A Weekly Newsletter by
TheMarketMessenger.com

Purely Technical

Sunday,
Jun 17, 2007

Announcement:

TheMarketMessenger.com is nearing its launch. Creation of the new website is complete. Exhaustive testing of the same has been conducted over the past week or so and shall continue for a couple of days to ensure that everything is working smoothly.

Accordingly, we are glad to announce that the all-new TheMarketMessenger.com will be launched on **Friday, June 22, 2007**. A special notice will be sent to newsletter subscribers informing about the availability of the new content.

Please bear with any minor disruptions in the website between now and the launch. We apologize for any inconvenience.

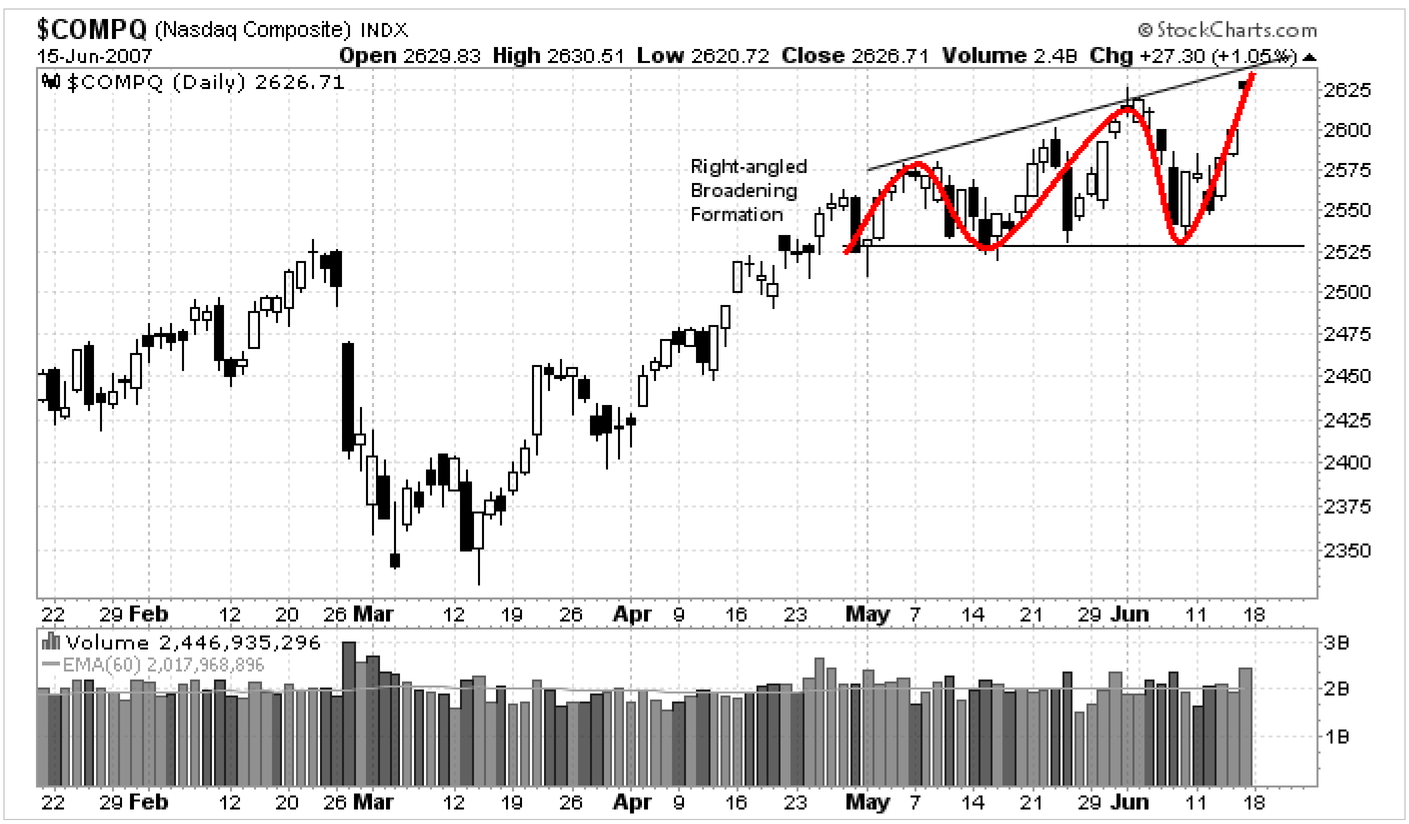
Inside This Issue:

The Big Picture - Stocks

Before we get into the individual charts, let's take a quick look at an interesting pattern that has been developing on the Nasdaq Composite over the past month and a half.

