

Small Caps Still In The Game

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

In this article, Mr. Richards evaluates the U.S. and Canadian small-cap sector, and concludes the U.S. sector is the better play.

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/small-caps-still-game/>

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By: Keith Richards (bio at end)

Small caps have taken a breather on both sides of the border.

It is easier to analyze U.S. small caps due to the widely-followed Russell 2000 index, and the very widely-traded IWM ETF shares.

On the other hand, the Canadian small cap index is not widely followed and the iShares XCS ETF is pretty thinly traded.

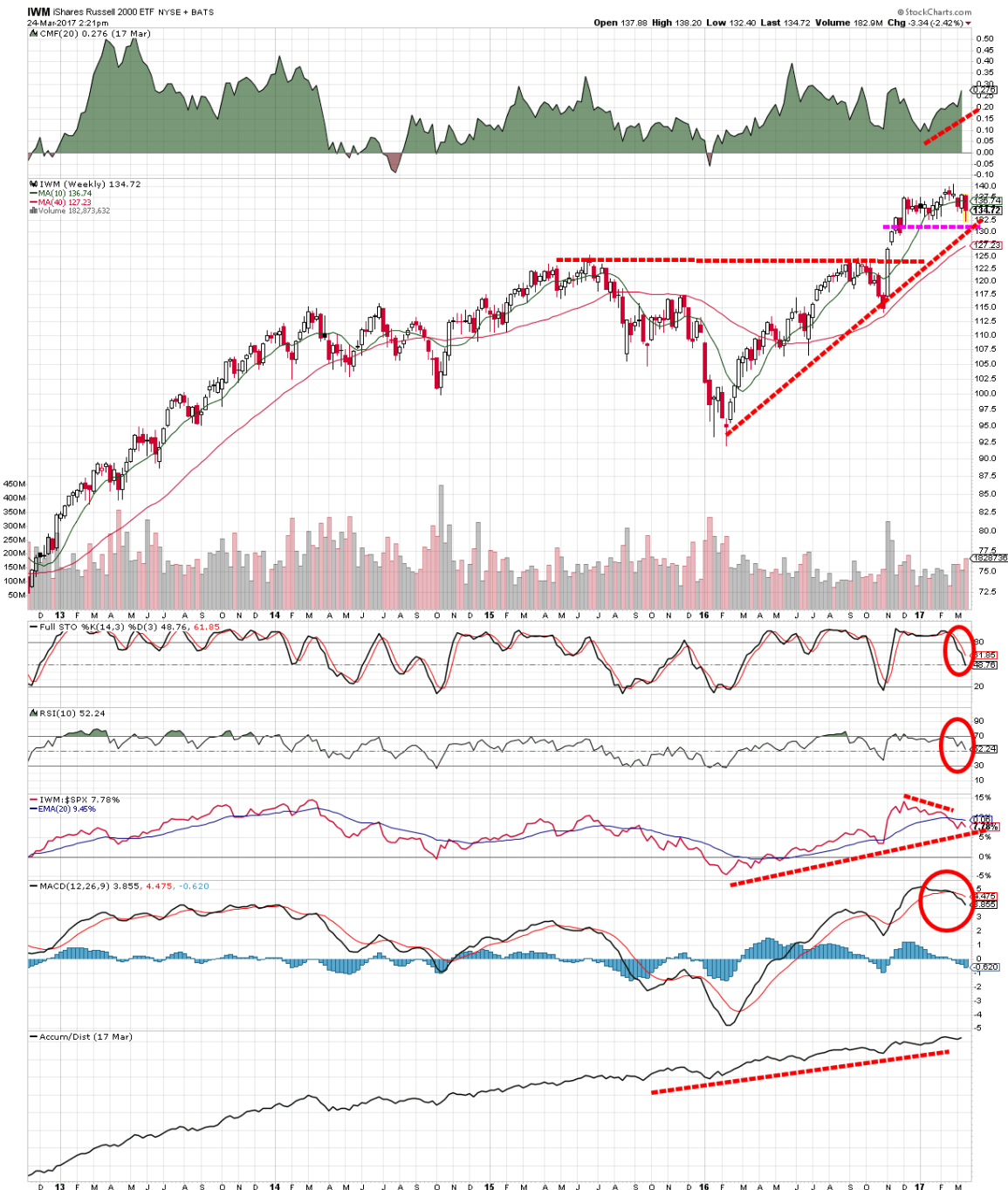
Nonetheless, we can view both charts here and ascertain what we can from them. I am focusing on the weekly charts for mid-term analysis.

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Starting with the IWM (U.S. small caps) units (see chart below), we can see that the U.S. small caps are firmly in an uptrend, having taken out the old resistance of around \$122. Momentum has rounded over, but money-flow momentum (top pane) and more importantly cumulative money-flow (bottom pane) are in great shape. The middle pane pits IWM against the S&P500 larger capped index. Its trending down in the near-term, but still outperforming – see my trend-line—in the mid-term picture. Seasonality is generally strong for the index until early May. My take is that we can expect a bit more chop—witness the momentum indicators still pointing down. But it is likely that we will see the index, and this ETF, move higher by May. This bodes well for investors looking in the smaller cap stock space—with an eye on the individual sector for the stocks within this broader index.



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Next, let us look at the Canadian small capped XCS fund (chart below). Money-flow is less important here, because the ETF is not widely held or well traded. However, trend counts on this chart, and it is largely in an uptrend. I must note here that the uptrend line and current support in the mid-\$16 range is being tested, and must hold for the trend to remain in place. It is holding above the 200-day MA but just barely. Momentum is pretty oversold, but has not hooked up yet. It could very well hook up shortly and signal an "all clear" for a bounce on the trend-line. Comparative strength to the TSX 300 is flat. Seasonality is unknown for this index or the TSX small caps.



Between the two, the IWM is the better-looking chart. Wait for it to prove its trend is still okay, and there may be a month or more left in the trade.

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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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