QUICK TAKES PRO

"TECHNICAL ANALYSIS FOR EVERYONE"

MICHAEL KAHN RESEARCH LLC

October 14, 2014 - Monday the 13th was rather unlucky as the market ended with a sharp selloff after being manic most of the day. Bonds were closed and there were no government data releases for the Columbus Day holiday.

Volume was a total surprise for us as it was again above average. Considering banks - and their trading desks - were closed this is important. Volatility would not have been a surprise on light volume but on heavy volume we think it means the market got another wave of nausea. You know, after a few bouts and you've cleaned up enough to join the family in front of the TV. Then you rush back to the porcelain room.

All major indices are now below respective 200-day averages now that the S&P 500 and the mega-cap S&P 100 (OEX) have succumbed. What more do we need to say that the market's trend is now down?

Well, we do need one more event - August lows must now fail. The Dow is now marginally below its August nadir but is oversold short-term. The S&P 500 is clearly below its low. Ditto the Nasdaq and NYSE composite. And curiously, the S&P 100 is also in breakdown. The chips have fallen and the result is a clear change in trend.

OK, so how long does it last? There is the question. And when will we see an upside reaction? Another good question. We will run through the regular Index Charts of the Day below and do an expanded Big Picture section with long-term market charts to find out.

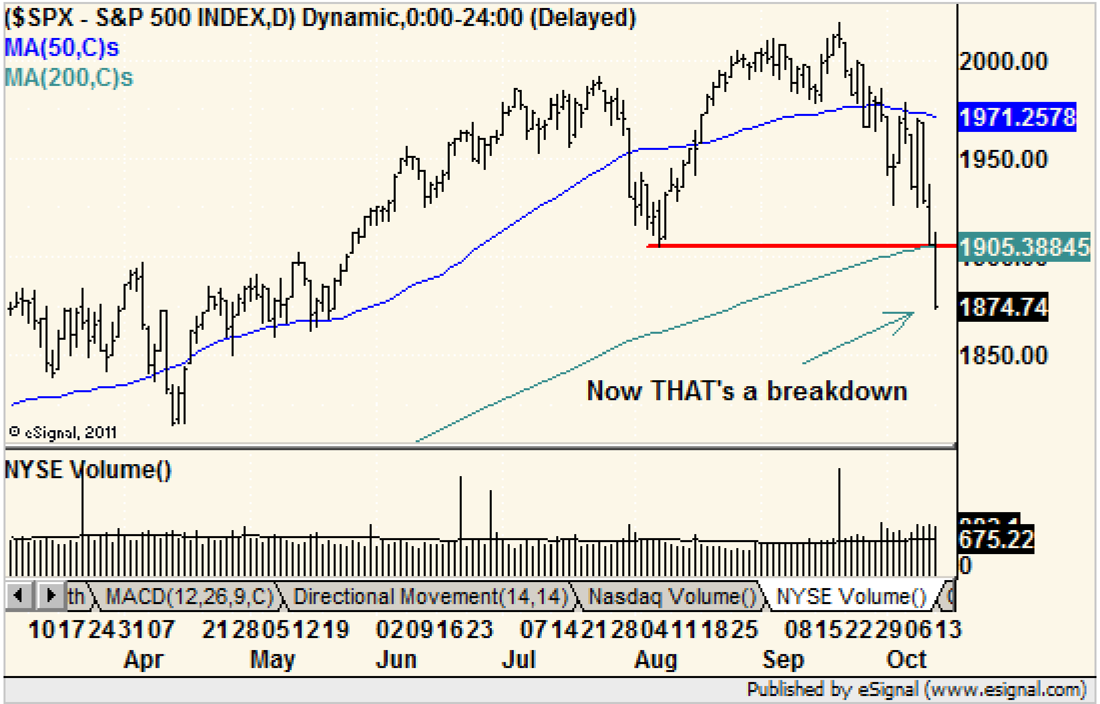
With that said, we do think there will be an opportunity to buy some of the really beaten down areas, such as energy. Oil lost ground but put in consecutive green candles. And the **USO** ETF has consecutive doji candles. Given how oversold they are, this bodes well for an energy quickie. Just keep in mind our oil target of 75-79, vs. current prices at about 85.

Plenty of important stocks cracked along with the indices, including **GOOGL, PCLN, CSCO, INTC, MRK, AXP** (we were already short)**, JNJ, GE, TSLA** and **BIDU**. The generals. And don't forget that the tech sector is in fast retreat leaving healthcare alone as a market beater. That is not enough to fuel any rally.

