

# PHASES & CYCLES<sup>®</sup>

**THE MARKETS ARE REACHING ALL-TIME HIGHS,  
BUT A MINOR CORRECTION IS ON THE HORIZON.**

Our last contribution mentioned two measures that, based on Stock Exchange folklore, forecast the direction of the market towards year-end. The first is based on what the market does during the first five days of the year, and the second looks at the market's behavior during January.

Based on the Stock Trader's Almanac "When stocks finish the first five days higher, the S&P 500 has been positive more than 80% of the time at year-end with an average gain of about 13%". This is good news, since the S&P 500 Index (SPX), the NASDAQ Composite Index (NASD) and the S&P/TSX Composite Index (TSX) all ended higher during those first five days, at 1.8%, 2.5% and 3.5% respectively.

The second, "the January barometer", is what the brokers in New York refer to as "so goes January, so goes the year". It looks at the performance of the first complete month compared to the year-end results. Quoting the Stock Trader's Almanac once again "it has registered only nine major errors since 1950, has been accurate 74.6 percent of the time, and if relatively flat years are excluded, the accuracy rate gets even better at 86.6 percent". As we now know, due to the weakness of the last four days of January, the month ended with mixed results, the SPX, the NASD and the TSX closed the month at minus 1.1%, plus 1.4% and minus 0.6%. It is a small consolation to know that without the last four days of January, in other words without the interference of the "short-squeezers", the month would have ended at plus 2.5%, plus 5.7% and plus 2.0%!

## Outlook.

Let's look at the indicators. The SPX, the NASD and the TSX appreciated 13.6%, 19.8% and 11.3% since the October 2020 lows and moved up in a narrow but rising up-channel (see charts on the following page). During this time, the percentage of stocks above their 10-week Moving Averages increased from 48% to 84% and those above their 30-week Moving Averages increased from 56% to 89%. At the same time, the number of stocks hitting New 52-week Highs increased from zero to an average of 200 (not counting ETFs etc.) creating what is called an over/bought (o/b) condition. We know that o/b conditions can exist for a long time, and sometimes even longer than forecast, but sooner or later such conditions must give way to a minor correction. All indicators are likely to move ahead to new all-time high levels in February, but a minor correction is quite likely to commence in mid-March.

*Ron Meisels is the founder of the independent research firm Phases & Cycles Inc. You can get a free trial on the website.*

# S&P 500



# S&P/TSX Composite Index



**Ron Meisels**

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Phases & Cycles Inc., 4000 Boul. De Maisonneuve West, Suite 2010, Montreal, QC H3Z 1J9

Tel.: (514) 393-3653 E-mail: [RonMeisels@phases-cycles.com](mailto:RonMeisels@phases-cycles.com) www.phases-cycles.com

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