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STRATEGIES FOR SUCCESSFUL INVESTING

MARKET WISDOM

The U.S. markets are about to test their 2015 summer lows. If they don't bounce back, the next level of support seems to be around the level of the early winter of 2014. Any rally may pose an opportunity to sell some equities but keep an eye on U.S. treasuries, gold bullion and U.S. utilities for buying opportunities.

BAD NEWS BEARS HOLDING SWAY

Keith Richards

IT WOULD APPEAR THAT THE summer lows for the US markets at around 1870 will be retested fairly soon. I would think that this level will support stocks — or at least offer some near termed support for a bounce. If they don't hold, it will be ugly for markets across the world.

My blog, at *www.valuetrend.ca* provided some macro indicators, including breadth indicators that do suggest an oversold bounce is possible 'shortly'. However, the bigger picture is deteriorating.

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MACD LOOKING UGLY

Further, at the time of writing we can see that daily momentum indicators are quite oversold. — However — MACD, which is a longer termed momentum study — looks ugly. Its continued move down suggests that any rallies should be sold.

Should the lows of S&P500 at around 1770 break, the market looks to have a next level of support around the January 2014 corrections lows of 1700 or so.

That area of support is valid, but it is quite a bit weaker than the 1770 area. A break of 1770 will be unpleasant for equity investors — given the fact that strong support doesn't come in for a long way down. It's a guess as to where markets will find a comfortable point to settle should the summer lows fail.

THIS CORRECTION IS NOT YOUR AVERAGE JOE

Interestingly, out-performance by US treasuries (TLT-US), gold bullion (GLD-US) and utilities (XLU-US) suggest that this correction is not your standard blip on the radar. It is my opinion that a bounce should be used as an opportunity to lighten equity positions.

However, there may be some areas one can safely make a dollar or two in over the coming months. Further evidence of out-performance by these 3 groups should be eyed before buying, but they should be on your potential buy list if the recent outperformance patterns continue.

I must admit that this correction caught me off guard. I held only 10% cash coming into this early January correction — and I have spoken with very savvy traders and technical analysts who are in the same boat.

However, even when one gets blindsided by an unforeseen event, this does not give one permission to stare into the abyss with no trading plan. As such, I have been legging out on market rallies of late. There will be bounces to play in this market, but it appears to me that the action will be much shallower and shorter in duration than the past year's sideways moves. Further, the danger of a break of the August/September lows is a very real potential.

BUT THIS CORRECTION IS RANGE-BOUND

While the above suggests that I am predicting doom and gloom for the markets, I am actually viewing this market as range-bound, rather than entering into a bear market.

I'd like to suggest there isn't a lot of danger of a major crash this year, beyond rallies and corrections. However — there isn't much hope for a new up leg in the bull market past 2130 on the S&P500 at this time either. A new leg in the bull market will eventually break out — but it may take several months to happen. Breakouts need a catalyst — in either direction.

While a breakdown may occur from the pressures surrounding China, I am not convinced this will be the catalyst to bring on a bear market in North American markets.

Meanwhile, I cannot see a positive catalyst to push the markets up from this point either. In other words, there is much more sideways volatility to come, in my opinion. But probably not a crash.

