June 2016 / Second Report

Volume 40, Issue No. 12

THE MONEYLETTER®

STRATEGIES FOR SUCCESSFUL INVESTING

MARKET STRATEGY

'National champion' CAE Inc. is a buy

A SUMMER STRATEGY

Keith Richards

SEASONAL INVESTMENT EXPERTS like Don Vialoux, Brook Thackray, and Yale/Jeffery Hirsch note that markets tend to be strongest from November to May. From May until October, the potential for weaker markets increases.

True, not every summer or fall brings chaos to the capital markets. But the odds do increase for weaker or even negative returns during this period. This is why, despite some strong May-October periods on North American stock markets, the long-term returns (since 1950 – see Thackray's Seasonal Guides) have been outright negative from a consistent investment pattern of May – October investing.

Keith Richards is a Portfolio Manager at ValueTrend Wealth Management. Sponsoring investment dealer: Worldsource Securities Inc. Member: CIPF and IIROC. He provides commentaries on equity markets and stocks during television and radio interviews and is a frequent guest on Business News Network. He also writes a monthly business column for Investor's Digest of Canada.
krichards@valuetrend.ca.

On the defensive

Perhaps it is because of these weaker markets over the more volatile summer and fall periods that defensive sectors like bonds, utilities, and staples tend to do well. Right on schedule, we can see this happening on the charts. Recent breakouts by XLU-US (SPDR Utilities ETF), XLP-US (SPDR Consumer Staples ETF) and TLT-US (iShares long bond ETF) illustrate a rotation into safety.

Here in Canada, we see the same strength in defensive sectors such as utilities and REITs. Investors eyeing those sectors might consider the BMO Canadian Utilities ETF (ZUT-T) and the iShares Canadian REIT ETF (XRE-T). Or choose your favorite individual names within either or both of those sectors. Canadian telecoms, too, illustrate relatively steady performance over times of market volatility. BCE-T, in which we at ValueTrend hold a position or Rogers (RCI.B-T) are good examples of high-quality stocks in this sector.

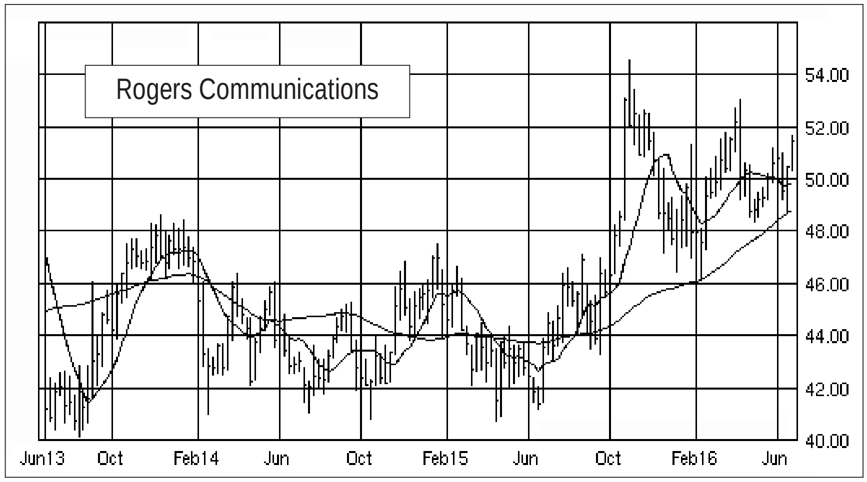
Counter weaker returns

Meanwhile, we are witnessing hesitancy by investors to push the "higher beta" sectors to new highs of late. Beta, for those unfamiliar with the term, is a measurement of a stock or sector relative to the broader stock market. The higher the beta the greater leverage a stock or sector has relative to the market's movement. Thus, a stock with a beta of 1.2 implies a movement of 120 per cent of the overall market by that stock – up or down. If the market rises, this stock will (theoretically) move up by 120 per cent of the stock market's movement. If the market falls, you might expect the drop on your stock to be amplified by 120 percent in a downdraft.

If markets are going to continue their long term potential for weaker returns over the summer, you might consider avoiding higher beta sectors within your portfolio right now. Some higher beta sectors showing signs of underperformance at this time include technology, consumer discretionary stocks, and biotech – to name a few. Even the broader-based NASDAQ – which contains many of these higher beta names --- may struggle a bit over the summer if this year turns out to be a typical one.

Think bonds

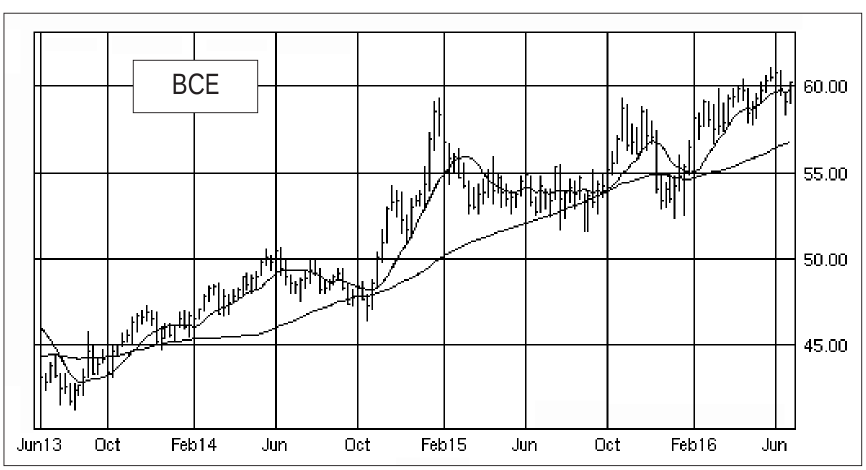
One way to play the tendency of markets to favour bonds over the summer is with a Canadian-orientated higher-yield bond ETF. The iShares Hybrid bond ETF (XHB-T) holds about a quarter of its portfolio in energy names – along with financial and real estate names which hold further exposure to the West coast. If you believe that the outlook will continue to improve for energy, this may be a more diversified way of trading that potential, while keeping your money less exposed to broader market gyrations over the summer. The technical patterns for this ETF show us that there is some significant resistance ahead in the $21-21.50 range for XHB. This 5 per cent potential gain over current prices may not appear to be huge, but combining that with the 4per cent yield on the ETF might make income-orientated investors take a second look.



Play the odds

Trading and investing is very much a game of the odds. That is, whether you are evaluating the merit of an individual name or a seasonal period for investing, you don't know ahead of time what the outcome of your investment decision will be. Risk and reward continuously lurk about in the markets. Just because markets, or a sector, are statistically skewed towards more risk over the summer does not imply that you will always lose money if you invest during that time period. Further, lower beta stocks may end up underperforming during the summer, despite their historic tendency to outperform in that timeframe.

Whatever the case, it is my conviction that trading with the odds - whether seasonally, technically or fundamentally - increases your potential for success over the long run. For this reason, I am holding some cash and focusing on lower beta positions in the platforms I manage on behalf of ValueTrend clients. Perhaps you should consider doing the same. ▼



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 circumstance.