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07/18/21

## This Trading Floor Research report contains:

- Comparison of S&P 500 Cap Weighted Index VS. S&P 500 Equally Weighted Index
- Bicycle Therapeutics ADS (BCYC). Speculative new buy in Medical Biomed/Biotech industry group

## S&P 500 Cap Weighted Illusion

This TFR report focuses on the difference between a capitalization weighted (Cap weighted) S&P 500 index and an equally weighted S&P 500 index. The difference gives the illusion of an index that is going higher (cap weighted) and an index that topped out on May 10, 2021 (equally weighted). (Refer to charts on next slides)

The cap weighting refers to the market capitalization of the company or the size of the company. The larger the company is, the bigger the cap weighting. A stock will have more influence on a cap weighted index if it has a larger market capitalization weighting. Calculating the market capitalization of a stock is easy if you know the number of shares outstanding and the current price of the stock.

(Current price) X (Shares outstanding) = Market Capitalization

If you would like to learn more about cap weightings and other important market topics, join me at my next class starting August 12, 2021, at the Career Development Center.

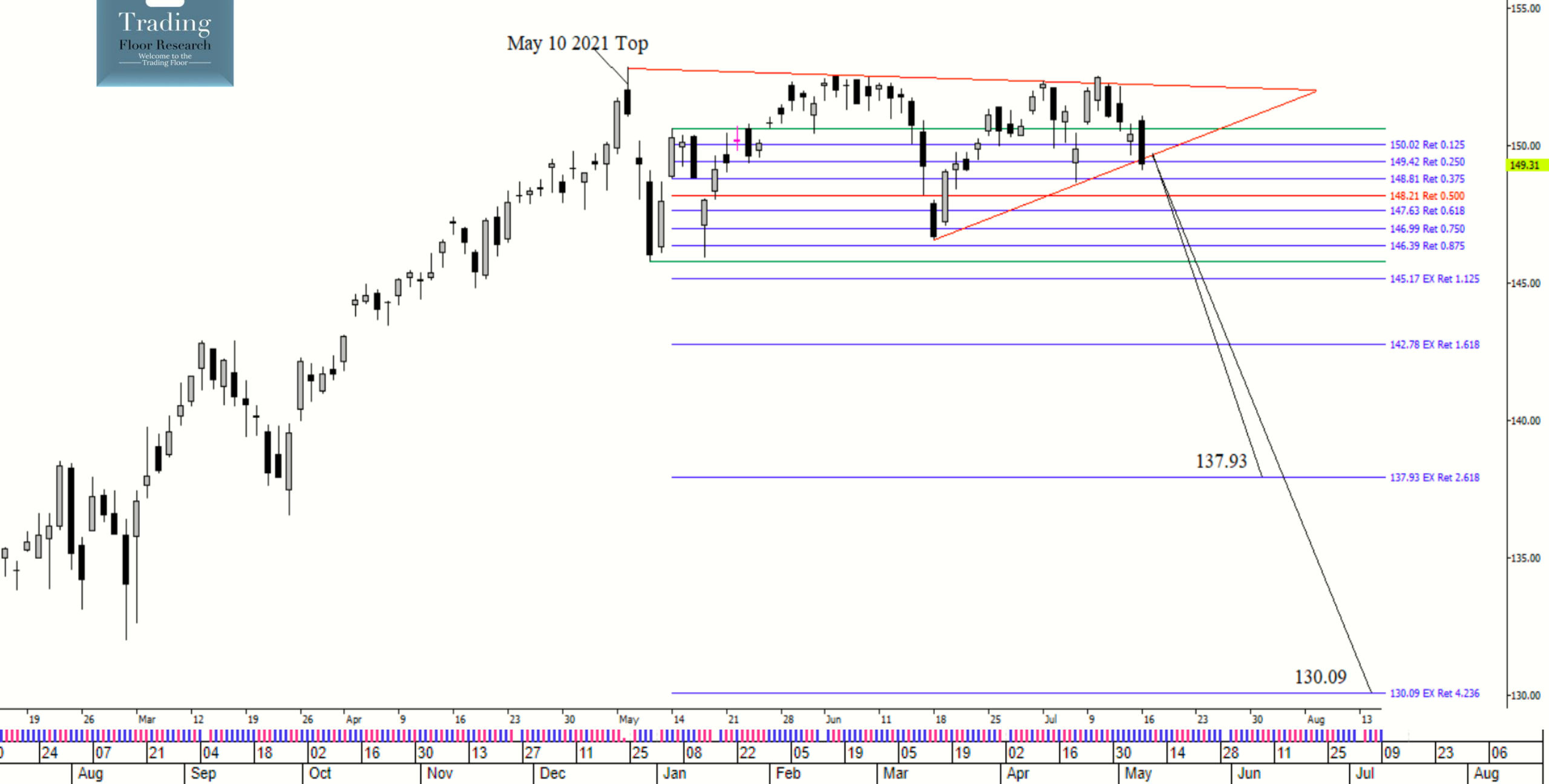
Apple Inc. (AAPL) is the largest cap weighted stock in the S&P 500. It has a cap weighting of 5.5%. That means it carries 550% greater weight in a cap weighted index than an equally weighted index. If Apple is going higher as it has been since the start of June, its weighting is going to negate several other stocks in the index that are moving lower. Other big market cap companies in the S&P 500 include: Microsoft Corp. (MSFT) 5.3% index weighting, Amazon.com Inc. 3.9% index weighting, Facebook Inc. 2.2% index weighting, Alphabet Inc. CL A (GOOGL) 2.0% index weighting, and Alphabet Inc. CL C (GOOG) 2.0% index weighting.

