Blog Post #2 | February 29, 2016

2 Weeks After Standing on the Precipice…

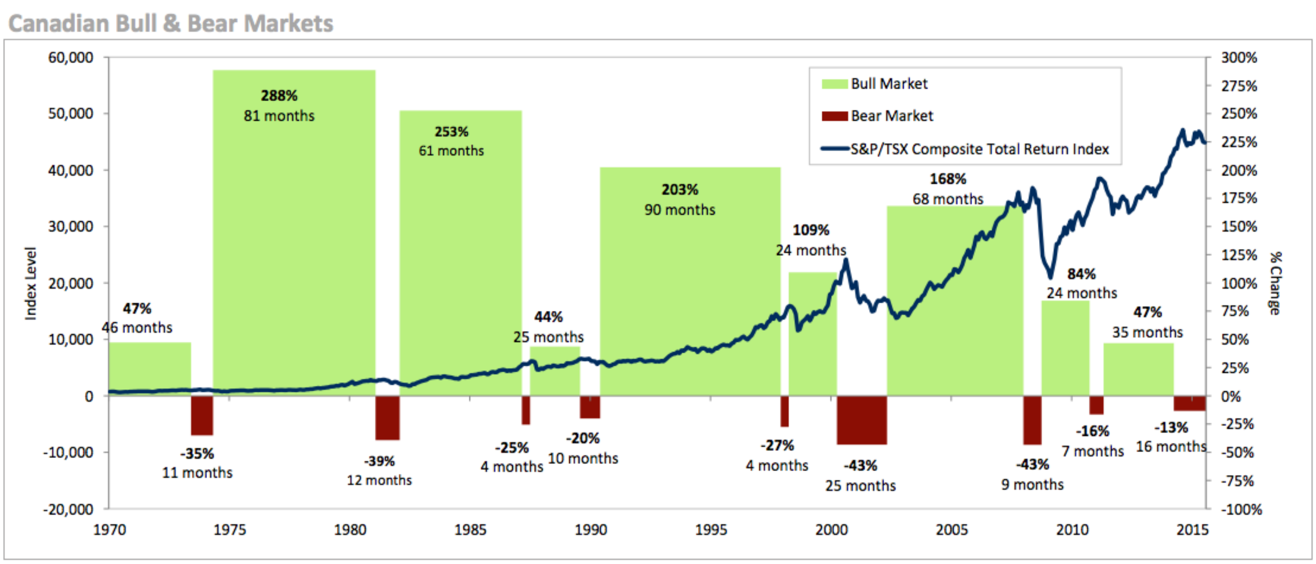
The markets could have gone either way after the Valentine's Day weekend. We avoided the massacre and popped quite strongly. Have we seen the bottom on the TSX?

Bear Market Stats for the TSX: 9 Bear markets since 1970

Average Duration	Average Loss	Current Duration	Current Low
11.11 months	-29%	18 months	-26.48%

Bull Market Stats for the TSX: 9 Bull markets since 1970

Average Duration	Average Gain
50.44 months	138.11%



Source: Bloomberg, Raymond James Ltd. As at December 31, 2015 using monthly total return data.

The main three S&P/TSX Cap weighted indexes:

Mining: - 57%

Financials: - 21%

Energy: - 63%

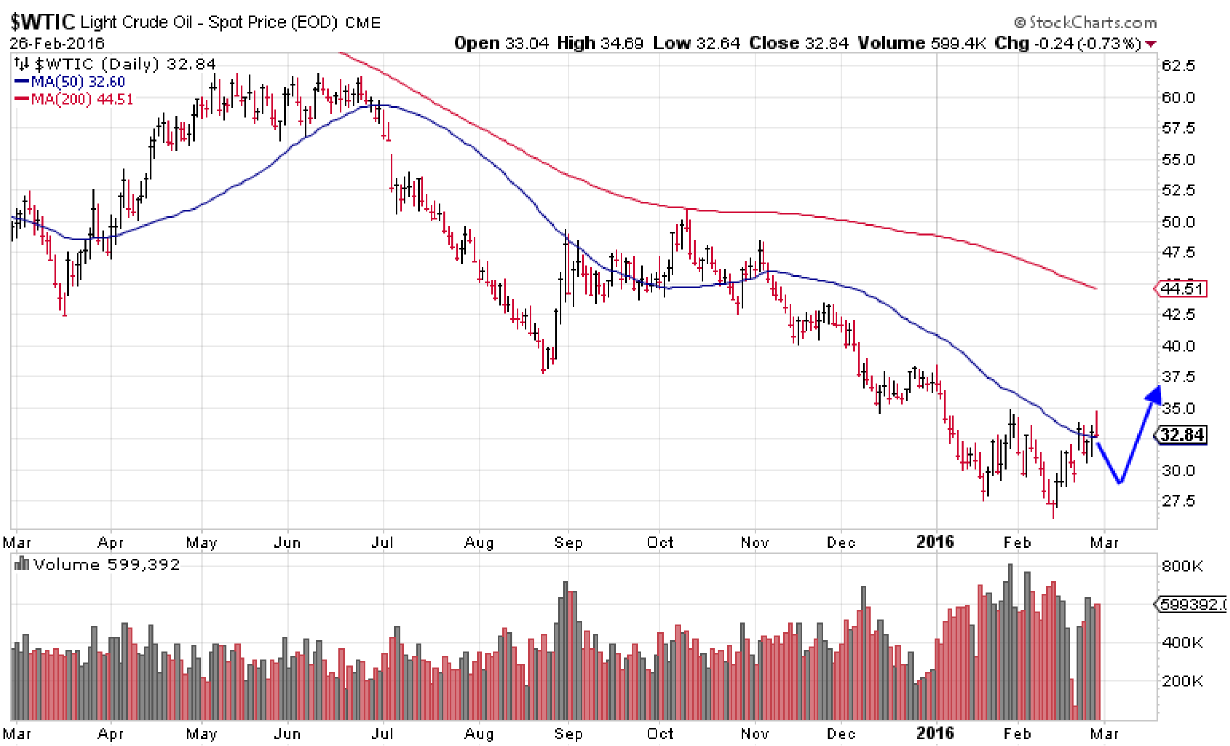
I'm not smart enough to catch the bottom, but as you can see, bull markets follow bears and the average length and gain of bull markets are significantly greater than bears – so you can afford to be cautious...but stay engaged as it appears we're close to the end, and the reversal in February could be the bottom – this is no time to be snoozing.

