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Market Commentary: Gazing Into the S&P's Crystal Ball

Wednesday's trend day down was long overdue.

When the numbers that we have been keying off on the **S&P** held position, our intraday trade -- namely 1125 strike and 1123 resistance -- gave way on Tuesday. The S&P then lingered below its first-hour low and a sell day played out.

Moreover, when the daily swing chart turned down on trade below Tuesday's low of 1124.70 and stayed down, it was the signal that tipped off the idea of a trend day and a close near the low of the day's range.

Here is what we know at this time. We know that 1123 is important to resistance as it is a level of the last breakdown in July. We know that 1123 is square or 90 degrees down from this year's S&P high on the Gann Square of Nine chart. We also know that the price of 1120 squares the day of the last swing low on Aug. 13. It is interesting that 1120 was tagged three times on Wednesday and held.

A break of 1120 on Thursday that holds after the first hour -- in other words, continued trade under 1120 after the first hour on Thursday -- would indicate further pressure and a likely test of last week's low of 1113.60. Trade below 1113.60 would turn the weekly Trendline or swing chart down. That is something that has not occurred since the Aug. 13 low.

[Yesterday](#), I stated that the rally would be sustained unless 1113 was broken. Let me clarify. The market is entitled to a pullback here after a solid one-month stretch. The S&P is entitled to pull back and turn its weekly chart down. That, in and of itself, is not a negative.

If such a weekly turn down occurs, subsequent behavior would tell us about the position of the market and whether the character of the market is changing. In other words, a break of 1113.60 that finds the low quickly, allowing the S&P to inhale and come on strongly again, would be constructive while a break of 1113.60 that sees downside follow-through and continued pressure would be a warning flag.

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It is interesting that the 200-day moving average on the S&P, at 1115, is near the level at which the S&P would turn its weekly chart down if that occurs this week.

However, remember that the S&P already has pulled back to kiss its 200-day moving average once on Sept. 9. But the weekly chart did not turn down at that level. Many times a two-step pullback will play out. So it will be important that any undercut of the Sept. 9 low of 1113.60 finds the low relatively quickly in terms of time and price. The sooner in time and the closer in price, the more bullish.

It is also important to remember that the bulls squandered a chance to capitalize on squeezing the market substantially higher when nothing bad occurred last weekend to upset the market's appletart, as some of these cycle Boyz were expecting. The "hook" was in, but the bulls failed to reel in the bears and jam the 1140 stop. At least so far.

Consequently, Tuesday's inside day may be a Pause Day after Monday's "tail" followed by Wednesday's selloff.

Because the recent S&P advance has mirrored the other two 60-point advances by the S&P this year, we cannot be complacent once any break of 1120 holds. That would be the first chink in the bull's armor, while a break of 1113 that holds would be a confirming chink in the bull's armor.

