

PHASES & CYCLES®

**TORONTO HAS STARTED AN UPTREND.
GOLDS AND FERTILIZERS ARE BOTTOMING.
IS THIS THE END OF THE CORRECTION?**

The mid-March lows of S&P/TSX 12,454 and S&P 500 1257 were followed by a strong rally. Although the U.S equity markets began to decline once again on May 19th, the S&P/TSX continued on and reached an all time high of 15,155 on June 6th. This was 33% above the September, 2000 high. Soon thereafter, an end to the speculative frenzy in oil resulted in lower prices for commodities and resource stocks. The S&P/TSX, which cannot go in a direction opposite to the trend of the powerful US markets very long without eventually following the same path, also started to decline.

On July 15th the S&P 500 bottomed along with the financials, but the weakness in

the resource sector caused the S&P/TSX to drift lower for another month before finally bottoming last week.

The important difference in the behaviour of the two markets is that while the blue chip indexes in the US made lower lows in January, March and July of this year, Toronto made higher lows and higher highs.

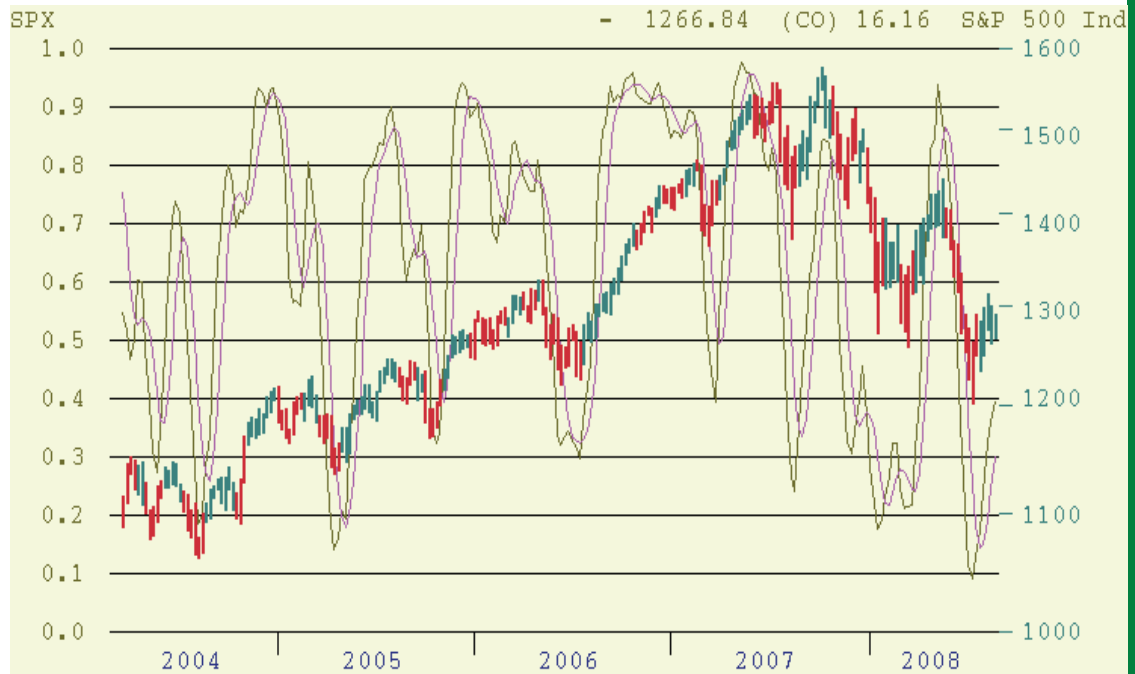
This pattern of higher lows and higher highs should continue for the rest of 2008, and with the assistance of the Oils and Golds, Toronto should reach a new all-time high before the year is out.

Since August 11th we have suggested that the decline in the S&P/TSX should soon terminate. As expected, Toronto began a rise on August 20th, as Gold and Oil prices have considerably increased from significantly oversold levels. Similarly, the long-term oscillators for the S&P/TSX and the TSX Energy Index have also turned up from very oversold levels and gave Buy signals. This implies the beginning of an uptrend that could last anywhere from one to six months. The long-term oscillators for Gold, gold stocks and fertilizer stocks (Potash has a big weighting in the S&P/TSX Index) are also bottoming and should turn up to provide additional strength in the weeks ahead.

