

Quick Takes Pro

"Technical Analysis for Everyone"

By Michael Kahn

January 22, 2007 – Tech landed on a few moving averages after a brutal sell off last week so we have to think that it is going to lick its wounds today (as in not fall too much more for now). What is interesting is that we've seen analysts (technical) start to look at oil again, as we have talked about last week. The market is rather hated now and rather oversold so it is a decent time to take a nibble on the long side. We say nibble rather than bite because more than a few are looking for this bounce and the market never gives the majority what they want.

We are not going to buy into the fundamental argument that the Northeast is now cold and in need of heating oil. Who really thought it would stay 75 degrees in New York City? And what about the blizzard conditions in Colorado and Texas? We all knew the winter would reassert itself.

So, we've got a rotation from tech to energy and resources. Take a look at the **CEX** chemicals index and see a nice range breakout (thank you **DD**). **HPC** and **GRA** are just waiting for theirs.

Market Themes (these do not change every day)

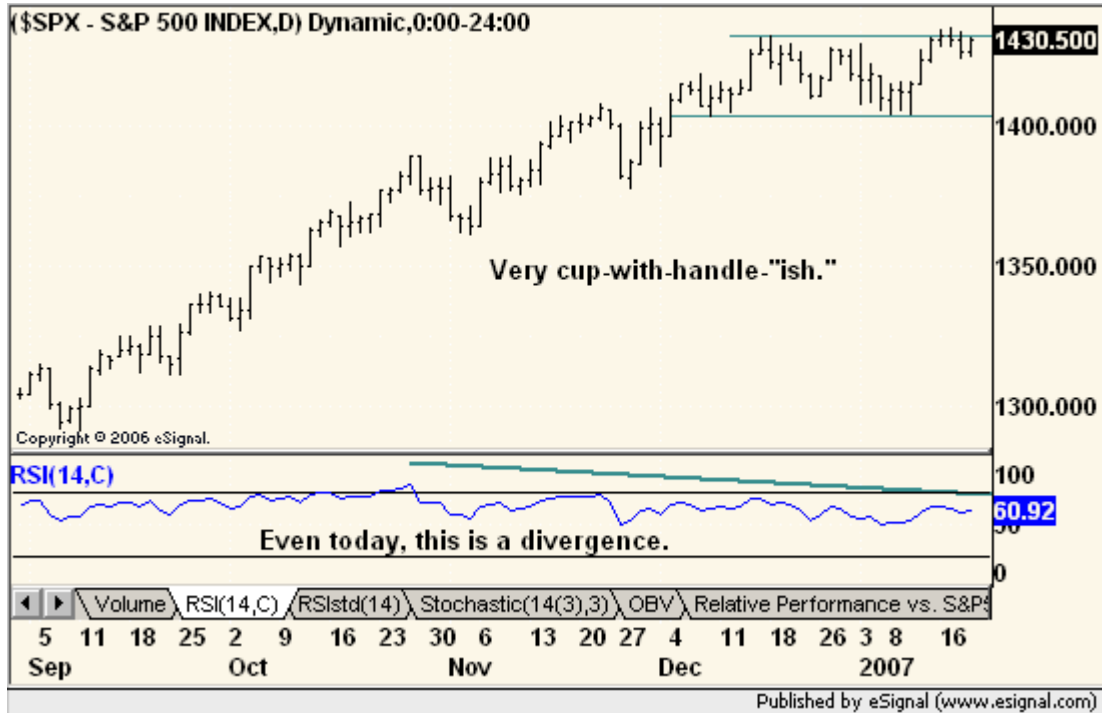
- Interest rates rising but bonds made a short-term reversal to pause it
- Healthcare improved relative to the market
- Rotation from tech back to energy and resources
- Retailers leading
- Breakdown in the utilities.

