

Three Bullish Events that Are Pointing to a Sleeper Sector

All anyone can talk about are the “Magnificent 7,” the S&P 500, and the eye-popping gains by a few stocks like Nvidia (NVDA).

They’ve consumed so much of the financial media’s attention that hardly anyone noticed a turn in the financial sector.

Yet, the Financial Select Sector SPDR ETF (XLF) had three interesting events occur in the last 60 days.

Anyone who saw these events might have been able to set up a profitable trade.

Well, anyone who checks a few specific indicators every time they visit *TradeSmith Finance*, anyway.

Today, we’ll dive into those indicators, plus how you could leverage the robust *TradeSmith Finance* tools at your disposal to craft some impeccable trades.

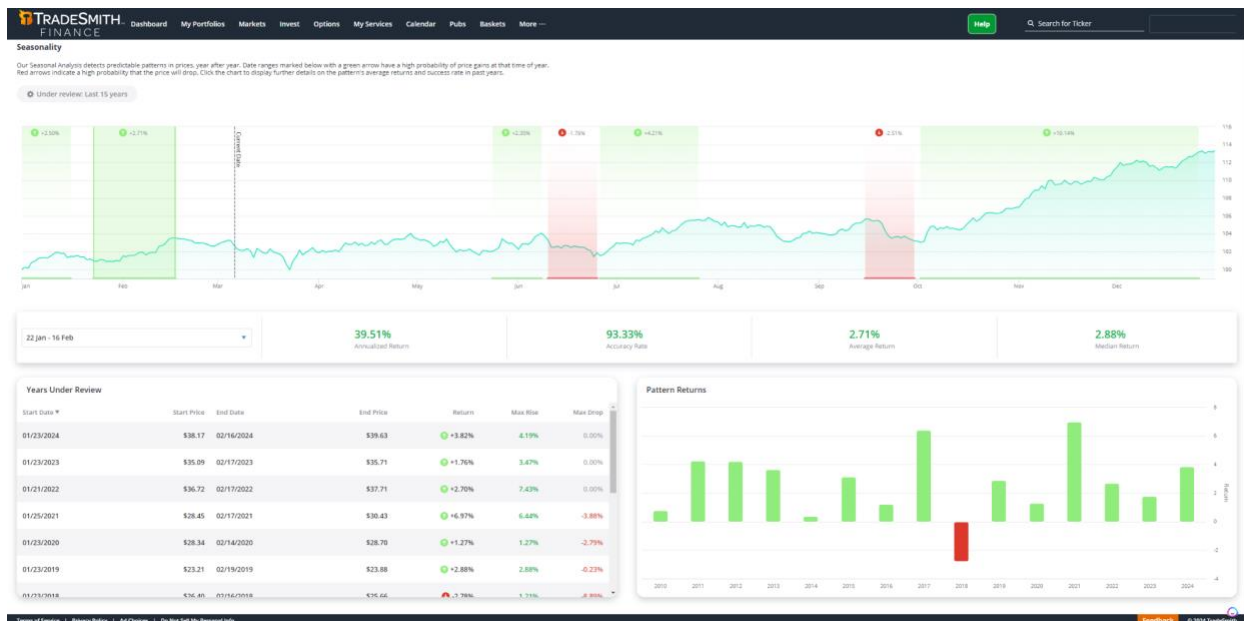
A Seasonal Shift

Stocks do well in November and horribly in April. That’s widely known among investors who tune in to seasonal analysis. So, if you’re one of them, you probably had an inclination that there are *other* cyclical periods when some stocks do exceptionally well.

One example occurred in late January through mid-February for the financial sector, as measured by the XLF ETF. Our seasonality chart from *Trade Cycles*, one of the most powerful timing tools available, consolidates all the seasonal bullish and bearish periods for you.

If you're subscribed to *Trade Cycles*, *TradeSmith Essentials*, or *TradeSmith Platinum*, you can access the chart when you log into *TradeSmith Finance*. (And if you don't see these tools in your dashboard — and would like to — call 888-623-0858 to discuss.)

