

QUICK TAKES PRO

"TECHNICAL ANALYSIS FOR EVERYONE"

MICHAEL KAHN
RESEARCH LLC

October 9, 2014 - Yesterday morning, I wrote what I thought was a most excellent column for Barron's Online, highlighting several of the charts we've discussed here in this newsletter. Things were breaking all over the place it seemed that this time the famous bear killer rally snatching defeat from the jaws of victory was not going to happen. Then it did. My column was written before the Fed minutes and published after the Fed minutes with the Dow 200 points higher than it was at lunch time.

A few breakdowns were erased (not failed since they never happened at the close). I had to scramble to adapt the column to the market and was not at all pleased that bullish one-day reversal patterns appeared.

But then I thought about it and felt better in my conclusions. The Fed sidetracked the bearish case a bit but did they really say anything new? Do they have any real power left besides not raising rates? Will they suddenly stop the taper? Of course not. We'll have to see if there is upside follow through today but many of the features across the market that were broken still are.

Yesterday afternoon's rally was fast and furious. Volume was up a bit, especially in the 2pm hour when the Fed's minutes actually came out. The advance-decline was strong and we will overlook the 288 52-week lows on each the NYSE and Nasdaq. After all, the market did start the day lower to trigger them. What happens in that statistic tomorrow will be very telling. Another high number of lows and we'll be very confident the rally will not last.

Should we be worried that a prominent "mad" commentator said that yesterday's rally would not last, too? He said it is really up to earnings now and it is not looking good (despite Alcoa).

Getting back to technicals, the CNN Money fear/greed index was 4 (0-100 scale) on Monday, which makes no sense since Friday was up big and Monday was flat. Tuesday, it inched up to 5 after that day's big decline. Wednesday, after a monster rally, it dipped back to 3. We are splitting hairs on an index that really has not moved but the real point we want to make is there is total confusion out there. Also, we see no value in the CNN index in calling tops and bottoms. We'll look at it but don't expect market calls from it.

Another indicator is back in play. The follow-through day count is now started and today is day 2. Remember, we are looking for a surge in price and volume 4-7 days into a rally attempt.

As for yesterday's simple chart action, there were indeed bullish reversals all over the place. Volume was heavy, breadth (advance-decline) was strong and breakdowns in the Russell, NYSE composite and even the Dow were saved. And while the transports also reversed we saw something in the news this morning that may squash that in a hurry (so far it is not). Workers at LaGuardia airport in NY are on strike to protest the lack of precautions and training to clean airplanes potentially carrying Ebola. It's fundamental but we'll see if it shows up in trading today.

