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## Market Commentary: What Does Jerry Lewis Have to Do With Key Support?

Let's start with what every market commentator will be talking about today. Let's just get it all out of the way. Because most market participants feel the need to have a reason for what the market is doing on each and every given day, the media oblige -- otherwise what would they have to talk about?

Tuesday gave them something to chatter about: Consumer confidence collapsed. There's your headline, folks. The consumer confidence index plummeted to 79.4 from 93.7 after falling for five straight months. It now stands at the lowest level since November 1993.

Nowhere in the media did I hear anyone say that anybody who expected consumer confidence to *improve* after what the market went through in September and early October was, in a word, out of his or her skull. In a word, this is old news. What is important is the fact that the market reacted in a negative way to the numbers on Tuesday. That bears close scrutiny. This is where the observers of market behavior earn their keep.

### Don't Get Jerked Around

Of course, just because the market is reacting to the bad news doesn't mean we should rush to judgment, either. Besides having plenty of tricks up its sleeve, the market's noise permeates any directional bias. Many times the market knee-jerks, well, just because the market often behaves as if it is trying to get a job in Hollywood doing a remake of the old Jerry Lewis movie *The Errand Boy*. Remember how Jerry drove Mrs. Wellonmelon's Cadillac? Gas, break, gas, break, gas, break. Sometimes, we all feel like Jerry Lewis with our trading positions as the market just jerks us around. The important thing to do is not let those emotions translate into action.

Yes, we want to follow the big elephants and their money -- be they right or wrong. But that doesn't mean we have to drive like Jerry Lewis. We can get a little perspective. Too many forecasters and too many traders try to be cute about capturing every wiggle.

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Zigzags are always uncomfortable to live through. However, shake-outs are often characteristic of one Wheel of Time handing off to another. What does that mean? To illustrate, since the thrust off the October low for example, the weekly chart on the **S&P** has not turned down. That is until Tuesday.

A look at the behavior of the S&P off its July bottom shows that when the weekly trend line turned down on Monday, Aug. 5, it found a low that very day (on trade below 853.95), bottoming at 833.45. Subsequently, the S&P turned up to rally 130 points in 13 trading days. Not too shabby.

On Tuesday, the S&P turned its weekly trend line down when it traded below last week's low of 873.05, and the daily chart handed the ball off to the weekly chart. The fact that the weekly S&P trend line stayed up for three weeks before turning down -- compared to just one week off the July low before the turn down -- suggests strength and a change in character.

### **The Marathon Man**

It is on these first turndowns and reactions after an initial advance that the temperature of the market can and must be taken. That is where behavior can be measured. The best way to understand the concept of the trend line and the Wheels of Time is to think of the trend as a long-distance runner. The trend is a living, breathing entity that inhales and exhales.

Even in the strongest uptrends, the weekly chart will turn down. This is the runner, or trend, inhaling. If the trend is to continue bullishly, the inhale during the pullback will provide the strength for the next push. It is only when the market pulls back (in the case of an uptrend) that the charts tell you something about the trend. Why? Because an uptrend requires only higher lows, while a downtrend requires lower highs and lower lows.

Tuesday's widely expected decline in consumer confidence provided the excuse for the first pullback on the weekly chart. It provided the cover story for another brick in the wall of worry. The S&P has pulled back to first support as defined by many measures. For example, the weekly chart has turned down into the body of the big Trend Thrust bar on Oct. 15. One half the range of that bar is 865. This should act as support. Additionally, measuring up from the July 24 low of 97 days ago and adding 97 points to that low of 776 puts a Gann 1x1 angle of support at 873 on Tuesday.

By the way, this is precisely where the weekly chart turned down. We have to watch this level closely. Additionally, as you know on the [Square of Nine chart](#), 871 is a 90-degree pullback from our 900-901 inflection point.

