

Monday, December 17, 2007



Today's Overview

The major indices gapped through multiple support levels at the open and continued to sell off at a slow pace throughout the session. Market breadth didn't hit the extreme negative levels we've become used to on downside trend days, because many financials got squeezed gently and bucked the selling tide. Overall volume came in well below average on all exchanges.

The price action was just miserable in Monday's session. Almost magically, the **PowerShares QQQ** (QQQQ) pulled into the 50 options strike, imitating last month's expiration. Will this set the floor for the major indices this week? Unfortunately, I don't see many barriers between the current levels and the November lows, so we could be in for an uncomfortable ride.

Solar stocks got taken down today, continuing the theme of market leaders getting targeted for selling pressure. A good part of the decline is obviously related to expiration pressure, because bullish sentiment in these issues equals high call-side interest. With this in mind, it's possible the downside will be over in a few days, with these stocks returning to rally mode before the end of the year.

I traded lightly during the session and am flat in all accounts this evening. This is a wickedly dangerous market, so I might stick to daytrading until early January.

Thought of The Day: I spent more time playing "World of Warcraft" than trading on Monday. This detachment is a defense mechanism to keep from overtrading or buying bounces that don't exist. In case you're wondering, I don't like the short side this week because of triple witching and positive seasonal bias ahead of the holidays.

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Daily Spotlight

Medical appliance companies outperformed in the 2000 to 2002 bear market and **Varian Medical Systems** (VAR) did very well during that period, posting a string of all-time highs. Right now, the stock is recovering from a long downtrend that ended in September. The price has retraced about 50% of the two-year decline and is holding up well in the current weakness.



The stock faces multiple levels of overhead supply before it's in a position to enter a sustained uptrend. The reward/risk isn't favorable right here, because the pattern shows no pullback since late summer. This means that a single piece of bad news could trigger a sharp retracement. Traders looking for bear market lightning to strike twice are better served with a stronger survivor from that era, like **Express Scripts** (ESRX).

(Continued on the next page)

Google (GOOG) rallied to an all-time high at \$747 in early November and sold off with the broad market. The stock bottomed out at 50-day EMA support less than two weeks later and printed a probable lower high last week. The price is now dropping into a test of the November low, which is unlikely to hold given the underlying volume pattern.



Note the big red volume bars on the selloff, and the little ones during the recovery effort. This lopsided selling has the classic look of an evolving ABC correction, in which the C down leg will be equal in size to the A down leg. That math would take out the low and drop the price down to \$590 or so. With the 200-day EMA trickling higher from \$570, the price zone between these levels is a logical downside target.

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(Spotlight presents updated index analysis, quick takes on reader favorites and fresh views of active picks. The section belongs to our subscribers, so let Alan know what charts you would like to see by [sending him your requests](#). Please note that Alan can't answer all of your requests due to time and space restrictions.)

(See Watch List on the next page)

Watch List

- **Solarfun** (SOLF) sold off with a weak solar sector and is testing the Dec. 6 low. ([long - 12/13/07](#))
- **BioMarin Pharmaceuticals** (BMRN) started to pull back. ([long - 12/12/07](#))
- **VCG Holding** (PTT) moved sideways in a sloppy pattern. ([long - 12/06/07](#))
- **Salesforce.com** (CRM) is congesting near the breakout level. ([long - 12/06/07](#))
- **Alpha Natural Resources** (ANR) shows a triangle near the high. ([long - 12/04/07](#))
- **MasterCard** (MA) sold off and is testing the breakout level. It may pull into 200 for expiration. ([long - 11/28/07](#))
- **NYSE Euronext** (NYX) is testing 50-day and 200-day EMA support. ([long - 11/28/07](#))
- **Union Pacific** (UNP) dropped to a seven-day low and could test 50-day EMA support. ([long - 11/28/07](#))
- **ShengdaTech** (SDTH) rolled out of the triangle and is testing 50-day EMA support. ([long - 11/28/07](#))
- **Fronteer Development** (FRG) sold off to another three-month low. ([short - 11/27/07](#))
- **Broadridge Financial Solutions** (BR) rolled over and is testing 50-day EMA support. ([long - 11/23/07](#))
- **Pep Boys** (PBY) looks set to test the selloff low above 10. ([short - 11/19/07](#))
- **Auxilium Pharmaceuticals** (AUXL) bounced along 20-day SMA support. ([long - 11/16/07](#))
- **Waters** (WAT) sold off to 20-day SMA support. ([long - 11/13/07](#))
- **Whole Foods** (WFMI) dropped to a four-month low. ([short - 11/12/07](#))
- **Ciena** (CIEN) dropped to a four-month low. ([short - 10/31/07](#))
- Removing **Turkcell** (TKC), **Aspen Technology** (AZPN) and **Aegean Marine Petroleum** (ANW).

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Question: What's going on with NYSE-Euronext (NYX)?

Alan Farley: The stock rallied above 50-day and 200-day EMA resistance on Nov. 28. It tested new support successfully and followed through to a multiweek high. It has been pulling back for the last five days and is once again testing those support levels. This is a simple TA (technical analysis) scenario, but it's not an easy one to watch if you bought too high in the pattern and didn't protect the downside with a stop-loss.

Question: Where do you obtain stock lists for different sectors? How do you use sector information?

Alan Farley: My Worden's TC2007 database has sectors and underlying stocks. I've also seen this information at Prophet.net, which I use as a backup. Most often, I follow sector information for analysis during the day to see which groups are leading, and which are lagging. I rarely trade that information directly, except when there's a standout, like the solar stocks. Sector information also shows rotation, as well as how much offense vs. defense is being played in the markets.

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