

# Investor's Digest

of Canada

April 5, 2019

Vol. 51, No. 7

*Cash proportion at 25 per cent as columnist watches and waits for chances to buy*

## Spring cleaning the portfolio

In my view, the market is overbought on a broad basis. However, this doesn't imply that all stocks are overdone. There is value to be found in some oversold sectors.

At ValueTrend, we are attempting to buy into the oversold sectors and sell the less-attractive securities. We're buying "out of favour" securities — particularly those looking like they are breaking out of their former downward trend.

We're also keeping a tight watch on our existing stocks. Downside tolerances are being tightened, meaning that we are more willing to sell a stock if it shows signs of its technical trend breaking down.

While we don't want to be out of the market entirely, we do con-



Keith Richards

tinue to hold some cash. We're about 25 per cent cash at the time of writing this in mid-March—although that cash allotment is dynamic. We are constantly looking for opportunities to buy under-loved sectors and stocks.

Here is an excerpt from my blog summarizing ValueTrend's current strategy:

"In the end, I don't know what will happen. But I do know that I hate losing clients' money...along with my own. I hold my family's wealth in the ValueTrend platforms. So I eat my own cooking.

"In fact, I hate losing money more than I like ignoring the overbought markets and trying to squeeze every last bit of return from the market. Buying into an overbought market is similar to Admiral David Farragut's famous

order to "Damn the torpedoes, full speed ahead!"

Still, one does have to hold some money in the market. Here are a few areas where we see value. These are overlooked markets with charts that are breaking out after a downward trend. The way we look at it, it's better to bet on an undervalued sector with an emerging chart compared to buying into a momentum play that appears to be long in the tooth.

**BMO MSCI Emerging Markets Index ETF (ZEM-TSX, \$20.28):** The emerging markets were "submerging" markets for most of 2018. Meanwhile, the FAANG stocks and other high-flyers raced ahead. Now the roles are reversing. The ZEM ETF is breaking out of a nice bottoming pattern after that decline. We think this is going to be a primary rotation candidate as North American

markets lose steam.

The broad emerging markets ETF complements our existing position in the country-specific **BMO India Equity Index ETF (ZID-TSX, \$28.05)**. We took a full position (five per cent of overall holdings) in the broader emerging markets ETF.

**Eastman Chemical Co. (EMN-NYSE, US\$78.65):** Eastman is in the early stages of a potential base breakout. The stock has been on a negative trend since mid-2018.

The company is a specialty chemicals business that supplies important products to many industries. Their exposure to China seems overdone in the stock price.

Debt has been paid down, and several areas of its business are looking good. We have established a three per cent weighting.

**Onex Corp. (ONEX-TSX, \$73.50):** Onex is a conglomerate. The stock got hammered in 2018, falling from \$100 a share down to the low \$70s by December.

It's been basing and breaking out of that tailspin nicely. We bought a five per cent weighting at just over \$75 per share.

This is another potential value play. The company is currently being priced under book value. For a financial conglomerate, this often represents good value.

Some of the private equity businesses held by Onex struggled in 2018, but we anticipate the necessary changes are being made. A return to more normal financial results is expected to move the stock higher.

In an overbought market, it makes little sense to own the very



stocks that are making that very market overbought. It makes more sense to uncover stocks that are undervalued and technically breaking out into a potential new upward trend.

The securities I note in this column are just a few examples of positions that we are holding with that thesis in mind. Do your own homework on these securities before buying them. And look for other under-loved stocks that might be turning the corner.

I try to share some of my own ideas on my blog at [valuetrend.ca](http://valuetrend.ca) and through my writings published in *Investor's Digest*. Feel free to offer your own insights in the comments section of my blog.

### **Keith on BNN Bloomberg**

Keith's next BNN Bloomberg television appearance is on Wednesday, May 1 at 6 p.m. He 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. (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 ques-

tions 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](mailto:marketcall@bnnbloomberg.ca).

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