CHART PATTERNS
An ABC For MID

SECTORS
Hot Market: China

MARKET UPDATE
NASDAQ Runs Into A Wall

MARCH/APRIL 2008 US$7.95

Traders.com

THE MAGAZINE FOR INSTITUTIONAL AND PROFESSIONAL TRADERS™

MICROSOFT VS. YAHOO

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

CAN YOU IMAGINE

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

30 Day Trial Start Today! $20 Discount Code: SCT8MA

FREE Interactive Webinar

Register FREE at: www.abletrend.com

Monday 4-5 pm, Wednesday 7-8pm and Friday 2-3pm EST

Bring your own symbols and find out what AbleTrend 7.0 says about your positions. Learn if any buy/sell signals have occurred. Identify support levels. And get the answers instantly! Whether you trade stocks, comodities, FOREX, the E-MINIs, or the ETFs ... whether you prefer day trading, swing trading or position trading ... you will see results on the spot.

AbleTrend 7.0 provides dynamic stops at each step as a market moves — for both buy and sell positions.

To learn the nature of a market, just back-test the stop levels with our simple but powerful software.

TRADERS' RESOURCE 10 Most Popular LINKS Traders.com

Stocks & Commodities Readers' Choice Award — eASCTrend® Reader's Choice Awards 1997-2008 in Stock Trading System; Futures Trading System & Option Trading System

BBB Honor Roll Award 2006

Get Started Today!

Call Free (888) 272-1688

www.ablesys.com

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

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

Award Winning Trading Software

Stocks & Commodities Readers' Choice Award 1997 - 2008

For Stocks, Futures FOREX & Options

AbleTrend 7.0

ABLESYS

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

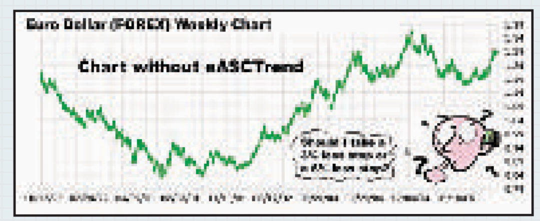
AbleTrend is the principle-based decision-making trading software that uses actual price movement to generate recommendations. Our buy and sell signals are calculated by a proprietary, back-tested algorithm that uses real-time or end-of-day price data - providing timely, specific, and objective signals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

Rational risk management with "Intelligent stops"

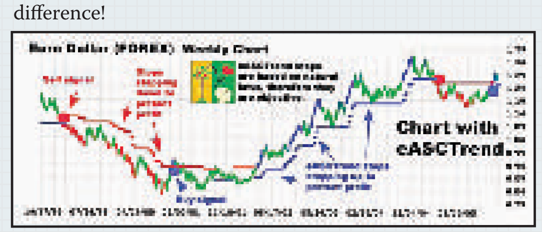
Traders use a stop loss to help protect gains and limit losses. When the market hits their stop, they liquidate their position. Any trading software can suggest stop-placement, but traders should be aware that the type of stop they use could determine if they win or lose. There are stops, there are arbitrary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



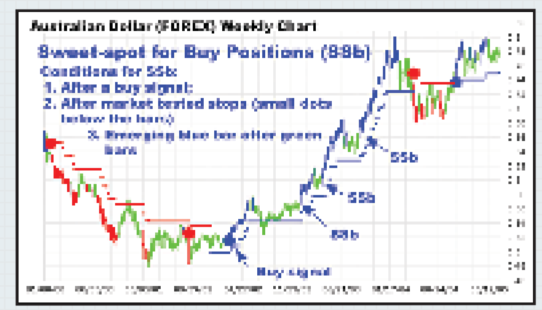
With AbleTrend you can see where the trend changes. Where it's recommended to buy or sell. Where to place stops to help you stay in a trade as long as possible without taking on too much risk. And you have the confidence of knowing that the software is based on meticulous formulas that have been back-tested 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 ASCTrend 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: SCT8MA**

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


ANNOUNCING QUOTE.COM
Visit the All-New, Quote.com for Free Global Market Data
Quote.com has been completely redesigned with your needs in mind.
This financial website offers you an easy-to-navigate site with more global content, breaking news, a better portfolio manager and all-new, interactive charts featuring data for all the issues in your portfolio, including stocks, options, futures, Forex, mutual funds, exchange-traded funds and so much more.
Visit Quote.com for the global, financial content, breaking news and the tools you need to be more successful in the markets.
Your reliable, web-based access to the markets!
LiveCharts
Visit the new Personal Finance section to learn the secrets of successful long-term investing.
The new interactive Flash charts include 13 studies, 5 styles and a range of preferences and effects.
Take your investing and trading to a new level with Quote.com's all new:
Hot lists – U.S. stocks minute by minute by most active, gainers, losers and more
Interactive charts – Simple and intuitive design for new investors, as well as experienced traders
Analysis – Charting analysis, including data export
Alerts – Alerts and emailed updates on the issues in your portfolio
Portfolio Manager – Completely updated portfolio tool that lets you track an unlimited number of issues
Historical Data – Charting for detailed analysis of potential opportunities
Breaking News – The latest news from all the major news sources; ability to set up email alerts
QuoteTrader – Real-time data and access to multiple brokerage accounts from a single interface
Quote.com is also available on your mobile device at Quote.mobi
Visit the site today! Quote.com
Quote.com is part of the eSignal Network of Financial Websites. eSignal, Inc. is a wholly owned subsidiary of Interactive Data Corporation (NYSE: IDC). x13747

Traders.com

THE MAGAZINE FOR INSTITUTIONAL AND PROFESSIONAL TRADERS™

TABLE OF CONTENTS

MARCH/APRIL 2008 • VOLUME 6 NUMBER 2

Working Money

INDEXES

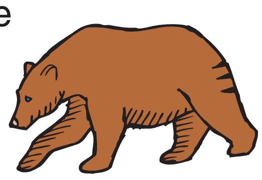
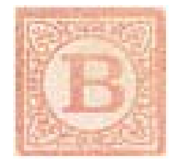


CHART PATTERNS



METALS AND ENERGY

Traders.com
THE MAGAZINE FOR INSTITUTIONAL AND PROFESSIONAL TRADERS™

TABLE OF CONTENTS

March/April 2008 • Volume 6, Number 2

Traders.com

THE MAGAZINE FOR INSTITUTIONAL AND PROFESSIONAL TRADERS™

TRADING NOW

The US credit crunch keeps getting deeper and deeper, creating a cyclical effect that affects more than just the financial sector. The writeoff of losses on any company that backed US subprime mortgages could end up being much larger than expected. And in an economy that is already slowing, this bit of news makes matters even worse.

What is happening in the US economy is a classic example of how too much of a good thing could lead to delusions that could very well be destructive, not just to the US economy but to global markets. Given all this negative news, it is not surprising that the market has been volatile. It just seems that of late whenever the Federal Reserve tries to be the hero that saves Wall Street, something happens that further increases investors' fears. Maybe it's an indication that all those years of growth that were financed with debt is finally showing its true colors.

Fortunately, the markets present any number of opportunities. Just take a look at the various types of instruments that are discussed in this issue of **Traders.com**. We have included articles on indexes, currencies, energies, and metals. Are "Tough Times Ahead For The Dow 30?" Koos van der Merwe asks, while Gary Grosschadl confirms that "Tough Days Ahead For The NASDAQ." Grosschadl also comments on the frightening prospect of "$100 Oil" and the vision of "Gold $1,000 Per Ounce?" Mike Carr opines that the "Hot Market In 2007" was China — will it be for 2008?

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:

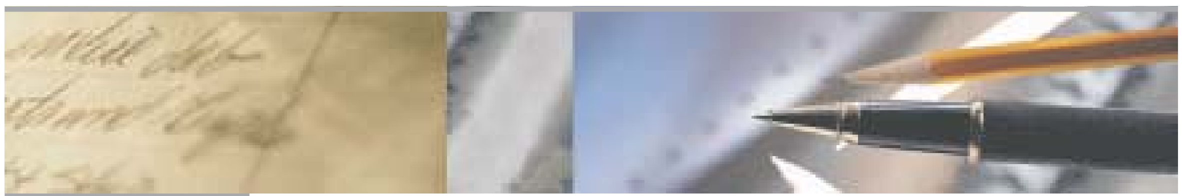
- Visit Traders' Resource, our reference to all things technical analysis
- Check out our Online Store, where you can download PDFs of past S&C articles, from 1982 all the way to the present, for a nominal charge
- Examine our Traders' Glossary, growing by leaps and bounds
- Visit our Subscribers' Area, 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.

Prior to the subprime crisis, the US economy was chugging along just fine — perhaps *too* fine. The economy was strong and there were no inflationary pressures. This gave the impression that the market was relatively low risk. We may not be one of these financial institutions, but we can learn from this lesson: Never be fooled by the markets. No matter how calm they may seem, they are always risky and if things are going very well, all the more reason to be cautious.

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*



CANDLESTICK

1-2-3 Reversal Signal

by Chaitali Mohile

Identifying trend reversal points is difficult in trending markets and it is even more difficult to choose appropriate entry & exit levels. Here are a few complex patterns made simple.

Markets reverse when they top or bottom out after moving in one direction for a considerable length of time. Often the reversal points offer good trading opportunities, so recognizing these signals will certainly benefit your trading results. How can you understand these situations and cultivate trading habits accordingly?

In this article, I have emphasized price charts with no moving average overlays, no complicated oscillators, and no trend identifying indicators. I have followed just the full stochastic merely for confirmation on trades at critical turning points of the market.

So what exactly is 1-2-3? In its simplest form, the (1) refers to the single reversal candlestick pattern on that chart that gives a strong reversal signal and which often goes unnoticed. The (2) refers to a double top or bottom, and the (3) refers to a triple top or bottom.

TRIPLE FORMATIONS (TOPS/BOTTOMS)

Triple tops and bottoms are strong reversal formations that rarely occur on charts. *Triple tops* form after an extensive advance rally with the security reaching high levels, although not necessarily new-high levels.

In triple-top formations, there are three tops approximately at equal highs. The Japanese name for the triple top is san-zan, meaning three mountains. The three tops are of approximately equal heights. This formation makes major tops in the market. The neckline forms the support level so a breakdown at this level indicates the end of the formation.

The weekly chart of Microsoft Corp. in Figure 1 displays a triple-top formation. The triple top is formed between November 2005 and April 2006. The longer it takes for the pattern to form, the greater the significance of the price move after a breakout from the pattern occurs.

Triple tops should be assessed carefully since there are variations in the pattern. For example, till the third peak is formed the pattern may look like a double top, so the price action at the neckline should be watched carefully. In Figure 1 you can see that the volume is higher on the first peak, and it reduces further till the third peak is formed.

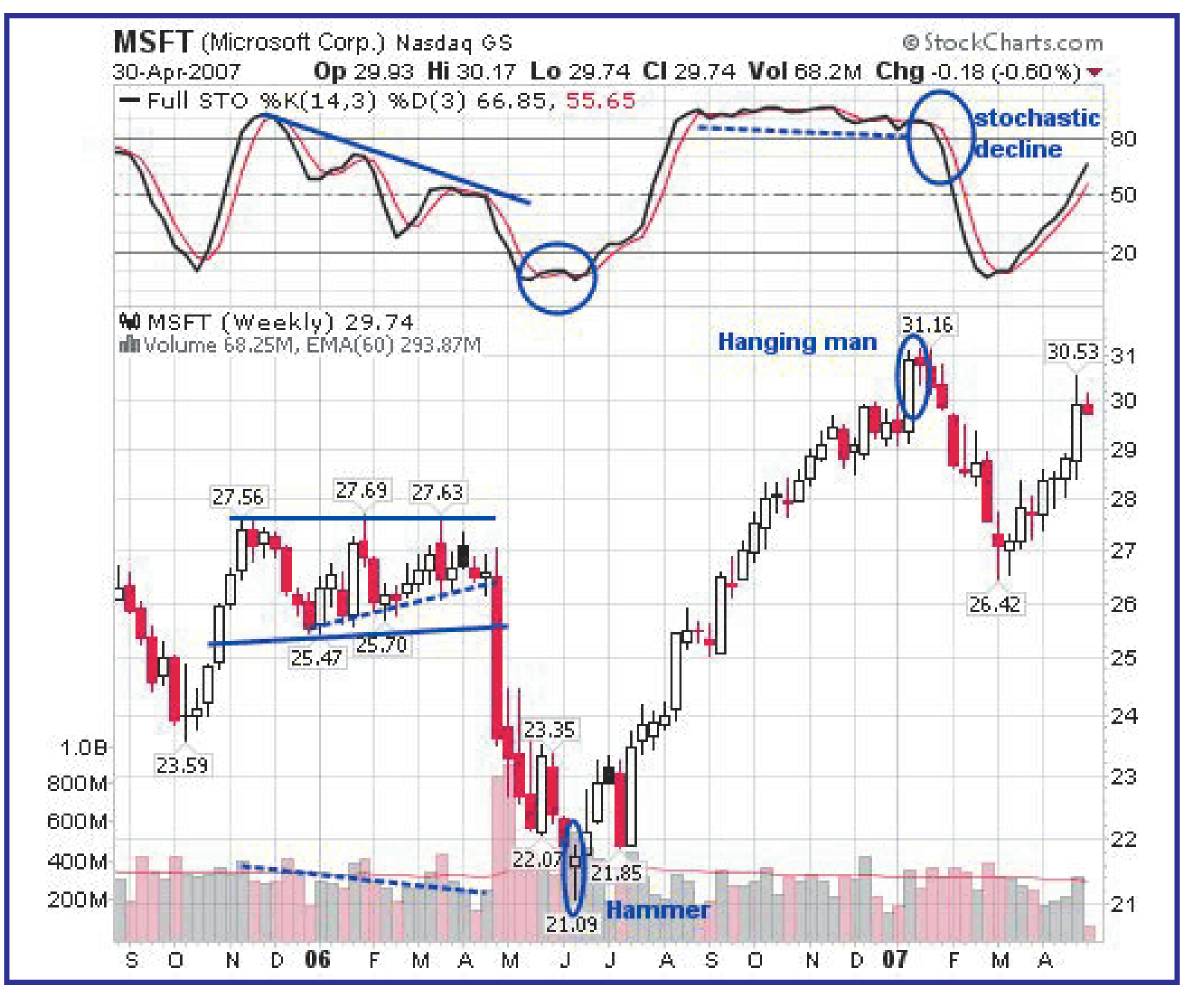


FIGURE 1: TRIPLE-TOP FORMATION. Although the triple-top formation is less frequent than other reversal patterns, it does have a powerful effect on the market. When you see a triple-top formation in an overheated market, it's not one to ignore.

Now let's see how the pattern can be traded. In Figure 1, as the price moved to form its first peak at \$27.56, the stochastic (14,3,3) was highly overbought, giving the preliminary warning of a decline. This is the first stage for profit booking, and you can see from the chart that the price declined to \$25.47. From here prices moved up to form the second peak at a high close to the first one.

If you look at the stochastic oscillator, however, you'll see that it formed a lower high. This negative divergence signifies that a downfall could be ahead. The formation of the second trough is important. Since two peaks have already formed, if prices break down below the support level or neckline, the pattern could become a double top. In this case, the stock price made a higher low at \$25.70 and rallied back to the previous high and made a third top. The higher lows that formed during the entire formation could be indicative of a variation in pattern — that is, the ascending triangle.

Shortly after the formation of the third top, prices broke below the neckline accompanied by enthusiastic volume. The price target was achieved within a week without turning back to the support line. The minimum expected price level is calculated by subtracting the highest peak of the pattern from the lowest low of the pattern. In this instance, the height of pattern is \$27.69 (highest peak) - \$25.47 (lowest low) = \$2.22. If you subtract \$2.22 from \$25.47, you get \$23.25, which is the price target of this pattern formation.

Prices drifted even lower to \$21.09. The stochastic has consolidated at oversold levels, preparing for a bullish move. The same chart clarifies the single reversal candlestick pattern, referred to as the *hammer* and the *hanging man*.

THE HAMMER

The hammer is a bottom reversal signal, so it will appear at the end of a falling trend. The hammer's long lower shadow and close at or near the high of the session relays that the market sold off sharply during the session and then bounced back close to or near the session's high. Closing at or near the high is a reason for not having an upper shadow. If an upper shadow exists, then it would mean the market closed well off its high. Though the pattern is strong, a reversal confirmation can save you from being trapped.

In Figure 1, the lowest level of \$21.09 is made by the hammer candlestick. The pattern on the chart has a small upper shadow. For a lower risk-buying opportunity, the second bullish candle that opened higher while the stochastic was in oversold territory would be a good entry point. The volume-loaded bullish rally surged to a new high at \$31.16 with the stochastic moving flat at overbought levels.

HANGING MAN

The end of this bull run was marked by a hanging man appearing at a high of \$31.16. For the hanging man to appear, price action must trade much lower than its open, then rally to close near the high. This forms a long, lower shadow that suggests that the market just might begin a selloff. The reversal pattern is confirmed if the next session closes under the hanging man. It is always better to wait for a confirmation rather than entering the trade on the day the hanging man emerges. Candlestick analyst Steve Nison suggests this trading technique with the rationale that if the market closes lower in the next session, then those who bought on the open or close of the hanging man day are now left hanging with a losing position.

In the chart, the hanging man has emerged after a long advanced rally. Along with its appearance, you need more confirmation from the indicator. The stochastic (14,3,3) has been relatively flat in overbought territory for a period of five months. The indicator declined at the next weak opening, so at this point it is best to wind up your long positions. The chart reflects similar kinds of trades: long positions are already exhausted at the top, while the short trade is in command with the next session's lower closing.

Hammers and hanging men appear frequently and are highly noticeable. Many fail to trade it without waiting for confirmation. Even though the pattern indicates a reversal, a supporting momentum indicator may help to save the loss.

TRIPLE BOTTOMS

Triple bottoms are bullish reversal patterns and, being a bottom formation, take even longer to develop than the triple tops. The Japanese name for a triple bottom is san-zen, meaning three rivers. The lows of the three bottoms should be at approximately the same level. Often, the three lows are just one-day spikes. A breakout from the formation starts a new upside rally. The variation pattern of a triple bottom is a head & shoulders bottom, but in this case, the middle head has a lower low than the other two bottoms. Until the triple bottom is formed, the formation resembles a double bottom and descending triangle or rectangle.

Volume flow is important if you want to trade a triple bottom. The volume gets exhausted until the third bottom is formed but must expand when prices break out above the neckline. When prices break out of the neckline with increased volume, it provides an excellent trading opportunity. As with triple tops, it is best to use an oscillator to identify the oversold or overbought areas.

The triple-bottom pattern is pretty reliable. The estimated failure rate is as low as 4%, assuming that traders wait for the upside breakout through the confirmation point. The target level calculation is similar to the H&S bottom. The distance between the resistance line or neckline and low is measured and then added to the price level where the breakout took place.

DOUBLE FORMATION (TOPS/BOTTOMS)

This pattern is easily identified, a short-term formation frequently appearing after an advancing or declining rally. A double top is a reversal pattern that turns the present uptrend to a downtrend. The prior rally can be a huge upside move or a small bull run. The distance between two peaks should be at least four weeks for a valid reversal top to form. The volume remains high at the first top and later, as the pattern matures, it may turn irregular. As the second top is formed the price slips back to the support line, this time breaking further down. Although the double top is common and easily understood, it is unclear whether it can be traded tactfully.

On the chart of Internet Initiative Japan, Inc. (IIJI), in Figure 2 I will show you how you can successfully trade the double-top formation. The price of IIJI hit a high at $9.14 after surging from a low of $7.450. It then descended forming a valley and support at $8.210. From there it again flew back to form a second peak at $8.940.

During this formation, take a look at the movement in the stochastic oscillator. The indicator mirrored the price movement by making a double top with a deep oversold valley in between. The first peak of the double top should have strong volume, which cools off as price lowers. As the second peak is forming, volume gradually rises again. This means that at the first peak in price and stochastic there is some profit-taking.

When prices decline to the valley, the stochastic is oversold. More buyers come in during the second rally. The declining rally from second peak to the support line completes the formation. It is only after this support line is violated, followed by the continuing declining rally, that the double-top formation is confirmed. At the support line breakout, you can open up short positions.

