CHART PATTERNS	SECTORS	MARKET UPDATE
Predictable Patterns Period	Measured Moves In Housing	US Dollar Index Firms At Support

SEPTEMBER/OCTOBER 2007 US$7.95

Traders.com

THE MAGAZINE FOR INSTITUTIONAL AND PROFESSIONAL TRADERS™

VOLATILE NASDAQ 100
Stays in range 14

HANG SENG BREAKOUT
Set to continue? 18

H&S TOP IN REITS
Has the great rally run out? 20

CUP & HANDLE
In transports 23

SILVER SIGNALS HIGHER
…And lower 24

GOLDEN BOUNCE
Hourly charts of gold and gold stocks underscore the turnaround in late May 28

REVERSAL IN HOUSING
These stocks take a hit as rates spike higher 37

SHOULD YOU BUY THE DOLLAR?
Combinations to make the greenback attractive 44

USD/JPY
Bulls exit as the dollar/yen is reached 46

GOLD FUTURES VS. GOLD BUGS INDEX

Traders.com
4757 California Ave. SW
Seattle, WA 98116-4499
Change service requested

"Trading is easy with eSignal"

Here's a risk-free, 30-day trial to get you started

eSignal, the award-winning market data provider for tens of thousands of active and professional traders, is offering you a **30-day, risk-free trial**.

See for yourself how eSignal allows you to quickly **scan the markets** in real time to find just the best trading opportunities. Then, **analyze those stocks** with charts that include a complete library of technical analysis indicators. Finally, **trade from within eSignal** with your choice of brokers.

So, call today to get the **free eSignal software** plus eSignal's **reliable service risk-free for 30 days**.

eSignal Provides You With:

- **Real-Time Quotes:** Get reliable, award-winning, stock, options, futures and Forex data from around the world
- **Advanced Charting:** Maximize your advantage with technical analysis, customizable indicators and alerts
- **Market-Moving News:** Access a wealth of respected sources, including U.S., U.K., European and Asian news
- **Market Depth:** Find hidden opportunities with a more detailed level of data
- **Integrated Trading:** Trade right from within eSignal with your choice of brokers

Call today to get your 30-day, risk-free trial of eSignal!*

800.824.0961

www.esignal.com/offer/tcom

eSignal is a division of Interactive Data Corporation (NYSE: IDC).

*All fees will be refunded to you, minus any taxes and applicable add-on service/exchange fees, if you cancel within the first 30 days of service. Call for details. x13653

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

More bang. Less buck.

Trade like a pro for as little as $8.

	Fidelity Active Trader Services[1]	Schwab	E*Trade	TD Ameritrade	Your Online Broker
Trades: Online Equity Market and Limit Orders	$8*	$9.95[2]	$9.99[3]	$9.99[4]	?
Margin Rate[5] for debit balance of $500K	6.00%	9.00%	8.24%	9.00%	?
The Most Free Independent Third-Party Research[6]	YES	NO	NO	NO	?
Portfolio-Level Back-testing[1]	YES	NO	NO	NO	?
Dedicated Service 24/7, 365 Days[7]	YES	YES	NO	NO	?

Rates verified as of 6/11/07.

Fidelity gives you more for your trading dollar. Like powerful tools that let you test and hone your strategies. Plus more free third-party research and dedicated trading specialists to give you the support you need. It's more than you bargained for. In a good way.

800.396.9289 | Fidelity.com/switch2

* Eligible households pay $8 flat commissions (Gold Schedule) for online market and limit orders. Eligible household accounts are those which qualify for Active Trader Services or have $1 million in assets. Some restrictions apply: Directed Trading orders, stocks trading under $1, Extended Hours trades are subject to the $8 base rate up to 1,000 shares plus $0.005 per share thereafter. Online stock trades for others may start at $19.95; see a Fidelity commission schedule for complete details on all pricing levels.

[1] Active Trader Services and Wealth-Lab Pro® are available to investors in households annually making 120+ stock, bond, or options trades and maintaining $25K in assets across eligible Fidelity brokerage accounts.

[2] Schwab pricing based on making 30+ household trades per quarter or 120+ trades per year.

[3] E*Trade pricing based on making 30 to 149 stock or options trades per quarter. More trading may result in lower commission rates.

[4] TD Ameritrade pricing is for all trading levels.

[5] Margin trading entails greater risk, including but not limited to risk of loss (losing more funds than you deposit) and incurrence of margin interest debt, and is not suitable for all investors. Please assess your financial circumstances and risk tolerance prior to trading on margin. Margin rates are not guaranteed and are subject to change without prior notification. Fidelity margin credit is extended by National Financial Services, Member NYSE, SIPC, a Fidelity Investments company. Competitor rates and eligibility may vary at higher margin balances, but rates are not less than 7.24%.

[6] Content provided by third parties who are not affiliated with Fidelity.

[7] **System availability and response time may be subject to market conditions.**

Fidelity Brokerage Services, Member NYSE, SIPC 465274

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

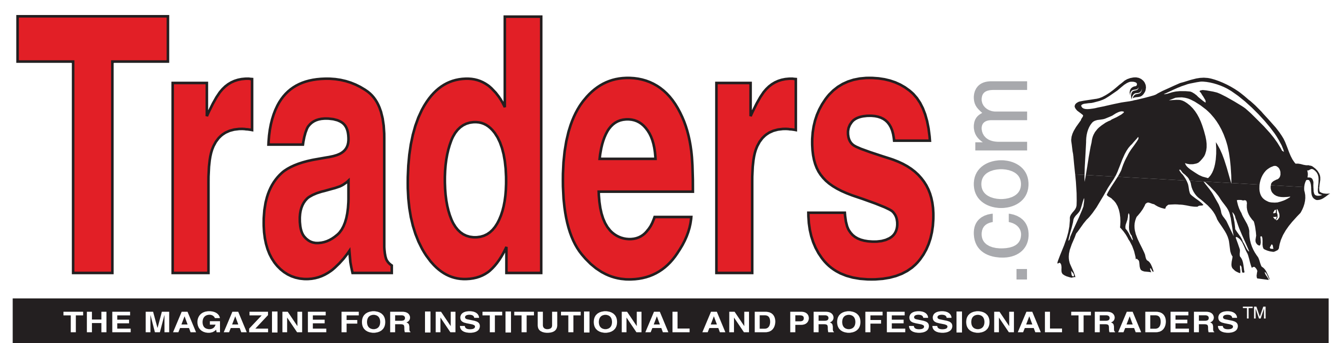


TABLE OF CONTENTS

SEPTEMBER/OCTOBER 2007 • VOLUME 5 NUMBER 5

Working Money

10 A Sign Of Spring
by James Maccaro
The sage of Omaha reports to his shareholders.

INDEXES

12 Intraday 2B Tops In The June Emini S&P 500
by David Penn
"What we have here is a failure to follow through..."

12 Russell 2000 Gets Cold Feet
by Arthur Hill
The Russell 2000 broke consolidation resistance but immediately pulled back, and now, waning momentum points to a bull trap.

14 Volatile NASDAQ 100 Stays In Range
by Chaitali Mohile
$NDX is volatile and moving in a 20-point range for the last two weeks. The lower range can dip to the previous low of the rally.

15 Candlestick Warning For The NASDAQ Composite
by Gary Grosschadl
The high-tech index looks vulnerable here. A downturn would not be a surprise, but what are the targets?

15 S&P Seeking Support
by Austin Passamonte
Measuring support and resistance zones via Fibonacci and retracement tools.

16 Correction Targets For The DJIA
by Arthur Hill
The Dow Jones Industrial Average is up substantially over the last few months, and a correction back toward its resistance breakout is a plausible scenario.

17 $NYA Returns On Bullish Track?
by Chaitali Mohile
The NYSE Composite Index completed its black crow formation. What's next?

18 Another Breakout For The Hang Seng
by Arthur Hill
The Hang Seng Index has been moving higher for five years, and this trend looks set to continue after another resistance breakout.

CHART PATTERNS

19 The S&P 500's Intraday Ascending Triangle
by David Penn
A pair of 2B tops helps mark the upper boundary of an ascending triangle.

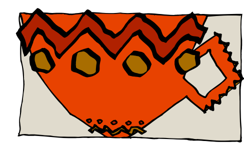
19 Predictable Patterns Period
by Austin Passamonte
Since mid-March 2007, big-cap stock index markets seem to have a constant bid beneath them. Any intraday selloff that lasts into the closing bell is immediately reversed the next session. Most other days begin with early weakness before price action begins the inevitable grind upward into the afternoon.

20 A Head & Shoulders Top In REITs
by David Penn
Has the great REIT rally finally run out of upside?

21 Reversal Warnings
by Austin Passamonte
Pure price action can tell us a great deal about pending market direction. Intraday emini traders can see clear reversal signal patterns almost every session — fair warning to exit existing trades and/or get ready for pending signals going the other way!

22 $DJUSCH Readies To Break Out From Ascending Triangle
by Chaitali Mohile
The US Chemical Index has formed an ascending triangle on daily and weekly time frames and is now ready to break out.

23 A Cup With Handle In Transports
by David Penn
As crude oil breaks down, the consolidation in the Dow Jones transports hints at a move higher.



METALS AND ENERGY

24 Silver Signals Higher ... And Lower
by David Penn
Will the third triangle be the charm?

25 XAU Lags And Drags
by Arthur Hill
The Philadelphia Gold & Silver Index ($XAU) has been stuck in a rut the last 15 months, and relative weakness remains a serious drag. Here are the levels to watch.

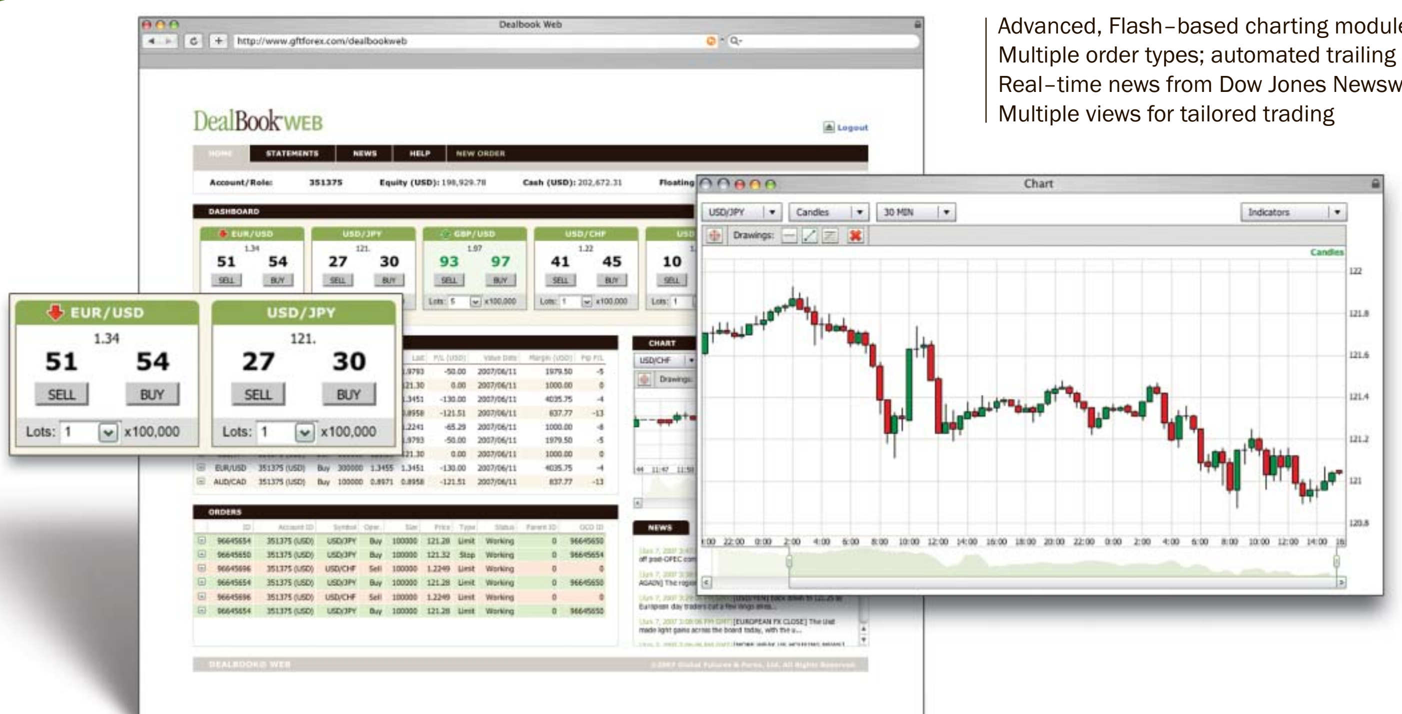
Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

Copyright © 2007 Technical Analysis, Inc. All rights reserved. Information in this publication must not be stored or reproduced in any form without written permission from the publisher.
Traders.com™ is published by Technical Analysis, Inc., 4757 California Ave. S.W., Seattle, WA 98116-4499. 1 206 938-0570 or 1 800 832-4642. Printed in the U.S.A.

NEW YORK | CHICAGO | LONDON* | TOKYO | SYDNEY | WORLD HEADQUARTERS: ADA, MICHIGAN, USA

Stop waiting for your web trading platform.

Try web–based trading, without the wait.



Advanced, Flash–based charting module
Multiple order types; automated trailing stops
Real–time news from Dow Jones Newswires
Multiple views for tailored trading

Introducing
DEALBOOK® WEB
Fast. Powerful. Easy

DealBook® WEB uses the latest in web trading technologies to deliver an experience unlike other applications available in the market. With many of the same trading capabilities of our award–winning desktop platform all delivered within a streamlined interface, you can access DealBook® WEB from anywhere — a hotel, your office or even another person's computer. And with real–time updates, you won't have to wait for anything except your perfect trading opportunity.

Complete forex solutions for every trading style – especially yours.

RELIABLE EXECUTION | TRADING SOFTWARE | CHARTING & ANALYSIS | EDUCATION

Have questions? Contact a forex specialist at **1.800.465.4373** or **1.616.956.9273.**

GLOBAL FOREX TRADING, Division of Global Futures & Forex, Ltd.
WORLDWIDE LEADERS IN ONLINE CURRENCY TRADING

WWW.GFTFOREX.COM

Forex trading involves high risks, with the potential for substantial losses, and is not suitable for all persons.
* Services offered through GFT Global Markets UK Ltd.
© 2007 Global Futures & Forex, Ltd. All rights reserved.

CDO3U.004.060807

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

TABLE OF CONTENTS

28 The Golden Bounce
by David Penn
Hourly charts of gold and gold stocks underscore the turnaround in late May.

30 GDX Approaches Support
by Arthur Hill
The Gold Miners ETF has been range-bound since November, and traders should prepare for a bounce as the exchange traded fund nears range support.

30 July Copper: Support To Resistance
by David Penn
The support that kept copper high in the spring threatens to become resistance in summer.

31 A Crude Pause
by David Penn
A pause in the crude oil bounce as oil stocks test historic highs.

32 Oil On The Verge Of A Breakout
by Arthur Hill
The US Oil Fund ETF (USO) surged off support over the last few days, and the exchange traded fund is on the verge of a breakout that would signal a continuation of the prior advance.

SECTORS

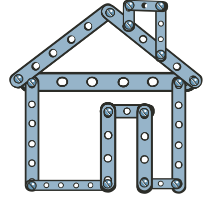
33 Measured Moves In Housing
by David Penn
How far will the bounce in housing stocks go?

34 US Paper Index Beats Rock And Scissors
by Gary Grosschadl
This Dow Jones index is in a breakout pattern. So what is the upside target?

35 Biotechnology Index Completes Reaction Move
by Chaitali Mohile
By forming a bullish wedge, the biotechnology index gets ready to continue the bull run.

36 Health Care Select Sector Awaits The Breakout
by Chaitali Mohile
Examining different charts of the same sector suggests various technical resistances.

37 A Reversal In Housing Stocks
by David Penn
The measured move in the housing index takes a hit as interest rates spike higher.



38 Airline Index Underperforming
by Chaitali Mohile
$XAL has formed multiple bearish flag & pennant formations.

40 Semiconductor Index May Get Churned
by Chaitali Mohile
The Philadelphia Semiconductor Index is in a strong support/resistance zone.

CURRENCIES

42 US Dollar Index Firms At Support
by Arthur Hill
The US Dollar Index remains in a clear downtrend, but the index is firming near oversold territory and looks ripe for at least a bounce.

42 Go With The Flow
by Koos van der Merwe
The maxim "Trade what you see, not what you think you see" applies to all charts, but sometimes pure common sense carries greater weight.

44 Should You Buy The Dollar?
by David Penn
Positive divergences, bullish moving average alignments, and overbought conditions combine to make the greenback attractive.

46 The USD/JPY Breakout Stalls At Target
by David Penn
Bulls exit as a swing rule projection from a recent breakout in the greenback/yen is reached.

Working Money

47 MACD Divergences And Market Direction
by Jack Steiman
Learn what divergences in the moving average convergence/divergence (MACD) can tell you about which way the market is going.

50 Advertisers' Index

51 Authors And Artist

51 Glossary

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

Improve your trading. *Dramatically!*

Trade with our high probability signals and you'll have the balance of probabilities on ***your*** side.

The freedom of online instruction that fits your busy schedule.

Please visit our website to view powerful testimonials from successful graduates.

TIMES *(Traders International Market Expert System)* – The Award-Winning Comprehensive Trading Course has Four Big Advantages.

E-Mini's Provide a Great Trading Market
This market offers the trader high average volatility providing the right conditions for many short term trading opportunities each day. A fast and liquid market makes getting into or out of a trade quick, easy, and inexpensive.

TI's Comprehensive Trading Course
Every TI student is given an easy to follow comprehensive trading course that covers everything from trading terminology and price charts to market psychology and the *TIMES* trading method – and all at a comfortable pace.

Award Winning *TIMES* Trading Method
The *TIMES* method aims to identify multiple high probability trading signals each day using a simple but powerful method that gives you the best chance to succeed.

Live Mentoring Bell to Bell with an Expert Trader
Become a successful trader in 90 days by learning the *TIMES* method. Your mentor both educates you in the system and informs you of opportunities by calling out the market signals during your bell-to-bell trading classes.

▶ Attend a FREE (No obligation) live market online trading workshop.

(Regular sessions on Tuesdays and Thursdays at 2 PM EST.) ◀

Learn a proven system that takes advantage of the high probability trading opportunities in the E-mini stock index market whether the markets are moving up or down. We've taught thousands of traders how to use the high volatility and liquidity of the stock index markets to produce long term results with short term trading.

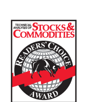
The award winning and comprehensive Traders International online course will show you how to improve your chances way beyond 50/50. This easy to learn system relies on years of experience, a strong trading discipline, careful money management strategies, and proven pattern recognition methods to provide consistent profit opportunities.

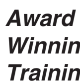
Our instructors not only explain what to look for and how to read the analysis that a price chart can provide, but they also call out major signals as they occur during our live trading room classes. You learn to think and trade on your own but with the benefit of live instructor guidance. Over time, you will rely less and less on the instructor as you gain confidence everyday to trade independently.

This internship program is designed to give our students the best chance of succeeding, and has earned Traders International the respect and appreciation of successful traders and industry organizations around the world.

"Traders International has been of immense value to me and it is the best investment I have made in the past 7 years. I am currently trading successfully and around 80% of trades are profitable using your system."

Kenneth B. (March 16, 2007)





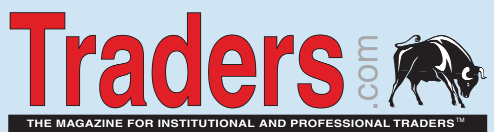
Award Winning Training

There is a risk of loss in trading. Past performance is not indicative of future results.

For complete information:
www.TradersInternational.com (800) 670-0834

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

September/October 2007 • Volume 5, Number 5



EDITORIAL
editor@traders.com

Editor in Chief Jack K. Hutson
Editor Jayanthi Gopalakrishnan
Managing Editor Elizabeth M.S. Flynn
Production Manager Karen E. Wasserman
Art Director Christine Morrison
Technical Writer David Penn
Staff Writers Dennis D. Peterson, Bruce Faber
Webmaster Han J. Kim
Contributing Editors John Ehlers, Anthony W. Warren, Ph.D.
Contributing Writers Don Bright, Thomas Bulkowski, Martin Pring, Adrienne Toghraie

OFFICE OF THE PUBLISHER

Publisher Jack K. Hutson
Credit Manager Linda Eades Gardner
Industrial Engineer Jason K. Hutson
Project Engineer Sean M. Moore
Accounting Assistant Agnes DiMaano
Controller Mary K. Hutson

ADVERTISING SALES
4757 California Ave. S.W.
Seattle, WA 98116-4499
1 206 938-0570 Fax 1 206 938-1307
advert@traders.com

National Sales Manager Edward W. Schramm
Classified & Web Sales Chris J. Chrisman
Production Coordinator Karen Moore

CIRCULATION
Subscription & Order Service 1 800 832-4642
1 206 938-0570 Fax 1 206 938-1307
circ@traders.com

Subscription Manager Sean M. Moore
Subscription Sales Tina Row, Janis Thomas, Carmen Hale

WEBSITE
http://www.**traders**.com

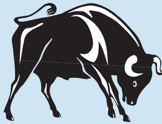
Staff members may be e-mailed through the Internet using first initial plus last name plus @traders.com

Authorization to photocopy items for internal or personal use, or the internal or personal use of specific clients, is granted by Technical Analysis, Inc. for users registered with the Copyright Clearance Center (CCC) Transactional Reporting Service, provided that the base fee of $1.00 per copy, plus 50¢ per page is paid directly to CCC, 222 Rosewood Drive, Danvers, MA 01923. E-mail: http://www.copyright.com. For those organizations that have been granted a photocopy license by CCC, a separate system of payment has been arranged. The fee code for users of the Transactional Reporting Service is: 0738-3355/2007 $1.00 + .50.

Subscriptions: Subscribe to one of two online publications available at Traders.com: Traders.com Advantage or Working Money. USA: one year $64.99; foreign surface mail, add $15 per year. USA funds only. Washington state residents add 8.8% sales tax. VISA, MasterCard, Amex, and Novus Discover accepted. Subscription orders: 1 800 832-4642 or 1 206 938-0570.

Traders.com™, *The Magazine for Institutional and Professional Traders™*, is prepared from information believed to be reliable but not guaranteed by us without further verification, and does not purport to be complete. Opinions expressed are subject to revision without notification. We are not offering to buy or sell securities or commodities discussed. Technical Analysis Inc., one or more of its officers, and authors may have a position in the securities discussed herein.

The names of products and services presented in this magazine are used only in an editorial fashion, and to the benefit of the trademark owner, with no intention of infringing on trademark rights.



TRADING NOW

The subprime blues in the US market have revealed that when a fiasco occurs in the financial markets, it isn't necessarily restricted to that specific market. The effects spill over to other markets and throws the supply/demand equilibrium into disorder. In this specific case, the funds that had backed the subprime mortgage lenders are trying to cut their losses and run. So you have a case where there are many who are willing to sell but few who want to buy. And when there is less money around with which to do deals, you can expect to see private equity — the fire behind this rallying market — walk away. We're already seeing that several financing deals have been pulled.

A turmoil in the financial markets is something we see time and time again. Whenever markets get overheated, it'll reach a point when a big selloff comes and gives the market the cooling it needs. In a speculative environment, you should expect this type of volatility. This is exactly what makes the financial markets what they are. They thrive on irrational behavior, and your choice to be a participant in the financial markets means you have embraced market volatility.

The articles in this issue of **Traders.com** are selected to familiarize you with the price actions that take place in the financial markets. They are not intended to be recommendations but educational tools to help you analyze the markets. These include articles such as "A Head And Shoulders Top In REITs" by Technical Writer David Penn, as well as his "Cup With Handle In Transports"; then there is Austin Passamonte's "Reversal Warnings" and "Predictable Patterns Period," and much more.

And that is only a fraction of the useful articles you'll find here and at our online publications, *Traders.com Advantage* and *Working Money*, or even STOCKS & COMMODITIES magazine. Take a look at our website and see what we have to offer. Check us out — that will enable you to:

- Visit Traders' Resource, our reference to all things technical analysis
- Check out our Online Store, where you can download PDFs of past S&C articles, from 1982 all the way to the present, for a nominal charge
- Examine our Traders' Glossary, growing by leaps and bounds
- Visit our Subscribers' Area, where you'll find computer code that has been referenced in S&C articles; and finally,
- Visit our Message-Boards, where you can share your opinions of trading technical analysis, and most everything else you can imagine with other traders.

Is there anything from the charts in this issue's articles that indicate there would be a selloff in the markets in the near future? It's hard to say. If you can identify those signs, you'll be able to know when the markets will reverse and determine with confidence when to enter the market again.

Jayanthi Gopalakrishnan

Jayanthi Gopalakrishnan,
Editor

http://www.Traders.com	*Home – everything starts here*
http://Working-Money.com	*Direct to Working Money*
http://Technical.Traders.com	*Trading product information*
http://Store.Traders.com	*Order products and articles*
http://Message-Boards.Traders.com	*Ask and answer questions*
http://Search.Traders.com	*Search our websites*
http://www.traders.com/S&C/SiteSearch.html	*Browse or search our websites*

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

THE SECRET TO MAKING MONEY IS FINALLY REVEALED.

IT'S CALLED "LETTING SOMEONE ELSE DO IT FOR YOU."

VectorVest is the high profit, safety-oriented investment tool that gives clear Buy, Sell and Hold recommendations on more than 13,500 stocks every day. It takes the guesswork out of managing your portfolio.

Three different mathematical models measure the Value, Safety and Timing of over 13,500 U.S., Canadian, and European stocks stocks and gives you clear Buy, Sell and Hold recommendations on each stock, every day.

If the stock, the industry or the sector gets a mathematical "thumbs-up" in all three categories, you'll get a clear **BUY** signal. If it's just "so-so" you'll get a **HOLD** signal. If the stock, industry or sector doesn't add up in Value, Safety or Timing you'll get a clear **SELL** Signal.

