

# Stock sectors and business cycles:

## Energy

How are stock sectors influenced by business and financial cycles? In order to answer this question we have analyzed the behavior of various stock sectors during the most recent business cycles. Dow Jones kindly supplied the data with the assistance of LaShon Jackson.

The following charts compare the relative strength of the basic materials sector with the most important cyclical variables. The first step in the process has been to compute **the relative strength of the sector when compared to the S&P 500**. The optimum strategy is to invest in this sector when the relative strength line rises. In other words, when the sector is stronger than the S&P 500.

The following charts show the relationship between the relative strength of this sector and:

- **Growth in the money supply.** The objective is to determine if this sector is a “leading indicator” and how it relates to the growth of the money supply. From the forecast of the growth of the money supply, investors can determine the attractiveness of this sector.
- **Strength of the economy.** Is this sector influenced by the strength of the economy (a “coincident indicator”)? As a proxy for the economy we are using the ISM index (purchasing managers index).
- **Trends in short-term interest rates.** Trends in interest rates (“lagging indicators”) may affect the financial performance of this group.
- **Commodities.** An increase or decrease in commodity prices (“lagging indicators”) may have an effect on the cost or profitability structure of this group.
- **Real interest rates.** The level of real interest rates is an excellent measure of inflationary pressures. Is this sector affected by the threat or lack of inflation?
- **Overbought-oversold indicator.** This indicator is a gauge that can be used to determine the likely direction over the near term.

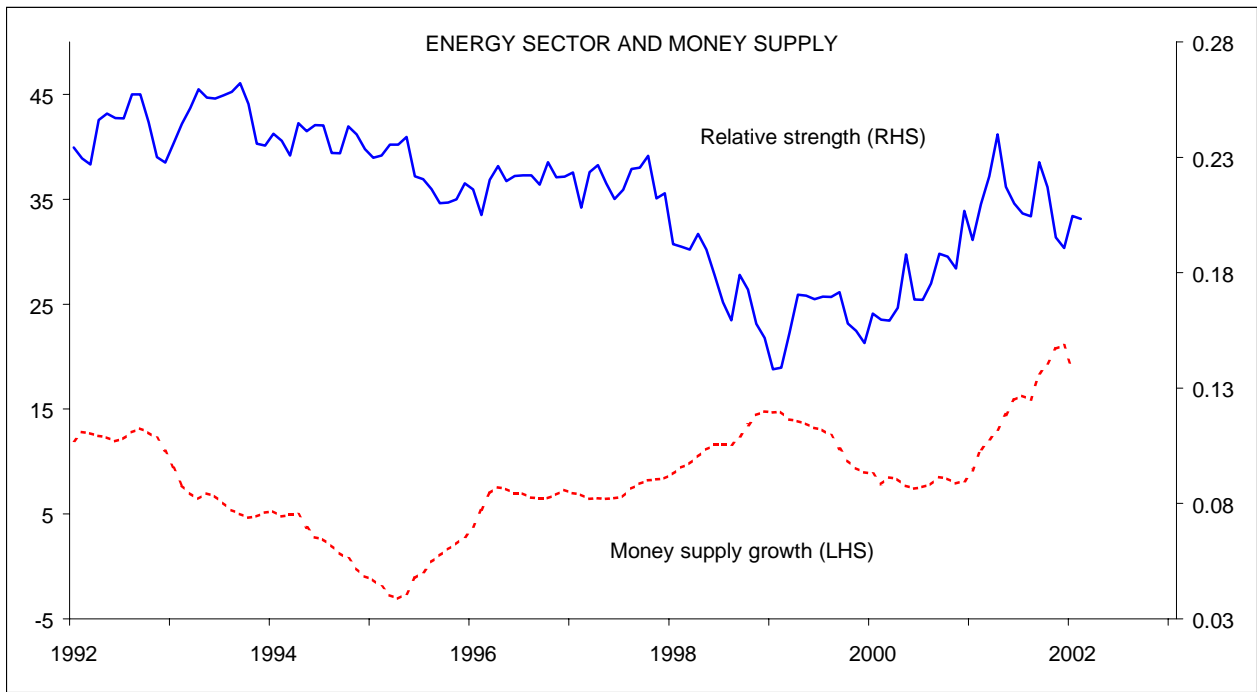
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For more information on our business cycle based strategies please see Dr. George Dagnino’s book *Profiting in Bull or Bear Markets* (McGraw-Hill) explaining how markets are driven by financial and business cycles.

