

# PHASES & CYCLES®

## ARE WE IN A BULL or BEAR MARKET?

It depends on who you listen to.

The newspapers bombard us day after day with negative news. So, it must be a bear market.

The recourse laden S&P/TSX Index hasn't done much since mid-July! This is not a surprise, since both Gold and Oil backed off from their over-bought lofty conditions. There was a small advance in the Banks, but it wasn't enough to overcome the sell-off in Gold & Oil.

At the same time, since mid-July, the Dow Industrials is up over 7%; the S&P 500 is ahead almost 8%; and the Dow Transport has advanced almost 13%.

So, is this a Bull or Bear market?

As usual, we want to listen to the evidence. The facts come from the Cyclical, Sentiment and Price Pattern data.

### **CYCLICAL DATA**

Cyclical patterns suggest that the current timeframe is conducive to the start of an important up-leg.

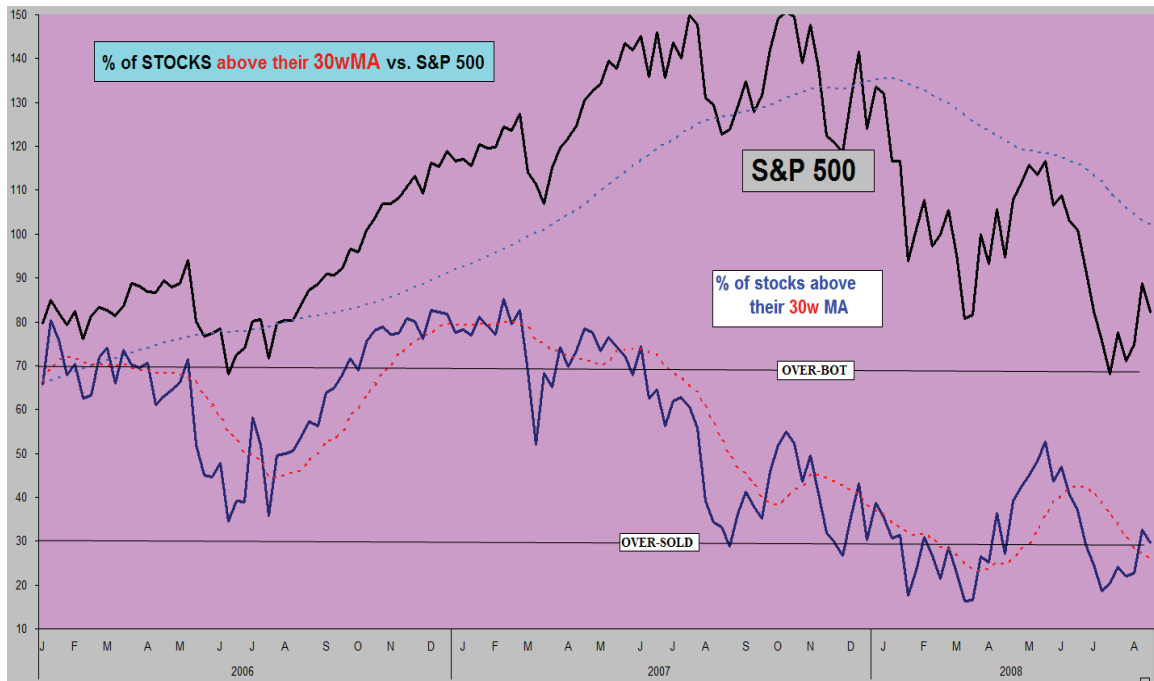
Yes, the cycles are late this time – they have not had to deal with the total collapse of the financial system for a long time! Most investors don't realize that the Financial Sector contains the largest number of issues in the U.S. Indices, whereas the Materials Sector is the second smallest! The former represents 18% of all issues in the S&P 500 Index, whereas the latter has a mere 6%. No wonder, given the huge collapse of almost all of the Financial stocks (Citicorp is down 75% from its recent high; Lehman Bros. is off 86%; Bank of America lost 64%) that this Index failed to hold its March low, which, in turn, created what is known as a "cycle failure".

Second, whenever there is a market weakness during July-August (instead of the usual summer rally) the markets usually perform better after Labour Day i.e. during September-October. Which usually comes as a surprise to a lot of prognosticators.

