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Oil Trade Opportunities: Update

***e*Research Corporation** is pleased to provide an article by Keith Richards of **VALUETREND**.

In this article, Mr. Richards is now highly watchful but is not panic-selling his oil positions even though the price of crude oil has broken below $50/bbl.

The article is reproduced below, beginning on the next page, or you can go directly to it at the following link: ***http://www.valuetrend.ca/oil-update/***

You can also visit the **VALUETREND** website at the link below:
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Thursday, March 9, 2017

In On The Oil Trade: Update

By: Keith Richards (bio at end)

I noted a **while back** that I went long oil.

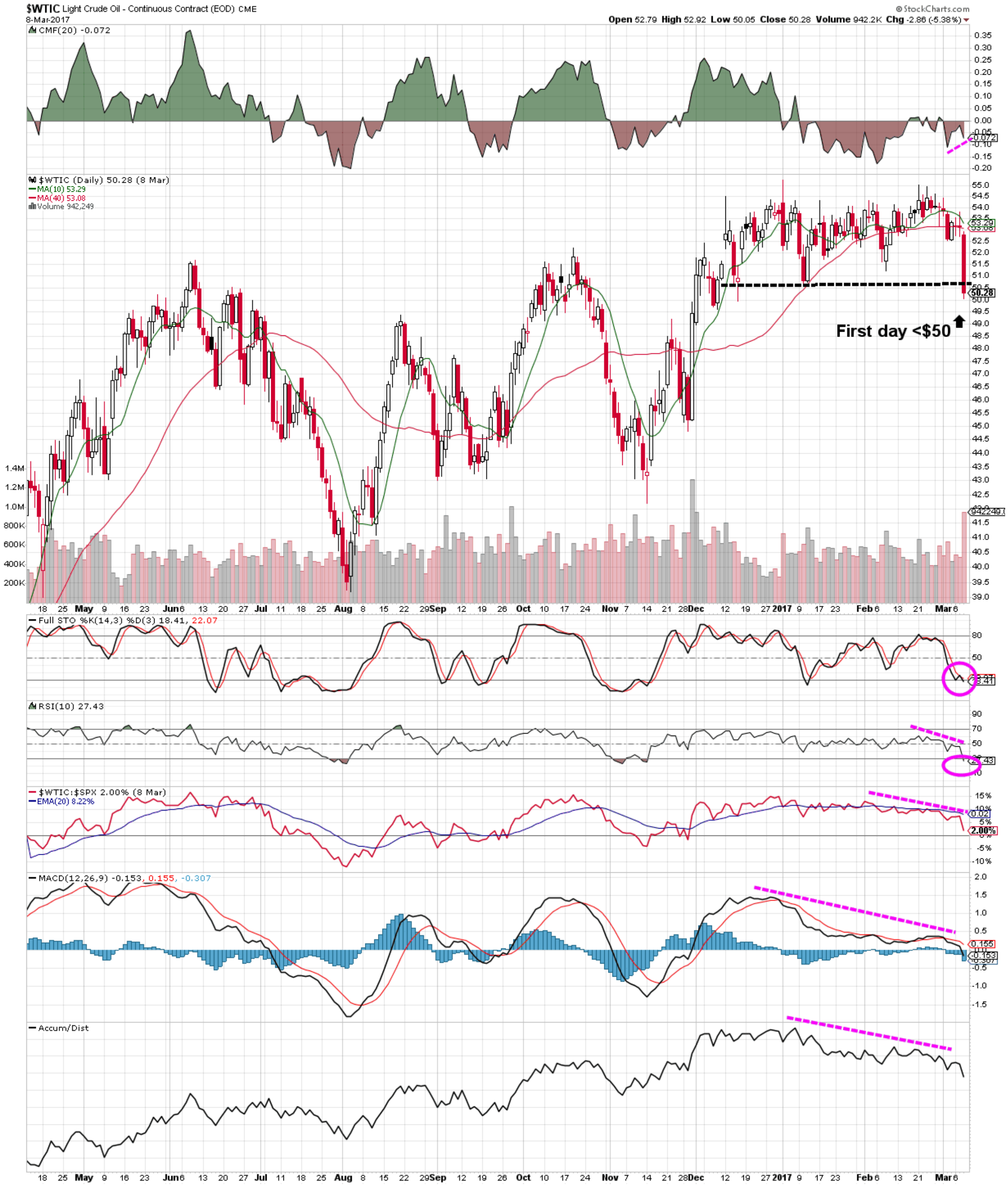
Here is my closing paragraph on the blog- which outlined my target, and stop loss strategy:

> We view this as a seasonal trade at this juncture. Oil tends to be a good trade between February and May. Our commitment to holding oil much beyond the spring is low. Our price objective for WTI is to reach around $62 or so. This price objective is also fairly inflexible. We plan on selling – ideally if/as/when the price objective and/or spring/early summer comes. A break much below $50 would inspire a sellout of the sector.

The first chart is a weekly chart of crude oil, and dated as at March 8.

WTI just broke below $50 – which, as you will note from my prior blogs and the near-term chart on the next page (a daily chart of crude oil, and dated as at March 8), represents the approximate bottom of the trading range since late last year.

As noted on my quote from above, we don't want oil to stay below $50 for any material period of time.



Using my **"**3 & 3 rule"**,** on a mid-term trade applied to a weekly chart—a break must last no more than 3 weeks and contain itself to within 3% **(**see my book, **Sideways**).

That is, a 3 week break, and less than a 3% draw through support. Approximating the 3 & 3 rule, let us say that oil should remain above $48 and move back above $50 by no later than the second last week of March (March 24th).

