Quick Takes Pro

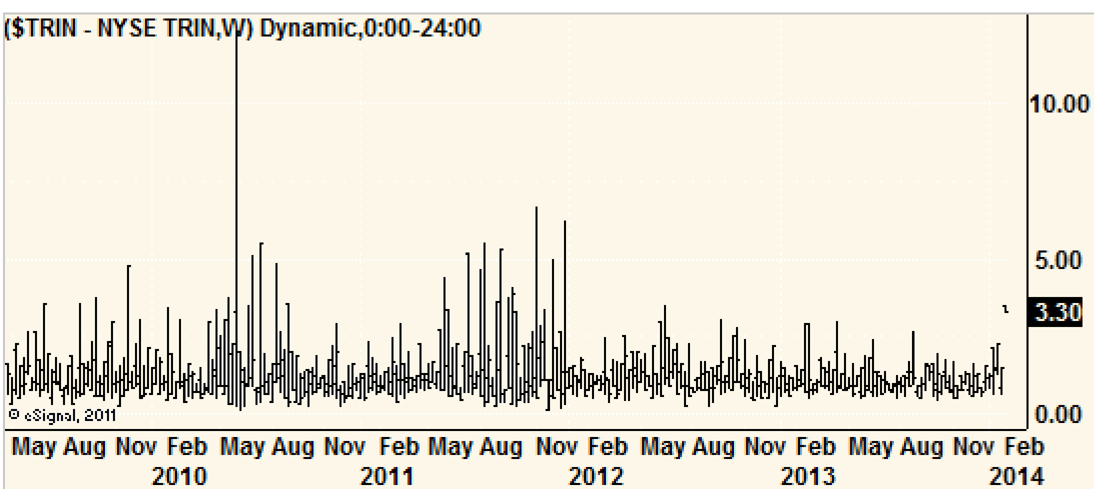
"Technical Analysis for Everyone"

Michael Kahn Research LLC

February 4, 2014 – Whether it was the weaker than expected ISM, bad news from Ford, emerging market jitters or a Chinese slowdown, what is bad in news is now bad in the market. The new Fed is - so far - firm on continuing the taper so Janet is not coming to the rescue the way Ben did.

We were holding out hope that the trading range in the intraday chart below would not break down but as we said, the longer it did not rally the more likely it would be to break lower. Shortly into the session prices sliced through the range's bottom. Look where they ended up - almost exactly one range height below. Rephrasing, the height of the range, <u>and we did not redraw it</u>, projected down from the break gave us the first downside target.

That was then and everyone wants to know what will happen today. Of course, nobody knows but even though this chart looks oversold, indicators in daily and hourly time frames are not in agreement. The only one we found that is wildly oversold is the Arms Index, aka the TRIN, which spent a good deal of the day above 3.0.

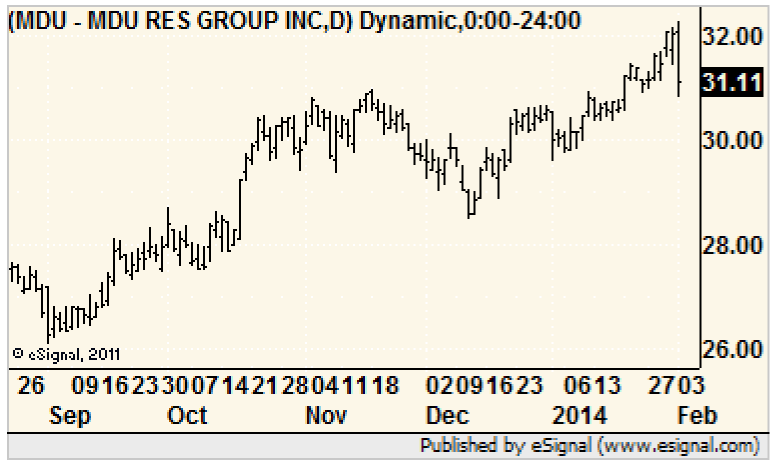


What does that mean? As you can see in the chart, the typical levels are between .50 and 2.50. Readings of 1.00 means that buying and selling pressure are equal. Above 1.00 and shares going down are getting more than their share of the volume. Extreme highs suggest panic.

The chart is a bit deceptive in that it only contains daily closes presented as weekly bars. We do not have intraday information going back over the span of the chart and that means highs and lows can be more extreme. But we can see that the index was much higher for a sustained period during the 2011 correction. The big spike in 2010 was two weeks before the flash crash so not much info there.

The point is that on a short-term basis, the Arms index along with the VIX sitting at 21, make the market ripe for a bounce. Of course, both indicators can get even more extreme but we think that aggressive traders can pick up some beaten down stocks for quickies. Everyone else is looking at a correction that we think has more to go.

That/s it for the big picture but there is more.



Here is a chart of one of the 37 NYSE stocks that hit new 52-week highs yesterday. However, only five of them closed with net gains on the day. **MDU**, seen here, is a good example of what happened to these stocks - the leaders - as the day wore on. They could not resist the onslaught and after making new highs they closed down - way down - in a pattern called a key outside-day reversal. They took out the previous day's low and MDU closed below the previous four lows.

