CHART PATTERNS
Double-Dip Recession?

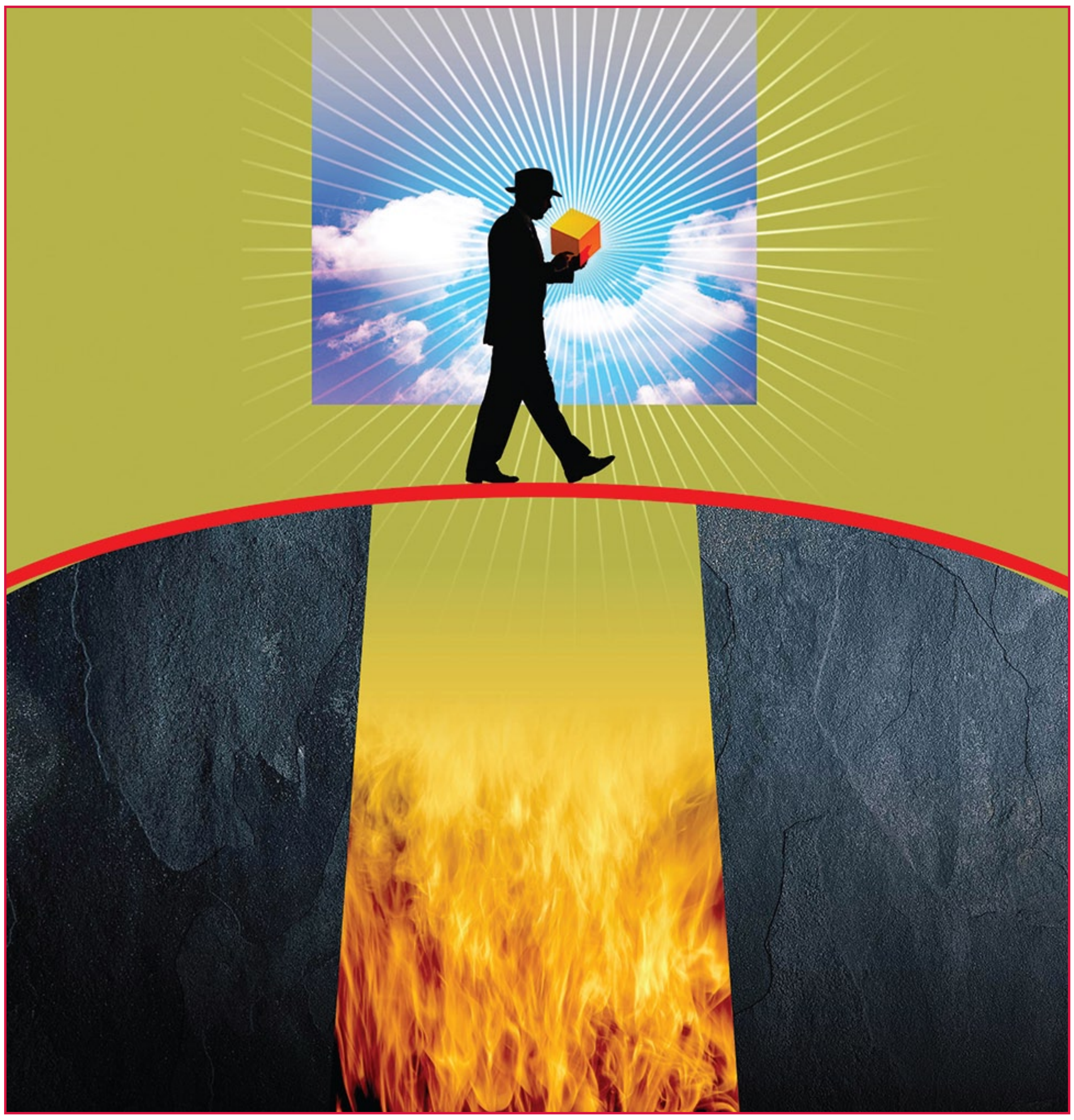
SECTORS
Gold Approaches Key Resistance

MARKET UPDATE
What's The Next Target For Dow?

MARCH/APRIL 2010 US$7.95

Traders.com

THE MAGAZINE FOR INSTITUTIONAL AND PROFESSIONAL TRADERS™



DJIA WEEKLY VS. DAILY

FIGURE 1: INDU, WEEKLY

FIGURE 2: INDU, DAILY

MAILING LABEL

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

5 Interviews At www.ablesys.com

How Do I Know If The Market Has Changed Its Direction Or If It's Just A Temporary Pullback? AbleTrend T2 Stops Can Help

Award Winning Trading Software

1997 - 2009

For Stocks, Futures FOREX & Options

AbleTrend 7.0

1. Small blue dots are T2 stops for buy positions showing the market support levels

2. Small red dots are T2 stops for sell positions showing market resistance levels

3. T2 stops helps to define the retracements

4. T2 stops helps to define the reversal

AbleTrend T2 offers the following advantages:

1. T2 stops are defined by the market's own support and resistance 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."

With T2 stops, you now can:

1. Add more positions after the market tests but does not penetrate the T2 stops, and then resumes the original trend.
2. Exit the market when prices penetrate the T2 stops and close beyond that level, suggesting a reversal of the trend.
3. 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.
4. Take advantage of "sweet spot entries" by entering the market right after prices have tested the support and resistance level (T2 stops) and resumed the original trend. These entry points are often close to T2 stops.

The market is always changing, but the way T2 works remains unchanged. Once you see it work time and time again, you will know that you can rely on it and utilize it. That's the value of the legendary T2 stops. The method is timeless. AbleTrend T2 stops can help you thrive in todays volatile markets.

ABLESYS

Award Winning Trading Software

"Among all the trading software I bought, AbleTrend 7.0 is the most simple and easy to use, and it makes money."

— *Dr. Edward Christy, Michigan*

Only AbleTrend has won Stocks & Commodities magazine Readers' Choice awards, for three* trading systems, 13 years in a row.

1997 - 2009

*including stock trading systems, futures trading systems & option trading systems

30 Day Trial Start Today! $20 Discount Code: SCT10MA

Call Toll-Free (888) 272-1688

Get Started Today! www.ablesys.com

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

TECHNICAL ANALYSIS OF STOCKS & COMMODITIES LOGO AND AWARD ARE TRADEMARKS OF TECHNICAL ANALYSIS, INC.

THESE RESULTS ARE BASED ON SIMULATED OR HYPOTHETICAL PERFORMANCE RESULTS THAT HAVE CERTAIN INHERENT LIMITATIONS. UNLIKE THE RESULTS SHOWN IN AN ACTUAL PERFORMANCE RECORD, THESE RESULTS DO NOT REPRESENT ACTUAL TRADING. ALSO, BECAUSE THESE TRADES HAVE NOT ACTUALLY BEEN EXECUTED, THESE RESULTS MAY HAVE UNDER-OR OVER-COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED OR HYPOTHETICAL TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THESE BEING SHOWN. THE TESTIMONIAL MAY NOT BE REPRESENTATIVE OF THE EXPERIENCE OF OTHER CLIENTS AND THE TESTIMONIAL IS NO GUARANTEE OF FUTURE PERFORMANCE OR SUCCESS.

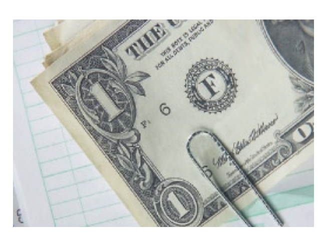
ABLESYS CTA Firm

Traders.com

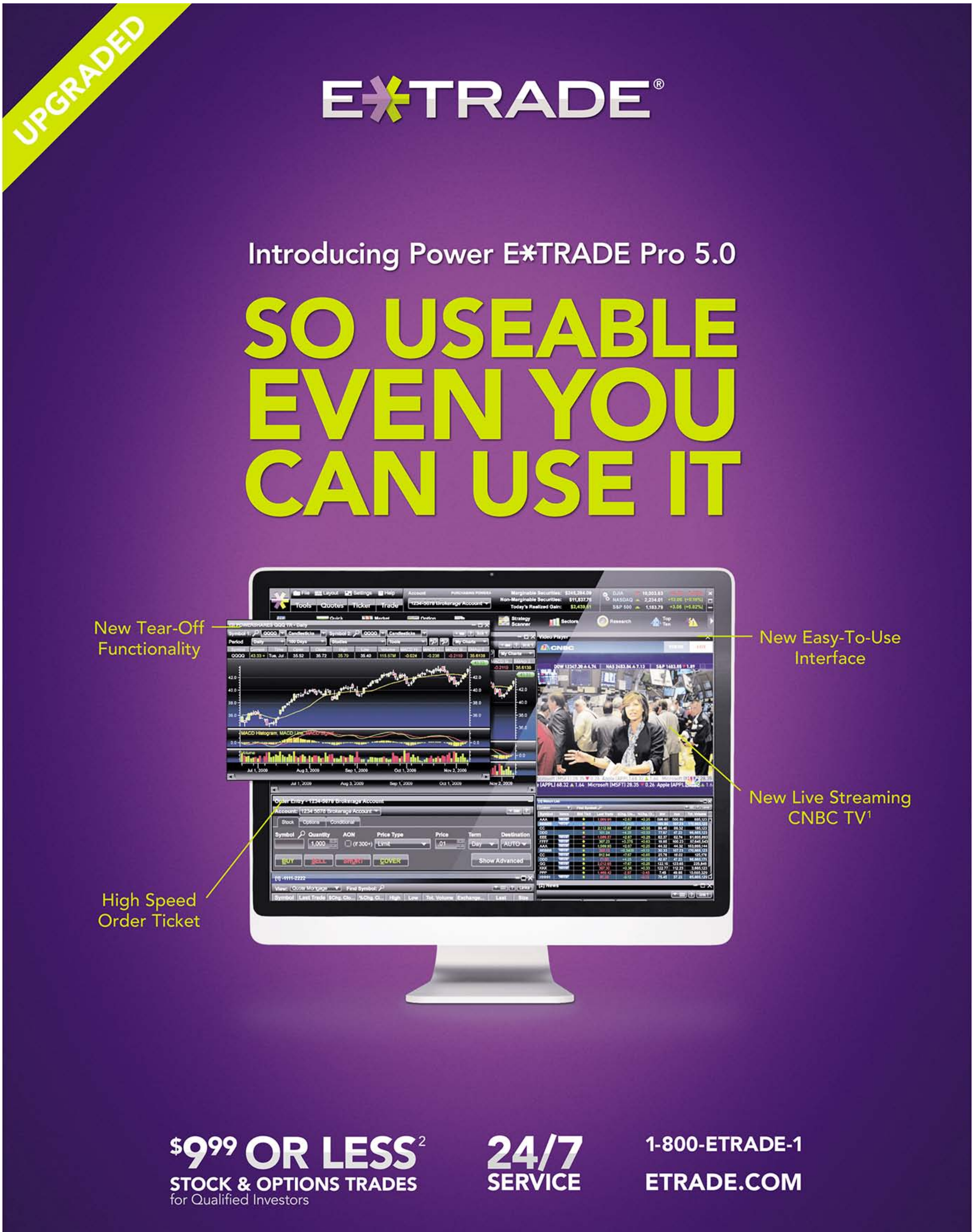
THE MAGAZINE FOR INSTITUTIONAL AND PROFESSIONAL TRADERS™

TABLE OF CONTENTS

MARCH/APRIL 2010 • VOLUME 8 NUMBER 2



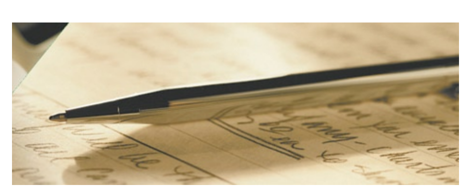
Traders.com™ is published by Technical Analysis, Inc., 4757 California Ave. S.W., Seattle, WA 98116-4499. 1 206 938-0570 or 1 800 832-4642. Printed in the U.S.A.

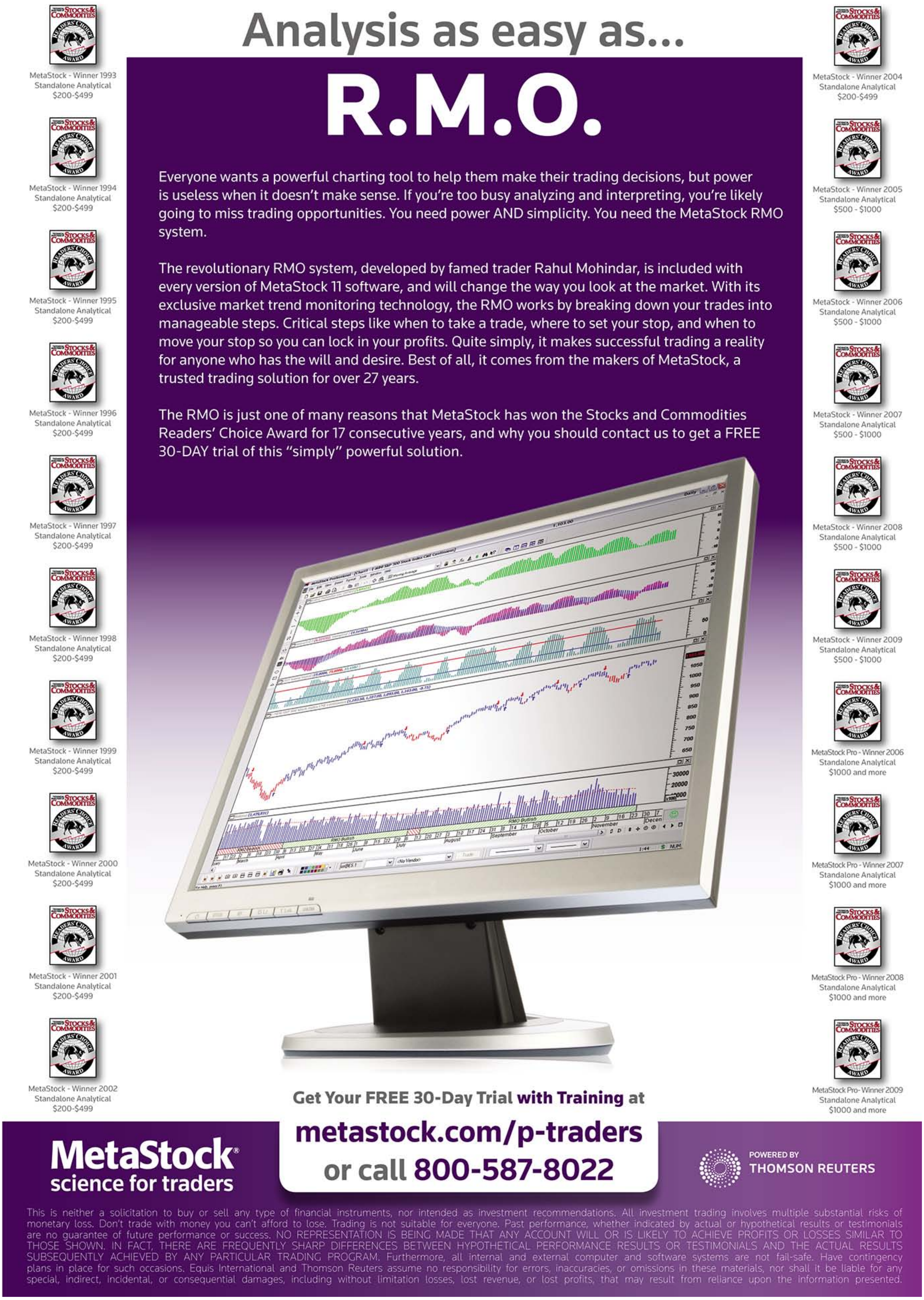


UPGRADED
E*TRADE®
Introducing Power E*TRADE Pro 5.0
SO USEABLE EVEN YOU CAN USE IT
New Tear-Off Functionality
New Easy-To-Use Interface
New Live Streaming CNBC TV[1]
High Speed Order Ticket
$9.99 OR LESS[2]
STOCK & OPTIONS TRADES
for Qualified Investors
24/7 SERVICE
1-800-ETRADE-1
ETRADE.COM

Traders.com
THE MAGAZINE FOR INSTITUTIONAL AND PROFESSIONAL TRADERS™

TABLE OF CONTENTS




Analysis as easy as...
R.M.O.
Everyone wants a powerful charting tool to help them make their trading decisions, but power is useless when it doesn't make sense. If you're too busy analyzing and interpreting, you're likely going to miss trading opportunities. You need power AND simplicity. You need the MetaStock RMO system.
The revolutionary RMO system, developed by famed trader Rahul Mohindar, is included with every version of MetaStock 11 software, and will change the way you look at the market. With its exclusive market trend monitoring technology, the RMO works by breaking down your trades into manageable steps. Critical steps like when to take a trade, where to set your stop, and when to move your stop so you can lock in your profits. Quite simply, it makes successful trading a reality for anyone who has the will and desire. Best of all, it comes from the makers of MetaStock, a trusted trading solution for over 27 years.
The RMO is just one of many reasons that MetaStock has won the Stocks and Commodities Readers' Choice Award for 17 consecutive years, and why you should contact us to get a FREE 30-DAY trial of this "simply" powerful solution.
MetaStock - Winner 1993 Standalone Analytical $200-$499
MetaStock - Winner 1994 Standalone Analytical $200-$499
MetaStock - Winner 1995 Standalone Analytical $200-$499
MetaStock - Winner 1996 Standalone Analytical $200-$499
MetaStock - Winner 1997 Standalone Analytical $200-$499
MetaStock - Winner 1998 Standalone Analytical $200-$499
MetaStock - Winner 1999 Standalone Analytical $200-$499
MetaStock - Winner 2000 Standalone Analytical $200-$499
MetaStock - Winner 2001 Standalone Analytical $200-$499
MetaStock - Winner 2002 Standalone Analytical $200-$499
MetaStock - Winner 2004 Standalone Analytical $200-$499
MetaStock - Winner 2005 Standalone Analytical $500 - $1000
MetaStock - Winner 2006 Standalone Analytical $500 - $1000
MetaStock - Winner 2007 Standalone Analytical $500 - $1000
MetaStock - Winner 2008 Standalone Analytical $500 - $1000
MetaStock - Winner 2009 Standalone Analytical $500 - $1000
MetaStock Pro - Winner 2006 Standalone Analytical $1000 and more
MetaStock Pro - Winner 2007 Standalone Analytical $1000 and more
MetaStock Pro - Winner 2008 Standalone Analytical $1000 and more
MetaStock Pro- Winner 2009 Standalone Analytical $1000 and more
Get Your FREE 30-Day Trial with Training at
metastock.com/p-traders
or call 800-587-8022
MetaStock® science for traders
POWERED BY THOMSON REUTERS
This is neither a solicitation to buy or sell any type of financial instruments, nor intended as investment recommendations. All investment trading involves multiple substantial risks of monetary loss. Don't trade with money you can't afford to lose. Trading is not suitable for everyone. Past performance, whether indicated by actual or hypothetical results or testimonials are no guarantee of future performance or success. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS OR TESTIMONIALS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM. Furthermore, all internal and external computer and software systems are not fail-safe. Have contingency plans in place for such occasions. Equis International and Thomson Reuters assume no responsibility for errors, inaccuracies, or omissions in these materials, nor shall it be liable for any special, indirect, incidental, or consequential damages, including without limitation losses, lost revenue, or lost profits, that may result from reliance upon the information presented.

March/April 2010 • Volume 8, Number 2

Traders.com

THE MAGAZINE FOR INSTITUTIONAL AND PROFESSIONAL TRADERS™

TRADING NOW

In all the years since the euro was launched in 1999, it has never experienced anything like the mess that was created by Greece's recent debt crisis. To avoid default, Greece will need some assistance, which will most likely be from the European Union (EU). If such help were to be offered, then other countries such as Portugal and Spain would also expect assistance from the EU if they were to find themselves in a similar situation. This would certainly affect the economic health of the EU as well as the euro.

The disaster that occurred to the Greek monetary system just shows the extent of the dangers of the bond market. When news of the financial crisis in Greece hit the news wires, investors flocked to US Treasuries in droves. Now, the US can hardly be considered a safe haven given its own current debt situation, which may be far greater than that of any of the countries in the EU, but from a relative standpoint, it certainly seemed like the place to go.

The effect of events like what happened in Greece far exceed those of the bond market. All markets are affected in such crisis situations whether they are commodities, foreign exchange, or equities. In this issue of **Traders.com**, we cover different markets such as precious metals ("Gold/Silver Ratio Near Equilibrium" by Donald Pendergast and "Hi Ho Silver" by Ron Walker, among others), the Dow Jones Industrial Average ("What's The Next Target For Dow?" by Chaitali Mohile, for instance), the US dollar ("In The US Dollar And The DJIA, Which Leads?" by Koos van der Merwe and "The Dollar And The Risk" by Mike Carr), crude oil ("March Crude Oil — A Pause Or A Top?" by Pendergast again), and commodities ("Time To Buy Grains?" by Mike Carr). There's even a series of articles on a technique using the pitchfork formation by Alan Northam, to give you a little food for thought.

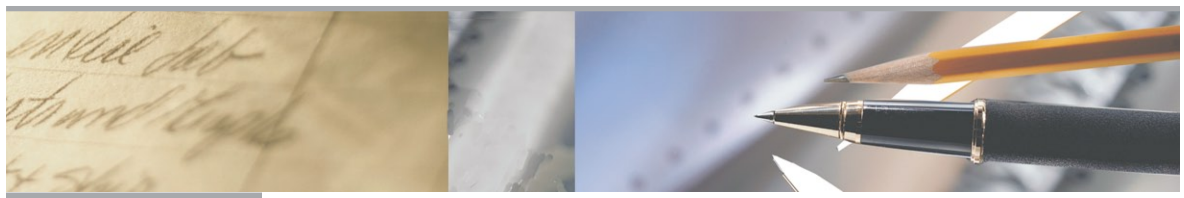
And that is only a fraction of the useful articles you'll find here and at our online publications, *Traders.com Advantage* and *Working Money*, or even STOCKS & COMMODITIES magazine. Take a look at our website and see what we have to offer. Check us out — that will enable you to:

- Visit Traders' Resource, our reference to all things technical analysis
- Check out our Online Store, where you can download PDFs of past S&C articles, from 1982 all the way to the present, for a nominal charge
- Examine our Traders' Glossary, growing by leaps and bounds
- Visit our Subscribers' Area, where you'll find computer code that has been referenced in S&C articles; and finally,
- Visit our Message-Boards, where you can share your opinions of trading technical analysis, and most everything else you can imagine with other traders.

The key is to understand how all these markets, and even techniques, relate to each other. Can they help you in your trading? That's up to you. Good luck!

Jayanthi Gopalakrishnan

Jayanthi Gopalakrishnan,
Editor



PSYCHOLOGY

Does News Really Drive The Markets?

by Donald W. Pendergast Jr.

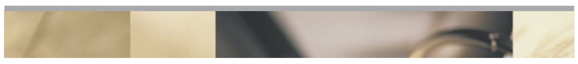
At first glance, the news of Dubai's default woes appears to have been the cause of Friday's big intraday plunge in the gold market. Or was this just a simple catalyst, one that triggered a price decline that was already baked into the technical and fundamental cake?

Tradable: GC, GLD, SI, SLV

Regular subscribers to Traders.com Advantage may already be familiar with my recent article, one in which I attempted to build a logical case for strong multi-time frame resistance in the gold market at a price of about $1,200 per ounce. Other astute technicians were also making similar projections, based on a variety of Fibonacci and time/price studies. On Wednesday, November 25, 2009, cash gold closed near $1,190 per ounce (with February gold actually closing right near $1,198 per ounce). The Thursday price action in gold was timid, but during the overnight session in the wee hours of Friday, November 27, 2009, news of the Dubai default began to sweep across world markets of every kind — silver lost nearly $1 an ounce in a few hours and February gold plunged from $1,193 all the way to $1,134 in the same length of time (Figure 1). Global stock indexes fared little better, although most markets did regain a large percentage of the initial intraday losses by Friday's closing bell. So, does little old Dubai really matter all the much in the overall scope of global financial affairs to warrant such a selloff, or was the real cause for the plunge due to something far more powerful?

