PHASES & CYCLES®

IT'S TIME FOR A MINI-BULL.
BUT FIRST A SMALL DECLINE.

The last nine months. When the North American major market Indices turned negative in 2007, the pattern of their respective bear markets has been quite regular. Lower highs were followed by lower lows. Weak rallies, approaching and sometimes exceeding their declining 50-day moving averages, were followed by renewed waves of selling. The 50-day moving averages were unable to turn conclusively upwards and at no time were the declining 200-day moving averages ever threatened. Support levels were violated regularly. Bearish patterns – including the symmetrical triangles that we called attention to in the Market Comment of February 24, 2009 – suggested both further lows and few immediate prospects for a significant recovery rally.

The markets begin to shift. Following that Market Comment, the markets continued to plunge for a couple of weeks as expected, but ultimately we were wrong about the dim prospects for a rally. The markets have been "on the march" in the month of March, and the significance of the "surprise" rally off the March 2009 lows was impressive. Important support levels and 50-day moving averages held and the MACD improved on numerous stocks. The bear market picture has changed.

Let's review the last six months.

1. Downside momentum decreased between October 2008 and March 2009 and yet negative sentiment increased. This was not surprising: the momentum and sentiment lows of last October were so extreme that it was inevitable that, if market Indices reached lower price lows, positive divergences would be set up.

2. The S&P 500 and the S&P/TSX Composite Indices – while still moving with a downwards bias – were able to rally above their respective 50-day moving averages, which have also flattened out and now have turned upwards. Most importantly, corrections found support at the 50-day moving averages before the advances resumed.

3. Volume and breadth expanded as the rally unfolded and buying increased towards the close of the trading day (a sign of investor confidence).

4. Many individual stocks stopped going down in the past few months and have formed what may prove to be multi-month bases – in the shape of double-bottoms or sometimes as bullish "W" formations.

5. The number of new 52-week lows on the NYSE decreased dramatically from 2,477 on October 10th, 2008 to 797 on March 6th 2009. A sign for a "washed-out" market.

Recent market action has been quickly characterized by most market analysts as a minor "bear market rally". Expectations for its proposed length vary, but the unifying theme at this point is the view that it will be short and the bear will eventually return in force driving the markets lower again. The best example for this is the "Night with the Bears" that took place last week in Toronto, where "all 1,500 seats were sold in a few days". If this is indeed the majority view, can they be right? Contrary opinion might suggest we look for other alternative scenarios.

Two possibilities come to mind (continued on next page).

David Tippin, Ron Meisels

1. *A longer than expected market rally*. The current move would last much longer and go considerably higher than many would expect. Powerful multi-month rallies, carrying to and sometimes slightly past the 200-day moving averages, have appeared in past bear markets. The defining characteristic of this type of rally is its persistence to move many market participants out of the "it's just a quick bear market rally" camp, and into the camp of "this looks like a serious up move, I've missed the start, let's climb aboard and see what happens". This is the classic recipe for a market rally that "fools the majority".

2. *A new bull market.* With so much bearish conviction, the greatest "fooler" would be that the bear market has already ended and that a new bull is forming. In other words, October to March was a major, albeit traumatic, bottoming process. One sign that a new bull is forming would be for the major market Indices to move, on greatly expanding volume, beyond their 200-day moving averages, and to turn those averages upwards.

In the end, it does not matter what we call it. By the time we get to early May (when the 39-week cycle is expected to culminate) the "designation" will be evident.

The markets now. Having risen for most of March as a result of bargain hunting and/or quarter-end portfolio adjustments, both the US and Canadian markets are somewhat tired. A minor retracement of the March 6th – April 3rd rally would be a welcome respite and could terminate in mid- April, when the majority of the first-quarter earnings will be released.

Such corrections

- must stay above the S&P/TSX 8300-8600 and the S&P 500 760-790 levels, and
- should be looked at as buying opportunities in stocks that are above their rising 50-day (10-week) moving averages.

Afterwards (meaning after mid-April), the markets should start another rally towards higher targets. The significant price-zones that must be overcome are the *S&P/TSX 9200-9500, the S&P 500 840-870 and the DJI 8100-8300* levels.

