

This Newsletter will continue to be Available for FREE!

Dear reader,

Please note that the Purely Technical newsletter, provided to you by TheMarketMessenger.com, will continue to be available to you for Free.

There are currently no plans to make this newsletter available on a paid subscription basis only. If this were ever to change, we would let you know well in advance. This clarification has been provided based upon a couple of pieces of Email that we have received over the past weeks asking us about the same.

The Team at TheMarketMessenger.com

Over Fifty New Chart Setups for Your Scrutiny

Please find over fifty new chart setups that we have made available for you at our public listing at Stockcharts.com. The following is the link to the Purely Technical Public Listing at Stockcharts.com

The Big Picture - Stocks

Quite a week we had there!

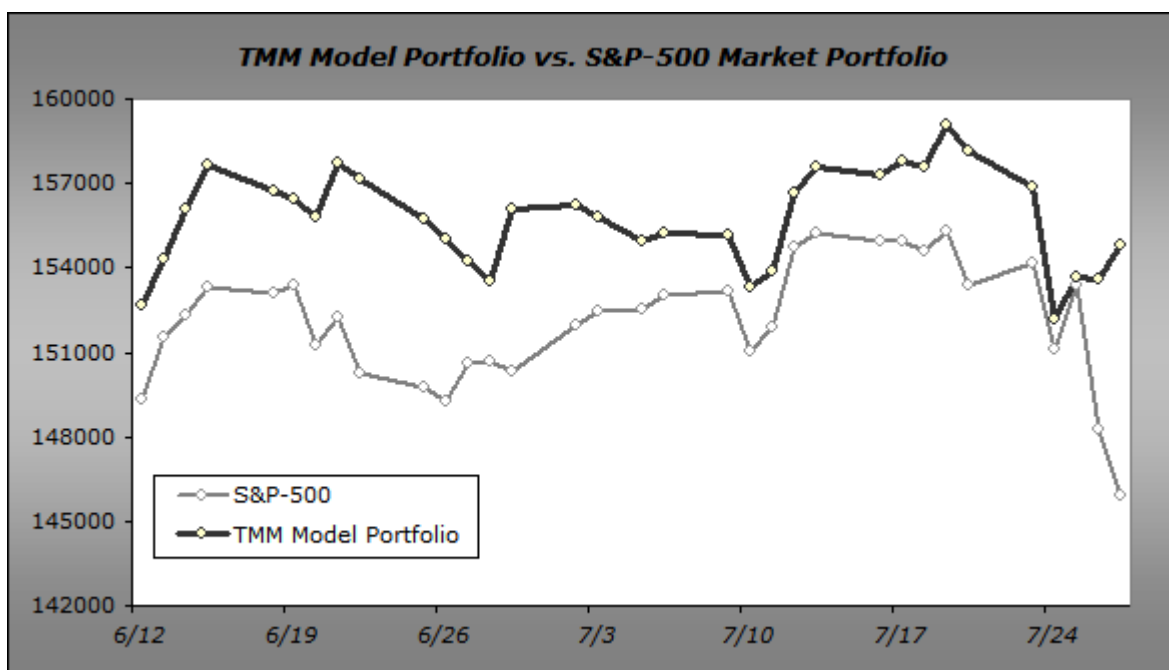
For the nimble-footed, it was a week of great opportunity.

For those who had speculated and gone short before this week, the roll of the dice has paid off handsomely.

For those who have been cautiously bullish and either maintained a passively defensive outlook (using efficient trailing stops) or a proactively defensive outlook (using protective put options), their strategy has paid off as well.

At TheMarketMessenger.com, we followed a nimble-footed strategy with our Trading Picks and have quite a few winners to show for it.

In our Model Portfolio, we followed the proactive version of the third strategy listed above and things have worked out rather well.



