



Dorsey, Wright & Associates

Voice	(804) 320-8511
Fax	(804) 320-8577
Email: dwa@dorseywright.com	

Money Management

Voice:	(626) 535-0630
Fax:	(626) 535-0639
Email: moneymanagement@dorseywright.com	

For Monday, August 20, 2007

Today's Market Comment will include the following:

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Were You Aware...?

The last [intraday reading](#) on the NYSE Bullish Percent [BPNYSE] Friday afternoon suggested this indicator will uptick to the tune of about 5%. This is not enough for a reversal, but does certainly bring such a change into arm's reach (roughly 2.4% away from the reading of 36% needed for a change in column). Meanwhile, the preliminary number high-low numbers on Friday showed 22 new highs on the NYSE Friday, but still 88 new lows, a ratio that will not trigger a reversal on NYSE high-low index [HILO]. Both of these indicators have reached historically washed-out conditions, and one thing we will focus upon in today's report are observations from similar instances within the last 10 years. At least from 1998 and 2002 we clearly see a market bottom is not an event, but rather a process.



From the Money Managers: O'Shaughnessy Update

James O'Shaughnessy, author of *What Works on Wall Street*, recently wrote an article in the CFA Institute Quarterly Journal that reviewed the major themes from his 1996 book. For those who have not read O'Shaughnessy's book, it is based on research covering the period from 31 December 1963 to 31 December 1995. His goal in doing research for his book was to determine if specific traits held up as good stock-selection mechanisms over long periods of time. He found that a lot of academic research had been done on this subject, but the time periods studied were very short. At the time of his research, he found a large body of academic work suggesting that a bunch of monkeys throwing darts at the *Wall Street Journal* could pick stocks as well as any professional money manager because the stock market is efficient. Being a professional money manager, he was not flattered by the comparison. Nevertheless, it was difficult to refute the studies that showed in any 10-year period roughly 80 percent of conventionally managed portfolios failed to beat the S&P 500. O'Shaughnessy tested portfolios based on various value and growth factors and concluded that the market consistently and methodically rewards certain attributes while it punishes others quite severely. Of interest to the Dorsey Wright crowd is that O'Shaughnessy noted that "relative strength is one of the criteria in all 10 of the top-performing strategies, proving the maxim that you should never fight the tape." He pointed out that the worst strategy he tested was the anti-relative strength strategy of bottom fishing and buying the 50 stocks with the worst one-year price performance.

O'Shaughnessy recently updated his study through 31 December 2005. Interestingly, 10 years after his original study was published, every strategy that was shown to be the best in 1996 has continued to be the best. With the book in wide circulation since 1996, that should not have happened. In an efficient market, the advantages associated with the strategies should have been arbitrated away. The answer to why these strategies continue to work is found in behavioral finance. Strategies such as relative strength continue to work because human psychology does not change. Proponents of efficient markets should study why investors consistently commit the same errors in decision making. Several theories in behavioral economics help explain investor behavior: prospect theory, myopic loss aversion and narrow framing, fear of regret, and hindsight bias. Prospect theory says that investors are risk seeking for losses but risk averse for gains and that most investors hate losses so much that they hold their losing stocks and sell their winners (the exact opposite of what a relative strength strategy forces you to do).

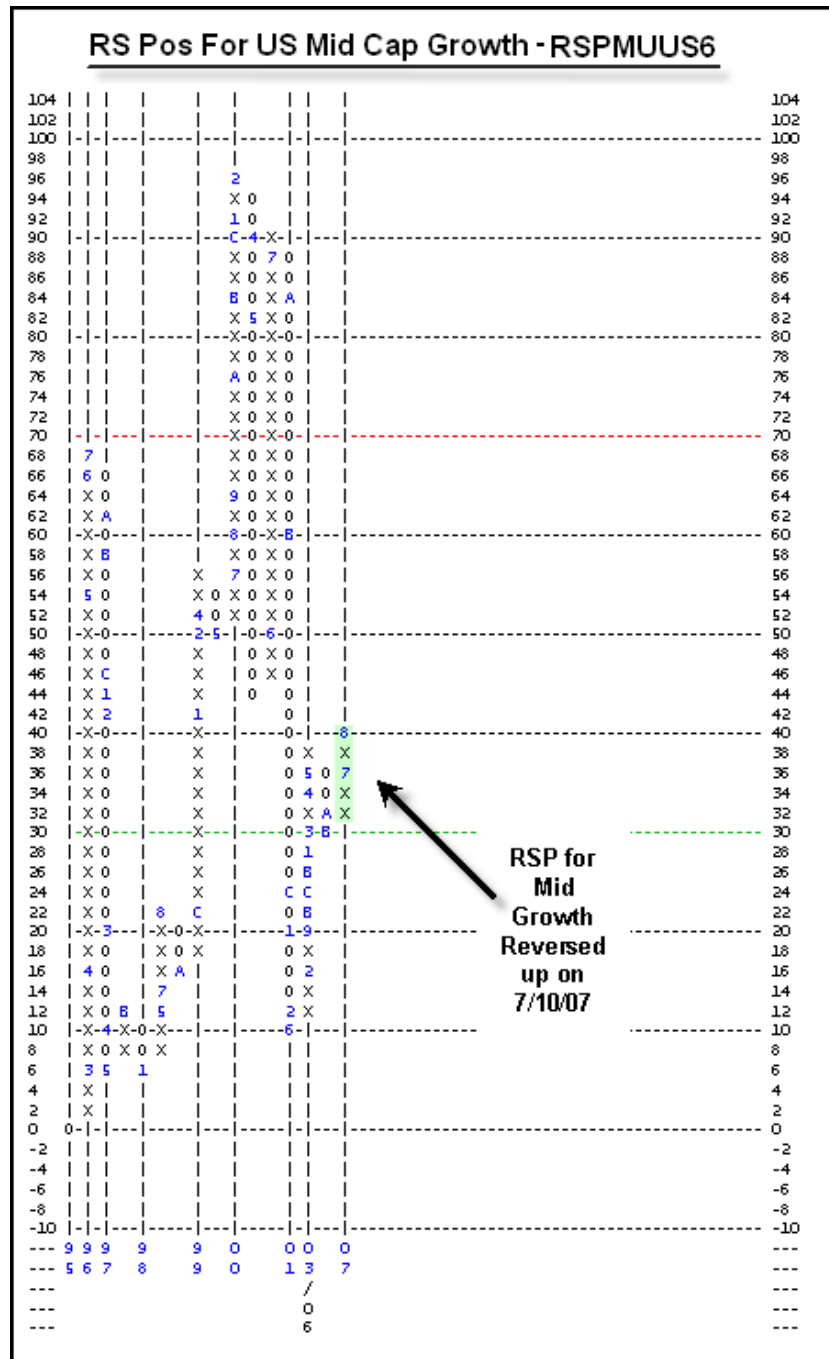
O'Shaughnessy points out that "as investment professionals, we like to think that what we do is quite glamorous. It is not. Anyone who can do basic arithmetic and stick to an underlying discipline has the makings of a great portfolio manager. I often think of Woody Allen's quip: '80 percent of success is just showing up.' Well, 99 percent of investment success is just diligently following an investment strategy through all the ups and downs of the market." That quote should probably be hanging on your wall.

Dorsey Wright's Money Management division is based in Southern California. To learn more about the different relative strength-based accounts that we offer please give us a call at 626-535-0630. Or, [click here](#), to receive our brochure.

Finding Value in Growth

The volatility in the markets over the past couple of months has made investors become increasingly nervous to say the least, and in times of uncertainty they turn to you, the advisor, for calming words of guidance. We discussed in Friday's report some talking points that are apropos in this market, and many other additional observations that we have been seeing amongst our indicators for the equity market. In perusing the mutual fund indicators I have been noticing something quite interesting. An indicator that we look at for mutual fund asset classes is the Percent of Funds within the group that have positive relative strength against the overall market. That is, those funds that are on relative strength buy signals versus the S&P 500 Equal Weighted Index. In mid

July the Percent of Funds with Positive Relative Strength for the Mid Cap Growth [RSPMUUS6] reversed up into a column of X's at 36% after producing a higher bottom. Growth assets, by and large, have been out of favor for many years now, sometimes as far back as 2000 relative to other assets, but this reversal up suggests that Growth assets are attempting to assert themselves in this volatile market.



