A Weekly Newsletter by
TheMarketMessenger.com

Purely Technical

Sunday,
May 27, 2007

The Big Picture: Stocks

It was a rather humdrum week on the markets. Most major stock market indices ended up losing less than half a percentage point from last Friday's close.

Despite the lackluster action, things are arguably setting up nicely for the next few weeks. While the potential negative divergences, which had looked all but done and dusted last week, have made a comeback this week, the bears have not been able to press the issue by sending momentum indicators into negative territory.

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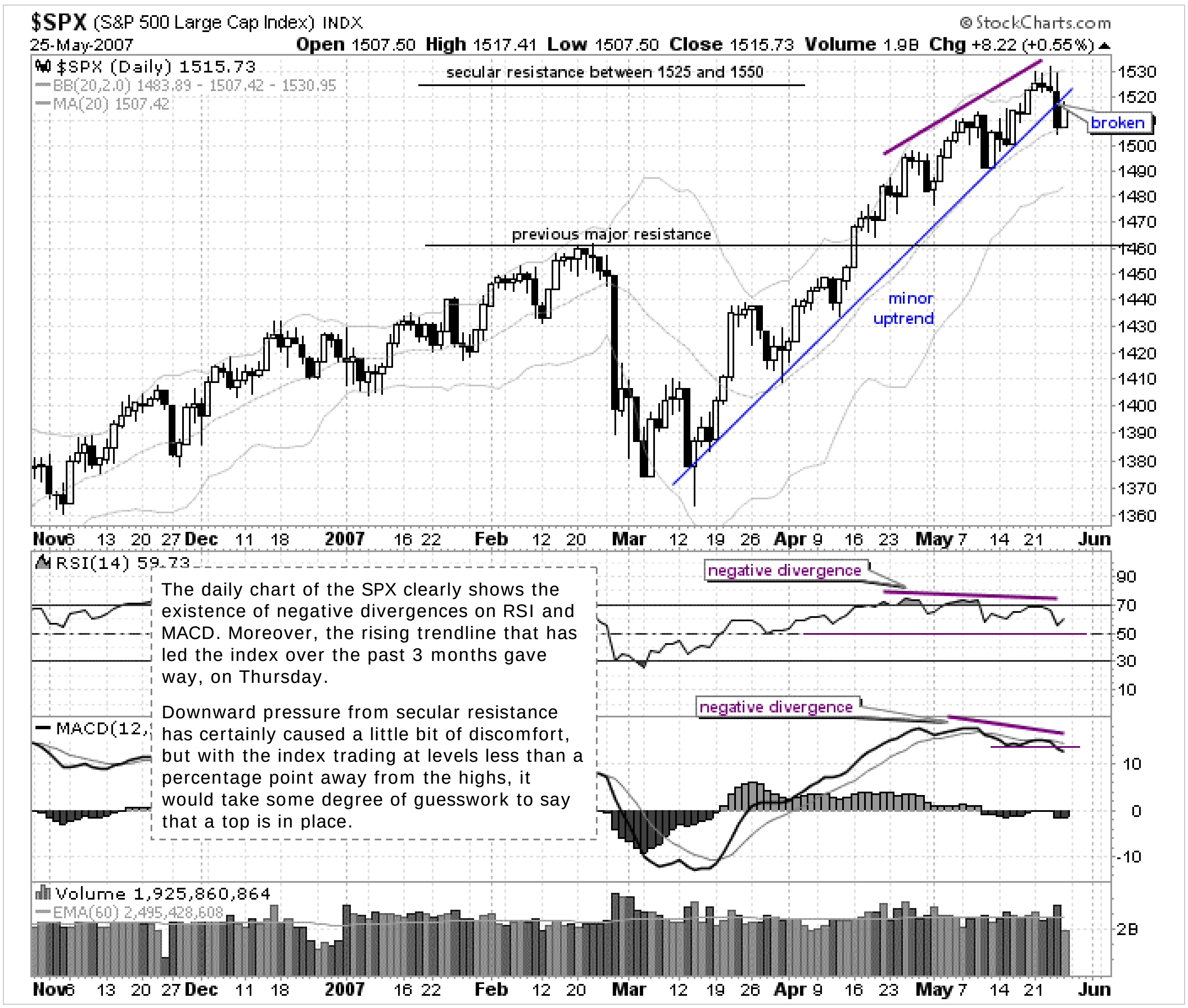
Inside This Issue:

Let's get to charts straight away, starting with **the daily chart of the S&P-500**… (*notice comments in inset*)



“So where does the breaking of the minor trendline – and the other potentially bearish signals – leave the minor trend?” you ask…

The answer is quite simple. It is still bullish. After all, it might just be that the slope of the rally has changed. After all, it would have been a little fortuitous for the uptrend to have continued at the pace maintained over the several weeks preceding Thursday’s breakout.