VectorVest mathematically defines what makes one stock go up in price while another one goes down. There's no guesswork, no hunches, and no opinions. In short, VectorVest is an exact equation model that makes a stock's price rise or fall predictable.

VectorVest gives you objective recommendations based on daily market data.

TIMING IS EVERYTHING.

A lot of people tell you what stock to buy, but it's even more important to know WHEN to buy and WHEN to sell. VectorVest gives you a BUY signal with plenty of time to jump in and ride the wave UP, UP, UP. VectorVest will give you a SELL signal with time get out and/or short stocks. VectorVest will give you a HOLD signal when it's best to do nothing.

Safe returns and preservation of capital is the name of the game. Timing is the name of the game. Value is the name of the game.

As a subscriber you can check the recommendations daily, weekly or use one of our long-term strategies and make your decisions monthly.

VectorVest is very easy to use. If you have any questions you can use the online guide, watch the CD we send you or pick up the phone and our staff will guide you. It's that easy.

HOW VECTORVEST WORKS

We factor into our mathematical models all kinds of relevant information: inflation, interest rates, profitability, discounted cash flow, earnings and earnings-growth.

We measure Relative Value and Intrinsic Value and we measure Safety compared to AAA corporate bonds.

We measure short-term stock price performance, and much more. Then, we report our findings to you in a simple rating system. Our ratings go from 0.00 to 2.00.

If a stock's **Relative Safety (RS)** rating is a 1.54 it is safer and more predictable than a stock with an **RS** rating of 0.97. If a stock's price performance looks bad, we might give it a **Relative Timing (RT)** rating of say, 0.94 as opposed to something above 1.00. If a stock's **Relative Value (RV)** is just a 1.00 or below, you'd be better off with AAA corporate bonds.

VectorVest does this for over 13,500 stocks every day. And, if VectorVest can find the best stocks to buy everyday, it can also find the stocks to sell-short.

GO TO WWW.VECTORVEST.COM AND SEE FOR YOURSELF.

When you log on, you'll get proprietary market-timing indicators. BUY-SELL-HOLD recommendations. No guesswork. No opinion. Just mathematical algorithms.

Objective information. Built on Value, Safety and Timing. With VectorVest OnLine you'll have access to 10 years worth of back-testing data. Sort, rank and screen your favorite stocks, your favorite sectors, your favorite industries using your favorite investing style.

You'll quickly and easily get the BUY, SELL or HOLD signals you need regardless if you invest long or short, in blue chip stocks, penny stocks or options.

You can use one of the 200+ strategies already built into our program. Or if you don't see a strategy you like, VectorVest allows you to create your own investment strategies. You can quickly and easily set VectorVest to screen, rank, sort and analyze stocks according to your investment style.

SIGN UP FOR A $9.95 FIVE-WEEK TRIAL MEMBERSHIP AND YOU'LL RECEIVE:

- The VectorVest OnLine CD-Rom.
- The VectorVest Online User's Guide.
- Our fast and easy instructional Tutorials. You can see for yourself how easy and fun it is to use VectorVest OnLine.
- Stocks, Strategies, & Common Sense, the classic book by Dr. Bart DiLiiddo, Ph.D., the creator of VectorVest.
- A special report: How To Short Stocks With Confidence And Make Big Money In Bear Markets where you'll discover strategies that take the guesswork out of shorting.
- How To Use Options To Supercharge Your Profits. Options are the overlooked darling of investment vehicles. Options give you better downside protection. They give you control of stocks at discounted prices. This report will show you different option strategies and how to implement them with complete confidence.

WE GUARANTEE VECTORVEST IS THE SMARTEST, FASTEST, EASIEST-TO-USE STOCK ANALYSIS SYSTEM YOU'LL EVER FIND.

If you're not completely convinced that your $9.95 VectorVest Five-Week Trial is the best investment you've ever made, just let us know within 30-days and we'll refund your money. You get to keep all the VectorVest materials we've sent as our way of saying thank you for giving us a try.

Here's a claim no other stock evaluation service can make. "Over the last eleven years, when you hold our Top 20 Value-Safety-Timing (VST) rated stocks for a year or more, you will make a profit 90% of the time." How much profit? You would have made a 19% gain each year using VestorVest. Go to vectorvest.com/tdr to learn more.

Try the VectorVest Five Week Trial for only $9.95

Call 1-888-658-7638 to sign up or visit www.VectorVest.com/tdr.

Before You Invest, Check VectorVest.

©2007 VectorVest, Inc. * Past performance is not a guarantee of future profits.

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

Trade BETTER than YOU ever IMAGINED!

R.S. of Houston Workshop *WILL* help you realize YOUR full Potential as a Trader! You *CAN* break into the Winner's Circle!

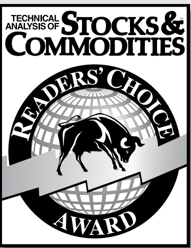
Don't Take Our Word For It... LISTEN TO OUR STUDENTS.

Hear Student Success Stories on our Website

Creating Winning Traders for over 11 years

See Why Our AWARD WINNING Program Just Plain WORKS

TRADE WITH CONFIDENCE
Voted Top Ranked Futures Daytrading Course



SIMPLE – TESTED UNDER FIRE WORKS CONSISTENTLY

LEARN WITH LIVE REAL-TIME TRADING
DON'T SETTLE FOR LESS —

Trade any market you like. Stocks, Forex, Futures — Daytrading To Long Term...

COURSE INFO / CHARTS REAL TRADING EXPERIENCES

www.RSofHouston.com

Sign up for Free Live Trading Demo & Lessons – Today

(281) 286-9736

More info: **Traders.com/reader/**

TRADER'S NOTEBOOK

A Sign Of Spring

by James Maccaro

The sage of Omaha reports to his shareholders.

March is marked by numerous signs of the coming of spring: the days get longer, birds head north, and plants begin to show signs of new life. But for many market-watchers, the most eagerly awaited harbinger of the season is the release of Warren Buffett's annual report to shareholders of Berkshire Hathaway.

The "sage of Omaha," the most successful stock market investor in history and the world's second-richest man (second only to Bill Gates), provides in his letter to shareholders an invaluable assessment of business affairs and a discussion of his investment philosophy. Although this year's letter to shareholders, which covers fiscal year 2006, is shorter than usual, it offers many useful insights.

Corporate America is highly dynamic and competitive, which creates opportunities and dangers for investors. Buffett noted that of the 10 "non-oil companies having the largest market capitalization in 1965 — titans such as General Motors, Sears, DuPont and Eastman Kodak — only one made the 2006 list." However, he added that "in fairness, we've seen plenty of successes as well, some truly outstanding." As examples, he cited Kenneth Chenault of American Express, Jeffrey Immelt of General Electric, and Richard Kovacevich of Wells Fargo, describing them as "giant company managers whom I greatly admire."

What does it take to identify solid investments? "Independent thinking, emotional stability, and a keen understanding of both human and institutional behavior are vital to long-term investment success," Buffett wrote. "I've seen a lot of very smart people who have lacked these virtues."

Ultimate responsibility for a corporation's long-term success belongs to its board of directors, Buffett stressed. He stated that a corporation's board of directors should "be owner-oriented, business-savvy, interested and truly independent." He added that "many directors who are now deemed independent by various authorities and observers are far from that, relying heavily as they do on director's fees to maintain their standard of living."

For the last few years, a favorite subject for Buffett has been the huge pay packages bestowed on many corporate executives. He criticized the widespread practice whereby boards of directors rubber-stamp recommendations made by outside consultants who in turn are selected by management.

"Compensation reform will only occur if the largest institutional shareholders — it would only take a few — demand a fresh look at the whole system," he asserted. "The consultants' present drill of deftly selecting %91peer' companies to compare with their clients will only perpetuate present excesses." He described this as the "all the other kids have one" rationale for approval of excessive compensation packages.

Another subject that Buffett returned to is the proliferation of hedge funds. He questioned the long-term viability of the typical hedge fund, which he described as being run by "the 2-and-20 crowd" — managers who charge a 2% annual fee plus 20% of profits. "Its effects bring to mind the old adage: When someone with experience proposes a deal to someone with money, too often the fellow with money ends up with the experience, and the fellow with the experience ends up with the money." Buffett recommended a low-fee index fund as a better alternative.

When it is revealed that Buffett has invested in a particular stock, the inevitable result is a sharp uptick in the price of that stock. This is obviously triggered by the assumption that if Buffett is buying, it must be a good bet. As a result, he does not discuss his ongoing investment plans.

Buffett admitted that he recently made purchases of stock in several companies, which purchases now have a market value of $1.9 billion, and is adding to these positions, but he would not disclose the names of the companies "because we continue to buy them," adding that "I could, of course, tell you their names. But then I would have to kill you."

The year 2006 was a good one for Berkshire Hathaway's core insurance companies, which spectacularly bounced back from sharp losses in 2005 caused by Hurricane Katrina and other natural disasters. Underwriting profits in 2006 were $3.8 billion, compared to a meager $53 million in the prior year. Buffett attributed this turnaround in part to luck, but while Mother Nature cooperated in 2006, a lot of the credit should be given to disciplined management. Buffett stressed that he will not seek market share at the cost of profits.

The wide variation in profitability from year-to-year of Berkshire Hathaway's insurance operations demonstrates the volatility of the industry and the degree to which results are dependent on forces outside our control.

GEICO is probably the Berkshire Hathaway unit with the highest profile. It spends more on advertising than any other insurance company. The company's advertising budget was $631 million last year, up from $238 million in 2003, but it has gotten impressive results. Sales increased to 8.1 million polices, from 5.7 million in 2003, a jump of more than 40%. Buffett noted that during the same period, the company's

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

number of employees fell by 3.5%, which he concluded indicates an increase in productivity of 47%.

Although insurance operations constitute the largest part of Berkshire Hathaway, the conglomerate's holdings include dozens of companies in other fields, including MidAmerican Energy Holdings, which owns several electric utilities in the US and Great Britain, as well as natural gas pipelines in the US; NetJets, which sells fractional ownership in corporate jets; Dairy Queen; Fruit of the Loom underwear company; and many smaller enterprises, such as a candy company, regional furniture and jewelry retailers, and *The Buffalo* (NY) *News*. They are diverse, but all have superior management.

Buffett repeated an investment credo that he has uttered many times: Be fearful when others are greedy, and be greedy when others are fearful.

This contrarian view is applied by Buffett to the housing sector. Although the conventional wisdom is that the housing sector is in shambles, Buffett increased his exposure. Berkshire Hathaway expanded through acquisitions its MiTek subsidiary, which makes hardware for roof trusses, and also expanded HomeServices of America, a real estate brokerage owned by MidAmerican Energy Holdings. Although profits fell 50% at the brokerage unit, Buffett declared that he was seeking new acquisitions and that "a decade from now, HomeServices will almost certainly be much larger." Berkshire Hathaway also owns Shaw Industries, the nation's largest carpet manufacturer, which Buffett described as "a powerhouse and a major contributor to ... earnings"; Clayton Homes, a manufacturer of prefabricated houses; the Carefree awnings company; the Johns Manville insulation company; and the Acme brink company. Buffett also accumulated a significant stake in the Lowe's home improvement store chain.

In contrast to his bullish stand on US housing, Buffett is bearish on the US dollar, declaring, "as our US trade problems worsen, the probability that the dollar will weaken over time continues to be high." In anticipation of a weakening dollar, he increased his investments in foreign companies and in US firms that have significant business overseas. In part, this explains his purchase of an 80% stake in the Israeli metal-cutting equipment maker ISCAR Metalworking for $4 billion in May 2006. He also bought equity in Posco, the dominant Korean steel manufacturer, and Tesco, the British retail chain. In addition, he purchased stakes in US firms that derive a significant portion of their revenue from overseas, such as ConocoPhillips, Johnson & Johnson, Anheuser-Busch Cos., Procter & Gamble, Wal-Mart, and USG Corp.

A major question at Berkshire Hathaway is what will happen when Warren Buffett can no longer run the corporation. He addressed this issue by declaring, "Good news: At 76, I feel terrific and, according to all measurable indicators, am in excellent health. It is amazing what Cherry Coke and hamburgers will do for a fellow." His shareholders, as well as the investing public, undoubtedly welcome this health bulletin. ■

This article was originally published on 6/1/0707.

This article — and articles like it — can be found online at **www.working-money.com.**

Trade up! Know more.

Great trades start with great ideas.

- Daily futures newsletters and podcasts
- Real-time Dow Jones® commodities news
- Market commentary and analysis from the pros
- Trade Strategizer℠ turns ideas into actual trades

Get trading ideas delivered daily, right to your inbox.
Visit www.xpresstrade.com or call 1-866-XTRADE-1.

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

INDEXES

REVERSAL

Intraday 2B Tops In The June Emini S&P 500

by David Penn

"What we have here is a failure to follow through..."

Tradable: ESM7

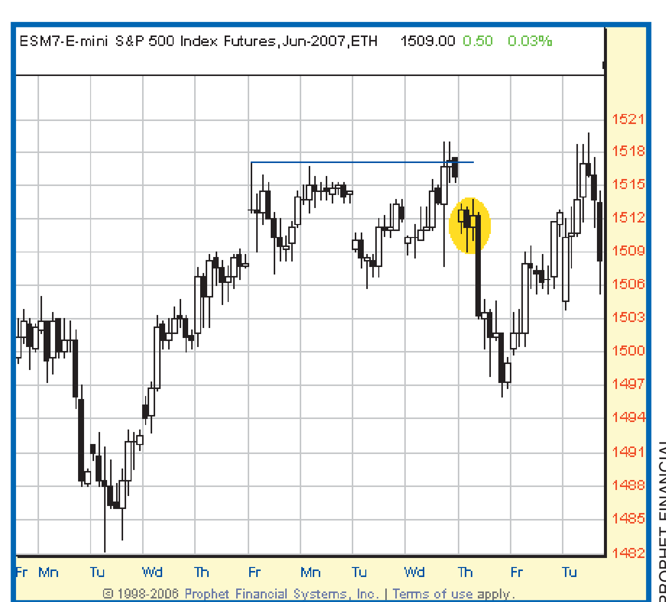


FIGURE 1: EMINI STANDARD & POOR'S 500, JUNE FUTURES, HOURLY. The highs on Friday morning were exceeded by the highs in the afternoon on the following Wednesday. But the failure of the market on Wednesday to continue moving higher signaled a short opportunity for reversal traders.

FIGURE 2: EMINI STANDARD & POOR'S 500, JUNE FUTURES, HOURLY. The reversal was swift in coming as the bulls were unable to push the June emini higher on May 15. An hour after the new "intrahour" high was made, the market was being pushed significantly lower by the bears.

With apologies to the captain in *Cool Hand Luke*, the rally in the Standard & Poor's 500 that began on the first of May has finally run into its own *Cool Hand Luke* moment, as the intraday highs in the June emini S&P 500 on May 9 were bested by the highs of May 15, only to have the market reverse and begin moving sharply lower. See Figure 1.

What is especially interesting about this failure to follow through is not just that it took the form of a 2B top. If you look at the sudden collapse on May 10, then you can see that a 2B top anticipated that correction as well.

To recap, a 2B top occurs when a market makes a high, pulls back, makes a higher high, then fails to follow through to the upside in the wake of the second higher high. The 2B top becomes a confirmed reversal when the market moves back down below the low of the initial high, which is where traders and speculators are encouraged to take their positions.

In the first 2B top — from May 4 to May 9, with the breakdown on May 10 — the market was able to trade above the May 4th high and even close above it briefly. But the selling in the final trading hour and the gap down the following day (see the highlighted oval in Figure 1) confirmed that the market was not likely to follow through to the upside but, instead, was in the process of reversing.

In the second 2B top — from May 9 to May 15 — the reversal from the second new high was even swifter (Figure 2). The candlestick that formed the second high was itself suspiciously bearish, with a long upper shadow indicating waning buying interest over the course of the session and a close that was below the open. So perhaps it was of little surprise when the following session opened down and the market continued to move lower. The highlighted area again shows the short entry level as the low of the initial high is taken out to the downside. ■

STOCHASTIC OSCILLATOR

Russell 2000 Gets Cold Feet

by Arthur Hill

The Russell 2000 broke consolidation resistance, but immediately pulled back, and now, waning momentum points to a bull trap.

Tradable: $RUT

On the daily chart (Figure 1), the Russell 2000 advanced from mid-March to mid-April and then consolidated for five to six weeks. The index established resistance at 835 and support at 810 (magenta lines). While the Standard & Poor's 500 moved to new highs in May, the Russell 2000 kept turning back around 835. That seemed to change with the breakout and close above 840 (gray oval). The Russell 2000 looked poised to play catch-up but fell back over the last two days, and this is now looking like a bull trap or failed breakout.

The breakout just didn't have the juice, or momentum, to hold, and this was evident with the negative divergence in the stochastic oscillator. The indicator peaked in early April and formed lower highs over the last six to seven weeks. The index managed a higher high above 840 recently, but the stochastic oscillator did not confirm and remains well below its prior high. The divergence did not mean much until the indicator dipped below 50, its lowest level since March 22. The move below 50 is significant because 50 represents the midpoint for this oscillator. The cup is half empty when the indicator is below 50 and half full when the indicator is above 50.

Despite this failed breakout, the overall uptrend has yet to reverse. The index established support with two bounces around 810 in May, and this level marks key support. In addition, there are three fan lines extending up from the mid-March low. The index broke the first two and remains above the third. A move below this third fan line and the May low would reverse the medium-term uptrend and I would then expect a corrective period or extended decline to make sure. ■

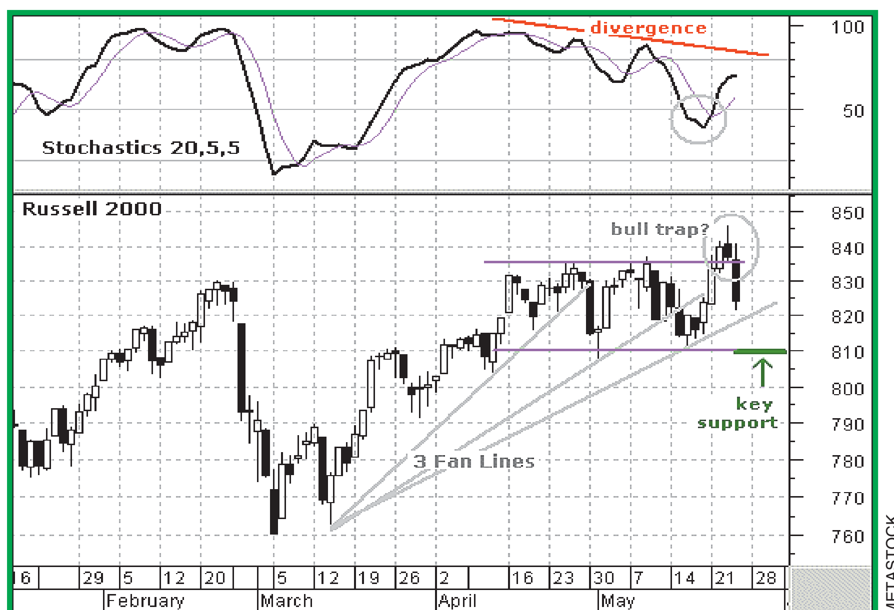


FIGURE 1: RUSSELL 2000, DAILY. $RUT advanced from mid-March to mid-April and then consolidated for five to six weeks.

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

CAN YOU IMAGINE

a trading system that empowers you to BUY on blue, SELL on red

30 Day Trial Start Today! $20 Discount Code: SCT7SO

Buy High-Momentum Stocks at Their "Sweet Spot"

We identify them for you at www.ablesys.com/s

- (10+ Years) Time-Tested, Bull & Bear
- Objective Buy/Sell/Stop Signals
- Anytime Charts: 5-Min, 30-Min, Daily...
- Back-Test Proven Strategies
- Easy to Learn and User Friendly
- Autoscan Uncovers Best Entries
- Automatic Order Execution (AOE)
- Satisfied Long-Term Users

Amazon.com Inc (AMZN, stock) weekly chart 7/13/02 to 7/21/07

Chart without eASCTrend

Why did I miss the big move again!

Amazon.com Inc (AMZN, stock) weekly chart 7/13/02 to 7/21/07

Chart with eASCTrend

Recommended Sweet Spots for Buy Positions (SSb)
Conditions for SSb:
1) After a buy signal (large blue dot)
2) After market has tested stops (small blue dots below the bars)
3) Emerging blue bar after green bar(s)
4) Buy at Sweet Spots

Buy signal at 38.24 on 10/21/06

Buy signal with blue dot and blue bar

eASCTrend® Reader's Choice Awards 1997-2007 in Stock Trading System; Futures Trading System & Option Trading System

AbleSys A CTA Firm

Get Started Today!
Call Free (888) 272-1688
www.ablesys.com

Ablesys Corp. • 20954 Corsair Blvd. • Hayward, CA 94545 • Tel: 510-265-1883 • Fax: 510-265-1993

These results are based on simulated or hypothetical performance results that have certain inherent limitations. Unlike the results shown in an actual performance record, these results do not represent actual trading. Also, because these trades have not actually been executed, these results may have under-or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated or hypothetical trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to these being shown. The testimonial may not be representative of the experience of other clients and the testimonial is no guarantee of future performance or success

Award Winning Trading Software

1997 - 2007

For Stocks, Futures FOREX & Options

eASCTrend®

Seek to Boost Profits With eASCTrend Intelligent Stops and Sweet Spots

Two Major Benefits of Principle-Based eASCTrend

By John Wang, Ph.D., CTA, eASCTrend Developer

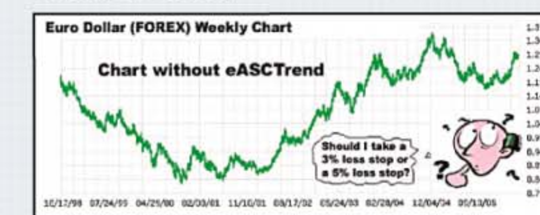
eASCTrend is the principle-based decision-making trading software that uses actual price movement to generate recommendations. Our buy and sell signals are calculated by a proprietary, back-tested algorithm that uses real-time or end-of-day price data - providing timely, specific, and objective signals for every trade. Because eASCTrend is principle-based, it offers the following unique benefits.

Rational risk management with "Intelligent stops"

Traders use a stop loss to help protect gains and limit losses. When the market hits their stop, they liquidate their position. Any trading software can suggest stop-placement, but traders should be aware that the type of stop they use could determine if they win or lose. There are stops, there are arbitrary stops, and there are the eASCTrend principle-based stops -- the new generation of intelligent stops that are defined by the market's own support and resistance levels.

These intelligent stops are dynamic and are automatically adjusted by the software as prices change. A built-in feedback loop retrieves the data for market direction, price range, and momentum. And, because the stops are determined by actual market conditions, they are objective, back-testable, and can be used in real-world trading.

Here's a chart without eASCTrend. It's open to lots of interpretation - and that's where distracting and misleading emotions can come in.



Now, here's the same chart with eASCTrend, showing stops with small blue dots below the bars for buy positions, and small red dots above the bars for sell positions. What a difference!

With eASCTrend you can see where the trend changes. Where it's recommended to buy or sell. Where to place stops to help you stay in a trade as long as possible without taking on too much risk. And you have the confidence of knowing that the software is based on meticulous formulas that have been back-tested for years.

Seek to cut losses short, let your profits run, and trade the "sweet spots"

The number one reason why traders fail is that they don't know when to get out of a losing trade. The number two reason is that fear makes them abandon winning positions too early - and not let their profits ride.

With eASCTrend, you get clear, precise, easy-to-read "buy" and "sell" signals on every trade. All you have to do is log onto the system and look at your screens. Any time you see a LARGE BLUE CIRCLE on your chart, it's time to buy. Any time you see a LARGE RED CIRCLE on your chart - stop! It's time to call your broker and say, "Sell now."

And if you're in a trade where the market is moving in your favor, you can add to your position at more favorable times as the market progresses. We call these recommended optimum times to get in on a trade "sweet spots." The eASCTrend software signals sweet spots with the first blue bar to appear after a series of green bars.

Australian Dollar (FOREX) Weekly Chart

Sweet-spot for Buy Positions (SSb)
Conditions for SSb:
1. After a buy signal;
2. After market tested stops (small dots below the bars)
3. Emerging blue bar after green bars

Buy signal

You can also use sweet spots to get in on a trade if you missed the first entry, giving you a second chance to take advantage of a moving market. Sweet spots help you buy with confidence - and seek to expand your total gain on the trade.

It's our principle-based formulas that give traders the eASCTrend edge. Sign up for your eASCTrend test drive today, and experience the confidence of using intelligent stops and sweet spots.

Dr. John Wang, CEO and co-founder of AbleSys, as well as the creator of ASCTrend indicators and the eASCTrend trading system, holds a Ph.D. in physical chemistry and has been trading commodities since 1990. He is a registered Commodity Trading Advisor (CTA) with the Commodity Futures Trading Commission (CFTC) since 1995. **Use this discount code for a 30-day trial with a $20 discount: SCT7MA**

Performance results listed above represent simulated results and not the results of an actual account.

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

CONSOLIDATION FORMATION

Volatile NASDAQ 100 Stays In Range

by Chaitali Mohile

$NDX is volatile and moving in a 20-point range for the last two weeks. The lower range can dip to the previous low of the rally.

Tradable: $NDX

On forming a double bottom at 1710 in mid-March, the NASDAQ 100 index rallied to its previous highs at about 1850. At that point, 1850 turned support for the next bullish rally, creating a new buying opportunity. The index moved vertically on expanded volume till the 1900 level, offering a 50-point profit to existing traders. The index now seems to rest with this advance rally of 50 points. The range-bound consolidation seems to have brought a temporary halt to this bullish rally.

