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Market Commentary: Lessons Learned

The fractal that I've described from the April/May low, which is playing out again, trumped the bears on Friday. But if that pattern fails, the market should head lower quickly.

The headlines will say that Friday's rally was about a strong third-quarter GDP number and the White House dodging a bullet as to more indictments. Rove is still roving the Oval Office.

I don't believe the rally had anything to do with either. The market looks forward -- always has, always will. It's a forward-looking mechanism: Third-quarter GDP was not what moved the market on Friday. Moreover, which way do you think the market would move if theoretically the whole Cabinet were indicted but on the same day the **Fed** announced it was going to stop raising rates? I think the market would go up.

So, what were the reasons behind Friday's rally? Well, as suggested yesterday, the fractal from the April/May bottom indicated that the **S&P 500** was in a position similar to where it was on Thursday, May 12. On Friday, May 13, the S&P staged what was to be a successful test of the April lows, putting in what was to become a second higher bottom on the daily chart.

As I stated yesterday, most successful upside reversals when the market is in a downtrend occur from a down open (and vice-versa). The only thing the market did not accommodate us with on Friday was that down open. I also stated that the down open that turned green could be a clue that the bulls had an agenda to "protect the baby" at 1176 support for the important weekly close, and not to be surprised if they unleashed a barrage of buy programs.

Additionally, Oct. 31 is fiscal year-end for many big mutual funds. These mutual funds do not like to paint the tape on the last possible day.

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Consequently, there are many technical reasons for Friday's rally. The market may be washed out. Another low may be in. But it is too early to state that unequivocally. In my work, only a move above 1210 that holds would confirm the idea of a low. However, there are a lot of professionals who want the market to go up the next two months to save their year. They have a lot of firepower. But that doesn't mean it has to happen.

Conclusion: Markets seek equilibrium. The S&P closed out September at 1228.80. The low for October has been 1168.40. The midpoint of the monthly range so far is 1198.60. Friday's close: 1198.41. So far the market hasn't done anything in the way of follow-through from one day to the next. But it wouldn't surprise me to see follow-through toward the 50-day moving average at 1210 come Monday, and then we'll see what the market is made of.



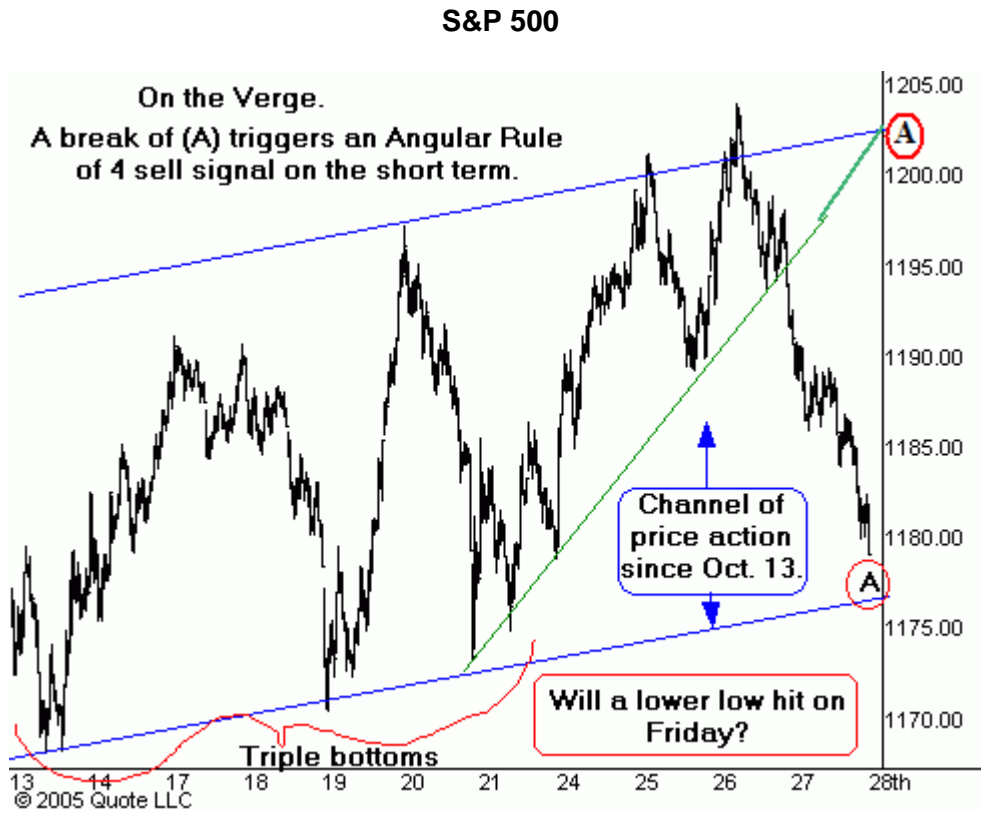
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S&P 500 -- Daily



(A break of Thursday's low will send the market lower again. Was Thursday's low a successful test of the Oct. 13 low (B) (in the chart above)? If the fractal from the April/May bottom fails, the S&P will head lower quickly.)