Market indicators (these do not change every day)

- Advance-decline still up but Nasdaq and Amex made lower highs
- New 52-week lows back down to single digits
- Trend still bullish
- Momentum divergences continue in all major indices

Market Index Chart of the Day

In this section we highlight one or two major indices to keep tabs of the market's trend, momentum condition and volume support.



The S&P is in a trading range that could be argued as a cup-with-handle pattern for one reason – there is a four-day pause at resistance (the handle). Otherwise, the cup portion is really not there.

Our take is that this is a trading range with a high-level consolidation. A breakout from the consolidation also breaks the trading range (above 1432) and if that happens, the upside target would be about 1460.

The Radar Screen

This is a list of potential opportunities, not a recommended portfolio. Underlined text is a change from previous report. If and when stocks give buy or sell signals here, they then move into the Portfolio Tracker in a section below.

Bullish Implications

- **IHP** – two-month triangle pattern (restaurant). Needs to break last week's high.
- **SIRI** – basing with resistance at 4.38-4.40
- **RTI** – titanium stock in a two-month flag. Needs to take out Friday's high.
- **CVTI** – trucker still in a multi-month downtrend but its peers are firming
- **ODFL** – Trucker looking better after a major decline.
- **ABFS** – Trucker looking better after a major decline. Resistance 41.
- **SUP** – auto parts stock in a bear market while its sector is breaking out. Arguable trendline breakout with small bullish base. OK to buy if you have a fundamental reason to like it. Technical breakout above 20.26.

Bearish Implications

- **CERN** – five-month support at 44.20.
- **CAT** - major support at 59
- **EDS** – gap up failure left this stock at key support of 26.35.
- **UNH** – downside breakaway gap but still sitting on rising November trendline. Bearish RSI divergence. Looking to sell a one or two day bounce, depending on strength.
- **MER** – did not follow through on a big key reversal to the downside. Must take out Thursday low.

Unknown Implications

- **FLIR** – defense stock in a two-month triangle. Resistance 32.50. False breakout and reversal but on low volume. Still watching. Support 30.80.

The holding tank (just a place to keep tabs on things for later)

- **IP** – nearing apex of a multi-year triangle pattern. Breakout day could be today.
- **FDG** – coal stock with a low P/E and possibly ending a bear trend. Still early.
- **MSA** – right now at a two-year trendline. Bullish on-balance volume. (gas masks).

New alerts (not in Market Highlights section below)

