

MARKET COMMENT

(S&P/TSX - 11937; S&P - 1276)

THE BULL AIN'T DEAD YET

INTRODUCTORY SUMMARY: Only five weeks have gone by since the North American market leaders, Energy, Metals and Golds came under intense selling pressure. Talk of “the end of the bull market” had become the norm, although it wasn’t enough to damage our bullish case.

In our last Market Comment we argued that the greatly oversold markets were in a position to prompt a good rally. Indeed, in mid-July the North American markets heated up in tandem with the extreme temperatures outside. A slow, indecisive start gave way to a full-fledged rally, which is expected to continue for at least the rest of the summer, led by the late runner, Toronto.

MARKETS NOW: As we underlined in our previous Market Comment, the North American markets are in the “end game” of this bullish cycle. Therefore attention shifts to the S&P/TSX index as the one that usually is the last to top out.

The mid-July pullback brought the S&P/TSX composite to test its 200-day moving average, and gave the index enough strength to initiate a rally. The advance has approached the important 12,000 resistance level, a level that caused the index some trouble in February and March of this year and may slow down the index in the short term. At the same time, the advance must not stall there, if this resource-based bull market is to continue.

The US market’s corrections were gentler. After the decline in May, the S&P 500 spent June and July within a narrow trading range roughly between 1230 and 1280. More recently, the index

has positioned itself near the upper border of this trading range. A successful move above 1280 would be the start of a rally to the 1290-1310 zone and above.

Both markets continue to benefit from the positive influence of the “up” portion 39-week cycle. This favourable cyclical set-up may surprise those who believe that August is a good month to go on vacation. In our view it would not be a good idea this year, especially in Toronto, as the heavy-weighted Golds, Energy and Metals should perform well in the summer months.

Improving sentiment readings should also help to turn August into a bullish month. The rally of the last few weeks brought back some optimists, but they are a visible minority. The latest survey of the AAI (American Association of Individual Investors) shows bulls at 34.9% and bears at 43% -- something seen at market bottoms rather than at tops. This persistent negativity has been the bread-and-butter of this bull market and should continue to fuel the current rally.

Even though the markets rallied away from their mid-June lows and rose above their 200-day moving averages, the danger of cycle failure still exists. The North American indices must rally toward new highs in order to benefit from this summer’s “window of opportunity.”

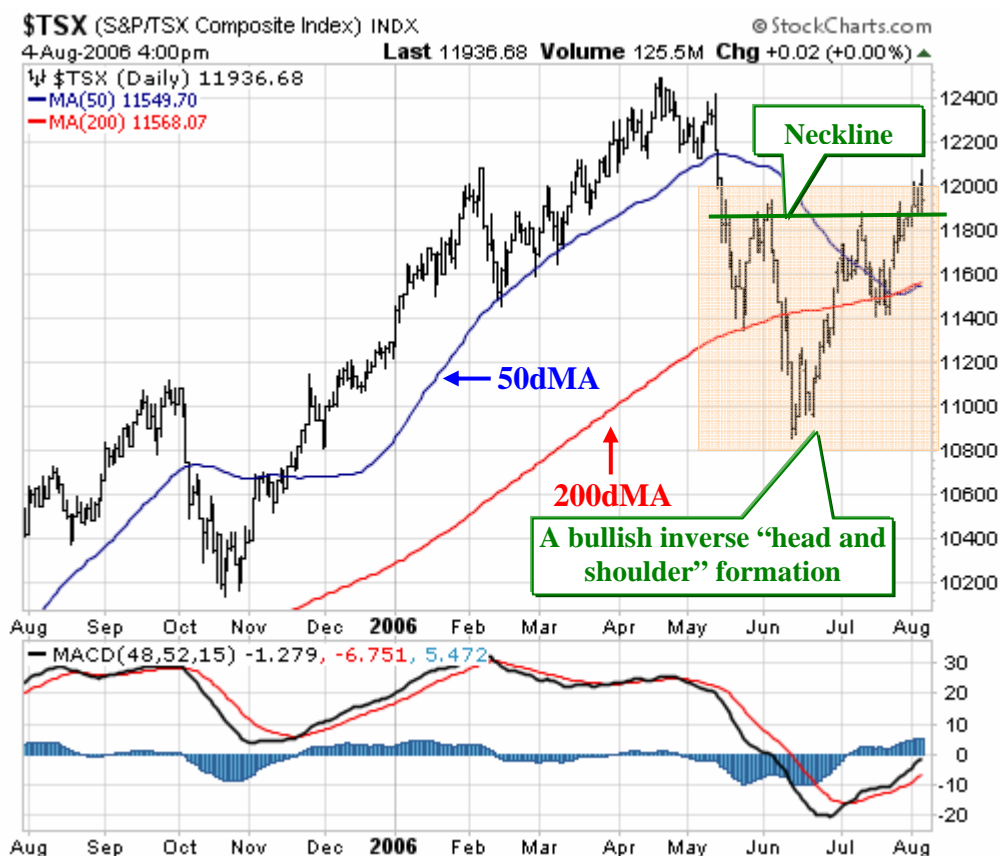
STOCK COMMENTS: Energy, Metals and Golds have been the leading sectors of this market cycle with most rallies ignited by the Energy sector, Metals joining later on, and Golds rallying toward the end. It is important to note that not only is the current rally long in the

