eResearch

Analyst Article January 19, 2017

HUMBLE STUDENT OF THE MARKETS

***e*Research Corporation** is pleased to feature an article by Cam Hui, CFA who offers investment and trading insights on his website, **HumbleStudentOfTheMarkets.com**

Mr. Hui posts a market comment on the weekend plus one or two articles of interest during the week.

His subscription service includes annual, monthly, or daily pass options, and is focused on building a community of like-minded individuals with a common interest in investing and trading.

Today's article begins on the following page, and is entitled:
Mid-Week Market Update: Contrarian Message From Rotation Analysis

You can access his website and subscribe to his service at the following link:
www.humblestudentofthemarkets.com

***e*Research** was established in 2000 as Canada's first equity issuer-sponsored research organization. As a primary source for professional investment research, our Subscribers (*subscription is free!!!*) benefit by having written research on a variety of small- and mid-cap, under-covered companies. We also provide unsponsored research reports on middle and larger-sized companies, using a combination of fundamental and technical analysis. We complement our corporate research coverage with a diversified selection of informative, insightful, and thought-provoking research publications from a wide variety of investment professionals. We provide our professional investment research and analysis directly to our extensive subscriber network of discerning investors, and electronically through our website: www.eResearch.ca.

Bob Weir, CFA
Director of Research

Note: All of the comments, views, opinions, suggestions, recommendations, etc., contained in this Article, and which is distributed by *e*Research Corporation, are strictly those of the Author and do not necessarily reflect those of *e*Research Corporation.

Wednesday, January 18, 2017

Mid-Week Market Update

Contrarian Message From Rotation Analysis

BW: To enlarge any chart in this report, place the cursor on the chart and <Ctrl-Click>

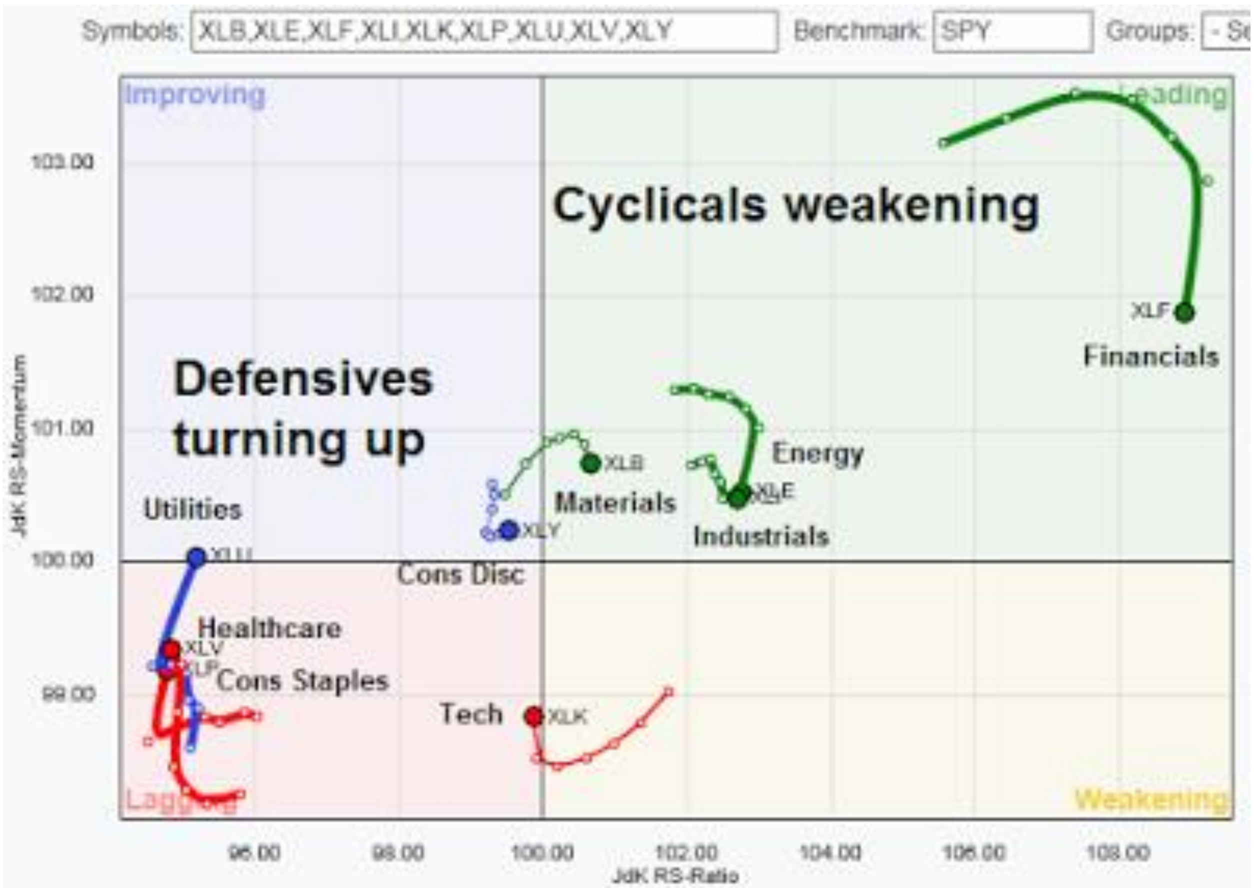
Occasionally, it is useful to step back and view the market through a different prism. I was reviewing the RRG charts of sector, region, and factor, and I found that they are all telling a similar story.

