VOTED THE WORLD'S BEST INVESTMENT ADVISORY

Investor's Digest of Canada

December 23, 2016 Vol. 48, No. 24

Watch out for a possible oil rally if West Texas Intermediate price passes US$52 resistance level

Not ready to jump on the oil bandwagon

Keith Richards

Oil's outlook is improving, but I'm not jumping on the oil bandwagon just yet. In a blog posting (valuetrend.ca) from October, I noted:

"U.S. inventories of crude oil were reported to have fallen some three million barrels in a late-September report. Markets had anticipated a higher level of stockpile…. Reliance on reduced production via the recent OPEC agreement may be wishful thinking. OPEC recently announced some production cuts, but members have a history of not keeping to the agreed quotas."

While the recently announced agreement seems to be positive for an oil rally (OPEC history aside), there are a couple of factors we should watch out for, from a technical perspective.

First, there are seasonal factors. Oil tends to have relatively weak performance at this time of the year, albeit with a positive spike in December. It enters its period of strong performance in late February after a typically weak January and February.

Keep in mind that seasonality is a background – a statistical measurement of likely relative performance. It's not the panacea of investment strategies.

Even so, we do need to keep the seasonal tendencies in the back of our minds when assessing current potential.

More significant than seasonal tendencies are support and resistance points on the charts. As you will note on the top chart on the next page – there is a significant neckline of resistance at or around US$52.

This ceiling has been incredibly consistent for West Texas Intermediate (WTI) crude oil.

On the positive side, US$52 is clearly defining a neckline of a bottom formation.

You know that I don't get hung up on the "name the formation" game—but the WTI chart is looking very much like a complex "head and shoulders" bottom. In order for the formation to complete, it MUST break US$52 and hold above that level for up to three weeks.

I've mentioned numerous times that oil should hit US$62 or so in the next 12 months. I wonder if the current excitement surrounding the recent OPEC deal will last long enough to see oil crack its US$52 neckline.

By the time you read this article, WTI oil may have broken US$52. If so, it may be a good time to consider buying into oil. However, I must emphasize that I would only endorse entering the sector upon that US$52-level being firmly broken to the upside.

There are truly hundreds of ways to capitalize on a bullish move in oil, should the breakout I've been describing occur.

For a broad play on energy stocks, consider an ETF like the classic **iShares S&P/TSX Capped Energy Index** (XEG-TSX, $14.01). If you like a bit more risk-reward potential, BMO has the **BMO Junior Oil Index** (ZJO-TSX, $17.91) worth considering.

If you wish to play the commodity, you can choose from a wide variety of ETFs. The widest traded ETF in the world is the **U.S. Oil Fund** (USO-NYSE/Arca, US$11.09) – it has huge liquidity and closely tracks the spot price of WTI oil.

Horizons has its **Horizons NYMEX Crude Oil ETF** (HUC-TSX, $12.32), which hedges the dollar, should you be worried about the U.S. dollar-to-loonie exchange risk. You could also consider individual energy stocks **Vermilion Energy Inc.** (VET-TSX, $55.80) is a producer that we have played in the past, and **Suncor Energy Inc.** (SU-TSX, $43.03; SU-NYSE, US$32.33) contains a play on the oilsands.

There are positive technical factors on oil - for example the bullish money flow, and momentum studies. There are negatives for oil as well, such as the seasonal factors and the US$52 resistance level noted above.

Finally, there are unknowns regarding the OPEC members' adherence to their own deal. As such, I think it's best to wait and see if this rally will take oil through US$52 and out of the potential head and shoulders bottom formation mentioned above.

If it does, and this may have occurred by the time this article is printed, I expect to enter the trade and look to see a US$62 target.

Given OPEC's track record, I would rather wait for that neckline break than guess that this time, it's different.

Keith on BNN

Keith will be on BNN's *MarketCall Tonight* show on Friday, Dec. 30 at 6 p.m., the final trading day of the year! Phone in with your questions on technical analysis for Keith during the show.

Call toll-free at 1-855-326-6266. Or email your questions ahead of time (please specify they are for Keith) to marketcall@bnn.ca

ValueTrend wins 2017 Canadian Business Excellence award

Barrie-based ValueTrend Wealth Management, part of Worldsource Securities, was one of only 19 private businesses across Canada to receive a Canadian Business Excellence award.

Presented by Excellence Canada and PricewaterhouseCoopers Canada, the national award is administered annually.

Keith Richards, ValueTrend founder, technical analyst and portfolio manager, said he's excited about receiving the Canadian Business Excellence Award.

"This award is important to us because it validates the business principles we've been espousing since the early 1990s," he said. "One of my commitments has been to expand the use and understanding of technical analysis and market timing within the industry and to help ordinary retail investors learn how they can manage their own money."

Mr. Richards writes for numerous publications on the subject and also has a blog that is strictly geared towards helping the "do-it-yourself" community of investors.

"While it sounds counterproductive for me to teach others to do this themselves when I make a living doing it for other people, I believe helping others manage their money will ultimately endorse the validity of ValueTrend's process as well as attract business from those who choose not to do it themselves," he said.

"This approach to marketing runs contrary to the investment industry, which often propagates the need for everyone to utilize the services of an advisor or manager," Mr. Richards added.

"I have found there are many investors who possess the skills, knowledge and interest in doing it on their own. And I have a keen interest in helping them do so. It hasn't hurt us to help these investors do a good job of investing on their own."

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.