Market Commentary: Instability Will Likely Rear Its Head

Two weeks ago we mentioned a potential cycle turning point of Feb. 9, which is Wednesday.

The **S&P 500** has certainly run up into that date, rallying 40 points to the underbelly of the Jan. 3 high and reversal bar.

Feb. 9 is a turning point because it is 180 degrees in time or opposition the 2004 low of Aug. 13. Typically, when a market runs sharply up into a turning point, that turning point defines some kind of meaningful high and reversal.

Of course, the last two days the market has seen very narrow trade. In other words, on the heels of Friday's momentum the S&P has not blown off in a *whoop 'em up* with two piggy back large-range days following Friday's thrust. Rocketing to a new swing high above 1218 to 1225 S&P into our cycle turning point would have been an invitation to take more profits and get defensive.

That's the technical view. The practical consideration is that this week there is an abundance of initial public offerings and secondary offerings. The powers that be on Wall Street, the Boyz behind the soft machine -- the investment bankers, syndicates, broker/dealers, etc. -- all want to see these new issues and secondaries issued into a buoyant environment. Consequently, if the market simply stays in cruise control courtesy of these power brokers through Friday, than we must be on our toes if selling pressure shows up on Monday.

My thinking is that based on the 180-month or 15-year cycle (1990), there is a better-than-average likelihood of selling pressure to exert its influence into March. Moreover, in the last four years March has seen a major turning point -- alternating from high to low. For example, March 2000 was a major high. March 2001 was a low. March 2002 was a high. March 2003 was a major low and March 2004 was a high that lasted for 34 weeks.

(Continued on the next page)

The template in 1990 was a January high, a March low, a July high somewhat above the January high and then a smash into an October low. I suspect that we will see at least four big swings this year and that the larger-picture volatility will pick up substantially. Such is the message of the VIX and VXN at all-time and multiyear lows, respectively. A resurgence of volatile swings in 2005 should not be a surprise.

Correction: In yesterday's column I mentioned that the average gain for "up" Februarys based on research done by my partner Dave Reif at Mutual Money Flow Management was 2.2%. The number actually is somewhat higher, at 2.57%.

