

# PHASES & CYCLES®

## MARKET COMMENT

(S&P/TSX – 14790; S&P – 1391; DJI – 12601; NASDAQ – 2448)

**A CONSOLIDATION PERIOD IS PROBABLE  
(especially in Toronto),  
BUT THIS BULL SHOULD RULE THROUGH THE SUMMER.**

It's only four months since the middle of January when North American markets were diving to new multi-month lows, when despair gripped most investors, when further bad news was apparently just around the corner. However, the technical evidence was much more positive. In several market commentaries during this time we suggested – against the expectations of the majority – that 2008 would be a bullish year. Our Market Comments of the time bore such headlines as “despite a difficult start, it should be a good year for the right stocks” and “the period of disbelief should give way to a constructive but selective advance” and “markets appear poised for an upside breakout”.

Now, in the springtime, outright despair and negativity seem to have given way to reluctant acceptance: the majority have accepted that these markets do seem to have some life. But the rally since the January/February lows has still been accompanied by a steady supply of disbelief. Many investors remain on the sidelines waiting for ‘the other shoe to drop’, in the expectation that the so-called ‘bear market’ is going to resume, or that there will be a great buying opportunity at substantially lower levels.

The non-participants and the “let’s wait and see” crowd will continue to be disappointed; as well as those who think the markets have risen “too far, too fast” in the past two months. The important point to realize is that North American markets are still in the

**early stages of a new bull market**, and that there is more upside to come.

The S&P 500 has broken above a multi-month resistance. The Toronto market – which we have consistently forecast to lead this bull – hit new all-time highs last week and briefly rose above 15,000. Longer-term indicators – such as the percentage of stocks trading above their respective 200-day moving averages, and the Investors Intelligence advisory sentiment figures – tell us that the markets are still in early recovery mode. These indicators are nowhere near extreme readings that would suggest that a significant top has been reached. Moreover, our cycle work suggests that North American markets should have a positive bias for most, if not all, of the summer.

The markets had a strong rise in the past weeks and, as usual, there is a short-term risk of a consolidation/pause. Extended sectors may correct modestly, and the pattern of sector rotation that we have seen is likely to continue. The net effect on most major market indices is likely to be a horizontal trading range for a period of time. Following that, the rally should resume in earnest.

**The bull is definitely back. Any short-term hiccups should be overcome by the major trend, which is upwards for the summer months. Pullbacks in strong sectors and strong stocks should be treated as buying opportunities.**

## THE TORONTO COMPOSITE INDEX



When we last looked at Toronto in detail (early-April) we noted the S&P/TSX Composite Index's facility to stay above its 50-day moving average – an important sign of intermediate term strength, while we also highlighted the zone just around 14,000 as an area of significant upside resistance.

The Toronto market has performed admirably in the past month. The resistance zone was smashed through easily towards the end of April, and after a brief pullback, the market took off to new all-time highs. The positive action of the 50-day moving average in particular is a bullish signal for this market. *Our target of 16,000 looks very achievable.*

In the short-term, Toronto is now the most overbought of the major North American market indices. The number of stocks making new 52-week highs is improving, but it is not keeping pace with the march of the Index. However, any minor pullback from the 15,000 level should be well-contained by the support between the 14,000-14,250 area.

**A healthy pause to digest recent strong gains is likely for Toronto. Consolidation should take place above the 200-day moving average. Further bullish action can be expected through the summer.**

# THE S&P 500 INDEX



After its successful re-test of the January lows, four significant events occurred.

