

# PHASES & CYCLES®

## MARKET COMMENT

(S&P/TSX – 13551; S&P – 1369; DJI – 12626; NASDAQ – 2363)

### THE BULL IS READY TO RUN.

As we highlighted in the last Market Comment, the doubters and skeptics seem to be everywhere, either advocating staying away from the markets until the negative news peters out, or even more actively talking down the markets with projections of dramatic new lows to come. Recent headlines such as “news of bear’s death may be greatly exaggerated” and “too early for the all-clear signal”, suggesting that the bear has much more in store for market participants, are more than welcome to us. It is claimed that better buying opportunities at lower levels will surely await the patient investor – just let the bear have its run for many more months. We particularly liked The Economist’s evocative recent cover – Wall Street with a crack down its middle – and the accompanying feature page report on “the crisis.” The underlying message to all investors: stay in cash or raise some more, batten down the hatches, and fear the worst! **It’s all music to our bullish ears.**

The bears, in other words, are still showing great conviction and confidence. However, what seems to be overlooked by many is one unassailable fact – despite a regular supply of negative news, since mid-January *the major North American market indices have refused to make any significant new lows.*

What is going on here? The bearish interpretation is that the “trading range” of the past ten weeks is just the calm before the next bearish storm – in other words, a prelude to a new leg down. The minority view – our view – is that the bull is already out of the starting gate. January 22<sup>nd</sup> was the most significant date for the markets in 2008; which is when the markets made significant internal technical lows. Since then, the bears

have been unable to exert sufficient selling pressure to drive the major market indices to significant new lows.

In the Market Comment of two weeks ago we highlighted several positive technical developments, and forecast that the markets would begin to move higher. That move appears to be taking place now. Market participants should watch for the following:

- major market indices to begin to trace out patterns of higher highs and higher lows,
- indices to exceed and stay above their respective 50-day moving averages and then to challenge their 200-day moving averages,
- the bears to term the rally “just an upward correction” with any retreat to be accompanied by “see, I told you so, look out below” and,
- subsequent higher highs to be greeted by the bears with “oh, no, this can’t possibly happen”. “Why are they doing this to me again?”

We have said repeatedly that this new bull market will be highly selective and that we do not expect it to be dynamic. It is likely to be a relatively tepid bull compared to 2002-07. What this also suggests is that in the months ahead there will be plenty of negative news for some individual stocks and stock sectors – this will keep the bears well-nourished, but will also keep them “off the scent” of the bull market.

**Against all expectations, but as we suggested, a selective bull in North American markets appears to be flexing its muscles. The markets should rise modestly for much of 2008 against a classic “wall of worry.”**

# THE TORONTO COMPOSITE INDEX



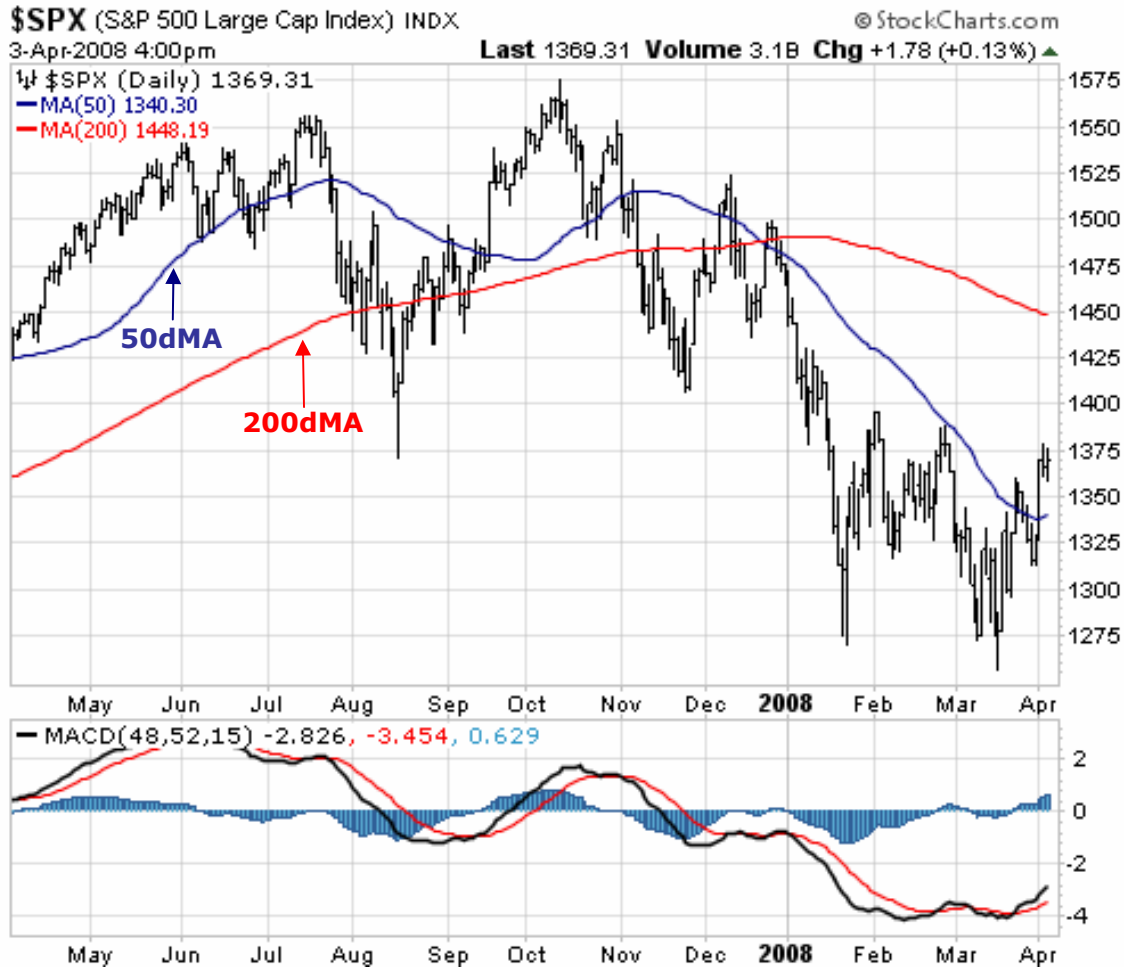
The Toronto market continues to behave positively. The decline from the end of February, when the S&P/TSX Composite Index encountered resistance around its 200-day moving average, was well-contained and the index has commenced another upside probe. It is encouraging that the Toronto market has once again exceeded its 50-day moving average – indicating intermediate term strength – and that the average is now showing signs of turning upwards.

