



Third Party Research

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NAFTA, the TSX, and the Loonie

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

In this article, Mr. Richards looks at the S&P/TSX Composite Index and the Canadian Dollar within the context of a successfully renegotiated NAFTA Agreement (USMCA).

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/nafta-the-tsx-and-the-loonie/>

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Monday, October 1, 2018

NAFTA, the TSX, and the Loonie

By: Keith Richards (bio at end)

Before we get started, I thought I would shamelessly show off our new video from the ValueTrend website. I thought it was well done. But, then again, I am just a wee bit biased!

[Click here](#) to see this short video on how ValueTrend combines technical and fundamental analysis to formulate our managed process.

And, now, on with the blog.

It appears that we have a tentative new trade agreement between Canada and the U.S.A. replacing the previous NAFTA agreement.

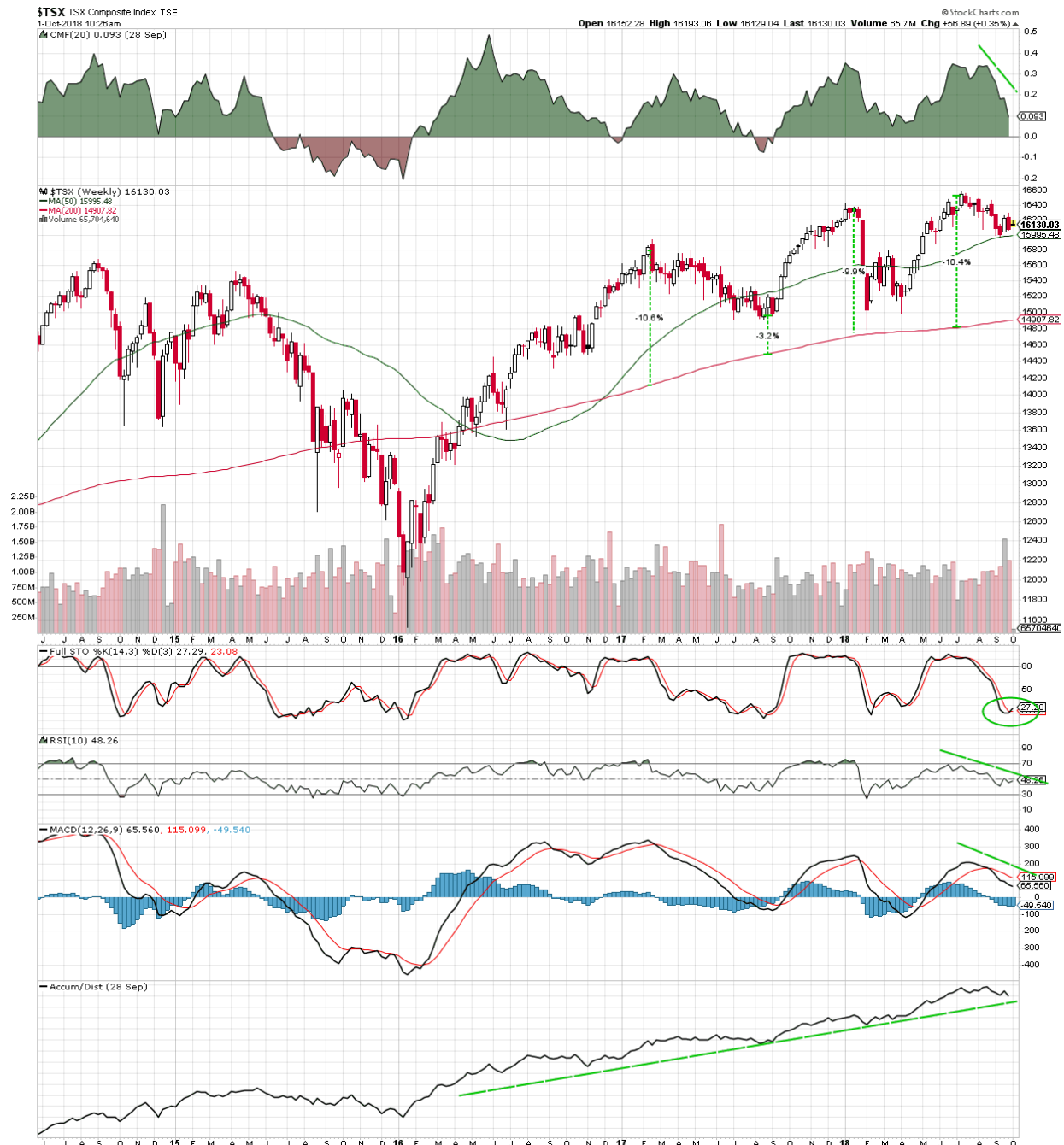
A quick search on the internet will satisfy any readers as to the details of the deal – so I won't comment on it here.

