Volume 2/Issue 24
June 22, 2020

Lee Technical Strategy Newsletter

***Equities** – A bearish island reversal (6/11/20) and a negative outside day (6/19/20) warns of a SPX consolidation.*

***Fixed Income** – TYX and TNX continue to bottom with a series of higher-lows.*

***Commodities** – CRB is nearing key resistance at 144.67. WTI Crude continues test key resistance at 41-43. Gold retains a 3-mo triangle pattern.*

***Currencies** – USD is rallying to 97-97.5 and JPYUSD to 0.9365-0.9383. EURUD is declining to 1.10-1.108.*

Technical Summary

Equities – Although a retest of its all-time SPX high (3,393.52) is still possible later in the year, a bearish island reversal (6/11/20) coupled with a negative outside day (6/19/20) warns of a consolidation to initial support at 2,988-3,018.5 coinciding with the top of the 5/26/20 gap up and the 200-day ma), and below this to secondary support at 2,946-2,957 (5/26/20 gap up breakout and 50-day), and then to 2,835-2,914 (38.2% retracement from Mar-Jun 2020 and 5/18/20 gap up). The contraction of the spread (66.67) between the 50-day ma (2,952) and the 200-day ma (3,018.5) will help to determine the next directional trend of SPX. A golden cross buy signal (50-day ma crossing above 200-day ma) bodes well for the next sustainable SPX rally. However, failure of the 50-day ma to cross above the 200-day ma warns of a deeper correction into the summer.

Fixed Income – Historically, the close relationship between the Copper/Gold ratio (CGR) and the 10-year US Treasury yields (TNX) is an important longer-term trend. A major TNX bottom may have developed during Mar 2020 as the CGR rebounded from major support corresponding to the 1980/1987 lows. The 30-year US Treasury yield (TYX) may have bottomed as evidenced by a series of higher-lows (i.e., 1.126%, 1.251%, and 1.394%). TYX key resistance is at 1.76-1.83%. The 10-year US Treasury yields (TNX) also shows higher-lows (0.543%, 0.581%, and 0.648%). Key resistance remains at 0.957-0.989%.

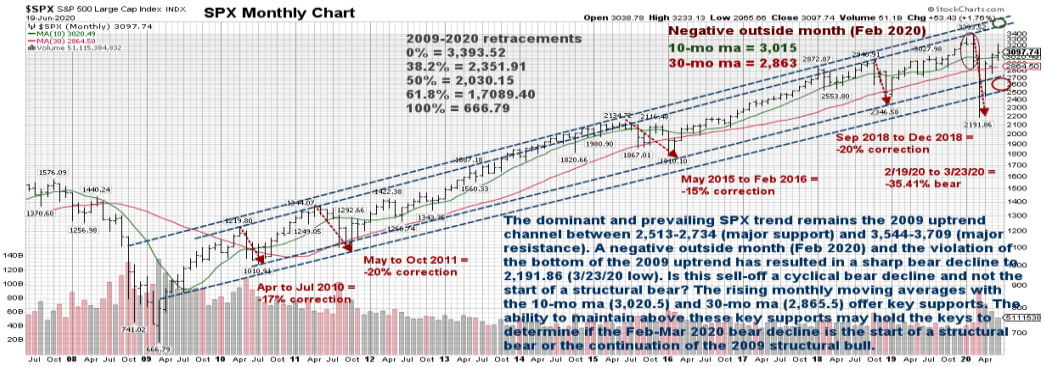
Commodities – CRB Index rallied strongly from key support at 101.48 (4/21/20 low) and is now challenging next key resistance at 144.67 (50% retracement from Jan-Apr 2020 decline). Key initial support is 131.5-133.5, and below this to 127.5-128, 124-126, and then to 118.5-121. WTI Crude Oil is improving as a positive outside week (6/15/20) hints of a retest of major resistance at 41-43 (Mar 2020 h/s top breakdown, 61.8% retracement from the Jan-Apr 2020 decline, and the pivotal 30-wk ma). Gold continues with its near-term consolidation via a 3-mo triangle pattern between 1,666-1,672 and 1,756-1,789.

Currencies – USD has weakened. However, is now rebounding from key support at 95.71 (6/10/20) coinciding with the Mar, Jun, and Dec 2019 lows. Key initial resistance is 97.0-97.5 or the bottom of the 2018 downtrend channel). A convincing breakout renders the next rally to 98.30-98.89 (50-day and 200-day ma). EURUSD has strengthened but failure to clear key resistance (1.14-1.1422) warns of a correction to key initial support at 1.10-1.108 or the top of the 2018 uptrend channel, 50-day ma and 200-day ma. JPYUSD has encountered key resistance at 0.9365-0.9383 (Jun/Oct 2019 & Jun 2020 highs). Key support is 0.923-0.930 (50/200-day ma).

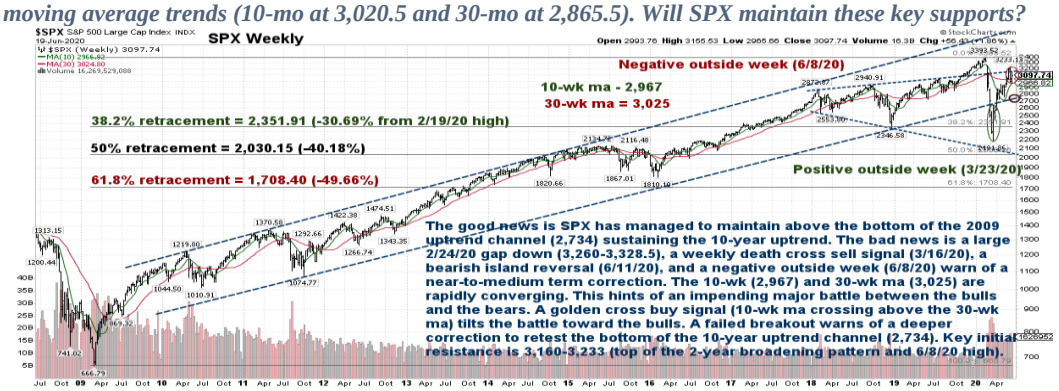
S&P 500 Sectors – In the past 8 weeks ending on June 8, 2020, SPX continues with several key sector rotations. Healthcare (XLV -0.5%) has quietly slipped into the Weakening Quadrant. This suggests a near-term consolidation. Technology (XLK 15.4%), Communication Services (XLC 14.1%) and Consumer Discretionary (XLY 13.5%) retain their leadership roles within the Leading Quadrant. Consumer Staples (XLP 1.5%), Utilities (XLU -1.4%), and Real Estate (XLRE 6.9%) continue to move deeper into the Lagging Quadrant. Financial (XLF 10.4%) is improving within Lagging Quadrant but is close to entering the Improving Quadrant. Energy (XLE 14.3%), Industrials (XLI 12.4%), and Materials (XLB 12.7%) continue to show technical signs of improvements within the Improving Quadrant. XLB is nearing a move into the Leading Quadrant.

On the monthly chart, SPX retains its 2009 uptrend channel (2,513-2,734 and 3,533-3,709) and maintains above the 10-mo/30-mo ma (3,020.5/2,864.5). This will provide key supports on corrections. On the weekly chart, a negative outside week (6/8/20) warns of medium-term correction to key initial support at 2,967-3,025 (10-wk and 30-wk ma). On the daily chart an island reversal on 6/11/20 and a negative outside day (6/19/20) also warns of a consolidation to initial support at 2,988-3,018.5, and below this to 2,946-2,957, and then to 2,835-2,914.

