



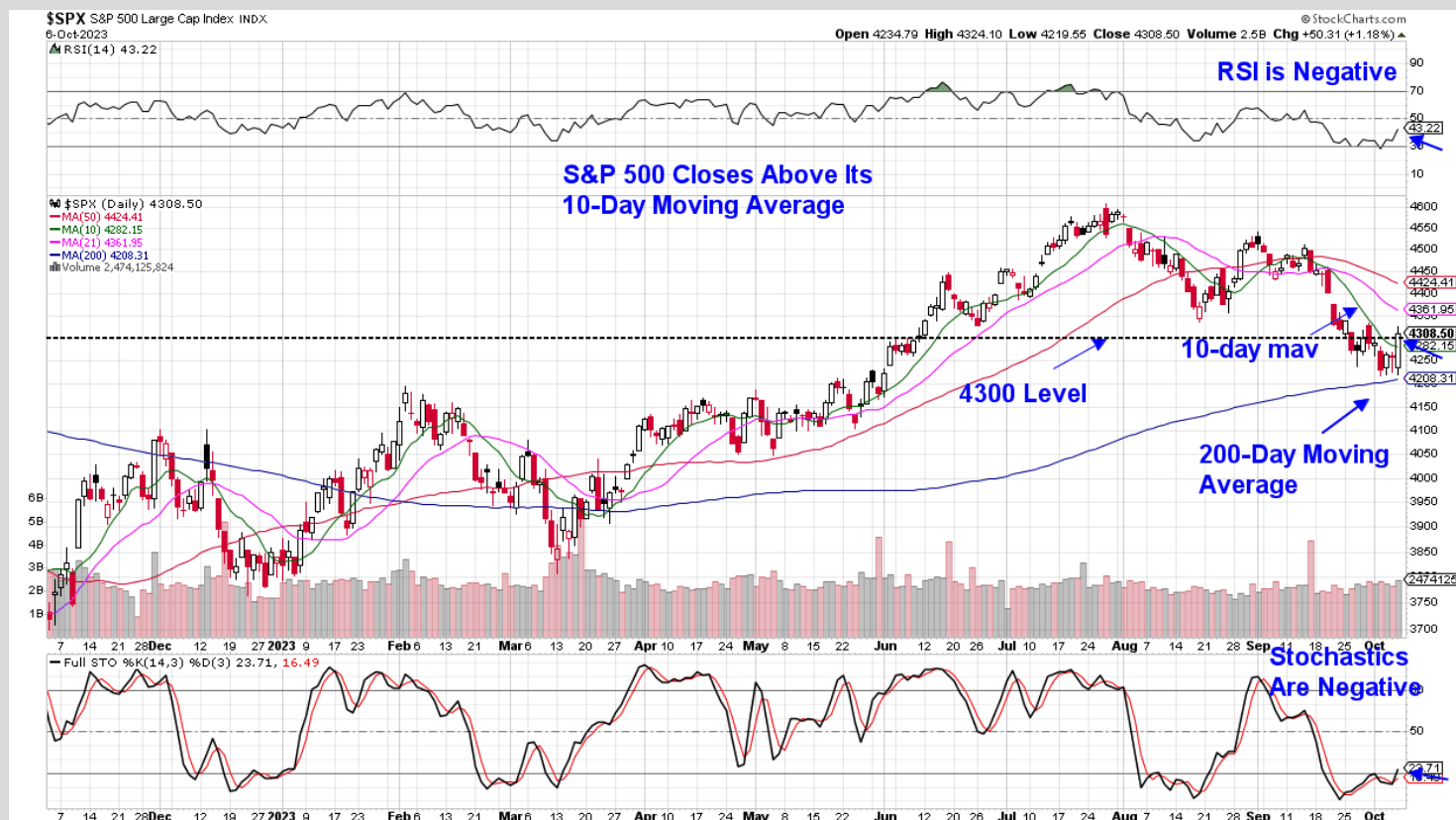
THE MEM EDGE

October 8, 2023 | Weekly Report

This Week's Highlights

- Nasdaq Composite Index Turns Positive
- Energy Sector Tumbles As Gas Inventory Builds
- Higher Yielding Utilities, Staples & REITs Continue To Suffer
- Private Job Growth Well Below Forecast For September
- U.S. Jobs Growth Explodes While Wage Inflation Cools
- FOMC Meeting Notes, Core CPI and PPI Data Due Next Week
- Third Quarter Earnings Season Begins Next Week

Daily Chart of S&P 500



The S&P 500 gained 0.5% for the week in a move that was capped by this Index closing above its 10-day moving average on heavy volume Friday. As cited in last Sunday's Report, a close above the

10-day moving average would set the stage for a potential downtrend reversal for this Index. At this time the RSI and Stochastics - while heading north - remain in negative territory. We remain

negative on the near-term prospects for the S&P 500 however, our stance has gotten a bit more positive due to a bullish move in the Nasdaq Composite.

On any pullbacks in the S&P 500, the 4300 level is the first area of possible support and it's only points away. A close below this level would put the 200-day moving average as the next area of possible support and it's 2.4% away.

As for upside resistance, the 21-day moving average is the next possible area and it's 1.2% away. Ideally, we're looking for the RSI and Stochastics to turn positive coupled with an advance above the 50-day moving average to turn fully bullish on the S&P 500.

The Nasdaq posted a 1.6% rally that put the RSI within a hair of turning positive while the Stochastics are moving closer to a move into positive territory.

Most of the Nasdaq's gains took place on Friday, with price action on that day signaling a new uptrend using the William O'Neil methodology.

This is a system that identifies new uptrends after a "follow-through day" takes place and is based on volume characteristics as well as when a rally day takes place relative to recent lows ([More information can be found here](#)).

Last week's outperformance in the Nasdaq was led by sharp gains in most of the Magnificent 7 stocks that led the markets higher earlier this year.

We've been on the lookout for these stocks to resume their leadership status and while not all are in confirmed uptrends, most are well on their way - with the exception of AMZN and NFLX.

Also pushing the Tech-heavy Nasdaq Index higher were Software and Semiconductor stocks with both groups now in a positive uptrend which we'll review below.