Right-angled Broadening Formation on Nasdaq Indices

The famous technician, Martin Pring, speaks about right-angled Broadening Formations in his book "Technical Analysis Explained". The COMP is showing such a pattern at the moment.



A flat base and a rising price ceiling characterize the pattern. This sort of price action is supposed to indicate indecision. The constant rise in volatility is seen as a symptom of a heightened emotional state on the part of market participants.

During the formation of a right-angled broadening pattern, such as is currently taking place on the COMP, it is hard to discern whether the pattern will give way to bullish or bearish action. A breaking of either the upper or lower trendline is required in order to provide a clearer picture on that front.

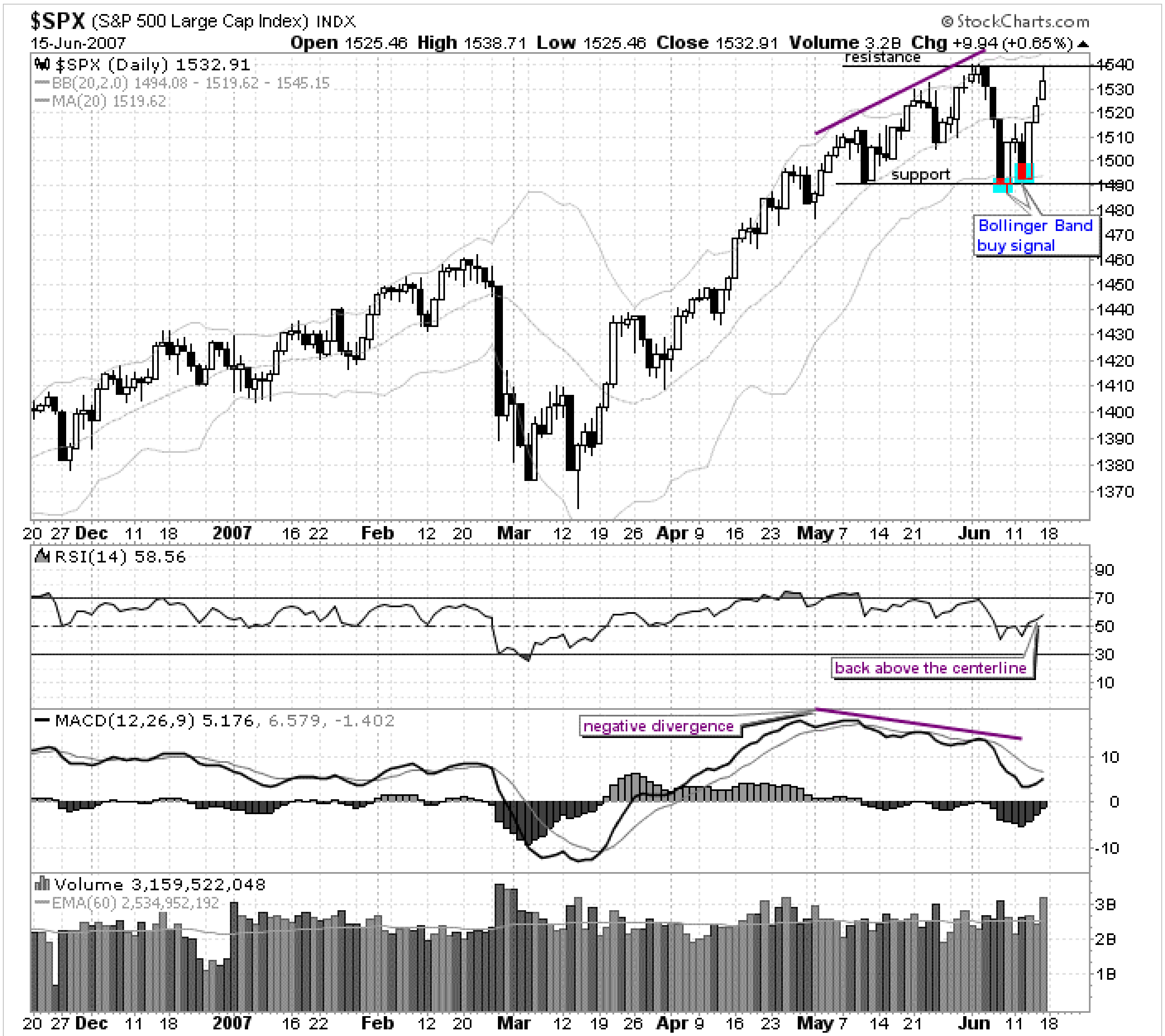
A breaking of the lower line, of course, suggests that a top has potentially been formed and a breaking of the rising upper line is a sign that the pattern has failed (to follow through on its bearish presumptions).

