



Today's Overview

A weaker-than-expected June labor report triggered a nasty selloff on Thursday morning, dropping the major indices through the weekly lows and into a test of the corrective lows posted last week. The vertical downdraft ended after the first hour of trading, but the damage was done. The market spent the rest of the pre-holiday session chopping sideways in a narrow pattern near the daily lows.

Volume and volatility lightened up during the afternoon hours as traders gave up and headed out to enjoy their long weekends. Clearly we've moved back into a negative environment that could last into the start of earnings season. However, news flow should dictate market direction more than the forces of gravity, as warnings, surprises, and economic data will all have the power to move the tape.

The **S&P 500** turned lower at 928, completing the next leg of the head-and-shoulders pattern I pointed out last week. Everyone will be watching neckline support near 887, which will probably hold for a few sessions prior to a breakdown or a bounce. The Monday after a labor report usually reverses Friday direction, so downside follow-through isn't likely to start the new week.

The **Nasdaq** averages remain well above support this evening and are still showing a series of higher lows. That will change after a Composite selloff through 1755 and a Nasdaq 100 selloff through 1412, which roughly corresponds with the 50-day EMA. As usual, it's better to let the market have its say rather than putting words in its mouth, so a defensive approach is recommended until the breakdowns actually occur.

That said, I think it's finally time to get more aggressive on the short side, with the understanding we could see yet another "ninth inning save." Energy stocks, in particular, look highly vulnerable here, after the **Oil Services HOLDRs** (OIH) failed to hold \$100 last week and broke through the 50-day EMA on Friday. Tonight's sole pick reflects that weakness.

The **Retail HOLDRs** (RTH) gapped down and closed under the support level I [outlined last week](#). However, volume was too low in the pre-holiday tape to trigger a bona fide sell signal. The fund might just drop like a rock from here but, more likely, we'll see at least one attempt to fill the gap. That bounce should offer a good "second chance" short sale entry.

I used the unusual **3Par** (PAR) strength to exit the trade with a nice profit. Frankly, I didn't feel like looking a gift horse in the mouth. I bought a few defensive stocks that did well on Wednesday in hopes of catching a bounce, and took a little short exposure in an oil pipeline company. I'm holding no newsletter stocks over the long weekend.

Have a great holiday!

PLEASE SEE IMPORTANT LEGAL DISCLAIMER ON LAST PAGE

Random Notes: Bullet Points on the Market

- **NYSE** market breadth near minus 2,000 was telling you not to play for a big bounce.
- Down:up NYSE volume of 90:10 was telling you the same thing.
- Chip stocks showed resilience in the weak tape.
- Small caps got crushed in a 3.73% decline. It looks like risk aversion is making a return visit.
- The newsletter Watch List has turned into a sea of triangles -- frustrating, but not a big surprise.
- The Market Volatility Index (VIX) surged over 6% and closed well above the broken triple-bottom.
- Industrial sectors like transportation, coal, and metals took heavy hits.
- Crude oil is testing its two-week low and could easily sell off into the 50-day EMA at \$64 per barrel.
- The banking stocks traded back to critical support levels.
- [This observation](#) about **Goldman Sachs** (GS) is still valid six weeks after I wrote it.

Daily Spotlight

I needed to find a case study for my new book, *The Master Swing Trader II: Market Survival Toolkit*, about longs getting caught in a massive bull trap. I found what I needed last night when **Illumina** (ILMN) warned about second-quarter earnings. Even though the stock had been grinding out a great-looking ascending triangle, it dropped from \$38 to \$32.50 overnight. It also didn't matter that On Balance Volume, which isn't shown on this five-minute chart, had returned to the lofty levels posted when the stock traded in the upper \$40s.



The opening, which was four points below triangle support, gave shell-shocked longs few technical landmarks to use for their exit decisions. The best strategy, as it turns out, is the one I use when caught on the wrong side of the market. Simply stated, put a stop under the first five-minute bar and exit when it's hit or when upward momentum dissipates. I rarely hold longer than that in hopes of getting bailed out, because experience tells us that rarely happens. But every penny you save on a trading disaster goes a long way in dealing with your pain.

* * *

(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. Spotlight stocks are not recommendations to buy or sell, and will not be placed on the Watch List.)

