Tuesday, January 10, 2006

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Market Commentary: Time's More Important Than Price

The tone for a down open on Tuesday was set by a 2% selloff overnight in Japan, poor reports from **Alcoa** (AA:NYSE) and **Phelps Dodge** (PD:NYSE) (sheesh, despite copper prices through the roof, the company had to guide lower? Go figure.), and new concerns about Iran's nuclear program.

Nevertheless, after a down open that saw the **S&P 500** give back 6 points, stocks bounced back to close basically flat on the day -- an impressive performance.

The price behavior was undeniably bullish, as the S&P turned its daily swing chart down on trade below Monday's low and bounced back immediately. Characteristic of bull runs, the turn down defined a low. The nature of the current momentum is apparent inasmuch as not only was the low defined at the point of the daily turn down, but by the fact that stocks bounced back immediately.

Even with the dire tone at the open and the overbought condition, buying persists. Why? Because the longs, for the most part, are not letting go of their positions. Longs are not giving up much of their inventory. Consequently, those players who are not long enough must pay up to play. The important thing to remember is that overbought can stay overbought for a long time. That is why I always say that time is more important than price. The bottom line is that overbought is not an invitation to short.

The market appears to have another bullish date with destiny on a spurt over 1300. As I stated last year, many times major turns occur at the end/beginning of the year. This turn can either culminate moves that have been under way, or they can be acceleration points. So far, it certainly looks like the action after the breakout over 1275 has defined a point of acceleration.

At the same time, as a recent Square of Nine calculator showed, last year's 1136 low on the S&P squares out in the first week of January (likewise, 1275 vibrates off this same point).

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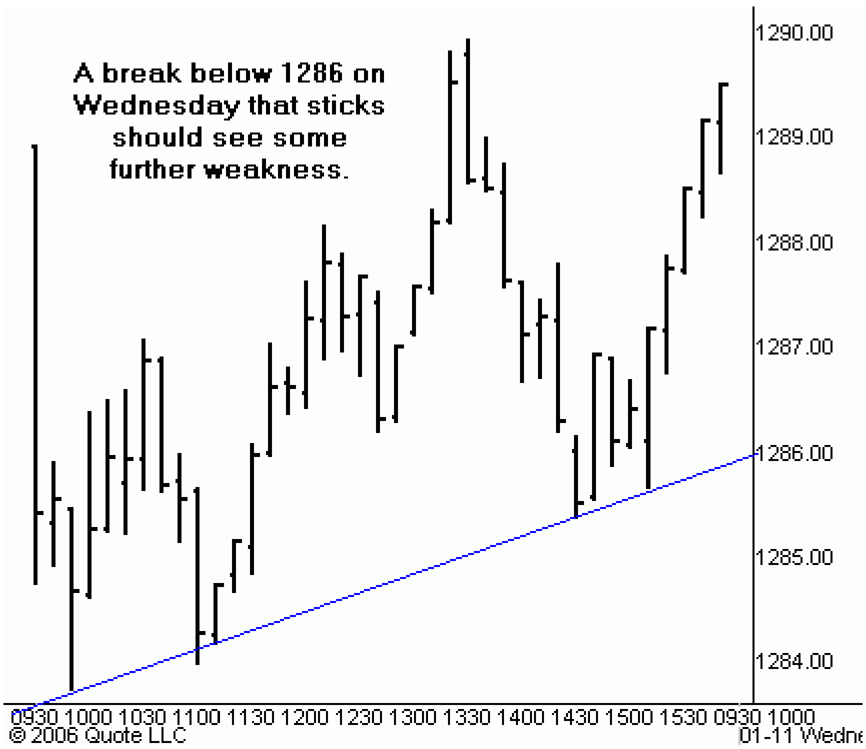
Consequently, the acceleration looks real. However, 90 degrees in time from the last October low works out to approximately Jan. 13. If the market can maintain higher lows and hold above 1275 past Jan. 13, it will be another technical positive. A break back below 1275 should not occur if a symmetrical leg up to as high as 1350 is in the cards.

