



The Bigger Picture

A weekly snapshot of the markets

Issue No. 273

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Summary

Screen Shots: Update on our May 2 momentum stocks screen shows many hot stocks are losing steam, especially in the Energy, Consumer Discretionary and Technology sectors.

Week ahead: FOMC announcement October 29; many Canadian majors reporting – Barrick Gold, Bombardier, Canadian Oil Sands, Goldcorp, Sherritt, Suncor, Teck Resources, TransAlta.

Commentary – 2015 may be a challenging year

Recent market volatility may be harbinger of choppiness next year

For TSX, Canadian economy's link to US may offset weakness in rest of the world

Elvis Picardo, CFA

While the rebound since October 16 has us optimistic that the year will end on a strong note, a growing number of issues leads us to believe that 2015 may be a challenging year for global equities. Earlier this month, the IMF's had lowered its outlook for 2015 global growth, an event that had accelerated the market selloff. While our earlier view was that 3.8% still represents the best growth outlook since 2011, we now think there is a possibility of the growth forecast being lowered further (as market veterans will attest, downward revisions are seldom issued on a one-off basis). This is because of the economic issues affecting a number of major economic blocs – Europe, Japan, and three-fourths of the BRIC group (i.e. excluding India).

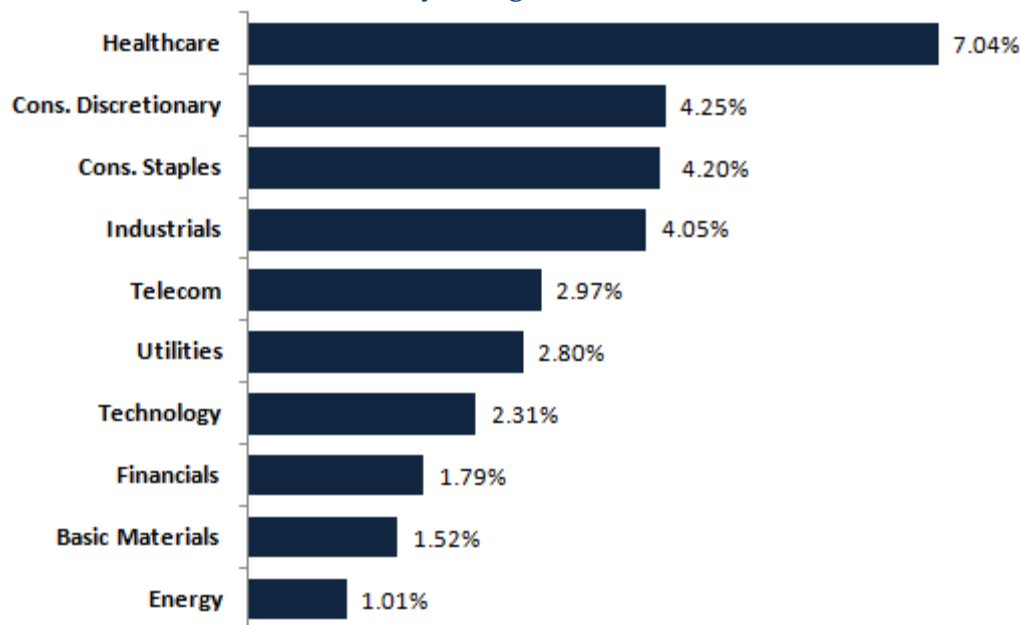
For the TSX, Canada's extensive linkage with the U.S. may enable the economy to withstand weakness in the rest of the world. But given the absolute carnage in the Energy and Commodities sectors, the index may be hard-pressed to repeat this year's performance in 2015. The TSX was firing on all cylinders right until it peaked on September 3, at which point it was up almost 15% for the year, with the Energy (+19.3%) and Materials (+14.6%) groups contributing to the broad index advance. But these two influential groups have since tumbled close to 17% and 15% respectively, leading to a 7.6% decline in the TSX since September 3.

In our October 14 Bulletin, we had summed up four factors that pointed to the correction being overdone – global economic acceleration, the strong U.S. economy, equity-supportive valuations, and no inflation concerns.

These factors could continue to support a market rebound that may last into Q1 of next year. But it may be an altogether different story for the rest of 2015.

Bottom-Line: It is too early to assess whether the steep selloff in the Energy and Materials sectors is pointing to global growth in 2015 that may be slower than the current forecast of 3.8%. Or is this just a panic-stricken (and late) reaction to the growing number of issues that could affect global growth, but that investors were content to ignore until last month? Although we have been adding to our energy and commodity holdings to take advantage of stock prices that are at multi-year lows, we advocate balancing this exposure by adding to defensive holdings – i.e. sectors like utilities, telecoms, and health care. If equity markets continue to rebound, we also suggest investors consider taking profits in stocks that have posted sizeable gains this year.

