

Stock Entry and Type: Radware (RDWR)

Radware is a leading small-cap that . . .

Develops, manufactures and markets integrated networking solutions that allow its enterprise and carrier customers to deliver their mission critical applications between data centers and remote locations, over all critical points in the network.

Trade Conditions:

On 8/24/10 RDWR broke out of a cup w/handle base into multi-year highs. The breakout occurred on about 3x greater than average 10-day volume and cleared triple-top resistance above \$24.00. RDWR is within 5% of the most recent breakout pivot point, which was 24.20.

- My entry point is 24.36.
- My stop is close below the 24-area, allowing for intraday porosity in and around the breakout zone and 10 day moving average.

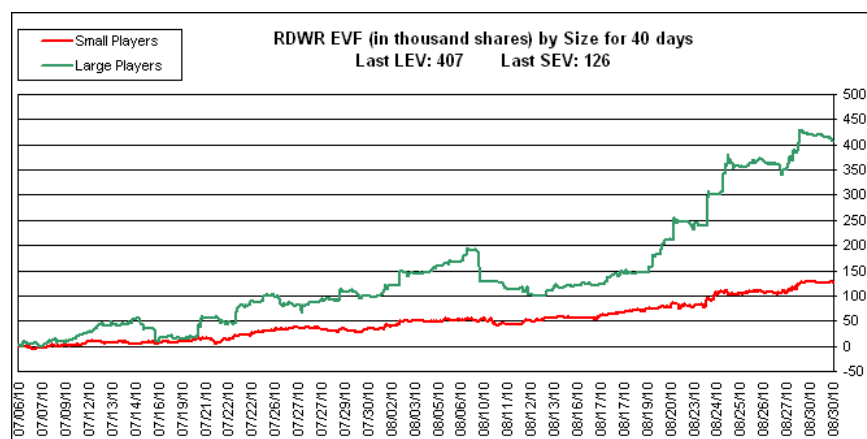


Technical Attributes:

- 10 day MA > 21 day MA > 50 day MA > 200 day MA
- RS hitting new highs on daily and weekly timeframes
- RDWR is in a 2-1 Strong markup phase

Effective Volume:

- We can see that large players have been behind the recent price advance, which lends credence to the recent breakout



I selected RDWR because it broke out of a classical cup w/handle pattern on large volume with large players supporting the move. RDWR is a low-float stock in that belongs in a group with numerous other leaders that are related to the “cloud-computing” story. RDWR has no debt and had a 600% EPS change last quarter. It has an IBD rating of 78.

Trade Justifications:

The market is in a relatively trend-less environment: however, numerous leading stocks are now outperforming the broader market and are holding their recent breakouts. RDWR is one of these stocks and a fairly straightforward risk-reward scenario has emerged.

Quantifiable Edges notes that when sentiment has reached the levels we are currently at, the possibility of a rally is rather favorable. The caveat is that current bearishness could perpetuate a more severe sell-off in the event of continued market weakness. Given the light volume typical of the last weeks of summer, I believe that it is difficult to interpret market direction with much conviction, so paying attention to price, volume, and EV for leading stocks is critical.

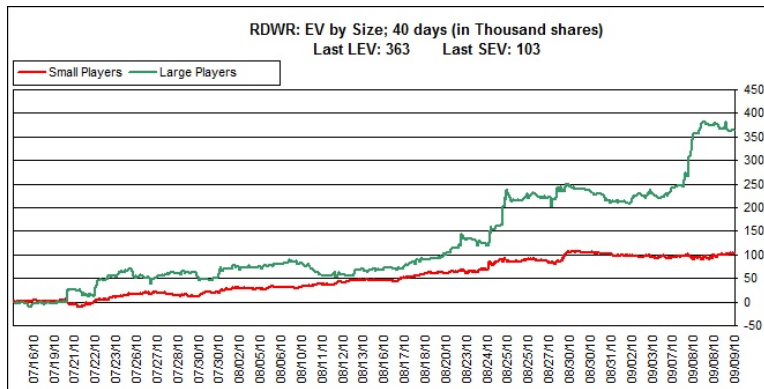
Since RDWR is above all short, intermediate, and long term moving averages and has now entered into a strong mark-up phase, probabilities favor continued outperformance should a FTD occur or a confirmation of the most recent 20 day MF buy signal occur. Quarter 3 earnings will be announced between 11/8 and 11/18, so earnings related gaps should not be present in the coming weeks.

