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Market Commentary: The Market Does Not Want to Go Down

On Thursday, **Intel** (INTC:Nasdaq) said it is optimistic over the horizon but not near term. The chips went up anyway. **Boeing** (BA:NYSE) traded higher in the face of a downgrade. **Dell** (DELL:Nasdaq) is trading at 2 1/2-year highs. The market does not want to go down.

Subsequent to Monday's strength, the **S&P** has been treading water for three days. As you know, the market often plays out in threes. I'm betting on a big day on Friday, and the likelihood is that it will be to the upside. Basically, the market has traded inside Monday's range for the last three days. Not surprisingly, this action is occurring at resistance, essentially the midpoint of the Dec. 2 large-range reversal.

Also on Thursday, the market shrugged off decidedly crummy unemployment and inflation/disinflation news. The economy is not providing evidence of a convincing rebound. But the market is focusing on the short term and any good news and discounting bad news.

The Glass Is Really Half Full

There are no signs that the market is running out of steam, as investors are choosing to look at the bright side, assuming that the light at the end of the tunnel is not an oncoming train. Growing signs of deflation are being outweighed by some upbeat outlooks by high-tech companies that are setting the tone and setting the pace. Money managers are betting on the idea that when the postwar economic figures for April and May roll out in June, they will point to stronger retail sales and an economic rebound in the second half. This seems to be what the market is discounting.

In the meantime, there is a stronger-than-average likelihood that the S&P will convert the 965 resistance to support way before the stats show up in June.

The action of the leadership seems to be telegraphing the eventual sooner-rather-than-later breakout above the 954 Master Square, which closely coincides with major league resistance at the 965 Neckline on the monthly S&P chart. Remember that the low close on the weekly chart of the Sept. 11 panic selloff was 965. That was 77 weeks ago. Ninety weeks out in time from there is a natural place in time to look for our turn. Ninety weeks from the week ending Sept. 21, 2001, the panic low, will be approximately mid-August 2003. That happens also to be the anniversary of a one-year cycle high.

(Continued on the next page)

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Reversal of Fortune

Not surprisingly, the current action in the S&P this week is occurring at the level of the Dec. 2 reversal. However, the S&P appears poised to issue the first higher high and higher low on a true monthly swing chart since putting in the all-time high in the first quarter of 2000.

The speculative behavior of many **Nasdaq** stocks, such as **Hi-Tech Pharmacal** (HITK:Nasdaq), which has more than doubled since March; **UTStarcom** (UTSI:Nasdaq), which is just shy of doubling; **Martek Biosciences** (MATK:Nasdaq), which is just shy of a two-bagger; **Inamed** (IMDC:Nasdaq) (one of our Swing picks), which also has moved up nearly 100% since March; ditto **Gen-Probe** (GPRO:Nasdaq); ditto **Digital River** (DRIV:Nasdaq); ditto **Metrologic Instruments** (MTLG:Nasdaq); **Sohu.com** (SOHU:Nasdaq), up nearly fourfold; and **Millicom International Cellular** (MICC:Nasdaq), up nearly fourfold, to name a few.

This leadership action speaks to the born-again appetite for speculation. Does the current fervor reflect more of an appetite for speculative greed or just a willingness to take on more risk? Hard to say, but the market does not want to go down.

THE DAYTRADING REPORT

Chart 1

Advanced Neuromodulation Systems ▲
(ANSI:Nasdaq)
Long

Entry: 43.00
Stop: 42.00
Pattern: Mini Cup & Handle / Pullback Pivot



Chart 2

Martek Biosciences
(MATK:Nasdaq)
Long

Entry: 37.05
Stop: 36.05
Pattern: 180 / Expansion Breakout



Chart 3

**Optelecom
(OPTC:Nasdaq)
Long**

**Entry: 11.85
Stop: 11.35
Pattern: 180 / V-Thrust**

Comments: Cheapie du Jour.

