PHASES & CYCLES®

NEW YORK CONTINUES TO MAKE NEW ALL-TIME HIGHS. TORONTO REFUSES TO JOIN THE BULL'S PARTY.

The last month of summer has arrived and so far the bulls in New York have enjoyed some fine seasonal weather. The last two weeks saw the Dow Industrials lead New York higher, and the S&P 500, NASDAQ, NYSE Composite Index and the Russell 2000 also joined the Dow. Toronto and London are following "roads less travelled" – Toronto continues in its corrective mode and London is moving towards the lower side of its upward trending channel.

The S&P 500's action seems to be making some market participants a little nervous. Every time the S&P 500 does not move higher in lock-step with other major market indices such as the Dow Industrials – as it did towards the end of last week – commentary appears in the media that the uptrend is at or approaching its end. Heroic forecasts that the entire bull market is ending, possible "market tumbles" and references to the crashes of 1929 and 1987 start to appear. But as has often been observed, bull markets don't typically "ring bells" when they top out. Instead, they corrode and deteriorate over a period of time, usually in a manner which is challenging to detect in real time.

A topping market should see deteriorating breadth and price patterns. In a bull market daily NYSE cumulative market breadth – the plurality of stocks advancing versus stocks declining – should move higher as the major market indices move higher. This indicator is still positive and making new highs. The bull's chart pattern should also be positive – prices should make "higher highs and higher lows," and the entire pattern should be above a rising 200-day/40-week Moving Average. This is exactly what is seen on the daily and weekly S&P 500 charts. In sum: a rising 200-day Moving Average, positive market breadth, major market indices making higher highs and higher lows, coupled with a good dose of investor scepticism is **as good as it is going to get for a bull market** – and that is exactly what exists in New York. The bull market will not end until such time as we see this very positive picture begin to change.

The other factor crucial to the current status of the S&P 500 is the very large upward trend channel that dates from the February 2016 low (see green lines next page). All subsequent action is contained within this channel, currently bounded by 2,350 and 2,550. In the last eighteen months the S&P 500 has risen within this channel by 674 points, just over 37%. This remains a very powerful channel that must be respected. Even a 5-6% correction would still see the S&P 500 remain within this channel.

Toronto continues to diverge from New York. Sectors within the S&P/TSX Composite Index continue to rotate. At various times in the past few months the Banks, Energy and Materials sectors have rallied and corrected. But these sectors refuse to move up in a coordinated fashion, which means that as yet there is no effective antidote to the underlying downward pressure on the Toronto market. Toronto is sandwiched between broken support at 15,300 and the next support zone from 14,900 to 15,000. An important test of whether the bears can drive Toronto lower is shaping up (see details on the next page) with the battleground being near 14,900. Depending on which side is stronger, this level may be a turnaround point, or a prelude to further significant declines.

Week after week New York has produced the evidence that it is in the grip of a powerful bull up trend. It is inevitable and normal that the S&P 500 will pull back and enter a more prolonged corrective period at some point. But until the major parameters of the uptrend are conclusively broken, the rewards for investors will continue to lie in staying on the bullish side.

Our List of Investment Ideas contains suggestions for strong stocks with good upside targets that can be purchased on any market weakness.

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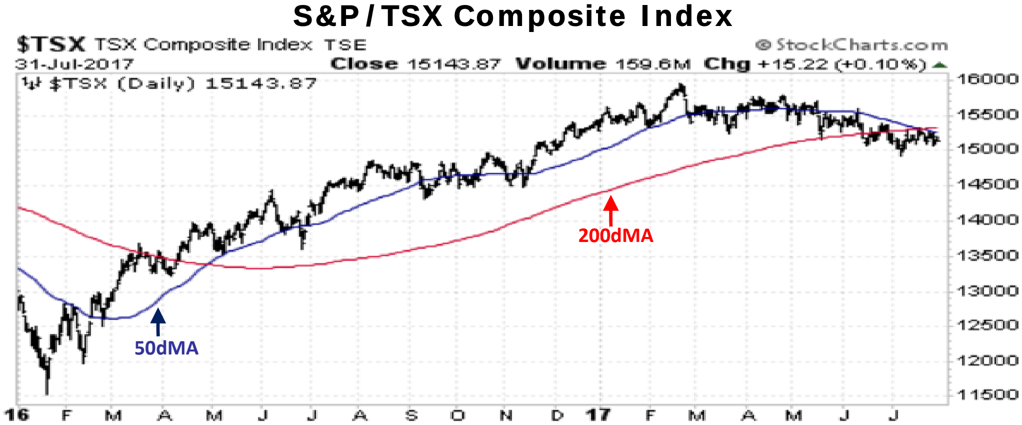
S&P 500

We set a minimum target for the S&P 500 in the upper 2,400s. This was achieved last week when the Index hit 2,484. This level is very near the upper boundary of the smaller rising trend channel that has contained prices for the past four months, so some hesitancy at this level is unsurprising.