Risks:

As always, the broader market could substantially weaken, which could result in a failed breakout. Price and volume should give clues to this possibility in the coming days and weeks. Besides this, any unrelated news “surprises” are ever-present.

RDWR Update 9/9/10:

- RDWR is a small-cap leading stock
- RDWR shows continued large player accumulation:



RDWR trades above all short, medium, and long term moving averages:



- RDWR broke out of a cup w/handle on 8/24.
- Depending on how one interprets the base, RDWR formed a 17-week or a 19-week base, (If anyone knows whether the base would be considered to have started on April 7 or April 27, I would appreciate any feedback).
- RDWR formed a handle about 11% deep, within the standard 8-12% for markets in correction.

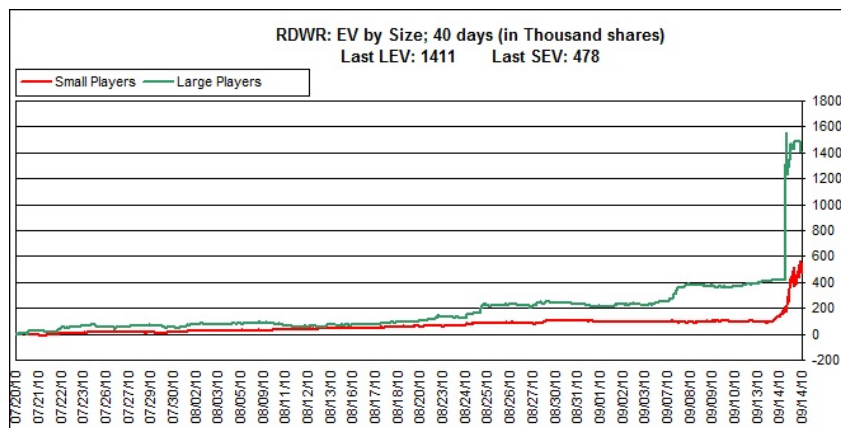
The cost basis for this position is about 1% above the breakout pivot point and is very close to both the 10 day and 21 day moving averages, which generally serve as strong support clusters for leading stocks. As has been noted by Pascal and Billy, the market is showing some confusing signals; however, Dr. K's MDM is still on a buy signal and the 20-day MF has not, as of yet, issued a short signal.

While the market could weaken in the near-term, such periods often allow leading stocks to form patterns such as the three weeks tight, flat bases, and square-boxes. Per IBD, if a leading stock breaks out and climbs 20% in three weeks, then it should be held for at least 8 weeks; therefore, I will monitor closely whether or not RDWR can climb to 28.92 by 9/15. Otherwise, I will continue to look for support at the 10 and 21 day moving averages.

RDWR Update 9/15/2010:

You might ask why I sold out. It's very simple, Radware is now a deal stock and will trade on deal news, not technicals or fundamentals, just news. I am not what they call a "special situations" trader, that's not my game, I really have no clue how to play it, and I will avoid it at almost every turn. It makes no sense for me to screw around in that stock anymore without an edge. - Leigh Drogen

- RDWR gained 38% on 9/14 on speculation of a buyout from IBM of HPQ
- Large players were responsible for the move
- Position closed at \$34.89
- Average gain of 43% on three separate purchases



Comment:

This trade was one of the hardest. What do I mean? I'm referring to greed, an extremely powerful emotion. With the recent takeout of ARST and the bidding war for 3Par, the excitement that the same thing could take place with RDWR was overwhelming. Indeed, I see this as the most likely scenario, and the presence of RDWR in the "Best Thrust" scan shows that large players also see this as likely; however, from a psychological standpoint, it was important for me to close this trade.

"Make it a habit to ask yourself: What's going on inside me at this moment . . . ? Focus your attention within. Feel the energy of the emotion. If there is no emotion present, take your attention more deeply into the inner energy field of your body. It is the doorway into Being."

-Eckhart Tolle, The Power of Now

When I looked inside myself today the most potent emotion was related to a \$45 takeout offer, representing a significant premium even after yesterday's huge advance. But as Leigh Drogen highlighted, this stock will now trade as a "news stock." Every up or down tick was punctuated with hope of even bigger profits and fear of a newsflash denying the rumor and giving everything back. News stocks trade on hopes and rumors. I had an experience where hope displaced objectivity and do not intend to sit through that type of experience again. I therefore let go of my RDWR today as a form of practicing the being in the Now.

Additionally, the upside on RDWR is now capped, and numerous growth stocks will present opportunities during the next market rally.