- **none** –

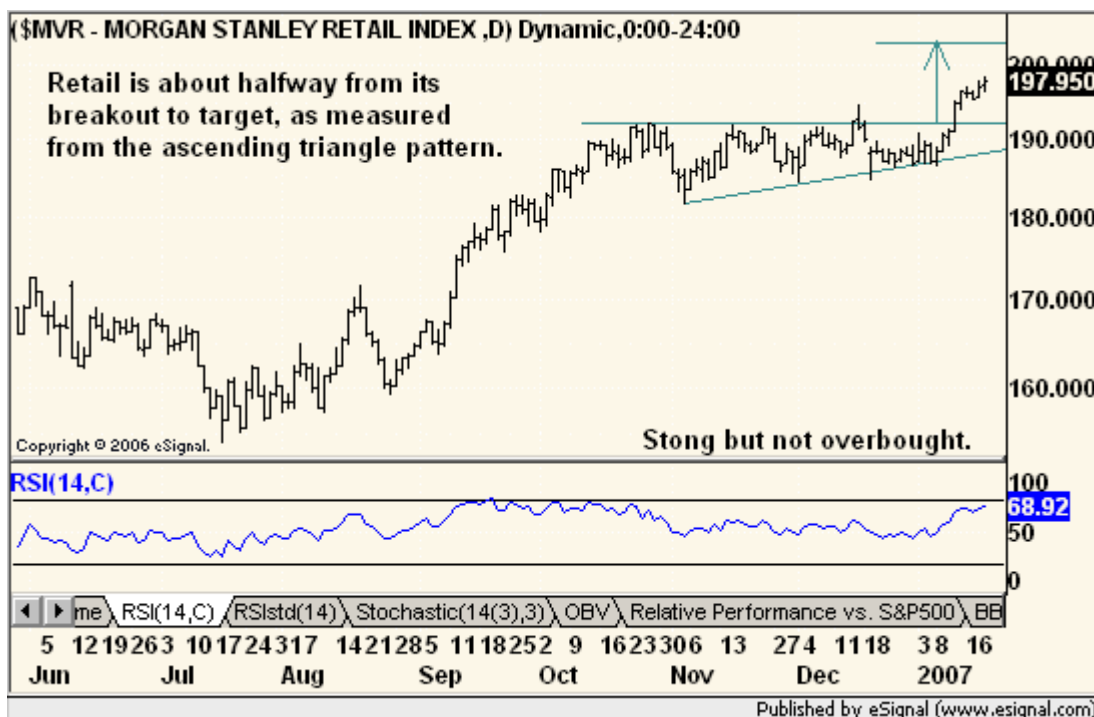
Updates

- **IBM** – huge downside breakaway gap but it finished at the day-session's best levels. See Today's Lesson for more.

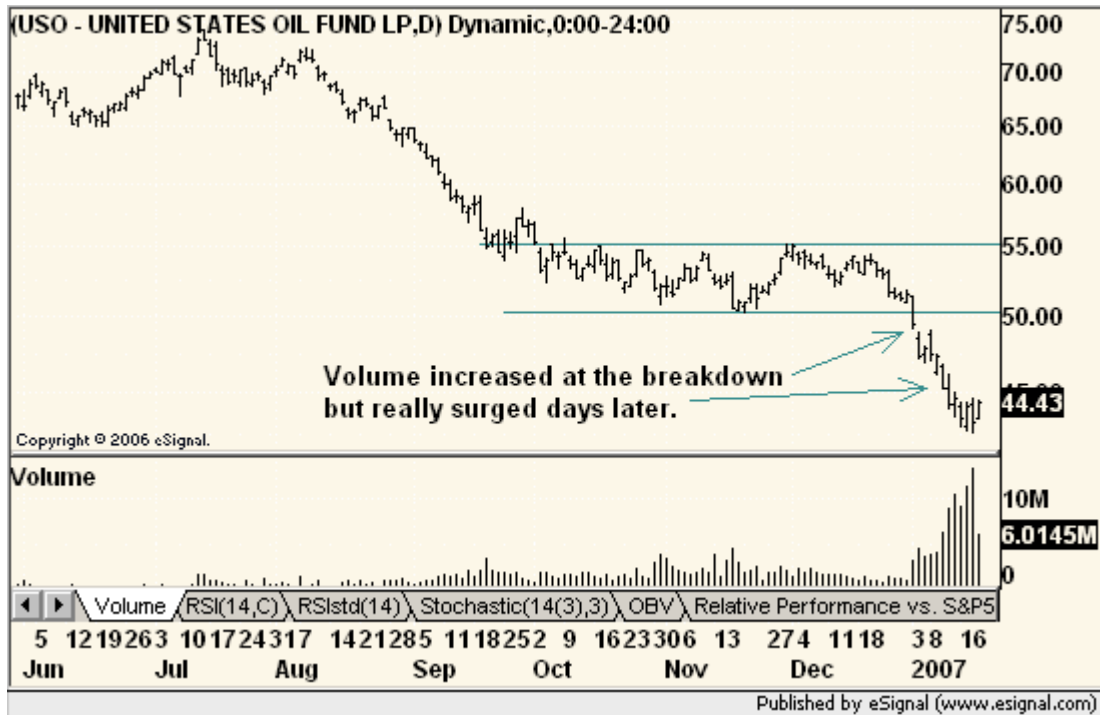
Sector Watch

Quick Take sector charts of interest with notes on what we are watching.