First, let us start with a primer. Relative Rotation Graphs, or RRG charts, are a way of depicting the changes in leadership in different groups, such as sectors, countries or regions, or market factors.

The charts are organized into four quadrants. The typical group rotation pattern occurs in a clockwise fashion. Leading groups (top right) deteriorate to weakening groups (bottom right), which then rotates to lagging groups (bottom left), which changes to improving groups (top left), and finally completes the cycle by improving to leading groups (top right) again.

The latest sector rotation chart shows that financial stocks and cyclical stocks (energy, industrials, materials) are the leading groups, but they are weakening. By contrast, defensive sectors are starting to improve from the lagging quadrant to improving. In particular, the upgrade of interest sensitive utilities from lagging to improving quadrant is consistent with the nascent counter-trend rally seen in the bond market.

The U.S. rotation chart is shown on the ensuing page.



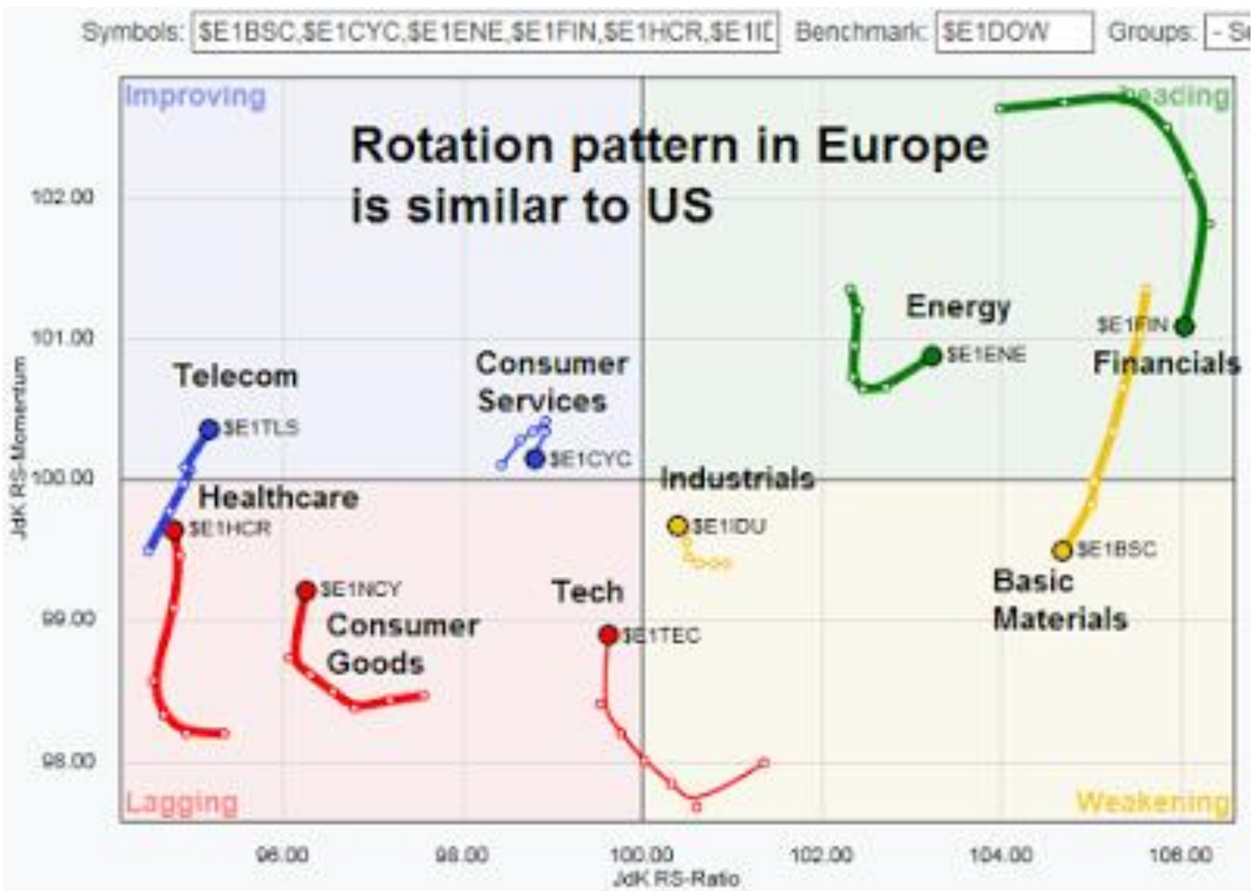
In short, high beta is faltering and defensive sectors are starting to turn up.