Moving on…

Let's start with a look at **the daily chart of the S&P-500**.

In the end, the bulls had a pretty good week and price is now sitting within striking distance of major highs, once again.

Early in the week price retested the lower Bollinger Band – a level at which it had found support late in the previous week. By mid-week it was apparent that the lower Band had provided support once again.



At week's end, RSI is now back above its centerline and MACD is turning around after barely having neared its own centerline. However, the negative divergence on MACD still persists and it remains to be seen whether last week's decline was a much needed correction on the minor trend that facilitates an assault on all-time highs or if it was the first stuttering move of a correction on the intermediate (or higher level) of trend.

It is too early to speculate. Besides, we prefer to take it one stock chart at a time. After all – and you may have noticed this yourself – despite the fact that we have been uncertain as to near-term market action over the past couple of weeks, our trading picks have been spot on and profits have been accumulating thereon.

Now, let's take a look at **the weekly chart of the S&P-500**...

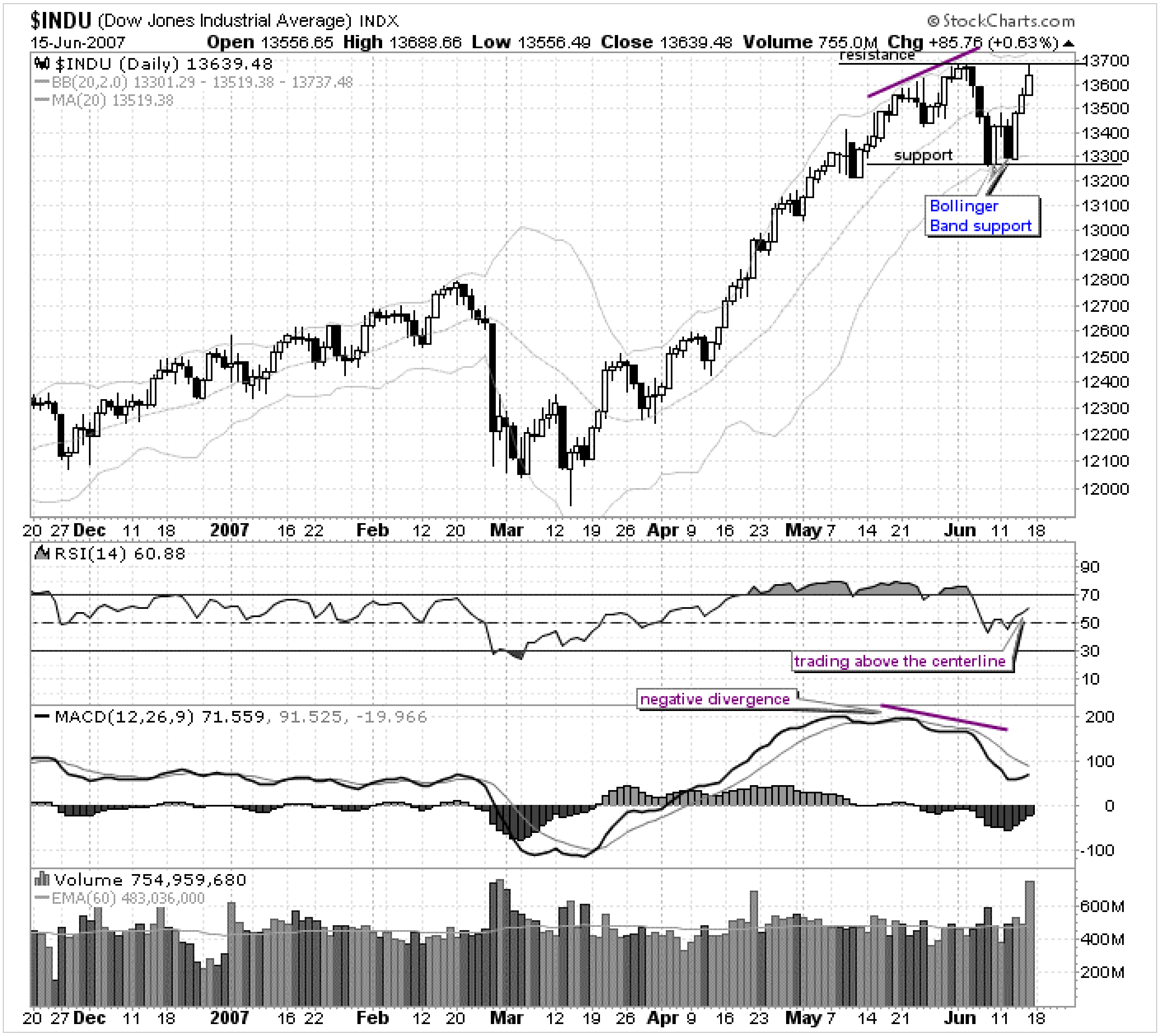
This chart shows that price has found support from the old channel line for the second time in two weeks. RSI and MACD continue to show a rising trend. It is hard to glean much from this chart at the moment, expect for the obvious fact that each and every level of trend is still showing up as bullish.

