

MARKET COMMENT

US STOCK MARKETS DEFY PUNDITS AND RISE TO NEW RECOVERY HIGHS

August 27, 2009

Global equity markets fell sharply last Monday as investors became concerned about Japan's economy and a 20% decline in Chinese stocks. Investment experts warned once again that the rally was over and that another setback was about to begin. In contrast, our last message focused on how money was flowing heavily into stocks since Buying Power (as reported by Lowry Research) was rising and Selling Pressure was falling. This data was at the best level in years. Therefore, in spite of last Monday's sell-off, our Market Comment concluded that the five month rally was actually getting stronger and that the risk was the lowest it had been for two years.

Focusing on what the money was doing, instead of the news, proved to be reliable once again as North American equity markets rose every day for the rest of last week. While the TSX ended the week flat, the S&P 500 Index actually rose 2% for the week to end at a new 10 month high! North American markets are now getting close to recovering all of the losses incurred since last September.

We mentioned in previous Market Comments how US stocks react after advancing issues outnumber declining issues by a ratio of more than 2-to-1 within a 10 day period. This occurred most recently on March 23rd after a strong rally off the March 6th lows. The report illustrated how markets continued to rise for many months after such a strong display of buying.

While a 2-to-1 Advance/Decline Buy Signal is a rare event, back to back Signals happen even less often. New York had just such an event in early July, when 20,704 stocks advanced and only 9,474 declined over a ten day period. This means that we have

now experienced two Advance/Decline Buy Signals within four months. This has only happened three other times since 1950.

- It happened in July and November 1962 after the world was on a nuclear edge due to the Cuban Missile Crisis. The four year rise, which began in 1962, was the final stage of a sixteen year advance (Chart 1).
- It was triggered again in January and February 1975 after a severe recession; a 50% drop in the DJIA; Nixon's impeachment; and big rise in oil prices. The rise marked the end of the recession and the bear market, as well as the beginning of a commodity boom (Chart 2).
- The most recent occurrence was in August and October 1982 as interest rates were declining from all time record highs during a severe recession. The rise marked the end of the recession, the end of the bear market and the beginning of a sixteen-year bull market that appreciated 300% in the first three years (Chart 3).

Of all the previous examples, conditions now seem most similar to 1975. Having two Buy Signals only months apart shows that, for whatever reason, investors and money managers seem to be as eager to buy stocks now as they were to sell them last fall.

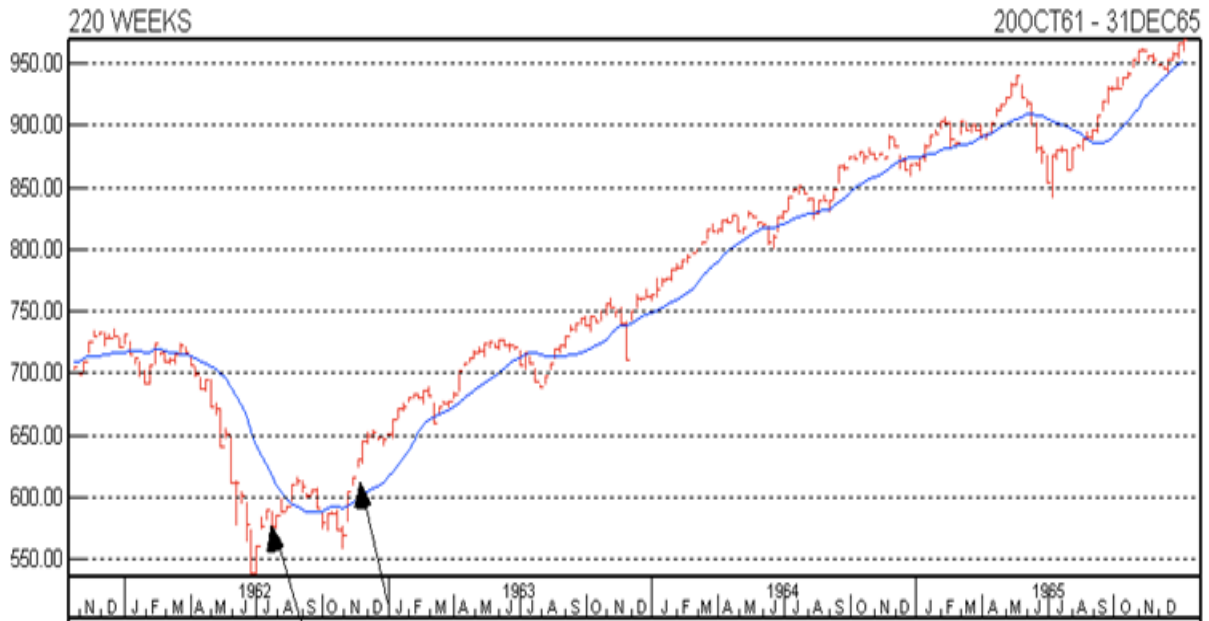
While corrections in the 10% range are common, there has never been a severe decline within a year of back-to-back Buy Signals.

