Weekend Review: 7/31/2011
by Eric Coleman

Summary:

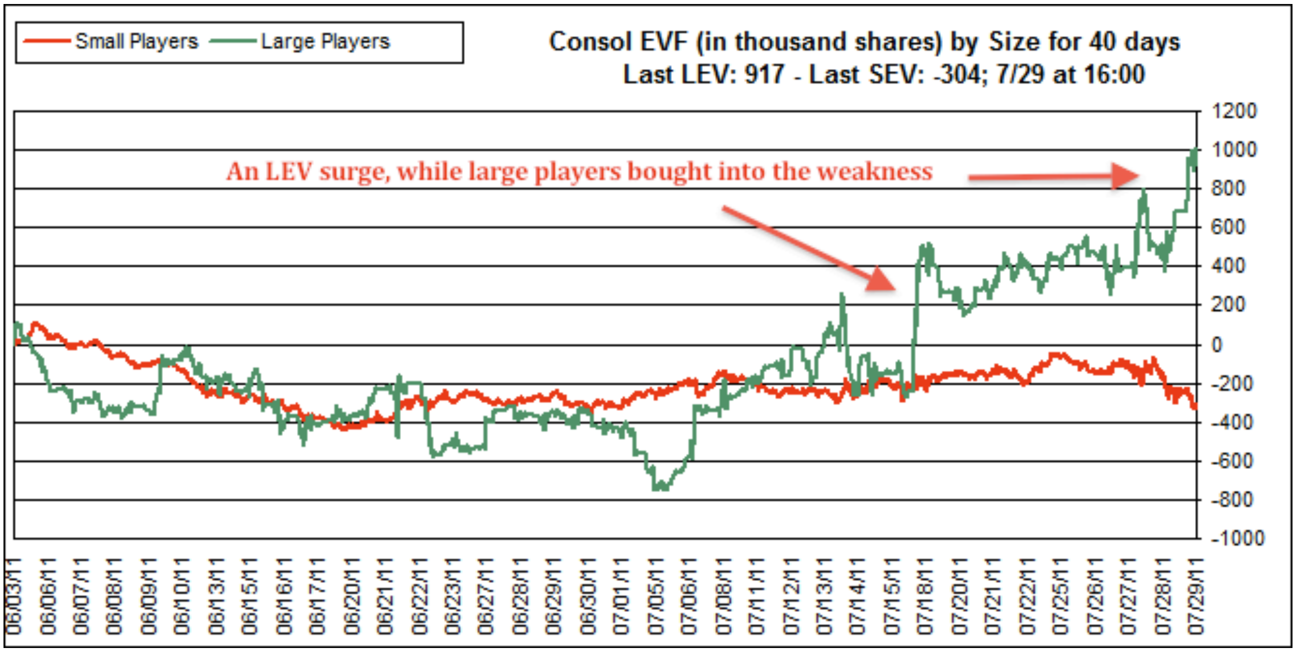
The past week was challenging for many, myself included. While giving up some open profits on my last long position (POT), I managed to preserve a nice chunk of progress made since mid-June. Coincidentally, my exit may indeed coincide with a short-term bottom in equity markets. My priority is to operate from a "position of strength" coming into this week, which is why I more adamantly secured gains while available. I will almost undoubtedly cover a short position I entered last week.

An important lesson I've been learning and executing with greater consistency is taking some profits, even if they are smaller than initially anticipated. I think this is an important lesson, yet it is an art that requires experience and a keen awareness of market conditions. Doing so helps maintain psychological reserves for inevitable losses. This report highlights some of my observations and includes an example of what I consider a "good trade" made during the June-July rally using a combination of EV tools, stage analysis, and CANSLIM methods. I intend to share a losing trade in my next report. My intention is to share examples of using the tools available to us.

Mike Scott provides succinct analysis of a "low road" scenario, which I will not replicate here. There are underlying currents that leave significant cause for concern. One such current is the spectacular earnings collapses witnessed during the past week. For those who did not already notice, review the following: VPRT STEC and TNAV. Besides these issues, relatively muted and uninspiring reactions to various earnings reports left much to be desired; see SBUX NOV HP and POT, where earnings were met with selling into strength.

Nonetheless, the market is a market of stocks, and some encouraging if not bullish patterns are coming into fruition. This report will highlight some of these issues.

