

Weekend Report and Review – 7/9/2011

By Eric Coleman

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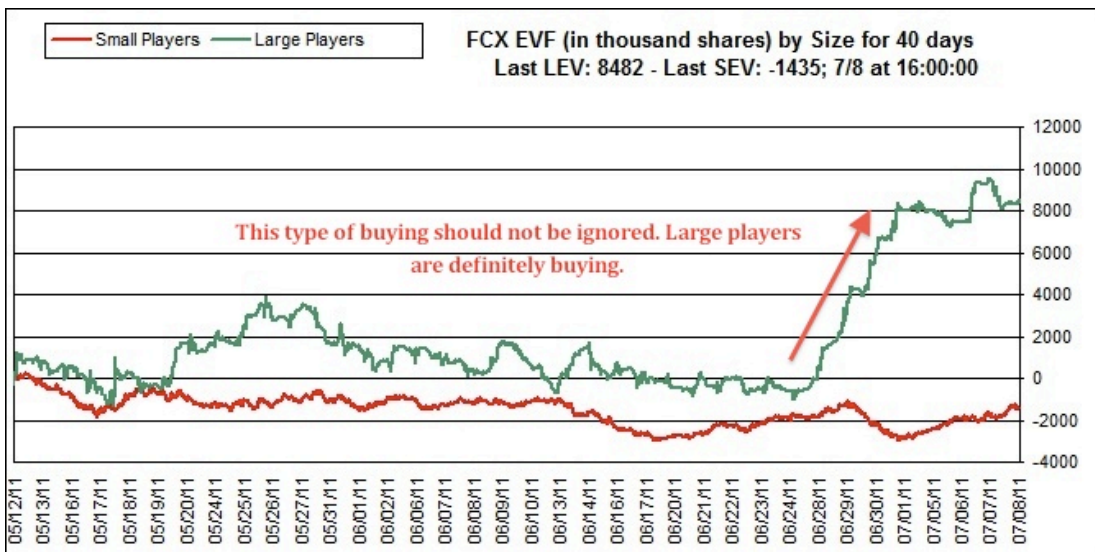
Market Summary:

The past two weeks caught a majority of market participants by surprise. What did I learn and what concepts were reinforced? As always, the most important lesson is to always have an open mind; understanding that a variety of methods and timeframes are utilized to derive profit from the market continually reinforces this concept. Second, one is generally best served by ignoring media headlines that focus on reasons for why a particular event may or may not be occurring. For example, “window dressing” was the excuse for the initial oversold rally, which really had nothing to do with improving market breadth and the breakouts and strength being exhibited by leading stocks, already advancing ahead of the indices. Lastly, always be on the lookout for predictive extremes that usually appear on Yahoo Finance. Such extremes tend to occur when various pundits and sometimes Elliot Wave practitioners emerge with charts that show how *this time* the market will resolve into oblivion.

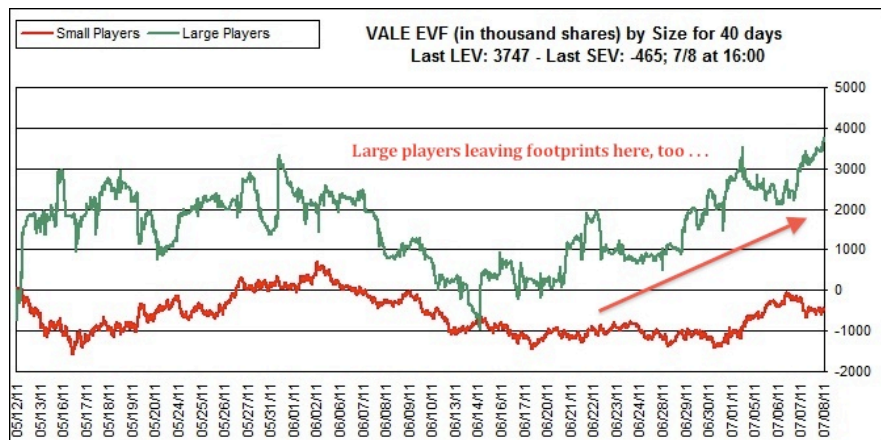
I spent about an hour looking through all sector and stock-specific EV charts this morning. This process involves opening the sector tab and scrolling through all the charts within a specific industry group. Below are some of my observations . . .

