Financial Research, Education & Data

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November 2011
Charts as of 10/28/11

The FRED Report – Monthly Review

Research Piece for November: A Look at Energy

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Summary of Monthly Piece

ASSET CLASSES:

STOCKS:

Rating the three Market Principles:
As readers know, we break the stock market down into three basic market principles: (a) Sentiment, (b) Internal Momentum, and (c) External Momentum. I will review these here.

Sentiment: We use two indicators to measure sentiment. These are options activity and certain sentiment polls. For options, we use total CBOE volume and take the figure directly from the CBOE website. For our sentiment poll numbers, we prefer using % bears from Investors Intelligence. We use only the % bear's number because, in our opinion, the bears almost always take action. It is rare to find a complacent bear. Sentiment is what we call a "Condition Indicator". By this we mean it has nothing to do with timing trades – rather it is part of the overall mosaic of market activity.

Our current reading of the sentiment indicators is POSITIVE. Sentiment has improved. The Put/Call indicator remains elevated in spite of the speed and strength of this rally. Investor's Intelligence % Bears Readings gave a buy signal in September and has continued to remain elevated (the last was 37.90%). Our model has continued to rise as recent strength has unfolded, and is now at the highest levels we have seen since May of 2009. Anecdotal sentiment suggests that few investors are in and invested, and it is certainly possible that we will see some "performance chasing" into the end of the year.

Internal Momentum: We use several Breadth indicators to measure internal momentum. We publish three indicators in this Monthly Review: the McClellan Oscillator, an Indicator of New Highs on the NYSE vs. New Lows, and our own breadth oscillator – called **Fred's Breadth Oscillator**, or FBO. The McClellan gives great trading signals, while the last two are also "Condition Indicators".

Our current reading of the internal momentum indicators is POSITIVE. The weekly or intermediate FBO has rallied. The daily FBO made a divergence bottom, and supports a further rally. New Highs/New Lows declined sharply, and made a divergence bottom. Now new highs are exceeding new lows. These numbers have improved enough over the last two weeks to suggest this is the start of an intermediate-term uptrend. The McClellan Oscillator is overbought, a minor concern – we believe this is a "good" overbought, confirming the other indicators. Some consolidation is certainly possible, but it would not surprise us to see the stock market rally strongly from here without a meaningful pullback.

External Momentum: We use several price indicators to measure this, and these are primarily tactical indicators. We use the 5 and 20 period moving averages, and a simple crossover to determine trend. We use Stochastics, another standard indicator, to measure overbought/oversold levels, or as we prefer to consider them, areas of risk and reward. The one criticism of Stochastics is that they are too sensitive, so we also have our own Price Oscillator we publish, called **Fred's Price Oscillator, or the FPO**.

Summary of Monthly Piece…..continued

Our current reading of the External Momentum indicators is NEUTRAL/POSITIVE. Short -term Stochastics have moved to overbought, and weeklies are moving up as well. The FPO's have moved up in the rally, and the weekly FPO is overbought. The daily pattern is favorable, and we believe this is a "good" overbought, but it is a caution flag

CONCLUSION: Last month, we noted that indicators suggested a bottom was forming, and this seems to have occurred. This has led to a strong rally that should carry into the end of 2011, and possibly longer.

FIXED INCOME:

Treasuries have been much strong than we anticipated, but now are weakening sharply. For now, U.S. government bonds look weak and could weaken further. Accumulation models on the TLT have improved, but daily moving averages have gone negative for the first time since July. At the same time, our preferred area (high grade corporate bonds) has improved, making new highs. We believe these trends can continue. HYG continues to trade along with stocks, and we suggest a switch to PHB for those who want to dampen volatility.

COMMODITIES:

Integral to our longer term strategic view of the markets is that we have entered an era of commodity inflation. Recent volatility has been challenging, however. Gold hit and exceeded our old objective of $1890/oz then metals dropped sharply. Our new 10-month target for gold is $2100/oz or 210 on GLD, whichever occurs first. After the sharp drop from $1890/oz, we moved to an equal weight on gold – and continue to caution against silver. We have seen, once again, that when silver leads, metals get into trouble. There is a strong seasonal tendency for the Petroleum Complex to rally in the winter, and we advocate overweight energy and energy stock positions at this time. We remain long-term commodity and inflation bulls, and look for a strong end to 2011 in these markets. Even if the economy weakens, which we do not expect, commodities should still outperform stocks.

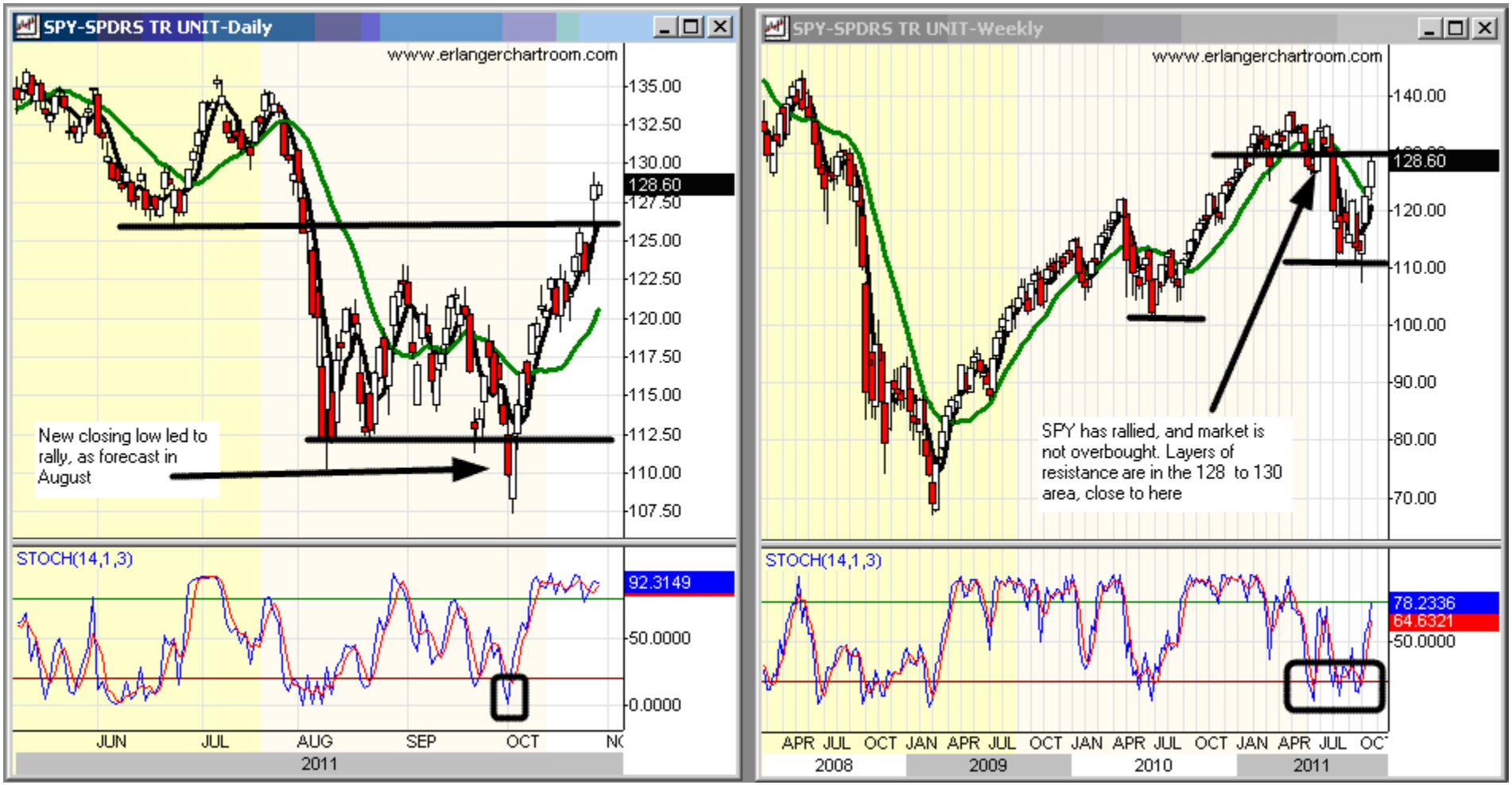
INTERNATIONAL:

International markets still look weaker short-term than the U.S. market. Emerging Markets have been volatile, but continue to look weaker than Developed Markets – and we suggest de-emphasizing international. The Euro is all over the place, as is the Dollar. The FXY is close to our 131 objective, and as Japan intervenes, the dollar should rally. Australia has declined into support, and remains an interesting alternative to the metals. FXA has traded along with GLD, as expected, and GLD is breaking out of a short-term base. Should commodities resume their rally, the Australian currency and market should continue to benefit, even if the US dollar rallies.

SECTORS:

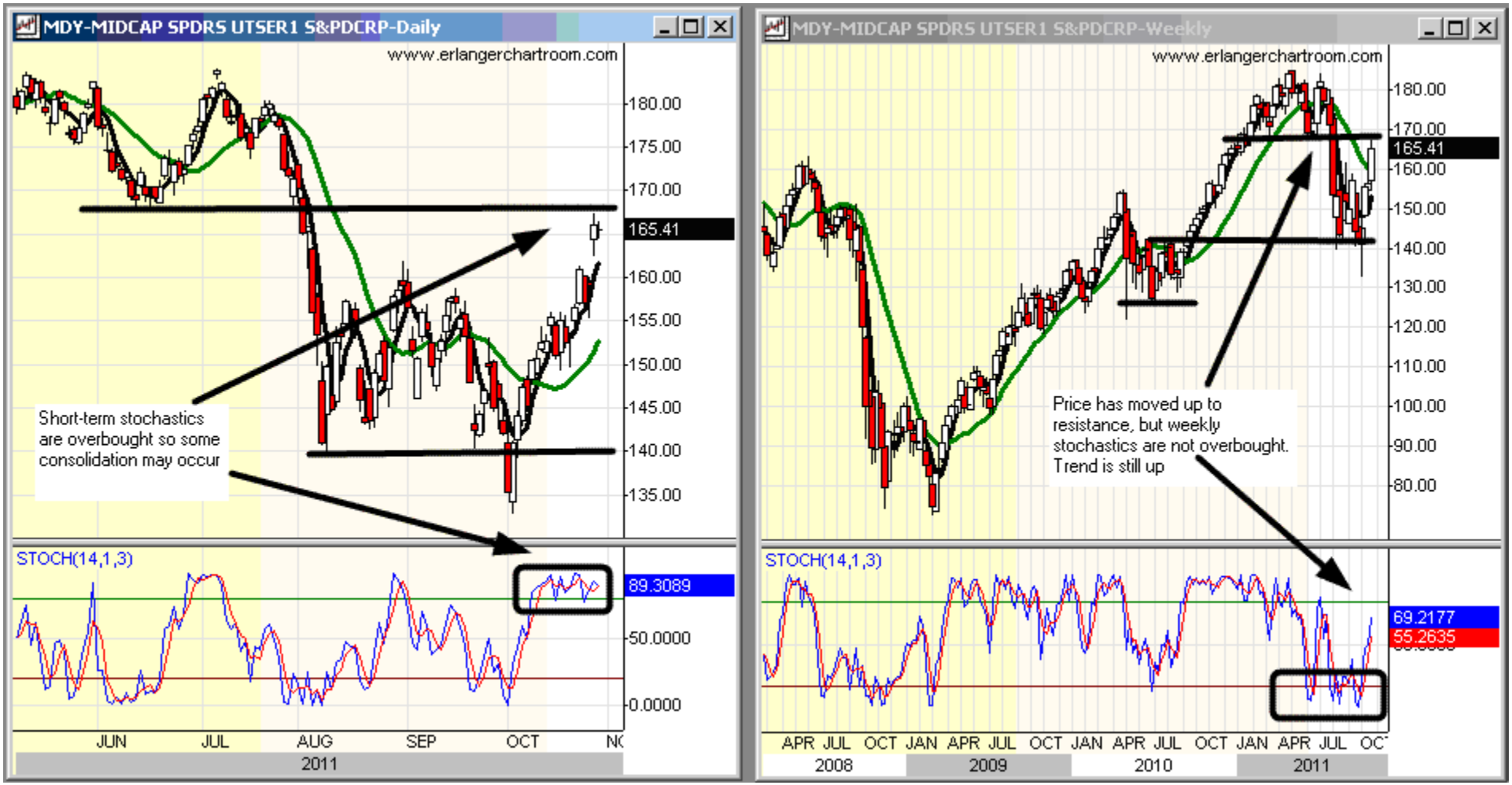
We have two over weights, the XLE (ENERGY) and IYW (Technology). Our two under weights are XLU (Utilities) and XLF (Financials). Our favorite DEFENSIVE sector remains Staples (XLP). Energy is showing more signs of strength in our accumulation models, but is weaker on a price basis. This sector normally improves in late October through the winter – NOW, in other words. **Energy and Technology were mentioned in Barron's (October 31) as institutional favorites, so they could see substantial inflows over the next few months**. We note that financials have rallied sharply. Realize that XLF could stage a meaningful rally short-term, and still look "icky" on an intermediate basis (which is how we do our sector weightings). **Our underweight on XLU has not worked**. We have been underweight assuming it would trade in line with TLT, but it may in fact be trading with LQD. We will re-evaluate this in the weeks ahead.

Market Review: Price Charts – SPY – SP 500 ETF



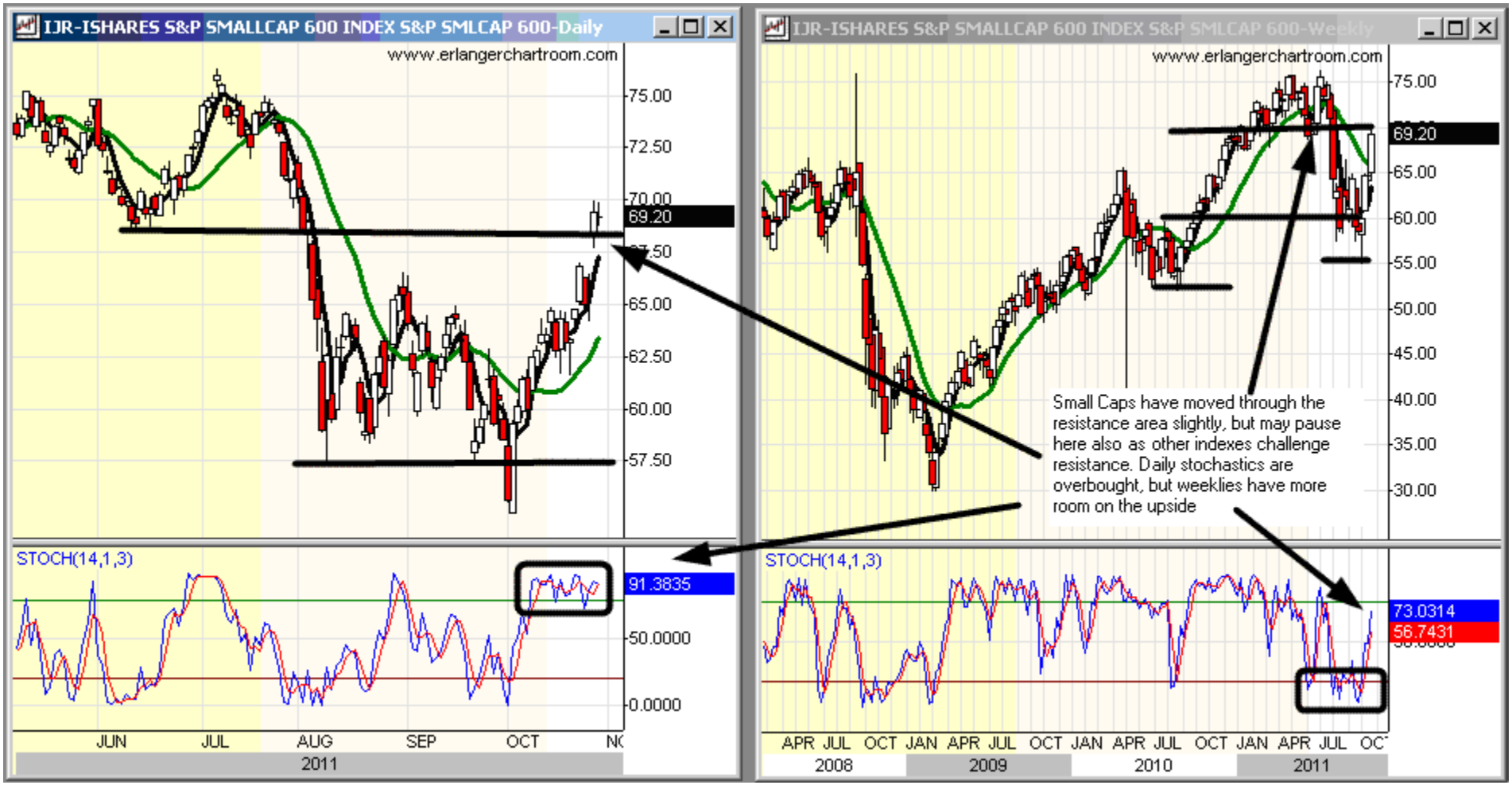
The SPY completed a "cut-out" low in October, as forecast: The SPY declined sharply in early October. This pattern completed the cut-out low forecast in August and should serve to be the low for 2011. The markets have rallied close to intermediate resistance, and we expect this resistance to ultimately be penetrated on the upside, and a test of the 137 – 140 area should result. Bearish sentiment is high, and stochastics are not overbought intermediate-term.

