

ChartWorks

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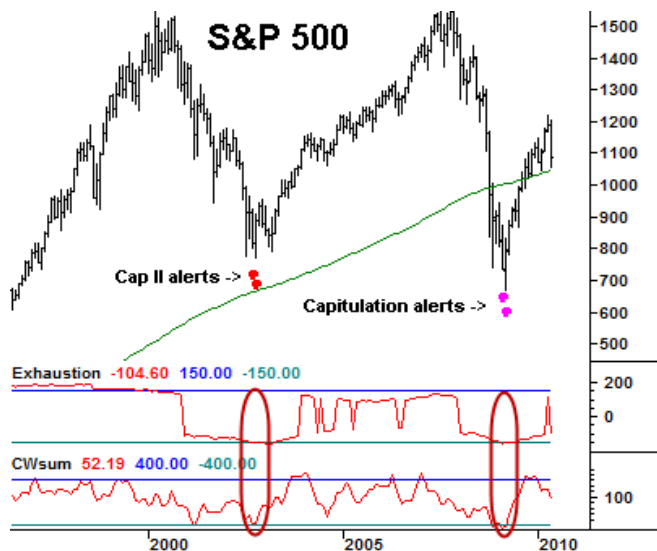
Technical observations of RossClark@shaw.ca

Capitulation Alerts Appearing, “Turn of the Month” and Holiday Seasonality a Factor

Our technical observations take advantage of pattern recognition such as the post-bubble model, four year cycle in equities and the mid-march bottom in gold. These are generally coupled with technical signals to assist in the positioning of the patterns.

Independent of pattern analysis, we developed our Exhaustion and Summation Indices as a means of identifying market extremes. The Exhaustion Index monitors the strength of the longer-term trend while the Summation Index looks at the short-term. When there is urgency on

the part of investors to enter or exit a market the Summation Index will register an overbought/oversold reading. A pullback in an existing trend will produce a reading in the Summation Index that can be used to enter the correction in the dominant trend. When both indices produce simultaneous extremes we categorize the market as having upside Exhaustion or downside Capitulation alerts. Such alerts put the market into a mode that is prone to a sharp correction back to the 20 & 50 period exponential moving averages. The monthly and weekly charts of the S&P give examples of Capitulation signals.



