

Agriculture Stocks with a Review of POT MOS IPI SQM:

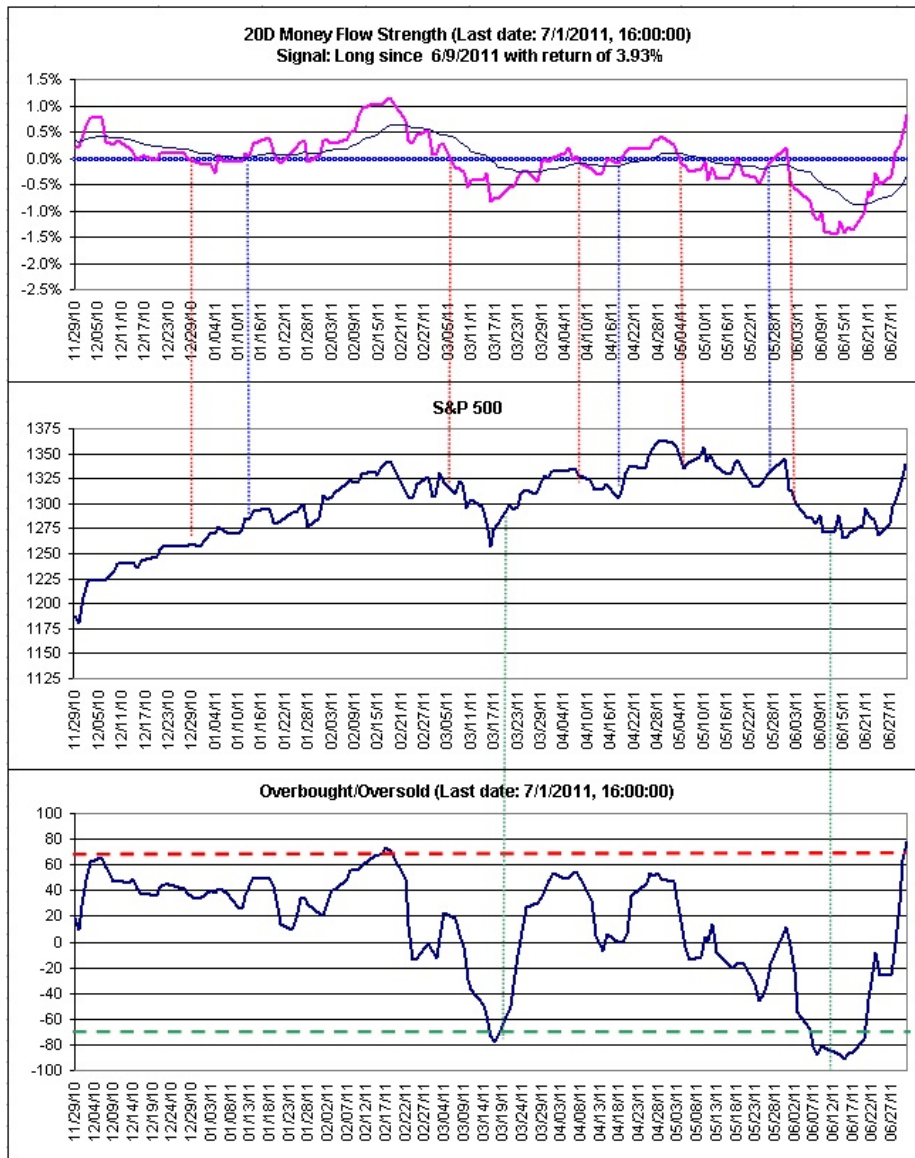
By Eric Coleman

7/2/2011

Agriculture stocks became core institutional holdings over the past decade. The volatility and crash of 2008 reversed the impressive gains made between 2005-2007. Given these companies increasingly important role in worldwide food production, the sector warrants attention from investors. The following is a brief review of the sector using tools from the Effective Volume website and stage analysis.

Pascal writes: *It is critical to trade in the direction of the market. This means that the first analysis must be the general market trend.* In a matter of days, the market amazingly blasted into overbought territory. The 20-day MF has not only moved up through the zero line, but the average has just turned up after a slow and steady downtrend that began in late February. The market has essentially built a nearly 5-month trading range. Trading ranges can create bases from which rallies launch.