The lower range of 1880 is the support, while the upper range of 1900 is resistance for the existing bull run (Figure 1). But the previous low of 1860 cannot be ignored. The volatile moves can whipsaw the traders, retracing toward the previous low. Meanwhile, the relative strength index (RSI) (14) turned marginally overbought. The overbought RSI can indicate an oncoming extended bullish rally, but $NDX lacked the force for such a rally, resulting in a consolidation after the advance rally. Traders can note that such a consolidation is healthy for future bullish moves in any stocks/index/sectors.

At present, the NASDAQ 100 is likely to consolidate and remain range-bound for some time.

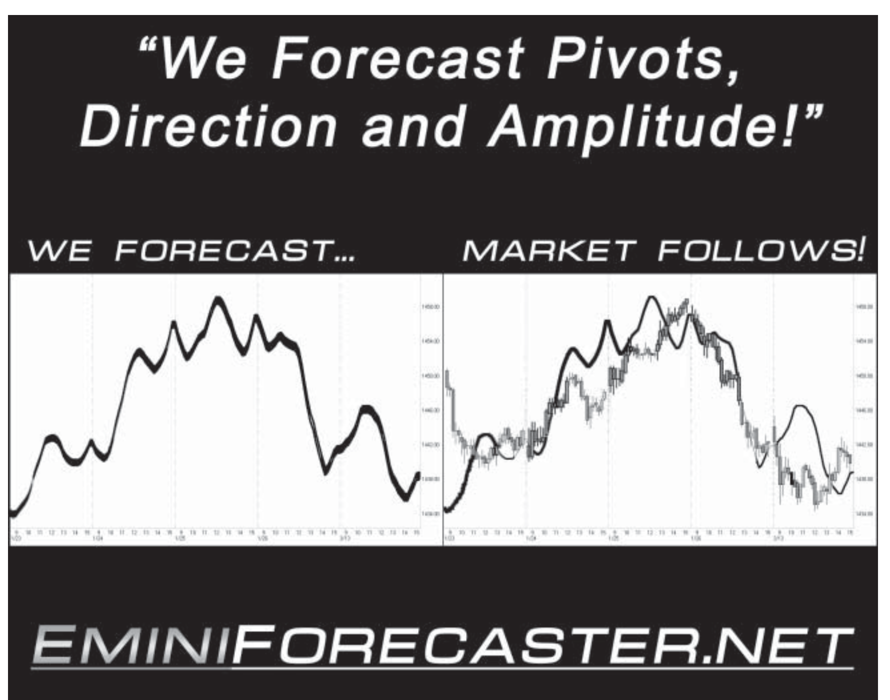
The moving average convergence/divergence (MACD) (12,26,9) is volatile. Traders cannot judge the exact direction of the MACD (12,26,9) at the current stage. The average directional movement index (ADX) (14) is 19, which again indicate the possibility of consolidation. The positive directional index (+DI) is tipped down and the negative directional index (-DI) is moving with equal force. This points the lower range to dip at 1860. The long side force is likely to reduce as consolidation exceeds. Though the ADX currently points toward consolidation, above 22 the uptrend will grow stronger.

$NDX on Figure 2 has moved above its strong resistance on encouraging volume. The bulls ran from this resistance turned support to 1900. The two-doji candles formed in the last two weeks indicate indecision. In Figure 2, the ADX (14) is 29, indicating a developing uptrend. The doji formed is likely to reduce buyer interest during a consolidation phase. The MACD (12,26,9) has bullish crossover and is positive.

At present, the NASDAQ 100 is likely to consolidate and remain range-bound for some time. The breakout of the upper range will bring in more buyers, but till then, traders can avoid trades on this index. ■

FIGURE 1: $NDX, DAILY. The NASDAQ 100 IS undergoing bullish consolidation. This figure shows the possibility of a lower range to dip toward its previous low.

FIGURE 2: $NDX, WEEKLY. The heavy volume breakout of a previous high resistance. A fresh rally above the resistance consolidated instead of moving ahead, but it remains bullish.



For more information, visit the S&C ad index at **Traders.com/reader/**

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

CANDLESTICK CHARTING

Candlestick Warning For The NASDAQ Composite

by Gary Grosschadl

The high-tech index looks vulnerable here. A downturn would not be a surprise, but what are the targets?

Tradable: $COMPQ

After rising near 300 points from a bounce of its 200-day exponential moving average (EMA), a candlestick warning hits the NASDAQ. A bearish engulfing candlestick pattern can be a strong reversal signal after a strong rise, and this is the current view on this daily chart (Figure 1). Note the last downturn was preceded by a doji candlestick from late February 2007, another top warning.

There are several indicators agreeing with this bearish candlestick outlook. I always look for multiple negative divergences when eyeing any possible swing from a high or low point on a chart. Both the moving average convergence/divergence (MACD) and the relative strength index (RSI) show a move lower while the NASDAQ popped higher. When indicators fail to confirm a new high (or low), the move is often suspect. The stochastic oscillator shows a slightly overbought condition, so a downturn from here would not be a surprise. Previously, this indicator stayed overbought (stuck high) for an extended time, but this was when there was a strong and rising trend via the previously mentioned indicators.

Should a downturn ensue, several targets are possible. The first nearby possible support is in the vicinity of the 50-day EMA, currently 2515. This level also relates to a previous support level. A pause or temporary support here is more conceivable than a bounce, but the market will decide soon enough. Stronger support lies once again at the 200-day EMA, currently 2409. This level also relates to the previous support and the bottom of a very large black candlestick. In addition, near the 2500 level, there are two previous gaps. Gaps can also act as areas of support.

Exactly where possible support kicks in remains to be seen, but these are the areas I am eyeing. As always, the market will have the final say. ■

FIGURE 1: NASDAQ. A bearish engulfing pattern warns of a possible top.

FIBONACCI

S&P Seeking Support

by Austin Passamonte

Measuring support and resistance zones via Fibonacci and retracement tools.

Tradable: S&P 500

Following a sharp selloff on February 27 this year, the Standard & Poor's 500 led all indexes upward in a seemingly straight ascent. That rise brought price action in the cash market to a handful of points from a new record high on the close. Three successive attempts this week failed to make that mark as price action narrowed and the ascent tapered off.

With one fell swoop of the seller's program buttons, 14 previous sessions' worth of rally was erased between the opening and closing bells. Count backward that many daily candles/bars in Figure 1 and we see where price action on May 14 closed right near today's ending value. What goes up in fits and starts, leaving low-volume air pockets below, usually corrects itself in far more rapid fashion. We've seen it before many times, and another example can be seen here for us today.

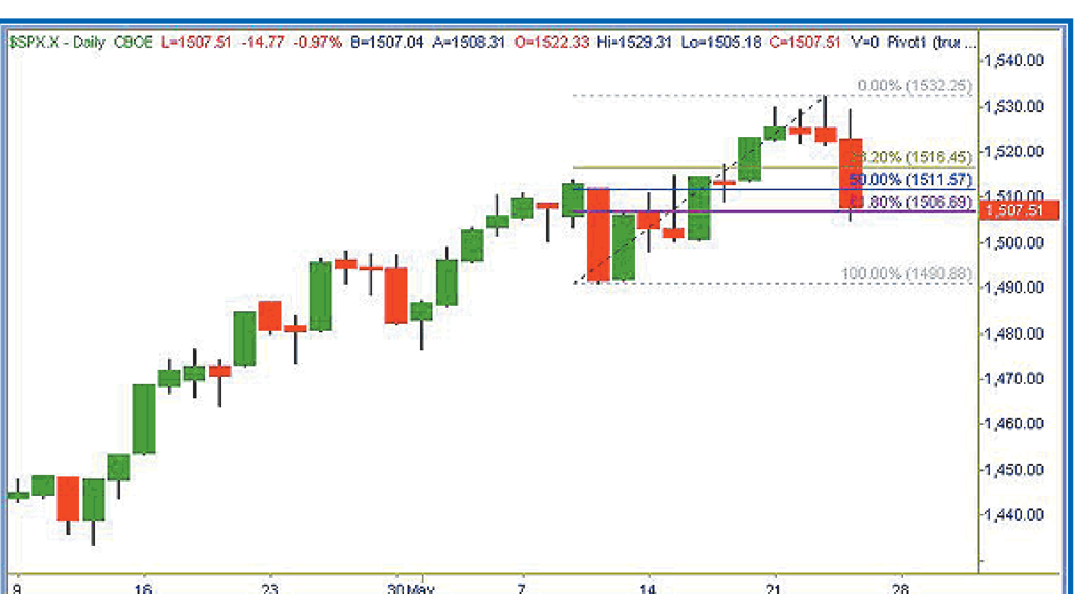


FIGURE 1: S&P 500 FUTURES (ES), DAILY

Countless thousands of S&P traders are watching and reacting to this spot on the chart. Volume of buy-stops and sell-stops clustered nearby are already forming. A quick bounce back up above 1517 and the new-closing high watch can resume. A break below 1506 brings 1500, 1490, and 1475 zones back into play.

Summertime trading is often said to be dull. It's quite possible we can expect anything but that to grace our charts in 2007. One brief glance at the charts of summer 2002 will show that the summer market and low volatility are not always synonymous. ■

Summertime trading is often said to be dull. It's quite possible we can expect anything but that to grace our charts in 2007.

Traders.com ADVANTAGE™
This article was first published on 5/30/2007.
See www.Traders.com for more.

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

Correction Targets For The DJIA

by Arthur Hill

The Dow Jones Industrial Average is up substantially over the last few months, and a correction back toward its resistance breakout is a plausible scenario.

Tradable: $INDU

Before looking at the correction targets for the Dow Jones Industrial Average (DJIA), let's look at the current trend and see what it would take to forge a reversal. The DJIA surged more than 1,500 points from its March low, and declines have been limited to just a few days since mid-March. The March trendline has been touched three times and marks support around 13400. The late May low also confirms this support level and a break here would start the correction process.

Once a correction gets under way, how far can we expect it to extend? Looking at Figure 1, I see two methods to identify a correction target. The first is by looking for support levels. There are no real reaction lows or consolidations from mid-March to late May, so I am relying on broken resistance. Broken resistance levels turn into support, and it is not uncommon to see a pullback to these levels. The DJIA broke resistance at 12800, and this is one target for a correction.

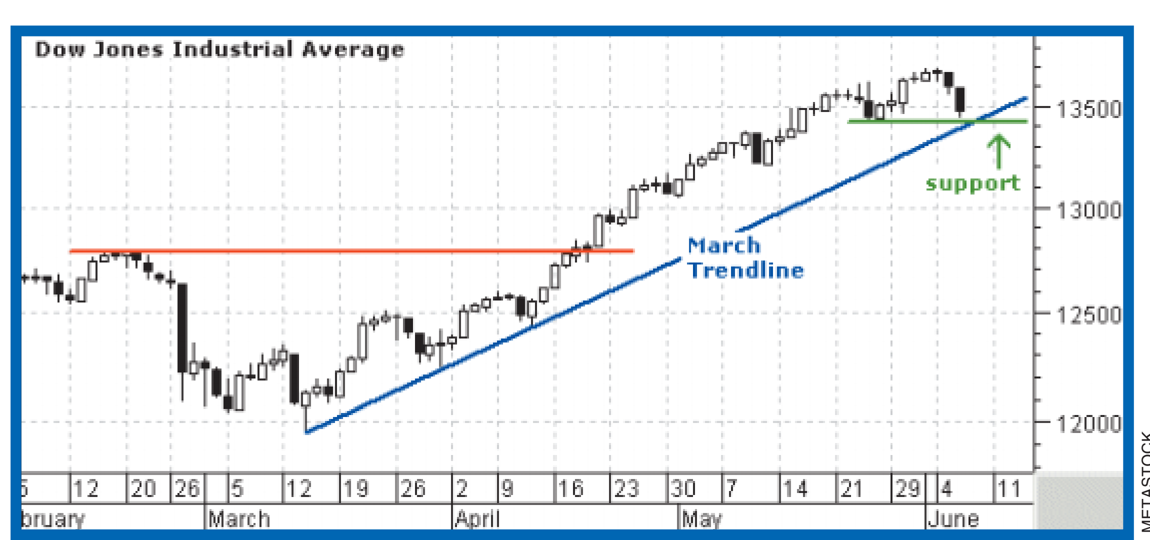


FIGURE 1: DJIA. Once a correction is under way, how far can we expect it to extend?

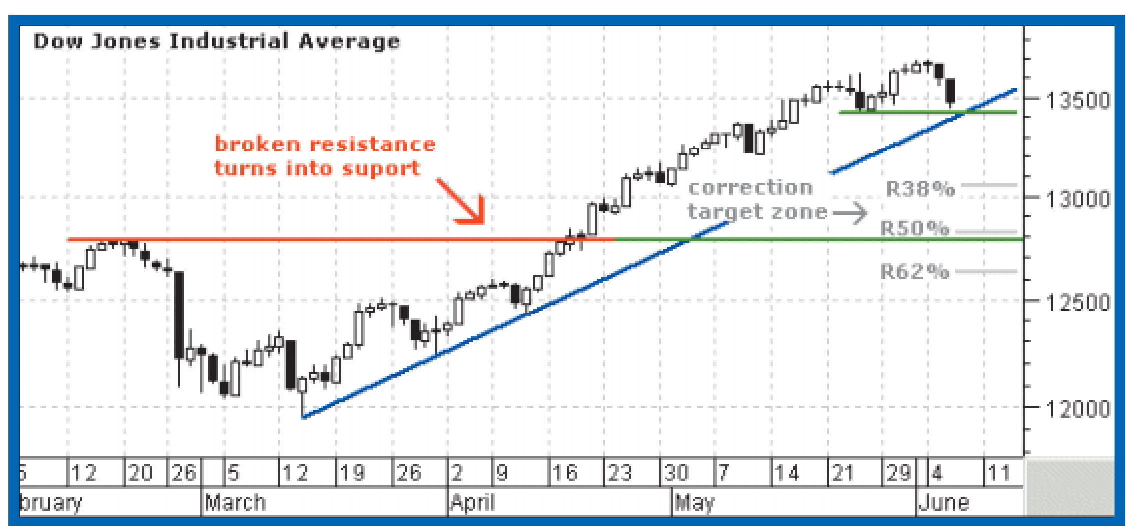


FIGURE 2: DJIA. The Fibonacci retracement levels to watch for are 38% (0.382) and 62% (0.618).

Once a correction gets under way, how far can we expect it to extend? Looking at Figure 1, I see two methods to identify a correction target.

The second correction target involves Fibonacci and Dow theory retracement levels. The Fibonacci retracement levels to watch are 38% (0.382) and 62% (0.618) (Figure 2). Dow theory asserts that a 50% retracement was often normal and the gray lines mark these levels. The 50% retracement jibes with broken resistance around 12800; the 62% retracement is just below and the 38% retracement is just above. There was a lot of strength in this advance, and I would opt for the higher targets by choosing a correction target zone around 12800–13000. ■

Trade with confidence

Introducing *ELWAVE 8.0* for real-time (and eod) traders

Powercharge your trading and discover what these people already know:

"I have been using your product for several years and have built my entire trading strategy around it. I have purchased and tried most of the major trading programs. ***ELWAVE* is the only one that works for me.** All of the rest are just sitting on the shelf. Thanks for your great product."

Gary P., Minnesota

"I'm using ***ELWAVE* as my one and only trading platform,** although I own several other related packages. The more I understand the software, the more amazed I am."

Doug R., Ohio

For a very special, time-limited offer, visit

WWW.ELWAVE.COM/S2409

or call us toll-free at

866.337.3991

(in Europe, dial +31-15-2123543)

Become a more successful trader, get your trial and see what *ELWAVE* can do for you!

For more information, visit the S&C ad index at Traders.com/reader/

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

$NYA Returns On Bullish Track?

by Chaitali Mohile

The NYSE Composite Index completed its black crow formation. What's next?

Tradable: $NYA

The enormous three-day correction on US stock exchanges formed a rare formation on many of its stronger stocks and indexes. The black crow candlestick formation is bearish. Three consecutive falls with each day closes below the previous day, and each of three highs below the following day's high forms a black crow pattern on technical charts. The NYSE Composite Index has formed a similar candlestick pattern on its daily charts (Figure 1). The black crow formation is a reversal pattern toward its prior advance rally. It's a complete bearish formation by itself.

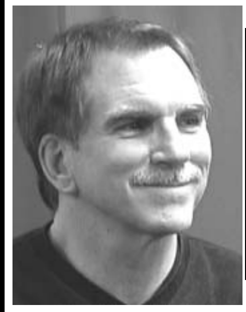
The fourth day is equally important in this formation. If in Figure 1, the doji or any other bearish candles were formed on the fourth day, then traders need to stay alert as a further bearish rally is signaled.

Instead, $NYA formed a full bullish white candle after a black crow. What does that indicate? Regaining a bullish trend or forming a bullish counterpart of a black crow, known as three white soldiers? This white candle formed on Friday, indicating an end to the declining rally. So traders must be watchful for the next two candles too.

Before the autumn, the price climbed new highs but the stochastic (14, 3, 3) slipped with a retest of its prior high, creating a negative divergence on the rally. The heavy fall in the price chart made stochastics closer to its oversold territory after a long period of three months. Meanwhile, the moving average convergence/divergence (MACD) (12, 26, 9) was reluctant to stay positive. The market gives signals, but we traders sometimes ignore such signals as they appear frequently on indicators. Yes, interest rate change news proved to be a "hurricane" on the US markets.

The NYSE Composite Index cannot be traded with the anticipation of three white soldiers. Traders need to watch the day's open and world market for clues about the low-risk and high-opportunity trades on the index. Stochastic (14, 3, 3) and the MACD (12, 26, 9) are still in the negative area, so be alert and watchful. ■

FIGURE 1: $NYA, DAILY. After the three black crow formation, the full white candlestick generated the possibility of the three white soldier pattern if the next candle opens within the following day's range and closes near the previous day's high.



ATTENTION Fans of Jim Sloman!

Jim has something new: Ocean Plus+

Ocean Plus, based on Ocean Theory, is a radical new extension of the Ocean Standard software. Like Ocean Standard, it is self-adjusting, close to non-arbitrary, timeframe-neutral, easy to use and applicable for use in any market. But **Ocean Plus** adds two things: **The Ultimate Trend** and **The Ultimate Stop**.

"Throw out 99.9% of all your other indicators. Ocean is more powerful...It's psychic." *–L.S., Los Angeles*

The Ultimate Trend.
The most important thing you can do as a trader is to establish how much the market is trending, how much kinetic energy it has. Of course a market has various cross-currents of trends at all times, but every market also has a true trend that stands out from the others. If you can establish how much this trend can be relied upon, you have in your possession the most important piece of information about that market that you can have.

I can say unequivocally that you and Pat have created a masterpiece in Ocean Plus+. *–S.C. Virginia*

The Ultimate Trend, or **BTX** (Bounded Trend Index) does that. It is a revolutionary new way to establish how much trendiness a market has at this time. It is self-adjusting; however, that quality arises out of the equations themselves and is not arbitrarily determined. What the **BTX** does is establish, with the highest probability, the degree of trend in the market and measures it. Knowing that, you know the most fundamental thing you need to know about a market.

"BTX is brilliant! The information in it is profound. The power of the natural order is far more evident." *–C.C., Los Angeles*

The Ultimate Stop
Also known as the **STX** (Stop Index), The Ultimate Stop is truly amazing to see. You only have to look at charts of the **STX** in operation to see how beautiful it is. It takes wonderful shapes, turning and curving in incredible ways, following markets with a faithful high fidelity that represents the greatest-probability optimum stop placement for that market at that time.

"I find the STX quite amazing. Its uncanny ability is, to say the least, quite impressive...intuitive... powerful...valuable." *–D.B., New York*

The Ultimate Stop is constantly molting itself, self-adjusting in various twists and turns arising out of its algorithms. The code is quite complex, yet also elegant and natural. The various parts of the **STX** are continually talking to each other until they reach a kind of consensus.

For more information please visit *mayyoubehappy.com* and click on the *Ocean* button at left.

For more information, visit the S&C ad index at **Traders.com/reader/**

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

Another Breakout For The Hang Seng

by Arthur Hill

The Hang Seng Index has been moving higher for five years, and this trend looks set to continue after another resistance breakout.

Tradable: $HSI

On the daily chart (Figure 1), the Hang Seng Index ($HIS) formed an inverse head & shoulders and broke neckline resistance with a gap. The left shoulder formed in January–February, the head in March, and the right shoulder in April–May. Neckline resistance was around 21000 and the breakout signals a continuation of the uptrend. Head & shoulders patterns can be reversal or continuation patterns. This inverse head & shoulders pattern formed in an uptrend and was therefore a continuation pattern.

Based on traditional technical analysis, the upside target is around 23400. The distance from the head to the neckline is added to the breakout for a target. In this case, I added 2400 to the neckline breakout at 21000. Broken resistance turns into support and 21000 is the first level to watch for signs of weakness. The right shoulder is essentially one consolidation with support just above 20000. A move below the low of the right shoulder would totally negate the pattern.

Figure 2 is a weekly chart that offers some perspective on this bull market. The index bottomed in May 2003 and embarked on a five-year advance. This move is entering its sixth year and a rising price channel is taking shape. The index is trading near the lower channel line and a move toward the upper channel line would carry the index well above the head & shoulders target. ■

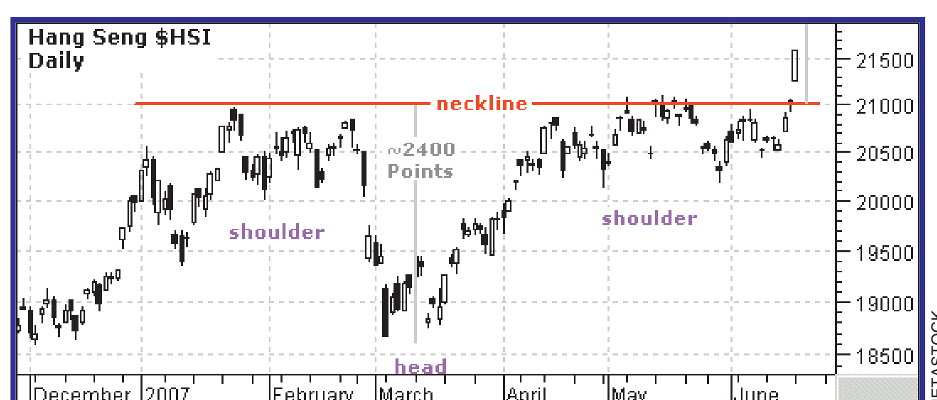


FIGURE 1: HANG SENG, DAILY. This index formed an inverse head & shoulders and broke neckline resistance with a gap.

FIGURE 2: HANG SENG, WEEKLY. This chart offers some perspective on the bull market.

Head & shoulders patterns can be reversal or continuation patterns.

A TREND IS A TERRIBLE THING TO WASTE

ADXcellence—Power Trend Strategies using ADX and DMI

By Dr. Charles B. Schaap

And now – Be A Trend Master! Understand pivots and trendlines. Intensive and thorough lessons on a 1.20hr CD Never wonder what price is doing, now you know – all this for $79.00 plus S&H.

"Most excellent book I've ever read on trading, the author held nothing back."
"If one wishes to be a traderÉ*ADXcellence* must be at the top of the list."
"Serious (traders) will find *ADXcellence*Éwell worth the cost."
Learn more at www.ADXcellence.com

Order *ADXcellence* and the Trend Master Series online at www.stockmarketstore.com Or Call 702.361.5161 today!

Precise, Simple & Profitable Trading System

Professional trader teaches you his renowned

Winning Edge S&P Day & Swing Trading Systems

Private tutoring and live coaching. Weekend and live trading workshops. Comprehensive manual and proprietary software.

FREE ONLINE SEMINARS

Winning Edge Day And Swing Trading Signals
1-800-500-5207

www.winningedgesystem.com

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

CHART PATTERNS

TRIANGLES

The S&P 500's Intraday Ascending Triangle

by David Penn

A pair of 2B tops helps mark the upper boundary of an ascending triangle.

Tradable: $SPX

FIGURE 1: STANDARD & POOR'S 500, HOURLY. An ascending triangle develops in the middle of May. A successful breakout should bring higher prices toward the end of the month and into June, setting up the possibility of a test of the all-time closing high at approximately 1527.

FIGURE 2: STANDARD & POOR'S 500, MONTHLY. More than four years after its closing monthly low in late 2002, the S&P 500 has almost completely retraced the 2000–02 bear market.

PROPHET FINANCIAL

Just yesterday I described a pair of 2B tops in the hourly chart of the June emini Standard & Poor's 500 futures contract ("Intraday 2B Tops In The June Emini S&P 500," Traders.com Advantage, May 16, 2007). Breakdowns from the 2B tops in both instances provided traders with quality opportunities for a short-term bet against a market that had been rallying since the beginning of the month.

Increasingly it appears, however, as if those two tops, rather than anticipating major reversals, were instead delineating the upper resistance level of an ascending triangle pattern. While this pattern is less vivid in the chart of the emini futures, the triangle — and its bullish implications — is clear in the hourly chart of the S&P 500 (Figure 1). With an upper resistance level at approximately 1514 and a pattern low of about 1492, a successful breakout from this triangle should take the S&P 500 to as high as 1536 in a minimum upside move.

Triangles need to be touched. Thomas Bulkowski notes in his *Encyclopedia Of Chart Patterns* that there should be a "crossing pattern," by which he means "Price should cross the chart pattern several times; they should not leave a vast amount of white space in the center of the triangle." Elsewhere, others have suggested three to five touches (or including near misses) between the horizontal resistance line and the upwardly sloping support line.

In either event, it looks as if the S&P 500 is well on its way to filling out the ascending triangle pattern insofar as it has already completed five distinct touches of those resistance and support lines. That said, it looks as if the S&P 500 might retreat to test the support line one more time before moving up and out of the pattern. If it is true that the ideal breakout from an ascending triangle comes somewhere between $^2/_3$ and $^3/_4$ of the way through the pattern, then just such a retest may be all the market needs in order to finish the triangle and move toward breakout.