TSX Sector Watch – Weekly change for TSX sectors (week ended October 24, 2014)



The TSX gained 316 points or 2.2% last week, its best weekly performance since July 2013. The index’s gains followed a week when it was virtually flat, which in turn occurred after six straight weekly declines. The TSX advanced last week as strong gains by U.S. stocks – with the S&P 500 up 4.1% for its best week since January 2013 – offset the unprecedented attack on Canada’s Parliament and a continuing decline in oil prices.

Last week’s advance was broad-based, with all 10 groups in the black. A diverse bunch of stocks led the advance, including Air Canada, Amaya Gaming, Pacific Rubiales, Agrium and AutoCanada, while gold stocks led decliners.

Screen Shots

North American momentum stocks losing steam (update to our May 2, 2014 Screen)

10 Canadian stocks on original list of 80 down by an average of 20.9%

Energy stocks among biggest decliners, Health Care dominates top gainers

In our May 2, 2014 Bulletin, we had run the results of a basic screen to identify momentum stocks (Canadian and US stocks with market cap above US\$1 billion, and price change of at least 100% in the 12 months to May 1). We updated this screen with the latest prices to see how these momentum stocks had fared since May 2. The results are shown below –

- The average decline for these 80 stocks since May 2 is only 1.6%, excluding the five best performers – which are all health care/biotech stocks that have gained by about 100% on average since May 2 – the remaining 75 stocks have declined by an average of 8.4%.
- The 10 Canadian stocks on the original list are down by an average of 20.9%; the four Canadian energy companies have plunged by an average of 34.7%.
- Apart from Energy, other sectors losing momentum are Consumer Discretionary and Technology, the latter contributing the worst performer since May 2 in the form of GT Advanced Technologies, down 97.5% after its surprise bankruptcy earlier this month.
- While many of these stocks have already taken their lumps (notably in the Energy sector), investors who continue to own some of these high-fliers in their portfolios should consider trimming positions or buying downside protection through options.

Name	GICS Sector	Ticker	Price - May 2, '14	1Y % Change (To May 2 '14)	Current Price	% Change Since May 2 '14
Gt Advanced Tech	Information Technology	GTAT	\$17.22	346.1	\$0.44	-97.5%
Canadian Energy	Energy	CEU (CAN)	\$33.12	168.8	\$8.74	-73.6%
Carbo Ceramics	Energy	CRR	\$139.41	100.4	\$50.11	-64.1%
Penn Virginia Corp.	Energy	PVA	\$16.26	315.9	\$7.54	-53.7%
Stone Energy	Energy	SGY	\$48.34	157.5	\$23.21	-52.0%
Clayton Williams	Energy	CWEI	\$142.87	276.0	\$72.99	-48.9%
Magnum Hunter	Energy	MHR	\$8.21	225.8	\$4.21	-48.7%
Cumulus Media-A	Consumer Discretionary	CMLS	\$6.46	103.1	\$3.74	-42.2%
Avigilon Corp	Information Technology	AVO (CAN)	\$26.53	109.6	\$15.53	-41.5%
Finisar Corp	Information Technology	FNSR	\$25.45	103.0	\$15.93	-37.4%
Rite Aid Corp	Consumer Staples	RAD	\$7.70	198.4	\$4.83	-37.3%
World Wrestling-A	Consumer Discretionary	WWE	\$20.33	125.9	\$13.51	-33.6%
Badger Daylighting	Industrials	BAD (CAN)	\$37.77	159.2	\$26.40	-30.1%
Bankers Petroleum	Energy	BNK (CAN)	\$5.88	133.3	\$4.14	-29.6%
Gaslog Ltd	Energy	GLOG	\$26.99	119.4	\$19.69	-27.0%
Fluidigm Corp	Health Care	FLDM	\$37.55	127.2	\$28.04	-25.3%
Meritor Inc	Industrials	MTOR	\$13.95	151.8	\$10.59	-24.1%
Raging River Exp.	Energy	RRR (CAN)	\$9.88	165.9	\$7.66	-22.5%
Goodyear Tire	Consumer Discretionary	GT	\$25.46	108.7	\$20.58	-19.2%
Matador Resources	Energy	MTDR	\$27.54	192.7	\$22.34	-18.9%
Kindred Healthcare	Health Care	KND	\$24.80	139.6	\$20.25	-18.4%
Astronics Corp	Industrials	ATRO	\$56.61	153.0	\$46.51	-17.8%
Federal-Mogul	Consumer Discretionary	FDML	\$17.32	137.9	\$14.37	-17.0%
Media General	Consumer Discretionary	MEG	\$16.95	111.3	\$14.14	-16.6%
Bofi Holding Inc	Financials	BOFI	\$82.97	115.8	\$70.83	-14.6%