Gold	XAU index in decline short-term. Long-term support in the 120 area.
Software	The SWH ETF is back in its rectangle pattern.
Drugs	The RXS has finally gotten its act together and it back in rally mode. <u>Now approaching resistance.</u>
Europe	XEX index <u>still in a rising trend</u> but underperforming the US.
Utilities	trendline breakdown for the UTY
Tobacco	TOB index at the upper border of an expanding triangle and falling.
Brokers	XBD and KSX indices <u>no longer overbought.</u>
Railroads	DJ rails index <u>broke out but then reversed. Warning!</u>
Housing	HGX index broke out from a two-month flag and is now at short-term resistance.
Chips	Breakdown for the SOX .
Banks	Still in a bull market but underperforming the S&P 500. Now in a mini-bear flag with critical support at 115 for the BKX .
Oil services	Still holding on to long-term support at 186 on the OSX . <u>Looking to nibble long.</u>
Healthcare	XLV ETF now outperforming and at new highs. <u>Currently overbought.</u>



Market Highlights

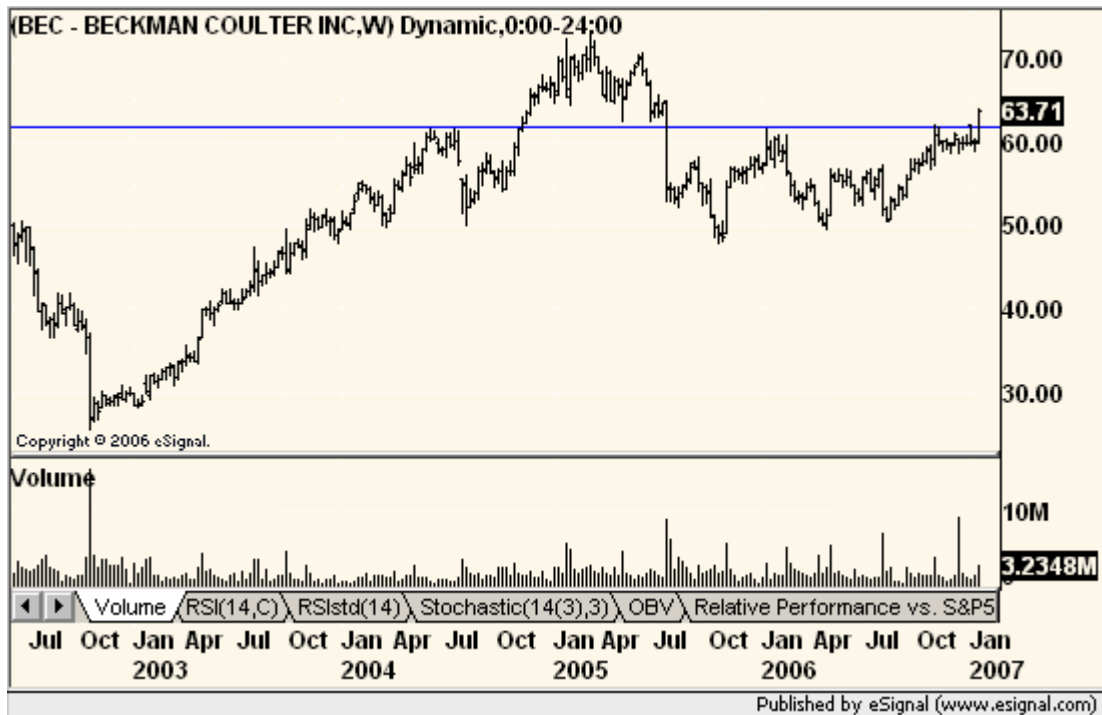


Oil ETF – Here is the chart we mentioned Friday. Look at the incredible surge in volume over the past few days. This sure looks like a case of volume leading price as it comes well into a declining trend and after the breakdown from the trading range, not during the breakdown.