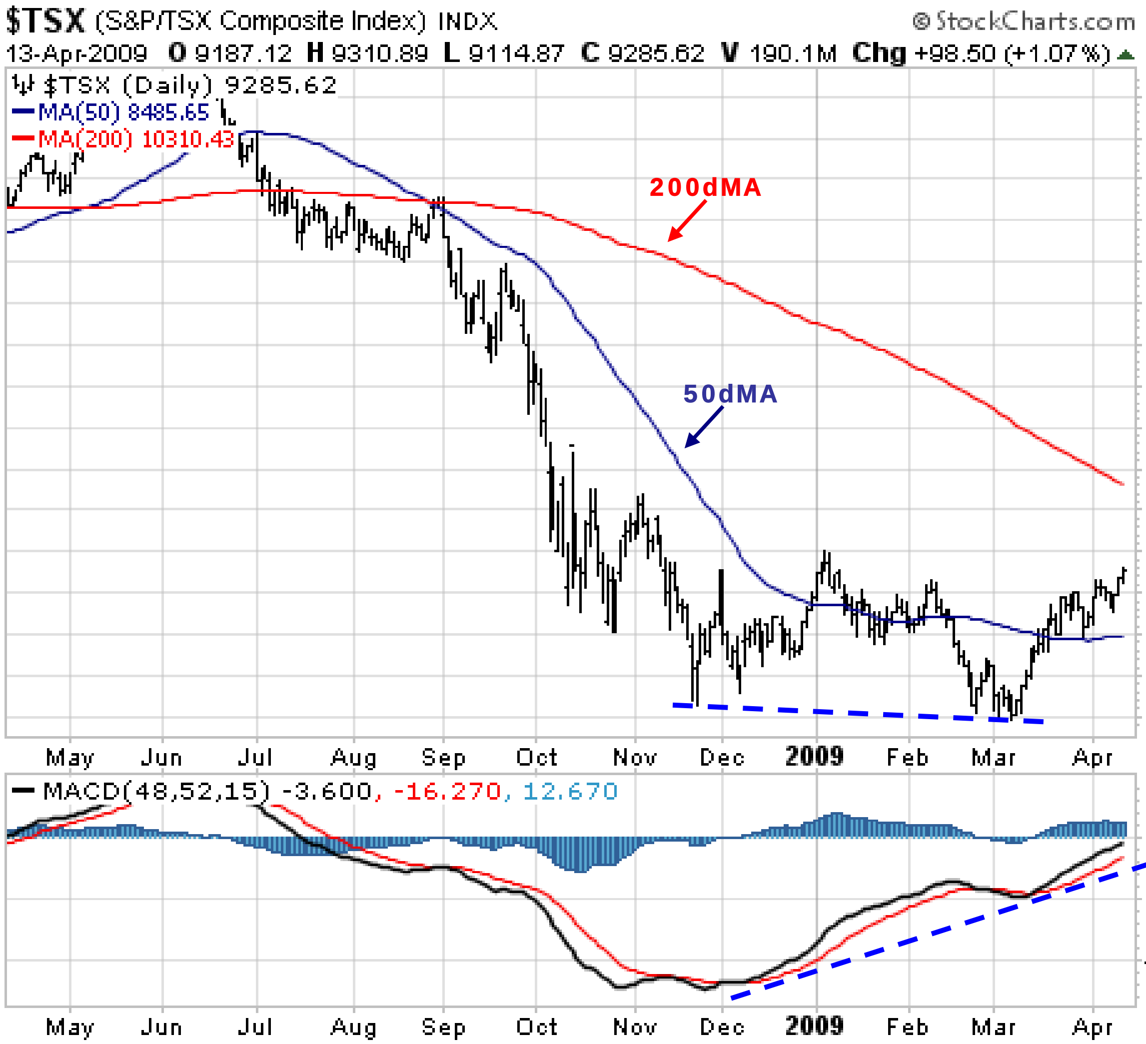
A move above these levels – although still within the secular bear market that began in late-2007 and which could always cause surprises – will be a confirmation of a positive status of both markets and leave the way open for a possible move in Toronto to the S&P/TSX 11,000 and in New York to the S&P 500 1050 levels.

In sum, what until recently has been a reasonably straight-forward bear market has, in the past four weeks, turned into a totally different picture. Although the secular (long-term) bear trend remains intact, intermediate rallies may last longer than even the most bullish analysts expect.

This is not a signal to abandon all safety measures. Positions should always be accompanied by appropriate stop-loss orders (based on risk tolerance) to eliminate any sudden surprises.

Look to our "Moving Average Snapshot" for long- and intermediate-term ideas and to our "list of Recommended Stocks" for trading positions.

