PHASES & CYCLES®

THE UPSIDE BREAKOUT CONFIRMS THE BULL MARKET, NOT WITHSTANDING CORRECTIVE ACTION.

January was the month that the bull market treated itself to a "new all-time high party" in New York. The S&P 500, Dow Industrials and Transports, the NASDAQ, the NYSE Composite and the NYSE daily advance/decline line have all made new all-time highs recently. For good measure, London's FTSE joined the party in mid-month. And Toronto's S&P/TSX Composite Index came within 11 points of making its own new high.

Weekly charts, which provide a good longer-term perspective, remain unreservedly bullish. Major market indices are well above their rising 200-day Moving Averages and most charts show strong patterns of rising highs and rising lows. Individual sectors and stocks continue a pattern of rotational corrections, with new leadership arising as previous leaders take a rest. "Dow 20,000" may have captured the media's attention, but it is the NASDAQ that is now showing signs of wanting to take the lead in the bullish advance.

Our "big picture" view of this bull market continues to suggest that we are in Leg-5 of a 5-part advance that started in March 2009. Obviously it is in its early stages, but as it unfolds, to answer some of the questions asked, we are always on the lookout for any signs of a major market top. Tops generally occur in one of two ways: (1) a prolonged period of distribution that sees major behavioural divergences appearing amongst the major market indices and various internal indicators; or more rarely (2) a "blow-off" top that sees market indices and individual stocks soar in a near-vertical fashion on a wave of over-enthusiasm. To date, we see no sign that a bull market-ending top is developing. The major market indices are moving in the same direction and, while market enthusiasm is growing (*Barron's* has "DOW 30,000" on its cover), we have yet to see evidence of a buying panic.

Therefore Leg-5 remains in overall good shape. At the same time, our recent Market Comments emphasized that a short-term pullback was possible due to internal technical weaknesses. These issues have not disappeared. New York is approaching some cyclical headwinds. The 70-day cycle matures on February 10, the 39-week cycle at the beginning of March and the 105-day cycle at the end of March. Post-election years in the U.S. also show seasonal weakness in the first quarter.

Our current assessment is that January's action in the S&P 500 shows some signs of a possible breakout from a consolidation. This will only be confirmed if the Index moves strongly through 2,310 and stays above that level. The jury remains undecided on the validity of a breakout. But downward cyclical forces and technical weaknesses could limit a further advance in the near-term and pull New York back in February and March. The longer-term outlook remains positive.

Toronto continues to track higher towards its all-time high of 15,685 made in September 2014, but Toronto may have to go lower before it achieves a new all-time high. Materials stocks are moving to the fore. Internal momentum is weakening and, as we forecasted two weeks ago, the latest move has increased the negative divergence in internal momentum.

In sum, the S&P 500 needs to extend its advance well into the 2,300s in order to prove that it has truly broken out and that its upside momentum can overcome lingering technical weaknesses. February and March are shaping up as a prolonged slug-fest between bulls and bears. The outcome may be a draw, which in fact would be a victory for the bulls since they remain firmly in the driving seat.

Our List of Investment Ideas continues to identify candidates for purchase.

David Tippin, Ron Meisels

S&P 500

The S&P 500's prolonged sideways movement ended last week with a "gap up" move to the 2,300 level. There was no immediate follow through to push prices higher, so the longevity and outcome of this move remains in doubt. A negative divergence in internal momentum remains. It would take a sustained move through 2,310 – where upper trend channel resistance lies – to convince us that the S&P 500 is renewing its advance that started in early November.

There is good near-term support from 2,230 to 2,285 and the rising 50-day Moving Average is just under 2,250. Below this support zone the rising 200-day Moving Average sits at about 2,160.

The S&P 500 is very near the top of its trend channel and internal momentum is weak. A pullback towards the middle of this channel at about 2,225 is possible. This would provide a firmer base for a sustained move above 2,300.

