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Market Commentary: Genuine Breakout Possible

Something funny happened on the way to the shake-up caused by Ben Bernanke's new-found visibility. Or should we say shake-out?

Yesterday, we stated that despite Monday's last-hour plunge on the heels of Bernanke's Jerry Lewis-like *Errand Boy antics*, we suspected that although the price action was not pretty at the close, the market could bounce right back. That's how things played out. My thinking was that the **S&P 500** was too well poised for a breakout over the key 1309/1310 pivot to fail to accomplish it. The market just felt like it had an agenda.

Not only did the S&P bounce right back on Tuesday, staying in the green all day, but the index closed at 1313.20, a new closing high for the move and a new closing high for the advance off the March 2003 low. The close was at the highest level since February 2001.

The 1313.20 S&P close may be important inasmuch as it was a full 3 points above the 1309/1310 pivot. Generally, I like to see a close of 3 points or more above a key level to confirm a bonafide move. Consequently, the notion of a genuine breakout seems intact.

That does not mean to imply or qualify how long or how far such a breakout may or may not last. This is because in my work, cyclical influences will begin to exert downside pressure by the end of May. It's hard to pinpoint precisely when in May that turning point will occur -- if valid -- but it could be as soon as next week, particularly if the S&P spikes (as mentioned yesterday) sharply for three to seven days. That could represent a culmination or climax move.

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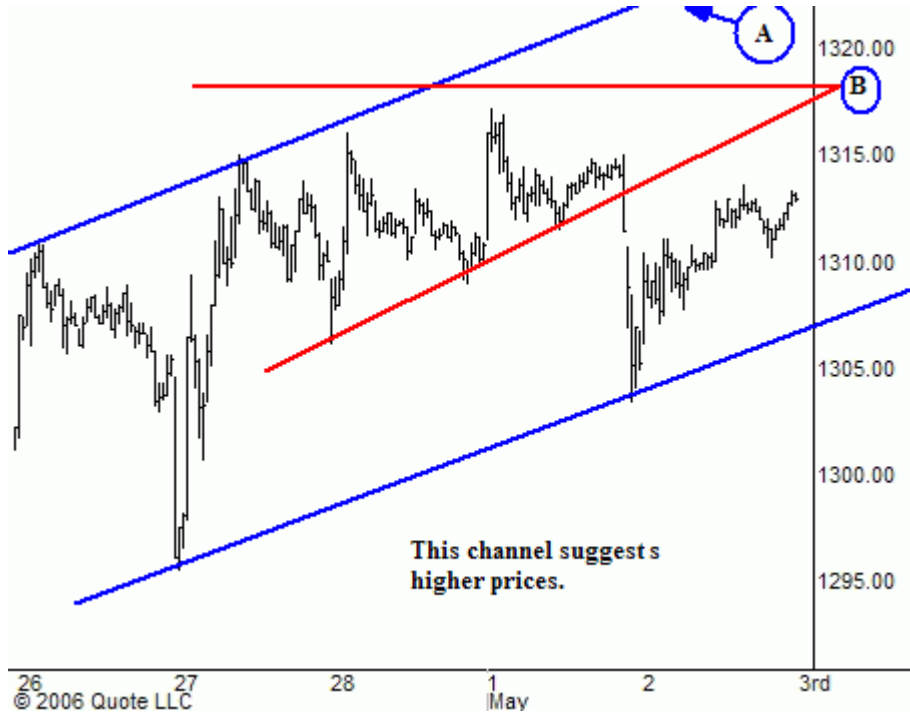
One of the reasons I believe the pattern argued/argues for a move over 1310 S&P is because you seldom see quadruple tops. In other words, the fourth time through, or a move over a triple top -- on whatever time frame -- signals what I call a Rule of Four Breakout and typically generates a solid continuation move.

