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Market Commentary: Pate de Paranoia

If I didn't know that choirboys don't aspire to be money doctors, if I didn't know that the Willie Sutton Theory (you rob banks because, well, that's where the money is) is the first order of technical fundamentalism on trading desks, then I'd be downright paranoid about the way the market staggers from short-term buy to short-term sell. Swing setups are getting pummeled by this whipsaw action, but Hit and Run Trading is earning its keep.

We had the Drunken Buffalo Market, but that just staggered into a Cuisinart. If we didn't know better, we would be downright paranoid that someone was trying to make mincemeat of the tried-and-true methods that we all learned to love so well during trending markets.

The market just cannot escape its reputation for a profanity of false moves that only serve to screw the best traders in town. Like a pit bull that hasn't had a meal in at least a few days, the market is being held captive by index sell programs and index buy programs unleashed in Chihuahua-like volume.

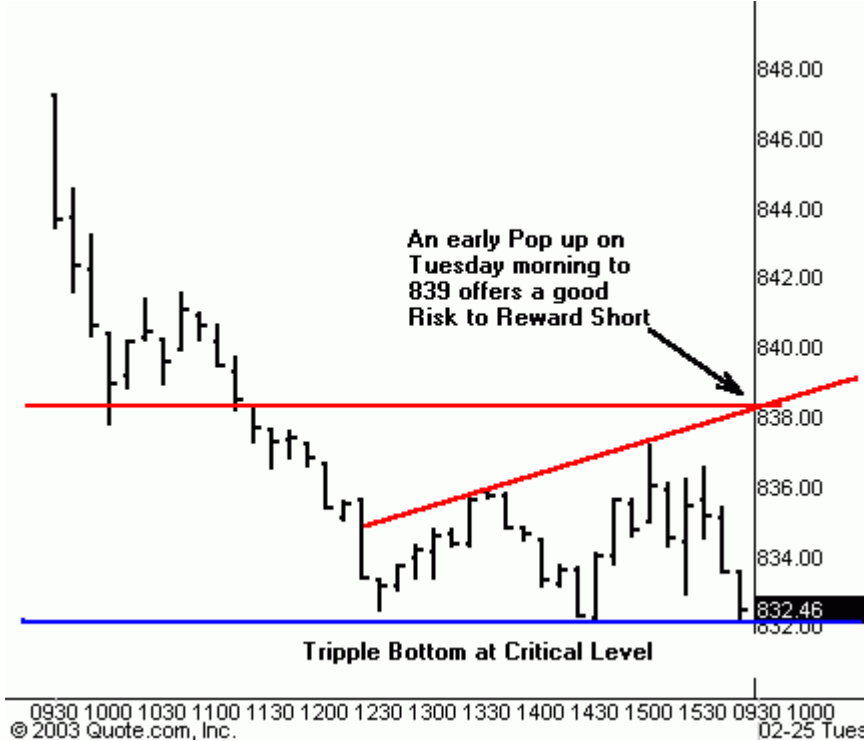
A comment I made in Monday's column, "the market doesn't move; it is moved," certainly rang true again on Tuesday when a huge, late-day buy program was launched from critical support. Just as the tail-and-upside reversal on Feb. 13 occurred as the **S&P 500** tagged the high of the low bar from October's huge Key Reversal Day at 806, Tuesday was a fractal of that pattern as the S&P tailed up when it tagged the high of the low bar from Feb. 13 at 817 to 818. Tuesday's cash S&P low? 818.55.

Because the S&P has carved out a double test of a test of the high of the low bar, the market certainly appears loaded for bull. The bulls are poised to try to break the S&P above 850 to 855 and then stampede it to 870 for month's end. I showed the critical 830 inflection point in Monday's commentary. The S&P gapped below that level on Tuesday morning, but a late-day move that recovered 830 led to a power surge into the bell.

