

QUICK TAKES PRO

"TECHNICAL ANALYSIS FOR EVERYONE"

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October 7, 2014 - Monday opened with follow through to Friday's big rally but it started to fade almost immediately. Lack of specific news and the upcoming earnings season (every day seems to be earnings season, right?) was given the blame but technically Friday's rally was very unimpressive (low volume, weak breadth).

The dollar pulled back a bit and gold finally was able to show a green day. Both have reversed again this morning. Same for oil. I wrote up oil and oil stocks for [Barron's Online](#) yesterday saying that both are still rather weak.

Staying with commodities for a moment - despite the strong dollar, coffee and lumber are making some bullish moves. However, cocoa finally succumbed with an island reversal that we'll highlight in Today's Lesson. Even if you do not trade commodities, check it out because technical analysis is portable across markets.



The hourly chart shows the stock market's reversal at the 50-day average yesterday. It also shows the breakout and pullback. Have the past several hours been a correction of the breakout or a failure of the breakout? We should know later today but we are leaning towards the latter.

Finally, we are reprinting the note we wrote below in the Radar Screen section to make sure you see it.

Note - We are still not eager to make fresh trades long or short at this time. Volatility is up and the market has already backed down from its highs. Still, our view leans more towards selling rather than buying.

Index Charts of the Day



Nice bearish reversal at the 50-day average and resistance from the mid-September low.



An even better bearish reversal for the Nasdaq.

The Radar Screen

This is a list of potential opportunities, not a recommended portfolio. Underlined text is a change from previous report and if important it will be highlighted in yellow. If and when stocks give buy or sell signals here, they then move into the Advice Tracker section below. Dates listed are first appearances in the Radar Screen or the last major update. We do not take "buy/sell on close" triggers or "at the open" triggers if the stock moves more than 4-5%. See <http://quicktakespro.com/radar.html> for all Radar Screen rules and terms.

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Bullish Implications		
none -		
Bearish Implications		
none -		
Unknown Implications		
none -		
Holding Tank - red shade leans bearish, green shade leans bullish		
Netsuite N - The price action looks like a good setup but we cannot confirm with any indicators. Nice long pennant formation with a flat top. Breakout on volume		9/29
Sector Watch (observations that may spark ideas)		
Healthcare - XLV back in the lead		9/29
Tech - not leading anymore. This is a very key development		9/29
Financials - although they had breakout failures, relative to the market they are still improving		9/29
Energy - Still lagging with no signs of change. Possibly oversold		9/29
Homebuilding - Even with bull reversal last week, it is still lagging.		9/29
Paper and Forest sector - breakdown		10/1
Regional Banks ETF KRE - Marginal breakdown below long-term triangle. See chart below for possible breakdown test		10/2
Real Estate ETF IYR - Now in a two-week range on the 200-day average. Watch for break in either direction and follow along. A possible breakout failure Monday.		10/6
Airlines - Bounce within a trading range but overall it is sideways. Weak on-balance volume. And Monday may have been a big enough decline to create a bearish failure within the range. Stay tuned.		10/6
Updates		
Wal-Mart WMT - breakout failure intraday yesterday		

Market Highlights



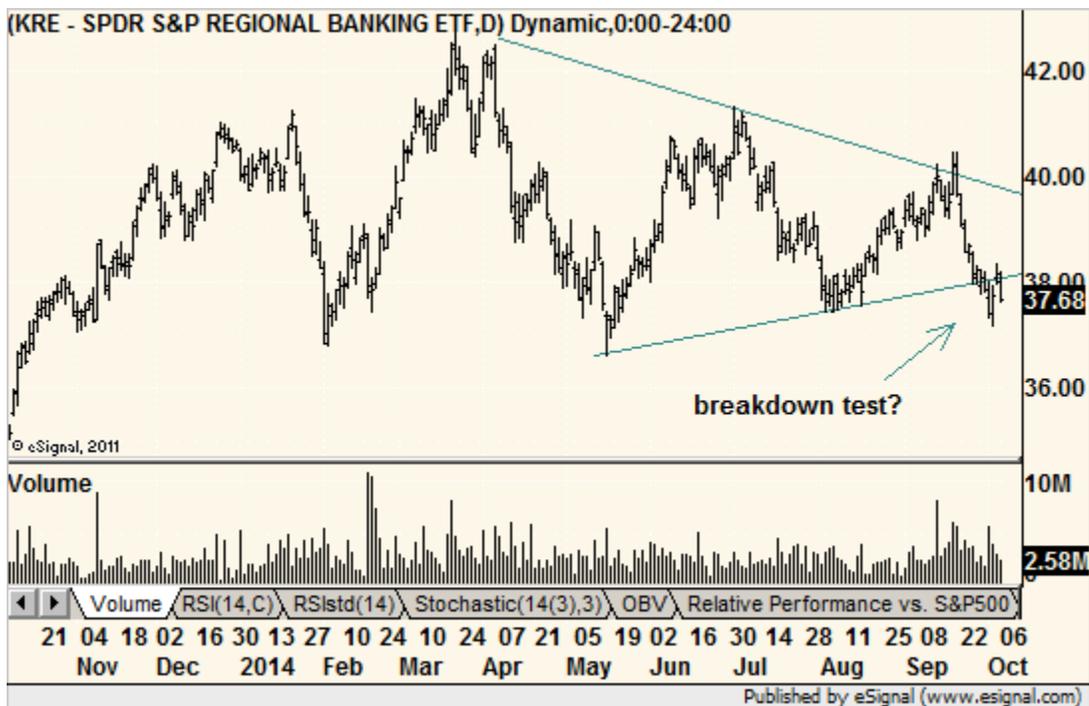
Dollar Index - The trend is up but clearly overbought. Recent volatility sent RSI back below the "overbought" line in a warning that momentum is fading. The trend, however, remains unbroken.

