

ISSUE #67 – JUNE 26 2011

TECHNICAL ANALYSIS ON OGIB PORTFOLIO

Welcome to Richard Reinhard's T/A Commentary. The intention here is to chart some of OGIB's favorite stocks and, often not knowing anything about the company or its fundamental prospects, try to provide some useful technical commentary on what the charts are telling me. In this way the hope is to provide readers with an independent and objective look at what the market is saying, untainted by "the story". There's a well known adage that says the market doesn't lie. Price and trading action is driven not just by the widely known information, but also the behind the scenes knowledge, expectations, aspirations and fears of a broad range of market participants and stakeholders.

Richard Reinhard (a "*nom de plume*"), is the editor & publisher of *Growth Stocks Weekly* and a 26-year veteran of "the Street". Richard is a former Registered Investment Advisor, options trader and VP at a century-old full-service brokerage firm. An obsessive practitioner of technical analysis for almost 25 years, Richard also has a strong academic background which includes a Commerce degree in Organizational Behaviour, a professional designation as a Chartered Accountant, and membership in the Market Technicians Association of New York.

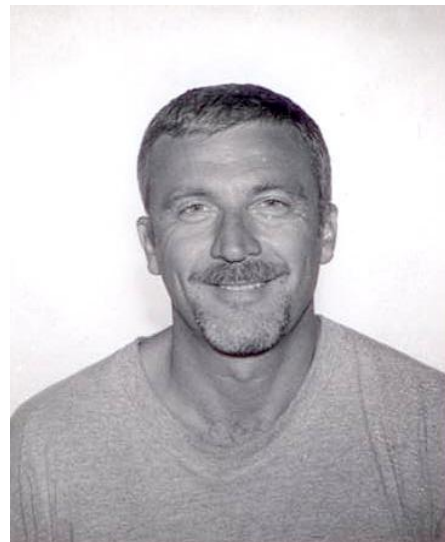
His own equity focus is identifying secular growth trends early and the companies most likely to benefit. Stocks are initially identified through fundamental analysis, with basic technical analysis then used to determine entry and exit points.

Richard spends far too much of his time reading economic and biographical history, economic reports and opinion, sifting through public-company records and rubbing elbows with entrepreneurs and proven company-builders seeking to build shareholder value, at least when he's not

spending time raising his second crop of children or playing tennis.

Richard seeks to maintain an anonymous and low-key profile, not only to facilitate access to industry professionals and entrepreneurs, but to keep at a distance the uber-promotional and less-altruistically inclined promoters mostly indifferent to the hopes and dreams of investors and the value of their hard-earned capital.

While Richard Reinhard is a pseudonym, this is his real life picture.



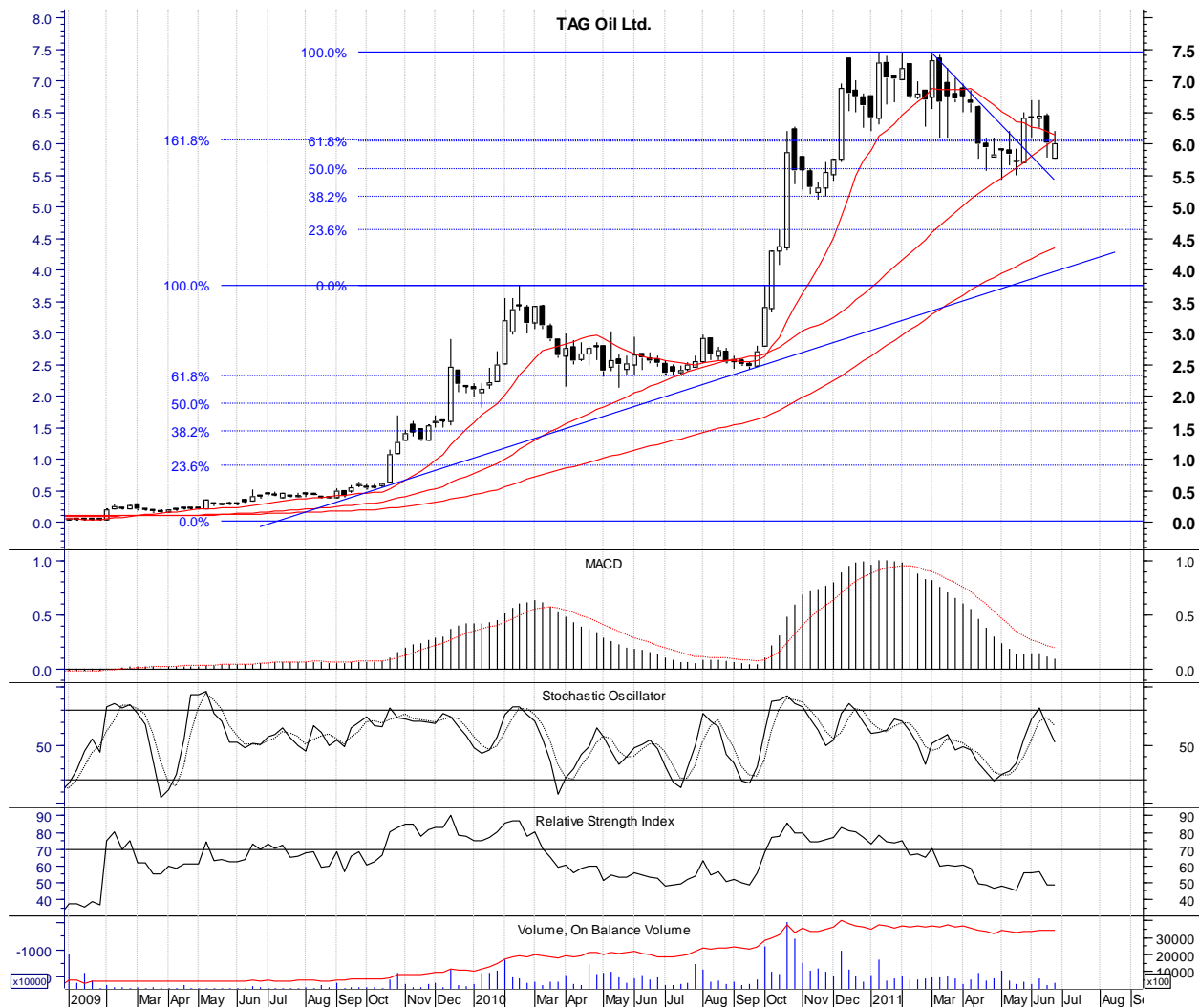
International Production and Exploration

ITHACA ENERGY (IAE-TSX) Weekly



Ithaca Energy: Still looking to find support at the \$1.95, 61.8% Fib line. All MA's are below price and will act as resistance. The slower 80-week MA is historically the key support area, and has now been penetrated, forming additional resistance. The MACD has crossed below the zero line. The recent double-top matched the April 2010 high with the MACD in negative divergence, and STO and RSI were in the sell zone, which was a significant warning for a likely correction. The 61.8% Fib and trendline support are both at the \$2.00 area, and if materially broken will see price move quickly to next support at the 50% retracement around \$1.65. STO and RSI are not yet in the buy zone but still trending down.

TAG OIL (TAO – TSXV) Weekly



Tag Oil: Prior dependable 40-week MA support is now waning as pressure from the declining 13-week MA builds. The 50% retracement area (basis the Oct 2010 breakout area, and former resistance zone, now new support will now come under pressure. Strong base building in the \$5.50-6.00 area completed in May was followed by a rally, breaking the downtrend that suggested a challenge to the \$6.75-7.50 congestion area. We thought that any new highs would need to see significant volume, or more trading time will be required \$6-6.75 to sop up traders caught offside at higher levels. Because the rally ended at \$6.68 with two spinning tops and a long black candle, we are not very optimistic that a retest of the 50% line will be able to hold back the bears. The \$5.15 area still offers some support by thereafter it's a quick ride down to \$4.00-4.50 trendline and 80-week MA area, and thereafter long term support at \$2.35 should the bears find help from margin calls and retail panic.

COASTAL ENERGY (CEN-TSXV) Weekly



Coastal Energy: Still trading mid-range within a wide trading channel, showing continued technical strength after finding strong support around the 40-week MA. The rising 13-week MA under price is now providing additional support. The current rally has broken through the 3-month downtrend, but on relatively low volume. STO is well into the overbought area, but MACD and OBV support continuation of the upward trend. If price does retest the \$8.00 area and MACD falls materially short of its recent highs we would have negative divergence, warning of a loss of relative strength to the move, and a potential double-top scenario. In either case, to put the odds in our favour we would “fade”, that is, start trading out of our shares, into the upper boundary area of this channel.

