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'THIS IS WHAT HAPPENS WHEN AN UNSTOPPABLE FORCE MEETS AN IMMOVABLE OBJECT'

CRB and TSX's dance offers clue to their futures

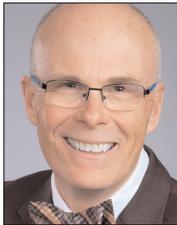
I was in Florida for the first couple of weeks of February. While there, I did plenty of work, including some speaking engagements, blogs, and even a fairly decent-sized stock rotation within the ValueTrend Equity Platform – which I'll get to later in this article. But I had plenty of time for R&R mixed in as well (I almost never take a non-working vacation).

As I often do while in Florida, I focus on a bike race – this time placing third in my age class and fairly high up on the overall standings at the World Ultra Cycling Association's Bike Sebring Century 2019, so named because it is a 100-mile (161-kilometre) event.

I also watched a couple of movies.

Personally, I find most shows to be formulaic and predictable these days—I rarely watch anything beyond the ever-flowing *Star Wars* franchise and a few other rare exceptions. So if I do bother watching something, I go back to the tried-and-tested stuff – movies with epic acting, amazing plotlines, and quality script writing.

One of my "repeat movies" is the 2008 Batman film, *The Dark Knight*. If you have not seen this movie yet, assuming that you like action films, you probably should. The now-departed Heath Ledger



Keith Richards

arguably pulled off one of the greatest acting jobs of all time. My gosh, he played a brilliantly believable psychopath.

His most famous line in the movie, "Why so serious?" was so riveting when he delivered it that the world's most prominent bike racer, Peter Sagan, tattooed the question to the torso of his body- embedding an image of his own face (as the Joker) in place of Mr. Ledger's within the tattoo.

At another point in the film, the Joker explained to Batman (Christian Bale, another outstanding actor) the madness behind their relationship: "This is what happens when an unstoppable force meets an immovable object!"

I love that line. It reminded me of what the markets look like right now: Plenty of reasons to decline, plenty of reasons to rise. Unmovable vs. unstoppable. What an analogy!

Today, I thought I'd examine the relationship between two forces that are a little more in sync with each other than Batman and the Joker. Let's take a look at the Commodity Research Bureau (CRB) index versus the TSX.

The chart on the next page shows the CRB (the line that begins at the top-left) compared to the TSX (the line that begins at middle-left). Below it is the correlation line. If the correlation line is

above zero, it is more positive (the two are more in sync with each other) than when it's below.

A reading of "1" means perfect correlation – a rare event. A reading of "-1" means a perfectly negative relationship. And "0", or zero, means non-correlated (no relationship—random). You can see that the correlation is more often positive for the two (above 0), meaning we should watch the CRB to see what the TSX might eventually do.

Right now, the two are just starting to diverge in their correlation. The correlation line (lowest line) is turning down. Note the trend lines I have drawn—you can see that the CRB has been declining lately while the TSX rose sharply after its December low.

That's why the correlation line is rounding down. The TSX and commodities are not moving together, and they normally do move together.

Perhaps this means that the TSX is positive for a very short period while the correlation starts to decouple for a while. But it is likely that the divergence in correlation won't last—history repeats itself.

This may mean that the TSX will give up some ground pretty soon, unless there is a really nice uptick on the CRB. Mind you, that is possible.

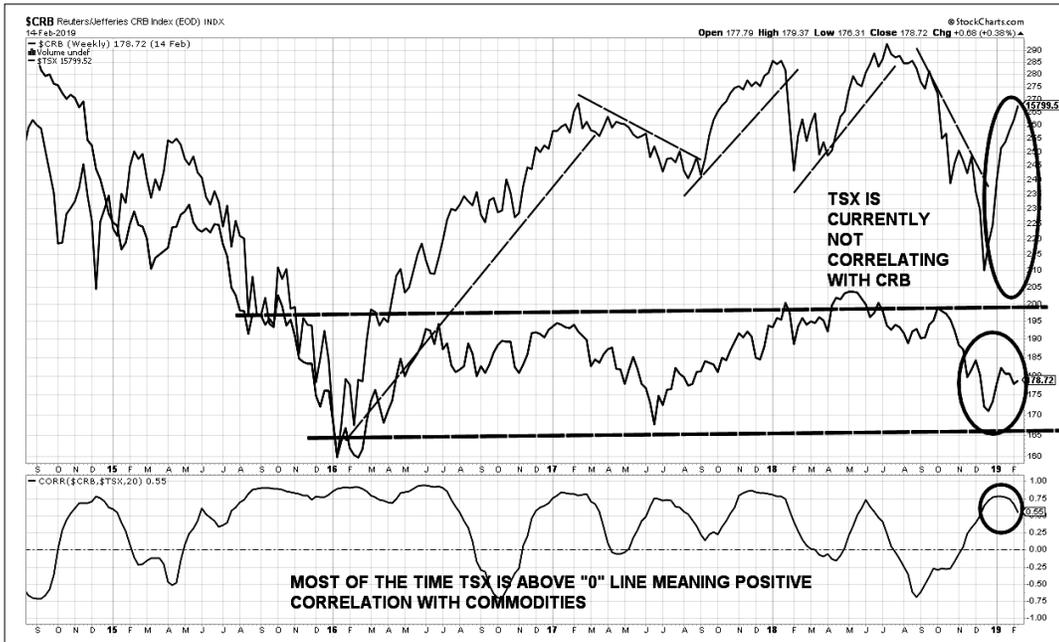
Note the CRB line is near the bottom of its three-year trading range. Note too that it is moving

up, ever so gradually.

For this reason, we recently took a fairly substantial position out of some North American stocks, and rotated into a few commodity ETFs. We bought into the metals via the **BMO S&P/TSX Global Base Metals Hedged-to-CAD Index ETF** (ZMT-TSX, \$45.01), along with a direct commodity play on natural gas via the big **United States Natural Gas Fund LP** (UNG-NYSE/Arca, US\$25.05) and another position in a broad commodity index via the **iShares S&P GSCI Commodity-Indexed Trust** (GSG-NYSE/Arca, US\$15.60). We may add further exposure to commodities via some individual producer stocks that we would select as we see opportunities unfold.

Keep an eye on the CRB for clues as to where the TSX will go – and for opportunities for your own portfolio. The ETFs mentioned are only a few of the choices out there. In fact, you have to examine them closely before buying – as entry and exit timing are very important within these vehicles.

My noted picks are not necessarily going to be at good entry points when you read this article. We are entering into commodities fairly early in the cycle, and that could prove to be incorrect. We tend to exercise stop-rules if we turn out to be wrong on a trade. You will have to make that decision if the timing looks right



to you on the play.

If the CRB finds a bid and moves higher, that's likely good for the TSX.

If not – well, we can learn from that too. As Batman/Bruce Wayne's father once told the Dark Knight as a young boy in *Batman Begins*, *The Dark Knight's* predecessor, "Why do we fall? So we can learn to pick ourselves up!"

Keith on BNN Bloomberg

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 appear-

ance is on Tuesday, March 22 at noon (*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 at 1-855-326-6266 or email your questions ahead of time (specify they are for Keith) to

Keith Richards is Chief Portfolio Manager and President of Value-Trend Wealth Management. He can be contacted at info@value-trend.ca. He may hold positions in the securities mentioned. 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. 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. 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.