The price target of this downside rally can be calculated by measuring the height of formation and subtracting it from the support line. In this case, it would be $9.14 - $8.21 = $0.93 - $8.21 = $7.28. The reaction move rallied further down below the target level, marking a low of $6.21. This is quite typical in a breakout move below the support level of a double top. But how do you know there is a possibility of prices heading beyond the target level? At such crucial points the stochastic oscillator can help you decide when to exit the trade.

On the daily chart of Yahoo, Inc. (YHOO), in Figure 3 you see a bullish reversal short-term pattern or a double-bottom pattern. This pattern is formed after an adverse bearish rally from $29 to a low around $21. The second bottom is also approximately at the same level. In both these lows you see the formation of a hammer and both are followed by an upside surge. The time period between the two bottoms is just four weeks, which qualifies it as a double bottom.

There are two reasons I selected this chart as an example; one is the appearance of two hammer candlestick and the other is the formation of a trough between the two bottoms, which gives it the appearance of a triple bottom. But because triple bottoms don't occur in such a short time span, this is a double-bottom formation.

Going back to the hammer candlestick pattern on the first low, note the long lower shadow and small upper shadow. This might misguide traders into thinking the market will reverse and lure them into opening a long trade. But if you look at the stochastic (14,3,3), you'll see that it hardly reached the 60 levels on the retracement. This should make buyers aware of an impending bearish pressure.

The hammer that formed on the second low was followed by a gap up. This hammer and the completion of the double bottom are two bullish signals, and both together have added an inflow of volume, which strengthens the future bullish breakout. For further confirmation the stochastic (14,3,3) is highly

FIGURE 2: DOUBLE-TOP FORMATION. When prices break below the support line of the double-top formation, you can open up short positions, given the strong likelihood of a further decline in prices.

FIGURE 3: DOUBLE-BOTTOM FORMATION. After the double-bottom formation was completed, the bulls charged, attracting a lot of buying activity.

oversold and ready for a bullish move. The breakout from the double bottom above the resistance line rallied faster and is still continuing its bull run.

As of this writing the bulls are still charging with increased strength with no sign of exhaustion. ■

This article was originally published on 12/26/2007.

Triple tops should be assessed carefully since there are variations in the pattern.

INDEXES

RELATIVE STRENGTH COMPARATIVE

Dow Transports Losing The Battle

by Arthur Hill

The Dow Jones Transportation Average has been battling two key moving averages the last two months, and continuing relative weakness suggests that this will be a losing battle.

Tradable: $TRAN

Before moving on to the current situation, let's take a look at the weekly chart for some long-term perspective (Figure 1). The Dow transports broke down with a sharp decline this summer and then consolidated the last two months. Just like the summer of 2006, the transports average managed to firm around the 50-week moving average (blue ovals). In 2006, the Dow transports surged in October and this made for a successful moving average test. We have yet to see a surge this time around, and this test may not be successful.

Turning to the daily chart (Figure 2), the Dow transports broke the 50-day and 200-day moving averages in August and then bounced back toward these two averages. There was even a surge in early October, but this surge failed to hold and the Dow transports met resistance from broken support (blue line). It has been a right battle around these two moving averages. I would not bet on a bullish resolution unless the DJTA breaks above broken resistance at 5000.

Continued relative weakness points to a bearish resolution instead of a bullish resolution. The red line shows the price relative, which compares the performance of the Dow transports to the Standard & Poor's 500 exchange traded fund (SPY). The indicator peaked this summer and declined until late September. The price relative found support over the last six weeks but did not reverse this downtrend, and the Dow transports remain relatively weak. This is not a good sign and it favors a support break at 4750. Such a break would signal a continuation lower and forecast a move below the August low. ■

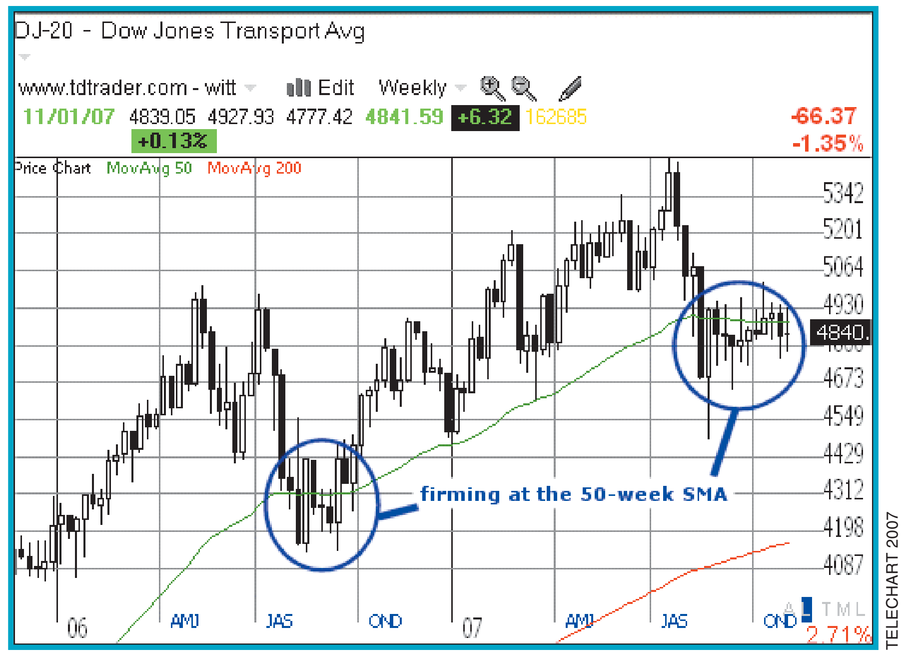
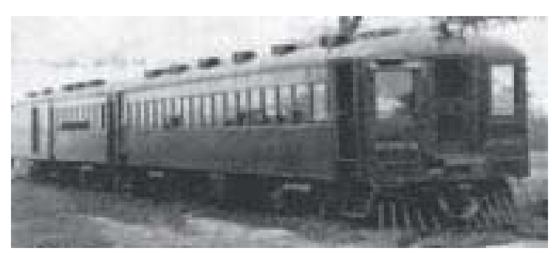


FIGURE 1: DOW JONES TRANSPORTS, WEEKLY. The DJTA broke down with a sharp decline this summer and then consolidated the last two months.

FIGURE 2: DOW JONES TRANSPORTS, DAILY. The Dow transports broke the 50-day and 200-day moving averages in August and then bounced back toward these two moving averages.



TRIANGLES

DJ US Chemical Index May Move In Narrow Range

by Chaitali Mohile

$DJUSCH is forming a continuation pattern at higher levels, so the index may move in a narrow range till the formation matures if lower support is held.

Tradable: $DJUSCH

Dow Jones Chemical Index ($DJUSCH) slipped to its lower support from the all-time high level of 300. The index formed a hammer at this support and rallied back to its previous high, further moving within a range of 10 points. As a result, an ascending triangle is forming with a buy line at the 300 level and a sell line moving upward from 285. This triangle is a continuation pattern at upper levels and hence a bullish formation. But the formation is yet to mature so the range may get narrower as the sellers' line moves closer to the buyers' line. The triangle may be completed on soft normal market notes, but the twist in the story is the current credit crisis tremor in the US markets. The sellers' line will act as a support system to continue this bullish continuation pattern. See Figure 1.

The indicators are equally bullish to anticipate the formation to complete successfully; in addition, the range is also broad. But as the pattern moves farther, the range will turn narrower, which might harm the bullish rally if the crisis continues. The relative strength index (RSI) (14) is at the 50 support level; a slip below this mark would gradually turn down the price movement, so market action from here should be watched carefully. In addition, the moving average convergence/divergence (MACD) (12,26,9) is below its trigger line in positive territory. So technically the chart is supporting the smooth upside breakout from an as-

FIGURE 1: $DJUSCH, DAILY. Under smooth market conditions, the triangle on maturity would give an upside breakout with positive indicators support.

FIGURE 2: $DJUSCH, WEEKLY. The flag & pennant is a bullish continuation pattern, and the index has formed the flag after a 40-point advance rally. The length of the flag pole (that is, the advance rally) is 40.

cending triangle, but global weakness is back. The weakening dollar across Asia and now also against the euro are among a few reasons that has resulted in a financial crisis in the US economy.

The estimated level on the ascending triangle is measured, adding the height of the triangle to the breakout level. Those who are following this index can calculate the target on a confirmed breakout. The indicators are in an important support zone so traders can be on high alert.

The weekly chart (Figure 2) shows yet another bullish continuation pattern. The chemical Index turned sideways on hitting the high at the 300. The 10-point range move formed a flag & pennant formation, which on breakout gives a new upside rally. During this consolidation, the RSI (14) has declined from 70 to 61 levels, yet the indicator is bullish till the golden support of 50 exists. The MACD (12,26,9) is equally strong and positive to carry the consolidation, provided the indicator maintains the same bullish positions. The target on the flag & pennant is calculated, measuring the height of flag pole (advance rally) and adding the same to the breakout level.

Both charts are equally bullish for a long trade after the confirmed breakout, but the current domestic and global situations worry me more. The only concern is the market's hip-hop need not spoil the party. The support seller's line of an ascending triangle should be watched carefully. ■

Traders.com **ADVANTAGE**™
This article was first published on 11/9/2007.
See www.Traders.com for more.

ELLIOTT WAVE

Tough Times Ahead For The Dow 30?

by Koos van der Merwe

Was last week the start of the meltdown?

Tradable: DWIX

The Kondatieff wave chart (Figure 1) suggests that the market's trend is down, from years of good times and high prices, time to sell value of all kinds, to years of hard times and low prices — a time to buy. The chart also suggests that the downtrend will last five years, until 2012.

So how accurate is the chart? Well, we have to simply look at the year on the chart, 1999, which forecast the 2000 meltdown. Of course,

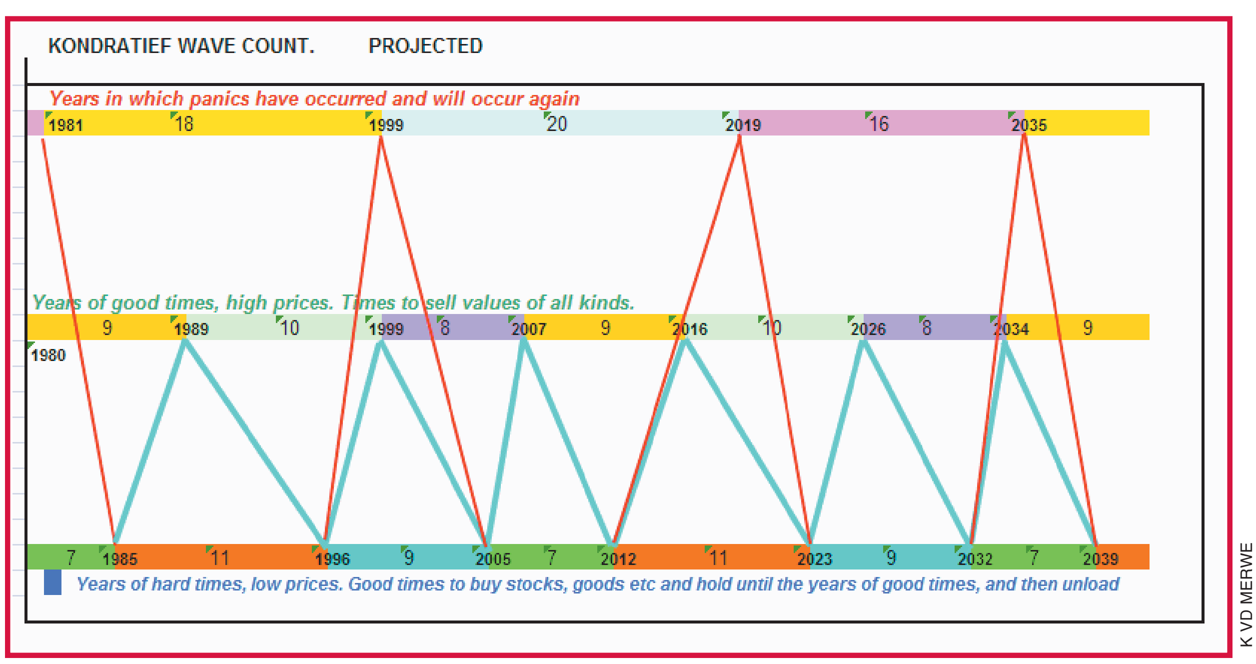


FIGURE 1: KONDRATIEFF WAVE. The trend is down, according to the Kondratieff wave.

with CNBC announcers broadcasting that "things [as in the economy] are different this time" because of technology, no one accepted the K-wave forecast much to their regret, and those who did consulted psychologists to justify their selling decisions. The K-wave chart showed that the 1999–2005 meltdown would be huge and dramatic and it was, but the bottom, as we all know now, was in October 2002 with a double bottom in 2003, not 2005 as shown in the K-wave chart. Does this suggest that the meltdown to 2012 could end in 2010, and that it may not be that severe? To answer these questions, we look at Figure 2 and the Elliott wave count of a monthly chart of the Dow Jones Industrial Average (DJIA).

Today, with hindsight, we all know that the present volatility in the market is caused by the subprime mortgage crises. With no one able to predict the final outcome, nor the recovery of financial institutions affected by this crises; with Ben Bernanke, chairman of the US Federal Reserve, talking in understandable language, the end is nowhere in sight. Figure 3 suggests that the expected A-B-C correction could finalize anywhere between 7467 and 11592, the fourth wave of lesser degree. Do note that the moving average convergence/divergence (MACD) indicator has *not yet* confirmed a sell signal, so the DJIA could see a retest of its high before a strong down move.

Figure 3 is a daily chart of the DJIA. This shows the immediate Elliott wave count and suggests the following:

a. The B-wave rose to the level of the Vth wave, a suggestion that the C-wave correction could be a flat — by this I mean not as drastic as C-waves usually are. In the chart I have shown the fourth wave of lesser degree as being between 11943 and 12854, however, as a flat the end of the C-wave should be closer to 12854 than 11943.

b. C-waves can fall in an A-B-C pattern, or a 1-2-3-4-5 impulse wave count. I am suggesting the latter, but this need not necessarily be so.

c. The relative strength index (RSI) is suggesting that an upward correction could happen in the weeks ahead. The MACD is however still suggesting weakness.

d. Should the upward correction occur as suggested by the RSI, the DJIA should not move above 13344.45, the low of wave 1 of wave C. Should this happen, then it would mean that the correction down would be an A-B-C correction and not a five-wave impulse count as I have suggested.

e. Finally, note that the low of wave A, at 12464.16 within the fourth wave of lesser degree, could act as a support level and a low for the correction. Do realize that the completion of this correction would only suggest the completion of wave A on Figure 2.

That the subprime crisis is causing chaos within the market; that the US is slowly falling into a recession is without doubt.

That the subprime crisis is causing chaos within the market; that the US is slowly falling into a recession, although not confirmed by Ben Bernanke the Federal Reserve chairman, at his recent report to the US Senate, is without doubt. However, daily charts suggest that there should be a correction upward allowing investors time to offload before the final crunch into the years 2010–12, the years as forecast by the K-wave as the end of the recession. Tough times ahead without doubt. ■

Traders.com ADVANTAGE™
This article was first published on 11/12/2007.
See www.Traders.com for more.

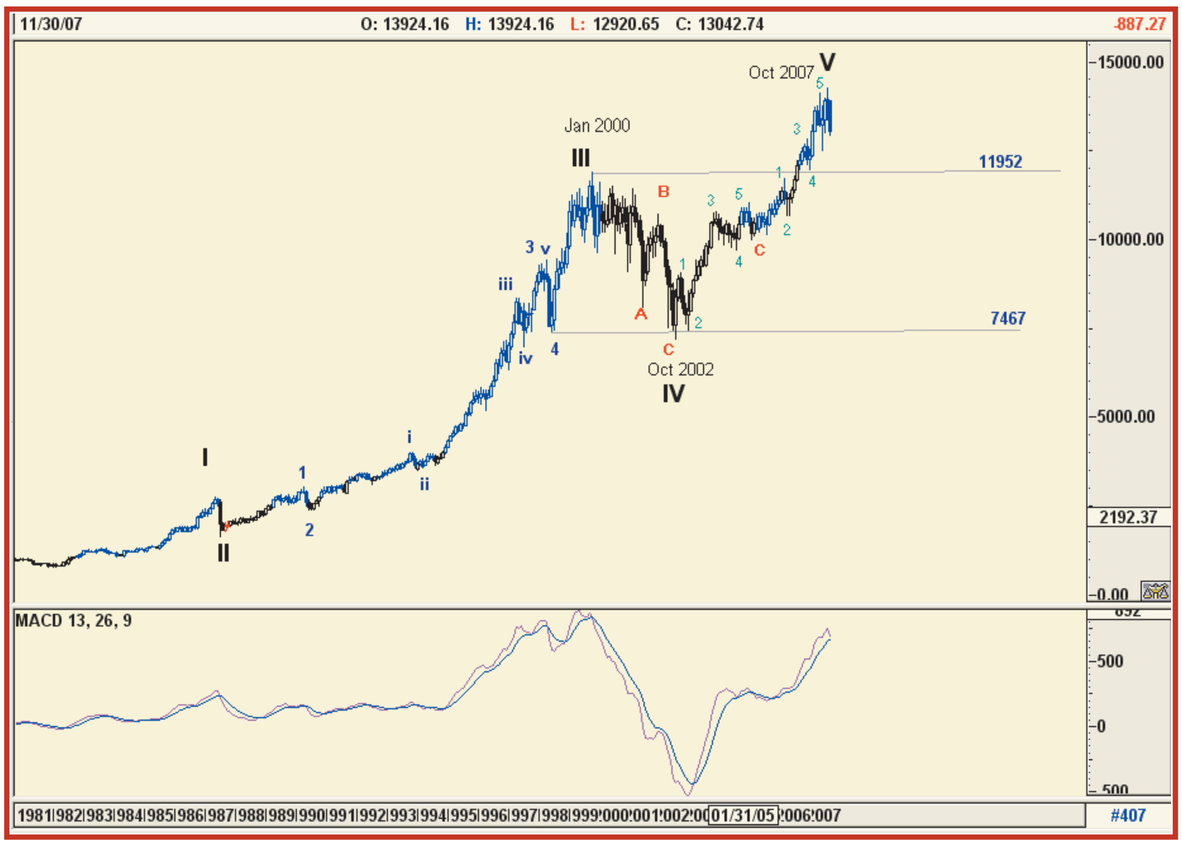


FIGURE 2: DJIA, MONTHLY. This chart shows the wave count.

FIGURE 3: DJIA, DAILY. This daily chart shows indicators and the wave count.

Bears Ruling NASDAQ Composite

by Chaitali Mohile

There were more than two bearish reversal signals that indicated a breakdown on charts of two different time frames.

Tradable: $COMPQ

The real mayhem in the NASDAQ Composite began at the lower range of consolidation or the 2775 levels. The index was trading in the 2775-2800 range for almost two to three days. As the trading range broke to the downside, $COMPQ lost around 100 points, moving lower to 2675 levels along with the relative strength index (RSI) (14) getting oversold at 20 levels.

The next trading session on November 9 made a correction more serious by opening 25 points gap down. This session after trading in a narrow range of 2650–2625, gave another bearish indication in the latter half of the day. In Figure 1, you can see that a bearish engulfing pattern formed on November 9; the last-hour bearish candle has covered the previous bullish candle completely.

The bearish engulfing is a bearish reversal pattern, showing a temporary change in uptrend. The effects of a bearish pattern on the hourly chart shown in Figure 1 were reflected immediately in the next trading session of November 12. In addition, the moving averages gave a bearish crossover, strengthening the downside rally.

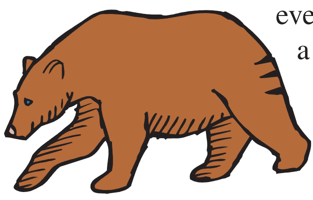
On November 12, $COMPQ traded 1.67% lower, while the RSI (14) continued to be oversold under the 30 level resistance. In addition, the MACD is highly negative at the -38 level. Therefore, the intraday trading chart has a bearish indication, showing that more downside is possible.

