



## MARKET COMMENT

### AFTER A SIX-MONTH RISE, MARKETS WERE DUE FOR A PAUSE (NO BEAR, JUST THE PAWS)

February 2, 2010

There have been many short dips and one day fallouts since the bull market began on March 10, 2009. Even though sceptics warned that the bear market would resume each time, they all turned out to be short lived setbacks along a trajectory to new recovery highs. It is no different this time.

The most recent market setback occurred at the end of October. It is almost three months since that time. Equity markets typically decline 4% to 7% at least every three months during an uptrend. Consequently, the dip in stock prices last week was overdue and completely normal as the 39-week cycle matured. North American market averages are now down a little more than 4% from the highs attained after New Years Day.

We have often heard that "the trend is your friend", which means that it is usually prudent to follow the trend until it changes. As mentioned before, when there is an investment bubble, prices can continue to rise much farther and longer than would reasonably be expected. The short and long-term Trend indicators should be most helpful to determine when trends are indeed changing. Please see the various indicators and the comments which accompany the charts on the following pages to observe what the money is doing during this period of minor turbulence.

Our January 14 Market Comment mentioned that "the long-term averages continue to point upward"; that "the bull market, in terms of elapsed time, is still quite young"; and that "significant bases were formed in 2008-09". At the same time, we also suggested that "internal momentum

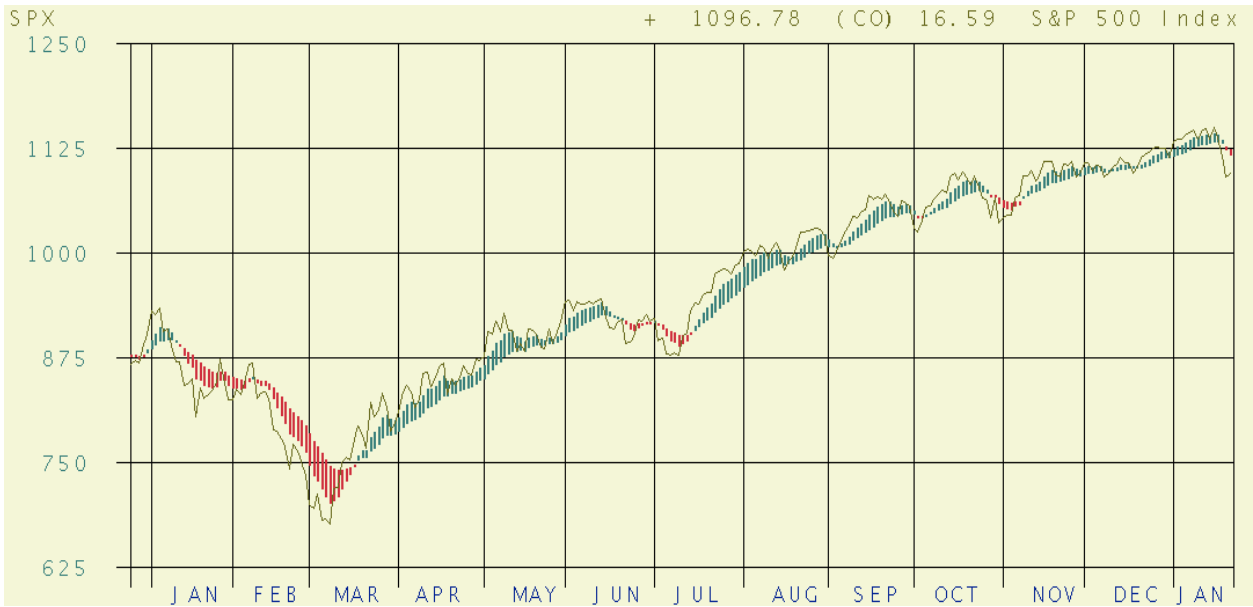
continues to decline" and that "market sentiment is increasingly bullish".

The Market Comment also suggested that "the excess of bullishness and the maturation of the 39-week cycle, could continue to cause a moderate correction". This is happening now. We expect a three-part move, the first of which has been underway since January 19th and may have terminated on January 29th, when the DJI bottomed at 10,044, the S&P 500 at 1072 and the S&P/TSX Index at 11,084. In fact, the percentage of stocks above their 10-week moving averages has already dropped from 82.2% on January 5th to 43.2% on January 26th (Investors Intelligence data).