(See Watch List on the next page)

Watch List

- **Bunge** (BG) dropped back to 50-day EMA support. ([long - 7/1/09](#))
- **Plexus** (PLXS) failed Wednesday's breakout and sold off to the five-day low. A leg down to the 50-day EMA might set up a stronger bounce. ([long - 6/29/09](#))
- **Wyndham Worldwide** (WYN) sold off to triangle support. ([long - 6/26/09](#))
- **CB Richard Ellis** (CBG) is morphing into a triangle pattern. ([long - 6/25/09](#))
- **Cott** (COT) is stalled at the June 12 gap. ([long - 6/25/09](#))
- **Smith Micro Software** (SMSI) sold off to 20-day SMA support. ([long - 6/25/09](#))
- **Baldor Electric** (BEZ) sold off and is testing the 50-day EMA. ([long - 6/24/09](#))
- **Intuitive Surgical** (ISRG) sold off at resistance. ([long - 6/19/09](#))
- **3Par** (PAR) ticked higher in a bullish outside day. ([long - 6/18/09](#))
- **Guess?** (GES) sold off to 50-day EMA support. This level held in May and June, and it needs to hold now or the trade won't work. ([long - 6/17/09](#))
- **Isle of Capri Casino** (ISLE) sold off at resistance. ([long - 5/29/09](#))
- **FPL Group** (FPL) is testing 50-day EMA support. ([long - 5/14/09](#))
- **Joy Global** (JOYG) could post a lower high and break down. I'm not going to wait for that to happen so I'll remove it.
- Also removing **Affymetrix** (AFFX).

Diamond Offshore Drilling (DO)
Today's Close: \$77.70 down \$4.15

Diamond Offshore Drilling (DO) sold off from \$147 to \$54 and bottomed out in December. It bounced into a broad rectangle pattern and tested the low in March. Buyers then stepped in and lifted the stock up to the October swing high at \$92, where the rally ran out of steam. Selling pressure then took over in a cascading selloff that broke 50-day and 200-day EMAs on Friday.

This is a breakaway short sale setup. Sell the bounce into resistance between \$80 and \$82, or a breakdown of a 60-minute trading range. The selloff also broke a head-and-shoulders pattern, with a neckline at \$80.70. The popularity of this formation raises the odds of a shakeout above that level, which we can then use to get on board. The downside target lies at rectangle support around \$71. The company is due to report earnings on July 23.



(See second chart on the next page)



Guidelines and Frequently Asked Questions

For guidelines about the best way to use *The Daily Swing Trade* and for answers to the questions readers ask most often, a guide, "Your Questions Answered About Swing Trading," has been created.

For the guide, click here: http://www.thestreet.com/tsc/dst_rep_questions.pdf

Contact Info

▶ **Customer Service:**

Please email swingtrade@thestreet.com, or call 1-866-321-TSCM (8726) Mon.– Fri. 8 a.m. to 6 p.m. ET; or outside the U.S. and in Canada, call 1-212-321-5200

▶ **Reader Feedback and Questions:**

Please [send an email](#) directly to Alan. Again, please direct all account-related inquiries to customer service.

Legal Information

This information is confidential and is intended only for the authorized Subscriber. Please notify us if you have received this document in error by telephoning 1-866-321-TSCM (8726).

Alan Farley is a freelance writer and a contributor to TheStreet.com's RealMoney. TheStreet.com is a publisher and has registered as an investment adviser with the U.S. Securities and Exchange Commission.

The Daily Swing Trade contains Mr. Farley's own opinions, and none of the information contained therein constitutes a recommendation by Mr. Farley or TheStreet.com that any particular security, portfolio of securities, transaction, or investment strategy is suitable for any specific person. To the extent any of the information contained herein may be deemed to be investment advice, such information is impersonal and not tailored to the investment needs of any specific person. Mr. Farley's past results are not necessarily indicative of future performance.

At the time of publication, Mr. Farley will not have a position in any security that he discusses in The Daily Swing Trade. HOWEVER, MR. FARLEY MAY ENTER ORDERS TO PURCHASE OR SELL SECURITIES MENTIONED IN THE DAILY SWING TRADE AFTER 10:30 A.M. ET ON THE TRADING DAY FOLLOWING THE DATE ON WHICH THE SECURITY IS MENTIONED IN THE DAILY SWING TRADE. IF YOU ENTER ORDERS TO BUY OR SELL SECURITIES AFTER 10:30 A.M. ET, IT IS POSSIBLE THAT MR. FARLEY MAY HAVE PURCHASED OR SOLD THE SECURITY AT A PRICE MORE ADVANTAGEOUS THAN THE PRICE YOU WILL OBTAIN. In addition certain of TheStreet.com's affiliates and employees may, from time to time, have long and short positions in, or buy or sell the securities, or derivatives thereof, of companies mentioned in The Daily Swing Trade and may take positions inconsistent with the views expressed.