However, the RSI (14) can remain oversold at the same level or move far below 20; some pullback can be expected. This pullback could actually happen, so traders should watch the RSI (14) moving above the oversold territory.

FIGURE 1: $COMPQ, HOURLY. The bearish engulfing signaled a bearish rally in the next intraday trading session.

Like the 60-minute chart, the weekly chart too has broken down from the bullish consolidation (Figure 2). The weekly chart was forming a bullish flag and pennant continuation pattern after rallying 200 points in the upside direction. This formation breaks out in a bullish direction, but the breakout here failed and $COMPQ slipped down from bullish formation. With this sudden unexpected breakdown, the RSI (14) has marginally moved below its bullish support of the 50 level. In addition, the MACD (12,26,9) is trying a bearish crossover in the positive territory of an indicator. This whole picture is with a reference to the flag & pennant formation, but if we observe carefully,one more bearish reversal pattern was being formed while consolidating.

Before the lower consolidation range of 2700 was violated by the previous weekly candle (Figure 2), the formation looked like an evening doji star. The evening doji star is a three-candle formation, a first bullish candle then a doji star, followed by a bearish candle that closes well within the body of the first bullish candle. Till the lower range was held, the formation in Figure 2 (see circle) looked like an evening doji star, indicating some downfall. So though the breaking down of the bullish flag & pennant was unexpected, the appearance of the evening doji star was a warning signal.



The next support stands at the 2550 level, so if Asia moves moderately and domestic stability comes in, some bounceback rally can be expected.

Therefore, there were few of these bearish indications pointing towards the ongoing volatility in US financial markets. The correction is almost near the support areas, so there are no new shorts, but traders can wait for a confirming bounce from the support areas before opening a position. ■

Traders.com ADVANTAGE™
This article was first published on 11/13/2007.
See www.Traders.com for more.

FIGURE 2: $COMPQ, WEEKLY. The flag & pennant pattern broke in the reverse direction unexpectedly, bringing in a panic situation.

ANDREWS PITCHFORK

Tough Days Ahead For The NASDAQ

by Gary Grosschadl

Stiff overhead resistance for the high-tech composite index looks likely.

Tradable: $COMPQ

After a strong up leg from 2400 to 2850 (in only three months), a bearish trend is now evident. Figure 1 shows several bearish markers emphasized with a bearish pointing pitchfork (also known as the Andrews line method). To plot the pitchfork, we only need to choose three turning points, and the charting software paints the pitchfork view. These points are the initial high near 2700, the low below 2450, and the subsequent high at 2850. Pitchfork traders would have been right on the money sticking to the downside target of the median line support.

Pitchfork theory holds that this bearish trend is in place until resistance at the upper median line has been overcome. Likely action may be a down slide skipping off the center median line. If a super bear emerges, then a move toward the lower median line may result. Note how the ever-important 200-day exponential moving average (EMA) coincides with current median line support hinting at the validity of this pitchfork chart.

Several other indicators above and below the chart also reflect a bearish tone. The directional movement indicator above the chart shows a strong bear trend with the average directional movement index (ADX) line uptrending above the 20 level, while the DIs (directional indicators) are bearishly poised. Below the chart we have the moving average convergence/divergence (MACD) still downsloping. At times this indicator gives very clear buy and sell signs. A "wait" signal can now be assumed until the classic crossover from low levels transpires. The relative strength index (RSI) shows bearishness under 50 but also shows good support from its 30 level. Meanwhile, the stochastic oscillator reflects an oversold condition waiting for an upswing.

Should median line support hold, a bear rally is mused to fail at stiff overhead resistance at or near 2700. This area represents previous support and resistance levels as well as a convergence of overhead moving averages, in this case the 13-day MA and the 50-day EMA. This index may now be in failure mode, with bear rallies dying at the downsloping 50-day EMA line.

In summary, the trend is down with fluctuations likely between median line support (center) and overhead 50-day EMA. Larger moves would involve swings to either the upper or lower median lines.

FIGURE 1: NASDAQ COMPOSITE, DAILY. The NASDAQ composite appears to be sliding down a pitchfork.

Everything I need to know I learned in kindergarten and the family farm, one might muse. ■

Traders.com ADVANTAGE™
This article was first published on 11/21/2007.
See www.Traders.com for more.

CANDLESTICK CHARTING

NASDAQ Runs Into A Wall

by Arthur Hill

After a nice reversal and breakout in November, the NASDAQ formed a massive bearish engulfing formation and is suddenly looking vulnerable.

Tradable: $COMPQ

The bearish engulfing pattern is a short-term candlestick reversal pattern that requires confirmation with further downside (Figure 1). The pattern forms when the open is above the prior close and the close is below the prior open. A long black candlestick forms and this candlestick engulfs the prior candlestick.

In this case, the long black candlestick engulfed the prior three candlesticks. The blue box shows the open and close for the long black candlestick. The prior three candlesticks were engulfed, and this is quite a reversal day. One day of selling pressure erased the gains of the last three days.

Even though this reversal day looks most ominous, confirmation is usually required for this pattern. I am looking at support from the December 4th low and the 5-35 price oscillator (Figure 2). A move below 2613 would break support and forge a lower low. This would be a bearish price action.

The 3-35 oscillator moved back into positive territory last week but stalled this week. A move back into negative territory and back below the signal line (10-day simple moving average) would be short-term bearish. This would also confirm the bearish engulfing pattern, and I would then expect further weakness below the November low. ■

Traders.com **ADVANTAGE**™
This article was first published on 12/20/2007.
See www.Traders.com for more.

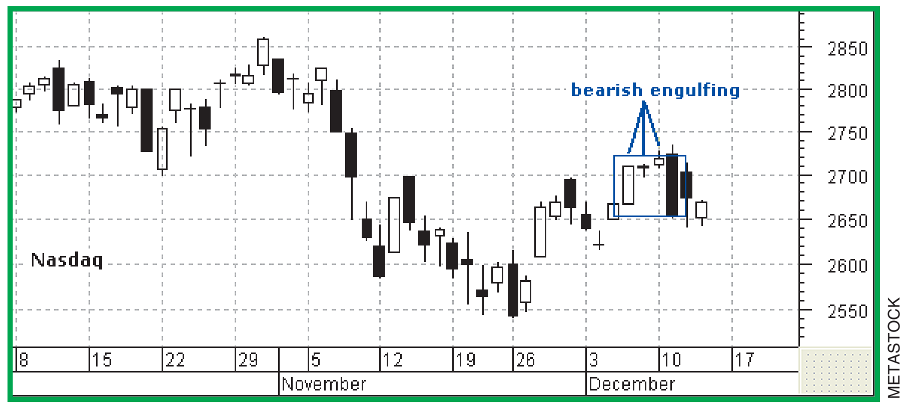


FIGURE 1: $COMPQ. The bearish engulfing pattern is a short-term candlestick reversal pattern that requires confirmation with further downside.

FIGURE 2: $COMPQ. A move below 2613 would break support and forge a lower low.

TECHNICAL ANALYSIS

Dow Jones Industrial Average Slips Further

by Chaitali Mohile

Following three bad trading days, $INDU has slipped below its earlier low. Now what?

Tradable: $INDU

The first trading day of the new year proved to be rough for most financial markets around the globe. India was the only one among the Asian markets that closed in the black in the Wednesday, January 2nd trading session. $INDU, though, already was in a bad mood, with its chart intending to move in a narrow range after lower highs and higher lows formed in the past many sessions. With the trendline joining these points we got a pattern of a symmetrical triangle, but yesterday's move breached the lower trendline.

FIGURE 1: $INDU, DAILY. As the index slipped under the lower trendline support, the indicators also turned more bearish.

Due to negative clues from the Asian markets, the index was dragged below the trendline support. We now need to watch out for the next move as the indicators have also turned more bearish.

The stochastic (14,3,3) is close to the 20 level and indicates some more downside left to hit the oversold area. In addition, the moving average convergence/divergence (MACD) (12,26,9) that was already volatile near its trigger line is on edge to cross over its zero line and enter the negative territory. Therefore, both indicators suggest there is still more downside left.

Meanwhile, the sellers' pressure on average directional movement index (ADX) (14) increased massively, though the trend is neutral, indicating the possibility of consolidation after the 200-point fall.

With these conditions, we need to watch the next support level; if the index gets back to trendline support, then a range-bound move with the upper trend line as resistance is possible. It's just a matter of waiting patiently. See Figure 2.

Due to negative clues from the Asian markets, the index was dragged below the trendline support.

The MACD (12,26,9) plunged from as high as the 300-plus level to the lowest near zero line. During this time the index made new highs. This created a negative divergence, which points toward a correction in the near future. Accordingly, the index entered the bad phase and tumbled nearly 1,000 points, establishing support below 13000, below a 50-day moving average. With support at 12724, the index reached a lower high at 13780; now the index is back below the 50-day MA again and stands on the support of 13000. Traders should be more cautious at these levels.

The stochastic (14,3,3) is still declining and has moved below 50, and in addition, the ADX (14) at 13000 shows weakness in trend with -DI ready to surge. All the three indicators on the weekly chart in Figure 2 show a negative bias.

You don't have to trade every day. On some days you may be forced to just watch the markets as is the case with the $INDU today. ■

Traders.com ADVANTAGE™
This article was first published on 1/3/2008.
See www.Traders.com for more.

FIGURE 2: $INDU, WEEKLY. The previous support level of 13000 was held and the indicators were still bearish, so the next support level must be observed.

CHART PATTERNS

ELLIOTT WAVE

An ABC For MID

by Arthur Hill

The S&P 400 MidCap Index traced out an ABC correction, and a big surge off a key retracement could kickstart a rally.

Tradable: $MID

Uptrends consist of advances and pullbacks; it is all part of the natural ebb and flow of price movements. A trend is established when the advances are consistently larger than the pullbacks and prices advance over a period of time. The S&P 400 MidCap Index ($MID) surged from mid-August to mid-October and then corrected over the last five weeks. This correction retraced 62% of the prior advance and the index surged around 850. The pullback is so far less than the advance, and this means it could still be just a correction in an uptrend. See Figure 1.

The decline over the last five weeks also traced out an Elliott wave ABC pattern. Wave A extended to around 870, wave B bounced back above 900, and wave C declined to around 850. This pattern is typical for corrections and the big bounce off 850 is a start to end this correction. I am marking resistance at 875, and a close above this level would be short-term bullish. Failure to move higher and a move below the November low would be bearish.

Traders can also turn to the moving average convergence/divergence (MACD) for signs of follow-through and an upturn in momentum (Figure 2). The MACD moved below its signal line in October. The indicator trended lower the last five weeks by moving into negative territory. The first positive signal would be a move above the signal line. This could be used to confirm a close above 875. Note that the MACD is based on closing prices. Momentum would turn fully bullish if the MACD moves into positive territory. ■

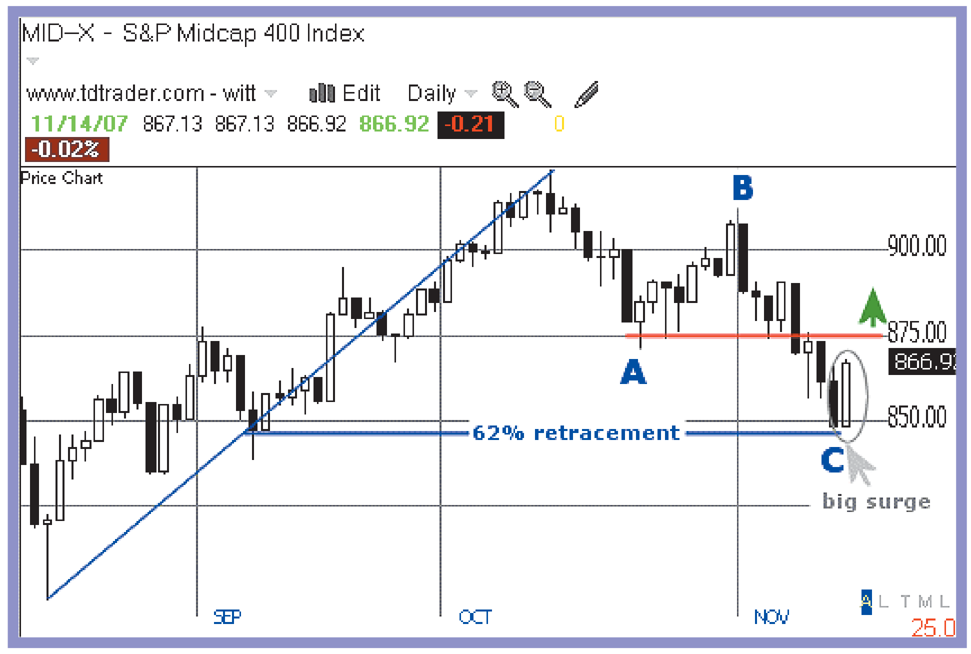


FIGURE 1: MID, DAILY. The MidCap Index surged from mid-August to mid-October and then corrected over the last five weeks. This correction traced 62% of the prior advance.

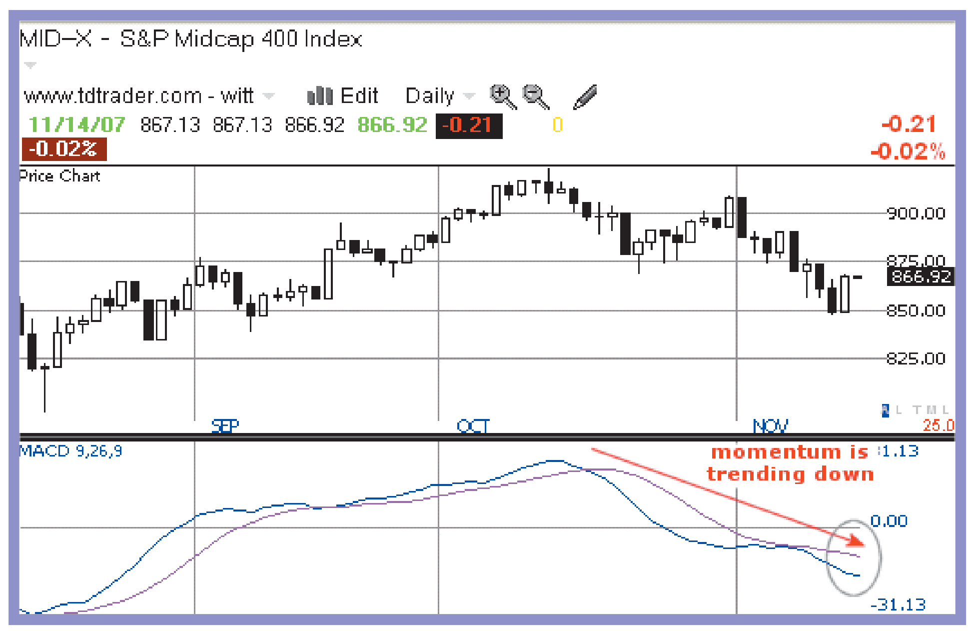


FIGURE 2: MID, DAILY. Note that the MACD is based on closing prices. Momentum would turn fully bullish if the MACD moves into positive territory.

TECHNICAL ANALYSIS

Wide-Ranging Days And A Map Of The Market

by Paolo Pezzutti

This one-day pattern indicates that new money has entered the market.

Tradable: N/A

Wide-ranging days are not able to provide clear indications of future price

FIGURE 1: EMINI S&P, DAILY. Expansions of the range in directional trading days generally indicate the direction of the trend.

changes, but they help the trader build a picture of the market conditions. Wide-ranging days are one-day patterns that can be defined in different ways. For example, Jack Schwager, in his book *Schwager On Futures: Technical Analysis*, calls a wide-ranging day one when volatility exceeds the average volatility of the past *n* days. In particular, the trading day volatility ratio, which is the true range divided by the true range of the past *n*-day period, has to be greater than *k* (for example, $k = 2$).

I define a wide-ranging day as a directional day whose true range is the highest of the past n days, where *n* can be, say, 20. True range is calculated using true high and true low values. They represent the price as follows:

- True high: today's high, or the previous close, whichever is higher
- True low: today's low, or the previous close, whichever is lower.

The true range is defined as true high–true low. A wide-ranging day is significant. A wide-ranging day occurs when the public enters the market, bringing fresh money. It is an indication of the future market direction. Short-term trading strategies can be based on this pattern.

The high-volatility increase indicates that the market sentiment has shifted quickly from one condition to another, with the public emotionally involved in the trading session. Markets alternate between trends and congestions, sometimes losing their balance and moving quickly to a new equilibrium area — that's when these wide-ranging days can be printed hinting at the direction of prices.

In Figure 1, you can see some examples of indications provided by this pattern. The chart displays the emini S&P. Since last July, a number of wide-ranging days have been printed. Six bars were followed by a continuation of prices in the direction of the wide-ranging bar (points from one to six). At point 6, on November 28, the emini has printed an impressive wide-ranging day and the market has had a follow-through of another two days in the same direction so far. On four occasions (points A to D), their indication would have likely led to losses.

After the wide-ranging bar, you may have a short-term consolidation, but for this pattern to be successful, you should see prices continue in the direction of the bar after two to five days.

I would like to focus, however, on the meaning of the failure of this pattern. Wide-ranging days are characterized by high volume as the public is emotionally involved in the market action. Fresh money enters the market in the prevailing direction of the trading day with a feeling that you must be an active participant now or you may not be able to open your position at the same prices in the following days.

FIGURE 2: GM, DAILY. The failure of the pattern and the consequent breakout to the downside of the wide-ranging bar low initiated a dramatic move to the downside.

TRADESTATION

Of course, in case of an up wide-ranging day, when prices reverse and break out the low of the bar, the public starts to be a loser and you might expect to see traders closing their positions as prices move against them. This can cause an acceleration of prices in the opposite direction of the wide-ranging day and it represents a trading opportunity, especially when it occurs soon after the wide-ranging bar has been printed. As an example, in Figure 2, you can see a dramatic reversal occurred after a failure of this pattern printed on General Motors. ■

SUGGESTED READING

Schwager, Jack D. [1996]. *Schwager on Futures: Technical Analysis*, John Wiley & Sons.

FLAGS AND PENNANTS

QQQQ Firms Near Key Retracement

by Arthur Hill

After a sharp decline in early November, QQQQ firmed near a key retracement and formed a pennant consolidation.

Tradable: QQQQ

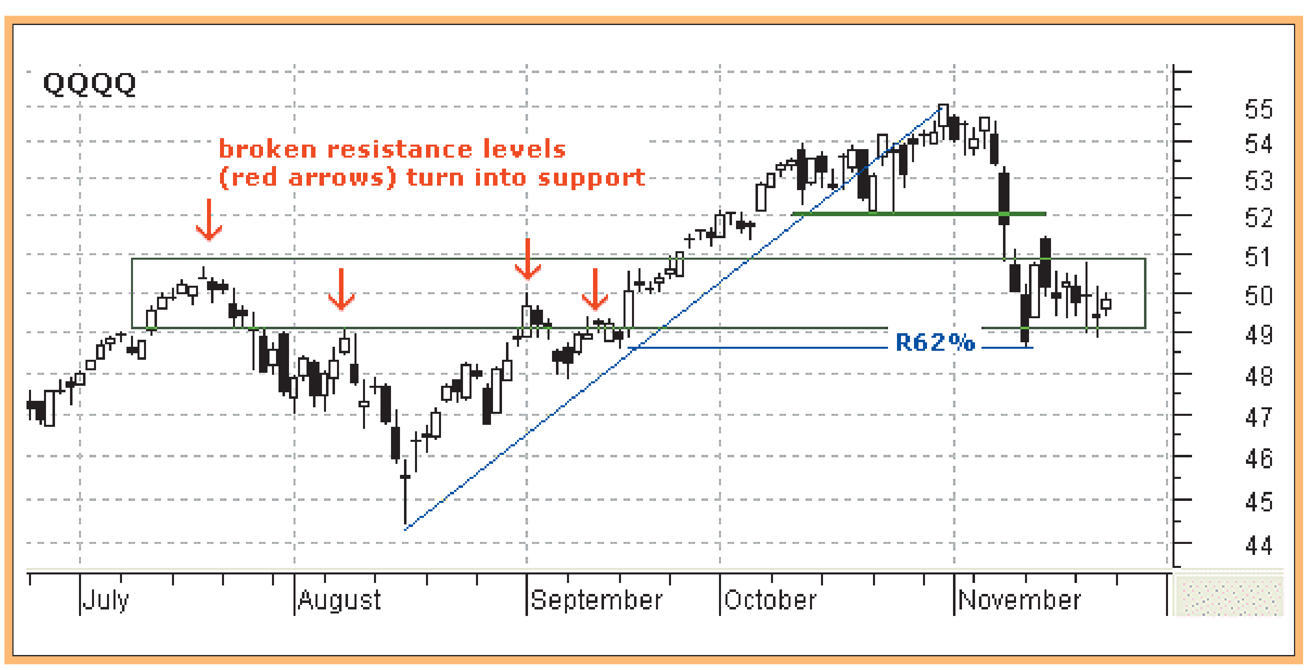


FIGURE 1: QQQQ. Q broke down in early November with a sharp four-day decline that broke support at 52.

