Technical Scoop October 19, 2020
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Presidential cycle, potential top, comparative production, renewables outperform, precious consolidation

It's just two weeks to the most divisive election in U.S. history. Pundits everywhere are trying to predict the outcome. One people look at is stock market performance prior to and after. There is also the well known Presidential cycle. This week we look at stock market performance in the year leading up to the election. It has some interesting observations. Our "chart of the week" (page 7) is one from Visual Capitalist comparing gold and silver production to the production (printing?) of money.

Stock markets closed weak this past week raising the potential for topping patterns on the major indices. We look at that. A note on the TSX Composite that was down this week but two sub-indices – industrials and utilities – were up on the week. Energy was one of the weakest sectors. But industrials and utilities contain green energy and renewables, areas that have outperformed in 2020. Indeed, one of the stocks that has helped the Canadian Conservative Growth Strategy* increase over the last year while the Canadian market has declined is Boralex Inc., which operates, constructs and develops renewable energy power stations in the solar, thermal, hydroelectric and wind segments, and pays a dividend. Gold and the precious metals continue to consolidate as we await a potential breakout to the upside.

Fall colours are still in their full glory. Enjoy the weather. And stay safe. Have a great week!

DC

* Reference to the Canadian Conservative Growth Strategy and its investments is added by Margaret Samuel, President, CEO and Portfolio Manager of Enriched Investing Incorporated who can be reached at 416-203-3028 or msamuel@enrichedinvesting.com

"Anybody who plays the stock market, not as an insider, is like a man buying cows in the moonlight."
—Daniel Drew, American businessman, steamship and railroad developer and financier; 1797–1879

"Gambling with cards or dice or stock is all one thing. It's getting money without giving an equivalent for it."
—American Congregationalist clergyman, social reformer, speaker known for his support of abolition of slavery; 1813–1887

"The man who begins to speculate in stocks with the intention of making a fortune usually goes broke, whereas the man who trades with a view of getting good interest on his money sometimes gets rich."
—Charles Henry Dow, American journalist who founded Dow Jones & Company with Edward Jones and Charles Bergstresser; also founded *The Wall Street Journal*; author of *Dow Theory;* 1851–1902

With just over two weeks to go before what may be the most hotly contested, divisive election in U.S. history, the pollsters, prophets, futurists, fortune-tellers, crystal ball gazers, palm readers, seers, soothsayers, and even doomsayers and Cassandras are trying to predict who will win. The pollsters have Democrat candidate Joe Biden in the lead but, as we learned in 2016, leading in the polls doesn't necessarily guarantee a victory. Going back even further, does anyone remember Thomas Dewey, who had a seemingly insurmountable lead on Harry Truman going into the 1948 election?

Polls do get it wrong and being the winner of the popular vote does not guarantee victory. The decider of the race is the Electoral College, a rather antiquated process whereby the election is not one big election by popular vote but 51 separate elections in the 50 states plus the federal district (Washington, D.C.). Winning a state, even by one vote normally awards all of the Electoral College votes to that candidate in a winner-take-all sweep.

In 2016, President Trump lost the popular vote by almost 3 million votes but won the Electoral College by winning enough states, even though some were by narrow margins of about 1%. The first past the post Electoral College meant that all the Electoral College votes were awarded to him in those states. While there is such a thing as faithless electors, meaning members of the Electoral College who do not throw their vote to the winning candidate, it is not common. Even in the 2016 election there were faithless electors; however, they were not successful in throwing their votes to another candidate. State laws, party censure, political retaliation, and even legal penalties may prevent faithless electors from throwing their support behind another candidate. However, it can happen.

There is also the wild card of the Supreme Court. The 2000 election was decided by the Supreme Court stopping a recount in Florida and awarding the state to George W. Bush by a mere 500 votes awarding the entire Electoral College votes to him. Given the odds that this election could be challenged, could the Supreme

Court once again decide the election? There could also be challenges in U.S. state courts. Pre-election lawsuits are already at record levels with upwards of 300 cases in 44 states. While some have been concluded, the vast majority remain open. The U.S. election has the potential to become a constitutional crisis.

While predictors of elections vary, one thing that is usually a good indicator is whether the economy is in a recession or there is a major stock market decline underway. Recessions and stock market declines typically do not bode well for the incumbent. Biden may lead in the polls, but is it enough?

Maybe the best example of an incumbent president facing a recession and a declining stock market was Herbert Hoover in the 1932 election. A stock market crash and the Great Depression were deadly to his re-election hopes. Hoover lost in a landslide. Other presidents (or whoever ran for the incumbent party) who faced a falling market and a recession included George W. Bush in 2008 (financial crisis, recession), George H.W. Bush in 1992 (recession), Jimmy Carter in 1980 (recession, high inflation, Iran crisis), Gerald Ford in 1976 (recession, Watergate, oil embargo), Dwight Eisenhower in 1960 (recession), and Woodrow Wilson in 1920 (pandemic, depression).

As Jimmy Carter learned in 1980, even a rising stock market didn't save him. President Trump is facing a pandemic and a recession. Woodrow Wilson (Democrat) was the last president who was running during a pandemic (the 1918–1920 Spanish Flu) and an emerging depression. It is moot that Wilson didn't actually run in the election as the Democrat candidate James M. Cox lost to the Republican Warren G. Harding.

The question is, can the stock market predict the outcome of a presidential race? A pandemic and the sharpest economic downturn since the Great Depression would appear to weigh against the chances of the incumbent Donald Trump. In March, the Dow Jones Industrials (DJI) plunged 38%. But then it rebounded, regaining 60% at the recent highs. The S&P 500 and the NASDAQ have made new all-time highs. The U.S. has recouped at least half of the 22 million jobs lost during the worst of the pandemic in March and April. But the U.S. leads the world in COVID-19 cases and deaths and, in a divided America, many blame the administration for its mishandling of the pandemic. Is any of that enough to re-elect the incumbent?

We have seen some studies on the question. One study looked at the stock market in the three months leading up to the election. According to a study by LPL Financial (www.lpl.com), that indicator has been accurate 87% of the time since 1928. The study noted that while Hillary Clinton was ahead marginally in the polls going into the election, the stock market was actually down in the three months going into the election, suggesting that she would lose (she did, thanks to the Electoral College vote). The study noted three exceptions: in 1956 the incumbent Eisenhower won, despite the stock market being down; in 1968 the incumbent Johnson (he didn't actually run) lost, despite the stock market being up; and, in 1980 Carter, the incumbent, lost despite the stock market being up. So where do we stand at this point? Since August 1, 2020 the DJI has gained 8.2%. However, there remain 15 days and 12 trading days before the election on November 3. According to the LPL study, Trump could pull an upset at this point in time if the stock market maintains its gains.

Recessions and stock market declines are not friendly to incumbent presidents. There is an example of an incumbent winning despite a recession before the election and that was Calvin Coolidge in 1924. However, by the time of the election, the recession (actually depression of 1920–1921) was in the rear-view mirror and the

stock market was in the early throes of the "Roaring Twenties," despite there being an official mild recession in 1923–1924.

We decided to do our own take on the stock market leading up to the election, going back to the 1920 election. The table on the next page shows the gain or loss for the stock market in the year leading up to the election (January 1 to election date) and the results of the election. If the incumbent party was returned, we noted that in black. If the incumbent party lost, we noted that in red. If the stock market was rising into the election and no recession was present, our expectations were that the incumbent party would be returned. If not, the incumbent party would lose. We were not sure whether looking at the year up to the election was better than looking at only the three months up to the election as the LPL Financial study did.

In looking at the longer time frame of ten months instead of three months, the results were somewhat mixed. If the market was up, the expectation in the ten months before the election was that the incumbent would be returned. That was correct ten times, but there were five times where the incumbent was not returned despite the market being up. Grant you, on two of those occasions the gain was marginal.

Incumbent losers, despite the stock market being higher, were: Hillary Clinton (Barack Obama) in 2016 (wins popular vote but loses EC vote), George H.W. Bush in 1992 (recession of early 1990s, pledge of no new taxes), Jimmy Carter in 1980 (1980 recession, record high interest rates, inflation, Iran hostage crisis), Hubert Humphrey (Lyndon Johnson) in 1968 (Vietnam war, war protests, race riots), and Harry Truman in 1952 (Korean war, popular war general). We do note that Al Gore (Bill Clinton) the incumbent lost the 2000 election. The stock market was down over the previous ten months, thanks to the bursting of the dot.com/high-tech bubble, but the economy had been strong and damage was limited generally to the high-tech sector going into the 2000 election. The results were a narrow popular vote victory by Al Gore, but the results were challenged. The Supreme Court awarded the election to the challenger George W. Bush who won the Electoral College by one vote.

The other premise was that if the stock market was down in the ten months leading up to the election, then the expectation was that incumbent would lose. That was right on five occasions only and wrong on four occasions as, despite a losing stock market, the incumbent was returned. The occasions were: George W. Bush in 2004 (no recession, popular president because of the war on terror), Ronald Reagan in 1984 (economy coming out of recession, popular president, stock market down small), Franklin Roosevelt in 1940 (popular president, handling of Great Depression, World War II), Herbert Hoover (Calvin Coolidge) in 1928 ("Roaring Twenties").

So, is the stock market a predictor of who might win the election? Well, incumbents were returned 67% of the time if the stock market was rising in the year before the election, and incumbents were turfed 56% of the time if the stock market was down before the election. However, ours is just one study. We are a recipient of another study, but it is lengthy and we will endeavour to report on it in our next Scoop. A pandemic coupled with a recession is not considered to be a good omen for an incumbent president. Ask the Democrats (the incumbent) in the 1920 election when they faced a pandemic, a falling stock market, and a depression. However, these are not normal times and the odds appear to be high that, whatever the results are, they will be challenged in the courts. And that could lead to chaos and a constitutional crisis.

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U.S. Elections and Outcome vs. Stock Market

Election Year	Incumbent	DJI Gain/Loss Jan 1 – Election Date	Who Won	Incumbent Party Won/Incumbent Party Lost
2020	Trump (Rep)	0.2% *	?	?
2016	Obama (Dem)	2.7%	Trump (Rep)	Trump loses popular vote but wins EC
2012	Obama (Dem)	8.4%	Obama (Dem)	Incumbent wins
2008	Bush II (Rep)	(27.4)%	Obama (Dem)	2008 Financial Crisis
2004	Bush II (Rep)	(4.0)%	Bush II (Rep)	Incumbent Wins
2000	Clinton (Dem)	(4.7)%	Bush II (Rep)	Supreme Court hands victory to Bush II
1996	Clinton (Dem)	18.8%	Clinton (Dem)	Incumbent wins
1992	Bush I (Rep)	2.6%	Clinton (Dem)	1990 recession Gulf War 1
1988	Reagan (Rep)	9.7%	Bush 1 (Rep)	Incumbent wins
1984	Reagan (Rep)	(1.2)%	Reagan (Rep)	Incumbent wins
1980	Carter (Dem)	13.7%	Reagan (Rep)	High inflation, recession, Iran Crisis
1976	Nixon/Ford (Rep)	13.3%	Carter (Dem)	Watergate, recession, oil embargo
1972	Nixon (Rep)	10.6%	Nixon (Rep)	Incumbent wins
1968	Johnson (Dem)	4.5%	Nixon (Rep)	Vietnam war, war protests, race riots
1964	Johnson/Kennedy (Dem)	14.8%	Johnson (Dem)	Incumbent wins
1960	Eisenhower (Rep)	(12.0)%	Kennedy (Dem)	1960 Recession
1956	Eisenhower (Rep)	1.4%	Eisenhower (Rep)	Incumbent wins
1952	Truman (Dem)	0.4%	Eisenhower (Rep)	Korean war, Popular war general
1948	Truman (Dem)	8.8%	Truman (Dem)	Incumbent wins
1944	Roosevelt (Dem)	8.8%	Roosevelt (Dem)	Incumbent wins
1940	Roosevelt (Dem)	(10.0)%	Roosevelt (Dem)	Incumbent Wins
1936	Roosevelt (Dem)	22.6%	Roosevelt (Dem)	Incumbent wins
1932	Hoover (Rep)	(17.1)%	Roosevelt (Dem)	Great Depression
1928	Coolidge (Rep)	(13.0)%	Hoover (Rep)	Incumbent wins
1924	Coolidge (Rep)	8.8%	Coolidge (Rep)	Incumbent wins
1920	Wilson (Dem)	(20.3)%	Harding (Rep)	Pandemic, Depression

