## Market Elements

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 24, 2012</td>
<td>NEW</td>
</tr>
<tr>
<td>October 23, 2012</td>
<td>20% of Biotech Breaking Outperforming Trends</td>
</tr>
<tr>
<td>October 22, 2012</td>
<td>5% Correction Expected for Global Technology</td>
</tr>
<tr>
<td>October 19, 2012</td>
<td>Inflection Points on the Macro Front</td>
</tr>
<tr>
<td>October 18, 2012</td>
<td>X – Dumpster Diving in the Steel Bin</td>
</tr>
<tr>
<td>October 17, 2012</td>
<td>CLF – Bottom Fishing, Three Layers Deep</td>
</tr>
<tr>
<td>October 16, 2012</td>
<td>ETF Momentum Buys &amp; Sells</td>
</tr>
<tr>
<td>October 15, 2012</td>
<td>U.S. Breaking Down; European Banks Trending Up</td>
</tr>
<tr>
<td>October 12, 2012</td>
<td>Service (MA, GS, MS) vs. Consumption (AAPL, TGT)</td>
</tr>
<tr>
<td>October 11, 2012</td>
<td>Refiners Breaking; Coal Basing</td>
</tr>
<tr>
<td>October 10, 2012</td>
<td>Technology Relative Strength Dive</td>
</tr>
<tr>
<td>October 9, 2012</td>
<td>Auto Retail – Restarting Engines</td>
</tr>
<tr>
<td>October 8, 2012</td>
<td>Software</td>
</tr>
<tr>
<td>October 5, 2012</td>
<td>Making Room for Bottoming Financials</td>
</tr>
<tr>
<td>October 3, 2012</td>
<td>Airlines – Risky and Derisking</td>
</tr>
<tr>
<td>October 2, 2012</td>
<td>More Natural Gas</td>
</tr>
<tr>
<td>October 1, 2012</td>
<td>Gold Momentum Buys</td>
</tr>
<tr>
<td>September 28, 2012</td>
<td>Red Industrials</td>
</tr>
<tr>
<td>September 27, 2012</td>
<td>Hot (Gas) and Cold (Uranium) Fuel</td>
</tr>
<tr>
<td>September 26, 2012</td>
<td>Counterparty Risk; More Technology Shorts</td>
</tr>
<tr>
<td>September 25, 2012</td>
<td>Turns in Energy Laggards: VSN, WCP</td>
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## Relative Strength Filter

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## Focal Points

<table>
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<tr>
<td>September 12, 2012</td>
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<td>June 22, 2012</td>
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<td>May 16, 2012</td>
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<td>April 11, 2012</td>
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<td>December 13, 2011</td>
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<tr>
<td>December 12, 2011</td>
<td>NEW</td>
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<tr>
<td>November 7, 2011</td>
<td>NEW</td>
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</table>
North American stocks fell, with indices remaining near or just below Tuesday’s low; global technology fell to an 11-week low. Spanish and Italian bonds/CDS were mixed and little changed, as were safe-haven bonds; the German 2-year yield retreated back to a single-digit yield. Major currency crosses ended mixed against the USD; the Aussie and Kiwi rebounded on the back of Chinese manufacturing data. Energy continued to lead commodities lower; WTI slid for the fourth consecutive session and gold touched down on US$1,700/oz, a retreat of $100 from the early October high.

<table>
<thead>
<tr>
<th>Levels*</th>
<th>Currencies (USD per)</th>
<th>Commodities</th>
<th>Government 10-Yr Benchmark</th>
<th>Equity Indices &amp; Sentiment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Symbol</td>
<td>H/L Level</td>
<td>%Chg</td>
<td>Symbol</td>
</tr>
<tr>
<td>DXY</td>
<td>79.97</td>
<td>-0.0%</td>
<td></td>
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<tr>
<td>EUR</td>
<td>1.2869</td>
<td>-1.1%</td>
<td></td>
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<tr>
<td>CHF</td>
<td>1.0720</td>
<td>-2.0%</td>
<td></td>
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<tr>
<td>GBP</td>
<td>1.6039</td>
<td>0.5%</td>
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<tr>
<td>JPYx10</td>
<td>0.1233</td>
<td>0.1%</td>
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<tr>
<td>CAD</td>
<td>1.0061</td>
<td>-0.1%</td>
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<tr>
<td>AUD</td>
<td>1.0351</td>
<td>0.8%</td>
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<tr>
<td>NZD</td>
<td>0.8195</td>
<td>1.0%</td>
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<tr>
<td>BRL</td>
<td>0.4595</td>
<td>0.1%</td>
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<tr>
<td>MXN10</td>
<td>0.7699</td>
<td>-0.1%</td>
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<tr>
<td>ZAR</td>
<td>0.1138</td>
<td>-0.2%</td>
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<tr>
<td>KRWx10</td>
<td>0.9060</td>
<td>0.1%</td>
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<tr>
<td>SGD</td>
<td>0.8184</td>
<td>0.3%</td>
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<table>
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<tr>
<th>Moves</th>
<th>Currencies (spot)</th>
<th>Commodities</th>
<th>Government 10-Yr Benchmarks</th>
<th>Equity Indices</th>
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<tr>
<td></td>
<td>Symbol</td>
<td>H/L Level</td>
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</table>

Source for all data and graphics in this publication: BMO Capital Markets, Bloomberg, Thomson

* H/L = at a new closing 52-wk High/Low; */* = within 10% of the 52-week High/Low. Colour codes are inverted for bond and sentiment indications.
Many “risk” charts have daily bars pressing a bit below yesterday’s low.
- Gold and oil were key decliners.
- Investment grade default risk pressed higher.
  - SpItalian yields did not.
Intra Day Charts
2-Day 1-Minute View

<table>
<thead>
<tr>
<th>Currencies</th>
<th>Commodities</th>
<th>Bonds</th>
<th>Equities</th>
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<tbody>
<tr>
<td>U.S. Dollar Index</td>
<td>DJ-JGS Commodity Price Index</td>
<td>U.S. 10-Yr Bond</td>
<td>MSCI World Index</td>
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<tr>
<td>Euro</td>
<td>Gold (Spot)</td>
<td>U.S. 5Yr 5Yr Forward Breakeven</td>
<td>S&amp;P 500</td>
</tr>
<tr>
<td>Asia Dollar Index</td>
<td>Crude Oil (WTI)</td>
<td>Canadian 10-Yr Bond</td>
<td>S&amp;P/TSX Composite</td>
</tr>
<tr>
<td>Latin America Dollar Index</td>
<td>Natural Gas (NMX)</td>
<td>German 10-Yr Bund</td>
<td>CDX North American Inv, Grade Index</td>
</tr>
<tr>
<td>Canadian Dollar</td>
<td>Copper (CMX)</td>
<td>Spanish 10-Yr Bond</td>
<td>VIX</td>
</tr>
<tr>
<td>Australian Dollar</td>
<td>Nickel (LME 3Mo)</td>
<td>Italian 10-Yr Bond</td>
<td>ARMS</td>
</tr>
</tbody>
</table>
Daily Sector Charts
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages

S&P 500

S&P/TSX Composite

S&P Europe 350
### Market Movers – Largest Daily Percentage Moves

<table>
<thead>
<tr>
<th>SECURITY</th>
<th>Ticker</th>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
<th>SECURITY</th>
<th>Ticker</th>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilities</td>
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</tr>
<tr>
<td>Hong Kong &amp; China Gas Co Ltd</td>
<td>3HK</td>
<td>Enersis SA</td>
<td>ENI.LN</td>
<td>2.5%</td>
<td>RBI Ltd</td>
<td>RI.B</td>
<td>Oneok Inc</td>
<td>OKE</td>
<td>3%</td>
</tr>
<tr>
<td>Enercis SA</td>
<td>ENR.LN</td>
<td>Norske Skog AS</td>
<td>NSK.St</td>
<td>-2%</td>
<td>Rensselaer Polytechnic Inst</td>
<td>RPI</td>
<td>Oneok Inc</td>
<td>OKE</td>
<td>0.8%</td>
</tr>
<tr>
<td>Iberdrola SA</td>
<td>IBRE</td>
<td>Oceaneering</td>
<td>OKE</td>
<td>-1%</td>
<td>BHP Group Ltd</td>
<td>BHP</td>
<td>Oshkosh Corp</td>
<td>OSH</td>
<td>2%</td>
</tr>
<tr>
<td>Centrais Eletricas Brasileiras</td>
<td>CIEL</td>
<td>Oshkosh Corp</td>
<td>OSH</td>
<td>-2%</td>
<td>Procter &amp; Gamble Co</td>
<td>PG</td>
<td>Oracle Corp</td>
<td>ORCL</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Chubu Electric Power Co Inc</td>
<td>CEEL</td>
<td>Oracle Corp</td>
<td>ORCL</td>
<td>-2%</td>
<td>Plains All American</td>
<td>PAA</td>
<td>Oracle Corp</td>
<td>ORCL</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Kyushu Electric Power Co Inc</td>
<td>KEEL</td>
<td>Oracle Corp</td>
<td>ORCL</td>
<td>-3%</td>
<td>PPL</td>
<td>PPL</td>
<td>Oracle Corp</td>
<td>ORCL</td>
<td>-2.7%</td>
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<tr>
<td>American Electric Power Co Inc</td>
<td>AEP</td>
<td>American Electric Power Co Inc</td>
<td>AEP</td>
<td>-2%</td>
<td>Proto Labs Inc</td>
<td>PLI</td>
<td>Apple Inc</td>
<td>AAPL</td>
<td>-1.3%</td>
</tr>
<tr>
<td>American Electric Power Co Inc</td>
<td>AEP</td>
<td>Anadarko Petroleum Corp</td>
<td>APC</td>
<td>-2%</td>
<td>Procter &amp; Gamble Co</td>
<td>PG</td>
<td>Apple Inc</td>
<td>AAPL</td>
<td>-1.7%</td>
</tr>
<tr>
<td>American Electric Power Co Inc</td>
<td>AEP</td>
<td>Apple Inc</td>
<td>AAPL</td>
<td>-3%</td>
<td>Procter &amp; Gamble Co</td>
<td>PG</td>
<td>Apple Inc</td>
<td>AAPL</td>
<td>-3%</td>
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<td>American Electric Power Co Inc</td>
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<td>Apple Inc</td>
<td>AAPL</td>
<td>-4%</td>
<td>Procter &amp; Gamble Co</td>
<td>PG</td>
<td>Apple Inc</td>
<td>AAPL</td>
<td>-4%</td>
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<tr>
<td>American Electric Power Co Inc</td>
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<td>Apple Inc</td>
<td>AAPL</td>
<td>-5%</td>
<td>Procter &amp; Gamble Co</td>
<td>PG</td>
<td>Apple Inc</td>
<td>AAPL</td>
<td>-5%</td>
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<tr>
<td>American Electric Power Co Inc</td>
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<td>Apple Inc</td>
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<td>-6%</td>
<td>Procter &amp; Gamble Co</td>
<td>PG</td>
<td>Apple Inc</td>
<td>AAPL</td>
<td>-6%</td>
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</tbody>
</table>

