

Warning Signs Courtesy the Financial Sector

The following is the 'Nightly Commentary' piece that was presented to members of TheMarketMessenger.com after the trading session on Oct 18th...

Thursday, Oct 18, '07:

Good evening,

Over the past few days, the charts have been showing signs that have been making us a little uneasy. We can't quite put a finger on it but they seem to be providing subtle signs of something lingering under the surface.

Is it just a psychological thing, associated with the 20-year anniversary (Oct 19) of the '87 crash? No, don't think so. Here at TMM, we're not big believers in the self-fulfilling prophecy.

Is it the fact that the S&P-500 continues to have trouble with secular resistance in the area around 1550? Could be... Remember, during the bear market of the 60s/70s, each cyclical rally stopped within a few percentage points of secular resistance - at around 1000 on the Dow (the most significant index of the time). So that's one possible reason for this uneasiness...

Is it the fact that it is getting harder and harder to find individual stock charts that are showing clear-cut setups (unless one's willing to go long stocks that have, in some instances, gained 60% in two months)? That is definitely a factor.

Is it the fact that everywhere one turns it seems like there is an analyst calling for higher highs and looking to raise his/her target on a stock? Yes, that's another factor that is contributing to the current mindset of the contrarian in yours truly.

Is it possible that this is much ado about nothing? Sure, that's possible. But just in case, we'd like to leave you with a few charts from the financial sector...

The first one is that of the DJ US Financials Index, which has broken a bear wedge today and is showing a negative centerline crossover on RSI and a negative MA crossover on MACD. As can be seen from the chart, the index is once again under the crucial level of 560.

The rest of the charts are those of individual stocks within this all-important sector.