Interestingly, this potential May inflection point is the five-year anniversary of a significant top in May 2001. It is important to understand that just as 60 years is an important time span, ditto 60 months. Examples were the five-year move from August 1982 to August 1987, and the five-year move from 1995 to 2000. Interestingly, that S&P high in May 2001 (which, of course, was the high prior to smash into September 2001) was 1315.95. Well, the index players are finally even. But for stock-pickers, it's been a roaring bull for the last three years.

Strategy: Key support for Wednesday looks like 1308 S&P, and although we could see a little more backing-and-filling and some choppiness, I believe the market is poised for a strong weekly close. If momentum is going to show up on the tape from the breakout over 1310, it needs to show up no later Thursday and Friday.

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S&P 500 -- 10-Minute



(In chart above, is (A) a near-term target? (note, that channel line continues higher but is not pictured); short-term resistance (B) corresponds to an intraday Rule of Four Breakout on the 10-minute chart.)

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S&P 500 -- Monthly



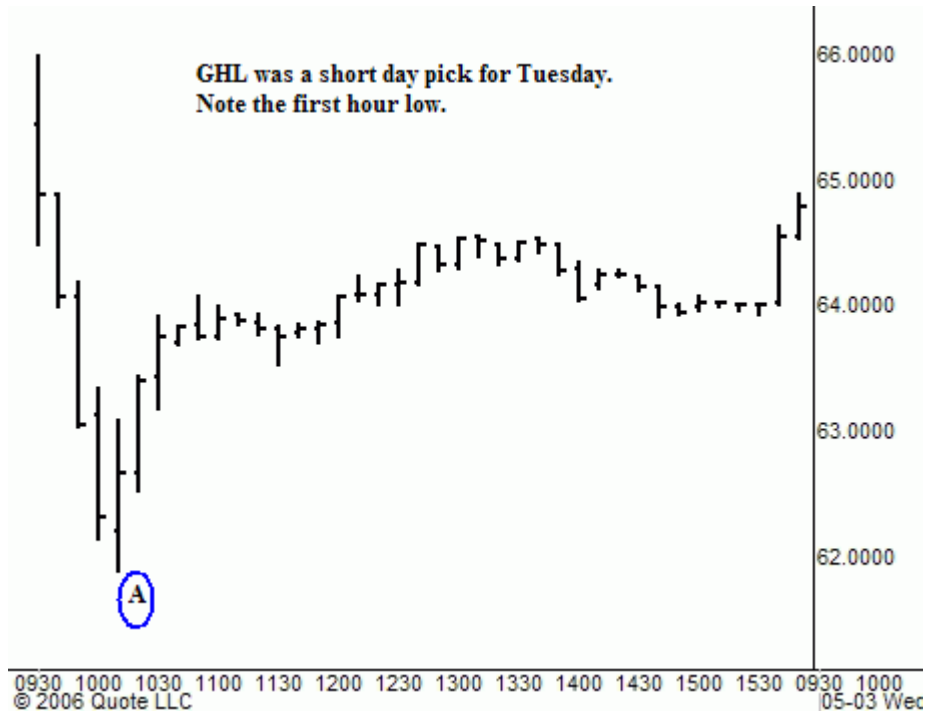
(Note above how the May 2001 high was a Minus-One, Plus-Two Sell Setup on the monthly chart. A move above current levels could generate a sharp spike to as high as 1380.)

