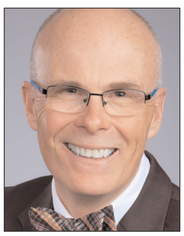
VOTED THE WORLD'S BEST INVESTMENT ADVISORY

Investor's Digest of Canada

September 21, 2018 Vol. 50, No. 18

IDEAS FOR SEASONAL AND TECHNICAL STOCK ROTATION

Canadian and U.S. utilities on opposite paths



Keith Richards

In about two months, we enter into the "buy" season, the "best six months" of the year to pick up stocks. Officially, it arrives about the end of October or in early November, but you can get a buy point any time between Aug. 1 and early November.

Some sectors are affected by seasonal trends to a greater degree than others. As the "worst six months" season ends, sectors to potentially sell include defensive areas like Treasury bonds, consumer staples, utilities, and some of the major commodities like oil and gold. Sectors on the "buy" side of seasonality (best six months) can be industrials, consumer discretionary, technology, home construction, and financials.

Please note - I'm not a seasonal expert, but I do "hang out" with a few of them, and that's influenced my way of viewing market cycles. For the record, at the bottom of this article is a brief list of the leaders in seasonal studies, along with their websites. I recommend you peruse all of the "real" seasonal gurus' commentaries periodically.

All of the above said, I'm a technical guy first, last and always. I look to the charts first; seasonals are a background for my analysis.

Below, I will cover three of the stronger and more widely owned seasonal "buy" sectors – discretionary, technology, and financials – keeping a technical perspective as my priority. I'll contrast them to three widely followed "sell" sectors – staples, utilities, and treasuries. The idea here is to see if seasonals and technical signs agree…or not! Here goes:

Winter losers

Consumer Staples: We own the **SPDR Consumer Staples Select Sector Fund** (XLP-NYSE/Arca, US$54.33) at ValueTrend. As you will note from the chart, the sector bounced off of a significant support point, and is now nearing a major resistance point. Its overbought, yet still underperforming the broad markets on a long-term basis. Time to sell is near, right on schedule with the seasonal trends. By the time you read this, we may be out of the position.

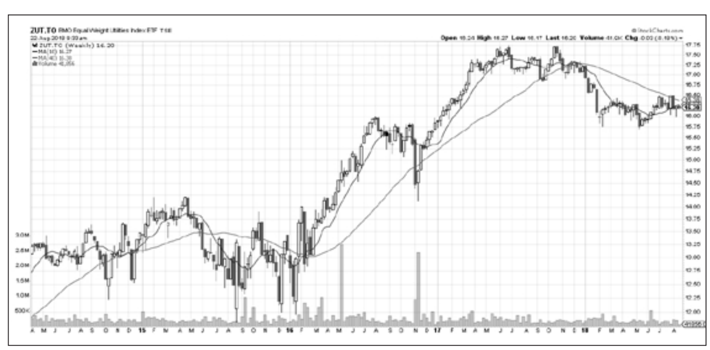
Utilities: Here's something that doesn't happen too often. The same sector on both sides of the border is in opposing phases (see my book *Sideways* for an explanation of market phases). While the U.S. utility sector, as illustrated by the **SPDR Utilities Select Sector Fund** (XLU-NYSE/Arca, US$54.46), is possibly facing a sell level at a point of technical resistance, US$55, after its strong upside – the Canadian equivalent, the **BMO Equal Weight Utilities Index ETF** (ZUT-TSX, $15.94) is basing after a significant decline. Clearly, XLU is something to be avoided until and unless it can break US$55 making it look appropriate for a seasonal trade. Meanwhile - ZUT might be a worthwhile candidate for buying, but ONLY if it breaks out of its base ($16.50-ish). This pattern defies the seasonal trade on the Canadian sector. Very interesting, indeed.

U.S. Treasuries: I'll use the **iShares 20+ Year Treasury Bond ETF** (TLT-NASDAQ, US$119.71) to illustrate the bond market. It represents the 20-year U.S. Treasury bond and it's a well-followed marker for bonds. As you can see, the TLT did follow its seasonal tendency to be strong over the summer, and had a particularly sharp move this month (August). You can also see that it's coming into technical resistance at around US$122, while being overbought on the daily chart per high RSI (relative strength index) and stochastics readings. Overall, I'd suggest that the T-bond looks to be following its seasonal pattern. It's likely a good sell candidate as it enters into its seasonally weaker period over the winter.