Market Review: Price Charts – MDY – MidCap SPDRS ETF



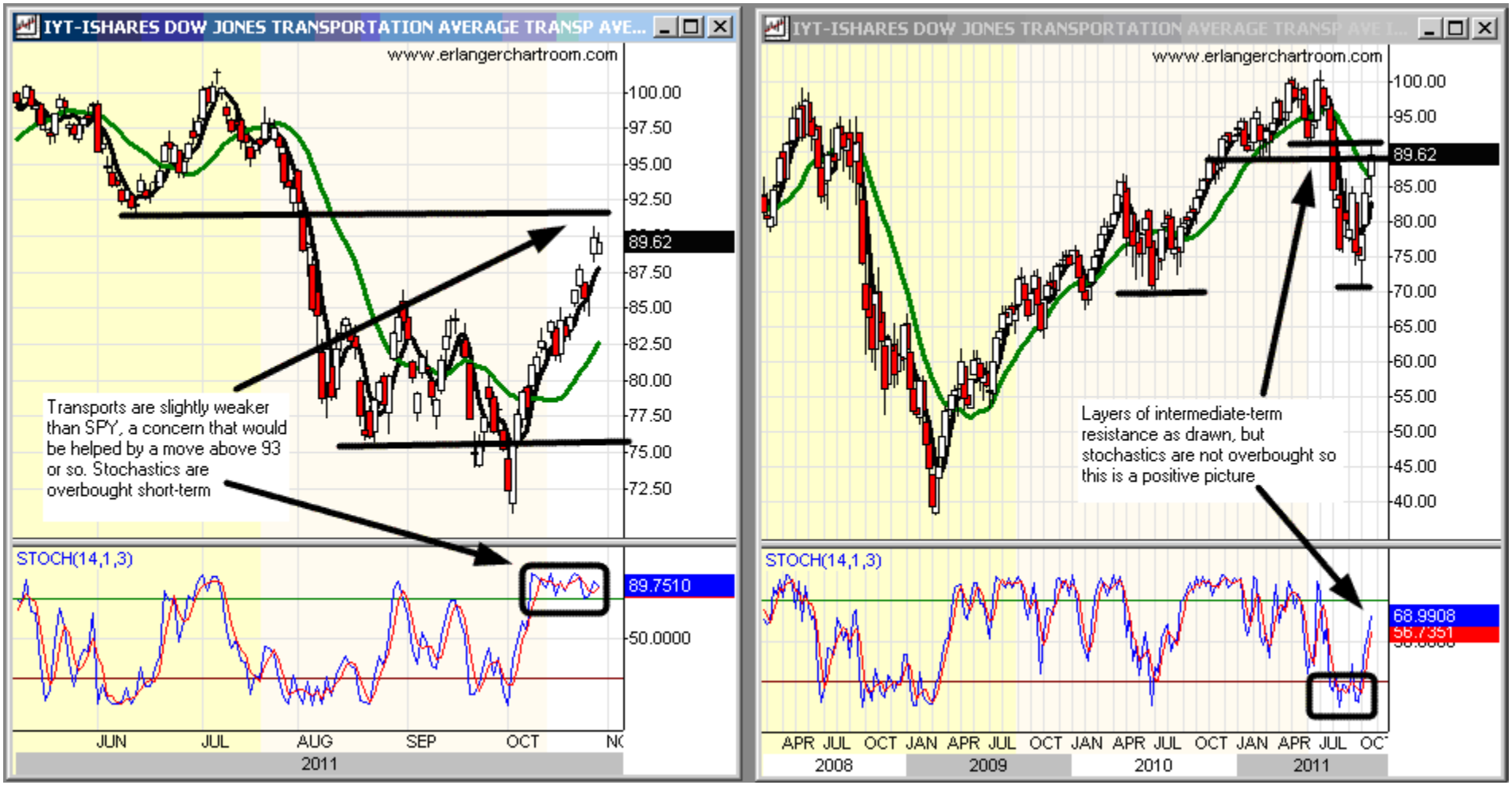
The MDY is fully testing support: Mid-caps made all-time highs in 2011, suggesting a longer-term bullish trend, and the lower low closing low forecast occurred. This ETF has rallied into resistance and is trading a touch weaker than SPY vis-à-vis the main resistance area. Most indicators remain bullish and accumulation models have improved, so continued higher prices are likely in store for November and possibly December as well.

Market Review: Price Charts – IJR – IShares S&P SmallCap 600 Index ETF



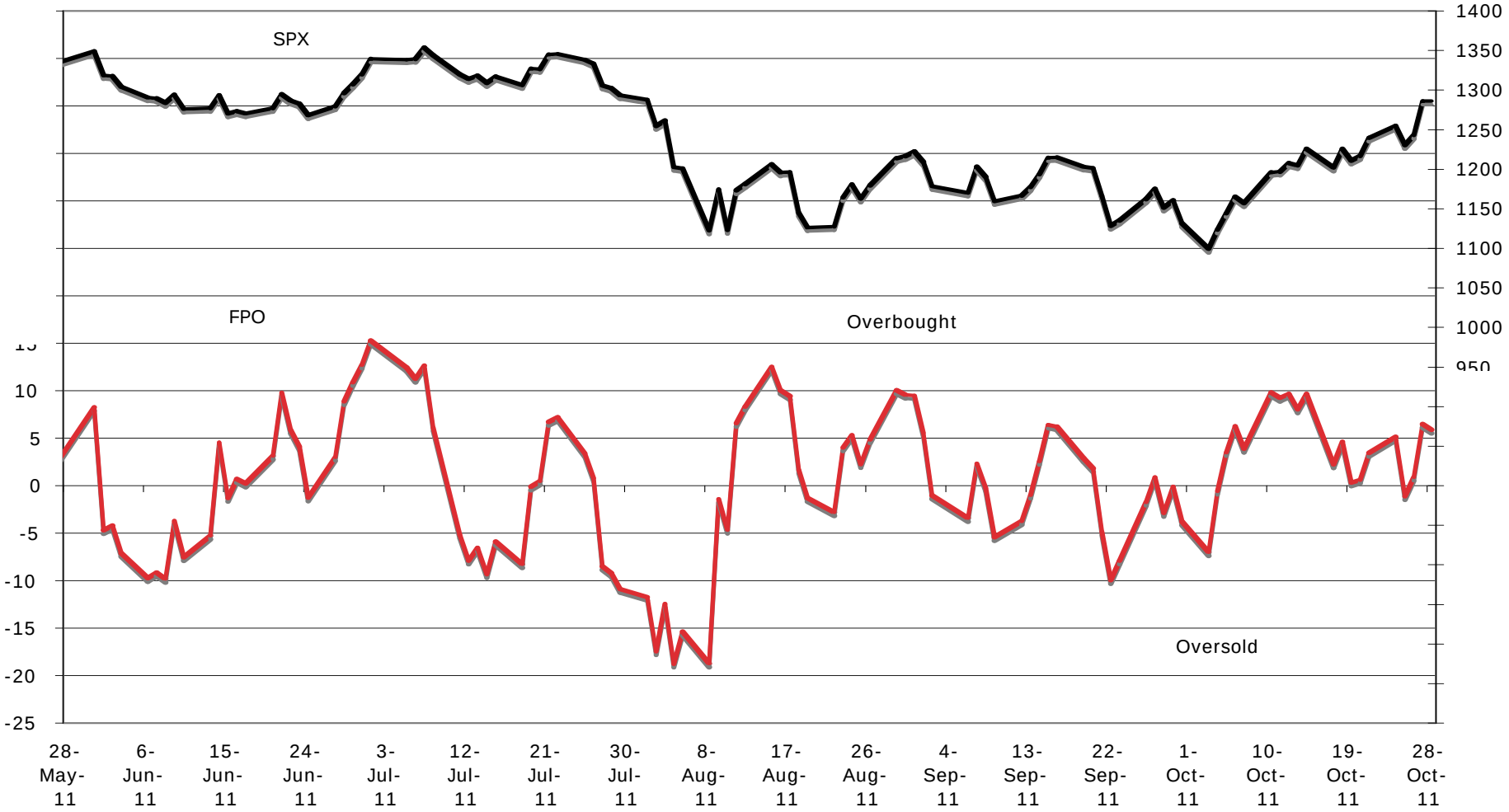
The Small Cap ETF has similar bottoming characteristics, and has also made all time highs in 2011: Small caps made new highs in July, but the short-term has weakened relative to large caps on the decline. The accumulation model on IJR still remains strong. We note that economists are forecasting a new recession, and small cap does less well in a recession. This index should out-perform again, if recession fears abate later in 2011, as we expect they will. We also think speculative money could flow into small cap names and out of emerging markets.

Market Review: Price Charts – IYT – Transportation



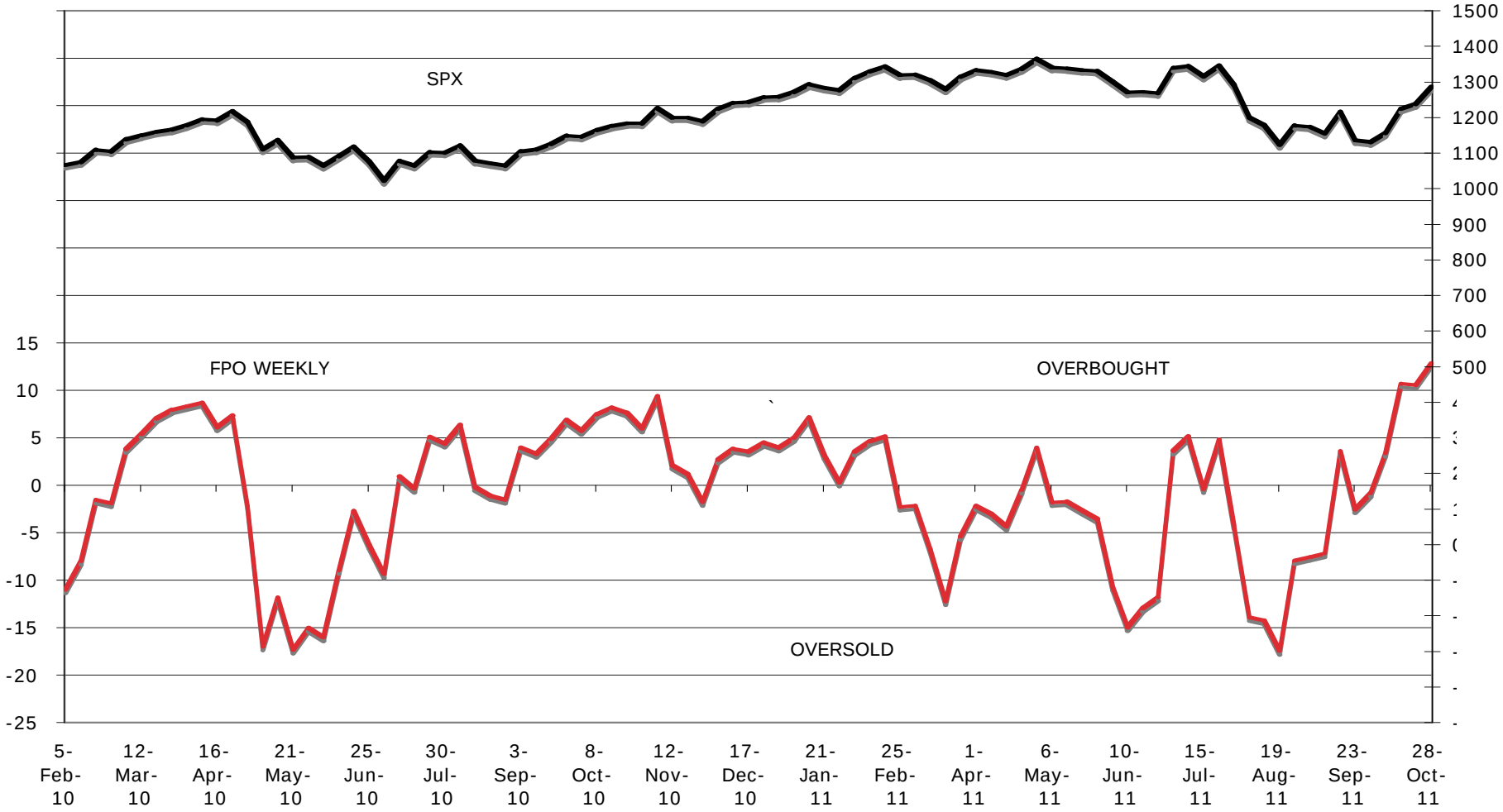
<u>The Transports also made the divergence bottom but remain slightly weaker than SPY, a concern</u>: Long time readers will recall that this index is our favorite measure of economic strength. We remain just a little concerned that IYT now has a worse price structure than the SPY, and the accumulation model remains weaker than that of the broad market, although it is improving quickly in recent weeks. If price does not improve by moving above 93 soon, the transports may be forecasting a weak 2012.

Market Review: Price Charts – Daily – Fred's Price Oscillator



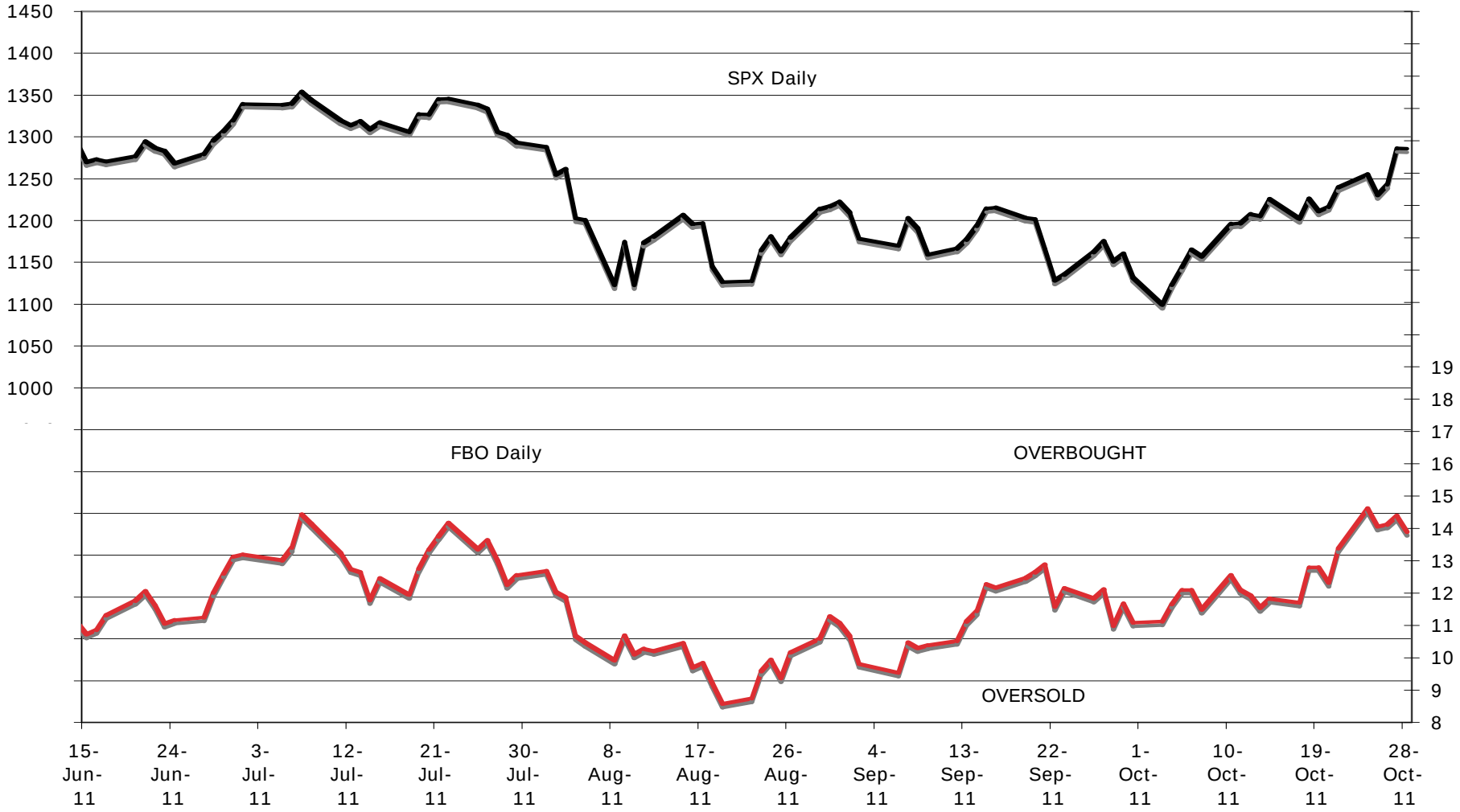
The daily FPO has made a series of higher lows: The daily FPO is now slightly overbought. The August move into the -20 area suggested a divergence bottom was likely, which occurred. The latest rally has, so far, made a series of higher highs, but is not overbought, and this suggests further rally is likely, at least into the end of the year. This indicator is now quite positive.

