

MARKET COMMENT

(S&P/TSX – 12477; S&P 500 – 1308; DJI – 11269; NASDAQ – 2356)

**SPRING HAS SPRUNG, THE GRASS HAS RIZ,
WE WONDER WHERE BULLISHNESS IS.**

INTRODUCTORY SUMMARY: In our last market comment we noted that the 2002-2006 bull market is long in the tooth and that the bullish action may pause more often. This is certainly the case south of the border where the main indices are taking their time to consolidate. However, the consolidation hides the tremendous strength of this market and its ability to come out of each correction with renewed strength.

The money continues to focus on the late cycle Sectors such as Materials, Golds and Energy, thus favouring Toronto. We expect this concentration of market interests to remain unchallenged throughout the lifespan of this bull market. Any pullbacks in these Sectors should be viewed as buying opportunities.

MARKETS NOW: Despite decisive moves in the North American markets, commentators continue to view the bullish developments with suspicion and negativity. The latest sentiment poll shows that only 28% of professional money managers are bullish on Canadian stocks, down from 48% only three months ago. The bearishness is especially evident toward the Energy and Gold sectors!!! Articles, such as “Energy obsession makes for manic TSX”,

put a smile on every bullish face – including ours.

Another plus is the position of North American indices in respect to their 50- and 200-day moving averages. The Toronto Index is heading higher, comfortably trading above its 50- and 200-day moving averages. The shorter, 50-day moving average offers support around the psychological 12,000 mark, while the 200-day moving average is at 11,160, over one thousand points below the current levels. The latter provides enough space for any pullback without jeopardizing the well-developed uptrend.

The US market, although less energetic, continues to maintain its bullish bias. The S&P 500 is near its 50-day moving average, but well above its 200-day moving average. The advance-decline line on the New York Stock Exchange continues to set new highs. This means more stocks are advancing than declining: a sign of a broad-based and healthy advance. Our proprietary “Net-Day Index” has reached yet another new high, which is another positive. These are major scores for the bulls, as they kick their heels up among the gold and the green of spring grass.

These positive developments are taking place despite the downside pressures of the 39-week cycle, which is still posing some threat to the markets. Our bullish stand doesn't exclude the market's right to correct occasionally. As we have said on previous occasions, the higher and faster the market climbs, the more drastic the corrective impulses. This increased volatility, viewed by many as a harbinger of the end, works well for those who use it to their own advantage and add to their holdings.

Despite the strong and vibrant pulse of this bull, a growing number of professionals are announcing a bearish diagnosis. It is certainly one of the reasons why this bullish phenomenon continues. The up-trend is well-built and solid, the advance is expanding into new sectors and the leaders, Energy, Materials and Golds, are showing no signs of slowing down. The bull market is at its finest.

MARKETS LATER: Skeptics argue that this bull market is the ninth longest in history, so it must crumble soon. We say: What is so special about being ninth, or sixth or fifth, or even first? As long as the bull market continues, who knows which position it will take? The

fact that these arguments are being brought up over and over again, convinces us that this historical advance still has potential to increase its high ranking.

STOCK COMMENTS: We continue to favour Energy, Materials and Golds and these stocks dominate our "BUY&SELL" list. At the same time, please note the dearth of stocks from the Consumer Staples and Pipelines and Utilities Sectors. Many of them have experienced downside breakdowns and they will need to spend some time building bases before they could start to advance again. Why is this pertinent? Because, these are the Sectors that usually start to move, or even move to all-time highs, just before the beginning of a bear market. Hence, continuing weakness in these groups is another sign of the longevity of the bull market.

FINAL SUMMARY: Concentrated mainly in Energy, Materials and Golds, the bullish trend continues. It has been driven by persistent bearishness and "doom and gloom". The scene has been set for more upside potential. Use any pullbacks to accumulate the leaders of this bull market: Energy, Materials and Golds.