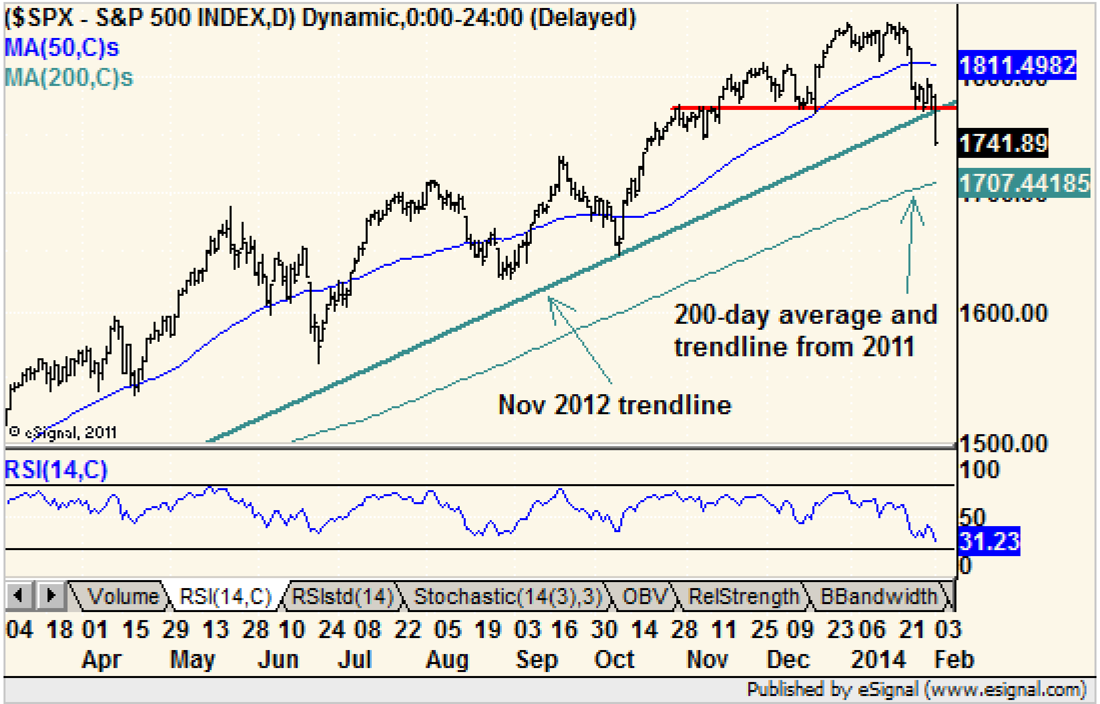
That is what a sea-change in tone looks like, even though the stock is still above its 50-day average (not shown).

Digging a little deeper, all of the 90 or so Dow Jones sector indices we follow closed in the red yesterday, including gold and despite the metal's gain. The least-down were utilities as expected when bonds rallied so sharply. The worst performers - each down over 4% - where marine transport, tires, life insurance and non-ferrous metals. Those are economically sensitive areas, for sure, but there were so many sectors down more than 3% (vs. the S&P 500's decline of 2.3%).

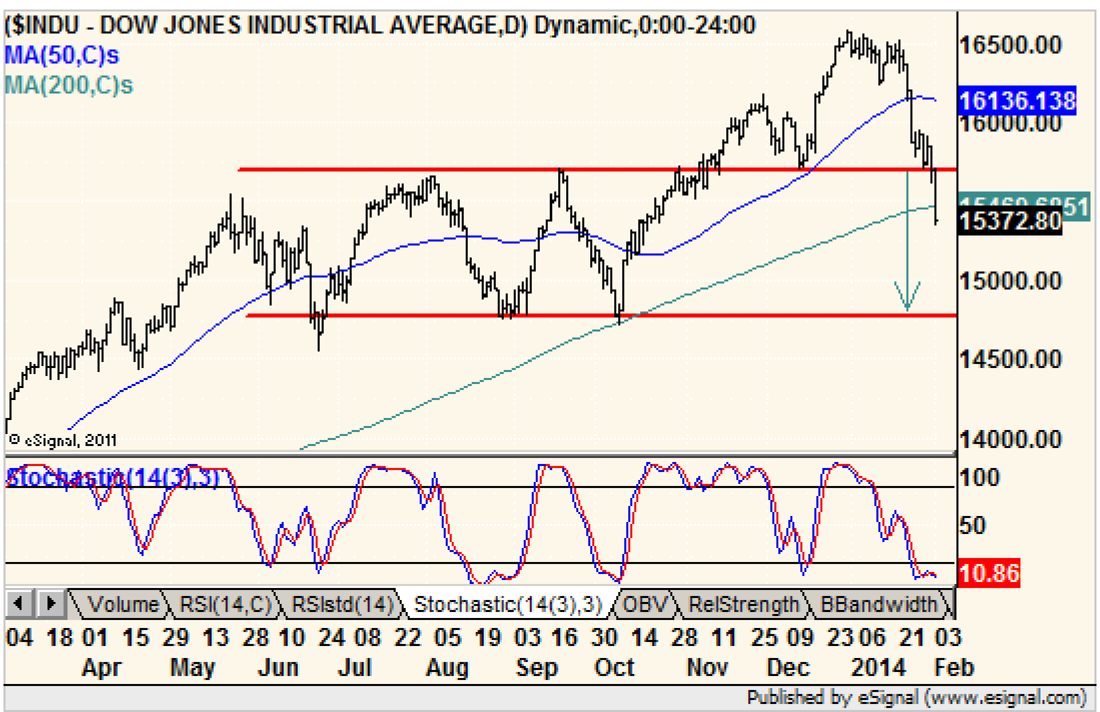
We are going to look at the sector ETFs today but after a manic day like Monday there is not a lot of short-term analysis to be done. We'll look at the bigger picture.

