

# PHASES & CYCLES®

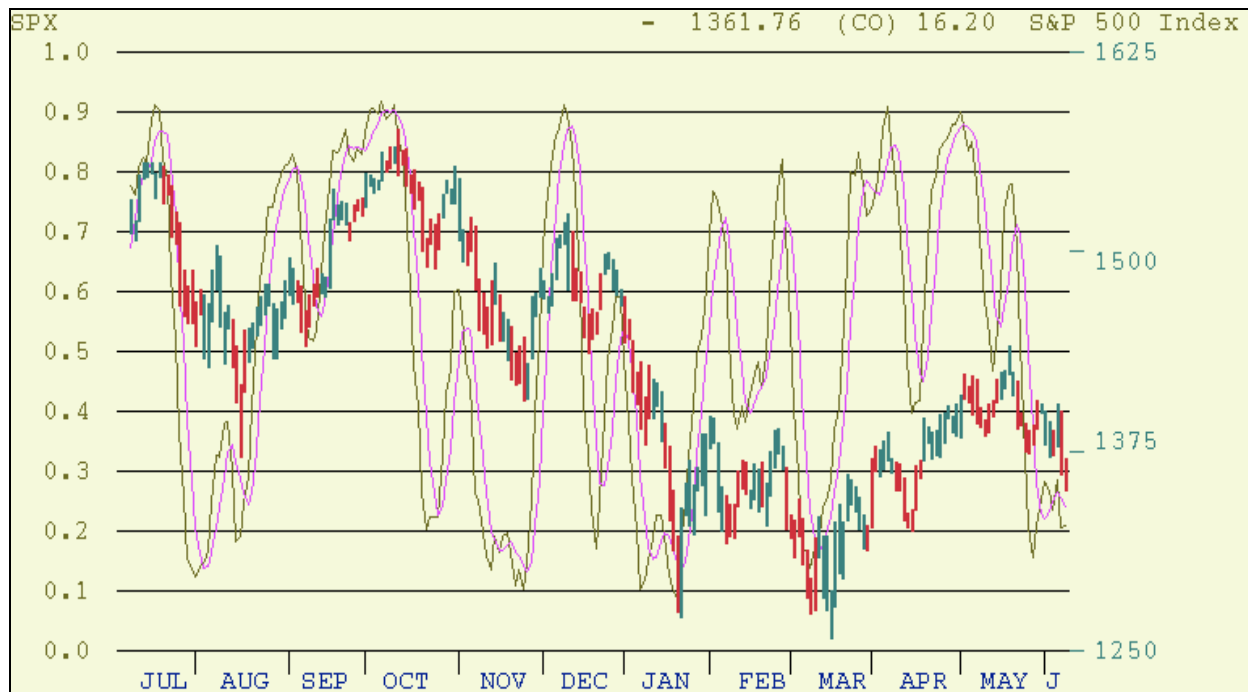
**WHILE HIGH OIL PRICES ARE A SERIOUS THREAT TO EQUITIES,  
MOST OTHER DATA SUGGESTS THAT  
THIS IS MERELY A PERIOD OF CONSOLIDATION  
BEFORE A VERY STRONG RISE.**

Oil and gold fall as Bernanke speaks and the US\$ rises. The DJIA rises 214 points on Thursday and falls 394 points on Friday as the biggest jump in unemployment in 20 years causes investors to fret and send the battered US financials to yet another new low. What on earth does it mean for investors?

