

Thursday, September 4, 2008



## Today's Overview

Intense selling pressure continued in Thursday's session, with the major indices dropping to multiweek lows. The Nasdaq 100 has taken so much damage in the last few days that it's already testing support at the July low. The other indices, including the **Nasdaq** composite, are higher in their six-week ranges, but accelerating to the downside and playing catch-up.

We're testing the lows quicker than I thought. The weekly patterns look markedly bearish, with the post-July bounce hardly making a ripple in the bear market decline. A sharper peak in August would have raised the odds for a successful double-bottom test. Unfortunately, everything now points to a new leg of the downtrend.

The market has fallen apart during this first week of September. Go back to my comments last month about hedge fund illiquidity, following rumors of August redemptions. It appears that forced selling by these folks is driving the majority of current market dynamics. Notably, this is the same negative force that drove the August 2007 selloff.

Friday is a coin flip, but any benign news is likely to squeeze short-sellers hard after this week's downturn. At a minimum, look for high volatility and whipsaws after the premarket labor report. A word of caution to less experienced traders: If you don't have a good feel for this price action, you're taking an unnecessary risk in trying to trade it.

I stopped out of **Luminex** (LMNX) for a small loss and sold short **Sociedad Quimica Chile** (SQM) for a decent intraday trade. I'm holding no newsletter stocks this evening.

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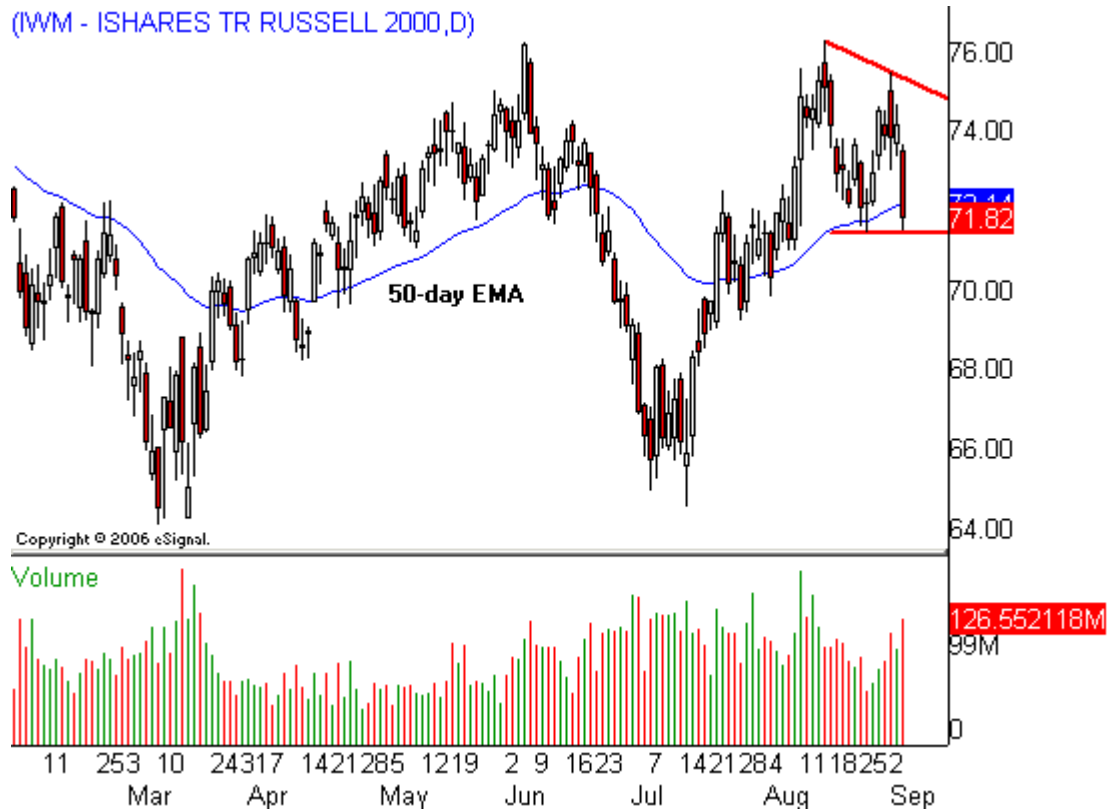
## Random Notes: Bullet Points on the Market