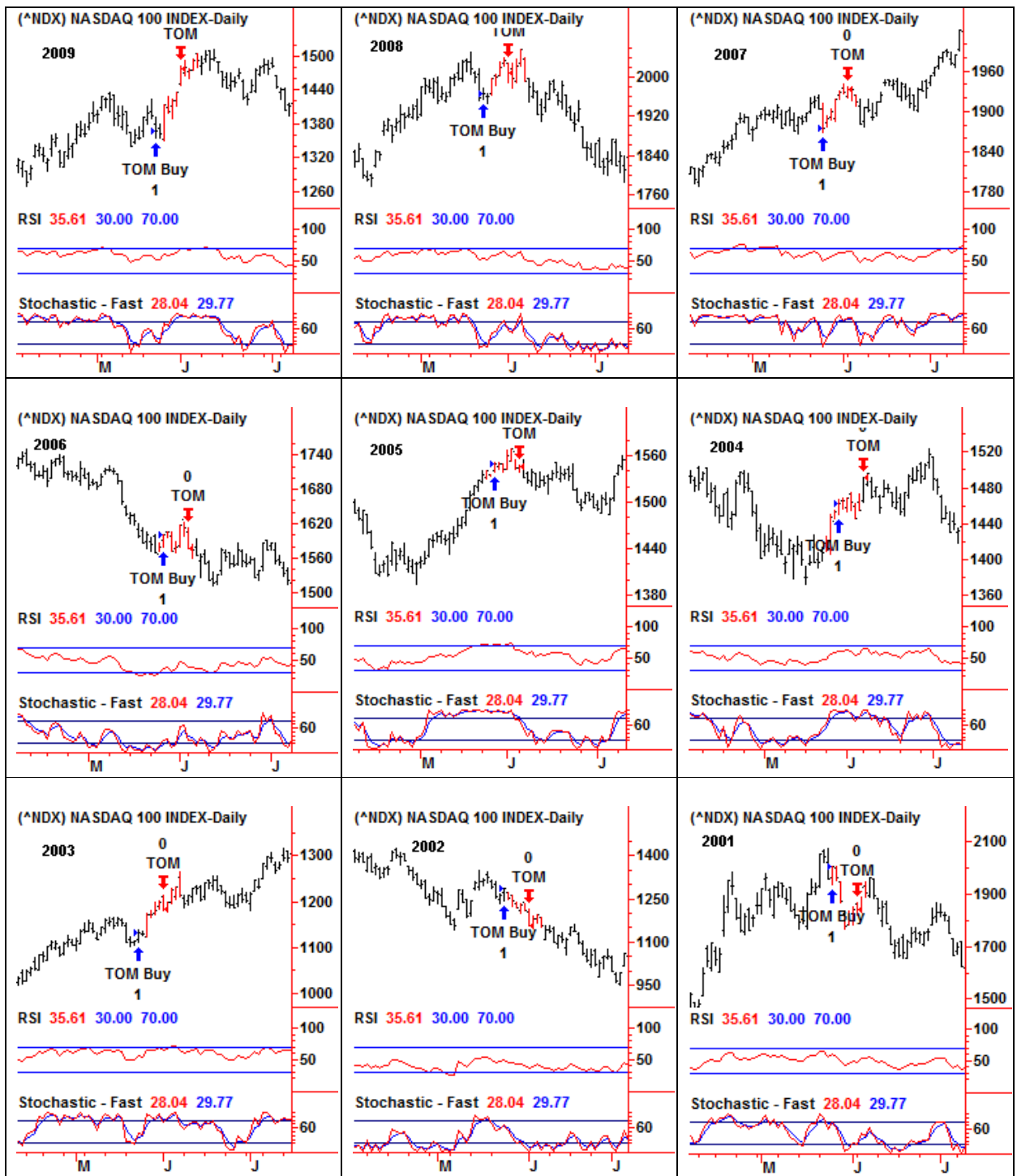
Many stocks and indices have achieved oversold Summation readings as of May 21st and a number of daily Capitulations are now present so **prices could bottom out over the next few days and corrective rallies back to the 20/50-day moving averages are becoming likely.** Signals include the Dow Transportation Index, NASDAQ, Health Care (XLV), Consumer Discretionary (XLY), Insurance (KIE), Regional Banks (KRE), Euro (*May 18*), 10 20 and 30-Yr T-Bond Yields. A series of individual stocks charts is included at the end of the report. If the larger bear market is developing these will merely become short-lived rallies.

