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## Market Commentary: Market Gets Maimed

The market *was* stretched. Stocks *were* short-term overbought. After seven constructive sessions, after seven days in rally mode, stocks as reflected by the **S&P 500** turned down on Wednesday.

The S&P turned its daily chart down on trade below the prior day's low. Despite a drop down to 1186, the S&P did rebound late in the session to close at 1190. However, interestingly, that late-day bounce gave a close below the important 1191 square.

Yesterday I stated that a pullback toward 1181/1183 should be a level at which the bulls step to the plate. We didn't quite get there on Wednesday, but it may have been close enough.

Let's see what the S&P gives us on a Plus-One, Minus-Two pullback or a consecutive pullback of two lower lows. In other words, let's see what we get if the S&P makes a slightly lower low below 1186 on Thursday toward 1183.

The other side of the coin is that half the range of the recent swing is a midpoint between the 1146.20 May 13 low and the 1197.45 May 24 high --approximately 1172. The 1172 level coincides with the 50-day moving average. Consequently, we must allow that the S&P could be magnetized toward 1172.

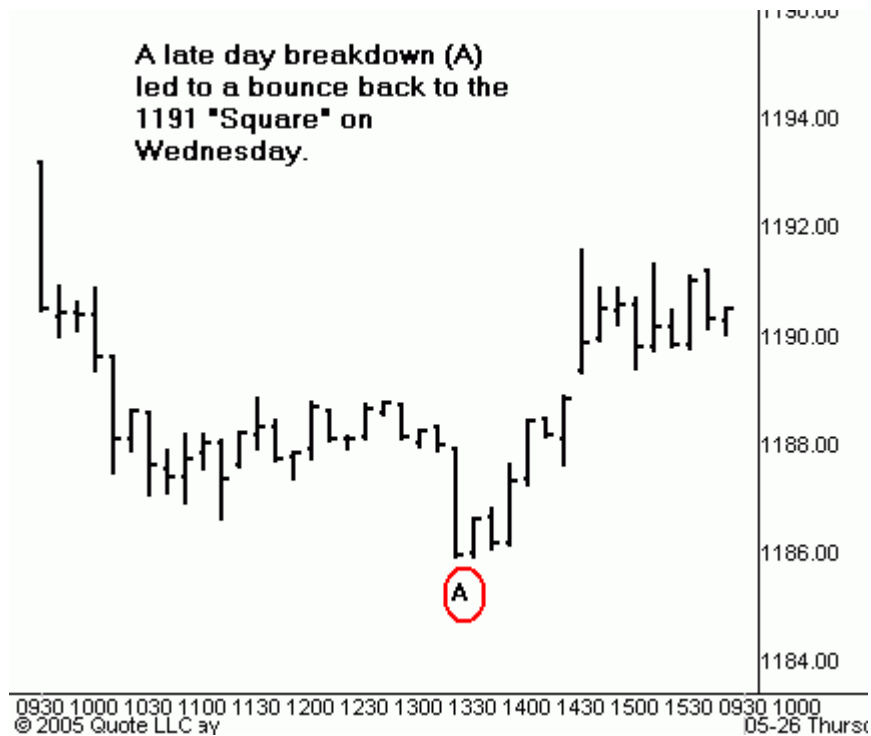
*(Continued on the next page)*

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Alternatively, if the S&P is making a high here on a 1-2-3 Swing toward the 1200 breakdown area, then it probably will flip around and back-and-fill here before revealing its bias. In other words, if the market is making a high, I would not expect it to dive lower immediately. Rather, I would expect some distribution first. A quick pullback to the 1180ish or even 1172 level would seem to be the more bullish scenario.

**Conclusion:** If the first five months of the year are any indication, we need to get ready for a long hot summer of lethargic trading and meager volume. Money managers will not be as quick on the trigger, nor should they be, and we must mimic that behavior. There's just nothing to get too excited about.