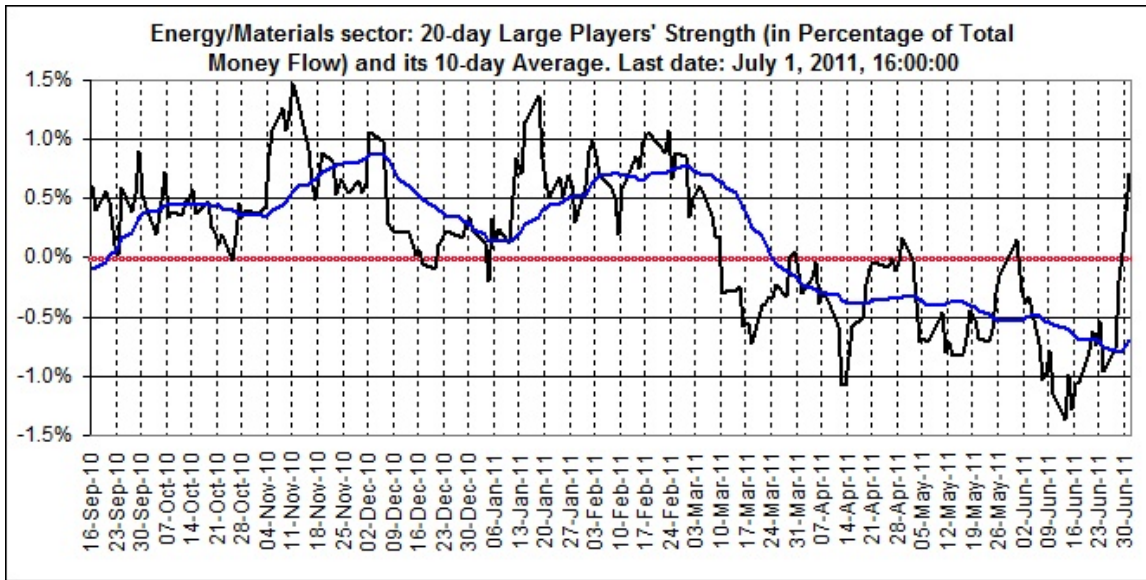
20-day Money Flow Indicator:



Sector and Industry:

The major agriculture stocks are classified as fertilizers on the EV site. Fertilizers are a subset of the Energy/Materials sector; therefore, an examination of the sector money flow trend is critical. Note the thrust, which vigorously moves up through the average line and the 0 line. Additionally, this thrust is coming from deeply oversold conditions and may signify the beginning of a base-building and daily early-accumulation phase.

Energy/Materials sector triggers buy signal:



Daily Stage Structure of Energy/Materials ETF's

XLE: Energy Select Sector SPDR	Current Stage is 1-1 (Early Accumulation) Has been in current stage for 1 day(s)
XME: S&P Metals and Mining ETF	Current Stage is 1-1 (Early Accumulation) Has been in current stage for 1 day(s)
MOO: Agribusiness ETF	Current Stage is 1-1 (Early Accumulation) Has been in current stage for 1 day(s)
KOL: Coal ETF	Current Stage is 1-1 (Early Accumulation) Has been in current stage for 1 day(s)

Weekly Stage Structure of Energy/Materials ETF's

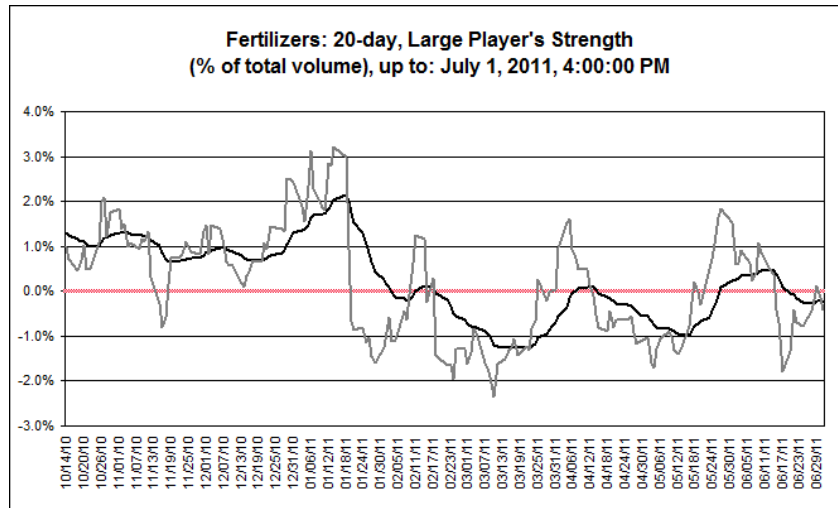
XLE: Energy Select Sector SPDR	Current Weekly Stage is 3-1 (Early Distribution) Has been in the current weekly stage for 3 week(s)
XME: S&P Metals and Mining ETF	Current Weekly Stage is 3-1 (Early Distribution) Has been in the current weekly stage for 3 week(s)
MOO: Agribusiness ETF	Current Weekly Stage is 3-1 (Early Distribution) Has been in the current weekly stage for 8 week(s)
KOL: Coal ETF	Current Weekly Stage is 3-1 (Early Distribution) Has been in the current weekly stage for 3 week(s)