Important - We now see some reports that commercials are very heavy net short the dollar and coupled with the momentum change that could mean the correction will be upon us soon.

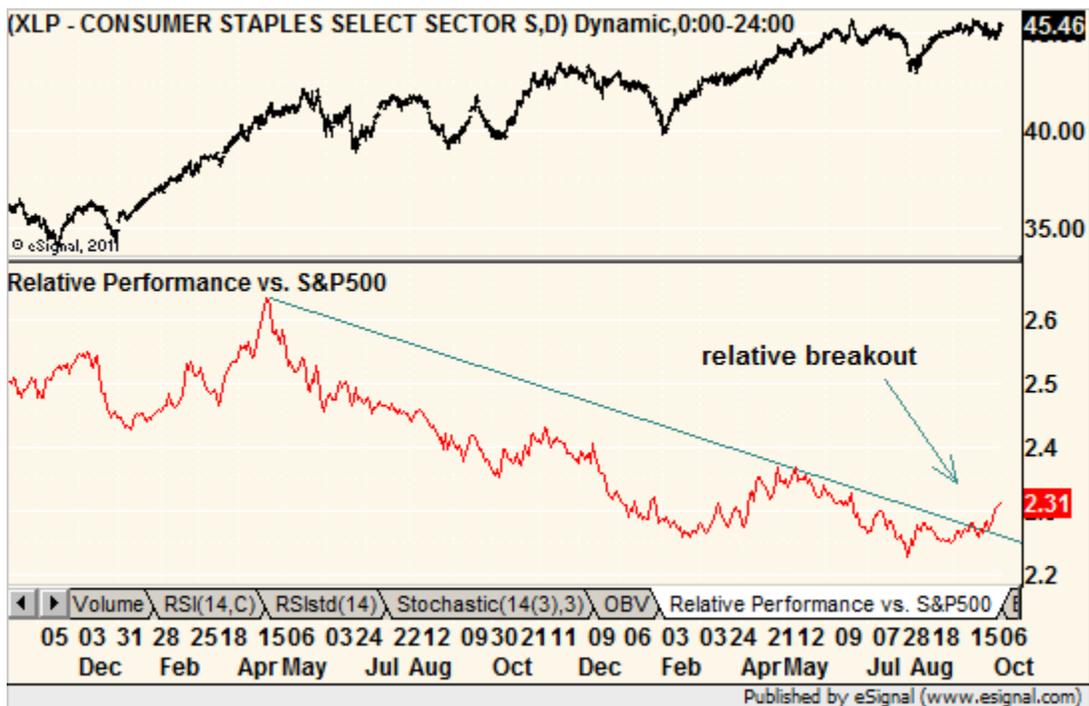
Implications - Aside from a bounce in the euro we could see the same in precious metals. We also saw a report that sentiment in silver was excessively bearish - enough for an upside correction if not end to the slide.

Technically, the dollar still has a long-term breakout in place. However, it makes sense that it will now test that breakout with a pullback.