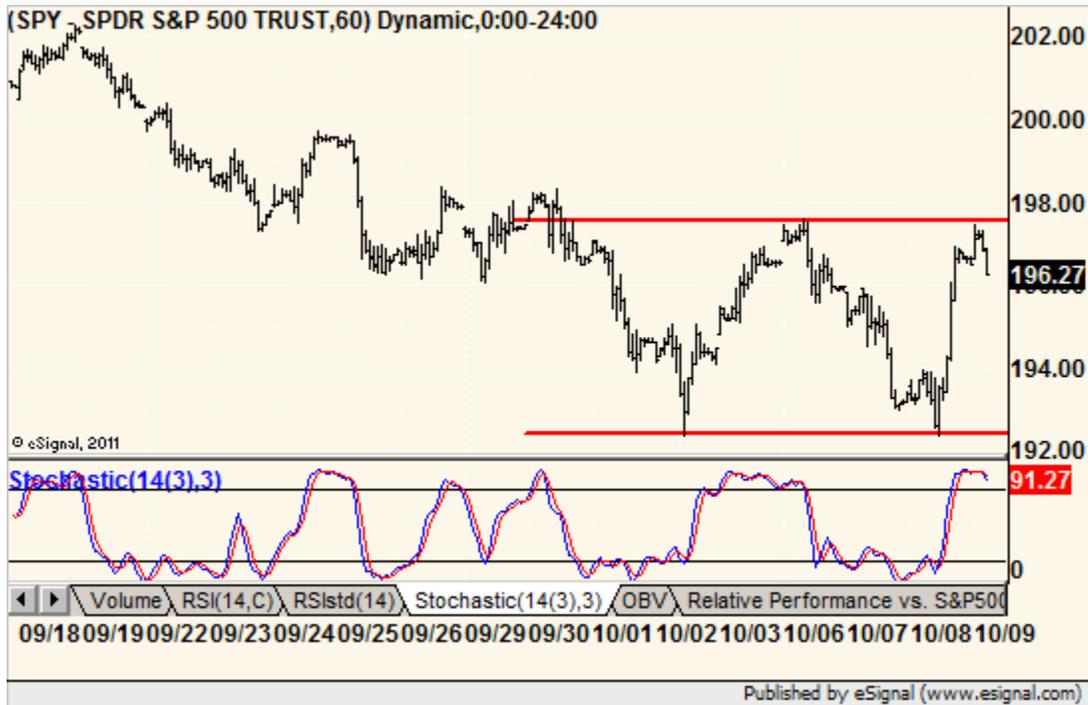
Here's another bearish bit. Europe could not rally off the American gains yesterday. Remember, it was closed when the Fed minutes were released. Bourses there did open nicely higher but as we write these words most have reversed to the downside and are in the red on the day. Let that sink in. The Dow rallies 274 and Europe is negative.

More...

As you can guess, we are not that enthused with the rebound rally. We think that this time it came too late and technical damage has been done: not to mention that the Fed's power seems to be very diminished (out of bullets).

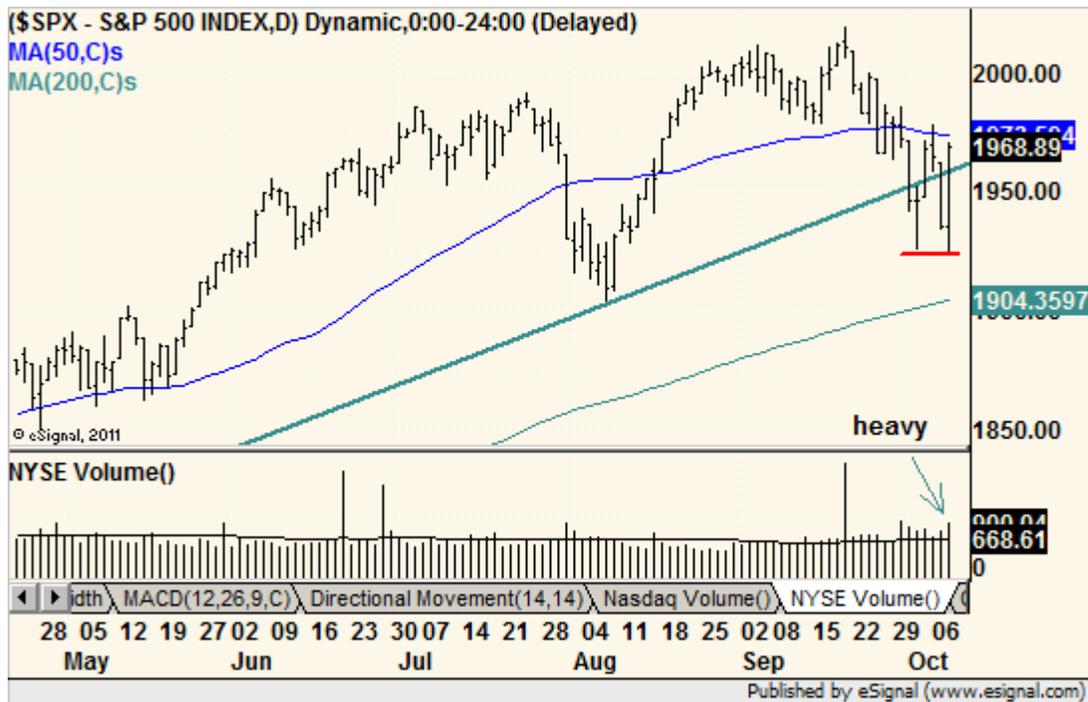
We can't predict if the market will follow through today or not but it does seem a bit too convenient to think that buying yet another dip will work out. Think about it. It did not work very well Friday, did it? Unless you are a day trader you ended up at a new low yesterday morning. If the market were truly strong we really do not think it would allow people to buy again this easily.