Just keep in mind that markets can indeed go down without going to zero. After all, the S&P 500 (not the Dow) is still above its 200-day moving average. So is the mega-cap S&P 100 so the Dow really is the anomaly.

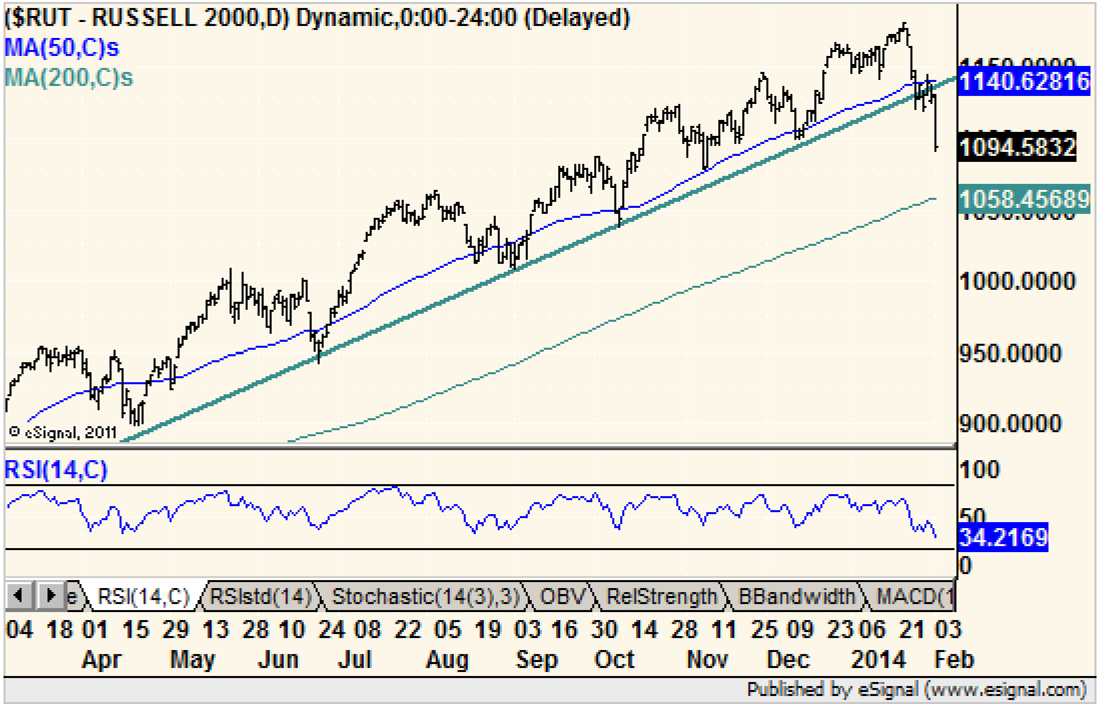
Index Charts of the Day



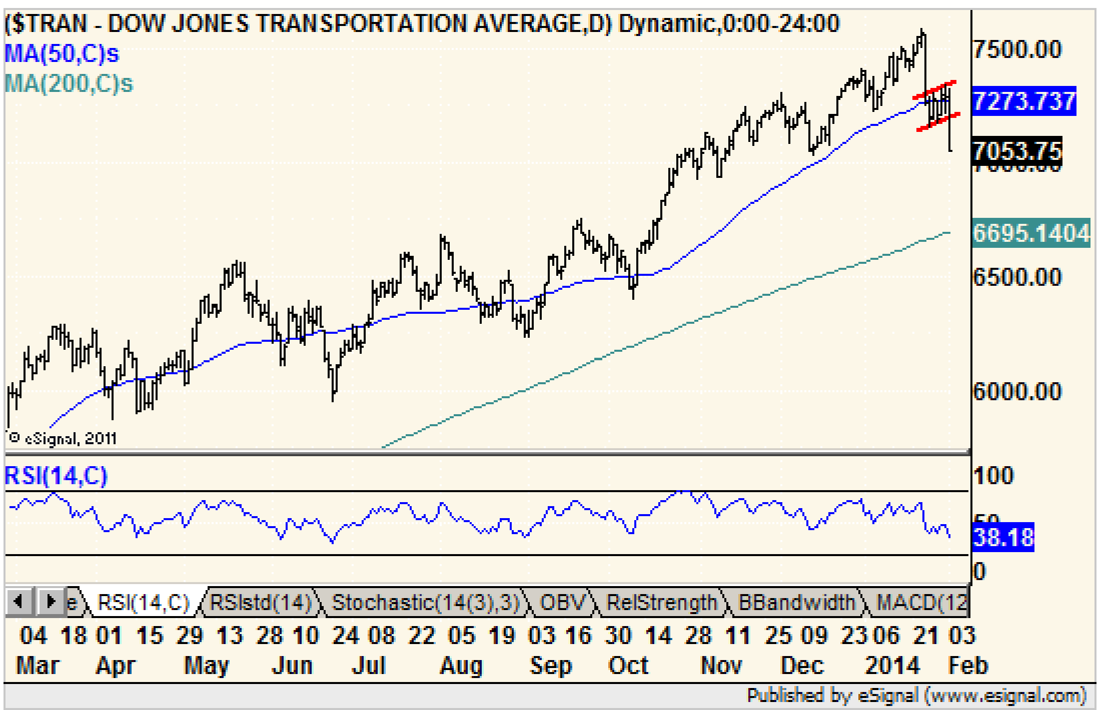
This is a log scaled chart and it shows a support and trend break yesterday. The major trendline from the end of the last real correction in 2011 is now coincident with the 200-day average and presents the target for the current swoon.