Previous mentions:
TSX:DF - Buy for exposure to a 50%+ upside with a dividend reinstatement ($0.10/m, $1.20/y)that would yield the equivalent of approximately 28% yield based on the Friday closing of $4.26. This one requires patience as the banks have a significant weight and they're just starting to show the strains of their exposure to the energy markets. There was an opportunity to get shares under $4.00 last week, I'm not sure if there will be another chance. Watch closely for an opportunity under $4.20

TSX:HTA.UN - I haven't done anything with this one. Still a buy with a stop on a close under $6.60

TSX:IPL - I added IPL to Family accounts after the last blog post.

ENERGY



Crude is attempting to put in a bottom and I'm inclined to believe that given the high volume on this last leg down that we could be building a solid base...but the real opportunity is likely to come with a retest of the February low that holds. Then we should see a move to the $45 area – that would be my target for the back half of the year. Short term it's gonna be choppy.

Ignoring the noise coming out of OPEC it seems like the market is starting to price in slowing production out of the US in 2016. In the near term we may see some pullbacks as the supply numbers are always sloppy over the next 6 weeks as the refiners switch over to producing "summer-blend" fuels and go through scheduled maintenance during the turnaround - this causes a storage back-up that will likely freak the markets out at some point. Pullbacks should provide an opportunity for long term buys.

Speaking of energy and headlines, knowing the difference between what is urgent and what is important is the subject of this blog post and well worth the read for those who get frustrated or fixated with headlines. A big red banner on the CNBC.com website shouts MARKETS DOWN TRIPLE DIGITS ON OIL PRICE DECLINE. Is that urgent information or important information, and what's the difference between the meaning of those two words? Every investor should read this article and start focusing on what's important.

RECOMMENDATIONS:
Start revisiting the energy sector. Add high quality yield and growth. Stay away from smaller companies and any company that hasn't cut it's dividend.

Continue to focus on yield opportunities.

TSX:TOG Torc Oil & Gas

Rationale:
Top quality Canadian energy stock - it appears we have a high volume bottom and possibly institutional accumulation. Recently reduced their dividend and the stock popped smartly - they were one of the last holdouts on their yield. A high quality name, popular amongst institutions, the yield is now a conservative 3.8% and if you believe in a $45 crude price in 2016 I believe the upside is 50%+ as institutions move back into the market, IF crude does in fact stabilize here.
Entry Price: Pullback to $5.50 area or the 50 day moving average
Target zone: $8.50 - $9.00
Yield: ~ 3.87% at $6.20
Stop: Close below February low of $4.56
Risk: With the recent dividend cut the risk is now strictly related to the price of crude.

Buy for growth based on crude prices stabilizing.

NYSE:WLL   Whiting Petroleum
September 2016 $5 or $6 call options ($1.00 - $1.15 on Friday's close) A large order went through on Friday for the $6.00 calls. If you're not a fan of options - buy the common shares.

Rationale:
Short squeeze play based on big potential upside on stabilizing crude market. This is the proverbial throwing the baby out with the bathwater play. The market is over-reacting to this name because it has a lot of debt - but the debt doesn't come due anytime soon. In a rising crude market this stock could easily pop to $10+, and in a hurry as the short interest is almost 20%.

Entry Price: Purchase options, either $6 or $5 under $1.20
Target zone: $10.00+ on the shares
Stop: My option rule is to sell on a 50% loss - if I'm down 50% I usually assume my timing was just wrong. Stop shares on new low under $3.35
Risk: price of crude

Buy for the potential short squeeze on a stabilizing crude oil market.

