



MARKET COMMENT

(S&P/TSX - 11979; S&P - 1287)

Caesar or St. Patrick

INTRODUCTORY SUMMARY: In our last Market Comment we told “A tale of two bulls, and two corrections:” The Toronto market, volatile, energetic and superbly trending and New York, mature and tired but still leisurely moving.

Despite the apparent differences between these two markets, they have one thing in common: they both have the potentials to go higher (see page 2 for details).

MARKETS NOW: In early February we pointed out the topping 39-week cycle and the overbought conditions as the main enemies of the rising markets. Indeed, this unfavourable set-up has caused the North American markets to pause through most of February.

This was especially evident in Toronto. The S&P/TSX composite, heavy weighted in Golds and Energy, lost 300 points during the month of February, as part of a well-deserved correction. The pullback has already completed its first objective, it brought the index near its 50-day moving average. The next, and in our view, final part of the correction should finish in the 11,200-11,300 area.

Meanwhile, New York is trying to move out of a three-month consolidation pattern, to better the mid-January highs and to begin the

next up-leg of the bull market. As in the past, a bullish move in New York would be the harbinger of an incoming rally in Toronto.

The sentiment readings have stayed unchanged recently. The mood among investors would best be described as neutral, if not muted. The bulls and bears seem to be at par, suggesting perfect equilibrium and stagnant markets. History suggests, however, that this kind of “comfort” zone built into the market usually precedes a sudden and significant move. The current market conditions suggest a bullish resolution.

As to when this may occur, our cyclical indicators suggest March 15th to 17th as the most likely period for the next upturn: either on the Ides of March or on St. Patrick’s Day.

The markets are correcting, each in their own way. In Toronto, Golds and Energy are dragging and the generally bullish index is drifting lower toward the completion of the A-B-C corrective pattern. Further south, New York is consolidating just below its yearly highs. In both cases the next move should be to the upside.

**Olaf Sztaba
Ron Meisels**

MARKETS LATER: We had three consecutive “up” years (2003, 2004, 2005) since the most recent four-year-cycle low in 2002. Therefore, more and more investors expect that the next low of the cycle should occur sometime this year. Given that we are already in March, the downside portion of the cycle would have to be painful and short, to arrive on time. In addition, the main problem with this scenario is its popularity, something that doesn’t fit well with our contrarian thinking.

In our view, the fourth consecutive “up” year is the most unexpected market scenario for 2006.

Those who expect the four-year-cycle low to arrive right on schedule may brace for the surprise. The fourth consecutive “up” year, a positive 2006, would certainly catch many people by surprise.

STOCKS COMMENTS: In our previous Market Comments, we pointed out the narrowing participation in the current bull

market. Therefore, we expect 2006 to be a year of greater selectivity of stocks with an attractive technical standing. The majority of stocks that meet our technical criteria continue to come from the four leading sectors: Industrials (mainly Rails), Materials, Golds, and Energy. Expect those areas to continue to lead the markets in the coming months.

