Weekend Review 7/24/2011

By Eric Coleman

Summary:

There is little to say that has not been said. Pascal highlighted the weak money flow over the past few days, which gives legitimate cause for concern. Old leaders faltered badly, evidenced by RVBD and TZOO. Just after the close on Friday, debt deals appear to have reached an insurmountable impasse. Without a doubt, the jitters are reflected in the market, and there is good reason to acknowledge that any outcome is possible.

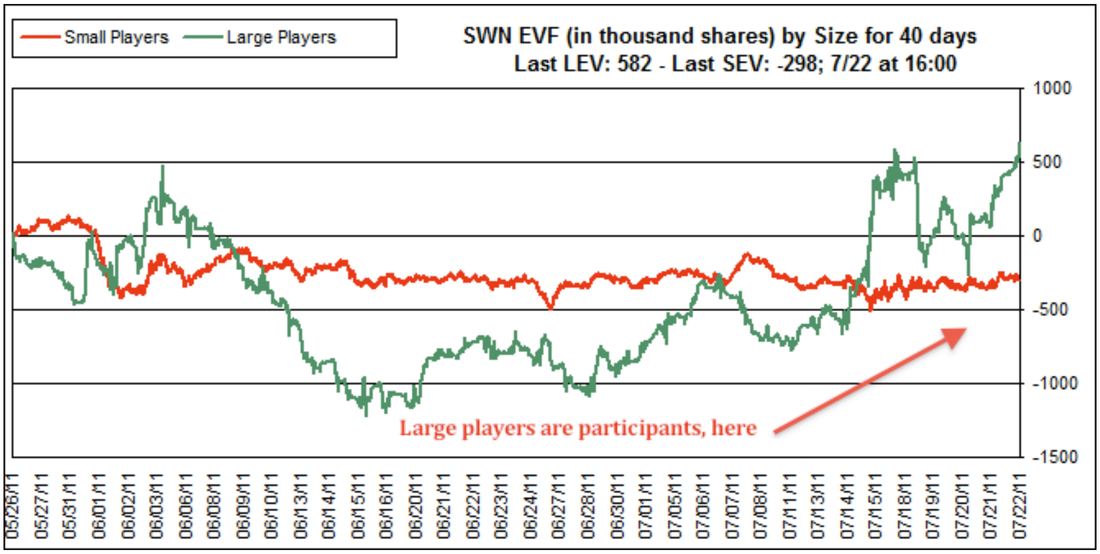
Numerous past discussions throughout the VIT archive highlight the uncertainty and indecision we face navigating the murky waters of a challenging market. Everything from insider selling to Dubai debt implosions, not to mention the PIGS and a nuclear meltdown, has been thrown at us.

A few noteworthy observations from the past week include:

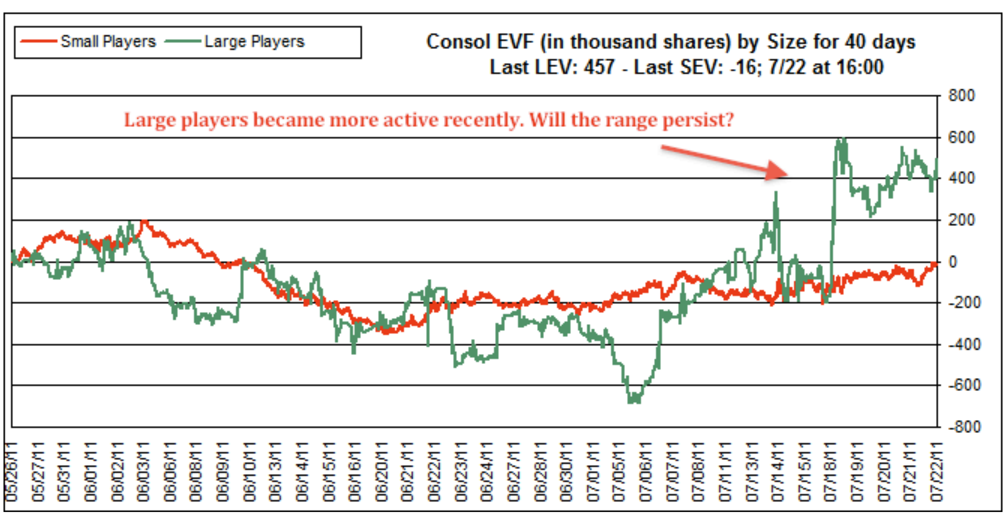
- Follow-through in Natural Gas – Energy stocks show some constructive action
- Ongoing improvement in the agriculture realm
- Consolidation in miners
- Interesting action in both gaming and big tech

I viewed 316 basic materials charts that trade over 300k in average daily volume with a market cap greater than 300 million. I looked for stocks that were either in a defined range, had broken out of such a range, or possessed some degree of "linearity" over the past few months. This practice helps give a sense of a particular set of stocks. All that is involved is the free *Finviz.com* tool and inputting a few data points to narrow one's criteria. It is really a good way to view a significant number of charts . . .

