Third Party Research May 14, 2018

More Upside To Come For Oil?

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

In this article, Mr. Richards analyzes the historic trend in WTIC and suggests that when the Relative Strength Index (RSI) reaches an over-bought condition, i.e., it rises above 70, then investors should consider taking profits in oil equities.

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/more-upside-to-come-for-oil/**

You can also visit the **VALUETREND** website at the link below:
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Thursday, May 10, 2018

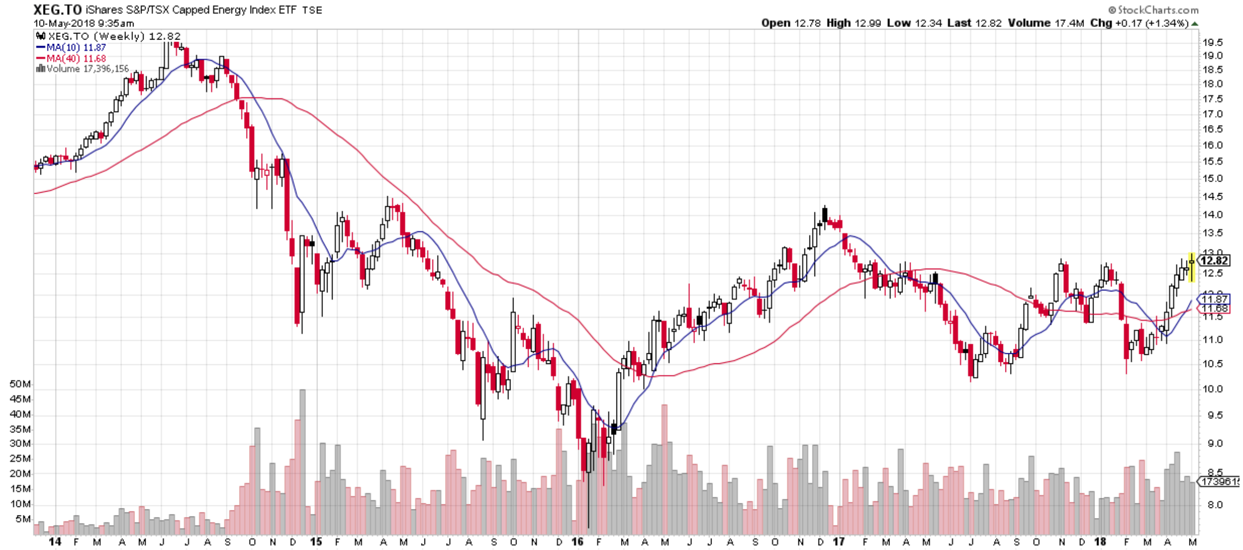
More Upside To Come For Oil?

By: Keith Richards (bio at end)

Back in **November 2017**, and then **again in January** of this year, I suggested that WTI oil – if it broke $56 (which it had not yet..) would target the low $70s, and possibly $90.

Well, it would appear that I got that one right (once in a while I nail it…). Puzzling, though, is the lack of follow-through by the producers.

The XEG chart on the next page shows a sideways pattern, where it is currently hitting technical resistance. I would chalk it up to "dirty Canadian oil" except that many of the U.S. producers are showing similar patterns.