Yes, we are talking the book a little but bonds are staying strong and the dollar, though correcting, is not helping the leading stocks which are big exporters. Again, no stock picks or pans until the trend becomes clear.

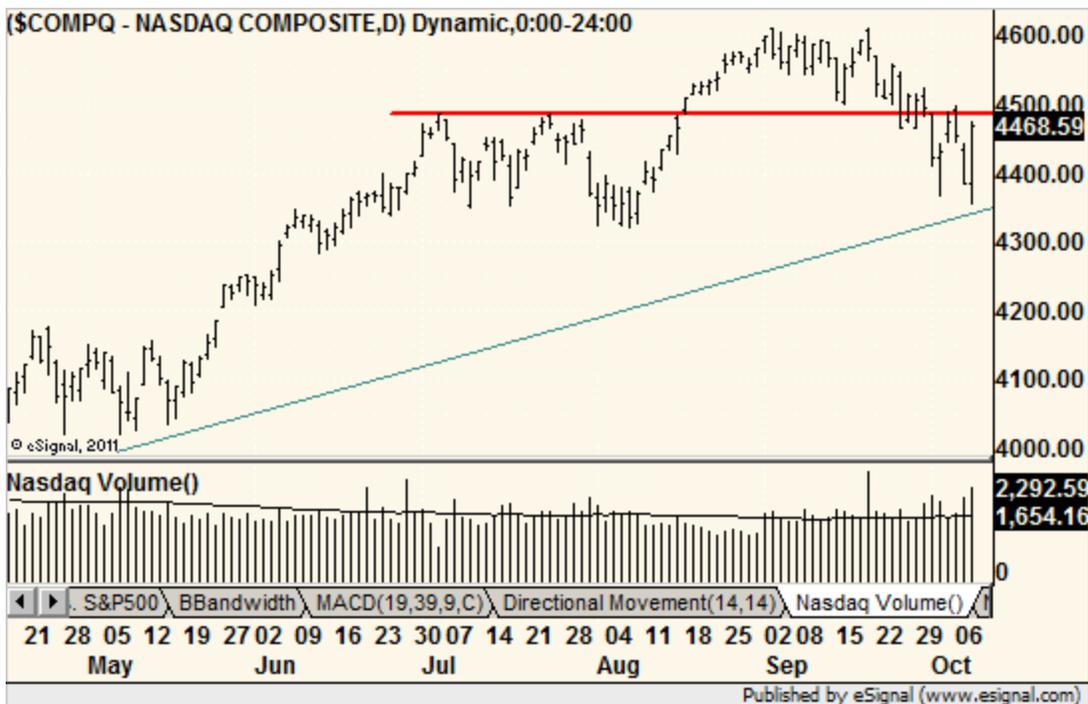


The hourly chart shows the rally from what is now support close to what is now resistance. Overnight there was a little upside to reach that resistance and it seems to be fading this morning.

