

US ETF Index performance (5d): SPY -0.8%, DIA -0.7%, IWM -0.3%, QQQ -1.4%, TLT +1.2%, GLD +1.9%

## Market Recap

Last week Santa was a “no show” as equities continue to consolidate and move a bit lower. The QQQs were the weakest of the US major indices falling 1.4% for the week, Small Caps continue to show relative outperformance. In terms of sectors, the Gold Miners rallied +9.4% and the more defensive sectors outperformed (sector performance is on page 6). Steel & metal names were weak along with Energy, Semis, and Retail names.

Next week there is a busy US economic calendar with **ISM data on 1/3, FOMC Meeting Minutes on 1/4, and the monthly Jobs report on Friday, 1/6**. The last couple weeks of US economic data has been lackluster which I believe has contributed to the SPX essentially flat (-0.9%) for the last 3 weeks. So, I am watching the ISM & jobs data for clues on how the economy is performing. In addition, the FOMC Minutes, should shed some light on further interest rate hikes. **Fed Fund Futures are only anticipating a 12.4% chance of a rate hike in February.**

## TTG Market View

From the 12/17 newsletter: ***“I am neutral equities going into next week. Why am I neutral? I dislike the recent economic data points, the Baltic Dry index moving down, the Fed speak, and US sector Raptor indicator ratings. What will make me more positive or bullish? I would be looking at next week’s economics, a positive change in the Raptor indicator ratings, the US Dollar declining, and IWM support holding to be more bullish.*”**

Has any of this changed? No, not really – so I remain **NEUTRAL US EQUITIES**. See the below index and sector analysis for details, but the conclusion is to wait for bullish technical signals (which I do not see in the very short term). Next, take a look at the **Baltic Dry Index (white line) below vs the SPY ETF (orange line)**. I believe the November stock rally was a combination of many factors including the Baltic Dry Index moving up. However, it has given back much of the November gains. I want to see this index get back to the November highs which would tell me that global commerce is picking up. We also have **4<sup>th</sup> qtr earnings reports starting on 1/9 with Alcoa**. This is important because these **earnings reports are going to have to justify the recent run up in stock prices**. For now, I remain neutral US equities and I am waiting for the technicals to provide buy signals (which I currently do not see in the major indices). As usual, I **also want to see aggressive call buying for clues that risk is being taken and where it is being allocated to**.

Baltic Dry Index (US Dollar) vs the SPY (SPX Index)

