PHASES & CYCLES®

THE BREAKOUT HAS LOST SOME STEAM. THE NEXT FEW WEEKS SHOULD SEE MEANDERING AND CHOPPY MARKETS.

A month ago the S&P 500 made an upside breakout above 2,400 and several other major market indices in New York followed suit. Our expectation was that this breakout, coming after a three-month consolidation period, would be followed by an advance that would take the S&P 500 up towards the 2,500 level. Instead, the S&P 500 is beginning to spin its wheels, finding it to be a tough slog to get above the mid-2,400s, and pulling back towards its 50-day Moving Average and the breakout point at 2,400. The number of NYSE stocks making new 52-week highs, which should have expanded as the market rose, instead continued to decline, indicating a lack of underlying leadership for an extended advance.

The S&P 500 has two important up trend channels. The smaller of these is a three-month channel that clearly posed overhead resistance for the S&P 500 around 2,450. The lower boundary is 2,400, coinciding with the recent breakout level. The larger channel (see next page) dates from early 2016, with an upper boundary just above 2,500 and a lower boundary near 2,325.

The immediate issue facing the S&P 500 is how well the recent 2,400 breakout level is going to act as support. The Index currently has negative momentum. It is also fighting against the downward pressure exerted by two cycles, the 70-day which has just matured and the 39-week cycle which matures in mid-July. If the S&P 500 moves below 2,400 then the 2,325 to 2,350 zone becomes the next downside target. This would take the S&P 500 down towards support offered by the larger trend channel. Below this the rising 200-day Moving Average is at 2,300 – it is unlikely that the S&P 500 would decline this far.

The longer-term uptrend remains firmly intact and leading indicators such as the NYSE daily advance/decline line remain very positive. **This bull market still has more to come and there will be more upside surprises**. But it is likely that the first half of July will see a renewed effort by bearish forces to see whether they can push the S&P 500 below 2,400 and keep it there for a period of time. Given the overall positive outlook for the New York market the outcome is likely to be choppy trading and a meandering S&P 500 that suffers only minor price damage. Summer rallies often start in the second half of July so it may be at that point that New York starts to show some renewed strength.

Toronto continues to struggle near the bottom of its trading range. From the February high the S&P/TSX Composite Index has traced out a gently declining trend channel and the Index is currently at the bottom of this trend channel near 15,100. Internal momentum is declining but has yet to reach truly oversold levels. Encouragingly, most of the big Banks are beginning to turn up – a “necessary” condition for a turnaround, but the Oils and Materials sectors are providing little assistance to the bulls. Our observation made in our previous Market Comment that Toronto needs a final “washout” type move to the downside remains valid. The S&P/TSX Composite Index chart looks like one that requires the proverbial “other shoe to drop” before it can begin to turn around.

In sum, the S&P 500’s recent action has been a little disappointing for the bulls. Further pullback towards 2,400 is likely with the downside risk limited to the low/mid 2,300s. Bullish forces will be hoping for a push back in the form of a summer rally that should begin later this month.

Our June optimism has turned a little more cautious in the short-term. The next few weeks may place a premium on risk control and portfolio protection. A better buying opportunity should emerge later in the month.

David Tippin, Ron Meisels

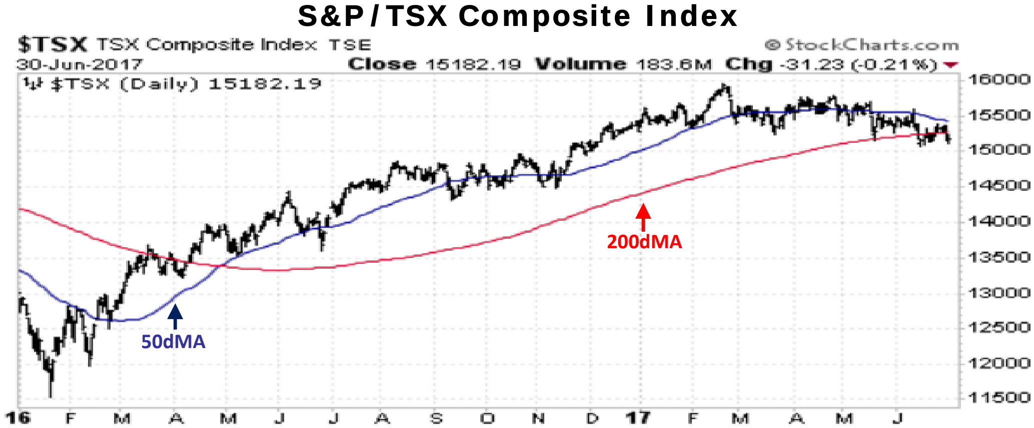
S&P 500

Two weeks ago the Market Comment concluded that "we are about to see how strong this recent breakout really is." The S&P 500 has now revealed that its move above 2,400 was not as strong as it first appeared.