Note: * To date **Source:** www.wikipedia.com, www.macrotrends.com

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MARKETS AND TRENDS

	Close Dec 31/19	Close Oct 16/20	% Gains (Losses) Week	YTD	Trends Daily (Short Term)	Weekly (Intermediate)	Monthly (Long Term)
Stock Market Indices							
S&P 500	3,230.78	3,483.81	0.2%	7.8%	up	up	up
Dow Jones Industrials	28,645.26	28,606.31	0.1%	0.2%	up	up	up
Dow Jones Transports	10,936.70	**11,836.43 (new highs)**	(0.2%	8.6%	up	up	up
NASDAQ	9,006.62	11,671.56	0.8%	30.1%	up	up	up
S&P/TSX Composite	17,063.53	16,438.75	(0.8)%	(3.7)%	up (weak)	up (weak)	up
S&P/TSX Venture (CDNX)	577.54	725.31	(1.0)%	25.6%	neutral	up	up
S&P 600	1,021.18	923.71	(0.3)%	(9.5)%	up	up	down (weak)
MSCI World Index	2,033.60	1,910.48	(1.5)%	(7.4)%	neutral	up (weak)	neutral
NYSE Bitcoin Index	7,255.46	11,332.12	2.4%	56.2%	up	up	up
Gold Mining Stock Indices							
Gold Bugs Index (HUI)	241.94	333.49	(2.0)%	37.8%	neutral	up	up
TSX Gold Index (TGD)	261.30	364.73	(1.2)%	39.6%	down (weak)	up	up
Fixed Income Yields/Spreads							
U.S. 10-Year Treasury yield	1.92	0.74	(3.9)%	(61.5)%			
Cdn. 10-Year Bond yield	1.70	0.57	(6.6)%	(66.5)%			
Recession Watch Spreads							
U.S. 2-year 10-year Treasury spread	0.34	0.60	(3.2)%	76.5%			
Cdn 2-year 10-year CGB spread	0	0.32	(5.8)%	3,200.0%			
Currencies							
US$ Index	96.06	93.68	0.7%	(2.5)%	up (weak)	down	down
Canadian $	0.7710	0.7590	(0.4)%	(1.4)%	neutral	up	neutral
Euro	112.12	117.17	(0.9)%	4.5%	down	up	up
Swiss Franc	103.44	109.26	(0.6)%	5.6%	neutral	up	up
British Pound	132.59	129.24	(0.9)%	(2.4)%	down (weak)	up	neutral
Japanese Yen	92.02	94.88	0.2%	3.1%	up (weak)	up	up
Precious Metals							
Gold	1,523.10	1,906.40	(1.0)%	25.2%	down (weak)	up	up
Silver	17.92	24.41	(2.8)%	36.2%	down	up	up
Platinum	977.80	869.30	(2.8)%	(11.1)%	down	neutral	neutral
Base Metals							
Palladium	1,909.30	2,342.30	(4.9)%	22.7%	up	up	up
Copper	2.797	3.07	(0.3)%	9.8%	up	up	up
Energy							
WTI Oil	61.06	41.12	1.3%	(32.7)%	up (weak)	neutral	down
Natural Gas	2.19	2.77	1.1%	26.5%	up	up	neutral

Source: www.stockcharts.com, **David Chapman**

Note: For an explanation of the trends, see the glossary at the end of this article.
New highs/lows refer to new 52-week highs/lows.

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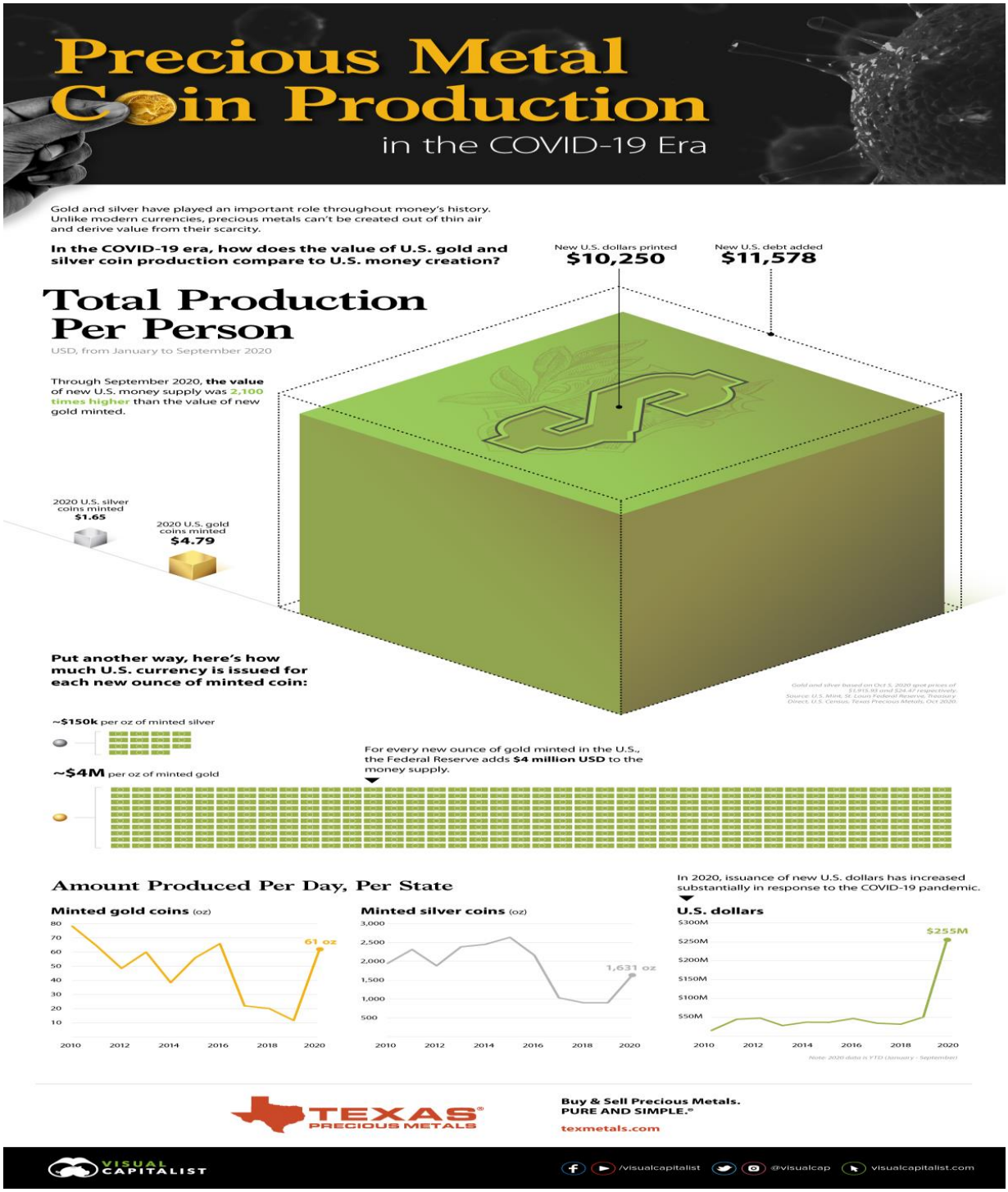
Chart of the Week



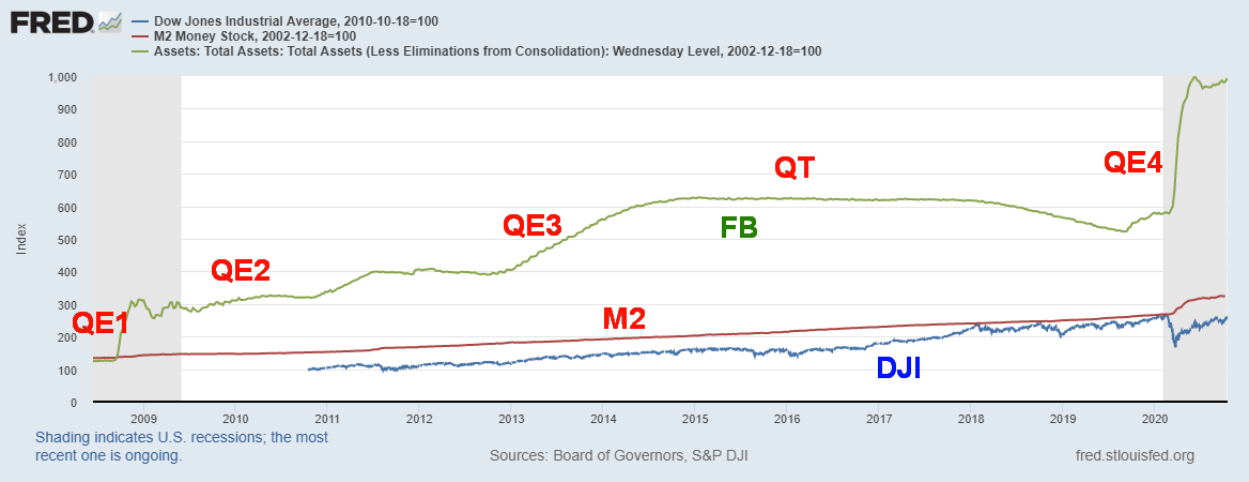
Source: www.visualcapitalist.com

We found this chart quite fascinating. It's from Visual Capitalist (www.visualcapitalist.com), an online publisher of numerous topics including markets, technology, energy, and the global economy. Their charts are available by subscription.

What this chart shows is the value of gold and silver coins produced with comparison to the amount of U.S. money created (M2) in 2020 (to September 30, 2020). The value of silver coins minted per person is $1.65, the value of gold coins minted per person is $4.79, the value of M2 printed per person is $10,250, and the value of new U.S. debt added per person is $11,578.

Visual capitalist notes that for every new ounce of gold minted in the U.S., the Fed adds $4 million to the money supply. Money supply has exploded in 2020, rising by $3.2 trillion (20.5%) since the beginning of March 2020 and the pandemic. The Fed's balance sheet is up $2.9 trillion (68.6%) in the same period while the Dow Jones Industrials (DJI) has gone up 1,791 points (6.7%). While not shown in the graph below, gold is up $292 (18.3%) while silver is up $7.00 (41.5%). The U.S. Federal Debt is up $3.6 trillion (15.4%) to over $27 trillion. The question is, where would the DJI be if the Fed had not come to the rescue, expanding its balance sheet and M2? Of course, one could argue that gold and silver might not be up as much, either.

DJI, M2, Fed Balance Sheet 2009–Present

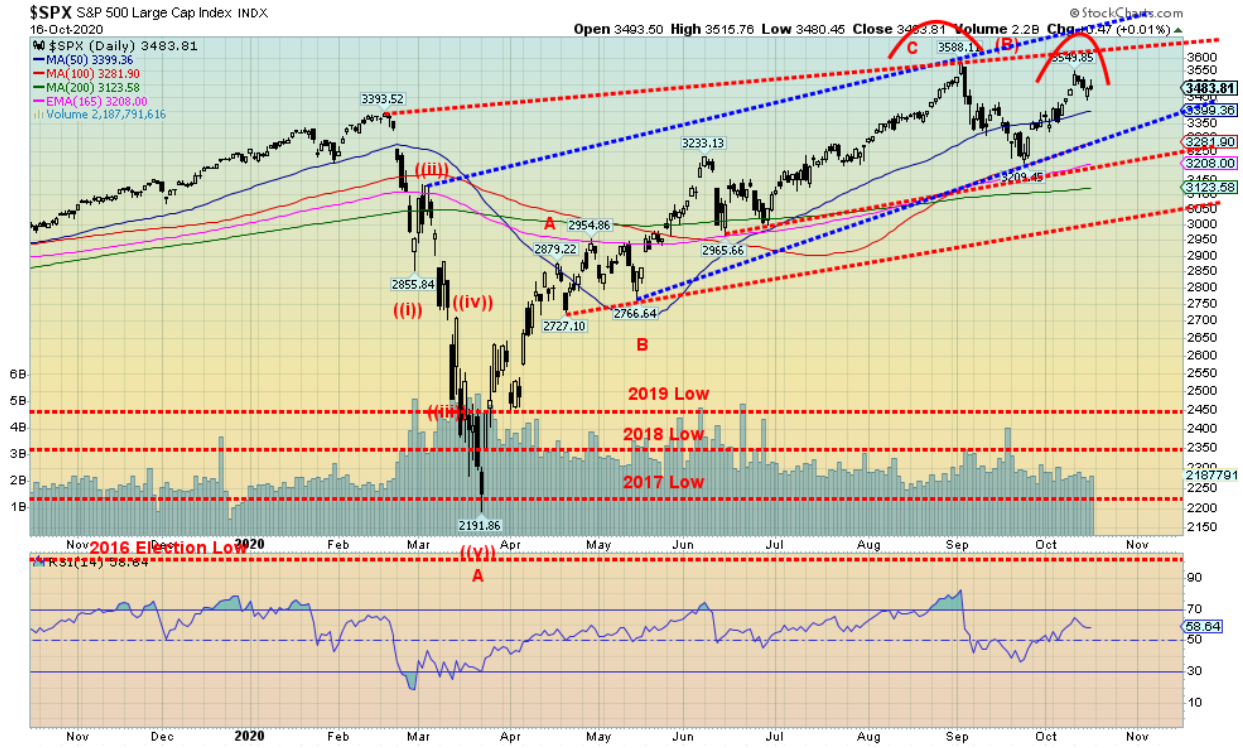


Source: www.stlouisfed.org

The unprecedented expansion of debt and money printing since the onset of the pandemic is, all things being equal, rather mind-boggling. The effect on assets is obvious as the massive amount of money has contributed to the rise of the stock market and, while not shown, the housing market as well. Couple this with record low interest rates and you have a recipe for money printing on an unprecedented scale—unless you wish to compare this with periods of hyperinflation and money printing during the Weimer Republic (from 1919–1923, although the Weimer Republic itself lasted to 1933). We note that the Weimer Republic suspended the gold standard. France and Belgium also went through a period of hyperinflation at the same time. The world has been off the gold standard since August 1971.