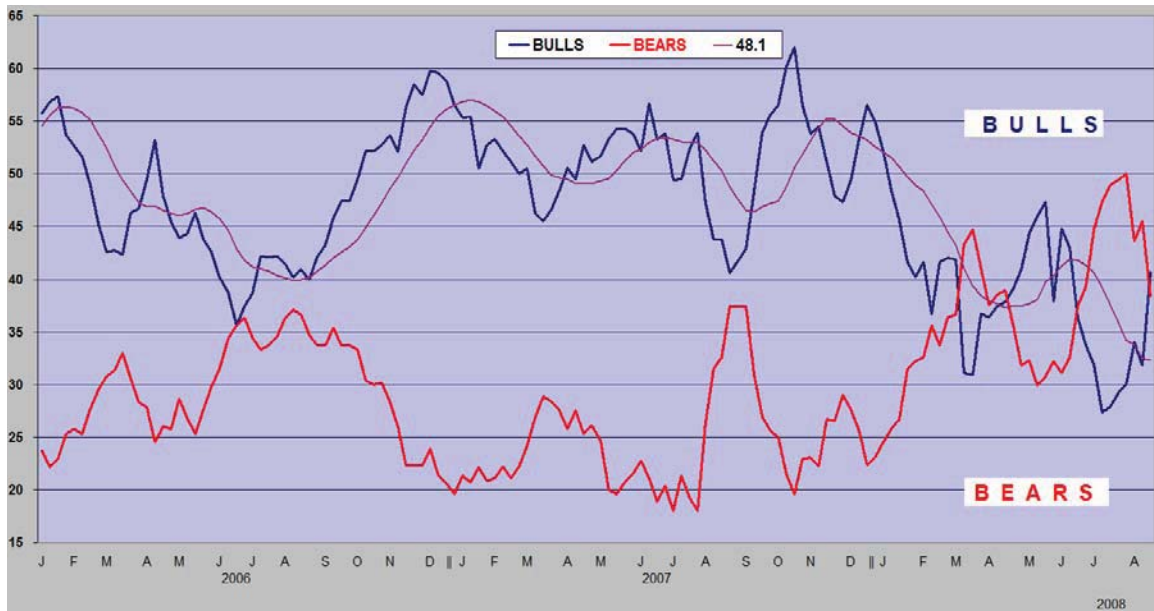
Third, statistics support positive markets between Labour Day and Election Day in election years.

