

Loonie's Northern Journey Ends Soon

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

In this article, Mr. Richards analyzes the "flight" of the Loon(ie). He concludes that he would buy U.S. dollars if the Loonie reaches about (US)80 cents.

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/loonies-northern-journey-ends-soon/>

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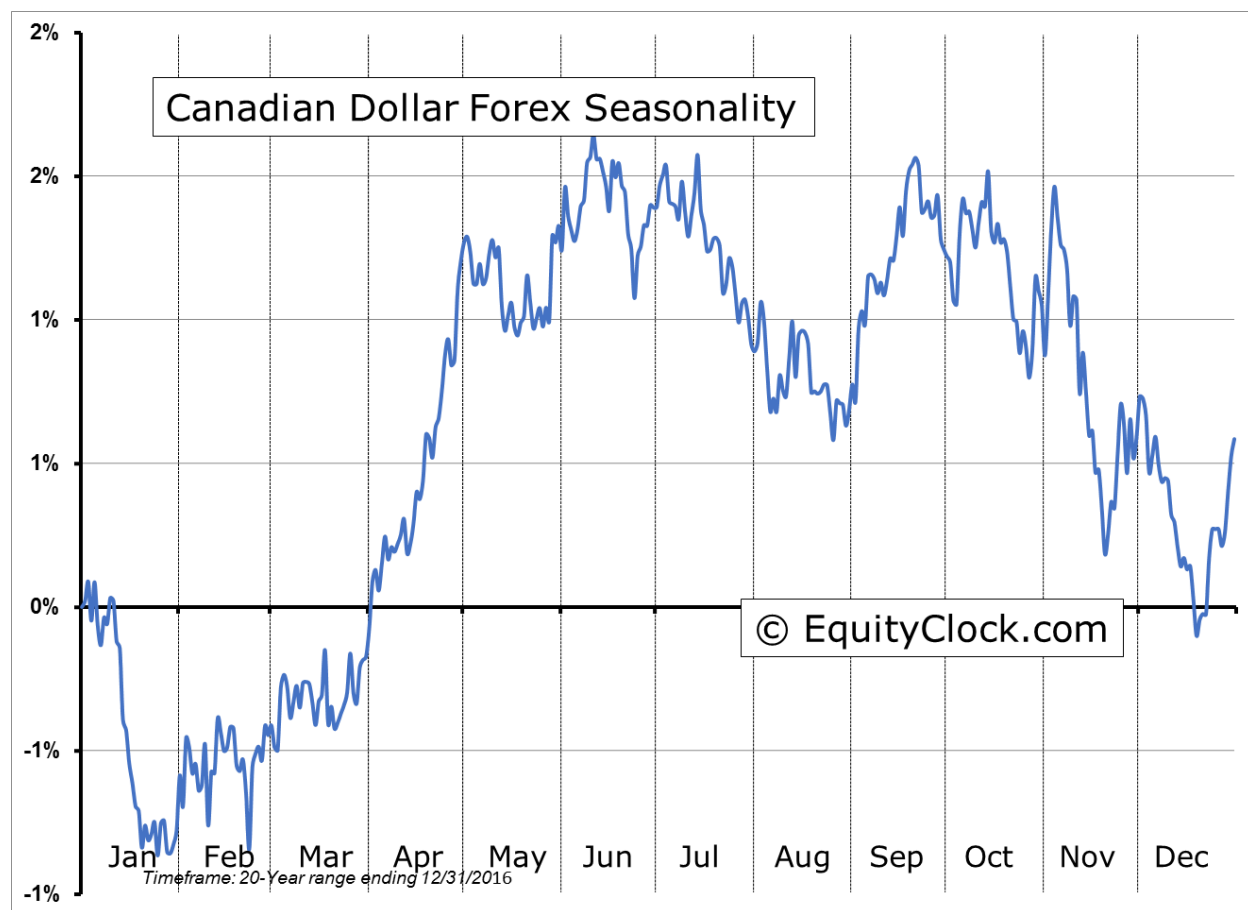
Loonie's Northern Journey Ends Soon

By: Keith Richards (bio at end)

Loons fly north from their southern retreats as spring approaches. So, too, do Canadian retirees, known as "snowbirds".