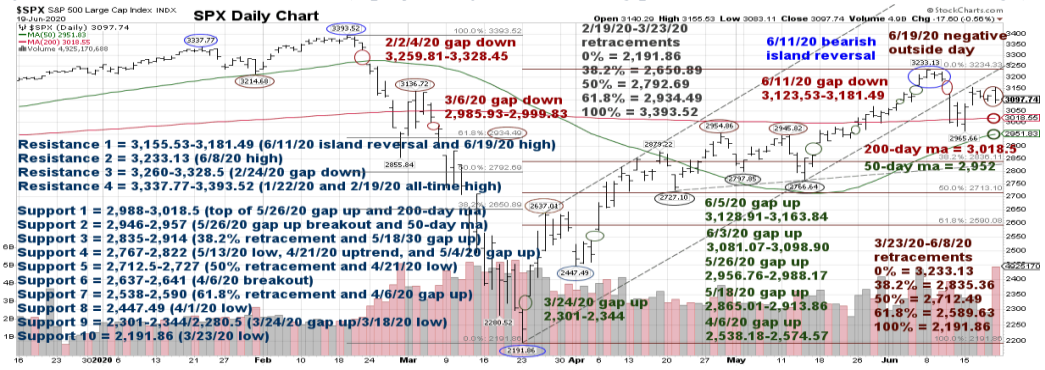
SPX Index – Long-term, Intermediate, and Near-term



The dominant and prevailing SPX trend remains the 2009 uptrend channel between 2,513-2,734 (major support) and 3,544-3,709 (major resistance). A negative outside month (Feb 2020) and the violation of the bottom of the 2009 uptrend has led to a bear decline to 2,191.86 (3/23/20 low). However, the Mar-Jun 2020 rally has resulted in SPX trading above the bottom of its 10-year uptrend channel and its rising monthly moving average trends (10-mo at 3,020.5 and 30-mo at 2,865.5). Will SPX maintain these key supports?



The good news is SPX is trading above the bottom of its 2009 uptrend channel (2,734). The bad news is a large 2/24/20 gap down (3,260-3,328.5), a weekly death cross sell signal (3/16/20), a bearish island reversal (6/11/20), and a negative outside week (6/8/20) warn of a correction. The convergence of the 10-wk (2,967) and 30-wk ma (3,025) hint of an impending major battle. A golden cross buy signal favors the bulls. A failed breakout warns of a deeper correction as SPX retests the bottom of the 10-year uptrend channel (2,734). Key initial resistance is 3,160-3,233 (top of the 2-year broadening pattern and 6/8/20 island reversal high).

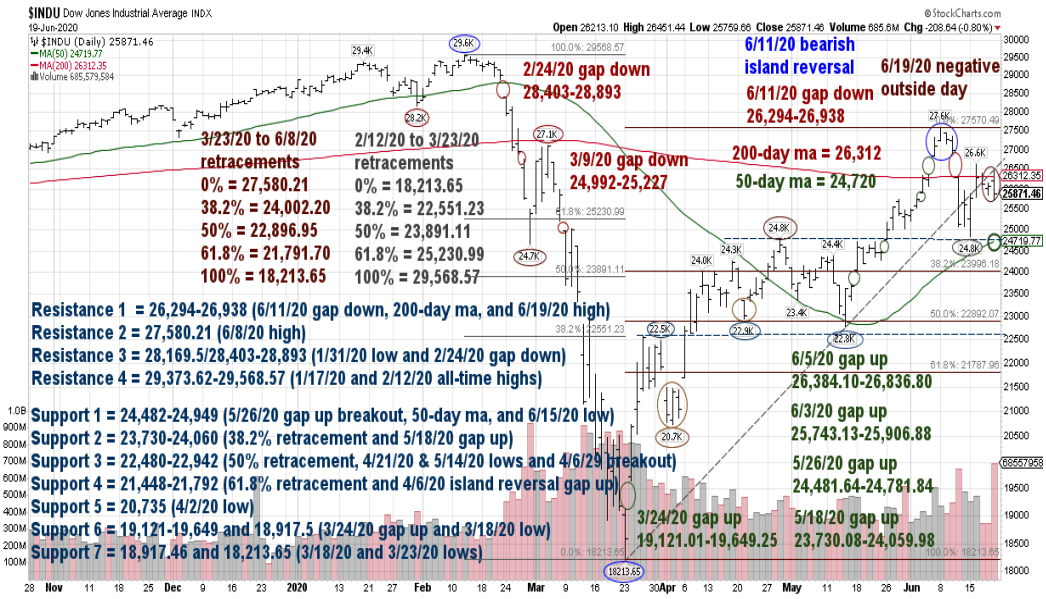


SPX declined 1,201.66 points or -35.41% from 2/19/20 to 3/23/20. Just as quickly as it has fallen SPX has appreciated 1,041.27 points or +47.51% to a high of 3,233.13 (6/8/20). Although a retest of its all-time high (3,393.52) is still possible later in the year, a bearish island reversal (6/11/20) and negative outside day (6/19/20) warns of a consolidation to initial support at 2,988-3,018.5 (top of 5/26/20 gap up and 200-day ma), and below this to 2,946-2,957 (5/26/20 gap up breakout and 50-day), and then to 2,835-2,914 (38.2% retracement from Mar-Jun 2020 and 5/18/20 gap up). Pay attention to the contraction of the spread (66.67) between 50-day ma (2,952) and 200-day ma (3,018.5) as this will help to determine the next directional trend.

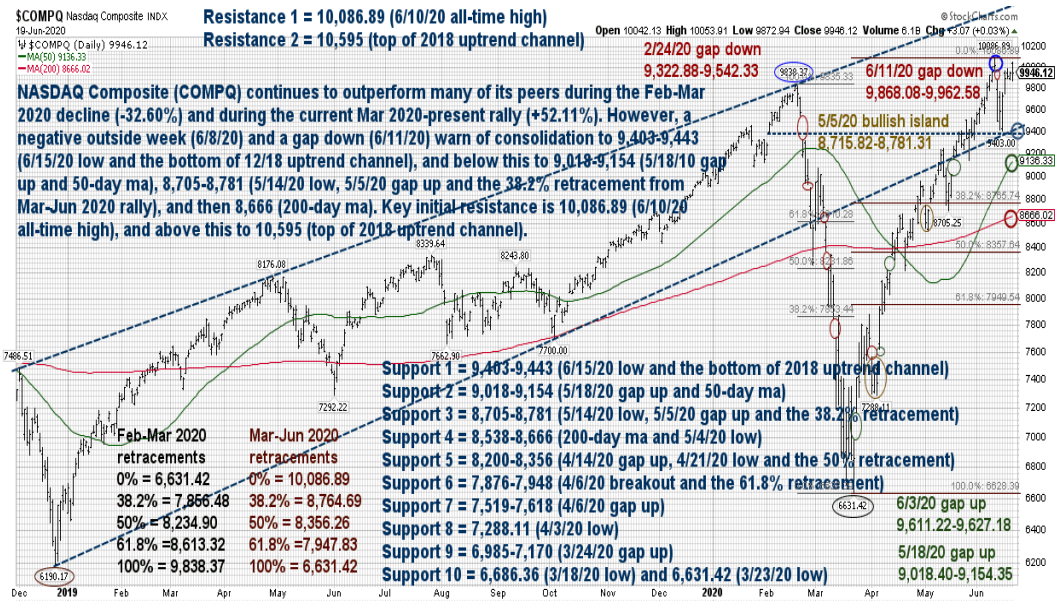
Source: Courtesy of StocksCharts.com

Dow Jones Industrial Average (INDU) has sustained a negative outside week (6/8/20), a bearish island reversal (6/11/20), and a negative outside day (6/19/20). This warns of a correction to key initial support 24,482-24,949 (5/26/20 gap up breakout, 50-day ma, and 6/15/20 low), and below this to 23,730-24,060. NASDAQ Composite (COMPQ) continues to outperform peers. However, a negative outside week (6/8/20) and a gap down (6/11/20) has led to a near-term correction to key initial support at 9,403-9,443 (6/15/20 low and the bottom of 2018 uptrend channel).