Market Review: Price Charts – Weekly – Fred's Price Oscillator



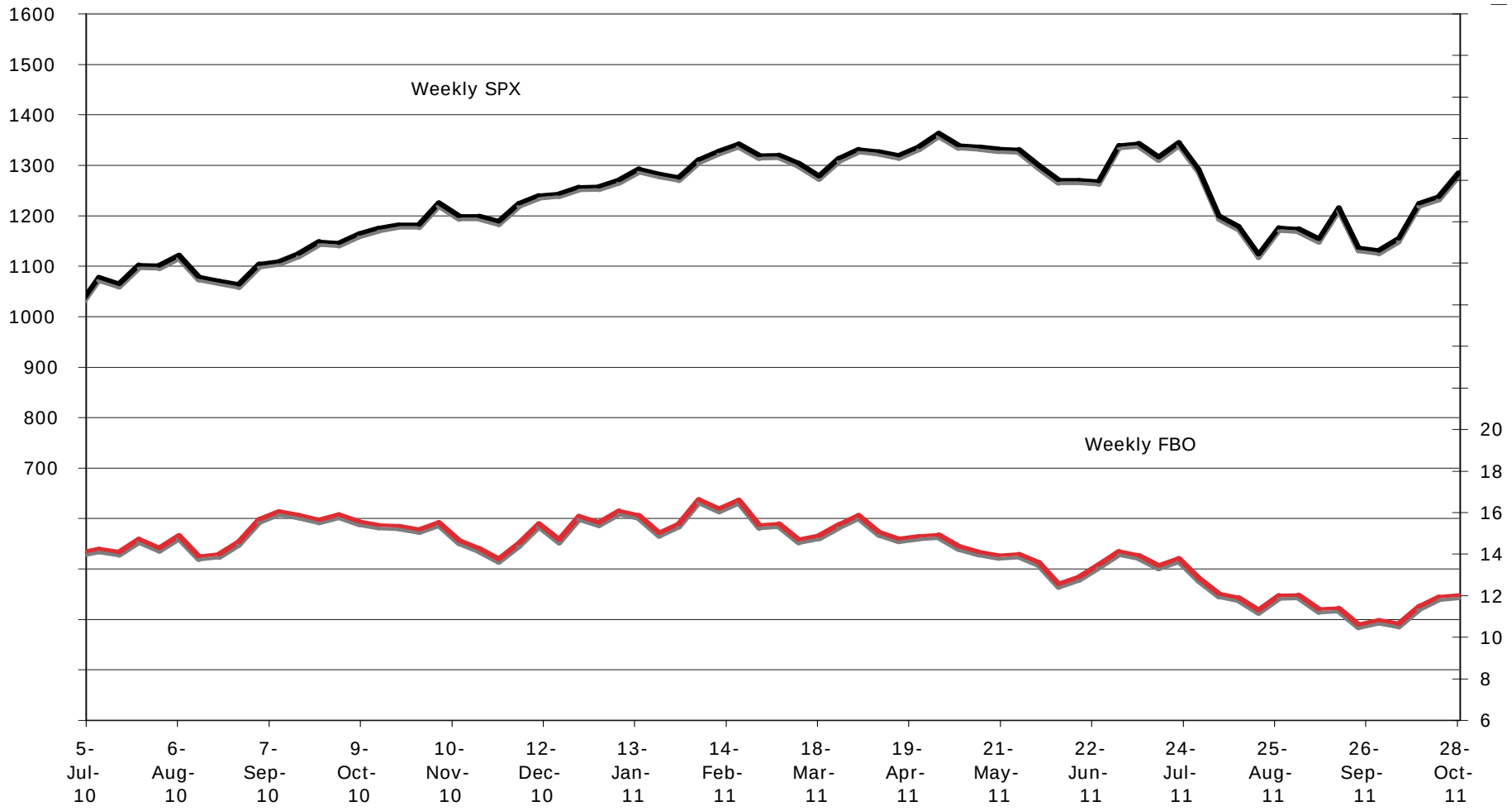
The Weekly FPO twice corrected into the -15 area, and is now overbought: The recent rally has moved this indicator to the highest level since 2010. This is actually a positive, as this indicator normally peaks through divergence and it should take several weeks and likely months for divergences to develop. This suggests continued strength into the end of 2011, and possibly beyond.

Market Review: Internal Momentum – Daily Fred's Breadth Oscillator



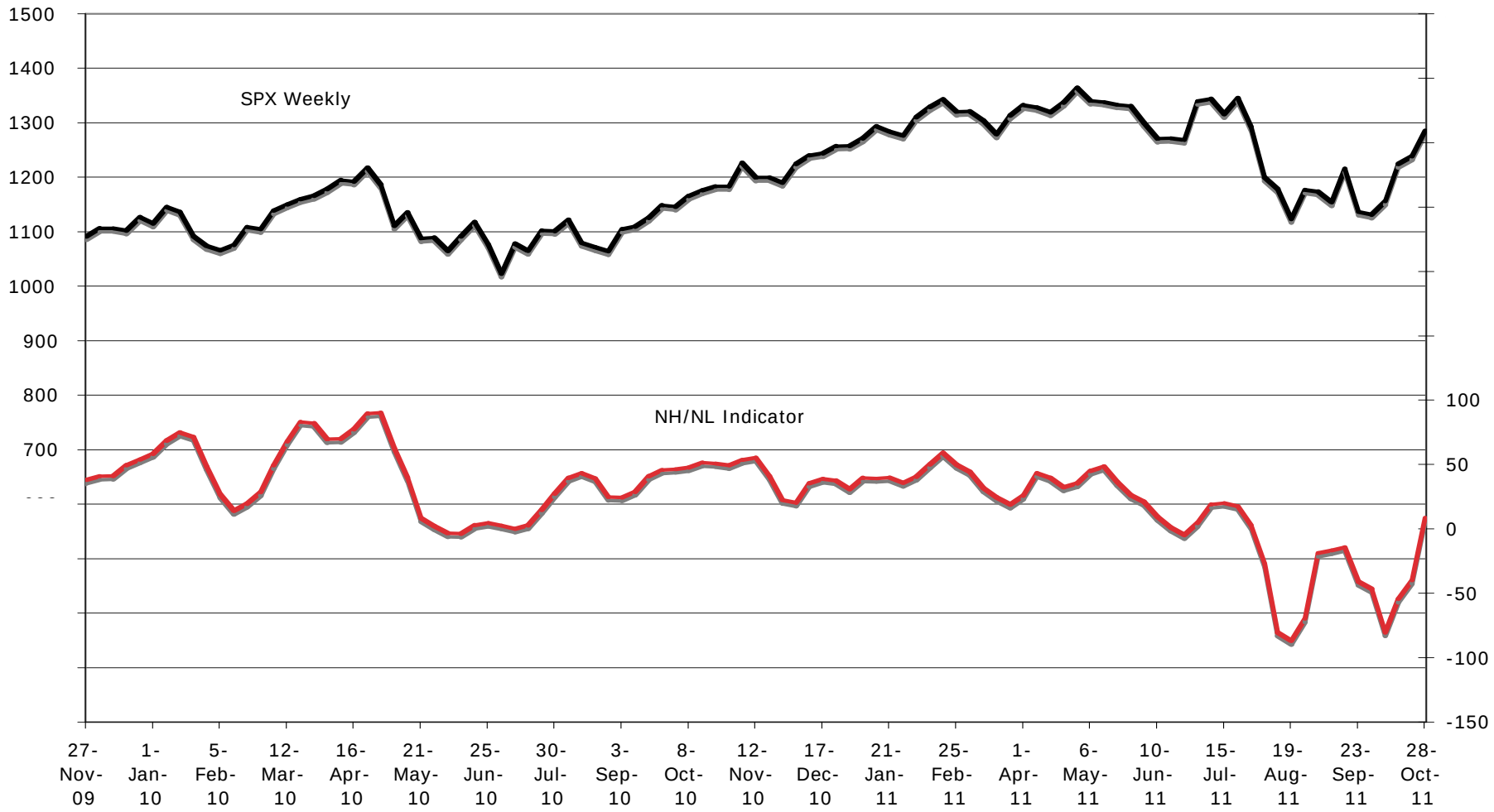
The short-term FBO is moving up: The indicator moved down into the 8 area, an extremely low reading. More work at low levels has occurred, and this normally suggests a reversal in trend, which has occurred. Short-term breadth momentum indicators are all improving, and this indicator is not overbought, suggesting further upside.

Market Review: Internal Momentum – Weekly Fred's Breadth Oscillator



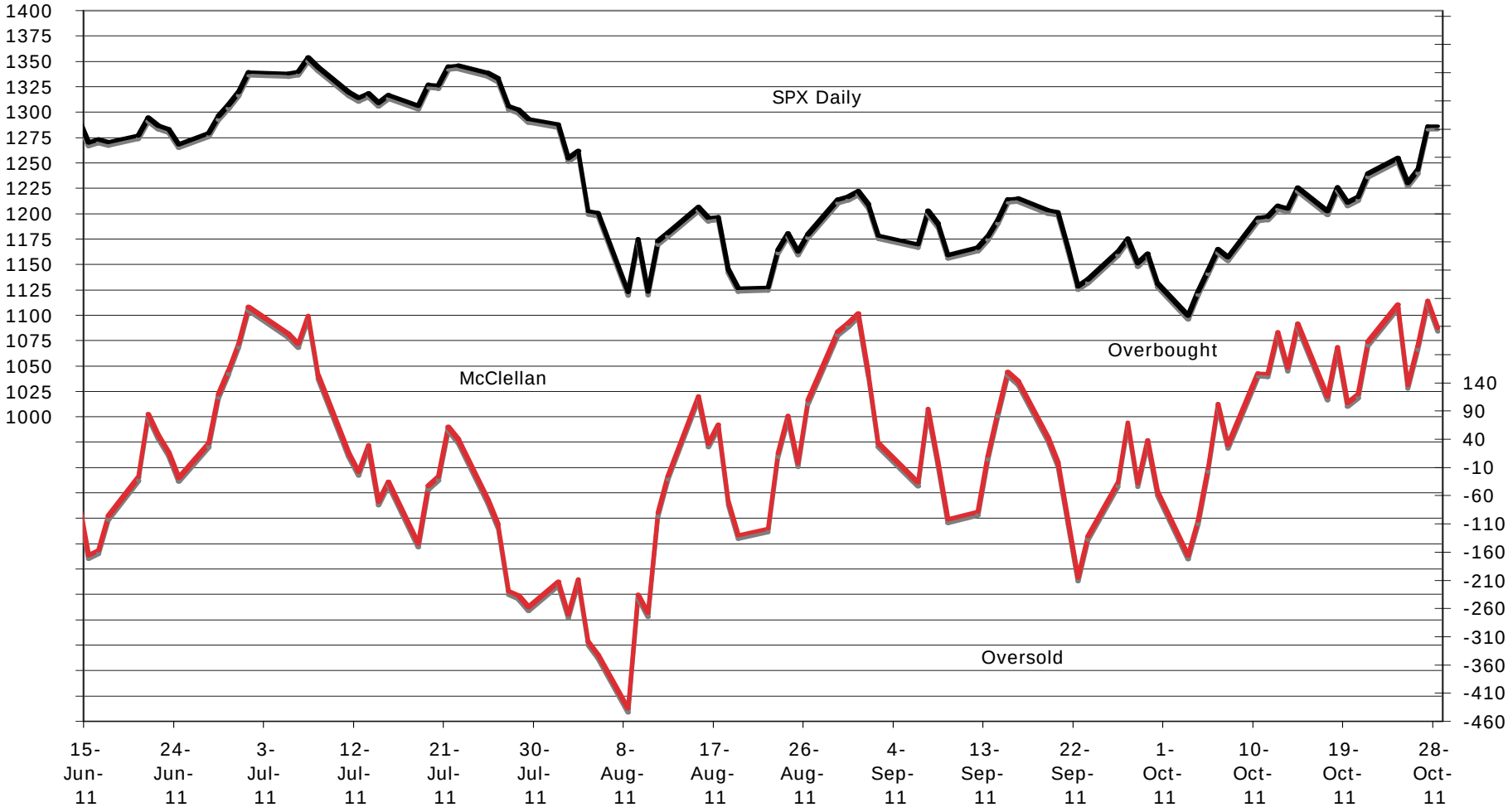
The Intermediate FBO is starting to advance: This indicator did not confirm the rally from November to April. The indicator has started to rally along with the market, and while it did not give a "classic" buy signal, this is the only breadth momentum indicator suggesting weakness. Monthly indicators are oversold and have developed some buy patterns, and a sharp rally is under way. Breadth readings overall have improved, and suggest further upside into yearend is likely.

Market Review: Internal Momentum – Fred's New Highs/New Lows Indicator



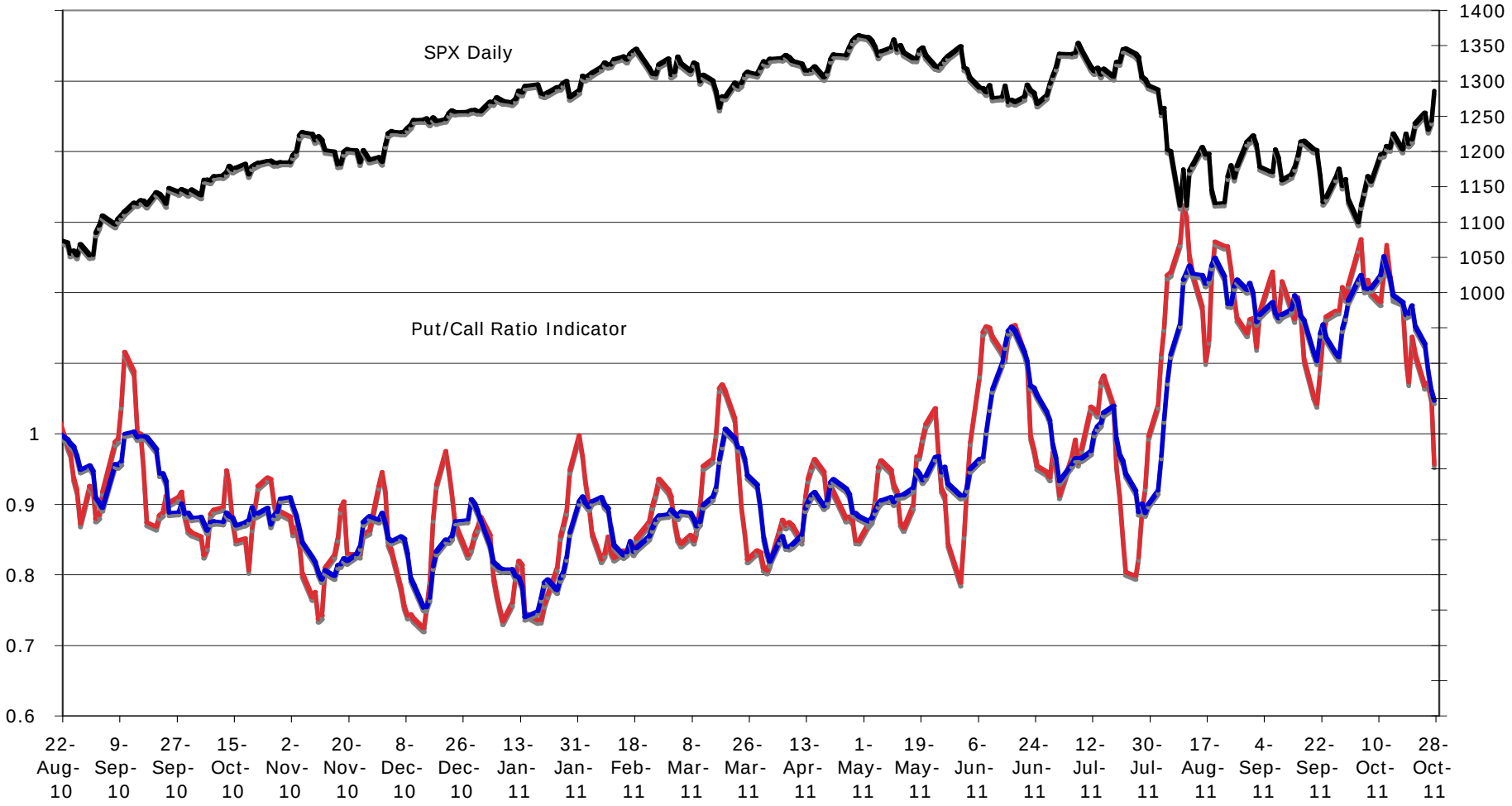
New Highs/New Lows continued to improve since last month's report: This tool measures the difference between the amount of new highs and new lows on the NYSE. Weekly readings have improved substantially, with 1510 new lows the week of August 12, 835 last week, 445 in the week of the October low and now more new highs than new lows on a weekly basis. This indicator often peaks and troughs early, has given bottoming signs, but no new signs that a peak is occurring – further strength is likely.

