

Ideas for Seasonal and Technical Rotation

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

In this article, Mr. Richards reviews possible sectors that might do badly, from a seasonal perspective, over the next 4-6 months and some sectors that might do well. He also proves sources for Canadian experts in seasonality studies.

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/ideas-for-seasonal-and-technical-rotation/>

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Thursday, August 23, 2018

Ideas for Seasonal and Technical Rotation

By: Keith Richards (bio at end)

In about two months, we enter into the best six months "buy" season. Officially, it arrives about the end of October/early November, but you can get a buy point any time between August and early November.

Some sectors are affected by seasonal trends to a greater degree than others. As the "worst six months" season ends, sectors potentially to sell include defensive areas like Treasury bonds, Consumer Staples, Utilities, and some of the major commodities like oil and gold.

Sectors on the "buy" side of seasonality (best six months) can be Industrials, Consumer Discretionary, Technology, Home Building, and Financials.

Please note – I am not a seasonal expert, but I do "hang out" with a few of them, and that has influenced my way of viewing market cycles. For the record, at the bottom of this blog is a brief list of the leaders in seasonal studies, along with their websites. I recommend you peruse all of the "real" seasonal gurus' commentaries periodically.

I am a Technical guy first, last, and always

All of the above said, *I am a Technical guy first, last, and always!* I look to the charts first; seasonals are a background for my analysis.

Below, I will cover three of the stronger and more widely owned seasonal "Buy" sectors – Consumer Discretionary, Technology, and Financials from a technical perspective as my priority.

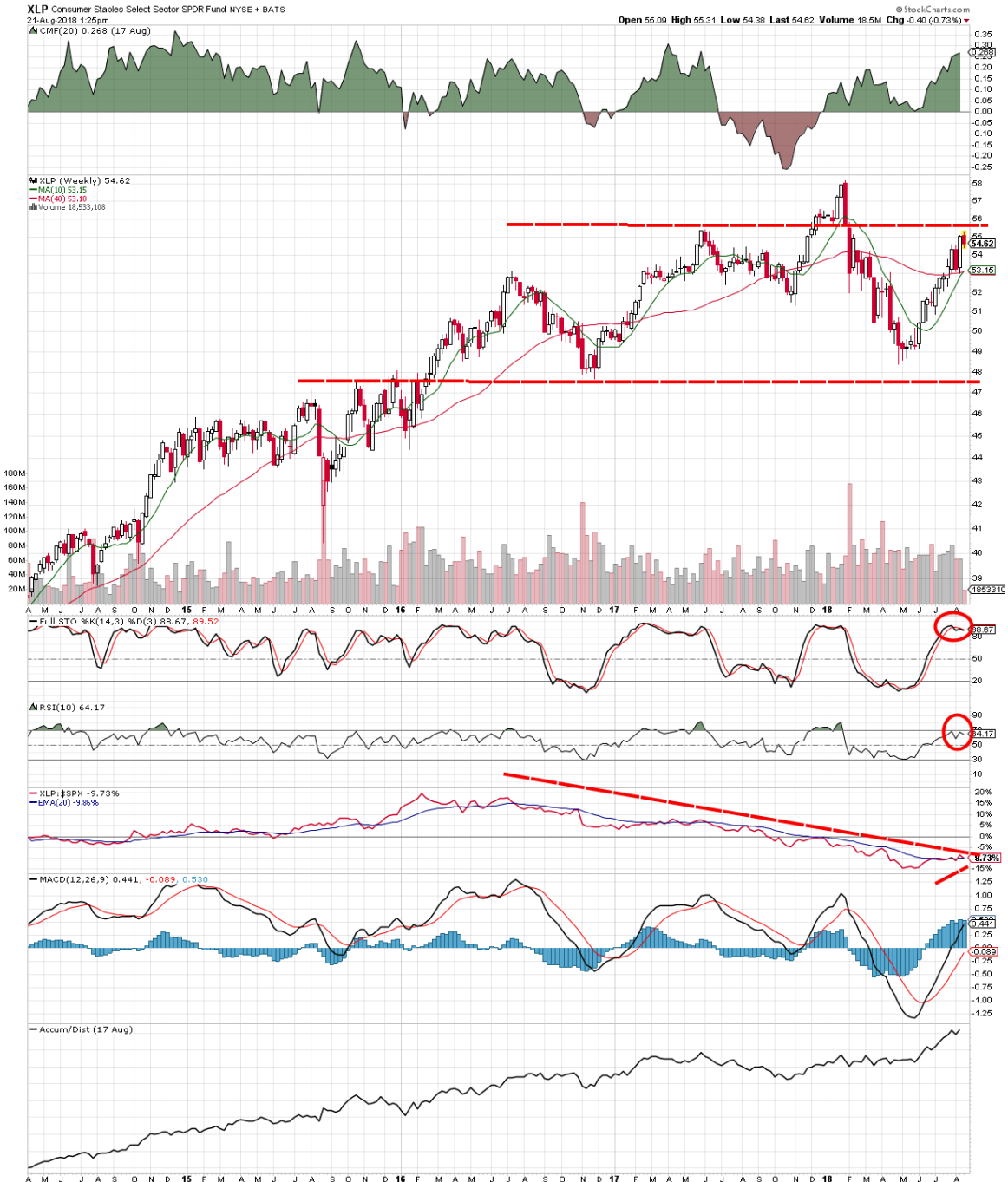
I will contrast them to three widely-followed predominant "sell" sectors – Consumer Staples, Utilities, and Treasuries.

