Today's Overview

Buyers took control overnight into Thursday, lifting index futures into the tops of their seven-day trading ranges. A better-than-expected ADP employment report pushed prices even higher, triggering healthy gaps at the open of the U.S. session. The rally gained additional momentum at the top of the hour, in reaction to solid consumer confidence and ISM data. The uptick ended mid-morning, right after the S&P 500 hit resistance above 1420.

Positive first-of-month seasonality kicked into gear, despite multiple challenges in the days ahead. The rally caught many short sellers off guard, adding upside fuel to the short-lived buying spike. Despite the vertical ramp, market breadth numbers lagged considerably on the Nasdaq exchange, pointing to small-cap underperformance. In addition, Apple (AAPL) went nowhere, limiting gains throughout the big tech space.

The Philadelphia Semiconductor Index (SOX) led the upside, rising more than 3% and setting off a weekly stochastics crossover that should support one or two months of relative strength. However, related ETFs don’t have great buying patterns so trading opportunities will need to come from individual components. Three strong names in this sector include Asml Holdings (ASML), NXP Semiconductors (NXP) and ARM Holdings (ARMH).

Same-store sales data met modest expectations this morning, with the group pushing even higher after consumer confidence numbers. Tiffany (TIF) was a big winner, rising nearly 5% and hitting a five-month high. Costco (COST) and Target (TGT) were notable exceptions, which is bearish for the upcoming holiday season. Add in today’s Wal-Mart (WMT) selloff and there are several valid reasons to be cautious about fourth-quarter sales.

Charts look ragged and dangerous this evening, despite this morning’s uptick. The S&P 500 bounced into triple-top resistance while the Nasdaq 100 faces a meat grinder above 2700 at the 50-day EMA. Even so, a bullish employment number on Friday could add a second rally leg and set the market into a more favorable position ahead of Tuesday’s big election.

I took just one trade during the session, buying Weyerhauser (WY) in the first hour and selling the rally for a decent profit. I found few stocks of interest and my trading screens remain littered with broken patterns, despite the constructive price action this week. The conflicting signals suggest additional consolidation and base building ahead of next week’s huge market mover.

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Random Notes: Bullet Points on the Market

• Bank of America (BAC) had a solid session and is testing the September high.

• After retaining traditional Internet authority, shares of Verisign (VRSN) rose 6 points in 20 minutes.

• Amazon (AMZN) failed to participate in the rally.

• SPDR S&P Homebuilders ETF (XHB) hit another multiyear high.

• Precious metals lagged badly.

• Plane, train and automobile stocks rose sharply, with the Dow Jones Transportation Average returning to the Oct. 18 high.

• The Market Volatility Index (VIX) fell over 11%.

• Visa (V) hit an all-time high after earnings.

• Utilities gave up Wednesday’s gains.
Community Health Systems (CYH) showed its potential as an election play after the first debate, when it sold off in reaction to the president’s poor performance. Hospitals have a lot to lose if Obamacare is repealed and may react accordingly once it’s clear who will run the country for the next four years. The stock jumped back to the September high in today’s session, fueled by speculative bets there will be no change in the political landscape.

The rally also reflects optimism on the employment front, with higher expectations for Friday’s non-farm payrolls report after decent October ADP and unemployment claims numbers this morning. Despite the rally, this algorithm-driven market can repeal uptrends as quickly as they finish and it’s doubtful the 8% buying spike reflects strong handed knowledge about what will happen on Tuesday.

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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 at trader@hardrightedge.com. 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**

- **Main Street Capital** (MAIN) broke out of the base on average volume. (long - 10/31/12)
- **Williams-Sonoma** (WSM) is testing the rally high. (long -- 10/4/12)
- **Cemex** (CX) completed the ascending triangle pattern and could test double digits. (long -- 10/1/12)
- **Sarepta Therapeutics** (SRPT) bounced on average volume. (long -- 9/27/12)
- **LinkedIn** (LNKD) is probing for a higher low. (long -- 9/24/12)
- **Mueller Water Products** (MWA) rallied to another high. (long -- 9/6/12)
- **Fleetcor Technologies** (FLT) rallied to a new high. (long -- 9/4/12)
- **Infinity Pharmaceuticals** (INFI) tested 50-day EMA support. (long -- 8/24/12)
- **Medivation** (MDVN) tested weekly support. (long -- 8/20/12)
- **Watson Pharmaceuticals** (WPI) rallied back to the October high after earnings. (long -7/27/12)
- **Wal-Mart** (WMT) broke support and will be removed.
Watch List Ticker

I can’t bring myself to get aggressive on the long side after one up day because there are too many market movers right in front of us … There’s still no SRPT 60-minute basing pattern … Heading into the weekend, CX is the one to watch … MAIN pullbacks to $30 should be buyable … FLT is solid as a rock … I want to see how LNKD acts after next week’s rabbit hole.
Chico's (CHS) is a higher-end apparel retailer that broke out of a two-year basing pattern at 16.25 in August and pushed up to a five-year high. The uptick salted at $19.50 in September and gave way to a triangular consolidation, with support at the 50-day EMA. The stock rallied to resistance for the third time in Thursday’s session and could resume its strong uptrend soon.

Volume looks solid and ready to support higher prices. Support at the 50-day EMA near $18.20 limits downside risk and points to an logical stop level. A narrow consolidation into next week could set the stage for the breakout, with round-number resistance at $20 offering the first challenge. Longer term, the stock could reach the June 2007 swing high near $28. The company reports earnings on Nov. 20.
Chico’s (CHS)

(CHS - CHICOS FAS INC,60)

50-bar EMA

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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.

