

# PHASES & CYCLES®

## MARKETS APPEAR POISED FOR AN UPSIDE BREAKOUT

After rising 10% from the January 23<sup>rd</sup> lows in a very short period of time, the markets needed to consolidate these gains. This is very normal. The markets followed the same path in 2003. This can be seen from the first chart of the S&P 500: the pattern of lower highs and higher lows is converging to a point. This is a classic sign of a breakout, either to the upside or the downside. So which will it be? All the long-term oscillators have turned up from extremely oversold levels in recent weeks, as they typically do at the end of market declines. This is very strong evidence that the markets started a longer-term uptrend in January.

Moreover, the short term oscillators of the US financial sectors are once again in very oversold levels. These stocks were at the center of this market cyclone and have led stocks higher and lower since last summer. If they are now ready to rise for both the long term and the short term, it only makes sense that the breakout will be to the upside.

While Insiders have been big buyers of stocks recently, investment experts are becoming more and more pessimistic. For example, Globe and Mail quoted an investment manager who wrote that investors will need 'judgement and conviction to battle this bear.' High levels of pessimism are usually a major sign of a market low. Don't rely on the media for well-rounded information!

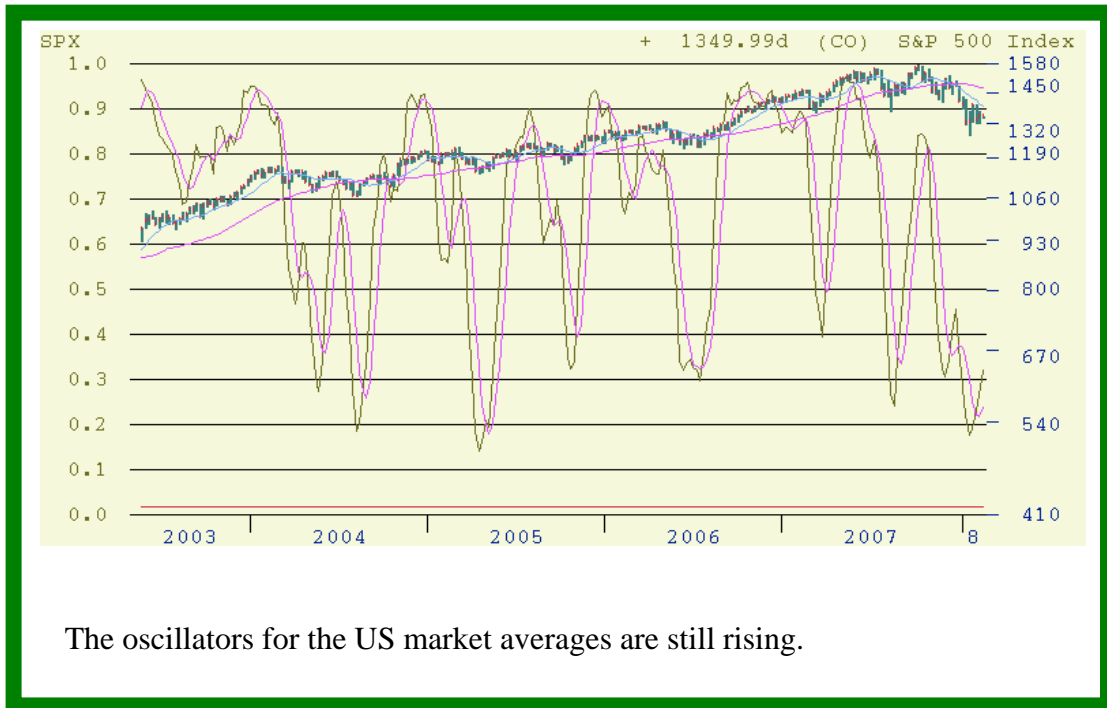
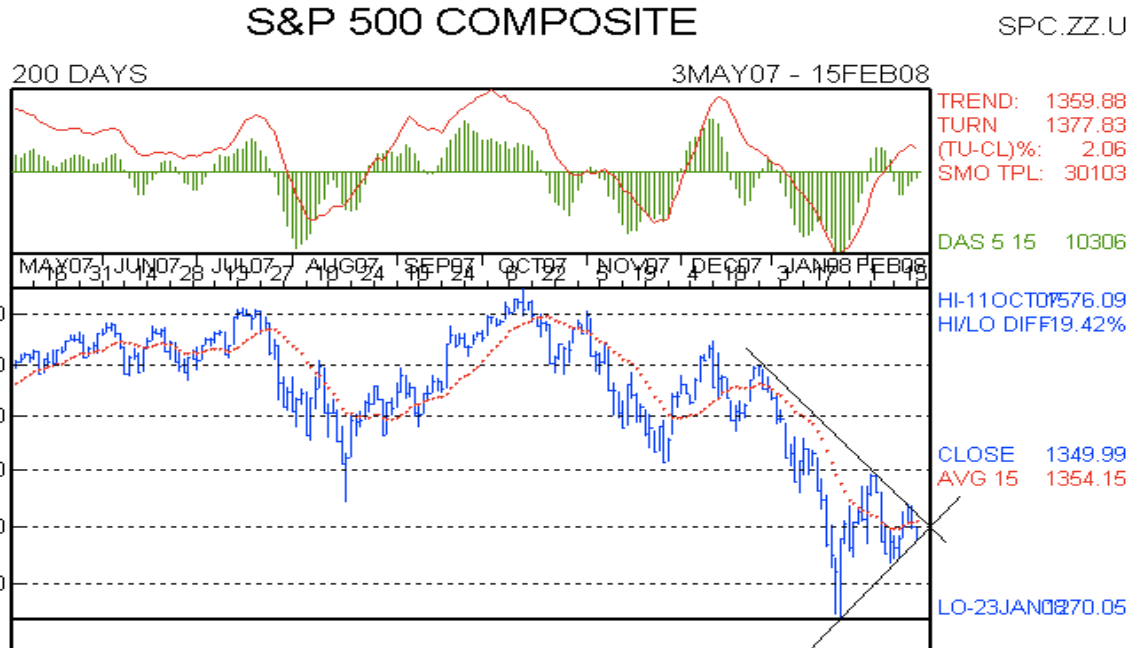
The third chart shows the spread between the bullish and bearish advisors, which is now at the point where markets have typically produced major gains in the past. There is still a lot of concern and negative news but that is very normal during the early phase of a market rise. Markets usually 'Climb a wall of worry'!