The idea here is to see if seasonals and technical agree...or not! Here goes:

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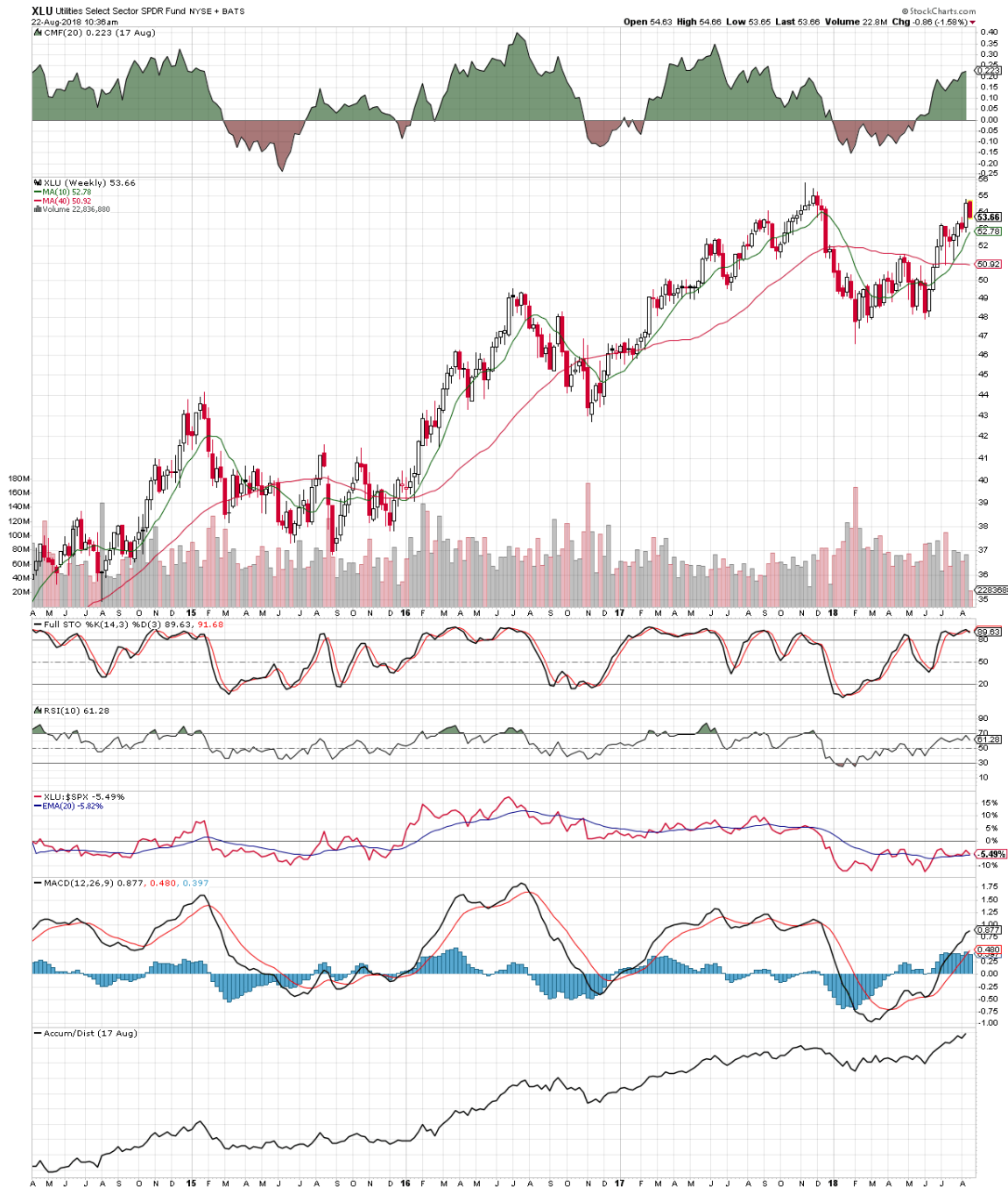
Seasonal Losers for the Winter