The most exciting aspect of the past week comes from the materials and industrial sectors and their relevant sub-industries. Consider first the *Copper* stocks. One sees aggressive movement into the likes of FCX and SCCO, with SCCO notably outperforming during Friday’s selloff. Both stocks also have exposure to gold mining operations, so one may speculate that such companies benefit from exposure to strength in gold and demand for raw materials. Indeed, a chart of FCX reveals a “Pocket Pivot” volume signature, bursting through both the 50 and 200 day moving averages on volume greater than that of the prior 10 day’s down volume bar. FCX “respected” the 50-day throughout the prior uptrend:





As a complement to the above observations, note the accumulation in VALE, which respectively moved higher through both the 50 and 200-day MA's, and large players supported the move. RIO and BHP exhibit a similar dynamic. Large players are also buying steel-related shares demonstrated in the EV charts of X, CLF, and AKS. See VALE below:

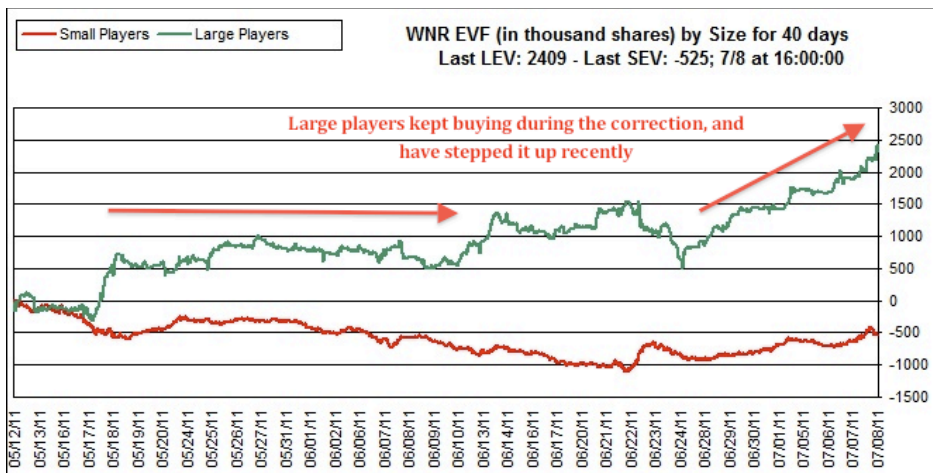


While the above do not necessarily constitute buys, what these liquid leaders appear to signify is that large players are getting a bit more comfortable and increasing exposure to economically sensitive cyclical stocks.

In the energy sector, I found numerous buying patterns that are constructive. Some stocks worthy of additional review include the following:

- Coal: CNX which is forming a range
- Drillers: NBR PTEN RDC ATW HP
- Oil Producers: SGY which is forming a range
- Oil Service: HAL NOV BHI DRC – all of which are showing constructive technical action
- Refiners: WNR SUN

One final example from the energy complex I'd like to highlight is WNR, which demonstrates the importance of tracking ranges, especially in stocks that had a powerful move after a long period of underperformance.



