

# PHASES & CYCLES®

## AFTER SUMMER COMES THE CHILL.

In other words, the market is likely to have a small correction, but not a bear market.

The "summer" consisted of a 24% rise by the DJI, a 31% SPX rise, a 41% appreciation on the NASDAQ and a 15% TSX gain. And just as summer doesn't last forever, neither does the market. Time for the "chill" (a small correction). It comes as July gives way to October.

October is not the worst month of the year, it is September. October is thought as the worst because it consists of big up-and-down days, whereas September has fewer but more consistent drops. We are approaching that time again.

The straight up 21% rise from March 13<sup>th</sup> to July 27<sup>th</sup> is expected to be followed by a three-legged correction pattern, as my most recent Market Comment forecasted.

This is supported by the number of technical indicators that rallied along with the stocks from March to July but have since declined from their very overbought readings.

For example, the percentage of stocks above their 10-week Moving Averages (10wMA) rose from 20.9 (March) to 72.4 (July) and have now declined to

38.8\*. The percentage of bullish newsletter writers rose from 40.3 (March) to 57.1 (July) and reversed down to 47.1 (recently)\*. The bearish members of the AAI\*\* (a contra indicator) dropped from 48.9% to 21.5% before they rose to 25.5% during July.

### OUTLOOK

Using the SPX as an example of the three-legged correction pattern, the initial 1/3<sup>rd</sup> decline from 4600 to 4333 started on July 27<sup>th</sup> and seems to have concluded last Friday at 4335. The second leg (a small rally) is targeted towards 4450 by mid-September, followed by the third leg down to 4200 to conclude the complete decline from 4600, signal the end of the "chill" and herald the resumption of the bull market towards all-time high numbers.

The similar moves for the NASDAQ, which rose from 10,063 to 14,447, are the 1/3<sup>rd</sup> decline to 13,300, followed by a second leg (a minor rally), and the third leg down towards the 1/2 target of 12,725.

However, during this time, the TSX basically stayed within a 19,200 to 20,800 zone and is likely to stay in this territory.

\*Investors Intelligence.

\*\*American Association of Individual Investors

## S&P 500 (SPX)



## S&P/TSX (TSX)



## NASDAQ



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