

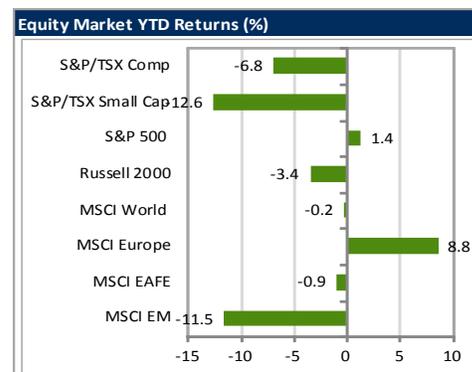
What Caught Our Eye - Drones

The pace of technological advancement over the last 20 years has been nothing short of breathtaking. Today, information moves in the blink of an eye; the internet has changed the way we work, play and socialize. Amazingly, we are on the cusp of yet another game changing technological innovation that will have significant social and economic implications for years to come – autonomous robots or drones. Amazon (AMZN-US) and Wal-Mart (WMT-US) have been testing drone technology for years and this week WMT became the latest retailer to request permission to test drone customer deliveries, as well as surveillance of its buildings and parking lots. In 2012, US Congress set a September 30, 2015 deadline for the Federal Aviation Administration (FAA) to review and develop a regulatory framework for the use of commercial drones. While the framework is still in the wings, the FAA has granted over 2,000 permits for commercial drones for purposes such as aerial photography, pipeline inspection and agricultural monitoring. The use of drone technology is seemingly endless from retailer deliveries to law enforcement, search and rescue, energy and mining firms. A company to put on your radar is privately-held [Flirtey](#), a drone delivery startup based in Nevada, which conducted the world's first real world demonstration of drone delivery technology in the US this year, authorized by the FAA.

What Caught Our Eye – Drones!

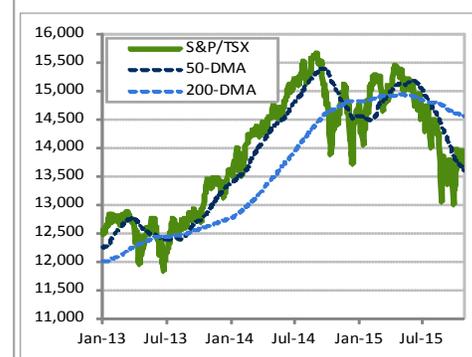


Source: iStock.com



Canadian Sector	TSX Weight	Recommendation
Consumer Discretionary	7.3	Overweight
Consumer Staples	4.3	Market weight
Energy	19.5	Market weight
Financials	37.8	Market weight
Health Care	2.8	Market weight
Industrials	8.3	Overweight
Information Technology	2.8	Overweight
Materials	9.5	Underweight
Telecom	5.6	Market weight
Utilities	2.2	Underweight

Technical Considerations	Level	Reading
S&P/TSX Composite	13,630.5	
50-DMA	0.0	Uptrend
200-DMA	14,556.2	Downtrend
RSI (14-day)	51.8	Neutral



Source: Bloomberg, Raymond James Ltd.

Please read domestic and foreign disclosure/risk information beginning on page 4
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Technical 101

Our investment process incorporates technical analysis with the intention to improve our entry and exit points. However, technical analysis can also be a useful tool in generating ideas and possibility identifying equities that are on the verge of changing direction. There are many tools at one’s disposal; here we focus on two of the most popular: Moving Average Convergence/Divergence (MACD) and Relative Strength Index (RSI). The MACD oscillator is comprised of the MACD line (black line in chart below) and the signal line (red). The MACD line captures the divergence and convergence of two moving averages; a positive divergence is indicative that the upside price momentum is improving/increasing while a negative divergence suggests the opposite. The signal line is simply the moving average of the MACD line. The MACD line can fluctuate above and below zero (the centerline), and the stronger the price trend, the further away from the centerline the MACD line will be. To make a comparison, you can think of the MACD line as the price of a stock and the signal line as the moving average of the stock. Thus, in the same way we look for stocks that have broken above/below their 200-day MA, we can also look for periods when the MACD line has crossed above/below the signal line as potential entry points. When using the MACD, generally one is looking for signal line crossovers, centerline crossovers and divergences between the MACD line and the underlying chart pattern. The MACD is not particularly good at picking up overbought and oversold conditions, so we can incorporate a relative strength index to help identify stocks that may be on the verge of bouncing or pulling back. The RSI is also a momentum oscillator that measures the speed and change of price movements. We consider a stock to be overbought when the RSI is above 70 and oversold when below 30. Signals can also be generated by looking for divergences and centerline crossovers. As both the MACD and RSI are oscillators, they tend to work best for stocks that are in a sideways pattern rather than those that exhibit a steady upward/downward trend.

