

CHART PATTERNS

Cup-With-Handle
For Intel

SECTORS

Weak XLF
Turns Weaker

MARKET UPDATE

US Dollar Index
Tries To Firm

JANUARY/FEBRUARY 2008 US\$7.95

Traders.com

THE MAGAZINE FOR INSTITUTIONAL AND PROFESSIONAL TRADERS™

CHASING THE TREND

Moving averages 10

NASDAQ BREAKS OUT

Surging in a bullish atmosphere 14

STAPLES TESTS A DOUBLE TOP

A tradable move? 23

TSX ENERGY INDEX

Still gushing higher 29

DUELING WEDGES

For Alcoa 32

SEMIS ARE LAGGING

Relative weakness a bad omen? 33

LILLY WINDS UP FOR THE PITCH

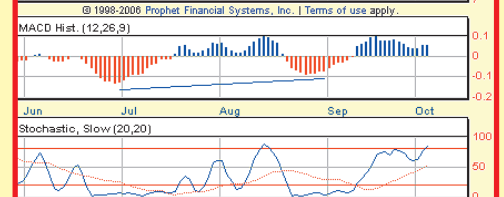
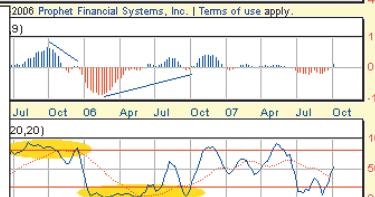
Winding ever tighter 37

DOLLAR DOWN AGAINST THE YEN

Revisit the ascending triangle 41



NATURAL GAS, WEEKLY VS. DAILY



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

Seek to Boost Profits With AbleTrend Intelligent Stops and Sweet Spots

Two Major Benefits of Principle-Based AbleTrend

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

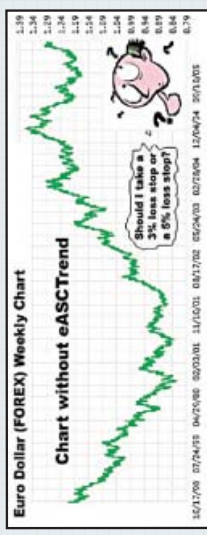
AbleTrend is the principle-based decision-making trading software that uses actual price movement to generate recommendations. Our buy and sell signals are calculated by a proprietary, back-tested algorithm that uses real-time or end-of-day price data - providing timely, specific, and objective signals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

Rational risk management with "Intelligent stops"

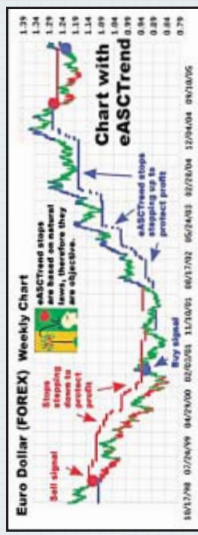
Traders use a stop loss to help protect gains and limit losses. When the market hits their stop, they liquidate their position. Any trading software can suggest stop-placement, but traders should be aware that the type of stop they use could determine if they win or lose. There are stops; there are arbitrary stops, and there are the AbleTrend 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 AbleTrend. 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 AbleTrend, 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!



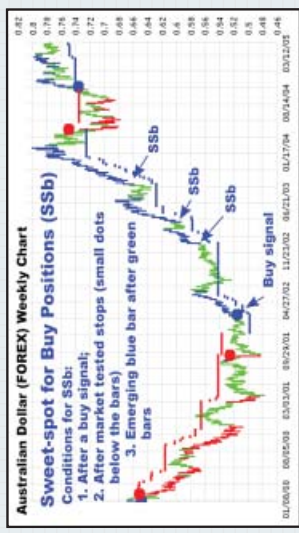
With AbleTrend you can see where the trend changes. Where it's recommended to buy or sell. Where to place stops to help you stay in a trade as long as possible without taking on too much risk. And you have the confidence of knowing that the software is based on meticulous formulas that have been back-tested 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 AbleTrend, 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 AbleTrend software signals sweet spots with the first blue bar to appear after a series of green bars.



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 AbleTrend edge. Sign up for your AbleTrend 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 ASC/Trend indicators and the AbleTrend 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.

30 Day Trial Start Today!
\$20 Discount Code: SCT8JF

Award Winning Trading Software



1997 - 2007

For Stocks, Futures FOREX & Options

AbleTrend 7.0



CAN YOU IMAGINE

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

Announcing AbleTrend 7.0

AbleSys' First Major Upgrade in 7 Years!

- (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
- Percent Chart
- Real-Time AutoScan
- Global Tracking
- Analysis Templates

With AbleTrend 7.0, you can do Autoscan Real-time now!

Autoscan Setting

Symbol List Specifications

Enter filename or open list: C:\Program Files\AbleSys\AbleTrend70

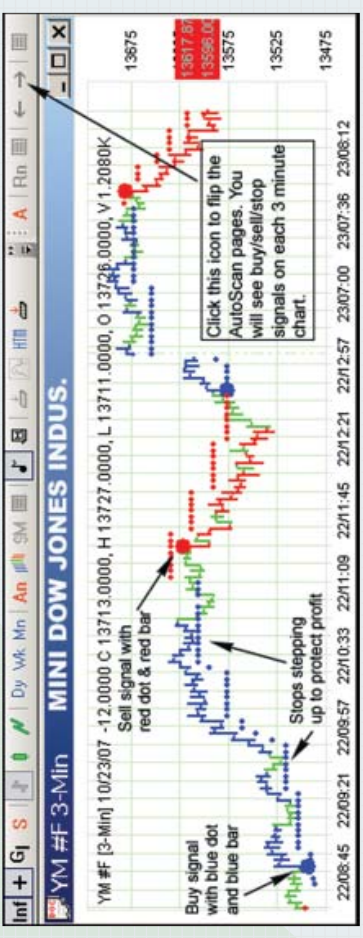
Add Symbols, One Per Line

ES #F, AB #F, NO #F, YM #F

Indicator: AbleTrend1, AbleTrend2

Run Auto

AutoScan monitors your custom symbol list in real time for any time charts - 5-min, 15-min, 30-min, daily, or weekly charts - and gives AbleTrend Buy or Sell signal alerts instantly. Real-time AutoScan charts are updated tick-by-tick, thus empowering you to find good opportunities much quickly and easily.



eASTrend
Reader's Choice Awards 1997-2007 In Stock Trading System's Futures Trading System & Option Trading System

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

ABLESYS
A CTA Firm

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 be 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 those 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.

What Can eSignal Do for You?

"I made \$22,000 in a 5-day period with just \$11,000 in capital."

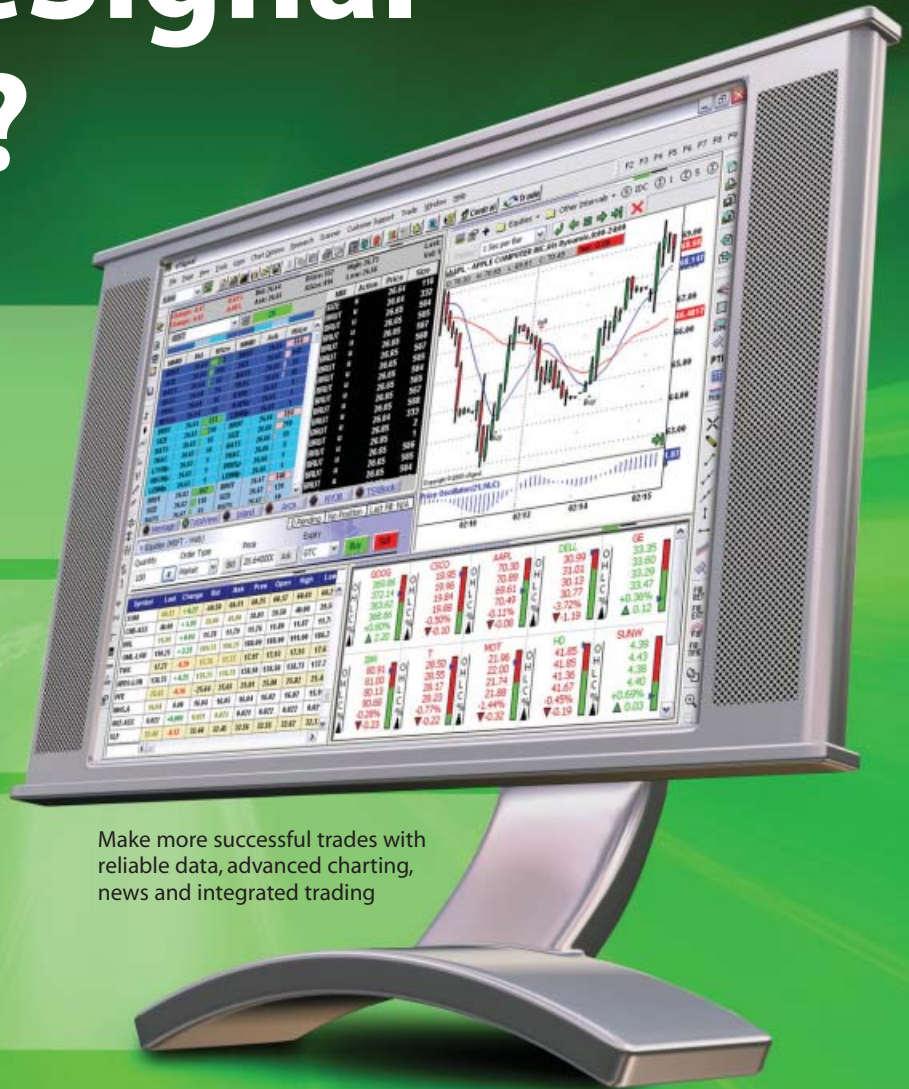
– Dr. Ben

"I have more than doubled my trading account."

– Willie G.

"My first seven trades were all winners with net returns in excess of 250%."

– Philip S.



Make more successful trades with reliable data, advanced charting, news and integrated trading

It's no secret — successful traders have discovered the many benefits of eSignal's award-winning data and software.

eSignal's real-time quotes, scanners, news and charts make it easier to know what to trade and how to trade it.

Find out what eSignal can do for you:

- ▶ Receive award-winning, real-time stock, futures, options and Forex quotes plus market-moving news

- ▶ Use market scanners to pull in your best opportunities from 1,000s of issues
- ▶ Let advanced charting with 100+ free and proprietary technical analysis studies show you when to make your market moves
- ▶ Back test your strategy to find out if it could help you make better trades
- ▶ Use eSignal's seamless integration to trade with your choice of broker

Tens of thousands of traders just like you use and trust the best value in financial market data. **Get your risk-free, 30-day trial today** and find out what eSignal can do for you.



eSignal

Get Your Risk-Free, 30-Day Trial Now!
800.779.0121

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

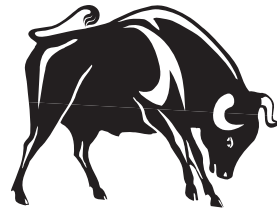
*All fees will be refunded to you, minus any taxes and applicable add-on service/exchange fees, if you cancel within the first 30 days of service. Call for details.

x13550

eSignal has been voted **"Best Real-Time Data"** and **"Best Delayed Data"** by the readers of *Technical Analysis of Stocks & Commodities* magazine every year since 1993.

eSignal has been voted **"Best Real-Time Data," "Best End-of-Day Data," "Best Software for U.S. End-of-Day Traders"** and **"Best Software for U.S./U.K. Intra-Day Traders"** by the members of the Trade2Win website.

Traders.com



THE MAGAZINE FOR INSTITUTIONAL AND PROFESSIONAL TRADERS™

TABLE OF CONTENTS

JANUARY/FEBRUARY 2008 • VOLUME 6 NUMBER 1

Working Money

10 Chasing The Trend With Moving Averages

by Chaitali Mohile

This tool is a reliable and traditional technical indicator with any number of variations.

INDEXES

12 A Morning Star Wakes Up The Dow

by David Penn

A classic Japanese candlestick pattern reveals a bottom in the hourly Dow industrials.

12 Austria I-Share Leaves Behind Clouds Of Uncertainty

by Chaitali Mohile

After long volatile sessions in earlier months, Ewo finally breaks through the hurdles and creates good trading conditions.

14 NASDAQ Composite Breaks Out

by Chaitali Mohile

NASDAQ Composite surged on positive divergence in a bullish atmosphere in the market.

14 Watching The Divergences: Picking A Short Point In The December T-Note Rally

by David Penn

Waiting for a confirming close can make all the difference between getting whipsawed and getting rewarded in the market.

15 10-Year Treasury Yields: Up, Up, And Away?

by David Penn

A confirmed Boso breakout follows both a MACD histogram positive divergence and a sizable MACD histogram peak.



16 Rate Breakdown: 10-Year Yields Get Whacked

by David Penn

Another day, another look at a setup gone awry.

CHART PATTERNS

20 A Support Test For THQI

by Arthur Hill

THQ Inc. is testing support from its prior low, and traders should be on guard for a bounce and a potential double bottom.

21 Wal-Mart: A Bullish Reversal Island Pattern

by Paolo Pezzutti

The pattern was completed on news of higher September sales.

22 A Cup-With-Handle For Intel

by Arthur Hill

Intel formed a bullish continuation pattern over the last two to three months, and a breakout would signal a continuation of the long-term uptrend.

23 Staples Inc. Tests A Double Top

by Gary Grosschadl

Staples is at a crucial point here, with pattern analysis suggesting a tradable move.

26 A Squeeze Play For Safeway

by Arthur Hill

Safeway moved into a tight trading range, and contracting Bollinger Bands point to a breakout sooner rather than later.

26 An Island Reversal For Ann Taylor

by Arthur Hill

Ann Taylor formed an island reversal, and the stock is on the verge of reversing a two-month uptrend.

METALS AND ENERGY

28 Bounding Into Resistance: Positive Divergences Send December Natural Gas Higher

by David Penn

Positive divergences in both the MACD histogram and the stochastic anticipated a move higher in natural gas futures in October.

29 The TSX Energy Index Still Gushing Higher

by Gary Grosschadl

The year 2007 will be remembered by Canadian traders for two main events. First, this year the TSX rose above the DJIA for the first time (currently at 14,332 vs. Dow 13,888). In addition, the loonie started trading higher than the US dollar, which is really a function of the weak US currency.

30 Evening Star In December Gold Awaits Bearish Confirmation

by David Penn

Negative divergences in the MACD histogram and stochastic support potential for correction in the yellow metal.

Attention: Active Traders

See why Fidelity is growing its trading business faster than E*Trade, Schwab, and TD Ameritrade.

Trade like a pro for as little as \$8.

	Fidelity Active Trader Services ¹	E*Trade	Schwab	TD Ameritrade	Your Online Broker
Trades: Online Equity Market and Limit Orders	\$8	\$9.99²	\$9.95³	\$9.99⁴	?
Margin Rate⁵ for debit balance of \$500K	5.25%	7.49%	8.25%	8.25%	?
The Most Free Independent Third-Party Research	YES	NO	NO	NO	?
Portfolio-Level Back-testing¹	YES	NO	NO	NO	?
Dedicated Service 24/7, 365 Days	YES	NO	YES	NO	?

Rates verified as of 11/6/07.

Ask about our expedited account transfer process.

Call **800.396.9289** or visit **Fidelity.com/switch2**



Smart move.®

Market share growth is based on cumulative Daily Average Revenue Trades from 1/03–7/07.

¹ Available to households that place 120+ stock, bond, or options trades in a rolling twelve-month period and maintain \$25K in assets across eligible Fidelity brokerage accounts.

² E*Trade pricing based on making 30 to 149 stock or options trades per quarter. More trading may result in lower commission rates.

³ Schwab pricing based on making 30+ household trades per quarter or 120+ trades per year.

⁴ TD Ameritrade pricing is for all trading levels.

⁵ Margin trading entails greater risk and is not suitable for all investors. Please assess your financial circumstances and risk tolerance prior to trading on margin. Margin credit is extended by National Financial Services, Member NYSE, SIPC. Competitor rates and eligibility may vary at higher margin balances, but rates are not less than 7.24%.

System availability and response time may be subject to market conditions.

Fidelity Brokerage Services, Member NYSE, SIPC

480146.2

Copyrights 2008 © Technical Analysis, Inc. All rights reserved.

Traders.com



THE MAGAZINE FOR INSTITUTIONAL AND PROFESSIONAL TRADERS™

TABLE OF CONTENTS

30 Steel Dynamics Shows Relative Strength

by Arthur Hill

Steel Dynamics formed a big outside reversal at support and a relative strength breakout points to higher prices for the stock.

31 Ballard Power Systems Struggles With Bottom

by Gary Grosschadl

Over the last four months this alternative energy play has tested a bottom three times. Is this third time charmed?

31 December Crude Crosses The Line: New Highs And Negative Divergences

by David Penn

A strong bull market in 2007 took December crude to levels not seen since August 2006. Is it time for crude to come in?

32 Dueling Wedges For Alcoa

by Arthur Hill

Alcoa formed two competing wedges in two different time frames, and these should be watched for the next signal.

33 Technology Select Sector Consolidating At New Levels

by Chaitali Mohile

XLK is undergoing healthy consolidation at all-time highs, leading to a bullish rally.

SECTORS

33 Semis Are Lagging

by Arthur Hill

The Semiconductor Index did not participate in the September rally, and relative weakness is a bad omen as we head into October.



34 Are Boeing's High-Flying Days Topped Out?

by Gary Grosschadl

Boeing Co. has given investors a nice double in stock price in two and a half years, but now a serious challenge comes into view.

35 Consumer Staples Select Sector Surges To Previous High

by Chaitali Mohile

XLP is heading toward new highs.

36 Merrill Lays Low

by Arthur Hill

Merrill Lynch continues to underperform the broader market, and this points to a continuation of the July–August decline.

36 Weak XLF Turns Weaker

by Chaitali Mohile

Financials Select Sector SPDR makes a U-turn from long-term moving average resistance.

37 Lilly Winds Up For The Pitch

by Arthur Hill

Eli Lilly has been consolidating since early June and the coil is winding ever tighter ahead of an impending breakout.



38 Sprint: New Technology Not Paying Off So Far

by Paolo Pezzutti

The communications company plans a huge investment to implement a new technology to access the Internet.

CURRENCIES

39 Bearish mMm Pattern Breaks The Greenback/Swissy Down

by David Penn

A break below support at the 50-day EMA and a confirming close make for a lower USD/CHF.

39 The Falling US Dollar

by Koos van der Merwe

The darkest scenario of the past few years for the world has been a falling US dollar. How much farther?



40 USD/JPY: Breakout And Pullback Off The Bottom

by David Penn

An ascending triangle bottom in August and September hints at higher prices for the greenback against the yen.

41 US Dollar Index Tries To Firm

by Arthur Hill

After becoming oversold and forming a bullish engulfing pattern, the US Dollar Index looks poised for a bounce. Don't get too excited, though.

41 Dollar Down Against The Yen: Revisiting The Ascending Triangle In USD/JPY

by David Penn

A few days after an ascending triangle hinted at higher prices, sellers took the USD/JPY down hard. Here's how it happened.

Working Money

42 Chasing The Trend With Indicators

by Chaitali Mohile

Previously, I discussed various types of moving averages. This time, I will discuss how to identify trends and apply indicators so you can trade successfully.

45 Advertisers' Index

46 Authors And Artist

46 Glossary



Attend FREE—Discover Profitable Trading Strategies and Tools!

TIMELY AND PRACTICAL TRADING EDUCATION YOU CAN GO TAKE WITH YOU AND IMPLEMENT INTO YOUR TRADING STRATEGY THE VERY NEXT TRADING DAY A RARE OPPORTUNITY TO SURROUND YOURSELF WITH THE BEST TRADERS IN THE COUNTRY, SOME YOU'VE HEARD OF, AND SOME YOU HAVEN'T MEET WITH THE DEVELOPERS AND PROGRAMMERS OF TODAY'S MOST ADVANCED TRADING TECHNOLOGIES, SYSTEMS, AND STRATEGIES OBSERVING THE PROS AS THEY TRADE REAL MONEY IN LIVE MARKETS HEARING EXPERT VIEWS ON CURRENT AND IMPENDING MARKET TRENDS AND HOW TO TRADE THEM TIMELY AND PRACTICAL TRADING EDUCATION YOU CAN GO TAKE WITH YOU AND IMPLEMENT INTO YOUR TRADING STRATEGY THE VERY NEXT TRADING DAY A RARE OPPORTUNITY TO SURROUND YOURSELF WITH THE BEST TRADERS IN THE COUNTRY, SOME YOU'VE HEARD OF, AND SOME YOU HAVEN'T MEET WITH THE DEVELOPERS AND PROGRAMMERS OF TODAY'S MOST ADVANCED TRADING TECHNOLOGIES, SYSTEMS, AND STRATEGIES OBSERVING THE PROS AS THEY TRADE REAL MONEY IN LIVE MARKETS HEARING EXPERT VIEWS ON CURRENT AND IMPENDING MARKET TRENDS AND HOW TO TRADE THEM

THE INTERNATIONAL Traders EXPO

www.TradersExpo.com

FEBRUARY 16-19, 2008

NEW YORK

MARRIOTT MARQUIS HOTEL



Meet and Profit from 50+ Top Traders Including:



Linda Raschke



John Carter



Raghee Horner



Lawrence McMillan



Steve Nison



John Person



Larry Pesavento



Jea Yu

Attend in New York and Benefit From:

- **Timely and practical trading education** you can go take with you and implement into your trading strategy the very next trading day
 - **A rare opportunity** to surround yourself with the best traders in the country, some you've heard of, and some you haven't
 - **Meeting with the developers and programmers** of today's most advanced trading technologies, systems, and strategies
 - **Observing the pros** as they trade real money in live markets
 - **Hearing Expert views** on current and impending market trends and how to trade them
- and much more...*

Platinum Sponsor



Silver Sponsors



Media Partner



1258 N. Palm Avenue • Sarasota, FL 34236 • 800/970-4355 • www.InterShow.com • For exhibit space and rates please call 800/822-1134

Register Now: www.NewYorkTradersExpo.com Your Priority Code is 010166

January/February 2008 • Volume 6, Number 1



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
- Graphic Designer** Karen Moore
- 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** karen Adams-Thomas, 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 8.9% 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

Will the US dollar see further lows in the months to come? It's possible that the dollar has hit its low, for now anyway, and will start its reversal move. However, there is also the likelihood that its upward move at the end of 2007 is merely a correction. If the latter is the case, then the US dollar is likely to hit a certain resistance level, after which it will start another downward move that could send it even lower than what it hit during November 2007.

