PHASES & CYCLES®

MARKET COMMENT

(S&P/TSX – 13137; S&P – 1331; DJI – 12393; NASDAQ – 2268)

MAJOR MARKET INDICES CONTINUE THEIR ATTEMPT TO BUILD A FOUNDATION FOR A BROADER AND SUSTAINED RALLY.

Turmoil in the credit markets continues. Talk of a recession grows. The perils of Bear Stearns was just the latest shoe to drop into the hands of the market bears, who are now even more convinced than ever that further financial disasters and lower market prices are just around the corner. The bears – now given broad coverage in the financial media – have taken to confident speculation and prediction about just how long the "bear market" is going to last. Every piece of bad economic news is now leapt upon by the media as more evidence that further gloom and doom awaits. The investing public is understandably nervous and apprehensive.

To top things off, now ex-Governor Eliot Spitzer is an alleged market mover! For example, following last Monday's sell-off the Globe and Mail declared in a headline that "Spitzer scandal adds to Wall Street woes", suggesting that rescue of some bond insurers was in jeopardy. We await, with good humour, the "call-girl indicator" as a guide to the markets.

To determine the depth of pessimism of the investment community, we need look no further than the latest data on investment advisers published by Investors Intelligence. In a sharp move from the previous week, the percentage of bearish advisors rose to 43.3%, *exceeding* the percentage of bullish advisers which had tumbled to 31.1%. A plurality of bears in this indicator appears very infrequently and usually coincides with major market turns or significant rallies. Indeed, the last time the percentage of Investors Intelligence bullish advisers was below 30%, it coincided with the beginning of the great bull market in the autumn of 2002.

Meanwhile, in the sectors that the Market Comment has favoured for many months – the materials, energy and golds – there is certainly no bear market. The bulls generally rule in these sectors, although not in all stocks. A selective advance is occurring as we had forecasted.

Following the action of last week, North American markets are at a critical juncture for a number of reasons:

1. The action off the January 22 lows – which coincided with a low in the 9-month cycle - has been much more positive in Toronto than in New York, reflecting the relative preponderance of the bullish resource and commodity sectors in Toronto.

2. The markets are trying to consolidate and draw a line under the January lows. Positive divergences in technical indicators – see page 2 – suggest such a consolidation has a good probability of success.

3. Only the declining 50-day moving averages, especially in New York, pose an obstacle to a sustained advance.

4. A short-term low could occur in the near-term, possibly through a one-day selling spree on further "bad news" into a "climax low." This would indicate downside exhaustion and capitulation, and would be followed by a quick reversal to the upside.

In sum, with overwhelmingly negative sentiment and so many participants "hating the markets", coupled with positive divergences on some indicators, suggest that the prospects are good for a sustained rally.

We continue to favour a bullish resolution to the current market uncertainty and its oversold condition. The bull market *in specific sectors and individual stocks* should continue through much of 2008.

David Tippin, Ron Meisels

Three indicators – one at the level of the major market indices and the other two at the level of individual stocks – are suggesting that further downside action is limited and that a rally is forthcoming.

At the market level, measures of internal momentum such as the MACD indicator are showing signs of a bottom. As the S&P 500 moved back towards its January lows last week, the MACD indicator refused to follow. A positive divergence is developing. A similar situation is occurring at the level of individual stocks. First, the percentage of NYSE stocks below their respective 50-day moving averages at the January lows reached a reading of about 14%. At the end of last week the comparable reading was 30%, indicating that fewer stocks have participated in the most recent period of weakness. Second, the number of stocks at new 52-week lows has lessened considerably between January and March, suggesting that selling pressure is becoming more concentrated in a smaller number of issues.