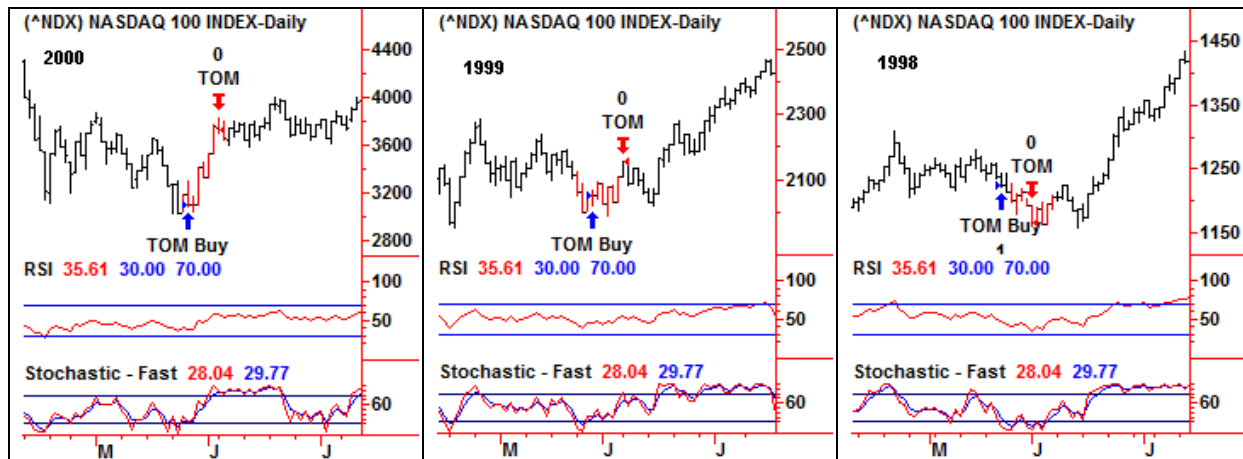


“TOM”: Seasonal effects are likely to be a factor in the markets over the next two weeks. In the 1980’s we did considerable research into the “Turn of the Month” and “Turn of the Year” phenomenon that generated a lift in the markets through the end of the month and around holidays. For decades prices tended to rally on the last business day of a month through the fourth of the following month. Additionally, there was a holiday effect where stocks tended to rise in the two days leading up to a three day weekend. There has been a multitude of research done by others since then optimizing entry and exit dates, but arriving at similar results. The coming Memorial Day weekend has both TOM and the holiday factors working in its favour. Over two-thirds of the May-June TOMs are positive with the average win/loss ratio being around one and a half (depending upon the index).

For **nimble traders** the influence of these factors suggests a long position be implemented by Thursday’s close and exited June 4th to 7th. In the NASDAQ the typical rally is 3% to 6% keeping it well below the May 13th high and the 20/50 day moving averages. **For all other investors it should provide another selling opportunity.**

Recent May-June "TOM" action.
Buy Thursday prior to Memorial Day – Sell first Monday in June





Some widely followed individual stocks with capitulations are presented below.