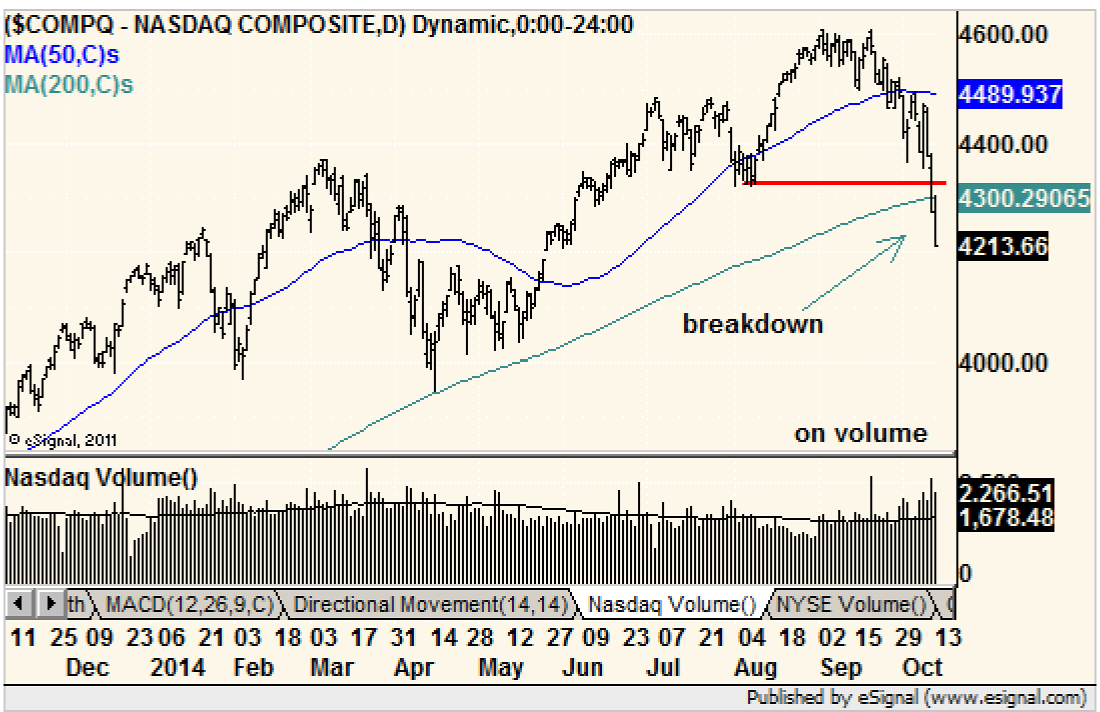
Finally, the four horsemen. Tech is one. Homebuilding is another and it is just about at a 52-week low. Retail? Whatever strength it had is gone. And financials? Although technically outperforming again, it has a breakout failure and now a long-term breakdown. The whole herd is running the wrong way.

Play for a bounce if you like but we do not think this is all over just yet.

Index Charts of the Day

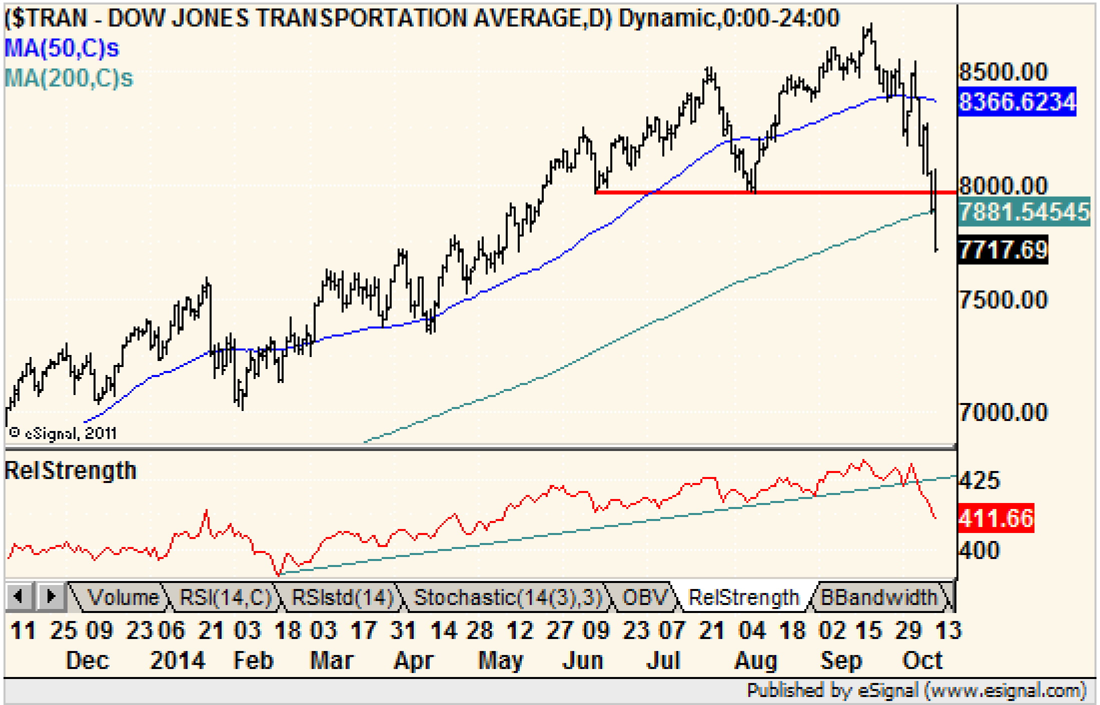


The S&P 500 is now clearly below two support features (after breaking its Nov 2012 trendline last week). It is also quite oversold but it was oversold yesterday, too.

