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**GETTING TECHNICAL** |  Online Exclusive  
 By **MICHAEL KAHN**

## The Winning Sectors for 2008

**FROM A TECHNICAL ANALYSIS POINT** of view, the bright lights for 2007 were clearly China, commodities, and heavy industry, with the latter two also stemming from overall Chinese strength.

Any portfolio heavily invested in these areas could have achieved more than 10 times the gain seen in the benchmark Standard & Poor's 500, which is up just under 6% for the year with only a few days to go.

### 10 Best Performing Industries\*


<b>Heavy Construction</b>	94.07%
<b>Coal</b>	73.54%
<b>Mining</b>	55.31%
<b>Specialty Chemicals</b>	49.69%
<b>Nonferrous Metals</b>	46.11%
<b>Oil Equipment &amp; Services</b>	43.68%
<b>Oil Exploration &amp; Production</b>	43.65%
<b>Commercial Vehicles &amp; Trucks</b>	43.18%
<b>Oil Equipment, Services</b>	40.95%
<b>Steel</b>	38.06%

### 10 Worst Performing Industries

<b>Home Construction</b>	-
	54.08%
<b>Mortgage Finance</b>	-
	51.57%
<b>Specialty Finance</b>	-
	42.14%
<b>Airlines</b>	-
	32.15%
<b>Home Improvement Retailers</b>	-
	29.65%
<b>Real Estate Holding &amp; Development</b>	-
	28.50%
<b>Banks</b>	-
	25.79%
<b>Business Training &amp;</b>	-

The dim bulbs were no surprise with the credit crunch and housing debacle in the headlines almost daily. In fact, home construction and financial stocks lost about half of their value this year. What may have been lost to many was the crumbling of the small capitalization stock sector after literally years of dominance over large cap stocks. The Russell 2000, a measure of small-cap stocks, saw huge up and down swings and is barely in the black year to date.

### DOW JONES REPRINTS

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For 2008, the question will be which sectors will keep going and which ones might join the party. For the early going, there is little to suggest any changes from the trends set in motion in 2007. However, as 2008 progresses, upward pressures on interest rates and high prices of energy and many other commodities are going to take their toll.

We are likely to see rebounds in the beaten-down sector of home construction, financials, and retail.

And gold and silver stocks are in better positions to start moving again because of a bull-market in the commodities themselves.

The following table of Dow Jones industry groups tells the tale for the current year through Dec. 24. Basic industry and

<b>Employment</b>	24.81%
<b>Consumer Finance</b>	-
	23.68%
<b>Platinum &amp; Precious Metals</b>	-
	23.54%

\*year-to-date through close of Dec. 24

Source: MarketWatch.com

energy claimed all the top spots on the list with housing and finance taking eight of the bottom spots. Again, no surprises there.

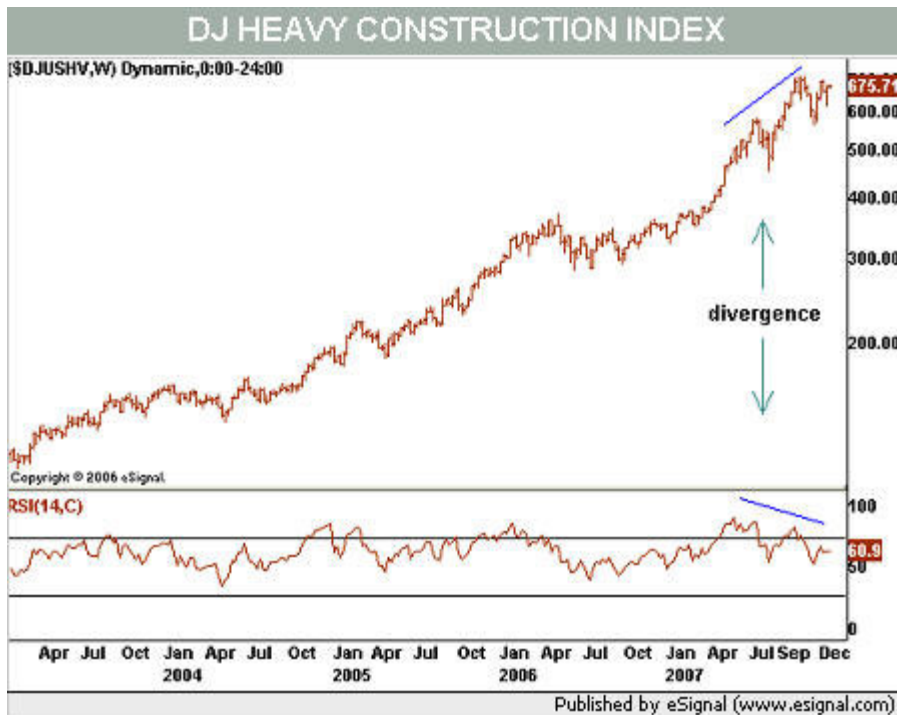
The only group that seems out of place is platinum and precious metals, where palladium miners and other small companies fared poorly despite gold and silver stocks doing fairly well. With platinum, gold and silver all still in long-term bull markets, this seems destined to change for the better

and possibly in a big way.

Let's take a simple chart peak at the top and bottom sectors for the year and see if there are any signs of change.

For the heavy construction sector, it's been quite a run since the bull market began in 2003 (see Chart 1). With a 600% gain and an unbroken trend, clearly there has been a lot of money flowing in for quite some time. But as the old Wall Street saw goes, "trees don't grow to the sky."

**Chart 1**



At some point, stocks in this sector are going to run out of gas and we are already starting to see some of those signs.

For example, chart watchers will note that while prices have continued their northward march, momentum indicators, such as the relative strength index, have started to head the other way. This divergence between price and indicator is a sign that the bulls are getting tired. For investors, it should put them on alert for any small technical breakdowns in individual stocks so that they can lock in profits before the bears can really take over.

For now, we have just a warning. However, the bulls are still mostly in charge.

On the losers' side of the ledger, home construction continues to get pounded by news headlines and economic reports. Yet, the sector index seems to be somewhat resistant to selling pressures in recent

weeks (see Chart 2).

**Chart 2**



To be sure, this is still a bear market and very dangerous for the average investor. However, as with the heavy construction sector above, price action and momentum indicators seem to be heading in different directions and that is a ray of light for stockholders.

So, for 2008, the technicals are pointing to a continuation of where 2007 is leaving off but with the suggestion that the pendulum of investor favor is going to swing the other way. Leading sectors, driven by China, are in need of correction. Losing sectors are so beaten down that further bad news is not really doing much damage and that is technically a positive.

And as I've been writing here in *Getting Technical* for months, precious metals and energy are still in long-term bull markets.

To all, best wishes for a Happy New Year.

*Also read Getting Technical, Sector Alert:  
"A System for Picking Stocks<sup>1</sup>," December 24, 2007.*

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**Getting Technical Mailbag:** Send your questions on technical analysis to us at [online.editors@barrons.com](mailto:online.editors@barrons.com)<sup>2</sup>. We'll cover as many as we can, but please remember that we cannot give investment advice.

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