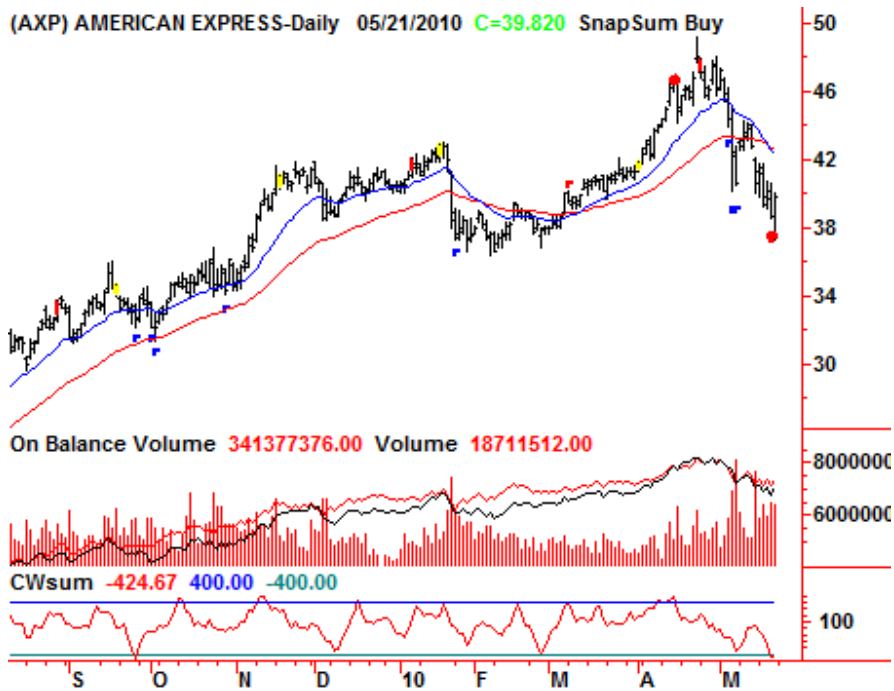




(AMZN) AMAZON-Daily 05/21/2010 C=122.720 SnapSum Buy

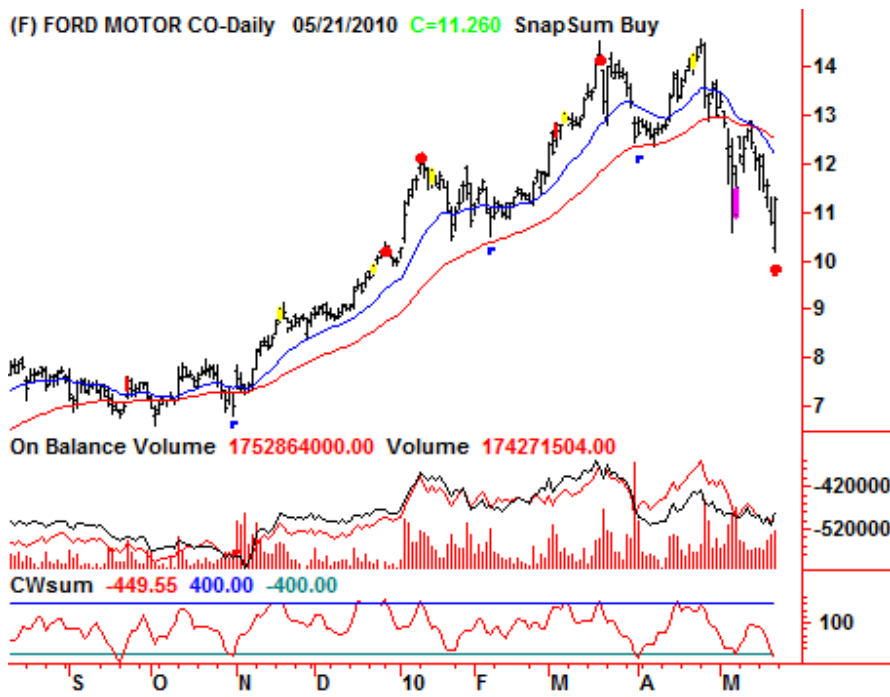


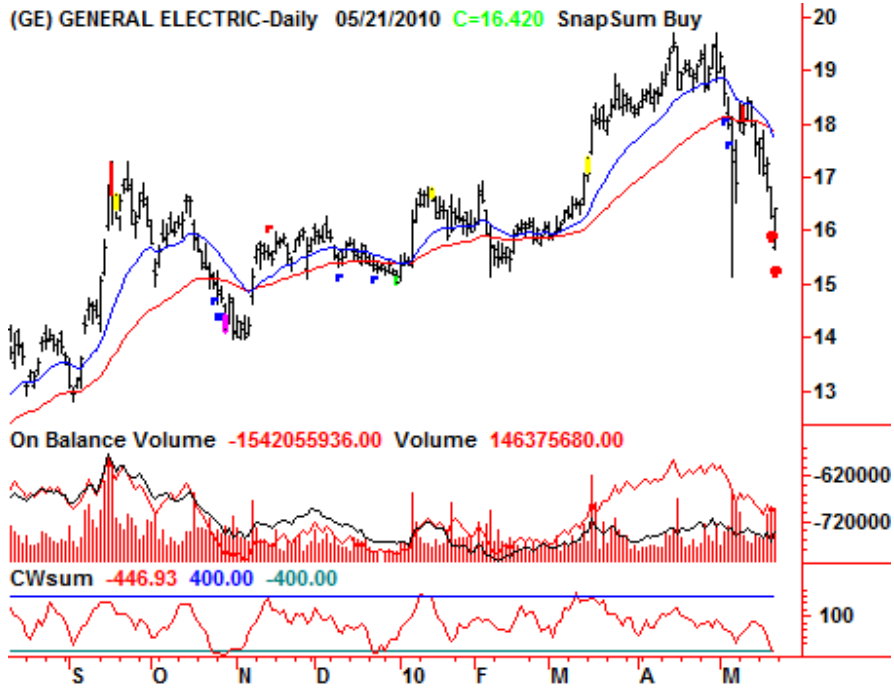
(AXP) AMERICAN EXPRESS-Daily 05/21/2010 C=39.820 SnapSum Buy