In a nutshell, until and unless the bears can manage to dig their claws in deeply and push the index down far enough such as to cause a negative centerline crossover on RSI, the minor trend will be firmly within the grasp of the bulls.

Next, a quick look at **the weekly chart of the S&P-500**…

Next, a look at **the monthly chart of the S&P-500**...

This chart shows us that the S&P-500 only needs to be trading 2 points higher than its Friday close, come Wednesday, to print a new all-time monthly closing high.

The index remains overbought, according to monthly RSI; however, for now that is just a sign of strong momentum in the bullish intermediate and major trend.

Moving on to other major market indices...

The **Dow Jones Industrial Average** is trading so far above its previous major resistance level of 12800 that it is hard to state anything but the obvious at this point.

RSI has moved out of overbought territory, nearly for the first time in 5 weeks. MACD is showing a negative failure swing; we refuse to call it a negative divergence even though price has made a higher high, because the distance between the two highs is too large to allow such a classification.

We won't even dream of suggesting that anything other than a change in slope of the uptrend has taken place here, until or unless, say, RSI makes a negative centerline crossover.

The **Nasdaq-100**, which was one of the two indices (the other being the RUT) that we were keeping a close eye on this week, broke out above previous resistance early in the week. It was not able to hold those levels later in the week.

The index met with resistance from the rising resistance line and fell 50 points, between Wednesday and Thursday, in the process breaking the drawn minor uptrend line.

As of Friday's close, the index has regained some of the mid-week losses, but is interestingly poised between recent highs and previous major resistance that was broken last month.

RSI is sitting precariously on its centerline and MACD is showing a negative divergence. In the end, the big test comes when (if) the index approaches 1850. Any closing below that level will hint trouble for the short-term trend. The bears will desperately want to break that level.

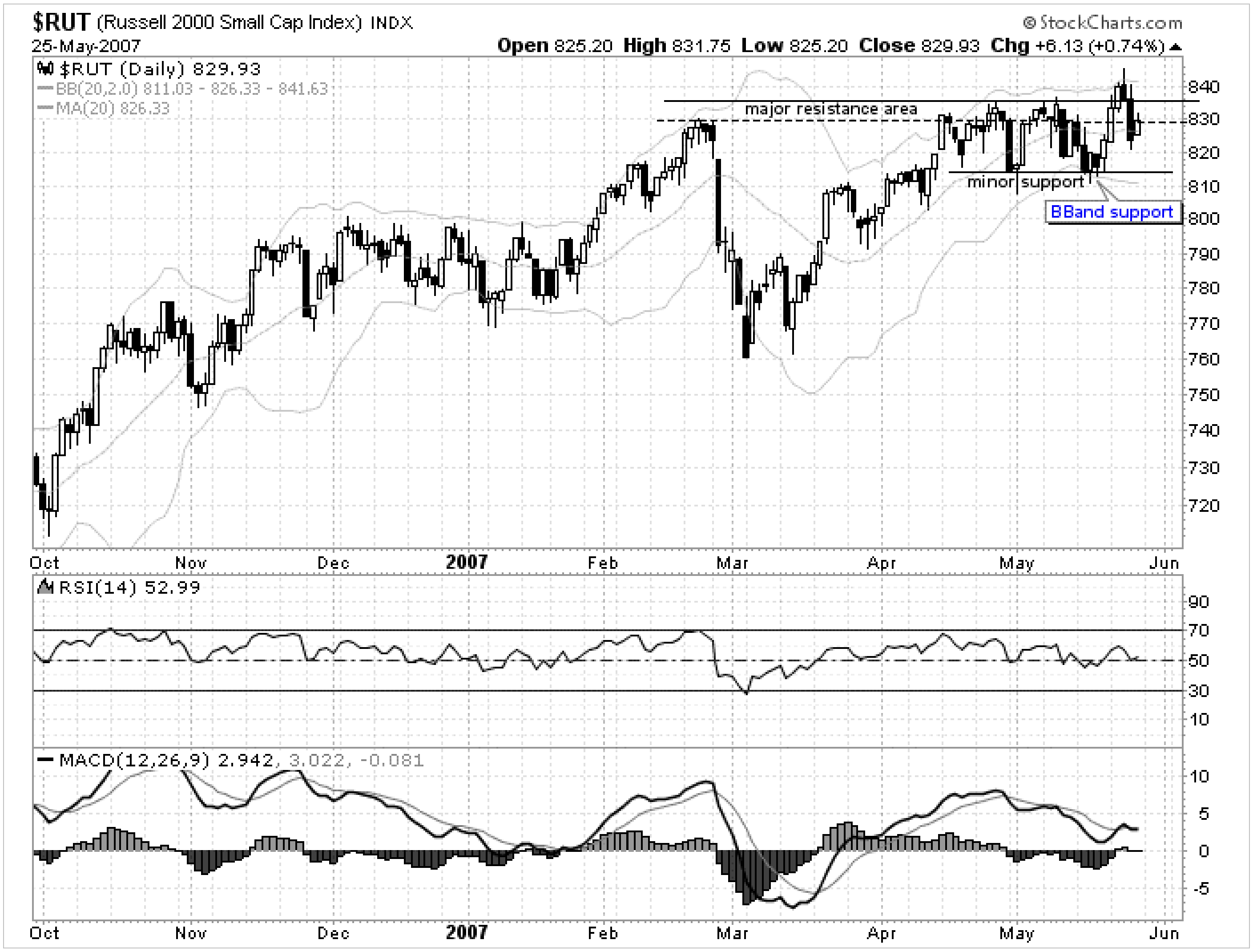
The **Nasdaq Composite** shows a similar picture on the momentum indicators as does the preceding index.