Pivot Points

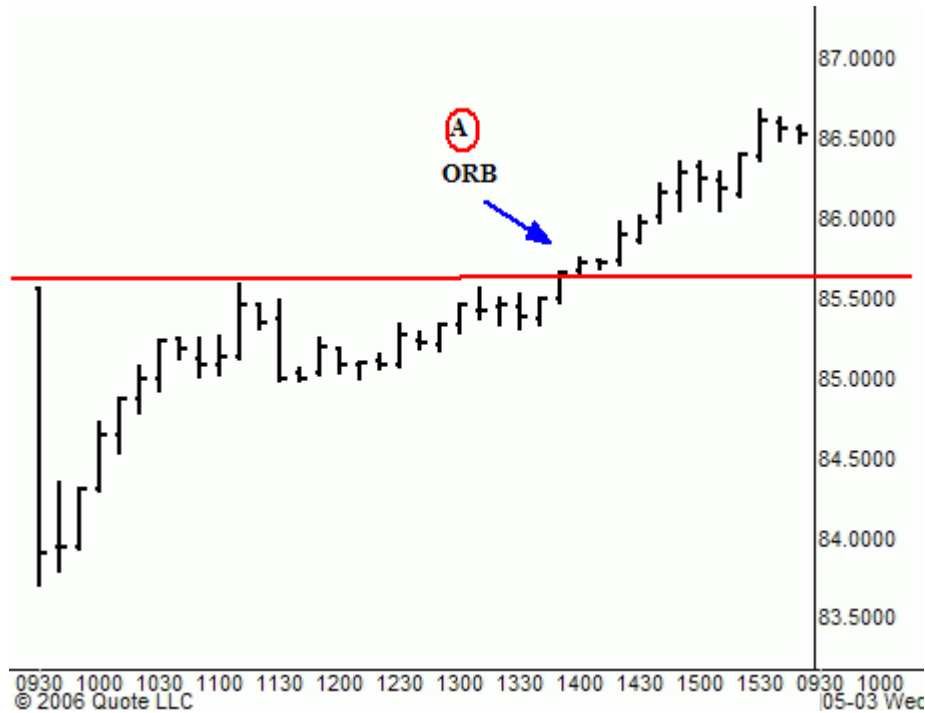
S&P 500 -- 10-Minute



Greenhill (GHL:NYSE) -- 10-Minute



Vulcan Materials (VMC:NYSE) -- 10-Minute



(VMC was a Swing pick for Tuesday, which triggered at \$86.40. Note how an ORB (A) preceded the trigger point. Tuesday's Outside Day Up in VMC at its 50-DMA suggests follow-through for Wednesday.)