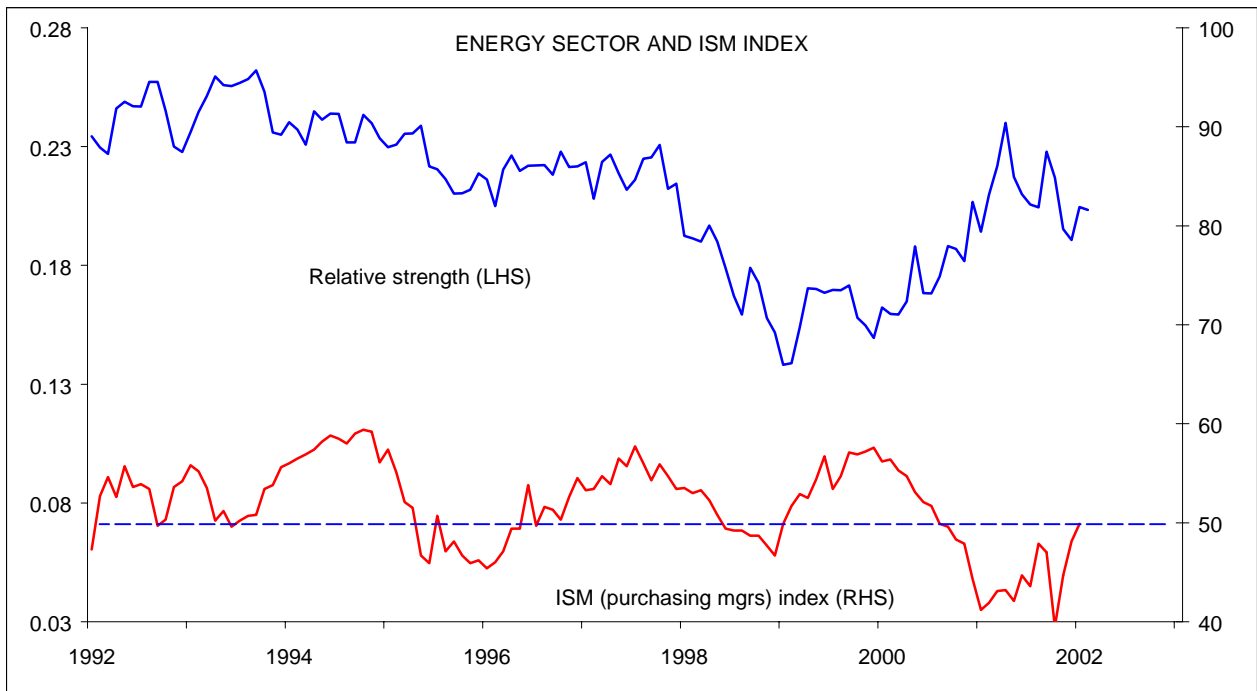
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**Note:** these charts and sector trends are reviewed in each issue of *The Peter Dag Portfolio Strategy and Management* on [www.peterdag.com](http://www.peterdag.com)