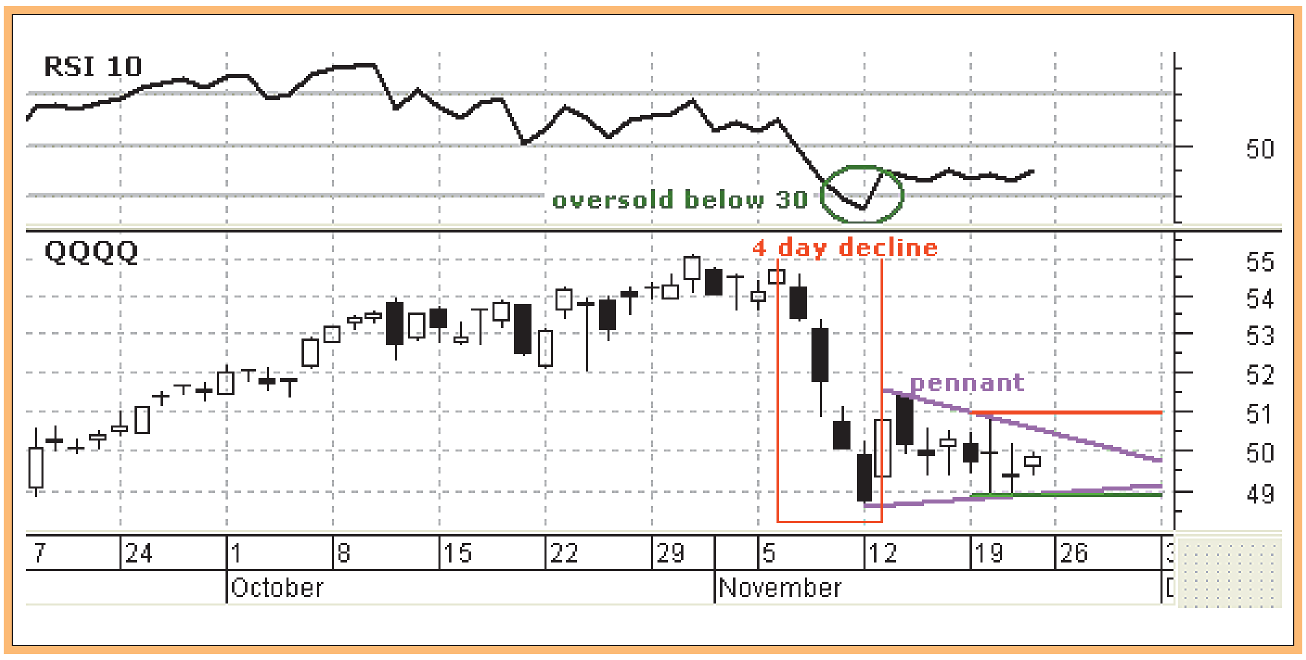
METASTOCK

QQQ broke down in early November with a sharp four-day decline that broke support at 52. The mid-October lows marked this support level and the break was quite clean.

Despite a clear support break, the exchange traded fund (ETF) is finding support near broken resistance levels and a key retracement. The decline retraced 62% of the August–October advance; the 61% number stems from the Fibonacci number 0.618, which is the golden ratio. In addition to support from the Fibonacci retracement, there is also support around 49–51 from the prior resistance levels (red arrows). The resistance levels form a resistance zone, and this turns into a support zone.

Since the sharp decline, QQQQ consolidated over the last eight days with a pennant formation. The sharp decline created an oversold condition and this pattern represents a rest after the decline. Note that the relative strength index (RSI) moved below 30, which is oversold. The pennant alleviated this condition as the RSI moved back above 30.

The resolution of the pennant will dictate the next trading signal. A move below last week's low (48.8) would signal a continuation lower, while a move above last week's high (51) would be bullish. Pennants are typically continuation patterns, and this favors a break to the downside. The key, as always, is to wait for confirmation. ■



METASTOCK

FIGURE 2: QQQQ. Since the sharp decline, Q consolidated over the last eight days with a pennant formation.

Traders.com ADVANTAGE™
This article was first published on 11/26/2008. See www.Traders.com for more.

BREADTH THRUST

Market Breadth Screaming "Buy Now!"

by Mike Carr, CMT

Breadth thrusts have long been used by market professionals to spot low-risk buying opportunities.

Tradable: QQQQ

The health of a market advance can be seen in how broad the participation is. At times, large moves in only a few stocks can drive the market indexes higher. This is what happened in the first few months of 2000. Without the majority of stocks moving higher, the advance was doomed to fail. And fail it did, with the subsequent decline lasting more than two years and knocking almost 80% of the value off the NASDAQ. A long-term chart of the NASDAQ Composite can be seen in Figure 1.

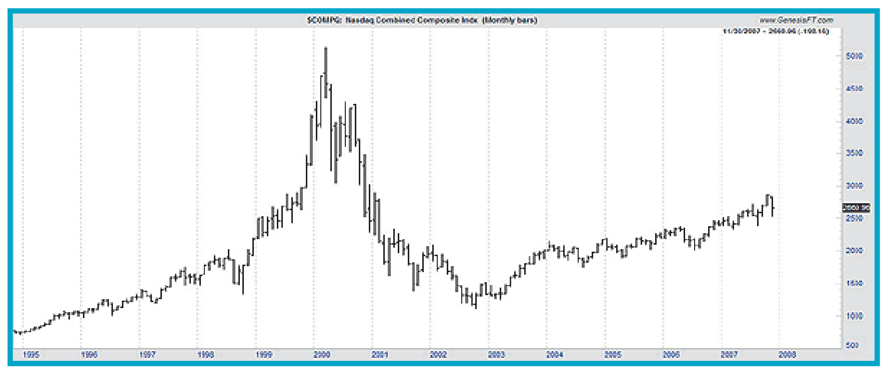
Ultimately, the bottom of that decline was easy for market pros to spot. In early October (Figure 2), the market showed no sign of bottoming. On October 4, 2002, more than 90% of the day's volume was to the downside. But only five days later, more than 90% of the day's volume was to the upside. This was a signal that the bottom was in, as identified by Paul Desmond of *Lowry's Reports* in a paper published earlier that year, "Identifying Bear Market Bottoms and New Bull Markets" (https://www.mta.org/eweb/docs/2002DowAwardb.pdf). Desmond quantitatively defined how to spot volume thrusts that signaled a bottom.

The key to spotting the bottom was a series of 90% days. Desmond noted that every major stock market bottom followed a similar pattern — a washout day or series of days where downside volume represented more than 90% of the day's total volume. The volume was in when this washout was followed by a 90% upside within weeks. Complete rules for this signal can be found in his paper.

Recently, that work was extended by Rob Hanna of Hanna Capital Management. He found that there have been five times since 1970 when there were two 90% up days in a five-day period. The market was higher one and two months later each time, showing an average gain of 7.5% in one month and 10.6% two months later. In both cases, the worst drawdown was less than 2.5%.

As shown in Figure 3, there were two 90% up days on November 23 and November 28, 2007. While there is no guarantee that history will repeat, this seems like a low-risk entry point for those seeking short-term gains. Buying QQQQ, SPY, or DIA is an easy way to implement this strategy. ■

Traders.com ADVANTAGE™
This article was first published on 12/3/2007. See www.Traders.com for more.



TRADE NAVIGATOR

FIGURE 1: NASDAQ COMPOSITE, MONTHLY. The health of a market advance can be seen in how broad the participation is. At times, large moves in only a few stocks can drive the market indexes higher.

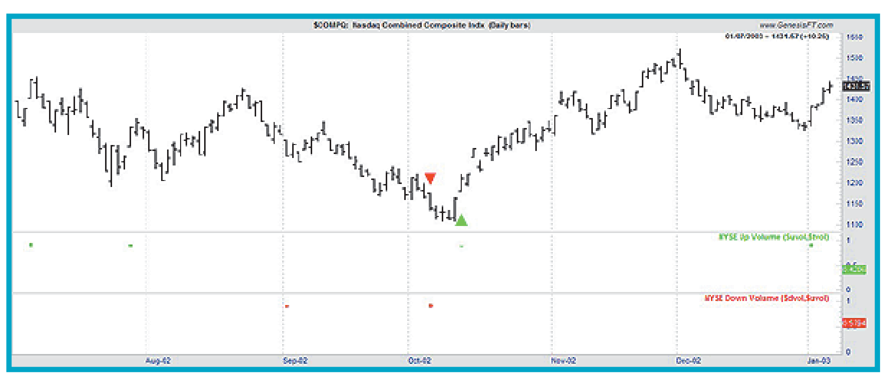


FIGURE 2: NASDAQ COMPOSITE, DAILY. Here's the October 2002 bottom with 90% days highlighted.

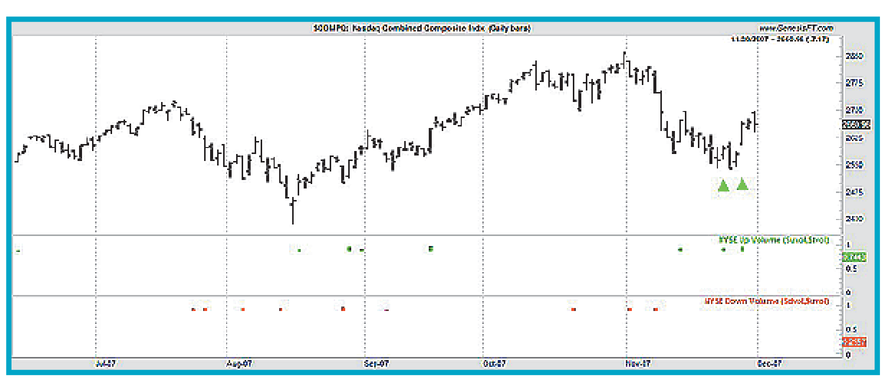


FIGURE 3: NASDAQ COMPOSITE, DAILY. Recent market action with 90% days are highlighted here.

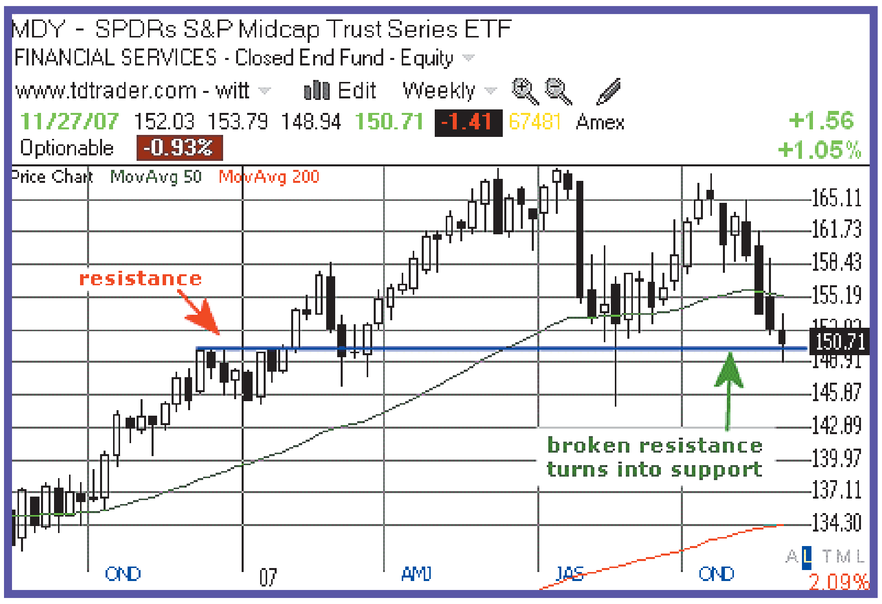


FIGURE 1: MDY, WEEKLY. Here's the S&P 400 Midcap ETF at long-term support around 150.

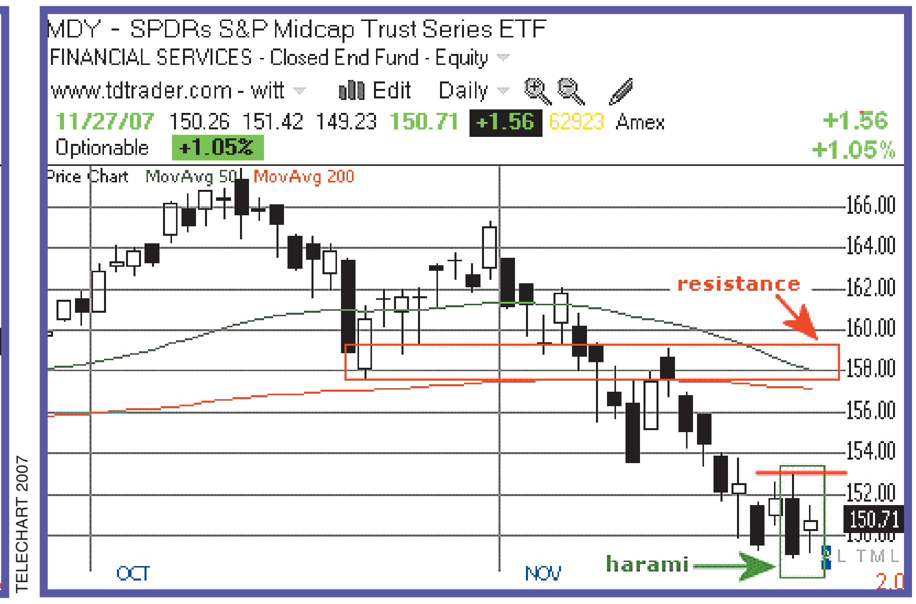


FIGURE 2: MDY, DAILY. The exchange traded fund formed a harami over the last two days.

CANDLESTICK CHARTING

Tradable: MDY

A Harami For MDY

by Arthur Hill

The S&P 400 Midcap ETF formed a harami at long-term support, and traders should watch for confirmation of this bullish candlestick reversal pattern.

The weekly chart shows the Standard & Poor's 400 Midcap ETF (MDY) with long-term support around 150 (Figure 1). The exchange traded fund (ETF) broke resistance around 150 earlier this year and broken resistance then turned into support. After bouncing off this support level in the summer, MDY returned in November, and an important test is at hand.

On the daily chart, the ETF formed a harami over the last two days (Figure 2). The smaller candlestick is within the range of the larger candlestick from the previous day. Tuesday's price action is completely within Monday's range and this also amounts to an inside day. The harami is potentially bullish, but requires confirmation with further strength. A break above Monday's high would be short-term bullish and call for a bounce.

The upside target is to around 158–159. MDY broke support in this area and this support zone turns into a resistance zone (red box). In addition, the falling 200-day moving average marks resistance around 158 and the falling 50-day moving average is around 157.5. ■

Traders.com ADVANTAGE™
This article was first published on 11/29/2007.
See www.Traders.com for more.

CHART ANALYSIS

Bottom-Picking The Worst Stock

by Gary Grosschadl

The biggest dog this year — off 60% — on the NASDAQ 100 was Sepracor Inc. Purely from a technical view, it looks interesting.

Tradable: SEPR

Woe is the stock that underperforms or misses guidance. Off by a whopping 60%, this drug maker was severely punished for its abysmal quarterly report last summer, hampered by poor drug sales. Bottom-picking is a dangerous game, as those who rush in too soon can catch a falling knife. The air looks like it's finally out of this balloon, so a closer look is tempting.

Several factors are worth considering. The stock has been in a basing period the past eight weeks between \$25 and \$27.50. When a stock does this, I like to see signs of positive divergence. This can be seen via the moving average convergence/divergence (MACD) and the relative strength index (RSI). Both show an upswing while the stock was making a new low near \$22.50. Positive divergences often point to a coming up leg or bounce.

Above the chart (Figure 1), the directional movement indicator (DMI) is considered. When the average directional movement index (ADX) line rides above the DIs (directional indicators) and is generally at a high level, an overheated condition is deemed. This hints at a coming trend reversal where the DIs start to converge. A reversal occurs when the positive (green) DI crosses above the negative (red) DI. Then the bulls are back in charge. By this time the stock will be off the bottom, as this tends to be a bit of a lagging indicator.

The stochastics oscillator shows some midrange support with upside room, not a bad sign.

Should the stock bounce from here, a target zone between \$39 and \$43 is considered. This represents a previous congestion zone from last summer. Previous congestion zones often mark important resistance areas. Two nearby moving average lines may also come into play. An advance toward the target zone could be halted by overhead resistance of the 50-period exponential moving average (EMA) (currently \$36). The 200-period EMA often offers formidable resistance in any time frame. This level relates to the upper edge of the target zone. Traders often target spikes to this very visible moving average line.

Technically, this stock looks worthy of consideration for intrepid traders with a high risk tolerance. Of course, due diligence also comes into play as it always should, especially when considering beaten-up stocks, as some simply roll over and die. ■

FIGURE 1: SEPR, WEEKLY. This chart ponders the likelihood of a bounce.

DOUBLE BOTTOMS

Seeing Double At Xerox

by Arthur Hill

Xerox successfully tested its August low in November, and a double bottom is taking shape. Strong upside volume points to a breakout.

Tradable: XRX

Figure 1 shows weekly prices for Xerox (XRX) and extends back to July 2003. The stock met resistance around \$15.68 in early 2004 and in early 2006. XRX then broke resistance with a strong advance in 2006–07. This breakout was

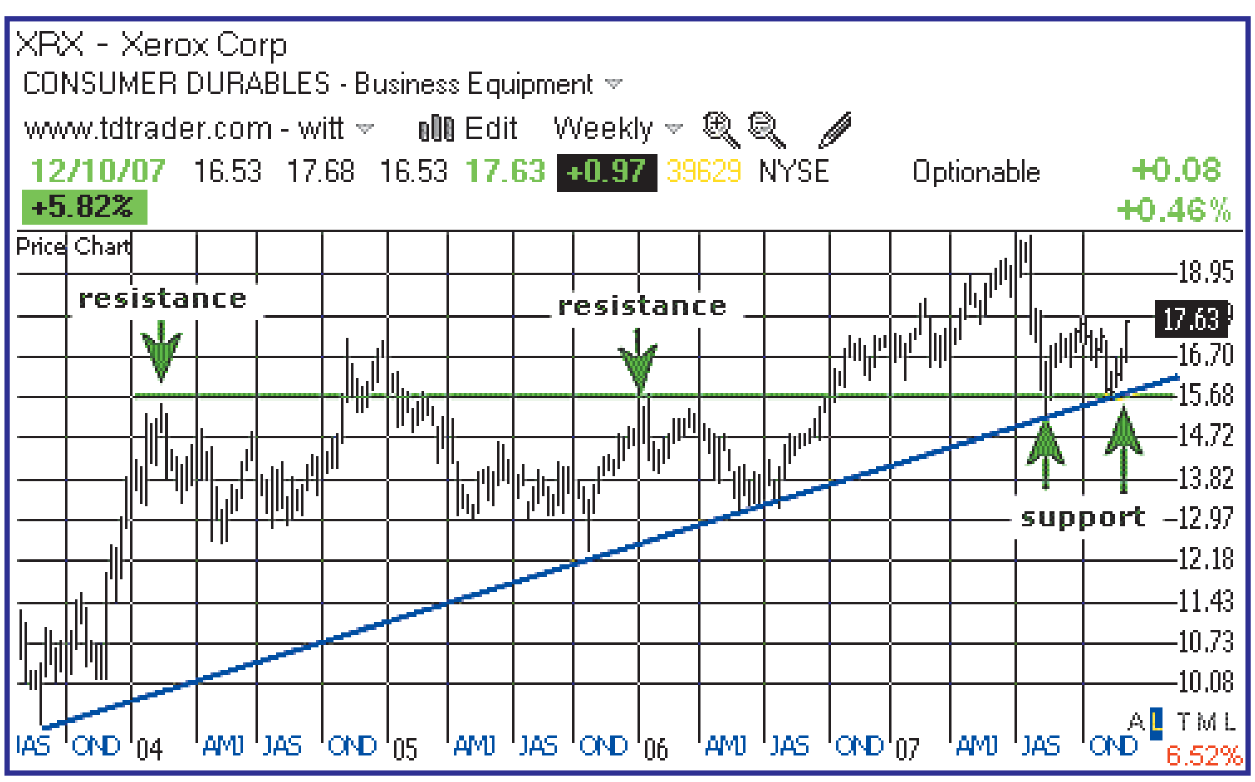


FIGURE 1: XRX, WEEKLY. This chart extends back to July 2003. The stock met resistance around \$15.68 in early 2004.

