

Where is the strength?

Relative strength (or price relative) indicators compare the performance of one security to that of another, say a sector to an index or a stock to its respective sector, in order to provide more context to that performance. The relative strength is calculated by dividing the price of the security of interest by that of the comparative security (benchmark index or sector). Analyzing trends in relative strength over longer time periods may help portfolio managers select the right stocks in order to be able to beat their benchmarks, i.e. pick winners and avoid losers.

In our June 30, 2018 Technically Speaking publication we found that the industrials, info tech and consumer discretionary sectors had been showing solid relative strength so far this year compared to the S&P/TSX Composite Index (S&P/TSX); this has also been the case over a longer term time period (we picked two years for the sake of this analysis). Within these strong sectors, we highlight the relative performance of each stock to their respective sectors in the table below. In the following pages, we also highlight the charts for the top three stocks in each sector based on this ranking. While we could have only shown you the tables, we believe charts tell a more detailed story (the trend). As we will observe in the following price relative charts, although a stock shows solid outperformance relative to its sector (in the table), trends can indicate the continuation or potential end of that outperformance.

Stocks Ranked by Relative Strength

S&P/TSX Composite			2-Year Price Change			S&P/TSX Info Tech			S&P/TSX Cons Discret			S&P/TSX Industrials		
12%						39%			27%			40%		
Company Name	Change	Sector Relative	Company Name	Change	Sector Relative	Company Name	Change	Sector Relative	Company Name	Change	Sector Relative	Company Name	Change	Sector Relative
Shopify Inc - A	297%	258%	Brp Inc/Ca-Sub V	193%	166%	Air Canada	159%	119%	Bombardier Inc-B	143%	103%	Ats Automation	96%	56%
Constellation So	73%	34%	Great Can Gaming	155%	128%	Wsp Global Inc	88%	48%	Brookfield Bp-U	88%	49%	Toromont Inds	71%	32%
Descartes Sys	59%	20%	Stars Group Inc/	116%	89%	Brookfield Bp-U	88%	49%	Toromont Inds	71%	32%	Tfi Internationa	75%	35%
Mitel Networks C	49%	10%	Spin Master -Svc	97%	70%	Wsp Global Inc	88%	48%	Transcontinent-A	62%	22%	Finning Intl Inc	58%	19%
Kinaxis Inc	44%	5%	Martinrea Intern	59%	32%	Brookfield Bp-U	88%	49%	Finning Intl Inc	58%	19%	Waste Connection	57%	17%
Enghouse Sys Ltd	47%	8%	Magna Intl	51%	24%	Toromont Inds	71%	32%	Waste Connection	57%	17%	Boyd Group Incom	54%	14%
Cgi Group Inc-A	29%	-10%	Dollarama Inc	43%	17%	Tfi Internationa	75%	35%	Boyd Group Incom	54%	14%	Cae Inc	56%	16%
Blackberry Ltd	28%	-12%	Restaurant Brand	41%	14%	Transcontinent-A	62%	22%	Cae Inc	56%	16%	Morneau Shepell	52%	12%
Open Text Corp	23%	-17%	Quebecor Inc-B	36%	9%	Finning Intl Inc	58%	19%	Morneau Shepell	52%	12%	Badger Daylighti	42%	3%
Celestica Inc	8%	-32%	Canadian Tire-A	29%	2%	Waste Connection	57%	17%	Badger Daylighti	42%	3%	Can Natl Railway	39%	-1%
Sierra Wireless	-11%	-50%	Linamar Corp	12%	-14%	Boyd Group Incom	54%	14%	Can Natl Railway	39%	-1%	Canadian Pacific	32%	-7%
			Cogeco Communica	9%	-18%	Cae Inc	56%	16%	Canadian Pacific	32%	-7%	Westshore Termin	31%	-8%
			Enercare Inc	64%	37%	Morneau Shepell	52%	12%	Westshore Termin	31%	-8%	Chorus Aviation	17%	-22%
			Sleep Country Ca	4%	-23%	Badger Daylighti	42%	3%	Chorus Aviation	17%	-22%	Nfi Group Inc	22%	-18%
			Shaw Comm-B	2%	-25%	Can Natl Railway	39%	-1%	Nfi Group Inc	22%	-18%	Russel Metals	20%	-19%
			Gildan Activewea	-12%	-39%	Canadian Pacific	32%	-7%	Russel Metals	20%	-19%	Snc-Lavalin Grp	-1%	-40%
			Uni-Select Inc	-31%	-58%	Westshore Termin	31%	-8%	Snc-Lavalin Grp	-1%	-40%	Stantec Inc	3%	-37%
			Hudson'S Bay Co	-37%	-64%	Chorus Aviation	17%	-22%	Stantec Inc	3%	-37%	Ritchie Bros	0%	-40%
			Dorel Inds-B	-35%	-62%	Nfi Group Inc	22%	-18%	Ritchie Bros	0%	-40%	Exchange Income	-1%	-41%
			Cineplex Inc	-43%	-70%	Russel Metals	20%	-19%	Exchange Income	-1%	-41%	Aecon Group Inc	-3%	-42%
			Corus Ent Inc-B	-66%	-93%	Snc-Lavalin Grp	-1%	-40%	Aecon Group Inc	-3%	-42%	Westjet Airlines	-21%	-60%
			Canada Goose Hol	NA	NA	Stantec Inc	3%	-37%	Westjet Airlines	-21%	-60%	Maxar Technologi	-30%	-69%
						Ritchie Bros	0%	-40%						
						Exchange Income	-1%	-41%						
						Aecon Group Inc	-3%	-42%						
						Westjet Airlines	-21%	-60%						
						Maxar Technologi	-30%	-69%						