International Drill Plays - Speculative Stocks

PETROFRONTIER (PFC-TSXV) Daily



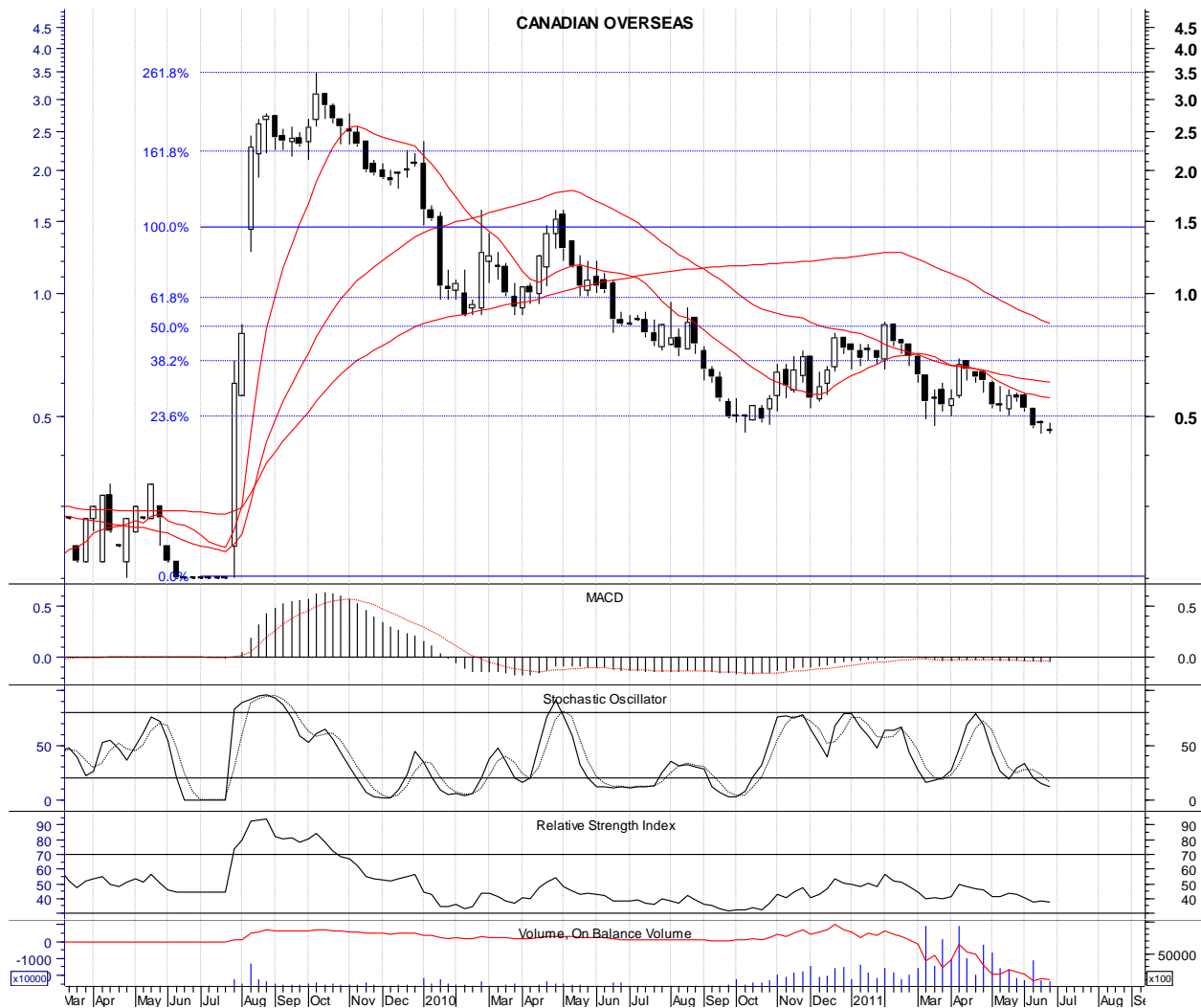
PetroFrontier: Not a lot of technical history, hence we show only the daily action here, but after the minor double-top new high around \$4.40 in April selling pressure quickly took price back through the supporting 13 and 40-week MAs, now downtrending resistance. Once the MA's formed a "death cross" in early May, the bears quickly snatched control while the bulls' defenses crumbled. Significant technical and psychological damage was made, and fear continued to rule as the bears pounded out their positions until exhaustion finally set in, with price matching the spike low. With no one left willing to sell the bulls are back in charge, but we warned that the bulls would run into significant resistance at the 40 and 80-week MAs and 38.2% Fib, in the \$3.30-3.40 area. Now, a month later, anyone taking advantage of that rally into the \$3.50 area has the ability to re-enter the low to mid \$2 area. Our Fib-projected base low would be in the \$1.60 area if \$2.25 fails to hold.

BENGAL ENERGY (BNG-TSX) Weekly



Bengal Energy: Last month we commented on the significant price run up and equally severe correction, when support was found at the 80-week MA and 61.8% Fib line around \$1.40-1.45. The long term trend line currently at \$1.30 would offer a key benchmark as to whether the bulls were still in charge, or not. MACD was mildly negatively divergent at the February 2011 new high, and both STO and RSI were in the sell zone, with OBV suggesting some distribution was taking place, giving adequate warning for a likely pull back. The week of June 10 saw a significant psychological blow to the bulls, with the 2-1/2 year price trend broken, a week counter rally, and then further damage as the bears took control, no doubt given a boost by stop-loss selling and technical traders taking their exit. Fairly strong support sits waiting at the \$0.98 area, and \$0.70 thereafter.

CANADIAN OVERSEAS PETROLEUM (XOP-TSXV) Weekly Semi-log



Canadian Overseas Petroleum: Price has been testing support on the 23.6% Fib line, and was well along in the process of building a technical base until these last 3 weeks. Last month we suggested that this stock would require some patience, given price trading below all our still-declining MAs which continue to offer overhead resistance during rally attempts. If the \$0.46 low area is broken there is little if any support to be found until \$0.20, so that is the risk. We suggested that traders may do well to take early profits or losses on any rally attempts. OBV shows continuous distribution since around December 2010, to the point where only a significant increase in buying volume can reverse the negativity of almost 2 years of price declines.

CGX ENERGY (OYL-TSXV) Weekly Semi-log



CGX Energy: Price has found tentative support and a relatively lower-risk accumulation area, but there are signs that support may give way here. Currently trading off rising trend line support at \$0.62, initial downside is likely to be the well-tested \$0.50 area where our 23.6% Fib line is drawn. This line marked the 2010 and 2009 lows from where we saw price moves to at least the 100% Fib line at \$1.32. On a material break of the \$0.50 support area, downside risk would be to next support at \$0.26. OBV still shows some net accumulation going on. STO, RSI and MACD are still diverging to the downside. This is a weak technical picture, with the bears looking ready to break through the trend line for a test of the \$0.50 area.

TOREADOR RESOURCES (TRGL-NASD) Weekly Semi-log



Toreador Resources: Last month our comments concluded that after a severe downtrend a significant relief rally typically occurs after most of the sellers have already liquidated, and when traders sense a turn and look to position in a timely manner. We warned that the bounce will meet significant resistance in the mid-\$8 area. As it turns out, the rally was a relatively tepid affair, managing to retrace to only \$7 before another wave of aggressive selling retraced the rally back where it began at \$5. At that point the bears were in control, utterly discouraging any hope left in the bull camp. The next week saw a volume spike and quick drop to our next Fib line at \$3.65, and there's some likelihood that price will end up in the \$2's before this rout is complete. Last week's relatively narrow trading range in the \$3.40-3.60 area with the STO and RSI making higher lows offers some minor hope that the 23.6% Fib line can finally arrest the decline, but at this point and time of year catching a falling knife has no appeal.

