

## Market Review: 9/17/2011

By Eric Coleman

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### Summary:

Some features of last week's trade suggest a subtle and underlying transition in the market. For the past 6-7 weeks, EV allowed one to take advantage of volatility by monitoring which stocks were being accumulated during sharp selloffs. Such mean reversion trades that relied upon a divergence between price and LEV reward one quickly. Pascal's daily comments helped prepare one for this week's bounce, which didn't quite feel like a vigorous bounce – but it was a bounce nonetheless.

The features I note are summarized below:

1. Market has been able to hold gains for consecutive days
2. Sentiment remains downright bearish despite the August lows being held
3. The 20-day MF does not show that large players are aggressive sellers, even if buying remains muted
4. Technical improvement is present in some laggard sectors
5. Some broadening leadership is emerging

A review of the market stage structure below:

### Daily Stages: 9/17/2011

QQQ	Current Stage is 1-1 (Early Accumulation) Has been in current stage for 11 day(s)
SPY	Current Stage is 1-1 (Early Accumulation) Has been in current stage for 11 day(s)
IWM	Current Stage is 1-1 (Early Accumulation) Has been in current stage for 11 day(s)
DIA	Current Stage is 1-2 (Mid Accumulation) Has been in current stage for 1 day(s)

The most encouraging sign about the daily stage structure is the continued presence in the early accumulation stage. The daily stages suggest that while pullbacks and weakness may quickly emerge, such weakness may find buyers looking to fill out their positions. The DIA moved into the neutral 1-2 mid-accumulation stage, which may be pre-leading the other indexes

### Weekly Stages: 9/17/2011

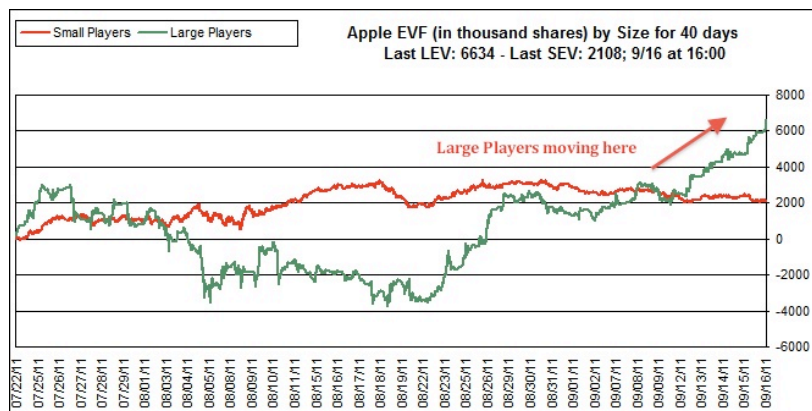
QQQ	Current Weekly Stage is 3-3 (Late Distribution) Has been in the current weekly stage for 1 week(s)
SPY	Current Weekly Stage is 3-3 (Late Distribution) Has been in the current weekly stage for 1 week(s)
IWM	Current Weekly Stage is 3-3 (Late Distribution) Has been in the current weekly stage for 1 week(s)
DIA	Current Weekly Stage is 3-3 (Late Distribution) Has been in the current weekly stage for 1 week(s)

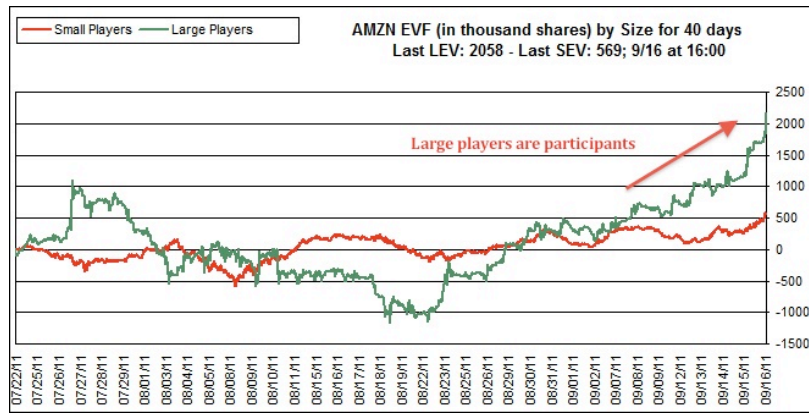
Consultation with Billy suggests a slight bug in the system, and the above table reflects a period of 1 week in the 3-3 late distribution stages versus a reported 3 weeks. The upward reversal implies continued indecision on the part of large players for the intermediate timeframe. Consequently, the recent down move into a strong-decline phase was either a big shakeout in a bull market that did not end, or the strength exhibited last week signifies a false up move from a bear market set to resume.