For its part, the COMP seems to have broken a bullish channel on the minor trend and is even closer to breaking previous major resistance than is the NDX (i.e. if the bears get their act together).

The rising resistance line, which we've been harping on about for a few weeks now and have variously called the 'external trendline', the 'megaphone top resistance line' etc., continues to hinder the progress of the rally.

Next, the RUT...

The **Russell 2000** broke out above the area of congestion that lies between 830 and 835, early last week, but wasn't able to get rid of the phlegm. It broke back into that area by week's end.



Through the past week, we'd been hoping that the NDX and the RUT would join the party, but that hasn't happened as yet. Let's see if anything changes over the coming weeks.

We continue to believe that if the market continues it bullish run through the rest of spring and into the summer, then these two indices (especially the Nasdaq) will be among the leaders, at least by virtue of having lagged over the past few weeks (and being relatively "cheap") if nothing else.

The Big Picture: Commodities

Now, a quick look at the commodities arena…

The daily chart of Gold shows that, last week, the metal broke a rising trendline that has guided prices higher since last October. For now, one might assume that the descent from the mid-April highs is just a correction on the intermediate trend.

In either case, the support level at 640 is crucial. Although the metal is not showing lower highs on the intermediate trend, a lower low (which will occur if the aforementioned support level is broken) will signal the first such incident on that level of trend in over a year.

RSI has not reached oversold territory as yet and MACD has just moved below its 0-line. The former development means that there can be a lot more downside before a short-term rebound is called for and the latter is a likely confirmation of a bearish minor trend.

Let's move on the chart of another precious metal that is actually showing a lower high on its intermediate trend…

Silver, which made a lower high on the intermediate trend in mid-April (the first high in the sequence being in late-Feb), is now on the verge of making a lower low. Any breaking of minor support (at 12.7) and, more importantly, intermediate support (at 12.2) will cast doubt on a bullish classification of the intermediate trend.