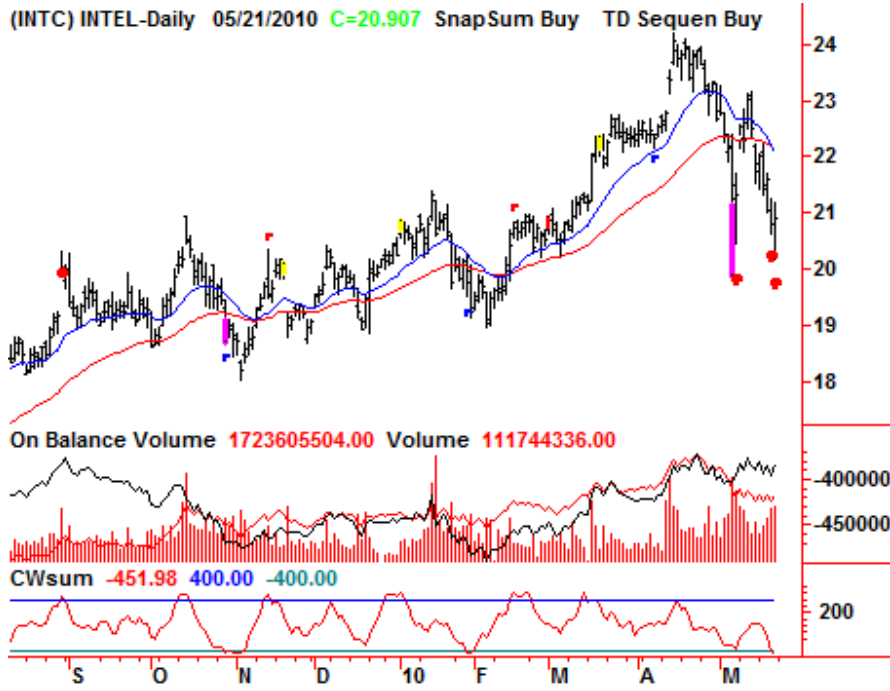












(LIZ) LIZ CLAIBORNE-Daily 05/21/2010 C=5.900 SnapSum Buy



(LTD) LIMITED-Daily 05/21/2010 C=24.820 SnapSum Buy TD Sequen Buy

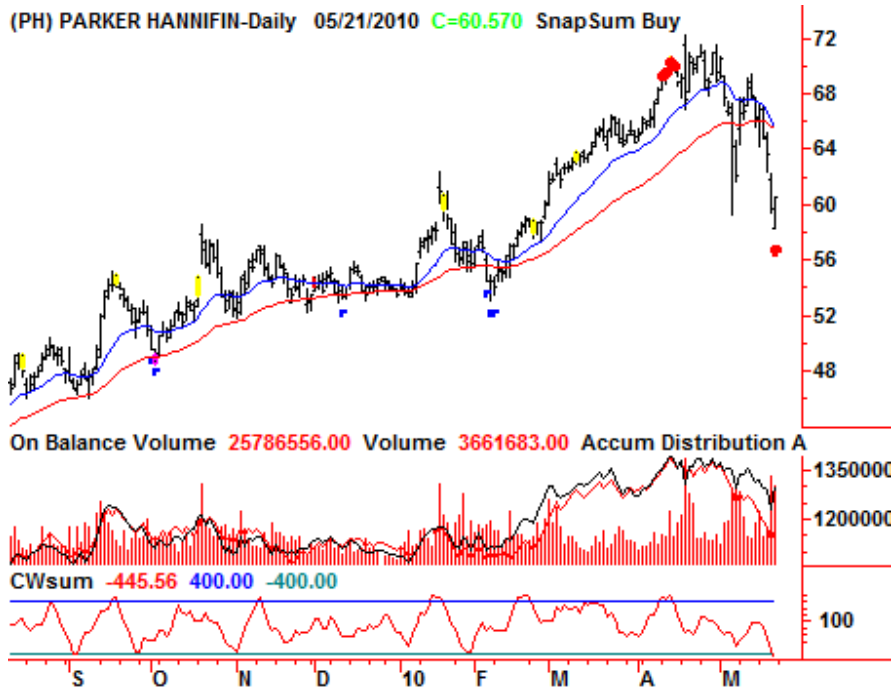
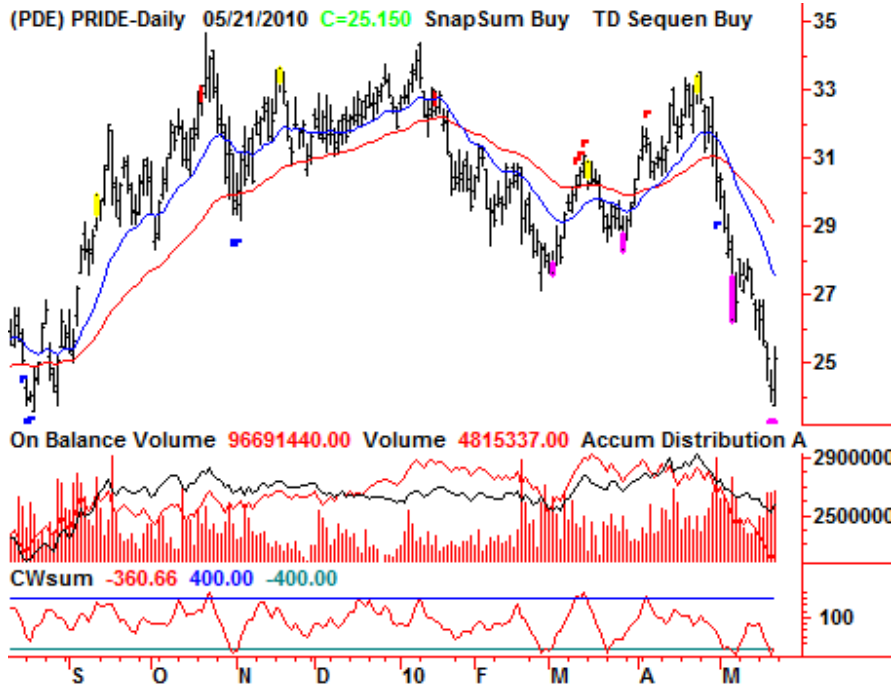


