

# PHASES & CYCLES®

**THE OSCILLATORS INDICATE THAT WE ARE MOVING TOWARD THE END OF A CORRECTIVE PHASE WITHIN THE UPTREND.**

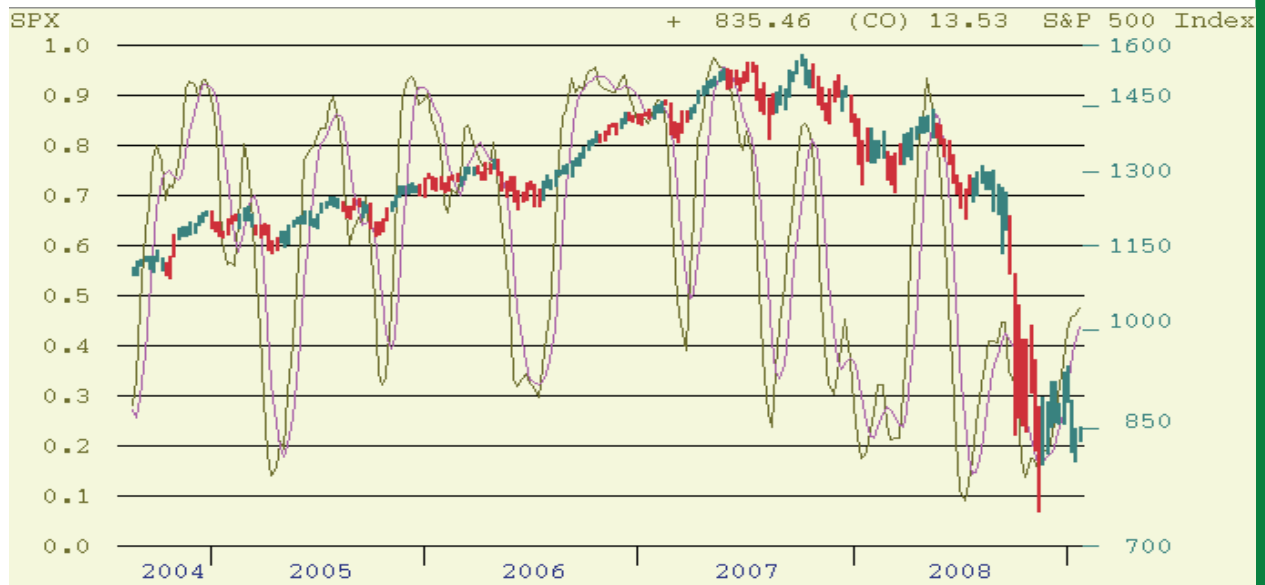
While stocks in many sectors are acting well since the November 21<sup>st</sup> lows, huge fourth quarter losses and write-downs for US financial companies have cast a shadow upon all stocks, dragging the markets lower. To date, the US Banking Index is down 37%, the S&P 500 Index is down 7.9% and the Canadian TSX Index is down 4%. Since one sector has such a negative impact on the markets, the indicators are still mixed, but with a positive bias. The long and short-term trend charts for equities are all negative except for the Volatility Index which is bullish. However, the long-term oscillators continue to move higher, except for the US financial stocks. In the short term, equity markets and the Financials are as oversold as they were at the previous market lows on October 10<sup>th</sup> and November 21<sup>st</sup>, so they are due to move higher.

There are some positive signs that economic activity is starting to improve. It was reported that US home prices fell 9.3%, but sales were up 6.5% in December instead of declining 2% as was expected. Cheaper home prices, lower interest rates and a lower supply of homes may suggest that US housing prices could bottom as early as this summer instead of sometime next year.

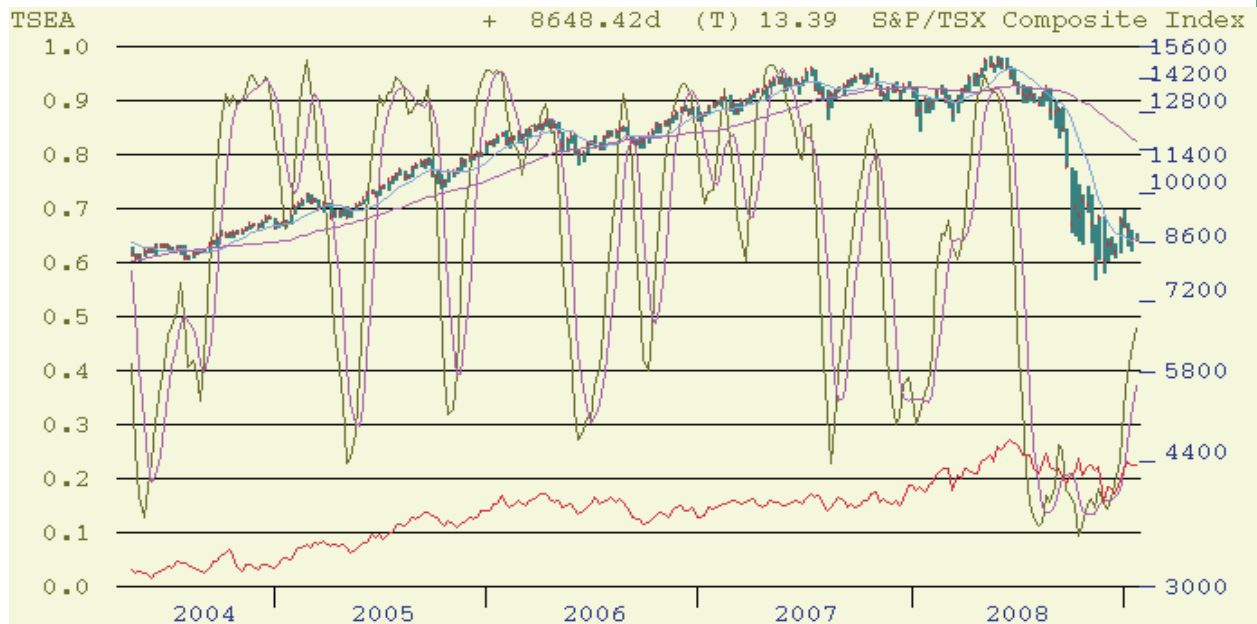
Prices for copper and oil are strengthening while the Baltic Freight Index, which tracks shipping costs, is now up 48% from the December 8<sup>th</sup> low. This not only shows that the demand for goods and products is increasing; it also suggests that it is getting easier to receive letters and lines of credit from lenders. This is a very important trend!

The Volatility Index, which measures investor fear, has fallen from the 80 level of October - November to the 50 range. The 50 level is still extremely high by historical standards, so there continues to be a lot of room for improvement. So far the S&P 500 and the TSX are up more than 10% from the November lows despite three weeks of seemingly endless declines. History shows that markets have often advanced sharply after severe sell-offs like this.

**In summary, the indicators suggest that equity markets should have at least a strong short-term bounce from here. The character and strength of this advance should provide more evidence for the longer-term picture.**



The rising long-term oscillators for North American market indices suggest that the trend is still up. The weakness in US financials has caused this oscillator for the S&P 500 to waver a little, but it is moving higher.



There is no wavering for the Canadian TSX even though the decline in US financials has negatively affected Canadian bank stocks. The IMF has stated that Canada has the strongest banks and economy in the G7. Investors should have a major weighting in Canada with a low weighting in US equities. Higher prices for, gold, oil and other commodities benefit Canada more than the US.

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