Amateur Hour Is Over

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

In this article, Mr. Richards explains the difference between amateur investors and smart-money investors, and divulges his current strategy for the market.

On Tuesday, January 30, Mr. Richards wrote a blog entitled "Near-Term Correction Probable". See this article here:
http://www.eresearch.ca/wp-content/uploads/2018/01/ValueTrend_013018NearTermCorrection.pdf
Just three days later, the market began its swoon. Phenomenal timing on Mr. Richard's part. Now, with the S&P 500 Index down 7.7% and the S&P/TSX Composite down 7.3% from their respective recent highs, he is recommending the selective purchase of beaten-down stocks.

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/neartermed-correction-probable/***

You can also visit the **VALUETREND** website at the link below:
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Bob Weir, CFA: Director of Research

Monday, February 12, 2018

Amateur Hour Is Over

By: Keith Richards (bio at end)

My neighbor walks his dog with me sometimes. He is a great guy, but very typical of most undisciplined investors. That is, he is long the market and gets frustrated when markets go bearish. He cries the blues and panics when losing money. Recently, on a walk, he was bragging about the double digit gains he had been making in 2017. But he was nothing but complaints and moans during our walks in 2008 and 2011.

Amateur investors tend to go in and out of markets, making the "smart money /dumb money" sentiment indicator so accurate– I noted this indicator recently on **this blog.**

It is times like this – when markets fall – that the amateurs panic. It is during times like this that amateur hour ends, and smart investors, who apply a little thought to the process, can prosper. They raise cash when signals say things are overdone to the upside. They buy when things are overdone the other way.

With this in mind ...

Below is a longer-term chart of the S&P 500. It goes back to 1999, just before the tech bubble implosion. I note on the chart various formations, plus the larger-scale policies and developments (some technical, some Federal Reserve driven, one political: Trump).

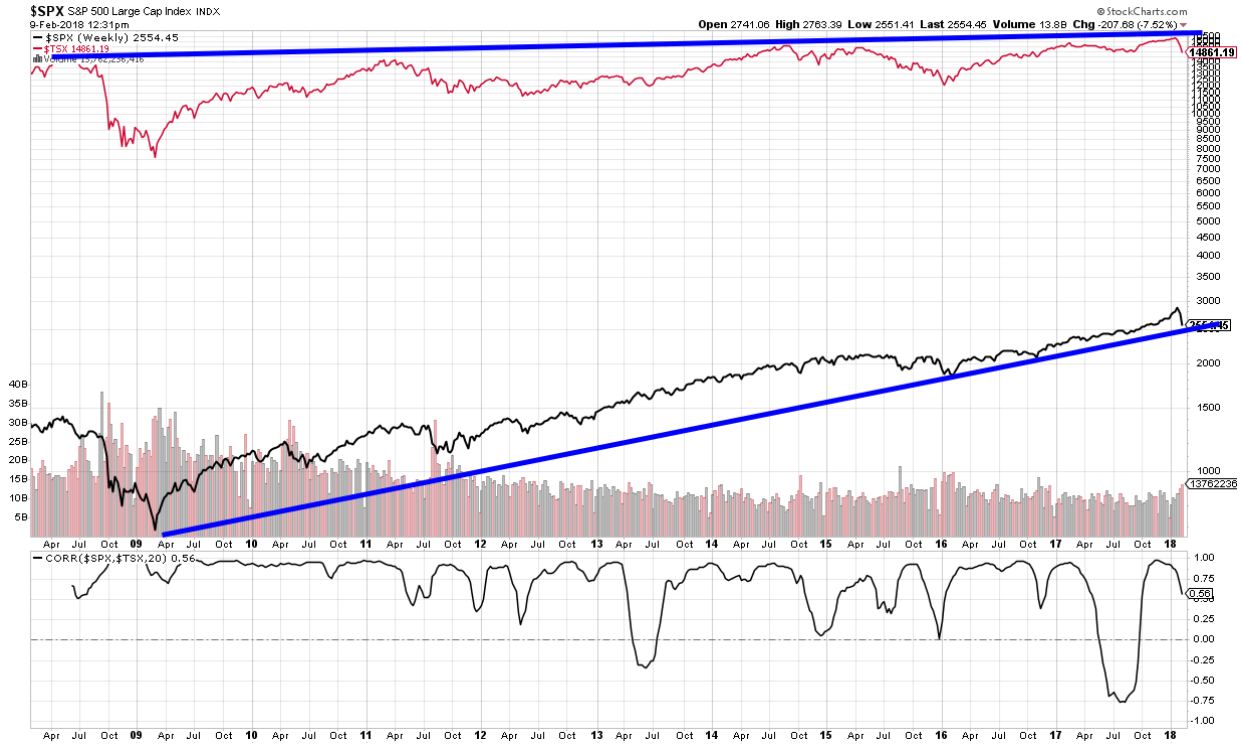
I have noted the bullish ones (e.g. easing and stimulation) in green font. I have noted the more bearish ones (e.g. the end of an easing program) in red font. You can see that such policies and developments do have an impact on market movements. Easy money helps the market, tighter rates hinder it – at least temporarily.

Right now, we are in the environment of rising rates. The market is usually OK in that environment, but not if it happens too fast. The recent talk is for a little more aggression in the Fed's tightening. So, the markets have pulled back. The reality of the speed and impact of higher rates may be different than current perception – it may not be such a big problem for markets. But, for now, the market is concerned. The tape is the tape—and I don't argue with it.

