PHASES & CYCLES®

A HEALTHY CORRECTION.

In our previous Market Comment, we suggested that a much-needed correction would help alleviate the extreme bullish sentiment at that time. Indeed, the recent one-third pullback of both the TSX and the SPX has led to a significant decline in the percentage of bullish investors. According to Investors Intelligence, the percentage declined from 52.4% last week to 42.4% this week; counts in the low 40's represent a diminished risk to buy in a bull market.

Despite the ongoing corrections with the major indices, the first five trading days in January were positive overall for the S&P 500, Dow Jones, the New York Stock Exchange, and the S&P TSX (see the net changes in the table below). Statistics from Stock Trader's Almanac suggest that the first five trading days predict the market's direction for the rest of the year. Since 1950, a positive *first five days* has led to a positive equity market around 85% of the time.

In addition, from 1905 to today, there have been 12 years that have ended in 5 (present year excluded). Eleven of these years have been positive, the only negative year was 2015, which recorded a loss of 1%. Therefore, unless this year is an exception, the odds favour a positive outcome for 2025.

Our research reveals that, since 1960, years ending in 5 on the S&P 500 have recorded an average gain of 22%, while years ending in 9 and 3 are second, lagging far behind with average gains of 11% and 10%, respectively.

In the short term, however, this does not necessarily mean the correction is over. There is a 35-day cycle low expected in early February. In addition, corrections usually occur in a "down-up-down" pattern. We've likely completed the first down and are due for recovery, followed by a final down toward recent lows or slightly below. In either scenario, the 200dMAs should provide good support for the major indices (see next page).

Date	SPX	DJI	NYA	TSX
January 2	-13.08	-151.95	-1.68	+170.09
January 3	+73.92	+339.86	+158.87	+175.51
January 6	+32.91	-25.57	+7.13	-73.75
January 7	-66.35	-178.20	-47.54	-69.90
January 8	+9.22	+106.84	+26.86	+121.79
5-day net change	+36.62	+90.98	+143.64	+323.74

Charts courtesy of LSEG

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The recent decline of the major market indices below their 50dMAs, is wide based with only 30% of stocks on the NYSE currently above their respective 50dMAs, (per Investors Intelligence). As the charts below demonstrate, the indices have retreated toward their November 2024 lows (shaded areas), which seem to have provided support.

At the time of this writing, the indices appear to be starting what is likely to be the "up" segment of a three-part correction (down-up-down). But as stated above, this segment will likely be followed by the third leg down in early February when we expect an important cycle low to occur. If the indices decline below the November lows, there is good support at their respective 200dMAs, which are approximately 5-6% below current levels (the NYA being the exception at 3%).

S&P 500 Index (SPX) **DAILY CHART – ONE YEAR**

Dow Jones Industrial Average (DJI) **DAILY CHART – ONE YEAR**

NYSE Composite Index (NYA) **DAILY CHART – ONE YEAR**

S&P/TSX Composite Index (GSPTSE) **DAILY CHART – ONE YEAR**