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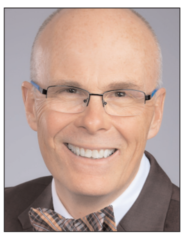
Investor's Digest of Canada

June 8, 2018 | Vol. 50, No. 11

Which of yesteryear's dogs (if any) is about to have its day?

When subpar stocks turn around, there's a reason



Keith Richards

For those investors looking for value stocks, it sometimes helps to look at the worst-performing stocks of the previous year. While it is certainly NOT the case that every poorly performing stock represents a value play, there can sometimes be flowers amongst the weeds.

Most stocks that have been poor performers deserve to be down. In fact, a freefalling stock will tend to remain in freefall unless something fundamentally positive happens to halt the decline. With this thought in mind, an investor might ask how they might identify the early signs of a turnaround story. Technical analysis can help in this regard.

If I may be so bold, I would implore you to read my book Sideways. The book outlines a methodology for identifying the phases of a stock's cycle. While I cannot outline the entire book's trend identification strategy, suffice to say that bottom pickers will want to spot a stock that has stopped declining, and is building a base from which it can launch. In order for a stock to break out of such a base, it needs a fundamental catalyst to invoke new confidence in investors. This might be a new CEO, a renewed strategy for cost-cutting or enhancing profitability, a new market, a new product – anything. As such, please do your own fundamental research on the basing stocks I am presenting today. They are simply starting points for you to do further research before deciding to buy.

I thought it might be fun to examine 2017's worst-performing stocks that look to be putting in a base. Base breakouts can be powerful moves. A base that is in the development stage can be encouraging, but you do not buy a stock, or market, while it is contained within that base. That's because you can get your head handed to you if the stock breaks out to the downside.

Better to wait and confirm an UPSIDE breakout before committing. Yes, buying higher is better!

Some of the stocks I am looking at today have NOT broken out – and some have. None have met ValueTrend's fundamental criteria, also known as the work done by our in-house CFA, Craig Aucoin – yet. So, again, please use these ideas as stocks to watch, and do your own fundamental research should they appear technically attractive prior to committing. (We don't own any of these positions. We may in the future.)

General Electric: If you look at the analysts' comments on **General Electric Co.** (GE-NYSE, US$14.60), you will find this stock to be a love it or hate it situation. There is no consensus on this stock. Some think it's a value play. Others say GE is yesterday's story.

The chart on page 223 shows us that the downward trend is stalling on this stock. It really needs to break US$15 per share and stay above that level for a bit before examining the stock for possible entry.

Still, it may be worth keeping an eye on this one. It does pay a pretty nice dividend yield of more than three per cent.

Valeant: Valeant Pharmaceuticals International Inc. (VRX-TSX, $28.61; VRX-NYSE, US$22.22) is showing an encouraging chart formation.

It's flirting with the 200-day Simple Moving Average (SMA), and it's recently put in higher highs and lows. Lots of technical selling pressure will come in at $30, then $40 a share. A break through $30 might suggest a pop to $40.

Do your homework on this one. It had been a prime short candidate among many a hedge fund manager (except Bill Ackman, who was "long and wrong" for a long time).

There was a reason for that short. The company was mismanaged. New investors need to see evidence of a better business plan going forward.

TripAdvisor: The downtrend seems to be ending for **TripAdvisor Inc.** (TRIP-NASDAQ, US$49.09), as you can see on the chart at right. Perhaps a new "TRIP" toward the upside is in store.

Under Armour: Under Armour Inc. (UAA-NYSE, US$20.58) has also put in what appears to be an early-stage breakout. Certainly this is one stock to take a closer look at.

Fossil: Fossil Group Inc. (FOSL-NASDAQ, US$19.56) looks like Under Armour— a new life is beginning, perhaps. It seems like at least some of the retail stocks are improving – perhaps they aren't such "fossils" after all!

Chipotle: ¡Ay, caramba! Nothing like poisoning your customers to sink sales. **Chipotle Mexican Grill Inc.** (CMG-NYSE, US$435.51) has recently been surging, an apparent turnaround after their food-poisoning episode got under control.

The stock has almost doubled from its low to the current level of US$435. Perhaps the stock will break thorough this fairly massive current level of resistance in the low US$400s.

This is the hardest chart of the group I've looked at to make a call on. But it's worth doing some homework on for those with an eye for value.

Keith on BNN

Keith appears regularly on BNN's 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.

His next appearances are on Wednesday, June 6 at 6 p.m. and Monday, July 9 at noon.

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 these shows.

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 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 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 projections or other "forward-looking statements." There is significant risk that forward-looking statements will not prove to be accurate and actual results, performance, or achievements could differ materially from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements and you will not unduly rely on such forward-looking statements. Every effort has been made to compile this material from reliable sources; however, no warranty can be made as to its accuracy or completeness. Before acting on any of the above, please consult an appropriate professional regarding your particular circumstances.