Gold too has shown signs of slowing down after a long bull run that drove the metal to almost \$850 per ounce. Crude oil saw a strong rally for most of 2007, driving its price close to \$100 per barrel. With several other commodities appearing to have significant highs, does that mean that we are witnessing the peak of the commodity cycle?

In this issue of **Traders.com** we have covered several of these markets, suggesting how what's behind us can influence what's before us. David Penn's article "Evening Star In December Gold Awaits Bearish Confirmation," for instance, notes the potential for correction in the precious metal. Then there's Gary Grosschadl's "TSX Energy Index Still Gushing Higher," reminding us what we know everytime we step into our motor vehicles: oil's still going strong. And what about those sectors? "Semis Are Lagging," Arthur Hill tells us, even as technology abounds around us. What does that bode for the coming year? And the US dollar, seemingly in freefall — as Koos van der Merwe asks, how much farther can it go down?



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.

So are we witnessing the final stalling of an amazingly volatile period in the markets, spurred by world events? It's hard to say at this point, only that keeping an eye on the markets of your interest is crucial. Are we stalling, only to go down? Or are we stalling — only to keep on rising? The possibilities boggle the mind!

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 2008 © Technical Analysis, Inc. All rights reserved.

TECHNICAL ANALYSIS OF STOCKS & COMMODITIES

S&C on DVD
Version 9.24

Windows®

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!

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

* 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 8.9% 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

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** \$ _____

Name _____

Address _____

City _____ State _____ Zip/Postal Code _____ Country _____

Day phone () _____ Fax () _____

Email _____

- 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.

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

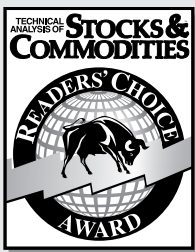
Creating Winning Traders for over 11 years

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...

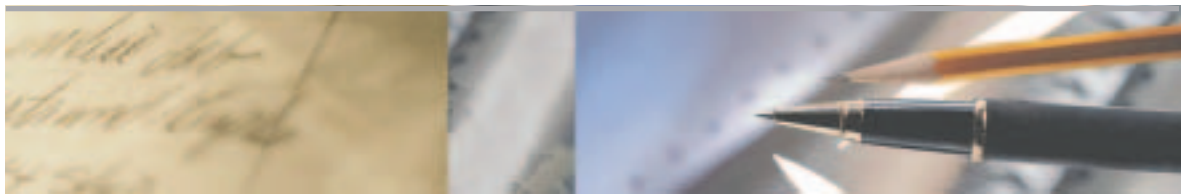
COURSE INFO / CHARTS REAL TRADING EXPERIENCES

www.RSofHouston.com

Sign up for Free Live Trading Demo & Lessons – Today

(281) 286-9736

More info: Traders.com/reader/



THE CHARTIST

Chasing The Trend With Moving Averages

by Chaitali Mohile

This tool is a reliable and traditional technical indicator with any number of variations.

In today's world of high technology and fully loaded software, people have a lot of options when it comes to getting what they want. It is no different for stock market participants. There is various trading software available today, with excellent scanners/filters for stocks, updated with indicators, lines, channels, and just about everything a technical analyst or trader requires. But selecting the perfect combination from this vast ocean of possibility is like extracting a pearl from a shell. Yet people do have faith in the most reliable and traditional techniques to identify whether a market is trading sideways or trending.

Both these aspects form the basis of technical analysis. Robert Edwards and John Magee correctly stated that prices move in trends. To recognize the type of trend and the prevailing price momentum in every market scenario, it's always necessary to follow particular techniques like trend indicators, momentum oscillators, moving averages of different terms, and more.

In his book *On Market Momentum*, analyst Martin Pring analyzed various momentum-based indicators along with moving averages and their interpretation in the existing market. As he noted in his work *Technical Analysis On Stock Market Trends*: "The moving average is a fascinating tool, and it has real value in showing the trend of an irregular series of figures (like a fluctuating market), more clearly."

TYPES OF MOVING AVERAGES

Most of you are probably familiar with this tool, but let's try to understand it in detail. Moving averages are used to smooth the raw momentum indicators that are often jagged. Applying them to specific time spans, market momentum, and stocks (security prices) generates accurate and reliable results. How?

As the time span of the moving average gets longer, it tends to become smoother. Shorter moving averages will be more sensitive. So a five-day moving average will be more sensitive than a 10-day one. Besides applying them to stock prices to identify the market trends, moving averages can be applied to trading volumes.

Different types of moving averages:

- Simple moving averages (SMA)
- Exponential moving averages (EMA)

- Weighted moving averages (WMA)
- Triangular moving averages (TMA)
- Variable moving averages (VMA)
- Volume adjusted moving averages (VAMA)

Simple moving average (SMA)

When calculating SMA, the data of the entire range is given equal importance. The averages are calculated by adding the closing price of the security for a specific period and dividing the sum by number of periods. For example, a 10-day SMA will be calculated as $C1+C2+...+C10/10$. On the 11th day, the closing price of the first day of the original series will be dropped and the moving average will be calculated as $(C2+C3+...+C11)/10$. The simple moving average is also known as the arithmetic moving average.

Exponential moving average (EMA)

When calculating the EMA, more weight is given to the recent data. Because of this it is considered to be more reliable, although more complicated to calculate, than the SMA. The EMA can be calculated based on percentage or number of periods. When calculating on a percentage base, a specific percentage is applied to the day's EMA. This percentage is calculated using the number of periods used to calculate the average.

Weighted moving average (WMA)

When calculating WMA, the most recent data is given more importance. The method to calculate is lengthy but to give you an idea, the data for each day is multiplied by a weighted factor depending upon the number of days (period) in the average.

Triangular moving average (TMA)

This moving average offers maximum weight to the middle values than the most recent or earlier data. The calculation of TMA yields curves known as the double-smoothed simple moving average. You can think of the TMA as the SMA of SMA.

Variable moving average (VMA)

The VMA differs from all these moving averages. Here the emphasis is on volatility in recent data. If prices are volatile, a higher weight is applied to recent data. This tool is most useful in highly volatile markets. It adjusts its weight according to the market conditions.

Volume-adjusted moving average (VAMA)

Richard Arms, developer of the Arms index and

Equivolume charting, developed VAMA. Here, volume is the most important variable and more weight is placed on those days that had higher volume.

Among the six, the SMA and EMA are the most commonly used moving averages. By now you must have understood the importance of time span in moving averages. While interpreting moving averages, you can plot one short-term MA, say 10 or 20-day, one medium-term MA, say 50 days, and a long-term one such as the 200-day MA.

INTERPRETATION

Moving average crossovers provide the most significant signals. When the short-term moving average crosses the long-term moving average from below, it indicates a developing uptrend. A downtrend is signaled if the short-term moving average crosses below the longer-term moving average. These crossovers can lead to whipsaws, so traders should keep an eye on further price confirmation after the crossover.

The crossover feature forms the basis for trend deviation and the moving average convergence/divergence (MACD) indicator. It is so named because two moving averages constantly converge and diverge with each other. MAs are exponential, the default parameters being the exponential moving averages of 12, 25, and nine days. The MACD oscillator can be combined with the SMA or EMA on a price chart.

Martin Pring finds that using moving averages as an indicator in isolation is more reliable than moving average crossover of raw oscillators due to numerous whipsaw signals, noting that “moving average direction change offers a promising approach for providing reliable and timely signals for momentum-trend reversal.” In certain cases, trendlines can be constructed joining peaks or troughs on moving averages. When these lines are violated, more significant trade signals occur. The more the trendline gets tested by moving averages, the greater the strength of the trendline. But if the tool fails to give reliable signals, then that means you either have to expand the time period or smooth the average with an additional exponent.

Besides crossovers, moving averages also act as support and resistance levels. Support and resistance hold great value and generate buy or sell signals.

In an uptrend, the following price/moving average correlations generate buy positions when the price:

- Moves ahead with support of the MA
- Moves above the 200-period MA and retraces back without penetration
- Falls below the MA line while the moving average line is still rising.

There is the possibility of whipsaws occurring if the price declines far below the MA line, and you can expect a short-term rebound.

In a downtrend, sell signals are generated in the following conditions when the price:

- Remains below the long term moving average
- Travels from bottom to the upper resistance of MA and breaks down again.

The penetration of the MA line will occur in close conjunction with the penetration of a trendline. The direction of the trendline and the moving average line will determine whether it will be a buy or sell signal. Moving averages can also be used to identify market consolidations or sideways movements.

There are more trading signals that can occur while you are trading. In my next *Working Money* article, I will discuss a few of the other indicators that are frequently used to identify trading signals. ■

This article originally appeared on 8/29/2007.



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.*

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!

\$495

SAVE \$502.35 OVER BUYING INDIVIDUALLY

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 2008 © Technical Analysis, Inc. All rights reserved.

TA07D1

INDEXES

CANDLESTICK CHARTING

A Morning Star Wakes Up The Dow

by David Penn

A classic Japanese candlestick pattern reveals a bottom in the hourly Dow industrials.

Tradable: \$INDU

I credit Steve Nison's four-DVD set, *Profiting In Forex: Using Candlesticks To Catch The Next Move*, for helping me completely re-evaluate my understanding and use of Japanese candlestick lines and patterns. Is there anything in the DVD set that isn't covered in one of Nison's excellent books, *Japanese Candlestick Patterns* and *Beyond Candlesticks*? Maybe, maybe not. But for someone with a working knowledge of Japanese candlesticks, I found the DVD set to be just the sort of "continuing education" on the subject needed in order to more confidently analyze and trade markets based on these patterns.

That said, let's look at what the candlestick patterns have had to say about the final days of August in the Dow industrials. To my eye, the rally that began late on August 28 and appeared to end late on September 4 was well-telegraphed by a pair of Japanese candlestick patterns. In the first instance, a morning star pattern was confirmed, allowing traders to get long when the Dow was trading around 13150 (September Dow mini-futures at 13174). In the second, a confirmed shooting star pattern let traders get short — or merely exit — at the 13346.19 level (13365 for

the September mini-Dow). For mini-Dow traders, that five-day advance was worth at least \$955 per contract.

In Figure 1, I will look just at the first instance, the morning star.

The morning star pattern developed as the market closed on Tuesday, August 28, and opened on Wednesday, August 29. Looking at the hourly chart, we can see the Dow moving down late on August 28. There is a down hour, followed by a half hour with no upper or lower shadow at all to close out Tuesday. Wednesday began with a strong up hour. This, combined with the previous two candlesticks and the fact that the market had been in a downtrend for the past few days and was oversold in both the stochastic and the moving average convergence/divergence (MACD) histogram, created the possibility of a bullish morning star pattern. This pattern meant, at a minimum, that downside momentum was waning quickly. More ambitiously, this meant there was the possibility of the market actually reversing and heading higher.

Confirmation of the morning star pattern came when there was an hourly close above the high of the pattern. While some are content if an hourly close exceeds the real bodies of the pattern, I am much more comfortable when the close exceeds any shadows as well. That is precisely what happened in the second hour of trading on August 29 as the market closed above the pattern by a good six or seven points. This was all the confirmation needed for short-side traders who hadn't completely reduced their exposure to do so, and for long-side traders to take a position for the anticipated ride higher. ■

REFERENCES

Nison, Steve, and Ken Calhoun [2007]. "Profiting In Forex: Using Candlesticks To Catch The Next Move," four-DVD set, <http://www.stocktradingsuccess.com>.



FIGURE 1: DOW JONES INDUSTRIAL AVERAGE, HOURLY. A morning star pattern begins in the final hours of trading on Tuesday and completes in the first hour of trading on Wednesday. One hour later, the morning star pattern is confirmed and the Dow set to move higher.

www.stocktradingsuccess.com.

Nison, Steve [1991]. *Japanese Candlestick Charting Techniques*, New York Institute of Finance/Simon & Schuster.

____ [1994]. *Beyond Candlesticks*, John Wiley & Sons.

Traders.com ADVANTAGE™
This article was first published on 9/5/2007.
See www.Traders.com for more.

SUPPORT & RESISTANCE

Austria I-Share Leaves Behind Clouds Of Uncertainty

by Chaitali Mohile

After long volatile sessions in earlier months, EWO finally breaks through the hurdles and creates good trading conditions.

Tradable: EWO

The large number of red candles in the chart in Figure 1 show the high volatility and selling pressure in the Austria i-share (EWO). Moreover, the gap down from a wide-range consolidation was a clue for further down-

fall. With the support of a 200-day moving average, EWO tried to consolidate and rush upward. But another gap down encouraged bears, gradually dragging down the stock to the lowest level of 33.84. Now the bulls had two strong resistances, the 50-day and the 200-day moving average. The first pullback rally towards these resistances failed and the higher low at 35.64 was formed. The bearish moving average crossovers weaken the stock further, so the pullback cooled off a bit.

The upside move lost its steam as can be seen by the cluster of dojis. The rally was trapped between the 50-day MA support and the 200-day MA resistance. The breakout from this area was important to bring back trader confidence.

If you look at the chart you see that price moved to a lower low from 36.5 to 33.84. At this time a double bottom formed on the RSI (14) (oversold at same level). The RSI (14) began its upward rally and gained the bullish strength steadily as it moved above 50 levels.

Meanwhile, the moving average convergence/divergence (MACD) (12,26,9) also climbed into positive territory, forming a new high. Therefore, the buying pressure was seen increasing as the price moved out of the support/resistance area.

With the newly formed 200-day MA support and on positive indicators, the price made a high of 39.53 on breakout. The previous high of 38.95 was violated, and therefore, traders got a fresh buying opportunity above 39.53 with a stop-loss at 38. Here, the stop-loss is very important, as the volume still stands below satisfaction and can drag the price back to 50-day MA support. So for a low-risk trade, keeping a tight stop-loss will prevent whipsaws.

On the weekly chart (Figure 2), the 50-day MA has been a shield during a volatile session in the past. Only the July turbulence drifted the stock below the 50-day MA support. The present rally also began with the same support as before. The stop-loss gives a higher weight on the weekly chart, as the 50-day MA support is close to 38 levels. Both indicators suggest the successful



FIGURE 1: EWO, DAILY. The Austria i-Share has violated a 200-day moving average resistance and is headed toward previous highs. The stop-loss of 38 is necessary during this trade.

FIGURE 2: EWO, WEEKLY. The 50-day moving average offered strong support to the bullish rally.

breakout as the RSI (14) has good support at the 50 level and the MACD (12,26,9) is on its way to positive territory with a bullish crossover.

Traders can go long above 39.53, following a strict stop-loss at 38. ■

Traders.com ADVANTAGE™
 This article was first published on 10/9/2007.
 See www.Traders.com for more.

STOCKCHARTS.COM

Copyrights 2008 © Technical Analysis, Inc. All rights reserved.

How Does FXCM Offer Lower Spreads?

Fractional Pip Pricing

EUR/USD		14:31:10	
Low: 1.36050		Low: 1.37100	
1.36 21 ¹	▲	1.36 22 ⁸	●
Sell	100	Buy	

Providing You with LOWER SPREADS!

Learn How with a **FREE \$50,000 Practice Account**



[WWW.FXCM.COM](http://www.fxcm.com)

FOREX CAPITAL MARKETS, FINANCIAL SQUARE 32 OLD SLIP, 10TH FLOOR, NEW YORK, NY 10005 USA. 1-888-503-6739

WARNING: Trading foreign exchange on margin carries a high level of risk and may not be suitable for all investors. Before deciding to trade foreign exchange, you should carefully consider your monetary objectives, level of experience, and risk appetite. You should be aware of all the risks associated with foreign exchange trading and seek advice from an independent advisor if you have any doubts. Past returns are not indicative of future results.



FIGURE 1: \$COMPQ, DAILY. The positive divergence on the histogram and the higher lows on the RSI (14) support the 50-day moving average breakout. The NASDAQ Composite index would soon reach its old high levels.

FIGURE 2: \$COMPQ, WEEKLY. The lower level consolidation accumulated the strength for a breakout.

BREAKOUTS

NASDAQ Composite Breaks Out

by Chaitali Mohile

NASDAQ Composite surged on positive divergence in a bullish atmosphere in the market.

Tradable: \$COMPQ

Two moving averages kept the NASDAQ Composite (\$COMPQ) in a wide range throughout August. The first breakout of the 50-day moving average (MA) resistance failed, resulting in a strong downfall, even below the 200-day moving average. However, the 200-day MA support was established immediately by a fast recovery in price with strong bullish indicators. The relative strength index (RSI) (14) held its 30-level support, even when the index moved below the 200-day MA, indicating a reduced bearish force. In addition, the histogram formed a higher low, reconfirming limited downside. These two bullish indications increased the volume, supporting the

possibility of a bullish rally.

Now, the second breakout of the 50-day MA seemed uncertain as the doji candle was formed prominently on the resistance line. But by this time the buyers were already in with good volume, and the histogram has positive divergence, and the RSI (14) continued to remain above the 50 level (Figure 1). The histogram has moved above the zero line with new highs, while the price was stuck at the 50-day MA with a doji candle. Not only that, the RSI (14) has higher lows and higher highs, offering new buying opportunities.

Tuesday's bullish session has closed below the day's high but has established strong support on the 50-day

MA. The RSI (14) has moved vertically and indicates bullish strength in this new rally. In addition, the increase in volume would help to sustain the breakout. Thus, this breakout can be bought with previous highs as targets.

The weekly chart (Figure 2) supports the breakout. The index has formed a strong bottom at the 2500 level above the 50-day moving average. The RSI (14) has moved steadily above the golden level of 50. The histogram though in negative territory has formed a higher low. So the indicators are bullish on a breakout rally. This medium-term chart also supports buying on a breakout rally. ■

Traders.com ADVANTAGE™
This article was first published on 9/5/2007.
See www.Traders.com for more.

REVERSAL

Watching The Divergences

Picking A Short Point In The December T-Note Rally

by David Penn

Waiting for a confirming close can make all the difference between getting whipsawed and getting rewarded in the market.

Tradable: TYZ7

For years I struggled to figure out how best to enter a market after a given buy or sell signal. For the most part, I looked at the range of the signal session as a key, sometimes using the average true range indicator, but other times simply adding or sub-

tracting some fraction of that signal session's range to the high or low of that session as a target for a long or short trade.

At this point, I rely on something much simpler: a follow-through, confirming close beyond the high or low of the signal session. Whether a market's confirming close is only half a point beyond the high or low or five points, that kind of follow-through, it seems to me, is all that is required to show that a market is actually capable of moving in the desired direction (as opposed to simply no longer moving

in the old direction).

Consider the example of December Treasury notes (TYZ7) (Figure 1). The market for these notes had been in a strong bull trend. This bullishness was made clear when the moving average convergence/divergence (MACD) histogram peak in late July exceeded that of late June. Increasing MACD histogram peaks are one signal of a market that is gaining in momentum to the upside. Traders of T-notes in late July knew that, however much the market might correct in the meanwhile, the price

highs of late July would be exceeded. As it turned out, they were exceeded within two calendar weeks.

But consider the December Treasury note market from the perspective of a doubter looking to fade the rally (as I was in late July, looking at certain candlestick patterns in isolation). The first negative divergence in the MACD histogram was confirmed on August 22 with a mMm pattern. Was that negative divergence a short and a potential end to the T-note rally? No. Why? The market failed to make a follow-through confirming close in the form of a close below the low of August 22.

There was intraday penetration of the August 22nd low of 108.453. On August 23, the market for December T-notes traded as low as 108.1875. However, the close of that session saw the market rally back to 108.8125. Based on that close, the negative divergence pattern should not be traded to the downside.

Bearish traders got another opportunity on August 31, as the MACD histogram developed another negative di-

vergence. But once again the market failed to close below the low of August 31 — meaning no short trade.

The market for December T-notes eventually did throw a bone to the bears with the negative divergence in the first half of September. The mMm pattern within the negative divergence was completed as of the close on September 11, and that divergence was confirmed by a follow-through lower close on September 12 at 110.5781. A day later December T-notes were closing at 110.0156, a gain of more than \$500 per contract.

Will this tactic of waiting for the confirming close work in every instance? Of course not. When markets are especially volatile and indecisive, when control of a market is shifting rapidly back and forth between bulls closing the market at or near the highs one day and bears closing the market at or near the lows the next, confirming closes will carry less weight. But more often than not, waiting for a confirming close will provide that much more assurance that the market *can* do what you want it to do as a trader. And in the



FIGURE 1: 10-YEAR TREASURY NOTE, DECEMBER FUTURES, DAILY. Multiple negative divergences emerged as the market for December T-notes moved higher in the late summer and early autumn of 2007. Yet it was not until a confirmed close in the first half of September that these negative divergence signals produced a tradable move.

proper context, that assurance is all that is needed for a sound trade. ■

Traders.com ADVANTAGE™
 This article was first published on 9/26/2007.
 See www.Traders.com for more.

