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Market Commentary: Bearing With the Bear

You can always tell when the fear is rising and the point of recognition sets in on the Street -- they call in the technicians to rationalize and identify where the next great buy point will be when they can't explain the decline in terms of the fundamentals.

Because, in fact, you can't blame this on the fundamentals. Maybe you can blame it on perceptions catching up with fundamentals, but let's get real, oil hit \$70 a barrel in September. Can the decline that started last month be attributed to a newly resurgent gush in crude at \$72?

Can the stock market decline be laid at the doorstep of the puncture in the housing bubble? Excuse me, that is the *slowdown* in housing, because no one is copping to a busted bubble scenario -- yet. Nah, it's easier just to blame it on Ben Bernanke.

As the bulls lament, will someone please take the microphone away from this guy? Every time he speaks, the market gets green around the gills. And the markets think they had a tough time wading through Greenspan's obfuscation. The thing about a policy of new visibility and clarity is that when you say something -- anything -- markets will believe you; markets will think you actually mean what you say and say what you mean.

Is this what Bernanke intended? Has he been misunderstood -- again?

The problem is that actions speak louder than words, but the Street is aflutter with pseudo market chatter. That's because hedge funds are getting spanked and are down on the year, wondering how to get out of the hole they have put themselves in after chasing the commodity and materials momentum and the emerging-market bandwagon.

No wonder the market resembles a drowning man flailing about in search of a lifesaver. Enter Chairman Bernanke, who for all intents and purposes is saying, "There's a new sheriff in town" or "I'm not your brother, I'm heavy."

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The world was lined up for continued fabulous earnings going into the top in May. Well, they don't ring a dinner bell when it's time to leave the trough, or do they? Our Boomerang Sell Signal issued after the false breakout on May 11 did a good job of identifying the top. That was a good sell setup.

Our next setup was a buy near the 1254 level -- a 180-degree decline down from the high as the **S&P 500** tagged its 200-day moving average for the first time in a while -- that's usually an odds-on buy point for a trade anyway. Our next setup was a sell as the S&P retraced to the breakdown point, which coincided with 90 degrees down and the 20-day moving average near 1290.

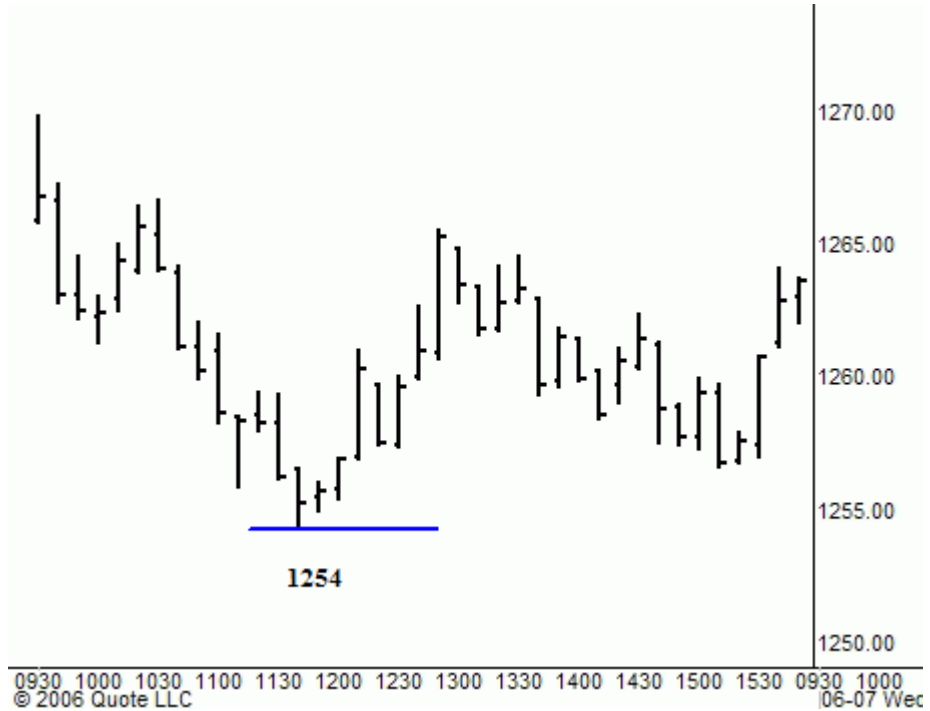
Conclusion: A turnaround Tuesday saw the S&P bounce 11 points off its low, and the index once again tagged 1254. The late reversal came as the S&P clawed its way back above its 200-day moving average at 1260. This sets up the *possibility* for a Test of a Test Pattern. In other words, there was a low at the 200-DMA on May 24, which led to a short-lived rally phase. That low and the 200-DMA was tested again on May 30, which led to another short-lived rally phase.