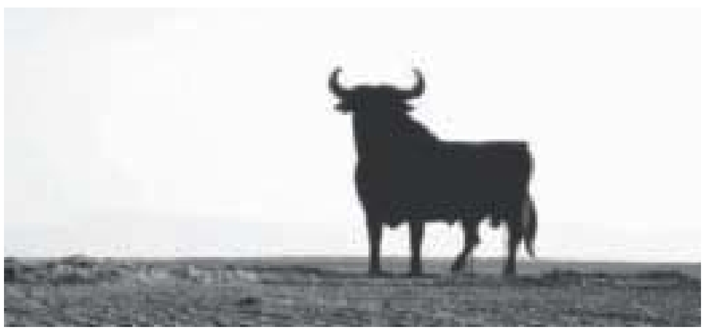
bullish, and broken resistance turned into support.

In addition to support from broken resistance, there is support around $15.68 from the August 2003 trendline. The stock bounced off support in August and again in November. These bounces affirm support and we can now look at the daily chart for a potential breakout.

Figure 2, the daily chart, shows a sharp decline and then two lows around $15.50. These relatively equal lows form a double bottom and the intermittent high marks resistance. A break above this high would confirm the double bottom and target further strength toward the next resistance area around 20.

A positive divergence in the moving average convergence/divergence (MACD) and strong upside volume favor a breakout. The surge off support over the last four weeks occurred with good upside volume. Note that many of the black volume bars (up days) are above average. This shows strong buying pressure. While the stock tested its August low, the MACD formed a higher low and positive divergence. This showed less downside momentum and the MACD moved into positive territory over the last two weeks. Momentum is bullish and this also favors an upside breakout.

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



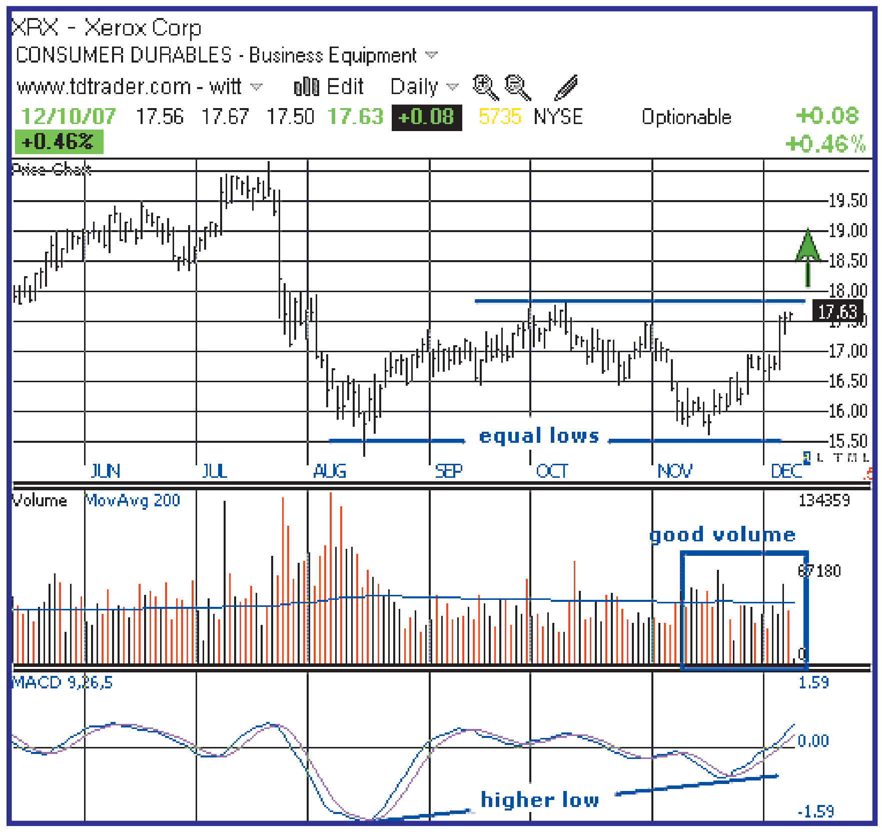


FIGURE 2: XRX, DAILY. Note the sharp decline and then two lows around $15.50.

These bounces affirm support and we can now look at the daily chart for a potential breakout.

METALS & ENERGY

ANDREWS PITCHFORK

$100 Oil?

by Gary Grosschadl

This chart of light crude oil suggests "close but no cigar" for $100 per barrel of oil price.

Tradable: $WTIC

It's hard to believe the prices of oil and gold these days. To help determine how much farther oil prices might climb, I drew a pitchfork chart (Figure 1). This is another way of showing support and resistance lines. This is an interesting case, as it is rare to see a "super bull move" like this on a pitchfork chart.

This is where a move off the lower median line makes its way toward the upper median line. More often than not, the move usually stops or is repelled at the median (center) line.

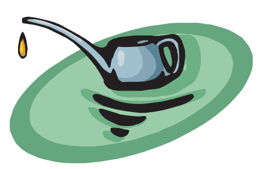
I expect this move to top out very near this upper median line — say, close to $93, after which a corrective move can be surmised down to the center median line near the current level of $77. This move could also come lower to test the 50-period exponential moving average (EMA), currently at $71.32. Beyond that, the big picture is that as far as this pitchfork chart is concerned, the uptrend stays intact as long as the lower median line is not violated with a close below it, currently near $60. That is fine for long-term investors, but traders will likely take profits if not completely reverse course and possibly short this high-flying market.

As expected, the displayed indicators reflect a very strong trend. The average directional movement index (ADX) is sloping upward well past the 20 level, the MACD (moving average convergence/divergence) shows strength well past the zero-line, and the relative strength index (RSI) showing similar strength above its 50 level.

However, cautionary signals are surmised from toppy levels above 70 on the RSI and the stochastic oscillator is in overbought levels above 80. In a strong trending market the stochastic oscillator can "stick high" for an extended period.

In summary, I believe this move is topping out and a corrective down leg will likely ensue with support targets of the median line near $77 and the 50-day EMA currently $71. ■

Traders.com ADVANTAGE™
This article was first published on 11/2/2007.
See www.Traders.com for more.



STOCKCHARTS.COM

FIGURE 1: $WTIC, WEEKLY. This chart suggests this monster move for oil may finally be topping out.

CUP WITH HANDLE

Fuelcell Is Supercharged, But What Else Is Going On?

by Matt Blackman

Oil is heading higher, and it is pulling a whole array of stocks with it. Here is one stock that also has some compelling technicals in its favor.

Tradable: FCEL

Rising energy prices have affected all segments of the stock market. While stocks in the Dow Jones Transportation Average (DJTA) have been challenged, energy and alternative energy stocks have been strong benefactors. One that looks compelling is Fuelcell Energy (FCEL) (Figure 1).

Fuelcell is engaged in the development, manufacture, and sale of fuel cell power plants for electric power generation. It is in the energy (other) industry along with 55 other companies, including recent market stars JA Solar (JASO), Yingli Green (YGE), and First Solar (FSLR), as well as less impressive performers like Ballard Power (BLDP). Technicals have been challenged over the last few years, and even BLDP is beginning to show signs of life. It recently broke above its long-term downtrend resistance line.

As a developer of energy systems, FCEL's fundamentals aren't all that appealing. It has a negative earnings

WWW.OMNITRADER.COM, WWW.BUYINS.NET

FIGURE 1: FUELCELL, DAILY. FCEL shows the decline to early 2007 volume capitulation, then rally and stock price above the SqueezeTrigger price (green dashed line) as well as a forming pennant pattern (red lines) and a building cup & handle (blue lines), all of which are bullish.

growth and negative earnings per share. It also has a relative value based on forecasted earnings over the next one to three years of 25% of the current stock price. But stocks in this industry are research plays that have typically sold on hope and hype, not fundamental valuations. They tend to be most frisky at times when traditional energy supplies are getting squeezed.

In a recent Bloomberg interview, oil mogul T. Boone Pickens said that current world demand for oil is 85 million barrels per day, but estimated current demand at 87 to 88 million barrels. This has helped push an array of stocks in the alternative energy field into the stratosphere.

What makes Fuelcell compelling is that it was featured in a recent SqueezeTrigger list from the Buyins.net daily list of stocks in or nearing potential short squeezes. To initiate a short position, the trader must borrow the stock then sell it. The trader profits if the price falls. Buyins.net tracks data, including short positions on more than 15,000 stocks trading on US exchanges and identifies those that are nearing the SqueezeTrigger or cumulative average price, at which the shorts initiated their short positions. A short squeeze is said to occur when a sizable percentage of the company's stock has been shorted and where the price approaches or surpasses the level at which short positions were initiated. In a rally, the motivation by short-sellers to buy the stock back to cover the positions increases. The higher the number of shares sold short, the greater the potential lift. In the perfect bullish scenario, a short squeeze helps catapult stocks higher than they would normally go with minimal short positions.

As of November 6, 2007, there were more than 10 million Fuelcell shares sold short, which was 16% of the float. The cumulative SqueezeTrigger price was $9.29 and FCEL closed at $9.88, which means the shorts were feeling increased pain as the stock price moved up. This pressure has been compounded by a rally on moderate volume since early 2007, so the trend is definitely not the short's friend. With such a large percentage of the float to be bought back to cover, there is good potential for higher prices ahead as the shorts get increasingly squeezed.

Not only can the SqueezeTrigger price act as an alert, it can be also used as support and a potential stop-loss should the stock reverse direction. For those with higher risk tolerance, the next level to consider as a stop is just below $9.00, where significant price volume support currently sits. Buying stocks in potential short squeezes works best in a rally and is not advisable during a downtrend. ■

Traders.com ADVANTAGE™
This article was first published on 11/8/2007. See www.Traders.com for more.

SHORT SELLING

Supercharged FCEL Makes A Break For It

by Matt Blackman

Here's a textbook case of a short squeeze in action. In this case, powerful technicals and compelling corporate news helped.

Tradable: FCEL

My November 8th Traders.com Advantage article on FCEL discussed the cup-with-handle pattern that was developing, combined with the fact that it had broken above its squeeze trigger price or level at which a potential short squeeze had formed. With the uncertainty and weakness that followed in the markets, FCEL suffered along with many stocks breaking down through squeeze trigger support.

Then the stock enjoyed the market rise as stocks rallied, but as FCEL was up more than 25% in just six days, something else was at work. What caused this impressive breakout?

A short squeeze is said to occur when a sizable percentage of the company's stock has been shorted and where the price approaches or surpasses the level at which short positions were initiated. In a rally, the motivation by short-sellers to buy the stock back to cover the positions increases. The higher the number of shares that are sold short, the greater the potential lift. In the perfect bullish scenario, a short squeeze helps catapult stocks higher than they would normally go with minimal short positions.

As the news release issued on December 5 highlights, a total of 10,863,800 were held short at an average volume weighted or squeeze trigger price of $9.292. This meant that at the time, short-sellers still needed to buy back approximately $102,880,186 worth of shares to cover their short positions, which represented 12.7 days of average daily volume, according to Buyins.net. That kind of buying will drive just about any stock significantly higher, which is exactly what occurred over the next six days.

FIGURE 1: FUELCELL ENERGY, UPSIDE BREAK. This chart shows the upside break of a squeeze trigger following the Buyins.net news release accompanied by a 26% jump in the stock price. The 50-day volume moving average on December 11 was 743,000 shares, so lots of liquidity was present. The green arrow in the lower subgraph shows the volume spike on December 11.

Then an announcement by FCEL on December 11 that it had sold 4.8 megawatts of ultra-clean power plants to KOSCO of South Korea put the beleaguered shorts under even more pressure, causing the stock to gap higher, as they had to compete with investors and institutions buying the news.

This move by FCEL is a good example of what can happen when strong technicals (namely a potentially powerful chart pattern), a short squeeze, and good fundamental corporate news are combined in a timely proactive manner and how savvy stock traders who are watching for these situations can profit. ■

Reference

Blackman, Matt [2007]. "Fuelcell Is Supercharged, But What Else Is Going On?", Traders.com Advantage, November 8.

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

Gold $1,000 Per Ounce?

by Gary Grosschadl

Such a high number seems absurd. But then so is oil near $100 per barrel. With gold prices hitting a record high of $848 (continuous contract), breaking above a decades-old record, how much higher can it go?

Tradable: $XAU

The charts for gold and silver prices on a monthly chart look sky-high and with both at record levels, the charts look too parabolic — in other words, they look like screaming sells, especially for anyone fortunate enough to have been long-term holders (Figure 1). We have to look at the gold and silver index to get any sense of future possibilities.

The surprising view on this long-term monthly chart is that there is still some upside room. Usually on a pitchfork chart (the Andrews line method) the move goes from the upper or lower median line to the center median line as the trading target before correcting back into the channel. It takes a super–bull move to extend beyond the median line, toward the opposite pitchfork tine or median line. This seems to be the case here. The bullish possibilities are that the center median line now acts as future support and an eventual spike to the top median line is possible. That would entail a move to hit $1,000 per ounce of gold. The psychological barrier there as a screaming sell signal should be a no-brainer — the ultimate bragging rights of declaring, "I sold when gold hit $1,000 per ounce!"

Several indicators are considered. The most bullish in my view is the directional movement indicator above Figure 1. The ideal configuration is an upsloping ADX line (average directional movement index) between bullish poised DIs or positive and negative directional indexes. When the +DI rides above -DI and the ADX line is above zero and upsloping, the bulls are in charge. Below the chart, the moving average convergence/divergence (MACD) also shows a strong trend having risen above the zero-line since 2002. The relative strength index (RSI) shows similar strength staying above its key 50 support level.

The stochastic oscillator is cautionary as it is considered overbought above 80 and usually shows a down leg beginning when this line turns below 80. Note the pattern has been a correction to the 50-period exponential moving average, which would entail a move below the median line. I would rather see support at the median line should I be a long-term holder not wanting to give back too much profit.

In summary, this pitchfork chart suggests the price of gold can still stay in a rising trend with a high-spike possibility (perhaps mirroring a spike to $1,000/ounce gold). Support at the center median line would be crucial in my view. Realistically speaking, anyone holding gold or silver stocks would look at their respective charts for direction. "Sell now or sell later," or in more trendy terms spoken by that famous Canadian celebrity Howie Mandel, "Deal or no deal?" ■

FIGURE 1: GOLD AND SILVER INDEX, MONTHLY. The gold & silver index suggests gold price can spike higher, toward $1,000 per ounce, provided median line support holds.

Newmont Hits Support

by Arthur Hill

After an island reversal in November, Newmont Mining consolidated the last few weeks. Resolution of this consolidation will provide the next signal.

Tradable: NEM

First, let's look at the island reversal. Newmont (NEM) gapped up in early November, stalled for four days, and then gapped down (Figure 1). The four trading days between the gaps form the island. All long positions initiated on these four days are now trapped on the island with losses.

The second gap held and has yet to be countered. A strong stock would have recovered after this gap. The inability to bounce and fill the gap shows weakness. Despite that weakness, NEM is trading near support and formed a consolidation over the last few weeks. I will be watching

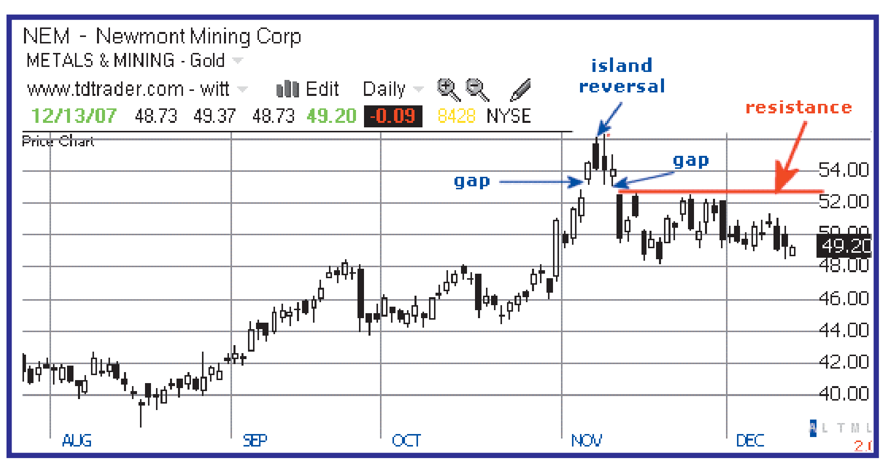


FIGURE 1: NEWMONT, DAILY. The island reversal shown here formed when the stock gapped up in early November, stalled for four days, and then gapped down.

this consolidation for the next signal.

The stock has a lot of support around 48. This support level stems from broken resistance, the August trendline, the 50-day moving average, and the November lows. A break below support would signal a continuation lower and target a move toward the next support level around 44. See Figure 2.

The combination of support at 48 and resistance just above 52 makes for a consolidation. Consolidations are neutral patterns that require a break for a directional signal. A break above the late November highs would be bullish. This would also start filling the gap and negating the island reversal. ■

FIGURE 2: NEWMONT, DAILY. The combination of support at 48 and resistance just above 52 makes for a consolidation.

DESCENDING TRIANGLES

New High Territory For Ultra Petroleum Corp.

by Gary Grosschadl

One of the hottest oil stocks around, this one ran from $5 in 2003 to $70 in only three years. Now it's attempting to go higher.

Tradable: UPL

Ultra Petroleum is an independent exploration and production company focused on its core properties in the Green River Basin of southwestern Wyoming. Figure 1 shows a potential breakout move. Volume is not yet convincing, though, and breakouts occur, preferably, on exceptional volume.

On this chart, the prevailing pattern is an advance fueled by descending triangle breakouts. Triangle breakouts often show up in continuation patterns where the prevailing trend is bullish. The ascending triangle breakout at the bottom of the chart from last September was on volume of more than two million shares. This resulted in a bullish run from $56 to $70. Note the good support from its 20-day exponential moving average (EMA).

That admirable run was consolidated by another larger descending triangle. Early in December 2007 the stock broke past this triangle with a bold thrust above its 20-day EMA; note the good support offered by that moving average since then. A strongly advancing stock often shows great support from the 20-day EMA. Now, the stock has made its highest close ever at the current $71.94.

We look for signs from several indicators to determine the odds of this move continuing higher. As already mentioned, volume is a little lacking, so this is cautionary. The directional movement indicator at the top of the chart is bullish, poised with an upsloping ADX (average directional movement index) line bullishly poised between the positive and negative DIs (directional indicators). This hints at improving trend strength. Ideally, the ADX should be above the 20 level so at 18.44, it is a little wanting.

The indicators below the chart are also showing bullish promise. The moving average convergence/divergence (MACD) is showing strength above its zero-line while the relative strength index (RSI) is above its key 50 level. The stochastic oscillator is above its midrange, so upside room is showing.

