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THE BULLISH FORCES ARE TRYING TO MAKE A STAND.
1800-1850 IS BECOMING AN IMPORTANT SUPPORT AREA.

Two days after the S&P 500's intra-day spike low at 1,812.29 (January 20th), our Market Comment suggested that one possible path for the New York markets was a modest rally from its oversold condition, followed by a pullback to complete the multi-month downtrend.

Both the expected rally and the pull-back have occurred. From a highly oversold condition at the January 20th low the S&P 500 rose sharply and in nine trading days added 135 points, retracing about 44% of the decline from the early November peak at 2,116. As the S&P 500 approached 1,950, it ran into its falling 50-day Moving Average, which then acted as an upside resistance point.

The second part of our projected scenario suggested that February would see another pullback. This has now also occurred as the S&P 500 declined to a low of 1828 on February 8th. Notice that this low was higher than the January 20th reading and that it also occurred accompanied by statistics similar to the January 20th low.

There are two notable characteristics in recent market action. First, the current cyclical, sentiment and oscillator readings show many parallels with the readings that occurred at the August/ September lows of last year. For example, 88.1% of NYSE stocks were below their respective 30wMAs on August 25th, 2015; on January 19th, 2016 the same statistics showed 87.4% (*Investors Intelligence* statistics). Second, the bearish forces are noticeably growing in confidence. There were 22.5% bears in August compared to the recent 39.2%! They are convinced the bull market is broken and that every rally is going to fail.

It must be kept in mind that the history of this bull market is one of "long Legs." It took over six years for the bull to complete three Legs (up-down-up). Many bears contend that a corrective Leg 4 and a final Leg 5 occurred within a matter of a few months in late-2015/early-2016, but that does not fit the "long Legs" pattern!

Therefore, as long as the S&P 500 holds the 1800-1850 zone and does not conclusively break below – which to date it has **not** done – we will retain our view that recent action is part of an elongated Leg 4 correction with much horizontal "backing and filling". It would not be a big surprise, after the huge 99% Leg 3 advance from 1075 (Oct. 2011) to 2135 (May 2015), to have an elongated Leg 4, eventually followed by a final Leg 5 up.

In Toronto, we see revitalized Gold sector activity. This usually occurs as the market is about to enter its Leg 5!

In sum, the rally off the January 20th low and the subsequent February 8th sell-off is probably just part of a larger corrective process that needs more time to complete.

As long as the S&P 500 holds the 1800-1850 zone, which it has done five times including the most recent one, recent action has the characteristics of a bull market correction.

The perimeters are clearly outlined above. If recent action is just a bull market correction, then major buying opportunities will appear.

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S&P 500

The most recent declines (January 20th and February 8th) clearly stopped above the *major uptrend line* originating from the May 2009 lows.

As long as this line, and the 1800-1850 zone (which has now held five times since October 2015) holds, we must conclude that the bull market, which started in May 2009, is still in place.

The pattern from the May 2015 peak can now be seen as a large down-up-down move. Some downside can be tolerated while still maintaining the interpretation of this pattern as a corrective one.

Any upside probes will encounter resistance at the declining 50-day Moving Average at just about 1,975 and above this the 200-day Moving Average at about 2,030.

For now, we expect continued battle between bulls and bears in the 1,800 to 1,975 area. This may result in choppy, sideways action for a while. For the longer term, the bears would win if the Index would fall below ±1800, while a move above 2,025 would suggest the bulls are finally gaining some ground.

S&P/TSX Composite Index

It is an indicator of the severity of the S&P/TSX Composite Index's weakness that a nearly 1,300 point (11%) recovery rally from its January 21th low was unable to alter the 10-month pattern of lower highs and lower lows.

The January decline took the S&P/TSX Composite Index back to the lower portions of the large trading range bounded by 11,200 and 13,000 (see blue lines). Recent rally efforts (November, December and January) have each been defeated by the declining 50-day Moving Average, currently at about 12,750. The declining 200-day Moving Average is at about 13,750.

Toronto will likely spend more time in the 11,200 to 13,000 trading range, building a base and hoping that the still-existing positive divergence in internal momentum will provide a foundation for a more sustained advance. A move above 13,100 would be an initial indication that a turnaround is possible.

Dow Industrials

In January the Dow Industrials re-traced all the gains that were made by its advance from August to November. This sell-off indicates the degree of selling pressure and that the bulls are on the defensive.

The area around 15,500 is now an important zone of support, having stopped the two most recent declines. Encouragingly, the January decline saw a significant positive divergence in internal momentum compared to last August. However, the Dow Transports have made new lows so Dow Theory continues to say that the primary trend is down. The 17,000 to 17,500 area is a zone of significant resistance, containing both the declining 50-day and 200-day Moving Averages.

The Dow Industrials are trying to make a stand in the mid-15,500s. A move towards 15,000 can be tolerated as part of completion of a large down-up-down correction from the May 2015 peak. But any sustained move further into the 14,000s would be very negative.

FTSE

We suggested in early January that it was important for the FTSE not to break the 5,800/5,900 support zone. That zone was tested in January, briefly violated, and then the FTSE moved back above the support zone. The FTSE's pattern for the last year now resembles a "declining wedge" with new support at about 5,600.

The FTSE remains in a firm pattern of lower highs and lower lows. To the upside there is resistance at 6,100 where the 50-day Moving Average lies. The declining trend line from the April 2015 peak is at about 6,200 and the declining 200-day Moving Average is at about 6,400. Although the FTSE is showing some positive divergences in internal momentum, only a sustained move above 6,400 will turn the London market more bullish.

The FTSE remains in a downtrend. The first signal of a reversal will be a move above the down trend line at about 6,200.

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