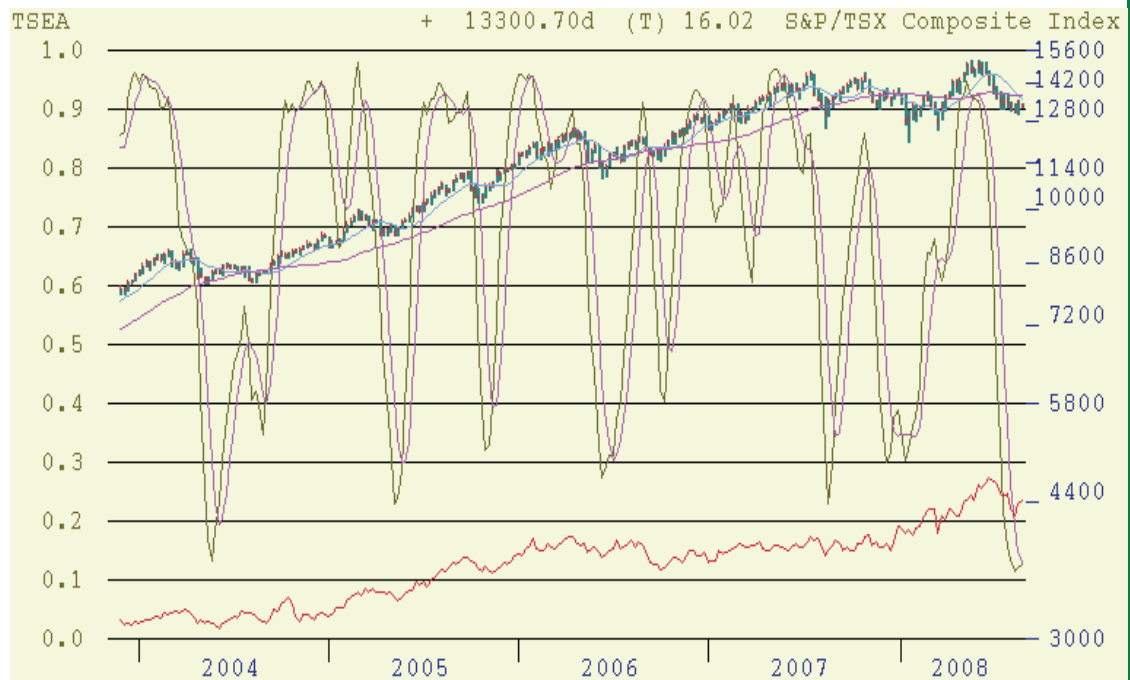
At the same time, the strength in US equities has not been

inspiring since the July 15th lows. It is possible that the recent move is just a rally in a longer-term downtrend for US equities. If this is the case, it may be prudent to sell equities and move into cash after a rise in the months ahead, especially if Toronto makes a record high, while the S&P 500 hesitates. But before jumping ship, it is important to remember that the US markets often perform well in the fall of an election year.

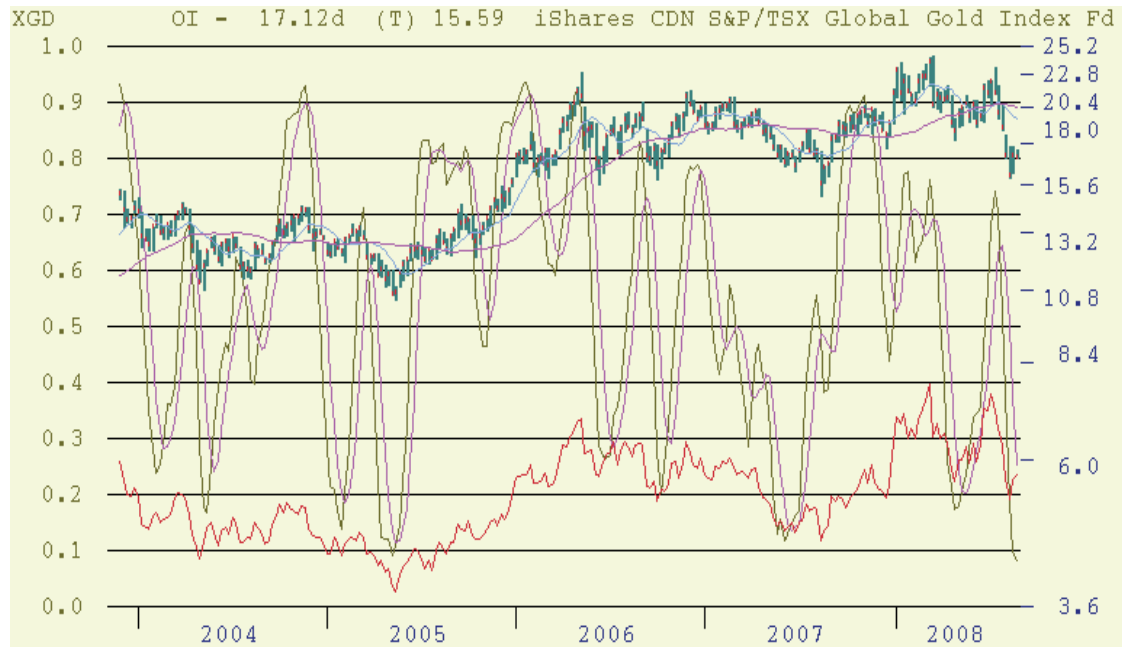
One can usually get a better idea of the market direction a weeks or so past Labour Day, after senior portfolio managers return from summer holidays and have a chance to assess things. It's worth the wait.