Source: Bloomberg, Raymond James Ltd, Priced as at August 1, 2018

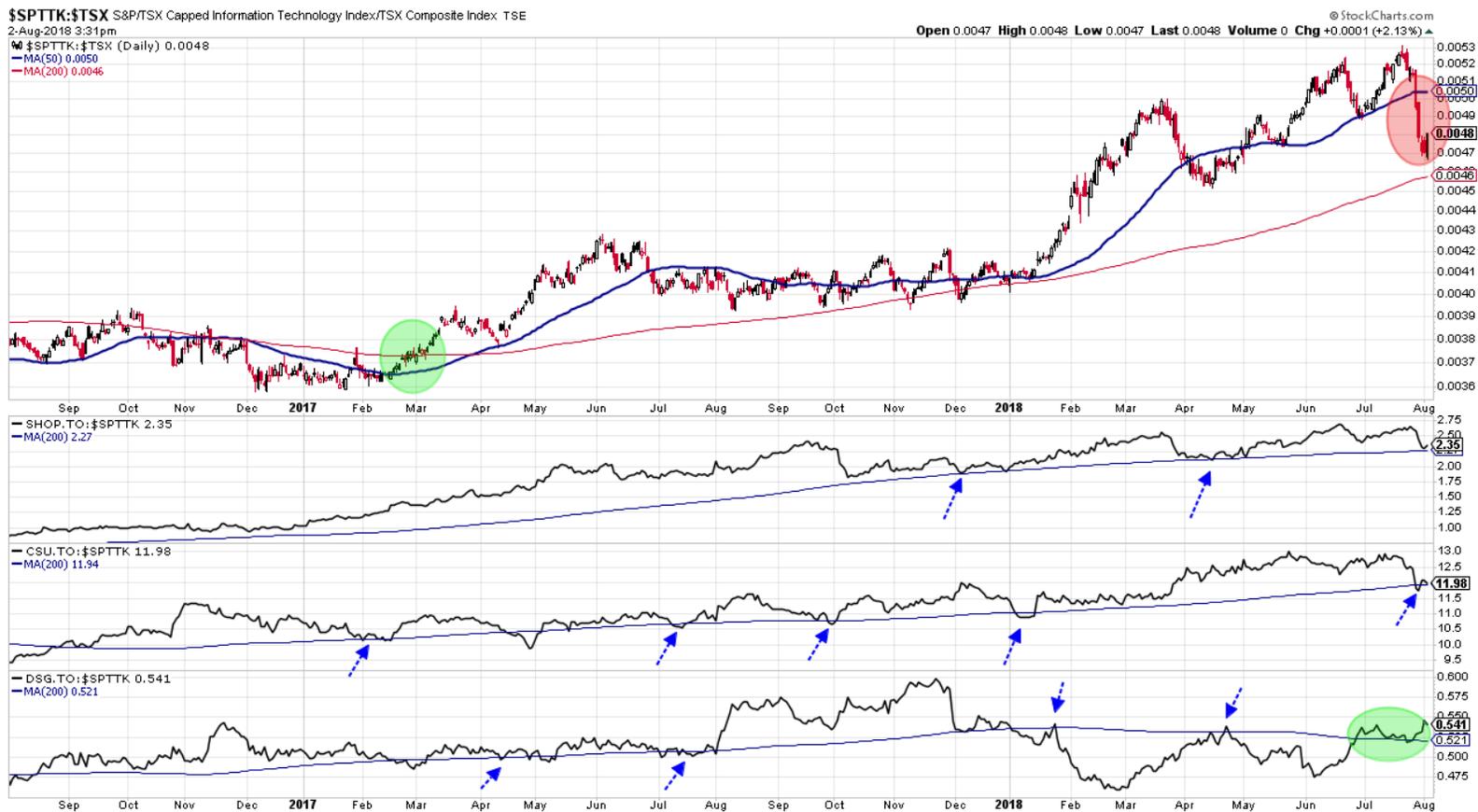
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Information Technology