Is that where we are headed? Naturally, it is difficult to conclude that will be the end result. To date, we have seen little sign of hyperinflation although numerous analysts are calling for it. It is also a prime reason why the call is to own gold—physical gold, not paper gold, through ETFs and stocks. Certainly, as the Visual Capitalist chart shows, the supply of money is far outstripping the supply of gold.

S&P 500



Source: www.stockcharts.com

The S&P 500 managed to maintain its upside streak this past week but barely gaining 0.2%. It was the fourth consecutive week to the upside. The week left a potential evening star (a Japanese candlestick pattern normally an indication of a potential top) on the weekly charts as the market closed just below where it opened. The Dow Jones Industrials (DJI) was up even less with a gain of just under 0.1%. The Dow Jones Transportations (DJT) once again made new all-time highs but reversed and closed the week down 0.2%. The NASDAQ, thanks to the FAANGs, gained 0.8%. The small cap S&P 600 didn't fare as well, falling 0.3%.

In Canada, the TSX Composite fell 0.8% while the TSX Venture Exchange (CDNX) lost about 1.0%. In the EU, the Brexit challenged London FTSE dropped 1.6%, the Paris CAC 40 lost 0.2%, and the German DAX was down 1.1%. In Asia, China's Shanghai Index (SSEC) gained almost 2.0% but the Tokyo Nikkei Dow (TKN) lost 0.9%.

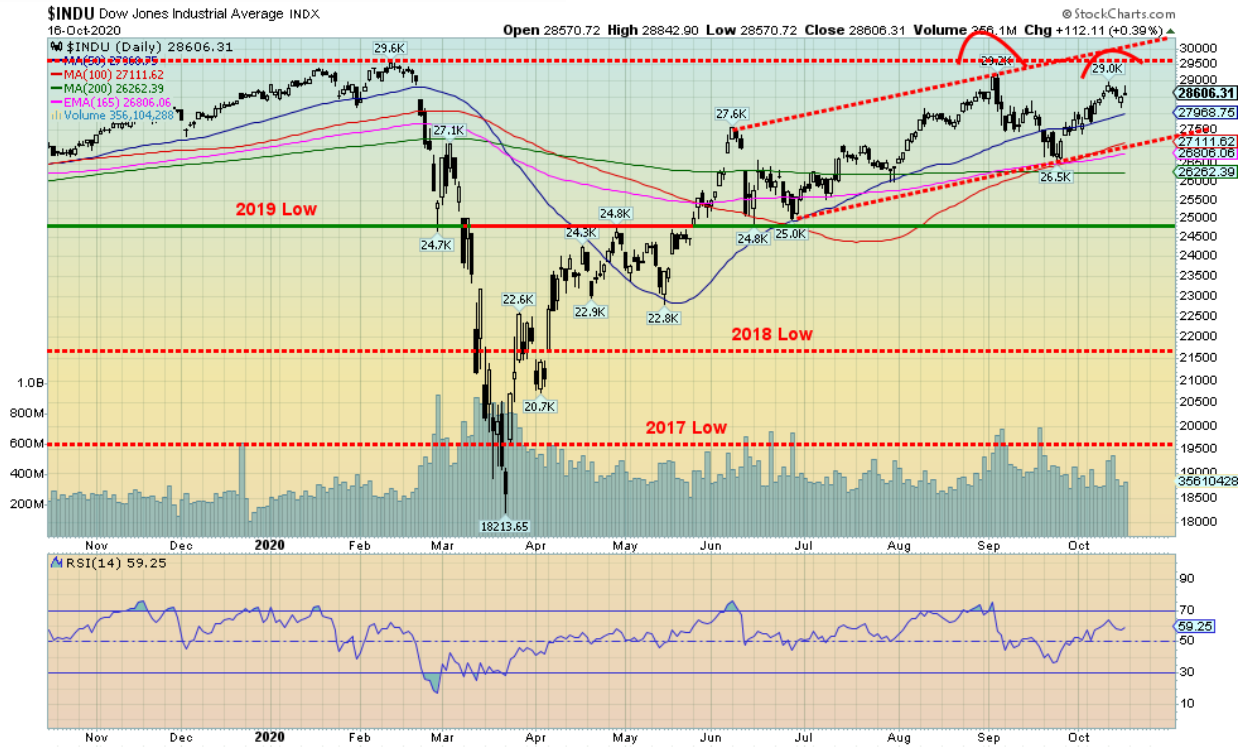
Elsewhere, the MS World Index (MSCI) lost 1.5% but Bitcoin continued to look like a star, gaining 2.4%. Bitcoin is up 56.2% in 2020, but remember the market is small with Bitcoin's market cap only $210 billion. The entire cryptocurrency market has a market cap of only $355.7 billion, with an astounding number of 7,434 different cryptos. However, 23 of them have market caps over $1 billion while Bitcoin is 59% of the market. Saudi

Aramco is the world's largest company by market cap at $1,684.8 billion. Microsoft has surpassed Apple as the largest U.S. company at $1,359 billion while Amazon is not far behind either one of them—in total, they each surpass $1 trillion market cap. Newmont Mining is the world's largest gold mining company with a market cap of around $36 billion (Note: all figures are in U.S. dollars).

Has the stock market topped? There is a potential double top on the charts. The neckline would be down around 3,200. In looking at the charts, there may have been a small head and shoulders bottom form with the head at 3,209 on September 24, the left shoulder at 3,310 on September 11, and the right shoulder at 3,324 on October 2. It is a pattern that is barely visible although we note some analysts noticed it, so it does potentially have some viability. If correct, it projects up to around 3,620. So far, the high has been 3,550. The earlier high was seen on September 2 at 3,588. We are questioning the validity of the head and shoulders and, since making the recent high of 3,550, the market has failed to take it out the past four days. But it remains possible unless we were to fall back below 3,400. However, upside is limited. If the high is in at 3,550 then we go back to a potential double top. Below 3,200 the potential target could be down to around 2,800. We have noted that a breakdown below 3,000 could spark a panic sell-off. The 200-day MA is currently at 3,124. While the 50- and 100-day MAs are pointed up, the 200-day MA is flatlining with only a slight rise.

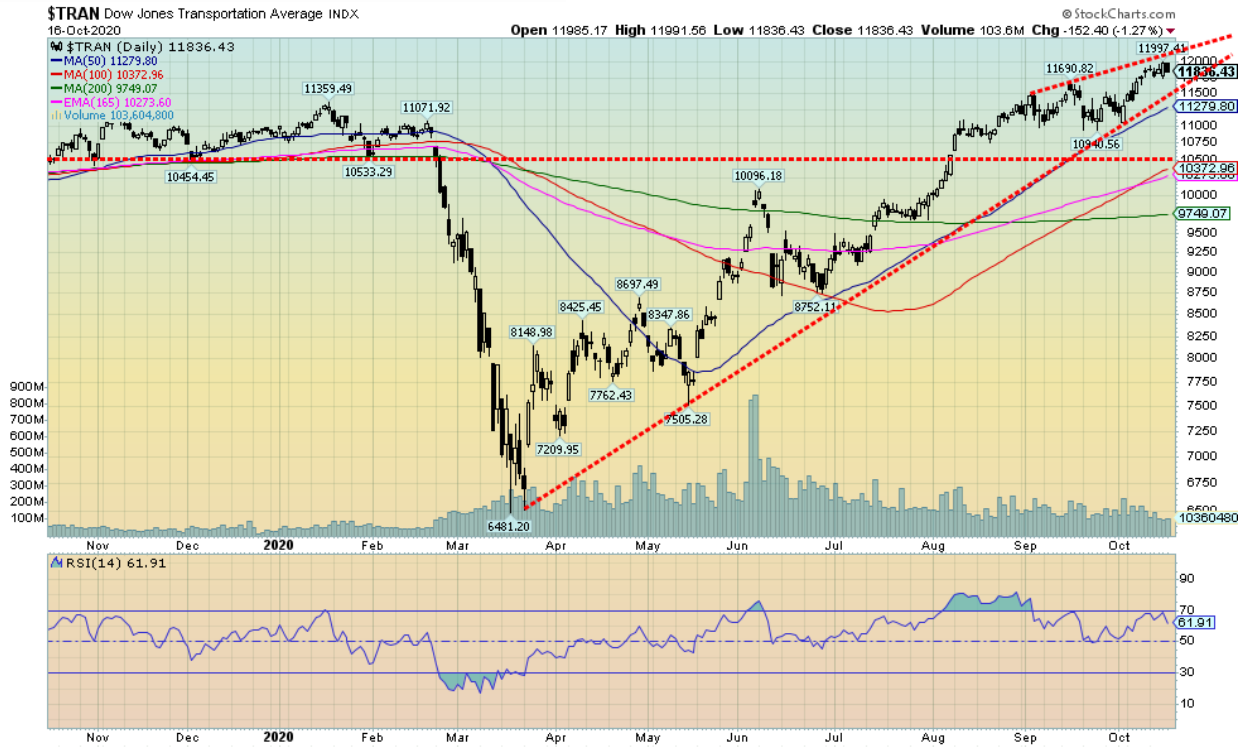
We believe the March 2020 decline was an impulse wave to the downside (five waves). Since then, the long rebound that looks impressive but it has been rising on reduced volume and has unfolded, we believe, as a large ABC pattern. The A wave took us to 3,233 in May, there was a short-lived corrective wave (B), and then the run to the final high in September at 3,588 (wave C). A break of 3,200 with no new high would confirm our thoughts and then we would be in the throes of wave 3 to the downside and a potential panic similar to March.

The election is in 15 days and we understand that over 22 million people have already voted. We expect a chaotic election with potential violence and court challenges after November 3. As we have noted, there are upwards of 300 lawsuits already in the works although a number have been decided. We should note as well that we are not going into earnings season. That could bring us some surprises sparking moves to the upside or downside.



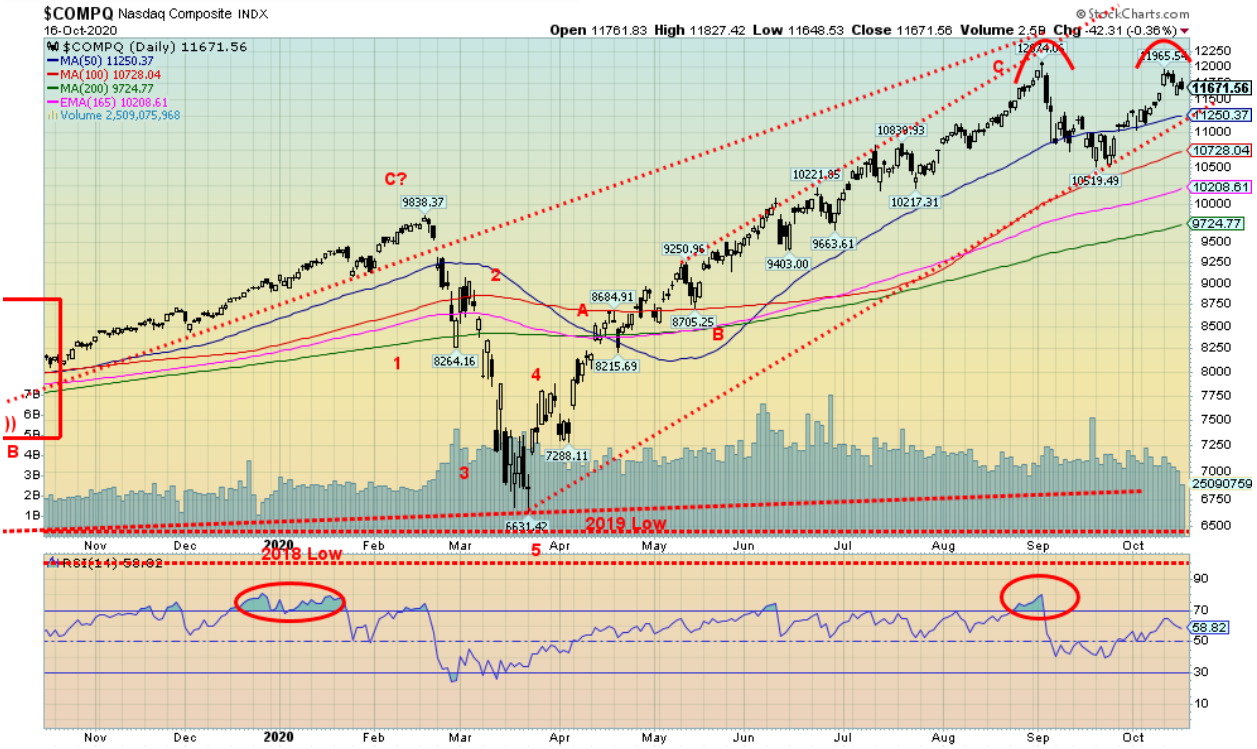
Source: www.stockcharts.com

The DJI is showing the same potential pattern as the S&P 500. We see a similar, small head and shoulders bottom but it has yet to achieve its target. If a double top is forming, its neckline is a breakdown under 26,950. Potential targets are down to 24,300.