**Bold** = move of more than 5%
**U.S. Market Movers**

### Energy
- Symbol: TEE
  - Last: 37.89
  - %Chg: -0.7%
- Symbol: OGE
  - Last: 60.10
  - %Chg: -1.1%
- Symbol: WPX
  - Last: 13.98
  - %Chg: 1.8%
- Symbol: XOM
  - Last: 48.65
  - %Chg: 1.0%
- Symbol: PETE
  - Last: 32.71
  - %Chg: 0.5%
- Symbol: ENB
  - Last: 16.62
  - %Chg: 0.0%
- Symbol: UTX
  - Last: 41.43
  - %Chg: -0.8%
- Symbol: ATW
  - Last: 47.13
  - %Chg: -1.3%
- Symbol: PES
  - Last: 6.55
  - %Chg: -0.7%

### Industrials
- Symbol: JCI
  - Last: 25.86
  - %Chg: -1.2%
- Symbol: GM
  - Last: 74.54
  - %Chg: -0.5%
- Symbol: GM
  - Last: 23.69
  - %Chg: -0.8%
- Symbol: ROK
  - Last: 10.17
  - %Chg: -1.7%
- Symbol: VFC
  - Last: 156.73
  - %Chg: 0.7%
- Symbol: RMR
  - Last: 81.50
  - %Chg: 1.4%
- Symbol: MRK
  - Last: 17.45
  - %Chg: 0.8%
- Symbol: DHI
  - Last: 21.41
  - %Chg: 1.5%
- Symbol: NVQ
  - Last: 55.15
  - %Chg: 0.1%

### Consumer Discretionary
- Symbol: SYK
  - Last: 72.80
  - %Chg: 0.0%
- Symbol: LL
  - Last: 53.50
  - %Chg: -1.2%
- Symbol: HSP
  - Last: 30.79
  - %Chg: 0.8%
- Symbol: SYK
  - Last: 52.75
  - %Chg: -0.3%
- Symbol: LGT
  - Last: 82.73
  - %Chg: -1.0%
- Symbol: ED
  - Last: 48.31
  - %Chg: -0.8%
- Symbol: PCAR
  - Last: 39.57
  - %Chg: -2.3%
- Symbol: GE
  - Last: 21.26
  - %Chg: -1.1%
- Symbol: JET
  - Last: 69.33
  - %Chg: -0.5%

### Consumer Staples
- Symbol: HII
  - Last: 37.89
  - %Chg: 0.7%
- Symbol: HAS
  - Last: 36.85
  - %Chg: 0.2%
- Symbol: COH
  - Last: 57.44
  - %Chg: -1.2%
- Symbol: VFC
  - Last: 196.76
  - %Chg: 0.3%
- Symbol: RL
  - Last: 154.05
  - %Chg: -0.2%
- Symbol: NKE
  - Last: 92.99
  - %Chg: 0.1%
- Symbol: LVS
  - Last: 44.29
  - %Chg: -1.1%
- Symbol: WYN
  - Last: 112.29
  - %Chg: -1.8%
- Symbol: MAR
  - Last: 36.44
  - %Chg: 1.2%

### Technology
- Symbol: AFL
  - Last: 30.05
  - %Chg: -0.6%
- Symbol: NSC
  - Last: 52.08
  - %Chg: 0.8%
- Symbol: CSX
  - Last: 20.59
  - %Chg: -3.4%
- Symbol: MDT
  - Last: 41.69
  - %Chg: -1.9%
- Symbol: EXR
  - Last: 62.24
  - %Chg: -3.0%
- Symbol: KCS
  - Last: 51.36
  - %Chg: -0.7%
- Symbol: SHLD
  - Last: 61.78
  - %Chg: 1.7%
- Symbol: M
  - Last: 38.88
  - %Chg: -1.5%
- Symbol: W
  - Last: 54.96
  - %Chg: -0.9%
- Symbol: JCP
  - Last: 24.71
  - %Chg: -3.6%
- Symbol: TGT
  - Last: 62.83
  - %Chg: 0.3%
- Symbol: DX
  - Last: 47.22
  - %Chg: 0.2%

### Health Care
- Symbol: AMGN
  - Last: 87.50
  - %Chg: 0.2%
- Symbol: GILD
  - Last: 63.84
  - %Chg: 5.2%
- Symbol: CELG
  - Last: 74.06
  - %Chg: 0.0%
- Symbol: BIIB
  - Last: 142.06
  - %Chg: 0.0%
- Symbol: MCK
  - Last: 90.56
  - %Chg: -0.7%
- Symbol: MRK
  - Last: 45.88
  - %Chg: -2.6%
- Symbol: MRK
  - Last: 54.88
  - %Chg: -0.0%
- Symbol: ABBV
  - Last: 48.17
  - %Chg: -2.6%
- Symbol: GSI
  - Last: 61.82
  - %Chg: -0.3%

### Utilities
- Symbol: GIL
  - Last: 30.79
  - %Chg: -1.8%
- Symbol: MDI
  - Last: 90.56
  - %Chg: -0.7%
- Symbol: ANP
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## Canadian Market Movers

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H/L = at a new closing 52-wk High/Low; *within 10% of the 52-wk High/Low; Blue = S&P/TSX 60 member; Italics = ETF; **Bold = move of more than 5%
It was the nudge of Vulcan Materials (Figure 1) breaking above an underperforming trend that brought us to highlight this sub industry. Construction materials ranks first decile in our system, as most stocks are outperforming or breaking above underperforming trends. Vulcan itself is a laggard, but has reversed a steep downtrend, and has been forming a base for over a year. This is a classic risky and derisking story, which is a theme we continue to recommend.

The U.S. leader, for those that prefer momentum, is Headwaters – Figure 2. Its larger cap cousin, Eagle Materials, has just gone exponential.

Two key international stocks in positive outperforming trends include James Hardie, which is outperforming global markets at 34%/year and continues to mint new all-time highs – Figure 3; and Lafarge, another risky and derisking security.

China watchers should note the positive reversals in; China National Building Materials, China Shanshui Cement Group, and Anhui Conch Cement Co.

The best of the BRICS, however, come from India, which can be played out in Ultratech Cement, HeidelbergCement India, and Grasim Industries.

The largest U.S.-listed quite risky and derisking stock is Cemex SAB de CV, which is trending higher at 99%/year.
Relative Strength Filter

Breaking Price

- The majority of our clients are compensated on both outperforming a benchmark, which is the typical focus of this daily note, but also get paid by assets under management, so price trends are also very important.
- Our system defines close to 60% of stocks in price uptrends; 10% of these uptrends are breaking down, and 40% of these breakdowns occurred yesterday.
- We highlight global, U.S., European and Canadian industries which broke price uptrends yesterday – Figures 1-4.
- We highlight MSCI World, and S&P 1500 members which broke price uptrends yesterday – Figures 5-6.
- Markets are losing the momentum garnered off of QEinfinity, but more importantly the Draghi “believe me, it will be enough” turning point. On Monday, we highlighted a 5% downside target for technology. Tracking this correction should provide a good indication on when to buy into some of these breakdowns.

Figure 1: Global Industries Breaking Price Uptrends Yesterday

- **Water Utilities**: Change of 3%, 1 stock broke price uptrend; 1 stock broke price downtrend.
- **Diversified Telecommunication Services**: Change of 2%, 2 stocks broke price uptrend; 1 stock broke price downtrend.
- **Tobacco**: Change of 1.5%, 1 stock broke price uptrend; 1 stock broke price downtrend.
- **Computers & Peripherals**: Change of 2.8%, 1 stock broke price uptrend; 1 stock broke price downtrend.

Figure 2: U.S. Industries Breaking Price Uptrends Yesterday

- **Oil & Gas Refining & Marketing**: Change of 1.5%, 1 stock broke price uptrend; 1 stock broke price downtrend.
- **Fertilizers & Agricultural Chemicals**: Change of 1.1%, 1 stock broke price uptrend; 1 stock broke price downtrend.
- **Integrated Telecommunication Services**: Change of 1%, 1 stock broke price uptrend; 1 stock broke price downtrend.
- **Retail REITs**: Change of 1%, 1 stock broke price uptrend; 1 stock broke price downtrend.

Figure 3: European Industries Breaking Price Uptrends Yesterday

- **Health Care Equipment & Services**: Change of 1.5%, 1 stock broke price uptrend; 1 stock broke price downtrend.
- **Consumer Services**: Change of 1.4%, 1 stock broke price uptrend; 1 stock broke price downtrend.

Figure 4: Canadian Industries Breaking Price Uptrends Yesterday

- **Specialty Finance**: Change of 1.1%, 1 stock broke price uptrend; 1 stock broke price downtrend.
- **Home Improvement Retail**: Change of 1%, 1 stock broke price uptrend; 1 stock broke price downtrend.