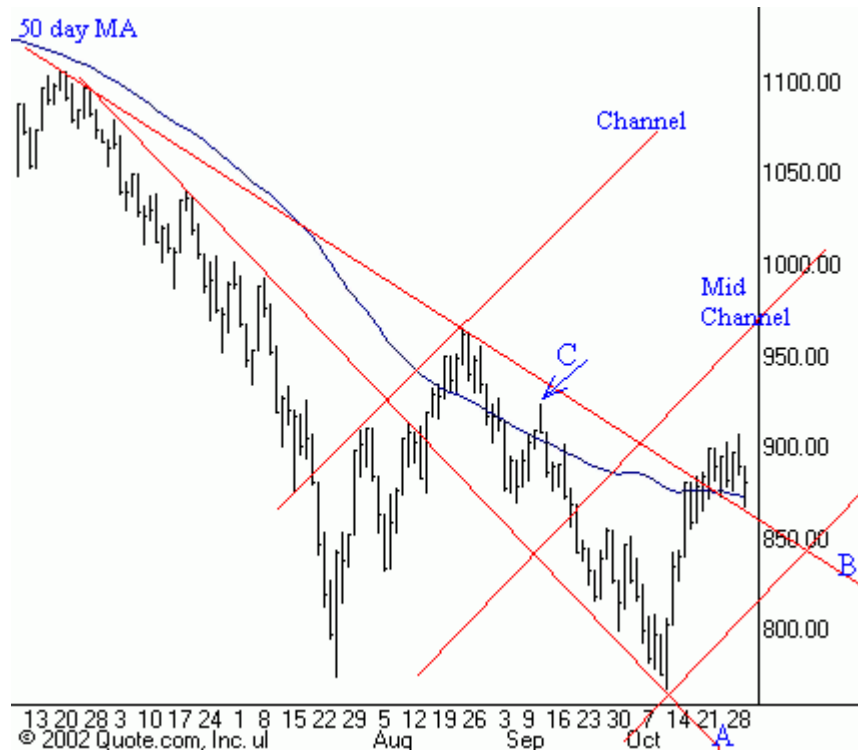
Let's take a look at resistance measured by a Gann 1x1 angle. Counting back to the Aug. 22 high at 965, which was 67 days ago, and subtracting 67 points from the 965 S&P high, gives 898. The highest S&P close in the advance so far is 899.70, on Oct. 21.

Folks, you can't make this stuff up. Additionally, 867 equals one-half the pullback from the Aug. 22 high to the Oct. 10 low. As Gann said, "God geometrizes."

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The math proves we are at a key level. It is a low risk-to-reward entry. If they don't step up to the plate and come and get it here, then the advance may indeed be in trouble. My antenna is up.

### S&P 500 Daily



On Oct. 23, I stated that one-half the 196.35-point range from the Aug. 22 top to the Oct. 10 low was 98.17 points, giving an equilibrium point of 866.82 S&P. Tuesday's low was 867.91.

In the chart above, Live Angle (A) "caught" the S&P. Will Live Angle (B) act as support?

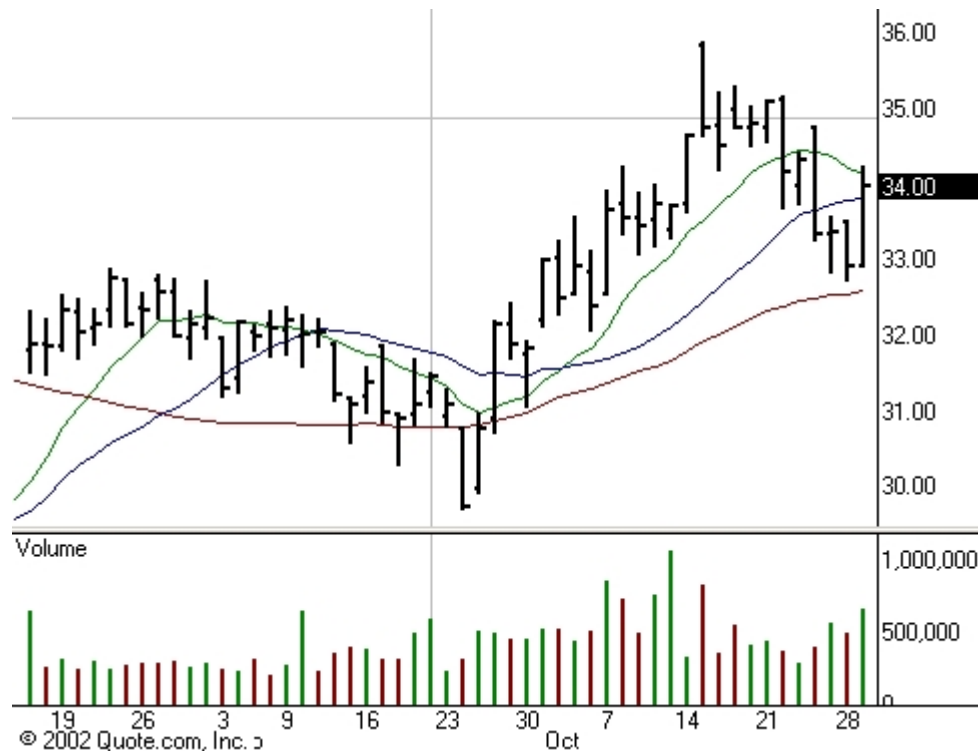
The S&P tailed off Monday after tagging the low of the high-bar reaction on Sept. 11, 2002 (C), at 908.45. Trade back above "the one after 909" suggests a challenge of the August high and neckline.

