# PHASES & CYCLES®

## THE WALL OF WORRY CONTINUES TO DELIVER BULLISH PRESENTS. AUGUST COULD BE A CHOPPY AND VOLATILE MONTH.

The theme of our Market Comment in mid-July suggested that the S&P 500 was "knocking at the door" of a conclusive upside breakout. Since then, the S&P 500 made a further exploration of the area above the key 2,800 level, making a new recovery high (since early February) and coming within less than 1% of its all-time high. The NASDAQ made a new all-time high (despite weakness in the FAANG stocks) as did various advance/decline lines and upside/downside volume lines in New York. Other major market indices are within a few percentage points of previous all-time highs.

If this performance is the consequence of a "wall of worry" then we say "keep adding bricks and build that wall higher"! Daily and weekly charts of major market indices all tell a similar tale. Major uptrends are intact, 200-day Moving Averages continue to rise, price patterns are "higher highs and higher lows", major supporting uptrend lines are intact and Point and Figure targets are significantly higher. Underlying indicators such as market breadth, volume and new 52-week highs are also positive. For bulls, there is little not to like in these markets.

While the big picture continues to be very encouraging, the shorter-term outlook is not straightforward. Two weeks ago with the S&P 500 near 2,800 we said that the rally that started in late-June could either extend immediately (leading to a major breakout) or get pushed back into the trading range for a little longer. In fact, the market did both. The S&P 500 rose to 2,848 and then pulled back towards the breakout point. Any continuation of the rally will quickly bring the all-time high at 2,873 into sight and could, if the rally strengthens, move the S&P 500 closer to 3,000 in fairly short order. But the cyclical picture for the month of August will likely throw up some minor headwinds for the bulls. With New York somewhat overextended, a minor correction could occur in early August. We expect to see the "I told you so" bears out in force if the 2,800 level is not held – *pay them no attention*. The second half of the month will see the maturation of the S&P 500's 70-day and 105-day cycles, as well as the longer-term 39-week cycle. The outcome could be an "up and down" month on either side of 2,800, with choppy and volatile action persisting until the new cycles exert their power. We then should see "Leg 5 up" make its most important gains.

**Toronto's** S&P/TSX Composite Index spent the last two weeks in a minor pullback towards its rising 50-day Moving Average. We suggested this as a possibility in our last Market Comment as the S&P/TSX Composite Index was near the top of its rising trend channel and internal momentum was falling. Fortunately, Toronto has built up considerable credit in the bullish bank with its strong performance since February, so it is well-placed to absorb small pullbacks without damaging its overall up trend. The S&P/TSX Composite Index could eventually slip below its 50-day Moving Average, but this will be a healthy and entirely normal blip on the road to new all-time highs. And if New York moves into overdrive above 2,800, Toronto will reach its minimum target of 17,500 even more quickly.

**The action of the past few weeks is entirely consistent with our longstanding expectation that the S&P 500's trading range period will end with a burst to the upside and to new all-time highs. But not before the underlying major bullish uptrend navigates some tricky cyclical currents in August that may slow upside progress. The key point for investors is to ignore the worry-warts and doomsayers, and continue to ride and invest with the bullish uptrend.**

**The markets want to go higher and will go higher. Any weakness in August will be yet another opportunity to put funds to work in technically strong stocks. See our List of Investment Ideas for potential candidates.**

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## S&P 500


The July rally, on gradually increasing volume, pushed the S&P 500 up nearly 160 points (5.8%), taking the Index to a new post-February recovery high last week at 2,848. Now the question becomes: will there be a minor pullback quickly followed by a new rally back to the all-time high at 2,873, or will the S&P 500 need more time to rest and consolidate the July gains?

The price action of the past few weeks makes it clear that the 2,850 level is gradually losing its power to act as overhead resistance. The S&P 500 moved to this level without really extending itself but is now overbought and last week reached the top of its short-term trend channel (see lines). Ideally, 2,800 should now be defended by bullish forces, but the Index can tolerate a pullback that takes it back toward 2,775, which is a ½ correction of the recent move and where the rising 50-day Moving Average currently intersects.