Winter winners

Consumer Discretionary: The **SPDR Consumer Discretionary Select Sector Fund** (XLY-NYSE/Arca, US$115.91) is heavily weighted in **Amazon.com Inc.** (AMZN-NASDAQ, US$1,994.82). In fact, 25 per cent of the ETF is in that one stock. This skews the sector, given the overweighting of a top-performing stock. But, it is what it is, as they say. Clearly, XLY had no weakness this summer – probably because of the AMZN weighting. It's still on trend, although I have to think that an overbought pullback would provide a better buying opportunity. You can see on this weekly chart that momentum is overbought, and stochastics is rounding over. MACD (moving average convergence/divergence) looks like it wants to do an overbought crossover (moving average lines on that indicator. I'd buy on a pullback.

Technology: Here we go again…like the XLY ETF noted above, the **SPDR Technology Select Sector Fund** (XLK-



NYSE/Arca, US$74.37) has major weighting in two stocks. **Apple Inc.** (AAPL-NASDAQ, US$226.87) and **Microsoft Corp.** (MSFT-NASDAQ, US$108.49) represent 26 per cent of the ETF. So, you might consider this ETF less efficient as a representative of the sector overall, given that concentration. Like I said above when looking at XLY…it is what it is. As you will note on the chart, the sector is overbought per the momentum studies, and may need a refreshing pause before buying new shares at this time. Similarly to XLY, it didn't hesitate during the summer – disrupting the usual seasonal tendency to underperform a bit in those months. Buy on a pullback.

Financials

Note that financials contain different subsectors that vary slightly in seasonality, so be sure to visit one of the seasonal expert resources noted at the end of this column to get more precise seasonal dates.

Banks: I will reference the **SPDR S&P Bank ETF** (KBE-NYSE/Arca, US$49.78) in relation to this subsector. It is not overbought. In fact, it is consolidating within a rough upward trend. If the ETF breaks the US$51-to-US$52 range, this might indicate that a new up leg will begin over the winter.

Insurance: The insurance subsector within the financials – represented by the **SPDR S&P Insurance ETF** (KIE-NYSE/Arca, US$32.27), consolidated over much of this year. It's recently been attempting to break through its approximate lid of just under US$32. A bit of time above US$32 and I would call this a very bullish chart. Clearly, this is setting up to be a reasonable seasonal bet.

