

# Sector Funds

## The Williams' Sector Strength Strategy 2017

### Transfer Fidelity Select Banking (FSRBX) to Fidelity Select Semiconductors (FSELX)

FSRBX closed the month of May off 2.6%. The fund did rally at the beginning of the month as Treasury Note yields rallied. This was followed, by more leaks from the Trump Administration potentially involving Russia. The DJIA fell 300 points on this news and FSRBX was among the hardest hit sectors declining almost 4%. These losses were almost erased when Steve Mnuchin insisted that Trump's tax plan would be passed before year's end. The dovish Fed minutes late in the month sent Treasury Note yields lower and bank stocks followed.

In past updates EIS has iterated that if investors give the Financial Sector some time a rally should happen when the Fed hikes interest rates and the new administration passes its new tax plan. EIS feels this will still happen, but it could take much longer than originally planned.

This rally faces some headwinds. The current officials of the Fed as a group are a dovish bunch. The Fed Prime Rate hike in March was followed by dovish comments, which sent Treasury Note yields lower. The minutes from the Fed's May meeting lead most analysts to believe another rate hike is coming June, but once again those minutes had dovish comments. If the Fed raises interest rates in June, and if this comes with dovish comments, once again Treasury Note yields would head lower.

With the Democratic Party stuck in the derogate-the-new-President's-character mode, it will be very difficult to get necessary votes to support some of the new agenda proposals. The days of Congress helping voters have long been replaced with votes within political parties. If Trump's tax plan does happen, it will probably be a version something very different than originally planned.

All said and done, EIS still feels the banking rally will not happen until at least the fourth quarter. As a result, EIS recommends transferring FSRBX to Fidelity Select Semiconductors (FSELX).

FSELX, which was added to most portfolios at the beginning of the year, was the top-performing sector during May. Semiconductor stocks have just logged five straight weeks of gains. The group is expecting substantial earnings growth from increased production and higher prices. There is top line and bottom line big double-digit growth this year, coming off lackluster growth from the prior year.

With exception of Intel, FSELX's largest holding, which was flat for the month, the next four top holdings, Qualcomm, , Broadcom, Micron Technology and Analog Devices, as a group rallied 8.1%.

At some point, the rally in technology stocks could stall. Most of that rally is coming from four stocks -- Amazon, Apple, Google and Facebook -- and not so much the semiconductor space. The last two trading days of June followed by the next 8 trading days of July is historically the best performing week for technology stocks.

**The recommendation for those following the Williams' Sector Strength Strategy is to transfer FSRBX to FSELX.** The change will be reevaluated again in July update. The market often peaks in mid-July and struggles the remaining summer and fall months, so some adjustments could be made.

**May Return = -2.6%**

**2017 YTD Return = -18.9%**

**20 Year Average Annual Return = 28.7%**

# The Williams' Diversified Sector Strength Strategy 2017

**Transfer Fidelity Select Banking (FSRBX):  $\frac{1}{4}$  to Fidelity Select Electronics (FSELX) and  $\frac{3}{4}$  to Fidelity Select Utilities (FSUTX)**

**40% Fidelity Select Semiconductors (FSELX)**

**30% Fidelity Select Utilities (FSUTX)**

**30% Fidelity Select Chemicals (FSCHX)**

**May return = 0.5%**

**2017 YTD Return = -1.8%**

**20-year Average Annual Return = 24.2%**

Those following the Diversified Williams' Sector Strength strategy should transfer  $\frac{1}{4}$  of the holdings in FSRBX to FSELX and the remaining  $\frac{3}{4}$  of FSRBX to Fidelity Select Utilities (FSUTX).

The strongest time of year for Utilities stocks is over the summer months. Adding FSUTX should provide some downside protection to the portfolios. If the market struggles over the summer months Treasury Note yields will head lower, which is a positive for utilities. On the other hand, if the Fed gets hawkish (I guess a leopard can change its spots) and hikes rates multiple times, utilities will struggle in this environment.

The remaining fund, FSCHX, struggled last month, finishing down 1.x%. A slight slowdown in China and declining commodity prices put downward pressure on the sector. Dupont (DD) and Dow Chemical (DOW), FSCHX's two largest holdings, were down 2.4% and 2.8%

respectively, while Monsanto (MS) and Sherwin Williams (SHW) were flat for the month.

Like the banking sector, FSCX's returns will depend on Trump's pro-growth policies to revive U.S. manufacturing and rehabilitate the country's aging infrastructure. Infrastructure is one of the few areas where there could be some agreement between Republicans and Democrats.

FSCX was down 2.4% in May but is up 9.8% YTD. FSCX remains recommended.

The Diversified Williams' Sector Strength Strategy gained 0.5% during May and is off 1.8% YTD.

Clearly both Williams' Sector Strategies are off to a wobbly start. The intelligent investor understands **market volatility** and if they use discipline over the long run (which is not the next three months or even the next 12 months) the strategies will serve them very well.