With the Nasdaq in a new uptrend, we're adding several names to our Suggested Holdings List. However, new purchases should be entered very lightly until we get further confirmation that this downtrend reversal can continue despite the high level of interest rates.

This further confirmation would be signaled by a close of the Nasdaq above its 50-day moving average coupled with a broadening out of participation among the underlying stocks in this index.

Next week will be a test for the Nasdaq's new uptrend as FOMC notes will be released on Wednesday followed by CPI and PPI inflation that are due. Third quarter earnings season will also come into focus with major Bank stocks due to report.

Interest rates continue to take center stage as highlighted by the fact that both rally days in the markets last week were due to a pause or a slight decline in rates on Wednesday and Friday.

Wednesday's pause in the rise in interest rates gave investors confidence to push Mega-Cap Growth stocks such as Tesla (**TSLA**) and Alphabet (**GOOGL**) back above their moving averages with a positive RSI that put them in a buy zone. Meta (**META**) was in a similarly positive position as well.

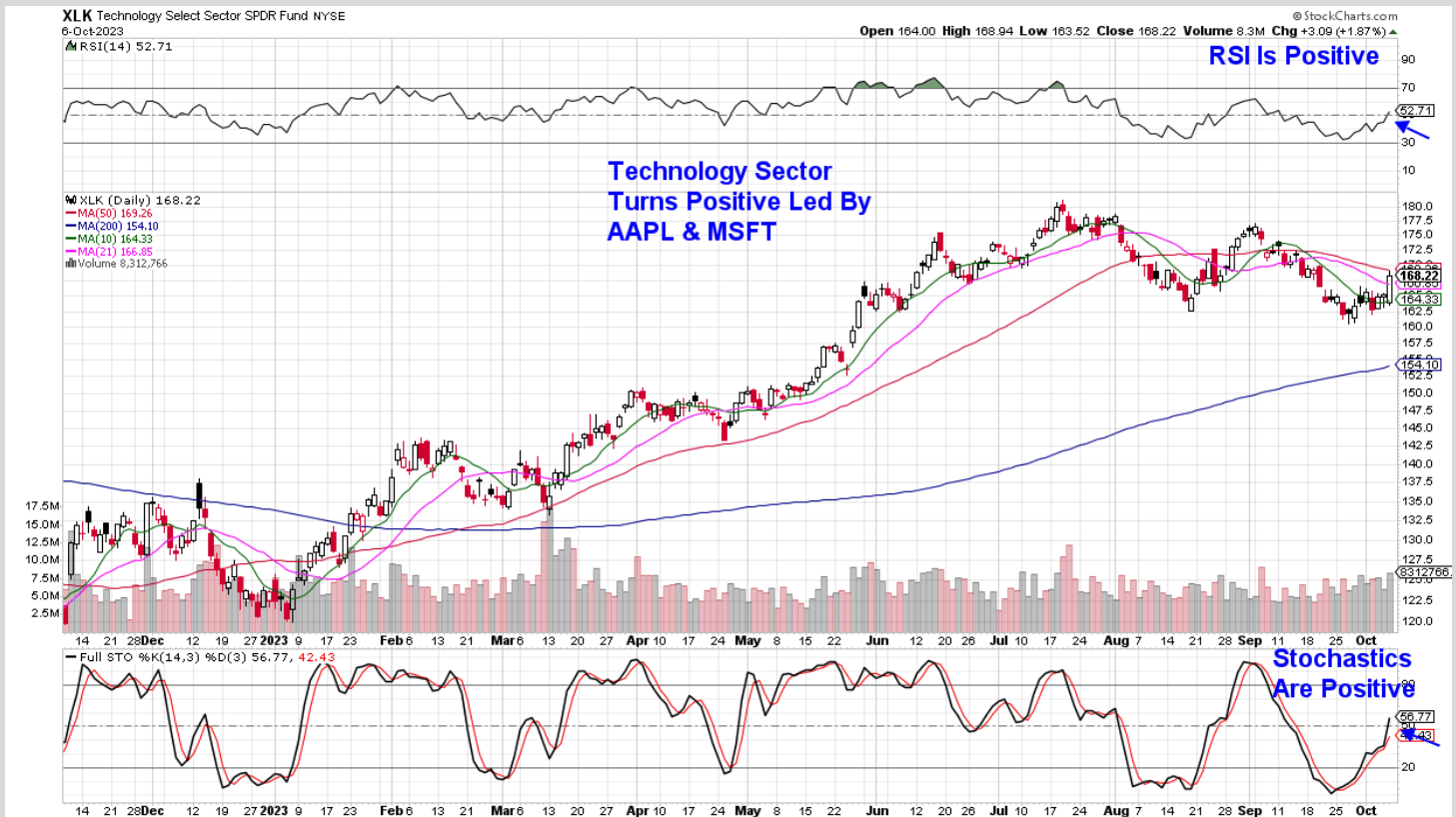
Friday's employment data sparked more of a rally, as investors focused on a softening of wage pressures in September. Powell has repeatedly

mentioned his concern that wages were remaining high - which in turn has kept inflation heightened. Not all areas participated in last week's gains with Energy stocks tumbling 5.2% on news that gas inventories in the U.S. have been building. Staples, Utilities, and REIT stocks also came under selling pressure as their above-average dividends are not attractive when Treasury bonds are offering 4.8% or more.

While Friday's close in the markets was positive, hurdles for the broader markets remain and next week's inflation data as well as notes from the Fed's last meeting may provide more guidance. In the meantime, we'll continue to build out our Watch List while adding new stocks should the markets turn more bullish.



Daily Chart of the Technology Sector (XLK)



Technology Sector Turns Positive

The Tech sector closed the week above its 10 and 21-day moving averages which pushed the RSI and Stochastics into positive territory. This puts the sector into an uptrend with a close above its 50-day moving average providing more confirmation.

Heavyweights Microsoft (**MSFT**) and Apple (**AAPL**) both gained more than 3.5% for the week and are in new uptrends after closing above their shorter-term moving averages with a positive RSI on their daily charts.

We're adding Microsoft (**MSFT**) to our Suggested Holdings List; however, we'd need to see a more sustained move above its 50-day moving average and a positive MACD before considering more than a very small position. The stock has seen its earnings

estimates revised higher amid strong sales for their AI-enhanced Azure cloud product.

