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THOUGHT FOR THE DAY

Yesterday's 263 point drop in Toronto (-2.2%) was certainly larger than the less than 1% drop in any of the US Indices; it was certainly disappointing, drastic and shocking, but definitely not the "end of the world".

Why more drastic in Toronto? Since October 2005 the DJI rose 8.8%, the S&P 500 10.8%, and the S&P/TSX 19.1% (!), so a larger decline in Toronto was natural.

Our most recent Market Comment suggested the following about the market in general: "February winter winds could change this favourable set-up (referring to January's rise). The 39-week cycle has already started its topping process and the bulls will have to face the down part of the cycle, but the 50- 200-day moving averages should provide strong support for the indices during pullbacks".

It also stated for Toronto in particular: "The index may correct sharply toward its 50-day moving average in the short-term ... towards strong support around the 11300 level".

Our conclusion: Yesterday's action was sharply down, but it did not violate any support levels; February is not even half over; the Indices are not yet near their respective 50-day moving averages and certainly not near their 200-day moving averages, so expect some more downside action towards the end of February. However, we have NO evidence that the current Bull Market is over and we expect to see higher highs in both markets, once this corrective period is over.

What to do in the meantime? Nimble traders may still decide to cash in part of their profit (to be bought back later) on stocks that had a significant rise since October, while longer-term oriented managers should look for the current action as another buying opportunity in Energy, Material and Gold related stocks.

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