THE TORONTO COMPOSITE INDEX

(S&P/TSX – 12447)
(Daily chart with 50- and 200-day moving averages)



Since 2004, every time the Toronto Index hit a round number, 8000, 9000, 10,000, 11,000 or the most recent 12,000, it has experienced a short-lived correction. Concurrently, sailing between those round psychological numbers has been smooth. Recently the S&P/TSX rallied through the 12,000 level aiming at another pivotal point of 13,000.

In our last Market Comment we pointed out that the Index keeps nuzzling against the upper trend line that goes back to October 2002 (see dashed line). Yet, there is room for more upside (up to 13,000 currently), before the Index moves above this trend line.

The 12,000 level provides short-term support, and the 200-day moving average is sufficiently lower to allow for minor profit-taking. The S&P/TSX composite is trading above both its 50- and 200-day moving averages, confirming the good health of the market.

This bull market belongs to Toronto. Leadership continues to come from the Energy, Materials and Golds Sectors. They should be the driving force of the next advance toward the 14,000 level.

THE S&P 500 INDEX

(S&P 500 – 1308)
(Daily chart with 50- and 200-day moving averages)



In the last market comment we said that if the Index continues its recent scenic route approach, it would extend its sideways action for some time. This seems to be taking place now as the S&P 500 is pulling back slightly to the lower trend line of the trading channel (see chart). This support line should hold any further declines and set the stage for more bullish action to the key upside 1310 level

On the downside, there is a strong support in the 1260 area near the level where the rising 200-day moving average currently intersects. The 39-week cycle may try to push this Index lower

(and it may succeed some days), but it is very encouraging to see the Index holding its own, despite this downward pressure.

The S&P 500 is still moving within a well-defined trending channel and as long as it remains within these boundaries, downward action should be contained. We continue to favour the bullish scenario with the index rising beyond the 1310 level toward our next Point & Figure target of 1360.

GOLD & GOLD STOCKS

(Gold – \$621)

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



LONGER TERM: Despite Gold's powerful move of the last five years, the sentiment toward the metal remains tepid at best. The majority of investors are still being "educated" by the media that the volatile gold stocks have no place in their portfolios. Very few remember, the late 60s and early 70s, the last time Gold made major moves. It was then viewed as a must-have position: usually 10% of portfolios were invested in this precious metal as a protection against inflation and negative market forces.

Today, despite Gold's orderly rise above \$600, numerous voices still suggest that "it has gone too far too soon" and advocate that

it is likely to be short-lived. History, however, suggests otherwise.

Since 1896, that is for the last 110 years, the Dow/Gold ratio has varied wildly but on average it took nine ounces of Gold to buy the Dow. Using this ratio and the Dow's recent level (11,269) the price of Gold should be trading at \$1252.11 per ounce (11,269/9)! Today, with Gold at about \$614.75 and the Dow Jones Industrial Average at 11,269, it takes over eighteen ounces of Gold to buy the Dow, well below the historical average. Thus from the long-term perspective the price of Gold is still considerably suppressed.

SHORTER TERM : Gold and gold stocks have been showing tremendous strength lately despite the usually weak seasonal factors and scepticism among market participants. Investors, who missed the latest run in Golds, are in the “waiting room” looking for an opportunity to enter the market. Such a situation usually causes corrections to be well contained.

One of the strongest arguments for the continuation of the advance in Golds is the behaviour of individual stocks. Important breakouts have occurred since the beginning of the recent cyclical advance (May 2005), most of them from long, multi-year bases. Some examples are Agnico-Eagle with a

powerful breakout from its three-year base (recommended on November 18, 2005 at CAD\$18.07); Bema Gold (recommended on November 18, 2005 at CAD\$3.47); or a recent participant, Newmont Mining, which moved out of a huge base (recommended on March 17, 2006 at CAD\$57.82). The above stocks, along with many others, still offer significant upside potential and should be accumulated when an opportunity occurs.

We expect this cyclical bull market in Golds to accelerate. Use all opportunities to add a few golden eggs to your Easter basket.

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