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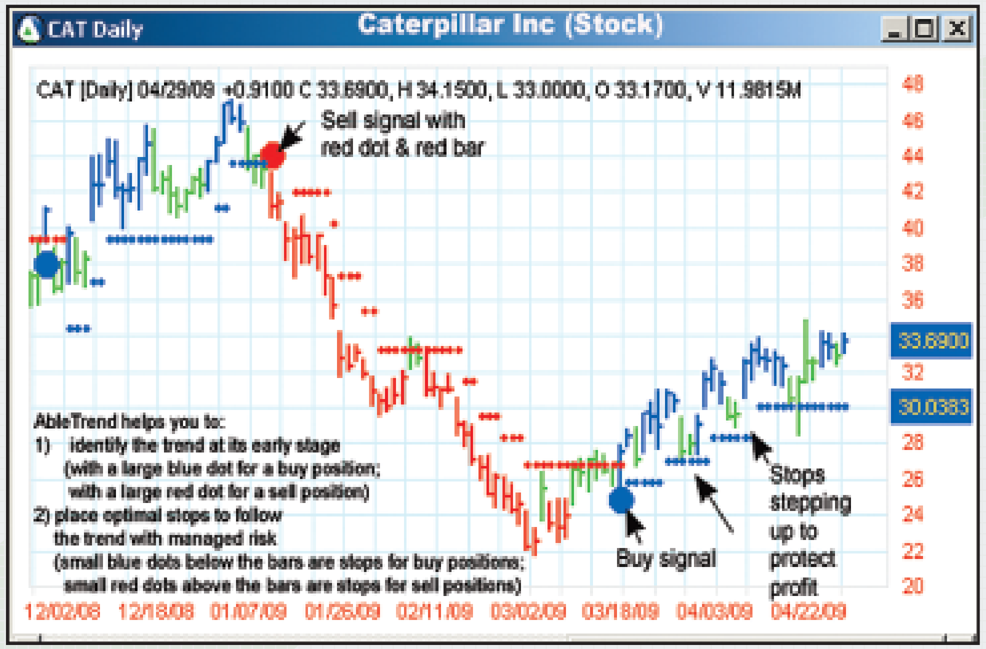

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With The Higher Volatility And 300-500 Point Dow Moves In A Day, My Day Trading Profits Are Approximately 4 Times Higher Than In 2007

Interview Mr. Jim Kane – A Trader Using AbleSys Software

Mr. Jim Kane, How long have you been trading?
I have been trading, on and off, for 20 years. Several times I got so frustrated that I switched to mutual funds, but that never went well.

How long have you been using AbleSys software?
I have been using AbleSys software since early 2007.

What do you trade?
Stocks, ETFs, plus some time decay option trades.

What is your occupation?
I am a retired US Air Force dentist and am currently employed as a computer programmer.

How many other trading software programs did you use before using AbleTrend?
I used many other trading software programs as well as numerous newsletters. I currently use Zacks research wizard to help me pick stocks to trade. Zacks suggests what stocks to trade and AbleSys tells me how to trade them.

In your opinion, what are the main differences between other software programs and AbleTrend?
AbleSys software works in all markets, any time frame, long or short, without excuses.

What is the most important factor in trading? How does AbleTrend help?
Risk management. AbleSys T2 indicator provides excellent stops as well as entry points.

Were you able to find good trades during the current financial crisis? Could you give an example?
With the higher volatility and 300-500 point Dow moves in a day, my day trading profits are approximately 4 times higher than in 2007.

Do you have the confidence to use AbleTrend in trading for years to come?
Yes, if AbleSys software can handle the 2008 market, it can handle any market.

Could you share some of the exciting trades that you've made?
My best position trades were probably shorts in MTH, BC, and CC. They just kept going down. Stops based on the AbleSys T2 indicator were good and helped me move in and out of the stocks to maximize gains. My first year of using AbleSys, 2007, was the first year in 20 years of investing in which I made more money trading than at I made at my day job. On the long side, AbleSys T2 indicated trending stock behavior in WLT in Jan 2008. I had a good run in WLT until early June.

"The AbleTrend AutoScan Feature Enables Me To Quickly Roll Through More Than 200 Potential ETFs In Less Than 5 Minutes, As I Look For New Trading Opportunities"

Interview Mr. Gerry Wollert – A Trader Using AbleTrend 7.0

Mr. Wollert, how long have you been trading?
I bought my first five stocks back in 1964 after taking an evening stock market course at a local community college. I have been trading for over 44 years with very few interruptions.

What do you trade?
I trade ETFs (Exchange Traded Funds). I like the diversification that these trading vehicles provide. ETFs trade just like stocks. They have no minimum holding periods or early redemption fees which make trading ETFs much more attractive than trading mutual funds. ETFs can also be sold short. Lastly, there are a number of inverse ETFs that can be traded in an IRA during bear market periods.

How long have you been using AbleSys software?
I have been using eASCTrend from AbleSys for over ten years.

How many other trading software programs did you use before using AbleTrend?
Over the last couple of decades, I have purchased at least a dozen different software programs. Most of them are on the shelf of my closet gathering dust. Only AbleTrend has continued to be my primary trading tool. It truly helps me decide what to trade, when to trade it, and when to get out after I enter a trade

Interviewed by Grace Wang,
Head of Customer Relations, AbleSys December 2008

In your opinion, what are the main differences between other software programs and AbleTrend?
The AbleTrend AutoScan feature enables me to quickly roll through more than 200 potential ETFs in less than 5 minutes as I look for new trading opportunities.

AbleTrend provides its trading signals for all markets and for all time frames. Once you learn how to trade one market, you will know how to trade any other market with AbleTrend.

There is no data to download. I use eSignal data and there is a seamless interface between AbleTrend and eSignal. The buy and sell signals are clear and require little or no interpretation.

The T2 indicator moves up during a long trade in a stair step fashion. There is no need to calculate stops — T2 does this for you.

Were you able to find good trades during the current financial crisis?
Since I primarily trade in several different IRA accounts, I generally look for long candidates. Obviously, this has been a very difficult period to find attractive buy candidates. My buy discipline has kept the majority of my funds in the money market during this financial crisis. The key challenge now is to be patient and wait for opportunities to emerge. AbleTrend will tell me when it is "safe to go back in the water."

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TRADING NOW

As we are into the summer months of 2009, rising gas prices at the pump have come back to haunt us. Given that crude inventories are at 19-year highs and demand in the US has dampened, it's likely that the falling US dollar has caused this spike in oil prices. This isn't unusual, given that a weakening of the world reserve currency sends investors to commodities such as oil and gold to hedge against inflation. In addition to the falling dollar, a rising demand for oil in China also plays a role in the rise in crude prices. But if you look at the big picture, the price of oil is still relatively stable and as we all know too well, it doesn't take much to increase the volatility and have it soar to as high, if not higher, than the highs of July 2008. So keep an eye on those charts of oil and gold as well as the US dollar so you too can hedge your positions.

In this issue of **Traders.com**, we have included articles that analyze the energy sector as well as the precious metals. Take a look at "Energy Sector Consolidates" by Chaitali Mohile and "The Oil Pipeline" by James Kupfer, as well as "A Short-Term View Of Gold," also by Kupfer, and "A Trade For Harmony Gold Mines" by Koos van der Merwe, as well as many more on the topics. In addition, we also have articles that look at various indicators and chart patterns. "Coils And Ledges Patterns" by Austin Passamonte and "Falling Wedge Signals NASDAQ Reversal" by Alan Northam are two such examples, as well as a couple of looks at Yahoo! by Paolo Pezzutti ("Yahoo Developing A Bullish Triangle") and Chaitali Mohile ("Yahoo Gaps Up").

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:

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- Visit our Message-Boards, where you can share your opinions of trading technical analysis, and most everything else you can imagine with other traders.

Let these articles and all the others act as a guide on how to analyze charts so that you will know when to enter and exit these markets during these turbulent times.

Jayanthi Gopalakrishnan

Jayanthi Gopalakrishnan,
Editor

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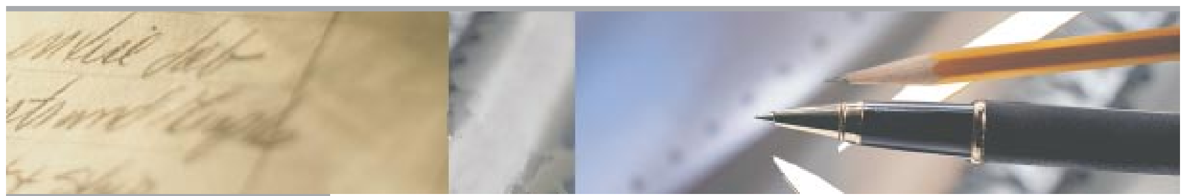

TRADING SYSTEMS

Trading Systems 101: Can You Handle The Drawdowns?

by Donald W. Pendergast Jr.

I'll bet you've seen a hundred ads for various trading systems in the past month, especially if you're an active trader who reads most of the trading-related magazines and papers out there. But can you really stay with a good system when it inevitably goes into an extended drawdown period?

Trading systems. The phrase seems to conjure up mental images of pushing "easy" buttons, ATM-like machines that dispense truckloads of trading profits and an endless stream of pina coladas and bikini-swathed beauties on pristine beaches in Maui. Ha! If it were only that simple. Trading a system for the long haul has got to be, in the words of a grizzled, close-to-retirement, veteran trader, "The hardest 'easy money' you'll ever make."

And as Andy Rooney might reply to the old trader (60 minutes before the market close, no doubt), "Why is that, anyway?"

Let's see if we can't provide Andy and all of the other system-trading hopefuls out there with some of the reasons why trading even a good system with a profitable track record can be so difficult.

Figure 1 is the equity curve graph for a simple daily-based momentum system in MetaStock, one that I specially modified to suit my own trading temperament, adding two technical filters to hopefully help keep it on the right side of the markets. A diverse mix of large-cap US stocks from every major sector were used for testing purposes; everything from gold miners to semiconductor manufacturers were included in the nine-year-long backtest.

An interesting (if not downright disturbing) feature of this purely mechanical system: there was no stop-loss used in the test. In addition, a maximum of six stock positions could be held at any given time and only one new position could be added to the portfolio at any given time. While it may seem that only a deranged trader would actually put real money to work in a system without a means to cut losses on losing trades short, the backtest, which included 1,196 trades, seems to indicate that this system (which normally exits a few days after entry, being a short-term momentum system) does just fine without an official stop-loss order.

Launching the backtest at the start of the last major bear market (March 29, 2000), $25,000 in initial capital eventually turned into almost $85,000 in nine years, despite nearly two years of sideways chop in 2001-02 and a rather sharp equity drawdown in 2008-09. Overall, the system produced a nice, steadily rising equity line for the balance of the test, such periods of underperformance notwithstanding.

So could you have stayed with this winning sys-

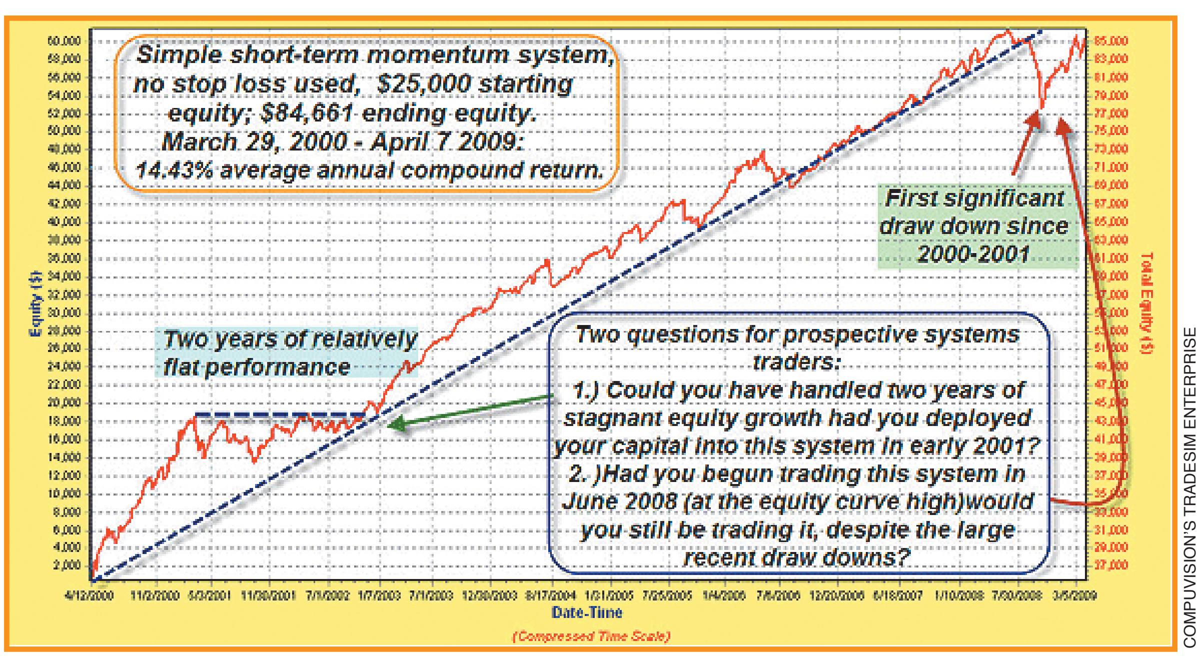

FIGURE 1: SHORT-TERM MOMENTUM. Rising equity curves are wonderful, but what if you were the unlucky trader who decided to deploy $50,000 into this system in June 2008, right near the all-time equity curve high? Would you still be trading this system?

tem had you begun to trade it in 2001, just before it went into a two-year period of sideways to flat returns? Or would you have ditched this system, hoping to find another one with a hot equity curve? Here's a news flash — any system that has had an extended winning streak is more likely than not about to enter either a period of consolidation and/or drawdown, duration unknown. It's just a fact of life when trading a system, and that's why those who always bail out of a winning system during periods of drawdown will never last long enough to reap the eventual rewards that such a system can provide over the long haul.

Let's examine some of the system's stats to see if there are other important details that we'd need to be aware of in order to ensure that this system's behavior would be a good match for our own trading temperament. Starting the backtest on March 29, 2000, with $25,000, here are the vital stats:

1. The system wins about **69%** of the time.
2. The maximum drawdown (MDD) was **11.67%**.
3. It made about **$50** per trade (commissions of $0.008 per share included).
4. It had **16** consecutive winners at one point.
5. It had **seven** consecutive losers at another point.
6. The profit factor was **1.5977**.
7. The average winner was **$193.32**.
8. The average loser was **$269.07**.

Looks pretty good, right? Yes, but could you really handle seven consecutive losers or even more in the future when trading this system? Even with a nearly 70% win rate, seven, eight, nine, or even 10 straight losers aren't out of the question, especially if another October 2008 is lurking somewhere down the road. Could you really handle the stress of holding six open stock positions overnight with no stop-loss? On a $100,000 commitment of capital to the system? Got you thinking on that one, right?

Bottom line: Is this a tradable system in the real world? Yes, it could be, but only for those traders who understand the risks involved. A wise trader would do some further testing on this system to see if adding a stop-loss (either a fixed percentage stop, volatility stop, or even a time stop) would help to smooth out the equity curve — or not. Those of you who've read Curtis Faith's excellent systems trading masterpiece, *Way Of The Turtle*, already know that some systems (particularly long-term moving average crossover systems) can perform just fine without a fixed, predetermined stop-loss.

Overall, the system produced a nice, steadily rising equity line for the balance of the test.

Here's a final word of potential wisdom — make what you will of it. After analyzing thousands of systems, it seems that the most opportune time to begin trading a system with a well-documented history of winning behavior is when it has just made a new maximum drawdown in equity. If the system has a decade-long history of profitability, the odds are (if the system is built without a curve-fitting bias, as this system has also been built) that you'd be deploying your trading capital at the very best time. Then the real trick is to hang on and ride that horse — right into the sunset. Hopefully in Maui. ■

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INDEXES

CYCLES

DJ Vu: Where Is the Next Top?

by James Kupfer

Continuing an exploration of the similarities between today's market environment and the Great Depression leads to a price target for this move up.

Tradable: DJ-30

In the previous parts of my "DJ Vu" articles, I have explored some of the similarities between the fall of the stock market in the 1930s and from 2007 onward. As I mentioned before, there are more similarities that have yet to be expounded upon (by me, at least) that further tie these two seemingly disparate time frames together structurally.

But first, let me review the performance of the previous market call I made in "DJ Vu, Part II." In that article I stated, "The Dow Jones would be expected to bottom on an intermediate-term basis in the next week [the week of March 9] around 6247." In fact, the market seems to have bottomed that previous Thursday at 6469. The level of 6430 was a level that I have previously tied to two important Fibonacci support zones for the market, so this was not entirely unexpected. Therefore, the average period of decline is an identical 13 weeks during the 1930s and today, and the move down was very near to its target.

Now that a new up leg has begun in the market, there is a very strong historical connection that can be made to the price action of today versus what occurred in the 1930s that may help identify a price target for this move. As you may know, the bear market of the Great Depression occurred in seven major moves down. Since the seventh move was the market bottom, we will ignore that for now. Of the six legs down, the first retraced between 50% and 61.8% of its move down before topping out and starting back down. The remaining five all retraced between 38.2% and 50% of the move down before topping and starting back down.

Fast forward to today. The market has had four main legs down since November 2007. The first one, from November 2007 to January 2008, retraced between 50% and 61.8% of the move down before topping out and starting leg 2 down. Legs 2 and 3 both retraced between 38.2% and 50% of the move down before topping out and starting a new leg down. As you can see, the cyclical structure of what has happened in the last two years with retracement moves is so far absolutely identical to what happened in 1929–32.

Again using the Great Depression bear market as a guide, we would expect that this new upswing in the market would reach its zenith with a retracement of between 38.2% and 50% of the recent leg down. Therefore, the Dow Jones Industrial Average (DJIA) should reach a minimum level of 7470 and a maximum level of 7779 before starting a new leg down that will bring us to fresh lows.

FIGURE 1: DJIA. Assuming last week was a significant bottom, the Dow Jones Industrial Average should rebound to between the 38.2% and 50% Fibonacci retracement levels.

TREND CHANNEL

The Dow Channel

by James Kupfer

The last few weeks have brought little clarity to the direction for the Dow Jones 30, but a trading range can still be useful.

Tradable: DJ-30

Given the huge move in the DJ30 that began in May 2008, it is no surprise that the market has paused over the last few weeks to consolidate recent gains. But is this a pause in a rally that will continue, or is it another top in the market? Frankly, I have no clue, but a possible trading strategy to take advantage of whatever scenario plays out has presented itself.

A tight trading range has formed that can be used to help determine when a breakout eventually occurs. The blue ovals shown in Figure 1 show the previous resistance levels of the DJIA. These happen to correspond roughly to the 61.8% Fibonacci retracement level from the January 2009 high to the March low. The top end of the range is 8200. In pink, we can see the support levels at 7800 that occurred at the 50% Fibonacci retracement level.

One of two things will eventually transpire: 1) The DJ will break above 8200, or 2) it will break below 7800. When one of these occurs, that will be the clearest indication we have gotten in weeks as to which direction that market will continue in for the short term. That will be the direction in which you should look to trade.

FIGURE 1: DJIA, DAILY. Is this a rally that has paused or is it another top in the market?

Large-Cap Index Near Resistance

by Chaitali Mohile

The S&P 500 Large Cap was undergoing a bullish rally. Recently, the index has hit the previous high resistance.

Tradable: $SPX

The highly bearish conditions on the technical charts initiated a bullish rally in the S&P 500 Large Cap Index ($SPX). A long-legged doji of March 8 reflected indecision among the traders, and an inverted hammer on March 9 weakened the bears.

Since the doji and an inverted hammer are single candlestick patterns, we need more confirmation from the indicators. The full stochastic (14,3,3) was highly oversold in March in Figure 1. The average directional movement index (ADX) (14) indicated overheated downtrend and the moving average convergence/divergence (MACD) (12,26,9) was negative before undergoing a bullish crossover. Therefore, all three indicators were highly bearish, suggesting a trend reversal scenario. Thus, the candlestick formations in Figure 1 were reconfirmed by the momentum oscillators, and the new upward rally born.