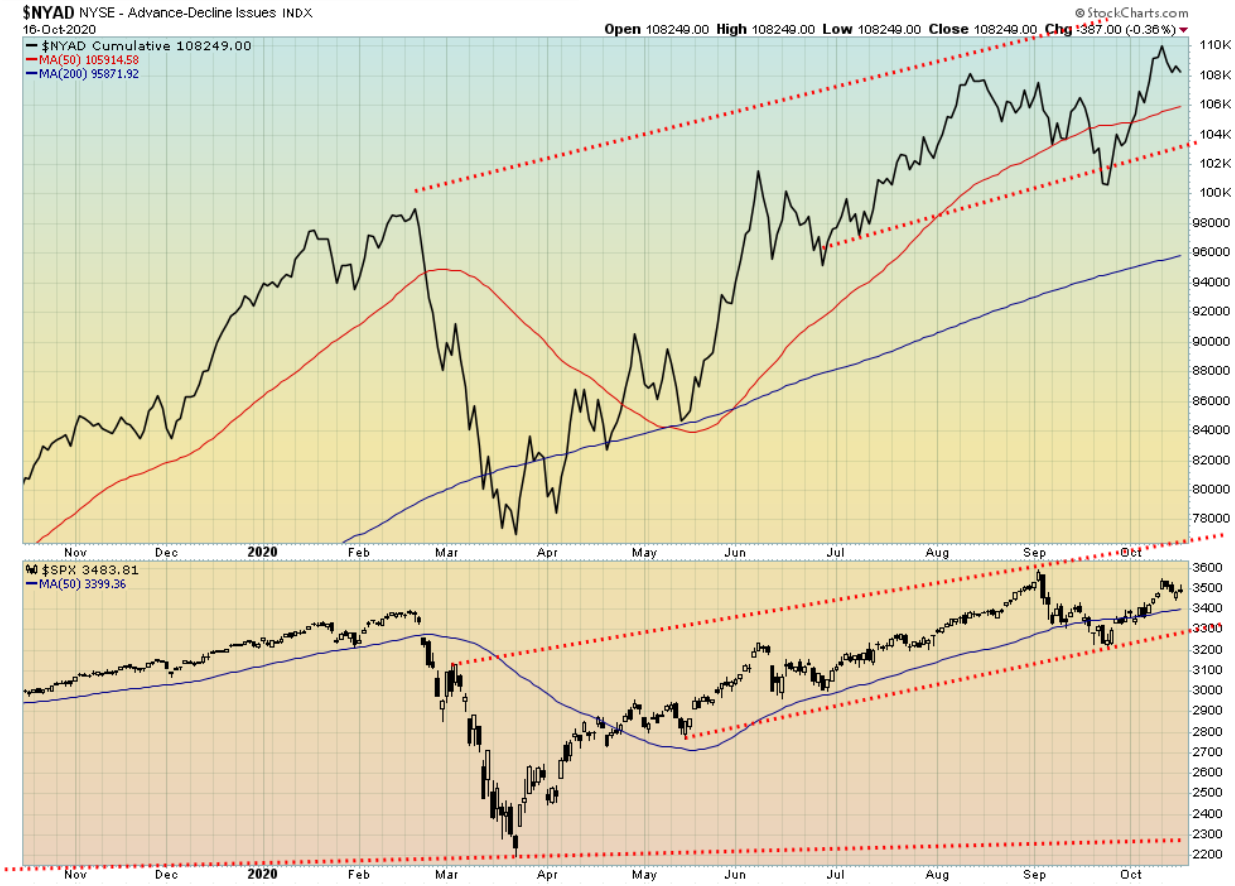
Source: www.stockcharts.com

The DJT is not displaying the same pattern as the DJI and the S&P 500. Instead, the DJT appears to be forming a bearish ascending wedge triangle. The DJT spiked to a new all-time high on Thursday at 11,997, then on Friday posted a down day, off 1.3%, leaving what we call a potential dark cloud cover (a bearish Japanese candlestick pattern) on the charts. The wedge breaks down under 11,460 and potentially targets back to 10,500. The DJT breaks down under 9,700. Only new highs above 11,997 could change a potential negative scenario. As well, the DJT is diverging with the DJI as the DJT has made new all-time highs but the DJI has not. The averages must confirm each other, a key tenet of Dow Theory. We can't confirm this divergence until the two break down. But the DJT below 10,940 looks increasingly dangerous and the DJI below 26,530.



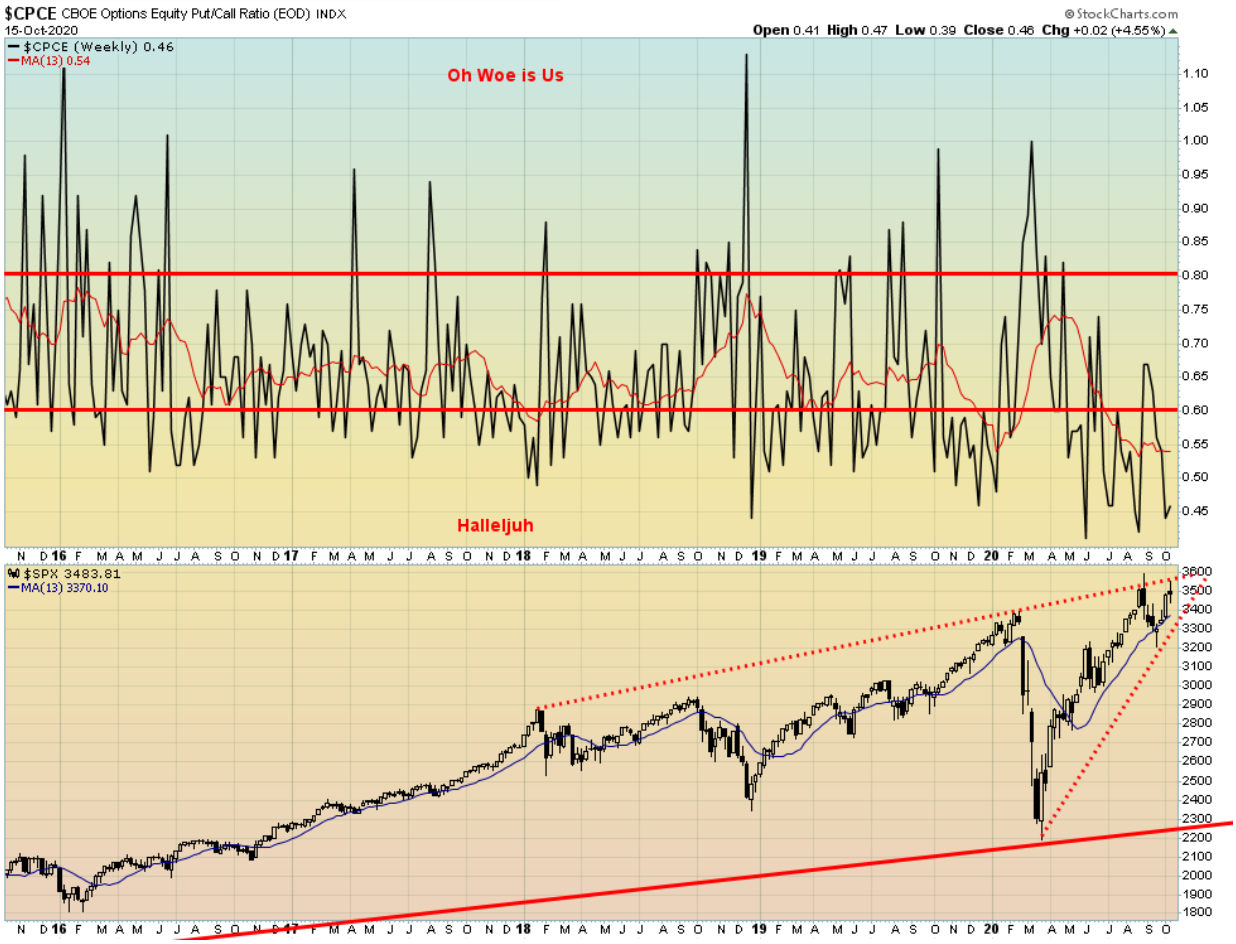
Source: www.stockcharts.com

The NASDAQ, like the S&P 500 and the DJI, appears to be forming a potential double top. The little head and shoulders bottom is not very clear on the NASDAQ as there was little in the way of a pullback for the right shoulder. The NASDAQ made a top on September 2 at 12,074 and more recently on October 12 at 11,965. That was four days ago. Failure to take out that high and a break below 11,250 would start to suggest that a double top is in place. The breakdown is below 10,500 and projects down to at least 8,950.



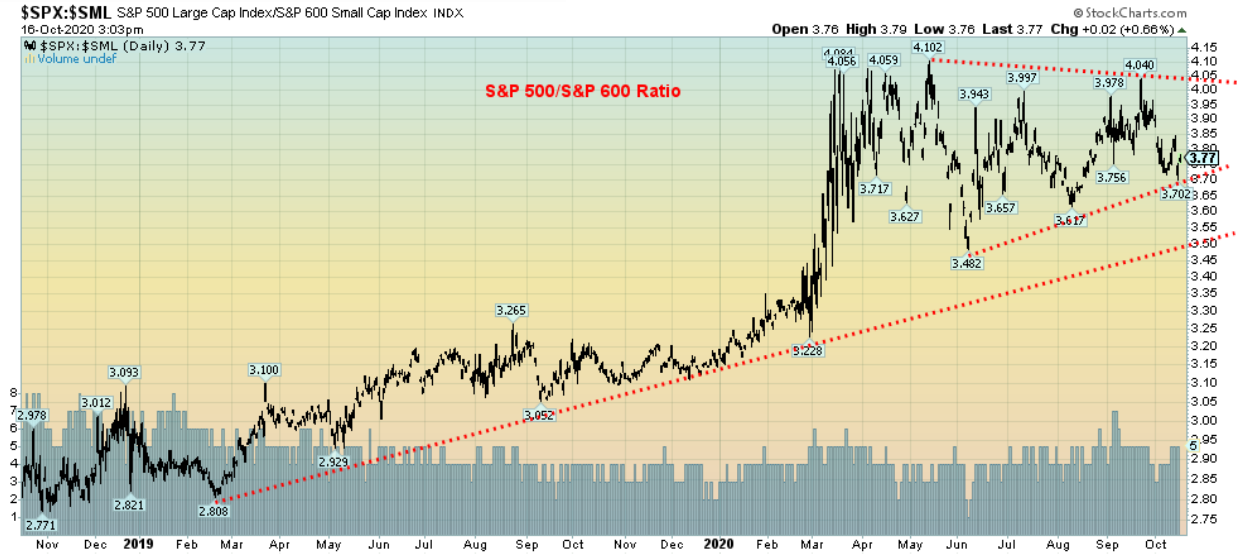
Source: www.stockcharts.com

The NYSE Advance/Decline line made a new record high recently but the S&P 500 did not—a divergence. We prefer a divergence that has the S&P 500 making the all-time high and a non-confirmation from the AD line. So it is, we confess, difficult to interpret this divergence. It would appear to suggest that the S&P 500 still has higher to go. But other indicators are suggesting the market could fall rather than rise. So, this is an indicator we need to keep an eye on. The NYSE AD line, unlike the NASDAQ AD line, has been on a steady upward climb for years.



