

MARKET COMMENT

(S&P/TSX – 12196; S&P 500 – 1308; DJI – 11400; NASDAQ – 2304)

LET'S STOP FOR FRESH AIR

INTRODUCTORY SUMMARY: Our previous Market Comment was titled “Spring has sprung, the grass has raised riz, we wonder where bullishness is.” The ink hardly had time to dry, when Barron’s featured a relaxed and happy bull along with the headline “DOW 12,000” on its front page.

So is this the end of “Bull”? No, because this surge of high spirits has not yet reached “end-of-the-bull-market” proportions, not just yet. But the sudden increase in optimism about the market may signal a pause.

MARKETS NOW: One of the most prominent characteristics of the current up-trend is the consistent lack of bullishness. Since its inception in October 2002 this market has been climbing a gigantic “wall of worry” as every advance has produced more and more septic. This single factor explains why this bull market is one of the most intense and most profitable cyclical advances on record.

As this bull market approaches its mature stage, the “bearishness” should evolve toward optimism and later euphoria. The Barron’s headline is the reminder that this bull market has been running quite a marathon and may need longer breaks before it reaches the finish line.

Our cycle analysis points to the early days of June as a possible window for the next important event. This suggests a flat or negative month for May. Such a “pausing” activity would be especially welcome in Toronto where the temperature of this bull market is the highest. Energy, Materials and Golds, the leaders, would certainly be the first candidates for a short-term cooling.

New York, with less weight in Resources, may escape downside pressures. The S&P 500 continues to trade in a lazy manner, sitting just above its 50-day moving average and well above its 200-day moving average.

After months of rallying, some bears are “throwing in the towel.” There is, however, no need to worry. Powerful up-trends like this don’t end at the first sight of the newly converted bulls. However, this state of optimism may signal an incoming pause and, for real bulls like us, another opportunity to buy the leaders.

STOCK COMMENTS: If the markets decide to take a spring break in May, Resources could be the most vulnerable areas. Nevertheless, we would like to suggest an old adage to anyone eager to liquidate all positions at once: “Don’t fool around with the strongest stocks in the bull market.”

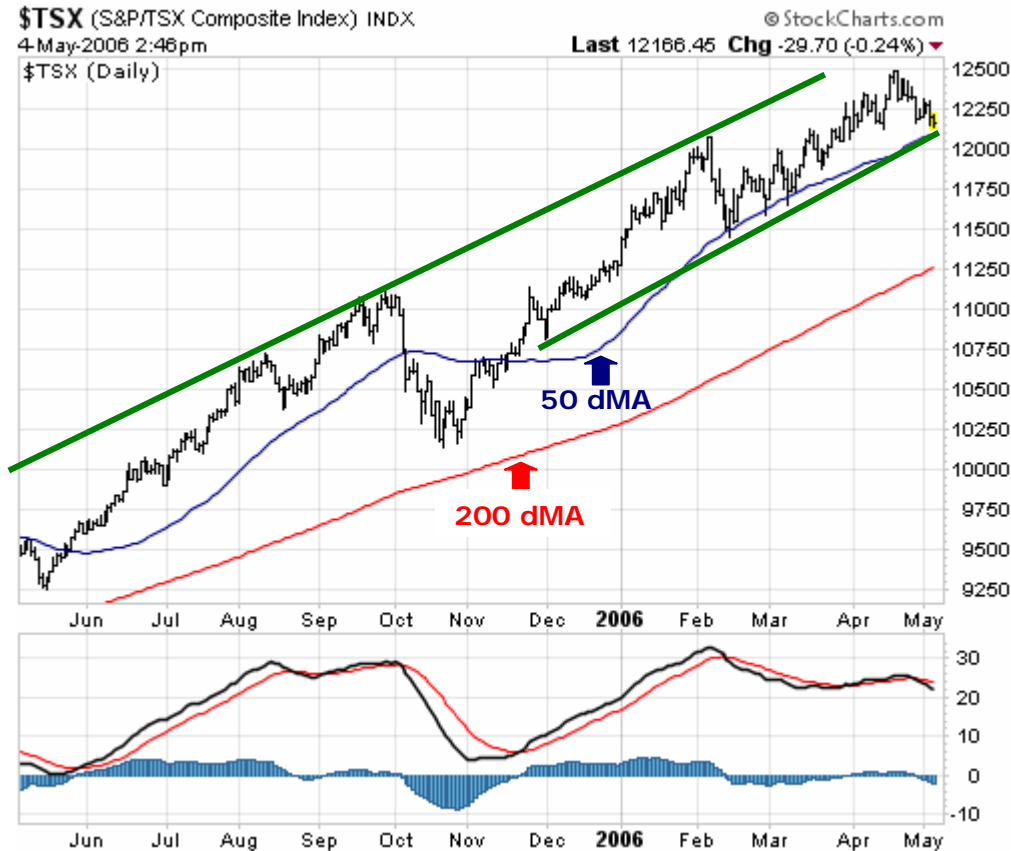
FINAL SUMMARY: **The bullish crowd is growing, as is the stock market. It is still, however, far from the bullishness normally seen at the end of the major advance. The month of May could bring short-term weakness, especially in Toronto, where Energy, Materials and Golds, the leaders of this bull market, are in need of fresh air. Use any pullback as a buying opportunity.**

**Olaf Sztaba
Ron Meisels**

THE TORONTO COMPOSITE INDEX

(S&P/TSX – 12196)

(Daily chart with 50- and 200-day moving averages)



The Toronto index continues to zip along within a well-defined trading channel (see solid lines). The 50-day moving average and the 12,000 level should provide short-term support.