**August could become a relatively "sideways" month, with the S&P 500 trading on either side of the 2,800 level for a period of time. But with the major price pattern remaining strongly up, the S&P 500 is capable of launching a major upside move at any time. The all-time high is going to be exceeded.**

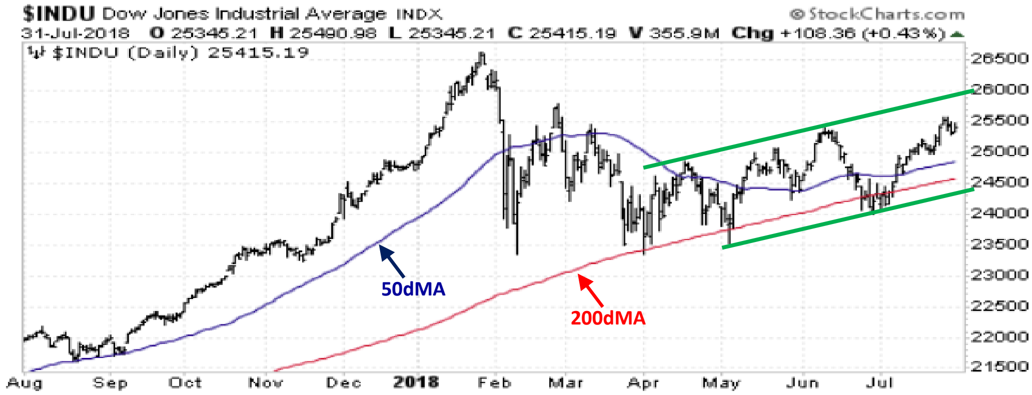
## S&P/TSX Composite Index


Since April, the S&P/TSX Composite Index has continued its gradual track higher, with minor pullbacks along the way. The Index has stayed above its rising 50-day Moving Average, which provides near-term support just under 16,300.

The three minor pullbacks since April have all been stopped above the 50-day Moving Average, a very bullish sign. The S&P/TSX Composite Index can easily tolerate a pullback that would take it below the 50-day Moving Average and nearer the middle of its upward trend channel. If, as we expect, August turns out to be a mixed and choppy month, a more extended multi-week pullback could occur that takes the Index back towards the 15,900 to 16,100 zone where the 200-day Moving Average currently intersects. This would be entirely normal and would actually serve as a buying opportunity.

**The S&P/TSX Composite Index remains in a very bullish position with higher targets. It continues to make new all-time highs and has shown that it is able to easily contain selling pressure. Until those two factors change, the Toronto market's major direction remains resolutely up.**

## Dow Industrials




The performance of the Dow Industrials continues to lag many other major market indices in New York. The Dow Industrials remains in a corrective phase, with recent action moving towards the top of the trading range that emerged after the early February low. Strength in July turned the 50-day Moving Average up and the 200-day Moving Average retains its positive upward slope. The Dow Transports is in a similar trading range mode.

A new up leg for the Dow Industrials will only be signalled by a sustained move above 25,800. With the Index moderately overbought and at the upper end of the trading channel (see lines), a minor pullback towards the 50-day and 200-day Moving Averages – in the 24,500 to 25,000 range – is entirely possible in August. The price action since early April has been "higher highs and higher lows" so we expect that any further pullback will be followed by the same pattern.

**The Dow Industrials is in a normal correction/consolidation phase. A breakout above 25,800 will signal that the Index is ready to resume its major uptrend. We expect that the Dow Industrials will play "catch-up" with the S&P 500 and eventually make a new all-time high.**

## FTSE


As we expected, the London market is still digesting the major gains it made earlier in the year. The FTSE has spent the last two months in a horizontal trading range between 7,500 and 7,800, staying above the 200-day Moving Average. What we wanted to see – the protection of the bulk of the major gains – is occurring and this is very encouraging for a bullish outlook. Another positive feature of recent action is that the FTSE daily advance/decline line hit new all-time highs in mid-July even as the pullback was underway.

Immediate upside resistance is concentrated around the 7,700 level with further overhead resistance at 7,800. Support can be seen at 7,500 with further support near 7,300. The 50-day Moving Average, just below 7,700, is acting as a magnet for recent price action.

**The FTSE's correction/consolidation needs further time to reach its end. A move through the 7,700 and 7,800 levels will be the signal that the major up trend is ready to resume.**

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