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Be Patient, Don't Outsmart Yourself

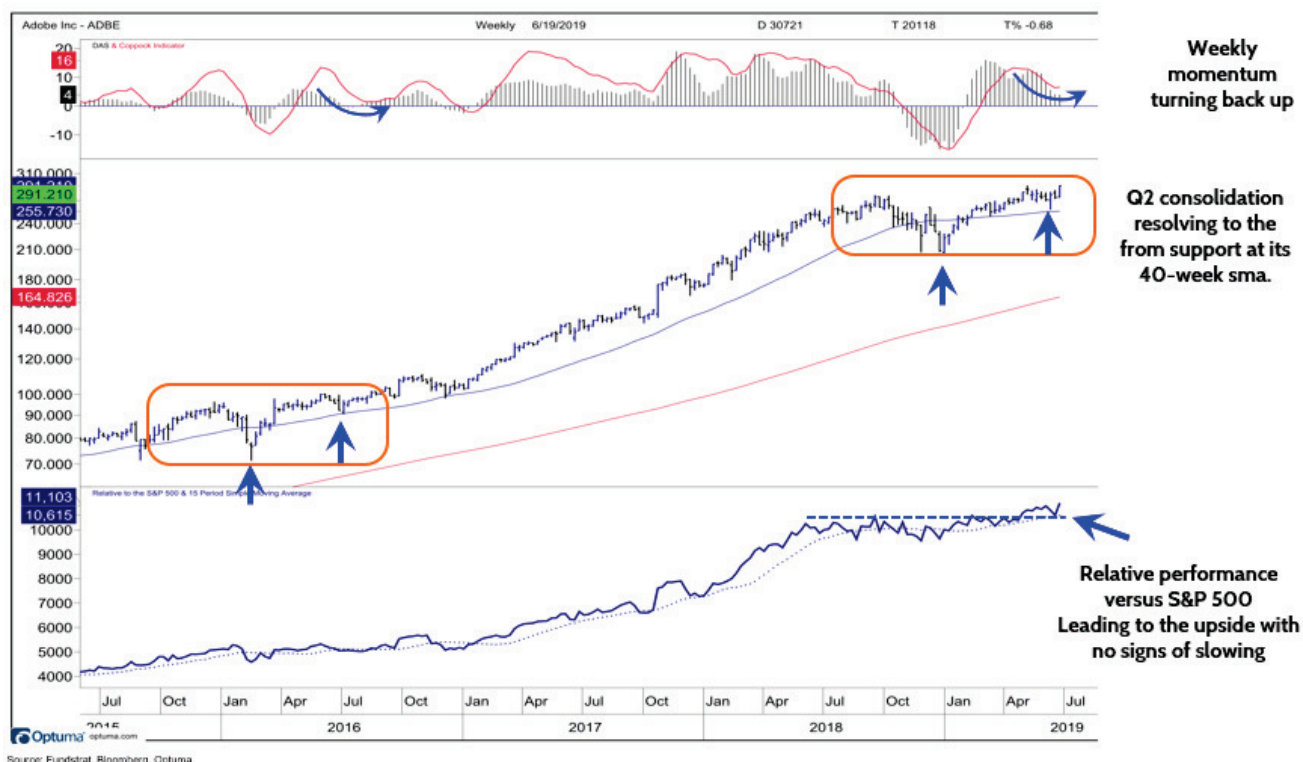
As investors, we often overcomplicate the process and end up outsmarting ourselves looking for a new contrarian idea when markets are clear about what is leadership and what is not. It's an overused cliché but so many of us constantly "fight the trend" in attempt to be clever and smarter than everyone else. Of course, that's what makes a market and creates the necessary wall of worry. However, many academic papers have proven relative performance trends have an uncanny record of persisting.

Let's take a look at the clear leadership in the market, technology. My colleague Vito Racanelli discussed the software sector a few weeks ago in his Signal From Noise note and Tom Lee continues to outline a lengthy list of reasons why digital services are likely to continue to build out their importance in economies and markets with strong underlying fundamentals for additional growth.

From the technical side, price and relative performance trends remain in steady uptrends with software and IT services the two leading technology industries with broad participation across both areas. Sure, these groups are not just starting new bull markets, but just as importantly they have yet to show any signs of exhaustion that would suggest their trends are at risk of reversing.

Adobe (ADBE) is a good example of a stock I've highlighted in the past. Investors should accumulate ADBE through its recent Q2 consolidation. So, after this week's upside earnings pop—it was up about 9%—is it too late to buy? Not at all. In fact, after trading sideways for months above its rising 40-week (200-day) moving average, ADBE appears to be resuming its longer-term uptrend, similar to what developed in 2H of 2016.