DATA BY PROPHET FINANCIAL; CHART BY THINKORSWIM

FIGURE 1: FEBRUARY GOLD, FIVE-MINUTE. News catalysts aside, take a look at this well-formed Gartley sell setup on the five-minute chart of February gold; in most cases, a setup like this warrants a target price of 62% of the C-D swing, or about $1.162.



As traders, we need to focus on the key technical and fundamental/seasonal forces that drive the markets.

Although I'm not a major Elliot wave devotee, certain aspects of R.N. Elliott's unique approach to the financial markets are without peer, particularly when applied to the commodity markets. R.N. Elliott and Robert Prechter proving that bull runs in the various commodity markets are frequently marked by extended fifth waves (driven by fear) and that bull runs in stocks/stock indexes are more likely to experience extended third waves (driven by greed) has helped many market participants to better understand the peculiar natures of the individual markets that they follow. In a similar vein, Prechter has also demonstrated time after time that news events (in most cases) are merely a precipitating factor that initiate market moves that were destined to happen anyway.

Take the case with gold. Figure 1 made a convincing case that gold was likely to at least pause if not outright correct once it approached the $1,200 per ounce level, and if it hadn't have been bad news coming out of Dubai, then the decline in gold might have coincided with any number of other global news events. Long-term market participants have probably witnessed dozens of similar unexpected market moves like this one, with most of them being blamed on a particular news event.

Of course, there have been some exceptions to this observation — a case in point would be the terrible happenings on September 11, 2001 — in that case, the linkage between the news and the actual market crash was clear and undeniable. However, for more ordinary surprise moves, if you look closely enough, you'll probably find ample technical and/or fundamental evidence that will suggest that the market in question was already destined for a sizable move up or down anyway.

On the fundamental side of the gold equation, commercial interests were already holding exceedingly large short positions in the gold market, which was yet another clue that gold was going to take a tumble if and when it met up with strong technical resistance — which it did on both the weekly and monthly time frames — at a price of about $1,200.

No question about it, news matters. However, as traders, we need to be far more focused on the key technical and fundamental/seasonal forces that drive the stocks and futures markets that we trade and invest in, realizing that any number of precipitating news events can set off a market decline or rally that was already waiting to happen, based on dynamics that had very little, if anything to due with the assumed catalyst that caused the market move. ■

FURTHER READING

Pendergast Jr., Donald W. [2009]. "Go With Gold Or Gold Stocks?," Traders.com Advantage (see page 24 of this issue).

Traders.com ADVANTAGE™
This article was first published on 12/1/2009.
See www.Traders.com for more.

INDEXES

HEAD & SHOULDERS

Small Caps Topping

by Alan R. Northam

The Russell 2000 Small Capitalization exchange traded fund has gained over 80% this year and now looks to be topping out.

Tradable: IWM

Figure 1 is that of the daily chart of the Russell 2000 small-capitalization stock index (iShares ETF stock IWM). IWM started its rally in March of this year and since then has gained approximately 80% in value. Over the last three months, the Russell 2000 small-cap stock index (IWM) has been forming what looks to be a complex head & shoulders pattern made up of a double left shoulder and a double head. Head & shoulders patterns are known as trend-ending patterns. However, sometimes head & shoulders patterns develop early in a trend and, when they do, are found to be unreliable. However, after an 80% runup in price, a developing head & shoulders pattern becomes a more reliable indication that the trend is in the process of ending.

Further, complex head & shoulders patterns are more rare than normal head & shoulders patterns and as such are considered to be an even more reliable indicator of a trend change. One of the tenets of technical analysis is that the rarer the pattern, the more reliable the pattern. So let's take a look at this head & shoulders pattern.

Figure 1 shows that during August, IWM formed a double left shoulder with the second shoulder higher than the first. In addition, a double neckline was formed with the second slightly higher than the first. The double neckline then forms a support zone instead of a single support line as shown. Then in September and October, IWM formed two heads of approximately equal price. Note that at the end of October, IWM came down and touched the neckline just as it did after forming the second left shoulder. One of the identification marks of a true head & shoulders pattern is symmetry, and so far, the development of the current complex head & shoulders pattern shows this symmetry. While not all true head & shoulders patterns have to have symmetry to be real, when a developing head & shoulders pattern does show symmetry, it provides confidence that a true head & shoulders trend ending pattern is being developed.

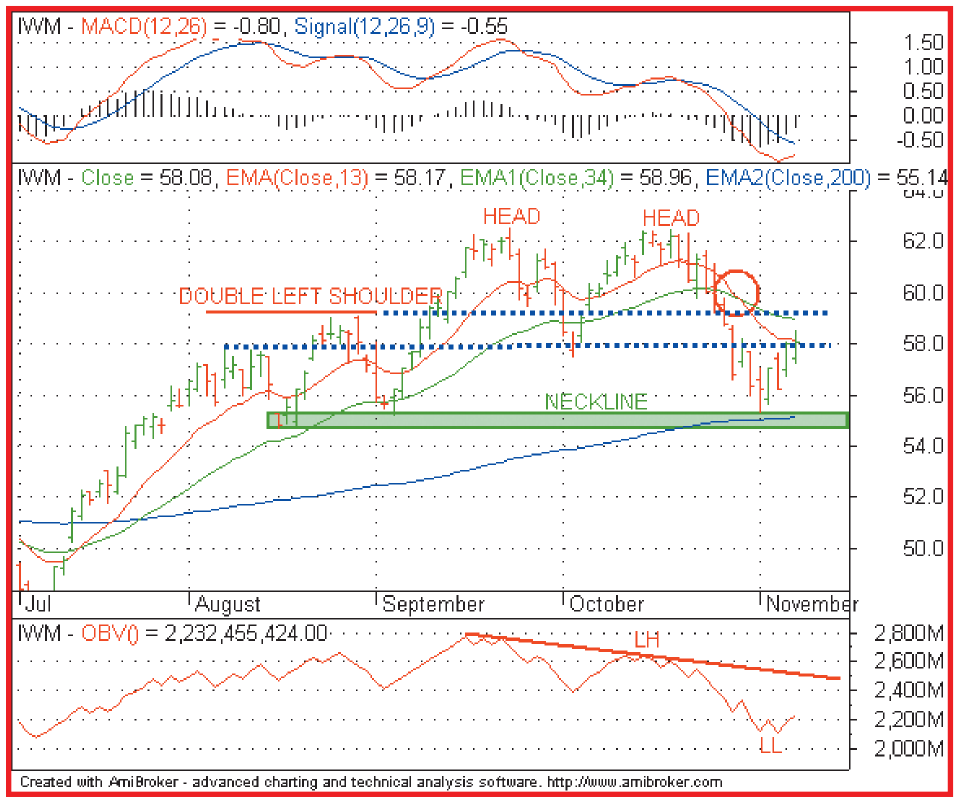


FIGURE 1: IWM, DAILY. Note the developing complex head & shoulders pattern. This figure also shows the MACD above the price chart and OBV below.

In Figure 1, I have drawn two horizontal blue dotted lines. These dotted lines are used as construction lines to show the price levels at which the two right shoulders should develop. The first right shoulder should form at the higher of the two lines and the second right shoulder the second if symmetry is to prevail. If symmetry does not,, then we could see these right shoulders develop at different price levels than shown or perhaps only one right shoulder develops. Upon completion of the right shoulder or two right shoulders, IWM needs to penetrate the neckline support zone and make a lower low closing price to complete the double head & shoulders topping pattern, which will then signal the completion of the upward rally and the beginning of a new downward trend.

In support of the analysis that a double head & shoulders trend ending pattern is developing, I have added the moving average convergence/divergence (MACD) and on-balance volume (OBV) indicators. From Figure 1, note that the MACD is now below its zero line. This indicates that the 13-day EMA has crossed to below the 34-day EMA. This can also be seen by the red circle on the price chart. The crossing of these two moving averages signal a reversal in trend. The crossing of these two moving averages therefore confirms that a double head & shoulders trend ending pattern is in work. In addition, the OBV has formed a lower high followed by a lower low, signaling that volume is now in a downtrend. Downtrending volume signals that

The rarer the pattern, the more reliable the pattern.

selling pressure is greater than buying pressure, which should then work to drive price lower. Again, OBV confirms that a double head & shoulders trend ending pattern is working.

In conclusion, all indications signal that a a very reliable double head & shoulders trend ending pattern is at work. Upon completion of the right shoulder and a close below the neckline, the support zone will complete the pattern and signal the reversal of trend from up to down. However, a move higher to form a new higher high will negate the double head & shoulder pattern and signal that the upward trend remains intact. As traders, we are currently stuck in limbo; we don't know if IWM is going to continue higher or move lower. The developing double head & shoulders pattern suggests that the higher probability is for IWM to reverse direction and start a new downtrend, but we must wait for confirmation by a breakdown below the neckline or a new breakout to a higher high to signal the future direction of IWM. ■

Traders.com ADVANTAGE™
This article was first published on 11/10/2009.
See www.Traders.com for more.

TECHNICAL ANALYSIS

What's The Next Target For Dow?

by Chaitali Mohile

The immediate target for a particular stock or index can be measured by using simple technical tools or trendlines. A long-term and very short-term target for the DJIA can be identified using these simple techniques.

Tradable: $INDU

Marking a high of 2007 and a low of 2009, the Fibonacci retracement level is drawn on the monthly chart of Dow Jones Industrial Average ($INDU) in Figure 1. The tool helps to note the potential support-resistance areas. According to the tool, $INDU has recovered up to 50% retracement level. The bullish rally from the 6470 level gradually reached the first retracement level at 38.2% on the strong bullish reversal signals from the full stochastic (14,3,3) and the highly overheated average directional movement index (ADX) (14). By the time a new low at 6470 was developed, $INDU had moved in a robust downtrend. The index turned highly oversold, suggesting a bullish rally ahead. Thus, these highly bearish conditions generated the bullish rally with an immense force.

Therefore, the descending overheated downtrend and upward movement of the stochastic oscillator from an oversold area initiated the bullish price action for the index. Earlier, the 38.2% retracement level was the immediate target for $INDU. The volume was highly encouraging till the first retracement level was converted to the support. But as the rally continued to surge towards the 50% level, volume shrank. A doji and bullish candle between the two retracement levels in Figure 1 reflect the hesitation among traders. However, an increasing bullish pressure pulled the index to its second target, which is the 50% retracement level. The 40-day moving average and the 61.8% retracement level coincide approximately at the same level of 11,200/11,226, respectively. Therefore, these levels are the long-term target for $INDU.

The stochastic (14,3,3) has surged above the 50 level, indicating bullish momentum in the rally. In addition, the moving average convergence/divergence (MACD) (12,26,9) is showing a bullish crossover, reconfirming the positive momentum. Although the index remains in the developing downtrend zone, the ADX (14) is descending along with selling pressure. Meanwhile, an increasing buying pressure would develop a fresh bullish sentiment. Therefore, the 61.8% level would be an achievable target with a long-term perspective.

The daily time frame would show short-term supports and resistances for $INDU. In Figure 2, the channel is drawn joining the higher highs and higher lows. The channel is widening at the tail, therefore, the formation is not a rising wedge and neither is it an expanding channel. The expanding channel is formed by the upper and lower trendlines diverging in two different directions.

Although the channel in Figure 2 is broader at the tail, both trendlines are ascending with marginal divergences. Therefore, we would consider the upper trendline as the resistance line or the future target for $INDU and the lower trendline would be the strong support during the correction. The support of the 50-day MA and the lower trendline was challenged twice. The recent rally from the 9678 level seems to be exhausted as the size of the bullish candlesticks has shrunk. The index is approaching the next target of an ascending upper trendline near 10,400.

The developing uptrend and the healthily overbought stochastic are indications that the index could reach its immediate target. The shaky MACD (12,26,9) indicates volatility in the rally.

Thus, the Fibonacci retracement level, the moving averages, and the trendlines highlight the potential target of $INDU for the short-term and long-term view. ■

Traders.com ADVANTAGE™
This article was first published on 11/12/2009.
See www.Traders.com for more.

FIGURE 1: $INDU, MONTHLY. The 40-day MA and the 61.8% Fibonacci retracement level are the robust resistance and the long-term target for the index. Since the 40-day MA would fluctuate according to price movement, it may suppress the rally before hitting the retracement level.

FIGURE 2: $INDU, DAILY. The upper trendline resistance is the short-term target for the index.

Bullish But Volatile Road For DJIA

by Chaitali Mohile

The near-term target for the Dow Jones Industrial Average is a few hundred points away from current levels. But the exhausted technical conditions on the charts might discourage a speedy rally.

Tradable: $INDU

In my 11/12/09 article, I mentioned the targets for the Dow Jones Industrial Average ($INDU) using the Fibonacci retracement and the moving average (MA). Currently, the targets of 11000 and 11200 are unchanged, but the conditions on the technical charts are different. On the weekly chart in Figure 1, $INDU has moved vertically upward after the breakout at 9000 levels. The breakout reversed a robust downtrend and generated bullish sentiments in the market. The full stochastic (14,3,3) surged to an overbought zone and the moving average convergence/divergence (MACD) (12,26,9) shifted into positive territory. Both the indicators indicated positive momentum in the new bullish rally.

Gradually, $INDU moved higher, forming a rising wedge. The wedge was confirmed by declining volume. The rising wedge is a bearish reversal formation that breaks in a downward direction. However, the formation in Figure 1 has not reached its maturity point to undergo a bearish breakout. The lower trendline of the wedge is not challenged and the average directional movement index (ADX) (14) is indicating a developing uptrend at 25 levels. The stochastic oscillator has been moving horizontally, suggesting a significant momentum in the rally. The index has moved towards its near-term target of the 200-day moving average (MA) at 11181. Therefore, a bearish breakout is currently not indicated on the chart.

The indicators have not turned completely bearish, and neither they are robustly bullish. The rally has equal buying and selling pressure, which could lead to a slowdown in the existing rally or even a consolidation. The MACD (12,26,9) has merged with the trigger line, suggesting declining momentum. Therefore, $INDU is likely to take baby steps in heading toward the 200-day MA resistance.

The weakness in the trend indicator on the daily chart in Figure 2 added sluggishness to the rally. According to the ADX (14) on the chart, the uptrend for $INDU developed in July 2009, initiating a fresh bullish rally from 8400 levels. However, the well-developed uptrend could not sustain for a longer time as the ADX (14) began declining from an overheated region in August 2009.

Additional volatility was induced by the first negative divergence shown by the black dotted line of MACD (12,26,9) in Figure 2. Since August 2009, the momentum indicator is forming a series of the lower highs. The index turned range-bound after hitting 10200 levels. The lower range of the consolidation and the 50-day MA established strong support for $INDU. While the index consolidated at another higher level, however, the lower high appeared on MACD (12,26,9). Thus, another negative divergence (see the blue line) in Figure 2 is likely to affect the further growth on the rally.

The high volatility and weak trend would decelerate the speed for achieving the target. In case of any corrective rally, the lower range at 10200 and the 50-day MA would offer essential support. Thus, the technical changes on both charts of $INDU would discourage the existing bull run. ■

FIGURE 1: $INDU, WEEKLY. The vertical price rally has formed the rising wedge pattern. The indicators are not completely bearish to initiate the downward breakout rally.

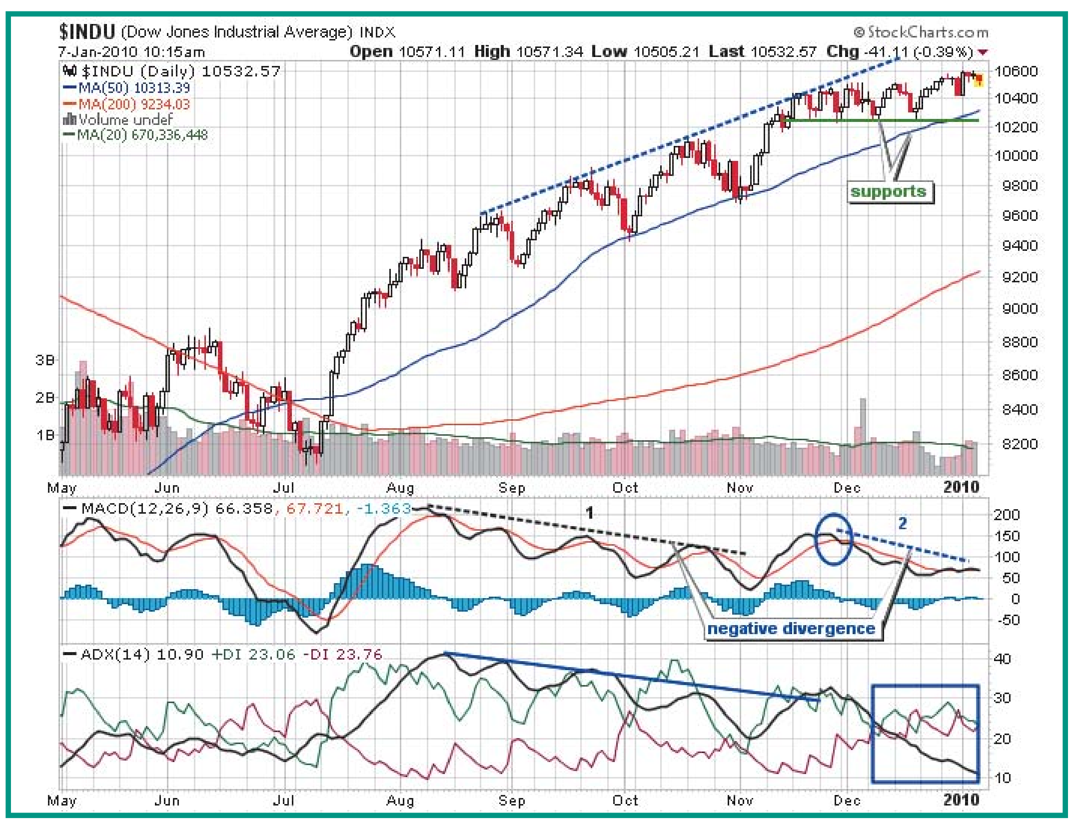


FIGURE 2: $INDU, DAILY. The lower consolidation range and the 50-day MA are the two important supports for $INDU.

Monster Reversal From Major Support

by Donald W. Pendergast Jr.

Do the broad US markets still have enough get-up-and-go to recover from the recent round of losses? Perhaps. Here's an encouraging breakout/momentum play in an up-and-coming S&P 500 component stock that's on the move.

Tradable: MWW

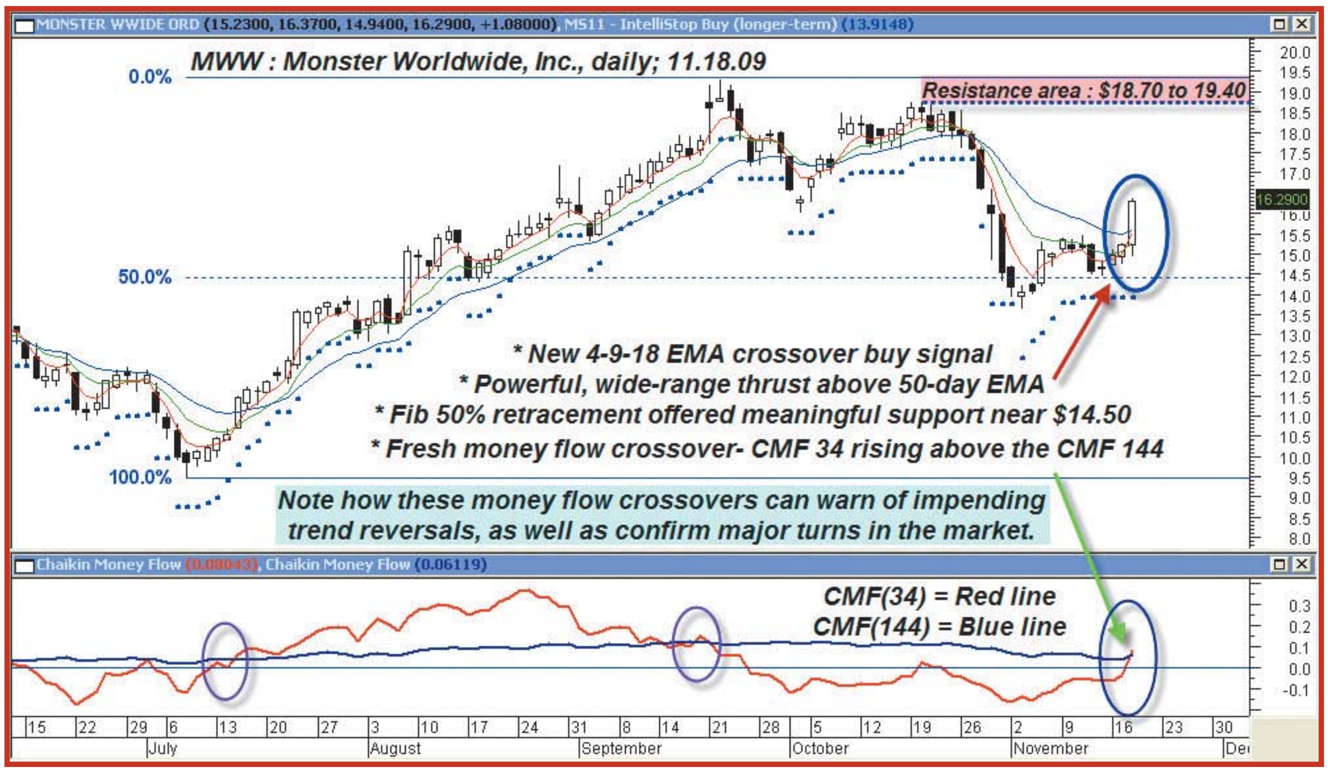


FIGURE 1: MWW, DAILY. While no one can know how far a successful breakout may carry, the fact that the money flow trends are also turning higher in the wake of a successful test of support can only help tip the scales in favor of new long positions here.

Security Name	Close	3 month	6 month	12 month	Total	Ticker Symbol
MONSTER WWIDE ORD	16.2900	4.1560	27.6646	43.0202	26.3323	MWW
PATTERSON COMPANIES ORD	26.3200	-4.9476	25.8728	48.2817	21.4197	PDCO
HLTH CARE REIT	44.2700	4.4104	26.7392	19.3262	18.2954	HCN
FIDELITY NATIONAL INFORMATN SVCS ORD	23.4700	-6.0448	17.2913	37.6540	14.2852	FIS
FIRST TENNESSEE ORD	12.6700	-5.6344	4.2635	26.8078	6.6009	FHN
ST JUDE MEDICAL ORD	35.0600	-7.7854	-11.9759	12.9874	-4.8531	STJ

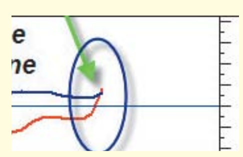
FIGURE 2: S&P 500. Of all the S&P 500 index stock issuing 4-9-18 EMA crossover buy signals today, MWW has the top cumulative relative strength rank.

Monster Worldwide shares (MWW) launched higher today in the wake of a successful test of key Fibonacci support, also triggering a long entry signal from a successful trading system to boot. Can this stock make up its recent losses on this new breakout move? MWW's daily chart (Figure 1) reveals that the odds favor higher prices, perhaps up to previous swing highs.

MWW had a terrific trend run from early July 2009 until mid-September 2009, tacking on gains of about 100% in just 10 weeks. Since then, the stock has been tracing out a corrective pattern and with the market theatrics of the past few weeks hopefully behind us, the stock has made a very convincing break higher after interacting with the Fibonacci 50% retracement level (see the blue grid on the chart) of the mammoth July–September trend thrust. The support level (near $14) held on a retest and today's wide-range breakout move should be given every benefit of the doubt, and here's why:

1 A strong bullish reversal off of a key Fibonacci support level.

2 A fresh money flow crossover — the short-term Chaikin money flow indicator (CMF) (34) line — has crossed the long term (CMF)(144) line in a very pronounced fashion (bottom of chart). In many cases, these 34 x 144 CMF crossovers do a good job of alerting traders and investors that a significant trend reversal is under way (or soon to occur). There can be false signals, of course, so only use this particular technical tool as part of a well-founded trading strategy.



3 A new 4 x 9 EMA crossover (large blue oval on chart) has occurred, one that has taken prices above the 18-period exponential moving average (EMA) as well.

MWW's weekly chart (not shown) is also experiencing very bullish long- and short-term money flow trends and the Fibonacci 38% retracement level of the huge March—September 2009 trend move also acted as a major support barrier.

