

PHASES & CYCLES[®]

**TO CORRECT OR NOT TO CORRECT,
THAT IS THE QUESTION.**

Calls for a meaningful correction have been a familiar refrain ever since stock prices rose like a rocket-ship off the March 6th lows. Initially, the reason was that the global recession wasn't going to end any time soon. When there was clear evidence that the recession was ending, the reason then was that the recovery will be slower than expected. Another common rationale for a correction came from the notorious Nouriel Roubini, who said that prices have risen too far too fast. Nonetheless, the third quarter of 2009 was still the second best quarter for the DJIA since 1998. (The second quarter of 2009 was the best quarter.)

Now that the September jitters have just ended with another move to the upside, Octophobia has set in: the September 21, 2009 Wall Street Journal headlined "Bear Market Lurks as Dow Nears 10,000." Research at the Bank of America and at the global

powerhouse UBS also stated that the markets could decline 10% or more during October.

It seems that most of these experts are still shell shocked by what happened last fall and are letting that affect their judgement. In normal times, the markets would certainly be due for a correction after a long, powerful rally such as this. However, these are not normal times. During the last 28 years, the first year of a new bull market didn't correct very much. History supports this. Carmine Grigoli, chief strategist at Mizuho Securities USA analyzed previous bull markets and found that eight of the 12 bull markets since 1949 (as measured by the S&P 500) did not suffer a 10% decline until after the first year of the bull.

"Meaningful corrections in the early stages of a bull market are infrequent events" said Mr Grigoli.

The most interesting facet of this bull market is that very few experts even acknowledge that this is a new bull market. In most similar circumstances, analysts would be raising their price targets for the markets by now. However, most of the forecasts seem to merely provide support or resistance levels which the markets could reach or break through.

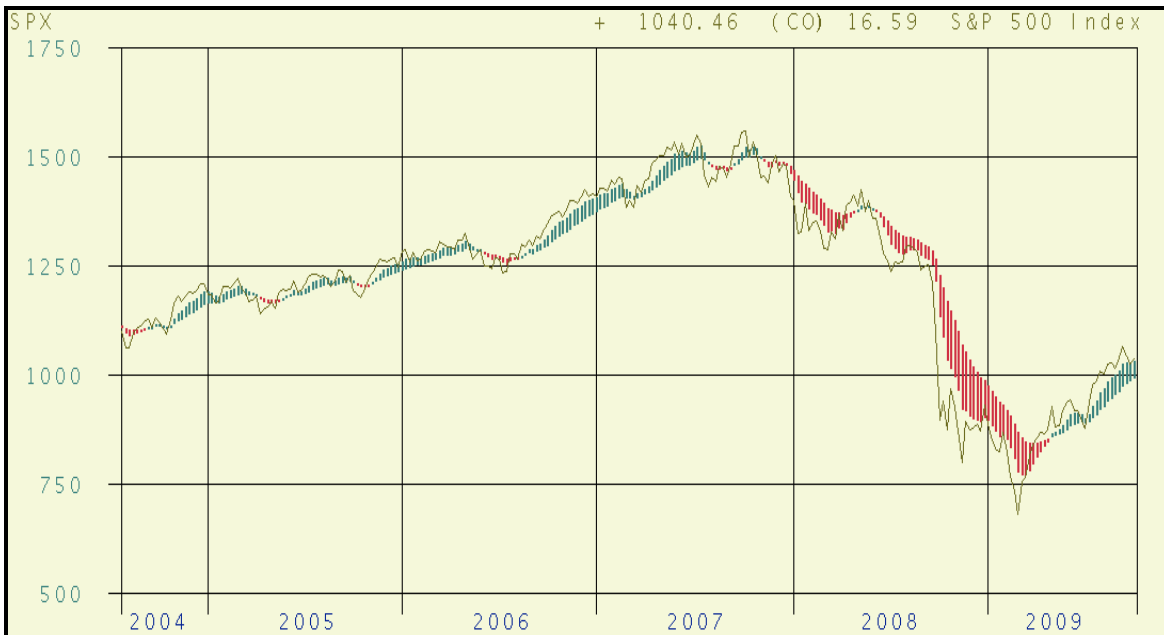
While pervasive scepticism like this is considered to be very positive for equities, the most convincing evidence that this is a new bull market are the *Money Flow, Buying Power and Selling Pressure* statistics from *Lowry Research* together with four 2-1 Advance/Decline Buy Signals outlined in our Market Comment MKT-217 of August 27, 2009 (back-issues are available on request).