<continued>

Confirmation From Europe

The trend of waning risk appetite appears to be global in nature. We can see a similar pattern in the RRG chart of European sectors.

The main difference between the U.S. and European RRG charts is the behavior of the materials sector. The European basic materials sector has already deteriorated into the weakening quadrant, whereas U.S. materials remain in the top right leading category.

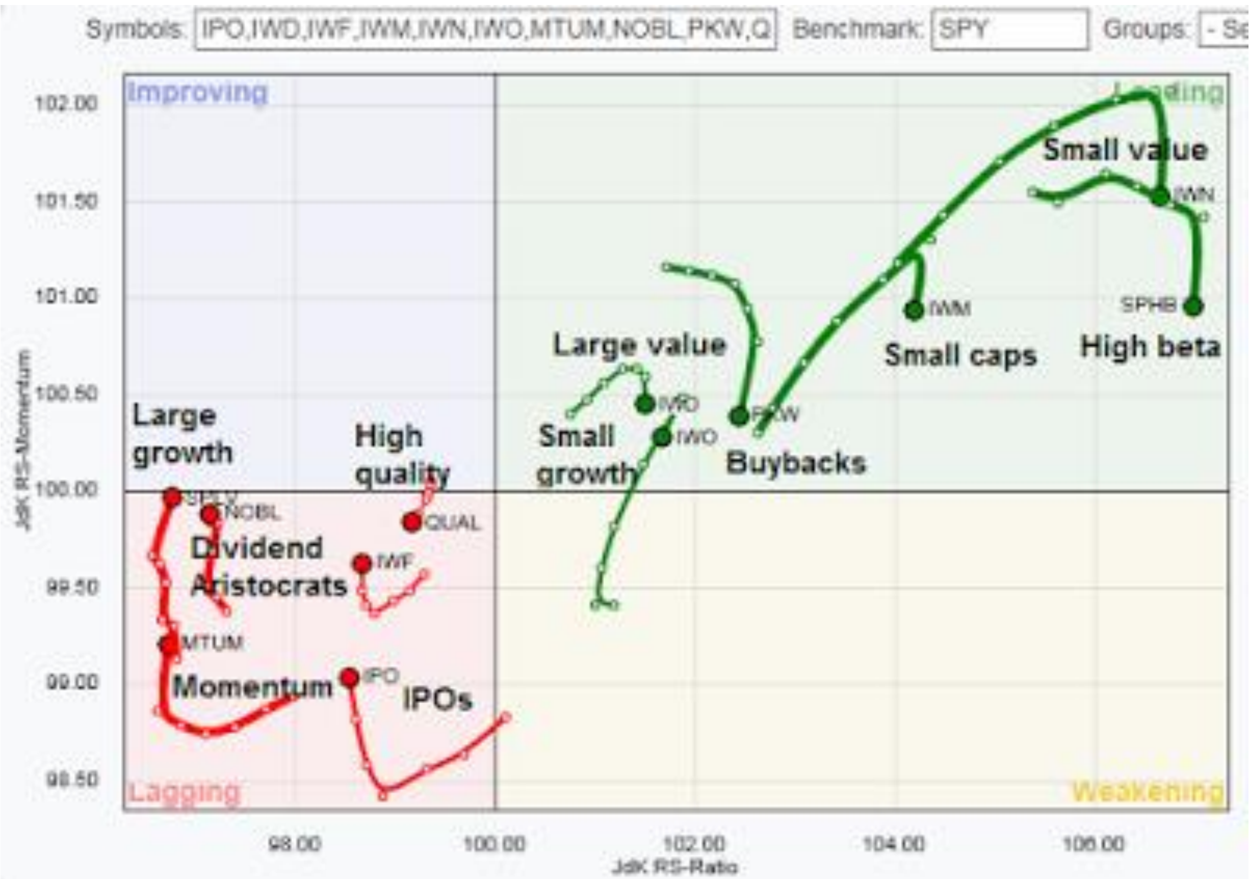


<continued>

Style Rotation: Too Far Too Fast?

