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Staples Not So Stable

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

In this article, Mr. Richards examines the U.S. Consumer Discretionary ETF (XLP) and has a look at the charts at some of the larger weighted companies comprising the ETF.

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/staples-not-stable/

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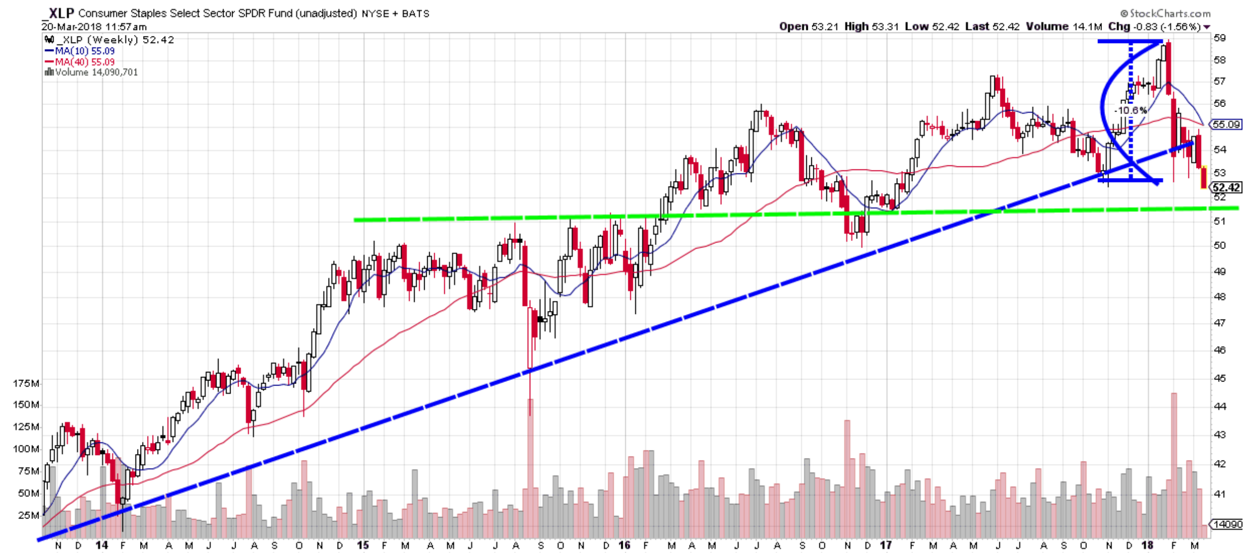
Wednesday, March 21, 2018

Staples Not So Stable

By: Keith Richards (bio at end)

Consumer staples are in a bit of a tizzy. If we examine the SPDR Consumer Staple ETF (XLP), we can see that the sector has suffered about a 10.5% drop since its peak in February.



Unlike the broader markets, it has <u>not</u> recovered similarly to the S&P 500 since the February market correction. XLP broke its trend-line in late February, although it remains above its last low of about $52 on the weekly chart. The 200-day SMA (40-week SMA) was broken at the same time the trend-line was cracked in late February. I place no faith in MA crossovers as indicators, but for what it is worth, it looks like the dreaded "death cross" of the 50-day (10-week) SMA moving below the 200-day (40 week) SMA is likely.

I bought this ETF for our ValueTrend Equity Platform as it tested its trend-line late last year. The chart looked to be offering a decent entry point at the time, so I took the bait. The question now is – do I hold, or do I fold? I thought I would write out my thoughts for you, the good readership, on this trade. It might allow you to see how I like to approach a difficult trading decision.

- **Seasonally**, the sector can be a bit soft at this time of the year, having its best performance in the summer. A rotation that Brook Thackray likes to talk about in his **Investors Guides** is to rotate every spring and fall between XLP (staples) and XLY (discretionary). He shows us that buying XLP in the spring, and selling in the fall to rotate into XLY outperforms holding them together. So, an argument from a seasonal perspective would be to stay in the trade, being so close to the seasonal entry point now.

- **Technically**, the ETF has not yet cracked its last low of $52-ish. I have a trading rule outlined in my book **Sideways.** If a stock/ETF that was in a trend cracks that trend, I sell. A broken trend is determined if the last low is taken out by a minimum of 3 days (max 3 weeks) AND the 200-day SMA is taken out. So far, it has just been the 200-day (40-week) SMA that has been broken. But the $52 point is dangerously close!

- **Support** is at $51-$52—see the horizontal green line on the chart. Do I sell just as we are getting into that price range?