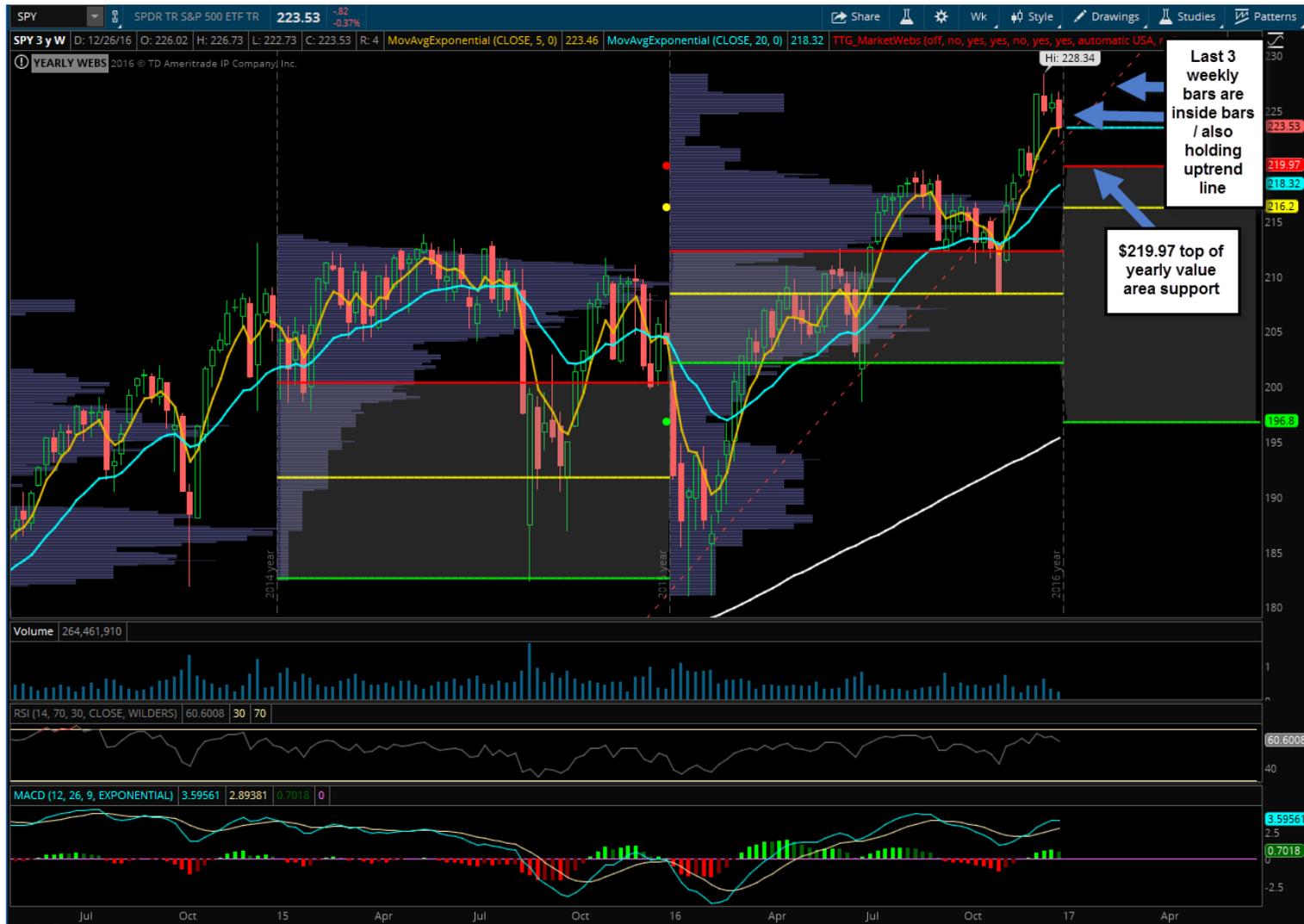


# Index Review

## SPY / SPX

Since it's the start of a new year, let's look at the indices on the new yearly value area using the weekly charts. **\$219.97 is the top of value for 2017. This is a good level to write down as major support for the year.** SPY is an uptrend, as long as SPY stays above this level, I want to lean bullish the US stock market. On a more granular view, the last three weeks have been inside weeks so while a bit frustrating that we have not moved in these three weeks, take it for what it is, we are still in an uptrend.