S&P 500 -- 10-Minute

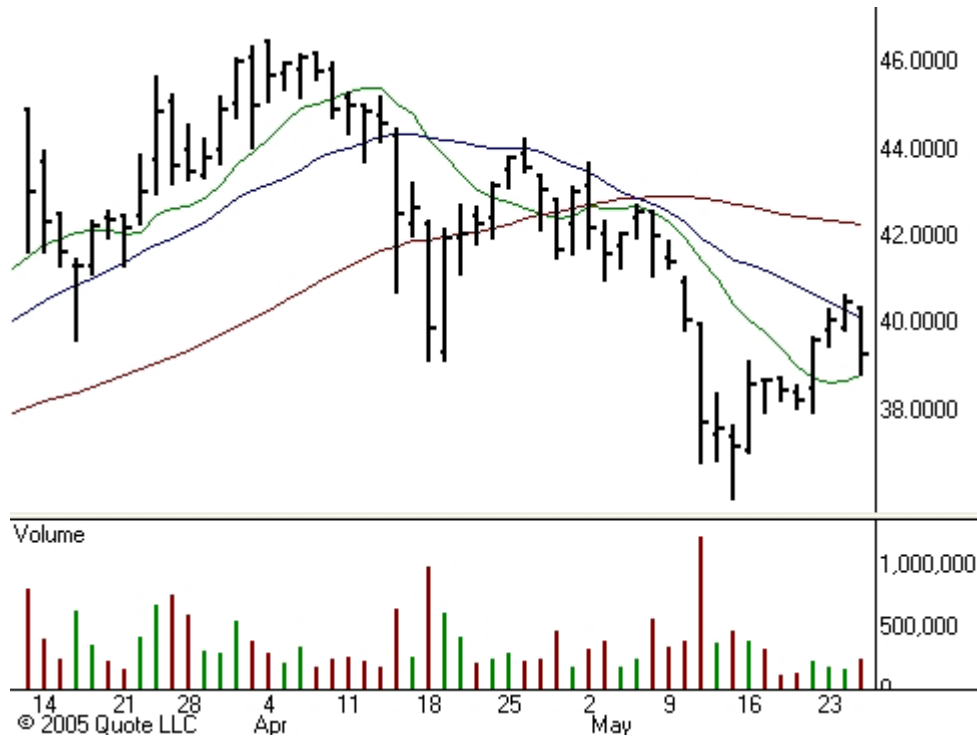


# THE DAYTRADING REPORT

## Chart 1

**Psychiatric Solutions  
(PSYS:Nasdaq)  
Short**

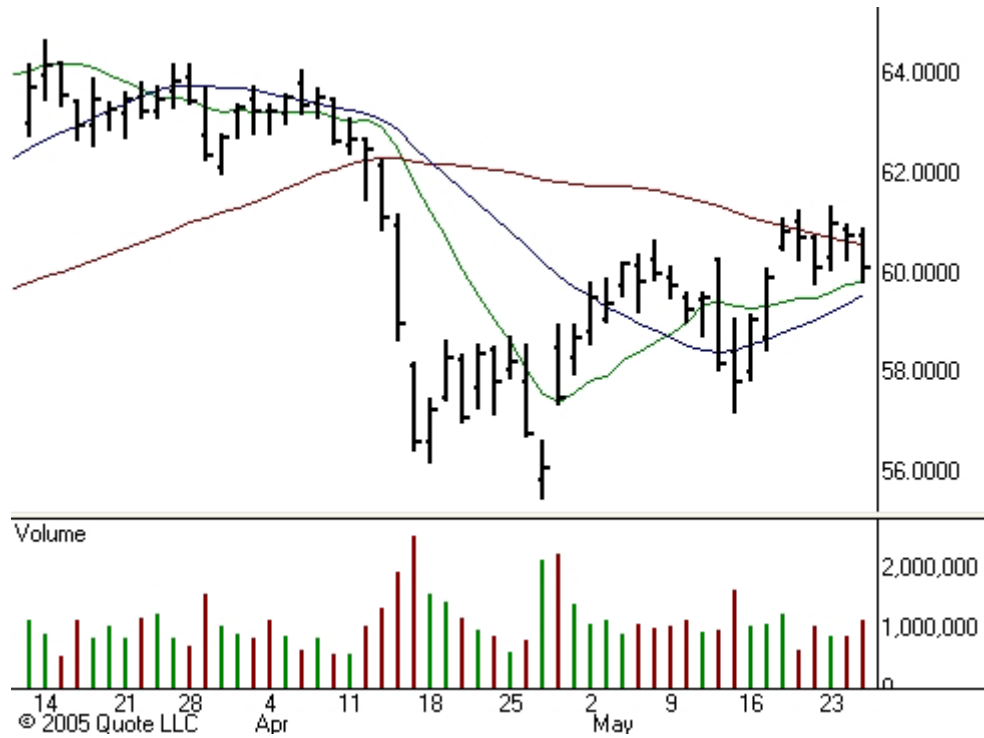
**Entry: 38.75  
Stop: 39.75  
Pattern: 180**