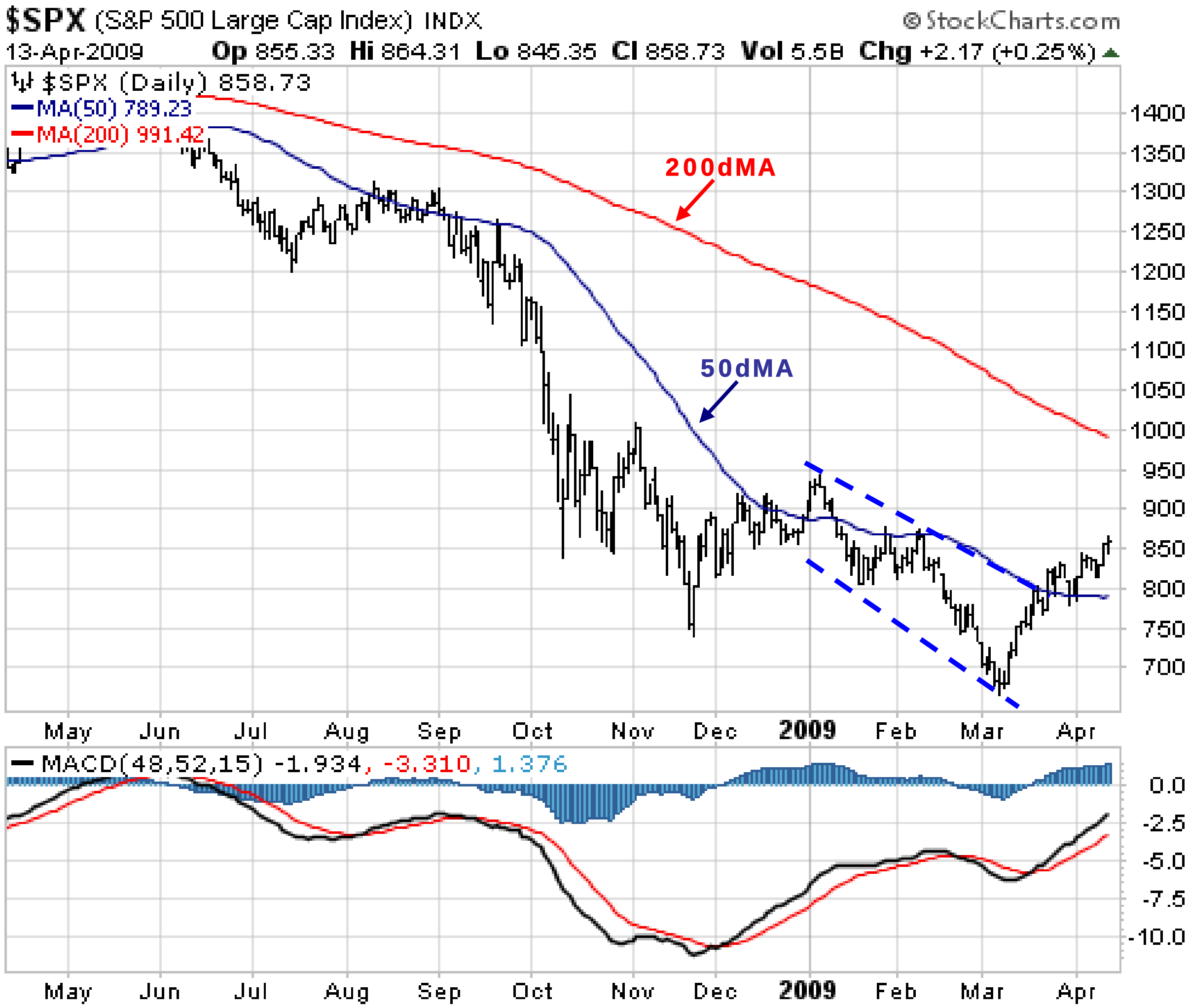
S&P/TSX Composite Index



In early March, the Toronto market declined somewhat lower than the November bottom, but the MACD showed a positive divergence (see dashed lines). Then, from the March lows onward, the Index has succeeded to rally above both its 50-day moving average and the short-term down trend line dating from last November. These are positive signs.

For the short-term, the Toronto market must hold the 8300-8600 zone and then overcome the 9,100-9,200 area. A successful move above these levels should get the S&P/TSX above the 9200-9500 zone on its way towards our Point & Figure targets in the 11,000 area.

S&P 500 Index



As of the end of last week, the S&P 500 was poised at a very important juncture. Since early January the Index has traded within a downward sloping trend channel (see dashed lines). The S&P 500 managed to break out of this formation on its way to 840. Overcoming the 840-870 zone will be important for further upside progress.

