CHART PATTERNS
NYSE Composite Range Narrows

SECTORS
Rotation Out Of Tech For QQQQ

MARKET UPDATE
Broad Market Bullish

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BULLISH SIGNS OF LIFE
More gains on the way? 10

EMINI S&P TOWARD END OF RALLY
Close to recent highs? 14

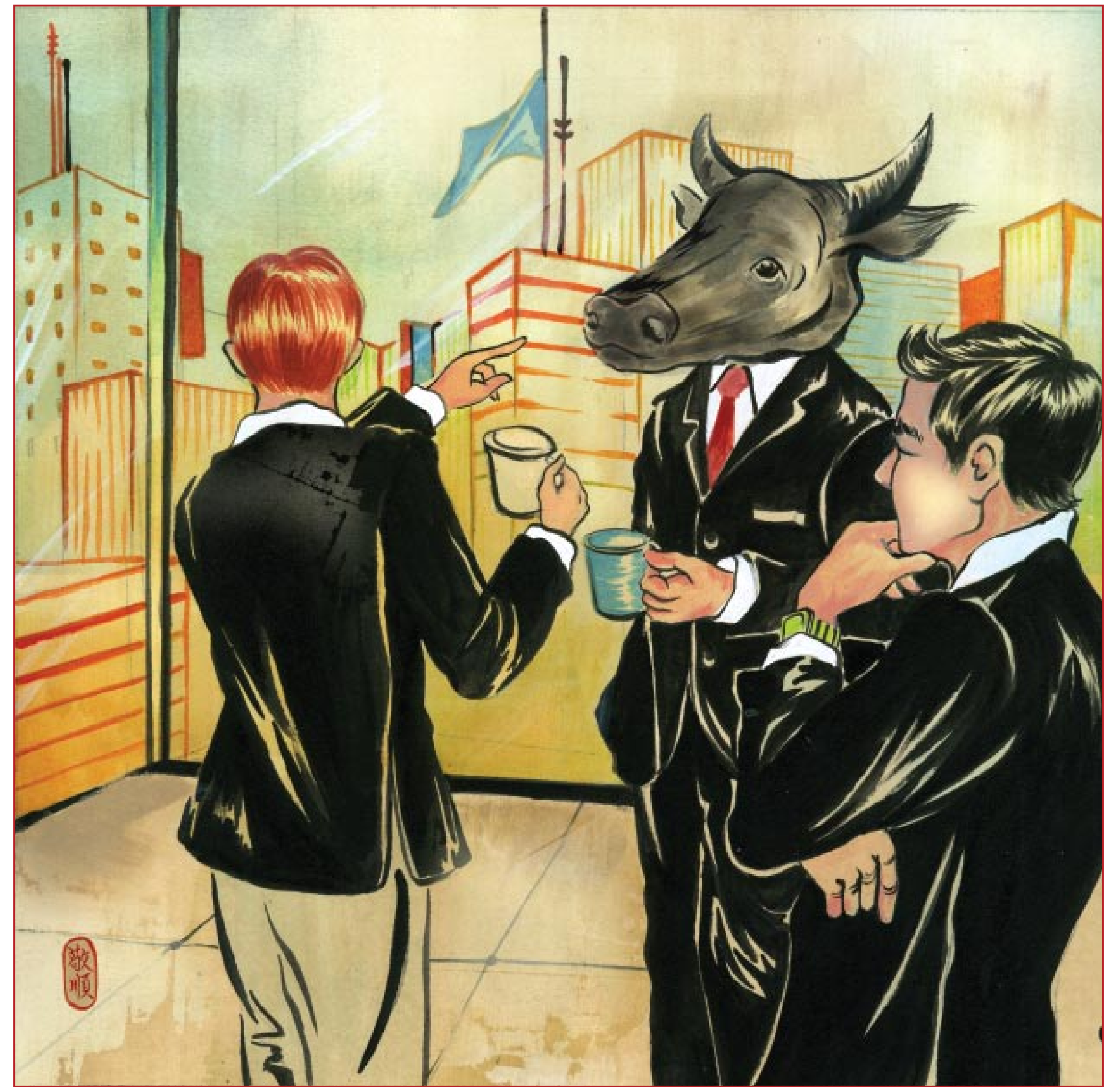
GOLD MINES DRIVING HIGHER
Solid earnings growth 28

IS OIL AT A SHORT-TERM TOP?
Geopolitical concerns may be the cause 32

DJIA BREAKOUT
Collides into resistance 37

STRONGER DOLLAR AHEAD?
Is the euro rebound almost over? 38

WHEN UUP MEANS DOWN
In the US Dollar ETF 43



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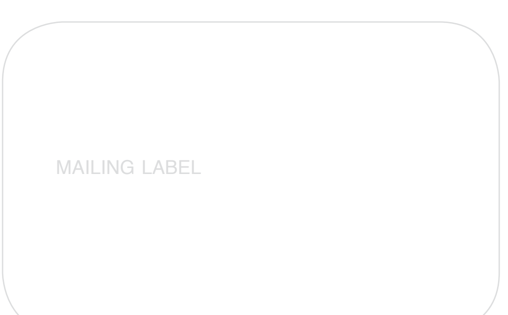
SPG, MONTHLY. SPG is outperforming its S&P industry group and also has room to run based on Fibonacci resistance and cyclical action.



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5 Interviews At www.ablesys.com

Introducing A Powerful Way To Differentiate Retracements From Reversals

You've entered a market and are holding a position. But now the market is moving against you. Is this current move a retracement or a reversal? If it's a retracement, it is a temporary pullback, where prices will bounce off support and resume the direction of the original trend. If it's a reversal, prices will break through the support level and continue to move against the original trend. Retracement or reversal? It's a typical question that traders face every day. They wonder:

1. Shall I surrender and take the loss?
2. If not, how much money am I willing to risk?
3. Should I set a stop-loss based on a percentage or dollar loss? How do I choose a percentage or dollar loss that will work?
4. What if I take the loss and then the market resumes the trend that I anticipated? Do I re-enter the market?
5. How about sticking with my original strategy? Maybe I should hang in there no matter how much drawdown I experience?
6. Is there a way that I can identify the support levels when I buy?

Yes, #6 is the most important question! If you knew the market support levels, you could use them to test market strength. When a market tests the support level, if it cannot penetrate that level but instead resumes the anticipated trend, that movement more likely is just a retracement. If you wanted, you could even add to your position at that time. On the other hand, if the market penetrates the support level and closes beyond it , it is likely a reversal. You would do well to exit the position and cut your losses short. Identifying an objective support level is the key to determining if the current move is a retracement or a reversal. So now we ask, is there a way to identify objective support levels?

And the answer is Yes! AbleTrend 7.0 T2 stops provide objective support levels by blue color dots placed below the price bars, so that well-defined support levels are at your fingertips. AbleTrend 7.0 T2 offers the following advantages:

1. T2 stops are defined by the market's own support levels and are therefore, 100% objective.
2. The scientific calculations behind T2 stops are universal, not curve-fitted.
3. T2 stops can be back-tested to reveal the characteristics of individual markets.
4. T2 stops are updated with each new tick so there are no delays.
5. T2 stops are proprietary, not shareware, and are for the exclusive use of software owners.
6. Successful AbleTrend users around the world have relied on T2. Their common conclusion: "Never fight T2 Stops."
7. Boost your confidence, because "you have seen it happen hundreds of times" in both historical and real time. Without confidence, no matter how great your systems are, they are of no practical use.
8. Take advantage of "sweet spot entries" by entering the market right after prices have tested the support level (T2 stops) and resumed the original trend. These entry points are often close to T2 stops.

Here is an example of how T2 stops work:

Differentiate Retracements From Reversals

CT #F Daily Cotton (Futures)

Sell signal with red dot & red bar

These pullbacks tested T2 stops, but did not break through. These are only retracements.

T2 stops for buy positions

T2 stops for sell positions

Buy signal

Prices broke T2 stops (small red dots above bars) and remained beyond them. This is a reversal.

Prices broke T2 stops (small blue dots below bars) and remained beyond them. This is a reversal.

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Interview Dr. John Meyer – A Trader Using AbleTrend 7.0

Dr. Meyer, how long have you been trading?
I've been trading in the futures markets for 10 years.

What do you trade?
I day trade the S&P e-mini and trade FOREX on daily charts.

What is your occupation?
I am a radiologist (MD).

How many other trading software programs did you use before using AbleTrend?
I have used several other software programs but none has the power of AbleTrend. Specifically, none of the others has the power to find trend changes early and reliably and, then, to follow the market very precisely. Using the default settings, AbleTrend lets a trade develop and controls potential losses well. A trade needs to "BREATHE." The market tells the trader where it is going so that he or she can confidently follow it and make money. The program does this in real time better than any human can!

I have used Bill Williams' "Profitunity" indicators but they are imprecise and tend to build a large pyramid that crashes against a position. I tried Advanced GET, but Elliot wave trading does not follow a market but tries to impose a "wave" pattern. Tom Joseph admits that this "wave" pattern does not actually exist in a market 40 to 50% of the time. I tried using other Elliot wave trading programs but the same problem exists. No one can control the market. The market tells the trader what it is doing. I used Kwikpop indicators, including their "special proprietary indicators," but there are too many indicators and the charts are cluttered.

I tried all the standard indicators, which are packaged in trading software, but they are all confusing. I tried using CQG with the very expensive add-ons, including those of Tom Demark, but there are too many things to watch. AbleTrend is simple to use and gives a true picture of what is happening and likely to happen.

A trader does have to have knowledge of the market and chart patterns, but I find that AbleTrend is **MORE RELIABLE** than my personal reading of the charts most of the time.

I have used John Ehlers cycle finding methods, but they are similar to Elliot wave software in that they try to impose themselves upon the market rather than let market show what it is actually doing.

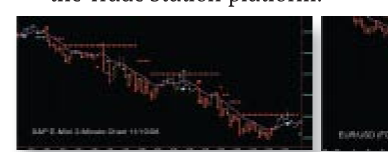
Interviewed by Grace Wang, Head of Customer Relations, AbleSys

In your opinion, what are the main differences between other software programs and AbleTrend?
One of the main differences between other software programs and AbleTrend is that AbleTrend has the truest dynamic support and resistance indicators that I have ever seen (trend 2). These indicators work fine with default settings.

What are the most important factors in trading? How does AbleTrend help?
I have found that the most important things in trading are: (1) Finding the trend early, (2) **SUPPORT** and **RESISTANCE** in real time, and (3) Entering on retracements to control losses. It is also important to **STAY IN THE TREND**. AbleTrend shows me how to do these things with precise accuracy and elegant simplicity. The software you have developed has the most accurate support and resistance levels I have seen. They indicate the pivots in advance. This feature alone is worth the price.

One additional important thing is AbleTrend helps one to control one's emotions and (often wrong) "gut" feelings about the patterns. AbleTrend gives one confidence to enter and exit positions. AbleTrend also gives one confidence to STAY IN a position.

Were you able to find good trades during the current financial crisis? Could you give an example?
The current financial crisis offers the absolute BEST conditions for trading, lots of movement, which provides unprecedented opportunities. I have attached two examples of AbleTrend giving buy/sell/stop signals on the Trade Station platform.



Do you have the confidence to use AbleTrend in trading for years to come?
I have the confidence to use AbleTrend to make a good living day trading and position trading. Thanks to all of you who toil for us in the trading community. I am a senior radiologist in a busy, high quality practice in Atlanta. I love the markets and I love trading. AbleTrend has given me the confidence to trade for a living when I soon retire from active medical practice.

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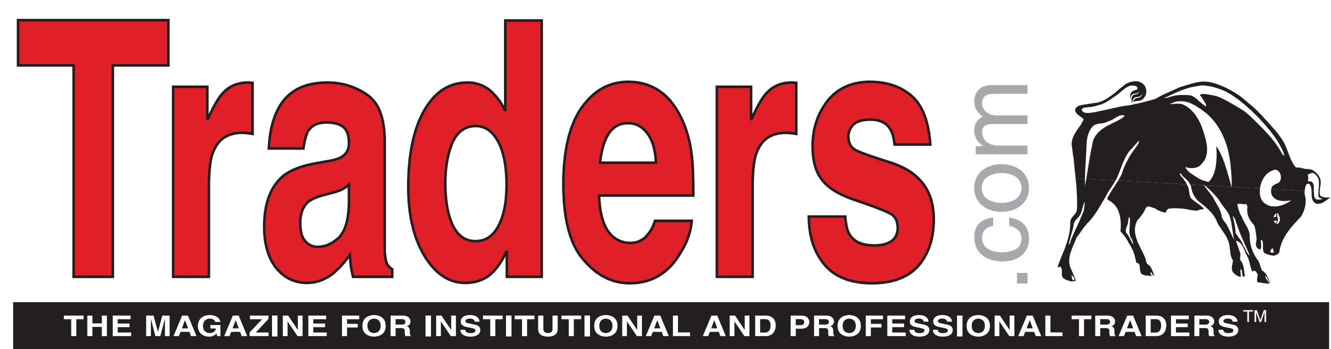
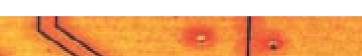


TABLE OF CONTENTS

SEPTEMBER/OCTOBER 2009 • VOLUME 7 NUMBER 5

10 Monthly Price Cycles Show Bullish Signs Of Life
by Donald W. Pendergast Jr.
Many industry groups are manifesting rising monthly price cycles, implying that more gains may be seen after a period of further correction and/or consolidation in the US markets.

INDEXES 

12 Buying For A Risky Yield
by Koos van der Merwe
The market is due for a correction. The maxim "Sell in May and go away" is on everyone's mind. So what do you buy?

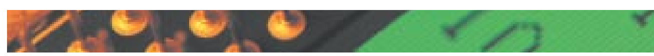
13 Buying For A Risky Yield, Part 2
by Koos van der Merwe
Previously, I wrote suggesting a high-risk purchase of Royal Bank of Scotland Preferred ADRs as a high-yield investment. Here's another preferred share to look at that is also paying a yield of about 15%.

14 Emini S&P Toward The End Of The Rally
by Paolo Pezzutti
Prices are consolidating close to recent highs.

15 10-Year Treasury Yields Strong In Multiple Time Frames
by Ron Walker
Yields on long-term Treasuries have been steadily rising, with 10-year notes racking up huge losses on speculation that the U.S. economy will have a slow recovery period. The U.S. government's excessive borrowing has overwhelmed any efforts to keep interest rates at bay.

18 Still A Bear Market
by Alan R. Northam
Much commentary of late suggests that we are now in a new bull market. However, the basics of technical analysis says otherwise.

18 Broad Market Bullish
by Mike Carr, CMT
Using the Value Line index allows us to see how the broad market is doing, and right now, that is potentially bullish.

SECTORS 

20 Rotation Out Of Tech For QQQQ
by Ron Walker
In recent days, we have started to see the tech sector struggle. In early May the PowerShares QQQ Trust broke its rising trendline and started to display some weakness. If we follow the money, we can find where new interest is. While the techonology sector is busy breaking down, other sectors are breaking out.

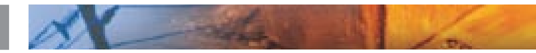
22 A Look At Relative Strength In The ETF World
by Donald W. Pendergast Jr.
Keeping tabs on which industry groups and sectors are hot — and those that are not — is a sound way to build a solid foundation for your trading and investing decisions.

24 Commodity-Linked ETF Index Suggests Consumer Inflation
by Donald W. Pendergast Jr.
After enduring a drop of 68% over the past year, this custom index of four commodity-linked ETFs has staged a strong reversal, suggesting that more consumer price inflation may be on the horizon.

25 Breakout Of Health Care Index
by Chaitali Mohile
After two years, the Health Care Provider Index has entered a fresh intermediate uptrend. The confirmed triangular breakout would polish the bullish path for the index.

26 Financial Sector Fuels The S&P 500
by Alan R. Northam
The S&P 500 has now run up against key resistance and cannot seem to break through to continue its advance. The financial market sector is the fuel for the S&P 500. Has the S&P 500 run out of fuel?

27 Utility Select Retraces
by Chaitali Mohile
The Utility Select Sector SPDR has rallied toward its previous highs. Further upward movement seems under threat.

METALS AND ENERGY 

28 Solid Earnings Growth Driving Gold Miners Higher
by Donald W. Pendergast Jr.
Solid earnings growth and a rising weekly price cycle implies further gains for this group of 11 gold mining stocks.

30 Light Crude Oil Index Bullish Or Bearish?
by Chaitali Mohile
The long-term bullish reversal pattern waits for the potential breakout.

32 GDX Approaching Key Support
by Donald W. Pendergast Jr.
Gold mining stocks have pulled back recently, but now they may be setting up for a short-term reaction move higher.

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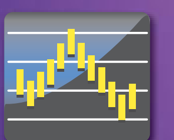

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TABLE OF CONTENTS

32 Oil At A Short-Term Top?
by Mike Carr, CMT
The price of oil has risen dramatically this year, with analysts attributing much of the rise to geopolitical concerns. While unrest in Iran and terror attacks in Niger are likely to continue, traders seem to be less concerned about their impact on the supply of oil, and prices have backed off recent highs.

34 Will GDX Summer Slump Give Way To Autumn Rally?
by Donald W. Pendergast Jr.
Most gold bugs already know that gold mining stocks tend to rally for an extended period during the latter part of the year. But what about this year?

CHART PATTERNS

35 Falling Wedge Approaches Target
by Alan R. Northam
The NASDAQ has broken out of a falling wedge pattern, signaling a trend reversal from down to up and moved higher for almost two months. Will the market continue higher from here, or will a market correction set in? The falling wedge provides the answer...

36 Broad US Markets Break Higher From Consolidation
by Donald W. Pendergast Jr.
After a month of sideways price action, the broad US stock indexes have finally tipped their hand, breaking higher on big volume and wide ranges.

37 The DJIA Breakout Collides Into Resistance
by Ron Walker
A muscular breakout on the DJIA at the opening of June has carried prices into smack-dab into a hornet's nest of resistance. If this industrial powerhouse bulks up and presses prices through these heavy weights of resistance, the DJIA could continue to the 9100 level. If not, and resistance holds, it may bring about a deadly blow that kills this rally, ushering in a correction.

38 Stronger Dollar Ahead?
by Paolo Pezzutti
The rebound of the euro vs the US dollar could be almost over.

40 S&P 500 Breaks Series Of Peaks And Troughs
by Alan R. Northam
The S&P 500 has now broken its series of lower peaks and lower troughs, signaling the end of the bear market downtrend that began in October 2007. However, it is still unknown as to whether a new bull market upward trend is in progress.

41 NYSE Composite's Range Narrows
by Chaitali Mohile
An advance rally of NYSE Composite Index has surged above a few previous resistances. The rally has formed a rising wedge.

42 Bottoms To Buy
by Koos van der Merwe
Cyclical investing suggests that in the month of June, investors should stay in Treasury bills but start looking for bottoms to buy. Biomirin Pharma could be such a bottom.

INDICATORS

43 In The US Dollar ETF, When UUP Means Down
by Donald W. Pendergast Jr.
The inverse relationship between the Australian dollar and the US dollar comes to life as the chart tells the tale of two currencies.

44 RSI Points Toward New Bull
by Mike Carr, CMT
Monthly charts are rarely analyzed in today's daytrading environment, but monthly signals are rare and reliable.

44 The NYSE Summation Index Suggests A Summer Selloff
by Ron Walker
The McClellan summation index of the NYSE is diverging with the NYSE Composite. The summation index gave a much earlier crossover signal than many other trend-based indicators such as the MACD, giving some advance warnings of an upcoming reversal.

45 Silver Miners Approach 200-Day EMA
by Donald W. Pendergast Jr.
Similar to the gold mining industry group, the silver miners are also approaching a key technical and cyclical area.

46 Dynamic Pivots
by Austin Passamonte
Dynamic pivots are a charting tool measuring price levels that adjust with the flow of price action.

47 Ratio Analysis Defines Market Direction
by Alan R. Northam
Several methods are used in technical analysis to determine the future direction of the stock market. Among these various methodologies is ratio analysis.

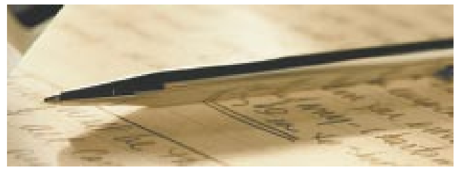
48 S&P 500 Descending Toward Major Cycle Low

by Donald W. Pendergast Jr.
The weekly cycle in the major US stock indexes are all heading lower for now, but expect a major reversal once the swing lows are established, probably within the next three to six weeks.

49 Advertisers' Index

50 Authors And Artist

50 Glossary



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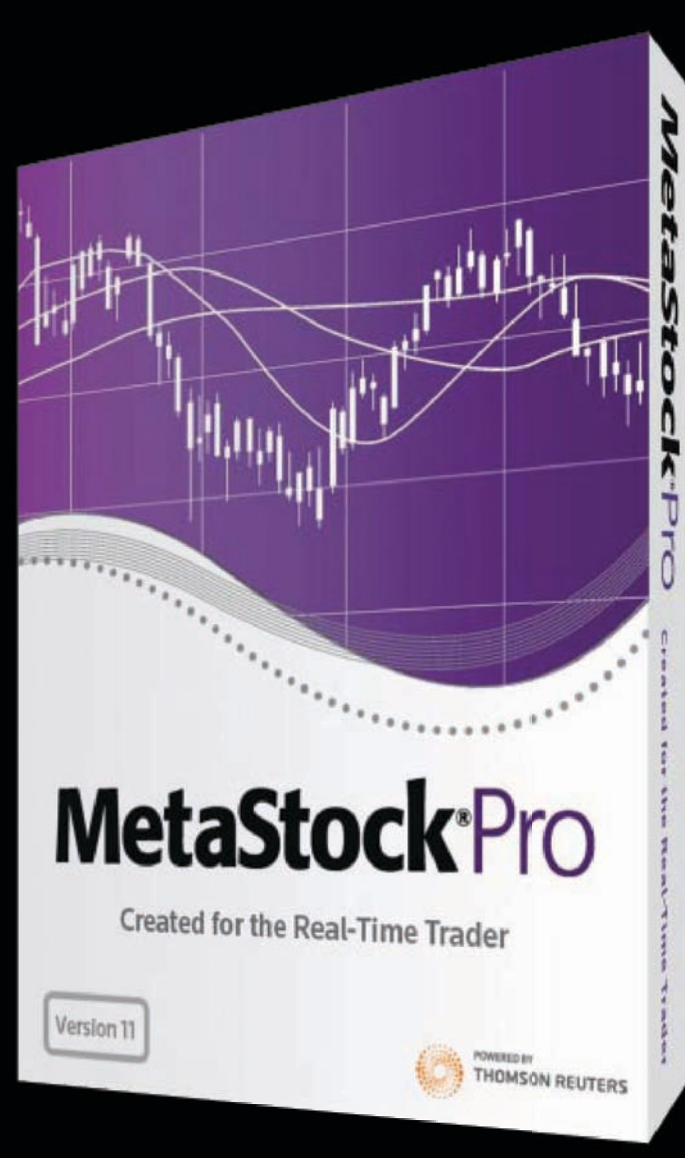

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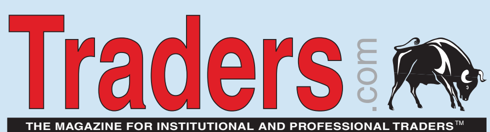

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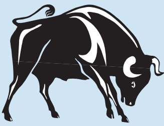

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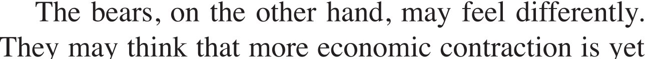
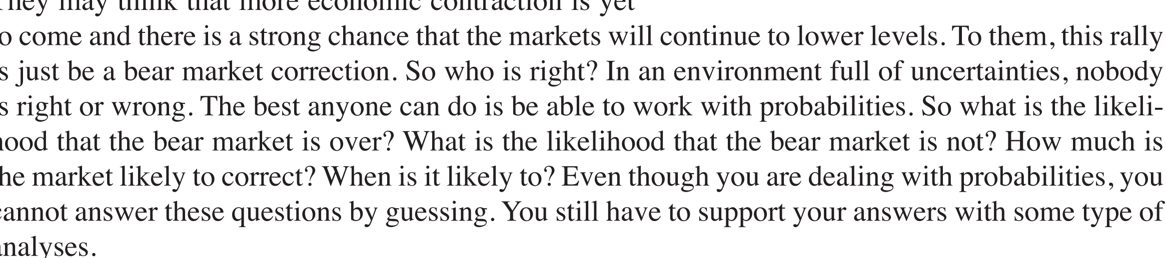


Is the bear market really over? The bulls would say yes. Given that by mid-July the Standard & Poor's 500 had crossed above the 950 mark, the Dow Jones Industrial Average (DJIA) had crossed 9000 and the NASDAQ crossed above 1900, the signs are definitely there. All the broader indexes are getting very close to significant levels: 1000 on the S&P, 10,000 for the DJIA, and 2000 for the NASDAQ. There is a strong chance the markets will hesitate when they approach these significant levels. In fact, they may even retrace or correct at these points.