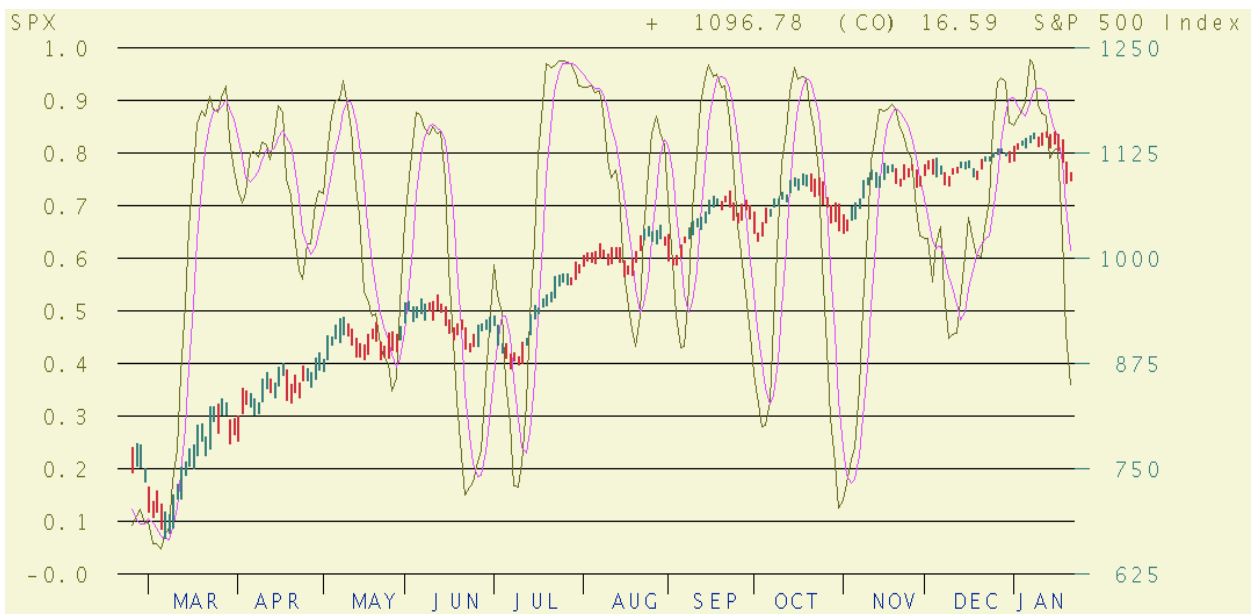
The "ideal" three-part move (if there is such a thing) would continue with a rally to approximately DJI 10,300, S&P 1,110 and S&P/TSX 11,400 and conclude with a final down-leg to retest the recent lows toward the middle of March.

***Our most recent Market Comments focused on factors that could impact the markets this year. One of these made the case that supply and demand measures do not show signs that are typically seen months before a market top. This implies that the rally which began 10 months ago has further to go.***