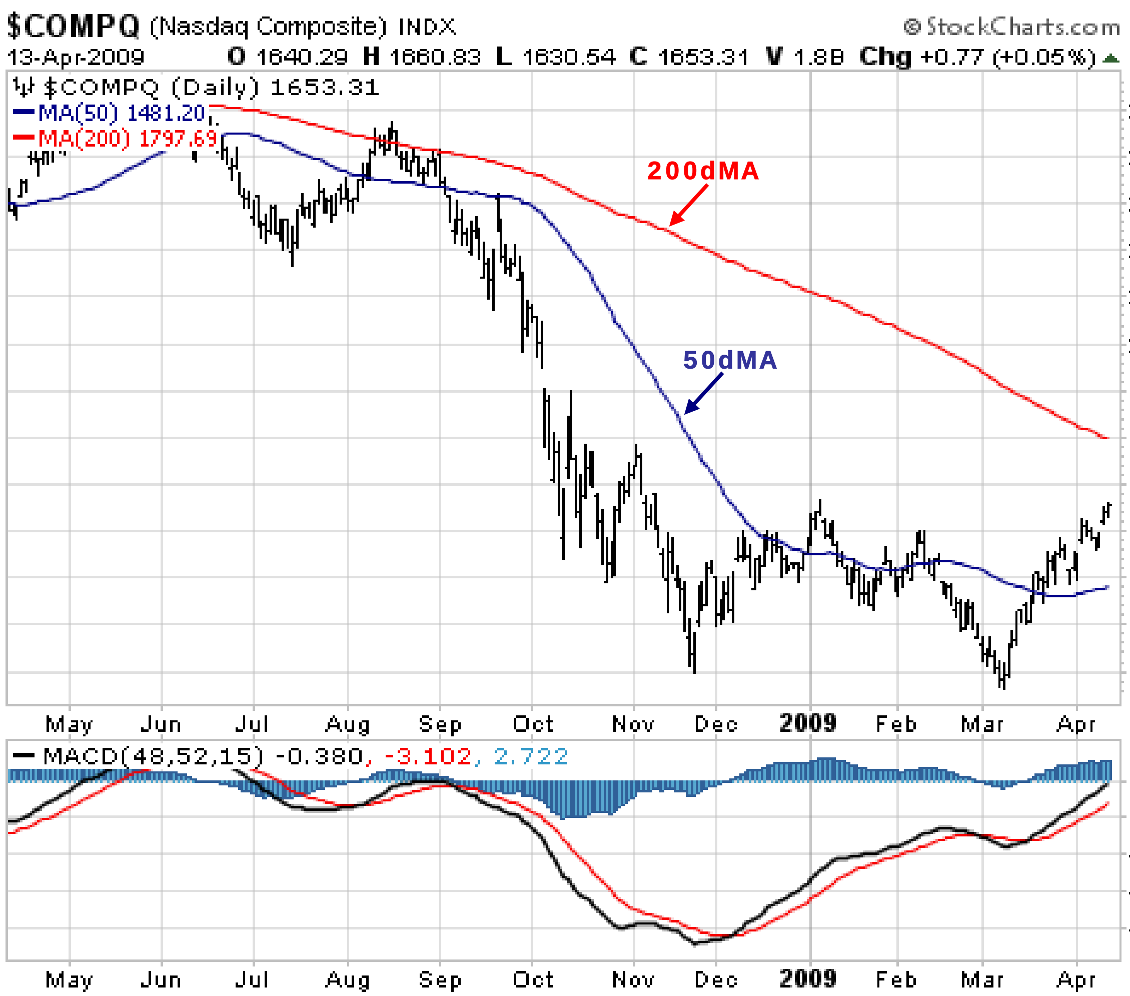
For the short-term, the S&P 500 must hold the 760-790 zone and then overcome the 840-870 area. A successful move above these levels should get the Index above the 900-935 zone on its way towards our Point & Figure targets in the 1050 area.

Dow Jones Industrials

The Dow Industrial Average, just as the S&P 500, has moved out of its narrow channel (see dashed lines). The DJI (made up of only 30 stocks) may act differently from the S&P 500. In fact, the Dow Theory still remains on a bear market signal, as confirmed by the closing lows of the Industrials and Transports in early March. This is not a surprise, since this Indicator is a longer-term measure and it is always late.

The key levels to watch are the 8100-8,300 and then the 9,000 areas. The 200-day moving average (200dMA) at about 9,400 will be an obstacle on the upside.

NASDAQ Composite Index



In March, the NASDAQ had a successful re-test of its November lows. Most impressively, the Index has since then moved above its short-term downtrend dating from last November, and has stayed above its 50-day moving average.

The high 1,700s and low 1,800s pose the immediate areas of upside resistance. Staying above 1,450 is critical for the current rally to remain intact.

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