While the media focuses on the consumer, the fact that US corporations have more cash on hand than they have ever had before, seems to be overlooked. Recent statistics show that ten times as many companies are raising their dividends than cutting them. Canadian bank stocks are producing dividends that are described as being at 'unheard of levels'.

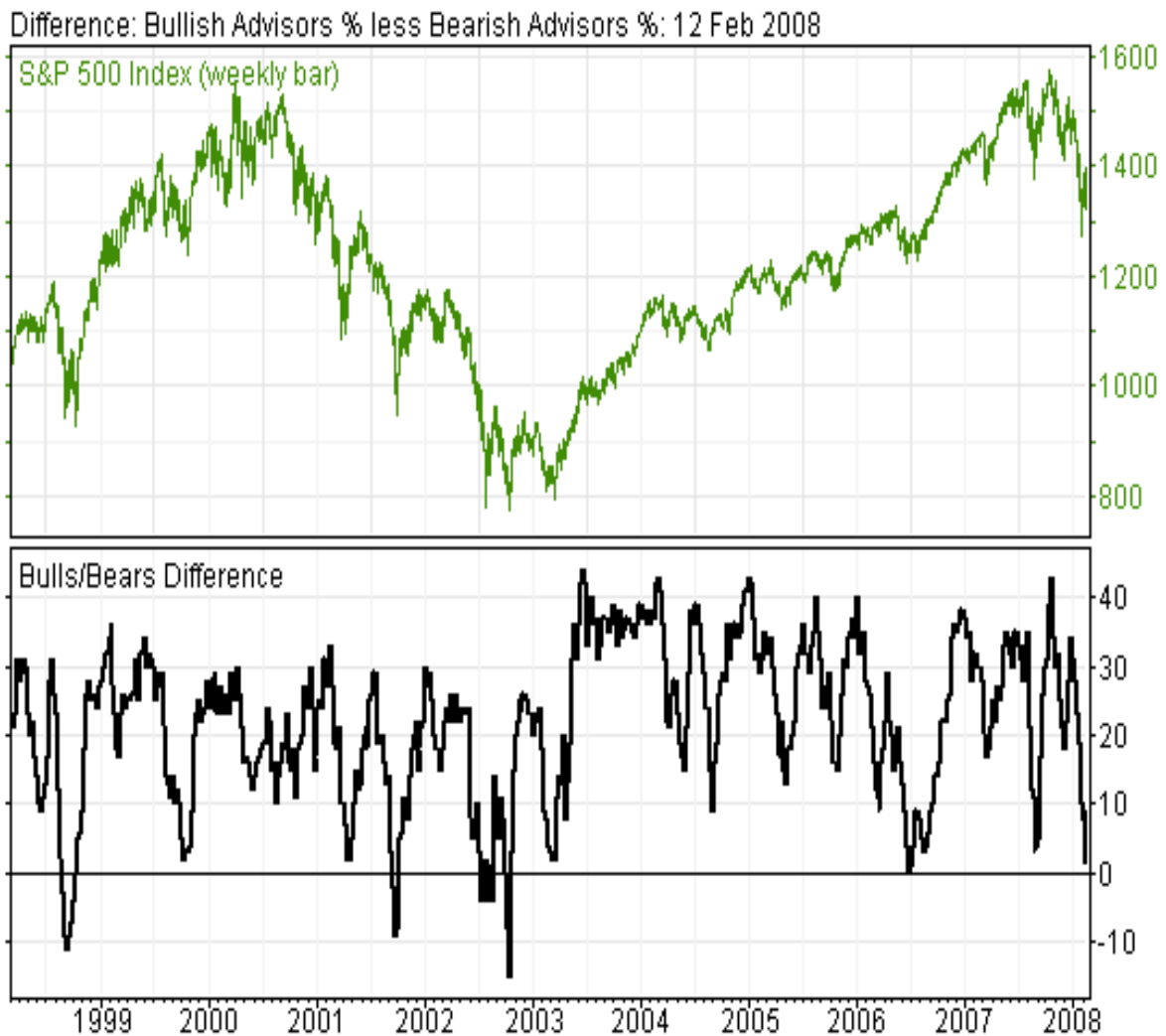
As mentioned before, it doesn't really matter how much good news or bad news there is, what matters most is how much of this good or bad news is already reflected into current prices.