The level 1275 S&P was critical -- not just because it is 360 degrees or a full rotation up from the 2005 low of 1136, but additionally, 1275 is also four rotations of 360 degrees, or an important 1,440 degrees (a fractal of the Fibonacci 144) up from the October 2002 bear market low of 768/769 S&P. That, of course, is the master square of vibration from which to measure the current bull run.

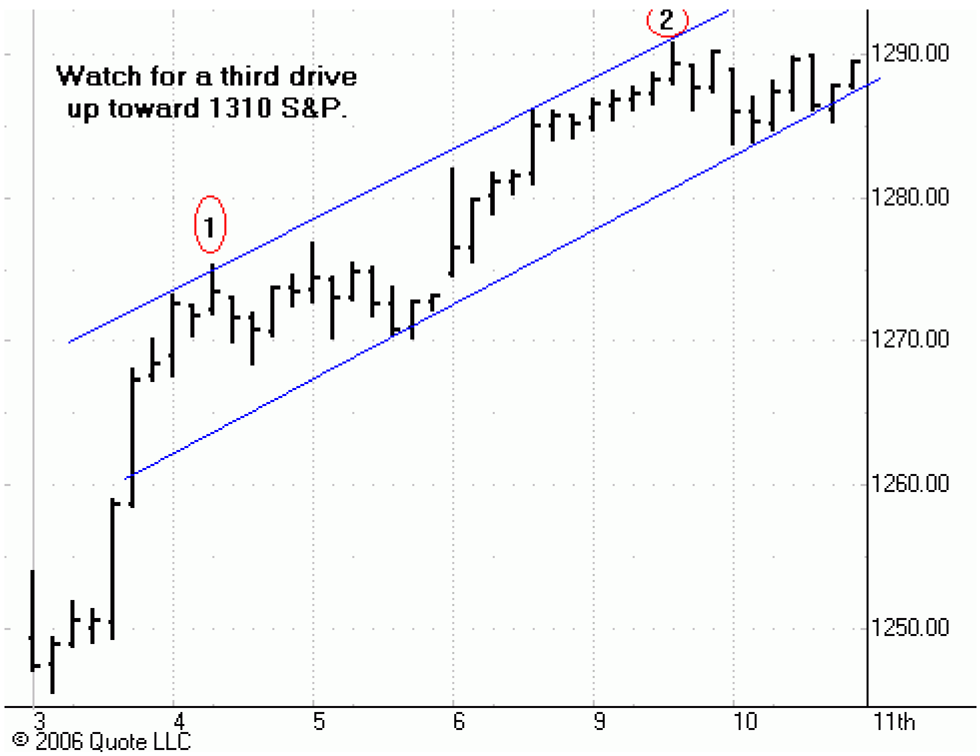
Many times I have noticed that the market (or a stock) will give a 90-degree or even a 180-degree overthrow from what looks to be the most likely significant measured resistance. Consequently, I believe the bulls will guard this 1275 level ferociously. Therefore, any failure in the first quarter back below this level must be taken seriously.

Pivot Points

S&P 500 -- 10-Minute



S&P 500 -- 60-Minute



THE DAYTRADING REPORT

Chart 1

F5 Networks
(FFIV:Nasdaq)
Long

Entry: **64.90 officially, but let's use an Opening Range Breakout (ORB)**

Stop: **1 point from entry**
Pattern: **LROD / Reversal New High / Cooper 1-2-3 Pullback**

