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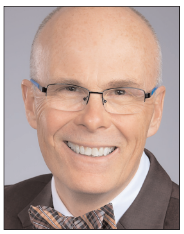
WHICH SECTORS ARE WORTH SHEDDING IN FAVOUR OF LOWER CAPITAL GAINS TAX?

Tax loss selling strategies



Keith Richards

To start off, I'd like to remind readers that the volatility we have experienced since early 2018 was wholly and entirely expected. I had addressed the probability of such an occurrence via many, many articles, BNN comments, and blogs last year.

In fact, I recently reiterated on my blog (www.valuetrend.ca) that it is almost certain you will see a period of sideways contraction after a low-volatility year such as 2017.

After viewing the first chart on the next page of this column, it should be clear as to why we are experiencing this year's moves — AND—it should convince you that it's a normal, healthy part of a bull market cycle.

Like many of you – I read doomsayers' articles, and some of them present convincing technical evidence as to why we may be entering a bear market. I do not heed their "advice"—despite their seemingly convincing evidence (bond yields, Elliott Wave count…yada, yada, yada…).

Instead, I pay attention to long-term price patterns – and everything I see lines up as pretty normal. Repeat: after low-volatility upward trends, like in 2017, you get consolidations.

Please study the top chart on the next page to get a handle on historic market corrections (highlighted on the chart) and the proportions of the current correction in comparison. Our myopic nature sometimes stops us from seeing the forest for the trees.

Given the volatility this year, you may be curious what opportunities are available for selling out of less-healthy-looking sectors, and buying into undervalued sectors. Firstly, let's take a look at the probable sells.

Technology: Technology is the first sector to look at for tax loss selling candidates. We don't want to paint all technology stocks with the same brush, however.

For example, our ValueTrend Equity Platform continues to hold stocks like **Microsoft Corp.** (MSFT-NASDAQ, US$101.71) and **CGI Group Inc.** (GIB.A-TSX, $81.52; GIB-NYSE, US$61.20) due to their continued bullish charts. But many stocks in the sector are hurting.

Semiconductors have largely been hammered, as have some of the high-profile techs such as **Facebook Inc.** (FB-NASDAQ, US$132.43), whose chart looks beyond repair. I'd be very selective in this group.

The **SPDR Technology Select Sector ETF** (XLK-NYSE/Arca, US$64.20) chart shows us that it's in danger of breaking its long-term trend, although its primary trough has not been cracked at this time. This should prod us to examine the individual names we hold in the sector.

Emerging Markets: The emerging markets might currently be better called the "submerging markets".

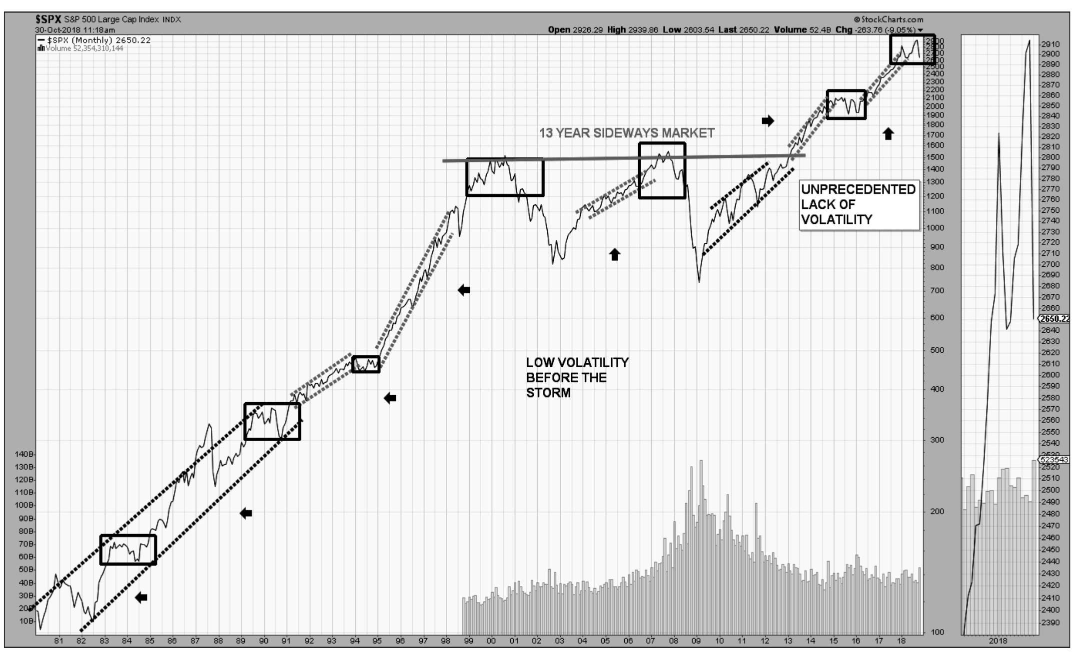
If you cannot see on this chart for the **iShares MSCI Emerging Markets ETF** (EEM-NYSE/Arca, US$39.48) why you should avoid this trade, and sell it if you currently hold it, then please read my book *Sideways*. It will fill you in on the basics of trend analysis.