S&P 500 10-Minute -- 8/31/04

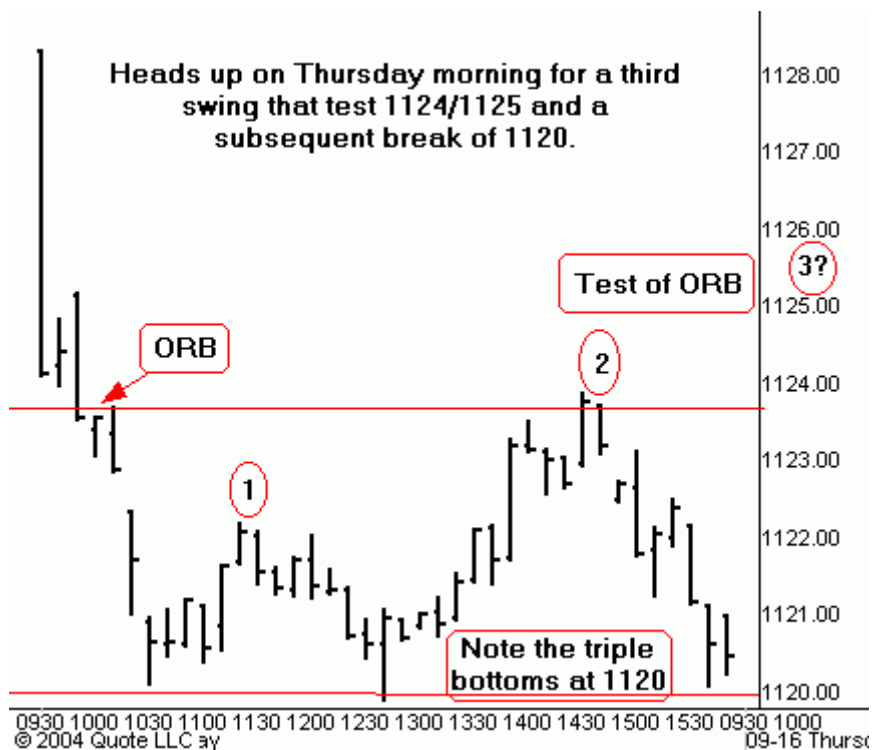


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S&P Pivot Points

S&P 500 10-Minute



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S&P 500 60-Minute -- 8/6/04



THE DAYTRADING REPORT

Chart 1

Digital River
(DRIV:Nasdaq)
Long

Entry: 27.70
Stop: 26.70
Pattern: 180 / Low-Level, Extended-Level Boomer

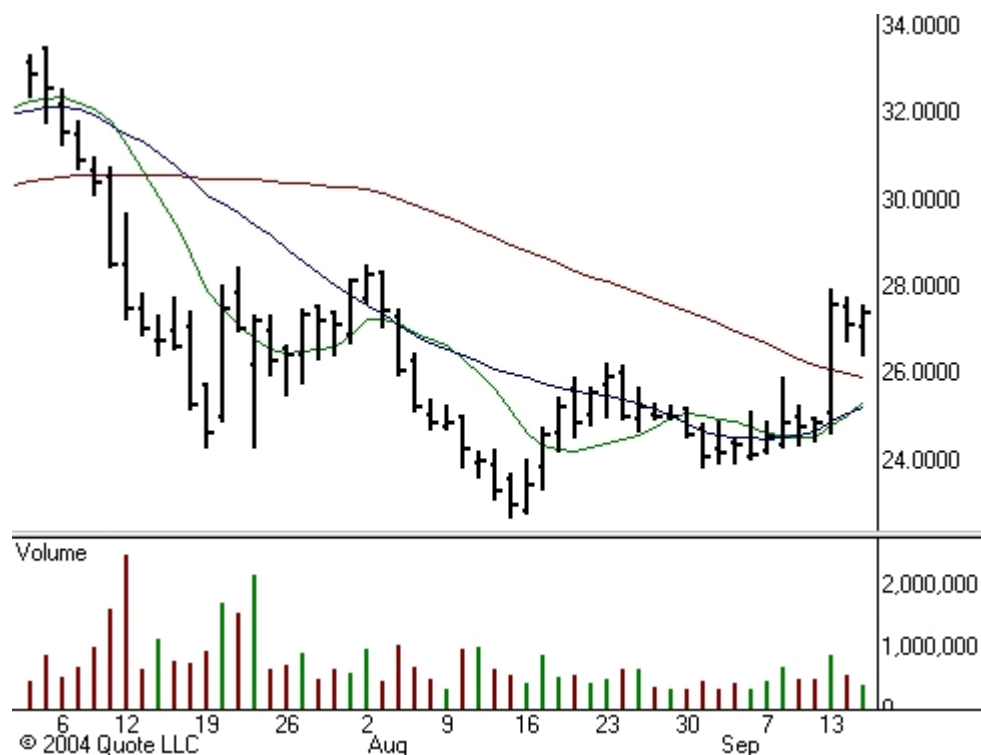


Chart 2

Rigel Pharmaceuticals ▲
(RIGL:Nasdaq)
Long

Entry: 23.70