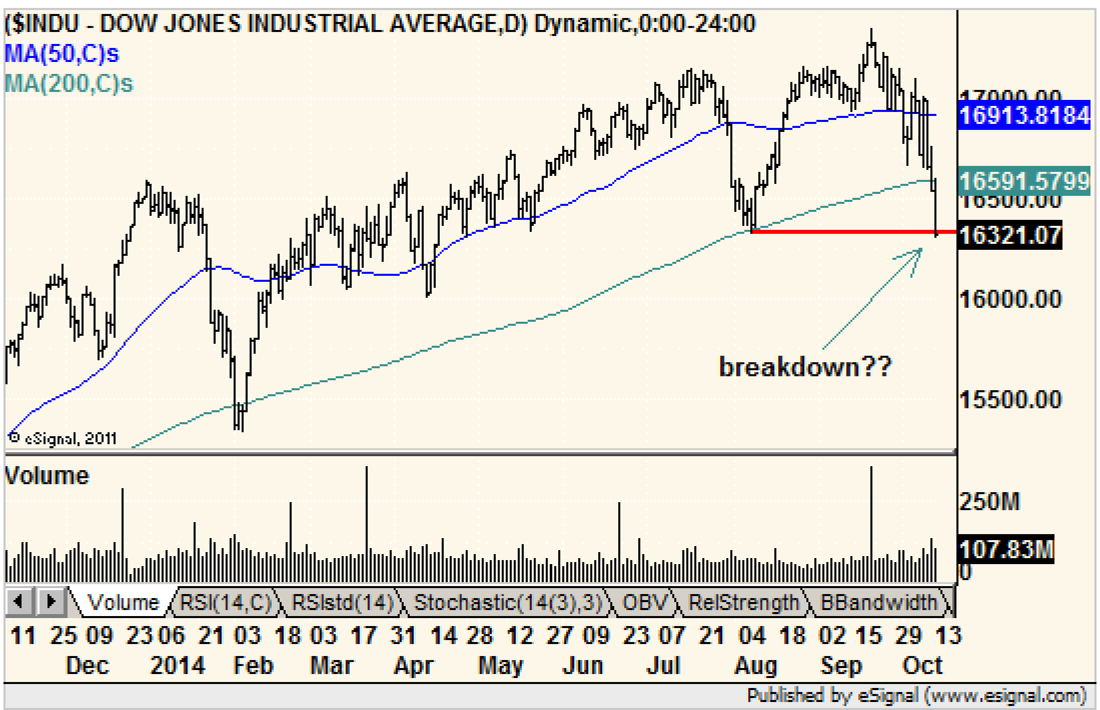


Party over for the Nasdaq, too.

Dow Theory



The transports have broken in the absolute and the relative.



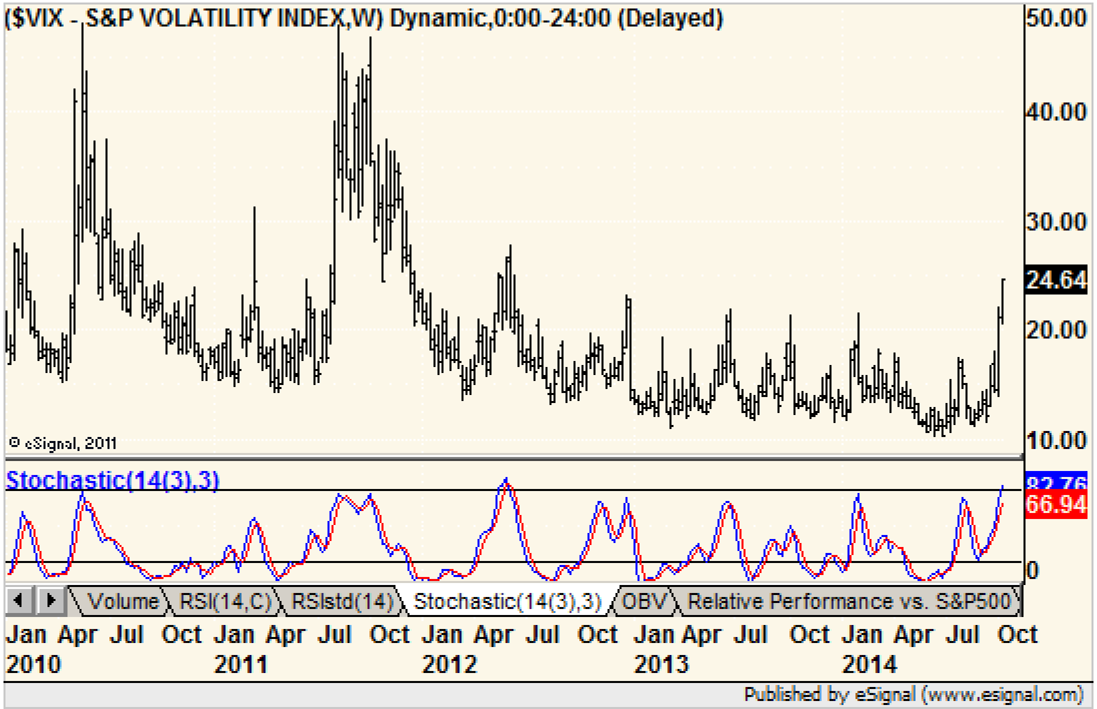
The Industrials have also broken down below the August low but not by much. Dow Theorists will get active when this breakdown becomes significant, if it ever does.