## THE DAYTRADING REPORT

### Chart 1

International Flavors & Fragrances  
(IFF:NYSE)  
Long

Entry: 34.35  
Stop: 33.35  
Pattern: V-Thrust / 180

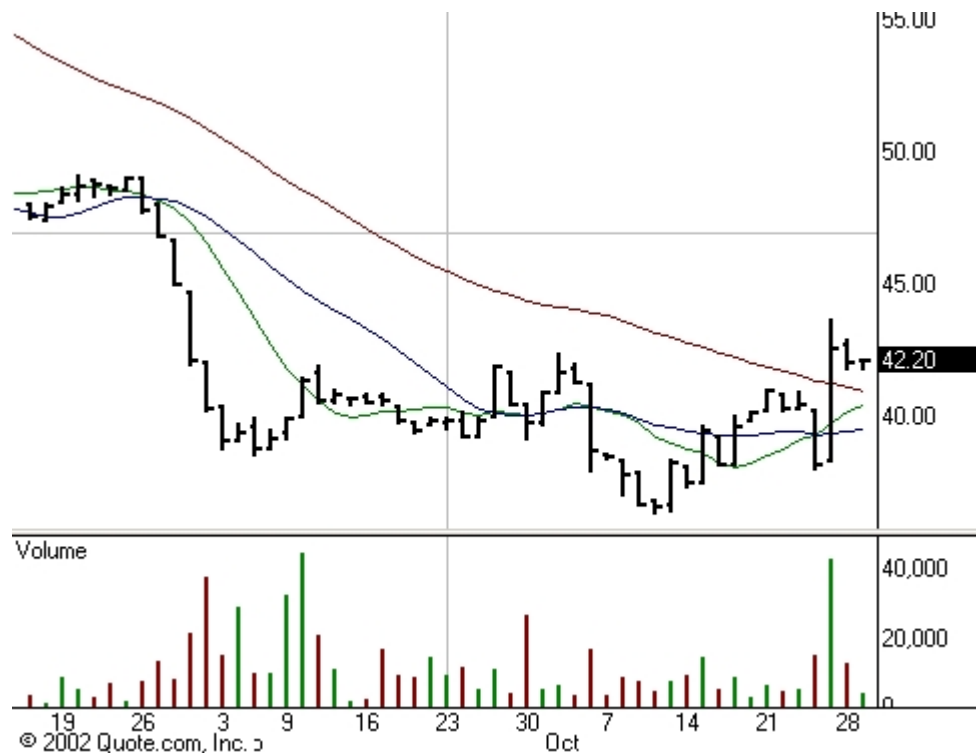


**Chart 2**

**Nacco ▲**  
**(NC:NYSE)**  
**Long**

**Entry: 42.30**  
**Stop: 41.30**  
**Pattern: Low-Level Extended