

THE MONEYLETTER®

STRATEGIES FOR SUCCESSFUL INVESTING

MARKET WISDOM

A new trend

LOOK SIDEWAYS

Keith Richards

THE ROCK BAND REM SANG A truly great song called “It’s the end of the world (as we know it.)” Many of you have heard the song, I’m sure, but if you wish to marvel at how lyricist Mike Mills can carry off a fairly rapid flow of complex lyrics – look up the lyrics and listen to the song.

Today, I’d like to present an argument for the renewal of a highly active, trading orientated approach to investment management. At ValueTrend, we try to “go with the flow” regarding our trading. Up until recently, our trading activities, while still well above average when compared to most Portfolio Managers, was subdued. This was due to

the consistency of trend, and lack of volatility on the markets from mid-2016 to early 2018. You trade less in a trending market.

Things have changed. The market is now moving in a contained range of higher volatility. As such, our trading activity has been picking up. Don’t get me wrong. I believe that the long-term trend that has been in place since the 2009 is still very much intact for the S&P 500. A break of the lows set in February of this year would change that prognosis, but for now, we are still in a bull market – technically speaking. Despite that the long-term trend remains intact, it is clear that the mid-term uptrend, which was established in mid-2016, is over.

Trading the TSX

Let’s take a look at the TSX first. It is not in a long-term uptrend. It had, however, held a mid-term uptrend from 2016 until this summer. But the uptrend that began in 2016 has recently ended. Note the current sideways “box”

that encapsulates the movement of the TSX with a certain amount of predictability. Note the floor near 14,900, and the ceiling near 16,400 for this index.

How do you trade this market? Simple. Using my trading rules, I look for a bounce off from support (14,800 or thereabouts), a positive follow-through in price of a few days, and a nice hookup on the key momentum oscillators RSI and stochastics. As I write this article, the TSX is near 14,800. Bingo—we are nearly there for an entry! We need another couple of positive days and I expect to enter into an index ETF trade for the TSX. If we don’t get a bounce, I won’t be buying. You can follow my blog at www.valuetrend.ca to get up-to-date commentary on my trading activity. With this type of trade, you know your buy price (a rebound off of 14,800-or so) – you know your stop-loss price (below 14,800 for 3 + days). You know your target sell price (at or near 16,400). Don’t you just love this trading stuff?!?!?

Trading the S&P 500.

As noted above, the long-term trend is bullish for the S&P500. The mid-term uptrend that began in 2016 is, however, broken. Like the TSX, the S&P500 attempted to put in a new high this summer before failing miserably. This index, like the TSX 300, has been trapped in a box. Support comes in at or below 2600, resistance around 2900. Like the TSX, we are setting up for an entry. You can already guess my strategy: buy after another day or so of confirmation of a bounce off of the low 2600’s. Stop out below the Feb low of 2530. Sell for a profit at or near 2900. Easy-peasy.

To paraphrase REM, It’s the



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end of the up-trending market, as we've known it. And I feel fine! You should too.

Keith on Bloomberg/BNN MarketCall Friday December 21st at 6:00pm and Thursday January 24th at 6:00pm

Keith appears regularly on BNN Bloomberg 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. (Note: Times and Dates may be subject to change) 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 the show. Call Toll-Free 1-855-326-6266 Or email your questions ahead of time (specify they are for Keith) to marketcall@bnnbloomberg.ca ▼

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