The Radar Screen

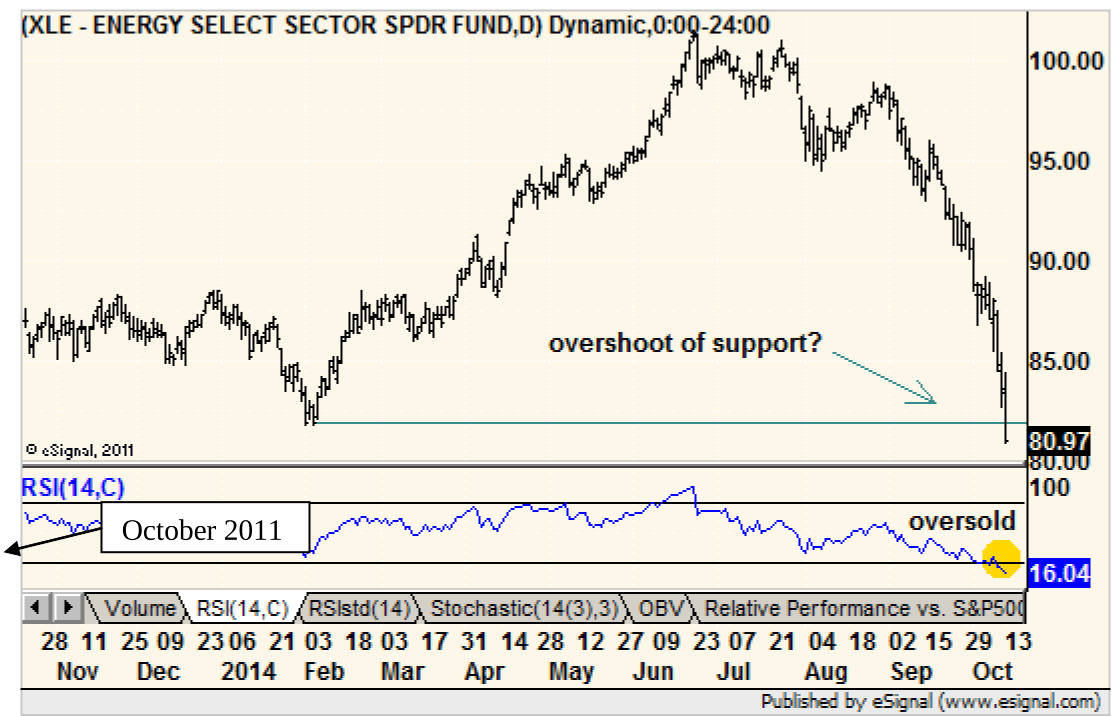
This is a list of potential opportunities, not a recommended portfolio. Underlined text is a change from previous report and if important it will be highlighted in yellow. If and when stocks give buy or sell signals here, they then move into the Advice Tracker section below. Dates listed are first appearances 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		
Energy ETF XLE - We've been talking about an opportunistic buy in this extremely beaten down sector but it remains a falling knife. However, the chart suggests it went a bit too far and will bounce. Of course, that can happen from a lower level, too, so we must wait for a sign that the freefall is subsiding. Perhaps a close above the mid-point of yesterday's range at 82.20 (the mid-point of the candle.	**New**	10/14
Bearish Implications		
none -		
Unknown Implications		
none -		
Holding Tank - red shade leans bearish, green shade leans bullish		
Hershey HSY - While a good chunk of cocoa comes from West Africa, Hershey is not affected. This chart, however, still looks ready for yet another leg lower. Just watching for now.	**New**	10/14
Whirlpool WHR - Still in a 2014 triangle but could not lift off the lower border. Watching for a breakdown	**New**	10/14
Sector Watch (observations that may spark ideas)		
none -		
Updates		
none -		

Market Highlights



VIX - This indicator blew through "resistance" and is now higher than it has been since May 2012. We cannot say if this is high enough for a bottom but it certainly is different than it's been during the complacency of QE



