Monthly Market Chit Chat

May, 2015

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Game on! When we moved last fall, one of the things we wanted was a better street for the kids to play on, fewer cars and perhaps more kids in neighbouring houses - and we got both. Road hockey is a great activity and the boys have been staging their own playoff action on the road as of late! We've also been following the playoff action via our own in-house hockey pool!! Fun times! (I'm glad I have a trio of top scorers from Tampa Bay on my side).

I've had a hard time containing my enthusiasm (my wife does not care for this type of conversation) but I've found a new tool for conducting investment research. It's called Market Analyst and wow is it powerful! These guys have worked hard for many years developing a platform that continues to surprise me as I learn about its potential. Having been a long-term (10-year) Metastock user, you can understand my reluctance to imagine even the possibility of trying to switch software with so much time committed to my current platform but WOW. In the past 6-7 weeks since I've been using it, I have surprised myself with how quickly I can rebuild what I'm looking for in terms of analytics, screens and views. Very impressive! They were generous with a six month trial for attendees of the recent MTA conference, but I am very contented (alright - enough geekiness – let's get to the meat for this month)… http://www.mav7.com/.

The News - Headlines

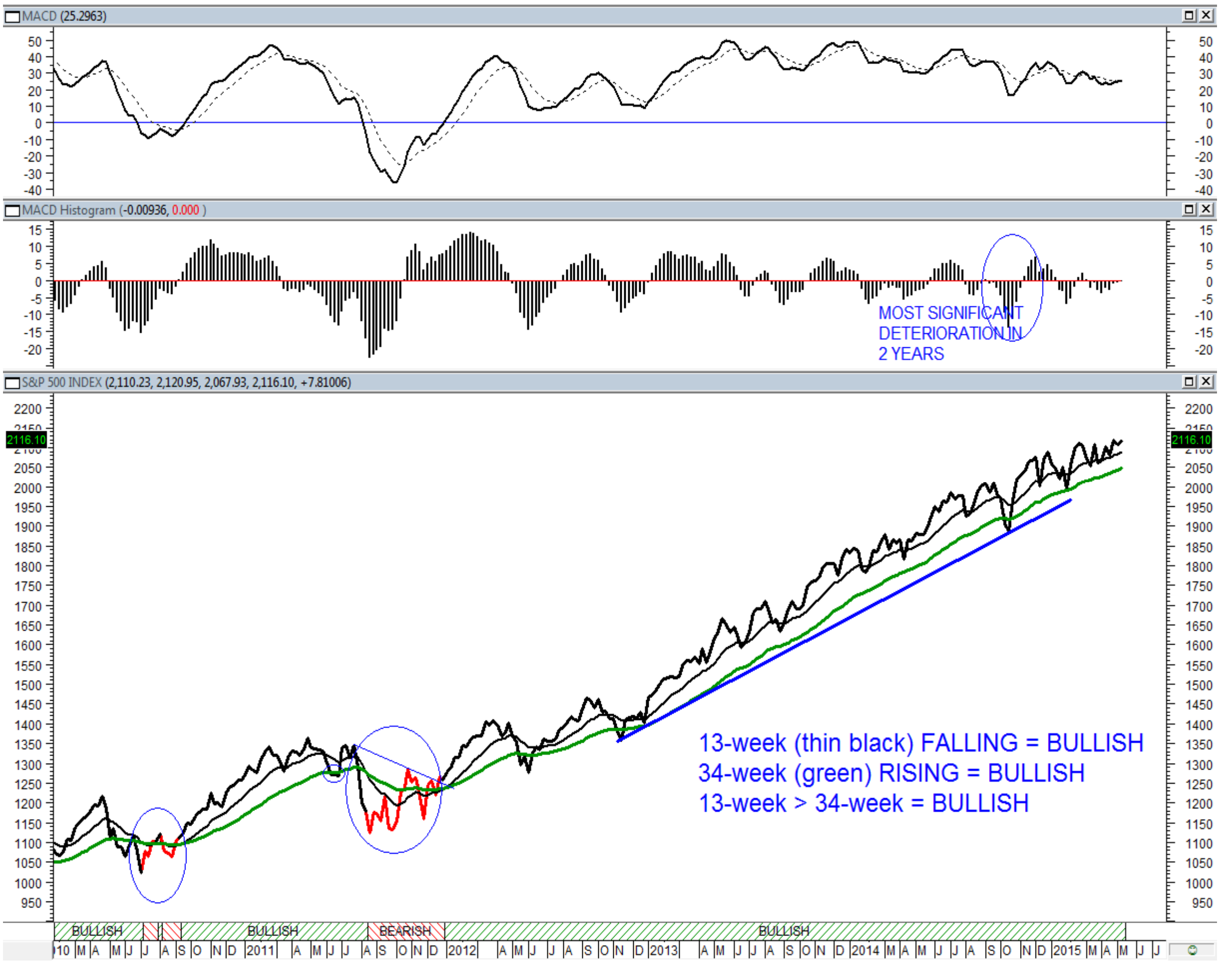
News weeks ago about German Bund yields trading below zero was newsworthy and certainly now painful for those that foolishly bought the bonds without yield. 211.7% debt to disposable income ratio for Canadians – 240.1% in Toronto and a staggering 310.9% for those in Vancouver (buying the most expensive real estate in the world and over-leveraging seems to be factored in here!!). South Korea experiencing regret over oil sands purchases. Major spike in global bond yields. Greece is in recession.

