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THE BULL MARKET CELEBRATES ITS 9TH BIRTHDAY. THE EXPECTED RECOVERY RALLY IS UNDERWAY. VOLATILITY WILL CONTINUE.

Two weeks ago in our last Market Comment we gave our assessment of the volatile period that began at the end of January: "a significant correction in the ongoing 2009-18 bull market has started". We expect that this correction will take the form of an A-B-C down-up-down pattern and that it could take until early spring to complete. After the correction is over, the underlying bullish trend should re-assert itself and propel New York to new all-time highs.

We forecasted that 2018 would see an increase in volatility and that a correction would occur in Q1. So far it has unfolded in almost textbook fashion. The first move (Wave "A" down) was the S&P 500's short and sharp 11.8% drop from its all-time high, finding support at the 200-day Moving Average and a rising two-year trend line. The decline re-traced almost one-third of the entire 1,063 point move dating from the last major low in February 2016. The S&P 500 is now in a recovery rally, which we label Wave "B" up. The volatility seen in Wave "A" down has been almost equalled by the volatility of the recovery rally. It has succeeded in recouping more than two-thirds of the initial decline. As the recovery rally proceeds the S&P 500 is becoming short-term overbought and volume is at subdued levels.

The S&P 500 has yet to show its hand as to how high and for how long it will carry on the current rally. Last week's hesitancy near the 50-day Moving Average after a quick run-up could be a short period of consolidation, with another push higher to follow. If the S&P 500 can sustain a decisive move above 2,750 then it would suggest that the Index has the legs to continue its recovery, perhaps into the high 2,700s or even the low 2,800s. If the S&P 500 starts to close in on its previous all-time high we can expect to see bullish optimism grow. We are already seeing media commentary that the "flash correction" is fading in the rear-view mirror. But investors should remain cautious. This recovery rally still contains the risk that it could stall and fizzle out at any time. Bearish forces had a brief taste of good times in late January/early February and they would like nothing better than to launch a "round 2" of selling to try and convince themselves that they have finally wrested control of the markets from the bulls. For investors, this is very much a period of "wait and see" until the S&P 500 conclusively tips its hand.

Toronto moved upward in tandem with New York's rally and has recovered over half of its recent decline. We said two weeks ago that the S&P/TSX Composite Index "needs to get back above its 200-day Moving Average in the coming weeks to keep its bullish outlook intact." Encouragingly, Toronto achieved this target last week. Renewed strength in the big Banks is an additional positive. Now the challenge is to hold on in the low to mid-15,000s and build up strength to eventually move even higher. The 15,000 level remains a critical line in the sand which the bulls need to protect.

Next week the bull market will enter its 10th year! The position of the S&P 500 relative to its 50-day and 200-day Moving Averages indicates that the bull market is still thriving. But it is now going through one of its periodic and normal corrective phases during which volatility increases and the markets move both down and up for a while. New York is currently in a recovery phase that we expect will eventually meet renewed selling pressure. This second wave of selling will set the stage for the bulls to conclusively re-assert their control of the markets.

We continue to advocate patience and caution. A good buying opportunity should appear when the correction is finally completed.