The $SPX bullish rally in Figure 1 was well supported by encouraging volume. The consolidation during an upward action signified the strength in the rally. The index steadily moved higher as the overheated downtrend declined. The MACD (12,26,9) surged in positive territory, and the stochastic oscillator turned overbought. But the shaky stochastic movement near 80 levels was not a convincing sign for the bullish rally to run higher. Eventually, the $SPX reached the previous highs of mid-January and early February. After retracing below 840 levels on April 20, the index is consolidating under the previous high resistance.

The trend has turned weaker by moving below 15 levels, and the positive and the negative directional index (+DI) (-DI) are moving with equal pace. Thus, the ADX (14) is suggesting consolidation for $SPX. However, the other two oscillators are healthily bullish, so no significant downfall is indicated on the daily chart in Figure 1. The index is likely to consolidate in the range of 880 and 820 levels.

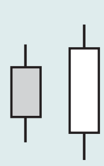
In Figure 2, we can see that a bullish engulfing candlestick pattern reversed the bearish rally. Thereafter, the index rallied toward the previous highs. The bullish reversal candlestick pattern was accompanied by an oversold stochastic and the overheated downtrend. We can see that the ADX (14) was overheated since December 2008, but the indicator started declining only after March 2009. Therefore, we can conclude that an overheated downtrend initiated the bullish rally.

As the $SPX traveled higher, the rally formed two hanging man patterns; see the blue marked square in Figure 2. This indicated that the upside move is exhausting, although the full stochastic (14,3,3) is rallying vertically toward an overbought region. Recently, the index has formed a red doji, the color indicating bearishness of the candlestick pattern. The ADX (14) is still declining from the overheated levels, and the MACD (12,26,9) is positive in negative territory in Figure 2. Hence, the combination of indicators point to a consolidation rather than a huge decline for $SPX. The declining trendline shows support at approximately 820 levels for the consolidation range. ■

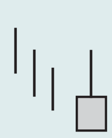
FIGURE 1: $SPX, DAILY. The index has reached the previous highs of January and February. The resistance is likely to suppress the bullish rally and may lead to consolidation.

FIGURE 2: $SPX, WEEKLY. The declining trendline shows the potential support level for the index.

Doji (DJ): This pattern occurs when the open and the close are the same. It is a significant reversal indicator, depicting traders' indecision.



Bullish Engulfing: It is a major reversal signal with two opposite-color real bodies making up this pattern. The market is in a downtrend, then a white bullish real body engulfs the prior period's black real body.



Inverted Hammer (IH): It is a shooting star–shaped candlestick. In a falling market, it could be a bullish signal. The inverted hammer signals the possibility of a bottom.

RELATIVE STRENGTH COMPARATIVE

NASDAQ 100 Continues To Outperform

by Donald W. Pendergast Jr.

The NASDAQ 100 index is outperforming all of the other major broad market indexes by a wide margin. A closer look at one of this index's highest relative strength stocks reveals a series of bullish technical developments.

Tradable: NDX, JNPR

The NASDAQ 100 index (.NDX) has been on a tear since the major US markets reversed in early March 2009, easily outpacing the gains made by the .NYA, .SPX, and .RUT. A glance at the relative strength comparison of these major stock indexes reveals that the .NDX has been rising more than twice as fast as its small-cap rival index, the Russell 2000 (Figure 1). However, the .NDX is beginning to demonstrate early signs of trend deceleration, and those playing the stocks in this index (or the index itself) need to be aware of several recent technical developments.

The daily graph of the .NDX (Figure 2) shows just how powerful the reversal rally has been over the past seven weeks; there hasn't even been a Fibonacci 38.2% corrective move at any stage of the move so far, which is very impressive. The .NDX easily took out the February 2009 swing high and then proceeded to breach the November 2008 swing high during today's session. It closed just a quarter point below that swing high today, and a close above 1382.65 will further enhance the bullish posture of the .NDX.

Bullish close above that level or not, the chart also reveals that the uptrend lines have begun to decelerate even as the RSI (14) indicator has failed to make new highs in conjunction with the price action of the index itself. This modest exhibition of negative price-momentum divergence is another potential early warning that the .NDX is due for a breather. Those attempting to trade in the various component stocks in the .NDX would do well to focus on those with superior relative strength (RS) if going long and on those with especially weak relative strength if going short. Next up is a look at one of the highest relative strength stocks in the NASDAQ 100.

Juniper Networks (JNPR) has a number of extremely positive technical factors in its favor.

Juniper Networks (JNPR) ranks #2 in relative strength versus the .NDX and also has a number of extremely positive technical factors in its favor (Figure 3). A continuing series of higher highs and higher lows is in effect; the Aroon (14) indicator is firmly in the bullish zone, the price recently gapped higher on high volume, and the uptrending RSI (14) indicator is well above 50, meaning that it too is confirming that a powerful trend move is under way.

Then too the widening spread between the 20- and 50-day exponential moving average (EMAs) is yet another measure of bullish momentum. Finally, JNPR's money flow (not shown) is exceptionally bullish. Altogether, this looks like a good pullback against the trend entry setup, especially if the gap holds.

Security Name	Column A	Ticker Symbol
NASDAQ 100	0.7407	.NDX
RUSSELL 2000 CASH (NY)INDEX	0.3372	.RUT
NYSE COMPOSITE	0.0000	.NYA
S&P 500 INDEX	-0.0277	.SPX

METASTOCK

FIGURE 1: INDEX GAINS. The NASDAQ 100 is outpacing the Russell 2000's gains by a margin of better than 2:1.

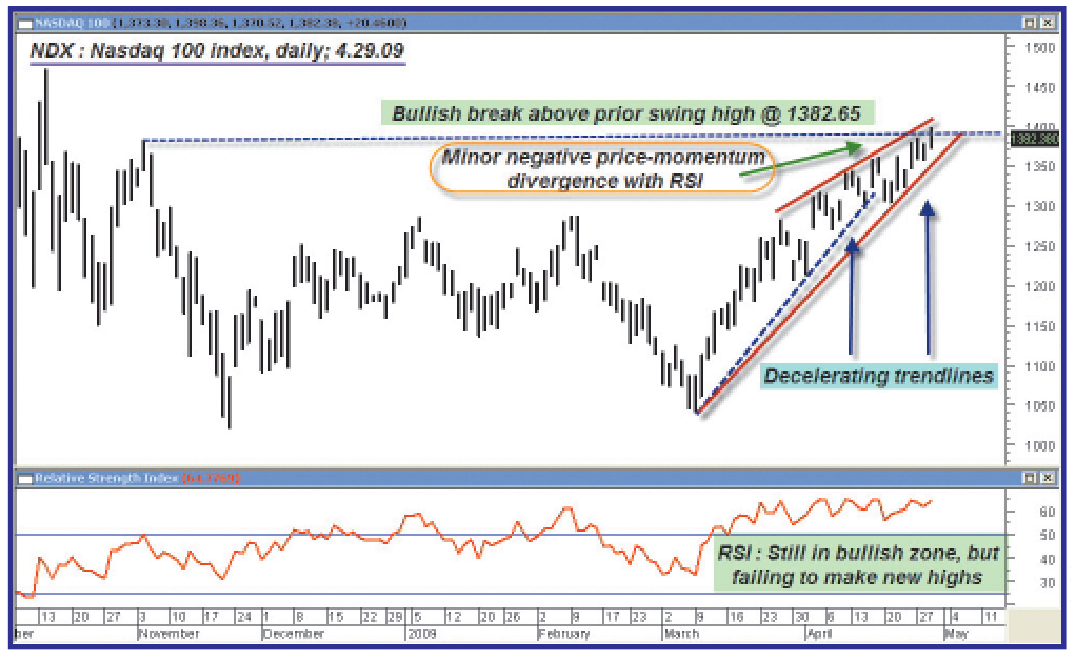


FIGURE 2: NDX, DAILY. Still outperforming the rest of the major US stock indexes, the .NDX begins to exhibit signs of slowing momentum as its November 2008 swing high is approached.

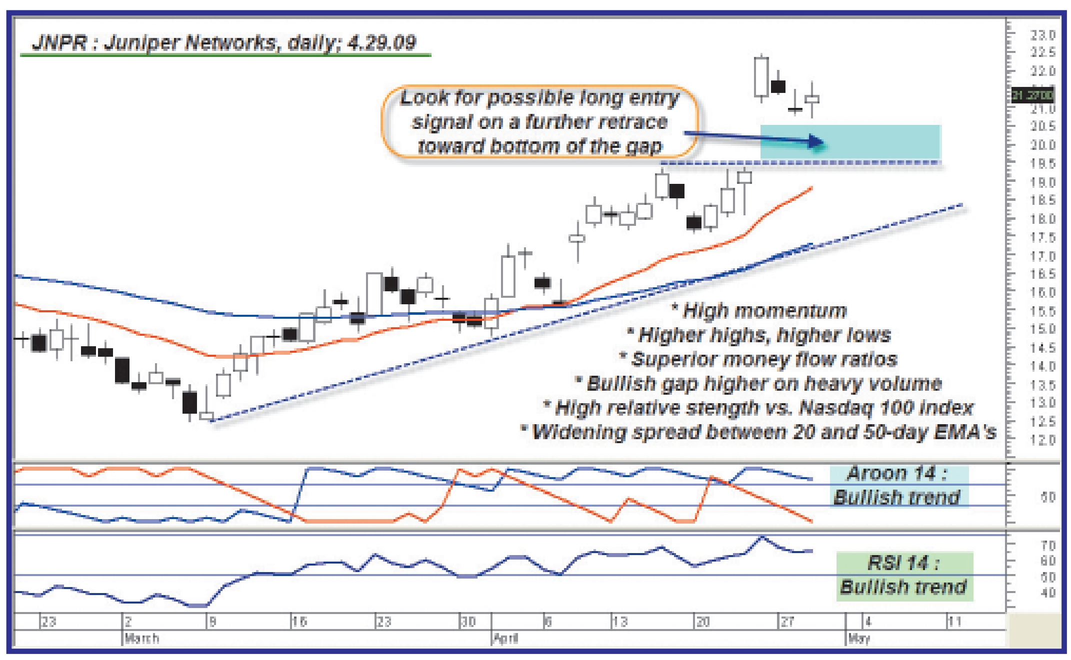


FIGURE 3: JNPR, DAILY. Superior trend, momentum, money flow, and relative strength characteristics could make JNPR an attractive long pullback entry trade in the next few sessions.

One indicator that seems to work well with a pullback entry is the stochRSI indicator, although a commodity channel index (CCI) or RSI set at 10-14 could also be put to work here. Regardless of the entry indicator, waiting for it to drop below its lower signal line, followed by a rise above that lower signal line, could be one way to get on board a potential reversal higher in JNPR. The first price target, should a suitable reversal entry materialize, is the prior swing high at $22.43. An initial sell-stop should be placed just below the reversal's low, bearing in mind that this should be viewed as a short-term swing trade.

Bringing the stop up to breakeven once one (ATR 10) average true range of the past 10 days is achieved might also be a good idea, just in case the .NDX decides to start follow through and begin a full-scale corrective move, dragging JNPR along for the ride. ■

SUGGESTED READING

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STRATEGIES

After Six Up Weeks In A Row...

by Mike Carr, CMT

The broad market has been up six weeks in a row. We look at what happens after a run like that and discover it's bearish and bullish.

Tradable: $XVG, RSP

Looking at the Value Line Index, stocks closed with their sixth consecutive week of gains. The Standard & Poor's 500 only shows five weeks of gains, but the Value Line provides a better measure of what the average stock is doing because it is a very broad, equal-weighted index. Figure 1 shows the relative strength of the S&P 500 against its equal-weighted counterpart, measured by the RSP, an exchange traded fund (ETF) that tracks the equal-weighted index. When RSP is doing better, the average stock is outperforming the S&P 500.

The Value Line has closed up six straight weeks 15 times since 1993, an average of almost once a year. It has been up seven consecutive weeks on six occasions. The longest streak is 10 weeks. So this recent behavior is unusual, but certainly not unprecedented.

After being up six weeks in a row, the chance that the index will close higher one week later is 40%, less than average. Two weeks later, the average closed higher 54.5% of the time, about average. Three weeks later, the odds of an up close were only 36.4%, indicating that a pullback is likely from current levels. However, a month later, the market was higher 70% of the time.

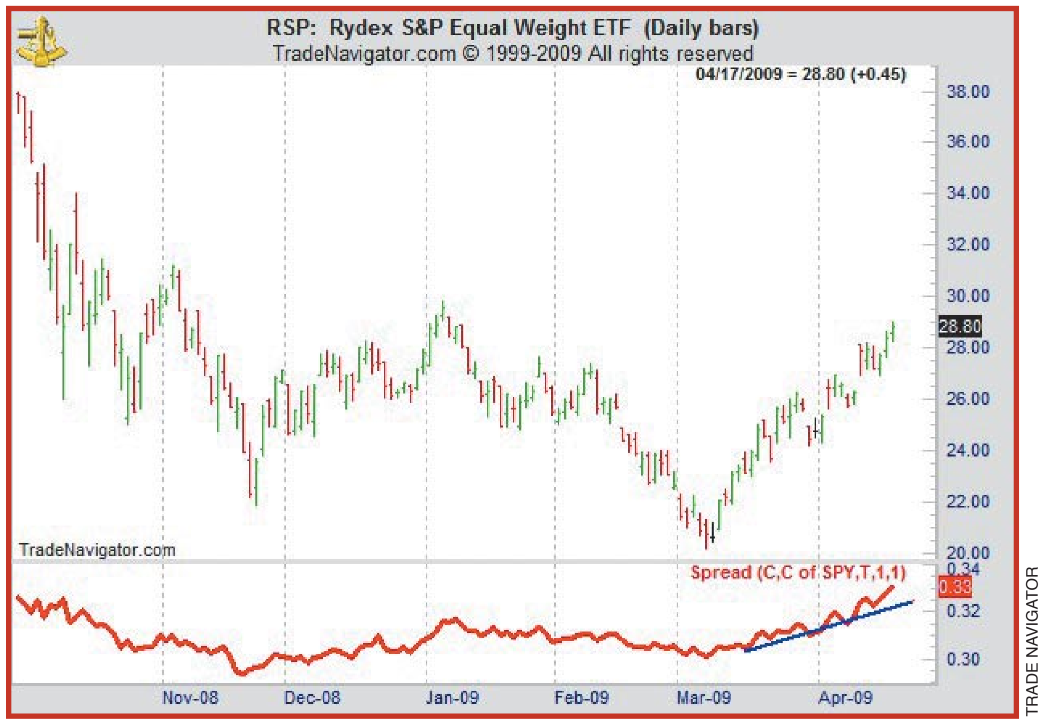

FIGURE 1: RSP, DAILY. From this chart, we can see that the relative strength of the equal-weighted index is greater than the S&P 500, indicating that small-cap stocks are outpacing large-cap stocks.

These odds offer insight into what to expect in the coming weeks. They may help traders assess whether we are in a bear market rally or have begun a new bull market. If it's a new bull, we should be higher four weeks from now. ■

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STRATEGIES

After A 3.5% One-Day Decline...

by Mike Carr, CMT

The Dow Jones Industrial Average is generally lower a week later.

Tradable: DJIA

On April 20, the Dow Jones Industrial Average (DJIA) fell almost 290 points. Triple-digit days have become almost normal these days in the eyes of many investors. But a move of more than 3% in a single day is still something that gets the attention of even most the seasoned trader. Common wisdom says to expect a rebound from a day like this. Testing shows that rebound may be short-lived.

Going back to 1920, there have been only 48 days when the DJIA declined by at least 3.5%. Eighteen of those days have come in the past 16 months, so this is definitely a historically volatile period in the market.

Looking at performance in the days after a decline of that magnitude, we see that the market is higher 60.4% of the time the next day. That is some evidence supporting a rebound.

Two days after such a decline, the market is higher 62.8% of the time. However, after three days the market is usually lower, showing gains only 45.9% of the time. Five trading days later, the market has been higher only 42.9% of the time.

Looking at a longer time frame, a month later the market has been higher only 51.9% of the time. This is well below average.

History shows very few instances of a large one-day decline after large gains in the previous month. There are only five instances where the market lost at least 2% after showing gains of at least 10% in the previous month. It is not reasonable to draw conclusions from a sample size that small. This again shows how unusual the current market action is.

Conservative traders may want to lighten up on long positions, given the history of market movements after a large one-day decline. ■

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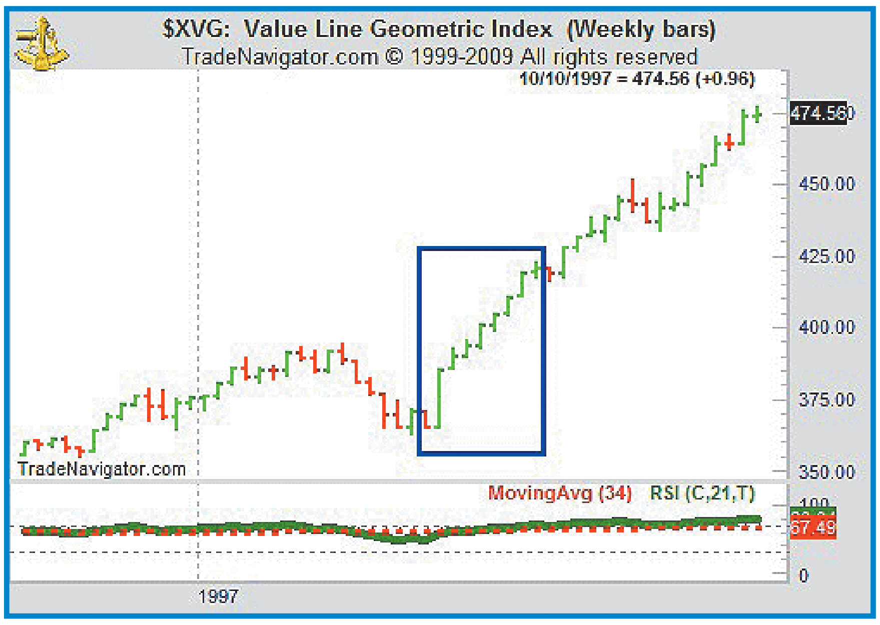

FIGURE 1: $XVG, WEEKLY. The Value Line Composite Index in June 1997 rallied strongly and went on to reach higher highs after bottoming in April.

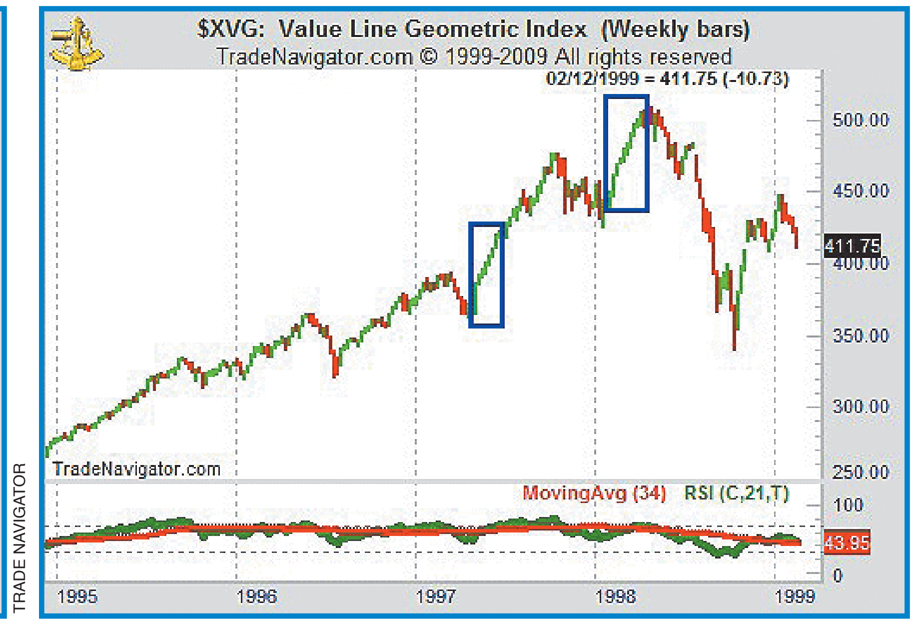

FIGURE 2: $XVG, WEEKLY. XVG topped in 1998 after a similar run.

