Wednesday, September 8, 2004

Market Commentary: Inflection Point Nears

The **S&P 500** is around a level where any reversal pattern has to be taken seriously.

We showed a 10-minute chart yesterday of the S&P on Tuesday, with the hourly breakout above 1120, a Boomerang move right back below 1120, and then the late bounce back to kiss 1120 once again.

The pullback appeared to trace out a very short-term Head and Shoulders topping pattern, with the head at Tuesday's midday high of 1124.10.

Such a short-term topping pattern, in and of itself, is not critical. However, coming at the important 1120/1123 level, it gains more potential significance. Coming after a virtually uninterrupted 60-point advance by the S&P, any reversal pattern, after such a stretch at a longstanding target/projection, bears close scrutiny.

After all, since the low day on Aug. 13, the S&P has given only one close below the low of a prior day. That occurred on Aug. 30.

Bullishly, the next day, the S&P traded lower but reversed back up sharply, leaving a 180 Buy Signal, which led the successful move by the S&P over its 200-day moving average, the tag of our 1118/1119 target, and then the kiss of our old friend 1123.

I promised yesterday to show the harmonics at 1123 and why any reversal from this level must be respected. Although the reversal pattern, traced out from 1123, is only short term in nature, it is important to remember that every turn starts out as something small, something innocent. It is important to remember that large losses almost always start out as small losses.

(Continued on the next page)

It is important for me to reiterate that I am not forecasting a top at 1123. There is just not enough evidence to come to that conclusion yet.

Moreover, the market has done nothing wrong. It is certainly entitled to a pullback. As I said in my last two commentaries, the market is certainly entitled to a pullback. Additionally, as I stated above, the grinding nature and the persistency of the move off 1060 S&P in giving only one close below a prior day's low and not offering a clear-cut pullback opportunity for players to get on board is classic bullish action.

However, nothing goes in a straight line. And with the "all clear" signal being flashed with a second "confirming," well-defined close by the S&P and the **Dow Industrials** above their respective 200-day moving averages Tuesday, now would, perversely and classically, be the typical spot for a shakeout to occur.

The harmonics at 1123 S&P are a compelling point on which such a pullback could occur. The opposite side of the coin is that continued firmness in the market in persisting to hug this level and the ability of the S&P to hold at/near its 200-day moving average now at 1113 and/or a convincing close by the S&P above 1123 this week or next would argue for higher prices sooner rather than later. In other words, the behavior at this make-or-break point will tell us whether the market will do or die here.

The Gann Square of Nine chart here demonstrates the importance of this 1123 inflection point in time and price. (To view a larger version of the chart, after clicking on the link above, mouse over the lower-right area of the chart until the icon with four arrows appears. Then click on that icon.):

- The Aug. 13 low was opposition or 180 days from the Feb. 11 closing S&P high.
- Note that the price of 1120 bisects the date of the low of Aug. 13, squaring the low day and, by definition, squaring the Feb. 11 closing high.
- Note also that the same vector running through the price of 1123 bisects the number 183. From this year's S&P intraday high on March 5 to Tuesday's tag of 1123 was 183 calendar days. (Note: Chart refers to 83 days; that should say 183 days.)
- In other words, the August low was opposition the Feb. 11 closing high. Now, we must carefully observe the behavior, as the S&P is opposition (180 degrees) this year's March 5 intraday high.