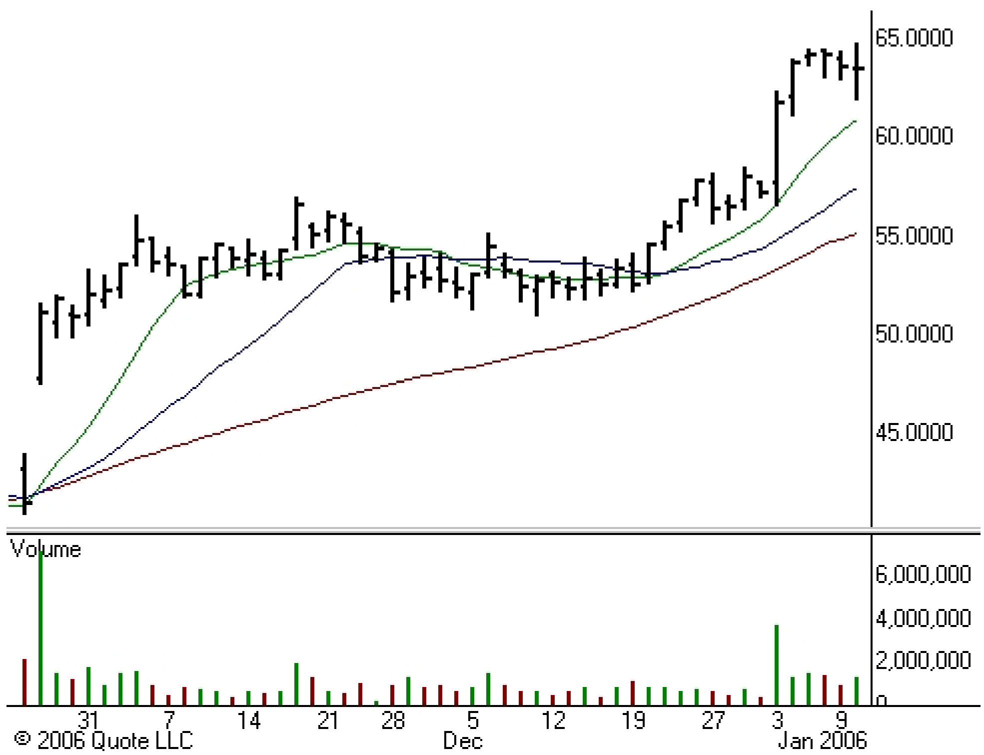


Chart 2

LCA-Vision
(LCAV:Nasdaq)
Long

Entry: **49.40**
Stop: **48.40**
Pattern: **Expansion Pivot / 180**

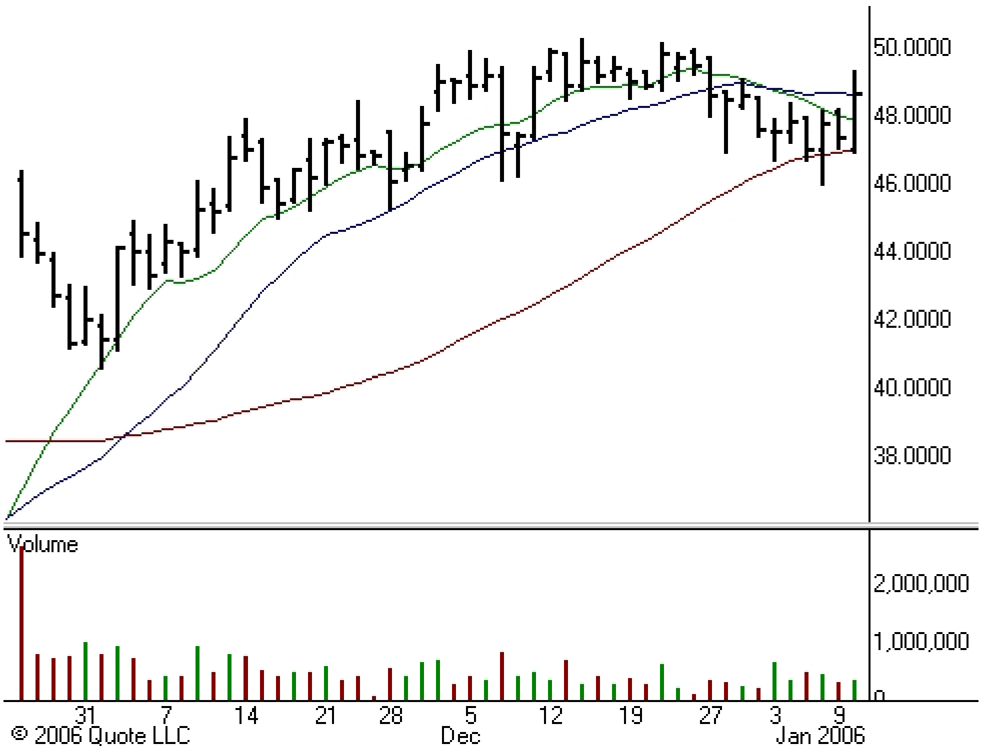
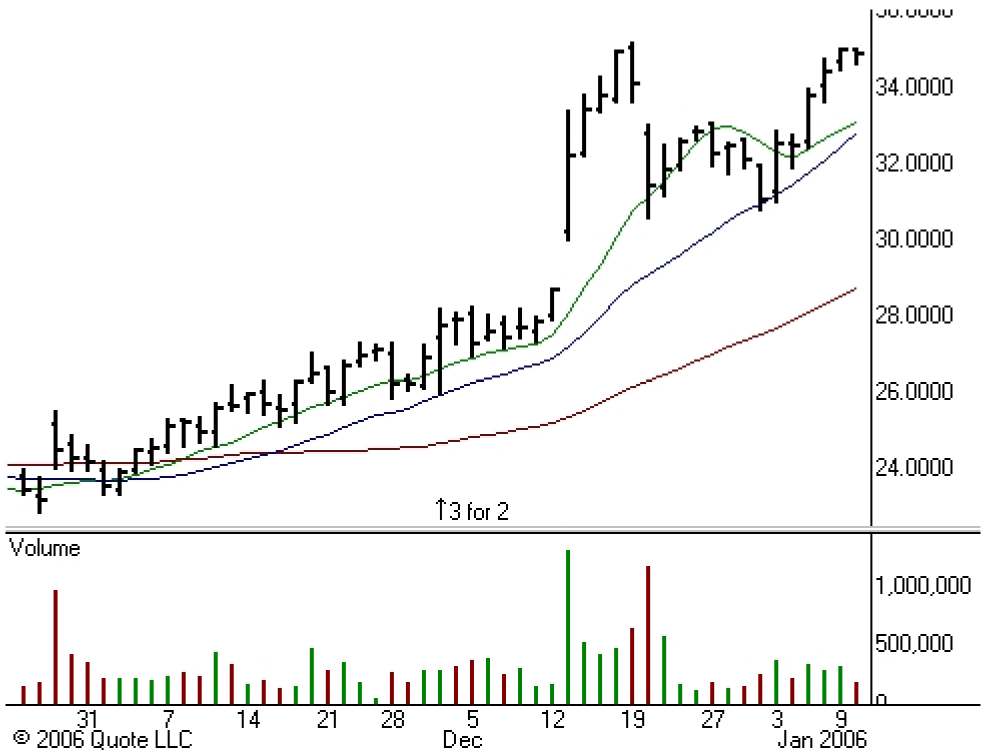


Chart 3

Diodes
(DIOD:Nasdaq)
Long

Entry: 35.20
Stop: 34.20
Pattern: NR7



THE SWING REPORT

Chart 1

XM Satellite Radio
(XMSR:Nasdaq)
Long

Entry: 30.10
Stop: 28.50
Initial Target: 31.90 (trade toward)