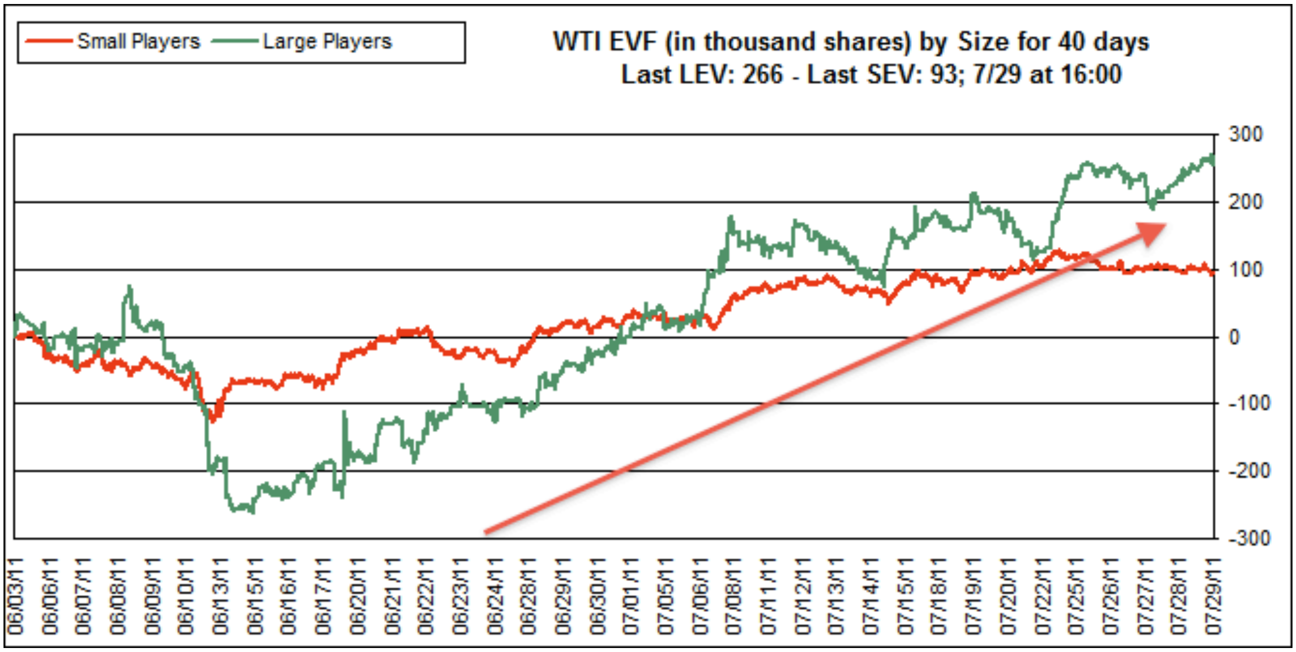
In my 7/9 & 7/24 reports, I highlighted CNX as stock forming a range, which subsequently witnessed notable large player accumulation. CNX now has an 87 RS rating and is moving toward the upside of the current range, which looks to be on the verge of a potent breakout. One of the better looking issues now . . .



A particularly unique characteristic is CONSOL's exposure to both natural gas and coal. Given the long trading range and improving RS, CNX is a very probable candidate for higher prices in the event of any type of FTD or buy signal. CNX reported on 7/28, which removes earnings-related risk for the near-term.

Let's look at another interesting stock: WTI. W&T offshore operates in the Gulf of Mexico and possesses a 98 RS rating and belongs to #32 ranked sector-group Oil & Gas Exploration and Production

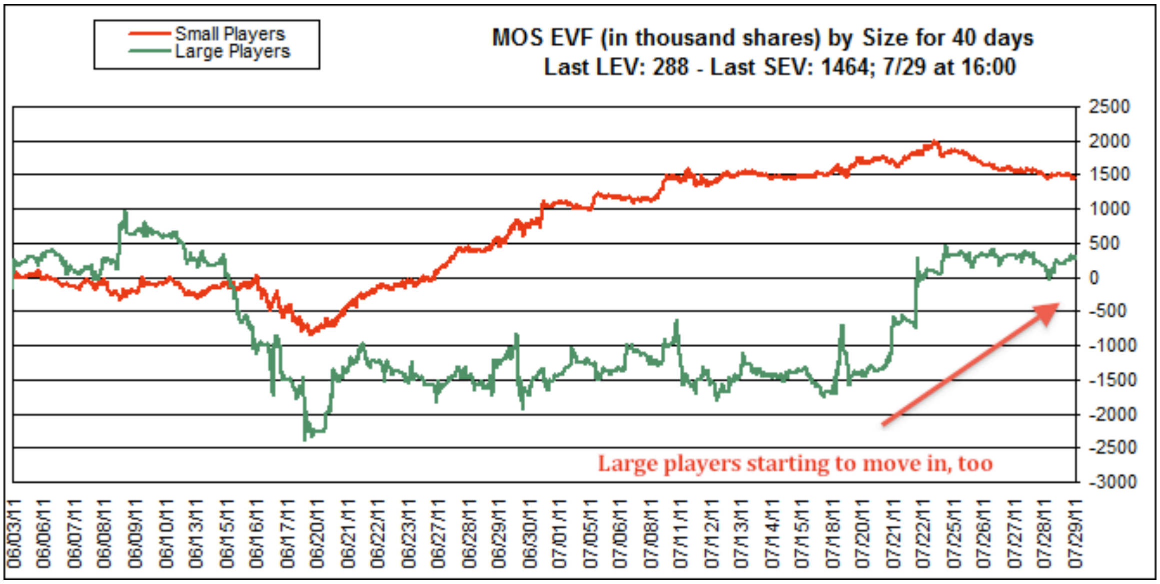
Large players have been steady buyers over the past week. WTI reports earnings on 8/3/2011, so this one does carry earnings-related risk. See EV chart on the following page.