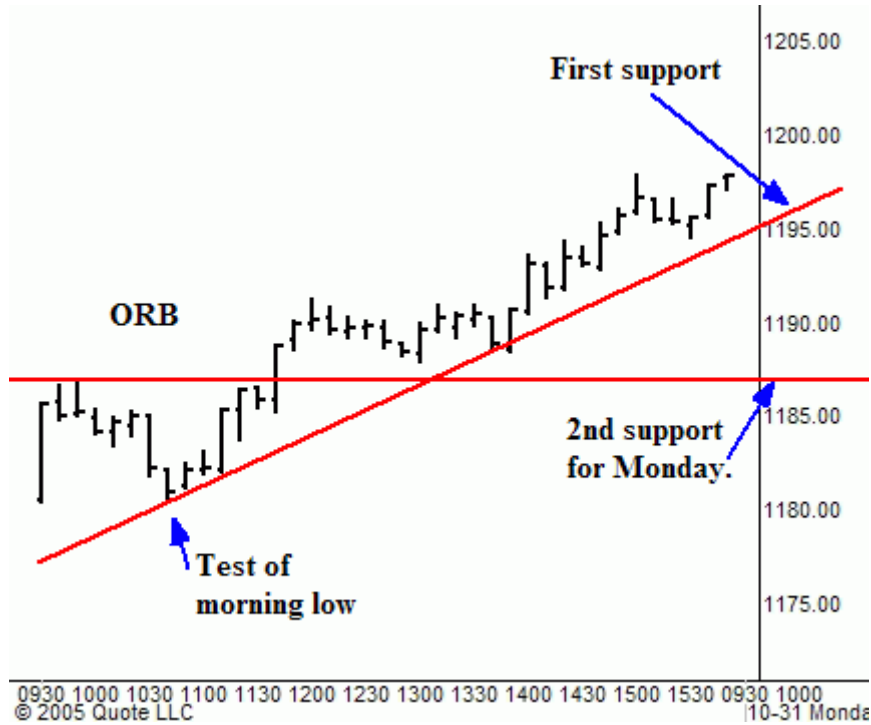
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(In the chart above, the bulls protected the higher lows and 1176 from the get-go on Friday. Now the S&P has rallied right back up to an inflection point, where a Live Angle is (A).)

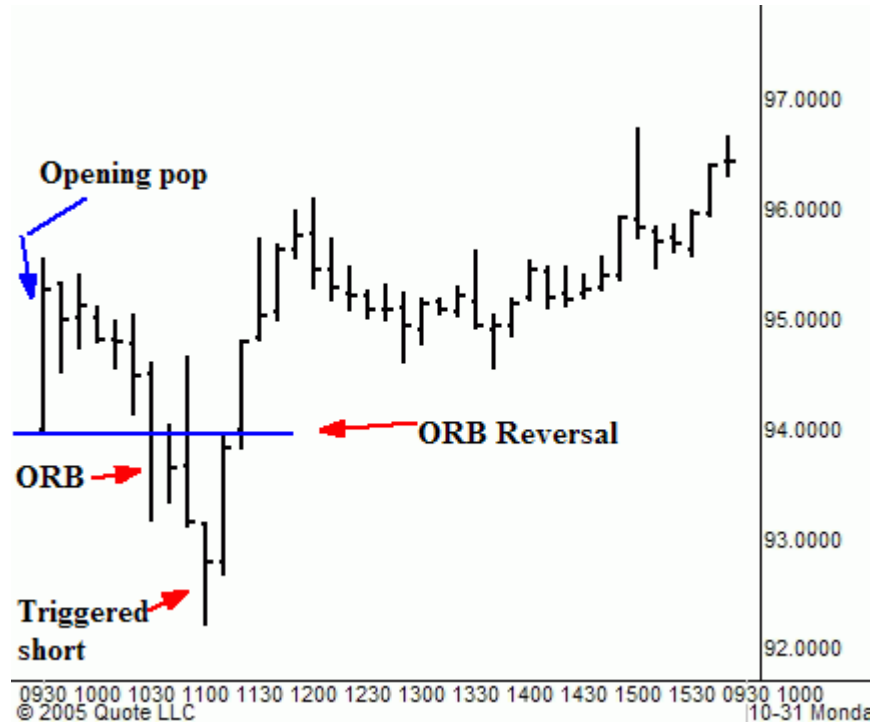
Pivot Points

S&P 500 -- 10-Minute



(As seen on the chart above, an ORB above the 1183.55 quarterly Swing Pivot led to a trend day. ORBs on Fridays usually see the market close at/near the high of the day.)

