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STRATEGIES FOR SUCCESSFUL INVESTING

MARKET STRATEGY

U.S. equities?

ALL EYES ON USD

Keith Richards

IS THERE AN OPPORTUNITY IN owning the U.S. dollar and related securities for Canadians? The USD looks like it's going to be stuck in the trading range that I predicted in this publication and on my blog (www.valuetrend.ca) several years ago. In the near term, there is a decent chance it could move to the top of its trading zone (the chart blow is that of USD vs. a basket of world currencies) somewhere near 100-102. That's about 5-6 per cent upside from current levels. A rally by the USD against world currencies will put downward pressure on our loonie, potentially amplifying the upside of holding some U.S. denominated securities.

The loonie – chart below, also appears to be stuck in a bit of a range, having attempted to form a head and shoulders bottom over the past year or so. The recent falling peaks and flat trough suggest consolidation (descending triangle) within the attempted H&S bottom formation. This chart looks fairly neutral at this time. There is no clear direction as to what the loonie will do. However, I suspect that if the current levels of around $0.75 – 0.76 USD do not stick, we may see a rapid deterioration in our currency.

Factors affecting the strength of the USD will be the Fed's tightening language and actions, and international tightening/loosening policies. Economic factors will also play into USD strength.

Factors affecting the loonie will be the strength of the USD, and of course, good old oil prices. Generally, I am bullish on oil, with hiccups along the way. It is tough to call as to when the Fed will pull the trigger on rates – but my guess is if it's not this month, then perhaps it will happen prior to year end. That being the case, the loonie will need to find strength from energy pricing to fight the strength of the USD.

For now – I like the USD and remain exposed to it. Some of our current US positions offer both potential upside in share price and upside in the USD/Loonie exchange rate.

Our current allocation in the portfolio is representative of our positive view of technology, energy, and financials. At this time our technology exposure is gained through investment in two individual stocks – Google and Microsoft. Vermillion Energy is our top energy pick at this time. Remember, oil is traded in USD. As such, Canadian companies in that sector can have upside from a rising USD if they have not hedged out that play. Thus, we view Canadian energy stocks as an indirect exposure to the USD.

Google (GOOGL) – we have remained committed and invested in this tech giant since October

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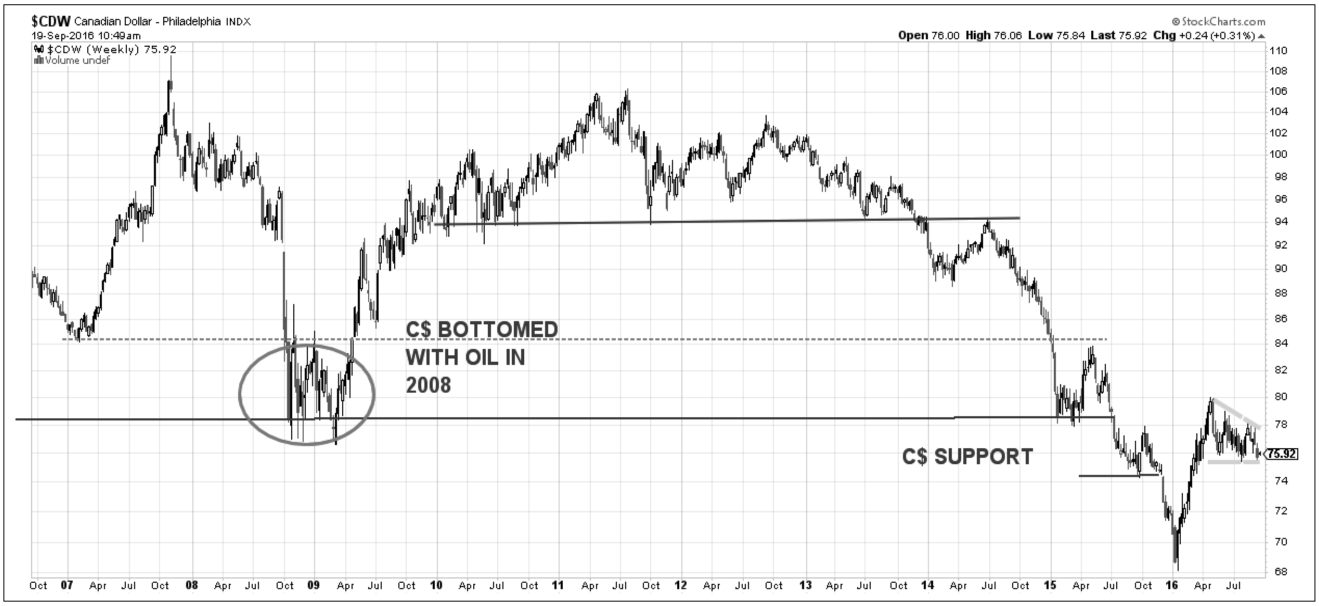

2015. The company continues to be relevant in today's increasingly mobility-dominated market place. Some of the important factors that made our initial investment desirable remain in place. The company has a footprint across consumer software, hardware, enterprise software and the cloud. We feel this footprint will allow them to continue monetizing the ongoing shift to mobile. They are also realizing a larger contribution from non-search businesses, namely YouTube and Google Play.

Microsoft (MSFT) – The company made a fairly significant acquisition at the beginning of the summer when they purchased LinkedIn. It is expected that Microsoft will be able to integrate LinkedIn's social learning and recruitment capabilities more deeply into Office 365. By realizing and capitalizing on new opportunities in the technology space, the company has become hugely relevant again. There has been a successful turnaround at this company largely based on the growth of the cloud, orchestrated by the CEO Satya Nadella. The repositioning has occurred while continuing to produce huge amounts of free cash flow, further strengthening an excellent balance sheet. We believe this same leadership will soon prove that paying 10 time sales for LinkedIn was the right thing to do.

Vermillion – We feel there is an opportunity in the energy sector. Vermillion is an investment that offers both geographical and product diversification in this sector. They have producing assets in North America as well as Europe and Australia. In an

environment of significantly lower commodity prices, Vermillion remained focused on protecting the balance sheet, defending the dividend and continuing to invest in long-term growth. They have shown extraordinary insight and skill managing through a very turbulent commodity cycle. We believe that one way to capitalize on opportunities in the energy sector is finding very efficient managers that are mispriced. ▼

Keith on BNN Wednesday October 5th, 2016 at 6:00pm
Phone in with your questions on technical analysis for Keith during the show. CALL TOLL-FREE 1-855-326-6266. Or email your questions ahead of time (specify they are for Keith) to *marketcall@bnn.ca*

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