Those Five companies' market capitalizations give them a combined index weighting of 20.9%. Five companies have 2100% greater influence on the movement of a cap weighted index over an equally weighted index. This negates a lot of stocks moving lower. This is what we have been seeing the last few months. Alphabet and Microsoft have been moving steadily higher since May 2021. Apple and Amazon have been moving higher since June 2021, and Facebook has been moving higher since March 2021.

This has created an illusion that the market is moving higher in these last few months. It is a hand full of stocks. That is why I am highlighting this illusion this weekend and continuing to advise caution. Once these cap weighted stocks sell off, we could see a major decline in the indexes.



# S&P 500 Equally Weighted Index (RSP)





# S&P 500 Cap Weighted Index (SPX)

May 10 2021 top of Equally Weighted S&P 500 index



Closed below Fibonacci resistance on Frday  
Needs to reclaim 4350 quickly or more downside likely

## Industry Groups in buy signals hold the largest market cap stocks.

I have already been reporting the damaging sell signals in the industry groups.

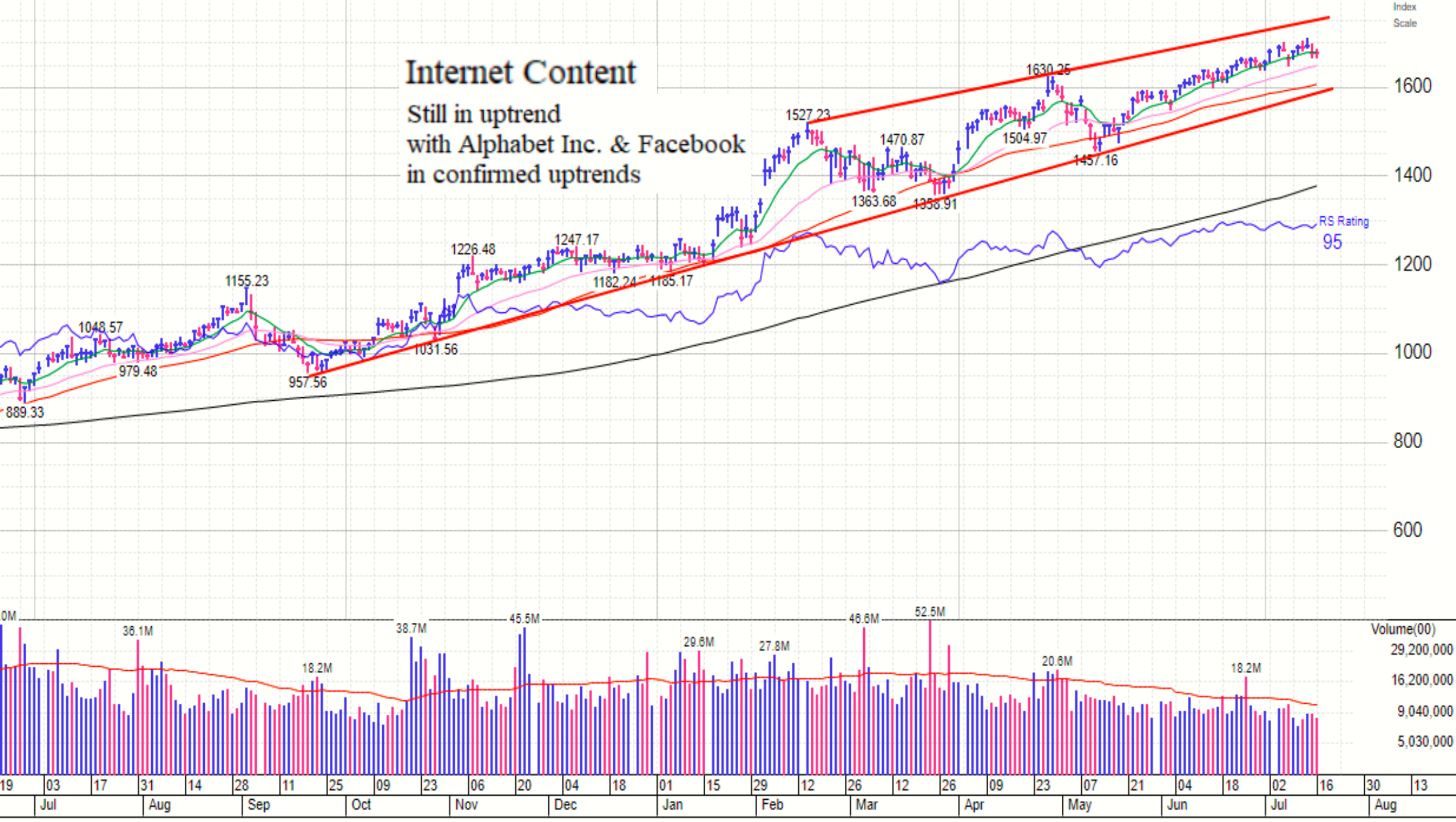
It should not go unnoticed that the only industry groups that haven't given a sell signal are the groups with the S&P 500 large cap weighted stocks in them. The industry groups I use for my analysis are cap weighted. The industry groups that are still in a buy signal include Internet Content with Alphabet Inc. (GOOG &GOOGL) and Facebook Inc. (FB).(Refer to Chart) It also includes Retail Internet with Amazon.com (AMZN).

Apple Inc. (AAPL) is in the Telecom-Consumer Products industry group. The group has nine stocks, and the industry group is cap weighted. Seven of the nine stocks have given sell signals. Apple Inc. (AAPL) and Motorola Solutions Inc. (MSI) are the only ones that are still in a buy. These are the two largest market cap weighted stocks in the group. The industry group is still in a buy signal. Even at the group level, cap weighting has an impact. (Refer to chart)

