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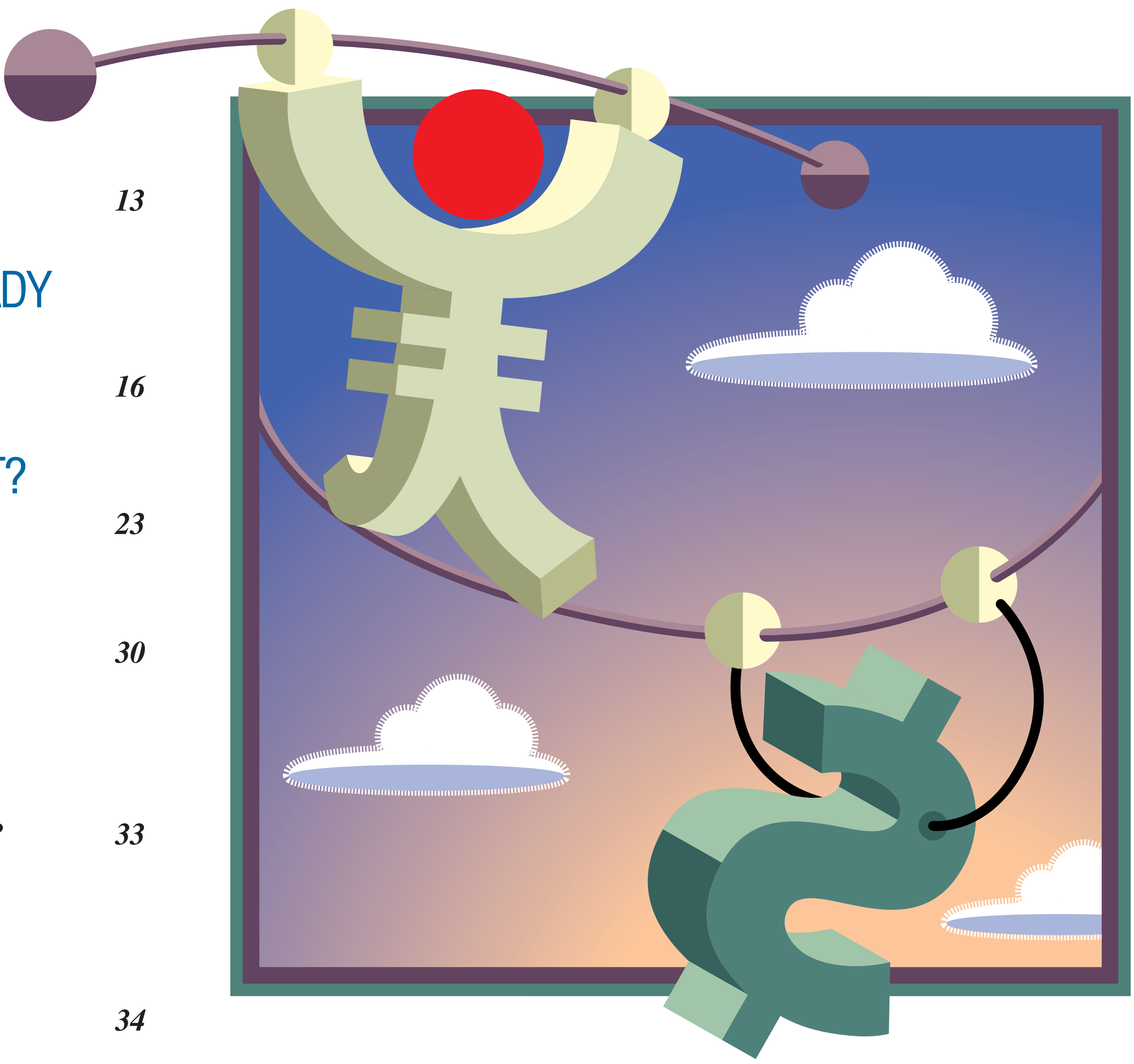

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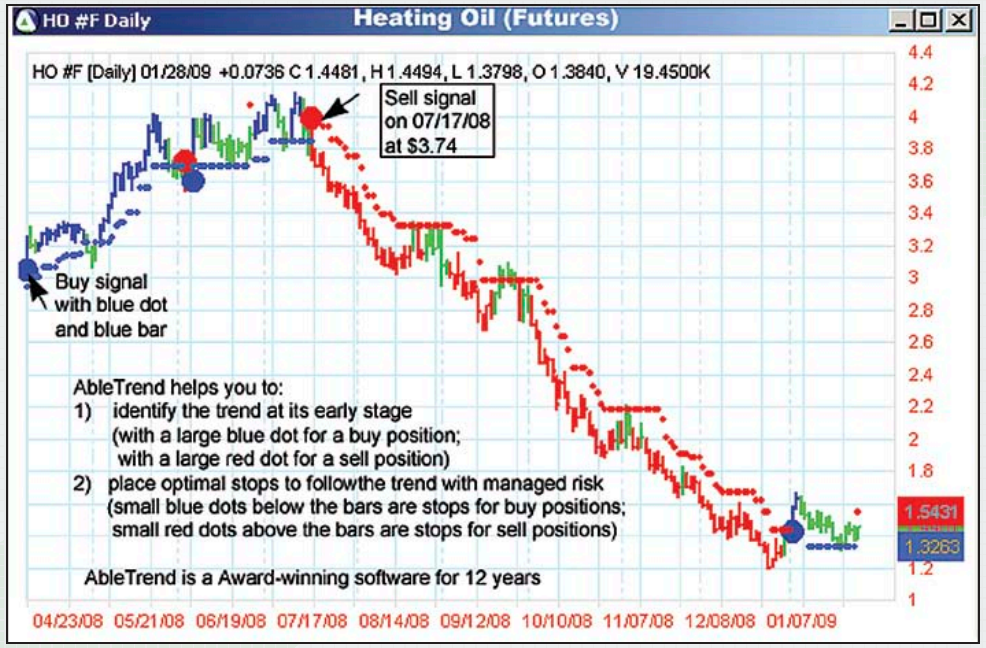

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With The Higher Volatility And 300-500 Point Dow Moves In A Day, My Day Trading Profits Are Approximately 4 Times Higher Than In 2007

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

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."

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

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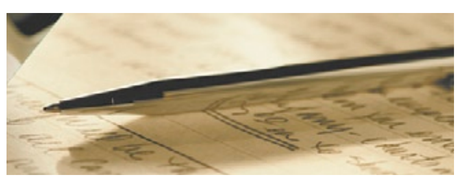

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TRADING NOW

We are all familiar with the adage "Buy on the rumor, sell on the news." What happened in the markets on February 10, 2009, after US Treasury Secretary Tim Geithner announced his proposals for the financial sector rescue is a classic example, when the market plunged as he began to speak. And the selloff continued as his speech progressed. Clearly, Wall Street wasn't happy with what he said, which according to the media was tentative and lacked details. I guess they had to come up with some reason for the rapid selloff. What were financial institutions and investors expecting? Did they want the cash handed to them right then and there, did they want a bigger bailout, or was it something else?

From a technical standpoint, if you look at a chart of any of the broader indexes, you will see that a selloff was forthcoming given that the markets were hitting a resistance level of the current narrow trading range. However, the magnitude of the selloff could not have been foreseen. I think Geithner's speech acted as a catalyst to the selloff, creating a selling rampage.

Markets that trade in such a narrow trading range can really test your patience. You have to keep an eye on support and resistance levels to determine if breakouts or breakdowns are occurring. You have to look for emerging chart patterns and be aware of intermarket relations. In this issue of **Traders.com**, we have a collection of articles that focus on these topics. These include Matt Blackman's "Is The Market Building A Bottom?," James Kupfer's "Is The DJIA Starting A New Leg Up?" and his "Airline Breakout?," not to mention his "Gold's Channel," as well as Arthur Hill's "Microsoft Breaks Triangle Support" and his "Another Rectangle Break For Texas Industries." And there's more, much more.

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Jayathi Gopalakrishnan

Jayanthi Gopalakrishnan,
Editor

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INDEXES

VOLUME

Is The Market Building A Bottom?

by Matt Blackman

One good overall measure of the market is the Vanguard Total Market ETF. What is it telling us about the market?

Tradable: VTI

The Vanguard Total Market exchange traded fund (ETF) (VTI) is a good proxy for US stocks and includes nearly 3,500 US stocks with a market cap of nearly $30 billion (September 30, 2008) compared to 500 stocks for the Standard & Poor's 500 and just 30 in the Dow Jones Industrial Average (DJIA).

The selling climax that occurred during the week of October 10 shows that retail investors (weak hands) were selling but the fact that the price has not dropped below the October 10th lows in subsequent weeks indicates that someone must be buying the lows. A further bullish sign is that prices rose on low to moderate, which indicates a lack of selling.

This was followed by a bearish top reversal pattern during the week of October 24, showing that the pros were again testing the market to see how many "weak hands" they could scare into selling their stock. But again major support held.

During the week of October 31, VTI rallied to close near the weekly high on rising volume, which is bullish and shows accumulation. This was followed by another test in which price moved higher but then closed well off the weekly high.

The week of November 17, we see that the price was pushed down below $40.50 support but then immediately bounced back on even higher volume, indicating another shakeout. As long as the professional traders and money managers can scare the weak hands into dumping their shares through violent price swings, they will do so until they have accumulated enough stock. Then and only then will prices begin to rise but will only do so as long as the buying continues. Another caveat is that smart money indicators tend to be short term as we see from Figure 1.

According to Gavin Holmes, trader and CEO of TradeGuider.com, the current high volume on these down bars (weeks) will need to be tested. This can takes weeks or even months and will result in prices appearing to move sideways while this takes place.

"If we continue to test and hold the $40.50 [support] area on VTI, this would be a bullish sign. We then wait for an uptrend to show itself before we rush in and buy, especially when a bear trend is firmly established," Holmes said.

But a break of $40.50 support, especially given the descending triangle

FIGURE 1: VTI, WEEKLY. This chart of the ETF shows prior bearish patterns, first a bear pennant and then the bear flag, both of which formed on declining volume. The latest pattern looks to be a bearish descending triangle but note the key difference. Such patterns generally are accompanied by falling volume, but volume has risen sharply during the formation of the triangle pattern. In addition, note that support at $40.50 has been solid. Put it all together and it looks like professional accumulation — pros look to be buying anytime retail investors sell the stock. This is potentially bullish.

Calls that we are at a bottom are at best extremely premature.

pattern forming on rising volume, has ominous implications.

Descending triangle patterns with rising volume are rare; this occurs in only one of five patterns, according to Thomas N. Bulkowski, author of *Encyclopedia Of Chart Patterns* (John Wiley & Sons). And if we do get a rally, it could be short-lived based on his research.

"Triangles following the market trend — bull market, upward breakout and bear market, downward breakout — do better when volume trends higher throughout the triangle. The countertrend triangles do better with receding volume trends," Bulkowski explained in a November 15th email.

"Since this is a bear market and if the breakout is downward, look for a larger decline than would occur otherwise. If the breakout is upward, expect the rise to be less than it would be in a bull market. The numbers prove that this is how things work — at least for this chart pattern."

In other words, we are still in a bear market and any rally will be countertrend and probably abbreviated. Calls that we are at a bottom are at best extremely premature. This continues to be a trader's market where tight stops and quick reactions are essential — certainly not the kind of market for a buy & hold investment approach. ■

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ELLIOTT WAVE

Has The NASDAQ Bull Taken Over?

by Koos van der Merwe

Last week, I wrote that I believed the Dow Jones Industrial Average had bottomed, and that the bull has taken over from the bear. This week, I see no reason to change my tune.

Tradable: OTC

In that article, "The Dow And A Key Reversal" of November 13, I concluded by writing, "Whether this level is indeed the completion of the C-wave down will be confirmed over the next few days." The days that followed were positive, with the exception of Wednesday, November 18, when the three US automakers flew to Washington in private jets to testify in front of Congress with a tincup in each hand. However, I remain convinced that the bull is victorious, and Figure 1 shows why.

Figure 1 is a weekly chart of the NASDAQ, with my Elliott wave count and a relative strength index (RSI). There are two moving averages; the light green is a 40-period simple moving average, and the dark green is an 80-period simple moving average. I have chosen a weekly chart above a daily or monthly chart because it is an easier read.

FIGURE 1: NASDAQ, WEEKLY. The light green is a 40-period simple moving average, and the dark green is an 80-period simple moving average.

In the chart I have shown how the NASDAQ dropped to a low in October 2002, completing an A-wave, and then corrected upward in a very complicated B-wave, moving above both moving averages. The RSI has not yet given a buy signal, although it is at oversold levels. This suggests that the NASDAQ may fall further, but not by much, as it attempts to find its bottom, hopefully at the low of October 2002.

Of course, in its B-wave rise, the NASDAQ never came close to its high of March 3, 2000, a high set by the dotcom bubble. This also meant that the C-wave collapse from October 2007 will not be as vicious as the Standard & Poor's 500 or the Dow Jones Industrial Average (DJIA), simply because there are no financial companies to collapse.

Whether my wave count is suggesting the end of the bear is at hand for the NASDAQ or the RSI gives a positive reliable buy signal in the near future, it certainly looks as though the NASDAQ is confirming a new bull market in the near future. ■

ELLIOTT WAVE

Torrential Toronto TSX300 Index Troubles

by Koos van der Merwe

How long till the bottom?

Tradable: TECT

Over the past year's economic meltdown, Canada has been looked at as a guiding light. The banks, although suffering from problems (with TD Bank being the latest to admit to difficulties), have withstood the huge losses that US banks have suffered. When the Dow Jones Industrial Average (DJIA) and Standard & Poor's 500 started collapsing, the TSX 300 soared, but with the fall in the price of oil, and the virtual collapse in the primary metals market, the TSX 300 started falling dramatically, and far faster than its US counterparts.

Figure 1 is the TSX 300 with the DJIA and the S&P 500 superimposed.

Note how closely the movement of the TSX relates more to the S&P 500 than to the DJIA, probably because the DJIA is only 30 stocks whereas the TSX is 300 and the S&P is 500. However, note how both the S&P and the DJIA fell away, and the TSX followed only four months later as the oil price started to fall.

Figure 2 is a weekly chart of the TSX 300. The chart shows my Elliott wave count and suggests that TSX could be finalizing a wave C bottom. This is suggested by the relative strength index (RSI), which is at oversold levels.

C-wave bottoms are notoriously difficult to forecast, because too much emotion exists in the market. As the year nears its end, tax-loss selling increases, depressing the market even further. The Advanced GET program does offer the make

FIGURE 1: TSX. Here's the trend of the TSX relative to the DJIA and the S&P 500.

FIGURE 2: TSX, WEEKLY. Here's the Elliott wave count, which suggests that TSX could be finalizing a wave C bottom.

or break (MOB) strategy as a way of trying to guess where the bottom/top will be. Applied to the low of wave 3 of wave C, it suggests a target of 8105. However, if the index breaks below the MOB line, then the target is the distance from the top of wave 4 to the MOB line subtracted from the MOB line. The chart shows the target as 5948 (10262 – 8105 = 2157, 8105 – 2157 = 5948). With emotion running high, and with tax-loss selling, we could even see this target penetrated in a V bottom — that is, where there is a strong fall followed by a strong recovery.

Figure 3 shows the two targets that could hopefully signify the C-wave bottom, and the end of the bear market for the TSX 300.

These charts show how the Canadian stock market, despite being heavily weighted in favor of oil and precious metals miners als mining stocks, strongly follow the trend of the US stock indexes. The target shown of 5994 is very feasible. Hopefully, the index will bottom before this level is reached, and many will again start sleeping at night. ■

FIGURE 3: TSX, DAILY. Here are the two targets that could signify the C-wave bottom.

HEAD & SHOULDERS

Emini S&P Rebound Could Continue

by Paolo Pezzutti

The breakout of the head & shoulders neckline at 900 would be an important indication for the continuation of the up leg.

Tradable: ES

Bad news hit the markets between Thursday and Friday (December 11 and 12). First, an effort to salvage a proposed $14 billion rescue plan for the auto industry collapsed as Republicans and Democrats failed to agree on the timing of wage cuts for union workers. The viability of this important industry is questioned in a difficult moment for the US economy.

Second, Bernard Madoff, the former NASDAQ chairman, was charged with massive fraud. According to the news media, Madoff admitted to defrauding clients for up to $50 billion in a Ponzi scheme that continued over a number of years.

According to the December 11th Bloomberg, Senate Majority Leader Harry Reid said before the vote in Washington, "I dread looking at Wall Street tomorrow ... it's not going to be a pleasant sight."

Markets opened with a big gap down on Friday morning as if the world economy depended on the auto bailout. The collapse of the auto bailout was seen as a negative event for markets, but as usual, markets like to surprise investors and those who think they can predict them.

After the negative open, markets managed to close positive for the day. This means that bad news after an initial emotional impact was perceived as a buying opportunity. The emini S&P eventually printed a hammer, which sets an important support for the next session.

As you can see in Figure 1, the emini is developing a head & shoulders pattern. The neckline is at about 900 with an objective to the upside above 1000. In the past days, the emini tested without success at the 900 level. The failure of the neckline breakout at 900 brought prices again toward the vital support of 820. The 820 level has been tested already twice and Friday's low at 828 confirms its importance.

Prices are moving within the trading range 820–900, but the fade of Friday's gap appears to be bullish. During the next week, the emini should test again the 900 resistance, a key level to see a longer-term rebound in the next weeks with a potential objective of more than 10% to the upside. On the longer time frames, I do not see any reversal indications of the downtrend so far.

In the daily time frame (Figure 2), you can see that the emini has developed two positive divergences of the moving average convergence/divergence (MACD). We know that divergences do not provide sufficient elements to justify a reversal. They have to be put in context to weigh the risk-reward opportunities. That is why it is too early to say if the markets have bottomed. The move from 740 to 900 in the past three weeks might have just completed the rebound before moving to the downside and developing another leg. At the same time, there is the potential to continue the up move should the breakout of 900 occur. However, after the December 1st drop of almost 80 points, prices recovered quickly and the closure of Friday's opening gap is also a positive indication that the market is starting to react positively to bad news and may have found a solid base for the moment. ■

FIGURE 1: EMINI S&P, HOURLY. The emini is developing a head & shoulders. The first attempt to break out the neckline has failed.

FIGURE 2: EMINI S&P, DAILY. The emini has printed two positive divergences of the MACD. The hammer low provides an important support level for the continuation of the rebound.

Is The DJIA Starting A New Leg Up?

by James Kupfer

The DJ 30 appears to have started a new leg up. How much further might be left?

Tradable: DJ 30

If we were to assume that the Dow Jones 30 and other major equity indexes have put in a minor bottom, how much upside is left? Fibonacci levels can be helpful to determine potential future price action in the DJIA. To start, find the Fibonacci price levels between the most recent significant low in October and other significant market peaks. I have used the August 2008 (orange), May 2008 (blue), and October 2007 (brown) highs. Due to the convergence of so many price resistance levels, it can be difficult to see them all, so I have circled them on Figure 1.

The first level, in blue, is between 9042 and 9136, calculated using a 38% and 23% retracement from the August 2008 and October 2007 highs, respectively. Given that the market has previously come very close to reaching these prices and that the levels are not really all that close together, it seems logical to conclude that 9100 will be passed in the not-too-distant future.

FIGURE 1: DJIA, WEEKLY. Resistance levels for the DJIA are circled.

The second level, circled in yellow, is formed between 9658 and 9621. It is calculated by finding the 50% and 38.2% retracement levels from August and May highs. In addition, the Dow Jones 30 peaked in October at 9653. This now becomes an additional level of resistance the market must overcome.

The final near-term zone of resistance is circled in red between 10000 and 10300. It is formed by a convergence of Fibonacci resistance levels from each of the aforementioned periods. In addition, the bottom of the descending channel formed before the October break is right now at about 10000.

Remember, until proven otherwise, traders must operate on the assumption that the bear market is still in effect and that any bounce occurs within the context of the bear. It seems likely that the Dow Jones Industrial Average (DJIA) will surpass the 9100 level, only to stall around 9621–9658. A break above that will take the market to around 10000. Any price action above 9621 may provide a good opportunity to reestablish short positions and sell any longs. ■

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This article was first published on 12/17/2008.
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BOLLINGER BANDS

The Two Sigma Dow

by Mike Carr, CMT

Standard deviations are a common tool used in financial analysis as a measurement of risk. It is the mathematical principle behind Bollinger bands, a widely used technical indicator.

Tradable: DIA

To calculate Bollinger bands, technical analysts find the 20-period moving average of price. Although any number of periods can be used, 20 is the default value in almost all software packages. It can also be calculated for any time frame, from minutes to years, so that is why we refer to periods in this description of how to calculate the indicator. After finding the moving average, two standard deviations of that average are calculated, and the three lines are commonly drawn on a chart along with the stock price (Figure 1).

