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STRATEGIES FOR SUCCESSFUL INVESTING

MARKET WISDOM

Choppy Waters

JUMP IN

Keith Richards

Despite the strong markets in the first quarter of this year, the S&P 500 and the TSX 300 came to within a percent or so of the 2018 highs. They just began to retreat on the China trade deal fears. This stoppage at the old highs is no coincidence.

A quick look at markets over the past 18 months will show us that we have been stuck in a trading range with virtually no significant new highs since early 2018. This type of up/down sideways action has happened throughout the stock market's history. After periods of excessive return, we typically get choppy periods of consolidation. Sometimes we witness a crash, though sideways consolidations are more common. These periods of volatility – whether they be a consolidation or a crash – are necessary to wash out the irrational exuberance of market participants.

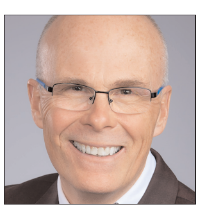
The adage "The market climbs a wall of worry" applies here – we need something to worry about to keep the market flowing. When everyone is satisfied with the risk/reward market tradeoff – it is dangerous. The periods of consolidation are out and there is a new wall of worry to climb once the "cleansing" of irrational bulls is finished. The chart below shows us the periods of consolidation since the bull market broke out in 2009.

My outlook on the market is for a continuation of the 2018 – present multi-month swings. These market swings may continue for several more months. Sooner or later, the market can and will break out of its sideways volatility period. 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.

One area that can do well in a choppy market is bonds. There is a definite relationship between the long bond and the S&P 500 during significant bear markets. We have seen extreme movements into bonds during the 2001/2 and 2008/9 market crashes. There was also ample evidence of rotation into safety during the bear of 2011 and the significant correction of 2015/16. Even 1998 saw some minor rotation into bonds. So, bonds can be a good hiding place. However, there is an alternative to bonds within the Canadian stock market that may offer even better upside potential. That alternative is the REIT sector.

There's an adage in Technical Analysis circles that suggests we should pay particular attention to long-base breakouts. The saying goes something like this: "The greater the base, the better the case".

Right now, Canadian REIT's are breaking out from a very long resistance point of around



Keith Richards is a Portfolio Manager at ValueTrend Wealth Management. Sponsoring investment dealer: Worldsource Securities Inc. Member: CIPF and IIROC. He provides commentaries on equity markets and stocks during television and radio interviews and is a frequent guest on Business News Network. He also writes a monthly business column for Investor's Digest of Canada.

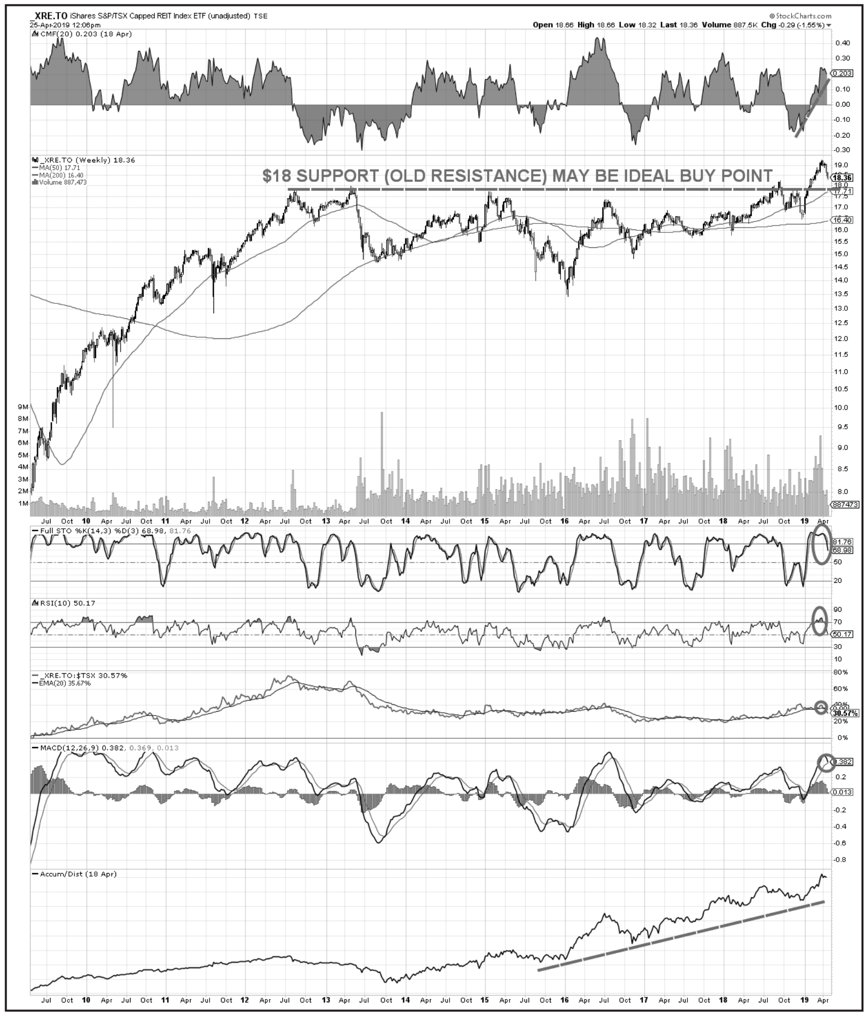
krichards@valuetrend.ca.