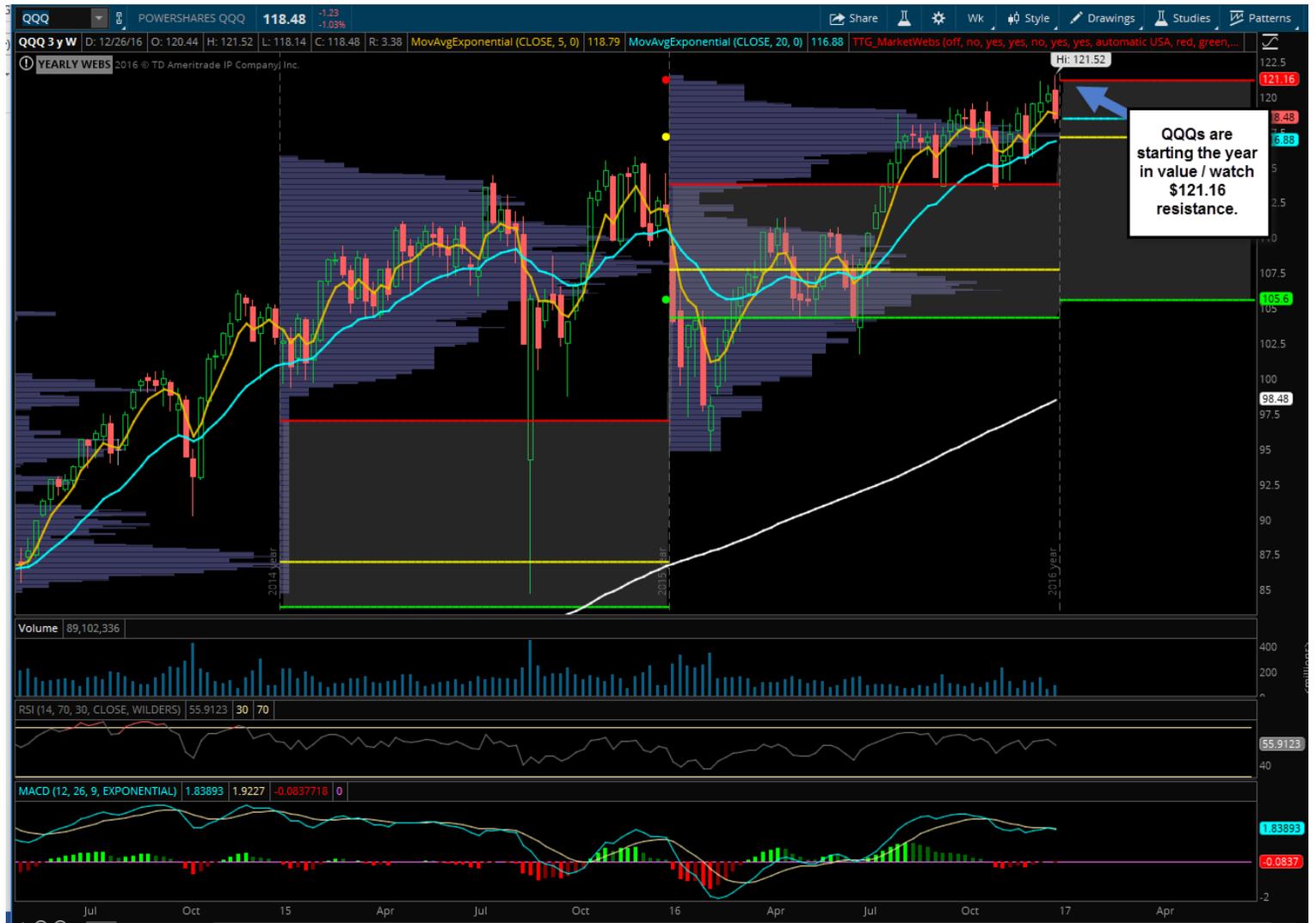
SPY weekly chart



## QQQ / NDX

The QQQs are starting the year inside the value area, and are a much different picture than SPY / IWM. **Until QQQ climbs above \$121.16 I am neutral the Nasdaq 100.**