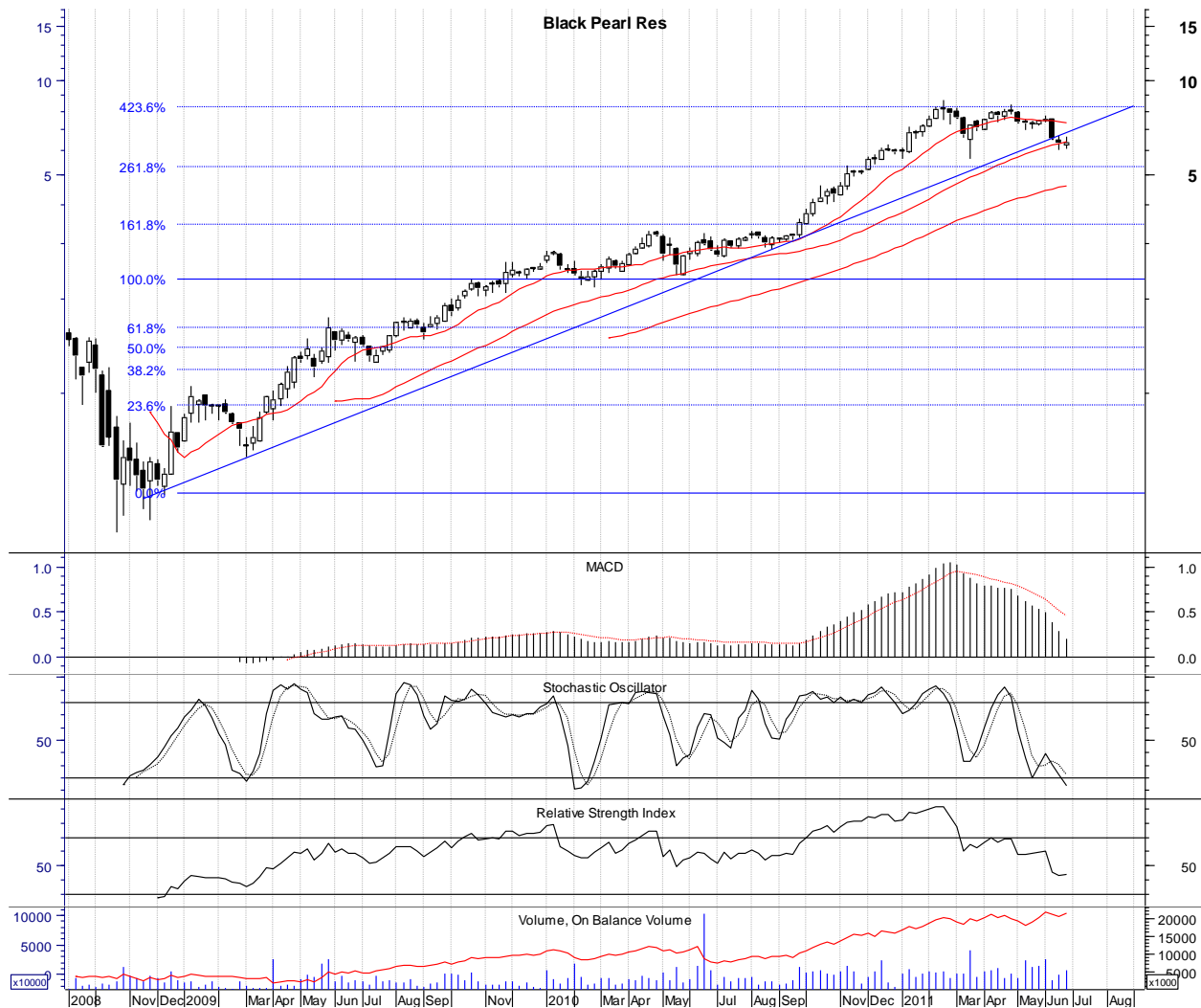
Domestic Producers/Exploration

TORQUAY OIL CORP (TOC.A-TSXV) Weekly



Torquay Oil: With little trading history and relative illiquidity, there was already dependable pattern of price moves followed by consolidation up to our last look late May. We suggested that the weakness of the prior three months is of concern, and this is now starting to wave a red flag as the 13 and 40-week MA's are above price and about to cross. This may well be a seasonal event, given low liquidity and general market weakness. Price is in fact holding up around the \$1.65 Fib support area, a well-tested line, but the 40 week MA being broken with a bit of a volume pick up does not bode well. Other signs of trouble include the MACD which is in negative divergence after a sell signal early April, and the OBV which peaked early March and is in steady decline, suggesting steady distribution. Next support is just under \$1.50; then \$1.30 and then \$1.00. The STO is bouncing out of the buy zone but RSI is still neutral and declining.

BLACK PEARL RESOURCES (PXX-TSX) Weekly Semi-log



Black Pearl Resources: Last month we pointed out that the trend is your friend, and this is well-represented by this picture of steady wealth creation, but that there were warning signs. The big one was the double top, confirmed by the negative divergence of our MACD. After the Feb. peak at \$8.64 we saw a 35% correction over 4 weeks, to a \$5.61 low. The ensuing rally saw a retest of the high that fell a bit short at \$8.37, 6 weeks later. The price dip since that 2nd attempt at a new high had been relatively shallow with the STO bouncing off the buy line, which suggested the selling pressure may be done. But we wondered why the MACD was so ugly? We pointed out that short term demand was faltering – traders are failing to produce new high closes. As a safety feature we recommended a stop-loss set somewhere below the trendline and 40-week MA then around \$6.30, and certainly below the recent correction low of \$5.61, to help avoid taking part in a more severe correction. With price now below the trend and 40-week MA, the next week or two may well confirm whether the bears now have the edge. With STO very oversold, and OBV showing continued strong accumulation, it may not yet be the time to throw in the towel, but certainly the towel is in our hand and useful for mopping our brow.

PEYTO ENERGY (PEY-TSX) Weekly Semi-log



Peyto Energy: A stellar chart where the trend is well-established, almost predictable. No real negatives here. The STO is flirting with its over-bought sell area, where it can certainly remain for some time. OBV is still climbing strongly, but the MACD is somewhat weaker since its early-January peak. While the recent new price high was not matched by the MACD, as long as the trendline remains materially intact and all the MAs are trending up we see a strong likelihood that the old 2008 highs approaching \$22 will be challenged and possibly breached to the upside, given the price momentum. Any signs of failure of this area however will likely be met with traders exiting their positions quickly. This area has a lot of history as a top, with a double top in 2008 setting the stage for a 72% price meltdown. There is no significant support zone until the \$16 area, although \$18.50 would see some early buyers wishing to re-enter.

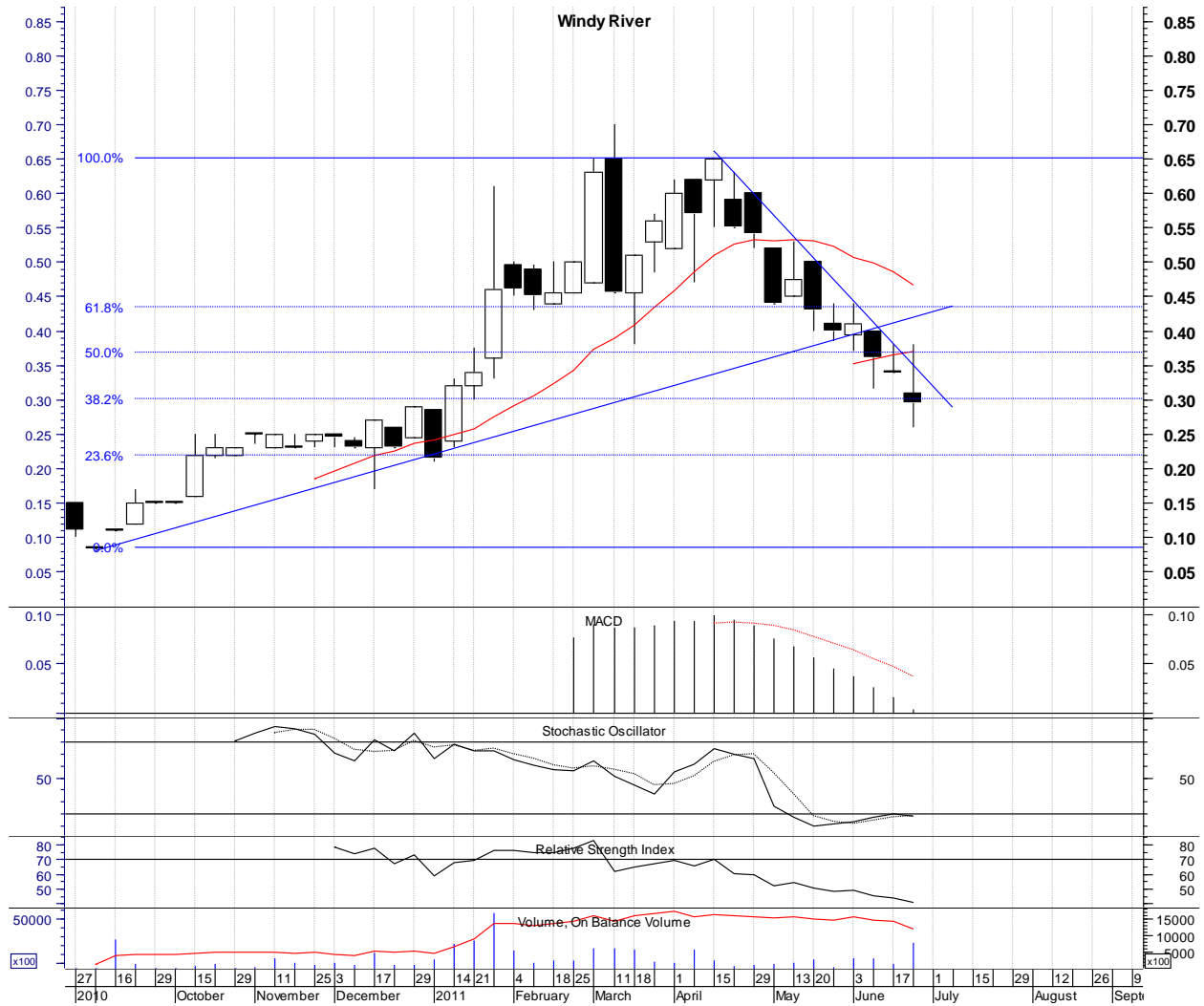
PAINTED PONY (PPY.A-TSXV) Weekly



Painted Pony: Our charted channels helped put risk and reward into perspective last month. A 20% move matched the recent double top high and closed right on the channel's upper boundary. Our technicals told us that the upward move was decelerating even as price was working higher – a warning rather than an outright sell signal. With this type of chart, given the wide-ranging channel, trend-followers either need to be able to weather severe price corrections, or simple buy right, on the lower bands, and go for the ride. In either case, we suggested that taking the trade at the top of the channel is almost a no-brainer given the size of this move and where price was in relation to the previous high, and the upper trendline boundary, the 161.8% Fib line, and (not shown) the Bollinger Bands envelope (that measures the number standard deviations of price from the mean – in this case price is right on 2 SDs). The subsequent selloff over the last month was effectively right on cue, and we'd like to think a predictable outcome. Now, patience comes into play, looking for a return to the lower trading band and trendline support.

