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STRATEGIES FOR SUCCESSFUL INVESTING

MARKET WISDOM

Market Rotation

HERO TO ZERO

Keith Richards

Over the past few years I've referred to the market as a "stealth" market. That is, one that sees money rotate from winning stocks into depressed stocks, and vice-versa. Rotation from sector to sector is also becoming faster and more pronounced of late. It is for this reason that I believe in truly active management of your portfolio –whether you do it for yourself, or you hire an active (i.e. NOT buy and hold!) manager to do it for you. I've created a little mantra that may help you remember to rotate your sectors in markets as we move forward:

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Today's hero becomes tomorrows zero

I'd like to suggest that there is a high potential for continued rotation from the current favorites (heroes) of U.S. technology, industrials, and financial stocks into other sectors. For the past while, those sectors have been the places to be. Interestingly, financials on both sides of the border have already begun to underperform. Time doesn't stand still, and money never sleeps. I'll be watching for signs of a change in trend and money flow into the currently flat or losing sectors and stocks (the zeroes).

In the charts on page 3 I'd like to highlight the past 3 years of rotation in one-year increments from May to May. I could have easily gone back further to illustrate my point, but 3 years of data will give you the general idea. I've used the Stockcharts.com "Prefchart" feature to show performance of the 9 major S&P sectors.

A BRIEF HISTORY OF TIME, SPACE, AND SECTOR ROTATION

May 2014 – May 2015

As you will see on this chart, the leading sectors in that time period were Healthcare (up almost 18 per cent) and Cyclicals (up 8 per cent). The underperformers were Energy (down 25 per cent) and Industrials (down 4.5 per cent). Materials were down 4 per cent as well.

May 2015 – May 2016

Very different than the 2014 – 2015 period, Consumer Staples (up 12 per cent) and Utilities (up 15 per cent) lead the charge in this rotation. Cyclicals continued to do well (up 5.7 per cent) while Materials were down another 4.7 per cent. Energy repeated its lousy performance with another horrid loss of 11.7 per cent. Of interest was the abrupt reversal of Healthcare from top dog in the prior period to a 2.6 per cent loss over this 12-month period. I'd also like you to take note that in this period, Technology (up 4 per cent), Industrials (up 2.8 per cent) and Financials (down 0.8 per cent) were relatively uninspired performers over this 12-month period.

May 2016 to May 2017

What a difference a year makes. In this rotation, we saw Technology (up 16.6 per cent), Financials (up 10 per cent) and Industrials (up 7.3 per cent) as the movers and shakers. Remember how Healthcare was the best place to be just 2 years prior, and Staples and Utilities were the leading sectors in the last 12-month period? Well, guess where they are now?

Staples is down 7.4 per cent, Utilities is down 2.5 per cent and Healthcare is sucking wind at a 6.6 per cent loss. Yesterday's hero, once again becoming today's zero.

Energy…yesterday and today's zero

I believe that oil, and energy-related stocks are in the process of basing. They are not buys at this time, and may not be for another couple of years. They are merely watch candidates. At this time, oil is trying to put in a bottom. When will it break out? You and I can't say. It's much too early to make such a prediction. Time will tell. A break of $62 would indicate a new bullish phase for this commodity and a return to $90. That's a long way off. But, things change quickly these days. Keep an eye on oil.

Staples – a zero that's becoming a hero

The consumer staples sector in the U.S. contains stalwarts such as Procter and Gamble, Philip Morris, Coca Cola and Colgate Palmolive. In Canada, companies like Loblaw, Alimentation Couche-Tard, and Metro are considered staples. The chart looks good for both the SPDR U.S. Staples ETF (XLP-U.S.). A Canadian ETF that nicely represents the Canadian stocks is the iShares Consumer Staples ETF (XSP-T). As an added bonus, Consumer Staples are considered seasonally attractive from May to October.