Overall, I view the previous week as a positive development, despite obvious negatives. The continued bearish sentiment in the presence of an improving technical picture is noteworthy. The following paragraphs contain a few additional details of the previous week's action that I found significant.

## Big Tech Leaders:

A most notable development, and one that won't go unnoticed, is the dominance of AAPL and AMZN this week. Their performance was stellar, and each closed the week at or near new highs with accompanying LEV support. Their constructive price action supported by institutional sponsorship bodes well for the general market, as these are go-to companies when equities are in favor. See each below:





Both leaders are characterized by weekly strong mark-up stages, and their strength helped push the QQQ to print a pocket pivot through the 200 day-MA Friday, as volume was greater than any down volume over the previous 10 trading days. If volume is choppy, then according to Dr. K and Gil's Trade Like an O'Neil Disciple, one may consider going back 11-15 days. The down day 15 days ago contained only slightly higher volume than Friday, so I think the action remains credible, bolstered by the accumulation in the NASDAQ 100 futures.

### Gold and Silver Miners:

The past week saw gold miners pull back, although the action did not contain particularly violent or loud declines. I think one must look at the miners under multiple timeframes for the best context. First, let us review the GDX stages as a benchmark for the gold stocks group:

GDX Daily	Current Stage is 2-2 (Medium Mark-Up) Has been in current stage for 1 day(s)
GDX Weekly	Current Weekly Stage is 1-2 (Mid Accumulation) Has been in the current weekly stage for 3 week(s)

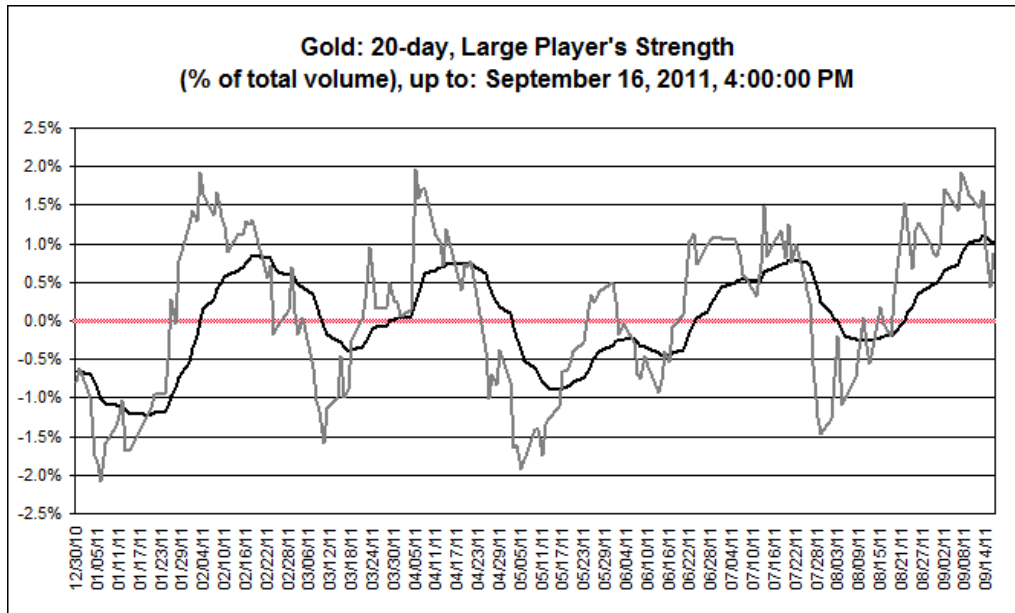
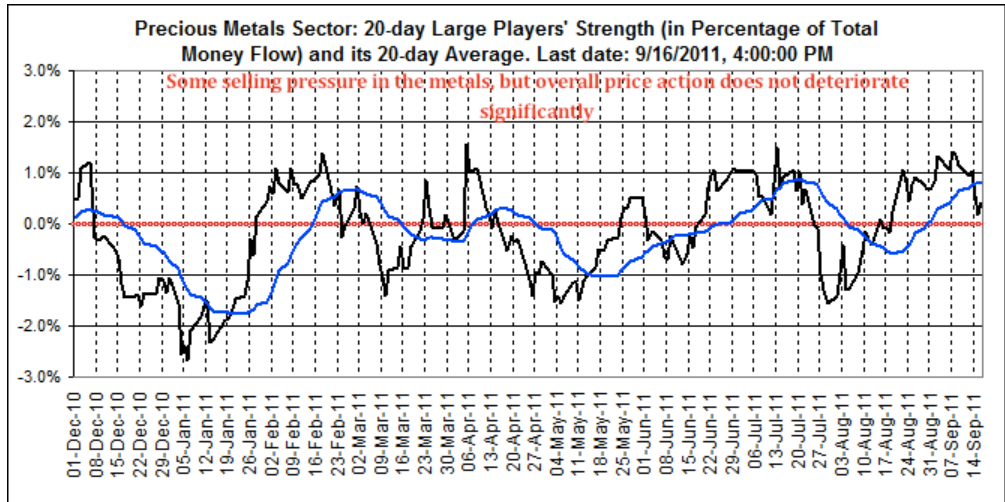
The daily timeframe transitioned into a medium mark-up, and this reveals that a bit more time, consolidation, or weakness may develop before a quick move back into strong mark-up occurs. And while the 1-2 weekly stage suggests a neutral stance, the group could easily move into late-accumulation where a breakout into a dynamic mark-up phase could quickly emerge. Or in fewer words, the current weakness looks like a normal pullback in an up-trending asset.