The info tech sector has been the best performing sector (price return) in Canada over the past two years. As shown in the first chart below, the sector began outperforming the S&P/TSX in early 2017 when the price relative indicator began trading above the long-term trend line, or the red line indicating the 200 day moving average (DMA). The sector broke support at the blue 50 DMA line at the end of July (circled in red), which may indicate short term underperformance, but the sector has a next leg of support at the 200 DMA. Names such as Shopify (SHOP-T), Constellation Software (CSU-T) and Descartes Systems Group (DSG-T) have been leading the sector over the past two years and are highlighted in the bottom three charts. SHOP was the bright spot and outperformed the sector by a stellar 296%; the stock continues to trend above the 200 DMA, indicating a solid long-term trend. CSU comes in at a far second with 31% outperformance, but also maintains a strong long term trend as the price relative indicator remains above its 200 DMA. As for DSG, although it has outperformed by 17% compared to the pack, the price relative indicator found resistance at its 200 DMA in January and April, indicating that the stock could find a hard time leading the sector going forward; while the price relative is now trading slightly above the 200 DMA, we would continue to monitor for this trend to be confirmed.

Relative Strength Charts – IT Sector versus the S&P/TSX & Stocks versus the IT Sector

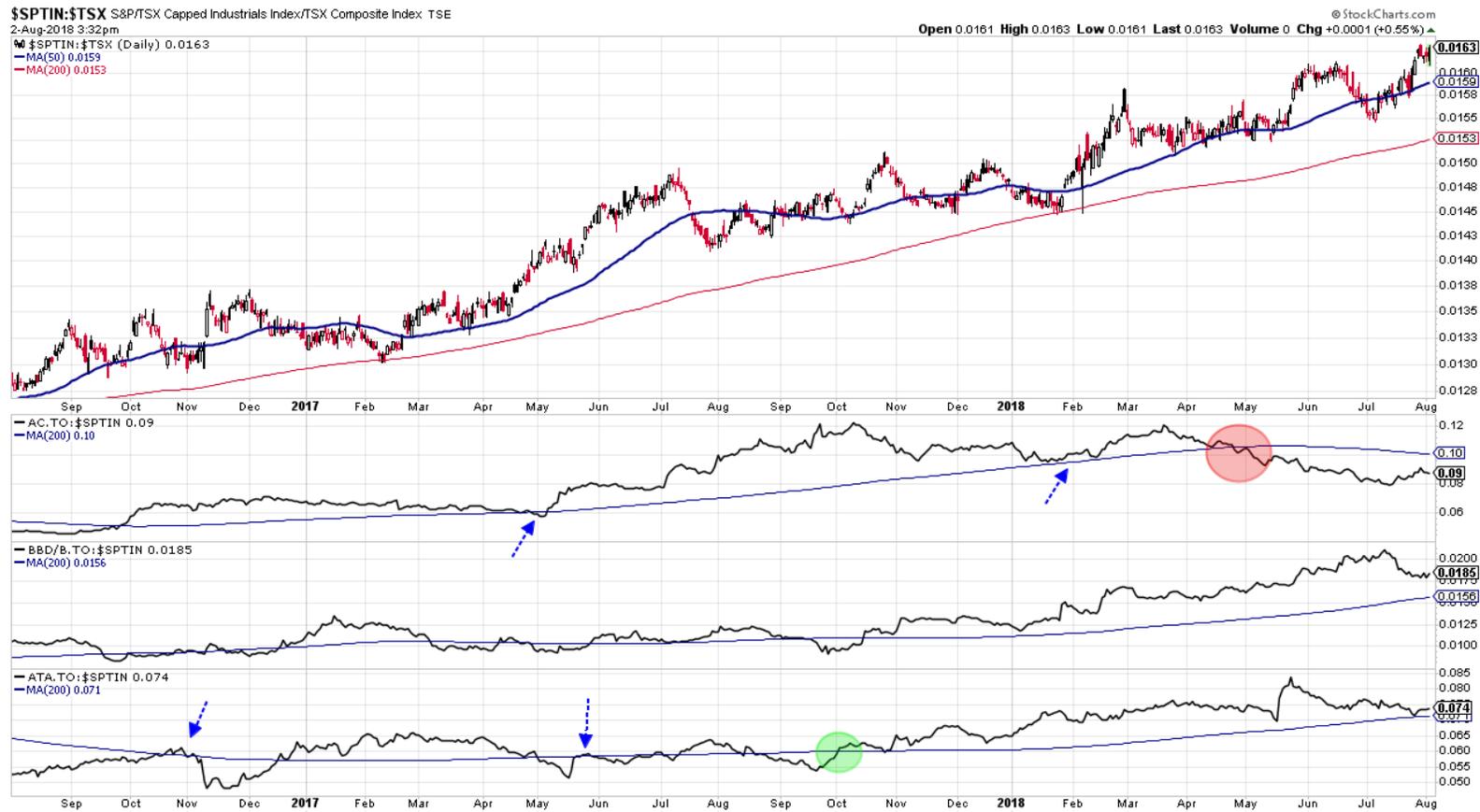


Source: Stockcharts.com, Priced as at August 1, 2018

Industrials

The industrials sector has been the second best performing sector over the past two years, with the sector up 40% in price return. Relative to the S&P/TSX, the sector has also maintained its long term trend with the price relative indicator trading above its 200 DMA. Air Canada (AC-T), Bombardier (BBD.B-T) and ATS Automation Tooling Systems (ATA-T) jump out as the best performers in the sector outperforming by 125%, 106% and 55%, respectively. Now, had we looked at the long-term outperformance numbers alone, we could have thought that all of these stocks are in an uptrend; however, the charts tell us a different story. AC, otherwise the top outperformer over the past two years, has been showing relative weakness since the end of April with the stock now below its 200 DMA. This would have us keep a close eye on AC in case things begin to change. As for BBD.B and ATA, both have continued on their long-term uptrend.

Relative Strength Charts – Industrials Sector versus the S&P/TSX & Stocks versus the Industrials Sector