The standard deviation has some interesting mathematical properties. One is that two standard deviations should contain approximately 95% of the price movement. This is based upon the assumption that stock prices follow a statistical model known as the standard distribution. The details of this model are not critical, but it is important to understand that there is an underlying theory supporting the use of standard deviations as a proxy for risk.

The term "sigma" describes the area outside the standard deviation. Two sigma means an event that is two standard deviations away from the average. Bollinger bands are thus useful to identify two sigma events. They offer a quick way to visually assess when these rare events occur. Prices should be expected to close higher than the upper band about 2.5% of the time and lower than the bottom band about 2.5% of the time. The question we ask is what happens after the markets experience these rare events. The answer is surprising, whether prices are in the upper or lower area of unusual performance, that prices are generally lower over the next few months.

We used the Dow Jones Industrial Average (DJIA) to conduct a test because it has the longest available history. Looking at all closes from 1900 to 2008 gives us more than 1,200 months of data, and we should expect to see about 30 times that the average closed more than two standard deviations above or below its average price. We found there were 88 closes above the upper band, and 35 below the lower band — significantly more than expected but not surprising, since we know that the market moves more based upon human emotions rather than mathematical laws. The results are summarized in Figure 2. The table shows the percentage of time the market closed higher some months after the unusual price action.

FIGURE 1: DJIA, MONTHLY, AND BOLLINGER BANDS. The green line shows the level where prices would be two standard deviations greater than their recent average. The red line indicates the point where they would be two standard deviations below the blue line, which is the average price for the last 20 months. The two ovals indicate where prices have had sharp declines in 2000–02 and in 2008.

	Closed above upper band	Closed below lower band
1 month later	21.6%	17.1%
2 months later	23.9%	6.9%
3 months later	33.9%	18.5%
4 months later	31.4%	22.2%
5 months later	37.0%	24.0%
6 months later	39.5%	23.8%

FIGURE 2: PERCENTAGE OF TIME THE MARKET CLOSED HIGHER AFTER CLOSING MORE THAN TWO STANDARD DEVIATIONS ABOVE OR BELOW ITS 20-MONTH AVERAGE. Closes above the Bollinger band seem to show exhaustion in the stock market and are followed by periods of generally declining prices. When the price falls below the lower Bollinger band, it seems to indicate that things are accelerating to the downside.

Prices have now closed more than two standard deviations below average for four consecutive months. This is the longest such decline since 1903, when prices remained that oversold for six months. After breaking out of that slump, prices consolidated for six months before moving 50% higher in the following six months. If history is a guide, then we may see a period of consolidation in the stock market during the first half of 2009. ■

STRATEGIES

QQQQ Trade Setup

by Alan R. Northam

In defining when a trade should be taken, the trader looks for a valid trade setup, a high-probability area to enter the trade known as a trigger, and a high-reward area known as a target. The PowerShares QQQ Trust has provided such an opportunity.

Tradable: QQQQ

Figure 1 shows the daily bar chart of QQQQ. This chart shows a downward sloping intermediate-term trendline drawn in red. This chart also shows an upward sloping short-term trendline drawn in green. From late November, the QQQQ has rallied upward until it ran into resistance from the intermediate-term downward sloping trendline. Over the next four trading sessions, the high of each session ended right at this trendline.

On December 22, QQQQ traded downward and closed below the short-term upward-sloping trendline, breaking this line of support.

The breaking of a trendline is a signal of a change in trend. It does not, however, signal a trend reversal. In the case of QQQQ, it has signaled a change from an upward sloping trend to a horizontal trend known as a *trading range*. Trading ranges are periods of consolidation after a trend and usually signal the continuation of the previous trend once the period

FIGURE 1: QQQQ, DAILY. This chart shows trendlines as well as support and resistance lines. This chart also shows the average true range indicator below the price chart.

of consolidation has run its course. However, trading ranges have on occasion been reversal signals, especially after a weak trend, so we have to be on the lookout for a reversal in trend as well. With the breaking of the upward trend and QQQQ entering into a trading range, this then is a valid setup.

Figure 1 shows a green support line drawn off the December 12th price low marked as SL1. A close below this line of support will signal a trend reversal. Figure 1 further shows a red resistance line drawn off the price peaks of December 9 and 16 marked as RL1.

Trading ranges have on occasion been reversal signals.

Note that QQQQ has managed to close just above resistance line RL1 over the last two trading sessions. Normally, this would constitute an upward breakout. However, I do not consider closes marginally above a line of resistance to represent a decisive breakout. Many times I have seen marginal breakouts like this immediately turn back down into the trading range. Therefore, I like to put a filter on marginal breakouts. The filter I like to use is to define a decisive breakout as one average true range (ATR) above the line of resistance. Therefore, I have added the average true range indicator below the price chart. The average true range is one. Therefore, I have added a second resistance line one ATR above resistance line RL1 and have labeled it as RL2. A close above RL2 will then signal a decisive upward breakout of the trading range and will signal the continuation of the upward corrective rally. The breaking of either the support line SL1 or the resistance line RL2 will therefore constitute a valid trigger to enter a trade. Should QQQQ close above resistance line RL2, a long position should be taken. A close below the support line SL1 will indicate a short position should be taken.

It is my opinion that a long position should not be taken if triggered for this trade, as it would constitute a countertrend trade, which is a low-probability trade situation. As a trader, I only want to make high-probability trades. Therefore, I would only take the short trade as it is a trade in the direction of the major trend, which is a high-probability trade.

In determining price targets, minimum price targets can be identified. These are price targets that the trade has a high probability of attaining but not necessarily the price point at which a trade should be terminated. Rather, should the momentum of the move continue to remain strong once the price target is reached, the trade should be allowed to continue until momentum has run its course so as to maximize profit. In the case of QQQQ, if there is a breakout above resistance line RL2, the trade setup will be considered invalid, as it would represent a low-probability trade. In that case, a new trade setup and trigger would have to be established so we will not define a price target in this direction. However, if QQQQ turns back down and closes below SL1, it would signal that a short trade should be taken.

If QQQQ breaks through SL1 and just barely closes below this line of support, then I would wait until QQQQ has traded below SL1 by one average true range. The minimum price target for a break to the downside would be the price minimum made in November. In other words, we can expect QQQQ to fully retrace the rally off the November lows. (Minimum expected price returns after the completion of a corrective rally is 100%.) However, QQQQ should trade lower than this minimum price target and should make a new lower low price if the downward trend is truly going to continue. For this reason, it is wise to allow the profit to run as long as the downward momentum is increasing.

In conclusion, QQQQ has presented itself as a valid trade setup. However, QQQQ has not yet provided a trigger to enter a short position. Once a trigger has been signaled, the trade can be executed. The expected minimum price target calls for a complete retracement of the corrective rally off the November price low, or $25. However, if selling momentum is increasing once this minimum price target is reached, the trade should be allowed to continue so as to maximize profit.

This trade setup is shown for educational purposes to show how to identify trade setups, triggers, and targets, and is not a recommendation to enter into this trade. ■

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This article was first published on 1/7/2009.
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BREAKOUTS

Russell 3000 Ready To Surge

by Chaitali Mohile

The Russell 3000 has recovered forming higher lows after establishing a strong support.

Tradable: $RUA

During the year 2008 most of the indexes, including the Russell 3000 index ($RUA), had moved to 2002 lows. $RUA established a support at 425 levels in November 2008. After the huge decline, the index is looking like it is ready to bounce.

In Figure 1, the relative strength index (RSI) (14) is oversold, and the hammer candlestick pattern is formed. As soon as the support was held in November at 425 levels, $RUA recovered 100 points from the low. The hammer formed in December indicated the bullish reversal pattern. However, the long-term downtrend indicated by the average directional movement index (ADX) (14) is likely to sustain. The oversold RSI (14) and the hammer together may drive the rally with positive sentiments. For the robust rally, traders should watch for RSI (14) moving in bullish areas above 30 levels in Figure 1.

Let us now refer to the short-term chart (daily chart) for a trading perspective. In Figure 2, a symmetrical triangle is formed by the lower highs and the higher lows. After hitting the low, $RUA rallied upward, forming higher lows. The triangle has matured, and the index has recently violated the pattern in a bullish direction. The breakout would lead the rally toward the resistance at 575 and 600. For the confirmed breakout, $RUA has to establish support on the upper declining trendline. The RSI (14) indicate consistent bullish strength as the indicator has formed a strong support above the 50 levels. In addition, the moving average convergence/divergence (MACD) (12,26,9) is ready to move in a positive territory above the zero line.

The downtrend that existed for almost a year has weakened, so the bullish force is likely to increase. The ADX (14) above 20 with a strong buying pressure indicated by the positive directional index (+DI) would initiate a fresh uptrend for the index. Traders need not break their hearts with the doji formed on Tuesday. Few consolidated days would accumulate the bullish strength for the future rally.

The resistance at 575-600 is the nearest target for the breakout rally. Thus, traders can make a top list of the equities that are part of $RUA for good buying opportunities. ■

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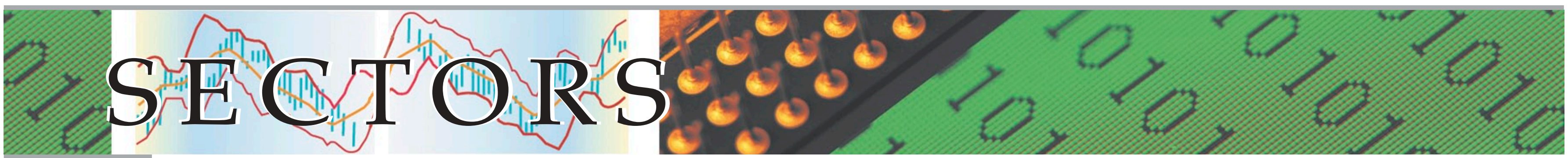
FIGURE 1: $RUA, MONTHLY. The oversold RSI (14) and the hammer candlestick pattern suggest a stable bullish rally in the future.

FIGURE 2: $RUA, DAILY. The index has a bullish breakout of the symmetrical triangle pattern. The ADX (14) suggest short-term uptrend above 20 levels.



VOLUME

Is China Set To Bounce?

by Matt Blackman

China and India still enjoy respectable growth rates even as their industrialized counterparts in the US and Europe enter recession. Is now the time to jump across the bamboo curtain?

Tradable: VXI

An announcement on November 16 by Bespoke Investment Group revealed an interesting observation. China's Shanghai Composite Index, which has fallen 72% from its peak last October 2007, hit a low on November 4, 2008. The announcement noted that this index has now moved above both the top channel downtrend line and the 50-day simple moving average for the first time since January 2008. Is this a buy signal for the Chinese market?

One way of playing the small but highly volatile Chinese stock market is through the iShares FTSE China exchange traded fund (ETF) (FXI). As we see from Figures 1 and 2, average daily volume is currently above 60 million shares and weekly volume nearly 200 million shares, so there is lots of liquidity.

Figure 1 is of a daily chart of FXI, showing the smart money signals and a bear flag chart pattern. Bear flags can take weeks to form and although counter to the larger trend, they are playable on a short-term basis.

In Figure 2, we see a weekly chart of FXI showing a drop from above $70 to a low of $20.40 and a recent bounce. This chart is bearish and highly oversold, suggesting that a bounce may be in the cards. But given the very high relative volume currently on both charts, this could be a capitulation, which often is a precursor to a serious bounce, at the very least. ■

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This article was first published on 11/19/2008. See www.Traders.com for more.

CHART: WWW.TRADEGUIDER.COM, DATA: WWW.REALTIMEDATA

FIGURE 1: FXI, DAILY. Note the bear flag.

FIGURE 2: FXI, WEEKLY. Note the major support at $20.40 accompanied by high volume. Is this an indication of capitulation?

STOCHASTICS

Commodity Update

by James Kupfer

Are commodities finally a buy?

Tradables: XOIL, XGLD, XSLV, DJAIG

For almost two months, I have been trying to pick a bottom in the commodity markets, without much success. By looking at the components of the CRB, we can get better insights as to when the bounce will finally arrive or if it is here already.

Figures 1 through 4 are all monthly charts that allow you to see the big picture action. With the exception of gold (Figure 2), which is starting to advance nicely, all the other charts look remarkably similar — a sharp price drop over the last few months has put the indexes into very oversold states, and they are all off their lows after having hit a major support level.

While being oversold does not mean these tradables cannot go lower, it does point to an increased possibility that a bottom is near. In addition, the fact that almost all the major commodities have bounced off long-term support provides another piece of supportive evidence that a significant bottom is in the making. ■

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This article was first published on 11/26/2008.
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Suggested Reading

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_____ [2007]. "A Breakout Attempt For The CRB," Traders.com Advantage, June 25.

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_____ [2008]. "CRB Ready To Bounce," Traders.com Advantage, October 6.

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FIGURE 1: XOIL, MONTHLY. Previous support level is shown with a green line. Note stochastics are at very low levels.

FIGURE 2: XGLD, MONTHLY. Gold has already started to move up strongly.

FIGURE 3: XSLV, MONTHLY. Previous support level is shown with a green line. Note stochastics are at very low levels.

FIGURE 4: DJAIG, MONTHLY. Previous support level is shown with a green line. Price is slightly below support. Note that stochastics are at very low levels.

Financial Select Sector Completing Final Leg Down

by Alan R. Northam

XLF has now completed all the Elliott wave rules and guidelines for the completion of the ABC zigzag market correction. The financial market could be on the cusp of a new bull market.

Tradable: XLF

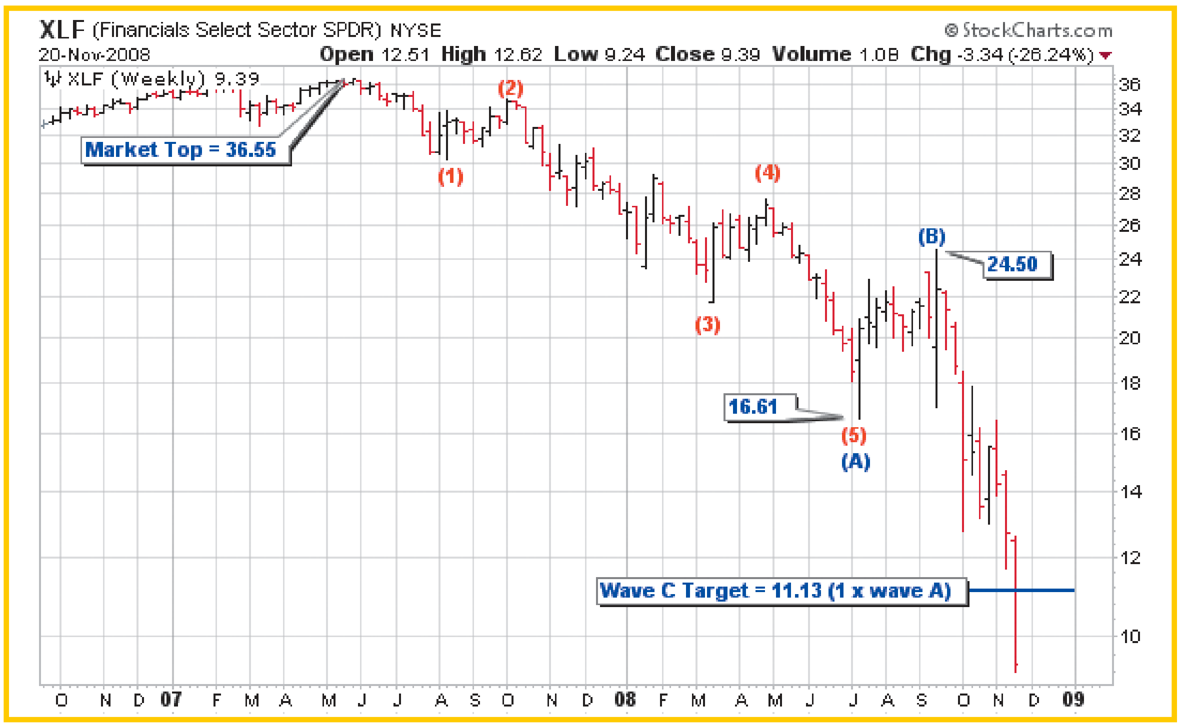

FIGURE 1: XLF, WEEKLY. This figure shows the Elliott wave count and also shows the price target for the completion of wave (C), which also completes the ABC zigzag market correction.

According to Elliott wave theory, once a market makes a major market top, that market will correct in three waves. These three waves have been defined by Elliott wave as an ABC zigzag. In the case where the market made a major bull market top, an ABC zigzag unfolds as five waves down forming wave (A), three waves up forming wave (B), followed by a final five waves down that forms wave (C). Upon completion of the ABC zigzag correction, Elliott wave theory further states that a new market trend will develop in the opposite direction of the ABC zigzag.

Figure 1 shows the weekly bar chart of the Financial Select SPDR (XLF). This chart shows that XLF made a major bull market top in May 2007. Since that time, XLF has unfolded in five nonoverlapping waves, forming wave (A), obeying all the rules of the Elliott wave theory. In addition to completing wave (A) of an ABC zigzag, XLF has also completed wave (B). This leaves the final wave (C) to complete the ABC zigzag. To calculate a high-probability price target for the completion of wave (C), divide the price at the market top (36.55) from the price minimum at the completion of wave (A) (16.61). Then divide this quotient into the price maximum of wave (B) (24.50) to arrive at a price target of $11.13 for the completion of wave (C).

Elliott waves sometimes have a tendency to alternate. In the case of an ABC zigzag, this means that if wave (A) unfolds slowly so that its subwave divisions can be counted, then wave (C) may develop quickly in such a way that its subwaves cannot be counted without changing to a smaller time frame. This appears to be the case with the ABC zigzag corrective formation for XLF. Wave (A) took approximately one year to unfold and its five subwaves have been counted. Wave (C) on the other hand has unfolded and met its price target within nine weeks and its subwaves cannot be counted on the weekly bar chart.

Figure 2 shows the daily bar chart of XLF. This chart shows that wave (C) has unfolded in five waves, waves 1, 2, 3, and 4, with wave 5 yet to be completed. To calculate a high-probability price target for the completion of wave 5, take the maximum price of wave (B) (24.50), and divide it by the minimum price of wave 1 (18.39). Take this quotient and divide it into the price maximum of wave 4 (13.52) to arrive at a target price of 10.15. Note that this target price is a little lower than the price target calculated from the weekly chart. This is known as a price cluster. A price cluster is a range of prices for the same target price that has been derived by various methods. A price cluster is a higher-probability price target than a single calculated price target. Therefore, the range from between 11.13 and 10.15 is a high-probability price range for the completion of wave 5, which also then completes the final wave (C) of the ABC zigzag market correction. However, the question remains is wave 5 complete. To answer this question, we must once again look at a smaller time frame.

Figure 3 shows the 60-minute bar chart of XLF. This chart shows that wave 5 has unfolded in five subwaves, subwave (i), (ii), (iii), (iv), with subwave (v) still unfolding. I have also shown the moving aver-

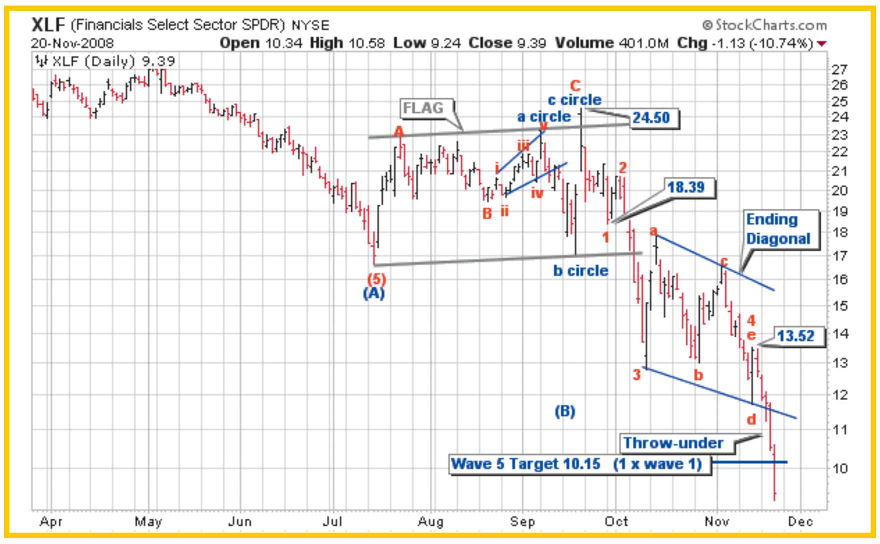

FIGURE 2: XLF, DAILY. This chart shows the Elliott wave count of XLF and shows the price target for the completion of wave 5 of wave (C).

age convergence/divergence (MACD) along with its histogram. The MACD is used to measure momentum and is based upon two moving averages, the 13-day moving average and the 34-day moving average. When these two moving averages start to converge on each other, it is a signal that momentum is starting to slow down. To better see the results of these two moving averages converging on each other, a histogram that measures the difference between these two moving averages is shown. As you can see, the histogram bars are starting to get shorter and this is an indication that the two moving averages are converging and momentum is slowing down. Momentum normally slows down just before a trend reversal. So, MACD is signaling that XLF may very well be close to completing subwave (v), which will then complete wave 5, which will then complete wave (C) and the ABC zigzag market correction. What we need to watch for now is a signal that tells us that subwave (v) is now complete. While there are many ways to do this, one simple way is to watch for the MACD line to cross above its zero line. This normally occurs after the trend has changed directions and is a signal that subwave (v) is complete and a new market trend is under way.