Figure 5: MSCI World Stocks Breaking Price Uptrends Yesterday

- **DIS US 39%**: AAPL US 41%
- **EIZU US 45%**: BTI LN 39%
- **VHCU US 84%**: RI FP 27%
- **ATLI VX 89%**: CRDA LN 25%
- **MON US 51%**: AEM US 44%
- **BIMF US 38%**: D US 24%
- **VLOC US 93%**: PEB US 13%
- **BIF/B US 31%**: ALD US 32%
- **DTEGY US 48%**: OR FP 26%
- **7735 JP 59%**: OR FP 28%
- **HCUP US 34%**: OR FP 32%
- **T CN 21%**: OR FP 32%
- **OCR US 35%**: RF US 35%
- **ABB US 30%**: AA FP 19%
- **AEE US 12%**: SPG US 16%
- **LSP SW 14%**: FRX US 14%
- **CIT US 30%**: CSG US 9%
- **GSM SS 13%**: IBM US 17%
- **OMC US 14%**: IBM US 17%
- **SW FP 9%**: IBM US 17%
- **MAC US 13%**: IBM US 17%

Figure 6: S&P 1500 Stocks Breaking Price Uptrends Yesterday

- **CBUS US 167%**: AAPL US 41%
- **HFC US 84%**: BTI LN 39%
- **MON US 51%**: RI FP 27%
- **CBBY US 102%**: CRDA LN 25%
- **BE US 32%**: AEM US 44%
- **VLOC US 93%**: D US 24%
- **BIF/B US 31%**: PEB US 13%
- **ATO US 31%**: OR FP 26%
- **GAS US 23%**: OR FP 32%
- **HCP US 34%**: OR FP 32%
- **NEU US 54%**: OR FP 32%
- **SMR US 88%**: AAPL US 41%
- **HSTM US 69%**: BTI LN 39%
- **IPCM US 49%**: CRDA LN 25%
- **SII US 22%**: AEM US 44%
- **MDCO US 37%**: D US 24%
- **D US 14%**: PEB US 13%
- **PAP US 18%**: OR FP 32%
- **SWS US 13%**: AAPL US 41%
- **APD US 9%**: BTI LN 39%
- **SIP US 9%**: CRDA LN 25%

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
20% of Biotech Breaking Outperforming Trends

- The biotechnology industry, which has been spiraling higher, is showing an early sign of weakness: it is breaking a steep outperforming trend against the health care sector – Figure 1.
- The price trend is just barely off of the high but it has been trending higher at 40%/year for over a year. This is the steepest slope that our system finds amongst global industries – Figure 2.
- Most biotechnology stocks are outperforming the market and the health care sector, but recent weakness has taken the sub-industry back to a 7th decile position as 20% of the universe has broken their outperforming trends – Figure 3.
- It is clearly group think that has pushed the majority of biotechnology stocks to outperform. This same group think is starting to pull in the horns.

Figure 1: Biotechnology vs. ACWI Health Care

Figure 2: ACWI Biotechnology Price Trend

Figure 3: Russell 3000 Growth Biotechnology Index Stocks vs. U.S. Health Care

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
5% Correction Expected for Global Technology

- Technology was punished below the bottom end of an underperforming channel on Friday. The index closed at a 13-month relative strength low – Figure 1.
- The price chart is just now breaking down (absolute price trend), with the index taking out 150d and 200d MAs on Friday – Figure 2. The short-term pattern is a head and shoulders top, with a 5% downside target. If shares achieve this pullback, it will be the larger double top (March, September) that will be brought into focus.

- “Momentum stocks” that lose momentum are dangerous in this environment.
  - We highlight MSCI World Technology index members, which are in relative strength and price uptrends, yet are breaking below outperforming trends in Figure 3.
  - The equivalent list of Russell 2000 Growth Index members is shown in Figure 4.

Figure 1: Technology vs. ACWI

Figure 2: ACWI Technology Index

Figure 3: MSCI World Technology Index Outperformers Breaking Below Outperforming Trends

Figure 4: Russell 2000 Technology Growth Index Outperformers Breaking Below Outperforming Trends

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Inflection Points on the Macro Front

- This week, there was a sharp contraction in the risk spread on the world’s 3rd largest bond market, Italy. The uptrend of risk was broken – Figure 1
- Yesterday, the Australian 10-year bond yield broke above a 2-year downtrend in yield. This follows the breakdown in positive trends for safe-haven German and U.K. bonds on Wednesday. This is a necessary and positive backdrop to buy steel and base metal shares.
- Our CDS index on global steel companies, which is the highest risk (CDS level) bucket that was still in an uptrend, broke that uptrend yesterday – Figure 3. It joins the “risky but derisking” trade, and we are there with CLF and X.
- Industrials, which we have been advocating avoiding for a long time, are at the inflection point where we have to look for buying opportunities – Figure 4. Global Industrials breaking relative strength downtrends yesterday are found at this link.

Figure 1: Italian – European AAA Bond Spread

Figure 2: Australian 10y Bond Yield (Link to Major 10y Bonds)

Figure 3: CDS Index on Global Steel (see breaks in AKS, X)

Figure 4: Global Industrials vs. MSCI ACWI

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
X – Dumpster Diving in the Steel Bin

- Steel (LME 3Mo Steel Billets) broke above a steep downtrend yesterday – Figure 1.
- If you are going dumpster diving in the steel bin, and we know that you are, as volume filters were tripped on one-third of the steel stocks in the MSCI World index yesterday, then you need more than just commodity evidence of improving sentiment.
  - You need to see exuberance toward Asia, and this is evident in the currency market – Figure 2.
  - You need to see fear in the bond market, and this was abundantly evident in yesterday’s session – Figure 3.
- U.S. Steel (X) has been basing for four months, and is just breaking to the upside – Figure 4.
- With such leverage (cost to protect debt against default of about 700 bps), this positive reversal on the absolute, is also a positive reversal on just about any broad market benchmark you could be measured against.

Figure 1: LME 3Mo Steel Billets

Figure 2: Asia Dollar Index

Figure 3: Global 10-Year Bond Yield Trends

Figure 4: U.S. Steel Price Trend

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
CLF – Bottom Fishing, Three Layers Deep

- Yesterday, U.S. Materials broke above an underperforming trend against the S&P 500 – Figure 1.
  - This is the second such reversal; the first came upon the announcement of QEInfinity.
- Yesterday, U.S. Steel broke above an underperforming trend against U.S. Materials – Figure 2.
- Yesterday, CLF rose to a 2.5-month high against the U.S. Steel industry, is it also breaking above an underperforming trend against the steel sub industry – Figure 3.
- The chart of CLF itself is a classic head and shoulders bottom, complete with volume accumulation at the low. Shares broke above a downtrend (price trend) yesterday – Figure 4.
- To buy into CLF, you must believe that commodity markets are recovering from the European debt crisis.
  - Yesterday German and U.K. short rates broke above downtrends. This is a good sign, and is euro (and thus commodity) positive.
  - Iron ore prices are still trending lower, but they have recently broken above the 50d MA.
- You don’t buy commodity stocks when conditions are good. The inception of a position comes when they are less bad.

Figure 1: U.S. Materials vs. S&P 500

Figure 2: U.S. Steel vs. U.S. Materials

Figure 3: Cliffs Natural Resources vs. U.S. Steel

Figure 4: Cliffs Natural Resources Price Trend

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
ETF Momentum Buys & Sells

- We often use ETFs to glean which segments of the market are being rewarded/disregarded. There are a dozen momentum buys, and a smaller list of sells. Our “momentum” term here refers to ETFs outperforming the market (S&P 500 in today’s piece), and also above rising 50, and 200d MAs, which are not overbought (Bollinger bands and RSI).

- After you see the list of U.S. homebuilding and biotech stocks (which are well known outperformers), it is interesting that many forms of global real estate are in outperforming trends, and further that many European bourses are in outperforming trends versus the S&P 500 – Figure 1.

- In the momentum sell list, we note that the Topix and Bovespa (fighting “currency wars”) remain good shorts. Oil, uranium, and bonds round out the list. We were just happy to see bonds underperform.

Figure 1: Momentum Buy ETFs vs. S&P 500

<table>
<thead>
<tr>
<th>Name / Link to Charts</th>
<th>Symbol &amp; Links</th>
<th>1-day Chg (%)</th>
<th>5-day Chg (%)</th>
<th>MktCap US$mm</th>
<th>Chg Last Day</th>
<th>Reward Risk</th>
<th>Trend Slope</th>
<th>Hi (Mo)</th>
<th>Lo (Mo)</th>
<th>%Chg wrt 50 Day MA</th>
<th>%Chg wrt 200 Day MA</th>
<th>Chg wrt 50 Day MA Trend</th>
<th>Chg wrt 200 Day MA Trend</th>
<th>Boll Band</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Home Construction ETF</td>
<td>IYR US</td>
<td>3.3%</td>
<td>-0.8%</td>
<td>1,415</td>
<td>=</td>
<td>-44%</td>
<td>=</td>
<td>Above Rising</td>
<td>=</td>
<td>6%</td>
<td>Above Rising</td>
<td>26%</td>
<td>Above Rising</td>
<td>ABOVE</td>
</tr>
<tr>
<td>US Homebuilders ETF</td>
<td>XHB US</td>
<td>2.3%</td>
<td>-1.8%</td>
<td>1,850</td>
<td>=</td>
<td>27%</td>
<td>=</td>
<td>Above Rising</td>
<td>=</td>
<td>4%</td>
<td>Above Rising</td>
<td>18%</td>
<td>Above Rising</td>
<td>ABOVE</td>
</tr>
<tr>
<td>Nasdaq Bio Tech ETF</td>
<td>NBI US</td>
<td>0.5%</td>
<td>-2.4%</td>
<td>2,388</td>
<td>=</td>
<td>21%</td>
<td>=</td>
<td>Above Rising</td>
<td>=</td>
<td>2%</td>
<td>Above Rising</td>
<td>12%</td>
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<td>BELOW</td>
</tr>
<tr>
<td>DJ International Real Estate ETF</td>
<td>PXI US</td>
<td>1.0%</td>
<td>-1.1%</td>
<td>3,201</td>
<td>=</td>
<td>5%</td>
<td>2.5</td>
<td>Above Rising</td>
<td>=</td>
<td>2%</td>
<td>Above Rising</td>
<td>9%</td>
<td>Above Rising</td>
<td>ABOVE</td>
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<td>Laser Di Stock 500 Insurance ETF</td>
<td>INS FP</td>
<td>0.5%</td>
<td>1.3%</td>
<td>118</td>
<td>=</td>
<td>27%</td>
<td>=</td>
<td>Above Rising</td>
<td>=</td>
<td>3%</td>
<td>Above Rising</td>
<td>13%</td>
<td>Above Rising</td>
<td>ABOVE</td>
</tr>
<tr>
<td>China Real Estate ETF</td>
<td>TAO US</td>
<td>1.0%</td>
<td>-0.6%</td>
<td>56</td>
<td>=</td>
<td>17%</td>
<td>=</td>
<td>Above Rising</td>
<td>=</td>
<td>4%</td>
<td>Above Rising</td>
<td>13%</td>
<td>Above Rising</td>
<td>ABOVE</td>
</tr>
<tr>
<td>Smart Grid Infrastructure ETF</td>
<td>GRID US</td>
<td>0.2%</td>
<td>-1.5%</td>
<td>13</td>
<td>=</td>
<td>10%</td>
<td>=</td>
<td>Above Rising</td>
<td>=</td>
<td>2%</td>
<td>Above Rising</td>
<td>7%</td>
<td>Above Rising</td>
<td>BELOW</td>
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<tr>
<td>AEX (Dutch) ETF</td>
<td>AEX NL</td>
<td>-0.5%</td>
<td>263</td>
<td>=</td>
<td>10%</td>
<td>=</td>
<td>Above Rising</td>
<td>=</td>
<td>0%</td>
<td>Above Rising</td>
<td>3%</td>
<td>Above Rising</td>
<td>BELOW</td>
<td></td>
</tr>
<tr>
<td>MSCI China ETF</td>
<td>EWH US</td>
<td>0.9%</td>
<td>-0.2%</td>
<td>103</td>
<td>=</td>
<td>10%</td>
<td>1</td>
<td>Above Rising</td>
<td>=</td>
<td>3%</td>
<td>Above Rising</td>
<td>7%</td>
<td>Above Rising</td>
<td>ABOVE</td>
</tr>
<tr>
<td>Euro Stoxx 50 ETF</td>
<td>MGE FP</td>
<td>0.6%</td>
<td>-0.5%</td>
<td>4,910</td>
<td>=</td>
<td>10%</td>
<td>=</td>
<td>Above Rising</td>
<td>=</td>
<td>0%</td>
<td>Above Rising</td>
<td>4%</td>
<td>Above Rising</td>
<td>BELOW</td>
</tr>
<tr>
<td>MSCI France ETF</td>
<td>FRAQ US</td>
<td>1.2%</td>
<td>0.2%</td>
<td>419</td>
<td>=</td>
<td>11%</td>
<td>=</td>
<td>Above Rising</td>
<td>=</td>
<td>2%</td>
<td>Above Rising</td>
<td>5%</td>
<td>Above Rising</td>
<td>BELOW</td>
</tr>
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</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit

