



Turning Point Analytics utilizes a time-tested, real-world strategy that optimizes the client's entry and exit points and adds alpha. TPA defines each stock as Trend or Range to identify actionable inflection points.

"In the short run, the market is a voting machine, but in the long run, it is a weighing machine." - Benjamin Graham

WORLD SNAPSHOT – COMMENTS & CHARTS

Friday, October 01, 2021

General comments first and macro tables at the bottom. *Links for Explanations of Technical terms at the bottom of the report.*

ENERGY IS POISED FOR A BIG MOVE

Buying after a rally or buying at new highs is challenging, but in the case of Energy, there are good reasons to believe that it may be very profitable, especially if one looks at the long arc of history. Clients may be reticent to buy Energy at this point, given that XLE is up 43% this year, while the S&P500 is only up 15% (chart 1). The comparison from the March 2020 lows is better but still not encouraging; XLE is up 123%, while the S&P500 is up 87% since 3/23/20 (chart 2). Regardless, in today's report, TPA will present the bullish case for Energy stocks for the 4th quarter of 2021 and into 2022.

TPA will present 4 reasons for buying Energy stocks if Crude can breakout:

- 1.A Crude breakout now presents large potential upside for the commodity***
- 2.Energy is under-owned on a historic basis***
- 3.Energy is breaking out on a relative basis***
- 4.Energy is inexpensive on a historic basis relative to most other sectors***

Continued.....

RELATIVE PERFORMANCE OF XLE AND S&P500 – 2021 YTD



RELATIVE PERFORMANCE OF XLE AND S&P500 – SINCE 3/23/20



A POTENTIAL CRUDE BREAKOUT

West Texas Crude (WTI) fell precipitously from the 2014 highs to the 2016 lows; approximately 78%. After a large rally to approximately today's levels by the end of 2018, WTI fell again and was then pushed temporarily into negative territory at the height of the Covid-19 fears. WTI has

risen sharply since April 2020 and is now hovering just below the 2018 highs. The closing and intraday highs occurred on Wednesday 10/3/18 at 76.41 and 76.90, respectively. At this writing, WTI is trading at 74.81.

From the 10-year chart below, if WTI can breakout, it leaves a resistance-free vacuum all the way to 105-110. Charts 2 and 3 show that WTI is in a very strong uptrend as it approaches this critical level, giving it a good chance to make new 6-year highs.

CRUDE – 10 YEAR



CRUDE – 5 YEAR



CRUDE – 2020-2021



ENERGY IS UNDER-OWNED

TPA believes Energy is under-owned on a historical basis. There are many reasons, beyond Crude's frightening declines in 2014-2016 and 2020, why Energy would be under-owned. Among the reasons would be Global warming and the accelerated moves of the Auto and other industries to replace carbon-based fuels with electric and solar. Still, TPA believes that, even though Energy will probably never regain its historic role in the stock market, it has a good chance of becoming a larger part of the indexes if WTI can break out.