REVERSAL

10-Year Treasury Yields: Up, Up, And Away?

by David Penn

A confirmed BOSO breakout follows both a MACD histogram positive divergence and a sizable MACD histogram peak.

Tradable: \$TNX

Yields on 10-year Treasury notes (\$TNX)—the proxy for the cost of long-term borrowing—peaked in mid-June of this year and by mid-July, yields, as measured by the \$TNX, were in full-blown decline. It was in July that the \$TNX slipped below its 50-day exponential moving average (EMA) and, perhaps even more convincing, became dramatically oversold as measured by the stochastic oscillator.

In fact, save for four days in early August, 10-year Treasury note yields were oversold from mid-July to mid-September, representing an excellent trend trading opportunity for bond bulls.

My favorite scenario to look for in a

market that has been or may be in the process of bottoming is to look first for the positive divergence, which indicates waning momentum to the downside. The second thing I like to see is a bounce that features either a moving average convergence/divergence (MACD) histogram peak that towers over all recent MACD histogram peaks going back more than a few months, and a BOSO breakout (that is, a stochastic becoming newly overbought). See Figure 1.

The current case of the \$TNX features both characteristics. The MACD histogram peak is the largest in \$TNX going back for two years in the daily charts. With regard to the stochastic and the BOSO breakout, the \$TNX attempted such a breakout on September 24, but there was no close above the high of that session in order to confirm the move. Confirmation did come, however, on October 12, as the \$TNX closed above the highs of both the old September 24th session and a newer BOSO buy signal from October 9.

Although it is always possible for a market to retest the lows after a bounce, the technical makeup of the market seems to suggest that such a retest is less likely in this case. Not only does the newly overbought stochastic strongly suggest higher prices before lower ones, but also the advance off the



FIGURE 1: 10-YEAR TREASURY NOTE YIELD (\$TNX), DAILY. A running positive divergence in the MACD histogram helps indicate a bottom in early September. Note the size of the MACD histogram (highlighted and in blue) that develops shortly after the bottom is made. Note also the highlighted candlestick in the price panel, which represents the entry session for the long BOSO trade based on the stochastic.

bottom thus far has been contained by trend channel. What is particularly interesting about the lower boundary of the trend channel as mid-October approaches is the way that boundary has synched with the 10-, 20-, and 50-day

EMAs to create at least the appearance of strong support at the 46 level. ■

Traders.com ADVANTAGE™
 This article was first published on 10/16/2007.
 See www.Traders.com for more.

TECHNICAL ANALYSIS

Rate Breakdown: 10-Year Yields Get Whacked

by David Penn

Another day, another look at a setup gone awry.

Tradable: \$TNX

About a week ago I looked at the bullish prospects for 10-year Treasury yields (“10-Year Treasury Yields: Up, Up, And Away?” Traders.com Advantage; October 16, 2007). At the time, the \$TNX looked like it was very well set up to move higher: there was a solid positive divergence in the moving average convergence/divergence (MACD) histogram, a spike higher in the histogram immediately following the divergence, and a confirmed BOSO breakout as the stochastic moved into overbought territory.

But a funny thing happened on the way to higher 10-year yields: panic.

Nervous investors began swapping bonds for stocks on October 17, and within days,

both the stock market and the yields on the 10-year Treasury note were in sudden sharp decline. While the \$TNX has not set a new low as of this writing, the force with which the market turned around to the downside in mid-October likely caught more than a few speculators on the wrong side of things. See Figure 1.

As I did with another market analysis that turned out differently than anticipated (see my Traders.com Advantage piece, “Dollar Down Against The Yen: Revisiting The Ascending Triangle In USD/JPY,” from October 23, 2007), let’s take a look at this reversal session by session to see what clues might have been available to warn traders when the “can’t-lose” long turned into — at least — a short-term opportunity for the bears.

It was not a big surprise that the breakdown in the \$TNX was so sharp. The technical picture was quite promising coming out of the first half of October: trend channel and moving average support, a sizable positive divergence in the MACD histogram, and the confirmed BOSO long signal in the stochastic. However, when the \$TNX formed negative divergences in both the MACD histogram and stochastic the day after the



FIGURE 1: 10-YEAR TREASURY NOTE YIELD INDEX, DAILY. Negative divergences in both the MACD histogram and stochastic developed just after a confirmed long signal in the stochastic (BOSO breakout). Those negative divergences were confirmed one session before the 10-year T-note yield index plunged below the 50-day exponential moving average en route to lower levels.

stochastic buy signal was confirmed — and when those negative divergences were confirmed by a lower, follow-through close on the day after that — the potential for the long trade needed to be reevaluated in light of the reality of indicators gone if not wild then certainly not bullish, either.

The day after the bearish signals were confirmed, the \$TNX crashed, falling from roughly 4.64 to 4.54. Over the next five days, the \$TNX only moved lower until it was testing those very same early September lows whence the rally had come. It goes without saying that, given the previous positive divergences, it will be very much worth watching to see whether those early September lows hold. ■

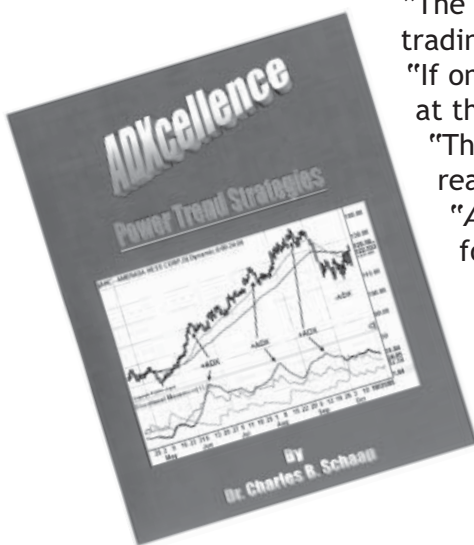
Traders.com ADVANTAGE™
This article was first published on 10/25/2007.
See www.Traders.com for more.

Copyrights 2008 © Technical Analysis, Inc. All rights reserved.

A TREND IS A TERRIBLE THING TO WASTE

ADXcellence—Power Trend Strategies

By Dr. Charles B. Schaap



“The most excellent book I’ve ever read on trading... the author held nothing back.”
 “If one wishes to be a trader... *ADXcellence* must be at the top of the list.”
 “This book is brilliant! One of the best books I have read.”
 “*ADXcellence*” is an expensive seminar in book form. I’ll take two! ”

There is also a CD on pivots and trendlines. Be a Trend Master. Because if you don’t understand Trend...you don’t understand.

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

OPTIONS “40 IN 4”

In 13th year!
Win ratio consistent near 80%
Now you can choose “Op40” as a team with:

“9 TO 1 EDGE FINDER”

- **Objective:** +40% gain or more, within 4 days
- **Homework:** 10 to 20 minutes after the close
- **Data needed:** S&P 100 index options prices only
- **Signal Logic:** Plain math gives you your next day’s Trading Edge value, which controls the profit outlook
- **Special Signals for +90%:** Large Gains Module of the “9 to 1 Edge Finder” is able to predetermine extra high potential.

KVS Inc., our 39th year.
Modest one-time fee.
See results by fax, mail or email:
op40email@aol.com
800-334-0411 ext. 12-S
From outside USA: 828-692-3401

We've added something wonderful to our amazing trading software,

DealBook[®]360

Just look. ▶



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

FUTURES!

As a pioneer in online trading with more than a decade of experience in the forex market, we've been able to develop and refine our DealBook® 360 trading platform to appeal to all types of traders. And now we've added something for a whole new type of trader—**futures traders**.

You'll get the same free, advanced trading platform with the features, tools and charting capabilities our forex trading customers rely on. With our new global futures offerings, you can use DealBook® 360 to **trade more than 300 futures products** from major global electronic exchanges—all with **deeply discounted commissions**.

No matter what you are looking for from a futures broker, from maximum flexibility to specific trading tools, we probably have it. Just look at some of the features we offer to suit every trading style and skill level, from novice to experienced professional.

GFT futures commissions

\$1.50 – 25¢
per side, per contract
+ fees

Deeply discounted commissions

- ✓ As low as 25¢ per side, per contract
- ✓ No trading platform fees
- ✓ No monthly charting fees*
- ✓ No minimum monthly ticket charge
- ✓ No account inactivity fees
- ✓ No fees for call-in orders
- ✓ No add-on charges for advanced orders

*exchange data fees apply

Trade all markets from the DealBook® 360 platform!

- ▶ E-Mini stock indices
- ▶ Global stock indices
- ▶ Interest rates
- ▶ Metals
- ▶ Commodities
- ▶ Energies
- ▶ Currencies
- ▶ Pit-traded futures

Get premium features in one FREE platform

- ▶ Place and alter orders directly from charts instantaneously.
- ▶ More than 100 free technical tools so you can analyze the market by applying studies directly on the charts.
- ▶ Fully customizable charting features to meet a wide range of trading preferences.
- ▶ Easy to use, with everything you need just a right-click away, whether it's a new order, a new indicator, or a new price chart.
- ▶ Automated risk-management notification system to help you manage your account equity.

Complete solutions for every trading style – especially yours.

RELIABLE EXECUTION | TRADING SOFTWARE | CHARTING & ANALYSIS | EDUCATION



GFT FUTURES, Division of Global Futures & Forex, Ltd.
WORLDWIDE LEADERS IN ONLINE TRADING

WWW.GFTFUTURES.COM

Have questions? Contact us at
1.800.416.7209 or **1.616.974.3663.**

Copyrights 2008 © Technical Analysis, Inc. All rights reserved.

Free, amazing charting capabilities

- ▶ Visual trading allows you to track, place, cancel and edit orders right from the charts so you can trade instantly as you see familiar market patterns and trends.
- ▶ Simply drag your working orders to new positions on a price chart to replace the order, and place orders including market orders, stop orders and limit orders from the charts.
- ▶ Quickly change your orders, including stops and limits, directly from the charts by simply dragging a working order to a new position on the chart.
- ▶ Customize nearly any aspect of the charts, from colors and fonts to product type and chart display type.
- ▶ Receive e-mail or cell phone alerts when you're away from your computer when the market hits your specified price, whether you are logged into DealBook® 360 or not.
- ▶ Quickly monitor a product's recent price activity by single-clicking to open a linked chart directly from the quote board.
- ▶ More than 85 technical indicators included free with a futures trading account, so you can analyze the market by applying studies directly on the charts.
- ▶ 23 available charting timeframes, from tick to weekly or monthly, to view long-term or short-term market movements and trends.
- ▶ Choose the chart type that best suits your trading preferences: bar, candle, line, point-and-figure, Kagi, three-line break or HeikinAshi.
- ▶ View and chart historical prices for the contract period.
- ▶ Convenient keyboard shortcuts to quickly navigate the symbol and timeframe menus.

Single, combination and advanced ordering

- ▶ Stops, stop limits, trailing stops and bracket orders for when you seek to limit losses.
- ▶ Market orders, market-if-touched, market-on-close, market-on-open and fill-or-kill orders for when you seek to get in and out of the market efficiently.
- ▶ Limit and stop limit orders for dependable price execution.
- ▶ Iceberg orders so only a portion of your order is visible to other market participants.
- ▶ If/then (parent and contingent) orders so you can link your orders for managing your account equity.
- ▶ Advanced, multi-legged ordering capabilities for maximum flexibility, including OSO (order sends order) and OCO (order cancels order).

All advanced order types available late 2007.

More tools for market analysis

- ▶ 85+ indicators provided free with a futures trading account, so you can apply the studies you need to analyze the market.
- ▶ 30+ drawing tools, including trendlines, retracements, cycles and support and resistance lines, to view market trends.
- ▶ Market-moving news from Dow Jones Newswires with futures accounts.
- ▶ RSS capabilities so you can add your own news feeds without leaving the platform to get news from your favorite sources.



Trade futures and forex[†] from our DealBook® 360 platform.

TRADE FOREX[†] AND FUTURES
from one comprehensive trading platform,
DealBook® 360, with advanced charting.

Options on forex and forex forwards coming late 2007!

PRACTICE TRADING
with a free futures trial account

Trade in simulated market conditions with a risk-free trial account (pricing data not in real-time).

Learn about our software and how to use our tools to trade futures.

Start now by visiting www.gftfutures.com

IMPORTANT NOTE: Trading forex, futures, or futures options carries a high level of risk, and may not be suitable for all investors. The high degree of leverage can work against you as well as for you. Before deciding to trade forex, futures, or futures options you should carefully consider your investment objectives, level of experience, and risk appetite. The possibility exists that you could sustain a loss of some or all of your initial investment and therefore you should not invest money that you cannot afford to lose. You should be aware of all the risks associated with forex, futures, and futures options, and seek advice from an independent financial advisor if you have any doubts. Past performance is not necessarily indicative of future results. Commissions listed above are per side and do not include exchange, regulatory, overnight fees or premium services which you choose to receive. Commissions listed are for electronic transactions placed through the trading platform. Pit-traded products, other electronic products not supported by the platform and several phone based orders can be subject to different commission schedules.

© 2007 Global Futures & Forex, Ltd. All rights reserved.

*Services offered through GFT Global Markets UK Ltd.

†Forex trading offered through Global Forex Trading, division of Global Futures & Forex, Ltd.
 CD03F.001.100907

CHART PATTERNS

DOUBLE BOTTOMS

A Support Test For THQI

by Arthur Hill

THQ Inc. is testing support from its prior low, and traders should be on guard for a bounce and a potential double bottom.

Tradable: THQI

Let's start with the weekly chart for some perspective (Figure 1). The stock advanced from July 2006 until April 2007 and then declined over the last six months. This decline retraced 62% of the advance and the stock is finding support around 26; 62% stems from the Fibonacci ratio of 0.618 and stocks sometimes retrace this amount of the prior move, be it up or down.

In addition to support from the retracement, the stock formed a reaction low in August and shows signs of firming in September. The August low features a candlestick with a long lower shadow and this shows an intraweek reversal. The stock moved lower during the week, but rallied by the end of the week and closed strong. A similar candlestick formed in September, but the close was not as strong because the candlestick was black. Nevertheless, the combination affirms support and we should be on guard for a bounce.

On the daily chart (Figure 2), we can see the evolving double bottom around 25–26. The August high marks double-bottom resistance and it would take a move above this level to confirm the pattern. Note that broken support turned into resistance at 30, and this is the level to beat. The stock surged off support three days ago and this is the early signal for bottom-pickers.

The relative strength index (RSI) formed a higher low and a positive divergence is working. The RSI moved below 30 in early August and became over-sold. While the stock moved to a new low in September, the RSI held above its prior low and this created the positive divergence that shows less downside momentum. Further strength above the August high would be bullish for momentum and the RSI. ■

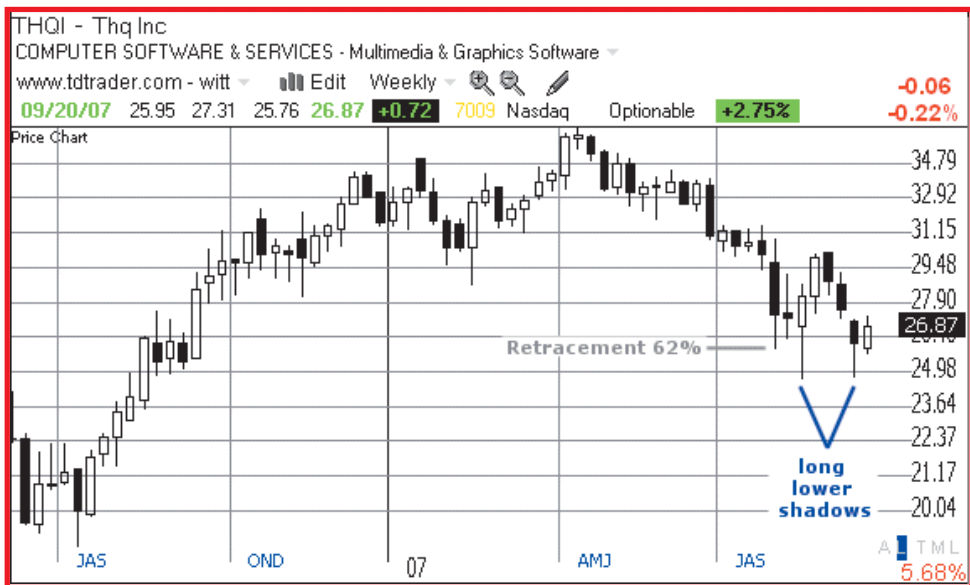


FIGURE 1: THQI, WEEKLY. This stock advanced from July 2006 to April 2007 and then declined over the next six months.

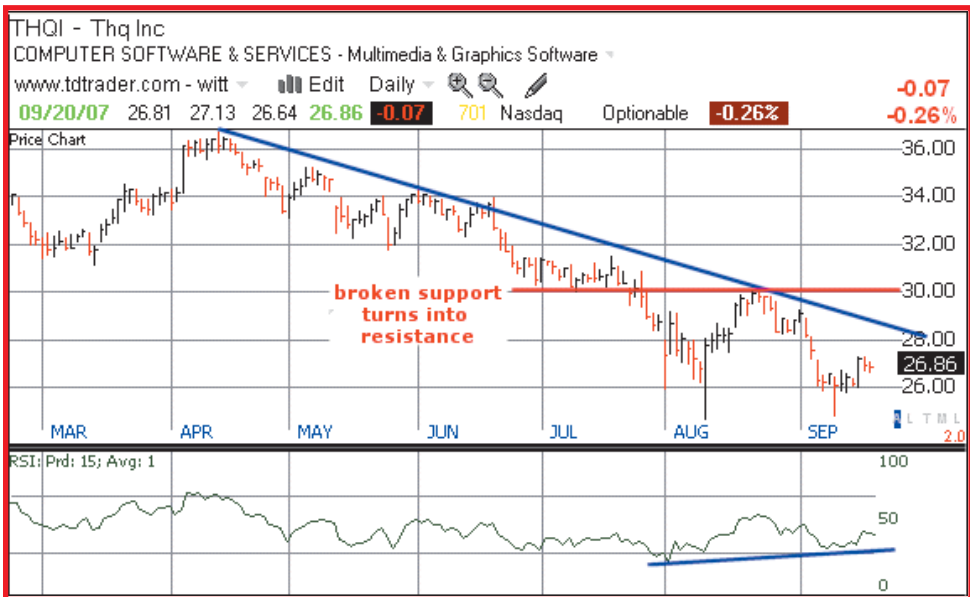


FIGURE 2: THQI, DAILY. Here we can see the evolving double bottom around 25–26.

Traders.com ADVANTAGE™
 This article was first published on 9/26/2007.
 See www.Traders.com for more.

Copyrights 2008 © Technical Analysis, Inc. All rights reserved. TELECHART2007

helpyoutrade.com
 Global Community for Traders & Investors

Create your free trader SEAT now!

magazines • articles • books • software

Get the exact information you want online at the

STOCKS & COMMODITIES Online Store

<http://store.traders.com>

TECHNICAL ANALYSIS OF **STOCKS & COMMODITIES**

t-shirts • subscribe • renew • hot deals!

TA0707

REVERSAL

Wal-Mart: A Bullish Reversal Island Pattern

by Paolo Pezzutti

The pattern was completed last Thursday on news of higher September sales.

Tradable: WMT

The island reversal pattern provides a reliable indication of a trend reversal. Let's see how the pattern develops. An island bottom is formed when prices gap lower after an extended downtrend, leaving the gap open one or more days, then closing the gap and moving higher.

The downward exhaustion gap sometimes opens a trading range phase before gapping to the upside. The price action looks like an island, surrounded by space or water. A breakaway gap to the upside completes the island reversal pattern and usually indicates a trend reversal. Normally, very high volume is printed in coincidence with the exhaustion and the breakaway gaps. This indicates that the public is participating emotionally to the stock's move. Often, the gaps occur when news is released. The closure of the gap prints high volume when some market participants realize that their short positions are wrong and others get excited because of the good news and open new long trades.

This pattern can develop a significant reversal, depending on the context, and how prices fit in the general structure of the market action. The converse is true for island tops. The market can trade for several sessions before the second gap in the opposite direction forms. False signals may occur and you might want to wait and see if the second gap gets filled before opening a position. This will reduce your risk, of course, but also the profit opportunity. It is the usual tradeoff between risk and reward, which must be analyzed when making decisions, according to the trading style adopted.

Let's start analyzing the price action of Wal-Mart (WMT) during the past months. In Figure 1, you can see the daily chart (Figure 1). The pattern was initiated on August 14 this year (point A) when Wal-Mart Stores reported a lower-than-expected quarterly profit on Tuesday and cut its full-year earnings forecast. With more than 127 million customers weekly, Wal-Mart provides data considered a reference of

the nation's retail sector. This was confirming the possibility of a slowdown of the US economy. In the middle of the subprime mortgage crisis, the fear of an impact to other sectors of the economy was concrete.

WMT printed the highest volume since September 2006 with more 63 million shares traded, though the stock lost 2.35 points, closing at \$43.82. The market reacted emotionally to the news and the public got rid of their shares at whatever price that morning. The next day prices were still down, but you have to consider that a dividend of 22 cents was distributed.

Prices in August developed a flag and resumed the downtrend to print a new low on September 10. After a rebound, WMT printed another down gap on September 25, but with much lower volume than on August 14. The gap was readily closed and that was the signal that something was about to change.

The reversal island pattern was completed last Thursday (point C) when WMT reported a 1.4% rise in September sales at US stores open with at least a year raising its earnings forecast. The discount retailer said it now expects third-quarter earnings from continuing operations of 66 cents to 69 cents per share, up from a previous forecast of 62 cents to 65 cents. In coincidence with the news, prices gapped up on high volume, although almost one third lower than on occasion of the August gap.