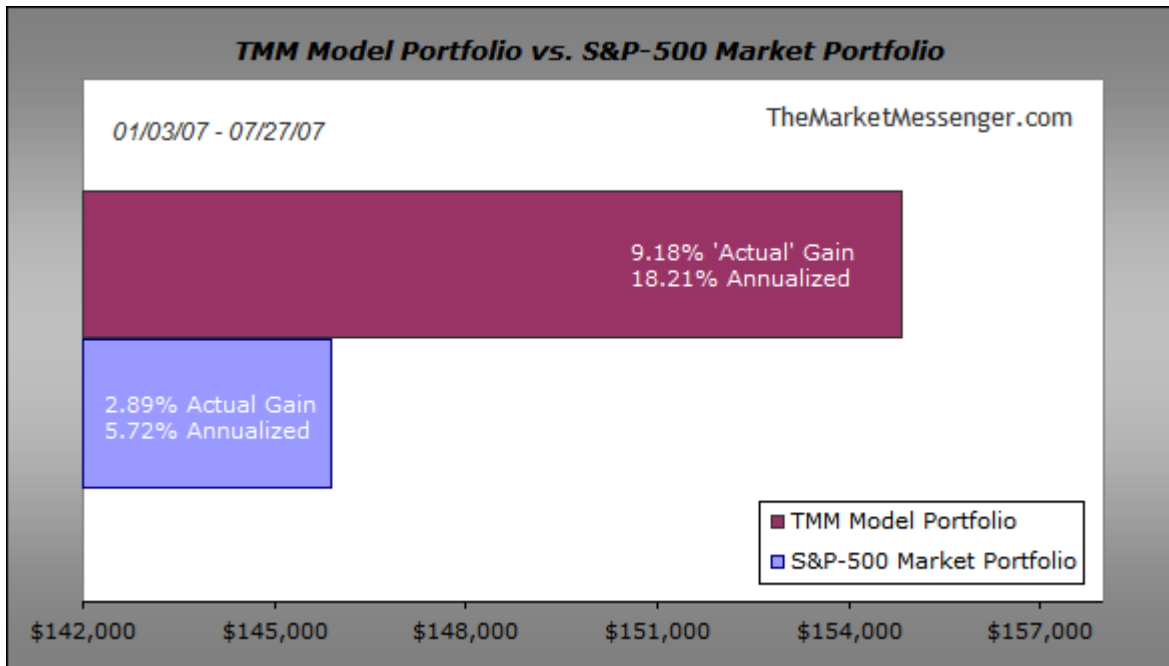
Would you believe that **the Model Portfolio has gained in value** - by 0.75% - over the past two trading days (a period during which **the market indices have lost** around 5%)?

What's more is that the model portfolio is now perfectly hedged. In other words, the market can continue to get whipped and our portfolio would not lose in value; it might even gain.

More about this in the Model Portfolio Strategy Update available in the Members Area of our website. The diagram on the previous page represents the progress of the Model Portfolio and that of the S&P-500 between June 12 and July 27, '07.

The next diagram represents the gains in the Model Portfolio and those in the S&P-500 index, since the inception of the latter at the beginning of this year (the hypothetical portfolio started at a value of \$141803, which was 100 times the value of the SPX as of the first trading day of the year).

They are now worth \$154819 and 1458.95, respectively.



