PIVOTAL EVENTS

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Signs Of The Times:

"***Golden Times Are Coming***"	**Mine Web, August 15**
"***Gold Miners See Shining Outlook***"	**The Standard (Hong Kong), August 15**
"***Gold Bugs Flying High***"	**www.TheStreet.com, August 15**
"***Binge in Purchases of Corporate Debt***"	**WSJ, August 18**

Overview: In mid-July, the ChartWorks introduced the possibility that a 1973 type of top was possible and it could be accomplished in the first half of September. On July 21, this page noted that for the S&P the .618 Fibonacci retracement of the March, 2000 to October, 2002 plunge measured to 1253. So far, the high has been 1246 on August 3.

The new model is very applicable to the Russell 2000 as representing small caps, which set a long run of new highs.

Originally, the most likely target for the final upthrust was the second week of September. This was based upon some cyclical turning points as well as the record of so many buying frenzies blowing out in early September. However, last week this window of opportunity was widened to any time from early August to mid-September.

Of course, this gets us into weighty discussions of ultimate, penultimate, and post-penultimate tops. As it is turning out, the high for the Russell was 689 on August 2 and this could be the dreaded post-penultimate.

To be serious, that this was ***the*** high will be determined on the rebound out of the initial break. So far, the low has been 654 and the high needs to be tested. Yesterday's stock rally was based upon the dramatic slump in crude and seems to overlook the big picture that both commodities and stocks are working on a cyclical peak. After all, they were working together on a cyclical bottom in 1Q 2002. (That's what the ChartWorks was looking for in August, 2002.)

The bull market was expected to be a cyclical one within a secular post-bubble credit contraction. Sentiment figures are again at exceptionally bullish readings. The stock market, including the outstanding small cap indexes, is in an identifiable topping mode. At some 6 weeks shy of 3 years, the bull market has enjoyed a typical cyclical duration and we are approaching the season when liquidity can suddenly disappear.

We don't go along with today's concept that leveraged money chasing the hot stories is "liquidity". In a real liquidity storm, the money flows into gold and treasury bills in the senior currency. This leaves speculators high and dry – yearning for last month's prices and the retroactive ability to eradicate margin debt.

Unfortunately, the market record is indelible and the tattoo machine doesn't have an eraser.

Use the rallies to build substantial cash – across the spectrum of equities.

Sector Comment: After rallying to the record high of 181 on June 1, our Bank Trading Guide declined to 161 on June 29. Then when the "switch" was turned on in July, it recovered to 168 on August 1.

It has since declined to 157 this week and, in taking out the June low, the Guide has set a brief downtrend. This is a technical "sell" signal and selling should resume with the pace increased as widening renews for high-yield spreads.

Against the big "alert" signal in December, the BKX set its high of 104.4, from which it has never looked forward. The initial decline was to 94.8 in April, with the rebound making it to 101.9 on July 15. This amounts to a 74% retracement which, while often limiting other items, seems fully adequate to turn back the ponderous weightings of banks and financials.

Until recently, Canadian banks were also a sector to park complacency in, but then came the greatest financial scandal in federal politics since 1873. With this, the usual bank contributions to the Liberal Party probably diminished, quite likely sufficient to be noticed and the bagmen went to the Finance Minister and he mused about allowing mergers.

With the magic words, Canadian banks rallied from a low of 155 in April to a bull market high of 174 on August 2, which was closely timed with the last high for the Guide on August 1.

Ironically, CIBC and TD are now taking the accounting hit on reckless lending during the late 1990s' bubble while likely just being aggressive on the latest one.

Merger is in the market, the scandal is under the carpet, and we would take some chips off the table.

Big Speculations: Rather than continue with other equity sectors or move to our usual interest rate comment, it is appropriate to continue our review of big speculations.

The phenomenon that focuses our attention is that some of the great speculative blowouts in history have been against soaring short-dated interest rates.

Often this can run for some 18 months and the action exhausts itself. We emphasized this beginning in January, 2000 when the weekly observation was that March would be ***Month 18***. On this bubble, August is ***Month 19*** on this mania and the realization of this last week moved our window of climax from mid-September to the interval from early August until mid-September.

Obviously, the action in base metal and energy prices became unstable this week, as has the action in some representative stocks. In the oil/gas patch, look at CNQ on Toronto and in base metals look at BHP, PD, and RTP.

As with any blowoff such as this, the action from day to day is spiking as the growth curves went parabolic. As we concluded last week, "***It is time for a monumental reversal in the hot speculative games. All of them!***".