For the formation to be effective it is fundamental that the up gap is not closed in the next sessions. That represents a stop-loss, but also an indication that the continuation of the move to the upside is unlikely.

From the technical perspective, you can see in Figure 2 that both the moving average convergence/divergence (MACD) and the money flow indicators printed a positive divergence at point B. In particular the money flow indicates that accumulation has been ongoing on the stock since last August.

What is the upside potential of the stock? In Figure 3, you can see the weekly chart. Note that since 2005, WMT has been moving within a wide sideways channel between \$42 and \$51. To the upside, therefore, the resistance is identified with the upper trendline at \$51. The reward is about \$4 and the risk is about \$2. The risk/reward ratio is not that great, but this is typical when you wait to have signals confirmed before opening a position. A more efficient entry would have been the closure of the gap at point B in Figure

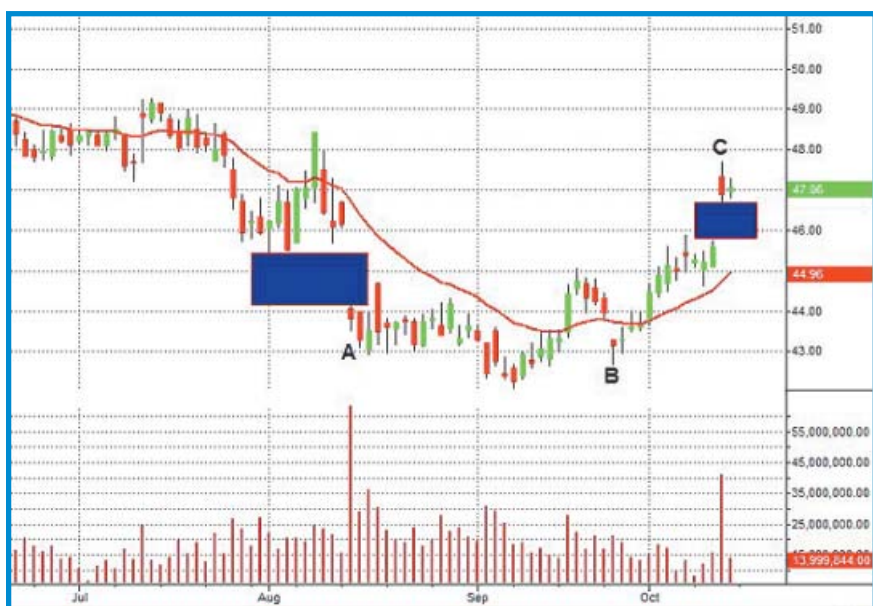


FIGURE 1: WMT DAILY CHART. The down and the up gaps that form the pattern printed high volume, indicating the emotional involvement of the public (points A and C). A second gap to the downside (point B) was printed on much lower volume and it was closed pretty soon.



FIGURE 2: WMT DAILY CHART. A positive divergence of MACD and money flow was developed in September. Divergences can provide many false signals, but when associated to other patterns can contribute to build the big picture.



FIGURE 3: WMT WEEKLY CHART. During the past years the stock has been moving sideways within within a wide channel.

1, which presented a higher potential to the upside.

I personally like this pattern because it clearly identifies a stop-loss and it is easy to implement. As an option, if you want to reduce your stop-loss, you can wait and see if a tentative closure of the gap occurs and then fails with a quick resumption of the up move. ■



The price action looks like an island, surrounded by space or water.

Traders.com ADVANTAGE
This article was first published on 10/15/2007. See www.Traders.com for more.

TRADESTATION

Copyrights 2008 © Technical Analysis, Inc. All rights reserved.

CUP WITH HANDLE

A Cup-With-Handle For Intel

by Arthur Hill

Intel formed a bullish continuation pattern over the last two to three months, and a breakout would signal a continuation of the long-term uptrend.

Tradable: INTC

On the daily chart (Figure 1), the stock surged in June–July and then pulled back with the rest of the market from mid-July to mid-August. Intel (INTC) bottomed with a spike low in mid-August and rallied back to its July high. These two highs established resistance at 26.5 and the stock again pulled back in early September. This pullback was much shallower and formed the handle. Another run to resistance completed the handle and a break above 26.5 would confirm the pattern.

The cup-with-handle is a bullish continuation pattern. This means it

forms in uptrends and marks a continuation of this trend. The distance from rim resistance to bowl support is added to the breakout for an upside target. I estimate this distance around three points and a breakout at 26.5 would target further strength to around 29–30. Volume is important and I would also look for expanding volume to confirm any breakout.

Figure 2 shows the long-term trend with weekly bars. The stock bottomed in mid-2006 and has been rising the last 15 months. The blue trendlines show the Raff regression channel. The middle line is a linear regression and the outside lines are parallel. I extended the upper trendline to estimate an upside target and it points to around 30.

There is also resistance around 29–30 from the May 2004 and July 2005 highs. The stock failed at this level twice in the last three years, and this area is likely to provide a little resistance on any breakout. Moving

back to the cup-with-handle pattern, a break below the handle low would



FIGURE 1: INTC, DAILY. The stock surged in June and July and then pulled back with the rest of the market from mid-July to mid-August.

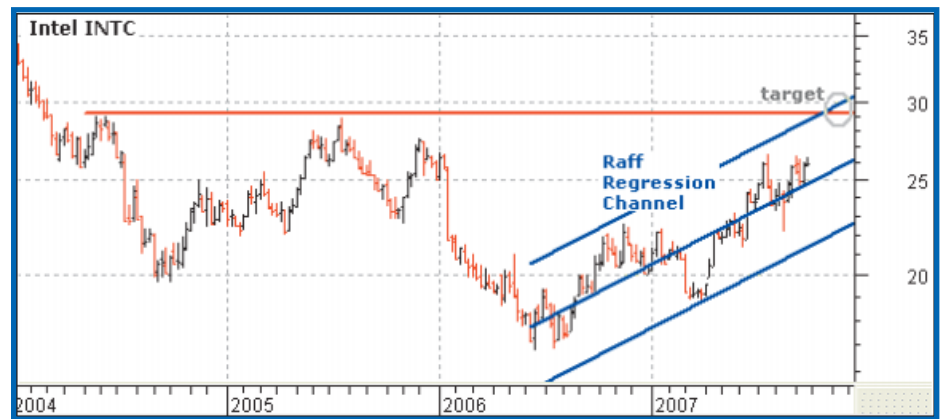


FIGURE 2: INTC, WEEKLY. The stock bottomed in mid-2006 and has been rising the last 15 months.

negate the setup and we could then expect a support test around 23. ■

Traders.com ADVANTAGE™
 This article was first published on 9/27/2007.
 See www.Traders.com for more.

Take Control of Your Financial Future

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

NEW Home Study Course Includes:

- Eight weeks of daily DVD lessons
- Video Study Guide
- Tutorial Manual
- Trading Chaos: Second Edition
- Ongoing FREE technical support
- Autogenic Training Audio CDs
- Traders Tip Sheets & Order Pads
- Access to Members Only area

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

Indicators Compatible with:

- eSignal™ • CQG™ • 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



The holistic approach to trading and investing.

For more information call 760-436-8054
 Or email us at : 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 2008 © Technical Analysis, Inc. All rights reserved.

DOUBLE TOPS

Staples Inc. Tests A Double Top

by Gary Grosschadl

Staples is at a crucial point here, with pattern analysis suggesting a tradable move.

Tradable: SPLS

This multiyear weekly chart shows a double top being tested (Figure 1). After the first peak near \$27, a trough line was established at \$21. Five months later the second top was established. Those “early bird” traders who surmised a double top could be in the making would have been correct, as a move near \$21 did transpire.

For a double top to officially be in, the trendline has to be broken to the downside with some conviction. Should this happen with a close below \$21, then the double-top completion target becomes \$15 or near it. This six-point move is equal to the distance between the peak and the trough as applied to the downside move.

By the looks of the current chart, I would be betting the other way, to a move back up to challenge the \$27

peak. The double top will be rejected at the current position, the support being the combination of the trendline (previous low) and the ever-important 200-period exponential moving average (EMA). This moving average often acts as significant support or resistance and many a trader or technically minded fund manager watches this level for the signs of a bounce.

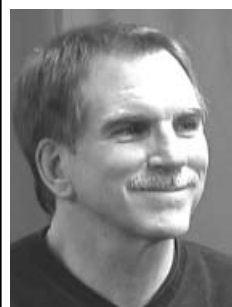
The indicators below the chart lend themselves to a bullish view going forward. The moving average convergence/divergence (MACD) is at a low level with an uptick possibly emerging. Note the histogram is showing positive divergence, hinting at a potential upswing. The relative strength index (RSI) appears to have found support at 30 while the stochastic oscillator is reverberating in an oversold zone.

Should this bullish view prevail, the first hurdle is nearby overhead resistance offered by the 20-period EMA. Success there could signal a serious drive north to challenge previous highs. However, another refusal at the 20-day EMA could drive the stock to once again test the support level between \$21 and \$22. Failure here could then bring the double-top completion target (\$15) into play. Gentlemen, place your bets — \$27 or \$15? ■

Traders.com ADVANTAGE™
 This article was first published on 10/22/2007. See www.Traders.com for more.



FIGURE 1: STAPLES, WEEKLY. This chart shows Staples at an important juncture.



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.

Copyrights 2008 © Technical Analysis, Inc. All rights reserved.



**Create strategies.
Back-test.
Automate.**

TRADE.

All with one broker.

Create Strategies > Back-test and Optimize > Automate Your Custom Rules > Trade - All with one broker.

STOCKS - OPTIONS - FUTURES - FOREX


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 exchange 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 future performance 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 with limited resources, limited investment or trading experience,

Step-up to the Power of TradeStation



With TradeStation's powerful EasyLanguage, you'll be able to describe and test your own custom strategies.

Create or choose your strategy



Strategy Performance Reports give you a clear picture of how well your strategy could have taken advantage of market moves, and what may have occurred if you had traded it.

Back-test and optimize strategies



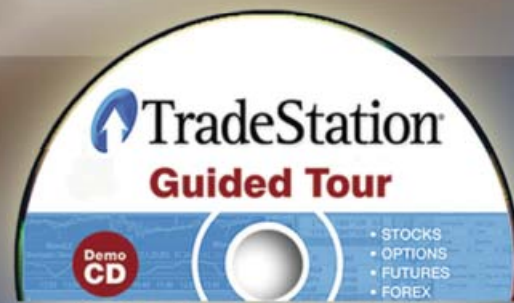
Generate strategy orders
Track open positions
Monitor and calculate end points

Automate strategies using your rules



TRADE

Call to speak to a TradeStation registered professional about the power of strategy-trading and get your free guided tour.



FREE DEMO
1.800.423.0732
www.TradeStation.com/9592

or low-risk tolerance. • 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. Terms and conditions are subject to change. ©2007 TradeStation Securities, Inc. All rights reserved. We consider ourselves the leader because we pioneered strategy-trading in 1982 and continue to be recognized today through industry awards and reviews.

BOLLINGER BANDS

A Squeeze Play For Safeway

by Arthur Hill

Safeway moved into a tight trading range, and contracting Bollinger Bands point to a breakout sooner rather than later.

Tradable: SWY

Figure 1 shows Safeway (SWY) with the Bollinger Bands. The centerline is a 15-period moving average and the bands are 1.5 standard deviations from this moving average. The classic Bollinger Band settings are for a 20-day moving average and two standard deviations. I elected to tighten these settings because Safeway has relatively low volatility and I wanted to make the indicator more sensitive.

SWY surged in the first part of September and then consolidated the last few weeks. The Bollinger Bands

The Bollinger Bands are the narrowest in months and this could foreshadow a consolidation break.

expanded during this surge as volatility increased and then contracted as the stock consolidated. Safeway has traded within a two-point range the last three weeks and the contracting Bollinger Bands confirm that this is a pretty tight range. In fact, the Bollinger Bands are the narrowest in months and this could foreshadow a consolidation break.

For directional clues, I am looking at some key moving averages and the price pattern since early September (Figure 2). The surge above 33 broke both the 200-day and 50-day moving averages. This is quite positive and these moving averages now turned into support. The stock has stalled around 33 and both moving averages are flattening around 33.

The price pattern looks like a surge and pennant. This is a bullish setup and a break above 34 would signal a continuation of the September surge. I would then expect a similar move (three to four points) and this would target further strength toward 36-37. The pennant lows mark support and a move below these lows would be bearish. ■

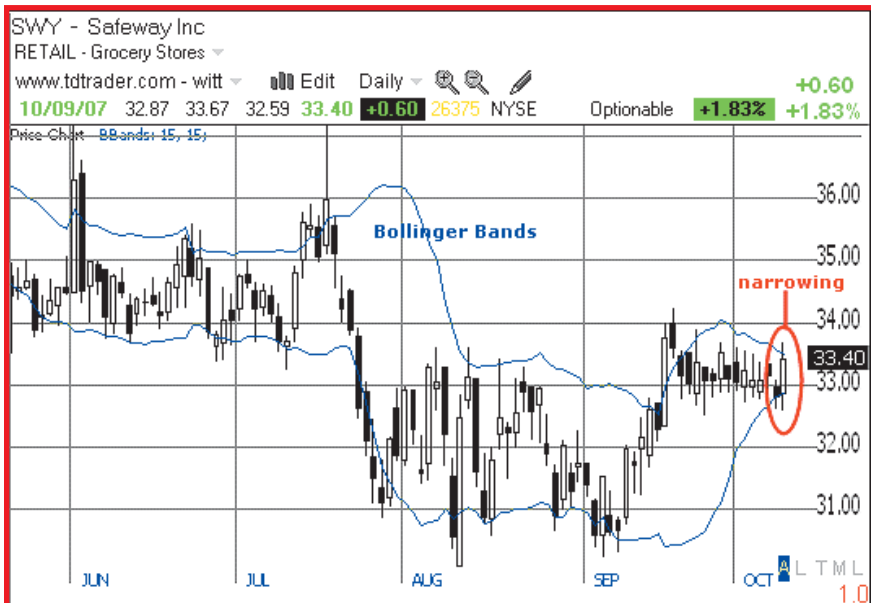


FIGURE 1: SAFEWAY, DAILY. Here's SFY with Bollinger Bands. The classic band settings are for a 20-day moving average and two standard deviations.

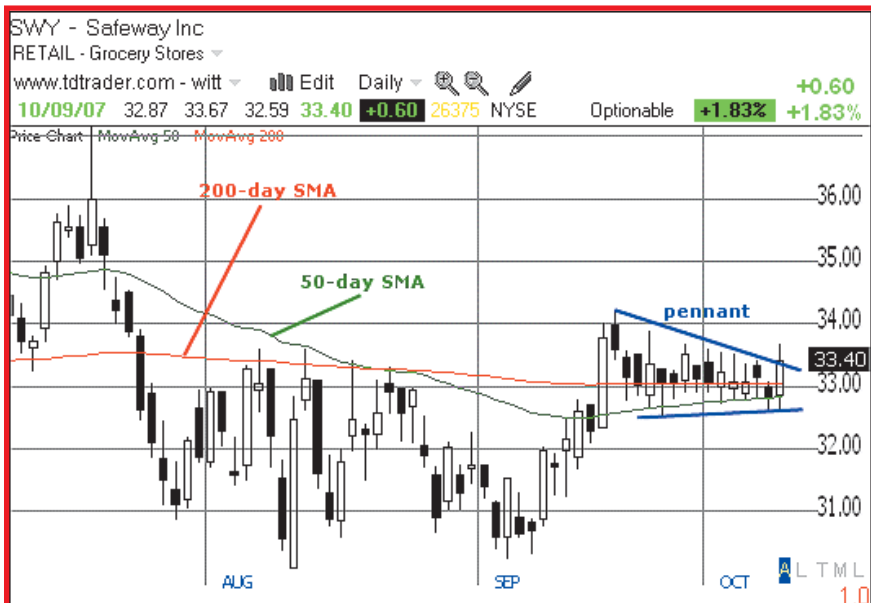


FIGURE 2: SAFEWAY, DAILY. The surge above 33 broke both the 200-day and 50-day moving averages.



Traders.com ADVANTAGE™
This article was first published on 10/12/2007. See www.Traders.com for more.

ISLAND REVERSAL

An Island Reversal For Ann Taylor

by Arthur Hill

Ann Taylor formed an island reversal, and the stock is on the verge of reversing a two-month uptrend.

Tradable: ANN

Figure 1 shows Ann Taylor (ANN) with 60-minute candlesticks, and this short-term time frame captures the island reversal quite well. The stock gapped up on October 11, consolidated for two days, and then gapped down on October 15. The two gaps created an island and those who

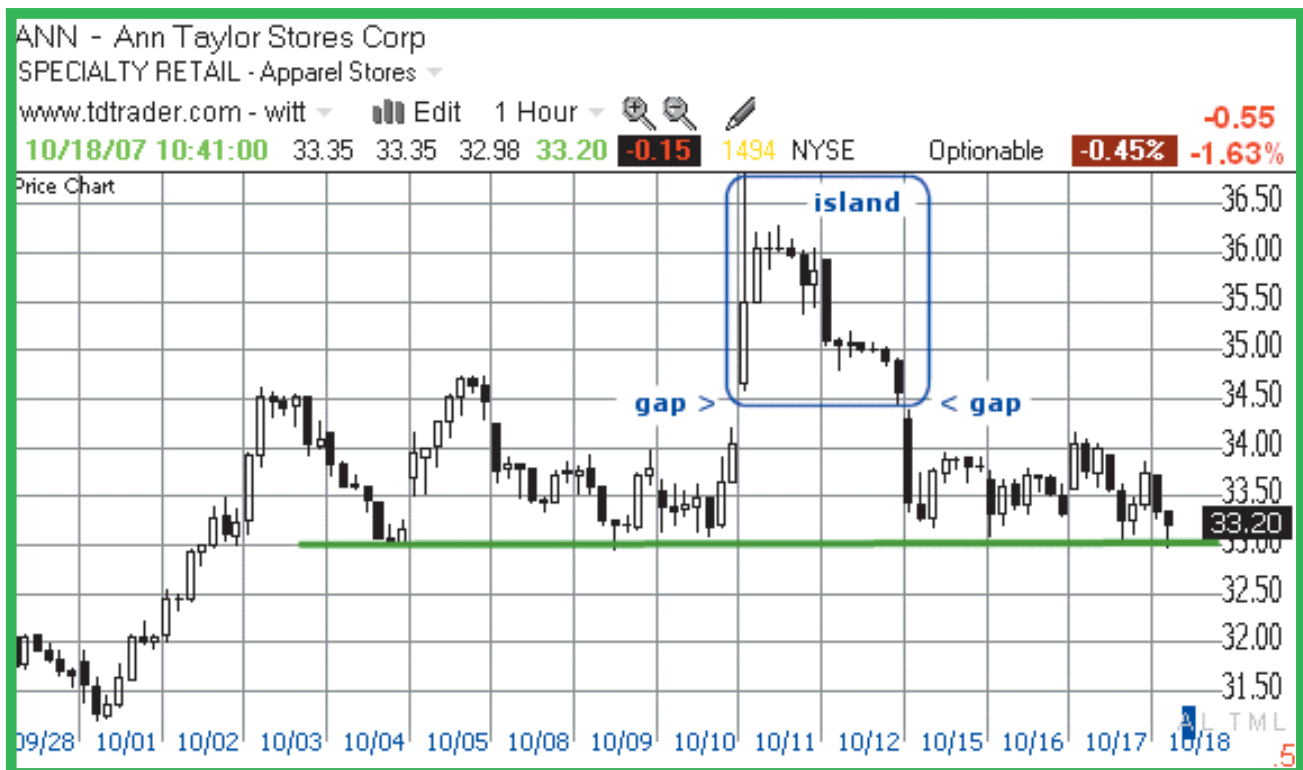


FIGURE 1: ANN TAYLOR, HOURLY. ANN is shown here with 60-minute candlesticks, and the short-term time frame captures the island reversal.

Copyrights 2008 © Technical Analysis, Inc. All rights reserved.

TC2000.COM; TELECHART 2007

went long on this island are now trapped with losing positions.

In addition to the island reversal, there is also a head & shoulders pattern taking shape. The stock consolidated in early October to form the left shoulder. The surge and decline last week formed the head. The consolidation over the last three days formed the right shoulder. A break below neckline support (green line) would signal a continuation lower and confirm the pattern.

Figure 2 shows daily prices and captures the intermediate trend. ANN broken down in July and rallied back to broken support over the past two months. The advance formed a rising channel and the island reversal formed at resistance from broken support. The channel is still rising, but a move below the lower trendline would break the channel and call for further weakness.