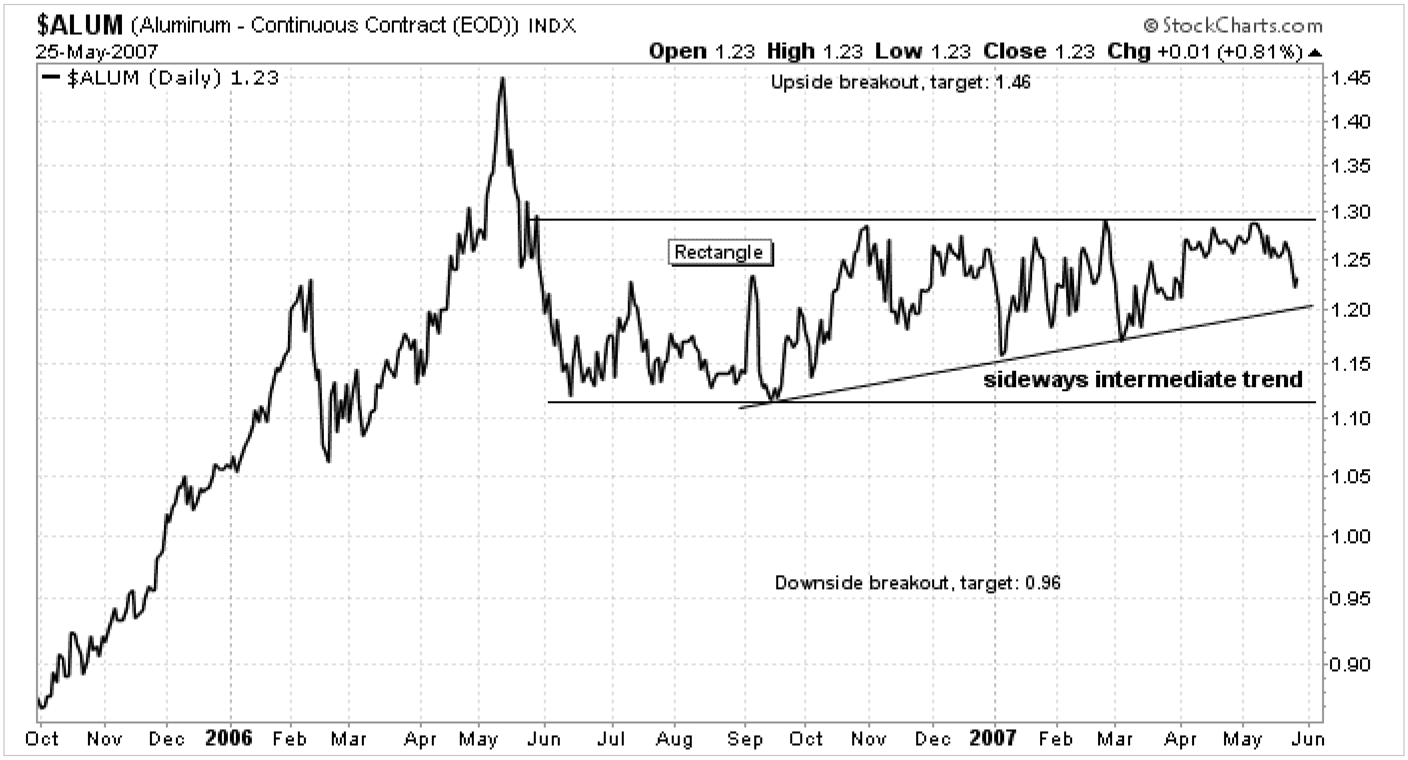
Maybe Gold and Silver will get their cue from Platinum…

Platinum, which failed at major resistance earlier this month, has since fallen to the level of previous intermediate resistance. It has broken the rising intermediate trendline in the process and has also pushed RSI into sub-50 territory. MACD is showing a negative divergence and is on the verge of crossing into negative territory itself.

The task is simple and clear-cut for this metal, unlike it is with the previous two. Price has to stay above the level it currently resides at, or else it will prove false last month's breakout above the neckline of a triple bottom/inverted head & shoulders pattern. Any such occurrence is likely to bring with it a bout of selling.

On to the industrial metals…

Alumin(i)um continues to struggle with resistance at 1.29/1.30. While the highs over the past few months have all been at around that level, the lows have been rising, which makes one believe that the eventual breakout will occur to the upside. We'll wait and see if that holds true.