Eight Straight Weeks

by Mike Carr, CMT

There is little historical precedent for the past two months of steady gains.

Tradable: XVG

The week ended May 1 marked eight consecutive weeks of gains in the stock market as measured by the Value Line Composite Index (XVG). The NASDAQ Composite Index matches this streak and the Dow Jones Industrial Average and Standard & Poor's 500 have posted gains in seven of the past eight weeks. Looking back in history, we find two other times when the Value Line rose this strongly.

In June 1997, the Value Line also rose eight weeks in a row (Figure 1). After closing lower the next week, the index returned nearly 14% over the next four months before topping.

At the beginning of 1998, XVG also had an eight-week winning streak. This time, the runup marked a top (Figure 2).

Does any of this help us forecast what will happen this time? In Figure 3, we see that the current situation is closer to 1997 than 1998. The rally in 1998 occurred with the relative strength index (RSI) at an overbought level. Now, and in 1997, the RSI may support higher prices and signal when the bull move has ended.

If the RSI crosses above 70, a break below that level is likely to indicate it is time to sell. And prices would have to rise much more before the RSI reaches that level. ■

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Looking back in history, we find two other times when the Value Line rose this strongly. Does this help us forecast what will happen this time?

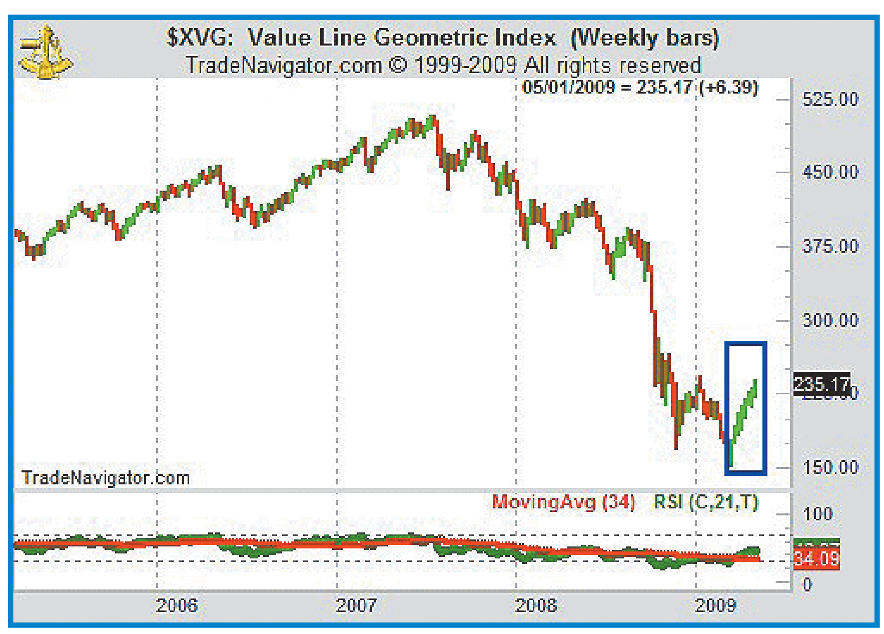
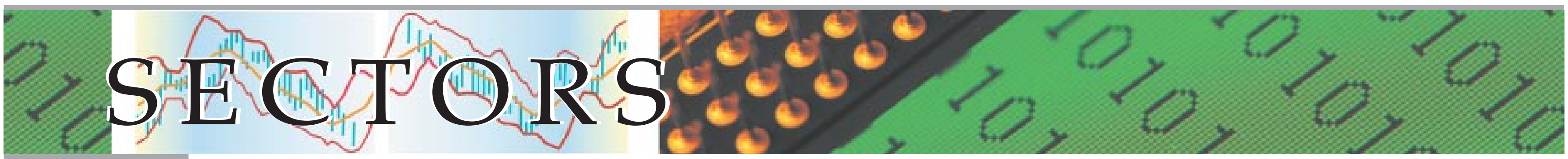


FIGURE 3: $XVG, WEEKLY. XVG has run up strongly, but the RSI is still below 50.



REVERSAL

Retail Index In New Uptrend

by Chaitali Mohile

The bullish rally of the S&P Retail Index looks promising, with new support levels likely to boost the rally.

Tradable: $RLX

After a considerable period, the global financial markets are undergoing a strong bullish rally. This rally could be seen as a bear market rally, as the long-term downtrend has not reversed. The S&P Retail Index ($RLX) made an all-time low at 207 in November 2008, and a higher low at 223 in March 2009. Figure 1 shows the 300 levels as the second strongest resistance after the 200-day moving average (MA).

The red trendline in Figure 1 reflects the previous high resistance at the 300 levels. During the price movements in these levels, the full stochastic (14,3,3) turned overbought many times but failed to sustain its bullishness. The average directional movement index (ADX) (14), indicating a downtrend, turned weaker as the price moved in a wider range of 223 and 300. The positive directional index (+DI) and negative directional index (-DI) were tangled, suggesting equal buying and selling pressure on the rally.

The bullish rally that began from the 223 levels gradually violated both resistances in Figure 1. This rally reversed the downtrend and the stochastic oscillator surged in an overbought zone. On the daily chart in Figure 1, we can see that the stochastic indicator moved horizontally during the rally, indicating positive momentum. Currently, $RLX has transformed the 50-day MA resistance to support. The hanging man candlestick pattern formed on April 15 suggests the possibility of the new support being challenged. The ADX (14) is indicating a developing uptrend, and the stochastic (14,3,3) is stable in overbought territory. Therefore, the index is likely to hold its bullish support of the 50-day MA, and later begin a fresh journey north.

$RLX has plunged under the 50-day MA resistance (see arrows in Figure 2). Due to the MA resistance, the index has formed lower highs. The existing bullish rally from the 223 levels has hit the same resistance, so $RLX is at a very critical support-resistance area. Currently, the stochastic (14,3,3) has formed a new high, indicating positive divergence. The rally is likely to reverse the existing intermediate downtrend. The ADX (14) has moved above the 20 area, suggesting a developing uptrend. Considering the signals from the indicators, $RLX is likely to establish support at the 50-day MA.

Hence, the fresh uptrend would sustain and even carry the index gradually to previous highs. Traders can trigger a buy bet on the individual stocks forming the retail index once $RLX initiates a bullish rally from the support levels. ■

FIGURE 1: $RLX, DAILY. The hanging man reversal candlestick pattern may retrace the index back to the previous support. But the developed uptrend and the overbought stochastic would sustain the rally.

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The ADX (14) has moved above the 20 area, suggesting a developing uptrend.

FIGURE 2: $RLX, WEEKLY. The ADX (14) is showing the developing uptrend.

CONSOLIDATION FORMATION

Energy Sector Consolidates

by Chaitali Mohile

Will the Energy Select Sector undergo a bullish breakout or drop down to previous lows?

Security: XLE

The robust corrective phase dragged the Energy Select Sector (XLE) to a new low at $38.64. The volatile consolidation from the new low formed a long-term symmetrical triangle. Since the triangle took more than three months to mature, we consider this pattern to be long term, and the longer the pattern, the more reliable is the breakout. But the breakout direction of the symmetrical triangle cannot be anticipated in a bullish or bearish trend. In Figure 1, we can see that the pattern has broken downward and the rally made a new low at $37.21.

The average directional movement index (ADX) (14) that showed a weak trend and a volatile consolidation since October 2008 to February 2009 surged in favor of the bears. The selling pressure increased dramatically as the XLE witnessed bearish breakout of the symmetrical triangle. Although the ADX (14) moved above 20, indicating a developing downtrend, the indicator failed to climb higher than 25 as XLE established support at the new low.

The highly oversold stochastic (14,3,3) initiated a bullish rally of approximately $10 in March 2009. The moving average convergence/divergence (MACD) (12,26,9) rushed above the zero line and stabilized in positive territory. The price rally turned sideways after an advance rally, forming a bullish flag and pennant continuation pattern.

The yellow marking in Figure 1 shows the flag formation. This pattern breaks in an upward direction, but the indicators on the daily time frame in Figure 1 are not suggesting any breakout.

The MACD (12,26,9) is moving horizontally with the support of the zero line. The stochastic is zigzagging in an overbought area between 50 and 80, and the ADX (14) is below 15, indicating consolidation. In addition, the positive and negative directional index (+DI) (-DI) have converged, suggesting equal buying and selling pressures. Therefore, the mixed scenario may not encourage the bullish breakout. In fact, XLE would continue its sideways movement till strong buying and positive momentum are reflected.

During consolidation, the stock should essentially sustain above $42.5. The future breakout rally has the resistance of the converging trendlines of the symmetrical triangle and the previous highs.

Therefore, XLE would consolidate for a further period rather than undergoing a bullish breakout of the flag & pennant pattern. ■

FIGURE 1: XLE, DAILY. The sector is consolidating after an extensive advance rally from the new low of $37.21. The bullish flag & pennant can be seen on this chart.

CHART ANALYSIS

Will A Diamond Break The Banks?

by Ron Walker

The bank rally has led the entire market higher throughout March, but two important patterns may be the driving forces that end this breath-taking rally. A tristar candle pattern formed on the XLF daily chart as a diamond chart pattern emerged on its hourly chart. Will it be enough to stop the bulls in their tracks?

Tradable: XLF

In late January 2009, I addressed the possibility of a double bottom forming near the $8 level. That speculative pattern failed to follow through on the daily chart of the Financials Select Sector SPDR (XLF), and by mid-February, the bears had pulled the rug out from under XLF as it sank just below $6 by early March. There a bullish falling wedge formed, resulting in a coming-out party for the bulls. XLF quickly catapulted above its 20-day simple moving average (SMA) on renewed optimism of Citigroup (C) turning profit in 2009. The new bank rally managed to rejuvenate the entire market.

In Figure 1, prices continued to rev up, thrusting above the 50-day simple moving average (SMA) but shortly stalled after they plowed into overhead resistance. A two-day dark cloud cover candle pattern formed, taking prices back below the 50-day SMA. But XLF soon gapped higher on renewed confidence in the banks with the announcement of US Treasury Secretary Tim Geithner's toxic-asset plan.

The bulls remained unscathed as XLF climbed back up to resistance for another test. At resistance a shooting star appeared, which was followed by a series of dojis. This tristar candle pattern was developed by Steve Nison and is extremely rare. The pattern happens in an uptrend. The pattern is recognizable when three consecutive doji days form, with the second day gapping above the first and third day. The pattern was confirmed on the fourth day as prices gapped lower breaking the rising trendline, resulting in a lower low on the price chart

FIGURE 1: XLF, DAILY. A tristar reversal breaks the daily trendline as a corrective move begins. Note how the second candle in the tristar pattern gaps higher. Prices may find rest on the rising trendline drawn off the original momentum lows (blue line).

and putting the brakes on this rally. The breakdown of the tristar pattern in combination with the rising trendline being fractured has managed to suck all the oxygen out of the rally for now (Figure 1).

The financial ETF has rallied $3.85 or approximately 66 % off its March 6th low of $5.82, and is overdue for a correction. If XLF can weather the next storm of selling, holding above the March 6th low, it may carve out an inverse complex head & shoulders pattern. XLF could be in the early stages of constructing two right shoulders.

In Figure 2, I drew a parallel trendline from peaks made in late February to late March. The hypothetical trendline intersects beautifully with the 61.8 Fibonacci retracement on the daily chart, near $7.30. If that Fibonacci level holds up and a new channel forms, we could see the inverse complex head & shoulders pattern completed and actually play out in the weeks ahead.

However, prices should move lower for the short term as the stochastic (14, 3, 3) is tilting below 80 after flat momentum appeared in two equivalent peaks.

The XLF's hourly chart (Figure 3) suggests that prices may be even weaker than the daily chart is letting on, which may cause it to move to the $6.50 level or completely retard prices back to test the March 6th lows. A chart pattern in the form of a diamond reversal appeared on its 60-minute chart as prices shuffled back and forth for several days at the end of March. Finally, on March 30, XLF cut through the clutter and gapped lower.

There were several warning signs prior to the price collapse. First of all, XLF formed a triple negative divergence by the three distinct peaks made on the moving average convergence/divergence (MACD). A triple divergence is much more powerful than a normal divergence with just two peaks. Triple and quadruple divergences are by far the most powerful divergence there are. Here, the bears have dragged the MACD back below the zero line, as it is unwinding from triple negative divergence.

Earlier, I discuss the possibilities of an inverse complex head & shoulders pattern forming on the daily chart. If that pattern is setting up, this diamond may morph into a double top that could take XLF within the same vicinity of the lower speculative boundary we looked at on the daily chart (see Figure 3). The double-top pattern measures $1.58, with an objective target of $6.51. That would take prices back to the breakaway gap that started this upward journey. So if the bears come back like gangbusters, XLF may produce a full-fledged reversal that will test the gap that occurred on March 10.

The hourly chart's indicators offer hints that one of these targets discussed may be hit. The directional movement indicator (DMI) got a bearish cross, while the average directional movement index (ADX) bottomed, only to find new-found strength climbing back above 20. This cozy tie between the DMI and the ADX is a very bearish signal and indicates that there is more downside for the financial exchange traded fund (ETF) The relative strength index (RSI) (14) has dipped below 33.33, confirming the end of the current trend. When the RSI is in an upward trend it has swings from 33.33 to 80, rarely dipping below 40. Moreover, the RSI broke below its last minor low, producing a top failure swing.

In Figure 3, both the 10- and 20-period exponential moving averages (EMA) have crossed below the 50-period EMA while prices have dropped below all three moving averages. Prior to that, each corrective phase was contained near the 50-period EMA.

Prices also got a lower low. If prices bounce off support at $8.09, we may see some type of topping pattern form something along the lines of a triple top. But if that level of support is violated, the diamond top may serve as the second peak in a double-top pattern, with the $8.09 low being the confirmation line. The first peak was pointed, with almost a climatic top to it, while the second peak is more rounded, with the two gaps that form the boundaries of the diamond mark an island reversal.

If XLF remains above its March 6th low, putting in a higher low, then XLF may be chiseling out a new rising price channel. If prices test that low or fall below it, then the inverse complex head & shoulders pattern we discussed would be nullified and ineffective. ■

FIGURE 2: XLF, DAILY. The tristar candle pattern has allowed a neckline to form on the daily chart for a potential inverse complex head & shoulders pattern. Prices may form a higher low and begin to channel higher as two right shoulders make their appearance.

FIGURE 3: XLF, HOURLY. Here, prices gap lower (in yellow) from the bearish diamond pattern as triple negative divergence begins unraveling on the MACD. Triple negative divergence is three indivdual MACD peaks, stronger than a normal divergence. The diamond may make way for a double-top pattern that measures to the $6.50 area.

IWW Is Oversold

by Chaitali Mohile

The momentum indicators of the Russell 3000 Value iShares are highly oversold. The price chart shows a bullish candlestick formation and potential target for the relief rally.

Tradable: IW2

The correction in the Russell 3000 Value iShare (IWW) was healthy till the 85-90 levels were hit. The relief rallies following every declining move formed the lower highs. The correction turned worse in September 2008 when the IWW took a nosedive from $90 to $60. As a result, a developing downtrend of IWW turned stronger. The average directional movement index (ADX) (14) in Figure 1 surged above 30 after the freefall. The price then consolidated in a wide range of $60 and $70, forming a bearish flag & pennant formation. This pattern is a bearish continuation pattern that resumes the prior declining rally after the breakout. The potential target on this bearish formation is calculated as 30 (breakout level 60 – the flagpole size 30= 30). In Figure 1, we can see that IWW has moved closer to the minimum estimated levels.

However, the heavily oversold relative strength index (RSI) (14) is likely to restrict the declining rally.

A small inverted hammer was formed at the bottom before initiating the bullish move.

The ADX (14) is indicating a highly overheated downtrend at the level of 54. The oversold RSI (14) and an overheated downtrend are indicating the possibility of a relief rally. In addition, the bullish engulfing pattern on the price chart in Figure 1 reconfirms the bullish rally in the current downtrend.

The moving average convergence/divergence (MACD) (12,26,9) is indicating a high volatility throughout the downside move. The blue arrows and a rectangle marked in this momentum oscillator shows that the MACD line is unable to sustain above the trigger line. The highly bearish RSI (14), ADX (14), and the bullish engulfing candlestick pattern together are suggesting an upside rally.

The RSI (14) has already surged from an oversold territory toward the 50 levels. Traders could initiate a long trade if the golden level of 50 is breached. In addition, the bullish strength would also increase after this breakout (RSI moving above 50). Therefore, this breakout is highly important for the stability of the rally.

The support-resistance zone on the price chart in Figure 2 should be considered as the potential target for the relief rally. A small inverted hammer was formed at the bottom before initiating the bullish move. The bullish crossover of the MACD (12,26,9), and the declining overheated downtrend indicated by the ADX (14) would fuel the buying pressure during the relief rally.

Thus, IWW is ready to undergo an upside swing in a current long-term downtrend. The target for the rally could be $55-57. ■

FIGURE 1: IWW, WEEKLY. The indicators have reached their highly bearish levels that might give birth to the relief rally. The bullish engulfing pattern formed at the bottom suggests an upside rally.

FIGURE 2: IWW, DAILY. The support-resistance zone will be the potential target for the relief rally.

A New Short Signal For LLY

by Donald W. Pendergast Jr.

Weak stocks in weak industry groups can offer good short-sale opportunities, but you need a well-grounded plan of action in order to identify opportunities and implement a sound trading strategy.

Security: LLY

Shares of Eli Lilly and Co. (LLY) are trading for about 40% of what they were going for in early 2004, and the recent price action in this health-care giant's stock does little to instill a sense of optimism among longer-term investors. Let's look at the essentials of a brand-new LLY short setup, evaluating the odds for success of this trade setup.

Running the Standard & Poor's 500 industry groups for a check of their respective relative strength rankings revealed that the pharmaceuticals, biotechnology, and life sciences industry group (.GSPPHB) is underperforming the S&P 500 (based on a 13-week rate of change calculation). Digging a little deeper, we also see that shares of LLY are among the worst-performing of the 24 stocks making up this particular industry group. Even better for short-sellers, the Rahul Mohindar system's (RMO) swing trade MetaStock exploration has also fired a sell signal on LLY.

With such a potential powerful synergy of negative trade dynamics working against LLY, it might be worth taking a look at the stock's technical action, beginning with the weekly chart.

Figure 1 shows a weak stock, one still in an official downtrend per classic technical chart reading rules — a series of lower highs and lower lows, a downward sloping major moving average (the 50-week exponential moving average [EMA]) and bearish trendlines all confirm the sad state of affairs for this pharmaceutical giant, a firm that also boasts a pathetic earnings per share (EPS) of (1.68) per share. Without even glancing at the daily chart, it's pretty easy to see that the $26 area might be a logical target for a short sale, especially if the broad markets remain weak for the next few weeks.

LLY's daily chart (Figure 2) provides even more specific trade guidance; here we see that the RMO (at the top of the chart), one of the more meaningful momentum-based technical tools available, has just begun to dip beneath its zero line. In addition, the Chaikin money flow (CMF) (34) is still buried beneath its own zero line, having barely made any real progress at all during the recent March rally. Finally, the RMO sell signal itself, one confirmed by all of the aforementioned technical errata, is usually a reliable guide as to the direction of prices. While it's labeled as a swing signal, in many cases, the signal fires a substantial distance from the recent swing high or low, thus behaving more like a channel breakout or volatility entry signal.