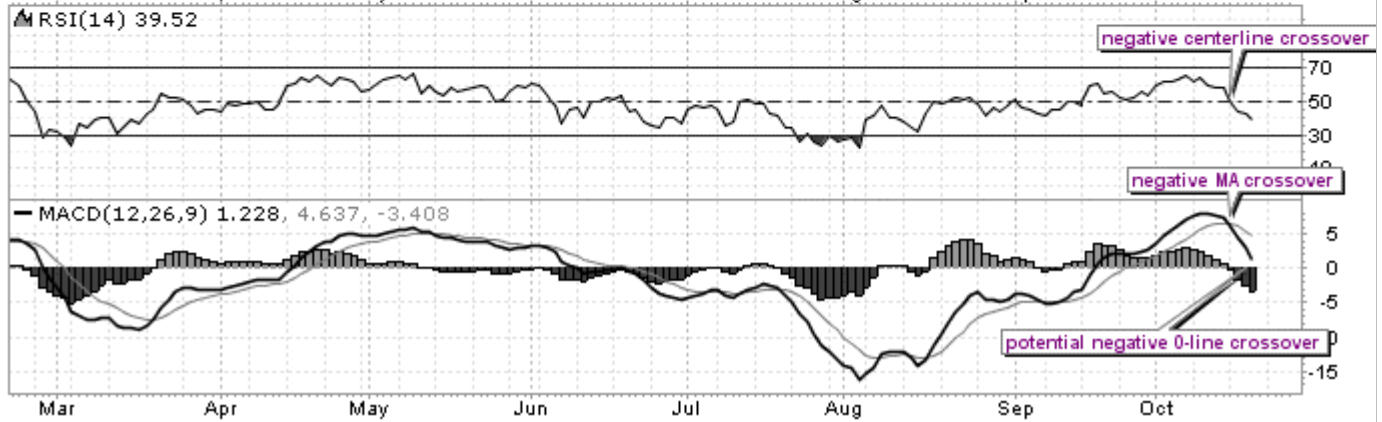
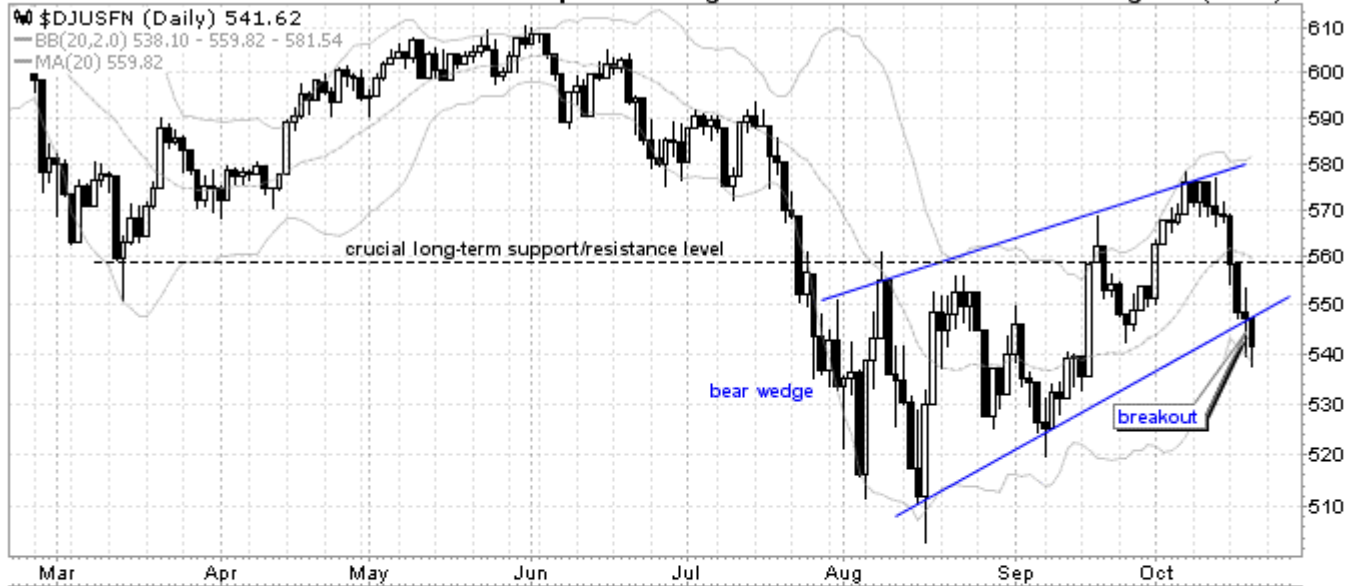
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\$DJUSFN (DJ US Financials Index) INDEX
18-Oct-2007

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Open 547.21 High 547.21 Low 537.59 Close 541.62 Chg -5.59 (-1.02%)



