

PHASES & CYCLES®

ONE FOOT IN THE NEW BULL PHASE

INTRODUCTORY SUMMARY: In early September, our Market Comment suggested that the recovery rally will probably fail, and should be followed by a decline with a target of late-October/early-November. We are there now.

Therefore, the current weakness is a good period to accumulate the stocks that should lead the markets in 2008.

MARKETS NOW: Following our forecasted “short, sharp, shock” in July-August, the market staged a swift revival. In New York, the strength of the recovery sent both the Dow Industrials and the S&P500 towards new all-time highs; but in Toronto the S&P/TSX composite’s rebound was much more halting.

The technical evidence we presented in our last Market Comment showed this rally without conviction. Low volume, a narrow leadership and fewer 52-week highs left us worried and fully aware that the “other shoe” could drop shortly.

It didn’t take long for New York and Toronto, unable to hold onto their gains, to begin another sell-off. This has come in the form of a sharp downward move for the

S&P 500, below its 50-day and close to its 200-day moving average. The Toronto index was also affected, but support from the strong Energy and Gold Sectors helped the S&P/TSX composite to stay above both of these moving averages.

How far does the market need to go to complete the objectives for the current pullback? The short answer is “not far.” In fact, the bottom may already be in place.

Despite the recent sell-offs, the S&P 500 remains above support and near its 200-day moving average. The Toronto index is faring even better: it stayed above its 200-day moving average and, most importantly, it is managing to hold the October 11 lows.

This is significant because the bears are running out of time to cause further damage. The 39-week cycle is scheduled to bottom in mid-November, just in time for the usual year-end rally.

Given all of the above, the market low is very probable. The technical evidence is in place, stocks are on sale and the bulls are in hiding – the classic “signature” of the bottom.

This constructive technical picture coincides with the surge in same-day reversals. The October 22, 24 and the most recent November 5 reversals show that demand has become increasingly aggressive. It is the sentiment data, however, that provides the strongest argument for the end of this bull-bear standoff. In the last six weeks, investors changed from "the worst is over" to the more recent "the sky is falling." This 180-degree sentiment shift has showed up in the AAll sentiment readings. In early October, when the US indices were at or close to their all-time-highs, the number of bulls stood at 54.6% and bears at 25.8%. The recent weakness in the markets turned this data upside down as the bulls moved down to 31.3% and the bears rose to 48.2%. The last time this occurred was in October 2002. While emotions can change quickly, for now, the sentiment picture is giving a decisive "green light" to the bulls.

In addition, as of yesterday, the *Investors Intelligence* statistics for the stocks above their respective 10- and 30-week moving averages were down to 31.8 and 37.2 per cent respectively, down to the "oversold" area.

What could go wrong? Occasionally, the end of the 39-week cycle does not immediately result in a "lift-off", but to a meandering market. On these occasions only some sudden news shake the markets out of their doldrums.

STOCK COMMENTS: The underlying theme of the sector analysis remains the same. The weakest groups include the Banks and the Consumer Sectors (see Loblaws and Weston!): most of these are now in a downtrend and are moving to new lows.

At the same time, Energy and Golds, as expected, have led the rebound from the July lows. In fact, these sectors stayed strong during the recent weakness, suggesting more strength in the upcoming weeks.

The U.S. Technology Sector also shows promise. The current weakness offers a chance to accumulate these stocks as they pull back toward their respective support areas.

FINAL SUMMARY: *The technical and cyclical evidence, accompanied by extremely negative sentiment readings, suggests an end to the current bull-bear standoff. The period of confusion and disbelief may continue for a few weeks as the market takes its first baby steps into the new bull phase, but the bull is ready.*

Use this period to accumulate the stocks that withstood the August "shock". These are the most likely leaders for the upcoming advance.

Look at our Buy & Sell list for the most likely candidates.

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