

# Day Hagan *Chart Jamboree*

“The stock market is human nature on parade.” ~William O’Neil

**Jenga?**

**Condition versus Signal**

Presented By:

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Mid February 2024



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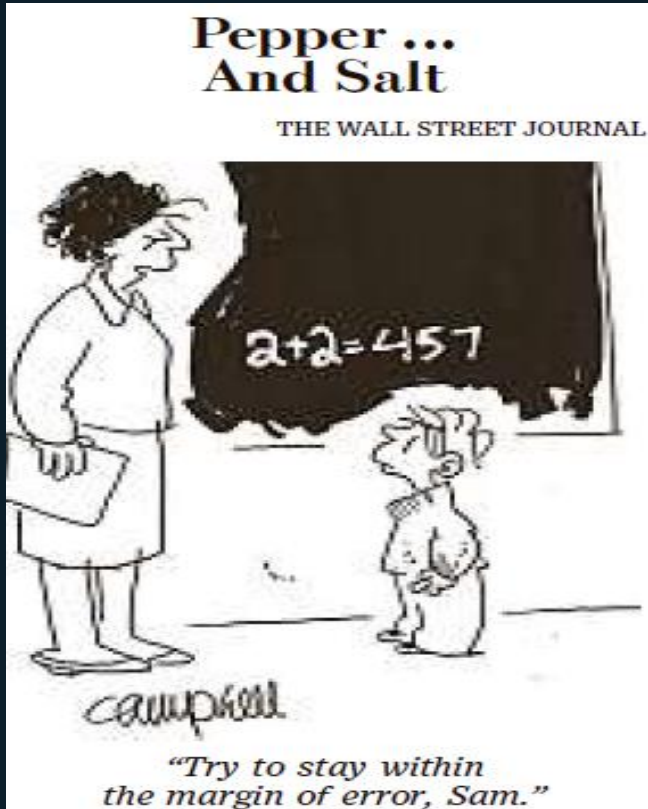
Day Hagan Asset Management



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## Humor and Seriousness



Bulls make \$. Bears make \$. Pigs go broke.  
Don't fall in love with your positions.



Reminds me of the participation trophy a coach tried to give my son, which I refused.

Speaking of laxatives - "Divergences are like laxatives. You never know if one is enough or two is too many." ~Justin Mamis

## Bottom Line

#1

*“Winners make small mistakes; losers make big mistakes.” ~Ned Davis*

- The **DH/NDR Catastrophic Stop model** continues to recommend a fully invested position vs. its S&P 500 Large Cap benchmark – **SPX support/risk**: 4800+/- (~4% down), 4600+/- (~8% down).
  - **Internal Composite** (price-related) is positive, though some technical headwinds (next slide) are in place.
  - **External Composite** (broad macroeconomic, fundamental, sentiment) is neutral. However, there isn't yet enough evidence to reduce exposure, especially with the S&P 500's primary trend favorable.
    - If our models shift to bearish levels, we will raise cash.
- **High Yield Option Adjusted Credit Spreads**: Remain near lows, supportive of equities, despite ongoing concerns surrounding Regional/Community Banks. Reach out for a HYOAS chart.
- **U.S. vs. Overseas**: Select overseas opportunities exist. But given its large technology weighting, the U.S. is still dominant based on relative strength analysis.
  - **Smart Sector International ex. U.S. strategy** can support you within this framework.



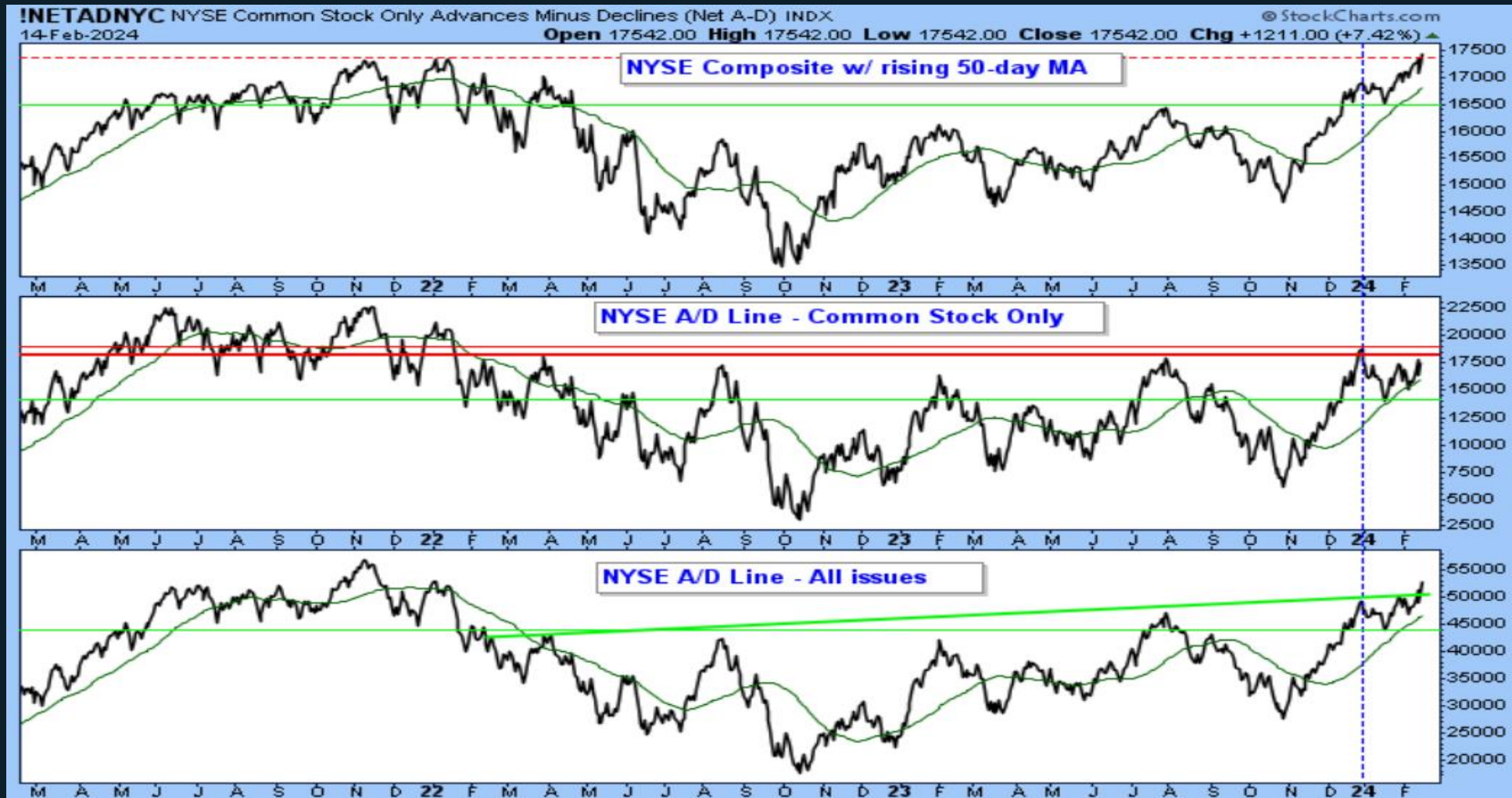
## Bottom Line

#2

- **Jenga** (Technical Headwinds - “Condition”): If you are familiar with the game **Jenga**, then you know you don't want to remove too many pieces below or the ones on top will fall over. The equity market is no different. However, *there is a difference* between a “**Condition**,” and a “**Signal**.” (sell)
  - I am NOT saying it's only 5-6-7 stocks driving the market, because it isn't. I AM saying it's been mostly about the “Index Movers,” which consists of a lot more than just “FANG.”
    - **Mid-Caps** are starting to participate—reach out for chart.
    - **Small Caps** – “I think I can...” but **n-e-e-d** lower/stable interest rates.
  - **Pullbacks/Corrections** that run counter to the primary trend **are the market's way of resetting.** Currently, the primary trend for most Large Cap and Mid-Cap proxies is higher.
    - **A)** Selective internal measuring tools not moving in sync/diverging. Ex.: New Highs, % stocks > certain MAs, momentum, YTD performance skewed, Bullish P&F charts etc.
    - **B)** U.S. Dollar remains strong.
    - **C)** Sentiment and Seasonality.

