

Weekend Notes: 7/15/2011

By Eric Coleman

Summary:

This week presented an opportunity to test one's patience in the midst of a headline driven news environment. Billy and Pascal's commentary – in conjunction with the EV tools, helped maintain semblance throughout. I think Charles Kirk of *The Kirk Report* sums up the week nicely, "*In the end, it could have been a lot worse!*" This report highlights some interesting situations that I noted this week, while updating other observations discussed recently.

I continue to find constructive patterns from the materials/energy/mining complex. The technical action in FCX, discussed last week, is more orderly than Latin American cousin VALE, but both are still consolidating in a neutral to bullish fashion.



While these stocks continue to be important barometers of market sentiment, what really shined this week were the gold miners. No doubt, those long from the last GDJ robot signal have had their patience amply rewarded. Prudence suggests a deeper look at some individual shares.

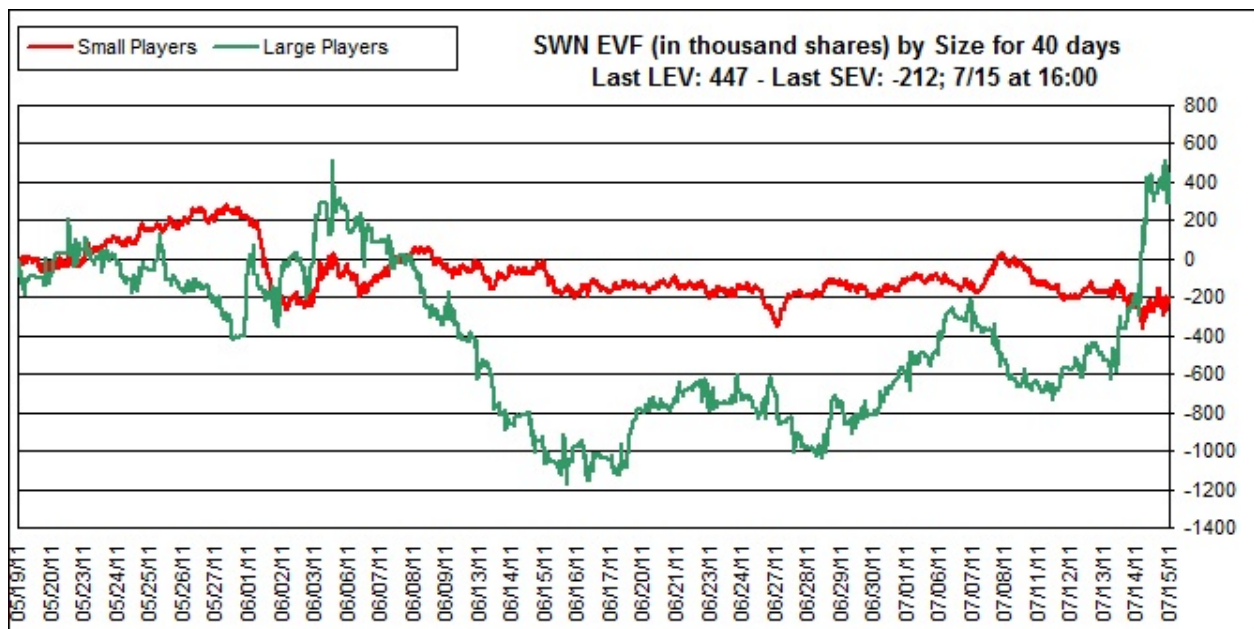
Eldorado Gold (EGO) is a most compelling gold stock. I have some personal experience with the stock and sold for a loss last year as it topped. At the time, EGO was an IBD *Stocks in The News* stock carving out a cup with handle pattern that was part of a base-on-base pattern. Almost a year later, EGO's base may be much stronger. At this stage, with price near UB, one may expect some days/weeks of consolidation.

