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STRATEGIES FOR SUCCESSFUL INVESTING

MARKET WISDOM

Get with a trend-following methodology

HOLDING & FOLDING

Keith Richards

READERS OF MY COLUMNS MIGHT know that I am not a traditional "Buy and Hold" Portfolio Manager. I have often stated in this publication, and through my other public commentaries, that a blanket "Buy and Hold" at-all-costs mentality is actually a riskier and costlier investment strategy than a carefully planned system of buying and selling assets. Readers might be able to relate to this, having noticed the rather sudden rotation out of sectors such as utilities, REIT's and technology stocks.

Now, money is flowing into the sectors most favored by the new presidency in the USA. Former underperformers such as industrials, materials, and financials are now surging. Having witnessed this type of rotation in the past, some investors may agree with my stance that it's best to have a methodology to trade in and out of sectors and stocks as they rotate through periods of outperformance and underperformance.

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Follow the trend

Truthfully, it's hard to rotate from sector to sector with a high level of consistency. However, if you utilize a trend-following methodology such as technical trend analysis, you can usually catch more of these rotations than you will miss. Investing properly isn't about being right all of the time. It's about being right most of the time. Simple peak/trough trend analysis and adherence to trading rules surrounding moving averages can help you achieve this goal. If I may be so bold, I would like to suggest that readers interested in developing a trend-following methodology consult my book *Sideways: Using the Power of Technical Analysis to Profit in Uncertain Times*.

For those readers who prefer to buy into longer-term trending positions, there is a logical method of doing so. This methodology allows you to stay with the trend, and exit when the trend ends. As the saying goes, the trend is your friend until it ends. From my book, *Sideways:*

"Trends in securities or broad market indices are identified by the direction of the ongoing rallies and declines that naturally occur on all securities traded on a free market. In an uptrend, each rally reaches a higher high than that of the last rally, and each decline (trough) stops at a level that is higher than the prior decline. When you can identify a series of at least 3 higher rallies and higher troughs in your given chart time, you can confirm that the stock is in an uptrend. In a downtrend, each decline is lower and the rallies stop at a lower level than the previous rally. When you can identify a series of at least 3 lower rallies and lower troughs in your given chart time, you can confirm that the stock is in a downtrend. If you are a longer-term investor look for the price to stay over the 200-day Moving Average. The slope of the moving average should be up for an uptrend, and down for a downtrend."

I'd like to add to that commentary that each peak and each trough must be higher than the last, if the trend is legitimate. So,

now that we know how to identify an uptrending stock, the next thing to talk about is when to buy within that uptrend. I like to buy a trending stock that is testing its trendline. Case in point, we recently bought into BCE (BCE-T). Note the long-term trendline and its recent test on the chart above. True, the 200- day Moving Average has been violated. But the stock has not broken its trendline, and it is still above its last low of around $53 on the chart. For the long-term investor, this chart looks to be presenting a good entry point. Other uptrending stocks that we own and have pulled back recently include Google (GOOGL-US) and Costco (COST-US).

Knowing when to sell

How do we know when to sell a stock that has been in an uptrend? Well, using the observations taken from above, you might surmise that if the stock stops making higher highs and lows, the trend is over. But that shouldn't trigger a sell. What triggers a sell is a break in price of the last low (trough) to a lower point, in conjunction with a break in the 200-day Moving Average AND a break in a trendline. Should all of these conditions materialize, it's time to get out.

Let's look at an example of a sell signal on a stock that had been trending. Valeant Pharmaceutical (VRX-T) broke its trendline at around $220/share in late October of 2015. The stock took out the prior low, which had been around $250 in the middle of that same month. The stock also broke its 200-day Moving Average at that time. By the end of October, we had every one of our sell rules kicking in. That is, a break of a trendline, a low that took out the last low, and a break in the 200-day Moving Average. It was time to sell. Investors following these rules didn't sell at the top. But they saved about 90 per cent further downside from the price in late October.

Using a simple set of trend following rules such as those discussed in this article will result in a far better success rate for the long-term stockholder. Portfolio turnover can remain low, while you remain protected from the larger trend shifts in your stocks. ▼

Keith will be on BNN's MarketCall Tonight show on Friday December 30, 2016 at 6:00pm (final trading day of the year!).

ValueTrend wins 2017 Canadian Business Excellence award

Barrie-based ValueTrend Wealth Management, of Worldsource Securities, was one of only 19 private businesses across Canada to receive a Canadian Business Excellence award. Presented by Excellence Canada and PwC Canada, the national award is administered annually. Keith Richards, ValueTrend founder, technical analyst and portfolio manager, said he's excited about 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."

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.