An important distinction to note regarding the use of stages: . . .*the early accumulation stage should in fact be viewed as a "negative" sub-stage and the early distribution sub-stage as a "positive" sub-stage* (<http://blog.alphascanner.com/?p=306>). We may therefore look for a transition into a mid-accumulation daily-stage, within the current weekly stage structure for confirmation of a developing bullish pattern.

Fertilizers:

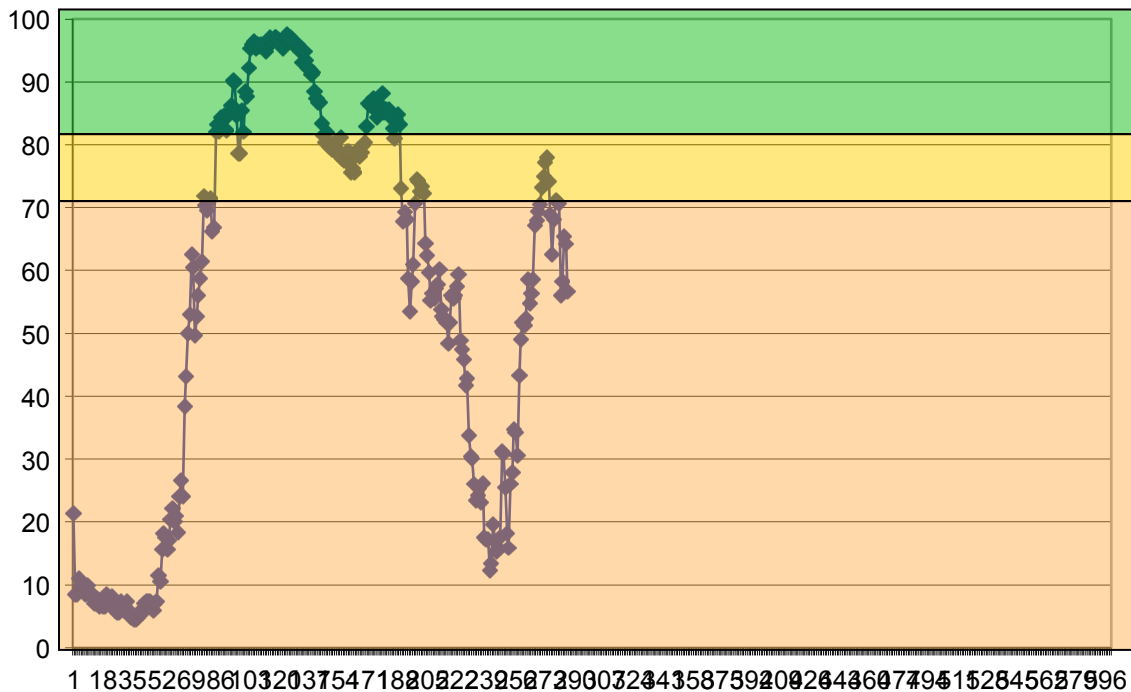
What might one draw from the Fertilizers 20 –day LP strength?

