



Third Party Research

July 19, 2018

Sectors To Consider In A Rotational Market

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

In this article, Mr. Richards tells how to invest in a choppy market like we have at the present.

The article is reproduced below, beginning on the next page, or you can go directly to it at the following link: <https://www.valuetrend.ca/sectors-to-consider-in-a-rotational-market/>

You can also visit the **VALUETREND** website at the link below:
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Wednesday, July 18, 2018

Sectors To Consider In A Rotational Market

By: Keith Richards (bio at end)

Through this blog, I have long recommended that readers consider using a trading strategy utilizing various technical analysis methodologies. As I have often noted to readers: Everyone is a hero in a bull market. It's the bear markets that separate the competent Advisors and investors from those that wanna-be.

It is in the [current sideways choppy stock market](#) environment that you must be proactive and willing to trade. Buying and holding does not work (so well) in a choppy market.

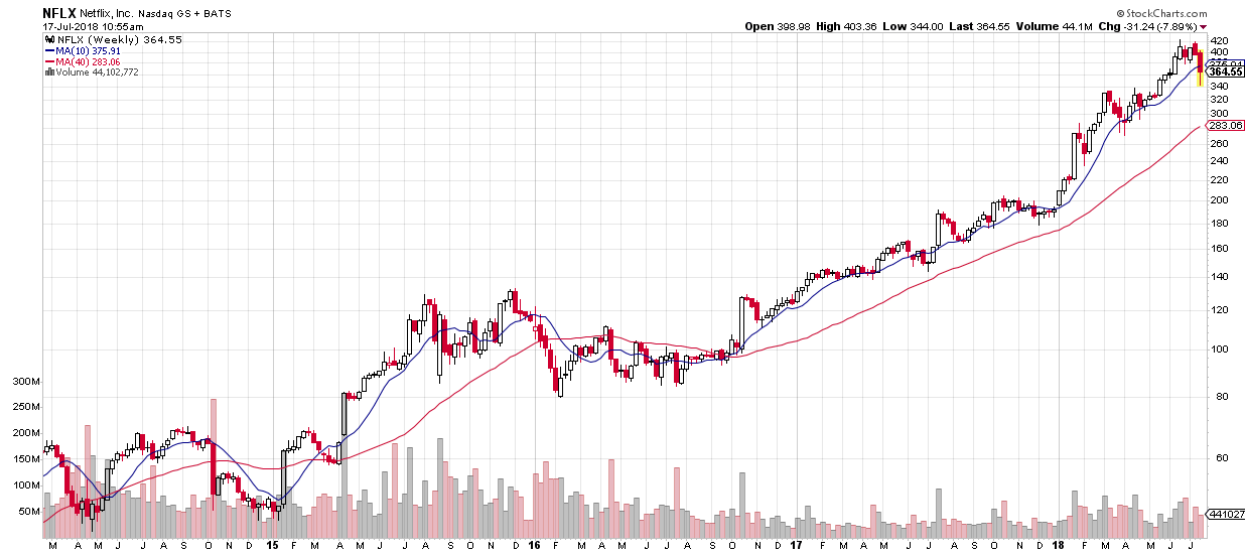
Sideways markets, as we have been stuck in since the beginning of the year, usually involve sector rotation. Stocks and sectors that were hot become unfavorable, and vice versa. You must learn to move between these sectors in a logical and profitable manner, or hire someone who knows how to do it for you. Buy-and-hold managers are not going to help you at this time.

By the way, I am always willing to share my strengths and weaknesses with investors- and I must say that my strength has always been in trading through a choppy market stage. My weakness lies in anomaly years like 2017, where logic and systematic approach adds no value – as covered [here](#) and [here](#).

Fortunately, that type of market (2017's parabolic move) is rare. Most markets either climb a choppy wall of worry via an up-trend, or consolidate, or decline in a choppy down-trend. These are all scenarios where a trading philosophy will give you an edge over buy-and-hold.

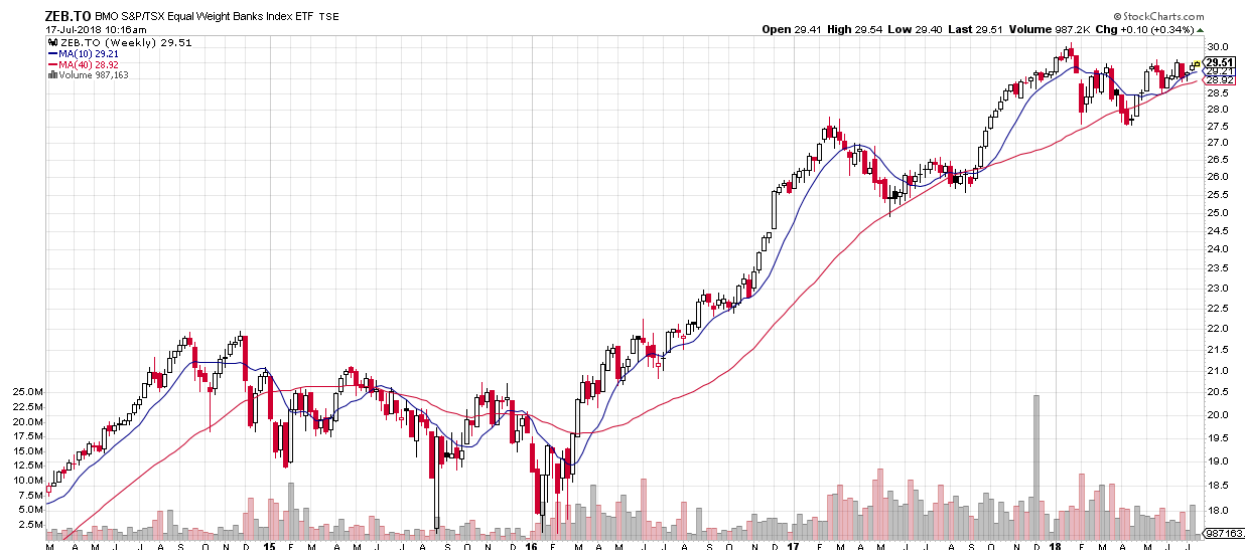
A choppy market is created as investors are concentrated on certain sectors, then rotate into new sectors quickly. For example, the first crack in the FANG stocks showed up in yesterday's report from NFLX (see chart next page). The stock is down about 10% overnight. It has not yet cracked the 200-day SMA or taken out a low on the weekly chart, but keep an eye on the entire FANG group, and the NASDAQ in general from this point forward.