Domestic Drilling Plays - Speculative Stocks

WIND RIVER ENERGY (WVR-TSXV)



Wind River: Another case of little price history from which to draw upon, and a relatively illiquid security. The initial trend was broken last month, and MACD was in freefall whereas STO was severely oversold and looked ready to turn up. RSI was still headed down, short of being oversold, but was at an all-time low. OBV was gently rolling over but not indicating any significant distribution. Little has changed over the last 4 weeks except the price has declined another 35%, a significant move down. Support at around \$0.30 looks weak, with major support at \$0.22 the area we would be interested in establishing a lower risk entry.

LYNDEN ENERGY (LVL-TSXV) Weekly Semi-log



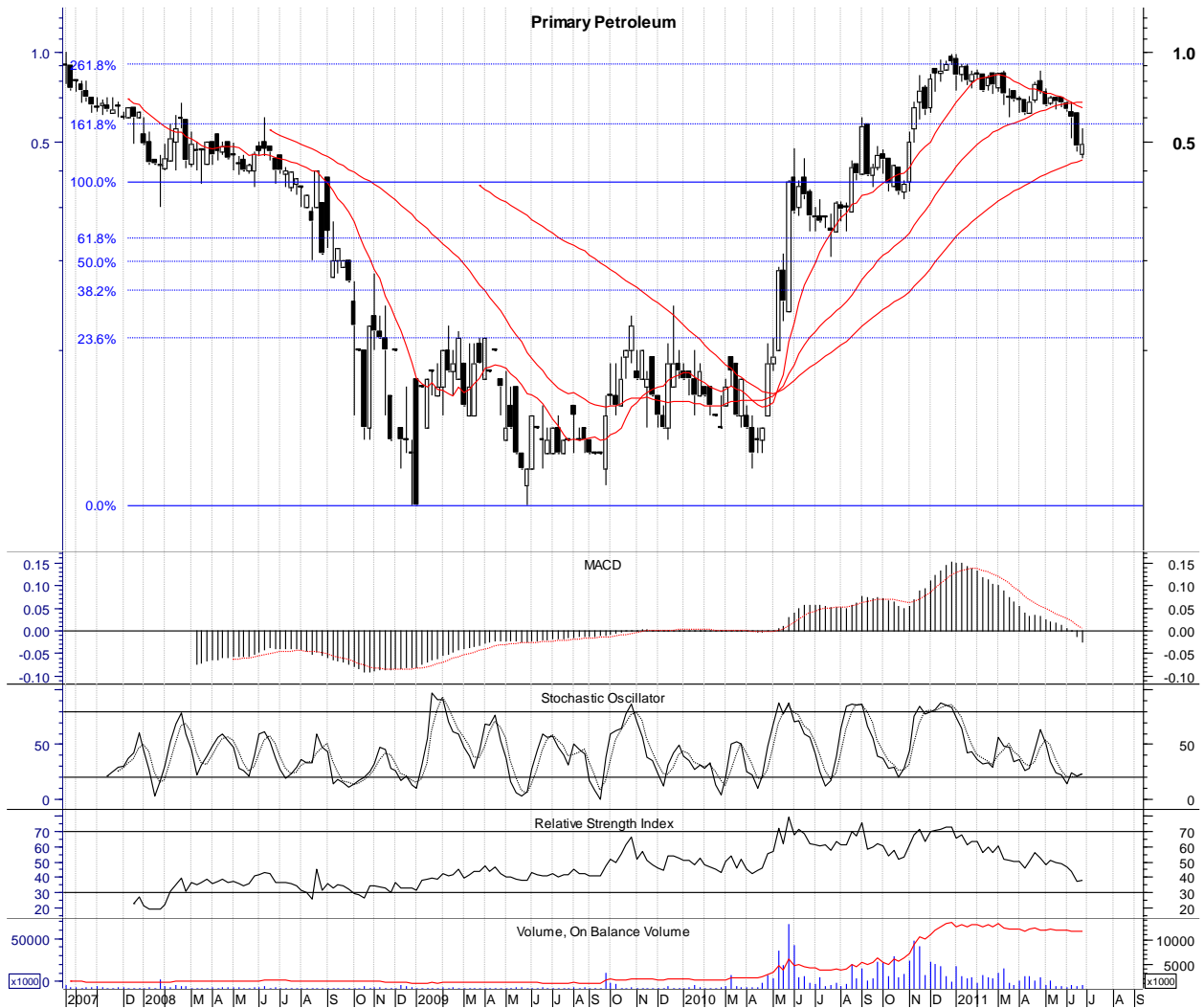
Lynden Ventures: Price has a history of volatility which suggests to traders an excuse for taking profits as they are presented. The bears have been in control ever since the late-January gap opening that marked a \$0.89 2-year high. Well tested support on the 38.2% Fib at \$0.44 continues to hold. Support needs to build after the “death cross” of all the down trending MAs and the 61.8% Fib in the \$0.55-.59 band. Any attempt to rally higher prematurely would look suspiciously like a head and shoulders formation, which would set up the \$0.44 level as the neckline from which any breach would see a stampede to the exits, and next support at the 23.6% Fib at \$0.35. Last week’s close is the lowest since March 2010, and right on Fib support.

BORDER PETROLEUM (BOR-TSXV) Weekly Semi-log



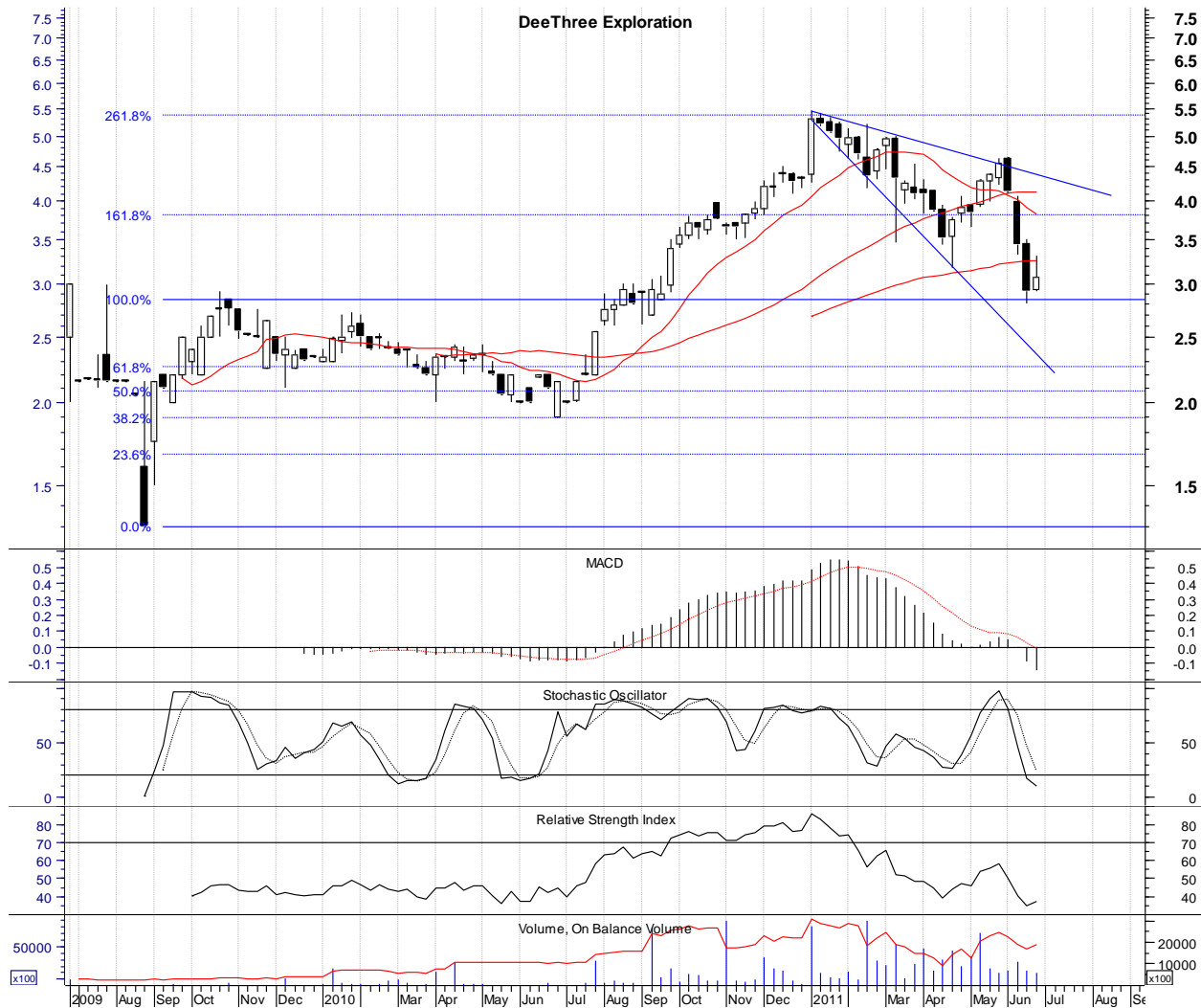
Border Petroleum: We have chosen to set our Fib high-low span to the December 2010 high, which nicely sets the Fib 161.8% and 261.8% extensions to fit the post-gap trading range. The use of Fibonacci is more an art than science, and while not perfect of course, greatly assists our decision making when there are few clues otherwise. Price tested the February \$0.48 high last month and volume suggested little in the way of overhead resistance. Subsequently significant new selling volume came in, taking price right back down to the \$0.28 Fib support area. Note the 40-week MA is just starting to show, and add rising support now around the \$0.25 area.