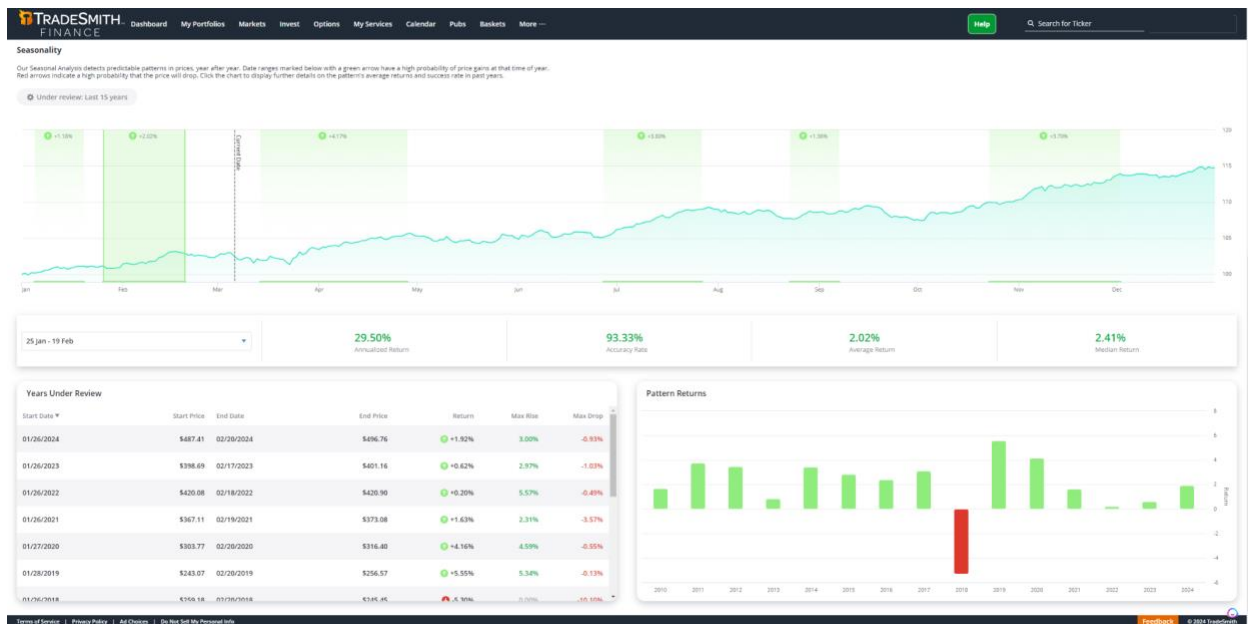
Search nearly any ticker, click the **Trade Cycles** tab, then scroll down to **Seasonality** to find a chart like the one below for XLF:



The period from Jan. 22 through Feb. 16, shaded in green above, shows financial stocks delivering positive returns 13 of the previous 14 years, with an average return of 2.71% for this ETF.