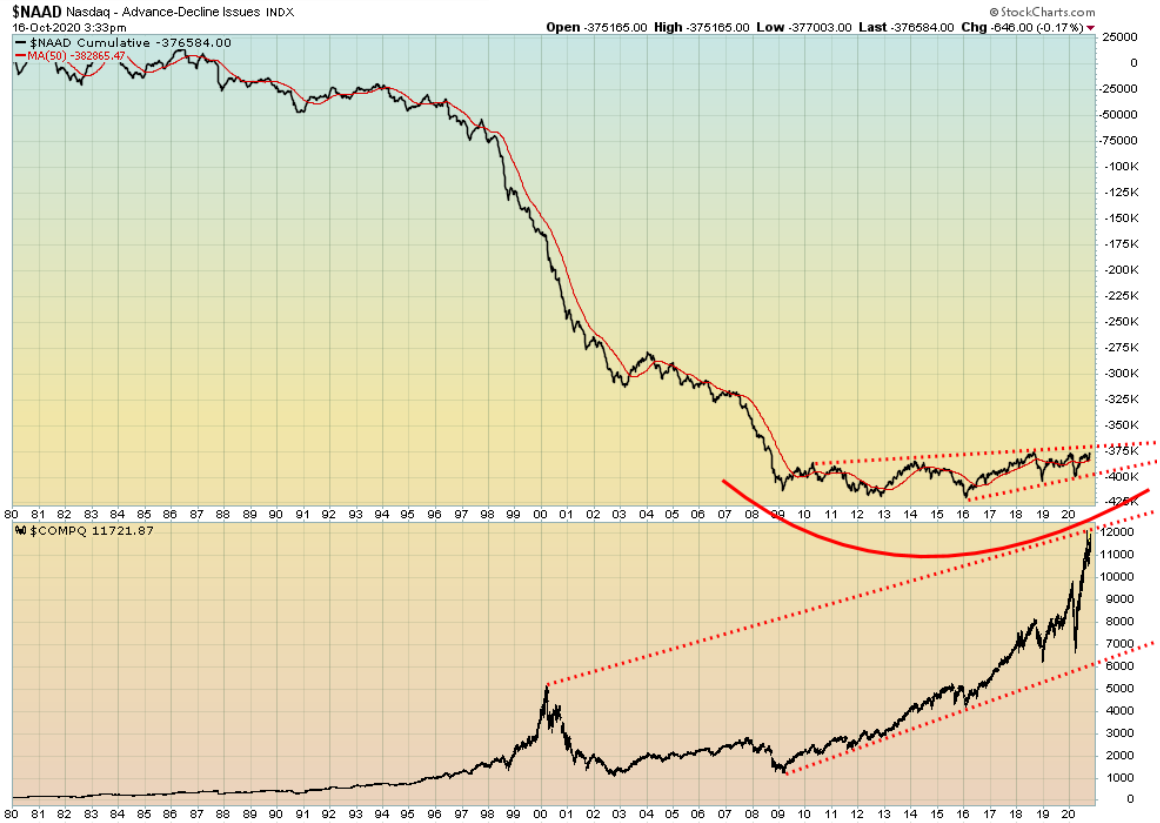
Source: www.stockcharts.com

It is difficult to comprehend the complacency in the stock market that still has the put/call ratio near record levels in favour of calls. It is a continued warning that the market is complacent and is more likely to fall rather than rise. This is especially true as we near the election. The expectation is that volatility could pick up. It has already been a very volatile year, given the number of days of 1,000-point plus declines or 1,000-point plus gains. But the complacency is difficult to understand in the face of growing election uncertainty.



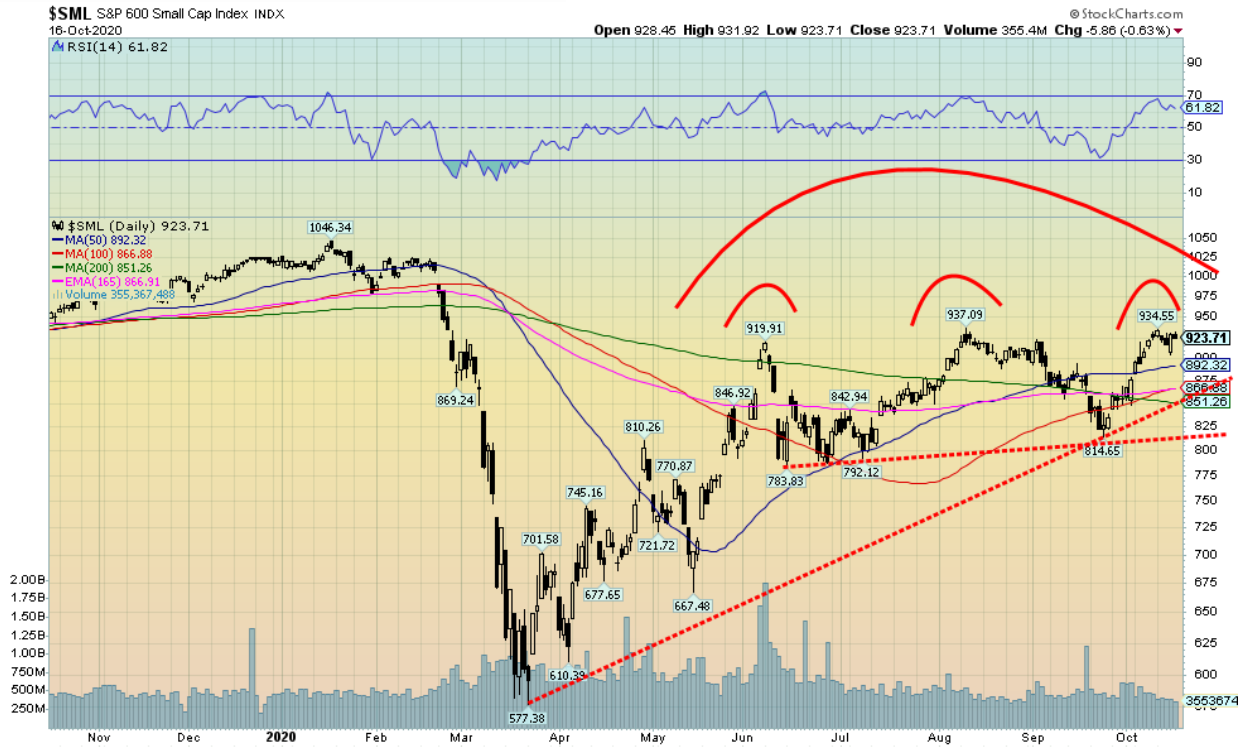
Source: www.stockcharts.com

Which way small cap versus large cap? Above is the S&P 500/S&P 600 ratio. The S&P 500 represents large cap stocks and the S&P 600 represents small cap stocks. After rising sharply in favour of the S&P 500 in the early part of the year after the bottom in March/April, it has been decidedly choppy for the two with each taking turns advancing at a faster rate. What it has formed now appears to us as a huge symmetrical triangle. Symmetrical triangles are usually interpreted as continuation patterns although we have seen them as topping (or bottoming) patterns as well. More often than not they are continuation patterns. Naturally, we'd have to keep an eye on it to see which way it breaks. An upside breakout is over 4.1 while a downside breakdown is below 3.7.



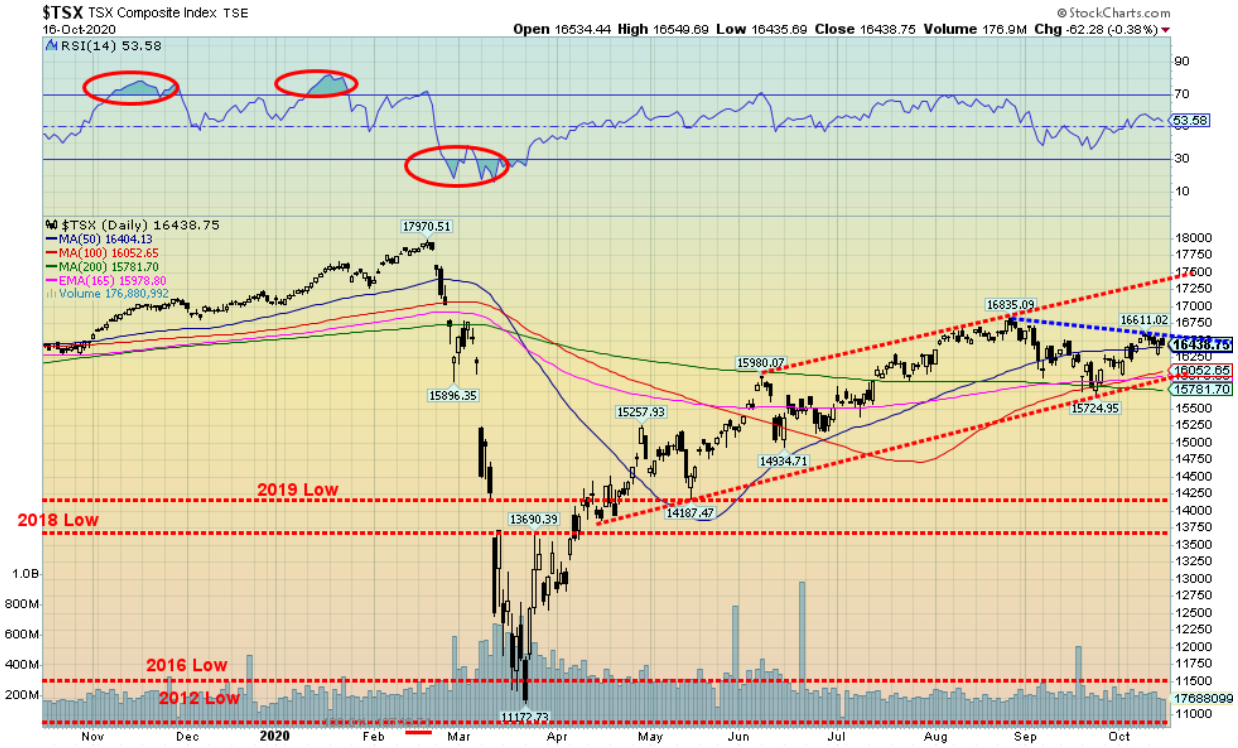
Source: www.stockcharts.com

There are some analysts who believe that the possible rounding bottom on the NASDAQ Advance/Decline cumulative is a sign that the stock market is about to broaden out. As we all know, the rally over the past several months has largely been on the back of a select few high-tech stocks like the FAANGs and a few others including Microsoft. So, we decided to look at it ourselves. The first thing that struck us is the long descent of the AD line that got underway in the mid-90s, even as the NASDAQ was starting to move into its bubble mode that topped in 2000. That was a rather interesting divergence. The AD line didn't stop there, however, and continued its descent into the 2008 financial crisis. It didn't make its final bottom until 2016. Since then it has begun a slow rise even as, overall, it generally remains within the range that has been seen over the decade or so. It poked its head above some previous highs but there never was a sustained breakout. And then, in the interim, the NASDAQ soared to new all-time highs but the AD line was nowhere near the levels seen even in the late 1980s. Is this a major divergence? We confess we are struggling to interpret what it means, but it doesn't give us a warm and fuzzy feeling. We drew a line off the 2009 low, then drew a parallel line off the 2000 top and it appears to have caught rather nicely the recent all-time high seen this year. Could it be that the NASDAQ has reached a final top? Bottoms on the AD line, as we see above, are notorious for continuing for quite some time. The decline that really seemed to get underway for the AD line was seen in 1997 and bottomed for the first time in 2009, a period of 12 years. Twelve years from 2009 takes us to 2021. This AD line needs to break out from that bottom pattern and not just act as a continuation of what we have seen over the past dozen years. So, we have a lot of mixed signals here with the NASDAQ possibly at a major high and an AD line that remains low compared to where it was back in the 1980s and 1990s.



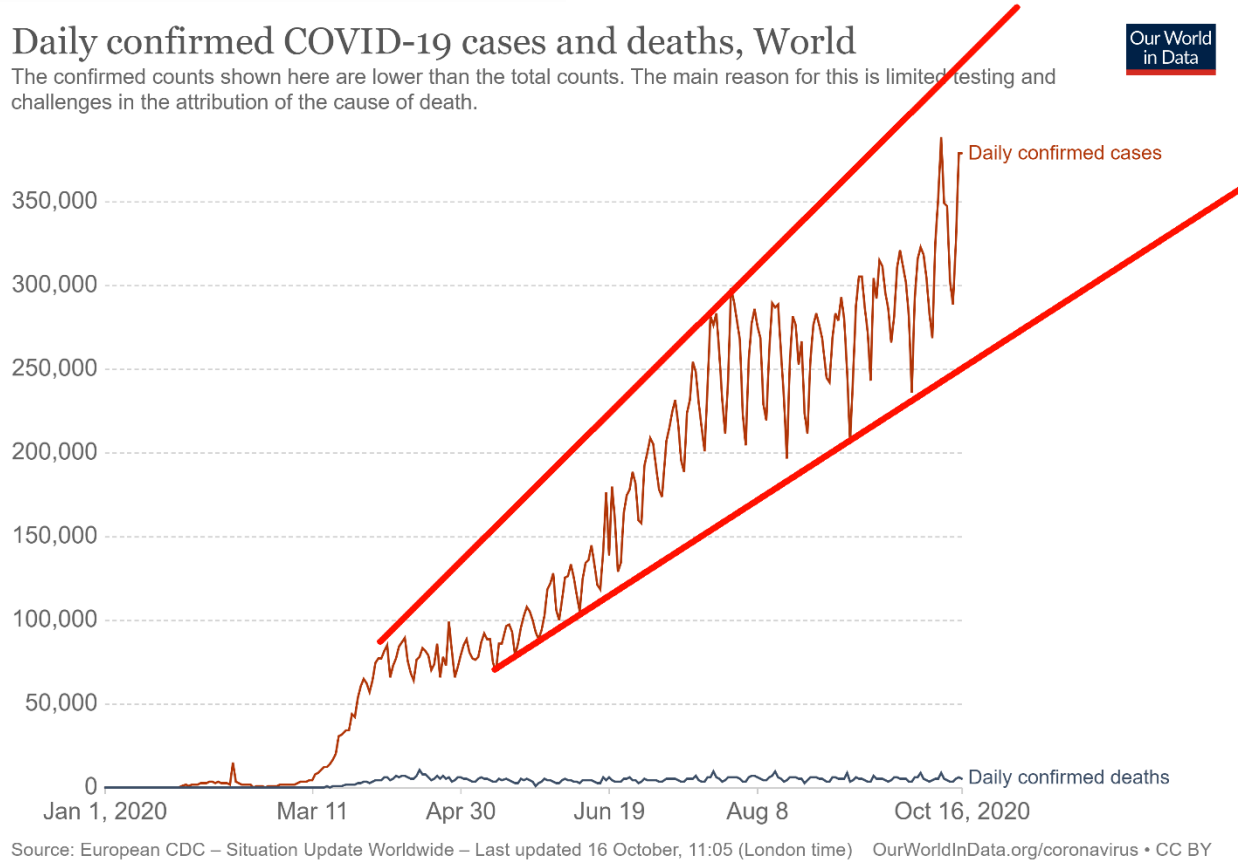
Source: www.stockcharts.com

Could the S&P 600 small cap index be making a rare triple top? Like the double tops potentially being seen in other indices, the triple top is just a potential one. Triple tops are rare and what happens is that they eventually break out to the upside. The downside neckline is at around 825 so a breakdown under that level and confirmed with a break under 800 could target the S&P 600 down to around 670, a 27% decline from current levels. We certainly note that volume has been waning on each thrust to a high. That's often a negative sign that the triple top theory might be correct. The S&P 600 remains down 9.5% on the year and is down almost 12% from its February 2020 high. Some analysts are putting a lot of faith in the small caps, that they will eventually join the large cap stocks to the upside. But this chart is not encouraging and, with our comments on the S&P 500/S&P 600 ratio appearing to be a triangle favouring the S&P 500, we'd be cautious about the small cap stocks. That said, we realize there are always individual cases that don't go with the majority.