In conclusion, according to my analysis of the Elliott wave count for XLF, the financial market sector is on the cusp of completing its downward market correction. According to the Elliott wave theory, all the rules and guidelines have been met for the completion of this market correction. All that needs to occur now is for a major trend reversal pattern to evolve that will signal the market correction, which started over a year ago, has come to an end. Following this major trend reversal signal, the financial sector should launch a new bull market. However, the cautious trader will continue to treat this market as a market correction until a major trend reversal pattern has developed. ■

FIGURE 3: XLF, HOURLY. The 60-minute price chart of XLF showing the subwaves of wave 5. This chart also shows the MACD measuring momentum. Momentum is slowing down and is signaling a high probability for a change in direction.

HEAD & SHOULDERS

Bond Yields Headed Lower

by Arthur Hill

The 10-year Treasury note yield broke long-term support to confirm a bearish continuation pattern that points to sharply lower yields over the next few weeks and months.

Tradable: $TNX

Figure 1 shows the 10-year Treasury note yield ($TNX) with a large head & shoulders pattern. With the prior move down, this pattern is viewed as a continuation. The long-term trend is visible on Figure 2. A continuation head & shoulders can be viewed as a big consolidation within an existing trend. The support break shows weakness and a continuation of that trend.

Based on traditional technical analysis, the downside projection is to the 23-24 area. This downside projection is based on the height of the pattern, which is around nine points. Neckline support resides around 33.5 (3.35%) and the head & shoulders high is around 42.5 (4.25%). The neckline break looks convincing and bond yields are headed lower.

Figure 2 shows a falling price channel over the last 18 months. Obviously, a falling price channel reflects a downtrend. The green support line is neckline support. The lower channel trendline is around 28 (2.8%) and this area could mark support. The red line shows the head & shoulders target in the 23-24 area (2.3-2.4%).

Bonds move opposite of interest rates. Bonds rise when rates fall and bonds fall when rates rise. A long-term downtrend in rates implies a long-term uptrend in bonds. With a support break in the 10-year T-note yield, we can assume a resistance break in bonds, and bonds are long-term bullish. ■

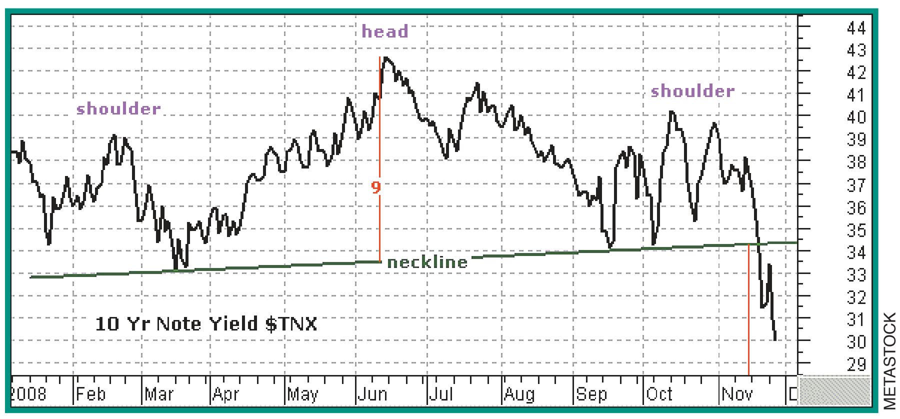

FIGURE 1: 10-YEAR TREASURY NOTE YIELD. Note the head & shoulders pattern. Combined with the prior move down, this pattern is viewed as a continuation.

FIGURE 2: 10-YEAR TREASURY NOTE YIELD. The long-term trend is visible here, as well as a falling price channel over the last 18 months.

Betting On Bonds

by James Kupfer

Bonds have had a huge price spike over the last few weeks. Is there more upside left?

Tradable: TLT

Shares of TLT, the iShares Lehman 20+ Year Treasury Bond Fund exchange traded fund (ETF), have surged over the last two months. In doing so, they have broken out of the trend channel that extends prior to 2003. Given the massive runup, is there still more upside potential left?

Let's look at the evidence. First, looking at the monthly chart (Figure 1), you can see that stochastics are overbought, although they could conceivably move up further. Second, note how the rise in prices over the last seven months has been accompanied by a decrease in volume, especially over the last two months. This is a divergence signal of inherent weakness.

In addition, a Fibonacci price projection between the bottom of the up move and the most recent pivot high points to prices having reached a significant resistance point. The first resistance level indicated by the price projection was a $105.94. In fact, TLT reached a high of $105.97, just three cents above the Fibonacci level, before gapping up to a new high. The second, and more significant resistance level, is at $112.39. TLT is currently trading just a little north of this price. See Figure 2.

Taken together, the evidence suggests that a top is very near for TLT. Yes, there is potentially a bit more upside, but probably not enough to justify any purchases at this point. This might even be a good opportunity to sell existing positions or initiate a short position. ■

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This article was first published on 12/16/2008.
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FIGURE 1: TLT, MONTHLY. This chart shows the old trading range in blue.

FIGURE 2: TLT, WEEKLY. This chart shows a closeup of Fibonacci resistance levels.

Checking Out Retail

by Alan R. Northam

XRT made a market low in mid-November 2008 and has been rallying higher over the last month. Is this rally a market correction or the beginning of a new bull market trend?

Tradable: XRT

According to Elliott wave theory, once a market makes a major market top, that market will correct in three waves. These three waves have been defined by Elliott wave as an ABC zigzag. In the case where the market made a major bull market top, an ABC zigzag unfolds as five waves down forming wave (A), three waves up forming wave (B), followed by a final five waves down that forms wave (C). Upon completion of the ABC zigzag correction, the theory further states that a new market trend will develop in the upward direction.

Figure 1 shows the weekly bar chart of the SPDR S&P Retail Index (XRT). This chart shows that XRT made a major bull market top in early June 2007. Since then, XRT has unfolded in five nonoverlapping waves. The problem with labeling the completion of these first five waves down as wave (A) comes in identifying the degree of trend — in other words, how large is the ABC zigzag going to be with respect to price. Are these first five waves really the end of wave (A) or just the beginning? And will a much larger five-wave down really complete wave (A)? So until the wave structure clearly identifies itself, it is necessary to keep track of all the alternatives. Therefore, I have labeled wave (1) or (A) in labeling these first five waves to the downside.

Following wave (1) or (A), XRT rallied from early July 2008 to mid-September to complete wave (2) or (B). From mid-September, the market resumed its selloff through mid-November to complete wave (3) or (C). If mid-November truly is the completion of the ABC zigzag correction, this would indicate that the bear market is over for the retail sector and a new bull market is emerging. This would also bode well for an economic recovery. However, if this is truly just the completion of wave (3), then the retail sector has a very long way yet to go on the downside, as this would mean that wave (A) of an ABC zigzag market correction is still unfolding.

If the current rally is truly a new bull market in the making, then price must break above and stay above the 50-day moving average.

The market has given us three signs that could help us determine if wave (A) or wave (3) was completed in mid-November. The first sign was the expected target price for the completion of wave (C). To determine this price target, we take the price of XRT at the bull market top and divide it by the low price at the completion of the first five waves down, which occurred in early July 2007. We then take this quotient and divide it into the price high of wave (2) or (B) to arrive at a price target for the completion of wave (C) of 23.30.

From Figure 1 we see that this price target was hit at the end of September 2008 and the retail sector fell significantly below this price target. This calculated price target for the completion of wave (C) is simply a guideline and is not a hard rule, so it is possible for wave (C) to continue lower.

The second sign is given by the length of wave (3) or (C). The length of wave 3s are typically 1.618 times the length of wave 1. As you can see from Figure 1, the downward trend from mid-September 2008 to mid-November was 1.57 times the length of wave (1), which is close enough to 1.618 to be wave (3).

The third sign comes from the development of the wave structure of the current rally that started in mid-November. To examine this wave structure, we turn to the daily price chart in Figure 2.

Figure 2 shows the daily bar chart of XRT. The area of this chart that we want to examine is the rally from November 24, 2008, to the present. There are two possible explanations for this market rally: one is that it is the beginning of a new bull market and the other is that it is simply a market correction in an ongoing bear market. To determine which of these possibilities is correct, we must examine the rally to date.

First, we will examine if the current rally is the beginning of a new bull market. If the current rally is truly a new bull market in the making, then price must continue higher from its current price level. Price must break above and stay above the 50-day moving average. Beyond that, price must also break above and stay above the 200-day moving average. Since XRT has done neither, it is still too early to determine if the retail market sector is in the early stage of a new bull market.

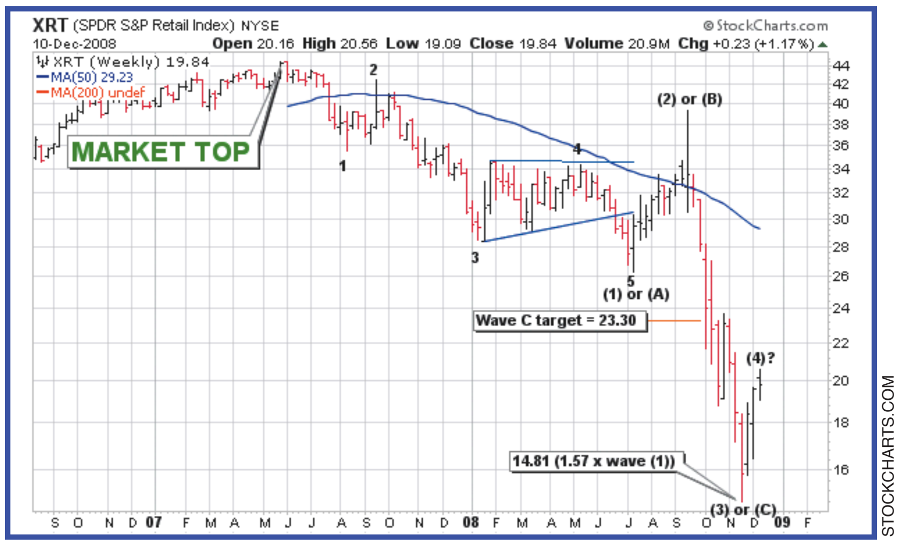

FIGURE 1: XRT, WEEKLY. Here's the weekly price chart of SPDR S&P Retail Index. This figure shows the Elliott wave count and shows that either wave (3) or wave (C) was complete in mid-November 2008.

FIGURE 2: XRT, DAILY. This figure shows the detail of the rally from late November and shows that Elliott wave (4) could be complete. A move below the support line will confirm the completion of wave (4). However, a close above the 50-day moving average could invalidate the wave count and signal that a new bull market is emerging.

Now let's examine the possibility of the current rally being corrective. If this rally is corrective, then it looks to be developing in an ABC zigzag pattern. An ABC zigzag is made up of an a-wave, b-wave, and a c-wave. Further, wave c is usually the same length as wave a. From the wave formation, it looks like wave a and wave c are the same length. Therefore, if this is an ABC zigzag market correction, then the correction looks complete and the market should start selling off immediately. A close below the support line drawn off the b-wave low will help to confirm that XRT is headed lower. However, if XRT continues to trade higher, then perhaps a new bull market is emerging.

In conclusion, XRT looks like it has much further to fall before completing its ABC zigzag market correction. Looking at the evidence, the price target for the completion of wave (C) down has long ago been surpassed, which makes the downward move from September to November look more like wave (3) than wave (C). Further, the downward move from September to November is almost exactly 1.618 times the length of wave (1), also making this downward move look more like wave (3) than wave (C). Finally, the rally from late November looks corrective, with wave c equal to the length of wave a. Confirmation that XRT has much further to fall will come with a move below support drawn off the low of wave b, and beyond that, a move below the low of wave (3) or (C). However, should the market continue higher and close significantly higher than the 50-day moving average and should the 50-day moving average turn upward, then a new bull market most likely began in late November. ■

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SYMMETRICAL TRIANGLE

Airline Breakout?

by James Kupfer

Airlines moved up in the last few months. Are they breaking out to the upside, or is this time to sell?

Tradable: Major Airlines Index

Over the last few weeks, I've written about positive chart patterns developing in JetBlue and Alaska Airlines. The positive developments occurring in those stocks seem to be supported by the airline sector in general now with the potential breakout of the airline index from a symmetrical triangle.

As can be seen in Figure 1, the Major Airlines Index has been caught between ascending and descending trendlines since July 2008. The bottom trendline has formed three points while the top one formed two prior to last week's potential breakout.

Assuming this breakout holds, which seems likely, the price target can be calculated by finding the difference between point 2 at $108.58 and the value at the lower trendline below point 2, which in this case is $56. Adding that difference to the breakout price of $90 leads to a price target of $142.58. ■

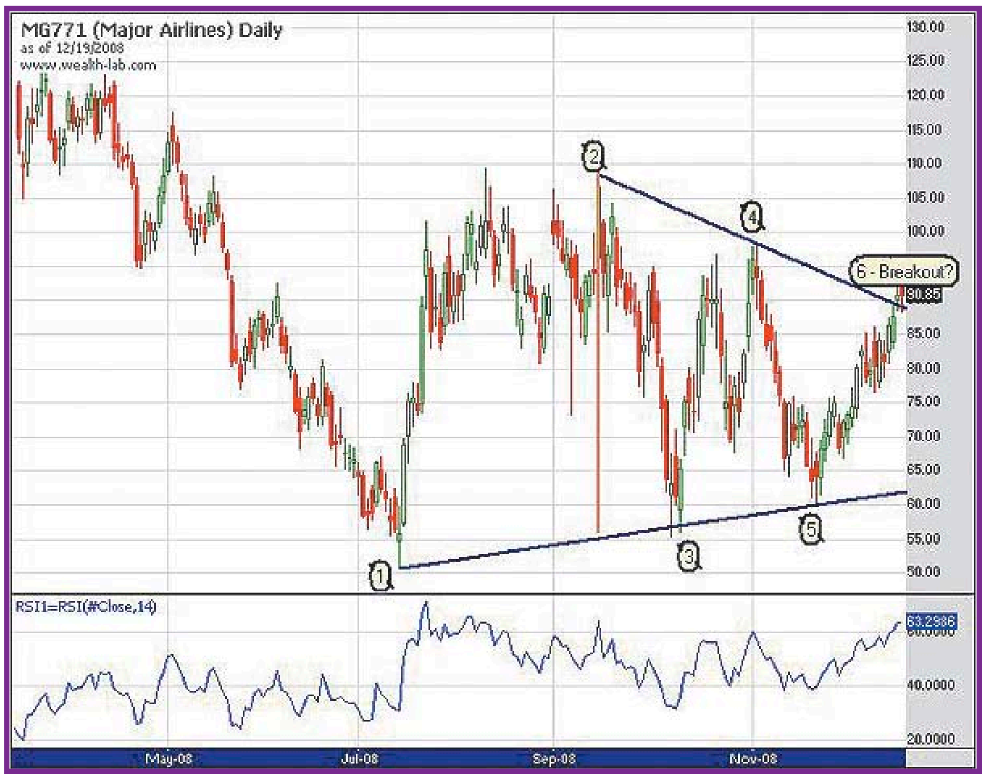

FIGURE 1: MAJOR AIRLINES INDEX, DAILY. The relative strength index (RSI) is moving up strongly in support of this potential price breakout.

Price target ($142.58) =
Point 2 ($108.58) – Value at the lower trendline below point 2 ($56)
= $52.58 + Breakout price ($90)

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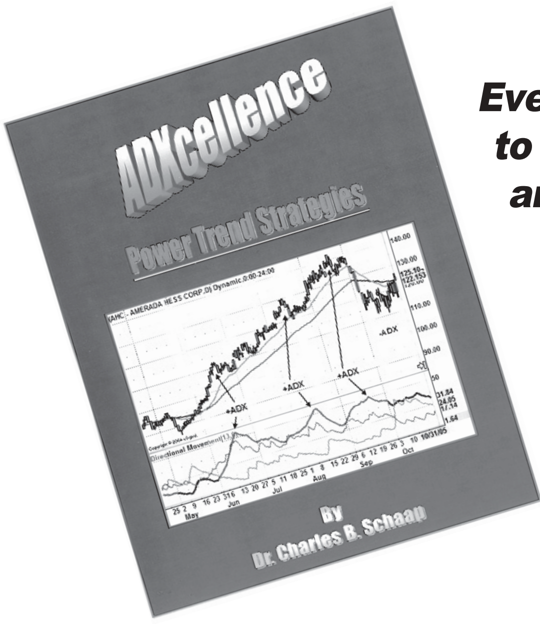

METALS & ENERGY

RELATIVE STRENGTH COMPARATIVE

Golden Ratios And Market Dynamics

by Donald W. Pendergast Jr.

Three distinct ratio views of gold suggest that silver and the stocks within XAU may soon outperform gold. Meanwhile, gold has trounced crude oil for more than four months.

Tradable: SI, GC, XAU

Ratio charts offer market technicians an uncommon view into the dynamic relationships between diverse market segments, and, when combined with knowledge of the key fundamental factors that drive such markets, such technicians are able to remain a step ahead of those who refuse to avail themselves of the big picture. Today's charts all center on gold, and each chart has something important to say about the relative strength of gold versus other important inflation-sensitive market segments. We'll start with the monthly gold/silver ratio chart.

Figure 1 says so much. The most vital message is that the gold to silver ratio appears to have turned squarely in favor of silver, and if past price behavior is a clue to the future, then we may well see a very sharp, swift plunge in the ratio over the next 10 to 14 months. Given that gold has been remarkably steady over the past month or so, this clearly indicates that silver is gaining momentum, which its price chart (not shown) confirms. The detrend oscillator, which was at a manic, unsustainable extreme, also seems to confirm that a major sea change is in the cards for this important ratio. Finally, note the time ratios between the three peaks; the first pair is separated by 79 months, which is essentially a Fibonacci ratio (78.6), while the second pair is separated by 64 months, which is also close to another key Fib ratio, the venerable 61.8. Numerology? Who knows, but it all paints a convincing picture that silver may be the metal to watch in the months to come.

Now let's take a gander at the gold/XAU ratio, which displays the balance of power between gold and the gold and silver stocks that populate the Philadelphia Gold and Silver Index (Figure 2). From 1995 to August 2008, the gold/XAU ratio traded within a range of 2.60 to 6.40; in September 2008, however, the ratio broke sharply higher, clawing its way all the way to 11.38 last month. The monthly chart suggests that this rally is over as the huge reversal candle combined with an anticipated close back inside the outer Keltner band each confirm that a reversal may be at hand.

Finally, we examine the monthly gold/crude oil ratio chart (Figure 3). Evidence that gold is outperforming! Since 1989, the ratio between these two inflation-sensitive commodities has ranged between 6.18 and 27.85. Currently at 11.95 and rising, the evidence suggests that a break through and subsequent close above 12.43 will pave the way for more substantial ratio gains for the gold side of the equation.

The detrend is very high, but the consecutive string of white candles also suggest that this uptrend may be impulsive and therefore due to go substantially higher. Of course, reversal traders may be able to bring the ratio back down into the current trading range, but the fact that the 20-month exponential moving average (EMA) looks ready to pierce the 50-month EMA does lend a distinctly bullish tone to this entire scenario.

Gold is a useful commodity. As a universally recognized monetary unit and store of value, it easily lends itself to the measurement of other key commodities and equities. Gold's value never changes; the only thing that changes is the number of units of other things needed to acquire a fixed amount of gold. Keep that in mind as you construct your own gold ratio charts of the stocks and commodities that you follow. You'll view the world in an entirely different light. ■

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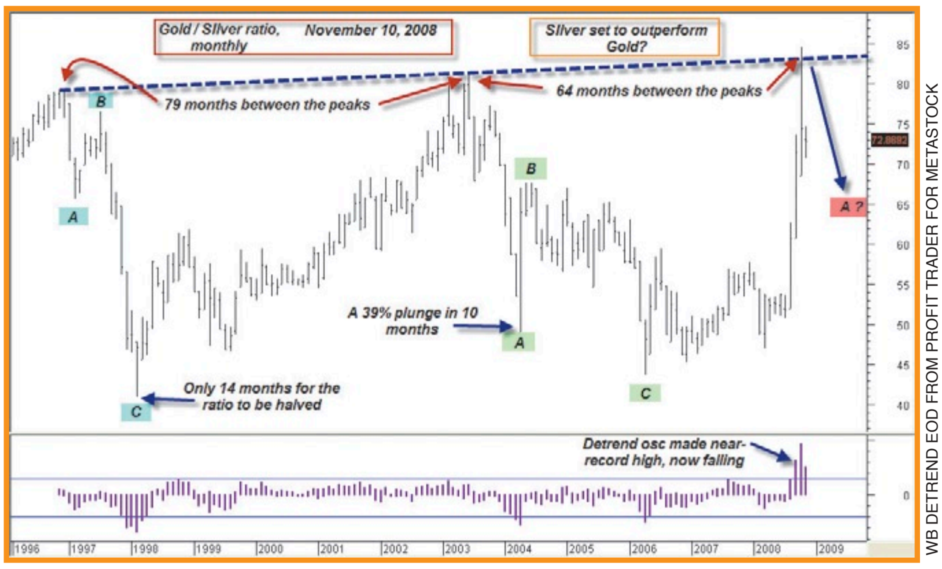

FIGURE 1: GOLD/SILVER RATIO, MONTHLY. A major reversal in the gold/silver ratio may be under way.