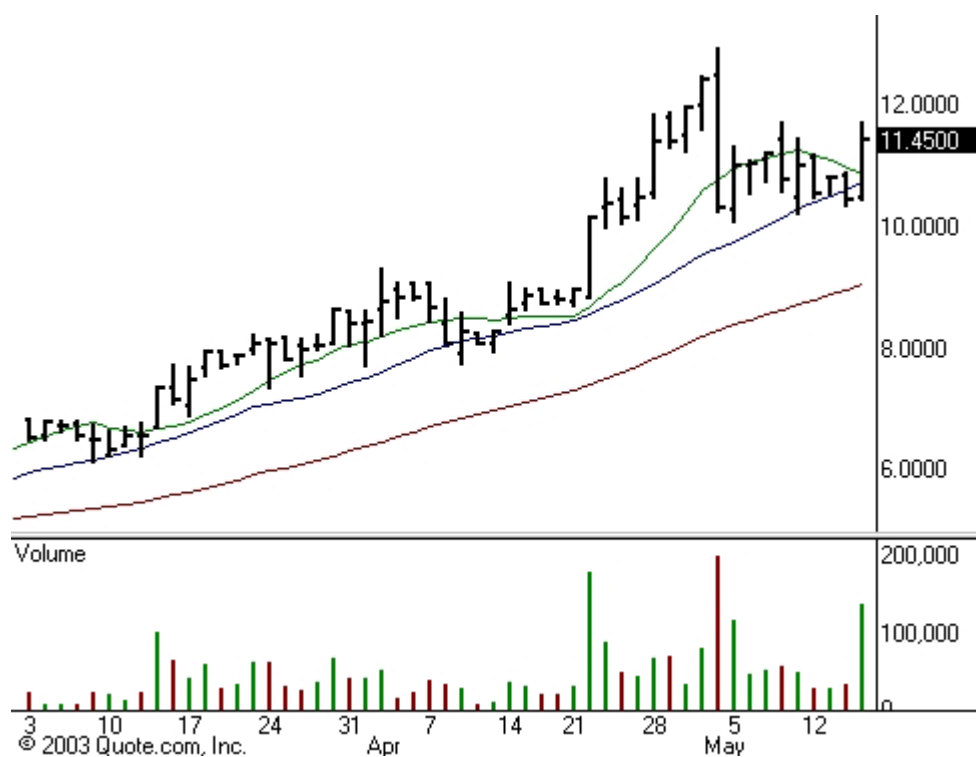
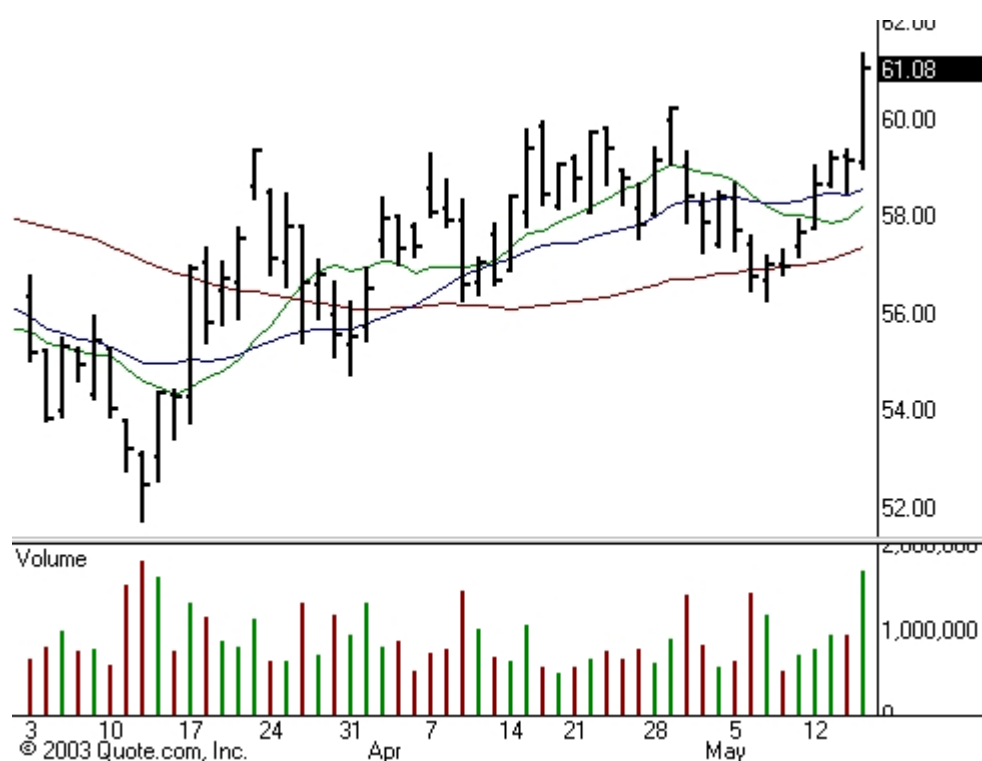


Chart 4

**The McGraw-Hill Companies
(MHP:NYSE)
Long**

Entry: 61.50 or alternate entry on Pullback
toward 59.60
Stop: 1 point from entry
Pattern: Expansion Breakout