Figure 2: Momentum Sell ETFs vs S&P 500

<table>
<thead>
<tr>
<th>Name / Link to Charts</th>
<th>Symbol &amp; Links</th>
<th>Ctry</th>
<th>Oct 15 Clos.</th>
<th>1-day Chg (%)</th>
<th>5-day Chg (%)</th>
<th>MktCap US$mm</th>
<th>Chg Last Day</th>
<th>Reward Risk</th>
<th>Trend Slope</th>
<th>Hi (Mo)</th>
<th>Lo (Mo)</th>
<th>%Chg wrt 50 Day MA</th>
<th>%Chg wrt 200 Day MA</th>
<th>Chg wrt 50 Day MA Trend</th>
<th>Chg wrt 200 Day MA Trend</th>
<th>Boll Band</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lloyds Banking Group</td>
<td>LLOY GB</td>
<td>UK</td>
<td>38.40</td>
<td>0.8%</td>
<td>-2.0%</td>
<td>68</td>
<td>=</td>
<td>-23%</td>
<td>48.5</td>
<td>-2%</td>
<td>Below Falling</td>
<td>-4%</td>
<td>Below Falling</td>
<td>BELOW</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GSE Clean Energy ETF</td>
<td>PEV US</td>
<td>US</td>
<td>3.95</td>
<td>0.0%</td>
<td>-2.2%</td>
<td>125</td>
<td>=</td>
<td>-44%</td>
<td>46.9</td>
<td>-5%</td>
<td>Below Falling</td>
<td>-18%</td>
<td>Below Falling</td>
<td>BELOW</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sanyo Heavy Industry ETF</td>
<td>SANY US</td>
<td>China</td>
<td>96.50</td>
<td>0.0%</td>
<td>0.0%</td>
<td>1,283</td>
<td>=</td>
<td>-18%</td>
<td>48.5</td>
<td>0%</td>
<td>Below Falling</td>
<td>-2%</td>
<td>Below Falling</td>
<td>ABOVE</td>
<td></td>
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<tr>
<td>W肥胖 ETF</td>
<td>USB US</td>
<td>US</td>
<td>14.30</td>
<td>0.0%</td>
<td>2.3%</td>
<td>1,250</td>
<td>=</td>
<td>-37%</td>
<td>48.5</td>
<td>-3%</td>
<td>Below Falling</td>
<td>-4%</td>
<td>Below Falling</td>
<td>BELOW</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guo Men Fertility Fund</td>
<td>ZTO Q</td>
<td>China</td>
<td>2.51</td>
<td>0.0%</td>
<td>0.4%</td>
<td>25</td>
<td>=</td>
<td>-17%</td>
<td>48.5</td>
<td>-3%</td>
<td>Below Falling</td>
<td>-8%</td>
<td>Below Falling</td>
<td>BELOW</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSM Short Term Bond ETF</td>
<td>STM US</td>
<td>US</td>
<td>8.34</td>
<td>0.0%</td>
<td>0.0%</td>
<td>1,126</td>
<td>=</td>
<td>-11%</td>
<td>48.5</td>
<td>0%</td>
<td>Below Falling</td>
<td>0%</td>
<td>Below Falling</td>
<td>BELOW</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lloyds Bank Notes</td>
<td>LSQ GB</td>
<td>France</td>
<td>11.18</td>
<td>0.5%</td>
<td>0.5%</td>
<td>515</td>
<td>=</td>
<td>-32%</td>
<td>48.5</td>
<td>-2%</td>
<td>Below Falling</td>
<td>-8%</td>
<td>Below Falling</td>
<td>BELOW</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
U.S. Breaking Down; European Banks Trending Up

- European ETFs now dominate the short list and are in outperforming trends against the ACWI. The S&P 500 (SPY), which has been losing relative strength for five months now, broke below its outperforming trend on Friday.
- The euro has been consolidating gains, since the positive reversal a few weeks ago. Interest rate differentials are starting to be more euro friendly after reaching a more than 2-year low earlier this year – Figure 2. Of course this relates to the firming of German yields as the yields on Italy and Spain retreat in Draghi-inspired fashion.
- This credit normalization is taking the heat off of European banks. Their shares have been basing and are now in an outperforming trend against the European market – Figure 3.
- The cost to protect the debt against a basket of European banks, which minted a lower low briefly in August, is heading back to the low once again – Figure 4.
- Last week’s equity market weakness was a problem with sustaining momentum. It was not a credit problem. This is a big difference when it comes to deciding which shares to buy on the dip. In this regard, we continue to favour various forms of “risky and derisking”.

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Service (MA, GS, MS) vs. Consumption (AAPL, TGT)

The “severed trends” of large cap stocks in the S&P 500 on Thursday paints a picture of:
- consumer related stocks, whether it is Apple or Target, breaking below outperforming trends.
- service related stocks, whether it is MasterCard, Goldman Sachs, or Morgan Stanley, breaking above underperforming trends.

The breakdowns in discount retail is a theme, so we would not be fighting to keep the outperforming trends alive.

Technology looks abysmal in our work, so we are not surprised to see even the mighty get scratched up.

We view the positive reversal in MasterCard as more of a breakout of a consolidation. The long-term trend is toward outperformance. We would sell weaker members of the group (PAYX and ADP) to make room for MA.

The market is indeed making room for bottoming financials, a theme we covered a week ago.

Figure 1: Large Cap Stocks Severing Outperforming Trends (Left) or Underperforming Trends (Right) on Thursday

Figure 2: Target vs. S&P 500

Figure 3: Apple vs. S&P 500

Figure 4: MasterCard vs. S&P 500

Figure 5: Morgan Stanley vs. S&P 500

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
It was Valero (which joins HollyFrontier) that pushed the U.S. refiners to break an outperforming trend against U.S. Energy. This sub-industry has been the clear favourite, outperforming energy at 63%/year. With a history of spike tops, the question is when does one pull back to a market-weighted position?

Coal stocks, however, are basing, after being in downtrends for two years. Both Arch Coal and Peabody have reversed underperforming trends against the S&P Energy sector. The largest stock in the group, Consol, has reversed an underperforming trend against the S&P 500 – Figure 3.

Figure 1: U.S. Energy Sub Industries vs. U.S. Energy Sector

Wednesday's Severed Uptrend

Figure 3: S&P Oil & Gas Refiners & Marketing vs. S&P Energy

Coal Stocks are Basing

Figure 4: Consol Energy vs. S&P 500

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
October 10, 2012
Research Comment
Quantitative/Technical Research Website

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Relative Strength Filter

Technology Relative Strength Dive

- We have never seen such relative strength weakness in the tech sector, since we started summing up the trends in our Group Selection Report three years ago – Figure 1.
- MSCI World Index Technology Stocks are more likely to be in underperforming trends, and more trends are breaking to the downside than are reversing to the upside – Figure 2.
- This is a time to be wary of outperformers, as they start to break outperforming trends. Such is the case with both eBay (Figure 3), Mellanox Technologies,
  - We also note AAPL, which has been outperforming the MSCI World index at 17%/year, severed that outperforming trend last Friday.
- This is a time to look for short sale candidates as they fall back in to underperforming trends, like Acme Packet (Figure 4), FARO, and SCOR.

Figure 1: Technology Relative Strength Z-Score

Figure 2: Technology Shares vs. ACWI

Figure 3: eBay vs. MSCI World (Price Trend Here)

Figure 4: Acme Packet vs. U.S. Technology (Price Trend Here)

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Relative Strength Filter

Auto Retail – Restarting Engines

- The U.S. Automotive Retail group, with a history of outperformance, broke above a 6-month relative strength downtrend yesterday – Figure 1.
- The leaders (AN, LAD) are all pushing through the top end of outperforming trends. The laggards are starting to reverse downtrends (PBY), and are poking up at 1 and 2-month relative strength highs (AZO, AAP) – Figure 2.
- Those buying the leader, AutoNation, find themselves buying into an uptrend that is accelerating – Figure 3. Shares are currently overbought, but it is the leadership for the rest of the group that we find impressive.
- AutoZone, the largest stock in the group, is just reversing a shallow 6-month downtrend. We expect that this short-term downtrend is merely a time-out period, and that investors should use this inflection point to go long – Figure 4.

