



## Phil Erlanger Research Co., Inc.

[www.quantpartners.com/erlanger](http://www.quantpartners.com/erlanger)

Since inception in 1994, we have produced weekly reports for our institutional client base. The goal of producing these reports is to provide our clients with a top down approach, sector/group review, as well as a bottoms up approach, long/short review. Each Friday the generation of these reports enables our clients to review the market action for the past week as well as a head start on planning for the next week.

Key to our work is the Type Classification. A **Type 1** is a “Short Squeeze”. In a short squeeze, the stock scores a high Erlanger Technical Rank and high short selling. A Type 4 is a “Long Squeeze”. In a long squeeze, the stock scores a low Erlanger Technical rank and has low short selling.

### SECTOR/INDUSTRY WEEKLY OVERVIEW

A non-capitalization weighted relative ranking system that compares 18 Sectors and 139 industry groups in the Erlanger database. A ranking of 1 is the most positive ranking for an industry group. A sector rank of 18 (139 for Industry) is the most negative ranking. This report conveniently ranks the Sectors from best to worst, with the underlying industry components under the Sector.

| <u>Sector</u> | <u>Group</u>   | <u>Indication</u>        |
|---------------|----------------|--------------------------|
| 1 through 6   | 1 through 46   | positive/buys            |
| 7 through 12  | 47 through 93  | neutral/holds            |
| 13 through 18 | 94 through 139 | negative/sells or shorts |

### INDUSTRY GROUPS WEEKLY CHANGE

This report ranks all 139 industry groups by its relative weekly change in rank from groups increasing to decreasing. This will give users a sense of the rotation taking place in the market. For individual buy and short ideas, see the “*Strongest Names Going Below 35*” and “*Weakest Names Going Above 90*” reports below.

## **STRONGEST NAMES GOING BELOW 35 REPORT and WEAKEST NAMES GOING ABOVE 90 REPORT**

Each week we highlight improving and weakening industry groups. The criteria for this report are

**Positive/Buys:** Industry groups whose rank has improved to 35 or better, along with a weekly change in rank greater than 20. These groups are further screened to display stocks with an Erlanger Technical Rank  $\geq 60$ . Typically, these groups which have moved into the top thirty five percent of our work will continue to outperform and represent potential buy ideas. We recommend buying **Type 1's**, "*Short Squeezes*".

**Negative/Sells:** Industry groups whose rank has deteriorated to 90 or below, along with a weekly change in rank greater than (20). These groups are further screened to display stocks with an Erlanger Technical Rank  $\leq 40$ . Typically, these groups which have moved into the bottom thirty five percent of our work will continue to under perform and represent potential sell or short ideas. We recommend shorting or selling **Type 4's**, "*Long Squeezes*", and look to avoid **Type 3's**, "*Shorts are Correct*", as short sale candidates.

## **WEEKLY TOP TEN INDUSTRY GROUP REPORT**

The criteria for this report are groups whose rank is between one and ten. An Industry Group Rank of one is our best rank. Stocks that have an Erlanger Technical Rank  $\geq 60$  are displayed. We recommend buying **Type 1's**, "*Short Squeezes*".

## **ERLANGER WEAK TECH FROM PRIOR WEEK NOW GETTING READY TO BREAKOUT REPORT**

The concept of the Breakout Report is to review stocks that last week had an Erlanger Technical Rank of  $\geq 40$ . This week the Erlanger Technical Rank moves to 100 and is indicative of a continued breakout. This report is a very select group of names each week and rarely extends beyond one page. We feel this is great place to review stocks that have the potential to become big winners. We recommend buying **Type 1's**, "*Short Squeezes*".

## FORMER 2S REPORT

The criteria for Former 2's report are stocks that have experienced a breakdown in their Erlanger Technical Rank. All Erlanger Technical Ranks need to have moved to a rank of  $\leq 40$  for the current week from a Technical  $\geq 50$  the prior week. The stocks on the Former 2s Report also need to have below average short selling. The absence of shorts covering their positions causes no purchases to be made by the short sellers as the price continues lower. The end result is that the impending stock rebound never materializes and the holders are stuck in a deteriorating position.

We like to focus on short ideas from this report that have just started to breakdown as opposed to names which are near their 52 week lows. If you see any of your long positions on this report, then we would ask you to closely examine whether the risk of holding a Former 2 is worth the aggravation..

## HIGH INSTITUTIONAL OWNERSHIP WEAK TECHNICAL SCORE REPORT

We strongly recommend this report, *The High Institutional Ownership Weak Technical Score with a Market Cap Greater Than \$100 Million*, to both short sellers looking for ideas and long sellers looking for stocks to avoid. This report clearly identifies stocks with deteriorating prices that institutional investors are caught holding. Stocks identified on this report must have institutional ownership above 50%. Moreover, these names must have below average short selling. This is quantified by either a low short ratio and or a low short intensity rank. All names that appear on this list are Type 4 "Long Squeezes".

The end result is that as institutional owners sell such stocks, with no shorts present to cover as the stocks move lower, those holding long positions are caught in a Chinese water torture. Great examples of stocks in this category include such names as SUNW, LU, YHOO and CSCO, which fell from 2000 to 2003. This year's (2003) poster child for the Type 4 Long Squeeze with heavy institutional ownership is Tenet Healthcare THC.

## TYPE 1s FROM THE FIFTY BEST RANKED GROUPS TYPE 4s FROM THE FIFTY WORST RANKED GROUPS

Each week we review the *Type 1s of the 50 Strongest Groups* in our work and the *Type 4s of the 50 Weakest Groups*. These reports give us a sense of how many Types there are in each of the Group and Sectors.

## MONTHLY SHORT INTEREST REPORT

We like to review the largest increases and decreases in short positions. We break these changes down into four areas. The breakdown is as follows:

- Largest increases in short positions of more than 500,000 shares that exhibit positive Erlanger Technicals and are heavily shorted. These are stocks that are performing well and the shorts are adding to their short position despite the stock being in a short squeeze. This can be a dangerous game for short sellers if they are incorrect.
- Biggest decreases in short positions of more than 500,00 shares that exhibit positive Erlanger Technicals and now are not heavily shorted. These are stocks that are performing well and the shorts are covering as the stock continues to outperform. The shorts are giving up hope of a downward move. If these names begin to weaken over the next month, then they could become Type 4 “*Long Squeezes*” in our work. Awareness that a stock will not move higher as shorts covered last month and must now be driven higher by natural buyers is a useful trend to follow.
- Largest increases in short positions of more than 500,000 shares that exhibit weak Erlanger Technicals and are heavily shorted. These are stocks that are under performing and the shorts are adding to their short position, pressing their bets. Often we find that in these situations shorts have conviction that a problem exists and that the market is just starting to become aware of it. These stocks may continue to move lower. Also, this situation sets up a potential short squeeze if the stock's Erlanger Technical rank begins to improve.
- Biggest decreases in short positions of more than 500,00 shares that exhibit weak Erlanger Technicals and now are not heavily shorted. These are stocks that are under performing and the shorts are covering as the stock continues move lower. In spite of the short covering, these names continue to weaken, remaining long squeezes in our work. The inability of a stock to move higher as shorts covers shows how vulnerable that the stock is to further downside pressure.