Level Boomer**

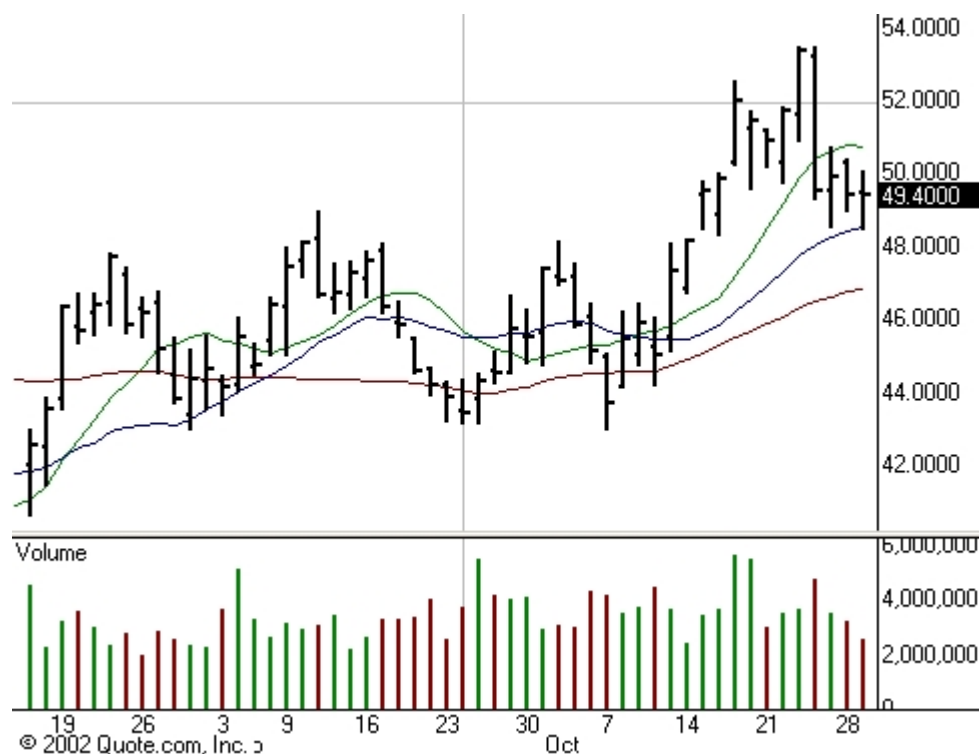
**Comments:** NC is extremely thin but can really move when it gets a head of steam.



**Chart 3**

**Intuit  
(INTU:Nasdaq)  
Long**

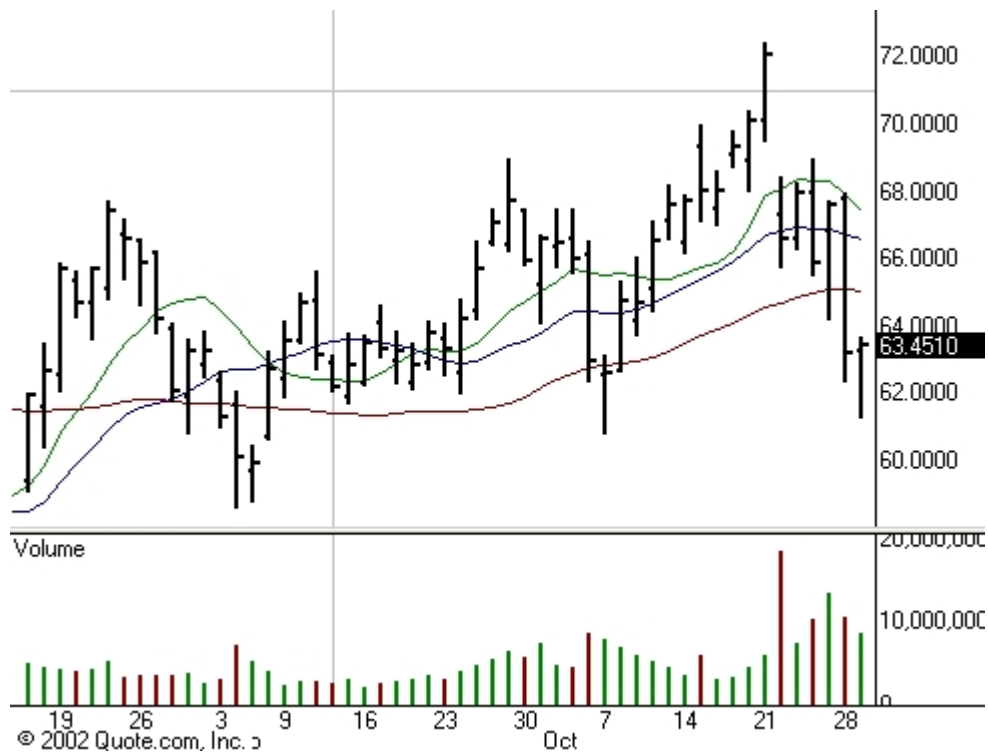
**Entry: 50.20**  
**Stop: 49.20**  
**Pattern: Cooper 1-2-3 Pullback +1**