For example, assume a stock breaks out of a trading range on high volume. It looks great. People buy it, and then the stock collapses. In this scenario, most people will view the original breakout as a failed technical signal. The original breakout, however, may be only the beginning of a more complex pattern that is far more reliable than the breakout itself. – Mark Minnervini, *The New Market Wizards* (pg.173)

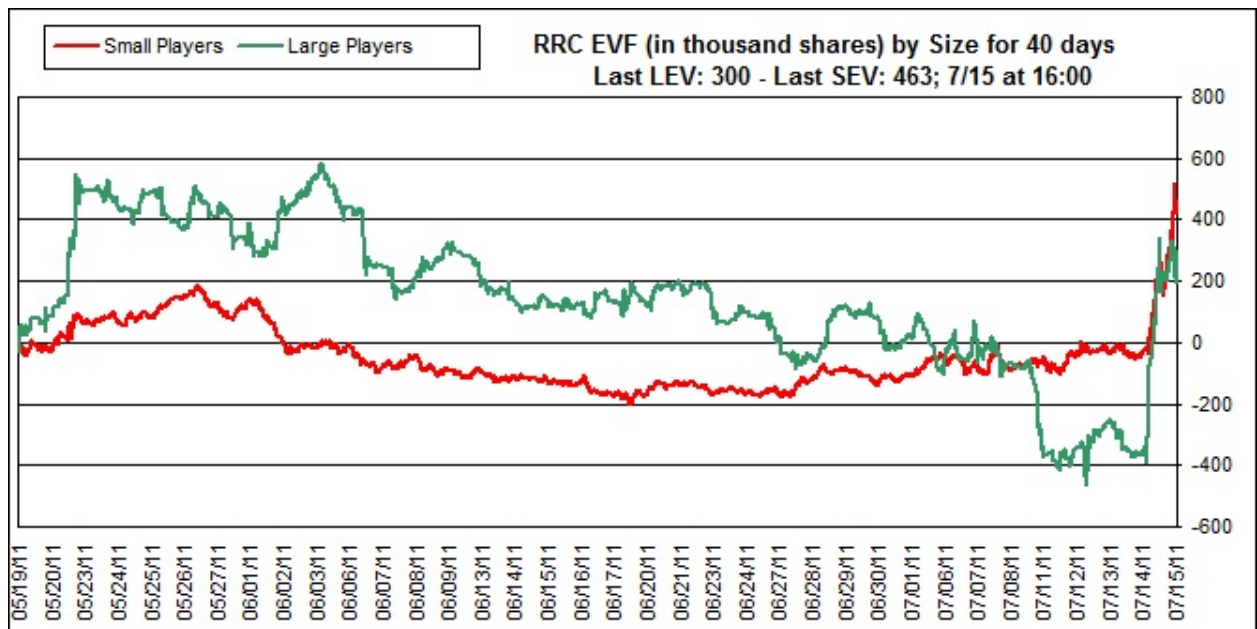


EGO belongs to *Mining - Gold/Silver/Gems* group and announces earnings on July 29. The sector-group moved to 38 in IBD's performance rankings – from a paltry 146 just 3 weeks ago. Such dramatic improvement highlights the relative strength in the sector. Extended on a short-term basis, EGO may offer a more optimal entry in the coming days/weeks with any correction in time and/or price. IAG, RGLD, and GOLD as it moves up the right side of a possible base, are worth monitoring.

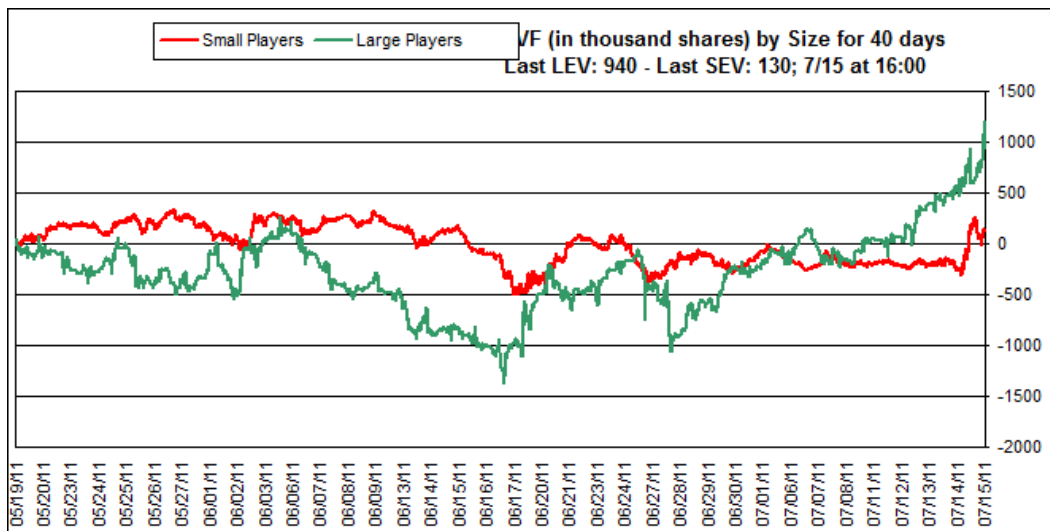
Paying attention to fundamental sector developments is always a good idea. Exxon acquired XTO in 2010 and CNOOC made a large investment in some of CHK's prime assets last year, so the HK deal should not be entirely surprising. Some natural gas stocks impressively broke their ranges on Friday with the support of large players. These must be actively monitored for any bullish follow-through – SWN, RRC, CHK are most interesting.