It probably should be noted that the S&P 500 is tantalizingly close to its all-time high closing price of 1527 from the spring of 2000 (Figure 2). And a successful breakout from this ascending triangle — "successful" meaning a breakout that reaches its minimum price objective — would take the S&P 500 straight through that level with room to spare. ■

SUGGESTED READING

Penn, David [2007]. "Intraday 2B Tops In The June Emini S&P 500," Traders.com Advantage, May 16.

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

TECHNICAL ANALYSIS

Predictable Patterns Period

by Austin Passamonte

Since mid-March 2007, big-cap stock index markets seem to have a constant bid beneath them. Any intraday selloff that lasts into the closing bell is immediately reversed the next session. Most other days begin with early weakness before price action begins the inevitable grind upward into the afternoon.

FIGURE 1: EMINI S&P 500: 4/24 10-MINUTE

FIGURE 2: EMINI S&P 500: 4/26 10-MINUTE

TRADESTATION

Tradable: S&P 500 (ES)

This session from late April shows a double-bottom pattern following a gap down open. Like clockwork, price action soon persisted in grinding higher from there. See Figure 1.

Even the sideways sessions hold double-bottom patterns to work their way upward after tests of support hold. See Figure 2.

There was another weak open, another double-bottom bounce from early lows followed by the stair-step grinding action higher. See Figure 3.

On May 17, there was the same story: a daily pivot point holds multiple tests of support as price action bounces through tradable swings following each test. See Figure 4.

"Buy dips" will not work forever, of course. But it is working now and has been for quite some time already. Until the uptrend pattern abates, each buy signal at or after any test of support has the high-odds nod for success. ■

FIGURE 3: EMINI S&P 500: 4/29 10-MINUTE

FIGURE 4: EMINI S&P 500: 5/17 10-MINUTE

"Buy dips" will not work forever, of course. But it is working now.

HEAD & SHOULDERS

A Head & Shoulders Top In REITs

by David Penn

Has the great REIT rally finally run out of upside?

Tradable: VNQ

For weeks in 2005 I would get email announcements from NAREIT, the National Association of Real Estate Investment Trusts. Like most email announcements from such entities, these messages were ecstatic about the prospects for their industry. I had written a little about real estate investment trusts way back in 2001 and thought they were an underrated sector that deserved more attention from retail investors.

Email after email would arrive, making me think, "You know, I really ought to follow up with those NAREIT guys ..." But one thing or another would always come up to redirect my attention.

So now it figures that just when the incredible REIT rally appears to be running out of steam that I would miraculously "find time" to talk about the group. Shame on me.

But what can you do when you are doing recon through the sectors and stumble upon a topping pattern like the one in Figure 1?

PROPHET FINANCIAL

FIGURE 1: VANGUARD REIT EXCHANGE TRADED FUND (VNQ), DAILY. REITs peaked in February 2007, but the head & shoulders top currently hinting at a significant reversal has its origins in the autumn of 2006. The formation projects a target low near 66.

The consolidation in Figure 1 is a head & shoulders top, one of the most common reversal chart patterns. The head & shoulders top consists of three distinct peaks: two outer peaks (shoulders) and a center peak (the head) that is larger than the other two. The neckline, a relatively horizontal line that connects the trough lows between the two outer peaks, is the source of critical support for the head & shoulders top.

FIGURE 2: VANGUARD REIT EXCHANGE TRADED FUND (VNQ), DAILY. The same REIT ETF through the lens of the moving average trio, MACD histogram, and BOSO stochastic is bearish on all counts. The short-term (five day) positive divergence in late May helped bounce the ETF higher, but resistance looms at the 78 level.

When the neckline is broken to the downside, prices in a head & shoulders top tend to move as far downward from the neckline as the formation was tall. A head & shoulders top that measures 10 points will likely see the market fall 10 points down from the neckline in an initial downside break.

As with many patterns, speculators need to be wary of pullbacks to the break level. While these pullbacks are most often resolved by the market reversing again to complete the break and reach the minimum projected target, they can serve as shocks to the system if the trader is not prepared for them. This means traders who are not careful can panic themselves out of a winning position by buying a pullback in a head & shoulders top breakdown, only to see prices meet resistance at the neckline (a typical and quite common case of support becoming resistance once broken), re-

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

verse, and move downward again.

Figure 2 shows the Vanguard REIT exchange traded fund (ETF) against my current favorite set of technical indicators: the moving average trio (see my Working-Money.com article, "Moving Average Trios," May 25, 2007), the moving average convergence/divergence (MACD) histogram (see my two-part, Working-Money.com article, "Trading The MACD Histogram," December 6 and 9, 2006), and the BOSO stochastic (see my article "BOSO" from the October 5, 2005, issue of Working-Money.com). And per these indicators, the REITs are still under significant pressure.

There was a bearish realignment in the VNQ on May 1 that was confirmed as of the close on May 15 at 77.60. The most recent confirmed MACD histogram signal was a bearish p-P-p pattern that ended on May 15 and was confirmed as of the close on May 16 at 76.64. This time around, the late signal came from the BOSO. VNQ went oversold on May 16 and was confirmed on a follow-through lower close on May 17 at 75.31.

VNQ fell to a closing low of 74.12 on May 24 and has since bounced sharply. If you look carefully, you can even see a short-term (for example, five-day) positive divergence in both the MACD histogram and the stochastic that telegraphed the bounce. The question now is whether or not this bounce — which finds the VNQ hurtling toward potential resistance in the form of the 50-day exponential moving average and the neckline of the head & shoulders top — will scare enough traders who are reasonably short to become unreasonably long. ■

FURTHER READING

Penn, David [2005]. "BOSO," Working-Money.com, October 5.

_____ [2006]. "Trading The MACD Histogram," parts 1 and 2, Working-Money.com, December 6 and 9.

_____ [2007]. "Moving Average Trios," Working-Money.com, May 25.

TECHNICAL ANALYSIS

Reversal Warnings

by Austin Passamonte

Pure price action can tell us a great deal about pending market direction. Intraday emini traders can see clear reversal signal patterns almost every session — fair warning to exit existing trades and/or get ready for pending signals going the other way!

Tradable: S&P 500 (ES)

Tuesday, May 17, saw the emini S&P 500 struggling to break a multiple-top formation after several attempts. The final tap of that price zone was sold into what most likely was a deliberate stop-run staged to clear weak shorts out and suck overzealous longs in while the big-money players sold into the stopped-out liquidity. Down it went from there, in a profitable fashion for those who heeded the reversal pattern warning. See Figure 1.

Two days later — May 17 in the late afternoon — price action popped from the daily pivot point near 1514.25 and nearly reached 1522. Buy programs lifting to those levels got sold hard, forming another reversal candle pattern. Shorting below the lows near 1520 offered several points' potential profit downside, in telegraphed fashion.

Be it candle or bar charts, spotting these reversal patterns at high/low extremes give savvy traders a clear heads-up.

In addition, we can see a triple-bottom formation near 1514 where three different candle/bar series popped to close with long tails, right before buy programs swung price action higher. Each of these patterns offered several points' profit potential per subsequent swing. See Figure 2.

Be it candle or bar charts, spotting these reversal patterns at high/low extremes or multiple tops/bottoms give savvy traders a clear heads-up that the next directional move is likely to turn, and soon. ■

FIGURE 1: 05/15 ES 10-MINUTE

FIGURE 2: 5/17 ES 10-MINUTE

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

FIGURE 1: $DJUSCH, DAILY. Here's the ascending triangle in $DJUSCH. The breakout above 258 will bring a boom in individual stocks in the US Chemical Index, too.

FIGURE 2: $DJUSCH, WEEKLY. The ascending triangle on the weekly chart reinforces the breakout. The strong pattern will lead a fresh level of 278.

49%p.a.

Stocks Monthly

Annualized Returns
- Past 3 years = 36.20%
- Past 5 years = 60.78%
- Past 10 years = 48.41%
- Past 15 years = **49.17%**

Segmented 5 Year Annualized Returns
- 1991 to 1996 = 50.71%
- 1996 to 2001 = 36.99%
- 2001 to 2006 = 60.78%

Comparison between the Stocks Monthly System (buying the best performing stocks for each month of the year) and the S& P 500 has been described as unfair. You would expect such a system to outperform the S&P, but remember that approximately 80% of Mutual Funds underperform the average return of the stock market. We have set higher standards. Our Target is to grow $10,000 to $10 Million in only 20 years. So far, we are well on course. Visit us every few months and check our progress. Or, become a subscriber and join in on our success now.

© Coljam Consultants Ltd 2005 - 2007
Remember stocks can go down as well as up. Please read our Disclaimer and Terms and Conditions.

For the period 31-Dec-1991 through 31-Dec-2006, using the investment method with the S&P 500 index, $10,000 would have grown to $33,831. Using the Stocks Monthly method of selection, the portfolio would have grown to $4,028,446. That is an average return of **49%** per year over a 15 year period.

How does the system work?

Using our unique 4-level filter system we calculate the best performing stocks for each month of the year. We only hold the January Stocks for the month of January, and only hold the February stocks for the month of February and so on for each month of the year.

www.stocksmonthly.com

For more information, visit the S&C ad index at **Traders.com/reader**

ASCENDING TRIANGLES

$DJUSCH Readies To Break Out From Ascending Triangle

by Chaitali Mohile

The US Chemical Index has formed an ascending triangle on daily and weekly time frames and is now ready to break out.

Tradable: $DJUSCH

$DJUSCH is in a strong uptrend but in late February, the index lost its bullish strength. Within a week it lost almost all its 20-point gains, but the 50-day moving average (MA) support held. In fact, every dip since that one established support at the 50-day MA, creating an ascending triangle. As a triangle matures, the volume reduces and expands on the breakout. In Figure 1, I identified two lines of resistance. I prefer using the line that is the higher of the two.

The price target on an ascending triangle is measured using the length of the triangle. In this case, the length of the triangle is 257.5 - 237.5 = 20. So by adding 20 to the breakout level at 258, you can get a target level of 278. The breakout of this index will bring a great boom in individual chemical stocks, so keep an eye on it.

The relative strength index (RSI)(14) in Figure 1 shows ranging but bullish strength in an ongoing rally. The loss of 20 points in the price reflected no adverse effect on the RSI. The indicator marginally moved below 40, recovering faster. This shows positive strength in the rally. The moving average convergence/divergence (MACD) (12,26,9) moves close to its trigger line but directionless. The snake move can break out in any direction. Combining the MACD (12,26,9) volatility with other conditions on the chart's upside breakout of the triangle looks possible.

In Figure 2, the ascending triangle is formed. The same pattern on different time frames reinforces the breakout. The MACD (12,26,9) is neutral to its trigger line. The breakout of the triangle in the upward direction can give bullish crossover in the MACD (12,26,9). The RSI (14) is at 68 but still strong and has more room for an advanced rally. The RSI thus indicates that the breakout of the price will have a strong bullish force to reach the price target mentioned previously.

A breakout on $DJUSCH will bring attractive buying opportunities in individual equities of the same index. ■

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

A Cup With Handle In Transports

by David Penn

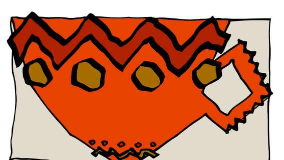
As crude oil breaks down, the consolidation in the Dow Jones transports hints at a move higher.

Tradable: $TRAN, IYT, AMR

With all the commotion about gas prices, there has been less attention paid to the behavior of both crude oil and transportation stocks. Given the backdrop of panic as the summer driving season begins in earnest, a speculator might assume that crude oil was in an advancing mode and transportation stocks were in the retreat.

A check of the two charts reveals, however, that crude oil is actually in a corrective rather than advancing mode. As for transportation stocks, the cup with handle–shaped consolidation they have been meandering through since late February looks ready to resolve itself with a breakout to the upside.

It could be argued that there are two cup with handle patterns in the daily chart of the transportation average (Figure 1). The larger pattern begins in late February, completing the cup in late April, and adding a handle over the course of May. The smaller pattern sees an up formation from late April to early May, with a smaller handle from mid-May to the end of the month.



In any event, the chart suggests that transportation stocks are about to move significantly higher over the next several weeks. I've seen business cycle maps that posit transportation stocks at the beginning of an economic expansion and other maps that show transportation stocks as getting bids late in the early expansion phase — so much so as almost be a part of the middle expansion during which inflationary pressures begin to mount. Regardless of which location in the business cycle is the most accurate for transportation stocks, the fact remains that if those stocks are set to move higher, then the economy is likely still on solid ground.

Based on the behavior of commodities like gold and crude oil, I'm inclined to put transportation in the early expansion group and, for the sake of compromise, I'll say "middle of the early" expansion.

The basic business cycle game plan suggests that advancing transportation stocks are a sign of a market that is moving through the "early expansion" part of the cycle. This part of the cycle also tends to augur well for industrial and basic materials stocks as the business cycle moves deeper into expansion.

FIGURE 2: AMR CORP., DAILY. A positive divergence over the course of the spring and a newly overbought market on the bounce suggest the possibility of higher prices for AMR this summer.

For those who want to trade the transports directly, the exchange traded fund, IYT, features virtually the same cup with handle pattern that we see in Figure 1 of the transportation average. As for individual components of the transports that might disproportionately benefit from a breakout in the average, one stock that seems worth watching is AMR, also known as American Airlines (Figure 2). As I will detail in a separate article, the airline stocks, as measured by the index $XAL, have been in a bear market for virtually all of 2007 and may be ripe for reversal. However, AMR has begun to rally in the wake of positive divergences in the moving average convergence/divergence (MACD) histogram. There was even a short-term 2B bottom between the lows on May 1 and May 15 that suggested higher prices in the near term. ■

The cup with handle–shaped consolidation that transportation stocks have been meandering through since late February looks ready to resolve itself with a breakout to the upside.

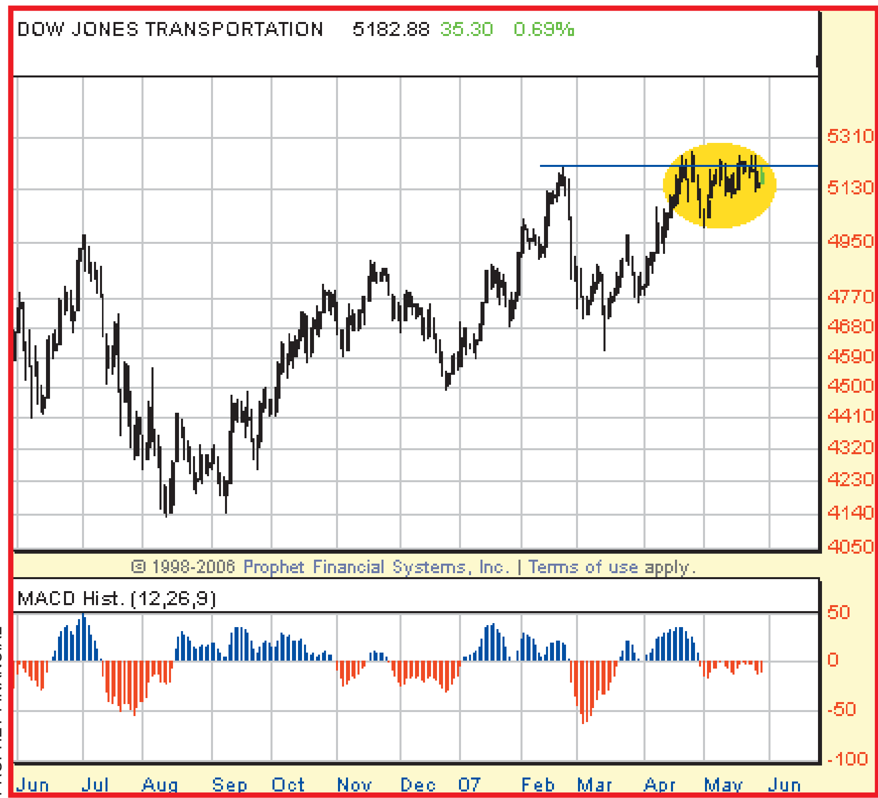


FIGURE 1: DOW JONES TRANSPORTATION INDEX, DAILY. The highlighted section in late April and throughout May points out the handle to a relatively tall cup in this cup with handle consolidation pattern. Follow-through to the upside could take the DJTA to as high as 5700 in an initial move.

Create your free trader SEAT now!
What's a SEAT?

The World's first online trader SEAT at helpyoutrade gives you an easy-to-use trading website where you can:

- Blog, 24/7 instant Chat, Email, Post Youtube videos, Network with traders worldwide and more...
- Research your favorite stocks, mutual funds or currency pairs and take part in our member polls and discussions
- Post a rating or review about your favorite broker or alert service and help spread the word
- Join or create your own trading group complete with forums and more
- Create your free personal stock portfolio and helpyoutrade will automatically keep track of your positions for you
- And much more... FREE!

For more information, visit the S&C ad index at **Traders.com/reader/**

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

METALS & ENERGY

TRIANGLES

Silver Signals Higher ... And Lower

by David Penn

Will the third triangle be the charm?

Tradable: SI, SIN7

Triangle patterns have been good to silver since the metal made a secular low in 2001.

It was a symmetrical triangle in the monthly chart of silver futures that anticipated a breakout in mid-2003, a breakout that led to silver's first major advance in years. Basis continuous futures, silver broke out at about $4.80 and rallied to nearly $8.00 in the first quarter of 2004. (See Figure 1.)

The 2003 breakout led, interestingly enough, to another triangle. This triangle was of the ascending variety, meaning it featured a flat, horizontal resistance level and an upwardly sloping support trendline. Such ascending triangles produce breakouts with a very strong bias to the upside, and in that, the ascending triangle in silver that began in 2003 and ended with a breakout near the end of 2005 did not disappoint. Breaking out near the $8.00 level (basis continuous futures), silver rallied to more than $14 in 2006 and — after a pullback to the $9.60 level — bested $14 again in early 2007.

Has silver formed still yet another triangle? While the price pattern in 2006 is not ideal, it does have the requisite horizontal resistance and upwardly sloping support trendline of a triangle — and an ascending triangle at that. The size of the triangle is also attention-getting insofar as the pattern's width projects a minimum run to $20, should there be a successful breakout to the upside. Such prices for silver would not represent a new all-time high (the all-time high for silver remains north of $49) but would certainly represent an awesome achievement for a commodity that was trading for less than $5 only 10 years ago.

For now, silver remains in an uptrend in the weekly charts (Figure 2). Since a correction low in the first half of 2006, silver — basis July futures — has created a triangular pattern consisting of higher highs and higher lows. That higher highs and higher lows pattern is the signature of an advancing market and there is no technical "indicator" that should be allowed to override that reality.

That said, the daily chart of silver suggests some breaking down below key moving averages and moreover, the bearish realignment of key moving averages has turned into an outright sell signal — see my Working Money article "Moving Average Trios" for more on bearish "realignment" patterns. As Figure 3 shows, the three moving averages (10-day, 20-day, and 50-day exponential) crossed in early May so that the shortest, fastest moving average was below the intermediate term (the 20-day EMA), and the intermediate term was below the longer term (the 50-day EMA). This marked the bearish realignment of the three moving averages as they switched from a largely bullish alignment with the shorter moving averages above the longer ones to a bearish one. This bearish realignment was confirmed the following day when July silver closed below the low of the session that marked the realignment. Since then, July silver has lost 36 cents or approximately $1,800/per contract. ■

FIGURE 1: SILVER, CONTINUOUS FUTURES, MONTHLY. Will the third triangle in silver's bull market be a charm and propel prices even higher? Previous triangle setups in silver in 2003 and 2004–05 led to major moves, post-breakout.

FURTHER READING

Penn, David [2007]. "Moving Average Trios," Working-Money.com, May 25.

Traders.com ADVANTAGE™
This article was first published on 5/15/2007.
See www.Traders.com for more.

FIGURE 2: SILVER, JULY FUTURES, WEEKLY. A pattern of higher highs and higher lows has developed in this pattern, one that otherwise resembles an ascending triangle. Failure to set a new high in the second quarter of 2007, however, is tentatively a bearish sign. This will be even more so if the lows from the first quarter of 2007 are taken out to the downside.

FIGURE 3: SILVER, JULY FUTURES, DAILY. With all three moving averages moving into bearish alignment (the 10-day EMA below the 20-day EMA and the 20-day EMA below the 50-day EMA), the sell signal was confirmed as soon as the market closed below the low of the session when the alignment occurred.

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

CONSOLIDATION FORMATION

XAU Lags And Drags

by Arthur Hill

The Philadelphia Gold & Silver Index ($XAU) has been stuck in a rut the last 15 months, and relative weakness remains a serious drag. Here are the levels to watch.

Tradable: $XAU

On the weekly chart (Figure 1), the index surged above 150 in February 2006 and then embarked on a long trading range. There was another surge above 170, but the index then met resistance at 150 no fewer than six times in the last 12 months. This is the level to beat, and a breakout triggering a major bullish signal.

Two patterns are evolving, a triangle that extends back to September 2006 (blue lines) and a trading range that extends back to June 2006. The triangle shows that the trading range has actually narrowed over the last few months. As such, I would set key support at 125 and key resistance at 150. The direction of the next break will have long-term implications for this index and precious metals.

Figure 2 shows the performance of XAU relative to the GS Precious Metals Index ($GPX). The index outperformed from March 2005 to June 2006 and underperformed from July 2006 to May 2007. The price relative remains below the red trendline and XAU continues to underperform. In fact, the price relative broke to new lows in January and relative weakness in XAU remains a real drag on precious metals.

In addition to an upside breakout at 150 in the index, I would also look for the price relative to break above 155. This would forge a trendline break and signal the start of an outperformance period. XAU does best when it leads gold and precious metals. ■

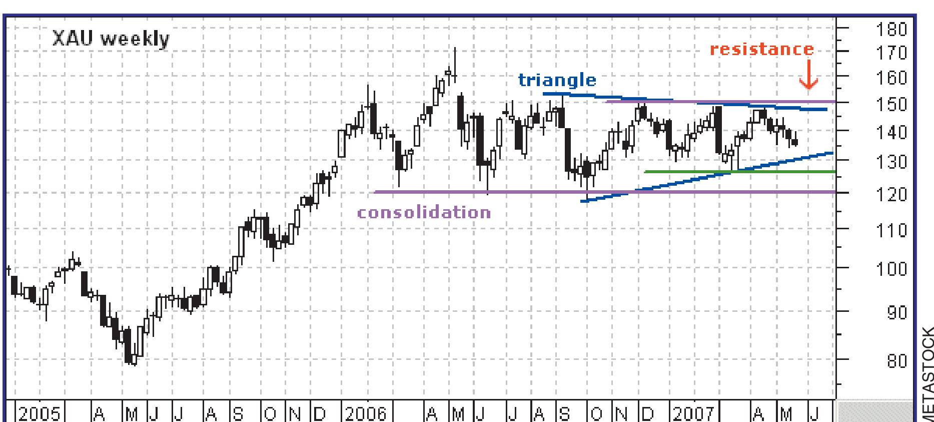


FIGURE 1: XAU, WEEKLY. The index surged above 150 in February 2006 and then embarked on a long trading range.

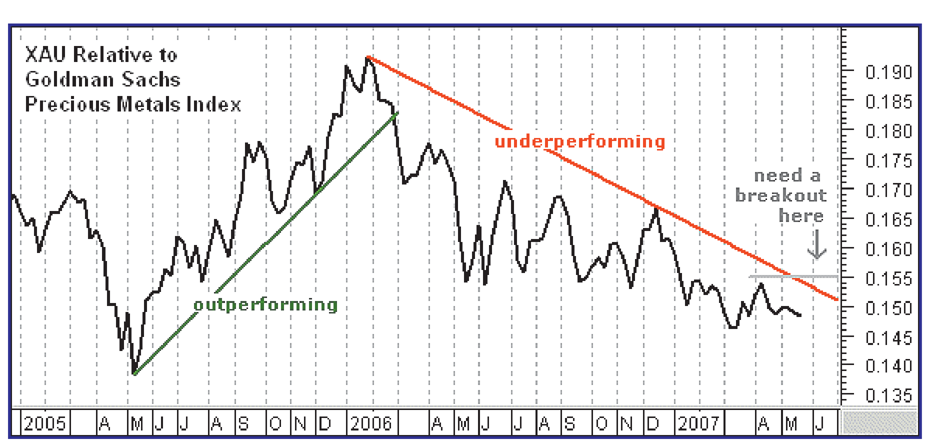
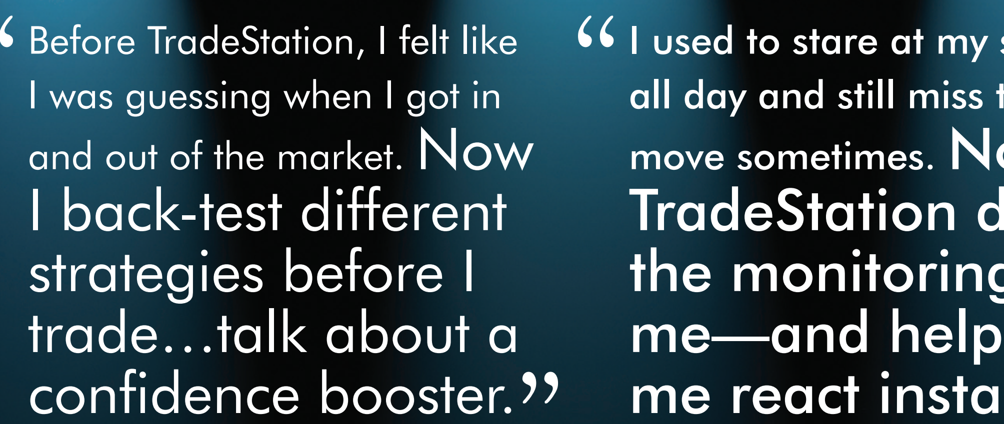


FIGURE 2: XAU, RELATIVE TO GOLDMAN SACHS PRECIOUS METALS INDEX. The index outperformed from March 2005 to June 2006 and underperformed from July 2006 to May 2007.