Figure 1: U.S. Automotive Retail vs. S&P 1500

Figure 2: S&P 1500 Automotive Retail vs. S&P 500

Figure 3: AutoNation Price Trend

Figure 4: AutoZone Price Trend

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Relative Strength Filter

Software

- Most software stocks are underperforming global markets (Figure 1), and on Friday, the second largest stock, ORCL, which was still in an outperforming trend broke to the downside.
- The largest stock, MSFT, is underperforming at 12%/year, and this trend is accelerating – Figure 2. Shares broke below 50, 150, and 200d MAs last week.
- Zinga is the clear dog, deteriorating at over 300%.
- The one green spot on the screen is former dog, Nintendo, which is attempting to form a v-bottom. Shares have broken above 150 and 200d MAs, and the 50d MA is now positive.

Figure 1: MSCI ACWI Software Constituents vs. ACWI

Severed Outperforming Trends Last Friday

Figure 2: Microsoft vs. ACWI (see Link for Price Trend)

Figure 3: Nintendo Price Trend

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Making Room for Bottoming Financials

- Manulife has been in an underperforming trend for most of the past four years. Shares have formed a double bottom against the S&P/TSX Composite and are reversing the downtrend – Figure 1.
- To make room (as Canadian Financials are in a slightly underperforming trend against the market), we highlight the highest concentration of relative strength breakdowns within Financials - REITS - Figure 2.
- Morgan Stanley broke back above its underperforming trend against S&P 500 Financials yesterday. We highlight the key theme, which is the driver for MS (Figure 3), GS, BAC and C; the market is rewarding risky yet derisking securities.
- U.S. REITS are further along the path toward deterioration (relative to Canadian REITS). They also have a high concentration of breakdowns, the difference being that many have already turned the corner and are now in underperforming trends – Figure 4.

Figure 1: Manulife vs. S&P/TSX Composite

Figure 2: S&P/TSX REITS vs. S&P/TSX

Outperforming Trends; Breaking Down

- Risky and Derisking
- Outperforming Trends, The Majority of Which are Breaking Down

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Relative Strength Filter

October 4, 2012
Research Comment
Quantitative/Technical Research Website

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U.S. Energy IntraSector Shift – Buy Transports

- U.S. Oil & Gas Transports, which have been digesting large gains against the Energy sector, is breaking out of this digestion period – Figure 1.
- The macro environment supports the move, with global long rates fading back into downtrends and falling below 50d MAs, and crude oil (both WTI and Brent) doing the same.
- The clear leader is Williams, whose shares are breaking out on good volume.
- We expect that Kinder Morgan will soon follow suit. It is generally a market performer within transports, but the price has recently ignored the improvement in credit (another one of those risky and derisking securities) – Figure 2. The 7-month consolidation in KMI shares is expected to break to the upside, in the direction of credit improvement, Figure 2.
- The U.S. Smallcap favourite is SemGroup, which has been treading water against SmallCap energy for the past 3 months – Figure 3. Shares are trending higher at a rate of 45%/year, and we expect this will continue.
- In Canada, Enbridge, the long-term pipeline outperformer/market performer, is firming from the bottom of its channel. Its price trend, which had broken (again) on a consolidation of gains, is firming back into its channel, which is rising at 26%/year.

Figure 1: U.S. Oil & Gas Transports vs. U.S. Energy

Figure 2: Kinder Morgan Equity/CDS Overlay

Figure 3: SemGroup vs. U.S. SmallCap Energy

Figure 4: Enbridge Dividend Adjusted Price Trend

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Airlines – Risky and Derisking

- It was the positive reversal in the price trend of the MSCI Airlines index that spurned this update. Our “buy risky and derisking” theme has continued to strengthen since the turning point in July, and there is no higher-risk basket that is trending positively (CDS narrowing) than airlines - Figure 1.
  - Bottoming patterns for North American Airline stocks started a month before this.
- From a global perspective, the group is not a homogeneous basket, so we will target different Airline stocks for different investors.
- The most consistent outperformer in the Russell 3000 Index is U.S. Airways Group. Shares have pulled back to the bottom end of the channel, which is rising at 91%/year – Figure 2.
- Amongst MSCI World members, the positive reversal in Deutsche Lufthansa (Figure 3) is a reminder of the V-bottom patterns that form when equity follows credit.
  - Four months past the positive turn, Air Canada is fully in the victory end of its V-bottom.
- The largest North American airline (by equity market cap), Delta, is in a basing pattern versus the S&P 500. For those interested in equity/credit divergences, the recent equity pullback was not confirmed by the CDS market – Figure 4.

Figure 1: CDS Index of Global Airlines

Figure 2: U.S. Airways Group Price Trend

Figure 3: Deutsche Lufthansa vs. MSCI World. (see Equity/CDS)

Figure 4: Delta Airways Equity/CDS Overlay
More Natural Gas

- Yesterday, North America’s third-largest natural gas-leveraged stock, Chesapeake Energy, reversed an underperforming trend against the S&P 500 – Figure 1.
  - It does not have to do much for this reversal, just stop going down at 70%/year.
  - This is a leveraged play (risky and derisking, Figure 2), in an environment when Natural Gas is the best energy commodity in the suite.

- Looking for other natural gas-leveraged plays, with high torque, which have bottoming patterns, we highlight:
  - A steep V bottom in Advantage Oil & Gas – Figure 3.
  - A positive reversal with volume confirm with Trilogy Energy – Figure 4.

- We continue to see gas as the best commodity-leveraged place to be within the energy sector.

- There are still more natural gas underperformers than outperformers. We are seeing the shift to the positive, and recommend being invested as it goes through the transformation.
Gold Momentum Buys

- In our Group Selection Report, the materials sector is close to the positive mark for the first time in a year.
  - A large part of this turn, is related to the breadth of gold shares that are breaking above underperforming trends.
- After a spectacular peak over a year ago, gold as an asset class is performing in line with the S&P 500. Using this metric, gold is at a 3.5-month high, and is poised to break to the upside – Figure 1.

- Bullion by itself looks good in all major currencies.
- Clients that have inserted the GLD in portfolios instead of gold shares have done well over the past two years; however, this trend of bullion outperformance against gold shares is breaking – Figure 2.
- We currently have 8 gold shares listed as momentum buys (price trends) – Figure 3. We expect this list to grow, as today’s positive reversals turn into tomorrow’s uptrends.

**Figure 1: Gold vs. S&P 500**

**Figure 2: Gold Miners vs. Spot Gold**

![Gold Momentum Buys](image)

<table>
<thead>
<tr>
<th>Name / Link to Charts</th>
<th>Symbol &amp; Links</th>
<th>Sep 28 Chg. (¥)</th>
<th>1-day Chg. (%)</th>
<th>5-day Chg. (%)</th>
<th>MixCap C$mm</th>
<th>Chg Last Day</th>
<th>Trend Stop</th>
<th>Hi (¥)</th>
<th>Lo (¥)</th>
<th>%Chg wrt 50 Day MA</th>
<th>Chg wrt 50 Day Trend</th>
<th>%Chg wrt 200 Day MA</th>
<th>Chg wrt 200 Day Trend</th>
<th>Bull Bend</th>
<th>RSI X-Over</th>
<th>RSI Dly</th>
<th>RSI Wkly</th>
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</thead>
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<td>NSY CN</td>
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<td>0.7%</td>
<td>9,744</td>
<td>-81%</td>
<td>Above Raising</td>
<td>111%</td>
<td>Above Raising</td>
<td>29%</td>
<td>Above Raising</td>
<td>68%</td>
<td>71%</td>
<td>63%</td>
<td>67%</td>
<td>67%</td>
<td></td>
</tr>
<tr>
<td>Barrick Gold Corporation</td>
<td>POY CN</td>
<td>-1.03</td>
<td>-2.3%</td>
<td>-1.6%</td>
<td>407</td>
<td>140%</td>
<td>Above Raising</td>
<td>123%</td>
<td>Above Raising</td>
<td>32%</td>
<td>Above Raising</td>
<td>69%</td>
<td>69%</td>
<td>69%</td>
<td>67%</td>
<td>66%</td>
<td></td>
</tr>
<tr>
<td>Bank of Nova Scotia</td>
<td>NSY CN</td>
<td>-1.03</td>
<td>-2.3%</td>
<td>-1.6%</td>
<td>519</td>
<td>45%</td>
<td>Above Raising</td>
<td>115%</td>
<td>Above Raising</td>
<td>29%</td>
<td>Above Raising</td>
<td>68%</td>
<td>69%</td>
<td>69%</td>
<td>67%</td>
<td>66%</td>
<td></td>
</tr>
<tr>
<td>Newmont Mining Corp</td>
<td>NSY CN</td>
<td>-1.03</td>
<td>-2.3%</td>
<td>-1.6%</td>
<td>519</td>
<td>45%</td>
<td>Above Raising</td>
<td>115%</td>
<td>Above Raising</td>
<td>29%</td>
<td>Above Raising</td>
<td>68%</td>
<td>69%</td>
<td>69%</td>
<td>67%</td>
<td>66%</td>
<td></td>
</tr>
<tr>
<td>Vale SA</td>
<td>NSY BR</td>
<td>-1.03</td>
<td>-2.3%</td>
<td>-1.6%</td>
<td>276</td>
<td>45%</td>
<td>Above Raising</td>
<td>115%</td>
<td>Above Raising</td>
<td>29%</td>
<td>Above Raising</td>
<td>68%</td>
<td>69%</td>
<td>69%</td>
<td>67%</td>
<td>66%</td>
<td></td>
</tr>
<tr>
<td>Northern Star Resources Ltd</td>
<td>NST AU</td>
<td>-1.03</td>
<td>-2.3%</td>
<td>-1.6%</td>
<td>276</td>
<td>45%</td>
<td>Above Raising</td>
<td>115%</td>
<td>Above Raising</td>
<td>29%</td>
<td>Above Raising</td>
<td>68%</td>
<td>69%</td>
<td>69%</td>
<td>67%</td>
<td>66%</td>
<td></td>
</tr>
<tr>
<td>Agnico Eagle Mines Ltd</td>
<td>NSY CN</td>
<td>-1.03</td>
<td>-2.3%</td>
<td>-1.6%</td>
<td>276</td>
<td>45%</td>
<td>Above Raising</td>
<td>115%</td>
<td>Above Raising</td>
<td>29%</td>
<td>Above Raising</td>
<td>68%</td>
<td>69%</td>
<td>69%</td>
<td>67%</td>
<td>66%</td>
<td></td>
</tr>
<tr>
<td>Tencent Gold Resources Inc</td>
<td>TIXC CN</td>
<td>-1.03</td>
<td>-2.3%</td>
<td>-1.6%</td>
<td>276</td>
<td>45%</td>
<td>Above Raising</td>
<td>115%</td>
<td>Above Raising</td>
<td>29%</td>
<td>Above Raising</td>
<td>68%</td>
<td>69%</td>
<td>69%</td>
<td>67%</td>
<td>66%</td>
<td></td>
</tr>
</tbody>
</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
**Relative Strength Filter**

**September 28, 2012**
**Research Comment**
**Quantitative/Technical Research Website**

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**Red Industrials**

- All industrial sectors are either underperforming their market, or are breaking below outperforming trends. Most relative strength series are below falling 50d MAs and 200d MAs – Figure 1.
- The industrial sector is replacing resource sectors (which have improved recently with many commodities receiving a lift from a weakening USD) as the place not to invest in.
- If QEInfinity does nothing more than inflate, and does little to lift “animal spirits”, then investors may need an inflation hedge (Canadian stocks, 46% weighted towards resources, have turned the corner versus the ACWI), but they would not need non-inflation geared stocks, which are nonetheless geared toward global growth.
- We highlight the weakest Global Industrials in Figure 2.