Consumer Staples

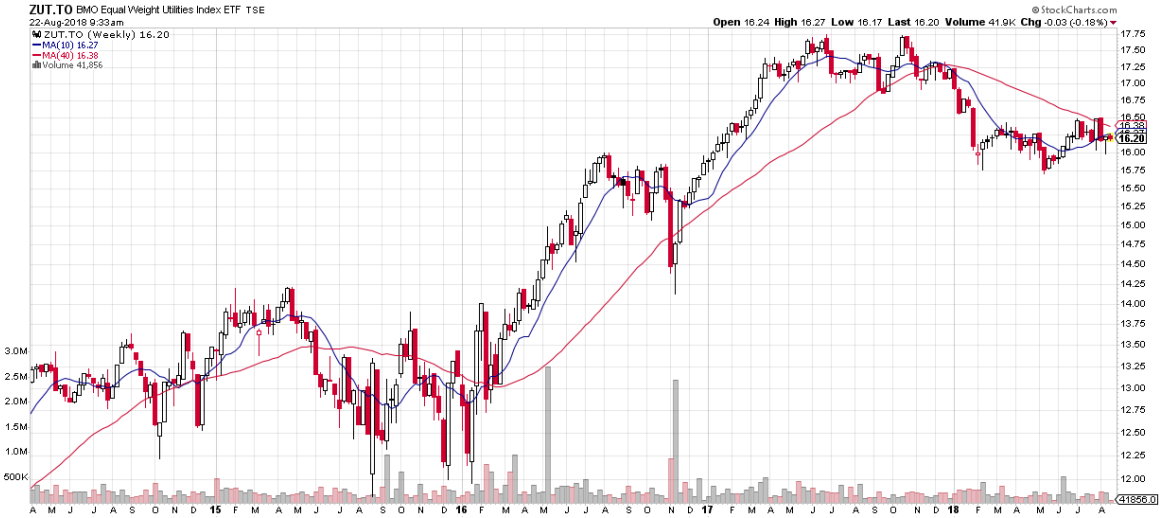


We own the XLP ETF at ValueTrend, and I put it on my "Top Picks" on BNN in the last show. As you will note from the chart, the sector bounced off of a significant support point, and is now nearing its major resistance point. It is overbought, yet still long term under-performing the broad markets. Time to sell is near, right on schedule with the seasonal trends.

Utilities



Here is something that does not happen too often. The same sector on both sides of the border is in opposing Phases ([see my book Sideways](#) for an explanation of market Phases). While the US Utility sector, as illustrated by XLU, is possibly facing a sell level at a point of technical resistance at \$55 after its strong upside, the Canadian equivalent via ZUT (see chart on the next page) is basing after a significant decline. Clearly, XLU is something to be avoided until and unless it can break \$55 making it look appropriate for a seasonal trade.



Meanwhile, ZUT might be something to consider as a buy candidate, but ONLY if it breaks out of its base (\$16.50-ish). This pattern defies the seasonal trade on the Canadian sector. Very interesting, indeed.

