

PHASES & CYCLES®

**TWO QUALITIES OF A SUCCESSFUL INVESTOR ARE
PATIENCE AND DISCIPLINE.
THEY ARE BOTH REQUIRED NOW
AS SOME OTHERS PANIC.**

Anyone who looks at history knows that financial crises are a normal and inseparable part of market activity. These crises tend to follow similar patterns with the emotions of investors. In an October 1, 2007 Financial Times column, the authors discussed the role of emotions in investments. "Emotion is a necessary aid to making 'fast and frugal' decisions and anxiety, in particular, is a vital signal." Last week's market activity was characterized by a lot of emotion and anxiety where fast decisions were made.

A flurry of activity at company headquarters gave rise to rumours that Countrywide Financial was going to declare bankruptcy, when in actual fact they were bought out for \$4 billion. Rumours that TD was going to write-down \$11 billion of subprime losses (when they don't even have any subprime loans) was an example of how overdone the situation had become. The fact that Merrill Lynch rose 5% the day it was learned that they might take a \$15 billion write-down was a convincing example that the silliness had peaked and that the worst-case scenario had already been factored into current prices. Investors who did not exercise patience

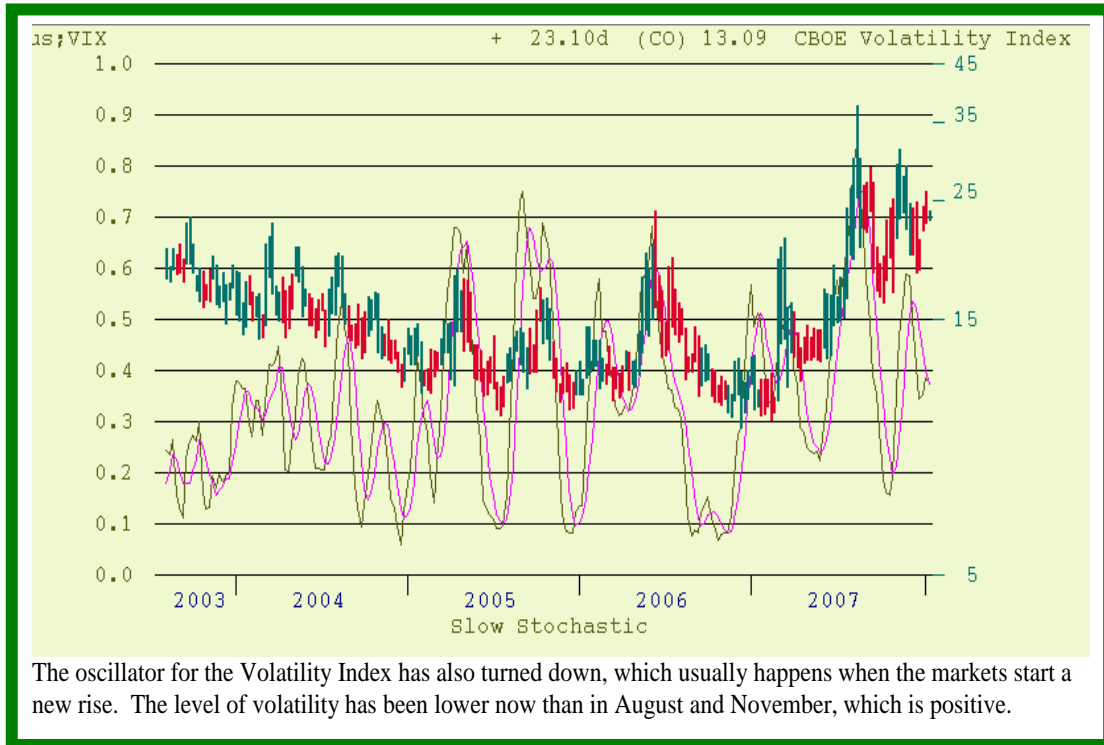
and discipline last week created some good prices for bargain hunters.

While the markets declined for the past week, the US Financial Services Index was only marginally lower. Since the financial stocks comprise the largest sector (18%) in the S&P 500 Index and usually lead the markets, the developments last week were very positive for the markets overall.