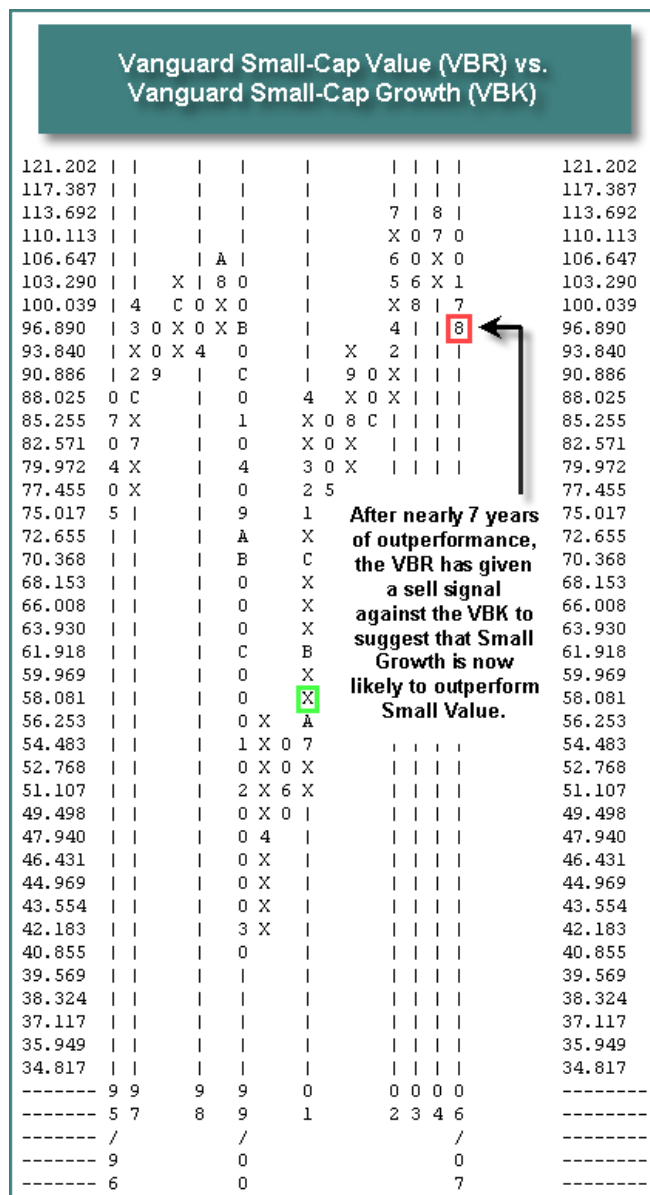
But the positive signs from the Growth assets don't stop at just the Mid Cap asset class. Nearly a month later the same Percent Positive Relative Strength chart indicator for the Small Cap Growth arena [RSPMUUS9] reversed into a column of X's. This suggests that the average Small Growth fund or ETF is now likely to outperform the equal weighted market. As well, a mere few days later, the Percent Positive RS chart for Large Cap [RSPMUUS3] reversed up as well. So now, not only are we beginning to see the Growth areas across the broad begin to suggest outperformance against the overall market, but it is interesting that it is the Large Cap Growth assets as well that are showing these positive signs are well.

RS Pos For US Small Cap Growth - RSPMUUS9										RS Pos For US Large Cap Growth - RSPMUUS3										
102											104									
100											100									
98											98									
96											96									
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This obvious strength from the Growth assets has brought about many questions from our clients, when is Level 3 in DALI going to change? First, for those not familiar with DALI, it stands for Dynamic Asset Level Investing, and can be found under the Research Tab. DALI is designed as a snapshot to properly allocate your portfolio across all asset types in order to assure that your clients portfolios' are being steered in the right direction. Level 3 for DALI is the "Style" component suggests whether the portfolio should be geared more towards Value, Blend, or Growth. Currently, as has been the case since September 2004 when DALI was first launched, Value has been the emphasized piece of this Level. While we have seen a narrowing of the gap between Growth and Value assets across the board, the long-term bias of performance is still in the Value corner. Using the S&P Barra Value Index [SVX] and the S&P Citigroup Growth Index [SGX] as Value and

Growth proxy indices, the SVX is up 32.65% compared to the SGX up 21.88% since DALI was launched. This performance is far more exacerbated by looking at the date of the reversal on the relative strength chart of the SVX vs. SGX. This chart reversed up on 10/3/2000 to suggest Value, and since then the SVX is up 19.4% compared to the SGX which is **down** 19.3%. Making major changes in market leadership it not a "flip the switch" event. It is a process that can take several months. For instance, in 2000, the process of seeing the relative strength changes from growth to value took place by and large from February to May. Needless to say, DALI continues to get closer and closer to seeing the Growth box highlighted for the first time in years.

Again, while we have seen a narrowing in the performance of this gap between Growth and Value, it has been more prominently seen in the Small Cap area. That is, the Small Growth indices are performing much better relative to the Small Value indices than the Mid or Large Value indices are performing relative to the Mid or Large Growth indices, respectively. This can be seen in the DWA Vanguard Market ETF Portfolio, that can be found under the ETF Tab. This portfolio shifted out of the Small Growth and into Small Value back in October 2000. Just last week we saw the Vanguard Small Cap Value ETF [VBR] give a relative strength sell signal versus the Vanguard Small Cap Growth ETF [VBK] in order to cause the portfolio to shift back into Small Growth and out of Small Value. As a matter of fact this was the first shift in the Vanguard Market Portfolio in nearly 5 years!



Market Observations: 1998 -- Fed Moves, HILO, and BPNYSE

This past week has been wrought with volatility and worrisome headline news regarding the "Credit Crunch". This has resulted in plenty of banter and analysis with respect to the equity markets, and comparisons to past markets. One reference that keeps popping up, even in my own mind, is 1998. Recall this was a time of foreign currency collapses, the continuation of the "Asian flu", and then the subsequent collapse and bailout of the Nobel-prize laden Long Term Capital hedge fund. In other words, the pressure the equity market was feeling in 1998 came from a pseudo-exogenous event(s), not specifically germane to the equity market itself, but to an part of the financial market machine. Ultimately, the Fed had to step in -- to bail out LTCM, and in general stem the bleeding and bring stability back to the equity market. Kind of similar to now, in my opinion, but this time it is a liquidity issue caused by the subprime credit debacle. You may argue that this time is different, or may have the opinion that it is nothing like 1998; even still, we thought it would be useful to look back to 1998 to see how the market behaved, given that the Fed stepped in once again (on Friday) to offer liquidity to the floundering financial markets, answering the calls by many for lower rates.

Back in 1998, the behavior of the Fed was different than what we experienced just on Friday, but time will tell as to whether the Fed gets more aggressive with respect to rate cuts. More specifically, in 1998 (as the table below shows) the Fed administered three rate cuts of the Fed Funds rate, starting on September 29th at their scheduled FOMC meeting. It was the middle cut of 25 bps on October 15th that was the "emergency move". Fast-forward to today. On Friday the Fed stepped in, although in a more modest fashion, cutting the Discount Rate by 50bps. This was an action directed more at the liquidity or availability of cash, rather than the price of cash, and is more of a short-term fix. Nonetheless, this surprise move signaled a change in posture, at least to some degree, and offered a psychological and absolute boost the equity market. Whether or not the Fed will act further by lowering the more important policy tool -- Fed Funds rate, remains to be seen. The next scheduled FOMC meeting is September 18th.

