



Today's Overview

Italian bond yields surged overnight, triggering a European selloff and lower equity prices at the open of Tuesday's U.S. session. The major indices spiked up to the flatline in the first half hour and then dropped into channels that pushed against Monday's lows. Those levels gave way in the late morning, triggering a quick downswing, followed by a short squeeze as soon as the European markets closed for the day.

The Nasdaq 100 outperformed the **S&P 500** for the second session in a row, lifting through Friday's high and closing at a five-day high. The S&P 500 uptick began near the midpoint of the triangle pattern, with that instrument closing 13 points from pattern resistance at 1269. Market breath was solidly positive, but never reached the lopsided numbers associated with an upside trend day.

The euro broke \$1.360 around 3:45 a.m. EST, dropping to \$1.3510 and bouncing into the U.S. equity session. It broke that low at the same time that the S&P 500 broke Monday's low, and tested \$1.350 a few minutes later. It lifted off of that support level during the equity squeeze, but made little headway, compared to the overnight downswing. This sets up a strongly bearish divergence as we head into Wednesday, unless it pops back above \$1.36 overnight.

It was a constructive session, but the major indices closed within their ranges and Euro-madness could easily unravel today's gains. A quiet tape into Wednesday would help tremendously, perhaps bringing enough American bulls into the action to finally break the neutral patterns and hit multi-week highs. However, that rally would conflict with expiration's natural tendency to punish trend followers and wear out both sides of the aisle.

The mid-week tape during expiration has a well-earned reputation for the most convoluted and confusing price action, so a bull trap is more likely than a big rally. That might be the hidden message in today's last hour selloff. However, a handful of spectacular trend events have occurred during expiration weeks (the 2008 Bear Stearns collapse, for example), so anything is possible.

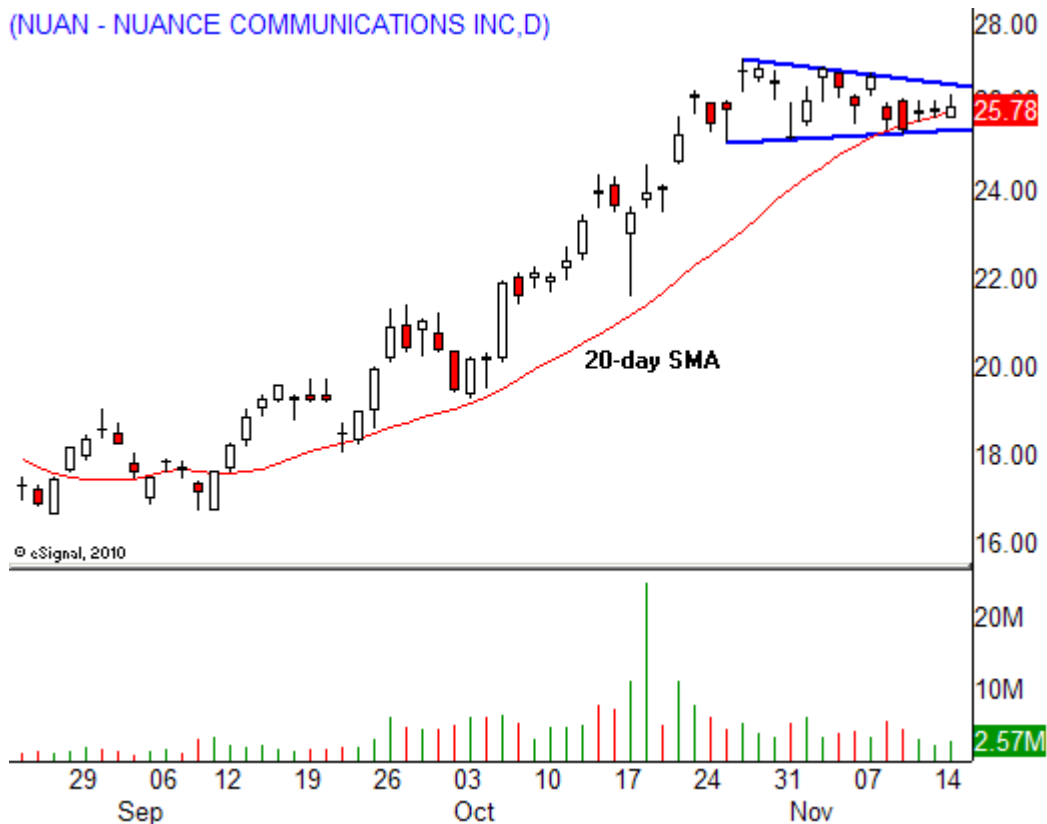
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Retailers had a mixed session, despite stronger-than-expected October sales. **Wal-Mart** (WMT) was the main culprit, dropping nearly 2.5%, after a poorly received earnings report. That stock fell to its 20-day SMA and still looks good, despite the downturn. However, the rising highs trendline I pointed out in [last night's Spotlight](#) is still in play, and new positions should be avoided until that resistance level gets taken out.

