

## Watch out for a correction!

By: [Michelle Mai](#) for Capital Essence  
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Good Morning. This is Capital Essence’s “Market Outlook” (the technical analysis of financial markets) for Wednesday July 18, 2007.

We’ve opined in our previous Market Outlook that “Monday’s trading action indicates a negative bias into Tuesday trading session” – see “[Negative Bias](#)” July 17, 2007 – the board market index, S&P 500, finished slightly below the flat-line Tuesday amid a lack of support in the financial sector. In has been a long time since our last discussion in this sector. Let’s start with earning. Merrill Lynch (MER) posted an impressive 31% jump in Q2 profits though its shares took a long dive Tuesday after the CFO said that the market for subprime debt has yet to stabilize. If it had not been for the rally in American Express (AXP), shares of AXP soared 4.7% after Goldman Sachs upgraded the stock to “Buy” and raised its price target to \$77 from \$66, the sector would have slipped further into negative territory for the year. “So what?” you might be wondering. Well, the S&P 500 Index is heavily weighted, about a quarter, by the financial stocks. And believe or not, they’ve been the “tell” for this bull market – as goes the bank, so goes the tape!



As you can see, the Bank Index (BKX) is testing the important resistant at the 116 level today. A failure to take out this level will resume the six-month downtrend. This is, of course, bad. Yet, the

worse scenario isn't in place until or unless the BKX breaks below the spring low of 109. Run for the hill should this happen. In short, the financial stocks are on a verge of breaking down or entering a secular bear market. And this does not bode well for the bulls.

**Stock of the day:** shares of Modine Manufacturing Co (MOD), which makes heating and cooling systems for trucks and buildings, gained more than 15% Tuesday or more than 22% since profiled in our "[Swing Trader Bulletin](#)" on July 09, after the company boosted its guidance for the fiscal year.

**Let's take a look at the major index charts:**



The Standard & Poors 500 Index (daily) chart above addresses a short-term frame. The board market index continues to consolidate near high. Given the magnitude of last week's rally, this behavior is normal. Support is around 1540. Resistant is about 1600.



The Dow Jones Industrial Average (daily) chart above addresses a short-term frame. As mentioned above, if it had not been the 4.7% rally in American Express (AXP), the Dow could have finished in the negative territory Tuesday. Technically speaking, the rally that started last Thursday looked overextended. Support is about 13690.

**Bottom line:** technically speaking, the rally that starts last Thursday is due for a correction, which could start as soon as tomorrow. Although, as we've noted right here a couple days ago "*the market is bullish by default as long as the S&P holds above the 1540 level.*" And we're, therefore, viewed this pull back as a buying opportunity.

Until next time, good luck.

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[Michelle Mai](#) writes technical analysis for Capital Essence and is the editor of Capital Essence's "Market Outlook" newsletter. To receive the daily edition, please [subscribe](#). It's now available at a monthly rate.

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