The market has had a very easy ride of it since Trump got elected in late 2016. The so called "Trump bump" began on hopes of favorable business tax policies etc. This a good reason to be bullish, whether you are annoyed by "The Donald's" personality or not (I am). Business drives the economy. Help business, you help GDP grow. It shows up in the stock market (the S&P 500 has been on fire since 2009) all based on a business-friendly environment. It started with easy money, then transgressed into further support through Trumps' policies. Hinder business and you hinder the economy (after all, business IS the economy). Help business, you help the economy. This ultimately reflects in the stock market.

Canada's policies have been decidedly less accommodative to business. That's not a political comment, it is a fact – and it has not helped our stock market. An **article in the National Post** recently explained how the two government policies (Canada vs. USA) differ, and how the differences have affected their respective stock markets.

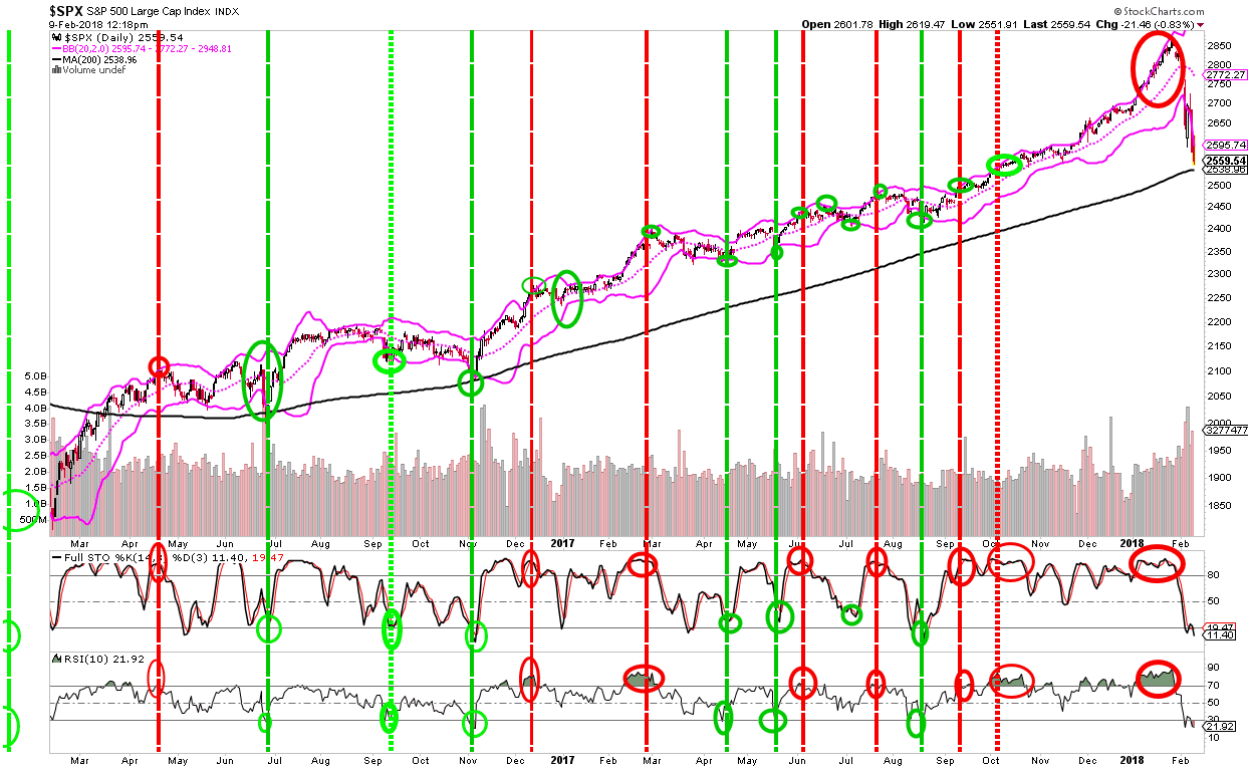
The chart below shows us that the TSX has been flat since 2009, while the SPX broke out in 2013 and has been on fire ever since. The chart shows a horrible scale so it is not the best chart I have posted, but you can still see the drastic difference between the markets. TSX 300 is **red**, S&P 500 is **black**. The bottom pane is a correlation line. You can see the wild swings on that line. Our markets do NOT necessarily move in tandem with the U.S. markets in any given moment.



With the above thought in mind, I come back to a few facts as to why I feel that the U.S. market will be back on track after this very much needed correction finishes.

1. The U.S. market is supported by an accommodative government.
2. The U.S. economy is growing very strongly.
3. The daily near-term timing chart shows us no break in the 200-day SMA yet, and has made a decided move into **my original second-level support area** of 2500.

That happens to be where the 200-day SMA (black line on the chart below) lies at this moment. We need only a hook from the oversold RSI and stochastics indicators at the bottom of the chart to signal a buy. And that can happen any time now. The chart below gives you some insight on where we are given those parameters. This chart shows the signals (circled) I used to predict the current selloff on **this blog** The setup is approaching for a new buy signal.



Let the amateurs panic. Smart investors are going to use this market correction as an opportunity to prosper from their emotions. I have already started legging in on very specific stocks at very specific prices with about 1/3rd of my cash. Further volatility will mean more opportunities.

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See **About The Author** on the following page.

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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