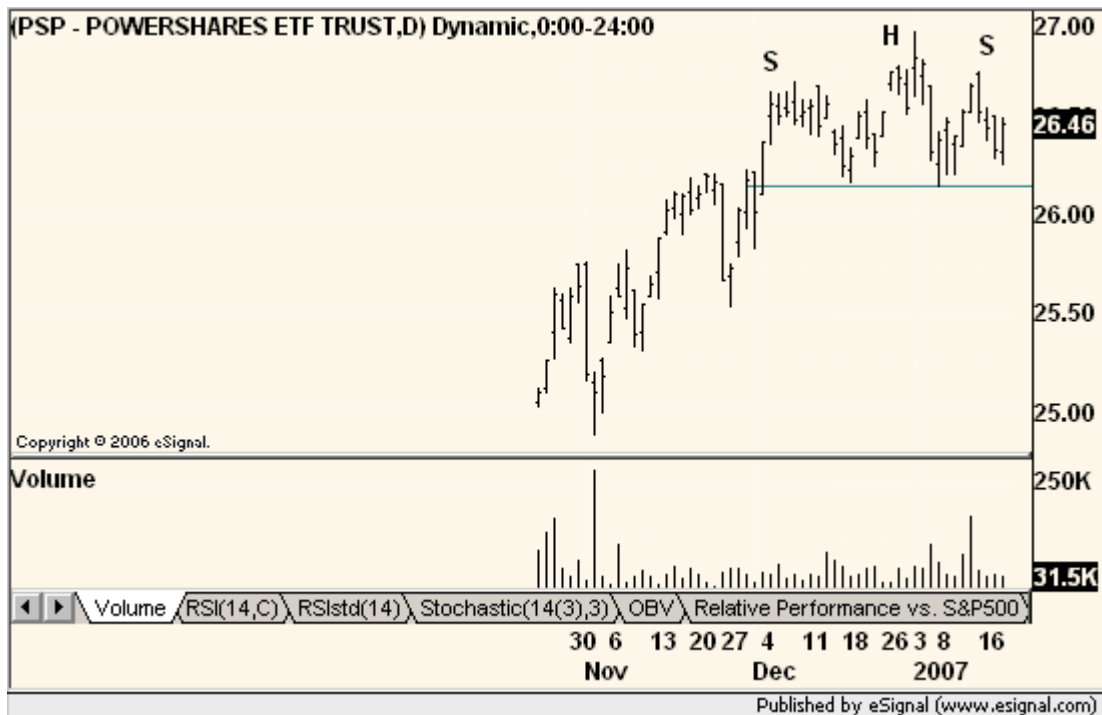
Such volume increases, especially when there is little price movement, often lead changes of trend. While there are no technical signals such as momentum divergences or reversals, this is still a rather low-risk setup for going long. It is low risk because we will know immediately if we are wrong as prices set new lows. The upside is the old breakdown point near 50 for a good risk/reward ratio.

Two-pager on low risk trading – click [here](#).

Note to Rob – similar volume surge in the **OIH** ETF.



Beckman Coulter – Long-term breakout. Be careful with this one as Friday’s breakout gain was 3.6%. (medical equipment)



Private Equity ETF – This ETDF tracks an index of 34 listed private-equity companies “that primarily invest in and lend capital to privately-held firms.” Clearly, we cannot read too much into a data series that is so young but it does show a head-and-shoulders-like pattern. We are not advocating trading this ETF but will keep an eye on it to see if it breaks down. Private equity has been the source of fuel for the bull market as a part of the sea of liquidity out there. If it ends, so will the bull.

Advice Tracker

This list of stocks that have triggered buys or sells. We will keep track of their progress here and note when we think it is time to close positions. Cost bases are close prices following breakout/breakdown moves so we will often lag the performance of subscribers acting at the breakout levels we indicate in the sections above.