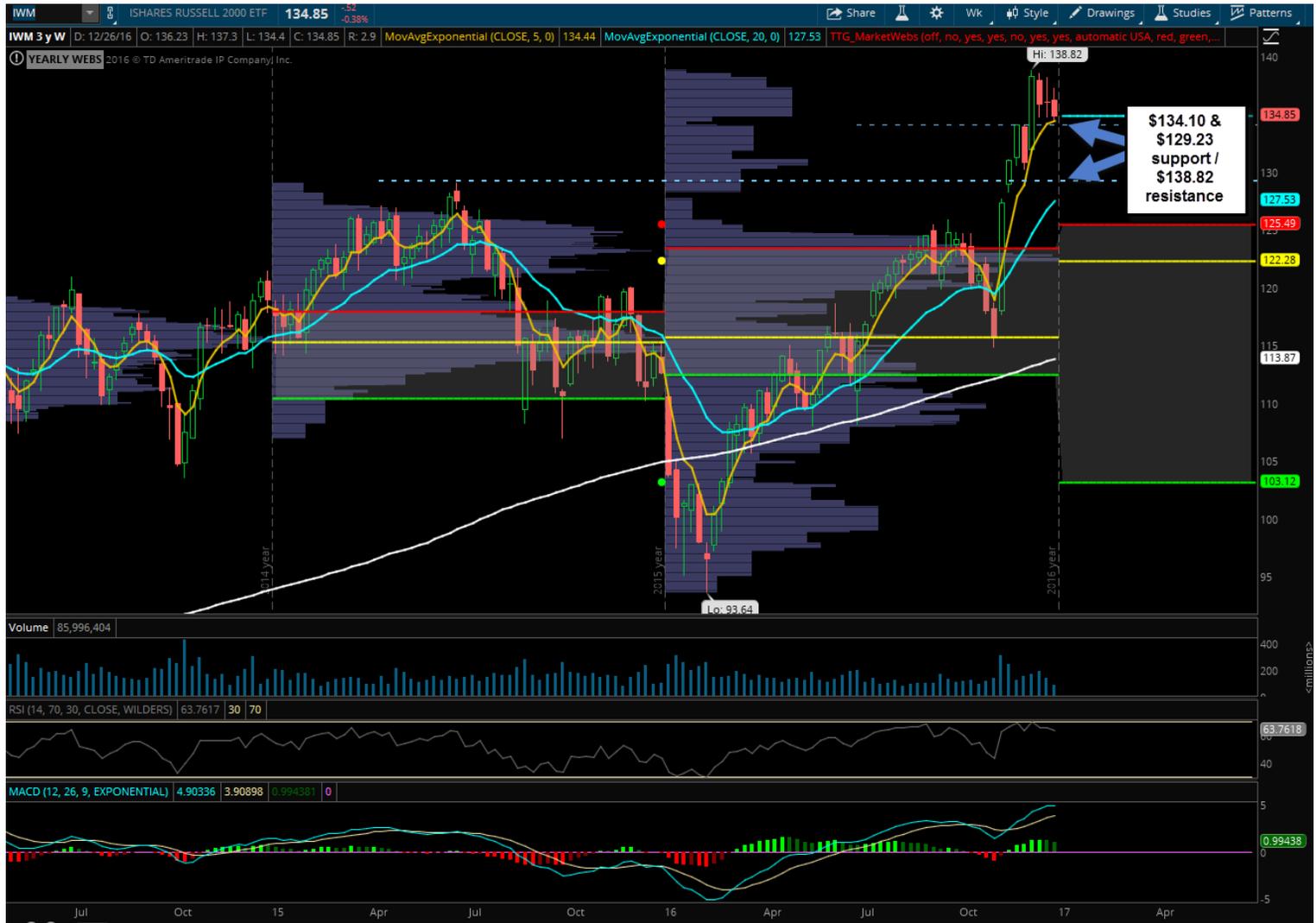
QQQ weekly chart



## IWM / RUT

Small Caps have had market leadership since the beginning of November. Just like most areas of the US market, they have consolidated the last 3 weeks. Small Cap companies generally have less exposure to the rising dollar vs many multi-national companies in the SPX, and in my opinion have enjoyed a bigger rally because of this. Therefore, **I am favoring longs in this space over large caps and would love to see a retest of the breakout level \$129.23 as a place to add / initiate a long.** Notice how far the IWM ETF is above the new yearly value area, \$125.49, this is much different than the SPY & QQQ.

IWM weekly chart



## US Sector Review

Believe it or not, not many changes from the last TTG newsletter on 12/17. 7 sectors have remained above the 50d moving average (MA), but really have not done much the last few weeks. For these 7 sectors, the momentum is either still falling or is neutral (not showing any momentum). If you are a long term investor this shouldn't concern you much – stay with the trend. However, if you are like me and trade options, it is important to watch the longer term moving averages (for trend) coupled with a momentum indicator... because if you do not have momentum this is not a place you want to sit long due to the theta decay in options (in my opinion). So for now, I will remain patient, and sit mostly on the sidelines as far as US sectors go.

### This week's sectors

Symbol	Description	Moving Avg Summary	Trend	*Momentum +12 / -12	Weight in SPX
XLF	Financials	>50d	Strong	-2	14
XLE	Energy	>50d	Strong	-4 FALLING	7
XLI	Industrials	>50d	Strong	-9 FALLING	10
XLB	Materials	>50d	Strong	-9	3
XLK	Tech	>50d	Strong	-6 FALLING	21
XLY	Cons Discretion	>50d	Strong	-9 FALLING	12
IYZ	Telecom	>50d	Strong	-3 FALLING	2
XLU	Utilities	>50d > 100d <200d	Neutral	+4	3
XLP	Consumer Staples	>50d < 100d <200d	Neutral toWeak	-7 FALLING	10
IYR	REITs	>50d < 100d <200d	Neutral toWeak	+4	3
XLV	Health Care	<50d < 100d <200d	Weak	-7	15

### Sectors from the 12/17 newsletter

Symbol	Description	Moving Avg Summary	Category	Raptor Rating*	Weight in SPX
XLF	Financials	>50d	Strong	-2 FALLING	14
XLE	Energy	>50d	Strong	1 FALLING	7
XLI	Industrials	>50d	Strong	-4 FALLING	10
XLB	Materials	>50d	Strong	-5 FALLING	3
XLK	Tech	>50d	Strong	+4	21
XLY	Cons Discretion	>50d	Strong	-3 FALLING	12
IYZ	Telecom	>50d	Strong	+10 FALLING	2
XLP	Consumer Staples	>50d < 100d <200d	Neutral toWeak	+2	10
IYR	REITs	>50d < 100d <200d	Neutral toWeak	+5	3
XLU	Utilities	>50d < 100d <200d	Neutral toWeak	+8	3
XLV	Health Care	>50d < 100d <200d	Neutral toWeak	+8 RISING	15

\*Momentum – a TTG proprietary indicator (Raptor Indicator)

**Last week's sector performers:****Best 5d:**

Symbol	Description	5d % chng
GDX	Gold Miners	9.39%
IYR	REITs	1.73%
XLV	Health Care	0.00%
XLU	Utilities	-0.10%
XLP	Staples	-0.48%
IBB	Biotech	-0.49%
IYZ	Telecom	-0.72%
KRE	Regional Banks	-0.93%
XLB	Materials	-0.94%
FDN	Internet- FANG	-1.04%
KBE	Banks	-1.09%

