Thursday, April 15, 2004

Market Commentary: Keep S&P 1134 on Your Radar

On Tuesday, the **S&P 500** stabbed below its 50-day moving average, leaving two sell signals: an Expansion Pivot and a Large Range Outside Day (LROD).

The Expansion Pivot is a signal I developed that does a good job of identifying an urgent or intense move above or below the widely watched 50-day moving average. It occurs when a stock or an index breaks (above or below) its 50-day moving average on the largest range in the last 10 sessions. I created the LROD to identify short-term momentum.

As you will recall, after Tuesday's stab down, I stated that the break of an inflection point, in and of itself, is not as important as the subsequent behavior. In other words, it is follow-through that is key.

Interestingly, despite Tuesday's intense selling, the S&P rallied off its lows near our key 1125 level on both Wednesday and Thursday to close at/above the open of both sessions each day. In the process, the S&P successfully tested its 20-day moving average multiple times -- or so it appears.

In Wednesday night's newsletter (http://www.thestreet.com/k/jc/pdf/200404142218.pdf), I said that we were at a critical juncture. Of course, one could say that at many times in the marketplace. But this is a critical juncture in Price and Time for many reasons.

First and foremost, Tuesday was an intense selling day because it produced a lopsided advance/decline line with 72% of all stocks being down on the day. That is a rare bird. It can only mean one of two things -- either these type of days are evidence of a flush-out prior to a rally and continued advance, or they are a kickoff to the downside and a sign of more selling to come. When the latter is true, it can lead to substantial waterfall declines, as was the case when such intense selling days occurred in July 1974 and October 1987.

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However, history shows that such indiscriminate selling pressure typically marks a washout the majority of the time. Wednesday also showed intense -- although not as intense -- selling with 55% of all stocks down on the day.

Many times after such days of piggyback intense selling, the market will tip its hand as to which outcome -- a rally phase or a waterfall decline -- it has in store. How? Well, any up day that comes the next session after such consecutive days of indiscriminate selling indicates a rally phase, and vice versa.

Although it certainly did not look like there was a chance for the S&P to close up on the day, as the index was falling out of bed with two hours to go, the S&P clawed its way, quite literally, back into positive territory on Thursday to close in the green. With a close at 1128.85, it closed substantially above our 1123 inflection point.

What is interesting is that in violating 1123 *intraday*, the S&P rebounded precisely off 1120.75, which represents a 50% retracement of the March 24 low at 1087.05 and the April 5 high at 1150.55.

I have stated that a third misstep by the S&P would not be a bullish omen. The S&P did give a third misstep, again *intraday*, on Thursday, with its third outside day down. Moreover, this was the third outside day down by the S&P in just five sessions.

However, in rebounding on Thursday, the S&P closed above Wednesday's close and nearly three-plotted to the upside, just missing trading back above the morning's high on Thursday late in the session. Therefore, upside follow-through on Friday above Thursday's high of 1134.10 will trigger a bullish Slingshot.

Remember that 1134 is important because it is where the weekly chart on the S&P turned down and happens to coincide with the 50-day moving average.

Conclusion: There is no threat of new highs unless 1134 is first recaptured and then 1146/1148 is recaptured. This sets up a possible cascade to the upside. S&P 1123 remains the bulls' line in the sand. Also, remember that Friday is options expiration and may have skewed the idea of intense selling. Consequently, a recapture of 1134 S&P on a weekly closing basis sets up the market for a rally attempt into our cycle window from late April to early May. Let's see what message the market delivers.