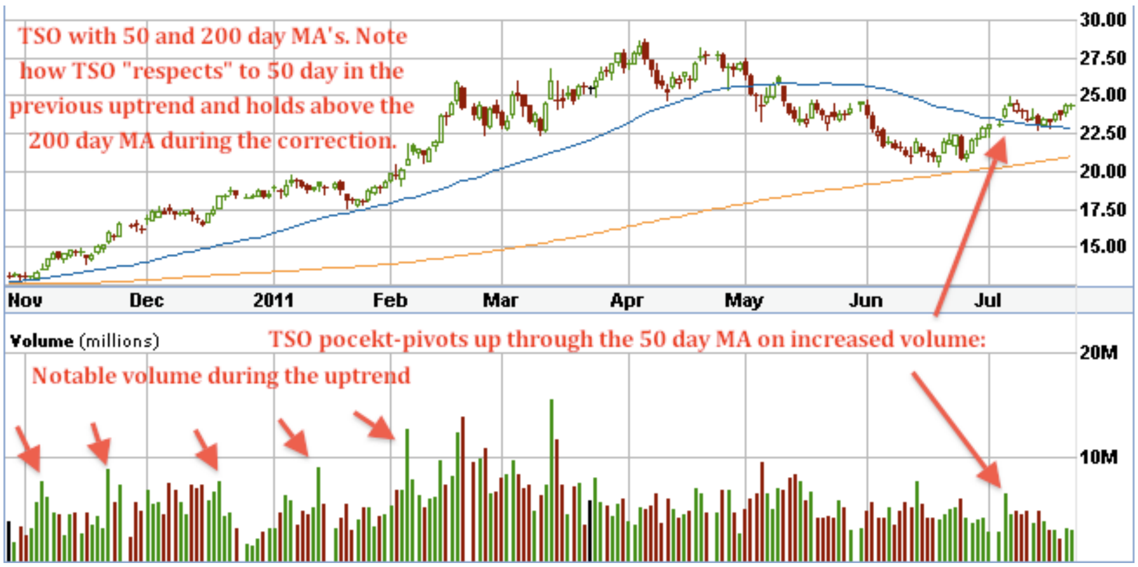
A most encouraging sign comes from the natural gas stocks highlighted last week, particularly SWN, RRC, and CHK. Each of these stocks exhibited follow-through, and this follow-through came on the heels of new 52-week highs for both SWN and RRC. SWN exhibited below:

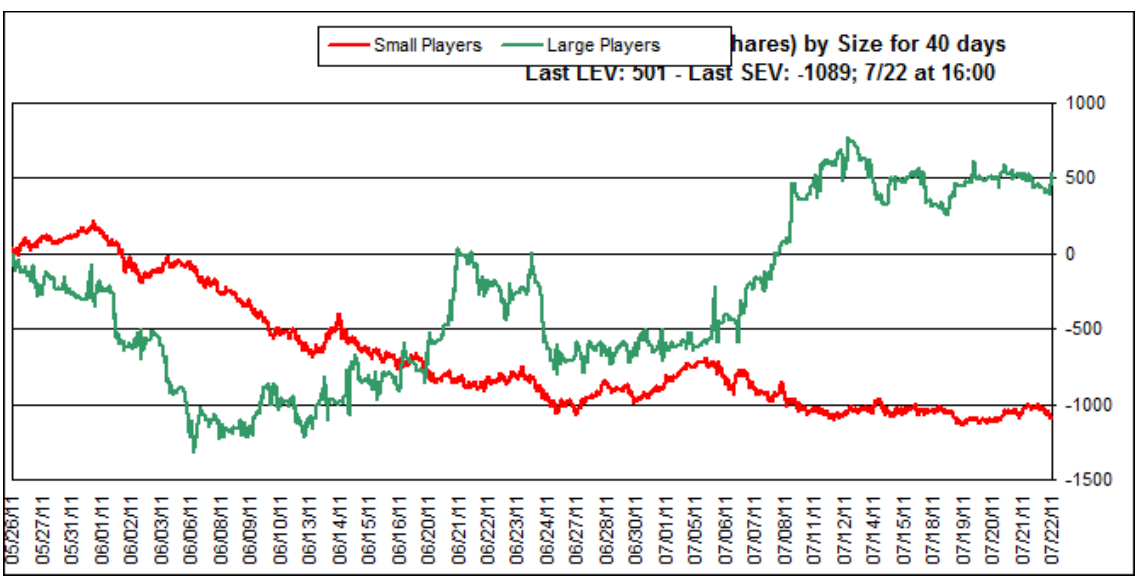


CNX, mentioned two weeks ago, is finally showing some strength within the current range. CNX has twin benefits of exposure to both gas and coal. CNX impressively moved in 2007, hitting an all-time high of $119.10. Like SWN, CNX approaches the post-crash highs that languish around $58. Any breakout on solid volume is constructive from the long perspective. Otherwise, the range may persist.



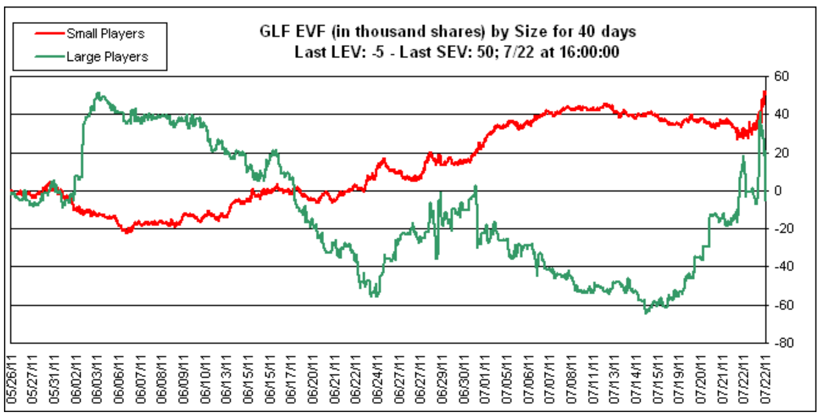
The refiners broke out of a slump in November of last year. This breakout came on the back of a long and tiring range that goes back to late 2008. Each rallied hard, and some left for dead, like WNR, roared impressively and have touched new highs in the past week. What is most critical, though, is that some of these shares are now in various daily accumulation sub-stages, while remaining in the neutral to bullish early distribution weekly stage. This suggests an element of underlying support, while the leading refiners continue to lead. See TSO:



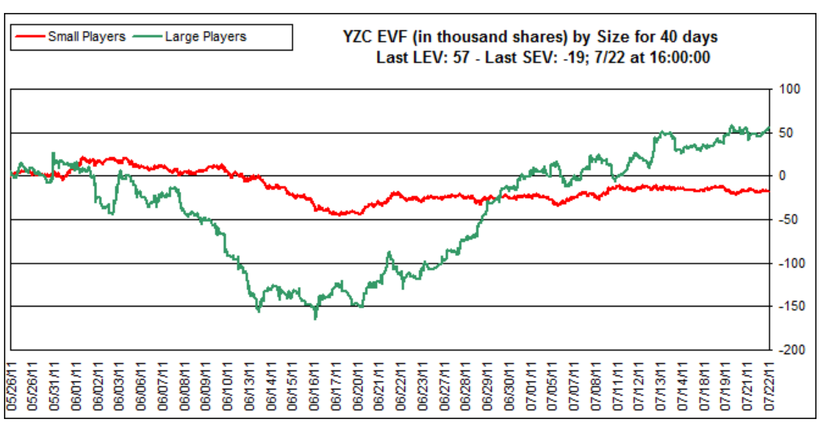


Other notable standouts are GLF and YZC. GLF reported an earnings surprise of about 61% above consensus, the first surprise since Q2 2010. The company is involved in offshore marine services, and strength in similar companies like BHI and HAL lead one to believe that oil and infrastructure investment are still in demand. I have little insight to YZC, especially regarding its outperformance amongst most sector peers, but the current price action and LEV bear attention. See both on the following page:

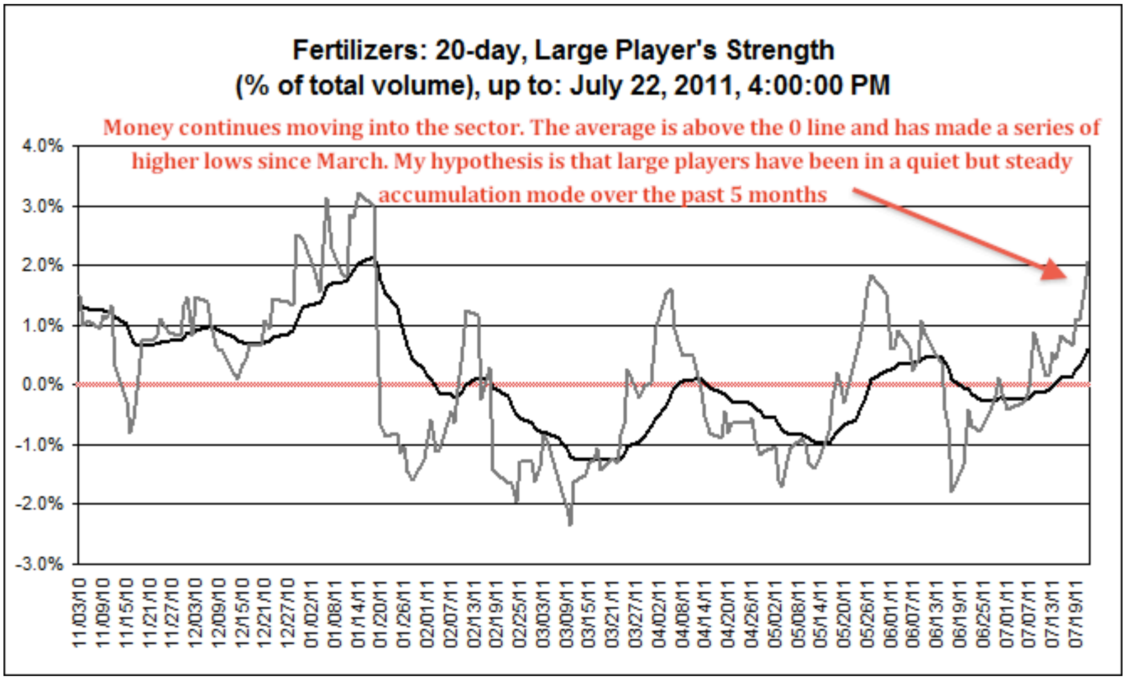

Powerful uptrend when energy stocks first broke out last year
GLF breaks the range:
Nov
Dec
2011
Feb
Mar
Apr
May
Jun
Jul
Volume (thousands)
Volume signatures leave little to be desired . . .
1000K
800K
600K
400K
200K


Small Players
Large Players
GLF EVF (in thousand shares) by Size for 40 days
Last LEV: -5 - Last SEV: 50; 7/22 at 16:00:00
60
40
20
0
-20
-40
-60
-80

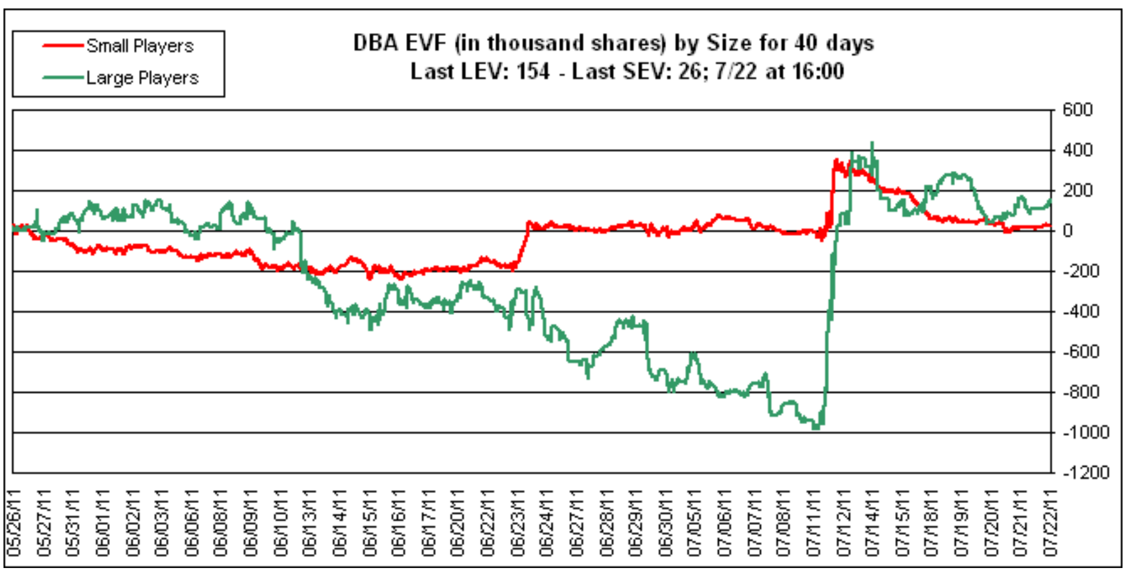

YZC with 50 and 200 day MA's.
Notice the tight action right along the 50 day MA and LB around 37.41
42.50
40.00
37.50
35.00
32.50
30.00
27.50
Feb
Mar
Apr
May
Jun
Jul
Volume (thousands)
750K
500K
250K