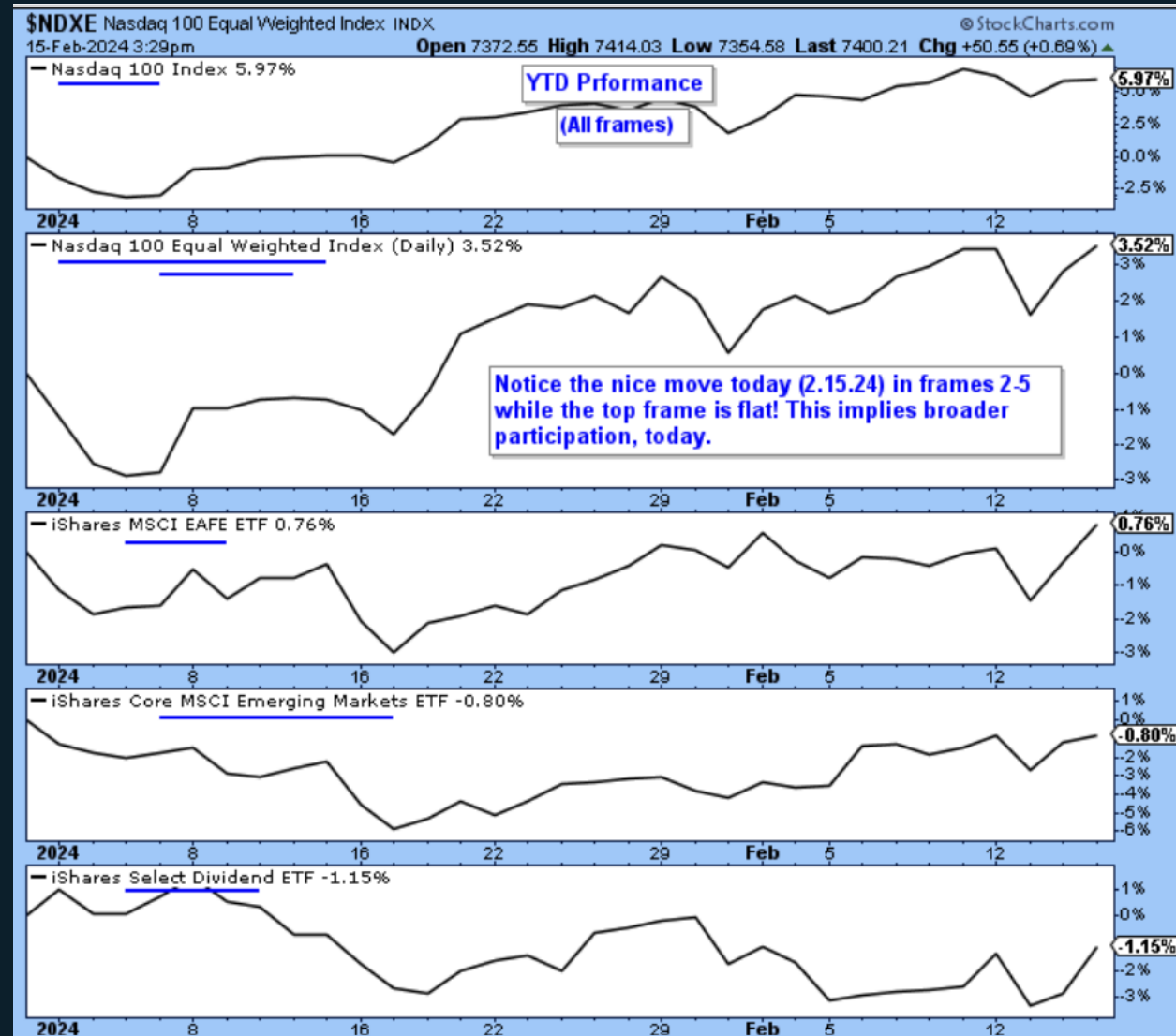
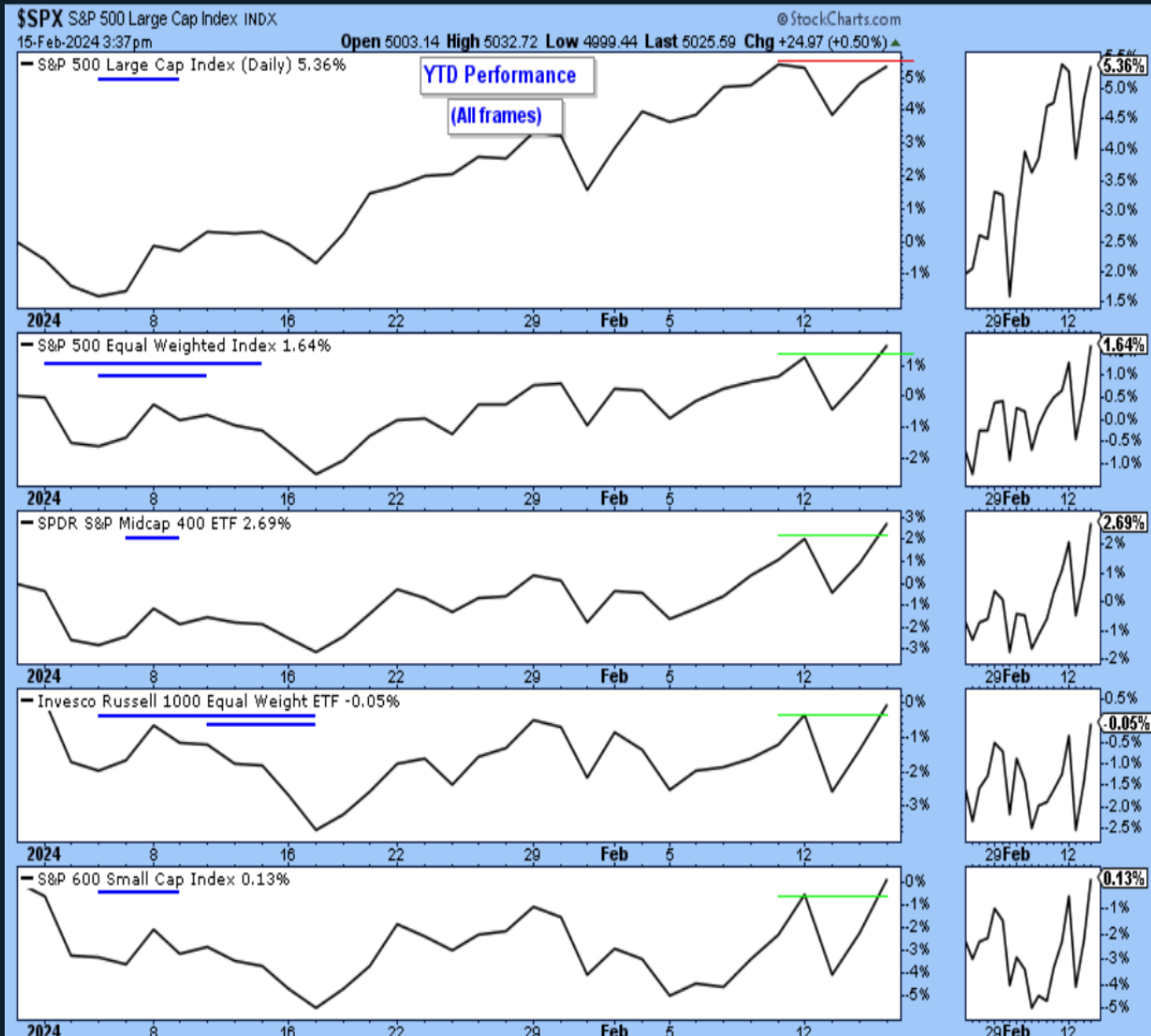
**NYSE Composite** (NYA), along with the **NYSE Common Stock Only** and **All-Issues A/D Lines**, has not broken into record-high ground. NYA's all-time peak was recently tagged, yet the A/D Lines remain far from their record highs from 2021.

**Takeaway:** Away from the “Index Movers,” an internal correction began in late ‘23—vertical blue line.



# Year-to-Date Performance Disparity

**Takeaway:** While 2024 has to a large degree, been about the "Index Movers," the disparity is narrowing.



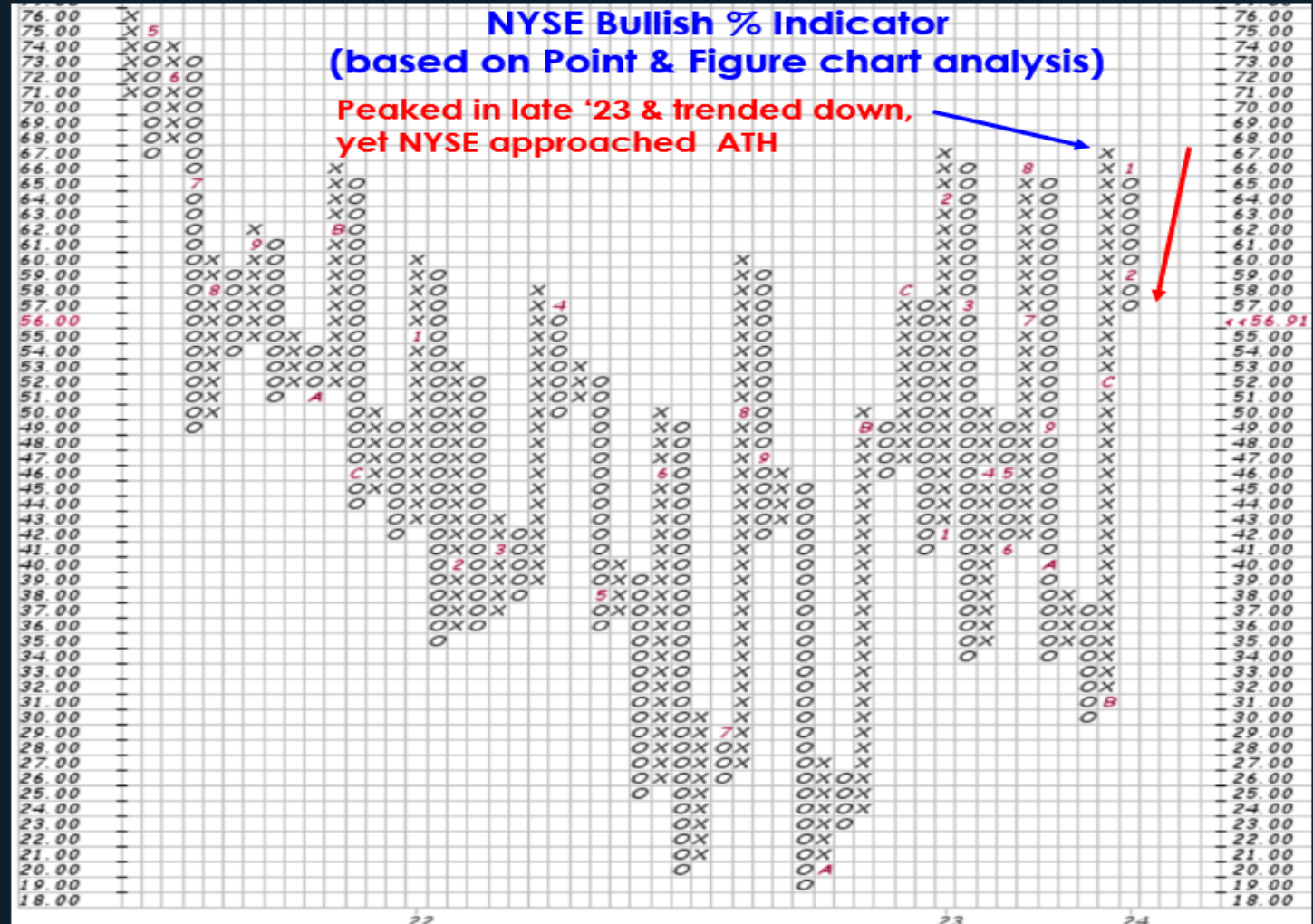
## Bullish Percent (Point & Figure chart)

(Please reach out for a discussion of P&F charts &/or Bullish % indicator)

While the respective cash index has approached ATH, or recorded an ATH (not shown), the # of stock charts whose most recent signal was bullish ("buy") has fallen (see charts).