The Canadian dollar, affectionately known as the "loonie", follows that same desire to fly north as the weather begins to warm. Our friend Jon Vialoux over at www.equityclock.com presents this seasonal chart for the CDN\$.

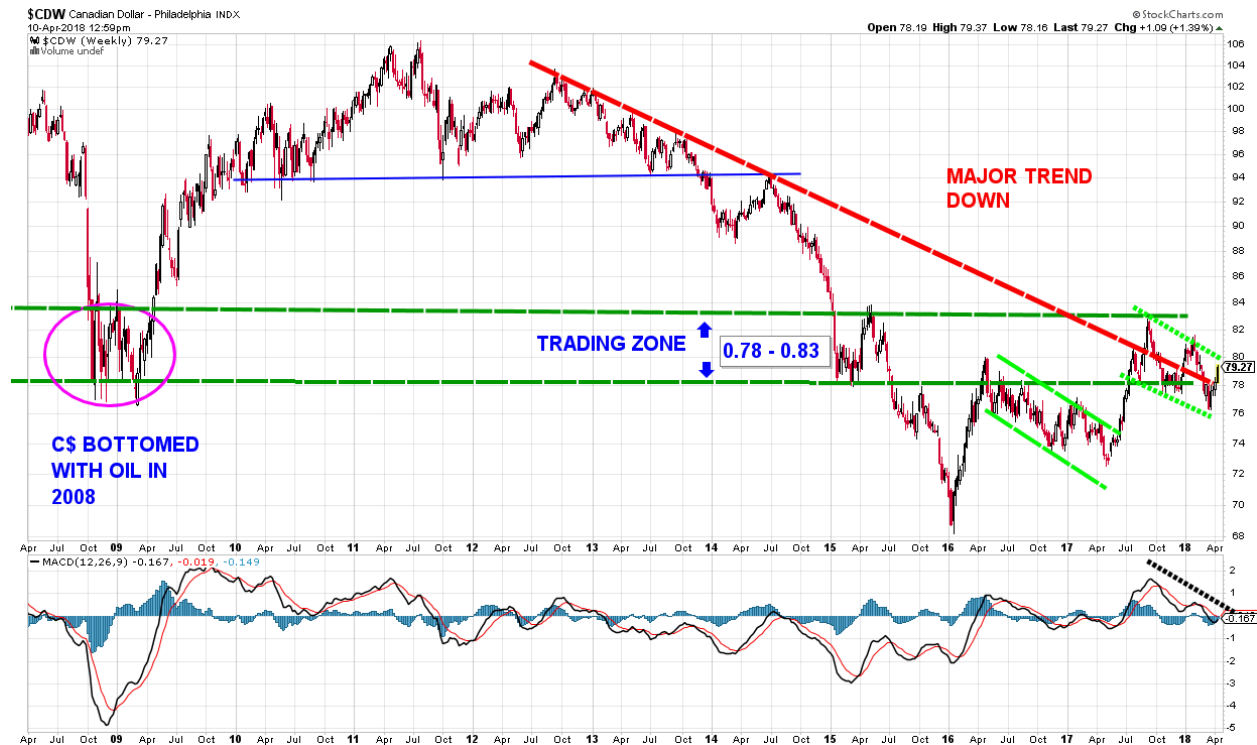
Notice how the single best time to be long the loonie is from its seasonal low point in February into its seasonal high point in mid-June. That is about 2 months away from the time of writing this blog. You will also note that the biggest upside occurs by the end of April. That is only 3 weeks away from this point of writing.



It most certainly does appear that the loonie is following its seasonal northern flight this year. Having bottomed just over \$0.76 in March, it is currently sitting well over \$0.79/USD.

Take a look at the long-term chart below, which I have posted in the past. The loonie frequently likes to trade in a range between \$0.78 and \$0.83.

I suggested back in early March that there might be a reasonable chance for our dollar to move back into that trading range by the spring – despite the bigger problems we face as a country under current unfavorable government policies. [Here's](#) the blog.



You will note on the chart that another near-term down-trend (indicated by the second green channel) began in the second half of last year. We are currently approaching the top of that downtrend.

A rough look at the chart above suggests a target of about \$0.80 before we challenge the top of this trend channel. As I noted in my blog in March, my target was \$0.80, should the loonie manage to rise (which it obviously has). We are less than a penny away from this target, which resides along the top of the minor trend channel.