**Worst 5d:**

Symbol	Description	5d % chng
XME	Metals & Mining	-2.12%
SLX	Steel	-1.72%
XOP	Oil & Gas Expl Prod	-1.62%
SMH	Semis	-1.59%
OIH	Oil Services	-1.54%
XRT	Retail	-1.50%
XLY	Cons Discretion	-1.49%
XLE	Energy	-1.44%
ITB	Home Builders	-1.40%
XLF	Financials	-1.19%
XLK	Tech	-1.14%

**Last week's International performers:****Best 5d:**

Symbol	Description	5d % chng
EPHE	Philippeanes	6.19%
EWZ	Brazil	6.04%
IDX	Indonesia	5.67%
VNM	Vietnam	3.90%
THD	Thailand	3.65%
RSX	Russia	3.11%
EEM	Emerging Mkts	2.73%
EPI	India	2.12%
ECH	Chile	2.02%
EPU	Peru	1.99%
PLND	Poland	1.98%

**Worst 5d:**

Symbol	Description	5d % chng
DXJ	Japan (FX'd)	-3.37%
EWJ	Japan	-1.63%
ASHR	China A	-1.26%
EWC	Canada	-0.23%
EWH	Hong Kong	-0.10%
HEWG	Germany (FX'd)	-0.04%
HEDJ	Europe (FX'd)	-0.03%
TUR	Turkey	0.12%
EWA	Australia	0.15%
EUFN	EURO FINS	0.21%
GREK	Greece	0.26%

## ETF Flows (week ending 12/30/16)

**Overall: Equity ETFs post +\$8B inflows** (previous week +\$10.2B). While inflows to equity ETFs remain strong one observation that I have been seeing over the last month is the number has been getting smaller each week. That said, **IWM (Small Caps) led inflows last week along with 3 different International Developed Market ETFs (VEA, IEFA, and EFA).**

US Sector flows were definitely quieter than the past couple months. Tech, Consumer Staples, and Materials led inflows, but again, these flows are much smaller than previous week, and were smaller in breadth (a lesser quantity of ETFs made up the overall number). **In the Material sector, a noticeable change was that Gold Miner ETFs (GDX & GDXJ) led inflows in the sector.** On the outflow side, REITs & Consumer Discretionary led sector outflows. In particular, **XRT (Equally weighted Retail ETF) continues to post dramatic outflows. Last week the XRT ETF lost -\$227M in assets, which is 44% of the fund.** The fund size is now close to a 5 year low in assets.

**International ETFs gained +\$1.4B in assets last week. Developed International Market ETFs posted +\$1.5B inflows.** There was **good breadth here as VEA +\$511M, IEFA +\$386M, EFA +\$346M, and SCHF +\$125M all had inflows > \$100M.** Europe, Emerging Market, and Japan ETFs also posted weekly inflows. Note **Japan ETFs have now seen 7 straight weeks of inflows, and European ETFs are slowly gathering assets, this is a reversal of trend from 2016.** On the outflow side, China ETFs continue to see outflows. Last week FXI (Large Cap China ETF) posted a -\$135M outflow and **the FXI ETF has now lost -\$531M in assets over 1 month.**

**US Sectors (5d):** see table next page

**International (5d):**

- **International ETFs +\$1.4B**
- **Country/ Region specific ETFs:**
  - Largest Inflows:**
    - Developed Markets +\$1.5B
    - Europe +\$280M
    - Emerging Markets +\$193M
    - Japan +\$168M
  - Largest Outflows:**
    - China -\$170M
    - Canada -\$145M

**Largest Flows by ETF**

Inflows				Outflows			
Ticker	Description	5d Mkt Value Chng	Fund Size 5d % Chng	Ticker	Description	5d Mkt Value Chng	Fund Size 5d % Chng
IWM	SMALL CAPS	\$ 3,054,805,500	8.6	TLT	20+ YR TREASURIES	\$ (524,172,000)	-9.3
VEA	INTL DEVELOPED MKTS	\$ 511,569,135	1.3	VNQ	REITS	\$ (287,887,748)	-0.9
HYG	HIGH YIELD BONDS	\$ 389,475,000	2.1	SPY	SPX	\$ (268,194,942)	-0.1
IEFA	CORE EAFE	\$ 386,136,000	2.5	XRT	RETAIL	\$ (226,960,500)	-44.2
XLF	FINANCIALS	\$ 354,715,930	1.6	IWO	SMALL CAP GROWTH	\$ (177,031,000)	-2.4
EFA	EAFE	\$ 346,380,000	0.6	USO	WTI CRUDE	\$ (164,080,000)	-5.0