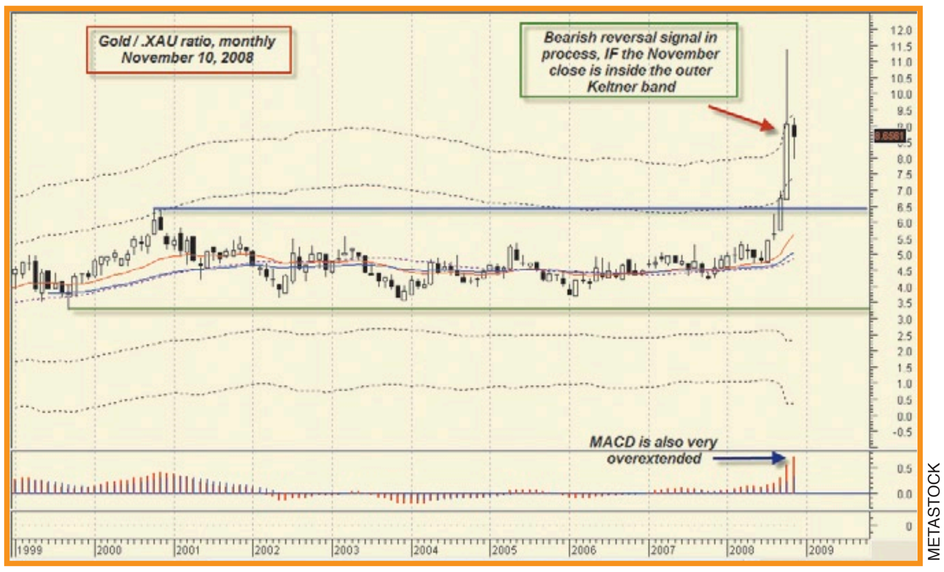

FIGURE 2: GOLD/XAU RATIO, MONTHLY. Precious metals equities may soon outperform gold.

FIGURE 3: GOLD/CRUDE OIL RATIO, MONTHLY. Still in a range, a break and close above 12.43 is bullish.

The gold to silver ratio appears to have turned squarely in favor of silver.

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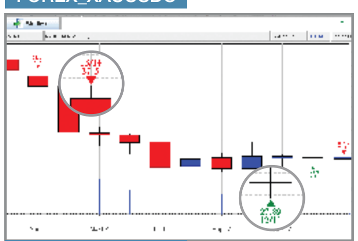

NYSE_ALK

2008 Q1-Q2 Triangle Returns		
James River Coal Co.	JRCC	208.34%
Fuel System Solutions	FSYS	160.90%
Vision Sciences	VSCI	126.60%
Duvernay Oil Corp.	DDV	85.88%
General Motors	GM	52.89%
Heating Oil	HO	49.98%
Wheat	ZW	38.6%
Crude Oil	CL	35.29%
Sugar #11	SB	23.92%
Soybean Meal	ZM	23.73%

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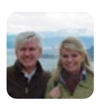

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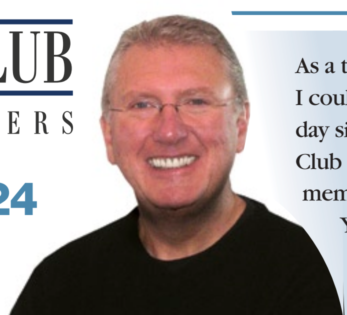

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REVERSAL

Uptrend Ends For Swift Energy

by Chaitali Mohile

Swift Energy witnessed a trend reversal with the failed breakout of a bullish pattern. Is the stock likely to enter a new downtrend?

Tradable: SFY

Swift Energy (SFY) was in a robust uptrend since 2003. The bullish rally continued for almost three years. The relative strength index (RSI) (14) and the moving average convergence/divergence (MACD) (12,26,9) also rallied to highly bullish areas. In addition, the average directional movement index (ADX) (14) indicates an overheated uptrend after the extensive upward rally. All the three indicators declined to create room for a future bullish rally. The RSI (14) established support at 50, the MACD (12,26,9) stabilized in positive territory, and the ADX (14) declined, indicating the developing uptrend. SFY thus entered a long consolidation in 2006, that lasted for two years.

The picture during consolidation was highly bullish, accompanied by healthy volume. This indicated that traders were very positive toward the upside breakout of the pattern. The bullish flag & pennant is a bullish continuation pattern and breaks in the direction of the existing uptrend. The bullish flag & pennant pattern in Figure 1 can be considered to be highly reliable since the time period for the pattern formation is long.

The pattern broke at 50 on encouraging volume. SFY surged to 70, making an all-time high. The target for the breakout rally is 50 - 10 = 40, the length of the flag pole, and 40 + 50 (breakout level) = 90. So SFY had a long way to travel above 70, but the indicators were reluctant. The stock made a new high, but the RSI (14), and the MACD (12,26,9) had a negative divergence. The uptrend failed due to low buying pressure indicated by positive directional index (+DI) of ADX (14).

The breakout rally failed, indicating major trend reversal signs. SFY slipped below the consolidation support at 40 on bearish notes. Currently, the RSI (14) in Figure 1 is not oversold, so the stock has more downside. The MACD (12,26,9) is at a crucial support level of the zero line; if the indicator slips into negative territory, SFY may see further selling pressure. The ADX (14) shows the weak trend, which can drag the stock toward the lower support at 20. Eventually, the selling pressure would increase, initiating a new downtrend.

FIGURE 1: SFY, MONTHLY. The bullish flag & pennant breakout failed to achieve the target of 90. The rally reversed from the 70 level, indicating a trend reversal.

The bullish flag & pennant is a bullish continuation pattern and breaks in the direction of the existing uptrend.

The uptrend reversed as SFY plunged from 70 to 28. The chart suggests a fresh downtrend under way if the previous low at 20 is retested. The stability of the new bearish trend should be watched as the major indexes are rangebound with high volatility. Therefore, a new short can be triggered only in the developing downtrend or below 20.

TREND CHANNELS

Gold Still Golden

by James Kupfer

Gold still appears to be in an intermediate-term position for buying. The channel helps determine the future price target.

Tradable: $XGLD

On October 28, 2008, I wrote that on an intermediate-term basis, "gold is currently at a level of significant support. ... While gold can move lower, like it did last week [to below $691], without breaking the support levels, prices now appear in a favorable position to buy." (See Figure 1.)

Since then, not much has changed. Gold has undergone a consolidation period vacillating between the previously reached $691 level up to $777.

The technical picture remains mostly the same from my October 28th report. Gold has held the support levels previously provided and has possibly formed an additional short-term trading pattern that provide even further support at the $700 level (shown as the green line on the chart). In addition, the weekly stochastics are deeply oversold. For the intermediate term, gold still looks to be in a position to buy.

To Figure 1, I have added an additional trendline showing the potential price target for a move up in gold. Duplicating the bottom black trendline and fitting it to the peaks of gold's prices form the trendline. It would likely take months for prices to make it back to the top of the trendline, but even by the time it does, prices would likely be around $850, if not higher.

FIGURE 1: $XGLD, DAILY. Gold has undergone a consolidation period vacillating between the previously reached $691 level up to $777.

Silver Standard Resources Flag Breakdown

by Alan R. Northam

The flag formation for SSRI has failed and signals that the SSRI will continue to trade lower in the short term. However, the short-term upward trend for SSRI should resume once this correction is complete.

Tradable: SSRI

On November 11, I published an article titled "Silver Standard Resources Bouncing Off Support." In that article I showed that a flag was forming on the 60-minute chart. Flag patterns are normally continuation patterns and the flag for Silver Standard Resources was signaling the continuation of the rally in the upward direction. However, since then the flag formation has failed and so I thought it prudent to update that article.

Figure 1 shows a 60-minute bar chart of Silver Standard Resources (SSRI). This chart is an updated version of the chart shown in my previous article. This chart shows that from the low in October to the high in early November, SSRI rallied in an impulsive way. An impulsive rally defines the main direction of the trend. In this case, the rally from mid-October to early November defines that the short-term direction is up. Note that the upward trend is defined as a short-term trend since our time frame is referenced to the 60-minute chart. In addition, note that the rally is defined as an impulsive rally because the subwaves within this rally are nonoverlapping waves. This definition is taken from the Elliott wave theory.

However, the selloff from early November forward is corrective. Corrective waves are identified by a shallow sloping trend and each wave within this trend is overlapping. Again, this is taken from the Elliott wave theory. From classical or traditional technical analysis, this corrective wave started out by looking like a flag. A flag is a pattern that develops against the main trend and is composed of a trading range between two shallow downward sloping lines. The bottom line is normally called a support line and the upper line is normally called a channel line or a resistance line. During the formation of the flag, it appeared as if there was a false breakdown. A false breakdown occurs when price breaks out of the flag formation and then returns and starts to trade inside the flag pattern. However, since that time SSRI has broken down a second time. Second breakdowns are normally real breakdowns, so it is highly unlikely that this second breakdown is also a false breakdown. However a quick return back to within the flag pattern would suggest that this too could be a false breakdown. With the second breakdown suspected to be a real breakdown, the market should now continue lower. Also from a technical point of view, the first breakdown has been relabeled as a premature breakdown. A premature breakdown is defined as a breakdown that quickly returns back to the flag formation and then breaks down again for the second time.

FIGURE 1: SSRI, HOURLY. This chart shows the impulse market rally from mid-October to early November. This chart also shows the failed flag formation.

FIGURE 2: SSRI, HOURLY. This chart shows possible areas of support that could end the downward selloff and turn this market back upward. A close below the October low would signal the continuation of the downward trend.

In Figure 2, I have again shown the 60-minute chart for SSRI. This chart shows the possible areas of support that could end the corrective selloff of SSRI. Any one of these lines of support could stop the downward correction. It is a very difficult thing to pick which of these lines of support will be the strongest and will turn SSRI back upward.

However, there are a couple of high-probability areas for strong support that should be addressed. First of all, there exists an open gap on the chart. An open gap is created when the low of a trading session's bar is higher than the high of the previous session's bar. There exists a high probability that these gaps are filled -- that is, the market will eventually come back down and trade below the low of the open gap. So look for the price to move back down to the support line drawn off the high bar of the open gap just below 6.50. Second, there is a high probability that the market will turn back upward before falling to the lowest line of support drawn off the October low. The reason is that if the rally from the October low to the early November high is impulsive, then the following market correction should not trade back below its origin. Again, this is taken from the Elliott wave theory.

In conclusion, the market rally from mid-October to early November looks impulsive and defines the market trend as short-term upward. The selloff from early November forward looks corrective as the downward trend is shallow with overlapping waves. The corrective rally at first looked to be forming a flag, which signals a trend continuation. However, this flag formation has failed to stop the market correction and turn SSRI back upward, and therefore, the market correction continues. Market corrections normally retrace only a certain percentage of the previous rally and should come to an end before SSRI reaches the October low. Several lines of support have been identified on the bar chart that represent possible price targets that could turn this market back upward. Although it is difficult to tell which of these lines of support will turn the market back upward, there is a high probability for the market to turn back upward at the support line drawn just below 6.50 on the chart. There is also a higher probability that the market correction will end before reaching the support line drawn off the October low. A high-probability signal that will inform traders that the correction has ended and SSRI has resumed its short-term upward trend will occur when the 13-day and the 34-day moving averages cross above the 50-day moving average. Upward price targets from my previous article remain valid for the completion of the short-term upward rally. A close below the October low will signal that the main trend for SSRI is still in the downward direction. ■

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STRATEGIES

Anglogold Leading Gold Higher

by Mike Carr, CMT

As the price of gold seems to have found a bottom, some gold mining stocks have shown strength and are worth buying.

Tradable: AU

AngloGold Ashanti (AU) is a South African gold mining company. The company should be profitable this year with gold prices back above $800 an ounce and their cost of production at $486 per ounce. While the fundamentals appear solid, the prospects of a global recession could limit the demand for gold and industrial minerals the company produces. Uncertain fundamentals make technical analysis an important investment consideration.

The long-term chart of AU (Figure 1) supports a bullish argument. The price objective from the complex head & shoulders pattern was reached on a spike low. The stochastics indicator has just completed a bullish crossover.

Technical analysis often involves incorporating a number of signals into a single opinion.

Relative strength in AU is also bullish (Figure 2). Using a point & figure chart to measure relative strength makes it easier to spot the underlying trend and ignore the daily market noise. After an extended consolidation phase, relative strength has broken out to its highest level this year.

Finally, the daily chart indicates that AU has entered at least a short-term bull market. We can see that as prices gapped up, the RSI broke above 60. Analyst Andrew Cardwell has studied this indicator extensively, and identified the concept of RSI range rules. He observed that in uptrends, the RSI will usually stay between values of 40 to 80 and in bear markets the indicator will typically fall to 20 and stay below 60. A breakout in the RSI can be used to verify the price action and confirm the entry into this trade.

Technical analysis often involves incorporating a number of signals into a single opinion. In this case, multiple time frames, multiple indicators, and price itself indicate AU is a buy. ■

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This article was first published on 11/15/2008. See www.Traders.com for more.

FIGURE 1: AU, MONTHLY. The stochastic has turned positive while prices bounced off the 2000 lows.

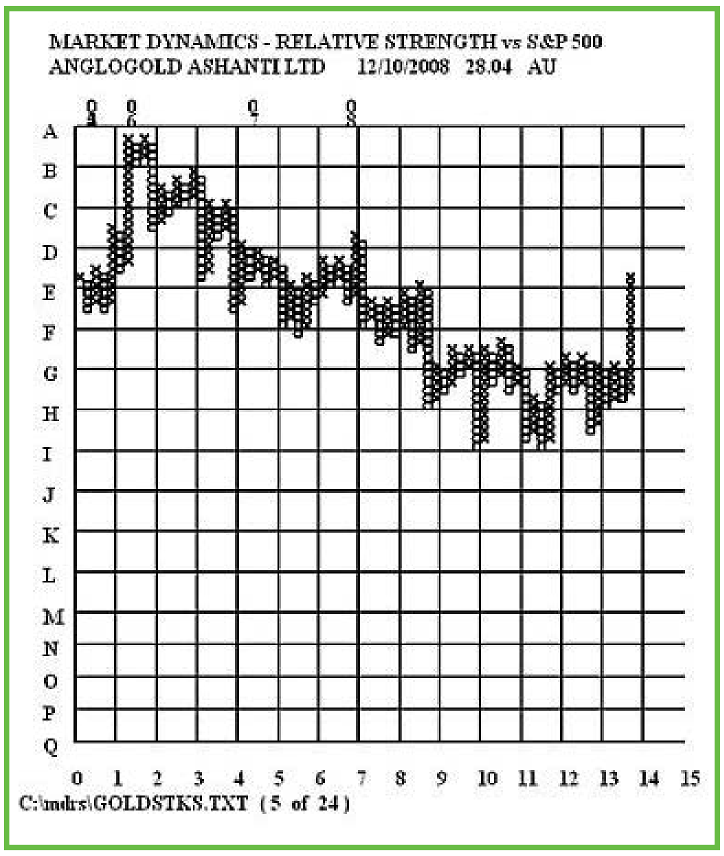

FIGURE 2: AU, P&F. The point & figure chart of relative strength shows that the stock has just broken out of a consolidation pattern.

FIGURE 3: AU, DAILY. With the RSI in a bullish range and price gapping higher, AU represents a buy at current levels.

DESCENDING TRIANGLES

Energy Sector SPDR Undergoing Trend Reversal

by Chaitali Mohile

The Energy Select Sector SPDR has formed a descending triangle. Can the upward breakout of the bearish pattern sustain, indicating a major trend reversal?

Tradable: XLE

The Energy Select Sector SPDR (XLE) has formed a descending triangle while consolidating at the bottom. The descending triangle is a continuation pattern in a downtrend that breaks in a downward direction. But if the triangle breaks in the opposite direction, a major trend reversal signal appears on the chart. In Figure 1, XLE formed a descending triangle with the flat bottom that is the support line at 40 levels (also known as the buyer's line). Above the lowest support, another support area is marked with a dotted line at 42 levels. The lower highs formed the descending line known as the seller's line. To trade the triangle, the traders enter short positions from the seller's line with the target of the buyer's line (the flat line), and a long trade is possible from the support line (again the buyer's line), with the target of the declining seller's line. The volume in Figure 1 has diminished as both lines of the triangle have converged. Since the trading range narrows, the trading volume also reduces.

XLE has breached the seller's line, indicating the trend reversal possibility. In Figure 1, the immediate resistance of the 50-day moving average (MA) is also violated, but for the confirmed breakout, XLE has to sustain above the newly formed support. The relative strength index (RSI) (14) shows positive divergence along with good buying opportunities if the support at the 50 levels is established. The moving average convergence/divergence (MACD) (12,26,9) is also rallying higher than the price movement, so the positive divergences on both indicators suggest the stable breakout. The MACD histogram has also established support over the zero line in positive territory, so the indicators are likely to support the breakout and the upcoming trend.

But the trend indicator, the average directional movement index (ADX) (14), shows a weak trend and increasing buying pressure indicated by the positive directional index (+DI). Earlier, XLE failed to surge above the seller's line due to lack of buying pressure. The +DI and the negative directional index (-DI) are ready to collide again, and therefore, we would be watchful at current levels as history may repeat itself. But looking at the current rally across the globe, XLE would continue on a bullish path. Remember, we cannot trade in anticipation.

XLE is likely to reverse the downtrend with the 50-day MA support and the positive divergences by momentum indicators. ■

FIGURE 1: XLE, DAILY. The descending triangle is formed at the bottom. The upside breakout would generate bullish reversal signals.

CHART ANALYSIS

iShares Silver Trust Races For A Pennant

by Donald W. Pendergast Jr.

After enduring a major multimonth bear market, iShares Silver Trust is forming a potentially bullish pattern.

Tradable: SLV

Silver bugs are an unusual bunch in that they tend to be even more diehard in their belief that silver is real money than gold bugs are in asserting their claims that gold is the only legitimate form of currency. Even after watching their beloved metal plummet like a ton of lead — from nearly $21 all the way down to the sub-$9 area — silver bugs remain steadfast in their opinion that the poor man's gold is ultimately destined for prices ranging anywhere from $30, $50, or even $100 to who knows how high if the commodity bull market can regain its footing. While no one knows if silver will ever see $15 again, much less $50, the weekly and daily chart patterns of the iShares Silver Trust (SLV), an exchange-traded fund that owns approximately 214 million ounces of silver (AG), are presenting some

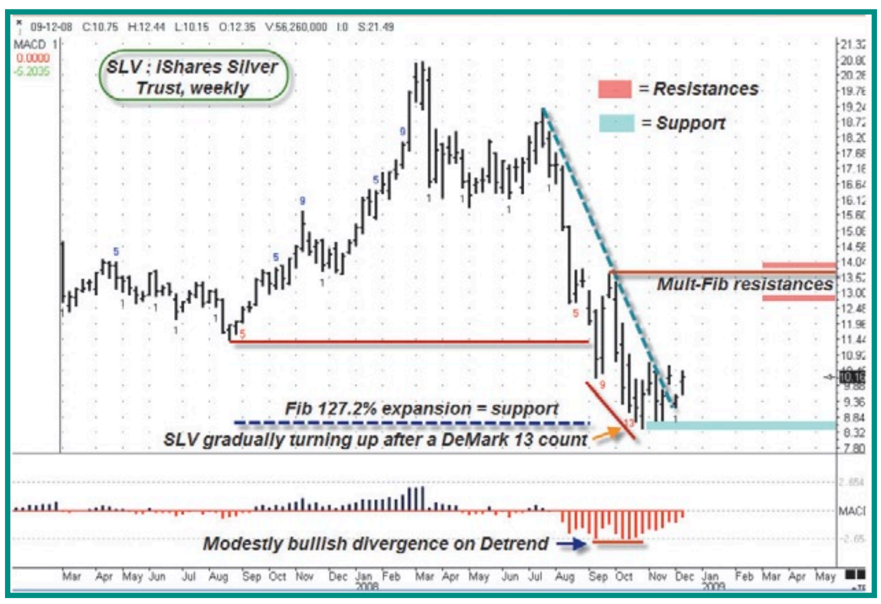

FIGURE 1: SLV, WEEKLY. A mildly bullish COT report, positive price-momentum divergence, and a Fibonacci 127.2% expansion ratio are the key technical highlights.

technical patterns that suggest that this precious metal may be preparing for another leg higher. The weekly chart offers several interesting technical clues.