Dow Jones Industrial and NASDAQ Composite



Dow Jones Industrial Average (INDU) declined 38.40% during Feb-Mar 2020 and rallied 51.14% during Mar-Jun 2020 which is in line with its key US equity counterparts. A negative outside week (6/8/20), a bearish island reversal (6/11/20), and a negative outside day (6/19/20) warn of a correction to key initial support 24,482-24,949 (5/26/20 gap up breakout, 50-day ma, and 6/15/20 low), and below this to 23,730-24,060 (38.2% retracement from the Mar-Jun 2020 rally and 5/18/20 gap up), and then to 22,480-22,942 (50% retracement, 4/21/20 and 5/14/20 lows, and 4/6/20 breakout). Key initial resistance is 26,294-26,938 (6/11/20 gap down, 200-day ma, and 6/19/20 high), and above this to 27,580.21 (6/8/20 high), 28,169.5/28,403-28,893 (1/31/20 low and 2/24/20 gap down), and then to 29,568.57 (2/12/20 all-time high).

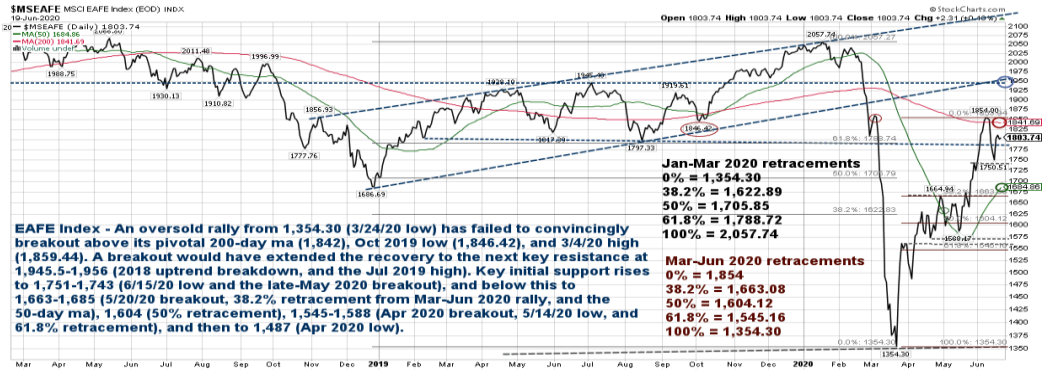


NASDAQ Composite (COMPQ) continues to outperform many of its peers during the Feb-Mar 2020 decline (-32.60%) and during current Mar 2020-present rally (+52.11%). However, a negative outside week (6/8/20) and a gap down (6/11/20) warn of a consolidation to 9,403-9,443 (6/15/20 low and the bottom of 2018 uptrend channel), and below this to 9,018-9,154 (6/15/20 low and the 5/18/10 gap up), 8,705-8,781 (5/14/20 low, 5/5/20 gap up, and the 38.2% retracement from Mar-Jun 2020 rally), and then 8,666 (200-day ma). Key initial resistance is 10,086.89 (6/10/20 all-time high), and above this to 10,595 (top of 2018 uptrend channel).

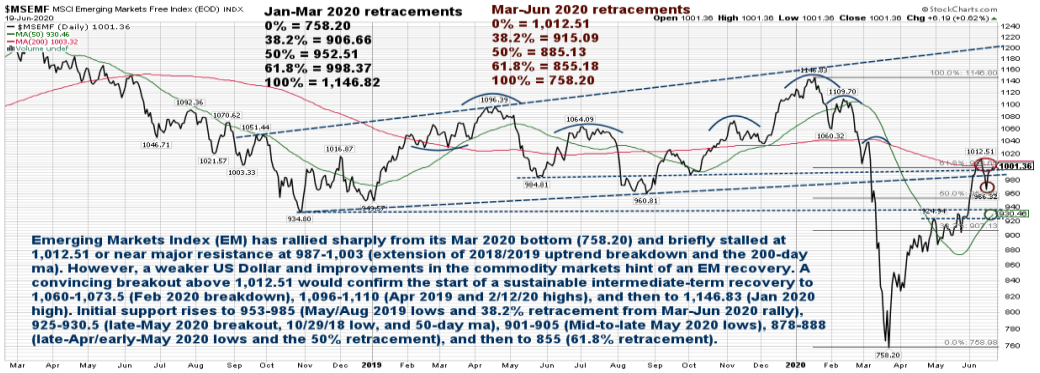
Source: Courtesy of StocksCharts.com

Most international equities have stalled during their respective Mar-Jun 2020 rallies. EAFE Index failed near key resistance at 1,842-1,859 prompting the recent consolidation to key initial support at 1,743-1,751. MSCI Emerging Index (EM) has also faded at 987-1,003 but the weakening USD and firming of commodities have led to a rebound from key initial support at 953-985. Nikkei 225 also stalled at 22,950-23,378 but has maintained key support at 21,530. SSE Composite continues with its 3-mo uptrend channel between 2,869-2,871 and 3,021.

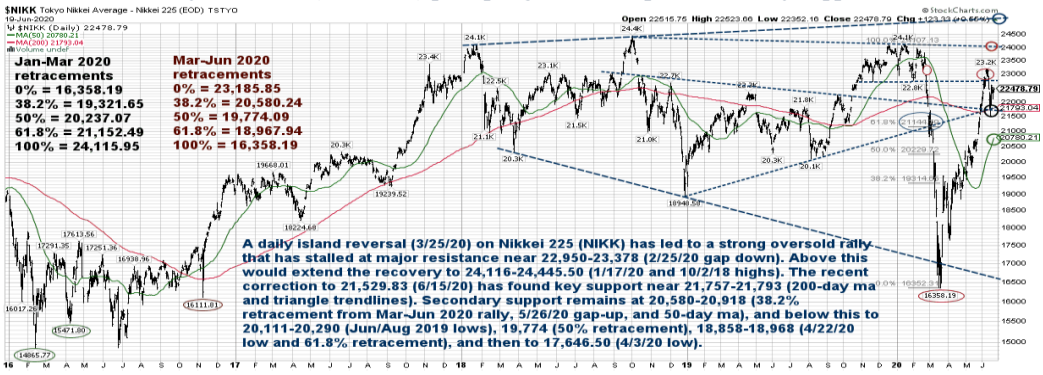
MSCI EAFE, EM, Nikkei 225, and SSE Composite



EAFE failed to clear major resistance at 1,842-1,859. Key initial support is 1,743-1,751 and 1,663-1,685.



EM has stalled at key resistance (987-1,003) prompting the recent pullback to key support at 953-985.



Nikkei 225 has stalled at major resistance (22,950-23,378) resulting in a successful test of support at 21,530.

SSE Composite retains its near-term 3-mo uptrend channel between 2,869-2,871 and 3,021.

