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## Market Commentary: On the Technical Threshold

The first week of April saw two serious distribution days for the **S&P 500** and the overall market, off a new swing high. Not all swing highs are created equal. The April 5 closing high on the S&P of 1311.55 was a near-perfect time and price square-out, which was 360 degrees up from the last significant low seen Oct. 13. It was a near five-year swing high after a three-year advance.

The subsequent distribution stab down on April 7 came from a marginal new high but saw the index close below the prior day's low, signaling a Key Reversal Day. After a pause on Monday, April 10, Tuesday the 11th left another solid distribution day as well as a close below the key 50-day moving average.

After quiet pre-holiday trade on Wednesday and Thursday, this week began with another close by the S&P below its 50-day moving average. Importantly, the three-day chart on the S&P turned down on April 11, having traced out three consecutive lower lows. Because the index subsequently traced out a second consecutive higher daily high on Monday, this puts the index in a Minus-One, Plus-Two Sell configuration. Consequently, the market is vulnerable.

This is occurring with oil at the psychological and technical level of \$70 while gold has smashed convincingly through the key \$600 level.

It was a different tone in the morning as stocks started out on solid footing. The mantra on the Street and the parade of talking heads on the tube echoed the refrain that high oil and high rates could not kill the bull. Those earnings were trumping fear of flying commodities and rising rates. But hasn't the huge run-up since last fall priced in these great expectations for the earnings parade beginning this week? By midday, the mood had changed as \$70-a-barrel oil began to rule the roost and control the sentiments.

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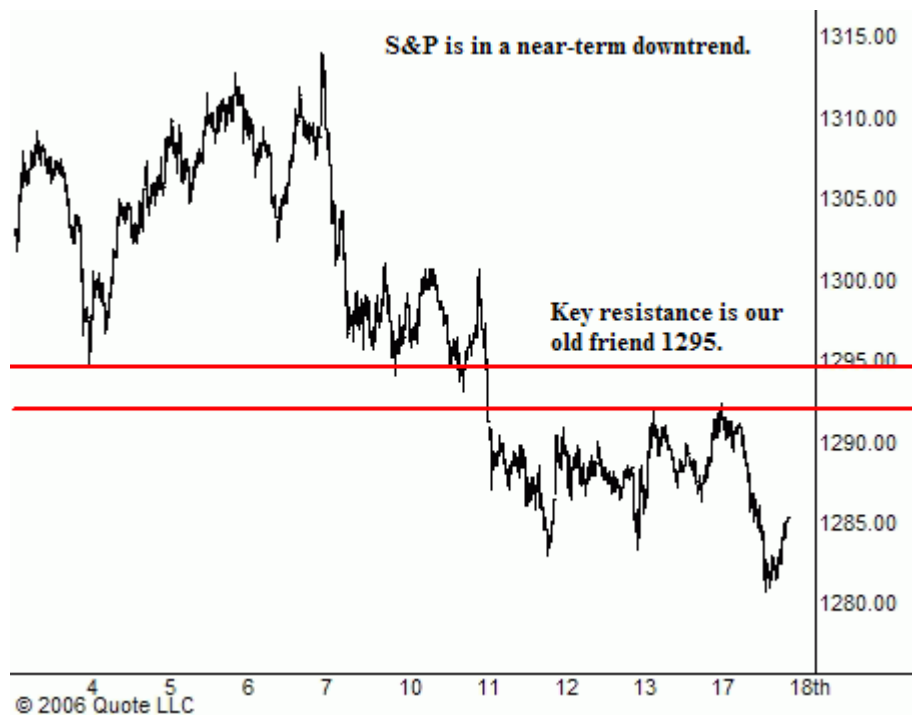
Part of the commodity surge on Monday was due to the better-than-expected GDP in China, exploding at more than 10%. Part of the problem in oil is the federally mandated switch-over to ethanol as the market's fuel additive by May 5. So the next three weeks should be interesting.

Iran knows we're caught in the switches and is using oil as the weapon. If they'd use homicide bombers, you think they wouldn't use economic weapons? Every time they rattle their sabers, an additional \$100 million a week through oil falls into their coffers. Perhaps the president should unleash the strategic petroleum reserve to douse the Iranian futures contracts and give them a sweet-and-sour taste of supply and demand.