The comments that I will make today will be strictly technical. I will cover the TSX and the loonie. I am not just going to focus on the near-term patterns – my goal is to give some perspective on mid-to-longer term patterns, and the resulting potential outlook that may arise from what is happening right now.

So, let's get started...

TSX

The TSX 300 index has been in a choppy uptrend since 2016. It appears that the market follows my "10%" rule for market corrections. That is, if the market moves much more than 10% above the 200-day (40-week) SMA (simple moving average), it likes to correct within that uptrend.



You can see that there have been 3 incidents where the market moved to the point of around 10% over its 40-week SMA or above.

Each move coincided with a correction—the recent correction having just got started.

Perhaps the TSX will not correct as steeply on this most recent overbought move, given the positive (?) outcome of a NAFTA deal. Or, perhaps, it will rise for a few days, and return to a corrective mode.

In its favor, the TSX displays very positive money-flow (bottom pane) to back its uptrend since 2016. Stochastics (first pane below the price chart) is oversold, and suggests a rally is overdue.

On the negative, we see on the top pane (Chalkin Money-Flow momentum indicator) that money-flow has momentarily slowed for the TSX. More importantly, we can see the longer-term momentum indicators RSI and MACD moving down. They could reverse upwards upon a market rally lasting for more than a few days. But that remains to be proven.

If I had to score the TSX on a technical perspective, I would say that the trend is decent, although volatile. Money-flow backs it, but a few other indicators suggest a cautious tone. I would give the TSX a 5/10 right now—i.e., neutral. It is much less a broad market play than it is a selective market to play.

Loonie

I have posted this chart of the Canadian dollar (above) with its various annotations numerous times on this blog – and have updated it regularly.



Today, I will bring you back to a few key points when viewing this chart, and one new development since my last entry on the loonie.

First— the major trend – and “it ain’t over ‘til it’s over”. The “Big Red Line” is the dominating trend-line. The trend is down. OK! Any questions?

Next – the minor trend – which I have been following on this blog for some time – is marked by dashed green channel lines. It is a down-trending channel within that bigger down-trend – aka the Big Red Line. We are nearing, but not at, the top of the small trend-channel. Somewhere around \$0.80 / USD represents the top of the channel, and the loonie sits at around \$0.78 now.

One positive development has been the bullish cross-over by the MACD indicator-bottom pane. Such cross-overs have indicated positive moves more often than not. The more defined the cross-over – the better the odds for a bigger move. The current cross-over is not coming off of a deeply negative MACD level, and the hook is not aggressive. But it is there, nonetheless. This suggests a potential move to the top of the green trading-channel, noted above. From there, the loonie will have a whole lot of work to do to break the major down-trend.

Conclusion

I have a certain degree of faith that the TSX may see a near-term positive move – albeit possibly lasting only a few days. I have a certain degree of faith that the TSX will eventually continue in its choppy uptrend, even if a near-term up-move does not carry it too far. I continue to pound the table suggesting to readers that the broad U.S. market will continue to out-perform the TSX, with the latter being better viewed from a stock picker’s perspective – as opposed to a broad index play.

I have a certain degree of optimism that the loonie will see \$0.80 or near that level. I have limited faith in a move much beyond that level. I will only believe that the loonie will be a long-term performer if it can crack \$0.80 and move well into the low \$0.80s for a period of several weeks or longer. The BOC comment regarding its tightening policy might help push the loonie to that \$0.80 level. However... The bigger down-trend presents a very big wall to climb for the Canadian currency. For this reason, I expect to do some personal currency conversion if/as/when the loonie moves to \$0.80, because I don’t think the move will last.

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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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