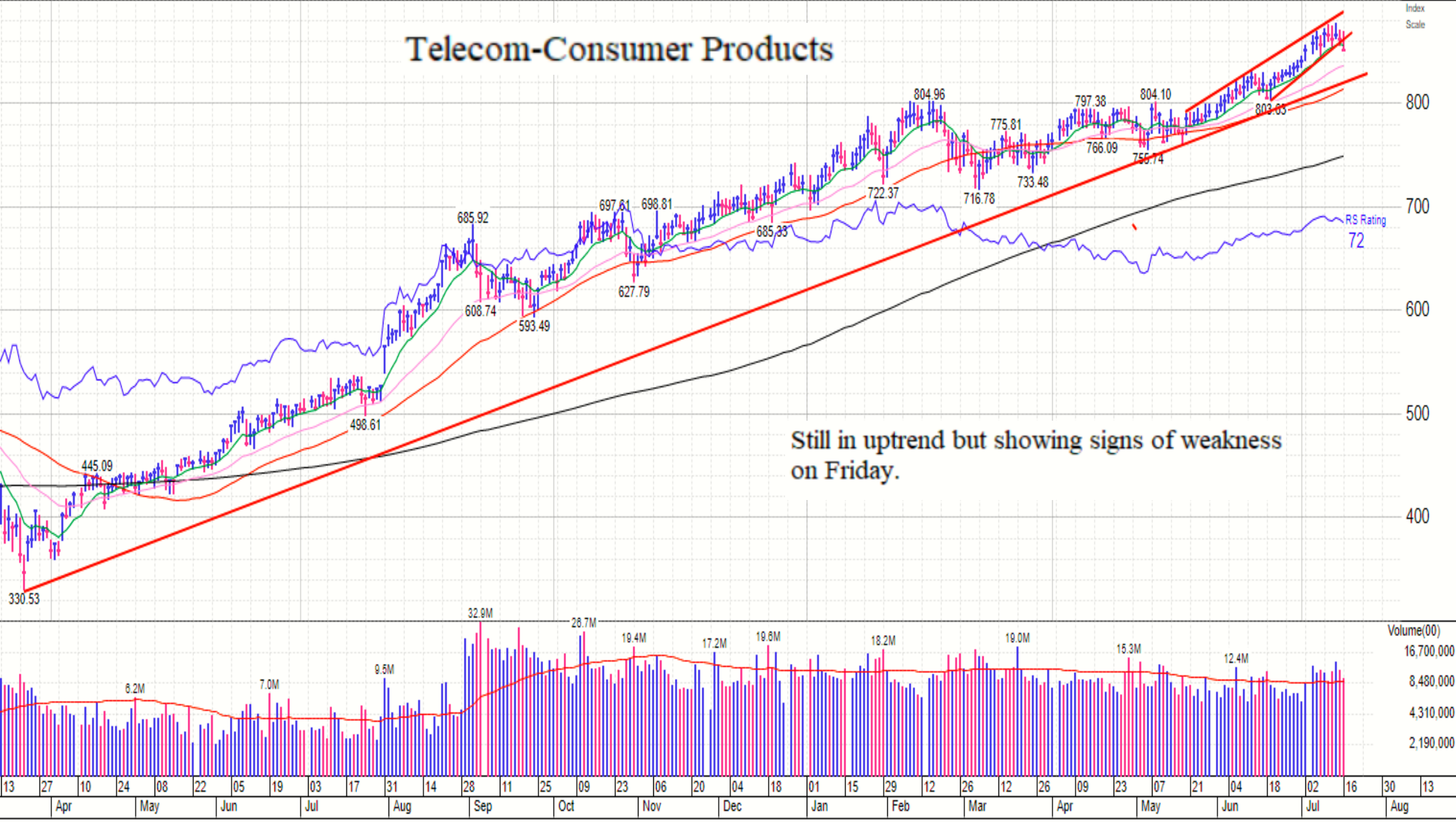
That is why we need to go below the surface to understand how unstable this market really is. Continue to be cautious and stay at high levels of cash. I will let you know when these remaining industry groups give a sell signal. This will mark the top in the cap weighted indexes, and the beginning of the next bear market.

# Internet Content

Still in uptrend  
with Alphabet Inc. & Facebook  
in confirmed uptrends



# Telecom-Consumer Products





## Speculative Buy Ideas

For those of you that still want market action and new buy ideas during these times, I will give speculative trading ideas. These qualify as speculative because the group is in a sell signal, and the market is topping. The individual stock technicals look strong, but that strength may only last a day or two before it falls back down. I am seeing individual stocks pop with incredible strength and momentum, but the group weakness (60% of a stocks ability to move higher is group strength) pulls it back down to earth. The one or two-day pops can be substantial, but you must be quick to sell at the target numbers and keep position sizes small.

Wait for 30-minute buy confirmation with a text. Sell 100% of position at the first target number. This might happen quick. It could happen the same day as the purchase. I will send a sell text to alert you.

