# PHASES & CYCLES®

## THE MARKETS WILL PROBABLY STAY IN A TRADING RANGE FOR A WHILE.

In our Market Comment two weeks ago we suggested that Phase 1 of Leg-5 of the bull market was coming to an end. So far, this Phase has lasted 14 months and has seen most major market indices soar to new all-time highs.

The pullback from the March high at 2,401 on the S&P 500 is still underway. The S&P 500 initially declined to its rising 50-day Moving Average and then rallied. But the last two weeks have seen further corrective activity and our minimum expectation is a re-test of the late March pullback low at 2,322. At the same time, with downward pressure growing from the imminent maturity of the 21-day and 70-day cycles, the possibility exists that the S&P 500's current decline will not find a firm floor until it hits either the one-third retracement level (2,295) or the one-half retracement level (2,245) which is also the location of the rising 200-day Moving Average. For the first time in over five months, the S&P 500 now looks like it wants to spend a period of time below its 50-day Moving Average.

Other major market indices are also probing the areas just below their respective 50-day Moving Averages. With the exception of the Dow Transports none of these 50-day Moving Averages have turned down yet. This indicates the modest nature – to date – of the declines of the last six weeks. The pullback has turned the NYSE common stock-only daily advance/ decline line downwards so that it is now diverging with the overall daily A/D line which continues to make new highs.

The good news is that with the decline in its eighth week it is likely that the current pullback is nearer to its end than the beginning. The S&P 500's internal momentum is approaching oversold levels but it still has room to become more oversold. The equity put/call ratio has soared and is now at a level last seen at the November 2016 low, which suggests that conviction is growing that there is further prolonged downside ahead. This usually happens near reversal points. The percentage of NYSE stocks below their respective 50-day Moving Averages is coming back to the levels seen at the mid-March low but more stocks need to go lower in the short term to push New York to a fully oversold condition.

**Toronto** has continued with the intermediate-term "topping" behaviour that we noted in early April. The S&P/TSX Composite index rallied off the lower end of its trend channel but has pulled back again and is likely to re-visit the lower trend line around 15,400. All of the big Canadian Banks are under some selling pressure and some of these stocks have made lower lows in this pullback phase. If the Banks continue to weaken then the key support zone of 15,200 to 15,300 will be re-tested. And if this zone fails to hold then a move to the 200-day Moving Average at 15,000 would be a minimum expectation.

**The longer-term health of the bull market remains secure. The next few months of meandering action should be viewed as a consolidation period essential for the bull to make more gains further down the road. It is time for an extended rest, and investors should structure their portfolios to protect profits.**

PAC-17-73; MKT-413; April 19, 2017

**David Tippin, Ron Meisels**

## S&P 500


The S&P 500 has been in a corrective phase for six weeks. The pullback has seen the S&P 500 re-visit support offered by its rising 50-day Moving Average. The action has been choppy but with a distinct pattern of lower highs and lower lows.

The mid-March low at 2,322 provides initial support. Below this level further support should appear at 2,300, which is also near the one-third retracement level of the November to March rally.

**If a sustained break of 2,322 occurs then the S&P 500 could retreat to the one-half retracement, towards the 200-day Moving Average around 2,245/2,250. After completion of the current pullback, upside progress should be choppy with overhead resistance in the high 2,300s limiting further advance.**

## S&P/TSX Composite Index


The S&P/TSX Composite Index has been in a trading range for all of 2017 bounded by 15,943 (its all-time high) on the upside and 15,241 on the downside. The 15,200 to 15,300 area remains a critical support zone.

A sustained move above 15,800 would be needed to tilt the picture more positively. But Toronto has yet to reach a fully oversold condition in the current trading range and, since key sectors like the Banks continue to struggle, it is likely that further downside action may occur. If the 15,200 level is breached then the chances increase that the one-third (14,500) or one-half (13,750) retracement level will be approached.

**We expect that the horizontal trading range will be resolved to the downside, with the S&P/TSX Composite Index moving below its 200-day Moving Average and into the 14,000s in the weeks ahead.**

Phases & Cycles Inc., 2020 Boul. Robert-Bourassa, Suite 1903, Montreal, QC H3A 2A5
Tel.: (514) 393-3653 E-mail: RonMeisels@phases-cycles.com www.phases-cycles.com