That said, let's look at how the market behaved in September-October 1998 when the Fed acted to shore up the financial markets. In looking at this time period, we specifically turn our attention to the NYSE High-Low Index [HILO] and the NYSE Bullish Percent [BPNYSE]. As you can see in the table below, as well as the following charts, the BPNYSE actually reversed up before the HILO, in both the September and October reversals to the upside; and each indicator showed a higher bottom in October. What is also noteworthy is that the BPNYSE reversed up on the exact same day as the emergency Fed rate cut (October 15th), while it took the HILO another five days to do so. Whether or not it plays out this way again, we will act accordingly once these indicators do reverse up. In looking at Friday's market action, it does not appear that we will have a high enough daily reading to cause an upside reversal in the High-Low Index. Preliminarily, the NYSE Bullish Percent posted a very respectable performance, gaining roughly 5.1%. This would place the BPNYSE around 33.65%, where a reading of 36% is needed to reverse to X's and summon the offensive team back onto the field. We will, of course, continue to monitor the situation very closely and will alert you to any key changes in our market indicators.

A Look Back at 1998 Bottom

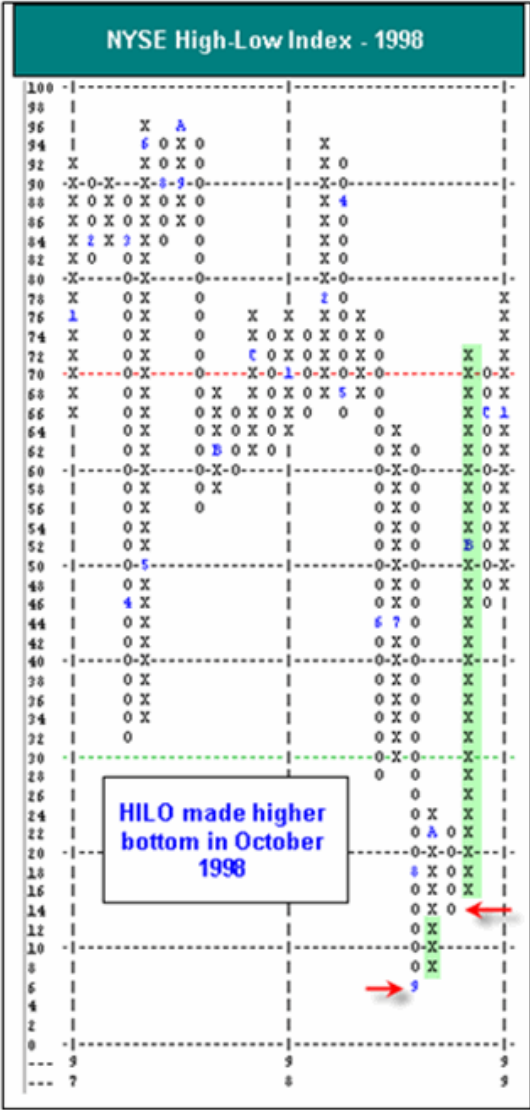
<u>High-Low Index (HIL O)</u>			
<u>Date</u>		<u>Reversal Data</u>	<u>SPX Level</u>
9/3/1998		Low at 5.2%	982.26
9/23/1998		Reversed up and rose to 24%	1066.09
10/12/1998		Reversed down to 14%, made higher bottom	997.71
10/20/1998		Reversed up at 20%, moved up to 72%	1063.93
12/10/1998		Reversed down at 66% after peaking 11/12/98	1165.02

<u>NYSE Bullish Percent (BPNYSE)</u>			
<u>Date</u>		<u>Reversal Data</u>	<u>SPX Level</u>
8/31/1998		Low at 19.14%	957.28
9/16/1998		Reversed up to 26% and rose to 32%	1045.48
10/7/1998		Reversed down to 24%, made higher bottom	970.68
10/15/1998		Reversed up at 30%, moved up to 60%	1047.49
12/14/1998		Reversed down at 54% after peaking 11/23/98	1141.2

Fed Actions:

9/29/1998		Fed lowers Fed Funds Rate 25bps to 5.25% at FOMC Meeting
10/15/1998		Fed lowers Fed Funds Rate 25bps to 5% in emergency move
11/17/1998		Fed lowers Fed Funds Rate 25bps to 4.75% at FOMC Meeting

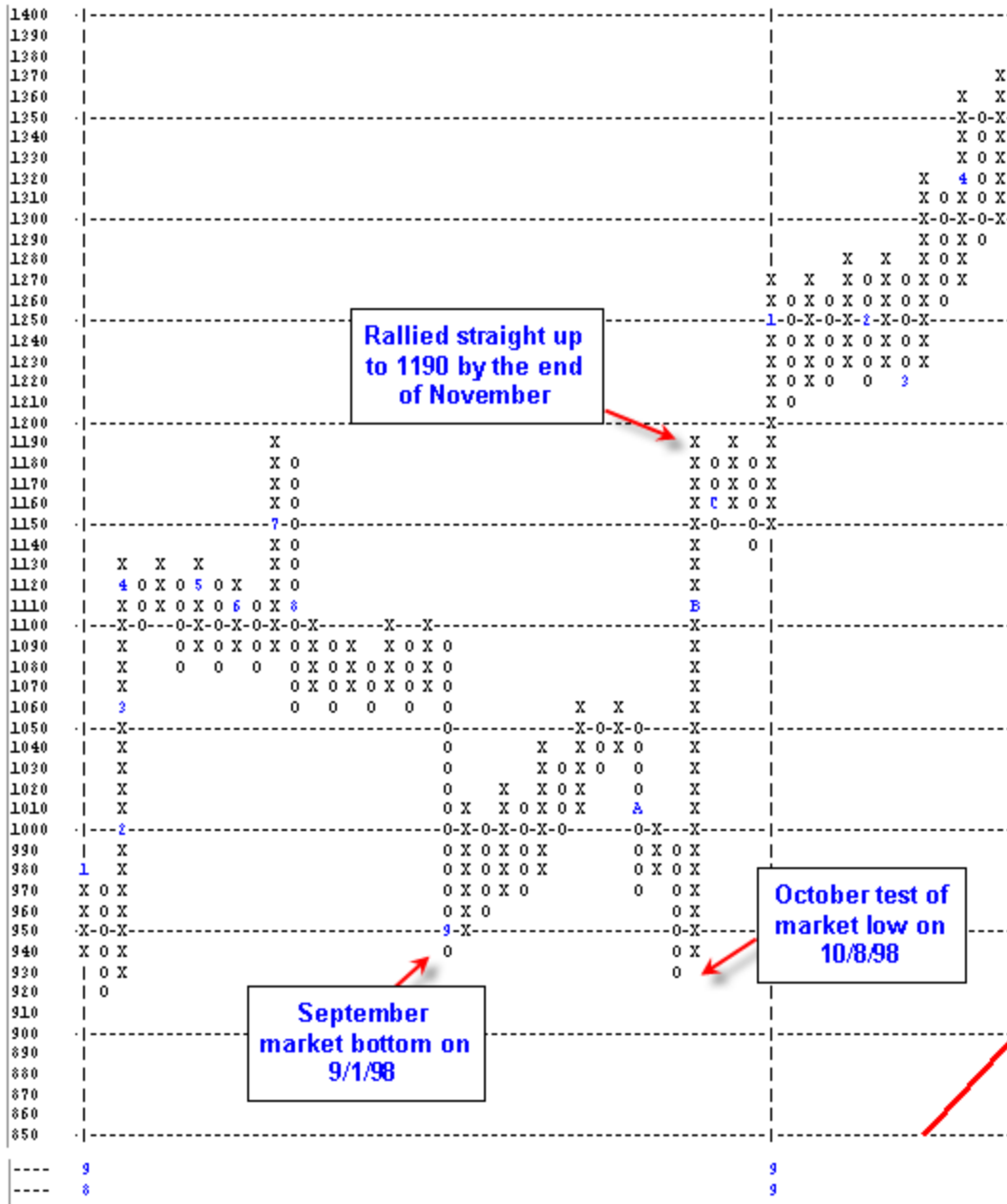
A Look at the NYSE High-Low Index & NYSE Bullish Percent: September-October 1998



In September 1998 and again in October, the BPNYSE reversed up, back to offense, before the HILO, by roughly a week.

Below is shown a chart of the S&P 500 Index [SPX], offering you some perspective on how the market behaved in late 1998.