Then on Tuesday, we got another test of the 200-DMA and 1254 S&P, for what I call a Test of a Test Pattern. Bear in mind, you don't want to jump into the market promiscuously because it's oversold and is at a potential Test of a Test point. That is because a sign of the bear can be short-lived rallies. The duration of the advances is often more important than the absolute price levels where one expects to find support.

The behavior of the indices and individual stocks while the wheels of time -- their weekly and monthly swing charts -- turn, will tell the tale of the tape. With the Russell 2000 coming off an all-time high and diving 10% quickly, it lends support to the notion of at least a multimonth decline into the fall -- interim rallies notwithstanding.

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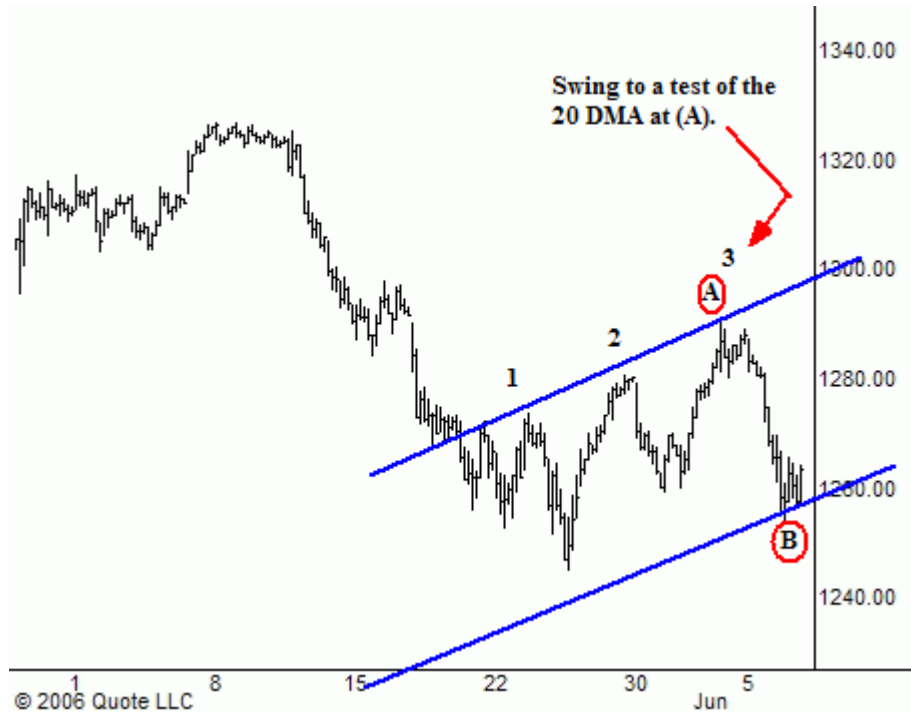
S&P 500 -- 10-Minute



(On Tuesday, the power of the Square of Nine Calculator was proved as another reversal occurred precisely off 1254 S&P.)