**EQUITY INFLOWS POST +\$8.0B INFLOWS week ending 12/30**

**LARGEST WEEKLY SECTOR INFLOWS**

TECH ETF FLOWS +\$300M 5D				CONSUMER STAPLES ETF FLOWS +\$289M 5D				MATERIALS ETF FLOWS +\$246M 5D			
Ticker	Description	5d Mkt Value Chng	Fund Size 5d % Chng	Ticker	Description	5d Mkt Value Chng	Fund Size 5d % Chng	Ticker	Description	5d Mkt Value Chng	Fund Size 5d % Chng
XLK	TECH	\$ 287,742,484	2.1	XLP	CONSUMER STAPLES	\$ 310,260,517	3.9	GDX	GOLD MINERS	\$ 191,912,000	2.0
VGT	INFORMATION TECH	\$ 39,487,500	0.4	PSL	DWA CONSUMER STAPLES	\$ 10,724,000	11.1	GDXJ	JUNIOR GOLD MINERS	\$ 134,089,078	4.1
RYT	EQUAL WEIGHT TECH	\$ 27,122,500	2.9	RHS	EQUAL WGT CONS STPLS	\$ (5,971,000)	-1.2	GUNR	GLOBAL NAT RESOURCES	\$ 63,052,000	1.8
PTF	TECH MOMENTUM	\$ 19,960,000	14.3	FSTA	CONSUMER GOODS	\$ (7,800,000)	-3.2	DUST	GOLD MINERS 3X BEAR	\$ 55,625,505	29.7
SOXX	SEMIS (SOX INDEX)	\$ (12,272,000)	-1.7	FXG	CONSUMER STAPLES	\$ (18,300,000)	-2.3	NUGT	GOLD MINERS 3X	\$ (60,130,736)	-3.9
FDN	INTERNET	\$ (31,931,689)	-0.9					XLB	MATERIALS	\$ (67,095,000)	-1.8
SMH	SEMIS	\$ (35,820,000)	-7.7					XME	METALS & MINING	\$ (114,037,500)	-11.8

**LARGEST WEEKLY SECTOR OUTFLOWS**

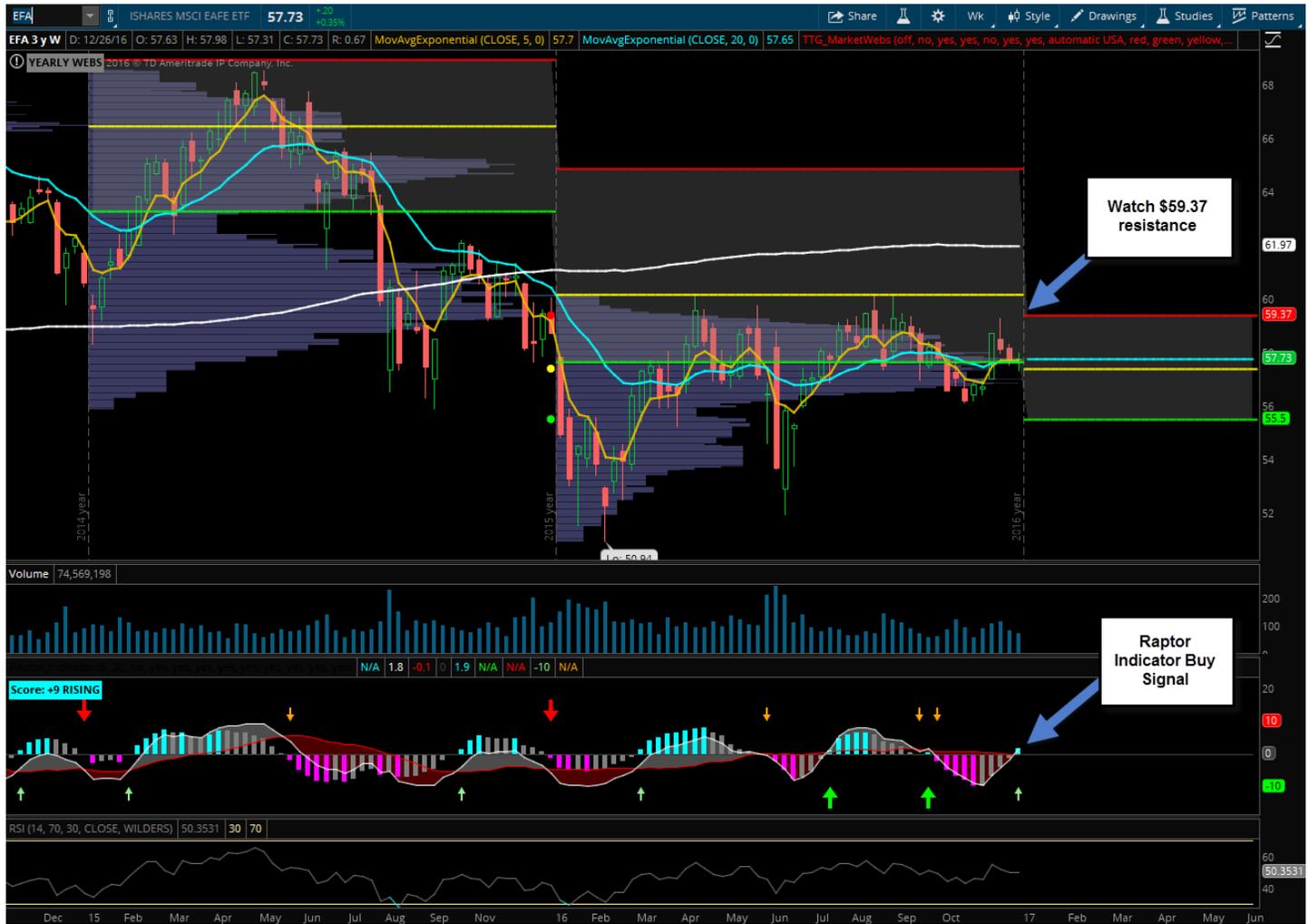
REIT ETF FLOWS -\$311M 5D				CONSUMER DISCRETIONARY ETF FLOWS -\$113M 5D			
Ticker	Description	5d Mkt Value Chng	Fund Size 5d % Chng	Ticker	Description	5d Mkt Value Chng	Fund Size 5d % Chng
VNQ	REITS	\$ (287,887,748)	-0.9	XRT	RETAIL	\$ (226,960,500)	-44.2
DRN	REIT 3X BULL	\$ (62,147,000)	-75.3	ITB	HOME CONSTRUCTION	\$ (37,098,000)	-3.2
RWX	INTERNATIONAL REITS	\$ (57,728,000)	-1.7	RCD	EQUAL WEIGHT CONS DISC	\$ 8,832,000	10.5
VNQI	INTERNATIONAL REITS	\$ (14,871,045)	-0.5	VCR	CONSUMER DISCRETIONARY	\$ 9,650,250	0.5
RWO	GLOBAL REAL ESTATE	\$ 14,058,000	0.6	PKB	DYN HOME CONSTR	\$ 11,148,000	4.7
SCHH	US REITS	\$ 30,780,000	1.1	XHB	HOMEBUILDERS	\$ 25,387,500	2.3
IYR	REITS	\$ 96,175,000	2.3	XLY	CONSUMER DISCRETIONARY	\$ 101,745,930	0.9

