

Investor's Digest

of Canada

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Who doesn't love the banks?

Last issue, I highlighted some of the issues that investors who have a long-term outlook on the Canadian economy will encounter in the coming months.

Overall, we stand by our view that Canada is and will remain an underperforming market. That said, a longtime bright spot has been our banks.

Here's a monthly chart of the **BMO S&P/TSX Equal Weight Banks Index ETF (ZEB-TSX, \$28)**. Nice upward trend, I must say.

Canadian banks have been a great place to be for a very long time. However, the sector is not without its harrowing moments. For example, the period between mid-2014 and early 2016 was a lousy time to be in the banks. Sure, the trend returned, but you had to wonder if that 18 months or so could have been better spent elsewhere....

Investors might be wondering about bank stocks' recent meandering.

As you will note on the monthly chart, the banks are on trend at the moment. But they really did arch off of the trend line after the 2014-16 pullback was finished.

The 10-month moving average (which is fairly close to the 200-day moving average) did not show a period of crazy overbought levels despite this off-trend rally from the 2016 low point. I look at prices 10 per cent over the 200-day moving average as the first signs of an overbought



Keith Richards

market. When it's way over that level, I consider it outright bearish.

So the recent pullback or "pause" in the banks is likely just a removal of the overdone movement off of the previous trend line over the past year or so.

Technical indicators are largely bullish for the banks.

Rising money flow, bullish but not overbought momentum indicators, and a solid comparable relative strength compared to the S&P/TSX Composite suggest that the sector might be OK until the spring.

Seasonal patterns are typically bullish for financials until June. I have two Canadian banks in the Equity Platform here at ValueTrend, **Canadian Imperial Bank of Commerce (CM-TSX, \$110.63; CM-NYSE, \$87.96)** and **Bank of Nova Scotia (BNS-TSX, \$76.85; BNS-NYSE, US\$61.04)**. I intend to hold them until at

least the spring.

Beyond a few individual names in Canada not mentioned above and in my previous column – we hold a little less in Canadian stocks than we might normally want.

Our view on the business environment, unfavourable government policies and the USD-to-CAD exchange suggests tilting our equity platform somewhat in favour of U.S. stocks.

Perhaps that is something you should consider as well.

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

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