The bears, on the other hand, may feel differently. They may think that more economic contraction is yet to come and there is a strong chance that the markets will continue to lower levels. To them, this rally is just be a bear market correction. So who is right? In an environment full of uncertainties, nobody is right or wrong. The best anyone can do is be able to work with probabilities. So what is the likelihood that the bear market is over? What is the likelihood that the bear market is not? How much is the market likely to correct? When is it likely to? Even though you are dealing with probabilities, you cannot answer these questions by guessing. You still have to support your answers with some type of analyses.



Fortunately, there are several techniques you can apply to determine the probabilities of the direction and length of movements in the markets. In this issue of **Traders.com,** you will find articles on this topic. Some have a bullish outlook: "Broad Market Bullish" by Mike Carr, "Broad US Markets Break Higher From Consolidation" by Donald Pendergast, and "RSI Points Toward New Bull" by Mike Carr. Others take a bearish approach: "Emini S&P Toward The End Of The Rally" by Paolo Pezzutti, "Still A Bear Market?" by Alan Northam, and "The NYSE Summation Index Suggests A Summer Selloff" by Ron Walker.

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Whichever view you adhere to, just keep in mind that you can never be certain about the market. The best thing you can do for yourself is to find the best way to get what you can from the market without putting a dent in your capital.

Jayanthi Gopalakrishnan,
Editor

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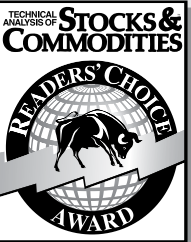

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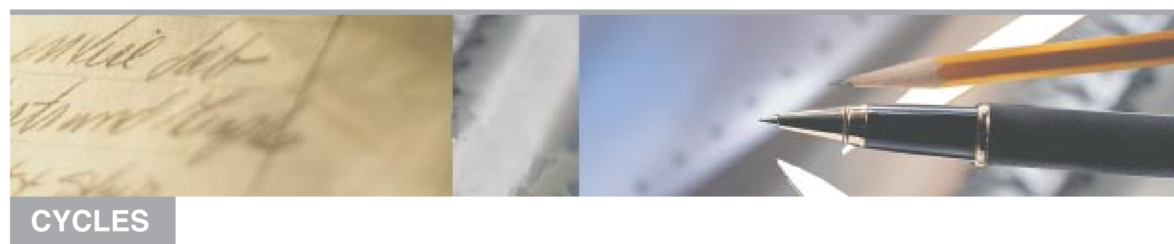

CYCLES

Monthly Price Cycles Show Bullish Signs Of Life

by Donald W. Pendergast Jr.

Many industry groups are manifesting rising monthly price cycles, implying that more gains may be seen after a period of further correction and/or consolidation in the US markets.

Tradables: GSPREC, SPG

Running MetaStock's Explorer can make screening for trade setups a simple, efficient, and potentially profitable use of a trader's time. For example, if you want to know how many industry groups are above or below a 200-day moving average, you can get the answer in a matter of seconds; right now, however, let's try to get a long-term view of the markets through a basic analysis of monthly price cycles as determined by a particularly useful technical indicator, the WB DBS 10 oscillator, found in the ProfitTrader EOD add-on software for MetaStock.

Even though the broad US markets appear to have hit a daily-based top of some degree, a look at longer-term price cycles indicates that the current mild selloff (once it fully plays out) may actually offer more attractive buying opportunities in the weeks and months to come.

Plugging in the Sectors and Industries S&P industry group list into the WB:DBS rising exploration (set to monthly) reveals that more than 90% of the Standard & Poor's 500 sectors and/or industry groups (92 out of 99) feature a rising monthly price cycle. Obviously, the broad US markets are still in bear market territory, but since many of those 92 sectors/industries have plenty of room for further gains (as measured by typical monthly cycle oscillations), it would pay to keep a close eye on the daily and weekly price action of these groups, looking for suitable long entry signals after a proportional pullback to various trend support levels such as a 50-period exponential moving average (EMA) and/or prior swing lows/highs, and so on.

One industry group that looks interesting is the S&P Real Estate (RE) group (Figure 1). Like most other groups, it was hurt in the 2007–09 market rout, but now appears to have put in a major monthly low. While this group has a ton of overhead supply to work through, that rising WB DBS 10 indicator (blue line at the bottom of the chart) is the real key to the probable future direction of prices for the stocks in this hard-hit group. This index, which features such notable real estate stocks as CB Richard Ellis (CBG), Equity Residential (EQR), and Simon Property Group (SPG) (Figure 2), has significant overhead resistance between the 79-86 area, meaning that there is a fairly good probability that the rising price cycle can get fairly close to the lower end of that resistance barrier before its strength begins to fade.

Let's have a look at one of the above-mentioned stocks (SPG) to see how it compares to its parent index on a monthly basis and then see if we can identify a few ways to play this stock, should we get a decent daily or weekly pullback.

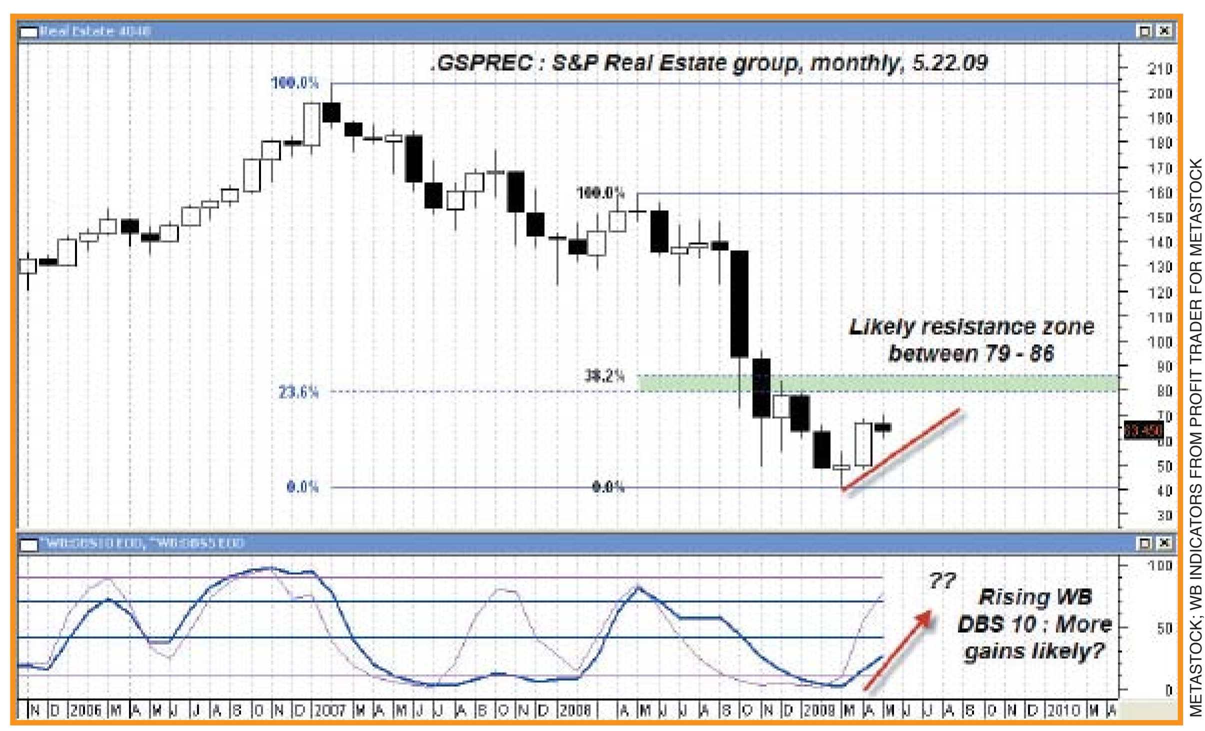

FIGURE 1: GSPREC, MONTHLY. Based on past cyclical action, a move up to 78-86 in this index isn't out of the question.

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One industry group that looks interesting is the S&P Real Estate (RE) group.

SPG also has a rising monthly price cycle, and since the next significant Fibonacci resistance barrier doesn't appear until $62.00-65.00, SPG (currently at $48.45) might be an excellent long stock trade if it pulls back by another 10-15% on its daily chart. In addition, right now it could also be a fairly low-risk covered call trade, one designed to allow the rising monthly price cycle to pull it higher. Selling an at-the-money (ATM) October 2009 $48 call against every 100 shares of SPG will allow you to collect a very healthy premium of about $8.15 ($815), not too bad for an option that only has 144 days left til expiration.

Selling this ATM call against your SPG stock position can provide you with a substantial amount of staying power, even if the stock pulls back more along with the broad market. Even better, SPG pays a 5% dividend (currently in the form of 80% stock and 20% cash), so those who sell this October call will also be entitled to at least one quarterly dividend payment. If the stock rises, the option's delta will accelerate but not as quickly as the price of the stock, which is good to know for those who might be inclined to cash in such a covered call trade prior to expiration.

What if the stock really starts another major leg down, especially after putting on a covered call trade here? No big deal, really; for this particular trade, consider closing it out on a weekly close below $40, unless you're a major believer in the potential for a commercial real estate turnaround over the next year or two. The 5% dividend provides some extra cushion against a major decline, but dividends can always be cut without warning.

FIGURE 2: SPG, MONTHLY. SPG is outperforming its S&P industry group (.GSPREC) and also has room to run based on a combination of Fibonacci resistance and current monthly cyclical action. Note the range of the April 2009 monthly candle compared to that of the March 2009 reversal candle.

Meanwhile, daily based traders would do well to monitor all real estate-related ETFs and indexes, looking for suitable long entry areas if the current broad market selloff starts to level off. ■

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INDEXES

TECHNICAL INDICATORS

Buying For A Risky Yield

by Koos van der Merwe

The market is due for a correction. The maxim "Sell in May and go away" is on everyone's mind. So what do you buy?

Tradable: RBS.PR.M

The market is due for a correction, so what will you buy? Am I crazy? Should my question not have been, "So, what will you sell?" Probably, but short-selling is risky, especially now that new regulations on short-selling are on the cards, which means that unless you are a professional who is an expert in short-selling, don't even look at it. However, if you insist on playing the short side of the market, buying a put option is a lot less risky than selling short simply because you know that your loss is the cost of the option.

So what should you buy? The answer was suggested by Suze Orman on a CNBC interview when the market started collapsing. "Buy ETFs that pay a good yield," she said, "and don't look at the price for at least a year." Her argument was that as an exchange traded fund, an ETF is a copy of an index. As you know, an index is made up of a number of companies, not a single company that has numerous risks ahead of it, and the yield paid is a risk spread of the dividends paid by each company, with the hope that at least 80% of the companies that make up the index will not cut their dividend. The risk, however, is still there, but greatly diluted.

So you then buy a portfolio of those ETFs that pay a good yield, setting your yield limit at, let us say, 6%. But what about being a little greedy? What if a 6% yield is not enough for you and for the risk you are taking, you would like a greater reward?

There are shares out there that pay an enormous yield in the region of 17%. Admittedly, we all know that the higher the yield, the greater the risk, especially when the yield paid is from a foreign bank that has been 70% nationalized. I am referring to Royal Bank of Scotland preferred shares. Figure 1 is a weekly chart of Royal Bank of Scotland Preferred M shares, listed as an ADR on the New York Stock Exchange.

FIGURE 1: ROYAL BANK OF SCOTLAND PREFERRED M ADR, WEEKLY

FIGURE 2: ROYAL BANK OF SCOTLAND PREFERRED M ADR, DAILY

Note how the price has fallen sporadically from a previously stable high of $26.13 to a low of $1.95. This was the result of the British government buying 70% of the bank and firing its head, Sir Fred Goodwin, and other prominent managers in the bank, replacing them with government-appointed managers. The bank has effectively been nationalized. At $1.95 the yield of the preferreds was in the region of 76%, and only a brave man would have been prepared to take the risk of buying at this level — but many did. They did on the argument that the bank would want to regain its independence from the British government. One of the ways they could raise capital, other than selling highly profitable sections of the company, is to issue preferred shares. If they therefore defaulted on the ADRs, no US investor would buy the preferreds. The argument was sound, and the share price rose to its present level of $10.22, offering a yield of 15.6%.

Do note on the chart the ineffectiveness of the relative strength index (RSI), and how volume since October 2008 has been remarkably constant with the exception of the large volume as the price fell on a gap in the week of January 23, 2009.

Figure 2 shows how the price has recovered from the low of $2.00 ($1.95) to its present high of $10.65. The RSI is in overbought territory and we could now expect a retracement, a buying opportunity, at any one of the Fibonacci levels shown.

If you are an investor looking for yield, here is a share you should consider, but do be aware of the risk. Be aware also that as the date approaches the dividend declaration cutoff date, the share price could rise and then fall after that date by the dollar amount of the dividend paid. Traders could take advantage of this strategy, investors should hold, and they should say thank you for a comfortable dividend. ■

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Buying For A Risky Yield, *Part 2*

by Koos van der Merwe

Previously, I wrote suggesting a high-risk purchase of Royal Bank of Scotland Preferred ADRs as a high-yield investment. Here's another preferred share to look at that is also paying a yield of about 15%.

Tradables: ABN.PR.E, ABN.PR.G

In October 2007, ABN Amro was purchased by the Royal Bank of Scotland at a ridiculously high price in a consortium with Fortris and Santander Bank. This purchase eventually led to ABN Amro's collapse and nationalization.

Almost exactly a year later, on October 3, 2008, the Dutch state announced that it had bought Fortis Bank Nederland, including its interests in ABN Amro. As of December 24, 2008, the Dutch state replaced Fortis as a stakeholder in RFS Holdings, which continues to manage ABN Amro. ABN Amro is now owned by RBS, Santander, and the Dutch government, and has branches and trades all over the world. There are branches in Africa, Asia, Australia and New Zealand, Europe, North America, and South America.

However, with the financial world in disarray, ABN's various businesses around the globe are currently being separated from ABN Amro itself and integrated in line with each owner's plans. As the bank is restructured, its preferred share price has risen from a low of $2.06 on March 6, 2009, to its present level of $10.35.

Figure 1, a weekly chart of ABN Amro Preferred E shares, shows how the share price traded $21.50 to $25, and then on October 19, 2007, it broke its long-term support line and fell dramatically on high weekly volatility, as you can see from the chart. The question, of course, is the effectiveness of the resistance line shown on the chart. The relative strength index (RSI), and I have used a nine-week RSI, shows how the buy signals given were not successful.

Figure 2 is an OmniTrader chart with following indicators:

FIGURE 1: ABN AMRO PREFERRED SHARE E, WEEKLY

FIGURE 2: ABN AMRO PREFERRED SHARE, DAILY

a. Tom DeMark Sequential indicator, which gave a sell signal nine days ago, but has not yet given a buy signal.

b. The stochastic RSI cycle indicator, which is close to giving a buy signal.

c. The Carter Squeeze indicator, also still in sell mode.

d. The chart trendlines are suggesting a rising wedge, which does mean a retest of the lows.

e. The chart also shows how the price has risen to fill the gap and is meeting strong resistance at present levels.

f. Fibonacci retracement levels are suggesting a target on the downside of 7.46 and an upside target of $12.08, should it break through the strong resistance trendlines.

g. Note how volume has fallen as the price rose, a sign of weakness.

h. Finally, do note that the vote line on the chart, the result of averaging the various signals given, is still suggesting negativity.

Those investors who are looking for a high yield could watch this preferred share. The numerous news reports are all positive for the company, but the final intention of the stakeholders of RFS Holdings are unclear. One thing is certain, however — the bank will not be allowed to fail. It is too diversified throughout the world, and as the world's financial system recovers, it will become an extremely valuable asset. ■

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Emini S&P Toward The End Of The Rally

by Paolo Pezzutti

Prices are consolidating close to recent highs.

Tradable: ES

The emini S&P reached the 927 level from the March low of 663 in about two months. It is a significant rebound with prices that managed to go back to the mid-December or beginning of January levels. Many say that this is a bear rally. Is this rally going to be another trap for bulls, or is it just the first leg of a more i mportant move that will develop in the second part of the year?

In Figure 1 (60-minute), the force index indicator, which I used to indicate the trend, is down. This indicator takes into account price and volume. A 13-bar exponential moving average (EMA) of the force index is used to track longer-term changes in the force of the market's participants. You can also see the %b indicator, which is derived from the Bollinger bands. It measures where the last price is in relation to the bands; %b is moving toward the oversold level.

Prices are moving sideways within a channel that was initiated two weeks ago when the emini printed a breakout to the downside of the trendline supporting the long rebound; next resistance is at 920. This level has been tested more than once already, but each time with less momentum. It is difficult to say if this level is such a resistance that will push down prices for a longer correction. The key support level is 880; you can see that prices have tested this level already four times since the beginning of May. The exit from this trading range will develop higher volatility. A lower support is at 850. See Figure 1.

In the daily time frame, the force index indicator does not provide any useful indication. As volatility is decreasing and prices are moving sideways, the force index is changing direction every other session. The %b indicator, after printing a negative divergence, is moving lower. You can see that the Bollinger bands are converging, indicating that the impulse to the upside is over so far and prices are consolidating in a low-volatility

FIGURE 1: EMINI S&P, 60-MINUTE. Prices are consolidating within a sideway channel. The breakout will bring higher volatility; 880 is a key support level.

FIGURE 2: EMINI S&P, DAILY. Prices managed to go back to the mid-December to beginning of January level. The Bollinger bands are converging and confirming the ongoing move within a trading range.

FIGURE 3: EMINI S&P, DAILY. After five waves to the downside, the market is developing a correction in the form of an A-B-C. Prices have almost completed the first leg to the upside (wave A). We should expect soon a corrective wave B before another impulse up (wave C).

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environment. See Figure 2.

What is interesting in this time frame is that the Elliott wave count indicates that a wave 5 has been developed to the downside ending at the beginning of March. The ongoing rebound could be part of an A-B-C correction to the primary downtrend. At the moment, according to this interpretation, the market would be in wave IV of the first up leg A; see Figure 3. Therefore, we should still expect a wave V to retest at least the 927 level.

We are still in a downtrend. For the moment, there are no indications of a trend reversal in the longer time frame. In the short term, prices are moving sideways in a consolidation that could lead them once again to retest the high of 927. The breakout of the sideways channel will indicate the direction of prices and volatility will increase. For a short-term trade, an option is to buy weakness with prices close to the 880 support. I would not enter at the breakout to the upside because after such a long rebound, a bull trap could be likely.

To open longer-term positions, I would wait for a more important correction (wave B), since we are toward the end of wave A to the upside. ■

TREND CHANNELS

10-Year Treasury Yields Strong In Multiple Time Frames

by Ron Walker

Yields on long-term Treasuries have been steadily rising, with 10-year notes racking up huge losses on speculation that the U.S. economy will have a slow recovery period. The U.S. government's excessive borrowing has overwhelmed any efforts to keep interest rates at bay.

Tradable : $TNX

A recent steep drop in the price of the 10-year Treasury note pushed its yield up to a peak in May to a 3.71. Bond investors continue to sell the 10-year Treasury note on concerns that the huge amount of debt the government is selling to fund its bailout programs will keep Treasury prices down. This has caused yields on long-term notes to aggressively rise.

Yields on 10-year Treasury notes ($TNX) reflect the cost of long-term borrowing. The monthly chart of the 10-year note (Figure 1) reveals that the long-term note has been in a falling price channel since the early 1990s. However, yields may have hit rock bottom in December 2008, where it reversed hard in January, possibly concluding the lower boundary of the long-term channel.

After the bounce in January, $TNX made its way higher. A consolidation took place in February and March 2009. In Figure 1, the moving average convergence/divergence (MACD) (12,26,9) has turned up and is coming off its lows headed toward the signal line. Meanwhile, the stochastic (14, 3, 3) is skating toward its centerline at 50 and very well could try and clear it. A bullish move would shift momentum in favor of the bulls in this longer-term monthly time frame.

The continued rise in $TNX will elevate interest rates for the long term, along with corporate bonds and fixed-rate mortgages. Higher mortgage rates will further delay a recovery in the housing market. Meanwhile, the Federal Reserve has been attempting to buy billions in long-term Treasury bonds in an attempt to prop up Treasuries in order to reduce the yield. The strategy has proven to be unsuccessful so far. Treasuries are dropping due to supply and demand, as at this point there are more notes for sale than the Fed is buying. Supply is causing prices to drop. The sharp increase in the 10-Year Treasury yield reflects the growing concern of inflation.

Take a look at Figure 1 again. Note that there is another falling price channel (marked with blue lines) contained within the larger monthly channel. The channel is approximately three years old, the lower boundary dates back to mid-2006, and the upper boundary is from a second peak of a double-top pattern that was carved out in the summer of 2007. You can examine the channel lines more closely on the weekly chart.

During the last week of May, the upper boundary of the channel was tested on the weekly chart as $TNX rose to challenge that declining trendline (see Figure 2). This past week,

FIGURE 1: $TNX, MONTHLY. The monthly chart of the 10-year yield has formed a long-term falling channel that apparently bottomed in December 2008. The recovery in 2009 is creating a divergence between the MACD and $TNX. Look for the MACD to cross above its signal line and the stochastic to move above 50 once the correction on the daily chart concludes.