The **daily chart of the Nasdaq-100** shows a pattern somewhat similar to the one seen on the COMP. In this case, however, despite the fact that the trendlines are still diverging, the lower trendline is rising (as opposed to being flat in the case of the COMP). Regardless, the overarching fact remains that volatility is high and rising. It remains to be seen what exactly *the market's message* is through these developments.

Given the strength of the prevailing bullish trend, one would want to assume that that trend should continue. However, in the interest of due diligence, it would be wise to keep an eye on RSI. Any breaking of the centerline should be used as a potential warning sign of a change in trend.

Until and unless that happens, the increase in volatility might only be seen as being coincidental.

The last stock index chart to be covered in this instalment of *the big picture*, is the **daily chart of the Dow Jones Industrials**...

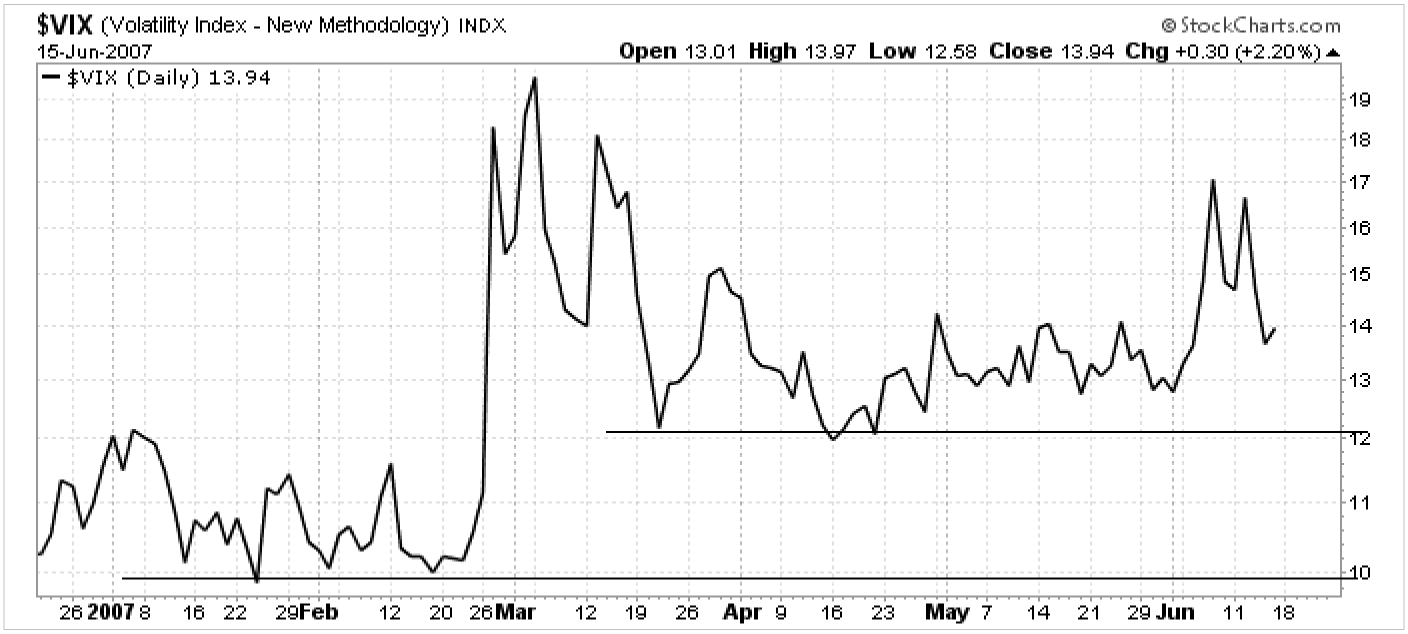


As with the SPX, this index was also able to find support from its lower Bollinger Band early in the week and has since rallied to the level of last-month's highs.

Once again, as long as RSI and MACD can remain above their respective centerlines and price stays above recently formed support, the bulls will have a good summer.

Now, a look at **the Volatility Index (VIX)**...

For a few weeks now, we have been saying that volatility has been rising. Well, this fact makes itself easily apparent in this chart.