Whether this move transpires into another 16-point rise from the triangle's breakout point remains to be seen. We mustn't get too greedy. Should a nice advance ensue, watch for a convincing candlestick warning of the rise being over; note the large bearish engulfing candlestick pattern from last October. That was an excellent signal that the rise was finished before going into a lengthly consolidation pattern. ■

FIGURE 1: UPL, DAILY. This chart shows oil stock breaking into new high territory.

On this chart, the prevailing pattern is an advance fueled by descending triangle breakouts. Triangle breakouts often show up in continuation patterns where the prevailing trend is bullish.

Constellation Energy Group And A Low Risk In A Volatile Market

by Mike Carr, CMT

With the market having lost nearly 10% in recent weeks, safety should be a consideration for all investors.

Tradable: CEG

Utility companies are known as boring stocks, but with the market providing more excitement than many investors can bear, now might be a good time to take a fresh look. Constellation Energy Group (CEG) is one of the largest wholesalers of energy in the United States. It is involved in electricity, natural gas, and coal, hedging its bets against a rise in any individual market. The company traces its roots back to a regulated utility, Baltimore Gas and Electric, a division that still delivers steady profits. With a 1.7% dividend yield, this stock sounds like it's as boring as can be.

But while all eyes were fixed on the subprime market, the declining dollar, and rising oil, utilities have quietly become a top-performing industry group, gaining more than 12.5% over the past six weeks. As investors become nervous, utilities represent a defensive position.

CEG represents a good buy at this point. The stock just broke through to new all-time highs (Figure 1). It also broke through short-term resistance, and since it did all this against the background of a declining market, CEG looks like it can move higher from current levels.

There is limited risk associated with buying CEG. The stock has shown a tendency recently to form bases and then break out to new highs (Figure 2). The previous base offers well-defined stops. Conservative investors can treat any entry back into the base as a sell signal; aggressive investors can wait for the bottom of the base to be broken before selling. With a stop near 98 for conservative investors, or 94 for aggressive traders, this is a very low-risk trade.

Traders seeking more assurance that the downside is limited can look to CEG's beta of 0.43. This means the stock is expected to move less than half as much as the overall market, so another 10% decline in the Dow Jones Industrial Average would lead holders of CEG to expect a loss of less than 5%, above the stop for aggressive investors. ■

Traders.com ADVANTAGE™
This article was first published on 11/26/2007.
See www.Traders.com for more.

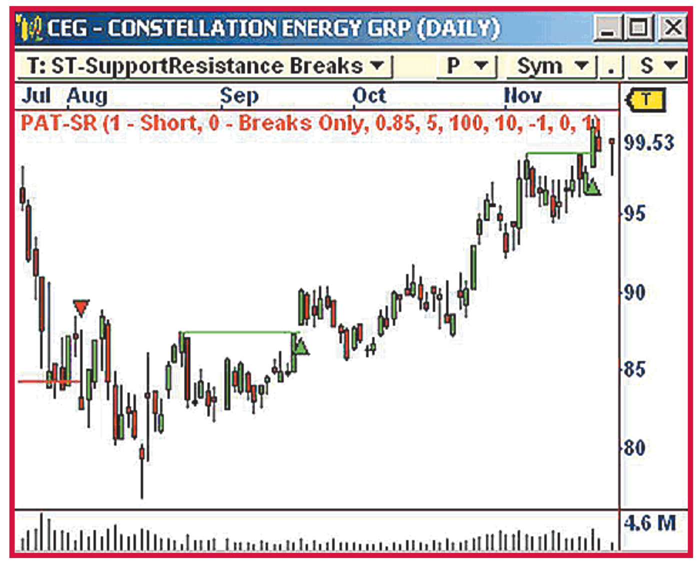


FIGURE 1: CEG, DAILY. CEG breaks out to new all-time highs.

FIGURE 2: CEG, MONTHLY. Bases identify stop-loss points in the uptrend.

SECTORS

HEAD & SHOULDERS

Retail HOLDRS Breaking Down

by Arthur Hill

The retail HOLDRS formed a bearish continuation pattern over the last few months, and the exchange traded fund is on the verge of a serious breakdown.

Tradable: RTH

The retail HOLDRS (RTH) declined sharply in July–August and then found support around 95–96 in September–October. The exchange traded fund (ETF) basically consolidated these two months and formed a head & shoulders pattern. This head & shoulders pattern is a continuation type because it formed well below the July high and a downtrend was already in place. The left shoulder formed in late August, the head in mid-September, and the right shoulder in mid-October. Neckline support rests around 95–96 and the ETF is testing this key level after a sharp decline the last two days. A break below neckline support would signal a continuation of the July–August decline and target further weakness toward the mid-80s.

The price relative and the on-balance volume (OBV) confirm weakness. The ETF has been underperforming the market since July. The price relative, which compares the performance of RTH to SPY, has been trending lower and recorded new lows in September, October, and now November. Big money does not like to hold relatively weak ETFs. The OBV held out a little longer than the price relative and peaked in August. The indicator moved lower in September and recorded new lows in October and again in early November. RTH is both out of favor and selling pressure remains strong. This favors a neckline support break and further weakness in the coming weeks. ■

FIGURE 1: RTH, DAILY. The retail HOLDRS declined sharply in July and August and then found support around 95–96 in September through October.

CONSOLIDATION FORMATION

Utilities Select Sector Consolidates At Previous High Resistance

by Chaitali Mohile

The previous high in XLU was at its all-time high. The security is back to its prior high pivot and is now accumulating the strength for a further surge.

Tradable: XLU

Consolidation is a healthy phase of a rally, where the stock/index accumulates strength before moving further in a particular direction. XLU is consolidating near its previous high resistance for almost a month. The range breakout at the 41.5 level was not encouraging, since there was no increase in volume to support the breakout. In addition, the relative strength index (RSI) (14) was unable to cross 70 levels. The indicator instead continued its range-bound move between 50 and 70. But on the price chart 41.5 was an important resistance level that was turned to support after the breakout. With this breakout, the XLU has approached its previous high level a second time after the large correction. So a breakthrough is very important and also requires support by the entire financial market.

The estimated price level is measured by adding the length of advance rally (the flagpole) to the breakout level (43 here).

With the present volatility in the global market, holding these levels is highly important. So for XLU the support line of 41.5 would be important and consolidating higher would bring a more bullish view with positive RSI (14). The moving average convergence/divergence (MACD) (12,26,9) is

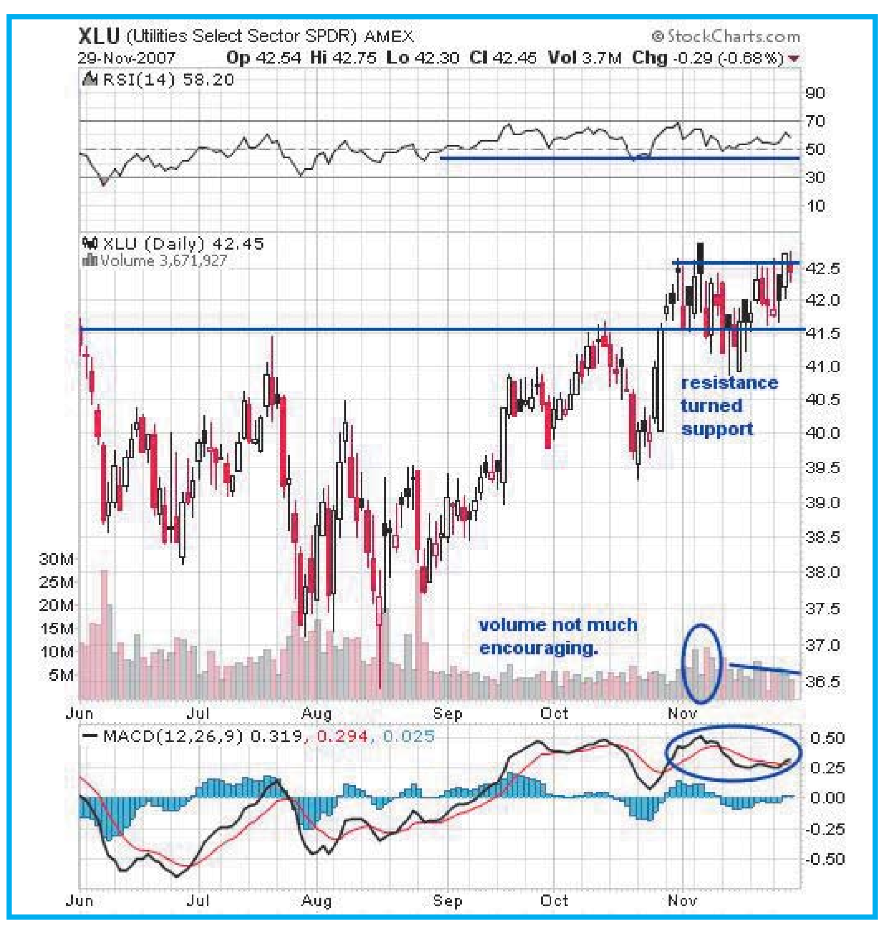


FIGURE 1: XLU, DAILY. XLU formed a rectangle with support at the 41.5 level and the resistance of a previous high at the 43 level. The breakout above this rectangle will see a bullish rally.

in positive territory with a bullish crossover underway. But we need to wait for a confirmed crossover. The indicator shows volatility in this territory. Figure 1 has more of a bullish signal for a breakout so consolidation here is healthy as well. The breakout above the rectangle would give birth to a fresh bullish rally.

The consolidation resulted in the flag & pennant formation in Figure 2. There was a plunge after hitting the high of 43 in mid-May 2007. The recovery thereafter is back to this resistance level. The RSI (14) is the highlight in Figure 2, as it has divergence on this rally. The indicator is bullish on the present rally but has formed a lower high than the earlier rally. The other indicator, MACD (12,26,9), is very much positive and would be supportive if the breakout happens in a trading session sometime soon. But I repeat, for a breakout to happen and sustain, the support from the entire market is also essential.

For enthusiastic traders, I would like to mention the target also. The estimated price level is measured by adding the length of advance rally (the flagpole) to the breakout level (43 here). So the length of the flagpole is 42 - 37 = 5, and therefore by adding 5 to 43, our target would be 48. But traders are requested to wait to confirm a breakout of price and the RSI (14) as well. The volumes also should rise with the breakout, as it is one of the important conditions for the breakout to sustain. ■

FIGURE 2: XLU, WEEKLY. The RSI (14) formed a lower high in the bullish area. The flag & pennant breakout will give birth to a new upside move.

SEASONAL TRADING

Buy Retailers For A Seasonal Bounce

by Mike Carr, CMT

Thanksgiving and Christmas seasonal trades are well known. But this same idea can be applied to sectors, and we find a surprising seasonal strategy for January.

Tradable: XRT

The recent holidays always generate interest in seasonal trading strategies in the stock market. Unfortunately, many unsuccessful investors forget about this idea after Christmas and go back to buy-and-hope strategies, while successful traders continue to rely on their technical strategies for profits. Seasonal strategies offer untapped ways for both of these groups to benefit with a little research and discipline. Seasonal trades involve identifying the best days to buy and sell during a certain time frame. In this case, we want to look beyond simple market timing and see if we can outperform the market using an industry-based exchange traded fund (ETF).

Testing this idea is relatively simple. We will test each industry to measure their average gains during January, looking to the most reliable gains to develop a trading strategy.

As a point of reference, the S&P 500 ETF (SPY) has shown an average gain of 1.2% in January over the past 19 years. There were 12 winners and seven losers. The biggest winner was 7.9% and the largest loss more than 8.5%. Using data provided by Genesis Financial Technology, there are 101 industry groups to test and 75% of the groups showed profits over the test period.

Whenever a strategy is backtested, careful analysis is required to ensure that future results have a chance of duplicating past performance. In this case, the Computer Storage Device industry group shows the best raw performance, with 78% of the trades being winners. But looking closer, we learn that the largest winner accounts for 75% of the total profits. Removing that trade significantly changes the risk–reward characteristics of this trading strategy.

When we adjust for risk, the best performer is Apparel Retailers. This trade was a winner in 13 of the last 18 years (72.2% winners), and the average trade retuned 4%, nearly four times the average gains of the S&P 500. The largest winner returned 24%, nearly 30% of the total profits, and the largest loser was almost 11%. Recent trade history is shown in Figure 1.

Traders looking to take advantage of this seasonal strategy can buy the S&P Retail ETF (XRT). Figure 2 shows what may be a double-bottom formation, and stochastics and the MACD gave buy signals over the past few days. The lower Bollinger Band, at 33.44, offers support and an ideal location for a stop — overall, a low-risk trade in an industry beat down by the news of lackluster holiday sales. This news background may very well provide a wall of worry for the stock to climb. ■

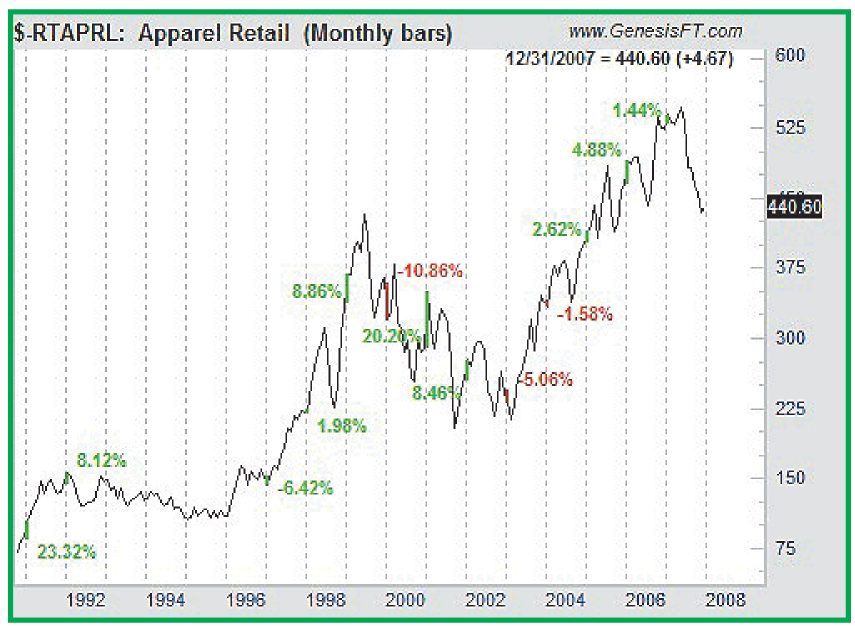


FIGURE 1: RTAPRL, MONTHLY. Apparel retailers often do well in January as holiday sales are totaled up. This chart shows winning trades in 10 of the past 13 years.

FIGURE 2: XRT, DAILY. XRT may have reached a bottom as bad news dominates the headlines while technicals support higher prices.

Where Will Support For Japan iShares Be Established?

by Chaitali Mohile

The downslope continues for Japan iShares. So where will be the support established?

Tradable: EWJ

Japan iShares (EWJ) continues to tumble on weak global cues, and moved lower than the likely support line. In Figure 1 the second high pivot was at 15.160, and then EWJ formed lower highs, allowing trading opportunities in between. This action created many support and resistance zones, which turned strong hurdles to any directional movement.

The large gaps down since then turned out to be a nightmare for traders as genuine support was taken out and the fall continued.

The trendline coincides with a 50-day moving average resistance at approximately 14.25 levels. In addition, the support line that was violated by the mid-July correction was another resistance line for a current pullback. This resistance line also falls at 14.25 and therefore becomes the strong resistance for a future rally.

With this resistance, EWJ made two lower lows at 13.34 and 13.18, but the recent plunge of December 17 dragged the iShares lower to the previous support. With such a bearish mark, where can we expect a bottom formation or the bounceback rally? The weekly chart shows the lowest support at approximately 13.00; establishing support at 13.00 is important to protect the bulls.

Similarly, the moving average convergence/divergence (MACD) (12,26,9) too has lower highs and was volatile near the trigger line, resisting the price to move either way.

The average directional movement index (ADX) (14) above 20 would show a developing downtrend as the negative directional index -DI is ruling above +DI. So holding the support of 13.00 is essential to bring back the bulls.

In Figure 2, the series of supports are now resistance for the EWJ rally. After the high at 14.70, the long-term moving average (200-day) kept the price under pressure, since earlier on November 19 the price hit the low at 13.18 and then retested the 200-day MA resistance. The large gaps down since then turned out to be a nightmare for traders as genuine support was taken out and the fall continued. I thought the double bottom support at 13.18 was established. Instead, the stock rushed below the support level with no sign of pullback.

The MACD (12,26,9) is negative, and the ADX (14) has more selling pressure so the ADX above 20 would show a developing downtrend. And the relative strength index (RSI) (14) is below its bullish level. So indicators have a bearish bias on both charts; if some stability comes across the global market, support at 13.00 is possible and a bottom formation can be expected. ■

FIGURE 1: EWJ, WEEKLY. Below the support of 13.00, the next support stands at 12.25 and 12.18. The RSI (14) is below 50 and is neutral at 38.

FIGURE 2: EWJ, DAILY. EWJ failed to hold support at 13.18.

Traders.com ADVANTAGE™
This article was first published on 12/21/2007.
See www.Traders.com for more.

The Hot Market In 2007 — China

by Mike Carr, CMT

China delivered incredible returns in 2007, but what about next year?

Tradable: CHN

One February morning, US investors woke up to the news that a plunge in Chinese stocks had triggered a European market selloff, and US futures were down sharply. By the end of the day, the Dow Jones Industrial Average (DJIA) had fallen more than 400 points. But the world's markets quickly recovered and China's market led the way. For the year, the Shanghai Composite index is up by 97%, making it the world's best-performing stock market index.

Looking at the year ahead is difficult. But at least one exchange traded fund (ETF) shows signs of continued strength. The China Fund (CHN) looks like a buy, even after the long run up. A word of caution is needed here: on December 19, 2007, the stock went ex-dividend, usually a minor blip on the charts. In this case, the distribution totaled $12.12, and many data vendors did not adjust for this. Most web-based charts show a large downside gap for that day, and all chart formations and indicators are therefore worthless. Especially at this time of year as distributions are paid, know your data vendor and verify gaps.

StockCharts.com adjusted prices to account for the large distribution, and the daily chart (Figure 1) is still bullish. The stock is well above its trendline and the most recent action shows a higher low followed by a higher high, the definition of an uptrend. The relative strength index (RSI) is far from overbought, but the moving average convergence/divergence (MACD) may be showing signs of a top.

The point & figure chart of CHN (Figure 2) is extended, but also supportive of higher prices. The most recent column of Xs verifies the short-term uptrend. The consolidation is healthy after such an extended run and provides a measured price objective of 66 if prices clear 39.

For those seeking a conservative trade on a high-flier, CHN offers a great deal of potential. Entry can await confirmation that prices are breaking out to the upside, and a buy-stop order can be placed at 39, just above recent highs. Violating support at 32 would indicate the long uptrend has been broken. Few trades in such volatile stocks offer a 4:1 reward-to-risk ratio. ■

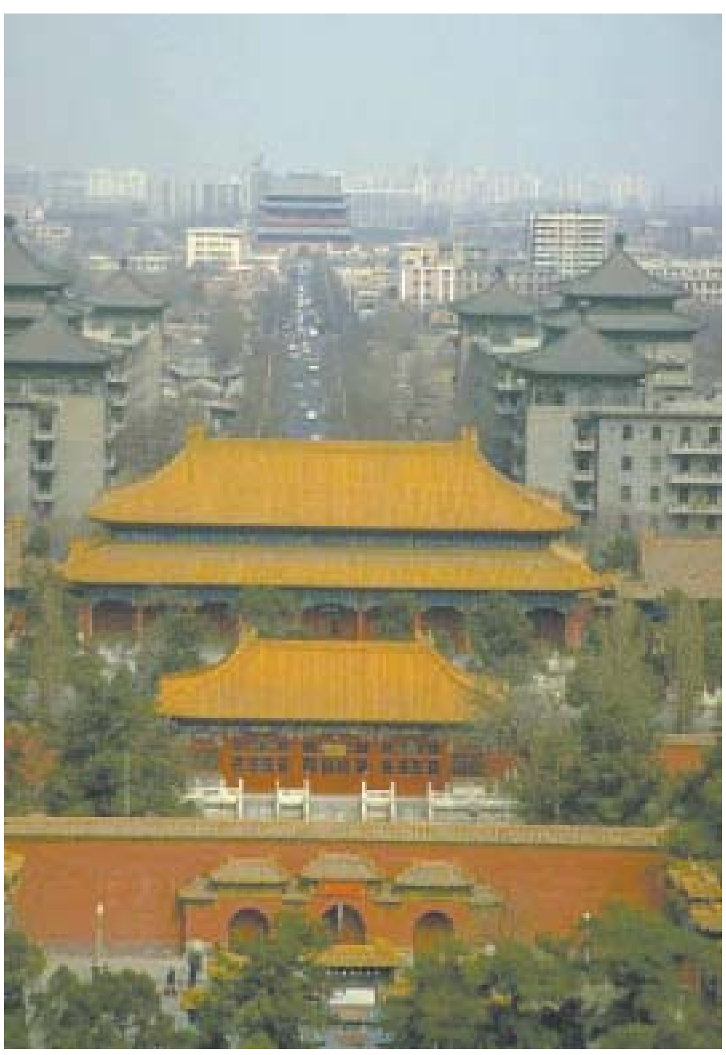


FIGURE 1: CHINA FUND, DAILY. The bar chart of China Fund (CHN) shows a steady uptrend, not the parabolic curve you'd expect to see in a stock that doubled in the past year.