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$TNX bolstered above that weekly trendline but failed to close above it. The weekly chart also got a bearish candle. A shooting star appeared at that barrier of resistance. That candle has a long upper shadow and a real small body in the lower portion of the candle. It appeared because prices are simultaneously hitting the downtrend on the weekly, and the upper boundary of the rising channel on the daily chart (Figure 3). This twofold barrier of resistance will weigh the 10-year yield down for the short term.

Nevertheless, this is the second week in a row that the MACD (12,26,9) remained above its zero line on the weekly chart. This reveals that $TNX is starting to show some signs of long-term strength.

It was just five short weeks ago that prices broke above key resistance at 30.50. Then, after that level of support was successfully backtested, the advance resumed, and we now have stalled at the trendline from the double-top pattern that was completed in 2007.

Once $TNX clears this trendline, it should rise to the horizontal resistance zone between 41 and 43. But the daily chart suggests that prices might need to build a base before moving higher.

The $TNX daily chart in Figure 3 shows an explosive move higher in the yield, as it shot straight up vertically after the March lows. It has now rapidly become overextended. After being lifted up and hoisted into the upper boundary of the rising channel (rising resistance) on the daily chart, a reaction occurred and prices began to reverse. This indicates that upside momentum is waning in the short term. If prices continue to correct back to the lower part of the rising channel, we may see a trading range develop between the 30.50 and 35.50 level. The stochastic has rolled over crossing below its signal line in exhaustion, suggesting a consolidation may be needed before prices can break out above the weekly longer-term trendline.

What is particularly interesting about the daily chart is how the 50-day simple moving average (SMA) is hovering just below key support near 30.50. Further, the rising trendline is pointing straight up at key support at 30.50, suggesting that the rising trend, horizontal support, and the 50-day SMA are moving in sync and that there is a great deal of support for rising daily channel.

In summary, the prospects of higher yields for the long term look good, but with prices running into rising resistance on the daily chart after an overheated rally, $TNX is overdue for a correction back to support. The 10-year yield has three different channels in play in the monthly, weekly, and daily time frames, working together in harmony to establish prominent points of support and resistance in the recovery process. ■

FIGURE 2: $TNX, WEEKLY. The weekly chart has had an impressive move from the December lows. Now, prices have put in a bearish shooting star after testing the declining trendline, suggesting further consolidation is needed in order to have the necessary strength to break the trend. Note the price pattern shifting from a double top to a head & shoulders top to a cup with a handle reversal.

FIGURE 3: $TNX, DAILY. After forming a cup with handle pattern (better seen on the weekly chart), $TNX broke above the handle, blasting off toward the upper boundary of the channel. A reaction there will likely result in a test back to where rising and horizontal support intersect near 30.50.

Yields may have hit rock bottom in December 2008, where it reversed hard in January, possibly concluding the lower boundary of the long-term channel.

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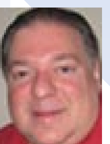

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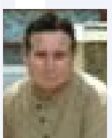

"Using my favorite market tool, I purchased True Religion Apparel based on a buy monthly triangle signal. Within 1 week the stock had increased 25%, resulting in over a $2,200 gain." – **Jim, California**

"MarketClub is easy to use. The Trade Triangle technology gives good buy and sell signals. It helps me manage my portfolio much better. I would highly recommend it to anyone who wants to profit from this volatile market." – **Ann, Canada**

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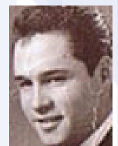
"This is amazing!!! I love your videos. To tell you the truth, I've tried so many services and they all failed. Now I use your Trade Triangles religiously." – **Ali, Canada**

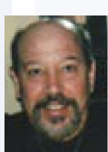
"Since starting this system, I caught the 2008 market plunge and have since found my portfolio profits up to about 40% from what it had been showing before using the trade tools." – **Roland, Colorado**

"As a member of MarketClub, I most appreciate your commitment to traders by continually upgrading the site." – **Dean, Canada**



"My profits range between $5,000 (lowest month) to $13,000 (best month). I'm very happy to be a member and look forward to may years of profitable trading with the Trade Triangles." – **Ron, California**

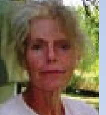
"I've found this technology to perfectly fit my life and trading style instead of ruining it. It's as simple as that!" – **Carlos, Columbia**



"I believe MarketClub has given me a better understanding of the markets and provides a wonderful service that enables me to make more money." – **Bruce, Missouri**

"When analyzing my trading, I find that my chief problem is over trading fueled by uncertainty. The more I use your chart service, the more certain I am in my strategy. It has significantly increased my profitability and reduced my trading related anxiety." – **Jamie, Oklahoma**

"Having traded the markets for 28 years, there is now seldom a day goes by that I do not access my customized portfolio on MarketClub." – **Edward, Oregon**



"I watched what the Trade Triangles did with my own securities. They were 100% accurate in predicting market movement. Having MarketClub on my side gives me the confidence I need to be successful." – **Kathy, Minnesota**

"Thanks for an ever improving product." – **Claud, New Jersey**

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Adam Hewison, co-creator of MarketClub, was one of the first currency traders on the International Monetary Exchange. He was also a member of the Chicago Mercantile Exchange's Index and Options Market, the New York Futures Exchange, and the London International Financial Futures Exchange. He has been widely featured in the media including CNBC, Bloomberg, ABC News, Washington Post, Forbes, Futures Magazine, Marketwatch.com, Chicago Daily Herald, and USA Today. – **Adam Hewison**

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TECHNICAL ANALYSIS

Still A Bear Market

by Alan R. Northam

Much commentary of late suggests that we are now in a new bull market. However, the basics of technical analysis says otherwise.

Tradable: $INDU

There has been a lot of commentary written lately about the stock market now being in a bull market upward trend. While this may be true, I want to say "Not so fast!" It is easy to get caught up in the euphoria surrounding the marketplace these days and go along with the flow that can easily influence our ability to analyze the markets objectively. We need to step back from all the hoopla and take a fresh unbiased view of the stock market.

One of the most basic but yet most reliable methods of technical analysis is known as peak and trough analysis. All other forms of technical analysis are basically derivatives of these. Without going into a lot of detail, let it suffice that as long as a market continues to move in a direction such that it forms lower peaks and lower troughs, the market trend is downward. This definition of a downward trend is derived from Dow theory. Dow theory also states that this downward trend remains in effect until the market forms a higher low followed by a higher high.

In Figure 1, I show the daily bar chart of the Dow Jones Industrial Average (DJIA). This chart shows that the DJIA continues to make lower peaks, labeled LH for lower high and LL for lower troughs (lower low). The DJIA has not yet formed a higher high or peak, followed by a higher low or trough. Therefore, this market is still in a downward trend.

To break the downward trend, the DJIA must move above its previous peak. I have drawn a red horizontal resistance line, labeled "key resistance," which represents the price level that must be penetrated to break the downward trend. As can be seen, the DJIA continues to trade below this price level. If, however, the DJIA manages to penetrate this key resistance line, it does not mean that a new bull market has emerged. It only means that the downward trend has been broken. A broken trend then calls for a change of trend but not necessary a trend reversal. A change of trend can mean that a more shallow downward trend, a horizontal trading range, or even a new upward trend can emerge from the broken downward trend.

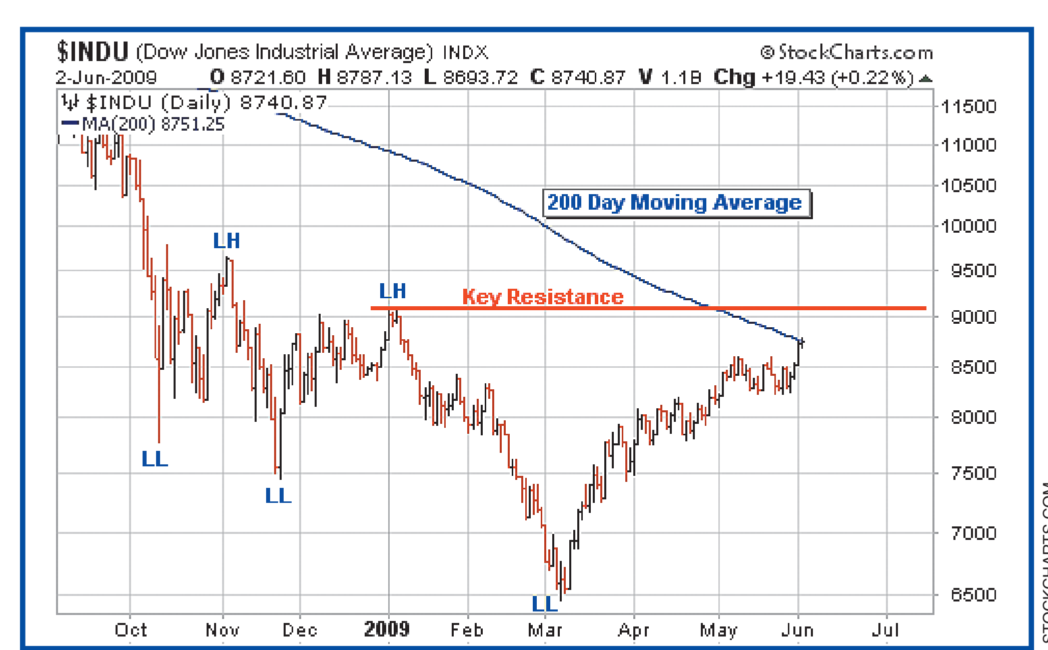

FIGURE 1: DJIA, DAILY. This chart of the DJIA shows peak and trough analysis, the key resistance line, and a 200-day moving average.

Another common method of measuring whether a market is in a downward or upward trend is by examining the 200-day moving average. For this reason, I have included the 200-day moving average on the price chart. Technically, as long as a moving average is moving in a downward direction, the trend is downward. Knowing that moving averages are trailing indicators, a market trend normally changes directions ahead of the indication of a moving average. So when a moving average changes directions, it does so after the fact.

For this reason, using moving averages to indicate the direction of a trend is inferior to peak and trough analysis. Nevertheless, it is still a good indication of the direction of a market trend. Having said that, a moving average cannot change direction as long as price remains below the moving average when the moving average is moving lower. Looking at Figure 1, note that the 200-day moving average is still pointing downward.

As long as price remains below this moving average, it cannot change direction and will continue to move lower. Therefore, as long as price remains below the moving average, the moving average is an accurate indication of the trend. It is only after price has moved above a moving average does the trend change direction and the moving average is delayed in detecting this trend change.

In conclusion, the DJIA has been forming lower peaks and lower troughs and has not yet formed a new higher trough followed by a higher peak. Therefore, this market remains in a downward trend. Further, price remains below its 200-day moving average, further signaling that the downward trend is still in progress. To reverse the downward trend, the DJIA must make a higher trough followed by a higher peak. In addition, price must move above the key resistance level. Once the 200-day moving average changes direction from down to up, it will confirm that the DJIA has reversed its major trend from down to up. ■

CHART ANALYSIS

Broad Market Bullish

by Mike Carr, CMT

Using the Value Line index allows us to see how the broad market is doing, and right now, that is potentially bullish.

Tradable: VLG

Less followed than other stock indexes, the Value Line Geometric Average (VLG) shows the performance of a basket of stocks where an equal dollar amount is invested in each stock. The change in each stock is averaged geometrically every day to provide a rough idea of how the median stock in the Value Line universe performed.

The median stock represents the halfway point. There are more than 1,600 stocks in VLG. About 800 will do better than the average every day and about half will do worse. Other indexes like the Standard & Poor's 500 can be dominated by the performance of only a few stocks. VLG avoids this problem.

Recent price action is shown in Figure 1. The index rose sharply off its March bottom, like all indexes and most stocks. In May, a pennant pattern formed, which was completed with an upside breakout with recent price action.

Pennants are usually considered to be continuation patterns. The upside measured target is at 334, an incredible gain of more than 30%. Chart readers may also spot a loose double bottom, which has an almost identical price target.

This shows the broad market may have more gains ahead as stocks that didn't participate as much in the initial advance may show leadership in coming months. ■

FIGURE 1: $XVG, WEEKLY. The weekly chart of the Value Line Geometric Index clearly shows that price has broken out of a pennant.

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Possible Index Change

Key Interest Rate Levels

JPY Pairs Moving Fast

Earnings Congestion Ahead

Leading Sector Mover Breaking Down

Emerging Market Development

Takeover Chatter

Surprise Merger Deal Event

Negative Same Store Sales

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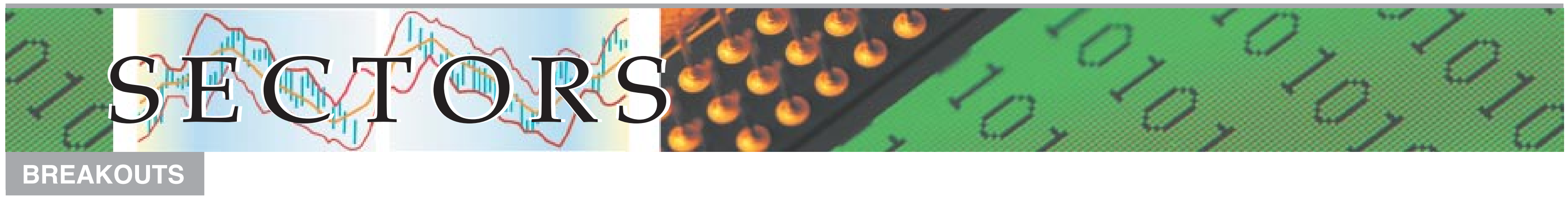

BREAKOUTS

Rotation Out Of Tech For QQQQ

by Ron Walker

In recent days, we have started to see the tech sector struggle. In early May the Powershares QQQ Trust broke its rising trendline and started to display some weakness. If we follow the money, we can find where new interest is. While the techonology sector is busy breaking down, other sectors are breaking out.

Tradable: QQQQ

In Figure 1, the QQQQ daily chart formed a divergence with the moving average convergence/divergence (MACD) histogram. Note how the recent histogram tower was much smaller than the previous peaks that were made. After the last histogram peak was made, the bars began to decline and move below the zero line. While the bearish divergence was setting up on histogram, a bearish candlestick was busy forming. The QQQQ daily chart formed a bearish one-day hanging man pattern. This particular candle had a black real body. Black candles often accompany price peaks. The candlestick was confirmed the following session as the next candle closed below the lowest low of the hanging man pattern, while simultaneously breaking the rising trendline. Currently, the QQQQ is resting on its 200-day simple moving average (SMA); nevertheless, the MACD did get a bearish crossover, providing additional clues that the selling may have just begun. We are likely seeing the early signs that a corrective move is taking place in the tech sector.

There is some evidence that investors are starting to take some profit in the technology, and moving that capital into some of the sectors that have been lagging the market. The fact that underperformers are now starting to breakout of their bases reinforces the idea that corrective forces may be a work in the broad market. In recent days, we have witnessed breakouts in the utilities, health-care, and consumer staples sectors.

In Figure 2, the Utilities Select Sector SPDR (XLU) daily chart hasn't been participating in the rally. XLU bottomed along with the rest of the market in early March, but after prices rallied for two weeks, it formed an ascending scallop as the advanced stalled and prices began to move in a lateral range between $25 and $26.50. This formed a base that looks to be an

FIGURE 1: POWERSHARES QQQ TRUST (QQQQ), DAILY. The QQQQ is breaking down from a rising wedge after a bearish divergence has taken its toll. A black hanging man one-day candle pattern marked the top. Both the MACD and the stochastic are in the early stages of a breakdown.

FIGURE 2: UTILITIES SELECT SECTOR (XLU), DAILY. Here, utilities rallied briefly in March but failed to participate while the market was rallying. This allowed for a long handle to form after a cup pattern. The handle makes for a solid base.

FIGURE 3: HEALTH CARE SELECT SECTOR (XLV), DAILY. Another cup pattern made an appearance on XLV. Note the moving averages flattened out during the consolidation. Finally, at the breakout, the 10- and 20-day EMAs broke above the 50-day EMA. A hanging man candle (circled in blue) could result in a backtest to support.

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extended handle off a cup formation made in March. XLU broke out of the handle in early May. The breakout was confirmed by a bullish MACD cross above its zero line.

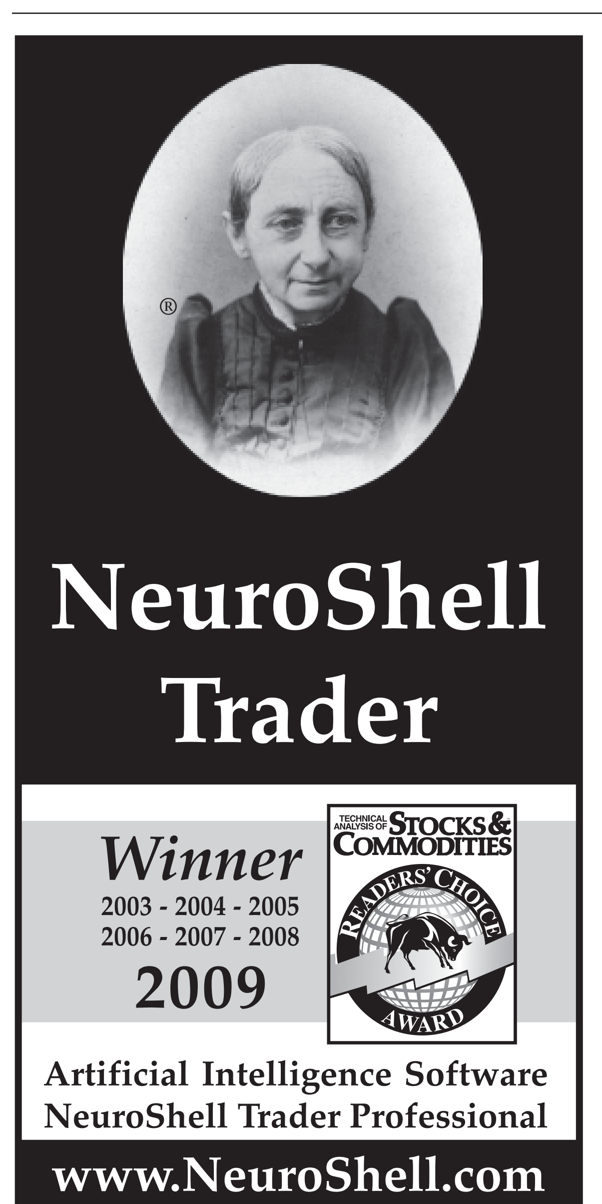
Figure 3 shows that the Health Care Select Sector SPDR (XLV) also lagged behind as prices consolidated for six weeks, forming another lengthy handle, after a rounding cup formation appeared after prices bottomed out in March. Then in early May, XLV broke above the $24.80 area of resistance. This breakout is legitimate, because both the 10- and 20 day exponential moving averages (EMA) broke above the 50-day EMA. Further, the breakout came on increasing volume. However, a bearish hammer formed recently, which was confirmed the following session. This will make way for a backtest of the break and test support at the $24.80 area.

In Figure 4, the Consumers Staples Select Sector SPDR (XLP) managed to rise longer than the two previous sectors mentioned. But the rally on XLP only lasted until April. XLF then began making some back-and-forth swings, building into a base in the form of an ascending triangle. The triangle pattern broke out in early May. The ADX line bottomed at that time and is currently on the rise, strengthening the positive directional movement indicator (+DI) after its recent bullish cross that occurred while XLP was still building a base in the triangle.

If the market begins a sharp correction, we may see more fresh capital pour into XLP, XLV, and XLU. Consumer staples, health care, and utilities are often a safe haven to park money in uncertain times. Letting the techs continue to ride may just seem to be too risky for some investors at these extended l evels.

In addition, there is newfound strength in some commodities. At the same time these exchange traded funds (ETFs) were breaking out of their bases, the crude oil and coal broke out their bases in the daily time frame. The energy ETF (XLE) broke out simultaneously with crude oil. At that same time, gold broke out of a bullish falling wedge pattern on its daily chart. ■

FIGURE 4: CONSUMER STAPLES SELECT SECTOR (XLP), DAILY. After XLP rallied off the March lows, it formed a continution as an ascending triangle. XLP began to show signs of strength just as the QQQQ demonstrated signs of weakness.



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RELATIVE STRENGTH COMPARATIVE

A Look At Relative Strength In The ETF World

by Donald W. Pendergast Jr.

Keeping tabs on which industry groups and sectors are hot — and those that are not — is a sound way to build a solid foundation for your trading and investing decisions.

Tradables: HAO, KOL, IYT, IYR

Security Name	Close	3 month	6 month	12 month	Total	Ticker Symbol
CLAYMORE TR 2 CHINA SML CP INDX ETF	19.7406	56.0164	89.2675	-15.1307	62.0565	HAO
MARKET VECTORS COAL ETF	22.8299	76.0208	81.1897	-58.0795	58.3839	KOL
MARKET VECTORS STEEL INDEX ETF	41.7400	58.4662	61.5951	-61.2046	39.1076	SLX
VANGUARD EMERGING MARKETS ETF	31.3400	48.3199	42.2606	-36.9290	33.9905	VWO
MARKET VECTORS NUCLEAR ENERGY ETF	23.3500	43.5157	41.2583	-33.1520	31.7125	NLR
ISHARES S&P GSTI NETWORKING INDX ETF	22.2500	41.9005	39.8492	-29.5663	31.3613	IGN
iSHARES FTSE CHNA ETF	35.3800	35.2964	44.9406	-25.0265	30.1690	FXI

METASTOCK

FIGURE 1: TOP SEVEN LONG-TERM RELATIVE STRENGTH ETFS. Emerging market, coal, steel and nuclear energy ETF's take up most of the top seven long-term relative strength slots.

Security Name	Close	1 Day	5 Day	10 Day	30 Day	60 Day	120 day	240 day	Score
iSHARES DJ US UTIL ETF	62.1000	-1.3816	-1.9886	-2.3892	1.7366	-0.1768	-10.3508	-37.6318	-16.1121
ISHARES NASDAQ BIOTECHNOLOGY ETF	66.3700	0.4997	1.5298	3.1712	3.6222	-5.1044	4.9494	-15.7634	-7.0076
ISHARES DJONES US REGNL BNKS IDX ETF	18.0500	-3.0612	-0.1659	-12.2082	14.6032	25.6964	-25.5977	-43.6640	-5.9563
ISHARES DJ TRANSPTN AVG INDX ETF	56.3800	0.0355	5.0494	-6.1272	13.8990	16.1516	-7.8005	-40.1931	-5.2301
iSHARES DJ US REAL ETF	32.3400	-1.1614	4.3562	-6.5318	21.2598	18.2450	0.4348	-52.3220	-5.1324

FIGURE 2: WEAK LONG-TERM PERFORMING ETFS. Meanwhile, despite impressive bear market rallies, the transportation, regional banking, and real estate ETFs display lackluster longer-term performance ratings. All could offer significant short selling opportunities in the weeks ahead.

A mere six months ago, many were wondering just how low the global equity markets might go; fear and loathing were widespread and the permabears were sure that it was the Big One. Today, investors have all but forgotten the reports of gloom and doom (one wag once remarked that Elliott wave analysts had correctly called 38 of the past four recessions, but that's another story, and I do believe that Elliott wave analysis can be an excellent forecasting tool, notwithstanding) and economic chaos, instead choosing to focus on making the most of the 10-week-old bear market rally.