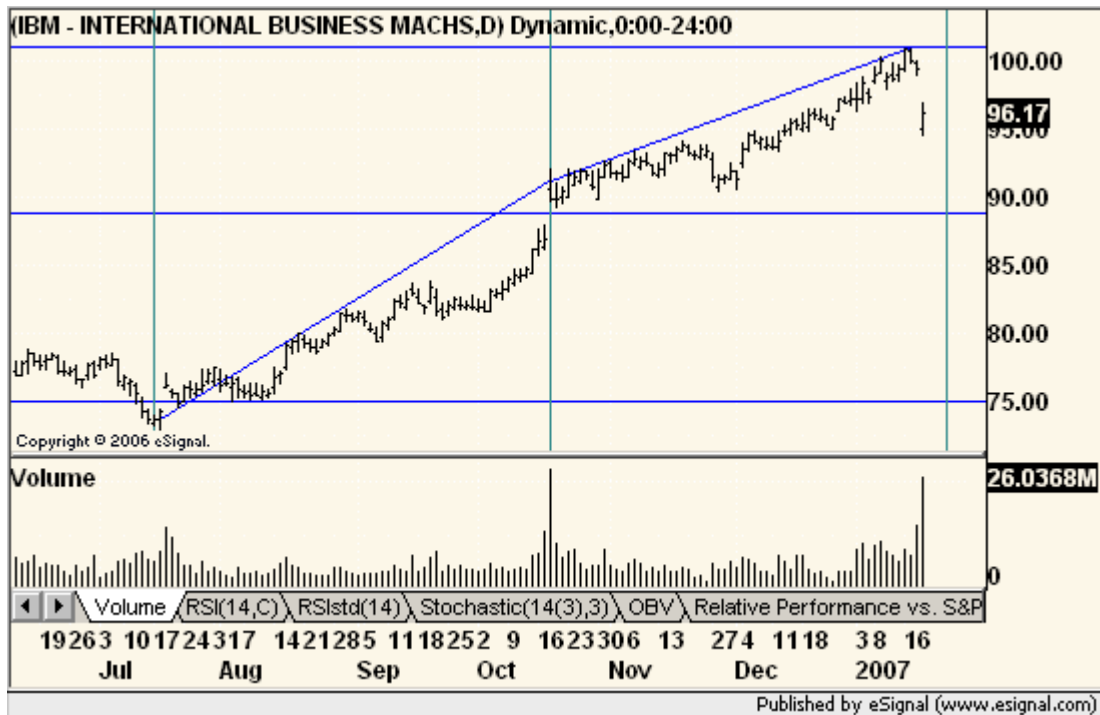
<u>Long</u>	<u>Date</u>	<u>Price</u>	<u>Current</u>	<u>Comments</u>	<u>days</u>	<u>percent</u>
XLP	12/5	26.04	26.61	Stop 26.25	47	2.2%
ABT	1/8	50.08	53.52	Stop 51	13	6.9%
CBG	1/10	34.25	35.03	Stop 34.75	11	2.3%
XRX	1/11	17.28	16.87	Stop 16.85	10	-2.4%
PDLI	1/11	21.06	21.75	Stop 20.00	10	3.3%
NOC	1/11	69.20	70.29	Stop 68.00	10	1.6%
GE	1/16	38.11	36.95	Stop 36.50	5	-3.0%
KNX	1/16	18.96	19.06	Stop 18.50	5	0.5%
WAG	1/17	46.51	46.01	Stop 45.25	4	-1.1%
JNJ	1/19	67.71	67.76	drugs	2	0.1%
MRK	1/19	45.74	45.60	drugs	2	-0.3%

<u>Short</u>	<u>Date</u>	<u>Price</u>	<u>Current</u>	<u>Comments</u>	<u>days</u>	<u>percent</u>
EBAY	11/27	32.14	29.66	Stop 31.00	55	7.7%
TLT	12/14	89.68	87.99	Long bond ETF. Stop 89.	38	1.9%
EK	1/16	25.06	24.75	Stop 26	5	1.2%
ERTS	1/17	49.48	50.34	poor entry for us. Stop 53	4	-1.7%

Positions closed since last report – none

Today's Lesson

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



Confluence of indicators. This chart shows IBM with a downside breakaway gap on huge volume. But there is a lot more here suggesting that this stock is pretty much done rallying for now.