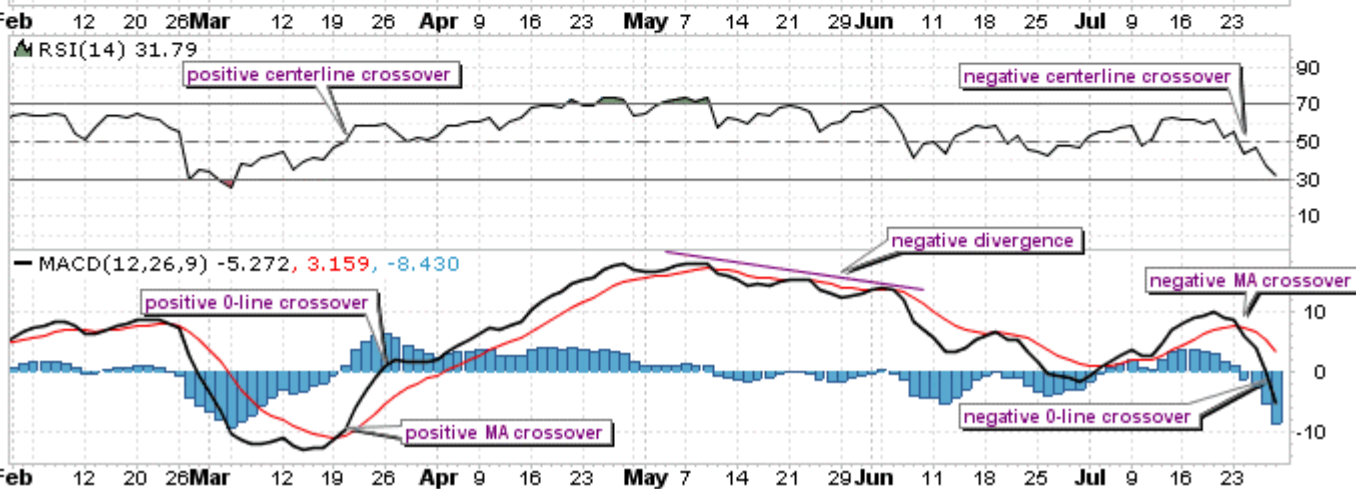
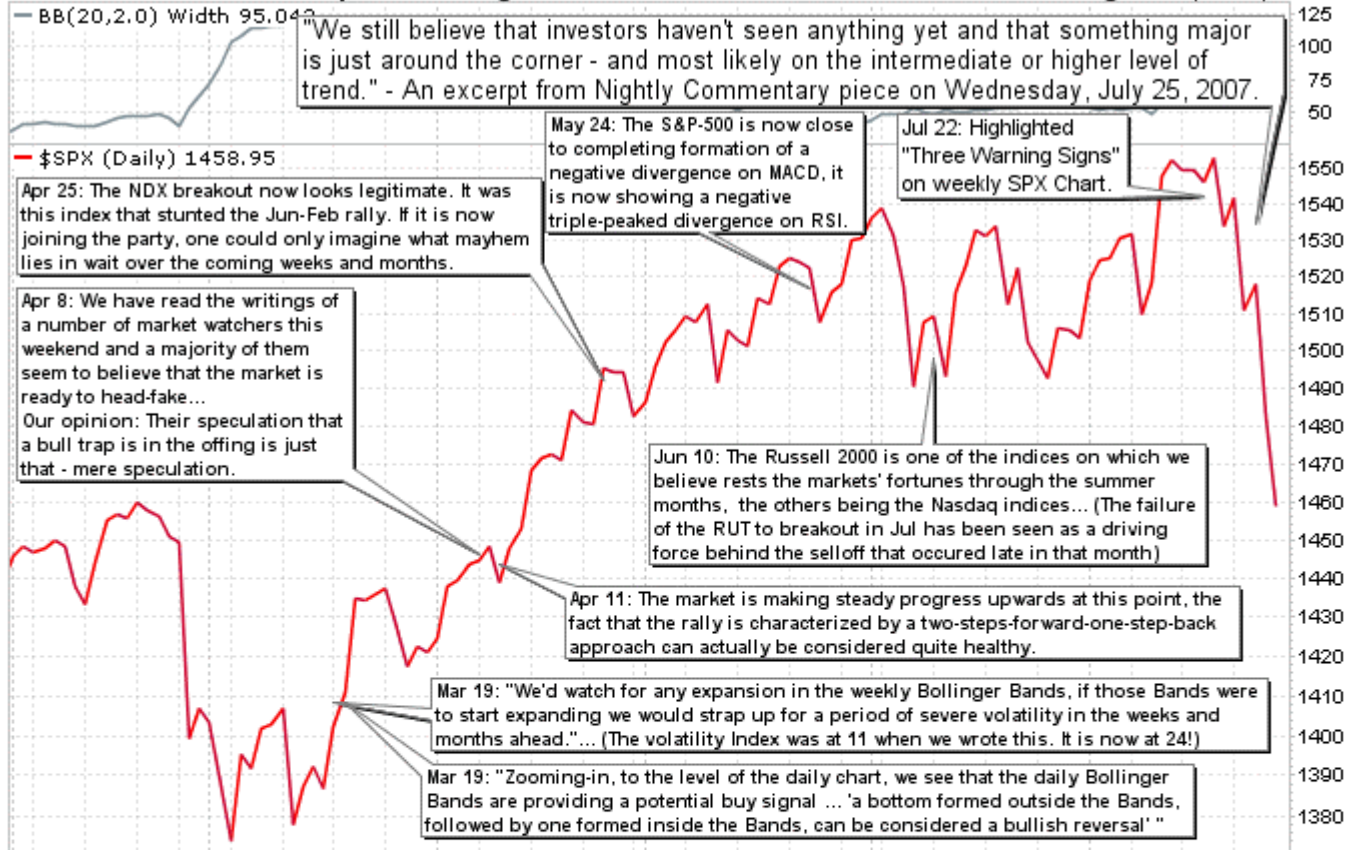
On the next page is a chart that provides a quick overview of our mindset - as seen through several quotes (some paraphrased because of space constraints) in our Nightly/Weekly commentary pieces - during various phases of this intermediate market cycle.

