

PHASES & CYCLES®

A RAY OF SUNSHINE.

Drastic changes have occurred in the U.S. market as measured by the S&P 500 Index (SPX) during the last six weeks. As the table below indicates, the SPX declined 494 points from June 7th to the 21st accompanied by major negative changes. The percentage of stocks above their 10 & 30-week Moving Averages (courtesy of *Investors Intelligence*) and the AAI (American Association of Individual Investors) Bulls declined while the Bears increased heavily. Such low readings have regularly indicated an over-sold market in the past (2009, 2011, 2018, 2020) and given way, almost immediately, to higher readings in the SPX. Not this time. Fear

of inflation, of recession, of COVID, of Ukraine held the market back, so that it took one month before the market got going.

On July 20th, the indicators suggested higher participation, there were more Bulls and fewer Bears, Up-Volume was five times higher than Down-Volume and the SPX had a 195 point rise to 3960; it seems that a few money managers were finally ready to look for oversold securities.

This move is welcomed as a ray of sunshine, but how long will it last? Let's look at some charts on the following page.

DATE	SPX	10wMA	30wMA	AAII	
<u>2022</u>				Bulls	Bears
7 June	4160	47.0	26.4	32.0	37.1
21 June	3765	9.4	9.3	19.4	58.3
20 July	3960	31.9	13.6	26.9	46.2

Broken trendlines are used to recognize a change in direction. The descending trendline (red) on the left chart begins at the end of March, connects at the beginning of June, and extends to the end of July. Near the end of the chart, it crosses the vertical price bar on the 19th of July at ±3900 and signals a "breakout", a change of direction and higher prices. How high?

The trendline on the second chart (red) connects the January high with the end of March peak and stops currently at the end of the chart at ±4400. This is the target for the SPX at this time; it may be somewhat lower as the trendline descends.

S&P 500 (SPX)



For Toronto, the trendline of the left chart has a sharper descent than for the SPX, since the line has only started in early June, but it does show a breakout in July at 18,750. The trendline on the

right chart intersects at 19,800, giving a lesser upside target than for the SPX. This is mainly due to the lack of broken trendlines for the Banks, most of Insurance and Gold stocks.

S&P/TSX (TSX)



Look for stocks with ascending trendlines in our List of Investment Ideas and in the

Special Report written by Monica Rizk recently.

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