Gaps – This chart shows a nice upside breakaway gap in July, a nice continuation, or measuring gap, in October and a very arguable exhaustion gap in December. Exhaustion gaps do not usually occur so many days before the top and they should probably have a bit more power behind them but the bottom line here is that after the gap the market did very little. ([two-pager](#))

Time – the vertical lines are evenly spaced. It was 65 days from July low to the continuation gap in October and the line on the right is another 65 days from that. The action last week is a bit short in time but not too bad.

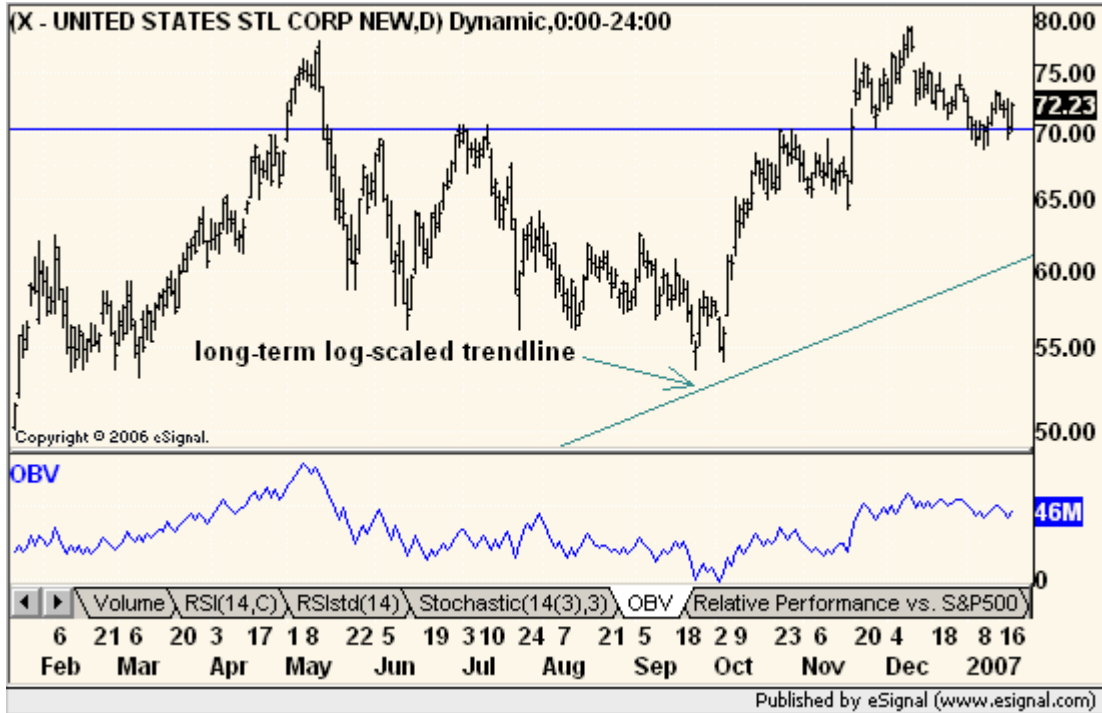
Format – About two years ago, we briefly discussed some interesting analyses from Gerald Appel's (creator of MACD) then-new book. He said that the slope of any trend changes at about the halfway point and that could give us an idea of how long it might last. Again, it came up a bit shot but it is close enough.

Momentum – not shown are bearish divergences in RSI and MACD.

Resistance – also not shown is resistance from two major peaks in 2004.