**Chart 4**

**Electronic Arts  
(ERTS:Nasdaq)  
Long**

**Entry: 63.85  
Stop: 62.85  
Pattern: Lizard**



**Chart 5**

**Curative Health Services  
(CURE:Nasdaq)  
Long**

**Entry: 15.45  
Stop: 14.45  
Pattern: Boomer**

**Comments:** Cheapie du Jour



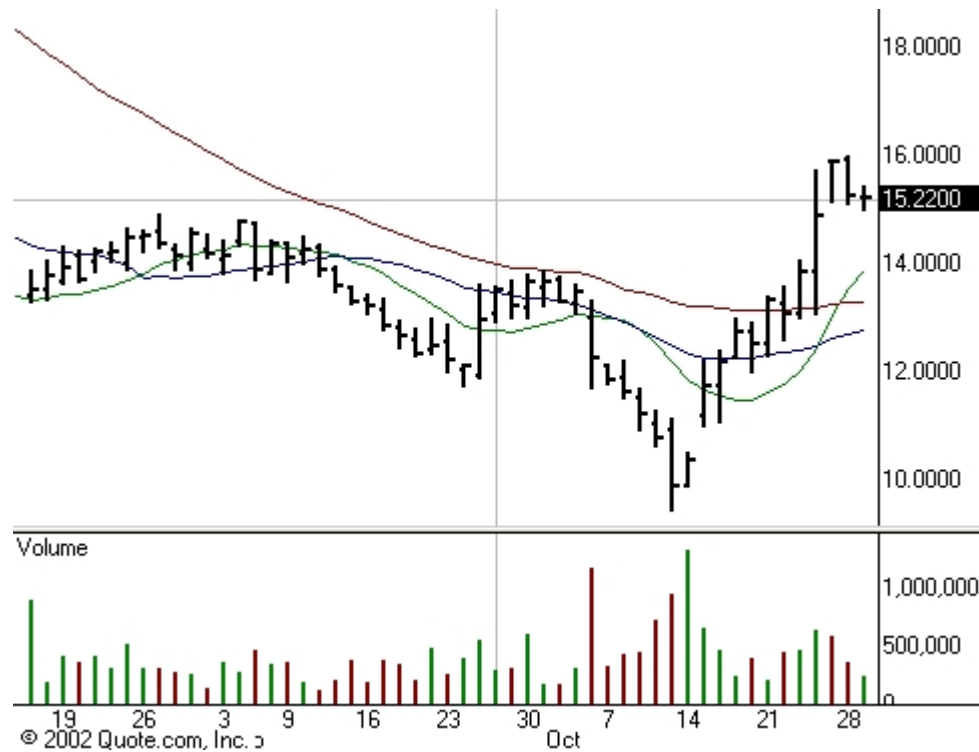


**Chart 6**

**Sylvan Learning Systems  
(SLVN:Nasdaq)  
Long**

**Entry:** 15.55  
**Stop:** 14.55  
**Pattern:** \* Boomer

**Comments:** Cheapie du Jour



**OBSERVATIONS**

-- **InVision** (INVN:Nasdaq) from yesterday still looks interesting.