Distant warnings on commodity speculation were provided by the spikes in the Baltic and steel in December. Then the singular reversals resumed in May.

These are tabled:

	NICKEL		LUMBER		SILVER		GRAINS	
HIGH	**8.05**	**MAY 12**	**375**	**MAY 1**	**7.51**	**JUNE 1**	**1300**	**JUNE 24**
LOW	**6.39**	**AUG. 1**	**272**	**AUG.15**	**6.83**	**JULY 5**	**1107**	**AUG. 16**
	- 21%		**- 27%**		**- 9%**		**- 15%**	

Other than gold, the only metal making new highs is copper, which reached 1.73 (LME) on Tuesday.

Of course, the petroleums made fresh highs with crude reaching 66.86 on Friday and natural gas 9.75 on Tuesday. These are against crude's usual seasonal high possible in early October.

The sharp break in base metal and energy prices is an alert to the cyclical peak in commodities and stocks. Last week, we noted that the action in their respective stocks could lead the high for metals and the oils. (This will be expanded below.)

INTEREST RATES

Credit Spreads: Using the high yield, over treasuries, spreads narrowed to 301 bps on August 2. This seemed to be a continuation of the "good stuff" that was likely to follow the April slump in the stock market.

This compares with its best of only 183 bps earlier in the year, but of some significance is that it has widened out to 318 bps. A solid test of the 301 bps "low" would be required to formally reverse the trend.

Beyond the stock market, junk and near junk prosperity is founded on commodities going up. This seems to have stalled out this week.

Internationally, however, the effect of soaring energy prices brought Russian spreads in from 160 bps in mid-July to 129 bps. Going the other way, Brazilians in the last week have widened from 377 bps to 403 bps.

The action in other emerging debt spreads has been dull.

Once again, quite likely the formal reversal of corporate spreads will prompt concerns about liquidity and the front page quote about the "buying binge" for corporates is an alert to pending exhaustion of speculative spirits.

The Bond Future came down to targeted support at 114. Actually the low was 113^24 on August 9, from which it has been trading around 115 to 116.

This has been assisted by the hot speculative games running out of zest. Some more loss of zest could pop the bond to overhead resistance at 119.

After mid-September, the price would be vulnerable to a loss of liquidity in corporate and emerging issues.

It seems appropriate to resume reducing exposure to the crowd's idea of "no risk".

The Dollar Index declined into the 86s (early) and has rebounded to 88.6, which is very close to a 50% retracement of the initial slump. Weakness has been likely to run into September and the next slide could take it down to around 86.

COMMENTS FOR METAL AND ENERGY PRODUCERS

Energy Prices: Crude has been hot. Fortuitous hurricanes and one of the biggest energy touts since 1980 or since the coal "shortage" with the commodity speculation in 1865 have been the feature.

It is also worth noting that crude has been likely to rally on seasonal demands into early October. Underneath the fanfare, this could be the compelling near-term force. It has been possible that oil patch stocks could lead the high in crude. In looking at the CNQ, as an example, it has plunged from 59.96 on August 8 to 50.60 today.

This is down to support and now we look for the stocks to set a negative divergence as crude goes into a seasonal high in early October. After this, an intermediate decline for stocks and crude could follow. At almost 10.00, natgas has likely seen its highs for the year.

Gold: The real price, as measured by our gold/commodities index, set what is likely a cyclical low at 185 on June 1. It recovered to 202 on June 30 and, as the party in the hot games brewed up, it slipped to 188 on July 13.

By steps, it has recovered to yesterday's 198 and breaking above 202 would set the cyclical uptrend.

As we regularly note, this would be assisted by the resumption of credit spread widening and the initial steps toward steepening of the treasury yield curve.

In the meantime, gold has been vulnerable as it has been rallying for the wrong reasons and the advice has been to buy the dips. Don't chase the rallies.

On the bigger picture, Ron Griess (www.thechartstore.com) has analyzed the deflated price of crude. Noteworthy is the 6 times price increase to the blowout in 1980. This was from 15.63 in July, 1973 to 94.85 on April 4, 1980.

This compares with the low of 12.73 in December, 1998 and the subsequent rally to 66.87 on August 8. So far, the gain has been 5.3 times. This is rather close and while anyone can calculate that the matching gain would be around 75, we would mention that the bull market has had an outstanding duration.

At 90 months, the bull market has run 10 months longer than the example that climaxed in 1980.

