



MARKET COMMENT

THE CALM REACTION TO THE NEWS OF DUBAI WORLD IS ANOTHER PROOF THE BULL MARKET IS WELL, INTACT AND READY TO BRING CHRISTMAS CHEER

December 7, 2009

It has been nine intensive months for the North American markets. Since the March lows, the market has been on a persistent pattern of higher-highs and higher-lows. Our bullish stand has allowed our readers to profit from this up-trend and at the same time helped them to avoid the prevalent "this can't be it" attitude.

Our early-November Market Comment suggested that the mid- and long-term bullish prospects of the market remained intact, but the tempo of the market could slow. Given seasonal tendencies and the strength of the up-trend, we raised the possibility of a sideways pause, which would work its way through the sectors.

Indeed, since mid-September the market's advance has slowed, especially in Toronto, where the Banks have been in a narrow trading range since August. "Decline in the morning, recovery toward the close" has been the most prevalent pattern recently.

The serene atmosphere of this consolidation was altered by news of the financial woes of Dubai World. But even news of this magnitude was not enough to send the market into a downward spiral. Quite the opposite! Toronto was open and reacted negatively and so did New York next day, only to trim the losses later the same day. In fact, as of this writing, both markets have fully recovered.

This bargain-hunting behaviour provided more evidence that the bull market is well and intact. If the markets were in the midst of a cyclical bear, as some claim, major negative news would have caused a violent sell-off (as was the case in 2002 or 2008).

Ignorance of bad news is the classic trademark of a bull market at work!

This market immunity to bad news is the result of an underinvested status of many large funds. Reuters reported just yesterday that "a survey of 49 investment houses around the world showed equity holdings slipping to 55.3% from the long-term average of more than 59%". We presume that they have been sceptical of market recovery in the light of poor economic data!

In addition, the Hulbert Stock Newsletter Sentiment Index, which measures stock market exposure among newsletters, shows the current reading of only 34.4%, which is the same level it was last April, when the Dow closed at 8,058.

Despite the multitude of technical evidence supporting the bullish case, despite the market's strong performance there are still disbelievers, there is still a solid wall-of-worry!

The bears' inability to take the market sharply down, even with the support of negative news from Dubai, is more evidence of the strong technical structure of this bull market.

Olaf Sztaba, Ron Meisels



Why have money managers and the general public been struggling to recognize and embrace the current bull market?

We all know the answers. Bull markets are usually born during times of economic tribulation, widespread fear and distrust of the stock market. As a result, rising stock prices are viewed as phenomena that cannot last.

During the early stages of bull markets, many investors remain on the sidelines. They have a preconceived idea of where the market will go and will cite any number of economic concerns to support their bearish case. Only later, when the stock market is already much higher, does the positive economic data start to pour in. Despite that, many investors continue to ignore the new up-trend. If history is of any guide, the majority of investors who were badly mauled during the bear market will not commit even a portion of their capital until it is much too late.

Thanks to technical analysis, an investment philosophy that concentrates on analyzing what is rather than what should be, we have been able to tune in to the jingling bells of the current bull market from its early days.

Today, the market evidence continues to point to the upside, with trend indicators providing the strongest argument.

The 40-week (200-day) moving averages of the market Indices are rising, and action has been taking place comfortably above them, leaving a plump cushion in case of any pullback.

In addition, for the next 23 weeks, the S&P 500 and the S&P/TSX Composite Indices will replace much lower numbers (below 950 and below 10,500 respectively) in their 40-week moving averages (40wMAs). Given that these RISING 40wMAs are now at 940 and 10,250 and that the 40wMAs usually provide excellent support, chances of the S&P 500 and the S&P/TSX falling below 950

and 10,500 in the next few months are relatively small.

A traditional year-end rally may even move these Indices further and further away from their underlying moving averages.

If the holiday shopping spirit spreads to the stock market, the North American Indices could end 2009 on a high note, postponing any major corrective action until early 2010. An examination of the 39-week cycle points to the second half of January for a possible cycle low, giving a nod to the prospect of an early January pullback when hangovers are being nursed.

The market action of the last few months has been strong enough to position the North American Indices well above their RISING 40-week (200-day) moving averages. Given that during the next few weeks the Indices will be replacing much smaller numbers in these averages, the possibility of a major trend change is very small.