Source: Courtesy of StocksCharts.com

When US interest rates and credit markets return to normal this has led to sustainable SPX recoveries and bull rallies. In Jun 2020 was another sharp decline in US interest rates. This may lead to another SPX correction, near-term perspective. The 10-year yield minus 3-mo yield spreads (0.55) has moved above its 10-mo ma and 30-mo ma. At the current pace, a golden cross buy signal is likely during late-summer to early-fall 2020. NBER has already declared an official US recession starting in Feb 2020. Did SPX already achieve a major bottom during Mar 2020?

US Treasuries – Yield curve / 10-yr and 3-mo spreads

Over the past 2-years, the US Treasury yield curve has witnessed sharp yield declines and dislocations. The ability to return to a normal curve has often led to SPX recoveries and bull rallies. As US interest rates and credit markets return to normal this has also led to a sustainable SPX recovery and possibly the resumption of the structural bull trend. In the past, the actual inversion of the US Treasury yield curve did not necessarily signal a US economic contraction or a recession. Rather, it is when the 10-year yields minus the 3-month yields spread contracts to the extreme low (negative levels) and then expand to extreme highs that result in an economic contraction/recession and hence an SPX bear market. The 10-year minus 3-mo yield spread (0.55) has now moved above its 10-mo ma (0.35) and its 30-mo ma (0.43). At its current pace, a golden buy signal may occur during summer to early-fall 2020. NBER has now declared the US recession started in Feb 2020. Since stocks (SPX) lead economic peaks/troughs months and quarters in advance of the actual occurrence does this imply the SPX Index may have already bottomed during Mar 2020 (2,191.86).

Source: Courtesy of StocksCharts.com

The strong 10-year relationship between SPX Dividend Yield and the 10-year Treasury yield (TNX) decoupled earlier in the year as TNX violated major support at 1.46-1.51% and SPX Dividend Yield rebounded strongly from major support (1.71-1.85%). However, the failure to breakout above major resistance at 2.14-2.24% suggests SPX Dividend Yield may be retesting its key support at 1.71-1.85%. Will a decline in SPX Dividend Yield lead to a rise in TNX (rates) and this in turn sustain the SPX recovery to challenge its Feb 2020 all-time high?

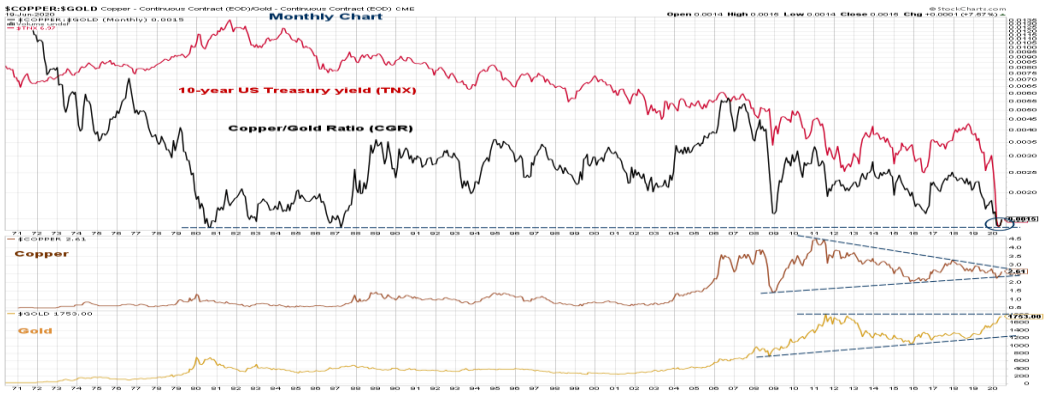
TNX, SPX Dividend Yield, SPX Dividend yield spread

The relationship between TNX yield and SPX dividend yield has visibly diverged from each other. TNX has convincingly violated its 2012-2016 reaction lows as well as the bottom of its 1981 downtrend channel at 1.46-1.51%. On the other hand, SPX Dividend Yield has rallied strongly from key support along 1.71-1.85% but has now failed to convincingly breakout above major resistance at 2.14-2.24%. This suggests a return key support at 1.71-1.85%. Will a rally in TNX (higher yields) also lead to sustained rally in SPX possibly to retest its Feb 2020 all-time high? SPX dividend yield minus TNX spread (1.22) indicator has broken out above the top of its 10-plus year triangle late last year (2019). In prior spread breakouts (i.e., 1985, 1991, 2002, and the late-2008/2009) this has led to SPX recoveries and SPX rallies.

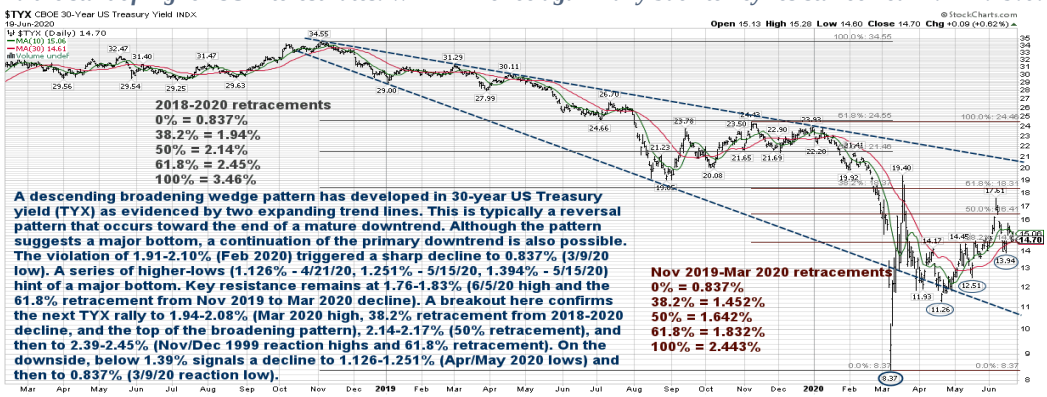
Source: Courtesy of StocksCharts.com

The historical correlation between Copper/Gold ratio (CGR) and 10-year US Treasury yields (TNX) hint of a major TNX bottom during Mar 2020 as the CGR rebounded from major support (1980/1987 lows). 30-year US Treasury yield (TYX) may have bottomed via a series of higher-lows (1.126%, 1.251%, and 1.394%). Key resistance is 1.76-1.83%. The 10-year US Treasury yields (TNX) also shows a series of higher-lows (0.543%, 0.581%, and 0.648%). Key resistance is 0.957-0.989%. Key initial support is 0.648-0.651%, 0.543-0.581%, and 0.398%.

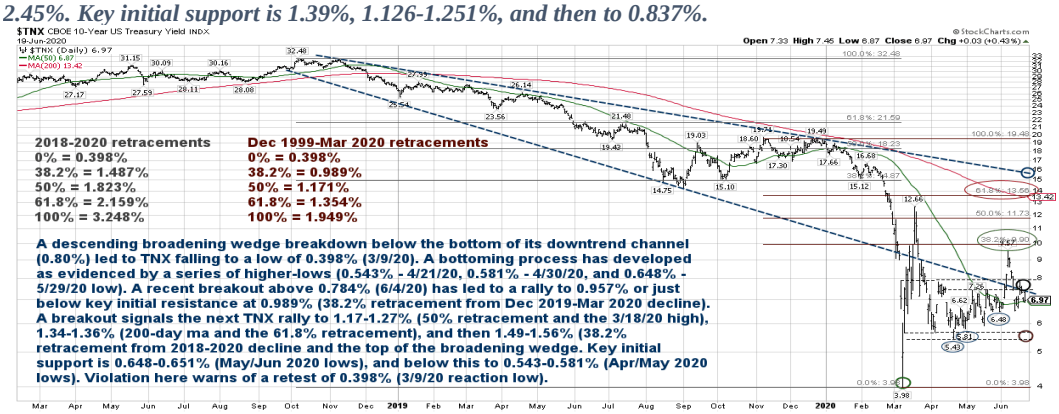
Copper/Gold ratio (CGR), 10-year US Treasury yields (TNX) and 30-year US Treasury yields (TYX)



Copper/Gold ratio (CGR) and the 10-year US Treasury yields (TNX) have been closely corelated over the long-term. The CGR has rebounded from major support during Mar 2020 coinciding with the 1980 and 1987 lows. The ability to maintain this long-term support may also signal a major bottom in TNX (0.398%) and the start of higher US interest rates. Will TNX once again rally back to key resistance near 1.24-1.49%?