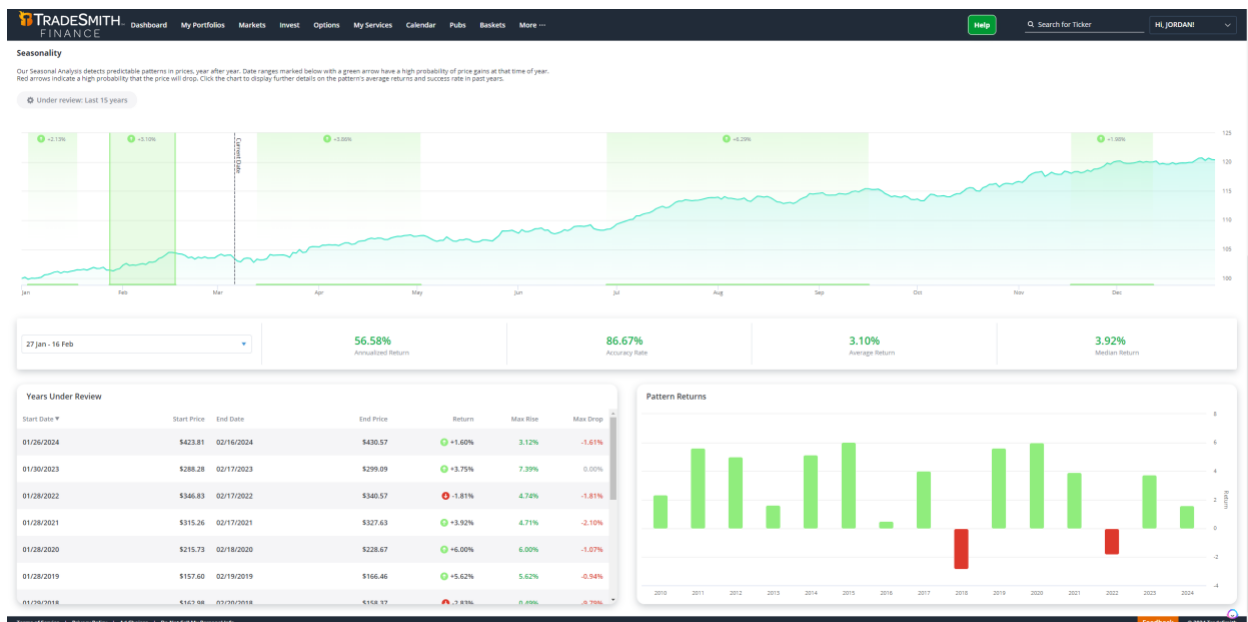
That's pretty impressive. But how does that compare to the broader market?

Let's run the SPDR S&P 500 ETF (SPY) through *Trade Cycles* and see:



Though the period doesn't align precisely -- in SPY's case, it runs from Jan. 25 through Feb. 16 -- it nonetheless shows similar performance: average returns of 2.02%.

As for tech stocks, if we look at the Nasdaq 100 or the Technology Select Sector SPDR ETF (XLK) for the same time frame, we find that the average return is higher. Here's XLK:



However, in the **Pattern Returns** box at the bottom right, you see two years in which the tech ETF posted negative returns, versus just one for the financials ETF or the S&P 500 ETF.

Clearly, it's been a bullish time for stocks.

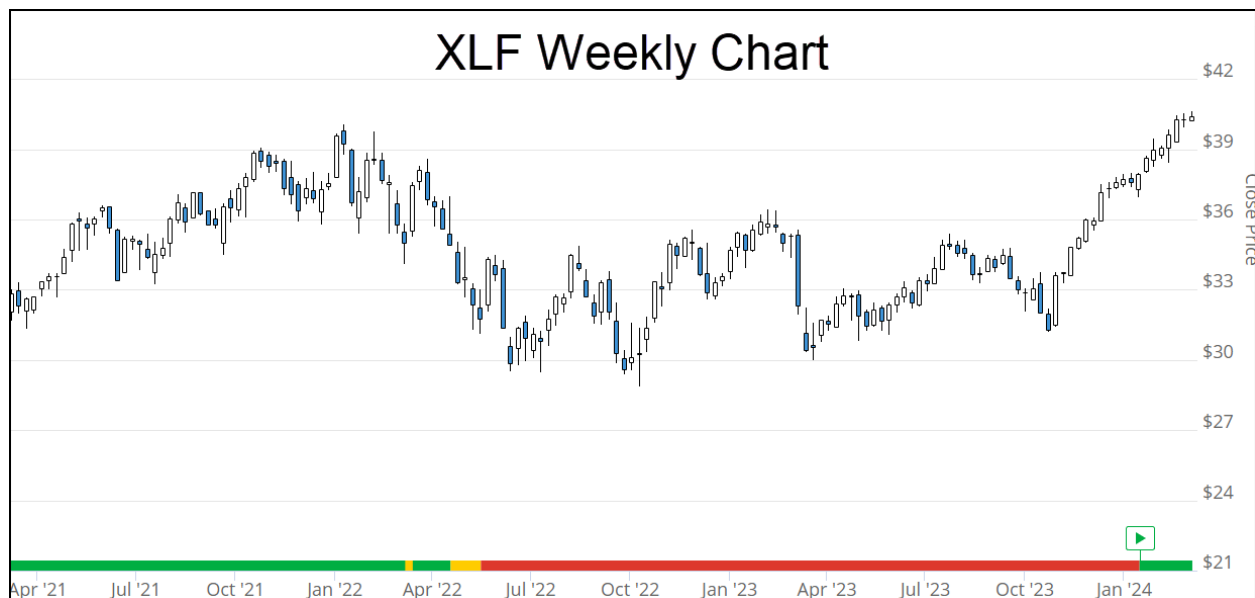
And you might be inclined to simply write off this bullish signal for financials as an example of "the rising tide lifts all boats," as the saying goes on Wall Street.