Of all the stocks in the S&P 500 flashing 4-9-18 EMA buy signals today, MWW has the highest-weighted relative strength ranking of the six stocks that issued long entry signals (Figure 2). All else being equal, you want to pick the stocks with the best weighted three-, six-, and 12-month relative strength ranking, which is why MWW was selected for further analysis and First Tennessee (FHN) was not. Makes sense, right? Why go for a breakout setup on a long-term "dud" stock that will likely end up as another loser? Putting relative strength to work as a powerful complement to your own trading system could work wonders for you, especially if you've never considered implementing it in your own trading and investing.

Putting relative strength to work as a powerful complement to your own trading system could work wonders for you.

That said, how to play MWW here? Covered calls might be risky until we see if the prior highs can be taken out, so why not play this as a pure breakout move:

At the next session's open [as of this writing on 11/19/2009], prepare a buy-stop order to go long on a break above today's high at $16.37, holding half of your allocated trade capital in reserve for a possible intraday retracement (very likely after such a sharp one-day move), perhaps down toward $16 or even $15.90. Once filled on both orders, place an initial stop below Wednesday's low near $14.94. Then follow the trade with a three-bar trailing stop of the daily lows, taking half of the trade off if you see $17.60 hit (the 79% retracement of the recent down swing). At that point (if that price is actually reached), run a two-bar trailing stop for the balance of the trade, being aware that the $18.70 to $19.40 area will also be an area in which to expect MWW to temporarily stall and/or reverse.

Overall, this looks like a very sane long trade setup; they probably won't call the men in the white coats should you commit your capital to this trade, pulling the trigger in anticipation of booking a decent profit. ■

Traders.com ADVANTAGE™
This article was first published on 11/19/2009.
See www.Traders.com for more.

Losing Steam

by Austin Passamonte

Here's the near-term to mid-term technical outlook for the Standard & Poor's 500.

Tradable: S&P 500 futures

The year 2009 will long be remembered as one of an incredible rally. Stock markets bottomed in early March and proceeded to stage an ascent for the ages. It is fairly safe to say that no one expected stock index markets to rise so far in so little time, relative to the collapse from peak to trough since 2008.

But up they went, with nary a correction of any substance at all (Figure 1). Recent index highs from the ES 1,000 to 1,100 levels have seen a couple of bumps in the road, each pullback resulting in significant volume spikes. Ensuing rally sessions to new subsequent highs followed suit on withering volume, and usually through overnight gap-up levitations. That is not a formula for solid base-building below: more indicative of price action gasping for breadth (pun intended) at price extension extremes.

The month of December began with a gap-up rally session, followed by four successive red sessions to date (Figure 2). Two outside sessions (blue arrows) on Thursday, December 3, and Friday, December 4, were likewise followed by an inside session (December 7) that outlines a bearish "diamond" pattern formation. In other words, price is wedging itself in unstable fashion -- not storing energy for a continuation upside.

Broadening the view shows price action widening in a broader bearish or "megaphone" wedge. Note all the gaps and holes in this chart from early November onward. Looks just like a block of Swiss cheese -- with air pockets galore. Rather than methodical ascent with stable price support below, there is little more than random spurt and sputter price action through these past several weeks. Again, not the stuff that lasting base-building resembles.

The US dollar correlation to stock index markets is at a high percentage peak right now. Rather than deliberate, methodical accumulation of stocks by strong-hand buyers pushing the rally up to new highs, we see knee-jerk reactions to the USD price action instead. Again, not how sustained price continuation is usually supported. As 2009 plays out the end, 2010 may begin with stock index markets riding on waning steam. ■

Traders.com ADVANTAGE™
This article was first published on 12/8/2009.
See www.Traders.com for more.

FIGURE 1: S&P 500, DAILY

The year 2009 will long be remembered as one of an incredible rally.

FIGURE 2: S&P 500, DAILY

REVERSAL

Oil Index Ready To Hit The Resistance?

by Chaitali Mohile

The Amex Oil Index has covered the major distance of its bullish journey. The volatile sessions of the past few months obstructed the rally heading toward long-term resistance. Will the index hit resistance?

Tradable: $XOI

After a double-bottom formation (B1 and B2) on the weekly time frame in Figure 1, the Amex Oil Index ($XOI) formed higher lows. The double-bottom formation is a bullish reversal pattern, indicating a fresh beginning of an upward rally. The pattern is reconfirmed by a declining downtrend from an overheated area of the average directional movement index (ADX) (14) see Figure 1. The descending trend indicator weakened the bearish trend, and as a result, fresh buying pressure increased. Immediately, $XOI moved higher towards the previous high pivot at the 1050 level and retraced back, forming a higher low. The index continued to form the higher lows but could not surge above the resistance of 1050. Thus, a flat resistance line and an ascending support line were formed. This price action formed an ascending triangle, another trend reversal pattern, as seen in Figure 1.

FIGURE 1: $XOI, WEEKLY

The descending downtrend was the robust confirmation of the ascending triangle as a trend reversal formation. Meanwhile, the relative strength index (RSI) (14) moved vertically upward from an oversold region. The RSI (14) formed a series of higher highs and higher lows, suggesting significant strength in the bullish movement. After entering the bullish zone above 50 levels, the RSI (14) turned sideways, which might have affected the bullish breakout of an ascending triangle. We can see in Figure 1 that the breakout rally could not violate the 100-day moving average (MA) resistance. An evening star candlestick pattern appeared under the new MA resistance. The second bullish candle after the breakout, followed by a doji and a strong bearish candlestick formed an evening star -- a bearish reversal candlestick pattern (see yellow block in Figure 1).

Generally, the stock or index corrects after an evening star appears on the chart. But $XOI turned sideways under the 100-day MA resistance. The green rectangle in Figure 1 is marked to indicate the volatile consolidation period of the index. The long shadows and the doji candlesticks reflected the volatility during the range-bound sessions. Another reason for the consolidation was the weak ADX (14) and an equal buying-selling pressure indicated by the positive directional index (+DI) and negative directional index (-DI) respectively.

Generally, the stock or index corrects after an evening star appears on the chart.

With the support of 50 levels, RSI (14) is ready to surge in an overbought region, that is, above the 60 levels. This signifies that $XOI is likely to breach the 100-day MA resistance. To confirm the breakout, $XOI should close above resistance, and the next week should open at the newly formed 100-day MA support. However, a breakout rally would be only 100 points toward the 200-day MA resistance, but highly important. Although the ADX (14) is still below 15 levels, the improved buying pressure indicated by the positive directional index (+DI) would fuel the fresh breakout rally. Traders should wait for the confirmed breakout signal.

Thus, $XOI is technically ready to undergo a small breakout rally after the long volatile consolidation period. ■

Traders.com ADVANTAGE™
This article was first published on 1/8/2010.
See www.Traders.com for more.

METALS & ENERGY

RELATIVE STRENGTH COMPARATIVE

Gold/Silver Ratio Near Equilibrium

by Donald W. Pendergast Jr.

The widely followed gold/silver ratio is near its 12-year historical average of 60:1. This is a long way from the 200-year historical average of 30:1, and the weekly chart of this important commodity ratio may hold some clues regarding the next moves for these two metals.

Tradable: GC, SI

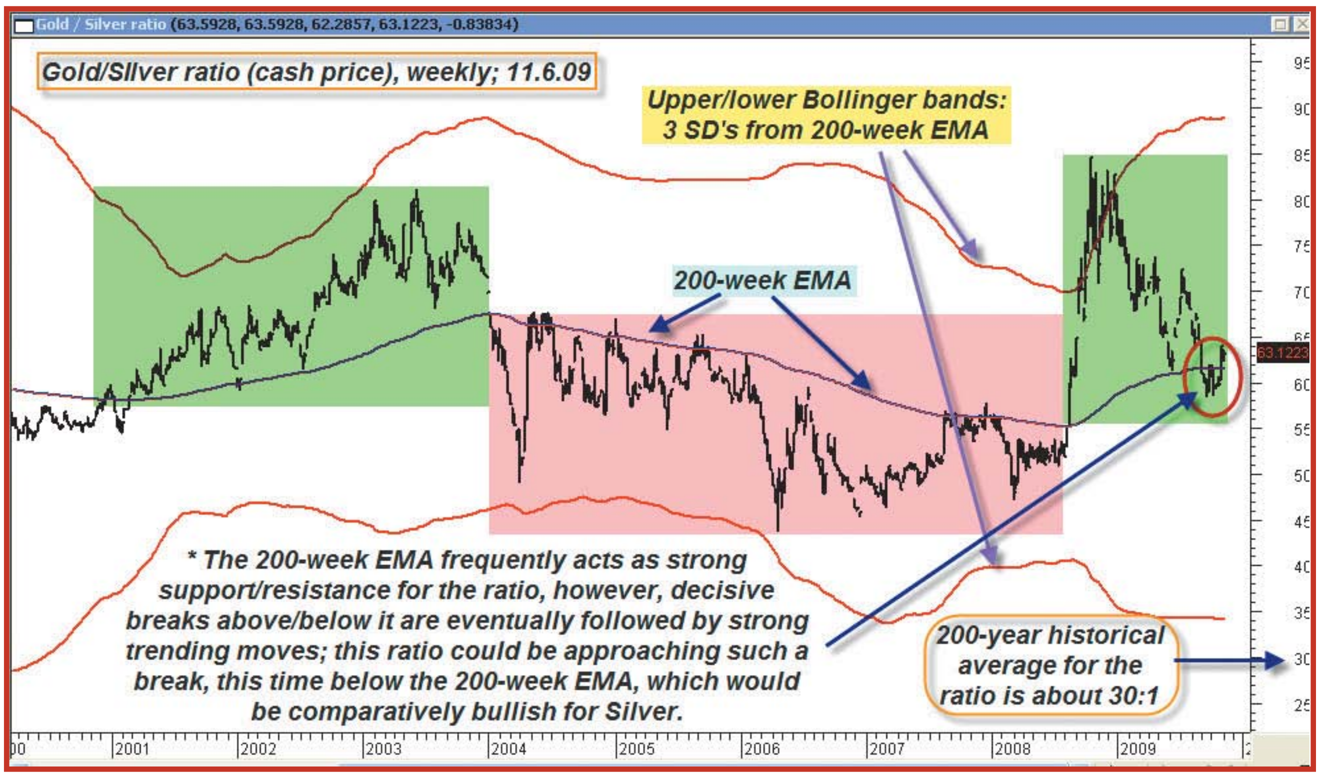


FIGURE 1: GOLD/SILVER RATIO, WEEKLY. It's not "magic," but it's interesting how frequently the 200-week EMA acts as support/resistance for the gold/silver ratio. Sharp breaches of the EMA, however, are typically followed by strong trending moves.

The gold/silver ratio is now in the vicinity of its 12-year historical average of 60, which also happens to be a couple of points above its current 200-week exponential moving average (EMA). This chart says so much, even though it's simply based on a Bollinger band set at three standard deviations (SD) away from a 200-week EMA. Note how frequently the 200-week EMA (center line, purple) has acted as a powerful reversal area on at least a dozen occasions since 2001; with the ratio hovering close to the 200-week EMA right now, wise metals traders will be watching to see if the recent upthrust in the ratio will carry to higher levels (which would be comparatively bullish for gold) or if the swing will stall, leading to a rapid plunge below this critical EMA support barrier. If the ratio does begin to move lower, breaking sharply below the EMA, there is a good chance that the ratio could embark on a sustained journey back toward the 200-year historical norms for the ratio -- which is about 30:1. See Figure 1.

With gold at about $1,085 , that would equate to a silver price of about $36.17 per ounce, more than double the current cash price. Even a more modest move in the ratio down to 45:1 would generate a hypothetical silver price of about $24.11 per ounce. Of course, should gold and silver both move lower (also a possibility -- after all, this is the commodities market, where anything is possible) a decrease in the ratio would simply mean that the price of silver is declining more slowly than the price of gold. If you look at the 2008 spike higher in the ratio (left edge of the most recent green rectangle) from 52:1 all the way to 85:1 in a matter of only two months, you'd realize that the jump in the ratio was caused by silver's dramatic decline in relation to a less pronounced drop in the price of gold.

At present, both metals could be close to strategically important price levels from which major moves (up or down) may be expected to commence in the next few weeks. One reason for this is the recent Commitment of Traders (COT) data from the CFTC; commercial interests are holding near-record short positions in both metals, while large speculators (also known as large traders or hedge funds) are holding near-record long positions. It's looking to shape up into a Mexican standoff of epic proportions, and no matter which side wins, it would not be surprising to see either a substantial selloff or a major bullish breakout take place in the next month or so. If we see the bullish breakout, then wise metals traders would want to deploy a higher percentage of capital into silver rather than gold, especially if the gold silver ratio breaks below 60 on the ratio chart. Conversely, if gold and silver both start to sell off hard, it's very likely that silver will drop farther and faster than gold will, based on historical evidence.

How to play these ratios in the real world? Well, if both metals begin to sell off, why not sell an out-of-the-money (OTM) silver call, one that's highly unlikely to ever go in-the-money? And if both metals break higher, selling an OTM silver put beneath a major support level might be an especially profitable plan of action. The possibilities are many; those are just a couple of ideas that may get your creative juices flowing in preparation for what may be major moves up or down in the precious metals markets. ■

Eldorado Gold At All-Time High

by Donald W. Pendergast Jr.

When a stock in a hot industry group makes an all-time high, should you jump on the momentum bandwagon and take your chances, or should you take a different route, one that stacks the probabilities of a winning trade in your favor?

Tradable: EGO

PROPHET FINANCIAL / THINKORSWIM

FIGURE 1: EGO, DAILY. Breakout or fakeout? Who knows, but various option strategies can be applied to take advantage of nearly any trade setup.

The goldbugs of the world are walking tall these days. The metal of kings has sliced right through the $1,100 per ounce level, the fundamentals for the US dollar (whose price generally moves inversely to that of gold) couldn't be more abysmal, and central banks in Asia are steadily accumulating bars of the mighty AU (the atomic number assigned to gold) rather than stacks of ever-depreciating US currency. Shares of gold mining stocks are also joining this party, with some mining stocks making all-time highs.

All of this sounds comforting for gold and commodity bulls, but therein lies the rub — all of this ebullience and overconfidence running rampant throughout the goldbug and metals mania communities will sooner or later result in yet another significant corrective move, most likely down to key moving average support levels. And then the party will most likely start up again after a period of consolidation, possibly even taking the price of gold and gold mining stocks to new all-time and/or nominal highs.

So what's a long-term goldbug to do now, realizing that a correction can appear at any moment, even though the long-term fundamental trend is still outstanding?

Here's one idea, aimed squarely at goldbugs who prefer to traffic in the shares of the highly volatile and often profitable gold mining industry group.

Eldorado Gold (Figure 1) isn't as big a name as Newmont, Barrick, or Anglogold, but the stock has been grinding higher for many years, propelled consistently higher by ever-increasing earnings and rising institutional ownership percentages. The stock has just blasted above a well-formed daily price channel, with the Aroon (14) trend intensity indicator confirming the move up. Now that it's at an all-time closing high of $13.32 per share, what might be the sanest way to play such a major breakout by a stock that hails from one of the most emotionally charged industry groups of all? And how do we construct a trade that has a high degree of turning a profit, even if the price of gold takes a temporary tumble?

The answer, of course, is to play the trade by using options (Figure 2). Before we start, let's make it clear that this option strategy isn't for novices and it will require a bit of subjective judgment as far as deciding when to close the trade out for a profit or loss.

That said, here's the game plan:

Sell 4 EGO April 2009 $15.00 calls (EGODC)

Buy 4 EGO April 2009 $12.50 calls (EGODV)

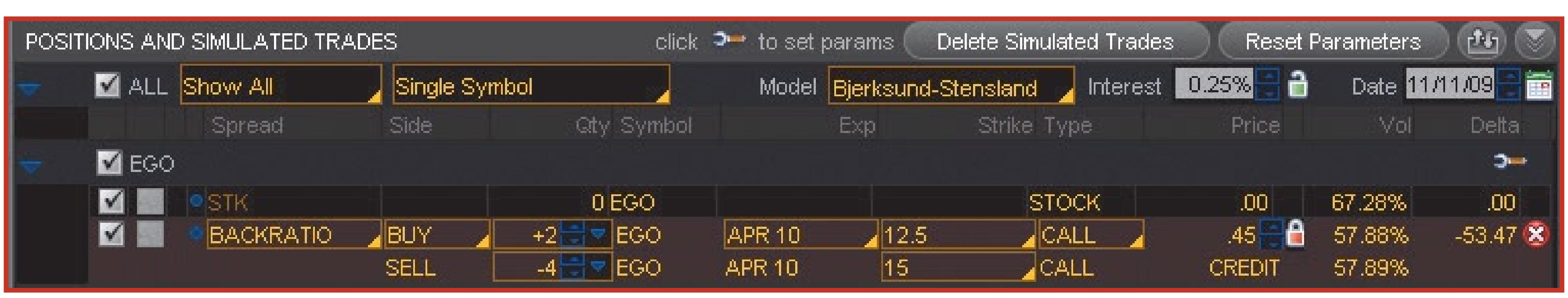
Net credit received of $0.45 or better

This is referred to as a ratio spread and the idea behind it is simple: if EGO declines, pulling back from this all-time high at a time of rampant gold optimism, the trade will make money as EGO declines over the short term.

For example, assuming a static level of implied volatility, if EGO were to decline to $12.25 on or about November 27, 2009, the trade could be closed out for a gain of about $67 before commissions. (That's why low-option commissions are preferred for this trade! At $1 per contract at Interactive Brokers, you'd incur $12 in round-trip commissions, reducing your net profit to about $55 for the closed trade.)

So far it looks interesting, but what happens if EGO only pulls back a bit and then rallies sharply, say up to $15 by December 3, 2009? The trade will be underwater by about -$72, not including commissions, so if you use IB like I do, you'd simply close the trade out for about an $84 loss and wait for a better opportunity.

But wait — there's more! What if a trader is modestly bullish on EGO, believing that the stock will rise at a more modest pace over the next



THINKORSWIM

FIGURE 2: POSITIONS. Selling more calls than you buy? Yes, it's a ratio spread, one designed to profit if the stock declines or if it rises at a slow rate of ascent between now and April 2010 option expiration. Should the stock immediately accelerate higher, however, substantial losses can occur.

few months — what might the profit outlook be for such an anticipated outcome in the stock? Here's where option trading becomes downright fascinating. As long as EGO stays below $17.92 by April 2010 option expiration, the trade could be held for a final profit at expiration. However, if EGO rises quickly, the trade will generally be a loser; here are some time/price values for the trade at various stages:

November 30, 2009: EGO at $16 = ($163) trade loss

November 30, 2010: EGO at $11 = $95 trade gain

December 23, 2009: EGO at $14 = $30 trade gain

January 14, 2010: EGO at $13.25 = $99 trade gain

February 11, 2010: EGO at $14.55 = $111 trade gain

March 3, 2010: EGO at $15.44 = $129 trade gain

April 7, 2009: EGO at $16.07 = $287 trade gain

April 16, 2010: EGO at $15.84 = $414 trade gain

April 16, 2010: EGO at $14.99 = $511 trade gain (maximum possible gain)

Bottom line: this ratio spread offers protection if you're totally wrong about EGO's ability to rack up further gains, and that's because you're short more calls than you're long. If EGO reverses hard right out the gate, you can close the trade out for a modest profit (but only if you have $1 option contract commissions, of course).

If EGO rallies sharply after trade inception, the trade will be a loser and should be closed out if the spread doubles in price. That means if you sell it for $0.45 you automatically buy it back at $0.90 or above to avoid having the losses get out of hand on a runaway trend move higher. If the trade peaks soon and then pulls back and consolidates for a few months, this trade will do pretty well, as the previously shown time/price values demonstrated.

So how well do you think you can anticipate/predict the moves in EGO over the next few months? Trading a ratio spread might allow you to experience the best of both worlds — the chance again for a decline in EGO and the opportunity for a more substantial gain if EGO rises at a much more subdued pace during the next five months. It's your call, if you'll pardon the pun. ■

Traders.com ADVANTAGE™
This article was first published on 11/12/2009.
See www.Traders.com for more.

Further reading

Elder, Alexander [2009]. "How I Won My Gold," Working-Money.com, November 20.

This is the first in a series of articles analyzing winning trades at SpikeTrade.com. SpikeTrade is a group of 20 professional and semiprofessional traders involved in a weekly competition.

Maskell, Thomas [2009]. "To Invest (Or Not) In Gold," Working-Money.com, May 11.

Despite what some investors say, find yourself a real investment, because the yellow metal is not it. What's that, you say? Gold isn't a real investment?!

Penn, David [2005]. "Gold Tops: Then And Now," Working-Money.com, October 17.

A look at the 1987 peak in gold suggests that the barbaric relic remains in bull market mode in 2005.

_____ [2006]. "Paper Money And Its Promises," Working-Money.com, April 11.

Long-term charts of the dollar, bonds, crude oil, and gold help set the table for investors and speculators in 2006. Part 1 of 2.

_____ [2005]. "The Role Of Gold," Working-Money.com, May 4.

What are gold and gold shares telling traders and investors about the current environment?

Wagner, Gary [2009]. "Gold And Candlesticks," Working-Money.com, December 4.

You can profit in gold as long as you keep a careful eye on the chart.

Walker, Ron [2009]. "Has The Gold Vein Dried Up?", *Technical Analysis of* STOCKS & COMMODITIES, December.

Many investors have given up on gold, but signs suggest we may be into the next phase of the gold rush.

Hi Ho Silver

by Ron Walker

Silver has had a nice run in recent months, but it could be time for prices to cool down. The iShares Silver Trust could be setting up a bearish head & shoulders top, but a trendline is standing in the way of the pattern. Let's explore the possibilities of where price might be contained should the trend break.

Tradable: SLV

In the thrilling days of yesteryear, the Lone Ranger fought for law and order in the Old West. He managed to catch all the outlaws thanks to his fast and fiery horse Silver, which moved with the speed of light, leaving behind a cloud of dust as the show's narrator exclaimed each week.

Maybe the iShares Silver Trust (SLV) hasn't moved quite at the speed of light, or can't even keep up with the masked man's trusty horse, but the exchange traded fund (ETF) has been moving along at a pretty good clip. From the October 2008 low of $8.45 to the October 2009 high, SLV has more than doubled in one year's time (Figure 1). Currently, there are two rising trendlines that are in play on the weekly chart of SLV, the primary and the intermediate trendline.

The basic concept of a trendline is simple; only two points are needed to draw a tentative trendline, but it is the third point that makes it a valid trendline. The significance of a trendline is determined by how many times it has been tested, how long it has been intact, and its angle of ascent. According to the rules of Dow theory, trendlines may be classified into three categories, major (primary), intermediate (secondary), or minor. Different classes of trendlines are used to define the various grades of trend.

In Figure 1, SLV's weekly chart shows a primary trendline that has had several points of contact as it was tested several times in late 2008 during the infancy stage of the trend, and then once again during the June–July 2009 correction, and it has been intact for over a year. In Figure 2, SLV's daily chart shows that the intermediate trendline has three points of contact and has been in place approximately four months.

After the June–July correction, prices began to advance very rapidly, climbing at a steep ascent that formed a smaller channel within the larger one in the weekly time frame. This steeper trendline is classified as the intermediate trend. In Figure 2, SLV broke above the previous June peak by early September, and then backtested that breakout in September with a test to support that completed the left shoulder in a possible head & shoulders top. Prices then surged to fresh highs in October 2009, testing the upper channel lines to form the head. There, a reaction took place that took SLV back to test the September lows near the $15.75 area. This test allows us to speculate on a potential head & shoulders topping pattern, with a completed left shoulder and head. Once the head was completed by testing support, we were drawn to a potential

FIGURE 1: SLV, WEEKLY. Here we see the intermediate trend channel of SLV (black solid lines) within the larger primary trend. The lower peak on the histogram hints of a coming correct that may test the primary trend or a sharp correction could cause the channel to expand to the speculative lower trendline (red dotted trendline).

FIGURE 2: SLV, DAILY. A possible head & shoulders pattern is being carved out on the daily chart. Lower peaks on all the indicators suggest that the trendline will be taken out as prices complete the right shoulder.

neckline for the chart pattern. Note where the rising trendline and the horizontal support level intersected, giving SLV the bounce that it needed to set up a potential right shoulder.

