PHASES & CYCLES®

THE LONG-TERM UPTREND REMAINS INTACT

The first three trading days of August wiped out the gains of the previous two months. For the DJI and TSX, gains made from mid-June to July and for the SPX and NYA gains made from May to July were erased over this period.

Monday was a major selling climax; declining stocks exceeded advancing stocks by nine times and the declining volume exceeded the advancing by eleven times! The VIX, often referred to as the “fear gauge”, exploded to its third highest level in 34 years exceeded only in 2020 and 2008 (see next page). The VIX declined back to the 25-35 range on Tuesday and Wednesday which is still above the “resting position” of 10 to 25 normally seen during a market advance.

The heavily weighted tech stocks finally had their long-awaited corrections playing a large role in the recent market decline. This sector makes up 44% of the SPX with AAPL, MSFT, NVDA, GOOGL, GOOG and META accounting for 65% of the sector. These six stocks alone declined an average of 21% (with NVDA experiencing the biggest loss of 36% and META the least at 18%). Meanwhile the broader indices only lost a fraction of this: SPX - 10%, DJI - 7%, NYA - 7% and the TSX - 9%.

The slowing U.S. economy as well as weaker than expected U.S. jobs report last Friday also factored into the downward market action over the past few days. However, the long-term uptrends remain intact, and the three down days merely brought markets back toward their respective 40-week Moving Averages (40wMAs).

Does this mean that the markets are ready to resume the uptrend right away? Probably not. Markets will likely remain choppy in the weeks to come and perhaps even return toward or slightly above recent highs. However, volatility could increase in September, which is historically the weakest month of the year. A sideways trend over the coming weeks would close the gap between the 10 and 40wMAs and set the stage for a rally by year-end. On the next page, we look at charts of the indices and identify important levels.

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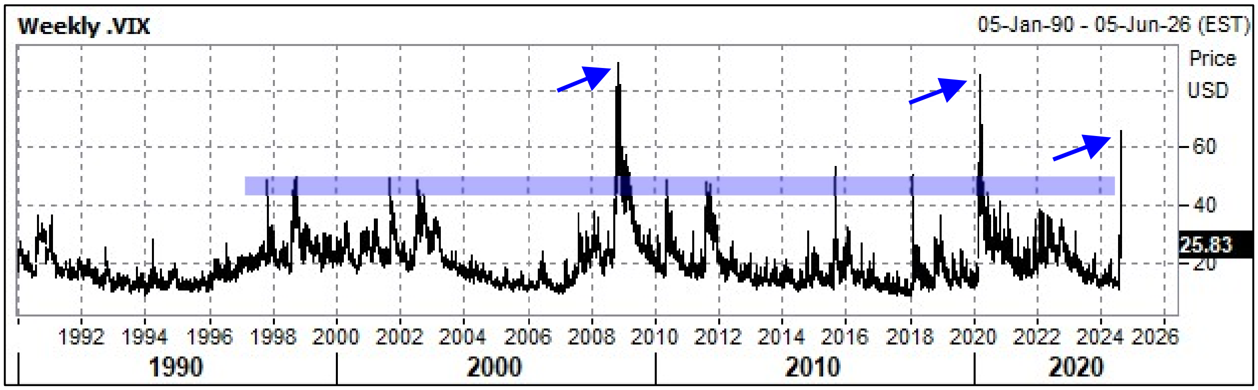
The VIX, which is a contrary indicator, exploded on Monday to its third highest level in 34 years with a high of 65.73, exceeded only in 2020 and 2008, with levels of 85.47 and 89.53 respectively. Tuesday and Wednesday's trading had the index back in the 25-35 range. The index averages 45-50 during more moderate market corrections (shaded area) while a "resting position" of the VIX during a market advance is between 10 and 25. The VIX does *not* forecast market tops.

