PHASES & CYCLES®

A FORK IN THE ROAD.

Stock market folklore suggests that October is the worst month of the year, but experience says that it is September. Which is it? October feels like the worst month, because the sell-offs that begin in September (or earlier) usually come to an end in October. This situation is repeating again this year, as the market experienced a negative September, but began a rally in mid-October.

As the chart below indicates (and as we reported in the last Market Comment) the U.S. market developed a potential "double-bottom" between June and October. A double bottom consists of a sell-off to a certain level (mid-June - A), a rally from this point (B), then a decline (C) that stops about the same place as "A" -- mid-October in this case. Investors, who see the market rise from this second point, conclude that the market has changed direction and start investing. In the current case, the S&P 500 Index (SPX) stopped its decline in mid-June at about 3,600, rose to 4,300 (mid-August) and declined to about 3,600 again in mid-October. It then started another rally which gained 300 points or 8.1% in the last eight trading days.

Given that double-bottoms usually signal the end of the sell-off and the beginning of a new up-leg (and sometimes a new bull-market), this rally certainly woke up the bears and turned them into bulls.

However, the double-bottom indicator, by itself, cannot reverse a downtrend that has been in place since January. Four important indicators are still in negative mode. The down trendline (green line), the 50-day (blue line) and the 200-day (red line) Moving Averages are declining and are above the Index and the VIX has not yet declined below ±20 which is the level it must stay below to give a positive reading (it has been fluctuating between 19 and 35 since August).

TORONTO's TSX index clearly mimics New York's activity. The double bottom occurred on the same dates, at about the 18,250 level.

<u>OUTLOOK</u>

The current condition could lead to one of two resolutions:

1, the Indices rise above their Moving Averages and their trendlines and the VIX decline below ±20. This would signal the end of the current corrective phase.

2, a change in the current direction and a violation of the 3,600 and 18250 levels would signal a descent towards 3,500 and 17,000.

In either case, both for NY and TO, the Energy Sector constituents continue to dominate the "Top Gainers" list.

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Ron Meisels

S&P 500 (SPX)

S&P/TSX (TSX)

Phases & Cycles Inc., 4000 Boul. De Maisonneuve West, Suite 2010, Montreal, QC H3Z 1J9

Tel.: (514) 393-3653 E-mail: RonMeisels@phases-cycles.com www.phases-cycles.com