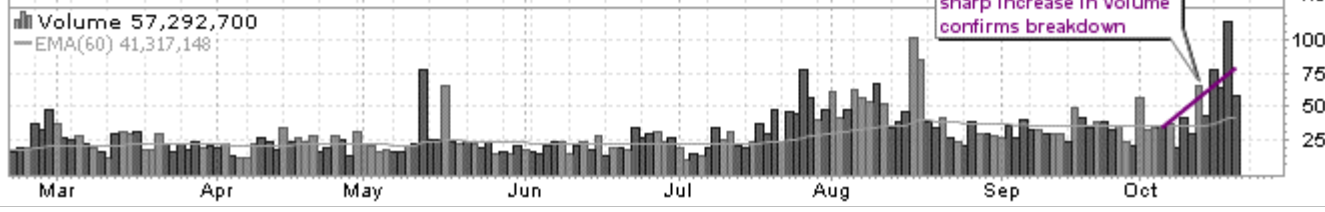
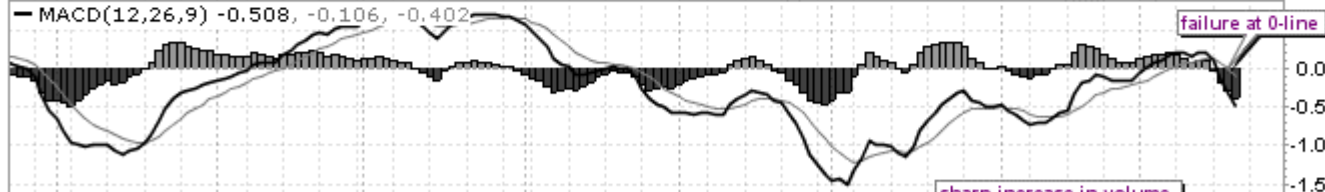
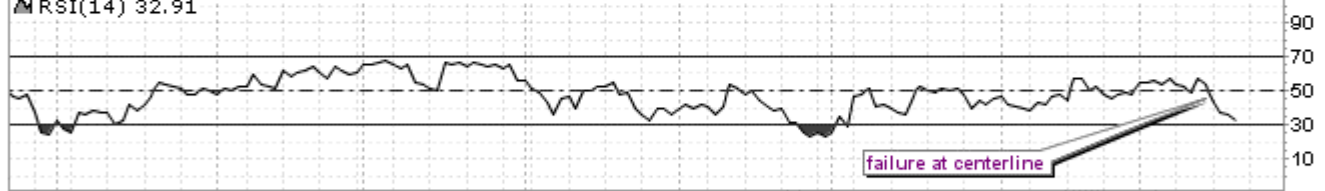
C (Citigroup, Inc.) NYSE
18-Oct-2007

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Open 44.09 High 44.42 Low 43.75 Close 43.83 Volume 57.3M Chg -0.83 (-1.86%)