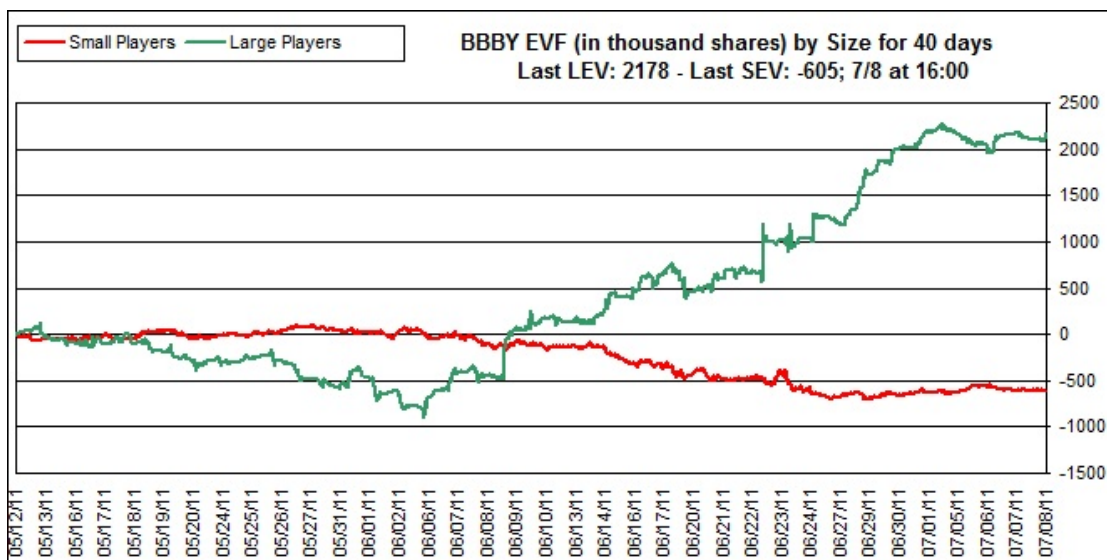
I view the relative strength in some railroad stocks like NSC UNP KSU and CSX as support for any increasing demand in raw materials, which for whatever reason, may be on the way. Also, one needn't look further than the IYT transports ETF that has made new bull market highs this week. Finally, the Oil sands and Shale oil group don't indicate the oil will reverse into new highs very soon – a bullish sign for numerous sectors.

The finance sector showed nothing that garners much excitement. C and WFC show some accumulation and Brazilian banks seem to be attracting some interest. The most noteworthy feature of this sector comes from the recent action in V and MA, which have now moved into more pronounced leadership roles. AXP hit new highs, and some of the exchanges are garnering *some* buying.

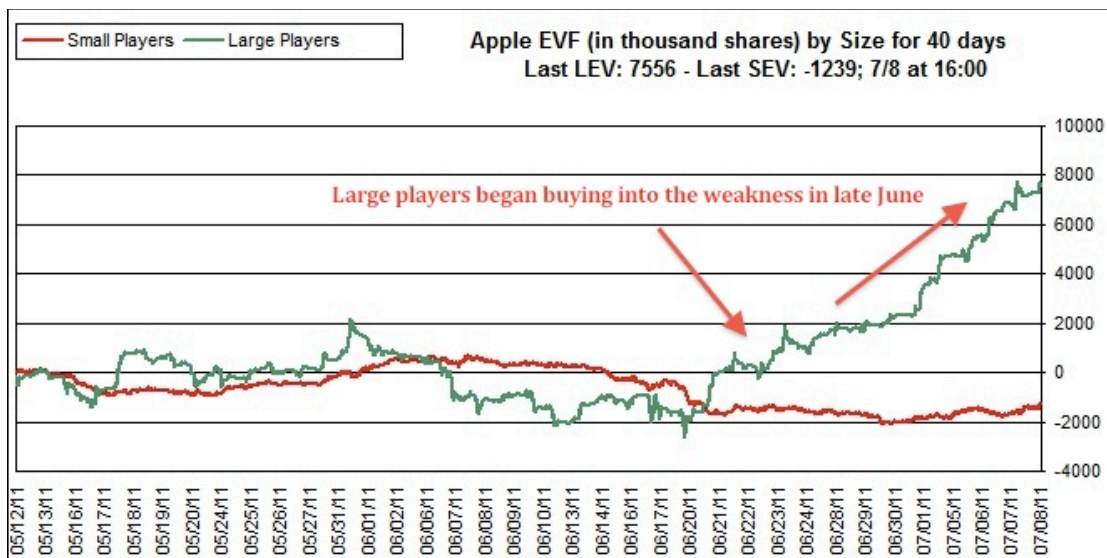
Some health-related stocks are showing large player accumulation. There are interesting patterns that span the gamut of each sub-industry. I would point out the following issues for further examination: ENDP JNJ VRX MYL PRGO WCG UNH CNC CI VAR EW SXCI. Among these, VRX and WCG show the most linear trading patterns.