Stop: 22.70
Pattern: Expansion Breakout

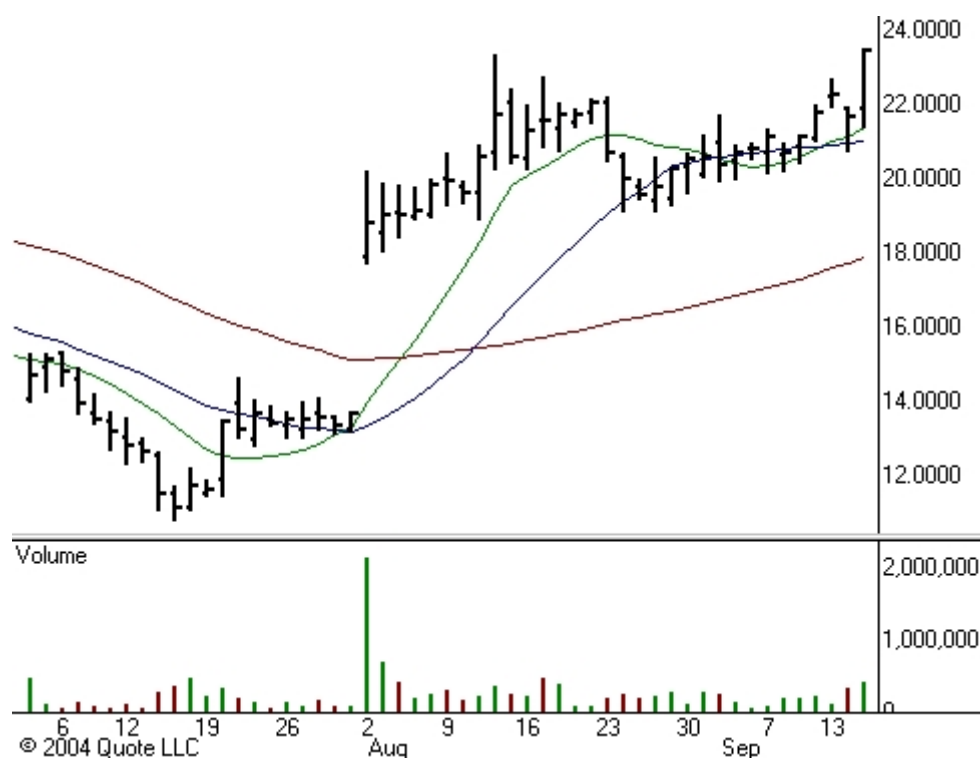


Chart 3

Amedisys ▲
(AMED:Nasdaq)
Long

Entry: 29.35
Stop: 28.35
Pattern: Expansion Pivot

Comments: Preferably use an Opening Range Breakout (ORB).

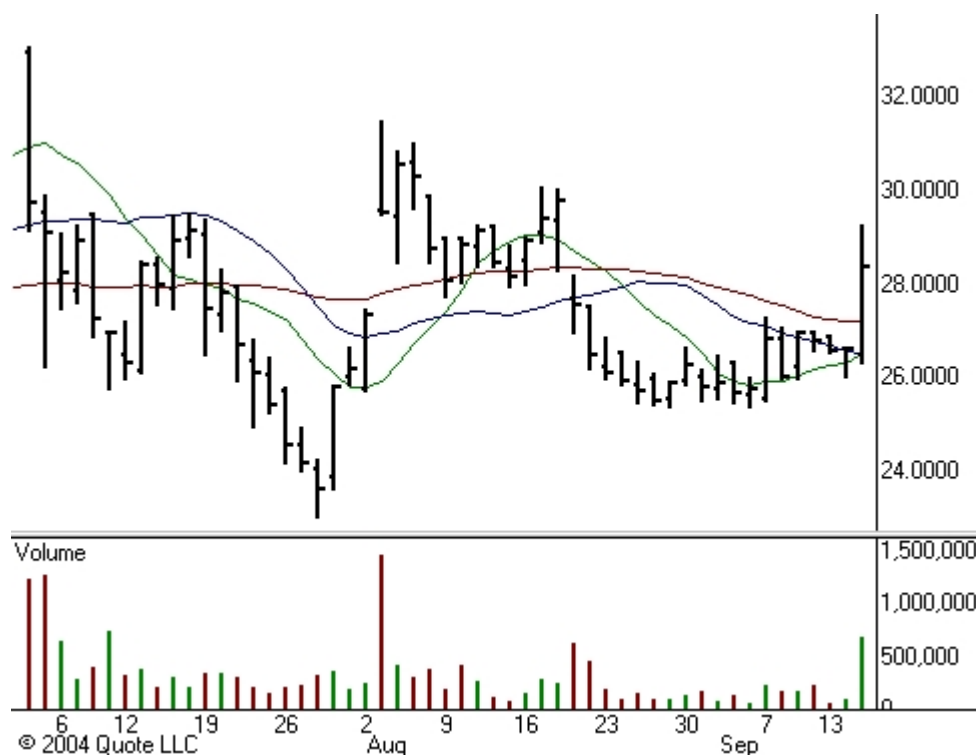


Chart 4

**Express Scripts
(ESRX:Nasdaq)
Short**

**Entry: 62.65
Stop: 63.65
Pattern: 180**



THE SWING REPORT

Chart 1

palmOne
(PLMO:Nasdaq)
Short

Entry: 32.50
Stop: 34.00
Initial Target: 30.50 (trade toward)

