Wednesday, March 5, 2003

Market Commentary: Give Price a Chance

Another up and down day. After a good sell signal by the **S&P** on a failure back below its 20-day moving average on Monday, the S&P gave just one day of follow-through yesterday. Is it going to be another month of madness ... March madness? Will the U.S. have to wait until the end of March to launch a military assault against Iraq?

If the intraday whipsaws persist throughout March, short-term traders will be echoing John Lennon's refrain, "I've got blisters on me fingers."

On Wednesday, the S&P once again bounced off our critical 817 to 820 level. As you know, 360 degrees down from the last S&P swing high at 935 is 817, while the date of the high, Jan. 13, resonates off the price of 821. (To see how it plays out on the Gann Square of Nine Chart, click here: http://www.thestreet.com/tsc/common/images/storyimages/sqofnine_030503.html.)

The stage appears set for accelerated momentum and a breakout in volatility. I happen to believe, for many reasons, some of which I've already detailed, that the breakout will be to the downside. Tomorrow, I plan to elaborate at length on how the cyclical, technical, pattern and sentiment components point to a downside resolution.

The S&P has now bounced off the 817 to 821 area on three occasions. Many times the market plays out in threes. The next time through should generate accelerated momentum. There is an old saying: The bigger they come, the harder they fall. In the markets, the longer it takes for a pattern to resolve, often the larger the ensuing move.

February was a sideways month. Although the market can do anything at any time, I doubt that March will continue to play out similarly, and I have a major cycle turn due at the end of March to the first week of April, which I believe has a better likelihood to be a low than a high.

Many of you may recall that in March 2001 we called the exact bottom prior to a 200-point-plus S&P rally. One of the factors that confirmed the time and price setup for me in March 2001 was a 10-day Arms, or TRIN index, reading of 1.5 or greater. Since that time, the 10-day Arms index has issued many such readings of 1.5 or greater. The weekly closing low at the March low in 2001 was 1139.85.

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S&P 500 -- 60-Minute

In fact, when that close was undercut on the week ending Aug. 31, 2001, it was a warning that something was wrong. Eleven days later, we learned what that something was. If nothing else, that should have told the body of serious technicians out there that the 10-day TRIN signal should be viewed with skepticism.

Incredibly, despite the fact that September 2001 had the earmarks of a capitulative low, 18 months later the indices remain entrenched below the September 2001 low. In fact, the S&P has traced out three lower highs below the Sept. 21, 2001, lows. Instead of a capitulative low, September 2001 has proven to be formidable resistance.

Many times, we have talked about the idea that what were once terrific indicators in a bull market invert and become great sell signals in a bear market. Since 2001, the 10-day TRIN readings of 1.5 or greater actually have been solid sell signals. One of the reasons the 10-day TRIN has triggered so many false signals is because the advance/decline data are so convoluted.

Forget about the fact that during the bull market the **New York Stock Exchange** had listed a lot of bond funds, ADRs, real estate partnerships and preferreds that had nothing to do with pure operating companies. But, even more important to my thinking is the fact that in the year 2000, decimalization began to get phased in.

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It is no coincidence that soon after, 10-day TRIN signals of 1.5 or greater began to generate false signals. I mention this because a 10-day TRIN reading of over 1.5 was registered just recently yet again. Don't get suckered in.

With the A/D line now skewed, as stocks can close up or down by pennies, the temptation exists by the powerful to attempt to manipulate the advance/decline line and influence many indicators that are derived from it, such as the McClellan oscillator.

Essentially, you cannot compare today's advance/decline numbers and TRIN numbers with yesteryear's, as you would be comparing apples with oranges. Nevertheless, indicators based on the A/D line are still employed by the majority of leading technicians. Go figure. What is not phony in the markets is Time and Price. That is why I focus nearly entirely on Time and Price.

Bottom line: An operating company's only advance/decline line did not make a new rally high in January, and has now dropped below its October low. This reflects what the majority of stocks are doing. There is a greater-than-average likelihood that before the bear puts in a low of significance, the **Dow**, which has been holding up relatively well, will break down.