THE GOOD NEWS

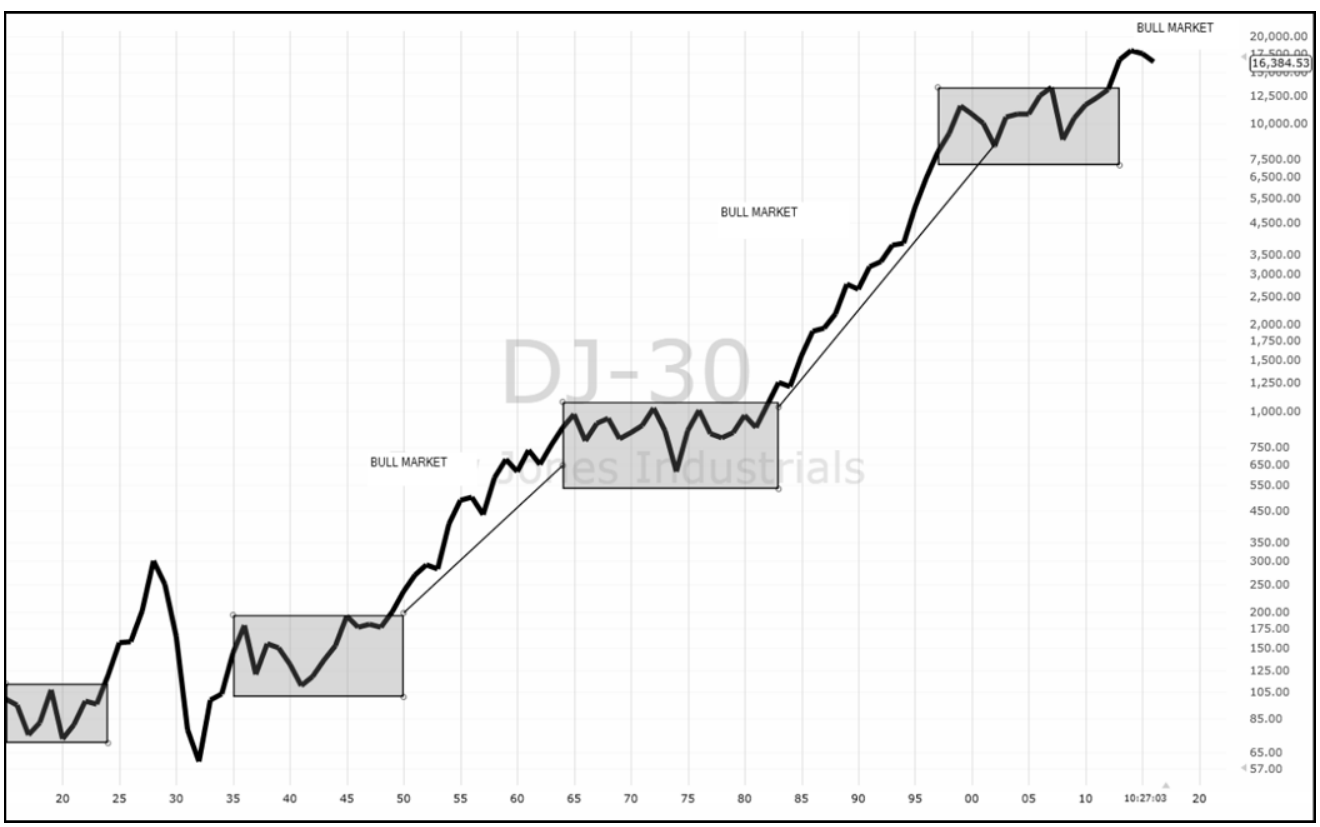
It is my opinion that we are still in a secular bull market which should carry us until 2020 or much later. See the 100 year chart of the Dow Industrials below (courtesy *freestockcharts.com*) where I've notated the secular sideways and bull markets. It is clear that the US markets have broken into a secular bull phase. However, it is also clear that US markets are in a corrective wave within that secular bull (BTW — the TSX is far too commodity orientated to be of predictive value).

That corrective wave started late 2014 and has shown sideways movements since. The bull market, in my opinion, will break out again — but not without a catalyst — as mentioned above.

That catalyst hasn't appeared yet. So we should assume more sideways (big up/swings) patterns until proven otherwise.

TRADE THE SWINGS UNTIL THE MARKET BREAKS OUT

If the market remains as range bound as it has been over the past 14 months, I am inclined to trade these swings as best I can. This, in my view, will be the only way to earn positive returns for the



time being — as it was in 2015. Buy and hold investors will likely continue to be disappointed in their returns.

Eventually, the market will break out and move into the next up leg of the bull market. Until then, we will trade accordingly. You should too.

KEITH ON BNN

I will be on BNN's call-in show MarketCall Tonight on Friday January 29, 2016 from 1:00pm to 2:00pm EST. Tune in to BNN to catch me live on BNN's premier call-in show, where viewers like yourself can ask my technical opinion on the stocks you hold.

Call in with questions during the show's live taping between 1:00 and 2:00 pm. The toll free number for questions is 1 855 326 6266. You can also email questions ahead of time to "marketcall@bnn.ca"— it's important that you specify they are for me. ▼

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. ETFs may have exposure to aggressive investment techniques that include leveraging, which magnify gains and losses and can result in greater volatility in value, and be subject to aggressive investment risk and price volatility risk. ETFs are not guaranteed, their values change frequently, and past performance may not be repeated. Please read the prospectus before investing. 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.