The moving average convergence/divergence (MACD) is also shown on Figure 2, and this indicator started flattening in early September. The stock continued higher in October, but the MACD did not confirm and formed a negative divergence. The MACD remains in positive territory, and a move into negative territory would be bearish for momentum. ■

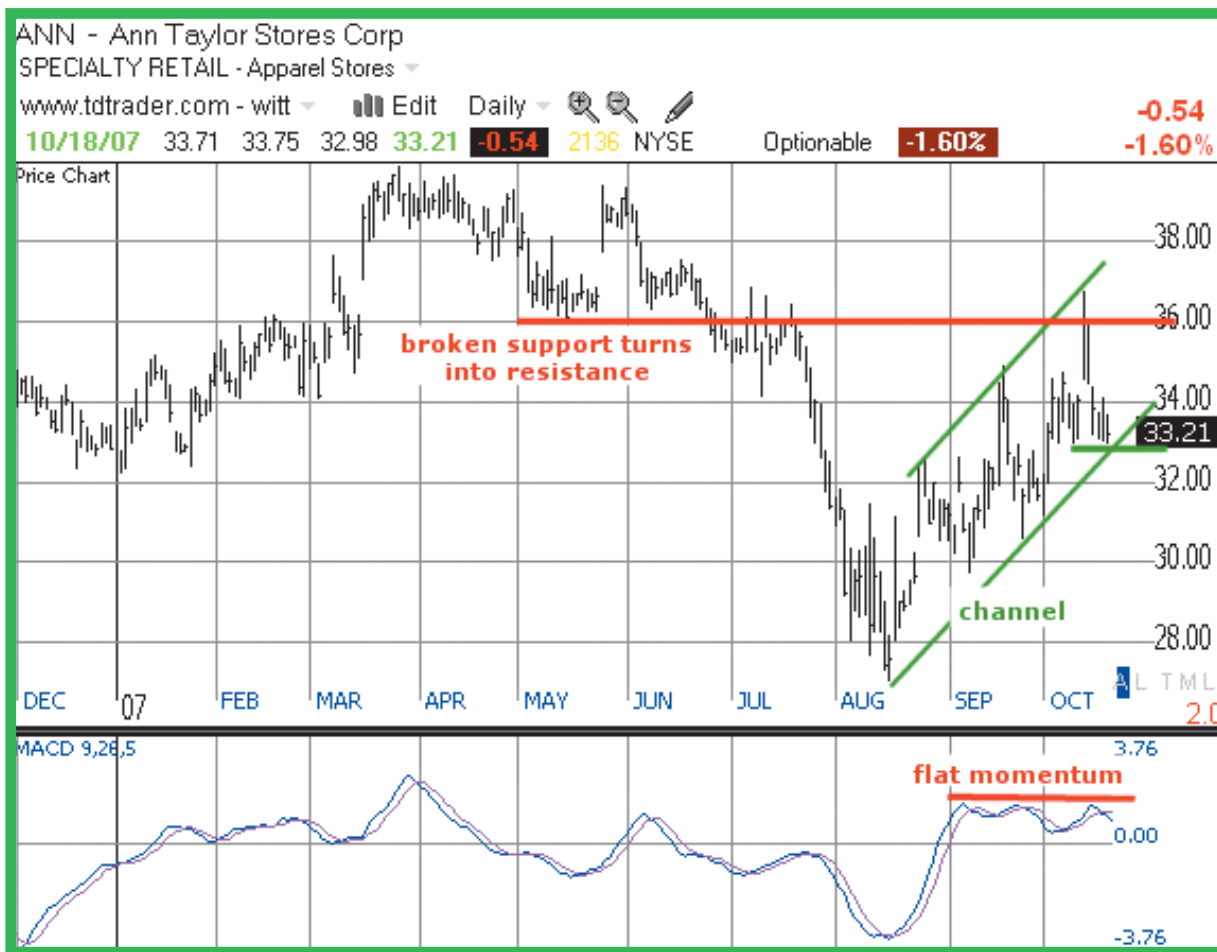


FIGURE 2: ANN TAYLOR, HOURLY. Here are daily prices and the intermediate trend.

Traders.com ADVANTAGE™
This article was first published on 10/19/2007.
See www.Traders.com for more.

TC2000.COM; TELECHART 2007

Copyrights 2008 © Technical Analysis, Inc. All rights reserved.

Winning Edge Strategies **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

Trade with confidence

Announcing **ELWAVE 8.5** with custom indicators & scripting



NEW! Custom indicators & scripting

Fully compatible with Windows Vista

Introductory offer (up to 15% discount)
Pre-order your copy of ELWAVE 8.5 today and receive discounts as high as 15%. 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!



Prognosis
software development

Ever wanted to **combine Elliott Wave** with other tools of the trade? Now you can with **ELWAVE 8.5**. Visit our website for more details on our **new scripting engine**.

Here's what **Stocks & Commodities** magazine had to say about **ELWAVE 8**:

"Not only does the automatic analysis module provide **accurate wave count labeling**"

"the idea of a stock screener that screens for wave criteria is a **godsend** [...] the expert advisor is a tool that dedicated Elliotticians should seriously consider adopting."

"**ELWAVE 8** can be used by most traders - Elliott wave aficionados or not - straight out of the box."

"Virtually all [users] I contacted and heard from were **impressed by the software's ability to determine trends, and to provide targets for various waves.**"

Read the entire review in the September issue of Stocks & Commodities or online at www.elwave.com/screview

METALS & ENERGY

REVERSAL

Bounding Into Resistance

Positive Divergences Send December Natural Gas Higher

by David Penn

Positive divergences in both the MACD histogram and the stochastic anticipated a move higher in natural gas futures in October.

Tradable: NG, NGZ7

One of the most amazing collapses in the futures market in recent times took place in the market for natural gas futures in the second half of 2005.

Prices had been traveling in a wide range between, roughly, \$7.50 and \$5.00 throughout 2004 and through the first half of 2005. However, as prices moved higher in mid-August they managed to break out to new year-to-date highs north of \$9.50 and kept on going. By the beginning of September, natural gas futures (basis continuous futures) cleared \$10. By the end of the month, they passed above \$14.00. After a short sharp pullback that saw the futures dip as low as \$11 in mid-November, buyers were bidding prices higher once again, with natural gas reaching more than \$15.75 by mid-December.

Part of what is amazing about this spike in natural gas prices was the way the reversal was telegraphed. There may be no greater gift to the speculating community than a clear technical divergence at a top or bottom. And that gift was delivered right

to the doorsteps of natural gas speculators everywhere December 30, when weekly negative divergences in both the stochastic and the MACD histogram were confirmed on the close. With a December 30th price of approximately \$11.25 (basis continuous futures), natural gas was priced at a mere \$6.65 only 10 sessions later.

Since then, natural gas prices have returned to the (broadly speaking) \$7.50–5.00 range that preceded the spike and collapse.

In the summer of 2006, it appeared as if the collapse had come to an end. Prices had fallen to less than \$4.60, but more important, a sizable positive divergence in both the stochastic and the MACD histogram developed, suggesting that the powerful downside momentum had finally ended. As I like to point out, there is a difference between momentum in one direction ending and momentum in the opposite direction beginning. So while the positive divergences were a bad thing for natural gas bears, those divergences weren't necessarily a "good" thing for natural gas bulls.

Until, perhaps, now. Zooming in to look at the December contract for natural gas, we can see smaller, shorter-term positive divergences that could play a role in a sustained move higher. Specifically, these divergences relate to the "higher in price/lower in indicator" lows of late June and the "lower in price/higher in indicator" lows of late August and signaled a buying opportunity on August 28 that was not filled until September 12 at approximately \$7.92.

One thing that is especially promising for natural gas bulls at this juncture is the presence of a sizable MACD histogram peak in September. This peak, coming just as prices were rallying from the bottom of the correction



FIGURE 1: NATURAL GAS, CONTINUOUS FUTURES, WEEKLY. Negative divergences anticipated the top in natural gas futures in 2005. Positive divergences in both the stochastic and the MACD histogram appear to have signaled a bottom in the first half of 2006.



FIGURE 2: NATURAL GAS, DECEMBER FUTURES, DAILY. Positive divergences in both the MACD histogram and the stochastic suggest higher prices ahead for natural gas.

in late August/early September, is higher than any going back several months. As such, it is strongly suggestive of higher natural gas prices. ■

Part of what is amazing about this spike in natural gas prices was the reversal was telegraphed.



Copyrights 2008 © Technical Analysis, Inc. All rights reserved. PROPHET FINANCIAL

ANDREWS PITCHFORK

The TSX Energy Index Still Gushing Higher

by Gary Grosschadl

The year 2007 will be remembered by Canadian traders for two main events. First, this year the TSX rose above the DJIA for the first time (currently at 14,332 vs. Dow 13,888). In addition, the loonie started trading higher than the US dollar, which is really a function of the weak US currency.

Tradable: \$SPTEN

In part, what helped drive Canadian markets above their US counterpart is the heavier weighting of the oil and gas sector. With oil trading above \$85, we can see this additive effect on the TSX and its energy index. How much longer will this continue?

Figure 1 shows a bullish pointing pitchfork indicating further strength for energy indexes likely on both sides of the border. This pitchfork tool, or Andrews line method, named after the originator, Alan Andrews, shows an alternative method of plotting support and resistance.

With this method, three turning points are chosen (in this case, low, high, low) and then the charting software automatically plots the median lines representing likely support and resistance levels. One of the rules of pitchfork theory maintains that a move off either the upper median line or the lower median line eventually reaches the center median line. What transpires then is either a move down to test lower support or a bold thrust through the median line. In this example we see a perfect move to the median line in September and then a move to test support at the 200-day EMA. Remember that the pitchfork is plotted without the benefit of that first median line touch. Had this failed, then the next major support was the lower median line. Now we are approaching another test of the center median line.

The four indicators displayed are a mixed bag of sentiment. At the top of the chart, the average directional movement index (ADX) line is weak at 13.61. Typically, an ADX of 20 or higher shows a strong trend in place. Should the ADX swing up from here, bullish trend strength is indicated. Below the chart the moving average convergence/divergence (MACD) shows a bullish turn at the zero-line. This hints at a continuing upleg. The relative strength index (RSI) shows bullish strength above the 50 zone; however, things tend to be topy at 70. Note the large rise from April to July while the RSI gyrated between 50 and 70.

Finally, the stochastic oscillator reminds us that we are in overbought territory above the 80 mark. This is a cautionary note to be watchful of a correcting downleg.

As long as the lower median line is not breached, bullishness prevails in this pitchfork view. More conservatively, I would like to see the 200-day EMA hold support. The super-bullish view would entail a bold move above the center median line. A close above that line entertains the possibility of an eventual move to the upper median line. Can anyone say \$100 a barrel of oil?

More than a year or so ago, I first



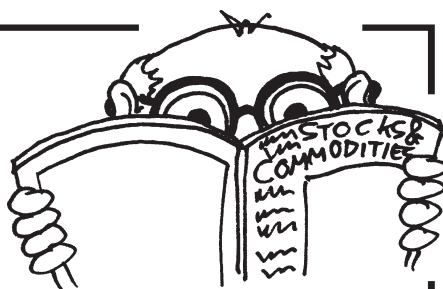
FIGURE 1: TSX ENERGY INDEX, DAILY. The energy index is still poised on an upward track.

posted an oil chart that suggested \$50 a barrel of oil was a possibility. At that time that was a bit of a stretch. ■

Traders.com ADVANTAGE™
This article was first published on 10/23/2007.
See www.Traders.com for more.

As long as the lower median line is not breached, bullishness prevails in this pitchfork view.

You read our publications, now write for them, too!



If you are knowledgeable about technical indicators, charting, trading systems, money management, intraday trading, trading psychology, options, cycles...and more... we'd like to hear from you!

TECHNICAL ANALYSIS OF **STOCKS & COMMODITIES**



Working Money

Fax resume to (206) 938-1307, call (206) 938-0570, email Editor@Traders.com, or see www.Traders.com for more information.



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

CANDLESTICK CHARTING

Evening Star In December Gold Awaits Bearish Confirmation

by David Penn

Negative divergences in the MACD histogram and stochastic support potential for correction in the yellow metal.

Tradable: GCZ7

My last discussion about gold in Traders.com suggested that the market was shaping up technically to establish a bottom (“A 2B Bottom In December Gold?”, September 5, 2007). At the time, December gold was trading at approximately 676.20 and had just rallied from a test of its June lows.

With the benefit of a bullish technical portrait and favorable seasonal tendencies (both discussed in that article), gold advanced strongly out of August, through September, and into October.

The first sign of trouble appeared in late September as a breakout from a short-term consolidation led to an evening star pattern between the final trading days of September and the first

trading days of October (Figure 1). This evening star pattern, however, did not yield any significant follow-through to the downside on a closing basis. This negated much of the bearishness of the symbol—and all but eliminated its validity as a sell signal. Sure enough, within seven days after the evening star pattern appeared, December gold was making new contract highs.

Key technical indicators—in this case, both the stochastic and the MACD histogram—confirmed both the old evening star and the more recent one that has appeared in late October (Figure 2). What prevented—or should have prevented—traders from making bets against the gold market in the case of the former evening star was the lack of a confirming close below the low of the pattern.

The fact that the current divergences with the late October evening star are all the more pronounced than the previous ones does make it somewhat

more likely that the late October evening star will result in a more significant correction. However, until the market for December gold makes a confirming close below the low of the evening star pattern (a low at approximately 749), gold bears would probably do well to wait before trying to take head on what has been a strong rally from the August lows. ■



FIGURE 1: GOLD, DECEMBER FUTURES, DAILY. The lack of downside follow-through prevented a short sale in December gold in earliest October following a previous evening star pattern.



FIGURE 2: GOLD, DECEMBER FUTURES, DAILY. Negative divergences in both the stochastic and the MACD histogram helped confirm the bearish potential of the evening star pattern in the second half of October.

RELATIVE STRENGTH COMPARATIVE

Steel Dynamics Shows Relative Strength

by Arthur Hill

Steel Dynamics formed a big outside reversal at support and a relative strength breakout points to higher prices for the stock.

Tradable: STLD

The top indicator on Figure 1 is the price relative and this compares the performance of Steel Dynamics (STLD) with the Standard & Poor’s 500. The price relative rises when STLD outperforms and falls when STLD underperforms. The price relative surged in August, edged higher in September, and then flattened in October. There was a surge on October 17

and the price relative broke to a new high. This is quite positive for the stock and shows good relative strength.

On the price chart, the stock surged above 45 in September and then consolidated the last four weeks (Figure 1). STLD broke the 50-day and 200-day moving averages in the process and these subsequently turned into support. Note how the stock held above these averages and bounced off support at 44 in late September, early October, and mid-October. The latest bounce occurred with a long white candlestick and above-average volume.

This long white candlestick is no ordinary candlestick. The stock declined the prior five days and this candlestick traced out a big outside reversal. This outside reversal recovered almost all of the prior decline and the stock closed at its highest level since July. These are powerful patterns, especially when backed up by big volume. The follow-through above consolidation resistance triggered a nice breakout on good volume and this



FIGURE 1: STEEL DYNAMICS. The stock surged above 45 in September and then consolidated the following four weeks.

signals a continuation of the August–September advance. A similar move would target an advance to around 60 and key support is set at 44. ■

The first sign of trouble appeared in late September as a breakout from a short-term consolidation led to an evening star pattern

Traders.com ADVANTAGE™
This article was first published on 10/24/2007. See www.Traders.com for more.

Traders.com ADVANTAGE™
This article was first published on 10/19/2007. See www.Traders.com for more.

REVERSAL

Ballard Power Systems Struggles With Bottom

by Gary Grosschadl

Over the last four months this alternative energy play has tested a bottom three times. Is this third time charmed?

Tradable: BLD.TO

Ballard Power Systems (BLD), which was originally founded as Ballard Research, is one of the larger companies developing fuel cell technology and has a hydrogen-powered bus running in Vancouver, British Columbia.

This daily chart paints a rather painful picture of a stock trying to establish a bottom (Figure 1). Although the symmetry is not very good, we can discern that a possible triple bottom is in the making. Several indications lend some credence to this speculation.

The latest bottom attempt shows a candlestick pattern called a “tweezer” bottom. The long matching tails give this tweezer appearance. This can signal a bottom. The subsequent trading action supports this via a large bullish

candlestick closing above the nearby overhead resistance of the 50-day exponential moving average (EMA). In addition, the increased volume signal over the past week of trading shows bullish conviction.

Several displayed indicators under the chart show an important development via positive divergences. Multiple divergences are often a harbinger of a coming move. Note the slope of these indicators rising while the stock price has been dragging bottom.

The moving average convergence/divergence (MACD), the relative strength index (RSI), and the stochastic oscillator all hint at a move off the bottom of the chart. Looking at the Chaikin money flow indicator (CMF), we see a shift to bullish buying power. The previous time this happened was last June, when the stock catapulted from \$4.40 to near \$6.

Should a tradable upthrust develop, an aggressive trader could target a zone between \$5.55 and \$6. This zone contains the overhead 200-day EMA, currently at 5.64, and previous resistance levels of 5.55 and near \$6. For a better longer-term move to develop, we would have to see the stock find support from the always important 200-day EMA. Until that happens, speculative traders will most likely take the money and run in the surmised profit-taking zone of \$5.60 to \$6. ■

Traders.com ADVANTAGE™
This article was first published on 9/28/2007. See www.Traders.com for more.



FIGURE 1: BLD, DAILY. This chart hints at a thrust upward toward overhead resistance.

NEW HIGHS-NEW LOWS

December Crude Crosses The Line

New Highs And Negative Divergences

by David Penn

A strong bull market in 2007 took December crude to levels not seen since August 2006. Is it time for crude to come in?

Tradable: CLZ7

There and back again. From the summer of 2006 to the first few weeks of 2007, December crude oil futures fell in a dizzying fashion. Topping out near \$80 in 2006,

December crude traded for as low as \$56 a barrel at the beginning of 2007. As Figure 1 shows, however, that move down has been completely retraced as surges in crude oil prices in the first quarter of 2007, the summer of 2007, and the second half of the third quarter of 2007 lifted prices back above the \$80 level.

Oliver Velez Jr. once said, “Amateurs buy new highs, while pros sell them.” As December crude soars toward particularly impressive new highs, Velez’s point about selling those highs versus buying them comes into increased focus. My favorite technical way of confirming whether the “pros” are indeed selling new highs is the 2B test of top, which encourages traders to fade markets that make new highs but fail to follow through to the upside afterward.

So is December crude “fadeable” based on what we see in Figure 1? At

So is December crude “fadeable” based on what we see in Figure 1?

this point, the answer is probably no, but traders should keep an eye on this market to see if it indeed will be able to move (and, important to note, close) at ever-higher prices. There is some evidence that the rally in December crude is waning. We can see this in the shape of the moving average convergence/divergence (MACD) histogram, which has been forming ever-smaller peaks since the summer of 2007.

In order to trade negative diver-



FIGURE 1: CRUDE OIL, DECEMBER FUTURES, WEEKLY. The nine-month rally in December crude oil futures took the market to new highs in late September. But failure to follow through to the upside could mean that a significant correction is coming.

gences in the MACD histogram, traders need both an “mMm” pattern in the histogram as well as a confirming close



below the low of the last “m” session. Looking at the initial negative divergence shown in Figure 2 — the divergence between the peaks early in the second quarter and early in the third — we can see the requisite mMm pattern in the second, smaller peak. This pattern, which takes place over the weeks from July 16 through the week beginning July 30, got a confirming close as of the end of the week beginning August 6.

That confirming close would have a trader short at approximately 70.74. And while prices would have fallen as low as 68.30 before they bounced, there would have been some tense moments early in the trade as December crude

eased higher before moving lower to that 68.30 intraweek low.

Traders looking to take even better advantage of a correction in December crude’s rally will need a similar set up in the MACD histogram (the “mMm” pattern) before they can seriously begin thinking about shorting what has been a very strong move to the upside over the course of the past several months. But should that pattern appear and, it is important to note, the market make a confirming close below the low of the last “m” in the “mMm” pattern, then traders will have an opportunity to the short side that might be well worth making. ■



Traders.com ADVANTAGE™
 This article was first published on 9/28/2007.
 See www.Traders.com for more.



FIGURE 2: CRUDE OIL, DECEMBER FUTURES, WEEKLY. Negative divergences are not uncommon in advancing trends. Traders looking to exploit corrections need to be ready to abandon their positions if the market shows signs of renewing the prevailing trend.

WEDGE FORMATIONS

Dueling Wedges For Alcoa

by Arthur Hill

Alcoa formed two competing wedges in two different time frames, and these should be watched for the next signal.

Tradable: AA

The first time frame covers the daily chart and what I would call the medium-term trend (Figure 1). After a sharp decline in July–August, Alcoa formed a rising wedge and retraced around 50% of this advance. Both the pattern and the retracement are typical for bear market rallies. Trading turned flat over the last four weeks, and the stock could be consolidating before its next move.

The stock broke the lower trendline over the last few days but managed

to firm and find support around 37. Support in this area stems from the 50-day moving average, the 200-day moving average, and the October lows. I am marking key support at 36, and a break below this level would fully reverse the medium-term uptrend and call for a test of the August low. The bulls get the benefit of the doubt as long as the support area holds.

Because the trend has yet to reverse, traders can still consider potential bullish trades. Figure 2 shows 60-minute bars and what I would call the short-term trend. Alcoa surged in September and then formed a falling wedge over the last few weeks. The stock broke above the upper wedge trendline but has yet to exceed the prior reaction high (red resistance line). A break above this level would be short-term bullish and argue for higher prices. ■

Traders.com ADVANTAGE™
 This article was first published on 10/25/2007.
 See www.Traders.com for more.



FIGURE 1: ALCOA, DAILY. After a sharp decline in July and August, AA formed a rising wedge and retraced around 50% of this advance.



FIGURE 2: ALCOA, HOURLY. AA surged in September and then formed a falling wedge over the last few weeks.



SECTORS

RELATIVE STRENGTH COMPARATIVE

Semis Are Lagging

by Arthur Hill

The Semiconductor Index did not participate in the September rally, and relative weakness is a bad omen as we head into October.

Tradable: \$SOX

The semiconductor stocks make up an important component of the NASDAQ and the technology sector. While the NASDAQ moved above its July high in September, the semiconductor index (\$SOX) never broke out and is underperforming the NASDAQ. The index first failed at its August high in early September and established resistance around 510. The index rallied back above 500 over the last few weeks, but again failed at 510 resistance with a pullback over the last two days. See Figure 1.