## ETFs / Stocks of the Week:

VEA (Vanguard FTSE Developed Markets ETF) or EFA (iShares MSCI EAFE ETF)

The VEA ETF saw inflows of +\$511M last week. Coupled with other International Developed Market ETFs (IEFA, EFA, SCHF, etc) this totals +\$1.5B assets last week. On the weekly charts, the Raptor Indicator is showing a fresh buy signal on VEA / EFA. I like a longer term bullish option trades in these ETFs. For example, the EFA Jan'18 59 calls is a position I am considering as a long. Note the options are a bit more liquid in EFA than VEA.

EFA Weekly Chart



## FXI (iShares China Large-Cap ETF)

As mentioned in the ETF fund flow sections, FXI continues to see outflows. For the last month, the FXI ETF saw -\$531M outflows. To borrow Jim Cramer's new saying... FXI is not a Trump stock (or ETF). It sounds like there could be a trade war on the horizon with China. I think this explains much of the outflows over the last month. From a technical standpoint the FXI ETF is now below the 200d MA and I like being short FXI as long as it remains below the 200d MA. The trade that I currently have on is the FXI Mar 30/34 debit put spread.

In addition, there were two bearish opening FXI trades that caught my eye last week:

16,590 FXI Jan18 24 P, \$1.3M premium *trade date: 12/29*

11,720 FXI Jun 31 P, \$1.3M premium *trade date: 12/23*

FXI Daily Chart



## TLT (iShares 20+ Year Treasury Bond ETF)

I normally don't mess with names or areas of the market below the 200d moving average but I think TLT may setup for a counter trend trade here. I am currently long the TLT Feb 126 calls as there was a large buyer of this Feb strike, trade date 12/21. The open interest is 111k on this strike. \$119.19 is the level to watch here – this represents the January top of value. I want to see a break above this level.