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US Treasuries



I will use the TLT ETF to illustrate the bond market. It represents the 20-year U.S. Treasury bond and it is a well-followed marker for bonds. As you can see, the TLT did follow its seasonal tendency to be strong over the summer, and had a particularly sharp move this month (August). You can also see that it is coming into technical resistance at around \$122, while being overbought on the daily chart via high RSI and stochastics readings. Overall, I would suggest that the T-bond looks to be following its seasonal pattern. It is likely a good sell candidate as it enters into its seasonally weaker period over the winter.

Seasonal Winners for the Winter

Consumer Discretionary



The XLY ETF is heavily weighted in Amazon. 25% of the ETF is in that one stock, in fact. This skews the sector, given the overweighting of a top performing stock. But, it is what it is, as they say. Clearly, XLY had no weakness this summer – probably because of the AMZN weighting. It is still on trend, although I have to think that an overbought pullback would provide a better buying opportunity. You can see on this weekly chart that momentum is overbought, and stochastics is rounding over. MACD looks like it wants to do an overbought crossover (moving average lines on that indicator – second pane from the bottom). I would buy on a pullback.

Technology



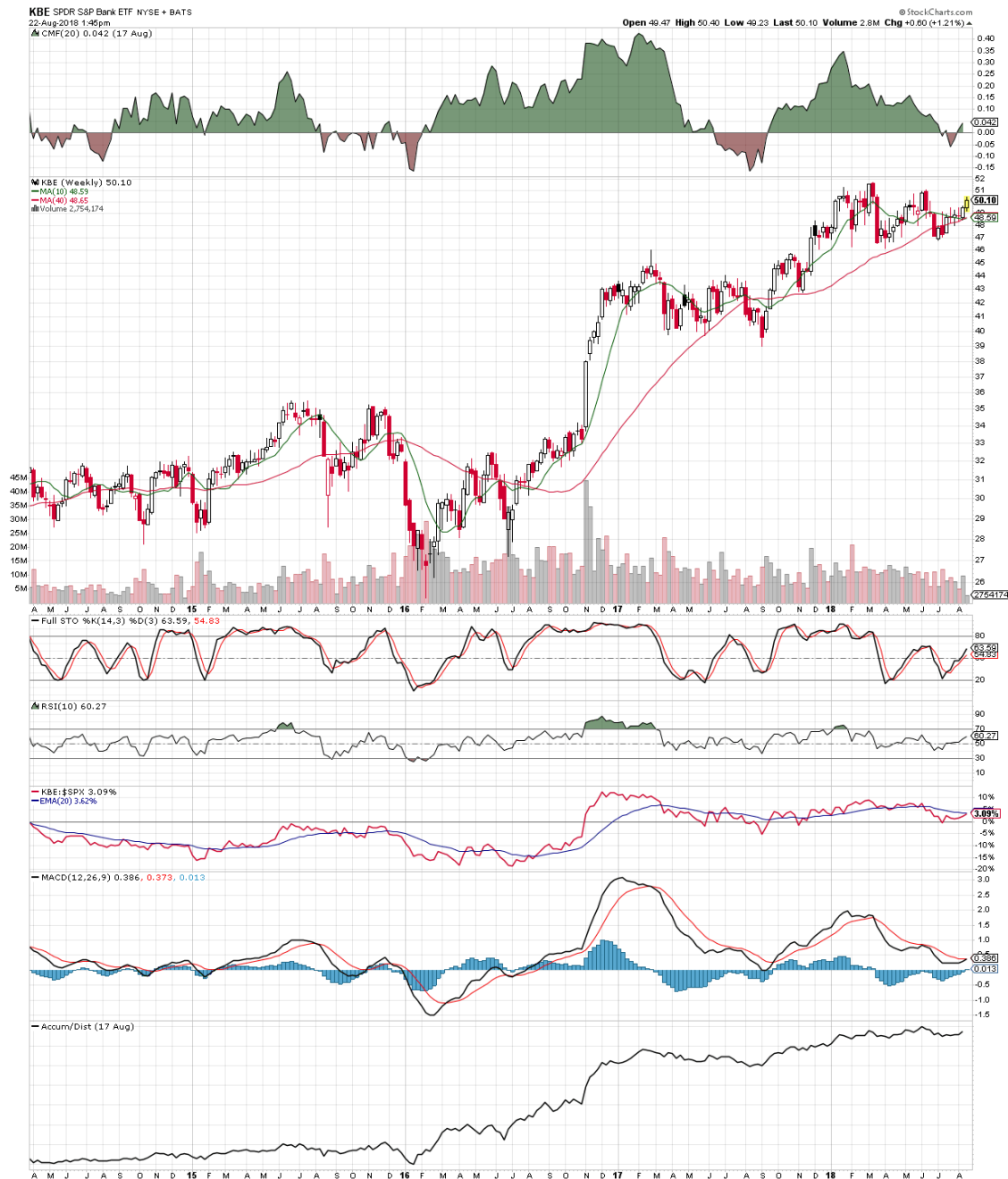
Here we go again...like the XLY ETF noted above, XLK technology ETF has major weightings between two stocks. Apple and Microsoft represent 26% of the ETF. So, you might consider this ETF as less efficient as a representative of the sector – given that concentration. Like I said above when looking at XLY... it is what it is.