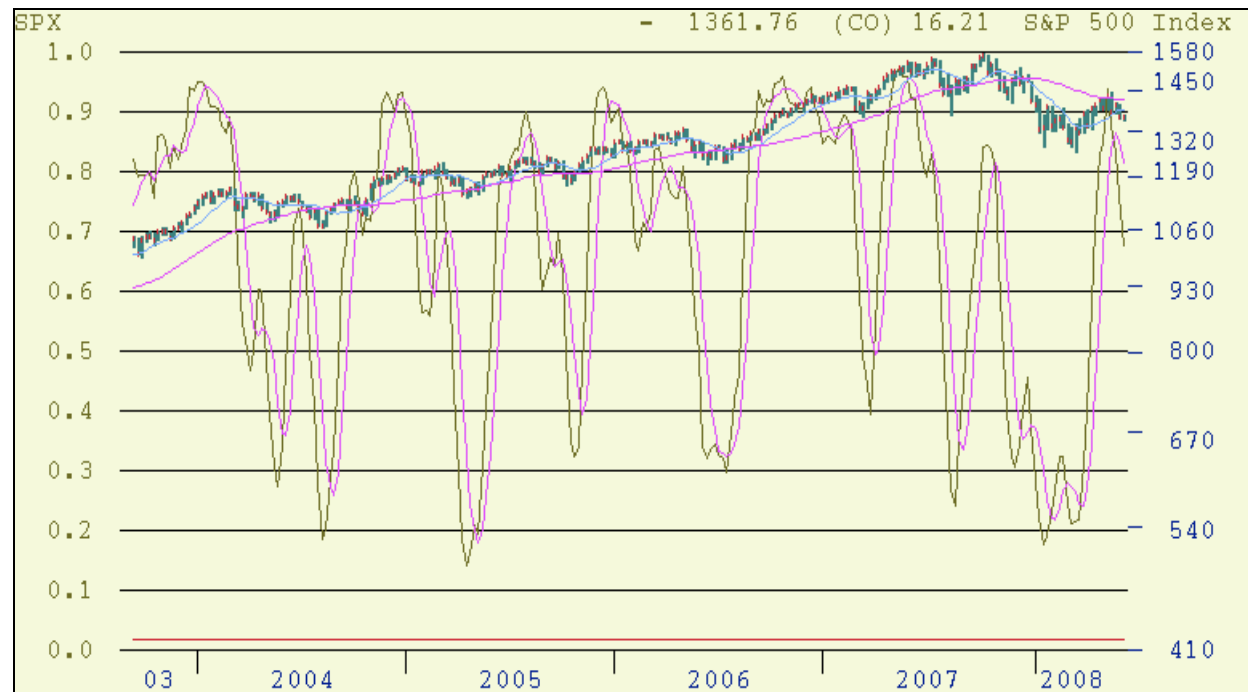
Very simply, it means that many assets are consolidating their gains since the mid-March lows in US equities. Since March 17, 2008, the SP 500 rose 13%, Toronto rose 20%, gold fell more than 10% and oil rose 35%. Almost nothing goes straight up or down, so it is very normal for trends to reverse course or consolidate recent moves. Random volatility during a consolidation phase is not unusual; they typically last six to seven weeks. Since US equities peaked on May 19<sup>th</sup>, we could continue to see up and down action until the end of June.

Offsetting the concerns about energy prices is the pessimistic sentiment created by all the bad news. While such negative unemployment figures seem ominous, past history shows that US equities usually perform extremely well after such a negative move – according to JP Morgan, since 1950, the DJIA had an average gain of 30% within 12 months following such an event. A healthy level of pessimism, very low consumer confidence, markets that are as oversold as they usually are before strong uplegs (such as October 2005 and July 2006) indicate that the risk is likely much lower than it might seem and that the upside potential, when this period is over, could be much better than it might seem.