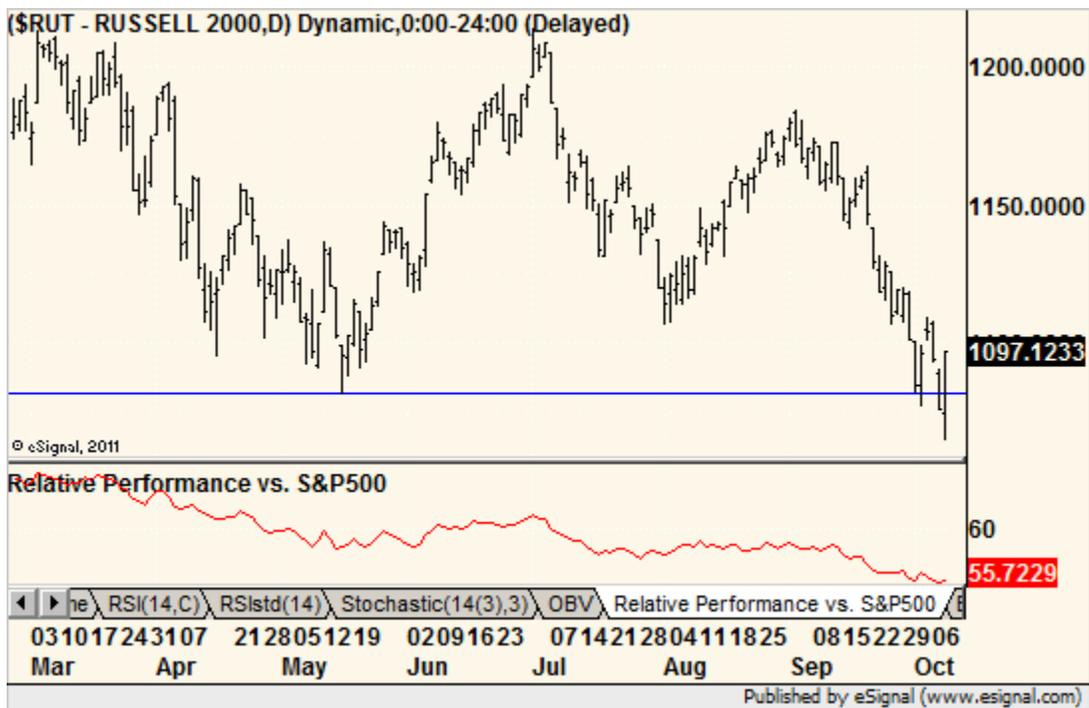
Index Charts of the Day



Lots of stuff on the S&P 500 chart. The bullish stuff is a reversal yesterday on heavy volume. It is also back above the old trendline. The bearish is the fact that strong markets do not mess around when they touch trendlines. The rebound quickly - as it 1-3 days. This one did not and it is still below its 50-day average.



The Nasdaq reversed off its trendline so it is a bit stronger.



The Russell 2000 saved a major support break but it, too, is messing around instead of bouncing strongly. It was able to muster such a rebound in May. Not this time, at least not yet.