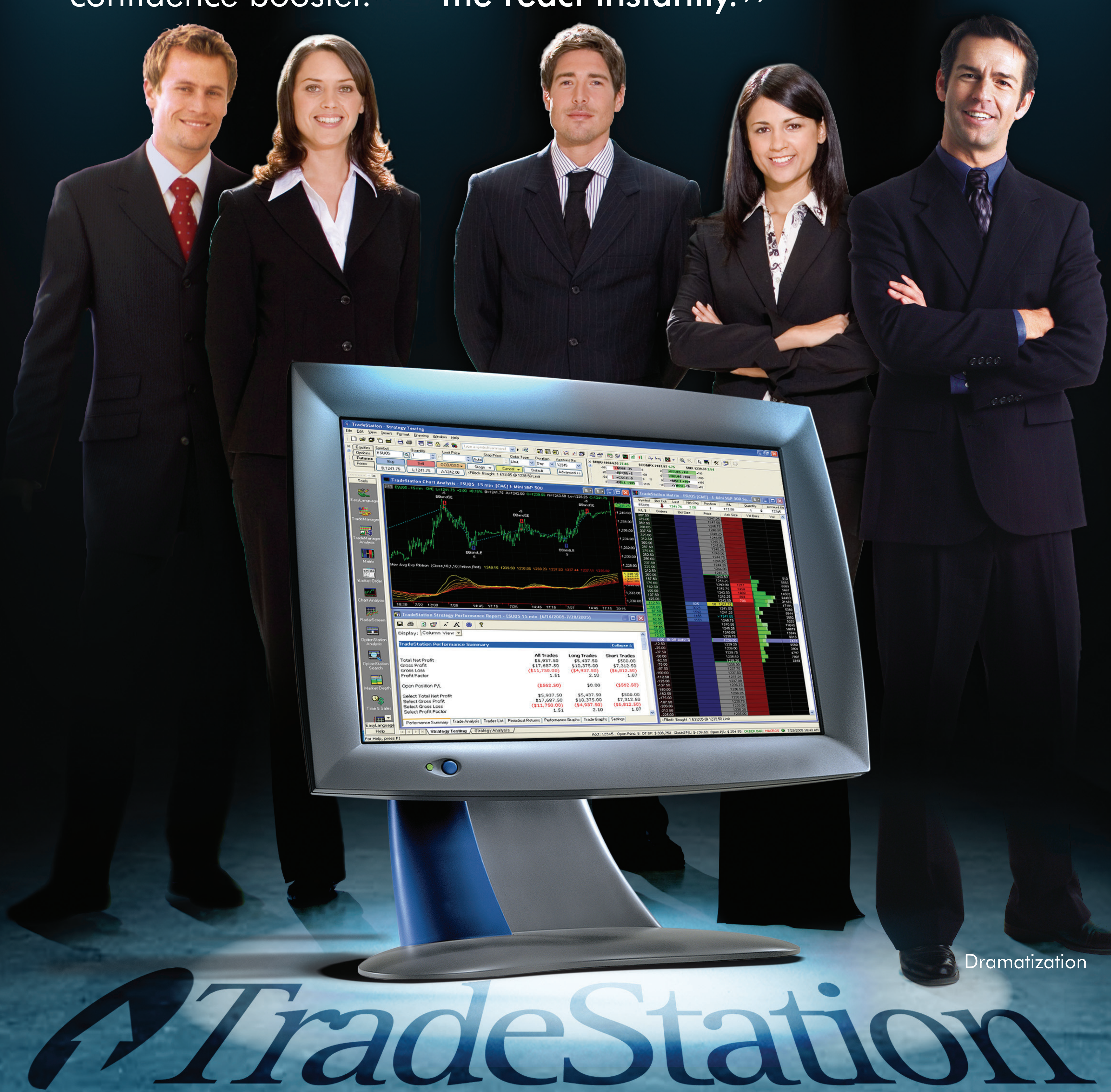
For more information, visit the S&C ad index at Traders.com/reader/

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.



"I used to stare at my screen all day and still miss the move sometimes. Now TradeStation does the monitoring for me—and helps me react instantly."

"I used to think my discount broker was saving me money. Now with TradeStation I can trade for as little as $1 per trade."



* GAIN Capital Group, Inc. acts as the counterparty for each forex transaction and as a liquidity provider to clients using its access to the inter-bank market. In doing so, GAIN Capital Group, Inc. assumes the risk associated with each transaction. A portion of GAIN Capital Group, Inc.'s profitability may be the difference between the bid and the offer provided to the client, as well as GAIN Capital Group, Inc.'s ability to offset any risk transferred to GAIN Capital Group, Inc. by clients.

Ratings and awards are based on: (1) for Stocks & Commodities, in each award category, the company that receives the highest number of votes cast by the magazine's subscribers over a fixed time period that ends shortly before announcement of the awards; (2) for Barron's, a hands-on review of each company's online brokerage products and services by a Barron's journalist, in several categories, after which numerical scores are assigned per category and aggregated to determine overall numerical score and star rating. You may contact TradeStation if you are interested in learning more about these ratings and awards. Barron's is a registered trademark of Dow Jones.

The right trading platform can make all the difference.

Uncover Trading Strategies.

Back-test countless buy and sell rules—whether you choose from over one-hundred built-in market indicators or create your own from scratch with TradeStation's EasyLanguage®. Then, see how well any strategy could have performed historically—if you had traded it for the past week, past year or past decade.

Supercharge Your Real-Time Trading.

Just automate your strategies in real-time, and get alerts instantly when the market moves based on your rules—plus have your trades sent automatically when it does.

TradeStation's Strategy Performance Report instantly reveals how your strategy could have performed historically if you had traded it—from net profit to winning and losing trades and more.

Now including:

✓ ***Fully-Integrated Forex Execution*** NEW

and NEW Commissions

Now, automate the execution of your equities, options, futures, **AND forex** strategies.

✓ ***Fundamental Strategy Testing***

Scan, rank and filter based on over 400 financial fields and over 500 snapshots and ratios. **Build and back-test** strategies based on fundamentals.

More Power. Remarkable Savings.

Futures	Equities	Options	Forex NEW
25¢ – $1.20 per side, per contract	$5 500 shares · $1 100 shares · $8 1000 shares	$1 per contract	.2 basis point (.2 basis point=.00002) x trade value in US $* (price x units)
+ exchange, regulatory & overnight fees	First 500 shares, $.01 per share. Over 500 shares, $.006 per share.	**NO Minimum NO Ticket Charge**	$2.50 minimum

IMPORTANT INFORMATION: There is no monthly base platform fee for accounts trading 10 round-turn futures contracts, or 5,000 equity shares, or 50 equity or index options contracts, or 10 round-turn forex lots or 100 round-turn mini lots per month. A monthly base platform of $99.95 may apply for accounts trading less actively. Prices quoted do not include regulatory transaction fee. Real-time exchange fees are not included in any fee waivers, and you will be billed exchange fees for any real-time exchanges or premium services which you choose to receive. $14.95 fee applies for option exercises or assignments. Prices, fees, costs and terms are subject to change. ■ No offer or solicitation to buy or sell securities, securities derivative or futures products of any kind, or any type of trading or investment advice, recommendation or strategy, is made, given or in any manner endorsed by TradeStation Securities, Inc. or any of its affiliates. ■ Past performance, whether actual or indicated by historical tests of strategies, is no guarantee of future performance or success. ■ **Active trading is generally not appropriate for someone of limited resources, limited investment or trading experience, or low-risk tolerance, or who is not willing to risk at least $50,000 of capital.** ■ There is a risk of loss in futures trading. Options and Security Futures trading is not suitable for all investors. **Please visit our Web site for relevant risk disclosures. ■ System access and trade placement and execution may be delayed or fail due to market volatility and volume, quote delays, system and software errors, Internet traffic, outages and other factors.** ■ All proprietary technology in TradeStation is owned by TradeStation Technologies, Inc., an affiliate of TradeStation Securities, Inc. ■ Trading foreign exchange carries a high level of risk and may not be suitable for all investors. **There is a possibility that you may sustain a loss equal to or greater than your entire investment; therefore, you should not invest or risk money that you cannot afford to lose. You should be aware of all risks associated with foreign exchange trading.**

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

The Golden Bounce

by David Penn

Hourly charts of gold and gold stocks underscore the turnaround in late May.

Tradable: GCQ7, $HUI

My last look at gold in Traders.com Advantage ("Gold Meets Resistance," April 25, 2007) underscored the possibility that gold was not yet ready to break free from the consolidation range that ensnared it back in the summer of 2006. See Figures 1 and 2.

At the time, the unhedged gold stocks represented by the $HUI were trading at about 348 (Figure 2). Over the past few months, the $HUI has fallen to as low as 318. Yet this drop only lowered the index to the middle area of its range. And there are signs in the gold market itself that this decline may already be complete.

In April I looked at the gold stocks to get clues about gold. This time, I will do the opposite and focus on the bounce in gold futures, which seems to augur bullish for the stocks.

Note how the troughs in the moving average convergence/divergence (MACD) histogram become more and more shallow as the decline in gold futures continued (Figure 1). This suggested waning momentum to the downside the lower the price of gold fell. The histogram was the primary technical indicator to follow in terms of looking for a potential low and a potential bounce.

As gold futures did indeed bounce, two other technical indicators became increasingly helpful. The first was the stochastic. By breaking out into overbought territory, the stochastic signaled that the market was in a massively bullish mode, with buyers able to close the market near its highs repeatedly in recent sessions. I like to think of a market that becomes overbought like a baseball team that just began a winning streak: Sure, that streak might end tomorrow, but betting against it is a loser's proposition over time.

FIGURE 1: GOLD, AUGUST FUTURES, HOURLY. Negative divergences in the MACD histogram had been building since mid-May, as this hourly chart of August gold reveals. The breakout in the stochastic (that is, the stochastic becoming overbought) followed by a bullish realignment of the 10-, 20-, and 50-period exponential moving average provide further bullish signals.

Another bullish indication comes from the realignment of the three exponential moving averages. As I wrote in an article for Working-Money.com ("Moving Average Trios," May 25, 2007), momentum traders can use crossovers of multiple moving averages to catch the sweet spot when a market is truly ready to run. The fact that moving averages are used to generate the momentum signal also makes it less likely that the surge in momentum will be a fakeout. ■

FIGURE 2: GOLD BUGS INDEX ($HUI), HOURLY. The bounce in the precious metals sector has the gold BUGS index retracing fully 50% of its decline from the mid-April top. Note that the next resistance level — the 350–352 area from the countertrend bounce in late April — also matches up as a key Fibonacci retracement level.

References

Penn, David [2007]. "Gold Meets Resistance," Traders.com Advantage, April 25.

_____ [2007]. "Moving Average Trios," Working-Money.com, May 25.

WallStreetWindow.Com

• 100% Revenue Growth
• Charts With Top Relative Strength
• Cup and Handle Chart Formations
• Innovative Companies in Niche Markets

• Your Portal for Profits
• *The Great Traders Follow the Trends*
• Target 100% Gains with Minimal Risk
• *We Identify Stocks in Trend Sectors*
• Subscribe to Our Free "Trend Weekly" E-Letter
• *16,000 Subscribers Can't be Wrong*

Go to WallStreetWindow.Com

For more information, visit the S&C ad index at **Traders.com/reader/**

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

LEVEL II IS DEAD.
LONG LIVE NASDAQ TOTALVIEW.

LEVEL II

NASDAQ TOTALVIEW®

NEW
Free unlimited access with Power E*TRADE Pro[1]

Over 20x the liquidity of Level II[2]

EVERY PRICE EVERY LEVEL
in the NASDAQ Market Center

getpoweretrade.com | (800) 731-5226
Get started with 100 commission-free stock and options trades[3]

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

1. The Power E*TRADE Pro trading platform is available at no additional charge to active traders who execute at least 30 stock or options trades during a calendar quarter. To continue receiving access to this platform, you must make at least 30 stock or options trades by the end of the following calendar quarter.
2. According to information provided by The Nasdaq Stock Market, Inc. on 6/28/07. This information is deemed to be reliable but has not been verified or confirmed by E*TRADE Securities LLC. NASDAQ and NASDAQ TotalView are registered service marks of The Nasdaq Stock Market, Inc. Please visit www.nasdaqtrader.com/totalview for more information.
3. Commission-free trade offer applies to new Power E*TRADE accounts opened with $1,000 minimum deposit. The new account holder will receive a maximum of 100 free trade commissions for each stock or options trade executed within 30 days of the opening of the new qualified account. You will pay the Power E*TRADE commission rate at the time of the trades ($9.99 for stock and options trades—plus an additional 75¢ per options contract). Your account will be credited $9.99 per stock or options trade within eight weeks of qualifying (excluding options contract fees). Other commission rates apply to customers who trade less than 30 times a quarter or maintain less than $50,000 in linked E*TRADE accounts. Account must be opened by December 31, 2007.
Securities products and services are offered by E*TRADE Securities LLC, Member NASD/SIPC.
System response and account access times may vary due to a variety of factors, including trading volumes, market conditions, system performance, and other factors.
© 2007 E*TRADE FINANCIAL Corp. All rights reserved.

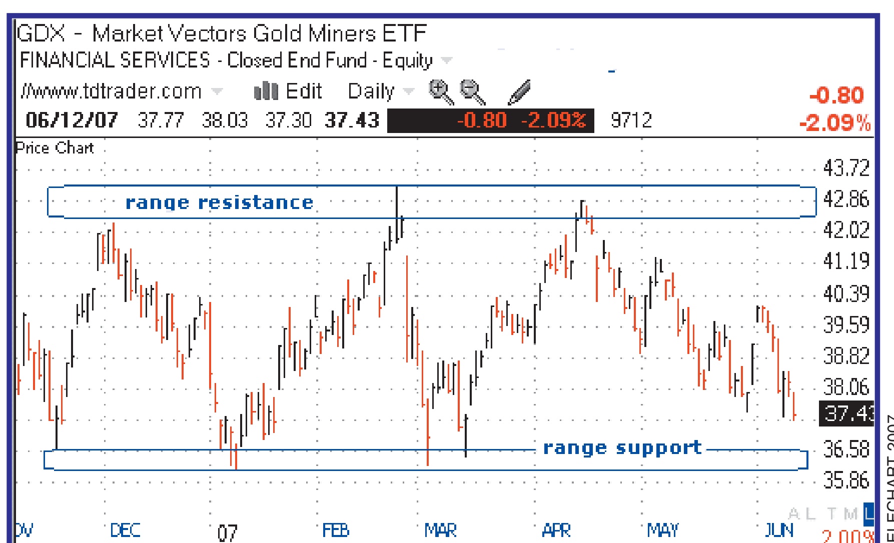


FIGURE 1: GDX, DAILY. This exchange traded fund has been locked in a trading range for a while.

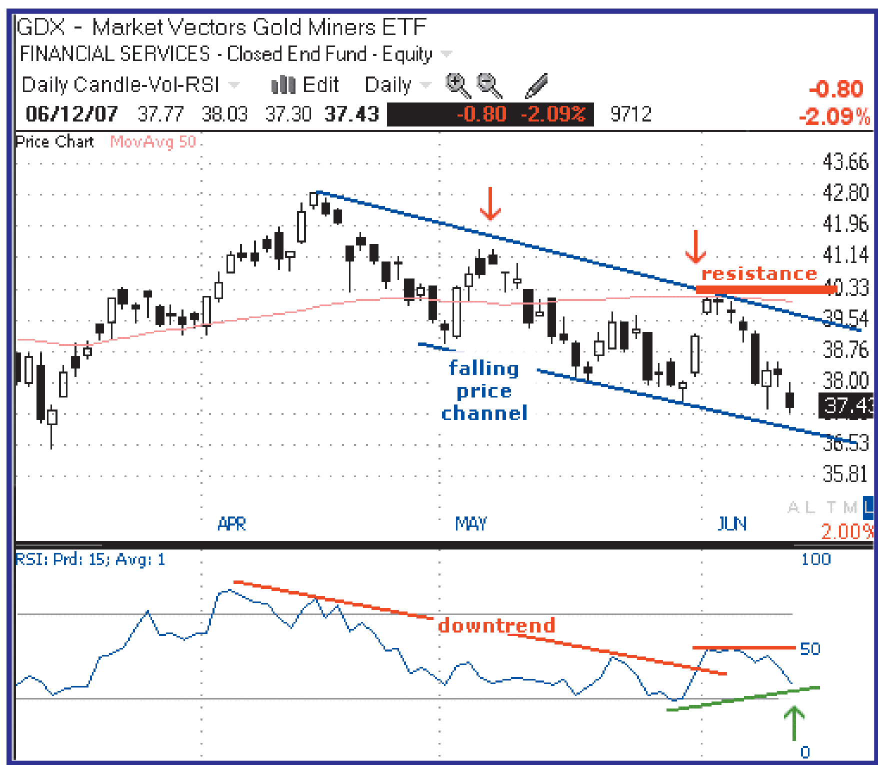


FIGURE 2: GDX, DAILY. A move above 40.50 could start a new upswing.

RSI

GDX Approaches Support

by Arthur Hill

The Gold Miners ETF has been range-bound since November, and traders should prepare for a bounce as the exchange traded fund nears range support.

Tradable: GDX

The Gold Miners ETF (GDX) has been locked in a trading range bound by 43 and 36. The exchange traded fund established resistance with three reaction highs and support with three reaction lows. The swings within the trading range have been greater than 10%, but it would have required some nifty trading to catch the reversals and turn a profit. With the ETF once again approaching support, it is time to start looking for reversal indications. See Figure 1.

Figure 2 focuses on the current downswing. The ETF peaked in April and has been channeling lower the last two months. There were two promising surges, but both failed and lower lows soon followed (red arrows). The last surge failed after two gaps and the ETF met resistance at the 50-day moving average. It would take a move above resistance at 40.50 to break the upper channel trendline, exceed the 50-day, and forge a higher high. This would fully reverse the downtrend and call for another assault on range resistance.

While a move above 40.50 would start a new upswing, I am tuning into the relative strength index (RSI) for a breakout that could provide an earlier signal. This momentum indicator peaked two weeks before GDX and has been trending lower since early April. The indicator became oversold in late May and broke the red trendline when GDX surged above 40 in early June. This surge did not hold, but the RSI is still above its late May low and a positive divergence is working (green arrow). I am looking for a break above 50 to fully reverse the downtrend in momentum and turn bullish on the RSI. This would likely happen before a breakout in GDX and could be used for an earlier signal. ■

SUPPORT & RESISTANCE

July Copper: Support To Resistance

by David Penn

The support that kept copper high in the spring threatens to become resistance in summer.

Tradable: HGN7

Of the many basic tenets of technical analysis, the concept of support & resistance is near the top of the list. The idea of support & resistance goes right to the heart of the battle between those betting on higher prices and those betting on lower ones. It also speaks to the idea that the market, far from being random, has a memory, and that memory will allow a market to revisit old challenges.

One example of this is the way that support, once broken, can become resistance. I like to think of support as the region where bearish momentum is weak and resistance as the region where bullish momentum is weak. This weakness is also often revealed in candlestick charts by the number of shadows that touch the support or resistance area; the failure to close at or beyond those areas is further evidence of weakness.

July copper has begun a series of higher highs and higher lows (Figure 1). As of this moment, the June low is higher than the May low, and with the mid-June high exceeding the early June high (albeit only on an intrasession basis), the case for a breakout above the new resistance level and higher prices for copper has some legs. However, any failure to close above the $3.50, as well as the lack of follow-through to the upside, would likely convince copper traders that the path to least resistance is the road chosen by copper futures in May — not the one they will have abandoned in June. ■

FIGURE 1: COPPER, JULY FUTURES, DAILY. July copper futures tested support near the $3.50 level repeatedly in April and again in mid-May. A break below that level shortly thereafter and a subsequent bounce finds those futures struggling to rally above the same $3.50 level.

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

A Crude Pause

by David Penn

A pause in the crude oil bounce as oil stocks test historic highs.

Tradable: CLM7, OIH

It's too bad that the cost of fuel isn't tax-deductible in the same way that economists deduct "volatile food and energy prices" from the Consumer Price Index.

While "soaringgasprices" (now one word) have gotten everyone's attention (and just as the term "summer driving season begins!" must somehow be included in every statement with "soaringgasprices"), there are some interesting developments in the charts of crude oil and crude oil stocks that could present a surprise in the form of milder prices going forward.

Crude oil, for example, topped in the summer of 2006 and spent the next half-year falling in a bear market that saw the commodity lose some 30% of its value (basis continuous futures). By January, crude was showing signs of putting in a bottom, and the commodity began to move higher. Looking at near-term contracts, we can see that this advance ran into resistance near the area of the consolidation highs from the autumn of 2006. (I wrote about this resistance for Traders.com Advantage earlier this spring; see my "June Crude Rally Retreats At Resistance," March 16, 2007.)

Crude oil failed at resistance. But while crude set a new low in May vis-à-vis April (Figure 1), the fact that the March lows held open the possibility that the commodity would find support near 61 (basis June) and resume the rally that began in January.

That possibility remains open. But over the past few days, crude oil has shown the sort of weariness that begets further correction. This weakness comes not only as crude tries to rally above the April highs, but also as oil stocks — as measured by the oil service stock HOLDRS or OIH — make a major test of their all-time highs. See Figure 2.

Let's take a closer look at the move in crude. Crude bottomed in January and topped in late March (basis June). Since the March top, crude broke down below its January-March trendline in mid-April, rallied back above that trendline in the second half of the month, and broke down again in early May. In doing so, crude oil has begun to set up a 1-2-3 trendline reversal pattern. So far, step 1, the breaking of the trendline, has been completed. Step 2 appears to be under way right now as crude oil attempts to resume the January-March uptrend. Step 3, if it occurs, would have crude oil failing to set a new high and, instead, reversing and taking out the low established at the end of step 1.

The "end of step 1" — the low point of the correction that began in April — represents an almost 50% retracement of the January-March advance. This means that one argument occasionally made about corrections — that they have not "corrected enough" — does not apply here. However, any failure to set a new high vis-à-vis April will likely confirm the bearishness of lower month-to-month lows in crude.

I mentioned oil service stocks. The OIH is moving above 170, a level at which the HOLDRS last tested back in May 2006. This top in oil stocks served as an excellent warning for the underlying commodity, which topped out weeks late. As such, it will be worth watching to see if OIH shows follow-through to the upside after breaking out to new all-time highs in late May. Failure in this would open the door for a double top in the oil stocks (and levels in the OIH not seen since the first half of 2005). It would also open up the 50% retracement trap door in crude oil, likely setting up a move below the March, if not the February, lows. ■

FIGURE 1: CRUDE OIL, JUNE FUTURES, DAILY. A breakdown beneath a two-month trendline finds support near the 50% retracement level. The new low set during the correction, however, suggests trouble for the bounce higher in the immediate term.

FIGURE 2: OIL SERVICE HOLDRS (OIH), WEEKLY. Oil service stocks have been in rally mode since the beginning of 2007. A test of the 2006 highs — all-time highs — could lead to an overdue correction to this group.

SUGGESTED READING

Penn, David [2007]. "June Crude Rally Retreats At Resistance," Traders.com Advantage, March 16.

For more information, visit the S&C ad index at **Traders.com/reader/**

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

BREAKOUTS

Oil On The Verge Of A Breakout

by Arthur Hill

The US Oil Fund ETF (USO) surged off support over the last few days, and the exchange traded fund is on the verge of a breakout that would signal a continuation of the prior advance.

Tradable: USO

Before moving to the potentially bullish setup, let's get some perspective with the weekly chart (Figure 1) and the current bearish pattern. The US Oil Fund ETF (USO) broke support at 60 with a sharp decline in 2006 and then rallied back above 50 in 2007. The rally formed a rising wedge and the exchange traded fund (ETF) broke a rising wedge support with a decline in early May. This break is bearish and it has yet to be proven otherwise. As long as this break remains, a test of the January lows is in order.

Despite that bearish prognosis, a bullish pattern is emerging on the daily charts, and this could negate the weekly chart pattern (Figure 2). For reference, the gray trendlines show the rising wedge on the weekly chart. The ETF found support around 47.50 in May and surged to resistance at 51 over the last few days. This surge reinforces support and we must now pay heed to the falling price channel. The decline also retraced 62% of the prior advance. Both the pattern and the retracement are typical for corrections, and we should be on guard for a breakout.

USO broke the upper channel trendline and is on the verge of a resistance break at 51. A close above this level would be bullish and target a move to the upper 50s. This target stems from a measured move technique. The first advance was 11 points (43 to 54) and a similar advance from the May lows would extend to around 59 (48 + 11 = 59). Should the ETF fail at resistance, look for a move below key support to trigger a bearish signal and target a move toward support around 43. ■

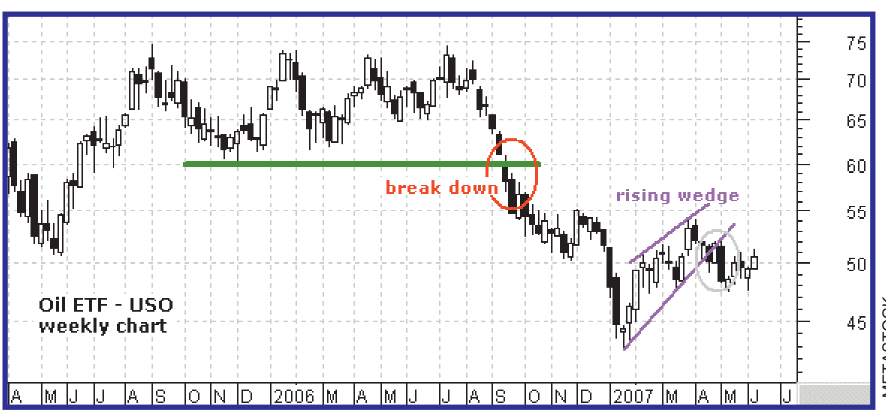


FIGURE 1: USO, WEEKLY. The USO broke support at 60 with a sharp decline in 2006 and then rallied back above 50 in 2007.