PRIMARY PETROLEUM (PIE-TSXV) Weekly Semi-log



Primary Petroleum: In late December 2010 price finally got back up to the former high set at the \$1.00 area in 2007. This was met by immediate selling pressure, maybe not surprising given the 2008 and 2009 double-bottom lows at \$0.03. The recent correction found support on the rising 40-week MA then at \$0.645, with ST pressure coming from the declining 13-week MA which has now crossed down through the 40-week. This caused an immediate sell-off now finding support on the 80-week MA at \$0.43. MACD has declined through its zero line and price looks vulnerable to test the \$0.36 Fib line.

DEETHREE EXPLORATION (DTX-TSX) Weekly Semi-log



DeeThree Exploration : Last month we warned of the broadening top pattern formed since the early-January record high, reflecting a battle between the bulls and bears to gain control of the stock. This is a relatively rare formation that typically occurs after the bulls have been charging and driving the stock price appreciably higher. Also known as a Megaphone Top, bears are exerting increasing influence on the stock and causing it to set a series of lower lows. Increasing volatility creates a sense of uncertainty, leading to profit-taking, and deters bulls from making any further commitments. Alone this is considered a bearish signal. We expected the next week would tell the tale, with a breakdown setting up a test of the \$3.95 Fib support area. As it turns out, that Fib line offered zero support, with price quickly dropping exactly down to our next Fib line sitting at \$2.85. With a small relief rally taking place last week, we point out that it is this area that was the old resistance area back in 2009-10 that became new support. The pressure on price will come again as the MA's continue to decline and offer up layers of overhead resistance.

BOWOOD ENERGY (BWD-TSX) Weekly



Bowood Energy: What was a nice clean chart with little in the way of history to cloud up its prospects has become somewhat more complex over the last 4 weeks. Price underwent a near text-book 50% pullback from the December high to find solid support at \$0.43, with a pattern of steady accumulation is overcoming the bearish sentiment, and starting to lift price through the 13-week MA as the 40-week MA starts to kick in with rising support. All indicators were in sync with the price action, with the MACD about to turn up, and a positively divergent STO supporting a move higher. We stated that any price reversal would find additional support at the 38.2% Fib at \$0.375, and this is where we find ourselves this week. Now, the 13-week MA has crossed down through the 40-week, and is putting pressure on price. There was a quick rally off \$0.375 support once the \$0.43 line broke, but \$0.45 is now resistance.

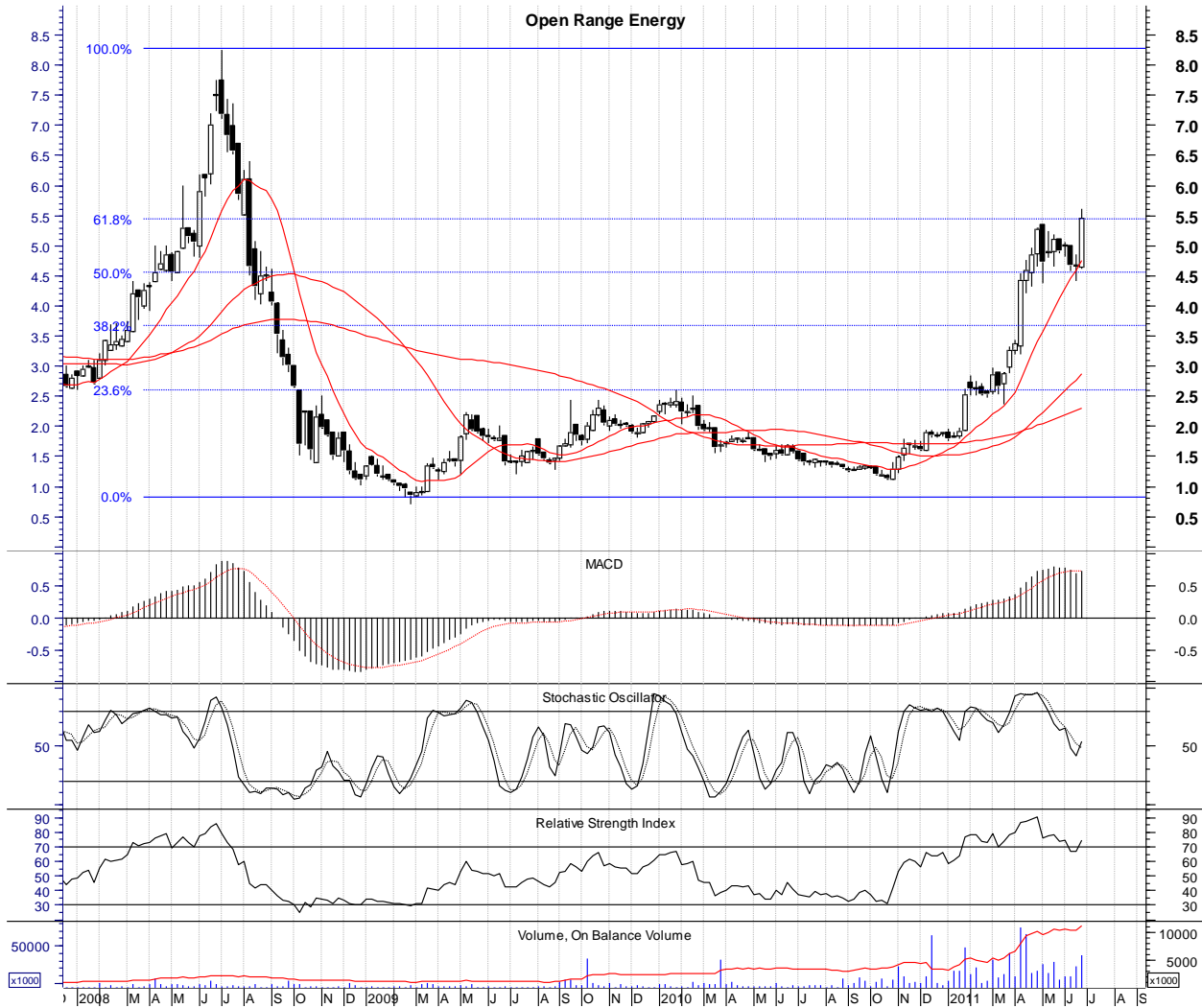
DONNYBROOK ENERGY (DEI-TSXV) Weekly Semi-log



Donnybrook Energy: In our late May report, price was undergoing the deepest correction since commencing its eight-month run to a new high of \$0.86, with a pullback to our 261.8% Fib line. The STO showed recovery from a deeply oversold condition – considered a buy signal. The STO has flaws however, and sure enough it soon plumbed down to a new extreme oversold condition. MACD crossed down in mid April – also a sell signal, and has been in continuous freefall since. The RSI was flat and starting to turn higher from an intermediate, neutral position, but has since turned sharply lower. It is now increasingly obvious that MA support is no longer valid, and in fact offers declining resistance. Next support lies around \$0.38.