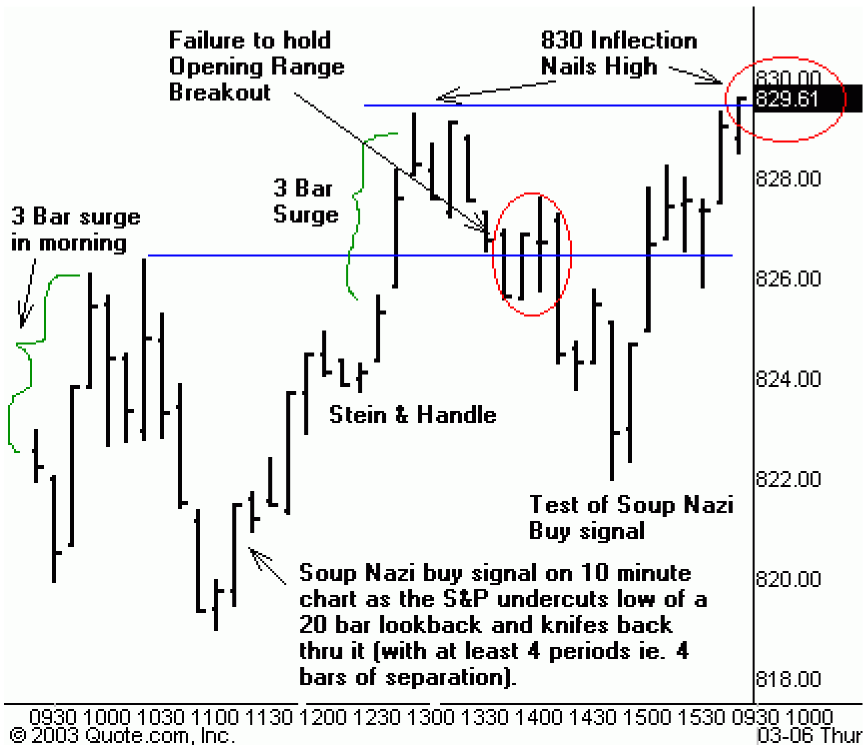
There are some technicians out there who are pointing to the positive divergence in the standard advance/decline line as proof of the idea that the indices are tracing out a bullish reverse Head and Shoulders Pattern. The stats on the operating company's only A/D line belie that fact. Moreover, these technicians should know better because they are the same people who in late 1999 and into early 2000 were bearish because of negative nonconfirmations on the A/D Line.

Even if there were legitimate positive divergences that existed on the A/D line now, the experience of 2000 shows that nonconfirmations and divergences can exist for some time. Jumping all over them can be dangerous to your financial health. If you shorted the first nonconfirmations in 1999, they would have carried you out on a stretcher. Bottom line, I believe that when the Dow is a Headliner Decliner, then we will have something. As they say: As above, so below.

Conclusion: Until proven otherwise, the last sell signal stands, and this constant jerking back and forth, I believe, serves only to weaken market elasticity.