As you will note on the chart, the sector is overbought via the momentum studies, and may need the pause that refreshes before buying new shares at this time. And, like XLY, it did not hesitate during the summer – disrupting the usual seasonal tendency to under-perform a bit in those months. Buy on a pull-back.

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Financials

Note that Financials contain different sub sectors (ie tier 1, regional banks, banks only for people with purple pants, lifecos, property health, etc.) that vary slightly in seasonality, so be sure to go to one of the seasonal expert resources noted at the top of this blog to get the more precise seasonal dates. I have noted the two majors here. I did not include the purple-pants banking sector:



Banks: KBE (above) is the SPDR ETF I will reference for this sector. It is not overbought. In fact, it is consolidating within a rough uptrend. If the ETF breaks \$51-\$52, this might indicate that a new up-leg will begin over the winter.

Insurance:



Insurance: The insurance sub-sector within the Financials – represented by the SPDR KIE ETF, consolidated over much of this year. It has recently been attempting to break through its approximate lid of just under \$32. A bit of time above \$32 and I would call this a very bullish chart. Clearly, this is setting up to be a reasonable seasonal bet.

Keith Richards and ValueTrend



2018 Upcoming Shows:	
Friday August 24th	12:00pm
Wednesday September 26th	6:00pm
Thursday November 1st	6:00pm
Friday December 21st	6:00pm

Keith appears regularly on BNN MarketCall to answer viewer questions on the technical analysis of stock trends, and to provide unique insights on the factors of technical analysis used in successful investment management.

If you have questions about the technical analysis of stock trends for individual stocks, be sure to phone in with your questions for Keith during these shows.

Call Toll-Free 1-855-326-6266

Or email your questions ahead of time (specify they are for Keith) to marketcall@bnn.ca

Seasonal Experts in Canada

Yale and Jeffery Hirsch: The founders of seasonal investing in North America, Yale Hirsch, and now, his son Jeffery, have produced the [Stock Trader's Almanac since 1967!](#) I was 5 years old that year, so cannot say I was his earliest subscriber – but I did start buying the almanac in the early 1990s.

Don & Jon Vialoux: Don was the head Technical Analyst at RBC for many years before he went independent – eventually creating the [most popular Technical Analysis site](#) in Canada. Don was the inceptor of the well-known seasonal slogan for the Best Six month strategy: “When it snows, in you go. Sell in May, and go away”! Jon took what he had learned from his father and has created a [powerful website tool](#) that instantly provides seasonal graphs for most North American sectors, along with a huge number of well-followed individual stocks. I recommend following both of their daily write-ups. I also subscribe to Jon's EquityClock research—it is invaluable.

Brooke Thackray: I was introduced to Brooke's work in the mid 1990s through his first book, *Time in, Time out*. Brooke combines witty market and economic commentary within his [technical and seasonal newsletter every month](#). He also produces “Thackray's Guides” and videos regularly. I strongly recommend subscribing to his free emailed newsletter. Its objective is to give us heads-up on upcoming seasonal trades. I like the fact that Brooke tracks his own advice in the newsletter, and tells you if the last set of seasonal trades have paid off. Finally, the part of his newsletter I enjoy the most is “Brooke's rant”. Sometimes political, sometimes economical, sometimes deeply philosophical – it always makes me smile, and often adds a new perspective on world events.

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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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