

**Chris SCHUMACHER** Last Close: \$114.68

Eagle Materials  
(EXP:NYSE)

**52-Week Range:**  
\$64.78 -- \$121.20

#### **Catching a Downtraft**

- This stock is currently experiencing the classic three-stage euphoria dynamic.
- It should see a strong pullback as traders create an exhaustion point.
- Also, updates on Computer Associates, Engelhard, Sirva and others.

#### **The Short Advisor Portfolio**

The Short Advisor Portfolio and Watch List are on page 4 of today's issue.

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## Catching a Downdraft

**Eagle Materials** (EXP:NYSE) has enjoyed a very strong 2005 with its stock price going from \$80 to over \$120 on increasing volume. The most interesting part of Eagle is that the move higher has been a result of accumulation through the classic, three-stage euphoria dynamic.

The basics of this pattern are that in stage one, a stock forms a base with consistent volume over some interval in time, but the volume isn't enough to attract

attention. This way institutional types can build large positions without having to deal with the volatility traders, like hedge funds and intraday traders.

The second stage happens as the stock makes a move higher that slowly attracts more volume as momentum traders see the uptrend continuation signal and jump on for the ride.

*(Continued on the next page)*

**Eagle Materials (EXP:NYSE) -- Daily**



The third stage is when a crowd of traders catch on to the uptrend and thus create an exhaustion point, which is a peak. (I describe this accumulation scenario more in-depth in my book, *Techniques of Tape Reading*.)

On Eagle Materials' chart, you can see how the volume lines show two levels of volume – from January to April, then from June to August -- before the crescendo of volume occurs as price moves into \$120. At \$120, all those traders that were able to build larger positions in the base near the \$80 level are able to distribute their inventory effectively into the huge buy-side volume as price nears \$120.

As institutional traders began taking their profits at \$120, they haven't been quick to support the stock too much after such a strong spike higher. The risk of the stock price dropping to \$100 is too great for them to want to add long exposure at higher levels above \$100. The absence of support between \$100 and \$120 should create a strong pullback to the price range of \$100-\$105. So the three-stage accumulation scenario should give way to distribution as institutional traders exit their positions and those wishing to put on short exposure become more aggressive.

On Friday the stock broke below \$115, which gave us the downtrend continuation signal. Now the short trade sets up if \$115 is offered for entry before the stock price breaks below \$113.50. So entry should be at \$115, with a stop at \$120. This is a \$5 stop interval, so adjust your

share size accordingly. The profit target will be placed at the \$100-\$102 level, which will serve an almost 2-to-1 reward/risk ratio.

If the \$113.50 price level is broken before an entry at \$115 is offered, this trade setup is no longer valid.

#### Updates

**Computer Associates** (CA:NYSE) is still open. The stop for this trade setup is \$29.50, and the profit target is in the range of \$22 to \$22.50, which will offer \$3.70 to \$4.20 in potential return.

**Engelhard** (EC:NYSE) is still open with the entry at \$27.75. The stop is at \$29, offering \$1.25 in risk, and the first profit target is \$26.50. The second profit target should be placed at \$24.

**Sirva** (SIR:NYSE) hit the profit target of \$8 last Wednesday. With the entry at \$9.80, this trade returned \$1.80 in profit.

**NiSource** (NI:NYSE) also hit its profit target, which was set in the range of \$23.40 to \$23.60. With the entry at \$24.40, this trade gave a minimum of 80 cents in profit and satisfied the 1-to-1 reward/risk ratio.

**Rex Stores** (RSC:NYSE) unfortunately broke below \$14 last week without offering an entry point first. This trade is no longer on the Watch List.

## The Short Advisor Portfolio

Company	Entry Date	Cost Basis	Most Recent Price	% Gain/Loss
<b>Computer Associates</b> CA	08/26/2005	\$ 26.20	\$ 27.69	-5.69%
<b>Genentech</b> DNA	09/23/2005	\$ 86.45	\$ 85.83	0.72%
<b>Engelhard</b> EC	08/23/2005	\$ 27.75	\$ 27.83	-0.29%
<b>Federated Department Stores</b> FD	09/15/2005	\$ 65.50	\$ 66.19	-1.05%
<b>Freddie Mac</b> FRE	09/01/2005	\$ 59.10	\$ 56.00	5.25%
<b>Lennar</b> LEN	09/08/2005	\$ 60.81	\$ 56.40	7.25%

### The Short Advisor Watch List

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

### The Short Advisor Performance

Average Return Open Positions	1.03%	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	-0.35%	
Total Average Return	-0.31%	

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 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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