**Figure 1: Relative Strength Trends of Industrial Indices vs. Their Local Benchmarks**

<table>
<thead>
<tr>
<th>Name</th>
<th>Chg Last Day</th>
<th>Reward/Risk</th>
<th>Trend Slope</th>
<th>Hi (Mo)</th>
<th>Low (Mo)</th>
<th>1-Day ROC (%)</th>
<th>5-Day ROC (%)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA Trend</th>
<th>%Chg wrt 200d MA</th>
<th>Chg wrt 200 Day MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Industrials vs. S&amp;P/ASX 200 Index</td>
<td>-33%</td>
<td>-</td>
<td>0.0%</td>
<td>0.2%</td>
<td>-1.5%</td>
<td>Below Falling</td>
<td>-7.5%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACWI Industrials vs. ACWI</td>
<td>-7%</td>
<td>-</td>
<td>0.1%</td>
<td>-0.2%</td>
<td>-0.8%</td>
<td>Below Falling</td>
<td>-2.3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asian Industrials vs. MSCI AC Asia Index</td>
<td>-8%</td>
<td>33.0</td>
<td>0.0%</td>
<td>-0.8%</td>
<td>-1.6%</td>
<td>Below Falling</td>
<td>-3.2%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Industrials vs. S&amp;P 500</td>
<td>-6%</td>
<td></td>
<td>0.0%</td>
<td>-0.1%</td>
<td>-1.1%</td>
<td>Below Falling</td>
<td>-2.9%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>European Industrials vs. S&amp;P Europe 350</td>
<td>-6%</td>
<td></td>
<td>0.4%</td>
<td>-0.5%</td>
<td>0.0%</td>
<td>Above Rising</td>
<td>-0.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canadian Industrials vs. S&amp;P/TSX Composite</td>
<td>13%</td>
<td></td>
<td>-0.5%</td>
<td>0.4%</td>
<td>-2.7%</td>
<td>Below Falling</td>
<td>0.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Figure 2: MSCI World Industrials in Underperforming Trends vs. MSCI World, MSCI World Industrials, and in Price Downtrends**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub-Industry</th>
<th>2-Day % Chg (%)</th>
<th>5-Day % Chg (%)</th>
<th>MktCap (US$)</th>
<th>MSCI World</th>
<th>N</th>
<th>Trend Slope</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA Trend</th>
<th>%Chg wrt 200d MA</th>
<th>Chg wrt 200 Day MA Trend</th>
<th>RS %</th>
</tr>
</thead>
<tbody>
<tr>
<td>361JP</td>
<td>Komatsu Ltd</td>
<td>ConstrMach</td>
<td>3.9%</td>
<td>-1.7%</td>
<td>19,848</td>
<td>Below Falling</td>
<td>-5.0%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>653JP</td>
<td>Sumitomo Heavy Industries Ltd</td>
<td>ConstrMach</td>
<td>-1.1%</td>
<td>-5.3%</td>
<td>2,146</td>
<td>Below Falling</td>
<td>-5.0%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>563JP</td>
<td>Sumitomo Electric Industries Ltd</td>
<td>EleCmpEq</td>
<td>-0.6%</td>
<td>-3.6%</td>
<td>8,797</td>
<td>Below Falling</td>
<td>-5.0%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>674JP</td>
<td>Nippon Steel</td>
<td>ConstrEng</td>
<td>0.6%</td>
<td>0.2%</td>
<td>5,822</td>
<td>Above Rising</td>
<td>0.0%</td>
<td>Above Rising</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>697JP</td>
<td>Mitsubishi</td>
<td>ConstrEng</td>
<td>0.6%</td>
<td>2.6%</td>
<td>30,533</td>
<td>Below Falling</td>
<td>-3.0%</td>
<td>Below Rising</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>741JP</td>
<td>Yuzo Steel</td>
<td>ConstrEng</td>
<td>0.1%</td>
<td>-2.6%</td>
<td>3,063</td>
<td>Below Falling</td>
<td>-2.0%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>788JP</td>
<td>Joy Global</td>
<td>ConstrEng</td>
<td>1.7%</td>
<td>-5.5%</td>
<td>6,072</td>
<td>Above Rising</td>
<td>4.0%</td>
<td>Above Rising</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>796JP</td>
<td>Nippon Steel</td>
<td>ConstrEng</td>
<td>0.6%</td>
<td>4.2%</td>
<td>17,681</td>
<td>Below Falling</td>
<td>-4.0%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>812JP</td>
<td>JSW</td>
<td>ConstrEng</td>
<td>2.1%</td>
<td>-5.6%</td>
<td>3,297</td>
<td>Below Falling</td>
<td>-5.0%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>814JP</td>
<td>SecAll</td>
<td>ConstrEng</td>
<td>0.1%</td>
<td>-2.6%</td>
<td>2,640</td>
<td>Below Falling</td>
<td>-3.0%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>830JP</td>
<td>C.H. Robinson Worldwide</td>
<td>Air freight</td>
<td>0.4%</td>
<td>3.0%</td>
<td>9,371</td>
<td>Below Falling</td>
<td>-6.0%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>856JP</td>
<td>Alfa Laval AB</td>
<td>ConstrMach</td>
<td>0.5%</td>
<td>-2.5%</td>
<td>7,772</td>
<td>Above Rising</td>
<td>2.0%</td>
<td>Above Rising</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>870JP</td>
<td>Kureha Water Industries Ltd</td>
<td>ConstrMach</td>
<td>-2.1%</td>
<td>2.2%</td>
<td>2,990</td>
<td>Below Falling</td>
<td>-1.0%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>900JP</td>
<td>Neptune Orient Lines Ltd</td>
<td>Marine</td>
<td>0.4%</td>
<td>0.4%</td>
<td>2,383</td>
<td>Below Falling</td>
<td>-1.0%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Relative Strength Filter

Hot (Gas) and Cold (Uranium) Fuel

- The suite of energy trends shows a diverse set of commodities ranging from a consistent uptrend in natural gas to a punishing downtrend in uranium – Figure 1.
- We advocate not fighting the trends and, as such, highlight gassy longs, and glowingy good short candidates.
- The large cap natural gas play that screens for the best momentum is Cabot Oil & Gas – Figure 2.
  - A small cap name with more torque is Perpetual Energy.
  - The Canadian large cap favourite is Peyto Exploration & Development.
- In the not so hot suite, the vast majority of uranium stocks are underperforming the market and the sector – Figure 3.
  - The large cap, albeit small-priced avoid is Uranium One – Figure 4.
  - The large cap warning signal comes from Cameco, which is just breaking below a levitating market performing state.

Figure 1: Energy Commodity Trends

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>1-Day</th>
<th>5-Day</th>
<th>Reward /Risk</th>
<th>Trend Slope</th>
<th>Hi (Mo)</th>
<th>Low (Mo)</th>
<th>% Chg wrt 50-Day MA</th>
<th>Chg wrt 50-Day MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Gas</td>
<td>KG1</td>
<td>-3.4%</td>
<td>9.4%</td>
<td>-67%</td>
<td>4.7%</td>
<td>Active Rise</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cen PMB</td>
<td>PEB2</td>
<td>-6.2%</td>
<td>-7.7%</td>
<td>-32%</td>
<td>1.6</td>
<td>Below Rising</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RSSD Gls</td>
<td>XEI</td>
<td>1.8%</td>
<td>8.9%</td>
<td>3%</td>
<td>1.6</td>
<td>Above Rising</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heating Oil</td>
<td>HO1</td>
<td>-0.1%</td>
<td>2.1%</td>
<td>-2%</td>
<td>1.0%</td>
<td>Active Rise</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brent</td>
<td>CO1</td>
<td>-0.4%</td>
<td>1.7%</td>
<td>-4%</td>
<td>2.0</td>
<td>Below Rising</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WTI</td>
<td>CL1</td>
<td>-1.5%</td>
<td>-2.2%</td>
<td>-15%</td>
<td>2.0</td>
<td>Below Rising</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coe CAPP</td>
<td>Q21</td>
<td>1.6%</td>
<td>2.7%</td>
<td>-16%</td>
<td>2.0</td>
<td>Below Rising</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uranium</td>
<td>UXA1</td>
<td>0.0%</td>
<td>-0.7%</td>
<td>-11%</td>
<td>25.0</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 2: Cabot Oil & Gas Price Trend (RS Trends Here)

