Market Obeservations: 6/23/2011
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Reviewing my previous market observations (2/18/2011), it is clear that some of the highlighted securities were in a topping and/or basing stage. Some of the clues worth mentioning include:

- Lack of follow-through after initial “thrust”
- Persistent market weakness limiting the potential of momentum-based strategies
- Extremes in positive market breadth leading to trend exhaustion
- Stocks begin moving in gaps
- Short duration corrective action resulting in an inability to propel strong and sustained rallies

These clues will be important to store in memory . . .

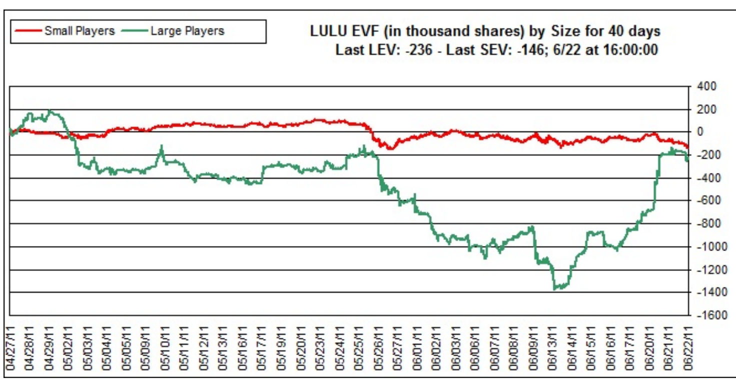
A brief overview of the markets, in conjunction with the tools and commentary shared so graciously on this site, reveals the following:

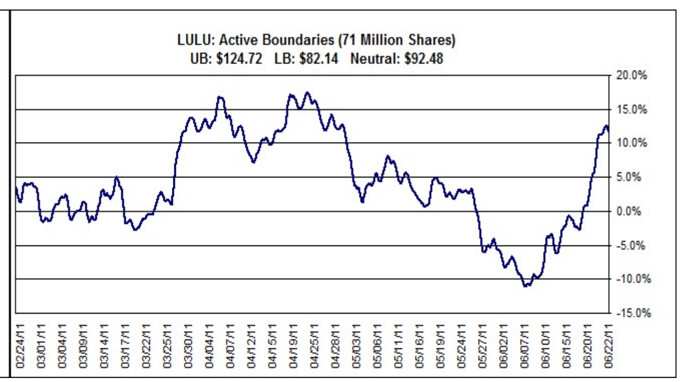
- 20 Day MF on Buy Signal
- QQQ/DIA/SPY/IWM daily stage structure indicate a probable exhaustion of heavy selling and a precursor to institutional accumulation
- Improvement in technical action amongst leading stocks

The decline in the averages hardly reflects the damage done to many stocks. TZOO, for example, corrected nearly 50% from the highs. Meanwhile, some Chinese speculative stocks and IPO’s have literally been blown to pieces. I want to simply highlight a few stocks showing relative strength and institutional support. While the initial thrust off an oversold level provides short-covering propelled gains in some of the weakest stocks, a handful of leading and/or emerging leaders that exhibit strength will be necessary for any intermediate advance.

LULU (current position):

LULU blasted off lower value on big volume coinciding with aggressive large player support. Additionally, today’s gap down was almost immediately reversed with a close at all-time highs. LULU is a member of the highly ranked *Retail - Apparel Footwear* Sector-Industry (17) and the clear leader.