The VIX has consistently been trading at 12-14 or higher ever since the late-Feb correction. This is considerably higher than the level of 10-12 that we'd gotten accustomed to over the latter part of last year and the early part of this one.

Although current volatility levels are more at par with historical levels, it is still interesting to note this rise in volatility in the face of a market that is (at least on the longer-term trend) stoically bullish.

A Quick Look at Significant Developments in the Charts of a Few Commodity, Currency and Bond Markets

There were quite a few interesting developments in a wide range of financial markets this week. Lets take a look at the most compelling of them.

We'll start with a chart from a sector that we do not cover very often – agriculture.

The Goldman Sachs Agricultural Prices Commodity index had a superb week. Almost out of nowhere the index shot up 10% and, in the process, broke major resistance that has been in place for a decade.

We don't discuss fundamental ramifications of such events here, as you well know. We'll leave that for someone else to ponder over; if there is any benefit from doing such a thing.

In any case, the breakout above 285 also means that a bullish rectangle has been broken. That pattern targets 320, which for its part is the level of all-time resistance from early-'96. (Note that the index has only been around since 1995).

Another commodity that broke out above resistance, albeit not as significant a resistance level, was **Crude Oil**.

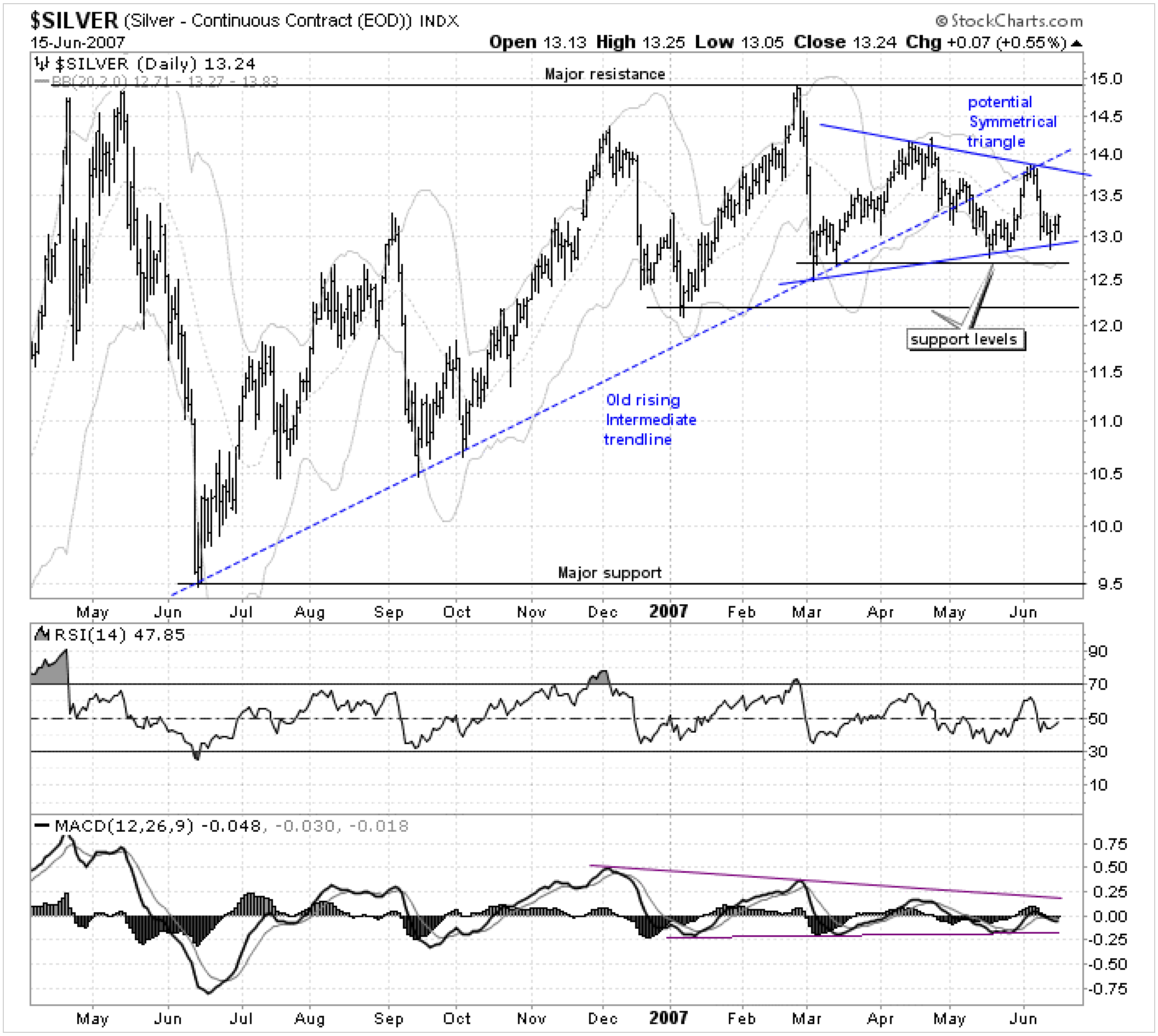
Crude had been stuck within a trading range between 61 and 67 for over two months. That range was broken to the upside this week and, given the size of the pattern, price is expect to move up to nearly 73 over the coming weeks.