The indicator window (red line) shows the price relative, which compares the performance of the index



The Bollinger Bands contracted over the last few weeks, and this usually precedes a directional move.

against the Standard & Poor's 500. The \$SOX outperforms when the price relative rises and underperforms when the price relative declines. The price relative peaked in July and declined to new lows in early October. It is a clear downtrend and this confirms relative weakness versus the broader market. The price relative needs to break the first resistance level (black line) to start reversing this downtrend.

Turning back to the price chart (Figure 2), the index declined sharply in July-August and then consolidated over the last two to three months. A triangle evolved in September and I am also showing the Bollinger Bands. The bands contracted over the last few weeks, and this usually precedes a directional move. A move above 510 would break the upper band and the upper trendline of the triangle. This would be bullish and target a move toward the July high. Conversely, a break below the lower band and the lower trendline of the triangle would be bearish. This would signal a continuation of the July-August decline and weigh on the tech sector. With the index showing relative weakness, the odds favor a break to the downside.

Traders.com ADVANTAGE™
This article was first published on 10/4/2007. See www.Traders.com for more.

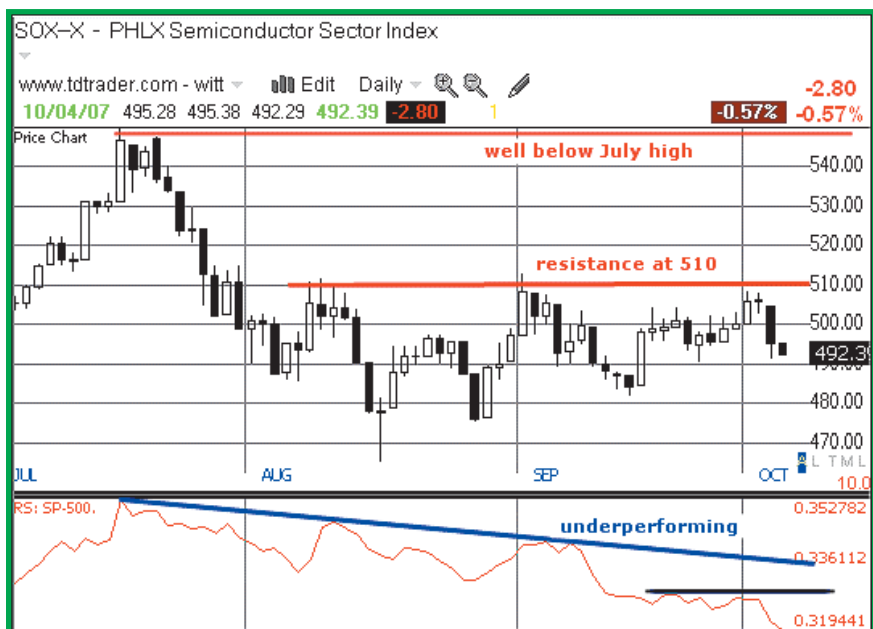


FIGURE 1: \$SOX, DAILY. The indicator window shows the price relative, which compares the performance of the index against the S&P 500.

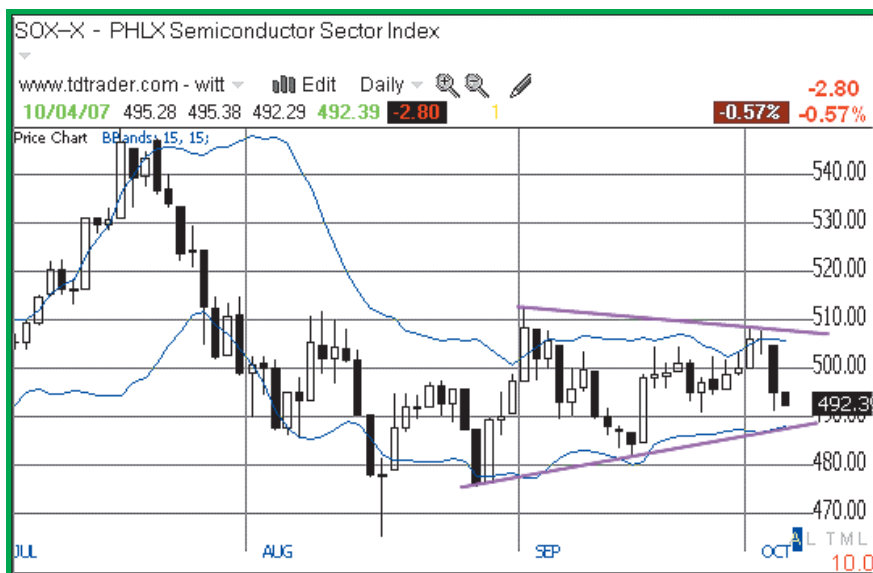


FIGURE 2: \$SOX, DAILY. The index declined sharply in July-August and then consolidated over the last two to three months.

FLAGS AND PENNANTS

Technology Select Sector Consolidating At New Levels

by Chaitali Mohile

XLK is undergoing healthy consolidation at all-time highs, leading to a bullish rally.

Tradable: XLK

During the declining rally in July-August, support was established around 24.50, marking a low below the 200-day moving average support at approximately 24. The upside move from 24.50 gradually climbed above the 50-day moving average resistance. The rally, though, was not on heavy volume; it managed to reach 26.50 and sustain above the 50-day moving average support. On this newly formed support, Technology Select Sector SPDR (XLK) went through a volatile period under the pressure of the previous high. In the recent few weeks, the entire market witnessed a pullback rally and helped XLK fill its basket, making an all-time

high at 27.50. This advance rally gained \$1.50 and opened doors for fresh buying opportunities for traders.

With this advance, the sector has now entered consolidation. In Figure 1, the sideways move is very narrow with the lower support at 72 and the upper range at 27.50. Consolidation is a healthy period, and provides an opportunity for traders to review their positions. The consolidation breakout carries tremendous strength for directional movement. Similarly, as XLK moves out of this sideways move, fresh upside rally will begin.

Let's find whether the oscillators are supportive of the upside breakout. The average directional movement index

(ADX) (14) shows a well-developed trend. The relative strength index (RSI) (14) has moved steadily upward, indicating bullish strength in the entire rally and also points to stability in a further upside rally. The moving average convergence/divergence (MACD) (12,26,9) is positive and therefore reconfirms a high possibility of an upside breakout.

It is very difficult to estimate the length of the consolidation period, so a breakout is necessary for confirmation. I would therefore recommend traders to go long above \$27.50 with the calculated target of \$29. This minimum level is measured on the basis of the length of the flagpole or the length

Copyrights 2008 © Technical Analysis, Inc. All rights reserved.

of the advance rally. So by adding 1.5 to 27.50 (breakout level), we get a fresh target of \$29.

On the weekly chart (Figure 2), XLK has crossed the previous resistance at 27 and has established strong support there. The important signal I noticed here is a divergence on the indicators. Previously, at the higher level of 27, the RSI (14) was overbought, marginally moving above 70. The MACD (12,26,9), after the bullish crossover, remained positive moving around 0.75 level. The present scenario is different in that price made a new high but the indicators are in the process of reaching higher levels. The RSI (14) moved closer to 70, so that's a positive indication. In addition, the MACD (12,26,9) is about to show a bullish crossover, again supporting the breakout. But since these indicators failed to move to higher levels along with price, the consolidation period may last longer. However, the trend is developing in favor of bulls, so the upside breakout is inevitable.

Traders can watch for price action before undergoing any trade. Only a confirmed breakout above 27.50 can be good buying opportunity. ■



FIGURE 1: XLK, DAILY. The flag & pennant breakout will lead the rally to \$29. All three indicators have bullish force and therefore can make the breakout successful.

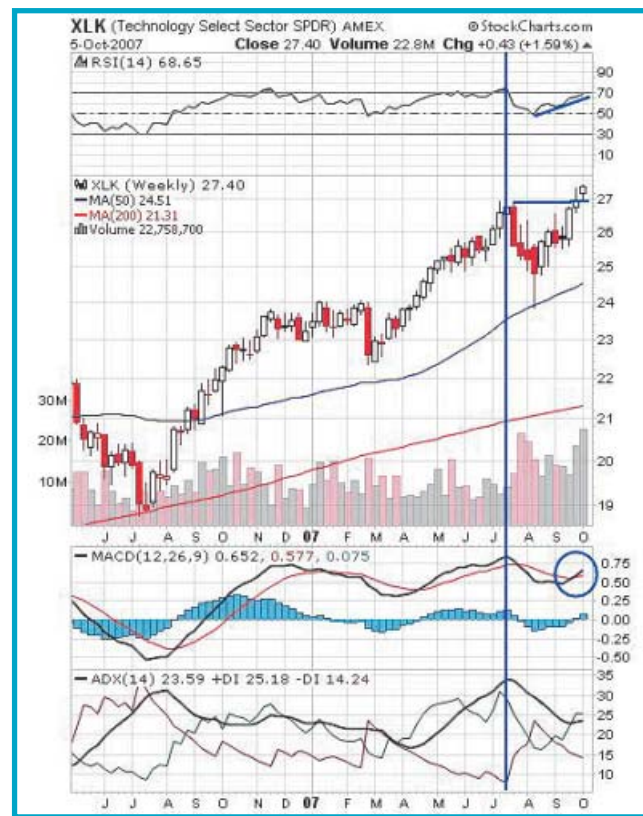


FIGURE 2: XLK, WEEKLY. XLK has established strong support on a previous high, enabling the rally to move ahead. In addition, the RSI (14) and the MACD (12,26,9) are on their way to previous highs.

However, the trend is developing in favor of bulls, so the upside breakout is inevitable.

Traders.com ADVANTAGE™
This article was first published on 10/10/2007.
See www.Traders.com for more.

DOUBLE TOPS

Are Boeing's High-Flying Days Topped Out?

by Gary Grosschadl

Boeing Co. has given investors a nice double in stock price in two and a half years, but now a serious challenge comes into view.

Tradable: BA

As this multiyear weekly chart shows, Boeing has had an impeccable run since 2005 (Figure 1). Note how in that time its most relevant moving average line of support has been the 50-period exponential moving average (EMA). Currently, that line, the important level of support, is being tested for the third time.

This test takes the form of a potential double-top test. The symmetry of the pattern looks good, with the trough area midway between the peaks. Should this important level of support fail, two downside targets should be considered, the first being the pattern completion target of the \$83 area, which en-

compasses the height of the double peak from the trendline applied to a possible downside move below that trendline.

Should that support fail, the next obvious area is the ever-important 200-day period EMA (currently \$73) and a strong area of previous support near \$70.

Boeing's blue skies are potentially darkened by two displayed indicators below the chart. Both the moving average convergence/divergence (MACD) and the relative strength indicator (RSI) show large negative divergences. When a stock shows important indicators as these going in the opposite direction of the stock price, a downside change may be evolving. In addition, note the large volume spike nearing 65 million shares from a recent week, lending credence to the idea that investors are starting to bail.

Watch for a close below \$93, signaling the fruition of a double top moving toward downside targets. On the other hand, support here at the trendline could spell another surge north to test the \$105 top area. These important lines of support discussed should chart the next course correction for this company. ■

Traders.com ADVANTAGE™
This article was first published on 10/24/2007.
See www.Traders.com for more.



FIGURE 1: BOEING, WEEKLY. BA's weekly chart suggests a double-top test is under way.





FIGURE 1: XLP, WEEKLY. The three white soldiers candlestick pattern made a high of \$28. The pattern is well supported by a 50-day moving average and accompanied by increasing volume, so traders can take a good long-side trade on a confirmed breakout above \$28.



FIGURE 2: XLP, DAILY. The triangular breakout led the rally above previous highs. This old high offered strong support to future bullish pressure.

In Figure 2, the volume flow is pretty interesting. As volatility diminished on breakout, volume poured in.

tually, XLP began moving in a narrower range. The breakout that happened in early September turned to a 50-day MA resistance to support and moved with strong new support. The current rally gradually made new highs, closing at 28. In Figure 2, the volume flow is pretty interesting. As volatility diminished on breakout, volume poured in. The RSI (14) and the MACD (12,26,9) are bullish, indicating higher levels in coming days.

Therefore, the three white soldiers are open to fresh buying in XLP. And the daily chart allows traders to go long on a confirmed breakout above \$28, with a stop-loss of 27.64. ■

Traders.com ADVANTAGE™
This article was first published on 10/3/2007. See www.Traders.com for more.

CANDLESTICK CHARTING

Consumer Staples Select Sector Surges To Previous High

by Chaitali Mohile

XLP is heading toward new highs.

Tradable: XLP

The XLP has accumulated bullish strength at the 50-day moving average (MA) support. The consolidation range on this support broke as XLP rushed to 27-plus levels in the second week of September. The rally continued the next two weeks and reached the previous high resistance at 27.87. The three-week bullish move formed a three white soldiers candlestick pattern (see Figure 1). XLP declined from its previous highs initially and went through a long consolidation period. That was the period when the entire market was under bearish pressure. On the three white soldiers formation, the XLP went back to its previous highs.

The third candle closed marginally above the previous high pivot with a small lower shadow. The volume rose smartly, supporting the bullish move in the last three weeks. The moving average convergence/divergence (MACD) (12,26,9) is turning positive with a bullish crossover. The histogram has moved on zero-line support. The relative strength index (RSI) (14) has a lower low until the bullish run came up. The zig-zag moves to 50 levels, while the price consolidation failed to give any breakout indication, just accumulation. As the price surged above the upper range, the RSI (14) moved up. Now the indicator is healthy with a

bullish bias. The strength shows new levels in XLP. As the global tumbling of the stock market came in, XLP sped up, forming lower highs, and the volatility that followed resulted in higher lows. The symmetrical triangle was formed, and even-

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

MACD

Merrill Lays Low

by Arthur Hill

Merrill Lynch continues to underperform the broader market, and this points to a continuation of the July–August decline.

Tradable: MER

Figure 1 shows Merrill Lynch (MER) and the price relative. The stock and the price relative peaked in May and declined until August. MER firmed over the last two months, but the price relative continued to drift lower and recorded a new low at the end of September. This occurred because the Standard & Poor's 500 shot to new highs in September and MER did not follow the market higher. Instead, MER laid low and underperformed.

On the price chart, the stock declined sharply from June to August and then formed a triangle consolidation over the following two and a half months.

tion over the last two and a half months. This represents a rest after the decline and I am watching the triangle boundaries for the next signal. A break above 78 would be bullish and a break below 70 would be bearish. Given continued relative weakness, the odds favor a break below 70 and a continuation of the prior decline.

Figure 2 shows MER with the moving average convergence/divergence (MACD). The indicator moved below -3 in August and this represented a bearish extreme. As the stock consolidated and traded flat within the triangle, the MACD worked its way back to the zero line. This makes sense because momentum was essentially flat for two months and zero represents flat momentum. The moment of truth is now approaching as the MACD edged into positive territory this month. Even though the bulls have a slight momentum edge now, I am watching for a move below -1 to turn bearish on momentum. This could be used to confirm a triangle break in the stock. ■



FIGURE 1: MER AND THE PRICE RELATIVE. The stock declined sharply from June to August and then formed a triangle consolidation over the following two and a half months.



FIGURE 2: MER AND THE MACD. The MACD moved below -3 in August and this represented a bearish extreme.

I am watching the triangle boundaries for the next signal.

Traders.com ADVANTAGE™
This article was first published on 10/18/2007. See www.Traders.com for more.

SUPPORT & RESISTANCE

Weak XLF Turns Weaker

by Chaitali Mohile

Financials Select Sector SPDR makes a U-turn from long-term moving average resistance.

Tradable: XLF

In the Financials Select Sector SPDR (XLF), the price slipped below the 200-day moving average support, losing \$8 in mid-July 2007. The 200-day MA was the strongest resistance, with the 50-day MA moving below, creating a bearish moving crossover. The XLF now has bears hovering over the price momentum. The price was constantly dipping to the lower levels around 32 until some support of the 50-day MA was established. The resistances were much stronger than the fresh support; the 35 level was the previous high resistance that weakened the bounce. Though this hurdle

was violated with a single-day bounce in early October 2007, the rally weakened further in the absence of good volume. The breakout rally could achieve the 200-day MA resistance as its first target. The XLF tried to accumulate the strength for the surge by consolidating around the new resistance area.

The upside journey was on bullish strength of the relative strength index (RSI) (14). The oscillator was marginally oversold as the price slipped to the lower level of 32. The fast recovery of RSI (14) helped sustain the price close to the resistance area. Even as the price was consolidating near the 200-day MA resistance, the RSI (14) was holding its bullish levels. The moving average convergence/divergence (MACD) was equally positive toward the breakout procedure until the long-term resistance was hit back. The MACD (12,24,9) has positive divergence that added a forced rally ahead of the previous high pivot. See Figure 1.

However, the consolidation was losing its steam in presence of bearish force. But yesterday's midday profit-



FIGURE 2: XLF, WEEKLY. Earlier with the support of the 50-day MA, a new advance rally was born. The same support is now resistance after the large correction during May to July.

Copyrights 2008 © Technical Analysis, Inc. All rights reserved.

STOCKCHARTS.COM



booking boosted the bears; as a result, the XLF made a U-turn from the resistance level. The price closed below the previous high support but has few other supports, like the 50-day MA support. Though not alarming as of now, the only concern is about the indicators. If the profit-booking continues, the MACD (12,26,9) and the RSI (14) can be brought to below their bullish level.

The double-top effect on the weekly chart turned the price below the 50-day MA support (Figure 2). As this support was left behind, the downfall went stronger, reaching the lowest level of 31.5. The pullback was supported by appreciated volume initially, but as the trading range

narrowed, the volume lowered as well. In addition, the RSI (14) had great difficulty crossing the 50 level, and the price too hit its 50-day MA resistance. The MACD (12,26,9) is under negative territory with a bullish crossover. The price momentum on both time frames is under strong resistance. In addition, the profit-booking poured bearish force, dragging the price toward the support.

Therefore, the XLF in presence of powerful bears has made a U-turn and is likely to move lower if the indicators turn bearish as well. ■

Traders.com ADVANTAGE™
 This article was first published on 10/18/2007.
 See www.Traders.com for more.

The XLF in presence of powerful bears has made a U-turn and is likely to move lower if the indicators turn bearish as well.



FIGURE 2: XLF, WEEKLY. Earlier with the support of the 50-day MA, a new advance rally was born. The same support is now resistance after the large correction during May to July.

SYMMETRICAL TRIANGLE

Lilly Winds Up For The Pitch

by Arthur Hill

Eli Lilly has been consolidating since early June and the coil is winding ever tighter ahead of an impending breakout.

Tradable: LLY

Figure 1 shows Eli Lilly (LLY) with a diamond formation and the Bollinger Bands. The left half of the diamond shows a broadening formation and the right half shows a symmetrical triangle. The broadening formation was expanding but then started contracting to form the triangle. Taken together, this shows that LLY traded in a tight consolidation, expanded, and then moved back into a tight consolidation. Diamonds are neutral patterns that require a breakout for a directional bias.

I have overlaid the Bollinger Bands and these are tightening again. Note

that the bands tightened in early July just before volatility expanded (blue line). It looked like an upside breakout was occurring (green arrow), but the stock fell back sharply and then turned wild in the first half of August. Now that things have quieted down again, it is time to start looking for another volatility expansion. Bollinger Bands do not give us directional clues and we must turn to support/resistance for a breakout.

Figure 2 focuses on the symmetrical triangle with support at 55.5 and resistance at 58.2. A break above resistance would be bullish and project further strength to around 63–64. There were two ways to find this target. First, I drew a trendline parallel to the lower triangle trendline and extended it out. This gray trendline targets a move to around 63–64. Second, the length of the pattern (5.5) was added to the breakout. This also targets a move to around 63–64. I am only offering the bullish scenario here, but a break below 55.5 would clearly be bearish. Mirror techniques can be applied to estimate a downside target. ■

Traders.com ADVANTAGE™
 This article was first published on 9/27/2007.
 See www.Traders.com for more.



FIGURE 1: LLY, DIAMOND AND BOLLINGER BANDS. The left half of the diamond shows a broadening formation and the right half shows a symmetrical triangle.



FIGURE 2: LLY, SYMMETRICAL TRIANGLE. A break above resistance would be bullish and project further strength to around 63.



Sprint: New Technology Not Paying Off So Far

by Paolo Pezzutti

The communications company plans a huge investment to implement a new technology to access the Internet.

Tradable: S

Sprint Nextel Corp. (S) offers a range of wireless and wireline communications products and services, conducting its operations through the wireless and long-distance segments. The fundamentals are weak compared to many peers. The performance of the stock during the past years reflects this situation. In Figure 1 you can see a comparison of the performance between Sprint and the DJUS Telecommunications Index (DJUSTL) since April 2006. The difference is quite impressive. While the index is very close to its recent high as of last June and up 35%, Sprint is down almost 20%.

The company is now trying to seek an edge over rivals and plans to spend up to \$5 billion by 2010 to create a network with fast wireless connections to the Internet. This is part of a strategy to counter market leaders AT&T and Verizon Wireless, which are both growing significantly faster. The technology is called WiMax and is aimed at providing wireless data over long distances through point-to-point links or full mobile cellular type access. WiMAX is a means of increasing bandwidth for a variety of data-intensive applications. Although still not mature, the potential is great.