Using a simple MetaStock relative strength exploration, one that focuses on the three-, six-, and 12-month performance of a basket of 37 diverse exchange traded funds (made up of US stock industry groups, commodity-based stocks, and various global stock indexes), I was able to glean a useful picture of where the strength and weakness resides in the ETF universe.

Glancing at the exploration output, we learn that small-cap Chinese stocks (HAO) are on a tear, as are the stocks in the coal industry group (KOL). Taking third place is the steel industry group (SLX), followed by Vanguard's Emerging Markets (VWO) and Market Vectors Nuclear Energy (NLR). Lodged in the seventh position is FXI, the ETF that focuses on the largest and most liquid Chinese equities; interestingly, FXI has only half the relative strength rating of its small-cap Chinese cousin, HAO. Small-cap indexes were generally mauled worse than their large-cap counterparts during the 2007-09 market smash and are now beginning to make up some of those massive losses at a rate far exceeding that of their large-cap brethren. See Figure 1.

Perhaps you've also noticed the potential link between the simultaneous resurgence in the Chinese small-cap index and the coal and steel industry groups, just as I did. China has hundreds of coal-fired power plants (and many more scheduled for production) that eat up enormous amounts of coal, just as their steel industry does. Coincidence? Nah, no way. It's just another visual depiction of global economics in action, courtesy of a simple MetaStock exploration.

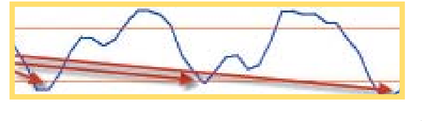
FIGURE 3: COAL ETF, DAILY. Although it's not necessarily the holy grail of trading methods, buying pullbacks against a major uptrend in strong relative strength stocks and ETFs is still a sound, low-risk trading strategy.

Glancing at the list of ETF underperformers (Figure 2), it is no surprise to see the Transportation (IYT), Regional Banks (IAT), and Real Estate (IYR) ETFs clinging to the bottom rungs of this particular 37-ETF exploration. Again, the global economic crisis of 2007-09 did quite a number on each of these particular industry groups; rising energy prices crippled the earnings potential of most transportation sector firms, even as the mortgage fiasco wiped out the profitability of many banks and real estate-related enterprises, too. While these three ETFs have enjoyed nice bear market rallies ranging from 18% to 52%, each one also has a ton of long-term overhead resistance to overcome if they are destined to eventually return to their former states of stock market glory.

Given that reality, IYT, IYR, and IAT may be excellent shorting and/or put option purchase candidates should the broad US market indexes begin a more substantial corrective move during the next few weeks. The Standard & Poor's 500, NASDAQ 100, and Russell 2000 indexes all feature very extended weekly price cycles and have already begun to roll over, so tracking the stocks (for suitable short setups) in the IYT, IYR, and IAT could be a great idea, given that such weak groups tend to remain weak for an indefinite period of time.

How can we play some of these ETFs for a pullback against the trend move? Look at the Coal ETF (KOL) in Figure 3. Assuming it had high relative strength versus most other ETFs, then each time that the stochRSI dipped below and then above its lower signal line (see top of the chart) might have provided a reasonably low-risk long entry setup, particularly if the trendlines had begun to accelerate higher. Sure, there are a few whipsaws here and there, but by playing with your entry prices (putting half a position on at the stochRSI signal line crossover and then waiting for a minor pullback to the trendline to deploy the second half), you can usually minimize that risk.

Will KOL or HAO keep grinding higher? No one knows, but by keeping track of their relative strength rankings among a diverse group of global index, US industry group, and commodity-based stock ETFs, you'll be able to make an educated guess as to whether to plow your trading or investing capital into these or any other ETFs. ■



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Commodity-Linked ETF Index Suggests Consumer Inflation

by Donald W. Pendergast Jr.

After enduring a drop of 68% over the past year, this custom index of four commodity-linked ETFs has staged a strong reversal, suggesting that more consumer price inflation may be on the horizon.

Tradables : DBA, SLX, GDX, IEO

Since 2002, most traders and investors have read and/or heard a lot about the dangers of deflation and the potential for another Great Depression far worse than that of the 1930s. While it's true that home prices peaked in 2005-06 and then began to decline rapidly, followed by the stock and then commodity markets in 2007-09, it seems that the declines have all ended, with each particular asset class having made meaningful, multiyear lows along the way. Now, instead of the deflation danger, we've been made aware of the possible threat of sustained consumer price inflation, similar to that experienced in the US from the late 1960s to the early 1980s.

Creating a custom index in MetaStock, I grouped together four key exchange traded funds (DBA, Powershares DB Agriculture; SLX, Market Vectors Steel Index; GDX, Market Vectors Gold Miners; and IEO, iShares US Dow Jones Oil and Gas Exploration) into one simple index, one designed to track commodity-linked stocks and tradables into one easy-to-decipher chart. The goal for this index is to not only alert me to possible trading ops in those ETFs (which track agricultural commodities and steel, gold mining and oil exploration/production stocks), but to also give me an idea of how bad the threat of future consumer price inflation is likely to be. Let's look at this particular ETF index and see what kind of information it may be sharing with us.

After constructing the index, I plotted it as a weekly chart (Figure 1) and then overlaid one of the expert advisors included with the program. Known as the CS Scientific Inc. Hybrid Trade Screen, this particular expert has done a good job in the past of identifying the start of powerful trending moves in this unique ETF index, and even better, it may be on the verge of signaling a continuation of the current bull move in DBA, SLX, GDX, and IEO. If you look at the price bars, the recent weekly bar just turned blue for the first time since July 2008, nearly a year ago. This particular MetaStock expert appears to be very reliable, even more so when the legend at the bottom of the chart prints a gray +L+ marker, indicating a confirmed bullish trend. Plot any of the four ETF's mentioned (using a weekly chart) and then overlay this particular expert, and if you see the gray +L+ print, there's an excellent chance that the trend in question will continue for several more weeks, if not longer, depending on the market.

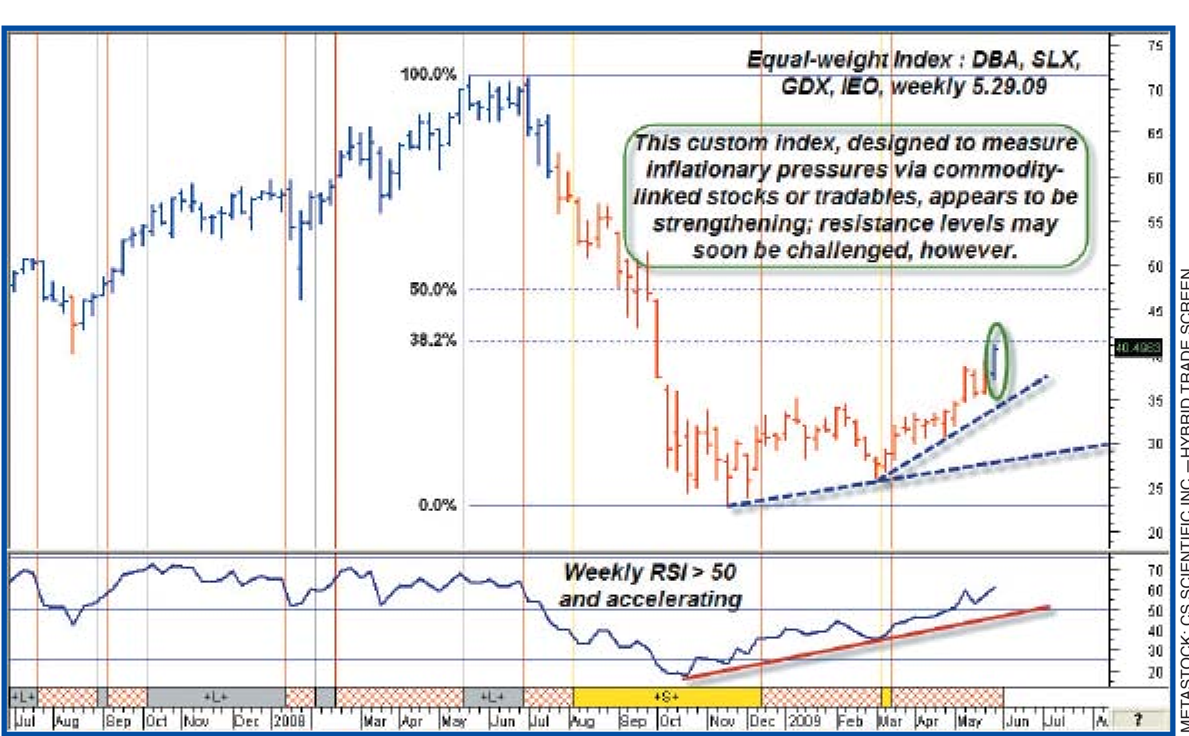

FIGURE 1: CUSTOM INDEX, WEEKLY. After a rise of nearly 80% in just six months, is this just a simple bear market rally, or is it the beginning of the next stage in a nine-year-old commodity bull market?

Security Name	CLOSE	ROC	Ticker Sym...
Whiting Petroleum Corporation	46.8600	2.8058	WLL
Pioneer Natural Resources	28.1200	2.3696	PXD
Newfield Exploration Co.	36.1200	2.0543	NFX
Cabot Oil & Gas Corporation	35.1300	1.4666	COG
EXCO Resources, Inc.	15.3900	1.4106	XCO
Cimarex Energy Co.	32.6200	1.3074	XEC
Southwestern Energy Company	43.4700	0.5169	SWN
Plains Exploration & Production Company	28.2800	0.3795	PXP
EOG Resources, Inc.	73.1900	0.2405	EOG
Devon Energy Corporation	63.2400	0.1791	DVN
Chesapeake Energy Corporation	22.6600	0.1742	CHK
Apache Corporation	84.2600	0.0588	APA

METASTOCK

FIGURE 2: IEO ETF. A list of the top comparative relative strength stocks in the iShares Dow Jones US Oil and Gas Exploration and Production index ETF (IEO).

As far as further technical confirmation, note how the uptrend lines have accelerated higher, putting the index just below the 38% Fibonacci retracement level of the massive 2008-09 downswing. Typically, a major bear market won't officially turn until after it can close above the 38% retracement level, so this would be a major confirmation that the bear market in all things commodity related has finally ended. Finally, note the strength and trend persistence of the relative strength index (RSI)(14) indicator in the lower part of the chart. Currently at 61.47, the RSI (14) is accelerating higher, right along with the index price. Students of technical analysis know that an RSI reading of greater than 50 indicates strength, so this current trend in the RSI is obviously strong and getting stronger.

How to play this potential for more gains in SLX, DBA, GDX, and IEO? One way might be to sell covered calls (with four to six weeks of time value) on the strongest relative strength stocks in each particular ETF. For example, right now, the strongest component stock in IEO (the iShares Oil & Gas ETF) (Figure 2) is Whiting Petroleum (WLL), followed in descending order by PXD, NFX, COG, XCO, XEC, SWN, PXP, EOG, DVN, CHK, and APA. Each of these stocks is outperforming IEO in terms of 13-week relative strength; I suggest you investigate the liquidity, available strike prices and bid-ask spreads of the call options on these stocks to see if a covered call would be appropriate. Even more important, check out the weekly and monthly charts on each stock, attempting to locate key support/resistance levels, price zones that might help you decide on an opportune time to add a long stock or option position.

While all of these technical factors are important, let's face it, the mother's milk of every tradable market is liquidity, and lots of it. With the massive increases in global money supply over the past few years finally finding its way back into the stock and commodity markets, it's little wonder that commodity and stock prices have been major beneficiaries of this flood of newly created dollars. In addition, the global demand for commodities like oil, steel, agricultural products, and gold are steadily increasing, thus boosting the share prices of the companies engaged in producing such critically important, tangible goods.

Fundamental forces always prove out in the end, but it always pays to focus on technical analysis tools to help time entries and exits, always attempting to stay on the right side of the longer-term fundamental forces affecting a given stock or commodity-related market. ■

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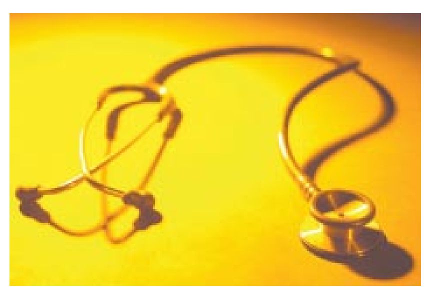
Breakout Of Health Care Index

by Chaitali Mohile

After two years, the Health Care Provider Index has entered a fresh intermediate uptrend. The confirmed triangular breakout would polish the bullish path for the index.

Tradable: $RXH

The Health Care Provider Index ($RXH) formed lower highs at 223 and 218 in November 2008 and March 2009. These two lows can be considered to be a double bottom, as there is only a marginal difference between them. Therefore, the bullish rally that was initiated after the double-bottom formation was a major trend reversal move. In Figure 1, the overheated average directional index (ADX) (14) declined and fresh buying pressure initiated a new uptrend. In addition, the relative strength index (RSI) (14) formed higher bottoms against the lower lows of the price. This positive divergence was the first bullish reversal indication on the weekly chart in Figure 1. The large candles show the bullish strength, and the small candles with long legs indicate the consolidation that helped the bullish rally climb higher.



The previous high of 461 is the resistance for the current rally. The developed uptrend and the bullish RSI (14) signify a stable move toward the resistance. In the current week, $RXH may remain rangebound between 400 and 420 but later would continue its upward journey. Although the RSI (14) has never surged above 70 levels in Figure 1, the existing positive momentum would stabilize the indicator in an overbought territory.

An ascending triangle in Figure 2 is a bullish continuation pattern. The triangle is formed after an extensive advance rally; therefore, for some traders, the pattern can be a bullish pennant as well. Since both patterns are a continuation of a prior bullish action, the breakout is essentially in an upward direction. According to Figure 2, $RXH has already broken upward. However, the breakout can be confirmed only if the index sustains above the newly formed support at a seller's line of an ascending triangle. We can see that after the bullish breakout formed on June 1, a doji and a bearish candle was formed. Hence, we can anticipate a few bearish days that can retrace $RXH to a newly formed support at 390 levels.

FIGURE 1: $RXH, WEEKLY. The double-bottom formation reversed the downtrend and initiated the fresh bullish move for the index. The previous high of 461 is the long-term target of the upward rally.

FIGURE 2: $RXH, DAILY. The bullish breakout of an ascending triangle has to be confirmed. The index is likely to retrace at a newly formed support.

The ADX (14) is indicating a well-developed uptrend. But the RSI (14) is declining under the resistance of 70 levels; in other words, the indicator is reluctant to shift in a highly overbought area. As a result, the oscillator might become volatile in a narrow range of 50 and 70, and the price would move back to the new support. Therefore, the breakout should be reconfirmed before initiating any bullish positions.

Thus, $RXH would hit the previous resistance of 461 after the confirmed breakout. The target on an ascending triangle breakout can be measured as 390 - 342 = 48 + 390 = 438. According to the weekly time frame, 461 is a long-term target, but for short-term traders the minimum estimated level on breakout would be 438. ■

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Financial Sector Fuels The S&P 500

by Alan R. Northam

The S&P 500 has now run up against key resistance and cannot seem to break through to continue its advance. The financial market sector is the fuel for the S&P 500. Has the S&P 500 run out of fuel?

Tradable: $SPX / XLF

The Standard & Poor's 500 (Figure 1) has been moving higher since early March but ran up against key resistance at the end of May and has been fighting to break through this line or resistance during June. Key resistance is a price level that if traded through signals a change in trend. Ever since October 2007 the S&P 500 has been moving downward making a series of lower peaks and lower troughs signaling a downward trend. If the S&P 500 can now break above key resistance, it will break the series of lower peaks and troughs by forming a higher peak. This higher peak then signals the end of the downward trend and the beginning of a new upward trend. Technically, the S&P 500 has already formed a new higher peak ending the old downward trend and ushering in a new trend. (See my article entitled "S&P 500 Breaks Series Of Peaks And Troughs" published on 06/08/09.)

One of the reasons why the S&P 500 may be finding it difficult to break out above the key resistance line is the lack of follow-through by the financial sector. Figure 2 shows that both the S&P 500 and the financial sector bottomed at the end of February and moved upward in lock-step fashion until mid-May. In late May, the S&P 500 made a higher high by closing above the the peak made at the end of April, whereas the financial sector did not. This lack of follow-through by the financial sector forms a bearish divergence between the S&P 500 and the financial sector. The financial sector is the fuel that pushes the stock market higher, and when the stock market runs out of fuel, it is bound to slow down and easily reverse direction. It's like a car that runs out of gas suddenly. For a while, the car will keep moving forward but eventually come to a stop.

The stock market is like the car. When it runs out of fuel, it will stop moving higher, and when it cannot move higher, it will reverse direction and start to fall. Since the beginning of May, the stock market has run out of fuel and is coasting on its own. It is now at the point where it has slowed to the point where it is in the process of turning lower. What the stock market needs now is a boost of fuel by the financial sector breaking above its early May peak to reenergize the stock market.

The key to whether the S&P 500 continues to rally higher from current levels resides in the financial market sector. Figure 3 shows my technical analysis of the financial market sector based upon the weekly bar chart. Note that since the March low, XLF has been moving upward in a series of higher highs (marked HH on the chart) and higher lows (marked HL).

An upward trend is defined as a series of waves that make higher highs and higher lows. Since XLF has been making a series of higher highs and higher lows, it is in an established upward trend. However, note that XLF has not made a new higher high for the last five weeks and has been trading in a range between the high and low of the weekly bar made at the beginning of May. This puts the financial market sector in a consolidation trading range. Consolidation patterns are normally continuation patterns. Therefore, since the market is in an established upward trend and has been consolidating over the past five weeks, XLF should eventually continue higher.

As long as the financial market sector does not break its series of forming higher highs and higher lows, the upward trend will continue. Once the consolidation phase of the financial sector is completed and XLF breaks out to the upside, it should provide the fuel to push the S&P 500 higher. However, should XLF fall below the support line just above $9.00 per share, it will break the series of higher lows and signal a trend reversal. If this occurs, then the S&P 500 will most likely reverse its upward trend. The key to watch is the financial market sector. ■

FIGURE 1: S&P 500, DAILY. See the key resistance line drawn off the early January 2009 price peak.

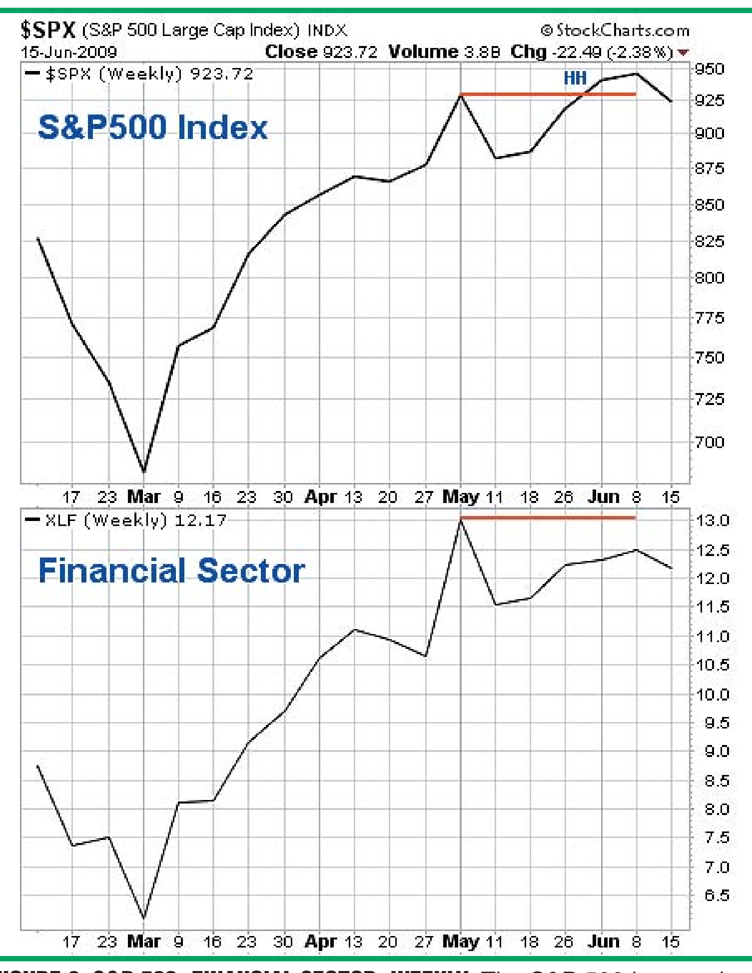

FIGURE 2: S&P 500, FINANCIAL SECTOR, WEEKLY. The S&P 500 has made a new higher high price since early May, whereas the financial sector has not. This provides a bearish divergence signal to the overall stock market.

FIGURE 3: XLF, WEEKLY. This chart shows that the financial sector continues to make higher highs and higher lows, signaling that the upward trend is still intact. This chart also shows that the financial sector is currently in a consolidation pattern. Consolidation patterns are typically continuation patterns that signal the continuation of the upward trend but can be reversal signals.

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Utility Select Retraces

by Chaitali Mohile

The Utility Select Sector SPDR has rallied toward its previous highs. Further upward movement seems under threat.

Tradable: XLU

The Utility Select Sector SPDR (XLU) faced a steep fall from $33 to $22.50 within a month. The declining rally pulled a developed downtrend stronger and rushed to an overheated level. The average directional movement index (ADX) (14) in Figure 1 has hit highly overheated levels at 50. The relative strength index (RSI) (14) slipped in an oversold zone and the moving average convergence/ divergence (MACD) (12,26,9) moved above the trigger line in negative territory. The bearish indicators reversed the descending rally of XLU from the low of $22.50. Earlier, the recovery was faster on higher volume till the 38.2% Fibonacci retracement level was converted to support.

In Figure 1, we can see XLU consolidated near the newly formed support of 38.2%. The sideways price action cooled off the highly bearish indicators. The ADX (14) moved below 20, indicating consolidation. Thus, the range-bound rally between 38.2% and 50% retracement level generated an additional bullish strength. The upward trip with the support of the 50% level was slow and steady. The horizontal movement of RSI (14) within the 50 and 70 level and the volatile MACD (12,26,9) with support of the zero line controlled price action from the 50% level. Although the triangular formations are commonly found on the technical chart, they should be considered for constructing a trading road map. The black dashed line in Figure 1 shows an ascending triangle formation.

The ascending triangle breakout would have pulled XLU to the highest retracement level. Due to the negative divergence of the RSI (14), the breakout is more likely to fail. The descending line (dashed) in the RSI (14) highlights the divergence. In addition, the 200-day moving average (MA) is the major hurdle on the price chart. Although the MACD (12,26,9) is in positive territory, the oscillator shows high volatility. The ADX (14), indicating a developing uptrend, is the only bullish indicator in Figure 1. Therefore, XLU is likely to retrace toward its previous support at $27 and $26. The later support ($26) would be the final support, below which the developing uptrend might reverse.

Due to the 200-day moving average resistance, the negative divergence on RSI (14), and the volatile MACD (12,26,9), XLU failed to surge above an upper Bollinger band as well. The index was ready to break out the upper Bollinger band tool, but weakness on the technical chart retraced the rally. The center line of the tool shows support at $27 in Figure 2. The price has hit the upper Bollinger band three times; therefore, the next bullish rally with the support of $27 would ultimately breach the upper band resistance. Hence, the XLU is likely to retrace toward its technical support.

