



Page 1	Market Commentary: Market Nirvana
Page 3	Pivot Points
Page 4	The DayTrading Report: CELG, WYNN, IPII and DSTI
Page 8	The Swing Report: POT, Observations and Trailing Stops
Page 10	Notes and Guidelines

Market Commentary: Market Nirvana

If the momentum doesn't reappear soon, and if the **S&P 500** falls back below the 1225 March high and sticks for more than a few days, it may be a clue that we have seen the spike up into the third week of July that I have been weary of and warning of.

Last week, a slew of bullish market data and reports failed to push the market substantially over the March highs. The S&P made a marginally new high and stalled out.

On Monday, the market did break back below and tailed under 1225. It could bounce back; one day does not does a market make. But more than a few days below that level may indicate a failure of the S&P to tag the widely embraced 1250/1260 target long projected by myself and many other market technicians.

The most dangerous time in the market is a breakout or breakdown. Trend followers like to jump on board, and they are often flushed out on the one hand or squeezed in on the other at these points.

The reason some of these breakouts or breakdowns are so critical to watch is because fast moves come from false moves. The market stages many false breakouts and breakdowns as the notion of a new leg -- up or down -- is too widely embraced.

Moreover, the market doesn't move -- it is moved. Sometimes these fake-out breakouts or fake-out breakdowns are generated by those wanting to sell into a breakout or by those wishing to open up their bag and buy what the weak hands sell them on a false breakdown.

(Continued on the next page)

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As you know, many times the market plays out in threes. We've had one false breakdown on July 7. If this move over the March highs proves to be a false breakout, then there is a better-than-average likelihood that the third move should establish a definitive directional bias on a break back below the last swing low.

Last week I wrote about the potential of a pullback that should trace out a Plus-One Minus-Two pullback on the daily chart. An ideal Plus-One Minus-Two daily setup would have presented itself on a pullback toward our 1210 S&P pivot level. But it is what it is. We currently have such a Plus-One Minus-Two setup at Monday's close (at 1221) as we have two consecutive lower lows and the daily three-day chart is up, generating the Plus-One part of the pattern. Now, if the market has a date with destiny, the current Plus-One Minus-Two Pullback should be near the midpoint of a fast run-up -- a symmetrical move that would target 1260 S&P.

A failure of momentum to rear its bullish head here and trade back below 1217 S&P that holds will be a cautionary yellow flag. Trade back below 1210 that sticks where the 20-day moving average has now clawed its way back to will be a red flag. Remember how important the price action was at the 20-day moving average on June 23-24 and then again with the failure on July 6, and once again as the 20-DMA was recaptured on July 8, which was the third flip-flop back above the 20-DMA and which defined a solid directional bias to the upside. Bottom line, a move back below the 20-DMA now would confirm that something is wrong.

Conclusion: A spate of bullish economic news was released last week. The CPI and PPI show no inflation -- zero. If you believe that, you believe beachfront property in Malibu is available for under a million dollars. The economy is now so strong that the budget deficit will be \$100 billion less than forecast. **Apple Computer** (AAPL:Nasdaq) had blowout earnings. The expectation that the **Fed** will cease rate increases after August has ballooned. The market continues to shrug off oil near \$60 a barrel. Yes, it appears to be a market nirvana. A number of market technicians and strategists are rampantly bullish. One such technician stated on Monday that there is no way a market top will play out in the foreseeable future. But the bottom line is that this rally started from already bullish sentiment numbers. Any reversal from these levels must be respected.

Pivot Points

S&P 500 -- 10-Minute



THE DAYTRADING REPORT

Chart 1

Celgene
(CELG:Nasdaq)
Long

Entry: ORB only (a breakout over the first three
10-minute bars)
Stop: 1 point from entry
Pattern: Jack-in-the-Box