Going against momentum like this is like standing in front of a freight train. Ignoring it probably means missing out on a major advance.

Ron Meisels

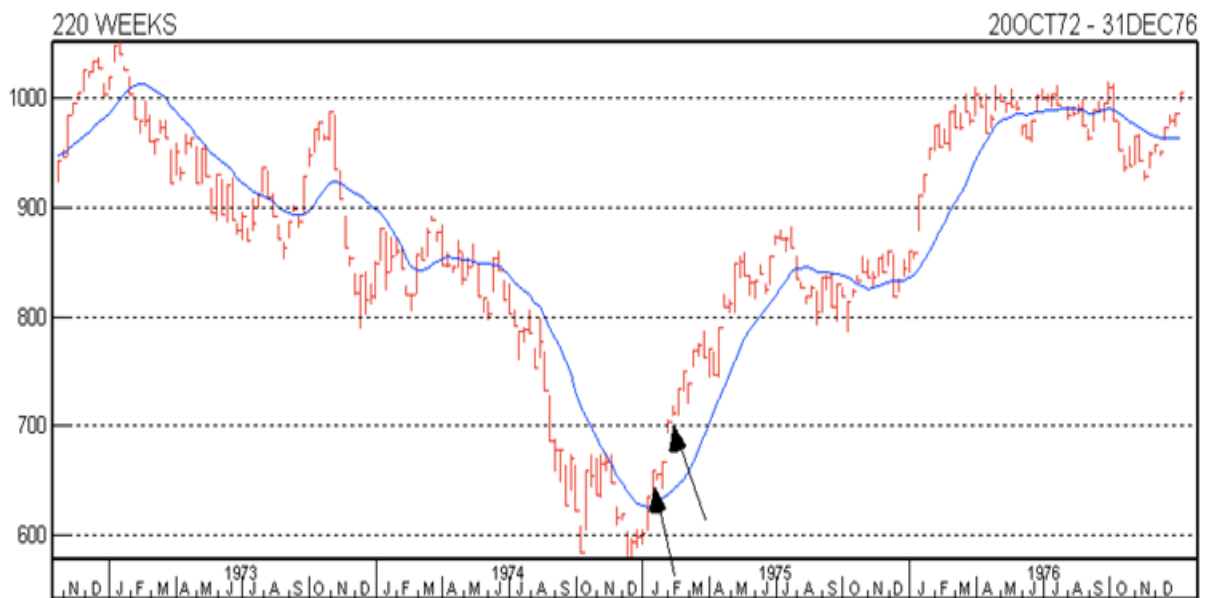


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Markets rose to record highs for years after the first back-to-back 2-to-1 Advance/Decline Buy Signal in 1962.