The 2,400 level remains the key. Keeping above it maintains the prospect of a relatively quick move towards 2,500. Moving below it means that more base-building must be done, probably in the mid-2,300s. Last week the S&P 500 made a quick probe down to 2,405 and buying support materialized, which is encouraging. During the last few months, the S&P 500 has moved briefly below its 50-day Moving Average on three occasions but bounced higher. If this pattern persists, then support should appear when the Index approaches 2,390.

Our expectation of a choppy period in New York over the coming weeks means the 2,350 to 2,450 zone should be the battleground. This still fits very comfortably within an overall bullish pattern and the dominant trend channel that has been in force for the past seventeen months.

S&P/TSX Composite Index



The S&P/TSX Composite Index's gradual deterioration since the February high shows few signs of ending. Toronto is now starting to spend more time below its 200-day Moving Average, which is not an encouraging sign. While the past two weeks have seen a slight improvement in internal momentum, the price pattern remains one of lower highs and lower lows with the Index hugging the lower boundary of its trend channel.

Toronto remains trapped in a "slightly oversold, but not oversold enough" condition. There is room for further decline below 15,000 but major support should appear near 14,800. This area must hold for the bullish picture to be maintained.

The S&P/TSX Composite Index needs to get more oversold to generate the catalyst which might arrest its decline. This might appear in the upper 14,000s.

Dow Industrials

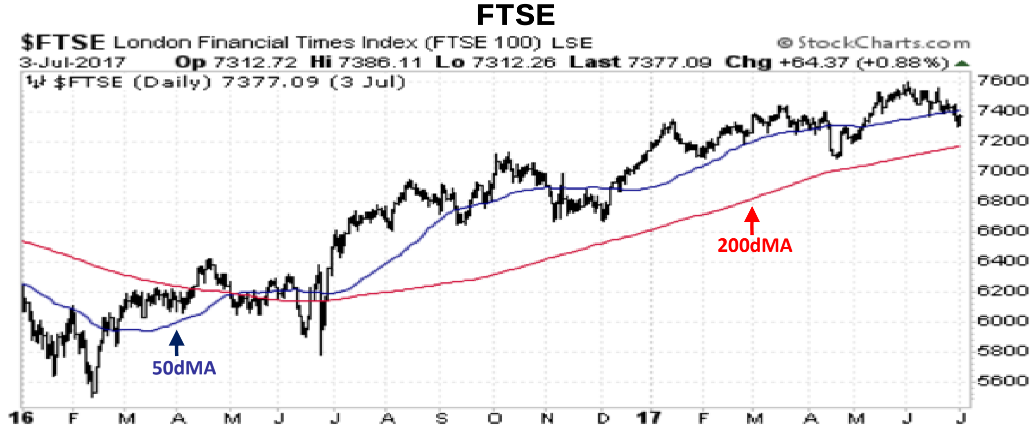
The Dow Industrials made yet another new all-time high in mid-June, peaking at the top of a short-term trend channel. However, this new high was accompanied by a lower internal momentum compared to the previous high.

The Dow Industrials remains in an uptrend but is slightly overbought. There is room for further pullback. Good initial support should appear at the 50-day Moving Average near 21,100 and there is further support at the 20,400 level.

As expected the Dow Transports bounced sharply off its 200-day Moving Average and rallied strongly. The Transports hit a new all-time high in pre-holiday trading, finally confirming the recent new highs in the Industrials. This reconfirms that the primary trend remains up.

We expect the Dow Industrials to continue to pull back from its recent all-time high. If the 21,100 level fails to hold the downside risk is between 20,250 and 20,500.

FTSE



One month ago the FTSE was at an all-time high just under 7,600, but was clearly overbought. We said at that time that a pullback to the 7,400 was possible and if that level held then a thrust to higher highs should follow.

As expected, the FTSE did pull back, but the 7,400 level – the location of the 50-day Moving Average – did not kick in to arrest the decline. The early-June all-time high set up a negative divergence in its internal momentum and the FTSE's nearly 4% plunge in the past few weeks has been quite persistent. However, the bullish picture remains intact as long as the FTSE stays above 7,200.

With the London market only moderately oversold, there is room for the FTSE to move down towards its rising 200-day Moving Average near 7,200 to complete a corrective move.

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