Name	GICS Sector	Ticker	Price - May 2, '14	1Y % Change (To May 2 '14)	Current Price	% Change Since May 2 '14
Carrizo Oil&Gas	Energy	CRZO	\$53.67	123.1	\$46.18	-14.0%
Ubiquiti Networks	Information Technology	UBNT	\$40.26	167.3	\$34.73	-13.7%
Mdc Partners-A	Consumer Discretionary	MDCA	\$23.88	111.8	\$20.60	-13.7%
Ligand Pharma	Health Care	LGND	\$63.46	144.5	\$54.88	-13.5%
Surge Energy Inc	Energy	SGY (CAN)	\$7.11	137.3	\$6.19	-13.0%
Diamondback Energy	Energy	FANG	\$71.27	169.6	\$63.51	-10.9%
Harman Intl	Consumer Discretionary	HAR	\$107.47	143.2	\$96.46	-10.2%
Sunpower Corp	Information Technology	SPWR	\$33.86	160.5	\$30.40	-10.2%
Yelp Inc	Information Technology	YELP	\$64.02	153.0	\$57.82	-9.7%
Sun Edison Inc	Information Technology	SUNE	\$20.32	286.3	\$18.73	-7.8%
Semafo Inc	Materials	SMF (CAN)	\$4.09	110.1	\$3.78	-7.6%
E*Trade Financial	Financials	ETFC	\$22.66	124.8	\$21.01	-7.3%
Intercept Pharma	Health Care	ICPT	\$260.49	687.7	\$242.00	-7.1%
Igate Corp	Information Technology	IGTE	\$36.14	120.0	\$33.64	-6.9%
Invensense Inc	Information Technology	INVN	\$20.59	125.8	\$19.72	-4.2%
Insys Therapeutics	Health Care	INSY	\$40.13	673.8	\$38.96	-2.9%
Valeant Pharma	Health Care	VRX (CAN)	\$149.85	103.9	\$146.59	-2.2%
H&E Equipment Svcs.	Industrials	HEES	\$37.04	101.3	\$36.65	-1.1%
Level 3 Comm Inc	Telecommunication Servi	LVLTL	\$42.80	110.6	\$42.72	-0.2%
Nps Pharma Inc	Health Care	NPSP	\$27.01	102.6	\$27.11	0.4%
Linamar Corp	Consumer Discretionary	LNR (CAN)	\$55.24	137.0	\$55.45	0.4%
Curtiss-Wright	Industrials	CW	\$67.89	112.2	\$68.22	0.5%
Demandware Inc	Information Technology	DWRE	\$54.23	102.6	\$54.76	1.0%
Furix Pharma	Health Care	FURX	\$103.46	222.4	\$104.77	1.3%
Logmein Inc	Information Technology	LOGM	\$43.98	101.8	\$45.03	2.4%
Us Silica Holdings	Materials	SLCA	\$45.73	128.5	\$47.22	3.3%
Examworks Group	Health Care	EXAM	\$35.96	103.9	\$37.86	5.3%
Green Plains	Energy	GPRE	\$28.87	122.2	\$30.48	5.6%
Gentherm Inc	Consumer Discretionary	THRM	\$39.50	161.6	\$41.73	5.6%
Forest Labs Inc	Health Care	FRX	\$93.30	152.0	\$99.00	6.1%
Delta Air Lines	Industrials	DAL	\$37.12	120.4	\$39.65	6.8%
Tesla Motors	Consumer Discretionary	TSLA	\$207.73	289.9	\$224.55	8.1%
Air Canada-Cl B	Industrials	AC/B (CAN)	\$7.74	167.8	\$8.61	11.2%
Envestnet Inc	Information Technology	ENV	\$37.45	112.9	\$41.95	12.0%
Questcor Pharma	Health Care	QCOR	\$82.28	159.2	\$93.60	13.8%
Incyte Corp	Health Care	INCY	\$50.05	132.6	\$56.96	13.8%
Spirit Airlines	Industrials	SAVE	\$56.99	108.1	\$66.12	16.0%
Jazz Pharma	Health Care	JAZZ	\$139.27	143.4	\$163.03	17.1%
Greenbrier Cos	Industrials	GBX	\$51.11	133.9	\$60.82	19.0%
Comscore Inc	Information Technology	SCOR	\$32.00	101.9	\$38.78	21.2%
Pilgrim'S Pride	Consumer Staples	PPC	\$22.05	126.6	\$26.85	21.8%
Micron Tech	Information Technology	MU	\$26.25	185.3	\$32.16	22.5%
Triquint Semi	Information Technology	TQNT	\$14.31	147.6	\$17.65	23.3%
Salix Pharma	Health Care	SLXP	\$111.45	113.1	\$138.30	24.1%
Cheniere Energy	Energy	LNG	\$57.00	105.5	\$70.86	24.3%
Avago Tech	Information Technology	AVGO	\$64.39	102.7	\$81.39	26.4%
Methode Electronics	Information Technology	MEI	\$29.27	107.9	\$37.15	26.9%
Skechers Usa-A	Consumer Discretionary	SKX	\$40.10	100.0	\$52.12	30.0%
Facebook Inc-A	Information Technology	FB	\$61.15	122.9	\$80.47	31.6%
Illumina Inc	Health Care	ILMN	\$139.68	118.9	\$190.95	36.7%
Pacira Pharma	Health Care	PCRX	\$72.22	161.5	\$107.57	48.9%
Lannett Co Inc	Health Care	LCI	\$34.38	199.7	\$51.40	49.5%
Alnylam Pharma	Health Care	ALNY	\$54.43	138.5	\$93.77	72.3%
Intermune Inc	Health Care	ITMN	\$32.16	259.3	\$73.89	129.8%
Puma Biotech	Health Care	PBYI	\$80.00	161.1	\$242.25	202.8%