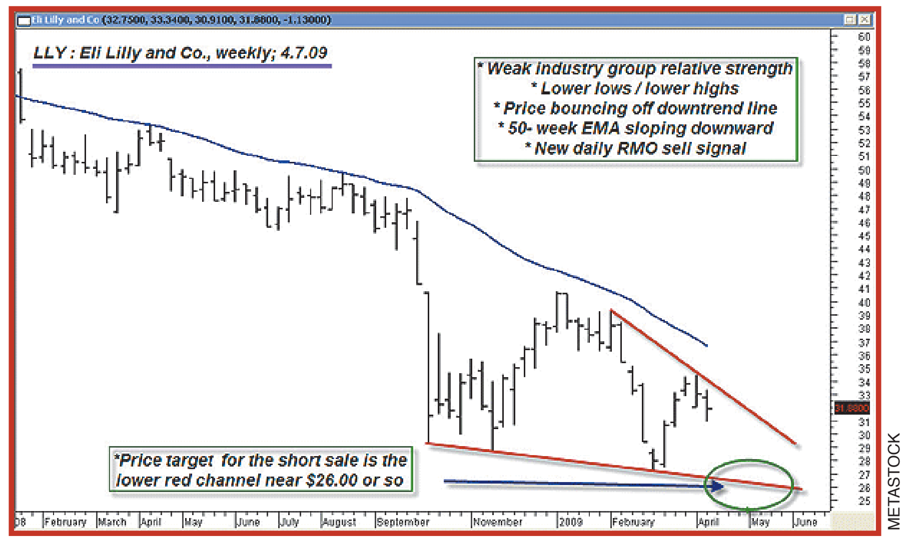


FIGURE 1: LLY, WEEKLY. Here's an image of a weak stock in an underperforming industry group. The odds would appear to be favorable for a short sale in this stock, given the proper set of daily chart dynamics.

Because of this reality, traders using this RMO swing signal method need to make sure they stay on the right side of the broad market and industry group trend when using this method, limiting risk with stop-loss orders. They should also take logical, partial profits when they materialize and let the remainder of the position run for as long as the trend (swing) persists. See Figure 3.

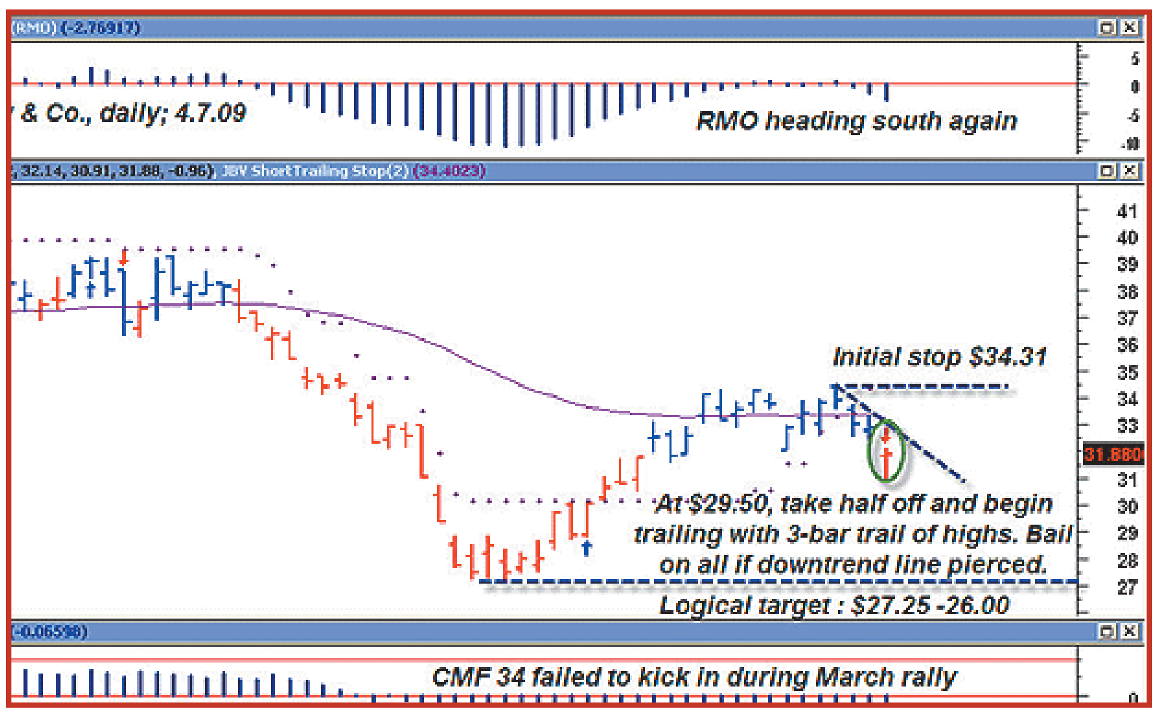
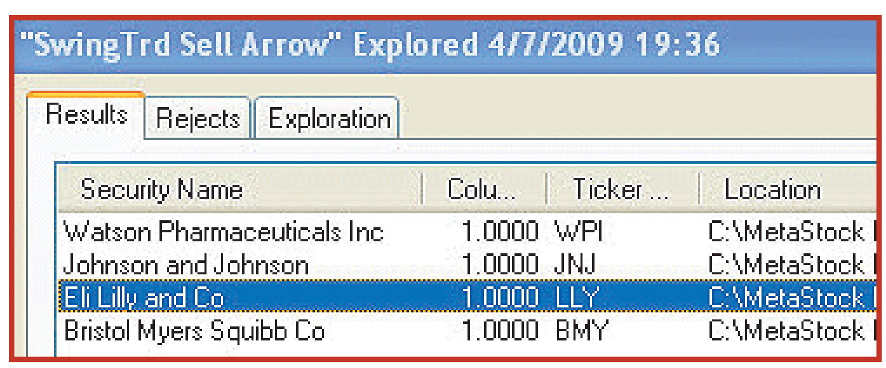


FIGURE 2: LLY, DAILY. Weak money flow and momentum patterns, combined with a new short-sale signal, may offer an opportunity for nimble traders to grab some "borrow now, cover later" cash in this large-cap health-care industry stock.

How to trade this setup? Swing traders might place a sell-stop entry order just below today's low ($30.91); if filled, place a buy-to-cover order near the recent swing high at $34.31. Since the logical price target (previously discussed) lies near $26, this trade setup offers a risk-reward ratio of nearly 1.5 to 1. While that's nothing to write home about, there's nothing that says that enterprising traders couldn't wait for an intraday pullback once $30.91 is broken, hoping for a slightly better entry price. In fact, why not place half the order at $30.91 and then wait for that pullback/reversal on a 30-minute chart to short the rest of the order? A sound understanding of intraday trade dynamics (pivot points, EMA spreads, and so on) would be very useful for traders attempting to milk the most they can in this way from this short setup.



Security Name	Colu...	Ticker ...	Location
Watson Pharmaceuticals Inc	1.0000	WPI	C:\MetaStock
Johnson and Johnson	1.0000	JNJ	C:\MetaStock
Eli Lilly and Co	1.0000	LLY	C:\MetaStock
Bristol Myers Squibb Co	1.0000	BMY	C:\MetaStock

FIGURE 3: RMO SIGNALS. A number of stocks from the S&P pharmaceuticals, biotechnology, and life sciences industry group (.GSPPHB) fired short RMO swing trade signals today.

Entry considerations aside, this short setup's stop-loss should be lowered as soon as possible, if $29.50 can be reached in short order. At that point, take half the position off (to minimize the potential damage of a short-squeeze) and begin trailing the whole deal with a three-bar trail of the highs. In addition, should either the $27 area be reached or the downtrend line be violated, consider bailing out on the remainder of the position, as the trade dynamics at that point would offer little incentive for profit-hungry shortsters to hang around any longer. ■

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METALS & ENERGY

KELTNER CHANNELS

The Gold Bugs Index And The Bullish Weekly Setup

by Donald W. Pendergast Jr.

After jumping more than 100% since making the major October 2008 low, the Gold Bugs Index has spent several months in a bullish consolidation pattern.

Tradable: .HUI, GDX

FIGURE 1: HUI, WEEKLY. The .HUI appears to be building a platform from which to launch a new thrust toward higher levels. Key overhead resistances lie between $355-395.

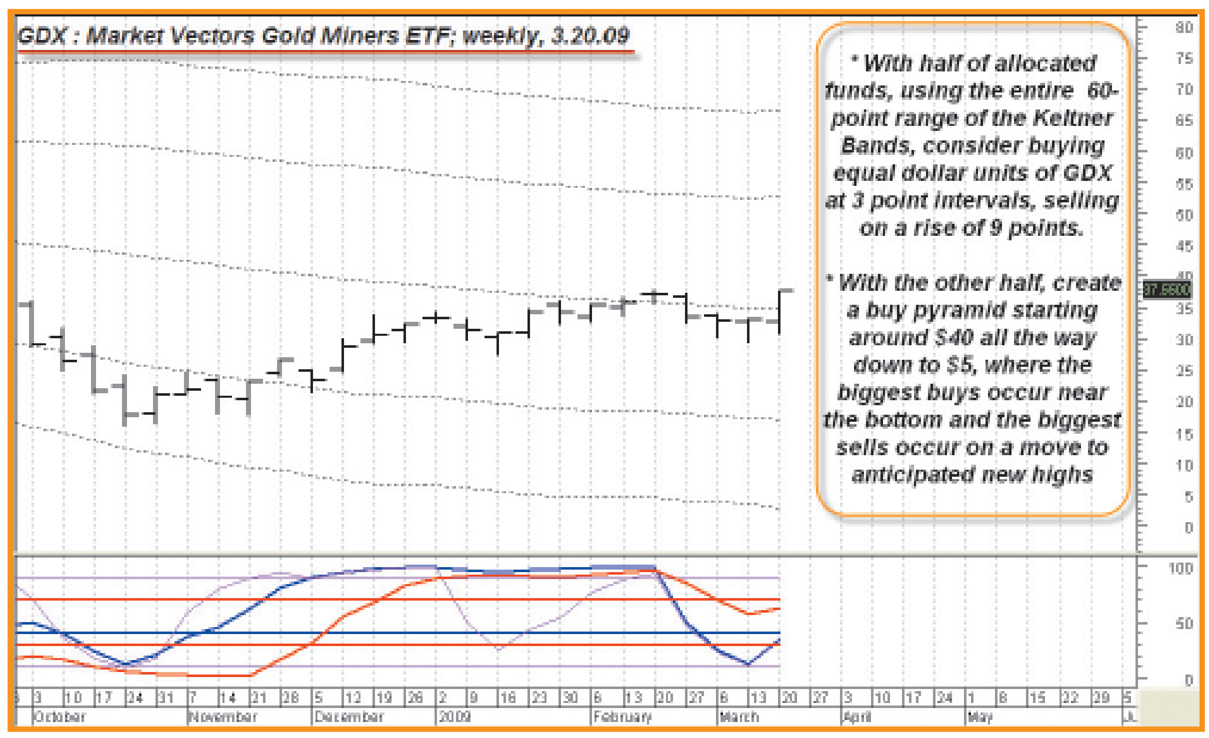

FIGURE 2: GDX, WEEKLY. The Keltner bands may be able to provide a rough framework from which to construct a scale-trading regimen. A deep understanding of fundamental, seasonal and technical factors are a prerequisite for those engaging in this style of trading.

One thing that gold bugs and non-gold bugs would likely agree on is the fact that gold stocks are among the most volatile, unpredictable, and violent of all. There are times that gold stocks rally when gold rises and falls when gold declines. Then there are times when gold equities get caught up in broad market updrafts and selloffs, delinking from the price action of gold for significant periods of time. One thing is for certain: you'll never have a dull moment if most of your stock portfolio is filled with the shares of mining names like Newmont (NEM), Agnico-Eagle (AEM), Kinross (KGC), and Yamana (AUY).

As the Federal Reserve and the US Treasury unveiled more of their plan for further bailouts and economic stimulus spending last week, gold mining shares rose dramatically as traders began to pile into precious metals and their related mining shares with abandon. That's because such traders and investors believe that such massive, debt-laden spending plans will eventually lead to the kind of price inflation last witnessed from 1968 to 1981, a period that saw the price of gold rise more than 25-fold. Some gold mining stocks did even better than that, and apparently some big money is also willing to deploy significant amounts of cash into such investments today, fearing another massive bout of multidecade, chronic inflation. We'll look at the weekly chart of the Gold Bugs index (.HUI) to gain some more insight into the situation. See Figure 1.

Overall, the weekly Gold Bugs charts seem to present an image of a market engaged in a mild period of pause, in which it has enough time to catch its breath long enough to begin building a solid platform from which to launch to higher levels. Some technical features to note include the very bullish posture of the RSI (14); after stalling out and retesting the 50 area, it has turned sharply higher, putting it firmly into bullish territory. At the same time, last week's wide-range bullish candle, one appearing after a successful test of support near $255-260, has also broken above the 50-week exponential moving average (EMA) and the Keltner mid-line, based on a 45-week EMA. Of the two, the successful close above the Keltner mid-line is the most important; time and again this line in the sand helps to identify breakout moves and/or acts as support/resistance in consolidating markets. Given the recent action in the gold market, it would seem wise to err in favor of a breakout move higher in this case.

Lest anyone gets too profit-giddy in case the breakout carries higher, the .HUI will face significant overhead resistance near $355-360 and then $385-395.

How might practical traders and investors play a continuation move higher out of this platform, anyway? For starters, since the .HUI essentially moves in synch with GDX, the Market Vectors Gold Miners exchange traded fund (ETF), going long shares of GDX on a break above last week's high could be one option. Riding half the position up to the first resistance, liquidating, and then holding the rest for a potential trip up toward $385-395 might be one plan of action. An initial stop-loss could be placed near $290, just below the daily 50-period EMA.

That's a plain-vanilla trade setup, but what about a trade method that might be able to provide a band of profitability across a substantial range of GDX price points, areas framed out by the weekly Keltner bands? Let's have a look at this trading method, being sure to carefully weigh the tradeoff between risk and reward.

Let's assume you are biased toward a major bull market in gold and gold mining shares but are hesitant to attempt to pick entry and exit points. Why not take a limited amount of capital and attempt to cover all bets by buying equal dollar amounts of GDX at equal intervals between $60 and $6, taking profits every time x number of profit points are attained? For example, you have $8,000 to allocate in equal dollar amounts at $60, $57, $54, $51 ... all the way down to $6 (remember, gold mining shares are volatile!). In this case, you'd be allocating approximately $420 at each of those 19 buy points, with the plan being to hopefully take profits when x number of profit points are achieved by each particular buy. It's a very mechanical way to trade, one based on arithmetic relationships instead of technical analysis.

You could also create an inverted pyramid, perhaps ranging from $42 down to $6. With $8,000 to deploy, you'd only purchase a minimal number of shares at $42, progressively buying larger share allocations at each descending buy point. By the time the $6 level is reached (if ever), 100 times as many shares might be purchased. On this pyramid, what you're hoping for is a move back up past the former highs, hoping to unload the $6 position in the $40 range, hoping to score a major capital gain. Then, as price rises, continue to sell the remaining positions into strength.

Are there risks with scale trading methods like these? Of course there are. For example, what if GDX really did plunge back toward $6 from $42? Would your bullish bias still exist? Could you really buy all the way down, knowing that the gold bull market might be dying in front of your eyes, with no real rebound possible for years?

Realistically, scale trading methods should only be deployed when a trader has a means of identifying extremely strong support levels (from a higher time frame) that are below a fundamentally bullish tradable's current price. Seasonal, technical, and fundamental factors should all be given adequate consideration when constructing scale ladders to ensure that a trader has the odds in his favor before employing such atypical trading methods. ■

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This article was first published on 3/23/2009.
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FAN LINES

A Short-Term View Of Gold

by James Kupfer

A number of Fibonacci levels are nearby that may affect the price of gold.

Tradable: XGLD

For the last two months I have been waiting for gold to reach what I feel will be a significant long- to intermediate-term top. That top likely occurred in February when gold peaked at $1,007 per ounce. While I do feel that it is very likely that was the top, it is always worth investigating alternative scenarios. With that thought in mind, there are a number of Fibonacci-based support and resistance levels worth w atching for short-term trades.

Starting with the bullish case, there is a significant trendline (red) that can be drawn between multiple lows on gold since the October–November lows for gold. In addition, a Fibonacci fan drawn between the October low and recent high shows that there is good support for the current uptrend near the 50% retracement level (Figure 1). Prices bounced off the 50% level in both January and early in March. Taken together, these support lines lend credence to the idea that gold is in an established uptrend that is not yet over.

Now to the short-term bearish case. Drawing both a Fibonacci retracement (orange lines) and speed resistance lines between the February top and the bottom a few days ago leads to some interesting observations. First, gold reached the 61.8% retracement level at $960, only to drop back down. At that same level, speed resistance lines show further resistance that gold failed to break above. Finally, daily stochastics have reached a very overbought level and have turned down, perhaps signaling the end of this current move. See Figure 2.

While gold is in an established uptrend that should be respected for now, these short-term warning signs signal a possible change in character for gold that traders should be prepared for. ■

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This article was first published on 3/25/2009.
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FIGURE 1: XGLD, DAILY. Here, gold appears to be in an uptrend.

FIGURE 2: XGLD, DAILY. Has gold topped out?

RELATIVE STRENGTH COMPARATIVE

Fidelity Select Gold Still Outperforming

by Donald W. Pendergast Jr.

Based on longer-term relative strength rankings, the Fidelity Select Gold fund appears to be on track for further gains.

Tradable: FSAGX

Love it or hate it, gold is the focus of many traders and investors these days. And nowhere else can you get the most bang for your gold trading bucks than by latching onto a basket of gold mining stocks that have caught a fresh bid. Right now, the Fidelity Select Gold (FSAGX) fund has the highest long-term (six- and 12-month) relative strength of all 42 Fidelity sector funds. Here, we'll examine the technicals of this fund and also see how the rest of the Fidelity sector fund complex compares to FSAGX.

FSAGX's weekly chart (Figure 1) is a perfect visual depiction of the old trader's saw about not getting in the way of a trend in motion, at least not until it gives clear indication of exhaustion. Right now, all trend-intensity related indicators seem to confirm that the upward momentum in this gold-mining equity fund is maintaining a full measure of robust strength.

The Aroon (14) indicator depicts a very strong uptrend; as long as the blue line holds above the 70 level (top line of the lower window on the chart) and the relative strength index (RSI) (14) stays above 50, this is one trend that should be given every benefit of the doubt, given the volatile nature of gold and its related mining shares.

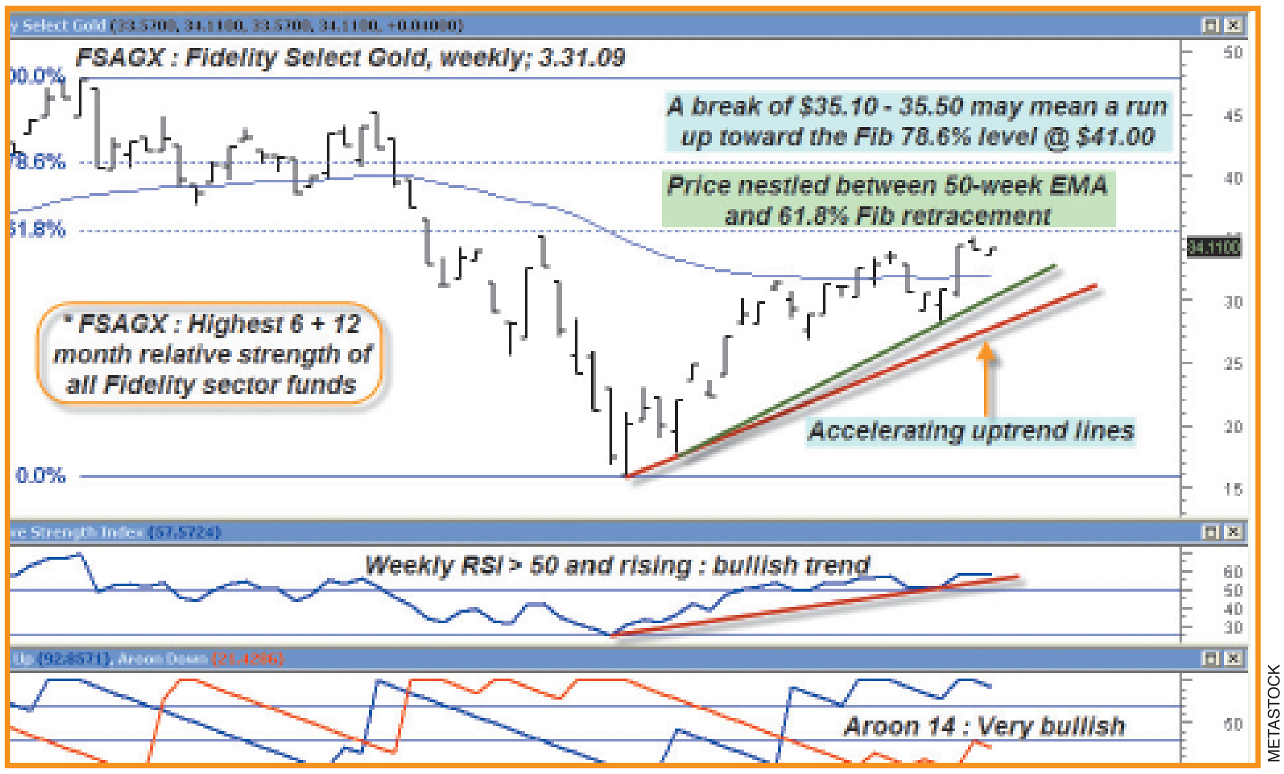

FIGURE 1: FSAGX, WEEKLY. When a trend is manifesting such powerful momentum, sector fund traders will attempt to exploit the tendency of such trends.