The Bottom Line

The stocks markets in Canada and the U.S. remain choppy, mindless and volatile. Ranges have been set over the past many months and investors should NOT be ignoring this price behaviour. When markets are struggling, it is VERY difficult to make money and force profits out of the market and remaining cautious makes a lot more sense until we see a sign of a trend emerging. The real bottom line, in my opinion, is that the U.S. stock market is no longer leading the world indices, which is certainly a change of the "norm" we have come to expect after the past many years.

The Bigger Picture

The 13-week and 34-week moving averages for the S&P 500 continue to slope upwards. But, it continues to chop around and signs of slowing momentum are clearly evident. If you saw my latest webinar (https://youtu.be/I3S9B9SlKuA) I mentioned that the 50-day moving average slope is negative for the S&P 500, so let's be on alert that we're in an environment of slowing momentum where a small downside day or two can shift slopes easily. We will continue to assume the trend is upwards, but at the same time we will note the loss of relative strength, now being assumed by the emerging markets. I will also again point out that the U.S. market is very expensive on a CAPE basis and the countries that are very cheap are doing MUCH better in 2015. Here's a great tool to look at: goo.gl/dyl4LS.



Market Summary

	13-week Moving Average	34-week Moving Average	Price Above/(Below) 200-Day
S&P/TSX Composite (Canada Stocks)	NEGATIVE	POSITIVE	ABOVE
iShares DEX Bond (Cdn Bonds)	NEGATIVE	NEGATIVE	BELOW
S&P 500 (U.S. Stocks)	POSITIVE	POSITIVE	ABOVE
Lehman 20-Year Trust ETF	NEGATIVE	NEGATIVE	BELOW
iShares Emerging Markets	POSITIVE	POSITIVE	ABOVE
Gold (U.S. dollar terms)	NEGATIVE	NEGATIVE	BELOW
Canadian $ (vs. U.S.$)	POSITIVE	NEGATIVE	BELOW

* as at May 12th, 2015
** changes from last month are noted in RED text

Change is happening. Bonds have turned VERY negative, albeit are oversold at these levels (see more below). Stocks are wobbling and the 13-week averages are starting to turn negative and/or flirt with negative thoughts as of late. This is not new. I have been mentioning this market behaviour for months. Please act accordingly. This is not a straight up bull market anymore. Times have changed.

Commodities

Commodities continue to look promising and the relationship of the SPX vs. Commodities has now turned (on a 50-day moving average basis) in favour of commodities. There is lots of rally potential outside of oil, which has already had a fairly straight up rally from the lows earlier this year. Start watching copper, watch the softs, and certainly watch the rest of the base metals. One ETF that could go on your watchlist is DBB:us which is the Powershares DB Base Metals ETF, which holds a variety of base metals.

Relative Strength Report

Regularly, I take a look at the performance of a wide variety of Exchange Traded Funds (ETFs) and closed-end funds with an eye to spotting rotations from market to market and sector to sector. I believe that investing in a strong market should be preferred to a weak one, as trends in motion tend to stay in motion. I look for opportunities to buy the strongest trending sectors/markets on pullbacks. I use a proprietary blend of the 10-day, 50-day and 100-day price performance in gauging relative strength and currently, I see the following:

Bullish/Strong: China (HAO/FXI/CAF/GXC), Russia (ERUS/RSX/RBL), Solar (TAN/KWT), Copper Miners (COPX)

Bearish/Weak: Volatility (VXX/VXZ), India (IFN/EPI/PIN) and Bonds (TLT)

A month of persistence! The first in a while. The emerging markets (ex-India) have been climbing in both absolute and relative and I regularly point out the importance of noticing these subtle changes in behaviour as they point to the coming months of opportunities in front of us. At the risk of starting to sound like a broken record, I'll let you see the metals and emerging markets (above) yourself.