S&P Pivot Points

S&P 500 -- 10-Minute



THE DAYTRADING REPORT

Chart 1

Jacobs Engineering
(JEC:NYSE)
Long

Entry: **38.25**
Stop: **37.25**
Pattern: **Extended-level Boomer**

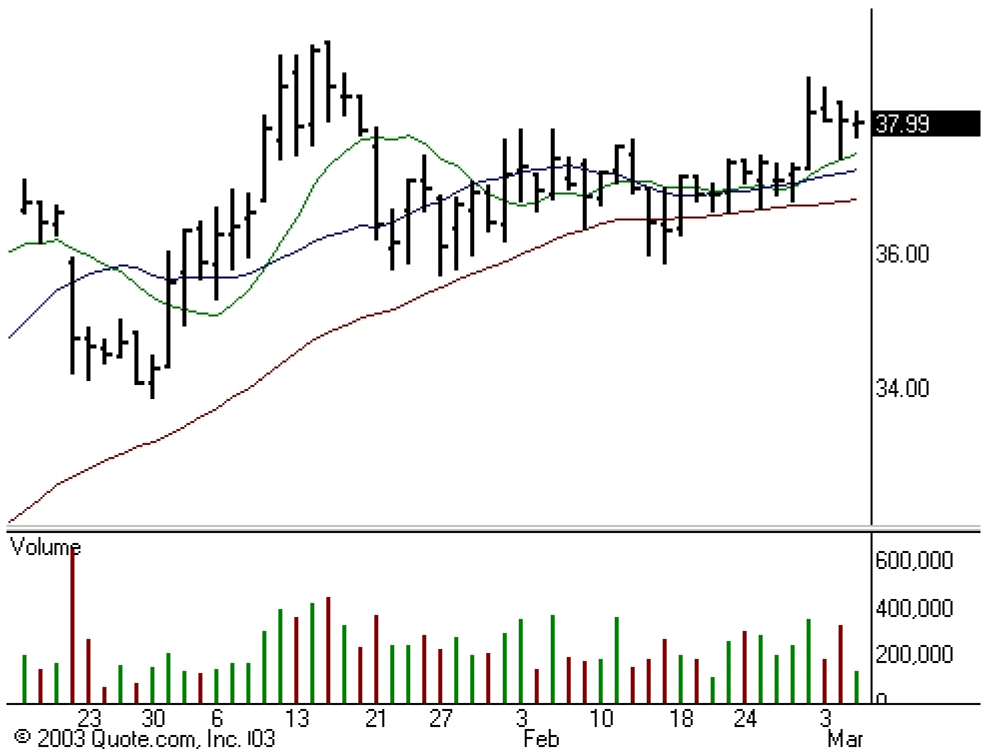


Chart 2