Prices have finally cleared the 50-week exponential moving average (EMA) as well, another confirmation of this fund's current upward trajectory; if the EMA begins to slope upward and price can clear the Fibonacci 61.8% retracement on a weekly close, expect even more buying pressure to enter this fund. The next significant chart resistance resides at $35.07 (coincident with the Fib 61.8% retracement), so if both are breached, a trip up to the Fib 78.6% level (near $41) is a distinct possibility.

The rest of the Fidelity sector fund complex bears witness not only to the strength of gold mining shares but also of the technology, biotech, and retailing sectors, too. The wireless and telecom industry groups are represented by FWRLX and FSTCX, respectively, while the biotech and retailing groups are represented by FBIOX and FSRPX. See Figure 2.

At the bottom of the six- and 12-month relative strength pile reside the banking, automotive, financial services, home finance, and energy services industry groups, represented by FSRBX, FSAVX, FIDSX, FSVLX and FSESX, respectively. See Figure 3.

While some traders use traditional technical analysis tools to time entries into sector mutual funds, many others prefer to use sector rotation methods based on relative strength. The big idea with relative strength methods is that trends tend to persist, meaning that the funds that are strong tend to stay strong for a period of time, duration unknown.

Over time, various sector funds will gain or lose momentum, meaning the recent past's big winners will eventually give way to lower-ranked funds that are finally beginning to outperform. It's sort of like a never-ending horse race, where the goal is to keep your trading capital riding on the saddle of the most consistent winners. Does it work? Well, yes, it can, but expect some substantial drawdowns during periods when the broad markets are in a confirmed bear market, a time when even "outperforming" funds tend to produce less than satisfying gains.

Conversely, during confirmed bull markets (where all the major market indexes are rising, making new highs month after month) sector fund investing using relative strength methods is probably the closest thing to a trader's and/or investor's dream of heaven on Earth. ■

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Security Name	Close	1 Day	5 Day	10 Day	30 Day	60 Day	120 day	240 day	Score	Ticker
Fidelity Select Gold	34.1100	1.6086	0.1174	12.9096	1.8817	8.4924	35.0891	-22.6531	6.9761	FSAGX
Fidelity Select Retailing	31.5500	0.7344	4.8173	11.4447	20.8812	6.8405	6.1045	-15.6685	-0.9078	FSRPX
Fidelity Select Biotechnology	57.5200	-0.9983	0.7356	0.1567	-5.0198	-4.2132	-0.1909	-8.3201	-4.2414	FBIOX
Fidelity Select Wireless	4.8700	1.2474	-1.2170	-0.2049	11.1872	9.1928	2.3809	-29.8582	-6.0948	FWRLX
Fidelity Select Telecommunications	29.1100	0.7615	-1.6222	1.8544	11.7038	6.0474	4.0795	-29.4594	-6.4442	FSTCX

FIGURE 2: TOP FIVE FIDELITY SECTOR FUNDS. The end of the first quarter of 2009 ends with these five Fidelity sector funds at the top, based on a weighted average of their six- and 12-month rankings. FSAGX, Fidelity Select Gold, continues to outperform.

Security Name	Close	1 Day	5 Day	10 Day	30 Day	60 Day	120 day	240 day	Score	Ticker...
Fidelity Select Banking	9.8400	5.6928	-2.8628	1.1305	8.8496	-34.1365	-39.4326	-54.1571	-42.5754	FSRBX
Fidelity Select Automotive	12.2700	1.9950	-0.9685	15.4280	8.9698	-18.4718	-39.0918	-64.1768	-40.5801	FSAVX
Fidelity Select Financial Services	36.2200	4.1104	-2.0022	3.4562	1.7702	-23.5542	-33.1960	-56.4383	-37.7295	FIDSX
Fidelity Select Home Finance	8.9600	3.5838	1.1287	4.4289	4.1860	-20.6377	-26.4674	-62.9277	-36.6776	FSVLX
Fidelity Energy Services	35.4200	-1.4194	-9.1795	-1.5291	4.8549	-8.8288	-32.6360	-64.7948	-35.4199	FSESX

FIGURE 3: BOTTOM FIVE FIDELITY SECTOR FUNDS. And here are the weakest five Fidelity sector funds, based on a weighted average of their six- and 12-month rankings. Financials and the automotive and energy services industry groups continue to underperform.

My Problem With Gold

by Koos van der Merwe

With the world in recession, common belief is that investors should flock to gold to protect their wealth. Research suggests otherwise.

Tradable: GLDL

FIGURE 1: GOLD, WEEKLY. This chart of weekly gold shows trend channels.

With gold exchange traded funds (ETFs) available, buying physical gold and hiding it under your mattress is a thing of the past. Is this correct thing to do? Is gold on the way up? Figure 1 suggests otherwise.

Figure 1 is a weekly chart of the gold price and shows how gold rose from a low of $255 per ounce in 1999 to a high of $1,004 per oz. by February 2008. My Elliott wave count suggests that the count was a five-impulse wave up, and retracement from that date is an AB correction with wave C still to come. Drawing trendlines from the low as shown, we can see how the low of wave B was on the trendline drawn parallel from the top of wave 3. The relative strength index (RSI) has given a divergence sell signal, and the chart suggests that the low of wave C should be somewhere between 548 and 715, the range of the fourth wave of lesser degree.

With a predicted drop in the gold price, does this mean that money will move from gold back into the stock market? Probably. Gold does not pay a dividend. It is purely a capital gain play? As the market starts recovering, money will move back into those stocks that have been heavily oversold, especially. ■

Suggested Reading

Beckwith , Tony [2004]. "Elliott Wave Risk And Reward," *Technical Analysis of* STOCKS & COMMODITIES, Volume 22: July.

Teseo, Rudy [2002]. "Recognizing Elliott Wave Patterns," *Technical Analysis of* STOCKS & COMMODITIES, Volume 20: July.

van der Merwe, Koos [2009]. "Elliott Wave Theory, Simplified," *Technical Analysis of* STOCKS & COMMODITIES, Volume 27: February.

LINEAR REGRESSION TREND

The Oil Pipeline

by James Kupfer

Shares in USO have formed a trend channel, but may be due for a small pullback.

Tradable: USO

USO, the Oil Fund exchange traded fund, appears to have finally put in an intermediate-term bottom. Over recent weeks, shares of USO have formed a trend channel as shown in Figure 1. As can be seen, on six occasions USO has hit either the upper or lower boundary points. This confirms that the channel shown is indeed valid.

While USO is in a definite uptrend, note that stochastics are overbought and appear ready to turn down. The turn in stochastics helped identify the previous three tops, and there is no reason to think they won't again.

Depending on the trade time horizon, we could either enter a short here hoping for a brief move down, or close any long positions and then reestablish them once USO gets back to the bottom of the channel.

FIGURE 1: USO ETF, DAILY. USO is in an established uptrend within the linear regression channel.

HEAD & SHOULDERS

A Trade For Harmony Gold Mines

by Koos van der Merwe

In fiscal year 2008, Harmony produced 1.55 million ounces of gold, making it one of the world's largest gold mining companies. How do the shares look?

Tradable: HMY

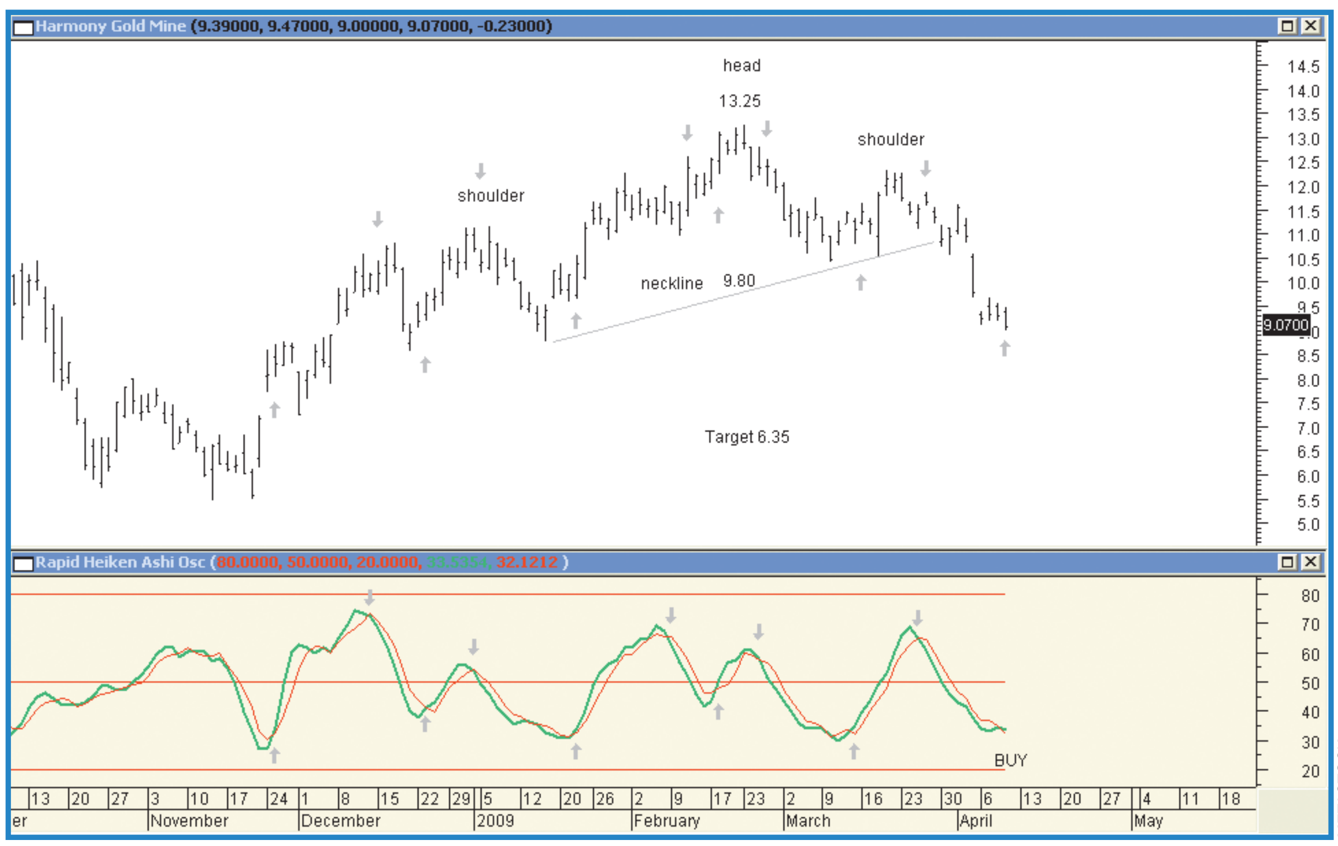


FIGURE 1: HMY, DAILY

In 2008, Harmony (HMY) produced 1.55 million ounces of gold, making it one of the world's largest gold mining companies. The group's operations are located primarily on the Witwatersrand Basin in South Africa, with a highly prospective exploration portfolio in Papua New Guinea.

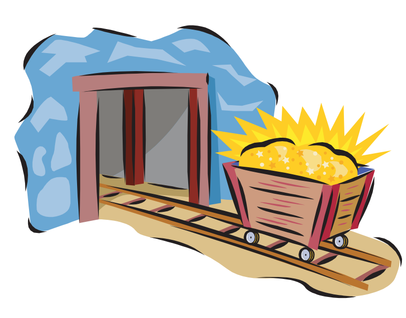
On April 7, London-based gold consultancy GMS Ltd. released its annual gold survey. The report stated that they believed that gold could quickly rebound above US$1,000 an ounce as investors looked for a safe haven amid ongoing economic turmoil, but unlike the popular view of gold bugs, GMSF did not see the boom lasting indefinitely. "How long [the rally] is sustained will be a function of what happens in the financial sphere — specifically, the US dollar, inflation, oil prices, and what happens in the equity markets. Some of that is very difficult to predict," GMSF research director Neil Meader said in an interview.

The gold survey also showed that mine supply in 2008 took another dip, falling 62 tonnes to 2,416 tonnes. Mining companies appear to be having trouble boosting production as they deal with high costs, geopolitical risk, and a lack of new discoveries. The biggest weakness continues to be in South Africa, where production is falling at the fastest pace in more than 100 years. So why am I suggesting that we should look at Harmony Gold mines, a South African mine? Figure 1 shows why.

The head & shoulders pattern can be clearly seen, with the neckline suggesting a target of $6.35 (13.25 – 9.80 = 3.45. 9.80 – 3.45 = 6.35). With the current price therefore at $9.05, why am I recommending the share as a buy? I am possibly way too early, but a look at the rapid heikin-ashi oscillator, which I have used as an indicator, suggests that a positive retracement is on the cards before a continuation of the downtrend.

GMSF reiterated that a long-held view that the present rally in the gold price is driven entirely by investment demand, not backed by jewelry demand or anything else. The result is plenty of short-term volatility as investors jump in and out.

So look at Harmony as a quick trade. Figure 1 shows that the indicator buy signals are always late, after the share price has already started moving up. Assuming that the pattern will repeat itself, we should buy now rather than later, but be ready to sell as soon as a sell signal is given.



Gold Is The Big Picture

by James Kupfer

Having turned the corner, gold is headed back down.

Tradable: XGLD

On several occasions I have discussed my expectation that gold would drop below $700 an ounce over the next few months. As part of that forecast, I have stated that the February 2009 top in gold was likely to be the intermediate- to long-term top in price. Recent price action in gold has made it increasingly likely that the February top was in fact "the" top. Let's look at the evidence.

On a monthly chart (Figure 1), you can see a few things of primary importance. First, in February 2009 the price of gold failed to exceed the previous top from March 2008. On a related note, it also failed in February to close above the March 2008 close.

Looking at monthly stochastics, we can see that stochastics do a very good job identifying the tops and bottoms of the price action over the last few years. Their turndown represents further evidence of a new top.

Moving to a weekly view (Figure 2), we can see that gold has clearly broken below the linear regression channel that started in October 2008. Moreover, gold has broken below old price support range. This, of course, all points to weakness in gold and increases the likelihood that the February high will not be broken.

For the short term, gold is oversold, so expect a swing back up. Assuming it does do so — which is in no way a given — gold would not be likely to break the $950-960 an ounce barrier. This could then provide another golden opportunity to establish shorts. ■

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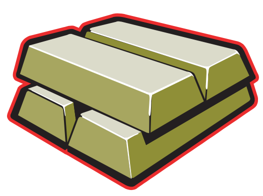

FIGURE 1: XGLD, MONTHLY. The February 2008 was likely the high point in gold for the next few months.

FIGURE 2: XGLD, WEEKLY. A broken linear regression channel signals more weakness ahead.

Coils & Ledges Patterns

by Austin Passamonte

Known by many names, price action coiled sideways in clear fashion can be powerful setups from which to trade. Practically all markets form ledges and coils on all time frames, but the less volatile they are, the more liquid a symbol is and the greater a tendency to form ledges & coils. They almost always turn out to be solid support or resistance levels that refuse to break or break with emphasis before making solid directional moves.

Tradable: ES

In Figure 1, ES futures held inside a 0.75-point total range for nine minutes straight. The close of that tenth of a minute candle/bar broke below the flat coil and promptly dropped 4.5 points straight down from there. Seeing price action pinned inside such a narrow range almost assures of a sharp directional break to follow.

Soon after that pattern completed, price action went right back into another flat coil formation, which lasted 15 minutes through a one-point total range (Figure 2). An inevitable break from there popped higher in rapid fashion (Figure 2)... whereupon the ES futures promptly coiled back inside another flat pattern, spent 10 minutes gathering its composure there, broke back through the prior flat coil and continued several index points lower from there. (See Figure 3.)

More days than not, emini futures like all other markets tend to form distinct, defined flat-coil patterns of consolidated rest. Sooner or later, price action will emerge with stored energy expended with force. See Figure 4.

Simple price patterns have always worked in the past, and they still work today. Advent of computerization and automation is said to have muted or negated some price patterns. I haven't seen that happen. Price action may be altered to some degree(s) by computerization, but financial markets have been in a continual state of evolution since men began gathering beneath shade trees to swap paper on stocks & commodities. Supply & demand, and fear & greed will always be the cornerstone of trades transacted. The footprints of those cumulative decisions will always be reflected by price pattern behavior in real-time accordingly. Learning to read these simple roadmaps is one key to consistent success. ■

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TRADESTATION

FIGURE 1: ES, ONE-MINUTE. Seeing price action pinned inside such a narrow range almost assures a sharp directional break to follow.

FIGURE 2: ES, ONE-MINUTE. Price action went right back into another flat coil formation soon afterward.

FIGURE 3: ES, ONE-MINUTE. The inevitable break from there popped higher in rapid fashion, whereupon the ES futures promptly coiled back inside another flat pattern.

FIGURE 4: ES, ONE-MINUTE. Sooner or later, price action will emerge with stored energy expended with force.

TRIANGLES

Yahoo! Developing A Bullish Triangle

by Paolo Pezzutti

Prices are very close to the apex of the formation, and we can expect a breakout soon.

Tradable: YHOO

We know that markets spend long periods of time developing congestions and trading ranges. Triangles are a form of congestion. At the beginning you can see high volatility, but as they develop, volume dries up and volatility reduces. There are different types of triangles: ascending triangles are considered bullish patterns, while descending triangles are bearish. Symmetrical triangles tend to continue the trend preceding the triangle formation.

In the daily chart in Figure 1, you can see that Yahoo! (YHOO), since last December, has developed a bullish triangle. In fact, prices rose toward the resistance level between $13.5 and $14, with buying pressure building up as prices tested the upper boundary. They have hit resistance three times already and we can expect a breakout soon because prices are now very near the apex. Based on the pattern characteristics after the breakout, prices start a new trend. False moves may occur where the formation ends, and they are usually accompanied by low volatility. Although we should expect a breakout to the upside, there are a number of different scenarios.

The breakout to the upside could occur with prices moving toward the objective of $18. You could have a pullback after the breakout and then a continuation of the uptrend. In addition, a failure of the breakout could happen with a fall back through the apex in the opposite direction.

Let's not forget that a breakout to the downside could also occur with converse situations. It happens with a lower frequency, but it is a possibility that cannot be ruled out. In this case, volatility can be very high.

In Figure 2 you can see the weekly chart. Since the beginning of 2006, YHOO has been moving within a wide downward channel. Prices are now testing the lower trendline. In the chart I used the %b indicator, which is derived from the Bollinger bands. It measures where the last price is in relation to the bands. The indicator has printed a positive divergence and is moving to the upside. You can see the resistance at $18.60. This level represents the objective of the triangle, but also the low of the wide-ranging up bar printed on February 1, 2008.

In light of these different scenarios, you can prepare your plan according to the assessment of market conditions. You can trade the breakout or you may anticipate the breakout direction, entering your position in a low-volatility environment. You can also wait for a pullback after the breakout, if it ever occurs. You can finally capitalize on false moves. In Figure 3, you can see that YHOO has outperformed the NASDAQ in the past five months. In this light, the triangle could be seen as a sign of accumulation on this stock. ■

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FIGURE 1: YHOO, DAILY. Since last December, Yahoo has developed an ascending triangle, which is greatly considered a bullish formation. Prices are near the apex, and we can expect a breakout soon.