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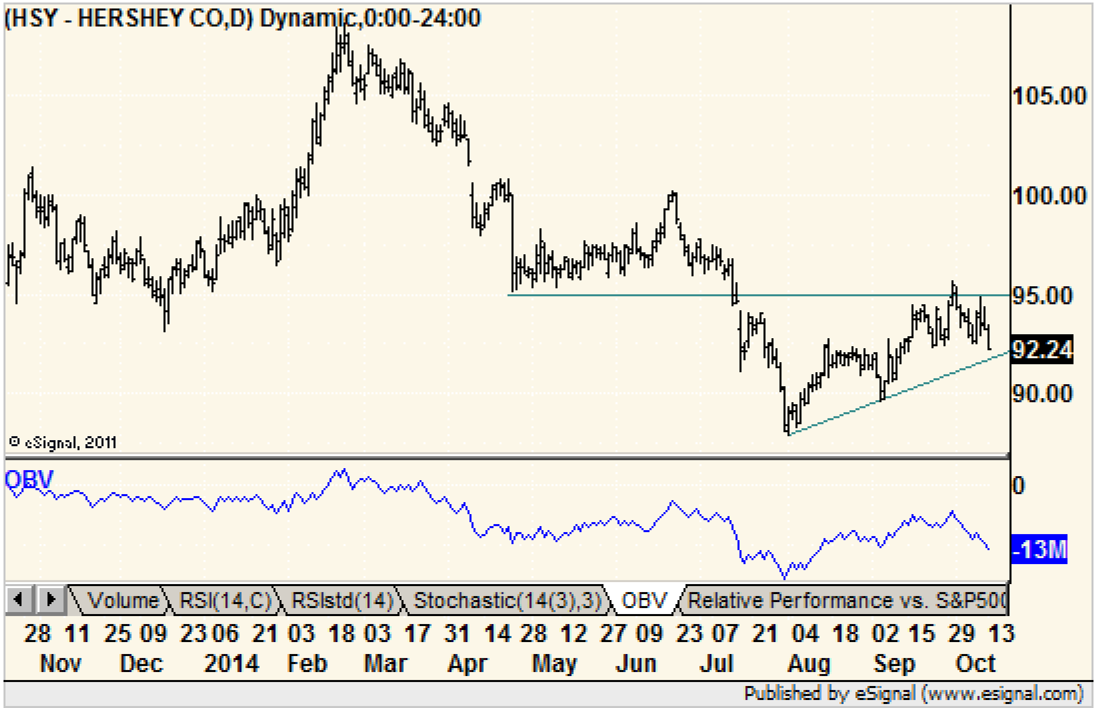

