



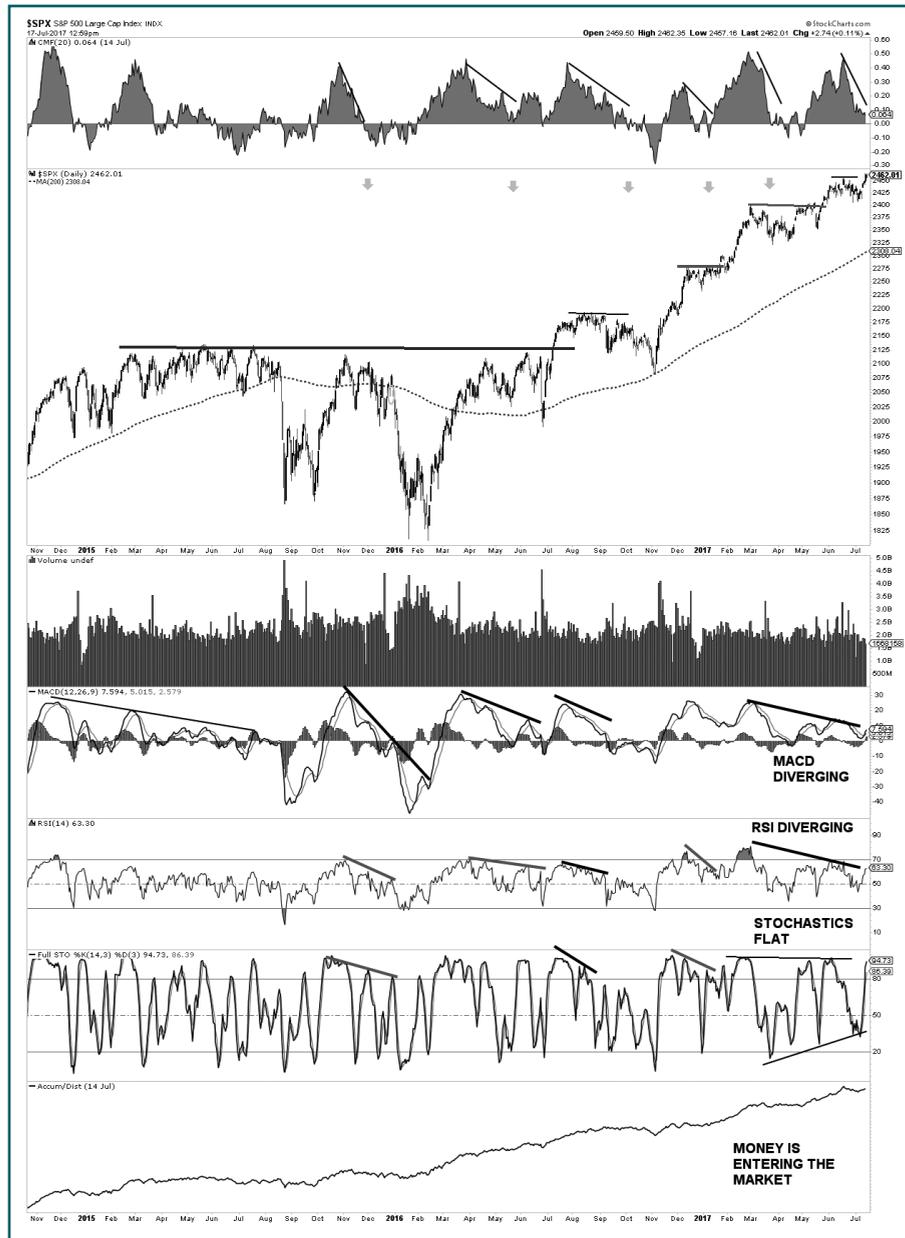
# Opportunity Awaits

Keith Richards

**O**n the next page is a chart of the S&P 500. This chart shows the market is in an uptrend. Higher highs and higher lows, and the upward slope and level of the 200-day Moving Average (dashed line) verifies this trend. You'll also note that the all-important cumulative moneyflow (Advance decline line) on the very bottom pane of the chart is trending up. That bigger picture indicator suggests that money is entering, not leaving the stock market.

However, there are a few indications that the market may be ripe for a short termed pullback soon. They are:

- **US Seasonal tendencies:** As the godfather of Canadian seasonal studies, Don Vialoux notes "The usual period of summer weakness from Mid-June to Mid-October has arrived".
- **August to October:** For the U.S. markets in particular, most corrections occur during the late summer/ early autumn period. The two weakest months of the year are usually August and September. Historically, close to 60% of those months are negative according to data supplied by stockcharts.com. October, while not usually a negative month, can start weak and end up strong - that's why many corrections and bear markets have bottomed during October.
- **TSX seasonal patterns:** Interestingly, the TSX seems to buck the trend of U.S. markets. May and June are historically poor months (less than half of which have been positive) – whereas August and September weren't too shabby for the TSX. Explanations for that outperformance of our market in the late summer might be due to the start of the positive seasonal patterns on some of our key commodities. There is a major positive seasonal pattern for gold to start moving up after July—and minor positive patterns for silver, copper and crude oil in the late summer. Further, you sometimes see the Canadian banks begin to move a bit better from late summer and on. This strength in the financials might be enhanced this year if the Bank of Canada pushes rates higher – which is favorable for banks.
- Despite positive cumulative money flow into the market that you can see on the bottom pane of the chart, its near-termed momentum is starting to turn down – as seen in the very top pane in the chart. Such occurrences can lead into minor interim corrections. I've marked these occasions with small arrows on the chart. You can see that it doesn't always happen that we get a pullback when moneyflow momentum slows, but it does happen more often than not.
- **Watch support:** A break of 2400 on the S&P 500 could result in a pullback to 2300 or thereabouts. That's an area of prior support and where the 200-day Moving Average lies.
- **Divergences in momentum indicators such as stochastics, RSI and MACD can lead into market corrections:** What this means in English is that price velocity, or speed of stocks movement, is starting to decline. Despite market index prices going higher, they are getting there less quickly. That means that the crowd is at least momentarily losing enthusiasm for stocks. Check the 3 panes directly below the price chart of the S&P 500. I've noted that MACD and RSI are currently diverging (moving down) bearishly – but stochastics (the fastest of the momentum indicators on this chart) is flat as I write this. It's a bit of a mixed picture, but one that still suggests potential for a minor correction this summer.



All in, there are no panic buttons to be pushed here, but it does look like we may get a pullback of about 5% in the near-term.

Keep an eye open for any weakness in the next couple of months –it may create opportunities. For this reason, it's not a bad idea to be holding some cash at this time. Meanwhile, investors looking for new stock ideas might want to watch for opportunities in the Canadian financial stocks- particularly the banks. Keep an eye on the telecom sector, some of the commodity sectors, and consumer discretionary stocks as well. So long as markets continue trending higher, any pullback seen this summer should be seen as an opportunity to add favorable positions.

Upcoming events with Keith Richards:

*Keith on BNN*; Keith will be on BNN's popular call-in show *MarketCall* on Monday, October 16th for the 1:00 p.m. show. 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](mailto:marketcall@bnn.ca)

Toronto International Moneyshow – Keith will be speaking on behalf of *MoneySaver* at this year's MoneyShow on September 9th at 10:45 a.m. The show is at the Metro Toronto Convention Centre. His topic will be *How to Profit from Fear and Greed*.

He will conduct a second workshop on September 9th at 2:45 p.m. on *Technically trading ETF's*.

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