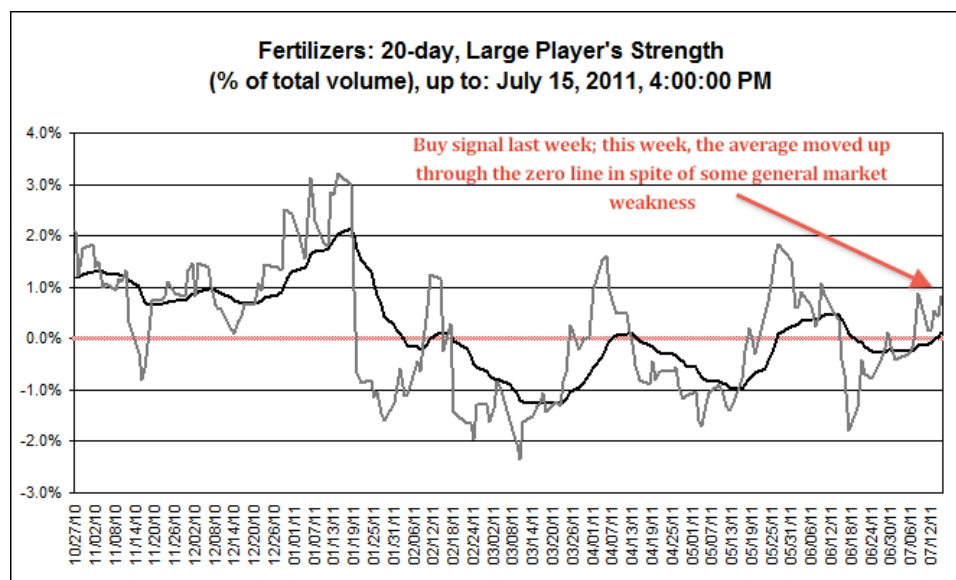
Fellow Natural Gas stock Range Resources (RRC) lends support to the group's move. Also worthy of mention is Chesapeake Energy (CHK), not shown here.



One of the securities that “looked interesting” last weekend was Nabors Industries. NBR appeared in the *Positive Divergence with AB* scan this Thursday evening. Investing early on Friday would have rewarded one; nonetheless, this type of action may signify an important trend change as some stocks continue the base building process and enter daily early-accumulation stages:



Monday evening may provide a catalyst for the agriculture sector, with Mosaic reporting earnings. MOS has one of the lower RS ratings in the group but the report will likely cause a sector move:



I am enjoying the process of watching the evolution in the Agriculture sector. Sometimes the most difficult periods are the times spent waiting for a thesis to develop or manifest. Since my 7/1 reports, the fertilizer group has gone on a buy signal, and the RS rating of POT has moved from 80 to 84. Additional strength in the group has appeared in CF, while SQM remains a liquid leader.



Conclusions:

More than anything, this was a good week to do very little other than watch. Strong action emerged from gold stocks, and this action is worth monitoring. If any type of sustainable move emerges, some consolidation near UB should occur. A most significant sector development came from some quality upside range breaks in the natural gas sector. Fertilizer stocks are improving and big stock FCX merely consolidated sideways while holding recent gains. Tech giant AAPL tagged new highs . . .

I am not presenting any short ideas because my experience is rather limited. More optimal shorting periods occur when the 20-day MF is short and leading stocks are under greater distress. Additional commentary I found useful this weekend came from *The Kirk Report* and a review of recent articles by Kevin Marder that can be accessed at Marketwatch. Of course, I remain heavily influenced by the daily commentary shared by Pascal and Billy.

Between the Icahn offer for Clorox (CLX), the BHP offer for HK, and the earnings explosion by GOOG on Friday, I am as yet unconvinced that large players are ready to abandon the market in full force. This week's earnings reports may provide the catalysts that many participants await.