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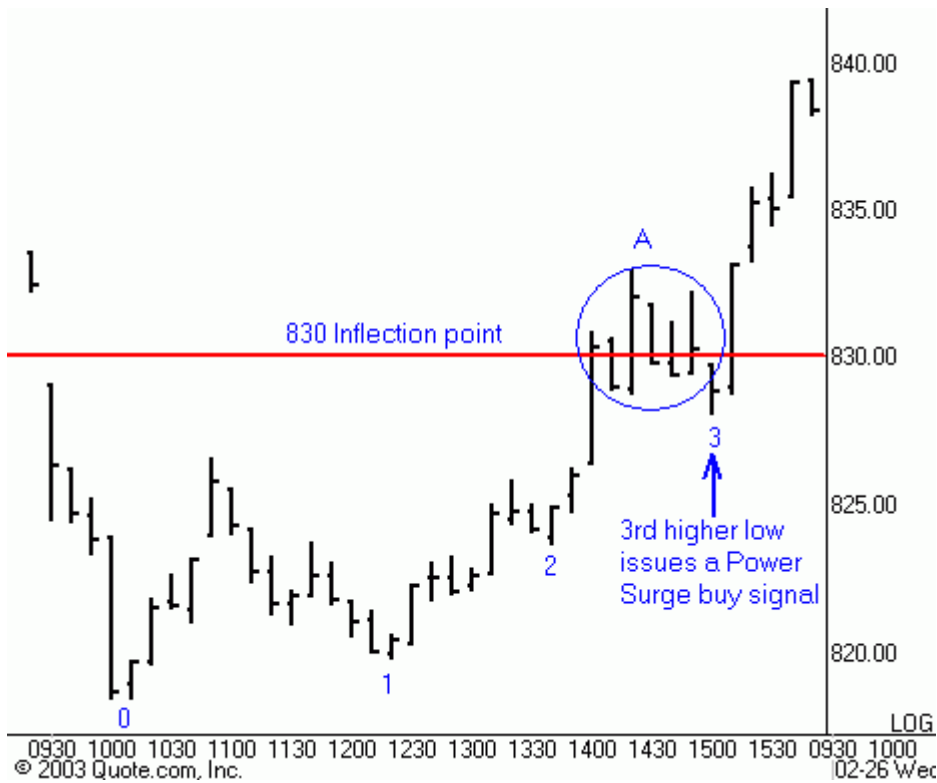
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Conclusion: On Tuesday I showed a live angle on the weekly S&P chart down from the August 2002 high. It suggests that if 850 is regained on a weekly closing basis, there is room for the market to run to 870. If 870 is successfully navigated, the S&P has an outside shot to make an equal and opposite swing move and tag the low of the high bar week, ending Jan. 17, i.e., 899.



S&P Pivot Points

S&P 500 10-Minute

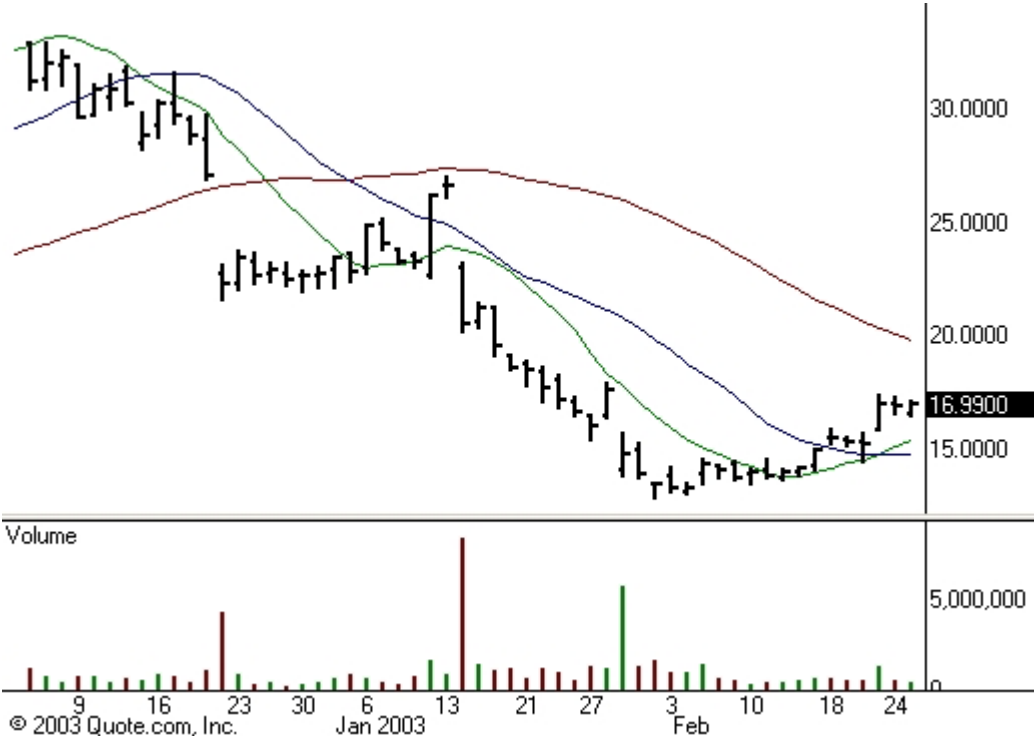


THE DAYTRADING REPORT

Chart 1

Photon Dynamics
(PHTN:Nasdaq)
Long

Entry: 17.30
Stop: 16.30
Pattern: Low-level Boomer / Volatility Setup



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Chart 2

**Pulte Homes
(PHM:NYSE)
Long**

**Entry: 52.95
Stop: 51.95
Pattern: 180/LROD**

Comments: PHM is poised to pivot out of a Cup & Handle.