FIGURE 2: YHOO, WEEKLY. Since the beginning of 2006, the stock has been moving within a downward channel. Prices are now close to the lower trendline and the %b indicator is developing a positive divergence.

FIGURE 3: YHOO, DAILY. The stock has outperformed the NASDAQ in the past five months. It could be interpreted as a signal that accumulation is ongoing.

TECHNICAL ANALYSIS

Falling Wedge Signals NASDAQ Reversal

by Alan R. Northam

The NASDAQ has been in a downward trend since October 2007, but now, this market has broken out of a falling wedge pattern. This breakout is signaling a reversal in trend from down to up.

Tradable: $COMPQ

The NASDAQ has been trading in a downward trend since October 2007 but started to form a falling wedge pattern in November 2008. A falling wedge formation is formed when two trendlines are drawn, one off the descending market peaks and one of the descending market minimums, that tend to converge or come together. Such a pattern is shown in Figure 1.

Falling wedge patterns occur when the market hits resistance such as when all traders who want to sell have exhausted their resources. The market then starts to drift lower. According to Thomas Bulkowski's *Encyclopedia Of Chart Patterns*, falling wedge patterns can either be reversal patterns or continuation patterns and are split just about evenly between the two possibilities. Normally, when a breakout occurs in the direction opposite the prevailing trend, the pattern acts as a reversal pattern. However, when the breakout occurs in the same direction as the prevailing trend, the pattern acts as a continuation pattern.

In Figure 1, note that the NASDAQ has broken out above the falling wedge pattern, signaling a reversal in trend from down to up. Bulkowski warns that even though a falling wedge pattern has broken out either above or below the falling wedge pattern, signaling a reversal or continuation in trend, the breakout can turn out to be a false signal. Bulkowski suggests that if the breakout moves 5% or more in the direction of the breakout, the probability of the breakout signal being correct is greatly increased. Therefore, I have added a 5% target line to Figure 1. Note that the NASDAQ has traded through this 5% target, confirming the reversal in trend from down to up.

Once the market breaks out of the falling wedge pattern to the upside, signaling a reversal in trend, we want to know how far the new upward trend can go. There is a minimum measurement rule that says that at a minimum, the market should retrace back up to the beginning or the falling wedge pattern. This rule suggests that as a minimum, the NASDAQ should move upward to the 1800 level or about 10% higher than its current price. Bulkowski's studies shows that on average the market rises 26% from the breakout price. Beyond that, if the falling wedge pattern is signaling a true reversal in trend from down to up, we will have to rely upon other price patterns yet to be developed, to help us identify higher price targets for the completion of the upward trend.

In conclusion, the NASDAQ has formed a falling wedge pattern that normally develops at the end of a trend. The NASDAQ has broken out above the falling wedge pattern, signaling a reversal in trend from down to up. The expected minimum rise in price is up to the 1800 price level, which is approximately a 10% rise from current price levels. Beyond that, the average price rise after a breakout of the falling wedge is 26%. Therefore, I would expect to see the NASDAQ move upward anywhere from 10% to 26% from the breakout price. However, I would also expect to see the NASDAQ move downward to retest the breakout from the falling wedge pattern before completing its upward move. ■

STOCKCHARTS.COM

FIGURE 1: NASDAQ, DAILY. This figure shows the falling wedge pattern that started to develop in November 2008.

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This article was first published on 4/16/2009.
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SNN At Support

by Chaitali Mohile

The head & shoulders continuation pattern has extended strong neckline support for Smith & Nephew PLC. Will the stock form multiple shoulders or breach the neckline support?

Tradable: SNN

On the daily chart in Figure 1, Smith & Nephew PLC (SNN) has formed a head & shoulders pattern after a huge decline. Here, the head & shoulders is a continuation of a current downside rally, and not a trend reversal indication because the pattern is not inverted like the head & shoulders bottom formation. In Figure 1, we can see the neckline support at $31, the left shoulder at $37, head at $40, and the right shoulder at $34. The downward breakout would drag SNN to the new lows. But according to the daily chart (Figure 1), SNN has formed another right shoulder (multiple) with the neckline support.

The average directional movement index (ADX) (14) below 15 signifies a weak trend, while the converging movement of the negative directional index (-DI) and the positive directional index (+DI) are suggesting sideways price action. The moving average convergence/divergence (MACD) (12,26,9) is moving horizontally in positive territory, indicating a directionless rally. Therefore, the indicators suggest the possibility of consolidated price action. This means SNN would form multiple right shoulders till the short-term downtrend is developed. The pattern would fail if SNN rallied toward the head with the neckline support, so traders have to be alert. The breakout target for the head & shoulders continuous pattern in Figure 1 is $20 (40 – 31 = 11 – 31 neckline = 20).

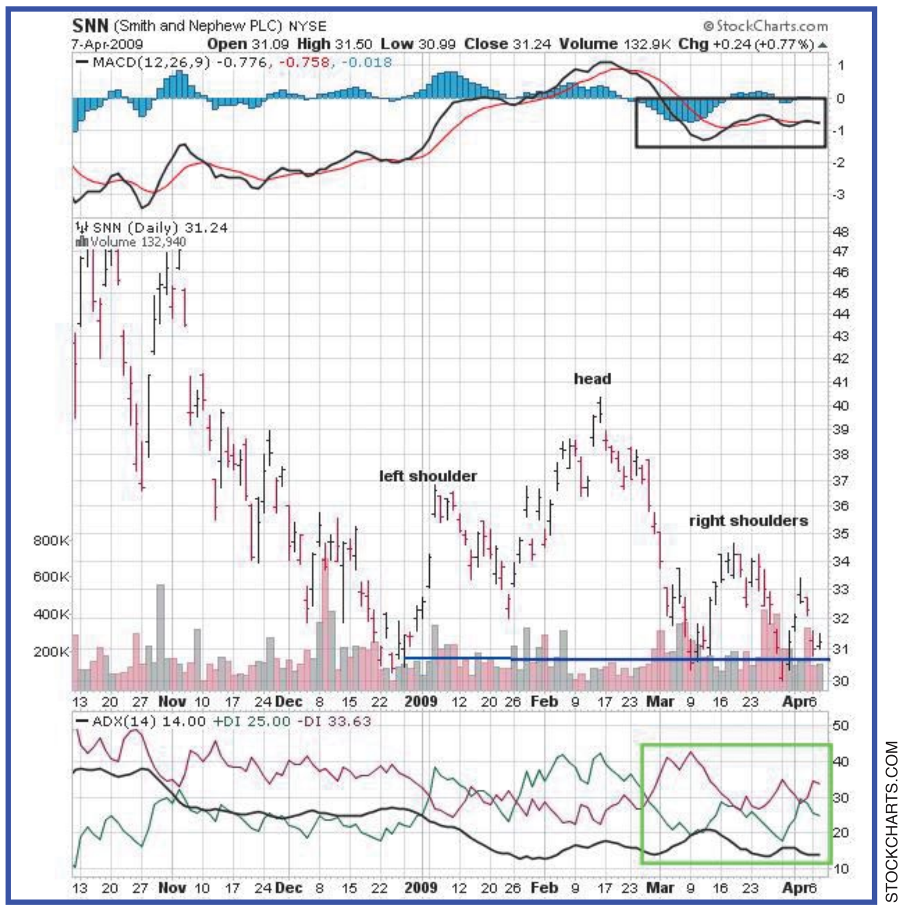

FIGURE 1: SNN, DAILY. The ADX (14) indicates consolidation with the neckline support.

According to the weekly chart in Figure 2, SNN formed a head & shoulder top in 2007–08. This pattern suggests that the uptrend is about to reverse with the neckline breakout. The declining neckline is an indication of the prevailing weakness. The ADX (14) shows how the downtrend was developed after the downside breakout. Earlier in 2007, the ADX (14) indicated a well-developed uptrend with a healthy buying pressure. When the uptrend turned overheated, the ADX (14) declined gradually. As the price broke downward below the neckline, SNN entered a fresh downtrend. The stock saw the breakout target of $37.5 (67.5 – 55 = 12.5 – 50 = 37.5).

After the breakout of the trend reversal pattern, the stock took a nosedive to a new low at $30, much lower than the targeted level, by December 2008. Since then, SNN formed another head & shoulders pattern, but this time, a continuous formation. Thus, the head & shoulders continuous pattern has appeared on both time frames, making it stronger and most reliable. But in Figure 2, only a single right shoulder is visible. The ADX (14) is indicating a well-developed downtrend, and the moving average convergence/divergence (MACD) (12,26,9) shows a bullish crossover in negative territory. Considering the previous movement of the full stochastic (14,3,3), we can anticipate that the oscillator would surge immediately from an oversold area. But if the indicator fails to act accordingly, then SNN might break down from the neckline support.

FIGURE 2: SNN, WEEKLY. This chart shows the head & shoulders top in 2007–08 and the head & shoulders continuous formation at the lower levels.

Thus, the current scenario suggests that SNN is likely to establish the support on the neckline. In case the neckline support is breached, traders may want to trade with a target of $20. ■

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ELLIOTT WAVE

How Does The Canadian Financial System Stack Up?

by Koos van der Merwe

Canadian banks have taken less risk than those in the United States, and so do not need the massive bailout that US banks have received, but how are they doing?

Tradable: SPX, TECT

ADVANCEDGET

FIGURE 1: S&P 500

FIGURE 2: TSX 300

I was taught that banks were a 3-6-3 business. The bank paid 3% interest to you when you deposited your savings and charged 6% interest when you borrowed from them, and the bank manager could be found on the golf course at 3 pm every afternoon. With regulators allowing banks to become brokers, hedge funds, and insurance agents; with their investment advisors not controlled by the same regulators as nonbank brokers; with "doctors" working behind the scenes to construct the most risky and unlikely investment structures imaginable, we should not be surprised at the recent market collapse caused by the greed of banks.

And this greed has not vanished. In Canada, banks recently sold to the public rate-reset perpetual preferred shares, where buyers have no rights to force the issuer to buy back their holdings. All rights belong to the issuer, which means that lenders can only redeem their shares by selling into the market at market price... and that could be anything.

So is Canada better off than the US, or are they just slower in consummating their greed? Comparing a chart of the Standard & Poor's 500 to that of the TSX 300 Index shows the difference in wave count.

Note how wave B in the S&P 500 is a five-wave impulse wave in the TSX. Both started to collapse as the housing bubble burst, but the S&P 500 is in a very definite C-wave, suggesting that the bear market in the US is over, whereas with the TSX it is not clear whether it is a C-wave or and A-wave bottom. Do note that in both charts the relative strength index (RSI) has given a very definite and strong buy signal. I say "strong" because every time in the past it gave a buy signal, the market moved up strongly.

Is the difference in the two charts caused by greater regulation on banks and hedge funds in Canada than in the US? There is no doubt that Canadian banks are under stricter regulation, but in Canada, banks have their own regulator, different from the regulator that monitors stockbrokers and different to those that sell only mutual funds. So the answer is, in my opinion, no.

Canada's banks did not oversell mortgage-backed securities like they did in the US, but they are available and they were sold by banks to their clients. However, unlike US banks, they did not need a financial bailout, although Bank of Montreal (BMO-T) and CIBC (CM-T) came very close to needing assistance. However, as the recent rate-reset preferred shares' deal shows, Canadian banks do still put themselves first and their clients second. In the past, nonbank investment advisors were possibly just more cautious, reading the small print, or preferring to buy oil and gold than mortgage-backed securities or some bank-doctored deal that they do not fully understand.

Then of course we must remember that Canada's stock market is heavily weighted toward oil, gold, and commodities, so it is possible that it was oil and gold that rescued Canada, and not "more conservative" regulations. Today, US banks are once again the "3-6-3 banks" of the past, but in Canada... they are still banks, brokers, hedge funds, and insurance agents. It is very possible that their C-wave has yet to come. ■

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Yahoo Gaps Up

by Chaitali Mohile

Will the trend reversal breakout pull Yahoo higher?

Tradable: YHOO

Yahoo Inc. (YHOO) is one technology stock that was hammered badly during the market turmoil. The stock, worth $35 in its heyday, plunged to below $9 in November 2008. The average directional movement index (ADX) (14) in Figure 1 reflects a robust downtrend since April 2008. An oversold relative strength index (RSI) (14) and the bullish crossover of the moving average convergence/divergence (MACD) (12,26,9) initiated a pullback rally from the new low at $8.94 in November 2008. YHOO gradually formed an ascending triangle at the bottom.

The ascending triangle in Figure 1 is a trend reversal indication as it has occurred in the developed downtrend. The potential breakout of the pattern appears in an upward direction. On the weekly chart, YHOO witnessed a gap-up breakout on April 13. The gap-up added a bullish strength in the breakout that will ultimately result in a trend reversal. Currently, the ADX (14) is indicating a weak downtrend, but an uptrend has not developed even after the breakout. The RSI (14) has surged from oversold territory and would open fresh buying opportunities above 50 levels. The MACD (12,26,9) is positive in negative territory.

Therefore, the picture is not so completely bullish as to drag the breakout rally higher. In addition, the declining 50-day moving average (MA) would restrict the upside move. Hence, YHOO is likely to consolidate in the range of $14 to $16. As the range is very narrow, volatile price movement is possible. Fresh long positions can be triggered above 50 levels of RSI (14) or after converting the 50-day MA resistance to support. I am reluctant to measure the potential target of an ascending triangle breakout because the stock is likely to consolidate. So the 200-day MA resistance would be the target for traders.

The ascending triangle is formed on the daily time frame as well, making the pattern stronger. The inverted hammer initiated a bullish rally from the low of $8.94 in YHOO (see Figure 2). The upper trendline that is the sellers' line of the triangle was challenged twice, but the breakout occurred at the third attempt with the gap-up opening on April 13. The ADX (14) is marginally below the 20 levels, and the MACD (12,26,9) is indicating rough movements with the support of the zero line. The bullish outlook for the MACD (12,26,9) is that the oscillator has established support at the zero line, suggesting a stable upside move. However, the overbought RSI (14) is retracing back to 50 levels, indicating a lack of bullish strength. Therefore, Figure 2 is indicating mixed views that might result in a bullish consolidation under the 200-day MA resistance.

To conclude, the YHOO gap-up would currently consolidate under the resistance. ■

FIGURE 1: YHOO, WEEKLY. The uptrend is not developed even after the bullish breakout of the ascending triangle.

FIGURE 2: YHOO, DAILY. The breakout has immediate resistance of the 200-day MA.

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INDICATORS

BREAKOUTS

Measuring Market Sentiment Using Breakout Ratios

by Donald W. Pendergast Jr.

Here's a unique way to measure the bullish/bearish bias of the individual stocks that make up any given index or industry group.

Tradable: ATVI, WYNN, WCRX, more

The NASDAQ 100 recently printed another in a series of bearish 21-day channel breakout signals, even as its money flow trend remained deep into negative territory. Normally, such an event is viewed as a legitimate short entry signal, particularly for mechanical trend-followers. Right now, however, the QQQQ is just above the last major low that printed in November 2008, meaning that the trade may not have much room to run before encountering significant support.

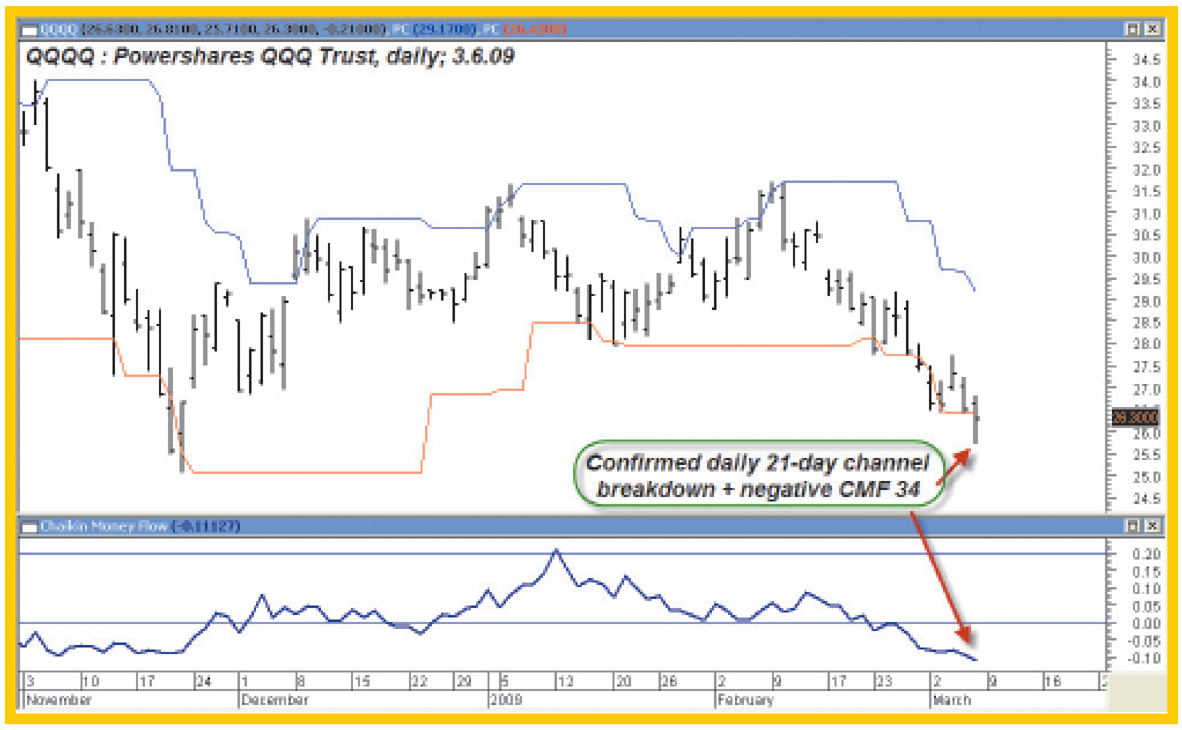


FIGURE 1: QQQQ, DAILY. Weakness is evident here, as depicted by the 21-day channel breakout and the negative money flow. Prices are approaching the November 2008 lows, however, and that could offer strong support.

Exploration notes

Col A: Close	CLOSE
Col B: Enter	H>Ref(HHV(H,55),-1)AND CMF(34)>(0)
Col C: Short	L<Ref(LLV(L,21),-1)AND CMF(34)<(0)
Filter enabled	Yes
Periodicity	Daily
Records required	5000

FIGURE 2: METASTOCK, EXPLORATION. The MetaStock exploration code for a simple long (55-period) and short (21-period) channel breakout system.

Even though the QQQQ may not be the best short setup, examining the channel breakout ratios of its component stocks might shed some light on the internal machinations of this widely followed index exchange traded fund (ETF). To do that, we'll run a MetaStock exploration, one designed to search for 55-day bullish channel breakouts and 21-day bearish channel breakouts. See Figure 1.

The MetaStock exploration formula is very basic and is shown in Figure 2. Adding the Chaikin money flow (CMF)(34) qualification makes sure that the exploration will only return long breakouts with positive money flow and short breakouts with negative money flow. Since all of the current NASDAQ 100 component stocks (represented by the QQQQ) have adequate liquidity, no minimum volume filter is used. This is a daily based exploration. Let the exploration run and see what kind of output it generates for Friday, March 16, 2009.

And here it is, in Figure 3; only one stock, ATVI, has generated a long 55-day channel breakout signal, whereas more than 40 stocks have generated a short 21-day channel breakout signal. Approximately 51 stocks have generated no signals at all. Clearly, the ratio, at 46:1 short to long, is biased heavily to the bearish side of the market. The fact that 46% (46 of 100) of all NASDAQ 100 stocks are on a fresh sell signal helps give extra weight to the daily QQQQ sell signal as well. Now, our main job is to run a relative strength exploration to determine which of the short breakout NASDAQ 100 components are the weakest. Doing so may help us latch onto the stocks likely to fall the most distance in the shortest amount of time.

Running this exploration only takes a moment; we now find that WYNN, URBN, FLIR, and COST are the stocks with the weakest relative strength that have also generated short 21-day channel breakout entry signals. Note how each stock hails from a different industry group, allowing a risk-averse trader to spread his capital across four different industry groups should these short trade entries all be taken. See Figure 4.

