

PHASES & CYCLES®

**Anatomy of a break-out
OR
Harbingers of a new upleg
OR
How I learned to stop worrying and love the bull
(with apologies to Stanley Kubrick)**

1. **On July 2nd** the 50-day moving average (50dMA) fell below the 200dMA. It was immediately declared a "death cross", when it was no such thing. But it was enough to create an increased bearish sentiment. Yesterday, both the Dow Jones Industrial Average (DJI) and the S&P 500 Index (S&P) rose above their respective 200dMA. So much for the "death cross"!
2. **On July 13th** everyone (wrongly) concluded that the DJI and the S&P completed a head & shoulder (H&S) top. H&S formation occurs at tops, not after a substantial decline! More bearishness ensued.
3. Just for the record, one can *anticipate* an H&S top, but it can only be *confirmed* if the market declines below the "neckline" (currently at approx. DJI 9,600 and S&P 1012).
4. **On July 20th** the DJI opened over 100 points lower (IBM earnings) and then proceeded to close 84 points higher *for a 184 point one-day reversal*. This was an early warning that the market was going to resist all selling.
5. **On July 22nd**, a downtrend line connecting the April and mid-June highs was "broken" when the DJI and S&P rose to 11,442 and 1100 respectively.
6. **On July 23rd** the 35-day exponential moving average turned positive.
7. **July 23rd** was also the maturation of both the 21-day and 105-day cycles. The one-day reversal mentioned above (see number 4) was an early signal that these cycles would create an upside reversal.
8. **On July 28th**, there was a fifth occurrence of an extremely bullish "two-to-one advance-decline" signal. When *two* of these signals occur in close proximity, it signals the beginning of an extremely bullish up-leg or the

beginning of a major bull market. There were only three previous occurrences of this event (1962, 1975 and 1982) and they were all extremely accurate. Therefore, when three, and then four of these signals occurred recently, as illustrated in our recent visits and conference calls, it confirmed our bullish stance. One can only imagine how important this fifth signal is!

9. As to the supposed Dow Theory sell signal, let us quote David Tippin's note of today: "An interesting point occurred yesterday for Dow Theory followers: when the markets made their early July lows, the bears all concluded that a Dow Theory sell signal had occurred because the June lows had been taken out. In Dow Theory terms, this means that the June 21st high had to be classed as a 'secondary high'. Yesterday this level was exceeded, so if the bears were right on the downside (which they weren't) they have to concede that the new secondary high of yesterday means a renewal of the primary BULLISH trend. Either way, for the moment the bears are well and truly shot!!"

In conclusion, when the DJI rose above its July 21st high of 10,594 and reached 10,692, it confirmed the start of a new up-leg for the U.S. markets. Toronto was closed yesterday for the Banking holiday, but its Index (S&P/TSX) is confirming the U.S. action today.

Our Point & Figure measurements suggest near-term targets of DJI 11,300, S&P 1200 and S&P/TSX 12,700.