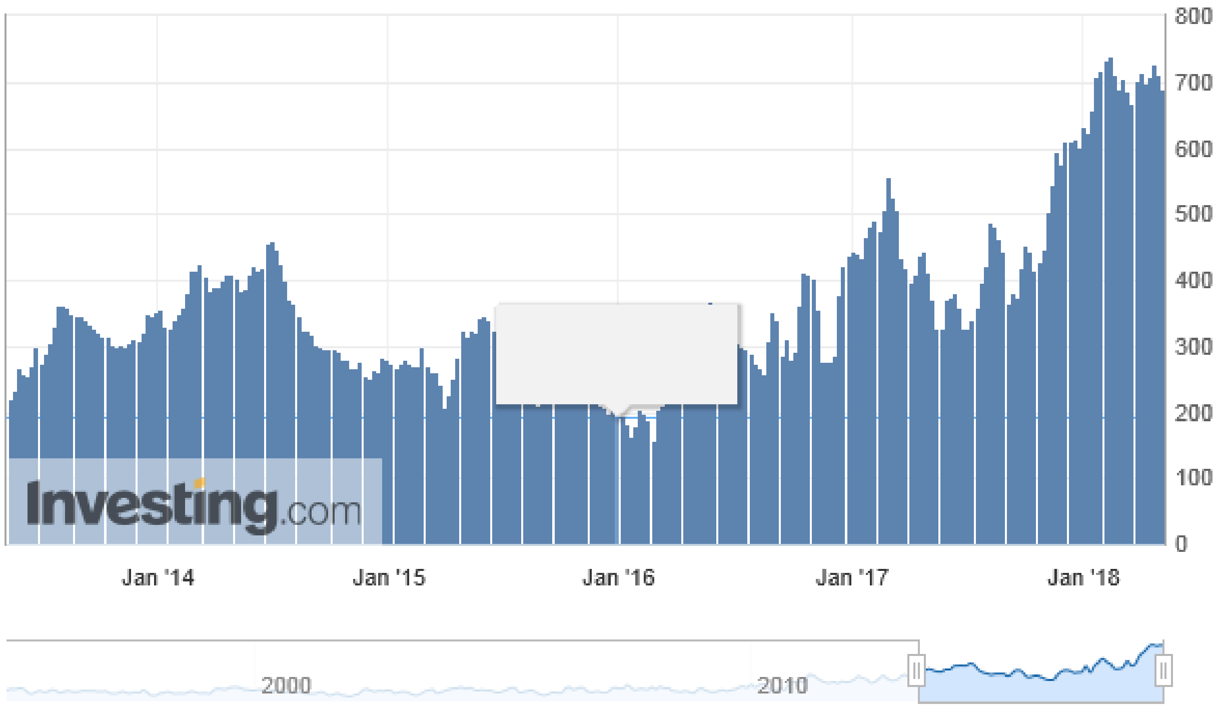


It is my opinion that WTI oil is very near reaching an overbought level at this time – and the fact that my first target of $72 has been pretty much reached, I am inclined to wonder if there is much near-term upside left.

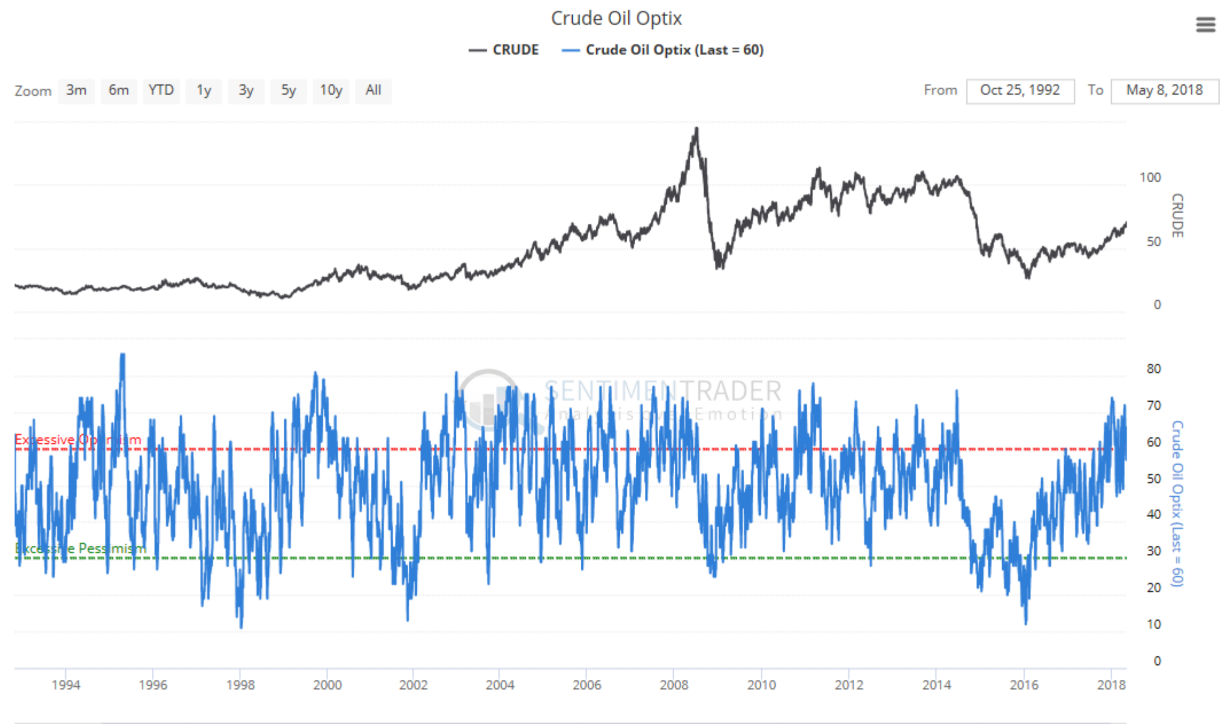
The first chart on the previous page is a chart with my original targets on it. It shows the RSI indicator below the chart – which is not yet overbought. However, you can see it reached overbought conditions in January, and subsequently pulled back. I might suggest that, as oil prices extend a bit more, we may see a larger pull-back over the summer.