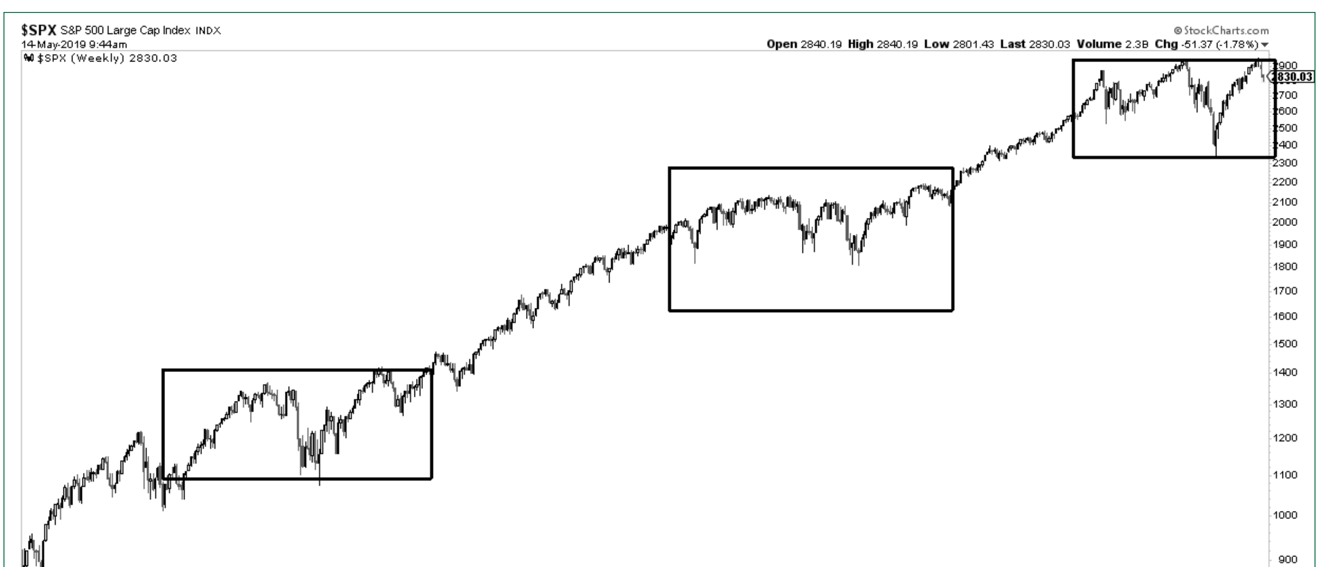
$18/share. In fact, the sector has been stuck in no-man's land (sorry, I meant no-"people land"). The $18 wall had been in place since 2013. That's a long time.

So, this year's breakout through $18 is significant. Today's chart illustrates that that break put the sector into intermediate-term overbought territory. RSI, MACD, and stochastics are overbought and rounding over. That's to be expected. I expect that we'll see a return of the index to $18. But I also suspect that $18 will become a new support level – and may indeed be a good entry spot.

Seasonality is strong for the sector in a choppy pattern over the summer—it's kind of divided between a brief period of strength in the spring, followed by another jump from July to September. I'll just piece it together and say that it's seasonally OK to own REIT's over the summer on average. Adding to that is the bullish moneyflow (top and bottom panes on chart).

This year, the chart suggests even greater reason to consider this sector as a defensive trade – and as an opportunistic one. If the play fails, you may earn a bit of dividend, and could choose to stop out if the sector ETF drops below $17. It doesn't hurt to look at individual plays





within the ETF for increased upside potential. ▼

KEITH ON BNN FRIDAY JUNE 14TH 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.

Keith Richards, Portfolio Manager, can be contacted at krichards@valuetrend.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.