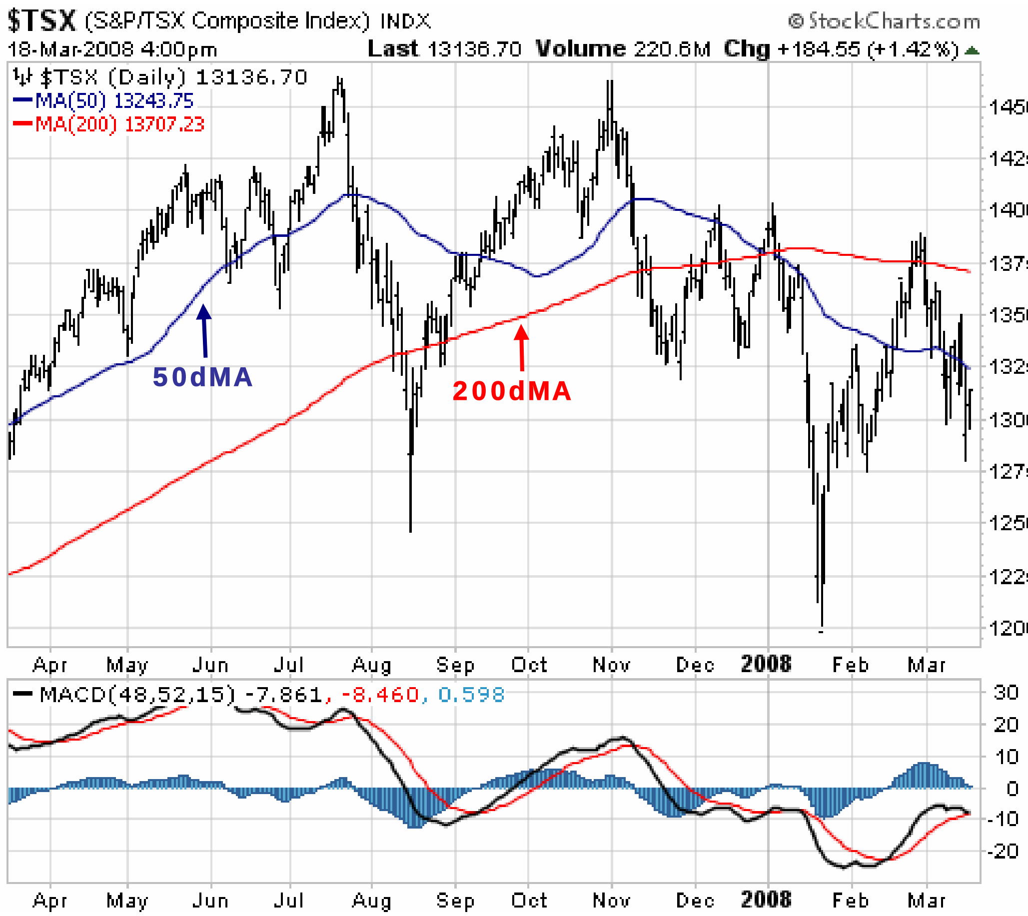
Action in New York on Monday and Tuesday of last week – a severe sell-off on Monday followed by a strong rally the next day – may signal an important reversal. Monday saw an 8.6:1 ratio of downside to upside volume, and a strong rise in various put/call ratios. On Tuesday, the upside volume exceeded downside volume by about 9 to 1.

The 50-day moving averages on the major market indices require close watching. Ever since the indices moved downward through their 200-day moving averages a few months ago, the declining 50-day moving averages have posed a problem. Several times the markets have rallied towards, or even slightly above the 50-day moving averages, but then selling resumed. At least two trading behaviours are occurring: buyers from lower levels are selling into the rally as stock approach the 50-day moving average; and short sellers are using this average as a point from which to initiate new positions. The S&P/TSX Composite Index has shown some relative strength in exceeding and staying above its 50-day moving average, but even its relatively positive action has not been sufficient to turn the moving average upwards for more than a few days.

Exceeding the respective 50-day moving averages, as those averages turn upwards, will be one sign that the markets are in the throes of a good rally. Conversely, if the next rally – especially in New York – is repelled once again by the 50-day moving average and the major market indices then fall to new sustained lows for 2008, this will be a bearish sign. But the probability of this is minor. Instead, a one or two day selling climax, taking the markets to nominal new lows for 2008, followed by a quick upside reversal on expanding volume, is the more likely scenario in the days ahead.

The January lows have taken on greater significance as the first few months of 2008 unfolded. These lows form an important barrier to further downside action, and a potential floor for a significant rally. North American markets appear to be on the cusp of revealing their intentions for the rest of the year. If there is to be a positive resolution, the onus is on the bulls to step up to the plate quickly, especially in the U.S. markets.

