



Page 1	Market Commentary: Defining a Rally
Page 3	Pivot Points
Page 4	The DayTrading Report: MFLX, HAR, HANS and Observations
Page 8	The Swing Report: FO, INSP, Observations and Trailing Stops
Page 11	Notes and Guidelines

Market Commentary: Defining a Rally

Weird market? Perhaps. But maybe it is just volatility reverting to its mean. I had almost forgotten the wallop of big-time volatility.

But on Wednesday, the deck chairs flipped to the other side of this programmed trading cruise ship that we call the stock market.

Wednesday's outside-down day setup would appear to be a crystal-clear move lower to our first potential target of 1126 and a close near the low of the week.

But on Thursday, stronger-than-expected economic reports and some solid corporate earnings lit the fuse on a deeply oversold condition. Then, when Alan Greenspan testified before Congress that the notion of stagflation was not a threat, stocks surged once again to close at a high of the session.

What a difference a day makes -- 24 little hours. We went from tears from the bulls to the bulls tearing up the tape. The \$64,000 question, of course, is whether Wednesday's low was *the* low. Certainly, it was a sort of low. The **Dow** put on its best performance in nearly two years. The **S&P 500** left an Expansion Range Double Stick Buy Signal -- a new 60-day low from a large-range decline with a poor close followed by a mirror-image large-range upside bar with a high tick close.

In the process, bullishly, the S&P recouped its 200-day moving average since the quarterly chart turned four days ago. Remember that I have said many times to watch the behavior on the turn of the quarterly chart and put your stop watch on over the ensuing week. In that vein, Thursday's action certainly may be significant.

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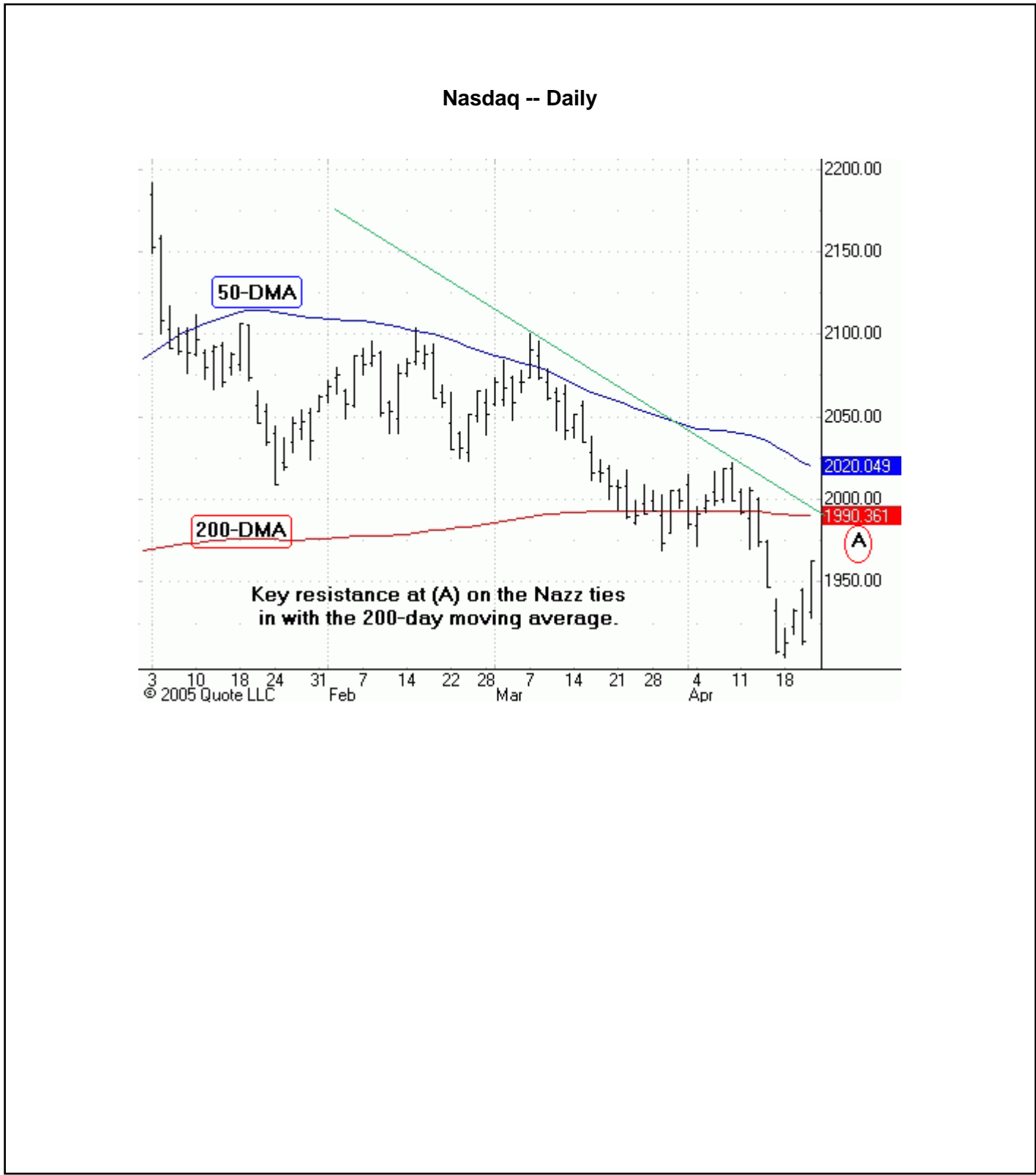
In one session, the S&P almost completely retraced the break from the quarterly chart turn-down at 1163.70. As I said recently, only a close back above that level would suggest that the rubicon has been crossed and that everyone who wanted to sell had sold and that a washout and a flush-out was complete.