FIGURE 2: USO, DAILY. A bullish pattern in emerging on the daily chart and this could negate the weekly chart pattern.

SELL S&P 500
OPTION CREDIT SPREADS

MOST PEOPLE WHO BUY OPTIONS LOSE MONEY... PERIOD!

Who do you think makes that money?
The option sellers, of course.
Why buy options when you can sell them and COLLECT premium?
With our premium program learn how you can potentially benefit from:
- Flat markets
- Options expiring worthless
- Markets with little concern for direction

Don't buy options...Sell options $50,000 minimum to start

Call today for free information:
1.800.972.3343

Trading futures and options involves risk. Trade with risk capital only.
Collection of premium does not mean retention of premium.

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

RETRACEMENT

Measured Moves In Housing

by David Penn

How far will the bounce in housing stocks go?

Tradable: $HGX

I've written lately about measured move patterns for both Traders.com Advantage ("Measured Moves In The Swiss Franc," March 7, 2007) and Working-Money.com ("Measures And Half Measures," May 4, 2007). With markets across the board moving toward new highs, I went searching for markets that were taking advantage of market strength to rally from significant lows. Unsurprisingly, the housing market was one of the first places I looked.

What I saw in the index of housing stocks (the Philadelphia Housing Sector Index, or $HGX) was a market that had topped in earliest February 2007, and corrected more than 15% before making a low in mid-April (Figure 1). This mid-April low was accompanied by a positive divergence in the moving average convergence/divergence (MACD) histogram, which helped identify the low as a significant bottom. The $HGX rallied over the balance of April, breaking back above the 20-day exponential moving average (EMA) and moving almost vertically by the end of the month.

Since that bounce, $HGX has retraced mildly to successfully test the 20-day EMA for support and is currently en route to taking out the April high just north of 235. (See Figure 2.)

Treating the bounce and successful test of the 20-day exponential moving average (EMA) as a potential ABCD pattern allows us to use the same sort of rules that can effectively project the upside (or downside, in the case of a breakdown) of a measured move. Here we have a point A (the April low) at 214, point B (the April high) at 237, and point C (the low of the 20-day EMA test) at 225. If the advance in $HGX is a successful ABCD/measured move pattern, then the market should rally to AB + C, the distance between points A and B added to the value at point C. This suggests an upside target near 248.

As I note in "Measures And Half Measures," one strategy for determining whether the odds are good that a market will reach point D is whether or not the market can first reach a point halfway between C and D. This halfway point is the same as 1/2 D AB + C, and here is approximately 235. This level also represents the April high, so there is likely to be some measure of resistance as the market makes its test. But a strong move through the 235 level in the $HGX is likely to translate into higher highs for housing stocks in the near term.

FIGURE 1: PHILADELPHIA HOUSING SECTOR INDEX, DAILY. A month-on-month positive divergence in the MACD histogram signaled an end to the correction in housing stocks that began in February.

FIGURE 2: PHILADELPHIA HOUSING SECTOR INDEX, DAILY. As a measured move pattern, the rally from the April lows projects an upside to 248 if the $HGX can first clear the 1/2 AB + C point near the April highs.

SUGGESTED READING

Penn, David [2007]. "Measured Moves In The Swiss Franc," Traders.com Advantage, March 7.

_____ [2007]. "Measures And Half Measures," Working-Money.com, May 4.

For more information, visit the S&C ad index at **Traders.com/reader/**

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

US Paper Index Beats Rock And Scissors

by Gary Grosschadl

This Dow Jones index is in a breakout pattern. So what is the upside target?

Tradable: $DJUSPP

Figure 1, this weekly chart, shows the Dow Jones US Paper Index in a breakout formation via an ascending triangle breakout. The ascending triangle is a bullish formation that usually forms during an uptrend as a continuation pattern and suggests accumulation.

Several technical indicators are worthy of comment. At the top of the chart, the three components of the directional movement indicator show a bullish setup. A rising average directional movement index (ADX) line above 20, in between bullishly poised DI lines (positive and negative directional indexes), shows a strong and rising trend.

Below the chart, the moving average convergence/divergence (MACD) and the relative strength index (RSI) show bullish rising trends. Meanwhile, the stochastic oscillator is in overbought territory, which is a cautionary note. However, when a strong trend is in place, this indicator can "stick high" for a period of time.

The upside target for this triangle break is 202, which is the measurement of the widest part of the triangle, applied to the move above the upper trendline (breakout point). This is a guideline only as the move can fall short or be exceeded, depending on emotional drivers behind market perceptions.

With this index showing a bullish development, traders may want to target bullish-looking stock plays in this sector. ■

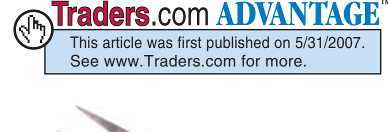


FIGURE 1: DOW JONES US PAPER INDEX, WEEKLY. A breakout is showing in this index.

TAKE CONTROL OF YOUR FINANCIAL FUTURE!

The Profitunity Trading Group offers over 40 years of trading experience to our clients. Our methodology works in both stocks and commodities, and can be utilized in day trading as well as long term trading successfully. **Join the winning team** and take control of your financial future. No one will take care of your money better than *you!*

We offer a wide range of services:

- NEW 8-Week Home Study Course
- 2-Day Private Tutorials
- Free Ongoing Technical Support
- Psychological Assistance
- Free Indicators Included in Course
- Designed for Commodities & Stocks

The holistic approach to trading and investing.

We don't just teach... We trade!

Indicators Compatible with:
• CQG™ • eSignal™ • MetaStock™ • TradeStation™

"I started out with $23,500 in my account. As of today I have over $50,000 in cash and open contracts. In less than six months I have over doubled my account" -D. Todd

For more information call: 760-436-8054
Or email: traders@profitunity.com

Visit us at: WWW.PROFITUNITY.COM

Testimonials were sent to Profitunity Trading Group from actual investors trading the Profitunity Trading Group system. There is a risk of loss in trading commodities.

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

Biotechnology Index Completes Reaction Move

by Chaitali Mohile

By forming a bullish wedge, the biotechnology index gets ready to continue the bull run.

Tradable: $BTK

The 200-day moving average offered support to a 120-point rally from 720 to 840. $BTK at 840 retested its all-time high but then lost around 40 points. The reaction began with range-bound consolidation initially, thereafter losing previous support. A bullish falling wedge is a bullish formation in an uptrend. The breakout from this formation restarts the bullish rally. In Figure 1, the biotechnology index has formed a bullish wedge during its reaction move. This shows that the reaction is complete and bulls may regain the rally. The index has broken out of a bullish wedge, moving 20 points from the breakout level.

The method to calculate the breakout level is by measuring the length of the wedge. The length of the wedge in $BTK is (830 - 800). By adding 30 to the breakout level of 800, we get the target of 830; 840 as the lifetime high of the index can also be considered to be the next target. As the index gets closer to its target and all-time high, the individual stock may also offer good buying. I would recommend strict profit booking around 830 and 840, considering the importance of those levels.

Let's examine what the relative strength index (RSI) and the moving average convergence/divergence

FIGURE 1: BTK, DAILY. The bullish wedge and the reaction move and breakout gives birth to a new upside rally; 840 remains the final target for this rally, with strict profit possible.

(MACD) indicates. At the 840 level on the index, the RSI was highly overbought. The RSI can remain overbought for a longer period, but in Figure 1, the trader can note that the indicator made a lower low and established support at the 50 level. So the RSI still has the bullish strength to carry the price toward its previous high. The MACD (12, 26, 9) gave a bearish crossover during the reaction move but has remained above its zero line, which is the positive outlook for this indicator.

On Figure 2, 750 proved to be the strong support level during the consolidation at the 775 level. The bullish rally with the support of 50-period moving average also moved strongly above the 750 support level. In Figure 2, the similar falling wedge is formed in the daily time frame. Though the price has yet to break out, the target will remain the same. The RSI (14) is overbought at 62 and indicates more space for the bullish rally. The MACD (12, 26, 9) is positive throughout the rally of 120 points.

With this breakout of a bullish wedge, traders should look for the individual equities for more buying opportunities and be watchful for the 840 level on the biotechnology index. Strict profit booking is advised and also individual biotechnology stocks around this same level. ■

FIGURE 2: BTK, WEEKLY. The bullish wedge on this chart has yet to break out.

For more information, visit the S&C ad index at Traders.com/reader/

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

CHART ANALYSIS

Health Care Select Sector Awaits The Breakout

by Chaitali Mohile

Examining different charts of the same sector suggests various technical resistances.

Tradable: XLV

Figure 1, an intraday chart (60-minute) of XLV, shows the double-top effect formed on May 23 and 24. The sector corrected sharply all throughout the session throughout the week, giving up all its gain on prior advance rallies.

An immediate pullback on June 30 occurred on discouraging volume. The two consecutive sessions on May 31 and June 1 established support on 50% retracement level, creating an intraday high at 36.80 that is above the 61% retracement level.

The stock is on edge to recover fully above 36.93, another retracement level, but as resistance this time.

The relative strength index (RSI) (14) and the moving average convergence/divergence (MACD) (12, 26, 9) both indicate positive strength in a pullback rally. This creates the possibility of an upside breakout through the two major intraday resistances:

a) Double top
b) Retracement level.

In Figure 2, which shows the daily time frame, we see that a symmetrical triangle has been formed. Various small candles show an exhausted rally. In the form of a symmetrical triangle, the direction of the breakout is difficult to judge. Whether the upper trendline resistance is crossed or the lower support trendline is violated is difficult to determine ahead of time.

Again in Figure 2, the two indicator positions are quite different from that in Figure 1. The daily chart shows the RSI at 64, indicating a bullish rally ahead. But the MACD (12, 26, 0) is still in the negative zone, even if the MACD histogram continued below its zero line. Such conditions create trading confusion, and traders can only wait for actual breakout.

With a symmetrical triangle I would avoid giving any targets for trading. The usual way to measure a minimum level is by calculating the length of the triangle. So on a directional breakout, the triangle length can be considered.

The advance rally that geared up with the support of 20-period moving average consolidated ahead, forming a flag & pennant. This formation is a continuation pattern of a previous rally —precisely, a bullish rally in Figure 3, which gives more of a positive outlook than Figures 1 and 2. The RSI (14) is marginally overbought, and the MACD (12, 26, 9) with bullish crossover in April remained positive thereafter.

FIGURE 1: XLV, 60-MINUTE. The double top and highest retracement level is the next resistance for intraday rally.

This encourages me to calculate the new level on the breakout of the flag & pennant formation. The length of the advance rally (34–36) is two points. The consolidation range is 36–37, so when you add 2 to the possible breakout level at 37, the new level is 39. This target should be considered only with a confirmed breakout.

Thus, three different charts show different formations but leave us undecided about a breakout. Only Figure 3, the weekly chart, indicates some positive view for the breakout, which is the most awaited. If the retracement resistance in Figure 1, the symmetrical triangle in Figure 2, and the bullish flag & pennant in Figure 3, gives an upside breakout, a fresh bull run is expected, but until then, traders are left in a no-trading zone. ■

Traders.com ADVANTAGE™
This article was first published on 6/6/2007.
See www.Traders.com for more.

FIGURE 2: XLV, DAILY. The upper trendline of a triangle is the resistance for a bullish move. A small doji within the triangle suggests indecision about the breakout direction.

FIGURE 3: XLV, WEEKLY. The flag & pennant breakout direction is up. An actual low-risk trade is possible only with a confirmed breakout.

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

A Reversal In Housing Stocks

by David Penn

The measured move in the housing index takes a hit as interest rates spike higher.

Tradable: $HGX

Interest rates and inventories ... that is the fundamental story of the housing market in the United States.

Housing stocks, as measured by the Philadelphia Housing Sector Index ($HGX), bottomed in April just as long-term interest rates, as measured by the 10-year Treasury note yield index, made a short-term peak. But the resumption of the bull market in long-term rates in mid-May led to weakness in the housing stocks just as the group was moving above its April high.

A month ago, I wrote that a measured move pattern in the $HGX was likely to take housing stocks higher in the near term. I projected a target of about 248 and noted that "a strong move through the 235 level" would be necessary in order to power the index past those April highs. The actual April highs were at 237.

There was a close above 237 on May 22. However, follow-through to the upside was hard to come by. That May 22nd close was followed by two shooting star sessions — shooting stars being a candlestick pattern that warns of waning momentum. The market continued to move sideway into June. But while the market was above the April highs, both the moving average convergence/divergence (MACD) histogram and the stochastic remained below their respective April highs (Figure 1). This divergence between the higher highs in $HGX and the lower highs in both the MACD histogram and the stochastic only added to the warning that the current uptrend in $HGX was under pressure.

That pressure became overwhelming on June 6, as $HGX broke down not only below its uptrend line, but also below the 50-day exponential moving average. So far, this has led only to more selling, as the $HGX is now testing the May lows for support. If support is not found here and the $HGX continues to move lower, the next source of support will be the year-to-date lows made in April at the 213 level. ■

Traders.com ADVANTAGE™
This article was first published on 6/7/2007.
See www.Traders.com for more.

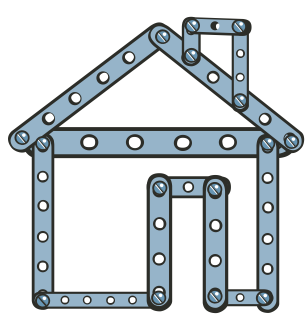


FIGURE 1: PHILADELPHIA HOUSING SECTOR INDEX, DAILY. A breakdown below the 10-, 20-, and 50-day exponential moving averages follows a negative divergence in both the MACD histogram and the stochastic.

Look to the Smart Choice in Charting & Technical Analysis Software... Aspen Graphics.

Free Trial!

ASPEN GRAPHICS

1-800-359-1121
sales@aspenres.com

For more information, visit the S&C ad index at Traders.com/reader/

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

Airline Index Underperforming

by Chaitali Mohile

$XAL has formed multiple bearish flag & pennant formations.

Tradable: $XAL

Bearish flag & pennants are bearish indicators in a downtrend. Certainly, the airline index has formed more than one flag & pennant on its weekly chart (Figure 1). This formation indicates more downside in the index. The continuation pattern suggests the previous decline rally will continue with every breakout of the flag & pennant formation.

The airline index has formed more than one flag & pennant on its weekly chart. This formation indicates more downside in the index.

Figure 1 shows the genuine declining rally with a high at 64. The first downward rally consolidated at 60 and its breakout gave birth to another bearish flag formation and then another, so almost three bearish flags have been formed since early January 2007. The current consolidation range is 50-52, and the flag is most likely heading for a breakout but in a bearish direction only. The range is under the resistance level of a 200-day moving average and a 50-day moving average too, even if the index tries to break out on the upside as a moving average resistance.

FIGURE 1: $XAL, WEEKLY. The multiple flag & pennant formation indicates more downside.

Stochastic (14, 3, 3) is at 20, which could be a buying position for new traders. But the bearish flag & pennant formation do not suggest any reliable buying opportunities. The moving average convergence/divergence (MACD) (12, 26, 9) is negative so no fresh buying is possible.

The daily chart also gives a bearish signal (Figure 2). The two doji candles formed on May 31 and June 1 clearly indicate indecision, and the 50-day moving average resistance confirms more downside. Stochastic (14, 3, 3) has already reached the overbought area so hardly any upside in downtrend can be expected. The MACD (12, 26, 9) is moving higher but below its zero line.

Thus, looking at multiple bearish flags formed on Figure 1 and doji candles under the 50-day moving average resistance level, traders may see more downside and the airlines index will continue to underperform. A short position is possible with a breakout at 50 with prior low pivot of 48 as the first target. ■

FIGURE 2: $XAL, DAILY. The price is under moving average resistance.

Goal: $500-$1,000+/Day!
Learn to MAKE MONEY in Up or Down Markets!
FREE TRADING Lessons, Charts & On-Line Course Demo!
Learn a SIMPLE, yet POWERFUL Trading Methodology that will help you become a professional trader!
E-minis * S&P * NASDAQ * DOW * All Stocks
Interactive Home Study Course & LIVE Training:
Manuals * Audios * DVDs * FREE Ongoing LIFETIME SUPPORT!
LIVE 1-ON-1 Market Training Also Included!
Learn From TODD MITCHELL Who Has Taught Thousands of Traders Worldwide for Over 10 Years!
FREE AUDIO CD
www.tmitchell.com
(800) 664-3343

For more information, visit the S&C ad index at Traders.com/reader/

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

Take Control of Your Trading with the Professional Traders' Starter Kit™

If the whiplash-inducing change from bear to bull market teaches us anything, it's that the best person to trust your investments to… is ***you***.

Technical analysis uses charts to study the movement of the markets as they react to the battles between greed and fear. It's the best way for someone like you to profit steadily. You'll avoid the peril of buying at the top as the bottom drops out, or selling at the bottom while market forces drive prices up. You probably know investors who weren't quite able to do that.

The Foremost Collection For Traders

This massive collection packages the best tools for trading and investing in *any* market!

1. **Technical Analysis of Stocks & Commodities, the Traders' Magazine™**. The premier magazine for technical analysis. You'll get **five years** — 65 issues — including our annual Bonus Issues with our Readers' Choice Awards and comprehensive software listing. *Value $162.38*.
2. **S&C on DVD, version 9.24.** The complete archives on DVD — more than 14,000 pages — from *Technical Analysis of* Stocks & Commodities from 1982 through 2006. You'll own an easy-to-reference copy of articles by Merrill, McMillan, Murphy, Kaufman, and scores more… not to mention interviews with the likes of Acampora, Hill, and Nison among many, many others. Alone, the current version of S&C on DVD sells for *$395.00*, but you'll also receive next year's upgrade — an additional *$39.99* value — absolutely FREE.
3. **Traders.com Advantage™**, premium website content delivering you real-world technical analysis! You'll get **five years** of charts, indicators, and "how-to" advice for specific markets, currencies, stocks, and commodities; near-term opportunities; price movement; new techniques. Posted in real-time with an archive of nearly 2,000 articles. *Value $199.99*.
4. **Working Money™**, the Investors' Magazine online. You'll get **five years** of market observations; explanations of charts, markets, and market sectors; money management; and interviews with money people that will help you trade and invest wisely. Posted in real-time with an archive of more than 500 articles. *Value $199.99*.

$495 SAVE $502.35 OVER BUYING INDIVIDUALLY

SPECIAL OFFER!

Order now and receive your choice of one volume from the Professional Traders' Series (Vol. 1-17 or *Charting The Stock Market: The Wyckoff Method*)!

SAVE UP TO $69.95 MORE!

TA07D1

ORDER TODAY AND TAKE CONTROL OF YOUR TRADING!

Online: Traders.com
Toll Free: 1-800-832-4642
Direct line: 206-938-0570
Fax: 206-938-1307
Email: Circ@Traders.com

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

Semiconductor Index May Get Churned

by Chaitali Mohile

The Philadelphia Semiconductor Index is in a strong support/ resistance zone.

Tradable: $SOX

The Philadelphia Semiconductor Index ($SOX) witnessed a huge correction from early May 2006 to mid-July 2006. On its reverse journey on the bulls side, the index had various support/resistance zones of moving averages. In this article, the support/resistance is in the context of moving averages and not trendlines. The pullback rally gained bullish strength with a 200-day moving average support but faced the resistance of a 50-day moving average. This restricted its upward journey.

The consolidation near the 50-day moving average sustained for about four to five months, losing upside momentum before finally forming a triangle formation. Meanwhile, the 20-day moving average also traveled to support the price breakout for the triangle. The price followed the 20-day moving average support and seems to have achieved its breakout target. Figure 1 shows that the index recently dipped to its low pivot but stood on support of the 20-day moving average. But the previous high pivot may lead to a narrow range-bound move.

The RSI (14) is at 50 and ready to bounce, so buying can be expected.

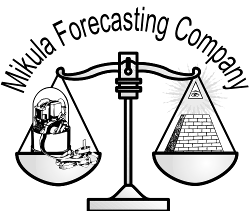
In Figure 1, the moving average convergence/divergence (MACD) (12, 26, 9) gave a bullish crossover back in April 2006 along with a pullback rally. Since then, it has remained positive. But as the price consolidated, forming a triangle, the MACD was volatile but still positive. The relative strength index (RSI) (14) moved with its 50 level support, indicating more upside rally. Both indicators are moving close to its support line, which most likely will leave its impact on price movement as well.

In Figure 2, $SOX is on the 50-day moving average support level and facing the resistance of the 20-day moving average at 495. The narrow range is likely to churn the further bullish path for some time. But traders need to stay alert, as the index holds stronger support than the resistance. As a result, any breakout above 500 will lead a new rally upward. Resistances are meant to be violated. In Figure 2, however, the MACD (12, 26, 9) has positioned for a bullish crossover. The RSI (14) is at 50 and ready to bounce, so buying can be expected. The buyer can look for 510 at its first target and carry on with the stop-loss of 495.

As the move begins with support (purple arrow), the price was unable to cross the moving average resistance, leading to consolidation till the final breakout on April 18. ■

FIGURE 1: $SOX, WEEKLY. Two previous weekly candles stand on support of the 20-day moving average. The prior high pivot may act as resistance to the bullish breakout.

FIGURE 2: $SOX, DAILY. The 20-day moving average is resistance and the 50-day moving average is support. The prices is thus likely to be in a much narrower range till it moves above the resistance line.



Books:

The Definitive Guide to Forecasting Using W.D.Gann's Square of Nine

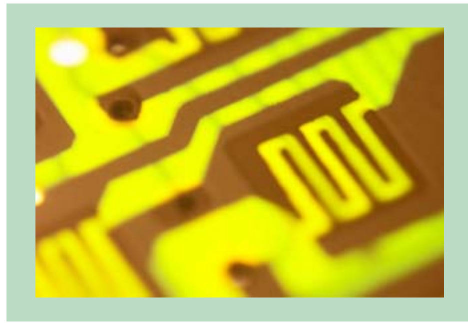
The Best Trendline Methods of Alan Andrews and Five New Trendline Techniques.

MarketWarrior Software

Cycle Forecasts, Siderograph Forecasts, Square of Nine Planet Lines & Aspects, Candle Patterns, Planet Speed, Super-Pitchfork, Trend Tracker

www.MikulaForecasting.com
support@mikulaforecasting.com

For more information, visit the S&C ad index at Traders.com/reader/



Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

Windows®

S&C on DVD*
Version 9.24

Copyright © 2007 Technical Analysis, Inc. All trademarks are the property of their respective owners.

EVERYTHING

we've ever published about technical analysis . . .

That forex trading piece you were told worked so well.

That interview with John J. Murphy.

Making money on a second-chance breakout.

. . . updated through December 2006, at your fingertips!

* For Windows 2000/XP/Vista

Get S&C On DVD 9.24

S&C on DVD 9.24 is the single most information-packed resource in the industry. Put 25 years' worth of the best technical analysis articles, interviews, and reviews to work immediately — order today!

- Make better trades by researching the techniques that will get you into and out of the markets at the right time.
- Trade smarter by testing your trading idea against as many methods as you can find — S&C on DVD 9.24 offers hundreds!
- Limit losses by understanding the psychology of trading — scores of articles will help you avoid the mistakes so many other traders make.
- Profit by learning and using the formulas and computer code used by the experts — it's all here!
- Find the perfect match of software for your trading style by reading through our exhaustive compilation of reviews.

S&C on DVD 9.24 **$395†**
ASK ABOUT ON-SITE LICENSES

Upgrade from Version 8.23	$39.99
Upgrade from Version 7.22	$39.99
Upgrade from Version 6.X	$99.99
Upgrade from Version 5.X	$99.99
Upgrade from Version 4.X	$149.99
Upgrade from Version <2.X	$149.99**

† Washington State addresses require 8.8% sales tax. ** With return of original disk

TECHNICAL ANALYSIS OF STOCKS & COMMODITIES 4757 California Avenue SW, Seattle, WA 98116 • Web: www.Traders.com
TOLL-FREE 1-800-832-4642 DIRECT 206-938-0570 CIRC@TRADERS.COM

TA07A1

YES! I want to trade smarter! Send me S&C on DVD 9.24 today!

❐ S&C on DVD 9.24 $______
❐ Upgrade from version 8.23 $______
❐ Upgrade from version 7.22
❐ Upgrade from version 6.X $______
❐ Upgrade from version 5.X $______
❐ Upgrade from version 4.X $______
❐ Upgrade from version <2.X (with return of original disk) $______
❐ † WA State address, add 8.9% sales tax $______
TOTAL $______

❐ Check enclosed (must be drawn on a US bank, and made payable to Technical Analysis, Inc.)
❐ Charge my (circle one): American Express • MasterCard • Discover • Visa
Card No.________________ Exp. Date ________
Signature________________ Date ________

Name________________
Address________________
____
City ________ State ____ Zip/Postal Code ______Country ______
Day phone (   )__________ Fax (   ) __________
Email ________________

❐ I would like to receive email about Technical Analysis, Inc. products.

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

CURRENCIES

OVERBOUGHT OVERSOLD

US Dollar Index Firms At Support

by Arthur Hill

The US Dollar Index remains in a clear downtrend, but the index is firming near oversold territory and looks ripe for at least a bounce.

Tradable: $USD

On the weekly chart (Figure 1), the US dollar traced out a massive head & shoulders pattern from 1990 to 2007. The left shoulder peaked in 1993–94, the head peaked in 2001, and the right shoulder peaked in 2005. The index declined to neckline support over the last 18 months, and now, a big test awaits. A break below neckline support would seal the dollar's fate for a long time to come.

Support is holding for now, and the head & shoulders remains a potentially bearish pattern. These patterns require confirmation, and the index needs to close below 80 to start the confirmation process. As long as support holds, there is a chance for a bounce off this level and traders should also prepare for some upside.

On the daily chart (Figure 2), the US dollar remains in a clear downtrend, but became oversold at the end of April. Two items point to oversold conditions. The relative strength index (RSI) moved below 70 for the fifth time since 2004 and the index moved outside the falling price channel (gray oval). Both show that the decline has reached an extreme and we should prepare for an oversold bounce.

