

THE MONEYLETTER®

STRATEGIES FOR SUCCESSFUL INVESTING

MARKET WISDOM

Limit Your Risk

KEEP YOUR MONEY

Keith Richards

MY OUTLOOK FOR THE MARKET IS a continuation of the 2018 multi-month swings. Sooner or later, the market can and will break out of a period of sideways volatility. I can't tell you if that will happen in a week, a month, or a year. If you look at the chart below, you will note that we are in the third period of sideway volatility since 2009. Note how the last 2 sideways periods lasted 18+ months. We're about 15 months into the current choppy sideways period. So there may be more to come.



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views and is a frequent guest on Business News Network. He also writes a monthly business column for Investor's Digest of Canada.

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In light of an overvalued North American market, we at ValueTrend are trying to focus on areas that are likely to do well in a period of chop. We've been buying commodities such as metals and energy, China, and even a bit of Europe. These are all contrarian ideas.

They have been beaten up, based, and appear to be receiving some new money flows. Stocks following the same pattern are on our list. Some are contrarian ideas that may take a while to move, but appear undervalued on our fundamental and technical screens. Sure, we have a few growth-oriented momentum stocks. For example, we hold some big technology names like Microsoft, and some well-positioned conglomerates like Brookfield. They've done well. But we

don't want to be as exposed to these high flyers as the market is. For this reason, most of our new ideas now come from the "value" side of the ledger, rather than the "growth" side.

How we are trading this market

As noted, we are searching for value stocks within an overbought market. As such, we are looking for stocks and securities that are rebounding from a support level, or which have broken a downtrend by basing and exhibiting signs of an upward breakout. Bottom feeding strategies like this make sense in a choppy market. But – there is a catch. Such stocks may not turn around as quickly as anticipated. This is the risk of value investing. Depressed and overlooked securities can be opportunistic. But that opportunity can be a double edged sword. A rebounding company or sector can be a magnificent thing to take advantage of – but signs of continued weakness can punish the security further. As such, we tend to leg into these stocks in 2 increments. In that way, we have a smaller commitment if the trade goes sour. And we can add to it if things are going well.

We also have to keep a tight watch on support levels for these fallen angels. If a stock drops below a noted support level, we don't spend much time waiting around for a rebound. We're trying to stick with 3-4 day break

rule, meaning that if a stock breaks support – we sell it if it doesn't rebound within that 3-4 day period. Here's how it works:

1. We decide on our position size (e.g. – assume we want a 5% position)

2. We buy roughly half of that position (e.g.-2-3%)

3. If the stock or ETF moves favorably, (i.e. it continues making higher highs and lows on the daily chart), we add the second portion

to bring us up to the 5% weighting

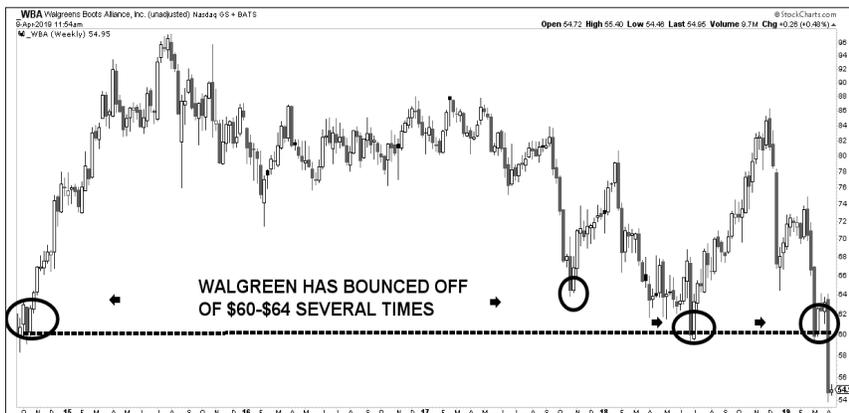
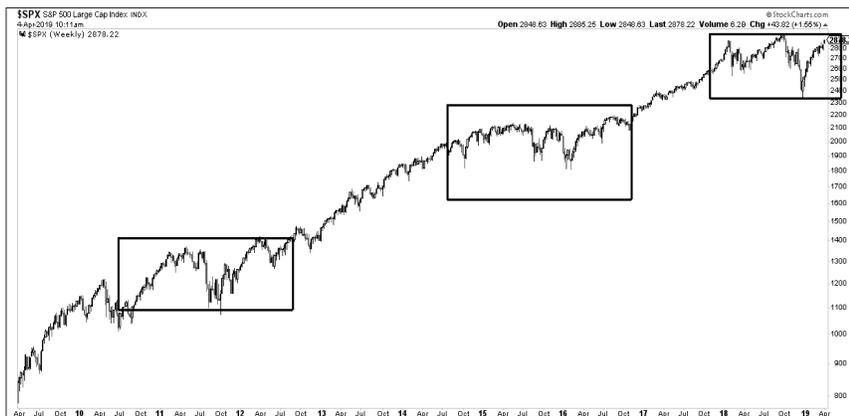
4. If the stock breaks support/moves unfavorably, we sell after 3 days of it remaining below that technical support – which affords the stock enough time to do an oversold bounce (if any)

Two example of this 2-stage leg-in style include stocks such as Onex

(ONEX) and some of our commodity positions of late like the BMO metals ETF (ZMT). We

bought these positions and added to them in two leg intervals as they affirmed our original analysis. By buying in increments, we had better confidence in taking a larger position, and have profited by that strategy.

Two examples of stocks that were stopped out include CVS and WBA, after negative financial reports. By limiting losses through a 2-stage buy-in on both of these stocks (3 per cent original buy level each, no additional capital committed) and a tight stop-loss trading strategy, we were able to reduce the risk of further downside. We then redeployed that capital into better ideas. Of note: Sometimes you don't have an immediate replacement stock after selling a loser...the "better idea" may just be adding to cash!



Does it work?

Effectively, this buy/sell strategy allows us to keep our winners and even add to them, while it reduces our exposure to losers and cuts their losses for better use of the capital. It's been working very well for us so far. We've held between 15 per cent to 30 per cent cash consistently through the past 12 months. Recall that the ValueTrend mantra is to "Limit your risk, Keep your money". We want good returns while experiencing a lower level of risk and volatility than markets. Cash is one tool to help with that goal when times are uncertain.

Despite the cash, the ValueTrend Equity Platform has been in line with the market over the past year, and has outperformed over the longer term. In fact, as of the time of writing, the platform

Is ahead of its November 30, 2018 highs, whereas the TSX and S&P500 are still below their highs from that same date. Being able to perform in line or better than the market while holding almost a third in cash suggests that our stock picking and trading strategy have provided positive alpha vs the indices. We've had market returns or better with a lower risk profile. Have your cake and eat it too!

**New product launch:
Taking applications NOW**

I'm excited to note that we are launching a new platform... our new ValueTrend Aggressive Growth Strategy (VTAGS). The platform is now officially being offered to clients who hold a balanced portfolio within our other platforms. Note that this platform is not designed to replace the ValueTrend Equity Platform. It is a complement.

The VTAGS strategy will not be offered as a standalone product for new clients. You must hold a minimum of \$500,000 in family assets with us diversified through our other platforms: If you are interested...Please contact either Craig or Keith (info@value-trend.ca) for a full description of the VTAGS strategy and to discuss how ValueTrend can administer your entire portfolio needs. ▼

Keith's next BNN television appearance is on Wednesday May 1, 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

Keith Richards is Chief Portfolio Manager & President of ValueTrend Wealth Mgmt. 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.