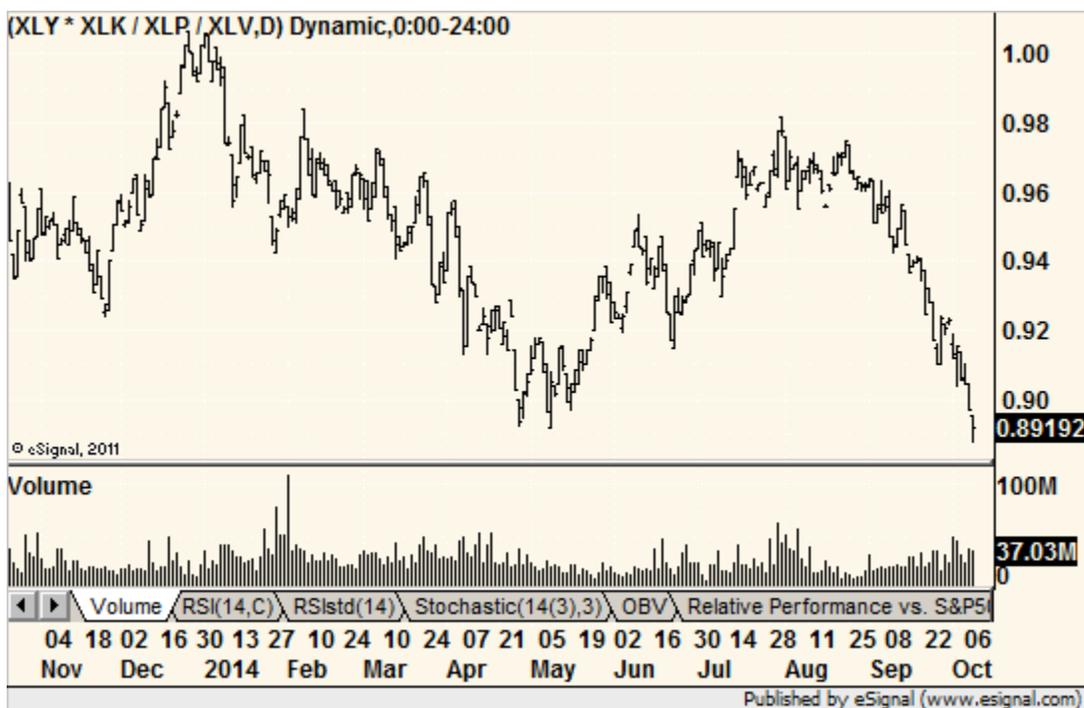
The Radar Screen

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.

>> we are likely to reset the whole Radar Screen and start fresh tomorrow. Nothing new here (except the Updates section) again today.

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.		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 - breakout failure and <u>not</u> leading anymore		9/29
Energy - High volume hammer candle	Changed	9/29
Homebuilding - still lagging.		9/29
Regional Banks ETF KRE - Marginal breakdown below long-term triangle.		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. <u>Upside seems to have won</u>		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		
Chimerix CMRX - Looks pretty toppy now. Recall we were following the pattern SWK formed		
Metals and Mining ETF XME - Big hammer candle		
Google GOOGL - Saved a very critical range breakdown		
Bank of America BAC - Bounced off rising trendline from RSI divergence still in place.		

Market Highlights



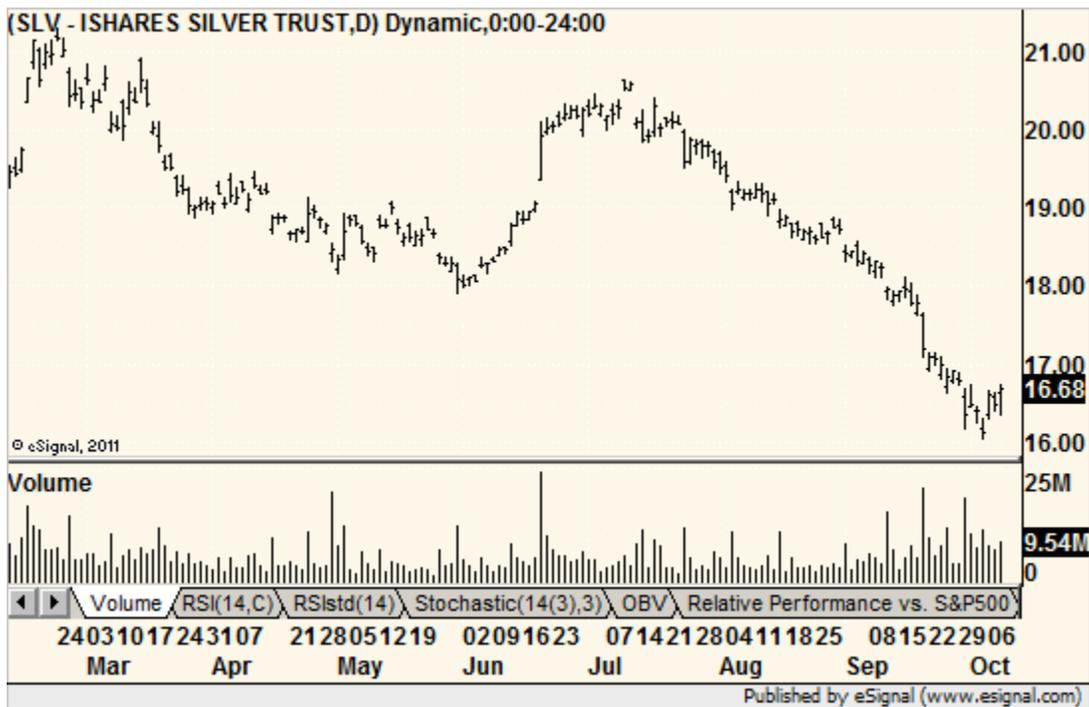
Offense / defense index - Interesting that this indicator fell and took out its May low. Defensive stocks got the better of offensive stocks as the Dow gained 274.