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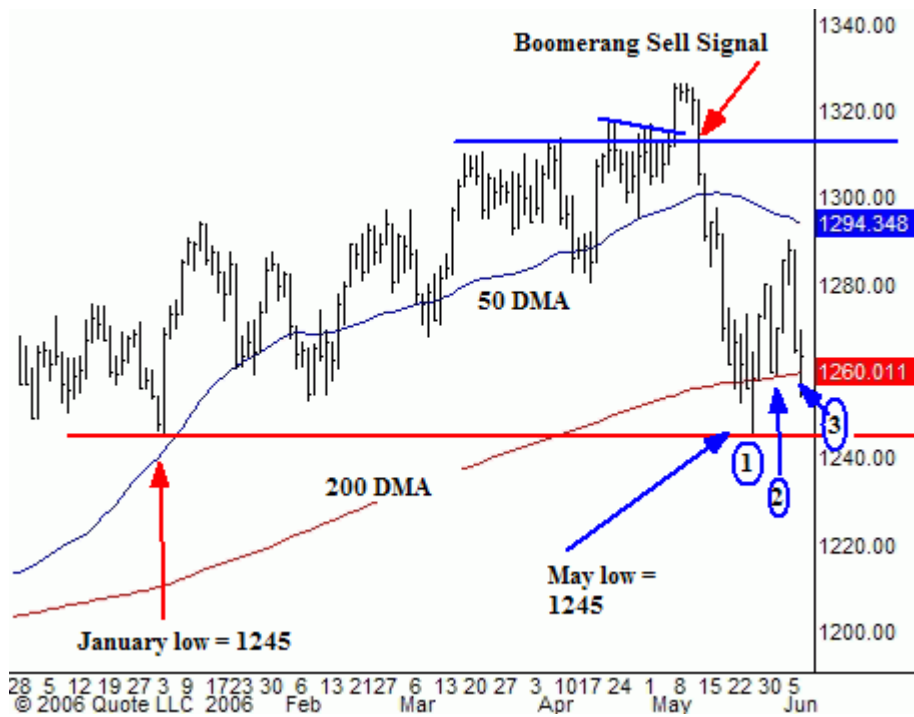
S&P 500 -- 60-Minute



(On Tuesday, the S&P tagged a parallel point (B) of the trendline channel (A).)

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S&P 500 -- Daily



(On Tuesday, the S&P kissed its 200-DMA once again, tracing out a potential Test of a Test Pattern. Point 2 is the test of point 1 while point 3 is a test of point 2.)