**Takeaway:** Participation has been mostly about the "Index Movers," not as broad as many espouse.

- X depicts when the indicator is moving up/higher.
- O depicts when the indicator is moving down/lower.



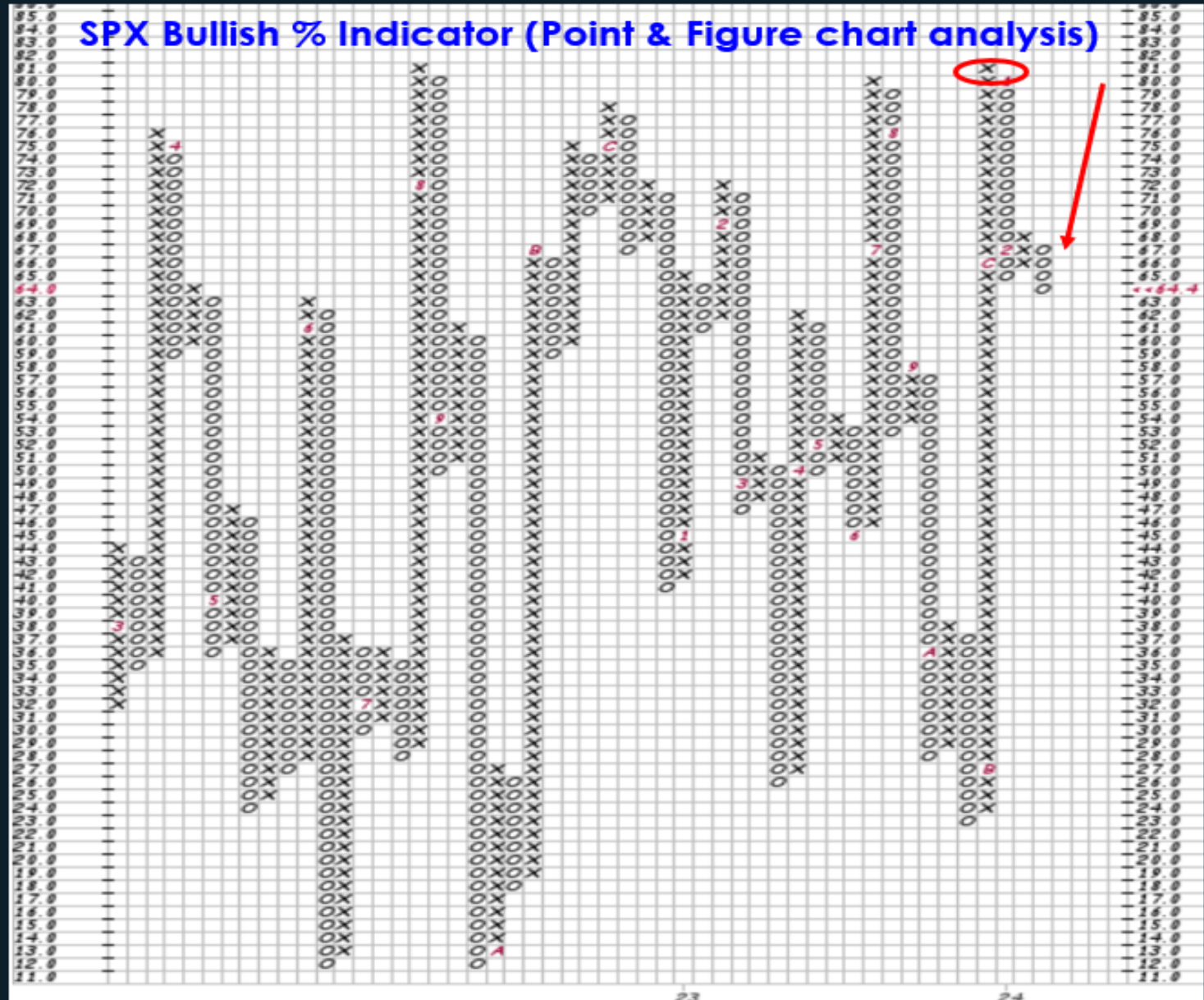


## Explanation & Takeaway

Please see previous slide.

- **X** depicts when the indicator is moving up/higher.
- **O** depicts when the indicator is moving down/lower.

**NDX Bullish %** shows the same disparity—reach out for the chart.





**Takeaway:** I am NOT saying that it's only 5-6-7 stocks driving the market, because it isn't. I am saying it's been mostly about the "Index Movers," which consists of more than just "FANG."

**YTD Performance**  
(a/o 3:55pm, 2/15/24)

**Smart Sector Strategy**  
(equities)

**OW:** Comm. Svcs., Tech, Health Care, Financials

**UW:** Industrials, Materials, Utilities

NAME	% CHG
XLC - Communication Services Select Sector SPDR Fund	+10.27%
XLV - Health Care Select Sector SPDR Fund	+6.39%
XLK - Technology Select Sector SPDR Fund	+6.18%
XLF - Financial Select Sector SPDR Fund	+5.68%
\$SPX - S&P 500 Large Cap Index	+5.41%
XLI - Industrial Select Sector SPDR Fund	+4.11%
XLE - Energy Select Sector SPDR Fund	+2.04%
XLP - Consumer Staples Select Sector SPDR Fund	+1.54%
XLY - Consumer Discretionary Select Sector SPDR Fund	+0.64%
XLB - Materials Select Sector SPDR Fund	-1.02%
XLU - Utilities Select Sector SPDR Fund	-3.30%
XLRE - Real Estate Select Sector SPDR Fund	-3.39%

## Music to the Bulls' Ears

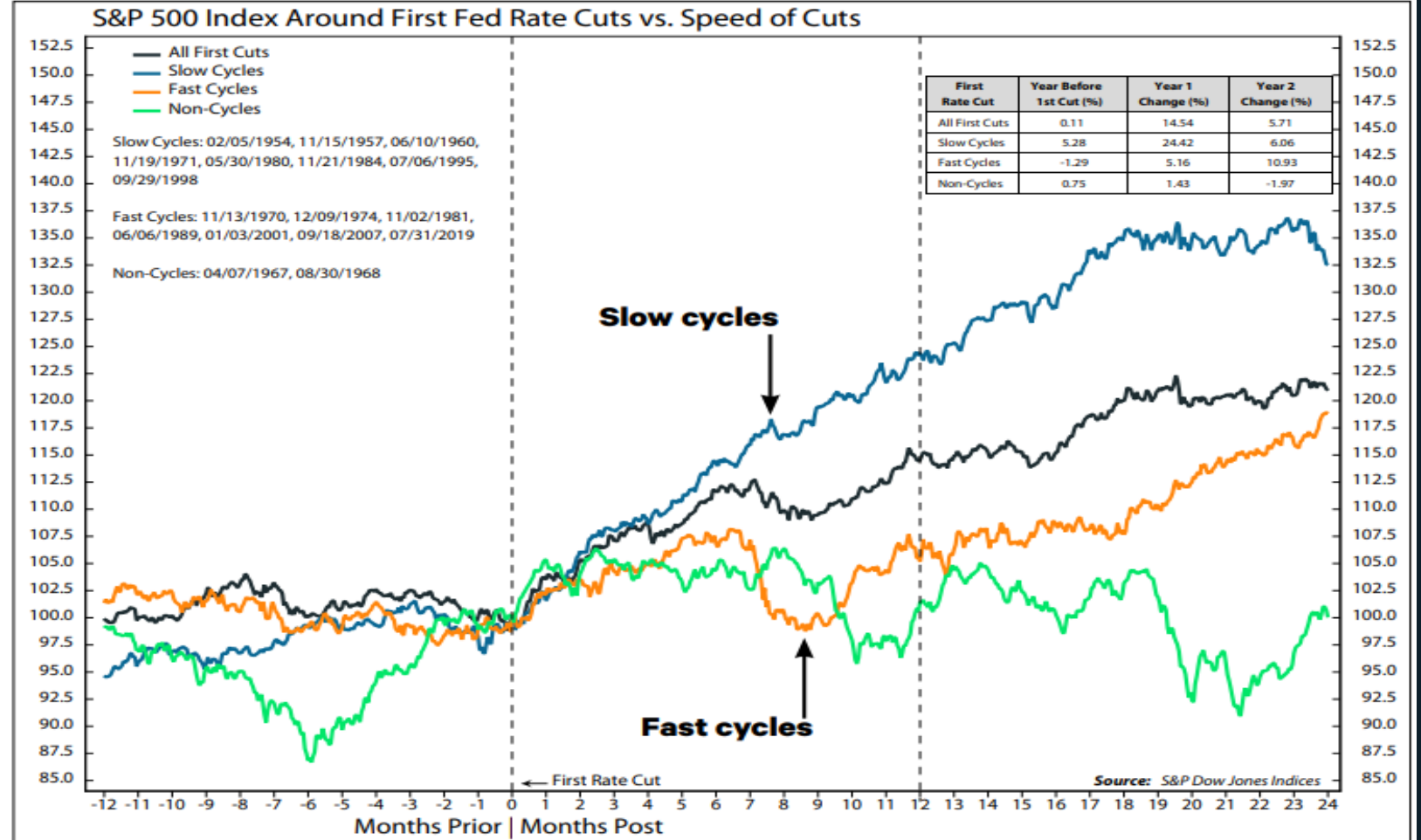
What happens IF these Negative Divergences (conditions, not a sell signal) remedy themselves, besides the DH/NDR Catastrophic Stop Loss model?

