PHASES & CYCLES®

THE STORY OF CYCLES.

The most recent "Market Comment" began with "The correction is over" and ended by promising to explain why the 2022 decline was a correction and not a bear market.

The reason is simply that the market action during 2022 did not fit the definition of a bear market, which is *a decline to a level that is lower than the previous low.* To illustrate; the low of the 1929 bear market was lower than the 1921 low, but thereafter all rallies reached a higher high and none of the sell-offs reached a lower low until 1970. Following the end of that bear market in 1974, this was again true until 2000, and since the bear market low of 2009, no selloffs (corrections) reached a lower low than 2009. Not in 2011 or 2016 or 2018, those were all "corrections", <u>not bear markets</u>. The 2020 low was an exception (Covid), just as the one in in 1987. The next low in November 2020 was higher than the 2018 low and the recent low in October 2022 was higher than the 2020 November low.

The second reason why the 2022 decline was not a bear market, is based on the duration of the bull markets. The bull market that ended in 1929 lasted 14 years, followed by a 13-year bear market. The following cycles consisted of a 26-year bull (to 1968) and a bear to 1974 (6 years), a bull to 2000 (26 years) and a bear of 9 years.

The result is: a 27-year, a 32-year and a 35-year bull cycle. Compare that with the current cycle that has lasted 14-years to date. Is it likely that the cycles are getting shorter? As they say, the cycles may not repeat, but they rime! Did the 1987 crash shorten the cycle? Did the one in 2020?

Let's now look at what might determine the length of the cycles. At the beginning of the bear market in 2000 people were still optimistic: "It is only a correction. Let's use the decline to buy cheap stocks". By the end of the bear market in 2009, this changed to "they did it to me, but they won't fool me again. I am selling everything". Therefore, they stayed out of the market until 2018-2019, and they were hit again in 2020.

Compare this with the young investors born in 2000, introduced to the market in 2020, who see the rally of 2020 and aren't put off by the Covid crash. They think that the market only goes up. Never mind the pull-back of this year, never mind the old-timers who don't know anything! And therefore, they enter the market and will create the second half of the cycle.

<u>OUTLOOK</u>

Despite everything mentioned above, the markets are not going to new all-time highs just yet. They could use a pause after the January rush for the rest of February and may create a minor pullback into March. The AAMNG stocks (previously FAANG) have turned up and so did their 200dMAs. The Canadian Banks (except BNS) and Insurers have done the same.

As long as the SPX and the TSX hold above 3,750 and 19,500 respectively, we are in a bull market.

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