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Investors should view recent insider sales as an indication that this summer's correction may last longer than previously thought

Market's spring peaks may be short-lived

Keith Richards

For most of us, spring is a time of renewed optimism and positive energy after a long, harsh winter.

But spring doesn't usually lead to growth for investors. Markets tend to form short-termed peaks in April or May that are followed by corrections in the summer.

(In my March 29 column, for example, I predicted the bull would go back into its pen in early spring. And it has).

Even during the recent four-year bull market, the S&P 500 Index still traced out short-term peaks, as did its Canadian counterpart, the TSX 300 Composite.

That's partly why in late March I closed out many of my Canadian holdings, such as **Horizons TSX 60 ETF** (HXT-TSX, $10.53), **Canadian National Railway Co.** (CNR-TSX, $98.05) and the **National Bank of Canada** (NA-TSX, $73.86).

I've also sold many of my U.S. names including **Starbucks Corp.** (SBUX-NASDAQ, $57.71) and the **iShares MSCI Minimum Volatility Index Fund** (XMU-TSX, $22.99).

By selling these holdings, I raised more cash than I usually do — so much so that the cash component of the funds I manage is now close to 40 per cent. Typically, it's closer to 15 per cent.

But I decided to boost the cash balance almost threefold, given my belief that this summer's pullback may last longer than normal.

Why do I say so? For starters, the expected peak of a four-year bull market is due to mature in the first half of 2013.

Moreover, the "smart money," such as commercial hedgers and insiders, have recently been selling equities. Usually these investors are ahead of the curve.

In addition, the "dumb money" — small speculators and buyers of mutual funds — have been buying at a pace similar to what we saw during the market peaks in 2000 and 2007. Historically, these folks tend to make the wrong calls.

Then, too, short-termed momentum indicators such as the relative strength index and the moving average convergence divergence oscillator have diverged negatively, while markets have risen. Such a relationship often signals a change in market trends.

Meanwhile, some breadth indicators, such as the percentage of stocks trading above their 50- and 200-day moving averages, are also diverging negatively — yet another potential warning for investors.

So what's left in my equity portfolio? Mainly low volatility names such as **First Capital Realty Inc.** (FCR-TSX, $18.76), **Brookfield Infrastructure Partners L.P.** (BIP.UN-TSX, $38.35) and the **BMO Equal Weight U.S. Banks Hedged to CAD Index** (ZLB-TSX, $15.41).

In the event of a likely pullback, these holdings will offer dividends, along with relatively stable prices.

In the interim, I've recently added an alternative strategy fund to my portfolio: the **Horizons Auspice Managed Futures Index ETF** (HMF-TSX, $9.40).

Although this fund isn't a traditional bear market hedge, it can offer some upside in a falling market.

The fund's managers are trend followers who will go long or short some 20 different commodities in various proportions. Their success doesn't hinge on a rising or falling market, thus making the fund appealing to folks who believe things will be bearish over the near term.

Despite my current emphasis on a big cash position and low volatility bets, the time will come when I'll want to plow the cash back into top quality growth stocks.

Admittedly, it's hard to say when such a buying opportunity will occur. After a spring break, the market can bottom out at any time between June and October.

Re-entry may be nigh

But when the "smart money" starts buying again and both market breadth and momentum oscillators begin acting normal, it may be time to get back in.

Yet another indicator would be the S&P 500 reaching a reversal point over the near term at a technical support level of 1450, or failing that, of 1400, or even 1350.

Of course, if the correction this summer is strong, it could pull the S&P 500 down as low as 1150. But that would be an extreme case.

In the interim, I've been drawing up a shopping list of stocks and ETFs that I'd like to buy. You should do the same.

The names on my list are stocks I don't yet own, but that I'd buy at a more attractive price.

One sector I'm now watching are the Canadian banks which I sold in the first quarter. And given that bank stocks have since fallen nicely, I'm happy I bailed out when I did.

But since one of the best entry points for buying the banks is near summer's end, I'll likely go back in when that time comes.

Indeed, when the time is right, you yourself might want to consider playing the sector by buying the **BMO S&P TSX Equal Weight Bank Index ETF** (ZEB-TSX, $16.87).

I'd also like to get back aboard the railways. Having sold CN Rail in March at $100 a share, I'd consider buying it back when it hits the low nineties.

Canadian Pacific Railway Ltd. (CP-TSX, $121.43) would get my attention as well, should it fall to $110-$115 a share.

I'm also keeping my eye on **Apple Inc.** (AAPL-NASDAQ, $419.85), formerly a market darling, but now a market dog.

That's because Apple's downtrend, which began in mid-2012 when it hit $700 a share, now looks to be coming to an end.

In my book, *Sideways: Using the Power of Technical Analysis to Profit in Uncertain Times*, I stress the importance of looking for a basing pattern as a signal that a downtrend is ending.

Base may be forming

The fact that Apple hasn't made a lower low since hitting $420 a share suggests it may be forming a new base. In fact, during the first quarter of 2013, Apple has twice bounced off $420.

Should Apple stay above $420 and then break through $470, it would be in a new bull market.

In the interim, enjoy the benefits that spring offers. Take your Harley out of storage, or strap on your new pair of Nikes for an invigorating run down the trail.

But look to become a bit more defensive in your investment portfolio. Like mother nature's cycles, there are times to play — and times to hunker down.

Keith Richards is portfolio manager of Value Trend/Wealth Management in Barrie, Ont. You can follow his biweekly calls, as well as read his comments about where he thinks the market is going, on his blog, www.smartbounce.ca.