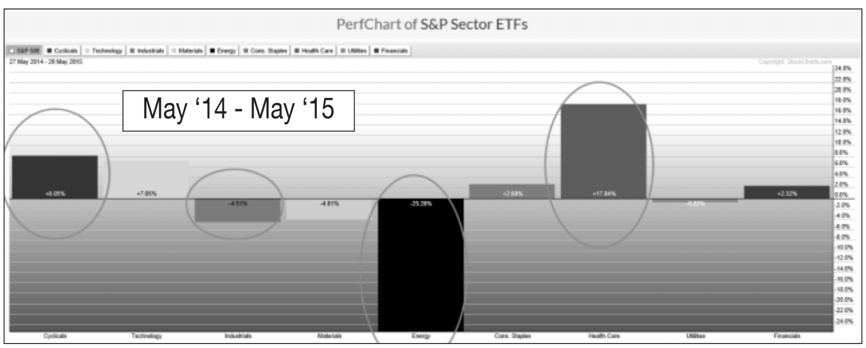
Heathcare – still a zero but watch for a breakout

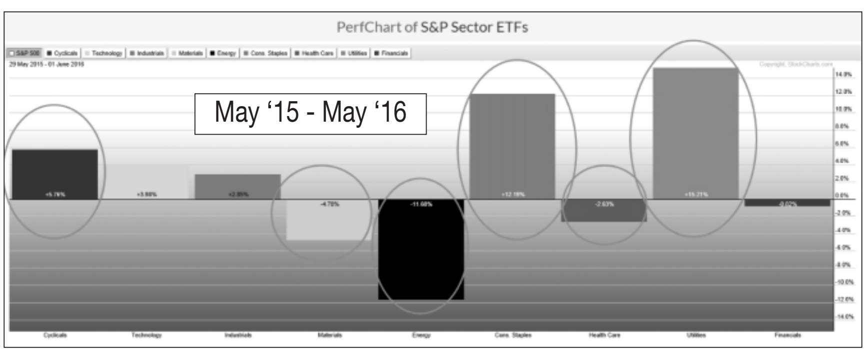
Great healthcare stocks like Johnson and Johnson, Pfizer, United Health Group and Gilead Sciences are represented in this group. Better to play the U.S. side if you enter this sector, as the Canadian side is just too small. The benchmark ETF SPDR Healthcare (XLV-U.S.) has been pretty flat since 2014. But a breakout through $76/ share might indicate a rotation back into that sector. Keep an eye on this one – its pretty close to that price as I write this article.

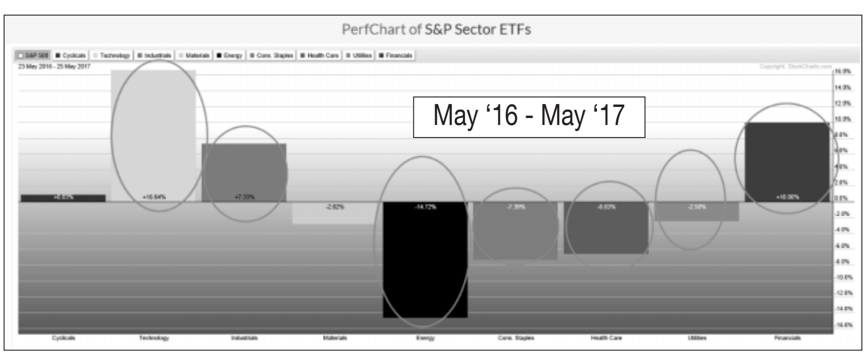
Keith on BNN

I will be on BNN's call-in show MarketCall on Monday June 12th from 1:00pm to 2:00pm. Tune in to BNN to catch me live on BNN's premier call-in show, where viewers like yourself can ask my technical opinion on the stocks you hold.

Call in with questions during the show's live taping between 1:00 and 2:00 pm. The toll free number for questions is 1 855 326 6266. You can also email questions ahead of time to marketcall@bnn.ca – it's important that you specify the question is 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.