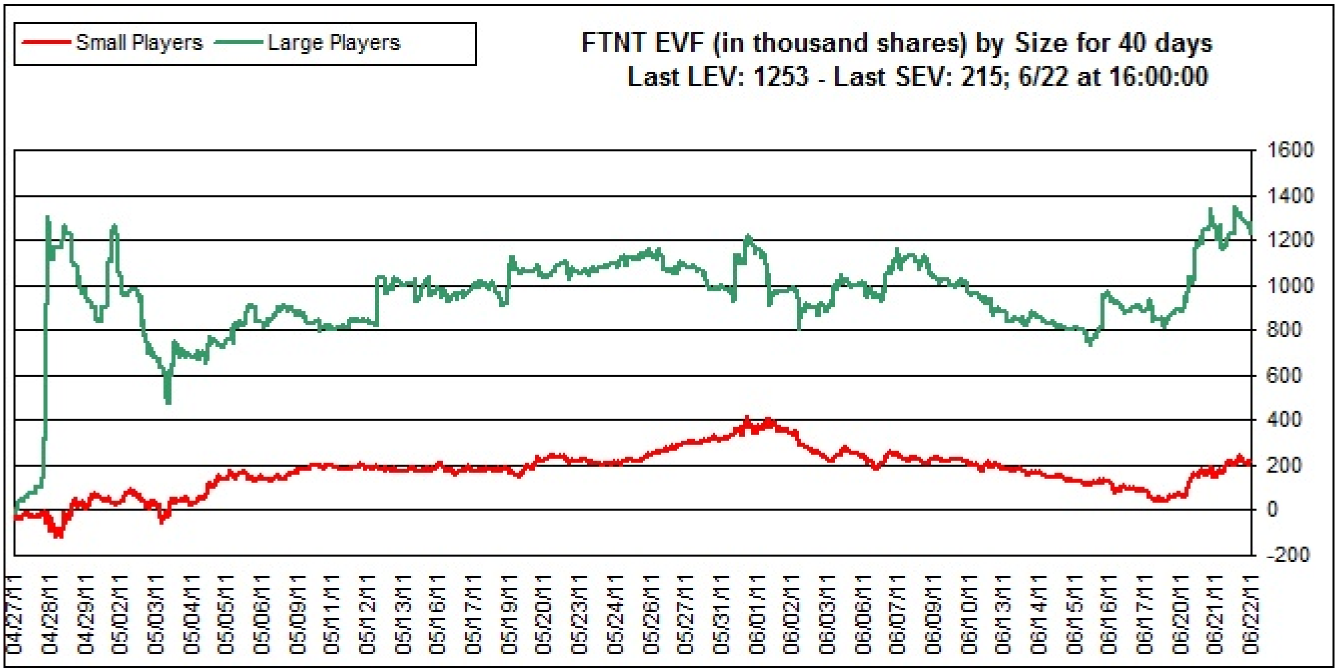


For those who have not signed up for the free *Marder on the Market* service available through the Gilmo Report, this infrequent yet extremely valuable publication highlighted this setup about a week ago. I find the report to be very educational and use it to assist in building a watch-list. The low-volume shakeout below the 50 day MA may be interpreted as bullish, offering institutions valuable weakness to accumulate shares. LULU sports a 99 composite rating and does not report earnings until 9/5/2011 reducing earnings-related risk for the near-term. The lower-float might make this one tougher to buy, as such stocks can move rapidly. LULU shown below with 10/21/50 day moving averages.

FTNT:

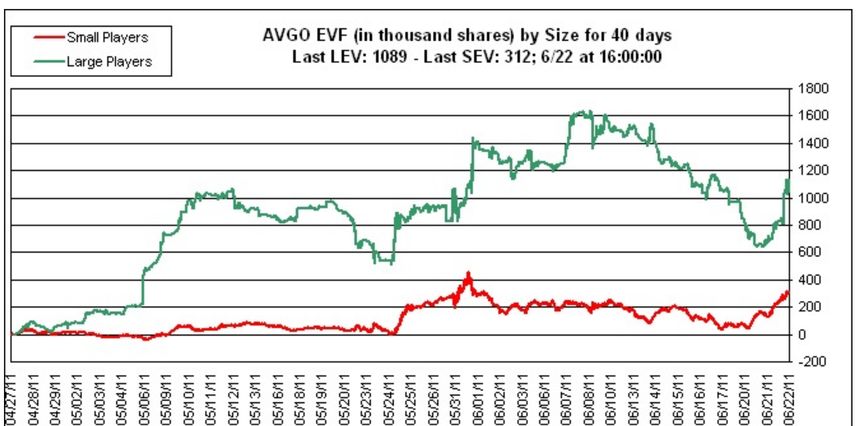
This stock seems to be more of a sleeper; however, the RS is now in new high territory ahead of price, and while lacking the powerful thrust seen in LULU, large players have not at all abandoned FTNT. Additionally, a 2:1 split has been readily absorbed in the midst of a market correction suggesting healthy demand for the shares. FTNT is a member of the highly ranked *Computer-Software/Security* Sector-Industry (22) and sports a 99 composite rating.