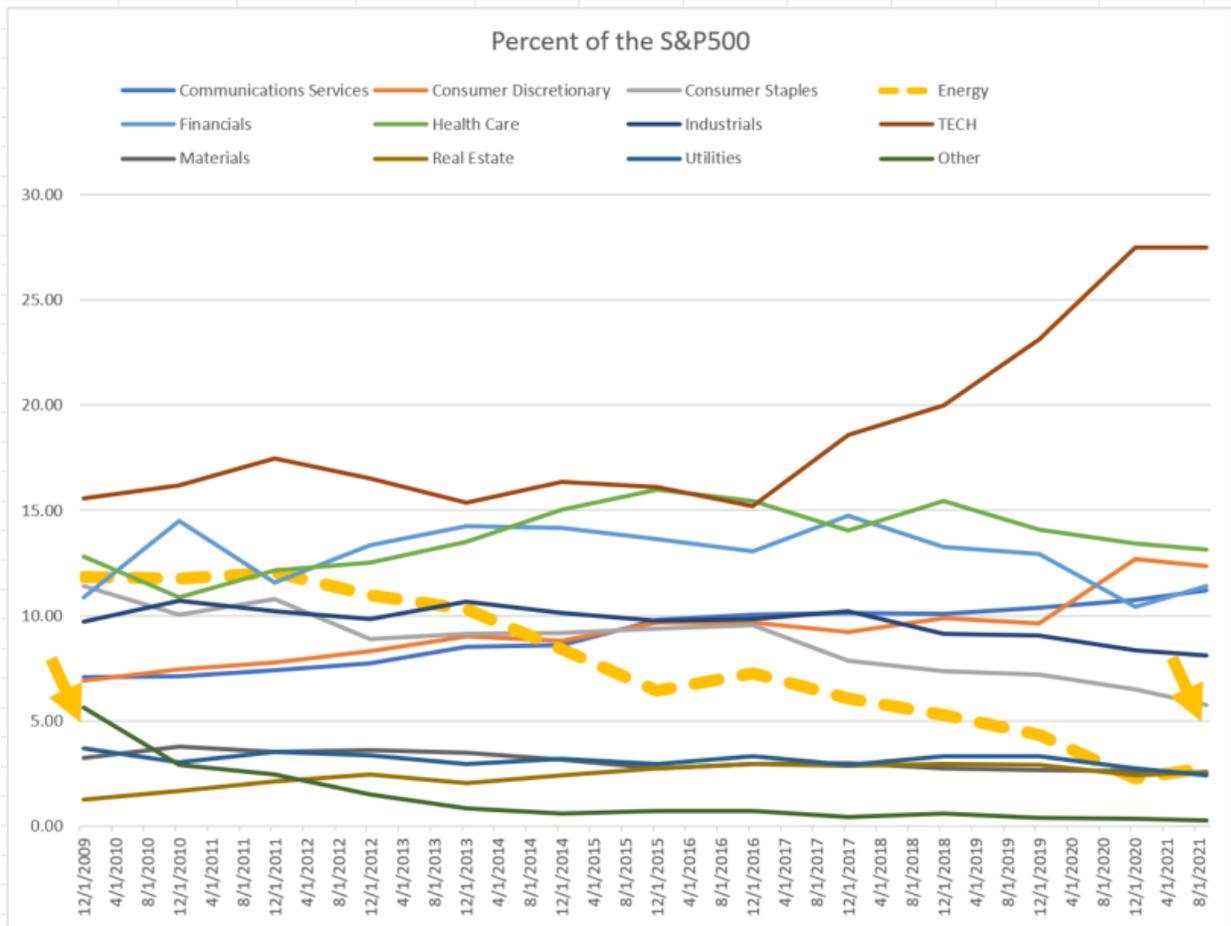
The table below shows the percentage weight of the 11 major sectors in the S&P500 in the 13 years from 2009 to 2021. During that time, the Energy sector weight in the S&P500 fell from 11.84% in 2009 to 2.75% in 2021. The table below shows that the average weight for the 13 years is 7.67%. TPA does not see Energy ever regaining its 13-year average weight, but a move back to a 5% weight is possible. That would mean a market cap move in the S&P500 from \$869 billion to \$1.58 trillion or +81%. Obviously, this would necessitate significant energy stock price increases.

	PERCENT OF SPY EACH YEAR*												
	1	2	3	4	5	6	7	8	9	10	11	12	13
SPY	9/28/2021	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010	12/31/2009
Communications Services	11.21	10.73	10.37	10.07	10.11	10.04	9.81	8.59	8.50	7.74	7.39	7.12	7.09
Consumer Discretionary	12.36	12.68	9.64	9.89	9.20	9.69	9.68	8.80	9.03	8.30	7.79	7.44	6.92
Consumer Staples	5.75	6.49	7.19	7.36	7.85	9.54	9.40	9.16	9.14	8.87	10.80	10.06	11.40
Energy	2.75	2.27	4.34	5.29	6.04	7.26	6.45	8.41	10.31	10.98	12.06	11.75	11.84
Financials	11.42	10.41	12.95	13.25	14.77	13.06	13.64	14.17	14.25	13.35	11.56	14.50	10.88
Health Care	13.15	13.42	14.09	15.45	14.04	15.44	15.97	15.04	13.53	12.50	12.14	10.88	12.79
Industrials	8.10	8.37	9.07	9.14	10.22	9.85	9.76	10.13	10.68	9.85	10.21	10.71	9.73
TECH	27.49	27.51	23.12	20.01	18.58	15.22	16.13	16.35	15.37	16.51	17.48	16.19	15.57
Materials	2.50	2.62	2.65	2.72	2.98	2.94	2.75	3.16	3.49	3.62	3.50	3.76	3.22
Real Estate	2.57	2.41	2.91	2.93	2.87	2.93	2.74	2.41	2.05	2.44	2.10	1.67	1.24
Utilities	2.41	2.75	3.31	3.31	2.91	3.33	2.95	3.21	2.93	3.34	3.54	3.02	3.68
Other	0.27	0.34	0.37	0.59	0.44	0.71	0.72	0.57	0.83	1.49	2.43	2.89	5.64