**Chart 2**

**Air Products  
(APD:NYSE)  
Short**

**Entry: 59.75  
Stop: 60.75  
Pattern: 180**



# THE SWING REPORT

## Chart 1

**Pharmion  
(PHRM:Nasdaq)  
Short**

**Entry: 20.35**  
**Stop: 22.35**  
**Initial Target: 18.35 (trade toward)**

**Pattern: Expansion Breakdown**

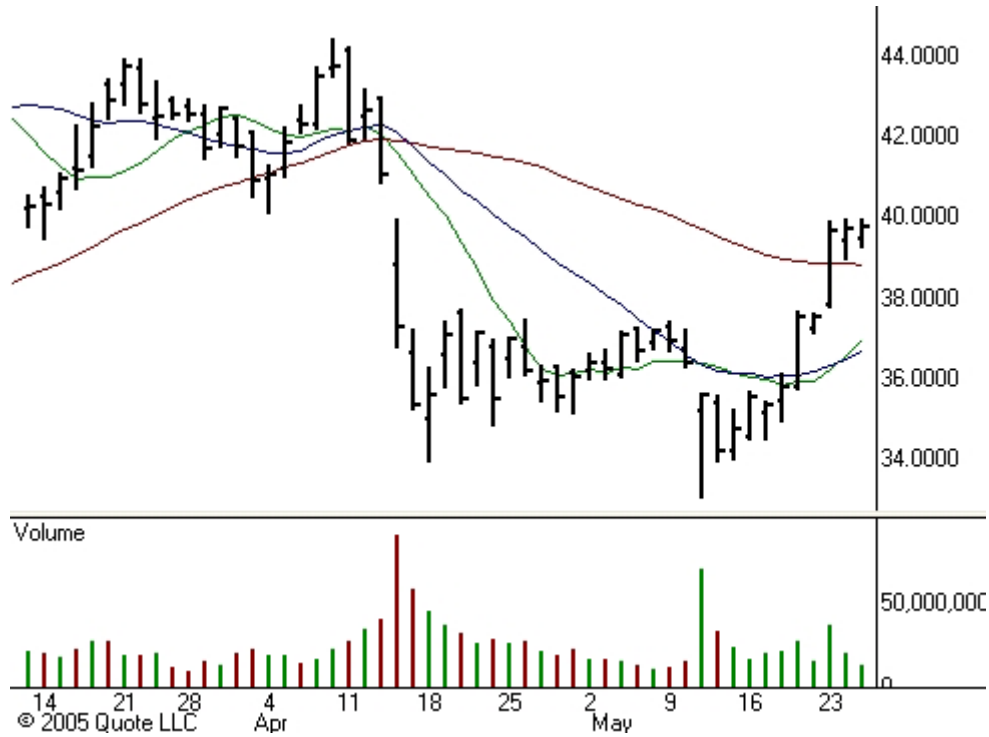


**Chart 2**

**Apple Computer  
(AAPL:Nasdaq)  
Long**

**Entry: 40.10  
Stop: 38.10  
Initial Target: 42.10 (trade toward)**

**Pattern: \*NR7**



**Chart 3**

**Shopping.com  
(SHOP:Nasdaq)  
Long**

**Entry: 17.30**  
**Stop: 15.30**  
**Initial Target: 19.30 (trade toward)**

**Pattern: Expansion Pivot/ Expansion Breakout**



### OBSERVATIONS AND TRAILING STOPS

- **Apple Computer** (AAPL:Nasdaq) (long) did not trigger and we will use it again.
- Thursday is day three in **Avid Technology** (AVID:Nasdaq) (long). We are long from 56.90. Maintain the stop at 54.90 and the initial target on trade toward 58.90. As of Wednesday's close, we are down 38 cents.
- Thursday is day four in **Gen-Probe** (GPRO:Nasdaq) (short). We are short from 42.20. Lower the stop to 41.50 and maintain the initial target on trade toward 40.20. As of Wednesday's close, we are up 1.34.
- Thursday is day five in **Laserscope** (LSCP:Nasdaq) (long). We are long from 34.25. Maintain the stop at 32.35 and the initial target on trade toward 36.35. As of Wednesday's close, we are down 64 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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