\$SPX (S&P 500 Large Cap Index) INDX

© StockCharts.com

27-Jul-2007

Open 1482.44 High 1488.53 Low 1458.95 Close 1458.95 Volume 3.9B Chg -23.71 (-1.60%)

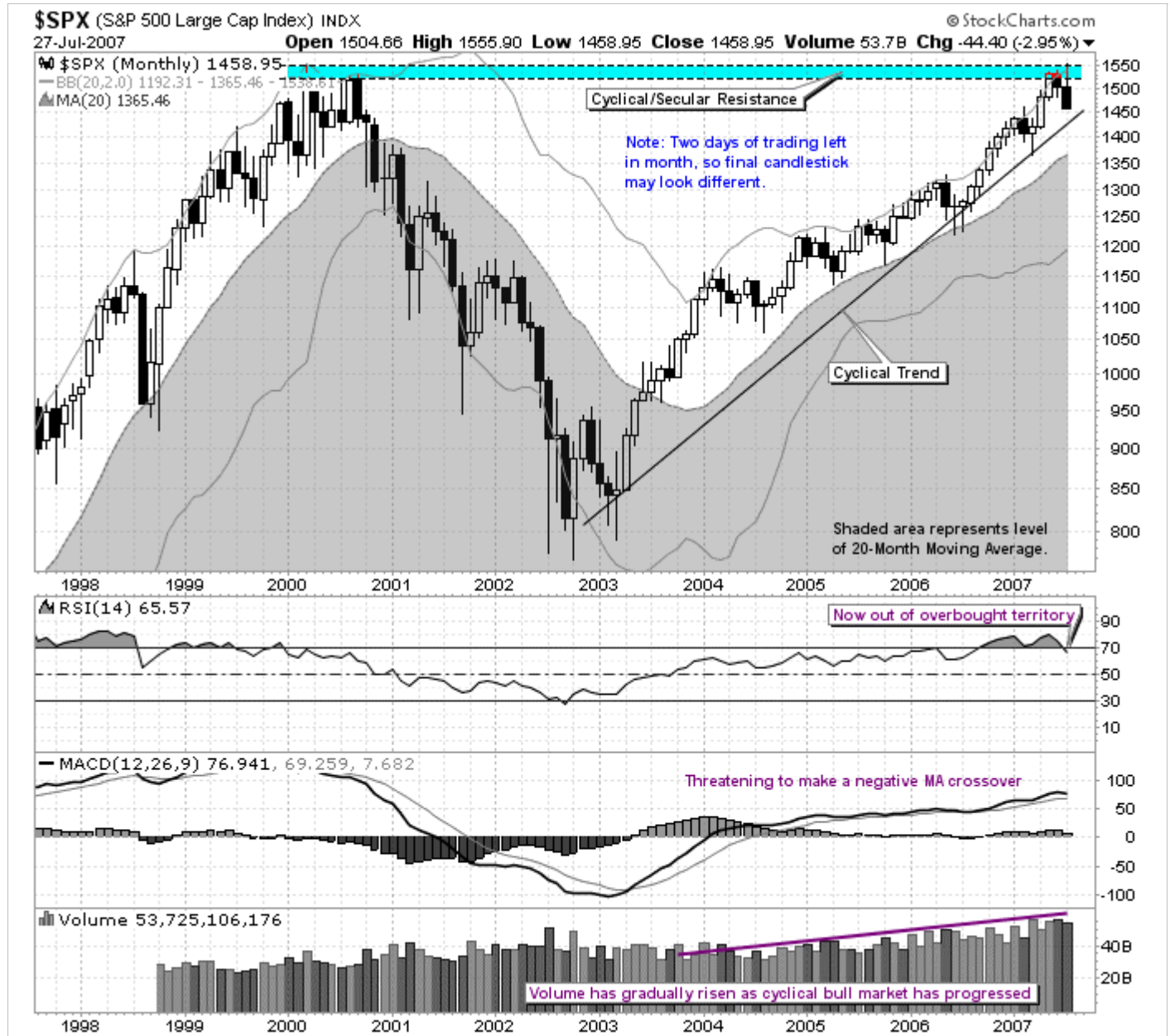


Overall, we've maintained a rather cautious approach and that outlook has helped tackle some of the effects of the volatility that the market has been throwing at traders.