*Source: Bloomberg

S&P500 Total Mkt Cap	\$31,610,000,000			
	Percent of SPY	Energy MKT CAP in S&P500	Increase in Mkt Cap	Mkt Cap Pct Change
Energy 2021	2.75	\$869,275,000		
Energy 13 year high	12.06	\$3,812,166,000		
Energy 13 year low	2.27	\$717,547,000		
Energy 13 year average	7.67	\$2,425,459,615	\$1,556,184,615	179.02%
Energy @	5.00	\$1,580,500,000	\$711,225,000	81.82%
Energy @	4.00	\$1,264,400,000	\$395,125,000	45.45%

The chart below shows the percentage weights of all the sectors and highlights what a move to 5% would look like for Energy.



ENERGY IS BREAKING OUT ON A RELATIVE BASIS

The first chart below shows the ratio XLE/SPY. The chart shows that XLE has been underperforming the overall market for over 7 years. XLE has underperformed SPY by over 70% in that timeframe – even after its significant rally since 3/23/20. The ratio XLE/SPY recently broke out of its 7-year downtrend. Chart 2 shows that the recent lows in February and August were at higher levels. The zoom chart reveals a wedge pattern that could portend a strong breakout. Given the depressed long-term state of Energy versus SPY, a breakout could be very powerful.

RATIO XLE/SPY – 10 YEARS



Continued....

RATIO XLE/SPY – 5 YEARS



RATIO OF XLE/SPY - ZOOM



Another way to look at Energy versus the stock market is to focus on XOM, which has been Energy's largest component for decades. For many years, XOM was also the largest component of the S&P500. From 1988 to 1992 and from 2005 to 2011, the largest company by market cap in the S&P500 was Exxon (XOM) <https://etfdb.com/history-of-the-s-and-p-500/>. A very cool

visual history of the top S&P500 stocks 1980-2020 can be found at <https://www.youtube.com/watch?v=kfMFDcuDKYA>. XOM is currently ranked #24 in the S&P500. In the past 5 years, XOM is down 10%, while the S&P500 has risen 100%.

The chart below shows that the ratio XOM/SPY has yet to breakout, although XLE/SPY has already broken out. If XOM/SPY were to breakout here and just make a move back to pre-Covid levels it would outperform the SPY by 45%. More likely resistance is near 2018 levels, which would lead to outperformance of over 100%.