Market Review: Internal Momentum – McClellan Oscillator



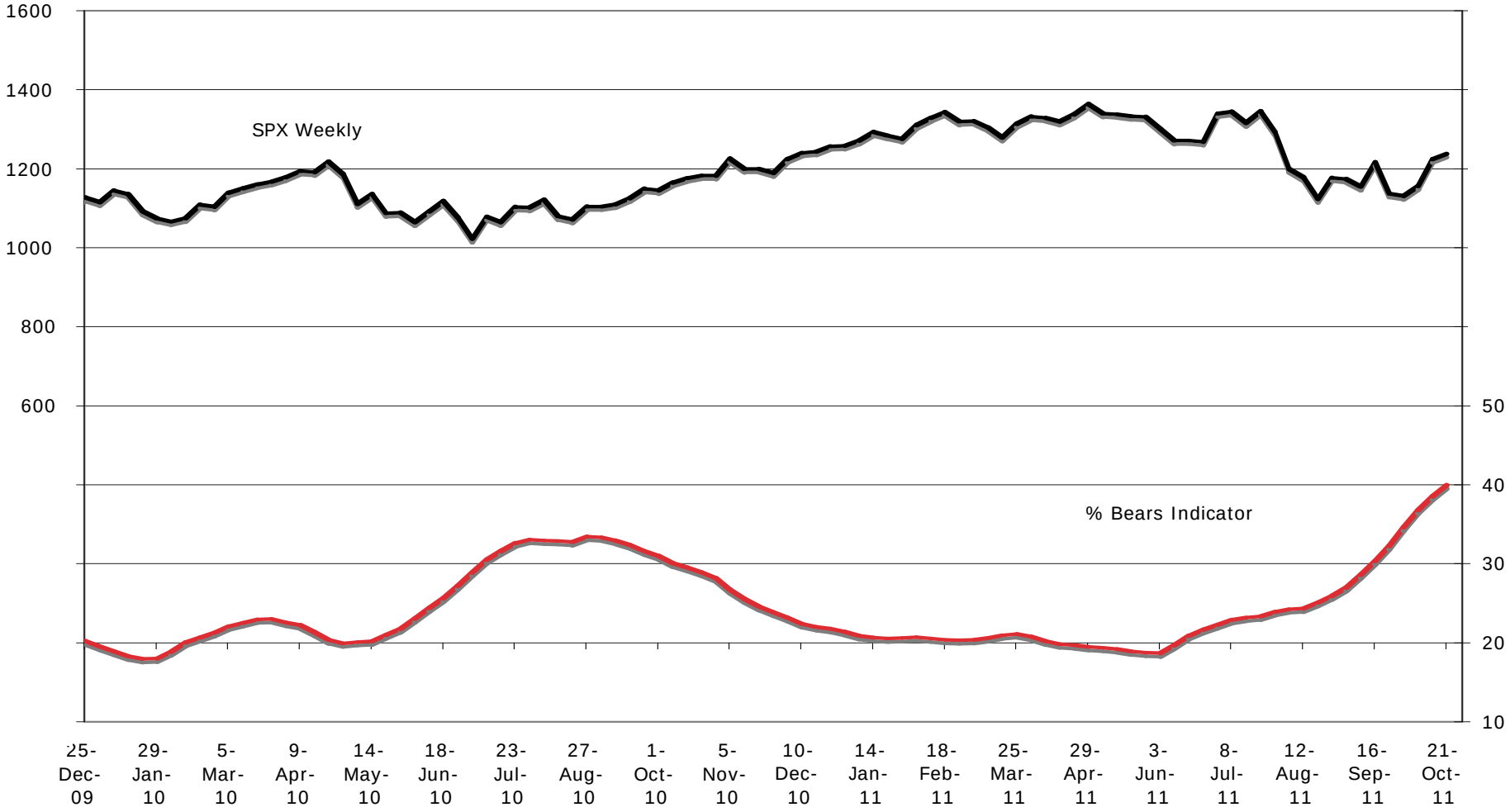
The McClellan Oscillator is overbought, suggesting some consolidation could occur: The McClellan is one of our favorite short-term timing tools. The Oscillator correctly signaled a divergence bottom. Now, the indicator is overbought, but we think this is a "good" overbought, suggesting upside momentum is strong. Yes, consolidation and sharp pullbacks can occur, but so far our forecast that these should be limited to 2 – 3% seems correct.

Market Review: Sentiment – Put/Call Ratio



The Put/Call ratio is positive: Sentiment indicators are "condition" indicators for us, and not timing tools. This indicator moved up sharply into the buying area on the first move to 1125 and has remained elevated even on this rally, suggesting further upside. Our % Bears indicator is also positive (see next page). Sentiment indicators suggest further upside is likely here – many are out of the market and "performance chasing" is quite possible.

Market Review: Sentiment – Investors Intelligence % Bears Indicator (moving averages)

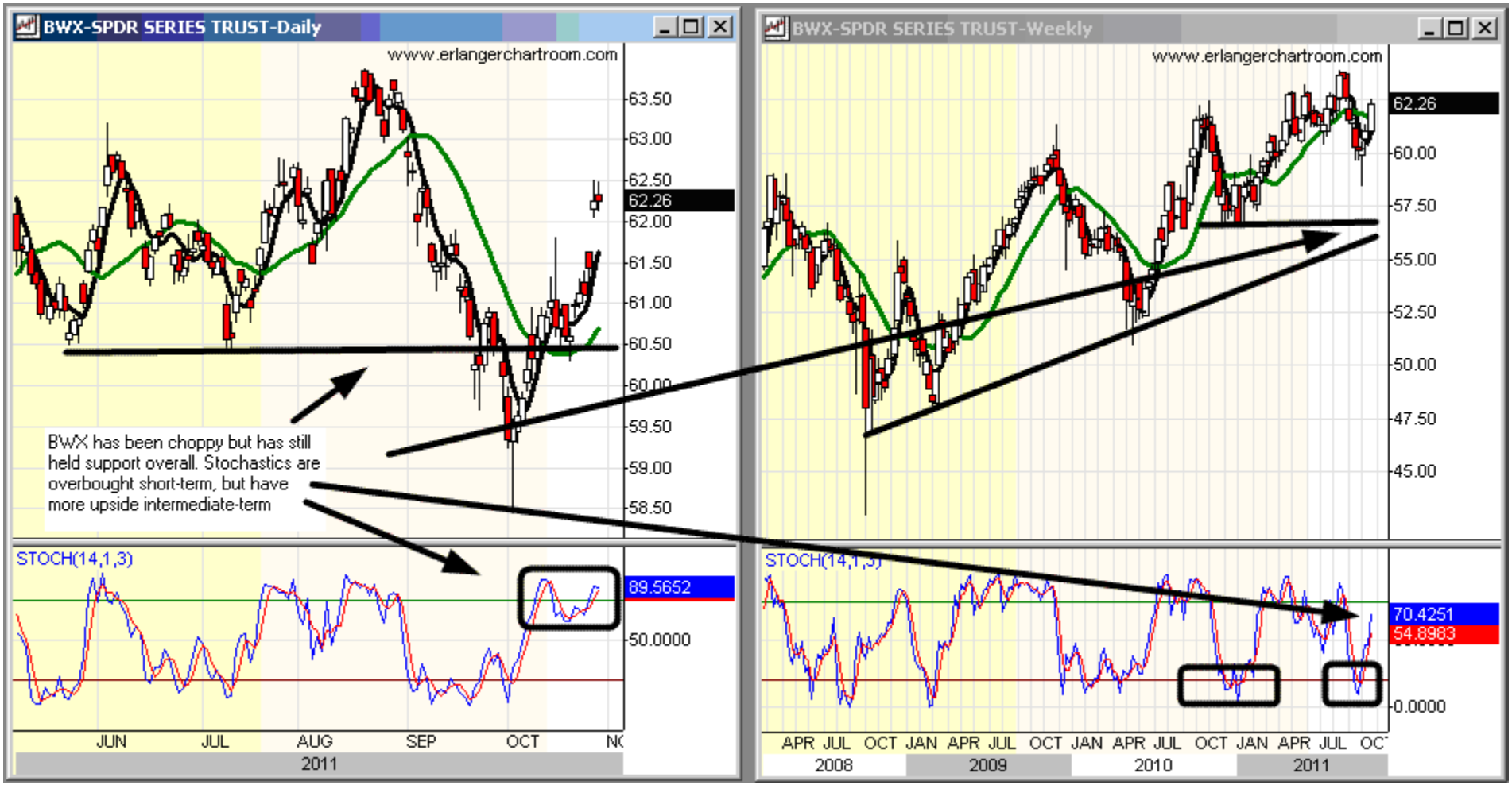


Investor's Intelligence %bears indicator has continued up as the market has rallied: The current reading is 39.90%, up from 32.27% since the last report, and now it is has continued to rise as the market has rallied. On September 2 this indicator gave a buy signal, and it continues to suggest further upside. This is the highest the indicator has been since May of 2009 and the indicator is now in firmly bullish territory, getting more bullish, and likely to remain bullish for the next several months at least.

Other Markets: Bonds – TLT – iShares Barclays 20+ Year Treasury Bond

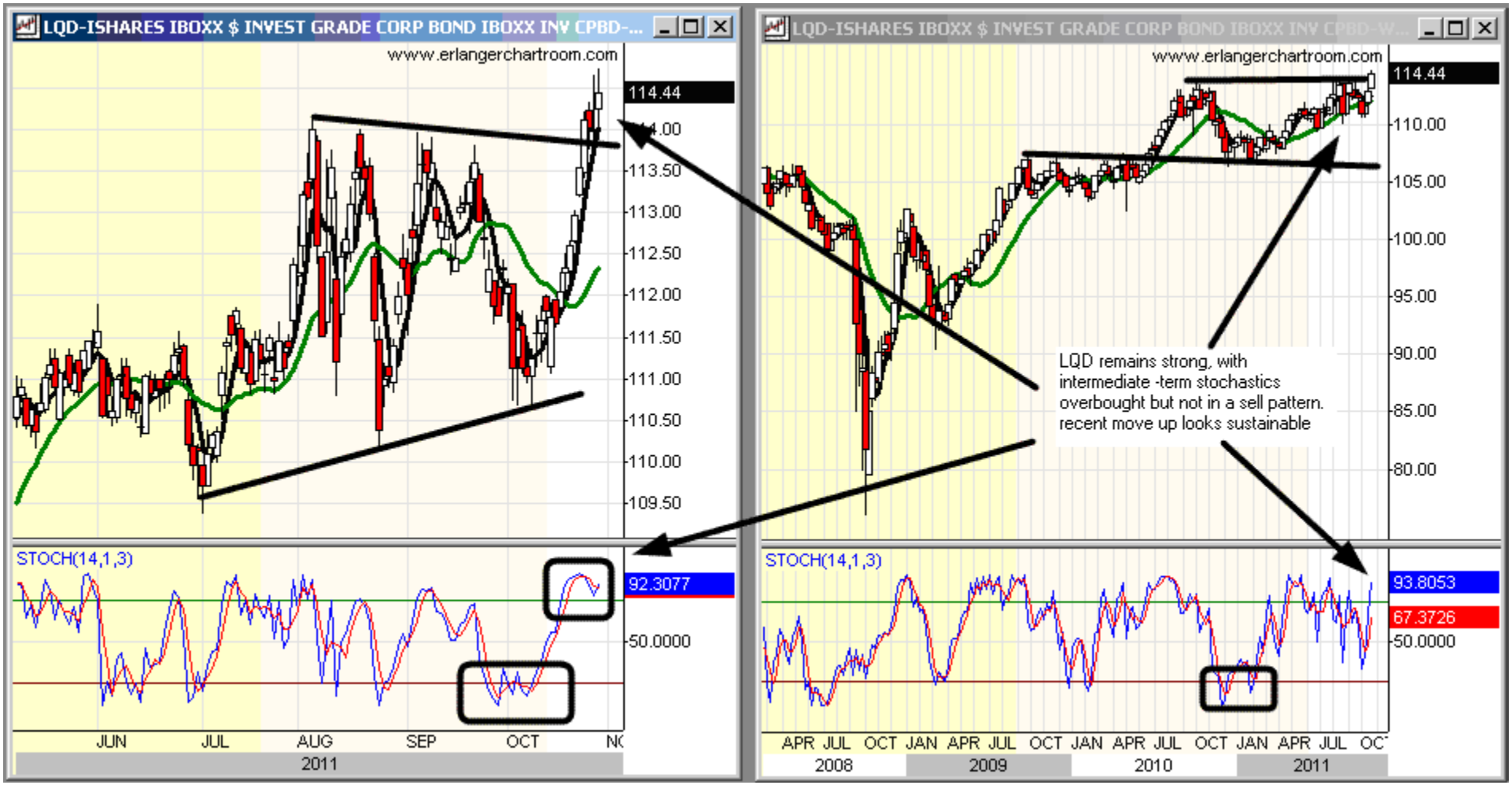
The TLT has been stronger than expected, but is now starting to weaken: The TLT rallied through our forecast range of 98 - 100. Short-term moving averages have gone negative, and price has moved down to 110 area support We continue to have concerns based on high sentiment numbers (Market Vane over 70), and a strong overbought condition on monthly indicators. Accumulation models, while improved, do not support TLT at these levels. This market has been stronger than I thought, but a move down to 105 or lower remains possible.

Other Markets: Bonds – BWX – SPDR Barclays Capital Intl Treasury Bond



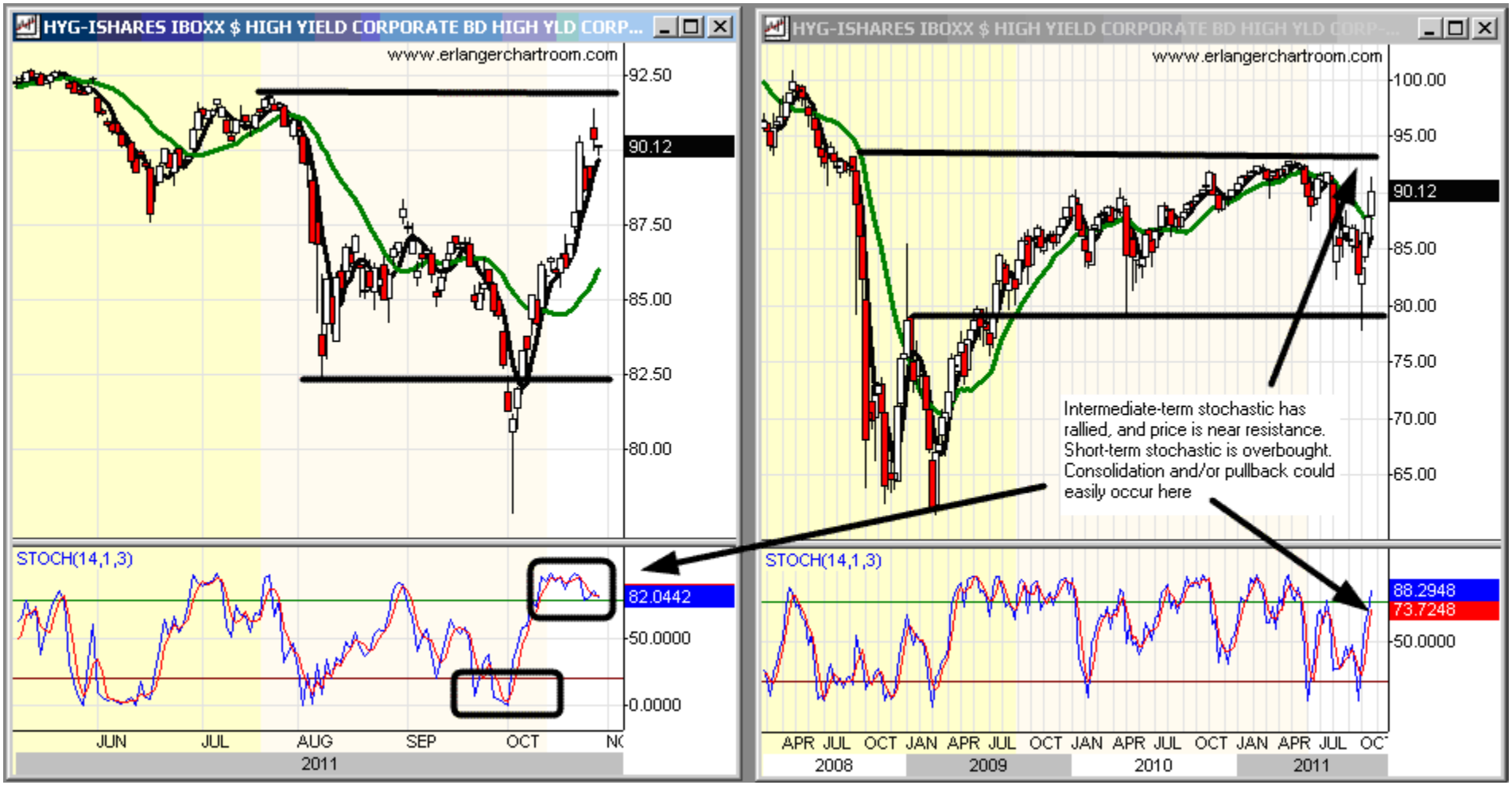
The BWX has held the very short-term support: Currently this ETF is volatile, and weakness in the Euro has had an effect. The intermediate-term chart is positive as long as BWX is above 56. BWX advance has slowed, and weekly moving averages are now negative. The Japanese Yen may pull back due to intervention which could pressure this ETF. BWX may have fulfilled much of the upside potential for 2011, and we would look to protect profits in this ETF. This ETF could be "newsy" so we would be careful here as volatility could remain high.