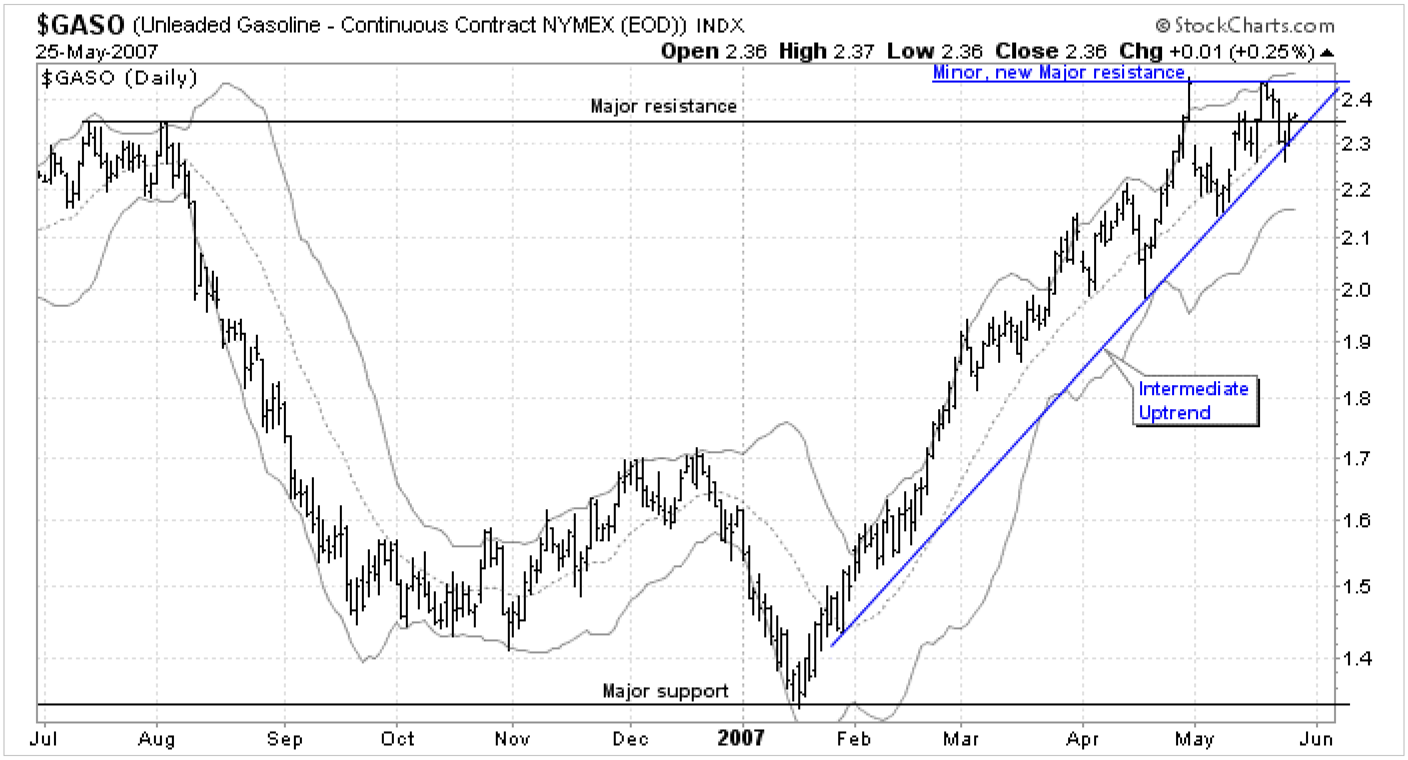
Copper broke its rising intermediate trendline early this month and since then has experienced a bit of a correction that has now entered the 38.2-50% Fibonacci retracement area. It remains to be seen if the index can now resume its bull run and finally plough through intermediate and major resistance at 376 and 384, respectively.

Now, a look at the Energy complex…

Crude Oil has been trending sideways for 2 months now and is displaying a pattern that is either a bull rectangle of a triple top on the minor trend; the truth will be known when either resistance at 67.2 or support at 61.6 breaks. The move out of the pattern is expected to tally 5.6-pts in the direction of the breakout.

Gasoline continues its fight with major resistance in the 2.35-2.40 –area. If the bulls manage to keep the commodity above 2.35, a large bull rectangle formation will be complete. That pattern targets a further $1.00 move in the commodity.

Wouldn't that be a nice outcome for the growing push towards more environment-friendly sources of fuel? It's about time!!



That brings us to the end of this week's issue of *Purely Technical*. We hope that you've enjoyed reading it as much as we've enjoyed bringing it to you…

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Have a great trading week!

Regards,

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