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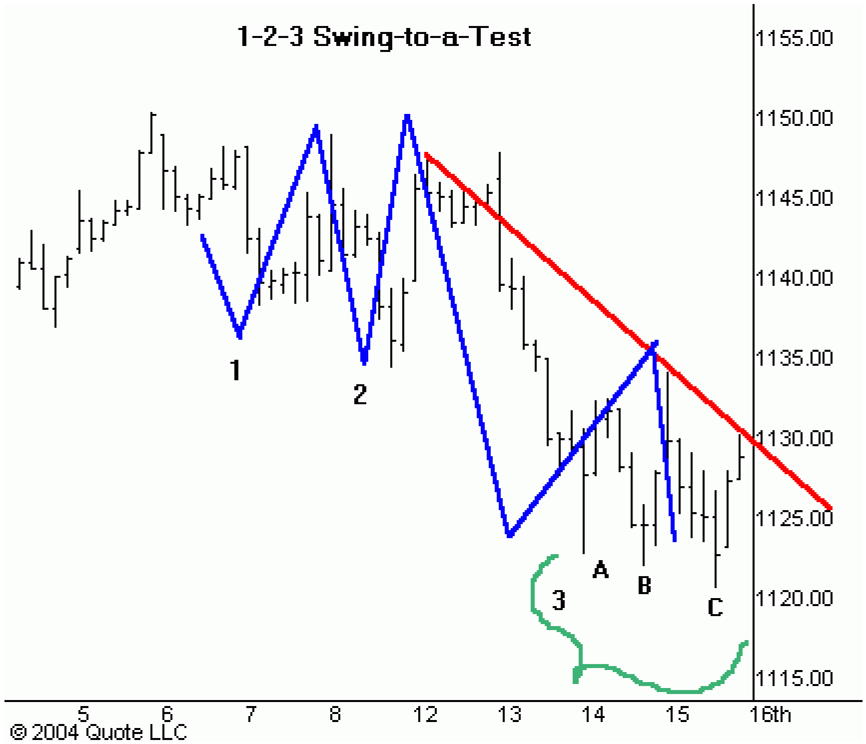
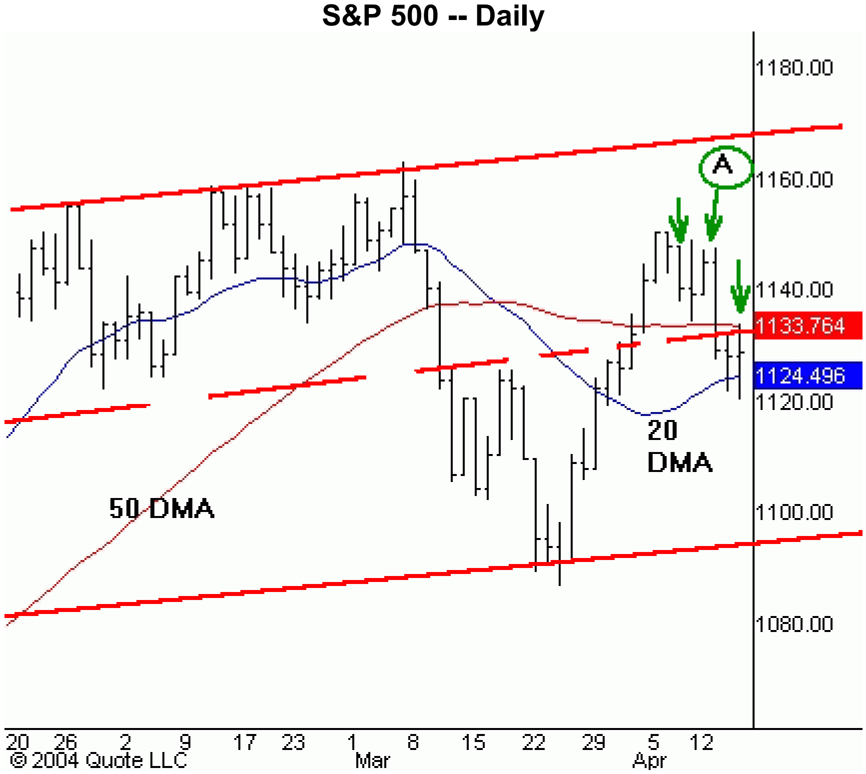
S&P 500 -- 60-Minute



S&P 500 -- Daily



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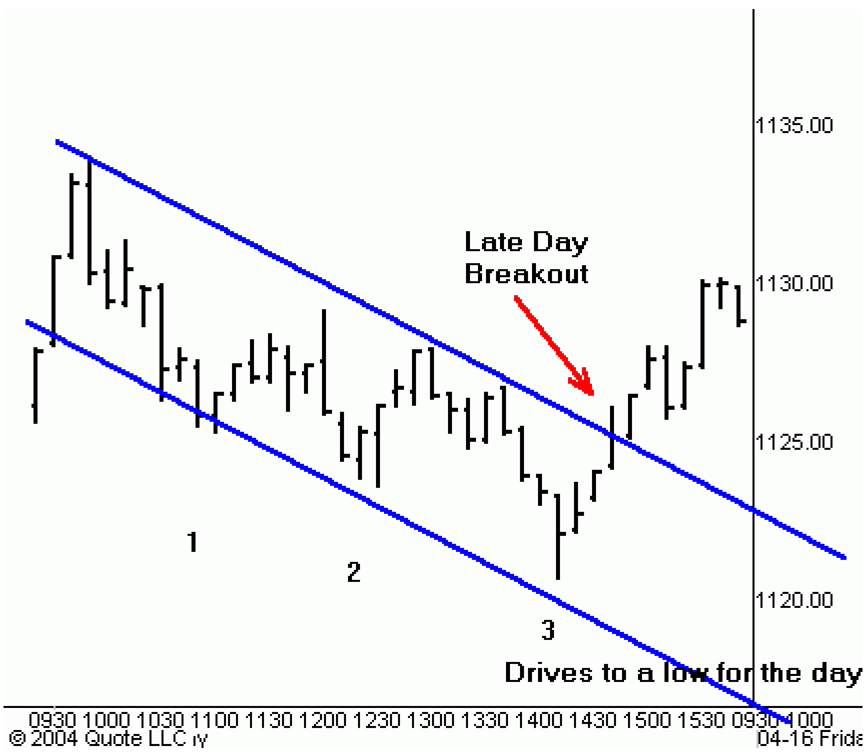
Nasdaq Composite -- Daily