The Week Ahead

Corporate earnings will take a backseat to the FOMC meeting this week. With large number of Canadian companies set to report this week, investors will be especially interested in the quarterly numbers and outlook from energy and commodity heavyweights.

On Wednesday (11:00 PST), the Federal Reserve announces the outcome of its penultimate FOMC meeting for this year (the last of the Fed's eight FOMC post-meeting announcements for 2014 will be released on December 17). Economists expect the Fed to wind up QE3 at this meeting. The Fed's purchases of Treasury and mortgage-bonds is currently at \$15 billion monthly; total purchases were \$85 billion prior to the December 2013 FOMC meeting, at which the Fed announced the first of its 10-billion purchase reductions. Recent weakness in global markets has led to speculation that the Fed may push back the timetable of its rate increases, with futures traders lowering the odds of a federal funds rate-hike by December 2015 to 65%, from 85% (by Oct. 2015) last month. Note that the current rebound from the Sept.19–Oct.15 selloff only commenced after St. Louis Fed President James Bullard said the central bank should consider delaying the end of QE3 to halt a decline in inflation expectations.

On Thursday (05:30 PST), the Commerce Department releases its first estimate of U.S. GDP for Q3. The economy is forecast to have expanded at a 3% annualized clip in Q3, picking up from a 1.2% pace in the first half of the year, when output was affected by a harsh winter.

Major companies reporting quarterly results this week include –

- October 28 – Corning Electronic Arts, Facebook, Gilead Sciences, Pfizer
- October 29 – Barrick Gold, Kraft Foods, Sherritt, Suncor, Teck, Visa
- October 30 – Bombardier, Canadian Oil Sands, Goldcorp, Starbucks, TransAlta
- October 31 – Berkshire Hathaway, Cogeco, Exxon Mobil, Imperia Oil

Market Snapshot

At close today

S&P TSX	14469.00	-74.82	Commodities			Yields (%)	Can.	US
TSX Venture	790.35	-15.10	Canadian \$ (US cents)	88.91	-0.13	90 Day T-Bill	0.87	0.01
DJIA	16817.94	+12.53	Gold (Spot)-US\$	1226.55	-4.35	2-Year Bond	1.00	0.38
S&P 500	1961.63	-2.95	Oil (WTI-Dec.)	80.67	-0.34	10-Yr. Bond	2.01	2.26
NASDAQ	4485.93	+2.22	CRB Index	270.41	+0.19	30-Yr. Bond	2.56	3.04

Thought for the Day

“Let him who would enjoy a good future waste none of his present.” – Roger Babson

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Buy: Expected total returns of 10% to 20% over the next 6 – 12 months.

Speculative Buy: Significant gains expected over the next 6 – 12 months, but entire investment may be at risk.

Hold: Expected total returns of 0% to 10% over the next 6 – 12 months.

Reduce: Expected total returns of up to -10% over the next 6 – 12 months.

Sell: Expected total returns of over -10% over the next 6 – 12 months.

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