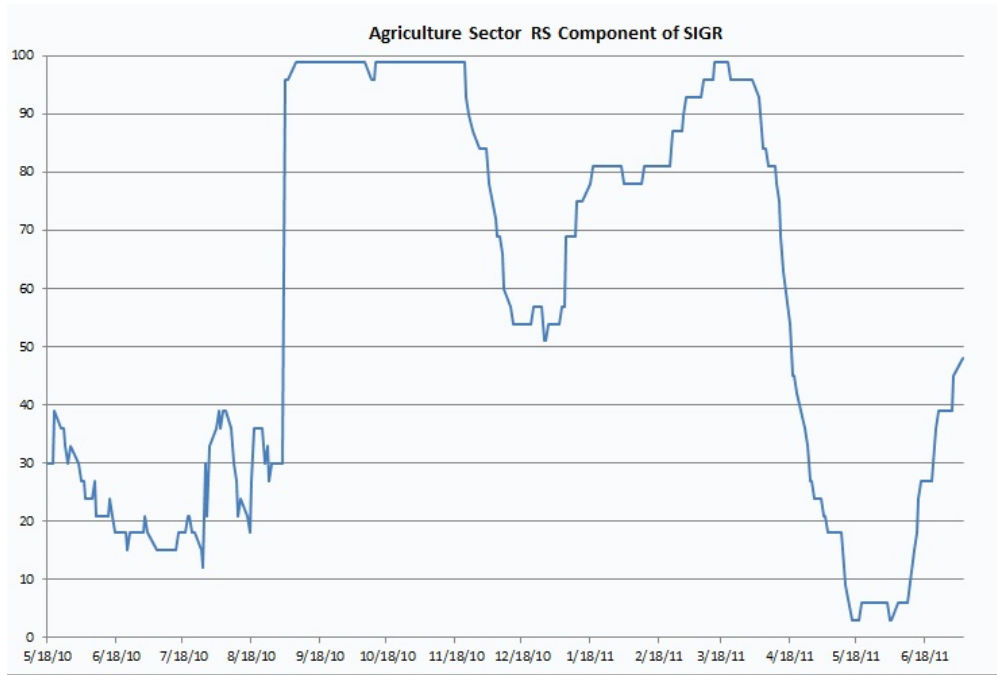
- Large Players have yet to aggressively move into the sector, as evidenced by the sideways trend that oscillates since the beginning of the year
- After a sharp downturn in January, the average moved below the 0 line and has been slowly trending higher since March



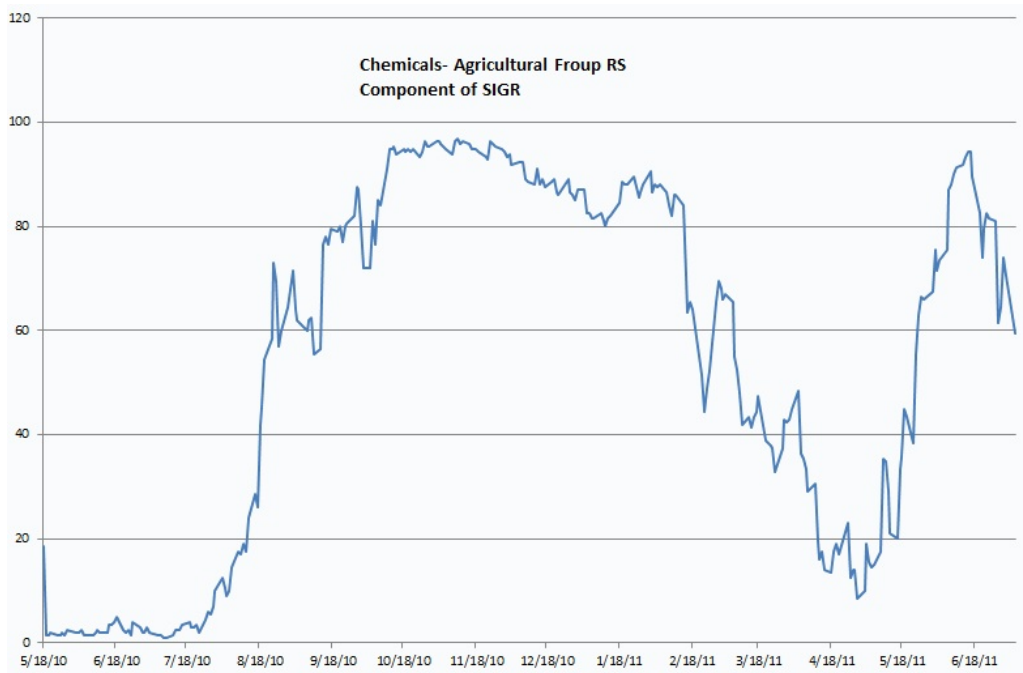
If we reference Graph 93 in the SGR file, one sees clear improvement in the *Chemical – Agricultural* group; however, the group itself was benighted at recent attempts to hold in the neutral +70 zone. One may therefore watch for any ensuing strength to be confirmed by a decisive move into the yellow and green zones amid any technical improvement. (Graph slightly distorted)

