

Perspective: Santa's Coupon Code, and Legislative Sector Swap

Dec 09, 2017

Dear Scott,

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Legislative Sector Swap

The recent pops and drops in the 6-month charts for SOXX (semiconductors ETF) and XLF (financials ETF) can be directly traced to congressional action regarding tax reform. In late November, the XLF shot up with wild enthusiasm when house and senate Republicans broke through their self-imposed logjam and passed their own versions of serious tax reform. Where did investors get the money to make such significant new bets? It's notable that SOXX's sharp drop occurred at the very same time as XLF's pop. Semiconductors recently had a strong run up and were looking a bit toppy. SOXX was simply the piggy bank of choice for funding new bets on financial stocks expected to do well in the new tax reform environment.

A very consistent theme found on our website is the statement that "sharp drops often snap back." Pops and drops are unpredictable "punctuated events" that must be endured. Trying to trade them is a recipe for whipsaw losses. This is why matched filter theory produces an optimal momentum filter that purposely tunes out such short-term events. Will SOXX be back? Absolutely! Clearly the subsequent run up of SOXX between August and November was not random noise, and it will happen again. SOXX is driven by the massive computing and memory demands emerging from the advent of autonomous and semi-autonomous vehicles, cloud computing (and storage), and all manner of AI (artificial intelligence) systems infiltrating our lives, such as intelligent vacuum cleaners, home security, ever smarter phones, and personal assistants (Siri and Alexa).



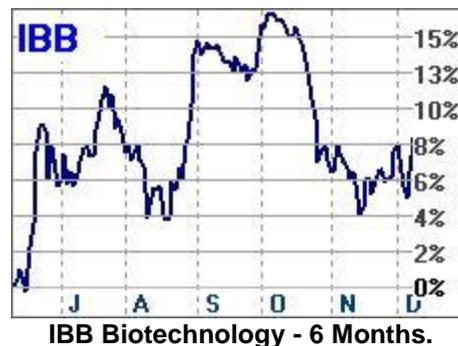
XLF Financials - 6 Months.



SOXX Semiconductors - 6 Months.

SOXX is already showing signs of coming back, but it may have to wait a few more days while biotech takes precedence - it is now sharply recovering after similarly being taken to the woodshed, perhaps to help fund the SOXX run-up in late October.

There is a big difference between "a top" and "the top." This was neither "the top" for semiconductors nor biotechnology, just a combination of a bit of short-term piggy bank activity that will soon be repaid.



Surf Well and Prosper,



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Additional Resources



The SectorSurfer Live Forum provides Internet-streamed access to the Seattle SectorSurfers Momentum Investing Meetup Group so everyone can attend the presentations and discussions hosted by Chief SectorSurfer. [Click HERE](#)



The SectorSurfer Users Group is an online Google Groups Forum created by Joe Gruender of San Jose, CA to provide a platform for exchanging strategies, ideas and learning from the experience of other SectorSurfers. [Click HERE](#)



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