But that's the past, now let's see what the charts are telling us to look forward to in the coming days and weeks.

We'll start with the S&P-500 and will dissect each level of trend through a top-down approach, starting with the monthly chart and ending with the hourly.

The monthly chart of the S&P-500, showing that the secular trend is still neutral...



If you want pictorial proof of the significance of support and resistance on the secular trend, then the chart above would be what you are looking for.

Despite the momentum that the index had running in to the area of resistance, its flirtation with it lasted only a few days. The month has not ended as yet, so it remains to be seen whether the cyclical trendline is tested or not.

Unless a strong rally were to eventuate over the next two days, RSI will have moved out of overbought territory on this level of trend and MACD will be threatening to issue a weak sell signal - in the form of a negative MA crossover - on the cyclical trend.

That will be HUGE, if it happens!

The weekly chart of the S&P-500 index, showing a correction on the intermediate trend...



The weekly chart shows a potential breaking of the major trend line (drawn ignoring candlestick wicks). Price is now testing the major level of 1460, which we have said for many months now is the level that is crucial for the longer-term trend.

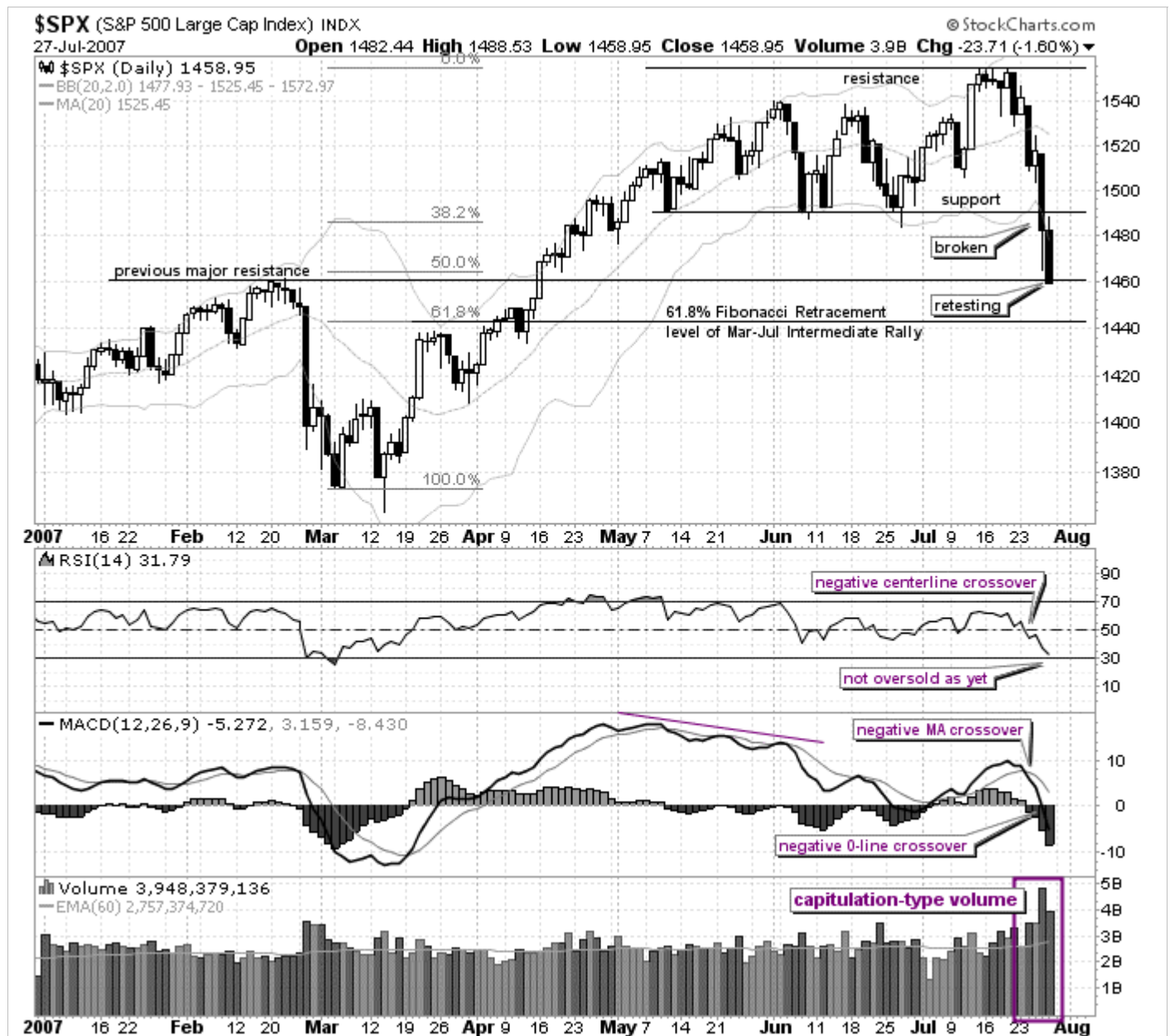
Any breaking of 1460, does not immediately threaten a change in the major trend to bearish. In order for that to happen, major support at 1375 needs to be broken.