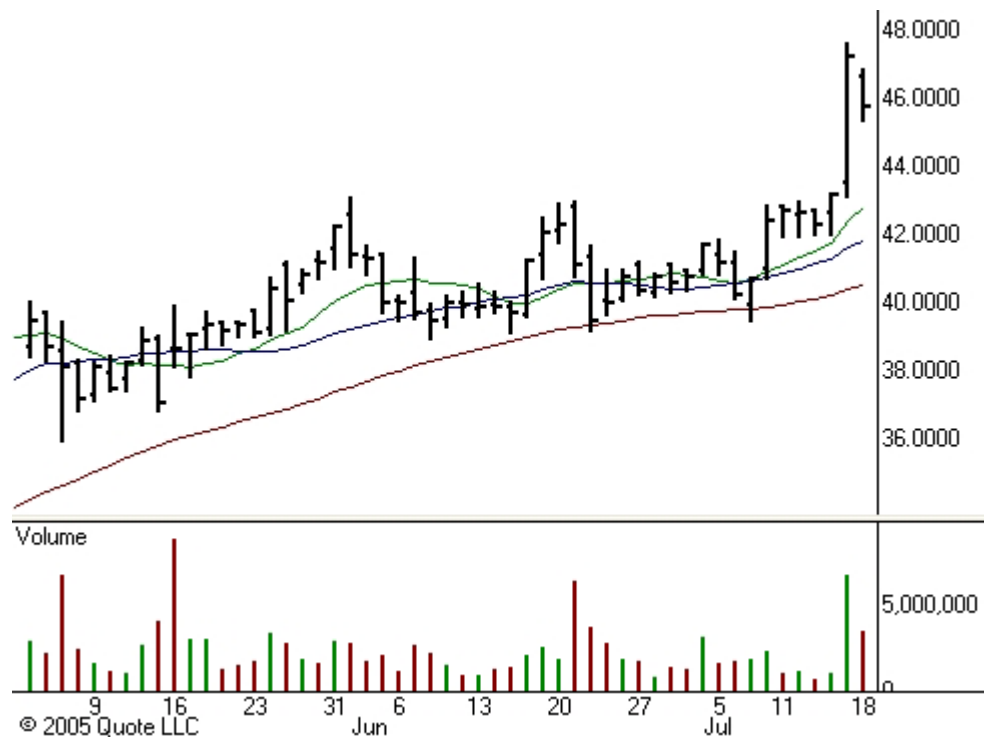


Chart 2

**Wynn Resorts
(WYNN:Nasdaq)
Short**

**Entry: 54.35
Stop: 55.35
Pattern: Lizard**

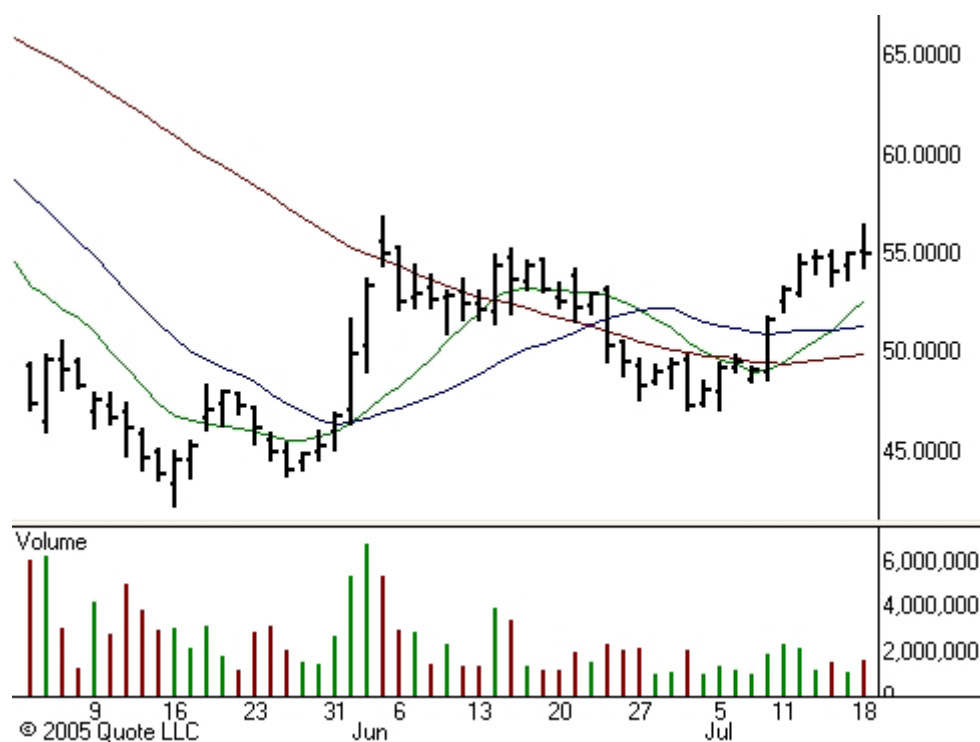


Chart 3

**Imperial Industries ▲
(IPII:Nasdaq)
Long**

**Entry: 27.80
Stop: 26.80
Pattern: Expansion Breakout**



Chart 4

DayStar Technologies (DSTI:Nasdaq) Long

Entry: 17.60 or an ORB
Stop: 1 point from entry
Pattern: Expansion Breakout

Comments: Cheapie du Jour. This one is very volatile.
Heads up if it opens strongly and trades back below 17.10.