ADBE—A Force in Motion

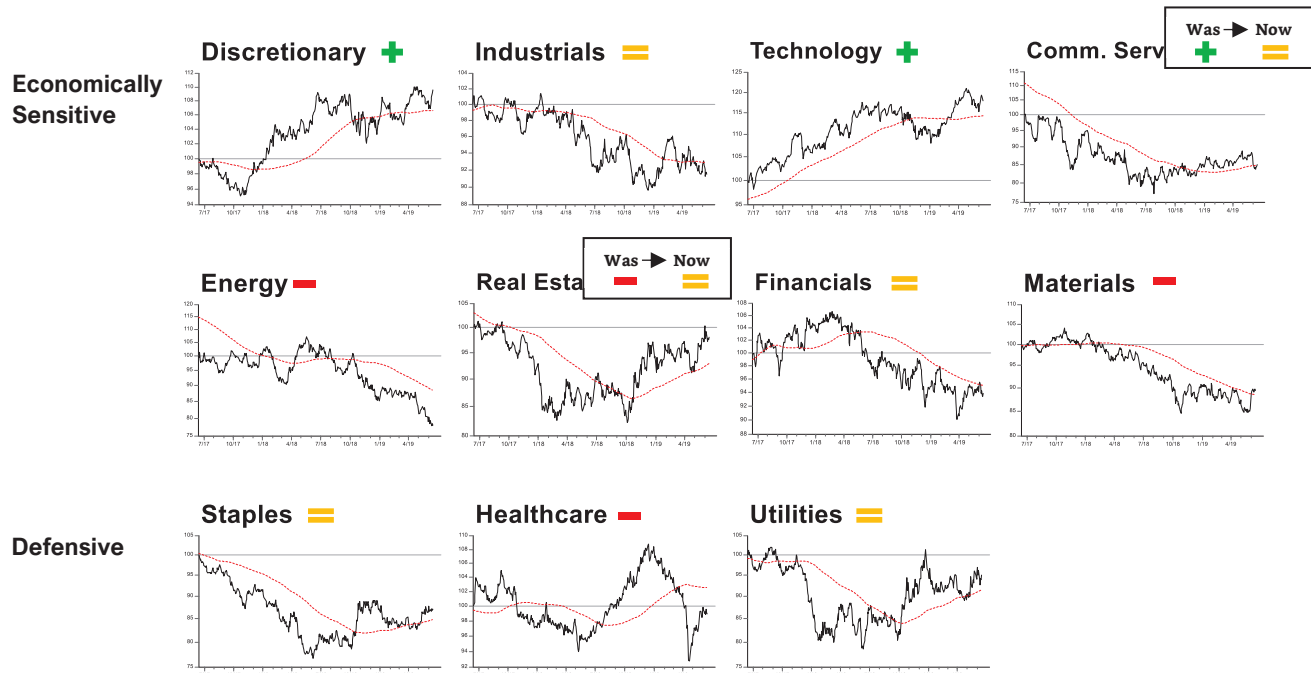


The rally was accompanied by rising volume and, more importantly relative performance is leading to the upside with no evidence of reversing.

Bottom line: I would counter every portfolio should have some exposure to the leading areas of the market. For broad group exposure consider the iShares Expanded Tech-Software Sector ETF (IGV) and for individual stock exposure consider ADBE or one of its peers in the software group.

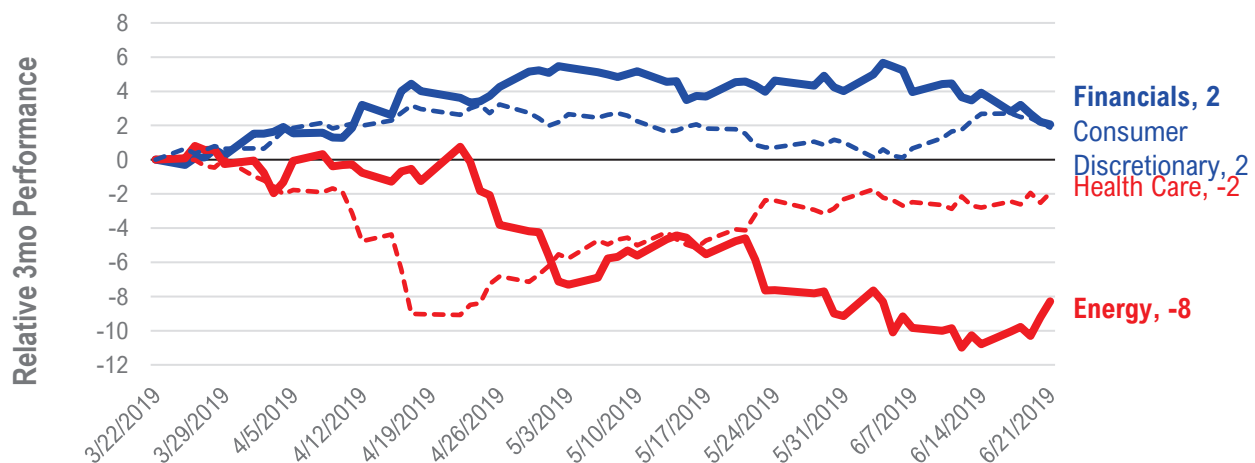
Figure: Rob's Weekly Sector Review

Source: FS Insight, Factset



As I've noted for months, technology continues to rebuild leadership after a Q2 pause along with consumer discretionary.

Figure: Best and worst performance sectors over past 3 months



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