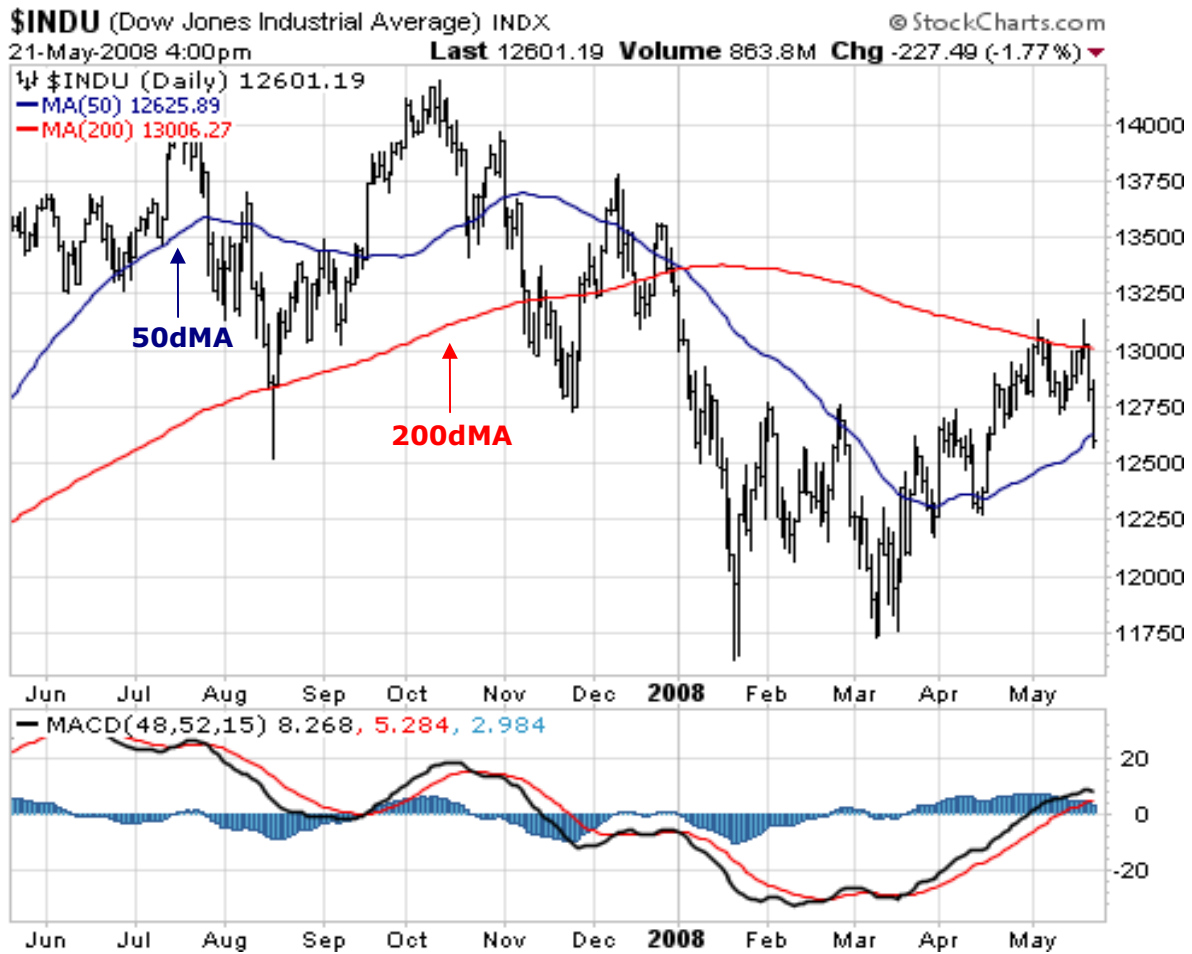
- The 50-day moving average, which had been declining since last November, turned convincingly upward;
- The Index had a successful retest of this moving average (A);
- Near-term resistance below 1400 was overcome (B),
- A new pattern of “higher highs and higher lows” has been created.

All of these developments are bullish. The expansion in the number of stocks making new 52-week highs is also encouraging. But after two months of strong rallying, the S&P 500 may need a short rest.

The S&P 500 faces a few short term issues that may limit its immediate upside. There is a band of resistance below 1450 that needs to be worked through; the index will have to overcome its 200-day moving average; and the index is looking somewhat overbought in the short-term.

**A consolidation to catch its breath would be beneficial to the longer term picture for S&P 500. Such a pause should occur in the zone on either side of 1400, and around the 200-day moving average. The next upside target for the S&P 500 is to exceed and stay above its 200-day moving average.**

## THE DOW JONES INDUSTRIALS



We suggested recently that a sustained move above 12,800 would be an important signal that this index was starting to behave in a more bullish manner. The Dow Industrials have now moved into that area, which is marked on the upside by the 200-day moving average, and on the downside by the top end of the trading range of early 2008 (about 12,700).