My reasoning behind a potential near-term pull-back include:

- **Seasonality**: Oil's best period ends around this time of the year.
- **Sentiment, Commitment of Traders**: Crude oil speculators have been **maintaining record long positions** after ramping up their exposure last winter. This might suggest too much confidence in the trade.



- **Sentiment, investor surveys: Sentimentrader.com** does an Optix for most commodities, and that includes crude oil. In a nutshell, they take a compilation of sentiment studies from sources such as Market Vane, Larry Williams, Bloomberg, Ned Davis Research, etc. – and combine them into one indicator. The line on the chart shows you if the compilation is net over-optimistic or over-pessimistic by its relationship to the horizontal extreme points on the chart. Too high, it is over-optimistic. Too low, it is over-pessimistic. From a contrarian's viewpoint, an extreme degree of optimism or pessimism cannot last, and will eventually be reversed through price movement.

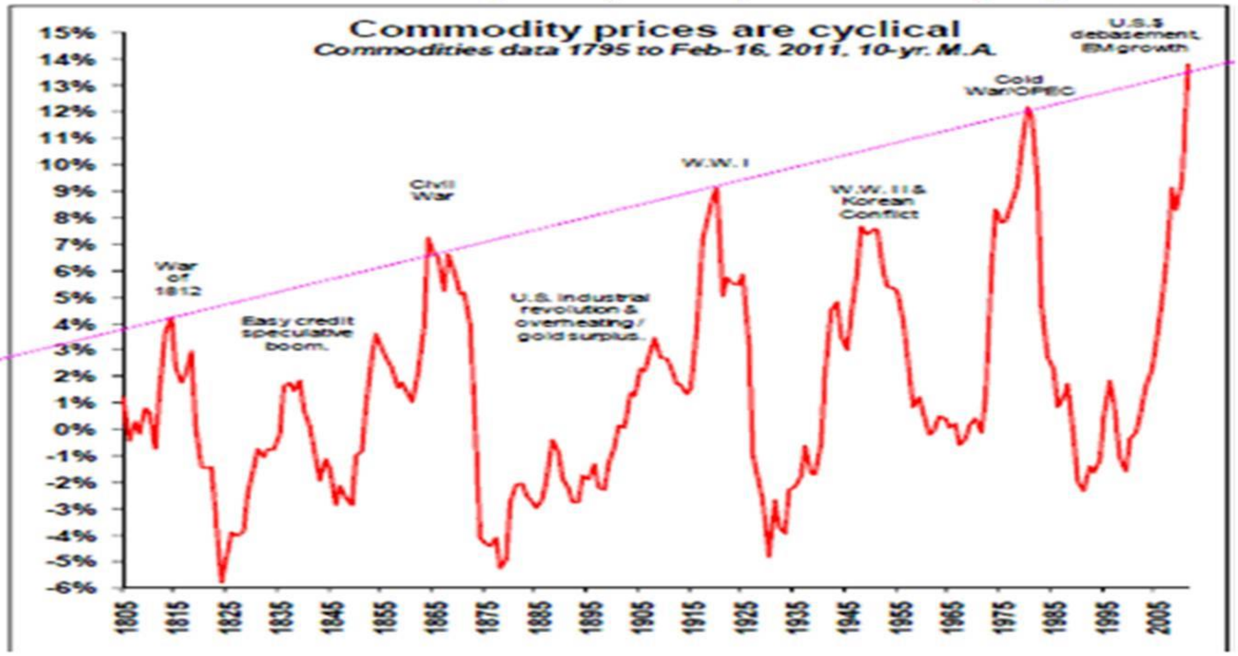


I am actually long-term bullish for oil. It is my opinion that the 33-year commodity cycle, which I have mentioned at my MoneyShow talks and on **this blog**, has troughed.

Here is a blog (link above) from 2014 that outlines this cycle. I used this cycle to correctly predict the decline in commodities over the past few years by observing this cycle.

The commodity peak (broad CRB index) occurred in 2011 exactly on schedule to the cycle. This cycle seems to have left translation more often than a symmetrical peak. In English, this means that – if you measure trough to trough, you may see the bottom occur a bit after the mid-point (peak before the mid-point). So a 33-year trough-trough average might mean the recovery happens over the final third, or something to that nature.

If you look on the cycle chart on the above mentioned blog (click on that link), you may note that this seems to be the case. It would make sense that the trough has been put in within this long-term cycle, and a new upside move that could last for about a decade may have begun.



But….such upside will not be without its bumps along the way. Enter my near-term outlook for a sell-off on the commodity. I would be inclined to reduce positions in the sector as/if/when RSI gets overbought again – and re-enter when the sentiment returns to a less frothy level. But that is the trader in me.

Happy trading!

BW: *Keith suggests taking profits and exiting positions when the RSI exceeds 70 as shown on the first chart in this report. Good idea!*

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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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