Pattern: Cooper 1-2-3 Pullback + 1

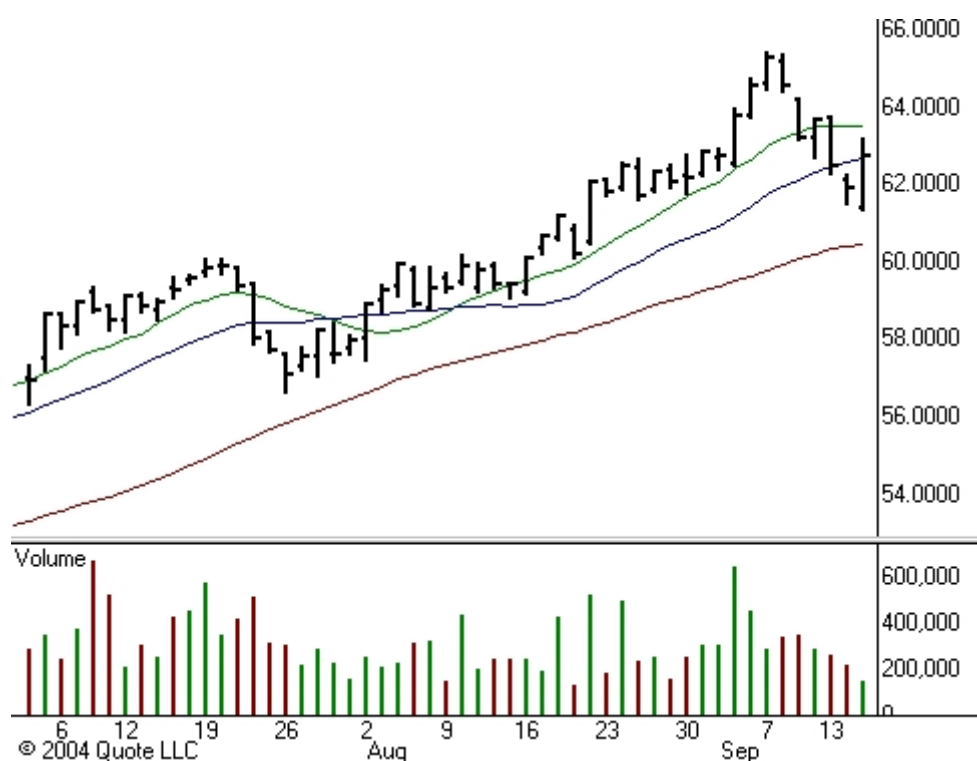


Chart 2

**Vornado Realty Trust ▲
(VNO:NYSE)
Long**

Entry: 63.35
Stop: 61.35
Initial Target: 65.35 (trade toward)

Pattern: V Thrust / LROD



OBSERVATIONS AND TRAILING STOPS

-- **PalmOne** (PLMO:Nasdaq) (short) never triggered, but we are going to use it again.

-- **ONYX Pharmaceuticals** (ONXX:Nasdaq) (long) never triggered.

-- Thursday is day three in **Suncor Energy** (SU:NYSE) (long). We are long from around 29.70 on a gap open. Maintain the stop at 28.20 and the initial target on trade toward 31.10. As of Wednesday's close, we are down 77 cents.

-- Thursday is day three in **Sepracor** (SEPR:Nasdaq) (long). We are long from 52.30. Maintain the stop at 50.30 and the initial target on trade toward 54.30. As of Wednesday's close, we are down 28 cents.

-- Thursday is day four in **Black & Decker** (BDK:NYSE) (long). We are long from 73.55. Maintain the stop at 72.00 and the adjusted target on trade above 74.40. As of Wednesday's close, we are down 32 cents.

-- Thursday is day four in **Novatel Wireless** (NVTL:Nasdaq) (long). We are long from 23.25. Maintain the stop at 21.25 and the initial target on trade toward 25.25. As of Wednesday's close, we are down 1.22.

-- Thursday is day four in **C.R. Bard** (BCR:NYSE) (long). We are long from 56.95. Maintain the stop at 55.50 and the initial target on trade toward 58.40. As of Wednesday's close, we are down 45 cents.

-- Thursday is day five in **Intuitive Surgical** (ISRG:Nasdaq) (long). We are long from 26.26 on a gap open. Maintain the stop at 24.55 and the initial target on trade toward 27.75. As of Wednesday's close, we are up 55 cents.

-- Thursday is day five in **Overseas Shipholding** (OSG:NYSE) (long). We are long from 47.75. Maintain the stop at 45.75 and look to sell your first piece on any trade above 49.25. As of Wednesday's close, we are up 66 cents.

-- Thursday is day 19 in **AngloGold Ashanti** (AU:NYSE) (long). We are long from 35.85. On Tuesday, we sold our first piece, locking in an approximate gain of 1.00. Maintain the adjusted stop to 35.85 and look to sell the second piece on any trade above 40.00. As Wednesday's close, we are up 68 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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