PHASES & CYCLES®

THE SANTA CLAUS RALLY ARRIVED EARLY.
THE BULL MARKET MAY FACE AN ICY PATH IN EARLY 2018.

Last week the S&P 500, the Dow Industrials and the NASDAQ each made new all-time highs. New York's leading trio of major market indices continues to be driven forward by the powerful underlying bullish impulse. The supporting cast, including the NYSE daily advance decline line, the NYSE Composite Index and the Russell 2000, is also along for the ride. As we said two weeks ago, while New York is stretched by its bull run and faces some cyclical pressure in December, "upside momentum should allow it to hold up a little longer, probably into January." With tax loss selling – a minor activity this year after an S&P 500 gain of over 19% -- nearing an end, quadruple witching behind us and with volume likely to taper off this week, the S&P 500 should end the trading year without any last-minute significant damage to its bullish daily and weekly price charts.

The S&P 500's daily chart presents investors with very clear pictures for both a very optimistic outlook and a slightly negative outlook. The key issue for both outlooks is to determine if the S&P 500 is doing something different to what it has done since Leg 5 "up" started in late 2016. The daily chart will provide the information to make this judgment: (1) is the S&P 500 staying above its 50-day Moving Average and is that Moving Average continuing to rise; (2) is the price pattern continuing to be one of "higher highs and higher lows"; and (3) is the 200-day Moving Average rising? If the answer to these questions is "yes" then the status quo should prevail and we should see the S&P 500 continue to make new all-time highs and extend the up leg. But if the S&P 500 falls below and stays below its 50-day Moving Average (currently at 2,600), and if the higher high/higher low price pattern is broken, then the chances of a correction within an ongoing bull market increase markedly.

The underlying indicators and cycles remain mixed. The S&P 500 has shown some improvement in its internal momentum but there is still a negative divergence with price. The number of NYSE stocks making new 52-week highs continues to lag. New York so far has resisted succumbing to downward cyclical pressure in December but there is another round of cycle maturities in mid- and late-January. Encouragingly, leading sectors such as the Financials and Consumer Staples in New York are very strong. And bullish investor adviser sentiment (as measured by Investors Intelligence) has pulled back from the high levels of early November.

Toronto benefitted from New York's recent strength. We said in our last Market Comment that the S&P/TSX Composite Index was showing signs of weakening after its big autumn advance. Price action since early November was sideways and indicators of internal strength were under pressure. But the S&P/TSX Composite Index has succeeded in staying above its 50-day Moving Average. Any decisive move above last week's new all-time high at 16,188 will open a path to our next upside target at 17,000. But any sustained move below the 50-day Moving Average and nearby support in the 15,800 to 15,850 area will indicate that a correction is underway. Toronto's challenge remains the same – can it protect the bulk of the substantial gains made in September and October?

New York is fast approaching a crossroads. It can continue to ride the bullish sleigh, extend the advance that began in August and reach new all-time highs. The bears have gone into hibernation for the past few months, however they could make a mid-winter appearance sometime in January to disrupt the bull's party.

We wish you happy holidays and all the best for 2018.

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David Tippin, Ron Meisels

S&P 500

The S&P 500 has risen over 120 points (4.7%) in the past month. This sharp rise puts the S&P 500 against the overhead resistance posed by the rising upper trend line (see green lines).

To the downside, the first major support point is the most recent pullback low at 2,625 and below this there is further support at 2,600 (near the rising 50-day Moving Average).

The S&P 500 is moderately overbought and is encountering some overhead resistance in the high 2,600s. Internal momentum is still showing a negative divergence as the Index price rises.

After such a recent sharp rise the S&P 500 is nearing a "stalling" point. A period of choppy sideways movement between 2,600 and 2,700 – which meets our expectation of a modest pullback – would be a healthy tonic. There is ample nearby support to contain any bearish pressure that may emerge in early 2018.

S&P/TSX Composite Index

After a superb September and October (rising over 1,200 points) the S&P/TSX Composite Index has spent the last seven weeks in a 400 point trading range (see green lines). The positive aspect of this trading range is the S&P/TSX Composite Index's ability to stay above its 50-day Moving Average and hang on to most of its gains. Of concern, however, is that internal momentum is showing a sharp negative divergence from price and that the Index persists in its modestly overbought status.

This trading range may be a consolidation period. This will be confirmed if there is a sustained upside breakout above the 16,200s. Should this occur, then the immediate upside potential is significant. Alternatively, the trading range may be a distribution period leading to a retest of the 15,600 area. This would be confirmed if Toronto slips below 15,820.

The S&P/TSX Composite Index's immediate battleground is the trading range zone. While any upside breakout would be very bullish it may be premature. The Index can easily tolerate a move down from this trading range towards the 200-day Moving Average. This would be a modest pullback and would set the stage for the next bullish up leg.

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