Notes From The Rabbit Hole

***e*Research Corporation** is pleased to provide an article, courtesy of NFTRH.com, and written by Gary Tanashian, with a bio on the Author provided at the end of the article.

The article, starting on the next page, is entitled: **"Energy Sector"**

Biiwii.com was created in mid-2000 solely as a way to help get the message out about deeply-rooted problems about too much debt and leverage within the financial system. The concerns were confirmed and the message proved justified 3 to 4 years later as the system began to purge these distortions, resulting in a climactic washout extending from October, 2008 to March, 2009.

Along the way, a geek-like interest in technical analysis, a long-time interest in human psychology, and various unique macro market ratio indicators were added to the mix, with the result being a financial market newsletter (and dynamic interim updates), Notes From The Rabbit Hole (NFTRH) that combines these attributes to provide a service that is engaged and successful in all market environments by employing risk management first, and opportunity for speculation second.

But It Is What It Is: You can access Biiwii at its website: **www.biiwii.com**.

Notes From The Rabbit Hole: You can access NFTRH at its website: **www.NFTRH.com**

***e*Research** was established in 2000 as Canada's first equity issuer-sponsored research organization. As a primary source for professional investment research, our Subscribers (*subscription is free!!!*) benefit by having written research on a variety of small- and mid-cap, under-covered companies. We also provide unsponsored research reports on middle and larger-sized companies, using a combination of fundamental and technical analysis. We complement our corporate research coverage with a diversified selection of informative, insightful, and thought-provoking research publications from a wide variety of investment professionals. We provide our professional investment research and analysis directly to our extensive subscriber network of discerning investors, and electronically through our website: www.eResearch.ca.

Bob Weir, CFA
Director of Research

Energy Sector

By **Gary Tanashian** (bio at the end of the article)