Although XLU is likely to correct currently, the long-term bullishness of the index remains untouched. ■

FIGURE 1: XLU, DAILY. An ascending triangle breakout has retraced due to the 200-day MA resistance and the negative divergence on RSI(14).

FIGURE 2: XLU, DAILY. XLU challenged the upper Bollinger band three times, but it failed to break out. Technically, the next rally with the support $27 should breach the upper band resistance.

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METALS & ENERGY

CYCLES

Solid Earnings Growth Driving Gold Miners Higher

by Donald W. Pendergast Jr.

Solid earnings growth and a rising weekly price cycle implies further gains for this group of 11 gold mining stocks.

Tradables: GOLD, GRS, GFI, HMY, more

Gold bullion prices keep grinding higher, though maybe not as quickly as some in the gold bug camp might have hoped for. At times it seems that the old rules that once governed the world of investing have been cast aside, making the financial markets a more menacing and formidable adversary than in times past. Nonetheless, gold has certainly remained the best-performing commodity asset since 2001, and that by a wide margin. Even better, when the stocks of gold mining companies begin to catch a bid, they tend to outperform gold itself during certain market phases. This article will focus on a custom index of 11 gold mining stocks with well above-average long-term earnings prospects, and will attempt to ascertain if these particular stocks still have some more room for further gains — or not.

Taking the time to do a bit of fundamental research, I ran a group of 25 gold mining equities (a mix of "juniors" and "seniors," as the gold bugs like to refer to them) through a stock screener, one designed to isolate those stocks with the best earnings growth rates (along with a few other vital financial stats like the price to sales ratio, and so on). Here are the tickers for the 11 stocks that made the earnings cut:

ANV, GFI, GG, GOLD, GRS, GRZ, HMY, NAK, NXG, TRE, WGW

FIGURE 1: GOLD 11, DAILY. While the overall trend dynamics on this daily graph are very bullish, unless the money flow indicator (bottom of chart) gets back in line, the future of this uptrend is uncertain.

FIGURE 2: GOLD 11, WEEKLY. Looking at a longer-term chart, the Gold 11 index takes on an even more bullish tone. Note how the DBS 10 indicator (blue line at bottom of chart) is rising at a very high angle of attack in the wake of a significant reversal, one that established a major uptrend line.

Four of the stocks are major producers (GFI, GG, GOLD, and HMY), while the balance is a mix of more speculative "juniors." All appear to be on track to increase their earnings for the next 12 to 18 months, however, and given the hugely inflationary "leaven" that the fiscal bailout bunch have baked into the global economic cake, it seems like a fairly safe bet that the majority of these stocks will outperform not only the broad market indexes but also of the price of gold itself. Using a special add-on made specifically for MetaStock, I then created an equal-weight index for the 11 stocks, nicknaming it the "Gold 11" index. This index has actually outperformed the more widely known Gold Bugs index (.HUI) by about 20% since November 2008, most likely due to the superior mix (based on long-term earnings growth) of stocks contained within.

The Gold 11 daily chart (Figure 1) depicts a mixed technical picture for the moment; first of all, the rising trendline confirms the overall bullishness of the index, a fact also verified by the extremely strong Rahul Mohindar oscillator (RMO) at the top of the chart. The Gold 11 is also well above its sell-stop line (red dots on chart, set as a 2*ATR 10 trailing volatility stop), another positive sign.

On the negative side of the equation, the declining trendline of the Chaikin money flow (CMF)(34) indicator suggests that this daily trend move may remain in some sort of a con-

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solidation phase unless it breaks sharply above that CMF downtrend line. It's also possible that the Gold 11 is simply hashing out a new base or platform from which to launch yet another move higher, a real possibility especially when viewed in the light of the outstanding technical factors present on the Gold 11 weekly chart, which is up next (Figure 2).

Viewing the Gold 11 daily trend in light of this mega, multimonth trend move on the weekly chart is sure to rekindle the bullish flame in many a lukewarm gold bug, given that this particular graph has so much going for it.

Just as on the daily chart, the most prominent technical feature is the beautiful long-term uptrend line, a powerful technical trend delineator that's eight months old and shows no sign of weakness at all. More meaningful is the WB DBS 10 indicator (blue line at bottom of the chart), an indicator that has a high degree of accuracy in calling the cyclical turns in most freely traded markets. Generally speaking, when this indicator crosses above its lower signal line (horizontal blue bar), there is a 70% to 80% chance that the indicator will carry all the way to the upper signal line, just as it did at the last major weekly cycle low in October 2008. In fact, this index gained a full two points from November 28, 2008, through January 2, 2009, launching higher from an indicator level (currently at 81) that was identical to today's reading.

Clearly, the term "overbought" must be used with great discretion, particularly when analyzing oscillating-type indicators on a stock or index that's entering into or is currently enmeshed within a powerful trend move higher. Therefore, it appears reasonable to expect the Gold 11 index to continue to follow the weekly cycle higher, possibly all the way up to the red-shaded resistance zone found between $14.80 and $15.80.

Playing an index like this could be tough; after all, it isn't traded on any stock exchange, but here are a couple of ideas on how to put this knowledge to work for you:

Using MetaStock's chart overlay feature, you can determine which of the 11 stocks most closely follows the Gold 11 index; it turns out that Goldcorp (GG) seems to track every swing and reversal move with a high degree of precision. Harmony Gold Mining (HMY) and Randgold (GOLD) also track the index very closely. Given that all three of these large-cap gold miners offer attractive bid-ask spreads on their equity options, let's examine a covered call play, one intended to take advantage of that beautiful rising weekly cycle indicator.

One attractive at the money (ATM) covered call play is as follows:

Buy 100 shares of Goldcorp (GG) currently @ $34.19/share

Sell 1 July 2009 Goldcorp $34.00 call option currently @ $2.75

Net debit, before commissions: $31.39

If called away at expiration 58 days from now, this trade will earn about $261; that's an annual rate of return of better than 46%. To manage the trade, simply create your own Gold 11 index in your own charting platform and close out the GG covered call position if either the weekly Gold 11 up trendline and/or ATR trailing volatility stop are violated on a weekly close. You can also create a weekly chart of GG similar to the one I created for Gold 11, managing the trade in exactly the same way.

The risk to reward ratio looks very good for this kind of ATM covered call setup, given the strongly rising weekly price cycle in the Gold 11 index and Goldcorp shares, too. Even better, a trade setup like this doesn't require razor-sharp entry precision like a short-term swing trade. Letting the power of a strong long-term trend carry the position (hopefully) higher takes a lot of the daily stress away from the business of trading. Why not try to locate similar weekly cyclical trend setups in all of the stocks you normally follow?

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Light Crude Oil Index Bullish Or Bearish?

by Chaitali Mohile

The long-term bullish reversal pattern waits for the potential breakout.

Tradable: $WTIC

The large tsunami waves took the light crude oil index ($WTIC) to a new high of $147. Due to a technical correction, $WTIC took a nosedive to a low of $35. The descending rally violated some most important supports (few historical lows) and gradually moved to the low. An oversold relative strength index (RSI) (14) and an overheated downtrend of the average directional movement index (ADX) (14) relieved the bullish traders by initiating a pullback rally. In Figure 1, we can see that the index recovered under a volatile situation. Recently, the index has almost completed its upward move, and therefore, a rounded-bottom pattern is confirmed. You cannot anticipate the pattern formation before it is actually visible on the technical charts. Since the upward move of $WTIC has reached the 200-day moving average (MA) and 50-day moving average (MA) resistance, you can identify the bullish reversal pattern in Figure 1.

The potential breakout of the rounded-bottom appears in a bullish direction after violating the MA resistance. In Figure 1, the two strong MA resistances are seen for the bullish pattern. Currently, $WTIC is worth $70, but the breakout above the 200-day MA and the 50-day MA would bring a strong bullish wave, which might freeze many traders. But before measuring any target on the breakout, let us understand if the index is really on an edge to break out or if $WTIC would witness the

FIGURE 1: $WTIC, WEEKLY. The round-bottom pattern has two strong resistances of the 200-day MA and 50-day MA. The indicators are not fueled with bullish strength essential for the breakout.

FIGURE 2: $WTIC, WEEKLY. The chart has 10 years' data. The trendline joining all the lows is the resistance for the bullish rally.

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correction. Both the MAs are major resistance for the bullish breakout, and in addition, the indicators in Figure 1 are not reflecting the bullish strength essential for the upward rally.

The rate of change (ROC) (12) was unsteady while traveling upward. The indicator shows the intensity of the price change of a particular index or the stock in percentage. The unstable vertical move of the ROC (12) shows the bullish price rally is likely to reverse. The RSI (14) is likely to decline from a marginally overbought area, indicating the lack of bullish strength. But I would like to highlight the golden support at the 50 level of the momentum oscillator that might withhold the descending price rally. The ADX (14) is indicating a developing uptrend. Therefore, my interpretation is that $WTIC would consolidate currently but may correct later. The correction would pull down the index to $55.

Figure 2 would explain why the correction is anticipated. The weekly chart has 10-year data. The trendline joining all historical lows coincides with the current 200-day and 50-day MA resistance. Therefore, it would be tough for $WTIC to violate the three resistances. This might result in a serious correction. On the contrary; if $WTIC surges above all the three resistances in Figure 2, a robust bullish rally would be initiated.

The daily chart in Figure 3 would give short-term trading prospective on the oil index. $WTIC consolidated in April and May, forming a bullish flag and pennant pattern. The minimum estimated level after the breakout above $55 was $73 (55 - 37 = 18 + 55 = $73). In Figure 3, we can see that $WTIC has recently reached its target and turned sideways. The RSI (14) formed a double top in an overbought area. As a result, the indicator may undergo a corrective phase that may spoil the bulls' party. The ROC (12) shows lower highs, indicating a negative divergence. In addition, the uptrend would soon hit overheated levels of the ADX (14) at 40. Thus, Figure 3 suggest volatile consolidation for $WTIC.

But the bigger picture of oil index looks bearish for the intermediate period. The rounded-bottom pattern may not breach the MA resistance; instead, it would correct. ■

FIGURE 3: $WTIC, DAILY. The 200-day and 50-day MAs are the important support for $WTIC during the downward rally.

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CYCLES

GDX Approaching Key Support

by Donald W. Pendergast Jr.

Gold mining stocks have pulled back recently, but now they may be setting up for a short-term reaction move higher.

Tradable: GDX

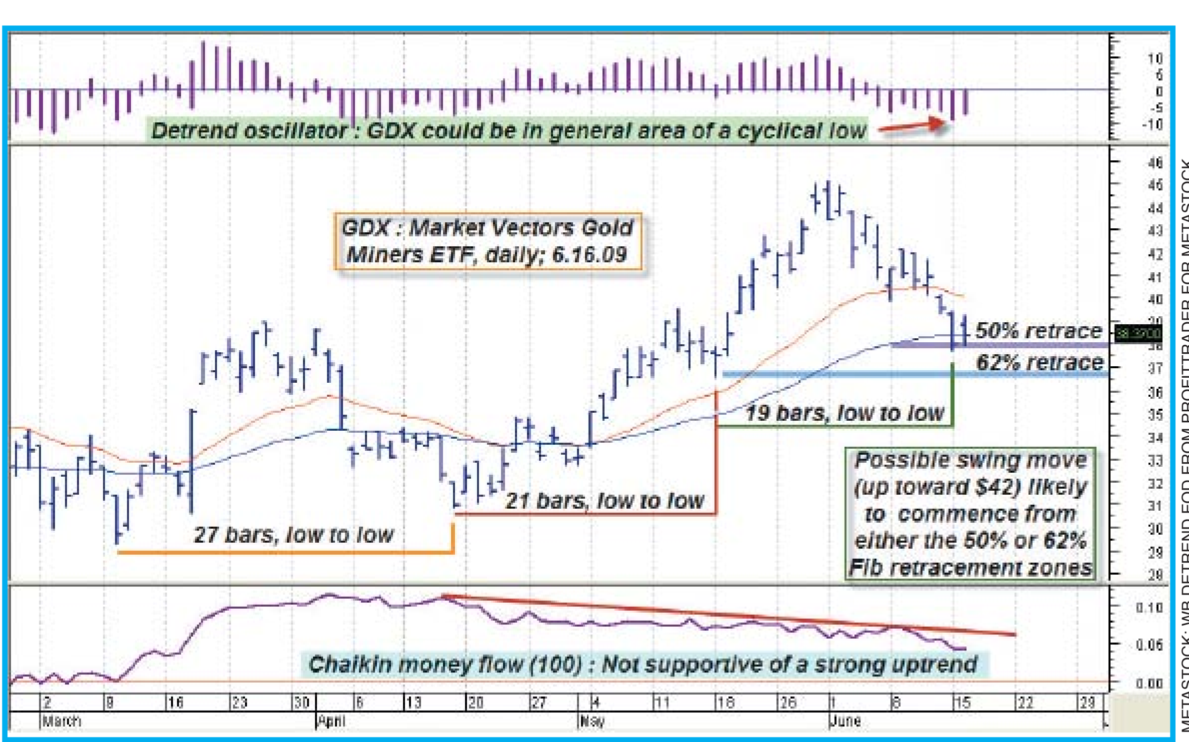

FIGURE 1: GDX, DAILY. Even though GDX's major daily uptrend has reversed, crafty traders may still be able to anticipate and profit from a potential reaction move higher from key Fibonacci support levels and/or a cyclical low.

The Market Vectors Gold Miners ETF (GDX) offers gold bugs one of the easiest ways imaginable to buy a basket of major gold producers. This exchange traded fund has been around for a few years now and has proven to be very popular with traders and longer-term investors alike. It's had a great run since October 2008, having risen nearly 200% before topping out earlier this month. Right now, GDX is in the midst of a corrective move lower, and the big question is this: Are gold mining shares approaching another key long-term buying opportunity, or are they merely setting up for a minor reaction move higher off of key support levels?

GDX's daily graph (Figure 1) reveals a great deal of information that the astute gold bug can use to maximum advantage. Any stock or commodity that can nearly triple in price in a matter of seven months is sure to attract plenty of attention, and GDX is no exception. The general public (less-informed traders/investors who don't study the science of charting) will normally be convinced that such a powerful uptrend is sure to continue without any major corrective moves getting in the way of even higher price levels. Of course, that's generally when a substantial trend reversal usually commences, similar to the current price action on the GDX chart.

A major clue that warned of a trend reversal was/is the negative divergence of the Chaikin money flow (CMF)(100) indicator with the upward trend of GDX; the CMF peaked in early April 2009, never reaching (much less exceeding) the same level despite another impressive upswing in the stock. As far as the recent selloff goes, GDX has descended to touch its Fibonacci 50% retracement (of the April-May 2009 swing) level and its 50-day exponential moving average (EMA), both of which have combined to produce at least a temporary support barrier. As of yesterday's close, GDX was already 19 bars into its current price cycle (measured from swing low to swing low), one that typically produces a noticeable swing low every 18 to 23 bars. The most recent cycles came in at 27 and 21 bars, respectively, so GDX may be getting close to (or is already at) a significant short-term cyclical turning point. This observation is further confirmed by the action of the detrend oscillator (top of the chart), which is already extended to a level that could easily coincide with a cyclical turn.

The price action of the next few sessions should reveal much about the strength level of GDX; for example, if the 50-day EMA fails to hold GDX up, expect a quick move down toward the Fibonacci 62% retracement, which also coincides with a May 2009 swing low near $36.50. GDX's weekly chart (not shown) also has a major uptrend support level near $36.00-$36.50, another powerful confirmation that GDX could very well initiate a reversal higher from the mid-$36 zone.

Playing GDX for a quick reversal move might look something like this. On a daily chart, plot the stochRSI (10)indicator and wait for the indicator to turn upward across its lower signal line. During the next session, buy half a position in GDX on a buy-stop above the previous bar's daily high and buy the other half (if possible) on a 15-minute pullback down to a Fibonacci 50% to 62% support level near its 50-period EMA. Once filled, place a stop-loss below the daily bar that turned the stochRSI higher. The idea is to capitalize on a fast reaction move up from cyclical/Fibonacci support, so be nimble and lock in profits as they may appear, using perhaps a two-bar trailing stop of the lows, prepared to close out the entire position if prices get close to $41.00 to $42.00, near the prior swing high.

Longer term, the fundamentals and technicals for the gold and gold mining industry appear to be outstanding, but right now, GDX is in a de facto daily downtrend, approaching a significant support area that coincides with a potential cyclical turning point. Nimble traders who anticipate this reversal may be able to make some money, providing they don't overstay their welcome, so to speak. ■

STRATEGIES

Oil At A Short-Term Top?

by Mike Carr, CMT

The price of oil has risen dramatically this year, with analysts attributing much of the rise to geopolitical concerns. While unrest in Iran and terror attacks in Niger are likely to continue, traders seem to be less concerned about their impact on the supply of oil, and prices have backed off recent highs.

Tradable: OIL

One widely watched technical indicator has just completed a setup for a sell signal. On the daily price chart of crude oil, the DeMark sequential, an indicator mostly used by professional traders, has just reached a count of 13. These signals attempt to identify turning points in the market by looking for times when prices have gone too far in the short term. A sell signal setup occurs when there have been nine consecutive daily price closes that are higher than the closes four days earlier. At that point, the countdown begins, and traders look for 13 closes, which are higher than the close two days earlier. That is where we are now.

Traders are now watching for a sell signal. This will occur if the market

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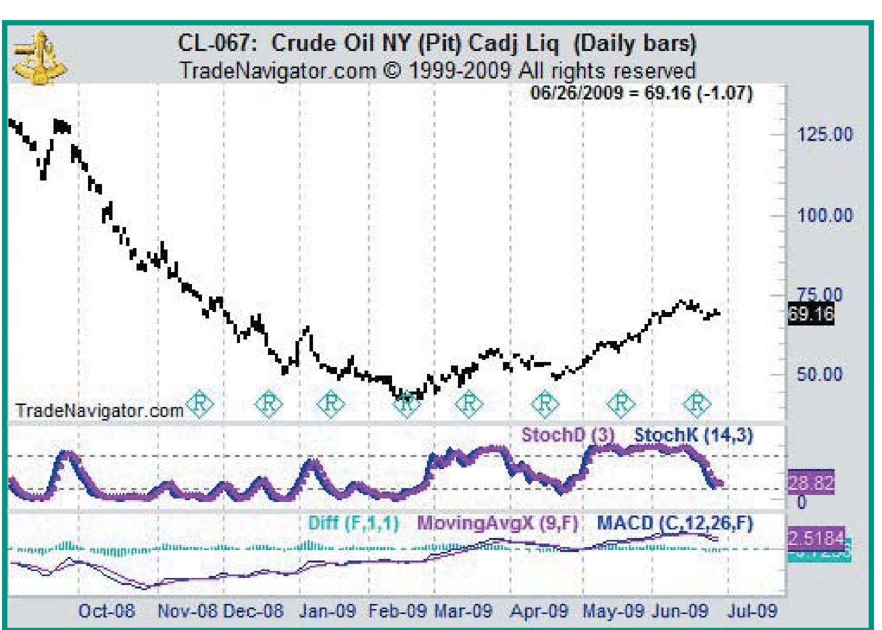

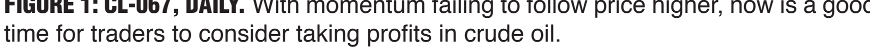

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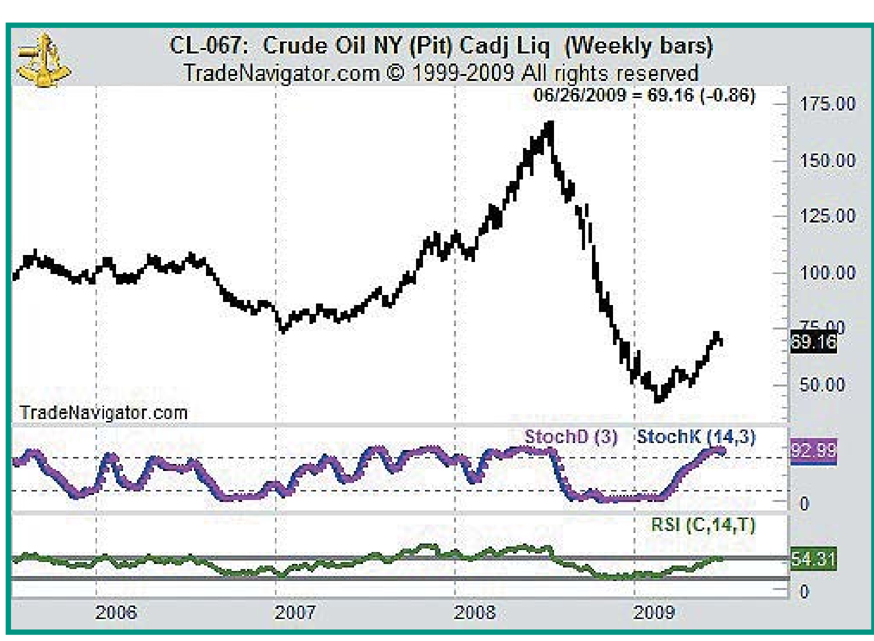

FIGURE 1: CL-067, DAILY. With momentum failing to follow price higher, now is a good time for traders to consider taking profits in crude oil.

FIGURE 2: CL-067, WEEKLY. Here, crude oil shows the extent of the bear market and indicates that further base building is likely before an extended bull market can occur.

closes lower or higher than a close four days earlier. That means a close below $67.50 a barrel on June 29 would trigger the sell (the required price changes daily). DeMark indicators are used by hedge funds and other large traders. Bloomberg reports that these screens are accessed by more than 35,000 subscribers a day on their systems. While no indicator is 100% reliable, this is one that short-term, institutional traders are usually aware of and is worth watching.

More traditional indicators are also flashing warning signs. On the daily chart (Figure 1), we can see that both stochastics and the moving average convergence/divergence (MACD) broke down at the recent highs. This indicates momentum failed to confirm price, and often these indicators lead price.

The weekly chart (Figure 2) shows that stochastics is turning down on the longer time frame and, more important, that the relative strength index (RSI) never rose above 60 in the recent advance. This is the type of behavior that this indicator displays in a bear market rally.

With the weight of the evidence indicating that crude oil is more likely to decline than rise, traders should also be optimistic about the economy and consider making equity investments on the expectation that the economy will recover this year. ■

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Will GDX Summer Slump Give Way To Autumn Rally?

by Donald W. Pendergast Jr.

Most gold bugs already know that gold mining stocks tend to rally for an extended period during the latter part of the year. But what about this year?

Tradable: GDX

FIGURE 1: GDX, DAILY. A market at a crossroads? The fundamentals for precious metals stocks appear to be outstanding, but for the moment, the short-term trend is still down.

Will gold mining shares rally in the coming months? Of course, the answer to that question is a resounding "nobody knows." Still, if we look at the price action of the past few years in GDX (Market Vectors Gold Miners ETF), the exchange traded fund's activity confirms that prices have experienced substantial rallies during the final four to five months of the year. The key, of course, is the timing of such rallies, all of which occurred at different weekly intervals.