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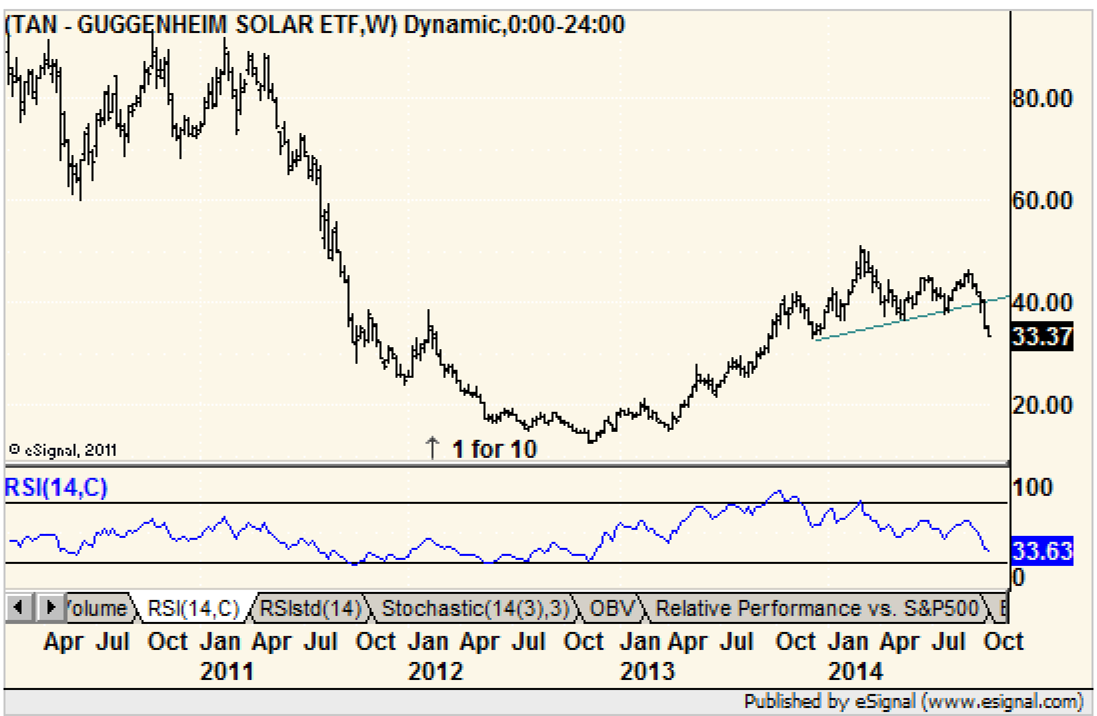
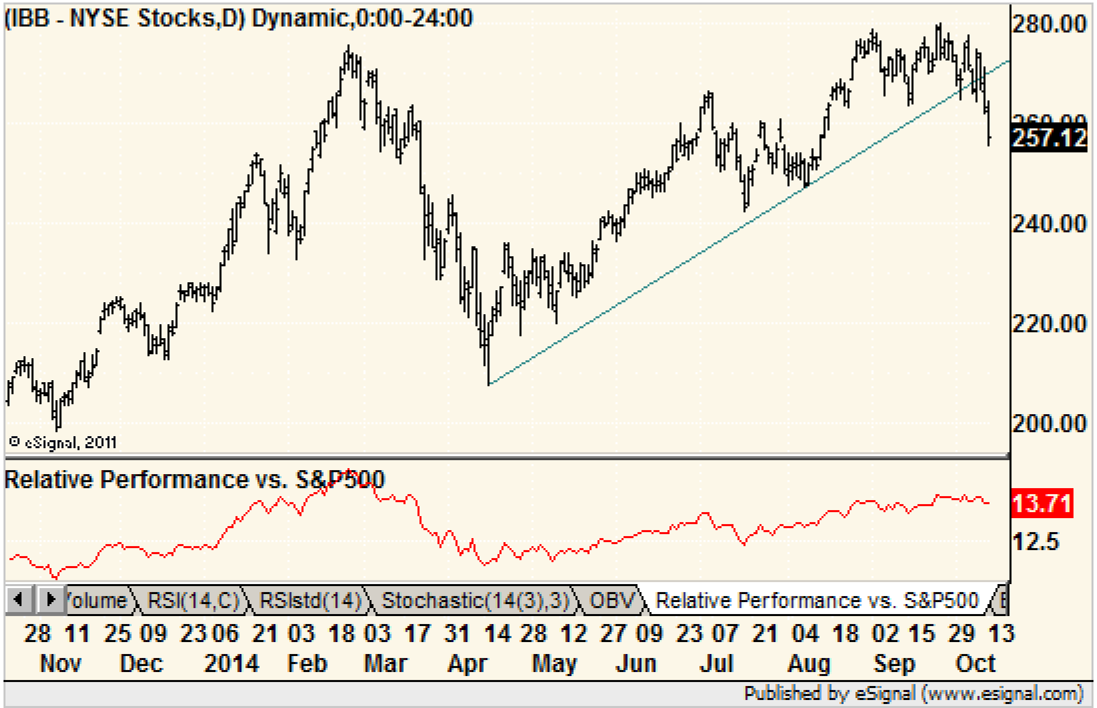
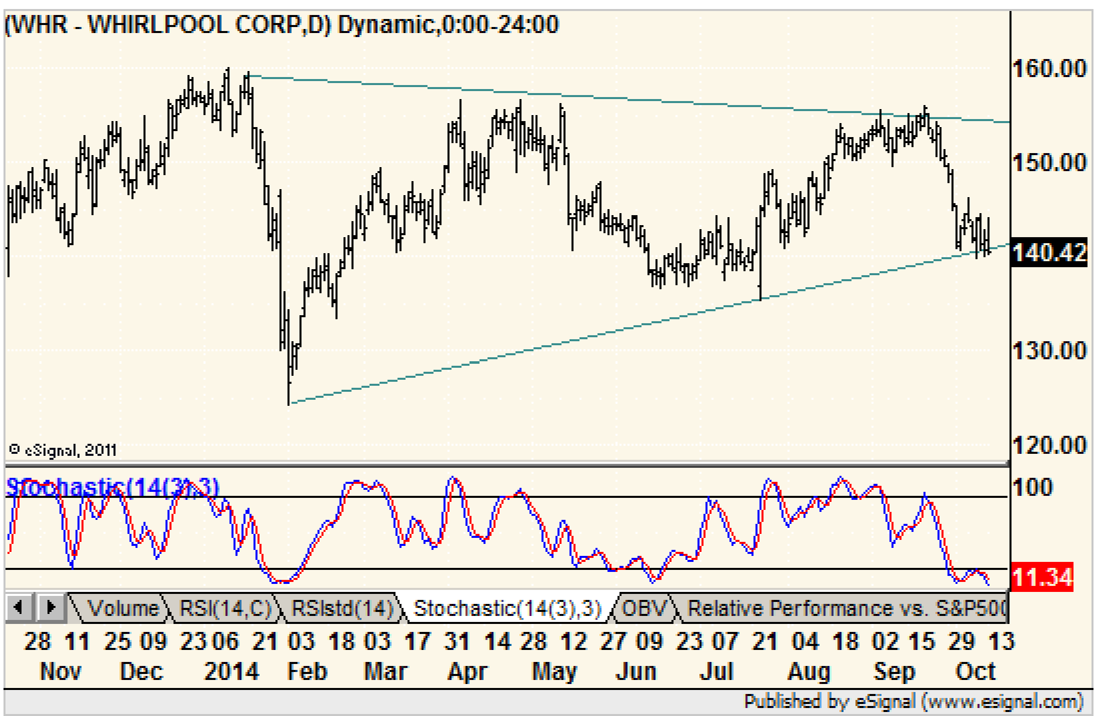


Solar ETF - Who needs solar when oil is in free fall? Note this is a weekly chart.