Source: www.stockcharts.com

It was not a particularly good week for the TSX Composite as it fell 0.8%. The TSX Venture Exchange (CDNX) also fell on the week, off about 1.0%. Only two of the fourteen sub-indices saw gains on the week. Industrials (TIN) continued to perform well, gaining 1.7%. Industrials also made new all-time highs. The other winner was Utilities (TUT), as companies that emphasize renewables have continued to do well of late. TUT gained 1.2% on the week. A big loser was Energy (TEN), down 2.9%. The Energy sector continues to lose favour as oil and gas give way to green energy and renewables. The biggest loser this past week was Health Care (THC), off 3.7%. We note that Financials (TFS), Real Estate (TRE), and Income Trusts (TCM) all continue to struggle, off 1.3%, 1.9%, and 1.3% respectively. The TSX remains in a slight rising channel but may now be forming a pending down channel. There is some resistance forming around 16,600, but if the TSX can successfully take that out it could rise to the top of the channel near 17,400. Downside, the break comes at 15,900 and is confirmed under 15,775. Volume and indicators suggest the next move is down, not up. Watch the support points for clues. If we do break down under 14,900, there is not a lot of support until the TSX reaches 14,250.

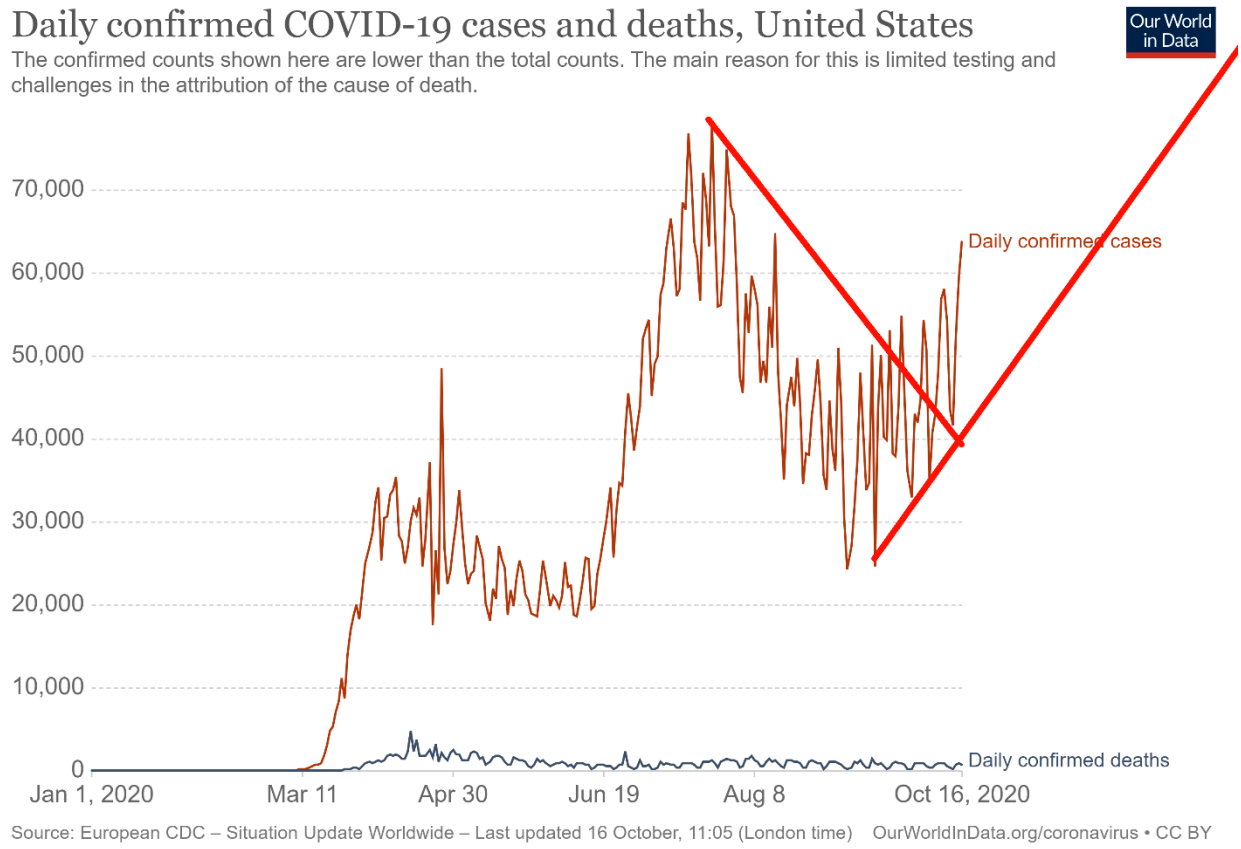


Source: www.ourworldindata.org/coronavirus

The numbers just keep on rising. The world hit a record 388 thousand cases on October 9. However, not on this chart is the 416 thousand recorded on October 16. We have moved to a 7-day average of 340 thousand cases daily. That's a million every three days now instead of the previous million every four days. The U.S. is over 8 million, India is approaching 7.5 million (most likely undercounted), and Brazil is over 5 million. Deaths are now just over 5,000 daily, a drop from almost 6,000 daily seen in August. It is dropping the deaths/cases ratio to about 2.8% from 3.0%. So, there are some positives. There have been huge surges in Europe, particularly in the U.K. and France. Numbers remain elevated in Latin America as Latin American countries make up half of the top ten in terms of cases. At current rates, the world could add 26 million more cases by year end with upwards of 400 thousand dead.

Coronavirus Cases & Deaths: October 18, 2020 14:39 GMT

Number of Cases: 40,067,591
Number of Deaths: 1,115,986

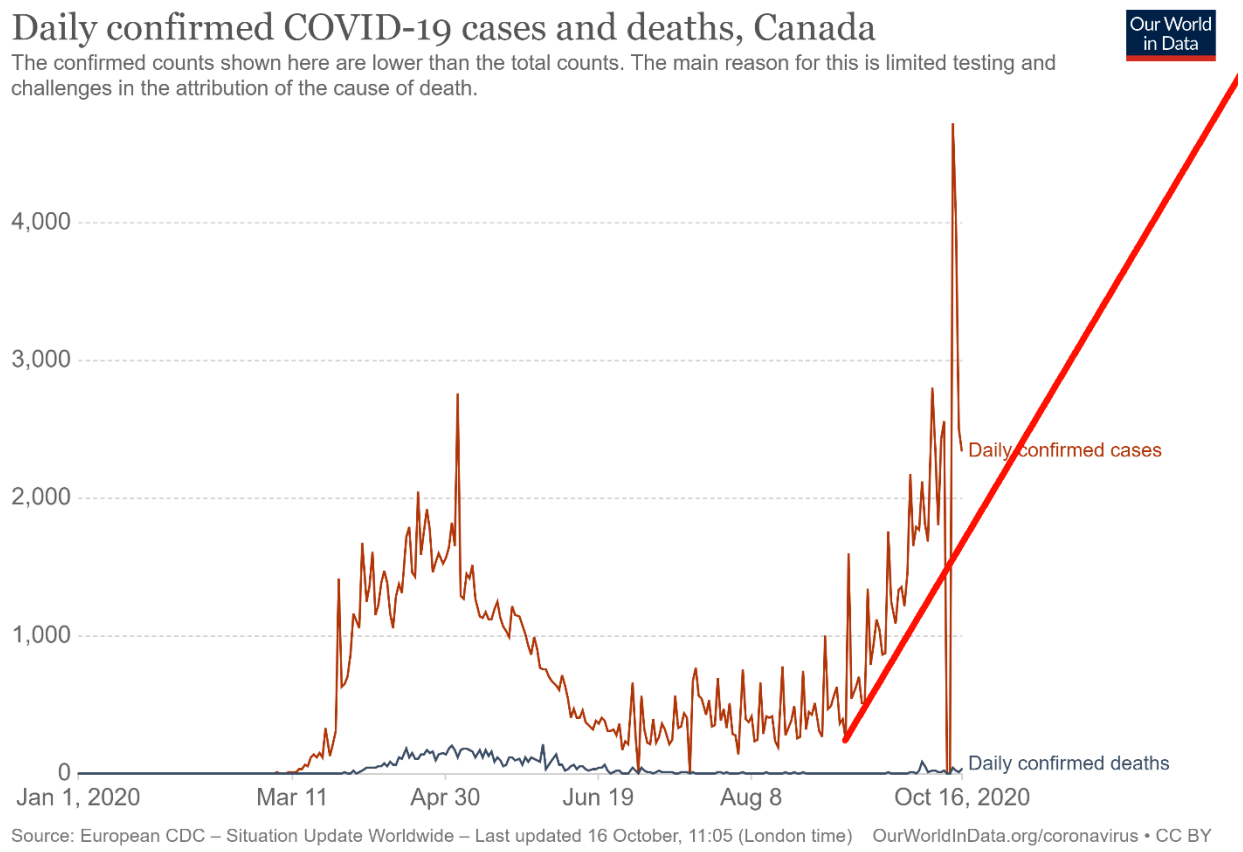


Source: www.ourworldindata.org/coronavirus

U.S. numbers are surging again after dying down through the summer. For the first time since August, the U.S. recorded over 60 thousand cases in a day. Deaths continue to run roughly at 1,000 every day. Could the U.S. surge past 70 thousand cases a day once again? Some are predicting that the U.S. could be seeing over 100,000 cases daily before year end. Deaths could rise as well to upwards of 1,500 daily. The deaths/cases ratio remains around 2.7% in the U.S. California, Texas, and Florida continue to lead the case parade and New York, Texas and California are leading the deaths. Oddly enough, in terms of cases per million population, the highest ranking are North Dakota, Louisiana, and Mississippi. The U.S. could still easily see another 5 million cases by year end and another 135 thousand deaths.

Coronavirus Cases & Deaths: October 18, 2020 14:39 GMT

Number of Cases: 8,346,163
Number of Deaths: 224,296



Source: www.ourworldindata.org/coronavirus

What's happened in Canada? Cases have spiked, hitting a record 4,042 on October 13. The chart seems to indicate a plunge to zero cases on October 12; however, that was not the case. It did plunge to 975, the lowest level of the past week, but not to zero. That's a misprint on this chart. The average daily cases are almost 2,300 now while deaths are averaging only about 20 daily. So, the deaths per cases is actually falling. Back in May it was about 175 deaths daily, mostly in long-term care homes. Ontario and Quebec are the leaders in cases and deaths, but then they also have the largest population and largest population centers. In a case of good news/bad news, Canada has actually fallen to 28th place from 26th place. This is because surges in Belgium and Netherlands have seen those countries leap over us. However, in terms of deaths we are in 21st place. In terms of cases/million we are way down the list in 86th place. Deaths/million we are 35th. So, there is some good news here amongst the bad.