Figure 3: Uranium Shares Underperforming Market & Sector

<table>
<thead>
<tr>
<th>Name / Link to Charts</th>
<th>Symbol &amp; Links</th>
<th>Sep 26 Close</th>
<th>1-Day Chg (%)</th>
<th>5-Day Chg (%)</th>
<th>Mkt Cap (MM$)</th>
<th>Chg Last Day</th>
<th>% Chge Last Day</th>
<th>Avg Rel Strength vs S&amp;P</th>
<th>RS vs S&amp;P TSX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uranium One Inc</td>
<td>UUU.NI</td>
<td>2.35</td>
<td>0.9%</td>
<td>6.0%</td>
<td>2.209</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-3%</td>
</tr>
<tr>
<td>Norlko Energy Ltd</td>
<td>NED.CN</td>
<td>1.30</td>
<td>-3.0%</td>
<td>-12.25</td>
<td>1.008</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-6%</td>
</tr>
<tr>
<td>TerraX Gold Corp</td>
<td>TGR.NN</td>
<td>2.23</td>
<td>-1.8%</td>
<td>-2.04</td>
<td>173</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-3%</td>
</tr>
<tr>
<td>Uranium Energy CA Inc.</td>
<td>UEC.US</td>
<td>0.09</td>
<td>4.2%</td>
<td>4.90</td>
<td>175</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-3%</td>
</tr>
<tr>
<td>Uranium Energy CA Inc.</td>
<td>UEC.DN</td>
<td>0.09</td>
<td>4.2%</td>
<td>4.90</td>
<td>175</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-3%</td>
</tr>
<tr>
<td>Uranium Energy CA Inc.</td>
<td>UEC.DN</td>
<td>0.09</td>
<td>4.2%</td>
<td>4.90</td>
<td>175</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-3%</td>
</tr>
<tr>
<td>Uranium Energy CA Inc.</td>
<td>UEC.DN</td>
<td>0.09</td>
<td>4.2%</td>
<td>4.90</td>
<td>175</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-3%</td>
</tr>
<tr>
<td>Uranium Energy CA Inc.</td>
<td>UEC.DN</td>
<td>0.09</td>
<td>4.2%</td>
<td>4.90</td>
<td>175</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-3%</td>
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<td>Uranium Energy CA Inc.</td>
<td>UEC.DN</td>
<td>0.09</td>
<td>4.2%</td>
<td>4.90</td>
<td>175</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-3%</td>
</tr>
<tr>
<td>Uranium Energy CA Inc.</td>
<td>UEC.DN</td>
<td>0.09</td>
<td>4.2%</td>
<td>4.90</td>
<td>175</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-3%</td>
</tr>
<tr>
<td>Uranium Energy CA Inc.</td>
<td>UEC.DN</td>
<td>0.09</td>
<td>4.2%</td>
<td>4.90</td>
<td>175</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-3%</td>
</tr>
</tbody>
</table>

Figure 4: Uranium One Price Trend (RS Trends Here)

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Relative Strength Filter

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Counterparty Risk; More Technology Shorts

- This morning, the U.S. 2-year swap spread rises 11%, its largest move since April.
  - This is from a very low base.
  - Counterparty risk moves from extinguished, to having a bit of a pulse on some renewed strain in Spain – Figure 1.

- The state of the equity market, in terms of what is rewarded far from jubilant, from an “animal spirits” point of view – Figure 2.

- The weakest sector and, as a reminder, this is from a breadth standpoint (not market cap weighed), is technology, where we planted some short ideas in Semiconductor SubIndustries last week.

- Moving beyond semiconductors and looking at shares in relative strength and price downtrends:
  - Hewlett-Packard is trending lower at 75%/year. It is a risky, yet not de-risking situation.
  - NetApp has rebounded to the top of its downward sloping channel and falling 150-day MA. Its relative strength profile matches the price trend.

Figure 1: U.S. 2-Year Swap Spread (Counterparty Risk)

Figure 2: Sector Heat Map From Our Group Selection Report

Figure 3: Hewlett-Packard Price Trend (Equity/CDS Overlay Here)

Figure 4: NetApp Price Trend (Relative Strength Profile Here)

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Relative Strength Filter

September 25, 2012
Research Comment
Quantitative/Technical Research Website

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Turns in Energy Laggards: VSN, WCP

- In both cases, we are looking for the inflection point where “negative alpha” is giving way.
- Both Veresen and Whitecap Resources have been underperforming their sub-industries at rates of about 40%/year – Figures 1, 3.
- Both Veresen and Whitecap Resources are also breaking above price downtrends – Figure 2, 4.
- As funding vehicles, consider:
  - Enbridge, which is breaking outperformance and price trends.
  - Bonterra, which is breaking an outperforming trend, and is trending lower.

Figure 1: Veresen vs. S&P/TSX Oil & Gas Storage & Transports
Figure 2: Veresen Dividend Adjusted Price Series

Figure 3: Whitecap Resources vs. TSX O&G E&P
Figure 4: Whitecap Resources Price Trend

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Inflation Expectations Are Trending Higher

- If you look at a chart of U.S. Inflation expectations, you generally see three years of noise. However, within that noise, the current “best fit” trend is higher, at rates of 12–18%, depending on whether you are looking at a simple 10-year breakeven rate or a more rigorous 5-year to 5-year forward measure – Figures 1, 2.
- This week, the downtrend on the 10-year breakeven rate was reversed – Figure 1.

Figure 1: U.S. 10-Year Breakeven Rate (Inflation Expectations)  
Figure 2: US 5Y5Y Forward Breakeven Rate (Inflation Expectations)

- Given the fact the European stress is receding (Figure 3), and that the Fed is likely to add more QE fuel, the market is starting to embrace resources. Half of global resource relative strength downtrends have been severed – Figure 4.
  - Up trending inflation expectations (Figures 1, 2) give some cover for this maneuver.
- We and markets will be watching to see if they ultimately break out of the “noise zone”; for if they do, broken resource relative strength downtrends will eventually turn into uptrends.

Figure 3: Italian – European AAA Spread

Figure 4: Global Resource Sectors vs. Their Markets

Source: BMO Capital Markets, Bloomberg
Focus Shifts (Back) to Asia

- Yesterday, the Asia dollar index suffered the worst day of the past three weeks. Its sharp decline led oil and other industrial commodities lower – Figure 1.
- The day before, it was Asian CDS that widened the most among fellow sovereigns. While we lamented how copper was not following the recent European credit improvement, it was Asia that the market was focusing on.
- China caught the Spanish flu in March, broke away thanks to a surprise rate cut on June 7, and has started to deteriorate again as of this Wednesday – Figure 2.
- Yesterday, equity markets broke to the downside in concert with the Asian currency basket. Downside risk is 5% lower for the resource heavy S&P/TSX – Figure 3.
- The U.S. equity market is also influenced by moves in the Asia Dollar Index. It has been this way for years. The influence is still not as great as that of counterparty risk (which rose for the first day in six yesterday), but it is still substantial, growing and has the potential to hit the 90s as it did last year – Figure 4.
**Focal Points**

**Investment & Trading Ideas**

**Major Double Top for Global Real Estate**

- Those that do not like banks (and we do not like banks) hide out in insurance.
  - Insurance just broke the uptrend from the 2011 low, like most major equity markets, including the S&P 500.
- Those that do not like insurance hide out in real estate, which has given the most consistent positive performance.
- Real estate just broke the uptrend from the 2011 low – Figure 1.
- Now there are breakdowns, and there are breakdowns.
  - The context behind this one is that money (and you know who you are) has flowed into Real Estate as a yield-oriented safe haven.
  - This has pushed global real estate back to the 2011 high, which forms a major double top. Major support is 16% below current levels, which is when the double top would seem more obvious. Double top downside risk is 33% below the current level.
- The wider context is that a bank run on Greece is a “great fear,” and the ECB is apparently cutting and running.
  - In this environment, risk assets will cut and run.
  - The breakdown shows that this attitude has just started for Global Real Estate.

---

**Figure 1: MSCI ACWI Real Estate**

_Uptrend Just Broke Down_

...Raising Concern of a Double Top...

... Which Most Would Ask Only After Major Support (16% Below The Current Level) is Breached...

... Which is Far Too Late When One Gets Paid for AUM as the Downside Double Top Target is 160, or 33% Below Current Levels

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
**Focal Points**

*Investment & Trading Ideas*

**SIFI Creditworthiness Breakdown**

- The creditworthiness of the global banking system is at the breakdown point – Figure 1.
  - Trends of credit improvement for eight systematically important financial institutions (SIFI) are breaking down (CDS trends of credit improvement are being reversed) – Figures 2-9. All of these breakdowns occurred yesterday.

- *We know* the culprit is Spain.
  - If you think that Spain will be able to turn itself around and come to the market at a reasonable price, or perhaps that Italy will stop being dragged down with Spain, you are buying into this panic.
  - If not, you are selling, or moving to defensive havens.
  - *We advocate selling or moving to defensive havens.*

---

**Figure 1: Credit Default Swap Trends for Eight Global SIFIs – Trends of Credit Improvement (↑) are Being Reversed (↑)**

<table>
<thead>
<tr>
<th>Name / Link to Charts</th>
<th>Symbol &amp; Links</th>
<th>MktCap US$mm</th>
<th>Chg Last Day</th>
<th>Reward/Risk</th>
<th>Trend Slope</th>
<th>CDS Curve 1/5yr</th>
<th>CDS 1-day chg (%)</th>
<th>CDS 5-day chg (%)</th>
<th>%Chg wrt 50 Day MA</th>
<th>Chg wrt 50 Day MA Trend</th>
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<td>Morgan Stanley</td>
<td>MS US</td>
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<td>↑</td>
<td>↑</td>
<td>-34%</td>
<td>34%</td>
<td>6%</td>
<td>24%</td>
<td>25%</td>
<td>Above Rising</td>
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<tr>
<td>Goldman Sachs Group Inc</td>
<td>GS US</td>
<td>56,698</td>
<td>↑</td>
<td>↑</td>
<td>-33%</td>
<td>74%</td>
<td>3%</td>
<td>24%</td>
<td>23%</td>
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<tr>
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<td>LYG US</td>
<td>31,938</td>
<td>↑</td>
<td>↑</td>
<td>-46%</td>
<td>70%</td>
<td>8%</td>
<td>15%</td>
<td>21%</td>
<td>Above Rising</td>
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<td>Royal Bank of Scotland Group Plc</td>
<td>RBS US</td>
<td>22,925</td>
<td>↑</td>
<td>↑</td>
<td>-57%</td>
<td>83%</td>
<td>8%</td>
<td>20%</td>
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<td>UBS US</td>
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<td>↑</td>
<td>↑</td>
<td>-41%</td>
<td>52%</td>
<td>5%</td>
<td>17%</td>
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<td>Credit Suisse Group</td>
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<td>↑</td>
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<td>7%</td>
<td>17%</td>
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</tr>
<tr>
<td>CHGroup Inc</td>
<td>C US</td>
<td>96,236</td>
<td>↑</td>
<td>↑</td>
<td>-57%</td>
<td>59%</td>
<td>10%</td>
<td>14%</td>
<td>28%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>Barclays PLC</td>
<td>BCS US</td>
<td>39,668</td>
<td>↑</td>
<td>↑</td>
<td>-55%</td>
<td>54%</td>
<td>3%</td>
<td>22%</td>
<td>23%</td>
<td>Above Rising</td>
</tr>
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**Figure 2: Morgan Stanley 5-Year CDS**

**Figure 3: Goldman Sachs 5-Year CDS**
Figure 4: **Lloyds TSB 5-Year CDS**

Figure 5: **Royal Bank of Scotland 5-Year CDS**

Figure 6: **UBS AG 5-Year CDS**

Figure 7: **Credit Suisse Group 5-Year CDS**

Figure 8: **Citigroup 5-Year CDS**

Figure 9: **Barclays PLC 5-Year CDS**

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Liquified Gold; Kinross

- Gold has been trending higher, at a rate of 28%/year for the past two years. It just broke that trend Monday – Figure 1.
  - The USD funding squeeze for European financials (EuroDoom) started up again last Friday, and continued in the Monday session (see chart).
  - Those expecting gold to act as a safeguard against European turmoil need to consider that moves in gold are now, and not insignificantly, positively correlated with European bank stocks – Figure 2.
  - The fit between gold and the cost to obtain USD in the swap market started in September.