## THE SWING REPORT

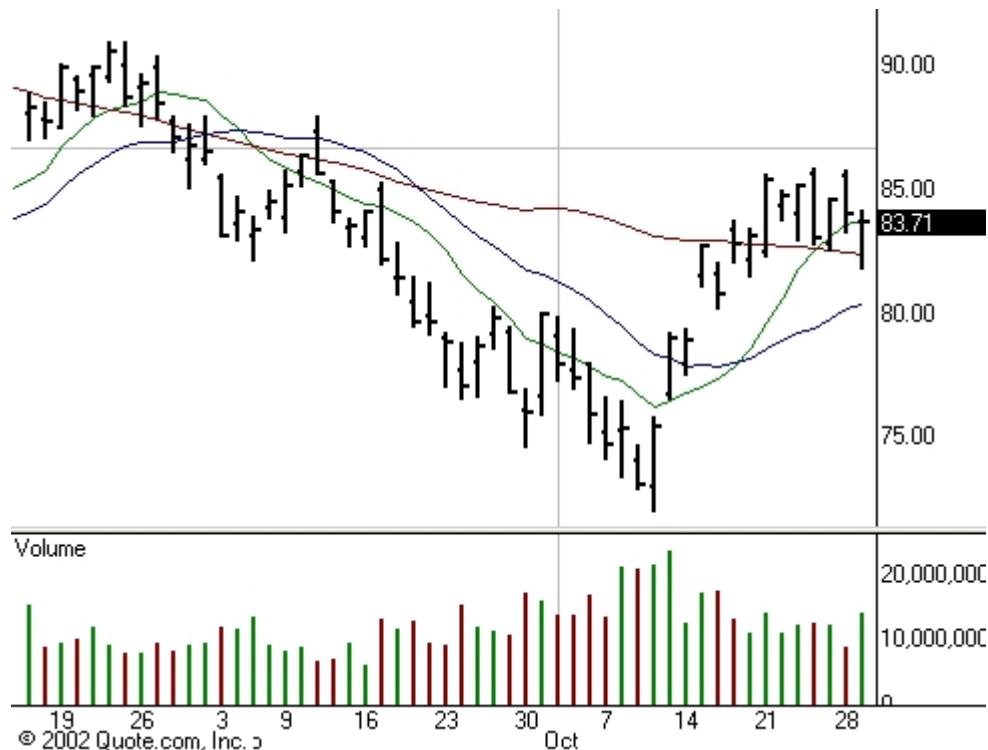
### Chart 1

**Diamonds Trust**  
(DIA:Amex)  
Long

**Entry:** 84.30  
**Stop:** 82.30  
**Initial Target:** 86.30

**Pattern:** \* Lizard / 180

**Comments:** Today's undercut by the Diamonds of the 50-day moving average and recovery sets up a possible boomerang to the upside.