Since March 6th, the TSX declined close to 300 points in one day on eight occasions and the DJIA lost approximately 200 points in a day 7 times. Noticeable down days like these occurred soon after a 2-1 Buy Signal. Therefore, the 230 point decline in the TSX in the previous week was probably the customary reaction to the most recent September 17th 2-1 Buy Signal.

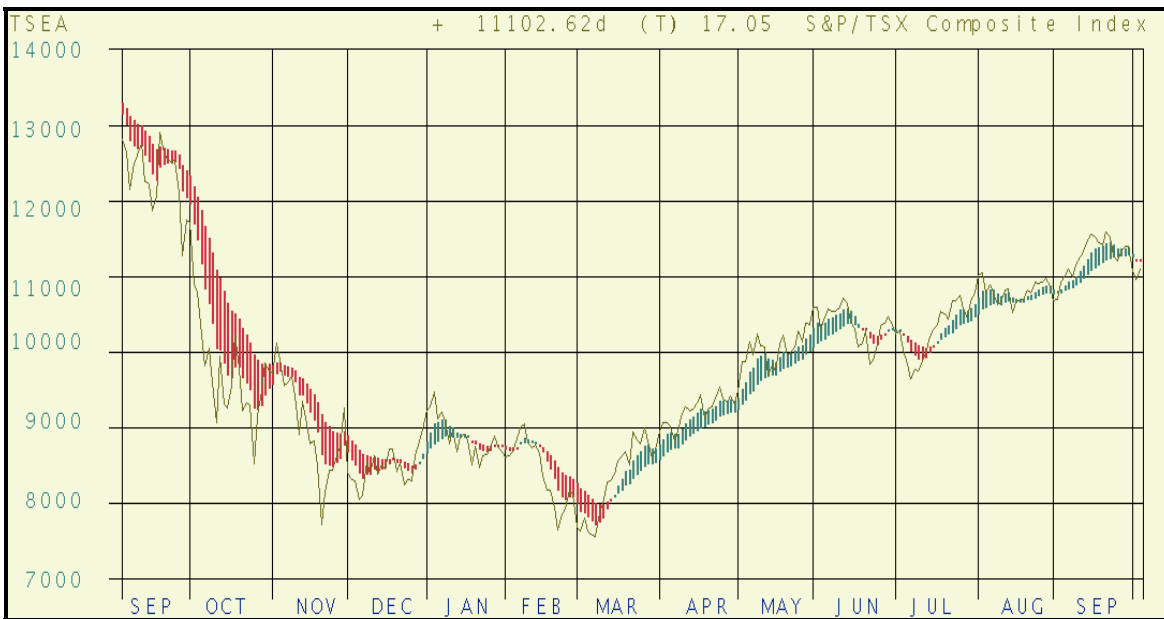
However, the US markets did not decline very sharply that week, whereas last Thursday's sell off in Canada and the US was a more typical reaction to such a powerful thrust to the upside. It is interesting to observe that the markets also sold off sharply during the first two days of September before moving steadily higher. Four to seven percent declines such as these are very normal in any stage of a market trend. Even so, markets have declined enough to turn the short term Trend indicators red, or negative, for the first time since early July.

On the other hand, the oscillators show that stocks are very oversold for the short term. If the markets continue to rise and turn the short term Trend indicator positive again, this could be a non-event. If it does not turn positive in the days ahead it will be a trigger to reduce equity exposure.

