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Market Commentary: Watch for Cracks in the Bull Case

After offsetting the neckline first and then the right shoulder of a very short-term Head and Shoulders topping pattern that I have shown over the last couple of days, the **S&P 500** finished on a strong note on Friday as the **Dow** went back into the green for the year.

The Dow is now just approximately 40 points from a new 52-week high. The morning spike in the market may have been the result of a false rumor about a change in leadership in North Korea. However, the market held its gains and it is what traders decide to take home with them that is important.

The market appears to have a date with destiny for options expiration Friday, Feb. 18. In other words, the market seems to be magnetized to higher prices into options expiration.

As I have stated this week, a move over 1200 that holds suggests the potential to 1225 or a leg to 1250/1260 in the near term. Against that backdrop comes research from my partner Dave Reif at Mutual MoneyFlow Management that shows that since 1941, 68% of the down Januarys were followed by down Februarys. Moreover, the Februarys that were *up*, despite a down January, saw a significant peak in March or early April.

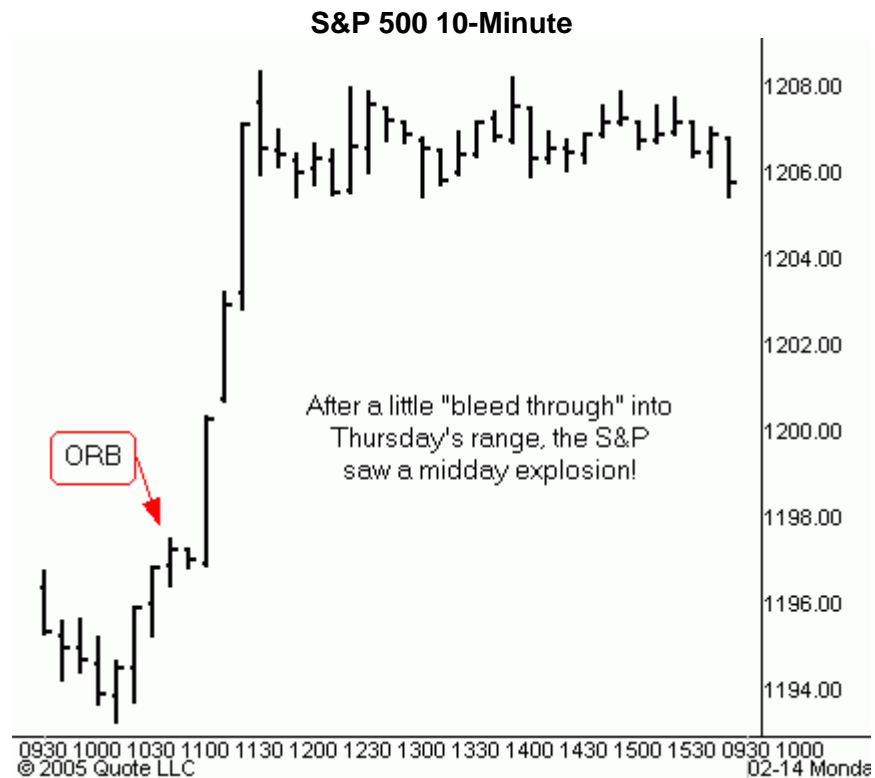
So, although the bulls are in charge as the S&P makes a full-blown test of its Jan. 3 swing high (as you know, that high was the highest point in the S&P since the lift-off in March 2003), the stats show that the bulls may be on the horns of their own dilemma -- sooner rather than later.