S&P Pivot Points

S&P 500 -- 10-Minute

Early support on Friday is 1123. A move above 1134 where the weekly turns down that sticks would be constructive, while a close above 1134, recapturing the 50-day moving average, would have to be taken in a bullish light.



THE DAYTRADING REPORT

Chart 1

Taro Pharmaceutical
(TARO:Nasdaq)
Long

Entry: 62.75
Stop: 61.75
Pattern: Expansion Pivot / 180 / LROD

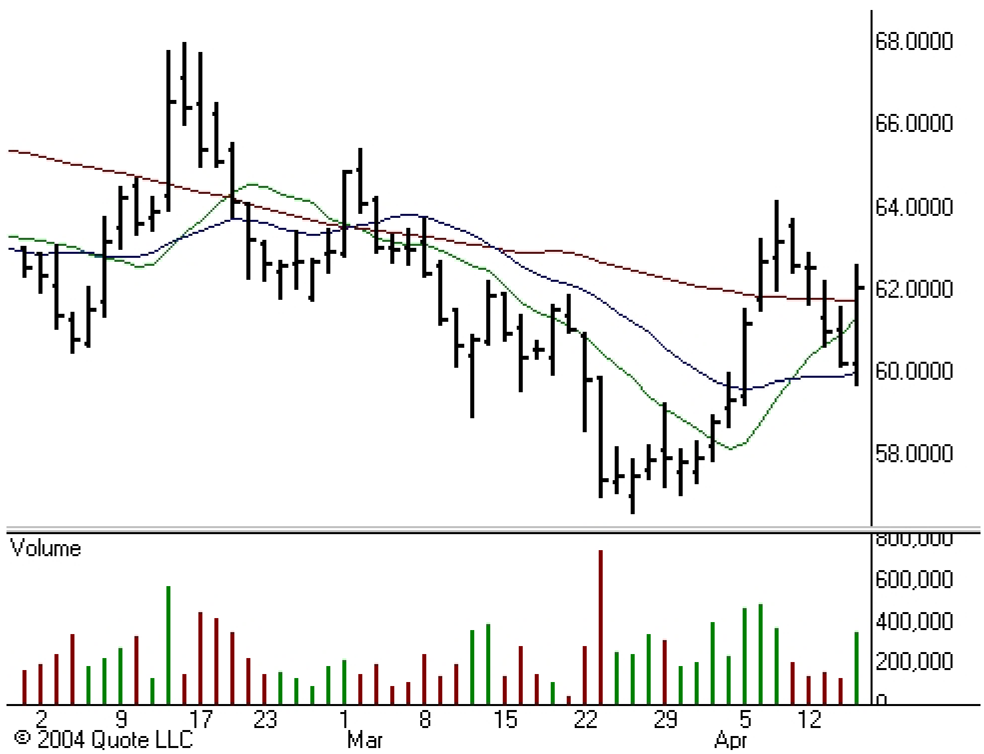


Chart 2

Wynn Resorts
(WYNN:Nasdaq)
Short

Entry: 34.80