S&P 500 Index (SPX) - From 1998 - 1999

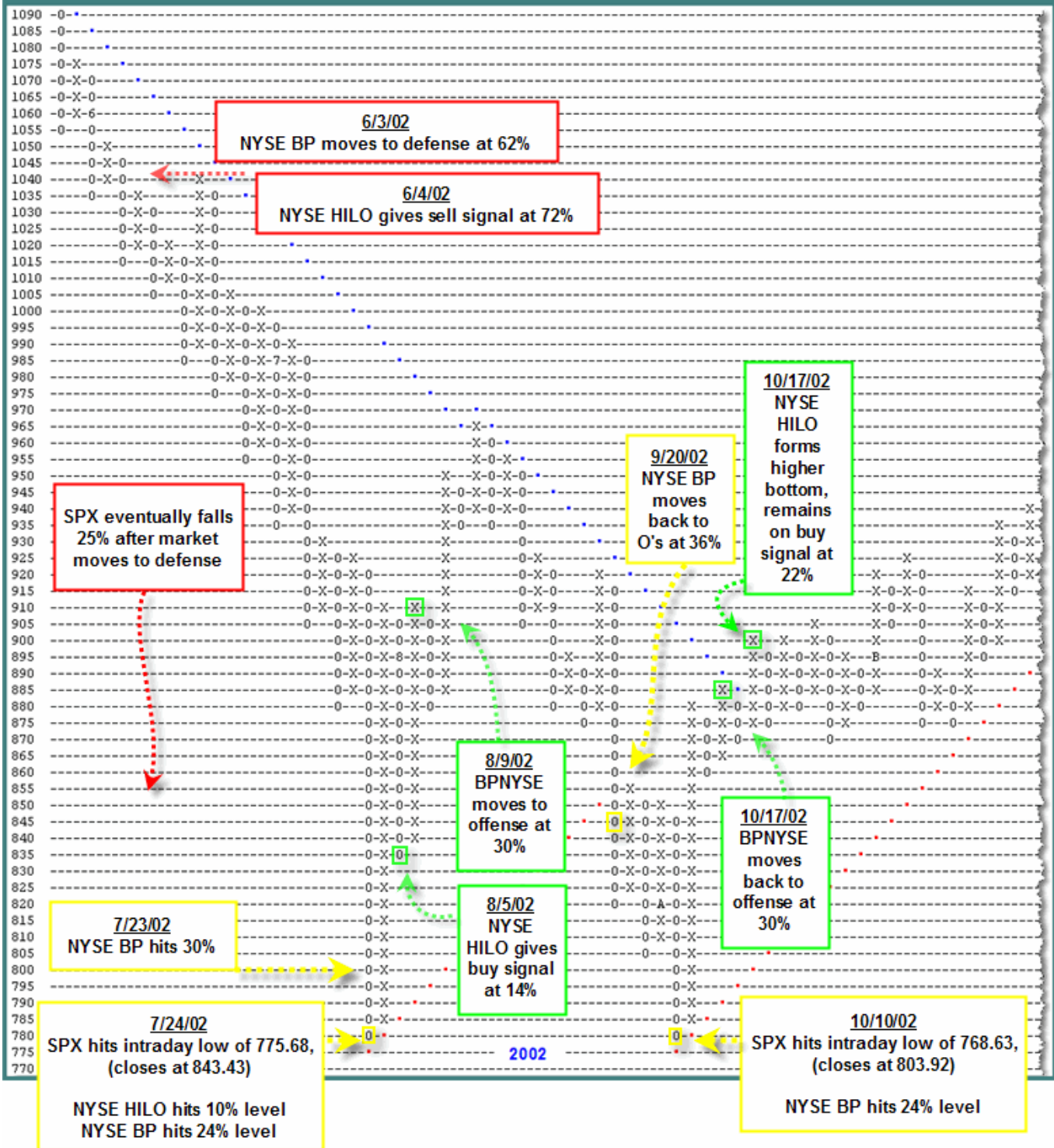


Market Observations: In Case you Thought Bottoms Were Easy (2002)

If nothing else, the bottoming process in 2002 serves as a helpful reminder that there is no "easy button" for market bottoms. The indicators did a great job of putting the defensive team on the field in early-June 2002, as the S&P 500 fell 25% from that point before it eventually hit its low watermark. That said, the big difference between market tops and market bottoms is volatility. At tops there is very little of it, market highs often pass investors by like two ships passing in the night, but at bottoms there is an all-you-can-eat (and more) buffet of volatility. Hopefully the graphic below does justice to the time period of mid-2002, but in all honesty you must also remember that market sentiment was at its lowest levels since the 1970s. Investors had lost much of their wealth in technology stocks in 2000 and 2001, and then when they were finally done being punished for their

technology exposure the market pounded EVERYTHING in mid-2002. Nothing escaped the selloff in 2002, every sector of the equity market was down, which is what made it perhaps the most demoralizing market decline in a generation. But, for those that could muster the fortitude to buy stocks, the bottoming process of mid-2002 laid the foundation for a rally that would persist for the next 5 years!

Anatomy of a Bottom ... May-Nov 2002 S&P 500 Index (SPX)



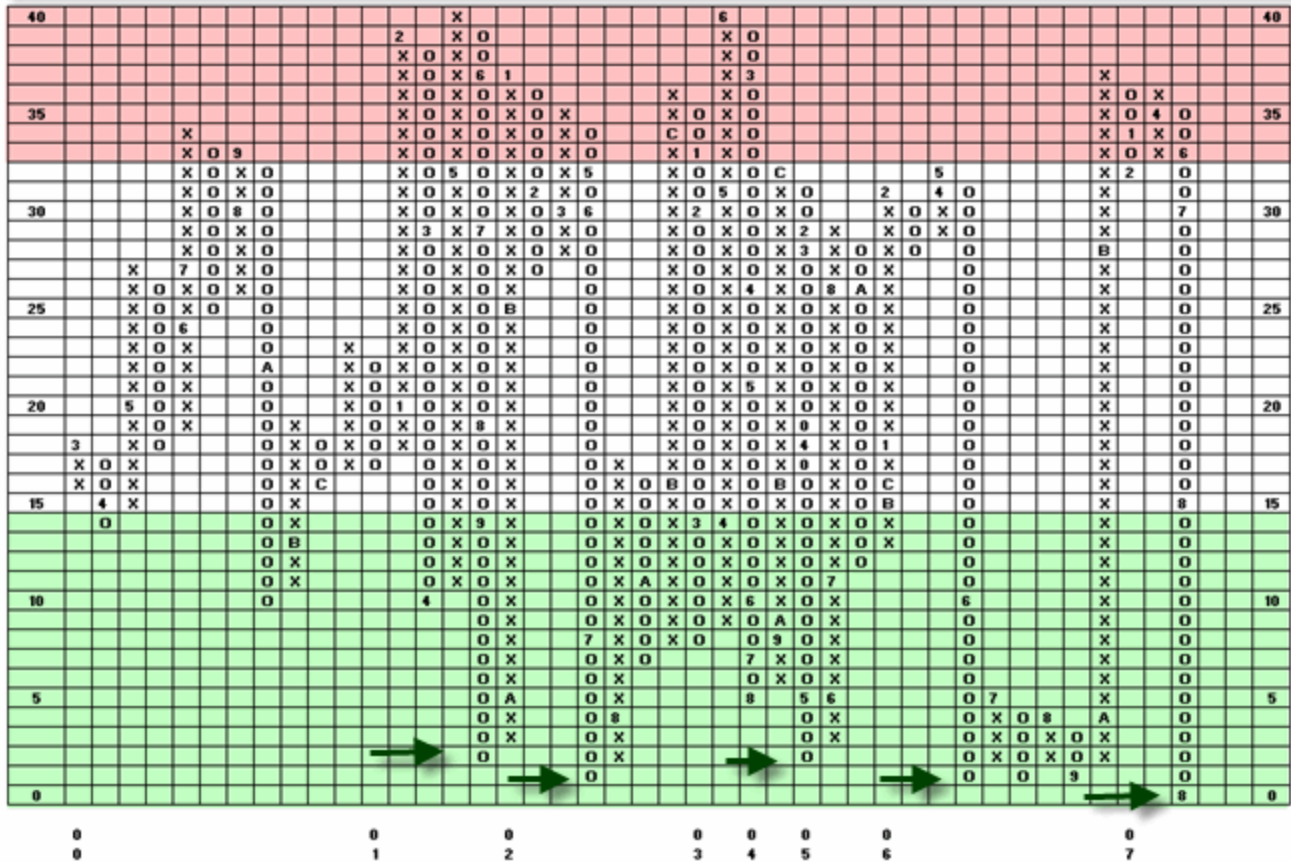
Clearly, from simply following how the indicators changed status from low levels as the S&P 500 traded up and down in swings of 20% at a time, we see that a market bottom truly is a process rather than an event. In 2002, much like 1998, the market made a low, re-tested that low, and traded in a very wide range in between. Remember that the NYSE bullish percent is a risk barometer, when it reaches 30% it suggests to us that those willing and able to sell stocks have largely already done so. It isn't a light switch or something that is particularly great at timing moves in and out of the S&P 500. It doesn't mean that the market can't go lower, but it does mean that the availability of new supply has become limited. We are at that point now, an observation confirmed by the NYSE High-Low Index also having hit 10%. While a reversal into X's from the NYSE High-Low would be an indication that new money can be committed back to equities, also remember that this is an art form, rather than a science and nothing is easy about a market bottom.