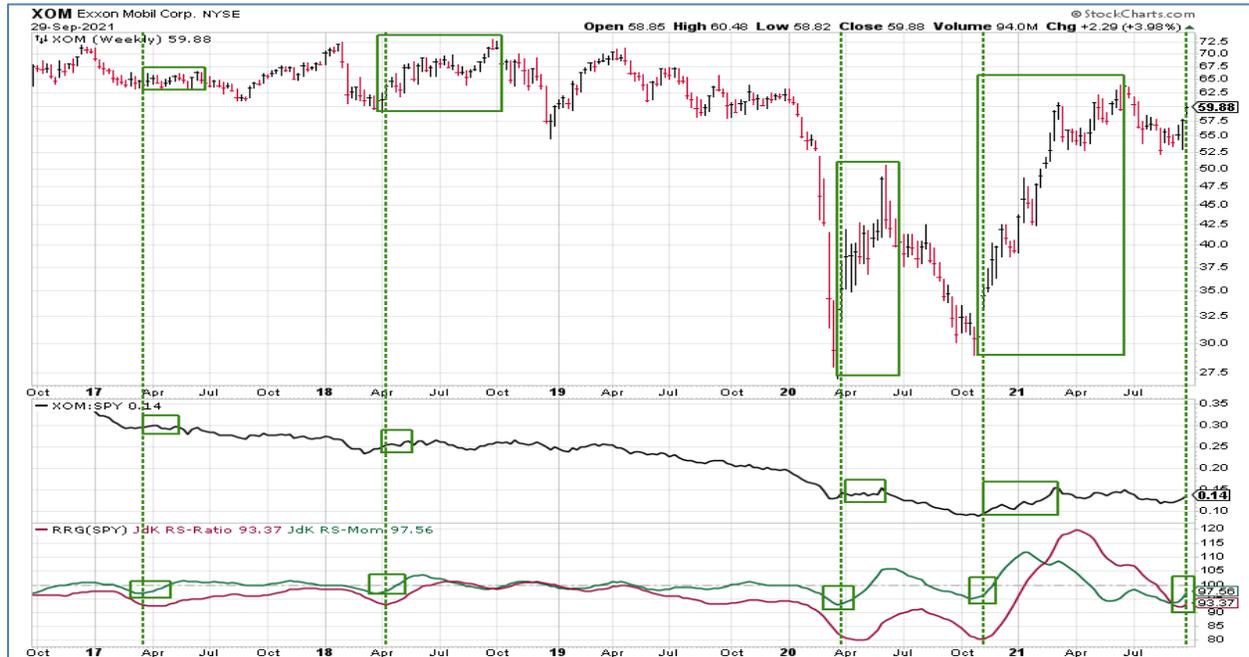
Analysis using Relative Rotation Graphs shows that XOM's momentum is increasing, which also occurred before 4 other rallies since 2016. The last 2 signals predicted huge rallies in 2020 and 2021 (second chart below).

RATIO OF XOM/SPY – 10 YEARS



Continued...

RELATIVE ROTATION GRAPH ANALYSIS OF XOM VS. SPY – 2017-2021



ENERGY IS INEXPENSIVE ON A HISTORIC BASIS RELATIVE TO MOST OTHER SECTORS

The table below shows historical Price to Book Value ratios for major sectors of the market for the past 16, 10, and 5 years. Clients should focus on the columns that provide the standard deviations away from the average for each period. For the 16-year period, the current Russell 1000 Energy Price/BV is only 0.30 standard deviations away from its 16-year mean. Only Materials are less expensive using this measurement.