**Takeaway:** The Fed has stated that they plan to cut rates slowly.

SPX historically rallies best during the 1<sup>st</sup> year of a slow easing cycle vs. fast cycle.

Regardless of which cycle ultimately occurs, let's talk about how the **Smart Sector Series strategies** may compliment your efforts!

### SPX has risen faster in year 1 of slow easing cycles



SBSA



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**Takeaway:** The following may give the Bulls some comfort, **IF** you have the discipline to manage risk along the way, or an investment strategy that has risk management parameters built in.

### Stocks almost always post decent gains over an easing cycle

▼ S&P 500 Total Return (Over Cycle)

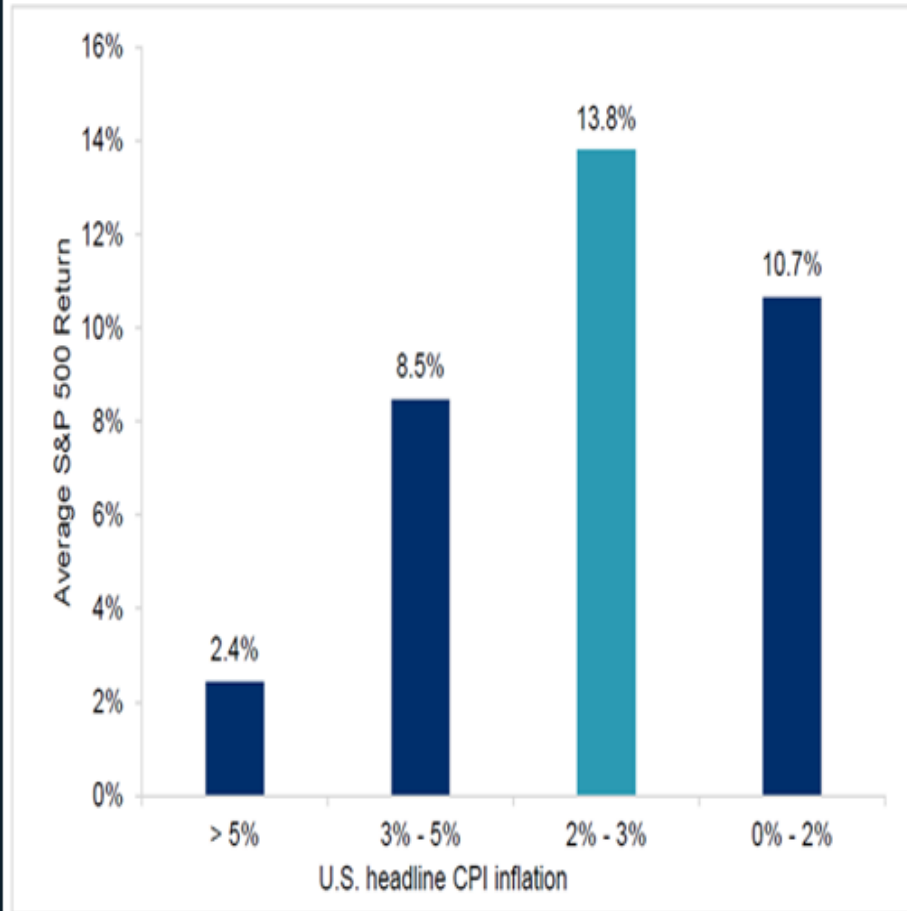
Start Date	End Date	Length (Calendar Days)	Start Value	End Value	% Change	GPA %
1970-11-13	1971-02-19	98	83.37	96.74	16.04	74.02
1971-11-19	1971-12-17	28	91.61	100.26	9.44	224.19
1974-12-09	1976-11-22	714	65.60	102.59	56.39	25.68
1980-05-30	1980-07-28	59	111.24	121.43	9.16	71.98
1981-11-02	1982-12-15	408	124.20	135.24	8.89	7.92
1984-11-21	1986-08-21	638	164.52	249.67	51.76	26.95
1989-06-06	1992-09-04	1,186	324.24	417.08	28.63	8.06
1995-07-06	1996-01-31	209	553.99	636.02	14.81	27.27
1998-09-29	1998-11-17	49	1,049.02	1,139.32	8.61	84.98
2001-01-03	2003-06-25	903	1,347.56	975.32	-27.62	-12.25
2007-09-18	2014-10-31	2,600	1,519.78	2,018.05	32.79	4.06
2019-07-31	2022-03-15	958	2,980.38	4,262.45	43.02	14.60
<b>Mean</b>					20.99	46.46
<b>Median</b>					15.42	26.32

**2001 to 2003 cycle: Bursting of the Tech Bubble**

Source: S&P Dow Jones Indices  
Extracted from BMS\_598.RPT

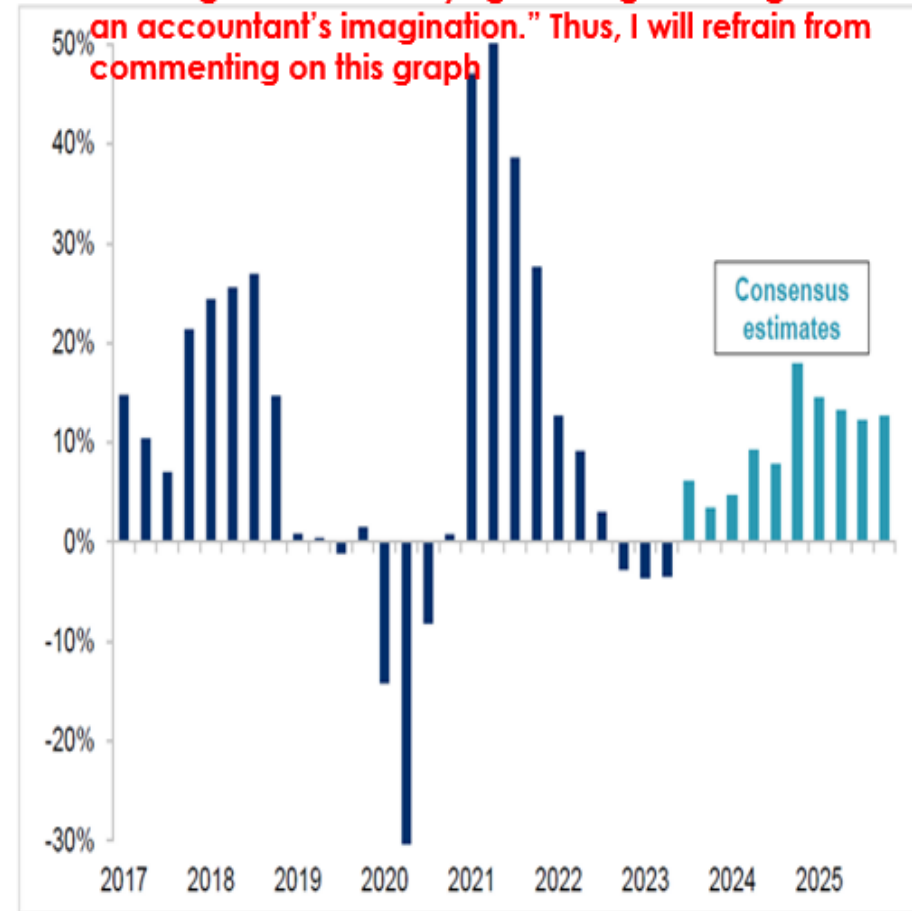


**STOCKS TEND TO DO WELL WITH INFLATION BETWEEN 2%-3%**  
 S&P 500 one-year returns in U.S. inflation regimes, % (1950 –2022)



**THE EARNINGS RECESSION IS OVER**  
 S&P 500 EPS growth, year-over-year % change

**Don Hagan is fond of saying "Earnings are a figment of an accountant's imagination." Thus, I will refrain from commenting on this graph**



Source: (LHS) J.P. Morgan, Bureau of Labor Statistics, Bloomberg Finance L.P. Data as of December 21, 2023. (RHS) Morgan Stanley. Data as of: (LHS) December 2022. (RHS) January 31, 2024.