THE SWING REPORT

Chart 1

ITT Educational Services
(ESI:NYSE)
Long

Entry: 29.65
Stop: 28.50
Initial Target: 30.80

Pattern: High-level Sherlock's Pipe

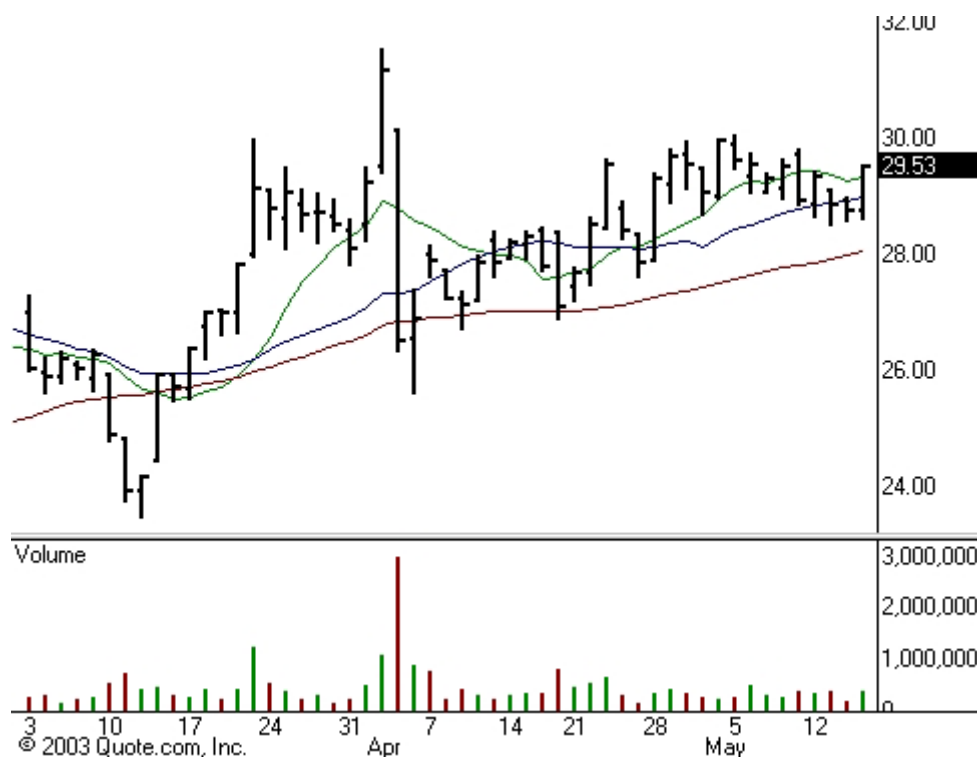


Chart 2

Cyberonics
(CYBX:Nasdaq)
Long

Entry: 22.20
Stop: 20.90
Initial Target: 23.50

Pattern: Lizard / Expansion Pivot

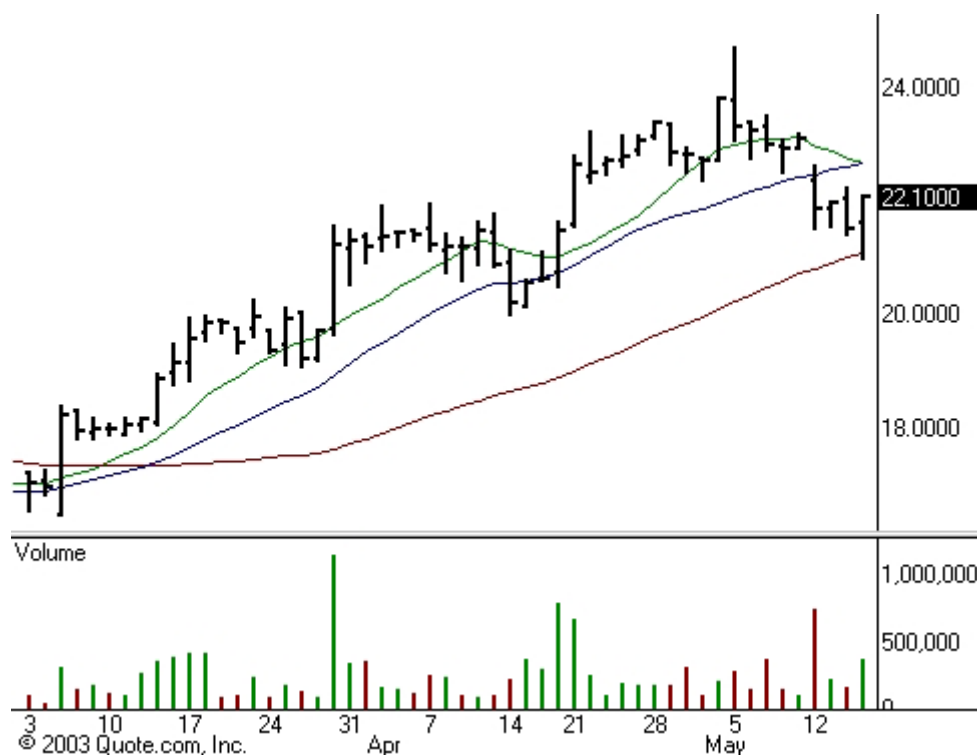
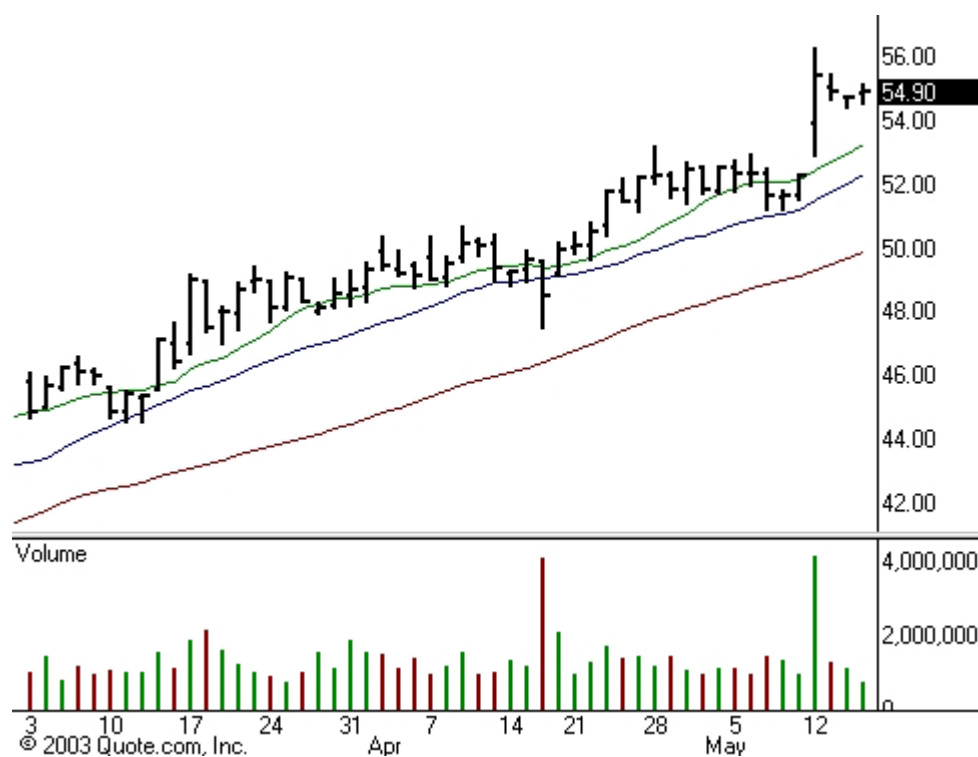


Chart 3

**St. Jude Medical
(STJ:NYSE)
Long**

Entry: 55.25
Stop: 54.25
Initial Target: 56.25

Pattern: Extended-level Boomer



OBSERVATIONS AND TRAILING STOPS

- **EchoStar Communications** (DISH:Nasdaq) never triggered.
- Friday is day two in **BorgWarner** (BWA:NYSE) (long). We are long from 59.75. Maintain the stop at 58.25 and raise the initial target to 60.70.
- **Biopure** (BPUR:Nasdaq) never triggered, but still looks interesting.
- Friday is day two in **Electronic Arts** (ERTS:Nasdaq) (long). We are long from 62.15. Raise the stop to 61.50 and adjust the initial target to 64.25.
- Friday is day four in **Yahoo!** (YHOO:Nasdaq) (long). We are long from 26.35. Raise the stop to 26.20 and maintain the initial target at 27.95.
- Friday is day four in **Biogen** (BGEN:Nasdaq) (long). We are long from 39.10. Maintain the stop at 38.75 and the initial target at 41.10.
- Thursday we were stopped out of **Columbia Sportswear** (COLM:Nasdaq) at 46.15, for a loss of 1.00.
- Friday is day six in **Micros Systems** (MCRS:Nasdaq) (long). We are long from 27.50. Maintain the stop on the second piece at 27.50 and look to sell the remaining position on trade toward 28.80 on Friday. If neither parameter is hit, sell by the end of the session.
- On Thursday we sold our second piece of **Inamed** (IMDC:Nasdaq) (long) near 44.50, for a profit of 4.15, after locking in a gain of 1.00 on the first piece.

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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