30-year US Treasury yields (TYX) has rebounded sharply from its Mar 2020 low (0.837%) via a series of higher-lows. Next key resistance is 1.76-1.83% (6/5/20 high and the 61.8% retracement from Nov 2019-Mr 2020 decline). A breakout renders the next rally to 1.94-2.08%, and above this to 2.14-2.17%, and then 2,39-2.45%. Key initial support is 1.39%, 1.126-1.251%, and then to 0.837%.



TNX may be bottoming as evidenced by a series of higher-lows (0.543% - 4/21/20, 0.581% - 4/30/20, and 0.648% - 5/29/20 low). A recent breakout above 0.784% (6/4/20) has led to a rally to 0.957% or just below key initial resistance at 0.989% (38.2% retracement from Dec 2019-Mar 2020 decline). A breakout here signals the next TNX rally to 1.17-1.27%, 1.34-1.36%, and then to 1.49-1.56%. Key initial support is 0.648-0.651% (May/Jun 2020 lows), 0.543-0.581% (Apr/May 2020 lows), and 0.398% (3/9/20 reaction low).

Source: Courtesy of StocksCharts.com

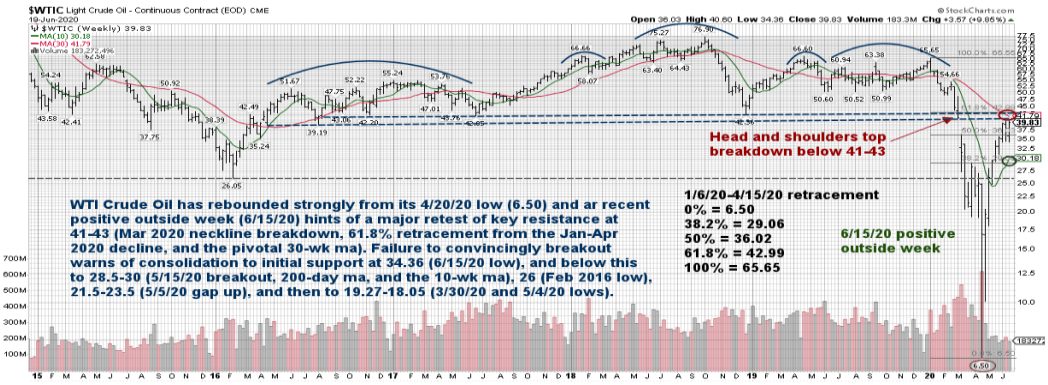
CRB Index rallied strongly from key support at 101.48 (4/21/20) and is now challenging next key resistance at 144.67 (50% retracement from Jan-Apr 2020 decline). Key initial support is 131.5-133.5, and below this to 127.5-128, 124-126, and then to 118.5-121.

WTI Crude Oil has generated a positive outside week (6/15/20). This hints of a retest of major resistance at 41-43 (Mar 2020 h/s top breakdown, 61.8% retracement from the Jan-Apr 2020 decline, and the pivotal 30-wk ma).

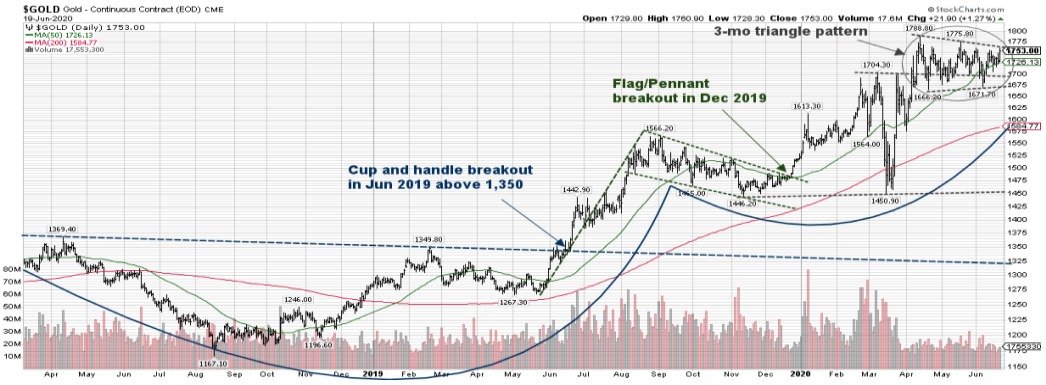
Gold continues with 3-mo triangle pattern between 1,666-1,672 and 1,756-1,789.

Commodities – CRB Index, WTI Crude Oil, and Gold

CRB Index found key support at 101.48 (4/21/20) rebounding from the extension of the 1973 breakout. A strong oversold rally is now challenging next key resistance at 144.67 (50% retracement from Jan-Apr 2020 decline), and above this to 152-155/159 (61.8% retracement 3/9/20 gap down, 200-day ma, and 10-mo ma). Key support rises to 131.5-133.5, 127.5-128, 124-126, and then 118.5-121.



WTI Crude Oil has rebounded strongly from its 4/20/20 low (6.50) and a positive outside week (6/15/20) hints of a major retest of key resistance at 41-43 (Mar 2020 neckline breakdown, 61.8% retracement from Jan-Apr 2020 decline, and the 30-wk ma). Failure to convincingly breakout here warns of a consolidation to initial support at 34.36 (6/15/20 low), and below this to 28.5-30 (5/15/20 breakout, 200-day ma, and the 10-wk ma), 26 (Feb 2016 low), 21.5-23.5 (5/5/20 gap up), and then to 19.27-18.05 (3/30/20 and 5/4/20 lows).



Gold has broken out of a large cup and handle pattern. Above 1,350-1,369 (Jun 2019) suggests targets to 1,695-1,709 (Jun 2019 flag breakout target-achieved), 1,793-1,798 (2012 highs), and then to 1,923.70-1,958 (2011 record high and h/s bottom breakout target). A near-term 3-mo triangle pattern has developed between 1,666-1,672 and 1,756-1,789. A breakout above 1,756 suggests +122.60 or a target to 1,898.40. Violation of 1,666-1,672 warns of downside to 1,613 (Jan 2020 high), 1,543-1,580 (200-day ma, Feb 2020 lows and triangle target), 1,446-1,451 (Nov 2019/Mar 2020 lows), and then to 1,321-1,369 (Jun 2019 breakout).