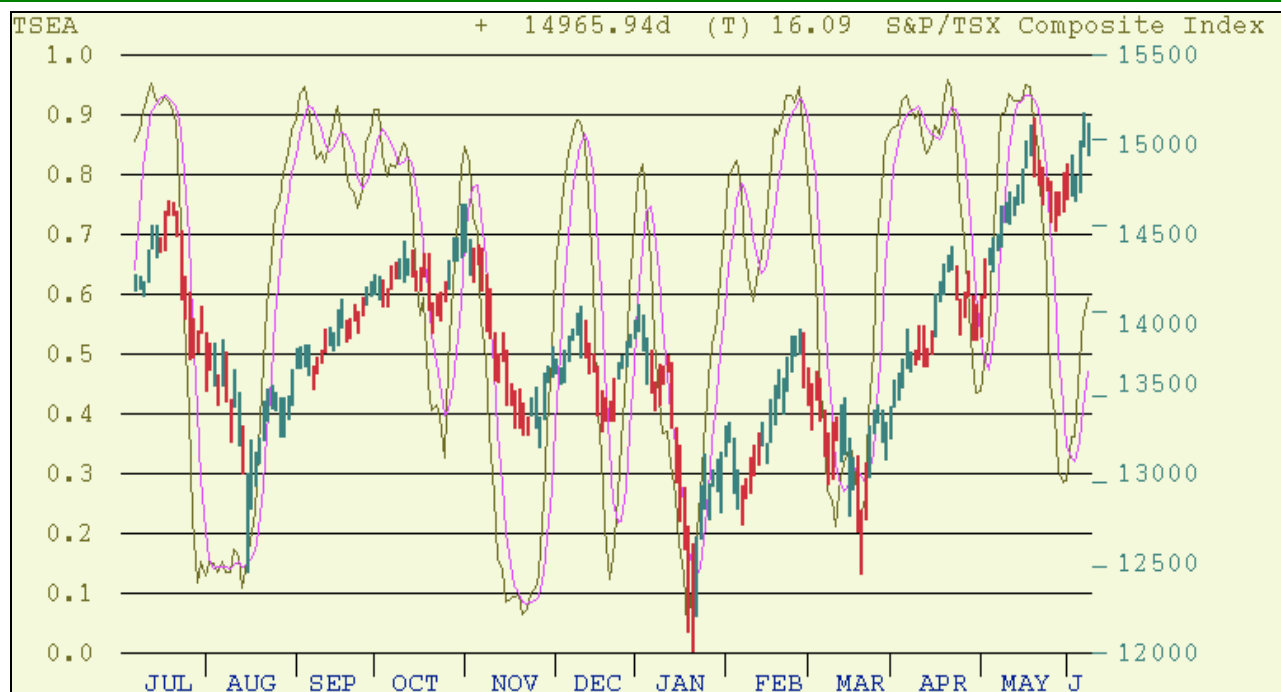
Please see charts along with brief comments below.



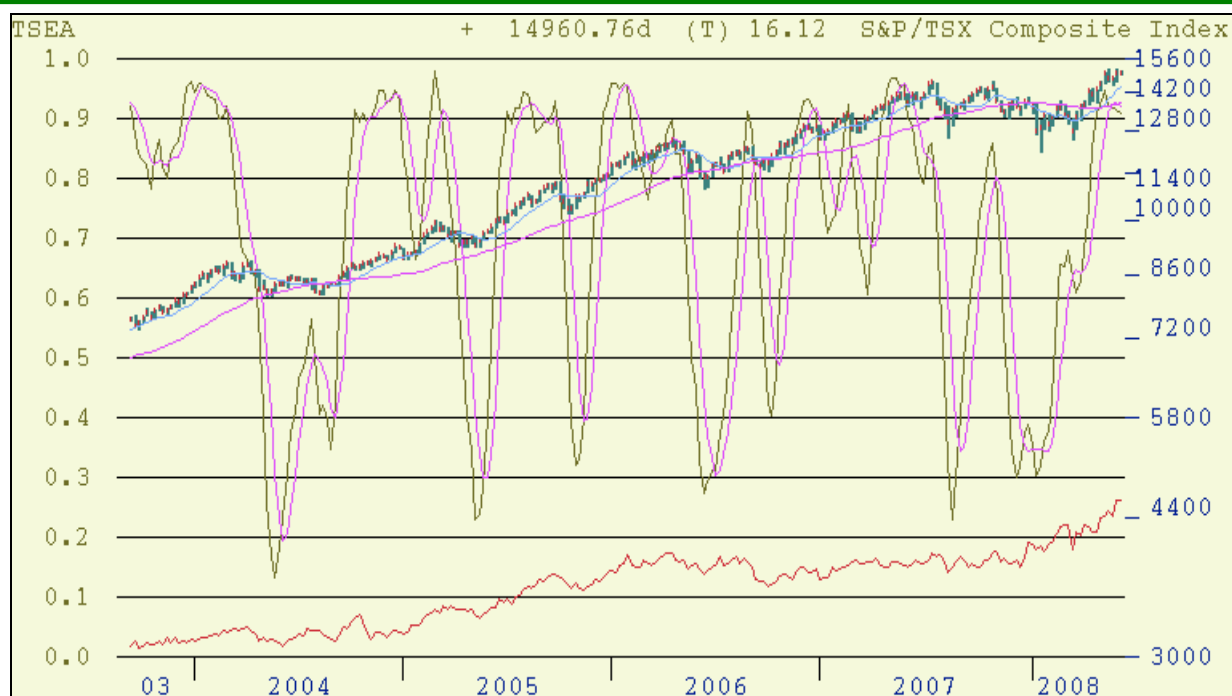
The short term oscillator for the US market is oversold and is forming a double bottom just as it did at market lows in August and November 2007 and January and March this year.