Weinstein succinctly describes the pullback to the breakout point:

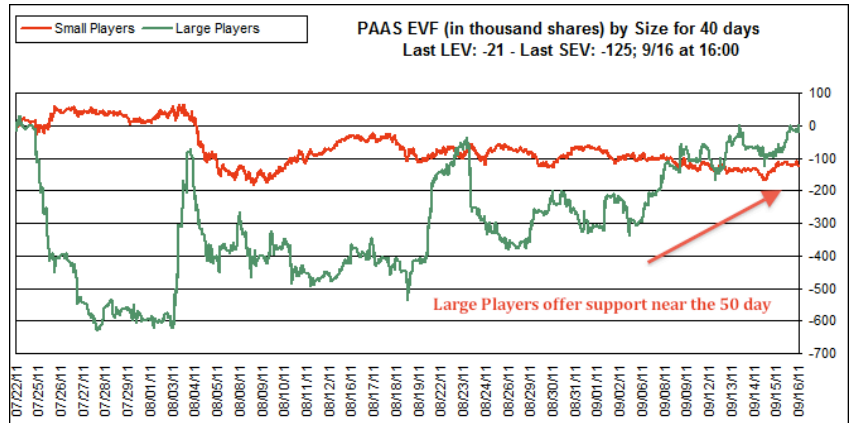
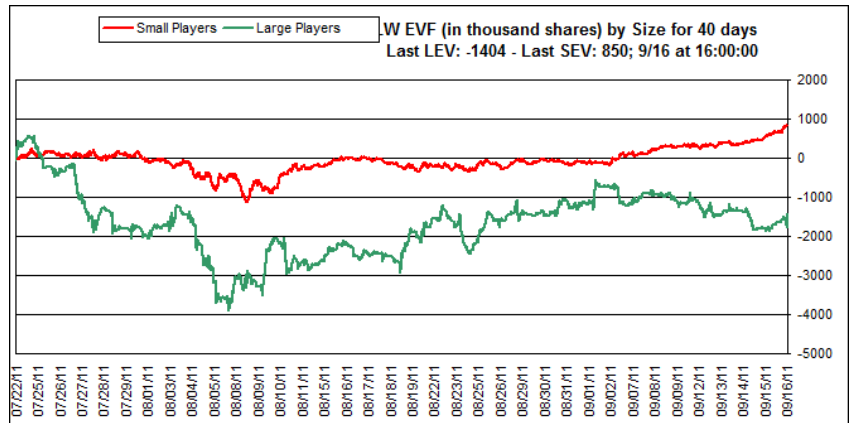
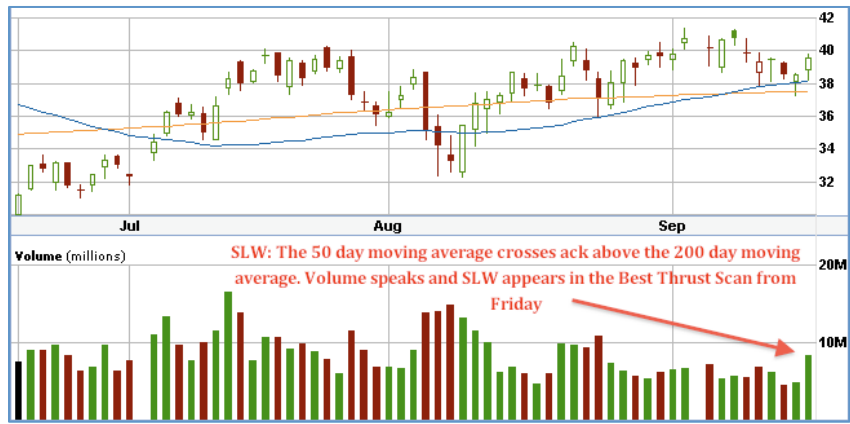
*Before the really dynamic part of the advance gets rolling, be aware that there is usually an initial rally followed by one pullback. That dip brings the stock back close to its breakout point, which is a good chance to do low-risk buying.* – Stan Weinstein, Secrets to Profiting in Bull and Bear Markets page 34