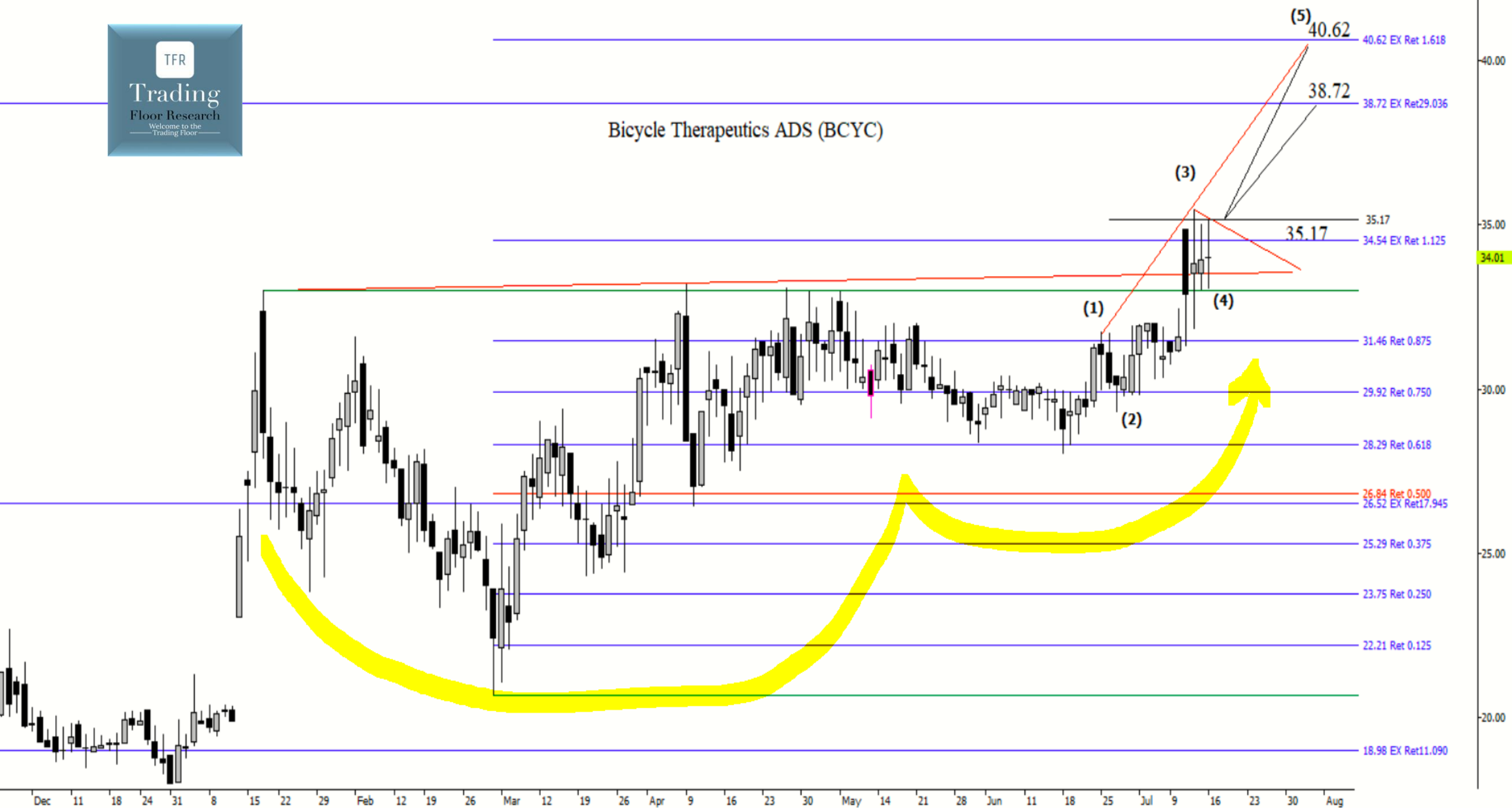
Keep position size very small!

- New Speculative buy candidate: **Bicycle Therapeutics ADS (BCYC)**
- Industry Group: **Medical Biomed/Biotech**. The group currently ranks as the 172<sup>nd</sup> strongest industry group in the market out of 197 and is down -11.58% YTD. The industry group is in a sell signal. Therefore, any stock bought in this group is a speculative buy.
- BCYC is a U.K based company that develops a novel class of medicines for diseases.
- BCYC is breaking out of a cup-with-handle pattern that started 1/20/2021.
- BCYC closed above its trendline with above average for four days. RSI momentum has been building during its pause.
- **Buy confirmation on BCYC with a 30-minute close above 35.15 on above average volume.**
- Initiate position with at 1/2-star(\*).
- Under institutional accumulation with an Up/Down Volume ratio of 1.9.
- BCYC closed at **34.01 on Friday**.
- BCYC VWAP is at 22.16.
- Sell target prices: **1<sup>st</sup> target is 38.72; 2<sup>nd</sup> target is 40.62**
- Stop sell price: 30-minute **Close** below **33.08**.





### Bicycle Therapeutics ADS (BCYC)





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<sup>1</sup>The results are not (or may not be) representative of the performance of all selections made by Trading Floor Research (TFR) newsletter.

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