

**MARKET UPDATE**

“It ain’t over till it’s over” – J. Berra

**August 18, 2007**

If you are going to watch TV tonight or read the week-end papers, they will tell you that this week the financial markets have crumbled, that the Chinese did all to see the collapse of the US dollar, that the Asian markets sold down, that the world, as we know it, has come to its end (\*).

In all my years in the market (and I don’t write this to brag about my age!) I have seen similar action in 1970, 1974, 1982, 1987, 1990, 1994, 1998, and most recently in 2002. Maybe you remember some of these years also! So let’s remember that at none of these junctions has the world come to an end and that both New York and Toronto are at significantly higher levels even today (despite the recent decline) than they were at any of these times (just for the record, the DJI was at 635 in 1970 and at 585 in 1974!).

Thursday’s action was quite a rollercoaster (did you see the beautiful inverse head-and-shoulder formation on the front page of both the National Post and the Globe & Mail?). Volume statistics could be described as an exhaustion move: there was 10 times as much volume on falling stocks than on rising stocks, known as a 1-to-10 reversal day. Therefore, we could probably safely say that Segment-1 of the correction/bear market is over and that Segment-2 has started, which, in all probability, should last about 2-3 weeks, maybe to just after Labour Day.

What should follow then is Segment-3, a retest of the lows of Segment-1. It is too soon to tell the extent of Segment-3 – will the markets just revisit the lows of Segment-1, or fall lower – but it is likely to last till late-September / early-October.

Therefore the important thing to do during Segment-2 is to, if possible, generate more cash for the eventual bargains that should appear at the end of Segment-3. We have already published a list of potential bargains (the “shopping list”) and the stocks that will maintain their strength until the end of Segment-3, will be the ones that will migrate to our eventual “buy list”.

(\*) It better not! We have tickets to numerous shows at the Shaw Festival in Niagara-on-the-Lake for next week, and I am not selling them!

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