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## Market Commentary: Under the Red Sky

*In the lonely night in the blinkin' stardust of a pale blue light  
You're comin' through to me in black an' white  
When we were made of dreams, you're blowin' down a shaky street  
You're hearin' my heart beat, in the record breakin' heat  
Where we were born in time.*

*Not one more night, not one more kiss  
Not this time babe, no more of this  
Takes too much skill, takes too much of will  
It's too revealin'.*

*You came you saw just like the law  
You married young just like your ma  
You tried an' tried, you made me slide  
You left me reelin' with this feeling.*

*On the risin' curve where the ways of nature will test every nerve  
You won't get anythin' you don't deserve  
Where we were born in time.*

*You pressed me once, you pressed me twice  
You hung the flame, you'll pay the price  
Oh babe, that fire is still smokin'.*

*You were snow, you were rain, you were striped, you were plain  
Oh babe, truer words have not been spoken or broken.*

*In the hills of mystery, in the foggy web of destiny  
You can have what's left of me  
Where we were born in time.*

Born in Time --- Bob Dylan

The week before last, most of the popular indices, including the **S&P 500**, the **Dow Industrials** and the **NYSE**, left Iguana Sell Signals. In other words, all these indices tailed off after making new 10-week highs.

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Last week, we got follow-through to the downside putting nail No. 1 in the coffin. Additionally, the **S&P** closed near the low of the week on Friday at 976.20, which is convincingly below our 985 *marker*. The 985 level has held the S&P (as a market gauge) in check and has served as near-term resistance.

Despite Thursday's upside reversal there has been a distinct loss of momentum, and as I stated in this space last time out, the key to Friday's session would be a turn-up of the daily trendline, meaning trade above Thursday's high on Friday that showed a change in character for the worse in one or both of these ways:

- A failure to accelerate on the turn-up and/or
- A failure to stick and hold on to 985.

### **Reversing That Reverse**

As you can see, that is exactly what played out on Friday. After a quick 3-bar pullback on the 10-minute chart from Friday's get go, the S&P did, in fact, trade above Friday's high, but then staged an ORB (Opening Range Breakout). However, the ensuing reaction or pullback after the breakout should have held the level of the morning breakout at approximately 985/986. It did not. The market was talking. Sure enough, the break back below 985 led to a reverse ORB or an Opening Range Breakdown after lunch at 1:30 p.m. EDT. Nail No. 2 in the coffin.

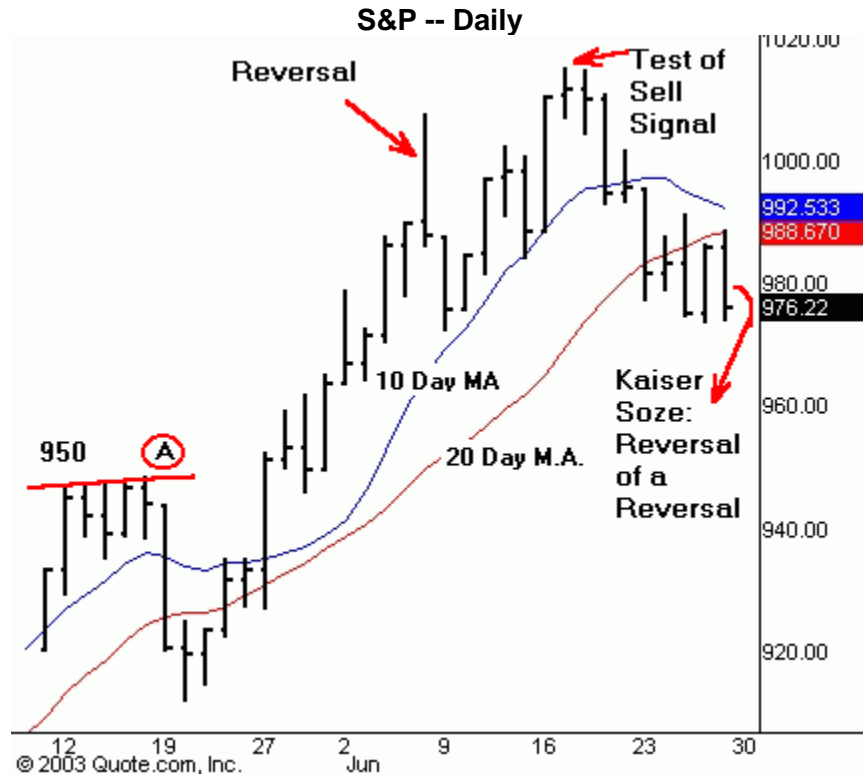
Friday's reversal of Thursday's reversal leaves what I call a Kaiser Soze Sell Signal, or a reversal of a reversal. I named this pattern after the nefarious mercurial figure from the movie, "The Usual Suspects," famous for its many insidious plot twists and turns. The Kaiser Soze Signal typically leads to fast moves. In this case, it looks like a better-than-average likelihood that 965 and then 954 and the 50-day moving average on S&P is projected. A break of 950, if it occurs, will likely be a third nail in the coffin -- for this advance.