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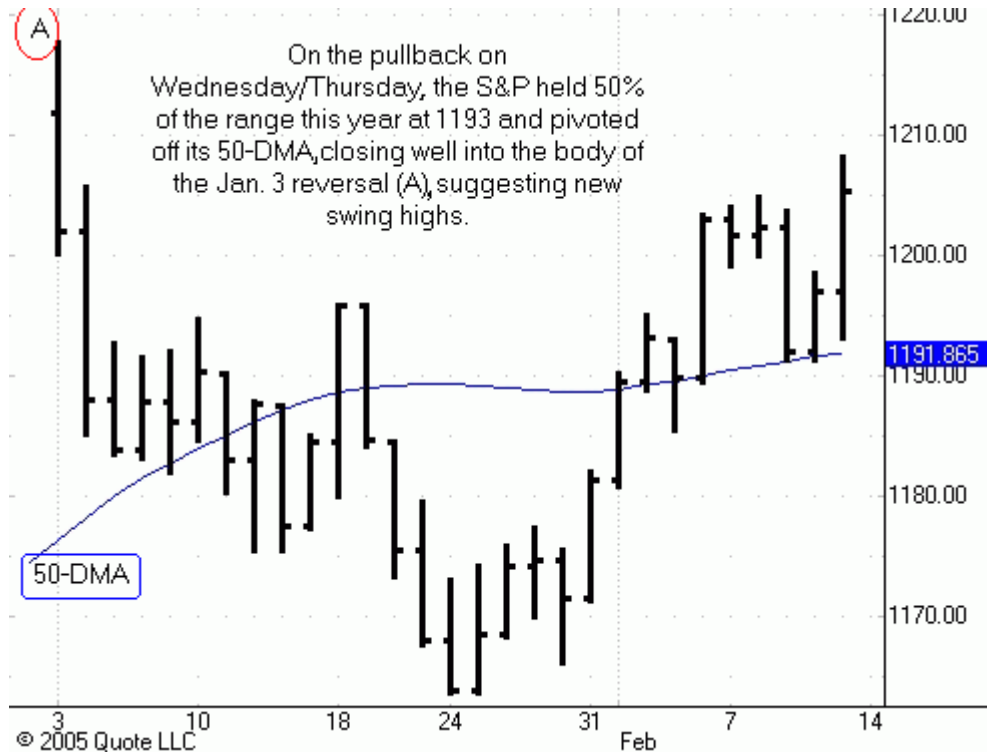
In addition to the pivots in March that have occurred in the last four years, which I discussed this week, March is also 60 months from the all-time March 2000 top. Five years or 60 months is an important time span. For example, witness the five-year advance from August 1982 to August 1987 and the subsequent crash. Then, there was the important peak in 1990 followed by the major 1995 low that was the beginning of a virtually parabolic 60-month run-up into the first quarter of 2000.

Conclusion: When everything is going well, it pays to keep an eye on any cracks in the technical picture. With sentiment at the recent low unresponsive of the kind of bearish psychology that typically marks the beginning of a long-lasting new leg, it will profit us to keep an eye on developing cracks in the bull case.