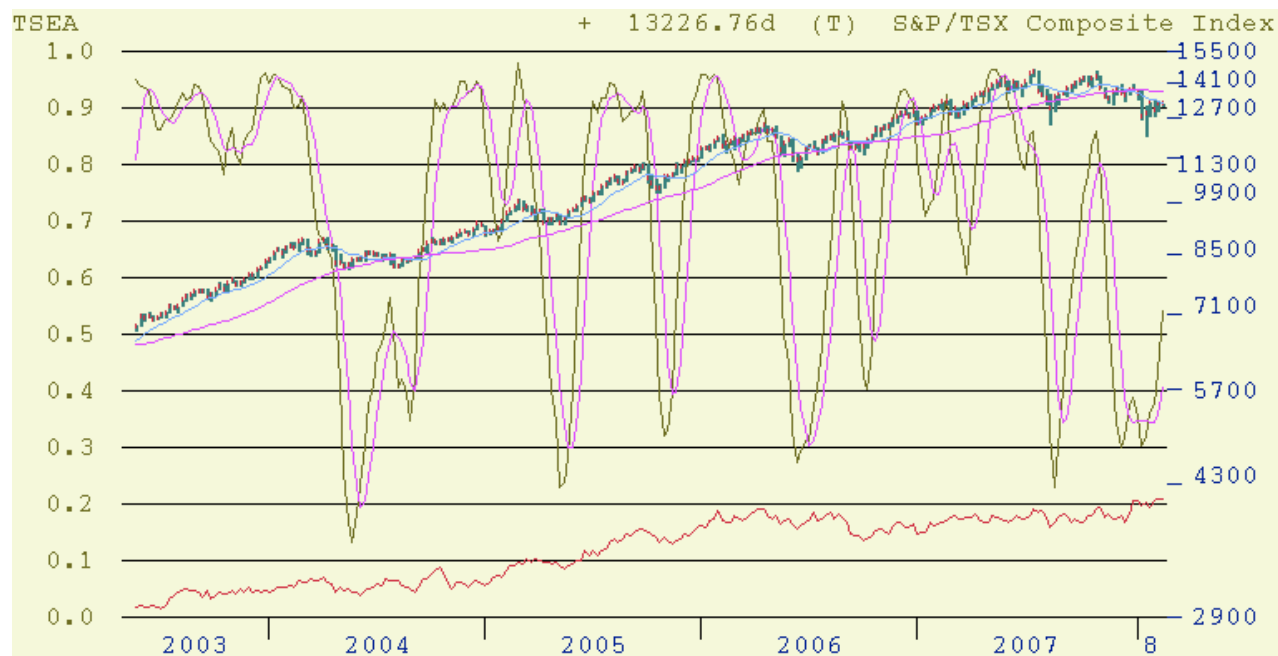
**The indicators that I have found to be the most reliable suggest that the markets should still be in an upward trend for some time. This should give the conviction to make prudent investment decisions despite all the negativity and bearish opinions which are always in ample supply at market lows.**

US markets are poised to breakout from a trading range that is getting smaller and smaller.



The bottom chart from Investors Intelligence shows the spread between Bullish and Bearish Advisors, and the top chart is the corresponding chart of the SP 500 Index. While there were actually about 10% more Bears than Bulls at the 1998 low, at the Sept 11<sup>th</sup> 2001 low and at the October 2002 low, this is the second lowest spread since 2003. Compare the low points on the bottom chart (lots of pessimism) with the corresponding point on the SP 500 chart, and it is obvious that the markets rose noticeably for many months after such a low.





The long-term oscillator for the TSX is still rising from a deeply oversold level along with the long-term oscillators for all other major global markets. A rise in unison like this is very positive.

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