Conclusion: The problem with the idea that *the* low is in is that there is time to run into the end of the month on the 55-day panic cycle, and that in my work no major square-out, as far as price is concerned, has occurred here. Importantly, there is no corroboration of the Expansion Range Double Stick Buy Signal. But that does not mean that even if a low is not in, the market cannot rally for two weeks, setting up a Minus-one Plus-two Pattern on the weekly chart -- in other words, two higher highs on the weekly charts.

Additionally, the market could base-build here into the end of the month and carve out a low that would define the point from which the 2005 rally could begin. However, a dive into the end of the month that drives up fear, along with more volatility, would have been my preferred scenario.

Of course, the market enjoys defying scenarios. Let's see if it can cobble together some follow-through from Thursday's Reif Real Accumulation Day on the S&P and **Nasdaq** -- something that it has not been able to accomplish since the March 7 high.

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Pivot Points

S&P 500 -- 10-Minute



THE DAYTRADING REPORT

Chart 1

**Multi-Fineline Electronix
(MFLX:Nasdaq)
Long**

**Entry: 20.90 or on an
Opening Range Breakout (ORB)**
Stop: 1 point from entry
Pattern: Expansion Pivot / 180

Comments: Cheapie du Jour

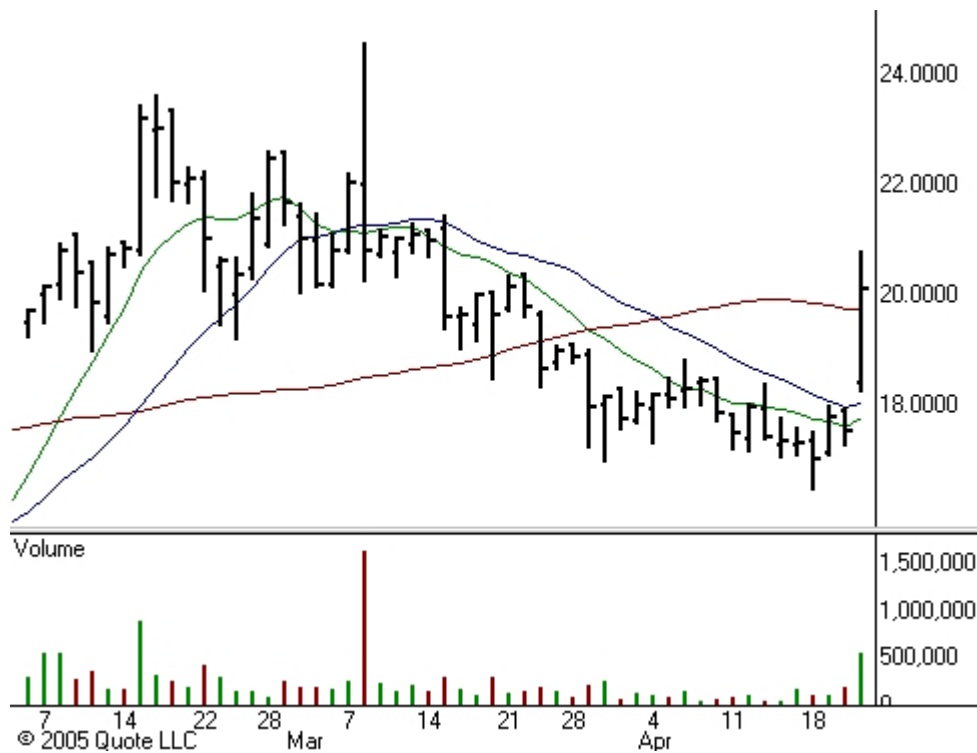


Chart 2

**Harman International
(HAR:NYSE)
Long**

**Entry: 88.60
Stop: 87.60
Pattern: Expansion Range Double Sticks**



Chart 3

**Hansen Natural
(HANS:Nasdaq)
Long**

**Entry: 56.75
Stop: 55.75
Pattern: 180 / Pullback Pivot**



THE SWING REPORT

Chart 1

