

THE MONEYLETTER®

STRATEGIES FOR SUCCESSFUL INVESTING

MARKET WISDOM

OIL & GAS STRATEGY

Keith Richards

AS READERS OF THE MONEYLETTER know, I like to write about some of our strategic moves on the equity platform we manage at ValueTrend. I am asked at times if this is not “giving it away for free.” But I don’t look at it that way. As I’ve noted in the past, by showing people some (not all) of our trading decisions – you can get a taste for our style here at ValueTrend, and see firsthand if our decisions are good.

There is no better advertising for an investment business, in my opinion, than better disclosure in both trading style and performance. Too many people in our business hide their performance



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and their strategies from the public. Or they only show you their good trades after the fact. For some reason, their bad trades are never written about. We, on the other hand, don’t mind displaying our wares on a current basis without post-trade filtration. With this in mind, let’s talk about our latest strategic move at ValueTrend.

We’ve got energy

We’ve been buying into oil and energy stocks lately. In fact, I’ve talked about the potential for entering the oil trade in my MoneyLetter column in the recent past. But the conditions were not ripe for an entry back a few months ago, despite the developments surrounding a new OPEC deal. I preferred to see if the market could maintain its positive technical profile into the seasonally strong period before committing. Oil tends to be a good trade between February and May – from a seasonal perspective.

And now, as noted above, we’re in the trade. Our desire to hold oil

and energy equities to far beyond the spring is low. That’s because there are too many unknowns surrounding supply, demand and the OPEC deal to make a long-term commitment to the trade. Our price objective for WTI is the low \$60’s per barrel by the spring or early summer – which would be a decent jump from the current low-\$50’s it is trading at at the time of writing. My sell-price target is also fairly inflexible. I plan on selling – ideally if/as/when the price objective and/or spring/early summer comes, and ideally somewhere near \$60-\$64.

Hope is not a strategy

As far as a loss prevention strategy, a break much below \$50 would inspire me to take my losses and sell out of the sector. When I speak to a group of investors or comment on stocks on my BNN appearances, I like to harp on having a strategy when entering any trade. Most investors only focus on the Buy side of the equation. Successful investors, whether long term or mid-to short-term in nature, always have an exit strategy. It’s particularly important to have a pre-defined “uncle” point, where you will sell at a loss if your decision turns out to be incorrect.

I’ve seen it too many times. An investor holds onto declining stocks like Crescent Point Energy, Valiant Pharma or Nortel Networks hoping the stock will recover enough for them to get their money back. Hope is not a strategy, and, as American political commentator Ben Shapiro likes to say,

“The facts don’t care about your feelings.” A stock will do what it will do, and your entry price has no influence on that movement.

Our focus has been more on buying the oil services and junior oil stocks based on their chart patterns and their potential leverage (beta) against a positive move for oil. Seasonality turned positive for the sector in February, and should be good out to the spring.

Our upside objective

Above is the longer view (weekly chart) for WTI. You’ll note that oil has cracked its neckline, although since doing so it remains stuck below \$55. A break through \$55 will be bullish for WTI and likely move it in to the low \$60’s. Should that happen, it is my opinion that the juniors and the service companies will lever that move with a greater profit potential.

We just bought a position in the BMO Junior Oil ETF to take advantage of the smaller-capped energy plays. It is a good representative of the smaller energy stocks out there. We tore the index apart recently and analyzed its top 10 holdings, which represent about 40 per cent of the ETF’s entire assets. By and far we

liked the top holdings with the exception of one stock - Parsley Energy, PE-N. Thus, for diversification and our generally optimistic view of the top stock positions, we bought the ETF. Again, we are looking to hold this ETF and other energy related positions for the next few months. We expect to sell out of the sector in the event our price target is reached and/or the end of the seasonal period. We will sell out of the position, and others, if the energy play deteriorates.

So there you have it. Our buy point, our upside objective, and our sell/loss strategy. Hopefully this will inspire some of you to think in terms of your trading strategies as you review this and other opportunities. ▼

Keith on BNN

I’ll be on BNN televisions call-in show, MarketCall on Monday April 3rd, 2017 at 6:00pm. Tune in to BNN to catch me live on BNN’s premier call-in show, where viewers like yourself can ask my technical opinion on the stocks you hold.

Call in with questions during the show’s live taping between 6:00pm and 2:00 pm. The toll free number for questions is 1 855 326

6266. You can also email questions ahead of time to market-call@bnn.ca – it’s important that you specify they are for me.

Keith Richards, Portfolio Manager, can be contacted at krichards@valuetrend.ca. He may hold positions in the securities mentioned. Worldsource Securities Inc., sponsoring investment dealer of Keith Richards and member of the Canadian Investor Protection Fund and of the Investment Industry Regulatory Organization of Canada. The information provided is general in nature and does not represent investment advice. It is subject to change without notice and is based on the perspectives and opinions of the writer only and not necessarily those of Worldsource Securities Inc. It may also contain projections or other “forward-looking statements.” There is significant risk that forward looking statements will not prove to be accurate and actual results, performance, or achievements could differ materially from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements and you will not unduly rely on such forward-looking statements. Every effort has been made to compile this material from reliable sources; however, no warranty can be made as to its accuracy or completeness. Before acting on any of the above, please consult an appropriate professional regarding your particular circumstances.