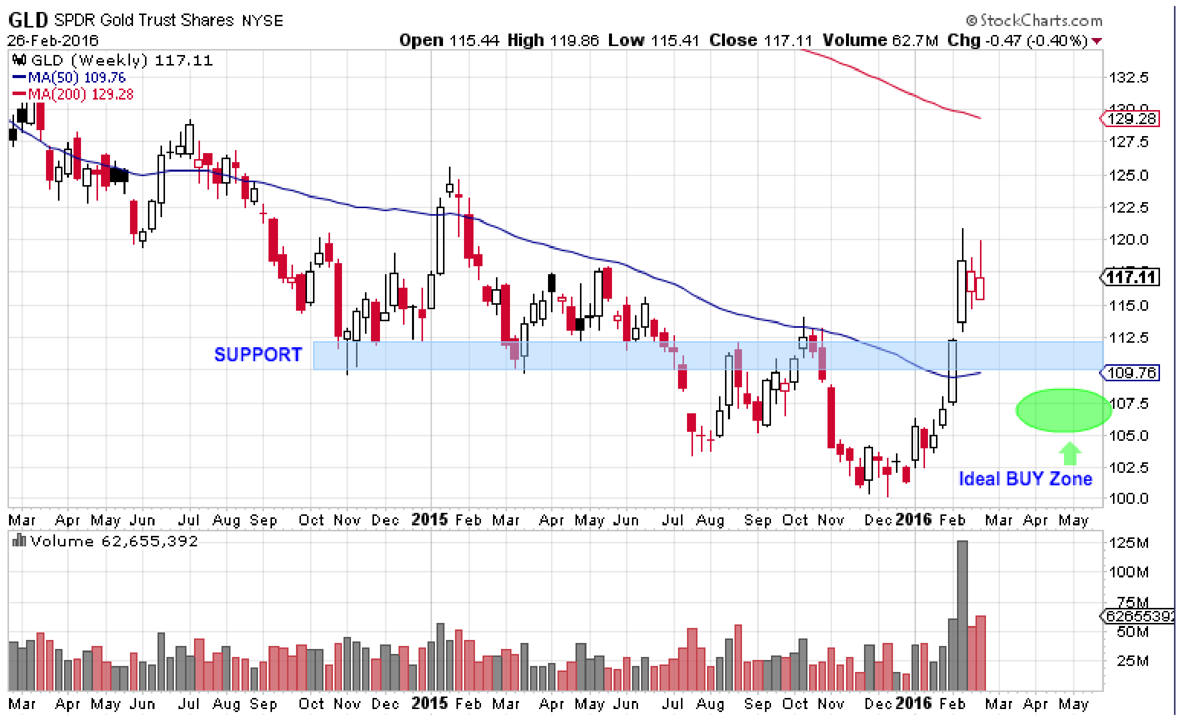
TSX:SOT.UN   Slate Office REIT

Rationale:
Boomers need their yield. Slate is a fairly new REIT, and off 22% from it's peak. The REIT sector seems to have bottomed but Slate is lagging. With a small following and a niche space of office and commercial real estate in non-core areas, SOT.UN offers a great yield with solid upside potential. Not exciting, but sometimes boring is just what the doctor ordered! Management owns about 19% - so their interests are aligned with investors.

Entry Price: < $7.20
Target zone: $8.75
Yield: 10.43%
Stop: Weekly close below $6.67
Risk: general market risk

Buy for excellent yield with strong growth potential

Gold



It's hard to ignore information like this:

Bank of America-Merrill Lynch noted that buying of gold has been strong, with $5.8 billion of inflows over the past three weeks, the highest three-week inflow since June of 2009.

What I find most interesting is that in June 2009 people were completely shell-shocked, fear was rampant - financial PTSD reigned. We were just coming out of the biggest financial crisis in modern times. People wanted protection - and they bought gold protection along with the general markets all the way to the top in 2013 - only then did the market feel confident enough to start dumping the gold security blanket. What's going on right now that is causing such a rush to gold?

I'm also monitoring the current 17% move in the GLD very closely. I wouldn't touch anything right now as I think we're in the midst of a full blown counter trend rally (something we saw in the summer of 2013 as well when the GLD rallied 16%)and can't call it anything else until we see a hard pullback to test the December lows. What's got my interest is the whopping 60% move on the GDX from the December lows - compared to a 36% move in the rally of the summer of 2013. This indicates to me that investors are in fact returning to the gold sector and the next pullback in gold should bring a great buying opportunity. I wouldn't touch anything now, but stay tuned.

Watchlist:
TSXV:NYX* - smacked down with other gaming stocks because of TSX:AYA. Excellent quarterly results and 2016 guidance. Potential takeover target.
TSX:CXR – painted as a mini Valeant and suffering because of it. Nice double bottom forming on the charts. Potential long term double.

**I currently own a small personal position based on a technical breakout last week. Need to do more due diligence before recommending or adding a full position.*

Author Ownership

Symbol	FAMILY	PERSONAL	NONE
TSX:DF	√	√	
TSX:HTA.UN			√
TSX:IPL	√		
TSX:TOG		√	
NYSE:WLL			√
TSX:SOT.UN	√		

The Author may, at any time, purchase positions, add to positions or dispose of existing positions without notice.