# U.S. (SPX) over International and Emerging (relative strength analysis)

**Smart Sector Int'l ex. U.S.**  
(select allocations listed,  
reach out for charts)

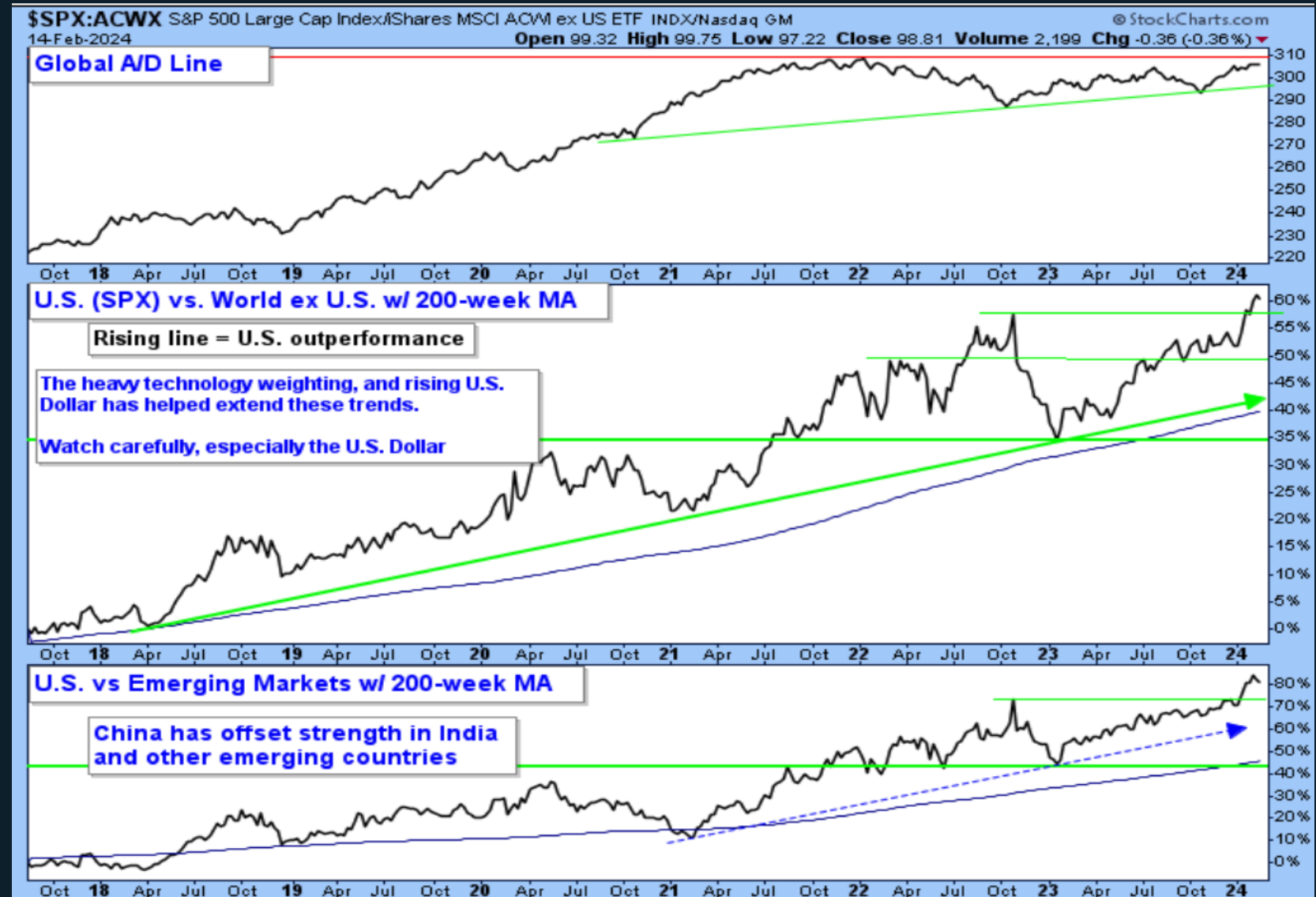
## Core

Favorably rated: Japan,  
Canada, Germany.

## Explore

Favorably rated: Brazil, Spain,  
Peru, Poland, Philippines.

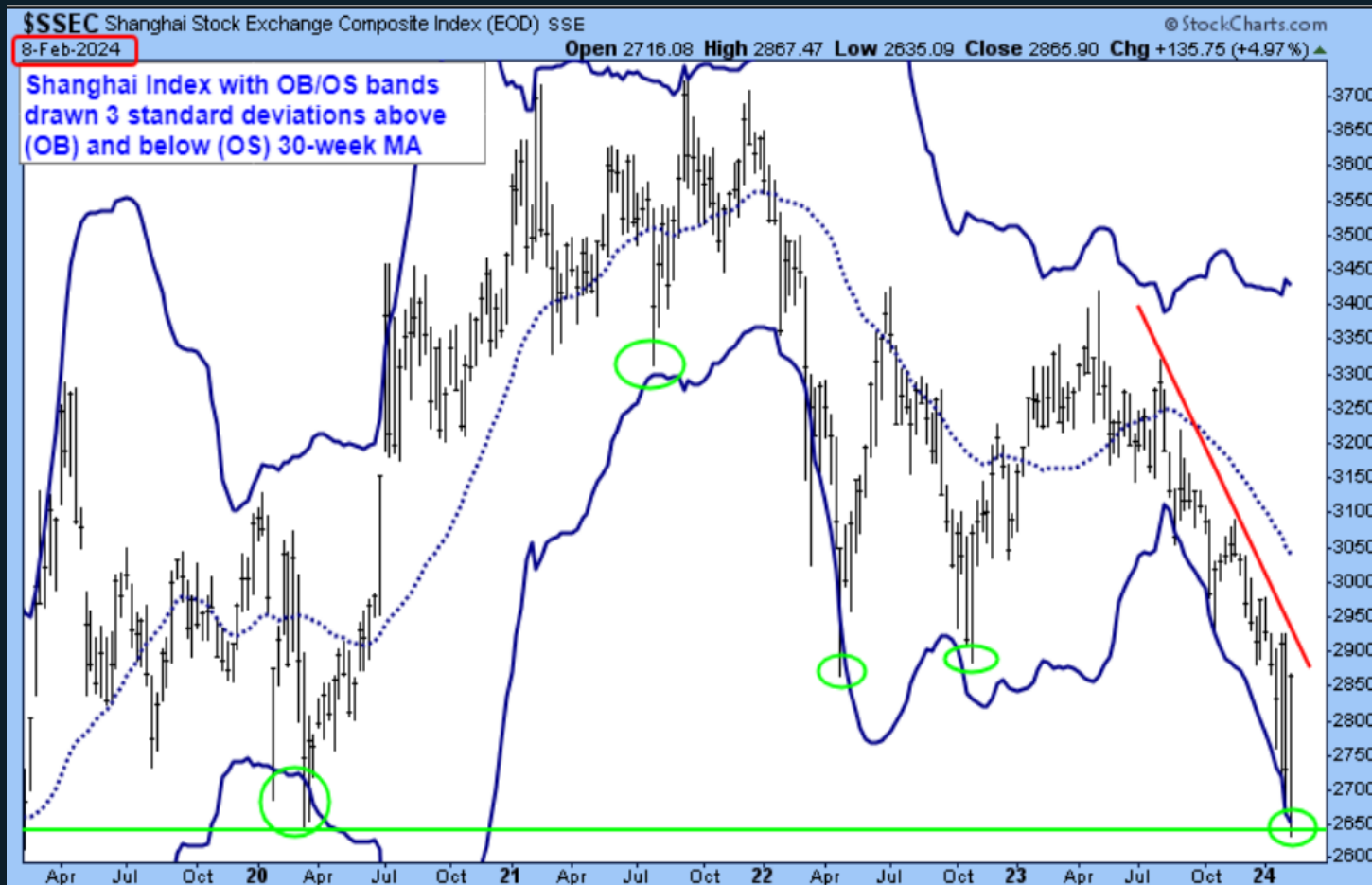
Please reach out for the features  
and benefits of the strategy.



## China: A Bounce (trade) or the Bottom

While the chart is anything but bullish, "Price" has reversed from support, a deeply oversold condition [3 standard deviations below 30-week (150-day) moving average] & extreme pessimism.

**Takeaway:** Still too early to identify the "Bottom," especially since momentum (MACD) is lacking (not shown). However, a continued bounce (trade) wouldn't surprise me.



**FWIW:** "China Index Forward P/E is now 8.4x. About -1.5 SD below the 21-year mean. Closing in on the October 2022 lows. The market has historically found some support around those levels. We also note that the China Composite PMI (Manufacturing & Services) shows output expanding... **Obviously, geopolitical risks remain high, but we are getting more interested.**" ~NDR

China is not favorably rated within the **Smart Sector International ex. U.S. strategy.**

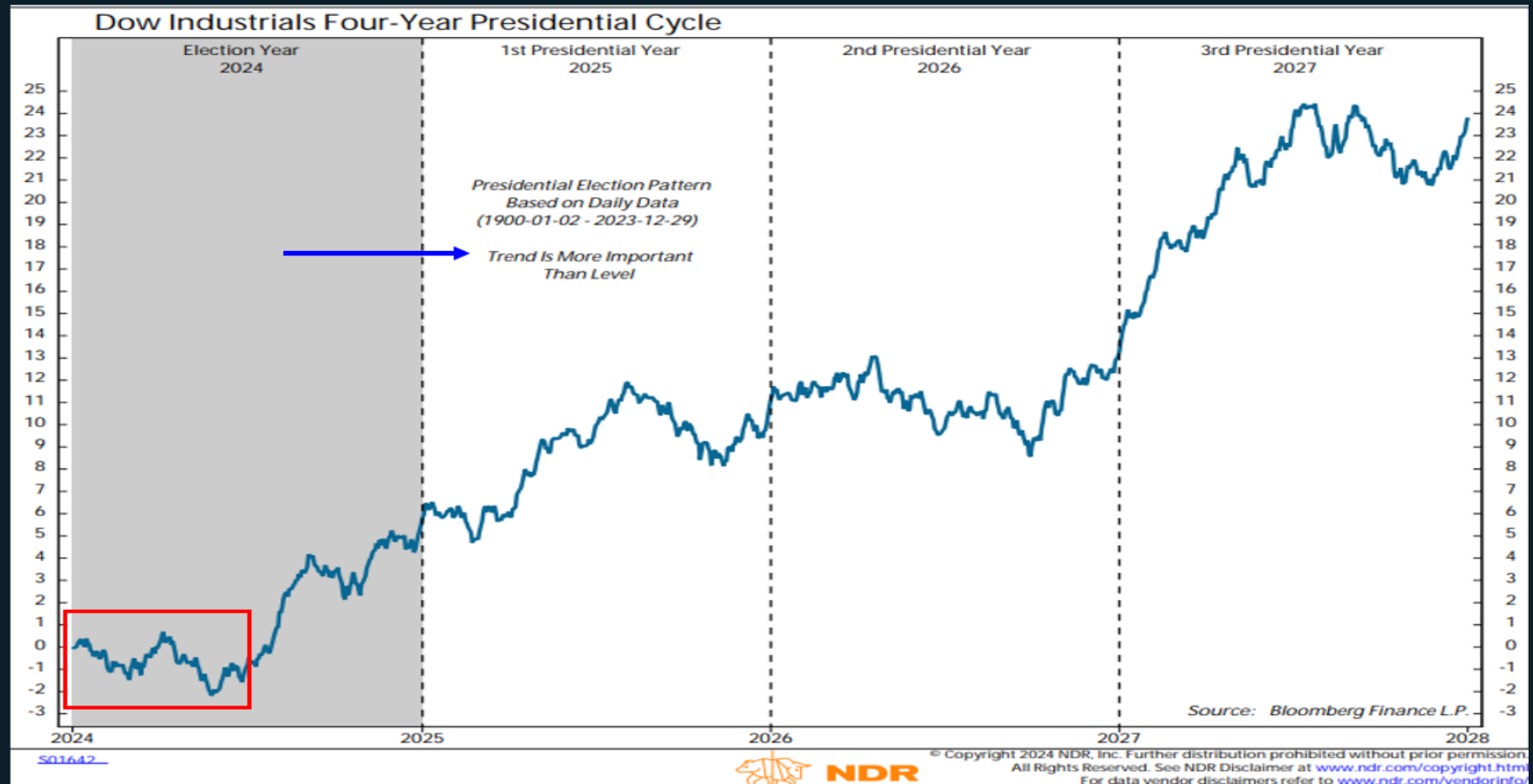


## Seasonality: Dow Industrials 4-Year Presidential Cycle

(second-tier indicator with trend more important than level)

Historically, **4-Year Presidential Cycle** (& S&P 500 Cycle Composite for 2024) suggests a choppy H1 of 2024 followed by a bullish H2, especially after Wall Street gets a handle on the U.S. political situation.