THE SWING REPORT

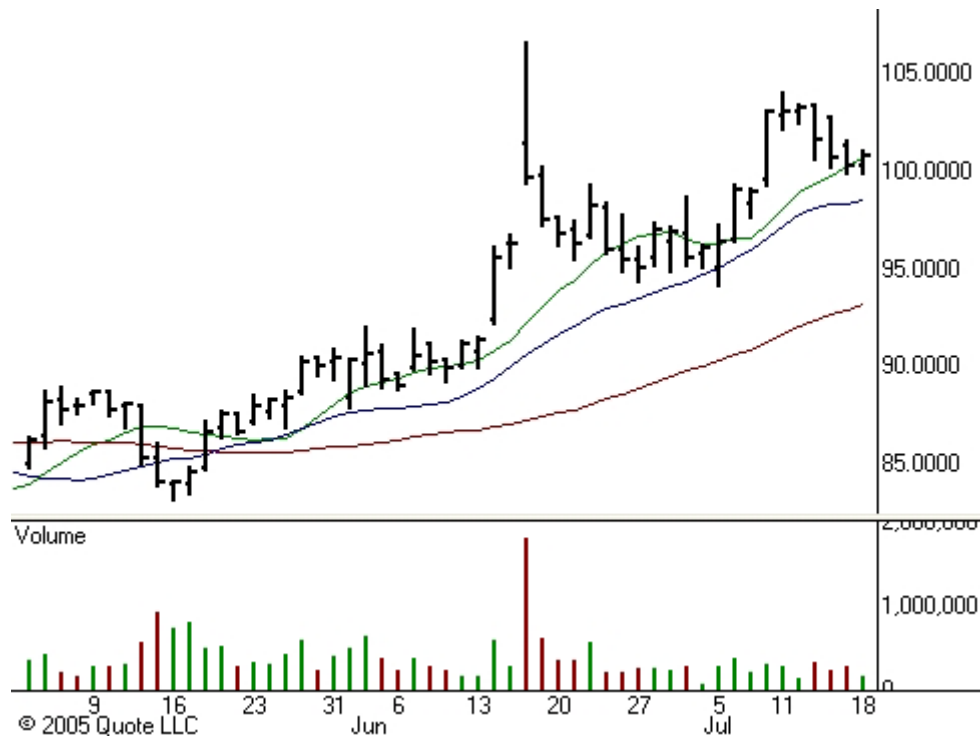
Chart 1

Potash ▲
(POT:NYSE)
Long

Entry: 101.30
Stop: 99.90
Initial Target: 103.90 (trade toward)

Pattern: *NR7 Pullback / 180

Comments: POT has traced out a Mini Cup & Handle Pattern.



OBSERVATIONS AND TRAILING STOPS

-- Tuesday is day two in **Abercrombie & Fitch** (ANF:NYSE) (long). We are long from 70.30. On Monday, the instructions were to sell your first piece on trade toward 72.30. ANF traded up to 72.20, so we will assume a sell at that price locking in a gain of approximately 1.90. Raise the stop to 71.20 and look to sell your second piece on trade toward 73.60. As of Monday's close, we are up 1.31 on the second piece.

-- Tuesday is day two in **Intuitive Surgical** (ISRG:Nasdaq) (long). We are long from 51.00. Maintain the stop at 49.75 and the initial target on trade toward 53.00. As of Monday's close, we are up 45 cents.

-- Tuesday is day four in **Pediatric Medical Group** (PDX:NYSE) (long). We are long from 77.00 on a gap open. Maintain the stop at 75.00 and the initial target on trade toward 78.70. As of Monday's close, we are down 94 cents.

-- On Monday, we were stopped out of **Ventana Medical Systems** (VMSI:Nasdaq) (long) for a loss of 1.80.

-- Tuesday is day five in **Teekay Shipping** (TK:NYSE) (long). We are long from 47.15. Raise the stop to 46.15 and maintain the initial target on trade toward 49.15. As of Monday's close, we are down 44 cents.

-- Tuesday is day five in **Express Scripts** (ESRX:Nasdaq) (long). We are long from 49.65. Maintain the stop at 48.10 and the initial target on trade toward 51.65. As of Monday's close, we are down 81 cents.

-- Tuesday is day five in **ITT Educational Services** (ESI:NYSE) (long). We are long from 52.80. Maintain the stop at 51.50 and adjust the initial target on trade toward 53.80. As of Monday's close, we are up 1 cent.

-- Tuesday is day seven in **Nike** (NKE:NYSE) (long). We are long from 86.95 on a gap open. We sold our first piece on trade toward 88.25, locking in a gain of 1.30. Maintain the adjusted stop at 87.45 and look to sell the second piece on trade toward 89.00. As of Monday's close, we are up 96 cents on the second piece.

-- On Monday, we were stopped out of **Navteq** (NVT:NYSE) (long) for a scratch.

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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