

## MARKET COMMENT

**ALTHOUGH GREY-HAIRED, THIS BULL MAY STILL CHARGE AHEAD.**

April 6, 2007

**INTRODUCTION:** Early February, while the North American Markets continued to rally higher, the Market Comment issued a major technical "weather warning." The storm that followed exposed the vulnerability and tiredness of this rapidly aging bull market and brought up the question of the current state of its health.

**HISTORICAL PERSPECTIVE:** The North American markets are certainly no longer as juvenile and vibrant as they were only two years ago. The sudden and violent nature of the latest decline was a reminder of that. Historical data suggest extreme wariness. There have been only four cyclical advances that reached their fifth anniversary: one in a secular bear market (1932-37) and three within major secular up-trends: 1921-29, 1946-52 and 1990-98.

At the same time, as these downside surprises usually occur in the second part of the year, the question arises as to whether the February sell-off has already fulfilled its historical mandate or whether the markets will follow the pattern of another famous 7<sup>th</sup> year i.e. 1987?

**THE MARKETS NOW:** It is possible that the markets are already in the middle of a major cyclical shift. For the last few months we have pointed out the numerous negative divergences occurring on the charts of major indices; deterioration in the number of stocks participating in the rally; and a high comfort level among market professionals viewing the latest sell-off as a short-term phenomenon. Such a worry-free take on a

major decline is something new in the 2002-07 bull market, and definitely alarming.

However, from a trend-following perspective, the latest developments show no problems. All major up-trends remain intact and indices continue to remain above their rising 200-day moving averages. From this perspective, the February decline seems to be the market's way to discipline the indices and to keep them in tandem with their moving averages.

**WHAT'S NEXT?** As noted in the last Market Comment, the best scenario for the market would be to continue to rest. Ideally, the North American indices should spend more time in a consolidating pattern in proximity of their 200-day moving averages. It would allow the market to absorb the supply coming from investors willing to "sell into rally" and decrease the risk of a major failure.

**The quality of the next rally will be the prime determinant of the fate of this bull market. The only danger is that the next rally would bring about the dreaded "double top" formation, which could be the fate of the NY market. However, for now, our research suggests a better resolution; a broadly based advance to significant new highs, which in turn would suggest that this bull is still in good health despite its advanced age.**

Olaf Sztaba, Ron Meisels

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