Keith at the MoneyShow

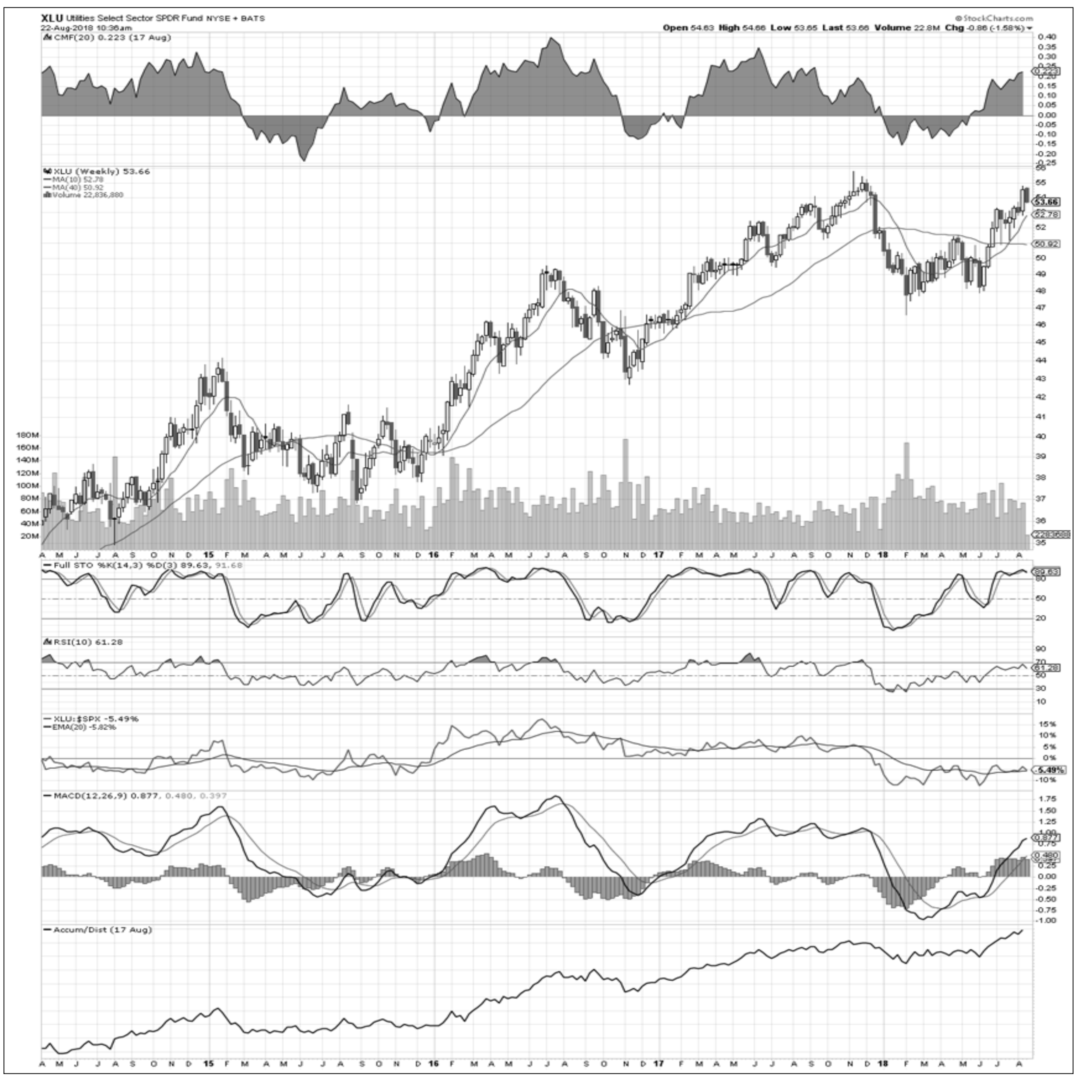
Keith Richards will be speaking at the Toronto MoneyShow (held at the Metro Toronto Convention Centre) on Friday, Sept. 14 at 4:15 p.m. The topic of his address is "Win by not losing". Attendees will learn how to reduce the volatility in their portfolio by trading the major trends.

Additional seasonal expertise

Yale and Jeffery Hirsch: The founders of seasonal investing in North America. Yale Hirsch, and now his son, Jeffery, have produced the *Stock Trader's Almanac* since 1967! Find them at https://www.stocktradersalmanac.com.

Don and Jon Vialoux: Don was the head technical analyst at RBC for many years before he went independent – eventually creating the most popular technical analysis site in Canada, timingthemarket.ca. Don coined the well-known slogan for the "best six months" strategy: "When it snows, in you go. Sell in May and go away"! Jon took what he learned from his father and created a powerful website tool instantly providing seasonal graphs for most North American sectors, along with a huge number of well-followed individual stocks, at equityclock.com. I recommend following both of their daily notes. I also subscribe to Jon's Equityclock research.

Brooke Thackray: I was introduced to Brooke's work in the mid-1990s through his first book, *Time In, Time Out.* Brooke provides witty market and economic commentary in his technical and seasonal newsletter every month. He also produces an eponymous investor's guide annually and videos regularly. I strongly recommend subscribing to his free email newsletter. Its objective is to give us a heads-up on upcoming seasonal trades. I like the fact that Brooke tracks his own advice in the newsletter, and tells you if the last set of seasonal trades have paid off. Finally, the part of his newsletter I enjoy the most is "Brooke's rant". It always makes me smile, and often adds a new perspective on world events. His website is at http://alphamountain.com.



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." 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. Reference list of seasonal experts and the corresponding links to their websites are provided as an additional resource and are for information and convenience purposes only. The inclusion of these links does not imply endorsement or approval of the website, the third parties named therein or their products and services. We have no control over the contents of any websites listed and are not responsible for the availability, accuracy or reliability of those websites.