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North American Marketletter

MARKET COMMENT

(S&P/TSX –12211; S&P 500 – 1298; DJI – 11145; NASDAQ – 2337)

"DOOM AND GLOOM", BUT THE BULL MARKET CARRIES ON

The month of March was positive for the North American markets with new bull market highs on both sides of the border. In the last week of March, the S&P/TSX Composite Index made a new all-time high, and all US Indices rallied to levels last seen in 2001.

North American markets stayed bullish for over three and one-half years. But, as we asked two weeks ago, where are the friends of the bull market? Last week, the aspiring bears were once again on the prowl. First to the plate was Mr. Bernanke, throwing a bucket of cold water on the markets in the form of yet another interest rate hike. A day of doom and gloom followed, and the Dow quickly declined --- less then 1%!

During March there were numerous market analysts who were determined to talk the markets down: pointing to the historical pattern of weakness that often occurs in the April-May period; speaking of "sell in May and go away"; and forecasting that the 4-year market cycle suggests a major low in autumn/2006. Unfortunately for the bears, the markets seem to act contrarily, as demonstrated by the new highs mentioned above. In addition, time is running out for a bearish autumn – the market will have to form a major top very quickly, for the bears to meet this timetable.

This basic picture remains unaltered. The bears have yet to mobilize their forces to drive the markets significantly lower for a sustained period of time. What we do have to acknowledge at this point – as we mentioned last time – is the downside pull of the 39-week cycle. It may be that the bull will have to spend more time over the next couple of months protecting the gains made since last October, prior to resuming the next rally.

In sum, we don't see any immediate worrying signs of an important top in the major market indices. The major dynamic of this bull is a "once in a generation" commodity cycle, and that cycle does not seem inclined to end just yet. What we are looking for are signs of *successful consolidation of recent gains* and *subsequent confirmation* that the bull is going to move upward significantly once again. Toronto is somewhat further along this path than the U.S. market indices.

The 2002-2006 bull market is long in the tooth, and from here to the end of its life the bullish action may pause more often. But the bulls still have the time and strength to absorb any short-term punches from the bears and bounce back. The platform is being built for further new bull market highs in the major market indices in 2006.

Ron Meisels

THE TORONTO COMPOSITE INDEX

(S&P/TSX – 11948)
(Daily chart with 50- and 200-day moving averages)

Two weeks ago our Market Comment declared that “the Toronto bull market has resumed.” We noted that the S&P/TSX Composite Index kept pushing up against the upper trend line that has defined the bull market since its start in October 2002. We said: “it is as if this market is straining at the leash, ready to jump above the trend channel.” And jump it did.

Near-term resistance in the low 12,000s was eliminated, and the move above 12,200 is a sign of further upside to follow. There is a well-defined uptrend channel visible on the chart: near-term support is offered by this line and the 50-day moving average at about 11850. Intermediate term support rests around 11,500. The Toronto market is well-positioned to absorb any short-term price shock caused that could arrive by a decline in energy or gold prices – without altering the overall bullish outlook.

After some hesitancy in early March, the internal momentum indicators have turned up. For the past six weeks the S&P/TSX Composite Index has behaved in a very deliberate way, with small corrections holding above previous lows, followed by a new up move.

The Toronto market remains resolutely bullish. We expect that the Energy, Material and Gold Sectors will continue to lead. Our next objective for the S&P/TSX Composite Index remains the 14,000 level.

THE S&P 500 INDEX

(S&P 500 – 1297)
(Daily chart with 50- and 200-day moving averages)

When the 1300 level on the S&P 500 was breached, we declared that this had bullish implications. But we were cautious about how the next bull move would unfold. We presented two options: a quick burst that would exceed the upper boundary of the major bull market trend channel (around 1320), or a more gradual move that would track the gentle rise of the trend channel itself.

The initial indication from the last two weeks of market action is that the S&P 500 is choosing the slower route. The breakout above 1300 in mid-March had no immediate follow-through. Instead, we have seen a lateral trading range develop around the 1300 level, while still holding above the 50-day moving average. The internal momentum picture is mixed, as the MACD indicator is giving neutral signals, but the 1280-1290 zone offers good near-term support.

