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INVESTMENT SMARTS

Australian economy picks up on resources

Keith Richards

Oil put in a possible technical bottom earlier this year. So too did most of the materials, including copper and gold.

The upward move in commodities has driven commodity sensitive economies such as Canada and Australia off of multi-year lows. Unlike Canada, however, Australia has seen economic growth at the fastest pace in four years. How long before Canada sees such growth, is to be determined. The most recent economic report from this side of the border shows Canada's economic numbers as a bit more uncertain.

On page 243, the base breakout on the EWA chart for Australia suggests that there is a case for Australia's turnaround.

To be more confident of investing in this index, the downtrend, as illustrated by the declining trendline from 2014, needs to be broken. Should that level be taken out, which on the **iShares Australian ETF** (EWA-NYSE/ARCA, US$20.19) sits at around $20 – this market may be a good place to start allocating part of one's portfolio.

The TSX chart illustrates a likely base breakout and break of an intermediate termed downtrend. The broad TSX can be played through the iconic **iShares TSX 60 ETF** (XIU-TSX, $21.02) or the **Horizons** version of the same index (HXT-TSX, $27.51) which has lower management fees.

Energy, as well as some of the other commodity plays, can back off a bit over the early to midsummer. Energy in particular can come back into strength seasonally from August into October.

Given the overbought conditions of the energy markets, the TSX, and the challenge of the trendline for Australia, I wouldn't be surprised to see a slowdown in the near-term for these markets.

However, the technical setup is encouraging for the late summer and onwards if current chart patterns do not reverse on oil and the TSX. In other words, any decline seen in energy over the next couple of months may just provide investors with an excellent buying opportunity for both the TSX and the All Ordinaries Australian Index indexes, along with the energy and materials sectors.

For those who are considering an energy play, a good place to start is in the **iShares Capped Energy ETF** (XEG-TSX, $12.35) which we hold a position in at ValueTrend.

Gold, which also has a significant influence on the TSX index, has been heading towards its longer-term target of US$1,300 to US$1,350 per ounce—noted about a year ago in this publication and through my blog at valuetrend.ca.

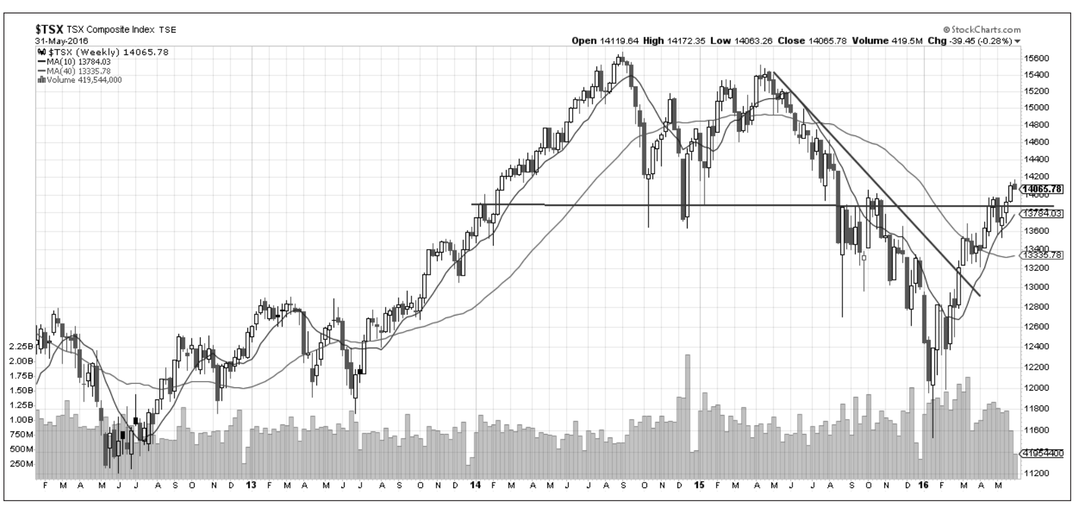
Gold near resistance?

This target is derived from technical resistance that held steady during much of 2013 and a longer termed downtrend line drawn from 2011. A crack of that zone to the upside would be favourable for longer-termed upside to the metal. Time will tell if that occurs, but traders will certainly be aware of the potential for the metal to stall as, if or when gold reaches the US$1,300 to US$1,350 range.

In the meantime, very near-term upside potential is a little shaky at this point. Gold is bouncing off of about US$1,200 on the daily chart as I write this column. Relative strength index and stochastics – the shorter termed momentum oscillators that I watch – are low but have not hooked up yet.

Moving average convergance divergence (MACD)—a longer-term indicator, is trending lower. More ominous is the trend towards falling money-flow. Declining cumulative moneyflow implies that money is leaving gold at this time.

That, along with a flat to near-termed declining comparative relative strength line (gold versus the S&P 500) may be reasons to wonder if gold may be stagnant or short-termed bearish in the com-



ing month or two.

Like energy, there may be a better time to commit to investing in gold. Seasonality picks up later in the summer for the metal – perhaps then will be a better time to consider adding to a gold position if you are watching this trade.

We hold a minor position in gold (three per cent of the portfolio) through the **Horizons Comex Gold Bullion ETF** (HUG-TSX, $11.82) – but that's the extent of our exposure right now.

We may commit to taking a deeper position in gold later in the summer as the seasonally favorable period arrives, and that may include owning both broad based gold producer ETFs like the **iShares Global Gold Index ETF** (XGD-TSX, $14.38) and/or individual stocks such as **Barrick Gold Corp.** (ABX-TSX, $24.40).

Keep an eye on the commodity producing nations, particularly those with a solid exposure to energy and precious metals like Canada and Australia. There may be opportunities if commodities continue to firm up.

I'm doing the afternoon MarketCall Tonight show on Wednesday, July 13 from 6 p.m. to 7 p.m. Call in with your questions during the show's live taping between 6 and 7 p.m. The toll-free number is 1-855-326 6266.

Next time on *MarketCall*

You can also email questions ahead of time to marketcall@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.