BNN BLOOMBERG MARKET CALL

***e*Research Corporation** is pleased to provide two excerpts from Friday's BNN Bloomberg Market Call Newsletter.

Set out below are the respective Market Outlook commentaries from two leading investment analysts, plus Links to their respective 45-minute video interviews.

MARKET OUTLOOK

Don Lato, President of Padlock Investment Management

Focus: North American Equities

For several months, North American equity markets successfully climbed the proverbial "Wall of Worry". The last three months, however, have told a different story as the old worries intensified and were joined by a new batch, including the progression of the Mueller probe, quantitative tightening by the Fed decreasing liquidity, a potential government shutdown in the USA, and the latest worry of increased turmoil within the U.S. administration. All of these concerns increase uncertainty and, if there is one thing that markets do not like, it is uncertainty.

The added uncertainty combined with year-end tax-loss selling, hedge fund redemption, and worrisome corporate reports (Micron and FedEx) have all tipped the scales leading to the substantial declines during the quarter and, particularly, this month (on pace for the worst December for U.S. equities since 1931).

The irony is that one of the recent negative catalysts was this week's statement from Fed Chairman Jerome Powell that the Fed remains committed to further interest rate hikes because of the underlying strength of the economy.

The current environment has brought many quality companies down to valuations that they have not seen in years, if ever. There is always the possibility that the some of the current concerns will create economic issues down the road that could, indeed, cause further deceleration in earnings growth. Under that scenario, even those lower multiples will not be enough to stop further price declines.

The upcoming earnings season starting in mid-January will be crucial in helping set the tone for next year. In the interim, long-term investors will be re-examining their asset allocations with an eye toward bringing their equity weightings back up to their desired level. Any re-allocation to equities could provide the fuel that will be needed to stop the decline and move markets past this short-term cyclical bear market and into the next stage of a bull market.

VIDEO: Don Lato's 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

WEBSITE: **www.padlockinvestment.com**

MARKET OUTLOOK

Keith Richards, President and Chief Portfolio Manager at ValueTrend Wealth Management

Focus: Technical Analysis

The plunge in the S&P 500 after the monetary policy statement by the U.S. Federal Reserve has brought markets well below the February lows. The S&P 500 now has significant overhead resistance at just over 2540 with little technical support. It should be of comfort for people who pay attention to my BNN Bloomberg appearances and blogs to know that the technical way of looking at the markets has saved the ValueTrend Equity Platform from much of the grief that the majority of investors experienced. The ValueTrend Equity Platform has a history of typically experiencing somewhere around 30 to 40 per cent of the market's volatility in a bear market.

How We Have Managed Risk This Year

We held 24 per cent cash over the summer, invested half of that cash on a signal before mid-term elections, and retained the balance of the cash given the lack of new buy signals. We have been holding about 12 to 13 per cent cash in the ValueTrend Equity Platform to date. We have also maintained some U.S. dollar exposure to play that upside.

One of our buy signals is to look for three positive days on the market (within four trading days) that takes place after a major sell-off. There have been several two-day rallies over the recent decline since September. Our three-day rule kept our cash on the sidelines. Many investors were fooled into buying off the recent "lows" that followed these short rallies!

The Battle Plan

As noted above, the market broke 2540 this week. There appears to be few market catalysts for the markets to move up in the near-term. Although the market looks oversold given the relatively positive economic data that brought the Fed to hike rates, there are not many market-moving events that would point to a strong reversal anytime soon. New Fed talk, corporate earnings, a potential China trade deal, and most economic data from this December all will not be in the headlines until January. Thus, we expect that the Santa Claus rally, which is typically in the last week of the year and the first week of the new year, is unlikely. However, we do anticipate an oversold rally as catalysts appear in January.

Our three-day rule applies to buying and selling. We are looking for three days of the S&P 500 below 2540 as a sell signal. If the market does not rise above 2540 by Monday of next week, then we anticipate selling a bit more equity to raise cash. If it continues to remain below 2540 into the following weeks, then we will look for further short rallies to sell.

On the other hand, should the market form a base, we will count three days and then re-deploy our cash. It should be noted that markets are quite oversold. We simply need a technical signal to inspire a deployment of capital. The time to buy is when markets are low and that time will arrive. While it is true that the actual fundamental environment for many of our investments is quite constructive, the reason for owning these investments is to realize a positive return. We will continue to look at markets quantitatively for new buy and sell signals, all with an eye on limiting risk and earning positive returns over the long run.

VIDEO: Keith Richards' 45-Minute Video Interview **<CTRL-CLICK>** HERE

WEBSITE: www.valuetrend.ca

TWITTER: @ValueTrend

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Bob Weir, CFA
Contributing Analyst