The Dow broke its 200-day average and is back in last year's major trading range. If the past week was the right shoulder of an H/S pattern - and weak markets do present a mini-right shoulder - then the downside target is the bottom of the range. We are not so sure about that projection as the rest of the market is not as weak.



The Russell has a pause on its trendline and then a breakdown. No arguing from us although it does look to be short-term oversold.



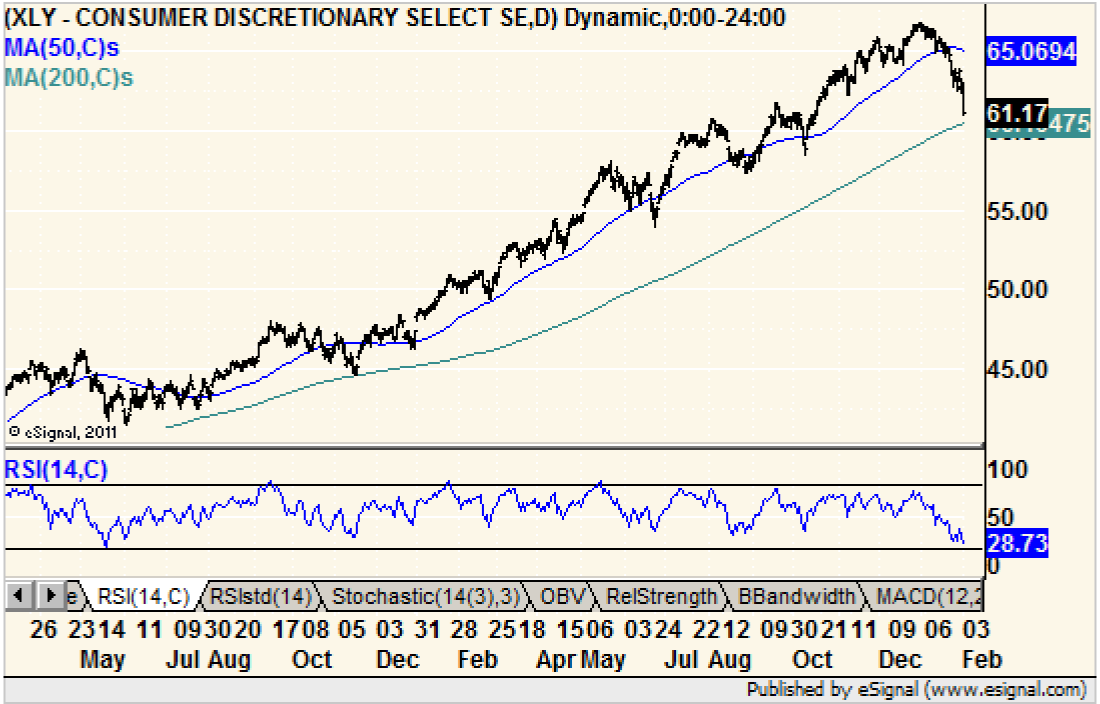
The transports broke the flag highlighted here yesterday.

The Radar Screen

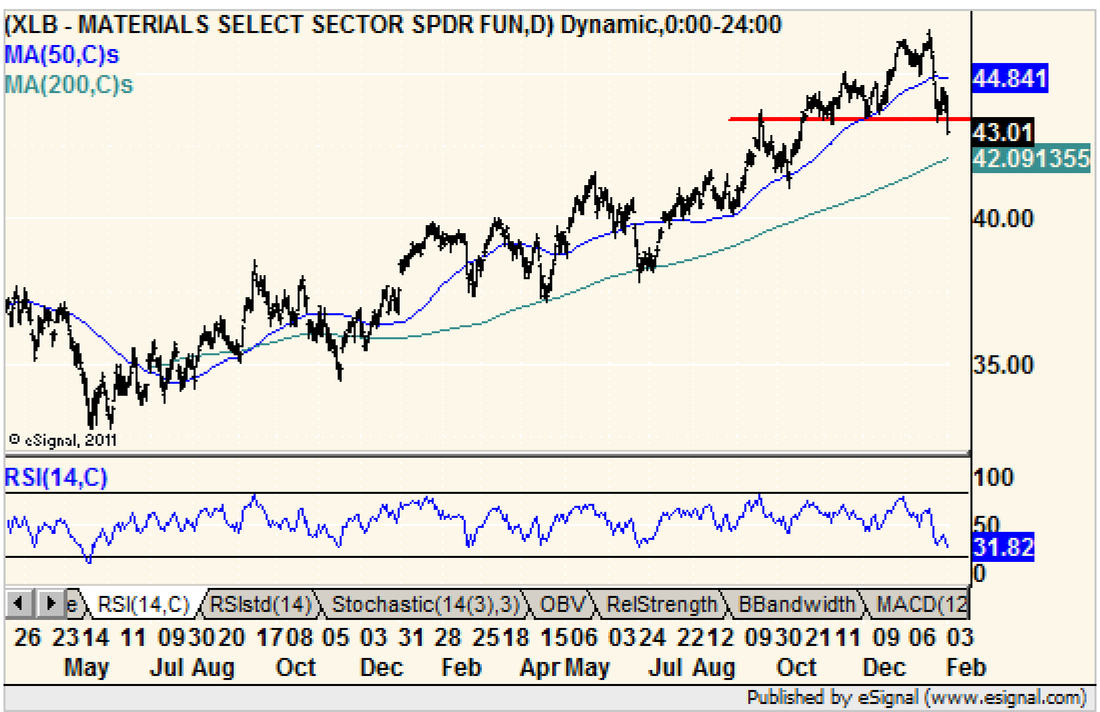
This is a list of potential opportunities, not a recommended portfolio. Underlined text is a change from previous report and if important it will be highlighted in yellow. If and when stocks give buy or sell signals here, they then move into the Advice Tracker section below. Dates listed are first appearances in the Radar Screen or the last major update. We do not take "buy/sell on close" triggers or "at the open" triggers if the stock moves more than 4-5%. See http://quicktakespro.com/radar.html for all Radar Screen rules and terms.

