PHASES & CYCLES®

A MINOR PULLBACK MAY OCCUR,
BUT THE MARKETS ARE ON TARGET TO END THE YEAR ON A HIGH NOTE.

Just after Labour Day, as the S&P 500 made an all-time high, the Market Comment headline was "An autumnal pullback is still expected. However, the bull's last big surprise for 2016 might be a major upside thrust." The conclusion of our analysis was "the major market indices could be at higher levels than at present by the end of the year. This bull has plenty of gas left in its tank."

Three months later, after the forecasted correction, the market scorecard reads: the S&P 500 soared 6% from its November low and new all-time highs were made by the S&P 500, Dow Industrials, NASDAQ Composite and Russell 2000. The Dow Transports also finally broke out, reinforcing a bullish Dow Theory view.

What could New York and the bull market do for an encore? A look at the big picture might help. Leg-5 of this massive bull market started at the S&P 500's February low. Two significant corrections (June, and September to early November) occurred with similar endings: renewed buying support appeared near the rising 200-day Moving Average and quick reversals with major upside thrusts ensued. The bears continue to be routed by the high octane buying fuel still left in the bull's tank. The November thrust is the start of a new up leg within this Leg-5. And it is not over.

Leg-5, particularly in the last three weeks, is already showing its characteristic narrowing leadership. The NYSE daily advance/decline line has yet to make a new high (but the common stock-only line is at new highs), and the number of stocks making new 52-week highs is lagging. While the S&P 500 is well above its 50-day Moving Average, only 63.5% of NYSE stocks are above their respective 50-day Moving Averages. Fewer stocks will participate in Leg-5, making stock selection more crucial.

In the near term – especially until mid-December – there is room for caution. Both New York and Toronto are modestly overbought. Bullish outlook (a contrary indicator) is growing: the Investors Intelligence survey of investment advisers shows a sharp 13% increase in bullish sentiment in the past two weeks. Equity put/call ratios are falling but are not yet at extremes. The next 70-day cycle maturity is at the end of this week and the 105-day cycle matures in mid-month, so some important cycles are pointing down. Add a widely-expected Federal Reserve interest rate hike in December and the odds for a modest wobble or pullback increase. Possible pullback targets: 2,160 for the S&P 500, 18,600 for the Dow Industrials and 14,750 for the S&P/TSX Composite Index.

From its mid-January low, **Toronto** has risen over 30% in a very regular fashion with higher highs followed by higher lows. At the same time, gains over the last three months have been more modest as the S&P/TSX Composite Index moved mostly sideways. However, as we expected, when New York rallied Toronto followed and the 15,000 level that we forecasted has been achieved. The leadership of the big Banks in this advance suggests that even higher highs will eventually follow.

In sum, a minor pullback through the first half of December is likely. A year-end rally should then take most of the major market indices to new all-time highs. We expect that the markets will remain strong through the initial part of 2017.

The next two weeks should see buying opportunities in strong stocks, as they have small pullbacks.

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S&P 500

Two weeks ago we declared that "If the S&P 500 can get and stay above 2,180 then a new market up leg is confirmed. At that point 2,200 and a new all-time high are easily achievable." The S&P 500 drove straight up off its 200-day Moving Average, passed through the 50-day Moving Average at 2,050, barely hesitated at resistance at 2,180 and then made a new all-time high above 2,200.

This bravura performance has now placed the S&P 500 in overbought territory and the Index is now some distance above its 50-day Moving Average. A modest pullback to consolidate gains would be a normal occurrence. There is initial support at 2,180 and then at 2,150.

The S&P 500's blast-off in November now needs to catch its breath. A pause and small pullback to around 2,160 is likely. Further new all-time highs should then be achieved.

S&P/TSX Composite Index

The S&P/TSX Composite Index declined slightly below its 50-day Moving Average in mid-November, just under 14,500 and in the support zone that we identified in the previous Market Comment. This small low was made on improving internal momentum, setting up a positive divergence. From this point the S&P/TSX Composite Index moved sharply to a new 2016 high above 15,000.

The recent action is consistent with the Toronto market behavior throughout this year. Toronto remains firmly in a bull market and the expectation is for further highs in the 15,000s. There is good near-term support at the 50-day Moving Average at about 14,730 with further support arising at just under 14,500.

The S&P/TSX Composite Index is slightly overbought and a minor pullback to around 14,750 is possible. The Toronto market's action suggests that it is now in a new up leg and if New York continues to move higher then so too will Toronto. The S&P/TSX Composite Index's all-time high made in 2014 at 15,685, is a distinct target.

Dow Industrials

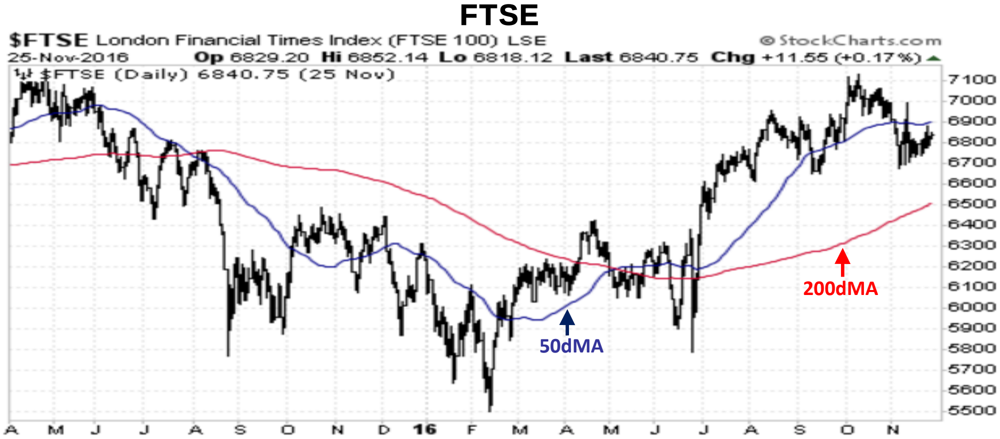
Our expectations a month ago were twofold. We said that the Dow Industrials had a downside risk to its rising 200-day Moving Average. We also expected that the next major move would see the Index exceed 18,500.

In early November the Dow Industrials completed its correction just above the 200-day Moving Average. Then it took off, soaring over 19,000. The Dow Transports have also broken higher, meaning that Dow Theory has turned bullish once again.

The Dow Industrials are overbought and the Index is now a considerable distance from its 50-day Moving Average. Normally in these circumstances a modest pullback occurs to move the Index back towards the 50-day Moving Average. There is good support in the 18,650 to 18,700 area.

The Dow Industrials needs a small rest after gaining over 7% in a few weeks. A small pullback should occur, to be followed by more upside. This rally has potential to go considerably higher.

FTSE



The FTSE re-traced about one-third of its gains made between late-June and early-October, becoming fully oversold in the first week of November. Since then the FTSE has rallied modestly, while underperforming the New York market.

The 6,550 to 6,700 zone is now shaping up as a crucial support area. Declines in September and November were stopped in this area, and the rising 200-day Moving Average will soon enter this zone. To the upside, overhead resistance can be seen at the 50-day Moving Average at 6,900 and at 7,000.

The FTSE must keep above its 200-day Moving Average for the major uptrend to remain intact. If the FTSE can get above and stay above its 50-day Moving Average at 6,900 we then expect it to challenge the early October high at 7,130.

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