

MARKET COMMENT

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

TO ALL BEARS: WATCH OUT FOR FRIDAY THE 13th.

INTRODUCTORY SUMMARY: It took only two weeks for the Toronto market to decline and the bears are already roaring, "The autumn is ours!" We say, "Don't let the falling leaves fool you."

MARKETS NOW: Our previous Market Comment suggested that the North American markets were overbought and would benefit from a minor pullback. This short-term adjustment was especially needed in Toronto where the S&P/TSX composite gained 1000 points thanks to Energy, Metals and Golds. As a result, these sectors became overbought and were hit the hardest.

Although the decline has been harsh, the S&P/TSX composite did not technically revert from its bullish path: the index is still angling upwards within its long-term up-trending channel which has been shaping the market action since the inception of the bull market. The proximity of the *rising* 200-day moving average defines the corrective nature of the recent pullback. As long as the Toronto market remains within the bullish framework, the "bearish" talk so popular recently is premature.

This negative stand is certainly overdone for the US market. An advance, since the mid-July lows, put the Dow Jones Industrial Average near its 2006 high and only 150 points away from its all time high. The S&P 500 and 100 have already managed to reach a new 2006 and four-year high. All these indices are trading comfortably above their rising 50- and 200-day moving averages.

The only part missing in these exemplary bullish settings is the lack of a refreshing pause. A pullback would greatly benefit the US market and elegantly line up with the current cyclical picture. During the next three weeks the North American markets will be under the negative influence of a 39-week cycle that ideally would bottom on Friday, October 13th, coincidental to the majority of third quarter earnings announcements.

The short-term downdraft should not affect Toronto because it has already gone through its corrective period, but it should influence New York which had no significant pause since July.

**Olaf Sztaba
Ron Meisels**

Sentiment-wise, the bearishness among market participants is on the rise. Barron's have already projected an "end of the line for Brokers." Quite a remarkable situation! One doesn't usually see this much notice about an oncoming move.

Media and market commentators are so confident in declaring the end of the bull market in Energy and Golds that, we suspect, these sectors may put on quite a rally in the final moments of 2006 and into 2007. An advance has already started south of the border as the repeated attempts to discredit the US market leave it no choice but to go up.

In addition, we are running out of time to see a lot more damage. After all, it is September 25th already. Even if the claim that a bear market started in April of this year (and slated to end in October) is right, shouldn't we be looking for what to buy, rather than what to sell?

Just another thought - Just above we stated that the US Market is at a four year high. If this is the last gasp of the bear, it doesn't make sense to see New York leading Toronto up. Usually New York leads Toronto DOWN.

The most recent market decline caused the bears to cheer: "The end of the bull market!" This bull is not an

easy one to subdue; indeed, quite the opposite. It may still be capable of creating an autumn full of plot twists.

STOCK COMMENTS: The recent sell-off had all the ingredients of a painful but refreshing "cleanout." It was especially obvious among the cycle leaders: Gold, Energy and Materials. The declines in these sectors were sharp and nerve-wracking. Technically, there have been some troubling moves in the Energy sector but they may reverse quickly if the sector rallies at the end of year, as expected.

The bulk of the stocks on our "BUY & SELL" list come from the Gold sector which usually comes to life at the tail end of a bull market. In addition, we added several companies from the consumer staples group - also good performers at his stage of the cycle.

***FINAL SUMMARY:* The North American markets are well positioned, technically and emotionally, to deliver an autumn full of surprises. If this upside momentum continues and, as usual, the Toronto market reinforces the rally, the bear may go into winter hibernation earlier this year.**

TORONTO

TSX/S&P

(Weekly chart with 40-week moving averages)



At the time of the last Market Comment we noted that the S&P/TSX composite was overbought and a minor correction would be welcome. Just as expected, the Toronto market turned swiftly to the downside in early September, on the back of Energy, Metals and Golds.

The index has already declined close to the one-half correction of the recent rally from the June 13th low (10904) to the August 23rd high (12227). This means that the current level may be the terminal point of the correction. The 200-day moving average is trending higher in close proximity to the index and technical indicators present oversold readings.

The index's affair with the Energy sector should continue to define its fate. Heavy weights in one group usually causes the

index to over-correct, but during the recovery it may act as a turbo engine and increase acceleration.

Once advancing, the index must overcome the first area of resistance at 11,800 and 12,000, and finally face the 12,200-12,400 resistance zone. On the downside, $\pm 11,400$ should not be violated.

The S&P/TSX composite is going through a difficult but necessary period of weakness. Once the US market finishes its traditional early "show off," temporarily slow and poorly performing Toronto should turn into a runaway train en route to its first station at 13,000.

NEW YORK

S&P 500

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



The S&P 500 has been steadily advancing for the last eight weeks and has achieved a new 2006 and four-year high (1328.53). Technically, the index is ready to move forward to the next target of 1425. The 50- and 200-day moving averages continue to track upwards. The shorter one (the 50-day MA) crossed above the longer (the 200-day moving average) which is a positive sign. The MACD continues to show bullish readings.

However, a short-term small correction could occur towards mid-October, due to the downward leg of the 39-week cycle. There is support at 1290, and strong

backup from the 200-day moving average at around the 1280 level. The Index may pull back toward its 200-day average to gather enough momentum to aim at the higher targets. Either way, the US market is positioned to turn the year-end into a bullish spectacle.

The S&P 500 has shown amazing determination despite the negative sentiment toward the US market. Ironically, this negativity may be the driving force it needs to run towards 1425 down the road.

GOLD & GOLD STOCKS

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



In our last Gold update we showed a “V-extended” formation developing on the HUI chart (see lines). However, the bullish move is delayed as the Gold sector remains under selling pressure. The latest decline, in our view, was the final part of a bigger cleanout that has been taking place in the last few months. It should give way to a significant rally toward the end of the year.

Gold has nearly completed the classic A-B-C correction it has been working

through since the May top. While working on the last “C” part of this pullback, the yellow metal has entered the upper boundaries of very strong support between 540 and 575. We expect this support to hold and provide a launching pad for the next up-leg.

Use the current opportunity to accumulate the leaders of this sector, in view of significantly higher targets.

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