The message from style rotation of U.S. equities also tells a similar story.

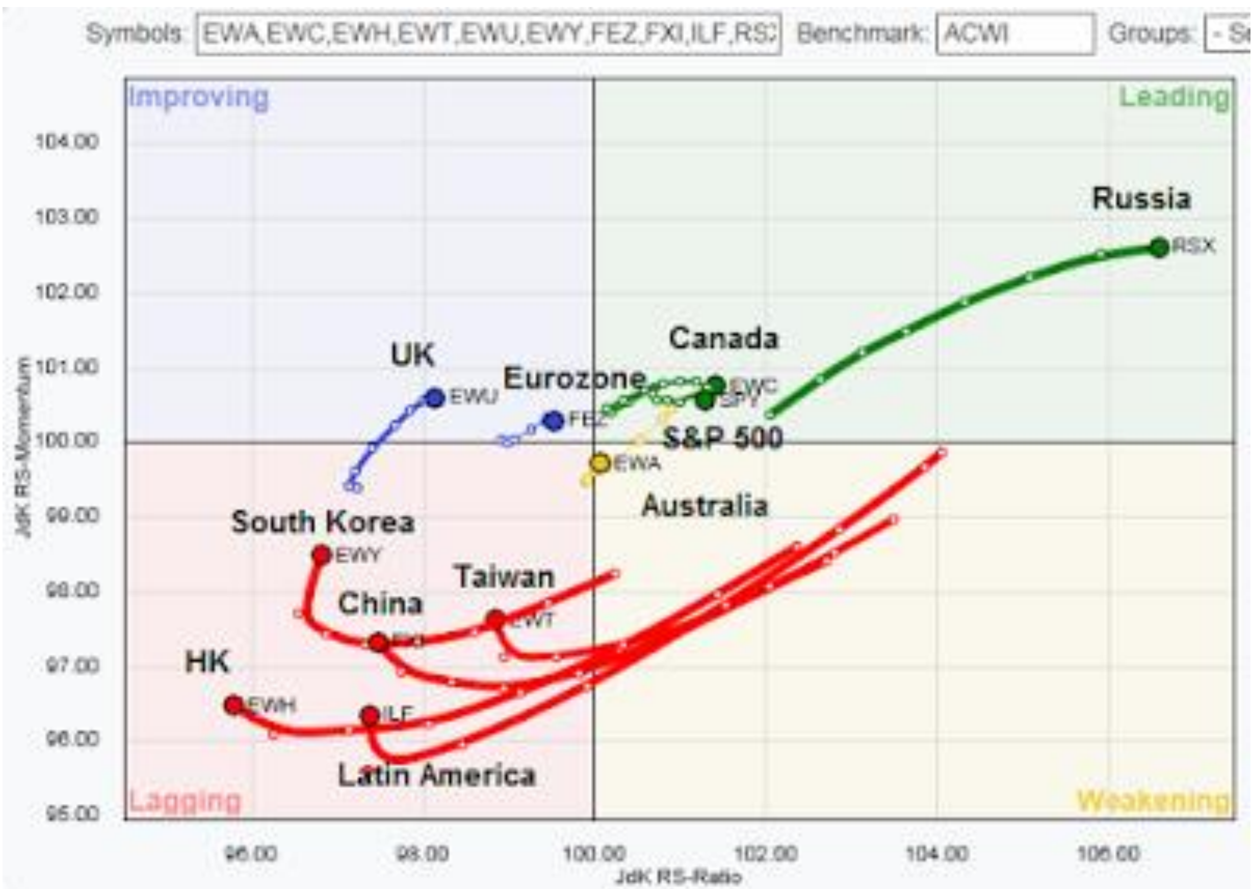
High beta groups are ascendant, but starting to weaken. The value style, which had been on a tear, is also starting to roll over in relative strength. By contrast, out of favor styles such as dividend payers, as well as growth and momentum (think FANG), are starting to turn up.



<continued>

Global Regions: Buy Europe And Asia

A glance at regional and country rotation tells a story of cyclical factors starting to roll over. The leadership countries are Russia and Canada (oil), and the USA. Europe appears to be a source of emerging strength, while Asian markets are lagging, but starting to improve. Tactically, traders may wish to consider selling their cyclical exposure and start to add exposure to Europe and Asia.



