

Investor's Digest

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Canadian Tech

Industry worth it, but choose carefully

Canadian tech stocks are a rare species. If we look at the iShares Canadian Capped Information Technology Index ETF (XIT-TSX, \$16.68), it holds, brace yourself...a whopping 10 stocks in its portfolio.



Keith Richards

Compare this to the widely followed SPDR Technology Select Sector ETF (XLK-NYSE/Arca, US\$65.53) which holds 71 U.S. stocks.

This suggests that the Canadian technology space is significantly more concentrated than the U.S. market. It also means that buyers of the iShares ETF had better like most of its holdings, given the weighting of its individual stocks. More importantly: Is the Canadian tech sector worth buying at all, given the rabid

moves in the U.S. tech markets? In my opinion, you are better off picking the individual components rather than buying an ETF for the Canadian tech space. That's because 70 per cent of the iShares Canadian technology ETF is weighted in

only four stocks.

If you don't love those stocks, there is no point in buying the ETF for diversification. You aren't getting much diversification in this concentrated play, outside of those four companies.

Let's take a look at these four power-play stocks that drive the Canadian technology space. Are they attractive?

CGI Group Inc. (GIB.A-TSX, \$70.40; GIB-NYSE, US\$56.26) is the biggest component of the iShares domestic tech ETF. It makes up 22.6 per cent of the

ETF's holdings.

At ValueTrend, we hold a position in GIB.A. It's technically attractive. The chart shows that the stock is in an upward trend and above its 200-day moving average.

Recently, it was stuck in a trading pattern with a ceiling at around \$70 per share. The stock broke that ceiling after a good earnings report at the end of January.

OK. So let's say thumbs up to GIB.A. Note there is a very strong similarity between the GIB.A chart and that of CSU, discussed below.

Constellation Software Inc. (CSU-TSX, \$777.38) is the next-largest holding in the ETF, at a 19.5 per cent share. This stock is clearly in a positive trend.

Like GIB.A, it's putting in successively higher highs and higher lows, and it sits nicely over its 200-day moving.

What's not to like about that?

Thumbs up to CSU.

Shopify Inc. (SHOP-TSX, \$152.66; SHOP-NYSE, US\$122.14) had been consolidating since April of last year. It recently broke out of that consolidation pattern by moving through the \$150-per-share ceiling. That ceiling had contained Shopify since last September.

Thumbs up to SHOP, which represents more than 15 per cent of the iShares Canadian tech ETF's weighting.

Open Text Corp. (OTEX-TSX, \$44.47; OTEX-NYSE, US\$35.55) was similar to Shopify in that it had been consolidating since early 2017. The difference is that Shopify has since broken out of its holding pattern, as noted above. Open Text remains stuck in its holding pattern.

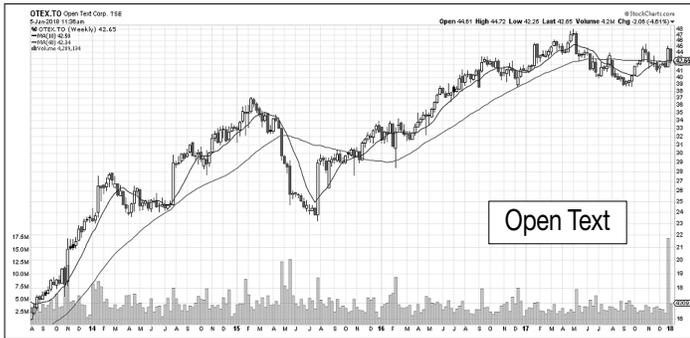
I would need to see a break above \$48 a share before I became interested in Open Text. So, thumbs down to OTEX, which makes up roughly 15 per cent of the XIT ETF.

Conclusion: With some 15 per cent of the iShares ETF's weighting in the sideways-trading Open Text stock, why would you buy the index ETF? Clearly, the stronger charts of CGI and Constellation Software would be offset to some degree by the dead weight of Open Text.

As noted above, we own CGI. I'd not hesitate to own Constellation and Shopify too, but I'd avoid the ETF.

As an aside, **BlackBerry Ltd.** (BB-TSX, \$15.02; BB-NYSE, US\$12) does appear to be breaking out, and it makes up 10 per





cent of XIT. So again, it could be an individual stock worthy of examination within the Canadian tech space.

We recently took a small position in this relatively more aggressive Canadian tech play based on that potential—and may add to it if the stock illustrates further technical upside.

The other four stocks in the iShares ETF represent only one per cent to two per cent (approximately) each and don't offer very good charts at all – adding to my decision not to own the ETF.

Keith on BNN

I appear regularly on BNN's *MarketCall* to answer viewer questions about the technical analysis of stock trends, and to provide unique insights on the factors of technical analysis used in successful investment management.

My next appearance will be on Monday, April 2 at 1 p.m.

If you have questions about the technical analysis of trends as applied to individual stocks, be sure to phone in with your questions for me during the show.

Call toll-free at 1-855-326-6266, or email your questions ahead of time (specify they are for

Keith) to marketcall@bnn.ca.

Keith Richards, Portfolio Manager, can be contacted at k-richards@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 projec-

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