Other Markets: Bonds – LQD – iShares iBoxx $ Invest Grade Corp Bond



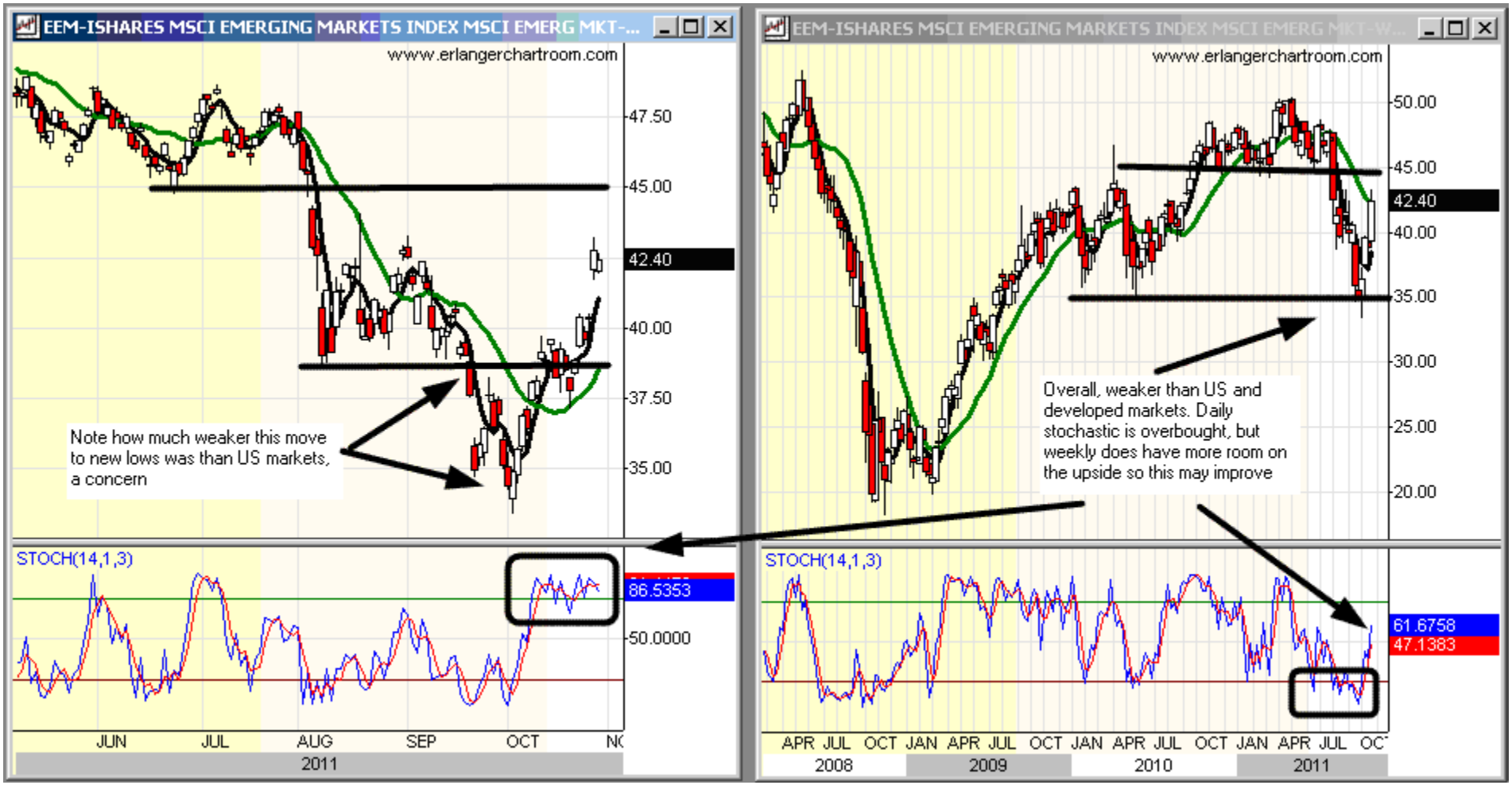
The Corporate Bond ETF has held long-term support, and breaking out of resistance: The overall condition of rates remains a concern, and while accumulation models have improved, we still see high risk in bonds. This ETF remains intermediate-term up, and has been our preferred bond investment over the last few months. We have consistently preferred this ETF to TLT in this bond advance, and overall will continue to do so. We remain surprised by the strength in bonds, but this chart continues attractive.

Other Markets: Bonds – HYG – iShares iBoxx $ High Yield Corp Bond



The High Yield Bond ETF has continued to trade as a proxy for risk: This ETF broke below support as the stock market corrected. It has rallied along with stocks, but is near resistance now. Our buy point at 80 has been successful, but what now? We believe that HYG will start to trade more in line with rates, but this is only likely as economic fears recede. One way to safeguard profits, and capture yield, would be to switch this position into PHB, a less volatile high yield ETF.

Other Markets: International – EEM – iShares: MSCI Emerging Markets

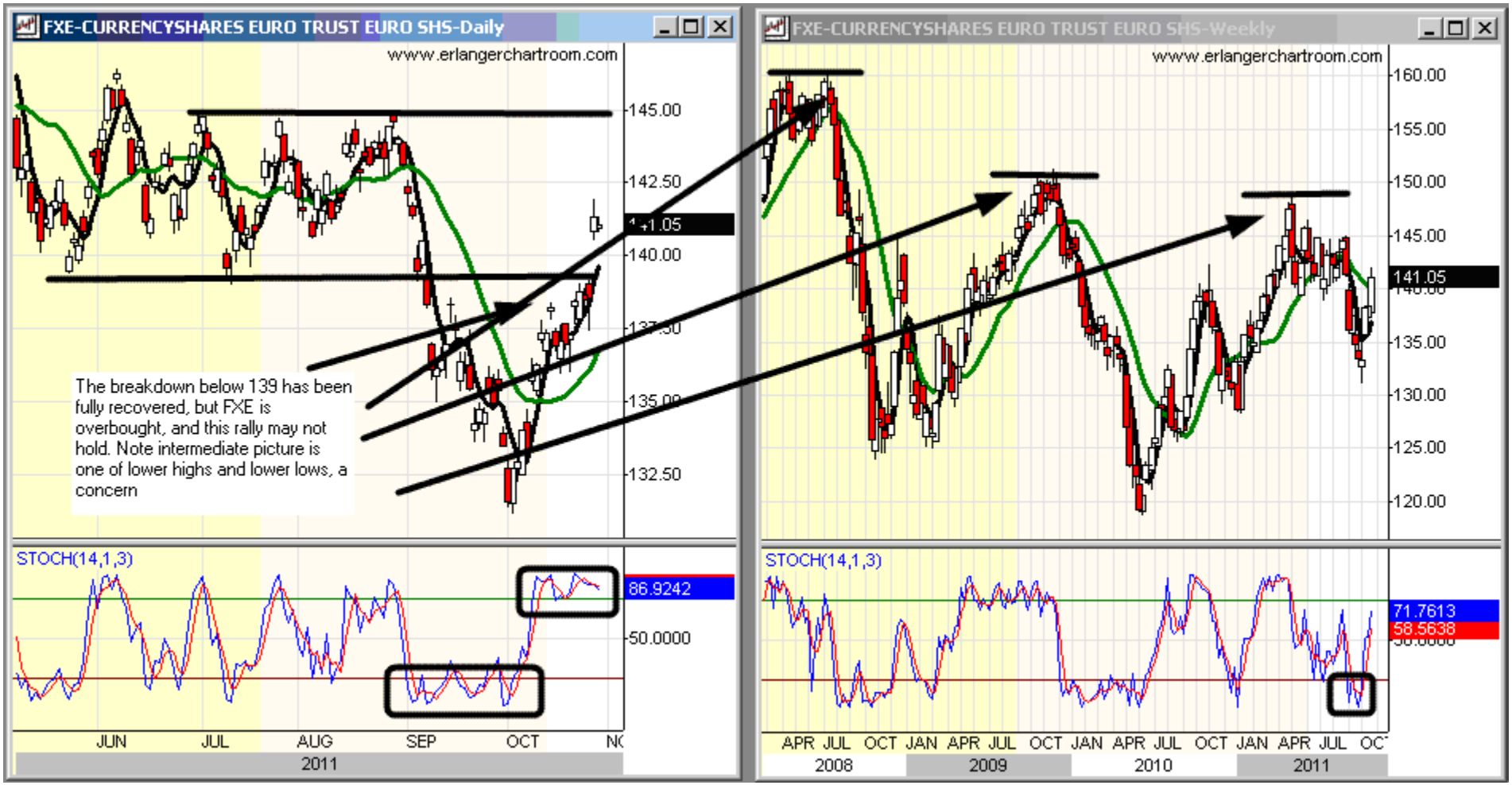


The EEM has continued to underperform the US in 2011, and volatility has increased: All stock markets have been volatile short-term. A greater concern is that intermediate relative strength continues to deteriorate. For now, we recommend de-emphasizing allocations to Emerging Markets, as accumulation models continue to weaken as well. For new international money, we would look at individual country funds, and if flexible would use US small or mid-cap funds instead. Note how much weaker EEM has been on the last decline – a big concern.

Other Markets: International – EFA – iShares: MSCI EAFE Index

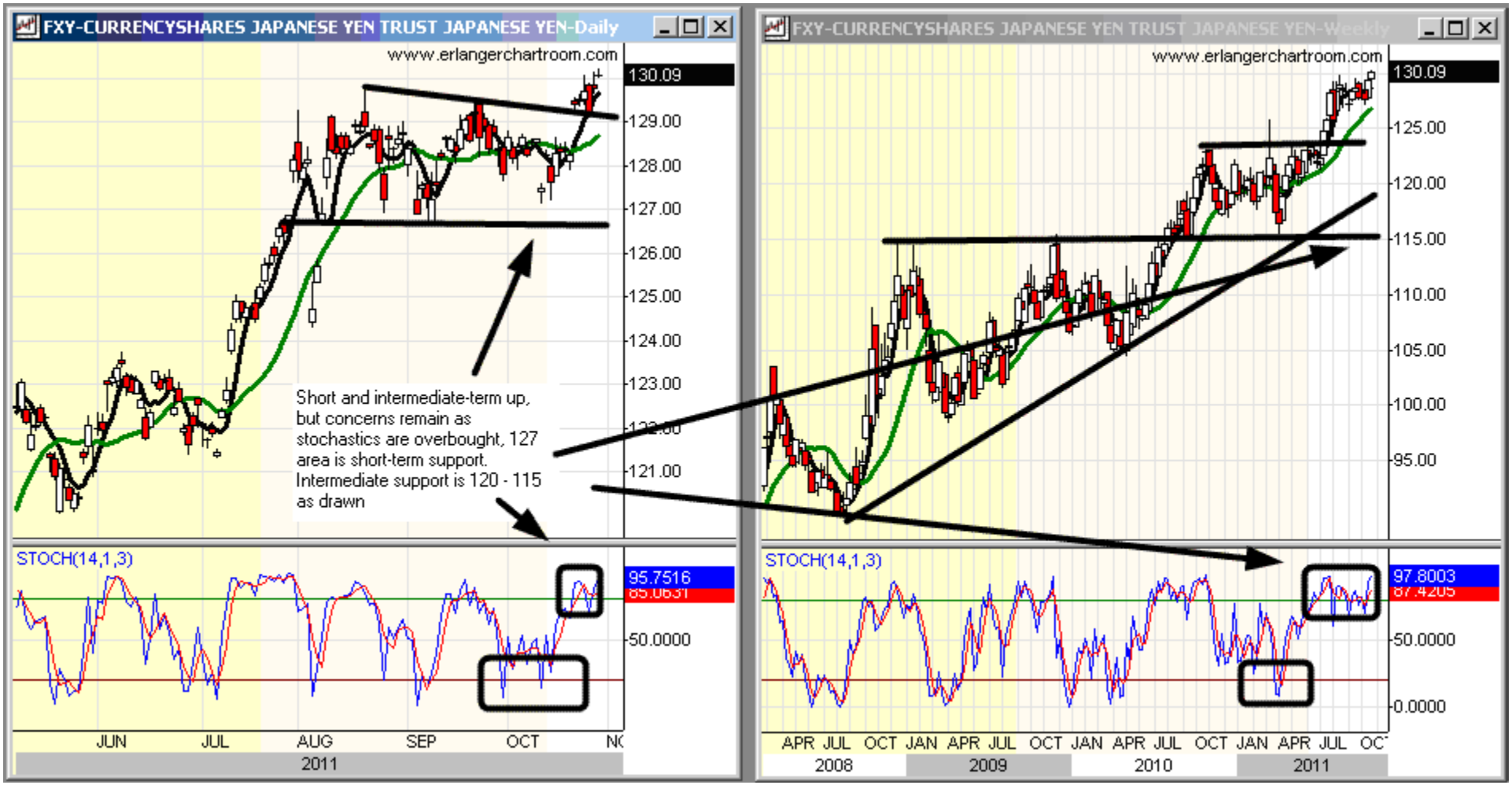
<u>The EFA continues to under-perform the US but is performing better than EEM</u>: This ETF has improved vs. EEM, but continues to underperform the SPY and MDY. EFA looks weaker than SPY both on this recent correction on the rally as well. Advisors may want to use individual country ETFs for foreign allocations rather than EFA, while realizing we continue to forecast movement from Europe into the US in the second half of 2011. We believe that MDY, IJR, and IWM should see inflows of speculative money – not Europe.

Other Markets: Currencies – FXE – CurrencyShares Euro Trust



The Euro ETF has once again moved above the 140 area: The move down through 140 on FXE suggested a test of the 132 - 130 area could occur, and FXE has completed that test. The breakdown took a while to occur, a sign of strength, and so far it has been reversed. Accumulation models suggest the FXE could retest the recent lows, but given the "newsy" nature of these markets this may take time to occur.

Other Markets: Currencies – FXY – CurrencyShares Japanese Yen Trust

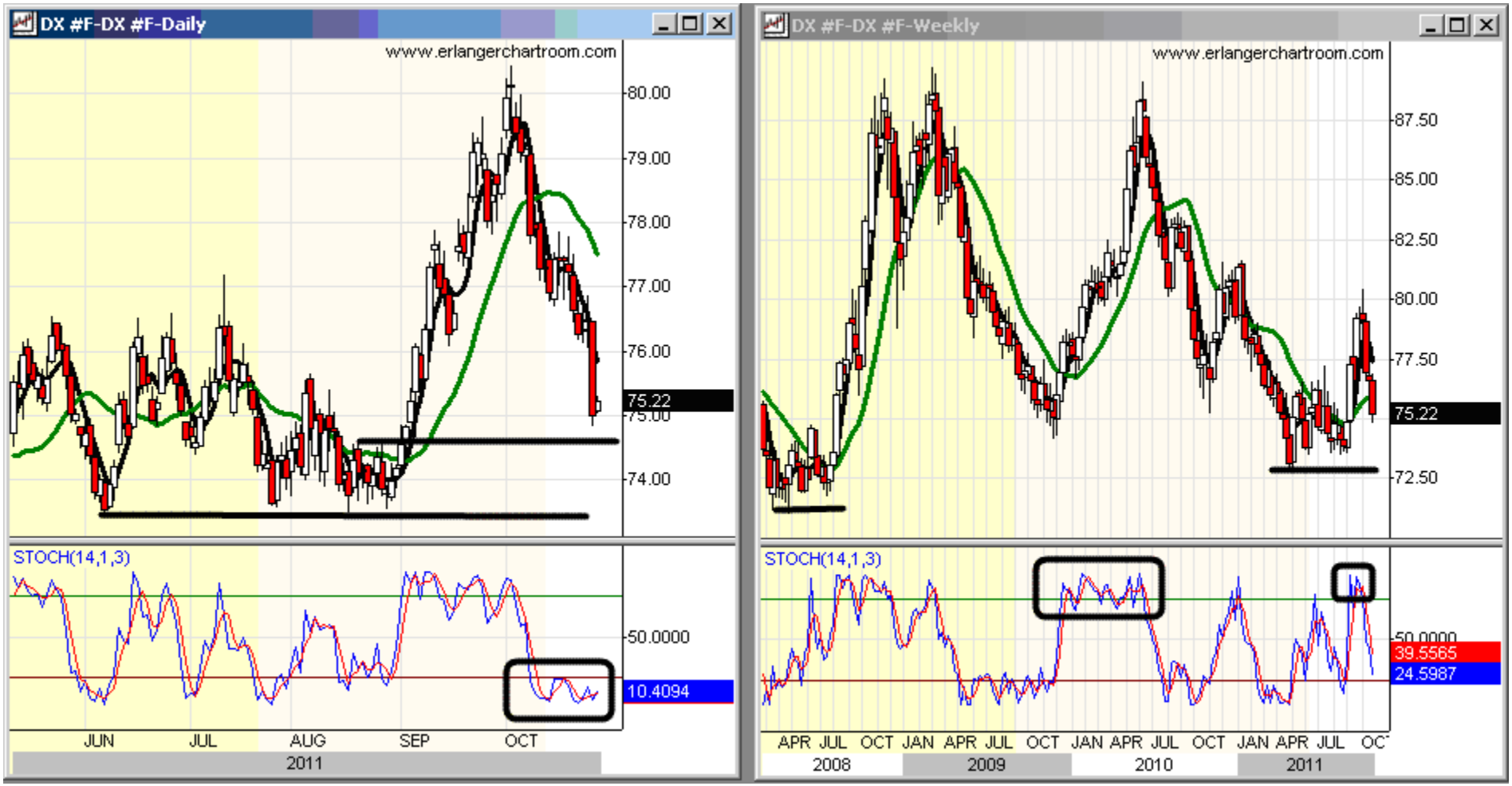


The Japanese Yen ETF remains long term positive: The Yen has moved close to the 131 area measuring objective of the breakout and may have started a consolidation. Accumulation models have improved, but suggest a decline from this area is likely. We caution traders that there has been Japanese intervention in this market including today, and in this area – and now that the European situation is improving this may be a more immediate concern. Some caution is indicated here, for FXY.

Other Markets: Currencies – FXA – CurrencyShares Australian Dollar Trust

The Aussie Dollar has held support: This currency is part of one of our longer-term themes, which is that commodity inflation is alive and well, and that the growth markets in Asia will ultimately lead the world in a global recovery. This currency trades with gold, and our new 10-month objective for gold is $2100/oz, or 210 on GLD whichever occurs first. FXA moved to all time highs, then fell along with gold. Support has held, and gold is often seasonally strong from November through January. Should this occur, FXA will likely trade up as well.