If a right shoulder is completed, it will break the intermediate trendline. That is the first of two events that must occur in order for the pattern to play out. The intermediate rising trendline must be broken and then prices must penetrate the neckline of the head & shoulders pattern at $15.75, which is where horizontal support resides. If both those levels of support are taken out, SLV will move back to the more sustainable slope of the primary trendline (lower blue line) (Figure 1). Because the current Intermediate trendline has accelerated too rapidly, causing SLV to rise approximately 44% since the June–July correction. This move has produced a rather steep angle of ascent, which is most likely unsustainable.

Channels often expand, as prices fall to a secondary, less steep trendline. Should a correction take place, the range of the primary channel could expand by moving below what is the current primary trendline. That would create two lower trendlines, an inner and an outer line. There are already two return lines. A return line is one that runs parallel with a trendline, where reactions originate (corrective moves against the prevailing trend).

Now note the trendline drawn connecting the peak made in September 2008 to the most recent October high in 2009 (red dotted line). Annotated underneath that is a speculative lower parallel boundary that may serve as the outer trendline (red dotted line). A shakeout thrust or sharp bottom could push prices below the current primary trendline creating dual trendlines, which in return would also can create dual trend channels on the weekly chart of SLV. However, at that point, the true primary trendline would be the second, less steep trendline. So the extreme price movements between the outer trendline and the outer return line would be the true trend channel. Often, it isn't detectable until after the fact.

So if the head & shoulders pattern runs its course, we very well could expand the current trend channel because the pattern measures of $1.92 points to a minimum target of $13.80, which could overshoot the current lower trendline on the weekly chart. That target is also in the neighborhood of the 200-period moving average on the daily chart, a crucial level of support.

Besides this, the daily chart of SLV (Figure 2) offers additional evidence that bearish chart pattern may short-circuit the recent advance. The right shoulder began to set up when an elongated candle formed as prices bounced off the intermediate trendline. After that, narrow range candlesticks appeared as the 20-period moving average began to slump over. Prices put in a lower peak, which could be a possible right shoulder. The narrow range bodies suggest that momentum is slowing. The relative strength index (RSI)(14) is testing its declining trendline. The RSI is pointing down and a lower high on SLV could create the third lower peak. The moving average convergence/divergence (MACD) (12, 26, 9) and the MACD histogram (12, 26, 9) also may put in a third lower peak. The weekly chart also has a bearish divergence on the histogram and a declining RSI trendline.

There's an old saying that says "Trends are made to be broken." In that case, keep your eyes on the current intermediate trendline, because we are overdue for a correction. Let's see if the bears pull back the reins and slow this horse down. However, I don't think SLV is a one-trick pony. After a corrective move, it could go on to exceed its recent highs due to a weak dollar, mounting deficits, and the future expectation of inflation. But keep in mind that no trendlines have been broken yet, so at this time I'm speculating on the head & shoulders pattern running its course. ■

Traders.com ADVANTAGE™
This article was first published on 11/16/2009.
See www.Traders.com for more.

FURTHER READING

Faber, Bruce R. [2003]. "Hi-Yo, Silver! A Wave!", Working-Money.com, August 26.
This precious metal has been overlooked and much ignored for the past two decades. But that's about to change. Get ready for a breakout.

RELATIVE STRENGTH COMPARATIVE

Go With Gold Or Gold Stocks?

by Donald W. Pendergast Jr.

Sometimes gold outperforms gold mining stocks and sometimes it's the other way around. What might be the next moves in these different venues of the precious metals markets?

Tradables: GLD, GDX

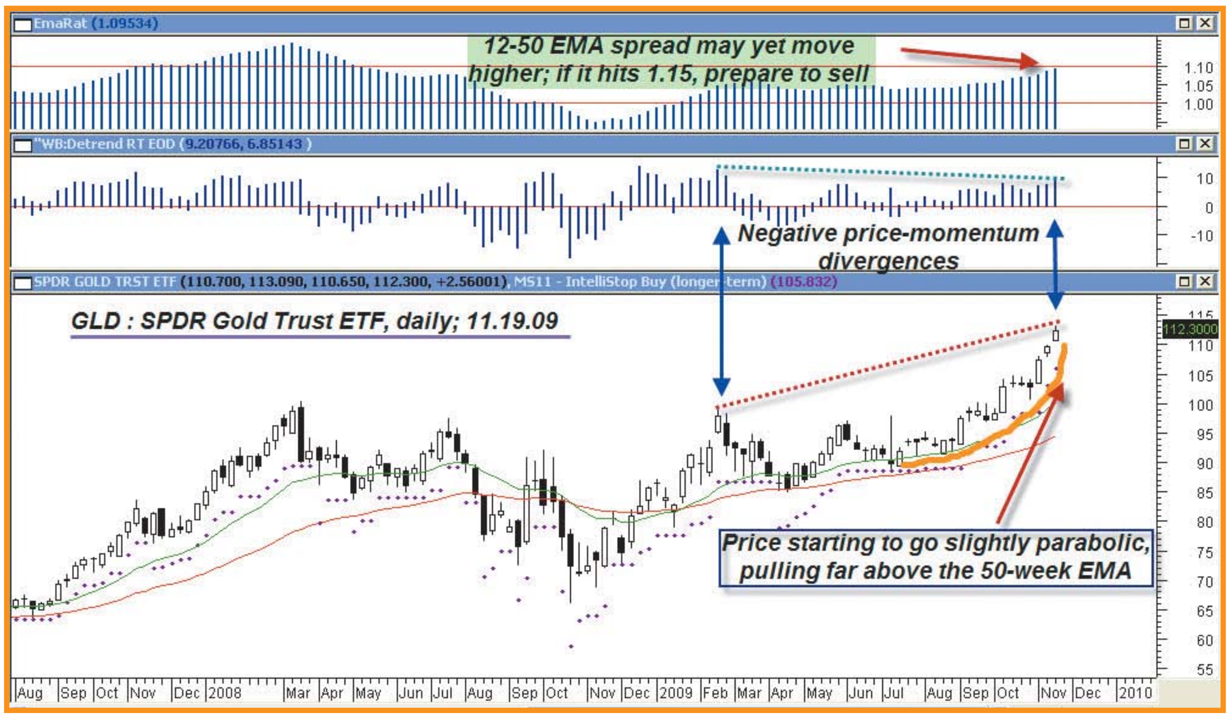


FIGURE 1: GLD, DAILY. While it's foolish to call a top in any market, wise traders will still use caution when a market appears to have gone too far, too fast. A pullback toward $100 may offer another solid buying opportunity for patient investors.

FIGURE 2: GDX, WEEKLY. Gold mining stocks are likely to correct harder than gold itself, if history is any guide. A selloff back toward $42 or $40 might also offer gold bugs another chance to go long.

Both gold (GLD, GC) and the stocks related to the gold mining industry (HUI, GDX) have outperformed the broad markets since making their respective lows a little more than a year ago. However, while gold has made a new nominal high, the gold mining stocks have not as yet been able to do so. Let's look at a couple of charts and see if we can discern if there are any precautionary steps that gold bugs should be thinking about, just in case another selloff begins to wrack these markets again.

Long term, the fundamentals for the gold (and silver) market appear to be without peer; they're even better than they were in the 1970s when gold ran from $35 all the way to $878 in about nine years. Silver did great too, running from about $2 to $54 during the same time span. The fundamentals for these two metals were outstanding in 2008 too, just before gold plunged from $1,031 to $713 and silver took an even bigger dive in percentage terms, from nearly $21 all the way down to $8 and change.

I'm not suggesting that the next selloff in gold and silver will be as extreme as the one witnessed in 2008, but be rest assured, a correction will happen at some point, probably sooner than most gold bugs would anticipate. With that assertion in mind, take a look at the current daily chart for GLD (Figure 1). Price is beginning to go parabolic (that is, an unsustainable rate of rise) and the detrend oscillator is clearly showing that a negative price momentum divergence is already in place.

Meanwhile, the spread between the 12-week and the 50-week exponential moving averages (EMAs), as depicted by the EMA ratio (EMARat) indicator at the top of the chart, is beginning to ascend into historically high levels, although still below the all-time highs achieved in early 2008. So, if you're long cash gold, gold futures, or GLD, you need to be running fairly close stops, especially if you're a latecomer to this massive 2009 runup in the metals market.

When gold eventually sells off again (count on it), it will likely fall harder and faster than you may imagine, probably down to prior support above the recent monthly breakout at about $1,025 on the cash gold chart and about $100 on the GLD chart. The metals could be a great buy again at those levels, but anyone adding long positions right now needs to be classified as a professional gambler, given all of the highly reliable warning signs emanating from Figure 1.

Now, Figure 2 is an even more disturbing chart, this time of GDX, the exchange traded fund (ETF) that tracks the price performance of all the significant players in the gold mining industry group. Here, we see that the EMARat spread is at a new extreme; the negative price momentum divergence between price and the detrend oscillator has become more noticeable than a flashing neon billboard in Times Square. Also of note is that gold is at new nominal (but not inflation-adjusted) highs but gold mining stocks are not; they're still well below the price levels attained in early 2008. It's also important to note that gold stocks are more susceptible to downdrafts in the broad equity markets, no matter what gold is doing.

GDX is also very choppy and indecisive as it seeks to carve out new up- and downtrends, especially when compared to the price of gold, which might actually make cash gold a better trend-following instrument than the gold mining stocks. The mining stocks seem to be great for short-term swing moves on a daily trading time frame, but they are too crazy to trade in a Turtle-style channel breakout system, even on a weekly trading time frame.

Bottom line: with near-record commercial short positions in both the gold and silver futures markets, traders need to be prepared for the next round of selling in the precious metals markets. The charts have given us ample warning of what may soon transpire in these particular markets and now it's up to us to act on that information in a responsible and profit-enhancing/loss-limiting manner. ■

SUPPORT & RESISTANCE

Silver, Make Or Break

by Donald W. Pendergast Jr.

The silver market, along with most other commodities, has taken a heavy hit over the past month. Currently, silver's price lies just above a key swing low made a week and a half ago. Will this support hold back more selling — or not?

Tradables: SI, SLV

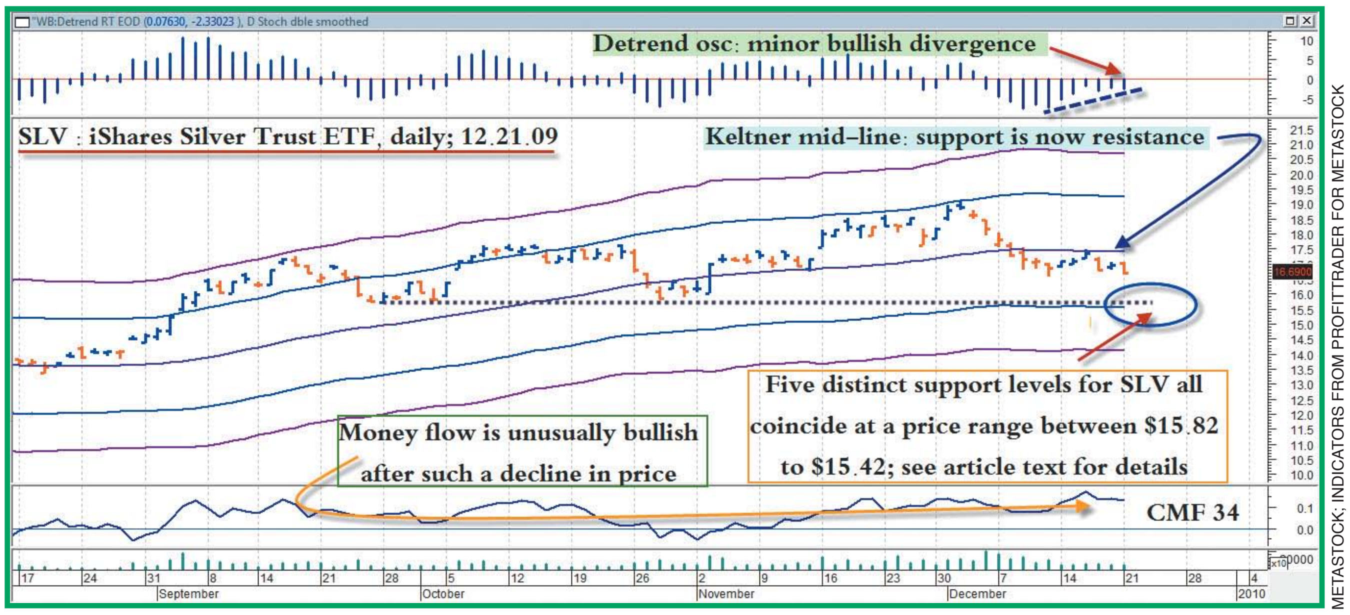


FIGURE 1: SLV, DAILY. With previous Keltner band midline support now acting as resistance, the probabilities favor a move by SLV and silver down toward the mid-$15 range, followed by a tradable bounce higher.

Silver, the "poor man's gold," is one of the most volatile of all commodity markets, and when it becomes set on moving fast and hard in a given direction, there's usually little doubt as to the strength of those trend thrusts. Right now, silver's daily chart (we'll use SLV, the exchange traded fund [ETF] that holds physical silver) is still in bearish mode, although there is one atypically bullish technical indicator that suggests that another minor bounce could still be a possibility. Take a closer look.

Figure 1 is the daily graph for SLV, and the overall trend bias is still down; note how today's (Monday) price bar closed right near the daily low (at $16.69) which just so happens to be only a few pennies above the recent swing low of December 11, 2009, which is at $16.58. The fact that this price area was retested so quickly (without much bullish price action in between) could mean that SLV and silver are preparing to break support en route to the next major sets of support, all of which reside between $15.82 and $15.42. Basically, what seems to be shaping up is a quick ride south down toward the mid-$15 for silver, but once it gets there, expect a real possibility of a tradable bounce higher, given that there are at least five significant support barriers interspersed in that tiny 40-cent price zone, as detailed here:

1. The daily 200-day exponential moving average (EMA) near $15.60
2. The weekly 50-day EMA near $15.42
3. The previous daily swing low at $15.82
4. The previous daily swing low at $15.72
5. The next lower Keltner band at $15.56

While there appears to be little risk on an SLV or silver futures contract short down toward those levels, be prepared for a significant bounce once that general area is reached. Futures traders should be mindful of their short positions, perhaps running a close trailing stop, should this move play out as anticipated.

Oh, yes, the strangely bullish indicator. It's the 34-period Chaikin money flow indicator (CMF)(34), and it's still well above its zero line (see the indicator panel at the bottom of the chart), having hardly even been dented during the noticeable decline of the past three weeks.

This is called a technical nonconformation, and it is basically telling us that something on this chart is going to get sorted out, and in a hurry. Either silver is going to stage a reversal sooner rather than later or the money flow is going to start dropping off with another plunge down toward heavy support in the mid $15. This next week should be very interesting, low holiday trading volumes notwithstanding.

The other main factor that suggests that both silver and gold may indeed be heading down again is the steadily advancing US Dollar Index (DX). The DX looks strong enough to add on at least a couple more handles, taking it up to at least $80.50 before multiple resistances make their presence known, meaning that $15–16 silver and $1,050 gold could be a real possibility early in the New Year, if not sooner. Both silver and gold have heavy support in those price areas, so metalheads should be looking forward to the next short-term bullish swing setups that will likely emanate from those support zones. That should help keep them fat and happy as 2010 commences. For a while, anyway. ■

There is one atypically bullish technical indicator that suggests that another minor bounce could still be a possibility.

Traders.com ADVANTAGE™
This article was first published on 12/22/2009.
See www.Traders.com for more.

For more information, visit the S&C ad index at Traders.com/reader/

Minor Pullback Due In March Silver

by Donald W. Pendergast Jr.

Silver is in the midst of a brief rebound, one that may still have room to rise. Several solid support areas may offer traders a low-risk reentry point.

Tradables: SI,SLV

March Comex silver peaked at $19.50 on December 2, 2009, and then plunged by more than 14%, hitting $16.765 on December 30, 2009. With both the weekly and monthly price cycles in full down mode, some technicians thought that this may have been the start of a full-scale correction down to major daily/weekly support in the mid- to upper $15 range, but the white metal apparently had made other plans for a slightly more bullish New Year celebration. We'll look at an interesting intraday chart of March 2010 Comex silver and see just what kind of technical picture has been provided for us, and if we can capitalize on a possible small-scale pullback to intraday support.

Figure 1 is the 78-minute chart for March silver. Yes, it's in full-tilt bullish mode right now, at least in this particular time frame, as evidenced by the following:

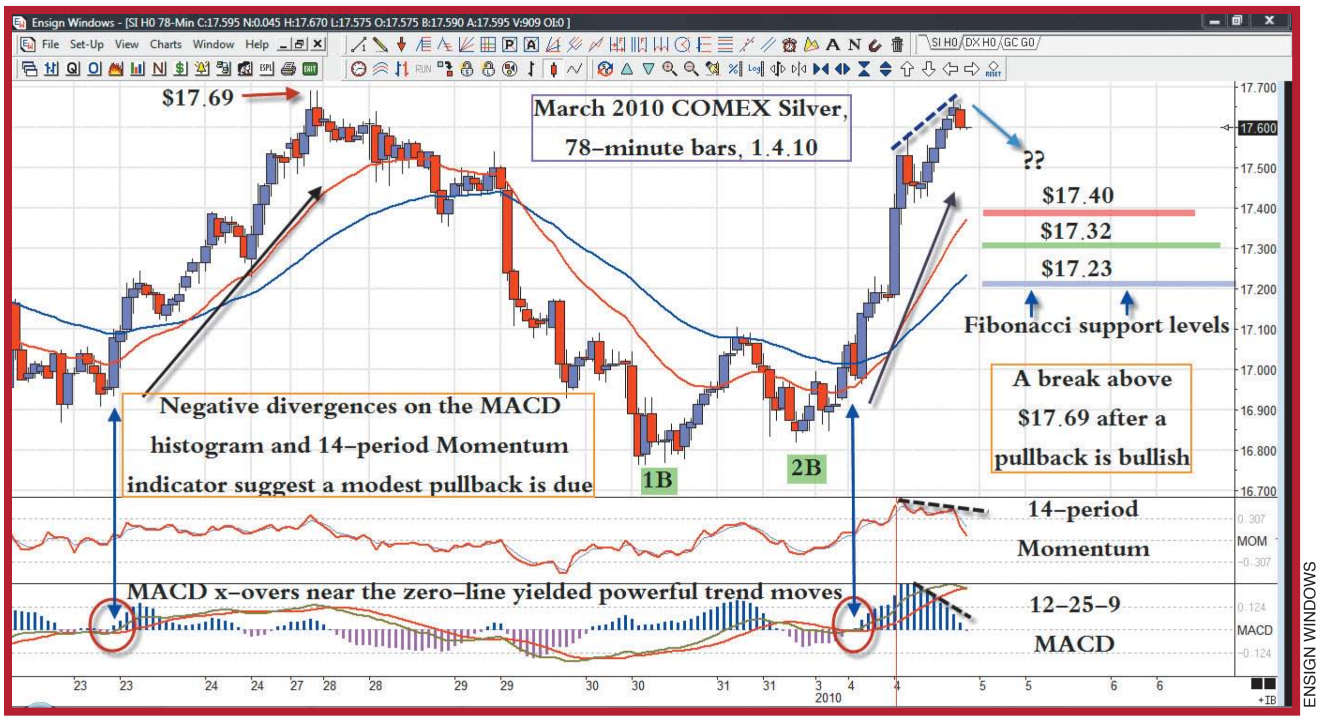


FIGURE 1: MARCH 2010 SILVER, 78-MINUTE BARS. Buying pullbacks in strongly trending markets is one of the lowest-risk, highest-reward trade setups available. Not only should the three Fibonacci retracement levels act as support, but the 21- and 50-period EMAs may also provide support for a tradable bounce higher.

1. A stupendous, nearly parabolic rise in the aftermath of a moving average convergence/divergence (MACD) crossover near the indicator's zero line. These will typically follow through with some sort of trending move, but this one is exceptionally strong. Note that the previous MACD crossover, also near its zero line, rewarded long silver traders with a very nice percentage gain as well.

2. The double-bottom pattern (labeled as 1B and 2B on the chart) was also a tipoff that the ensuing MACD crossover was probably going to be one worth going long on. Note how the spread between the 21-period and 50-period exponential moving averages (EMA) (red and blue lines, respectively) was declining as the double-bottom pattern developed; this was a confirmation that a cycle low had already printed on the daily chart and that the most likely direction for prices was back higher.

3. Once the break higher commenced, the spread between those same EMAs kept widening, all the way up til the last bar on the chart completed.

4. Prices stalled just shy of the previous swing high of $17.69, and the MACD histogram reached an extreme reading, one not likely to go much higher (but it could still occur; this is the commodity futures market, after all, where nearly anything can happen) before some sort of pullback takes place. However, given the sheer power of this current upthrust, the trend bias is clearly toward further gains, meaning that shorting silver here is slightly less than suicidal.

Okay, now that we can be reasonably sure that this rally will likely have some staying power, we need to identify some strong support areas from which to initiate a long swing trade entry on a possible pullback. I have located the three most likely areas for support to manifest:

1. $17.40
2. $17.32
3. $17.23 / 17.21

The second and third support zones are stronger, composed of multiple Fibonacci retracement levels, although given the strength of this trend, perhaps a tradable intraday swing move could also materialize at the $17.40 level.

Bear in mind that the money flows are all supportive of further gains and that daily Fibonacci resistance doesn't arrive until about $17.80 and then again at $18.10, so there is little reason to doubt that the current uptrend would fail to draw in a substantial amount of fresh buying at any of the three support zones.

As far as timing an intraday or daily swing move goes, have you ever considered something as simple as a 10-period stochRSI indicator as an entry trigger? If silver pulls back gradually (not sharply) to one of the support zones and then prices reverse higher, causing the stochRSI to rise above its lower signal line, you may have as good an entry signal indicator as anything else available to traders. If filled, consider placing an initial stop a few ticks below the support area or entry trigger bar and then follow up with either a two- or three-bar trailing stop of the lows until the final stop out. It's not high tech, but this simple kind of entry/exit strategy can and does work, especially with a proportional pullback against an established trend. Give it a try or even paper-trade a few of these and see how it goes — you may be pleasantly surprised.

One word of caution here: The higher time frame cycles (weekly and monthly) are still very bearish for silver, so it's still possible that we will yet see a nasty decline down into the sub-$16 vicinity within the next month or two. While the large speculators (hedge funds) aren't as bullish on silver futures as they were six weeks ago, there is still a substantial imbalance between the commercial interest positions and the large spec positions, and given that those ugly down price cycles will go to extremes every so often, wise traders will want to be ready to abandon all long positions at the first whiff of a bearish trend reversal, especially if silver rises much above $18.00. When silver decides to go south, it does so in style and at a high rate of speed, allowing skilled short-sellers the chance to make significant profits in a minimal amount of time. Keep watching those silver charts for prime short setups! ■

Traders.com ADVANTAGE™
This article was first published on 1/5/2010.
See www.Traders.com for more.


The world's most advanced Technical Analysis
Counted on by traders worldwide for 20 years
the technical analyst
AWARDS 2009
Winner Best Technical Analysis Platform
Ahead of eSignal, Metastock and Tradestation
Private home based trader?
Our TraderPro system runs on Barchart, eSignal, Trackdata and more - www.updataTA.com/private
Seemless data integration
Enter the same codes
Run on any combination
• Bloomberg
• CQG
• eSignal
• FutureSource
• Reuters
• Program and system test
Translate Tradestation, S&C library
• Unrivalled point and figure
Trends, price targets, risk/reward ratios
• Enhanced commodities analysis
Energy spreads, 2D & 3D forward curves
• Read a host of file formats
Metastock, CSI, Excel and more
Download a Free Trial
www.updataTA.com
updata
Advanced Trading Tools
Market Professionals in over 30 countries rely on Updata
Updata is a registered trade mark of Updata plc. All trademarks are the property of their respective owners

CURRENCIES

DATA

In The US Dollar And The DJIA, Which Leads?

by Koos van der Merwe

Much has been said that the Dow Jones Industrial Average moves contrary to the movement of the US dollar. Is that true?