Chemicals-Agricultural



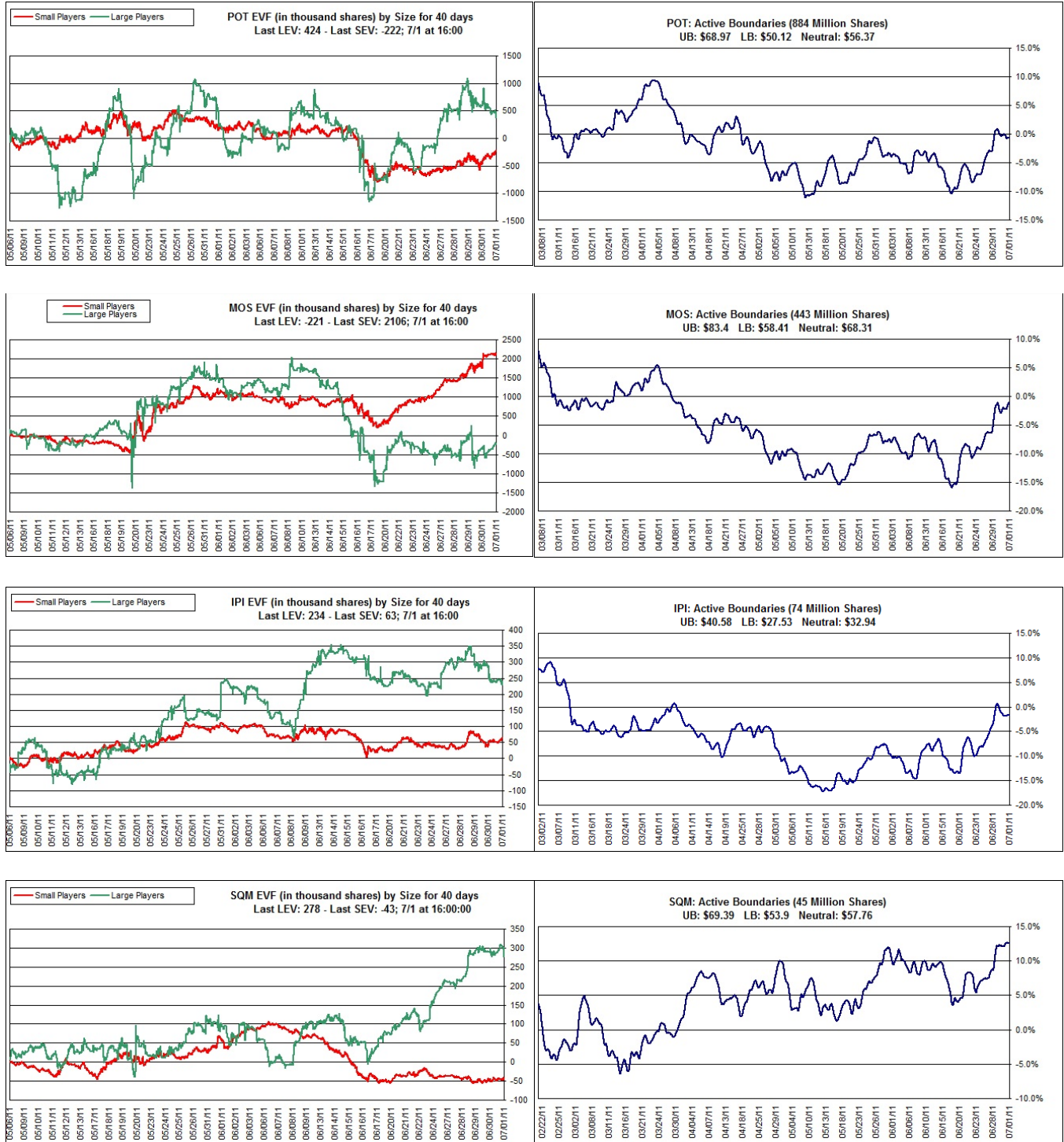


Billy has additionally explained that the fertilizer group is pre-leading the entire agriculture sector, although the fertilizers themselves are pulling back. (Please see addendum at end of report – additional charts courtesy of Billy)