Small Players
Large Players
YZC EVF (in thousand shares) by Size for 40 days
Last LEV: 57 - Last SEV: -19; 7/22 at 16:00:00
100
50
0
-50
-100
-150
-200

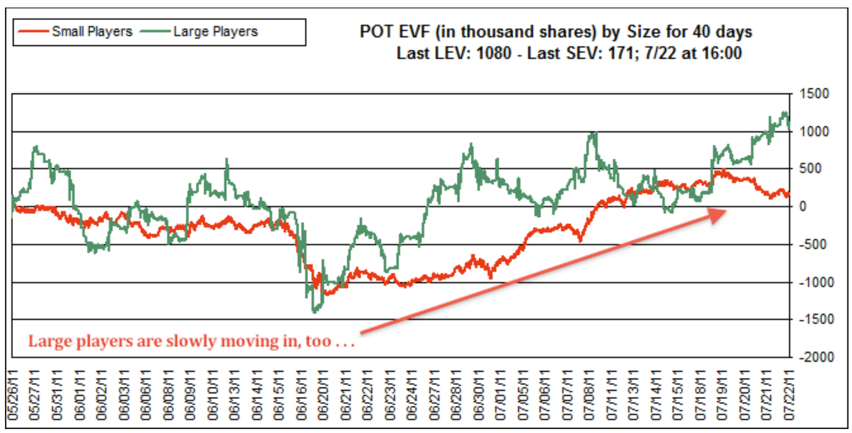
The sector that I am most focused on at the moment is Agriculture. Let's take a look at the current evolution:



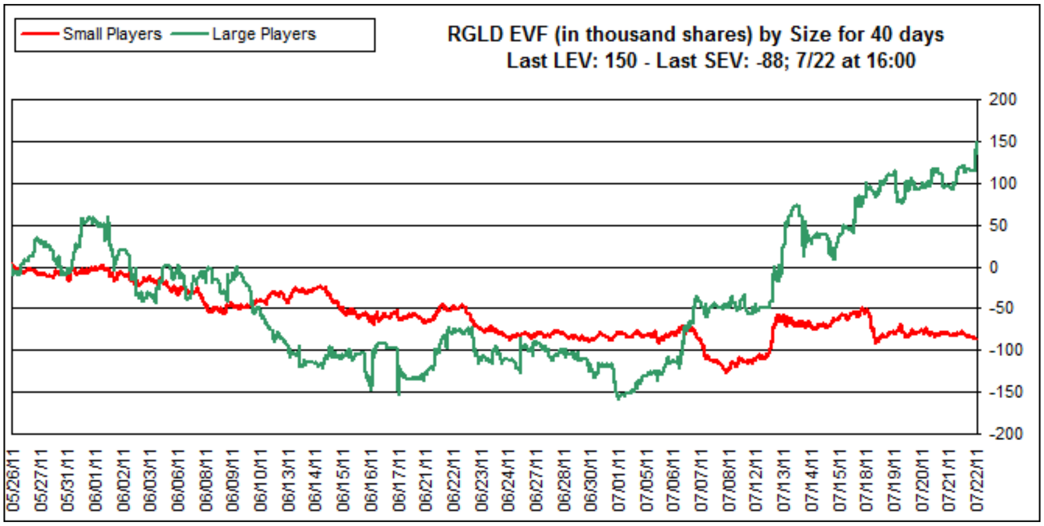
Additionally, Rembert pointed out the LEV pattern in the DBA agriculture commodity fund, which likely lends additional support to the improving relative strength of the sector:



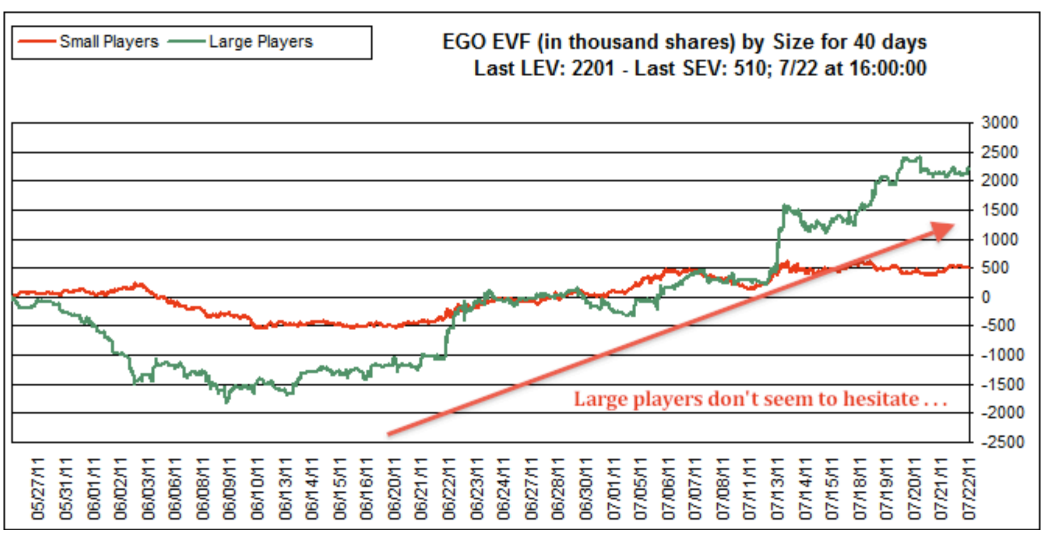
When I first discussed POT in early July, the RS line had just breached 80 and price was around neutral boundary. Today, the *Chemicals-Agriculture* sector has advanced to 27 in IBD sector rankings, and POT's RS stands at 88, which highlights the quickly improving strength exhibited by the sector. Additional strength can be seen in MOS, which is starting to come out of the recent slump on increased LEV. SQM printed new highs and CF appears to be steadily moving out of the most recent consolidation. See POT below:



As mentioned previously, the gold miners now constitute a leadership spot in the market. While there may be a spike into tomorrow, and one can never discount the possibility of a parabolic move, some degree of consolidation in the near-term would not be unexpected. Two leaders presented here:

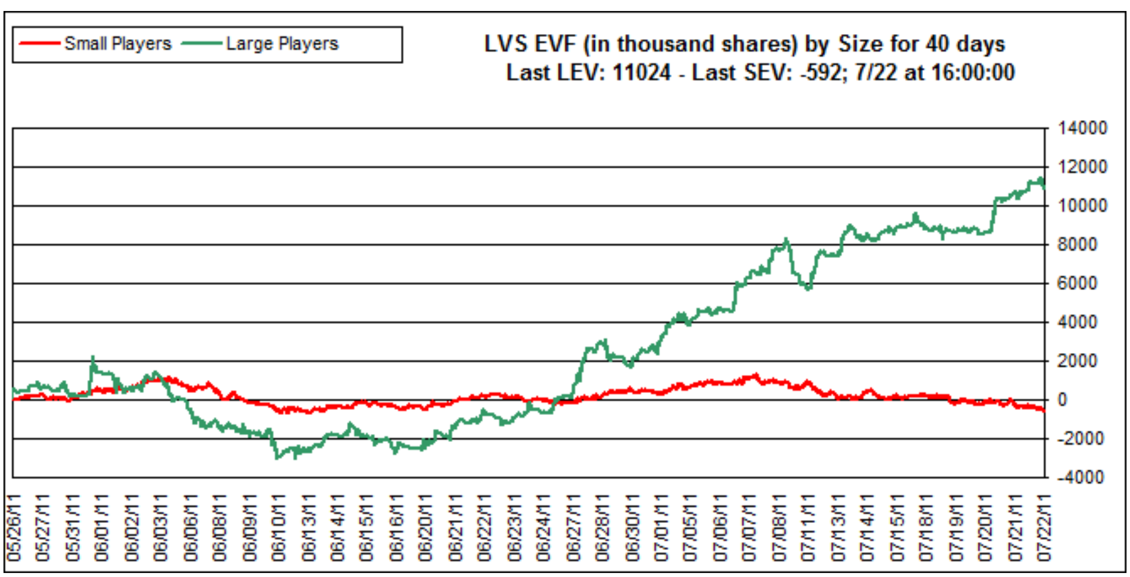

Small Players
Large Players
RGLD EVF (in thousand shares) by Size for 40 days
Last LEV: 150 - Last SEV: -88; 7/22 at 16:00
200
150
100
50
0
-50
-100
-150
-200