Energy Services

OPEN RANGE ENERGY (ONR-TSX) Weekly



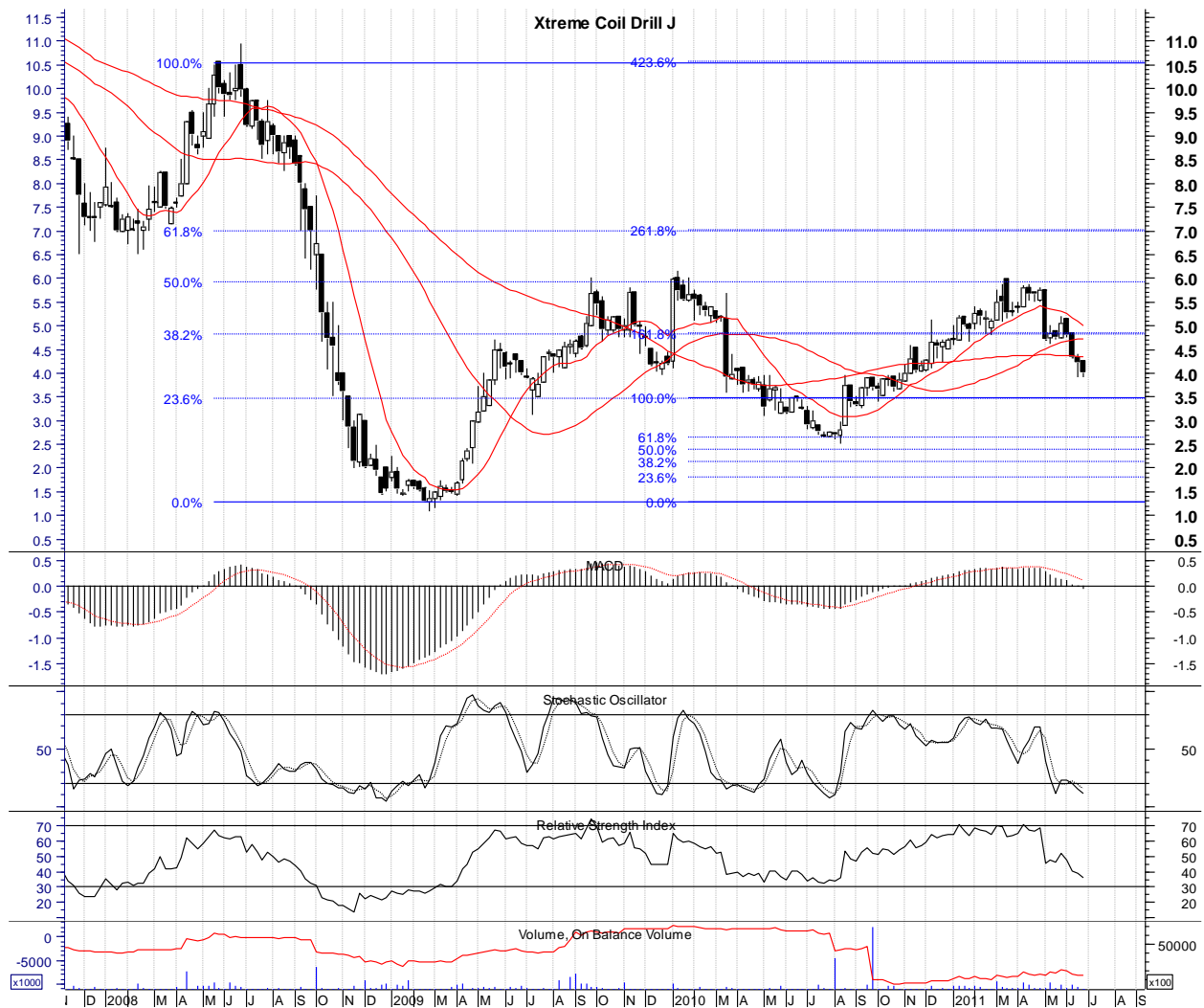
Open Range Energy: This is a recent addition to the portfolio not discussed in our past technical notes. We see an obviously bullish picture with a 5-fold gain over 6 months, a relatively shallow 2 month correction and consolidation period, and price trading off the 13-week MA. The \$5.50 area is a key potential inflection point, and a pull back here will be seen as a double top, so needs to be carefully monitored. Most technicals continue to be positive, but MACD is starting to show negative divergence to price and STO and RSI are indicating waning strength.

TUSCANY INT'L DRILLING (TID-TSX) Weekly



Tuscany International: Another new portfolio addition not previously analysed, price is entering new low territory on a large volume spike – not an auspicious beginning. We have portrayed our key Fib support areas below the \$0.92 support area, but keep in mind that new lows are a sign that we are in uncharted waters and anything can happen. It is generally best to await the formation of a new base where corroborating evidence can help determine the timing of a new up-trend.

XTREME COIL DRILLING (XDC-TSX) Weekly



Xtreme Coil Drilling: The waning strength of the bulls was increasingly apparent since January 2011 as MACD set a series of lower highs and lower lows, even as price set a series of new highs. The rising MAs had continuously acted as support during the eight month bull-run, and were already offering resistance to the bull's counter rally, as we pointed out in our last technical look. The 40-week MA became the first line of defense in this correction, backed up by the nearby 80-week just below. We thought that the price move through the 13-week MA would take little effort and could turn the tide away from fear, but that was not the way the last month went. 4 weeks of declines have managed to break through all of our MAs, with support now sitting down around the \$3.50 area.

SECURE ENERGY SERVICES (SES-TSX) Weekly Semi-log



Secure Energy Services: This chart clearly exhibits why one should never rely on an over-bought / oversold oscillator as a sole indicator for trading purposes. The STO and RSI spent much of the last year in severely overbought territory as price continued to rise relentlessly to monthly new highs. Likewise the MACD gave a shallow false sell signal in early March which was just before price appreciation when into overdrive, accelerating off the trendline. Last month we stated that next resistance may be found at the projected 423.6% Fib area at \$9.85, and so far this has proven to be the case. Choosing to trade out at the upper boundary channel in this case may prove to be a high percentage tactic given the market's general doldrums, where a little patience may offer a renewed opportunity near the lower channel boundary.

GOLAR LNG (GLNG-NASD) Weekly Semi-log



Golar LNG: Not much change to the technical picture over the last month. With the spike in volume to all time new highs in March, price accelerated once it achieved full recovery back into the pre-crash trading range of \$17.50-26.00. With no one in a loss position looking to get out even, price was clear to move higher unimpeded by market memory. The old high resistance area now becomes support, and was quickly tested in May before price resuming its climb on steady volume. The shorter-term 13-week MA continues to lend ascending price support. Next material resistance is projected at the Fib 261.8% area, at around \$40.

GASFRAC ENERGY SERVICES (GFS-TSXV) Weekly



GasFrac Energy Services: What started as a steady and reliable uptrend that lasted 6 months saw a MACD sell signal given mid-April that has yet to run its course. We thought it likely to test the \$9.50 50% retracement area. Note the 40-week MA is starting to be plotted as trading commenced about 46 weeks ago, and is acting as support with the recent price low stopping exactly on that MA at the \$9.70 level. We are very close to the key 50% retracement area at \$9.50, and not actually challenging that line of support. Commencing a rally from above the area would signal a particularly strong technical situation for further gains, but first we need to overcome the downward trendline and declining 13-week MA, failing which next support will likely have to be more aggressively tested.

CANADIAN ENERGY SERVICES (CEU-TSX) Weekly Semi-log



Canadian Energy Services: This chart shows a remarkably steady uptrending channel that reliably traded off its 13-week MA until this last month's swoon and general market weakness. Now it's the 40-week MA that offers support. After the old 2008 price high of \$13.20 was retested in January 2010 an immediate breakout to new highs signaled significant underlying strength. There is no indication that the trend is coming to an end other than the break below the overbought line of the RSI and some toppiness on the MACD, albeit minor at this point. STO is as oversold as it has ever been, although RSI is relatively neutral. The next Fib resistance area sits at the \$40 area, which is also a natural "big fat number" that often becomes a popular target for retail investors. Typically major corrections tend to be in the 20% range, and this is where we find ourselves here. \$26.70 is the next Fib support area.

Energy Services – Speculative

WAVEFRONT TECHNOLOGY (WEE-TSXV) Weekly Semi-log



Wavefront Technology: The price is still base-building after a big run last year. The MACD sell signal of January 2010 gave plenty of warning at the time with price around the \$2.50 area. The next buy signal was only generated in October at the \$1.06 area. Price showed signs of life with a rounding bottom formation being hammered out, that was prematurely arrested when price tried to rally too fast into resistance in the \$1.15-1.25 band where the 40 and 80-week MAs are still trending down and offer resistance starting at around the 100% Fib line. The downtrend line has been broken with the late May rally however, and we appear to be retesting the top of that old downtrend line. A bounce here to the upside would signal that the downtrend has probably been successfully broken, although the MAs will need to be turned back into support and the old uptrend line would need to be cleared before we would get aggressive on the buy side – there’s just too much technical clutter in the way.

RIDGELINE ENVIRONMENTAL (RLE-TSXV) Weekly Semi-log



Ridgeline Environmental: Weakening price action and some acceleration to the downside warranted close observation a month ago, and after this last week we have reason for more optimism. Critical support sits at the 161.8% Fib line at \$0.43, now successfully tested. A strong rally has taken price back up through the 13 and 40-week MA resistance area just as they were about to cross to the downside – always a negative event – and so that has been averted, at least temporarily. No doubt there will be key market participants around the company who also follow the technicals, and wish to avoid such negativity. The 80-week MA at \$0.365 will offer some support, which means some buying interest will be found there should the 161.8% Fib area support break and the 13 and 40-week MA's now turning down prove to be too much pressure. Further key support sits at the \$0.25-0.29 band.

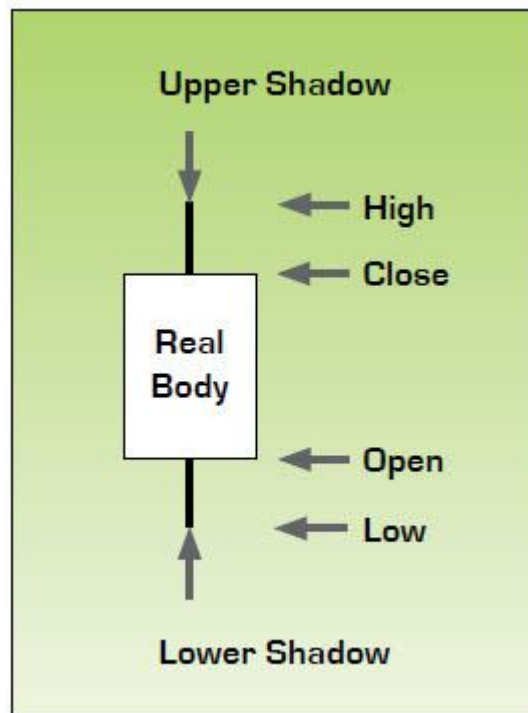
APPENDIX

METHODOLOGY & INDICATORS USED (with liberal excerpts from www.stockcharts.com)

JAPANESE CANDLESTICKS

We use Candlesticks charting as a matter of course, preferring the visually compelling information they display, and their ability to provide instantly recognizable stand-alone “patterns” that provide technical insights to the informed reader. Immediately a trader can compare the relationship between the open and close as well as the high and low. In order to create a candlestick chart, you use open, high, low and close values for each time period you want to display. The hollow or filled portion of the candlestick is called "the body" (or "the real body"). The long thin lines above and below the body represent the high/low range and are called "shadows" (or "wicks" and "tails"). The high is marked by the top of the upper shadow and the low by the bottom of the lower shadow. If the stock closes higher than its opening price, a hollow (or white) candlestick is drawn, with the bottom of the body representing the opening price and the top of the body representing the closing

price. If the stock closes lower than its opening price, a filled candlestick is drawn (black) with the top of the body representing the opening price and the bottom of the body representing the closing price.