Coronavirus Cases & Deaths: October 18, 2020 14:39 GMT

Number of Cases: 196,321
Number of Deaths: 9,746

US 10-Year Treasury Note, Canada 10-Year Government Bond (CGB)

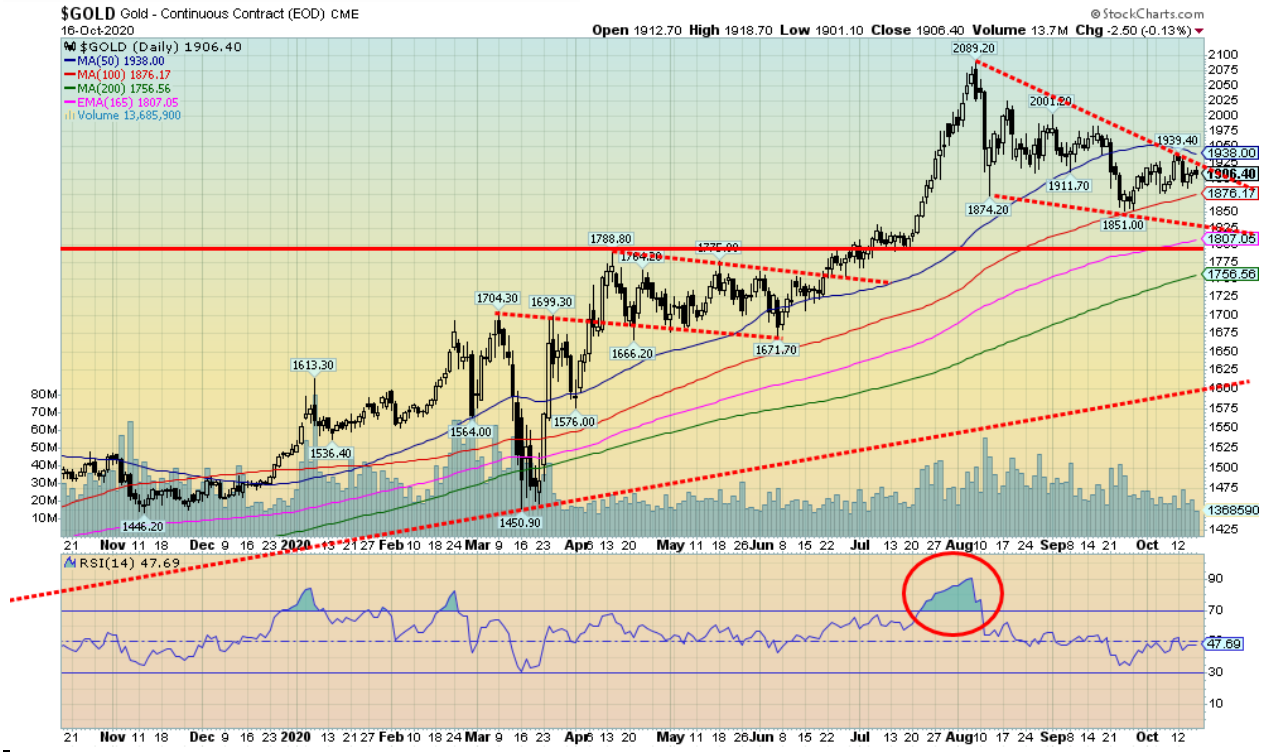
Source: www.tradingeconomics.com

After breaking to the upside, the previous week, interest rates fell this past week with no follow-through. The U.S. 10-year treasury note fell back to 0.74% from 0.77% and the 10-year Government of Canada bond (CGB) dropped to 0.60% from 0.62%. The U.S. reported a CPI this past week of 1.4% year-over-year with the core CPI up 1.7% year-over-year. This maintained a negative spread between the core CPI and the 10-year of 1.00%. Core PPI was 1.2% year-over-year. Initial jobless claims unexpectedly came in higher than expected at 898 thousand. The market had expected only a rise of 825 thousand. The previous week's rise was 845 thousand. So, it maintains the weekly leap of well over 800 thousand. The 4-week average is 866 thousand and continuing jobless claims totaled 10,108 thousand. Add in the those not eligible for EI and the total unemployed remains over 26 million. Retail sales unexpectedly jumped 1.9% in September when the market had only expected a 0.7% rise. But industrial production fell 7.3% in September, below the expected decline of 6.6%. The Michigan Consumer Sentiment indicator was at 81.2 vs. a forecast of 80.5. The consumer sentiment indicator was at 101 in February and hit a recent low of 71.8 in April.

The failure to follow through higher on interest rates is not a surprise. There are many who believe that interest rates are poised to rise, but at this stage they are not ready. With the Fed absorbing a lot of the debt issuance, it takes the pressure off of interest rates rising. Over the past several months there have been at least four short-lived spikes in interest rates. All eventually fell back, but the downside is limited as well. We'd need to see a move over 0.90% for the 10-year to suggest further upside potential.

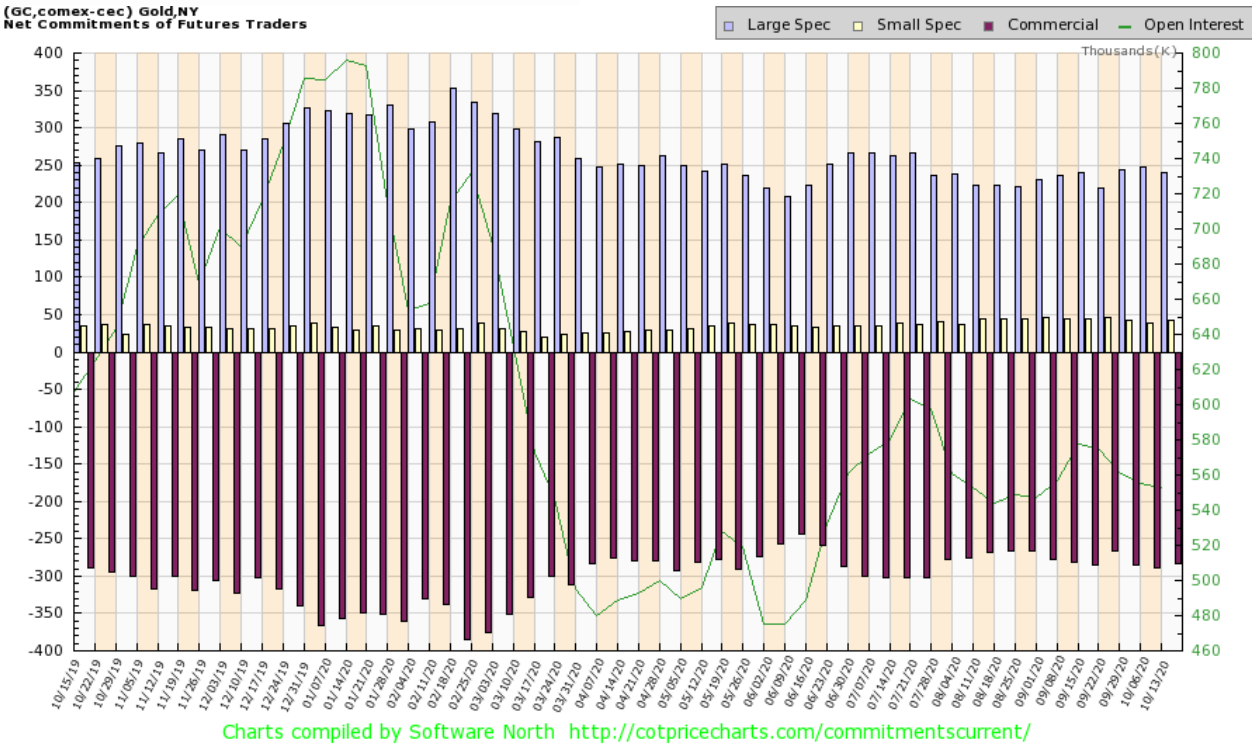
Source: www.stockcharts.com

The US$ Index managed to eke out a gain this past week of 0.7%. The major currencies suffered as the euro fell 0.9%, the Swiss franc was off 0.6%, the pound sterling dropped 0.9%, and the Japanese yen bucked the trend gaining a small 0.2%. The Cdn$ fell 0.4%. The Brexit-challenged U.K. saw its debt cut by Moody's to Aaa3 from Aaa2. That's interesting as it raises the possibility of more debt rating cuts. Could the U.S., the most debt-ridden country in the world, see its debt rating cut once again? The US$ Index seemed to find some support just below the 50-day MA before rebounding and testing the extended downtrend line from the March 2020 high. It hit an area of resistance near 93.90 on Thursday but failed to follow through on Friday as it pulled back. The U.S. dollar was actually benefitting from the lack of a stimulus package and some slightly positive economic numbers. But if the point at 93.90 resistance is correct, then the US$ Index should start to slide again. Once it breaks back under 93 the US$ Index could swiftly return to the September low at 91.75. Only a firm break through 94 could change this scenario. Above 94, a run to 94.70, 95 and 95.70 is possible. Below 91.75 potential targets are down to 88–88.50. Growing uncertainty about the election, coupled with the return of the COVID and potential further weakening of the economy, could weigh on the U.S. dollar.



Source: www.stockcharts.com

Gold had its first weekly pullback in three weeks, losing 1.0% on the week. Silver was a bit weaker, down 2.8%. Platinum continued its woes, off 2.8% while palladium was down 4.9%. Copper lost a small 0.3%. The lack of a stimulus plan and some stronger than expected retail sales, plus a slightly better consumer sentiment outlook, helped to push gold prices lower. The U.S. dollar was up on the week and that didn't help gold. Longer term gold remains quite bullish but the short-term picture is cloudy with some more downside possible. Gold seems to recover every time it dips under $1,900 for any time. Also, gold appears to be forming a descending wedge triangle (bullish) but the current bottom of the channel is down near $1,825. So, a move down to that level cannot be ruled out just yet. Gold remains a key asset given the huge stimulus packages, the debasement of currencies, the weakness of the economy, and the growing uncertainty over the election, despite a seemingly strong lead in the polls by the Democrat candidate Joe Biden. Gold remains up 25.2% on the year. The little waves forming always seem to unfold in threes, suggesting they are all a part of the current correction. We haven't yet seen what we would call an impulse wave (5 waves up). A break back under $1,875 would be a short-term negative and could drag us down to $1,825. But if the bottom of the channel fell out, then we could fall to $1,700/$1,750. To the upside, the breakout point appears around $1,925, but we'd like to see a move over $1,950 to confirm. Above $2,000 and especially above $2,040 new highs are probable. We remain, as noted, longer term bullish, but the short-term picture remains cloudy and the current correction may not as yet have run its course.



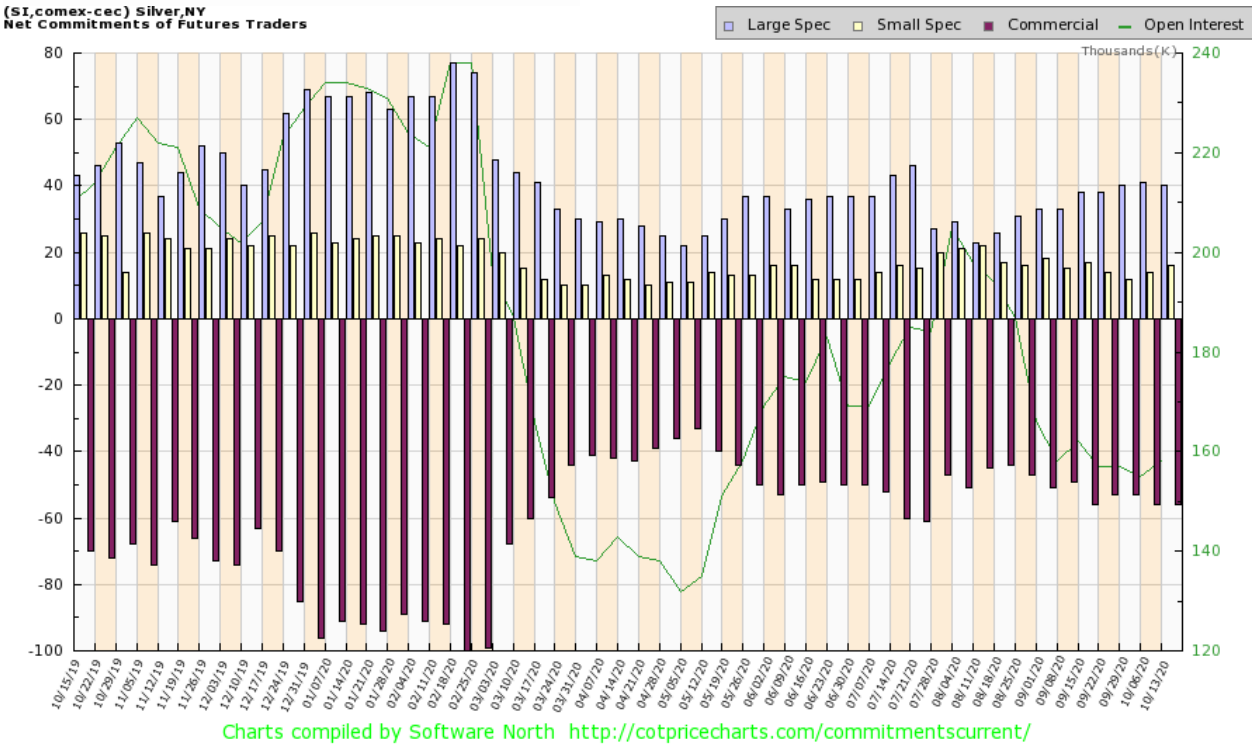
	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
09/15/20	390	324,512	83,535	80%	113	126,290	411,476	23%	68537	24,328	74%	578,925
09/22/20	380	309,015	89,955	77%	117	137,900	404,308	25%	69670	22,322	76%	575,877
09/29/20	351	316,106	72,447	81%	116	133,657	419,835	24%	64556	22,037	75%	562,396
10/06/20	350	320,922	72,335	82%	115	124,401	412,869	23%	66522	26,641	71%	555,555
10/13/20	360	326,986	86,315	79%	113	116,429	401,084	22%	67772	23,788	74%	553,197

Source: www.cotpricecharts.com

The commercial COT for gold slipped slightly again to 22% from 23%. This is somewhat bearish. However, we note that long open interest fell about 8,000 contracts while short open interest also fell down over 11,000 contracts, suggesting some short covering this past week. The large speculators COT (hedge funds, managed futures, etc.) slipped to 79% from 82% as their long open interest rose about 6,000 contracts and short open interest was up about 14,000 contracts. The increased bearishness on the part of the large speculators was a bit of a surprise. Overall, open interest slipped just over 2,000 contracts in a down week. Hard to read too much into this week's COT as it remains somewhat bearish.