As mentioned, both the Software and Semiconductor groups are in an uptrend after their RSI entered positive territory (using **SOXX** & **IGV**).

Both groups are not experiencing broad participation however with only 15% of Semiconductor stocks trading above their key 50-day moving average, and only 28% of Software stocks are above this key mav. We're on the lookout for an increase in the number of stocks being in an uptrend to provide conviction that a more sustained rally is possible.

This week, we're adding Nvidia (**NVDA**) back to our Suggested Holdings List after Friday's close above its 50-day moving average pushed the RSI further into

positive territory. A move of the MACD above 50 would be even more constructive for NVDA's near-term prospects.

Overall, AI-related semiconductor companies are faring the best amid growth estimates that are being revised higher. This would include Intel (**INTC**) and Advanced Micro (**AMD**) which are both playing catch up to NVDA but have AI products in development.

Both **INTC** and **AMD** are among the few Semis that are above their 50-day moving average with earnings due in 3 weeks. Both names will be closely watched as strong quarterly results may improve the prospects of other Semiconductor stocks.

Among Software stocks, Security related names that help prevent potential cyber-attacks have seen the most strength recently. Interest in these cybersecurity stocks comes amid news of high-profile attacks on companies such as Clorox (**CLX**) and MGM Resorts (**MGM**).

This week, we're adding Crowdstrike (**CRWD**) to our Suggested Holdings List. The stock gapped up in price after reporting triple-digit earnings growth in late August and has since held in well. Earnings forecasts for next year are calling for 84% growth due to increased sales in their AI-powered Falcon platform.

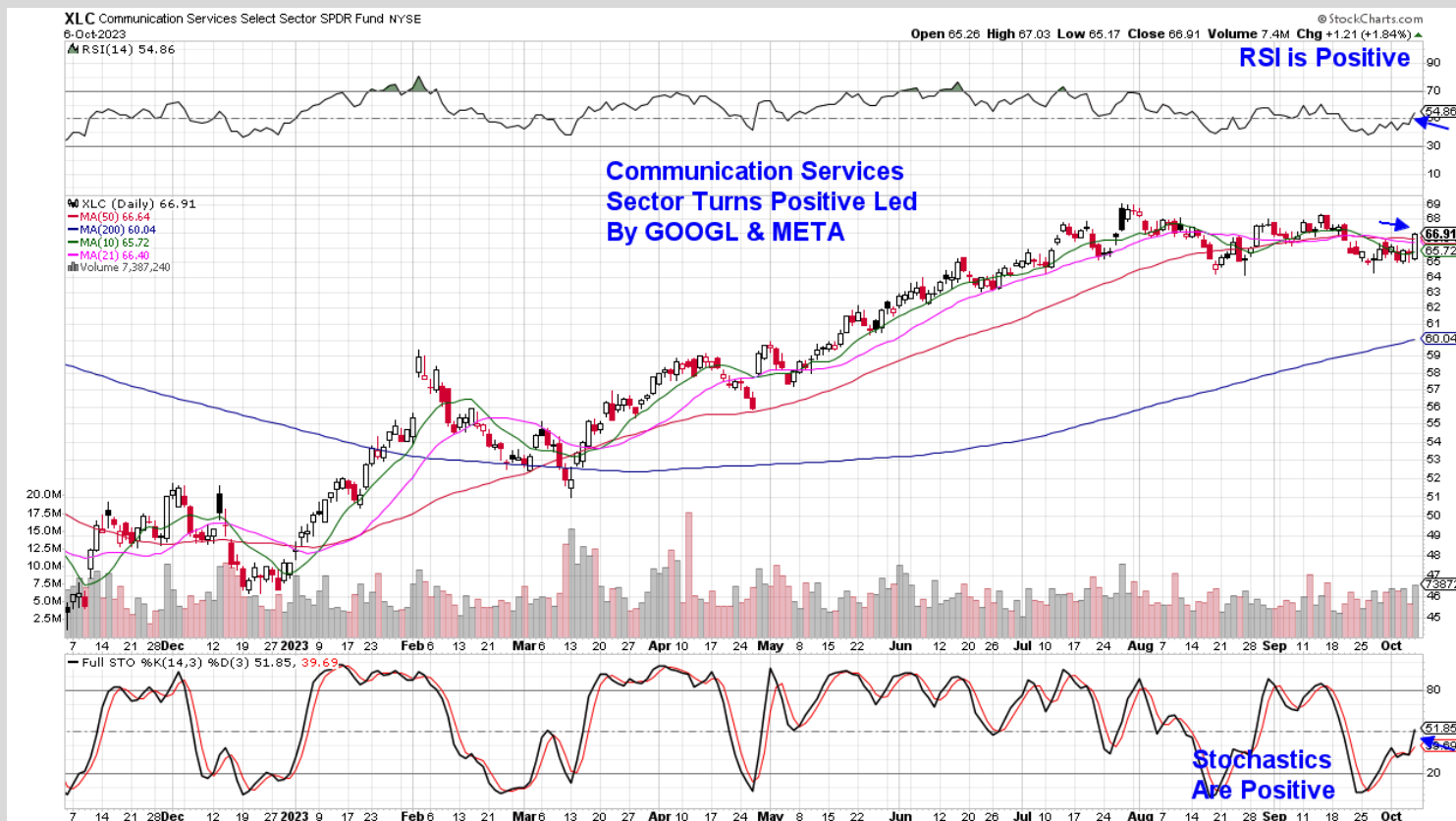
CRWD is extended after Friday's strong rally and the stock can be bought on a pullback to the \$172 base breakout range.

AI-related Software stocks are also outperforming and Adobe (**ADBE**) has a positive RSI however, the stock remains below its 50-day moving average with the MACD poised for a bullish crossover. We'll alert you should the chart turn positive.

After last week's 2.6% gain, the Technology sector now has a positive RSI and Stochastics however, it remains below its 50-day moving average. Friday's rally helped it move closer to moving above this area of resistance which is 0.8% away.



Daily Chart of the Communication Services Sector (XLC)



Communication Services Sector

The Communication Services sector ended the week on a positive note after a Friday rally pushed it back above its 50-day moving average with the RSI and Stochastics now in positive territory.