tooth but the whole bull market is close to its finish, meaning that the Gold sector should come into the spotlight. As a consequence, most of the stocks in our “BUY&SELL” list come from this sector.

THE TORONTO COMPOSITE INDEX

(S&P/TSX – 11937)

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



In our last Market Comment we expected the Toronto index to resume its advance toward 11,900 and then move to new all-time highs. Since then, the index managed to overcome the 11,900 resistance and move above the neckline of the bullish “inverse head and shoulders” formation (please see chart). This pattern projects a minimum target of 12,700 which would provide a route to our main objective for the S&P/TSX composite of 14,000.

Currently, the index is trading comfortably above its rising 50- and 200-day moving averages which should provide support for any

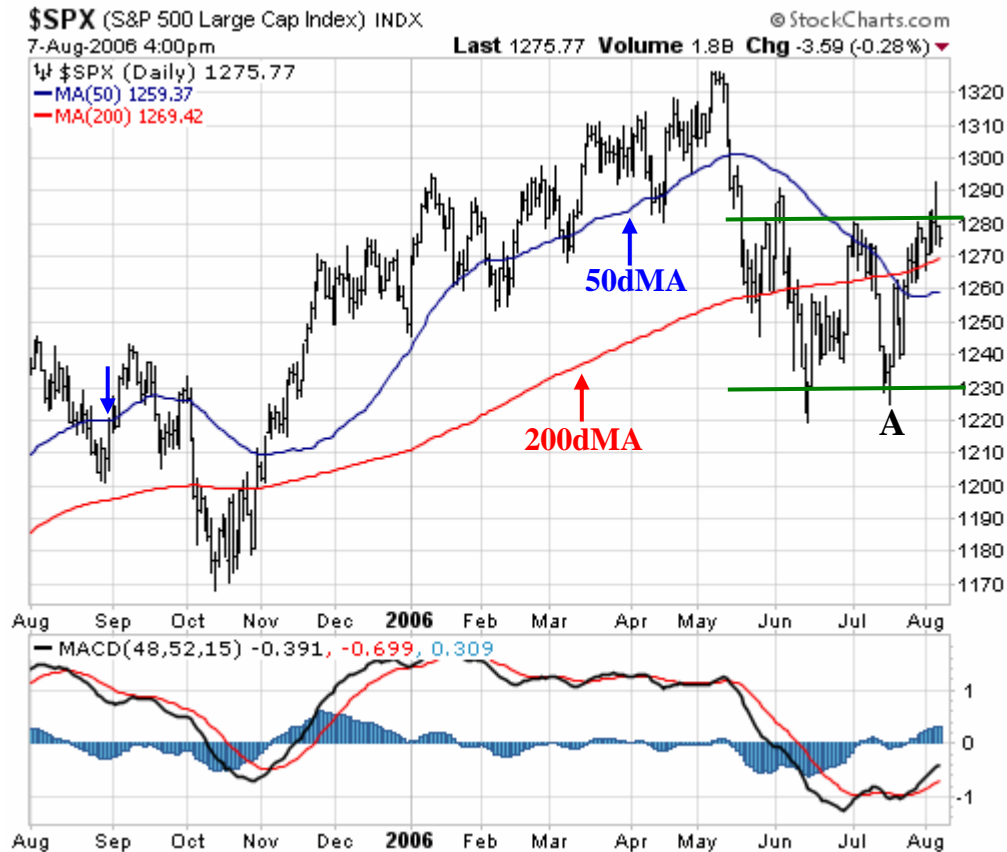
setbacks. The main drivers of the index are still Energy, Materials and Golds.

Toronto has resumed its advance by moving out of an “inverse head and shoulders” formation. This bullish pattern suggests a target of 12,700, which would allow the index to break through the upper line of the up-trend channel (not shown), that has been present since the beginning of this bull market, and would allow the index to achieve new highs.