David's Contrarian Corner

On a short-term basis, I think bonds are worth pointing out on a contrarian basis. While this has all happened quickly with the collapse in prices, the correction actually looks orderly and from a measured perspective probably enough in the short-term. At the very least, please don't get caught up in the negative headlines about interest rates and dump your bonds now after watching them crumble in the past two weeks. If the trend has changed in the bigger picture (let's assume that) then the next rally in this area will be a chance to quietly sell your bonds to someone else who hasn't caught on to the change. Panic doesn't tend to work well in markets, and bonds are oversold here and negative and consistent headlines to the like suggest the selling is close to done in the short-term.

My Hot List

This list is intended to identify key areas that I am monitoring for current opportunities, which I would define as opportunities that are timely during the course of the next month.

Note to investors: earnings season can be WILD. Be very careful and I would encourage you to ALWAYS check earnings dates before establishing a new position. Stocks including LNKD, TWTR, QLYS, BWLD and CMG were hammered after their most recent earnings report. Remember, it's more important to understand what the collective opinion is of investors around the world after an earnings report comes out than to think you know more than they do. If the stock gets crushed, something is wrong. Manage risk. In a choppy, mindless and volatile market, manage risk even more diligently – the room for error is less.

Chart of the Month

Last month, I talked about the likely upward move in interest rates on the horizon. Well, well, a few weeks later and poof! They sure have moved! German bond investors have been crushed by their irrationality and U.S. fixed income owners (and many other markets in the world) have been dealt a tough go.

Last month, we focused on the changing landscape, big-picture, for interest rates. Now that such a big short-term move has taken place let's focus our lens and look at the short-term trying to wonder if fixed income is worth buying here. I'm using the

30-year U.S. yield as the chart this month. In mid-April yields were around 2.4-2.5% and they have moved above 3% which is big in the fixed income world! And from the lows of 2.25% or so back in the earlier part of '15, it's very significant.

The MACD histogram (top panel) has made a lower high with this most recent May surge upwards suggesting some stalling in momentum. The RSI(5) in the middle panel, which is a very short-term indicator, is also going to likely print a lower high at the very right hand edge of the chart meaning the new highs this week are losing some gas compared with last week. Translation: interest rates have moved swiftly and quickly. If you're a reader of this "Monthly Market Chit Chat" you're not surprised as we have talked about this at length, but the speed is always a factor. I would suggest fixed income portfolios move into damage control mode now with any coming rally used as an opportunity to reduce fixed income exposure as appropriate. Remember, big losses happen in bonds when rates rise. Do not be fooled by historical rates of returns on bond funds and/or ETFs. And please do the math while you're at it if you're one of the folks who have taken a huge mortgage in one of the Canadian cities to afford real estate – debt ratios are high and higher interest rates will increase the risk of default. Considerably. Start looking at your financial stocks and finding out more about the underlying credit quality of borrowers. Better to find out sooner rather than later!

Upcoming Dates, Seminars and Announcements

I have a number of speaking engagements coming up and a full calendar. If you would like more details about any of the following presentations, please contact me.

SEMINAR: "Buy & Hold Works Until The Trend Ends: Then What?"
May 20th, 2015 – Kitchener/Waterloo Computer Club, Kitchener, ON

SEMINAR: "Bear Market Alert!: How to Prepare For What Lies Ahead"
June 2nd, 2015 – 8am Cutten Club, Guelph, ON **RSVP** is required.

SEMINAR: "The Coming Financial Crisis: What Will You Do Differently This Time?"
June 15th, 2015 – Forest Heights Community Centre, Kitchener, ON

TRAVELLING to B.C.
Client Meetings/Visits
June 19th – June 26th

WEBINAR: Topic to Be Announced
June 24th, 2015 – Market Technician's Association

Social Media

I have been recording a weekly video with 2-3 charts that I think are important to investors. I try to keep it to 3-4 minutes. Small commitment, but packed full of insight and actionable ideas – check out my YouTube page if you haven't already! And if you subscribe to my channel, you will be notified when I post any new webinars

http://www.youtube.com/c/DavidCoxWG

And if you get super keen and wondering what's on my mind from time to time, follow me on Twitter @DavidCoxWG.

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Sincerely,
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