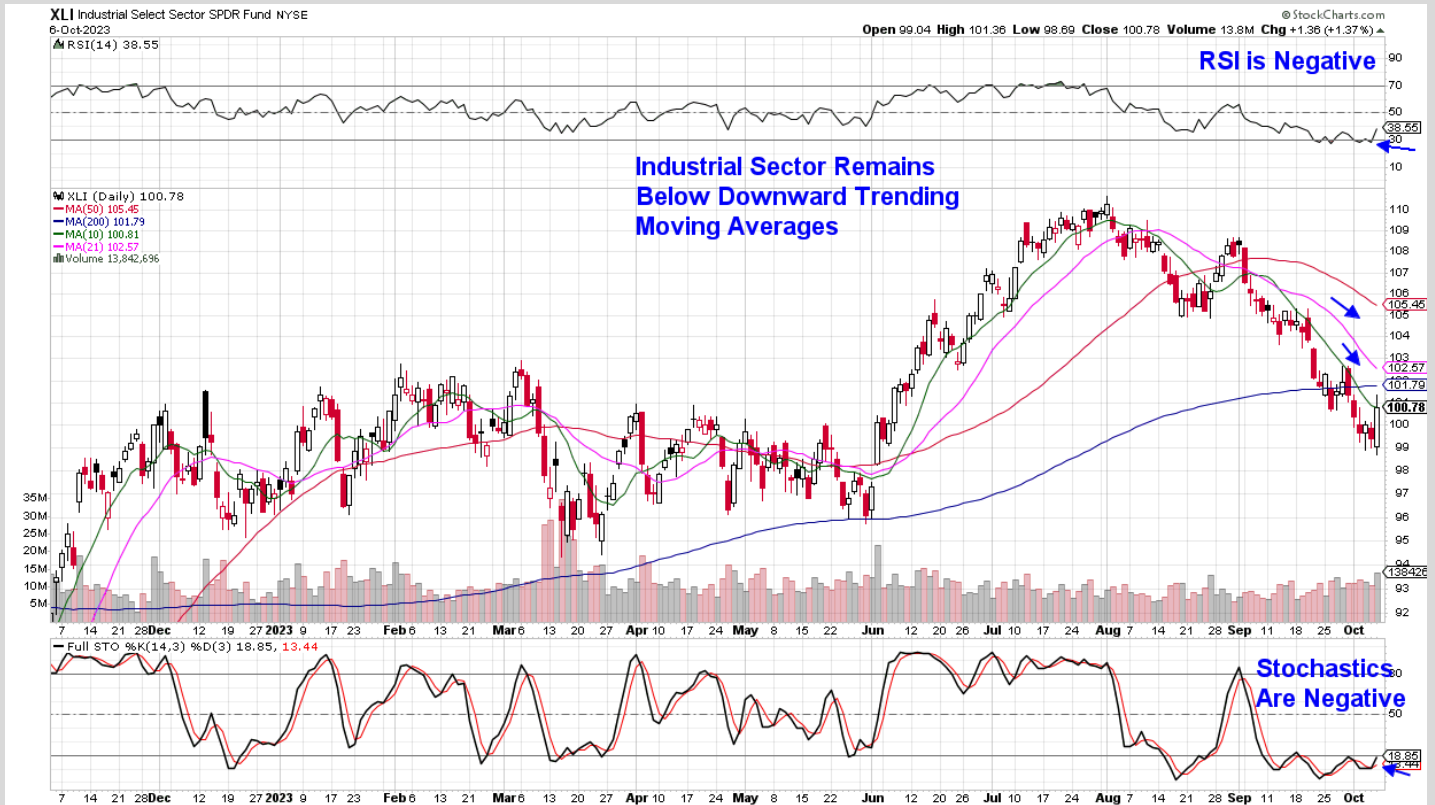
The sector received a big boost from heavyweight names Alphabet (**GOOGL**) and Meta Platforms (**META**) which both posted 5% gains for the week.

While **META** saw most of last week's gains take place on Friday, **GOOGL's** advance was throughout the week in a move that had the stock turning positive on Wednesday after closing above its 50-day mav with a positive RSI and MACD. **GOOGL** is in a strong buy zone and can be bought on any pullback to the \$135 range.

This week, we're adding Meta Platforms (**META**) to our Suggested Holdings List after Friday's rally pushed the stock out of a 3-week flat base on its way to a possible 3-month base breakout at the \$326 level. **META** can be bought in the \$307 range which is its 5-day moving average.

Both **GOOGL** and **META** are due to report their quarterly results later this month and analysts have been raising estimates for both companies due to an expectation of increased ad sales. These companies are also leaders in Generative AI which is expected to provide increased growth opportunities as well.

Daily Chart of the Industrial Sector (XLI)