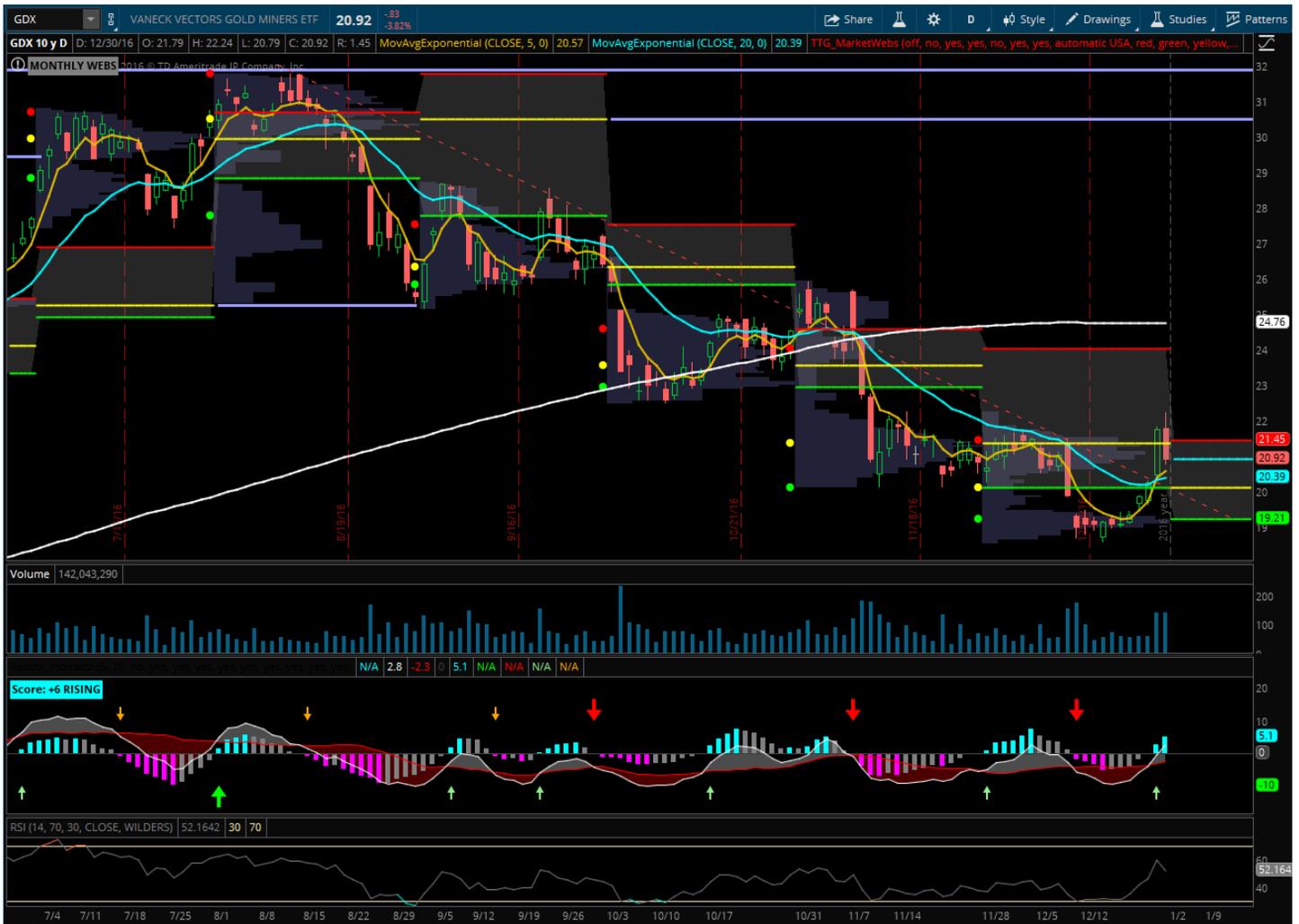
TLT Daily chart



## GDJ (VanEck Vectors Gold Miners ETF)

The Gold Miners were in the spotlight last week, climbing +9.4% (even after Friday's -3.8% drop). They GDJ ETF posted \$191M & the GDJX ETF posted +\$134M inflows last week. In addition, there was a flurry of Jan call buying over the last two weeks. This is another area of the market below the 200d moving average which I typically try to avoid unless I see aggressive sizable call buying. This may be an area to day trade (vs swing trade) given the volatility of this group, the short term nature of the call buying, and the fact that we a large amount of US Economics next week. That said, watch the dotted downtrend line I have drawn below and \$21.45 top of the monthly value area for continuation.

GDJ Daily Chart



## XLB (Materials Select Sector SPDR Trust)

Last week one of my few new trades in the trading room was long the XLB Mar 51 calls. Unfortunately, on Wed of last week the price started higher but failed. In the beginning of next week if the XLB ETF cannot climb into the new Jan value area, \$50.03, I will be forced to exit this trade.

XLB Daily Chart



**Thank you for reading the TTG newsletter, please respond back to me with any comments or questions.**

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