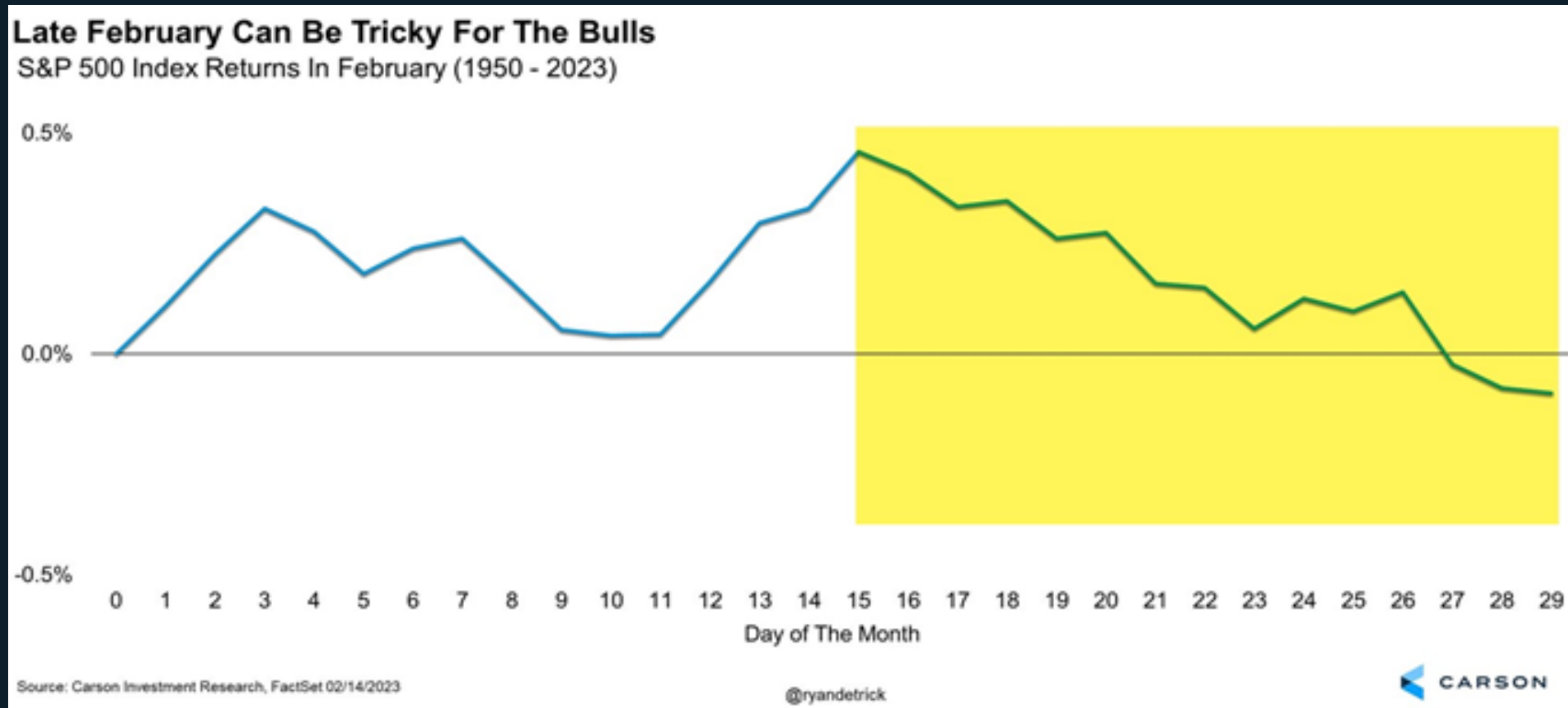
**Takeaway:** As we move further into 2024, this has been wrong (despite very accurate readings over the past few years by the Cycle Composite). In 2024 **seasonal tendencies have been overshadowed** by Fed speak, algo trading, and macroeconomic trends (employment, inflation, economic activity).



**Note:** This is not part of the Smart Sector models.

## Speaking of Seasonal Tendencies

**Takeaway:** While “seasonal tendencies” have been overrun thus far in 2024, JPM (& Carson Research) shared the following: **“Since 1950, the last two weeks of February have, on average, seen the market slide. The average loss is small – less than a percent. And without context, seasonality shouldn’t necessarily be a reason to trade but give how well last year followed a typical seasonal pattern, it’s certainly something worth being aware of.”**



# Sentiment

(short-term, secondary indicator)

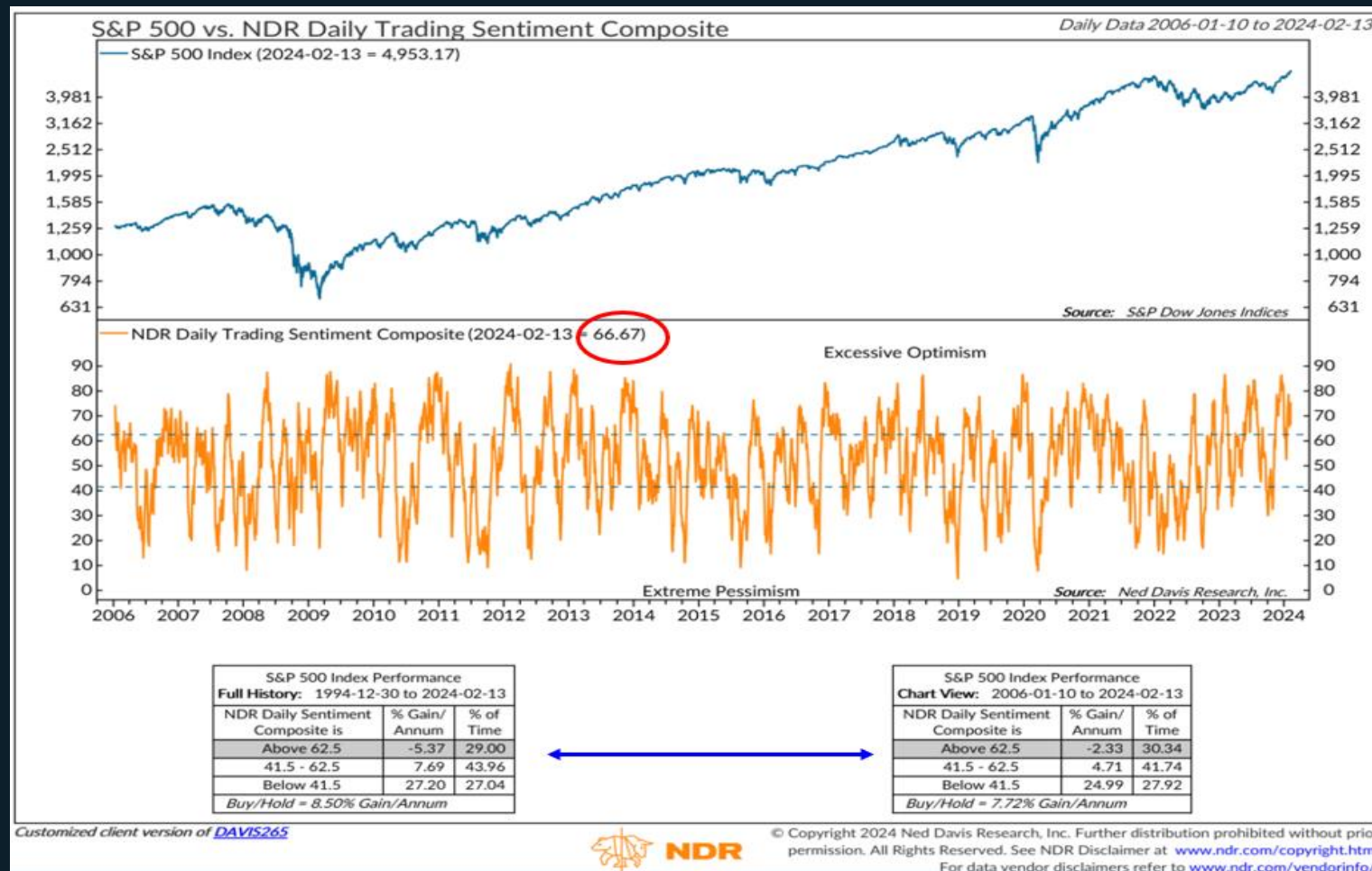
“Nothing Like Price to Change Sentiment.” ~Helene Meisler

**Takeaway:** Shorter-term measures of sentiment are still in Excessive Optimism territory. However, these readings can persist in a strong Bull move. Historically, equities have tended to consolidate when this condition is in place; see performance box. A sharp reversal down would generate a sell signal.