Gold ETF - A little reversion to the mean perhaps as prices were quite far below the 50-day average. Trading at the red line in the premarket after bouncing off support. While the bottom may be in (not saying that) there is nothing suggesting a bit rally is starting. A correcting dollar (see next chart) will help push gold higher but it still has a long-term upside breakout in place.



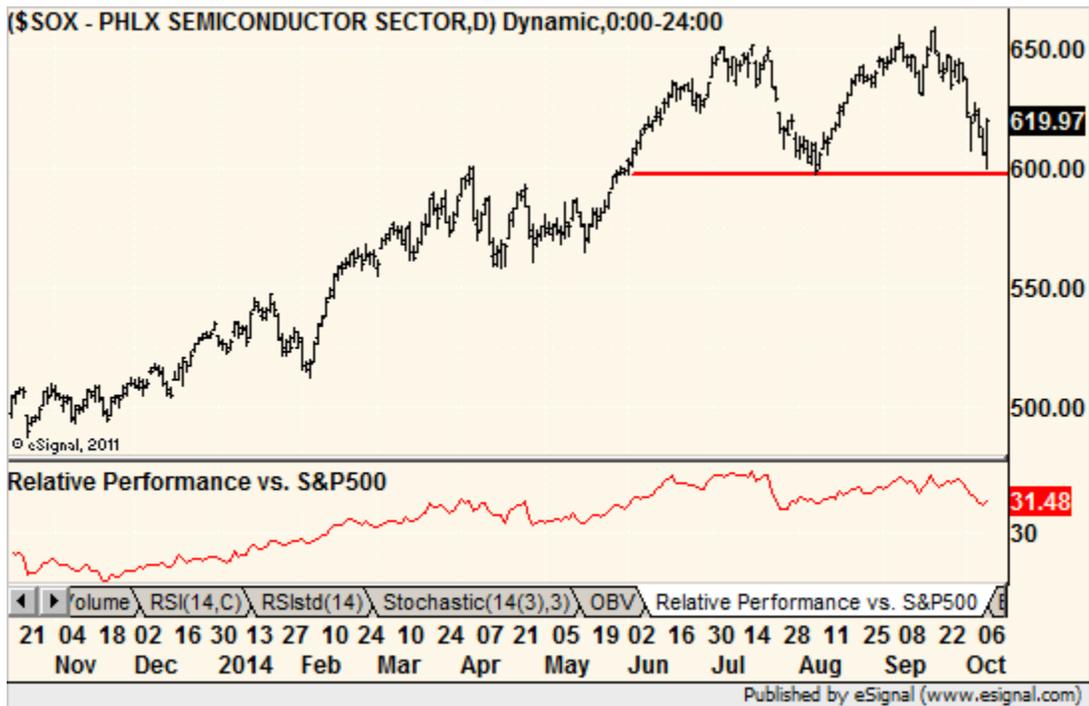
Gold miner ETF - That is what we call a monster bullish reversal.



Silver ETF - Silver was up, too, but not nearly with the same power.