A mildly bullish COT report, positive price-momentum divergence, and a Fibonacci 127.2% expansion ratio are the key technical highlights.

The weekly chart (Figure 1) shows the bottoming phase that occurred near a Fibonacci 127.2% expansion level even as a mildly bullish price-momentum divergence printed on the detrend oscillator. Of greater interest is the current Commitment of Traders (COT) report for silver futures; commercial interests appear to be backing off a bit on long acquisitions even as large speculators (hedge funds, etc) are taking up the slack. Such movement in the COT data sometimes precedes a substantial rally, but only time will tell. As expected, SLV has significant overhead resistance, with the $12.50-14.00 zone offering some of the heaviest clusters of Fibonacci retracement confluences.

The most notable feature on the daily graph of SLV (Figure 2) is the well-framed triangle/wedge that has formed on progressively lower volume. Right now, price is touching the upper channel line, and if price successfully breaks upward, the triangle pattern suggests that a measured move (based on the $1.46 maximum width of the triangle) up to about $11.86 is in order. That's pretty close to the early October high of $11.98, and it's going to be a significant resistance level for this exchange traded fund (ETF) to overcome. Additional Fibonacci resistance lies just beyond that at $12.19. Conversely, if SLV breaks lower out of the triangle, a trip down to $7.44 is a possibility. The precious metals markets have been very strong lately, so you can bet that many traders will be watching for any breakout (or fakeout) moves higher from SLV's triangle.

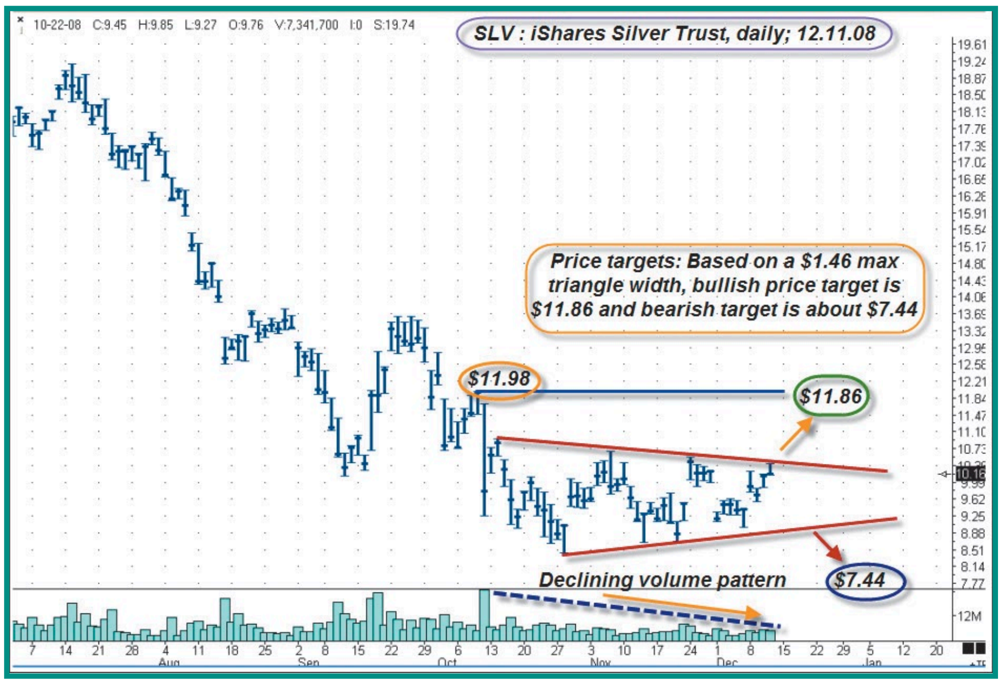

FIGURE 2: SLV, DAILY. A triangle pattern forms on declining volume.

While at first glance, chart patterns like the triangle, flag, and head & shoulders seem like no-brainers based on typical successful breakout ratios, wise traders also realize that the more popular a pattern is, the higher the possibility there is of a spectacular pattern failure. Let's face it, if everybody anticipated one outcome, who's left to take the other side of the trade? Some of the most profitable trades occur as savvy traders fade the anticipated trade entries of the "sure-thing" traders, hoping for a pattern failure move to react violently in the other direction. Therefore, base your trading decisions on more than just a popular chart pattern or two — train yourself to look at the markets in ways that sometimes conflict with what "everyone" already assumes to be the truth, because sometimes what everybody knows is completely wrong. ■

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CHANNEL LINES

Gold's Channel

by James Kupfer

Is gold ready to break out of its channel formation?

Tradable: Gold

On October 28, 2008, and again on November 18, 2008, I made the case that gold was in a very favorable position to buy. At the time I said, "Prices would likely be around $850, if not higher" by the time gold reached the top of its trend channel. Since then, gold has reached a price of $857, thus almost reaching the top band of the trend channel.

Based on this move, is now the time to sell? Yes, in my estimation now is a good time to take profits. First, and most important, gold has basically reached the top of the trend channel. Second, gold is at an important resistance level predicted by taking a Fibonacci price projection of 127.2% between the last leg's low and the last swing high, as shown in orange. Finally, both the daily and weekly stochastics are overbought. See Figure 1.

Gold could well have a bit more shine left, but a top of intermediate proportions is likely near. ■

Further reading

Kupfer, James [2008]. "Is Gold Still Golden?," Traders.com Advantage, October 28.

_____ [2008]. "Gold Still Golden," Traders.com Advantage, November 18.

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FIGURE 1: XGLD, DAILY. Gold is channeling between the black lines.

CURRENCIES

ELLIOTT WAVE

The Gold/US Dollar Ratio At Major Support

by Donald W. Pendergast Jr.

After completing a major third wave up, the gold/US dollar ratio sits right at major support, which may also be the low of corrective wave A.

Tradable: GC#F, DX#F

FIGURE 1: GOLD/US DOLLAR RATIO, MONTHLY. Three powerful waves up, followed by a correction.

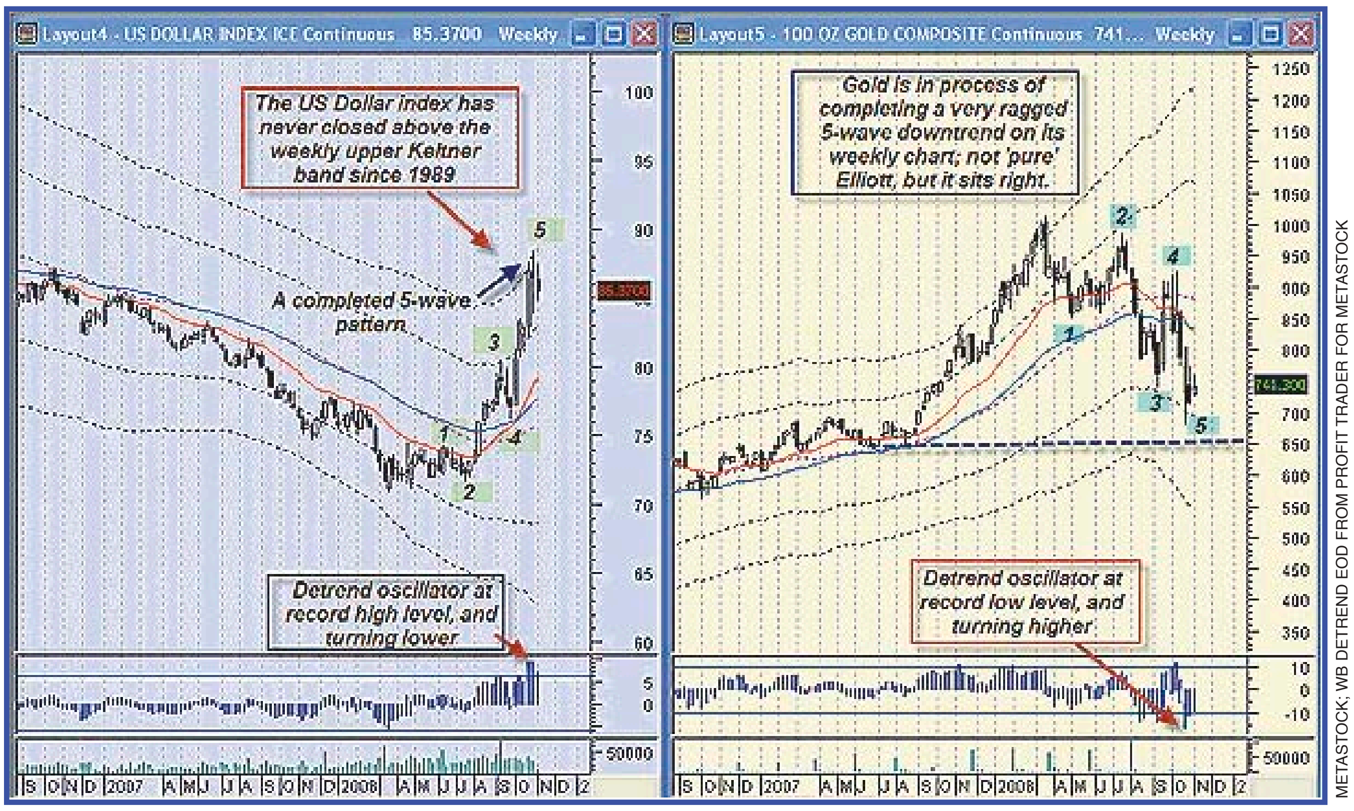

FIGURE 2: US DOLLAR. An extended fifth wave in the US dollar; a correction is likely.

As recently as March 2008, the sky seemed like the limit for gold, even as dollar pessimism reached historic proportions. In a moment, however, everything seemed to get turned upside down as gold faltered and the dollar rallied. What happened? Did the fundamentals that drove gold from $252 to $1,030 suddenly turn bearish? What changed in the dollar's long-term outlook to make it climb so sharply?

In essence, nothing changed at all. All of the fundamental factors are in place and are stronger than ever. What happened is that the mania phase of an especially strong up wave 3 in gold ran its course and then corrected sharply (it's still in the process of doing so, and may be for months). Similarly, the ultrabear mania that drove the dollar into the dirt also abated, leading to the massive short-covering rally that may be nearing its terminal phase.

Elliott wavers know that extremes in social mood are the driving force behind every market move, and those moves can be accurately identified, quantified, and most important, profited from. We'll start with the monthly gold/US dollar ratio chart.

The Elliott wave labeling on Figure 1 is self-explanatory; the most logical conclusion right now is that the gold/dollar ratio is nearing completion of corrective wave A, which happens to be near a confluence of Fibonacci support and the 50-month exponential moving average (EMA). If waves B and C follow, there should be several more opportunities to profit from gold and the US dollar as they react, reverse, and rally. However, if and when the corrective waves are complete, a break higher by gold means the start of a fifth wave, one that has the potential to become the most profitable phase of this historic bull run in gold.

Elliott wavers know that extremes in social mood are the driving force behind every market move.

A side-by-side view of the weekly US Dollar Index and gold futures contracts also reveals the hand of R.N. Elliott at work -- the beautiful Elliott pattern, featuring an extended fifth wave in the US dollar appears to be complete, even as the detrend (near a record high) begins to turn southward, right near its upper Keltner band (Figure 2). A corrective wave should take the greenback down to at least 78 to 80 within a few weeks. Meanwhile, even gold has traced out a raggedy five-wave corrective pattern on its weekly chart; unlike the dollar, the fifth wave in gold appears to be truncated. If the dollar rolls over hard, expect gold to reciprocate by staging a strong rally, probably back toward $800-875.

The battle between the US dollar and gold continues, just as it has since

President Richard Nixon officially terminated the exchange of dollars for gold back in August 1971. Since then, the world has been on a floating exchange-rate standard, even as deficit spending continues unabated and the national debt has grown to astronomical levels. Some predict that gold's best days are just ahead, while others simply write it off as just another commodity bubble. Whichever way gold and the US dollar go, the charts will be the trader's most accurate guide as this global money war continues. Meanwhile, I rate gold as an accumulate and the US dollar as a sell. ■

ELLIOTT WAVE

The British Pound: Is The Smart Money Accumulating?

by Donald W. Pendergast Jr.

After tracing out a distinct five-wave pattern of reasonable proportion, price-momentum divergences suggest that the British pound may be due for a reversal.

Tradable: GBP

The British pound has been in a downtrend against the US dollar since July 2008, having declined by approximately 28% as of early November 2008. It's fallen so hard that it has retraced most of the gains made against the dollar since mid-2001. Why? Mortgage, housing, and a general economic crises has caused the British government to cut interest rates, bail out troubled banks, and institute a policy of even greater deficit spending. Such government actions tend to cause currencies to be sold off in anticipation of future currency devaluation due to inflation concerns. That's certainly the case with the British pound right now, but the charts and Commitments Of Traders (COT) data are suggesting that a reversal may be in the cards for the pound sterling, perhaps sooner than later.

The daily chart of the pound depicts a beautiful, smooth five-wave downtrend that generally fits standard Elliott wave criteria; wave 4 does not overlap wave 1 and wave 3 is not the shortest wave (Figure 1). Wave 5 hasn't traveled very far, as a major price-momentum divergence has printed on the chart (on both the detrend oscillator [top of chart] and the Chaikin money flow [bottom of chart]). Note how the extreme lower Keltner band has essentially formed the lower boundary at the terminal points of waves 1, 3, and 5. With price pulling away from the Keltner band again, this may signal the start of a consolidating, sideways action phase, similar to what the daily chart of the US dollar is now demonstrating. Recent COT data also suggests that the "smart money" — that is, commercial interests — is accumulating the pound.

Meanwhile, the US dollar has had a great run, most of it undergirded by a combination of heavy short-covering and mass fear, both induced by the unprecedented global financial crisis of the past few months. Large speculators are still heavily long the dollar, according to the COT data; apparently the trend-followers are still expecting the dollar to make further gains, even as the commercial interests are betting on the pound. On the chart, the dollar just printed a long upper shadow, which is a bearish signal near a significant high, more so because it printed after price failed to take out the October high. If a subsequent attempt at the 89.00 area fails, watch and see if the blue uptrend line is broken. If it is broken, expect a swift move down toward major Fibonacci support near 82.00 (Figure 2). If dollar bulls can take out 89.00, they will soon have to contend with major overhead resistance between 90.25-92.25, which includes the November 2005 high and the 38.2% retracement of the entire plunge from 121.29 to 70.81.

It's quite a battle, the one now shaping up between the US dollar and the British pound. Overall, the weight of the technical evidence suggests that the dollar will fall and the pound will rise, but only time will tell. The weekly CFTC Commitment of Traders report helps provide currency traders with important fundamental data that can help confirm a thoughtful trader's technical forecast, and anyone who trades commodities, currencies, and stock indexes would do well to learn how to interpret and apply such vital data into their own trading routines. ■

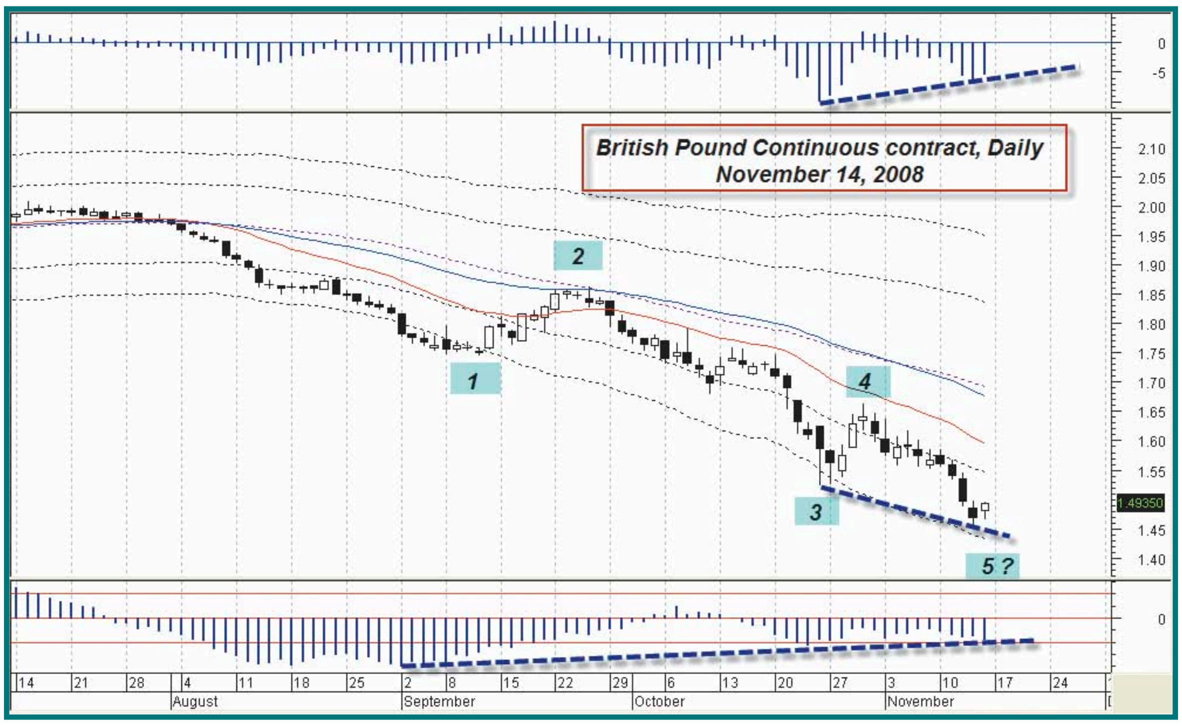

FIGURE 1: BRITISH POUND, DAILY. Here's a five-wave downtrend: Is it ready to reverse?

FIGURE 2: BRITISH POUND, DAILY. Here's strong overhead resistance and a bearish candlestick.

Two Currencies, Two Trends

by Donald W. Pendergast Jr.

The trend is your friend — until it ends, anyway. The yen may be ready to soar to new heights, even as the Canadian dollar struggles to find a floor.

Tradable: JY

Currencies have been among the most trendworthy financial instruments to trade, especially since the US dollar began to plunge in 2002. Commodity currencies, particularly the Australian dollar and Canadian dollar, did especially well until 2007–08. In less than a year, the Canadian dollar lost nearly 30% of its value against the US dollar. At the same time, the yen has gradually emerged as the new currency star, racking up consistent gains against the greenback since mid-2007. Let's examine the yen first and see if we can determine if this monthly trend is likely to continue (Figure 1).

The smaller monthly pennant, formed by the series of higher lows and two lower highs, appears to have been decisively broken as the last completed monthly bar closed above the upper blue resistance line. There are four other technical clues that also put the yen's long-term trend bias squarely into the bullish camp:

- A higher high and higher low are in place.
- Price is on the preferable side of the 20- and 50-month exponential moving averages (EMAs).
- The spread between the 20- and 50-month EMA is widening.
- The ultimate oscillator has a very bullish configuration, complete with higher highs and higher lows.

FIGURE 1: JAPANESE YEN, MONTHLY. Three pennants all suggest further upside is imminent.

