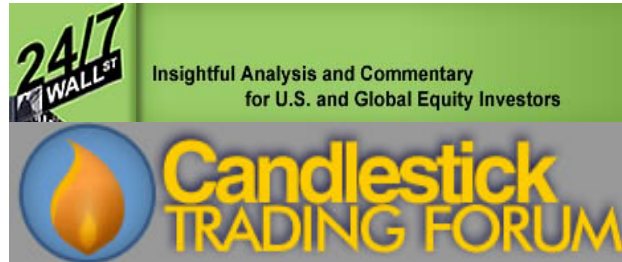


# ETF CANDLESTICKS

*"Applying 400 years of technical trading analysis to fundamentals in modern day ETF's"*

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## ETF Candlestick: SEMICONDUCTOR HOLDRs (SMH-AMEX) Bullish Candlestick Bias As of Close on October 17, 2007



**Candlestick Pattern: The Doji...a very viable reversal signal.** Doji's are formed when the trading closes almost at the same level as where prices opened. This represents indecision. When it occurs at the extremes of a trend, such as in the overbought or oversold condition, it becomes a very viable reversal signal.

**Explanation:** Over the past three days, prices gap down and traded right near the 200 day moving average, a level where the previous Doji supported at the 200 day moving average back in mid August. The gap up in price in Tuesday's trading showed which direction investor sentiment was moving after three indecisive trading days. Although the price gapped up and closed lower on the day, the fact that investor sentiment was extremely bullish after the indecisive trading illustrates a new dynamic, a high probability of a trend reversal. Supporting at the previous support level and at the 200 day moving average adds credibility to the

reversal. Witnessing bullish candles from this area would demonstrate the Bulls taking over the trend. A close back below the 200 day moving average would illustrate the lack of bullish sentiment.

**Entry, Exit, & Stop Notes:** The indecisive trading also represents the possibility of a double bottom formation setting up. Use a close below the 200 day moving average as the indicator that the uptrend is not in progress. Anticipate the first target at the top of the previous trend channel in a \$39.50 level with the next target testing recent highs in the \$42 area.

**Major Recent Developments & Trends:**

The big news here is obvious, and that is that Intel (INTC) earnings are behind us. Intel beat earnings, lifted guidance, and even gave a strong outlook for margins. What is interesting is that Intel rose far more on the day than the ETF and compared to peers, but both are showing bullish signals. This is a clear signal that the pricing war with Advanced Micro Devices (AMD) may either be ending or at least has been marginalized. Intel even gave strong cap-ex guidance compared to what was seeming like a perpetual flood of only so-so capital expenditures for R&D.

Another couple of things have occurred that might not be immediately tied to semiconductors per se. This is the trend of PC's and the intact upward trend we are witnessing here. The last earnings reports out of Dell (DELL) and out of Hewlett-Packard (HPQ) both were positive not just for the last quarters but for ahead as well. Also just yesterday we got a solid report out of disk-drive leader Seagate Tech (STX) and its shares responded positively. The other issue was the Goldman Sachs upgrade of Microsoft (MSFT) one-week ahead of earnings; and if Goldman Sachs is doing this that soon to an event we think they have an inside eye or some special insight. All of these stocks performed well today.

This is all shaping up in support of the reversal of that recent weakness we had been seeing in chip stocks inside the SMH-ETF. Frequently you see these reversals when the fundamentals look bad or are only marginally good. But this has the look and feel of a reversal from the chart and from the fundamentals.

We could comment about the weakness in Micron (MU) and the choppy supply/demand issues that are in every other DRAM-related and Flash-related emails we receive weekly. Trying to make a sector call on these weekly reports would be like asking a schizophrenic to tell you the mood of the market every day. One key issue helping as well has been that Broadcom (BRCM) has been winning out so far in the ongoing patent fight with Qualcomm (QCOM).

If you wanted to throw in a longer-term issue, you might even point to the recent insatiable demand for VMware and the trends into virtualization. This allows PC's and servers to simultaneously run Windows and Linux or Linux and Mac. This may not seem like a huge market, but in technology this is the next 'next thing' and all you have to do to see this is review the performance for VMware (VMW) and Citrix Systems (CTXS). The upgrade cycle for Windows Vista has been panned by many, but all in all this has slowly and stealthily become a net win for Microsoft (MSFT) that was better than what many analysts were expecting.

**ETF Components & Statistics:**

52-Week Trading Range	\$32.75 to \$41.41
Top ETF Components	Intel (INTC) 21.7%; Texas Instruments (NYSE:TXN) 20.89%; Applied Materials (AMAT) 15.24%; 15 more components with under 6% each.
Net Assets	\$1.65 Billion
Average Daily Volume	11.32 million shares
Dividends Paid	\$0.002 (9/13); \$0.011 (8/29); \$0.009 (8/21); \$0.005 (8/16)
Short Interest	Sept.-end 15,247,261; mid-Sept. 17,836,763; Aug. 24,257,423

**Special ETF Notes & Managing Group:**

As a forward reminder, the Merrill Lynch HOLDRs series ETF's do act slightly different than other key ETF's. The difference is that HOLDRs were created in a manner that they could be broken up upon request with Merrill Lynch delivering individual shares to your brokerage firm upon request. They also usually do not allow for odd lots because of that break-up feature. This is never done any longer, but with

HOLDERS the purchaser does receive more than normal mail with prospectus and proxy materials in the mail than compared to all other ETF's.

**CALENDAR AHEAD & CAVEATS:**

The calendar ahead is littered with earnings, and every one of these could be a caveat. Microsoft, Apple, and a couple hundred more tech stocks are all going to be reporting earnings in the coming days.

Are there risks? Sure. Joe Consumer doesn't exactly look all that strong. Ericsson (ERIC) in Sweden looked atrocious and there is always a risk that it could equate to cheaper chips for cell phones. But that is one small aspect of what is happening in the sector. Unfortunately earnings season with the market in general can pull groups in different ways than the charts indicate. AMD (AMD) reports earnings Thursday and that report should help to confirm whether or not Intel's solid numbers are company specific or sector wide (with a sector-wide bias looking to be the case).

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