

Happy Birthday!



PHASES & CYCLES®

MARKET COMMENT

(S&P/TSX - 11582; S&P - 1315; DJI - 11382; NASDAQ - 2219)

HAPPY BIRTHDAY FOUR YEAR OLD

It's been four years since you came into this world. You learned to walk and then you decided to test your mettle by climbing carefully up a greasy pole. Wars, nuclear tests, terrorism, real estate bubbles, and crashing consumers buzzed around your head, but you took it all in your stride and hung on. Despite that litany of woes you are still firm and strong. Congratulations! Stay that way, but don't forget to rest from time to time.

Even today, after four years of defying the sceptics, there are still people who ignore you. The higher you go up the greasy pole, the more stubborn they become. The most recent sentiment measures are staggering! Despite the latest advances, the ranks of your supporters have shrunk to 37.8% from 51.3%. This was noted just one week ago in the American Association of Individual Investors' sentiment poll. At the same time, the number of your opponents has increased to 46.7% from 32.9%. If you were going to retire, shouldn't you be a celebrity by now? The latest Barron's says you are an "aging bull: no longer born to run." How rude!

If you were a bear, as some people say, shouldn't you have declined in September? And whoever heard of a 1½ month bear market (May-June)? But once again you proved your mettle by sending the DJIA and the S&P 500 to new highs. Some say: "What about Toronto?" They do not understand the way you are working during all cycles. New York goes first, and then it's Toronto's turn.

This is nothing to sneeze at. So far your favourite sectors have been Materials, Energy and Golds – the forte of the Toronto market. Recently, you have also treated defensive sectors well. We understand. You want to protect yourself in case your health

deteriorates suddenly. You should not worry about that so much now. We believe you still have enough energy to go higher although it doesn't mean you should go berserk. You need to find time to pause, rest and reflect.

A corrective pause would especially benefit the US market which seems to be a little tired. You have to admit, you took it too personally, didn't you? All those "doomers" played on your nerves so you taught them a lesson; but you pushed the DJIA and S&P 500 a little too far from their 50- and 200-day moving averages. At your age it was not a good idea. Therefore, you may like to slow the US indices down and put them back near the 200-day moving average. You have plenty of room to manoeuvre.

Cyclically it is the right time to do that. In our last Market Comment we suggested that Friday 13th would be a good time to make your mind up about it. This date marks the top of the 39-week cycle which means that you can take it easy for the next few weeks. We know you cannot rest on your laurels so how about turning your attention to Toronto now? It is oversold, eager to rally and full of your favourites: Golds and Energy. But it is your decision.

Once again: Happy fourth birthday! Enjoy your run but do not forget to rest from time to time.

Yours,

**Olaf Sztaba
Ron Meisels**

P.S. Do not take those "doom and gloom" people seriously. Once their emotion turns to GREED, you'll teach them a lesson, as usual.

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