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S&P 500 -- Daily



THE DAYTRADING REPORT

Chart 1

**Websense
(WBSN:Nasdaq)
Long**

**Entry: 57.10
Stop: 56.10
Pattern: 180**

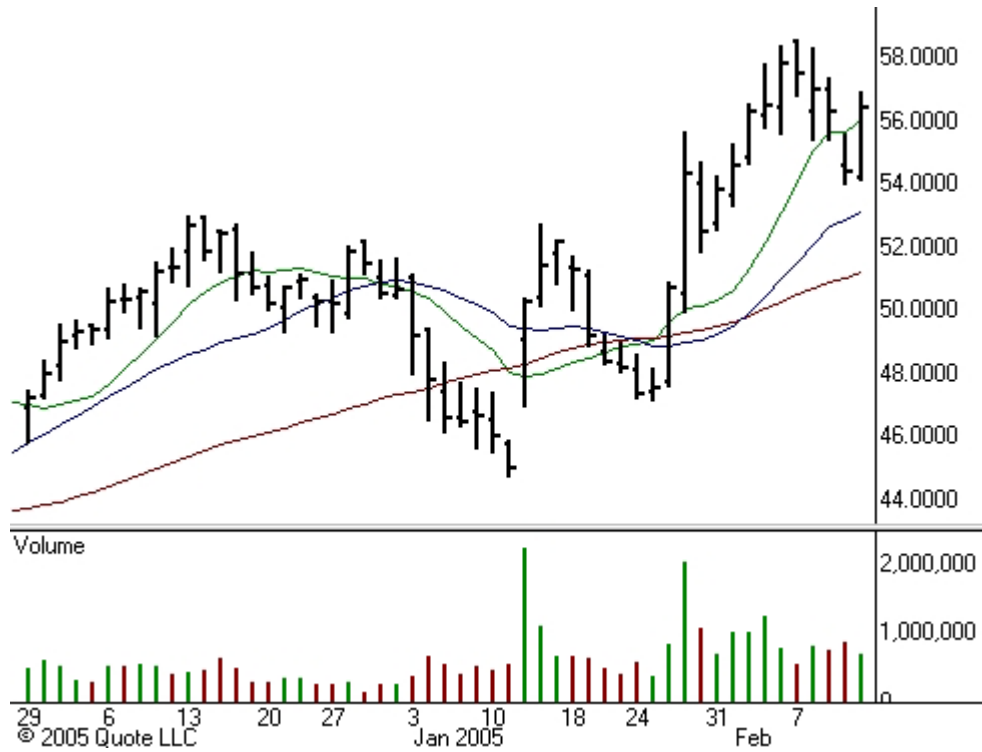


Chart 2

**Fluor
(FLR:NYSE)
Long**

**Entry: 61.40
Stop: 60.40
Pattern: 180**

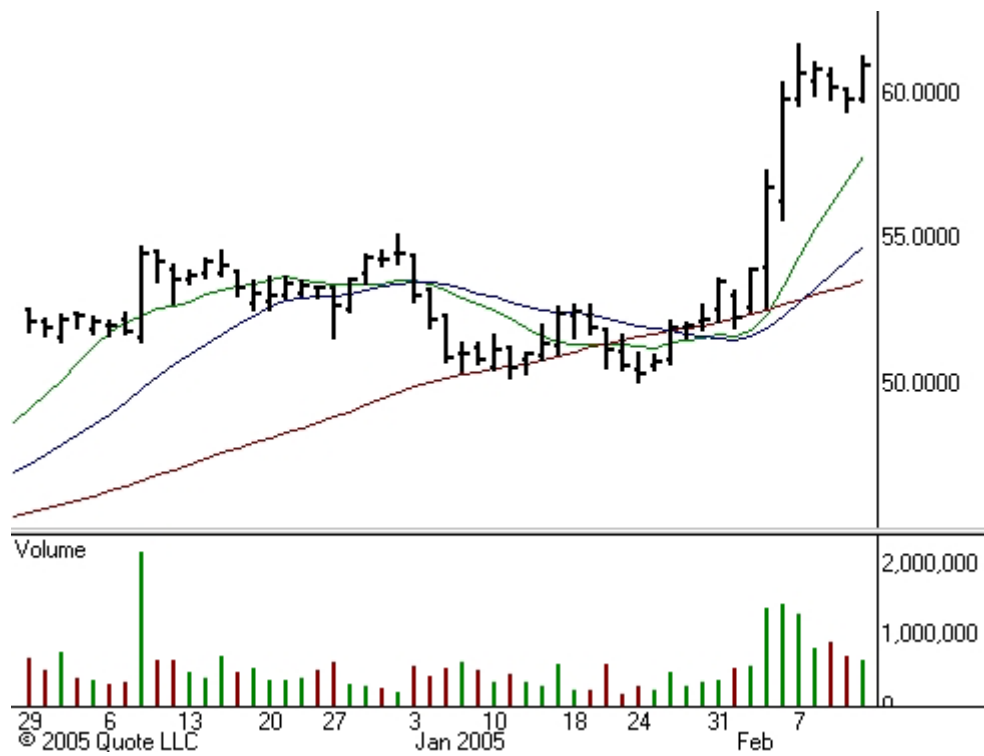


Chart 3

**Navteq
(NVT:NYSE)
Long**

Entry: 44.55
Stop: 43.55
Pattern: * Jack in the Box / Signal Day +1

Comments: NVT shows a pause day after Thursday's Expansion Pivot / Gapper Buy Signal.



OBSERVATIONS

-- Although not official picks, **Tessera Technologies** (TSRA:Nasdaq) and **Cogent** (COGT:Nasdaq) look interesting and should be kept on your radar for Monday.

THE SWING REPORT

Chart 1

Orckit Communications ▲
(ORCT:Nasdaq)
Long

Entry: 49.10
Stop: 47.10
Initial Target: 51.10 (trade toward)

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

Comments: Heads up as this one is volatile.