SUPPORT & RESISTANCE

Support and resistance represent key prices where the forces of supply and demand meet. In the financial markets, prices are driven by excessive supply (down) and demand (up). Supply is synonymous with bearish, bears and selling. Demand is synonymous with bullish, bulls and buying. These terms are used interchangeably. As demand increases, prices advance and as supply increases, prices decline. When supply and demand are equal, prices move sideways as

bulls and bears battle for control. Support and resistance are like mirror images and have many common characteristics. In the case of support, this is the price level where demand is thought to be strong enough to prevent the price from declining further. Support, like resistance, does not always hold. A break below support signals that the bears have won out over the bulls. A breakout through resistance is a win for the bulls. Once support is broken, another support level will have to be established at a lower level.

Technical analysis is not an exact science and it is sometimes difficult to set exact support levels. In addition, price movements can be volatile and dip below support briefly. Sometimes it does not seem logical to consider a support level broken if the price closes just below the established support level, which is why we often establish support zones. The same logic applies to resistance, where price pokes up just through the resistance level.

Once the price breaks below a support level, the broken support level can turn into resistance. The break of support signals that the forces of supply have overcome the forces of demand. Therefore, if the price returns to this level, there is likely to be an increase in supply, and hence resistance.

The other side of the coin is resistance turning into support. As the price advances above resistance, it signals changes in supply and demand. The breakout above resistance proves that the forces of demand have overwhelmed the forces of supply. If the price returns to this level, there is likely to be an increase in demand and support will be found.

TREND LINES

Trend Lines are an important tool in technical analysis for both trend identification and confirmation. A trend line is a straight line that connects two or more price points and then extends into the future to act as a line of support or resistance. Many of the principles applicable to support and resistance levels can be applied to trend lines as well. Uptrend lines act as support and indicate that net-demand (demand less supply) is increasing even as the price rises. A rising price combined with increasing demand is very bullish, and shows a strong determination on the part of the buyers. As long as prices remain above the trend line, the uptrend is considered solid and intact.

A break below the uptrend line indicates that net-demand has weakened and a change in trend could be imminent. A downtrend line has a negative slope and is formed by connecting two or more high points. Downtrend lines act as resistance, and indicate that net-supply (supply less demand) is increasing even as the price declines. A declining price combined with increasing supply is very bearish, and shows the strong resolve of the sellers. As long as prices remain

below the downtrend line, the downtrend is solid and intact. A break above the downtrend line indicates that net-supply is decreasing and that a change of trend could be imminent.

SCALE SETTINGS

High points and low points appear to line up better for trend lines when prices are displayed using a **semi-log scale**. This is especially true when long-term trend lines are being drawn or when there is a large change in price. An **arithmetic scale** displays incremental values (5,10,15,20,25,30) evenly as they move up the y-axis. A \$10 movement in price will look the same from \$10 to \$20 or from \$100 to \$110. A **semi-log scale** displays incremental values in percentage terms as they move up the y-axis. A move from \$10 to \$20 is a 100% gain, and would appear to be a much larger than a move from \$100 to \$110, which is only a 10% gain.

MOVING AVERAGES

Moving averages (MAs) smooth the price data to form a trend following indicator. They do not predict price direction, but rather define the current direction with a lag. Moving averages lag because they are based on past prices. Despite this lag, moving averages help smooth price action and filter out the noise. They also form the building blocks for many other technical indicators and overlays. **Exponential moving averages** reduce the lag by applying more weight to recent prices. The weighting applied to the most recent price depends on the number of periods in the moving average. We use Exponential MAs in our charts.

The direction of the moving average conveys important information about prices. A rising moving average shows that prices are generally increasing. A falling moving average indicates that prices, on average, are falling. A rising long-term moving average reflects a long-term uptrend. A falling long-term moving average reflects a long-term downtrend. Two moving averages can be used together to generate crossover signals. There is also a triple crossover method that involves three moving averages.

A bullish signal is generated when prices move above the moving average. A bearish signal is generated when prices move below the moving average. Price crossovers can be combined to trade within the bigger trend. The longer moving average sets the tone for the bigger trend and the shorter moving average is used to generate the signals. One would look for bullish price crosses only when prices are already above the longer moving average. This would be trading in harmony with the bigger trend.

Moving averages can also act as support in an uptrend and resistance in a downtrend. A short-term uptrend might find support near the 20-day simple moving average, which is also used in **Bollinger Bands**. A long-term uptrend might find support near the 200-day simple moving average, which is the most popular long-term moving average. In fact, the 200-day moving average may offer support or resistance simply because it is so widely used. It is almost like a self-fulfilling prophecy.

Do not expect exact support and resistance levels from moving averages, especially longer moving averages. Markets are driven by emotion, which makes them prone to overshoots. Instead of exact levels, moving averages can be used to identify support or resistance zones.

The advantages of using moving averages need to be weighed against the disadvantages. Moving averages are trend following, or lagging, indicators that will always be a step behind. This is not necessarily a bad thing though. After all, the trend is your friend and it is best to trade in the direction of the trend.

FIBONACCI RETRACEMENTS & PROJECTIONS

Fibonacci Retracements are ratios used to identify potential reversal levels. Fibonacci Projections are ratio extensions useful for plotting where resistance levels will be found, especially useful when in new high territory with no previous trading history. The effective use of "Fib" properties for charting purposes is more of a practiced art than a science. They have proven to be amazingly accurate to this practitioner, and we do little without first referring to them.

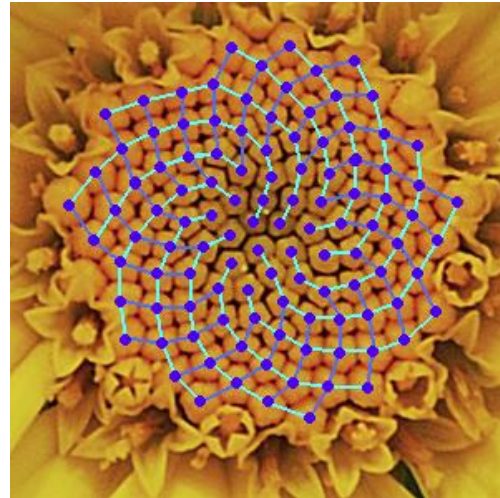
Fib ratios are found in the Fibonacci sequence as follows: 0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377, 610, etc. The sequence extends to infinity and contains many unique mathematical properties. The most popular Fibonacci Retracements are 61.8% and 38.2%. 50% is not technically a Fib number, but has proven to be a key level from Dow Theory's assertion that the Averages often retrace half their prior move. 1.618 refers to the Golden Ratio or Golden Mean, also called Phi, and is useful for price projections. Interestingly, the inverse of 1.618 is .618 ... another unique characteristic.

These ratios can be found throughout nature, architecture, art and biology. For example, in biological settings, they appear as branching in trees, arrangement of leaves on a stem, the fruitlets of a pineapple, the flowering of artichoke, an uncurling fern, spirals of shells, spirals of galaxies, the curves of a wave and the

arrangement of a pine cone or sunflower. Retracement levels alert market participants of a potential trend reversal, resistance area or support area. Retracements are based on the prior move's high and low points. A bounce is expected to retrace a portion of the prior decline, while a correction is expected to

retrace a portion of the prior advance. Once a pullback starts, chartists can identify specific Fibonacci retracement levels for monitoring. As the correction approaches these retracements, chartists should become more alert for a potential bullish reversal.

Based on depth, we can consider a 23.6% retracement to be relatively shallow. Such retracements would be appropriate for flags or short pullbacks. Retracements in the 38.2%-50% range would be considered moderate. Even though deeper, the 61.8% retracement can be referred to as the golden retracement. It is, after all, based on the Golden Ratio.



Yellow Chamomile head showing the arrangement in 21 (blue) and 13 (aqua) spirals. Such arrangements involving consecutive Fibonacci numbers appear in a wide variety of plants.

MACD

Moving Average Convergence-Divergence (MACD) is one of the simplest and most effective momentum indicators available. MACD turns two trend-following indicators, moving averages, into a momentum oscillator by subtracting the longer moving average from the shorter moving average. As a result, MACD offers the best of both worlds: trend following and momentum. MACD fluctuates above and below the zero line as the moving averages converge, cross and diverge. Traders can look for signal line crossovers, centerline crossovers and divergences to generate signals. Because MACD is unbounded, it is not particularly useful for identifying overbought and oversold levels.