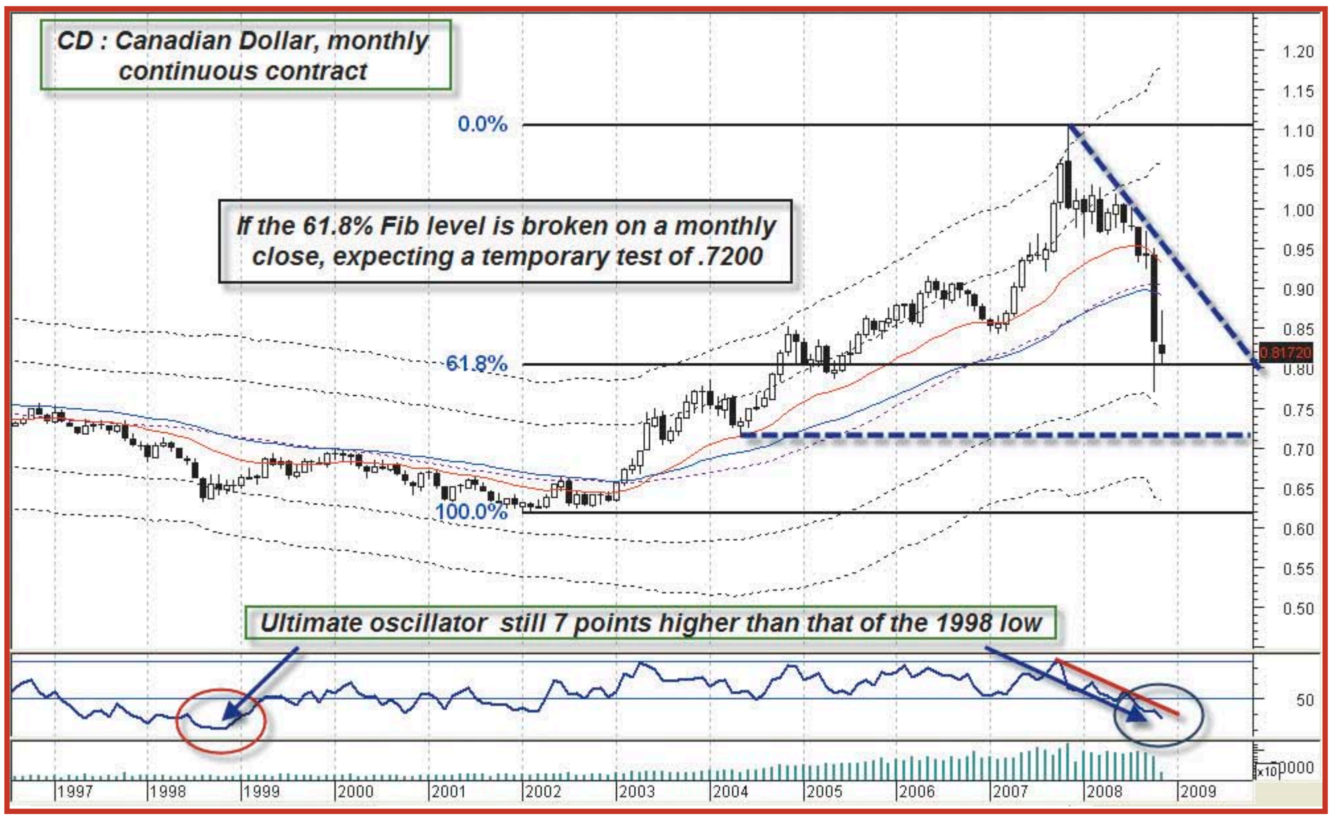

FIGURE 2: CANADIAN DOLLAR, MONTHLY. The loonie sits at a critical Fibonacci 61.8% support.

From my perspective, once the R1 resistance zone is cleared, the yen should have smooth sailing all the way up to R2, which is near the April 1995 high. If the dollar finally rolls over and continues its long-term downtrend, the upward march to R1 and R2 should become much easier. Commitments of Traders (COT) data also suggests that the large specs (trend-following hedge funds and so forth) are still solidly in the bull camp for the yen.

Now we cast our gaze at the technically troubling graph of the Canadian dollar (Figure 2). Having shed more than 30% by mid-October, price is, for the moment, respecting the important Fibonacci 61.8% retracement level along with the inner Keltner band, but the sheer momentum behind the year-long selloff suggests that lower price levels may yet be in store for the loonie. A break of Fibonacci 61.8% support means that a trip down to the 0.7200–0.7300 level is a distinct possibility. A possible bullish omen is the ultimate oscillator reading; at 37.36, it's still much higher than the 30.07 recorded during October 1998, also a time of global financial panic. Given that the 2007–08 global crisis is much worse, this indicator may actually be telegraphing an early warning that the worst of the Canadian dollar plunge is already over.

So what's next for the yen and the loonie? No one can say for certain, but it would be very unwise to bet against powerful monthly trends in any currency market. If crude oil, natural gas, gold, silver, and uranium all recover a sizable portion of their bull market gains, expect the Canadian dollar to recover, right alongside those vital commodities. For the time being, the yen is a solid long-term "accumulate" (on weekly dips) and the Canadian dollar is a "wait and see." ■

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MOMENTUM

Dollar Dazed, Yen Unfazed — For Now

by Donald W. Pendergast Jr.

Now that the highly anticipated reversal of the recent US dollar rally has occurred, how low might it go? Will the mighty yen keep on rising, without any setbacks?

Tradable: DX, JY

Down by 7.8% since late November, the US Dollar Index has caught the attention of central bankers, currency traders, and goldbugs worldwide. Gold and silver prices are zooming higher, as are their related mining shares, and all the major foreign currencies are gaining strongly against the once-mighty greenback. Is the current decline nothing more than a simple pullback in a developing uptrend, or is there a higher, more vital market dynamic that is destined to drive the US dollar significantly lower? See Figure 1.

The dollar index was flying high until November 21, 2008, which was when a visible Elliott five-wave structure completed its very strong motive trend. What every Elliottician had to be asking themselves at that point was something like this: "Is this the start of a higher-degree uptrend, or will the long-term downtrend, first established in 2002, regain control, driving the dollar index to new lows?" Elliott wave analysis sometimes creates more questions than it answers, and the only rational answer then becomes, "I don't know; I must wait for more patterns to unfold."

Maybe some of those questions are being answered right now. Last week's big, black wide-range candle shows us that traders are dumping greenbacks with gusto, even as the huge white weekly candles on the euro and Swiss franc (not shown) reveal a near-panic move into these supposed alternatives to the dollar. Right now, the dollar index sits right at the 38.2% Fibonacci retracement, but with the red uptrend line just waiting to be challenged, I don't expect that Fibonacci level to hold. If the red uptrend line breaks, a trip down to the 50% Fibonacci level is the next logical stopping point. Watch the long-term trendline on the momentum (14) indicator; that can also give a clue as to how far this current dollar selloff may go.

It's common to see a large A-B-C corrective wave pattern unfold after a well-defined five-wave motive phase, so regardless of how far the dollar falls, the probabilities favor such an occurrence. That doesn't mean it will happen, of course, but it would be unwise to count out such an event from happening. Right now, let's look at a couple of yen charts to see what the world's strongest currency (for the moment) is up to. See Figure 2.

The first yen (JY) weekly chart shows the monster, long-term uptrend, complete with higher highs/higher lows, a bullish break above a Keltner band, and a widening spread between the 20- and 50 week exponential moving averages (EMA).

However, the bearish price-momentum divergence that has printed on the StochRSI gives an early warning that the trend may run out of steam sooner rather than later. Those who are long the yen may wish to consider booking some partial profits and/or tightening their trailing stops. The following chart gives even more reason for yen bulls to give pause (Figure 3).

Sometimes, those old trading textbook formulas work out perfectly; the old AB=CD swing ratio formula is showing us that the two major upthrusts in the yen are of almost identical magnitude; swing AB came in at 2,353 points even as swing CD measured 2,342 points. Big deal, you say? The added manifestation of the nearly identical length CD swing hitting a major Fibonacci expansion ratio (161.8%) even as the ultimate oscillator prints a major negative price momentum divergence should be proof positive enough that the yen is at a significant technical juncture. Tightening stops should be job #1 for all those currently long the yen.

Two currencies, two unique sets of technicals. For all we know, the yen could keep grinding higher, but for now, the probabilities suggest that the yen's uptrend is signaling that a period of rest and consolidation may be in the cards. As for the dollar index, all longs should already be out of the pool, as that jagged Elliott wave (the A-B-C corrective pattern) may be on the ever-darkening horizon.

For these reasons, I rate the US dollar as a "stand aside" and the yen as a wait-and-see. ■

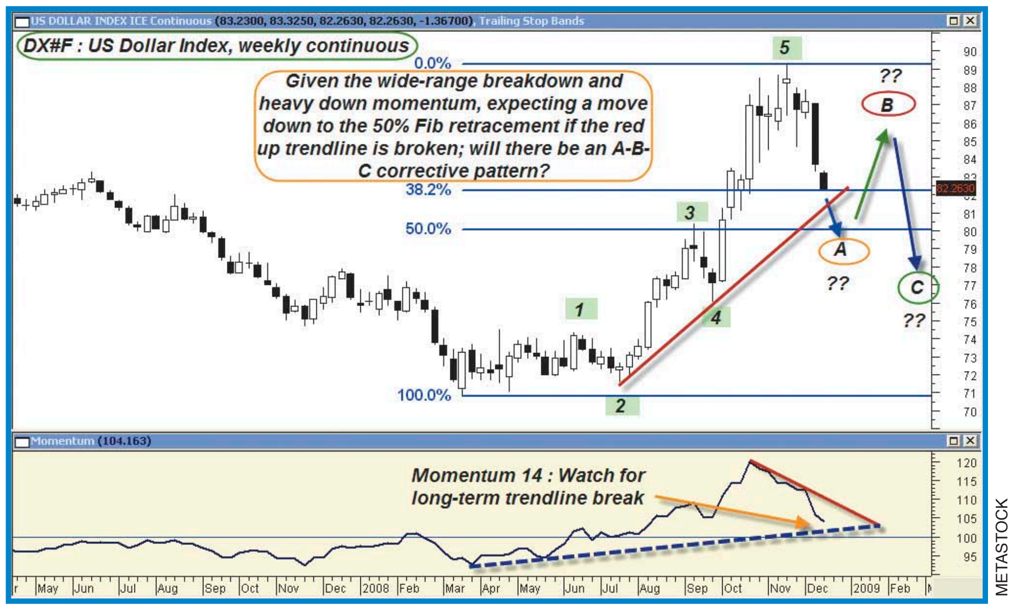

FIGURE 1: US DOLLAR, INDEX, WEEKLY. Typically, a valid Elliott five-wave motive pattern is followed by an A-B-C corrective wave pattern.

FIGURE 2: JAPANESE YEN, WEEKLY. A strong uptrend continues, but negative price-momentum divergence may be warning of changes to come.

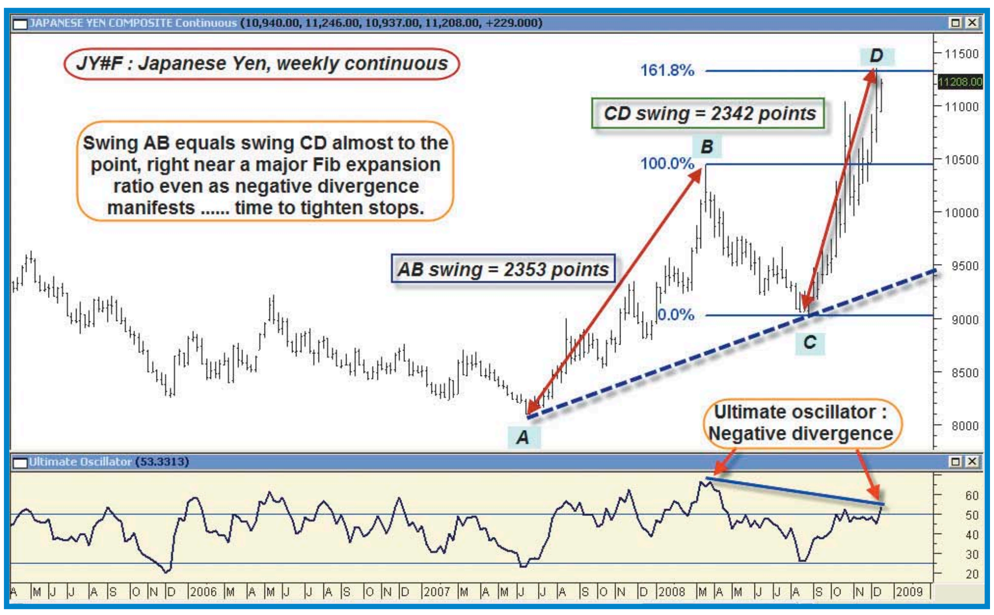

FIGURE 3: JAPANESE YEN, WEEKLY. A variety of technical measurements are combining to suggest that the yen may be approaching a period of consolidation and/or trend reversal.

CHARTPATTERNS

TRIANGLES

Microsoft Breaks Triangle Support

by Arthur Hill

Microsoft appeared to have a harami at support in late October. The stock did indeed bounce, but the gains failed to hold and a recent triangle support break points to lower prices.

Tradable: MSFT

Figure 1 shows daily candlesticks over the last four months. Microsoft (MSFT) broke support with a sharp decline in early October and broken support turned into resistance around 25. Trading turned quite choppy in October, but the stock never managed to hold above its support break for more than a day. Thus, the support break held for all intents and purposes.

A triangle formed over the last five weeks and the stock is breaking triangle support as I write this (see red circle in Figure 1). With the prior move down, the triangle represents a rest or consolidation after the decline. This prior decline gives it a bearish bias that favors a support break and continuation lower. Volume patterns also favor a continuation lower. The on-balance volume (OBV) moved to new lows already. Up volume was below average on the last bounce and down volume was above average on the big decline last week. Higher volume on down days shows more interest in selling than buying.

Figure 2 shows weekly prices with a large head & shoulders pattern. This bearish reversal pattern was confirmed with the support break in June. The stock consolidated around the neckline break before heading lower. Based on traditional technical analysis, the downside target is around 17. The height from the neckline to the head is subtracted from the neckline break for a target. MSFT has yet to fulfill this target, but the recent triangle break gives it another chance. ■

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With the prior move down, the triangle represents a rest or consolidation after the decline. This prior decline gives it a bearish bias that favors a support break and continuation lower.

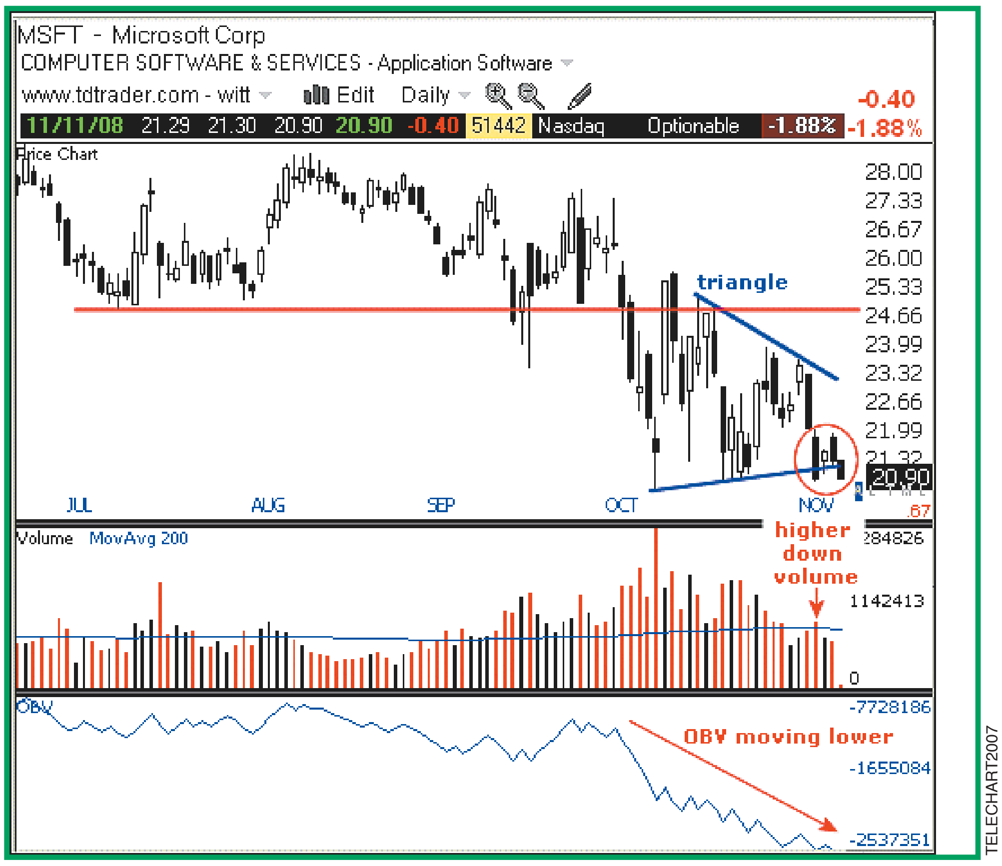

FIGURE 1: MSFT, DAILY. Microsoft broke support with a sharp decline in early October and broken support turned into resistance around 25.

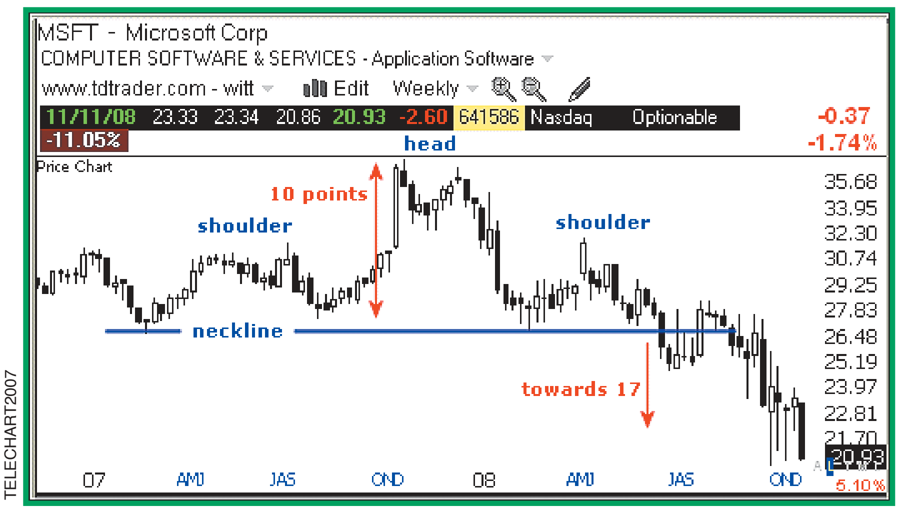

FIGURE 2: MSFT, WEEKLY. This bearish reversal pattern seen here was confirmed with the support break in June.

CANDLESTICK CHARTING

QQQQ Engulfing Pattern

by James Kupfer

Along with all the major US market averages, the NASDAQ tracking stock QQQQ has formed a bullish engulfing candlestick pattern.

Tradable: QQQQ

Candlestick patterns are used by a variety of technical traders. Thursday's price action in all the major US equity indexes formed what is referred to as a bullish engulfing pattern. Although it would be unwise to make trading decisions based solely on the presence of a candlestick formation, this particular formation is thought to be a harbinger of a rise in prices just as the name would suggest.

The bullish engulfing pattern is formed when a down day is "engulfed" completely, as in the following day's price action. In this particular case, Wednesday November 12 was a down day (Figure 1). On November 13 the QQQQs closed well above the previous day's high. In addition, the low of the day was significantly lower than the low of the day before. The engulfing pattern is circled in red. ■

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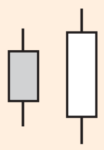

Bullish Engulfing: It is a major reversal signal with two opposite-color real bodies making up this pattern. The market is in a downtrend, then a white bullish real body engulfs the prior period's black real body.

FIGURE 1: QQQQ, DAILY. Note the engulfing pattern circled in red.

FLAGS AND PENNANTS

Travelers Travels Higher

by Arthur Hill

Travelers is bucking the trend in financials by holding well above its October lows, and a consolidation breakout would open the door to higher prices.

Tradable: TRV

Figure 1 shows daily candlesticks for Travelers Companies (TRV). The stock declined sharply with the rest of the market and then bottomed in early October. While the Standard & Poor's 500 and the financial sector tested their early October lows over the last few weeks, TRV moved higher and then held well above these lows. This shows relative strength versus the overall market and the sector.

Despite overhead resistance, the trend since early October is up and volume shows underlying strength.

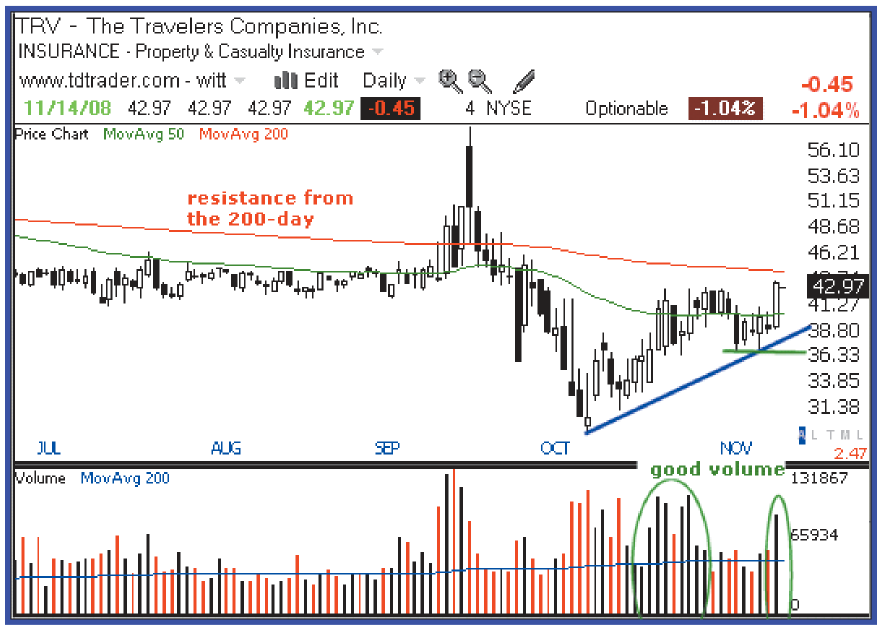

FIGURE 1: TRV, DAILY. The stock declined sharply with the rest of the market and then bottomed in early October.

