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Perspective: Market Topping? Healthcare Risk?

May 4, 2019

The Market's at All-Time Highs — What's Next?

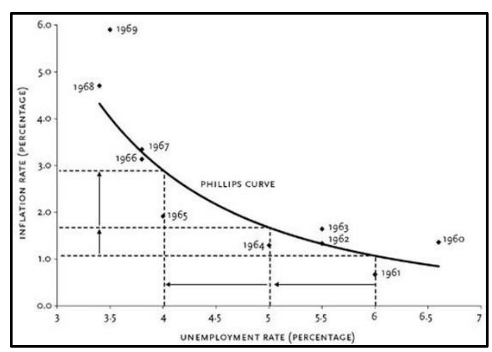
In the fourth quarter of 2018, FED Chairman Jerome Powell's move to continue raising interest rates was greeted by a stinging market correction. When he later softened that position, the markets began rebounding strongly and have continued to do so to this day. The May 3rd New York Times article "***The Economy That Wasn't Supposed to Happen: Booming Jobs, Low Inflation***" reported:

- The jobless rate receded to its lowest level in five decades;
- Employers also added 263,000 jobs;
- Job creation estimates of previous months were revised up;
- Average hourly wages are rising, up 3.2% year over year;
- It now appears that recession fears for 2019 were misguided.

S&P500 Market Index

The article also suggested "Maybe using data from a few decades in the middle of the 20th century to set policy in the 21st isn't actually a good idea. The continued boom in the American job market suggests that economic policymakers need to be open-minded about when the old relationships and rules of thumb no longer apply." Conventional academic wisdom about the relationship between interest rates and inflation has long been based on the **Philips Curve** (right).

Philips Curve
Inflation vs. Unemployment

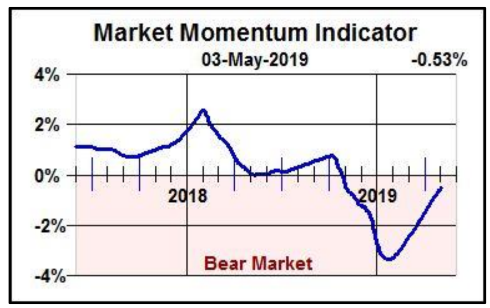


Along with the great economic report, we have also been made acutely aware of Venezuela's imminent political explosion, North Korea has not been living up to its agreement, the Mueller Report's fallout, Brexit problems, mid-west floods, and many other matters – none of which seem to phase the financial markets.

Short of a more serious problem, we may dance with resistance for a while at the all-time high, but the market is otherwise headed higher.

What About that Sagging StormGuard-Armor Chart?

Some have emailed me about the recent sag in the SG-Armor chart, wondering if it is foretelling another correction around the corner. The answer is a resounding NO. If one examines the three primary components of SG-Armor on its [daily chart page](), the SG-Standard and SG-Sentiment components are all nicely positive, but the SG-Momentum component is still climbing back to positive territory. The SG-Armor chart is being held back by SG-Momentum's negative value. However, the strong ascent of SG-Momentum causes the Fuzzy Logic algorithm to conditionally grant SG-Armor a positive value. It is likely SG-Momentum will cross into positive territory about mid-May, at which time the SG-Armor value will rise with it. In order for SG-Armor to re-trigger, the SG-Momentum value would have to turn down before crossing up through zero. So, no worries!



Steady as She Goes – Except Healthcare

There have been very few trades in the past few months because trends have been stable – a good thing! Probably 75% of the trades for this month related to selling healthcare funds that took a serious political hit in mid-April, when:

1.) Congress threatened to take legislative action to stem the rise of prescription drug prices.

2.) Senator Bernie Sanders offered a new "Medicare for All" bill, popular with some Democrats.

Both of these threaten to significantly reduce the profitability of major portions of the healthcare industry. Following the impact of these news items, shares have recovered about 50% of their initial

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losses. Political risk in healthcare funds is likely to remain high through the 2020 election. "Business as usual" produces worthy trends we can identify and have time to profit from. Punctuated events, such as political one-upmanship, can upset the apple cart of an entire economic sector and create havoc for otherwise profitable trends. Hopefully, the damage to the sector going forward will be more like “death by a thousand cuts,” which will automatically keep its trend signal low and keep its further risk at bay until the political battle is over.

Surf Long and Prosper,

Scott Juds
President & Chief SectorSurfer
SumGrowth Strategies, LLC
www.SumGrowth.com

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