This could be the warning shot across the bow for investors. I am not jumping to a conclusion here – I am simply suggesting we keep an eye open on the sector.



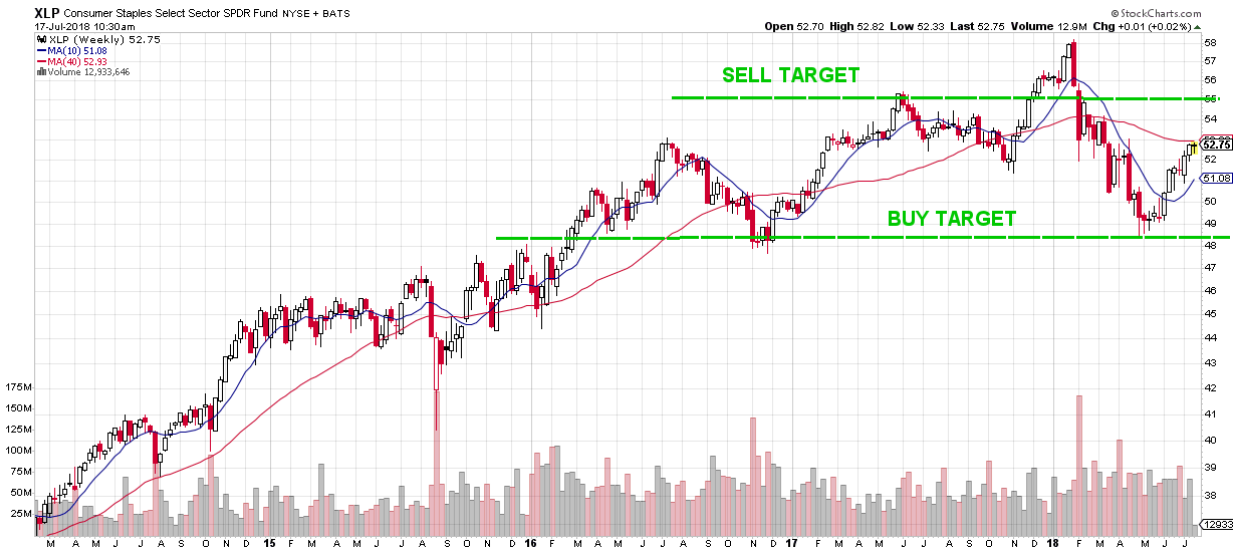
On the other side of the trade, you need to watch the underdogs, wait for them to break out, and then POUNCE! Below are a few candidates that you can add to your watch list.

Canadian banks: The banks are out of favor right now due to the declining prospects of the Canadian economy. Seasonally, it is usually best to buy banks in the early part of October. I am watching the BMO Cdn Bank ETF (ZEB-T) and individual banks for a potential entry point in the fall. We have a couple of Canadian banks right now, but would add to our exposure in the fall if things turn bullish. Right now, they are trading fairly flat, as the ZEB ETF below indicates.



Staples: The U.S. staples have been hammered over the past 18 months. This sell-off has vindicated my decision to sell MDLZ back in the New Year as it reached the highs of its trading range. I sold these stocks at a nice profit after my technical sell signals gave a warning. The XLP staples ETF (chart on the next page), which we still hold, is also coming off of a bottom. I think it is going to move higher if markets get choppy over

the next few months, which is why I put it on my "Top Picks" on my previous Bloomberg/BNN appearance. Stay tuned!



Conglomerates: I have covered the technical profile and trading zones of the conglomerates on [this blog](#) back in June. I think the conglomerates have been a bit over-looked in this market. We bought BAM, and FFH in that group. But POW (which we hold in our Income Platform) is interesting for a dividend play, for those after that type of play. Check the link above for their charts—albeit, a couple of months behind.

This market is not an easy one for investors. What worked yesterday – sectors like banks, energy or technology, may cause damage today. Yesterday's dogs, on the other hand, can become tomorrow's heroes. You need to watch for the new wave of sector rotation. Only through careful analysis of chart formations and volume trends will you spot the beginnings of those rotations. By rotating through sectors, and being willing to hold some cash in search of better buy points in the overall stock market environment, you will better stand to profit in these turbulent times.

(BW: You can also follow the eResearch "Seasonality Trends" report, which we publish on the first day of each month. FYI, the August report will come out on August 3.)

The Moneyshow: Featuring two rock stars

It appears that two famous rock star names will be at the MoneyShow this year. Keith Richards (the Rock Star of Technical Analysis, as BNN once called him), and Gene Simmons – International Rock Star and founder of KISS. Note that Keith is speaking on Friday Sep. 14 at 4:15pm. [Here's the link.](#)

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See **About The Author** on the next 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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