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Seasonality could push energy sector gains

At the time of initially writing this column, OPEC had wrapped up what appeared to be a working agreement in reducing oil production.

While some of the members of the major oil-producing countries have earned a reputation for not following through on commitments, there is greater hope that this one may actually be "the real deal" this time. Don't look to me to make a definitive call on whether the recent deal will be acted upon.

However, while a call on OPEC may be a bit of a wild card right now, seasonal studies indicate that buying into the energy sector in late February and then selling in early May can be a profitable trade.



Keith Richards

In fact, the oil sector on average tends to outperform the broader markets by a whopping five per cent from February to May, according to seasonal expert Brooke Thackray.

The reason behind the success of the winter oil trade is simple. Refineries switch between heating oil to gasoline in the early part of the winter in anticipation of the upcoming summer driving season.

During the switch over time, inventories for both heating oil and gasoline decline. This drives up their prices, and creates an opportunity for you and me to profit on well-selected energy securities.

I must hasten to point out that seasonal factors affecting any sector of the market are only one tool in the toolbox to help us

make investment timing decisions. Seasonal studies provide clues about whether the odds are in our favour.

I use seasonal statistics to filter for sectors I should be exploring at any given time. From there, the decision whether to trade that sector is based on other technical and fundamental studies.

In the case of the energy sector, the positive confirmation of oil's price by the strong likelihood of a "head and shoulders" bottom formation provides evidence that the trade may indeed be profitable this year. After the 2014 top, oil sold off precisely as the chart patterns predicted (WTI broke a five-year-plus upward trend – inspiring me to sell my energy positions).

That sell-off seems to have been halted by the head and shoulders pattern noted above. Should any meaningful follow-

through by OPEC members come about to inspire the markets over the next while, there may be inspiration for a profitable move on energy. All the while, its overall pattern looks to be putting in a nice technical breakout. What more could you ask for?

A reduction or switch out of the technology sector, a sector that I originally recommended owning in my prior article in Investor's Digest, may make sense at this time. The technology sector will soon be entering into its weaker period of the year from a seasonal perspective. By shifting at least some of the proceeds out of technology stocks into energy stocks, we can take advantage of "selling high, and buying low". That's what it's supposed to be about, isn't it?

To play the energy sector, consider a few ETFs like the **iShares S&P TSX Capped Energy Index** (XEG-TSX, \$13.40), which is a good way to play the broader energy stocks. I also like the **Horizons Crude Oil ETF** (HUC-TSX, \$12.96) as a good way to play the commodity side. Aggressive investors can consider buying the small cap oil stocks through the **BMO Junior Oil Index ETF** (ZJO-TSX, \$17.78).

I intend to continue playing both the broader markets through a diversified portfolio of securities, including stocks and ETFs, while overweighting specific sectors as noted. However, I am keeping a close eye on overall market valuations and technical chart patterns for overvaluation. Stay sober and stay disci-



plined. I'll do my best through this column to suggest when it may be wise to leave the party, get into the cab, and head to the safety of home.

Keith on BNN: I'll be on BNN's TV call-in show, *MarketCall*, on Monday, Feb. 6, 2017 at 6 p.m. Tune in to BNN to catch me live on BNN's premier call-in show, where

viewers like yourself can ask for my technical opinion on the stocks you hold. Call in with questions during the show's live taping between 6 p.m. and 7 p.m. 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

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