Last week, we'd highlighted our "Three Warning Signs" chart. That chart hinted at the possibility of trouble in paradise. As you can see from the chart above, all those three signs have now been confirmed...

Bollinger Band Width has peaked, MACD has completed a negative divergence and RSI has also completed a negative divergence. Moreover, RSI is now also showing a negative centerline crossover.

We'd stop short of saying the markets are doomed, after all we may just have moved too far, too quickly, but we will look for more evidence, starting with what might be seen in the next chart.

The daily chart of the S&P-500 index, showing a bearish minor trend...



This chart accurately depicts the carnage seen over the past few trading sessions.

In a nutshell, the minor trend is bearish and this decline is a correction on at least the intermediate level of trend.

This outlook comes from the fact that various minor and intermediate support levels have been decimated, volumes have been showing up at capitulation-type levels and the momentum indicators have made negative centerline crossovers.

Interestingly, the momentum indicators have not gotten oversold as yet. Until or unless RSI and/or MACD show oversold readings on the daily charts, it would take some prognostication to call for a rebound that lasts for more than a day or two.

For the moment, we'd look with interest at the level of 1443, which shows up as the 61.8% retracement level of the Mar-Jul rally, for a potential level at which the markets might be oversold enough to possibly eke out a 1-3 week rebound.

Now, don't get us wrong, we're not trying to tell the market what to do or anything like that. Do not forget, here at TheMarketMessenger.com, *We Have Ears on the Markets*.

We're simply stating facts that are being told to us by the charts.

Delving deeper into the trend structure...

The hourly chart of the S&P-500 Index, showing us oversold conditions on the minor trend...



The 60 minute charts show us an astonishing fact, at least for anyone who follows the hourly charts of this index.

The SPX was actually able to decline 70pts (5%), before it showed up as being oversold on this chart. For purposes of comparison, take a look at what happened on the extreme left of chart. Back in early-June, the index was oversold on the hourly charts after it declined only 30-35pts.

The reason for this discrepancy is the apparent orderliness of the recent decline.