- The **individual components** of the ETF have fallen, although they are consolidating. The major stocks of the ETF weigh in at 9% plus each. They are KO, PM, PG (the largest holding at over 11%), and PEP. Next in weighting is WMT (7%), followed by a bunch of 4% weights in COST, MO, CVS, MDLZ and CL.

I have posted a few of the heavily-weighted charts below with some very brief comments:

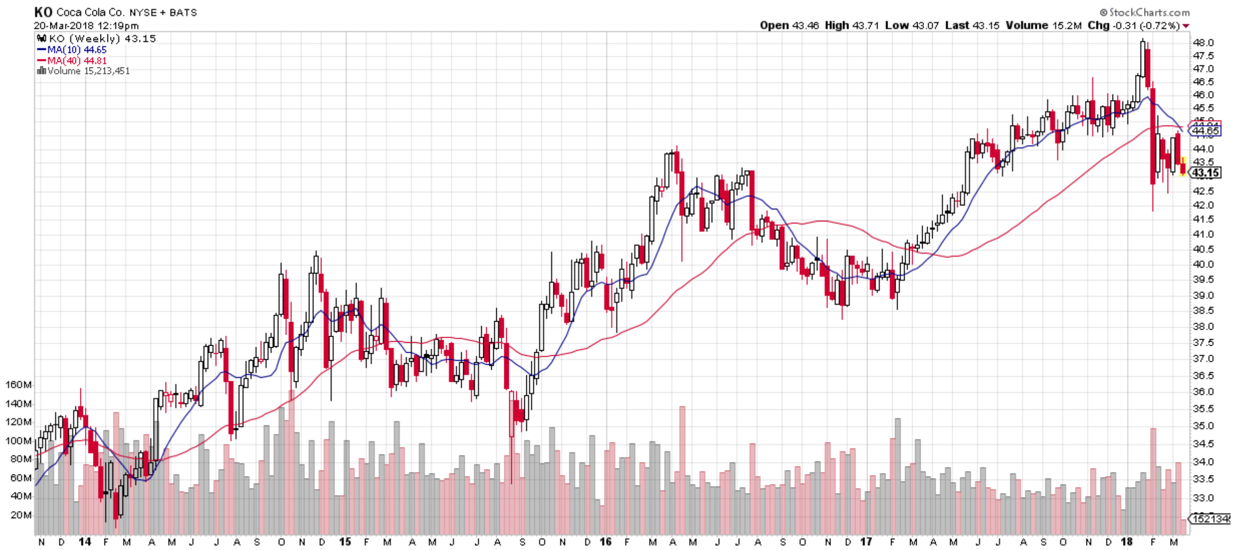
Bear with my references to the many old marketing lines used in this analysis. Couldn't help myself.

Proctor & Gamble (PG)

Yikes! Not good—big break of trend. They may have advertised that their products are "touching lives & improving life", but their stock is not improving their investors lives lately.

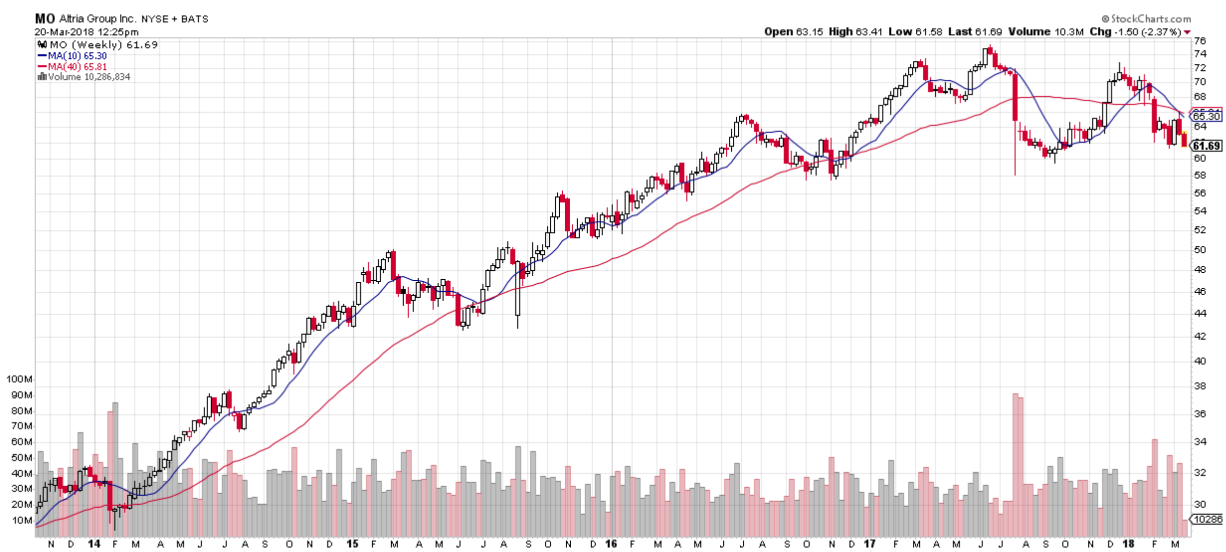
<continued>

Coca Cola (KO)