Pattern: Signal Day +1

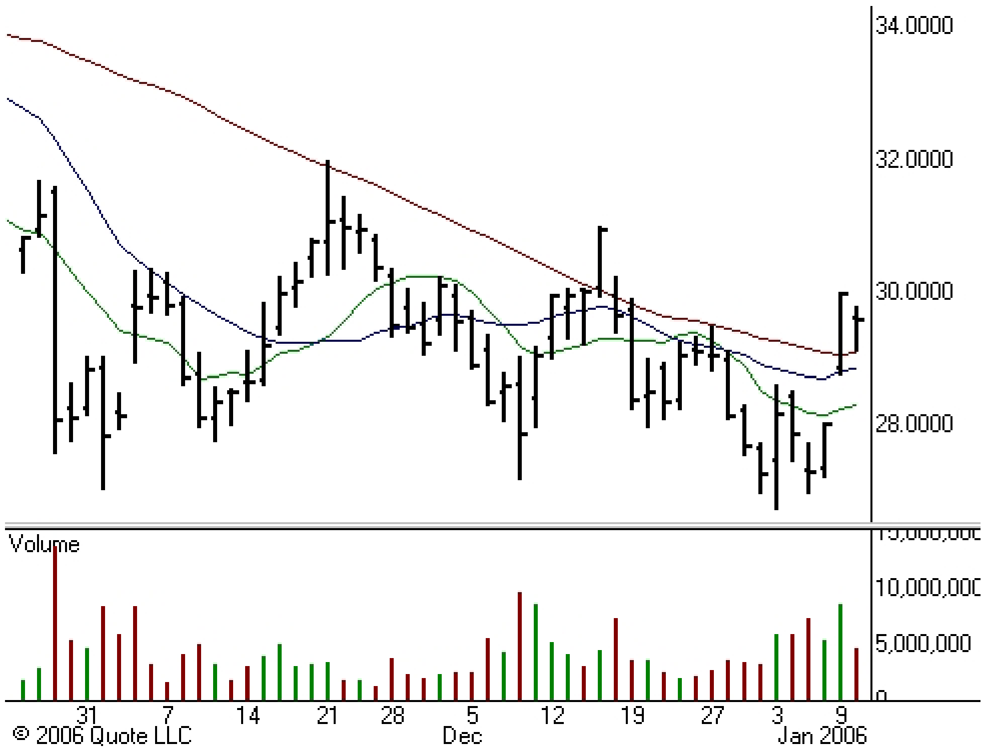


Chart 2

Websense
(WBSN:Nasdaq)
Long

Entry: **67.40**
Stop: **65.40**
Initial Target: **69.40 (trade toward)**

Pattern: *Expansion Pivot / 180

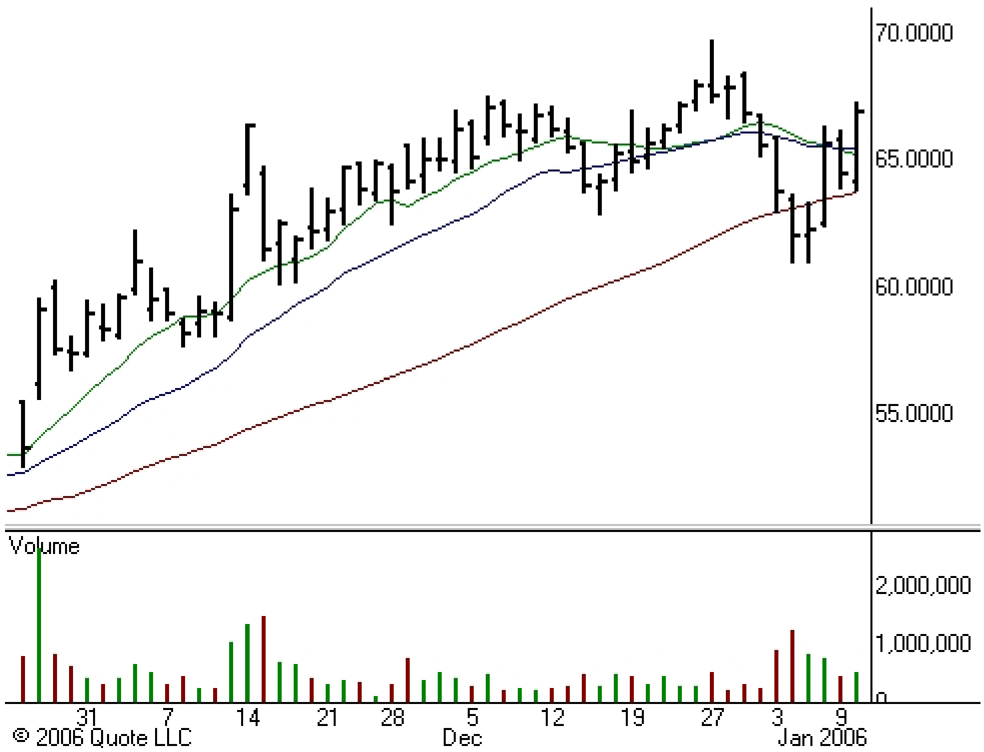
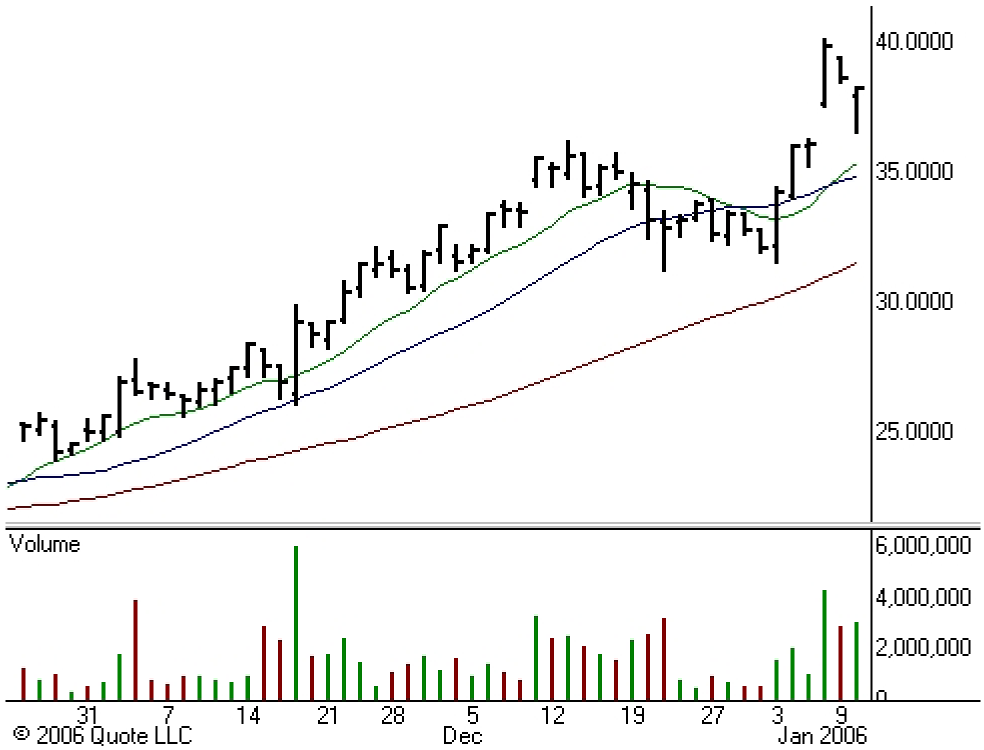