THE DAYTRADING REPORT

Chart 1

**Affiliated Managers
(AMG:NYSE)
Short**

**Entry: 96.60, or you may want to look to short
on an opening pop toward 99.00**

Stop: 1 point from entry

Pattern: Signal Day +1

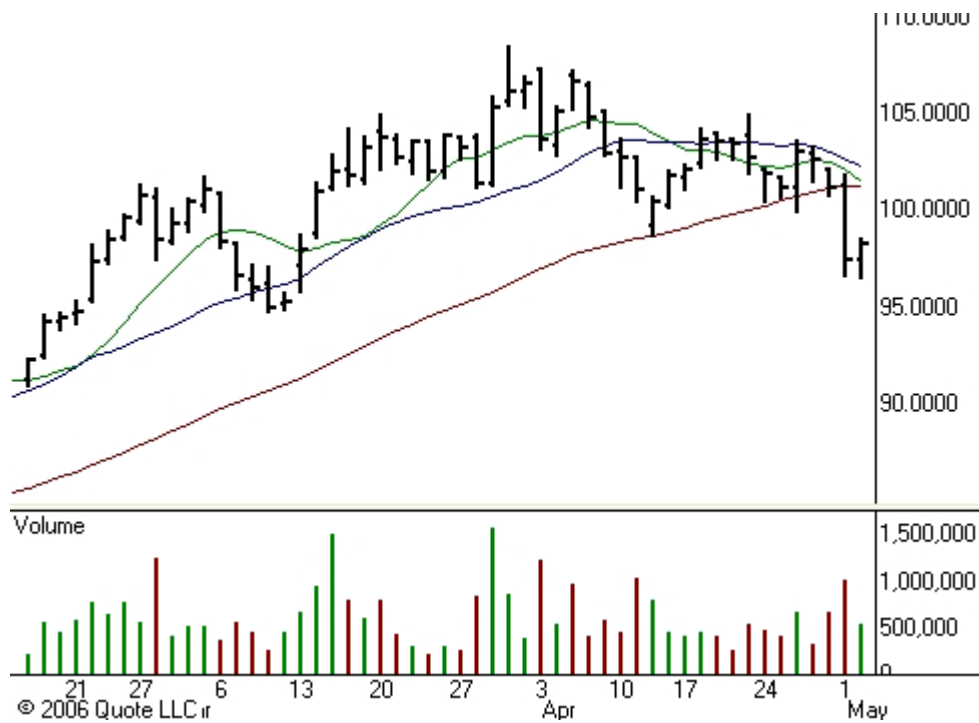


Chart 2

**NutriSystem
(NTRI:Nasdaq)
Long**

**Entry: 70.30
Stop: 69.30
Pattern: 180**



Chart 3

**Fomento Economico Mexicano
(FMX:NYSE ADR)
Long**

Entry: 97.15
Stop: 96.15
Pattern: Expansion Breakout / 180

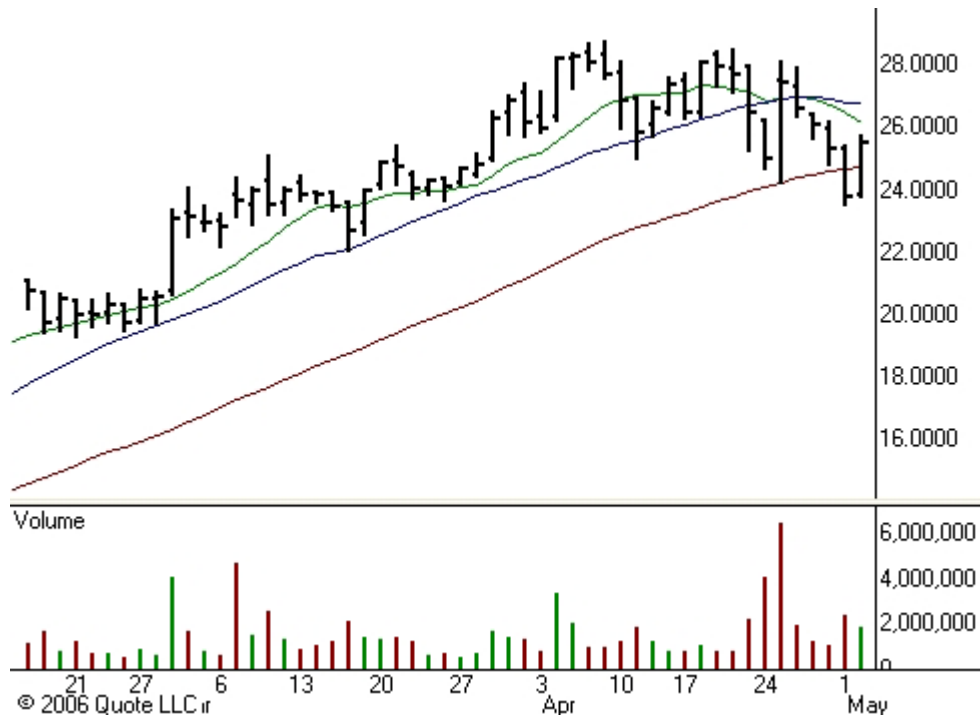
Comments: Those who are aggressive may want to look at an ORB for entry with a 1-point stop.



Chart 4

**Atheros Communications
(ATHR:Nasdaq)
Long**

**Entry: 25.85
Stop: 24.85
Pattern: 180**



THE SWING REPORT

Chart 1

FedEx
(FDX:NYSE)
Long

Entry: 116.60
Stop: 114.60
Initial Target: 118.60 (trade toward)