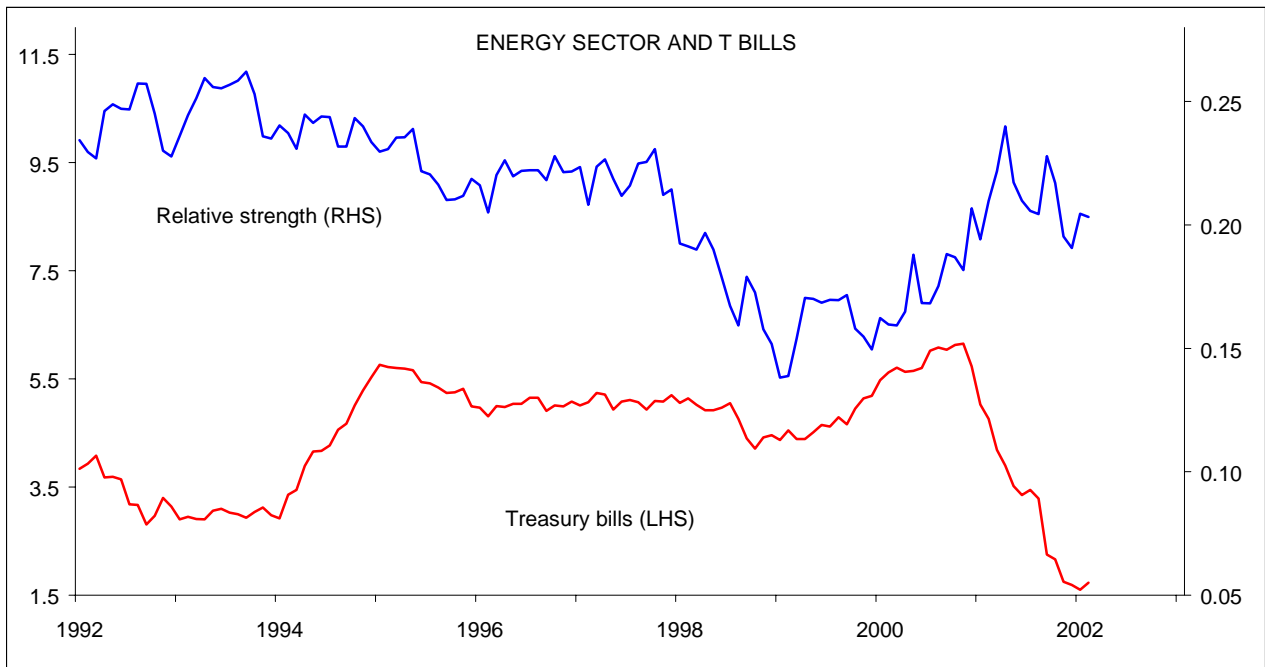
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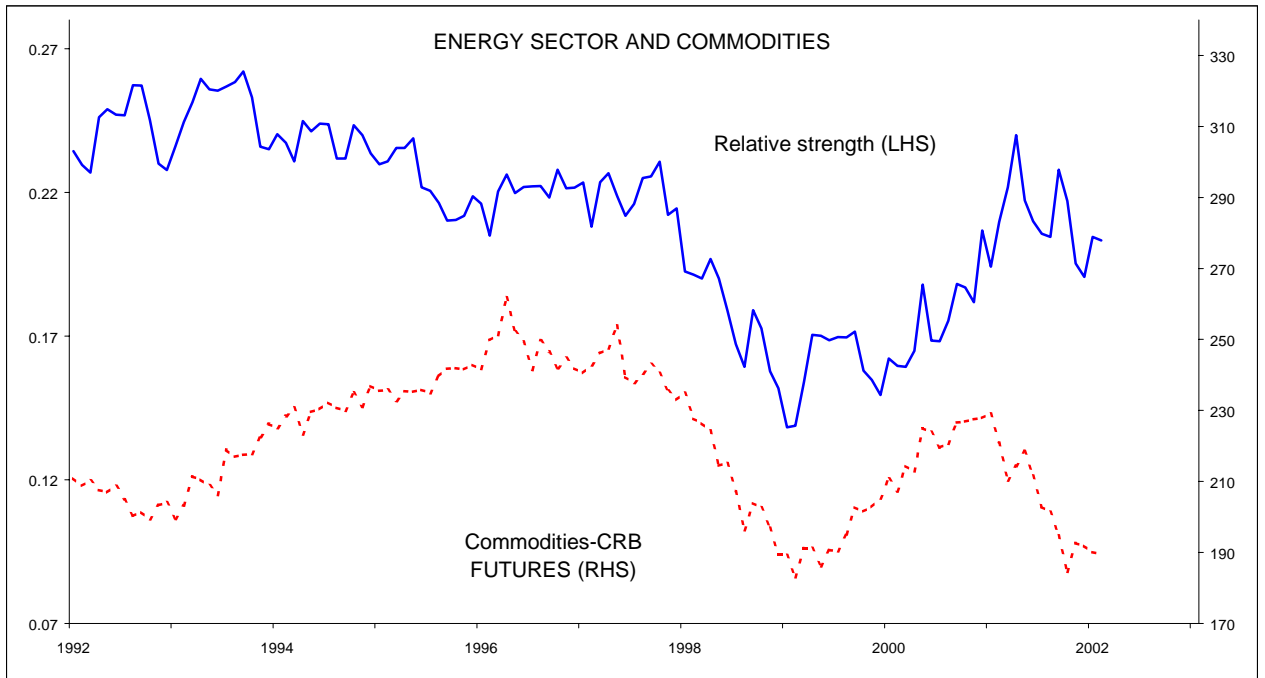
**The energy sector is not correlated with the money supply.**