TXU (TXU:NYSE) -- 10-Minute



(Sometimes there is better risk-to-reward in shorting a sell setup on an Opening Pop. Also, follow-through is the key -- TXU triggered short and stopped declining!)

THE DAYTRADING REPORT

Chart 1

Vornado Realty Trust
(VNO:NYSE)
Long

Entry: 88.45
Stop: 87.45
Pattern: Soup Nazi +1



Chart 2

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

**Entry: 48.45
Stop: 47.45
Pattern: Expansion Pivot / 180**

Comments: Heads up as this one is very volatile.



Chart 3

**IDEXX Laboratories ▲
(IDXX:Nasdaq)
Long**

**Entry: 69.05
Stop: 68.05
Pattern: Expansion Breakout / 180**



THE SWING REPORT

Chart 1

**Newmont Mining
(NEM:NYSE)
Long**

Entry: 44.35
Stop: 42.35
Initial Target: 46.35 (trade toward)

Pattern: 180

Comments: Friday's Tail on NEM looks like it may be a successful test of the pullback to the 50-DMA.

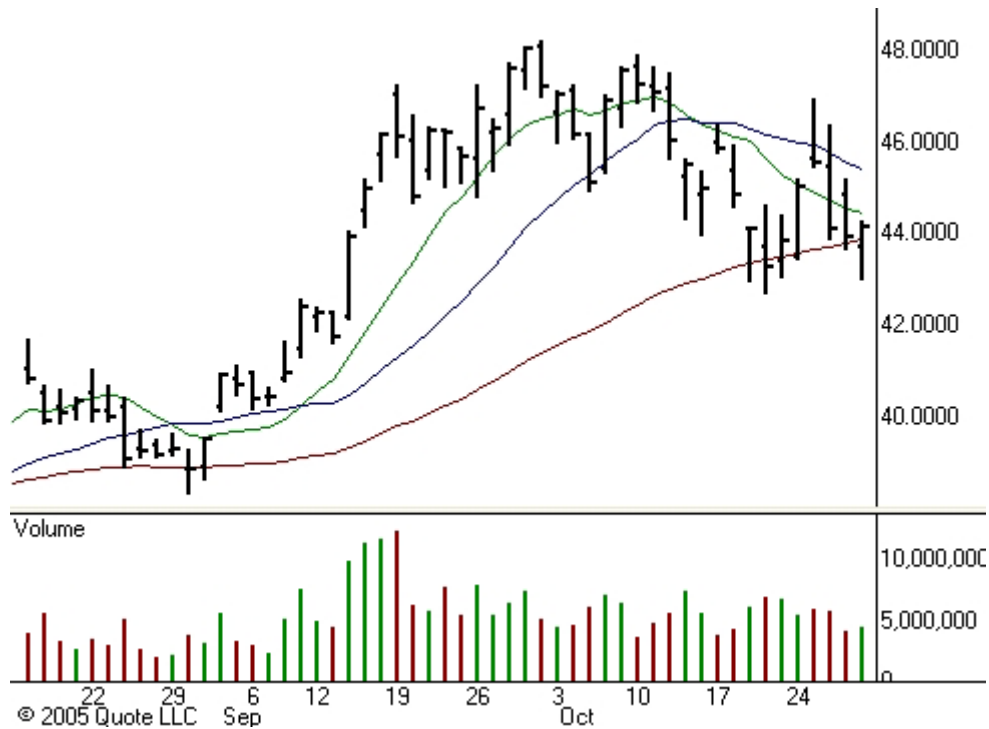
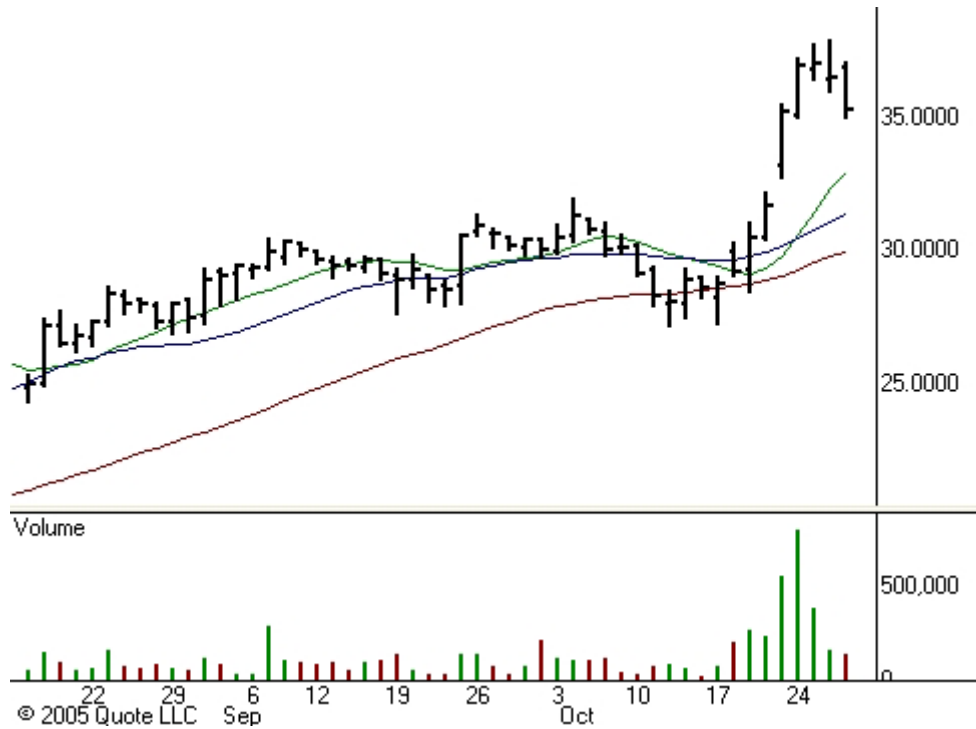