Some Fertilizer Stocks:

A general assessment of the following fertilizer stocks reveals that most are now at or near neutral boundary, which coincides with the recent strength over the past week. POT is in a long range. MOS displayed the most relative weakness during the recent correction. IPI appears to be building a base. SQM is the technical leader and in a strong mark-up phase on both daily and weekly timeframes



Summertime through End-of-Year Trading Patterns in Potash Corporation (POT) 2002-2010:

2002 & 2003



2004 & 2005



2006 & 2007



2008 & 2009



2010



I examined the trading history of POT since 2002. I view POT as the de facto big stock in the group. I wanted to see if there were any common patterns that coincided with summertime trading. A few observations that come out of this discretionary exercise:

- In 7 out of 9 years, POT made a meaningful bottom between June and August
- 2008 and 2005 were the only years that witnessed lower closes than summertime prices.
- The remaining years saw prices move higher into year-end from summer trading bottoms

One may conclude that since 2002, POT has more often than not seen a price cycle low during the summer. Fundamentally, one may infer that such a low *could* coincide with supply and demand factors that underlie the agricultural market, or oil prices that often peak in summer and move lower afterwards, result in lower input costs for the remainder of the year.

In 2010, BHP made a bid for POT. Just as XOM bought XTO, such deals likely highlight some type of fundamental demand for the products and services of these companies, such that large players “want in.”

Continued below . . .

POT possesses a 98 EPS rating. On May 12, the RS line bottomed and has steadily risen to the 80-level, while price moves sideways. The most recent quarter earnings came in at 84 cents a share, vs. 49 cents per share in Q1 2010.

In an old VIT discussion, Billy mentions:

I don't believe there is anything more special about the 30-week average than let's say the 40-week which is today much more widely monitored. What matters for me when using ma's is to know that the quarterly 13-week ma and its multiples (26, 39, 52) are the best ones to catch the technical reaction to earnings cycles. But I also prefer to track the RS on these timeframes instead of the ma's to pick stocks in the direction of the market. (<http://forums.effectivevolume.com/showthread.php?1223-RE-RE-Weinstein-Stages-EV-AB/page2&highlight=ev+weinstein>)

Notice how POT finds support at the long-term 52 week MA:



Even more striking are the extreme tight monthly closes, which I interpret to indicate a steady stream of support buyers, especially when prices moves toward lower value. July has only begun, so any “3-months tight” is only speculation until month-end.



Summary:

The agriculture sector became worthy of institutional sponsorship over the past several years. EV and stage analysis reveal a trading range, where the possibility of a bullish rally may be confirmed with a strong sector thrust coinciding with an improvement in the daily and weekly stage structure. The agribusiness ETF has been in a weekly early-distribution stage for 8 weeks, so any bullish move higher will likely come soon if the sector is going to rally. Also, the 20-day MF must *not* confirm an aggressive liquidity drain if the market itself is going to remain in a neutral to bullish structure.

The *Chemical-Agriculture* SGR rating has improved recently, but must trend higher if the group is to take on any leadership role. POT, which is a liquid group leader, shows steady underlying support in the 50-dollar range, as revealed by the “tails” shown on the monthly chart. Additionally, POT’s RS has improved to 80 since mid-May, even as the market moved lower. Amidst the improving RS, price has moved between 50 and 55. Now at neutral value, one may watch for price to hold steady and shorter-term MA’s to act as support. In 7 out of 9 years since the commodity bull market began, POT bottomed in the summertime, usually in or around July. POT may therefore offer position traders a buying opportunity in the weeks to come.

Addendum:

For a review of SGR, please see Billy’s post and link near the end of the archived discussion linked below:

<http://forums.effectivevolume.com/showthread.php?428-RE-IBD-Sector-and-Industry-Group-Rankings-%28SIGR%29/page2&highlight=SIGR>