Market Observations: PT Chart in X's Hits 0

The PT Chart in X's indicator is a measure of the percent of sector Positive Trend (PT) charts which are currently in a column of X's. When we break this indicator down, we are essentially looking at how many sectors are seeing more stocks violate their bearish resistance lines and are on I-95 North. Since there are 40 different DWA sectors, this indicator moves between 0 and 40. We started keeping it in 2000 so it is not that old compared to other indicators like the NYSE Bullish Percent which dates back to 1955. Despite the brief history as an indicator, it has been a good picture to watch and show us how longer term trends are changing in the market. A look at this chart below and you'll see that after reaching 36 in April, this indicator reversed down into O's suggesting that three sector PT charts had reversed down into O's. This was yet another indicator to suggest high risk in the market. With Thursday's market action, the lone sector PT chart remaining in X's, Software [PTSOFT] reversed down into O's. This takes the chart down to 0 for the first time in its history. This indicator is yet another way of looking at the relative oversold condition of the market. What it has yet to indicate is that the knife has stopped falling. Like the other indicators, we will now watch for a reversal up to tell us that any rally is likely to have "legs."

PT Charts in X's
(not available on the Web)

The PT Chart in X's now moves to 0. Since we started keeping this chart in 2000, this is the first time the chart has reached 0.



Major Market Index Technical Picture

The Distribution Report below places Major Market ETFs and Indices into a bell curve style table based upon their current location on their 10-week trading band. The middle of the bell curve represents areas of the market that are "normally" distributed, with the far right being 100% overbought on a weekly distribution and the far left being 100% oversold on a weekly distribution. The weekly distribution ranges are calculated at the end of each week, while the placement within that range will fluctuate during the week. In addition to information regarding the statistical distribution of these market indexes, a symbol that is in UPPER CASE indicates that the RS chart is on a Buy Signal. If the symbol is dark Green then the stock is on a Point & Figure buy signal, and if the symbol is bright Red then it is on a Point & Figure sell signal.

Distribution Curve

Average Level: -42.05

		xlG										
		SML										
		RUT										
		djia										
		UV/Y										
		ndx										
		sgx										
	EEM	nasd										
	MID	cr/y	ICF									
	RSP	spx	fxe			CL/						
	EFA	svx	DVY			GC/	DX/Y	AGG	tlt		ief	SHY
< -100	-100--80	-80--60	-60--40	-40--20	-20-0	0-20	20-40	40-60	60-80	80-100	>100	

Legend:

Symbol	Name	Symbol	Name
[AGG]	iShares Lehman Aggregate Bond Fund	[MID]	S&P 400 Midcap Index
[CL/]	Crude Oil Continuous	[NASDAQ]	NASDAQ Non Composite
[CR/Y]	Reuters Jefferies CRB Index	[NDX]	NASDAQ Financial Index
[DJIA]	Dow Jones Industrial Average	[RSP]	Rydex S&P 500 Equal Weight ETF
[DVY]	iShares Dow Jones Select Dividend Index	[RUT]	Russell 2000 Index
[DX/Y]	NYCE U.S.Dollar Index Spot	[SGX]	S&P Barra Growth Index
[EEM]	iShare Emerging Markets	[SHY]	iShare Lehman 1-3 Year Tres. Bond
[EFA]	iSharesMSCI EAFE Index Fund	[SML]	S&P 600 Small Cap Index
[FXE]	CurrencyShares Euro Trust	[SPX]	S&P 500 Index
[GC/]	Gold Continuous	[SVX]	S&P Barra Value Index
[ICF]	iShares Cohen & Steers Realty Index	[TLT]	iShares Lehman 20+ Yr. Tres. Bond Fund
[IEF]	iShares Lehman 7-10 Yr. Tres. Bond Fund	[UV/Y]	Continuous Commodity Index
[XLG]	Rydex Russell Top 50 ETF		

DWA Equity Roster

A fresh, daily list of actionable trading and investment ideas. This list will be updated throughout the day when applicable, and can be viewed online from the Research Tab.

LEGEND:

Bold = New Addition, * = Favored Sector, R-R = Risk-Reward Ratio

Long Ideas

Stock	Symbol	Sector	Current Price	Buy(Short) Level	Resistance/ Price Obj.	Stop Loss	Rationale
Agilent Tech	A	ELEC	33.83	33-35	59	30	3/5'er, Deep Pullback to March Support & BSL, Great-R-R
Allergan	AGN	HEAL	58.86	62-64	81	56	4/5'er, breakout to new high, positive divergence, one box from RS buy, one for Shopping List
Psychiatric Solutions	PSYS	HEAL	37.16	36-38	52	34/31	3/5'er, Triple top breakout to reverse lower tops, OTC name, wkly mom turned +, good R-R
St. Jude Medical	STJ	HEAL	43.60	41-44	57	40	4/5'er, Significant Spt at \$41, Great R-R

Short Ideas

Stock	Symbol	Sector	Current Price	Buy(Short) Level	Resistance/ Price Obj.	Stop Loss	Rationale
First Marblehead	FMD	FINA	33.58	(30-33)	19	36	1/5'er, Unfavored sector, spr. triple bottom breakdown, good R-R short
Moody's	MCO	FINA	49.98	(50-53)	31	57/60	2/5'er, Unfavored sector, RS sell signal and trendline violation, rally to resistance, good R-R short
Advanced Medical Optics	EYE	HEAL	27.73	(29-32)	22	34	0/5'er, breakdown out of big base, wkly mom turned -; lower buy stop point to 34
Travelers Company	TRV	INSU	52.93	(50-53)	32	57	2/5'er, Recent Bearish Trend Change and Big Base Breakdown, Unfavored sector.

Removed Ideas

Stock	Symbol	Sector	Current Price	Resistance/ Price Obj.	Stop Loss	Rationale
Robert Half Int'l	RHI	BUSI	32.26	17.0	39	(short) This stock has moved into oversold territory, and with the market indicators at low levels, would need to rally substantially to present an attractive risk-reward for new exposure. Okay to trim, or simply wait for a move toward \$35 before placing new orders.

Follow-Up Comments:

[DHR] Danaher Corporation R (\$76.470) - Machinery and Tools - DHR broke a double bottom at \$73 on Thursday, but this was hardly a critical breakdown with notable support in sight at 70-71, and considering the market conditions that led to such a breakdown. The stock remains a 3 for 5'er and remains one to consider as a shopping list candidate here. Despite the double bottom break, the stock continues to hold up pretty well, stops remain 69.

[PSYS] Psychiatric Solutions, Inc. R (\$37.290) - Healthcare - PSYS formed a second higher bottom on Friday, setting up a potential bullish catapult breakout at \$40. The reversal does two things, it allows traders to tighten first alert levels to \$34, which would be a first sell signal, while it also allows those not already long to still consider new exposure here with a sound risk-reward. PSYS maintains a bullish price objective of \$52, and stops may be kept at \$34 and \$31 (a more significant violation of all near-term support).

