PHASES & CYCLES®

SOME SELLING PRESSURE HAS APPEARED, BUT THE LONG-TERM BULLISH OUTLOOK IS INTACT.

With the S&P 500 well-extended after advancing an impressive 317 points (15.2%) from early November to the beginning of March, and with downwards cyclical pressures at hand, we have been patiently waiting for the New York market to have a meaningful correction. A pullback would act as a "refresh and re-load" for the market, setting the stage for even higher prices as Leg-5 of this bull market unfolds. And so it happened.

The S&P 500 rallied to a new high of 2,401 on March 1 and then pulled back to 2,355. The pullback was regular and not surprising, given the maturation of the 39-week cycle and option expiry. The surprise came from market statistics. Despite the minor .02% decline in the S&P 500, the percentage of stocks above their 10- and 30-week Moving Averages declined 28% and 15%; those expressing bullish opinion (*Investors Intelligence* Statistics) declined by 9%. At the same time, the AAII (*American Association of Individual Investors*) bulls declined 9% and the bears increased by 15%!!

In other words, it did not take long for the sentiment and technical indicators to improve and to create a more positive outlook after just a minor correction! This suggests the likelihood of a narrow trading range rather than a major decline.

Two weeks ago there were signs that the risk/reward balance was changing and that a period of profit-taking might occur. This is perfectly normal, as we see even a minor correction is enough to change trend. The bull market needs periodic pullbacks. <u>We are still cautious short-term but remain very bullish for the longer-term</u>. There is still a lot of spring left in the legs of this Leg-5.

A corrective period should reveal buying opportunities. Our updated List of Investment Ideas provides a guide to candidates.

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S&P 500

The S&P 500's action over the past few weeks has set the 2,350 level as the key area to watch. If the S&P 500 can stay above this level then a further extension of the November-March rally is possible. Such an extension could take the S&P 500 into the low 2,400s.

Given the change in sentiment and technical data (see front page), it is possible that the "long-awaited" correction will be minor and will be replaced by "stock rotation".

S&P/TSX Composite Index

The S&P/TSX Composite Index pullback since its February 21 high has taken it back to the critical 15,200 to 15,300 zone. Previous pullbacks in the past two months have met support in this zone and it is also the area of the lower boundary of the trend channel that dates back to last June (not shown).

Toronto's correction has already exceeded a one-third retracement of its November to February rally. If the correction extends it is possible that the retracement will be closer to two-thirds, taking Toronto down towards the 15,000 level. The rising 200-day Moving Average is close to 14,900. The overall bullish picture remains in place as long as the S&P/TSX Composite Index stays above 14,300.

After a powerful rally throughout 2016 Toronto's current pullback is a healthy and necessary correction. The extent of any weakness in New York will influence the extent and duration of Toronto's decline. Toronto will eventually see new highs in the 16,000s, but it might take some months to reach these heights.

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