13,600-14,000 remains the upside resistance zone. This area includes the 200-day moving average and three points where previous market rallies

were repelled (in December, January and February). The Toronto market may have to do considerable work in order to overcome this resistance. At the same time, the bullish picture remains intact provided the S&P/TSX Composite Index remains above its March lows.

**Expect some hesitation as the Toronto market attempts to penetrate through the resistance zone in the high 13,000s. A move above 14,000 would set the S&P/TSX Composite Index up for a run towards our target of 16,000 (see article on the last page).**

# THE S&P 500 INDEX



The S&P 500's action over the past two weeks strongly suggests the successful re-test of the January lows. The index probed down to the 1,260-70 area and turned upwards, supported by a positive divergence in internal momentum indicators.

A base has now been formed. The next important level is 1,380-1,400. The S&P 500 must move and stay above this zone to break the pattern of "lower highs" and "lower lows" that has

been in place. A move above 1380 will also turn the 50-day moving average conclusively upwards suggesting a move towards the 1,450 area, where the 200-day moving average currently rests.

**The base is now in place. The S&P 500 should have a positive bias and should continue to build strength for an initial move towards 1450.**

# THE DOW JONES INDUSTRIALS



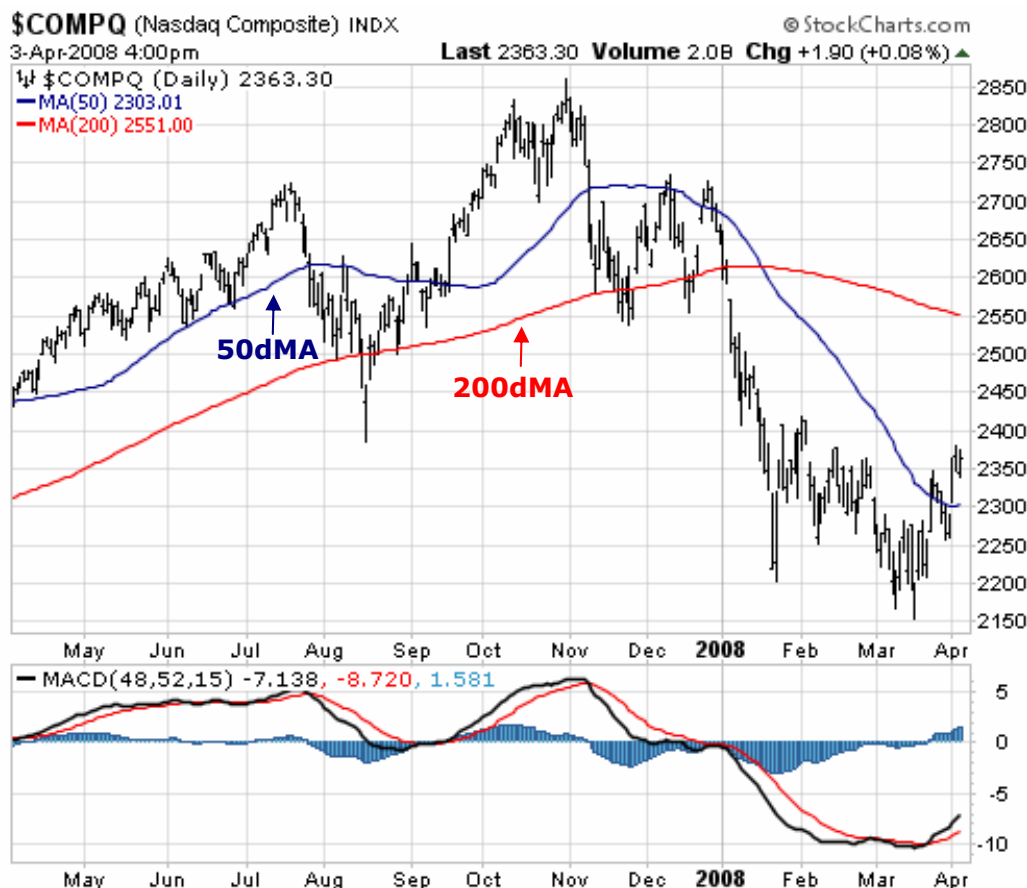
The Dow Jones Industrial average continues to closely track the S&P 500 Index. Its companion, the Dow Transports, has now exceeded its 200-day moving average to add fuel to the upleg.