DWA Spotlight Stocks:

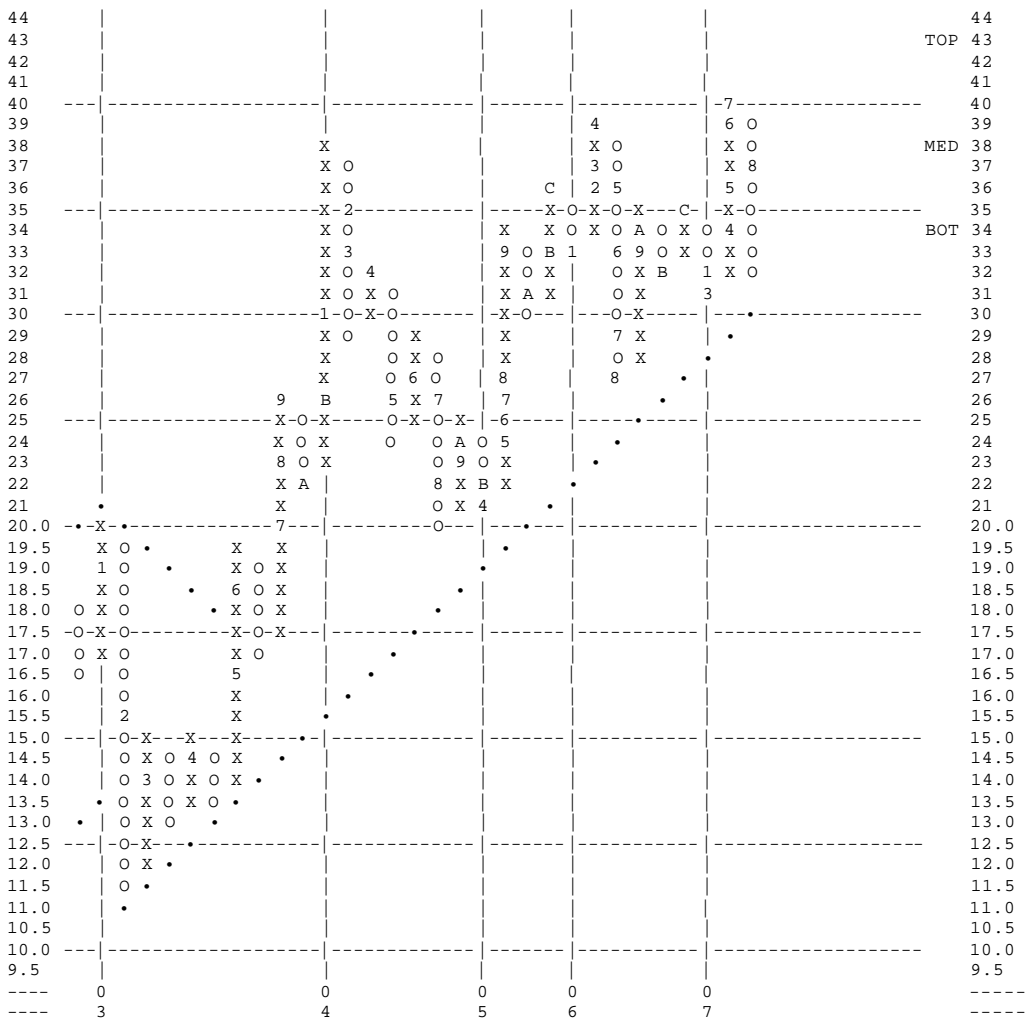
Today we also wanted to provide you with a list of long ideas to consider, in addition to those outlined below. Over the next week or so, we will provide you with a more extensive list of ideas, with specific themes in mind. More on that as the week unfolds.

Long Ideas to Consider

Symbol	Name	Tech Attrib
KLAC	KLA-Tencor	4
MRO	Marathon Oil	4
HPQ	Hewlett-Packard	5
CCMP	Cabot Microelectronics	4
PG	Procter & Gamble	3
FLIR	Flir Systems Inc	5
IRIS	IRIS International	5
CELG	Celgene Corporation	5
A	Agilent Technologies	3
BIIB	Biogen Idec Inc.	4
HPC	Hercules Incorporated	5
SMG	The Scotts Company	4
ARD	Arena Resources, Inc.	5
ALY	Allis-Chalmers Energy Inc.	4
CRR	Carbo Ceramics Inc	4
SYK	Stryker Corporation	3
ASML	Asm Lithograpghy	4
APH	Amphenol Corporation	5
CTXS	Citrix Systems, Inc.	5
BOBJ	Business Objects S.A.	3
QGEN	Qiagen N.V.	3
PBCT	People's United Financial	4
HXL	Hexcel Corporation	3
ARRS	ARRS Group Inc.	5
KFY	Korn/Ferry	5
DAVE	Famous Dave's	5

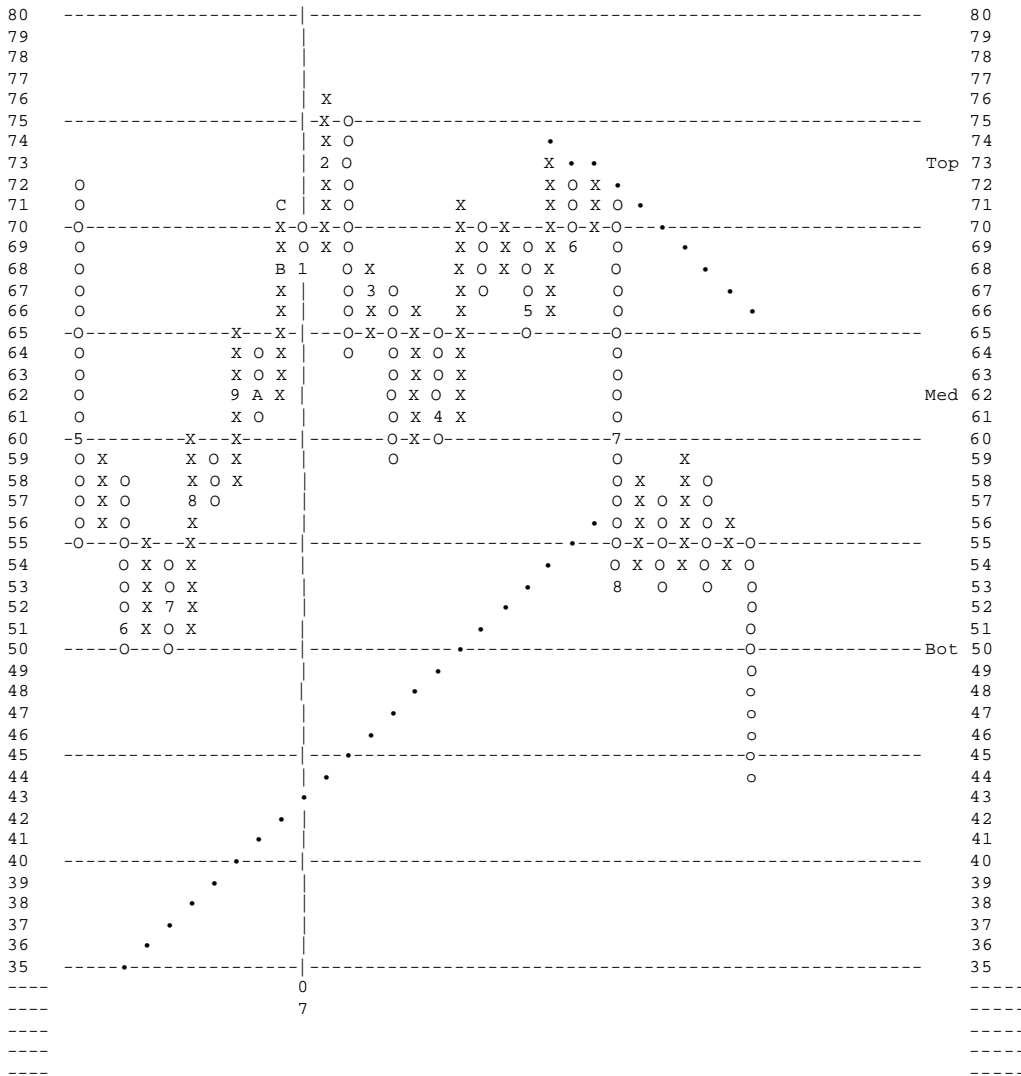
[A] Agilent Technologies, Inc. R (\$33.980) - Electronics - Agilent is one of those stocks that has produced higher tops and higher bottoms during the major cyclical tops and bottoms for the market since 2003. Most recently we have seen the stock pullback to test the March '07 lows and thus far it has held. The stock presents a buying opportunity here as this pullback brings shares near the bullish support line and on Friday we actually saw a higher bottom above that trend support. Okay to buy shares of A in the 33-35 area, and we will operate with stop loss points of \$30, a violation of both trend and the March lows. The bullish price objective on the upside is \$59.