THE TORONTO COMPOSITE INDEX

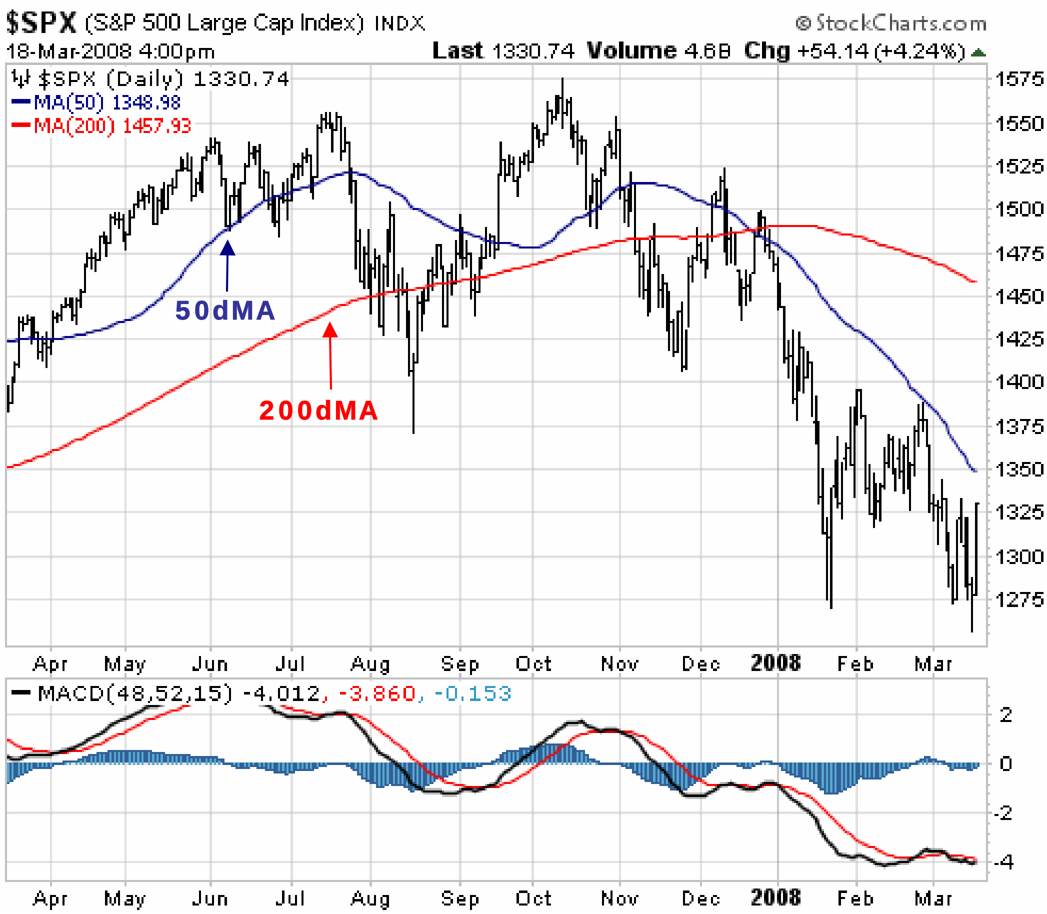


Since its January 2008 low, the Toronto market has behaved in a manner that usually occurs on the back of a coincident low in the 9-month cycle. The S&P/TSX Composite Index rallied strongly out of the low, back to and slightly exceeding its 200-day moving average. This six-week rally encountered strong resistance at and just below the 14,000 level – right where two previous rallies in December and January had been turned back.

The 13,800-14,000 zone now constitutes an area of important upside resistance. Clearing 14,000 would put the Toronto market above this resistance zone and above the 200-day moving average. It would also turn the 50-day moving average upwards, providing support for any extended rally. A decline below the January low of 11,983 would be a cause for considerable concern.

The Toronto market's January/February rally gives it a "downside cushion" greater than that of the major U.S. market indices. After some continued consolidation, we expect that the S&P/TSX Composite will launch another assault on the 14,000 zone, eventually taking it above this area.

THE S&P 500 INDEX



The chart of the S&P 500 over the last year looks like an index whose components are relatively over-represented in out-of-favour areas such as financials, and under-represented in bullish sectors such as resources and commodities. The S&P 500 traced out a sideways formation for much of 2007, and in January 2008 broke down through the 1400 support. It has remained below this level for two months.

The negative interpretation – focused on by the bears – is that a large "head and shoulders" top has been created, with a neckline at about 1380, and a potential minimum downside target of about 1190.

However we do not agree with this interpretation.

Positive divergences now appear in internal momentum indicators and the S&P 500 is now trying to make a stand in the 1280-1300 zone. With a successful re-test of this level, a "double-bottom" would be formed, providing a solid platform for a rally back to the upper level of the trading range near 1400.