EV reveals that the metals have come under some selling pressure recently:



When coal stocks broke out in Autumn 2010, even though LP strength for the group oscillated, price pushed persistently higher for months. If the gold stocks continue trending higher, one may expect normal profit taking in the course of such a move. That is when paying attention to each stock within the group and their respective active boundaries becomes particularly useful. At this stage, tracking the individual gold stocks relative to their active boundaries will present good trading opportunities. For example, even though EGO came under a bit of sell pressure on Friday, price closed right near the original breakout point, which also closely coincides with neutral value.

Silver equities continue trading in the shadow of gold, but the group contains underlying technical improvement. For example, review SLW and PAAS below.

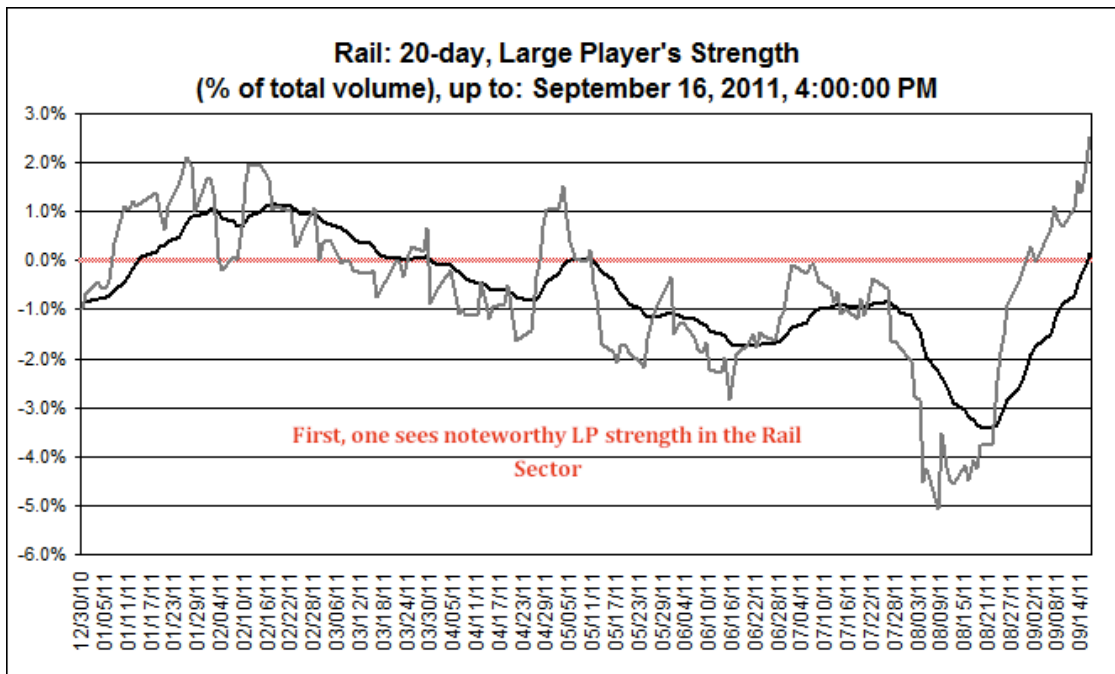


SLW and PAAS both exhibit improving relative strength. Additionally, they remain near important technical averages, so the way price behaves in this zone will be especially revealing regarding the nature of long-term large-player accumulation within the group.