**Conclusion:** The **Nasdaq** and S&P turned their weekly swing charts down on Monday. Any follow-through from here demands a defensive posture. Last-ditch support on the S&P is 1278/1279, which is 90 degrees down from the 1314 high seen on April 7. If that level breaks, it projects a move to 1240.

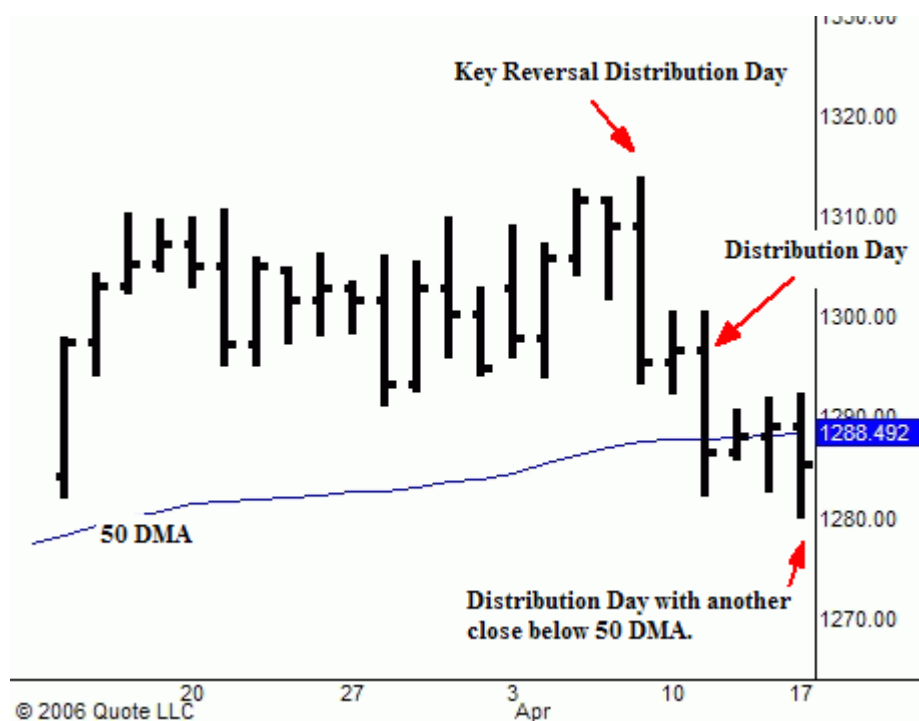
**Strategy:** The closing runoff showed a lot of short-covering, which typically weakens a market that is headed lower. Consequently, I would not read too much into opening strength that stops dead in its tracks.

#### S&P 500 – 10-Minute



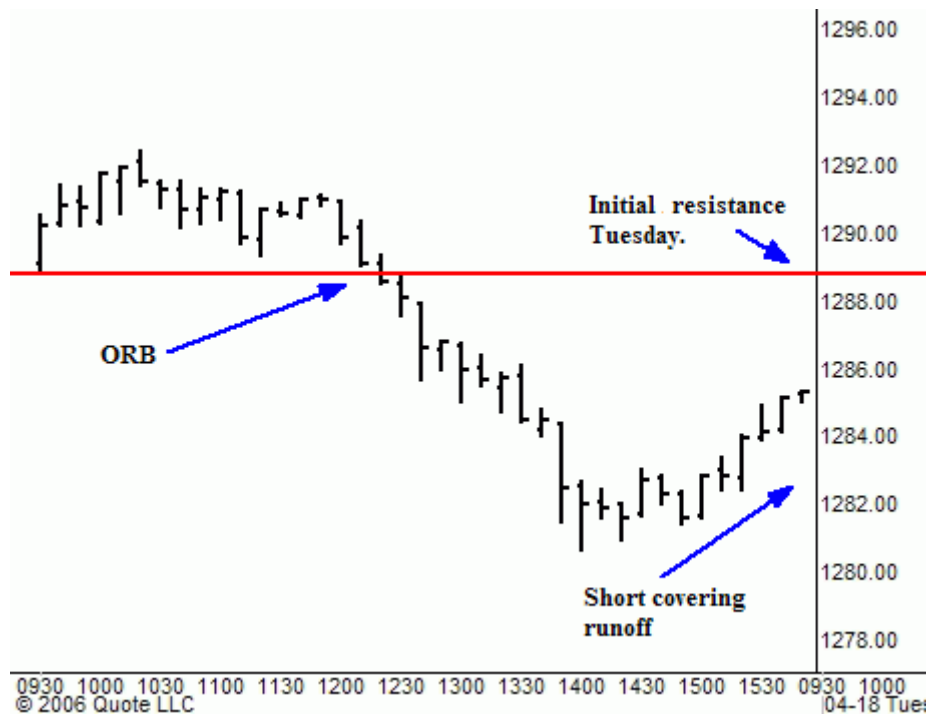
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S&P 500 -- Daily