Walt Disney (DIS-US) – 1 year chart: Using MACD and RSI



Source: stockcharts.com

In the following list, we identify S&P/TSX stocks that exhibit positive price momentum, a characteristic we prefer (ie. the trend is your friend). We can use this list to help generate and/or improve our timing for a potential buy or sale. While all these stocks show positive price momentum, we highlight those that are overbought. Franco-Nevada and Rogers Communication have traded in a large sideways pattern for 24+ months, thus the overbought condition may indicate both are due for a pause before they resumes their up trends.

Company Name	Ticker	Sector	MACD Signal	RSI 14d
AutoCanada	ACQ	Consumer Disc.	1.30	59.13
Linamar	LNR	Consumer Disc.	1.18	61.79
Dollarama	DOL	Consumer Disc.	1.77	59.33
Bank of Montreal	BMO	Financials	1.34	70.36
CIBC	CM	Financials	1.51	68.66
Fairfax Financial Holdings	FFH	Financials	9.85	64.91
Canadian Pacific Railway	CP	Industrials	1.09	45.79
Boyd Group Income Fund	BYD-U	Industrials	1.15	38.92
Canadian National Railway	CNR	Industrials	1.07	56.30
Enghouse Systems	ESL	IT	1.44	57.63
Franco-Nevada	FNV	Materials	2.71	74.58
Agnico Eagle Mines	AEM	Materials	1.41	55.51
Rogers Communications	RCI/B	Teleco	1.27	86.18

Source: Bloomberg; data as of Wednesday October 28, 2015

In the following list we isolate those S&P/TSX stocks that are the most oversold based on RSI. Most will recognize Valeant Pharmaceutical and DH Corp as they have been targeted by short sellers over the course of the past two weeks.

Company Name	Ticker	Sector	RSI 14d
Corus Entertainment	CJR/B	Consumer Disc.	26.26
Newalta	NAL	Energy	25.64
Tourmaline Oil	TOU	Energy	29.69
Painted Pony Petroleum	PPY	Energy	29.94
Element Financial	EFN	Financials	29.99
Valeant Pharmaceuticals	VRX	Health Care	25.92
Progressive Waste Solutions	BIN	Industrials	24.92
Celestica	CLS	IT	28.47
DH Corp	DH	IT	25.92

Source: Bloomberg; data as of Wednesday October 28, 2015

In the case of DH Corp., a short seller claims the stock could fall 50% as the short seller raised concerns related to their acquisition of FundTech (1/5th of revenue), DH's revenue recognition, insider selling and highlighted concern DH was losing clients. As a result of the allegations, DH published their Q3 result early; adjusted EPS came in at \$0.62 vs consensus \$0.60; adjusted revenue were \$418.8 mln vs \$408.9 mln. Further, the company spent over 10 minutes of their quarterly conference call addressing the allegations that contained "numerous inaccurate, unsubstantiated and misleading statements, assertions and speculations."

We believe the sell-off in DH is excessive and presents investors an opportunity to either initiate or add to their position. A few key takeaways on DH's business model:

- 1) the company has a diversified client base including 8,000 banks and credit unions, which includes 29 of the Top 50 banks globally (based on asset size);
- 2) the company generates ~80% of revenues from recurring services and has high exposure to the US where economic growth is expected to exceed Canada;
- 3) DH is in the sweet spot of a recovery in financial institution capex spending (regulatory and compliance requirements, mobile payments, under-investment through the credit crisis); DH trades at a valuation discount to US peers.

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A member of the PCS team responsible for preparation of this newsletter or a member of his/her household has a long position in the securities of DH Corp (DH-T).

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