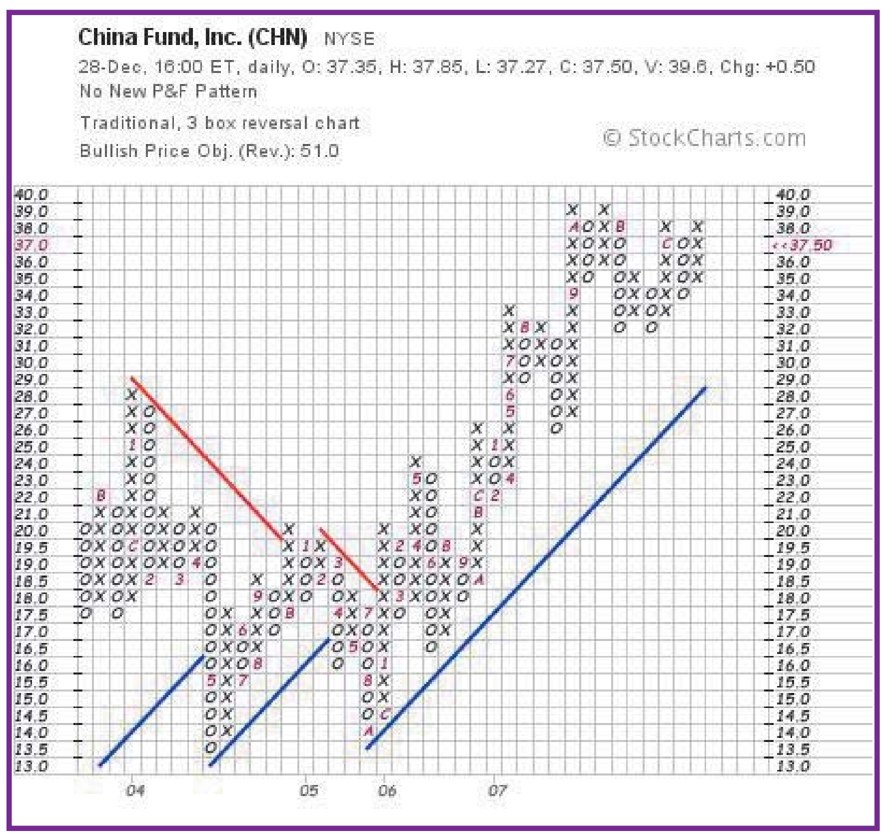


FIGURE 2: CHINA FUND, POINT & FIGURE. The point & figure chart shows a healthy consolidation under way, and counting across the recent formation yields a measured move of 27 points after a breakout occurs.

Looking at the year ahead is difficult. But at least one exchange traded fund (ETF) shows signs of continued strength: The China Fund.

CHART ANALYSIS

FIGURE 1: $RXH, DAILY. The uptrend cracked as the index broke downward from the triangular formation in July 2007.

FIGURE 2: $RXH, MONTHLY. The index began its upward journey in 2003, offering buying opportunities.

Health Care Provider Index Is Volatile And Range-Bound

by Chaitali Mohile

The health-care provider index is consolidating at the lower end followed by a huge plunge.

Tradable: $RXH

According to the weekly chart (Figure 1), the uptrend in the health-care provider index cracked and moved downward from the triangular formation in July 2007. During this period, the entire US financial market tumbled, followed by global turbulence. Gradually, most of the indexes in the US markets recovered the lost levels and resumed the bullish rally with moderate speed. However, $RXH failed to recover its previous highs and turned sideways at lower levels.

The correction dragged the index 60 points lower and thereafter consolidated in the range of 430–450. The consolidation is supposed to be healthy as a rally starts after accumulating the strength. The index is consolidating in the area of its 200-day moving average.

The stochastic (14,3,3) suggests the consolidation to continue and dilutes the possibility of a breakout as the indicator is ready to decline. After the steep fall, the oscillator rallied flat for almost three months and later surged to bullish levels, but the price failed to move out of the upper range. In addition, the moving average convergence/divergence (MACD) (12,26,9) is deep in negative territory waiting for a bullish crossover. The MACD too lacks the bullish signals to initiate an upside breakout rally. So both indicators suggest the volatility will sustain and show no signs of a bullish breakout.

The monthly chart (Figure 2) analysis show $RXH began its upward journey in 2003, offering buying opportunities by

the stochastic moving above 20, the MACD (12,26,9) shifting to positive territory with a bullish crossover, and the average directional movement index (ADX) (14) saw an increase in buyer pressure with +DI moving above -DI. The rally here afterward was very positive with consolidation at necessary levels. The 500 levels saw some resistance and pulled the index 75 points below at 425 levels in 2006. Now, the index gets back to the same levels after the serious correction in July. The cluster of doji at this support shows the volatile trading sessions and the indecision for directional breakout. Therefore, to hold this support is of utmost importance to carry the uptrend ahead.

The stochastic (12,26,9) is closer to the oversold area near 20. If it goes below 20, the price can lose its strong support. And eventually the MACD (12,26,9) that has already declined from a highly positive area may cross the zero line and shift to negative territory. Most important, if the price moves below 425, the trend may go in favor of the bears. So to sustain the bullish flavor, the index has to maintain this support and begin a new upside rally.

Therefore, the consolidation with support at 425 is crucial, as the breach would lead to the fresh downtrend. Trading in the equities should be avoided till the index gets in on a particular direction. ■

Traders.com ADVANTAGE™
This article was first published on 12/31/2007.
See www.Traders.com for more.

General Motors Keeps Going Down

by Paolo Pezzutti

Weak December sales and sinking stock prices close the year for the US automaker.

Tradable: GM

December 2007 sales confirmed the difficult conditions of the automobile industry in the US, in particular, those of General Motors (GM). GM wrapped up 2007 with another month of US sales declines, ending a terrible year for the automaker. For all of 2007, GM recorded a 6% drop in US sales to 3.82 million vehicles. The consumer slowdown, soaring oil prices, and tough competition had a disastrous effect on the auto sector. These seem like excuses, however, when looking at Toyota, which ended the year with US sales of 2.62 million vehicles, a 2% rise from a year earlier.

When assessing future prospects, analysts are divided. Both Ford and GM in the US are undergoing multiyear restructuring programs to better position themselves to compete and the economic environment is expected to remain challenging in 2008.

If you look at the market's assessment of the situation of General Motors, you would conclude that there is pessimism all around the automaker giant.

Figure 1, the monthly chart, displays how far GM is from the high of $94 back in 2000. Prices are again approaching the $18.50 level hit in 2006, the lowest level in a decade.

In Figure 2, you can see the weekly chart. In the spring of 2006, the stock hit not only a low of price but also of volatility. The Bollinger Bands, in fact, were very narrow. Bollinger Bands are a technical trading tool created by John Bollinger from the need to build adaptive trading bands and reflect the observation that volatility was dynamic. These bands consist of a set of three curves. The middle band measures the trend. Usually, it is a moving average that is used as base for the upper and lower bands. The distance between the upper and lower bands and the middle band is determined by volatility. The default parameters that you may find in most charting software are:

Middle Bollinger Band = 20-period simple moving average

Upper Bollinger Band = Middle Bollinger Band + 2 * 20-period standard deviation

Lower Bollinger Band = Middle Bollinger Band - 2 * 20-period standard deviation

As you can see, after the breakout in volatility, prices managed to developed a nice uptrend to reach the $43 level in October 2007. The on-balance volume (OBV) managed to increase its value, indicating that the stock has been accumulated in the past two years. The OBV provides a running total of volume and shows whether this volume is flowing in or out of a given security.

Since then, prices have lost more than 40%. It should be noted not just that the Bollinger Bands are opening indicating that an impulse is ongoing; prices have already touched the lower band once and following it to the downside.

Limiting the analysis at the daily level, in Figure 3 you can see that GM has developed a broadening formation. The formation is an unusual variation of a triangle. It is an inverted triangle or a triangle turned backward. Triangles are characterized by converging trendlines. The broadening formation is the opposite. In the broadening formation, the trendlines diverge. The broadening formation is formed by price swings that are increasingly widening. The base of the formation is at the level of $29. Normally, broadening formations are characterized by high public participation. The breakout generates high volatility as the public indecision and change of attitude are finally addressed at the same time in a directional and volatile move.

After a false breakout to the upside of the formation, prices moved fast to below the support level in November 2007.

The retest of the $29-30 level failed at the end of November, and since then, prices have developed an impressive downtrend. The OBV is very close to its support, but it has not confirmed; so far, the price is indicative of new lows.

In Figure 4, you can see that following the low printed on November 21, prices have developed a weak reaction. Since the beginning of December, prices have lost more than 20%. What is really impressive is that GM has developed seven consecutive down closes. The situation must be followed very carefully. It is true that the MACD is developing a positive divergence and the OBV is not providing very negative information. But at the moment, I do not see any element that indicates a reversal of the trend. Opening a long position is very risky, as the stock is very volatile. It seems that prices are about to develop a parabolic acceleration of the downtrend that would end with a climax in volatility and a spike.

If you are risk-averse, stay away from this stock. If you like risk and you look for good risk/reward ratios to open a trade, I would wait for a specific high-probability reversal pattern. ■

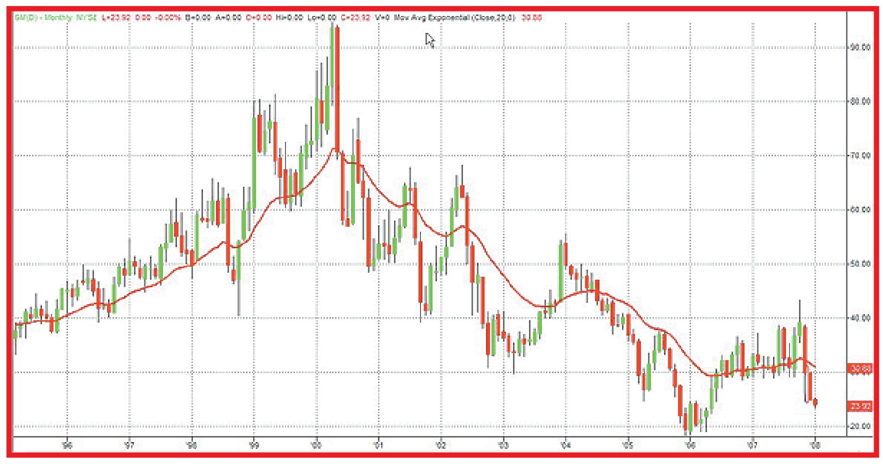


FIGURE 1: GM, MONTHLY. Prices are approaching the support levels once more.

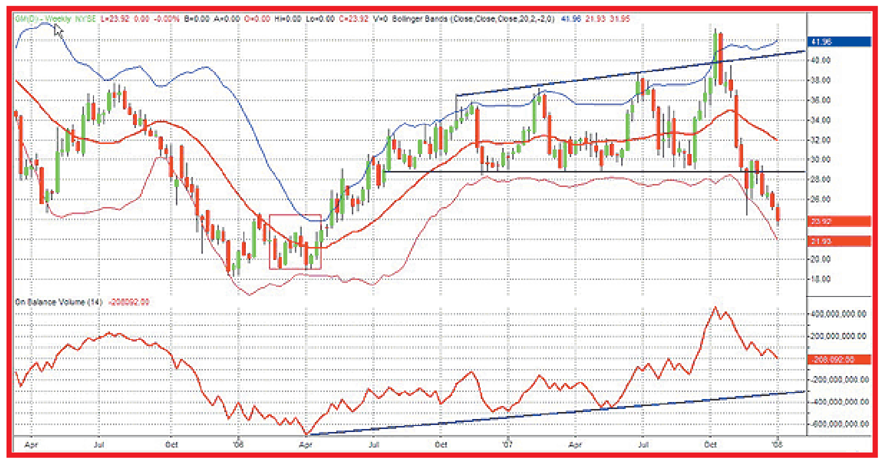


FIGURE 2: GM, WEEKLY. Bollinger Bands are opening, indicating that an impulse is ongoing.

FIGURE 3: GM, DAILY. The stock printed a breakout of a broadening formation developed during the past year.

FIGURE 4: GM, DAILY. The stock has printed seven consecutive down closes and is accelerating to the downside.

CURRENCIES

RSI

A Dollar Divergence

by Arthur Hill

Is the US Dollar Index poised for a bounce? The RSI formed its second positive divergence in four months and is on the verge of a momentum breakout.

Tradable: $DXY

The US Dollar Index ($USD) remains in a long-term downtrend but is clearly oversold and ripe for at least an oversold bounce. I wrote about a bullish engulfing pattern on October 22, but this pattern was never confirmed and the downtrend continued. On the weekly chart (Figure 1), the 10-period relative strength index (RSI) dipped below 30 in May 2006, December 2006, April 2007, and July 2007. The indicator moved below 30 again in mid-September and has been oversold for more than two months.

The big trend is clearly down for both the RSI and the US Dollar Index. The RSI peaked above 70 in November 2005 and formed a series of lower highs the last two years. A break above 50 would reverse the downtrend in the RSI. The index itself peaked in November 2005 and declined the last two years. The decline accelerated the last three months and trendline resistance is around 80.

Despite a long-term downtrend, there can be countertrend rallies to alleviate oversold conditions. On the daily chart (Figure 2), the RSI formed its second positive divergence in the last three months. The RSI failed to break above 50 on the first positive divergence. The indicator is making another breakout attempt at 50 and such a move would confirm this divergence.

On the price chart, I am marking key resistance at 76.15. A move above this level would break the August trendline and the mid-November high. This would reverse the four-month downtrend and call for an oversold bounce. The upside target would be around 78–79. This stems from the October highs and a 50% retracement of the August–November decline. ■

Traders.com ADVANTAGE™
This article was first published on 11/30/2007.
See www.Traders.com for more.

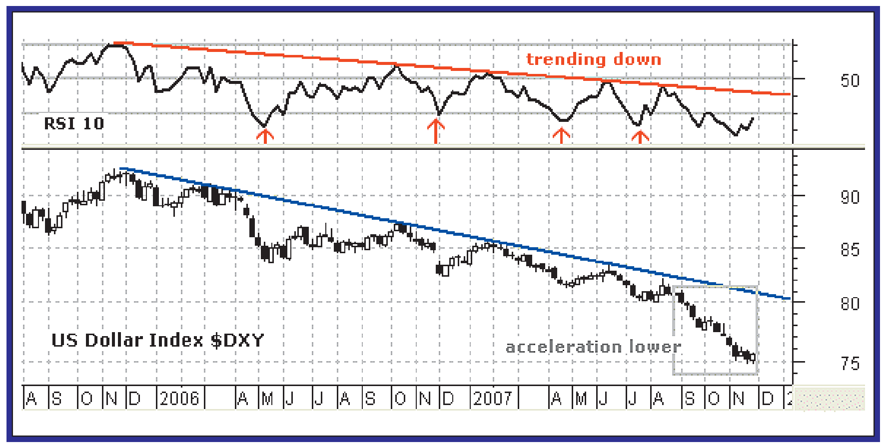


FIGURE 1: $DXY, WEEKLY. The 10-period RSI dipped below 30 in May and December 2006, and April and July 2007.

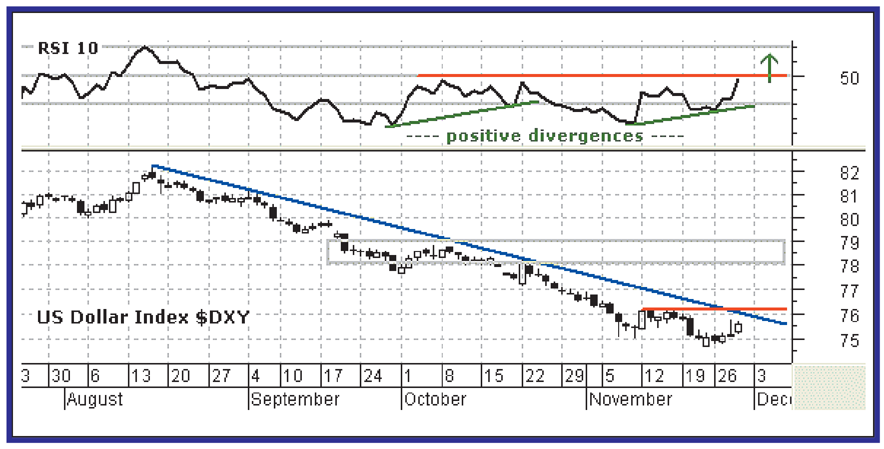


FIGURE 2: $DXY, DAILY. The RSI formed its second positive divergence in the last three months.

GANN THEORY

Playing The Forex Game

by Koos van der Merwe

"The forecaster is like an entrepreneur..."

Tradable: UDX

So said Roman Frydman in the *Economist* magazine of November 24: "... [H]e studies history and relies on intuition and judgement."

Sounds like a technical analyst, doesn't it? But the article in fact is about the abject failure of forecasters to predict the movement of the currencies in the market.

Too often have we heard that economists have two hands, and that analysis of fundamentals leads them to opposite conclusions about where prices are going. In particular, the article mentioned the work of two individual writers who examined the persistent failure of economists to predict movements in the currency markets: "It is stunning how hard it is to explain movements in exchange rates." All models show that the euro is overvalued to the US dollar, but does that mean that the US dollar will start rising?

I have clients who are currency traders and who ask me to verify certain currency predictions put out by the various banks. I am amazed at how wrong the banks have been in their predictions. There is no doubt in my mind that technical analysis offers a far more accurate forecast.

Figure 1 shows my attempt at forecasting the movement of the US dollar. To start with, we must decide which currency to compare the US dollar against. The euro? The Canadian, Australian, or New Zealand dollars? The Japanese yen or the Chinese renmimbi? In this article, I will look at the US dollar against the Canadian dollar. Why? Why not the euro? I will answer that question in the following charts.

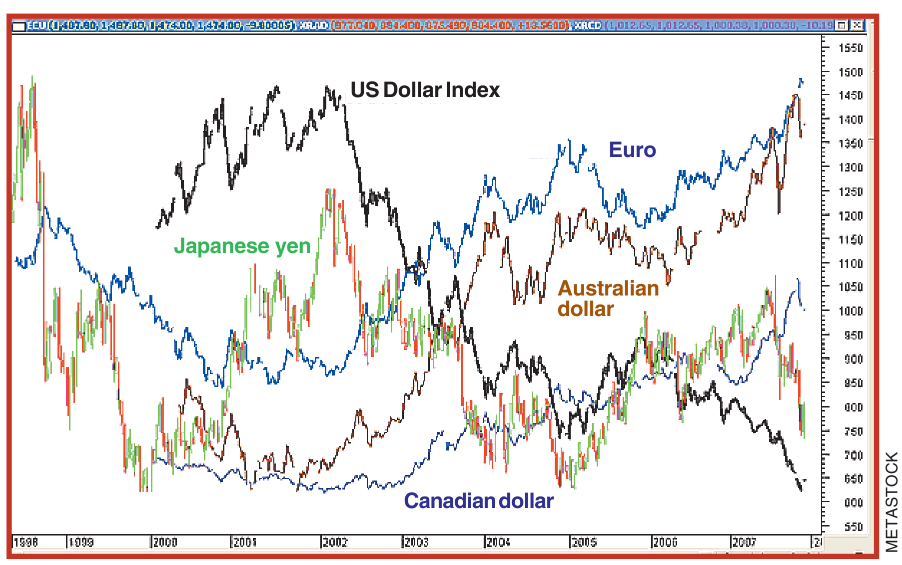


FIGURE 1: CURRENCY COMPLEX. Which currency should be used to compare against the US dollar?