The early-distribution daily stage structure seems more likely to be resolved by an eventual transition to strong mark-up rather than strong-decline, given the improving RS and linear weekly chart which, with the exception of two very tight weekly closes just below, tends to obey the 10 week rather diligently. FTNT Weekly w/10 week ma:



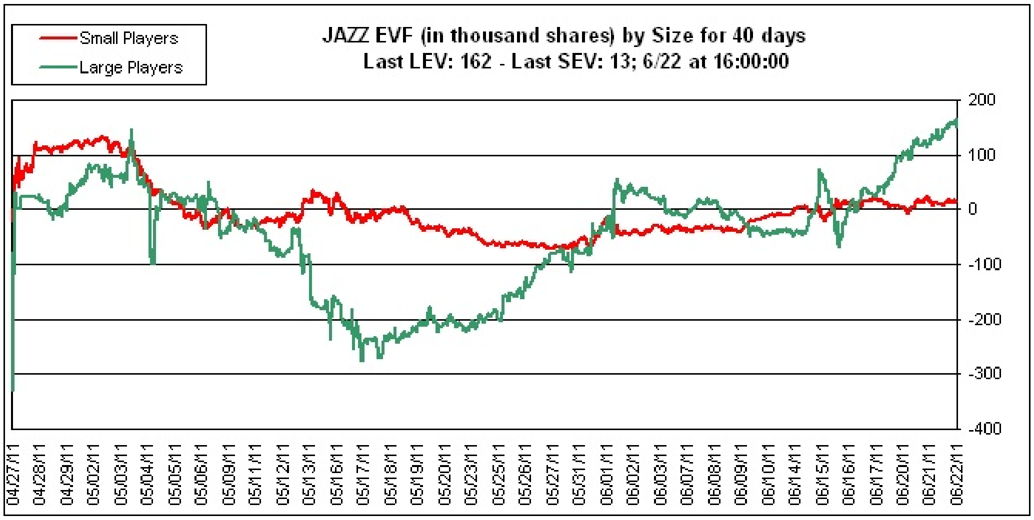
AVGO:

AVGO belongs to the *Electronic - Fabless Semiconductor* Sector-Industry (50). While work remains for these shares to firm up, the 99 EPS rating in conjunction with an improving RS amidst the market correction and recent 50 day shake-out makes AVGO worth monitoring.



JAZZ:

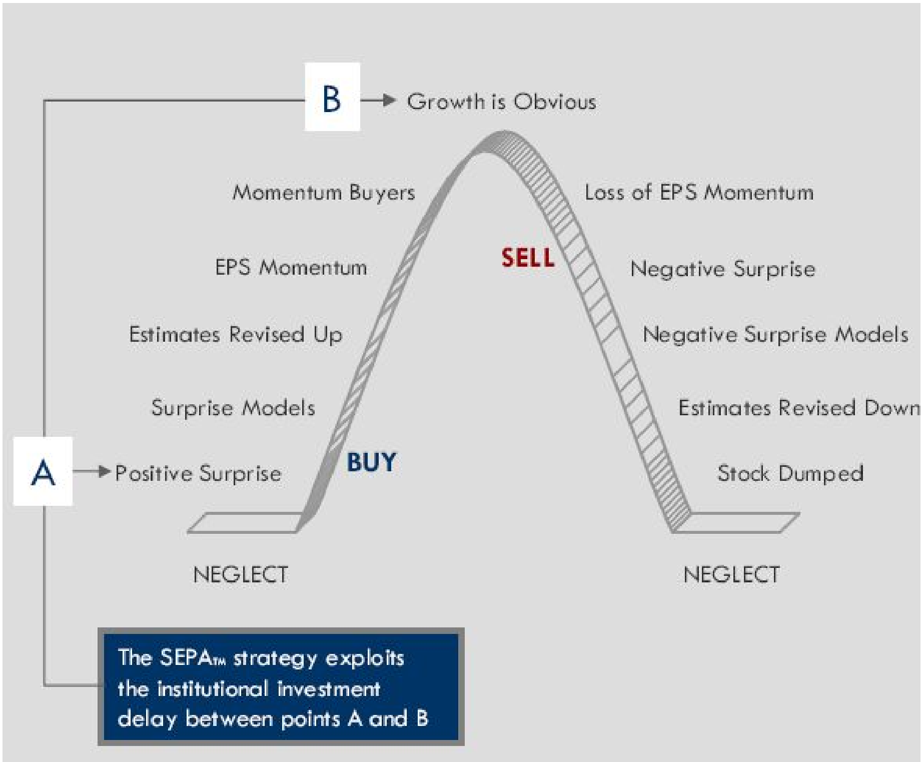
A member of the top-rated *Medical-Ethical* Drugs Sector-Industry (6), JAZZ boasts top IBD ratings in conjunction with steady large player accumulation coming off recent lows:



JAZZ displays a daily early-accumulation stage structure. While not an official double bottom, let us compare JAZZ with another similar pattern: PCLN Summer 2010 on top w/50 day overlay - JAZZ Summer 2011 on bottom w/50 day overlay:

Minnervini's Earnings Cylce:

Charts can be excellent illustrations of underlying supply and demand. The market structure in which such charts operate, however, provides context for how one may interpret the current landscape. Below is a copy of Mark Minnervini's earnings cycle SEPA chart. For many leading stocks in an aging bull market, one should assume that somewhere between "Estimates Revised Up" and "Growth is Obvious" is the stage in which we are operating. Granted, there are likely some sectors that are closer to the "Buy" and "Positive Surprise" stage, too.



While stocks like LULU are clearly in later stage bases, such bases can launch impressive rallies. The most recent noteworthy example is TZOO, which went up over 100% from the last solid base. On the other hand, stocks like GMCR seem to have one late stage base after another, so discretion seems appropriate when counting bases/consolidations/corrections. I defer such counts to experts such as Mike Scott and others with much greater experience than myself.

Conclusion:

The market is in a correction, but the 20 day MF has issued a buy signal, and today witnessed a strong reversal from a gap down open with healthy action among some leading issues. Some constructive patterns are appearing and some issues are pre-leading the market averages. Old leaders like APKT and RVBD should be monitored for large-player accumulation along the lows of their current structure.

The common assumption of no QE3 resulting in the end of market advance could mask other positive fundamental developments such as declining oil prices that lead to improved consumer confidence and improved profit margins for some companies. Formerly leading sectors like energy and coal are now in strong decline stages, which may precipitate a period of base-building/early-accumulation that limits further substantial declines in the near-term.

Charts are best viewed in the context of a company's current earnings cycle. The market is showing some early signs of life, but time is needed for the averages to firm up and a wider swath of potential leadership to develop. In the event that further deterioration presents itself, then reducing exposure is the prudent course of action.

One should always be present of the array of strategies employed in the market. For every trend follower, there is probably a pullback/trend exhaustion buyer. The most important thing I am learning is to appreciate and respect that the market has many players with many approaches.

I continue to be grateful to Pascal, Billy, EB, and Mike. Additionally, I find value in the sentiment indicators shares by Aly and the other wonderful commentators.

Best to all.