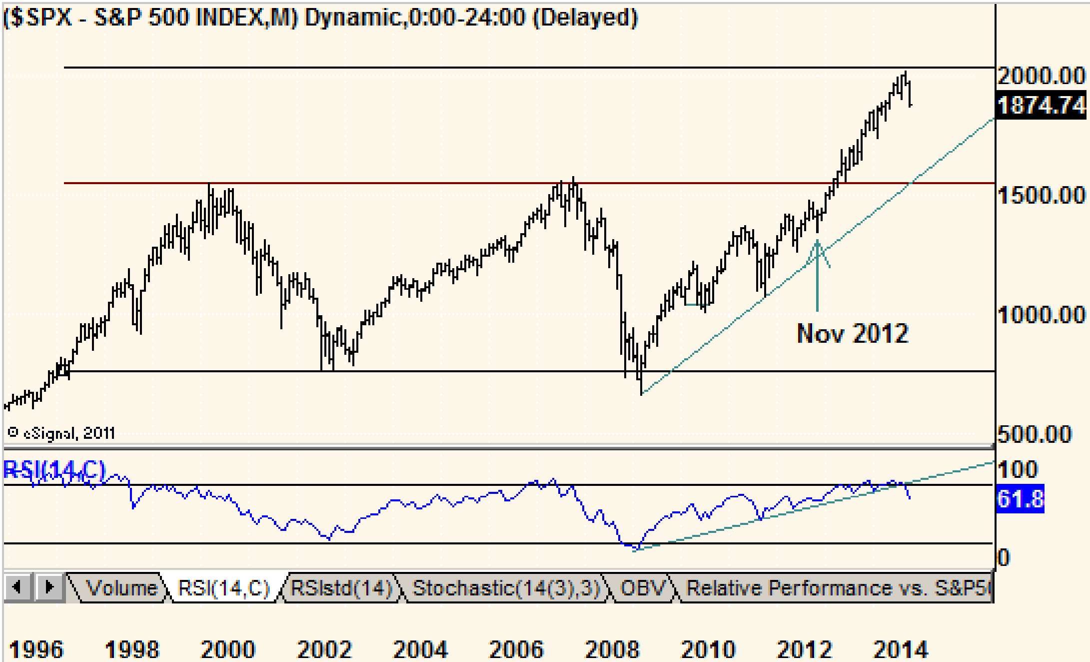
Nasdaq Biotech ETF - Another leader falls. This and **XLV** are still outperforming but in a down market that just means losing less.



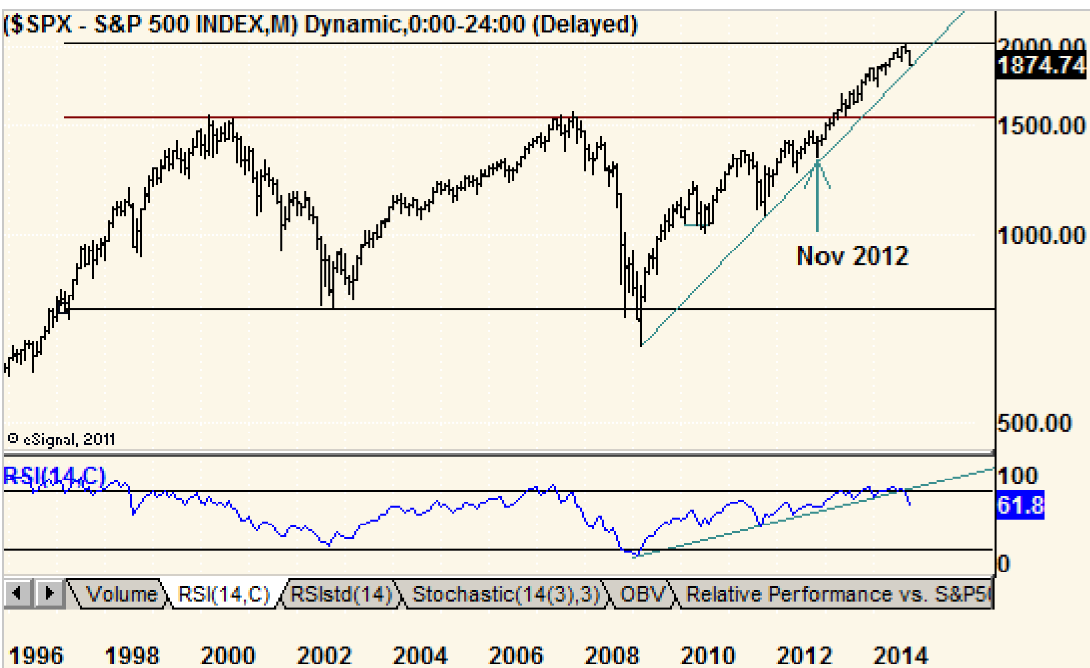
Whirlpool - Still in a 2014 triangle but could not lift off the lower border. Watching for a breakdown.