**Conclusion:** It is no coincidence that money managers have potentially put investors in a box precisely at quarter end.

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The breakout over 950 (A) is where the near 70-point (A) climax run in the S&P commenced.

A move by the 10-day MA below the 20-day would be the first such occurrence since the March 2003 low.

## S&P Pivot Points



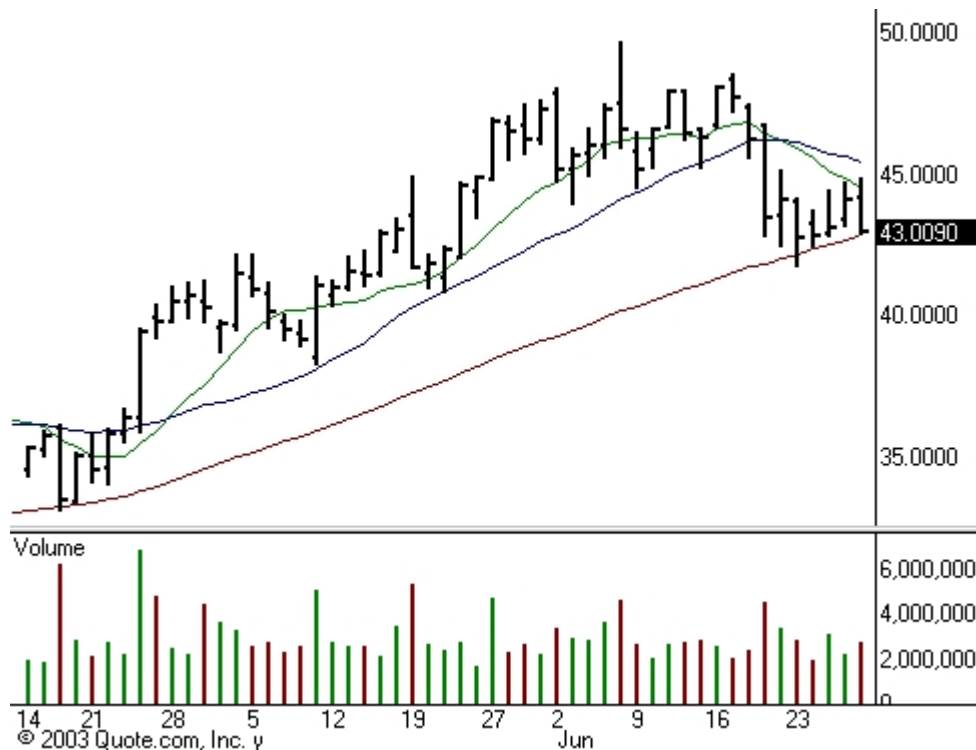
## THE DAYTRADING REPORT

### Chart 1

**Genzyme  
(GENZ:Nasdaq)  
Short**

**Entry: 42.75**  
**Stop: 43.75**  
**Pattern: Cooper 1-2-3 Pullback +1/180/LROD**

**Comments:** After a large range breakdown from an uptrend on June 19, GENZ failed on Friday near its 20-DMA and looks poised to bust through its 50-DMA.