Mar Apr May Jun Jul Aug Sep Oct

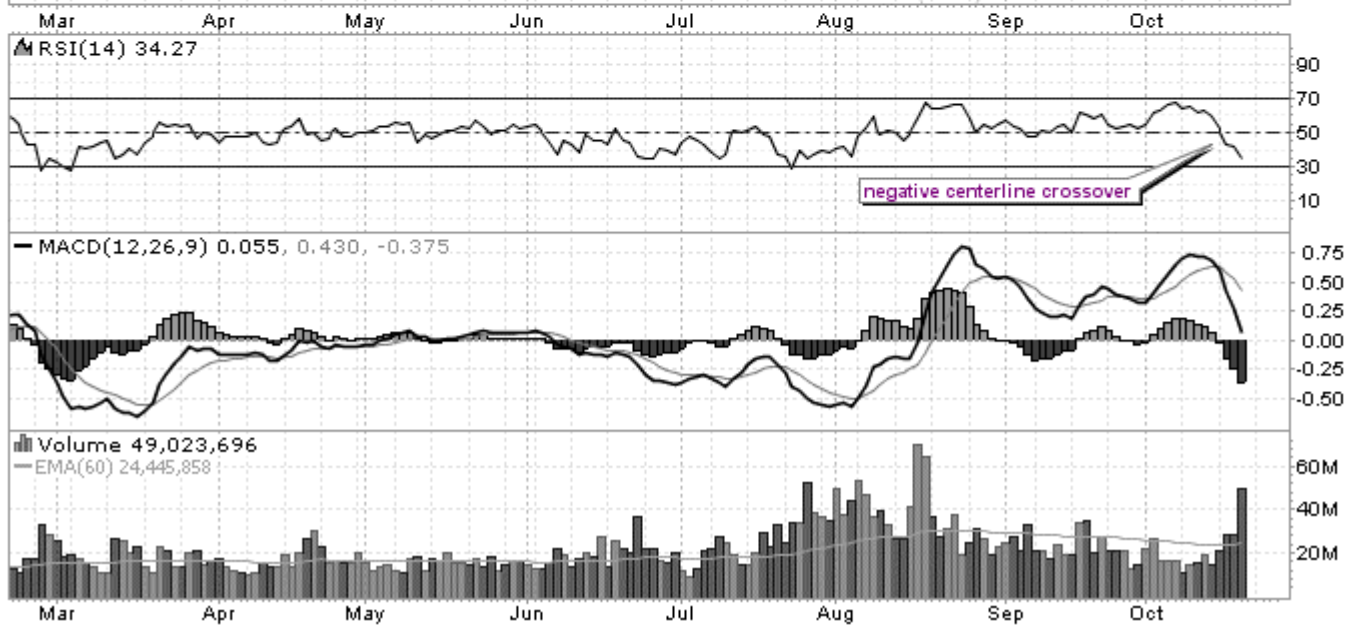


Mar Apr May Jun Jul Aug Sep Oct

BAC (Bank Of America Corp.) NYSE
18-Oct-2007

© StockCharts.com