In 2006 GDX gained about 30% from early October until early December. The following year, 2007, saw GDX climb by nearly 65% from mid-August until early November. Finally, GDX enjoyed another rally beginning in November 2008, nearly doubling in value in less than seven weeks. Clearly, if you want the potential for major trend moves (up and down), GDX could be your trading instrument of choice. GDX's daily chart might show a reason to expect another rally in the wake of the typical summer weakness usually found in the precious metals complex. (See Figure 1.)

In a recent Traders.com Advantage article, I suggested that GDX might rally to as much as $41 to $42 per share if it completed a successful test of its 200-day exponential moving average (EMA) near its expected cyclical turn date. Prices did rally several dollars per share, but the stock failed to reach even the $41 level before turning lower again. On June 30, GDX sold off pretty hard, closing below its 50-day exponential moving average (EMA) (red line) again, possibly on its way to yet another test of its 200-day EMA (blue line). Now is not the time to go long GDX, unless, of course, you're a scale trader -- a trader who buys into weakness in hopes of selling into renewed price strength.

The next cycle low for GDX isn't due for about three weeks, so the swing traders in the gold bug camp should just bide their time waiting for a more opportune moment to go long. Meanwhile, the long-term (CMF)(100) money flow is still above its zero line. Really, though, the fundamentals that are driving the gold markets is the factor that will likely launch any year-end rally in the gold mining stocks. Worldwide, central banks have added enormous amounts of liquidity to the money supply, even as many western nations have embarked upon massive economic stimulus/job creation/deficit spending projects that are likely to cause a 1970s-style round of consumer price inflation and tax increases to go along with it. Given what happened to the price of gold, silver, and their related mining shares the last time (1968-80) commodities surged higher, buying GDX on substantial selloffs could pay off big for those willing to hold the shares in hopes of catching the "big one" -- with a modest allocation of investing capital, of course.

Those concerned that GDX will be adversely affected by further downdrafts in the broad markets, correlation analysis reveals that GDX is only modestly correlated to the moves in the Standard & Poor's 500, with readings of 0.51, 0.41, and 0.60 in the six-, 12-, and 36-month time periods, respectively. One thing is for certain: whichever way GDX goes, its moves will tend to travel farther and with much greater volatility than that of the general market. And with such powerful fundamental forces undergirding the global gold market, gold bugs will be watching GDX closely for prime long-term buying opportunities. ■

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WEDGE FORMATIONS

Falling Wedge Approaches Target

by Alan R. Northam

The NASDAQ has broken out of a falling wedge pattern, signaling a trend reversal from down to up and moved higher for almost two months. Will the market continue higher from here, or will a market correction set in? The falling wedge provides the answer...

Tradable: $COMPQ

FIGURE 1: NASDAQ, WEEKLY. This figure shows the breakout of a falling wedge pattern signaling a trend reversal from down to up. This figure also shows two price levels that the falling wedge predicts that the NASDAQ should move toward. As can be seen, the first price level has almost been reached.

The NASDAQ formed a falling wedge pattern starting in November 2008 and completed in March 2008 when its downsloping upper edge was violated. Since that time, the NASDAQ has been steadily climbing higher over the past seven weeks. According to the Encyclopedia Of Chart Patterns, written by Thomas N. Bulkowski, there is a minimum measurement rule that states that falling wedge pattern should retrace back to the beginning of its pattern. As we can see from Figure 1, the NASDAQ is now approaching the price level of November 2008 where this falling wedge pattern started to develop. This minimum measurement rule also shows that the NASDAQ will have risen 16% from its breakout price to the beginning of the wedge formation. (Note: This article is a continuation of the one I wrote on 04/16/09 entitled "Falling Wedge Signals NASDAQ Reversal.")

The NASDAQ has now risen for seven straight weeks, with each week's trading session forming higher highs and higher lows and each week closing higher than it opened. However, the latest weekly trading bar shows that the NASDAQ opened in the middle of its weekly trading range and closed at approximately the same level. This shows that neither the buyers nor the sellers had control of this market during this week. This is also indicative of a market having reached equilibrium where both buyers and sellers are satisfied with the price.

So where does the market go from here? As long as the NASDAQ remains above its upward-sloping green trendline, this market should continue to move higher. However, overhead resistance lurks ahead by both the round number of 1800 and the reaction high made the first week in November 2008, which also conforms to the beginning of the falling wedge pattern. This area of resistance could turn this market downward for its first official correction since the upward rally off the early March floor began.

Looking past the current price level and the squeeze between the upward sloping trendline and overhead resistance, where is this market most likely to go? Looking at the predictive ability of a falling wedge, Bulkowski's market research shows that on average the market moves 26% higher after a breakout from a falling wedge pattern. This indicates that there is on average the possibility that the NASDAQ could move up to the 1953 price level. However, since a 26% rise from a breakout is an average, it also means that the NASDAQ could fail before reaching 1953 on the price chart, or it could move higher than 1953.

When considering the possibility that the NASDAQ could move higher than 1953, there is one fly in the ointment and that is the open gap just above 1900. Open gaps are typically areas of resistance to a market, and thus, there is a good possibility that the NASDAQ could continue upward after a possible short-term market correction at the 1800 price level to 1900 but beyond that the open gap could turn this market lower in another corrective downward move back to the 1800 price level. Looking beyond 1900 as to where the market goes from there, I think we will need to look at the technicals at that time to determine that answer.

In conclusion, the NASDAQ has broken out of a falling wedge pattern and has moved up to the expected minimum rise in price at 1800. It is possible that this market could now take a break with a downward corrective selloff. Beyond that, there exists a good possibility for this market to continue higher up to the 1900 area before the next correction takes place. ■

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Broad US Markets Break Higher From Consolidation

by Donald W. Pendergast Jr.

After a month of sideways price action, the broad US stock indexes have finally tipped their hand, breaking higher on big volume and wide ranges.

Tradables: .SPX, .RUT

For the past month, professional market timers as well as novice traders and investors have been pulling their hair out, trying to determine if the major US stock indexes were topping out in preparation for a corrective move lower, or if they were simply catching their breath after having risen like the legendary phoenix from the ashes of the 2007-09 stock market wipeout. Traders and investors got the answer they were so diligently inquiring for on June 1, 2009, when the Russell 2000 and Standard & Poor's 500 indexes broke higher from month-long pennant formations on their daily charts. We'll look at a unique composite daily chart first, one constructed from equal weightings of the S&P 500 and Russell 2000, to see what price levels these market indexes may be destined to achieve in the days and weeks to come.

Figure 1 is that composite daily chart; it's a great way to synthesize the price action of both small-cap (Russell 2000) and large-cap (S&P 500) stocks into one easy-to-use daily graph in MetaStock. The reason why this is so helpful is simple; when the combined price action of both indexes is overwhelmingly bullish or bearish, you can be pretty sure that the market move in question is broad-based, carrying the entire US stock market along with it.

The obvious bullish breakout from the lovely pennant formation should lay aside all doubts about the power behind this move. Extending the upper channel line (dashed blue line) is the most logical way to project a reasonable price target for the breakout; on this composite chart the upper target is approximately 775, but of course unless you can create your own custom MetaStock index, this isn't much use to you right now, so here are the upper channel price targets for the Russell 2000 and S&P 500:

Russell 2000 index: 550-560
S&P 500 index: 985-1000

If you'll recall, last week I put out an article stating that major Fibonacci resistance on the S&P 500 exists near 960 and then 990, so given the apparent force behind today's breakout, a close beyond 960 should make a potential runup to 990 look like child's play. In addition and equally bullish is the fact that the monthly and quarterly price cycles (not shown) for both indexes are also biased toward the bullish side of the map. In fact, the quarterly price cycles are very close to issuing a major buy signal, so we may yet witness one of the rarest of events -- a sustained period of bullish gains in the broad US market indexes.

Finally, here's a look at the strongest Fidelity Select Sector mutual funds (Figure 2); deploying cash into the strongest of these (or their exchange traded funds [ETF] equivalents) might make a lot of sense for those seeking to milk a sustained bullish move for all its worth. Topping the list for best intermediate- to long-term relative strength is Fidelity Select Automotive (FSAVX), followed by the Fidelity Select Paper and Forest Products (FSPFX), Fidelity Select Networking and Infrastructure (FNINX), Fidelity Select Natural Gas (FSNGX), and Fidelity Energy Services (FSESX).

Here are some of the component stock tickers for each of these Fidelity funds, for those of you who prefer to trade specific stocks rather than sector funds:

FSAVX: JCI, HOG,BWI, GT, HDI
FSPFX: WY, SEE, TIN, RKT, SON
FNINX: BRCM, JNPR, MRVL, CSCO, GOOG, SYMC
FSNGX: RRC, DNR, KWK, CHK, WFT
FSESX: HAL, RIG, SLB, NOV, NBL, BHI

It may be wise to wait for pullbacks on daily charts if attempting to time entries on any of these stocks; alternatively, depending on option volatility levels and option liquidity, selling covered calls might be a suitable strategy, depending on your technical and fundamental assessment of a given stock. In any case, the coming weeks should provide plenty of opportunities for traders intent on establishing long equity positions in the markets. ■

FIGURE 1: COMBO CHART, DAILY. While it isn't always this obvious, that blue upper channel line certainly appears to be the logical initial target for this major daily breakout move.

Security Name	Close	3 month	6 month	12 month	Total	Ticker...
Fidelity Select Automotive	21.5200	143.1638	54.1612	-34.6261	101.9543	FSAVX
Fidelity Select Paper and Forest Products	21.4200	99.4413	45.8941	-19.8897	74.9624	FSPFX
Fidelity Select Networking and Infrastructure	1.9000	61.0170	68.1416	-15.9292	58.0821	FNINX
Fidelity Select Natural Gas	29.8900	66.6109	79.1966	-47.9087	54.8366	FSNGX
Fidelity Energy Services	53.4400	71.8328	67.5235	-53.0775	52.7039	FSESX

FIGURE 2: FIDELITY SELECT SECTOR, TOP FIVE MUTUAL FUNDS. The top five Fidelity Select Sector mutual funds for June 1, 2009, based on three-, six-, and 12-month performance figures. The component stocks from these funds could also be attractive places to deploy trading capital on daily pullback moves to support.

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The DJIA Breakout Collides Into Resistance

by Ron Walker

A muscular breakout on the DJIA at the opening of June has carried prices into smack-dab into a hornet's nest of resistance. If this industrial powerhouse bulks up and presses prices through these heavy weights of resistance, the DJIA could continue to the 9100 level. If not, and resistance holds, it may bring about a deadly blow that kills this rally, ushering in a correction.

Tradable: $INDU

The Dow Jones Industrial Avererage (DJIA) has been lagging most other major indexes, due to problems associated to certain Dow components such as General Motors and Citigroup (C). The Dow Jones editorial board, which oversees the DJIA, has chosen Cisco Systems (CSCO) and Travelers (TRV) to be substituted into the Dow 30 in place of GM and Citigroup. GM recently drove into bankruptcy, resulting in it being removed from the list, while Citigroup was removed due to its restructuring.

A consolidation throughout May had the DJIA hourly chart (Figure 1) stuck in a rut, moving in a narrow trading range between 8221 to 8591. The bulls and bears were in a standoff until prices finally broke out from that base on the first trading session in June. The DJIA hourly chart shows prices surging above the pivot point, which was just below the 8600 area. The DJIA should find support at the 8575-8600 area on any backtest move. If prices backtest and find support at the upper boundary of the rectangle base and then rise back up and exceed the current price levels, it may be the catalyst that cuts through a clutter of resistance.

This breakout has taken on new importance in conjunction with its daily and weekly charts, parking prices in front of a variable feature of resistance, the 200-day simple moving average on the daily chart, and the primary trendline on the weekly chart. This forceful entry into resistance has stalled the advance as another consolation takes place on the hourly chart in the form of a pennant. With significant resistance hovering over the DJIA, we must respect both pivot points on this miniature pennant pattern, realizing that prices could be setting up a continuation pattern or a reversal.

The weekly chart in Figure 2 reveals that the

FIGURE 1: DJIA, HOURLY. The DJIA formulated a base in May, breaking out in early June. A continuation pattern formed as a pennant, but with an extended MACD, we may see the prices shift into backtest mode. Key support is now at the 8575-8600 area.

FIGURE 2: DJIA, WEEKLY. The weekly chart fully discloses the amount that resistance prices are up against. Note the potential inverted head & shoulders pattern. A breakout of the falling price channel would choreograph nicely with this massive reversal pattern. Look for the relative strength index (RSI) to put in a higher low after the next correction. That may produce a shoulder.

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DJIA may have a struggle getting over its primary trendline. But if it can rise above this hurdle, that would translate into higher prices for the DJIA and open the door for a test to horizontal resistance at the January high of 9088. That peak serves as a potential neckline for an extremely large inverse head & shoulders pattern. Should prices climb above the primary downward trendline, they may tag that neckline and then reverse hard to form a right shoulder during the summer. Momentum lows for a right shoulder might be contained at similar levels that formed the left shoulder during the November 2008 lows near 7450 or just above 8000 (assuming that we exclude the long lower shadow on the weekly candlestick that formed the November 2008 lows).

In contrast, a collision with the trendline may cause tremendous damage to the advance. And that might be the tipping point that results in a sharp reversal as the bears patiently wait to pounce on the DJIA. In uncertain times, it is very important to correlate multiple time frames after an excessive price run in order to find potential areas of support and resistance.

The DJIA daily chart (Figure 3) reveals that the breakout came on rather light volume, leaving many traders unpersuaded to the legitimacy of this recent breakout. There is the possibility that a bearish divergence is forming on the moving average convergence/divergence (MACD) (12, 26, 9). The MACD would need to put in a lower peak here, as prices remain at new highs or even by continuing higher. The breakout has moved the MACD histogram above the zero line, but if it fails to exceed the previous histogram tower, it may quickly turn back below the zero line, and thus continue the down trendline on the histogram of successive lower peaks. But it is blatantly obvious that the DJIA hasn't touched the upper boundary (rising resistance) of its channel on the daily chart. Ironically, that upper trendline is pointing to the neckline from the January high at 9088. The stochastic (14, 3, 3) became newly overbought at the price breakout, overriding the weak volume trends for now.

In conclusion, as long as prices continue to find support at the 20-day simple moving average (SMA), the advance on the daily chart will continue. Until we see lower lows being made on the daily chart, we should be cautiously optimistic that the breakout above the 8600 level is legitimate and will ultimately result in a test of 9088. If prices begin to weaken, they must hold above the rising trendline near the 8575 level. In Figure 3, the rising daily trendline beautifully intersects with the lower boundary of the rising channel with the 20-day SMA just underneath that level, showing a confluence of support at 8600. ■

FIGURE 3: DJIA, DAILY. Here the DJIA tagged the 200-day SMA, but there is still more upside potential. Prices haven't retested the upper boundary of the channel, nor have they tested the January peak yet just below 9100.

ELLIOTT WAVE

Stronger Dollar Ahead?

by Paolo Pezzutti

The rebound of the euro vs the US dollar could be almost over.

Tradable: EURUSD

The weekly chart of the US dollar vs the euro (EUR/USD) in Figure 1 displays an uptrend that brought prices from a low at about 0.82 in October 2000 to the high at about 1.60 in July 2008. The Elliott wave count in this time frame indicates that the five waves to the upside are completed. The subsequent move initiated in the summer of 2008 could be interpreted as the wave A of an A-B-C correction.

From July to November 2008, prices developed an impulse to the downside printing the first three waves of wave A. Wave 4 was completed last February and wave 5 (the last of the corrective wave A) was completed in April. In the daily chart

FIGURE 1: EURUSD, WEEKLY. Prices have almost completed their rebound (wave B) after the first leg to the downside started last summer (wave A).

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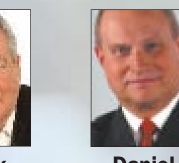

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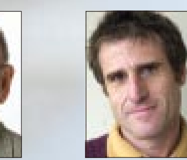

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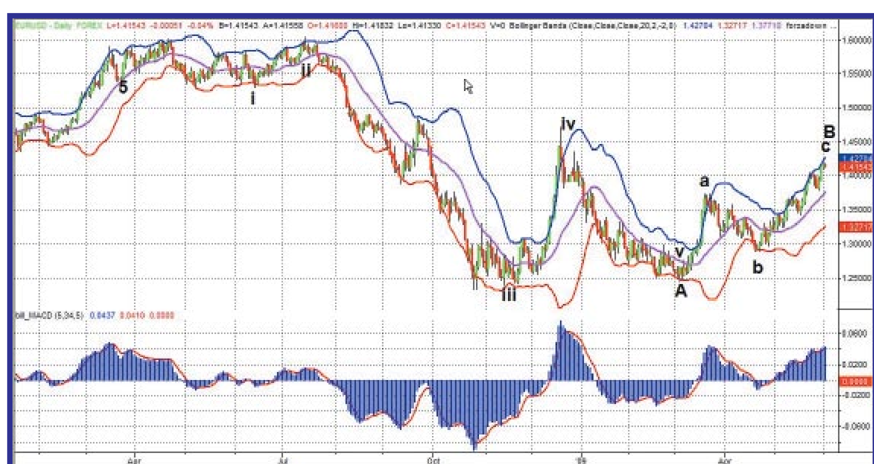

FIGURE 2: EURUSD, DAILY. You can see that wave B is formed by an a-b-c pattern. At the moment, prices are completing the last wave to the upside.

FIGURE 3: EURUSD, 60-MINUTE. The wave c of B can be decomposed fractally in five waves. Prices are printing the last of these waves. When this pattern is completed, we should see the dollar regain strength and develop another medium-erm leg to the downside.

in Figure 2, you can see that the moving average convergence/divergence (MACD), used to help interpret the Elliott wave count, became positive when developing wave 4, supporting this interpretation.

According to this approach, the EUR/USD is now developing wave B in the form of an a-b-c pattern. At the moment we are in the final wave c. That means that the rebound of the euro after the first big move to the downside of the second part of last year is almost over. When wave B is completed, we should therefore see the dollar regaining strength and develop a wave C to the downside, moving again toward the level of 1.25.

In Figure 3, you can see the 60-minute chart. Note that wave c of B has been developing as usual in five waves. The fifth wave of these five waves can be decomposed also in five waves. At the moment, EURUSD is about to complete this fractal of a five-wave formation. This is the beauty of the Elliott count. You can observe how in each time frame the fractal of five waves in the primary trend and A-B-C in the corrective trend can be decomposed in similar fractal patterns. Of course, trading the Elliott wave is not the holy grail. As the price action develops, the count can change. However, this methodology can be useful for building the big picture and understanding the context in which you decide to open your position.

In Figure 4, you can also see that prices are testing the descending trendline formed by the relative highs printed in September and December 2008. At the same time, they are moving within an upward channel and are very close to the upper part of the channel.

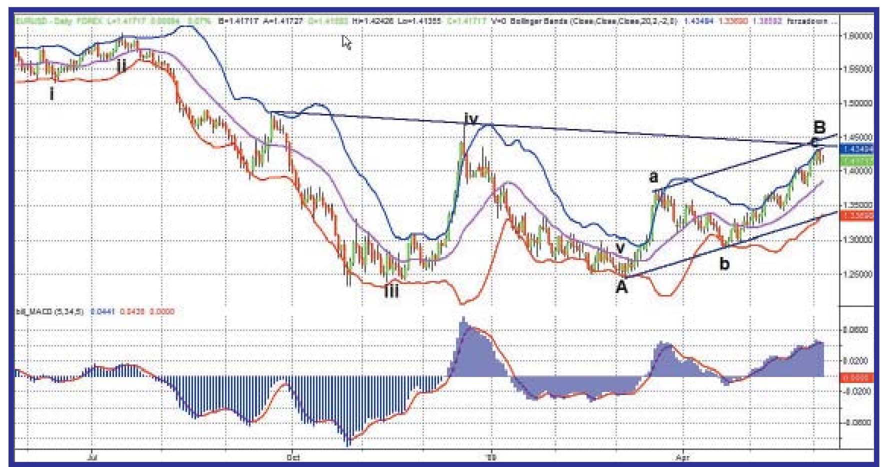

FIGURE 4: EURUSD, DAILY. Prices are testing a long-term descending trendline. They are also moving in the upper part of a rising channel.

In conclusion, I would not bet on the weakness of the dollar in this phase. This view is contrary to the prevalent opinions we read in the press because of the concerns related to the US deficit and possible future inflation. Looking at the big picture, after a long rally of equities and oil, associated to a significant correction of Treasuries, I would now expect a medium-term reversal of the trends, including the one of the US dollar. ■

TECHNICAL ANALYSIS

S&P 500 Breaks Series Of Peaks And Troughs

by Alan R. Northam

The S&P 500 has now broken its series of lower peaks and lower troughs, signaling the end of the bear market downtrend that began in October 2007. However, it is still unknown as to whether a new bull market upward trend is in progress.

Tradable: $SPX

One of the most basic but yet most reliable methods of technical analysis is known as peak and trough analysis. The principles of peak and trough analysis was first described by Charles Henry Dow in the early 1900s and later became a basic tenet of Dow theory. All other forms of technical analysis are basically derivatives of peak and trough analysis. Dow theory states that a bull market is defined as a series of peaks and troughs where each succeeding peak is higher than the one before it and each trough is higher than the one preceding it. A peak is

FIGURE 1: $SPX, WEEKLY. This figure shows a series of lower peaks and lower troughs.

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a price peak and a trough is a price minimum.

A bear market is just the opposite. A bear market is defined as a series of peaks and troughs, where each peak is lower than the one before it and each trough is lower than the previous trough. Dow theory also states that a bull market trend or a bear market trend ends when the series of peaks and troughs is broken. However, the breaking of the series of peaks and troughs does not necessarily indicate a reversal of trend, only that the old trend has ended and a new trend has begun. This new trend could be a trading range, a new downward trend, or a new upward trend.

Figure 1 is that of the weekly bar chart of the Standard & Poor's 500 over the last two years. This chart shows the October 2007 bull market top followed by the bear market over the last 18 months. Note the labeling of a series of LTs (lower trough) and LPs (lower peaks) on the chart. Note that during the complete bear market from October 2007 to March 2009, each trough was lower than the preceding trough and each peak lower than the one before. This series of peaks and troughs satisfies the definition of a downward trend or bear market. However, note that in early June the previous lower peak is being challenged. Should a higher peak develop, it will break the series of lower peaks and terminate the downward trend.

In Figure 2, I have shown the daily bar chart of the S&P 500 over the last eight months to show more detail. I have drawn a horizontal line off the early January 2009 price peak. This line shows that in early June 2009 the S&P 500 made a higher high price, which breaks the downward trend that started in October 2007. However, to satisfy the Dow theory definition of a new upward trend, this market still needs to form a higher trough followed by a new higher peak, neither of which as yet occurred. Therefore, it is uncertain whether a new upward trend is in play, a horizontal trading range is developing, or a more shallow downward trend will develop.

FIGURE 2: $SPX, DAILY. This market has made a new higher high price, thereby breaking the series of lower peaks and troughs, terminating the downtrend that started in October 2007.

In conclusion, the S&P 500 has now broken its series of lower peaks and lower troughs, thereby terminating the downward trend that started in October 2007. However, we do not know if a new bull market trend is currently under way or if this market is entering into a large sideways trading range, or even if a new downward trend will eventually evolve. We must wait and see what the future peaks and troughs tell us about the future direction of the S&P 500. ■

WEDGE FORMATIONS

NYSE Composite's Range Narrows

by Chaitali Mohile

An advance rally of NYSE Composite Index has surged above a few previous resistances. The rally has formed a rising wedge.