But that's why you never look at one indicator in isolation.

So, let's turn to the second event that occurred during that time period.

Two Years of Red Flips to Green

If you return to the XLF **Chart** tab and click **3y** (to see a three-year chart), you'll see that the financials ETF traded in the *TradeSmith* Health Indicator Red Zone from May 2022 all the way until January 2024:



So, January was the first time in almost two years the financial sector moved into the Green Zone.

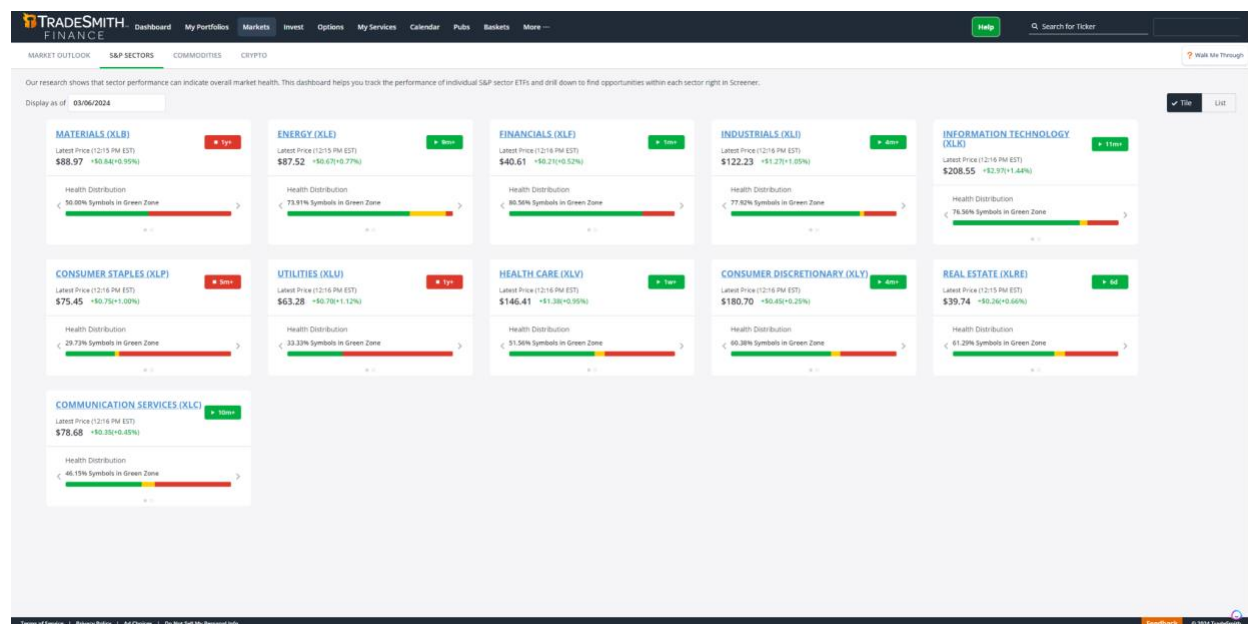
And it coincided perfectly with the seasonal bullish cycle.

Something was happening in January, while everyone else focused on the Magnificent 7.