<continued>

Economic Surprise Indexes

From a top-down macro perspective, even though Citigroup's Economic Surprise Indexes have been surging, the market believes that the pace of improvement is probably unsustainable (h/t Topdown Charts).

Be Contrarian

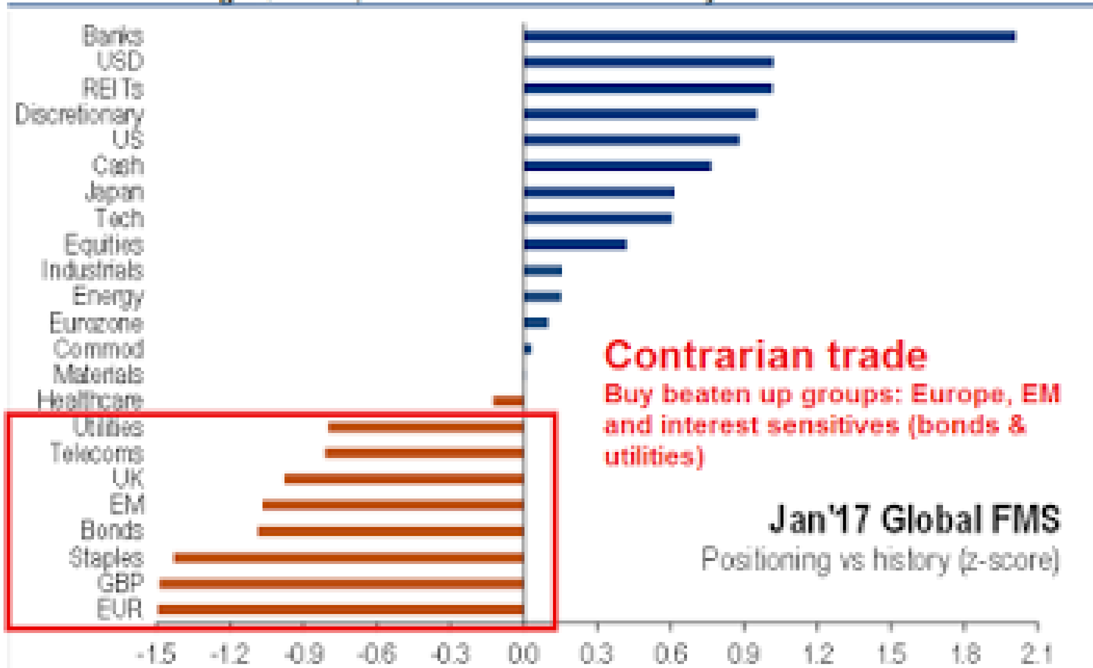
From an absolute return viewpoint, the de-risking pattern from the RRG charts suggests that U.S. equities are likely to undergo a period of sideways action, or mild pull-back for the remainder of Q1.

In addition, the message from group rotation analysis is a cyclical rally that is starting to stall. Better performance may be found in some of the laggards, such as emerging leadership groups like interest sensitives (utilities, bond market), or European equities (in the face of anxieties over Brexit and upcoming elections in France and Germany).

As well, traders may also want to consider beaten up and out of favor groups, such as growth and momentum stocks, as well as Asian equities.

In other words, be contrarian. This view is confirmed by the latest results in the BAML Fund Manager Survey (annotations in red are mine).

Exhibit 6: The Longs & Shorts, relative to Global FMS history*



Source: BofA Merrill Lynch Global Fund Manager Survey

Regards,

Cam Hui

Humble Student of the Markets, Inc.

*e*Research Disclaimer

*e*Research Disclosure Statement

***e*Research Corporation** was established in 2000 as Canada's first equity issuer-sponsored research organization. As a primary source for professional investment research, its Subscribers (subscription is free!!!) benefit by having written research on a variety of small- and mid-cap, under-covered companies.

*e*Research also provides unsponsored research reports on middle and larger-sized companies, using a combination of fundamental and technical analysis.

*e*Research complements its corporate research coverage with a diversified selection of informative, insightful, and thought-provoking research publications from a wide variety of investment professionals.

*e*Research provides its professional investment research and analysis directly to its extensive subscriber network of discerning investors, and electronically through its website: www.*e*Research.ca.

*e*Research does not manage money or trade with the general public, provides full disclosure of all fee arrangements, and adheres to the strict application of its Best Practices Guidelines.