

PHASES & CYCLES®

THE BREACH OF THE NOVEMBER LOWS INCREASED THE RISK OF FURTHER DETERIORATION

**ST. PATRICK MAY HAVE BROUGHT SOME TEMPORARY "GREEN"
INTO THE MARKET, BUT ANY SUSTAINABLE ADVANCE
WILL REQUIRE LENGTHY TECHNICAL REPAIR**

Our previous Market Comments underlined the importance of the November lows. Despite the confluence of positive technical factors, the S&P 500 and DJIA indices have fallen below these crucial support levels. This violation raised the possibility of more selling. At the same time, Toronto did *not* violate its November low. This could be related to the smaller weight of Financials in the Index, compared to its US counterparts. All market-trends are currently in agreement: *both the longer-term (200-day) and intermediate-term (50-day) moving averages are falling and the major indices remain below them.*

This persistent downtrend has pushed the North American markets into deeply oversold levels. Many analysts point to oversold conditions as an argument for a rally. In a bear market, however, oversold conditions portray selling pressure that very often leads to even more oversold conditions.

Certainly, this has been the case in the last few months. Every attempt by the bulls to raise the indices was met with another wave of selling – depressing oversold readings even more. Therefore, investors with mid- and long-term investment horizons should wait until oversold conditions are alleviated and visible bases are clearly established before entering the marketplace.

Given this situation, is there any room for a rally in this market?

Some of the prime features of bear markets are kickback rallies that come "out of nowhere." In fact, such a rally has just occurred, making the Triple-Witching month of March a little bit "greener."

The violation of November lows by the S&P 500 and DJIA has substantially increased the risk of further declines. It has also created a ceiling of overhead resistance that any future rally will have to overcome.

Despite negative long- and mid-term trend indicators, some signposts were in place for a relief rally. The latest data from the American Association of Individual Investors (AAII) showed that the number of bears has reached 70% - the highest reading ever recorded. In addition, the percentage of stocks above their 10- and 30-week moving averages (as supplied by Investor Intelligence) was near all-time lows (at 6.8% and 3.7% respectively). Such extreme bearishness is usually the harbinger of a "surprise" move around the corner.

The recent price action in copper and crude oil provided another inside view into the market's short-term intentions. Copper, which usually paves the way for major rallies, had a breakout from a three-month base. Similarly, the price of oil has settled into a short-term consolidation pattern - a welcome stabilization sign.

What could change the outlook?

First on the markets' "to do list" should be a move above the 21- and 50-day moving averages (MAs). Second, the US and Canadian stock indices should rise enough to turn these MAs up. For a complete-pull, however, the indices would have to move above their

January 2009 peaks and ideally above the November 2008 highs.

The bulls have to fight against the trend. At the moment, the trend is simple yet powerful - every attempt to lift the markets is met with a swift riposte from sellers.

A word of caution

Despite the potential for a rally, the long-term trend charts remain negative. All major stock indices are trading below their *falling* 200-day moving averages - evidence of deep-rooted weakness. Too much technical damage from the massive declines has been inflicted to consider an advance as anything but a bear-market rally.

Bargain hunters should note that **a bottom is not a place -- it is a process.**

Once it is established it offers plenty of opportunities to enter the market. At the moment, there is no evidence that a process of repair is taking place.

Long-term investors should only be on the lookout for stocks that are trading above their rising 200-day moving average. And, as usual, tight stop-loss levels should be applied to all positions.

The lack of Sector support is indicative of the relief nature of the current rally, it is occurring only to neutralize over-sold conditions. There are no sectors that have spent years building bases from which to launch long-term advances.

In our previous Market Comment, we said that the strong participation of banking stocks is essential in any rally. This is even more important south of the border, where the weight of Financials in the US indices is even higher than in Toronto. Recently, banks have shown some life; however, the sector remains in a deep-rooted downtrend. *See our latest Sector Snapshots for more info.*

Industrials are usually next in line for bullish action. Unfortunately, months of severe declines have inflicted too much damage on the technical health of this Sector to qualify it for any sustainable advance. Investors may only count on a short-lived spring relief.

After an out-performance by the Golds in the last few months, they are in the midst of a well-deserved rest and they will most likely come back to life only toward the end of the spring.

Energy stocks, as measured by the XOI Index, have shown strong resilience in the face of weakening markets. Unlike other major indices, the XOI Index has successfully retested the November lows and now has positioned itself for a strong showing in an unfolding rally.

All the above-mentioned sectors remain below their falling 200-day moving averages; therefore, any rally should be viewed as a short-term trading opportunity for nimble traders.

TSX/S&P



Unlike its US counterparts, the S&P/TSX Composite (except for a minor violation) staged what appears to be a successful re-test of its November low. Despite this "achievement," the Index is not out of the woods just yet. A significant rise above the 50-day moving average would be needed to turn this Index upward.

The failure to overcome the 8600-9000 resistance and a failure to rise above the 50-day moving average could result in a decline toward recent and possibly new lows.

S&P 500



The failure to stay near the 50-day moving average resulted in a sharp decline below the November low. This Index will now find resistance in the 800-825 area, which is where the falling 50-day moving average currently rests.

A move above the 50-day moving average and then above the 900 level would be required to avert further declines toward new lows.

Dow Jones Industrials



In our latest Market Comment, we said that the DJIA drew a "line in the sand" under the November low. The evidence now shows that this crucial support line has been breached. The decline below this support level was very negative and it raised the risk of more selling pressure to come.

Except for minor rallies toward the 8000 level (support becomes resistance), only a decisive move above the 8000 resistance level and ideally above the February highs could put the Index on the path to a more sustainable advance.

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