

# Investor's Digest

of Canada

October 19, 2018

Vol. 50, No. 20

SPDR CRAWL

## What S&P's sector index changes mean to you

The S&P 500's technology sector, as reflected in the SPDR Technology Select Sector Fund (XLK-NYSE/Arca, US\$75.70), was overhauled in late September. It no longer holds some big players like Facebook Inc. (FB-NASDAQ, US\$159.33), Alphabet Inc. (GOOGL-NASDAQ, US\$1,207.64), Twitter Inc. (TWTR-NASDAQ, US\$28.19) and Activision Blizzard Inc. (ATVI-NASDAQ, US\$83.39).

So too was the SPDR Consumer Discretionary Select Sector Fund (XLY-NYSE/Arca, US\$115.28) – it lost big players like Netflix Inc. (NFLX-NASDAQ, US\$377.14), Comcast Corp. (CMCSA-NASDAQ, US\$35.70) and Walt Disney Co. (DIS-NYSE, US\$117.66).

All of these stocks are being shuffled into the S&P's communication services sector index. For those interested, Amazon.com Inc. (AMZN-NASDAQ, US\$1,952.76), arguably the biggest and most



Keith Richards

dominantly trending player in the tech sector, is staying put.

The SPDR ETF corresponding to the communication services index is known as the SPDR Communication Services Select Sector Fund (XLC-NYSE/Arca, US\$48.76).

I was inspired to comment on these changes.

In this article, I will highlight the movement out of the tech and discretionary sectors by these dominant players noted above, and what it might mean to the two indexes.

Jumping to the conclusion before presenting my thoughts on the individual players – I believe the changes might improve the tech sector's performance and the discretionary sector's outlook going forward.

The current technical profiles of a number of these stocks indicate the continuation of their former upward trends (if any) may be a bit questionable. Let's get

into a few of the charts to explore why I feel this way.

I didn't take the time to reference the weighting within the index of these sectors prior to the changes, in effect since the end of September – but I am sure you could find them if you spend a moment perusing the Internet.

### Technology changes

Nevertheless, I can tell you that Alphabet, or Google, was likely the largest position within the group of stocks being punted from the sector. As you can see from the chart below, it's been in a very nice uptrend.

This loss negatively impacts the XLK ETF, and is likely bullish for the communications sector.

Meanwhile, Activision is still in an uptrend, too, but it has been consolidating for most of this year. The loss of this stock from the tech index is probably a negative thing longer-term, but neutral for the time being.

Facebook, on the other hand, is showing the potential for top-

ping. It has taken out its 200-day (or 40-week) simple moving average (SMA). Should shares bust past US\$150 each, I would consider that a top.

I wouldn't want to own this stock until the possible topping formation proves incorrect – dropping Facebook from the index is probably bullish for XLK, and bearish for the communications sector.

Twitter looks to have broken out of a rounded bottom that formed between 2015 and 2018. But recently, it appears that the breakout is failing. I view the pattern as bearish, or neutral at the very best.

Thus, losing this stock is likely a win for XLK, and a loss for the communications sector.

After rising since 2016, Netflix seems to be basing. The uptrend is not over, but it is certainly consolidating. I view this loss as neutral for the XLY, and the communications sector.

Comcast is rising, but the longer pattern is chaotic. Losing this stock from the tech index



might be temporarily negative – but bullish for XLY as time goes on. I view it as bearish for the communications sector in the longer run.

Since 2015, Disney has been a trader’s dream, and a buy-and-hold investor’s frustration. Right now, it’s at the top of its trading range at near US\$115.

Could it break out? Sure. But it’s tried doing so five times since 2015 with no success. I’d bet on the Toronto Maple Leafs winning the cup this season before betting DIS will be much higher than

\$115 at this time next year.

I was five years old when the Leafs last won – unaware of much television entertainment beyond what Fred Flintstone was up to. I’m sure my dad was excited, for the last time, about that Leaf win. Perhaps we’ll be excited about a Disney win next year. We shall see.

Conclusion: bullish for XLY to lose the Mouse, and bearish for the communications sector.

Keith Richards, Portfolio Manager, can be contacted at

*krichards@valuetrend.ca. He may hold positions in the securities mentioned. The information provided is general in nature and does not represent investment advice. It is subject to change without notice and is based on the perspectives and opinions of the writer only. It may also contain projections or other "forward-looking statements." There is significant risk that forward looking statements will not prove to be accurate and actual results, performance, or achievements could*

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