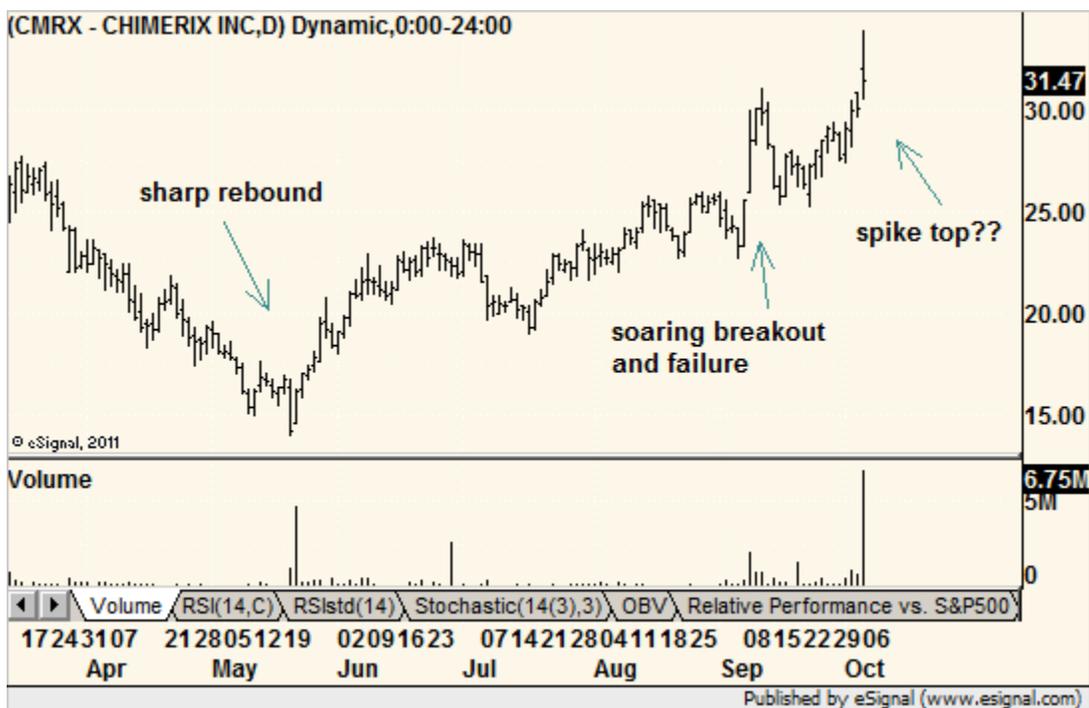
Don't take that as gospel, just odds. If anything, now is not a good time to buy dollars.



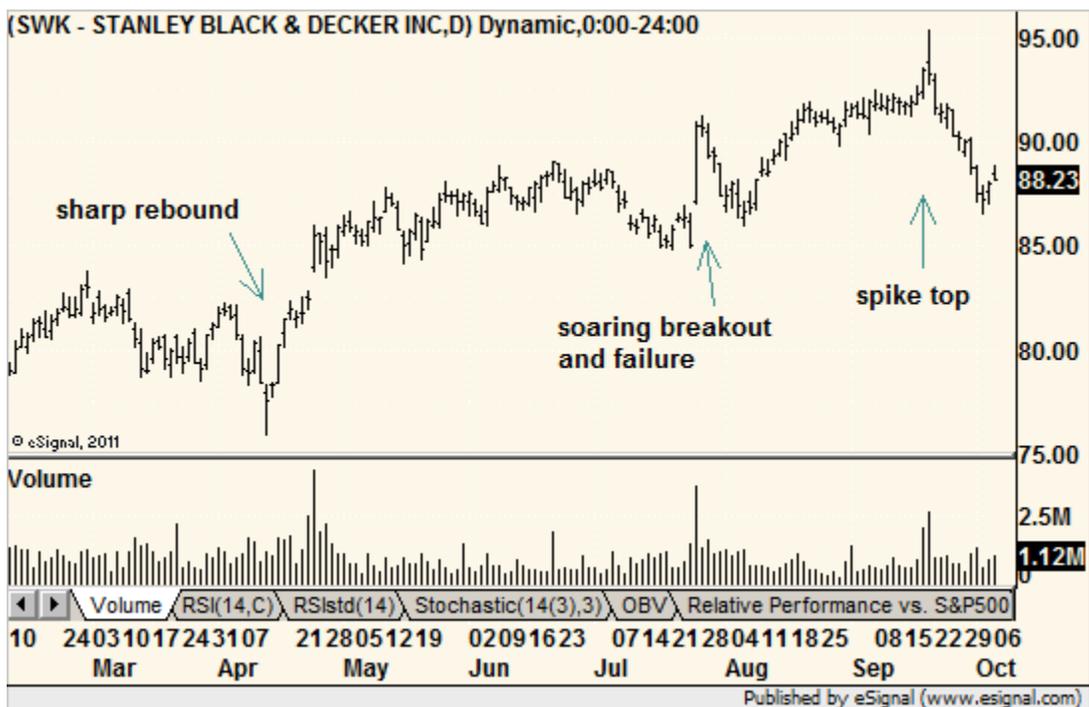
(Key Chart) Regional Banking ETF - The recent gains ended Monday in what could be a test of the breakdown from the triangle seen above. If so, then there is a long way down. A new low confirms it.