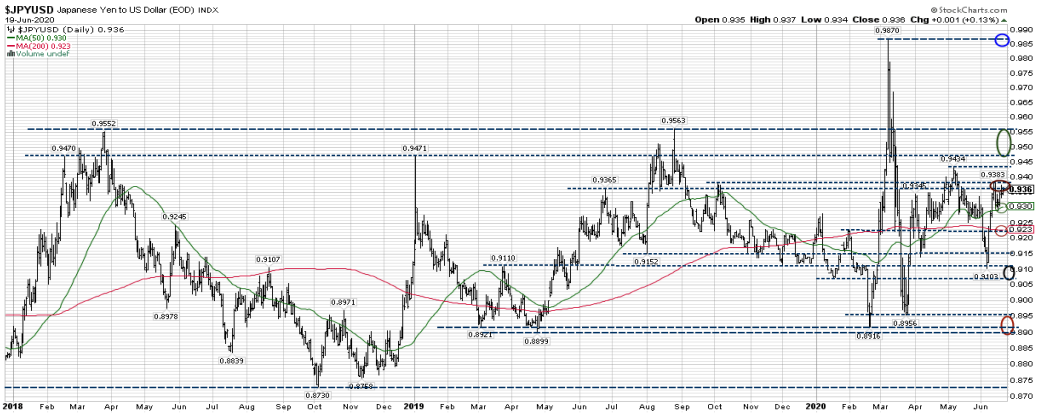
Source: Courtesy of StocksCharts.com

USD has weakened but is now rebounding from 95.71 (Mar/Jun/Dec 2019 and Jun 2020 lows) to key initial resistance at 97.0-97.5 (bottom of 2018 downtrend channel), and above this to 98.30-98.89 (50-day and 200-day ma). EURUSD has strengthened but failure at key resistance (1.14-1.1422) warns of a correction to key initial support at 1.10-1.108 (top of 2018 uptrend channel and 50/200-day ma). JPYUSD has encountered key resistance at 0.9365-0.9383 (Jun/Oct 2019 and Jun 2020 highs). Key support rises to 0.923-0.930 (50/200-day ma).

US Dollar Index, EURUSD, and JPYUSD

US Dollar Index (USD) – USD remains weak but has rebounded from 95.71 or the Mar/Jun/Dec 2019 and Jun 2020 lows. However, this rally is now encountering key initial resistance at 97.0-97.5 (bottom of 2018 downtrend channel), and above this to 98.30-98.89 (50-day and 200-day ma). Below 95.71 warns of the next decline to 94.61-94.64/94 (Jan 2019/Mar 2020 lows and the 61.8% retracement from 2019 to 2020 rally).

EURUSD has rallied to key resistance at 1.14-1.1422 (38.2% retracement from 2018-2020 decline, top of broadening pattern, and the Jun 2010 high). Failure to convincingly breakout has triggered the correction to key initial support at 1.10-1.108 (top of the 2018 uptrend channel and the 50-day and 200-day ma).

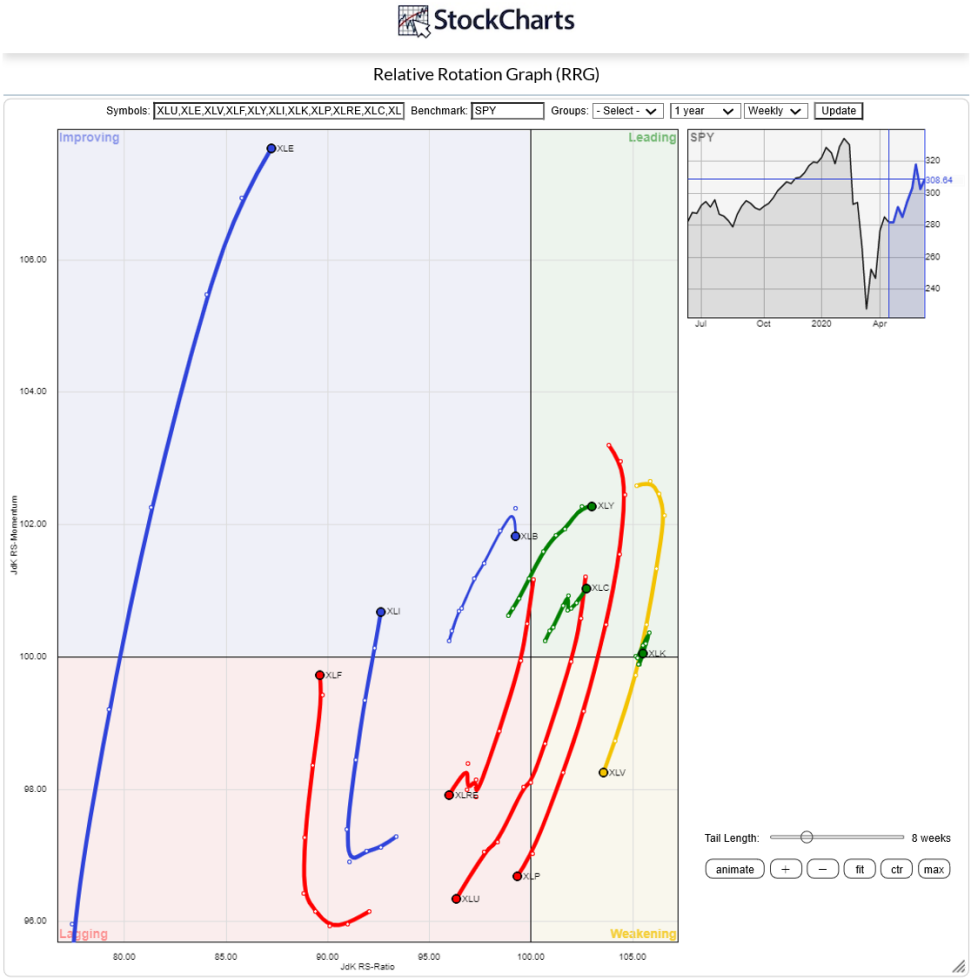


JPYUSD is challenging key initial resistance at 0.9365-0.9383 (Jun/Oct 2019 and Jun 2020 highs). Above this signals the next rally to 0.9434-0.9471 (Jan 2019 and May 2020 highs). Key initial support rises to 0.923-0.930 (50-day ma and 200-day ma), and below this to 0.9103-0.9152 (Aug 2019 and Jun 2020 lows).

Source: Courtesy of StocksCharts.com

Technology (XLK), Consumer Discretionary (XLY), and Communication Services (XLC) retain their leadership roles within the Leading Quadrant. XLK appears to be consolidating its gains. Energy (XLE), Industrials (XLI), and Materials (XLB) continue to improve within the Improving Quadrant with XLB inching closer into the Leading Quadrant. Consumer Staples (XLP), Real Estate (XLRE), and Utilities (XLU) continue to decline further within the Lagging Quadrant while Financial (XLF) continues to improve within the Lagging Quadrant.