Tradable: $NYA

In early March 2009, 4181 was the lowest level for NYSE Composite Index ($NYA). The index rebounded and soon reached its first resistance levels at the 5200 level. Thereafter, the bullish momentum pulled the index higher, violating the previous high resistance. The index has recovered almost 2,000 points from the low. The rally consolidated at every essential level, and continued its upward move. The trendlines drawn connecting the higher highs and the higher lows in Figure 1 shows the shape of a rising wedge. The pattern is a bearish reversal and not an upward channel, as the two trendlines are likely to coincide at one point. Therefore, it is clear that the converging trendlines would ultimately narrow the range for the index. The descending red line shows declining volume, although the index moved higher. The reducing volume reconfirms the rising wedge formation.

The full stochastic (14,3,3) in Figure 1 bottomed in an oversold zone and supported the bullish price action. Later, the oscillator moved horizontally in an overbought area with the support of the 50 level. During the entire bullish rally on the price chart, the stochastic was zigzagging in the range between 50 and 85, indicating positive momentum. The yellow block in the moving average convergence/divergence (MACD) (12,26,9) indicates volatility in positive territory. The tangled MACD line with the trigger line shows unstable bullish moves. But since the indicator has established strong support in positive territory, the price rally is likely to continue. In addition, the average directional movement index is suggesting a developed uptrend with robust buying pressure as indicated by the positive directional index (+DI).

Although $NYA has formed a rising wedge — a bearish reversal pattern

FIGURE 1: $NYA, DAILY. The converging trendlines of the rising wedge would narrow the bullish rally of the index.

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-- a bearish breakout is not indicated in Figure 1. Currently, the index has upper resistance at the 6300 level and support at 6000. Though the momentum indicators are volatile, they are not reflecting any bearish signals. In fact, the upward journey of the index would continue in a narrow range. Since the rising wedge undergoes a bearish breakout, traders should be careful while trading near the lower trendline. But the pattern would fail if $NYA breached the upper trendline resistance and underwent bullish breakout. This pattern failure would initiate a fresh bullish move and hit the previous higher levels.

Thus, the rising wedge in Figure 1 of $NYA would narrow the bullish path of $NYA. ■

ELLIOTT WAVE

Bottoms To Buy

by Koos van der Merwe

Cyclical investing suggests that in the month of June, investors should stay in Treasury bills but start looking for bottoms to buy. Biomirin Pharma could be such a bottom.

Tradable: BMRN

BioMarin develops innovative biopharmaceuticals for serious diseases and medical conditions. The company's product portfolio is made up of three approved products and multiple clinical and preclinical product candidates. The reward will come when any of the product candidates is approved by the FDA. The risk, of course, is that they are barking at shadows, and all their research will be null and void. However, they do have three approved products, which means that the company has income. Its major contributor to sales growth out to 2010 will be the product sales of Naglazyme, which is forecast to increase from $50 million in 2006 to $328 million in 2010.

Figure 1 is a weekly chart that shows how the price has fallen from a high of $41.08 reached in February 2008 to the low of $9.85 by March 2009. Elliot wave theory suggests that a C-wave correction is now complete, and that the price is now moving into a wave 1/wave 2 of the start of a new bullish formation. This is confirmed by the price's move above the downtrend resistance line, and the diversification buy signal on the relative strength index (RSI). On the wave 2 correction, volume is below average.

FIGURE 1: BMRN, WEEKLY. Note how the price has fallen from a high of $41.08 in February 2008 all the way to $9.85 by March 2009.

FIGURE 2: BMRN, DAILY. The wave 1 seen here does not seem to be complete.

Figure 2 shows how the price has risen to fill the gap, but at the same time suggests that wave 1 is not complete. This is confirmed by the RSI, which is still bullish. Targets shown by the Fibonacci retracement are suggestive of where the price could rise to, but in a new bull market, these targets become resistance levels.

There's a cyclical theory that says, "Start looking for bottoms as June comes to an end; stay in stocks through July; sell into strength in mid-August." Biomarin is one stock that may fit the bill, so it may be something to place on your watchlist as a future buy. ■

Elliot wave theory suggests that a C-wave correction is now complete.

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ACCUMULATION/
DISTRIBUTION CHAIKIN

In The US Dollar ETF, When UUP Means Down

by Donald W. Pendergast Jr.

The inverse relationship between the Australian dollar and the US dollar comes to life as the chart tells the tale of two currencies.

Tradable: UUP, FXA

One of the most interesting groups of exchange traded funds (ETFs) allows traders to invest in (or bet against) the global currencies of their choice. All of the major currencies are covered, including the US dollar (UUP) and the Australian dollar (FXA), our choices for this particular article. Running both tickers through a one-year correlation calculator reveals the two ETFs to be nearly perfectly inversely correlated, coming in with a reading of (0.95). Even a six-month correlation demonstrates strong polarity, with the number being (0.85). Essentially, this simply means that when UUP rises, FXA will normally fall; conversely, when FXA moves higher, UUP will usually move lower.

As Figure 1 shows, this inverse relationship has remained constant for some time. Currently, UUP (the red line on center of chart) seems to have found a measure of support, causing a small two-week rally to the $24 area. However, if you look at the longer-term Chaikin money flow (CMF)(100) on the lower part of the chart, you'll see that it dipped below its zero-line in late January 2009 and has been unable to rise above it since then. There is evidence of some positive money flow divergence in recent weeks, but the price action in UUP needs to embark on a more sustained trend higher for this divergence to prove out; after all, it's the price action on the chart that matters more than anything else. At the very top of the chart, also note that the Rahul Mohindar oscillator (RMO) is deeply submerged beneath its own zero-line, with no evidence of positive price-momentum divergence at all. All told, UUP could be an attractive short candidate on further rallies as long as the RMO and CMF 100 each remain below zero. Or, if you're uncomfortable taking short positions, taking long entries in FXA might be more appropriate. Both ETFs also offer a range of call and put options, with current option expirations going out as far as December 2009.

The US dollar (USD), represented in the ETF world by UUP or UDN among others, began a long-term secular bear market in 2002. Despite several corrective moves higher along the way, the fundamentals for the USD are among the worst ever seen for a currency enjoying reserve status. According to some estimates, the total real outstanding debts, obligations, and unfunded liabilities of the US government range from $50 to $120 trillion, depending on who's doing the number-crunching. Clearly, if such estimates are even remotely accurate, heavy pressure will remain on the USD for many years to come, despite the occasional technical rallies that will inevitably appear. Even more foreboding for the US, there is evidence that China has begun a series of currency swap deals with nations like Russia, Iran, and Brazil (as well as several others) in order to assure their independence from the US dollar in some of their global commerce. If these types of currency trade deals become more widespread, there will be even more downward pressure on the US dollar, possibly even a major run out of the currency itself by traders and investors aware of the seriousness of the situation.

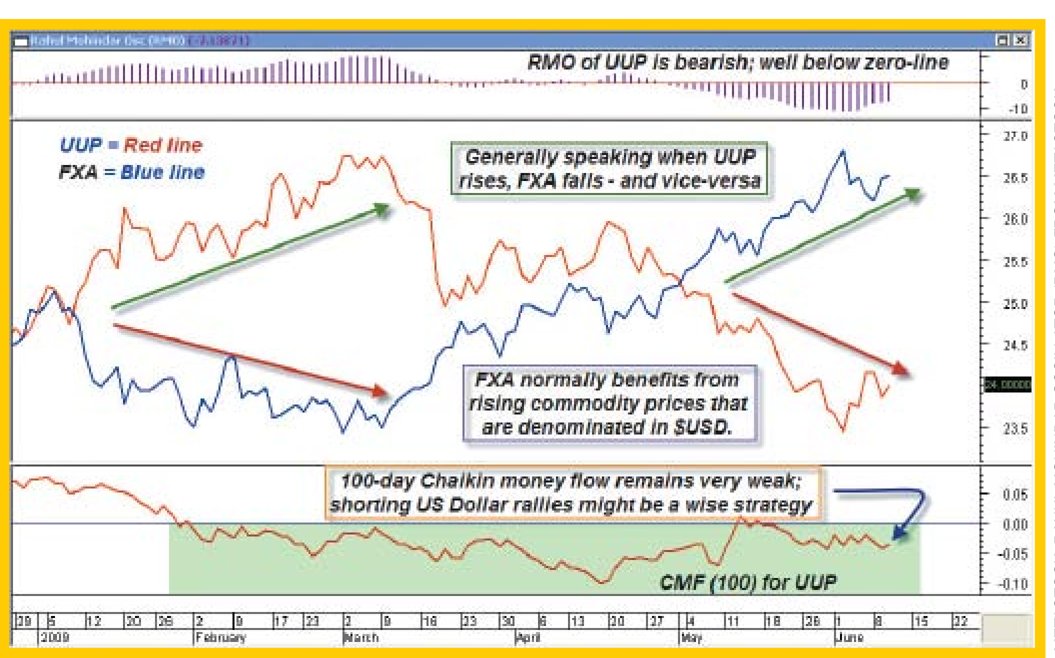

FIGURE 1: UUP/FXA, DAILY. Despite a minor rally in the greenback, until the money flow and momentum readings manage a close above their respective zero-lines, shorting UUP and/or FXA on pullbacks might be wise.

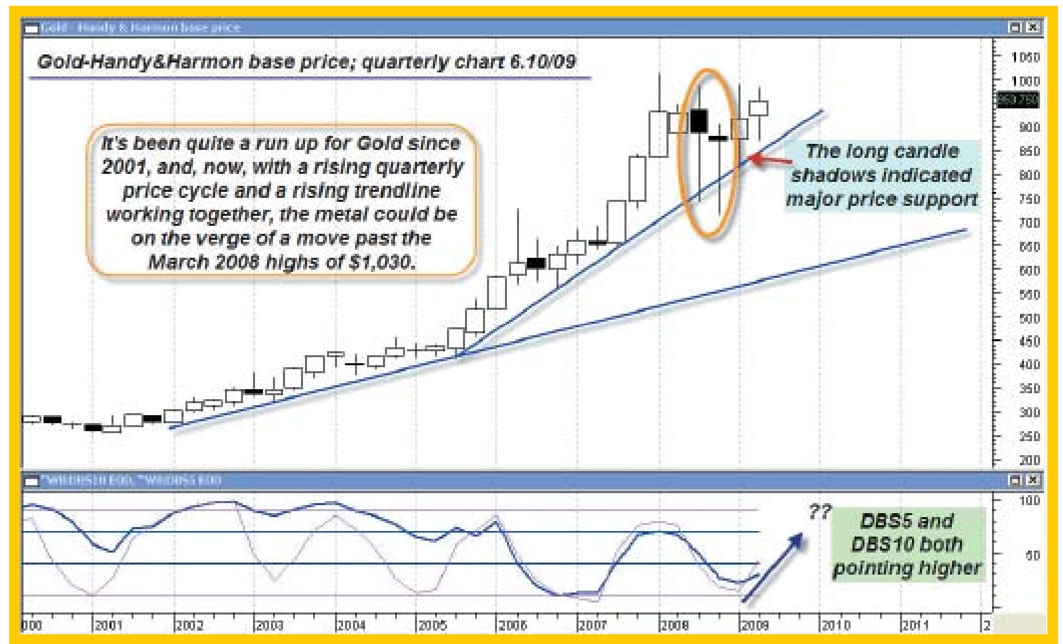

FIGURE 2: GOLD, QUARTERLY. With a rising price cycle and a well-established trendline in force, buying more gold on pullbacks appears to be both a sound trading strategy and a great long-term hedge against further US dollar declines.

Meanwhile, gold, the US dollar's eternal nemesis, has been hanging tough and, despite many predictions of the imminent death of the global commodity bull market, the yellow metal simply refuses to sell off to any degree of consequence. Perhaps that rising monthly and quarterly price cycle/trendline in the metal (Figure 2) has something to do with that stubborn refusal of gold to drop back into the $800 range, at least not without a major fight. So traders and investors who buy the declining-dollar scenario might consider adding more FXA shares, gold, and silver to their portfolios each time an attractive pullback opportunity presents itself. The US dollar's fundamentals are going to take many years to get fixed, so why not make some extra dollars while you can, using the charts to help you to cash in as opportunities present themselves? Owning a basket of global currency ETFs and gold makes a lot of sense under such conditions at least for the next three to five years, if not more. ■

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RSI

RSI Points Toward New Bull

by Mike Carr, CMT

Monthly charts are rarely analyzed in today's daytrading environment, but monthly signals are rare and reliable.

Tradable: $DJIA

J. Welles Wilder's relative strength index (RSI) is a widely followed technical indicator. A favorite of short-term traders, RSI provides overbought and oversold signals. Buy signals occur after RSI becomes oversold and drops below 30. When the indicator crosses back above 30, a buy is entered. Sell signals occur when RSI falls below 70 after rising above this level, which is considered to be overbought.

These simple signals do not lead to spectacular profits on daily charts. Backtesting usually finds this is among the best oscillators, but prudent traders find that risk outweighs the potential rewards. However, on a monthly chart, the signals are rare, and seem to be very accurate.

At the end of April 2009, on the chart of the Dow Jones Industrial Average (DJIA), RSI crossed above 30 after being oversold for six months (Figure 1).

The historical record shows only three other times when RSI fell below 30 on the monthly chart for at least two months. It offered buy signals in October 1974, August 1932, and September 1921. While the bear market bottoms of 1974 and 1929 are well known, 1921 is not as well known. The DJIA reached a low point of 63.90 in 1921 after peaking at 119.62 in 1919. In a two-year bear

FIGURE 1: DJIA, MONTHLY. For the fourth time in more than 100 years, RSI gave a buy signal.

market, the DJIA experienced a 47% decline.

According to the RSI, we may have seen a historical low in the market. ■

MCCLELLAN SUMMATION INDEX

The NYSE Summation Index Suggests A Summer Selloff

by Ron Walker

The McClellan summation index of the NYSE is diverging with the NYSE Composite. The summation index gave a much earlier crossover signal than many other trend-based indicators such as the MACD, giving some advance warnings of an upcoming reversal.

Tradable: $NYSI

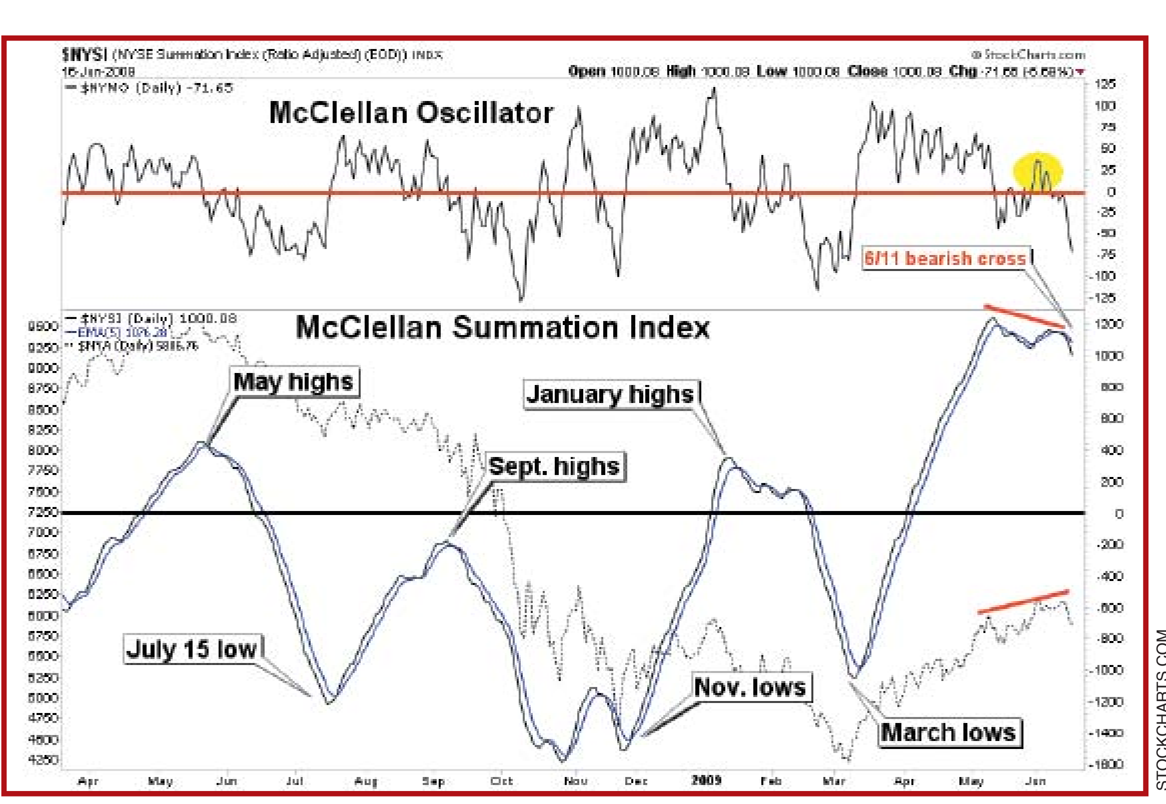

FIGURE 1: MCCLELLAN OSCILLATOR & MCCLELLAN SUMMATION INDEX FOR THE NYSE. The two-week rally in June was very choppy and was marked as a bogus breakout by the McClellan oscillator and summation index. Note how the MO quickly retreated back below the zero line after a brief encounter into positive territory (highlighted in yellow), while the summation index crossed below the five-day EMA.

The McClellan summation index is a cumulative sum of the daily McClellan oscillator figures. In short, the McClellan oscillator takes the difference between two exponential moving averages (EMAs) of the daily NYSE advance-decline values. The McClellan oscillator (MO) is the difference between the 19-day and the 39-day EMAs of the daily net advance-decline figures. The MO is a market breadth indicator that helps us evaluate the money flow of the stock market. Its purpose is to help determine if money is entering or exiting the stock market, indicating whether overbought or oversold conditions are present.

The formula is simple:

McClellan oscillator =
(19-day EMA advances minus declines) –
(39-day EMA of advances minus declines)

The McClellan summation index (MSI) is calculated by adding each day's McClellan oscillator to the previous day's summation index. The MO is plotted vertically and fluctuates between +100 and -100, with zero acting as a median line. When the indicator is above zero it is a favorable environment for long positions, but when the oscillator hovers below zero it signals that it is a better atmosphere for selling short (see Figure 1). The MSI also fluctuates between positive and negative territory with a median line of zero. A move below zero is undesirable and suggests price weakness. The MSI is better suited for longer position or trend trades, whereas the MO is ideal for the day- and swing trader providing short-term signals.

In Figure 1, both the MO and MSI are charted. Personally, I have found by adding a five-day EMA to the MSI, that excellent buy and sell signals can

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be generated. Buy and sell signals are triggered as the MSI crosses above and below the five-day EMA. Divergences also take place between the MSI and the NYSE, offering forewarnings to an impending reversal.

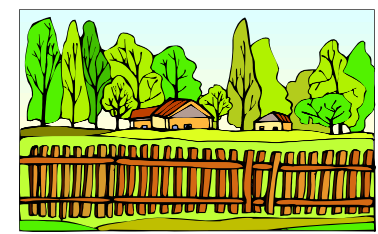
Looking at Figure 1 closely, we can see that the recent rally that took place in the first two weeks of June caused the MO to move above zero momentarily. However, the move was unsustainable and quickly reversed as the oscillator moved back below the zero line as prices began crashing down through key levels of support on most indexes.

FIGURE 2: MCCLELLAN SUMMATION INDEX FOR THE NYSE, DAILY. Here, the McClellan summation index of the NYSE is diverging with the NYSE Composite. Prices rose to new highs on the NYSE, but the MSI failed to follow. This clearly shows profit-taking and money leaving the stock market.

The New York Stock Exchange (NYSE) Composite ($NYA) is a stock market index that covers all common stock listed on the NYSE. In Figure 2, the summation index is plotted behind the NYSE Composite for a quick comparison. Note that the MSI is diverging with the NYSE Composite. NYSE made higher highs but the summation index made a lower high and then crossed below its five-day EMA. This divergence suggests that a corrective move will likely transpire throughout the summer months, bringing about an overdue correction.

Take a look at the two previous buy signals that were given shortly after the November 21, 2008, and the March 6, 2009, lows (Figure 1). In both cases the summation index gave timely entry points. It also predicted the January 2009 peak with uncanny accuracy, providing a good sell signal. More recently, it triggered a sell signal in May, but the sell signal proved to be short-lived in order for the bearish divergence to form.

Incidentally, the last sell signal that was generated on MSI was given on June 10, 2009. It wasn't until three trading sessions later, on June 15, 2009, that the moving average convergence divergence (MACD) gave its sell signal on the NYSE Composite. The MSI gave an accurate assessment of current market conditions, in spite of bullish opposition. By utilizing the MSI, you will improve your trading skills by taking a lot of the guessing out of your investment decisions. You will get more accurate and predictable results of directional moves by using this efficient price apparatus. ■



MOVING AVERAGES

Silver Miners Approach 200-Day EMA

by Donald W. Pendergast Jr.

Similar to the gold mining industry group, the silver miners are also approaching a key technical and cyclical area.

Tradables: PAAS, SSRI, BVN, more

Just as the gold mining industry stocks enjoyed a massive gain over the past seven months, so also have the major silver mining stocks had a major run. The group represented in Figure 1 is a custom index of silver miners, composed of the following tickers; Pan American Silver (PAAS), Compania De Minas Buenaventura (BVN), Coeur D'Alene Mines Corp. (CDE), Hecla Mining Co., (HL), Mag Silver Corp., (MVG), Silver Standard Resources, Inc., (SSRI), and Silver Wheaton Corp., (SLW). Most of the stocks have excellent liquidity, even though three of them trade at a price of less than $5.00 per share. Examining this group's daily chart reveals several key technical details for those intent on trading this particular niche of the precious metals market.

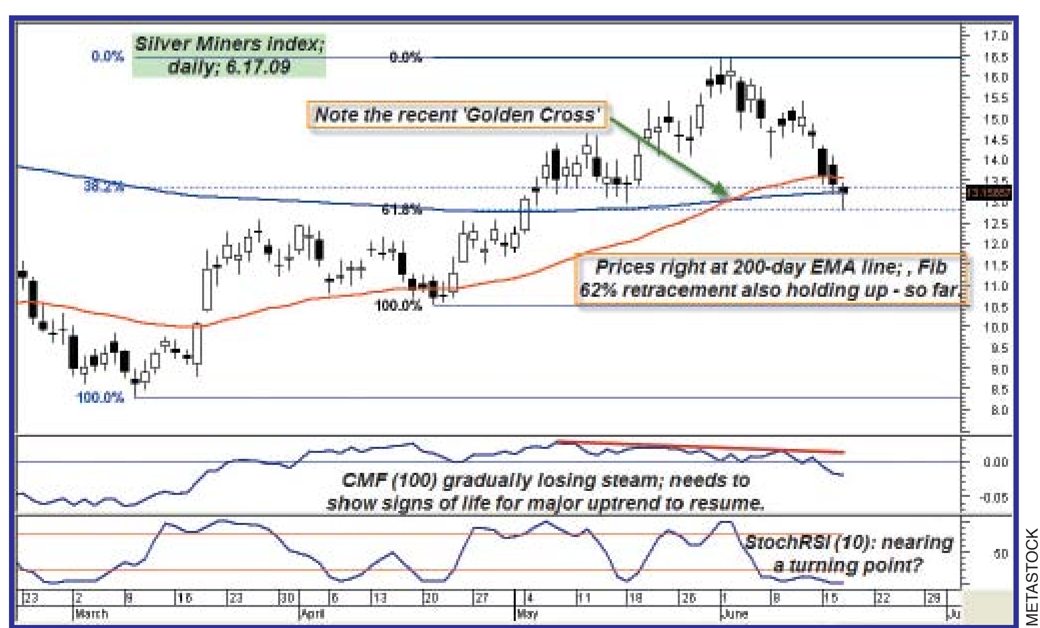


FIGURE 1: SILVER MINERS INDEX, DAILY. Long term, the technicals here look very promising for silver bulls. A cross of the stochRSI(10) indicator above its lower signal could also help time a daily swing trade.