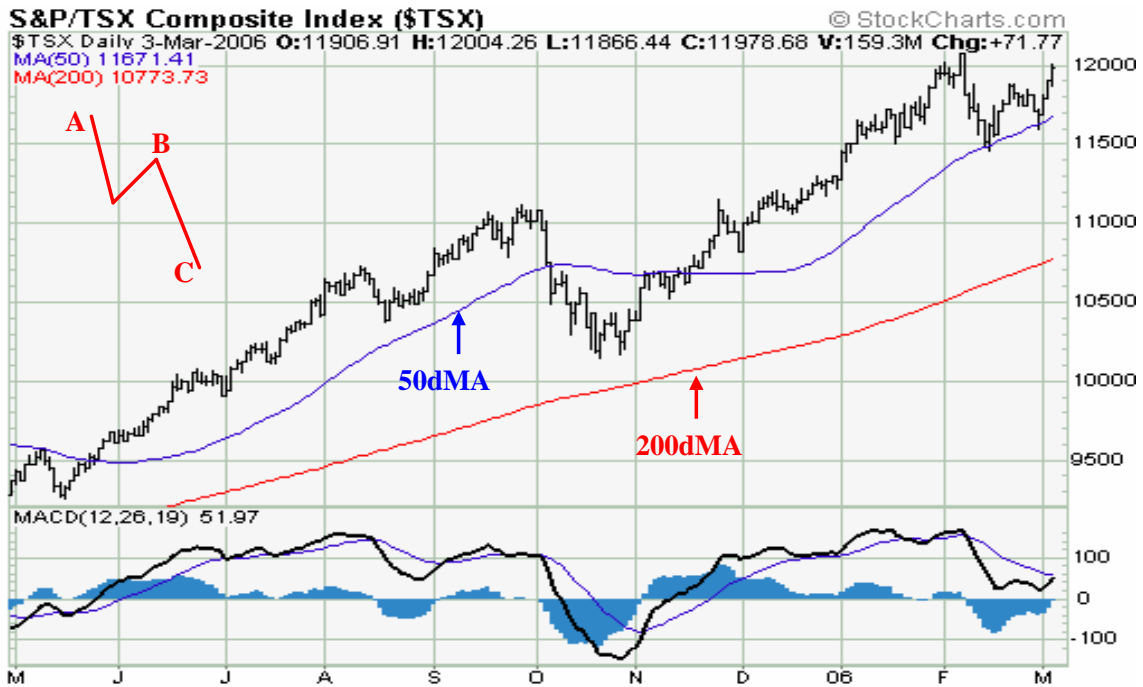
In sum, 2006 should continue to bring cyclical gains for the right stocks in the right sectors, underlying the importance of both top-down and bottom-up selections.

FINAL SUMMARY: The two-tier market continues. New York with its laid-back action contrasts to sharply correcting Toronto. Nevertheless, they have one thing in common. They should both be going higher by mid-March, if not sooner.

THE S&P/TSX INDEX

(S&P/TSX – 11979)

(Daily chart with 50- and 200-day moving averages)



The call for a correction in our last Market Comment was right on target, as the S&P/TSX composite has lost nearly 300 points since then. The correction completed the A-B part of a classical A-B-C (down-up-down) correction scheme. The index should complete the third and final portion of this pattern, although the latent strength in Oils and Gold may shorten this part.

The index is currently trading very close to its rising 50-day moving average, which is providing first-hand support for the average. Another major area of support is the 11,200-11,300 level which is also the one-half retracement point of the previous rally.

The Toronto market is in the midst of a pausing period. Volatility and nervousness should not distract investors from the buying opportunities that this pullback creates. Continue to accumulate the leaders: Energy, Materials and Golds. As soon as the current weakness ends, these sectors should lift the index toward our next target of 14,000.

THE S&P 500 INDEX

(S&P 500 – 1287)

(Daily chart with 50- and 200-day moving averages)



In our most recent Market Comment we pointed to the 1250-1270 zone as a good near-term support. As it happened, this is exactly where the early-February decline reversed. From here, the index staged a mini-rally toward the previous high, continuing to build the base for a rally toward our next Point & Figure target of 1360.

The 1300 level is the top of an up-trending channel where the index has been manoeuvring since mid-2004 (see dashed lines). The anticipated breakout from this channel would

have strong bullish implications for the index in the short and intermediate term.

The S&P 500 seems to be completing its correction. The time used to build the base between 1250 and 1295 was well spent and should shortly result in a breakout above the 1300 level.

GOLD & GOLD STOCKS

(Daily chart with 50- and 200-day moving averages)



Gold and gold stocks continue their traditional February-March pause. As usual, the pullback in Golds is leading a similar move in the stocks.

Since last September, Gold has been trending decisively higher, experiencing intermittent short-lived setbacks toward its 50-day moving average (A,B). After reaching the top of this channel in early February, Gold experienced yet another decline until it met its 50-day moving average and the lower line of the up-trending channel (C). Gold then reversed sharply, positioning itself around \$550.

Gold stocks reacted similarly as both the HUI and XAU topped in early February and had a sharp fall to their respective 50-day moving averages. The XAU index dipped below its 50-day moving average and seems to be on the way to complete the A-B-C corrective pattern.

Looking at a long-term chart, we see that when Gold pierced through the 500 level and penetrated the 550 level, it decisively broke a 24-year downtrend and set up the conditions for further advances toward significantly higher targets.

The short-term weakness in Gold and the gold stocks should not blindfold us to our main point: Gold and gold stocks are in the midst of a powerful bull market. The explosive nature of this market makes it difficult to detect good entry points, therefore use any opportunity to increase your position in Golds.

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