The developments in the Agriculture and Energy sectors have no doubt had their hand in contributing to the developments on the next chart…

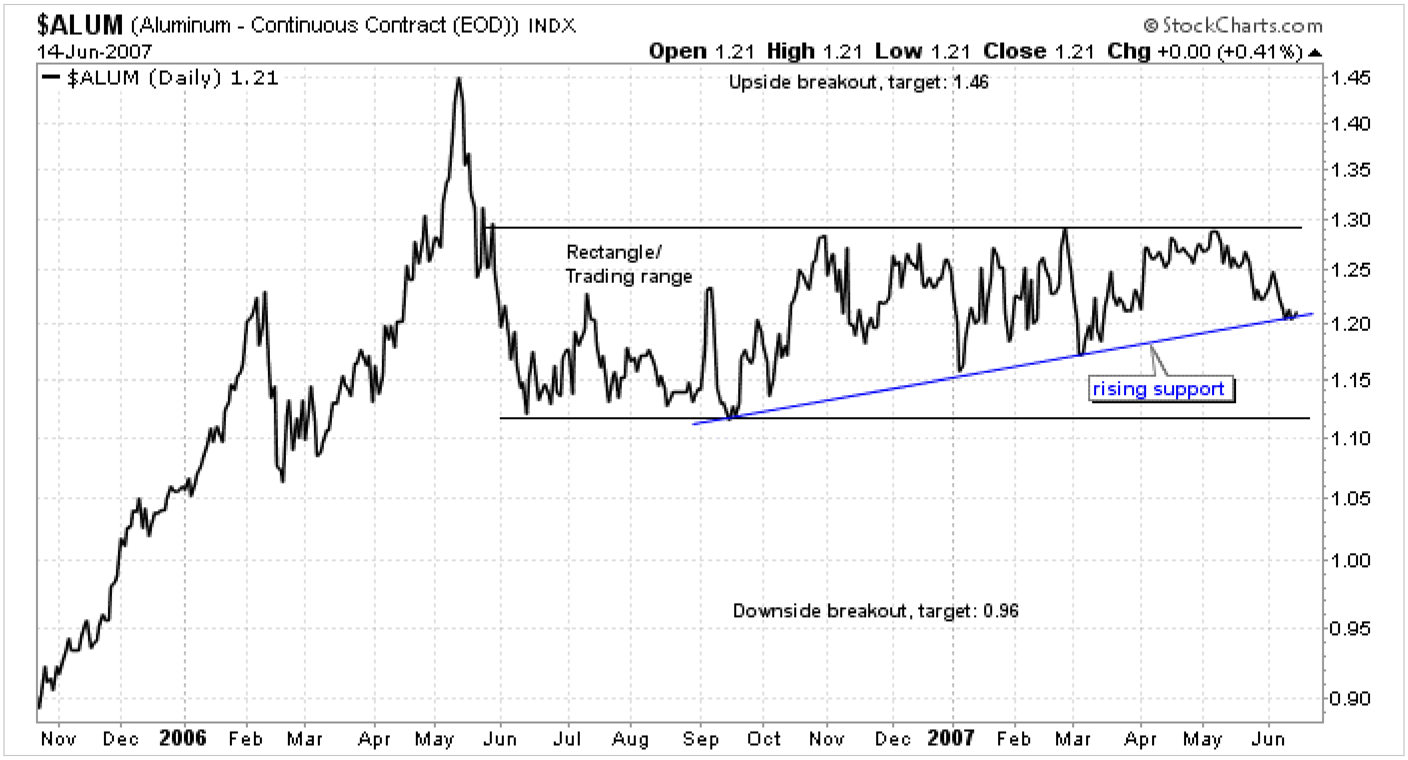
The Commodities Research Bureau Index has, as of Friday, broken a downward slanting resistance line that has stifled the index for nearly 9 months. Is this breakout (and those seen previously) a sign that the next leg of the commodities bull market is upon us?

