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THE IMPRESSIVE RECOVERY CONTINUES TO GATHER STRENGTH. THE TONE OF THE MARKETS HAS TURNED FROM SUPER BEARISH TO POSITIVE AND COULD LEAD TO A BREAK-OUT TO NEW HIGHS.

Two weeks ago in the Market Comment we made a strong case that the February 11 low "was an important low." It was clear that the New York market was considerably stronger when it made its February re-visit of the January lows. The negative sentiment and the improving cyclical picture, set the stage for the more positive outlook.

From the intra-day low on February 11th the S&P 500 gained 214 points, or nearly 12%. <u>This rally has been broad-based</u>. The NYSE daily advance/decline line has improved considerably and is in better shape now than it was last November/December when the S&P 500 was at higher levels. In the space of just four weeks the percentage of NYSE stocks trading above their respective 50-day Moving Averages jumped from 11% to over 85%.

After such a strong and quick advance <u>a pause or pullback would be normal;</u> market indices are at or approaching important potential resistance zones, such as declining 200-day Moving Averages and old support levels that were broken previously. The S&P 500 could easily pull back towards its 50-day Moving Average at about 1,925. Should this occur, we can expect confident assertions from the bears that the "last gasp bullish rally" has finally failed!

Our view is that even with a pull back, <u>the bigger picture is resolved</u>. We believe that the current technical picture is a mirror image of 2011. Then, after the 106% rally from March 2009 to May 2011, the S&P 500 dropped 22% to October. This time, the S&P rose 99% from October 2011 to May 2015 and then dropped 15% to February 2016. In 2011, instead of suggesting that a healthy correction had terminated, the majority declared a new bear market and potential new lows below the March 2009 lows! Currently, instead of suggesting that a healthy correction has terminated, the majority suggests potential new lows below 1800 and even a new bear market! <u>We are not in that camp!</u>

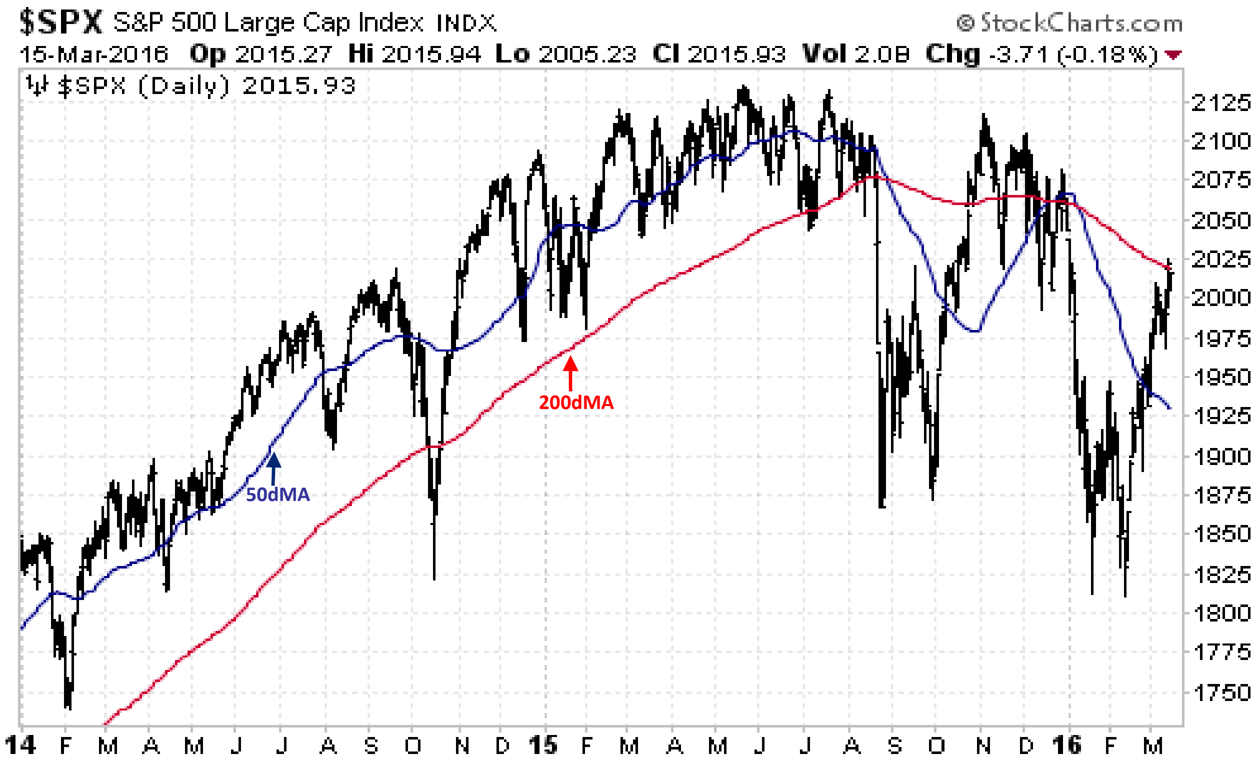
Toronto's action is also encouraging. The 10-month downtrend is broken, with Golds and Oils, traditional late-bull market performers, at the forefront. The big Banks are also starting to move. The S&P/TSX Composite Index is up over 17% since mid-January, <u>one of its best performances for a two-month period since 2009</u>. The big challenge now is to overcome its declining 200-day Moving Average.

