Is Canadian Technology A Buy?

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

In this article, Mr. Richards looks at the Canadian tech ETF, XIT, and concludes that it is better to buy individual tech stocks than the ETF. So, the answer to the Heading Question is "No!"

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/canadian-technology-buy/***

You can also visit the **VALUETREND** website at the link below:
http://www.valuetrend.ca/

***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.eResearch.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.

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.

Monday, January 8, 2018

Is Canadian Technology A Buy?

By: Keith Richards (bio at end)

Canadian tech stocks are a rare species.

If we look at the iShares Canadian capped tech stock ETF (XIT), it holds (brace yourself) a whopping ten stocks in its portfolio. Compare this to the widely-followed SPDR technology ETF (XLK) which holds 71 U.S. stocks.

Is the Canadian tech sector worth buying, given the rabid moves on the U.S. tech markets? In my opinion, you are better off picking the individual components rather than buying an ETF for the Canadian tech space. That is because 70% of this Canadian ETF is weighted in only 4 stocks. If you don't love those stocks at the same time, there is no point in buying the ETF for diversification. You are not getting much diversification in this concentrated play.

Let us take a look at those 4 power-play stocks that drive the Canadian technology space. Are they attractive looking stocks?

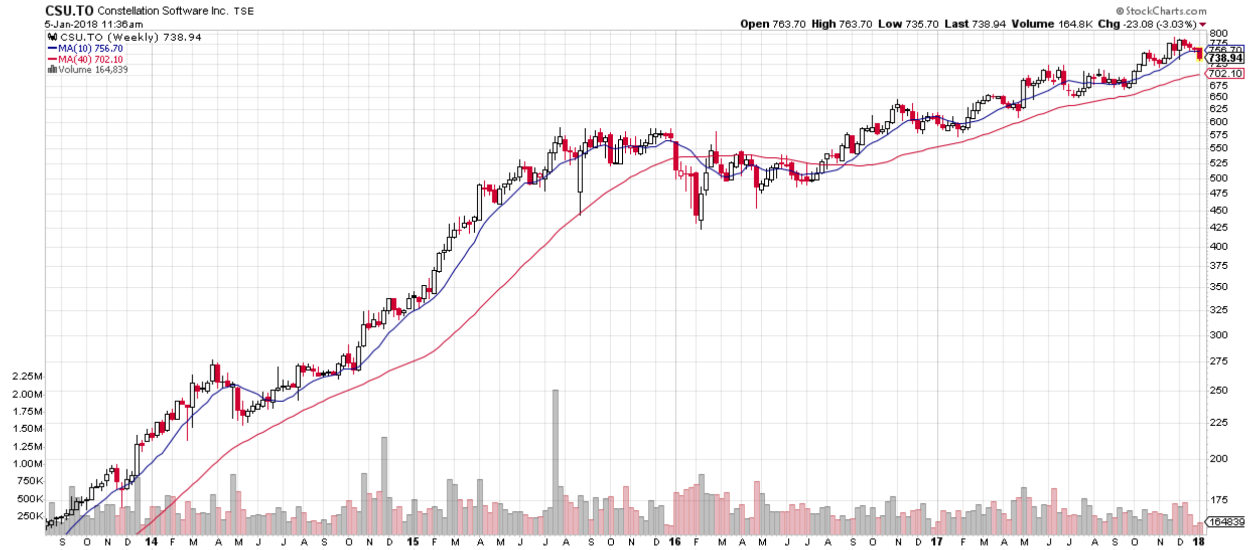
CGI

GIB.A-T is the biggest component of the shares tech ETF. It weighs in 22.6% of the ETF's holdings. At ValueTrend, we hold a position in GIB.A. It is in an uptrend, above its 200-day MA, and all of that good stuff. Currently I is treading a bit of water, but there are no signs of breaking the bigger trend. OK. So, let us say thumbs up to GIB.A. Note the very strong similarity between the GIB.A chart and CSU below vs. XIT. No wonder, given their weightings!

<continued>

Constellation Software

CSU-T is the next largest holding in the ETF at a 19.5% weighting. This stock is clearly in an uptrend. Like GIB.A, we are looking at higher highs and higher lows, and a nice 200-day MA. What is not to like about that? Thumbs up to CSU.