PRICE/BOOK VALUE HISTORICALLY - SUMMARY

9/29/2021

CATEGORY	TODAY	ALL YEAR AVERAGE	ALL YEAR STD DEV	ALL YEAR LOW	ALL YEAR HIGH	ALL YEAR CURRENT STD DEV FROM AVG	10 YR AVERAGE	10 YR STD DEV	10 YEAR CURRENT STD DEV FROM AVG	5 YR AVERAGE	5 YR STD DEV	5 YEAR CURRENT STD DEV FROM AVG
U.S. BROAD MARKET CATEGORIES												
LARGE CAP	4.45	2.86	0.68	1.98	4.45	2.35	3.27	0.59	2.02	3.64	0.63	1.29
LARGE CAP GROWTH	13.46	6.19	3.03	2.90	13.46	2.40	8.06	2.89	1.87	10.23	2.60	1.24
LARGE CAP VALUE	2.59	1.88	0.33	1.40	2.59	2.14	2.04	0.29	1.94	2.15	0.37	1.20
SMALL CAP	2.88	2.09	0.36	1.47	2.88	2.19	2.18	0.36	1.94	2.23	0.50	1.30
SMALL CAP GROWTH	6.57	3.97	1.12	2.24	6.57	2.33	4.55	1.12	1.80	5.06	1.44	1.05
SMALL CAP VALUE	1.82	1.42	0.25	0.99	1.90	1.61	1.42	0.25	1.65	1.38	0.33	1.32
RUSSELL 1000 SECTORS												
UTILITIES	2.23	1.92	0.67	1.56	2.23	0.47	2.08	0.17	0.89	2.07	0.19	0.83
FINANCIAL	1.66	1.45	0.53	0.98	1.89	0.38	1.61	0.18	0.27	1.58	0.22	0.37
MATERIALS	3.02	2.79	1.02	1.73	3.65	0.22	2.95	0.49	0.14	2.78	0.40	0.59
HEALTHCARE	5.39	3.74	1.51	2.40	5.39	1.09	4.36	0.56	1.83	4.73	0.50	1.31
ENERGY	1.92	1.73	0.64	0.88	2.10	0.30	1.59	0.37	0.89	1.40	0.39	1.32
TECH	9.95	5.08	2.71	2.60	9.95	1.80	6.18	2.25	1.67	7.97	1.73	1.14
STAPLES	4.97	4.44	1.61	3.24	5.45	0.33	4.92	0.49	0.09	4.68	0.37	0.80
DISCRETIONARY	8.29	4.69	2.29	2.27	8.29	1.58	5.70	1.49	1.73	6.70	1.56	1.02
DURABLES/IND	5.49	3.76	1.57	2.24	5.49	1.10	4.42	0.69	1.55	4.79	0.75	0.95
RUSSELL 2000 SECTORS												
UTILITIES	--	6.07	10.76	1.59	46.36	--	8.71	13.81	--	15.19	18.00	--
FINANCIAL	1.34	1.31	0.46	0.96	1.59	0.07	1.33	0.23	0.02	1.17	0.20	0.82
MATERIALS	2.52	2.11	0.82	1.32	3.01	0.49	2.29	0.48	0.48	2.07	0.42	1.07
HEALTHCARE	7.54	4.28	1.91	2.65	7.54	1.70	4.95	1.31	1.97	5.61	1.58	1.22
ENERGY	1.85	1.26	0.64	0.37	2.15	0.92	1.02	0.46	1.79	1.00	0.53	1.61
TECH	5.03	2.98	1.28	1.42	5.03	1.61	3.40	0.80	2.05	3.77	1.00	1.26
STAPLES	2.94	2.50	0.93	1.58	3.25	0.47	2.69	0.33	0.75	2.74	0.40	0.50
DISCRETIONARY	3.77	2.61	1.01	1.55	3.77	1.15	2.74	0.60	1.72	2.67	0.84	1.31
DURABLES/IND	2.91	2.09	0.77	1.51	2.91	1.06	2.25	0.39	1.70	2.31	0.53	1.14

Conclusion:

Although Energy and Crude have both had large rallies since the March 2020 lows, there are good reasons to believe that Energy may still have significant absolute and relative upside at this juncture if Crude can breakout.

Crude's technical strength as it approaches previous resistance makes a breakout probable. A breakout would leave large upside potential for the commodity, which would propel the Energy sector higher.

Energy is under-owned on a historical basis and a move back toward, but not to, the long-term average would point to significant stock price appreciation.

Energy is breaking out on a relative basis, which confirms the other signals that the sector is headed for gains.

Finally, Energy is inexpensive on a historic Price to Book Value basis relative to most other sectors.

CLICK ON LINKS BELOW FOR TECHNICAL INDICATOR EXPLANATIONS:

[**ASCENDING - DESCENDING TRIANGLE**](#)

[**BASING-TOPPING-CONSOLIDATION**](#)

[**BREAKOUT \(Breakdown\)**](#)

[**CHANNEL & RANGE**](#)

[**DIRECTIONAL MOVEMENT INDEX \(DMI\)**](#)

[**DOUBLE BOTTOM or DOUBLE TOP**](#)

[**MACD-MOVING AVERAGE CONVERGENCE-DIVERGENCE**](#)

[**MOVING AVERAGES**](#)

[**RELATIVE STRENGTH & PEER STOCK PERFORMANCE**](#)

[**REPEATING PATTERNS**](#)

[**RSI-RELATIVE STRENGTH**](#)

[**SUPPORT, RESISTANCE, BREAKOUT, BREAKDOWN**](#)

[**TREND**](#)

ALWAYS REMEMBER: No strategy exists in a vacuum – always evaluate the relevant sector & market.
Over 80% of portfolio performance is determined by sector and market forces (Ibbotson & Kaplan study – January/February 2000)

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