## Pivot Points

S&P 500 -- 10-Minute

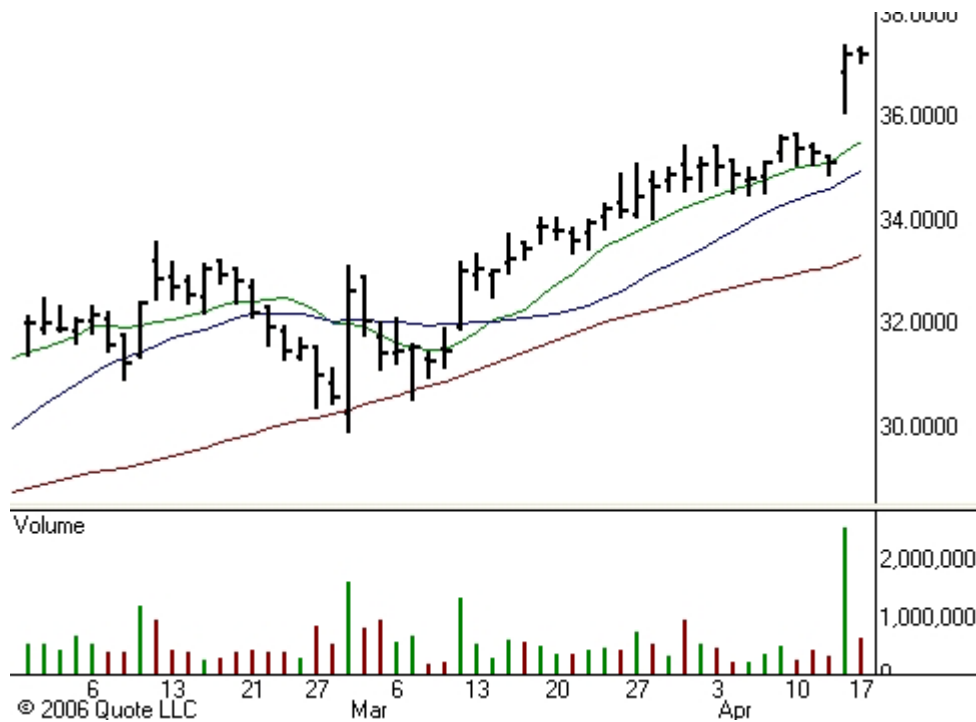


## THE DAYTRADING REPORT

### Chart 1

**Scientific Games  
(SGMS:Nasdaq)  
Long**

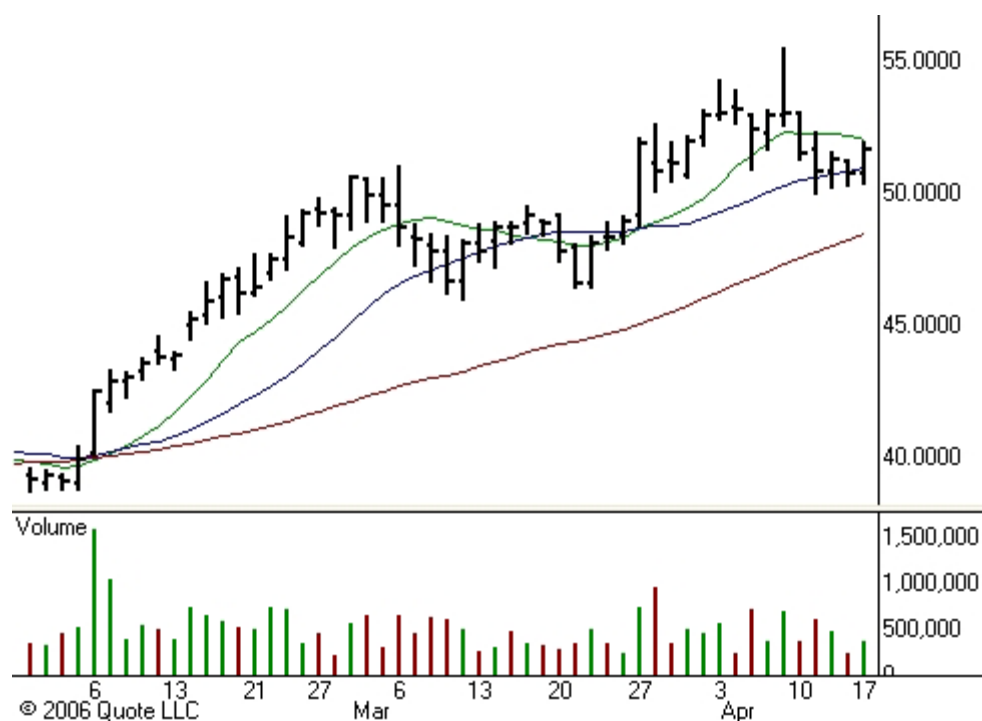
**Entry: 37.50  
Stop: 36.50  
Pattern: Jack-in-the-Box**