Inamed Corporation ▲
(IMDC:Nasdaq)
Long

Entry: 33.85
Stop: 32.85
Pattern: 180

Chart 3

Valero Energy
(VLO:NYSE)
Long

Entry: 40.90
Stop: 39.90
Pattern: Runaway

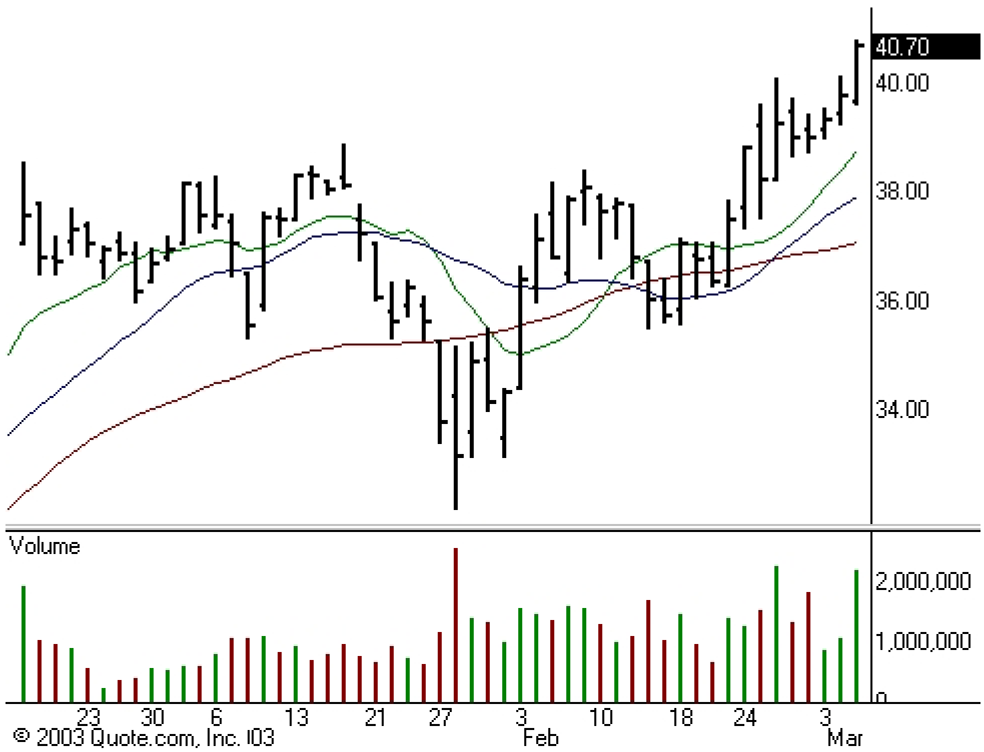
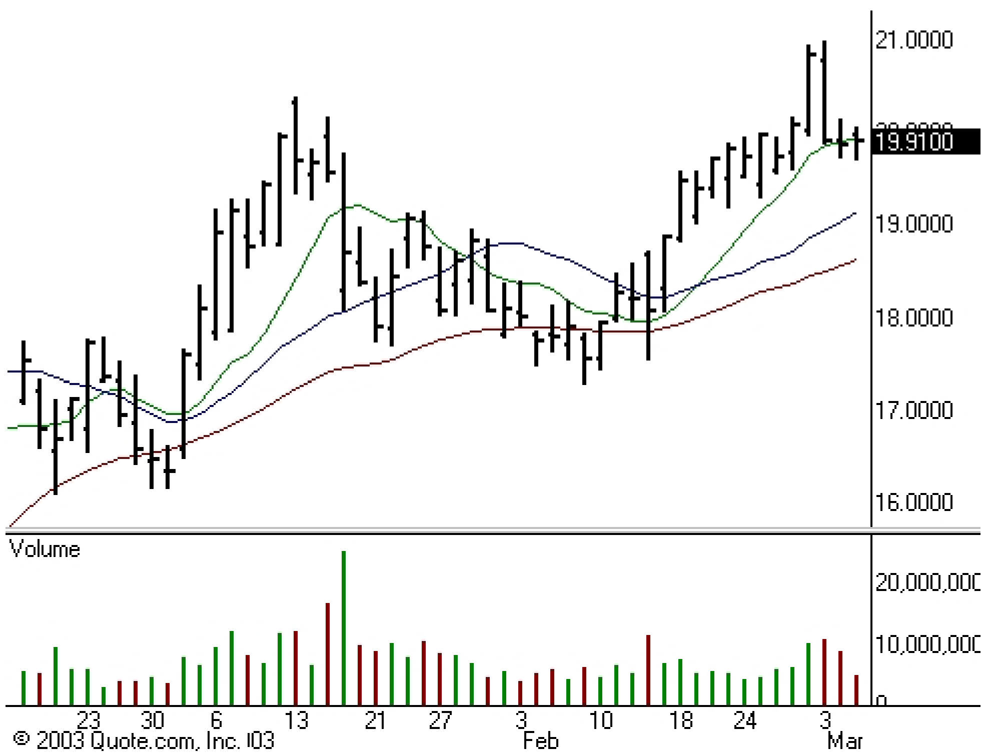