THE S&P 500 INDEX

(S&P 500 – 1276)

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



A successful re-test of the June low (A) and the lower trend line of the major rising-trend channel (not shown) sparked a rally in the broad US market. The S&P 500 moved back above its 50- and 200-day moving averages and stabilized near level 1280. A decisive breakout above this resistance would mean a further move toward the May high of 1325.

The US market is usually the first one to slow down toward the end of a bull market. Therefore the S&P 500 may have an increasingly difficult job to keep pace with the Toronto index. This is

mainly due to the smaller weight of the Energy and Material sectors in the S&P 500 Index.

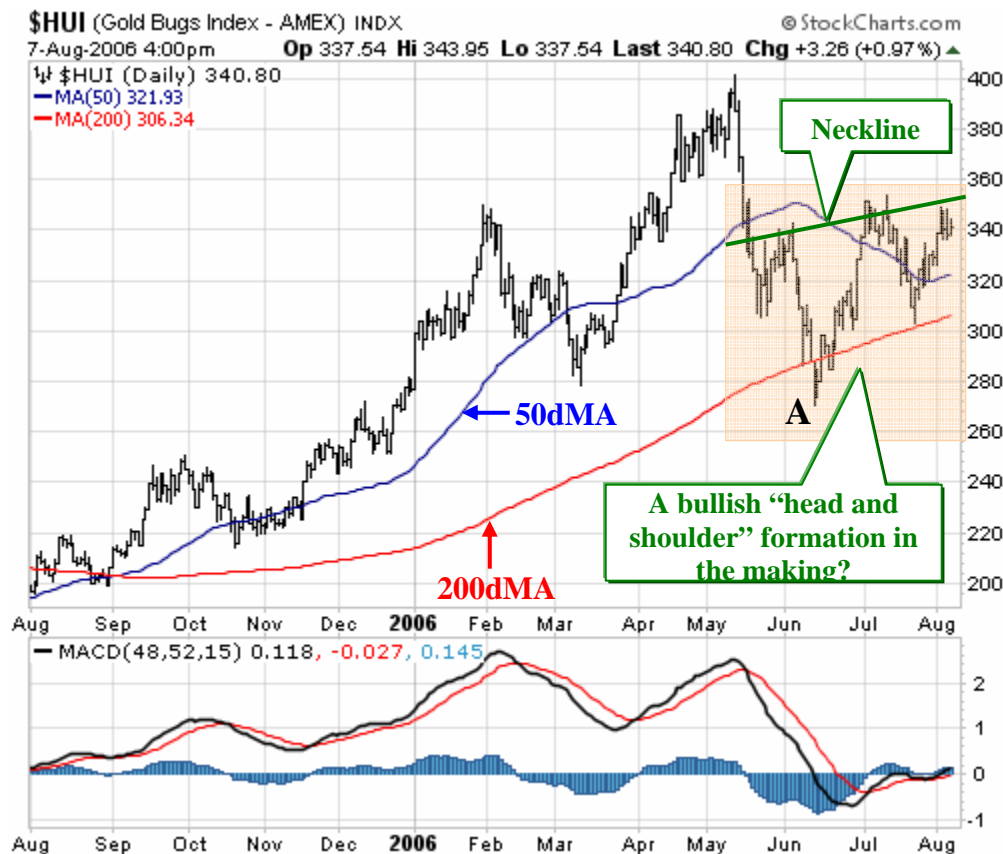
On the downside, the index must hold its 200-day moving average and strong support in the 1230-1250 zone.

Once again the S&P 500 has saved itself from the bear's grip. Now the index has to take on the 1280-1290 resistance zone in order to advance further.

GOLD & GOLD STOCKS

(Gold – \$341)

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



The Gold sector has experienced a “V” shape recovery from the May-June decline (A), and a brief “calming” period. This short-term basing should give way to a significant rally in this sector.

- August starts the traditionally strong period for Golds and usually lasts until the end of the year.
- The Gold sector has the most strength toward the tail of every bullish cycle, which is where we are right now.
- Most Gold stocks are oversold and technically positioned for a rally.
- Negative sentiment is building toward commodities, including Gold.

- Point & Figure measurements show significantly higher targets for major Gold stocks.

Gold and gold stocks have completed their correction and the necessary basing process. With favorable seasonal and cyclical factors, the sector should have no problem reaching new multi-year highs in the next few months. Use all opportunities to add to positions in this sector.

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