PHASES & CYCLES®

THE 40-YEAR CYCLE IS STILL ON TRACK.

The extreme oversold condition of the markets should give way to a short but strong double digit recovery rally that fits well into our 40-year cycle model (Meisels Cycle).

Where do we stand? Let's look at the long-term picture and some strategies for the coming years.

THE MARKET IS OVERSOLD.

In our previous market comments, we suggested that the market was oversold. In normal market conditions, the Overbought-Oversold Indicators should move within well defined bands. However, the recent market volatility has brought the indicators to extreme oversold levels. Historically, these points have usually led to very strong advances in the subsequent months.

THE S&P 500 VERSUS ITS OWN 40-WEEK MOVING AVERAGE.

The following table shows that when the S&P 500 index has been more than 20% below its 40-week moving average, a significant double digit advance followed in the next four to seventeen months.

Index Vs 40-week MA

Index	Date	% Below MA	Ensuing Rally (%)	Length (in months)
DJI	Nov 1929	29	29	5
	Nov 1937	30	33	12
	May 1940	22	20	6
S&P 500	June 1962	22	34	11
	April 1974	28	52	14
	Dec 1987	24	23	9
	Sept 2001	21	21	4
	Oct 2002	22	34	17
	Oct 2008	31	?	?

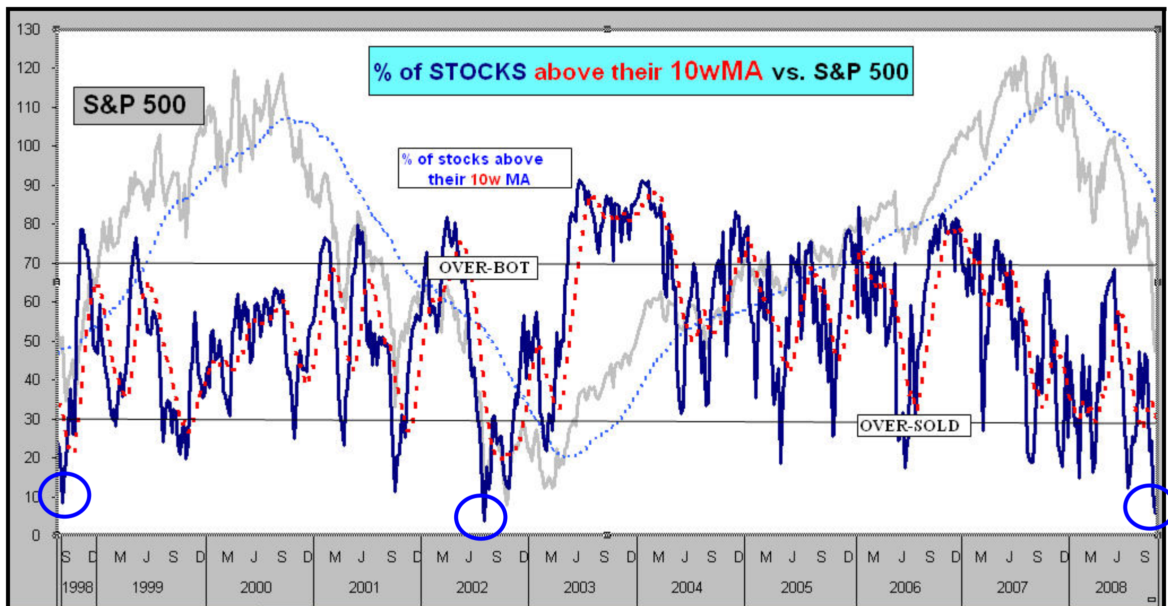
As of October 27, 2008, the S&P 500 was 33% below its 40-week moving average. This is an extremely oversold level.

PAC-08-175; MKT-199; October 28, 2008

Samuel Beaudry, Ron Meisels

THE PERCENTAGE OF STOCKS ABOVE THEIR 30-WEEK AND ABOVE THEIR 10-WEEK MOVING AVERAGE.

Traditionally, a reading below 20% is considered bullish. The reading on October 15th was 4.7% for the stocks above their 10-week moving average and 5.6% for the number of stocks above their 30-week moving average. The last time we recorded similar numbers was in October 1998 and in October 2002 at 8.3% and 3.8% respectively. (See our statistics from 1998 below.)