Stop: 35.80
Pattern: Expansion Pivot

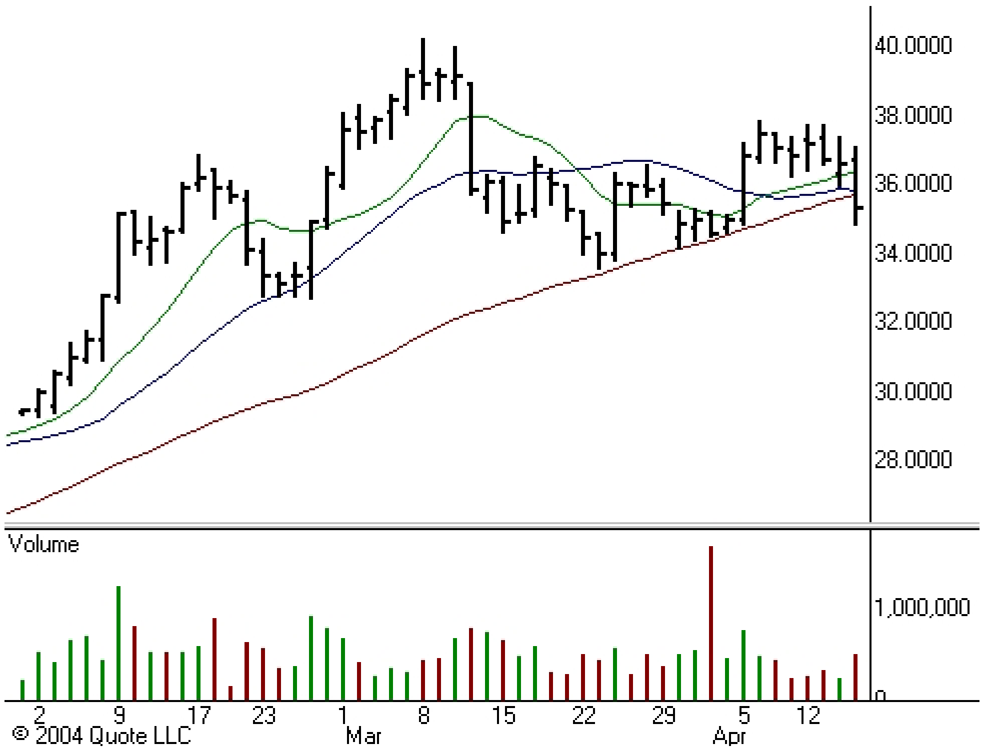
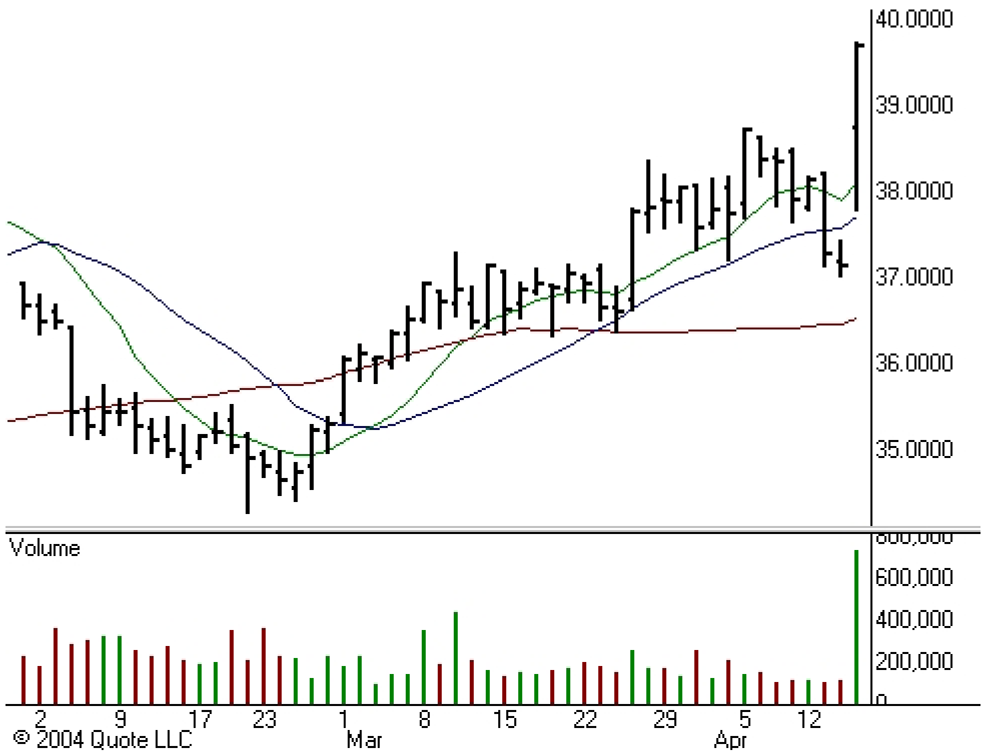


Chart 3

Imation ▲
(IMN:NYSE)
Long

Entry: **39.85**
Stop: **38.85**
Pattern: **Expansion Breakout / 180**

Comments: Head's up, this one is thin.



THE SWING REPORT

Chart 1

Global Imaging Systems ▲
(GISX:Nasdaq)
Long

Entry: **38.20**
Stop: **36.80**
Initial Target: **39.80 (trade toward)**

Pattern: 180 / *Extended Level Boomer

Comments: Head's up, this one is thin.