I sold **SPDR S&P Retail ETF** (XRT) early, choosing to sit on my hands and wait for equity weakness to pass. I bought **Rent-A-Center** (RCII) and **Hess** (HES) when the short squeeze hit the market and tried to buy **Domino's Pizza** (DPZ), but it moved too quickly. I added **Union Pacific** (UNP) in the early afternoon and sold all three positions into the rally. I am still holding **Spectranetics** (SPNC) this evening.

(NUAN - NUANCE COMMUNICATIONS INC,D)



In case you're wondering, I took profits on the three stocks because I decided to keep things light, given the bearish euro divergence. I also wanted to keep a small **Nuance Communications** (NUAN) position, which I picked up in the afternoon. That stock has ground out a triangle at an all-time high, with resistance near \$26.40. Its **Apple** (AAPL) connection has been both a blessing and a curse this year.

Random Notes: Bullet Points on the Market

- Crude oil surged up to \$99.80.
- Chip stocks kept a strong bid all day.
- **Intel** (INTC) rallied to a three-year high.
- The market hit a free fire zone after the European bourses closed, letting all the mice come out and play until after midnight.
- Energy stocks bounced weakly, lagging the broad market.
- Small-caps led the upside after several days of poor performance.
- The Market Volatility Index (VIX) bounced off 30 twice during the session.
- The KBW Bank Index (BKX) held two-week support.
- Nasdaq 100 laggards, such as **Research in Motion** (RIMM), showed relative strength in a typical, expiration week countertrend.
- **Amazon.com** (AMZN) had a weak session, selling off at the 50-day EMA once again.
- **Ford** (F) broke support at \$11.
- **Home Depot** (HD) sold off after earnings.

Daily Spotlight

Panera Bread (PNRA) hit a rally at \$133.43 in July, and sold off with the broad market. It bottomed out in the mid-\$90s a few weeks later and then bounced toward \$120, which set up as a barrier for the next seven weeks. The stock tested the low in October, pushed up to resistance and gapped higher after a strong earnings report. The rally hit a new high at \$138.58, with the price consolidating in an ascending triangle for the last three weeks.



This is pretty pattern with a huge island reversal, but the 10-point gap makes me very nervous in the current market environment. It could set up with the major indices, breaking out of its triangle pattern when the S&P 500 does the same thing. I would not hesitate to buy that breakout, but a tight stop loss will be required because any failure is likely to bring the gap into play quickly, trapping breakout buyers.

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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. 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