S&P 500 Sectors – Relative Rotation Graph



8 weeks ending Jun 15, 2020

chart	visible	tail	symbol	name	sector	industry	price	%chg
	☑		XLK	Technology Select Sector SPDR Fund			102.24	15.4
	☑		XLY	Consumer Discretionary Select Sector SPDR Fund			127.38	13.5
	☑		XLC	Communication Services Select Sector SPDR Fund			55.54	14.1
	☑		XLE	Energy Select Sector SPDR Fund			39.57	14.3
	☑		XLI	Industrial Select Sector SPDR Fund			69.23	12.4
	☑		XLB	Materials Select Sector SPDR Fund			56.18	12.7
	☑		XLV	Health Care Select Sector SPDR Fund			100.75	0.5
	☑		XLF	Financial Select Sector SPDR Fund			23.98	10.3
	☑		XLU	Utilities Select Sector SPDR Fund			57.49	-1.4
	☑		XLRE	Real Estate Select Sector SPDR Fund			35.35	6.9
	☑		XLP	Consumer Staples Select Sector SPDR Fund			59.62	1.5
			SPY	SPDR S&P 500 ETF			308.64	9.6

In the past 8 weeks ending on June 8, 2020, SPX continues with its key sector rotations. Healthcare (XLV -0.5%) has quietly slipped into the Weakening Quadrant. This suggests a near-term consolidation. Technology (XLK 15.4%), Communication Services (XLC 14.1%) and Consumer Discretionary (XLY 13.5%) retain their leadership roles within the Leading Quadrant. Consumer Staples (XLP 1.5%), Utilities (XLU -1.4%), and Real Estate (XLRE 6.9%) continue to move deeper into the Lagging Quadrant. Financial (XLF 10.4%) is attempting to enter the Improving Quadrant. Energy (XLE 14.3%), Industrials (XLI 12.4%), and Materials (XLB 12.7%) continue to improve within the Improving Quadrant with XLB nearing a move into the Leading Quadrant.

Source: Courtesy of StocksCharts.com

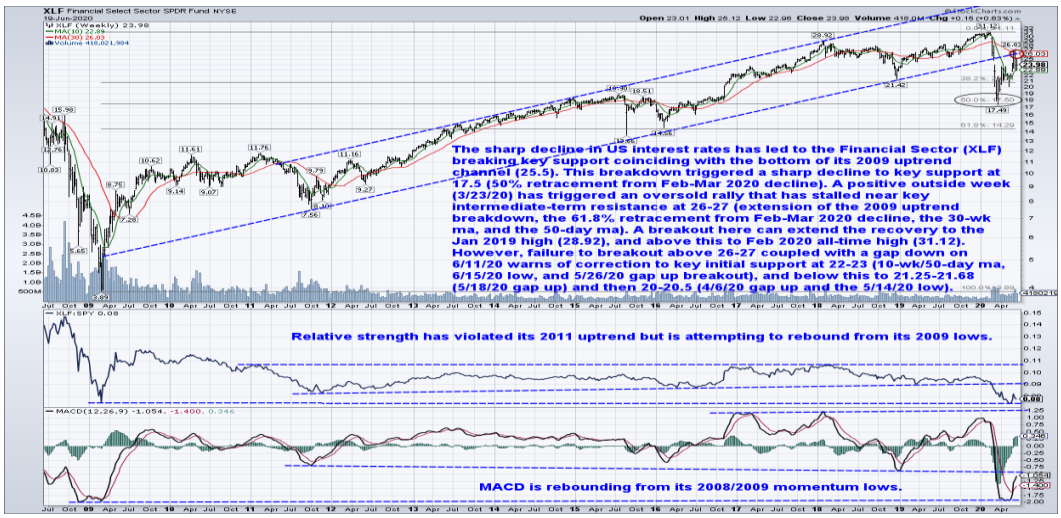
S&P Technology, Financials, Communication Services

Technology Leaders:

*AAPL, ADBE, AMAT, **ADSK**, CDNS, INTU, KLAC, KEYS, MCHP, MSFT, MXIM, NVDA, ORCL, PYPL, QCOM, SNPS, and **SWKS***

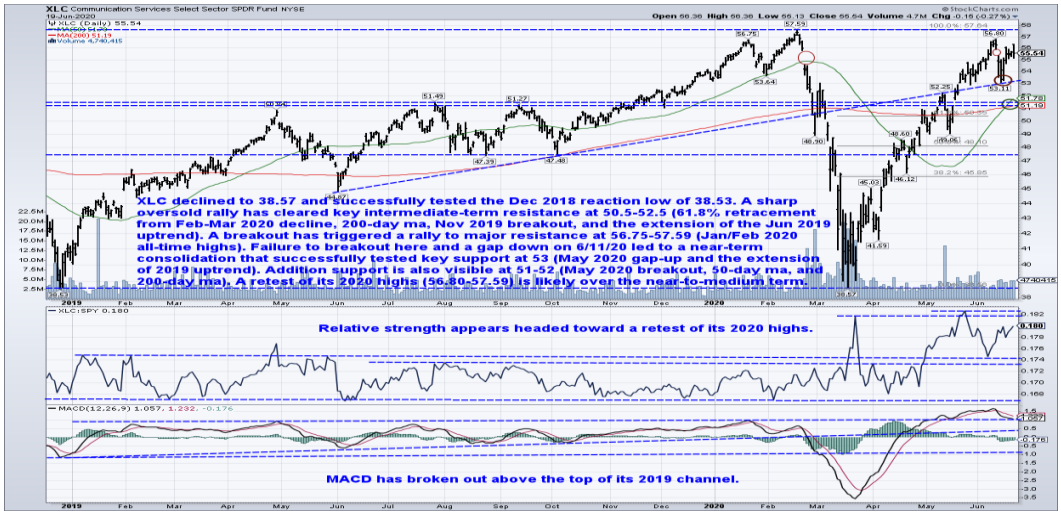
Financials:

AMP, BLK, FRC, ICE, MCO, MKTX, MMC, MS, MSCI, PGR, SPGI, and TROW



Communication Services:

*ATVI, CHTR, EA, **FB**, GOOG, GOOGL, NFLX, TMUS, and TTWO*



***Bold** = Current relative leaders within the specific sector or attractive entry point.*

Source: Courtesy of StocksCharts.com

S&P Healthcare, Industrial, Consumer Discretionary

Healthcare:

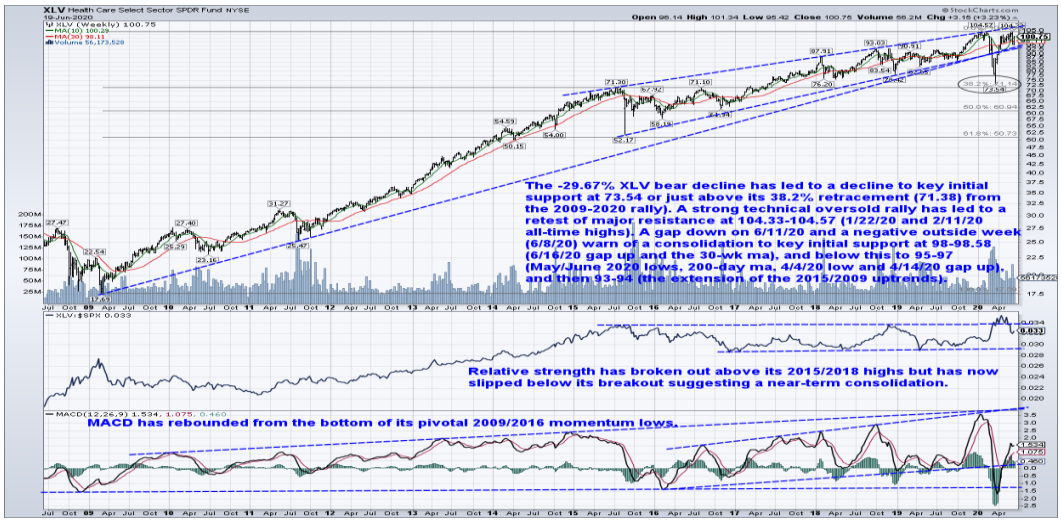
*A, AMGN, **ABBV**, ABT, **ALXN**, DGX, DHR, GILD, **HUM**, **IDXX**, **ILMN**, INCY, ISRG, JNJ, MCK, MTD, REGN, TFX, **TMO**, **UNH**, and VRTX*

Industrial:

*AME, CMI, **CTAS**, **EFX**, EXPD, FAST, GWW, INFO, ITW, LMT, **MAS**, PCAR, PH, ROK, ROP, SWK, and UNP*

Consumer Discretionary:

*AMZN, BWA, CMG, DG, DHI, EBAY, HD, KMX, LEN, **LOW**, ORLY, **TGT**, and **TSCO***



Source: Courtesy of StocksCharts.com

Materials:

AMCR**, APD, ECL, EMN, FMC, PKG, and **SHW

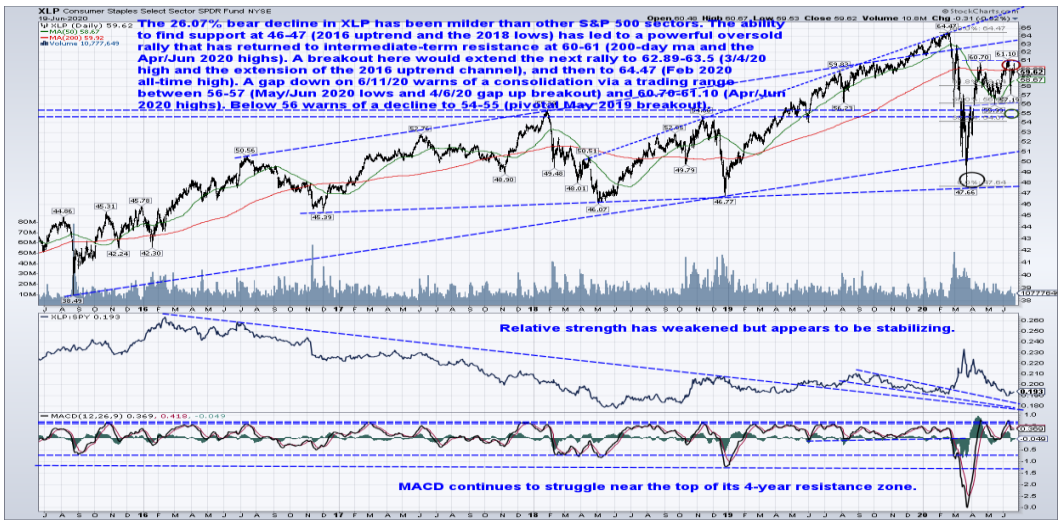
Energy:

COP, HES, PSX, and VLO

Consumer Staples:

*CAG, CHD, CL, **CLX**, COST, CPB, GIS, HRL, KR, K, KHC, KMB, MKC, **MNST**, PEP, PG, STZ, and WMT*

S&P Materials, Energy, and Consumer Staples



Source: Courtesy of StocksCharts.com

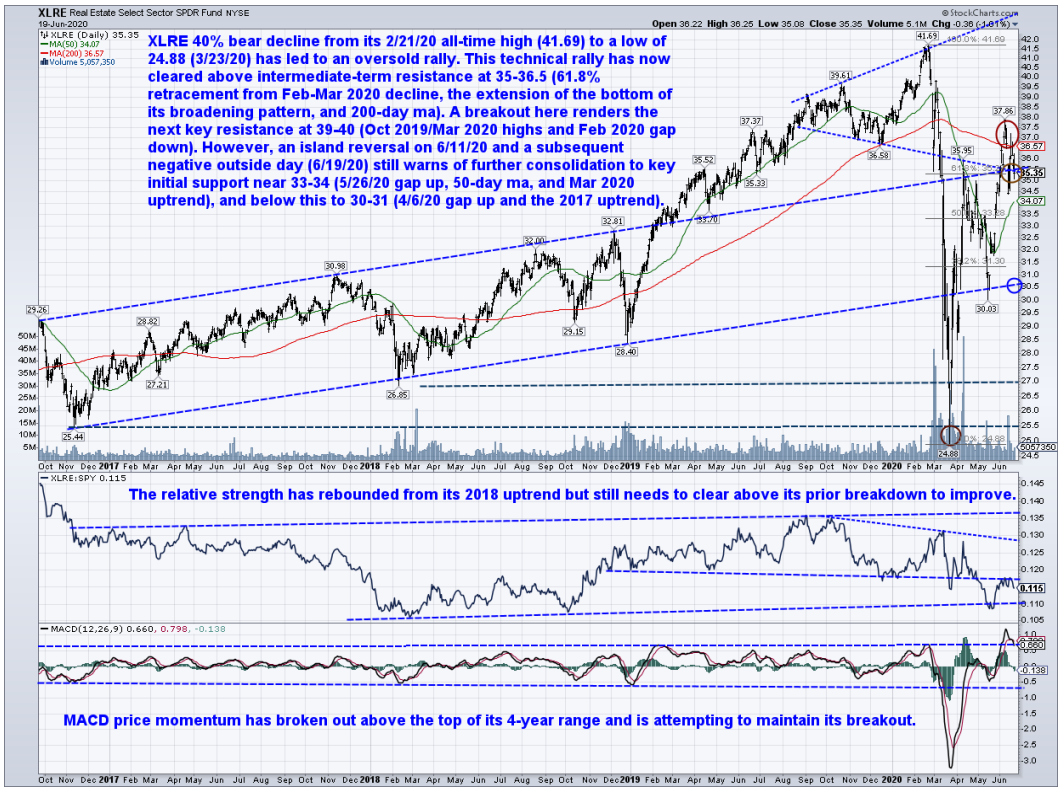
Utilities:

D, EVRG, and NRG

Real Estate:

AMT, CCI, EQIX, PLD, and SBAC

S&P Utilities and Real Estate



Source: Courtesy of StocksCharts.com

SCTR is a relative ranking system that incorporates 6 key technical indicators covering 3 different time frames (long-term, medium, and short-term) including 200-day ma, 125-day rate of change, 50-day ma, 20-day rate of change, 14-day RSI and Percentage Price Oscillator.

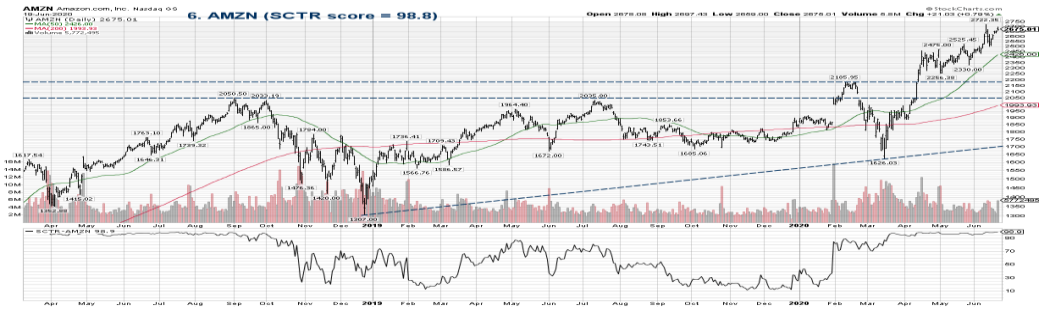
*SCTR ranking of top 5 large-cap stocks (**DXCM, REGN, ABMD, NVDA,** and **PYPL**)*

Technical Ranking (SCTR) – Top 5 Stocks (Pg. 1)

Source: Courtesy of StocksCharts.com

*SCTR ranking of the next top 5 large-cap stocks (**AMZN, TSCO, WST, MKTX,** and **CLX**)*

Technical Ranking (SCTR) – Next 5 Stocks (Pg. 2)



Source: Courtesy of StocksCharts.com

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