Open 48.44 High 48.98 Low 47.76 Close 48.85 Volume 49.0M Chg -1.18 (-2.36%)

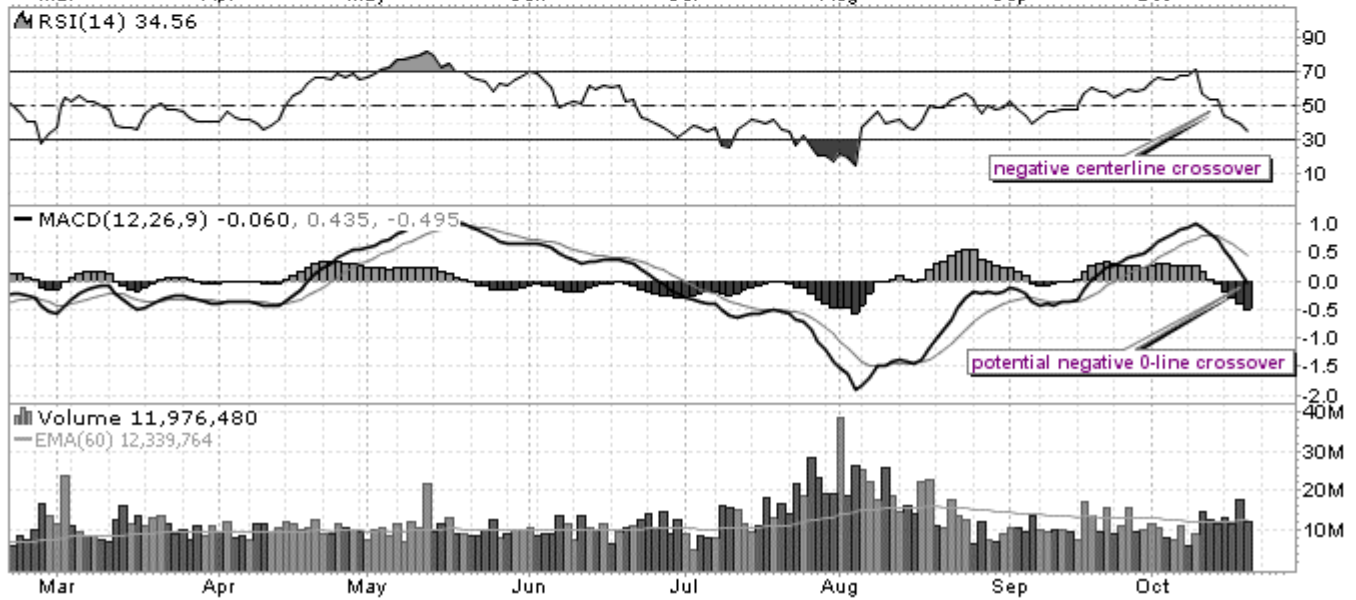
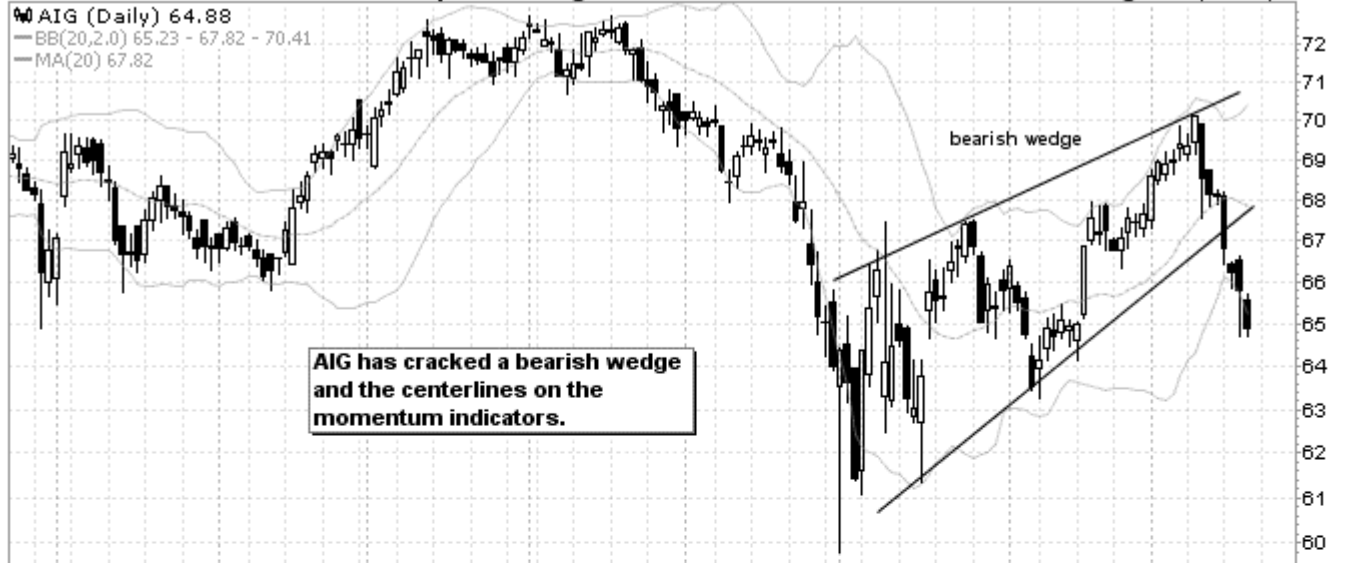


