Market Commentary:
Market Ignoring Risks, Focusing on Fundamentals

It looks like Thursday's knee-jerk -- after the monthlies turned up on the Nasdaq and S&P 500 -- was a buying opportunity.

The market came right back from Thursday's reaction despite persistent "weekend worries" and the proverbial squaring of positions due to the potential of external shocks related to terrorism. Is there a school of thought out there that terrorists have more time on the weekend, as they are not working at their regular jobs? What are these guys doing Monday through Friday? Working as investment bankers?

Another strong jobs number as well as upward revisions of the last two reports did not spook the market. Traders seem to be saying, "Been there, done that." Additionally, although Friday's jobs data assured that the Fed will begin its campaign of rate hikes in June, the market took it in stride.

The market is ignoring the risks of inflation. The market is ignoring the risks of terrorism. The market is ignoring the fog of uncertainty clouding Iraq. The market is ignoring the uncertainty surrounding the election, at least for the time being.

Perhaps the near 1 million jobs gained over the last three months have soothed the Street's anxiety regarding Bush's recent dour prospects for re-election. It is not that the market prefers a Republican to a Democratic administration (God knows that the 1990s loved Clinton), rather, a look at the history of election-year cycles shows that the market simply likes an incumbent to win. It just has less uncertainty. An incumbent is a known quantity.

The market is simply choosing to ignore peripheral risks and focusing on the fundamentals of recovery, at least for the time being. Now this would not have anything to do with the upcoming June quarter-end now would it? After all, mutual funds have a mandate to be long at these markers (no pun intended).

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If the S&P simply marches up to the cluster of turning points in the last week of June with the kind of anemic volume seen on the NYSE and Nazz on Friday, then even if the S&P does break out, we are likely to see nonconformations and divergences. But let's trade the current swing and not get too far in front of the curve.

**Conclusion:** Despite Friday's move by the S&P above 1128 (see Friday's commentary), the index tailed off by the close to hug the pivot of the year of 1123. Since our call for a low to be carved out in the month of May -- quickly after the S&P turned its quarterly down and quickly after kissing its 200-day moving average -- things have unfolded according to expectations.

But now the S&P has traced out a 1-2-3 weekly pullback. In other words, the S&P has rallied back up into first key resistance, showing three higher highs on its weekly chart.

With the overhead declining Trendline on the S&P beckoning, next week will be critical. I suspect long-side money managers would like nothing better than to squeeze the S&P above 1140 and then 1150 to score a breakout above 1160 into quarter-end.

They have got the wherewithal and the power to do it if extraneous events don't upset their applecart. Remember, as my father used to say, "Stocks don't move, they are moved."

**Strategy:** The behavior on such a breakout in the S&P and a turn-up of its quarterly chart will tell us much about what to expect for the rest of the year. A successful breakout projects to 1200/1204 S&P. For next week, look to play long, as long as 1116 to 1118 holds while 1105 is critical support.
Pivot Points

S&P 500 -- 10-Minute

The S&P stabbed back below (A) the low of an afternoon breakout (B) which was the tip off to a soft close.
CV Therapeutics -- 10-Minute

ORB
Qualcomm -- 10-Minute

Back below the breakout bar is a warning. This is a Boomerang pattern.

ORB

ORB Reversal

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Apollo Group -- 10-Minute

No lift after Cooper 1-2-3 Pullback that tests long bar (A) low.

ORB
Bausch & Lomb (BOL:NYSE) was poised for follow-through on Friday, characterized by Friday's gap open. However, you have to be able to put your hat on backwards: After Thursday's strong reversal, there are likely many traders carrying over positions and looking to take a profit on Friday. Such is the behavior in a choppy market vs. a momentum market.
Chart 1

Nutraceutical
(NUTR:Nasdaq)
Long

Entry: 27.25
Stop: 26.25
Pattern: Expansion Breakout / Expansion Pivot / Expansion Volume Breakout

Power Surge (3rd higher low)
Guitar Center ▲
(GTRC:Nasdaq)
Long
Entry: 42.75
Stop: 41.75
Pattern: 180 / NR7
Laureate Education
(LAUR:Nasdaq)
Long

Entry: Opening Range Breakout (trade above the first three 10-minute bars)
Stop: 1 point from entry
Pattern: Extended-Level Boomer
GTech
(GTK:NYSE)
Short

Entry: 54.35
Stop: 55.35
Pattern: Pullback Pivot

Chart 4

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THE SWING REPORT

AngloGold
(AU:NYSE)
Long

Entry: 34.40
Stop: 33.00
Initial Target: 35.80 (trade toward)

Pattern: *Cooper 1-2-3 Pullback / Holy Grail (a pivot off the 20-DMA)

Comments: The Philadelphia Stock Exchange Gold and Silver index (XAU) looks like it's established a low. AU broke out over consolidation after making a triple bottom, and this is the first pullback after the breakout. AU looks poised to recapture its 50-DMA.
Applied Signal Technology ▲
(APSG:Nasdaq)
Long

Entry:  31.15  
Stop:  29.75  
Initial Target:  32.55 (trade toward)

Pattern:  Cooper 1-2-3 Pullback / 180
-- Monday is day two in **CV Therapeutics** (CVTX:Nasdaq) (long). We are long from 16.25. Maintain the stop at 14.35 and adjust the initial target to trade toward 17.75. As of Friday's close, we are up 41 cents.