Let's see what the next couple of charts say…

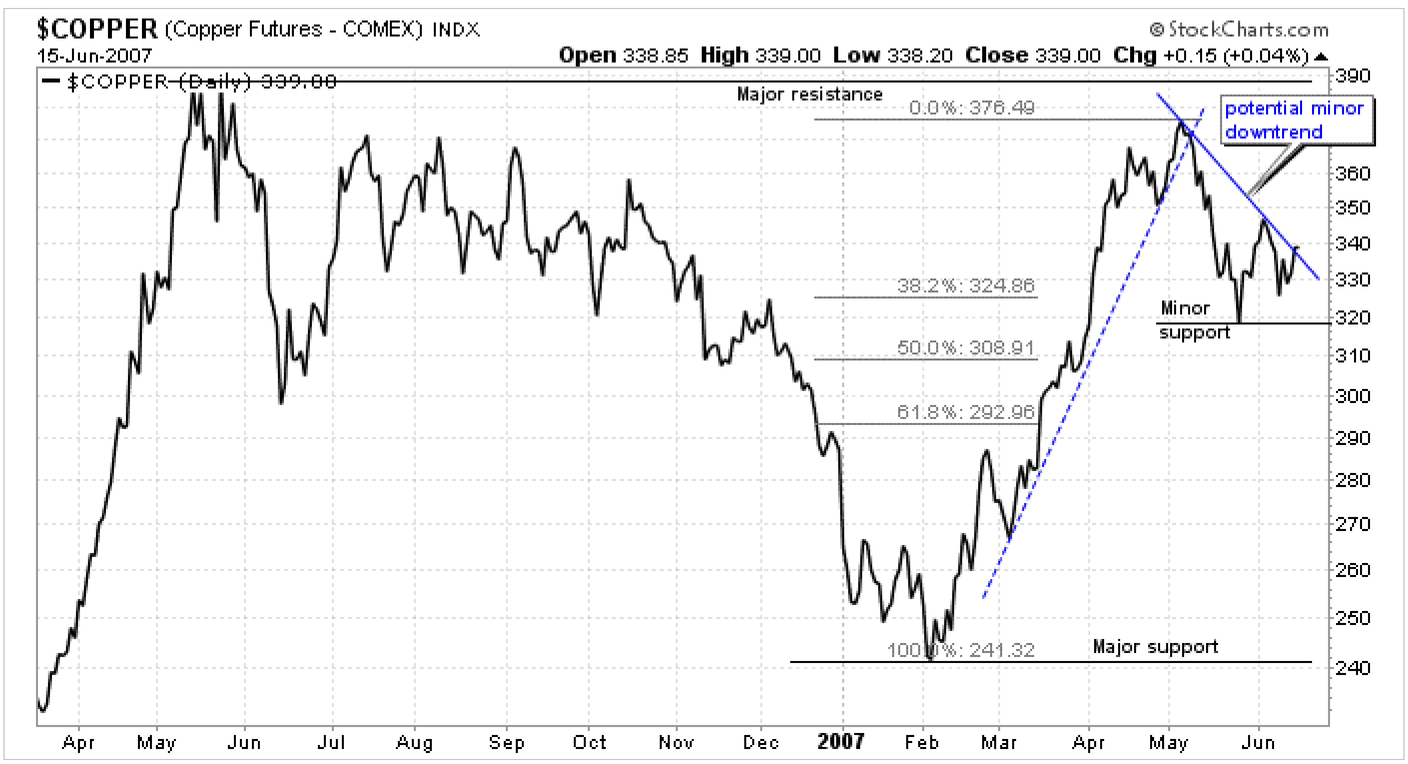
The daily chart of Silver is still showing a potential symmetrical triangle. The lower line of that pattern has not given way despite several attempts over the past week or so.



The daily chart of Aluminium shows that this industrial metal has also not been able to break rising support.



The daily chart of Copper shows a potential breaking of what had shown up as a potential minor downtrend line last week.



The commodities charts that we've looked at today seem to be painting the picture of a potentially lucrative summer for the bulls in those sectors. What, if anything, do these developments mean for the inter-market relationships between this asset class and the others, including stocks?

In time, we'll know the answer to that question.

Not to be left out, the currency and bond markets also threw their hats into the ring this week…

We'll start with a couple of currencies…

The US Dollar Index broke out above the important support/resistance level of 82.5 this week, after having failed to do so during several attempts made a couple of weeks ago. Currently, the index is sitting up against the declining trendline that has troubled it for well over a year.