Tradables: DWIX, UDX, VIX

When we listen to the various business programs on TV, the discussion usually centers on how the Dow Jones Industrial Average (DJIA) is moving contrary to the value of US dollar. When the dollar is weak, the DJIA strengthens, and vice versa. Is this truly the case, and if so, why? Then of course there is the CBOE Volatility Index (VIX). How does that relate to the movement of the DJIA?

Figure 1 is a chart showing the DJIA, the US Dollar Index, and the VIX. Note the following:

A. The US Dollar Index started falling, and the DJIA started rising.

B. The US Dollar Index started rising and at first the DJIA start rising with it.

C. Then the DJIA gave up its independence and started falling while the US dollar continued strengthening. The question is what influenced the DJIA to allow it to move independently of the US dollar. I can only assume good economic data was announced, but the DJIA soon gave way.

D. The US dollar started falling, and the DJIA started rising as expected.

E. Once again the US dollar started strengthening and the DJIA strengthened along with it.

F. However at F, the US dollar started weakening once again and the DJIA continued stronger.

G. At this point the DJIA continued to strengthen, and the US dollar started strengthening.

FIGURE 1: DJIA, US DOLLAR

H. From this point, the DJIA started weakening, and the US dollar weakened along with it, till ...

I. The two correlated inversely almost perfectly.

Looking at the VIX , we see only one trend signal. At point A when the VIX was above 80, it did signal that the DJIA would strengthen, and after than it is only now, with the VIX at 22.5, that it suggests that the DJIA should start weakening for the short to medium term. This therefore suggests that the US dollar will strengthen, so the question we ask is what is leading what. Is the US dollar leading the movement of the DJIA, or is the movement of the DJIA influencing the movement of the US dollar?

Fundamentally, a weak US dollar is good for the US economy, and as long as inflation is low, it pays the US to have a weak dollar, simply because US-manufactured goods are more competitive in the world markets. Too many traders are focused on the US dollar for the movement of the markets. When good fundamental data comes through, the DJIA dissociates itself from the movement of the US dollar. As long as inflation is low, interest rates will be low, and the US dollar weak. The market always anticipates, and the DJIA being the market will therefore always lead. ■

FURTHER READING

Cook, Dan [2009]. "Using Binary Options In Forex," *Technical Analysis of* STOCKS & COMMODITIES, August.

Managing risk and proper stop placement may be the most difficult aspects of currency trading to master. Here's how.

Gopalakrishnan, Jayanthi, and Bruce R. Faber [2009]. "FXEducator's Ed Ponsi," interview, *Technical Analysis of* STOCKS & COMMODITIES, August.

Trader, author, and advisor Ed Ponsi of FXEducator.com has a unique worldview of the forex markets.

Kerstens, Rombout [2009]. "Combining DMI And Moving Average For A EUR/USD Trading System," *Technical Analysis of* STOCKS & COMMODITIES, August.

Here's a trend-following system where profits are realized in a small number of lucrative trades.

Twomey, Brian [2010]. "Cross-Currency Coefficients," *Technical Analysis of* STOCKS & COMMODITIES, February.

How do currency pairs move in correlation to their US dollar counterparts?

_____ [2009]. "Forward Contracts Vs. Spot Currency," *Technical Analysis of* STOCKS & COMMODITIES, April.

Here are some methods you can use to trade currency pairs that are just as or even more profitable than trading the spot market.

_____ [2009]. "Which Way For The Forex Carry Trade?", *Technical Analysis of* STOCKS & COMMODITIES, April.

Apply this very popular trading strategy to 2009 trades.

_____"UK Tax Implications For Currency Traders," *Technical Analysis of* STOCKS & COMMODITIES, December.

Are currency traders subject to the same tax standards across the Pond?

van der Merwe, Koos [2009]. "Trading Forex," *Technical Analysis of* STOCKS & COMMODITIES, December.

So you want to trade the foreign exchange market, do you?

CHART ANALYSIS

Is The US Dollar Likely To Weaken Further?

by Chaitali Mohile

How far will the US Dollar Index descend?

Tradable: $USD

The US Dollar Index ($USD) formed a double top — a bearish reversal formation in November 2008 and March 2009. The first peak was formed at 88.46 and the second was marginally higher at 89.62 levels. The formation indicates the topping-out situation and suggests the possibility of a fresh down move. By the time the second top was built, the relative strength index (RSI) (14) had already started its downward journey (see Figure 1). The descending rally of the RSI (14) reflected the lessening bullish strength. The average directional movement index (ADX) (14) had shifted in an uptrend area for a few months, dropped from an overheated region above 40 levels. An intermediate uptrend reversed by May 2009 as $USD formed lower lows and witnessed a steep fall.

In Figure 1 the descending channel showed the baby steps taken by $USD toward its lowest support at 74.94 levels. An upper range of the bottom consolidation in 2008 developed the support for the current bearish rally. The index has moved nearer to the support line. The support-resistance tool line would be the ultimate support for the current descending rally. The moving average convergence/divergence (MACD) (12,26,9) has moved closer to the trigger line in negative territory, suggesting a bullish crossover. The crossover would bring a fresh bullish wave that would pull the index marginally higher. In addition, the downtrend would soon be overheated if the ADX (14) touched 40 levels or above. In that case, the bearish rally would slow down.

FIGURE 1: $USD, WEEKLY. The support-resistance tool line shows the extreme support zone for the current descending rally.

This scenario would give birth to the bullish sessions within the descending channel. Currently, the RSI (14) shows lack of bullish strength and is moving with the support of 30 levels. Hence, an upward breakout of the descending channel looks difficult. In fact, $USD is more likely to challenge the lowest support indicated by the support-resistance tool in Figure 1. Therefore, the index is likely to weaken for few more sessions. This also means that the Dow Jones Industrial Average (DJIA) would see healthy bullish days very soon. ■

Traders.com ADVANTAGE™
This article was first published on 11/9/2009. See www.Traders.com for more.

FURTHER READING

Katsano, Markos [2009]. "Trading The Aussie," *Technical Analysis of* STOCKS & COMMODITIES, February.
This system exploits the strong correlation between the Australian dollar and commodities.

The US Dollar And The Market

by Koos van der Merwe

When the US dollar strengthens, the market weakens and when the US dollar weakens, the market strengthens. Is this just talk, or is the present movement in the market really tied to the movement of the US dollar?

A weak US dollar is good for the US, because it makes US-produced merchandise more competitive on the world markets, with the exception of China, because the Chinese yuan is tied to the US dollar and moves accordingly. So when the US dollar weakens it is natural for the Standard & Poor's 500 to strengthen.

A weak US dollar also affects the price of gold. Under President Richard Nixon the world went off the gold standard, when all currencies in the world tied the strength of their currency to the price of gold. By going off the gold standard, they accepted the US dollar as the standard to measure their currencies against.

With the US dollar currently weak, many counties have decided to protect the value of their currency by buying gold. This has pushed the gold price up to unbelievable highs, with other metals like copper following suit. There are many mining companies making up the S&P 500, so are they the ones pushing up the index? The Dow Jones Industrial Average (DJIA), on the other hand, does not have a single gold mining company in its makeup yet it also moves contrary to the US dollar, so it stands to reason that it is the competitive price of US manufactured goods that is moving the market.

Figure 1 is a composite chart of the S&P 500, the US dollar index, and gold. Observe the following. Note that the effect and timing of interest rate reduction is not shown on the chart. This is because the effect of the interest rate reduction will affect both the US dollar index and the S&P 500:

1. From September 2000, the S&P 500 started weakening along with the bursting of the technology bubble. The US dollar index moved sideways until January 2002 and the gold price started to creep up slowly.
2. From January 2002, the US dollar index started weakening. The S&P 500 continued to weaken until October 2002, when it formed a base before strengthening. The gold price continued to strengthen.
3. On February 20, 2004, the S&P 500 suggested that it may be linked to the movement of the US dollar Index, because the dollar index strengthened slightly and the S&P 500 weakened. However...
4. From December 31, 2004, both the US dollar index and the S&P 500 both strengthened in tandem suggesting that they were not connected. Over this period, the gold price moved sideways until July 2005.
5. From November 2005, the US dollar index started weakening ahead of Ben Bernanke taking over in February 2006 and continued falling until March 2008. The S&P 500 continued rising until October 2007. The fact that it then started falling along with a weakening US dollar index suggests that the movement of the two indexes were not linked.
6. The gold price, on the other hand, started moving up strongly with the odd correction until March 2008 confirming a strong link to the movement of the US dollar.
7. On October 12, 2007, the S&P 500 started falling. The US dollar index only started strengthening in July 2008, and it looks as though from that date the two indexes were linked. As the US dollar index strengthened and weakened, the S&P 500 weakened and strengthened.
8. Over this period, the gold price strengthened as the US dollar index weakened and vice versa, almost moving in tandem to the S&P 500, but where the gold price has made new highs, the S&P 500 has still a long way to go before new highs are made.

To conclude, the chart shows us that it is only recently that the S&P 500 has started to move opposite to the US dollar index. How long this will continue to occur I believe is anyone's guess, although I do feel that interest rates will play a big part in strengthening the US dollar. When the Federal Reserve makes an announcement that they will increase rates, then we must know that the recovery in the US is truly in place and the US dollar will strengthen appreciably. The chart at present is suggesting the market could then start weakening, but a strengthening of interest rates will also show the investing public that a definite recovery is in place, and investors may flock back into the market decoupling the contrary movement of the two indexes. The gold price however will remain tied to the movement of the US dollar, which means as the US dollar strengthens, so the gold price will weaken. ■

FIGURE 1: INTERMARKET ANALYSIS. Here, the US dollar index, the S&P 500, and London gold are depicted.

The Dollar And The Risk

by Mike Carr, CMT

As usual, we want to look at things with different tools. The dollar will be the subject of our analysis today as we look at the volatility of its volatility.

Tradable: DX

Risk is considered to be equivalent to volatility in the investment world. And volatility can be quantified by using standard deviations. This is a function that is readily available in most charting software. In Figure 1, we have a weekly chart of the US Dollar Index along with the standard deviations of the close over the past year. We also added Bollinger bands to the standard deviations to place them in context.

The blue line in the bottom half of the chart shows the standard deviation of the closing price over the past 52 weeks, a measure of volatility. The red and green lines are Bollinger bands of the standard deviation, which measure the volatility of the volatility. From standard financial theories, we know that when the standard deviation is at the upper band (the red line), risk is highest. Low-risk opportunities are found when the blue line is closer to the green line.

At the end of 2008, we see that risk jumped dramatically, and the dollar moved up sharply. This confirms visually that the best returns are associated with the highest risks.

A similar situation is present in the charts now — risk has increased and is now relatively high when compared to the recent past. Traders should be aware of this and look for breakouts in either direction. ■

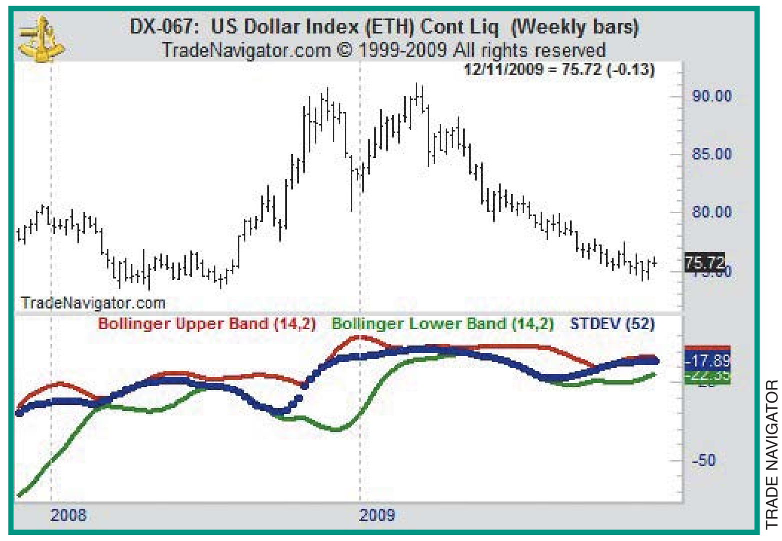


FIGURE 1: US DOLLAR INDEX, WEEKLY. The dollar index is shown with a measure of its volatility and relative volatility.

Traders.com ADVANTAGE™
This article was first published on 12/9/2009.
See www.Traders.com for more.

Long Dollar, Short Gold

by Donald W. Pendergast Jr.

The long-anticipated turn in the US dollar appears to be underway. But is this a tradable move?

Tradable: UUP

FIGURE 1: UUP, WEEKLY. Although no chart setup is a sure thing, the bias has clearly shifted toward the bear market rally phase in the US dollar.

Negative sentiment can be an extremely valuable trading tool for those serious about earning consistent profits in the financial markets. And nowhere has the sentiment been so persistently negative as in the US dollar. Clearly, some sort of weekly low has formed or is in the process of completion in this key currency market, but just how far might the dollar rise before meeting up with strong resistance? We'll begin with a look at the weekly chart of UUP, one of the exchange traded funds that seeks to replicate the performance of a variety US dollar futures contracts.

Yes, Figure 1 is a very simple chart, but we don't need any fancy neural networks or algorithms to conclude that the beleaguered greenback has begun a turn higher. The moving average convergence/divergence (MACD) indicator (middle panel on chart) has already completed a bullish crossover, confirming the shift in momentum toward the bullish side of the ledger. In addition, the spread between two key moving averages (the 21-week exponential moving average [EMA] and the 50-week EMA [red line and blue line on the chart, respectively]) has begun to decline as prices have begun a gradual ascent from their bear market lows. At the very bottom of the chart, witness how the average true range (ATR 10; the thin red line in the bottom panel) has declined to near-record levels, indicating that much of the fear formerly embedded into this market has all but dissipated. The detrend oscillator (blue histogram) also suggests that UUP has plenty of room to run higher, should the US dollar really begin to catch a bid here.

Of course, after such a massive, multiyear decline, traders must realize that there is a ton of overhead supply that will offer plenty of resistance on any further advances. The most likely price area in which to expect to see UUP temporarily stall and/or reverse is near the combined Fibonacci retracement confluence level near \$23.10 to \$23.30 (see the pink rectangle on the chart).

Commercial interests in the futures market (based on COT data analysis) appear to have already completed the bulk of their buying even as the large speculators appear to be ramping up their long acquisitions as their various trend-following systems begin to fire long signals on the current upthrust. And even if UUP (and all dollar-related futures contracts and forex spreads) stumble if that resistance area turns back price, if this is a major bear market rally (like the one we witnessed in 2005) in the greenback, we might be amazed at how far this rally can retrace some of the more recent losses that this market has experienced.

One simple way to play this potentially bullish move is to sell deep out-of-the-money (OTM) put options on a deferred-month US dollar futures contract. Alternatively, selling far OTM, deferred-month call options in the euro, aussie and Canadian currencies might also prove to be a relatively low-risk play. Check with your broker for the margin requirements involved, and above all else have an exit strategy in place just in case the US dollar suddenly changes its mind and decides to hammer out a lower low in the near term. ■

Traders.com ADVANTAGE™
This article was first published on 12/14/2009.
See www.Traders.com for more.

Dollar Heading Higher?

by Mike Carr, CMT

Momentum has shifted in the dollar and points to the next big move being up.

Tradable: DX

The dollar is prone to volatility. It also trends nicely and although this may sound contradictory, it really means that maximum risk is associated with the greatest possible returns. Spotting trend changes can be difficult but obviously rewarding.

Momentum is a commonly employed technical tool. It is commonly believed that changes in momentum precede changes in price. We can see in Figure 1 that momentum in the dollar index has turned higher. The relative strength index (RSI) has broken above its long-term moving average (34 periods is used in the moving average simply because it is long term and is a Fibonacci number). The 52-week rate of change has turned higher.

These bullish developments come with two tradable insights. First, we may see the dollar stall when the rate of change approaches its 26-week moving average. This line has served as both resistance and support in the past and is worth watching.

The solid line shown with the bar chart of the dollar is the Standard & Poor's 500. The dollar and this stock market index have been moving in opposite directions for some time. That is our second insight that it might be time for stocks to slow, or reverse, their advance. ■

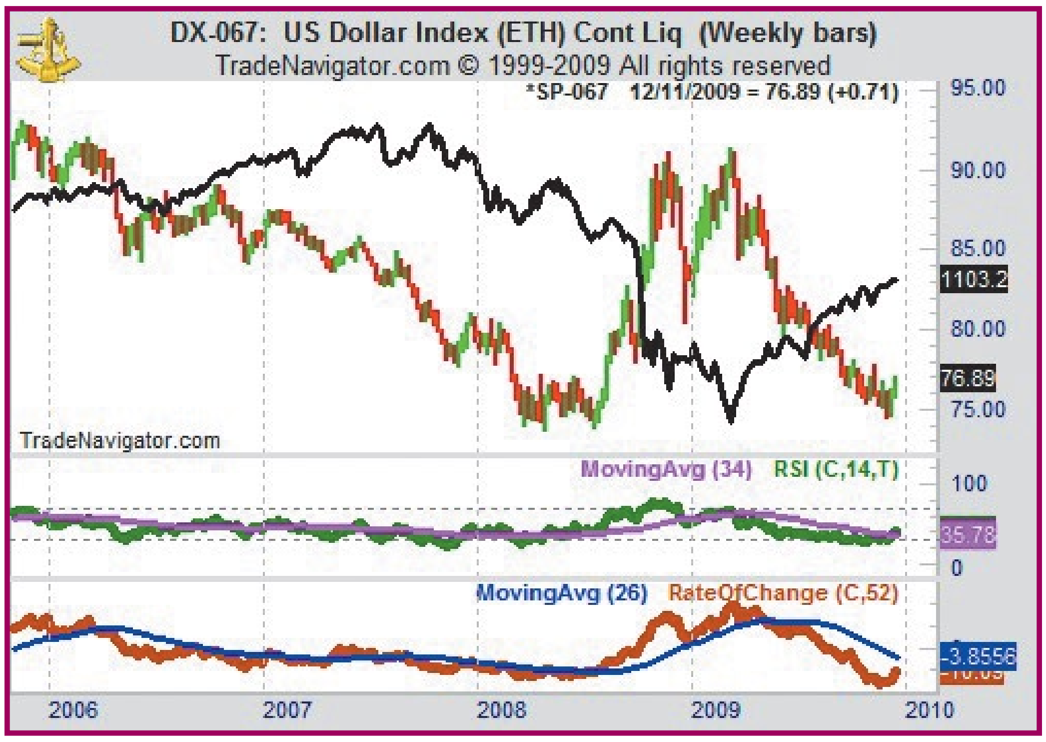


FIGURE 1: DX-067, WEEKLY. The weekly chart of the US Dollar Index is showing a breakout to the upside in RSI and ROC indicators.

Momentum is a commonly employed technical tool. It is commonly believed that changes in momentum precede changes in price.

CHARTPATTERNS

HEAD & SHOULDERS

Head & Shoulders Top For FSAVX?

by Donald W. Pendergast Jr.

With the broad market indexes falling so quickly, it helps to have a scorecard to keep up with the various rates of descent in the weakest industry groups. Some big changes appear to be in the offing.

Tradable: FSAVX

Security Name	Close	5 Day	10 Day	30 Day	Wt scr	Ticker...
Fidelity Select Automotive	26.5800	-13.6172	-11.5768	-8.8477	-15.8863	FSAVX
Fidelity Select Air Transportation	25.4700	-8.4142	-13.5731	-14.7590	-15.0535	FSAIX
Fidelity Select Construction and Housing	26.0600	-7.5559	-10.0449	-13.9934	-13.0500	FSHOX
Fidelity Select Transportation	33.0300	-6.9053	-12.6883	-11.3289	-12.6093	FSRFX
Fidelity Select Natural Gas	29.9000	-9.2840	-11.5123	-5.8861	-11.9888	FSNGX
Fidelity Select Gold	39.7900	-8.6547	-11.2029	-6.6839	-11.7321	FSAGX
Fidelity Select Biotechnology	58.4000	-4.7153	-11.2732	-13.1728	-11.2922	FBIOX
Fidelity Select Materials	47.0600	-7.8159	-9.3780	-8.7631	-11.2576	FSDPX
Fidelity Select Natural Resources	26.3100	-8.5824	-10.8438	-4.4662	-10.8249	FNARX
Fidelity Energy Services	55.0200	-8.6198	-10.3617	-4.2797	-10.6270	FSESX

The entire market has reversed; not one Select Sector fund shows a net positive weighted score over the past 30 days.

METASTOCK; METASTOCK EXPLORER

FIGURE 1: 10 WEAKEST SELECT SECTOR FUNDS. Trend reversals tend to be marked by broad market participation, all in the same direction, regardless of sector and industry group. All 40 Select Sector funds show a net weighted 30-day performance of less than zero percent.

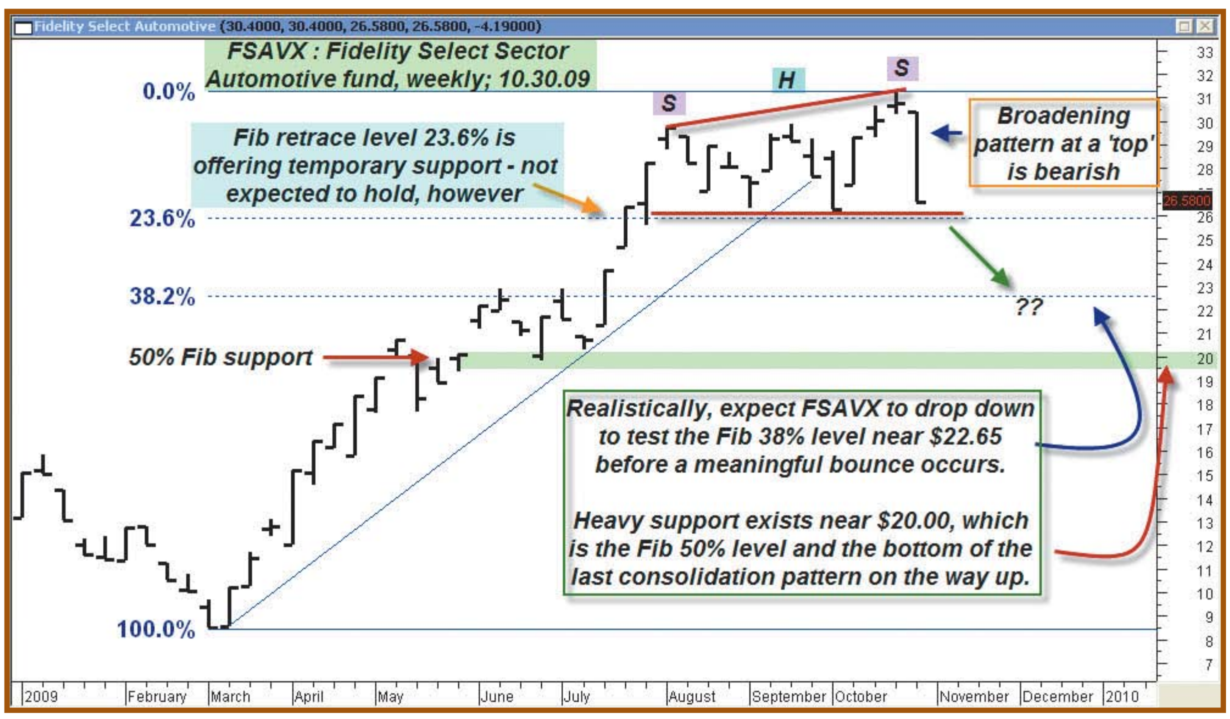


FIGURE 2: FSAVX, WEEKLY. This chart strongly suggests that FSAVX is likely to experience more downside price movement, and sooner rather than later.

Every trader and investor knows that sooner or later, even the strongest up (down) trend has to reverse. Who could doubt that the pair of strong, multimonth rallies (March–June 2009 and July–September 2009) are now history? What we see now is a significant trend reversal on the daily charts and major corrective moves on the weekly time frames, with some of the former leading industry groups now breaking lower with increasing intensity. Look at the 10 weakest Select Sector funds in Figure 1 and then examine an interesting chart pattern on one of the former relative strength leaders.