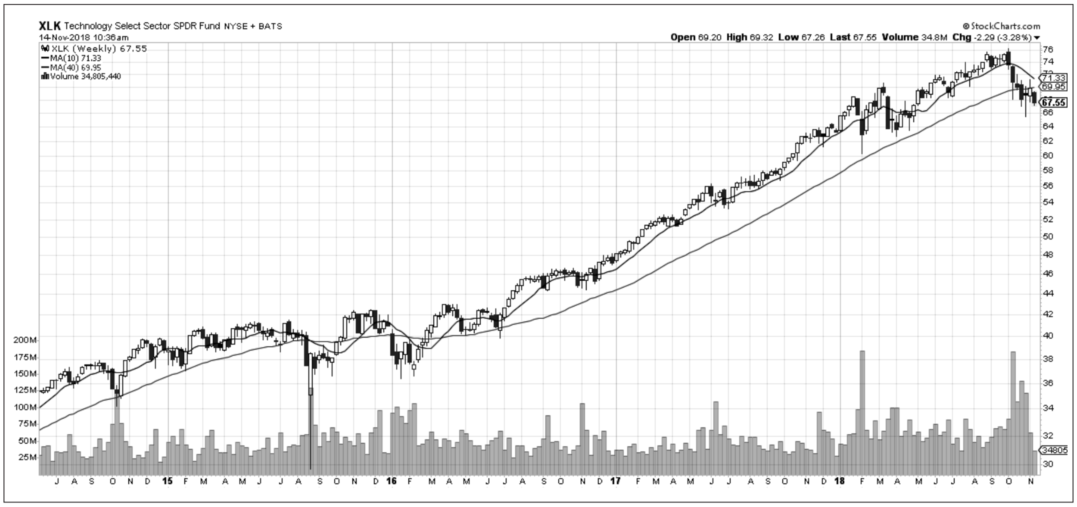
U.S. Small Caps: The Russell 2000 U.S. small-capped index (chart not shown) chart looks similar to that of the technology chart shown above.

It's breaking down, but hasn't yet taken out its primary trough on the weekly chart. Hmm…

The small caps should enter into their period of seasonal strength around now, and that strength often carries forth into March or later. But we need to watch for a break below US$145 on the iShares fund that tracks the Russell 2000, appropriately albeit not-very-creatively named the **iShares Russell 2000 ETF** (IWM-NYSE/Arca, US$145.99).

If that happens, all bets are off,





and an outright sell candidate. However, if it holds US$145 and bounces higher – it might be an opportunity for an oversold bounce into the spring – as XLK would also be. Too hard to tell at this point, so I am inclined to wait. It's going to be a tax loss seller if it doesn't start moving soon. Sometimes ya just gotta wait and see what happens. This is one of those times.

Gold: While I am aware that gold producers are oversold and may experience a small bounce in the coming weeks, its primary trend is down- as we can see on the **iShares S&P/TSX Global Gold Index ETF** (XGD-TSX, $10.42) chart.

To quote my Nov. 8 blog post regarding gold, "This sector has been under pressure for several years. Even during the period from 2017 to current, the trend had been a gentle-but-undeniable downslope. In other words, gold has been, and remains, the dog's breakfast."

I don't think that seasonal trends (which can be OK from December into the new year) will bring gold back up enough to merit a trade.

Meanwhile, the companies that mine the precious metal are tax loss sell candidates.

Possible buys

Canadian Banks: The seasonal buy period for Canadian banks is from October until the end of the year. **The BMO Equal Weight Banks Index ETF (ZEB-TSX, $27.55)** chart shows us that $27.75-ish support was successfully tested recently. The sector looks to be a play into the $30 area – possibly into the start of 2019.

U.S. Banks: As the Canadian banks exit their best seasonal period, the U.S. banks enter theirs.

U.S. banks typically perform well from December until the spring. The **BMO Equal Weight U.S. Banks Hedged-to-CAD ETF** (ZUB-TSX, $27.52) chart (not shown) indicates that strong support at $26.50 faltered momentarily in October – but then a revival happened as the correction righted itself.

Resistance comes in at $29 a share, then into the low $30s. It looks healthy enough to consider as a buy candidate at this point.

Energy: Energy is the only sector I have any interest in among the resource sectors from a technical perspective. Typically, the energy sector can do well from January into the spring based on seasonal trends.

Support on the **iShares S&P/TSX Capped Energy Index ETF** (XEG-TSX, $9.75) chart lies at around $10, resistance at $13. It's been trapped in that trading zone since 2015.

You may want to wait and see it supported above $10 a share before buying. It's even better to buy on a bounce closer to between $10.50 and $11. The sell target would be $13 or thereabouts. If it can hold $10, it looks to be a good buy candidate.

In conclusion, you'll note that some of my potential "sell" candidates may indeed have room for an oversold bounce. I'd anticipate that to happen prior to year-end – and I'd look

to sell at that time.

Short-term traders able to take a quicker move might look for a bounce on these sectors to play.

I myself would not be so inclined to play these trades because I am not as agile as an individual investor interested in making short-term trades, given my longer horizon as a portfolio manager.

Nevertheless, if you believe you have the stomach for it, you can always trade them on a bounce as a speculative riskier trade.

Keith on MarketCall

Keith appears regularly on BNN Bloomberg'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 appearance will be at 6 p.m. on Friday, Dec. 21. *(Note: Time and date of appearance may be subject to change.)*

If you have questions about analyzing the trends of individual stocks, be sure to phone in with them for Keith during the show. Call toll-free at 1-855-326-6266 or email your questions ahead of time (specify they are for Keith) to marketcall@bnnbloomberg.ca.

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