- In the heyday for gold, when bullion was through $1,900, there was good utility in owning bullion. There was a negative correlation between bank stress and gold (Figure 2). In those days, gold shares garnered a 3rd decile reading, as opposed to the poor 8th decile showing that they currently exhibit - Figure 3.
  - Now European stress leads to liquefied gold.
- The large cap gold share with the weakest relative strength profile vs. the NYSE Arca Gold Miners index (GDM) is Kinross – Figure 4.
- If you want safety, do not buy Canadian or Australian gold stocks, instead, buy their government bonds. See Focal Points: How Long the Famine for China Feeders?

**Figure 1: Gold Bullion**

**Figure 2: Gold and European Banks; Correlation of Returns**

**Figure 3: Gold Relative Strength Decile**

**Figure 4: Kinross vs. NYSE Arca Gold Miners Index**

Source: BMO Capital Markets, Bloomberg
How Long the Famine for China Feeders?

- Italian bonds are the epicentre of the European debt crisis. Last week, the 5-day volatility (G&K) for the Italian 10-year bond yield exceeded 100%.
- The massive, early-week downdraft in yields was caused by both the “Save Italy” decree (Italian austerity package) and the market’s misread of Super Mario Draghi’s intentions.
- Yields shot up dramatically after the ECB chairman told his world audience that “the ECB is not an IMF member” (8:58 a.m., Dec. 8), dashing hopes that the ECB might be a conduit to the IMF funding of European sovereigns.
- The simple and connected points are that if the bond vigilantes decide to continue to pressure Italy, then:
  - the Italian 5-year CDS, currently priced at 566 bps, will take out the November high of 602 bps. This stress is causing assets to be repatriated from Emerging (growth) Markets, which is causing related uncertainty – Figure 1;
  - measures of counterparty risk should continue to trend higher, given Italy is the third-largest bond market in the world – Figure 2; and
  - the equity markets of China feeding nations, like Canada and Australia, should continue to underperform their respective bond markets. The current rate of underperformance is in excess of 30%/year – Figures 3, 4.
- Until these trends of counterparty uncertainty (Figures 2) and equity underperformance (Figures 3, 4) break, asset allocators should continue to hold a defensive hand. For how long? Until the bond vigilantes are satisfied. We watch, and wait.

Source: BMO Capital Markets, Bloomberg, Markit

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The Storm, the Calm, and the Cheshire Cat

- A solid equity market needs a solid banking system. In Europe one would presume, this needs a solid market for sovereign, and especially, Italian debt. This presumption is not the way the market is currently priced. Italian too-interconnected-to-fail UniCredit Group’s 5-year CDS is priced close to 100bps more creditworthy than Italian government CDS – Figure 1.
  - The stability of bank creditworthiness is the key support, and reason we are seeing defensives break below outperforming trends, and more “risk-on” stocks break above underperforming trends.
  - Whether this spread is driven off of a need to hedge Italian sovereign risk, potential for bank capital injections, or government guaranteed bank bond offerings (or other market elements), the key for risk markets is that bank risk moves are not as dire as sovereign risk moves.
- Italian – European AAA 10yr debt spreads have widened materially in the past few weeks. They have come within 20bps of the level at which LCH.Clearnet may raise margin requirements. The rolling 30d correlation of moves between Italian 10yr debt and an AAA basket is currently about -30%, way off of the worst “sell Italy, buy AAA” mentality seen in July - Figure 2.
- The creditworthiness of global systematically important financial institutions (SIFI) has been relatively stable (page 2). The European debt crisis has seen two victims, Dexia and MF Global, and a “shoot-first” approach has been taken towards Jefferies Group. On the whole, however, calm prevails.
- Italian and Spanish sovereign CDS curves have not joined the inverted club of Greece, Portugal, or Ireland (page 3).
- The ECB signaled an abandonment of attempts to keep a lid on Italian debt the day that outgoing ECB President Trichet left office.

Incoming ECB President Draghi takes a very different approach, asking "What makes you think that to become the lender of last resort for governments is actually the thing that you need to keep the euro area together?". He left his first ECB press conference smiling like a Cheshire Cat. Mind the change in stance!

- The message of Draghi is shaping up to be, we will not cap your rates, so you had better do what you need to do to make your bonds palatable. This is capitalism. This is what markets need. When a carrot does not work, use a stick.
  - There were thousands of sticks demonstrating in Rome against Berlusconi this weekend.
  - Markets reacted positively to talk of Berlusconi leaving his post, as he is seen as either unwilling or unable to bring forward tough austerity measures.
- With recent political turmoil, the demand for EFSF bonds has soured. The AAA German to still AAA French 10-year bond spread has tracked this concern (page 4). Still, EFSF bonds were priced and sold today. Capitalism marches on.
- While the ECB SMP program doubled its purchases of debt in Draghi’s 1st week, it clearly was done in a manner that allowed yields to rise, and thus inflict political pressure on Berlusconi.
  - This political pressure will likely be translated into more financial corporate failures. This clearing of the decks, while turbulent, is exactly what capitalism is based upon.
- Investors should watch the politics through the lens of bank default risk. This is how to best interpret the inflection points we are seeing in our Relative Strength trends.

Figure 1: UniCredit - Italian Government 5-year CDS Spread

![UniCredit Group Trading Close to 100bps Better than Italian Sovereign](image1.png)

Figure 2: Italian Debt Margin Call Watch

![Italian 10-Year Bond Yield](image2.png)

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
The Calm amongst Banks

- The table of Too-Interconnected-To-Fail, or more formally, Global Systemically Important Financial Institutions (SIFI), ranked by CDS curve has not changed too much over the past two months – Figure 3
- U.S. bank/brokers are on top with inverted curves. The level of inversion of these curves has improved over the past month, as we detail with Morgan Stanley – Figure 4.
- Major European bank CDS curves have not inverted. For many, one-year CDS levels have remained about 80-90% of the 5-year levels.

UniCredit (UCG), which is the only Italian financial that the Financial Stability Board considers a SIFI, has seen its creditworthiness tread water for the past few months - Figure 5. The Italian sovereign - UCG CDS spread has widened (in the favour of UCG) close to 100bps, a new high (Figure 1).
- The creditworthiness of French Banks like SocGen (Figure 6) and BNP (Figure 13) has also moved sideways despite the stresses on their sovereign debt holdings. These holdings, mind you, have been reduced.
The Calm amongst Sovereigns

- The Greek Referendum on/off saga of last week took a toll on the “disorderly default” pricing (disorderly being over the short-term, i.e. 1-year CDS, as opposed to long-term, i.e. 5-year CDS) of Greece – Figures 7, 8.
- Italian and Spanish curves did not react negatively to this panic – Figure 8, 10.
- The sovereign curves of Ireland and Portugal have not been impacted by last’s week’s new Greek stress – Figure 9.

<table>
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<tr>
<th>Name</th>
<th>1Yr/5yr (%)</th>
<th>1yr CDS</th>
<th>5Yr CDS</th>
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<tr>
<td>Greece</td>
<td>207%</td>
<td>10,538</td>
<td>5,084</td>
</tr>
<tr>
<td>Portugal</td>
<td>126%</td>
<td>1,400</td>
<td>1,111</td>
</tr>
<tr>
<td>Ireland</td>
<td>118%</td>
<td>879</td>
<td>747</td>
</tr>
<tr>
<td>Ukraine</td>
<td>91%</td>
<td>686</td>
<td>754</td>
</tr>
<tr>
<td>Italy</td>
<td>90%</td>
<td>437</td>
<td>488</td>
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<tr>
<td>Spain</td>
<td>86%</td>
<td>332</td>
<td>385</td>
</tr>
<tr>
<td>Vietnam</td>
<td>79%</td>
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<td>395</td>
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<td>Bahrain</td>
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<td>268</td>
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<td>Hungary</td>
<td>75%</td>
<td>400</td>
<td>530</td>
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<tr>
<td>Belgium</td>
<td>75%</td>
<td>211</td>
<td>280</td>
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</table>

Figure 7: European CDS Curves

Figure 8: Greek and Italian Sovereign CDS Curves

Figure 9: Irish and Portuguese Sovereign CDS Curves

Figure 10: Greek and Spanish Sovereign CDS Curves
Appetite for EFSF and French Bonds; Stability in French and French Bank CDS

- European bailouts by the European Financial Stability Facility (EFSF) are supported by bonds. This allows a window to observe the appetite that investors have for the bailout fund – Figures 11, 12.
  - When the first EFSF bond was sold in January the demand was “sky-high”.
  - Last week’s EFSF bond auction, to raise €3bn for Ireland, had to be postponed due to lack of demand.
    - This is understandable, given the massive political turmoil.
  - Today, the EFSF bond went ahead despite weakening demand.
    - This forward push, despite being priced under hostile market terms, is important.
- The EFSF – EU bond spread can be viewed as an indication of the markets’ level of concern about the EFSF’s ability to handle the European debt crisis. Moves in this spread have set the tone for which AAA rated German and French bonds (where keeping the AAA rating is a concern) are priced – Figure 12.
  - This is the storm.
- Using CDS pricing, the cost to protect France against default moves sideways, as does the cost to protect French banks – Figure 13.
  - This is the calm.
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