Although this is a reasonable way to screen for suitable trading candidates, wise traders will also keep an eye out for the price action of the QQQQ should it approach the November 2008 lows again. Anyone short any of these four stocks at that time should monitor their positions closely, just in case a reversal erupts into violent NASDAQ 100 short-covering rally. ■

Security Name	Close	Enter	Short	Ticker...	Location
ACTIVISION BLIZZARD ORD	10.3300	1.0000	0.0000	ATVI	C:\MetaStock Data\Nasdaq100
WYNN RESORTS ORD	15.4000	0.0000	1.0000	WYNN	C:\MetaStock Data\Nasdaq100
WARNER CHILCOTT CL A ORD	9.8400	0.0000	1.0000	WCRX	C:\MetaStock Data\Nasdaq100
URBAN OUTFITTERS ORD	14.1300	0.0000	1.0000	URBN	C:\MetaStock Data\Nasdaq100
SYMANTEC ORD	12.9300	0.0000	1.0000	SYMC	C:\MetaStock Data\Nasdaq100
SUN MICROSYSTEMS ORD	3.9500	0.0000	1.0000	JAVA	C:\MetaStock Data\Nasdaq100
STARBUCKS ORD	8.3600	0.0000	1.0000	SBUX	C:\MetaStock Data\Nasdaq100
STAPLES ORD	14.8100	0.0000	1.0000	SPLS	C:\MetaStock Data\Nasdaq100
SIGMA ALDRICH ORD	32.6700	0.0000	1.0000	SIAL	C:\MetaStock Data\Nasdaq100
SEARS HOLDINGS ORD	35.5300	0.0000	1.0000	SHLD	C:\MetaStock Data\Nasdaq100
SEAGATE TECHNOLOGY ORD	3.1100	0.0000	1.0000	STX.O	C:\MetaStock Data\Nasdaq100
RSCH IN MOTION ORD	36.3400	0.0000	1.0000	RIMM	C:\MetaStock Data\Nasdaq100
PHARM PROD DEV ORD	21.9000	0.0000	1.0000	PPDI	C:\MetaStock Data\Nasdaq100
PATTERSON COS PREFERENCE	16.5500	0.0000	1.0000	PDCO	C:\MetaStock Data\Nasdaq100
PACCAR ORD	21.0700	0.0000	1.0000	PCAR	C:\MetaStock Data\Nasdaq100
ORACLE ORD	14.4700	0.0000	1.0000	ORCL	C:\MetaStock Data\Nasdaq100
NETAPP ORD	12.9000	0.0000	1.0000	NTAP	C:\MetaStock Data\Nasdaq100
MICROSOFT ORD	15.2800	0.0000	1.0000	MSFT	C:\MetaStock Data\Nasdaq100
LIBERTY MEDIA INTERACTIVE SRS A ORD	2.5000	0.0000	1.0000	LINTA	C:\MetaStock Data\Nasdaq100
KLA TENCOR ORD	15.6300	0.0000	1.0000	KLAC	C:\MetaStock Data\Nasdaq100
JUNIPER NETWRKS ORD	12.6700	0.0000	1.0000	JNPR	C:\MetaStock Data\Nasdaq100
JB HUNT TRANS ORD	18.6300	0.0000	1.0000	JBHT	C:\MetaStock Data\Nasdaq100
IAC/INTERACTIVE ORD	14.1100	0.0000	1.0000	IACI	C:\MetaStock Data\Nasdaq100
HOLOGIC ORD	9.7000	0.0000	1.0000	HOLX	C:\MetaStock Data\Nasdaq100
HENRY SCHEIN ORD	34.2400	0.0000	1.0000	HSIC	C:\MetaStock Data\Nasdaq100
GOOGLE ORD	308.5700	0.0000	1.0000	GOOG	C:\MetaStock Data\Nasdaq100
GILEAD SCIENCES ORD	44.0100	0.0000	1.0000	GILD	C:\MetaStock Data\Nasdaq100
FOCUS MEDIA HLDG ADR	5.9600	0.0000	1.0000	FMCN	C:\MetaStock Data\Nasdaq100
FLIR SYSTEMS ORD	19.5900	0.0000	1.0000	FLIR	C:\MetaStock Data\Nasdaq100
FLEXTRONICS INTL ORD	1.9400	0.0000	1.0000	FLEX	C:\MetaStock Data\Nasdaq100
FISERV ORD	30.7000	0.0000	1.0000	FISV	C:\MetaStock Data\Nasdaq100
FASTENAL ORD	26.3800	0.0000	1.0000	FAST	C:\MetaStock Data\Nasdaq100
EXPRESS SCRIPTS ORD	46.1900	0.0000	1.0000	ESRX	C:\MetaStock Data\Nasdaq100
EXPEDITORS INTERNATIONAL OF WASN ORD	24.6000	0.0000	1.0000	EXPD	C:\MetaStock Data\Nasdaq100
EXPEDIA ORD	6.4700	0.0000	1.0000	EXPE	C:\MetaStock Data\Nasdaq100
EBAY ORD	10.4300	0.0000	1.0000	EBAY	C:\MetaStock Data\Nasdaq100
DISH NETWORK CL A ORD	9.2700	0.0000	1.0000	DISH	C:\MetaStock Data\Nasdaq100
DIRECTV GROUP ORD	19.6800	0.0000	1.0000	DTV.O	C:\MetaStock Data\Nasdaq100

FIGURE 3: NASDAQ 100, PARTIAL. A partial list of the 47 NASDAQ 100 stocks on either a long or short channel breakout signal.

Security Name	13wk ...	Ticker...	Location
WYNN RESORTS ORD	-5.2314	WYNN	C:\MetaStock Data\Nasdaq100
URBAN OUTFITTERS ORD	-2.4154	URBN	C:\MetaStock Data\Nasdaq100
LOGITECH INTERNATIONAL ORD	-2.3765	LOGI	C:\MetaStock Data\Nasdaq100
INTUITIVE SURGCL ORD	-2.2162	ISRG	C:\MetaStock Data\Nasdaq100
FLIR SYSTEMS ORD	-2.1534	FLIR	C:\MetaStock Data\Nasdaq100
COSTCO WHOLESAL ORD	-2.0543	COST	C:\MetaStock Data\Nasdaq100
JB HUNT TRANS ORD	-1.9838	JBHT	C:\MetaStock Data\Nasdaq100
SEAGATE TECHNOLOGY ORD	-1.9392	STX.O	C:\MetaStock Data\Nasdaq100
COMCAST HOLDINGS A ORD	-1.7511	CMCSA	C:\MetaStock Data\Nasdaq100
FOSTER WHEELER ORD	-1.6888	FWLT	C:\MetaStock Data\Nasdaq100
NII HOLDINGS ORD	-1.5605	NIHD	C:\MetaStock Data\Nasdaq100
CINTAS ORD	-1.5524	CTAS	C:\MetaStock Data\Nasdaq100
EXPEDITORS INTERNATIONAL OF WASN ORD	-1.5250	EXPD	C:\MetaStock Data\Nasdaq100
FASTENAL ORD	-1.5053	FAST	C:\MetaStock Data\Nasdaq100
EBAY ORD	-1.4736	EBAY	C:\MetaStock Data\Nasdaq100
ELECTRONIC ARTS ORD	-1.4298	ERTS	C:\MetaStock Data\Nasdaq100
SEARS HOLDINGS ORD	-1.4077	SHLD	C:\MetaStock Data\Nasdaq100
WARNER CHILCOTT CL A ORD	-1.3625	WCRX	C:\MetaStock Data\Nasdaq100
HOLOGIC ORD	-1.3367	HOLX	C:\MetaStock Data\Nasdaq100
CELGENE ORD	-1.3089	CELG	C:\MetaStock Data\Nasdaq100
PACCAR ORD	-1.2974	PCAR	C:\MetaStock Data\Nasdaq100
AUTODESK ORD	-1.2855	ADSK	C:\MetaStock Data\Nasdaq100
MICROSOFT ORD	-1.2788	MSFT	C:\MetaStock Data\Nasdaq100
DELL ORD	-1.1674	DELL	C:\MetaStock Data\Nasdaq100
JUNIPER NETWRKS ORD	-1.1341	JNPR	C:\MetaStock Data\Nasdaq100
EXPRESS SCRIPTS ORD	-1.0863	ESRX	C:\MetaStock Data\Nasdaq100
PAYCHEX ORD	-1.0790	PAYX	C:\MetaStock Data\Nasdaq100
CH ROBINSON WORLDWIDE ORD	-1.0617	CHRW	C:\MetaStock Data\Nasdaq100
ADOBE SYS ORD	-1.0446	ADBE	C:\MetaStock Data\Nasdaq100
RYANAIR HOLDINGS ADR	-1.0386	RYAAY	C:\MetaStock Data\Nasdaq100
BED BATH BEYOND ORD	-1.0064	BBBY	C:\MetaStock Data\Nasdaq100
STAPLES ORD	-0.9927	SPLS	C:\MetaStock Data\Nasdaq100
AMGEN ORD	-0.8851	AMGN	C:\MetaStock Data\Nasdaq100
CEPHALON ORD	-0.8279	CEPH	C:\MetaStock Data\Nasdaq100
GENZYME GEN ORD	-0.8171	GENZ	C:\MetaStock Data\Nasdaq100
KLA TENCOR ORD	-0.7876	KLAC	C:\MetaStock Data\Nasdaq100
EXPEDIA ORD	-0.7199	EXPE	C:\MetaStock Data\Nasdaq100
LIBERTY GLOBAL A ORD	-0.6981	LBTYA	C:\MetaStock Data\Nasdaq100

FIGURE 4: NASDAQ 100, WEAKEST. Here are the four weakest Nasdaq 100 stocks that have also generated a short 21-day channel breakout sell signal.

STRATEGIES

Using the Bullish Percent Index

by Mike Carr, CMT

Trading success often comes from looking at indicators that others fail to consider. The bullish percent index (BPI) may have value because so few traders understand its importance.

Tradable: N/A

Buried at the bottom of the Markets Summary page on StockCharts.com is data that is rarely referenced in the financial media. This website provides a bullish percent index for several indexes and sectors. This index shows the percentage of stocks that are on a point & figure buy signal. The P&F chart is a type of chart that shows only price changes, ignoring time. This allows traders to focus solely on the trend. Buy and sell signals are very easy to spot using this technique.

The leading sectors are telecom and information technology. The NASDAQ 100 is the most bullish index by this measure. These are the most speculative sectors and index in the market. The Dow Jones Industrial Average (DJIA) and industrial stocks are the weakest areas of the market at this time.

The traditional price chart of the technology sector shows that this sector has a great deal of relative strength (Figure 1). In a bear market, strong performance usually means losing less than the overall market. That is the case for most tech stocks. But in a new bull market, the stocks that declined the least in the bear market are usually among the early winners. (See Figure 2.)

Technically, the market is at historically oversold extremes. There are some breadth and momentum divergences present that give room for optimism. The fact that investors seem to bidding growth stocks higher is a sign that trader sentiment is more optimistic than media and public sentiment may indicate. ■

	Bullish %
Telecom	33.33
Info Tech	30.12
Nasdaq 100	24.00
Healthcare	18.56
Consumer Staples	18.18
Nasdaq	17.28
Consumer Discretionary	16.60
S&P 500	13.40
NYSE	12.15
S&P 100	8.00
Utilities	5.63
Materials	5.62
Energy	5.49
Finance	4.94
Dow 30	3.33
Industrial	0.00

FIGURE 1: THE BPI. The bullish percent index shows the sectors and indexes that are the most speculative and those that are weak.

TRADENAVIGATOR

FIGURE 2: XLK. The Select Sector SPDR-Technology exchange traded fund (ETF) is the best relative performer among sector ETFs.

In a new bull market, the stocks that declined the least in the bear market are usually among the early winners.

TECHNICAL ANALYSIS

What Big Rally?

by James Kupfer

Step back to look at the recent rally.

Tradable: DJIA

If you have been following the financial news recently, you might have mistakenly thought that the Dow Jones and other major equity market indexes have put the bear market behind them. Step back from the rhetoric and hype, and you can get a better feel for how the market looks technically.

Figure 1 is a daily chart of the Dow Jones Industrial Average (DJIA) showing the price action over roughly the last year. Looking at it from this limited perspective, we can see that the recent rally, although sharp and strong, really isn't all that important yet. Sure, the market is up 20% or more, but after dropping around 50% in the last year, is it really a surprise that the market has had

WEALTH-LAB

FIGURE 1: DJIA, DAILY. A longer-term view at the recent rally shows the true progress — or lack thereof — for the markets.

a bounce? No, not at all.

In no way do I discount the possibility that this rally might turn into a significant intermediate-term bottom that might even continue for months, but there is still significant overhead resistance to overcome. Looking below on a zoomed-in version of the same chart, it is possible to see that prices have risen to the convergence of the 61.8% Fibonacci level from the January 2009 top to the recent bottom and the trendline formed (orange) from two other recent major tops. The ascent seems to be running out of steam, so there is no clear technical picture to show if this level will be exceeded. See Figure 2.

Should it fail, there is a strong level of Fibonacci support at 7450 where the aforementioned Fibonacci level at 38.2% resistance and the 38.2% retracement (purple) levels coincide. Should prices rise above 8200, there is further strong resistance at the red line. More resistance levels would likely become evident and come into play should the market continue. So while this may be the beginning of a sustained move, further proof of the market's intentions is needed. ■

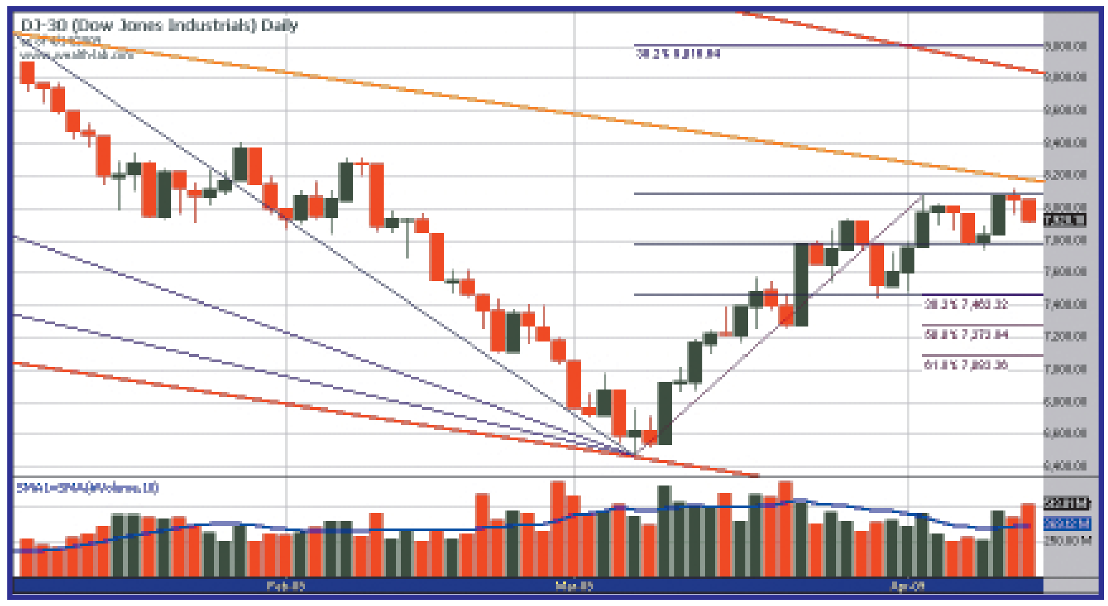


FIGURE 2: DJIA, DAILY. Here are near-term support and resistance levels for the DJIA.

TECHNICAL ANALYSIS

MRVL's High Relative Strength Vs. NASDAQ 100

by Donald W. Pendergast Jr.

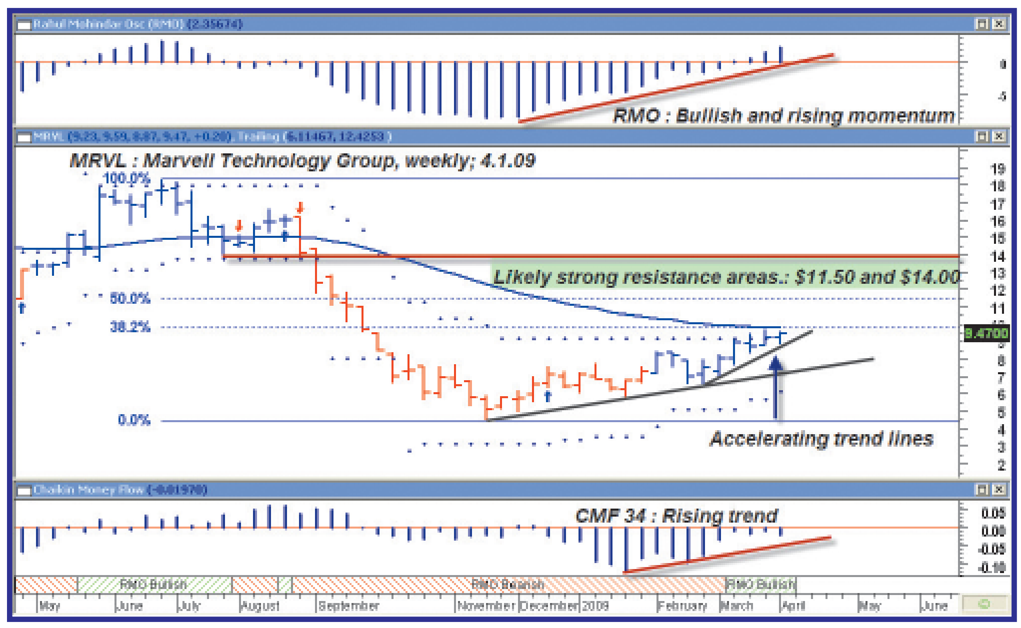
Marvell Technology Group shares are in a bullish weekly trend, handily outperforming most other components in the NASDAQ 100.

Tradable: MRVL

After making an all-time high of nearly $37 in early 2006, shares of Marvell Technology Group (MRVL) proceeded to sell off hard for nearly three years, minor interim rallies notwithstanding. The stock made a major low in November 2008, along with the rest of the broad market, and has been in a rising trend ever since. Does this stock still have some get-up and go left in it, or is a correction overdue?

MRVL's weekly chart (Figure 1) displays a clear uptrend in force, one that is approaching twin resistance barriers — the 50-day exponential moving average (EMA) and the Fibonacci 38.2% retracement level. It almost appears to be one of those "immovable object meets the irresistible force" kind of chart setups that imply an impending battle between the bulls and bears.

And here's why. MRVL's weekly momentum, as depicted by the Rahul Mohindar oscillator (RMO), is in a very strong uptrend, one that's also well above its zero-line, and the trendlines on the price chart are beginning the first stage of upward acceleration. Meanwhile, the Chaikin money flow (CMF)(34) is also rising sharply, lending more confidence that this stock has enough fuel remaining to push above the previously mentioned twin resistance levels near $9.75.



METASTOCK WITH RAHUL MOHINDAR OSCILLATOR (RMO) FROM METASTOCK V 1.

FIGURE 1: MARVELL, WEEKLY. Given the strong weekly momentum, money flow, and trend characteristics of this stock, buying a May 2009 $9.00 covered call on a weekly close above $9.75 could be a relatively low-risk trade plan.

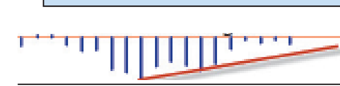
MRVL's weekly momentum, as depicted by the Rahul Mohindar oscillator (RMO), is in a very strong uptrend.

Should prices close above $9.75 (on a weekly close), the next Fib level (50%) could be the first target, right at $11.40. Beyond that, the price range between $13 and $14 also has a couple of Fibonacci and swing low-resistance barriers.

Given the strong 13-week relative strength ranking of MRVL vs. the NASDAQ 100 index (#3 out of 100 stocks) and the very pronounced momentum, trend, and money flow characteristics of this stock, the following trade setup might be worth considering. Buying a May 2009 $9.00 covered call seems to offer a good balance of profit opportunity and risk management, offering an annual rate of return of about 65% if the stock is called away at expiration.