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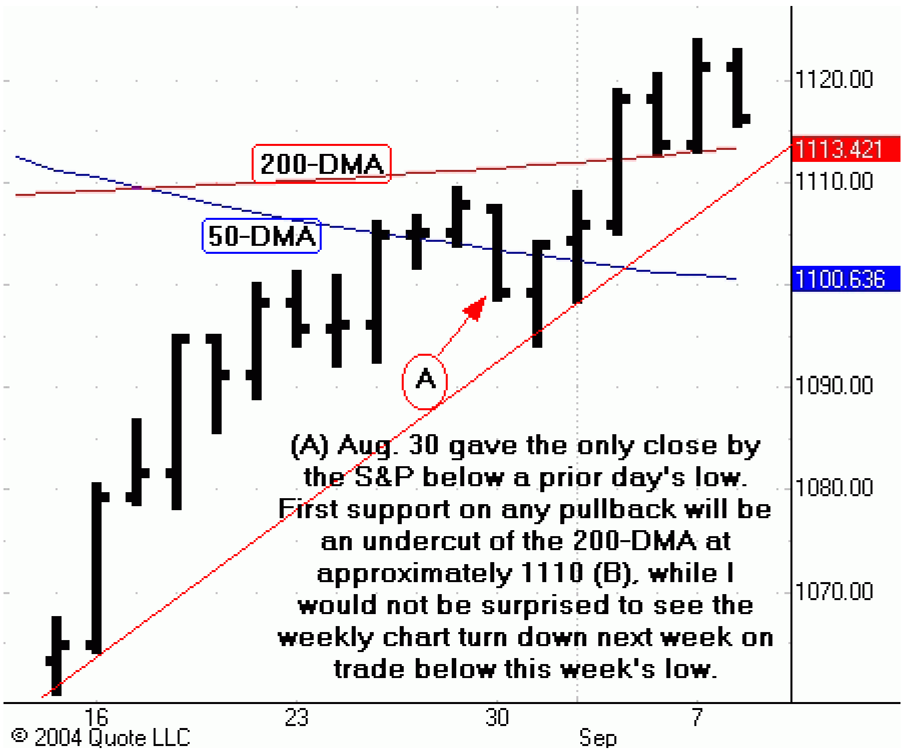
S&P 500 -- Daily


200-DMA
50-DMA
A
(A) Aug. 30 gave the only close by the S&P below a prior day's low. First support on any pullback will be an undercut of the 200-DMA at approximately 1110 (B), while I would not be surprised to see the weekly chart turn down next week on trade below this week's low.
1120.00
1113.421
1110.00
1100.636
1090.00
1080.00
1070.00
16
23
30
7
Sep
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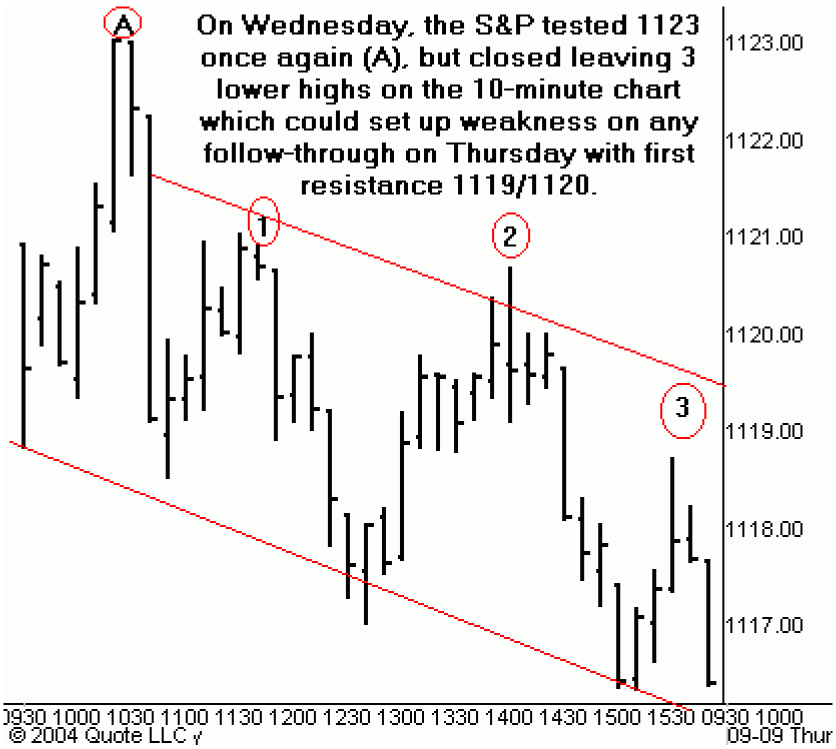
Pivot Points

S&P 500 -- 10-Minute



S&P 500 -- 60-Minute

The dashed channel (B) comes in showing support at 1110 and then the bottom of the solid channel (A) comes in now just above 1110.

THE DAYTRADING REPORT

Chart 1

Fluor
(FLR:NYSE)
Long

Entry: 44.90
Stop: 43.90
Pattern: Low Level Jack-in-the-Box

Comments: Wednesday looked like a Pause Day after Tuesday's Expansion Pivot.