The bigger picture is that the S&P 500 sits comfortably in the mid-range area of the larger trend channel that started in early 2016. Opportunity exists for the S&P 500 to move towards the top of this trend channel around 2,550, as well as a risk of moving down near the lower boundary around 2,350. The S&P 500 is slightly overbought and there is risk of a pullback from current levels. Encouragingly, good support should appear quickly, first at 2,450, then at 2,435 (the location of the 50-day Moving Average), and finally near 2,400, the level of previous overhead resistance.

With good nearby support, the S&P 500 should be able to offer strong resistance to any attempt by the bears to drive prices down. Some further short-term hesitancy in the mid to high 2,400s is possible, but the underlying bullish momentum should see the S&P 500 move to new all-time highs.

S&P/TSX Composite Index



Two weeks ago we observed that a successful re-test of the recent low at 14,916 might be the catalyst for the S&P/TSX Composite Index to end the corrective period that has been in force since its February high. In the last two weeks the Toronto market has rallied back to 15,300, a level that coincides with both the 50-day and 200-day Moving Averages.

The S&P/TSX Composite Index is now at an important juncture. If it declines further towards the 14,916 low then a re-test is underway. If Toronto bounces from that level, then the next upside objective is 15,600, the point at which we can begin to examine whether a reversal of the last six months is underway. If the 14,916 low does not hold, then a minimum downside target is 14,500, a re-test of last October/November lows.

The S&P/TSX Composite Index has had an extended corrective period which has seen a 6.4% pullback. Bullish forces will be hoping to make a stand around 14,900 to stop the decline. If successful, Toronto could then begin to develop a new bullish up leg.

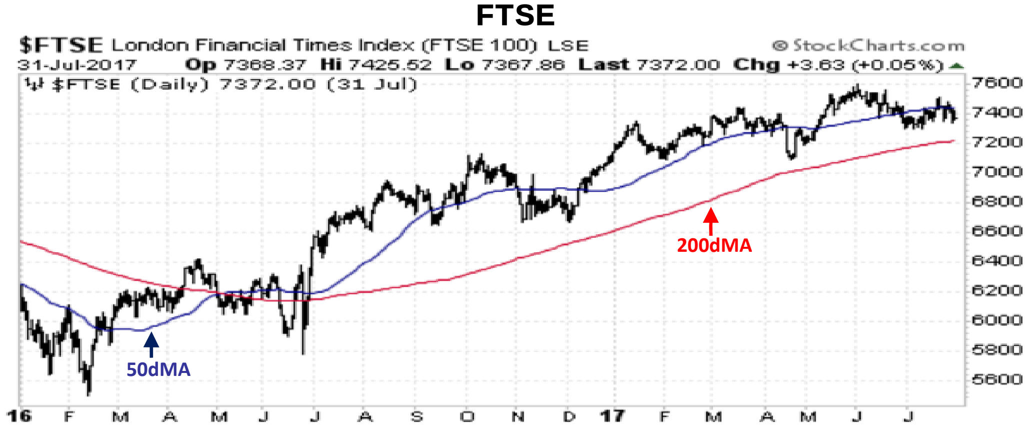
Dow Industrials

The Dow Industrials has put on a thoroughly impressive performance for the past few months, making a succession of new all-time highs. The Index has remained above its rising 50-day Moving Average for well over two months, indicating considerable intermediate-term strength. Nearly 4,000 points (22.1%) have been added since last November.

The Dow Industrials is well-extended price-wise and is currently well above its 200-day Moving Average. The Index is not overbought and is far away from the upper boundary of its rising trend channel. While the Dow Transports finally recovered and made a new closing high in mid-July (re-confirming that the primary trend is up according to Dow Theory) since then the Transports has lagged badly and sold off back to its 200-day Moving Average. Overall this is a mixed picture but it is best to stay with the uptrend until it is conclusively reversed.

The Dow Industrials has strong internal momentum and is stretched in term of price. Higher highs are definitely possible but the Index could pull back at any time towards its rising 50-day Moving Average.

FTSE



Since making a new all-time high at 7,599 two months ago, the FTSE has been in a corrective mode. Our expectation was that this correction would take the FTSE down towards its 200-day Moving Average, at which point the London market would be in a fully oversold condition.

The FTSE continues to weaken. A recovery rally from the late-June low at 7,300 was pushed back when the FTSE just rose above its 50-day Moving Average. A renewed decline back towards 7,300 is likely and the question will be whether this support level holds. The 7,300 area is also the area of the lower upward trend line of a year-long trend channel, so this is a possible stopping point. Below that, the rising 200-day Moving Average (currently at 7,220) should provide support. The correction will only end when the 7,515 level is exceeded.

The FTSE is likely to have some further corrections, but the 7,220 to 7,300 area should stop the decline. At the same time, there is considerable upside potential for the FTSE towards the upper end of its trend channel, which would be new all-time high territory.

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