Bullish Implications		
none -		
Bearish Implications		
PPG Industries PPG - A chemicals stock sitting on support and already below the 50-day average. A break under 180.70 would be good for 10 points down to the trendline and 200-day average.	**Triggered**	1/30
US Steel X - Bear flag with falling volume after a support and 50-day average break. Sell close under 25.75	**Triggered**	2/3
Unknown Implications		
none -		
Holding Tank - red shade leans bearish, green shade leans bullish		
none -		
Sector Watch (observations that may spark ideas)		
Homebuilding ETF ITB - Nice bounce last week so it is still holding on		1/29
Tech ETF XLK - Still leading but it has a flag breakdown		1/29
Healthcare ETF XLV - Still leading but it has a flag breakdown		1/29
Energy ETF XLE - support and head/shoulders neckline broken to downside		1/29
Financial ETF - Lost its relative strength edge and now looks like S&P 500. Failed breakouts in banks. Insurance weakest. Asset managers also falling.		1/29
Updates		
Coffee ETN JO - OMG!		
Citigroup C - Hit the measured target for the gaps seen in yesterday's Today's Lesson. Aggressive traders can go for the bounce here.		

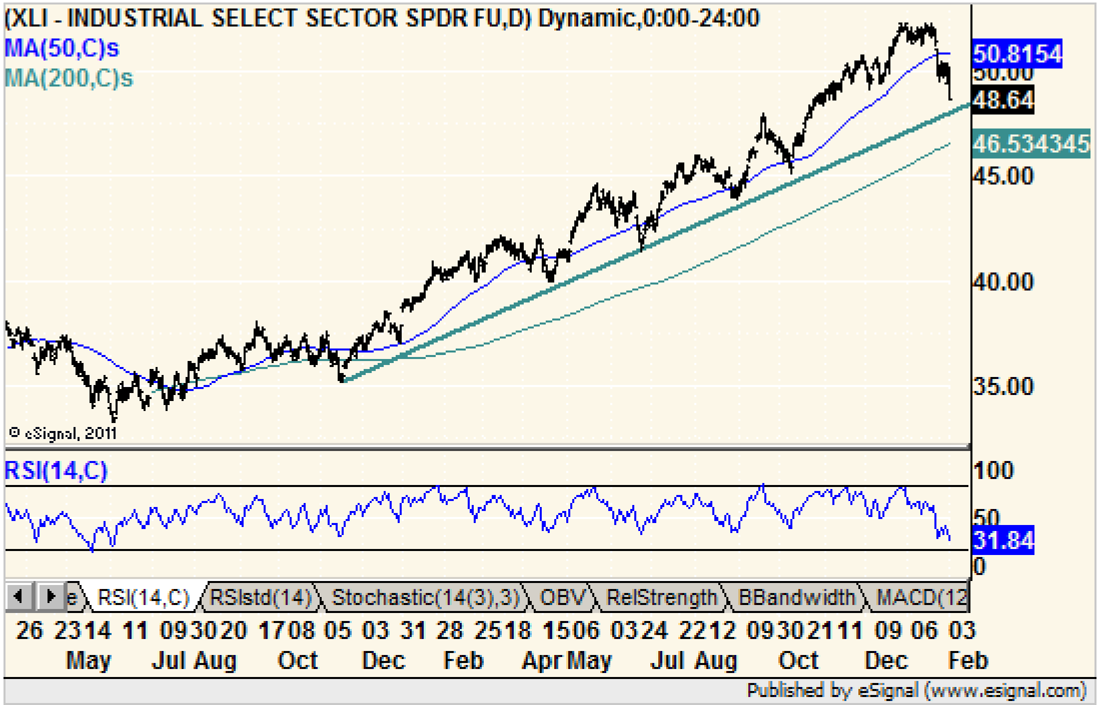
Market Highlights



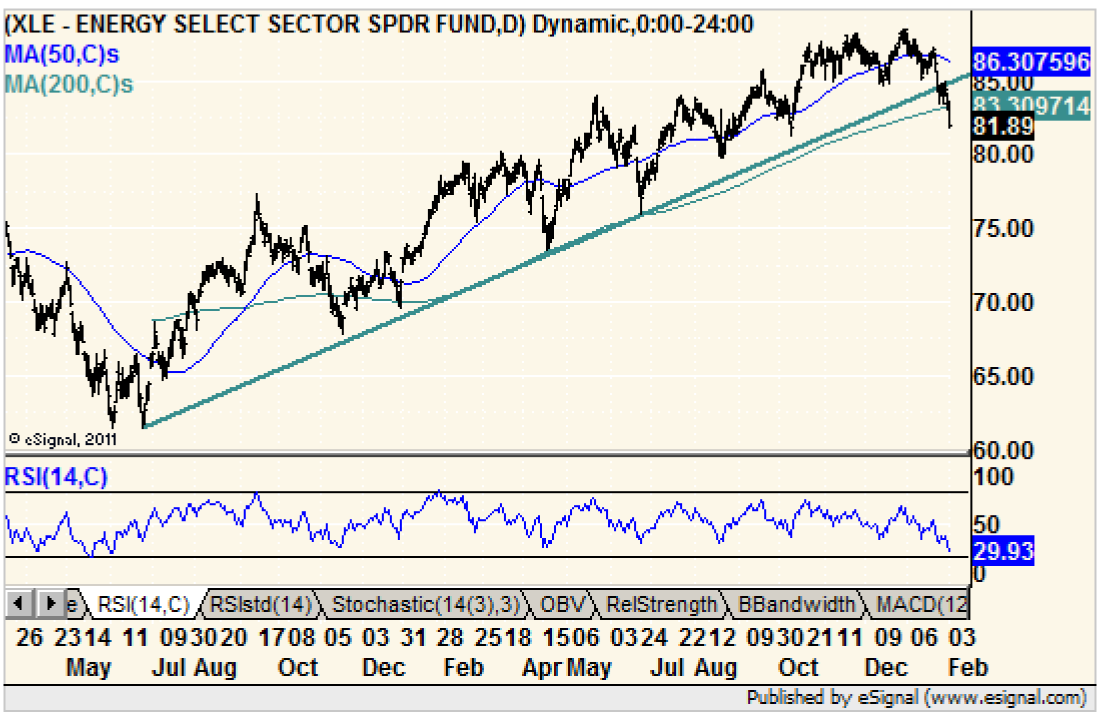
Consumer Discretionary ETF - This one includes retail and we can see it accelerating off a cliff. This is one place to look for quick bounce candidates as they go from worst to first - temporarily.



Materials ETF- This includes copper, gold, chemicals, steel and paper and we can see a support break. Still above the 200-day average and without drawing a trendline we can see one would not be broken.

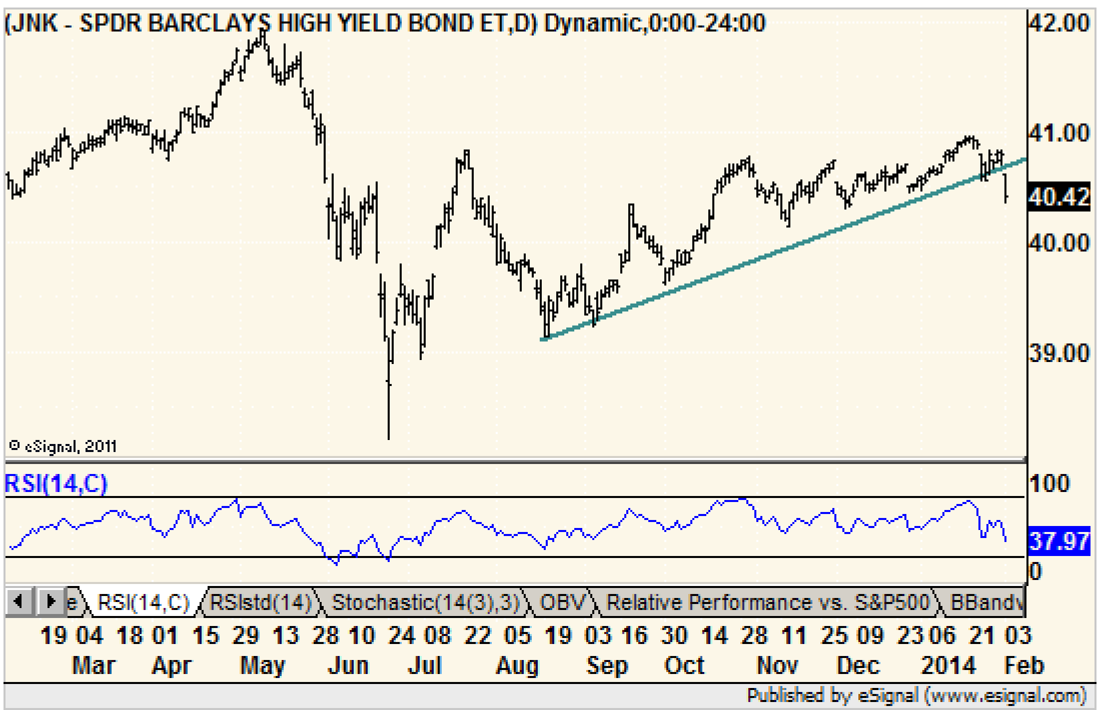


Industrials ETF - Unlike the Dow Industrials, which are really less industrial than they are just blue chips, this ETF is still above its 200-day average and 2012 trendline. Hate the Dow, not the sector.