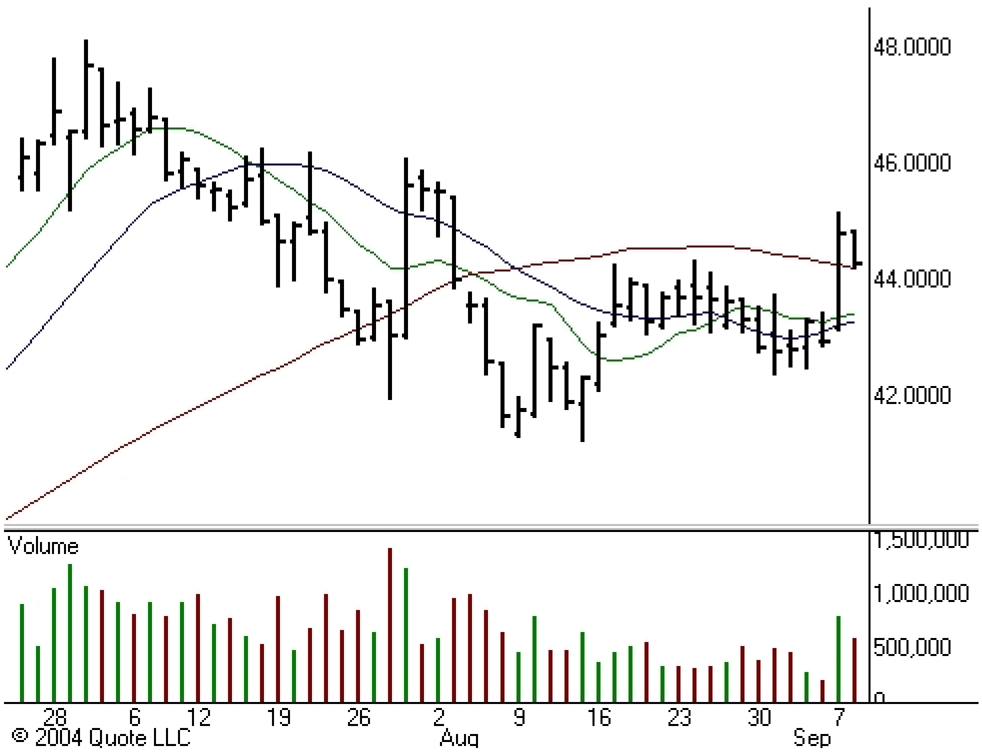


Chart 2

Cash America ▲
(PWN:NYSE)
Long

Entry: 25.10
Stop: 24.10
Pattern: Expansion Breakout

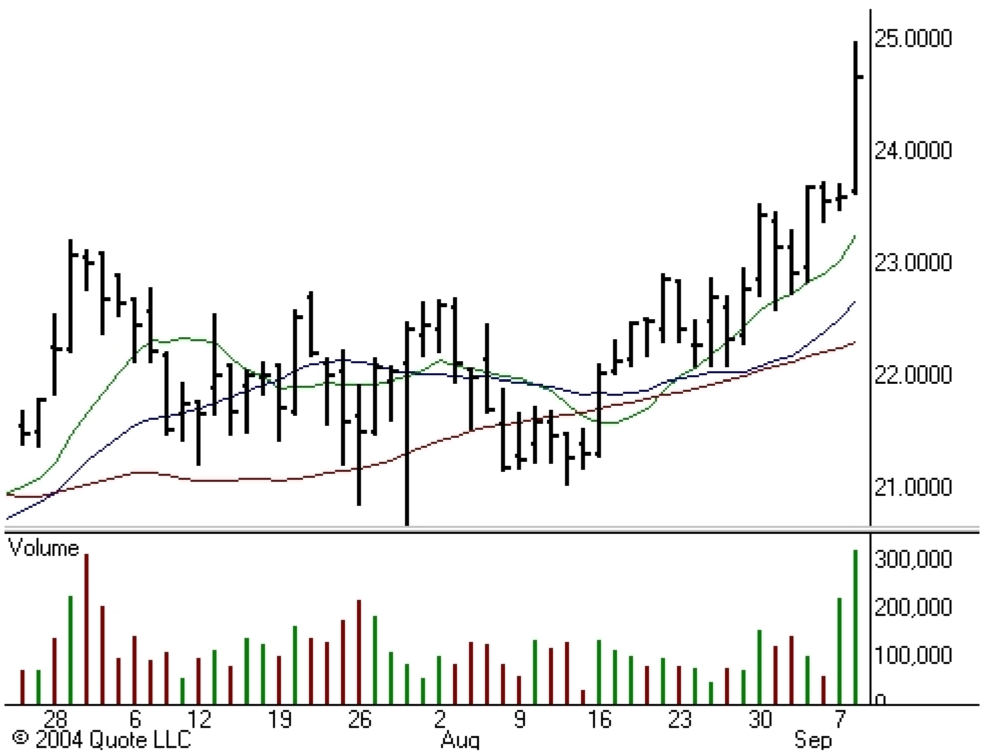
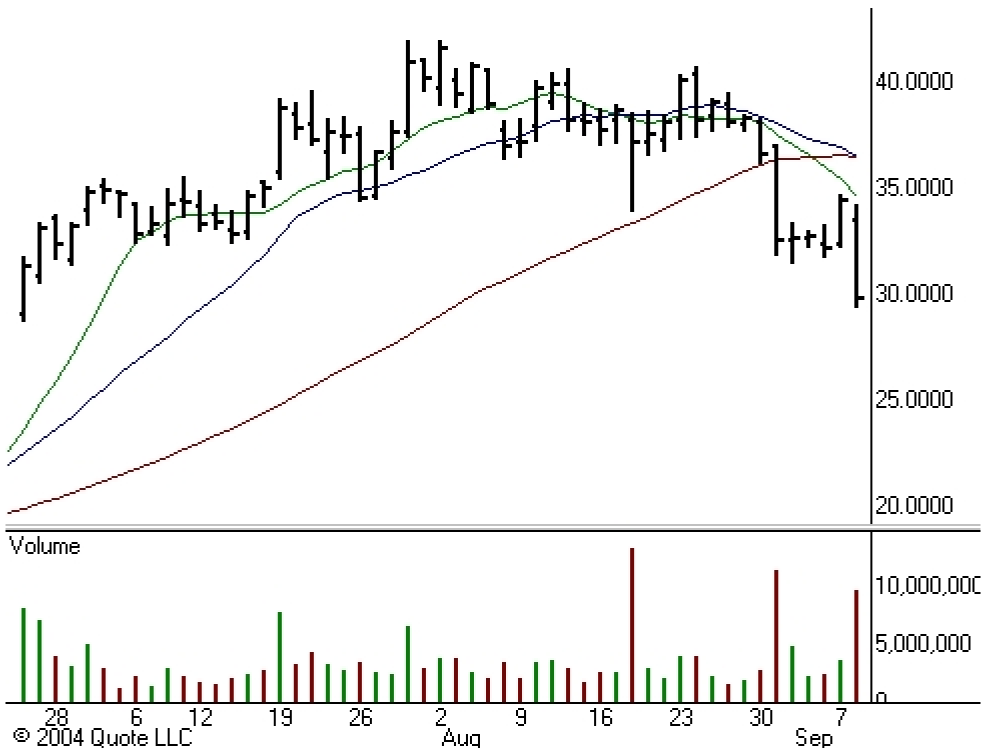


Chart 3

**palmOne
(PLMO:Nasdaq)
Short**

Entry: 29.40 (official -- but I would prefer to short an Opening Pop-Up toward 30.75
Stop: 1 point from entry
Pattern: 180 / Expansion Breakdown