Chart 3

Salesforce.com
(CRM:NYSE)
Long

Entry: 38.40
Stop: 36.40
Initial Target: 40.40 (trade toward)

Pattern: 180



OBSERVATIONS AND TRAILING STOPS

-- **XM Satellite Radio** (XMSR:Nasdaq) (long) did not trigger but we are using it again.

-- On Tuesday in **USG Corp.** (USG:NYSE) (long), we were stopped out of the second piece at 69.25, locking in a 1.00 gain after selling our first piece on Monday, locking in a gain of 2.00.

-- Wednesday is day three in **Matrixx Initiatives** (MTXX:Nasdaq) (long). We are long from 23.50. Maintain the stop at 21.50 and the initial target on trade toward 25.50. As of Tuesday's close, we are up 8 cents.

-- Wednesday is day three in **Neurocrine Biosciences** (NBIX:Nasdaq) (long). We are long from 64.50 on an ORB. Maintain the stop at 62.50 and the initial target on trade toward 66.50. As of Tuesday's close, we are down 1 cent.

-- Wednesday is day four in **E-Z-EM** (EZEM:Nasdaq) (long). We are long from 24.05. Maintain the stop at 23.05 and the initial target on trade toward 25.75. As of Tuesday's close, we are up 74 cents.

-- Wednesday is day five in **Omnicare** (OCR:NYSE) (long). We are long from 58.55 on a gap open. Maintain the stop at 57.10 and the initial target on trade toward 60.00. As of Monday's close, we are down 21 cents.

-- On Tuesday in **Grupo Televisa** (TV:NYSE ADR) (long), we were stopped out at 84.00 to break even.

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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