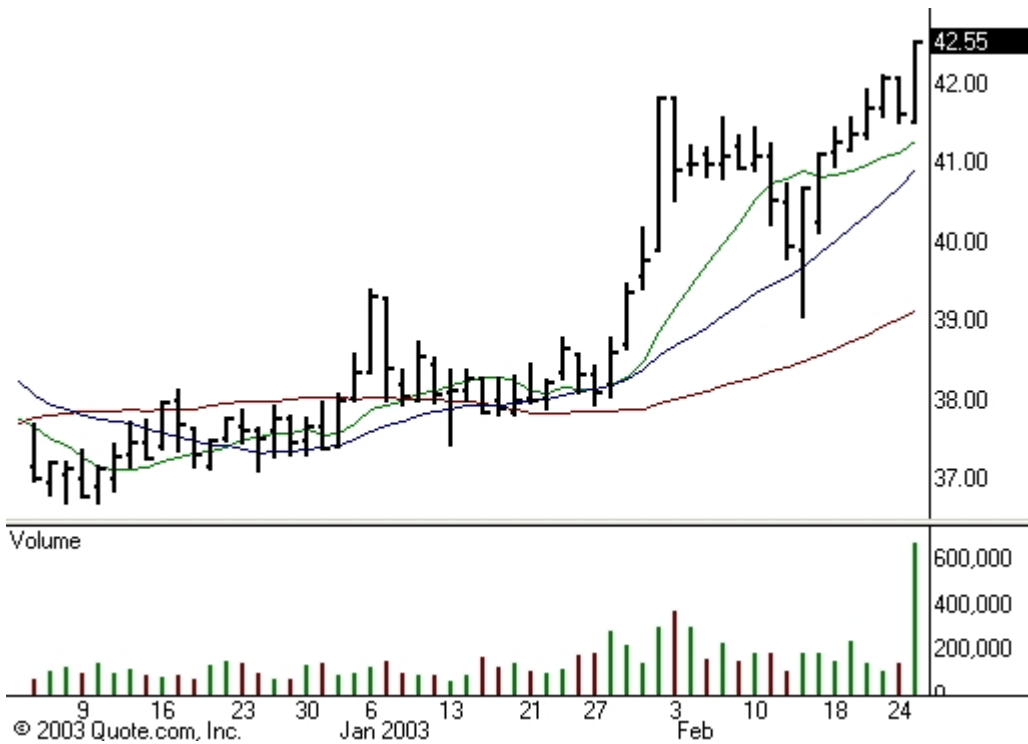
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Chart 3

**UGI Corp. ▲
(UGI:NYSE)
Long**

**Entry: 42.65
Stop: 41.65
Pattern: 180**

Comments: Today's new high close on substantial volume suggests higher prices.



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Chart 4

**Zimmer Holding
(ZMH:NYSE)
Long**

**Entry: 45.10
Stop: 44.10
Pattern: Expansion Breakout/180**



THE SWING REPORT

Chart 1

**Panera Bread
(PNRA:Nasdaq)
Long**

Entry: 27.25
Stop: 25.85
Initial Target: 28.65

Pattern: Triangle Pendulum / LROD

Comments: Tuesday's large-range reversal looks like the beginning of a leg up.



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OBSERVATIONS AND TRAILING STOPS

-- On Tuesday we were stopped out of **AmerisourceBergen** (ABC:NYSE) short for a 1.15 loss.

-- Wednesday is day two in **Johnson Controls** (JCI:NYSE) short. We are short from 76.85. Maintain the stop at 78.75 and the initial target of 74.95.

-- Wednesday is day two in **W.W. Grainger** (GWW:NYSE) short. We are short from 45.35. Maintain the stop of 46.40 and the initial target of 44.30.

-- Wednesday is day five in **Affiliated Managers Group** (AMG:NYSE) short. We are short from 43.55. Maintain the adjusted stop at 44.55 and the adjusted initial target to cover the entire position on any trade toward 42.10.

-- Wednesday is day seven in **ITT Educational Services** (ESI:NYSE) long. We are long from 26.50. Maintain the stop at 25.40 and continue to look to sell the entire position on any trade toward 27.50.

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:

<http://www.mutualmoneyflow.com>.

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