Chart 4

Yahoo!
(YHOO:Nasdaq)
Long

Entry: 20.20
Stop: 19.20
Pattern: *Cooper 1-2-3 Pullback / Cup & Handle



THE SWING REPORT

Chart 1

Burlington Resources
(BR:NYSE)
Long

Entry: 46.75
Stop: 45.75
Initial Target: 47.95

Pattern: NR7 Volatility Setup

Comments: Wednesday was the narrowest range in seven days for BR, suggesting it is poised to come out of this consolidation since the powerful breakout in late February.

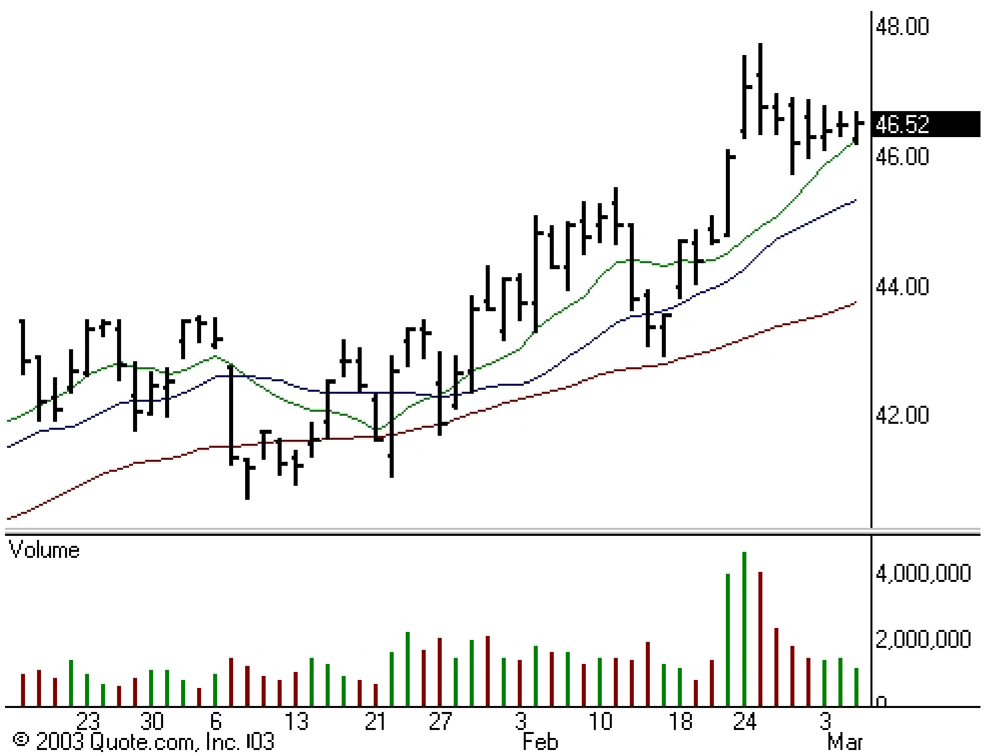
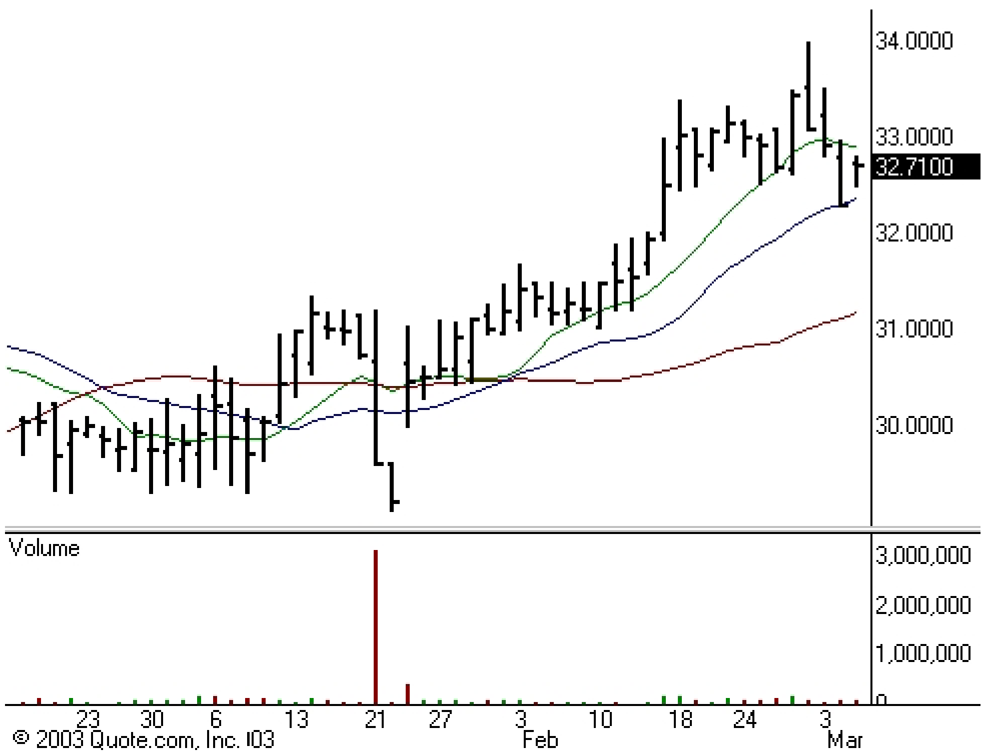


Chart 2

Dionex Corporation
(DNEX:Nasdaq)
Long

Entry:	**32.95**
Stop:	**32.10**
Initial Target:	**33.95**

Pattern: Cooper 1-2-3 Pullback / 180



OBSERVATIONS AND TRAILING STOPS

-- We covered one-half of our short position in **Lehman Brothers** (LEH:NYSE) for approximately a 1.00 gain. Maintain your stop on the second piece at 53.90.

-- We were stopped out of **American International Group** (AIG:NYSE) (short) for a scratch.

-- Thursday is day seven in **Panera Bread** (PNRA:Nasdaq) (long). We are long from 27.25. Maintain the stop at 25.85 and continue to look to scratch the trade near 27.00.

-- Thursday is day two in **Johnson Controls** (JCI:NYSE) (short). We are short from around 74.40. Maintain the stop at 76.60 and the initial target at 72.40.

-- Thursday is day two in **KB Homes** (KBH:NYSE) (short). We are short from around 44.10. Maintain the stop at 45.75 and the initial target at 42.45.

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:
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