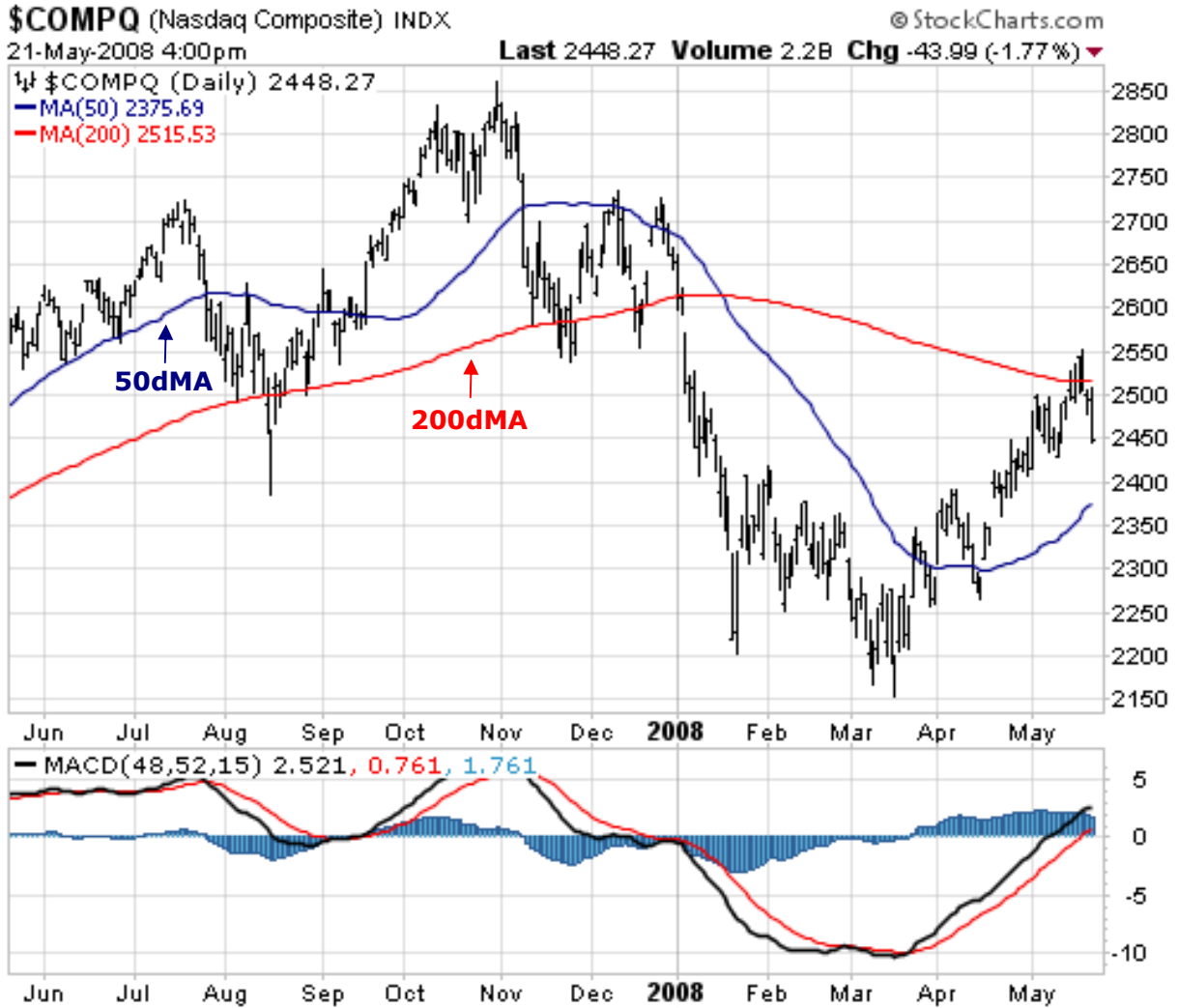
The 200-day moving average can be expected to provide some resistance to any short-term efforts by the Dow Industrials. The Index is also somewhat overbought in the short-term, and there are signs in the internal momentum

indicators that a small negative divergence has appeared. The rising 50-day moving average, currently about 12,500, should provide support.

At the same time the Dow Transportation average continues to show the way on the upside, as this index move ever-nearer to its all-time high set in mid-2007.

**The Dow Industrials has succeeded to turn towards a more bullish position. A consolidation phase in the 12,500-13,000 zone would be a healthy preliminary for a late summer move back towards the 14,000 level.**

# NASDAQ COMPOSITE INDEX



Our April Market Comment said that a foothold in the 2400s would be a bullish sign. This has occurred, and the index has reached its 200-day moving average. The NASDAQ has had a particularly strong rally from the March lows, and the internal momentum readings are looking a little extended. There is also some price resistance in the 2550 area arising

from the market action of November and December of last year.

**The NASDAQ needs a rest in the 2400s, the area above its 50-day moving average. The next bullish sign will occur when the index succeeds in staying above its 200-day moving average.**

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