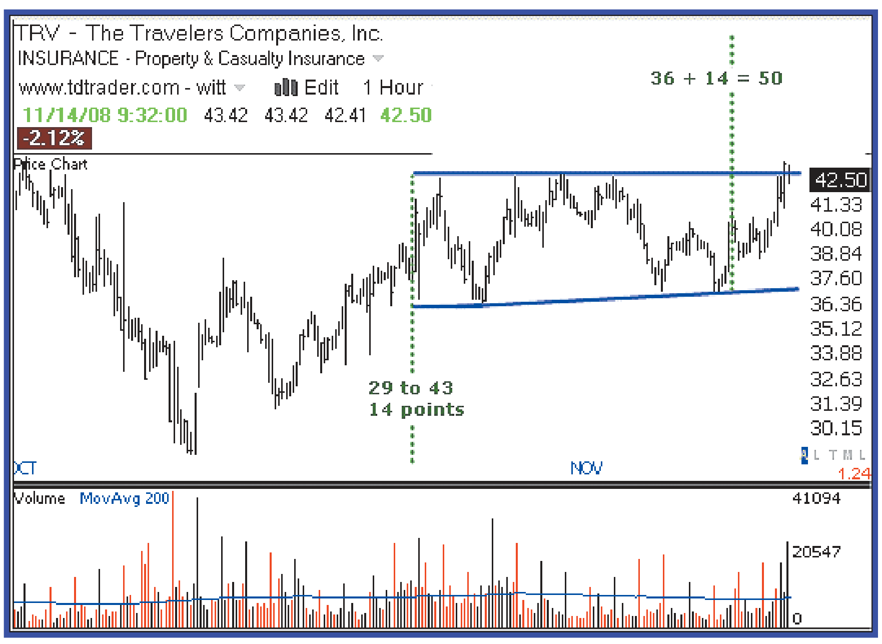

FIGURE 2: TRV, HOURLY. This stock sported a sharp advance and then a consolidation.

There is resistance in the low 40s from the 200-day moving average. However, the black volume bars show strong buying pressure over the last few weeks, and this underpins the advance. Recently, the stock surged back above 40 to establish support around 37. This level holds the key to the current uptrend.

Figure 2 shows 60-minute bars over the last seven weeks. TRV sports a sharp advance and then a consolidation. This looks like a flag flying at half-mast. The green dotted line forms the flagpole and the blue lines form the flag. Flags are continuation patterns based on the prior move, which was up in this case. A break above flag resistance would project further strength toward 50. ■

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This article was first published on 11/18/2008. See www.Traders.com for more.

The Dow And A Key Reversal

by Koos van der Merwe

On November 13, the Dow Jones Industrial Average started the day by testing the low of October 10. It then reversed upward, strongly forming a key reversal. Does this signify the completion of wave C?

Tradable: DWIX

Thursday, November 13 started out with the Dow Jones Industrial Average (DJIA) flirting with turning positive, or continuing its negative trend of Wednesday, November 12. It was another wild day, something the market currently seems to take in its stride. The DJIA rallied about 100 points after the opening bell, dropped to -60 points 30 minutes later, rebounded to about +120 by 10 am Eastern time, and then slid to -313 around 1 pm, hitting a low of 7969. Then, as though in response to the short speech that President George Bush made, it blasted upward to 8835, or +550 points, by the close. Remarkable, but with the volatility found in the market lately, not that spectacular, until one starts to analyze the technicals.

When the market fell to the low of 7969, it bounced off the 2 x 1 Gann angle line. As shown on the monthly chart in Figure 1, the low of 7773.71 reached on October 31 also tested this Gann line, and thus gave the angle a strong support level.

A look at the daily chart (Figure 2) shows that the DJIA did not reach the 2x1 Gann angle, but it came very close. It also did not reach the trendline shown on the chart, but there are two very positive indications that the DJIA may indeed have completed its C wave:

a. The day's move formed a key reversal. That is where the low of the day is lower than the previous day's low, and the high of the day is above the previous day's high, with the close at the previous day's high.

b. The relative strength index (RSI) is trending upward, having given a buy signal on October 13, when it broke above the 32 horizontal line.

FIGURE 1: DJIA, MONTHLY. DJIA shows the testing of the 1x2 Gann angle.

FIGURE 2: DJIA, DAILY. The DJIA shows a key reversal and the RSI buy signal.

Whether this level is indeed the completion of the C wave down will be confirmed over the next few days, but for the first time in a very nasty bear market, hope does seem justified, strengthened by the key reversal. ■

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RESISTANCE LINE

The DJIA's Moment Of Truth

by Arthur Hill

After a sharp four-day rally, the Dow Jones Industrial Average is nearing resistance, and the moment of truth is approaching for the bulls.

Tradable: $INDU

Three items point to resistance just below 9000. First, the current advance retraced 50% to 62% of the November 2008 decline. Corrective rallies often meet resistance in this retracement zone. Second, the trendline extending down from mid-September also marks resistance just below 9000. Figure 1 is shown with a semilogarithmic scale to reflect moves as percentage changes instead of absolute price changes. This means the trendline reflects the rate of descent over the last few months. The rate of descent is rather sharp, and a move above the trendline would change this rate of descent.

The triangle center marks the third resistance point just below 9000. This triangle represents a consolidation pattern with lots of churning and volatility. The Dow Jones Industrial Average (DJIA) broke the lower triangle trendline with the November decline and then rallied back into the triangle. While the bounce looks impressive, this consolidation zone now marks resistance and the center is just below 9000.

The top indicator window shows the 14-day relative strength index (RSI) meeting its moment of truth around 50. In a downtrend, the 50-60 zone marks momentum resistance for the RSI. This area offered resistance in late September and early November. A nice positive divergence formed over the last few months, but a move above this resistance zone is needed to prove that this is more than just an oversold bounce.

The DJIA became oversold in October and plunged to new lows in November. These moves created oversold conditions and the current surge relieved these conditions. With the DJIA and the RSI hitting resistance zones, the moment of truth has arrived for the bulls. A break above 9000 would be bullish and argue for further strength toward the next resistance zone.

FIGURE 1: DJIA. The semilog scale shown here reflects moves as percentage changes instead of absolute price changes.

VOLATILITY

VIX In Double Jeopardy

by Ron Walker

The VIX, a contrarian indicator, measures the implied volatility of the S&P 500 index options and can be used for spotting turning points in the market. When it peaks, the stock market is near a bottom, and when it puts in a low, the stock market is becoming toppy. With a little detective work, VIX may help us solve the mystery of which direction the market is headed.

Tradable: $VIX

The volatility index (VIX) gauges the fear of volatility. The VIX, a contrarian indicator, measures the implied volatility of the S&P 500 index options and can be used for spotting turning points in the market. When it peaks, the stock market is near a bottom, and when it puts in a low, it signals that the stock market becoming toppy. With a little detective work and using multiple time frames, it may help us solve the mystery of which direction the market is headed.

In Figure 1, the daily chart of the volatility index (VIX), has been on a terror since early September 2008, rising from the mid-20s in late August until the it finally peaked in late October, having put in a record rise to 89.53%. During that time, the VIX formed an trendline that subsequently was penetrated on November 3, breaking below the 60 level. Over the next two trading sessions, the VIX continued in its freefall and then bounced off its 50-day simple moving average and bolstered back up.

The VIX began to make its way higher, flirting with the broken trendline in its revamped rally that took it back up above 80. There it rammed into the broken trendline,

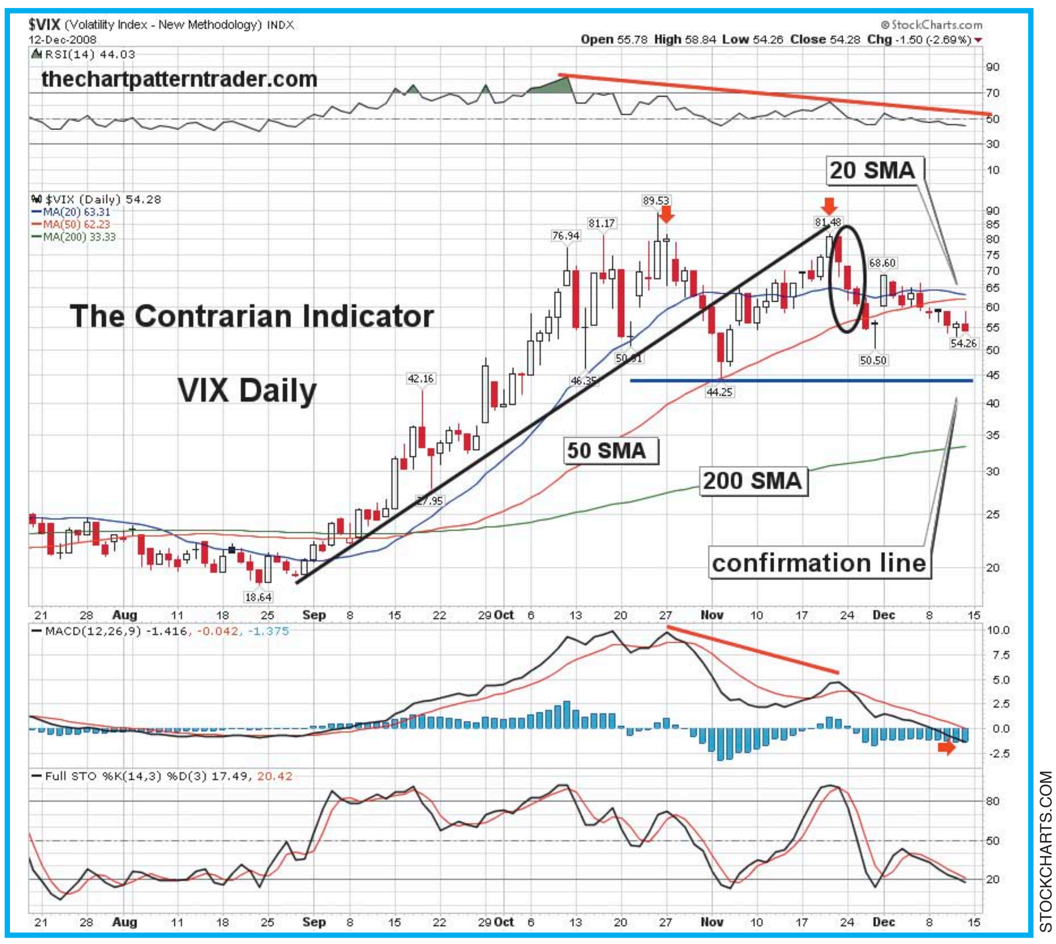

FIGURE 1: VIX, DAILY. The 20-day SMA has been in a excursion sideways and it could cause it to plunge below the 50-day SMA. Note that price is below both of those moving averages after forming two distinct peaks in a potential double-top pattern, with a confirmation line at 44.25%. The MACD just slid below its zero line.

FIGURE 2: VIX, HOURLY. Here we see that the VIX is in double jeopardy, sporting two bearish patterns. The head & shoulders top formed within the second top on the daily chart. If the MACD is unable to clear its downtrend, failing to rise above the zero line, the head & shoulders pattern will likely follow suit, breaking below its neckline.

FIGURE 3: VIX, WEEKLY. It may be that it's one, two, three strikes you're out. If the two bearish patterns play out as noted on the hourly and daily charts, they will drag the weekly chart down kicking and screaming with them. The MACD is poised for a bearish cross, while the stochastic got confirmation of a lower high and is driving right toward 50, where momentum could shift.

which represented resistance.

Then on November 24, a bearish engulfing candlestick stopped the advance dead in its tracks. That bearish pattern morphed into another, with three identical crows. This pattern is very bearish, forming three long down days with the second and third days opening at or near the previous day's close.

These bearish candlestick patterns carved out a second peak on the VIX's daily chart, which may result in a double top pattern forming (Figure 1). The VIX continued lower and then made a recovery attempt, which failed and resulted in a lower high forming. Prices now have a lower high on the daily chart, but the VIX needs to put in a lower low to be in a confirmed downtrend.

If the VIX falls below the confirmation line for the double-top pattern, which is the low at 44.25, that separates the two peaks, it would put in the lower low needed to continue the downtrend. This scenario has a high probability of coming to pass, with the moving average convergence/divergence (MACD) moving below its zero line. Meanwhile, prices are below the 20-day simple moving average (SMA), within striking distance of the 50-day SMA, and could easily pierce below it if price continues to erode on the VIX.

While the VIX's daily chart runs its bearish course, another bearish pattern is looming on its hourly chart, which may allow the double-top pattern on the daily chart to penetrate its confirmation line at 44.25 (Figure 2). A head & shoulders top has been constructed within the second top that formed on the daily chart. This puts the VIX in double jeopardy, with two potential bearish pattens lingering over the VIX's daily and hourly charts. The neckline on the head & shoulders top near the 54 level, should that level be violated there, isn't much left in the way of support until the 44.25 area (which is the confirmation line of the double-top pattern on the daily chart).

Figure 2 shows that the VIX 60-minute chart has formed a newly downward slope on the price chart, while its MACD is running right into a newly formed downward trend, which intersects with the zero line. If the MACD rolls back over at this barrier, the head & shoulders pattern on the hourly chart should break support and penetrate the neckline, forging a lower low on the daily chart.

While the VIX is in double trouble on its daily and hourly charts, its weekly chart also appears to be in dire straits, giving some credibility to those patterns. Further clues on the VIX weekly chart (Figure 3) show an extended MACD that looks ready to get a bearish cross and roll lower. The stochastic (14, 3, 3) got confirmation of a lower high, and then violently hooked back down, where it now resides just above 50. Should that double dose of bearish chart patterns lead to further decay the VIX's price chart, then the stochastic and the MACD on the weekly chart will be tarnished. The stochastic will likely plunge below 50, as the MACD gets a bearish crossover, shifting the balance of power from the bears to the bulls, as the VIX rubber stamps its seal of approval on the recent renegade rally that has occurred in the stock market of the November lows.

Now, if the breakdown of the VIX continues, it doesn't necessarily mean that the stock market has seen the bottom. But for all intents and purposes, it does mean that we have a floor for now. I expect the stock market to rapidly rise higher for the short term in a bear market rally off these oversold levels. Prices will rise rapidly for a bit, but will eventually succumb to more selling pressures at key levels of resistance. The stock market needs to rise in order to allow more distribution to occur. Whether the VIX is signaling a long-term bottom, only time will tell. But for now, its bearish chart patterns keep it in double jeopardy, favoring long positions in the stock market. ■

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Another Rectangle Break For Texas Industries

by Arthur Hill

Texas Industries broke rectangle support for the second time in six months, signaling yet another continuation of the long-term downtrend.

Tradable: TXI

Figure 1 shows daily bars over the last six months. Texas Industries (TXI) declined sharply in May–June and then formed a rectangle consolidation in July–August, two months down and two months flat. The stock broke rectangle support in September and declined more than 50%.

After becoming oversold in early October, the stock consolidated and formed another rectangle. This one lasted just over a month, and the stock recently broke support to signal yet another continuation lower. Using traditional technical analysis, the expected decline would be equal to the height of the pattern. However, the first rectangle break/decline proves we should take these targets with a grain of salt. A bear market is under way and this means overshoots to the downside are more likely.

Figure 2 shows candlesticks over the last four months. Note that TXI broke support with high volume. Selling pressure is increasing, just as it did in late September (blue arrow). The pattern extends from 35 to 23 for a height of 12. Should this project unfold, the downside target would be around 11.

The bottom indicator shows the moving average convergence/divergence (MACD) moving below its signal line and into negative territory over the last few days. The MACD is firmly bearish as long as it remains below its signal line. With bearish momentum and a support break, TXI looks to move lower over the next few weeks. ■

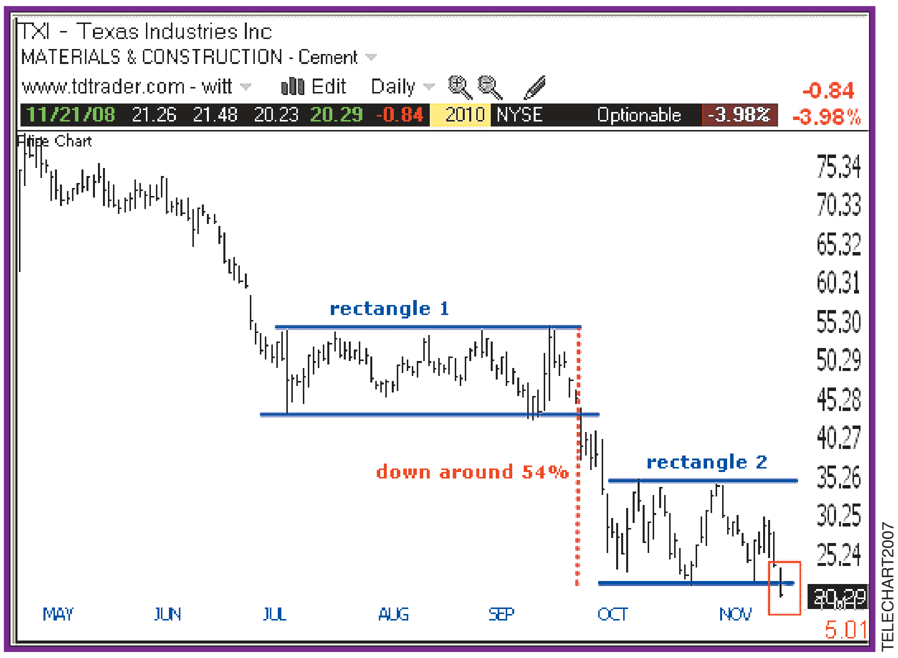

FIGURE 1: TXI, DAILY. Texas Industries declined sharply in May and June and then formed a rectangle consolidation in July and August.

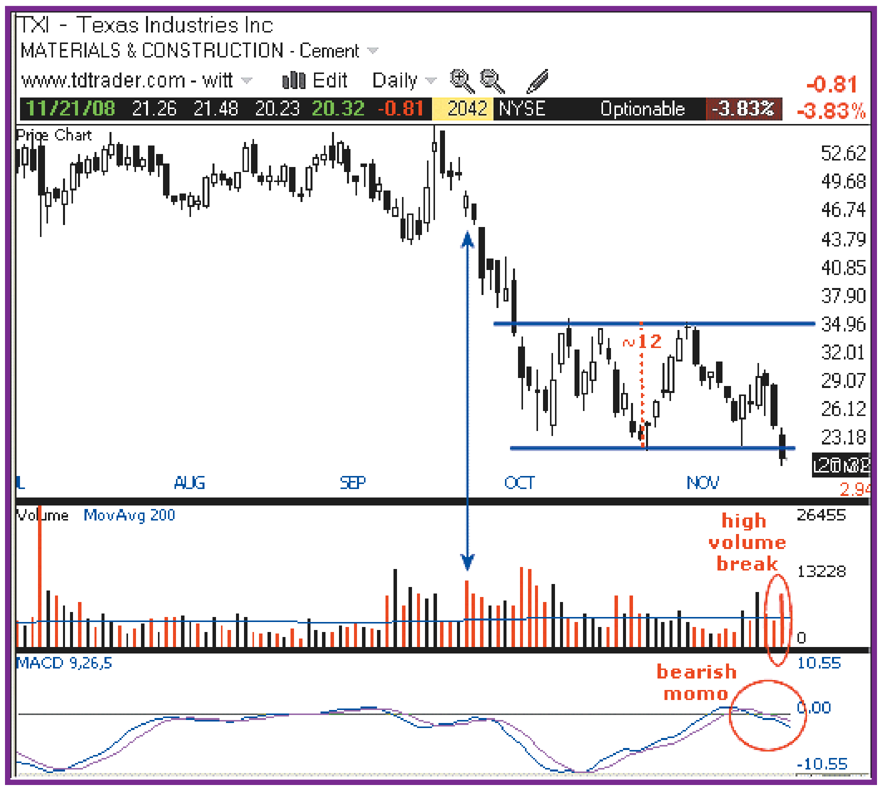

FIGURE 2: TXI, DAILY. TXI broke support with high volume. Selling pressure is increasing, just as it did in late September (blue arrow).

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A Simple Pattern Forecasts A Reversal

by Donald W. Pendergast Jr.

Learn how a simple, yet effective price pattern can help you forecast likely turning points in the markets you follow.

Tradable: GDX

FIGURE 1: GDX, WEEKLY. When two significant Fibonacci ratios agree on a support/resistance level, expect price to react when that level is reached.