**Chart 2**

**Esperin Therapeutics  
(ESPR:Nasdaq)  
Long**

**Entry: 19.15  
Stop: 18.15  
Pattern: 180**



**Chart 3**

**I-Flow Corporation  
(IFLO:Nasdaq)  
Long**

**Entry: 7.45**  
**Stop: 6.95**  
**Pattern: Expansion Breakout/ Volume Expansion Breakout**

**Comments: Cheapie du Jour**



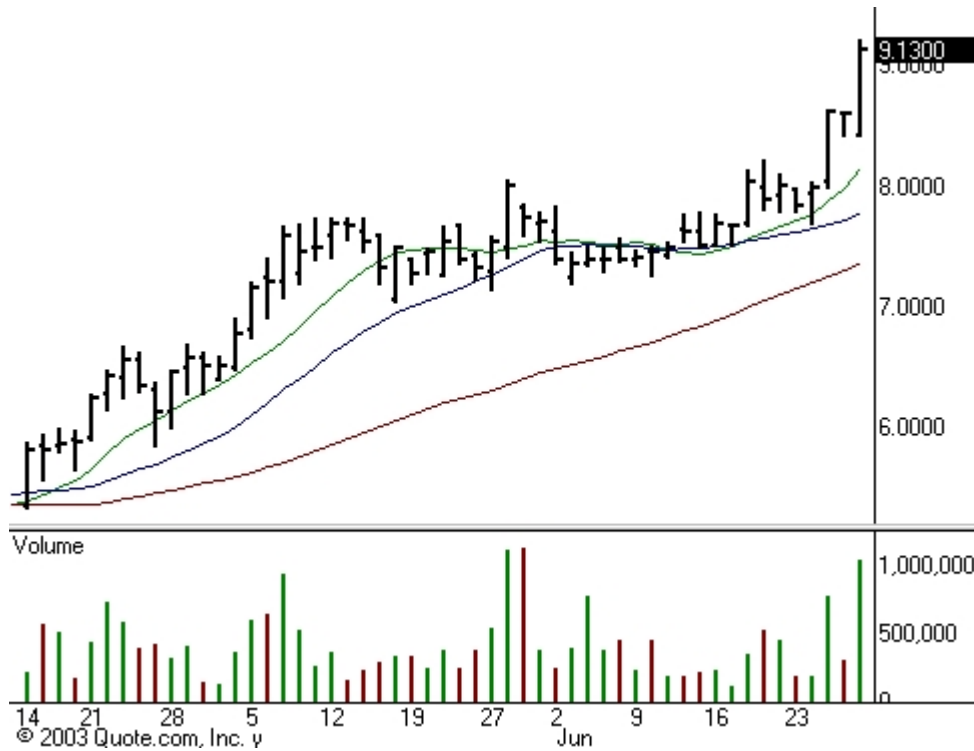


**Chart 4**

**Scientific Games  
(SGMS:Nasdaq)  
Long**

**Entry: 9.35**  
**Stop: 8.50**  
**Pattern: Expansion Breakout/ Thrust-Pause-Pivot**

**Comments: Cheapie du Jour #2**



**Chart 5**

**Lexmark  
(LXK:NYSE)  
Short**

**Entry: 70.15**  
**Stop: 71.15**  
**Pattern: Expansion Pivot**



### OBSERVATIONS

-- On Friday I said to be on your toes for a move by **Yahoo!** (YHOO:Nasdaq), which was a day pick above 33.25 that then traded back below 33.00 and stuck. That is exactly what played out on Friday as Yahoo! issued a Soup Nazi Sell Signal by trading above and then back below the high of at least four days separation within a 20-day window. Yahoo! looks like a good candidate for a daytrade short on Monday as well.