**Olaf Sztaba, Dave Harder,  
Ron Meisels**

**SENTIMENT DATA** Please look at the charts and comments below.

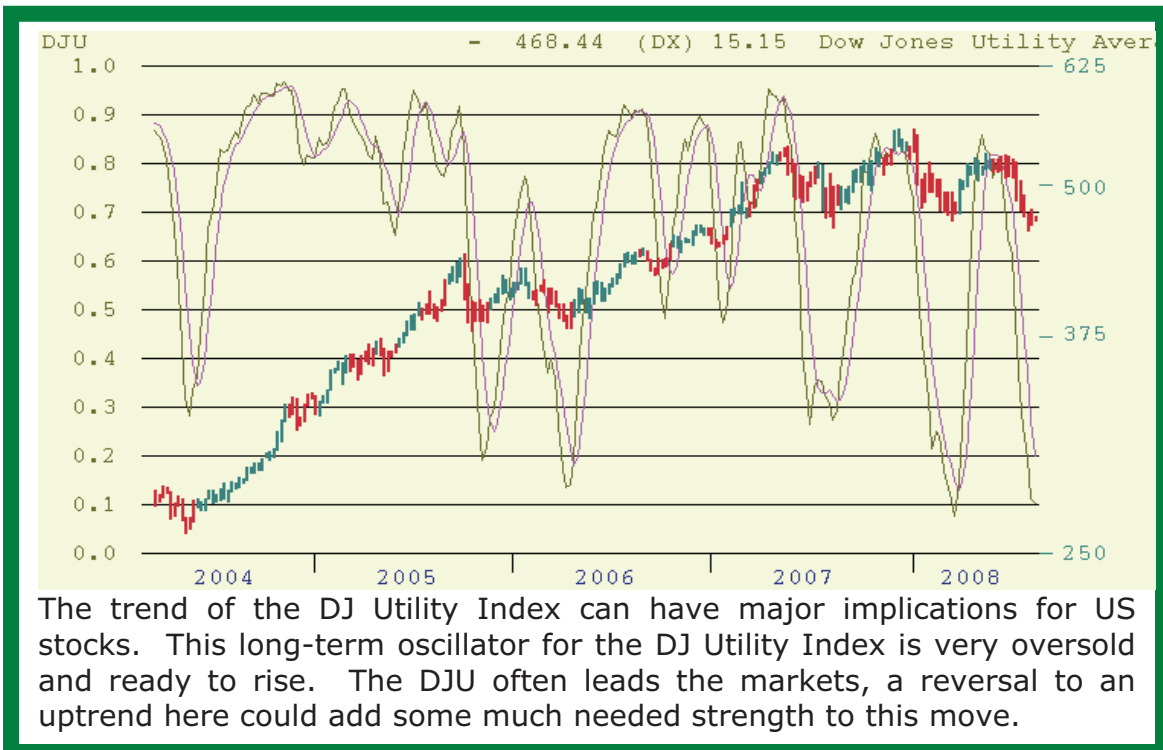
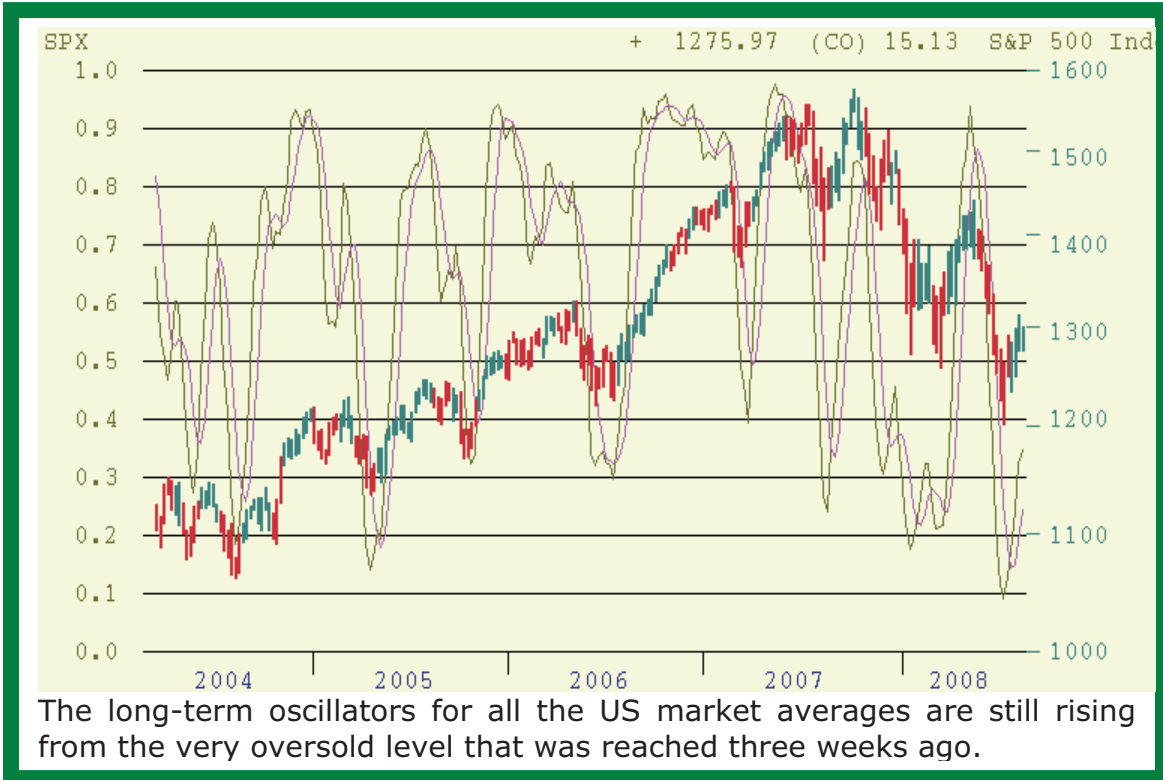


This indicator (% of stocks above their own 30 week moving average, courtesy of Investors Intelligence), is showing a divergence between the last few weeks and the January-March period: the S&P 500 reached lower levels recently, but this indicator didn't. In addition, this indicator hasn't had a lower than 20% reading since October, 2002!