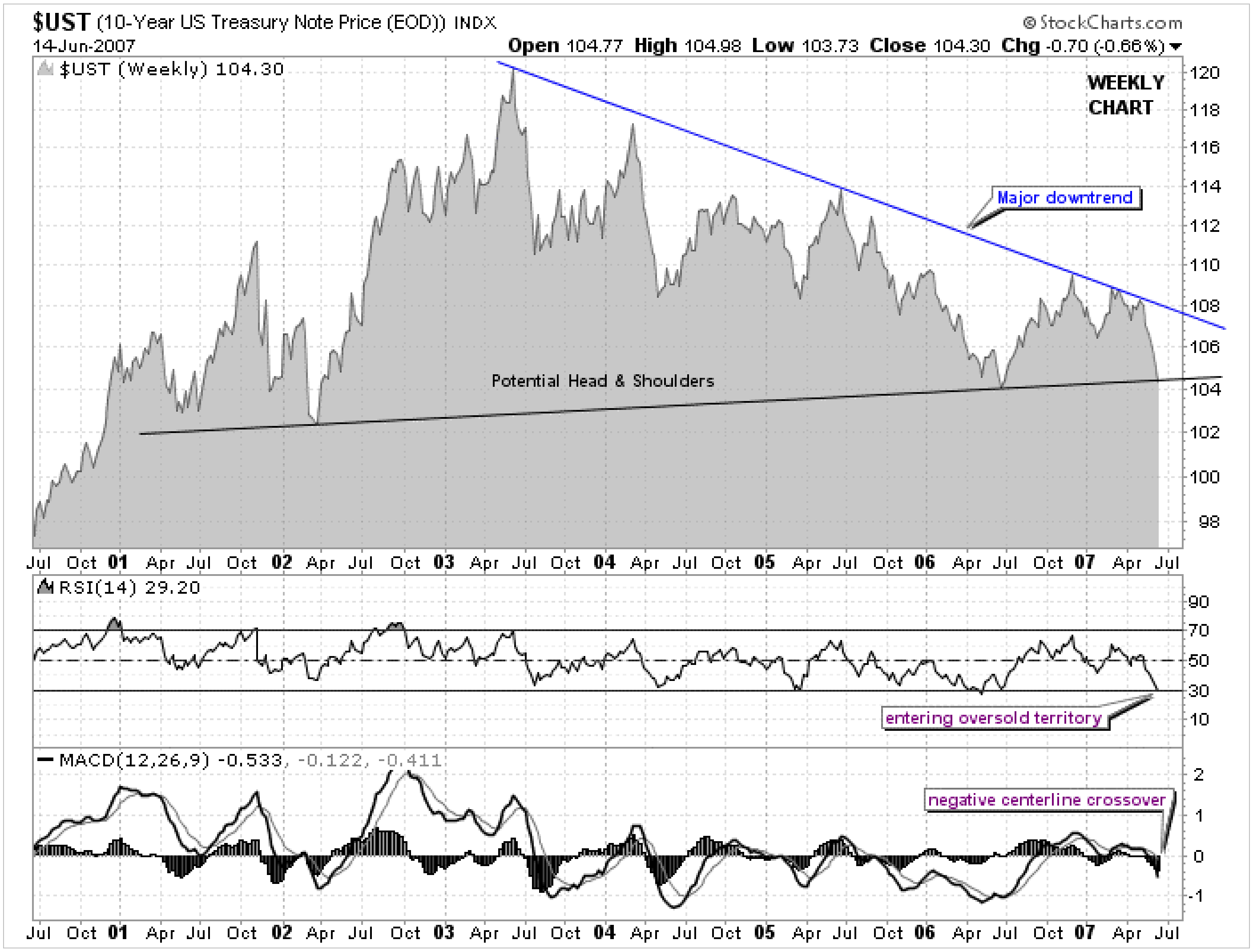
MACD has made a positive 0-line crossover for the first time in a few months and if price can break the aforementioned downtrend line, all hell may just break lose. (Dollar bears have been a dime a dozen, of late, as you probably well know)

The Japanese Yen broke support, which was at 82, this week. That support had been in place for over 4 years.

We'll wrap things off for the week with a look at the 10-year Note…

The **Ten-year US Treasury Note** continued its major downtrend with a small loss this week. Weekly RSI has entered oversold territory and, therefore, contrarion thinking might be that it is time for a rebound. However, what is more compelling is the fact that price is now sitting precisely atop a gently rising support line that might be seen as the neckline of a potential Head & Shoulders pattern.

That pattern has been 7 years in-the-making. So, if it is indeed legitimate, it signals a potentially ominous increase in yields over the coming years.



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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The newsletter is not only your source for market analysis, each week, but also for special offers and announcements from TheMarketMessenger.com.

Have a great trading week! Like we mentioned earlier, we should be sending you a special edition of *Purely Technical* before the coming week is over. So keep a close eye on your Email Inbox…

Sincerely,

Asher Pinto
www.themarketmessenger.com

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