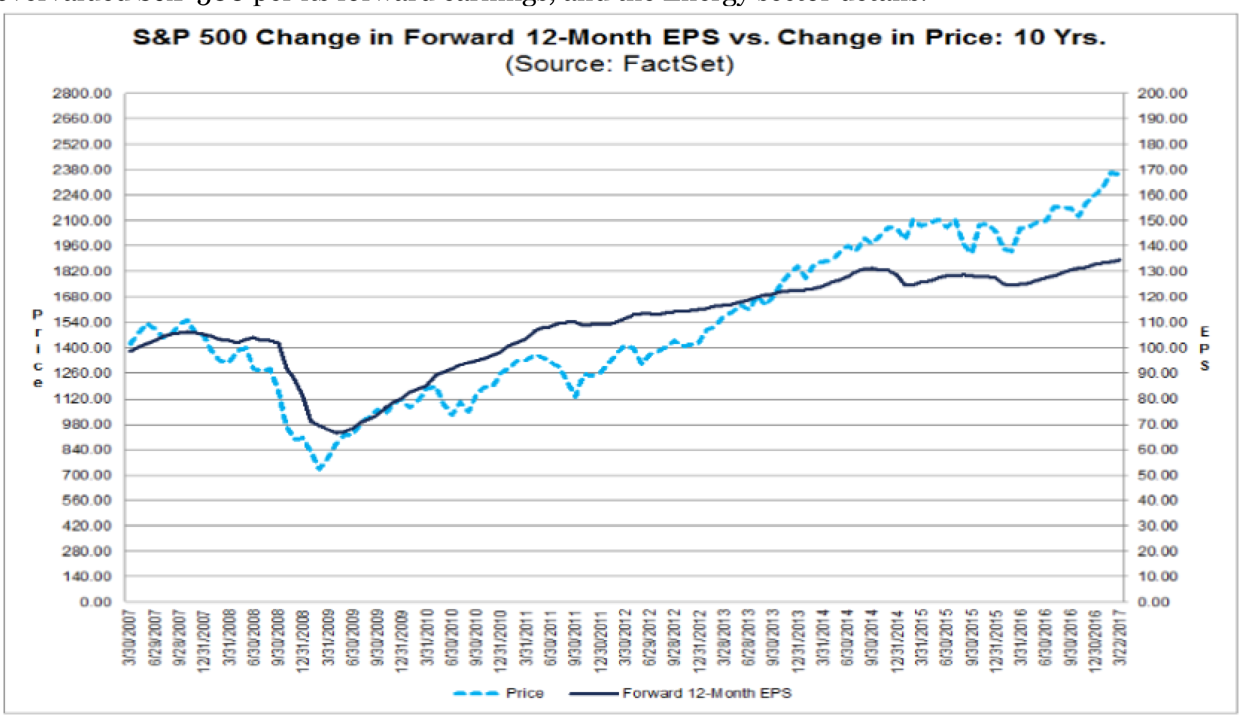
March 31, 2017

I am not recommending people chase the Energy sector now because it has bounced vigorously since Monday's down-day, when I bought it, and when subscribers could have considered buying it.

The reason I bought it is outlined in this segment from NFTRH 440, which followed our regular, more broad-based U.S. Stock Market segment. This is just a bounce at this point and should the sector pull back again, people might want to take a look if they find this deeply out-of-favor sector of interest.
From the March 26 edition of **Notes From the Rabbit Hole**…