For the moment, prices are not recognizing the possibility of Sprint succeeding in its bet. In Figure 2 you can see the weekly chart of the stock since 2003. Since the low of 2002 at \$6.03 the stock has recovered up to the present \$19, which is really not bad. However, you can also note that prices now are lower than in 2005, which in contrast have seen rapid advances in the Telecomm Index. Something is not working in the company's strategy to market its services. The on-balance volume displays a situation where accumulation of the stock is practically absent, whereas the Index has been constantly accumulated. You may recall that this indicator adds to a running total; the volume of each bar with a

higher close than the bar before and subtracts from the total the volume of each bar with a lower close. The use of price and volume provides a different perspective from price or volume alone and divergences can also provide useful indications.

On the daily chart in Figure 3, you can see how Sprint has developed a sharp correction from the top in June, which was above \$23. Technically, the breakdown of the \$20.50 level has been very negative as it negated a nice bullish pattern.

In Figure 4, we see a shorter-term picture. Prices hit the previous low of \$17.55 but did not break down below that level. Price re-entered the trading range and are now testing the previous relative high at \$19.21, which represents an important resistance in the short term. What is interesting to note here is that both the moving average convergence/divergence (MACD) and the money flow indicators are printing a positive divergence. Should prices manage to break out above the resistance, the objective to the upside is identified in the \$20.50 level that was so important at the beginning of the last downtrend.

The money flow is based on the calculation of the average price, using the average of the open, close, high, and low of a bar. You have positive money flow when the current bar's average price exceeds the previous bar's average price. It is calculated by multiplying the current bar's volume and its average price. The use of this indicator through the analysis of positive and negative divergences is useful.

Very simply, the MACD calculates two exponential moving averages (EMAs) of specified lengths and the difference is then plotted. This value is also averaged and then plotted. Also for this indicator, divergences can be helpful.

In summary, the technical situation of the stock in the short term indicates the possibility to continue the rebound toward the next resistance at \$20.50. It is true, however, that at this point the risk/reward ratio is not particularly good. The situation in the medium term is not favorable to the stock that is clearly underperforming the peers index. Things could change in the future, should the market acknowledge that the technological choices of the company would provide great benefits to the balance sheets. For the moment, there is no sign of it from the technical side. ■



FIGURE 1: DJUSTI VS. S. The comparison between the performance of the DJ US Telecommunications Index and Sprint highlight the poor relative performance of the stock since April 2006.



FIGURE 2: SPRINT, WEEKLY. The on-balance volume indicator shows that no accumulation has been on the stock during the past few years.



FIGURE 3: SPRINT, DAILY. The stock has developed a sharp down move since last June. The negation of the bullish pattern in the figure has been quite negative.



FIGURE 4: SPRINT, DAILY. The MACD and the money flow indicators are printing a positive divergence. Prices are now testing a short-term resistance. Next objective should the breakout be successful is at \$20.50.

CURRENCIES

REVERSAL

Bearish mMm Pattern Breaks The Greenback/Swissy Down

by David Penn

A break below support at the 50-day EMA and a confirming close make for a lower USD/CHF.

Tradable: USD/CHF

The thrill — and profitability — of successfully shorting a negative divergence or shooting star Japanese candlestick pattern at a market top is not to be underestimated. But the fact remains that one of the most effective ways of betting against a market is to do so when a market that has already shown weakness, fails to move higher after encountering resistance, and begins to move down.

We can see this happen in the US dollar/Swiss franc currency pair in the first half of September. This pair (USD/CHF) had rallied above the 50-day exponential moving average (EMA) in late August and managed to close at or above that level for three consecutive days. This opened up the possibility that the USD/CHF might regain the bullish momentum of the first half of August when the pair challenged the 1.2200 level.

Unfortunately for USD/CHF bulls (“Anyone? Bueller?”), the fourth day of the USD/CHF test of resistance at the 50-day EMA was the session at

which the market opened at the same level as the previous day’s close and closed several pips below the previous day’s open. As such, a bearish engulfing candlestick line was formed.

Not only that, but the bearish engulfing candlestick line closed back below the 50-day EMA. Trader Gary Smith once said of shorting stocks that the chart should “look bad. If it made a sound, it would sound like a broken leg.” For me, that kind of break takes place when a market closes below the 50-day EMA. And in the context of the bearish engulfing candlestick, the potential for further downside seemed great.

There was yet another technical clue that supported the idea of lower prices for USD/CHF. Note in the lower panel in Figure 1 how the MACD histogram in early September began moving up, then reversed and moved down, forming a pattern that resembles the letters “mMm.” This shorthand, borrowed from Alexander Elder (of *Trading For A Living* note), represents a potentially bearish pattern in the MACD histogram and can be used to spot short-term shifts in momentum. Here, the failure of the histogram to continue moving higher — and, instead, its movement lower — mirrored and confirmed the failure of the USD/CHF to continue moving higher after breaking out above the 50-day EMA.

The final ingredient is the confirming close. The market for USD/CHF signaled its next move on September 5 with the bearish engulfing, the breakdown below the 50-day EMA, and the completed mMm pattern in the MACD histogram. All that was required was a confirming close below the low of the session, September 5, when all these signals were created. That confirming close occurred on the fol-

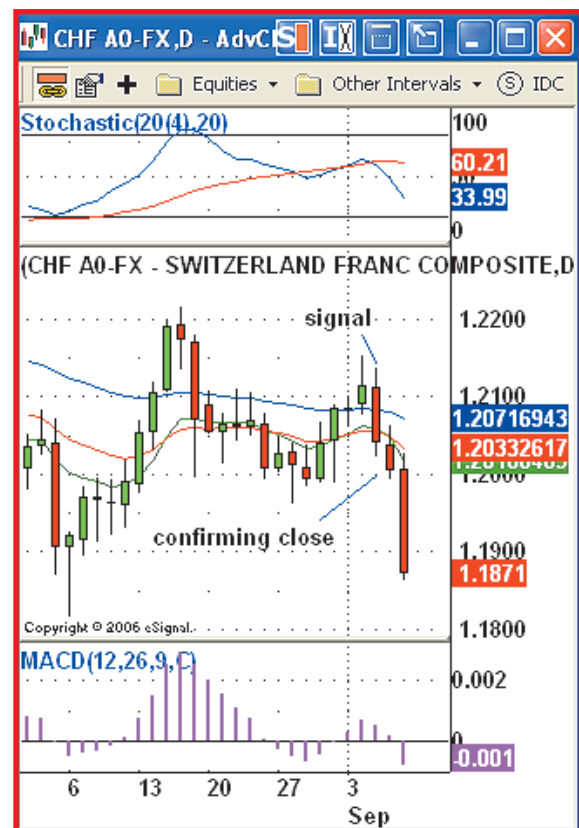


FIGURE 1: US DOLLAR/SWISS FRANC, DAILY. A number of bearish signals — from a bearish engulfing candlestick to a break below the 50-day EMA to an mMm in the MACD histogram — anticipated an opportunity to the downside in the greenback/swissy in early September.

lowing day, providing for a short entry at approximately 1.2005. Less than 24 hours later, as of this writing, USD/CHF is trading at 1.1870. ■

Traders.com ADVANTAGE™
This article was first published on 9/7/2007.
See www.Traders.com for more.

ELLIOTT WAVE

The Falling US Dollar

by Koos van der Merwe

The darkest scenario of the past few years for the world has been a falling US dollar. How much farther?

Tradable: UDX

When the United States decided to delink the US dollar from gold, the dollar became “as good as gold” for the rest of the world. It was far easier to buy and sell dollars on the market than to buy and sell physical bars of gold.

The gold price started falling from a high of \$825 in 1980 to \$253 by the end of the century, as central banks around

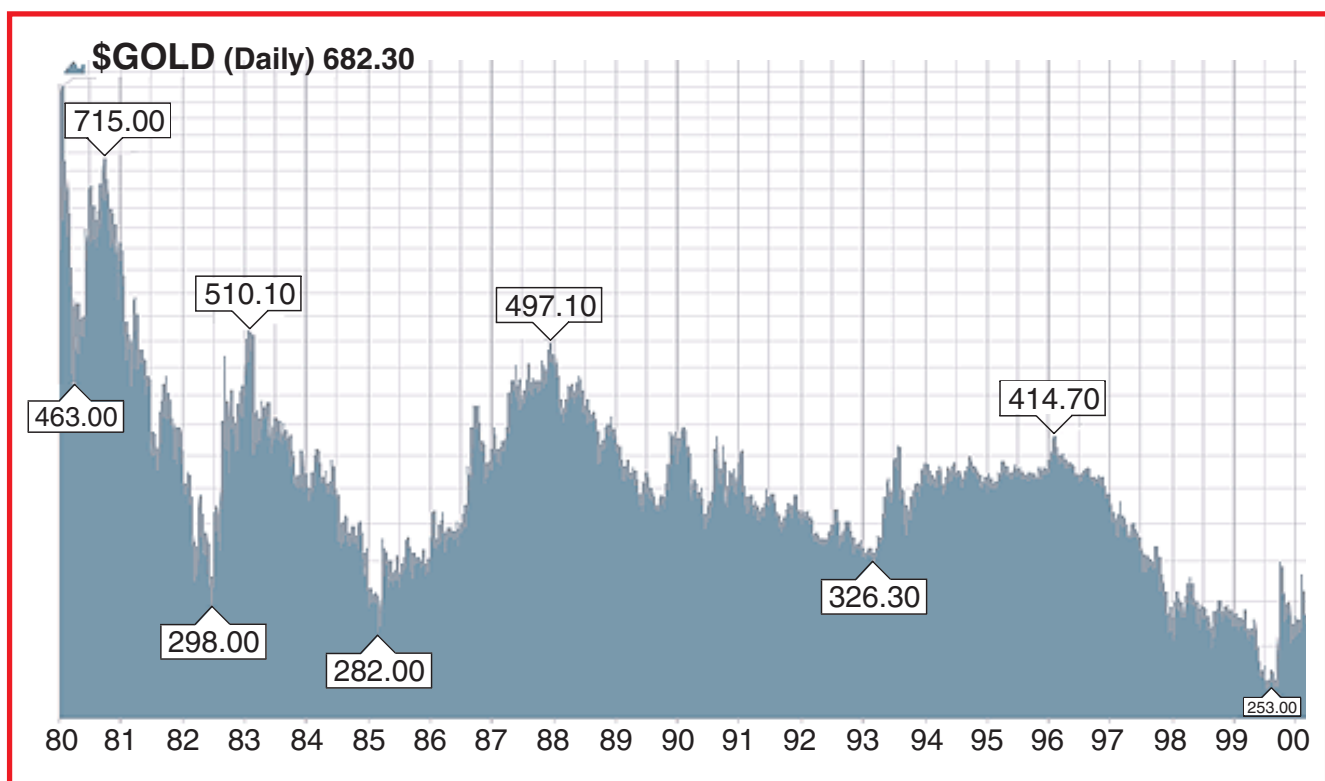


FIGURE 1: GOLD, MONTHLY. Here are the waves as the price of gold fell.

Copyrights 2008 © Technical Analysis, Inc. All rights reserved.

STOCKCHARTS.COM

the world started selling their gold reserves. Figure 1, the chart here, taken from StockCharts shows the waves as gold fell.

My second chart shows how the US dollar has fallen since 2001 till today. My Elliott wave count suggests that the US dollar could be in the final throes of a fifth wave, with a possible target of 67.71. The MOB (make or break) indicator of Advanced GET suggests that the current target is indeed a little lower than present prices, but the MOB indicator also says that should the price not correct at its level, the price will fall the distance of the entry. This would see it fall to the 64 level, close to the fifth wave projection of 67. Note too that the relative strength index (RSI) is oversold.

Investors appear to be spooked by the crises in the American financial markets, and they appear to be ditching dollars fast. Of course, a weak dollar suits the Federal Reserve, because the US borrowed money through the sale of Treasury bills at an expensive dollar and will now be repaying as the T-bills mature, with a cheap dollar. The thought was that a tumbling currency would prevent the Fed from cutting interest rates. The announcement shows how wrong they were, when the US cut rates not by the 25 basis points already discounted in the market, but by 50 basis points. Yes, the dollar has fallen further, but the decline has hardly been the antici-

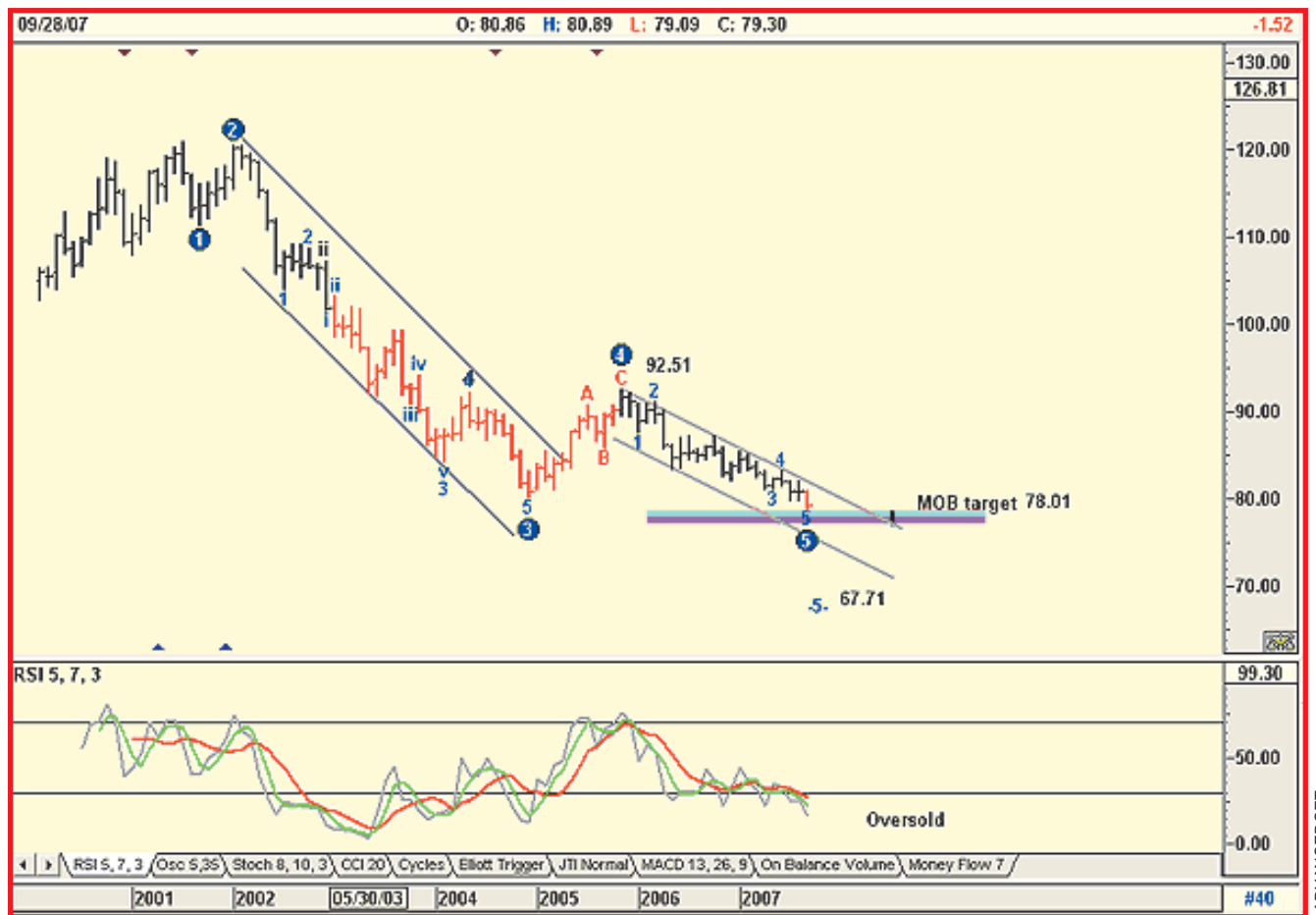


FIGURE 2: US DOLLAR INDEX, MONTHLY. Here is how the US dollar has fallen from 2001 till today.

pated panicked rout. It has fallen less than 1.5% since the financial turmoil started in early August.

How far can the dollar still fall? My charts are telling me that the bottom is close at hand. The US external deficit has shrunk considerably. Monthly trade figures for July showed exports growing at an annual rate of 14%, with

imports at only 5%. This differential is the largest in years.

With the recession that America is facing, a recession that I believe will be mild (see my previous article) imports will remain low, but will exports continue to grow? China, America's biggest supplier, has little to gain from a dollar crash, and may even be tempted

to float the yuan. Then of course, the world could say, "To hell with the dollar, the euro is now as good as gold." My charts however, are suggesting otherwise. ■

Traders.com ADVANTAGE™
 This article was first published on 9/26/2007.
 See www.Traders.com for more.

BREAKOUTS

USD/JPY: Breakout And Pullback Off The Bottom

by David Penn

An ascending triangle bottom in August and September hints at higher prices for the greenback against the yen.

Tradable: USD/JPY

The last time I took a look at the greenback/yen currency pair for Traders.com Advantage ("The USD/JPY Breakout Stalls At Target," June 22, 2007), the market had just reached a projected target near 123.50. The significance of this level was that it coincided perfectly with a swing

rule-derived projection based on a dip in early June.

What I did not know at the time was that not only had the USD/JPY reached its swing rule target, but the pair had also reached the end of the advance it had enjoyed since an early March bottom just north of 115. In fact, the day the article was posted was the day when the USD/JPY topped out with an intrasession high 124.15.

Since that top, the USD/JPY has been in a dizzying meltdown, falling from just above 124 in late June to as low as 112 on an intrasession basis in the first half of August. In the month since the August bottom, the USD/JPY has consolidated in a largely sideways range with a slight upward bias. Whether this consolidation's upward bias — and its virtually horizontal support level at about 116.50 — is a true ascending triangle is probably immaterial. But what seems clear is that the market for USD/JPY did break out of that consolidation in earliest October and, by midmonth, has executed a test of resis-

tance-turned-support at the breakout level. See Figure 1.

It can be helpful to consider a failed breakout like the handle of a cup with handle pattern. The handle often develops as an attempted move to breakout fails. Because the market has upside momentum, the pullback is relatively shallow — more shallow, for example, than the correction that caused the cup — and the resumption of upside momentum tends to be swift. Similarly, a failed breakout such as the one in USD/JPY serves to shake out weak hands before the "real" breakout occurs sometime afterward. These weak hands returning to the market is in large part what helps produce the often-sizable moves after breakouts that initially fail.

The consolidation measures from 116.50 to about 113 at its widest point, suggesting an upside move to as high as 120. Interestingly, the 120 level also represents the August highs in the USD/JPY and, save for the newly created,



FIGURE 1: US DOLLAR/JAPANESE YEN, DAILY. An early October breakout in the USD/JPY finds resistance at the 118 level and pulls back to find support at the breakout level near 116.50.

potential resistance at 118, is the only thing likely to stem an advance in the USD/JPY. ■

Traders.com ADVANTAGE™
 This article was first published on 10/18/2007.
 See www.Traders.com for more.

OVERBOUGHT/OVERSOLD

US Dollar Index Tries To Firm

by Arthur Hill

After becoming oversold and forming a bullish engulfing pattern, the US Dollar Index looks poised for a bounce. Don't get too excited, though.

Tradable: \$DXY

The US Dollar Index (\$USD) is clearly in a downtrend and trading at multiyear lows. With the latest decline over the last two months, the index again became oversold as the stochastic oscillator dipped below 20 last week (red dotted line). The stochastic oscillator was below 20 most of July and all of September. This shows how a security can become oversold and remain oversold as the downtrend continues. See Figure 1.

The July and September oversold readings lasted over four weeks, but the index quickly bounced back after last week's oversold reading. The abil-

ity to move back above 20 suggests that the downtrend may be exhausting itself and the index could be poised for an oversold bounce.

The index also shows some signs of firmness with a bullish engulfing pattern. This pattern forms when the open is below the prior low and the close is above the prior high. The long white candlestick completely engulfs the prior candlestick and this intraday reversal shows buying pressure. These patterns require confirmation, and a move above 78.5 would provide confirmation. This would also break the mid-August trendline.

While such a breakout would be short-term bullish, traders should not expect more than an oversold bounce. I am marking a resistance zone around 80–81 and this is the upside target. Resistance here stems from the June trendline, broken support, and the early September high. ■



Traders.com ADVANTAGE™
This article was first published on 10/24/2007. See www.Traders.com for more.



FIGURE 1: US DOLLAR INDEX. \$USD is clearly in a downtrend.



FIGURE 2: US DOLLAR INDEX. The index shows some signs of firmness lately, however.

TRADING SYSTEMS

Dollar Down Against The Yen

Revisiting The Ascending Triangle In USD/JPY

by David Penn

A few days after an ascending triangle hinted at higher prices, sellers took the USD/JPY down hard. Here's how it happened.

Tradable: USD/JPY

With the pullback in the USD/JPY's ascending triangle turning into a plunge, I thought it would be a good idea to go back and look at that market and see when traders could have spotted the weakness in the USD/JPY — weakness that turned a potential breakout into a nasty breakdown.

The buy signal in USD/JPY, for my money, was on October 3 when the market for USD/JPY broke out above

the highs of September to close at 116.79. I like to wait for confirming closes whenever possible, which means waiting for a close above the high of the October 3rd session (a high of 116.79). This confirming close came two days later on October 5 with a close of 116.92.

I should point out that this confirming close was also good for a BOSO (stochastic breakout) long signal that developed on October 4. That signal required a close above the October 4th high of 116.77. (See Figure 1.)

So either way, we are long at 116.92 as of the end of day on October 5.

The market for USD/JPY moved up gradually after that point. By October 15, USD/JPY made an intraday high of 117.95. Generally, I've taken profits once a market gives me 100 pips. At a minimum, moving stops to breakeven once this or a similar milestone is reached can help traders avoid watching trades go from winners to losers.