Pivot Points

S&P 500 -- 10-Minute



THE DAYTRADING REPORT

Chart 1

**Allegheny Technologies
(ATI:NYSE)
Long**

**Entry: 63.50
Stop: 62.50
Pattern: Lizard**

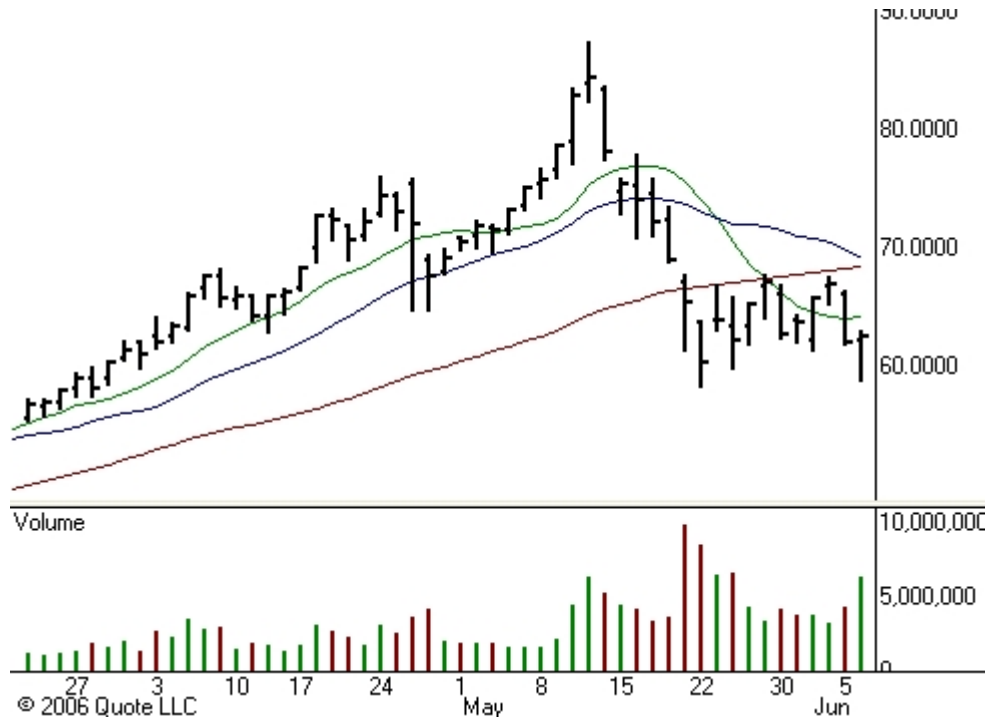


Chart 2

**Templeton Russia Fund
(TRF:NYSE)
Long**

**Entry: 71.15
Stop: 70.15
Pattern: Lizard**

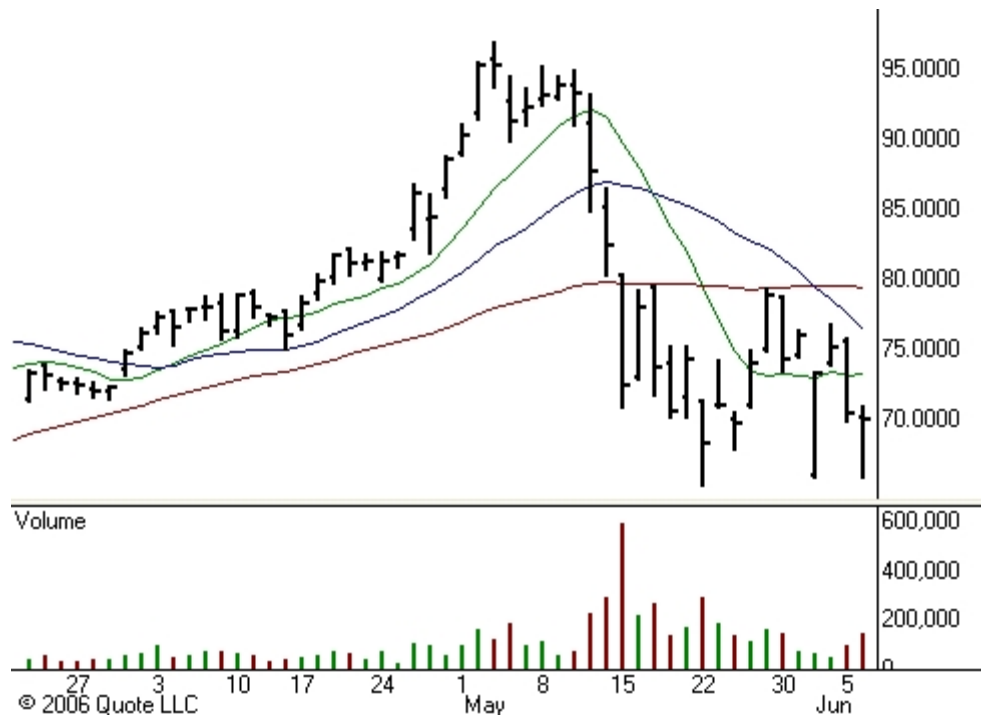


Chart 3

