**SECTOR-NEUTRAL PAIR TRADES FROM THE CAPEX SCREEN**

The WR Macro team launched a new theme this month measuring companies with high capital expenditures to their 4-year average (short) vs. low capital expenditures to 4-year average (long); this note highlights select pairs from this screen that we believe are also setup on a technical basis to generate alpha in the coming months. These are sector-neutral combinations from the Technology and Utility sectors.

**Technology Pair:** VeriSign (VRSN) over Teradata (TDC). We prefer the long VRSN side. Texas Instruments (TXN) is also a confirming long idea from the Capex list (see Breakout Picks, Aug. 22, 2013).

**Utility Pair:** AES Corp (AES) over Exelon Corp (EXC). An 11-year breakout favors AES.

*Along with meeting the WR Quant team’s Capex screen, an 11-year breakout favors AES over EXC*

![Graph showing AES Corp (AES) vs. Exelon Corp (EXC) with 11-year relative breakout](image)


**Click for Technical Research Methodology**

For more information on portfolio strategy and quantitative analysis research please refer to recent notes by our Chief Investment Strategist, Chris Senyek: **Macro Research: Key Themes - Chart Book (Sept. 3, 2013)**

For information on fundamental research please refer to recent notes by our Utilities analyst, Steve Fleishman: **Utilities & Power: The Utility Tracker - August was a trend reversion month (Sept. 5, 2013)**

**EXC: Tough market conditions persist (July 31, 2013)**

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**VeriSign (VRSN) over Teradata (TDC)**

*Technology Sector long/short pair from Capex screen*

**VRSN relative to TDC:** We view VRSN over TDC as an attractive sector-neutral pair trade from the Capex screen. The relative relationship between the two displays the characteristics of a trend turning in favor of VRSN. After an early-2013 breakout, the trend has consolidated to support at its prior breakout point and converging 200-day moving average (Exhibit 1). A subsequent break of multi-year resistance would complete the longer-term base that began in 2009.

**Long VRSN:** On a technical basis, VRSN is a “pre-breakout” candidate and the key is being able to rally through $50 resistance at its 2012 & 2013 highs (Exhibit 2). There is added risk and greater upside potential to buy VRSN before this level of supply is breached. Relative to the S&P 500, we’re encouraged by a recent swing above the stock’s 200-day moving average for the first time since late 2011. Texas Instruments (TXN) is also a confirming long idea from the Capex list (see Breakout Picks, Aug. 22, 2013).

**Short TDC:** For TDC, we’re concerned about a potential multi-year top, but bearish implications are not triggered until the $50 neckline is breached. In the near-term, the stock is trying to stay above its 200-day moving average at $56.8. In our view, TDC is weaker relative to the S&P 500 because of a completed breakdown below support (Exhibit 3). Former support is converging with TDC’s relative 200-day moving average and acting as formidable relative resistance.

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**Exhibit 1. VeriSign (VRSN) vs. Teradata (TDC) (weekly chart, 2007-current)**

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Exhibit 2. VeriSign (VRSN) (daily chart, 2010-current)

VeriSign (VRSN)

$50

"Pre-breakout" candidate

200-day moving average

VRSN vs. S&P 500

Swing above 200-day m.a. was a bullish signal in 2010 and 2011

200-day moving average

Exhibit 3. Teradata (TDC) (daily chart, 2010-current)

Teradata (TDC)

Range-bound while $50 support holds

200-day moving average

TDC vs. S&P 500

Completed breakdown vs. SPX; now facing resistance

200-day moving average

AES Corp (AES) over EXC Corp (EXC)

[Utilities Sector long/short pair from Capex screen]

AES relative to EXC: For utility traders, we view AES over EXC as an attractive sector-neutral pair trade from the Capex screen. In fact, the chart of AES vs. EXC has broken out to an 11-year relative high and argues for continued AES outperformance (Exhibit 4). There remains ample upside for AES over EXC when considering the massive 2000 to 2002 downturn in this relationship.

Long AES: AES sports a neutral absolute trend, in our view, and remains range-bound beneath $14 multi-year resistance. However, the stock is becoming attractive relative to the S&P 500 Utilities Sector following the upside breach of a 4-year downtrend (Exhibit 5). We believe that this indicates that AES can continue to outperform relative to its sector.

Short EXC: EXC sports a 4% dividend, but the performance of its stock still has work to do. Within a 5-year downtrend, a near-term test of $28 support (2012 low) is possible while EXC is below its 200-day moving average at $31.8. Relative to the S&P 500 Utilities Sector, EXC is also coming off of an 11-year relative low (Exhibit 6). Without a stronger base, we see little evidence to suggest that EXC is ready to turn the corner as a bullish idea.

Exhibit 4. AES Corp (AES) vs. Exelon Corp (EXC) (weekly chart, 2000-current)

Exhibit 5. AES Corp (AES) (weekly chart, 2006-current)

$14 is still a formidable test

Exhibit 6. Exelon Corp (EXC) (weekly chart, 2006-current)

Back below its 200-day m.a.

200-day m.a. has capped counter-trend relative rallies

Source: Wolfe Technical Research; Bloomberg
WOLFE TECHNICAL RESEARCH – OUTLINE OF METHODOLOGY

Wolfe Technical Research is intended to generate investment ideas, provide tactical entry/exit signals, and act as an additional layer of risk management for our clients that are making fundamental-based investment decisions. The identification of trend, both on an absolute basis and relative to the S&P 500 Index, is the primary objective of our process and an array of indicators are used as confirming evidence.

Objective

Our objective on a technical basis is twofold, 1) identify an above-average likelihood of an emerging trend at the earliest possible moment and, 2) stick with that trend until contrary signals develop. The following is a step-by-step outline of our process.

Step-by-Step Approach

1. **Identify trend at a long-term (3Y-5Y), intermediate-term (9M-18M), and near-term (3M-6M) time horizon.** The goal is to invest in the direction of the long-term trend.

2. **Utilize volume, momentum, and relative strength indicators to measure for confirmation or divergence.** Confirmed trends tend to continue and divergent trends tend to reverse.

3. **Identify and determine whether support/resistance should or should not hold, calculate a price target, and deliver an actionable conclusion based on the weight of the evidence obtained from our analysis.**

4. **Lay out a counter scenario that would derail our view.** This is critical towards managing downside risk.

Click here for a more detailed discussion of our Methodology for technical analysis at the stock level.

For more information on portfolio strategy and quantitative analysis research please refer to recent notes by our Chief Investment Strategist, Chris Senyek:

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<th>Company</th>
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