Source: www.stockcharts.com

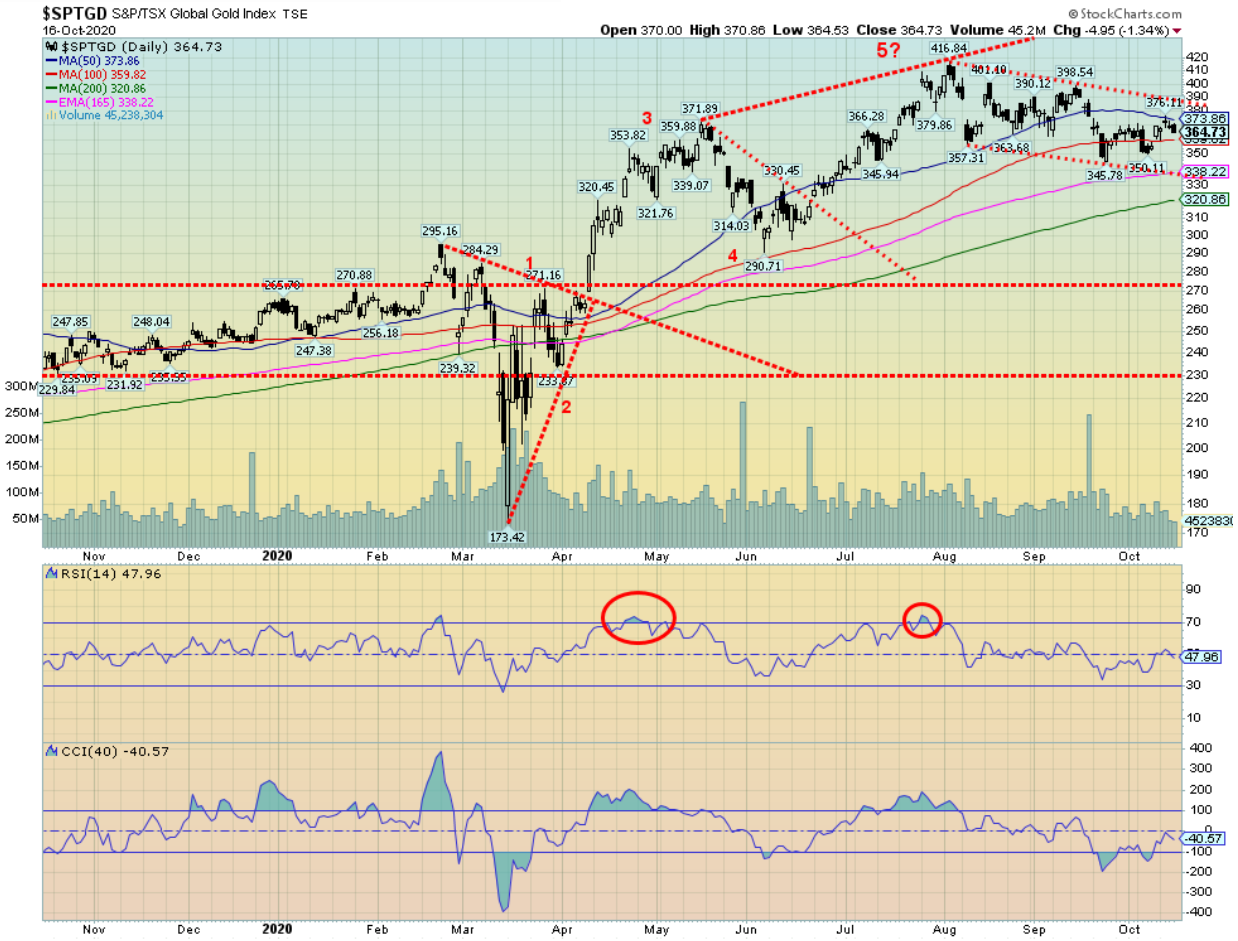
As with gold, silver fell this past week, losing 2.8%. Silver continues to trade in what appears to be forming a descending wedge triangle. However, the triangle is incomplete and more downside could be seen. The bottom of the triangle is down near $21 while the breakout level is above $25. Confirmation would come over $28. There is uptrend support at $23.40, but a break under that level could lead to a fall to $21. The $21 area had been a preferred target of ours for this correction. The current low is at $21.81. A move under $23 would be the first sign that we could be heading lower towards a $21 target. This has been the first significant correction for silver since the rally out of the March low at $11.64. Since then, silver has gained over 100% and finally took out levels dating back to 2016. Unlike gold that has since gone to new all-time highs, silver is nowhere near its all-time high near $50. We achieved our initial target some time ago over $29. Since then we have been patiently awaiting the completion of this correction. The pattern still appears to us as bullish and once we are over $28, we could target up to around $35.



	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
09/15/20	179	77,004	38,655	67%	93	51,418	107,425	32%	27716	10,058	73%	162,397
09/22/20	185	75,009	36,062	68%	89	50,232	103,466	33%	25552	11,265	69%	157,908
09/29/20	176	74,631	33,901	69%	90	51,503	104,702	33%	25068	12,599	67%	157,308
10/06/20	179	75,358	34,101	69%	93	49,407	105,603	32%	25199	10,260	71%	155,484
10/13/20	187	76,920	36,132	68%	96	49,700	106,648	32%	26501	10,341	72%	158,203

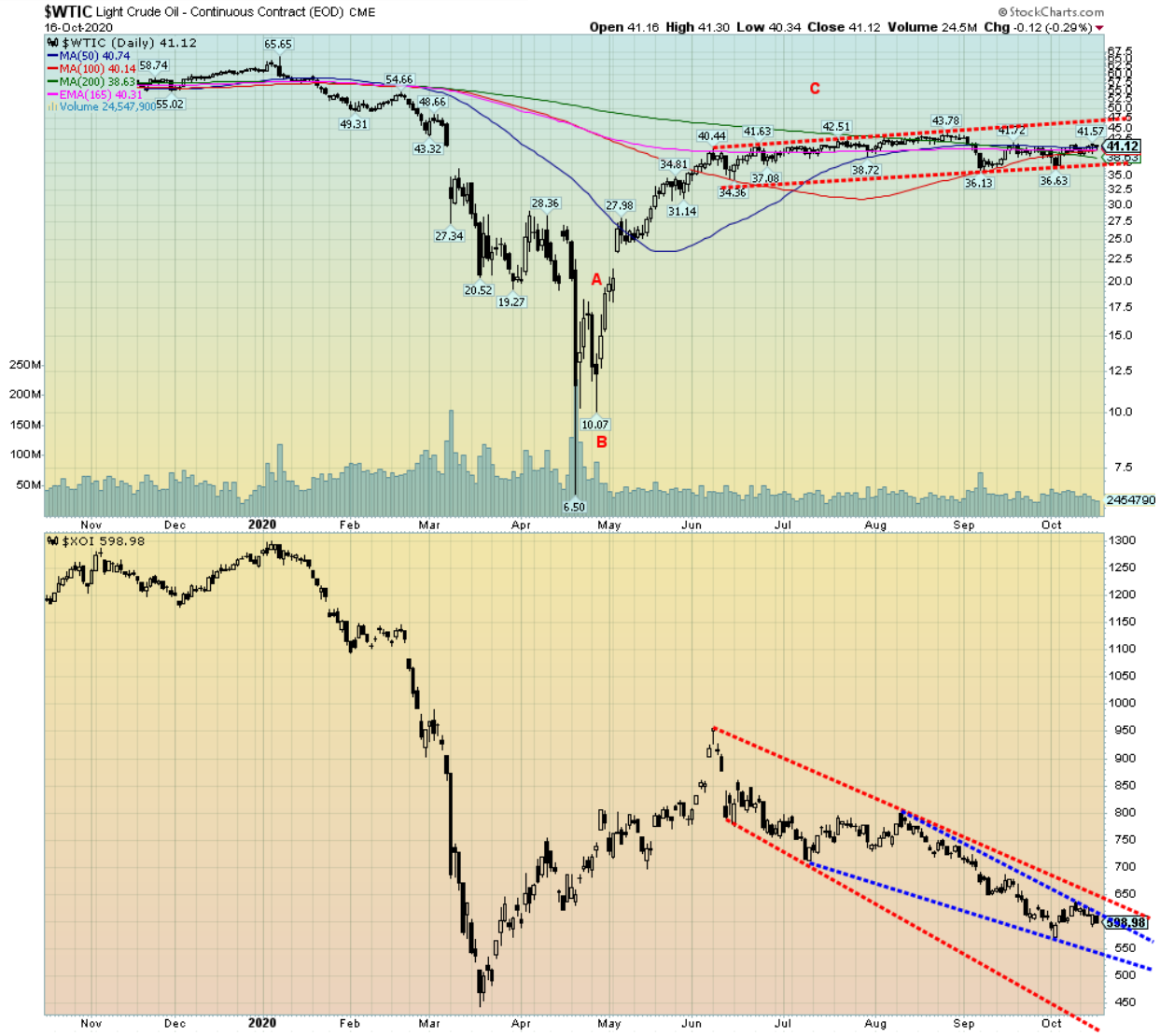
Source: www.cotpricecharts.com

The silver commercial COT was unchanged this past week at 32%. The large speculators COT slipped to 68% from 69%. Open interest rose about 3,000 contracts against the backdrop of a down week. That's mildly negative. Short open interest for commercials did rise roughly 1,000 contracts but it did little to change the overall commercial COT. So we are in a holding pattern, mildly bearish.



Source: www.stockcharts.com

The gold stocks continue to scuffle as the TSX Gold Index (TGD) slipped 1.2% this past week while the Gold Bugs Index (HUI) fell almost 2%. The TGD remains, it seems, in a steady downward channel. Arguably, it could be a bull flag although it has gone on longer than one would normally expect for a bull flag. If the lows were flatter then it could be a bearish descending triangle. To the upside, 390 continues to be resistance. Above 390, the TGD breaks out and could target up to 460. The downside break comes in around 338 and that could target all the way down to 265. We note long-term support near 270. Right now, we'd prefer the TGD to hold above 350. There are a number of plausible interpretations of the forming pattern; some, we admit, are bearish while others are bullish. That's why we'd prefer at this time to note the breakout points and act accordingly. If this is an ABCDE-type pattern, we could be working on the E wave down. There wasn't a lot of news on companies, but we do note some have been reporting production numbers ahead of earnings. Good production numbers are positive for earnings, given high gold prices.



Source: www.stockcharts.com

WTI oil prices rose 1.3% this past week, although oil ended the week on a slightly weak note as COVID cases rose. All of this suggests that thoughts about a speedy oil recovery are slipping away. The only hope is that OPEC comes to the rescue and ensures prices don't really fall much. But OPEC itself is becoming increasingly frayed. Currently, compliance with levels is about 100% but a lot of members are becoming antsy. Can it hold together? But the IEA is worried that with rising COVID numbers it could once again weigh on the global economy and further dent oil demand. The CEO of Occidental Petroleum (OXY) believes U.S. oil production won't return to pre-pandemic levels any time soon. He noted that they have lost some 2 million bpd in production which is not coming back. We continue to see stories that drillers are pulling back sharply and drilling activity is expected to fall a further 20% into 2021.

The energy stocks continue to suggest that oil prices are not about to rise. The ARCA Oil & Gas Index (XOI) fell 3.7% this past week while the TSX Energy Index (TEN) was down 2.9%. If there is anything positive to note, the XOI appears to be forming a possible descending wedge triangle (bullish). After all, we are approaching the positive seasonals period that normally gets underway in December but that can start in November. WTI oil prices have been hanging in the $36 to $43 zone but the energy stocks have been in a steady decline since June. At some point oil is going to break out one way or the other unless $36 to $43 is truly becoming the new norm.

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GLOSSARY

Trends

Daily – Short-term trend (For swing traders)
Weekly – Intermediate-term trend (For long-term trend followers)
Monthly – Long-term secular trend (For long-term trend followers)
Up – The trend is up.
Down – The trend is down
Neutral – Indicators are mostly neutral. A trend change might be in the offing.
Weak – The trend is still up or down but it is weakening. It is also a sign that the trend might change.
Topping – Indicators are suggesting that while the trend remains up there are considerable signs that suggest that the market is topping.
Bottoming – Indicators are suggesting that while the trend is down there are considerable signs that suggest that the market is bottoming.

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