AIG (American Intl Group, Inc.) NYSE

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Open 65.55 High 65.71 Low 64.70 Close 64.88 Volume 12.0M Chg -0.92 (-1.40%)

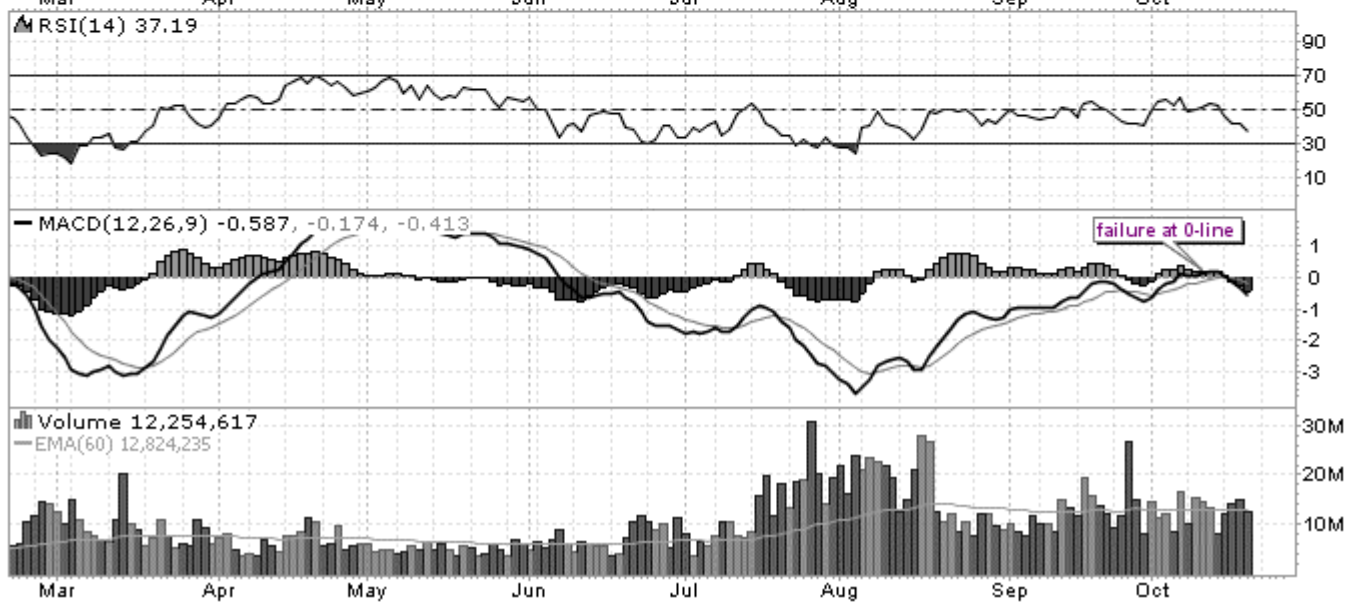


MER (Merrill Lynch & Co., Inc.) NYSE

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Open 70.86 High 71.19 Low 69.95 Close 70.07 Volume 12.3M Chg -1.56 (-2.18%) ▼