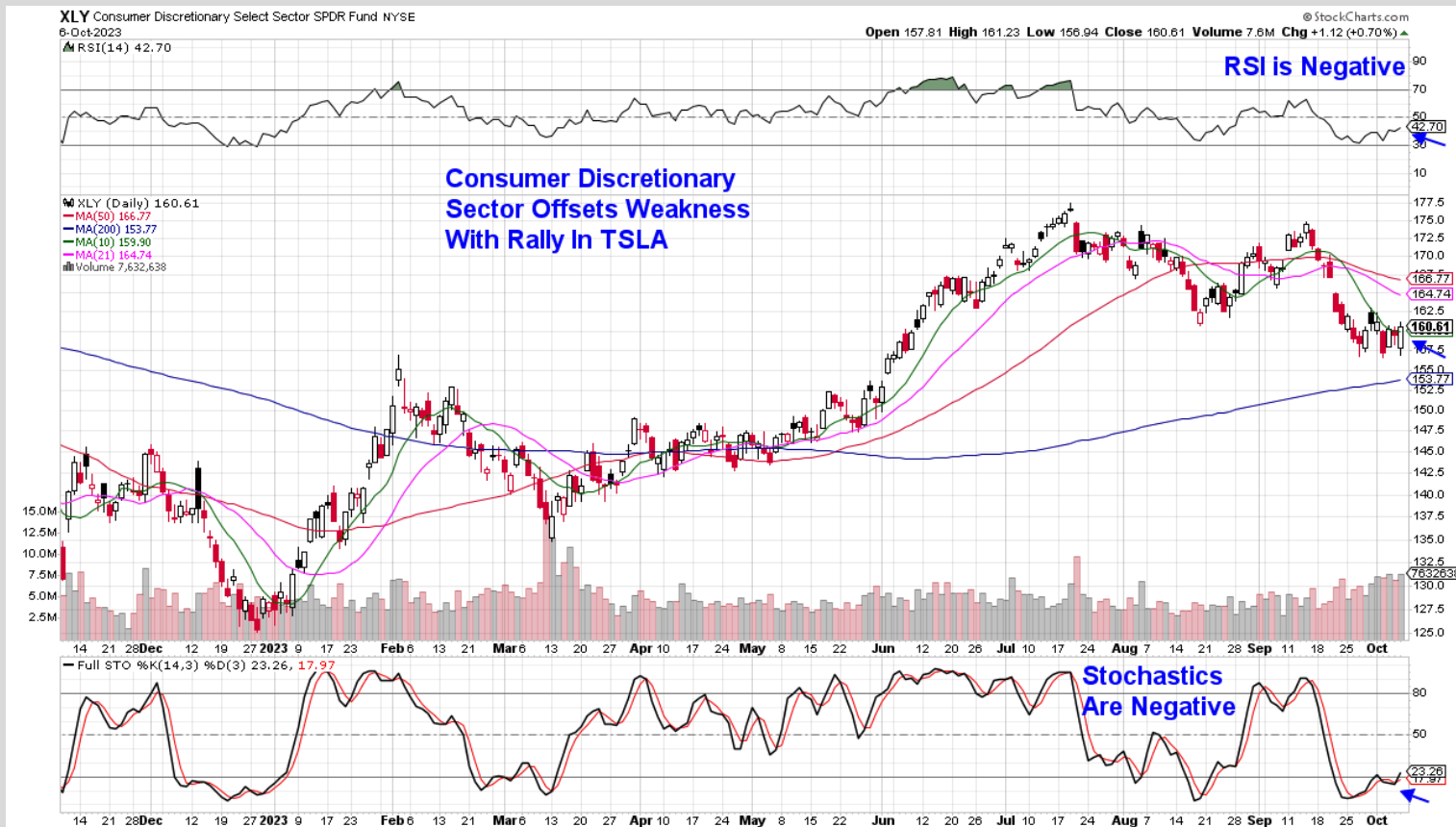


Industrial Sector Remains In Downtrend

The Industrial sector continues to trend lower amid a pronounced downtrend in Transportation stocks such as Airlines and Rails that are seeing below-average traffic. Heavyweight names such as United Parcel (**UPS**), Boeing (**BA**), and Deere (**DE**) have also been struggling due to slower growth as well.

Caterpillar (**CAT**) had been holding in relatively well until last week's break below its 50-day moving average which took place on above-average volume. The decline pushed the MACD into negative territory where it joined the RSI. We're removing the stock from our Suggested Holdings List.

Daily Chart of the Consumer Discretionary Sector (XLY)



Consumer Discretionary Sector Trends Sideways

The Consumer Discretionary sector traded in line with the markets as strength in heavyweight stock Tesla (**TSLA**) helped offset weakness elsewhere.

TSLA rallied 4% for the week amid news of further price reductions and positive vehicle sales data for the auto industry.

TSLA is in a buy zone however, weakness elsewhere in the sector has us keeping the stock on our Watch List.

The S&P 500 Retail group (**XRT**) fell 3.4% last week led by a drop in Restaurants and other food-related retailers. The decline took place after Walmart's CEO remarked that weight loss drug Ozempic may be impacting grocery sales. (**WMT** used data on

spending habits from customers who are purchasing Ozempic at their stores).

The widespread decline in names such as Domino's Pizza (**DPZ**), McDonald's (**MCD**) and Costco (**COST**) - to name just a few - hurt these already weak areas that have been hit by lower sales due to higher prices.

Other areas of Consumer Discretionary also remain weak with Home Construction stocks trending lower amid high mortgage rates and formerly leading Apparel retailers underperforming due to high theft issues and reduced consumer demand.

Exceptions are Abercrombie (**ANF**) and American Eagle (**AEO**) which are on our Watch List.

Heavyweight stock Amazon (**AMZN**) traded in line with the markets in mostly sideways price action that may be setting the stock up to trade higher once momentum turns positive.

AMZN's price action has closely tracked the Nasdaq this year with brief periods of outperformance such as August, when the company reported quarterly results above estimates. Amazon is due to report earnings later this month on the heels of their Amazon Day sales event this Monday and Tuesday.

Overall weakness in Consumer Discretionary stocks has been weighing on the markets as this sector is the 3rd largest component of the S&P 500 Index. Reduced inflation and lower interest rates would provide a needed spark for these stocks.



Summary

The markets ended the week on a positive note after September's jobs report showed moderate wage inflation that spurred a rally that was particularly strong among Growth stocks. As cited, mega-cap growth names are poised to regain their leadership status that began in March, before higher interest rates stalled their advance in late July.