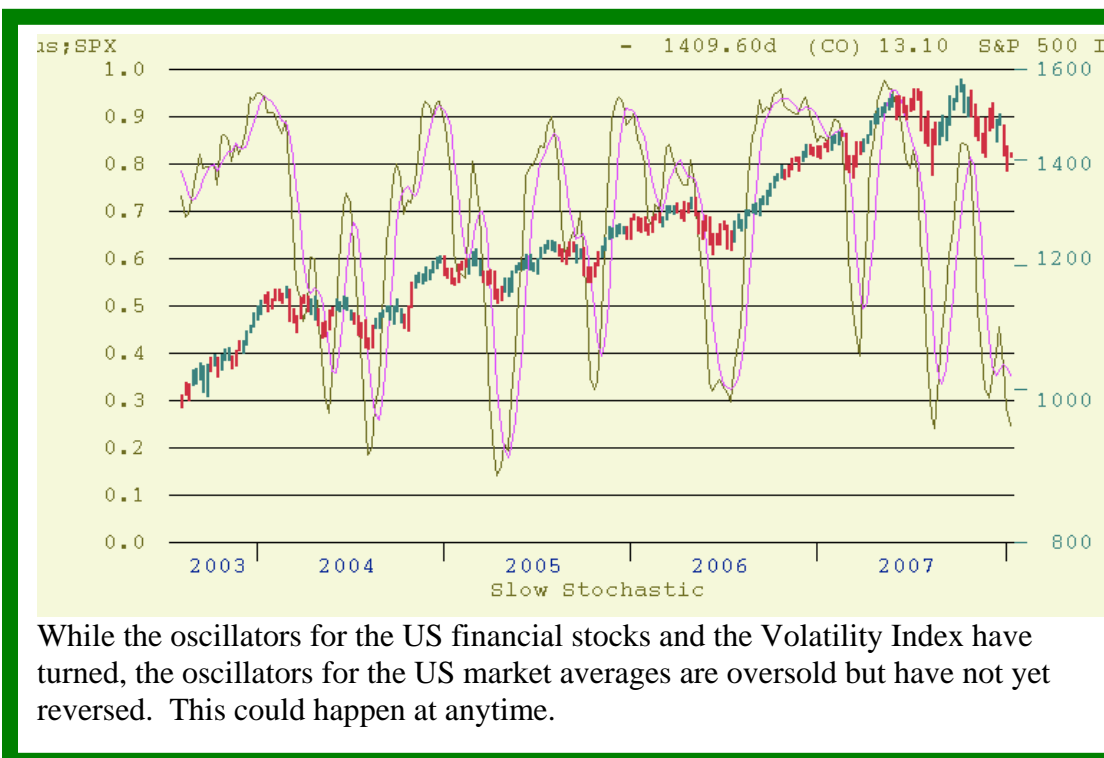
While the subprime concerns may have peaked, they seem to have been replaced by fears of a recession. So, is a recession in the cards? It is too early to tell. Bond and equity markets often look six to twelve months ahead. Since the market rise from here has strong buying power behind it (see Lowry's Research), this would suggest that a recession has been averted. The reasons for moves in stocks and the economy usually come out in the news long after the moves have occurred, whereas technical indicators tell us where the money is going right now. We believe that the technical tools will give us the best chance of answering the recession question, long before the statistics are released.

Please see charts along with brief comments below.

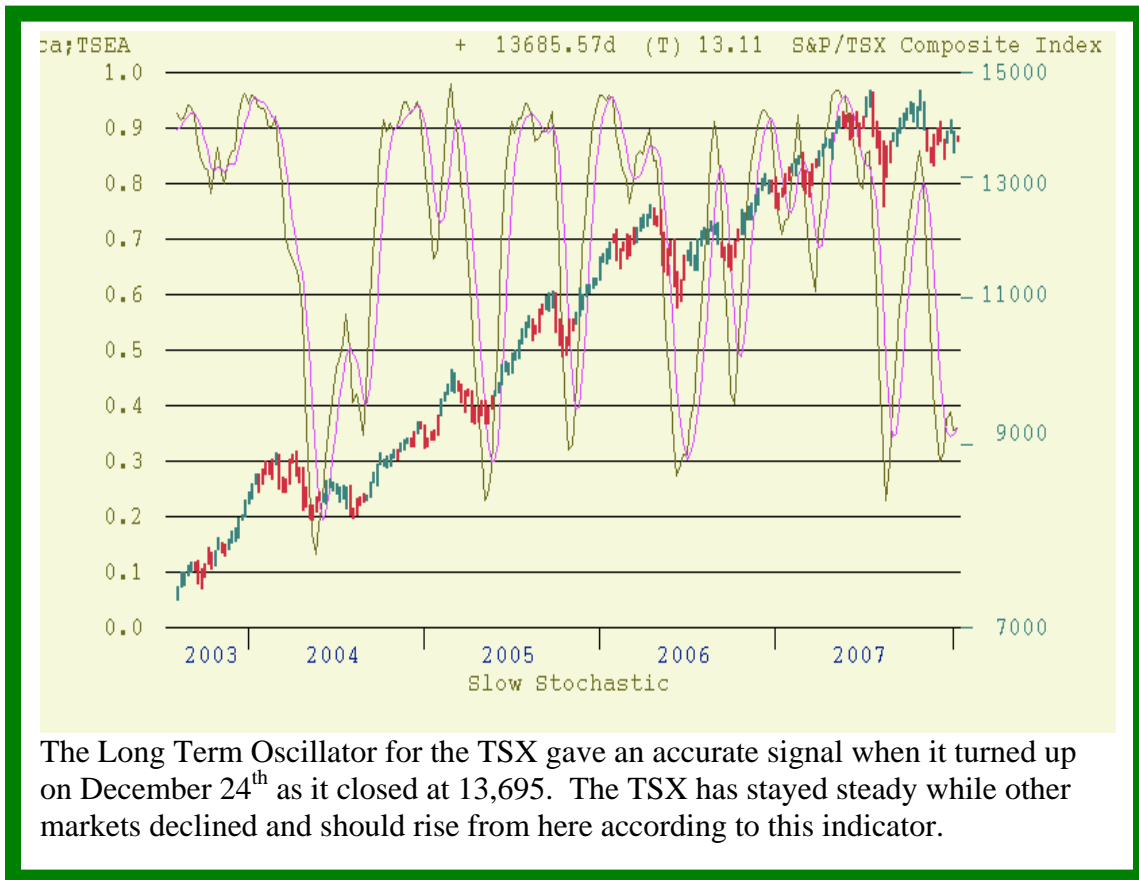
The VIX or Volatility Index



The S&P 500 Index



The S&P/TSX Index



The Long Term Oscillator for the TSX gave an accurate signal when it turned up on December 24th as it closed at 13,695. The TSX has stayed steady while other markets declined and should rise from here according to this indicator.

Phases & Cycles Inc.,
2020 University, Suite 1903, Montreal, QC H3A 2A5
Tel.: (514) 393-3653 E-mail: RonMeisels@phases-cycles.com www.phases-cycles.com
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