In sum, due to the broad-based recovery the markets are overbought and a pullback is very likely needed to digest recent gains. After the pullback meets renewed support, it is likely that major market indices will then mount a concerted effort to reach new highs.

Some downtrodden sectors and stocks have come to life. For some of these, the recent rally is just a recovery with limited further upside. But there are stocks with good technical profiles (see for example our recent list of positive Canadian stocks) that will be candidates for purchase on any pull back.

David Tippin, Ron Meisels

S&P 500



The extension of the S&P 500's recovery rally in the first two weeks of March left the Index comfortably above its 50-day Moving Average and very close to the 200-day Moving Average. The encouraging aspects of the S&P 500's recent action are the double-bottom in the low-1,800s and the subsequent rise above the previous rally peak at 1,947.

But having now probed the low 2,000 area the challenges mount. The 200-day Moving Average is the first area of overhead resistance. The area from 2,040 up to 2,120 contained much of the trading for the year 2015 and when the S&P 500 reaches this area some selling pressure may emerge from previous buyers who will be relieved to break even.

The S&P 500 is overbought after its substantial rise from mid-February. An ideal scenario would be for the Index to consolidate recent gains by trading in the 1,940 to 2,040 area for a period of time. This would allow the 50-day Moving Average (currently at about 1,930) to turn upwards and provide further support. The 1,800 level still remains major support.

The S&P 500's recent action has unnerved the bears but they can be expected to try to push the Index back. Now overbought, the S&P 500 needs to take time to digest its recent gains. We expect the result will be a trading range for the rest of March with support offered by the 50-day Moving Average.

S&P/TSX Composite Index

March so far is a very significant month for the Toronto market. The S&P/TSX Composite Index (1) broke the major downtrend line that has dominated trading since April 2015 (solid line), (2) disrupted the prevailing pattern of “lower highs and lower lows”, (3) broke above the 13,000 resistance level, and (4) nearly turned its 50-day Moving Average up for the first time in over nine months.

Clearly Toronto is transitioning to a new and more positive phase. The recent strong rally has brought the S&P/TSX Composite Index back to its declining 200-day Moving Average near 13,550, a point of significant upside resistance. There is good support at 13,000 and below that at the 50-day Moving Average at 12,650.

With the Toronto market now overbought and at important resistance, a one-third retracement of recent gains would take the S&P/TSX Composite Index back into the high 12,000s. This would be a healthy development and set the stage for a more comprehensive challenge of the 200-day Moving Average.

Toronto is short-term extended but seems to be trying to make an important turnaround. A pullback/pause in the low 13,000 to high 12,000 zone would be constructive.

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