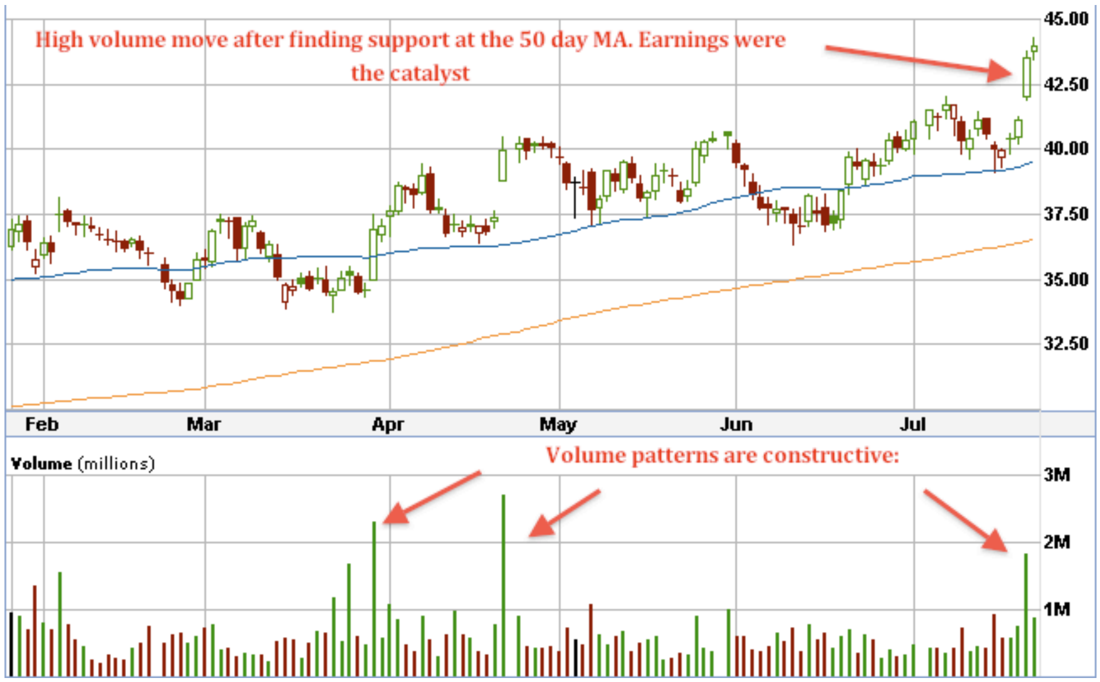

22.50
20.00
17.50
15.00
12.50
10.00
7.50
A bullish move took EGO back above the 200 day MA on impressive volume.
Short-term, price is near UB, but on a longer timeframe, EGO appears to be
shaping up for higher prices. Large players still buying up here
Jul
Sep
Nov
2010
Mar
May
Jul
Sep
Nov
2011
Mar
May
Jul
Volume (millions)
20M
10M

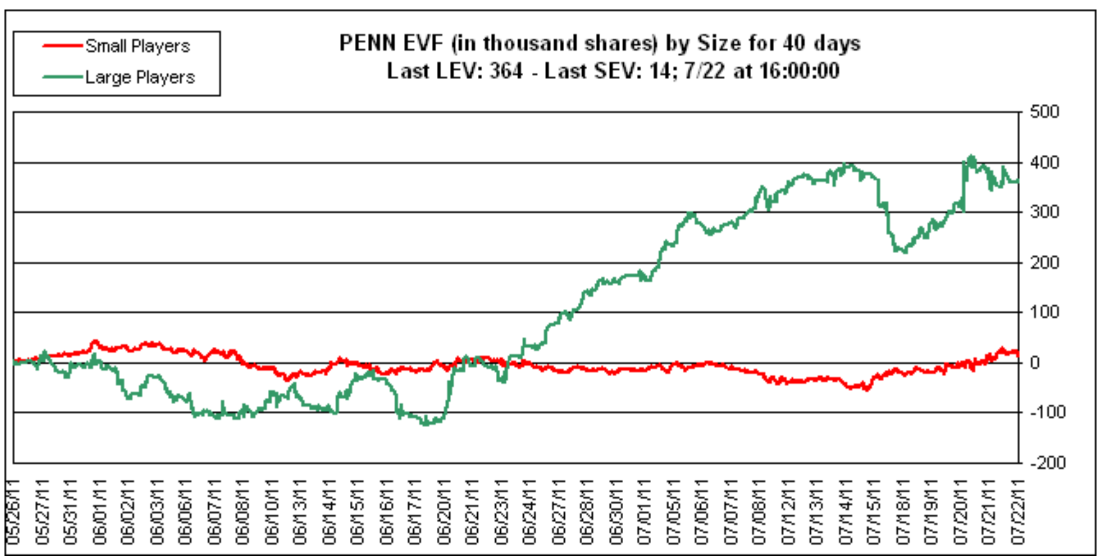

Small Players
Large Players
EGO EVF (in thousand shares) by Size for 40 days
Last LEV: 2201 - Last SEV: 510; 7/22 at 16:00:00
Large players don't seem to hesitate . . .
3000
2500
2000
1500
1000
500
0
-500
-1000
-1500
-2000
-2500