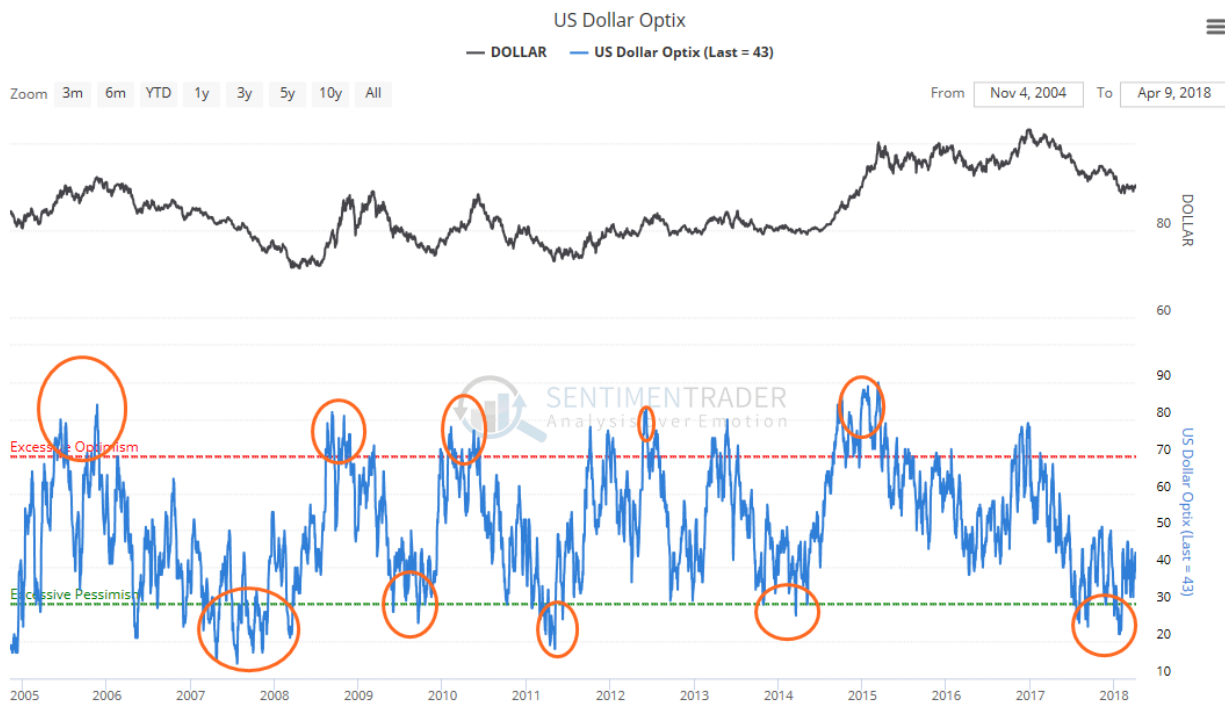
Sentiment Speaks

As you may know, the USD – against a basket of world currencies – has been trending down over the past year or so. In fact, sentimentrader.com’s USD Optix (which is a compilation of sentiment indicators pertaining to the USD) suggests that the USD has overly bearish sentiment. And that, as you know, is a contrarian “buy” signal.

Should the USD begin to move up when sentiment reverses – this will add pressure to an already vulnerable position for the loonie.

The chart below marks the “buy” zone as below the green horizontal line, and the “sell” zone as above the red horizontal line. The current move below the buy-zone suggests that bearish sentiment is overdone – an occurrence that has historically coincided nicely with bullish reversals on the dollar.

Further to that potential, the USD has a negative correlation with the stock market. The USD rises when stocks fall more often than not. I discussed this on [Mondays blog](#). If you believe, as I do, that there is reason for a substantial market correction this year, this would add fuel to a rising USD.



My Strategy

As I have noted in the past, I will be converting more financial assets into USD as/if/when we see the loonie reach \$0.80 – or thereabouts.

- Technical resistance
- sentiment readings on the USD indicating potential relative strength
- the potential for relative USD strength on a market decline
- seasonal trends coming to an end in the next 1-2 months
- the impact of government policies on business investment and the economy

These all suggest that the loonie will finish its northern flight sooner rather than later. You might consider holding some USD exposure in your own portfolio should that trade come to fruition. If nothing else, it might be a bit of a hedge against a stock market decline.

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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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