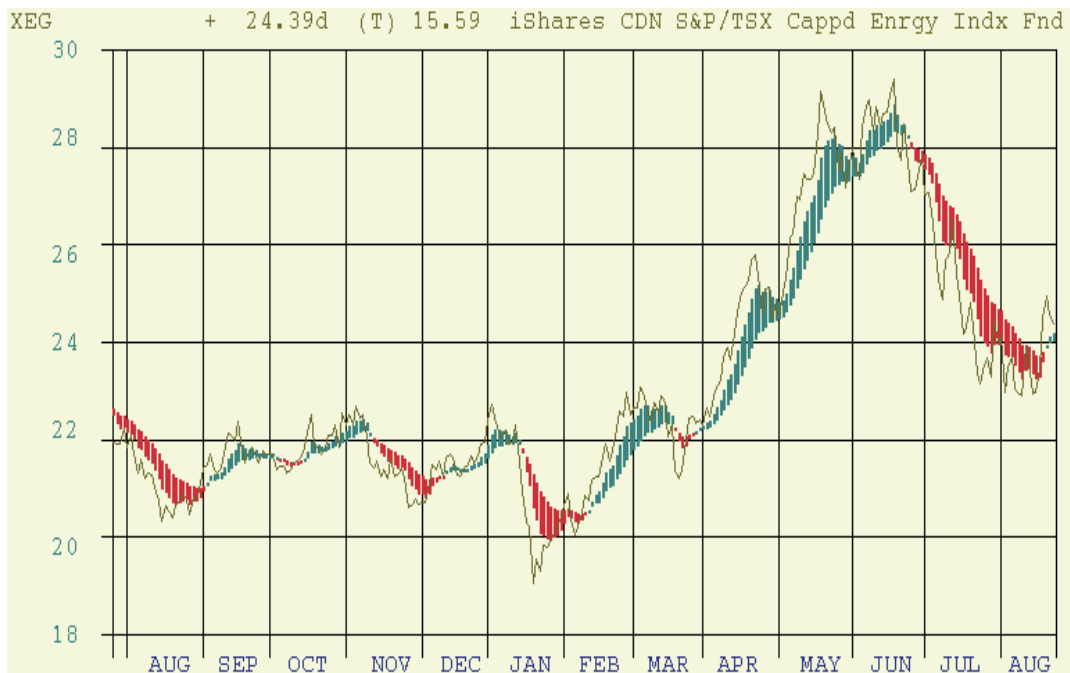
The long-term oscillators for the S&P 500 are still rising.