**Chart 2**

**Aracruz Celulose  
(ARA:NYSE ADR)  
Long**

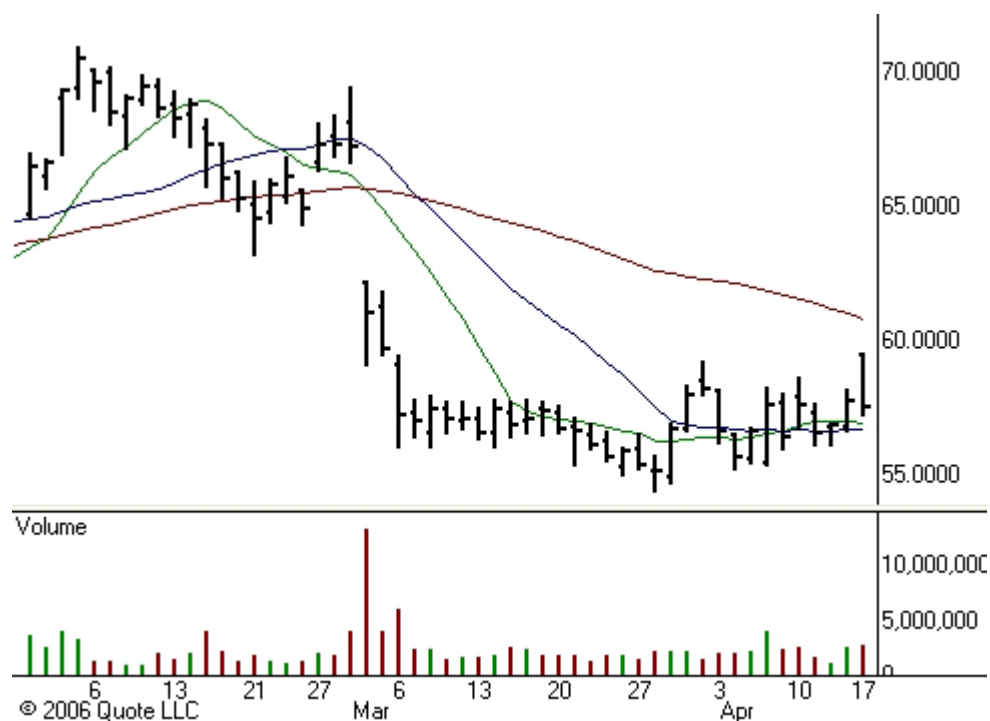
**Entry: 52.10  
Stop: 51.10  
Pattern: V-Thrust**



**Chart 3**

**Abercrombie & Fitch  
(ANF:NYSE)  
Short**

**Entry: 57.20  
Stop: 58.20  
Pattern: \*180/ Boomerang**



**Chart 4**

**Itron  
(ITRI:Nasdaq)  
Long**

**Entry:** 65.45 Official -- but I would look to use  
an ORB (Opening Range Breakout) as the  
stock closed at 64.47 on Monday.

**Stop:** 1 point from entry

**Pattern:** Expansion Breakout





**OBSERVATIONS**

-- **Frontier Oil** (FTO:NYSE) (from Thursday) still looks interesting from the long side.