The "point of recognition" that the Dow Industrials are in a positive mode will be a move above 12,800 (the "oh, no"

level). Such a move should remove all doubt about a rally toward  $\pm$  13,100, which is where the 200-day moving average resides.

**The Dow Industrials should continue to build strength for a potential move towards 13,500 and beyond.**

# NASDAQ COMPOSITE INDEX



As we indicated in the mid-March Market Comment, the first task for the NASDAQ was to arrest its multi-month decline. This appears to have been achieved when a “double-bottom” was formed by the January and March lows, the latter on increasingly positive internal momentum.

Encouragingly, the NASDAQ is not overbought, and appears to have room

to extend its advance of the last two weeks. The initial target is a move into the low 2400s.

**If the NASDAQ can establish a footing in the 2400s – which may require some further work – then the next move should be a challenge of the 200-day moving average at 2,550.**

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## TSX to hit 16,000 in six months, Meisels predicts

'A New Bull Market'

Alia McMullen, Financial Post

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Darkening clouds may appear to be gathering over Bay Street, but one analyst sees a ray of light. Ron Meisels, president of independent market research firm Phases & Cycles, says stocks have already entered a new bull market phase and the S&P/TSX composite index should reach 16,000 within six months.

"I'm one of the very few that suggests that we're already in a bull market," he said from his offices in Montreal yesterday. "The general consensus is that we are in recession trouble and political trouble and economic trouble."

Mr. Meisels said the new bull market began on Jan. 22, when the S&P/TSX bounced off its low of 12,012 and rallied in response to the U.S. Federal Reserve's 75-basis point emergency interest rate cut. He said the index would likely continue to rise until at least September.

To the bears, the prediction may sound ludicrous. But Mr. Meisels has made some good calls in the past. In 1995, he stunned investors with a call that the Dow Jones industrial average, then at 3,800, would rise to 10,000 by the year 2000. It got there on Mar. 29, 1999.

This time round, Mr. Meisels said an upturn in the S&P/TSX moving 50-day average on March 26 showed that money was now flowing into the stockmarket. The medium-term average had been falling since the beginning of November. Also supporting the prediction is history.

"Throughout history, a major financial disaster usually signals the end of a downward period," he said. "When Penn Central went bankrupt in 1970, almost to the day the market turned around. When Enron went bankrupt [in late 2001], almost to the day the market turned around."

He said the near collapse of investment bank Bear Stearns Cos Inc. (BSC/NYSE) was the final shock that would help the market on its up-leg.

However, he warned that investors would still need to choose their stocks carefully.

"First of all, it's not going to be a hell of a big bull market, our current target is in the 16,000 range, and we think that the stock selection will be of the utmost importance," he said. "If you're in financials, you're not going to make a hell of a lot of money, probably very little. Whereas if you are in energy and golds, you are going to continue to make good appreciation."

Mr. Meisels said utilities would be the only other sector to add momentum to the market, with industrials perhaps keeping pace.

Present stock picks in the energy sector include EnCana Corp. and Imperial Oil Ltd., while in gold and silver, he likes Barrick Gold Corp.

(ABX/TSX), GoldCorp Inc. (G/

TSX) and Kinross Gold Corp. (K/TSX) His top picks for utilities are Enbridge Inc. (ENB/TSX), Fortis Inc. (FTS/TSX), Trans- Alta Corp. (TA/TSX) and TransCanada Corp.

(TRP/TSX).

In the financial sector, he said stocks such as Royal Bank of Canada (RY/TSX) and TDBank (TD/TSX) would have a better chance of rising than those that have been severely punished, such as Bank of Montreal.