

Dan FITZPATRICK

Last Close: \$74.44

Kerr-McGee
(KMG:NYSE)

52-Week Range:
\$48.23 -- \$83.30

Kerr-McGee's Testing Support

- The stock's been in a downtrend since early March, and is now at a support level.
- Wednesday's trading volume was four times greater than normal.
- This could signal a further breakdown.
- Also, updates of Apple, ATP Oil & Gas, American Pharmaceutical and Carpenter.

The Short Advisor Portfolio and Watch List

The Short Advisor portfolio and watch list are on page 4 of today's issue.

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Kerr-McGee's Testing Support

Kerr-McGee (KMG:NYSE), an energy and chemical holding company, ramped along with the rest of the energy sector during the first part of the year. However, since early March the stock has been under distribution, and it appears as if the real technical damage is about to occur. Let's check the chart.

(First, though, this note: Kerr-McGee will be reporting earnings next Wednesday. But by then, the downtrend should be under way, assuming the trade is triggered.)

(Continued on the next page)



The descending right triangle currently being formed by the support and resistance trendlines is a bearish pattern. Note how the highs have been declining since March. The one break of the resistance trendline in mid-April was not, in my opinion, a valid trendline break. In fact, the subsequent declines only served to reinforce the strength of that resistance line. The stock gapped up about \$7, immediately fell back beneath resistance, and never even came close to reaching that level again.

Plenty of supply around \$80, right? But now the stock is right at prior support, having established an intraday low of \$73.52. This intraday low is what I count as support. Why the low rather than the close? Because trading volume was heavy relative to an average of around 5 million shares a day. At four times normal trading volume, it is possible that Wednesday was what I call a "crescendo low," where the nervous bulls all rush for the exits at the same time after a prolonged downtrend. And since yesterday's trading range was so tight, all new buyers have about the same basis in the stock. This makes them less apt to sell on any little pullback, and support will hold. But a decline beneath Wednesday's low of \$73.52 signals that the selling pressure is not depleted and the next leg lower has begun.

So the entry is at \$73.45. Once the trade is opened, a good place to put a stop is at \$77.10. If the stock snaps back that high, the breakdown was just a head fake. The target for this short is \$60.

If you have any questions about this trade, let me know. Just send me an [email](#).

Open Positions

Apple Computer (AAPL:Nasdaq): Wednesday's intraday trading range was significantly higher than the norm. Clearly, something is happening with Apple. However, the pattern of lower lows and lower highs continues. Also, the bears' rejection of the intraday high of \$37.56 left the stock up just 48 cents on the day. So

far, the resistance at around \$36-\$37 that was established after the April selloff still holds.

American Pharmaceutical Partners (APPX:Nasdaq):

This trade is working well. Down another 22 cents yesterday, this short is now up more than 10% since the entry at \$46.35. The downward momentum continues, and the initial profit target of \$40 is just \$1.50 away. However, there is really no indication that the downtrend is in trouble, so I want to let this one run. The intraday trading pattern has been a higher or flat open, followed by a drift lower throughout the rest of the day. So I am taking away the profit target of \$40 and instead just tightening the stop from \$47.50 to \$42.55. If the stock pushes up that high, the downtrend is in trouble and I don't want to be left holding the bag.

ATP Oil & Gas (ATPG:Nasdaq): This is another short that works. The entry was at \$19.95, and Wednesday's close was at \$18.30. The trade has a paper profit of about 8%, so I'm going to lower the stop to just above the entry point, to \$20.15. If the stock reverses and moves higher, then I'll be out with only a small loss. However, a quick review of the chart indicates that the late-March through mid-May trading range was just a consolidation phase within the downtrend. I wouldn't be surprised to see ATP snap back at some point, but there are plenty of sellers waiting at the \$20 level to unload their stock. That selling pressure should cap any advance.

Closed Position

Carpenter Technology (CRS:NYSE): Oops. After dropping all the way down from \$54.20 to \$50.40, Carpenter has reversed over the past three days and hit the stop of \$57.55 Wednesday. As such, this trade is closed out. However, look at the chart and you'll see that the 50-day moving average has capped the last two advances. It is currently at \$58.66 -- less than \$2 higher than present levels. So keep an eye on this one. If the 50-day moving average acts as resistance again, you have another short setup. After all, the downtrend is still intact; we just got clipped in yesterday's excitement.

The Short Advisor Portfolio

Company	Entry Date	Cost Basis	Most Recent Price	% Gain/Loss
Apple Computer AAPL	05/13/2005	\$ 34.20	\$ 35.84	-4.80%
American Pharmaceutical Partners APPX	05/05/2005	\$ 46.35	\$ 41.57	10.31%
ATP Oil & Gas ATPG	04/15/2005	\$ 19.95	\$ 18.30	8.27%

The Short Advisor Watch List

(There are no stocks currently on the watch list.)

The Short Advisor Performance

Average Return Open Positions	4.60%	Performance results listed here reflect values of stocks as of the close of the most recently completed trading day but do NOT take into account dividends paid, interest earned or commissions. Results are updated overnight and posted prior to the market open the following business day. The Total Average Return figures reflect changes since inception on March 12, 2003.
Average Return Closed Positions	-0.29%	
Total Average Return	-0.20%	

To see the full Short Advisor portfolio, including closed positions, visit
<http://www.thestreet.com/k/sr/portfolio.html>.

Contributors

Dan Fitzpatrick

Dan Fitzpatrick is an independent trader in stocks and options, with experience as co-manager of a hedge fund. Fitzpatrick has taught seminars on technical analysis, options trading and asset protection strategies for traders and business owners, and is a member of the Market Technicians Association. Fitzpatrick graduated from the McGeorge School of Law. He invites your feedback, comments and suggestions [via email](#).

Steven Smith

Before joining TheStreet.com as a full-time writer, Smith spent two years as the senior finance writer at Ziff-Davis Media's *The Net Economy* publication. Before Ziff, Steve spent three years writing for Individual Investor.com. He wrote extensively on options, technical analysis and a variety of trading strategies. Smith was a seaholding member of the Chicago Board of Trade (CBOT) and The Chicago Board Options Exchange (CBOE) from May 1989 to August 1995. During that six-year period, he traded multiple markets for his own personal account and acted as an executing broker for third-party accounts. Smith welcomes [your email](#) questions and comments.

Chris Schumacher

Schumacher serves as a managing partner of GST Capital Group. He is a financial trader, speaker, writer and author of *Techniques of Tape Reading* (2003, McGraw Hill). He has delivered seminars throughout the U.S., is a featured speaker at trading expos and a guest contributor to CNBC's "Bullseye" program.

He is a graduate of The Ohio State University and has served as a guest lecturer at The Ohio State University's Fisher College of Business as well as the Center for Entrepreneurship. While Schumacher cannot offer specific investment or trading advice, he invites your feedback -- [send him an email](#).

Contact Info

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