Trend Chart:Agilent Tech (A)



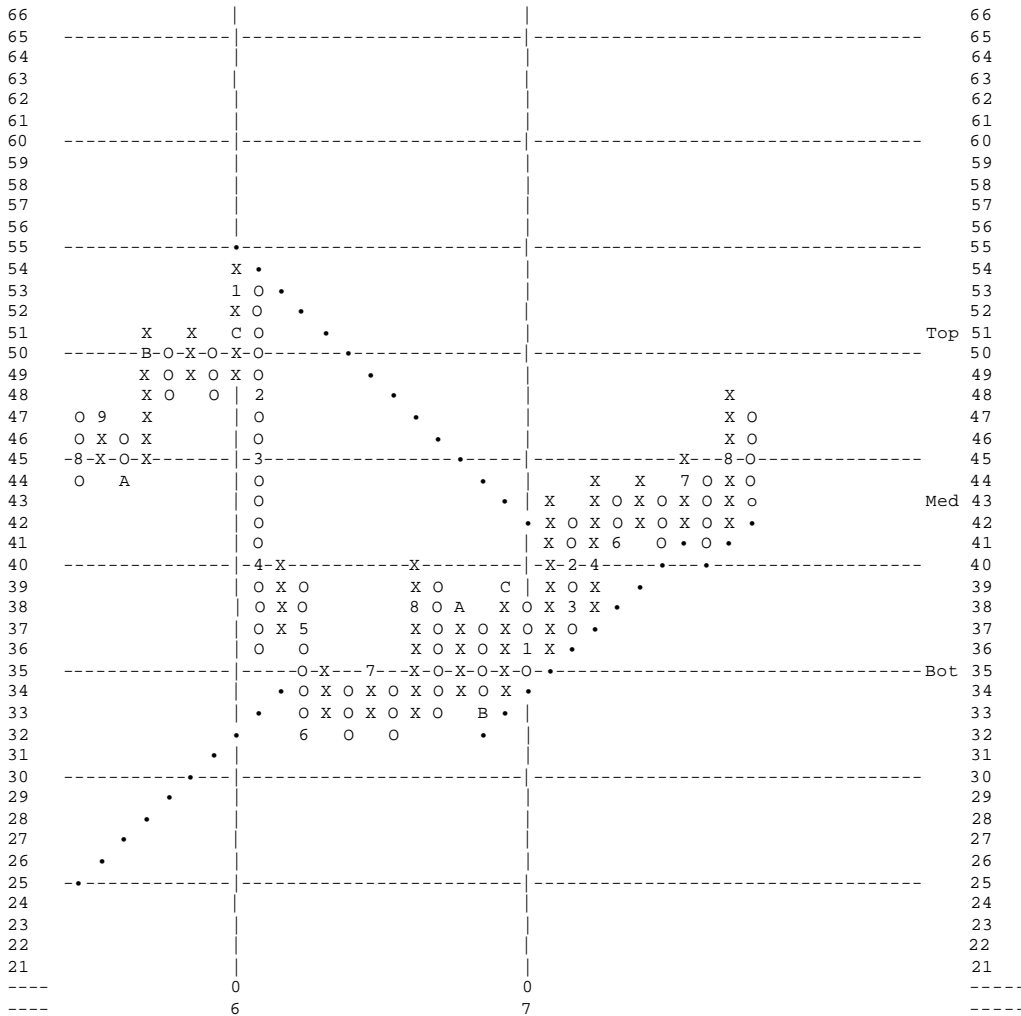
[MCO] Moody's Corporation R (\$49.980): MCO is a member of the Unfavored Finance sector. In particular MCO is a ratings agency for fixed income, and has been put under the microscope recently regarding this whole credit crunch. The technical picture spells out an ugly scenario for MCO, and in fact the chart looks like a short here. MCO had previously topped out in the low to mid 70's then things started to unravel, especially from June on. Since June we have seen the technical attributes downtick to a 2 for 5, and specifically we have seen MCO give an RS sell signal and violate its long term bullish support line. Most recently, the stock gave a quadruple bottom sell signal at 52, breaking key near term support that had formed at 53. As well, the stock has shown resistance in the mid to high 50's, at 56 then 59. The downside bearish price objective is 31, so this recent rally back up to the previous breakdown level provides a chance to short this stock for those so inclined. We would rate this as an aggressive short, for those trading oriented and looking to play a potential further collapse in the financial-related stocks. We would initially use a buy stop point of 57, then will look to lower it as the chart permits. Ok to short here (50-53 range). If wanting to give the trade a little extra room to the upside, then use 60 as the buy stop point.

Trend Chart:Moody's (MCO)



[STJ] St. Jude Medical, Inc. R (\$43.610) - Healthcare - STJ is one that we featured on our "Shopping List Candidates" list last week and the stock was able to get through Thursday's selling pressure without producing a major sell signal. The chart shows notable support at \$41 and the bullish price objective is \$57. STJ is a 4 for 5'er, weekly momentum is positive and a clear stop loss point is afforded at \$40, which would be a quadruple bottom break and trend violation. Okay to buy in the \$41-44 area.

Trend Chart:St. Jude Medical (STJ)



Statistically Significant Technical Breakouts

[A] Agilent Technologies, Inc. (\$33.730) - Electronics - The main trend of A continues to be positive and the stock presents a buying opportunity as it pulled back to the bullish support line at 32 and held before reversing up on Friday. Okay to buy A here and add to positions once the indicators reverse up. On the downside, use a stop or hedge point of 31, a violation of the bullish support line.

[APH] Amphenol Corporation (\$34.350) - Electronics - The main trend of APH is positive and the stock continues to make a textbook series of higher highs and higher lows. Most recently APH has pulled back past the middle of the ten week trading band and just above support at 31. Okay to buy APH here and then add to positions once the indicators turn positive. On the downside, the first sign of trouble is a triple bottom at 30.

[APOL] Apollo Group, Inc. (\$55.790) - Business Products - APOL broke a double bottom at \$54, a second sell signal with no further support in sight. Others look better for new money here, avoid.

[BOBJ] Business Objects S.A. (\$38.540) - Software - The main trend of BOBJ remains positive here and the stock gave a spread triple top at 44 and rallied to 46. With the overall market pullback, BOBJ is now on the oversold side of the ten week trading band. Okay to buy BOBJ here and then add to positions once the indicators turn up. On the downside, support is at 34 and a move to 33 is a spread triple bottom.

[BOH] Bank of Hawaii (\$53.56) - Banks - This stock broke a double top at 52 on Friday. This stock has traded between 47 and 55 since May 2005. That means resistance at 54-55 and support at 47-48. Near the top end of that range right now and with RS charts in O's, others look better right now.

[BTJ] Bolt Technology Corp. (\$38.56) - Oil Service - This stock broke a double top at 40 on Friday. This break comes from below the bearish resistance line, which is currently at 47. RS charts are in O's. With no close stop loss and only 2 positive attributes, we would look elsewhere for now.

[CBRL] CBRL Group, Inc. (\$39.21) - Restaurants - This stock broke a double top at 41 on Friday. This stock fell to its bullish support line earlier in the month and held and has now broken back to the upside. RS charts remain weak and that suggests trading positions only here. A decline to 35 breaks a triple bottom and also violates the bullish support line.