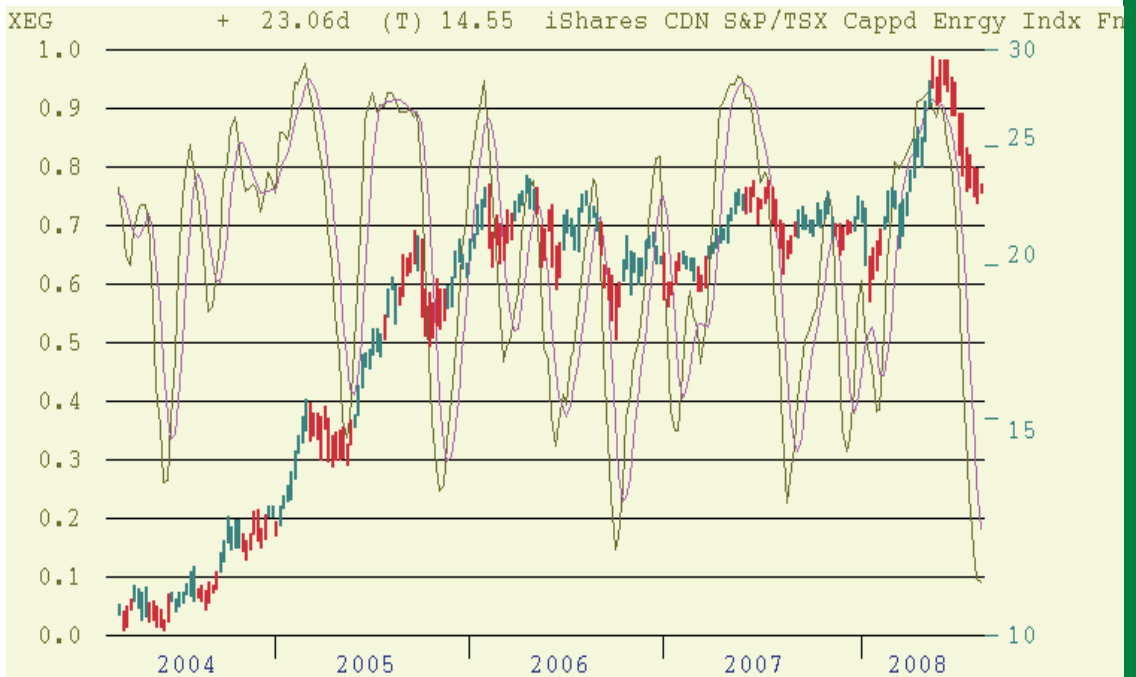
This indicator, the percentage of Bullish or Bearish market-letter writers (courtesy of Investors Intelligence), showed a gap of 20% recently between the two camps, which hasn't occurred since October, 2002!

Here are some other charts and comments, courtesy of Dave Harder.