Other Markets: Currencies – DXY – US Dollar Index

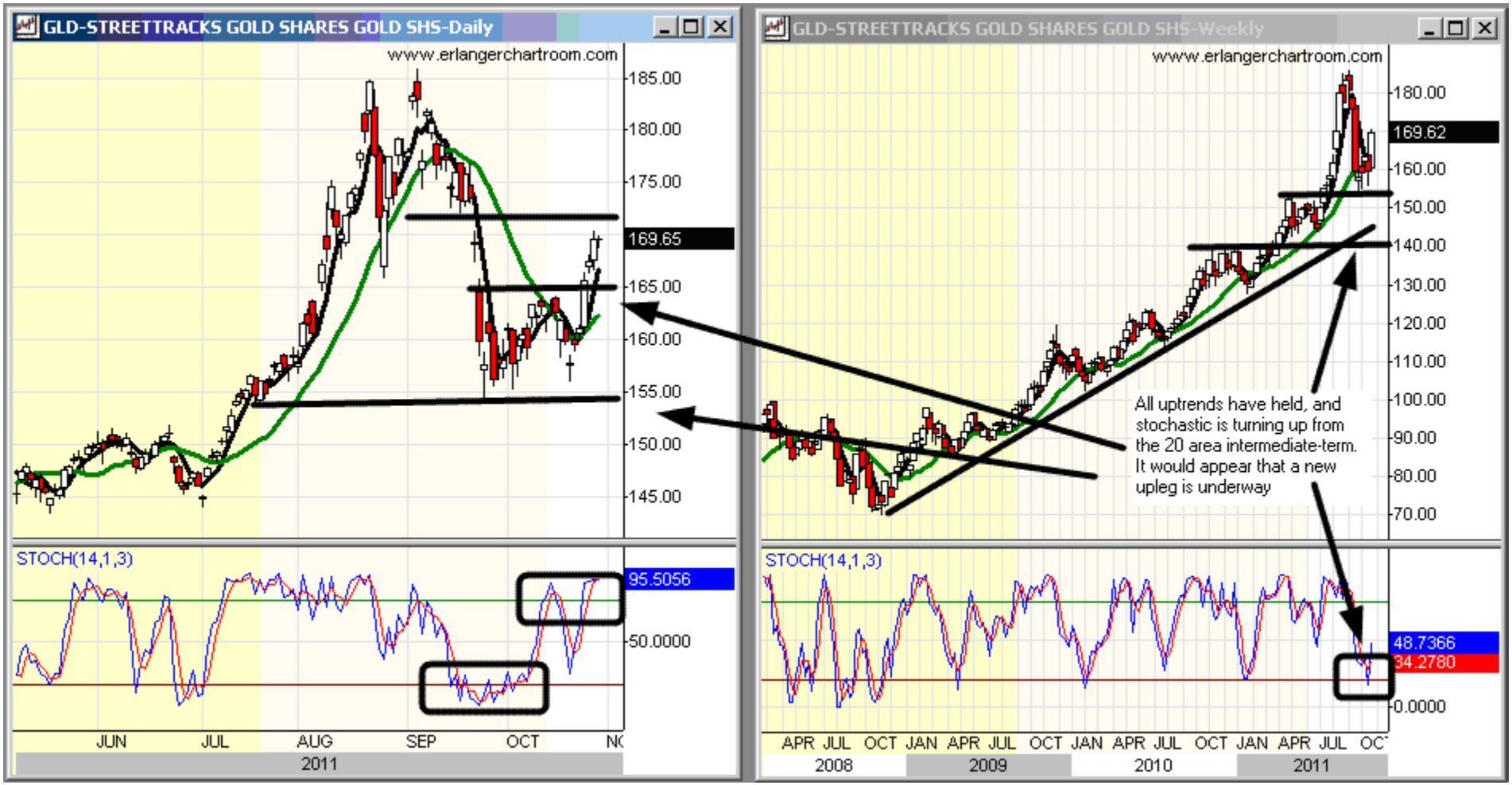


The Dollar has, so far, successfully tested the 2008 lows: The dollar index rallied above 80, but has, so far, fallen short of our 83 – 85 objectives. Friday's decline is based on Euro strength and essentially tests the short-term support and breakout at 74.80 to 74.55. A move above 78 would then target 83 – 85. What might cause this could be a sharp move down on the Yen (FXY), which could occur now that the European situation is stabilizing. The dollar bears close watching, though, as the overall trend remains down.

Other Markets: Commodities – DBC – PowerShares DB Commodity Index

The DBC commodity index has broken down from an intermediate-term wedge, but has recovered: Commodities have a tendency to decline in spring, and this occurred this year. The next seasonally favorable time for commodities is from November through the end of January. The Chart would confirm that this could occur in 2011: Stochastics are turning up and support has been tested and held.

Other Markets: Commodities – GLD – SPDR Gold Shares

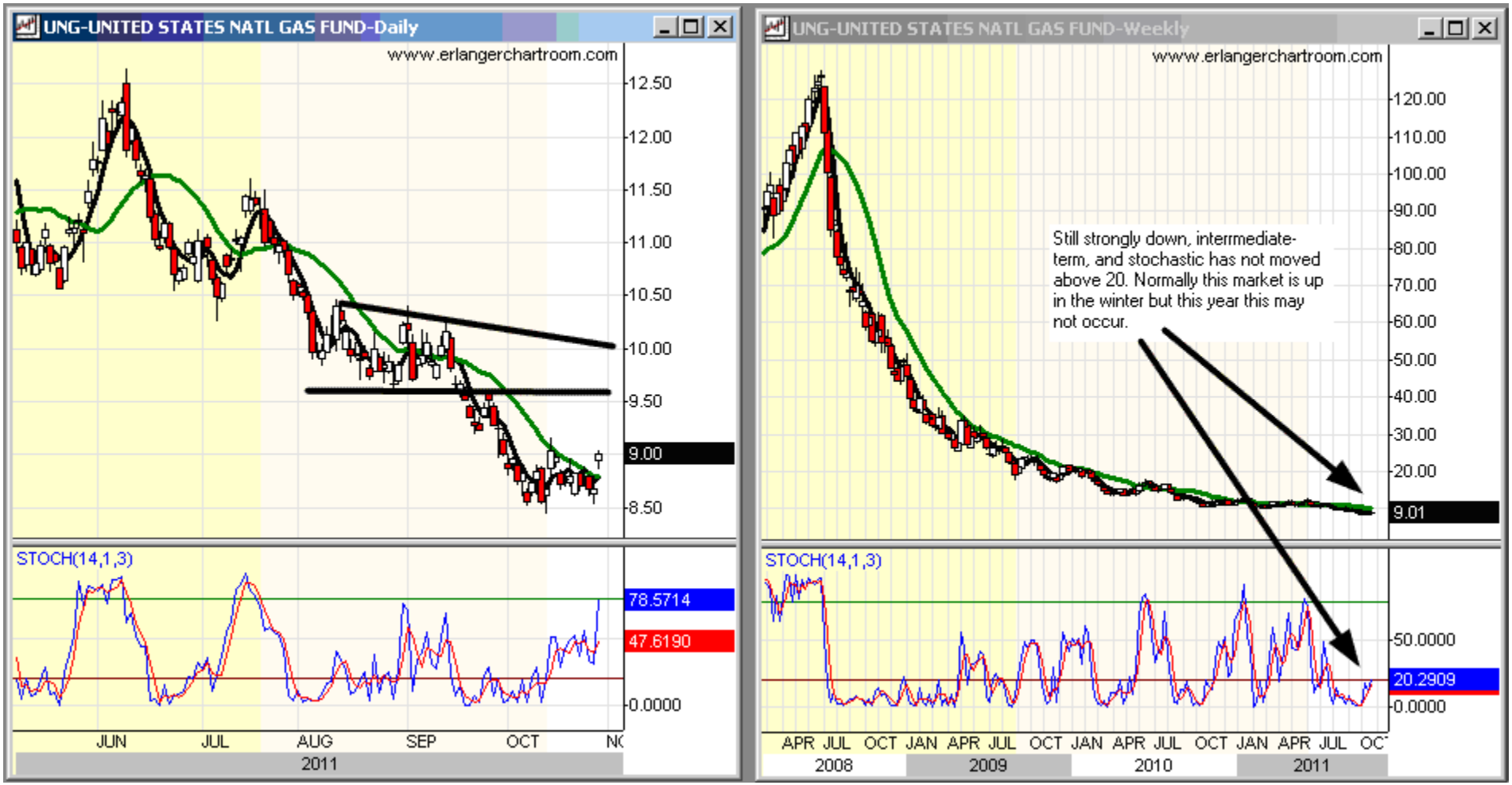


The Gold Market is breaking out of a short-term base: Gold remains one of our favorite long-term investments. However, high bullish sentiment, testing our former target of $1890/oz, and seasonal factors combined to spur a sharp decline. We moved back to an equal weight in Gold, and continue to caution advisors against Silver, which could under-perform. **Our new 10 month objective is 210 on GLD, or $2100/oz on the nearby gold contract**. Gold often advances from November to January, and it seems this could occur again this year.

Other Markets: Commodities – USO – United States Oil

Crude Oil has declined into intermediate-term support: Crude Oil normally makes a seasonal peak in the winter, and then a low in the spring and this occurred in 2010. Oil strength and a commodity rally, is in line with our long-term bias towards inflation and not deflation. The move above 35 on USO suggests that the seasonal move that occurs from November to January is occurring once again, and 40 – 43 by December is not out of the question.

Other Markets: Commodities – UNG – United States Natural Gas

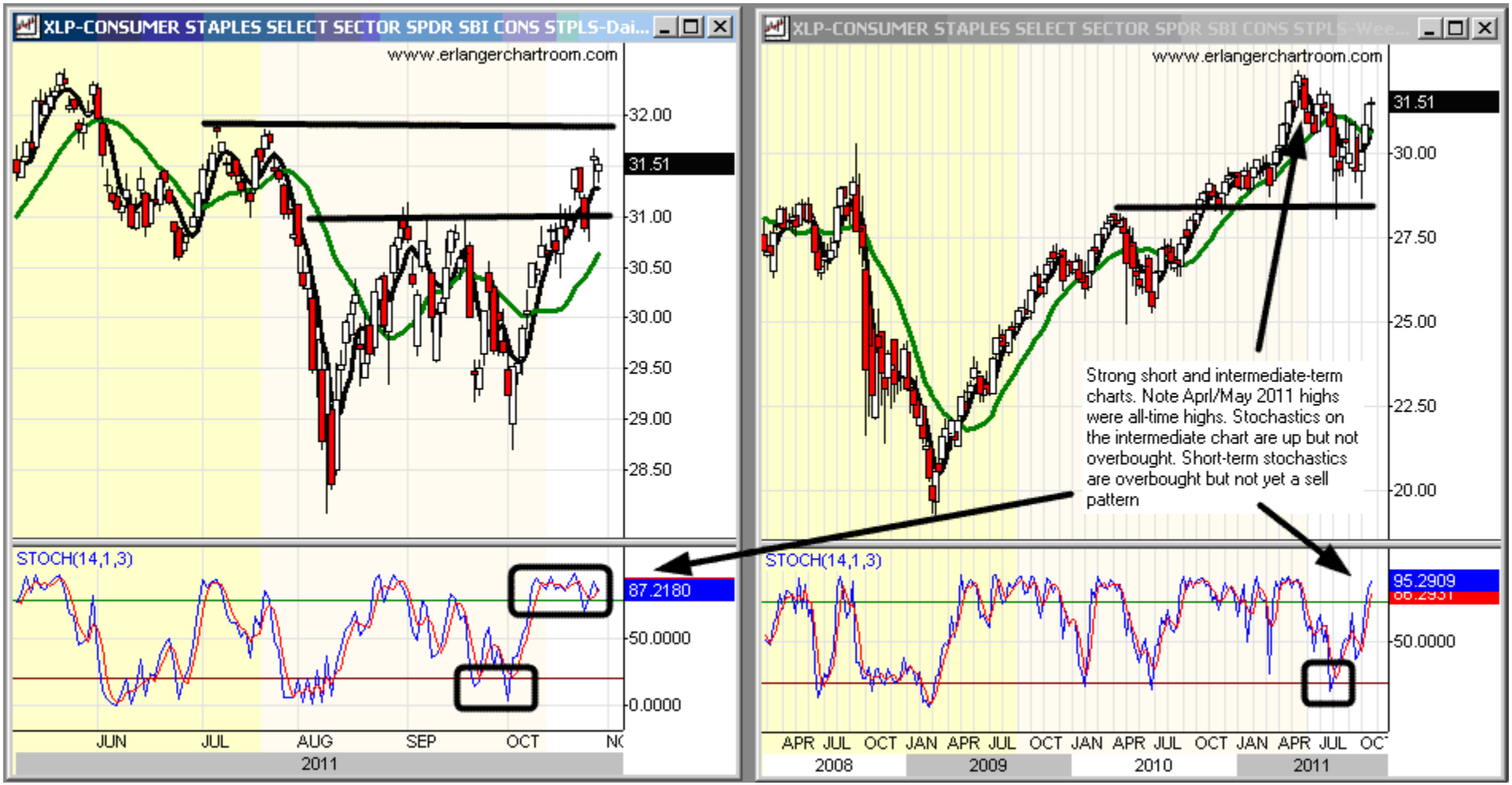


<u>The UNG has made new lows, after testing the short-term resistance at the $10.50 area</u>: We note here that **there have been issues surrounding the viability of the UNG due to contango.** We use it here simply because many advisors have no other way to get quotes on Natural Gas, and advise readers to check with their compliance departments regarding this. There are layers of resistance between 10 and 14, and this market has surprised us several times with weakness. New breakdown unless above 9.70 soon.

ETF Sector Charts: Consumer Discretionary (XLY)

Consumer Discretionary has been one of our top sectors since January of 2009 and it continues to perform well: This sector remains long-term positive, especially compared to weaker sectors such as XLF. Accumulation models have continued to improve, and more than expected. With positive relative strength (note higher lows in the last decline), it is a strong equal weight. We had concerns that this sector would experience problems in a weak market, but it is still trading better than the market overall. EQUAL WEIGHT.

ETF Sector Charts: Consumer Staples (XLP)

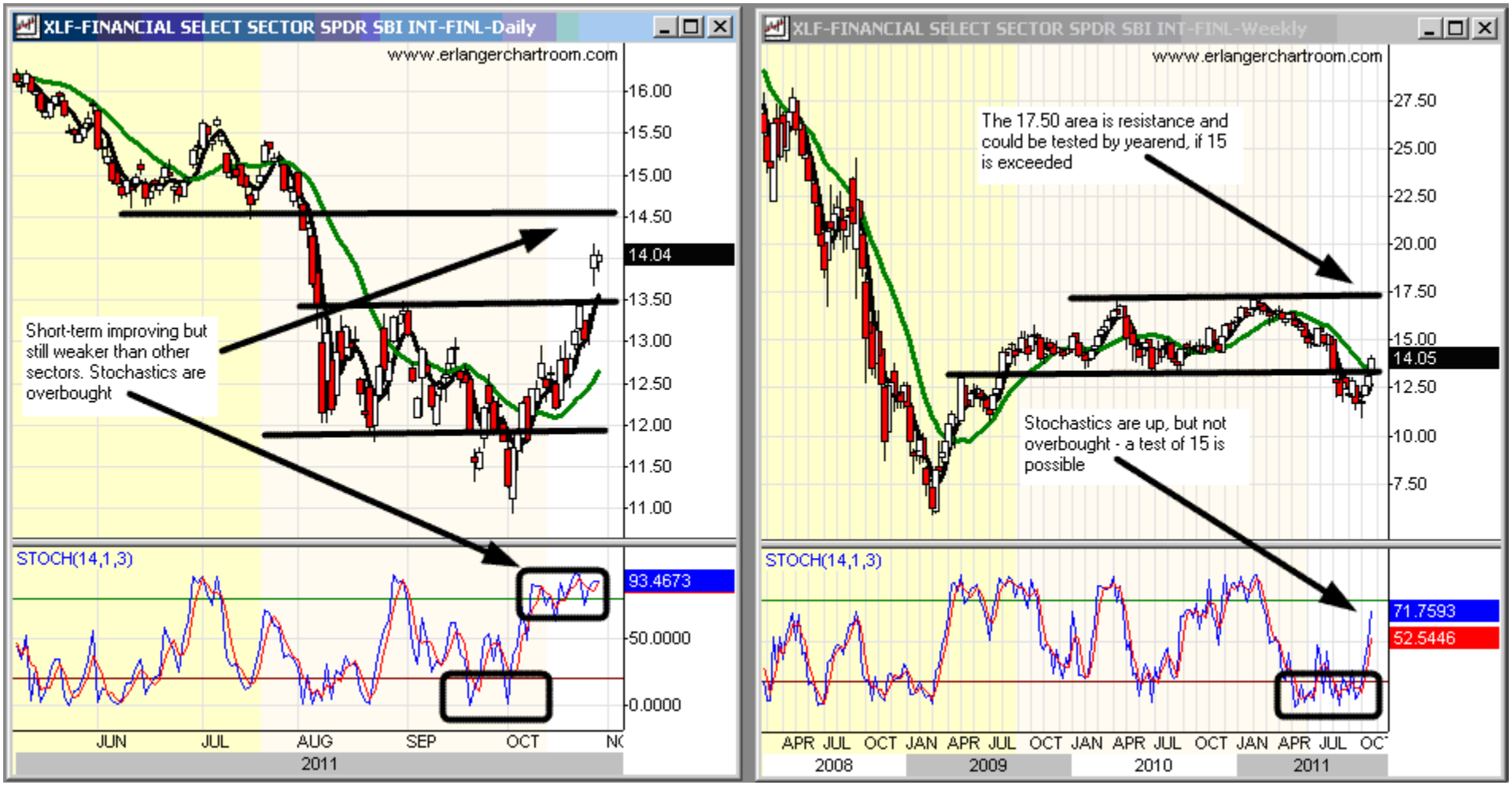


Consumer Staples is our favorite defensive sector and performed well in the recent correction, remaining near all time highs: The accumulation model remains one of the most attractive of the sectors but has lagged as the market rallied. This is the strongest defensive sector. This sector remains positive, as the market improves. We would continue to hold and equal weight in this sector even if the market rallies in the fourth quarter. EQUAL WEIGHT.