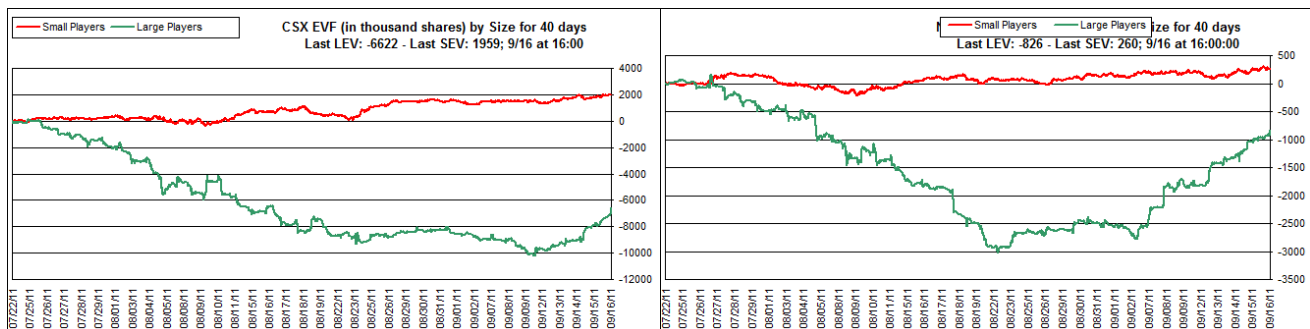
Overall, the precious metals equities continue to be a leadership area of their market, even with last week's subdued performance. If precious metals prices stay elevated while fear and volatility decline, then the expectation of inflationary pressure could continue providing a floor for the pm stocks in the face of easy monetary policy and currency devaluation. I am an interested buyer on pullbacks to neutral and lower boundary, especially with LEV support.

**Railroads:**

Mike Scott noted the outperformance of the transports last week. Indeed, some studies I reviewed over the weekend suggest numerous positives when the transports demonstrate such relative outperformance. In this vein, I note the accumulation seen in some of the railroad stocks through the lens of EV.



**CSX and NSC exhibit renewed LP interest:**



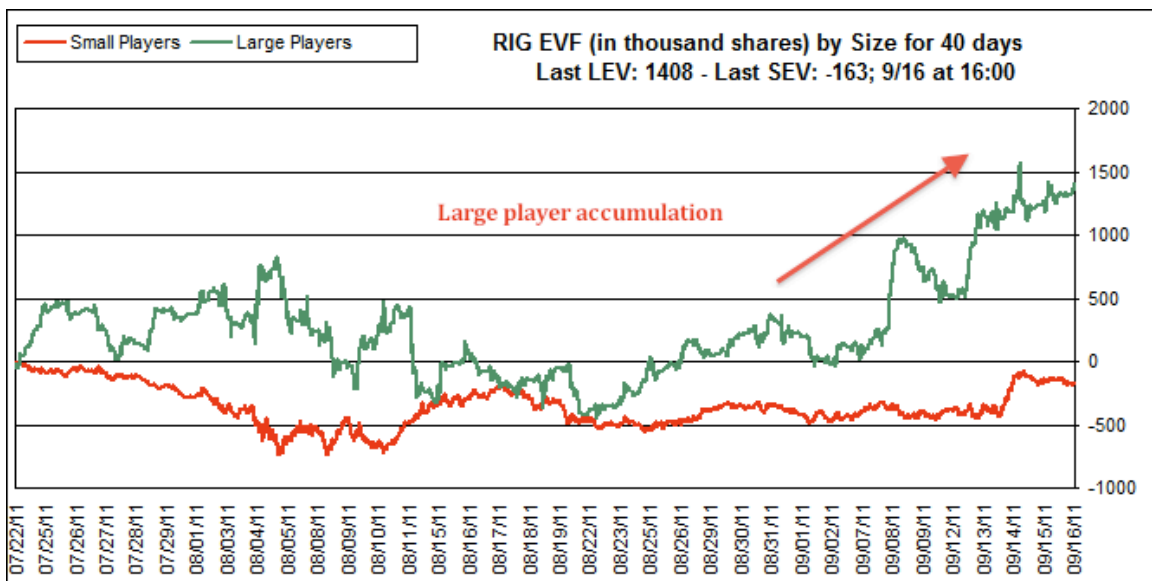
Indeed, CSX shows a three-waves down selling pattern that may indicate exhaustion on behalf of the sellers. See chart on next page:



The 4-3 weakening decline precedes an upcoming transition to an early-accumulation phase for CSX.