Pattern: Expansion Pivot / 180

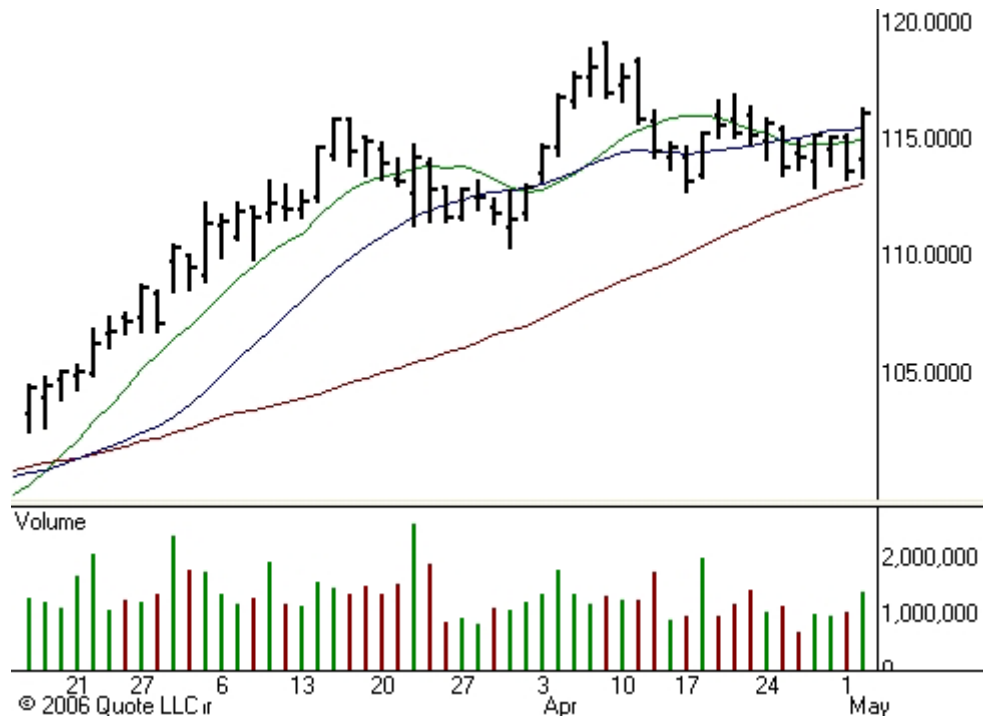


Chart 2

**Lufkin Industries
(LUFK:Nasdaq)
Long**

Entry: 65.45
Stop: 63.45
Initial Target: 67.45 (trade toward)

Pattern: 180 / Pullback Pivot

Comments: LUFK looks interesting as it has traced out a potential deep Cup & Handle pattern. Note how the bottom of the cup was formed at the stock's 200-DMA, while the low of the handle is at the 20-DMA.