<continued>

Shopify

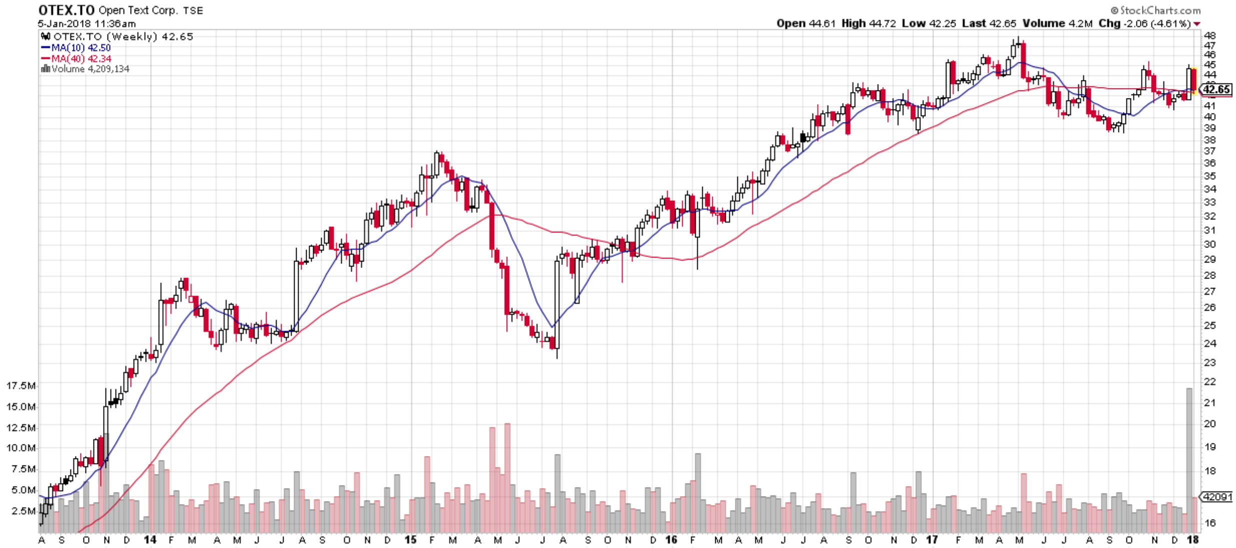
SHOP-T is not in an uptrend. This stock has been consolidating since April of last year. While not bearish, it is not a buy from a technical perspective unless it breaks out of the consolidation pattern. That would mean a take-out of about C$150 or thereabouts. Thumbs down to SHOP, which represents over 15% of the ETF’s weighting.

BW: This is the U.S. chart, below. The Canadian chart is shown after.

<continued>

Open Text

OTEX-T is similar to Shopify in that it has been consolidating since early 2017. A break above $48 would need to be seen before I became interested in this stock. Thumbs down to OTEX which also represents about 15% of the iShares CDN technology ETF.

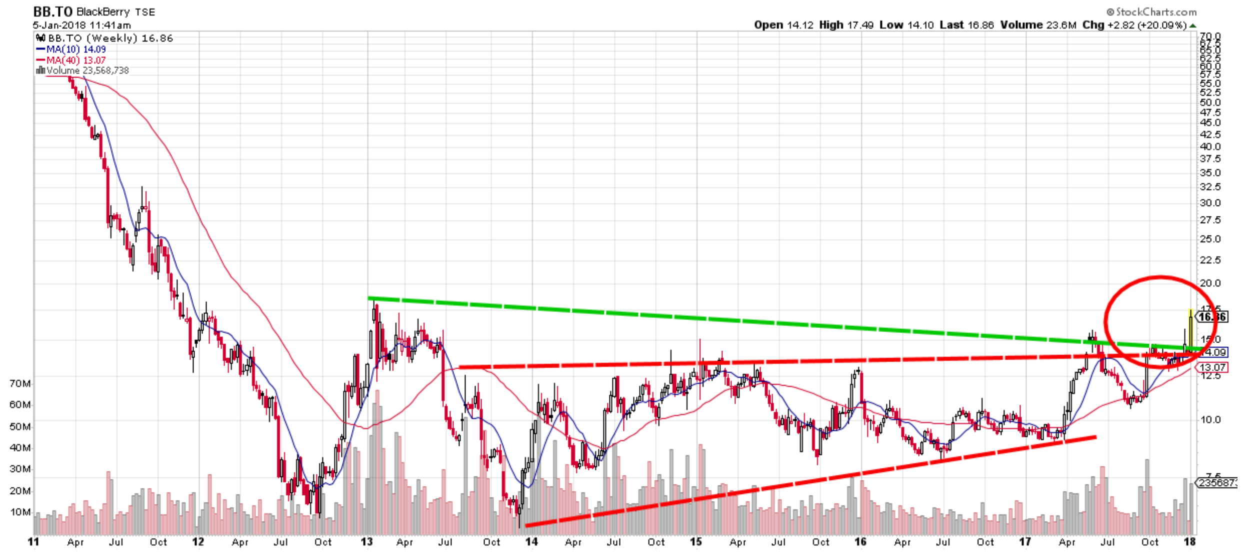


Conclusion

With some 30% of the ETF’s weighting in clearly sideways trading stocks, why would you buy the index? Clearly, the stronger charts of CGI and Constellation Software would be offset to a large degree by the dead weight of Shopify and Open Text. As noted above, we own CGI. I would not hesitate to own Constellation, too. But I would avoid the ETF, given the charts of the next most significant stocks.

As an aside, Blackberry (BB-T) appears to be breaking out, and its weighted as 10% of the ETF. So again, it could be an individual stock worthy of examination within the Canadian tech space. The other 4 stocks in the ETF represent only 1-2% (approximately) each and do not offer very good charts at all – hence my decision not to mention them.

See the BB chart on the next page.



#####

INVESTMENT ANALYSIS | WEALTH MANAGEMENT | PORTFOLIO MANAGEMENT
LIMIT YOUR RISK. KEEP YOUR MONEY.

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.

#####