Monday is day three in **ITT Educational Services** (ESI:NYSE) (long). We are long from 41.40. Maintain the stop at 39.40 and the initial target at trade toward 43.40. As of Friday's close, we are down 40 cents.

Monday is day four in **Aladdin Knowledge Systems** (ALDN:Nasdaq) (long). We are long from 27.30. Maintain the stop at 25.80 and the initial target on trade toward 29.30. As of Friday's close, we are down 80 cents.

Monday is day four in **Gen-Probe** (GPRO:Nasdaq) (long). We are long from 44.70. Raise the stop to 43.00 and adjust the initial target to trade toward 46.40. As of Friday's close, we are up 15 cents.

Monday is day six in **St. Jude Medical** (STJ:NYSE) (long). We are long from a gap open at 77.10. Adjust the stop to 75.50 and maintain the initial target on trade toward 78.95. As of Friday's close, we are down 20 cents.

Monday is day seven in **Ventana Medical Systems** (VMSI:Nasdaq) (long). We are long from 51.80. Maintain the stop at 49.80 and the initial target at trade toward 52.40. Even though Monday is day seven, it looks interesting as it's in the spirit of a Cooper 1-2-3 Pullback inside of Tuesday's large-range day. As of Friday's close, we are down 32 cents.

Monday is day eight in **Apollo Group** (APOL:Nasdaq) (long). We are long from 92.30. Since Monday is day eight, let's raise the stop on our second piece to 93.80 and, given the tail on APOL on Friday, let's look to sell our second piece on any trade toward 94.90. Either way, let's be out by the end of the day. As of Friday's close, we are up 2.10.

Monday is day eight in **Pediatrix Medical Group** (PDX:NYSE) (long). We are long from 65.35. Raise the stop to 67.30 and continue to look to sell the second piece on trade toward 70.00. Last week we sold our first piece, locking in a gain of 1.65. Either way, be out of this one by the end of the day. As of Friday's close, we are up 2.60.

Monday is day eight in **Medicis Pharmaceuticals** (MRX:NYSE) (long). We are long from 42.45. Raise the stop to 42.50 and look to sell your *entire* position at trade toward 43.90. As of Friday's close, we are up 65 cents.

(Continued on the next page)
Monday is day 10 in Hollis-Eden Pharmaceuticals (HEPH:Nasdaq) (long). We are long from 9.84. HEPH finally traded our 13.00 handle but only traded up to 13.18, not 13.90. Raise the stop to 12.20 and look to sell your second piece on trade toward 13.50. Last week we sold our first piece, locking in an approximate gain of 1.41. Be out of your second piece by the end of the day. As of Friday's close, we are up 2.93 on the second piece.

Monday is day 10 in Qualcomm (QCOM:Nasdaq) (long). We are long from 65.50. On Friday QCOM traded up to 68.92, just shy of our 69.60 target before tailing off to close at the low of the day, 67.31, leaving an outside day down. Maintain the stop at 66.90 and let's look to sell an opening pop-up on Monday toward 67.90. As of Friday's close, we are up 1.81.
THE TRADING REPORTS HIT LIST
For the week beginning 6/7/04

The following is a list of those strongly trending stocks (up and down) that my work shows to be the most interesting for the current week. Not all strongly trending stocks are created equal. The following stocks are culled from screens that meet my proprietary criteria based on patterns, time and price.

Uptrending

Apollo Group (APOL:Nasdaq)
L-3 Communications (LLL:NYSE)
Pediatrics Medical Group (PDX:NYSE)
eBay (EBAY:Nasdaq)
Ventana Medical Systems (VMSI:Nasdaq)
Illinois Tool Works (ITW:NYSE)
Aladdin Knowledge Systems (ALDN:Nasdaq)
Abercrombie & Fitch (ANF:NYSE)
Teekay Shipping (TK:NYSE)
Immucor (BLUD:Nasdaq)
MedCath (MDTH:Nasdaq)
Hansen Natural (HANS:Nasdaq)
eResearch Technology (ERES:Nasdaq)
Eon Labs (ELAB:Nasdaq)
Ecolab (ECL:NYSE)
The Middleby Corporation (MIDD:Nasdaq)
Urban Outfitters (URBN:Nasdaq)
Whole Foods Market (WFMI:Nasdaq)
American Medical Systems (AMMD:Nasdaq)
Sanderson Farms (SAFM:Nasdaq)
Applied Signal Technology (APSG:Nasdaq)
Coldwater Creek (CWTR:Nasdaq)
Aldila (ALDA:Nasdaq)
Nutraceutical (NUTR:Nasdaq)
Mandalay Resort Group (MBG:NYSE)
Briggs & Stratton (BGG:NYSE)
Alliance Data Systems (ADS:NYSE)
Ceradyne (CRDN:Nasdaq)
Shuffle Master (SHFL:Nasdaq)
Intermagnetics General (IMGC:Nasdaq)
Flir Systems (FLIR:Nasdaq)
Downtrending

**Affiliated Managers Group** (AMG:NYSE)
**IBM** (IBM:NYSE)
**Nike** (NKE:NYSE)
**Caci International** (CAI:NYSE)
**Furniture Brands** (FBN:NYSE)
**Taro Pharmaceuticals** (TARO:Nasdaq)
**Barr Laboratories** (BRL:NYSE)
**Mohawk Industries** (MHK:NYSE)
**Ethan Allen Interiors** (ETH:NYSE)
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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