The Market Vectors Gold Miners ETF (GDX), a wonderful exchange traded fund (ETF) proxy for the Amex Gold Bugs index (HUI), has rebounded with gusto since making a major low on October 24, 2008. Up as much as 114% (from the low) on December 17, 2008, the stock proceeded to drop sharply, causing some to question whether the bull market in gold mining shares was still a go. While no one knows if the golden bull will regain its footing, climbing to new heights (or not), it's clear that this selloff was not a surprise for savvy traders, traders using a combination of technical tools, measurements, and patterns. A glance at the weekly chart of GDX can help us put this recent setback into proper perspective. See Figure 1.

Even though GDX rallied nicely after making that major low in October, the fact is that the stock is still in a technical bear market rally, not even having retraced half of the losses since heavy selling began in March 2008. Wise technicians would have known ahead of time that GDX would face major overhead resistance if and when it began to recover and rise higher. They also know that when two Fibonacci retracement levels are in close proximity to one another, the resulting support/resistance barrier is much more formidable. Such is the case on the GDX weekly graph, as a 50% retracement from swing XA coincided with a 78.6% retracement from swing ZA — right at the peak of this week's price bar in GDX. Look at how far the candle reversed on an intraweek basis, suggesting that the Fibonacci confluence zone was being watched by knowledgeable market participants. However, if we drop down to a daily chart of GDX, we'll learn that there was a much more specific early warning that a significant reversal was likely to take place in this precious metals ETF. See Figure 2.

Well-educated traders, market pros with knowledge of reliable chart patterns that provide accurate forecasting ability, are typically one step ahead of the rest of the trading masses. One of the best patterns of all is the Gartley 222 pattern, sometimes referred to as a butterfly pattern. Originally discovered and categorized in 1935 (at about the same time that R.N. Elliott discovered the wave principle bearing his name) by HM Gartley, it has become much more widely known due to the efforts of a modern-day trader named Larry Pesavento.

The process of evaluating an unfolding 222 pattern is fairly straightforward; once major swing XA was complete, a sharp trader would be looking to see if swing AB would retrace 38.2% to 61.8%% of swing XA. Then he would check to see if a BC swing, one retracing 38.2% to 78.6% of swing AB, would form. At this point, if the proportion of the swings look correct, the trader could further monitor for the eventual formation of a CD swing, one retracing 61.8% to 78.6% of swing XA. Ideally, swing AB will also equal swing CD, but in the real world, that doesn't always happen, and such is the case with the butterfly pattern depicted here. Nevertheless, the overall shape of the completed pattern has the right look about it, one that inspires confidence in its forecasting ability. Interestingly, swing XA only took 0.667 as much time to form as did swing AD. That's not too far from an ideal Fibonacci 61.8% ratio. The sharper down thrust of swing XA compared to the more gradual ascent of swing AD is also another visual confirmation that GDX is still in a bear market, one that still needs time to overcome a massive amount of overhead supply.

The lavender box shows the typical target range for swing DE; the maximum logical target is the 61.8% retracement of swing AD, or about $23.81. The minimum target comes in at about $27.65. It's just a guideline, and traders need to realize that the DE swing can materialize and then complete in a variety of ways; it's usually best to place the Gartley pattern within the context of the higher time frame's trend when determining an exit strategy. In other words, don't hang around too long, hoping for a major move that may never materialize.

We'll look at one final chart, a 60-minute GDX graph, one that demonstrates how shorter-term players were able to get a jump on a completed daily butterfly pattern. See Figure 3.

Nothing fancy here, just common trading sense. Waiting to enter until price demonstrates a breakdown is occurring is a wise strategy. In this case, a break of the three-bar trailing low is used as an entry trigger, and the same three-bar low is used as a trailing stop. Some traders like to wait for a retracement entry, which is also a valid method. The only drawback is that some signals will be missed if price breaks strongly after the butterfly pattern completes on the daily chart. In this GDX trade, a wise trader would be aware of the large gap between $29.40 and $28.88, a likely support/resistance battleground. Tightening stops and/or taking partial profits as prices approach such major gaps is always a prudent strategy.

Price patterns rarely come delivered in textbook-perfect proportions, but the Gartley butterfly pattern is still one of the most reliable chart patterns ever discovered. When placed in the proper context of higher time frame trend, support/resistance, and other fundamental supply/demand factors, it can and does deliver consistent profits for those who develop a sense of acceptable pattern form. ■

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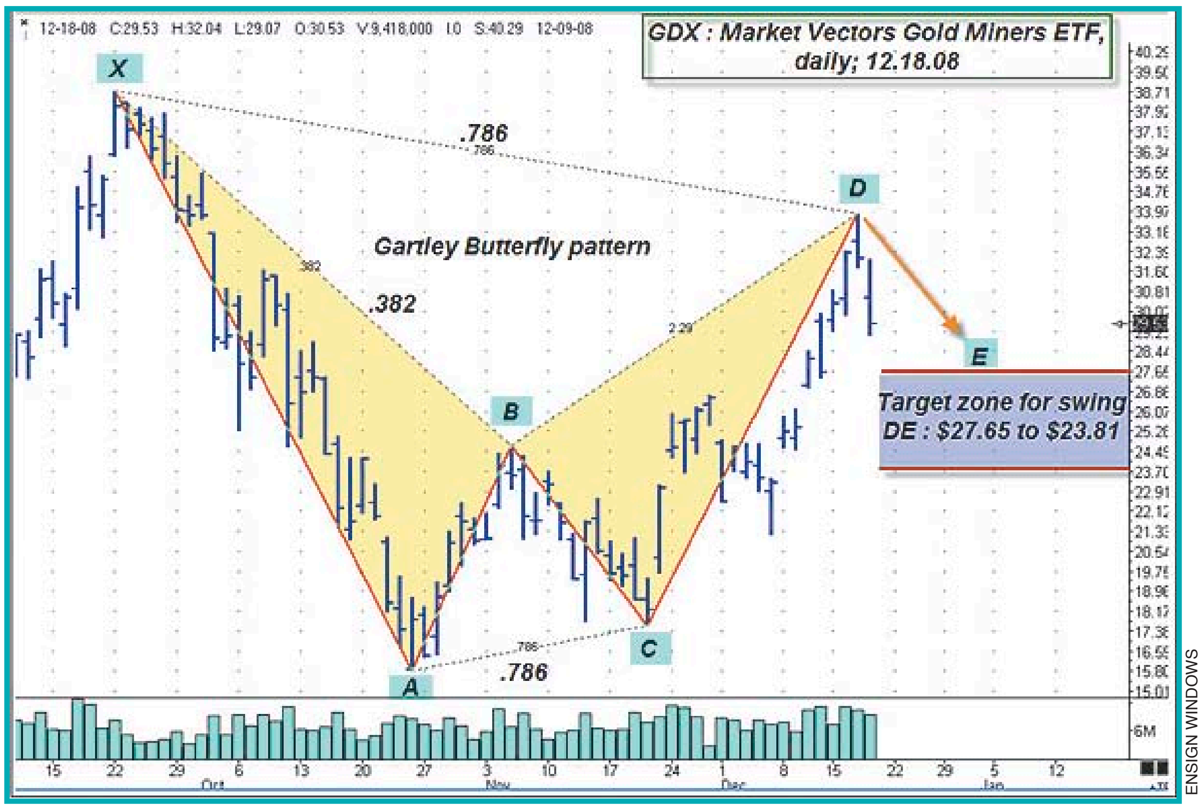

FIGURE 2: GDX, DAILY. A reasonably well-formed Gartley 222 pattern. This example would have allowed a trader to project a likely reversal zone — at point D.

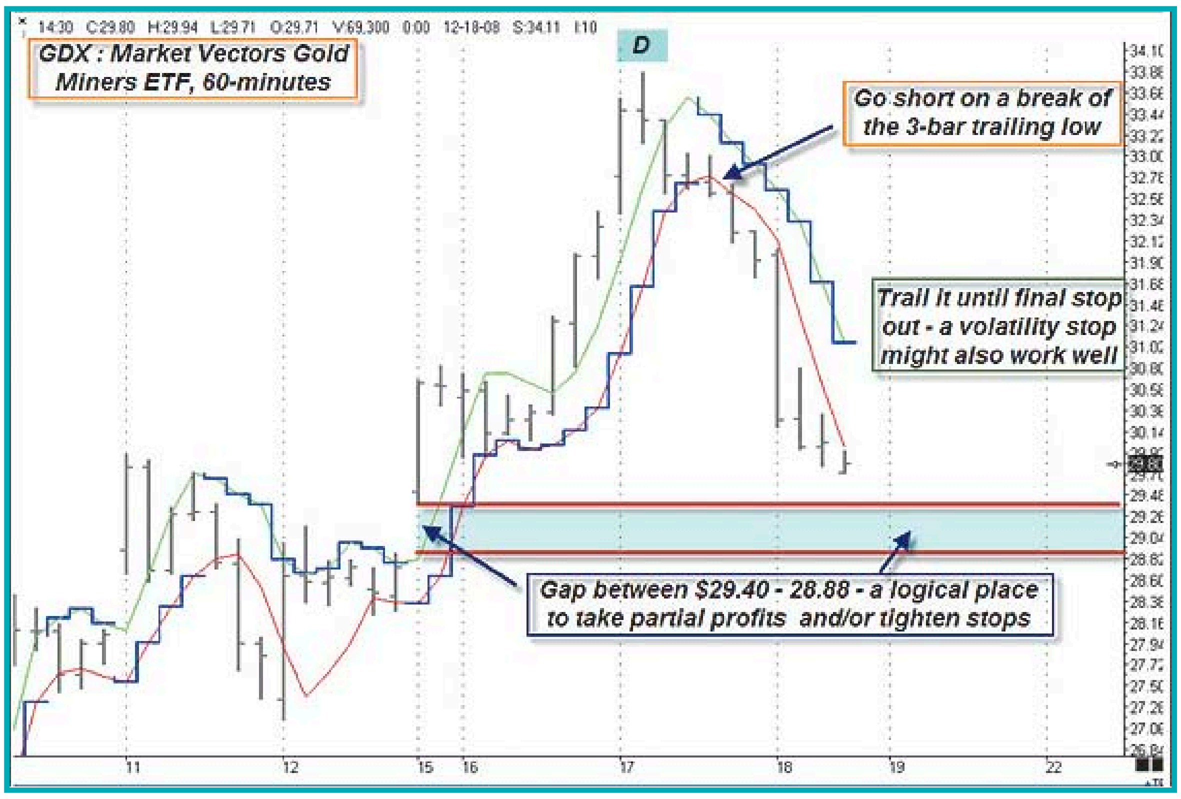

FIGURE 3: GDX, HOURLY. Using a lower time frame chart may provide some timing advantages when attempting to capitalize on a Gartley pattern.

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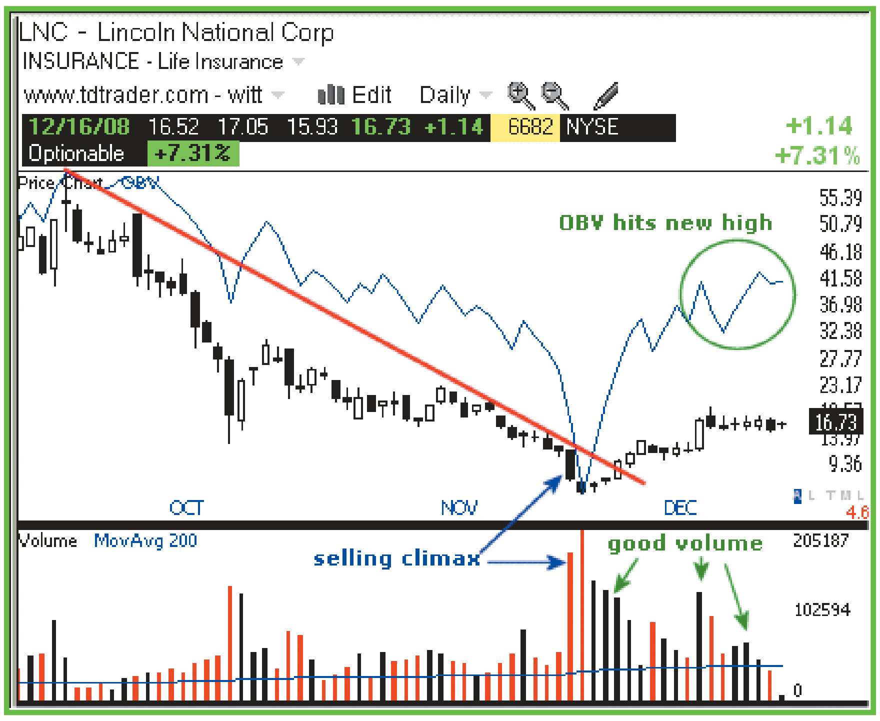

FIGURE 1: LNC, DAILY. The stock lost around 80% from the September 2008 high to the November 2008 low.

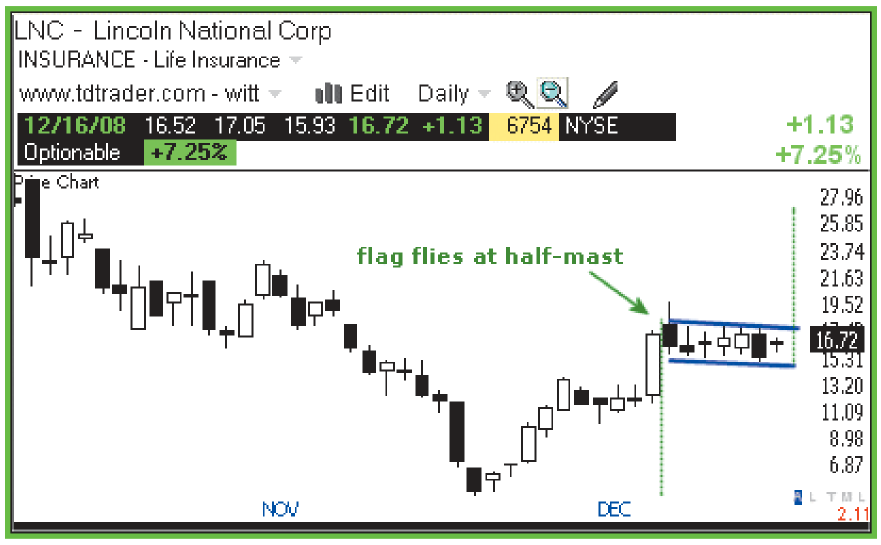

FIGURE 2: LNC, DAILY. After a sharp surge from late November to early December, the stock became overbought and ripe for a consolidation or pullback.

Note that the flag slopes down, which is typical for a bull flag.

FLAGS AND PENNANTS

A High Tight Flag For LNC

by Arthur Hill

After a sharp advance with big volume, Lincoln National formed a high and tight flag that acts as a consolidation before a continuation higher.

Tradable: LNC

Figure 1 shows Lincoln National (LNC) over the last three to four months, with the stock losing around 80% from the September high to the November low. There was a high-volume washout in late November as the stock declined on big volume. This capitulation, or selling climax, marked the bottom as LNC moved higher over the next few weeks.

After this selling climax, the stock advanced four days straight with volume that was well above average. Such strong buying interest solidified the low. More important, there was another high-volume surge in early December and two more last week. Combined, these strong upside volume days pushed on-balance volume (OBV) to a new high in mid-December. Volume precedes price and a new high in OBV argues for further gains in the stock.

Figure 2 focuses on the high and tight flag. After a sharp surge from late November to early December, the stock became overbought and ripe for a consolidation or pullback. The stock consolidated the last six days with a very tight range. In addition, note that the flag slopes down, which is typical for a bull flag. A breakout would signal a continuation higher and target further strength toward the mid-20s.

The flag target is based on a flag flying at half-mast. The green dotted lines represent the flagpole with the flag in the middle. A continuation advance equal to the November–December surge would target a move to around 26. Failure to hold the breakout and a move below the flag low would negate a bullish signal. ■

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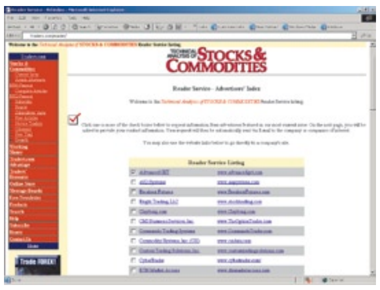

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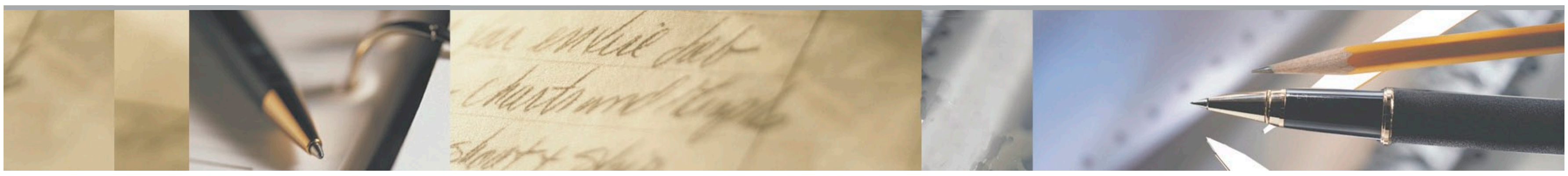

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■

TRADERS' GLOSSARY

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

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.

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.

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.

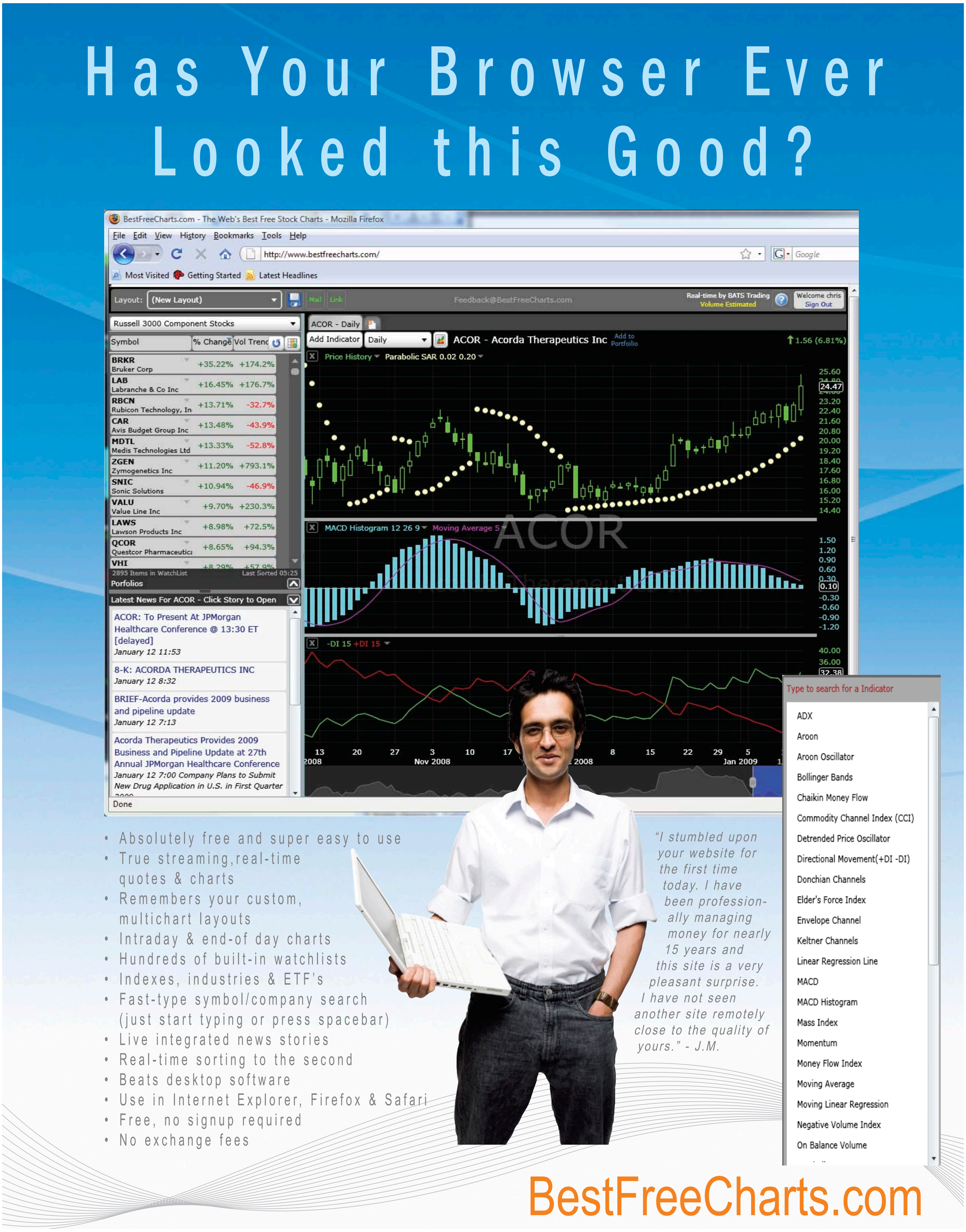
Support — A historical price level at which falling prices have stopped falling and either moved sideways or reversed direction; usually seen as a price chart pattern.

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.

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