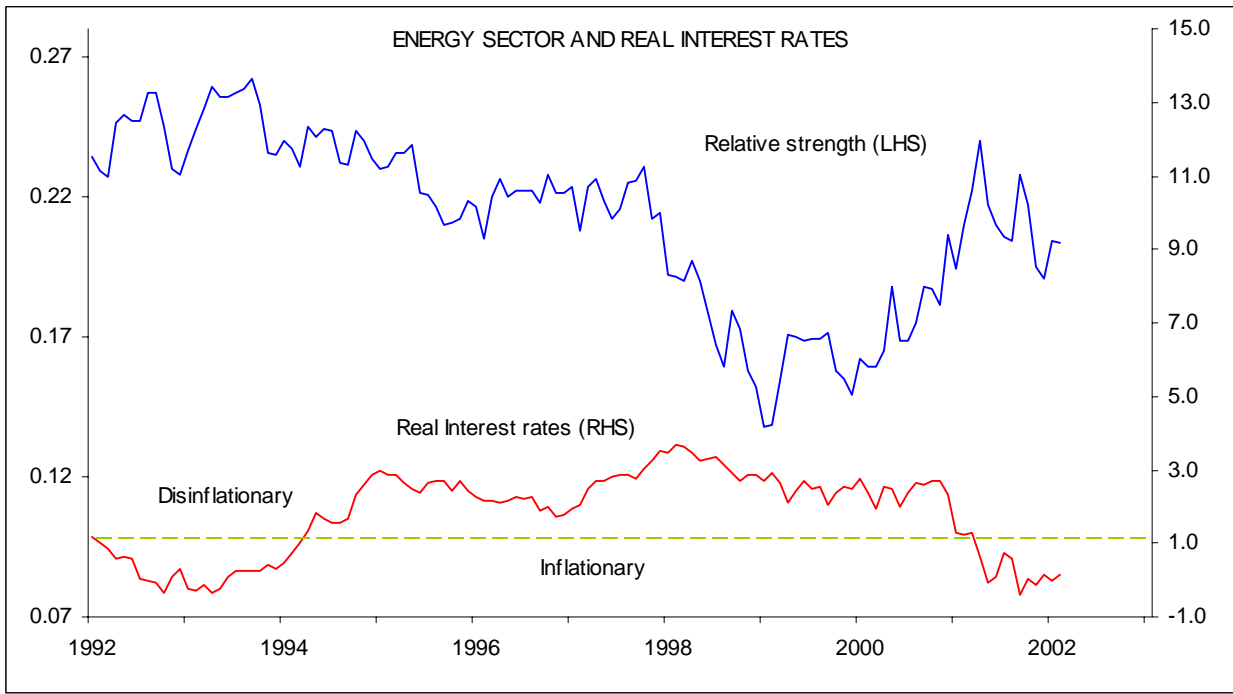
**The strength of the economy has little correlation with the energy sector.**



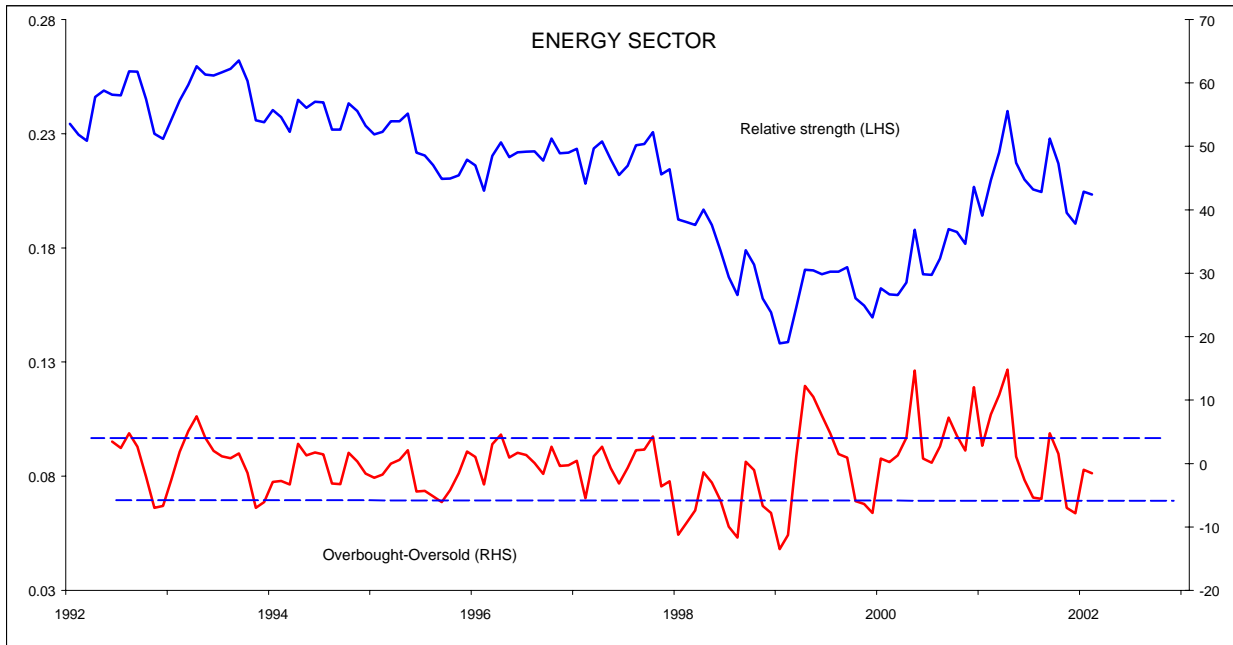
**Energy stocks have little correlation with short-term interest rates.**



**The strength of energy stocks is closely correlated to commodities.**



**There is no useful relationship between energy stocks and real short-term interest rates.**



**This group is oversold.**

2/7/02