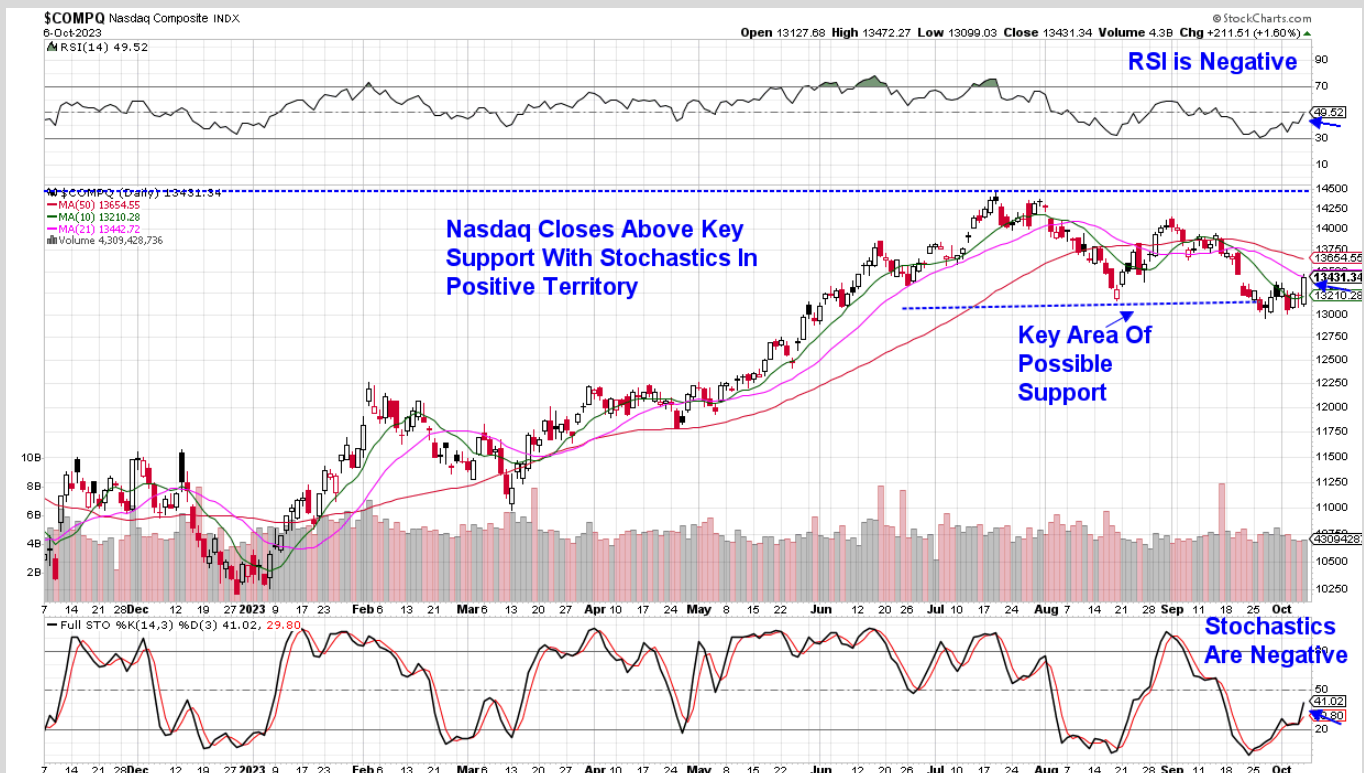
While a rally in these stocks would push the S&P 500 and Nasdaq higher due to their heavier weighting, weakness beneath the surface remains. Among the 11 sectors, only Communication Services is above its 50-day moving average. This puts most every other sector in a downtrend as higher interest rates, the strong dollar and elevated inflation levels are taking their toll.

Earnings season begins next week and this period has been known to spark a new uptrend in the markets however, dynamics outside of results will also impact investor's response.

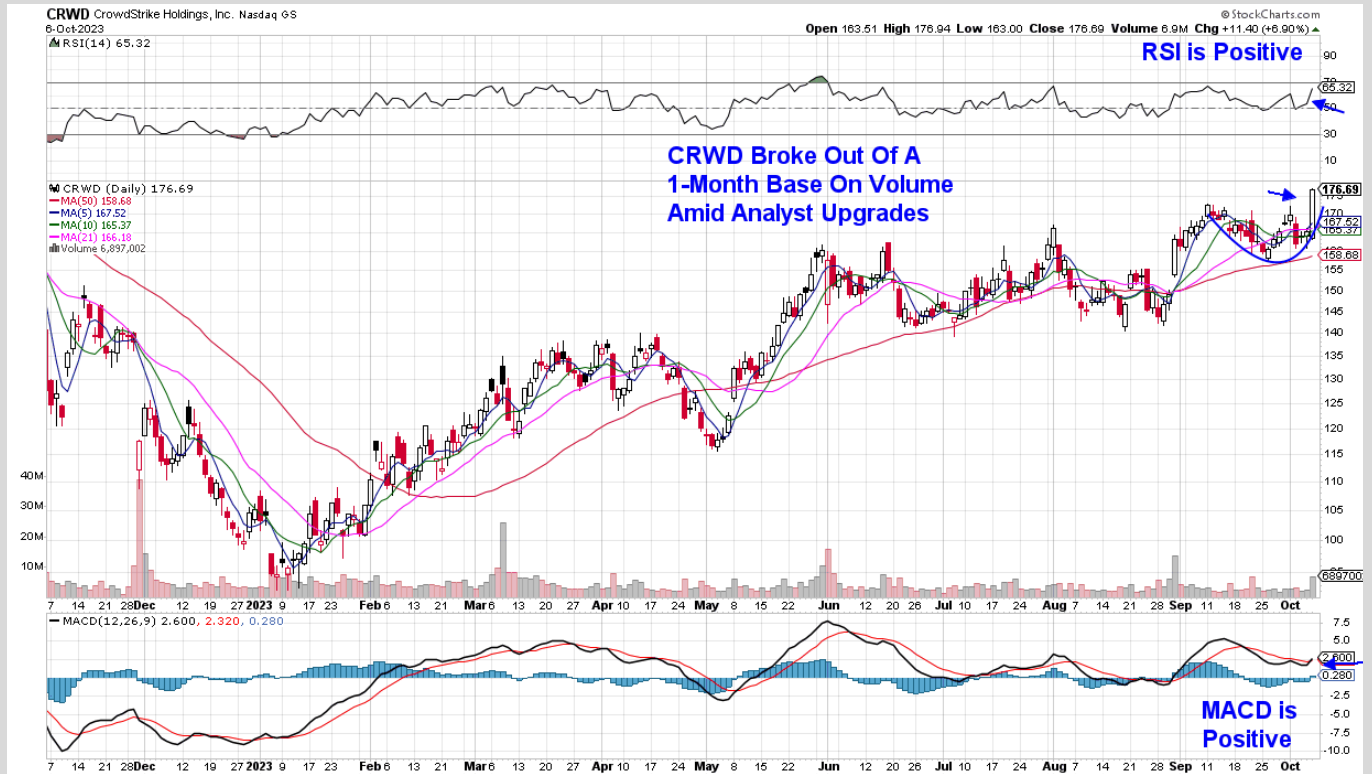
During the April earnings period this year, positive reports sparked a rally in many stocks; however, interest rates were well below where they stand now. The more recent July earnings season saw stocks struggle as rates were above 4% and trending higher. In addition, most companies were trading at higher valuations after the March to early July rally that took place.