## THE SWING REPORT

### Chart 1

**Asa Ltd.**  
**(ASA:NYSE)**  
**Long**

**Entry:** 67.70  
**Stop:** 65.70  
**Initial Target:** 69.70 (trade toward)

**Pattern:** V-Thrust

**Comments:** ASA looks interesting as it gapped out of a Cup & Handle Pattern on Monday.

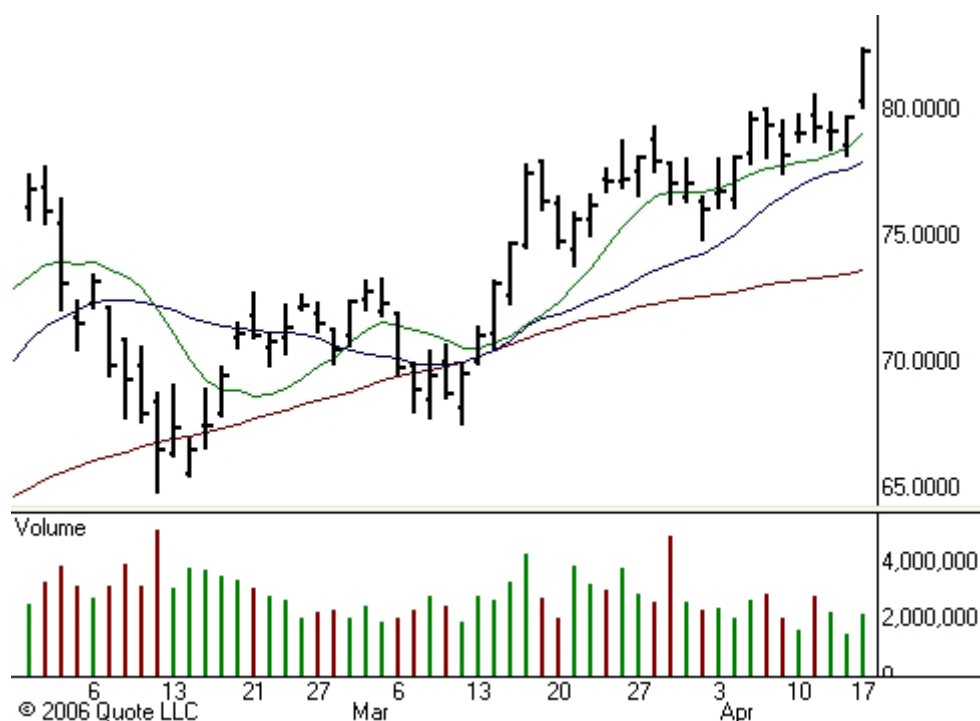


**Chart 2**

**Marathon Oil  
(MRO:NYSE)  
Long**

**Entry: 82.60**  
**Stop: 80.60**  
**Initial Target: 84.60 (trade toward)**

**Pattern: Expansion Breakout Gapper**



### OBSERVATIONS AND TRAILING STOPS

-- Neither **FedEx** (FDX:NYSE) nor **Brush Engineered Materials** (BW:NYSE) triggered.

-- Tuesday is day three in **Titanium Metals** (TIE:NYSE) (long). You are long from 51.81 on a gap open. You sold your first piece on trade toward 53.00 locking in a gain of 1.19. Raise your stop on the second piece to 54.25. As of Monday's close, you are up 4.61 on the second piece.

-- On Monday you were stopped out of **Equinix** (EQIX:Nasdaq) (long) for a loss of 2.00.

-- On Monday you sold your first piece of **USG Corp.** (USG:NYSE) (long) for a gain of 2.00 and then were subsequently stopped out of your second piece for a scratch.

-- Tuesday is day four in **Armor Holdings** (AH:NYSE) (long). You are long from 61.30. Maintain the stop at 60.00 and the initial target on trade toward 63.30. As of Monday's close, you are down 29 cents.

-- Tuesday is day 13 in **Salesforce.com** (CRM:NYSE) (short). You are short from 36.65. Two weeks ago Thursday, you covered your first piece for a gain of 86 cents. Lower the stop on the second piece to 34.00 and look to cover your second piece on trade toward 30.00. As of Monday's close, you are up 3.85 on the second piece.

### 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.

### Contact Info

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