The retail sector also shows some encouraging signs. I consider BBBY and HD to be liquid sector benchmarks that may be used to gauge overall market sentiment. Both are experiencing large player buying in recent days and with BBBY at new highs, calling a broad market top seems premature. The retail-shoes and apparel sectors also show some patterns worth review: NKE DECK CROX DSW. While we certainly have some later-stage bases, some improving action in retail-restaurant stocks like SBUX and BWLD bears monitoring. BBBY shown below:





Perhaps the other area worthy of some enthusiasm comes from the beaten down tech sector. Indeed, AAPL has reversed impressively on large player buying. Furthermore, the cloud sector is showing improvement in recent days, although some of these stocks are heavily shorted, which may explain some of the vigorous rallies seen in stocks like RVBD and ARUN. Hardware stocks including STX and WDC both received buying support at their 200-day moving average.



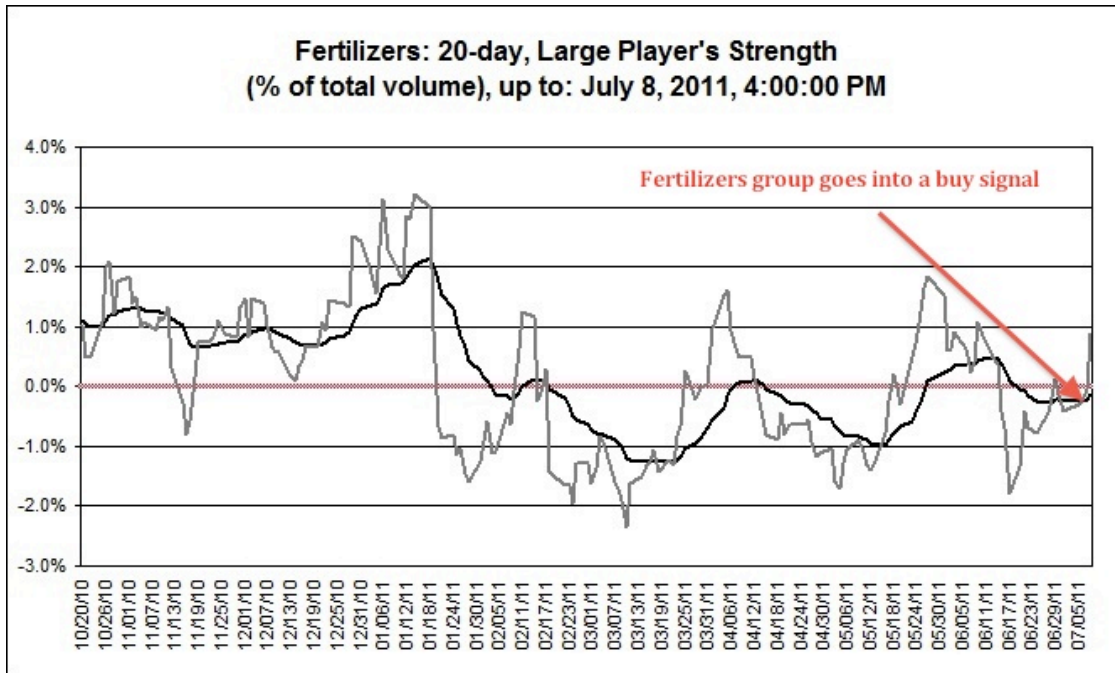
When risk-taking heats up, the internet-sector seems to be the “go-to” sector. AMZN BIDU NFLX EBAY and GOOG have all seen large player buying, with some at new highs. With such strong moves off of recent bottoms, I would not be surprised to see some consolidation or pullbacks at this point.

What may be deduced from such a review?

- Cyclical stocks have begun outperforming
- The finance sector is still in the doldrums
- Technology stocks are witnessing accumulation after a correction
- The market might falter, but more convincing evidence needs to arise

An Update on Agriculture and Fertilizers:

Following up on my recent agriculture study reveals some notable developments. First, one can see that the group went on a buy signal at the end of the week:



Next, one can see large players taking advantage of Friday's weakness to take positions in POT. With broader indexes down about a half percent, POT finished the day up +2.35%. POT's RS has moved up to 83 from 80 in the prior week. Other fertilizers witnessed buying and closed up on the day including MOS IPI and CF.