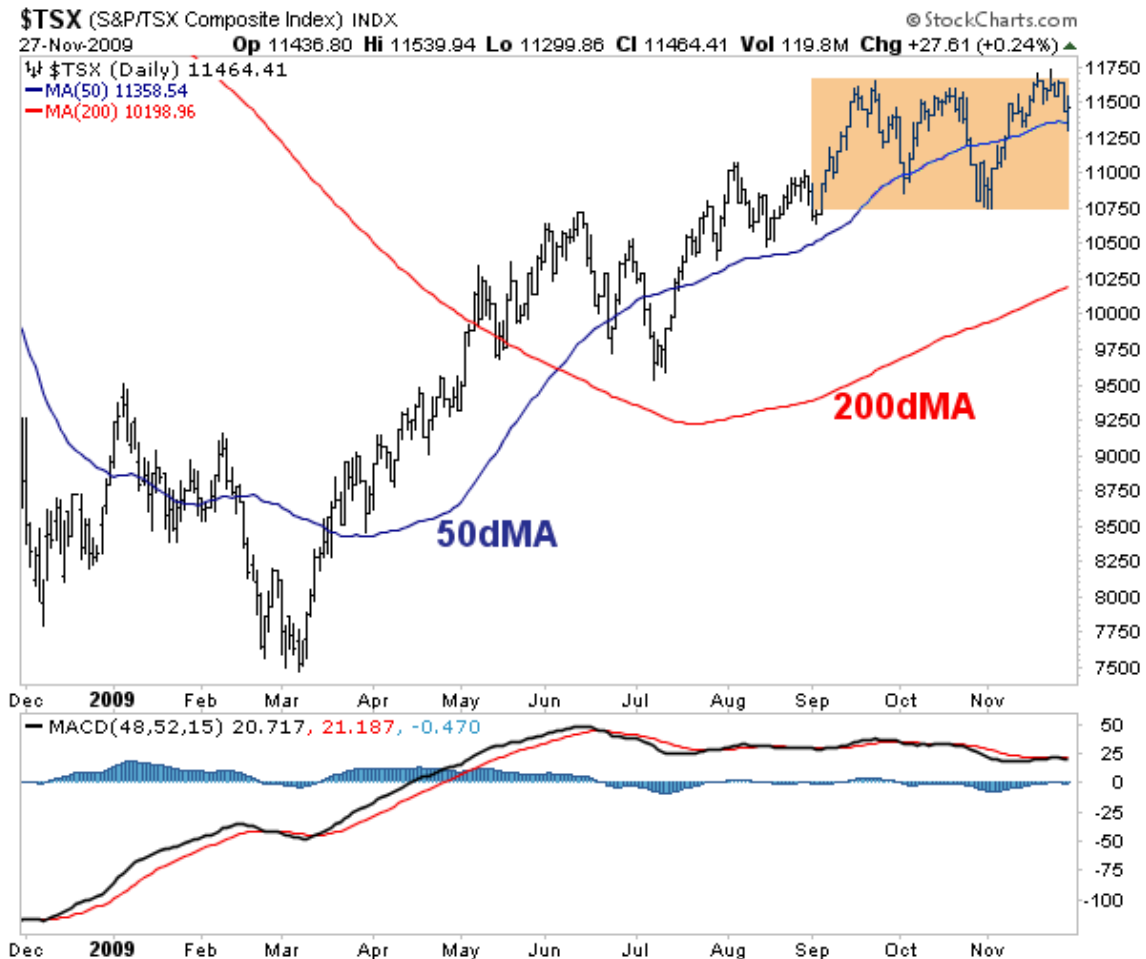
In the short term, if bargain-hungry investors decide to do some end-of-year shopping, the current pause may turn into another rally, postponing a major corrective action until January.

Focusing on the strongest sectors and individual names should remain the leading strategy. Any pullback toward breakout points should be viewed as a buying opportunity for intensive months for the North American markets.



S&P/TSX

(Daily chart with 50- and 200-day moving averages)



The market action of the last two weeks continues to suggest the possibility of a sideways action where the 10,750 level, already tested on two occasions, continues to support the Index on the downside. At the same time, to date, the 11,600-11,700 area has been posing a challenge for any upside move. This horizontal range is the result of the weakening Banks and the strength in the Resource Sector (see shaded area).

A decline below the 10,750 support is unlikely but corrective action could bring the Index toward the bottom of the trading range near 10,250-10,500, where the rising 200-day moving average currently intersects.

At the same time, an upside breakout from this horizontal trading range will likely result in a quick move to new recovery highs near 12,500-13,000.

The strength in Energy and Gold stocks should cushion the Index's decline in the case of a correction. At the same time, if the rally restarts in December, the Toronto market should attract the most attention.

The Toronto market is undergoing a correction in the form of a horizontal trading range – a sign of market strength. If a rally restarts in December, we expect the Toronto market to be the main beneficiary of such an up-move.



S&P 500

(Daily chart with 50- and 200-day moving averages)



The S&P 500, like Toronto, is consolidating within a horizontal trading range mostly between 1025 and 1100 (see shaded area). The Index is trading above both its rising 50- and 200-day moving averages, which should provide short- and longer-term support.

A decline to the 200-day moving average (currently near 950) is unlikely, but corrective action could bring the Index toward the bottom of the trading range near 1000-1025.

At the same time, a breakout above the November highs would quickly catapult the Index toward our next targets of 1150 and 1300.

The S&P 500 is undergoing a consolidation, following a strong up-leg. A resolution from the current trading range should arrive before the end of the year. The Index's technical underpinnings remain strong. The rising 200-day moving average points to higher levels in 2010.