Signal line crossovers are the most common MACD signals. A bullish crossover occurs when MACD turns up and crosses above the signal line. A bearish crossover occurs when MACD turns down and crosses below the signal line. Crossovers can last a few days or a few weeks, it all depends on the strength of the move. Signal line crossovers at positive or negative extremes should be viewed with caution. Even though MACD does not have upper and lower limits, chartists can estimate historical extremes with a simple visual assessment. It takes a strong move in the underlying security to push momentum to an extreme. Even though the move may continue, momentum is likely to slow and this will usually produce a signal line crossover at the extremities. Volatility in the underlying security can also increase the number of crossovers.

Centerline crossovers are the next most common MACD signals. A bullish centerline crossover occurs when MACD moves above the zero line to turn positive. A bearish centerline crossover

occurs when MACD moves below the zero line to turn negative. Centerline crossovers can last a few days or a few months depending on the strength of the trend. MACD will remain positive as long as there is a sustained uptrend. MACD will remain negative when there is a sustained downtrend.

Divergences form when MACD diverges from the price action of the underlying security. A bullish divergence forms when a security records a lower low and MACD forms a higher low. The lower low in the security affirms the current downtrend, but the higher low in MACD shows less downside momentum. Despite less downside momentum, downside momentum is still outpacing upside momentum as long as MACD remains in negative territory. Slowing downside momentum can sometimes foreshadow a trend reversal or a sizable rally.

A bearish divergence occurs when a security records a higher high and MACD forms a lower high. The higher high in the security is normal for an uptrend, but the lower high in MACD shows less upside momentum. Even though upside momentum may be less, upside momentum is still outpacing downside momentum as long as MACD is positive. Waning upward momentum can sometimes foreshadow a trend reversal or sizable decline.

Divergences should be considered with caution. Bearish divergences are commonplace in a strong uptrend, while bullish divergences occur often in a strong downtrend. Yes, you read right. Uptrends often start with a strong advance that produces a surge in upside momentum (MACD). Even though the uptrend continues, it continues at a slower pace that causes MACD to decline from its highs. Upside momentum may not be as strong, but upside momentum is still outpacing downside momentum as long as MACD is above the zero line. The opposite occurs at the beginning of a strong downtrend.

OBV

On Balance Volume (OBV) is a simple indicator that uses volume and price to measure buying pressure and selling pressure. A well-established truism states that volume precedes price. Expect prices to move higher if OBV is rising while prices are either flat or moving down. Expect prices to move lower if OBV is falling while prices are either flat or moving up.

OBV rises when volume on up days outpaces volume on down days. OBV falls when volume on down days is stronger. A rising OBV reflects positive volume pressure that can lead to higher prices. Conversely, falling OBV reflects negative volume pressure that can foreshadow lower prices. Buying pressure is evident when positive volume exceeds negative volume and the OBV line rises. Selling pressure is present when negative volume exceeds positive volume and the OBV line falls. Chartists can use OBV to confirm the underlying trend or look for divergences

that may foreshadow a price change. As with all indicators, it is important to use OBV in conjunction with other aspects of technical analysis. It is not a stand-alone indicator.

STO – The Stochastic Oscillator

The Stochastic Oscillator (STO) doesn't follow price, it doesn't follow volume or anything like that. It follows the speed or the momentum of price. As a rule, the momentum changes direction before price. It's a momentum indicator that shows the location of the close relative to the high-low range over a set number of periods.

The STO makes it easy to identify overbought and oversold levels because it is range bound. The oscillator ranges from zero to one hundred. No matter how fast a security advances or declines, the STO will always fluctuate within this range. Traditional settings use 80 as the overbought threshold and 20 as the oversold threshold. The STO is above 50 when the close is in the upper half of the range and below 50 when the close is in the lower half. Low readings (below 20) indicate that price is near its low for the given time period, and oversold. High readings (above 80) indicate that price is near its high for the given time period, and overbought.

The indicator can therefore be used to identify turns near support or resistance. When a security trades near support with an oversold STO, look for a break above 20 to signal an upturn and successful support test. Conversely, should a security trade near resistance with an overbought STO, look for a break below 80 to signal a downturn and resistance failure.

Bullish and bearish divergences in the STO can often be used to foreshadow reversals. Divergences form when a new high or low in price is not confirmed by the STO. A bullish divergence forms when price records a lower low, but the STO forms a higher low. This shows less downside momentum that could foreshadow a bullish reversal. A bearish divergence forms when price records a higher high, while the STO forms a lower high. This shows less upside momentum that could foreshadow a bearish reversal.

Once a divergence takes hold, we look for a confirmation to signal an actual reversal. A bearish divergence can be confirmed with a support break on the price chart or an STO break below 50, which is the centerline. A bullish divergence can be confirmed with a resistance break on the price chart or an STO break above 50.

50 is an important level to watch. The STO moves between zero and one hundred, which makes 50 the centerline. Think of it as the 50 yard line in football. The offense has a higher chance of scoring when it crosses the 50 yard line. The defense has an edge as long as it prevents the

offense from crossing the 50 yard line. An STO cross above 50 signals that prices are trading in the upper half of their high-low range for the given look-back period. This suggests that the cup is half full. Conversely, a cross below 50 means prices are trading in the bottom half of the given look-back period. This suggests that the cup is half empty.

There's one other form of divergence we can use to predict bottoms or tops. A bull set-up is basically the inverse of a bullish divergence. The underlying security forms a lower high, but the STO forms a higher high. Even though the stock could not exceed its prior high, the higher high in the STO shows strengthening upside momentum. The next decline is then expected to result in a tradable bottom. A bear set-up occurs when the security forms a higher low, but the STO forms a lower low. Even though the stock held above its prior low, the lower low in the STO shows increasing downside momentum. The next advance is expected to result in an important peak.

Momentum oscillators in general are best suited for trading ranges, but they can also be used with securities that trend, provided the trend takes on a zigzag format. Pullbacks are part of uptrends that zigzag higher. Bounces are part of downtrends that zigzag lower. In this regard, the STO can be used to identify opportunities in harmony with the bigger trend.

Like all technical indicators, it is important to use the Stochastic Oscillator in conjunction with other technical analysis tools. Volume, support/resistance and breakouts can be used to confirm or refute signals produced by the STO.

RSI

The Relative Strength Index (RSI) is a momentum oscillator that measures the speed and change of price movements. RSI oscillates between zero and 100. Traditionally, RSI is considered overbought when above 70 and oversold when below 30. Signals can also be generated by looking for divergences, failure swings and centerline crossovers. RSI can also be used to identify the general trend.

Like many momentum oscillators, overbought and oversold readings for RSI work best when prices move sideways within a range. Momentum oscillators can become overbought (oversold) and remain so in a strong up (down) trend.

Divergences signal a potential reversal point because directional momentum does not confirm price. A bullish divergence occurs when the underlying security makes a lower low and RSI forms a higher low. RSI does not confirm the lower low and this shows strengthening momentum. A bearish divergence is formed when the security records a higher high and RSI forms a lower high. RSI does not confirm the new high and this shows weakening momentum.

Before getting too excited about divergences as great trading signals, it must be noted that divergences are misleading in a strong trend. A strong uptrend can show numerous bearish divergences before a top actually materializes. Conversely, bullish divergences can appear in a strong downtrend - and yet the downtrend continues.

Failure swings can be strong indications of an impending reversal. Failure swings are independent of price action. In other words, failure swings focus solely on RSI for signals and ignore the concept of divergences. A bullish failure swing forms when RSI moves below 30 (oversold), bounces above 30, pulls back, holds above 30 and then breaks its prior high. It is basically a move to oversold levels and then a higher low above oversold levels. A bearish failure swing forms when RSI moves above 70, pulls back, bounces, fails to exceed 70 and then breaks its prior low. It is basically a move to overbought levels and then a lower high below overbought levels.

As an aid to identifying the trend, RSI may in fact not travel between 0 and 100. There is in fact a bull market range and a bear market for RSI. RSI tends to fluctuate between 40 and 90 in a bull market (uptrend) with the 40-50 zones acting as support. On the flip side, RSI tends to fluctuate between 10 and 60 in a bear market (downtrend) with the 50-60 zone acting as resistance. These ranges may vary depending on RSI parameters, strength of trend and volatility of the underlying security.

And then there are positive and negative reversals for RSI, which are the opposite of bearish and bullish divergences. A positive reversal forms when RSI forges a lower low and the security forms a higher low. This lower low is not at oversold levels, but usually somewhere between 30 and 50. A negative reversal is the opposite of a positive reversal. RSI forms a higher high, but the security forms a lower high. Again, the higher high is usually just below overbought levels in the 50-70 area.

RSI is a versatile momentum oscillator that has stood the test of time. Traditionally overbought conditions were considered ripe for a reversal, but we have observed that overbought can also be a sign of strength. Bearish divergences still produce some good sell signals, but chartists must be careful in strong trends when bearish divergences are actually normal. Even though the concept of positive and negative reversals may seem to undermine RSI's traditional interpretation, the logic makes sense and we must not dismiss the value of putting more emphasis on price action. Positive and negative reversals put price action of the underlying security first and the indicator second, which is the way it should be. Bearish and bullish divergences place the indicator first and price action second. By putting more emphasis on price action, the concept of positive and negative reversals challenges our thinking towards momentum oscillators.

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