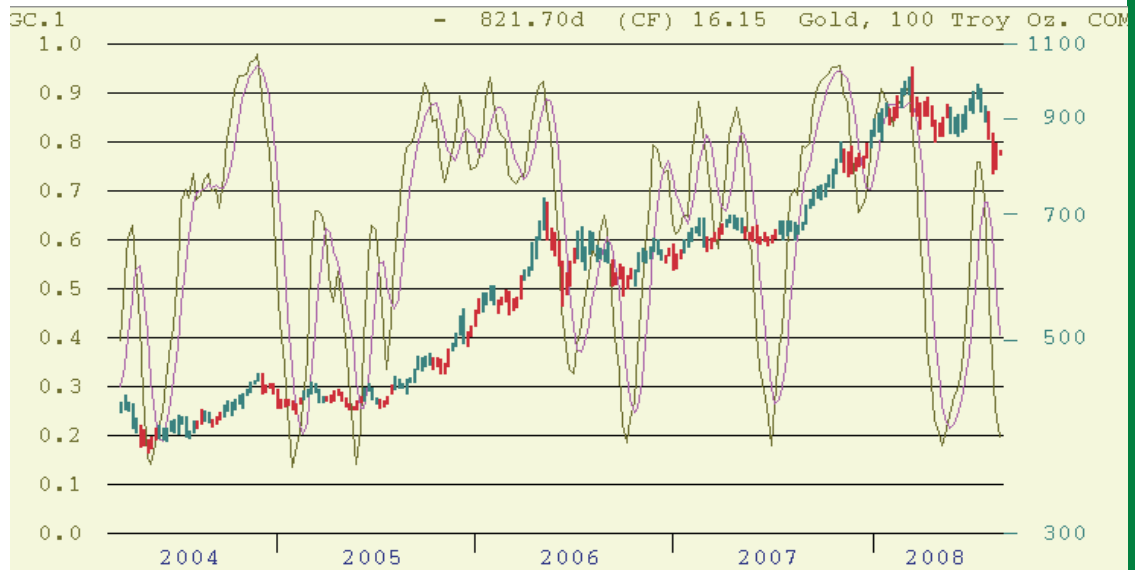
The long-term oscillator for the S&P/TSX finally turned up from the most oversold level in years. It rose 2.7% last week. Toronto should rise from here even if we are embroiled in a longer-term down trend in the US.



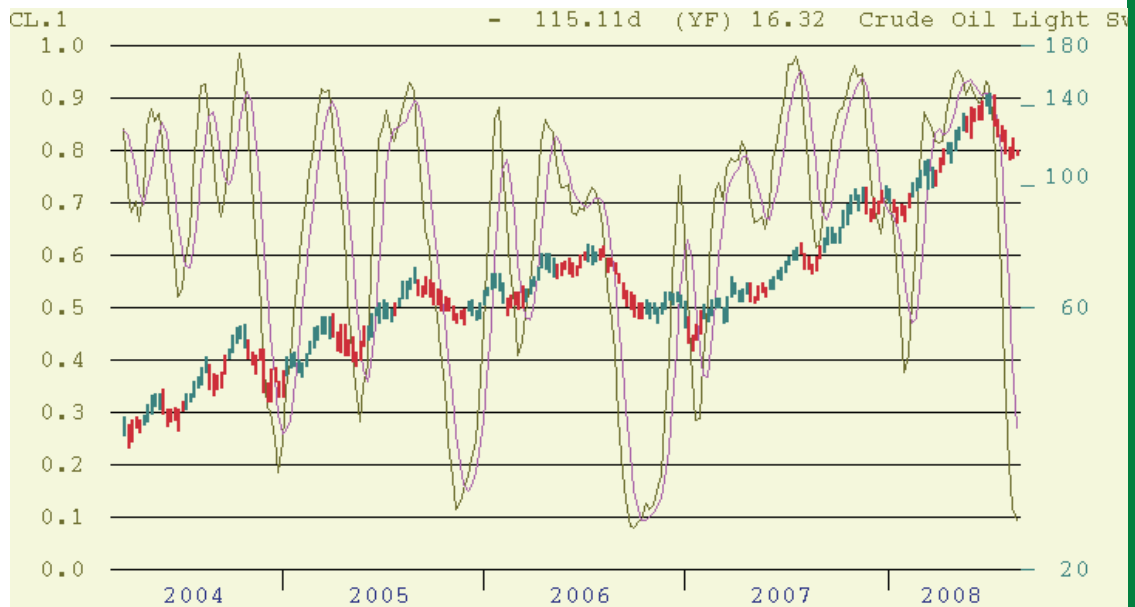
The long-term oscillator for gold stocks appears to be ready to turn up after last week's strong rebound in gold prices. This bodes well for gold stocks and the TSX.



The long-term oscillator for the TSX Energy Index has turned up and the short-term Trend chart you see here has turned green. This confirms what the oscillator has predicted. It was very accurate when it turned red in June, and should be equally accurate now that it has turned green.



Gold is as oversold as it has been every other time that it has bottomed since 2004. While it has probably bottomed, the oscillator needs to turn up to forecast an uptrend.



Oil is also very oversold and bottoming. After last weeks bounce in oil prices, it appears on the verge of turning up, just like gold.

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