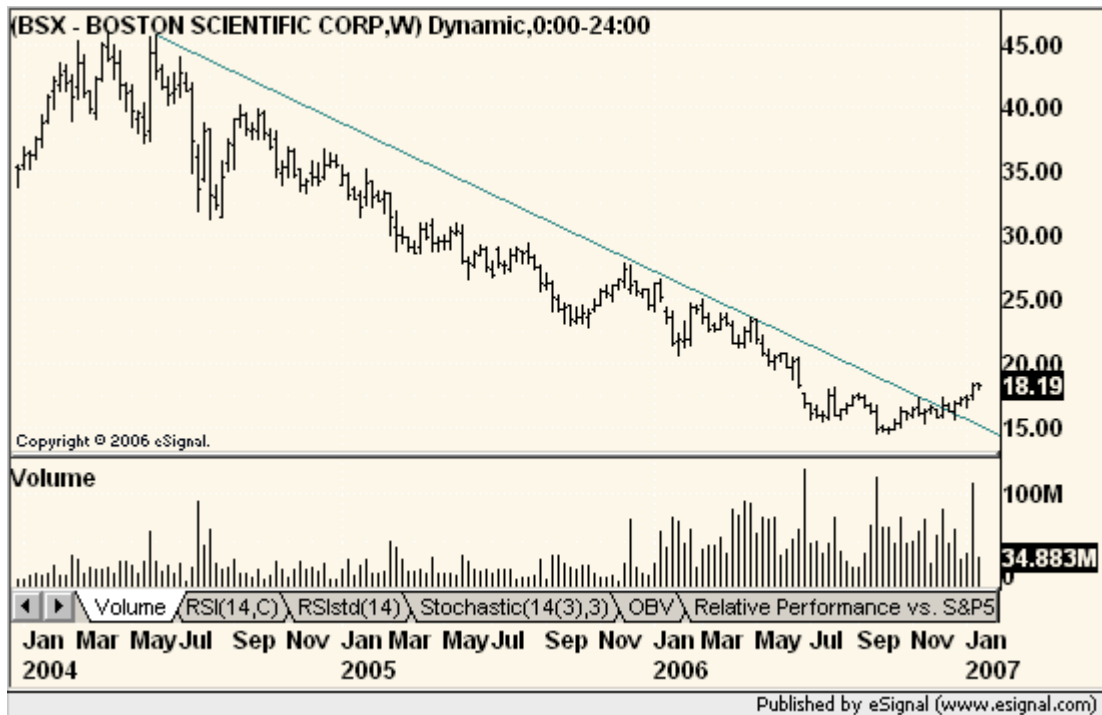
Subscriber Corner

This section is dedicated to subscriber requests for stock, futures, index and foreign exchange analysis. Send requests here.



US Steel – We cannot say how this will fare over the next few months as it is in between support from the trendline and resistance from the two price peaks seen in this chart. As long as the trendline holds, then any fundamental reason to like this stock is OK with us.

As for this being a cup-with-handle (on the weekly chart, the cup portion is really not close to what it should be. Remember, the cup is supposed to represent a gradual cooling off of the stock, a period of disinterest and then a gradual re-heating. The handle is the pause before the breakout. Regardless of what we call this pattern, the breakout is still the key for the long-term health of this stock and that comes above 79.



Boston Scientific – We looked at this stock as it was making its initial breakout from this trendline but got whipsawed out of the position. The short-term chart shows that it has already cleared resistance from all the peaks of the past seven months and that is a positive.

The subscriber was correct to point out that the daily chart shows more indecision, especially with volume. However, we think that it saw a selling climax in September and it has been rising rather steadily ever since. The sector is right, too.

Finally, the volume surge earlier this month came on a short-term breakout so all in all it looks pretty decent.

Other Information

For service updates – www.QuickTakesPro.com/status.htm

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 need. There is no extra charge to subscribers. For those looking for a more complete reference and a bound version of these two-pagers, visit <http://www.crbtrader.com/pubs/nrwtaquicktakes.asp>

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