THE DAYTRADING REPORT

Chart 1

Sunoco
(SUN:NYSE)
Long

Entry: 93.15
Stop: 92.15
Pattern: Cooper 1-2-3 Pullback / 180 / LROD

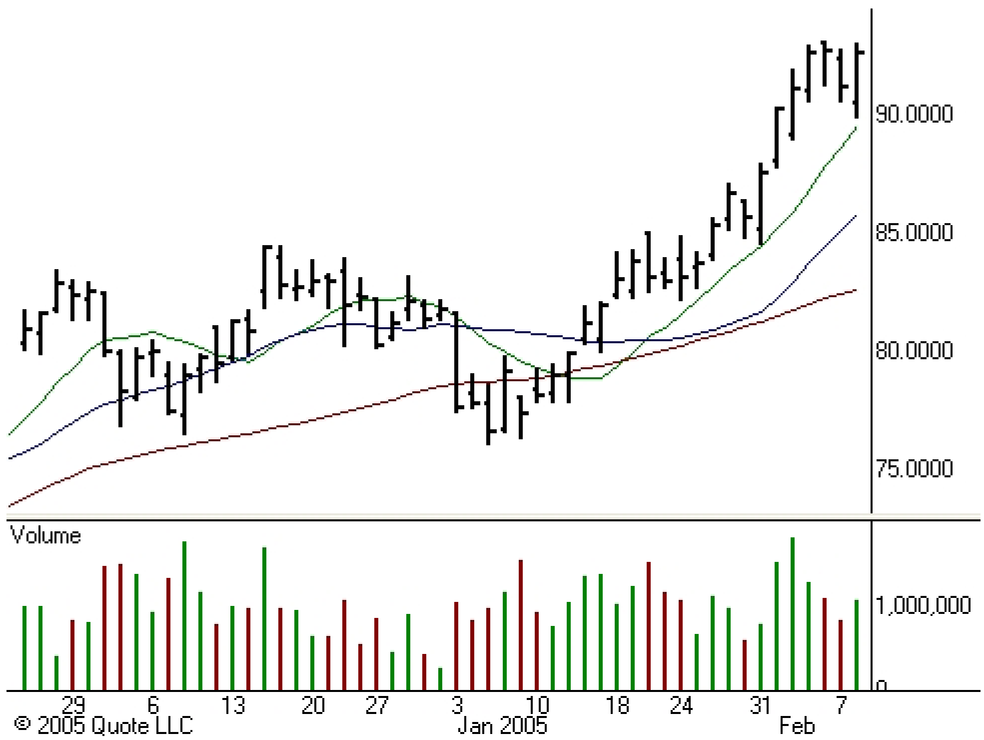


Chart 2

Marvell Technology Group
(MRVL:Nasdaq)
Long

Entry: 35.90
Stop: 34.90
Pattern: 180

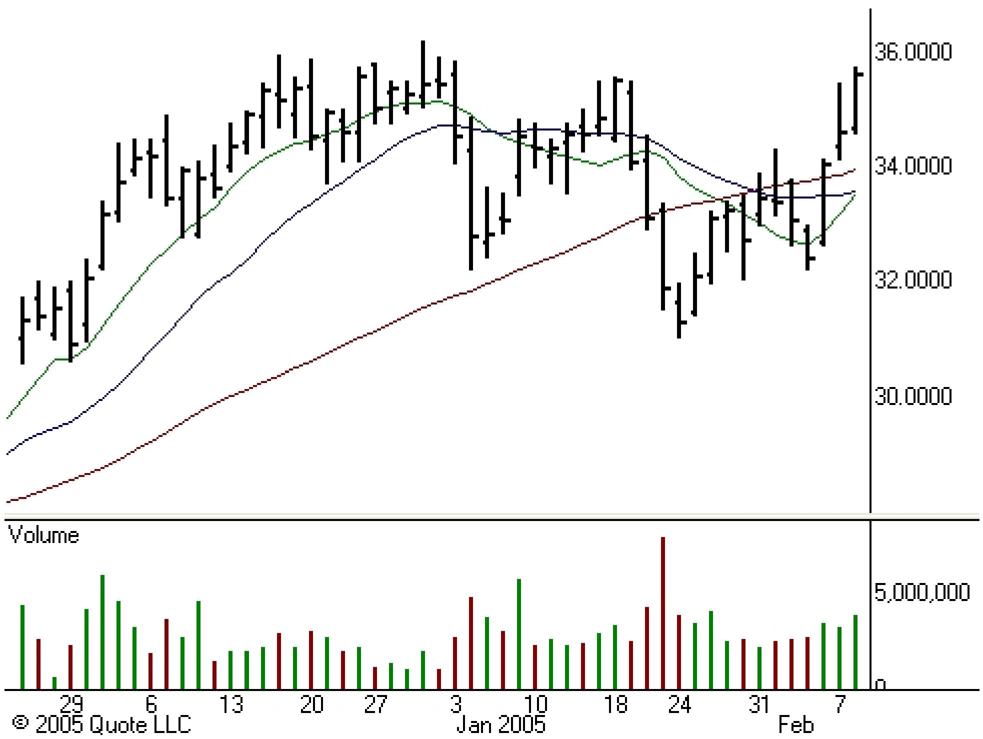
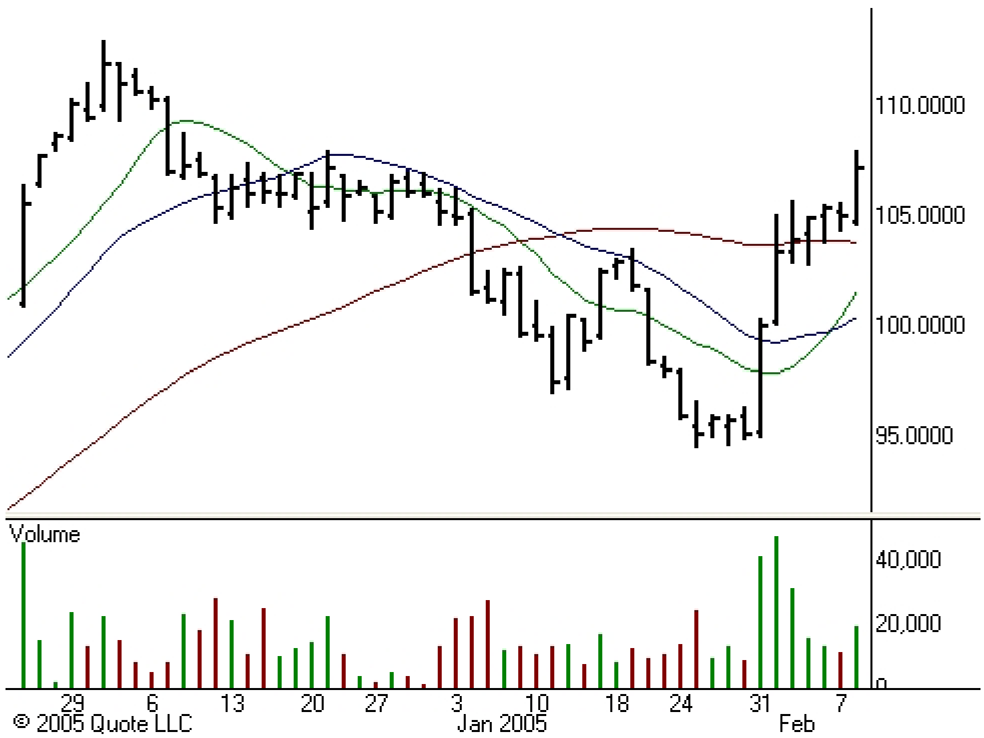


Chart 3

NACCO Industries
(NC:NYSE)
Long

Entry: **108.15**
Stop: **107.15**
Pattern: *** Expansion Pivot / 180**

Comments: For aggressive traders, you may want to use an ORB for entry.