Highlighted on multiple occasions, I still believe Yangzhou Coal merits attention. YZC belongs to the "lowly" coal group, which still hangs around on the low end of sector rankings (151). Nonetheless the action here is compelling, perhaps even more so, given the ability to sustain tight trading in the face of general weakness.

Sometimes weakness separates two seemingly identical moves. This is ok, and to be expected if one intends to take on the task of discretionary stock picking – note the fortune and misfortune of two recently highlighted natural gas stocks: SWN on top and RRC on bottom.

Even though I closed my position in POT, I am not particularly bearish on the stock or the sector. In fact, a more reliable signal may emerge in conjunction with a market or sector thrust. MOS may be putting in a higher low here, right around the upturned 50 day MA:



Nickola's recent post makes an important point, noting the way information permeates our connected world, which can be very distracting. The past week sucked some of the bullishness out of both the market and myself; nonetheless, the market does not operate on our personal timeframes. Sources I consider reliable, including Charles Kirk and Brian Shannon emphasized the neutral view, which truly is where the market seems to stand. Some bear prints have emerged that left certain issues badly bruised and broken; however, the possibility of a rotational market led by material and energy related stocks could yet emerge. Any type of leadership and general support may allow some other stocks to create their own respective consolidations, ranges, and bases. As a practice, one must gain comfort with the unknown, and that comes from experience.

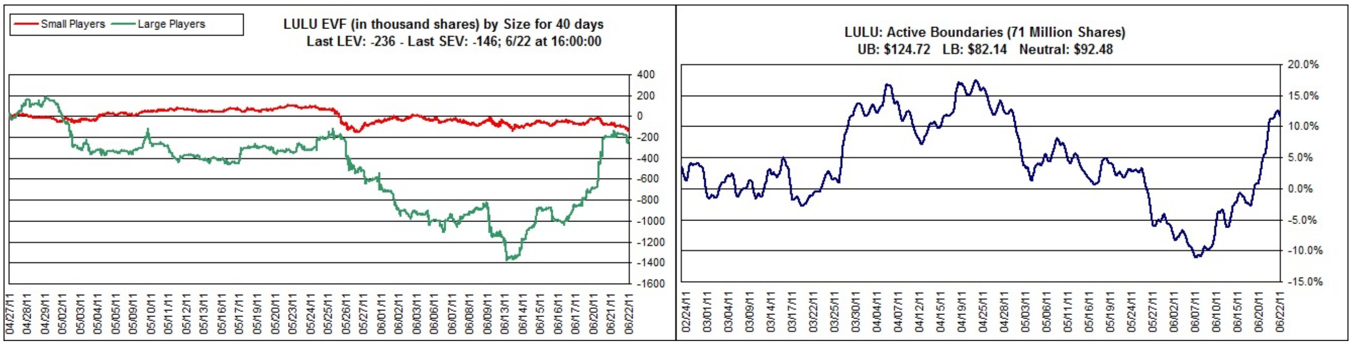
My schedule prohibits me from going into any additional depth or reviewing other stocks like FCX, SCCO, and TSO. For the most part, I intend to focus on those stocks highlighted here and over the past weeks, though other sectors likely offer interesting patterns and stocks worthy of mention. Gold stocks may present an opportunity later in the week, and some other sectors may perk up. Ultimately, this juncture remains challenging.

With that in mind, I share an example below of a trade review in LULU that follows in the footsteps of the steps I learned from Pascal's mentoring group some time ago. This trade illustrates the usefulness of using AB, and since LULU hit upper boundary from the initial rally, price has moved mostly sideways. AB can help determine when near-term upside/downside momentum might wane. Granted, LULU may continue to rally, but in the context of the market and a later-stage base, closing the trade seemed prudent. Not all trades work as well, and I also intend to share examples that aren't as ideal. Hopefully this illustrates how one might use or combine EV with their personal strategies and analysis

Best to all,
Eric

Trade Review: LULU
7/5/2011

In my 6/23 Market Observations, I highlighted the buyable position that LULU was in – a leading stock base breakout with confirmation from the 20 day MF, and a sector buy signal. I opined, *the low-volume shakeout below the 50-day MA might 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*.



On 6/23 I made two buys – first at 103.80 and another 1/3 sized position at 105.56 going into the close. My target was UB around 124.

Open Trade: 6/23
Close Trade:
1. 06/28/2011 Sell ¼ at $113.05; +8.91%
2. 07/05/2011 Sell remainder at $118.82 +13.8%

Sell Reasons:
- Nearing upper boundary around 124
- Raise capital for other fresh breakouts and enhance "position of strength"
- Later-stage base