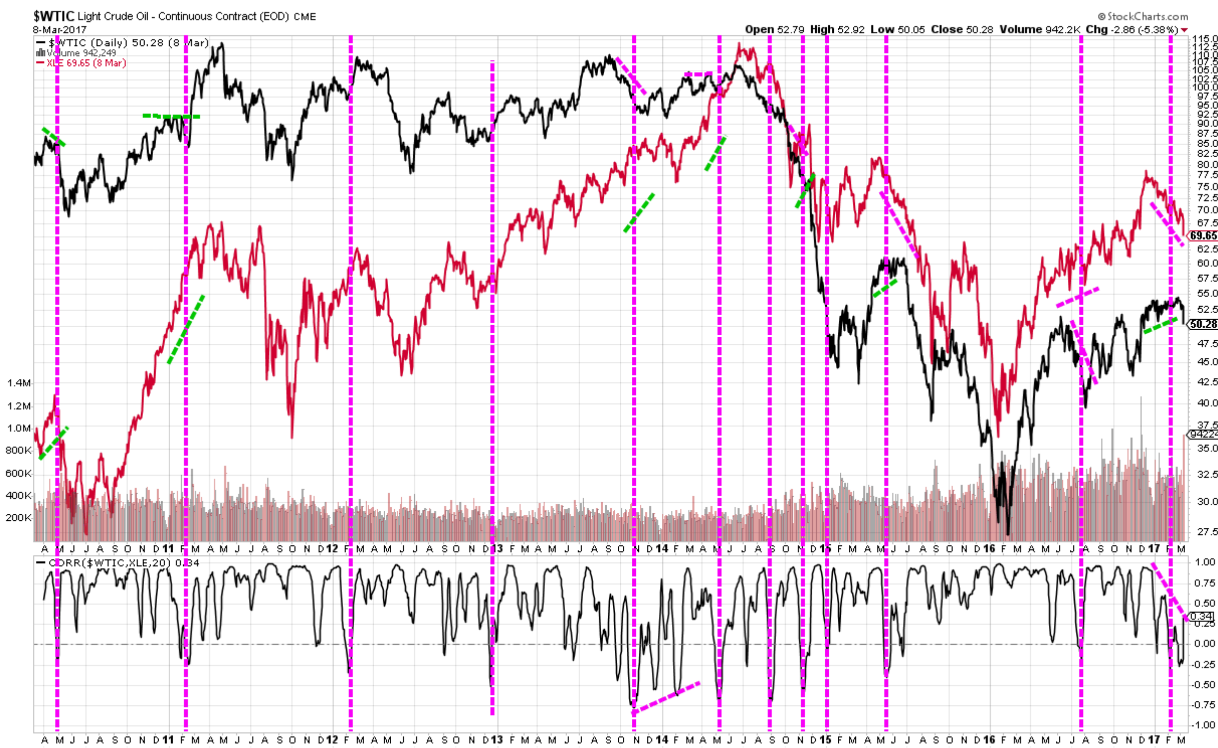
Trading rules aside—here are my technical notes from the above short-term (daily) chart:

- WTI has spiked below $50 for the first time since early December. It has found support at or above $50 up until now. Volume spiked on the break-down.
- RSI and stochastics are oversold but have not hooked up yet
- Longer-term momentum via the MACD indicator has been negatively diverging since oil began moving sideways in December
- Cumulative money-flow (bottom pane) has been declining since December, but money-flow momentum (top pane) shows a small degree of relief from that decline.

One final thought—you may have noticed that oil stocks (the SPDR energy stock index, XLE) has under-performed WTI since December. While WTI crude traded range-bound, XLE declined.

I looked back to their relationship since the last major peak for crude in 2011. One conclusion I made from this 6-year data sample was that oil stocks, more often than not, lead the trend for WTI.

The chart below illustrates XLE (red line) vs. WTI oil (black line). I drew vertical lines when the correlation study went deeper than -0.25 (meaning they were moving quite opposite in price).



I also drew small trend-lines on the chart lines to illustrate periods that created the non-correlated conditions that my vertical lines highlight. You will note that the **XLE red line** tends to diverge and lead **WTI's black line** to "give chase" later – the exceptions being at the far left side of the chart in early 2011.

On that occasion, XLE rose in divergence to crude, leading into a decline for both. Mid-2014 saw XLE rise and crude fall, also leading into a sell-off. All other occasions saw oil stocks lead the way for a new trend in crude oil.

This tendency may be a negative for WTI crude prices, given XLE's negative divergence against crude oil since December.

I will post again if I decide to sell some or all of my positions. Meanwhile, it has only been one day of the break in support, and crude is oversold. For this reason, it is too early to panic.

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See **About The Author** below.

ABOUT THE AUTHOR

ValueTrend Founder and Owner, Keith Richards, has been in the securities industry since 1990. ValueTrend manages over $100 million through a discretionary investment service for high-net-worth clients.

Keith Richards has been in the securities industry since 1990 and is a highly regarded member of the small, exclusive community of Chartered Market Technicians in Canada. Mr. Richard's articles appear regularly in INVESTORS DIGEST, MONEYLETTER, GLOBE AND MAIL, and the TORONTO STAR newspapers.

His appearances on BNN Television have inspired producers to acknowledge him as **"one of [our] most accurate technical analysts."** Mr. Richard's first book, SMARTBOUNCE: 3 ACTION STEPS TO PORTFOLIO RECOVERY, is available in bookstores and directly through his blog page **www.valuetrend.ca/blog/**. His second book, SIDEWAYS: USING THE POWER OF TECHNICAL ANALYSIS TO PROFIT IN UNCERTAIN TIMES was released in late 2011. He has been critical of the commission-based, follow-the-pack approach to investing – where brokers succeed regardless of performance.

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