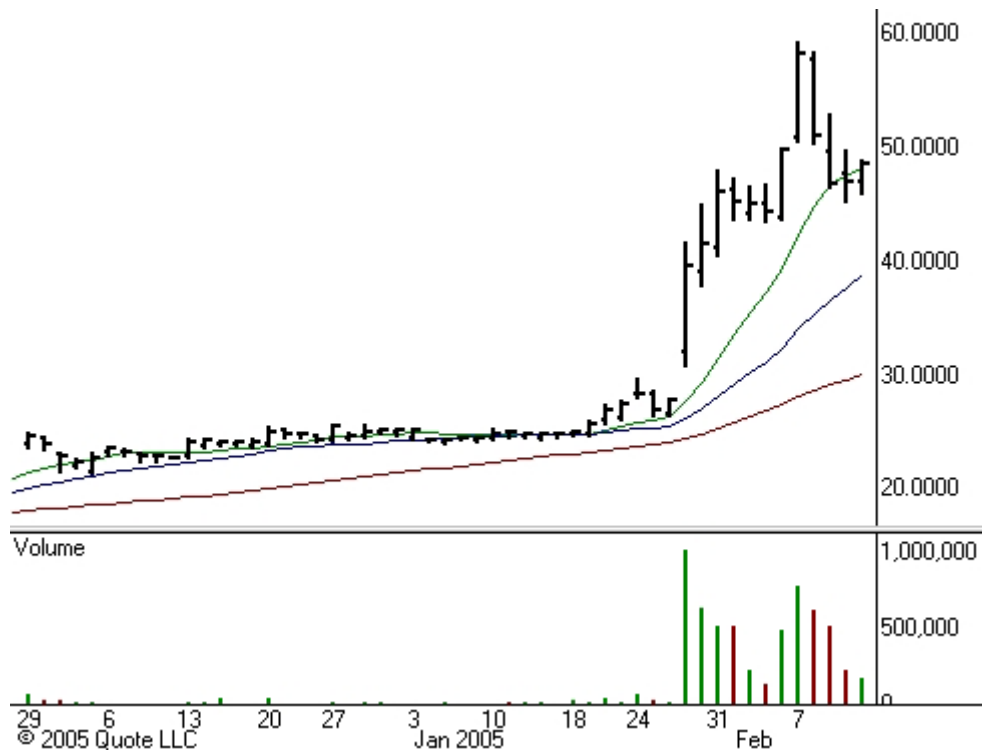
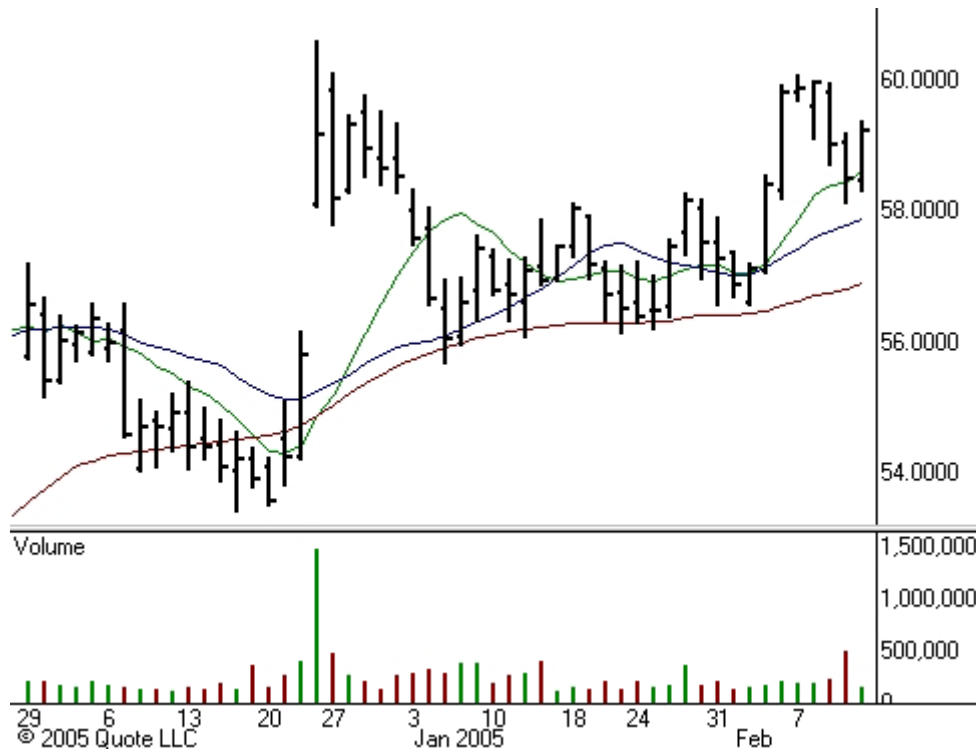


Chart 2

**Global Payments ▲
(GPN:Nasdaq)
Long**

**Entry: 59.50
Stop: 58.00
Initial Target: 61.00 (trade toward)**

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



OBSERVATIONS AND TRAILING STOPS

-- Monday is day two in **Air T** (AIRT:Nasdaq) (long). We are long from 20.35. You should have sold your first piece at 22.35, locking in a gain of 2.00. Bring your stop up to 20.35 on the second piece for break even. As of Friday's close, we are up 42 cents.