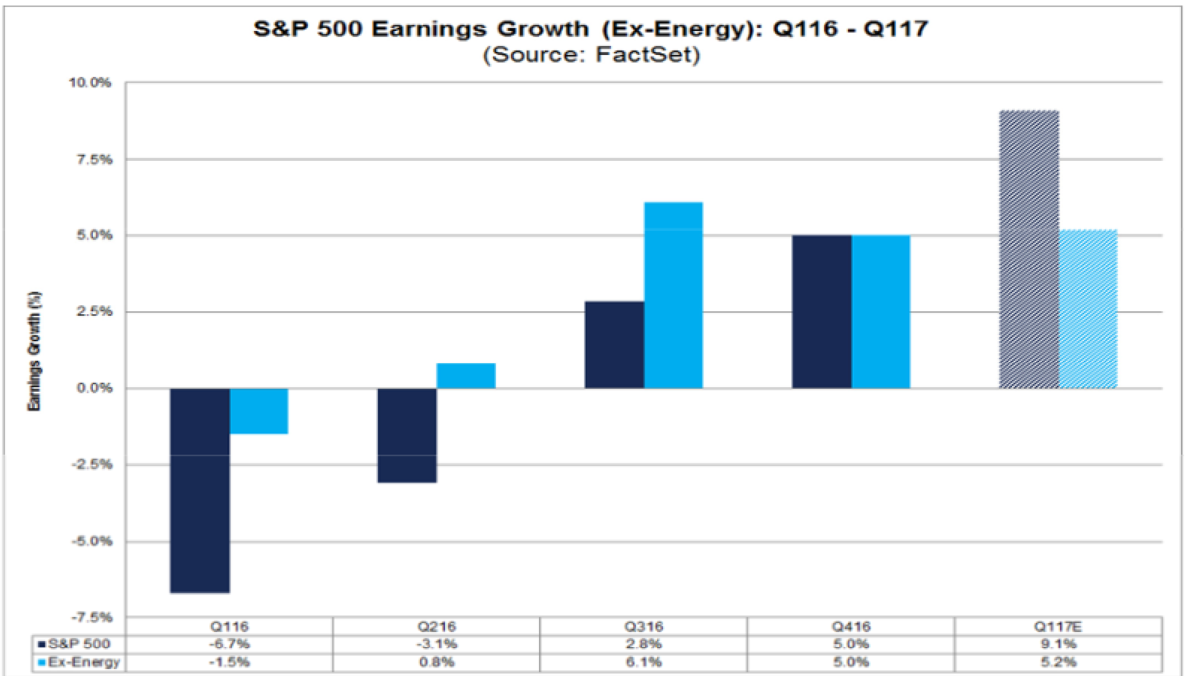
Energy Sector

In the U.S. Stock Markets segment we noted that the Energy sector has dropped to notable support and that is where Energy bulls should be paying attention. What I mean by "Energy bulls" is people who have done or accessed research that comes to a bullish or constructive conclusion and want to invest. To that end, both FactSet and Knowledge Leaders Capital (formerly GaveKal) came to my inbox this weekend with analysis of the Energy sector. Let us begin with FactSet. Below are the overvalued S&P 500 per its forward earnings, and the Energy sector details.



In terms of earnings comparisons, the Energy sector reported an aggregate loss in the year-ago quarter. Because of this loss, a growth rate is not being calculated for the Energy sector for Q1 2017. On a dollar-level basis, the Energy sector is projected to report earnings of $7.7 billion in Q1 2017, compared to a loss of -1.5 billion in Q1 2016. Due to this projected $9.2 billion year-over-year increase in earnings, the Energy sector is expected to be the largest contributor to earnings growth for the S&P 500 as a whole for Q1 2017.

If the Energy sector is excluded, the estimated earnings growth rate for the index for Q1 2017 would fall to 5.2% from 9.1%.



	Q116	Q216	Q316	Q416	Q117E
S&P 500	-6.7%	-3.1%	2.8%	5.0%	9.1%
Ex-Energy	-1.5%	0.8%	6.1%	5.0%	5.2%

This positive projection is, of course, due to oil prices that *had been* rising, along with easier ‘comps’ to Q1 2016 earnings. Crude oil has declined harshly of late and so, too, logically, has the sector.

<continued>

Let us check in now with a daily chart of WTI Crude Oil. Aside from showing us how cruel this market can be to those going only by charts (as WTIC got above a bullish looking pattern's neckline, and stayed there for about 3 months before failing) it also shows these facts.

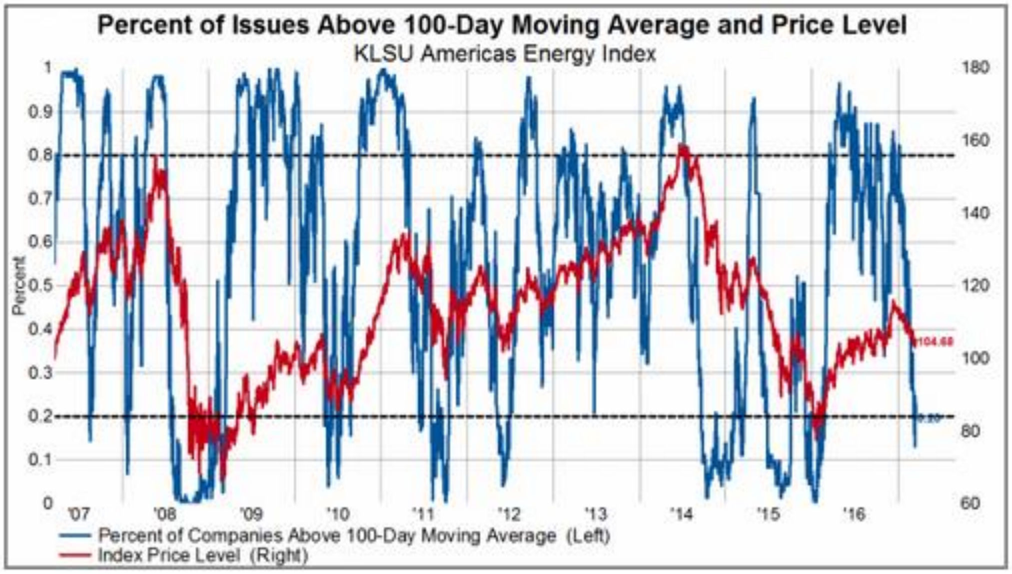
1. A sloppy series of higher highs and higher lows is in play since the low in February of 2016.