At this time, we have low valuations with high interest rates as a backdrop so that results as well as comments regarding growth prospects going forward may produce mixed results. As always, investor sentiment will drive price action.

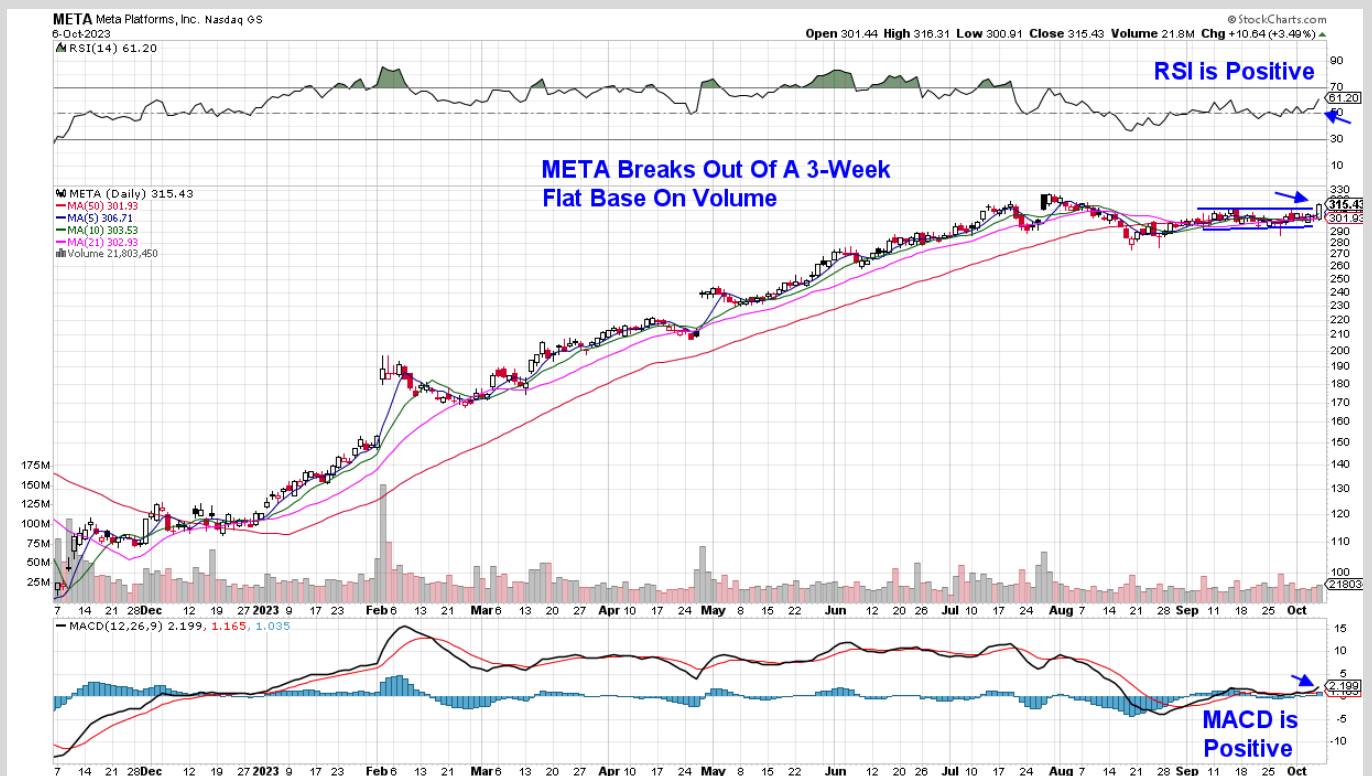
Nasdaq Composite (\$COMPQ)



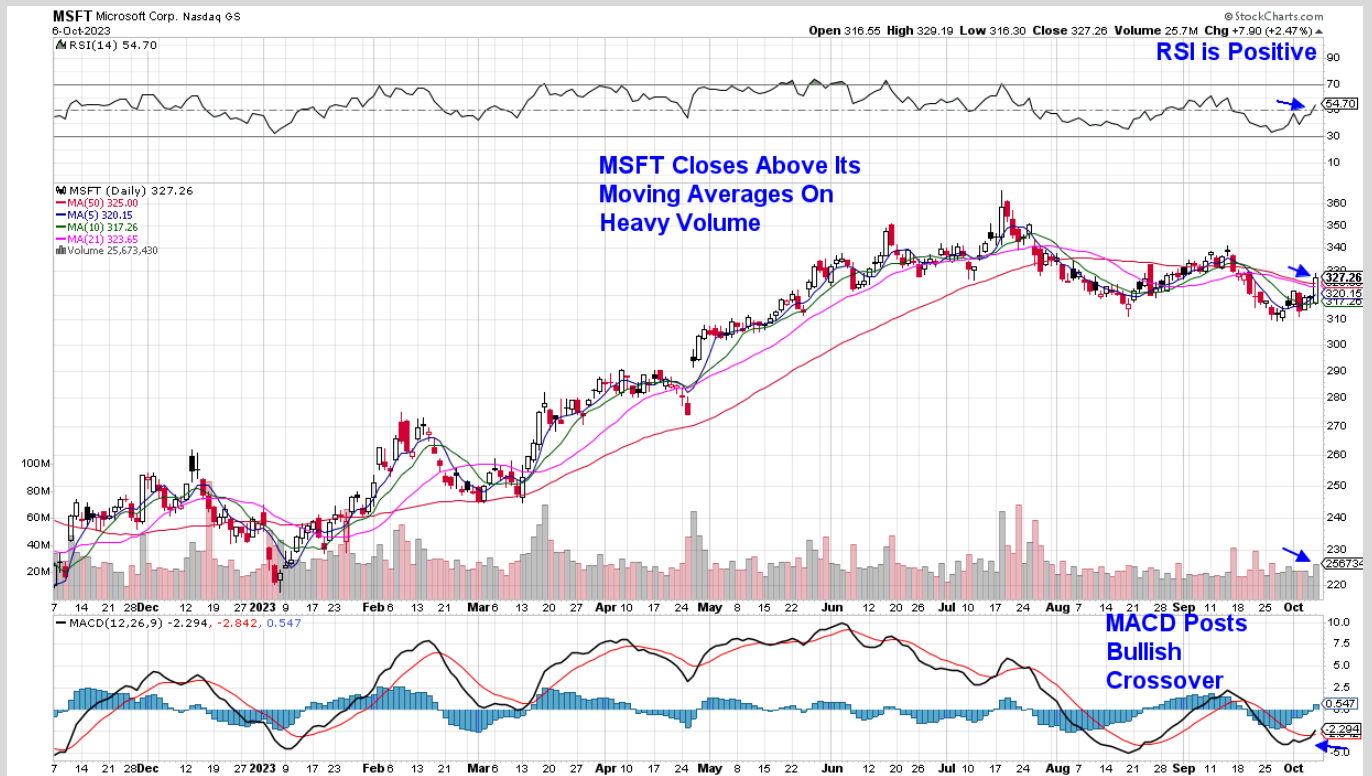
CrowdStrike Holdings, Inc (CRWD)