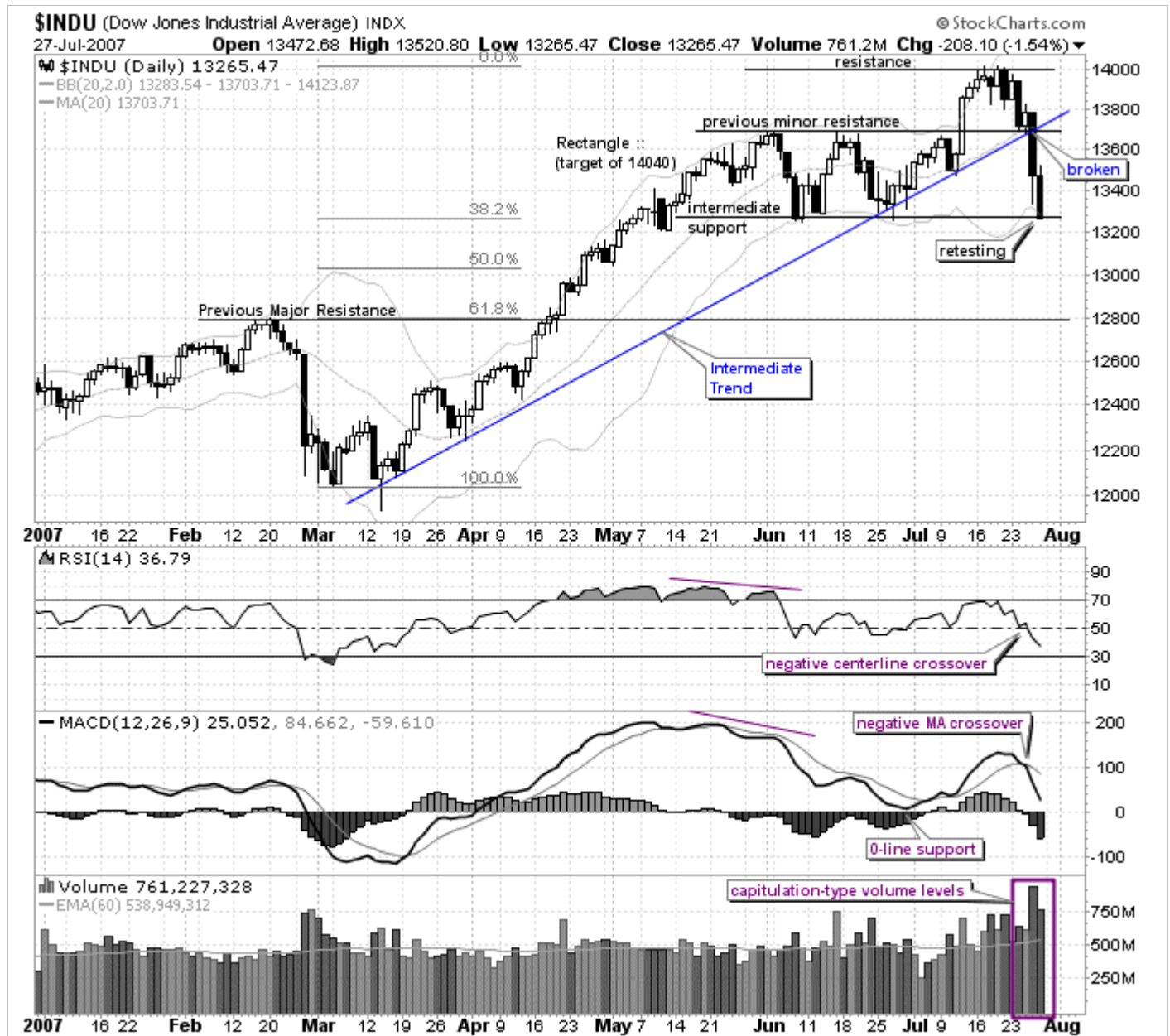
Yes, you did not read that wrongly.

What we mean when saying the decline has been orderly is that the markets have not gone straight down tick-by-tick, but rather have made a sub-minor retracement after each bout of selling within the minor downtrend. For those who know how momentum indicators work, this is an easy concept to follow.

Getting back to the charts, we also see that hourly MACD has not yet provided a positive MA crossover. Such a development taken together with a breaking of the downtrend - possibly together with a positive divergence - on RSI, would be the first signal of a short-term rebound.

Such a rebound should only be considered as a correction on a bearish minor trend, until other facts come about.

The Dow Jones Industrial Average...



INDU is now testing the support line of the rectangle that had showed up on the charts between May and June.

This is a remarkable turnaround, because the index was at this same level a month ago and in the interim has rallied, broken out above resistance, then virtually reached the target (of 14040) from the rectangle before turning around and retracing its steps.

RSI and MACD show preliminary and confirmed bearish signals on the minor trend, but have still not reached oversold territory, so there is room for further selling, perhaps to 13000 or so, which is the 50% Fib retracement of the Mar-Jul intermediate rally.

The Nasdaq-100 index...



Unlike the two indices seen earlier, the NDX has not as yet broken its intermediate uptrend line. Therefore, although the minor trend is now clearly bearish, the intermediate trend is still showing up as bullish. In fact, the index hasn't even reached the first Fibonacci level of significance (38.2%), so far.

However, if RSI and MACD are to be believed, the best (or worst, depending on your perspective) is still to come!

The Nasdaq Composite...



The COMP has already passed the 38.2% Fib level of the Mar-Jul rally and is coming upon the 50% Fib (at 2530), which is also a crucial support level. That level was major resistance in April, after which it provided support to the minor trend for nearly two months.

The bulls will want to defend that level with all they have got.

Do not forget to check out the **Fifty+ Chart Setups** that we have provided at the [Purely Technical Public Listing at Stockcharts.com](#)

We hope that you find these charts useful. Remember, there are many others, complete with all technical descriptions, potential trading parameters and comments, available in the Members Area of our website – [www.TheMarketMessenger.com](#)

Sincerely,

Asher Pinto

[TheMarketMessenger.com](#)

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