

General Weekly Analysis:

I want to start this week's analysis by going over a potential short term trade so everyone can understand the risk versus reward when analyzing a potential position. The example is with SLW. The stock closed at \$9.70 this week and is near the 200-day moving average, a place it has caught support in the past and then moved higher. As I describe in the MSW Index, SLW went from \$6.80 to \$12.21 (June to September) and then \$7.95 to \$12.07 (October to November). Currently, the recent low was \$8.90 so a possible move to \$12 would give us a short term trade ratio of 2.8. A stop at \$8.89 would give us \$0.81 to play and a target of \$12 would give us a \$2.30 gain. This is a risk to reward ratio of 2.8:1 which isn't bad. I'll take that for a short term profit.

Here's how I am going to set up the trade in my spreadsheet:

Buy target is \$9.70

Risk will be 1% of portfolio or \$2,500 of \$250,000

Stop loss will be 8.4% or \$8.89

Position size will be \$29,761.90

I will purchase 3,068 shares

My 1-R risk is \$0.81

My target price is \$12 based on past moves

Risk ratio is \$2.30 to \$0.81 or 2.8:1

If the stock reaches \$12, the position would have a 23.71% gain

A profit of $(\$36,816 - \$29,761.90) = \$7054.10$

The gain would be 181% larger than the total risk on the trade (the original \$2,500).

That is how I set up short term trades that I expect to take less than a month to complete. The current market environment is not as intriguing as it was this past summer but I can only trade what I have available and this trade will be entered on Monday morning with the parameter used above. The fill may not be \$9.70 so look for an updated MSW Portfolio on Monday night. Understand that this is a short term trade breakdown and is based on rules to develop an approximate expectancy.

Index Analysis:

NASDAQ:

The index gave back 2.06% this week as volume was lower but the market did not trade on Monday so we must take that into consideration. The close at 2,451.31 brings the index back into the trading range that has formed since November. The NASDAQ halted its decline on Thursday and Friday just above the 50-d m.a. but volume was largest during the middle of the week when the index declined. We witnessed three consecutive distribution days with Thursday's volume reaching levels not seen on the distribution side since last spring. Support still sits at 2,379 or the completion of the former Fibonacci retracement as seen on my weekly chart of the NASDAQ.

DOW & S&P 500:

Both indexes went on to make new 52-week highs (all-time highs) but reversed to close lower with two days of distribution for each. The first week of earnings announcements has passed and the market is moving with the news or so it seems. Positive surprises

have outnumbered negative surprises by a ratio of 1.5-to-1 (according to Zacks Investment Research). At this same juncture during third quarter earnings, the market saw a positive to negative ratio of 2-to-1.

Misc:

As I said while headlining the Thursday daily screen, the individual market leaders are hitting heavy resistance near new highs and falling on heavy volume as distribution spreads across the board. The MSW Index was down 3.95% for the week and was actually down closer to 5% before several stocks regrouped on Friday and gained back some of their losses from earlier in the week. The current weak action of the market is the first of its kind since early 2006 when the NH-NL ratio turned negative. This type of action certainly raises red flags and is usually the first signal of a coming market correction or decline. The MSW Portfolio contains two positions and I will cut these stocks if they start to violate sell signals or reach their sell stops. I would suggest that you watch your current holdings closely and take profits before they erode. Do not ignore sell signals and red flags when they are staring you in the face.

The number of stocks trading below their 50-day moving average on the S&P 500 is near 34% which is close to levels seen prior to the NASDAQ decline in May 2006. Study the chart titled "03.2 \$SPXA50R - Weekly Candlesticks" on the charts page to see that the NASDAQ took four months to decline after the number of stocks on the S&P 500 moved above 80%. We are now exactly three months removed from the area when the number of stocks trading above their 50-d m.a. passed above 80%.

We need to focus on the three major indexes and watch for any closes below their major moving averages on heavy volume. This will be the first sure sign of a correction and the green light to start shorting shares in weak stocks or buying puts to hedge the possible downside of the market.

Crude oil is starting to make some interesting candlesticks on the weekly chart. Crude oil is still falling but the candlesticks are reversing from their intraweek lows with some support above the \$52.50 level (light crude contracts). I have been spending some time this weekend looking for speculation opportunities with minimum 3:1 risk/reward ratios for potential trades in crude. Whether it be individual stocks, futures or options, I am on the prowl for short term opportunities that will offer gains as crude seems to be bottoming with nice odds of a successful trade. I understand that objects in motion usually stay in motion so crude can definitely trade lower but I will cut my trade for a low risk loss if it does not work. The cold temperatures can only help stop the decline in oil related stocks but it's not a guarantee that it can propel prices higher.

Sectors and Industries:

Top 3 Sectors Last Week:

Energy: 2.0%

Health Care: 1.13%

Consumer Discretionary: 0.96%

Top 3 Sectors YTD:

Health Care: 3.61%

Consumer Discretionary: 3.09%

Industrials: 2.73%

Sectors with the Best Up-Days versus Down-Days (past month)

Materials: +2.2

Health Care: +1.6

Consumer Discretionary: +1.4

Weakest:

Energy: -5.6

New High – New Low Ratio (NH-NL):

Last 52-weeks – Best Week: 585-29 on December 9, 2006

Last 52-weeks – Worst Week: 41-310 on June 17, 2006

Last 52-weeks - Most New Highs (daily): 836-21 on December 5, 2006

Last 52-weeks - Most New Lows (daily): 44-452 on July 18, 2006

Weekly New High – New Low Ratio (NH-NL) for 2007:

Saturday, January 6, 2007: 279-67

Saturday, January 13, 2007: 288-68

Saturday, January 13, 2007: 281-46 – This week

New Highs vs. New Lows - Daily Breakdown:

Monday was a Holiday

Tuesday showed a ratio of **511-38**

Wednesday showed a ratio of 376-49

Thursday showed a ratio of 279-85

Friday showed a ratio of 237-59

Changes to the MSW Index:

Three stocks are added to the MSW Index watch list as one was removed. Two of the three stocks added currently offer instant entry signals along major moving averages.

Stocks Added to MSW Index:

OPTM – 24.65, Optium Corp., Telecom

MR – 24.12, Mindray Medical International Ltd., Medical

NYX – 99.96, NYSE Group, Financial Services

Stocks removed this week:

CTCM – 21.32, the more I watch this stock, the more I wonder why I did select it to the MSW Index. I know it is on the IBD 100 but that has never influenced any of my stock decisions as many of my candidates appear prior to making it on to that list. The sideways pattern since August seems to be going nowhere.

Changes to the MSW Portfolio:

****The MSW Portfolio will be updated everyday when there are changes****

Several idea were sent to me this week about a services to send out real-time trades into the portfolio and I hope to make a decision within the next week or two and will keep you posted and gather feedback.

NMX: a hold

TWLL: a hold

MDR – Looking for 200-d m.a. trend buy with a min 2.5:1 risk/reward ratio

SLW: looking for short term buy at 2.8:1 risk/reward ratio

[Click Here: MSW Real-Time Stock Charts](#)

[Click Here: MSW Index for January 20, 2007](#)

[Click Here: MSW Portfolio - 2007](#)

***If a buy date is not noted and the space shows stars in red; this means a pending buy will happen in the coming days with the anticipated purchase price already filled in. The anticipated price will be replaced with the actual purchase price when the transaction is confirmed.**