- **Domino's Pizza (DPZ)** broke out on weak volume. ([long - 11/11/11](#)).
- **Virnetx Holding (VHC)** broke out on average volume. ([long - 11/11/11](#)).
- **Rent-A-Center (RCII)** broke out on strong volume. ([long - 11/8/11](#)).
- **Polaris Industries (PII)** is testing the breakout level. ([long - 11/7/11](#)).
- **Spectranetics (SPNC)** bounced back to base resistance at \$7.80. ([long - 11/4/11](#)).
- **Golar LNG (GLNG)** consolidated at the rally high. ([long - 11/3/11](#)).
- **Opko Health (OPK)** posted an inside day after announcing a secondary offering. ([long - 10/31/11](#)).
- **Google (GOOG)** posted an inside day. ([long - 10/28/11](#)).
- **Alliance Data Systems (ADS)** bounced along 20-day SMA support. ([long - 10/26/11](#)).
- **Ulta Salon, Cosmetics & Fragrance (ULTA)** bounced along short-term support. ([long - 10/21/11](#)).
- **Union Pacific (UNP)** is testing the October high. ([long - 10/20/11](#)).
- **Ariba (ARBA)** bounced at the 20-day SMA within a developing triangle. ([long - 10/19/11](#)).
- **VMWare (VMW)** consolidated at the rally high. ([long - 10/14/11](#)).
- **SPDR S&P Retail ETF (XRT)** bounced along the 20-day SMA for the third day in a row. ([long - 10/14/11](#)).
- **American Tower (AMT)** is testing the rally high. ([long - 10/6/11](#)).
- **Nic (EGOV)** bounced along 20-day SMA support. ([long - 10/5/11](#)).
- **Immunogen (IMGN)** bounced along 50-day EMA support. ([long - 9/27/11](#))

Watch List Ticker

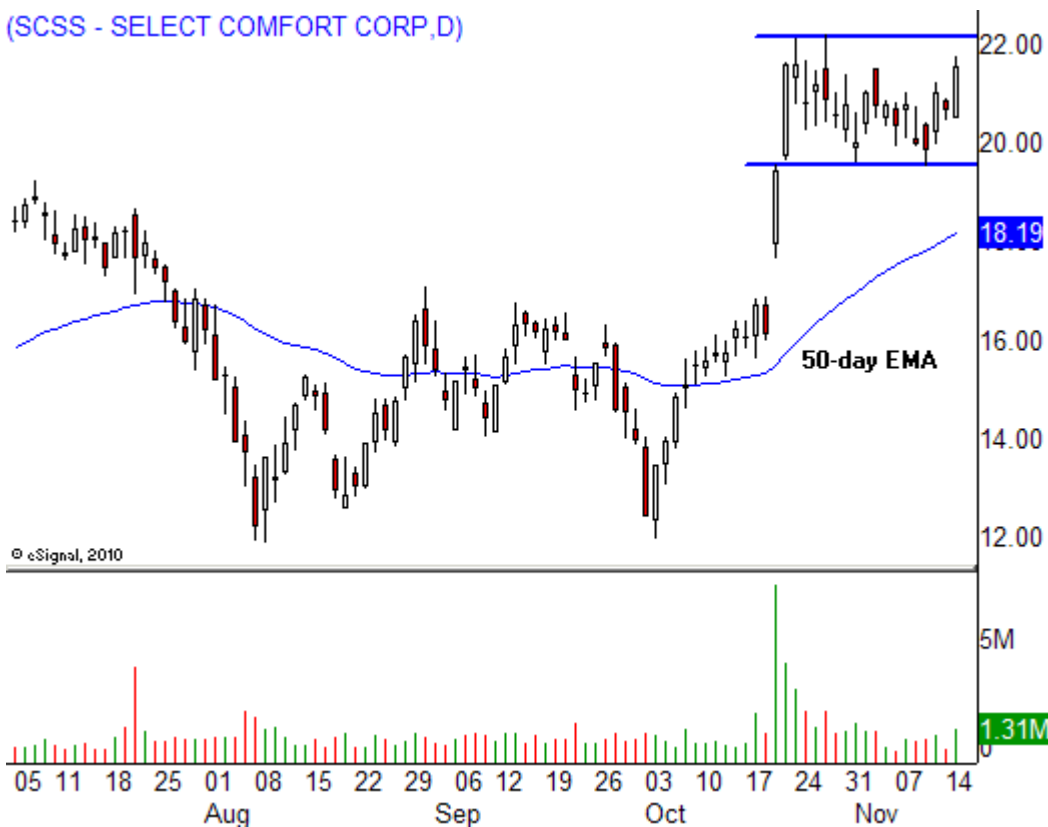
DPZ volume is a bearish divergence that increases the odds for a deep pullback ... OPK held up relatively well, given the 4-million-share secondary announcement ... VHC needs to work through secondary resistance between \$23 and \$24. I'd like to see a pullback below \$22 as an entry point ... RCII closed back under a rising highs trendline ... PII's \$65 strike could hold up a breakout ... bullish action by GLNG ... have to watch out for magnetic selloff to \$600 for GOOG ... ADS could have done something today, but didn't. It might be the pull of the \$100 strike ... ULTA relative strength is turning higher ... I thought UNP might get hung up near the October high. I'm glad I sold it ... IMGN is not acting well, at all...