How quickly market situations can turn around! For months, FSAVX, the Fidelity Select Sector Automotive fund, was leading the entire market higher with an upward rate of momentum that was nearly beyond belief. Now, however, FSAVX has dropped by nearly 14% in just five days, almost 12% in 10 days and about 10% over the last month. In fact, the list of the 10 weakest funds includes a variety of industry groups ranging from biotechnology (FBIOX), air transportation (FSAIX), construction and housing (FSHOX), the entire transportation sector (FSRFX), natural gas (FSNGX), gold (FSAGX), the entire materials sector (FSDPX), natural resources (FNARX), and energy services (FSESX). All of these funds appear to have made significant intermediate-term tops and now need to correct for some time before beginning any further attempts to move above the September–October 2009 highs.

Even the funds showing the greatest 30-day relative strength are all in the red, including the consumer staples sector (FDFAX), software and computer services (FSCSX), and the pharmaceuticals (FPHAX) industry groups. Since there are 40+ funds in the Select Sector universe, having all of them in the red over the past 30-day market period looks to be a very significant situation, one indicating a high level of fear and uncertainty among many market participants.

Figure 2 is the weekly chart for FSAVX, the one with a fairly pronounced head & shoulders pattern evident. It's buried within a broadening formation, one occurring after a seven-month long weekly uptrend move that looks as if it's about given up the ghost. The bottom of the pattern coincides with the Fibonacci 23.6% retracement level, a support level that normally offers minor resistance during the first stages of a trend reversal. This level rarely holds at major reversals, however, and usually gives way as a fresh round of selling ensues on the break of support. Realistically, on any further weakness, it would be prudent to expect FSAVX to run down at least to the $22.65 area (the Fibonacci 38% retracement) before finding meaningful support. And if the broad markets really fall out of bed, a run down toward $20 can't be ruled out, either.

Fortunately, that price area contains the Fibonacci 50% retracement and significant chart support as well and should be an area to expect a bounce/reversal, should it go that low. Overall, it's a very simple chart we're looking at, one that is telegraphing oodles of useful information to traders with eyes to see what's shaping up.

A major weekly low isn't due in the Standard & Poor's 500 and Russell 2000 indexes for at least another two to three weeks, so it wouldn't be surprising to see some minor rebound action in the markets this week, followed by some more hard action to the downside. November should be at least as interesting as September and October were, and possibly even more so. Regardless of what actually ensues this month, well-prepared traders and investors should be more than able to profit and/or sidestep any further market downdrafts.

Traders.com ADVANTAGE™
This article was first published on 11/2/2009.
See www.Traders.com for more.

Head & Shoulders For GLD

by Chaitali Mohile

Traders are likely to get a fresh trading opportunity with the breakout of StreetTracks Gold Trust Shares.

Tradable: GLD

The StreetTRACKS Gold Trust Shares (GLD) formed a classic inverted head & shoulders pattern on the weekly time frame in Figure 1. These days, the pattern is commonly found on charts on the weekly time frame of many indexes. But the reliability of the pattern breakout remains firm. Major indexes have witnessed a bullish breakout of the pattern, and currently, they are heading higher.

Similar is the case of GLD. In Figure 1, the first decline for the stock was initiated by a bearish engulfing candlestick pattern in 2008. The overbought stochastic (14,3,3) and overheated average directional movement index (ADX) (14) reconfirmed the candlestick formation. GLD began a downward journey from $100. Later, the descending price established support at $83 and moved toward the previous high. Due to the newly developed downtrend, the bearish force was indicated by a shooting star — a single bearish reversal candlestick pattern in Figure 1. The candlestick pattern suggested the end of an existing upward rally.

FIGURE 1: GLD, WEEKLY. The inverted head & shoulder breakout has dragged GLD to new highs. After the breakout, the volume has increased and the uptrend has developed as well.

Hence, GLD plunged further with the series of lower lows. We can see the buying and selling pressure indicated by the positive directional index (+DI) and negative directional index (-DI) of ADX (14) had a tough time establishing themselves. This generated high volatility during the declining rally.

Volume reduced dramatically till the lowest support at $68 was formed. However, the pullback rally from the new low started on encouraging volume and soon hit the previous high resistance at $98.

GLD retraced from the resistance area, highlighting the neckline of an inverted head & shoulders formation. The volume during the right shoulder formation was relatively high, thus reconfirming the pattern. The stochastic oscillator formed higher highs and higher lows, indicating the bullish momentum that was being developed. In addition, the weak ADX (14) (marked with an oval) moved vertically upward along with +DI. These developing bullish sentiments dragged GLD from the third bottom (right shoulder) toward the neckline resistance.

The developing bullish sentiments resulted in a bullish breakout of the pattern in Figure 1. Increased volume during the breakout helped GLD sustain above the newly formed neckline support and surge higher. The breakout point was the best buying opportunity for long-term traders, with the target of 98 - 68 = 30 + 98 = 128. Here, the potential target is measured by adding the length of the head (distance from neckline to lowest low = 30) to the neckline 98. Therefore, those already long can hold their positions, and the fresh trade can be entered once the stock turns sideways.

The shooting star is a bearish reversal candlestick pattern.

Thus, GLD is one stock to consider for a long position. ■

Traders.com ADVANTAGE™
This article was first published on 11/18/2009.
See www.Traders.com for more.

A Double-Dip Recession?

by Koos van der Merwe

All economists have two hands. What are the chances of one of those hands being wrong regarding a double-dip recession?

Tradable: SPX

FIGURE 1: S&P 500, MONTHLY

FIGURE 2: GANN FANN OF S&P 500

The recession of the 1930s took a number of years to resolve itself, with a double-dip recession playing itself out. Many economists today are equating the present recession with that of the 1930s and forecasting that a double-dip recession will occur. My Elliott wave charts are calling for that double dip to be a Wave II correction, which can be and usually is a 72% correction.

There is at least one difference between 2010 and 1930. If my wave count is correct — and I believe that it is — then the Wave II expected sometime in 2010, probably after May, will be a failure. It could be a simple correction and not very deep. Here's why.

Figure 1 is of the Standard & Poor's 500, and my current reading is as follows. I say "current reading" because as Elliotticians know, the Elliott wave is a signpost in the wilderness and can change direction as the road it follows twists and turns.

❖ On March 6, 2009, the S&P 500 bottomed at 666.80. The 666 alone on March 6 is ominous in itself (to certain believers), but in this instance it suggested that a C-wave bottom of a major correction had been correctly read.

❖ On June 11, at 944.90 Wave 1 of Wave I topped, and was followed by Wave 2 of Wave I. Wave 2 was reasonably complicated, which means that wave 4 will be either a very complicated wave or a simple wave. Wave 4 as shown, if I am correct in my count, was a simple correction.

❖ This means that the S&P 500 is now in a wave 5 of Wave I. This is where the complication arises. Wave 1 of Wave I is 278.10 in length (944.90 - 666.80 = 278.10). This means that wave 3 of Wave I should not be less than 278.10 in length. Wave 3 of Wave I is 231.67 long (1103.19 - 871.52 = 231.67), which is less than Wave 1 of Wave I. This means that Wave 5 of Wave I should be less than Wave 3 of Wave I. My wave projections are targeting 1137.20 as the top of Wave 5 of Wave I.

❖ If this count is correct, then this means that the Wave II correction will be somewhere between 1103.19 and 1031.32. Taking the worst situation, this means a correction of 9.31% (1137.20 - 1031.32/1031.32), not all that bad when one considers the 50%-odd correction of a double-dip recession.

❖ Note the relative strength index (RSI), which is still rising.

When will this occur? Look at the Gann fan chart (Figure 2).

For this chart I have drawn a Gann Fan down from the high of October 11, 2007, the B-wave top to the low of the C-wave bottom. I have also drawn a horizontal line at this high. Using the same parameters, I have drawn a Gann fan upward, and I look to see where the fan lines cross the horizontal.

The first date (green fan line) crossed the horizontal on July 15, 2009. Note that Wave 2 of Wave I bottomed two days after this date. The Gann fan is suggesting two other dates, November 20, 2009, and July 30, 2010. Will November 20 be the top of Wave 5 of Wave I with July 30, 2010, as the bottom of Wave II? If so, then my count is definitely out of kilter, unless Wave II is an extremely complicated wave or if July 30 will be the top of Wave 5 of Wave I. If this is the case, then Wave 5 is going to be painfully long for such a short rise. Then again, my fifth-wave projection could be wrong, and the resistance at 1200.38 as shown, could be the Wave 5 of Wave I top.

Whatever the final outcome, we do know that the S&P 500 is in an uptrend, and that a correction, possibly similar to the recent small indecisive corrections that are occurring continually, could happen. We also know that November to May/July are usually good months for a rising market. Tax-loss selling, for example, will be complete. The next few weeks should be a good indication of the future trend. ■

Traders.com ADVANTAGE™
This article was first published on 11/19/2009.
See www.Traders.com for more.

WILDER'S PARA SAR

March Crude Oil — A Pause Or A Top?

by Donald W. Pendergast Jr.

Sometimes a chart pattern can be interpreted a number of ways. Knowing how to see the big picture can help make the job easier.

Tradable: CL H0

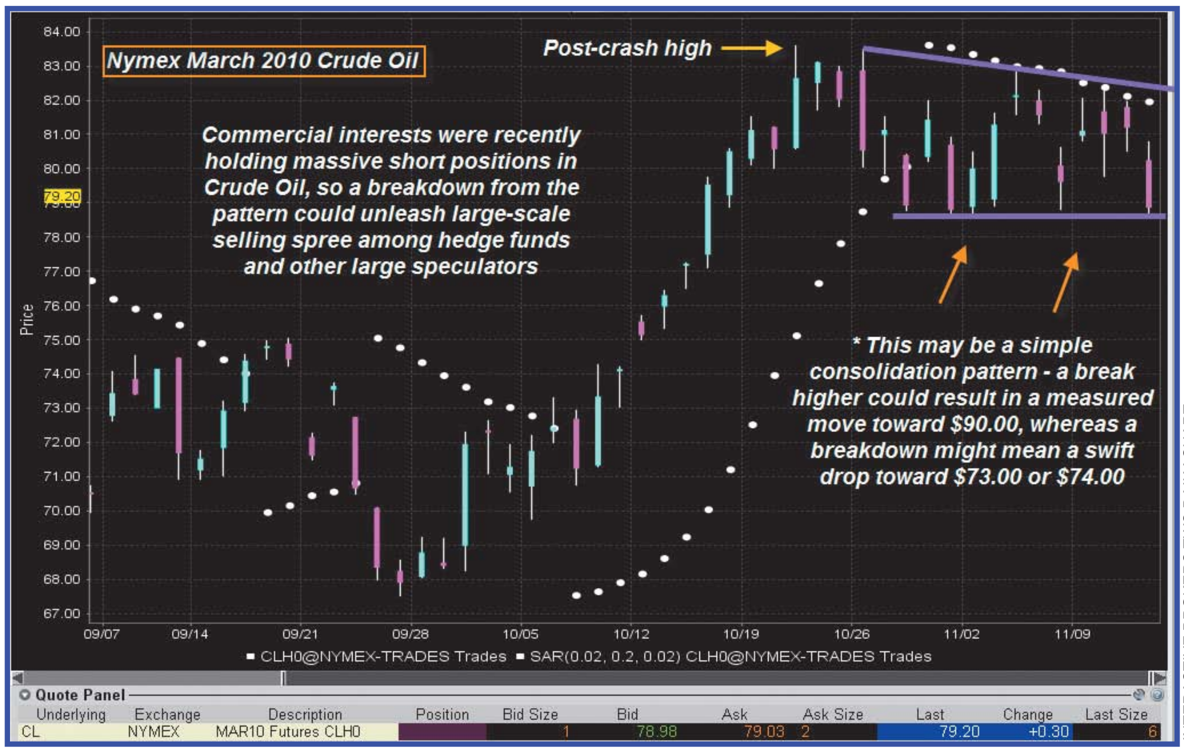


FIGURE 1: CLHO, DAILY. Over, under, sideways, down ... which way for crude oil now? Erring in favor of the big-money commercial short futures position in crude oil might prove to be a wise course of action.

Crude oil has had an impressive run since turning higher earlier this year, having more than doubled in price. The NYMEX March 2010 crude oil contract (CLH0) made it to nearly $84 a barrel a couple of weeks ago, and speculative fever is running high again — after all, everybody remembers how crude shot up from $48 to almost $150 in record time, so why should this time be any different? Read on to see what may lie in store for this vital energy commodities price.

Nothing fancy here, just a well-formed consolidation pattern that may not need many more daily bars to near completion; at first glance, and especially given the bullish run preceding this pattern, I'd be tempted to say that this pattern would likely resolve itself with a bullish breakout toward new post-crash high, perhaps reaching $90 per barrel. But after reviewing the latest COT (Commitment of Traders) report figures, it seems that the big money commercial interests are holding near-record short positions in NYMEX crude oil futures contracts.

Commercial producer interests typically use the futures markets to ensure that they can sell their goods at a favorable price, whereas commercial consumer interests use the futures markets to ensure that they can acquire the commodities they need at a guaranteed price, no matter how wildly a market may vacillate. Apparently, both sets of commercial interests feel that the price of crude is destined to move lower, hence the massive amount of short positions in the crude oil market. Anyone going long crude oil is betting that they have more brains than the commercials (who have billions of dollars at their disposal and an intimate understanding of the fundamental intricacies of this market) or that the power of existing momentum is enough to keep prices moving higher, as large speculators and hedge funds greedily snap up all of the crude oil contracts the commercials can sell them.

I don't know about you, but I would tend to err in favor of the big money commercials in this instance and would be wary of a fakeout breakout move from the consolidation pattern. In fact, such a fakeout could be an excellent place to initiate a short position (with strict loss control, of course), adding more of a short position on a confirmed break below the lower boundary of the pattern near $78.70 to $78.60. Note that the ParaSar system is already in a short position, with the upper channel of the consolidation pattern moving in tandem with the system's short trailing stop (white dots on chart). See Figure 1.

As for playing the moves in crude, you can use futures contracts (including mini-crude futures) or crude oil–linked exchange traded funds (ETFs) such as USO. Those who play stocks might look for short setups in OIH or in especially weak relative strength oil/gas stocks. With commercial interests taking major short positions all across the commodity spectrum (including the gold, orange juice, heating oil, corn, silver, and copper markets), it might pay to watch for low-risk short setups in any number of commodity-related stocks and ETFs. This could be, as they say, big. Time will tell, as always. ■

Traders.com ADVANTAGE™
This article was first published on 11/13/2009.
See www.Traders.com for more.

KELTNER CHANNELS

Gold Approaches Key Resistance

by Donald W. Pendergast Jr.

Market technicians use a variety of leading and lagging indicators to ascertain the technical state of any given stock or commodity. Right now, two reliable leading indicators are suggesting that $1,200 may prove to be a formidable resistance level for gold.

Tradable: Gold, GC, GLD

Gold is on a rampage again and that's when the real metalheads start pounding the table, citing the falling dollar, inflationary monetary policy, and investor demand as reasons why gold must continue to march ever-higher, perhaps all the way to $2,000, $3,000, or even $5,000 per ounce. Lagging indicators are of little use in predicting where likely support/resistance and reversal points are likely to intervene, causing a pause and/or correction in gold's mighty uptrend; for example, moving averages do a great job of confirming an established trend, but they aren't as useful in helping to project the likely end of a particular market swing, as the data used to calculate the average is already past history — it's a lagging indicator, one that shows exactly what has happened but isn't of much use in helping determine what may happen in the future.

A leading indicator, by contrast, may take two distinct price inputs and then combine them in a way so as to produce a statistically plausible price projection; it may be helpful to think of eighth-grade algebra, where we take several known values in hopes of generating an accurate vale for the x factor in the equation being considered. Of course, the markets aren't as mathematically precise as an algebra equation, but it is surprising how often that leading indicators such as Fibonacci extension ratios and Keltner bands will combine to produce powerful areas of support/resistance that can also be the precursor to major trend reversals. We'll look at what I believe will be the impending collision of cash gold with the combined resistance area formed by a key Fibonacci extension ratio and the extreme upper Keltner band on the monthly chart of cash gold. See Figure 1.

Fibonacci extension ratios are accurate leading indicators, frequently able to identify key zones of support/resistance long before prices ever reach the price projection. They work even better if other leading indicators such as Keltner channels

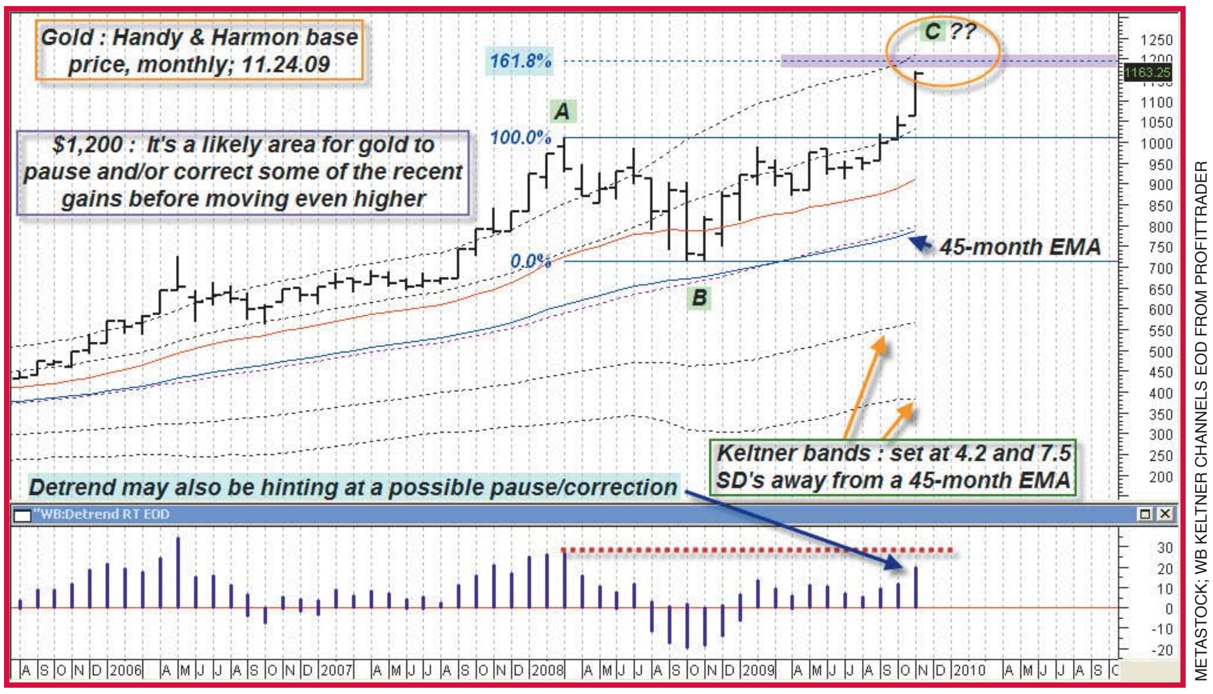


FIGURE 1: GOLD, MONTHLY. Looking at this chart brings to mind the words from a 1986 rock tune: "Here it comes, there it goes; always changing hands." Might $1,200 be the point where a lot of gold changes hands?

Fibonacci extension ratios are accurate leading indicators, frequently able to identify key zones of support/resistance long before prices ever reach the price projection.

are also aligned in the same general price/time zone as the Fibonacci extension ratio. When you see this powerful combination manifest in unison, it's a technical clue of major importance, one that should be taken seriously, given its outstanding track record at identifying major turns and/or consolidation points in any given market.

Currently, cash gold appears to be making a beeline for that combined price/time zone at approximately $1,196 (pink shaded area on chart), which is where swing B-C would equal 162% of the length of swing A-B and right at the point where the Keltner band is also projecting major resistance as well. If you look at the lower portion of the chart, you'll also see that the detrend oscillator has yet to exceed its previous swing high. The thing about divergences is that you never know if they're for real until the price bars on the chart confirm the divergence, but the fact that the detrend is still fairly low despite the big runup in gold prices may be another leading indicator that $1,200 is an area for gold bugs (and gold thugs — those who absolutely hate gold) to pay close attention. So, what about some possible ways to latch on to a correction near $1,200? Let's consider a few ideas.

Let's say gold has enough muscle to make it to $1,205 and then you see that it suddenly prints a key reversal on its weekly bar chart — you know, the first bar opens low and closes high, while the following bar opens high and closes low, maybe even lower than the previous weekly bar. That could be a tipoff that gold is about to reverse lower. I didn't mention this earlier, but gold is also getting close to its extreme upper Keltner channel on its weekly chart too (at a projected price of about $1,204), meaning that this key investment commodity has several powerful resistances to overcome on multiple time frames — and they all converge right near $1,200.

I'm also expecting to see the US dollar rise for no apparent fundamental reason, — this could be a great multimonth contrarian trade if you get the initial setup right. Selling far out-of-the-money puts on the US dollar index (DX) could also be a great move, should gold tumble from $1,200 in search of a new base from which to launch higher again. Of course, selling far out-of-the-money call options on April or May 2010 gold futures could also be a great trade route; it's likely that call buyers will have bumped up the implied volatility in gold calls by the time the emotionally charged $1,200 level is hit, providing for attractive premiums for sellers prepared to take on the risk of selling calls. If you do go this route, be sure to buy back any call that doubles in price, just in case gold decides to to an Energizer Bunny imitation and "just keep on going." After all, not even leading indicators are perfect; once in a while even they strike out — but not very often.

Ultimately, I'm a gold bug and not a gold thug. I firmly believe that gold will be much higher three years from now, as will most other commodities. But as mere mortals, we need to rely mostly on our charts, and especially on those leading indicators that implore us to get ready just in case gold decides to take another major breather. ■

Traders.com ADVANTAGE™
This article was first published on 1/25/2009.
See www.Traders.com for more.

INDICATORS

MOVING AVERAGES

Keep It Simple With Long-Term Moving Averages

by Donald W. Pendergast Jr.

Need a basic, no-brainer means of determining the intermediate- to long-term trends of your favorite markets? Here's a handy tool you can start using today.

Tradable: USD/CAD

Moving averages are one of the most enduring of all technical analysis tools, and for good reason -- they can help you to more accurately determine the trend bias of any given market, and without the need for further calculation; if price is above a moving average and the slope of that average is up, then for all intents and purposes, the trend bias is up. Of course, you may still need to utilize a more specific entry/exit trigger to get you into and out of your trades, but it's always a good idea to begin your analysis by glancing at your key moving averages before anything else. And just what is the best moving average to use, anyway? Here are a few tips regarding a particular moving average that you don't hear too much about.

Figure 1 depicts the daily USD/CAD (US dollar/Canadian dollar) forex cross; the only indicator applied is the 89-period simple moving average (SMA). Yes, it's calculated with a Fibonacci-based number of equally weighted time periods, and no, I don't believe that an 86- or 92-period SMA would show substantially different results, but since I try to use Fibonacci-based numbers in the various array of technical indicators that I rely on to trade, it only makes sense to keep a certain amount of consistency by applying only Fibonacci-based numbers in all of them. Regardless, this is a very interesting moving average, one that works pretty well for traders who want to trade only in the direction of the primary trend of a market. The USD/CAD cross has remained below the 89-period SMA since mid-April 2009, even though there have been several significant pullbacks towards it. Using the 89-period SMA would have been helpful to break out traders desiring to cash in on the various short entries that a 20- or even 55-day channel breakout system would have produced, knowing that they were on the right side of the primary trend in this currency pair. Even the "sell bear market rallies" crowd would likely have found this moving average to have been of substantial benefit, again, because of the added confidence of being properly aligned with the dominant trend.