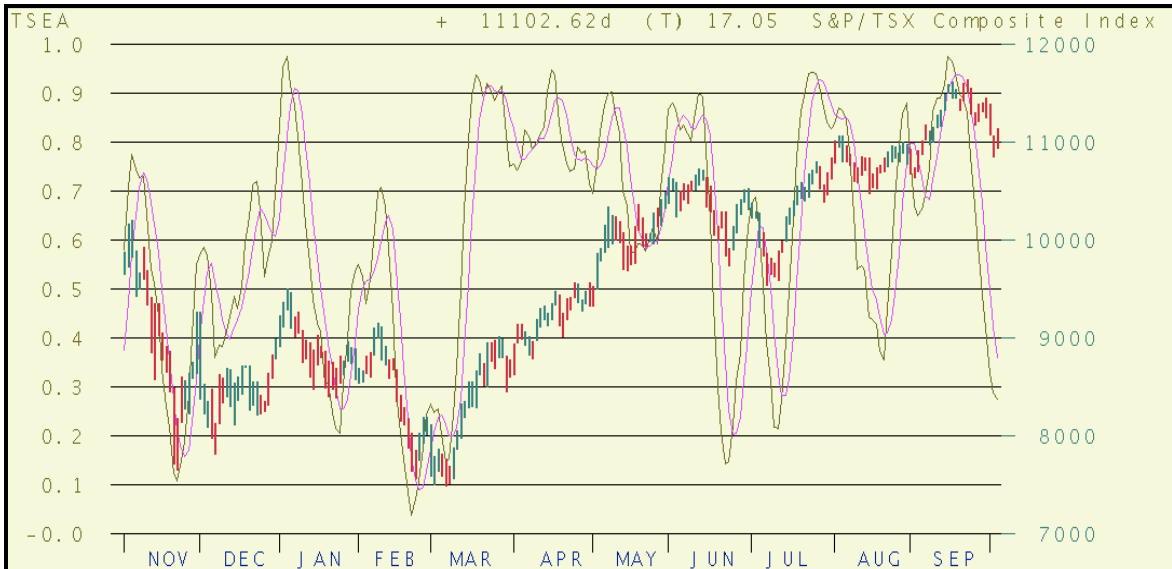
By the end of the month we will know if the record of history and market statistics are more accurate than the forecasts by a host of experts predicting a significant decline. In the meantime, let the indicators be our guide.



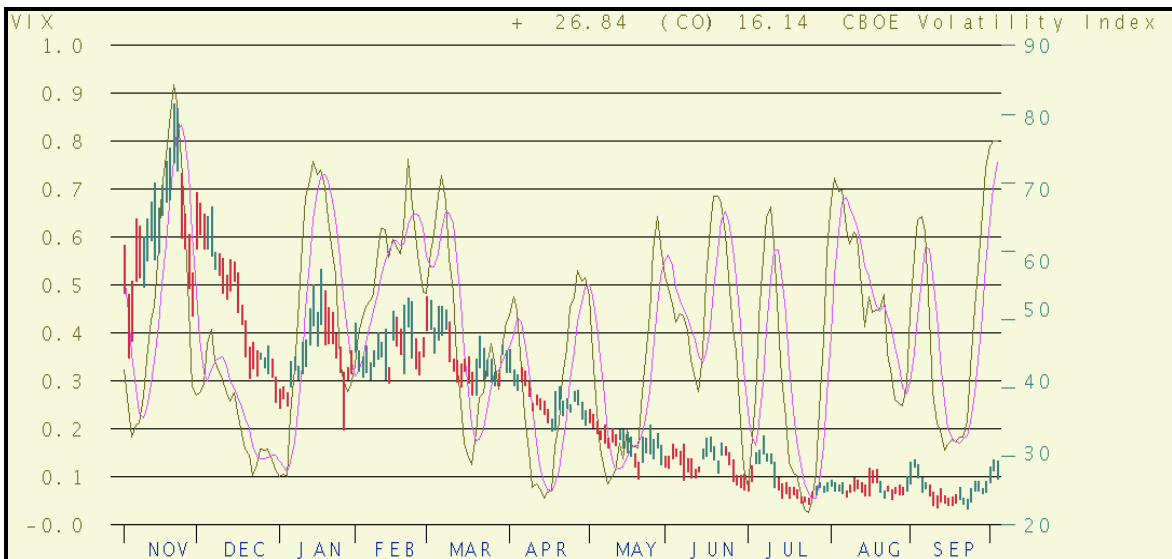
The long term Trend indicator has remained positive for most global markets since April.



The short term Trend indicator turned neutral for all North American markets last Friday for the first time since July 09. It takes a prolonged decline to turn this to red. It could turn green (positive) again shortly if this rally continues. In that case it would be a false alarm.



While the short term Trend has turned red, the short term oscillators suggest that the markets are as oversold as they were in late June and at the July 8th low when stock prices rebounded.



Volatility peaks when the markets bottom. It is comforting to see the long-term oscillator peaking at the highest level since the 26% decline, which ended on November 21st 2008. Now it is very overbought with only a 5% dip. It would take more upside action in the next day or two to make this oscillator roll over.

Data for charts compiled from Thomson Reuters.

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
 © Copyright 2009, Phases & Cycles Inc. All Rights Reserved

The opinions and projections contained herein are those of Phases & Cycles Inc., its principals, associates and employees ("the researchers") and are subject to change without notice. The information contained herein has been obtained from sources that we believe to be reliable but cannot guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that "the researchers" are to be under no responsibility or liability whatsoever in respect thereof. "The researchers" may, from time to time, buy, own or sell securities mentioned herein. "Phases & Cycles" is a registered trademark of 104443 Canada Inc.