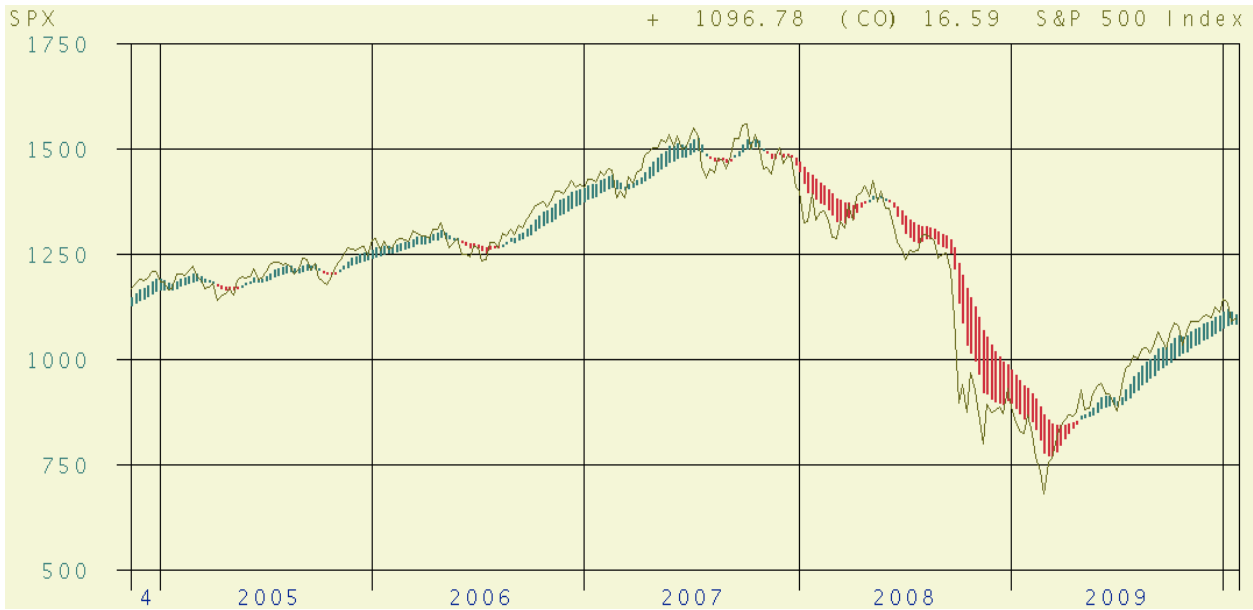
**Ron Meisels**



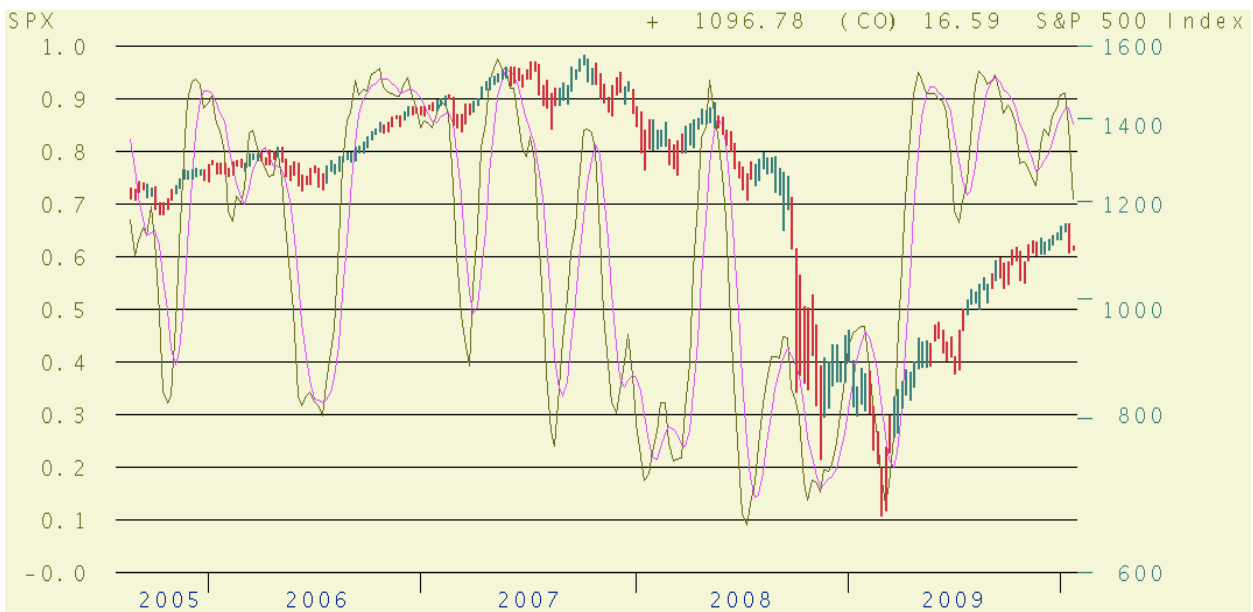
**Chart 1** - The short term Trend for most global markets has turned negative as it did in June and at the end of October. It will be very important to observe how markets react after the short-term oscillators reach the fully oversold level (see next chart). If they rise sharply as they did after October, it would imply that this is just a very healthy decline, which is a normal part of any rally.



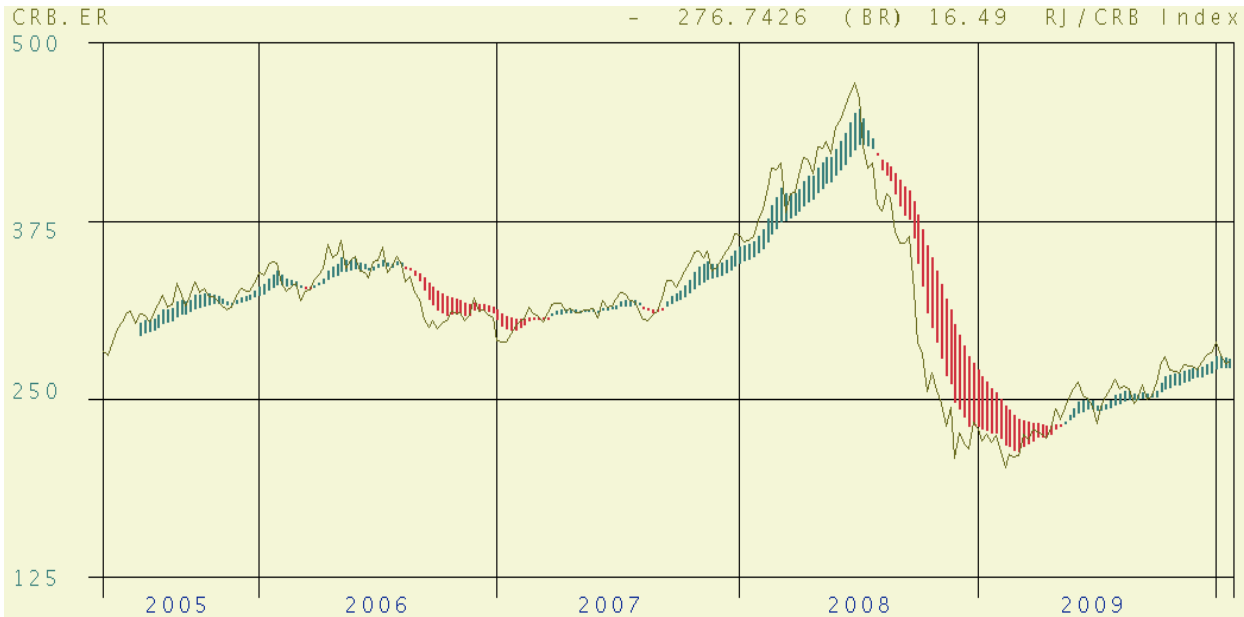
**Chart 2** - While the TSX, many global markets and commodities are fully oversold, the S&P 500 and DJIA still require a few more days to decline to 0.2 (left hand scale). The indicator can also become fully oversold if the markets trade near current levels for a few more days. The action of equity markets once they reach the oversold level should provide clues about what might happen in the weeks ahead.