	FRI	**MON**	**TUES**	**WED**	**THUR** NOON
AUGUST	**12**	**15**	**16**	**17**	**18**
High-Yield Spread	318	314	317	313	—
Treasury Curve	21	21	20	23	20
Base Metal Prices	1060	1060	1064	1038	1040
Dollar Index	86.9	87.3	87.4	88	88.6
Gold	445.5	442.3	446.2	440	441.1
Gold/Commodities	193	194	196	198	—

- The 10-year to 2-year portion of the curve is widely followed. It shows how flat the curve is and we will plot it instead of the 30-year to 3-month.
- The S&P is widely available and its slot will record our gold divided by commodities index.

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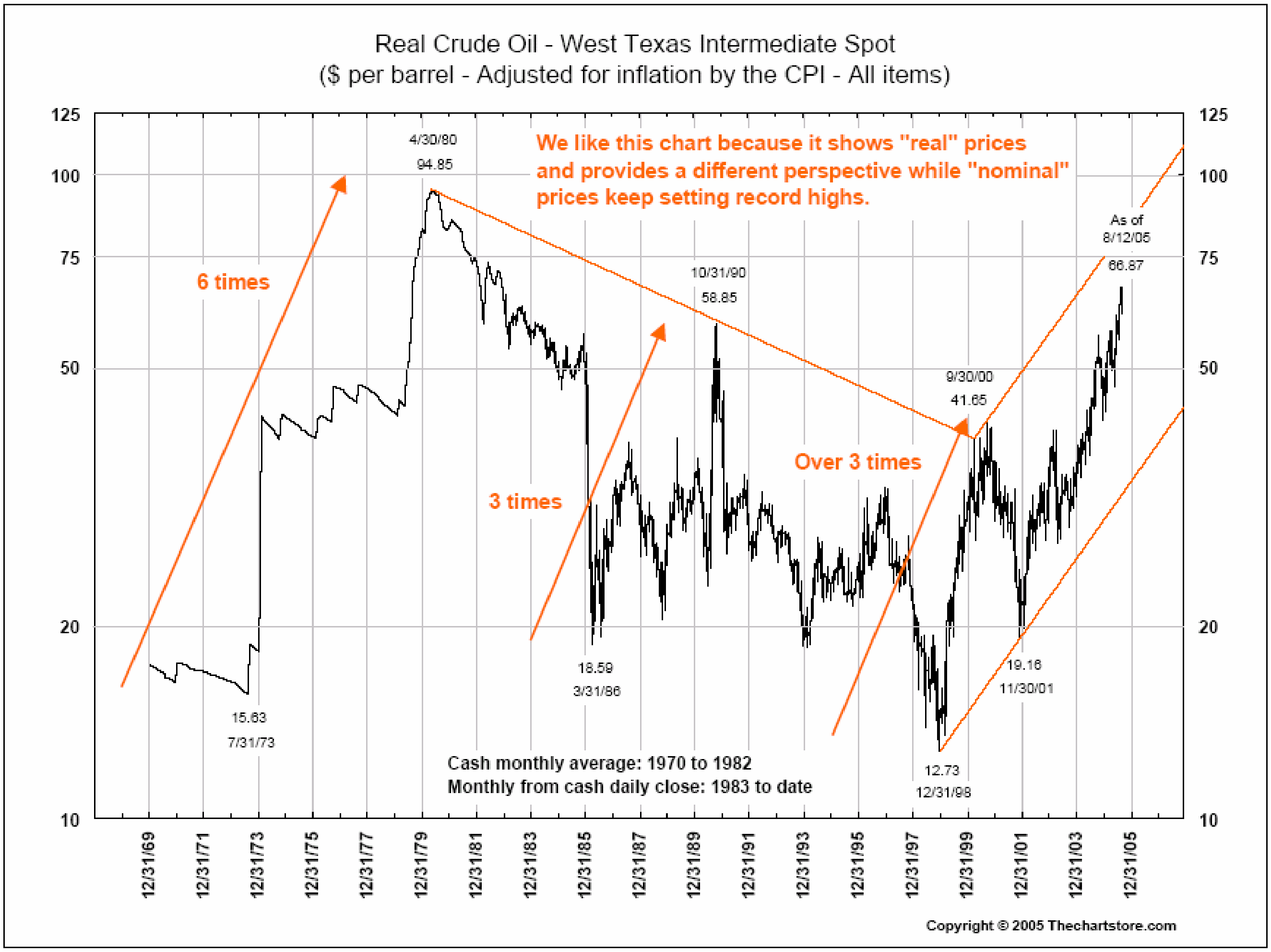

Chart from The Chart Store - Weekly Blog of August 12, 2005
Courtesy of The Chart Store (www.thechartstore.com)