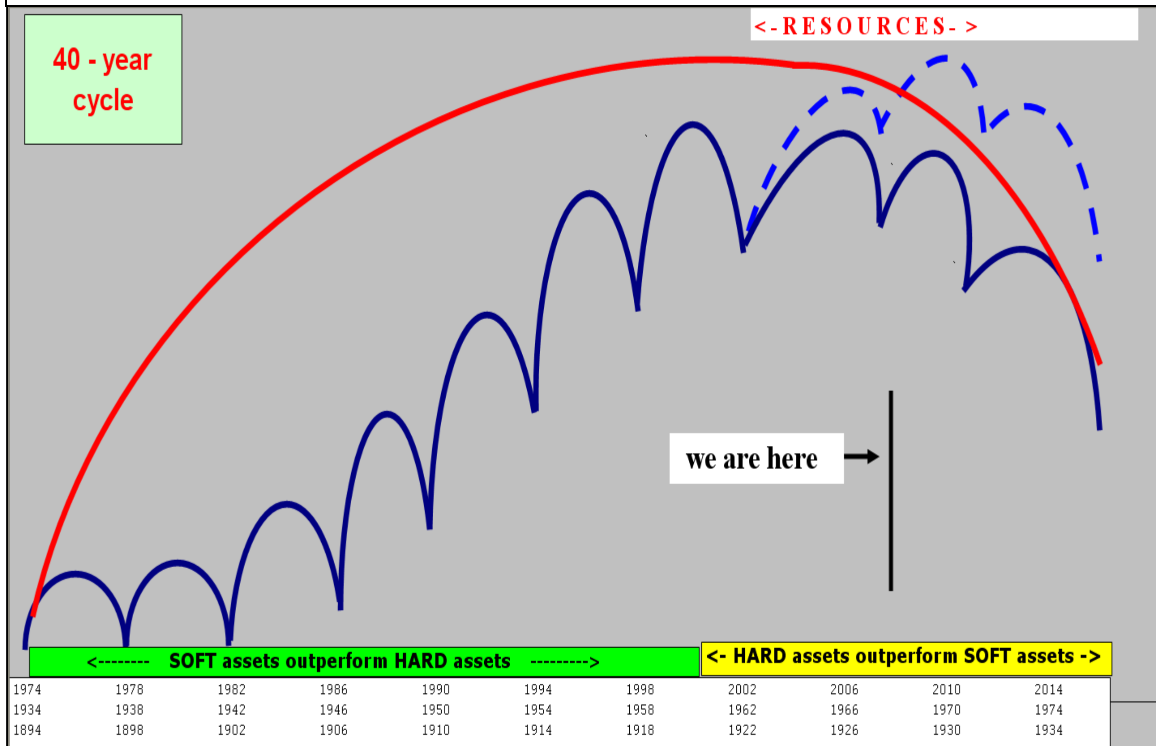
How much more downside potential could there be? We believe very little. The market could go lower by 5 or 10% from here, but we believe that as in 2002, 1987, 1974, 1962, 1940, 1937 and in 1929; a strong recovery rally could retrace one-third to two-thirds of the previous May-October decline.

The 40 Year Cycle.

In past years, we have advocated the presence of a 40-year cycle. This cycle, also called the Meisels Cycle, is a combination of the widely followed 4-year or Dunbar cycle, and the 10 year or Decennial cycle by Mr. Juglar.

The 40-year cycle suggests that the market repeats itself with a 40-year periodicy. To know what is likely to come, we should look at the previous 40 year-cycles. What we are experiencing now, is some kind of repetition of the 1960-1970's and of the 1920-1930's.

The 40-year or Meisels Cycle
1894 - 2014



The Big Picture

Referring to the 40-year cycle picture; if we take history as a guide for the coming months and years, September 2000 was the end of a multi year Bull phase that started in 1982-1983. The sell-off into 2002 violated the long-term up-trendline on the S&P 500 index. The index then rallied into marginal new highs in 2007 to create what some would call a double top. The tone was then set for the start of a secular downtrend.

The Toronto Stock Exchange, as indicated by the dashed lines, has benefited from an extended period of glory into 2007, due to the inherent outperformance of resources at the tail-end of a Bull Market.

According to our 40-year cycle, we believe that we are pretty close to a medium-term cycle low that should set the stage for the next recovery rally into mid-to-late 2009.

From late 2009 onward, our research indicates new lows into late-2010 or early-2011, another recovery rally within the secular downtrend into 2012, and another sell-off into 2014, which could then be the start of a new base-building process and set the tone for the next major Bull Phase.

What to do?

For long-term investors:

Long term investors should take the rise into mid-to-late 2009 as an opportunity to reduce their positions in equities and put their money into safe assets. They could offset any capital losses with previous long-term capital gains. Others may consider hedging their portfolios with put options or ETFs. The main goal should be to preserve the capital base for the next major bull move.

For traders and medium-term investors.

Those with the ability to time transactions could try to participate in both the rallies and the sell-offs. There are now plenty of financial instruments to do so. We suggest, however, tight stop losses at all times.

We shall publish updates on the 40 year cycle along the way and strive to provide you with actionable investment and trading ideas, both on the short-term and the long-term to help you get through these challenging times. Stay tuned!

Phases & Cycles Inc., 2020 University, Suite 1903, Montreal, QC H3A 2A5
Tel.: (514) 393-3653 E-mail: RonMeisels@phases-cycles.com www.phases-cycles.com
© Copyright 2008, Phases & Cycles Inc. All Rights Reserved
The opinions and projections contained herein are those of Phases & Cycles Inc., its principals, associates and employees ("the researchers") and are subject to change without notice. The information contained herein has been obtained from sources that we believe to be reliable but cannot guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that "the researchers" are to be under no responsibility or liability whatsoever in respect thereof. "The researchers" may, from time to time, buy, own or sell securities mentioned herein. "Phases & Cycles" is a registered trademark of 104443 Canada Inc