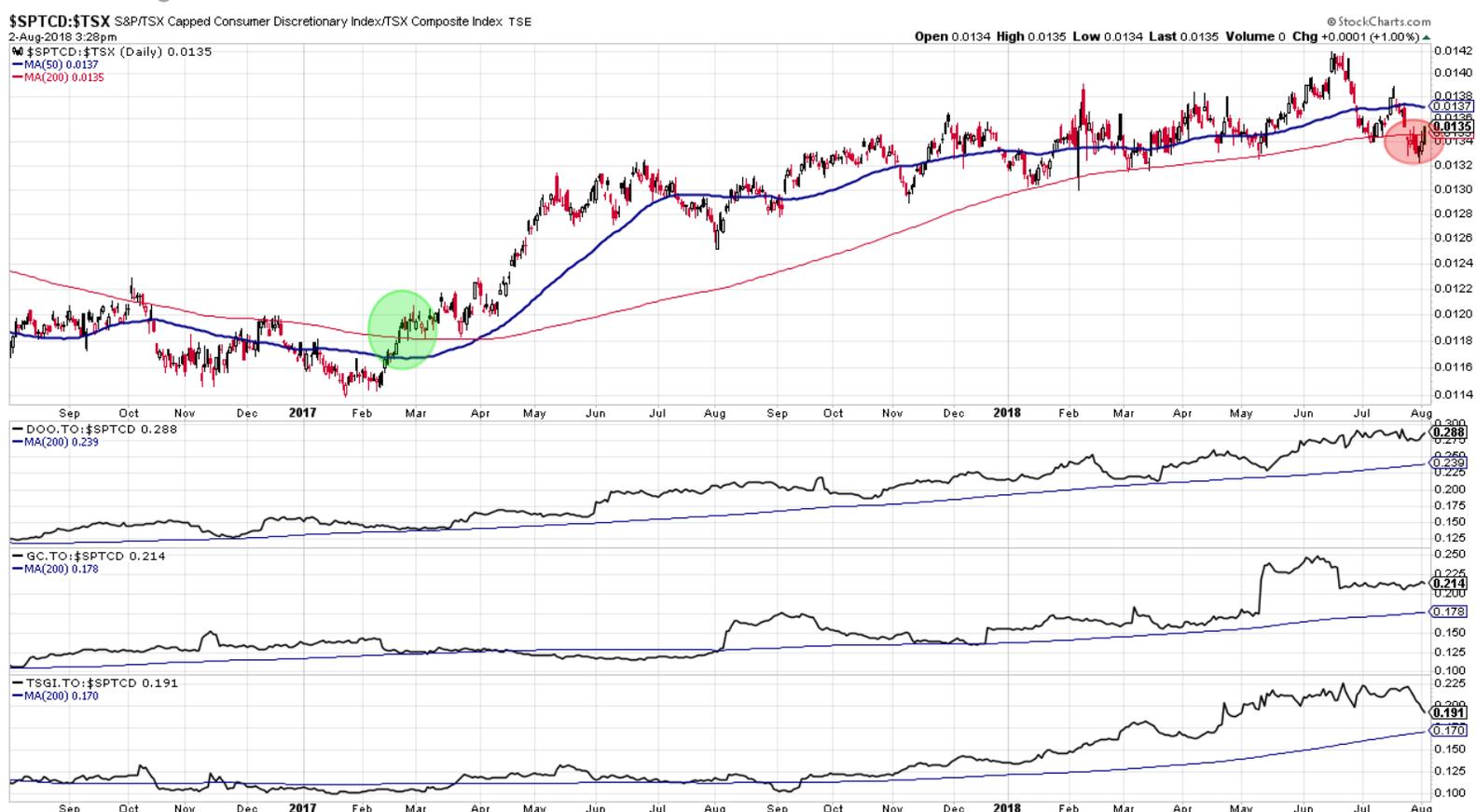


Source: Stockcharts.com, Priced as at August 1, 2018

Consumer Discretionary

The consumer discretionary sector has been the third best performing sector over the past two years and has outperformed the S&P/TSX by 15% over the past two years. The sector began indicating solid relative strength to the S&P/TSX in early 2017 and has maintained its price relative indicator above the 200 DMA, as shown in the first chart below. While the price relative indicator has slightly broken its long term trend during the last days of July, we note that the price relative indicator may be experiencing a reverse in polarity (previous resistance has now become support). We would watch the current price relative trend in order to confirm support at the current level. Looking at the underlying stocks in the sector, we highlight that BRP (DOO-T), Great Canadian Gaming (GC-T) and Stars Group (TSGI-T) have been leading the way with all three names trading above their respective price relative 200 DMA.

Relative Strength Charts – Cons. Disc. Sector versus the S&P/TSX & Stocks versus the Cons. Disc. Sector



Source: Stockcharts.com, Priced as at August 1, 2018

Conclusion

Relative strength is one of the technical indicators portfolio managers can use to generate ideas. We reiterate “one of the tools” since we employ a three-step process in selecting names that end up in our mandates: quantitative screening, fundamental analysis and, finally, overlay technical analysis.

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