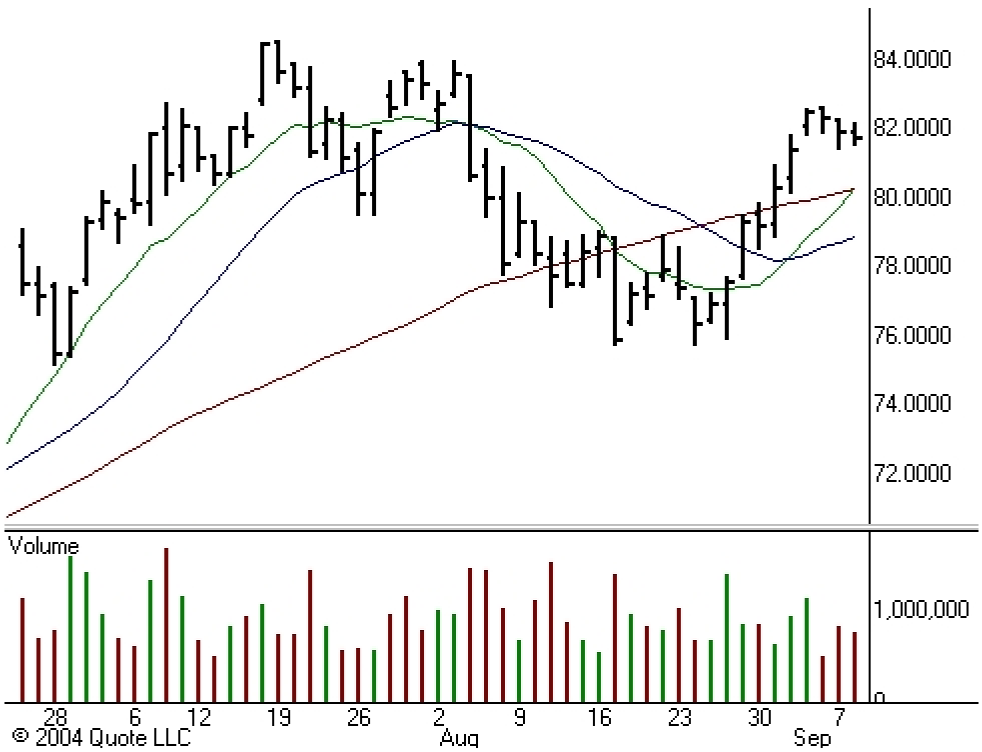


Jeff Cooper's
The Trading Reports

Chart 4

Amerada Hess
(AHC:NYSE)
Long

Entry: **82.30**
Stop: **81.30**
Pattern: ***Cooper 1-2-3 Pullback**



THE SWING REPORT

Chart 1

Flir Systems
(FLIR:Nasdaq)
Short

Entry: **59.80**
Stop: **61.50**
Initial Target: **58.10 (trade toward)**

Pattern: *Cooper 1-2-3 Pullback / 180

OBSERVATIONS AND TRAILING STOPS

-- Thursday is day two in **Zimmer** (ZMH:NYSE) (long). We are long from 78.00 on a gap open. Maintain the stop at 75.30 and the initial target on trade toward 79.30. As of Wednesday's close, we are down 1.25.

-- Thursday is day four in **Textron** (TXT:NYSE) (long). We are long from 64.45. Maintain the stop at 62.75 and the initial target on trade toward 66.15. As of Wednesday's close, we are down 43 cents.

-- Thursday is day six in **International Game Technology** (IGT:NYSE) (long). We are long from 29.10. Last week, we sold our first piece on a gap open for a gain of 2.40. Raise the adjusted stop to 31.75 and look to sell the second piece on trade toward 34.00. As of Wednesday's close, we are up 3.79.

-- **New Century Financial** (NCEN:Nasdaq) (long) was stopped out on the second piece at 54.95 for a gain of 1.00. Last Friday, we sold the first piece, locking in an approximate gain of 1.85.

-- **Onyx Pharmaceuticals** (ONXX:Nasdaq) (long) was stopped out at 39.25 on the second piece for a gain of 1.70. Last Thursday, we sold the first piece, locking in a gain of 2.00.

-- Thursday is day 10 in **Apple Computer** (AAPL:Nasdaq) (long). We are long from 33.25. Last Thursday, we sold our first piece, locking in a gain of 1.75. Maintain the adjusted stop at 34.95 for the second piece. As of Wednesday's close, we are up 3.10.

-- **Deckers Outdoor** (DECK:Nasdaq) (long) gapped open and ran immediately above 34.00. Consequently, according to instructions, you should have sold your second piece near 34.00, locking in a 3.95 gain. On Tuesday, we sold our first piece, locking in a gain of 1.80.

-- Thursday is day 14 in **AngloGold Ashanti** (AU:NYSE ADR) (long). We are long from 35.85. Maintain the stop at 33.85 and the adjusted target on trade toward 37.00. As of Wednesday's close, we are down 95 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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