OBSERVATIONS

-- **Affymetrix** (AFFX:Nasdaq) still looks interesting leaving an NR7 buy signal.

THE SWING REPORT

Chart 1

Valero Energy
(VLO:NYSE)
Long

Entry: 59.60
Stop: 57.60
Initial Target: 61.60 (trade toward)

Pattern: Cooper 1-2-3 Pullback / 180

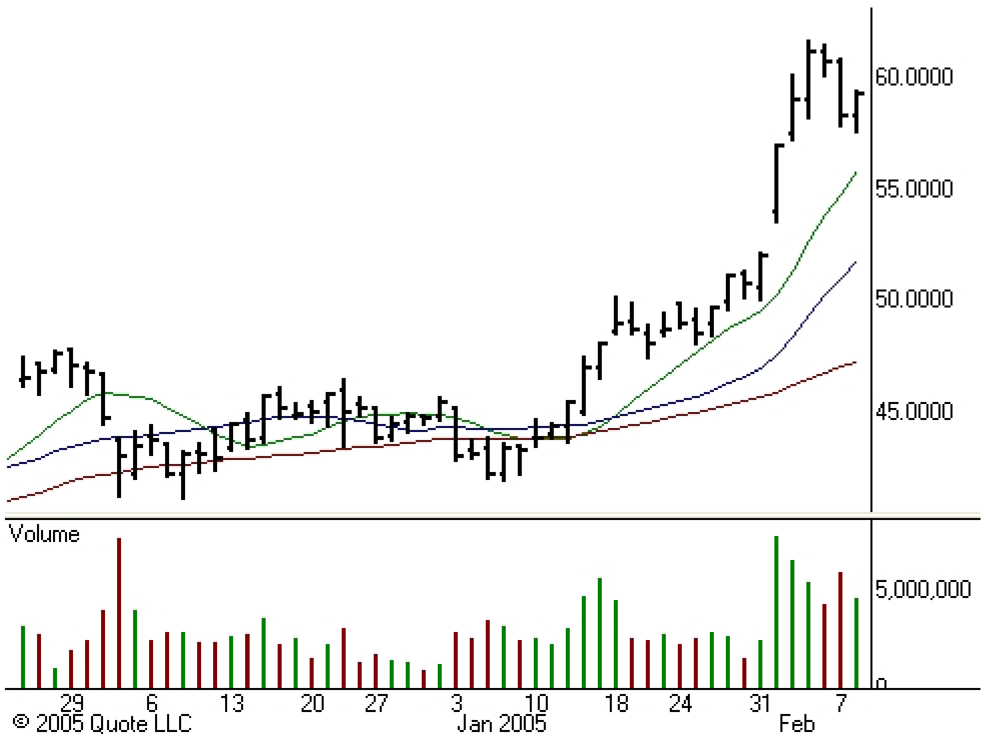


Chart 2

Air T
(AIRT:Nasdaq)
Long

Entry: **21.70**
Stop: **19.70**
Initial Target: **23.70 (trade toward)**

Pattern: Low Level Jack-in-the-Box

OBSERVATIONS AND TRAILING STOPS

-- Wednesday is day three in **Timberland** (TBL:NYSE) (long). We are long from 66.80. Maintain the stop at 65.50 and the initial target on trade toward 68.80. As of Tuesday's close, we are up 40 cents.

-- Wednesday is day five in **Affiliated Computer Services** (ACS:NYSE) (short). We are short from 53.35. Maintain the stop at 53.75 and maintain the adjusted initial target on trade toward 52.50. As of Tuesday's close, we are up 28 cents.

-- On Tuesday we were stopped out of **Pentair** (PNR:NYSE) (short) for a loss of 2.00.

-- Wednesday is day six in **Grupo Televisa** (TV:NYSE) (long). We are long from 61.66 on a gap open. On Tuesday, as per instructions we sold our first piece around 63.00 (the open), locking in an approximate gain of 1.34. Raise the stop to 61.66 for the second piece. As of Tuesday's close, we are up 1.15 on the second piece.

-- Wednesday is day 10 in **NCR** (NCR:NYSE) (long). We are long from a gap open at around 34.45. Last Wednesday we sold our first piece, locking in a gain of approximately 1.25. Maintain the adjusted stop at 36.25 for the second piece and continue to hold. As of Tuesday's close, we are up 2.36 on the second piece.

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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