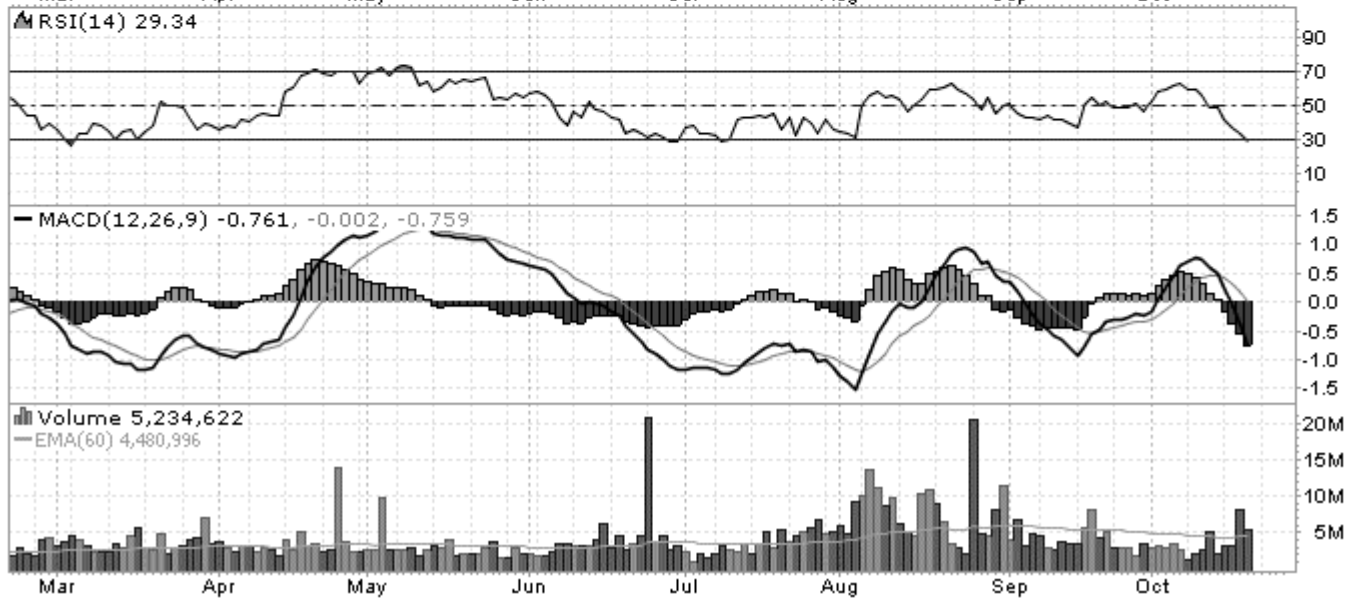


FRE (Freddie Mac) NYSE

18-Oct-2007

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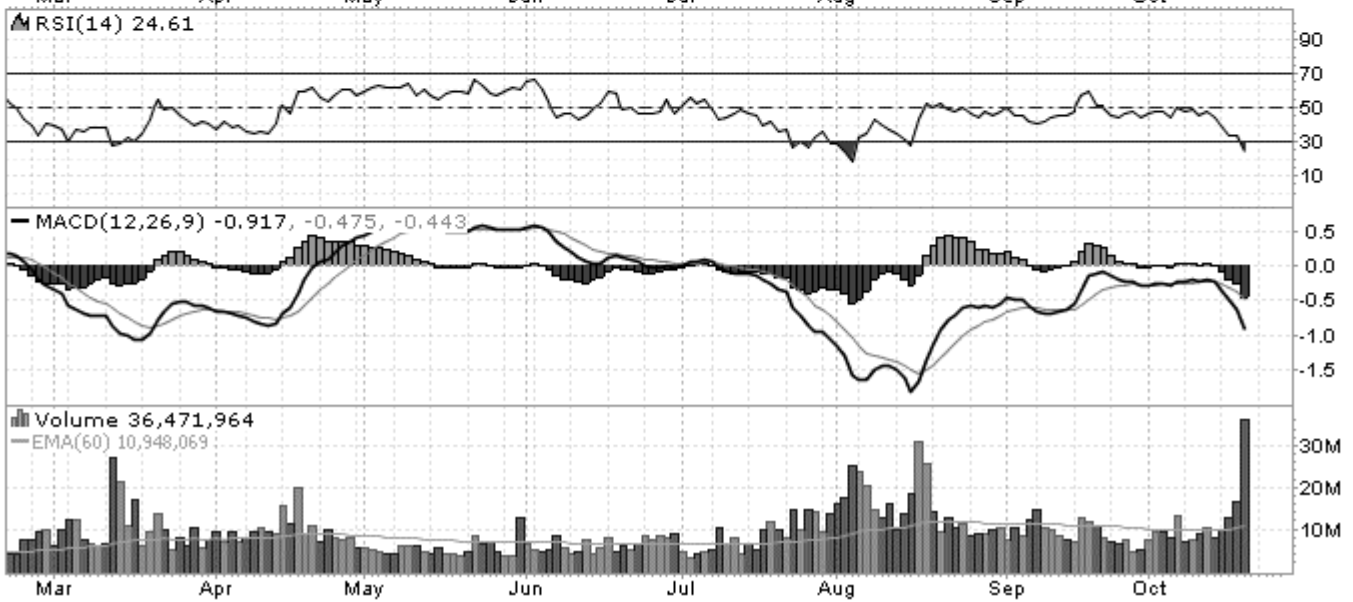
Open 56.06 High 56.09 Low 54.35 Close 54.70 Volume 5.2M Chg -1.52 (-2.70%)