The Big Picture

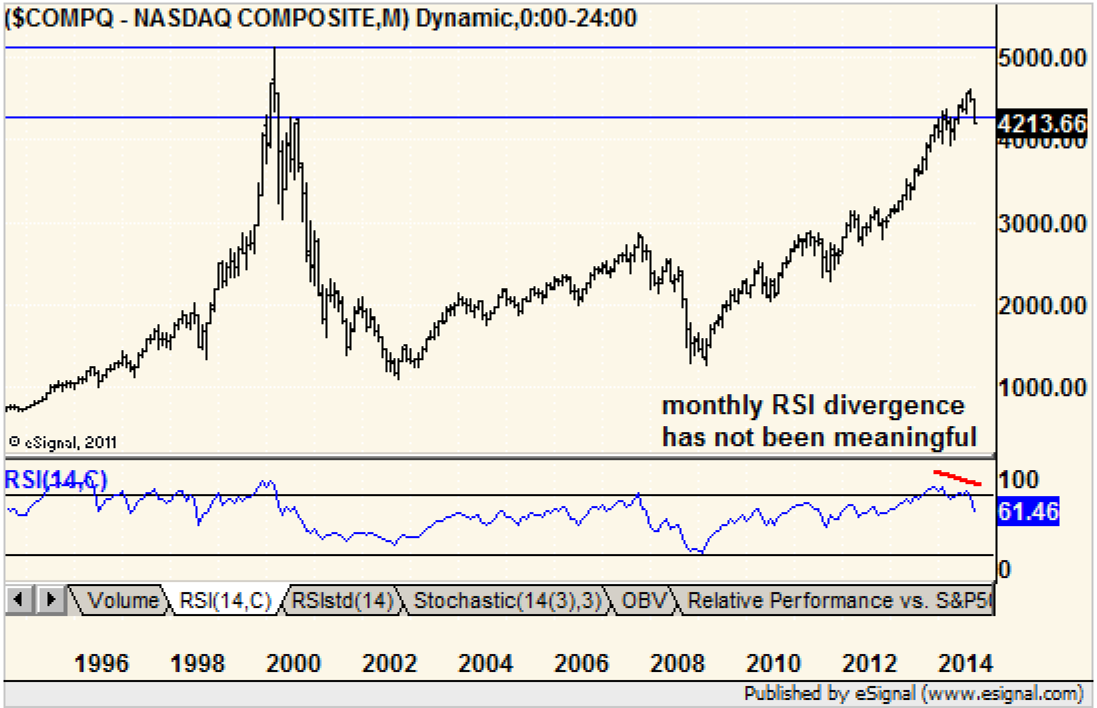
In this section, we take a macro look at things.



The monthly S&P 500 shows an RSI trend break. We can also see that the current bull leg was almost a perfect Fibonacci 38.2% above the top of the major trading range. We've drawn it with some highs and lows excluded but that was done before seeing that the target was hit. See next chart.



Same chart but with a log scale. Some might say the trendline is still support but we think it is the line in the sand where we will see the final bounce. How low can it go? The top of the previous bulls is not out of the question. But in the very big picture, that could be a test of the decade long range breakout leading to the next great bull market. Let's let things develop first before getting too far ahead of ourselves.



The Nasdaq is above major resistance, better seen on weekly charts, from 2000. However, most people only see the all-time high still above. Our takeaway from this chart is that while the short-term is very dangerous, the long-term is not quite as bad.

The Russell 2000 also looks ready for a correction down to its previous bull market's high. However, bear markets here have gotten progressively worse, leaving it at a very high perch. We'll not think about the lower line here as that would likely be linked to a total economic collapse. For now, the red line is our worst case scenario.

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. Green means we closed them. 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	**RGEN**	REPLIGEN CORP	21.28	5.7%	20.75	20.14	9/30	13
Short	**APA**	APACHE CORP	75.93	26.2%	cover	95.80	9/15	28
	PFE	PFIZER INC	28.47	6.0%	29.75	30.18	9/22	21
	LLTC	LINEAR TECHNOLOGY CORP	38.81	12.7%	41.00	43.75	10/1	12
	AXP	AMERICAN EXPRESS CO	82.78	4.8%	87.00	86.75	10/1	12

Notes: We've trailed the stops on the short side and decided to cover the short in APA. It looks to be time as it is very oversold.

Subscriber Corner

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

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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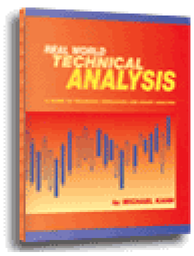

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