**Fortune Brands
(FO:NYSE)
Long**

**Entry: 87.25
Stop: 85.25
Initial Target: 89.25 (trade toward)**

Pattern: V-Thrust / 180

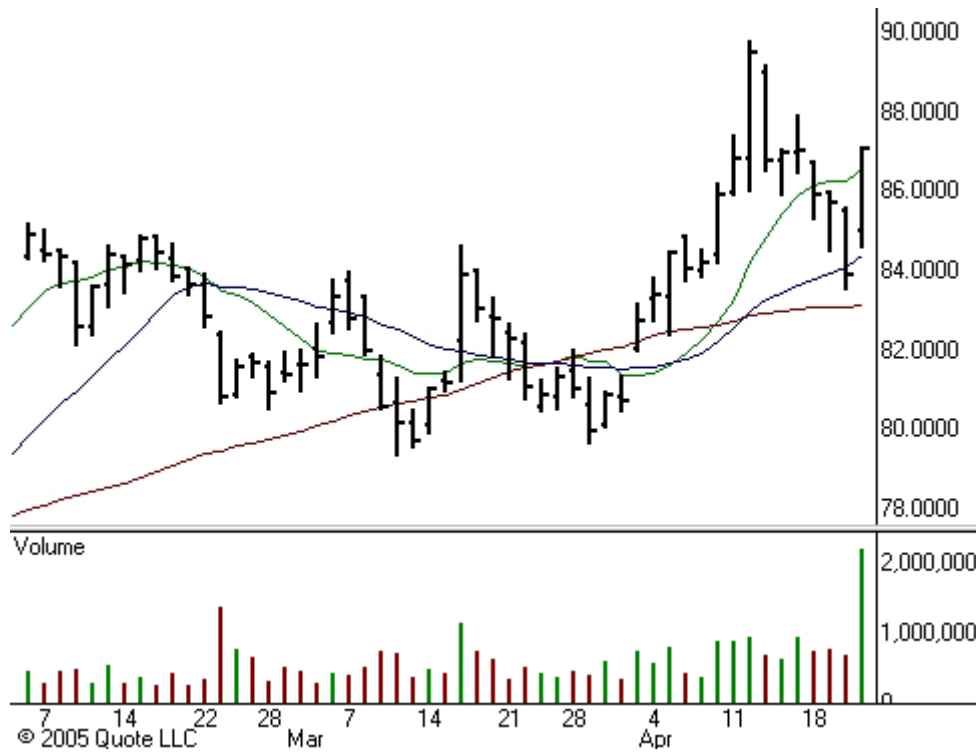


Chart 2

**Infospace
(INSP:Nasdaq)
Long**

Entry: 45.50
Stop: 43.50
Initial Target: 47.50 (trade toward)

Pattern: Expansion Breakout / 180

Comments: With the low-level Expansion Breakout in INSP, this looks interesting as it came out of a running Cup and Handle Pattern -- a Cup and Handle at its 50-day moving average.



OBSERVATIONS AND TRAILING STOPS

-- On Thursday, **Avid Technology** (AVID:Nasdaq) (short) triggered at 51.65 and then was stopped out at 52.85 for a loss of 1.20.

-- Friday is day two in **Potash** (POT:NYSE) (short). We are short from 82.15. Maintain the stop at 84.15 and the initial target on trade toward 80.15. As of Thursday's close, we are down 90 cents.

-- **KB Home** (KBH:NYSE) (short) never triggered.

-- In **Intuitive Surgical** (ISRG:Nasdaq) (long), we sold our first piece on Tuesday, locking in a gain of 1.90. On Thursday, we sold our second piece at 51.90, locking in a gain of 3.90.

-- Friday is day four in **Global Payments** (GPN:NYSE) (long). We are long from 63.80. We sold our first piece on trade toward 65.80, locking in a gain of 2.00. Raise the adjusted stop to 64.90 on the second piece. As of Thursday's close, we are up 2.18 on the second piece.

-- Friday is day five in **Cree** (CREE:Nasdaq) (long). We are long from 25.75. Maintain the stop at 23.75 and the initial target on trade toward 27.75. As of Thursday's close, we are down 1.07.

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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