ETF Sector Charts: Energy (XLE)

The XLE corrected along with the market, but intermediate uptrend support held: Energy stocks corrected along with the market, but look stronger overall. We note that the intermediate-term uptrend has held, so far. Energy stocks tend to rally in the winter, and we believe this will happen in 2011. Indeed, it looks as if we could see acceleration from here. We will remain overweight as the broad market should rally into yearend, and should be a leader, as it performs well November to January. **Energy was mentioned in Barron's as a top institutional favorite (Barron's October 31) and this may help the sector**. OVERWEIGHT.

ETF Sector Charts: Financials (XLF)

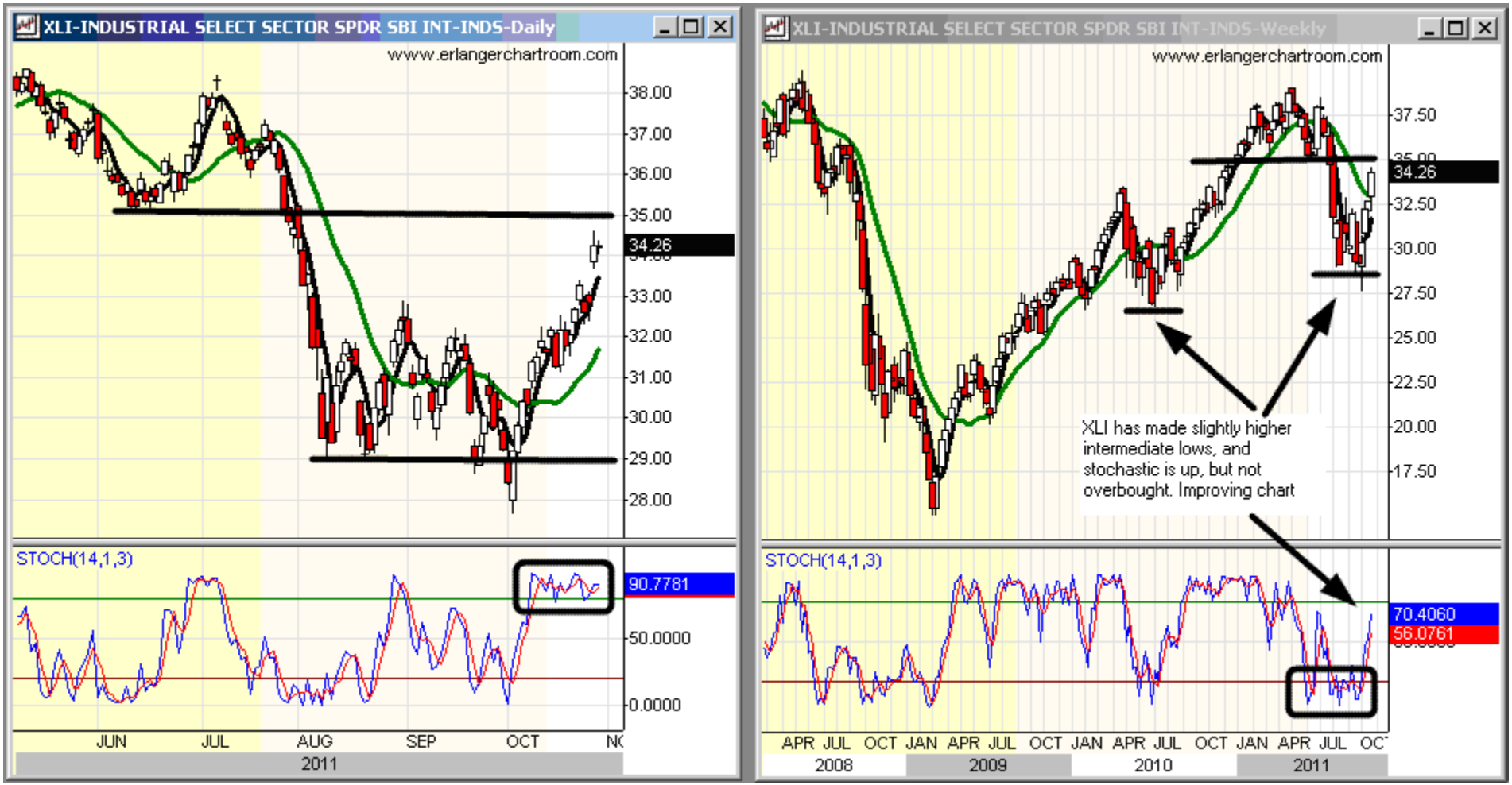


Financials have consistently lagged since March/April 2010, and were weaker in the correction: Overall this ETF is weak as this sector barely exceeded the April 2010 high. We remain underweight this sector, and recent price action has validated this. A move back above 14.50 would improve this chart, and is possible. We note the break of the July 2010 lows, while most sectors have held these lows. Note this sector could rally to 17 by the end of the year, a sizeable up-move, and STILL have a weaker chart than some of the strong sectors. UNDERWEIGHT.

ETF Sector Charts: Health Care (XLV)

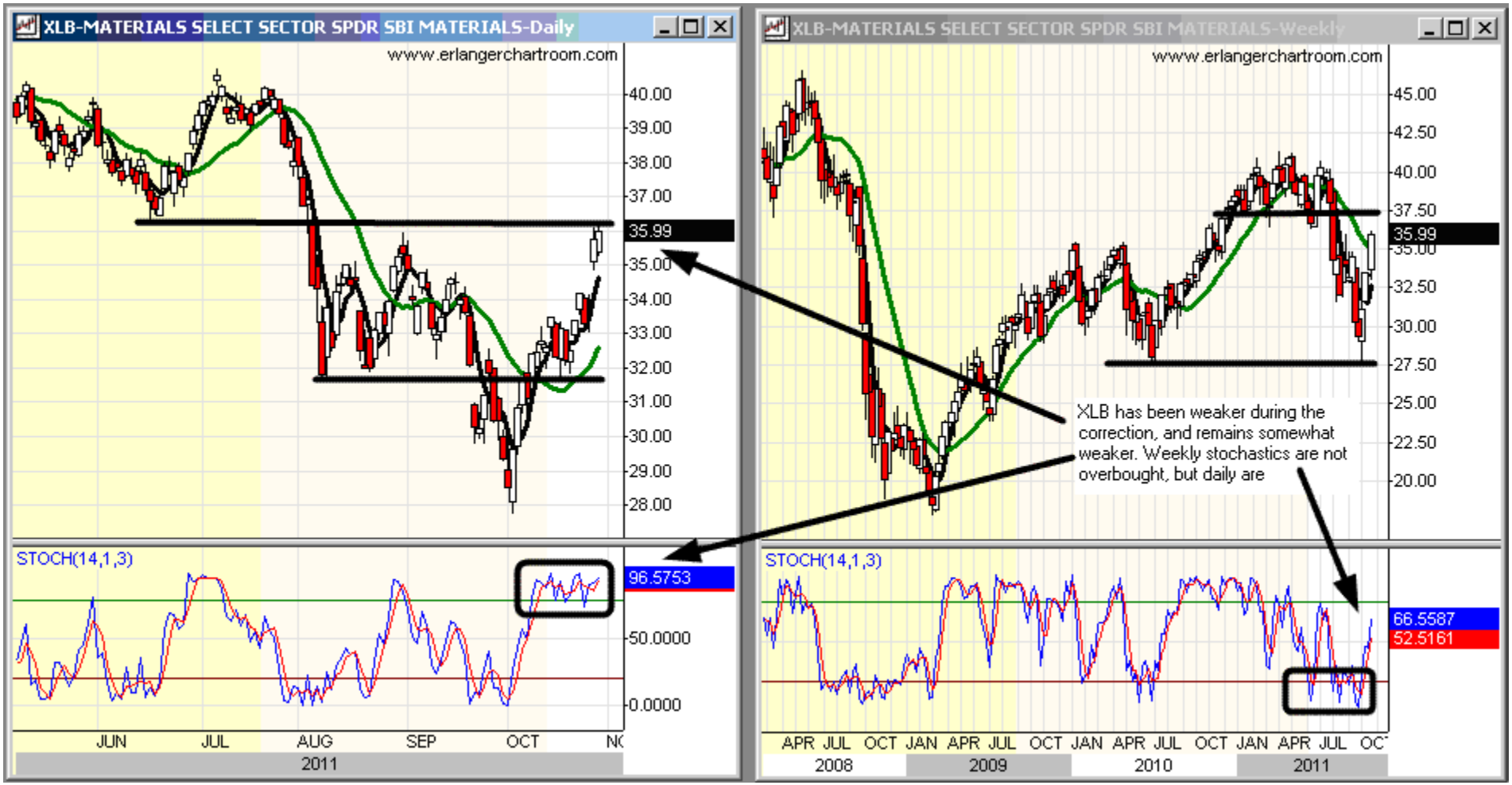
Health Care has made higher lows vs. the SPY: XLV has lagged a little coming off the October lows, after outperforming during the correction. Our accumulation model has weakened a bit. So far, this sector has acted a bit better defensively than we thought it might, but could lag if the market has a yearend rally, as we expect. The stronger individual stocks are performing well – especially drugs. Weak stocks are hurting XLV, as the weakness is pronounced. EQUAL WEIGHT

ETF Sector Charts: Industrial (XLI)



Industrials have formed a short-term bottom: Longer-term, the XLI has broken the 35 area and is challenging this resistance. Our accumulation model has improved over the last two months, but is still weaker than we would like to see to suggest a major improvement in the economic numbers. We remain concerned that this sector could lag even in a fourth quarter rally. We remain an equal weight for now and believe this sector could do well should economic sentiment change, which is starting to happen in the popular press. EQUAL WEIGHT

ETF Sector Charts: Materials (XLB)

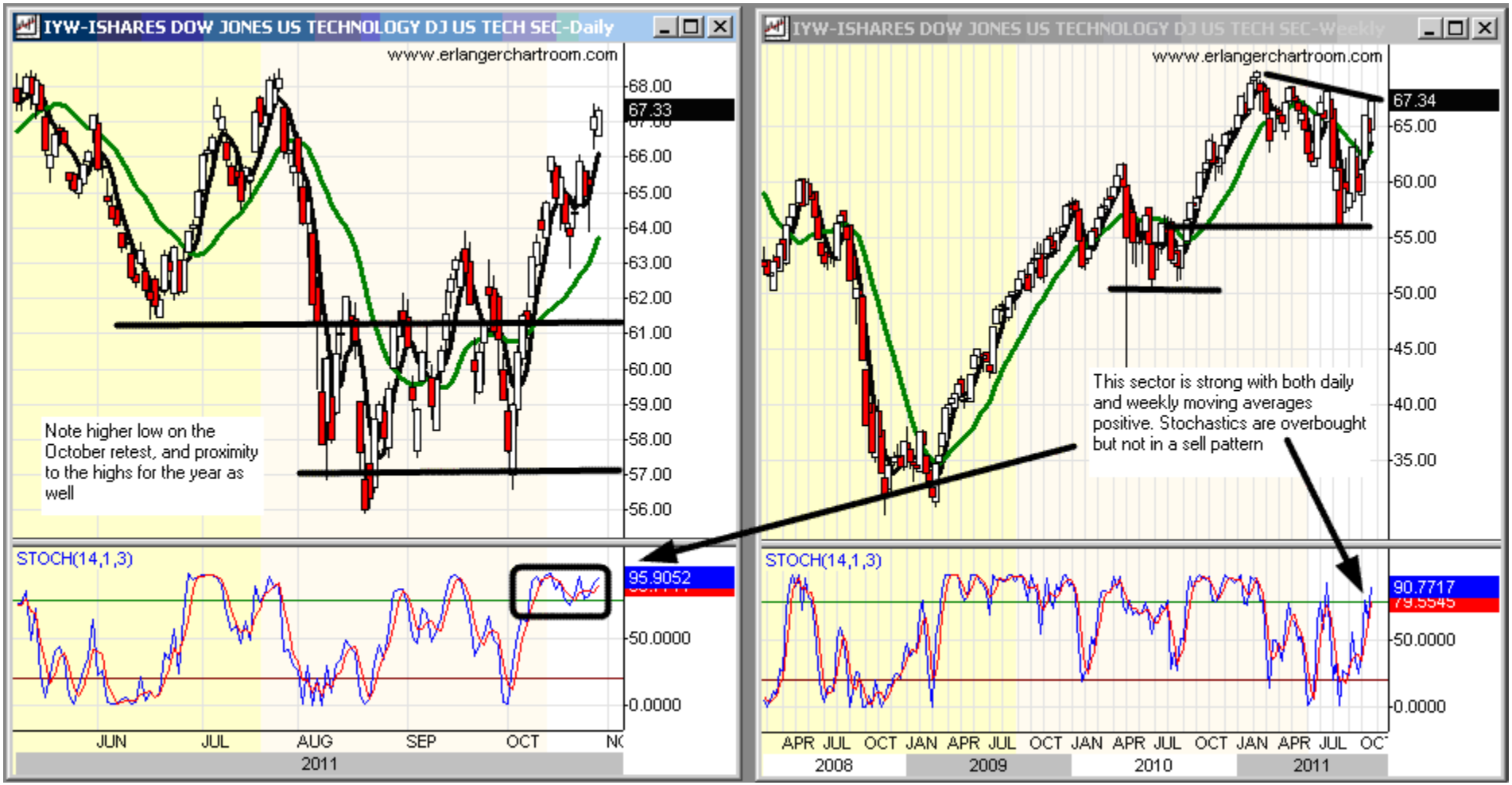


XLB declined more than the broad market: This sector is economically sensitive. Intermediate-term support at 27.50 has held, and recovery has been less strong than other sectors. Short-term this sector has lagged Industrials and accumulation models have not recovered more than price this month. The 36 area now offers intermediate resistance, and is being tested. This chart suggests that the economy may continue to lag even if the market stages a rally into yearend. EQUAL WEIGHT

ETF Sector Charts: Utilities (XLU)

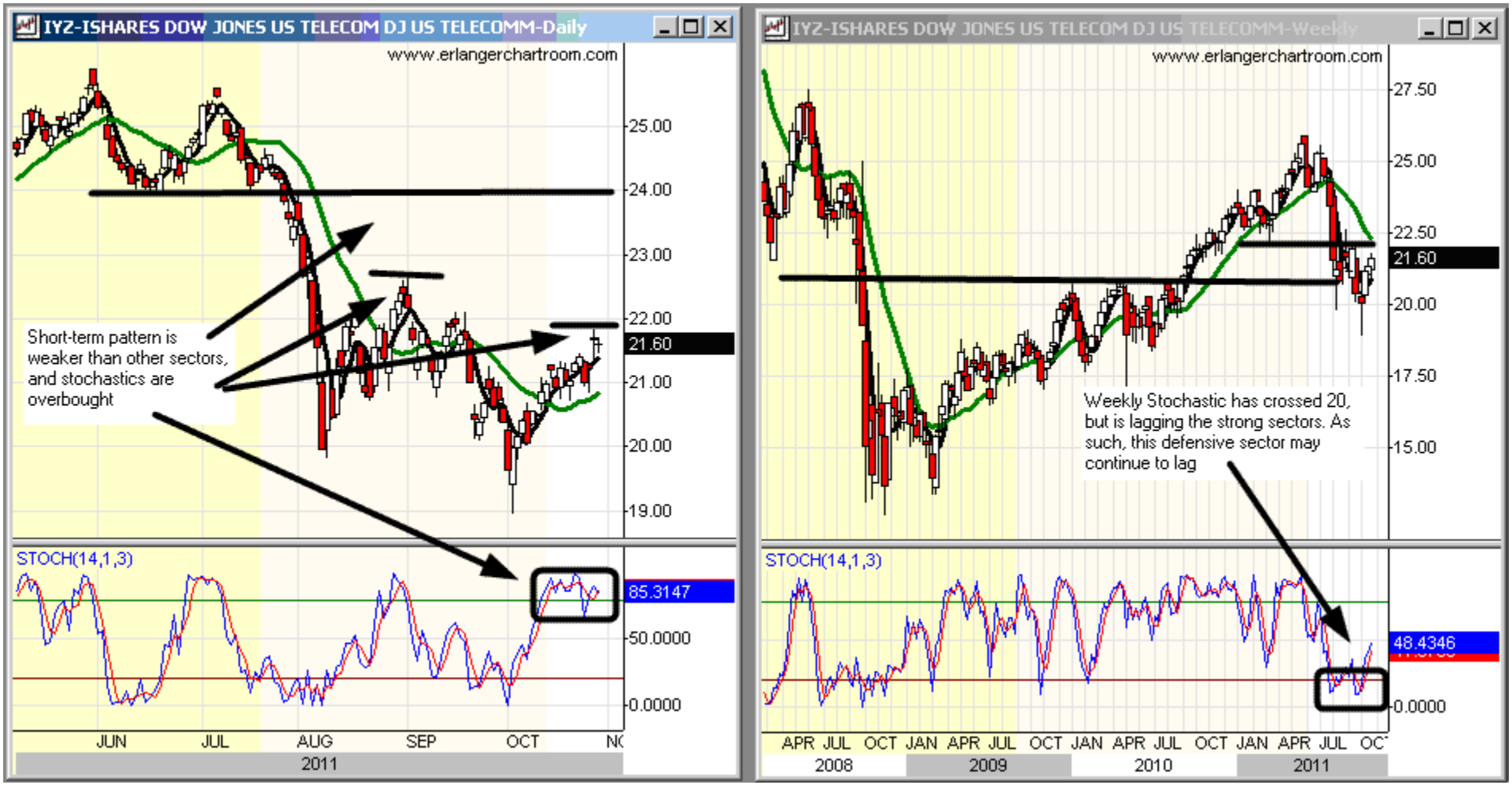
Utilities have continued to improve, as the market has improved: We note that stocks in this sector have a lot of commonality and finding clearly good or bad patterns is difficult. 2008 breakdown point resistance is at 37.50, a ways from here. Our accumulation models have improved a little over the last month. This sector may be trading more with LQD and less with TLT, as it is not declining along with government bonds. It is still a long-term underperformer, but by and large it is in fact an up chart. UNDERWEIGHT.