“Fear, hope, and greed, loosely tied around the business cycle.”  
~Jeff Saut

**TRUTH!**





## Trends:

*“Trends, like horses, are easier to ride in the direction they are going.” ~John Naisbitt*

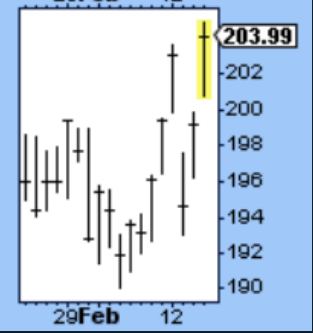
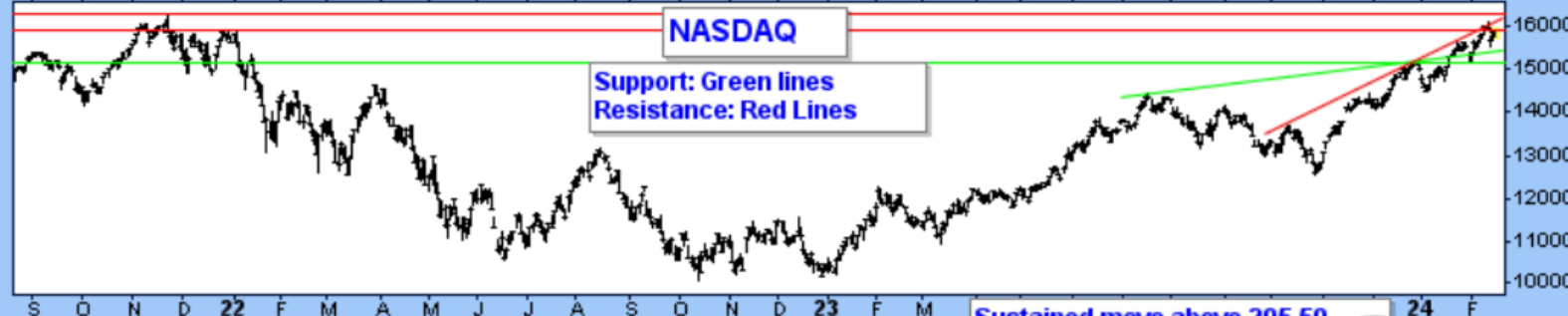
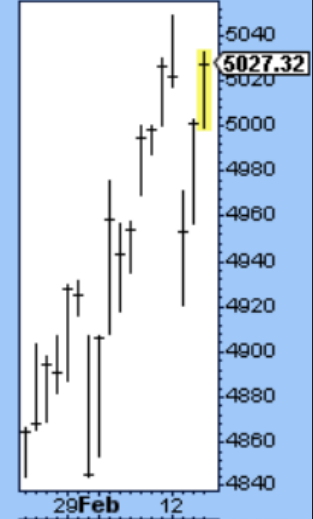
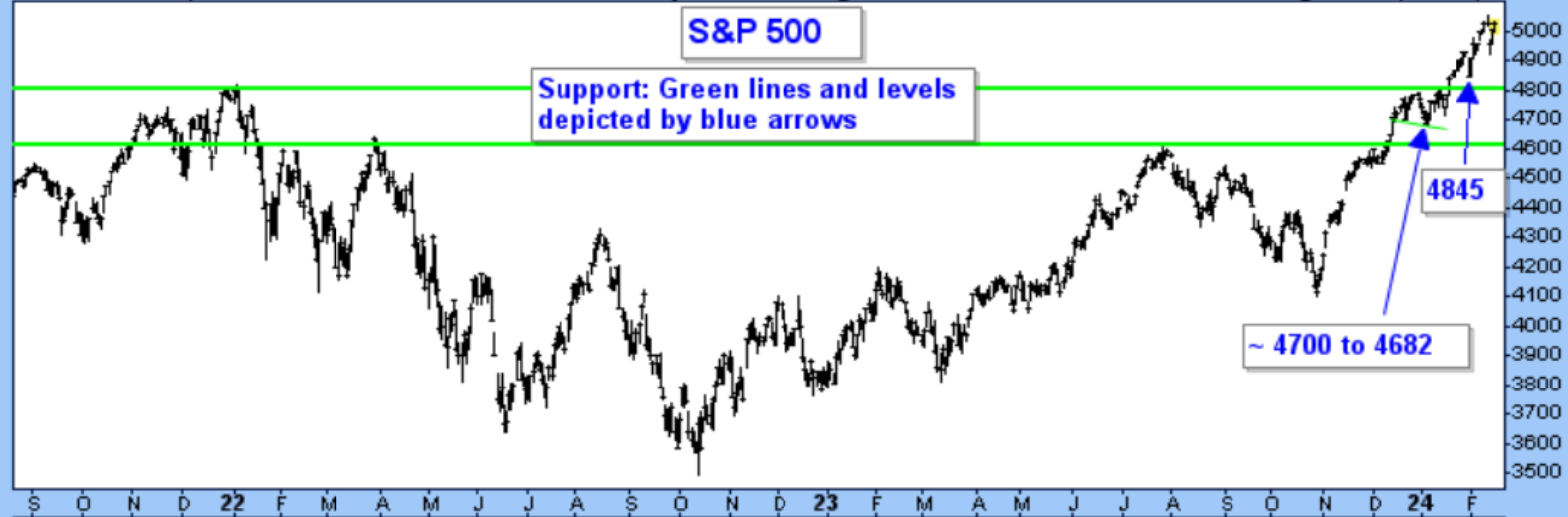
- Tuesday's 90% Downside Day (over 90% of the NYSE volume was to the downside) was an example of broad-based selling. **This suggests the recent ATH will be first resistance, and may generate some selling pressure.**
- While the “conditions” (non-confirmations), not a sell signal, were established weeks ago, given a favorable position exhibited by the **DH/NDR Catastrophic Stop Loss Model**, a pullback to reset the longer-term uptrend would be viewed favorably.
- **FED DATES**: Mar 20, May 1. (Fed Dates Source: JPM)



\$SPX S&P 500 Large Cap Index INDXX  
15-Feb-2024 3:07 pm

© StockCharts.com

Open 5003.14 High 5032.72 Low 4999.44 Last 5027.32 Chg +26.70 (+0.53%) ▲



# Lines in the Sand

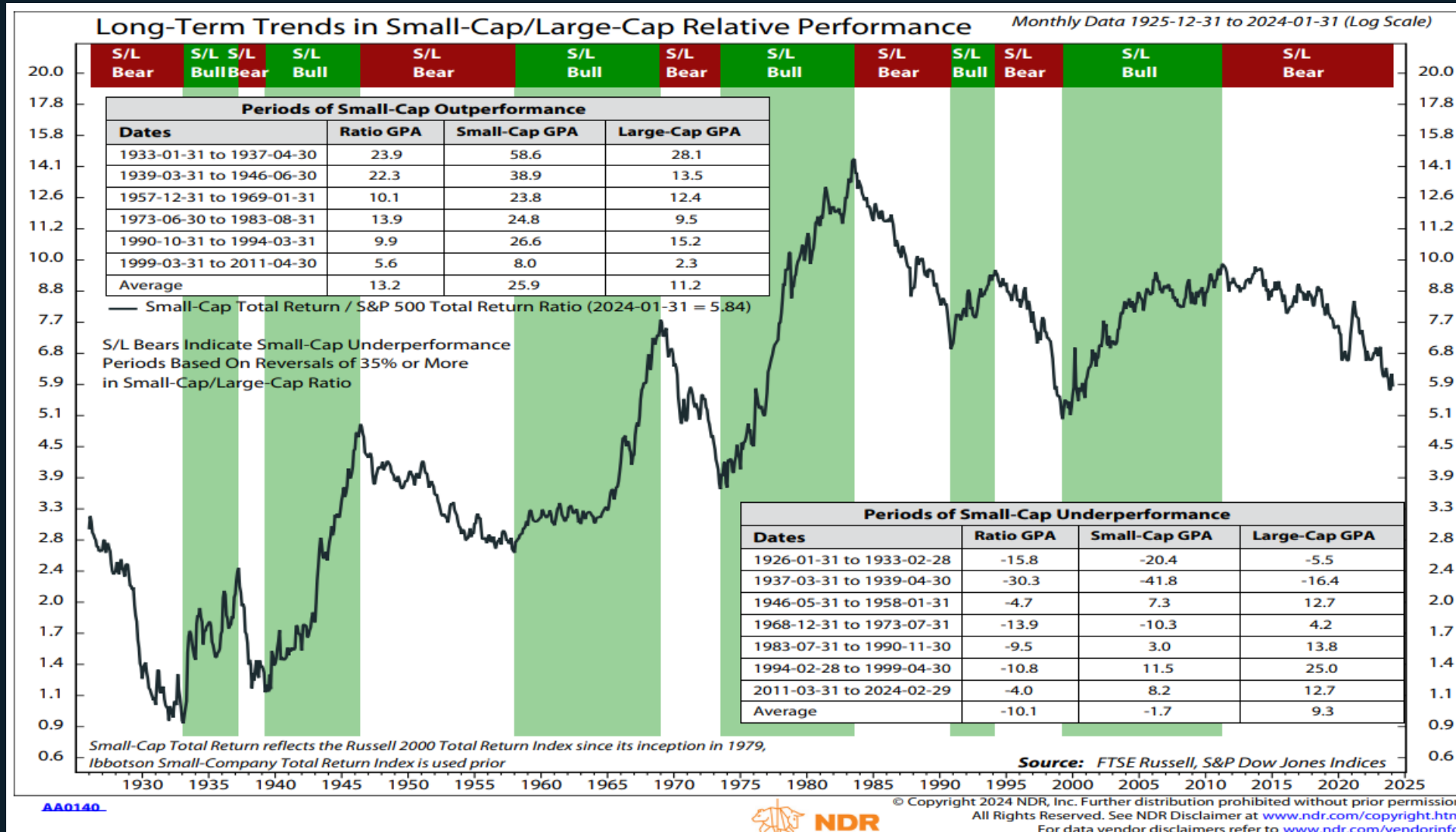
Green lines: Support. Red lines: Resistance

**Takeaway:** I get worn out looking at charts with too many lines. KISS.



# Small/Large: Secular bear longest on record

**Takeaway:** An interest rate cut, or a series of cuts, may be the catalyst to turn this around.



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# The Joneses

Please reach out for specific resistance and support levels highlighted in red and green.



Thumbnail charts to help discern "levels."