- The 41-sector list I track during the trading day showed no green at all, except for the **iShares 20-Year Bond** (TLT), a highly defensive play.
- The Russell 2000 got clubbed with a 3.1% decline. As a result, market breadth was just hideous, with over 90 to 10 down-up volume.
- **McDonald's** (MCD) busted the August breakout on lower-than-average volume. This could be a fakeout, but there's no buy signal here.
- Commodities continued to deflate, but both crude oil and natural gas are still trading at or above the lows posted Tuesday morning.
- **SPDR Homebuilders** (XHB) broke through the 200-day EMA after mounting that level on Tuesday, when it posted a shooting star candle. This could mark a big turn but the pattern needs a lower high first.
- The Market Volatility Index (VIX) pushed above its 200-day EMA for the first time since late July. The channel break turned out to be an excellent sell signal.
- **PowerShares QQQ** (QQQQ) has dropped well over three points in the last three days, with the biggest intraday bounce posting 50 cents. That's as one-sided as you can get.
- The banking index shows no new technical damage, despite a 4.77% selloff.
- Remember the write-up last week on **Intel's** (INTC) multiyear triangle? The two-day selloff could be the start of the new downtrend.

## Daily Spotlight

**IShares Russell 2000 (IWM)** has been caught in a broad trading range between \$64 and \$76 since the beginning of 2008. It bounced off support for the third time in July and hit resistance in mid August. It then pulled back to the 50-day EMA and shot higher at the end of the month. That move fizzled out below the first high, with the fund selling off on Thursday and dropping back to the short-term low.

(IWM - ISHARES TR RUSSELL 2000,D)



A selloff under \$71.40 will confirm a lower high and open the door to a continued decline that could carry all the way to broad-range support. It's possible the fund will gather enough buyers to post one more high in the series and carve out a descending triangle pattern before it breaks down. In any case, look for less talk about small-cap resilience in the coming days.

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(See Watch List on the next page)

## Watch List

- **Semiconductor HOLDRs** (SMH) broke July support and is testing the 2008 low. ([short - 9/3/08](#))
- **Sociedad Quimica Chile** (SQM) continued to sell off and is testing the August low. ([short - 9/2/08](#))
- **Sequenom** (SQNM) spiked higher and ran into a wall of sellers, triggering reversal at the high. ([long - 8/29/08](#))
- **iShares Mexico Fund** (EWW) spiked higher and ran into a wall of sellers, triggering reversal at the high. ([short - 8/29/08](#))
- **Covidien** (COV) broke six-week channel support. The pattern is still bullish in longer time frames, with a first pullback buy setup at the breakout level near \$50. ([long - 8/6/08](#))
- **Luminex** (LMNX) pivoted lower and filled Monday's gap. ([long - 7/18/08](#))
- **Auxilium Pharmaceuticals** (AUXL) is nearing breakout support at \$36. ([long - 7/15/08](#))
- Removing **Apple Computer** (AAPL).

**SPDR Select Sector Health Care (XLV)**  
Today's Close: \$32.02 down \$0.72

**SPDR Select Sector Health Care (XLV)** rallied to a high at \$37.89 in December and sold off. It bottomed out after a wide-range reversal and jumped into the lower \$30s, where the recovery effort stalled out. It tested the low twice and returned to that level last month, before rolling once again. The price then dropped into a descending triangle, with support coinciding with the 50-day and 200-day EMAs.

The stock broke support on high volume in Thursday's session. This should trigger a decline that reaches support near \$30 for the fourth time. This is a low-volatility issue, despite the January event, with only two points between today's close and support. This offers a good choice for short-sellers wanting lower risk or longer-term positions. The best entry will come on a shallow pullback to resistance between \$32.30 and \$32.60.



(See second chart on the next page)

### SPDR Select Sector Health Care



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