This $9.00 call option is in-the-money (ITM), so it affords much more staying power in case of a minor reversal than would an out-of-the-money (OTM) $10 call option, one that is composed solely of time value. Here's the trade plan: on a weekly close above the 50-period EMA, buy the $9.00 covered call for no more than $850 (8.50) and use the latest uptrend line as an ad-hoc stop-loss; a close below it means you wind up the trade and bail out with a small loss. If the trade gains traction, simply monitor it week by week until May expiration arrives. If called, you'll end up with about a $50 profit for each covered call purchased; since this is such a low-priced stock, some traders might be able to afford to buy three, four, five, or even more covered calls, depending on their account size and tolerance for risk.

High relative strength stocks tend to outperform, so taking the covered call route on MRVL could be a nice, low-risk trade setup for those convinced that the NASDAQ 100 and the technology sector still have some more room to run. ■



TECHNICAL ANALYSIS

Apple Above Upper Bollinger Band

by Chaitali Mohile

The extensive bullish rally in Apple has surged above its upper Bollinger band. Will the rally continue?

Tradable: AAPL

When a stock moves above an upper Bollinger band, a fresh buying opportunity is generated. If price moves below a lower Bollinger band, traders can bet on a short sell. The three weeks' bullish rally in Apple Inc. (AAPL) breached an upper Bollinger band. Technically, traders can strike a long trade. The full stochastic (14,3,3) has gradually moved into an overbought zone, indicating the stability of the rally. The average directional movement index (ADX) (14) is indicating a declining downtrend in Figure 1. So both the indicators are suggesting that AAPL can be bought at the current levels.

But the volume in Figure 1 is not encouraging. As the rally moved higher, volume dried up, indicating a lack of confidence. The shrinking size of the candlesticks reflects weakening strength in the rally. The candle that has surged above the upper Bollinger band is small compared to the first candle of the rally. Therefore, traders must be alert.

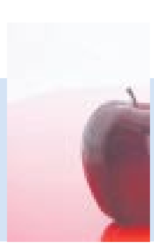
Figure 2 shows the previous high-resistance areas between $110 and $120. After plunging to $90, AAPL consolidated in a volatile range of $110 and $80. A rounded bottom was formed during consolidation, but the breakout has not yet been confirmed. However, the advance rally that began on March 9 consolidated at every resistance level like the one above $90. During consolidation, AAPL formed a small doji, indicating indecision and uncertainty. The colored rectangles above $90 and $100 in Figure 2 show sideways price movements. The stock accumulated strength and continued to move higher.

Currently, AAPL is consolidating near the first previous high resistance at $110. Let us verify the indicators in Figure 2 to determine the stability of the rally. The stochastic oscillator (14,3,3) has turned flat in an overbought territory, indicating sufficient room for an upward rally. The ADX (14) that was indicating consolidation earlier (see the dashed-line area) has moved in an uptrend. The increased buying pressure dragged the ADX above 20, suggesting a developing uptrend. In addition, the moving average convergence/divergence (MACD) (12,26,9) shows bullish crossover with the support of the zero line (see Figure 2).

Thus, all of the three indicators are healthily bullish and indicate strength in an upward rally. The rally that is consolidating currently would soon break upward and resume a bullish move. Therefore, traders can enter a long position after the bullish breakout as per the daily time frame. ■

FIGURE 1: AAPL, WEEKLY. The reducing low during the rally is highlighted with a yellow square. The rally has moved above the upper Bollinger band.

FIGURE 2: AAPL, DAILY. We can see at the rounded bottom that a bearish reversal pattern formed. The stock is approaching the previous high-resistance area.



During consolidation, AAPL formed a small doji, indicating indecision and uncertainty.

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The Impeccable Timing Of Intraday Charts

by Ron Walker

A good trader is always looking for clues of a reversal, trying to piece together the technical jigsaw puzzle.

Tradable: $SPX

A good trader is always looking for clues of a reversal, trying to piece together the technical jigsaw puzzle. Recently I wrote an article for Traders.com Advantage titled "Breaking Ranks With The Bears," which featured a bullish reversal on the Standard & Poor's 500 with reference to the daily charts. Now I would like to address the impeccable timing that the intraday charts can offer in determine potential reversals. If you are going to swing trade you have to have mobility, and the intraday charts display reversal signals early enough to prepare for a potential reversal and to profit from it. Not all intraday reversals pan out, but their predictive powers are strong and can help keep us on the right side of a trade.

The S&P 500 has come along way off the momentum low of 666 made on March 6, rising approximately 23.5% to its current peak of 823. That is a gain of 157 points. In Figure 1, we see that a bullish marubozu candlestick broke the minor trendline that staged a powerful rally that carried the S&P 500 above both the 10- and 20-day simple moving averages. The advance was so strong that prices broke above the major overhead resistance at 804 on March 23 with a long white candle, which moved in tandem with the trend. However, the next day prices traded in a narrow range, with a small real body, that stayed within the real body of the previous day. This is called an inside day, but the two-day candle pattern is called a bearish harami and could be showing that the trend is weakening.

This pattern must be confirmed by a close below the low of the pattern in order to have validity. In this case, the harami pattern would be confirmed with a close below the low of the first day at 772. At that point, the pattern would evolve into a bearish three inside down pattern. The harami's follow-through not only confirms the reversal but strengthens it. But remember that the rising trend is still intact, which could bring about a false signal, so until the harami is confirmed the trend is still up.

The intraday charts may give us some clues as to whether the harami reversal pattern has any

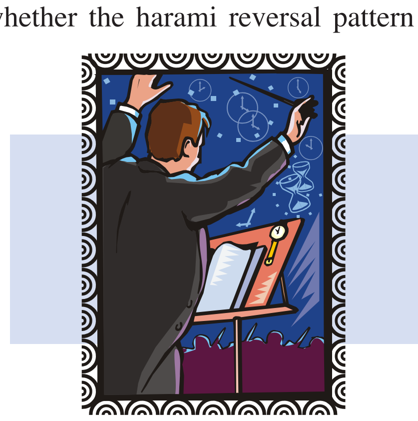

FIGURE 1: $SPX, DAILY. If the 795 rising minor trendline is taken out by the 15-minute traders, then the hourly traders may attempt to sweep prices back to the 20-day SMA, which converges near the rising trend from the 666 momentum low. If prices reach 875, the S&P 500 could be setting up an inverse head & shoulders pattern.

FIGURE 2: $SPX, 15-MINUTE. Note that the direction movement indicator got a bearish cross hat coincided with the breakdown of the double-top pattern. The 10- and 20-day EMAs are now beginning to roll over, pointing to the way toward the 15-minute trend. Horizontal and rising support intersect at 795, where the prevous minor low resides on March 23.

chance of playing out. In Figure 2, the 15-minute chart of the S&P 500 peaked at 823, then turned and broke through an accelerated minor trendline. But prices found support at the last minor low of 809. After bouncing off support, the advance resumed diagonally, climbing back up to test the previous minor high at 823.

It was then that a bearish class B divergence formed, which means that prices matched their previous high, while the indicator of choice — the relative strength index (RSI) (14) — formed a lower peak. Thus, prices collapsed under the burden of resistance, as a double top pattern formed with a bearish divergence hovering over the 15-minute minute chart. Bogged down by resistance, the S&P 500 began to deteriorate and, by the end of the session on March 24, broke down below the 809 confirmation line, validating a small double top pattern on the 15-minute chart.

Intraday charts act as a magnifying glass, showing the potential strength or weakness of advance or decline.

The pattern measures 14 points (by subtracting the lowest point of the pattern from the highest point of the pattern), giving it an objective target of 795. There is horizontal support near 795, with the last minor low at 796. Moreover, the rising trendline of the 766 low intersects with horizontal support at 795. So if the pattern runs its course, the S&P 500 may get a short-term bounce at 795. However, any bounce would likely be short-lived, amounting in a lower high forming. If a lower high occurs, it will launch a war between the bulls and bears for the 795 territory. Should the bears be victorious, the winds of adversity will penetrate below the 795 level of support en route toward confirming the bearish harami pattern on the daily chart at 772.

In Figure 3, we can see the bigger picture on the hourly chart of the S&P 500, and the prospects of a new rising price channel. Note that the rising trendline we observed at 766 on the 15-minute chart actually extends all the way back to the first higher low that occurred after the March 6th reversal. If this minor trendline is fractured at 795, then the forces of gravity will take over, as prices fall back to land on support at 766. So the double top pattern on the 15-minute chart could put the S&P 500 hourly chart on the fast track to setting up a head & shoulder topping pattern. The double-top pattern on the 15-minute could be carving out the right side of the head on the hourly chart.

If prices bounce off the 766 level of support a right shoulder could emerge, one that will ultimately result in a corrective move that could take the S&P 500 down to test the rising trendline set by the 666 low made on March 6. That trendline could be pointing to the next low. Incidentally, that trendline is hovering near the 20-day simple moving average (SMA) on the daily chart (Figure 1). The 20-day SMA is like a magnet; prices never stray to far away from it and are always eventually drawn back to it. So that could be a potential area where the next correction might be contained.

FIGURE 3: $SPX, HOURLY. Should prices penetrate through the rising minor trendline at or near 795, the next level of support is 766, which could be the neckline for a head & shoulders topping pattern. Note the divergence on the RSI with the price chart while the MACD is rolling over. If prices retreat to the 740 area, a new channel rising price channel will have formed.

We may see a resurgence of the bears, which are moving on multiple fronts against the bulls in the 60-minute time frame (Figure 3) with a bearish divergence on the relative strength index (RSI) (14), while the moving average convergence/divergence (MACD)(12, 26, 9) is poised to roll over and the stochastic (14, 3, 3) remains overbought. These bearish signals have a high provability of influencing short-term direction to the downside.

We don't know for sure if the bearish harami will be confirmed on the daily chart, but the intraday charts show that some bearish sentiment is beginning to creep back into the market. There is a high chance of a reversal given the state of the intraday charts, tilting things in favor of the bears for the short term. By integrating multiple time frames, we can gain perspective on potential reversals. Intraday charts act as a magnifying glass, showing the potential strength or weakness of advance or decline.

Given the many bullish signals on the S&P 500 daily and weekly charts (not shown) and the bearish signals on the intraday charts, my analysis leads me to conclude that the S&P 500 could conceivably have a correction at this time. Despite a corrective move, we have ample evidence on the daily and weekly charts that once it has concluded, prices should resume the price progression toward the next key level of resistance at 875 (Figure 1), putting in a higher low on the S&P 500 daily chart. Prices could stall at 875, which is a potential neckline for an inverse head & shoulders pattern. ■

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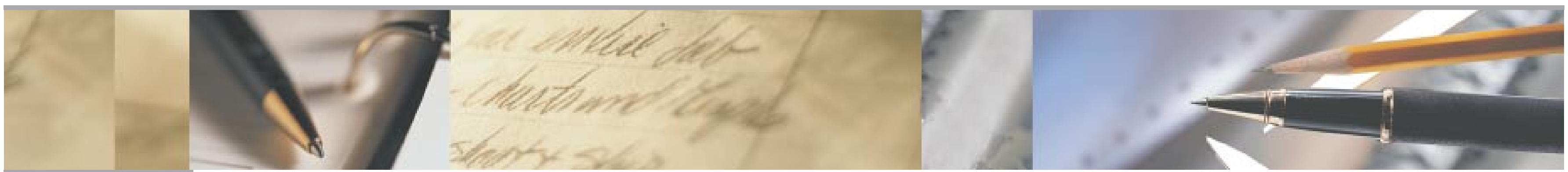

MOMENTUM

Ameritrade 1999: A Hot Tip Proved Out

by Donald W. Pendergast Jr.

Sometimes, it really does pay to watch the various shows on the financial news channels. Here's a play-by-play of a hot stock tip that actually had technical merits.

Tradable: AMTD

During the afternoon of December 25, 1998, CNBC had on a guest, one who mentioned that although Ameritrade (AMTD) shares were, in his opinion, a "long shot," the fact that the company had a rapidly growing client base of online traders could easily justify a modest allocation of capital to the company's stock. At the time, shares were going for about $25 (actual price then or $4.88 today, adjusted for splits) and had recently broken out of a flat base on heavy volume. I decided to put the stock on my watchlist and see how it performed over the next few weeks before putting any money into it. I went to work later that night in New Jersey and didn't look at a chart or quote for AMTD for more than two weeks.

The fact that I also had an account at Ameritrade seemed more than coincidental, and I began to get a gut feel that AMTD was about to become one of the biggies of the recent NASDAQ rally, a hot market move that was eventually destined to carry into February 1999.

On January 20, 1999, with a thoroughly read copy of *Investor's Business Daily* in hand, I dialed my friendly Ameritrade broker, having decided to take the plunge on AMTD shares. He was delighted that I wanted to buy 46 shares at $58.125, and had my order filled in a minute or so. The commission was $18. I didn't place a stop-loss, deciding to keep a mental stop near $40; after all, this online broker's shares had more than doubled in three weeks, they were opening new accounts like crazy, and I didn't want to let any random "back and fill" price action take me out of what I felt was going to be a sure winner.

Looking at the daily chart for AMTD (Figure 1), you can see just how appealing this stock looked at the time, especially given the ever-growing NASDAQ/tech stock mania that was just starting to grip the conscience of millions of traders and investors. By Christmas 1998 the stock had just made a spectacular bullish breakout from a long, flat base on six times the average daily volume, a sure sign that some big money somewhere had finally decided to tip its hand. So the hot tip from the CNBC analyst actually did have some merit, and the charts prove it.

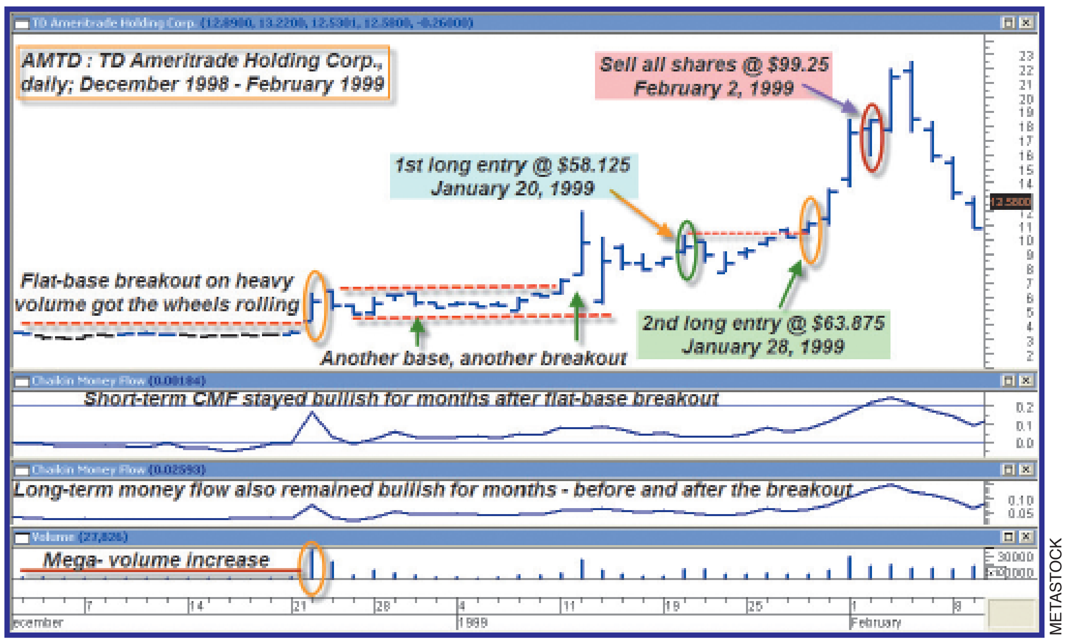

FIGURE 1: AMERITRADE, DAILY. 1999 — like a relic from a different age or not? Time-tested patterns like flat-base breakouts, channel breakouts, and support/resistance levels will likely be part of the technical trading landscape for as long as freely traded markets exist.

By the time I made that first buy on AMTD, the stock had already completed another base (or platform), followed by yet another massive breakout move higher. Clearly, choosing to put half an order on at $58-1/8 was a good move, based on the chart patterns and market momentum. Finally, another breakout from a prior high gave me the second entry signal I'd been looking for, allowing another 40 shares to be acquired at $63.875 on January 28, 1999. The stop-loss was now moved up to $44, near the swing low of January 22, 1999.

All I needed now was for that NASDAQ rally magic to keep going for a while, hoping to snag some nice profits on this momentum star.

The rally obliged, and since I had just embarked on vacation for two weeks, I had some extra time to monitor my AMTD and James Dines stock positions. Changing planes in Albuquerque, NM, on January 29, 1999, I called my broker and he said AMTD closed at $80 and that I should just enjoy the weekend. I moved the mental stop to breakeven and did just that.

On Monday, February 1, 1999, the NASDAQ just kept going up and along went AMTD with it. It was like living in a dream!

I glanced at a chart and felt that I should trail the stock much more closely now, bringing the stop up to $75, virtually guaranteeing a profit no matter what happened. On Tuesday, it was more of the same, but as soon as the stock cleared $107, I decided enough was enough; the move might be due for a pullback. I waited a couple of hours and then asked the broker to close out the whole deal, getting out of all 86 shares at $99.25. Not too bad, a 61.78% gain in about two weeks. Of course, I lamented having sold too soon as AMTD actually moved up to almost $121 two days later, but then as I witnessed the massive selloff that ensued (the stock losing half its value in five trading sessions), I realized that I had done the right thing.

Side note: Today, it's easy to complain if our datafeed goes down for a few minutes or if a fill on a trade was worse than expected. But in early 1999, that AMTD round-trip commission cost a whopping $54! That's $51 more than I would have to pay to complete the same trade today, only 10 years later. Sometimes, the words of singer Carly Simon really ring true: these are the good old days, right here, right now.

In 1999, not too many traders and investors were as technically savvy as they are today, but it's amazing how simple chart and volume patterns like these continue to work. It worked for me in 1999; without having real-time charts, a computer, a cell phone or even $1 stock commissions at my disposal, I was able to use a series of very basic flat-base breakout, support test and subsequent breakout patterns to help craft a winning trade that I will never forget.

Of course, the underlying momentum of the NASDAQ Composite Index also played a major part in the success of this trade, and that's another reason why traders should always try to position themselves in the market groups and sectors exhibiting the highest amounts of relative strength and momentum. ■

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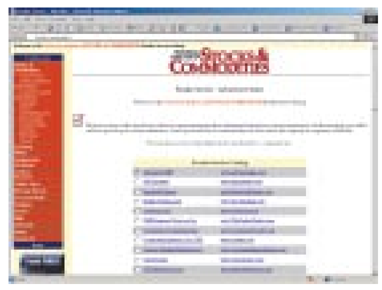

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TRADERS' GLOSSARY

DICTIONARY

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

Average True Range — A moving average of the true range.

Breakaway Gap — When a tradable exits a trading range by trading at price levels that leave a price area where no trading occurs on a bar chart. Typically, these gaps appear at the completion of important chart formations.

Chaikin Money Flow — An oscillator that is used to determine if an equity is accumulating or distributing. It is based on the readings of the accumulation/distribution line and on the location of the closing price with respect to the price range.

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

Cubes (QQQQ) — Traded on the NASDAQ, cubes are ETFs that track the NASDAQ 100 index, which is made up of the 100 largest, most active NASDAQ nonfinancial stocks.

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.

Engulfing Pattern — In candlestick terminology, a multiple candlestick line pattern; a major reversal signal with two opposing-color real bodies making up the pattern.

Exchange-Traded Funds (ETFs) — Collections of stocks that are bought and sold as a package on an exchange, principally the American Stock Exchange (AMEX), but also the New York Stock Exchange (NYSE) and the Chicago Board Options Exchange (CBOE).

Exponential Moving Average — A variation of the moving average, the EMA places more weight on the most recent closing price.

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/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.

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

Relative Strength Index (RSI) — An indicator invented by J. Welles Wilder and used to ascertain overbought/oversold and divergent situations.

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.

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.

Stop-Loss — The risk management technique in which the trade is liquidated to halt any further decline in value.

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 Bands — Lines plotted in and around the price structure to form an envelope, determining whether prices are high or low on a relative basis and forewarning whether to buy or sell by using indicators to confirm price action.

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.

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.

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