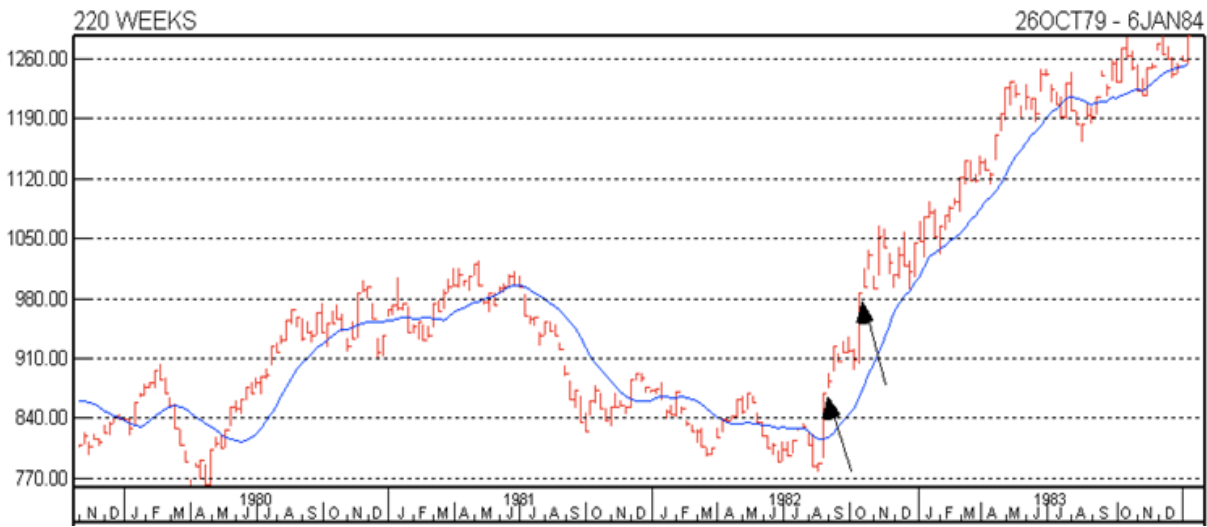
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The back-to-back Buy Signals in January and February 1975 occurred after a 50% decline, eight years after the US market peaked in 1966.

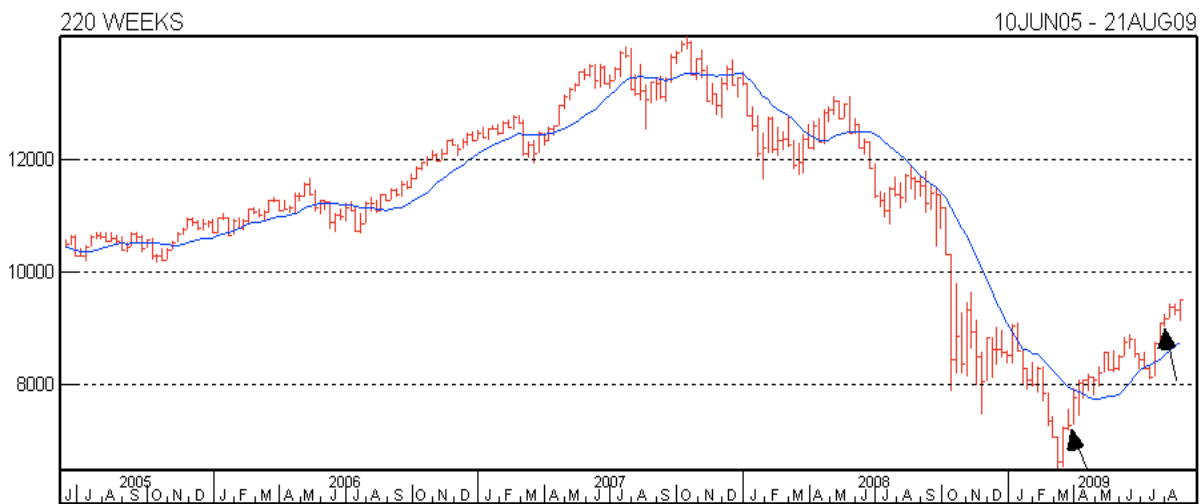


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20% interest rates ended the bubble in commodities, caused a severe recession, a bear market and very high unemployment. The two Buy Signals in August and October 1982 were a signal that the bear market and recession were over. See that the DJIA consolidated for several months soon after the second Buy.

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We have now seen back-to-back Buy Signals for the fourth time since 1950. In the short term, a minor correction or a multi-month consolidation phase could occur. The record for the longer term is very consistent. It has always happened at the end of a bear market, before a rise close to record highs within a year.

Data for charts compiled from Thomson Reuters.