(Key Chart) Consumer Staples vs. S&P 500 - A breakout in performance in this defensive sector is a problem, especially with tech and financials no longer leading.



Chimerix - This biotech has a pattern we've seen before. See next chart...

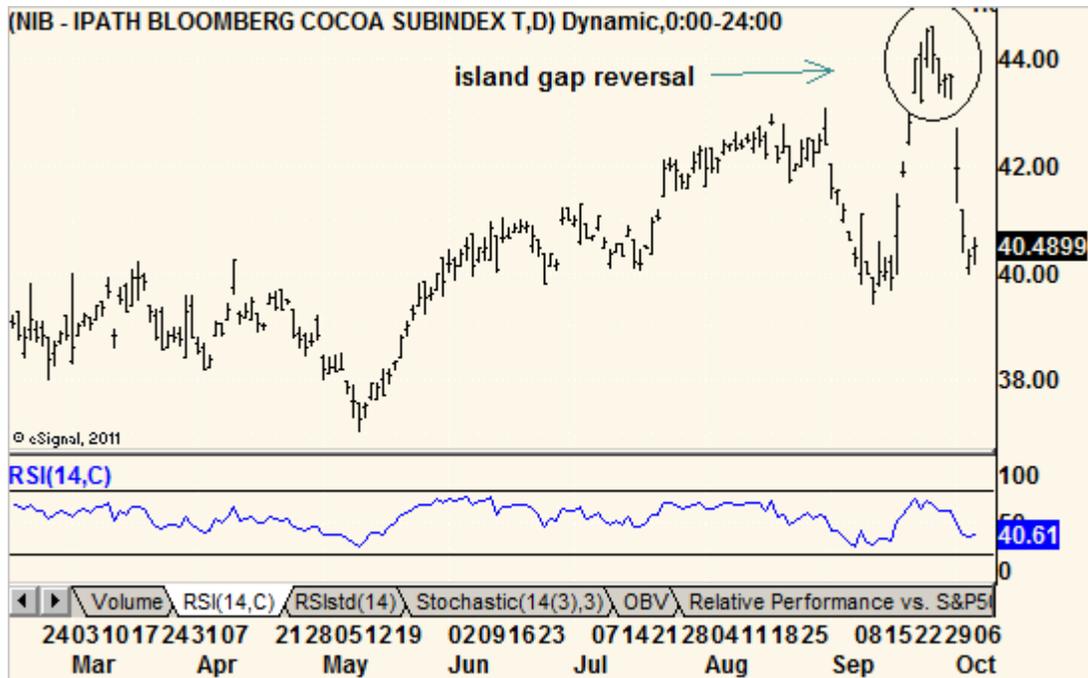


Stanley Black & Decker - This small tool maker bounced out of an April low, soared and failed in July and then rallied into a spike top in September. Could Chimerix have the same path ahead? We'd say yes but wait for the downside follow through. The stock is bid higher in the premarket. Remember, no two trades are identical but similarities are everywhere.