**Other Observations:**

Beneath the backdrop of continued volatility and entrenched bearish sentiment, one must be on the lookout for hints of technical repair. RIG highlights some clues for which I look. First, even though oil futures don't indicate much accumulation, the drillers show interesting price action and LEV patterns. RIG below:

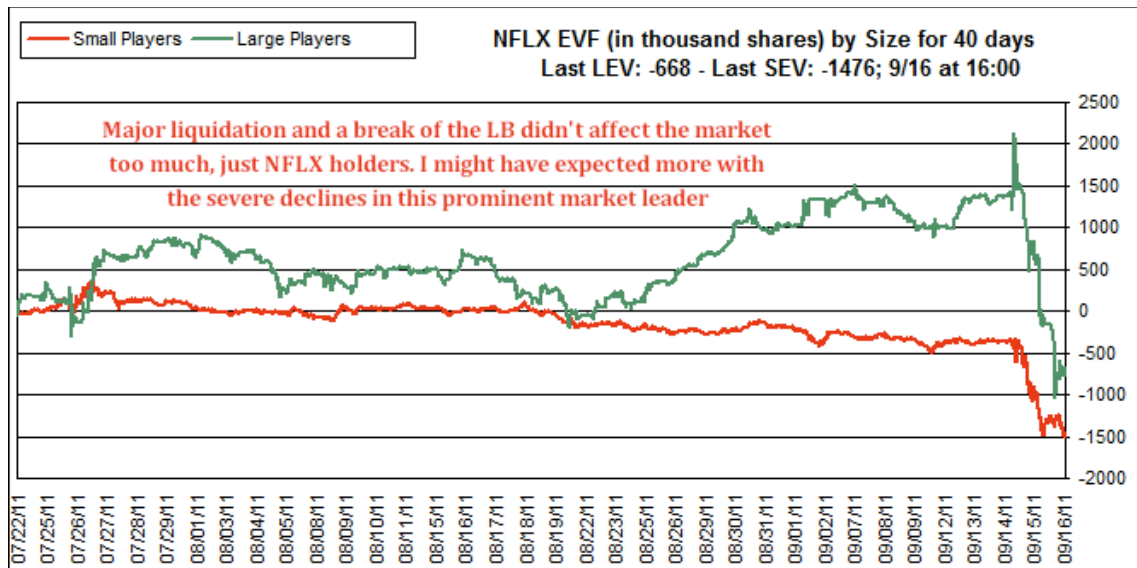


Next, RIG has consistently been beaten down at the 50 day MA for many months. On Wednesday, RIG managed to close above the 50 day MA on the highest volume over the past month. RIG is not a leadership growth stock, but is more of a value stock, and the recent action is another piece of evidence that long-term value investors might be stepping up their accumulation efforts in select stocks and industries.



This type of action I will continue to seek for evidence that a tradable bottom is established. When a large liquid stock like RIG that has traded below the 50 day MA for 5 months is able to garner interest, on volume and LEV support, then I take notice. In other words, when the lagging stocks of the past several months begin to generate some support, I am more suspect of heavy selling pressure in said equities and monitor for accumulation on down days.

Besides observing some interesting bottoming processes, there have been some events that cause less dislocation than I might have originally anticipated. For example, market leader Netflix is down almost 50% over the past few months, yet the recent declines did not generate much response from the broader market as capital shifts to names with more clear business models.





## **Conclusion:**

After a review of Pascal, Billy, Aly, and Mike's comments, watching Charles Kirk's Weekend Chart Show and Brian Shannon's weekly market analysis, and doing my own observation and research and reading, I come to the following conclusions.

- Some backing and filling after last week's advance is expected.
- The outperformance of the transports has bullish implications for the next week and month and should not be dismissed
- Precious metals equities remain a primary area of market leadership and pullbacks to neutral and lower value or positive divergence with LEV will signal buying opportunities
- Beneath the surface, there exists technical improvement in various stocks that lagged for many months, though repair is a process that takes times
- The daily stages suggest continued opportunity for shorts, but such opportunities will likely provide lower returns as accumulation continues on the daily timeframe
- The weekly timeframe still indicates general indecision on the part of large players
- The bearish sentiment could fuel additional upside in the coming weeks, and earnings season will offer a catalyst for the near-term

While there are many events to on which to focus, my primary goal will be to tune out and focus on the market response and action in the stocks and sectors I track. I am going to watch EGO at neutral boundary. I am going to watch for stocks like RIG to maintain their improving status. I will see if AAPL and AMZN merely move sideways when the market opens lower or if they quickly give way. Earnings season will soon be here and that is going to be a catalyst for a move up or down. I also want to thank and credit Billy for his input on the weekly stage structure analysis.

Best,

Eric Coleman