2. RSI has dropped to an oversold level that sprung the last 2 bounces.

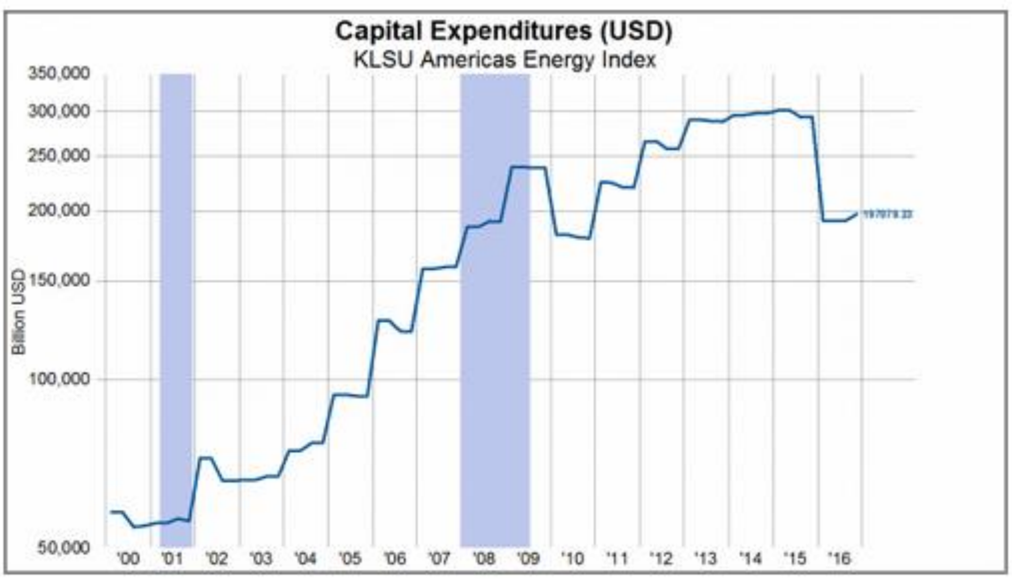
3. The last 2 oversold readings on RSI have had a distinctly different character than the 3 bear market readings leading into the 2016 low as they did not become as deeply oversold.

Indeed, Crude Oil could be at a point where it can decide whether it is exiting its cyclical bear market if it were to find a price bottom at or near the green trend line and move back up from current oversold readings. If such a bounce occurs, a new high would pretty much put a new cyclical bull market in the bag, if it is not already in there.

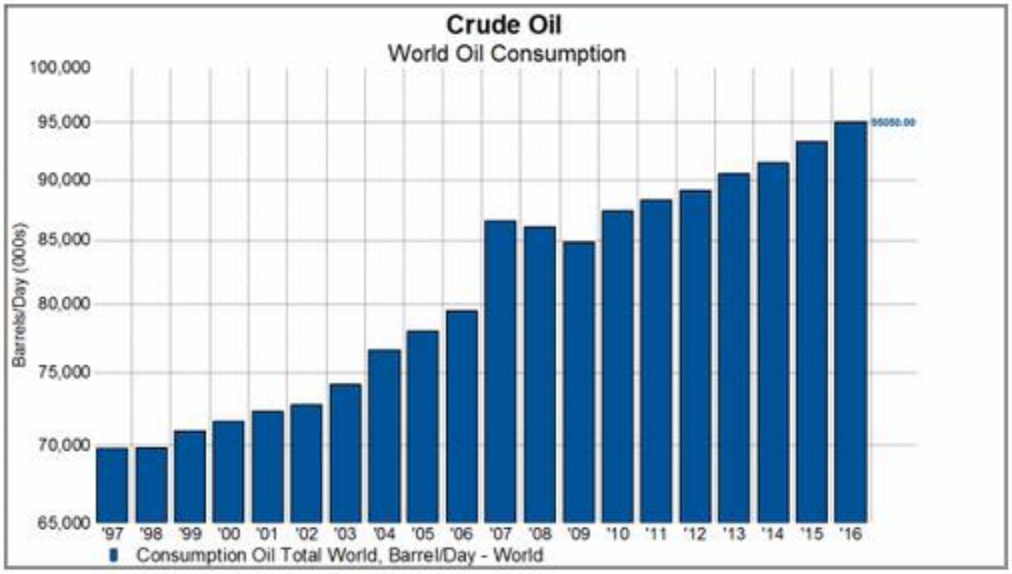
From Knowledge Leaders Capital, a look at the deeply oversold status of their Energy index. It is getting to a level that has sprung bounces and bull phases in the past.