S&P/TSX composite may spend some time around its 50-day moving average, with occasional visits to the 11,500 level.

Although, the 200-day moving average is nearly 900 points lower, we don't expect the index to decline to it any time soon, as Toronto would become oversold well before it declines that far.

The index clearly needs more time to start a new upleg from the proximity of the 12,000 level, but this has been the case every time in the past when the index hit a round number. A possible short-term stabilization should only help. Charts continue to suggest that the index should hit 14,000 before this bull market is over.

THE S&P 500 INDEX

(S&P 500 – 1308)

(Daily chart with 50- and 200-day moving averages)



Not much has changed since our last assessment of the S&P 500. The broad market continues its “scenic route approach,” extending its sideways action. The index should find support near the lower trend line of the trading channel, (see lines above) close to the rising 50-day moving average.

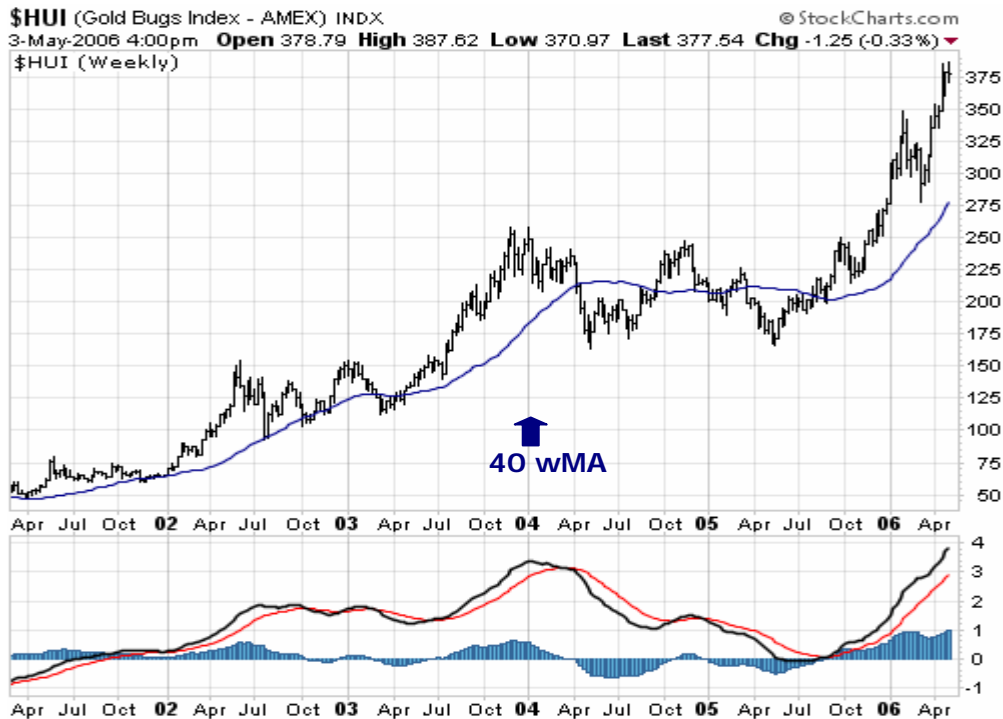
May (*) should bring continuation of the spring slowdown when the broad market takes the opportunity to rest and set the stage for an incoming summer rally.

(*) We do not subscribe to the frequently quoted “sell in May and go away” theory. This advice is proper during bear markets but not during bull markets. We are still in a bull market!

GOLD & GOLD STOCKS

(Gold – \$621)

(Daily chart with 50- and 200-day moving averages)



After five years of rallying, the general public has finally adopted the notion that Gold and gold stocks are in the midst of a powerful bull market. But not even the strongest bull market is immune to a pause. This is especially true in the gold sector where corrections may be quite challenging for many investors.

The recent change in the relationship between Gold and gold stocks suggests that a correction in Gold may start shortly. Gold stocks usually precede a strong move in the price of Gold: this has occurred. The recent surge in the price of Gold is now being met by a muted reaction from gold stocks.

In addition, the sector has entered the seasonally weak period when gold stocks take the opportunity to consolidate before getting ready for an end-of-the-year rally.

Finally, gold stocks had multi-year breakouts from their extended bases without any much-needed pullbacks. A correction in the whole sector would give the leaders of this bull market an opportunity to pause before the next up-leg.

Gold stocks may use May for a traditional but shortened spring break. This pause would bring much needed correction and time for further base-building before the next up-leg begins. Use any opportunity to continue to add positions in gold stocks in view of higher targets.

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