PHASES & CYCLES®

THE BULL MARKET IS ALIVE AND WELL.
A SIGNIFICANT BREAKOUT IS UNDERWAY.

We were wrong about the timing of new all-time highs in the S&P 500. We expected that the S&P 500 would continue to mark time and base-build throughout the summer before launching a successful breakthrough of the upper portion of its overhead resistance zone in the low 2,100s. Bull markets, as we repeatedly observe, always have the potential for upside surprises – and we are very pleased to see the S&P 500 break out above its old high at 2,135, sooner than expected.

We were right about the major direction of the markets. For many months we have suggested that this bull market was far from over. The bearish assertion, that the major market indices were making a major top in 2015/16, made no sense from two perspectives: there was no identifiable final up leg in the S&P 500's chart, and the type of buoyant enthusiasm towards the markets in general that is normally associated with major bull market tops was nowhere to be seen.

The S&P 500 has now broken out from its large year-long "W" formation (see previous Market Comment - MKT-394), potentially a very bullish development. The recent action reinforces our long-stated view that the February low was a major low and marked the start of an important up leg. The first wave of this up leg ended at the April/June highs. The "Brexit low" can now be viewed as the end of a normal correction. Since June 27th we are now in a new "wave three" up-leg.

There are two key issues to watch as this new advance unfolds. First, and most critically, can the breakout be sustained? Having finally surmounted the 2,135 obstacle, it is very important that the S&P 500 keep above this breakout point. Second, how broad will the participation be in this new up phase? The Dow Industrials also made a new bull market high, and the daily NYSE advance/decline line continues to do well. Other major indices such as the NASDAQ and the NYSE Composite Index have moved above their April and June highs but still need further upside to make new highs for this bull market. The respective 200-day Moving Averages of the major market indices are now either positive or are turning upwards, reinforcing the bullish outlook.

While internal momentum indicators are suggesting the markets are short-term overbought, reliance on these indicators at an important breakout point risks throwing investors off the main trail. The key right now is price action. If this is the "third wave up" from the February low in the S&P 500, and if 2,135 is protected, then the advance could be explosive to the upside. The "W" pattern projects a minimum target in the mid-2,400s.

Toronto completed its correction in late-June and its 200-day Moving Average is finally turning upwards, a bullish sign. The sustained strength in Energy, Materials and Golds, with the support of the big Banks is giving a strong signal that the S&P/TSX Composite Index is in the midst of one of its classic late bull market advances. It is likely that Toronto will continue to be an out-performer in this up phase.

In sum, after a prolonged period of stalemate in the form of a massive trading range in the S&P 500, it now appears that the bulls are re-gaining the upper hand. Consolidation and then follow-through from the recent breakout are essential. Holding the recent gains and breakout levels shall lead to a resistance-free space to explore on the upside.

Minor pullbacks should be used as opportunities to accumulate or add to existing positions from stocks on our "List of Investment Ideas."

David Tippin, Ron Meisels

S&P 500

Two weeks ago we suggested that "the Brexit sell-off may have done the job" in completing a corrective pattern. A one-third retracement of the previous advance was completed, setting the stage for the subsequent rally.

The advance in the past three weeks has been powerful and impressive, with a gain of nearly 9%. Near-vertical moves through important resistance will inevitably encounter selling pressure from those who don't believe in the sustainability of the move, and from short-term traders taking profits. Short-covering and new buyers taking advantage of the breakout can offset this pressure.

Regardless of motivations, the important issue for the S&P 500 is to defend the 2,135 breakout level (solid line). Only a move below this level would require a reassessment of the bullish outlook.

We expect that the S&P 500's recent rate of change will become more moderate. A period of consolidation above 2,135 to absorb the inevitable short-term selling pressure would be a healthy development. New highs should then follow.

S&P/TSX Composite Index

From its January low at 11,531 the pattern of the S&P/TSX Composite Index has been a relentless one of "higher highs and higher lows." The rally has taken Toronto up an extraordinary 26%, pushed through the 200-day Moving Average, and turned that Moving Average upwards. This is a very bullish picture, with further upside very likely.

The S&P/TSX Composite Index is now probing the area around its early-June high at 14,450. A conclusive move above this recent high will bring the 15,000 level back into target range. The rising 50-day Moving Average just above 14,000 should offer good support to any minor pullback.

Toronto is a good example of "the trend is your friend" and pullbacks remain buying opportunities. This bullish advance has increasingly broad participation across a range of sectors. The uptrend remains in force until the pattern of "higher highs and higher lows" is broken. We expect a challenge of the 15,000 level soon.

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