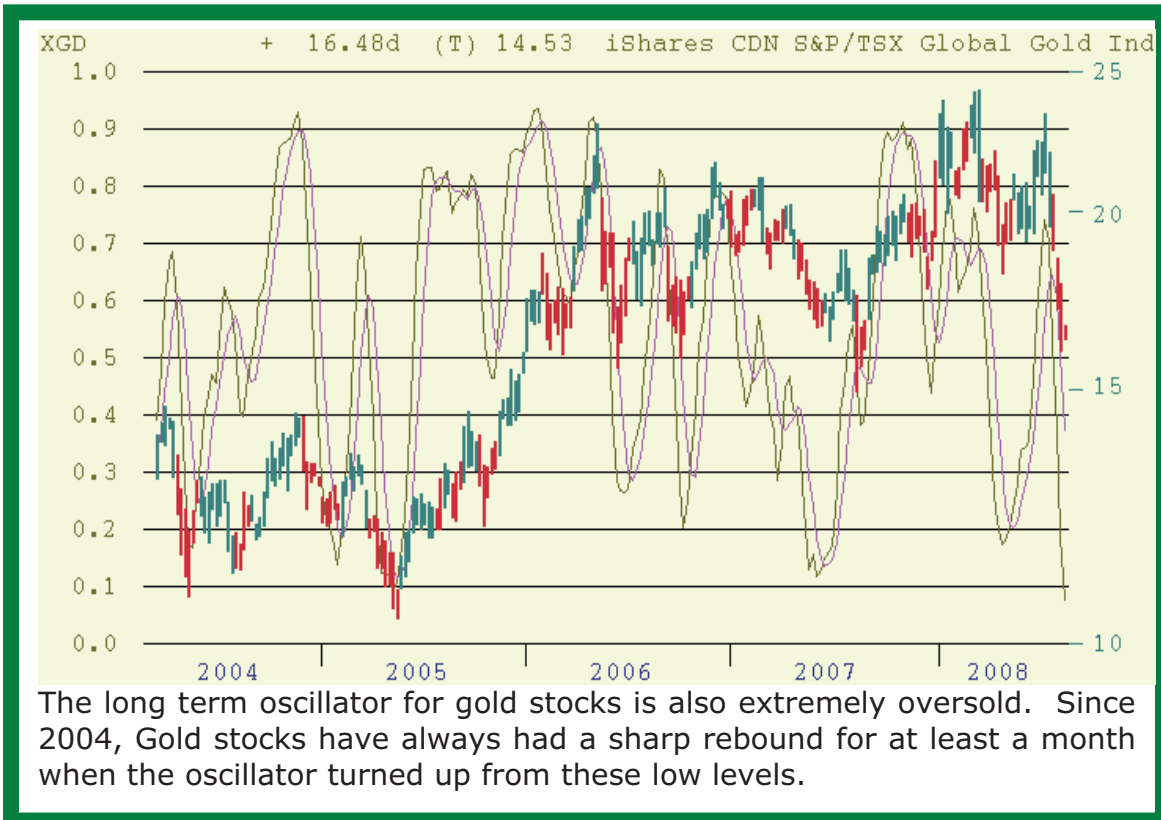




The S&P/TSX lost 1.8% last week even though it appeared poised to turn up during the week. Now that gold and oil stocks are fully oversold, perhaps we can have a lift-off soon.



The oscillator for the TSX Energy Index is already bottoming. An uptrend, or at least a period of stability could begin any day.



## **PRICE PATTERNS and OSCILLATORS**

The MACD, Stochastic and On Balance Volume Oscillators are coming off major over-sold conditions. In fact, there are positive divergences between the MACD, Stochastic and On Balance Volume data and daily price activity (\*). These indicators do not forecast "how long and how far", they only suggest that current conditions are favorable for more upside activity.

(\*) A positive divergence occurs when a stock or Index dips to a lower low, but any or all of the above mentioned Oscillators fail to do so.

We have advocated for over six months that during the current stage of the 40-year cycle "Stock Selection" is most important. With this in mind, let's touch on a few ideas.

1. Resource oriented stocks (Oils, Materials and Golds) are now back to their respective 200-day moving averages, where they should find support. They need more "rest", but they should be ready to lead again in 1-1½ months.
2. Banks had their "recovery rallies" and most, in all likelihood, do not have much more upside potential.
3. There are plenty of "movers" among Canadian Railroads, Industrials, Information Technology and U.S. Consumer and Health Care stocks to lead until the Resources come alive again. CNR, Bombardier, SNC Lavalin and Research in Motion, as well as Heinz, Kroger and Johnson & Johnson come readily to mind.

Please see our most recent list of Recommended Stocks for others.

=====

P.S. Pardon our levity, but there is this story about a customer at the perfume counter who asks: "Do you have any notions", to which the saleslady replies: "Yes, but we try to suppress them during working hours".

Well, we have this notion that yesterday may have been an important reversal day for Toronto! Let's hope that it won't be suppressed!

**Phases & Cycles Inc., 2020 University, Suite 1903, Montreal, QC H3A 2A5**

Tel.: (514) 393-3653 E-mail: [RonMeisels@phases-cycles.com](mailto:RonMeisels@phases-cycles.com) [www.phases-cycles.com](http://www.phases-cycles.com)

© Copyright 2008, Phases & Cycles Inc. All Rights Reserved

The opinions and projections contained herein are those of Phases & Cycles Inc., its principals, associates and employees ("the researchers") and are subject to change without notice. The information contained herein has been obtained from sources that we believe to be reliable but cannot guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that "the researchers" are to be under no responsibility or liability whatsoever in respect thereof. "The researchers" may, from time to time, buy, own or sell securities mentioned herein. "Phases & Cycles" is a registered trademark of 104443 Canada Inc.