ETF Sector Charts: Technology (IYW)



Technology has continued to improve: It remains one of the strongest sectors long-term, is once again near multi-year highs. The sector has continued to improve, and is close to the summer highs, ahead of other sectors. Higher lows as the market retested is also a big plus. Strong stocks have outperformed during the market correction and look to lead a rally into year end. Note that even weak stocks in Tech may rally. **Tech was mentioned in Barron's (October 31 issue) as a top institutional favorite, so this may help as well**. OVERWEIGHT

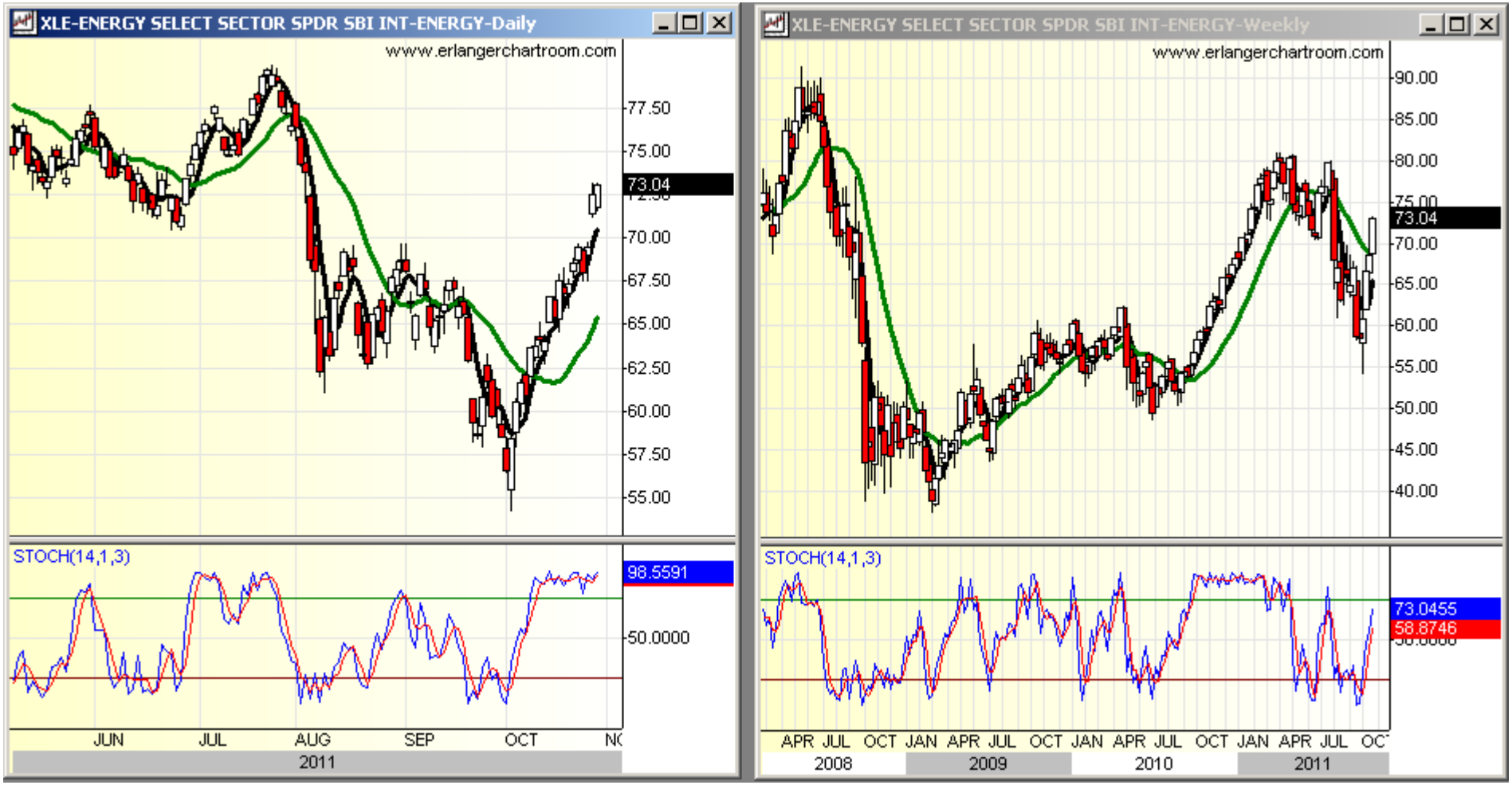
ETF Sector Charts: Telecom (IYZ)



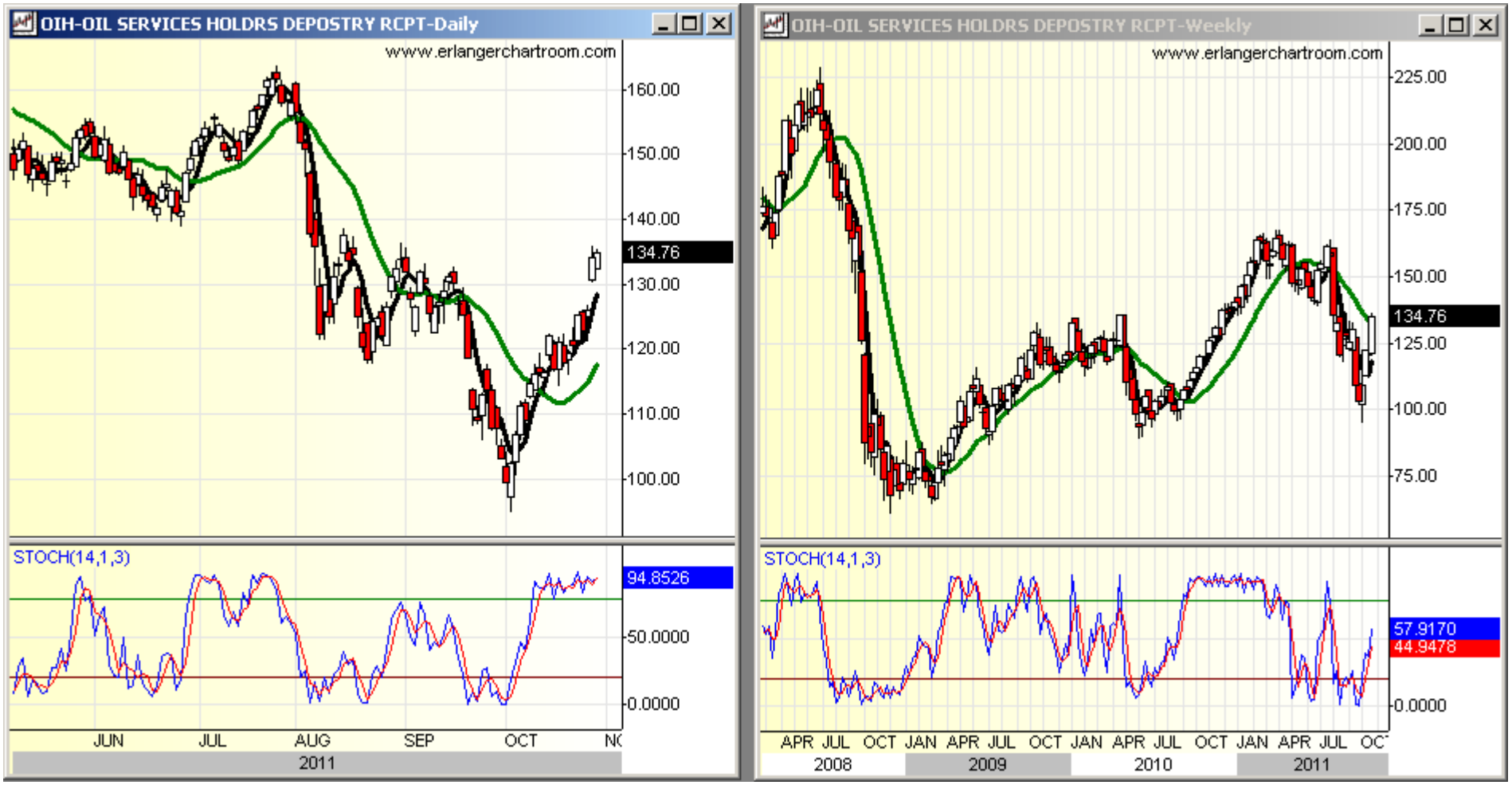
Telecom has weakened short-term, but held intermediate support, during the recent correction: Short-term support was broken, as drawn. IYZ is back above the 2010 highs but still substantially below the 2007 peak. Accumulation models continue to improve. This is normally a defensive sector, and may still act as such if the market improves over the next several months. Bad news on a major component (AT&T) hurt this sector during the correction. Many stocks have high yields. EQUAL WEIGHT

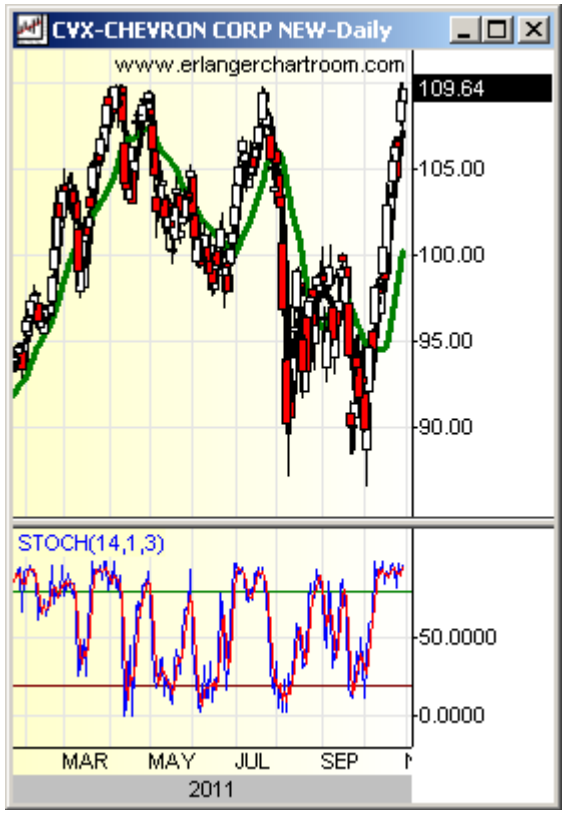
Research Piece: A Look at Energy

We have finally gotten to the end of October, and one of our favorite trading maneuvers is to buy energy related stocks and ETFs for a rally that lasts from now until the end of January. In the body of this report, and in our Sector Review, we discuss our overweight in XLE. In this piece we will examine some other ETFs in the energy sector, with a view towards some suggestions for long units that we have not covered.



We have mentioned that we are overweight XLE and that remains our favorite ETF, but we also want to look at OIH. OIH is service companies and these are less directly dependent on oil prices, and a bit more dependent on demand for oil and general economic conditions. What is interesting about OIH compared to XLE is that it has not exceeded the September 2011 highs, although it is close to doing so. We show the chart below. Stock ideas in these two ETFs that we like are CVX, XOM, and RDC.




CVX-CHEVRON CORP NEW-Daily
www.erlangerchartroom.com
109.64
105.00
100.00
95.00
90.00
STOCH(14,1,3)
50.0000
0.0000
MAR
MAY
JUL
SEP
2011

XOM-EXXON MOBIL CORP-Daily
www.erlangerchartroom.com
87.50
85.00
82.50
81.48
80.00
77.50
75.00
72.50
70.00
67.50
STOCH(14,1,3)
50.0000
0.0000
MAR
MAY
JUL
SEP
2011

RDC-ROWAN COS INC-Daily
www.erlangerchartroom.com
42.50
40.00
37.50
36.59
35.00
32.50
30.00
STOCH(14,1,3)
50.0000
0.0000
MAR
MAY
JUL
SEP
2011

Another interesting ETF is the PSCE (Powershares Small Cap Energy Portfolio). Small cap stocks look attractive to us, and may accelerate up as economic fears recede. There are also some interesting stocks names in this ETF – BRS and INT are two attractive issues. BQ and BAS are less attractive, but interesting and could also be part of a yearend rally.

BRS-BRISTOW GROUP INC-Daily
www.erlangerchartroom.com
52.50
51.19
50.00
47.50
45.00
42.50
40.00
STOCH(14,1,3)
50.0000
0.0000
MAR
MAY
JUL
SEP
2011

INT-WORLD FUEL SVCS CORP-Daily
www.erlangerchartroom.com
40.16
37.50
35.00
32.50
30.00
STOCH(14,1,3)
50.0000
MAR
MAY
JUL
SEP
2011

There are also two sub-sector funds that could be interesting: IEO and IEZ are interesting here as well: IEO is through the September highs and is therefore more interesting to us, while IEZ is at resistance, similar to the relationship between XLE and OIH. There are some interesting stocks in IEO that are not in the top holdings of XLE, such as NBL, and EQT. We show these charts below. We note that SPDR has two ETFs that are in this category as well: XOP, and XES.

IEZ-ISHARES DOW JONES US OIL EQUIPMENT INDEX DJ OIL EQUIP-D...
www.erlangerchartroom.com
67.50
65.00
62.50
60.00
56.56
55.00
52.50
50.00
47.50
45.00
42.50
40.00
STOCH(14,1,3)
94.2982
50.0000
0.0000
JUN
JUL
AUG
SEP
OCT
2011

IEZ-ISHARES DOW JONES US OIL EQUIPMENT INDEX DJ OIL EQUIP-We...
www.erlangerchartroom.com
80.00
70.00
60.00
56.56
50.00
40.00
30.00
20.00
10.00
STOCH(14,1,3)
57.2618
APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL
2008
2009
2010
2011

NBL-NOBLE ENERGY INC-Daily
www.erlangerchartroom.com
100.00
93.71
90.00
85.00
80.00
75.00
70.00
STOCH(14,1,3)
50.0000
0.0000
MAR
MAY
JUL
SEP
2011

EQT-EQT CORPORATION-Daily
www.erlangerchartroom.com
70.00
65.93
60.00
55.00
50.00
45.00
STOCH(14,1,3)
50.0000
0.0000
MAR
MAY
JUL
SEP
2011

Below is a listing and definition of various proprietary and non-proprietary technical indicators we rely on during our analysis of the markets:

Moving Averages:

Moving averages are one of the building blocks of Technical Analysis, and there are almost as many ways to use this indicator as there are technicians.

At the FRED report we teach and use a dual moving average crossover system to determine trend. Our favorites are the 5 period and 20 period moving averages. We consider the trend to be up if the 5 is above the 20, and down if below it.

Stochastics:

The Stochastic Oscillator is one of the commonly used momentum oscillators and is standard on charting programs. There are two lines on the chart below, %K and %D.

%K is the faster of the two lines, and represents a mathematical formula that *measures where the current close is in relation to the trading range of the last "X" periods of time*. We use a 14 period look-back, so in plain English %K says where the current close is in the trading range of the last 14 days, expressed as a %.

At the FRED report we use it somewhat differently than is commonly taught. The standard way to use the indicator is to register a buy signal when it moves below, and then above, 20 (the lowest 20% of closing prices in the last 14 days). A sell signal is when the indicator moves above, and then below 80 (the highest 80% of closes over the last 14 days).

The other line, %D, is a 3 period moving average of %K. We have found that the Stochastic is sensitive, so we advocate taking signals only in the direction of the trend. When looking at the standard FRED report chart, this would mean taking buy signals when the 5 is above the 20, and sell signals when the 5 is below the 20, but using a different technique to exit positions. The reason for this is the Stochastic is quite sensitive, and can give early indications, especially in new trends. It also can get "stuck" in the direction of trends, which connotes strength and not weakness. Another, preferred interpretation is to use the indicator to measure risk. An example: buy in an uptrend, not when the stochastic is at 90% but rather wait until it falls below 50%, This way, even if a stock, commodity, or ETF does not give one of the "classic" signals, you can still use the indicator to assess risk, and leg into positions.

Fred's Price Oscillator (FPO):

This is an oscillator that I invented, using a combination of high, low and closing prices. Unlike the Stochastic, which is really sensitive, this indicator is designed to be less sensitive. Other than that it is, of course, proprietary, so we do not disclose much about the construction of the indicator. One of the characteristics of the tool is that when the Oscillator moves below/above -15/15 the market often creates a divergence. For those of you who do not know that term it means that price will make a new low/high and the oscillator will not confirm it. That is usually the sign of a turn. On really sharp strong market moves, a couple of these divergences can occur. We use weekly data in our examples for you, as we have that data going back to the 1970's on the SPX, and farther on the Dow Industrials, which work the same way. We would note that we keep FPO's on the commodities, but rarely publish these, as most subscribers are interested in stocks. Like most oscillators it is most useful at bottoms, so our examples show bottoms. We can, and will, show some analysis of tops as they occur.

Fred's Breadth Oscillator (FBO):

This is an Oscillator that I invented. Unlike the McClellan Oscillator, which is sensitive and gives a lot of signals, this tool is more of a trend following indicator. It is proprietary to the FRED report, so we do not disclose much about the construction of the tool. It generally moves between 12 and 18. Moves below 12 or above 18 imply a divergence bottom or top is coming with fairly high probability. This tool works best at extremes, and patterns can be significant. It also gives clearer signals at bottoms than tops, although when tops are perceived to be occurring we will publish these charts, appropriately annotated. The FBO is only useful on the stock market, where advance/decline data is published.

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