David Tippin, Ron Meisels

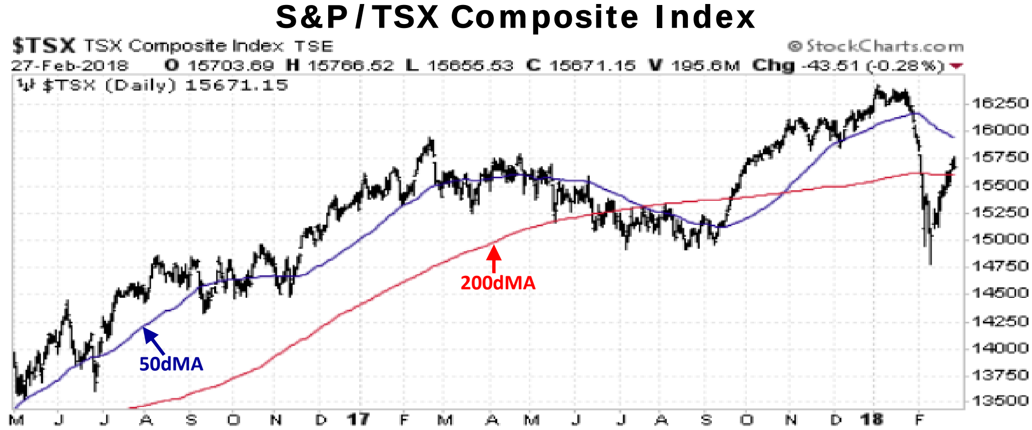
S&P 500

The decline from late-January generated some significant changes in the S&P 500's daily chart. For the first time in fourteen months the S&P 500 dipped for an extended period of time below its 50-day Moving Average. Since the initial decline and recent rally occurred so quickly the 50-day Moving Average has remained sloping upwards. And also for the first time since late 2016 the rising 200-day Moving Average was brought into play to act as support to end the initial decline.

The recovery rally has taken the S&P 500 back into its comfort zone – above the 50-day Moving Average. The 2,700 to 2,750 zone, where prices paused last week, is now shaping up as an important short-term area to watch. It could act as support for further extension of the current rally. But if the rally falters, a move below 2,700 would suggest that further downside is likely. The 2,550 to 2,600 zone is a strong area of support.

We expect this recovery rally will eventually run out of steam, and that the S&P 500 will fall back at least into the 2,600s.

S&P/TSX Composite Index



The S&P/TSX Composite Index arrested its decline at the key 15,000 level in early February. The rally since then is important for two reasons: the 15,000 level has been re-confirmed as an important support, and the rally has succeeded in pushing the Index back to its 200-day Moving Average. Volume on this recovery rally has started to decline, but the rally has yet to generate overbought readings.

Looking up, there is overhead resistance in the 15,800 to 16,000 zone, which contains the declining 50-day Moving Average and the now-broken two-year uptrend line. Major support begins at 15,300, with the 15,000 level remaining the key level to watch. The S&P/TSX Composite Index has tested this level five times, all successfully, in the last eight months.

The low 15,000s still seems the most likely area for the S&P/TSX Composite Index to do some necessary base-building after the recent decline. This could eventually involve a final re-test of the 15,000 level. If successful, this could provide the launching pad for a more durable advance back towards the recent all-time highs.

Dow Industrials

The Dow Industrials sharp run-up in January led us to observe that the Index was overbought and that there was little immediate support above 25,000. We also noted a growing divergence between the Dow Industrials and the Dow Transports. When the advance finally exhausted itself in late-January it fell rapidly below 25,000, finally finding support at 23,500 near the trading range of last October/November.

The pullback disrupted the bullish uptrend but did not break it. The Dow Industrials have recovered strongly since early February, re-gaining over two-thirds of the decline. The Index remains well above its rising 200-day Moving Average. The Dow Transports have also recovered. Dow Theory will remain positive as long as the closing lows of February 9 are not violated by the two Indices.

The Dow Industrials have had a sharp recovery. The 26,000 level will pose some overhead resistance if the recovery continues. We expect that the Dow Industrials will eventually pull back towards a re-test of the 23,500 to 24,000 zone.

FTSE

In January the FTSE looked like it had broken out of a multi-month consolidation and was starting a new up leg. We noted at the end of January that the FTSE was "delicately poised", as it was pulling back to a re-test of the breakout level at 7,600. We expected a renewed advance to follow.

Surprisingly the re-test failed badly. The FTSE shed about 9% and fell all the way back to the 7,100 area, the lower boundary of its consolidation zone. A small recovery has followed.

The encouraging aspect is that the important 7,100 level kicked in as support. But the FTSE is now faced with a large area of overhead resistance from 7,300 to 7,600 that must be overcome. This area also includes the 50-day and 200-day Moving Averages.

The FTSE's bullish prospects received a setback in the past month. London needs to stabilize in the low 7,000s and build a base from which to launch an advance through the resistance zone. A re-test of the 7,100 level will likely be part of that process.

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