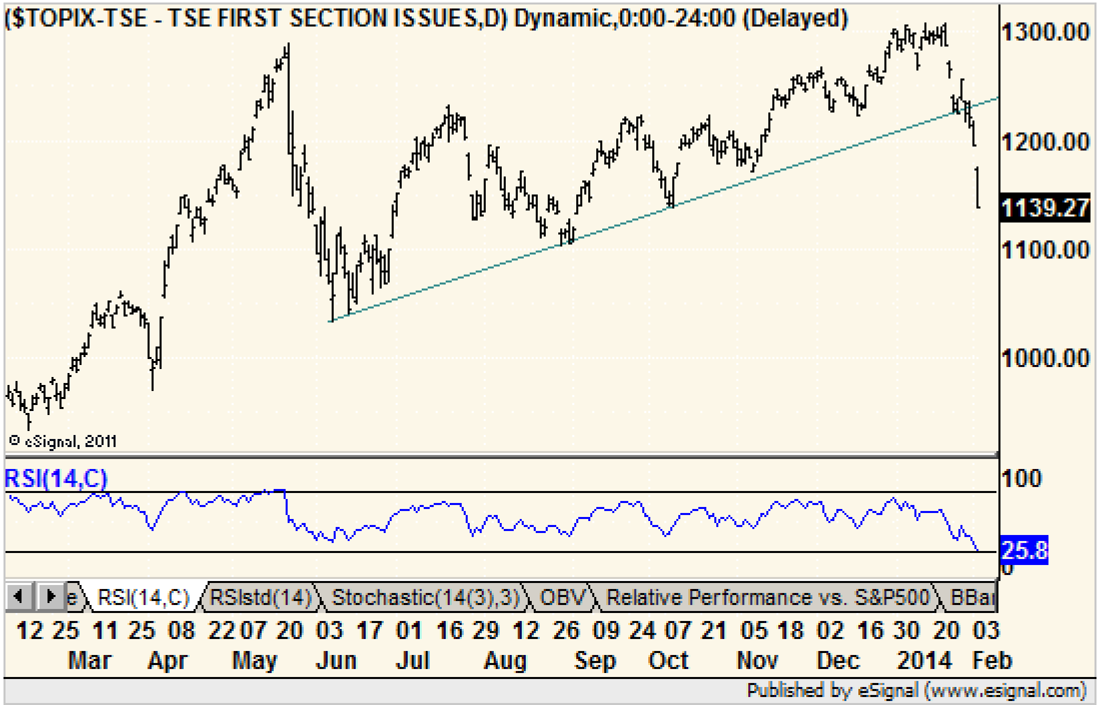


Energy ETF - Weak enough to hut but not weak enough to scream buy me for a bounce. Some energy stocks have such low P/E ratios that they will be compelling once the market correction is over.

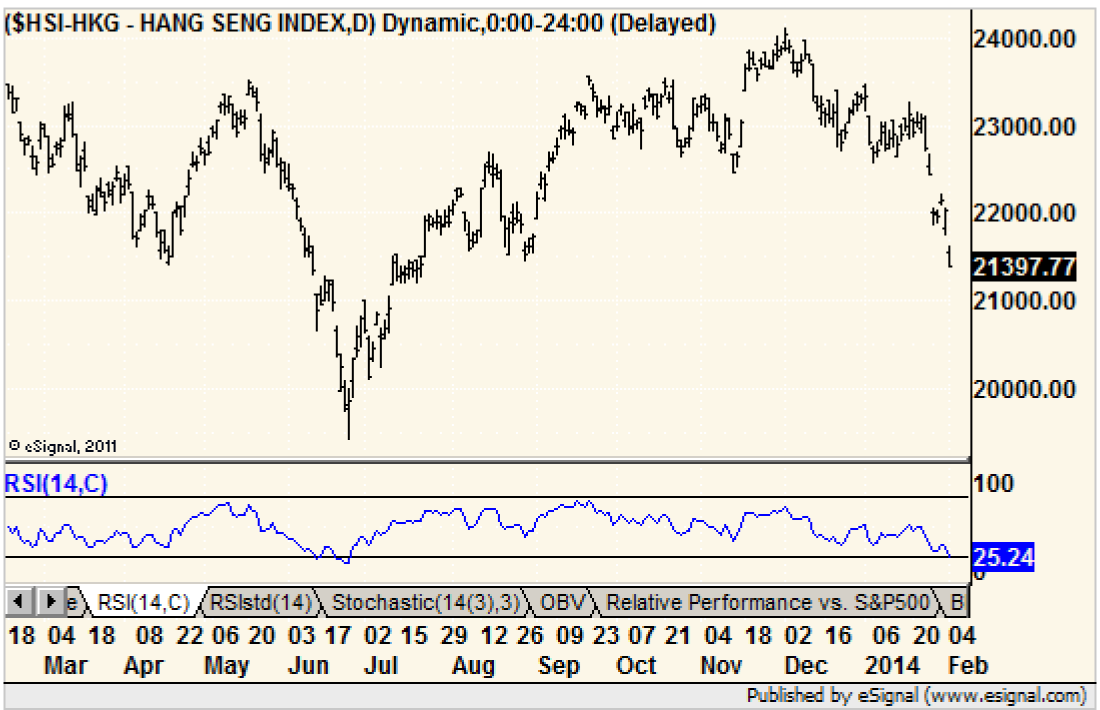
Staples ETF - Even though it is still above support, the plunge here makes it ripe for bottom fishing already.



Junk bonds ETF - Breakdown, even as Treasuries rally, and that is bad for the economy.



Japan Topic Index - No, you do not have our permission to buy Japan. The yen is rallying hard.



Hong Kong Hang Seng - This is a falling knife, too.