## CBOE 10-Year U.S. Treasury Yield Index (TNX)

**Takeaway:** As resistance is approached (red lines) and on a short-term basis only, I believe that bonds will be set to rally (lower interest rates).

- Since spring 2022 I have highlighted the secular trend for U.S. interest rates going back to 1982, which has turned higher. Please reach out if you would like to see the chart(s).



## U.S. Dollar Index

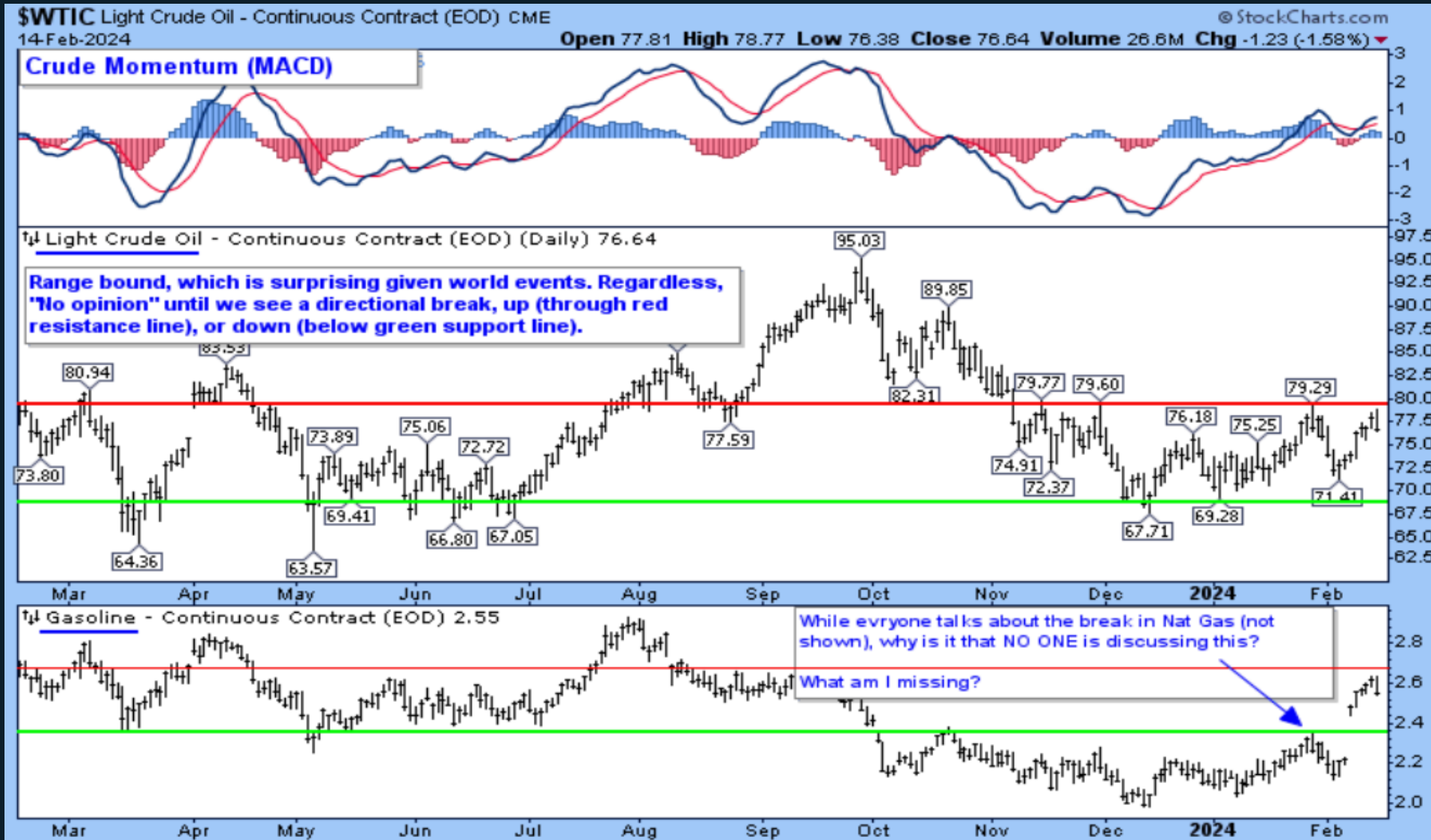
**Takeaway:** As resistance is being approached (red lines) and following a strong move since the beginning of 2024, I'm ready to back away from my bullish call from since early January.

Given the relationship between the U.S. Dollar and international markets, please let us know if you'd like to discuss the process & discipline underpinning our **Smart Sector International ex U.S. strategy.**



# Energy

Please refer to the verbiage inside the chart.



If you would like to see charts of any other commodities, please reach out.



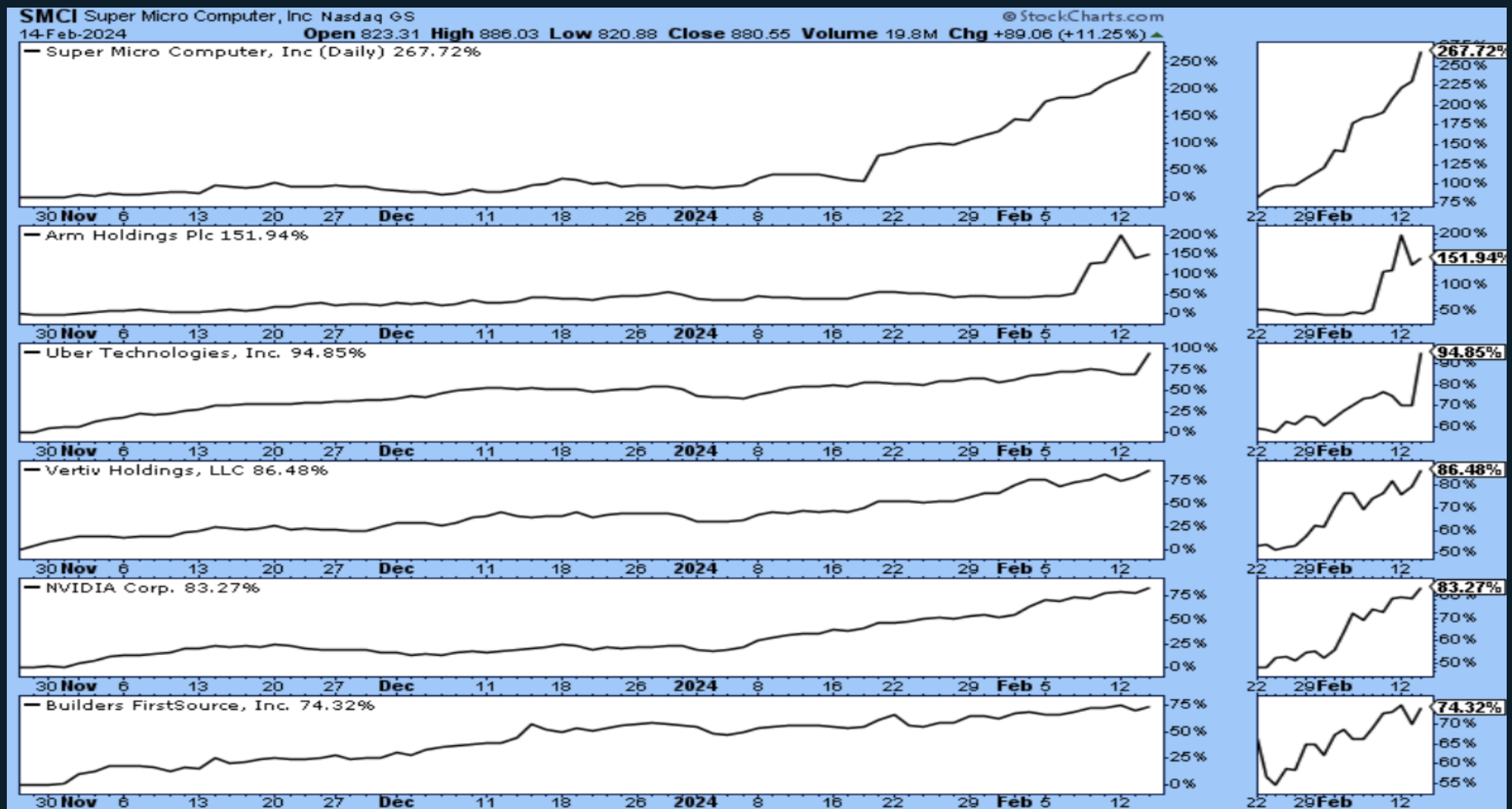
## Parting Observation: Bulls make \$, Bears make \$, Pigs go broke (usually)

Performance since October 27, 2023, low (see white box on far right of chart)

**Takeaway:** "Exponential rapidly rising or falling markets usually go further than you think, but they do not (usually) correct by going sideways." ~Bob Farrell

Since late Oct. '23, it has been more than just "FANG."

Also, please note how these stocks have accelerated higher starting in 2024.



# Poster Child from 1999-2000 and Mr. Farrell's axiom (slide #26)



## Final Thought (relative to slides 3 & 4)

*“...worry about what you are going to do in response to the markets.”* ~Michael Carr

- **The Smart Sector strategy** utilizes measures of price, valuation, economic trends, monetary liquidity, and market sentiment to make **objective, unemotional, rational decisions about how much capital to place at risk and where to place that capital.**
- As opposed to capitulating to confirmation bias and emotion, we have a quantitative approach to guide our decision-making that is benchmarked against the S&P 500: **Smart Sector Series strategies.** If the model changes, so will our investment allocations.

# Thank You for allowing us to be part of your success

## For More Information

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The S&P 500® is an unmanaged composite of 500 large capitalization companies. This index is widely used by professional investors as a performance benchmark for a large cap stocks.

The Russell 2000 is an index comprised of the 2000 smallest companies on the Russell 3000 list. It is a widely recognized indicator of small capitalization company performance.



# Day Hagan Technical Analysis

A time-tested, disciplined approach  
to investing.

Presented By:

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Chief Market Technician



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