By the time I wrote my recent article about the USD/JPY pair, the market had already thrown up some warning signs for those who were long. These warning signs were largely in the form of lower lows on three consecutive sessions (October 15, 16, and 17). A trader minding his or her breakeven stop after

the market hit the 100+ pip level would have exited at this point. But even if he or she had stayed on, the close below the 50-day exponential moving average on October 17 should have chased all but the most obstinate traders out of their long positions. In part, this is because I view a close beneath the 50-day EMA to be a sell signal if succeeded by a confirming close to the downside — which in fact arrived on October 18.

At this point, with the confirming close on October 18, not only should traders not have been long, but they also could have reasonably gone short. The confirming close in the wake of the sub-50 day EMA close came at 115.57 on October 18. By the end of the following session on Friday, October 19, the USD/JPY had fallen the requisite 100+ points for profit-taking and/or breakeven stop placement. ■



FIGURE 1: US DOLLAR/JAPANESE YEN, DAILY. A breakout in early October was confirmed by a BOSO long signal when the stochastic crossed above 80. But selling toward mid-October likely forced traders out — or short — before the USD/JPY long trade could clear the 118 level.

Traders.com ADVANTAGE™
This article was first published on 10/23/2007. See www.Traders.com for more.



THE CHARTIST

Chasing The Trend With Indicators

by Chaitali Mohile

Previously, I discussed various types of moving averages. This time, I will discuss how to identify trends and apply indicators so you can trade successfully.

I like to trade trends using moving averages (MAs) and other trend identification tools and price momentum indicators. In my last article for WorkingMoney.com, I wrote about using moving averages and the different kinds of moving averages. This time, I want to discuss how to identify the trends and apply indicators so you can trade profitably.

IDENTIFYING TRENDS

The overlays of various moving averages signify the existing trend as well as reversal possibilities. When the longer-term moving average is above the shorter-

term one, a downtrend rules the market. Conversely, if the shorter-term moving average is above the longer-term one, an uptrend is indicated (Figure 1). To simplify:

■ 50-day MA above 20-day MA above 10-day MA = downtrend

■ 10-day MA above 20-day MA above 50-day MA = uptrend

The time span used will differ from trader to trader. Some traders may use only a 200-day moving average and a 50-day moving average for viewing the market, while others may use the 50-day MA and the 20-day MA. One disadvantage of using moving averages in isolation is that you may see a lot of whipsaws resulting in false signals. To avoid whipsaws I prefer to use trend indicators like the average directional movement index (ADX) and Aroon with moving averages. I also draw trendlines if necessary

to help me identify market direction. I also like to use the relative strength index (RSI) and the moving average convergence/divergence (MACD). I find it easier to identify intermediate-trend reversals when I use this combination of technical tools.

THE ADX

One of J. Welles Wilder's best developments is the average directional movement index (ADX). This indicator measures the strength of the prevailing trend and also identifies the trend reversal situation. Wilder preferred using a 14-day period for identifying the trend strength. The ADX consists of the positive and negative directional index (+DI and -DI). The DI gives you an idea of the true market range. The existing trend usually comes under threat when +DI and -DI moves with equal pace. Buy & sell signals are generated when the +DI and the -DI crossover.

In his book *How To Make Money Trading Derivatives*, Ashwani Gujral interpreted the ADX in a simplified and easy form:

- When the ADX is less than 20, it is interpreted as a weak trend or consolidation. In such a scenario, oscillators like the RSI may work better.
- When the ADX rises from 15 to 25 or from lower levels, it means the trend is strengthening.
- The ADX above 30 is interpreted as a strong trend.
- The ADX at an extremely high level of 45 or above is interpreted as a strong trend with a consolidation expected soon. As a result, taking a profit is better if the ADX makes a top or flattens out.
- The ADX declining below 30 is interpreted as a consolidation after a trending move. In this case, you can use the oscillators to help you trade. If the ADX breaks down, it indicates that a downtrend is developing.

The possibility of false signals occurring when applying the ADX is highly likely, particularly in a range-bound move. Keep in mind that when the ADX is at overheated levels, you should only take profits when the indicator starts to decline. This is because the indicator can stay at the 55-60 level for an extended period of time.

AROON

Analyst Tushar Chande developed this single parameter oscillator in the mid-1990s. Aroon is also a trend indicator with its independent features, weighted in between zero and 100; Aroon up and Aroon down are used to identify the trend. Chande made a calculation taking time period and the highest and lowest

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!

www.tmitchell.com
(800) 664-3343

**TREND
 EDUCATION**



FIGURE 1: IDENTIFYING TRENDS (\$XOI). On the daily chart of the oil index, you can see how moving averages help identify the direction of the trend. When the 10-day moving average (MA) is above the 20-day MA, the index is in an uptrend. When the 20-day MA is above the 10-day MA, the index is trending downward.



FIGURE 2: THE AROON INDICATOR (\$NDX). Here you can see how the Aroon indicator is used to identify the strength of a trend. In 2001, the Aroon down was above 70, indicating the downward trend would be strong. The reversal was signaled about a year later, which makes it a lagging indicator.

close into consideration to identify trends. Like ADX, Aroon indicates the trend phase. According to Aroon, a trend above the 70 level is stronger and a trend below 30 indicates a reversal situation. If Aroon up and Aroon down start moving close to each other, there is a consolidation impending.

In Figure 2, Aroon down moved above Aroon up in 2001, starting the bearish trend. The downtrend turned stronger as Aroon down moved above 70 and Aroon up slipped below 30. This bear market continued for three years, finally giving a reversal

signal in 2004.

Here is something I would like to point out about the Aroon oscillator. Aroon up moved above Aroon down in 2004, whereas price already moved out of the correction area in early 2003. Due to this late signal, many traders may have missed an opportunity to enter a long position in the preliminary stages.

In Figure 2, I have drawn trendlines for supporting

indications. Lower highs and lower lows are joined to form support & resistance trendlines. Toward the latter half of 2002, you can see that prices rode along the upper trendline, increasing the significance of the trendline. Such retesting of trendlines indicates that line is about to get violated. That would have been

tshirt sweatshirt tshirt sweatshirt tshirt sweatshirt tshirt sweatshirt tshirt sweatshirt tshirt sweatshirt tshirt sweatshirt tshirt sweatshirt tshirt sweatshirt
22.75 33.75 22.75 33.75 22.75 33.75 22.75 33.75 22.75 33.75 22.75 33.75 22.75 33.75 22.75 33.75

STOCK UP! ON YOUR COTTON

t-shirts & sweatshirts, that is!



(logo appears as shown on both t-shirt and sweatshirt)

* **T-shirts:** White are 100% Hanes Heavyweight™ Cotton Tee. Available in Medium, Large and X-Large. All other t-shirts are Fruit of the Loom™ 50/50 Tee (50 Cotton/50 Polyester). Available in sizes Large & X-Large and in the following colors: Natural, Bright Yellow, and Light Blue

** **Sweatshirts:** The Heavyweights™ by Hanes 50 Cotton/50 Polyester. Available in Large and X-Large. Available in Tan and Light Gray

YES! I want to **STOCK UP** and show I am a smart trader!

• Traders' T-Shirt* \$ 23.75 ea.+ Qty _____ Size _____ Color _____

• Traders' Sweatshirt** \$ 33.75 ea.+ Qty _____ Size _____ Color _____

• WA St. Sales Tax 8.8% \$ _____

• Total enclosed \$ _____ + PRICE INCLUDES SHIPPING & HANDLING

• Name _____

• Address _____

• City _____ State _____ Zip/Postal Code _____ Country _____

• Ph# _____ Email _____

ALL ORDERS MUST BE PREPAID

• **Check enclosed** (must be drawn on a US bank, and made payable to Technical Analysis, Inc.) **Charge my** (circle one): MasterCard • Visa • Discover • American Express

• Acct. No: _____ Exp: ____/____

• Signature _____ Date _____

• TECHNICAL ANALYSIS OF **STOCKS & COMMODITIES** Mail to: Technical Analysis, Inc. 4757 California Ave. SW, Seattle, WA 98116
• www.Traders.com • 1-800-832-4642 • Direct 206-938-0570 • Fax 206-938-1307



seen as a cautious time, and the trend could have reversed at any point. The upper trendline was finally breached and the index consolidated above the trendline. This gave the hint of a fresh bull trend.

The index rallied about 500 points and entered a narrow range-bound phase. The range-bound move turned out to be a broadening channel which, as of this writing, has yet to be violated. The breakout through such a broadening channel may lead to a fast pullback rally.

IMPORTANCE OF MOVING AVERAGES

Moving averages are the basic tools I apply to my chart reading. I have found moving averages along with the RSI, (14), the MACD (12, 26, 9), and the ADX to be the most reliable combinations. This avoids most of the whipsaws and makes it easy to understand the movement of stock prices.

Figure 3, the Health Care Select Sector SPDR (XLV), shows how these combinations can be applied. The 14-period relative strength index (RSI) is used to get an idea of the strength that is prevailing in the market. The bullish overlay of the exponential moving averages (EMAs) shows the existence of an uptrend. The upward sloping trendline also indicates an uptrend. The MACD (12, 26, 9) shows various bullish/bearish crossovers and signals possible trades. And the ADX shows the strength of the existing trend.

XLV gave its first buy signal in mid-July 2006 when the 20-day EMA moved above the 50-day EMA. The other three indicators confirmed this buy signal. The RSI gave a buy signal when it was above 50 and a sell signal when it went below the 50 level. In Figure 3, the RSI (14) moved above 50 from a lower level of 30, the MACD (12, 26, 9) shows a bullish crossover, and the ADX (14), after a tough battle between the bulls and bears, was taken over by the bulls. The possibility of a trade failure was reduced with this confirmation.

After this breakout the trendline drawn reacted as resistance and price retraced first to the 20-day EMA and then to the 50-day EMA. But since all three indicators remained strongly bullish, I would keep my stop-loss on this trade below the 50-day EMA support. In April 2007, XLV violated the trendline resistance, making its strong support now. At this moment I would keep a firm stop-loss below the 20-day EMA, as the MACD (12, 26, 9) may give a bearish crossover. Although the ADX (14) indicates a strong uptrend, it is declining, and the RSI (14) is neutral above 50.

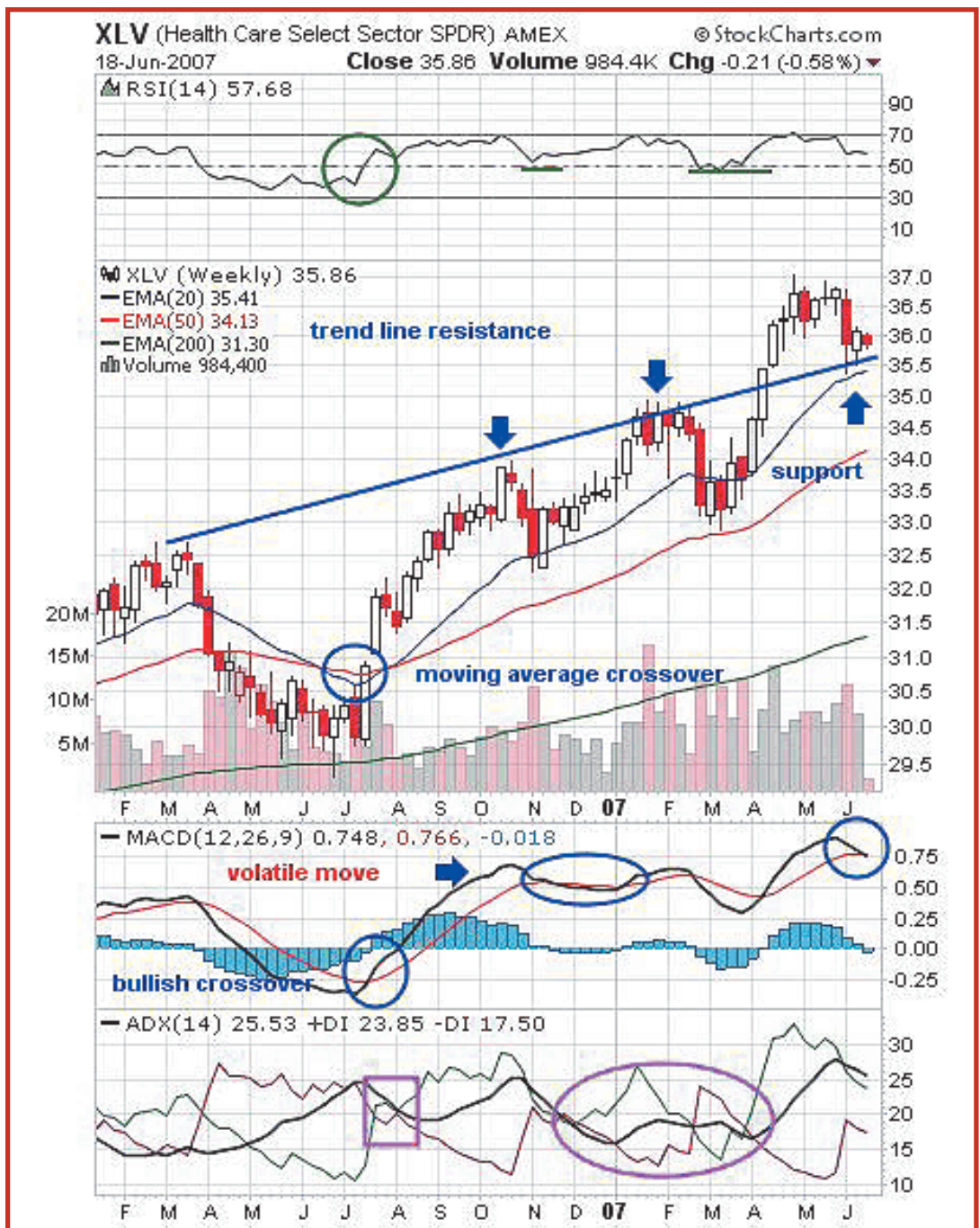


FIGURE 3: COMBINING MY FAVORITE INDICATORS (XLV). Here you see how moving averages, trendlines, the RSI, the MACD, and the ADX can be combined to identify strong trading signals.

From this example you can see how selecting the correct indicators for any given market is a necessity. Only then can you protect yourself from any trading fiascos. ■

SUGGESTED READING

Mohile, Chaitali [2007]. "Chasing The Trend With Moving Averages," Working-Money.com, August 29.

This article originally appeared on 9/12/2007.

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

Copyrights 2008 © Technical Analysis, Inc. All rights reserved.

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

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.

Daily S&P 100 Index Option Signals

Real Mentoring

15 Day FREE Trial

www.oexoptions.com

ADVERTISERS' INDEX

FREE INFORMATION FROM ADVERTISERS

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

WEB

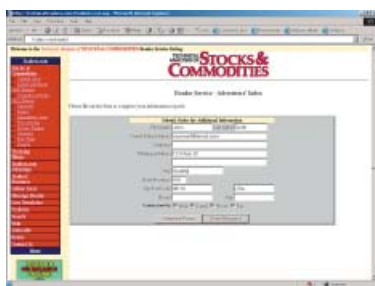
To help our readers connect better with our advertisers, we have updated our reader service process. Go to traders.com/reader and look for the alphabetized list of our current monthly advertisers. Just follow the simple directions below and the advertisers will get your requests the same day!

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!

- | | |
|---|--|
| <input type="checkbox"/> AbleSys Corporation | <input type="checkbox"/> OEX Options, Inc. |
| <input type="checkbox"/> eSignal | <input type="checkbox"/> OptionVue Systems International |
| <input type="checkbox"/> Fidelity Advertising | <input type="checkbox"/> Private Tutoring/Trading Course |
| <input type="checkbox"/> Field Financial Group | <input type="checkbox"/> Profitunity Trading Group |
| <input type="checkbox"/> FXCM | <input type="checkbox"/> Prognosis Software Development |
| <input type="checkbox"/> Global Futures & Forex Ltd | <input type="checkbox"/> R.S. of Houston Workshop |
| <input type="checkbox"/> Global Futures & Forex Ltd | <input type="checkbox"/> Stock Market Store |
| <input type="checkbox"/> HelpYouTrade.com | <input type="checkbox"/> TradeStation |
| <input type="checkbox"/> Key Volume Strategies | <input type="checkbox"/> Trading Concepts |
| <input type="checkbox"/> New York Traders Expo | <input type="checkbox"/> WallStreetWindow |
| <input type="checkbox"/> Mikula Forecasting | <input type="checkbox"/> Worden Brothers Inc. |
| <input type="checkbox"/> National Trading Group | |
| <input type="checkbox"/> Ocean Blue Publishing | |

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 2	www.ablesys.com
eSignal 3	www.esignal.com
Fidelity Advertising 5	www.fidelity.com
Field Financial Group 44	www.fieldfinancial.com
FXCM 13	www.FXCM.com
Global Futures & Forex Ltd 17	www.gttforex.com/trd
Global Futures & Forex Ltd 18-19	www.gttforex.com/trd
HelpYouTrade.com 20	www.helpyoutrade.com
Key Volume Strategies 16	website not provided
New York Traders Expo 7	www.newyorktradersexpo.com
Mikula Forecasting 29	www.MikulaForecasting.com
National Trading Group 27	www.winningedgesystem.com
Ocean Blue Publishing 23	www.mayyoubehappy.com
OEX Options, Inc. 44	www.oexoptions.com
OptionVue Systems International 48	www.optionvue.com
Private Tutoring /Trading Course 44	www.jonathonstone.com
Profitunity Trading Group 22	www.profitunity.com
Prognosis Software Development 27	www.elwave.com
R.S. of Houston Workshop 10	www.RSofHouston.com
Stock Market Store 16	www.stockmarketstore.com
TradeStation 24-25	www.tradestation.com
Trading Concepts 42	www.tmitchell.com
WallStreetWindow 35	www.WallStreetWindow.com
Worden Brothers Inc. 47	www.worden.com

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.



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*.

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

Paolo Pezzutti lives in Rome, Italy, and specializes in telecommunications. He may be reached at pezzutti.paolo@tiscali.it.

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



Andrews Method or Pitchfork — Technique whereby a technician will pick an extreme low or high and draw a line from this point that bisects a line drawn through the next corrective phase. Lines parallel to the line are drawn through the high and low points of the corrective phase. The parallel lines define the resistance and support levels for the price channel.

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: $EMA = (\text{Today's closing price} * k) + (\text{Yesterday's moving average} * (1-k))$, where $k = 2/(n+1)$; n = no. of periods.

Fade — Selling a rising price or buying a falling price. For example, 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.

The Ultimate ~~\$69~~ Learning Combo

LAST CHANCE TO GET IT ...
FREE

Combo Offer Extended
thru **January 31st!**

1) \$39 Stock Selection Video 2) TeleChart Software 3) 30 Days of TeleChart Service

Thousands of traders paid \$39 to get Peter Worden's all-time best-selling CD-ROM video "Winning Stock Selection Simplified." Now you can get yours FREE when you start a 30-day FREE trial to TeleChart, the stock analysis software chosen #1 by the readers of *Stocks & Commodities Magazine* for 15 straight years.

All you have to do is call **1-800-776-4940** or order online by January 31, 2007. It's your last chance at this unprecedented zero-cost and zero-risk offer.

As you watch Peter, you feel like you're sitting next to him – narrowing a universe of candidates and hammering through the charts. You'll learn his method of comparison that emphasizes the importance of multiple time frames. In the process, you'll gain incredible perspective and be more confident in the charts that pass your scrutiny.

There's nothing magic about it ... chart reading takes work, but Peter shares his personal strategies for simplifying the task, including the exact formulas he uses in his TeleChart software.

Best of all, when you finish watching his video, you won't be left alone in the dark. Join him each evening by reading his daily notes and viewing his favorite LIVE charts of the day. You do this all right inside your TeleChart software!

There's never been a better learning combination You get the video which outlines the most important rules of chart reading – the daily service which shows you the techniques in real-life market conditions – and the software which allows you to practice the methods and apply your own ideas.

You could easily spend hundreds, even thousands of dollars, for an equivalent education. This one is FREE courtesy of Peter Worden.



I created the CD-ROM video "Winning Stock Selection Simplified" in 2003. Since its release, tens of thousands of investors and traders have learned from the simple 30-minute daily routine I demonstrate. Until now, the video has sold for \$39 - as it will again after January 31st. I hope you enjoy it!

Peter Worden

Learn my "Nine Rules Every Chartist Should Obey"

1. Don't waste your time - focus on "Tradable" stocks
2. It is imperative that you look at a lot of charts - but a reasonable effort must be made to keep the number manageable
3. Use sub-lists to weed out cats and dogs
4. Sort by various criteria to effectively narrow your search while still coming up with a healthy number of interesting charts
5. Understand the tradeoff in setting your moving average parameters - smoothed effect versus sensitivity
6. Get a better feel by bouncing between time frames - it's important that a stock looks good in multiple periods
7. Qualify indicators historically
8. Don't get bogged down in complex indicator templates - keep it simple
9. Most charts are ambiguous - don't dwell, push the spacebar and move on



Put what you learn into practice with 30 Days of TeleChart Gold Service – ALSO FREE!

TeleChart® 2007
World's Favorite Stock Analysis Software



Get all this for **FREE**

Winning Stock Selection Simplified	Reg. Price \$39
30 Days of TeleChart Gold Service	\$29 ⁹⁹



Total Package Value \$68⁹⁹
Plus FREE SHIPPING!

Call **1-800-776-4940** or order online at www.Worden.com

Offer Extended thru Thursday, Jan. 31st!

TD21



TeleChart is a registered trademark of Worden Brothers, Inc. 30-day FREE Trial for new users requires monthly service activation. Eligibility rules apply.

Copyrights 2008 © 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 ad index at Traders.com/reader/