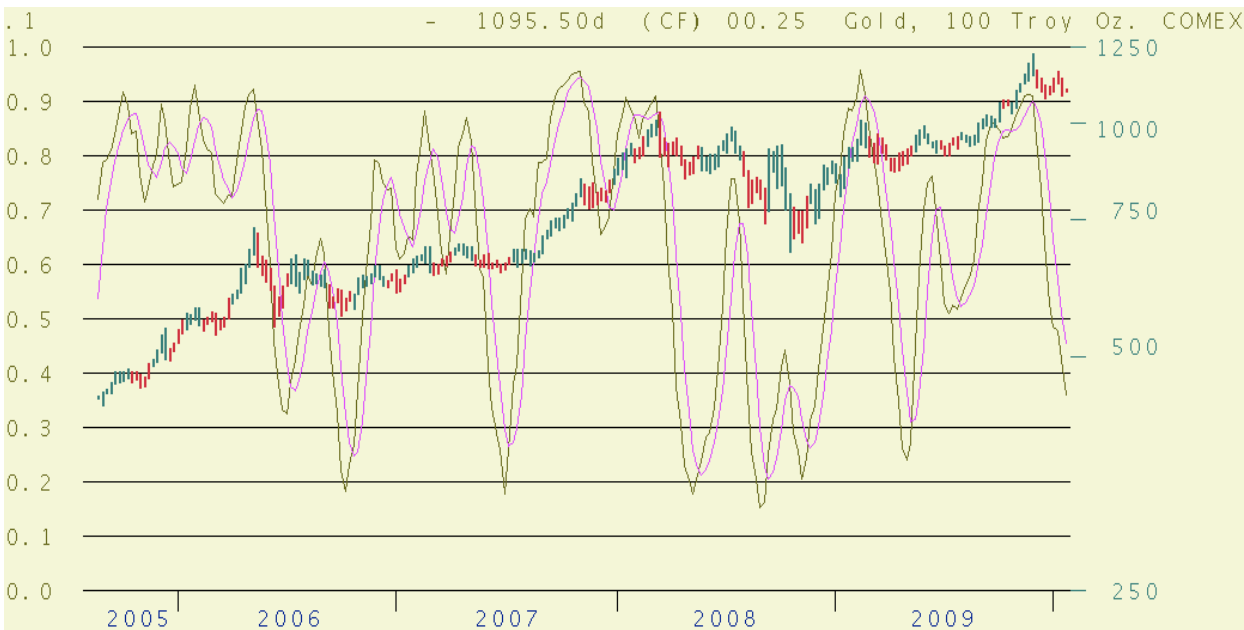
**Chart 3** - The long term Trend for most global equity markets has remained positive since turning green in April 2009. This indicator is the foundation of the longer-term strategy. It would be prudent to reduce equity exposure if these indicators turn red.



**Chart 4** - The longer-term oscillator usually stays in the overbought territory during the first year of a bull market. It has been the same this time. It is now down from the overbought level as it was in early July and the end of October. It should turn back up in a week or two after the short-term oscillator turns up from the overbought level (see chart and comment #2). This is what happened in July and October 2009.



**Chart 5** - The long term Trend is still positive for commodities in general. To date, this dip is no different than anything that has occurred since last spring.



**Chart 6** - The price of gold has been consolidating since it reached the \$1,200 level. This long-term oscillator could reach the fully oversold level in a matter of weeks. Prices could begin another uptrend after that occurs.

**Data for charts compiled from Thomson Reuters. Daily chart with 50- and 200-day moving averages).**