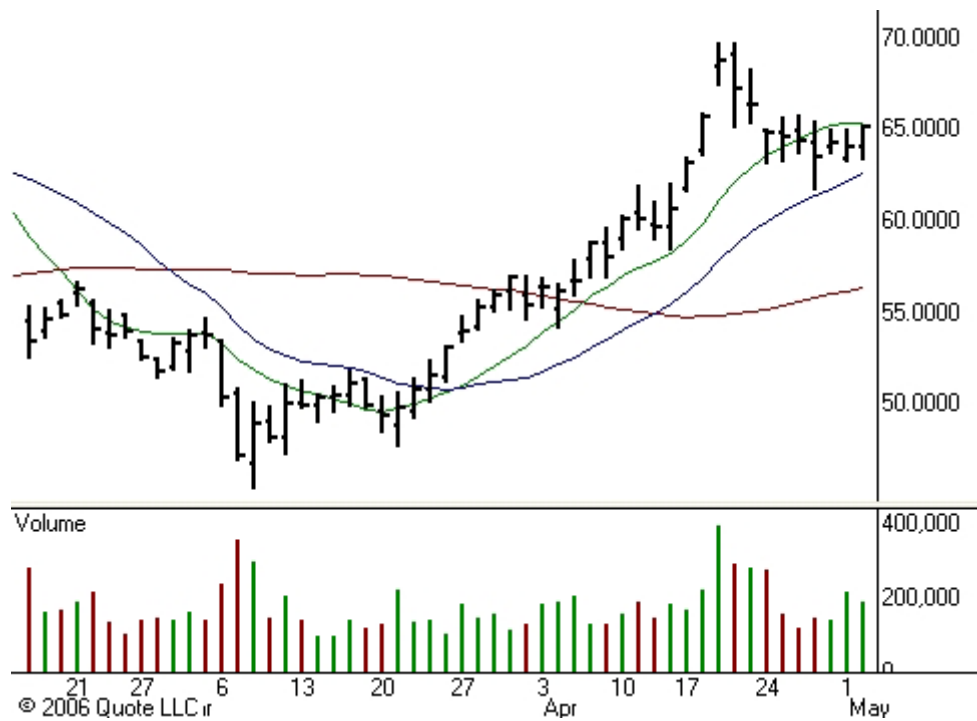


Chart 3

**LCA-Vision
(LCAV:Nasdaq)
Long**

Entry: 56.85
Stop: 55.40
Initial Target: 58.85 (trade toward)

Pattern: NR7

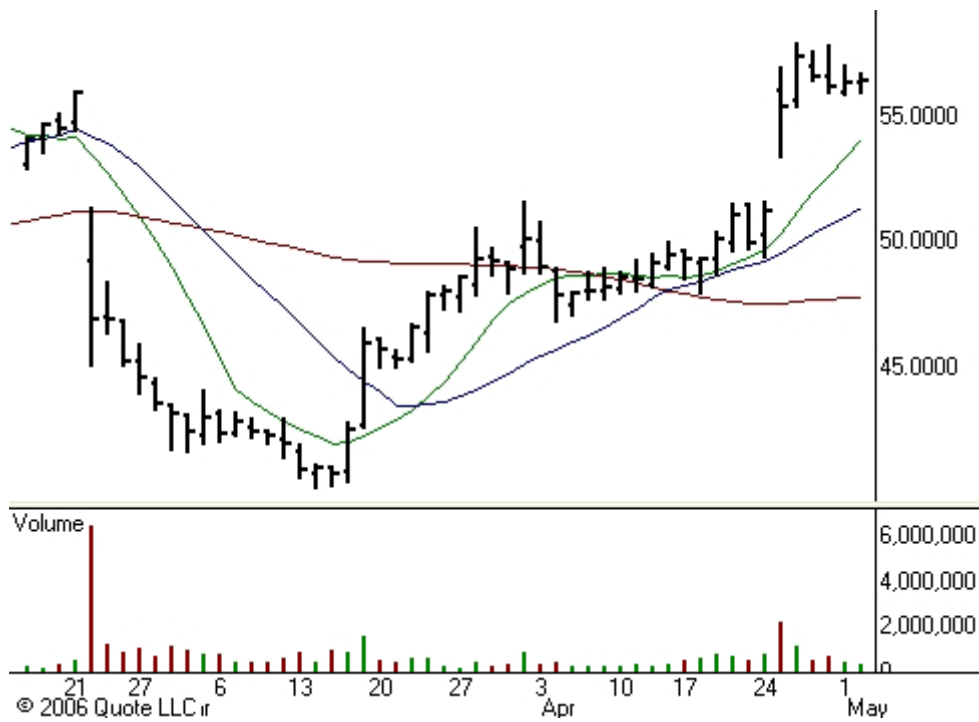
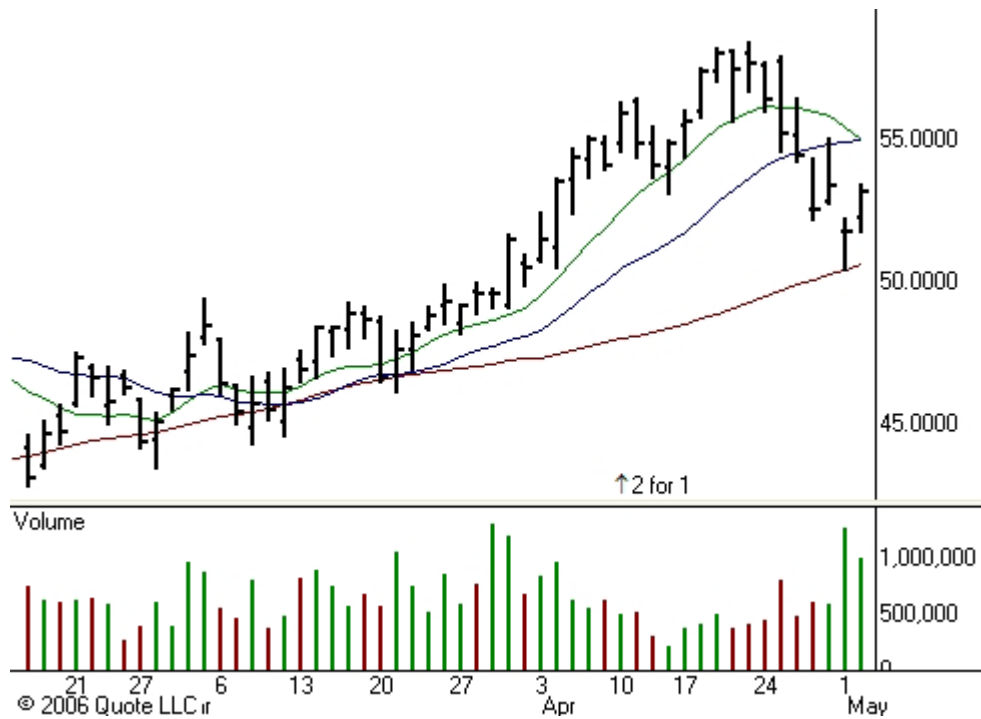