In addition to oversold conditions, the index managed to firm over the last nine days. There were a couple of rally attempts but each fell short, and the 82 level marks the first line of resistance. A break above this level would be positive and start the oversold bounce. A correction rally could retrace 50–62% of the prior decline, and this would target a move to around 83.4–84. There is also resistance in this area from broken support. ■

FIGURE 1: US DOLLAR INDEX, WEEKLY. Here, the dollar traced out a massive head & shoulders patter from 1990 to 2007.

FIGURE 2: US DOLLAR INDEX, DAILY. The dollar remains in a clear downtrend, but it became oversold at the end of April.

TECHNICAL INDICATORS

Go With The Flow

by Koos van der Merwe

The maxim "Trade what you see, not what you think you see" applies to all charts, but sometimes pure common sense carries greater weight.

Tradable: $UDX

FIGURE 1: US DOLLAR, MONTHLY. Here's a drop in the US dollar, and the further slide expected.

The Economist (April 28, 2007) has an article titled "Buttonwood: Sale of the Century." In the article the writer suggests that the reason for the Dow Jones Industrial Average's recent strength is that companies are buying back their own shares at a record rate, and investors are then lured into buying shares of those companies regardless.

If this is true — and there is no reason to doubt it — we must question why. Why are companies buying their own shares rather than using their surplus cash — profits — to expand and grow their companies, or for that matter, increase the dividends distributed to their shareholders? We can also ask where is the money coming from, increased sales or reduced expenditure?

If companies are buying their own shares, why then are pundits seeing a recession in the US on the horizon?

And therein lays the answer: The fear of a recession in the United States. Personally, I believe that Ben Bernanke, the chairman of the US Federal Reserve, is a great deal smarter than most people believe him to be. I believe he is allowing the US dollar to weaken dramatically, and will continue to do so for a few years to come, or until such

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

Join Us for the optionsXpress Financial Education Event of the Year

optionsXpo℠ '07

October 25 - 27, 2007, Chicago, IL

- The most comprehensive educational event of the year, a must-attend for every stock, options and futures trader!
- Three days and more than 75 hours of intense education, served up by financial investors throughout the industry.
- 19 speakers and counting! Learn from Larry McMillan, Vic Schiller and many others!
- Also hear from Chris Gardner, whose real-life story inspired the hit movie *The Pursuit of Happyness*.

optionsXpress®

Stocks, Options, Futures. One Online Account.

Options involve risk and are not suitable for all investors. Please read "Characteristics and Risks of Standardized Options" available by calling 1-888-280-8020 or from www.optionsxpress.com/downloads/riskstoc.pdf. optionsXpress, Inc. makes no investment recommendations and does not provide financial, tax or legal advice. Content and tools are provided for educational and informational purposes only. Online trading has inherent risk due to system response and access times that may vary due to market conditions, system performance, volume and other factors. An investor should understand these and additional risks before trading. Products and services intended for U.S. customers and may not be available or offered in other jurisdictions.

Copyright © 2007 optionsXpress, Inc. All rights reserved. Member NASD, SIPC, CBOE, ISE, BOX, ArcaEx, PHLX and NFA.

Questions about the registration process? Email the optionsXpo help desk at optionsXpo2007@proactiveinc.com or Call: 1-888-216-4837 (toll-free).
The optionsXpo help desk will be open from 8:30AM–5:30PM (CST) Monday–Friday.

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

time as the US deficit (money that was borrowed with a strong dollar) is repaid with a far weaker dollar. This makes common sense, and brings me to my first chart, the US Dollar Index ($UDX).

Figure 1 is a monthly chart of the US Dollar Index, which shows how the index collapsed from a high of 121.25 on July 31, 2001, to its present level of 81.67, a fall of 32.64% ((121.25 - 81.67)/121.25).

Wait... lights are flashing; 32.6% is not close to a Fibonacci number, a number not to be ignored. Does this not suggest that the dollar could have bottomed and is now going to strengthen?

This scenario does look probable. A look at the chart does show what could be a double bottom, but this will only be confirmed should the index start moving up and break the 92.83 level. The moving average convergence/divergence (MACD) indicator is still weak, and the wave analysis suggested by the program, Advanced GET, is suggesting the possibility of a fifth wave down move as a 73% (73 PTI) probability to a target of 67.94.

This leads me to Figure 2.

Figure 2 is a consolidated chart of the euro, British pound, Australian dollar, and New Zealand dollar. I have not included the yen or yuan. You can see that all the currencies chosen are floating and have strengthened against the dollar. This means that merchandise manufactured in these countries have become more expensive to the consumer in the United States and vice versa. However, my next chart of the yen against the euro, Figure 3, tells a different story.

And then, of course, there is the yuan (renmimbi), not shown on the chart. We all know that the yuan is fixed to the US dollar, adjusted as and when? This is a bone of contention for the United States, which complains that Chinese merchandise is far too cheap. The yen, on the other hand, when compared to the euro, started off tracking the US dollar, but appears to have started leaning more toward the yuan/US dollar from about October 2006.

So if the US dollar is "Dead... dead... dead," to quote Peter Grandich from his May 7th *Grandich* newsletter, where do you as an investor place your money? You may say GOLD, or any other metal out there, for that matter. Molybdenum is becoming the current flavor, and uranium, well, need I say more? Then, of course, you could look for those US companies buying back their own shares, and you could go with the flow. ■

FIGURE 2: EURO, POUND, AUSSIE DOLLAR, KIWI DOLLAR. This chart shows how certain currencies have moved in sync.

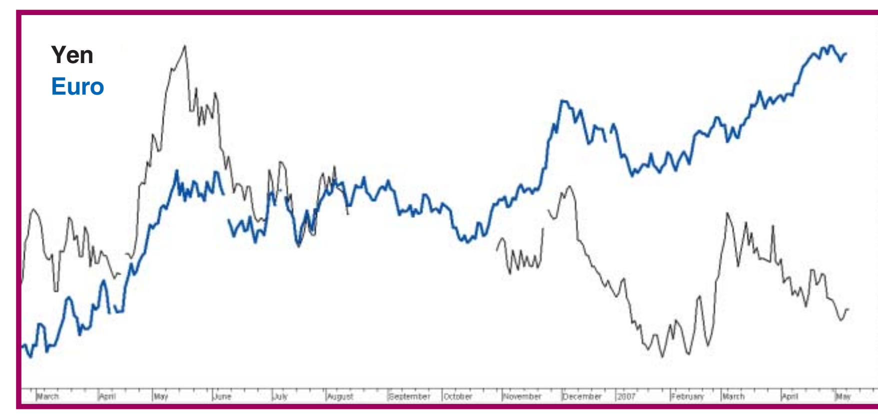


FIGURE 3: YEN VS. EURO. Here's how the yen has moved against the US dollar as compared to the movement of the euro.

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

REVERSAL

Should You Buy The Dollar?

by David Penn

Positive divergences, bullish moving average alignments, and overbought conditions combine to make the greenback attractive.

Tradable: DX, DXM7

Full disclosure: You'll find no one who has been more intermittently bullish on the dollar than I have been. While I've spent time chronicling and anticipating dollar moves in both directions for years, I've always maintained an underlying suspicion that the dollar would sooner or later catch those who were betting heavily against it by surprise.

After all, most of the biggest financial calamities have come as a result of traders and speculators becoming complacent with "can't-lose" bets such as the relationship between short- and long-term oil prices in the early 1990s or Russian debt spreads in the late 1990s. As such, the collapse in the US dollar, widely taken for granted, has been on my contrarian radar for a long time. See Figure 1.

We are again seeing signs of a move higher in the dollar. First, the evidence of a significant low comes from

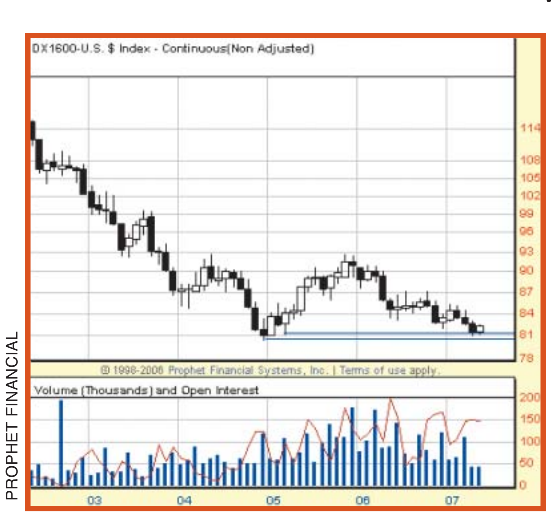


FIGURE 1: US DOLLAR INDEX, CONTINUOUS FUTURES, MONTHLY. The most recent decline in the dollar, which began in late 2005, finds the market testing multiyear lows in the summer of 2007.

FIGURE 2: US DOLLAR INDEX, JUNE FUTURES, DAILY. All that remains from a complete, "all clear" to the upside in the June dollar is a bullish realignment of the moving averages that puts the shortest moving average on top of both the intermediate- and longer-term moving averages.

For Windows 2000/XP/Vista

Traders' Must-Haves

S&C on DVD 9.24

Get The Most Effective Trading Tools In History

Indexed compilation of STOCKS & COMMODITIES Volume Books including articles, product reviews, charts, spreadsheets, computer programming code, art, and glossary, all in searchable, scrollable, printable format.

Technical Analysis of Stocks & Commodities

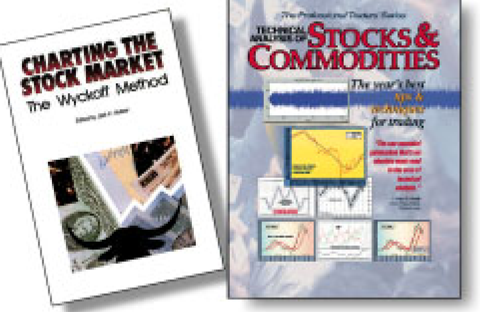
Technical Analysis of **STOCKS & COMMODITIES™**, The Traders Magazine™, is the one trading tool you won't find anywhere else — page after page of practical systems and strategies taken straight from the trading floor and technical analysts. No matter what you trade or your level of experience, STOCKS & COMMODITIES magazine is your ticket to better all-around trading — technically, mentally, and psychologically. ***Each month, you'll learn to be more successful with:***

- Computerized trading systems
- Indicators & oscillators
- Chart formations
- Cycles
- Statistics
- Pattern recognition
- Software reviews
- Real-life trades
- Money management
- Winning psychology and more

Professional Traders' Series

Completely indexed book compilations of all past S&C articles by year, through 1999.

Also available: *Charting The Stock Market: The Wyckoff Method.*



For descriptions of contents, go to http://www.Traders.com/Documentation/library.html

Professional Traders' Starter Kit

Take Control Of Your Trading

The tools you need at a special price. Strategies, charting patterns, indicators, computerized trading methods, and more… 24 years' worth from *S&C on DVD*… the latest from S&C… real-world technical analysis from *Traders.com Advantage*… and the latest for investors from *Working Money*. ***SAVE UP TO 54%!***

HERE'S WHAT YOU GET:	VALUE
S&C on DVD version 9.24	$395.00
with next year's upgrade	$39.99
5 years of S&C magazine	$162.38
5 years of *Traders.com Advantage*	$199.99
5 years of *Working Money*	$199.99
Professional Traders' Book or *The Wyckoff Method*	**FREE†**
TOTAL VALUE *(plus up to $69.95 for book)*	**$997.35**

You pay only $495*

With FREE† book…save as much as $572.30!

US$15 per year shipping (surface rates) required for magazine delivery outside US. Airmail rates available. See coupon below.

SPECIAL OFFER! Buy the Professional Traders' Starter Kit with this ad, and receive your choice of one volume from the Professional Traders' Series (Vols. 1-17 or *Charting The Stock Market: The Wyckoff Method*)!

Qty.	Most books are softcover. DVD is Windows 2000/XP/Vista	Wt.	Price Each	
	Volume 1 *(1982-3, 8 1/2" x 11", 188 pgs.)*	2 lb.	$ 29.95	
	Volume 2 *(1984, 8 1/2" x 11", 224 pgs.)*	2 lb.	34.95	
	Volume 3 *(1985, 8 1/2" x 11", 269 pgs.)*	3 lb.	39.95	
	Volume 4 *(1986, 8 1/2" x 11", 362 pgs.)*	3 lb.	49.95	
	Volume 5 *(1987, 8 1/2" x 11", 387 pgs.)*	3 lb.	49.95	
	Volume 6 *(1988, 8 1/2" x 11", 482 pgs.)*	4 lb.	59.95	
	Volume 7 *(1989, 8 1/2" x 11", 488 pgs.)*	4 lb.	59.95	
	Volume 8 *(1990, 8 1/2" x 11", 607 pgs.)*	4 lb.	SOLD OUT	
	Volume 9 *(1991, 8 1/2" x 11", 606 pgs.)*	4 lb.	SOLD OUT	
	Volume 10 *(1992, 8 1/2" x 11", 667 pgs.)*	4 lb.	59.95	
	Volume 11 *(1993, 8 1/2"x11", 648 pgs.)*	4 lb.	59.95	
	Volume 12 *(1994, 8 1/2"x11", 686 pgs.)*	4 lb.	59.95	
	Volume 13 *(1995, 8 1/2"x11", 683 pgs.)*	4 lb.	59.95	
	Volume 14 *(1996, 8 1/2"x11", 693 pgs.)*	4 lb.	59.95	
	Volume 15 *(1997, 8 1/2"x11", 720 pgs.)*	4 lb.	59.95	
	Volume 16 *(1998, 8 1/2"x11", 720 pgs., hardback)*	5 lb.	69.95	
	Volume 17 *(1999, 8 1/2"x11", 704 pgs., hardback)*	5 lb.	69.95	
	Charting The Stock Market (6"x9", 204 pgs.)	1 lb.	14.95	
	S&C on DVD version 9.24 *(Volumes 1-24)*	n/c	395.00	
	S&C on DVD upgrade (from S&C on CD v8.23)	n/c	39.99	
	S&C on DVD upgrade (from S&C on CD v7.22)	n/c	39.99	
	S&C on DVD upgrade (from S&C on CD 6X or 5X)	n/c	99.99	
	S&C on DVD upgrade (all other ver., w/return of 1.12 or 2.15)	n/c	149.99	
			SUBTOTAL	

SHIPPING & HANDLING FOR BOOKS

US Orders	1st lb.	Each add. lb. or part
Ground UPS	$ 6.30	$ 0.65
2nd Day Air UPS (48 states)	12.50	1.25
Outside US Surface/World	$ 6.50	$ 2.10

International Air Mail	1st lb.	Each add. lb. or part
Air/Canada	$ 6.00	$ 2.00
Air/Mexico	6.60	4.00
Air/So. or Central America	7.75	3.50
Air/Europe	10.00	6.00
Air/Elsewhere	13.00	9.00

Shipping & handling for Books

TOTAL (CONTINUE TO NEXT COLUMN)

CAN'T WAIT? ORDER ONLINE AT: Traders.com

YES! I want to subscribe to ***Technical Analysis of*** **STOCKS & COMMODITIES™, The Traders' Magazine™.**

❑ I want your special one-year savings rate of $49.95 for one year (13 issues)**

❑ **SPECIAL OFFER!** I'll subscribe NOW for 5 years for just $162.38 and get my choice of any one book from the Professional Traders' Series ABSOLUTELY FREE†… or I'll take a free one-year subscription for a friend.***

†Shipping required for overseas delivery. See chart on left. **US$15 shipping (surface rates) required for delivery outside US. Also add shipping for desired book from chart below left.

Name ____________ Company ____________

Address ____________

City ____________ State ____ Zip ____ Country ____________

Day phone (____) ____________ Email ____________ (Required for Professional Traders' Starter Kit)

❑ I would like to receive email about Technical Analysis, Inc. products.

QTY.	DESCRIPTION	PRICE EACH	TOTAL PRICE
	Professional Traders' Starter Kit (email required)* Indicate book desired ____________	$495.00	
	5-year S&C Subscription With Free Book** Indicate book desired ____________ †	$162.38	
	5-year S&C Subscription w/1-Year Gift Subscription For A Friend (complete friend's information, below)**	$162.38	
	1-year Subscription** (includes free software#). Choose one: ❑ Pattern Forecaster Plus ❑ MetaStock ❑ WinTick ❑ Unfair Advantage	$49.95	
		SUBTOTAL	

***GIFT SUBSCRIPTION

Friend's name ____________

Address ____________

City/State/Zip ____________

**S&C subscriptions outside US add US$15 per yr.($75 for 5 yrs) for surface or US$39 for airmail, except Europe, Mexico, Central America, and South America, which are $25.50 (includes gift subscriptions). Airmail for magazine not available to Canada.

*Starter Kit add US$75 for surface or US$196 for airmail, except, Europe, Mexico, Central America, and South America, which are US$127.50. Airmail not available to Canada.

†Shipping & Handling for books, including free book shipped outside US (from chart, left)

Add US$1 per disk for shipping outside US

TOTAL FROM PREVIOUS COLUMN

WA State residents add 8.9% sales tax

TOTAL

❑ Charge my (circle one): VISA • MASTERCARD • AMEX • DISCOVER

Acct. # ____________ Exp. Date ____________

Signature ____________ Date ____________

❑ CHECK ENCLOSED

Checks payable to: Technical Analysis, Inc., 4757 California Ave. SW, Seattle, WA 98116

To order by phone: In the US, call toll-free 1-800-832-4642

24-hour order service: 1-206-938-0570 • FAX: 1-206-938-1307 • Circ@Traders.com

TE07A1

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

the positive divergence in the moving average convergence/divergence (MACD) histogram (Figure 2). This divergence is between the lows of mid-February and the lows of mid-April. In addition, the size of the MACD histogram as the dollar (basis June) bounce in May was the largest it had been since the greenback topped out in early January — another bullish sign.

The June dollar has also become overbought. Contrary to conventional wisdom, overbought markets can often be successfully and profitably traded to the long side (see my Working Money.com article "BOSO" from October 5, 2005). After all, an overbought stochastic simply means the buyers are on a win streak, forcing the market to close at the upper end of its range session after session after session. While this will not last forever, fading a streak (as any gambler will tell you) can be an expensive proposition.

Since first becoming overbought on May 14, the June dollar reentered overbought territory on the 18th. It is important to note there have been follow-through closes above the high of the overbought sessions on the 14th and 18th. This provides confirmation for the overbought trade (a BOSO long), a position that generally can be held until the reverse happens — the market slips from being overbought and shows follow-through with lower closes.

The last factor has yet to fully develop — and may not. However, given the positive divergences, the new MACD histogram peak, and the overbought reading in the stochastic, it is likely that this last factor — a bullish realignment of the short-, intermediate-, and longer-term moving averages — will also manifest itself. Right now, the shortest exponential moving average, the 10-day, has crossed above the 20-day. But both of those moving averages remain below the 50-day EMA. A bullish realignment will occur as soon as both the 10-day and 20-day are above the 50-day, with the 10-day remaining above the 20-day.

Contrary to conventional wisdom, overbought markets can often be successfully and profitably traded to the long side.

The June greenback is advancing toward a source of potential resistance near 82.5. This resistance lingers from the lows of the second half of March. Given that the June greenback has moved almost without correction from its low near 81.25 to almost 82.5, a pullback as resistance is enjoined would not be surprising in the least. If that pullback occurs, however, keep an eye on the stochastic. As long as the stochastic does not lose its overbought status and confirm that with lower closing lows, the advance in the June greenback will remain intact. ■

CANDLESTICK CHARTING

The USD/JPY Breakout Stalls At Target

by David Penn

Bulls exit as a swing rule projection from a recent breakout in the greenback/yen is reached.

Tradable: USDJPY

The US dollar–Japanese yen pair has been in an uptrend since March 2007. That month, the USD/JPY finished a sharp correction brought on by a panic over the health of the carry trade.

If the concerns over the carry trade caused the selloff, then the resulting rally, which has more than retraced the entire correction, suggests that the carry trade is alive and well. The carry trade refers to the purchase of higher-interest rate currencies (in this case, the US dollar) and the sale (or borrowing) of lower-interest rate currencies (in this case, the yen). Speculators take advantage of the disparity in interest rates to secure low-cost financing from one source and higher rates of return from another.

When a market is in an uptrend, the goal of short-term traders is to trade the swings. This means buying the dips or the breakouts to new highs. This can be one and the same, as will be the case in the example provided in Figure 1. One of my favorite sayings about swing trading comes from Oliver Velez Jr. of Pristine.com, who told an audience of traders: "Your mission as a trader is not to buy some of the dips, not to buy most of the dips, but to buy all of the dips. The only question is when."

Japanese candlesticks provide one way for traders to "know when." By spotting basic candlestick reversal patterns at potential support levels during corrections in a trend, traders can find excellent low-cost entries while taking advantage of the power of the underlying trend to move prices in the anticipated direction.

Consider the pullback in the USD/JPY in early June. The market rallied into the month but stalled soon afterward and began a four-day correction lower. On the fifth day, a sizable bullish engulfing pattern appeared suggesting that the correction might be over.

The bullish engulfing pattern is one in which a single bullish candlestick line appears at the end of a downtrend with a high and a low that both exceed that of the previous bearish line (or lines). In order for the pattern to provide a reliable signal, the pattern should be confirmed by some additional technical factor, such as support.

Defined as the place where bearish momentum grew weak, support for this bullish engulfing pattern comes from the long lower candlestick shadow from late May. This, along with the lows of the bullish engulfing candlestick itself, provides a clear "Get Out!" level for traders looking to buy the dip in the USD/JPY uptrend by buying the opening session following the close of the engulfing session.

Another option would be to buy any breakout to a new high. Two dojis follow the bullish engulfing day, and after that USD/JPY surges higher, taking out the highs set on June 1. A trader could buy the close of that breakout and use the level of the breakout as a support point.

What sort of profit target might a trader buying this breakout look for? Since there are no previous peaks to use at price targets, another option is the swing rule. The swing rule calls for traders to measure the distance from a trough low to the top, and to add that amount to the value at the top. In the case of the early June correction in the USD/JPY, we get a swing that projects to 123.51. A trader buying the breakout session's close would be long at 122.59, setting the stage for a 90-odd pip trade. With a stop at the level of the breakout, the trade has roughly 45 pips of risk. A 2-to-1 reward/risk ratio makes this breakout worth buying.

FIGURE 1: US DOLLAR/JAPANESE YEN (USD/JPY), DAILY. The end of this pullback in the uptrend of the USDJPY was signaled by a bullish engulfing pattern. The lowermost horizontal blue line represents the breakout resistance level and the vertical blue line represents the price target based on a swing rule projection from the four-day correction. The higher horizontal blue line represents the current support level for traders who did not exit when the target was reached three days after the breakout.

Three days after the breakout, the USD/JPY closes at 123.61, a few pips beyond the target. And as the spinning tops that have developed since attest, the stalled rally appears to provide an excellent opportunity for traders to take profits. ■

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

MARKET UPDATE

MACD Divergences And Market Direction

by Jack Steiman

Learn what divergences in the moving average convergence/divergence (MACD) can tell you about which way the market is going.

Technicians use an array of technical tools to help them make decisions about why the market is doing what it is doing and what they think the market will do next. They will run down a list of methods and indicators all the way from Elliott wave to stochastics and be able to make a case for each and every one of those methods and indicators.

APPLYING INDICATORS

There is no question that everything has its place. All of these approaches are usable and quite valuable. However, when talking to folks who take my seminar, they tell me how they'd love to apply what they hear from other traders, but they just can't seem to understand what it is they're looking for when dealing with a particular technical indicator or method. When they hear about stochastics or relative strength index (RSI), it all sounds great. But what they want to know is: How do I apply it? An indicator or trading method may sound great, but if traders have trouble applying it, then what's the use? Aspiring traders know there is value in those technical tools, but they cannot quite figure them out — and that is what frustrates them.

Having been in the business of both trading and educating traders and investors, I must admit I use many technical tools to determine my short-term and long-term approach to playing this game. I definitely use triangle setups as they are quite powerful. With ascending, symmetrical and descending triangles, each paints its own picture of possibilities, and all should be analyzed by every trader. There are methods and setups such as the 50-day test, doji candlestick patterns, and "inside days." Finally, stochastics and the RSI are invaluable in understanding when to buy, sell, or stay pat. Again, all of these tools are worthwhile for traders.

THE MACD

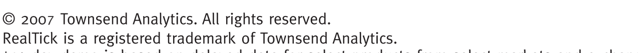
However, as far as I am concerned, there are only two true indicators in this game: (1) the combination of price/volume trends and (2) my favorite, MACD divergences. These are the true rulers of the market and I have used them and taught others to use them successfully for many years. (The key to using these approaches is in keeping it simple so as to actually be able to use this tool, and so this will be my mission for all of you today.)

Before focusing on MACD divergences, I should say there are many different time frames I have found to be useful. The best are the 60-minute or hourly, the daily and the weekly charts, all of which can reveal important divergences between the action of the indicator and the action of the

As far as I am concerned, there are only two true indicators in this game: (1) the combination of price/volume trends and (2) my favorite, MACD divergences.

RealTick offers comprehensive trading tools with unrivaled flexibility and market data access. You only need one platform to identify opportunities, strategize and trade.

Experience the power of RealTick® with your **FREE 14 DAY TRIAL ACCOUNT***, call 888.533.8662 or visit www.realtick.com/trial.



www.RealTick.com

For more information, visit the S&C ad index at **Traders.com/reader/**

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

I can say without exaggeration that MACD divergences work, if read properly, more than 75% of the time. But again, you need to read — and trade — them appropriately.

market. Divergences in the 60-minute chart can alert you to changes in market direction that are about to occur within one to two days in most cases. Divergences in the daily chart tend to tell their tale within one to as many as five days, and divergences in the weekly chart can take from as little as three days to as long as two weeks when anticipating changes in market direction.