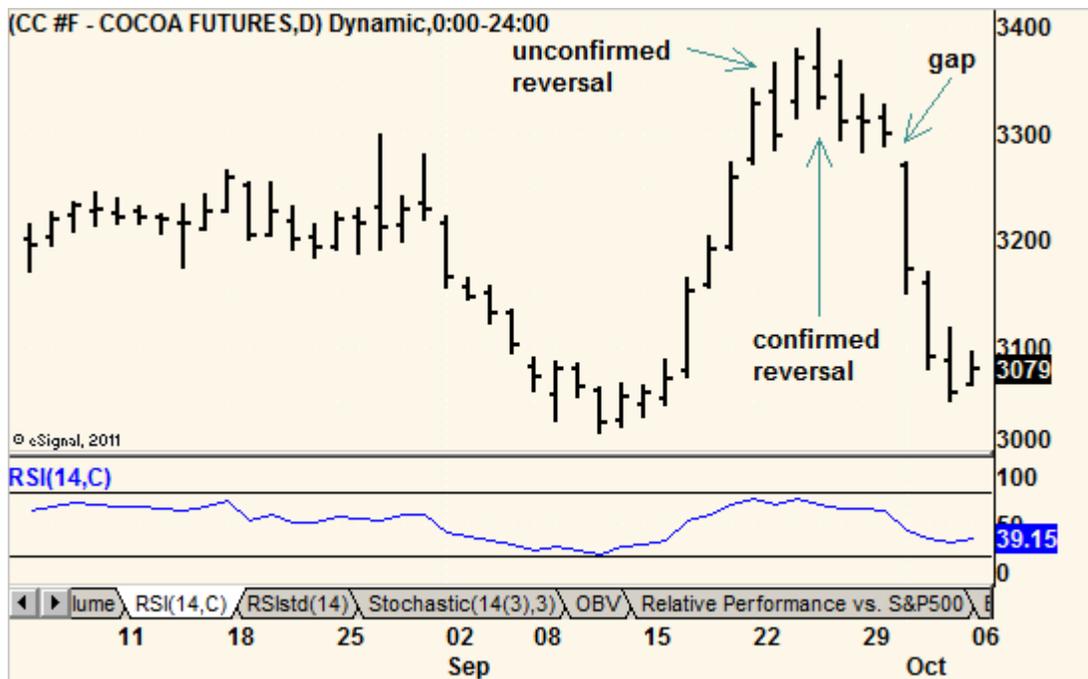
Today's Lesson

In this section, we take a look at a topic in technical analysis in real-time, not textbook time.

Island Gap Reversal



A gap is a place on the charts where no trading takes place because the market was so out of balance that prices had to jump to a new level to fix it. It can tell us the market is exploding in that direction or it can tell us that it just exhausted its fuel. Put both together and we get a rather good signal for a trend reversal. For cocoa, the chart above of the ETN is not the primary market so we have to check out the more liquid one - futures. It does not show an island reversal but it has enough elements to confirm what we see above. Two-pager, [click here](#).



Advice Tracker

This is a list of stocks that have triggered buys or sells and not a recommended portfolio. We will track them with suggested strategies but specific stops and position closes are up to the subscriber. Symbols in **red** mean that the position was stopped out. **Green** means we closed them. Stops in **red** were changed. Any position that moves in the desired direction and then reverses by 5% from the extreme that day is an automatic stop out. This is to compensate for the inability of this once per day newsletter to alert subscribers to the reversal.

	<u>Symbol</u>	<u>Name</u>	<u>Last</u>	<u>P/L</u>	<u>Stop</u>	<u>Price in</u>	<u>Date in</u>	<u>#Days</u>
<u>Long</u>	CERN	CERNER CORP	59.24	3.7%	57.50	57.12	8/26	41
	VZ	VERIZON COMMUNICATIONS INC	50.08	1.9%	48.00	49.15	8/26	41
	NSC	NORFOLK SOUTHERN CORP	111.11	0.7%	108.00	110.31	9/24	12
	WST	WEST PHARMACEUTICAL SVSC INC	44.75	-0.4%	43.00	44.95	9/30	6
	RGEN	REPLIGEN CORP	20.73	2.9%	19.50	20.14	9/30	6
<u>Short</u>	APA	APACHE CORP	86.19	11.1%	91.00	95.80	9/15	21
	PFE	PFIZER INC	29.17	3.5%	31.00	30.18	9/22	14
	LLTC	LINEAR TECHNOLOGY CORP	42.27	3.5%	44.50	43.75	10/1	5
	AXP	AMERICAN EXPRESS CO	87.03	-0.3%	89.00	86.75	10/1	5

Notes: Just some more tweaking of stops on the short side.

Subscriber Corner

This section is dedicated to subscriber requests for stock, futures, index and foreign exchange analysis. Send requests to <mailto:mkahn@quicktakespro.com>.

Other Information

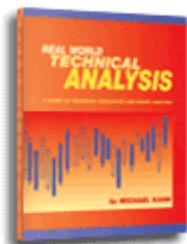
About - Michael Kahn, CMT, has been working with charts and technical analysis since 1986 and currently writes the twice-weekly “Getting Technical” column for Barron's Online. He is also a regular contributor to MarketWatch.com. Michael was formerly Chief Technical Analyst for BridgeNews and seen frequently on financial television including PBS' Nightly Business Report.



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What is a **two-pager**? These are short write-ups on various technical topics that are made available when further explanation of a topic is needed. There is no extra charge to subscribers. For those looking for a more complete reference and a bound version of these two-pagers, we offer the book *Real World Technical Analysis* at <http://www.quicktakespro.com/rwta.html>.

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