Capital spending has been cut even further than it was after the last 'great' recession. Compare this to the XLE chart in the U.S. Stock Market segment, which still looks constructive. Is the sector exiting its own discrete recession with the market looking forward?



Meanwhile, the following graph shows world oil consumption steadily rising, unabated.



For the full version of their investment thesis, which is basically that, if the U.S. stock market continues to correct, then the Energy sector may incur relatively less damage and may even act as a "defensive" sector, see the entire post **Characteristics of Capital Preservation: A Look at the US Energy Sector**.

Meanwhile, here is the (updated) monthly chart we used to highlight XLE in long-ago NFTRH+ updates like this one from January 6, 2016: **Energy Sector: Future Buy Level (Reminder)**.

We made a buy projection at the end of a cyclical bear market within an intact secular bull market.

We also noted the resistance zone (which ended up containing the 2016 up leg) back before the rally even started.

I am not tooting my horn but I am trying to illustrate that what has gone on has all been readable in a simple monthly chart.

The question now is whether the current pull-back is going to halt at support in the 65 (+/-) area or go lower. Remember, it can drop to the channel bottom and still be an intact secular situation. A lot, in my opinion, will have to do with the broad market and whether it takes a mini or maxi correction.

#####

See NOTES on the following page.

NOTES

Biiwii: But it is what it is

NFTRH: Notes From The Rabbit Hole

Subscribe to NFTRH Premium for your 30-45 page weekly report, interim updates and NFTRH+ chart and trade ideas or the free eLetter for an introduction to our work. Or simply keep up to date with plenty of public content at NFTRH.com and Biiwii.com. Also, you can follow via Twitter @BiiwiiNFTRH, StockTwits, RSS or sign up to receive posts directly by email.

Biiwii/NFTRH on the Web

NFTRH and Biiwii.com commentary and technical analysis have regularly been published, highlighted and/or quoted at SeekingAlpha, Investing.com, MarketWatch, Yahoo Finance, Ino.com, TalkMarkets and many more since 2004.

Biiwii.com is proud to be included in the **50 Blogs Every Serious Trader Should Read** from TraderHQ.com.

See **ABOUT THE AUTHOR** on the following page.

ABOUT THE AUTHOR

Gary Tanashian is a financial market analyst, writer, and editor. He provides "Accurate financial market analysis and commentary focused on unbiased reality as opposed to preconceived assumptions."

As a long-time participant in financial media (published at leading outlets like SeekingAlpha, Investing.com, and many more), Gary has learned how to communicate with people about often-complex material. He knows that it requires hard work, but he believes that there is no other way in order to provide the highest quality service to the public.

Gary is the owner of Biiwii.com (launched in 2004) and, later, NFTRH.com (launched in 2014).

Biiwii is a financial website that got it RIGHT in the run up to 2008, unlike many in the financial services industry.

He is the owner and publisher of the weekly premium financial market report Notes From The Rabbit Hole, which was launched in September, 2008.

Notes From The Rabbit Hole is a premium newsletter service (including detailed in-week updates) for people who care more about financial market realities than having their preconceived notions reinforced. http://nftrh.com/nftrh-premium/

#####