Chart 2

**Supertex ▲
(SUPX:Nasdaq)
Long**

Entry: 36.10
Stop: 34.10
Initial Target: 38.10 (trade toward)

Pattern: Cooper 1-2-3 Pullback / 180



OBSERVATIONS AND TRAILING STOPS

- **Questar** (STR:NYSE) (short) did not trigger.
- On Friday, we were triggered and shagged in **TXU** (TXU:NYSE) (short) for a loss of 2.00.
- On Friday, we covered our first piece of **EOG Resources** (EOG:NYSE) (short) for a gain of 1.65 if you had not done so on Thursday, and then we were stopped out of our second piece for a scratch.
- Monday is day three in **Helmerich & Payne** (HP:NYSE) (short). We are short from 53.20. From the emails I received, it seems that many of you covered your first piece of HP yesterday, locking in a gain of approximately 2.00. Be that as it may, for those of you who did not, maintain the stop at 55.20 and the initial target on trade toward 51.20. As of Friday's close, we are down 1.27.
- Monday is day three in **Overseas Shipholding** (OSG:NYSE) (short). We are short from 48.20. Maintain the stop at 50.20 and the initial target on trade toward 46.20. As of Friday's close, we are up 42 cents.
- Monday is day four in **USANA Health** (USNA:Nasdaq) (short). We are short from 43.00. Maintain the stop at 44.40 and the initial target on trade toward 41.00. As of Friday's close, we are down 63 cents.
- Monday is day 10 in **International Rectifier** (IRF:NYSE) (short). We are short from 34.75. On Friday we covered our first piece on a gap down open, locking in a gain of 3.95. On Thursday, if you recall, I stated: "Given Wednesday's tail and the kind of pattern that this presents, if IRF declines below 34.00, it could fall very sharply." Lower the stop to 28.75 and look to cover your second piece on trade toward 25.25. As of Friday's close, we are up 6.89 on the second piece.

THE TRADING REPORTS HIT LIST

For the week beginning Oct. 31, 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

Newmont Mining (NEM:NYSE)
Apple Computer (AAPL:Nasdaq)
Blue Coat Systems (BCSI:Nasdaq)
SanDisk (SNDK:Nasdaq)
Celgene (CELG:Nasdaq)
Royal Gold (RGLD:Nasdaq)
Global Payments (GPN: NYSE)
Grupo Telvisa (TV:NYSE)
Hologic (HOLX:Nasdaq)
Qualcomm (QCOM:Nasdaq)
Psychiatric Solutions (PSYS:Nasdaq)
Manitowoc (MTW:NYSE)
Johnson Controls (JCI:NYSE)
Fastenal (FAST:Nasdaq)
Anglogold (AU:NYSE)
Paychex (PAYX: Nasdaq)
Express Scripts (ESRX: Nasdaq)
Varian Medical Systems (VAR: NYSE)
Goldman Sachs (GS: NYSE)

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Downtrending

Estee Lauder Cosmetics (EL:NYSE)
Apollo Group (APOL:Nasdaq)
Diebold (DBD:NYSE)
Zimmer Holdings (ZMH:NYSE)
Laserscope (LSCP:Nasdaq)
Bausch Lomb (BOL:NYSE)
C.R. Bard (BCR:NYSE)
Alltel (AT:NYSE)
AutoZone (AZO: NYSE)
Usana Health (USNA: Nasdaq)
Apache (APA: NYSE)
Teekay Shipping (TK: NYSE)
Overseas Shipping (OSG: NYSE)
Garmin (GRMN:Nasdaq)
Guitar Center (GTRC: Nasdaq)
Fisher Scientific (FSH: NYSE)
CASI (CAI: NYSE)
Potash (POT: NYSE)

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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