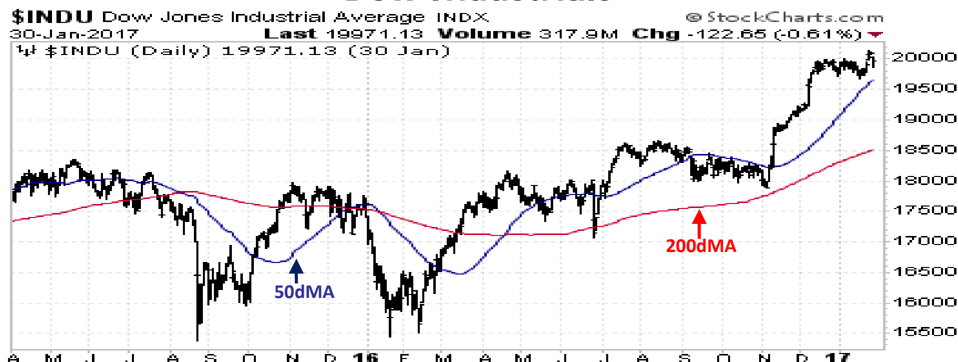
S&P/TSX Composite Index

The S&P/TSX Composite Index's action in January consisted of higher highs and higher lows but with declining internal momentum. There is a well-defined trend channel that has contained the action of the S&P/TSX Composite Index for one year and the Index is comfortably in the middle of that channel. Toronto is modestly overbought and very near its all-time high.

Toronto's most pressing issue is whether the negative divergence in internal momentum is going to undercut the overall up trend. The 14,500 level, with the 200-day Moving Average just above it, remains a good area of support. There is further support all the way up to 15,000 and the lower trend channel line is there.

Toronto could be pulled down, if New York declines in February and/or March. Ideally, the S&P/TSX Composite Index will hold the 15,000 level. Toronto can easily tolerate a 3-4% pullback in the short-term. The outlook is for higher prices as the year progresses, with our Point & Figure target remaining at 16,500.

Dow Industrials



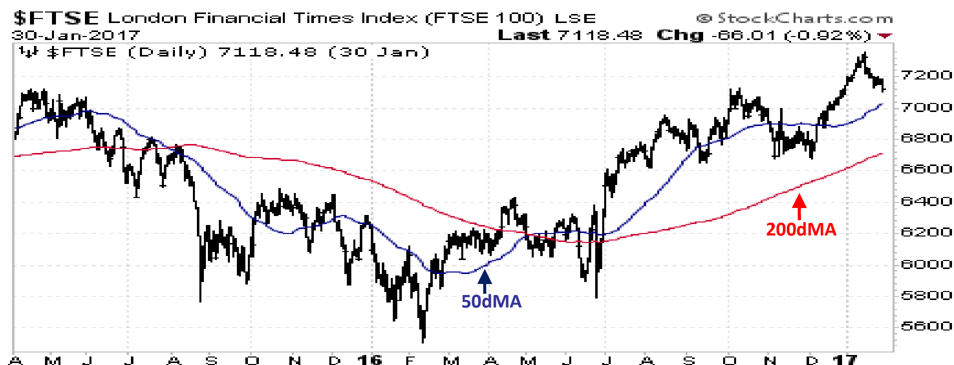
The Dow Industrials broke above 20,000 last week, clearing near-term resistance. We expected that the Dow Industrials would take a rest as the Index achieved the 20,000 level.

The jury is still out as to whether this is a true breakout or part of a rally. If the Dow Industrials stays above 20,000 and extends the advance, then a breakout is confirmed. But a large divergence in internal momentum arising in January, and the optimism on the cover of *Barron's,* suggest that the move above 20,000 is still vulnerable to a pullback.

There is good near-term support from 19,650 to 20,000. Below this support band further meaningful support does not arise until 18,700.

The break above 20,000 remains unconvincing until it extends further. With the Dow Industrials stretched well above its 200-day Moving Average, vulnerability to a corrective move is increasing. The bulls will hope that any pullback is contained at the 19,650 level.

FTSE



Our last look at the FTSE at the beginning of January forecast that a move above 7,150 was likely. The FTSE broke out above its previous high at 7,130 and extended its move to a new high at 7,354 by mid-month. From that point a pullback occurred to re-test the breakout point.

The FTSE is currently oversold and still well above its rising 50-day Moving Average. The challenge now is for London to defend its breakout point at 7,130. A move below 7,130 would likely lead to a larger retracement to a point between the 50-day and 200-day Moving Averages, i.e., between 6,700 and 7,000. The FTSE remains positive above 6,650.

The London market continues to be bullish. If the 7,130 level is successfully defended, then the next major move for the FTSE will be upwards and to challenge the recent high at 7,354.

© Copyright 2017, Phases & Cycles Inc. All Rights Reserved
The contents of this report may NOT be copied, reproduced, or distributed without the explicit written consent of Phases & Cycles Inc.
The opinions and projections contained herein are those of Phases & Cycles Inc., its principals, associates and employees (collectively "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