Nothing is exact, but these are general guidelines. The key is learning to trust these divergences when they occur and not lose patience when they do not work instantaneously. Unfortunately, many traders make just this mistake. Trading is an emotional game, and you need to trust that these divergences will work given a little leeway and time. I can say without exaggeration that MACD divergences work, if read properly, more than 75% of the time. But again, you need to read — and trade — them appropriately. I will teach you how to do just that, and I will give you some charts to look at as well.

Now that we understand the time frames that are best to refer to, let's talk about the parameters you should use when setting up your MACD. You should use the standard or default settings of 12, 26, 9. These numbers stand for the lengths of various moving averages: a 12-period moving average, a 26-period moving average, and a nine-period moving average. Understanding the relationship between these moving averages is key. Remember that a healthy, uptrending market is one in which the shortest-duration moving average is the highest. Markets are bullish when the 20-period moving average is higher than the 50-period moving average, and when the 50-period moving average is higher than the 200-period moving average. The same is true to the downside. A healthy, downtrending market will feature the shortest moving average as the lowest, followed by longer-term moving averages (that is, intermediate-term below longer-term).

There are two ways to read the MACD. The first method is called the MACD crossover. If you are trading the MACD crossover, then you are focused on which moving average line is the highest (using the bullish example) and when that "crossover" occurred. You know you have a bullish market if the 12-period moving average is over or crossing over the 26-period moving average. Conversely, you have a bearish market if the 12-period moving average is below or crossing below the 26-period moving average. This is the first step in learning how to recognize a market when it is about to switch direction from bullish to bearish or vice versa. Believe it or not, this is how you can outperform a market. By following the MACD, you are catching the turn in the market before it takes place. You are positioning yourself ahead of the masses.

FIGURE 1: MACD DIVERGENCE AT WORK, HOURLY. On this chart of Apple, you can see that AAPL made a low on April 13 and a lower low on April 18. The MACD was forming higher highs, which indicates a positive divergence.

DIVERGENCES

But what about "divergences"? The first step is simply watching price. What you want to do is compare the most recent highs or lows in terms of price. For example, let's say a stock in a downtrend makes a low at $50. The stock rises some ("bounces") and then comes back down and makes an equal or, better yet, a lower low. Let's say two weeks after hitting the low of $50 and bouncing, the stock came down and put in a low at $49.25. This would mean two lows in price, the second low lower than the first — divergences to work with equal lows (that is, if the stock had bounced and come back to make a second low at $50), but lower lows are best.

The next step is to examine the MACD. First, look at the position of the MACD when the stock made the first low at $50, and then look at the position of the MACD when the stock made its second, lower low at $49.25. You have prices making lower lows, but — and here's the key — if the MACD is higher at $49.25 than it was at $50, then the MACD is creating a positive divergence.

The simple way to think about it is this: there wasn't as much selling pressure on the lower low. The MACD is diverging at the lower low in price by being higher versus itself at $50. The MACD is higher, even though the price of the stock is lower. This is the place to be buying.

From a negative or bearish perspective, let's say a stock is in an uptrend and makes a high of $70. The stock comes down and then three weeks later rises back up, this time to $72. If the MACD on the second high of $72 is lower than it was when the stock was at $70, you have a negative divergence. A negative divergence tells traders to think about selling long positions and possibly even going short.

Remember, you're comparing the most recent lows or highs to themselves. Again, the most recent! You are not comparing highs or lows from three or four highs or lows ago. The time frame on the daily or weekly charts should never be more than six

FIELD Financial Group
Don't Trust Your Futures to Just Any Brokerage Firm!
Field Financial Group (FFG) has built its reputation by providing traders with cutting-edge technology and backup support at highly competitive rates.

Does Your Current Commodity Broker Offer:
- ALL Pit & Electronic U.S. Futures & Options Markets?
- Deeply Discounted Commissions?
- Online Trading with:
  - -Cutting-Edge Trading Platforms?
  - -Backup Order Desk?
  - -Real Time Quotes and Charts?
  - -Professional Help Desk?
- Broker-Assisted Trading?
- Verbal Trading?
- IRA (ROTH and Traditional) Accounts?

If you answered **NO** to any of the above questions visit **www.fieldfinancial.com** or call **800-800-6304** for your **FREE Starter's Kit** and **FREE Subscription to Monthly Trader Update Letter**
Futures and options trading involves risk of loss.

More info: **Traders.com/reader/**

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

weeks apart when comparing the most recent highs or lows to themselves. On the 60-minute charts, the space between the highs or lows should never be more than three weeks.

Let's look at an example of a MACD divergence. This example will feature a 60-minute chart as opposed to a daily chart and will include a well-known and well-loved stock, Apple, Inc. (Figure 1).

Shares of Apple (AAPL) fell into a falling wedge pattern late in March 2007. The stock had been moving higher over much of the month, but late in March reached a peak just shy of 97 and began a pattern of lower highs and lower lows throughout the balance of the month and the first half of April. For most of this decline, the MACD moved in tandem, rising when the price of AAPL rose and falling when the price of AAPL fell.

However, near the middle of April this relationship between AAPL and MACD changed. While the price continued to decline, the MACD began moving higher. AAPL made a low in the afternoon of April 13 and a lower low in the morning of April 18. At the same time that AAPL was forming lower lows, the MACD was forming higher highs — specifically, the MACD was higher on April 18 than it was on April 13. This meant that there was a positive divergence in the hourly chart of AAPL and a strong possibility of higher prices in the very near future.

A week after that lower low in AAPL at about 89, the stock was closing above 95.

DIVERGENCES FOR ALL

MACD divergences work in all markets — stocks, forex, futures. Not only is it a powerful, primary tool for trading, it is also what I use most in deciding which side of the market to be on and what stocks to buy or short for my investment/trading newsletter service. MACD divergences have been successful throughout the years, and I would encourage traders to take the time to learn as much as possible about how they work. Paper-trade them first to get yourself comfortable with them, and don't get too complicated. Compare the most recent higher highs or lower lows to themselves and look at the position of the MACD when those higher highs and lower lows are made, and you'll be on your way. ■

This article was originally published on 6/21/2007.

FURTHER READING

Ehlers, John F. [1991]. "The MACD Indicator Revisited," *Technical Analysis of* STOCKS & COMMODITIES, October.

Peterson, Dennis [2001]. "Interpret Stock Prices With MACD," Working-Money.com, May 1.

Wu, Amy [2001]. "A Taste Of The Big MACD," Working-Money.com, September 5.

Gopalakrishnan, Jayanthi [1999]. "Trading the MACD," *Technical Analysis of* STOCKS & COMMODITIES, October.

_____ [2003]. Interview: "Gerald Appel" *Technical Analysis of* STOCKS & COMMODITIES, September.

Daily S&P 100 Index Option Signals

Real Mentoring 15 Day FREE Trial

www.oexoptions.com

PRIVATE TUTORING • FREE TRIAL

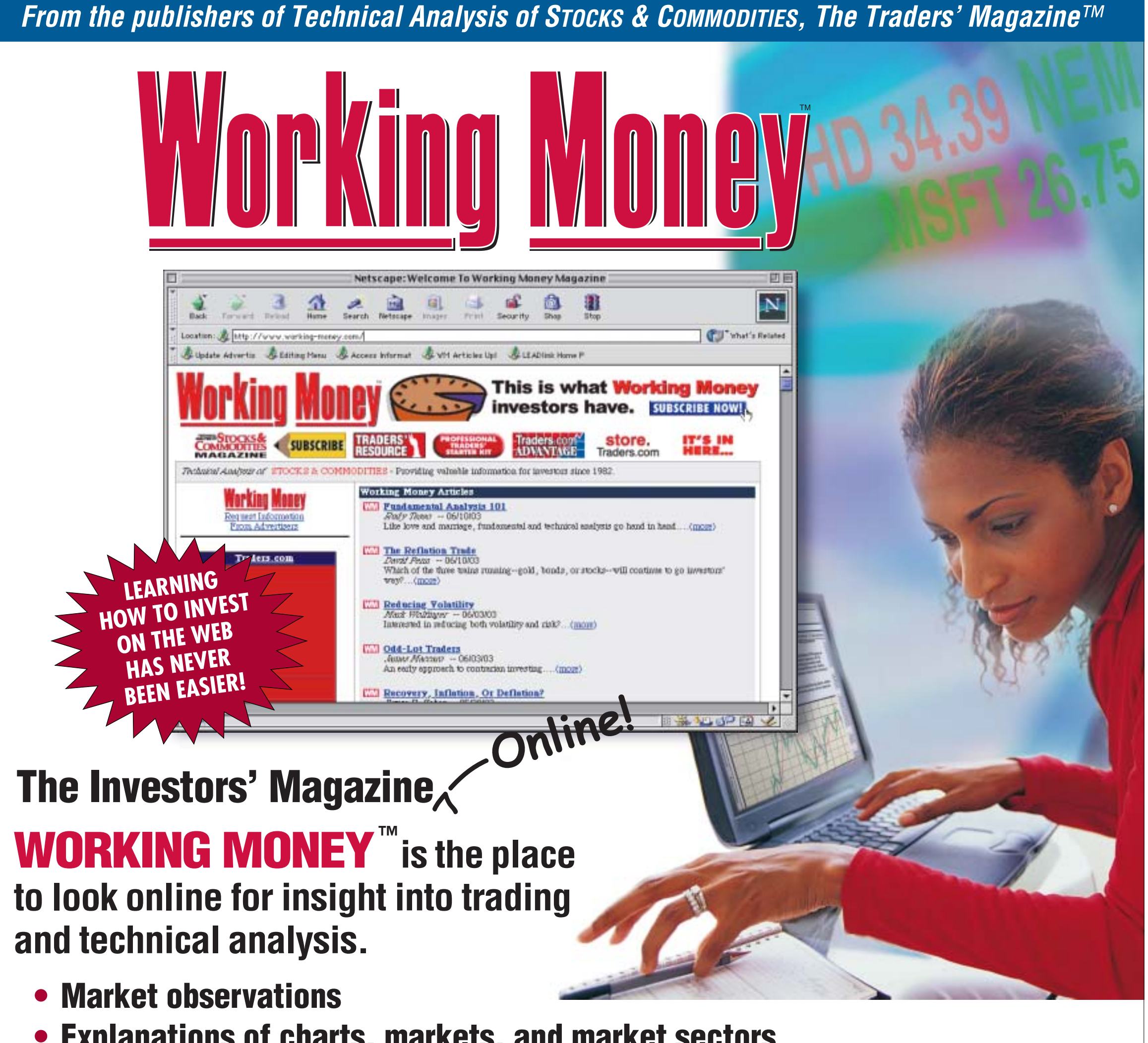
Chicago Board of Trade Member can Teach You to Make Money Trading:

E-MINI S&Ps • Stocks • Currencies • Gold • T-Notes • Grains • ETC

All Trading Methods Taught are Powerful, Precise & can be Traded Electronically

In this Exclusive Trading Course you'll be taught how to Make Money: Daytrading • Inner-Daytrading • Speed-Trading • Intermediate Trading and Long Term Trading.

WWW.JONATHONSTONE.COM
Mr. Stone • 847-295-0056



• Market observations
• Explanations of charts, markets, and market sectors
• Money management

Posted in real-time with full Internet access to our complete archives of Working Money articles.

SUBSCRIBE NOW! ***TOTAL ACCESS — 1 YEAR — ONLY $64.99†!***

For your FREE 30-day trial, point your web browser to WORKING-MONEY.COM!

TECHNICAL ANALYSIS OF STOCKS & COMMODITIES 4757 California Avenue SW, Seattle, WA 98116 • Web: Traders.com
TOLL-FREE 1-800-832-4642 DIRECT 206-938-0570 FAX 206-938-1307 EMAIL Circ@Traders.com

YES! I want to trade smarter! Start my subscription to Working Money, The Investors' Magazine™!

❒ 1 Year	$64.99	$_____
❒ 2 Years	$99.99	$_____
❒ 3 Years	$149.99	$_____
❒ 5 Years	$199.99	$_____
❒ †WA State address, add 8.9% sales tax		$_____
TOTAL		$_____

Please print
Name ________
Address ________
City ________ State ____ Zip/Postal Code ____ Country ____
Day phone ( ) ________ Fax ( ) ________
Email ________
(Required to send password)

❒ Check enclosed (must be drawn on a US bank, and made payable to Technical Analysis, Inc.)

❒ Charge my (circle one): American Express • MasterCard • Discover • Visa
Card No. ________ Exp. Date __ / __
Signature ________ Date ________

❒ I would like to receive email about Technical Analysis, Inc., products.

TA07B2

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

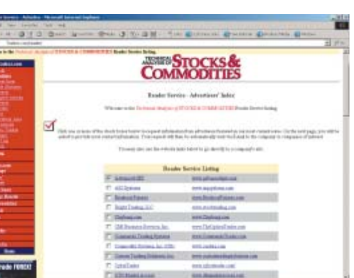
ADVERTISERS' INDEX

FREE INFORMATION FROM ADVERTISERS

***TWO* WAYS TO CONNECT! CHOOSE THE WAY THAT'S EASIEST FOR YOU**

WEB

To help our readers connect better with our advertisers, we have updated our reader service process. Go to **traders.com/reader** and look for the alphabetized list of our current monthly advertisers. Just follow the simple directions below and the advertisers will get your requests the same day!



STEP 1: Point your browser to **Traders.com/reader** and scroll through our alphabetized listing of our current month's advertisers.

Click the box for each advertiser you'd like to hear from. At the bottom of the list, click "continue" when finished.

STEP 2: Simply fill out your name and address and click "Send Request." Your request will then be sent to the advertisers you selected. And that's it!

OR

MAIL OR FAX

OR fill out your information in the box below and check the advertisers you'd like to hear from.
Then fax or mail it back to us!

- ❑ AbleSys Corporation
- ❑ Aspen Research
- ❑ E*Trade Financial
- ❑ EMiniForecaster.com
- ❑ eSignal
- ❑ Fidelity Advertising
- ❑ Field Financial Group
- ❑ FXCM
- ❑ Global Futures & Forex, Ltd.
- ❑ HelpYouTrade.com
- ❑ Mikula Forecasting
- ❑ National Trading Group
- ❑ Ocean Blue Publishing
- ❑ OEX Options, Inc.
- ❑ optionsXpress
- ❑ OptionVue Systems International
- ❑ Private tutoring/Trading Course
- ❑ Profitunity Trading Group
- ❑ Prognosis Software Development
- ❑ R.S. of Houston Workshop
- ❑ StockMarketStore.com
- ❑ Stocks Monthly
- ❑ Townsend Analytics, Ltd.
- ❑ Traders Edge
- ❑ Traders International
- ❑ TradeStation
- ❑ Trading Concepts
- ❑ VectorVest
- ❑ WallStreetWindow
- ❑ Xpresstrade

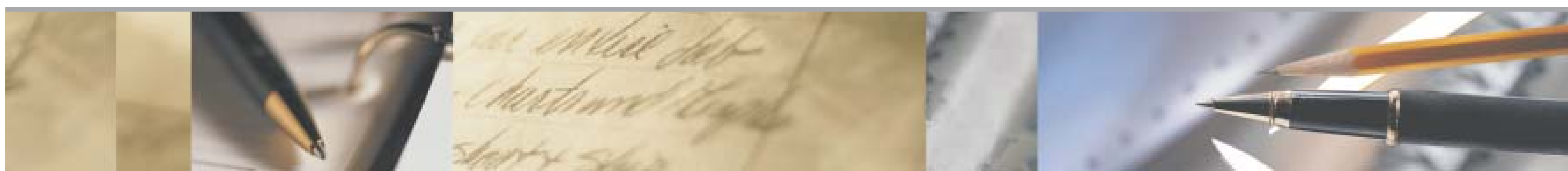
Name ____________________
Company ____________________
Address ____________________
City ____________________ State ________ Zip/Country ________
Phone (   ) ____________________
Email ____________________

Attn: Reader Service Department
4757 California Ave. SW, Seattle, WA 98116
Fax: 206 938-1307

Advertiser Website	Page
AbleSys Corporation www.ablesys.com	13
Aspen Research www.aspenres.com	31
Aspen Research www.aspenres.com	33
Aspen Research www.aspenres.com	35
Aspen Research www.aspenres.com	37
E*Trade Financial www.etrade.com/getoptions	29
EMiniForecaster.com www.eminiforecaster.net	14
eSignal www.esignal.com/offer/tcom	2
Fidelity Advertising www.fidelity.com/wealthlab2	3
Field Financial Group www.fieldfinancial.com	48
FXCM www.FXCM.com	25
Global Futures & Forex, Ltd. www.gftforex.com/trd	5
HelpYouTrade.com www.helpyoutrade.com	23
Mikula Forecasting www.MikulaForecasting.com	40
National Trading Group www.winningedgesystem.com	18
Ocean Blue Publishing www.mayyoubehappy.com	17
OEX Options, Inc. www.oexoptions.com	49
OptionsXpress www.optionsxpress.com/xpo	43
OptionVue Systems International www.optionvue.com	52
Private tutoring/Trading Course www.jonathonstone.com	49
Profitunity Trading Group www.profitunity.com	34
Prognosis Software Development www.elwave.com/S2409	16
R.S. of Houston Workshop www.RSofHouston.com	10
StockMarketStore.com www.stockmarketstore.com	18
Stocks Monthly www.stocksmonthly.com	22
Townsend Analytics, LTD www.realtick.com	47
Traders Edge Website not provided	32
Traders International www.TradersInternational.com	7
TradeStation www.tradestation.com	26-27
Trading Concepts www.tmitchell.com	38
VectorVest www.vectorvest.com/traders	9
WallStreetWindow www.WallStreetWindow.com	28
Xpresstrade www.xpresstrade.com	11

To receive information on the products and services listed in the Editorial and Advertisers' Indexes, go to **Traders.com/reader.** These indexes are published solely as a convenience. While every effort is made to maintain accuracy, last-minute changes may result in omissions or errors.

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.



AUTHORS AND ARTIST IN THIS ISSUE

Kenneth Smith (cover art), *a Chicago native, has had work exhibited and published in a variety of galleries and periodicals. In his free time, he enjoys NPR, classical and jazz music, and keeping his red 1984 Fiero roadworthy. Other examples of his work can be found in http://home.earthlink.net/~smithster/*

Gary Grosschadl *is an independent Canadian equities trader and technical analyst based in Peterborough, Ontario, Canada. His website is www.whatsonsale.ca/financial.html and he may be reached at gwg@personainternet.com.*

Arthur Hill *is currently editor of TDTrader.com, a website specializing in trading strategies, sector/industry-specific breadth stats, and overall technical analysis. He passed the Society of Technical Analysts (STA London) diploma exam with distinction and is a member of IATF-ITFA Belgium. Prior to TD Trader, he was the chief technical analyst for StockCharts.com and the main contributor to the ChartSchool.*

James Maccaro *is an attorney and freelance writer. He has written articles for* Newsday, Ideas on Liberty, The Massachusetts Law Review, *and other magazines. His law journal articles have been cited in several legal decisions, including by the US Court of Appeals for the DC Circuit and by the US Supreme Court. He may be reached at jam@juno.com.*

Chaitali Mohile *is an active trader in the Indian stock market. She may be reached at chaitalimohile@yahoo.co.in.*

Austin Passamonte *is a private trader and currently focuses on all major indexes and sectors with emphasis on the SPX and OEX option markets. He is the current editor for an educational trader's website. He may be reached at austinp44@bi.com.*

David Penn *is Technical Writer for Technical Analysis of STOCKS & COMMODITIES magazine, Working-Money.com, and Traders.com Advantage. He may be reached at DPenn@Traders.com.*

Jack Steiman *is president of TheInformed Trader.com and Steiman New Research Group. He has served as a consultant for several stock market advisory groups and hedge funds but is most passionate about educating individual traders.*

Koos van der Merwe *has been a technical analyst since 1969. He has worked as a futures and options trader with First Financial Futures in Johannesburg and for Irish Menell Rosenberg stock brokerage in the research department as a technician specializing in gold and gold shares.* ■

TRADERS' GLOSSARY

DICTIONARY

Average Directional Movement Index (ADX) — Indicator developed by J. Welles Wilder to measure market trend intensity.

Bollinger Bands — Developed by John Bollinger. Bollinger Bands widen during increased volatility and contract in decreased volatility, and when broken, are an indication that the trend is powerful and may continue in that direction.

Breakout — The point when the market price moves out of the trend channel.

Buy and Hold — The acquisition of a tradable for the long term rather than quick turnover.

Convergence — When futures prices and spot prices come together at the futures expiration.

Divergence — When two or more averages or indices fail to show confirming trends.

Directional Movement Index (DMI) — Developed by J. Welles Wilder, DMI measures market trend.

Elliott Wave Theory — A pattern-recognition technique published by Ralph Nelson Elliott in 1939, which holds that the stock market follows a rhythm or pattern of five waves up and three waves down to form a complete cycle of eight waves. The three waves down are referred to as a "correction" of the preceding five waves up. Fibonacci ratios are applied to the price spans and price targets may be projected.

Exponential Moving Average — A variation of the moving average, the EMA places more weight on the most recent closing price. The formula for calculating EMA is: EMA = (Today's closing price * k) + (Yesterday's moving average * (1-k)), where k = 2/(n+1); n = no. of periods.

Fade — Selling a rising price or buying a falling price. Forexample, a trader who faded an up opening would be short.

Flag — Sideways market price action that has a slight drift in price counter to the direction of the main trend; a consolidation phase.

Head and Shoulders — When the middle price peak of a given tradable is higher than those around it.

Lag — The number of datapoints that a filter, such as a moving average, follows or trails the input price data. Also, in trading and time series analysis, lag refers to the time difference between one value and another. Though lag specifically refers to one value being behind or later than another, generic use of the term includes values that may be before or after the reference value.

Moving Average Convergence/Divergence (MACD) — The crossing of two exponentially smoothed moving averages that are plotted above and below a zero line. The crossover, movement through the zero line, and divergences generate buy and sell signals.

Overbought — Market prices that have risen too steeply and too fast.

Overbought/Oversold Indicator — An indicator that attempts to define when prices have moved too far and too fast in either direction and thus are vulnerable to a reaction.

Oversold — Market prices that have declined too steeply and too fast.

Pairs Trading — Taking a long position and a short position on two stocks in the same sector, creating a hedge.

Relative Strength — A comparison of the price performance of a stock to a market index such as the Standard & Poor's 500 stock index.

Resistance — A price level at which rising prices have stopped rising and either moved sideways or reversed direction; usually seen as a price chart pattern.

Retracement — A price movement in the opposite direction of the previous trend

Simple Moving Average — The arithmetic mean or average of a series of prices over a period of time. The longer the period of time studied (that is, the larger the denominator of the average), the less effect an individual data point has on the average.

Smoothing — Simply, a mathematical technique that removes excess data variability while maintaining a correct appraisal of the underlying trend.

Stochastics Oscillator — An overbought/oversold indicator that compares today's price to a preset window of high and low prices. These data are then transformed into a range between zero and 100 and then smoothed.

Support — A historical price level at which falling prices have stopped falling and either moved sideways or reversed direction; usually seen as a price chart pattern.

Swing Chart — A chart that has a straight line drawn from each price extreme to the next price extreme based on a set criteria such as percentages or number of days. For example, percentage price changes of less than 5% will not be measured in the swing chart.

Trading Range — The difference between the high and low prices traded during a period of time; in commodities, the high/low price limit established by the exchange for a specific commodity for any one day's trading.

Trend Channel — A parallel probable price range centered about the most likely price line. Historically, this term has been used to denote the area between the base trendline and the reaction trendline defined by price moves against the prevailing trend.

Trendline — A line drawn that connects either a series of highs or lows in a trend. The trendline can represent either support as in an uptrend line or resistance as in a downtrend line. Consolidations are marked by horizontal trendlines.

Triangle — A pattern that exhibits a series of narrower price fluctuations over time; top and bottom boundaries need not be of equal length.

Volatility — A measure of a stock's tendency to move up and down in price, based on its daily price history over the last 12 months.

Underlying Security — In options, a stock subject to purchase upon exercise of the option.

Log onto our website at ***Traders.com*** *for our comprehensive Traders' Glossary.* ■

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.

Better software for better trading decisions.

NEW! OptionVue 5 Daily Volatility Charts, expanded scanning, and integrated news!

NEW! Daily Volatility Charts are here! Overlay daily price and volatility to identify correlation patterns and market moves. Add technical indicators and view put/call volume data, and you have the MOST POWERFUL options charting at your fingertips.

NEW! Earnings Search to find big moves! Quickly scan for stocks scheduled to announce earnings after the close of the current trading day or before market opens in the morning.

NEW! Now get Company News in OptionVue 5! Access company news directly from the Quotes Display.

With OptionVue 5, you also get **accurate risk graphs show P/L over any range of prices, dates or volatilities. Plus, there's no limit on analyzing any strategy!** Identify higher probability trades that provide a better return on your capital.

Add OptionVue 5's customized scanners, integrated portfolio and risk management tools, and BackTrader™ strategy testing module, and **you have the most advanced options analysis software to fully manage your risk and profitability.**

Test drive OptionVue 5 for 30-days.
Call or log on today.
www.optionvue.com

Learn from Professional Traders

DiscoverOptions Mentoring

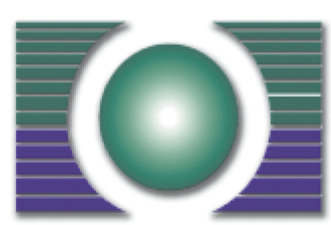
What are the probabilities of trading options successfully after attending a 2-day seminar?

Did you learn your job in 2 days?

Learn from professional traders during this exclusive **SIX MONTH** mentorship program:

- **Personalized, one-on-one instruction with Steve Lentz, trader, author, and educator**
- **Online classes and training**
- **6 month access to OptionVue 5**
- **ONE YEAR of continuing education**

www.discoveroptions.com
1-800-733-6610



OPTIONVUE
Systems International, Inc.

For more information, visit the S&C ad index at **Traders.com/reader/**

Copyrights 2007 © Technical Analysis, Inc. All rights reserved.