Advice Tracker

This is a list of stocks that have triggered buys or sells and not a recommended portfolio. We will track them with suggested strategies but specific stops and position closes are up to the subscriber. Symbols in red mean that the position was stopped out. Stops in red were changed. Any position that moves in the desired direction and then reverses by 5% from the extreme that day is an automatic stop out. This is to compensate for the inability of this once per day newsletter to alert subscribers to the reversal.

	Symbol	Name	Last	P/L	Stop	Price in	Date in	#Days
Long	**NLY**	ANNALY CAP MGMT INC	10.83	9.5%	10.20	9.89	12/6	59
	GDX	MARKET VECTORS GOLD MINERS ETF	23.30	5.2%	22.75	22.15	1/13	21
	IBM	INTERNATIONAL BUSINESS MACHS	175.00	-3.5%		181.28	1/22	12
	JTP	NUVEEN QUALITY PFD INCOME FD	7.81	-0.3%	7.70	7.83	1/23	11
	GE	GENERAL ELECTRIC CO	24.50	-3.3%		25.33	1/28	6
	THI	TIM HORTONS INC	50.96	-2.9%	50.75	52.47	1/28	6
Short	**AOS**	SMITH A O	45.58	10.1%	48.00	50.19	1/23	11
	PPG	PPG INDS INC	176.87	2.2%	184.00	180.70	2/3	0
	X	UNITED STATES STL CORP NEW	25.06	0.0%	26.50	25.06	2/3	0

Notes: Two new shorts from the basic materials sector **- PPG** and **X**

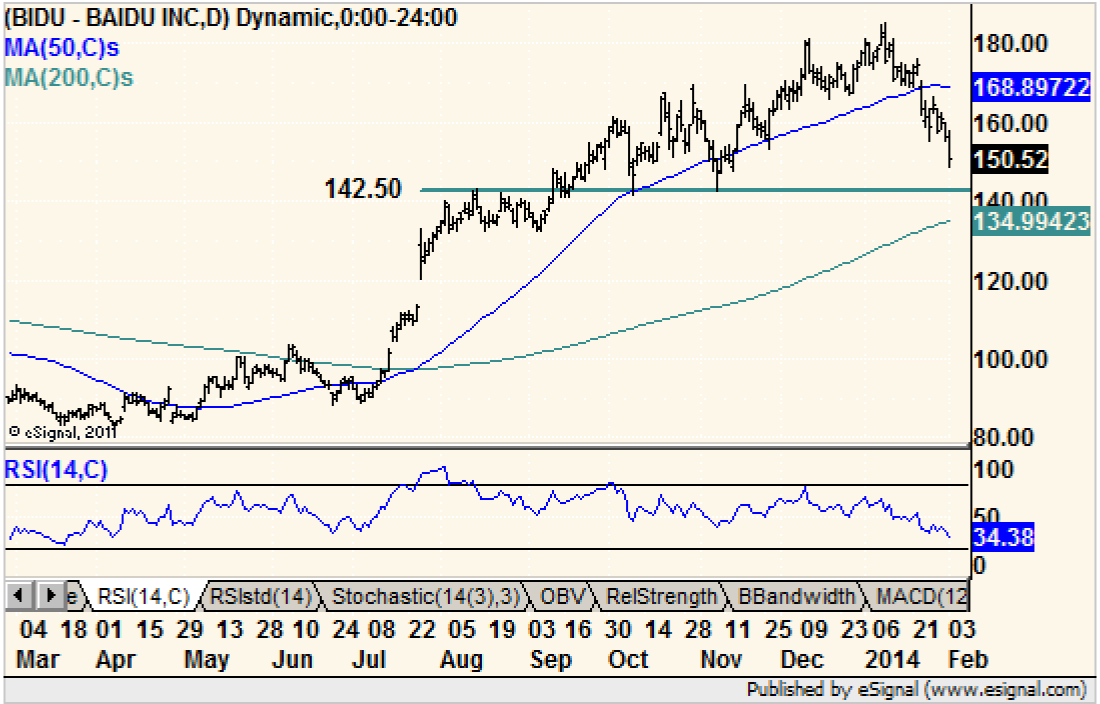
Trailed top in **AOS**.

Stopped out of two blue chips, as you might have expected **- GE** and **IBM**. We played for bounces and lost.

Note, we are now long yield, gold and one "regular" stock that looks bad but has not hit its stop.

Subscriber Corner

This section is dedicated to subscriber requests for stock, futures, index and foreign exchange analysis. Send requests to mailto:mkahn@quicktakespro.com.



Baidu - Just eyeballing things, we see support at 142.50 with the 200-day average rising to that level in the next month or so. Not shown, the 38.2% Fibonacci retracement of the rally from April is slightly above that support.

Two-pager on Fibonacci, click here.

Other Information

About - Michael Kahn, CMT, has been working with charts and technical analysis since 1986 and currently writes the twice-weekly "Getting Technical" column for Barron's Online. He is also a regular contributor to MarketWatch.com. Michael was formerly Chief Technical Analyst for BridgeNews and seen frequently on financial television including PBS' Nightly Business Report.

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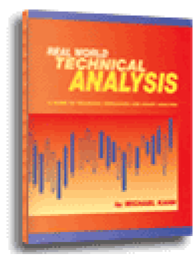

What is a **two-pager**? These are short write-ups on various technical topics that are made available when further explanation of a topic is needed. There is no extra charge to subscribers. For those looking for a more complete reference and a bound version of these two-pagers, we offer the book *Real World Technical Analysis* at http://www.quicktakespro.com/rwta.html.

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