Energy ETF - A big bullish hammer candle but without follow through it is nothing. So far, it is not happening here or in oil itself.



Semiconductor Index - This is a tell for all of tech. We see a reversal at support but here, too, we need to see follow through. Failure now would be very bearish.



US dollar index - Here is the hourly head-and-shoulders pattern I tweeted out yesterday. The downside target is 84.40. Let's take a look at it in the daily time frame.



As we can see, the target is significant but not unreasonable. If it goes that low it would be a 2.6% decline from the top. Note the long-term trendline that was broken to the upside recently is now in the area of the target. That tells us the current pullback is likely a test of that long-term breakout.

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	59.22	3.7%	sell	57.12	8/26	43
	VZ	VERIZON COMMUNICATIONS INC	49.87	1.5%	sell	49.15	8/26	43
	NSC	NORFOLK SOUTHERN CORP	108.00	-2.1%		110.31	9/24	14
	WST	WEST PHARMACEUTICAL SVSC INC	44.77	-0.4%	sell	44.95	9/30	8
	RGEN	REPLIGEN CORP	21.83	8.4%	20.50	20.14	9/30	8
<u>Short</u>	APA	APACHE CORP	85.43	12.1%	88.00	95.80	9/15	23
	PFE	PFIZER INC	29.38	2.7%	30.00	30.18	9/22	16
	LLTC	LINEAR TECHNOLOGY CORP	42.50	2.9%	43.00	43.75	10/1	7
	AXP	AMERICAN EXPRESS CO	87.41	-0.8%	89.00	86.75	10/1	7

Notes: Selling **VZ** now that we got the dividend.

Selling **CERN** as we think the chart looks shaky.

Selling **WST** as we said we would on the bounce. The reason we bought it is gone.

We were going to do the same with **NSC** but got whipsawed out intraday.

Raise stop in **RGEN**.

Bullish reversals on other shorts look bad for us but stops are too close to tinker.

As you can see, we are taking advantage of the rally to lighten up the longs. We really don't believe the market will keep climbing -at least not until we see follow through.

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

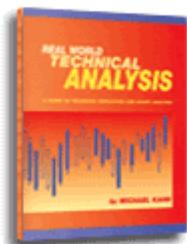
About - Michael Kahn, CMT, has been working with charts and technical analysis since 1986 and currently writes the twice-weekly “Getting Technical” column for Barron's Online. He is also a regular contributor to MarketWatch.com. Michael was formerly Chief Technical Analyst for BridgeNews and seen frequently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



24/7 Website archive – <http://www.quicktakespro.com/archive> (password needed)

Customer Support - <http://www.quicktakespro.com/support.html>

Recommended reading - <http://www.quicktakespro.com/education.html>



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>.

Refer a colleague to Quick Takes Pro and get a free month of service for each new paying subscriber. Just send an email (<mailto:mkahn@quicktakespro.com>) with names and email addresses and we'll track them and credit your account.

Connect with us:



<http://www.facebook.com/QuickTakesPro.biz>



<http://twitter.com/mnkahn>



<http://www.linkedin.com/in/QuickTakesPro>



<http://www.quicktakespro.com/blog>



<http://pinterest.com/mnkahn/>



<http://youtube.com/quicktakespro>



<http://stocktwits.com/mnkahn>

The information contained in this report is opinion, based on information that we deem to be reliable at the time of publication, but is not guaranteed in any form. This report does not constitute a recommendation to purchase or sell any security and the analysts are not registered investment advisors. Further analysis is recommended before undertaking any position in any security. Any risks are solely the responsibility of the buyer/seller. The authors, publishers and distributors of Quick Takes Pro and any associates thereof accept no liability for the content or actions taken by anyone or institution utilizing this report. The authors, publishers and distributors of Quick Takes Pro may have positions in securities mentioned in this report. All charts prepared with [eSignal](#) data and software unless otherwise indicated.

All contents © Michael Kahn Research LLC, 2014