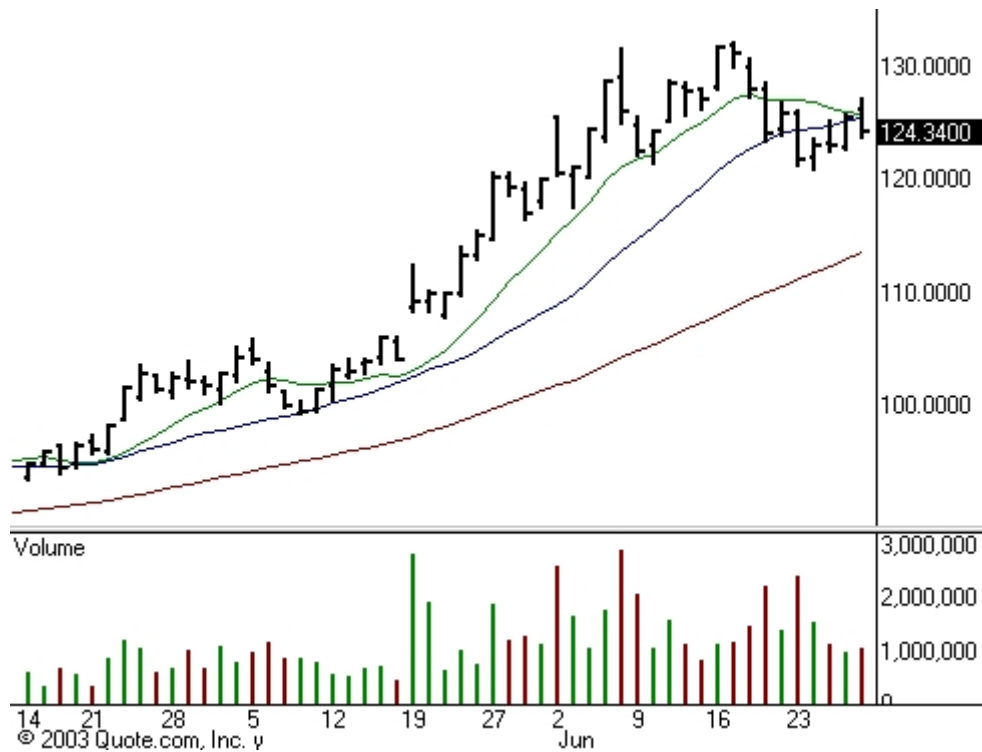
# THE SWING REPORT

## Chart 1

**Biotech HOLDRS  
(BBH:NYSE)  
Short**

**Entry: 123.65  
Stop: 126.00  
Initial Target: 121.30**

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

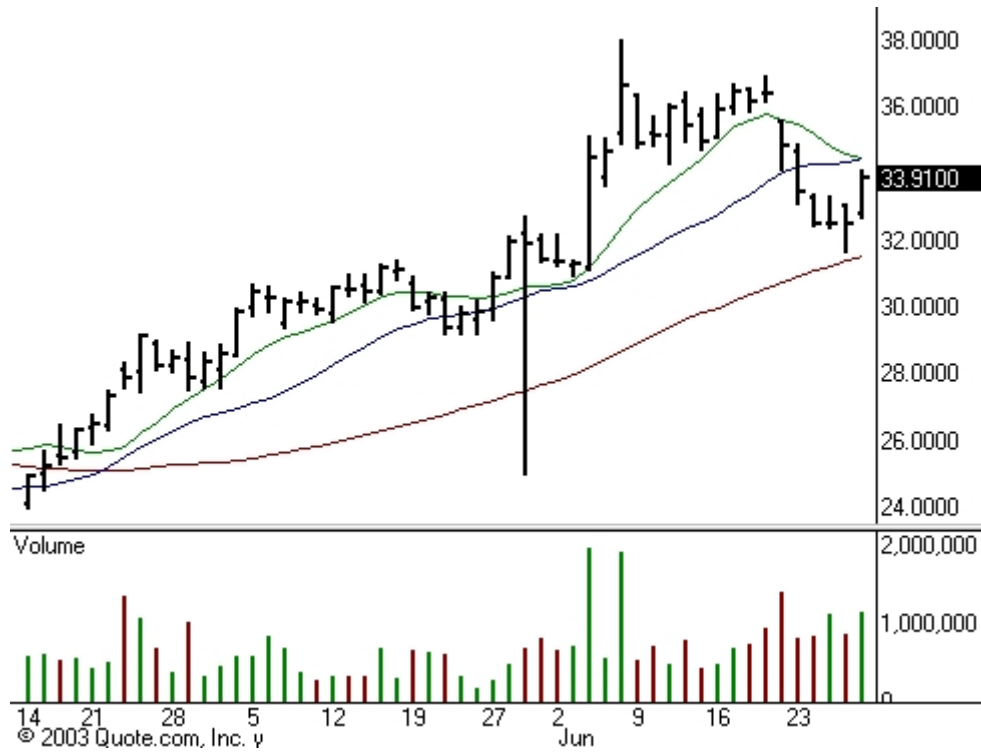


**Chart 2**

**Hyperion Solutions  
(HYSL:Nasdaq)  
Long**

**Entry: 34.30  
Stop: 33.30  
Initial Target: 35.30**

**Pattern: V-Thrust**



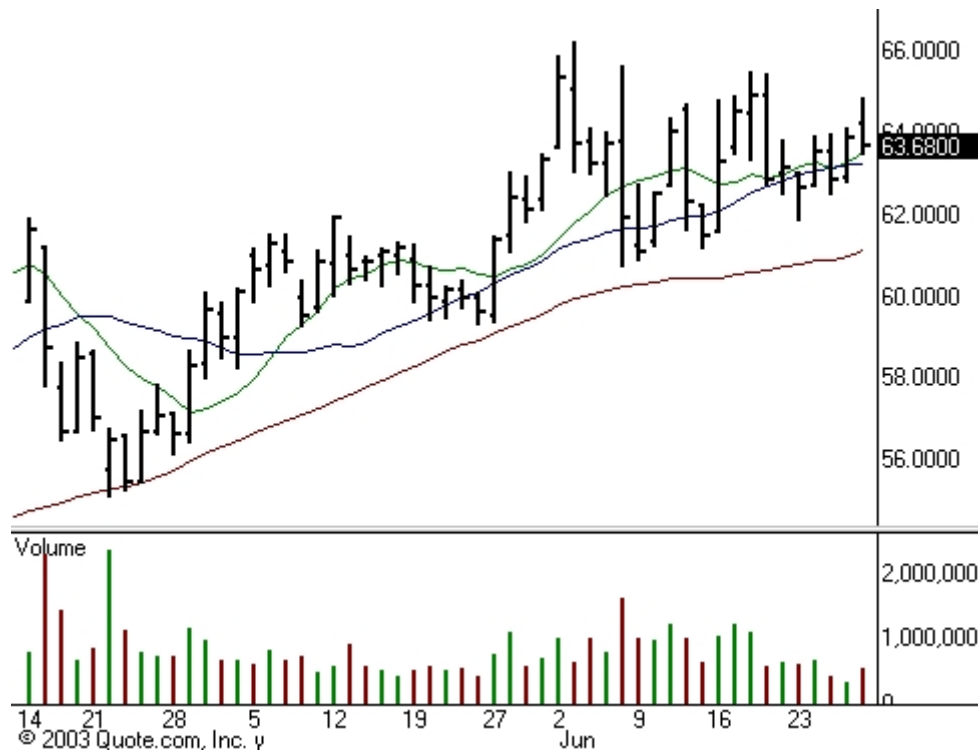
**Chart 3**

**Quest Diagnostc  
(DGX:NYSE)  
Short**

**Entry:** 63.35  
**Stop:** 65.00  
**Initial Target:** 61.70

**Pattern:** Charlies Angels/ Power Surge Sell Signal

**Comments:** Quest has traced out three tails. One on June 3, one on June 6, and one on June 19. And finally Friday's reversal comes from a third lower high on the short term pattern from early June. Third lower highs usually lead to fast moves. In this case, down.



### OBSERVATIONS AND TRAILING STOPS

-- Monday is day 2 in **Stryker** (SYK:NYSE). We are long from 70.50. Maintain the stop at 68.70 and the initial target at 72.30.

-- **PACCAR** (PCAR:Nasdaq) did not trigger.

-- Monday is day three in **Omnivision Technologies** (OVTI:Nasdaq) long. We are long from 31.95. I do not like the looks of the action in OVTI on Friday, so let's look to get scratch the trade as close as possible to the entry at 31.95 on Monday.

-- Monday is day four in **Mid-Atlantic Medical** (MME:NYSE) long. We are long from 51.20. On Friday we sold half our shares at 52.20 locking in a gain of 1.00. Raise the stop to 51.20 for the second piece.

-- On Friday we didn't get a positive opening in **Vimpel** (VIP:NYSE), but shortly after the open it turned green. Let's assume the sell of the second piece near the same price as the first piece at 46.50 locking in a gain of 1.75 on the second piece too. We already locked in a gain of 1.75 on the first.

-- On Friday we were stopped out of **Novellus** (NVLS:Nasdaq) at 36.50 for a scratch. We sold our first piece for a gain of 1.20.

## 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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