Coke used to advertise that their soft drink was the "Pause that refreshes". This pause may indeed be one that refreshes the stock. Despite breaking the 200-day SMA, it is still on trend from the big picture perspective. The stock is consolidating well above its last significant low of $39-ish.

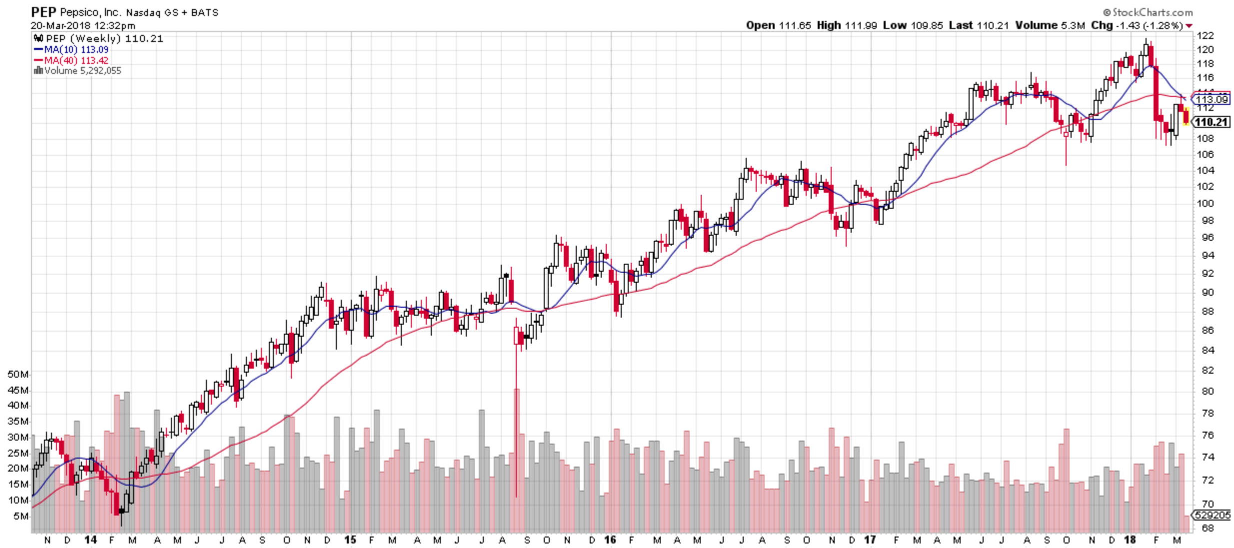
Altria (MO)



Altria's stock is killing its holders slowly, similar to its product line. A sideways trading range has contained the stock since 2016 providing no growth to shareholders. The good news is that MO is near the same support levels it has successfully bounced off of in the past. Somewhere in the $60 area has historically been a good buy point on the stock for a 2-3 month trade. The company's slogan of "We're a company moving forward" is not applicable to its shareholders, it would appear. Neither was their original slogan surrounding their benchmark product "You get a lot to like with a Marlboro".

Similar to my feelings about cigarettes, I don’t like the stock much, except for its near-term potential to bounce.

Pepsi (PEP)



The Pepsi taste challenge shows some discernable difference between it and Coke – insofar as stock price patterns go. Things do go better with Coke, this time. KO has a greater safety margin over its last low of $39 on the chart. PEP, which is flirting with its last trend-line low of around $108, may be in greater danger of cracking the trend if $108 is taken out. If that happens, I will feel sorry for the Pepsi Generation. PEP’s current slogan goes…”Live for now”. I would rather wait to see if the stock can hold its trend-line before deciding to do anything in the “now”.

<u>Conclusion</u>

The individual components of the XLP ETF are largely consolidating within their trend-lines (except PG, which looks terrible). Most have not taken out lower lows. The ETF itself has not taken out its low. The seasonal buy period is 2 months away for the sector. My decision is to hold the ETF for now, and sell only if the current support level of $52 is taken out and remains below $52 for 3 weeks.

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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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