Figure 1 shows that the euro, Australian dollar, and Canadian dollar all move in opposite directions to the US Dollar Index, so it doesn't quite matter which one we analyze, the final answer will be the same relative to the US dollar. It is simply the strength of the move that will matter. The only oddball is the yen, which seems to be moving in the same direction as the US Dollar Index since 2002. This, I believe, and it could be the subject for another article, is because I believe that the yen is now tied to the Chinese renmimbi, which is fixed to the US dollar. When we look at the US Dollar Index in the chart, we can see how the United States borrowed money from the world in 2001 with a strong US dollar. By borrowing money, I am referring to the paying of imported goods with a strong US dollar that the world invested in US Treasuries, and as we have recently learned with the subprime crises, invested in other, more risky financial instruments. To pay back those loans with a cheap US dollar makes sense, and one of the reasons many countries are considering no longer pegging their currency to the US dollar but rather a basket of currencies. The problem will arise, however, when those countries sell their US dollar debt to buy other debt quoted in the basket flooding the market with even more US dollars. This will weaken the dollar even more — but does it matter? Isn't this what the US Federal Reserve wants? More exports because of a weaker US dollar, and less imports? A country that consumes only its own products?

Figure 2 is a weekly chart of the US Dollar Index. I have chosen this index to examine rather than the euro, Australian dollar, Canadian dollar, or any other currency floating against the US dollar because it is representative of the US dollar without emotion or individual country currency manipulation. It is a true index and tells us what the United States is doing to its currency, and why.

Now back to the chart. As you can see, it does look as though the end is nearly in sight, with the US Dollar Index suggesting a target of $73.21, less than a 5% drop from current levels. Note too in the chart that the stochastic oscillator is oversold, and starting to reverse.

Now, the question is when. When will the reversal occur? When a new President is elected to the United States, as the country changes direction from its present path, or earlier? For the answer to these questions, I turn to a daily chart (Figure 3).

Figure 3 shows Gann fans from each major turning point. These fans are first created from a major high to a major low with the 1 x 1 intersecting or close to intersecting both points. Being a traditionalist, I prefer using Gann numbers, 0.5, 1, 1.5, 2, 5, and so on. Today's programs will allow you to use intermediate numbers.

Once a Gann number has been found, it is used to call future fans in changing directions. As you can see from the chart, the turning points are not that accurate, but they do give an indication, more or less, of when we can expect a turning point.

In Figure 3, the low of the US Dollar Index could be February 2008. This chart is also showing in the cycle sinewave indicator that we could see intermediate strength, probably over the Christmas season, but for January, it is showing further weakness into February.

"Human decisions affecting the future, whether personal, or political or economic, cannot depend on strict mathematical expectation, since the basis for making such calculations does not exist," wrote John Maynard Keynes. On the other hand...

FIGURE 2: US DOLLAR INDEX, WEEKLY. The US Dollar Index may be a better comparison to the dollar because it is representative of the US dollar without emotion, or individual country currency manipulation.

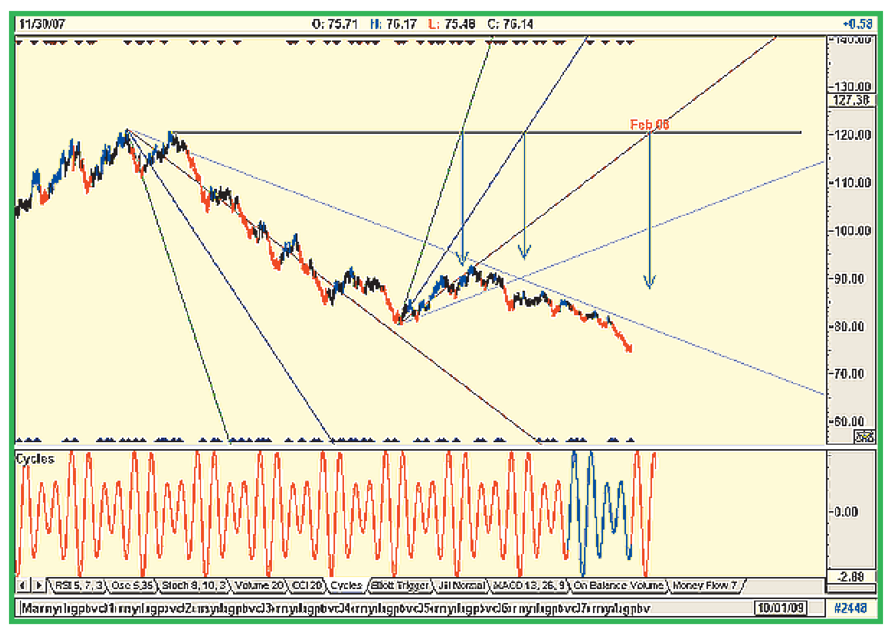
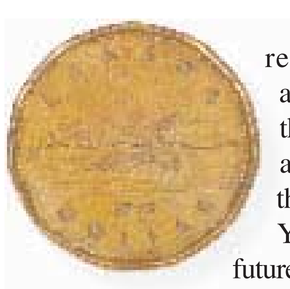


FIGURE 3: US DOLLAR INDEX, DAILY, WITH GANN TIMING FANS. These fans are shown from each major turning point.

CHART ANALYSIS

Buying The Loonie As A Stock Trade



by Mike Carr, CMT

Using ETFs, stock traders can take advantage of currency trends.

Tradable: FXC

The loonie is what Canadians affectionately call their one-dollar coin, which bears the image of a loon, a common Canadian bird. The currency has been in the news of late, as the Canadian dollar has reached all-time highs against the US dollar, with the loonie reaching parity against the US dollar for the first time.

Years ago, only forex and futures traders could have taken advantage of this trading pair, which shows a nice history of trending behavior. Exchange traded funds (ETFs) now make currency trading accessible to those traders seeking the exposure and profit potential of foreign currencies without the high leverage associated with the trading vehicles.

CurrencyShares Canadian Dollar Trust (FXC) offers stock investors a way to bet on continued strength in the Canadian dollar. The ETF increases in value as the loonie strengthens, and decreases in value as the US dollar

FIGURE 1: FXC, DAILY. FXC went through its trendline after a nearly parabolic rise and decline. It rose right back through the trendline, offering a bullish buy signal.

Continued on page 44

CANDLESTICKS

Candlestick Reversal Patterns

by John Devcic

Candlestick patterns can be invaluable in identifying a possible tren reversal.

Identifying candlestick reversal patterns is not easy. But with patience and persistence it can be done. Chart reading is an art form and an important part of a chart reader's arsenal. In this article I will focus on a couple of very important patterns that can help spot a reversal of a current trend. As with all candlestick patterns, these patterns will also take time and patience to learn, but once mastered they will be an invaluable resource.

REVERSAL PATTERNS

When it comes to investing or trading, identifying reversal patterns can be very helpful. That doesn't mean you should only pick tops and bottoms. It is nearly impossible to pick a top or bottom in a current trend. What reversal patterns can do is help you identify a significant change in the current market direction. For example, we saw the US dollar slide lower and lower. When will we see a reversal in this trend?

A reversal pattern could signal a possible end of the current trend or it could signal a continuation of the trend. There are two types of reversal patterns, bullish and bearish. A bullish reversal pattern will appear at the end of a downtrend and a bearish reversal pattern will appear at the end of an uptrend. A reversal of the current trend signifies that the selling or buying pressure subsided for that trading day. There are different ways to spot reversals. I prefer to use candlestick charts since, in my opinion, they reveal a very detailed representation of that trading day. From a visual standpoint, candlesticks are a great tool to help you spot one of these reversals once you learn to spot the formations.

THE COMMON REVERSAL PATTERNS

I will discuss some of the more common candlestick reversal patterns.

Hammer — This is a bullish reversal pattern that forms after a decline (Figure 1). Hammers usually help you locate a bottom or possible level of support. A hammer has a long range but with a small body formed at the top. The long line represents sellers driving the price down but they could not continue to drive the price lower and eventually the stock finishes higher.

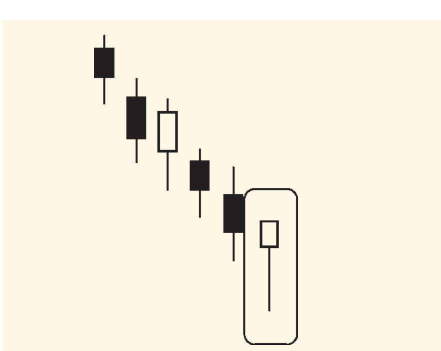


FIGURE 1: Here's the hammer, a bullish reversal pattern that forms after a decline.

But spotting the hammer pattern is not enough. You need some other confirmations in addition to this pattern to indicate a change in the current downtrend. After the hammer pattern is formed, you want to see a continuation of buying with strong volume to really signal a change. The long thin line on the hammer is what is most important because it tells you that the sellers are still there. Seeing the hammer formation cannot be used as a signal by itself.

What you need to look for:
- A steady decline
- The formation of the hammer candlestick
- Strong volume and the following trading day to be higher as well.

Hanging man — This is a bearish reversal pattern that may signal the end of the current uptrend.

The hanging man looks similar to the hammer except that it shows there are sellers able to drive the stock down (Figure 2). That long narrow line represents sellers coming in and driving the stock down.

In most cases, the stock will even finish lower for the day. The bulls were able to drive the stock up at some point but were unable to have it close higher.

As with the hammer, seeing the hanging man pattern alone will not be enough to act on. You need to look for confirmation of the trend change. This confirmation comes in the form of lower closes following the formation of the hanging man.

What you need to look for:
- A steady uptrend
- The formation of the hanging man pattern
- Lower closes following the formation of the pattern

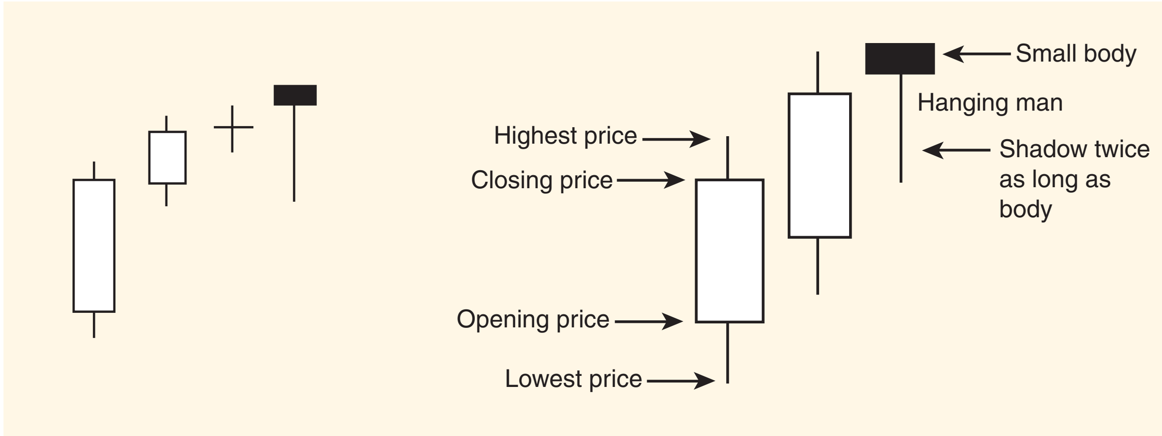


FIGURE 2: Here's the hanging man, a bearish reversal pattern that may signal the end of the current uptrend.

Spinning tops — This pattern really highlights indecision on that specific trading day. Neither the bulls nor bears were able to gain enough momentum that day, which is why this pattern was formed (Figure 3). The interesting thing about this pattern is its complexity. You have a small body that is either hollow or filled in. What is more important is that you have a long shadow. This long shadow indicates that there was a lot of movement both higher and lower that day.

Oftentimes, this pattern forms after a current long trend. This signifies that there could be a reversal in that trend. For example, after a long advance or a series of strong candlesticks, seeing a spinning top tells you that selling pressure is starting to gain momentum and may lead to a reversal of the strong buying. On the other hand, after a long decline or filled in candlestick (usually black) a spinning top can indicate that the selling pressure is subsiding and this could potentially signal a trend reversal.

A spinning top alone is not a signal of a reversal. You need to get confirmation before you can make a trading decision based on spotting a spinning top. However, the spinning top is a good indicator that the current trend is starting to lose momentum and a possible reversal could occur.

WHEN TO PLACE THAT TRADE

None of these candlestick patterns mentioned here will guarantee a reversal of a current trend. They become invaluable in identifying a possible trend reversal, however. There can be external forces that may again continue the preexisting trend regardless of either the hammer or hanging man pattern being formed. The hammer and hanging man are the same pattern, except they appear at different times.

Once you learn to identify one you will be able to identify the other easily. It is important to keep in mind that identifying the pattern is only the first step. The next depends on you as an investor and your investing philosophy. That means you will have to decide when to pull the trigger on the trade based upon these patterns. Learning to find formations using candlestick patterns can give you the edge when trading. ■

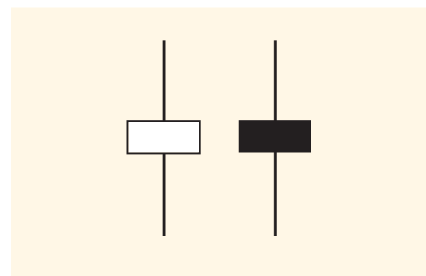


FIGURE 3: And the spinning tops pattern shows indecision between the bulls and bears.

This article was originally published on 11/21/2007.

SUGGESTED READING

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

BUYING THE LOONIE

Continued from page 44

strengthens. The US currency has been in a steady decline for more than five years, and the popular media proclaims that there is no end to the freefall in sight. This ETF, along with others offered by CurrencyShares, make a new asset class available to conservative investors.

The chart of FXC looks bullish. FXC recently bounced off a long-term trendline supporting what has been a steady, year-long up move (Figure 1). It now seems ready to make a run at recent highs after a normal pullback from overextended prices. Often when a stock gets that far above its trendline, a rapid decline sets in. in this case, the trendline held, which usually means the uptrend will resume.

Momentum indicators also signal further gains are likely in this stock. Stochastics, relative strength index (RSI), and the moving average convergence/divergence (MACD) all worked well at the spike top in early November, giving very timely sell signals from overbought levels. During the brief decline, the RSI held above 40, indicating that recent price action is a normal correction in a bull market. All indicators are now showing strong buy signals. (See Figures 1 and 2.)

A break of the recent lows, near 98, would indicate that the US dollar has reached an intermediate-term bottom and would tell us that this trade will not work. That's a risk of about 3%, an extraordinarily small amount in what should be a long-term currency trade. ■

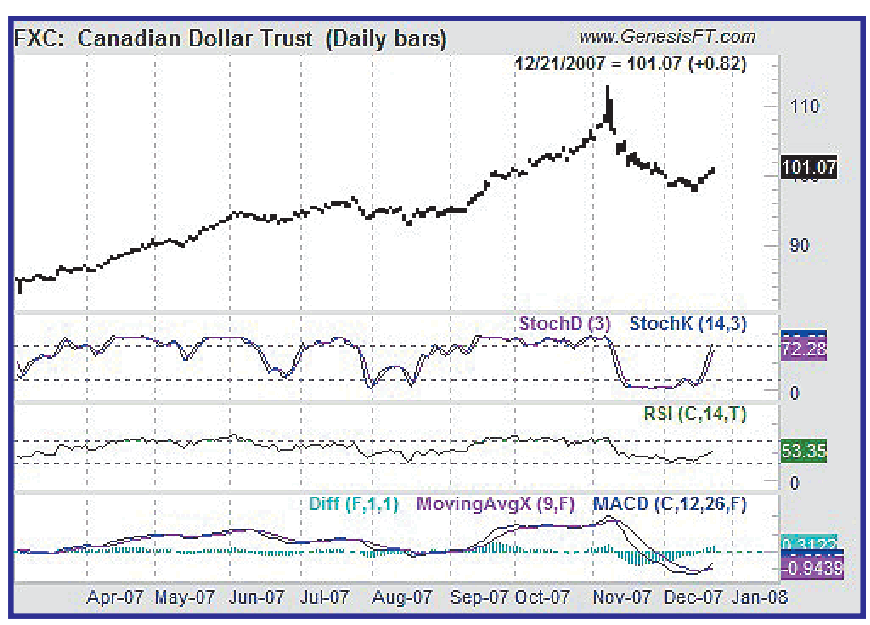


FIGURE 2: FXC, DAILY. Although stochastics is near overbought levels, it has a tendency to stay at those levels in FXC. RSI recently tuned higher and the MACD just gave a bullish signal. Strong indications of another leg up.

ADVERTISERS' INDEX

FREE INFORMATION FROM ADVERTISERS

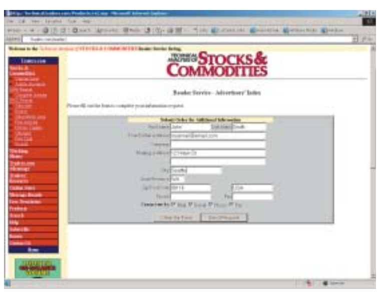
***TWO* WAYS TO CONNECT! CHOOSE THE WAY THAT'S EASIEST FOR YOU**

WEB

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

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

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



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

OR

MAIL OR FAX

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

- ❑ AbleSys Corporation
- ❑ E*Trade Financial
- ❑ eSignal
- ❑ Fidelity Advertising
- ❑ Field Financial Group
- ❑ FXCM
- ❑ Global Futures & Forex Ltd
- ❑ Key Volume Strategies
- ❑ MetaStock
- ❑ Mikula Forecasting
- ❑ National Trading Group
- ❑ Ocean Blue Publishing
- ❑ OptionVue Systems International
- ❑ Private Tutoring / Trading Course
- ❑ Profitunity Trading Group
- ❑ Prognosis Software Development
- ❑ R.S. of Houston Workshop
- ❑ Stocks & Commodities
- ❑ Traders International, Inc.
- ❑ TradeStation
- ❑ Trading Concepts
- ❑ WallStreetWindow
- ❑ Worden Brothers Inc.

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

TECHNICAL ANALYSIS OF STOCKS & COMMODITIES

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

Advertiser **Page**
Website

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

David Goldin (cover art) *is lefthanded, a magazine brat, an editorial and children's book illustrator/writer/animator. A student of Chris VanAllsburg and a graduate of the Rhode Island School of Design, Goldin's client list includes Atlantic Monthly, Rolling Stone, Fuji Bank, Atlantic Records, BusinessWeek, Forbes, National Geographic Adventure, Oxford University Press, The New York Times, Newsweek, Time, Sports Illustrated, New Yorker, Coca-Cola, MTV, Nickelodeon, Comedy Central, Cartoon Network, Audubon, Disney, Houghton Mifflin, Harry Abrams Publishing, Scholastic, Klutz, and more.*

Matt Blackman *is the host of TradeSystem Guru.com, a website devoted to discovering and better utilizing cutting-edge trading tools and winning market strategies. He also publishes a free weekly stock market newsletter. He is a member of the Market Technicians Association (MTA) and the Canadian Society of Technical Analysts (CSTA).*

Mike Carr *is a member of the Market Technicians Association and editor of the MTA's newsletter,* Technically Speaking. *He is a full-time trader and writer.*

John Devcic *is a market historian and freelance writer. He may be reached at glatko@aol.com.*

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

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

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.

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

Fade — Selling a rising price or buying a falling price. 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.* ■