

# Trend Watch

December 17, 2010

## Inflation-Deflation Timer

### Current Indication: Inflation

Our proprietary Inflation-Deflation Timer Model (the “Timer Model”) is a trend-following model and as this class of model does not call tops or bottoms the value is in its ability to spot trends!

The marco-trends our Timer Model is looking for are:

*Inflation, Deflation and Neutral Signals*

### World stock markets confirm our bullishness

The Inflation Deflation Timer Model remains firmly at an “inflation” reading. A world tour of stock market indices shows a series of constructive bullish patterns that confirm our Model’s continued bullish stance of the “buy inflation” trade. There is, however, one important caveat. Investor sentiment readings are showing excessive levels of bullishness, which is contrarian bearish in the short-term. We should therefore be prepared for near term corrections but we would view pullbacks as buying opportunities.

The pattern of the TSX Composite, shown in the chart below, is repeated in major market averages around the world. The TSX Composite technically broke out to the upside in late October and is now in a well-defined uptrend.



South of the border, the S&P 500 also broke out to new recovery highs last week. More encouraging is the European STOXX Index, which is showing a constructive pattern of higher lows and higher highs in the face of recent bad news.



As our world tour moves to Asia, the chart below of the South Korean KOSPI, which has been an excellent cyclical indicator of world growth, is in a well-defined bullish uptrend.



Even the Shanghai Composite, which had been a source of our concern because of investor nervousness over recent Chinese initiatives to rein in inflationary expectations, tested an important technical support level and rallied.



In short, the technical patterns of world stock markets are confirming our Model’s continued bullish outlook for the “inflation” trade, indicating that intermediate term path of least resistance is upwards.

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