

PHASES & CYCLES®

ONE MORE DOWN-LEG? OR NOT?

The last Market Comment titled "A Fork in The Road", indicated the two possible outcomes at that time: a continuation of the uptrend that commenced in the middle of October, or a turn-around to revisit the June-October lows.

Looking at the SPX chart below, nothing major has occurred since then despite the positive Advance/Decline and Upside/Downside numbers. As the chart indicates, the SPX continued to move above its 50-day Moving Average (50dMA). However, the 200-day Moving Average (200dMA) and the downtrend line continued to decline as they have done since early January.

The down-up-down pattern (A-B-C) visible on the chart is a typical correction pattern. The "double bottom", which is formed by the SPX finding support twice at about 3600 (letter A and letter C), is a typical pattern that usually leads to the beginning of a new up-leg. However, this is not infallible, sometimes the market decides to have another down leg. In the current case, this would create another down-leg towards 3500 which is the ½ correction of the move from the 2020 low to the 2022 January high.

However, there are numerous positive signals. The percentage of stocks above their 10-week Moving Averages rose from 12.3 (mid-October) to 53.2 (Nov. 8th); those above their 30wMA rose from 11.3 to 28.8 (courtesy of *Investors Intelligence*). The AAI's (*American Association of Individual Investors*) report shows that the "bulls" increased from 23.9 to 30.6 and the "bears" declined from 54.8 to 32.9. In addition, last Wednesday was a "selling climax" day: Declining Volume was 10-times as much as Advancing Volume, and last Thursday was a "buying Climax", as the numbers reversed.

Add to this, last Thursday's two potentially bullish news: that inflation could rise at a lower rate than expected and that the Republicans didn't gain both houses. That day the DOW gained over 1,200 points, the SPX rose over 200, the NASD 750 and the VIX decline by 2.54 points to 23.53.

Does this mean that the decline is over, that the market will rise from here? NO, but it might! All we need is to see SPX above 4,100.

TORONTO's TSX index clearly mimics New York's activity. The "magic" number to get over the 200dMA is 20,200.

S&P 500 (SPX)



S&P/TSX (TSX)



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