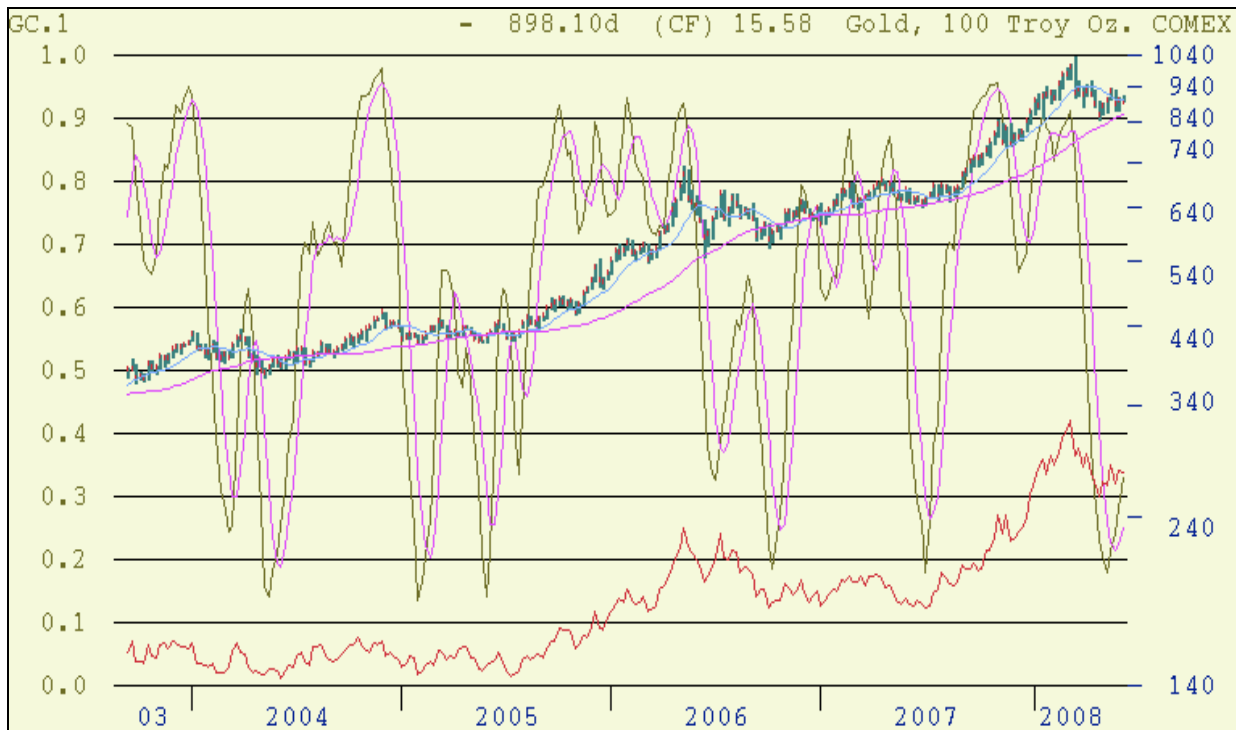
The long-term oscillator for US equities is still declining from overbought levels. This needs to turn up to indicate that the corrective phase is over.



The short-term oscillator for Toronto turned up last week along with the oscillators for gold, gold stocks, oil and oil stocks.



The long-term oscillator for Toronto is a little lower with the Index higher. This looks similar to the indicator for oil. If oil falls, Toronto could decline until the US markets turn around. Continue to stay with Canadian investments. If oil prices rise, the TSX usually benefits. If they fall and the US markets rise, the TSX will usually benefit too.



Gold has been up and down like a yo-yo recently but the long-term oscillator has been very consistent. It suggests that the trend of gold is still up since bottoming on May 19.

**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)

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