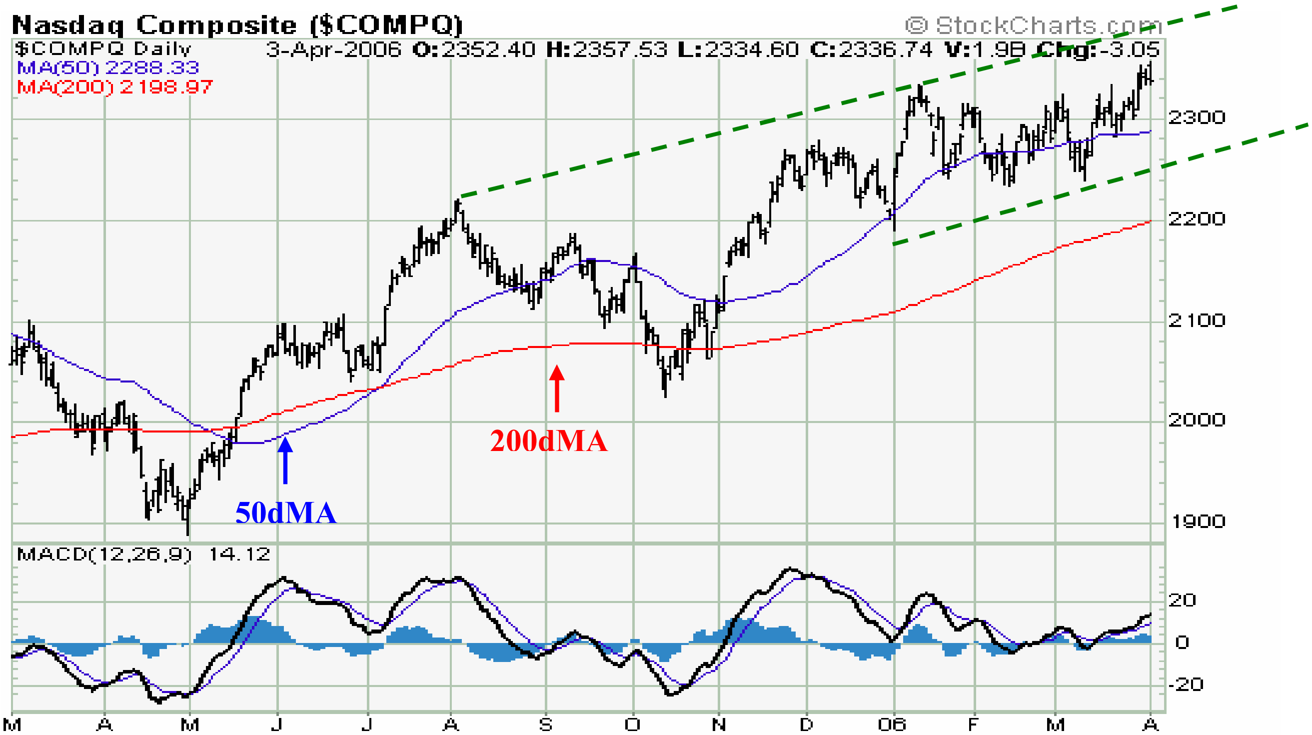
Where to next? The key upside level is 1310: a move above this will signal more bullish action. On the downside, there is good support at the early March low of 1268 and at the <u>rising</u> 200-day moving average which currently intersects at about 1245.

If the market continues with the recent "slow route" approach, it is quite possible that the S&P 500 will extend its sideways action for some time. But we expect that this will be resolved eventually on the upside, with the index taking a run at the 1320 level first, followed by an assault on our next Point & Figure target of 1360.

NASDAQ COMPOSITE INDEX

(NASDAQ – 1294)

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



Two weeks ago we observed that the NASDAQ was not confirming the strength of the S&P 500 and had, as we put it, "fallen off the pace." We expected that the NASDAQ would spend more time gathering strength around its 50-day moving average and then get dragged along during the next up move of the S&P 500.

Just to keep us on our toes, the NASDAQ decided to dance to its own tune last week, and broke out to a new high. If the NASDAQ is now able to hold above its breakout point -- roughly the 2325 to 2330 area – this will provide a platform for an attempt at our next target of 2500.

The bottom of the uptrend channel is located at about 2250, somewhat above the rising 200-day moving average. Conclusion: there is considerable support for the index within the 3-5% range of current levels.

The key point to watch in April is the quality of the ensuing action, particularly whether the NASDAQ moves quickly beyond the 2350 level, or decides to consolidate its recent rally as the S&P 500 has done. A move back below the recent breakout level, e.g., towards 2300, would indicate that the index requires more base-building before a sustained rally.

The action of the NASDAQ last week provides further indication that this market still has some upside. The 2500 target is still achievable.