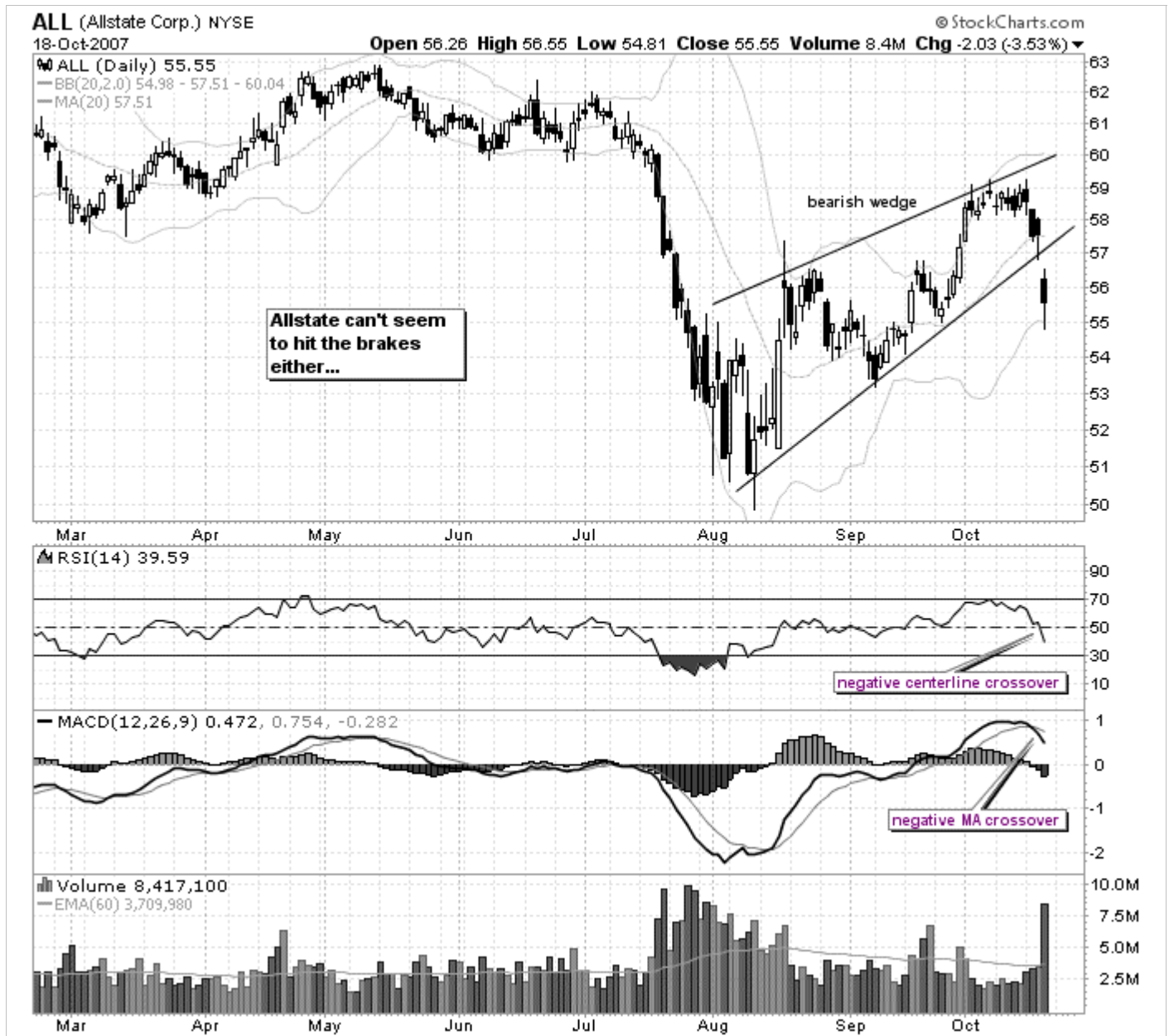


WM (Washington Mutual, Inc.) NYSE
18-Oct-2007

© StockCharts.com

Open 30.75 High 31.40 Low 30.00 Close 30.52 Volume 36.5M Chg -2.55 (-7.71%) ▼





So there you have it. There's been some really ugly price action in this sector, which as we all know, often leads a market turnaround. Will that hold true in this instance as well? We shall soon find out.

At TheMarketMessenger.com, we're going to let things settle down a little bit before we get too aggressive on the bullish side. We continue to maintain the view that having an appropriate amount of portfolio protection in the form of index puts is probably going to do more good than harm at this juncture. One never knows, and it's always better to be safe than sorry...

Goodnight and good luck with your trading!

Asher Pinto

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