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STRATEGIES FOR SUCCESSFUL INVESTING

MARKET WISDOM

As the Stocks Rotate

FOLLOW THE MONEY

Keith Richards

I'VE MADE NO SECRET OF IT – we at ValueTrend hold a very strong belief that the market simply CANNOT continue to push high-growth stocks up in a straight line. Something has to give sooner or later.

Money may rotate out of some of these high flyers into value stocks, and/or overlooked sectors. There are opportunities appearing right now in overlooked sectors and stocks. I'd like to look at a few sectors that we have bought, or are looking at possibly buying as potentially overlooked – or newly breaking out - sectors.

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U.S. banks

The U.S. big banks have already broken out. Below is the BMO Equal Weight U.S. Banks (ZUB-T) chart. You can clearly see a nice breakout followed by some upside momentum. Given the breadth of the sideways trading base, the breakout suggests significant upside potential. As is said in Technical Analysis, "The greater the base, the better the case." Or something like that!

The regionals have been a step or two behind the big banks, at least from a technical perspective. Below is the U.S. regional bank ETF, KRE-U.S. You can see that we are in a much earlier stage of the breakout. The chop in the sector since the breakout may be due to the independent problems that regional banks in the west might face as a result of the fires out there. California's economy will be affected by these fires, thereby affecting its banks. The reason I would consider an ETF like this one is the opportunity to diversify outside of any particular region's challenges.

Whether we look at the large banks or the regionals, both are beneficiaries of rising interest rates and steady economic growth. One could argue that the stage is set for both in the United States.

Energy

WTI crude oil blew through $62 resistance recently. This is the level below which oil has been contained since early 2015. I've been talking about the oil sector as a trade on BNN since November. My blog in November suggested a Buy if oil held $55, which it did. We entered the trade shortly after that blog was written with an 8 per cent portfolio position (3 energy stocks). We may bump it up to 10 per cent, with a direct oil play via a crude oil ETF, such as the United States Oil fund (USO-N). I'd look to the mid-$70's then $90 as possible targets for WTI crude – as per my indications on the chart below.

Upcoming sectors to watch

Gold has been stuck under a very heavy lid since 2013. It has not broken $1400/ounce. The bigger challenge for gold has been in the $1360-$1380 area. I wouldn't buy gold until it broke $1400, unless you are viewing it as a very near-term trade. But there is a chance it could break later in the year. Materials tend to do well in the face of rising interest rates. Bullion and gold producers will be interesting, should gold break the 5-year holding pattern its been stuck in.

Consumer staples have been trading sideways for most of 2017. The SPDR ETF (XLP) needed to break through about $57, to confirm that its otherwise

healthy- looking, long-term trend is intact. It finally did break that price point in January. We're looking at that breakout as a sign of possible rotation as value stocks return to the limelight. ▼

Keith on BNN Televisions MarketCall Monday April 2nd at 1:00pm

Keith appears regularly on BNN MarketCall to answer viewer questions on the technical analysis of stock trends, and to provide unique insights on the factors of technical analysis used in successful investment management.

If you have questions about the technical analysis of stock trends for individual stocks, be sure to phone in with your questions 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.

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