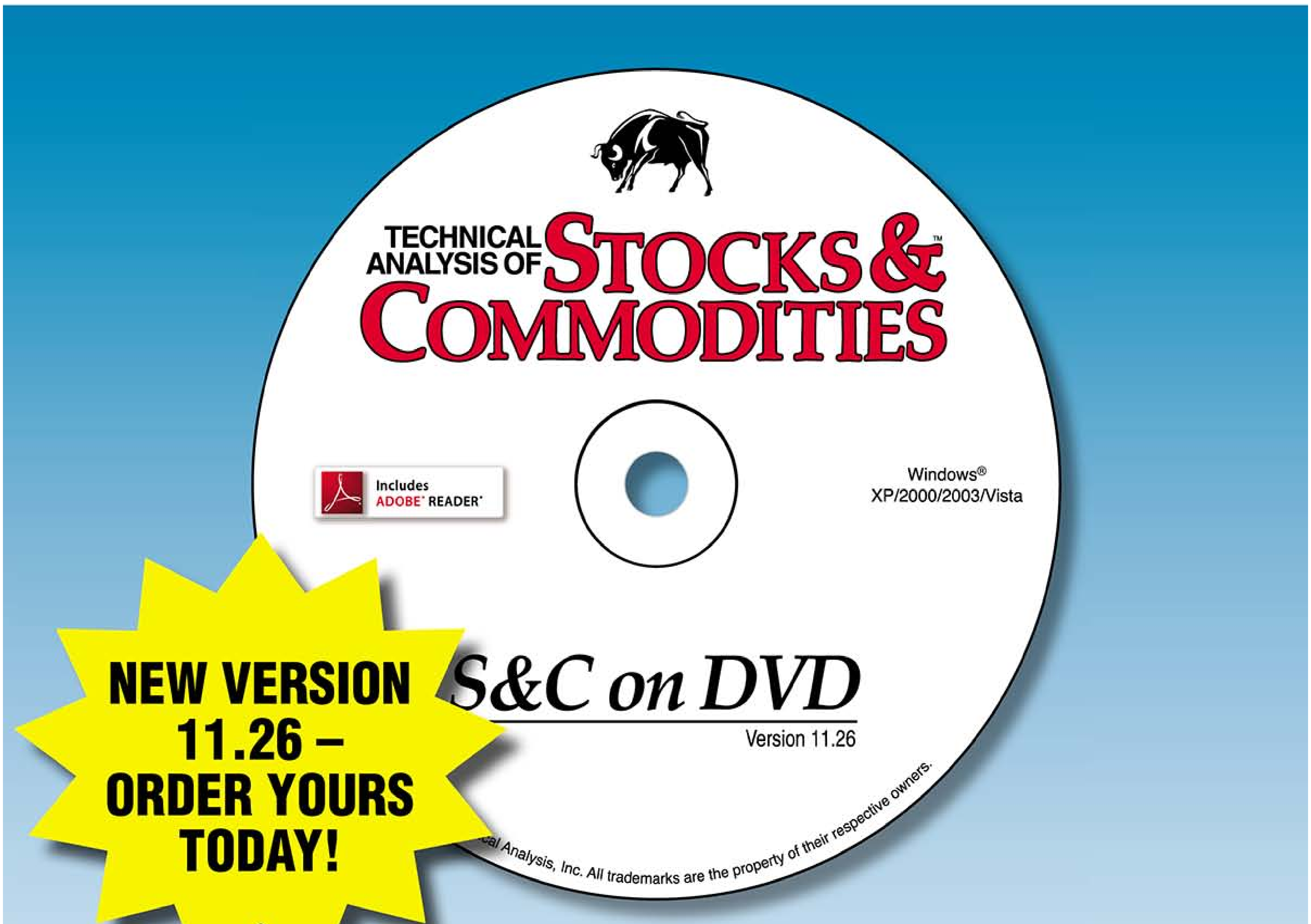
At times, the 89-period SMA acts as de facto support and resistance, though not quite as much as the more widely used 50-period exponential moving average (EMA) and its 50-period SMA counterpart. You can see several powerful examples of this on the chart, enough to conclude that the number 89 may be in tune with the major cyclical ebb and flow action witnessed in virtually all tradable markets. Plot the 89-period SMA on your own charts and see if it doesn't do an outstanding job of defining primary trends and support/resistance (S/R) areas. Try using it in conjunction with Fibonacci retracement and extension ratios for even more fun with "magic" numbers; you might be surprised at how often things harmonize around key sets of Fibonacci ratios.

There does appear to be a kind of hidden numerical structure to the financial markets, and while none of us will ever be wise enough to figure it all out, we can all be very thankful for the amazing insights provided to us by Leonardo Pisano Bogollo (aka "Fibonacci") in his timeless volume Liber Abaci (1202), the mathematician responsible for the introduction of Arabic numerals and the Fibonacci numerical series that bears his name to Europe. We, as modern daytraders and market analysts, owe him a huge debt of gratitude. I suspect that he would be more than pleased to learn how much we all rely on his work, nearly 810 years after the publication of Liber Abaci. ■

Traders.com ADVANTAGE™
This article was first published on 12/17/2009. See www.Traders.com for more.

DATA BY PROPHET FINANCIAL; CHART BY THINKORSWIM TRADING PLATFORM

FIGURE 1: USD/CAD, DAILY. The first step toward profitable trading is finding a way to determine the primary trend of the market you desire to enter. The 89-period simple moving average does a good job of defining medium- to long-term market trends.


TECHNICAL ANALYSIS OF STOCKS & COMMODITIES™
Includes ADOBE® READER®
Windows®
XP/2000/2003/Vista
NEW VERSION 11.26 – ORDER YOURS TODAY!
S&C on DVD
Version 11.26
al Analysis, Inc. All trademarks are the property of their respective owners.

Are You All Gassed Up?

by Koos van der Merwe

The name of the game is energy, and gas is one of the cheapest available, but the gas has to be conveyed, and by pipelines. So what about a company that has both gas and the pipeline?

Tradable: EP

ADVANCEDGET

FIGURE 1: EL PASO, WEEKLY

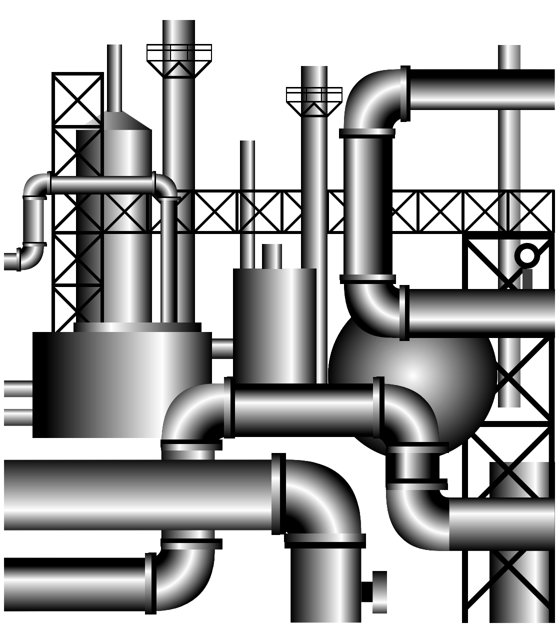
OMNITRADER

FIGURE 2: EL PASO, DAILY

El Paso Corp. (EP) provides natural gas and related energy products in a safe, efficient, and dependable manner. The company is organized around two core businesses, pipelines and exploration as well as production. The company owns North America's largest interstate natural gas pipeline system — approximately 42,000 miles — transporting more than a quarter of the natural gas consumed in the country each day. Some of their pipeline assets are owned by El Paso Pipeline Partners, their master limited partnership. Pipeline group highlights are:

- 42,000 miles of pipeline
- Largest US pipeline
- More than a quarter of daily US throughput
- Key natural gas basins (on-shore US, offshore Gulf of Mexico, Brazil)
- Top 10 among domestic independents
- 2.3 trillion cubic ft. equivalent of proved reserves (as of 12/31/08)

Figure 1 is a weekly chart and shows how the share price moved from a low of $6.57 in March 2004 to a high of 22.47 by July 2008. From that level it dropped to a low of $4.45 by November 2008. From that level, with a buy given by the relative strength index (RSI) and forming a double bottom, the price has started to recover, and is currently trading at $9.78.



What now for the future? Natural gas prices are currently rising because of the cold weather, which will boost the share price of El Paso Corp. For the answer, I look at my daily charts.

Figure 2 is a daily chart showing the following:

- The price, which is currently below the trailing stop level.
- A buy signal given at the present level by the stochastic RSI cycle indicator.
- The price has penetrated the basic Fibonacci level and should now be rising to test the 10.17 level.
- A candlestick harami pattern. This means indecision and a possible trend change. The trend change did indeed occur, and the price started to move higher.
- The moving average convergence/divergence (MACD) of the high plus volume histogram, which is suggesting a buy.
- The vote line as suggested by the OmniTrader program, which has given a buy signal with an advisor rating of 81 (not shown).
- Volume has been falling as the price rose, a negative.

With a colder winter expected resulting in an increase in the price of gas, El Paso Corp. is a share that could be bought for a short-term hold. ■

Traders.com ADVANTAGE™
This article was first published on 12/17/2009.
See www.Traders.com for more.

FURTHER READING

Pendergast, Donald W. Jr. [2009]. "UNG Major Daily Divergences," Traders.com Advantage, November 23.

_____ [2009]. "Money Flows Improving For Natural Gas," Traders.com Advantage, March 6.

Pezzutti, Paolo [2009]. "US Natural Gas Fund ETF Double Bottom," Traders.com Advantage, December 1.

STRATEGIES

Time To Buy Grains?

by Mike Carr, CMT

Corn is up almost 30% in the last two months and soybeans show gains of almost 15% in the past five weeks.

Tradable: C

News reports from the Midwest tell us that the harvest season has been challenging for farmers. Weather has made it tough to bring the crop in, and prices are moving higher on these concerns. We can see a sharp gain in corn prices (Figure 1) as traders likely reacted to the news. The chart for soybeans shows a similar pattern.

In Figure 1, we see the data from the Commitment of Traders report for large speculators (black line) and commercial hedgers (red line). The speculators have been buying as prices rose, while hedgers have been selling. Hedgers use the product, and in this case would include food companies that want to get the best possible price on corn to help them keep their costs down.

Over the long term, hedgers tend to be right more often than not. As we can see in the chart, they buy low and sell, or at least avoid buying, at higher prices. But COT data can be difficult to determine. Larry Williams has developed an index that looks at the data in relation to where it has been over the past 26 weeks. The index simply represents the COT data as a percentage of its high over the past six months. This is shown in the middle clip of Figure 1. It's best to buy when the commercial index is low and turns higher. Note how commercials decreased buying as prices turned higher.

In the bottom of Figure 1, we see that this is a seasonally weak time of the year for grains. That doesn't mean prices can't go up; it just means that they usually don't. Given the weak seasonals, and the lack of buying among commercials, the price rise in grains is more likely to be near an end than a beginning. ■

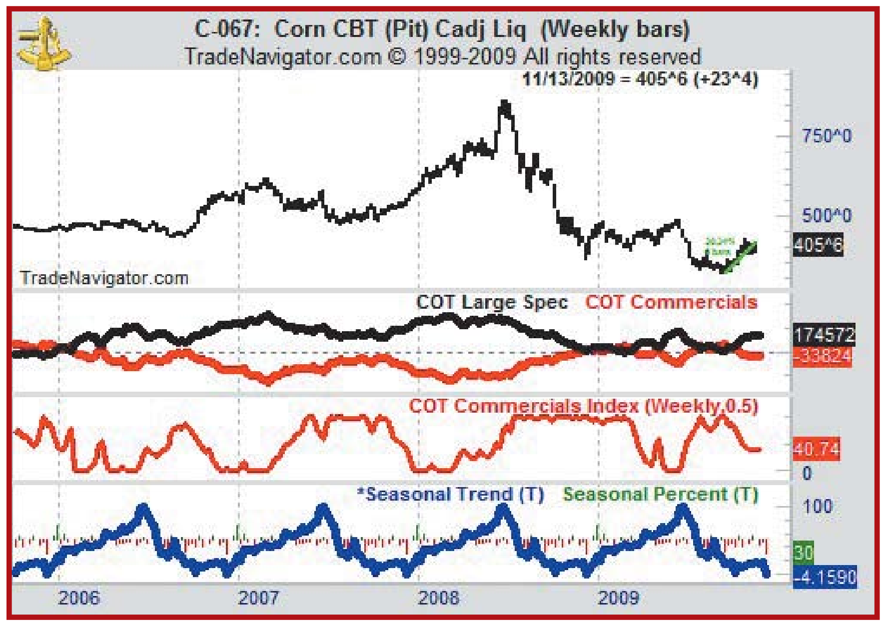


FIGURE 1: C, WEEKLY. This chart shows corn prices with COT data and seasonals.

TRADING SYSTEMS

Several Systems Agree: Short March Soybeans

by Donald W. Pendergast Jr.

Two noteworthy trading systems have flashed simultaneous sell signals in March 2010 soybeans. Is this a trade setup worthy of consideration?

Tradable: S, ZS

Soybeans appear to have completed a bullish move, one that began in early October 2009, but with two unique trading systems now flashing a thumbs-down sign, shrewd traders will want to do some further seasonal and technical examination in this extremely liquid futures market.

In Figure 1, one displaying a custom-made parabolic stop and reverse (ParaSar) system and key moving averages, normally, I would bypass this particular signal since we're a day late. However, this short signal has a lot of (bearish) complementary technical and fundamental firepower backing it up:

1. The weekly price cycle (not shown) is in a confirmed down mode.
2. Price has closed beneath the 50-week exponential moving average (EMA).
3. The 15-year seasonal chart suggests that soybeans usually make an interim top in the last half of December before moving lower throughout January.
4. The RMO (Rahul Mohindar) trading system has also issued a new short signal for March soybeans.
5. Current COT figures suggest that soybeans are also poised for a pullback, as commercials have begun to lighten up on net short positions. Remember, the commercial interests build their positions over time, scaling in by buying more and more as the price moves lower, so this could be a precursor to a modest to significant down move in soybeans.

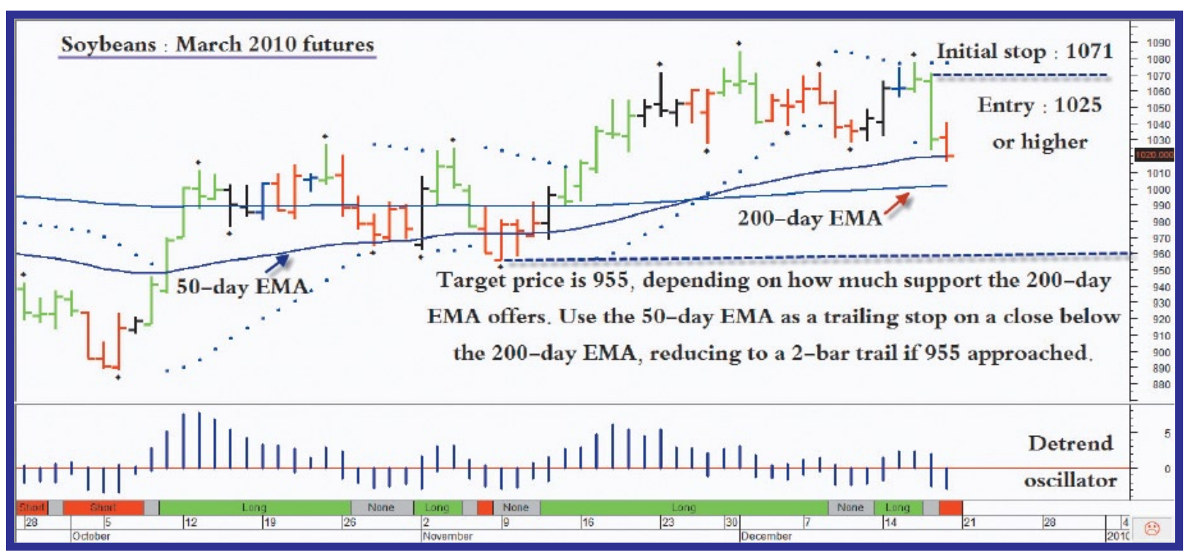


FIGURE 1: SOYBEANS, MARCH. Overall, the balance of technical and fundamentals affecting this grain market appear to favor a continuation of the current down swing. Watch the price action near the 200-day EMA for further clues as to the strength of this move.

Here's Figure 2, the RMO short signal chart in March beans. Even though the RMO oscillator (top of chart) is still above its zero line, given the overwhelmingly bearish mix of fundamental and technical matters previously discussed, this doesn't really amount to anything that would nix this particular setup. So what's the risk-to-reward ratio (RR) for this setup, anyway?

Since a bounce higher off of the daily 50-day EMA is a possibility, using Friday's high at 1041 for the initial stop might be a bit too close, leaving us with Thursday's high near 1071 as the only other sane alternative. In addition, if you see a daily bounce higher toward 1025 to 1030 (or better), entering your short position there will provide this trade with a greatly enhanced RR. The logical profit target is about 955 (the

November swing low), meaning that this trade has a RR of about 1.8 to 1 given a short entry at 1029, an initial stop at 1071, and a profit target of 955.

To manage this trade, here are a few tips that might help:

Say you enter short on a bounce back up to 1028 and have set your initial stop at 1071.25. If the trade moves south, closing beneath the 200-day EMA (see Figure 1), move your stop down to one tick above the price of the 50-day EMA, whatever its value is at that time. Then if the trade really lets loose, moving down toward 970, start running a two-bar trailing stop of the daily highs. If you're a one-lot trader, seriously consider closing the trade out anywhere between 960 and 955, as a bounce higher from 955 is a real likelihood. Two-lot (or greater) traders might close out at least one contract in that price zone, continuing to run the two-bar trail on the remaining contracts.

This particular short trade is best suited for experienced commodity traders who have a healthy margin account. If that describes you, then give this setup some serious thought, as most major factors that affect this market are all suggesting that some sort of a tradable correction is currently in the works. ■

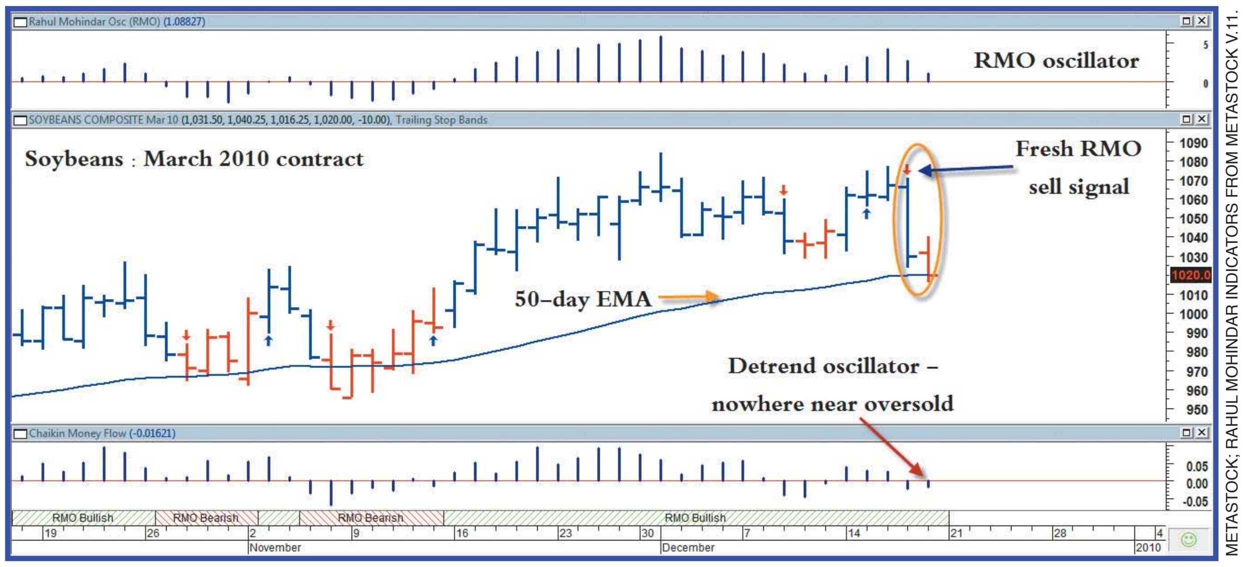


FIGURE 2: SOYBEANS, MARCH. Two for the money? Both the ParaSar and RMO trading systems have recently flashed short sell signals in March beans. Note the range of the price bar generating the signal, a mildly bearish confirmation.

TREND CHANNELS

Using The Andrews Trendline Technique

by Alan R. Northam

Alan Andrews became famous for the Andrews pitchfork, but he also developed many other trading techniques. One such technique is his unique way of using trendlines. This article uses Andrews' trendline technique to determine the future direction of the Gold Miners exchange traded fund (ETF).

Tradable: GDX

Alan Hall Andrews is most famous for having created the Andrews pitchfork, but he also developed many other trading techniques that worked so well that he included them in his trading notebook. One such technique was his unique way of using trendlines.

Like Ralph Nelson Elliott, who discovered that after five waves in one direction the market was due to correct, Alan Andrews also used the number 5 in many of his trading techniques. Andrews used the number 5 when drawing his trendlines. He noted that five trendlines normally developed for a market under study in the main direction of the price movement. He observed that when the fifth trendline was broken, a high probability existed that the trend in motion had ended.

One of the problems in drawing trendlines is in drawing them. For years, traders recognized that there was no exact way to draw a trendline as one trader would draw the trendline one way and another trader would draw it another way using the same price chart and the same time frame. Andrews developed a consistent way of drawing trendlines that removed these differences.

To draw his trendlines, Alan Andrews would draw a line from the lowest low, up and to the highest minor low point preceding the highest high without passing through any price points in between. For a downtrend, he would draw a line from the highest high point to the lowest minor high point without passing through any price points in between.

Figure 1 shows how Andrews would have drawn his trendlines on the daily price chart for the Market Vectors Gold Miners exchange traded fund (ETF) (GDX). This chart shows four upward-sloping trendlines. According to Andrews' notes, five trendlines normally develop before a trend is ended. Therefore, according to Andrews' observations, GDX should make one more upward rally with at least one higher minor low so a more steep trendline can be drawn before the upward trend for GDX ends. However, knowing that no trading technique is perfect, a breakdown below trendline 4 would put an early termination on the upward trend for GDX.

FIGURE 1: GDX, DAILY. This chart shows the unique way that Alan Andrews used trendlines to determine when a trend should end. This chart also shows the relative strength index (RSI) below the bar chart.

To support Andrews' trendline technique, I have added the relative strength index (RSI) below the price chart. Note that during the complete upward trend that started in October 2008, RSI has remained above its 40% level. As a result, this market sees this level as important. RSI currently looks to be respecting the 40% level, signaling a high probability that GDX will move higher before the upward trend is complete. However, there are no guarantees in trading. So a breakdown of RSI to below 40% would warn that GDX could be ready to move lower and a move by RSI to below 30% would provide some confirmation.

In conclusion, GDX is still in a major upward trend and is expected to make at least one more upward rally before the trend comes to an end. However, a break down below trendline 4 and or a breakdown of RSI below its 40% level would warn that the upward trend for GDX is ready to end. ■

PIVOT POINT

Significant Pivot Points Determine Trend

by Alan R. Northam

Alan Hall Andrews became famous for the Andrews pitchfork, but he also developed many other trading techniques. One such technique is his unique way of using pivot points. This article discusses how Andrews would have identified and used significant pivot points to determine when the upward trend of the Standard & Poor's 500 should reverse to the downside.

Tradable: !SPX

During one of his seminars, Alan Andrews stated that the first thing he looked for when studying a price chart was the number of significant pivot points he could identify. Andrews knew that a trend would often reverse directions after five significant pivot points. A pivot point is either a high price point or a low price point.

To help us in identifying the significant pivot points on the S&P 500 chart in Figure 1, I have added a trendline that does not cut through any of the price action. By using this trendline, we can identify the significant pivot points as those that come closest to the trendline. Andrews labeled these six pivot points as P0, P1, P2, P3, P4, and P5. I show P5 in gray to denote that this last pivot has not yet occurred. Andrews denoted the smaller high and low price points on the chart as minor pivot points that occurred in between the significant pivot points and used these minor pivot points in some of his other trading techniques. As a note, Andrews did not say that he used the trendline as I did in helping to identify significant pivot points; as far as I know, this is my own invention.

Another way of identifying the significant pivot points is to look for a negative divergence between price and a momentum indicator. I have added the relative strength index (RSI) to show how this is done. Note that just before P1, price continued to make higher peaks as did the RSI. However, when price made a higher high at the point labeled P1, note that the RSI made a lower peak; this is called a negative divergence. Negative divergences normally occur, if they occur at all, at significant market turning points. These significant market turning points is what we are looking for as significant pivot points. Therefore, by looking for negative divergences between price and a momentum indicator, we can identify the significant pivot points. In addition, the final market high is also usually identified by a negative divergence. When you think of it, this makes perfect sense. Looking at Figure 1, I have identified three negative divergences. Negative divergence ND1 helps to identify significant pivot point P1. Negative divergence ND2 helps to identify significant pivot point P3. I have shown negative divergence ND3 as a dotted line to separate it from negative divergence ND2. Negative divergence ND3 helps to identify significant pivot point P5.