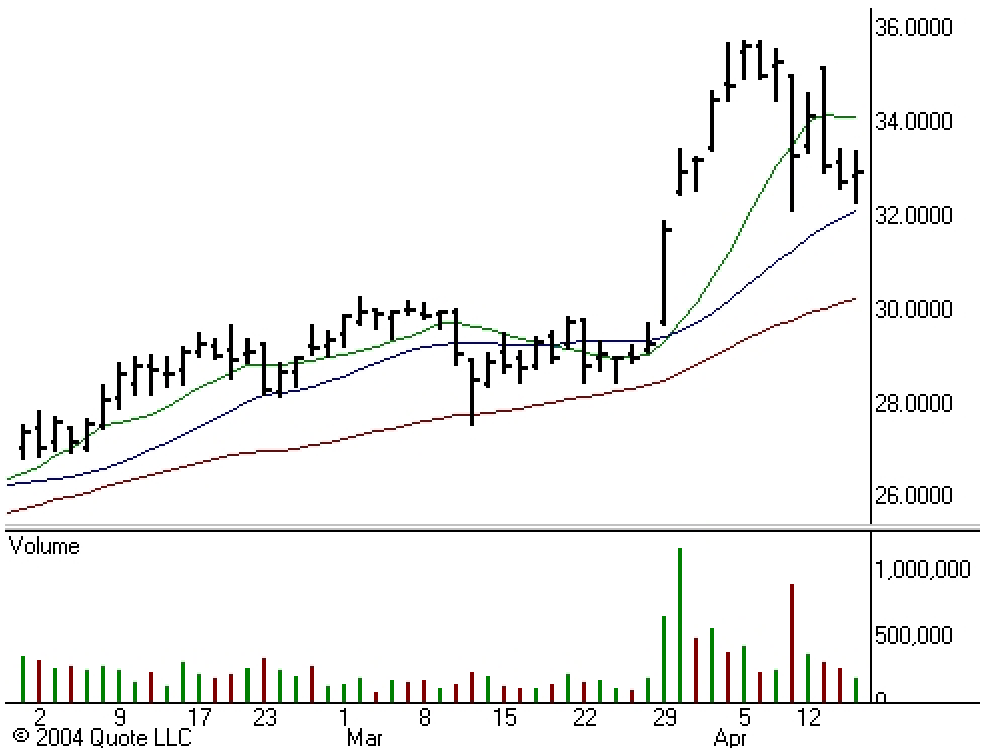
Chart 2

Armor
(AH:NYSE)
Long

Entry: 33.50
Stop: 32.50
Initial Target: 35.00 (trade toward)

Pattern: Holy Grail

Comments: AH tagged its 20-DMA (hence, the Holy Grail buy setup) and bounced entering the gap from March 30.



OBSERVATIONS AND TRAILING STOPS

-- **Yahoo!** (YHOO:Nasdaq) did not trigger.

-- Friday is day two in **Spinnaker Exploration** (SKE:NYSE) (long). We are long from approximately 36.55 on a gap open. SKE got close to our first target of trade toward 37.45. Look to sell your first piece on any positive opening on Friday. If there is a positive opening and you sell your first piece, then raise the stop to 36.55 on the balance of your shares. Otherwise, maintain your protective stop at 35.45. As of Thursday's close, we are up 75 cents.

-- We were triggered and shagged on **GTech Holdings** (GTK:NYSE) (long) as it gapped open at 60.75 and then came down and hit our stop at the low of the day for a loss of 2.55.

-- Friday is day three in **Affiliated Managers** (AMG:NYSE) (short). We are short from around 54.15. On Wednesday we covered our first piece, locking in a gain of approximately 1.60. Maintain the adjusted stop at 53.55 and look to cover your second piece on trade toward 50.50. As of Thursday's close, we are up 1.17.

-- On Thursday we were stopped out of **Transaction Systems Architects** (TSAI:Nasdaq) for a loss of 1.70.

-- On Thursday we were stopped out of **Express Scripts** (ESRX:Nasdaq) for a loss of 2.10.

-- Friday is day seven in **St. Jude Medical** (STJ:NYSE) (long). We are long from 73.85. Raise the stop to 73.40 and maintain the initial target at trade toward 75.85. As of Thursday's close, we are up 30 cents.

-- Friday is day 10 in **QLT** (QLTI:Nasdaq) (long). We are long from approximately 28.56 on a gap open. Maintain the adjusted stop at 27.50 and maintain the initial target for the first piece on trade toward 29.90. As of Thursday's close, we are down 53 cents.

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.

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