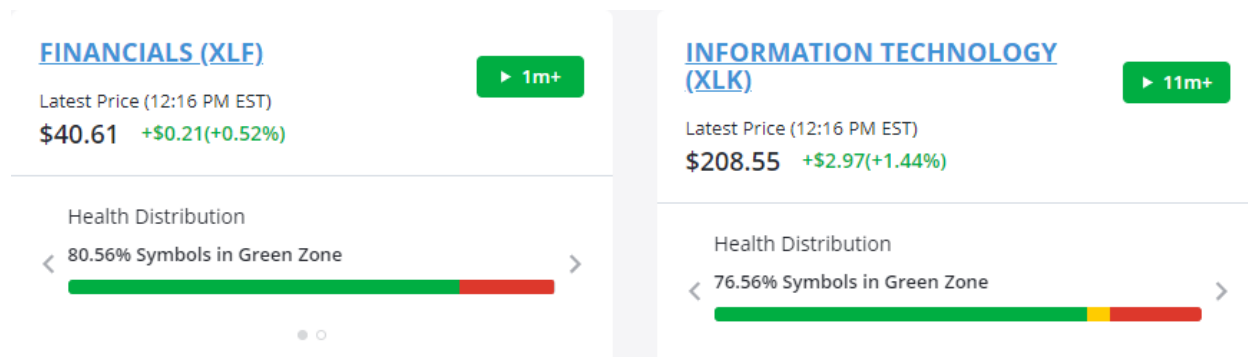
However, there's one last piece of the puzzle worth mentioning.

Financial Stocks Look Extra Healthy

Below is a snapshot of the health for each S&P sector. This is available when you click **Markets** at the top of *TradeSmith Finance*, then **S&P Sectors**:



While there is a lot of green on the board, I want to draw your attention to the financial and technology sector ETFs. More than 80% of the symbols in XLF are in the Green Zone, compared to about 76% in technology.



In other words, the bullishness in the financial sector is broader than we see in technology. That's probably a big surprise for most investors, considering how out-of-favor XLF has been.

Yet, how many bank bulls do you hear on financial news networks these days?

If any of them do mention banks, they're usually talking about the commercial real estate debt crisis that has yet to unfold.

Until that happens, we have a situation where practically no one is paying attention to an otherwise spectacular opportunity within the financial sector.

With this in mind, let's look at how we could set up some trades to take advantage of this opportunity.

What to Avoid

While the bullishness is broad within the financial sector, it's not 100%. So we want to get as specific as possible with our ideas.

For that, we'll first look at stocks in the Red Zone to see if there are any themes tying them together that could warn us away from a particular subgroup.

Let's return to the **Financials** page and look at the **Holdings** tab. When I click **Health** and sort lowest to highest, here are some of my results:

Ticker	Health ⓘ ▼	VQ%	Latest Close	Shares	% Weight	Market Value
PYPL PayPal Holdings	■ 2y+	33.10%	\$58.27	7.2M	1.16%	429.5M
TROW T Rowe Price Grp	■ 2y+	24.81%	\$116.26	1.5M	0.47%	172.7M
IVZ Invesco	■ 1y+	28.46%	\$15.68	3.0M	0.13%	46.2M
MS Morgan Stanley	■ 1y+	21.99%	\$89.13	8.4M	2.05%	755.8M
CFG Citizens Finl Gr	■ 1y+	28.78%	\$33.60	3.1M	0.27%	98.6M
CINF Cincinnati Finan	■ 1y+	20.99%	\$111.96	1.0M	0.32%	117.2M
MTB M&T Bank	■ 11m+	26.38%	\$143.86	1.1M	0.42%	154.3M
RJF Raymond J Financ	■ 11m+	24.79%	\$121.49	1.2M	0.41%	150.9M
RF Regions Financia	■ 10m+	26.37%	\$19.49	6.2M	0.32%	117.9M
PFG PRINCIPAL FINANC	■ 9m+	22.18%	\$80.99	1.5M	0.32%	117.1M
BEN Franklin Resourc	■ 9m+	25.64%	\$27.65	1.9M	0.14%	52.0M
STT State Street	■ 7m+	25.31%	\$73.31	2.0M	0.41%	151.2M
DFS Discover Fncl Sr	■ 6m+	28.18%	\$121.27	1.7M	0.54%	199.4M
MKTX Marketaxess Hold	■ 1m+	25.86%	\$211.29	249,316	0.14%	53.5M
CBOE CBOE GLBL MKT	▶ 1y+	17.80%	\$190.25	701,150	0.36%	132.8M
MA Mastercard-A	▶ 1y+	20.28%	\$467.52	5.5M	6.98%	2.6B