Select Comfort (SCSS)
Today's Close: \$21.54, up \$0.89

Select Comfort (SCSS) topped out at \$19.23 in July, and sold off to \$11.89 in August. It tested that level in October and entered a strong recovery that accelerated to the upside after the company reported strong earnings on October 20. The stock gapped 2 points after the news and spiked up to \$22.13, which has marked resistance in the last three weeks. The price action since that time shows a rectangle, with resistance at the October high.

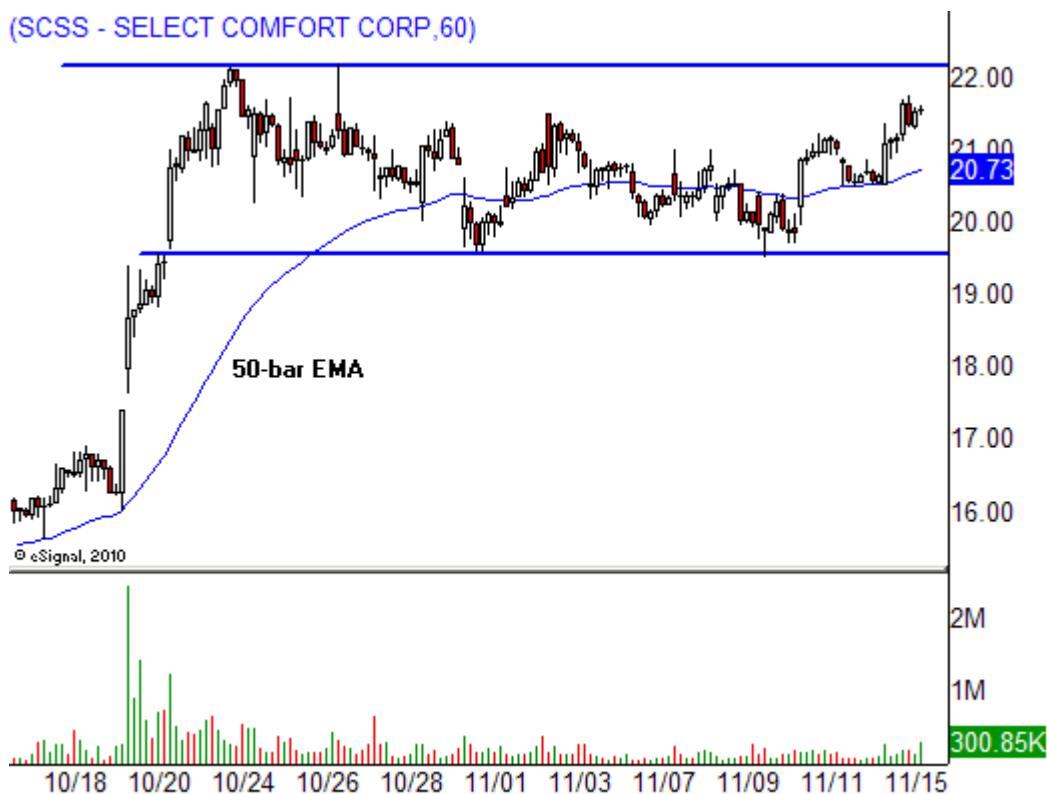
Buy the rectangle breakout or within narrow range. The final reward target lies at the 2006 high near \$28.50. A bearish, relative strength divergence increases the odds for another trip to rectangle support or the 20-day SMA, currently near \$20.60, before the breakout gets underway. Support at the two lows near \$19.50 needs to hold or the stock could sell off and fill the big gap.

(SCSS - SELECT COMFORT CORP,D)



(See second chart on the next page)

Select Comfort (SCSS)



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

Farley's latest book, [*The Master Swing Trader Toolkit: The Market Survival Guide*](#), was released in April 2010.

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

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