

PHASES & CYCLES™

THOUGHTS ABOUT THE LAST FEW DAYS

1, After a week that gave us a new all-time high on the S&P 500 at 1555.90 (mind you, only by a mere 2.79 points!); when comments such as “There seems to be no stopping this market” and “... 1600 is now possible this year” were heard, the market did the obvious, that is sold off 91 points (5.8%) in New York and 942 points (6.4%) in Toronto (from recent highs to yesterday’s low).

2, Our Market Comments since June 2007 have suggested selling into rallies and generating “purchasing power” in anticipation of a “Short, Sharp, Shock”. Does the decline of the last three-four days satisfy the “Short, Sharp, Shock” we expected? Partially. Short? Yes, to date. Sharp? Less than 10%. Shock? Some.

3, The good news is that yesterday’s declines stopped near important support levels (TSE 13,700; S&P 500 1460), at important up-trend lines and at the bottom of the respective trading channels of both markets. In addition, the VIX Index (a measure of speculation) reached a level (23+) that usually signals an over-sold condition and usually leads to a recovery rally.

4, However, new problems have developed in the last few days. The “short” decline we forecasted to start in October and end in November has begun much earlier! The 30-week cycle, the “motor” behind it all, the one that was to give us the “Short, Sharp, Shock” at its end in November, suddenly developed “left-hand translation” characteristics. Without going into details, this suggests that instead of a short, sharp, shock, the decline may not be “short” because it already started in July!

In addition, (although more time is needed for confirmation), the charts of both the S&P 500 and the S&P/TSX strongly suggests the development of a head-and-shoulder formation.

5, What now? Although the markets could continue their descent and give us more “shocks”, a more probable outcome suggests a rally toward recent highs. Since “going against the trend” and “buying on dips” was always rewarded during the last four and a half years, doing the same thing will probably be offered again as the right thing to do again. But is it?

We still expect that a new bull-market will start late this year, one that should provide good markets in 2008 and part of 2009, but for now our suggestion remains constant: sell into rallies to generate “purchasing power”, in case the decline is longer and stronger than expected.

In summary: generating cash and creating “buying power” on any rally from here still seems the best strategy for now.