Chart 4

**Atwood Oceanics
(ATW:NYSE)
Long**

**Entry: 53.50
Stop: 51.50
Initial Target: 55.50 (trade toward)**

Pattern: V-Thrust



OBSERVATIONS AND TRAILING STOPS

Please Note: Tonight there are a larger-than-usual number of stocks due to the fact that I believe the S&P 500 is poised to follow through over 1310.

-- Wednesday is day two in **Vulcan Materials** (VMC:NYSE) (long). You are long from 86.40. Maintain the stop at 84.40 and the initial target on trade toward 88.40. As of Tuesday's close, you are up 14 cents.

-- Wednesday is day two in **Zoltek** (ZOLT:Nasdaq) (long). You are long from 27.00 on an ORB. Maintain the stop at 25.00 and the initial target on trade toward 29.00. As of Tuesday's close, you are up 30 cents.

-- Wednesday is day three in **Freescale Semiconductor** (FSL:NYSE) (long). You are long from 31.85. Maintain the stop at 30.50 and the initial target on trade toward 33.85. As of Tuesday's close, you are up 40 cents.

-- Wednesday is day three in **MGP Ingredients** (MGPI:Nasdaq) (long). You are long from 25.30. On Tuesday you sold your first piece, locking in a gain of 2.85 due to a gap open. Raise the stop on the second piece to 27.30. As of Tuesday's close, you are up 4.18 on the second piece.

-- Wednesday is day four in **Parker-Hannifin** (PH:NYSE) (long). You are long from 81.60. On Tuesday you sold your first piece, locking in a gain of 2.00. Raise the stop to 82.60 for the second piece. As of Tuesday's close, you are up 1.77 on the second piece.

-- Wednesday is day five in **Veritas** (VTS:NYSE) (long). You are long from 47.25 on an ORB. On Tuesday you sold your first piece, locking in a gain of 2.00. Raise the stop to 48.25 and look to sell your second piece on trade toward 51.00. As of Tuesday's close, you are up 2.10 on the second piece.

-- Wednesday is day 11 in **Flowserve** (FLS:NYSE) (long). You are long from 56.00. On Monday you sold your first piece, locking in a gain of 2.00. Raise the stop to 58.15 for the second piece. As of Tuesday's close, you are up 2.99 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.

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