Looking at this list, there isn't any obvious connection. We have stocks from investment banks like Morgan Stanley (MS) to payment processors like PayPal (PYPL) to regional banks like M&T Bank (MTB).

So, there isn't one area we need to actively avoid. But what is ripe for trading? Let's use a different set of tools to find out.

How to Put *TradeSmith Finance* to Work Here

If you've been reading this column for a while, you know I like to get shares at a discount. One of my favorite places to look for trade opportunities with discounts is in options.

Specifically, I like to sell puts, especially on stocks like these that aren't as volatile as technology names.

To do this, I used the **Options Screener**.

At the top of the *TradeSmith Finance* platform, I'll click **Options**, then **Options Screener**, and **+ Create a new screener**. Here's an image of the settings I used, and I'll describe them below.

Create new screener

1 Underlying Asset Filters [+ Manage Filters](#)

Health Status ☒ Green Zone ☐ Yellow Zone ☐ Red Zone

Trend ☒ Up ☐ Down ☐ Sideways

Markets ☒ S&P 500 (SPX) [+](#)

Sectors ☒ Financials [x](#) [v](#)

Projected Price Change for 1 month is more than 1%

2 Option Filters [+ Manage Filters](#)

Days to Expiration between 21 and 30

Probability more than 75%

Open Interest more than 10

Option Trade Type ☒ Sell Put ☐ Sell Call ☐ Buy Put ☐ Buy Call

Option Style ☒ American ☐ European

Display & Sort Results Show top 100 Sort results by Margin ROI DESC

[Save As New](#) [Save Changes](#) [Run Screener](#)

[Saved Screeners](#) (5 results)

[Tile](#) [List](#)

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Remember this is not the regular stock screener, but the options-specific version.

- In this example, I'm looking at stocks in the **Green Zone** with bullish **uptrends** projected to have a positive **Predicted Price Change** over the next month.
- This aligns with the **Days to Expiration** I picked out that land between **21-30** days.

- I'm also limiting my **Market** search to the **S&P 500** because option liquidity dries up with smaller stocks.

Now, you don't have to go with the **Predicted Price Change**. You can use **Business Quality Score**, **Money Movers Score**, or any combination that fits your ideas and outlook.

Using this Screener yields the following list:

Underlying Ticker	Latest Price	Probability	Annualized Cash Secured ROI	Max Profit	Max Loss	Days to Expiration	Strike
CBOE	\$188.22	84.00%	2.93%	\$30.00	-\$16,970.00	22	\$170.00
BRK.B	\$407.18	84.00%	1.08%	\$24.00	-\$36,976.00	22	\$370.00
BRK.B	\$407.18	89.00%	0.77%	\$17.00	-\$36,483.00	22	\$365.00
BRK.B	\$407.18	95.00%	0.37%	\$8.00	-\$35,492.00	22	\$355.00
BX	\$124.79	98.00%	0.24%	\$1.00	-\$6,999.00	22	\$70.00

This is a short list, but it gives me an idea of where to focus.

Mike Burnick's Bottom Line: I like to check *TradeSmith's* indicators to find quieter market events, like the large number of healthy stocks in the Financial sector. That number was enough to push XLF itself into the Green Zone. Now I have a narrow place to look for trades that the rest of the market is ignoring.

Good investing,



Mike Burnick

Senior Analyst, *TradeSmith*