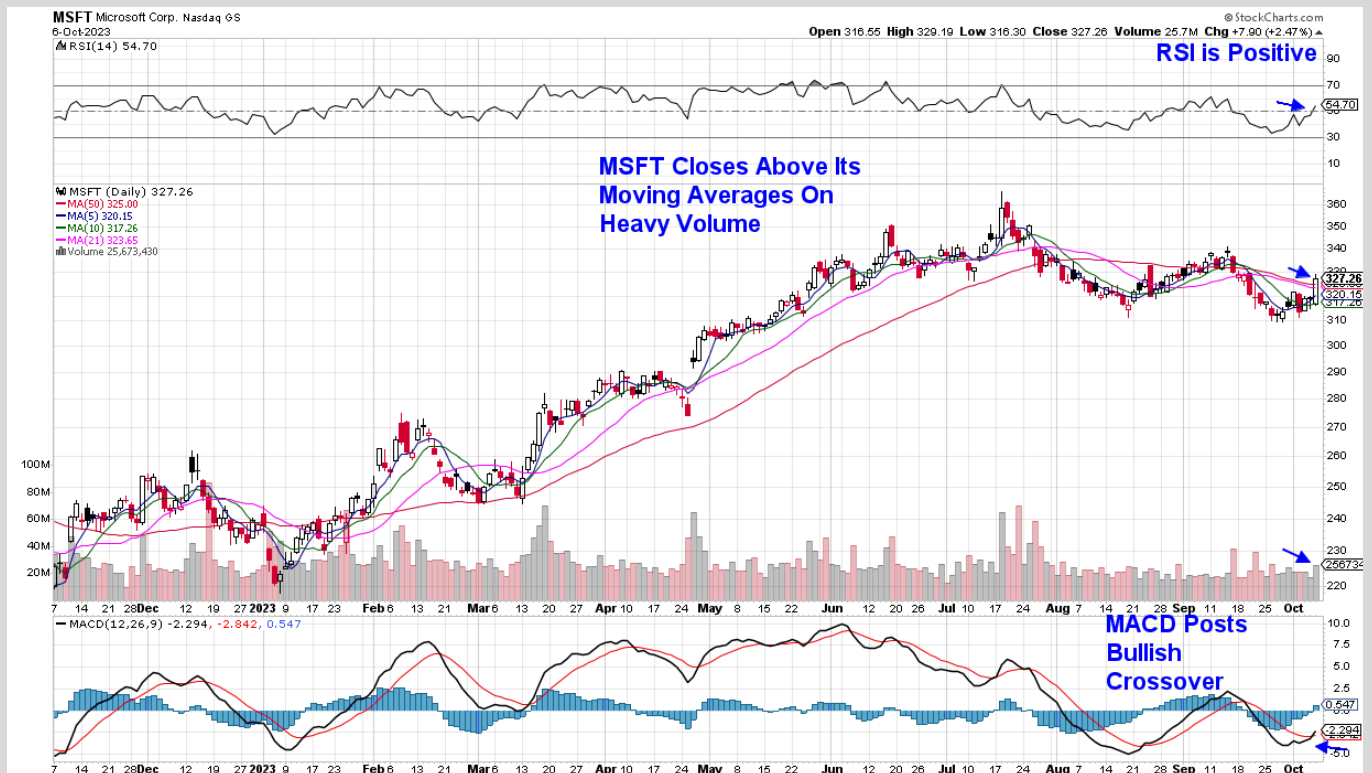
Meta Platforms, Inc. (META)



Microsoft Corp. (MSFT)



NVDA Corp. (NVDA)



MEM Edge Report Suggested Holdings

Stocks With Emerging Leadership Characteristics

\$ = Earnings Due	Buy Zone	Strong Buy		Buy on Pullback	Removed From List
SYMB	COMPANY	PRICE	DATE ADDED	PERFORMANCE	INDUSTRY GROUP
INDUSTRIAL					
CAT	Caterpillar	\$285.20	8/13/2023	-3.0%	Machinery
TECHNOLOGY					
CRWD	Crowdstrike	\$176.70	10/8/2023		Software
NVDA	Nvidia	\$457.60	10/8/2023		Semiconductor
MSFT	Microsoft	\$327.30	10/8/2023		Software
COMMUNICATION SERVICES					
GOOGL	Alphabet	\$132.60	7/30/2023	4.0%	Internet-Content
META	Meta Platforms	\$315.40	10/8/2023		Internet-Content

Glossary of Terms Used From Our Suggested Holdings

Buy Zone

This means the stock is in a confirmed uptrend and is finding support at its upward-trending key moving averages and can be bought. If you own the stock, stay with it.

Strong Buy

This means we have slightly more conviction in the ability of this stock to outperform the markets over the next week. The stock may be poised to break out of a base, it may be in a strong industry group or there may be recent good news. In other words, the stock has some edge that should help propel the stock higher.

Buy on Pullback

In this case, the stock is a bit over-bought (or extended) and may need to come in a little before buying. This is usually following a particularly strong week where the stock was up a lot. We would look for a pullback to the stock's upward-trending 10-day moving average as an optimal entry point.

Not Highlighted

These are stocks that remain positive and can be held if you own them. However, they currently do not appear poised to have an upward move. The stock may be consolidating after a large advance or be in an industry group that is not in favor. The longer-term uptrend remains in place however.

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