**Chart 2**

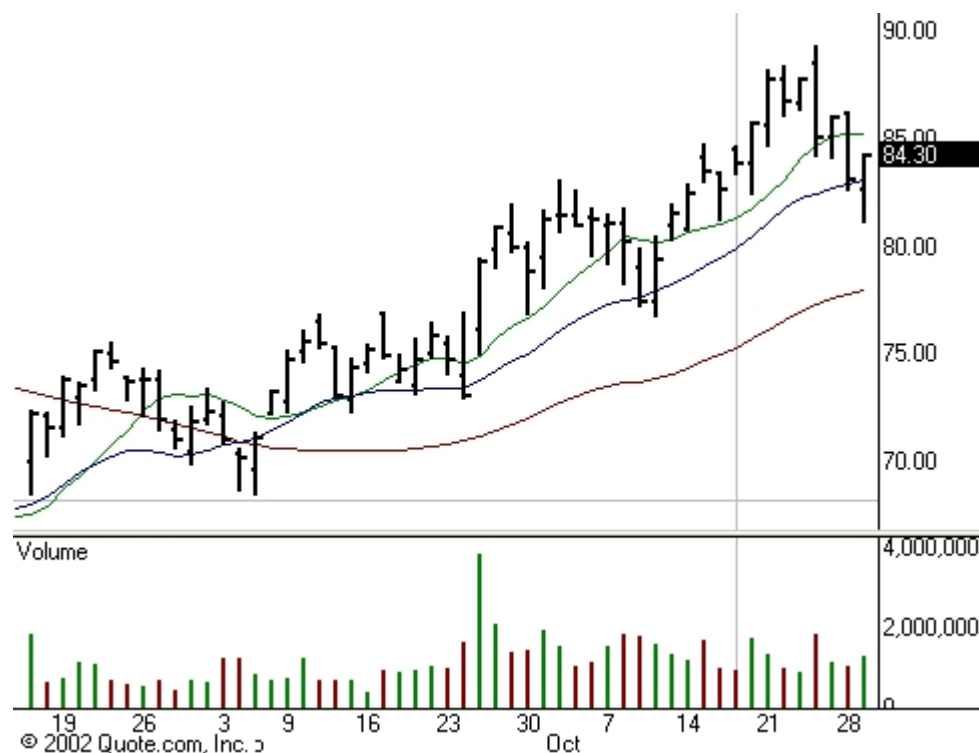
**AutoZone  
(AZO:NYSE)  
Long**

**Entry: 84.40**

**Stop: 82.40**

**Initial Target: 86.40**

**Pattern: Cooper 1-2-3 + 1**



### OBSERVATIONS AND TRAILING STOPS

-- **Stryker** (SYK:NYSE) (long) gapped open 1.00 below our stop at 61.60. Consequently, we were stopped out with a 1.00-point loss.

-- Wednesday is day four in **Lancaster Colony** (LANC:Nasdaq) (long). Maintain your stop at 44.45 and continue to look to sell one-half of the position at 46.95.

-- We were stopped out of **Biotech HOLDRS** (BBH:Amex) (long) at 85.55 for a 2.21 loss.

-- Wednesday is day three in **Semiconductor HOLDRS** (SMH:Amex) (long). Maintain your stop at 21.75. We are long from 24.15.

-- Wednesday is day two in **Internet Security Systems** (ISSX:Nasdaq) (long). We are long from 17.70. Maintain your stop at 16.25 and look to exit one-half the position at 19.25.

-- Wednesday is day two in **Royal Gold** (RGLD:Nasdaq) (long). We are long from 18.05. Raise the stop to 17.05. Our initial target for one-half of the position is 19.45.

-- Wednesday is day two in **Procter & Gamble** (PG:NYSE) (short). Because the stock lapped open at 87.95, we will assume a short position at approximately 87.75. Maintain your stop at 89.75. Take one-half of your shares off at the initial target of 85.50.

## Notes and Guidelines

### DayTrading Report:

Trades marked ▲ indicate stocks that are considered small-cap, trading 500K shares or less. As you know, thin stocks are generally more volatile and trade with a wider spread.

**Trades marked \* indicate patterns that don't conform to the original rules of the pattern but are defined as "in the spirit of" their namesakes.**

**The 1-Point Gap Rule:** Any stock recommendation that opens 1 or more points above the listed entry price (for longs) or 1 or more points below the listed entry price (for shorts) should be ignored for the day. Please note that history suggests that entering a stock on a gap open increases your potential for a loss.

Reminders: A signal is not valid unless the stock trades at or above the listed entry price for longs and at or below the listed entry price for shorts. ***If a position moves 1 point in your favor in this choppy environment, it is a good idea to sell half the position and move your stop on the remaining position to break even.***

Charts: The green line is a simple 10-day moving average, the blue line is a simple 20-day moving average, and the red line is a simple 50-day moving average.

### The Swing Report:

Trades marked ▲ indicate stocks that are considered small-cap, trading 500K shares or less. As you know, thin stocks are generally more volatile and trade with a wider spread.

**Trades marked \* indicate patterns that don't conform to the original rules of the pattern but are defined as "in the spirit of" their namesakes.**

**The 2-Point Gap Rule:** Any stock recommendation that opens 2 or more points above the listed entry price (for longs) or 2 or more points below the listed entry price (for shorts) should be ignored for the day. Please note that history suggests that entering a stock on a gap open increases your potential for a loss.

**Initial Target:** Target price at which you should look to sell/cover half your position.

Reminders: A signal is not valid unless the stock trades at or above the listed entry price for longs and at or below the listed entry price for shorts. ***If a position moves 2 points or more in your favor in this choppy environment, it is a good idea to sell half the position and move your stop on the remaining position to break even.***

Charts: The green line is a simple 10-day moving average, the blue line is a simple 20-day moving average, and the red line is a simple 50-day moving average.

### Money-Flow Timing Model:

If you are interested in information regarding the model, please visit:

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