-- Monday is day two in **bebe stores** (BEBE:Nasdaq) (long). We are long from 28.55. Maintain the stop at 27.55 and initial target on trade toward 30.00. As of Friday's close, we are up 40 cents.

-- Monday is day two in **Cleveland-Cliffs** (CLF:NYSE) (long). We are long from 66.80. Raise the stop to 65.00 and look to sell your first piece anywhere over 68.00 on Monday, in which case you can then bring your stop up to break even on your second piece. As of Friday, we are up 1.32.

-- Monday is day three in **Parker-Hannifin** (PH:NYSE) (short). We are short from around 65.60. Maintain the stop at 67.60 and the initial target on trade toward 63.60. As of Friday's close, we are down 1.17.

-- Monday is day three in **Teekay Shipping** (TK:NYSE) (long). We are long from a gap open at 47.20. Maintain the adjusted stop at 45.40 and the initial target on trade toward 48.70. As of Friday's close, we are up 43 cents.

-- Monday is day four in **Valero Energy** (VLO:NYSE) (long). We are long from 59.60. Since it opened on Friday at 61.36, you should have sold your first piece around 61.36, locking in a gain of 1.76. Maintain the adjusted stop at 59.60 on the second piece. As of Friday's close, we are up 1.83.

-- Monday is day six in **Timberland** (TBL:NYSE) (long). We are long from 66.80. Last Wednesday, we sold our first piece at around 69.35 on a gap open, locking in a gain of 2.55. Raise the adjusted stop to 72.00 on the second piece. As of Friday's close, we are up 5.82 on the second piece.

-- Monday is day nine in **Grupo Televisa** (TV:NYSE) (long). We are long from 61.66 on a gap open. Last Tuesday, we sold our first piece at around 63.00, locking in an approximate gain of 1.34. Raise the adjusted stop to 63.00 and continue to look to sell your second piece on trade toward 65.00. As of Friday's close, we are up 2.03 on the second piece.

-- For **NCR** (NCR:NYSE) (long) two weeks ago, we sold our first piece, locking in a gain of approximately 1.25. From yesterday's instructions, you should have sold your second piece if the target or stop were not hit since it was day 12. NCR traded up to 37.97 and closed at 37.86. Let's use 37.80 for a sale, locking in a gain of 3.35 on the second piece.

THE TRADING REPORTS HIT LIST

For the week beginning Feb. 14, 2005

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

Sepracor (SEPR:Nasdaq)
Apple Computer (AAPL:Nasdaq)
Tessera Technologies (TSRA:Nasdaq)
Novamerican Steel (TONS:Nasdaq)
Hydril (HYDL:Nasdaq)
Orkit Communications (ORCT:Nasdaq)
Intuitive Surgical (ISRG:Nasdaq)
Cleveland Cliffs (CLF:NYSE)
Quicksilver Resources (KWK:NYSE)
Peabody Energy (BTU:NYSE)
Valero Energy (VLO:NYSE)
F5 Networks (FFIV:Nasdaq)
Macromedia (MACR:Nasdaq)
NCR (NCR:NYSE)
Abercrombie & Fitch (ANF:NYSE)
Panera Bread (PNRA:Nasdaq)
Alcon (ACL:NYSE)
Affymetrix (AFFX:Nasdaq)
Martek Biosciences (MATK:Nasdaq)
Adobe Systems (ADBE:Nasdaq)
Cognizant Technology Solutions (CTSH:Nasdaq)
USANA Health Sciences (USNA:Nasdaq)
Sunoco (SUN:NYSE)
EOG Resources (EOG:NYSE)
Amerada Hess (AHC:NYSE)

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Downtrending

Cree (CREE:Nasdaq)
Radian Group (RDN:NYSE)
Overstock.com (OSTK:Nasdaq)
Travelzoo (TZOO:Nasdaq)
eBay (EBAY:Nasdaq)
Illinois Tool Works (ITW:NYSE)
Affiliated Computer Services (ACS:NYSE)
Esterline Tech (ESL:NYSE)
Black Box (BBOX:Nasdaq)
Manpower (MAN:NYSE)
CDW (CDWC:Nasdaq)

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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