[CMA] Comerica Incorporated (\$57.70) - Banks - This stock broke a double top at 57 on Friday. This stock rallied to 59, just below its bearish resistance line. RS charts are on sell signals and in O's so CMA has zero positive attributes. also has resistance in the low 60's and other stocks look better.

[CNA] Cna Financial Corp (\$42.90) - Insurance - This stock broke a double top at 44 on Friday. This stock is trading above its bullish support line so the trend is positive. RS charts are on buy signals and also in X's so CNA has 5 positive attributes. Could buy here with a stop loss of 38, which breaks a double bottom.

[FRE] Freddie Mac (\$63.41) - Finance - This stock broke a triple top at 65 on Friday. This stock is trading above its bullish support line so the trend is positive. However, Market RS chart is weak and the stock only has 2 positive attributes. This suggests trading positions on this stock. A drop to 58 breaks a triple bottom and would violate the uptrend line.

[HPC] Hercules Incorporated (\$19.53) - Chemicals - This stock broke a double top at 21 on Friday. This stock has held up well and remains above its bullish support line. A move to 23 would take this stock to new highs. RS charts are positive and could buy here.

[IO] Input/Output Inc (\$13.06) - Oil Service - This stock broke a double top at 15 on Friday. This put IO back on a buy signal but it remains below its bearish resistance line at this time. A move to 16 would violate that trendline and put the stock back to 3 positive attributes. Would wait for that to initiate any new long positions.

[PCH] Potlatch Corporation (\$44.770) - Forest Prods/Paper - The overall trend of PCH remains positive here and most recently the trend chart of this stock gave a double top buy signal at 46 to complete a bullish triangle pattern. As well, this 4 for 5'er has an upside price objective of 61 suggesting this stock has some more room to the upside. The first sign of trouble would come with a move to 41, which would be a double bottom sell signal.

[PHW] PowerShares Dynamic Hard. & Electronics (\$18.060) - The main trend of PHW is positive and the ETF remains on a buy signal. PHW has just pulled back toward the bottom of the ten week trading band and that provides an opportunity to either enter positions or at least put the stock on your shopping list of ideas with a stop/hedge point at 16.50, a double bottom.

[SWK] The Stanley Works (\$56.460) - Machinery and Tools - SWK broke a double top at \$58, holding support after 11 weeks of negative momentum, returning the stock to a near-term buy signal. This is one to consider for purchase in the mid-50s against stops of \$52, which would be a spread quadruple bottom break. SWK is a 3 for 5'er.

[T] AT&T Inc. (\$38.400) - Telephone - The main trend of T is positive and the stock continues to have positive technical attributes compared to the overall market. T has recently pulled back past the middle of the ten week trading band. This provides an opportunity to enter positions in T. Next support level is at 32.

[XLNX] Xilinx, Inc. (\$24.470) - Semiconductors - The main trend of XLNX is now positive with the stock having violated the bearish resistance line at 29 in April and then breaking a spread quadruple top at 30. XLNX has just recently pulled back to the bottom of the ten week trading band. This pullback brings XLNX to a good buying opportunity to scale in and then add to positions once the indicators move back to a positive stance. On the downside, the first sign of trouble comes at 22, a double bottom. Next resistance on the upside is 30.

Stocks Close to a Technical Breakout

[HTX] Hutchison Telecom International Limited (\$17.780) - Telephone - The main trend of HTX is positive and the stock has strong technical attributes. HTX is currently forming a triangle pattern. A move to 19.5 would break a double top and complete a bullish triangle pattern. Okay to buy HTX on the breakout. Initial support is in the 17 to 17.5 area.

[VEU] Vanguard FTSE All-World Ex-US Index Fund (\$52.760) - The Non-US markets corrected as much, or more, than the US markets last week and VEU is simply a reflection of that. Having pulled back from highs of \$59 the fund has visited the bottom of the 10-week trading band and thus far held above the March lows. This is a reasonable opportunity to add exposure to foreign assets at a discount with reasonable risk against stop loss points of \$49.

[VIGN] Vignette Corporation (\$19.300) - Internet - VIGN continues to trade in an overall positive trend here with positive RS versus the market and the peer group. Technically speaking the market is still on a shakeout pattern and after holding the bullish support line has reversed back into a column of X's at 19.50. This is a stock that can be considered for your shopping list as the market indicators reverse using a stop loss point of 17.50, which would be a violation of the bullish support line.

[WAT] Waters Corporation (\$59.130) - Electronics - WAT continues to consolidate on its chart producing a series of lower tops and higher bottom forming a triangle pattern. Watch this chart for a reversal back into a column of X's and double top buy signal at 64 to give a double top buy signal and complete a bullish triangle pattern for new positions. Otherwise, a move to 57 would be a spread triple bottom sell signal and violation of all near-term support on the chart.

Educational Corner

Band-Aids For Calls

We have previously discussed closing out covered write positions that have moved in-the-money and if the returns justify doing so. We have recently seen the markets sell off from their highs and the NYSE Bullish Percent drop below the oversold 30% level. Those who purchased calls a month ago may have losses because of that decline. If so, then they may want to consider the following band-aid strategy. Options often give you a way to improve your position. Of course, we are assuming your thoughts on the stock have not changed, that you still like the stock fundamentally and technically and believe it will still rally. If this is not the case, then you should bite the bullet, close out the position and take the loss.

The band-aid strategy we are referring to is turning your long call positions into bull spreads. By doing this, you will lower your breakeven price and improve your position. What we want to do is sell twice as many of the calls you currently own and then purchase the same number of calls as your originally bought but at a lower strike price. For example, suppose you bought 5 XYZ January 30 calls at \$4 back in early July. The stock has declined and the calls are now \$2 1-8 with the stock trading below \$26. You can sell those 5 calls and an additional 5 calls (to total 10) and with the proceeds, purchase 5 January 25 calls at \$4 1-4. Your new position is now long 5 January 25 calls and short 5 January 30 calls, which is a bull spread. You want to do this spread for as little a debit as possible. The debit in this example, not using commissions, was zero. Now, if XYZ rallies to \$30 by expiration, the January 30 calls will expire worthless while the January 25 calls will be worth \$5. You see a net profit of \$1. Granted, commissions will put a dent in your profits but that beats the four-point loss you will have at expiration if you do nothing and the stock is then 30. If you have a client who faces this situation, then you can present him or her with a viable solution to the problem. He or she may be ready to take some action.

Daily Option Ideas

Calls:	Hewlett-Packard Company (HPQ - \$47.10) Option Symbol - HPQ AI Buy the January 45.00 calls at 5.40 Stop loss of 43.00
Puts:	Capital One Financial Corporation (COF - \$68.69) Option Symbol - COF MO Buy the January 75.00 puts at 9.25 Stop loss of 74.00
Covered Writes:	Hercules Incorporated (HPC - \$19.55) Option Symbol - HPC LD Sell the December 20.00 calls at 1.60
	Investment for 500 shares \$9178
	Annualized Called Return 21.3%
	Annualized Static Return 18.9%
	Downside Protection 6.1%

The following covered writes are still recommended. The prices have been checked using quotes and new positions can be initiated.

Medivation Inc.	(MDVN - \$19.45)	Sell the December 20.00 calls
j2 Global Communications, Inc.	(JCOM - \$33.65)	Sell the December 35.00 calls
Mosaic Company	(MOS - \$40.39)	Sell the December 40.00 calls
Elan Corporation, plc - ADR	(ELN - \$19.91)	Sell the January 20.00 calls
Celgene Corporation	(CELG - \$60.38)	Sell the January 60.00 calls
Carrizo Oil & Gas, Inc.	(CRZO - \$38.76)	Sell the January 40.00 calls
Expeditors Intl. of Washington, Inc.	(EXPD - \$45.31)	Sell the January 45.00 calls
Cisco Systems, Inc.	(CSCO - \$29.30)	Sell the January 30.00 calls

Recommendation Follow Up

Call Follow Up: No Call Followups Today

The following calls are no longer recommended:
Nothing Today

Put Follow Up: No Put Followups Today

The following puts are no longer recommended:
Nothing Today

The following Covered Writes are no longer recommended: None today

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