/31/2016	54.5	13.54167
12/31/2017	59.3	8.807339
12/31/2018	54.3	-8.4317
09/30/2019	47.8	-11.9705

The table on the left shows the PMI index values and percentage changes over the years from 2001 till 2019. This year we have seen a drop in the PMI by 11.97%. The closest similar fall we can see is from 2015 to 2015 which saw a fall of 12.89%. We can then analyze what happened to XLI after this fall in 2015 to have an idea of what might happen again this time.

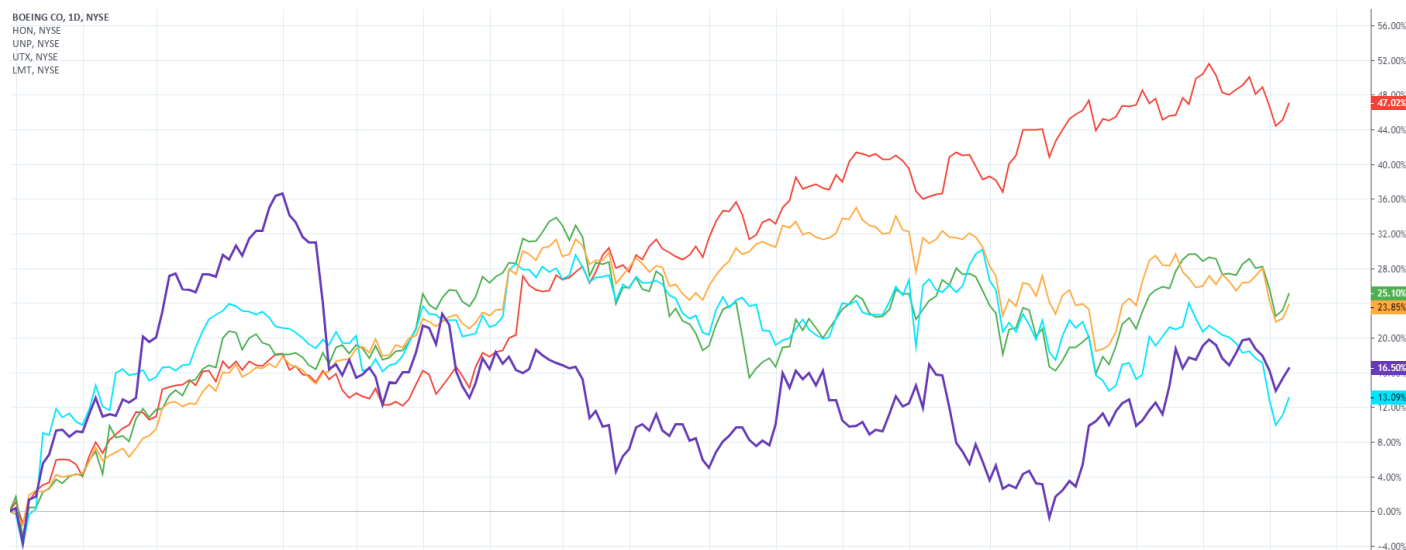
The chart below shows that after ranging across the year of 2015, an uptrend began whilst PMI data started to increase as well. By the end of 2016 PMI data had improved by 13.5%.

It is important to take into account 2 considerations:

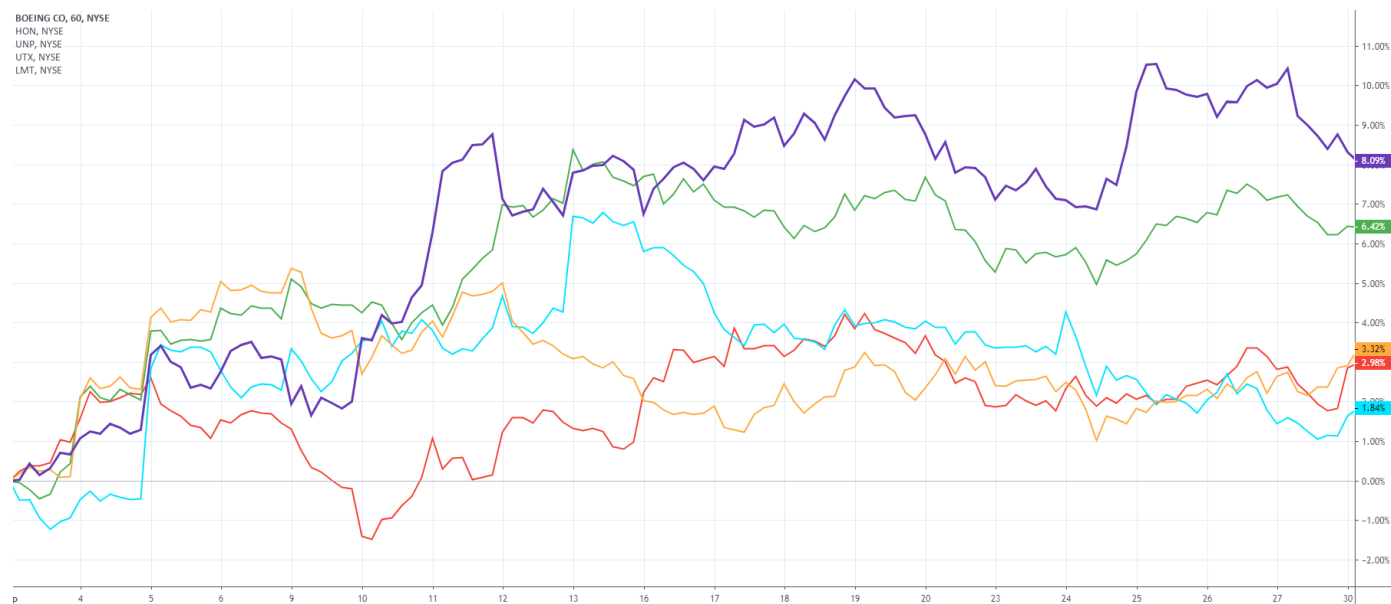
- (i) 2015 fall in PMI data of -12.89% was after a previous fall in PMI data of -2.48% as well. Whereas if we look more recently end 2018 showed a dip in PMI of -8.43%
- (ii) The most recent PMI data is only till end September.



XLI Stock Top 5 Returns 2019:



XLI Stock Top 5 Returns September:



■ Boeing
 ■ Honeywell
 ■ Union Pacific
 ■ United Technologies
 ■ Lockheed Martin

More Research..

Further studies can be conducted to get a clearer and more in depth picture. Some of these studies include:

- **DDM and DCF Analysis**

Dividend Discount Models and Discounted Cash Flow Models of underlying stocks within ETF's

- **Correlation Studies**

Finding hedging opportunities through deep correlation studies

- **Quantitative Analysis**

Statistical quantitative data analysis deep dive

If you would like these further studies conducted, feel free to reach out:

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