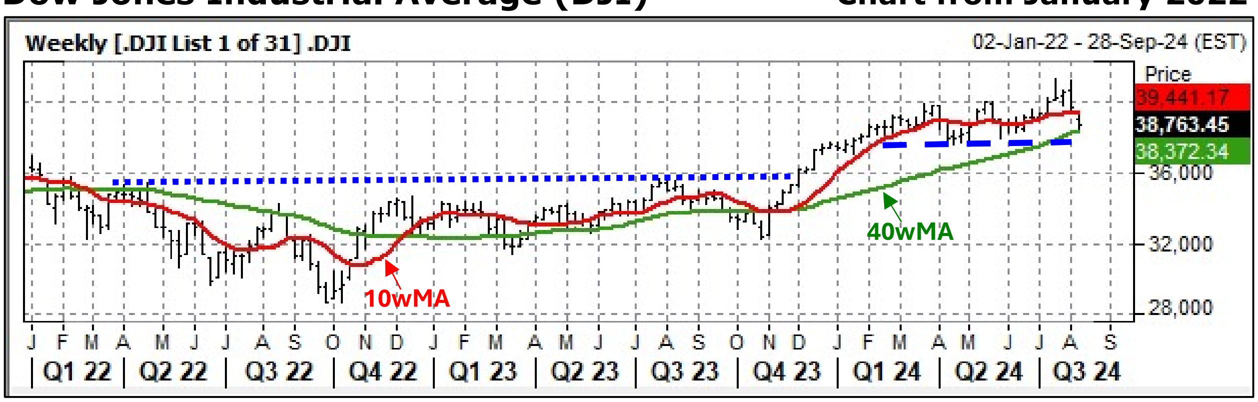
CBOE VOLATILITY INDEX (VIX) **Chart from January 1990**



The four major indices (see charts below) remain in clear long-term uptrends above their rising 40wMAs. Although the 10wMAs are beginning to curl downward, they remain well above the 40wMAs. Monday's selloff found good support near the 40wMAs while the April lows (dashed lines) near 36,600 on the DJI, 4950 on the SPX, 17,300 on the NYA and 21,500 on the TSX may provide additional support thereafter.

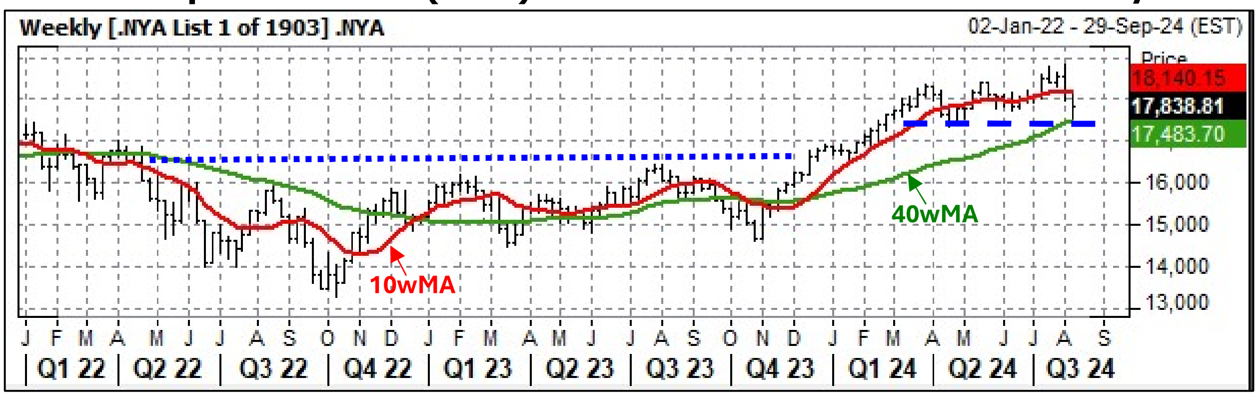
Since September is historically the weakest month of the year for markets, we may see a temporary decline below the April lows. Former resistance from 2022-2023 (dotted lines) near 35,000-36,000 on the DJI, 4,600 on the SPX, 16,400 on the NYA and 20,800 on the TSX should contain any decline below the April lows. (These levels are approximately 9% below the April lows.) A sustained decline below the 2022-2023 levels would be negative.

Dow Jones Industrial Average (DJI) **Chart from January 2022**



S&P 500 Index (SPX) **Chart from January 2022**

NYSE Composite Index (NYA) **Chart from January 2022**



S&P/TSX Composite Index (GSPTSE) **Chart from January 2022**