THE GLOBE AND MAIL

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Technical tools and cyclical measures indicate that the correction that started on January 4th, 2022 ended this past Wednesday.

To understand the reasoning, let's look at technical and cyclical data.

1) To date the North American markets have gone through three major cycles, one that ended in 1929 (although some analysts consider that it ended in 1942), one that ended in 1974 and the most recent one that ended in 2009. The rising or bullish phase of these cycles lasted 24 to 26 years.

2) The bull phase is interrupted every two or four years by a correction, which retraces 1/3 or 1/2 of the previous rise. This occurred in 2016, 2018 and most recently in 2022 (the Covid decline, just as the 1987 drop, was not a cyclical event). The correction never declines lower than the previous low.

3) The percentage of the S&P 500 (SPX) stocks above or below their 10-week Moving Averages (10wMA) defines bullish or bearish conditions.

4) The relative position of the 200-day Moving average (200dMA) to the SPX (above or below), defines the bullish or bearish status. The status reverses whenever the SPX suddenly changes direction above or below its 200dMA and it is usually accompanied by a sudden change in previous bullish or bearish forecasts.

5) "Breadth" is calculated by dividing the number of advancing issues by the total number of issues (advancing + declining). A "breadth thrust" occurs when this result moves from below 40% to above 62% within any 10-day period and it signals the end of a correction or a bear market.

What supports this forecast?

1) The current bull market has lasted only 13 years, just half the length of the previous ones.

2) The 2016, 2018 and 2022 corrections never declined below the previous lows. Therefore, we are still in a bull market.

3) 2022 is four years away from 2018. Given the existence of the four-year market cycle, this suggests that sometime this year the markets will have a corrective move".

4) We suggested in February of this year that since the SPX declined 551 points or 11.4% in January, ("as January goes, so goes the year") statistics suggested that 2022 would be a weak year.

5) The SPX retraced the required 50% correction of the previous rise.

6) The end of the correction is suggested if 70% or more of the SPX stocks move above their 10-week Moving Averages. The percentage moved from 12.3% on October 11th to 75.7% on November 15th.

7) The market had two breadth thrusts recently. During the first, from October 11th to the 25th, breadth rose from 29% to 84%; and the second from November 9th to the 15th rose from 19% to 76%. This confirmed the end of the corrective move!

Outlook

The SPX had a one-day reversal on Wednesday. It traded in a narrow trading range between 3940 and 3965 until 1:30pm, but then began a sharp ascent to 4080 in the next 2 ½ hours. This brought the SPX above its 200-day Moving Average for the first time since March. Given the positive signals coming from the other conditions mentioned above, this move above 4050 was just the action needed to confirm the end of the correction and the continuation of the bullish status that began in January.

There will be negative days, but only a massive move below 3700-3600 would erase all positive signals and negate the end of the correction.

Toronto's TSX index clearly mimics New York's activity. The "magic" number to get over its 200dMA was 20,000, which it crossed on November 22nd. Some of the Banks, Financials and Industrials have already moved above their 200dMAs.

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