The first thing Alan Andrews did when looking at a price chart was to identify how many significant pivot points have already developed. He would use this information to determine how much further a trend had to go before reversing directions. Once he made this determination he would use these other trading techniques to help him identify areas on the price chart where he would enter or exit a trade. Through the use of identifying the significant pivot points, we now know that the upward trend for the S&P 500 is almost complete and significant a pivot point as P5 is almost fully developed. ■

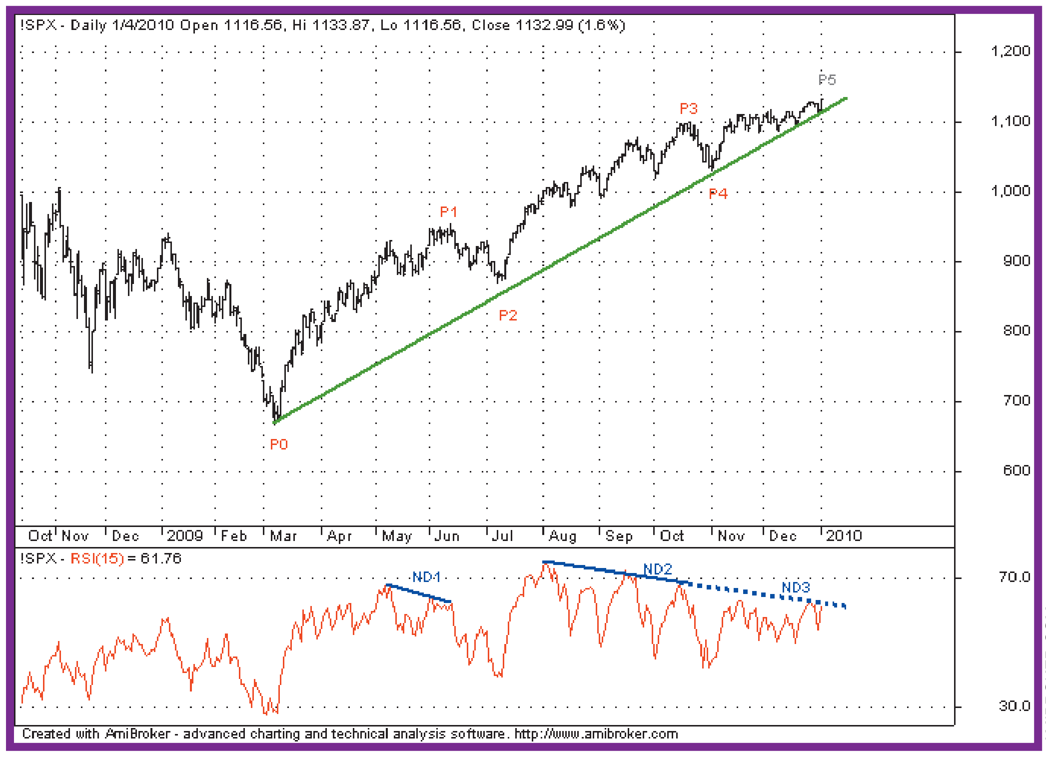


FIGURE 1: S&P 500, DAILY. This chart shows the significant pivot points. Andrews noted that after five significant pivot points developed, there was a high probability for the trend to reverse directions. The chart also shows the relative strength index (RSI) help locate these significant pivot points.

ANDREWS PITCHFORK

Andrews Pitchfork Predicts Higher Trend — For Now

by Alan R. Northam

According to the pitchfork formation that Alan Hall Andrews became famous for, the S&P 500 will be reaching higher highs — for the moment.

Tradable: !SPX

Once Alan Andrews identified the significant pivot points on the chart he was studying, he would draw his pitchfork. (See my article entitled "Significant Pivot Points Determine

FIGURE 1: S&P 500, DAILY. Here's the Andrews pitchfork and the sliding horizontal line.

Trend," published on January 5, 2010, for details.) There were two main ways Andrews would draw his pitchfork. When he identified the first three significant pivot points, he would draw his pitchfork from P0 to P1 and to P2. However, as the trend further developed and significant pivot points P3 and P4 were identified, he would draw a new pitchfork from P2 to P3 and to P4. Andrews believed that using this second method of drawing his pitchfork helped him better identify the area in which the final P5 pivot point would form.

Figure 1 shows this second method of drawing the Andrews pitchfork. Alan Andrews noted that 80% of the time when price reached the median line, labeled ML on the chart, the price would reverse direction, forming P5. Note that in Figure 1 the price did reach the median line after forming significant pivot point P4. Instead of reversing direction and completing the final P5 pivot point, however, the market moved sideways, running into support from the lower line of the pitchfork, labeled "L-MLH" (which stands for "lower median line horizontal," which was Andrews' way of referencing the lower line that was horizontal or parallel to the median line [ML]).

Figure 1 also shows that upon reaching the L-MLH, price broke down through it. When this occurred, Andrews would draw a line parallel to the median line (ML) and at the low of the first bar that broke down below the L-MLH. He labeled this line as "SH," for "sliding horizontal." The SH line is a reversal indicator. If price then broke down below the SH line, a reversal signal was given. However, if price did not break down below the SH line within two or three days, Andrews then expected price to continue upward along the L-MLH.

From Figure 1 we can see that this is exactly what transpired. The price did not break down below the SH line within two or three days as expected, and the market continued upward along the L-MLH.

In conclusion, the final pivot point P5 was expected to form just after the completion of P4 when price first traded up to the median line (ML). However, after bouncing off the sliding horizontal line (SH) and not breaking down below it within the next two or three days, it became obvious that the S&P 500 had further to go on the upside before completing its upward trend. ■

Traders.com ADVANTAGE™
This article was first published on 1/6/2010.
See www.Traders.com for more.

ANDREWS PITCHFORK

Mini-Median Line Pitchfork Identifies Trend Reversal

by Alan R. Northam

In addition to developing the pitchfork formation, Alan Hall Andrews also developed a lesser-known pitchfork known as the mini-median line pitchfork. The mini-median line was Andrews' favorite, as it generated timely buy and sell signals in addition to being indispensable whenever a trend reversal was expected. Here's how Andrews used the mini-median line to identify the area in which a trend reversal could occur.

Tradable: !SPX

When Alan Hall Andrews picked up a stock chart to study, the first thing he did was to identify all the significant pivot points. In total, Andrews discovered that five significant pivot points developed in a trend before coming to an end. He would then use these pivot points to draw his pitchfork or other studies to analyze the stock chart. Once he had identified the first four significant pivot points, he would draw a mini-median line pitchfork to help identify the area in which a final fifth significant pivot point would develop. Andrews used the mini-median line pitchfork to identify buy and sell signals. He also said that it not only generated timely buy and sell signals, it also was an indispensable tool to use whenever a trend reversal was expected.

Drawing a mini-median line pitchfork is similar to drawing a normal pitchfork, except alternate high and low closing price pivots are used instead of high and low prices. Figure 1 shows how a mini-median line pitchfork is drawn. The first thing is to identify the first three significant pivot points using closing prices. Then a pitchfork is drawn, using these first three significant pivot points. Then any additional pivot points are identified. Figure 1 shows that four significant pivot points have been identified.

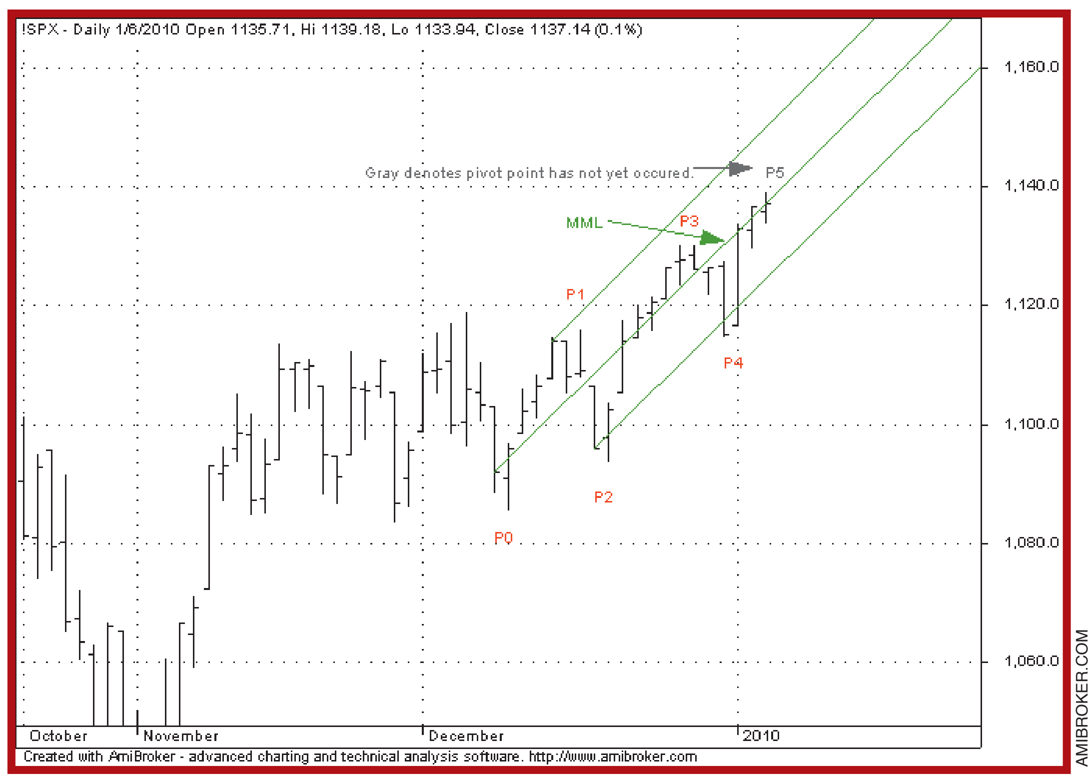


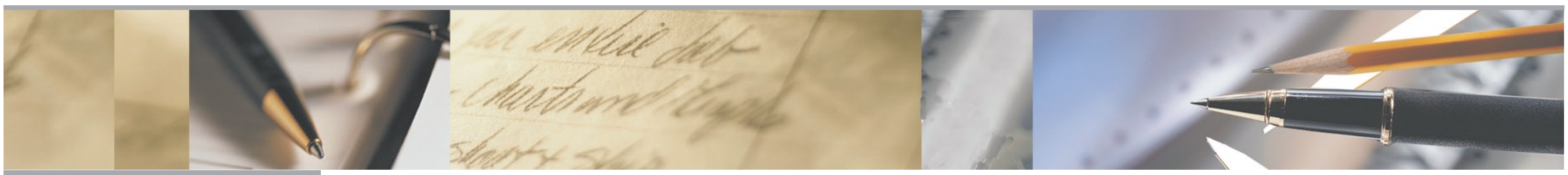
FIGURE 1: S&P 500, DAILY. This charts the mini-median line pitchfork. Note that it is drawn using closing prices instead of the normal high and low prices used when drawing a regular Andrews pitchfork. Note also that P5 is labeled in gray, signifying that this pivot point is expected but has not yet developed.

After drawing the mini-median line pitchfork, Andrews would look for price to rise to the mini-median line following pivot point P4. He understood that this mini-median line represented that area in which the final pivot P5 would develop. Andrews also understood that price could travel along this mini-median line for several days before P5 actually developed.

One tool Andrews would use to identify when P5 had occurred was to look for price to form two consecutive bars with lower highs and lower lows. In effect, Andrews looked for two-day reversal bars to help him determine when a significant pivot point was in place (candlestick reversal patterns could also be used). The important point is that Andrews would first wait for price to reach the mini-median line and then start looking for a reversal pattern to occur. As a caveat to the expectation price would rise to the mini-median line before a reversal pattern developed, Andrews knew that this would occur approximately 80% of the time but also knew that 20% of the time price would never reach the mini-median line. For those situations in which price never reached the mini-median line, Andrews would use other tools he had developed.

In conclusion, once an area in which P5, the final significant pivot point, developed, Andrews would then draw a mini-median line pitchfork because it was an indispensable tool to use whenever a trend reversal was anticipated. He would then monitor price and knew that once it reached the mini-median line, the price reached the area in which a trend reversal could occur. Once price reached the mini-median line, Andrews would then start to look for a reversal signal to identify that the current trend had ended and a reversal in trend had begun. ■

Traders.com ADVANTAGE™
This article was first published on 1/7/2010.
See www.Traders.com for more.



TECHNICAL ANALYSIS

A Stock Market On The Verge Of Collapse

by Alan R. Northam

There are four basic analytical tools an analyst uses to measure the health of an individual stock or the stock market as a whole. One is price patterns, one is momentum, another is volume, and the final one is breadth. By using these four tools we can note whether the stock market is on the verge of collapse.

Tradable: SPY

Figure 1 shows that the Standard & Poor's 500 exchange traded fund (ETF) (SPY) has been forming an ascending broadening wedge (ABW) price pattern over the last three months. An ABW price pattern normally develops at the end of a trend and is therefore known as a trend ending pattern. ABW patterns are made up of two upsloping lines close together at the start of the formation and move away from each other as the pattern continues to develop. As long as the daily price bars continue to swing up and down and touch the boundaries, the ABW formation continues to develop. However, when a partial rise occurs — a move upward that does not touch the upper boundary of the ABW pattern — a warning is given that the ABW is ending. The ABW is completed once price moves below the lower boundary of the price pattern. Note that the latest upward rally from early November has stalled before touching the upper boundary of the ABW pattern, thus warning of a partial rise and the ending of the rally off the March lows.

Figure 1 also shows five short-term rally peaks, two in August, one in September, one in October, and the final one in November, which has not yet been completed. At the peak of each of these five rallies, I have shown the ratio of the number of advancing stocks divided by the number of declining stocks. This ratio is a measure of the market breadth and indicates when there are more stocks moving higher than are moving lower, the market is in an uptrend, and when there are more stocks moving lower than are moving higher, the market is in a downtrend.

Looking at the price peaks in August, note that there were 10.1 and 3.7 times as many stocks advancing as were declining, respectively. This measure of market breadth shows that the stock market was advancing in August as there were 10.1 times as many stocks moving higher than were moving lower in early August and 3.7 times as many stocks moving higher than were moving lower in late August. In September there were 6.2 times as many stocks moving higher than were moving lower.

In October, things started to change. By mid-October there were only 2.1 stocks advancing for each one declining. The stock market was still in an uptrend but the number of advancing stocks compared to those moving lower had started to decrease. In November, things took a turn for the worse, with only 0.7 stocks advancing for each one declining. This ratio indicates that there are now more stocks declining than are advancing, a warning of a major trend change taking place.

Figure 1 also shows the moving average convergence/divergence (MACD) above the price chart. I like to show momentum indicators above the price chart and volume indicators below. The MACD, a momentum indicator, is made up of a 13-day exponential moving average (EMA) and a 34-day EMA. The 12- and 26-day EMAs are the default values, but I prefer the 13- and 34-day EMAs. The 13-day EMA moves up and down along with the closing price at a faster rate than does the 34-day moving average. Therefore, by measuring the difference between these two moving averages, the analyst can determine if these two moving averages are moving closer together (converging) or moving further apart (diverging), hence the name MACD.

When the two moving averages are moving away from each other, the MACD line moves up, indicating that price is in a healthy rally, and when the two moving averages move toward each other, the MACD line moves downward, indicating that the rally is slowing down, and thus the upward and downward movement of the MACD is a measure of price momentum.

Figure 1 shows that from early August, the MACD has been moving lower while price continues to move upward. This shows that over the last four months, the upward rally in price has been slowing down or decelerating. This deceleration of price normally occurs at the end of a trend and is a warning that the market is on the verge of reversing its direction.

Figure 1 also shows the on-balance volume (OBV) indicator below the price chart. The OBV is a measure of the net total volume of the market or stock being analyzed. For example, if today the market moved higher, then its volume is added to the previous total of volume. However, if today the market moved lower, then its volume is subtracted. When the OBV moves upward, it indicates that there is more buying volume than selling volume and buyers are in control of the market. When OBV moves downward, it is just the opposite with more selling volume than buying volume and sellers are in control of the market. From Figure 1, note that OBV has not made a new higher high since mid-September, while price has continues to move higher. This is an indication that the number of shares of stocks is not expanding along with price; a sign of a weakening market.

In this analysis we have looked at price patterns, momentum, volume, and breadth. The ABW price pattern indicates that the upward trend is in its ending stage. Momentum, as measured by the MACD, warns that the upward rally in price is slowing down, a normal occurrence before a price reversal in trend. Volume, as measured by the OBV, indicates a stock market that is weakening due to a lack of expanding number of stock shares being purchased. Breadth also shows that there are now more stocks moving lower in price than are moving higher. These four measures of the stock market all point to a stock market that is on its last leg upward and on the verge of collapse. ■

Traders.com ADVANTAGE™
This article was first published on 11/30/2009.
See www.Traders.com for more.

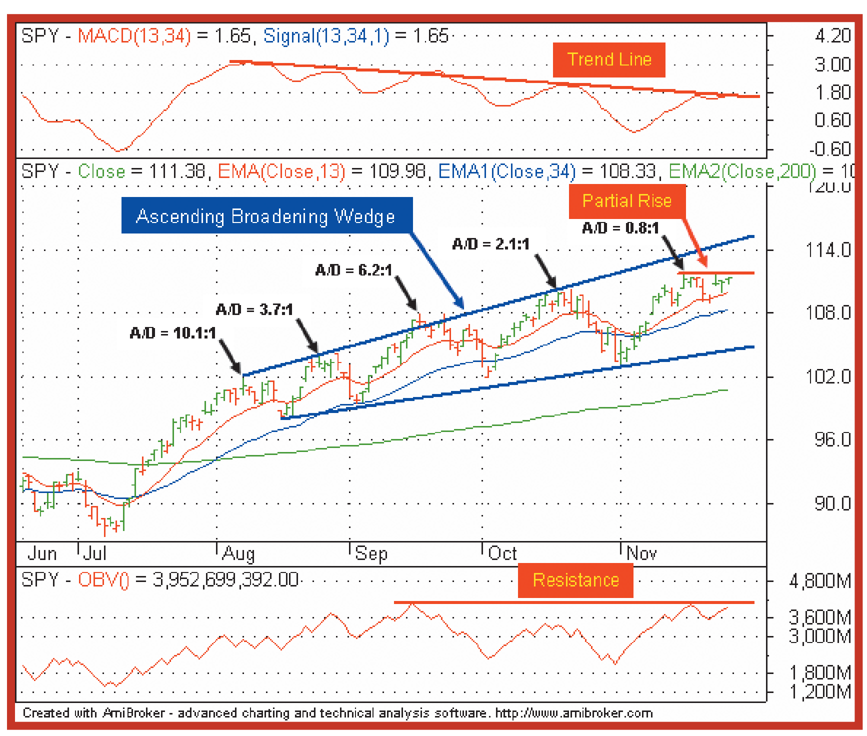


FIGURE 1: SPY, DAILY. Here's the ABW price pattern, the MACD a measure of price momentum above the price chart, and OBV, a measure of volume below the price chart.

This deceleration of price normally occurs at the end of a trend and is a warning that the market is on the verge of reversing its direction.

ADVERTISERS' INDEX

FREE INFORMATION FROM ADVERTISERS

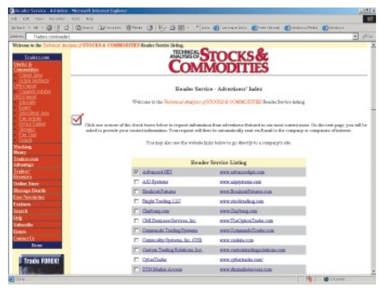
TWO WAYS TO CONNECT! CHOOSE THE WAY THAT'S EASIEST FOR YOU

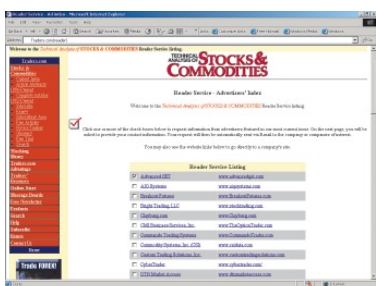
WEB

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

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

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





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

OR

MAIL OR FAX

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

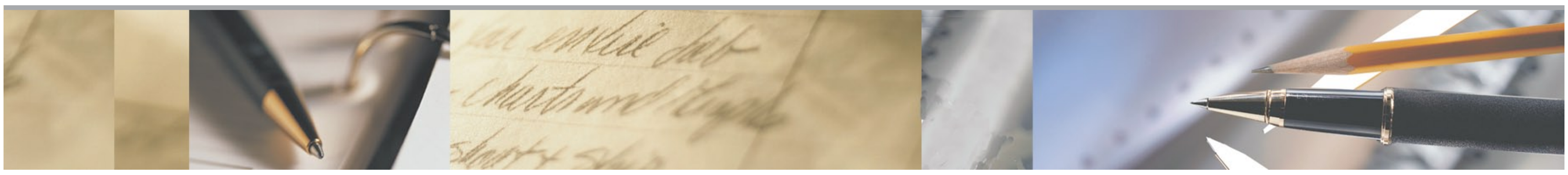
- ❑ AbleSys Corporation
- ❑ BreakThrough Trader
- ❑ E*Trade Financial
- ❑ eSignal
- ❑ Free Stock Charts.com
- ❑ FXCM
- ❑ Global Futures & Forex
- ❑ Magi Associates
- ❑ Market Technicians Association
- ❑ MetaStock
- ❑ Mikula Forecasting Company
- ❑ National Trading Group
- ❑ OEX Options Inc
- ❑ OptionVue Systems International
- ❑ Private tutoring / trading course
- ❑ Profitunity Trading Group
- ❑ Trading Concepts
- ❑ Updata London
- ❑ WallStreetWindow
- ❑ Ward Systems Group
- ❑ World Moneyshow Vancouver
- ❑ World Moneyshow Hong Kong

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

TECHNICAL ANALYSIS OF STOCKS & COMMODITIES

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

To receive information on the products and services listed in the Editorial and Advertisers' Indexes, go to **Traders.com/reader.** These indexes are published solely as a convenience. While every effort is made to maintain accuracy, last-minute changes may result in omissions or errors.



AUTHORS AND ARTIST IN THIS ISSUE

Roy Wiemann (cover art) *has been based in New York City for the last 20 years. Wiemann's livelihood as a commercial illustrator was preceded by his study for his master's degree in fine art in painting at the University of Miami. He lives in Manhattan with his wife Rose and their son Raphael.*

Michael Carr *is chief market strategist at Dunn Warren Investment Advisers. He is a member of the Market Technicians Association, the editor of the MTA's newsletter,* Technically Speaking, *and is the author of* Smarter Investing In Any Economy. *He may be reached at mcarr@dunnwarren.com.*

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

Alan R. Northam *lives in the Dallas, TX, area and is a practicing electronics engineer. His ability to analyze the coming direction of the stock market has allowed him to successfully trade of his own portfolio over the last 30 years. You can reach him at info@tradersclassroom.com or by visiting his website at http://www.tradersclassroom.com.*

Austin Passamonte *is a private trader who trades emini stock index futures intraday. He currently trades the S&P 500 and Russell 2000 emini futures from home in addition to managing an trader's educational forum.*

Donald W. Pendergast Jr. *placed his first trade in 1979, and after making a nice, fast profit in silver, got hooked on trading and investing. Since the late 1990s, he has spent thousands of hours researching technical analysis techniques, trade system development, and broad economic trends. He may be reached at www.chartw59.com.*

Koos van der Merwe *has been a technical analyst since 1969. He has worked as a futures and options trader with First Financial Futures in Johannesburg and for Irish Menell Rosenberg stock brokerage in the research department as a technician specializing in gold and gold shares. He may be reached at petroosp@gmail.com.*

Ron Walker *is an active trader and technical analyst. He operates an educational website dedicated to the study of technical analysis.* ■

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.

Backtesting — A strategy is tested or optimized on historical data and then the strategy is applied to new data to see if the results are consistent.

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 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.

Moving Average Crossovers — The point where the various moving average lines intersect each other or the price line on a moving average price bar chart. Technicians use crossovers to signal price-based buy and sell opportunities.

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.

S&P Emini — Electronically traded, smaller-sized ($50 times the S&P 500) contracts of the Standard & Poor's 500 index.

Simple Moving Average — The arithmetic mean or average of a series of prices over a period of time. The longer the period studied (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 transformed into a range between zero and 100 and 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.

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