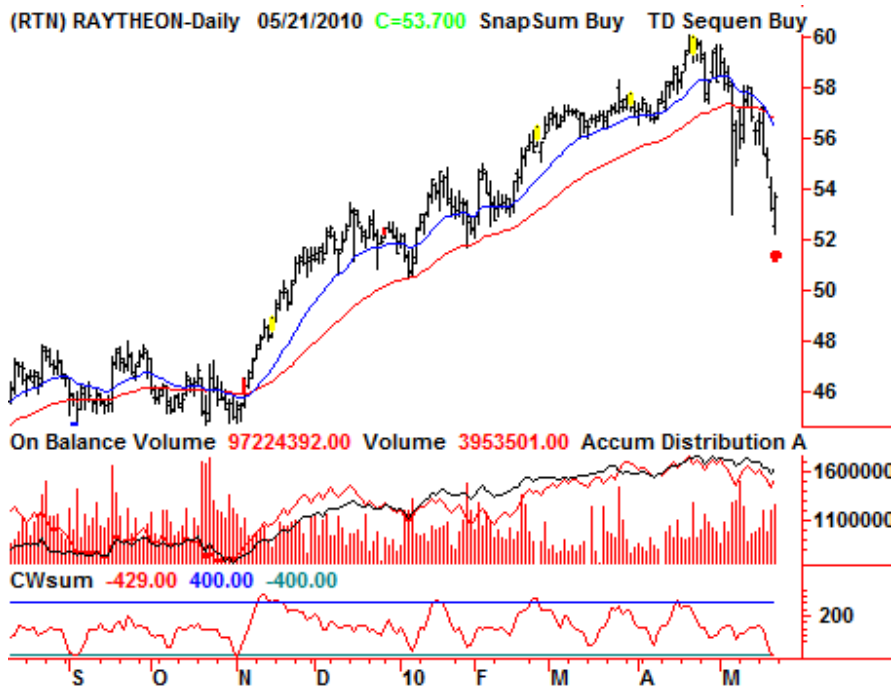
(ORCL) ORACLE-Daily 05/21/2010 C=22.163 SnapSum Buy TD Sequen Buy



(PCLN) PRICELINE-Daily 05/21/2010 C=191.240 SnapSum Buy









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