As prices have descended to test the 200-day exponential moving average (EMA), the silver miners index has also encountered a couple of significant Fibonacci retracements from prior swings. So far, prices are staying near the 200-day EMA, a positive technical sign as far as it goes. Many times, stocks (indexes) in a strong bull market will rally higher from the 200-day EMA, but it remains to be seen if these silver miners can muster the strength to do something similar. Meanwhile, the 20-bar average price cycle (measured from swing low to swing low) for the index is due to bottom any time now (currently at 21 bars), even as the stochRSI (10) is extremely oversold. One factor that tips the entire technical equation toward the long-term bullish side of the equation is the recent cross of the 50-day EMA (red line) above the 200-day EMA (blue line), also known

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as a "golden cross."

Obviously, you can't actually trade this index, but you can look at each of its seven component stocks (previously listed) and compare its personal daily price action with the index to see which ones offer the most promising trade setups. The basic requirement for a daily swing trade here is to see the stochRSI(10) indicator turn higher, crossing its lower signal line, especially if the index continues to respect the 200-day EMA — which also happens to be rising, yet another bullish sign. If you see that drill down to the component stocks and pick the ones with the best set of technicals versus the index. Size your positions wisely, risking perhaps 1% of your account equity on a long swing trade. Setting a stop beneath the most recent swing low and then trailing the position with a three-bar trailing stop of the lows is one way to limit risk and keep any potential gains, should the swing trade setup materialize.

Figure 2 is a final look at the daily silver miners index, this time plotted versus the Standard & Poor's 500. Generally speaking, the silver mining stocks have been outperforming the large-cap index by a substantial margin, even though the silver miners have much more volatile price swings, both up and down. Most charting packages offer some kind of chart overlay feature, so make sure you put it to good use when comparing the relative price performance of the stocks, exchange traded funds (ETFs), and commodities you follow. ■

FIGURE 2: SILVER MINERS INDEX VS. S&P 500, DAILY. The silver miners index plotted against the S&P 500. Silver mining stocks have greatly outperformed large-cap stocks, despite having a penchant for extremely violent price swings.

PIVOT POINT CHANNELS

Dynamic Pivots

by Austin Passamonte

Dynamic pivots are a charting tool measuring price levels that adjust with the flow of price action.

Tradable: S&P 500 futures

This price study measures the current period's price range from low to high, with price values plotted of 25%, 50%, and 75% levels. These values are based on the high and low measure of any given period on a chart. For intraday or short-term trading, using the cash session (pit) only chart or all-session (24-hour) chart will give different grid levels in eminis most days. The same is true for any market that trades electronic and pit session periods. It's not a question of which time period settings "work best" for price measurement tools like this; they are designed to be used within the time frame you already trade. Whether your charts are set for cash-session only in or the entire 24-hour period reference is likewise, the preference is the same for dynamic pivot settings. They complement your existing approach, whatever it may be.

For example, this five-minute chart of the Standard & Poor's 500 emini futures (ES) shows price action moving through the pivotal grid levels 75% > 50% > 25% of measure-period range levels. Price action below the 25% level is usually sustained during bearish trend moves, which the session (example above) of May 12 was. Note how each pullback to the 25% "dynamic" level zone marked a pause = continuation lower. While there is no defined edge for specific trade entry signals at the levels, using them as measuring tools for trend probability is invaluable. See Figure 1.

FIGURE 1: S&P 500 EMINI FUTURES. Note these dynamic pivots of 75%-50%-25% lines.

FIGURE 2: ES. Again, note the dynamic pivots 75%-50%-25% lines.

There are many ways to use this tool as part of your trading approach. Directional bias filters would be one of those. Price action moving up or down through the scale demonstrates continued direction or possible trend reversal, depending on where it stops and starts. A basic rule of thumb is this: aggressive long mode or even long-only and no shorts above the 75% level with the opposite aggressive short mode or even short-only and no longs below the 25% level. That rule alone will keep traders seeking longs in a rising market and shorts in a falling market. When price is near/at/above its own upper 25 percentile of low to high overall range, momentum strength is obvious. The opposite is equally true when price levels are at/below the 75 percentile of high to low span, momentum weakness is glaring. A body in motion tends to stay in motion. See Figure 2.

Disregarding sideways choppy-sloppy sessions, any real directional push in price tends to last longer than most traders believe it can or will. Just ask anyone who has shortened their career by the too-common mistake of persisting to sell a grinding rally or buy a waterfall decline. The market itself doles out our highest-price lessons on trading. Learning from trial & error means paying through the nose for errors. Fighting a trend, be that minutes or hours in duration, has drained more trading accounts dry than any other single factor out there. Respecting price strength or weakness when clearly visible on

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its own percentile of range grid is one excellent way to flow with your market instead of fighting it.

Various chart services may offer this tool as a standard default, or have it easily written from the equation of current high-low and 25%, 50%, 75% of the range. Any chart service offering retracement grids can manually snap the low and high points of a period while measuring out the desired levels, adjusting to new highs or lows as the day wears on. Simple as that.

Summation

There is a lot more to successful trading than knowing whether price is probable to go up or down. But that's a pretty important place to start. It is true that financial markets spend plenty of time going sideways. It is equally true that those sideways periods offer anyone and everyone the least potential for profit, period. Directional market action, up or down offers everyone the most potential for profit. Using price action studies that measure a market relative to itself for directional momentum and manage your trading decisions accordingly is a critical step for long-term success. ■

RELATIVE STRENGTH COMPARATIVE

Ratio Analysis Defines Market Direction

by Alan R. Northam

Several methods are used in technical analysis to determine the future direction of the stock market. Among these various methodologies is ratio analysis.

Tradables: XLY / XLP / $SPX

In an article entitled "Financial Sector Fuels The S&P 500" (published on 6/16/09), I showed that the future direction of the financial market sector was key to the direction of the overall stock market. However, the financial sector is not the only indicator of the direction of the stock market. Another method is to measure trader and investor confidence in the stock market. One simple way of measuring this is by comparing two key market sectors. This methodology goes by several names, and among them are relative strength comparative analysis, price relative analysis, and ratio analysis.

Two market sectors usually competing against each other for investor funds are the consumer discretionary market sector and the consumer staples market sector. The consumer discretionary sector contains stocks that consumers can do without during economic bad times. This sector contains such stocks as Home Depot, Nike, and Target, to name a few, and cable television stocks as well. The consumer staples market sector contains stocks that consumers cannot do without during economic bad times such as Walgreen's, Kraft Foods, and Procter & Gamble.

When the economy is expected to do well, consumers are willing to buy products from the consumer discretionary sector and when the economy is expected to do poorly, consumers pull back on spending but will continue to purchase those needed items from the consumer staples market sector. One way to determine if traders and investors have confidence in the future of the economy is to make a comparison of these two market sectors. The way this comparison is usually performed is by using ratio analysis where one market sector is divided by the other.

Figure 1 is the daily line chart of the consumer discretionary market sector divided by the consumer staples market sector. When the ratio line resulting from the division of these two market sectors is rising, that indicates that the consumer discretionary market sector is doing better than the consumer staples market sector and the outlook for the economy and the stock market is good. However, when this ratio line turns down, it is an indication that the consumer discretionary market sector is doing worse than the consumer staples market sector and the outlook for the economy and the stock market is grim. Figure 1 shows that in early March, the ratio line started to move upward, signaling that the future of the economy was improving. As a result, the broader stock market as measured by the S&P 500 started to rally. (Note that the stock market is a leading indicator of the economy.) However, in early May the ratio line broke below its upsloping trading channel, signaling that consumers were now once again becoming concerned about the economy.

FIGURE 1: XLY: XLP. This shows the ratio line resulting from dividing the consumer discretionary market sector by the consumer staples sector.

FIGURE 2: $SPX, DAILY. Price bar chart of the S&P 500 showing trendline and trendline break.

Since that breakout, the ratio line has been trading in a horizontal trading range between overhead resistance and the 38.2% Fibonacci retracement line. In addition, since early May the S&P 500 has been slowing its advance and has broken down below its own upsloping trendline (Figure 2).

The ratio line that results from dividing the consumer discretionary market sector by the consumer staples market sector can be used to determine the direction of the overall stock market. When this ratio line breaks above a downtrend line, it is a signal that the stock market is ready to move higher. When this ratio line breaks below its upsloping trendline, it is a signal that the stock market is ready to move lower.

In early May, the ratio line broke below its upsloping trading channel (see Figure 1), indicating that traders and investors were becoming worried about the future of the economy. A month later, the S&P 500 broke down below its upsloping trendline (see Figure 2). Note that the breakdown in the ratio line (Figure 1) was a leading indicator of the breakdown in the S&P 500.

Currently, the ratio line remains in a horizontal trading range. The key to the future direction of the stock market now depends upon what the ratio line does. If the ratio line continues to move sideways, then the S&P 500 will also move in a sideways direction. If the ratio line starts to move lower, the S&P 500 will most likely move lower as well. However, if the ratio line can manage to break out above its trading range, then the S&P 500 should follow suit and start to move higher again. So besides watching the financial market sector, comparing the consumer discretionary and consumer staples market sectors also holds the key to the future direction of the stock market. ■

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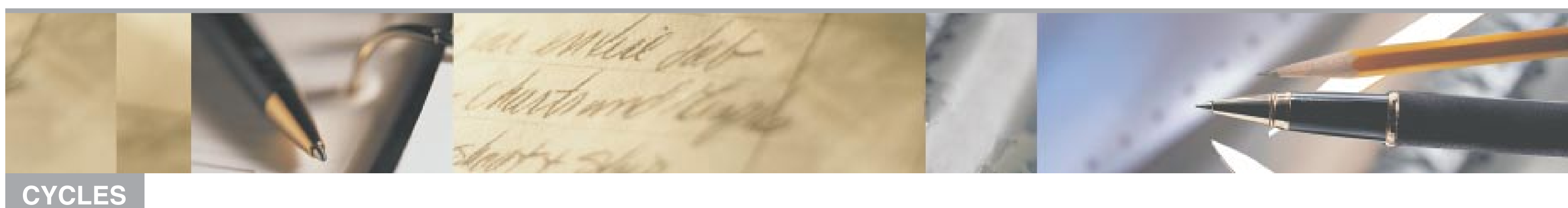

CYCLES

S&P 500 Descending Toward Major Cycle Low

by Donald W. Pendergast Jr.

The weekly cycle in the major US stock indexes are all heading lower for now, but expect a major reversal once the swing lows are established, probably within the next three to six weeks.

Tradables: .SPX, SPY

The broad US markets finally started to break lower this week, which was no surprise to those traders and analysts aware of the cyclical nature of most freely traded markets. In addition, given the seasonality effect that tends to usher in a period of market softness during the summer months, this recent decline was very much to be expected. Similar to the NASDAQ 100 (.NDX, QQQQ) and the Russell 2000 (.RUT, IWM) indexes, the large-cap laden S&P 500 index has yet to complete a weekly 38% retracement of the March to June upswing, providing thoughtful traders with yet another reason to have expected a bit of a pullback before (hopefully) the major uptrend in the broad US markets continue. Let's peer at the weekly graph of the S&P 500 index for more detail (Figure 1).

If you measure the distance between significant weekly swing lows in the S&P 500 over a large number of measurements, the cycle will average out to about 20 weeks. Sometimes the number will be greater than that, other times it will be less, but at least it provides traders with a "guesstimate" of when the risk will be relatively low in order to initiate long stock positions in the market. The evidence on the chart does seem to suggest that the downward pressure on the index will continue until the Fibonacci 38% retracement is reached, preferably around the anticipated 20-week major swing low. One way to help time all of this is to use an indicator that tends to mimic the major cyclical trend in any given market; one such indicator is the stochRSI (10), plotted at the bottom of the chart. Since breaking a major uptrend line last week, all systems seem to imply that the S&P 500 is definitely on the fast track for a decline to around 850.

Once that area of potential support near 850 is reached (even if 20 weeks have passed since the March 2009 weekly swing low), traders will still need to see evidence of an actual turn higher before actually starting to deploy cash into the markets again. Again, using the stochRSI (10) indicator can be a great way to confirm such a turn, given its past accuracy in calling weekly turns in this index, especially when combined with cycle measurements and Fibonacci support/resistance levels. For more bang-for-the-buck excitement at such a high-profile potential turning point, consider focusing on only the strongest relative strength stock sectors and industry groups.

The type of basic cycle and support/resistance analysis referred to in this article can also be applied to currencies, commodities, exchange traded funds (ETFs), and individual stocks. It will require some patience to calculate the average distance from swing low to swing low, but the potential rewards may be more than worth the effort. Needless to say, to obtain a statistically valid result, at least 30 calculations (swing low to swing low) — and preferably many more — should be utilized; otherwise, the results may not be particularly useful. ■

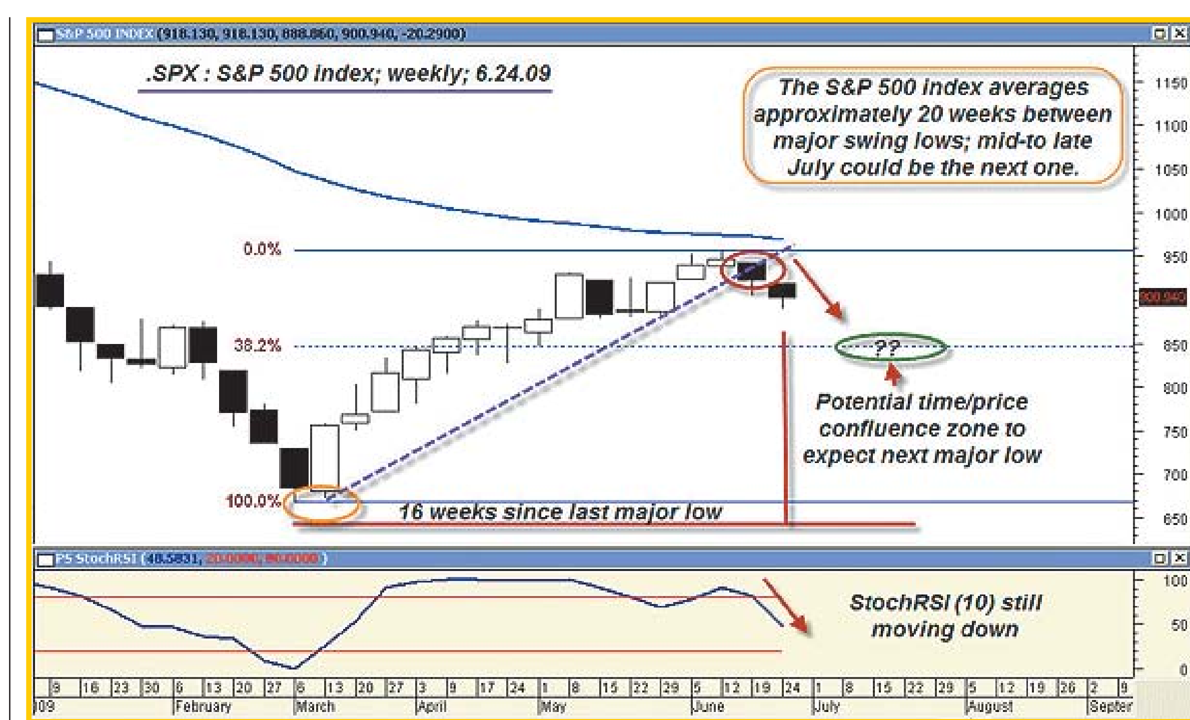

FIGURE 1: SPX, WEEKLY. Few things are more dangerous than making market predictions, but the technical clues here seem to imply that the time/price confluence area depicted on the chart could be one in which to expect a reversal to occur.

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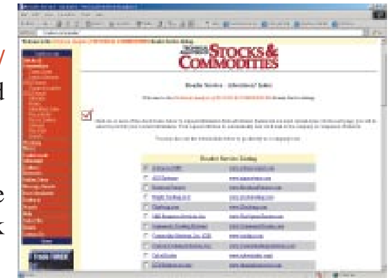

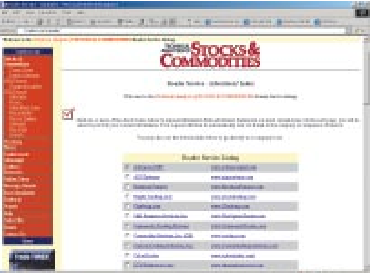

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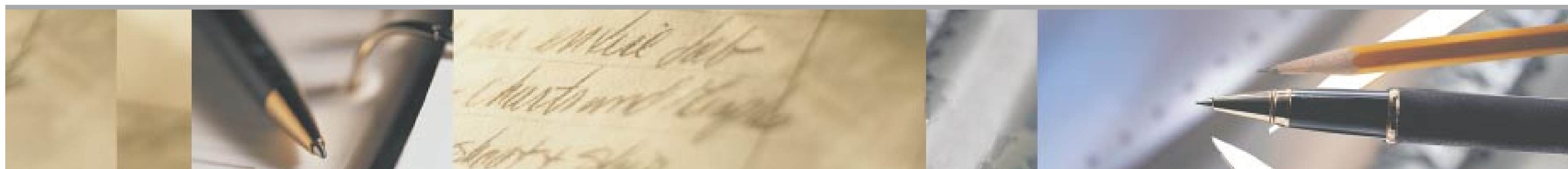

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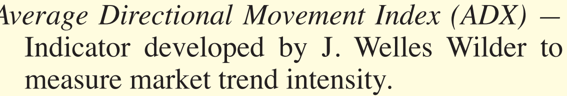
TRADERS' GLOSSARY



Average Directional Movement Index (ADX) — Indicator developed by J. Welles Wilder to measure market trend intensity.
Average True Range — A moving average of the true range.
Breakaway Gap — When a tradable exits a trading range by trading at price levels that leave a price area where no trading occurs on a bar chart. Typically, these gaps appear at the completion of important chart formations.
Breakout — The point when the market price moves out of the trend channel.
Chaikin Money Flow — An oscillator that is used to determine if an equity is accumulating or distributing. It is based on the readings of the accumulation/distribution line and on the location of the closing price with respect to the price range.
Convergence — When futures prices and spot prices come together at the futures expiration.
Cubes (QQQQ) — Traded on the NASDAQ, cubes are ETFs that track the NASDAQ 100 index, which is made up of the 100 largest, most active NASDAQ nonfinancial stocks.
Divergence — When two or more averages or indices fail to show confirming trends.
Directional Movement Index (DMI) — Developed by J. Welles Wilder, DMI measures market trend.
Engulfing Pattern — In candlestick terminology, a multiple candlestick line pattern; a major reversal signal with two opposing-color real bodies making up the pattern.
Exchange-Traded Funds (ETFs) — Collections of stocks that are bought and sold as a package on an exchange, principally the American Stock Exchange (AMEX), but also the New York Stock Exchange (NYSE) and the Chicago Board Options Exchange (CBOE).
Exponential Moving Average — A variation of the moving average, the EMA places more weight on the most recent closing price.
Fade — Selling a rising price or buying a falling price. For example, a trader who faded an up opening would be short.
Flag — Sideways market price action that has a slight drift in price counter to the direction of the main trend; a consolidation phase.
Head and Shoulders — When the middle price peak of a given tradable is higher than those around it.
Lag — The number of datapoints that a filter, such as a moving average, follows or trails the input price data. Also, in trading and time series analysis, lag refers to the time difference between one value and another. Though lag specifically refers to one value being behind or later than another, generic use of the term includes values that may be before or after the reference value.
Moving Average Convergence/ Divergence (MACD) — The crossing of two exponentially smoothed moving averages that are plotted above and below a zero line. The crossover, movement through the zero line, and divergences generate buy and sell signals.
Overbought/Oversold Indicator — An indicator that attempts to define when prices have moved too far and too fast in either direction and thus are vulnerable to a reaction.
Relative Strength — A comparison of the price performance of a stock to a market index such as the Standard & Poor's 500 stock index.
Relative Strength Index (RSI) — An indicator invented by J. Welles Wilder and used to ascertain overbought/oversold and divergent situations.
Resistance — A price level at which rising prices have stopped rising and either moved sideways or reversed direction; usually seen as a price chart pattern.
Retracement — A price movement in the opposite direction of the previous trend.
Simple Moving Average — The arithmetic mean or average of a series of prices over a period of time. The longer the period of time studied (that is, the larger the denominator of the average), the less effect an individual data point has on the average.
Signal — In the context of stock or commodity time series historical data, this is usually daily or weekly prices.
Stochastics Oscillator — An overbought/oversold indicator that compares today's price to a preset window of high and low prices. These data are then transformed into a range between zero and 100 and then smoothed.
Stop-Loss — The risk management technique in which the trade is liquidated to halt any further decline in value.
Support — A historical price level at which falling prices have stopped falling and either moved sideways or reversed direction; usually seen as a price chart pattern.
Swing Chart — A chart that has a straight line drawn from each price extreme to the next price extreme based on a set criteria such as percentages or number of days. For example, percentage price changes of less than 5% will not be measured in the swing chart.
Trading Bands — Lines plotted in and around the price structure to form an envelope, determining whether prices are high or low on a relative basis and forewarning whether to buy or sell by using indicators to confirm price action.
Trading Range — The difference between the high and low prices traded during a period of time; in commodities, the high/low price limit established by the exchange for a specific commodity for any one day's trading.
Trendline — A line drawn that connects either a series of highs or lows in a trend. The trendline can represent either support as in an uptrend line or resistance as in a downtrend line. Consolidations are marked by horizontal trendlines.

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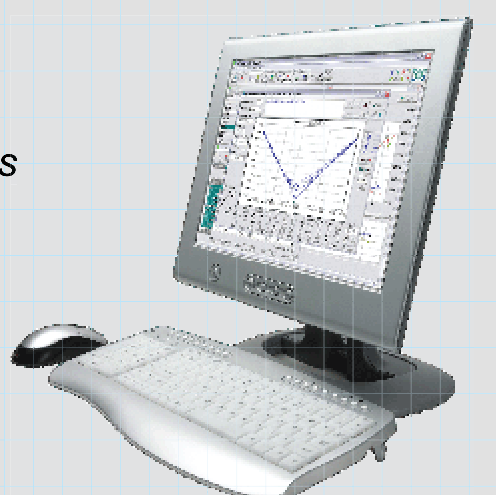

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