EGO is now in a daily strong mark-up stage and a weekly mid-accumulation stage. The healthy technical developments, large player buying, and positive stage evolution are all characteristics worth monitoring.

Moving into an entirely separate direction, I noticed some notable strength in some gaming stocks, which stood out when looking at the charts from Friday's 52-week highs. Present were PENN and MPEL. WYNN showed up there earlier in the week. I checked former leader LVS, which still has some work to do. Earnings are on 7/26 and may be a catalyst, either up or down. LVS and PENN shown below, but the others are worth reviewing.

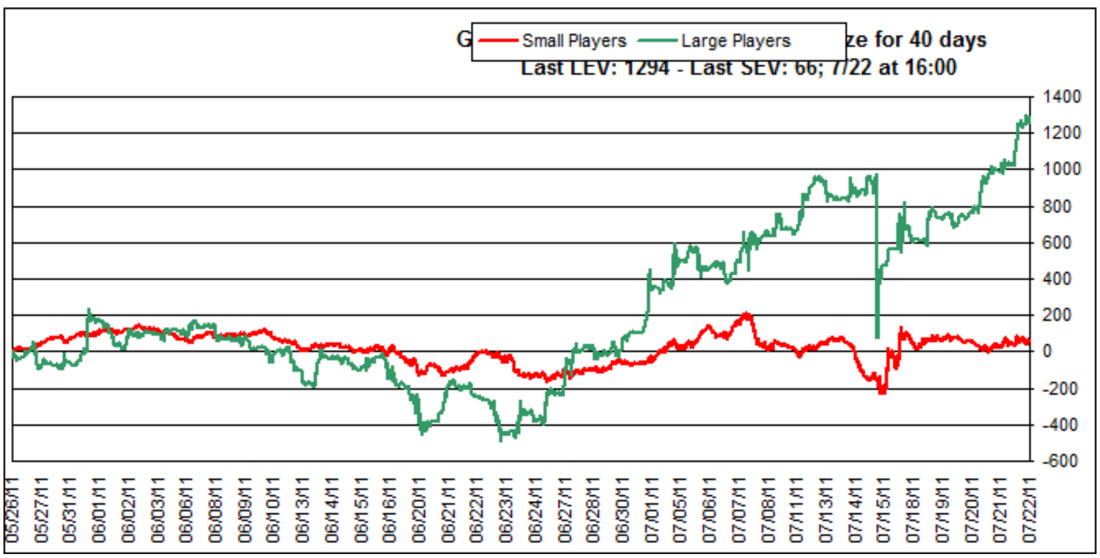






Just working on one's situational awareness by observing the unfolding action in the market and specific stocks and sectors is a useful practice. For instance, why are economically sensitive casino stocks all of a sudden making new highs? One doesn't have to participate to pay attention. Additionally, just gaining knowledge makes the practice of blasting through dozens of charts quicker. You see PENN and know it is a Midwest gaming stock, which is different than WYNN, LVS, and MPEL, which have operations in Macau. Yet they all are moving . . . Is Chinese growth the catalyst, or are some of these companies' US operations improving after brutal declines coinciding with the recession?

Finally, ending the week with strength in AAPL, GOOG, and IBM may add only further proof to the uncertainty in the market. With all the threats looming, take note of Google, which is following on the recent earnings breakout quite nicely. GOOG on the next page:



Conclusion:

There are good reasons to be confused. Indeed, the drama is pervasive. Below the surface, there are conflicting messages. The “death” of some former leaders is cause for real concern, but will we move into a bear market or a rotational market? Materials and energy stocks are taking on a leadership role, which seems to be expanding to the various subgroups within each sector. Big tech isn’t faltering. Less encouraging are some of the smaller tech stocks.

There is no way one can just “rest easy” after a decision on the debt limit is reached, because it won’t be long before another fiscal calamity, natural disaster, or president comes in to move the market in some way or another. I suppose comfort in uncertainty is something that takes time to develop, and the patience required is significant. This week will certainly allow for some practice. Best to all!!!