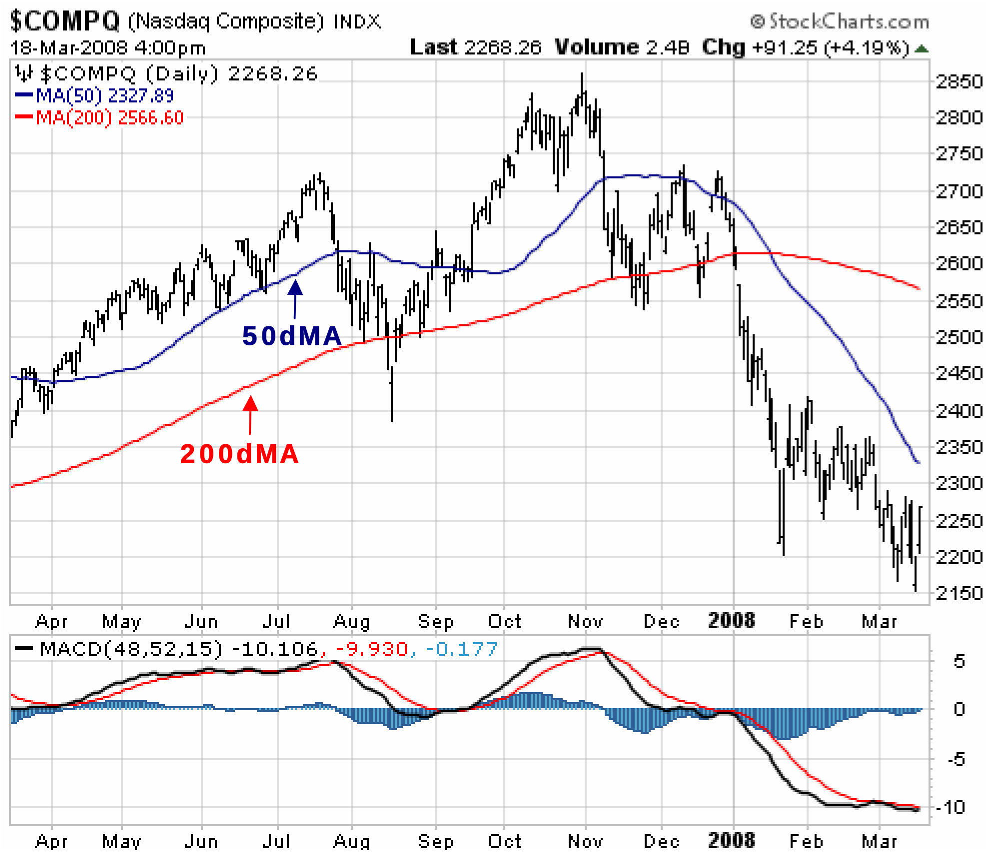
Barring a complete collapse, which would confirm a bear market, the S&P 500 should rally over the next few weeks towards the 1400 zone, and above its 50-day moving average.

THE DOW JONES INDUSTRIALS

The Dow Jones Industrial average has tracked the S&P 500 quite closely over the past few months, and is in a similar technical position – a re-test of its January 2008 lows is looming, and positive internal momentum divergences suggest that there is a good chance that this test will be successful. The Dow Transports have been relatively strong, and at the close of last week were well above their January lows.

The declining 50-day moving average constitutes the most immediate obstacle for any rally in the Dow Industrials, followed by the resistance at the top of the trading range in the 12,800 zone. A move into the high 12,000s would be a good step towards firming up the foundation for a more prolonged rally.

NASDAQ COMPOSITE INDEX



Towards the end of 2007 the NASDAQ Composite looked to be in good technical shape, well above its rising 200-day moving average, but at the top of its trend channel. A pull back towards the 200-day moving average would have been entirely appropriate, but having done this, the index proceeded to collapse in the early weeks of 2008.

The NASDAQ's decline has punctured the major bull market trend line established from the 2002 lows. The 200-day moving average has turned down sharply. The index has had great difficulty in even approaching its declining 50-day moving average for the past 10 weeks – a sign of considerable weakness. In addition, the NASDAQ is under-performing the S&P 500, since it moved to a new low for the year in March, below its January 2008 lows.

On the plus side, there is a positive divergence developing in the MACD indicator, even as the index makes new 52-week lows. There is also a zone of support in the 2000-2100 region, just slightly below the levels reached late last week.

The NASDAQ needs to demonstrate that it can put the brakes on its decline, now in its fifth month. A modest rally back into the 2400s, near the broken trend channel line, would be a good start.

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