



Simple Momentum Strategy Generates Long-Term Buy Signal on These Dividend Stocks

Description

Price trend stability is a subject that I have spent considerable time investigating over the years. Stocks that have entered a stable trend are generally not subject to wild fluctuations and, if you are paying attention, will quite often warn you when the trend is ending. A simple formula to determine stability is to divide the 50-day Momentum by the 50-day Average True Range. If the resulting number is greater than five, the stock trend can be considered stable. This formula has its faults but is nevertheless very effective under the right circumstances. The real beauty of it, however, is that it is a simple calculation using data that is readily available to most retail traders.

An Effective Trading Strategy for This Market

Using this calculation as an entry for a long-term trade can achieve great results. Over the last 10 years, buying a stock just as it enters a stable trend and holding for one year has resulted in a profit 67% of the time, with an average gain of 21% and an average loss of 14%. Statistics can sometimes be deceiving, however, and a closer look at the numbers shows that this system is most effective in the first few months after a market downturn. During these periods, the profitability rises to 80% when held for one year.

The latest stocks to generate signals using this method are **Metro Inc.** ([TSX:MRU](#)) and **Aecon Group Inc.** ([TSX:ARE](#)). Both are constituents of the [S&P/TSX Canadian Dividend Aristocrat Index](#).

With 338 stores spread around the country, Metro is one of Canada's largest grocery and drug store operators. My simple strategy worked well for Metro following the 2011 market swoon. A trading signal was generated on July 27, 2012, which resulted in a 34% profit. Another trade was taken following the 2015 market slide, which resulted in a 9% gain. Metro has recently completed a massive triple bottom chart formation, which began back in the 3rd quarter of 2016. Technical traders view triple bottoms as evidence of a market reversal. In this case, it is confirmation of our latest signal.

Aecon Group is a heavy construction and infrastructure development company providing services to

both the private and public sectors. Among its latest projects is a 20% stake in the new \$5.7 billion Gordie Howe International bridge, which will span the Detroit River from Windsor, Ontario to Detroit, Michigan. My strategy only produced one signal on Aecon that fell within the first few months after a decline. That occurred back in 2009 and resulted in a 9% profit.

Both companies are currently outperforming the market, and look ready to start making new highs in the new year. What can go wrong?

In my research for this article, I chose one year as the holding period for trades because I wanted to demonstrate that the system was suitable for long-term investors. I am not recommending that as an exit strategy. I could just as easily have chosen 18 months or two years, and in fact I did research those periods. The system does perform better with holding periods one year or longer, but lengthening the holding period from one year to two years did not significantly change the overall performance. It did, however, drastically affect the performance of individual stocks within the test. The moral of this story is that in a dynamic market such as ours, finding good exits can be just as challenging as finding entries. A prudent position sizing strategy should be your first line of defense.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ARE (Aecon Group Inc.)
2. TSX:MRU (Metro Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

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