**Dril-Quip
(DRQ:NYSE)
Long**

**Entry: 79.10
Stop: 78.10
Pattern: 180**

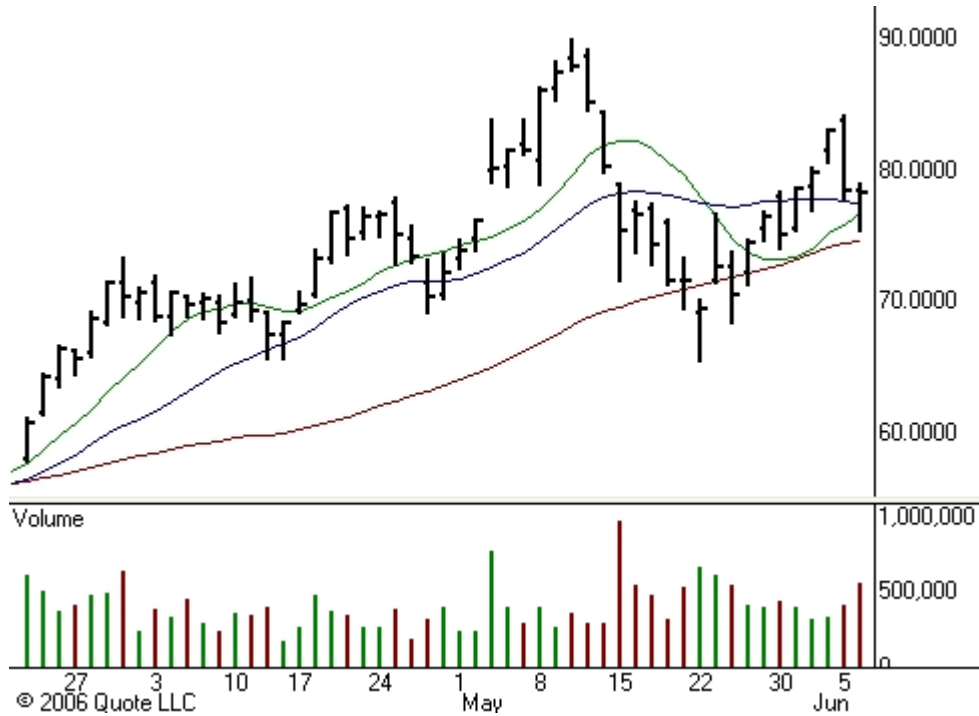
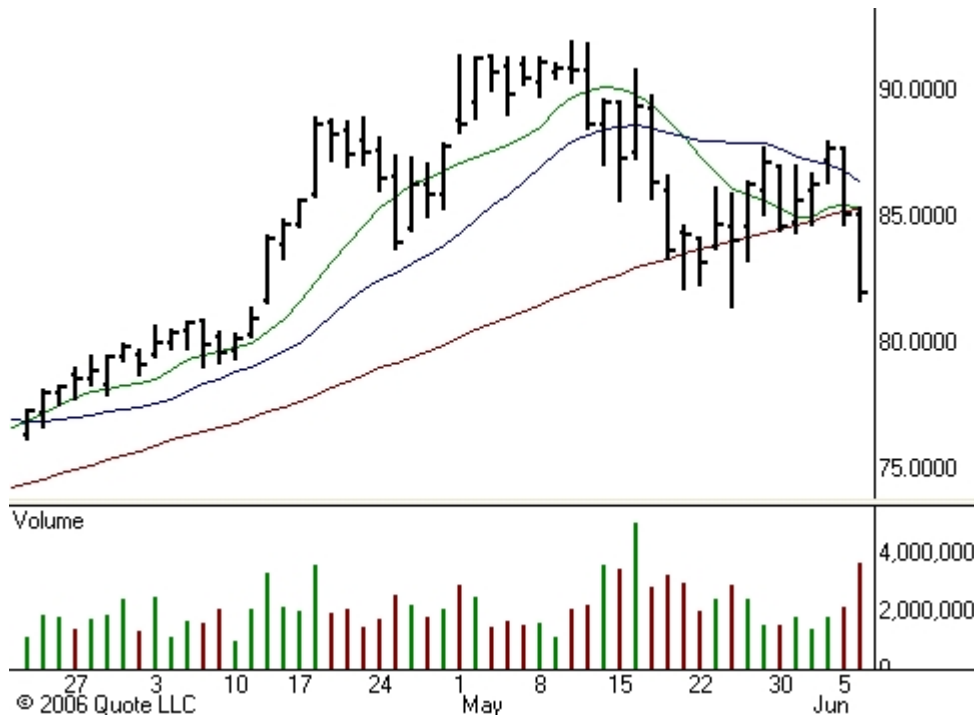


Chart 4

**Deere
(DE:NYSE)
Short**

Entry: 81.60
Stop: 82.60
Pattern: Expansion Pivot

Comments: Heads up for an early trade to 80.00 that goes back up through 81.60, as the stock could reverse.



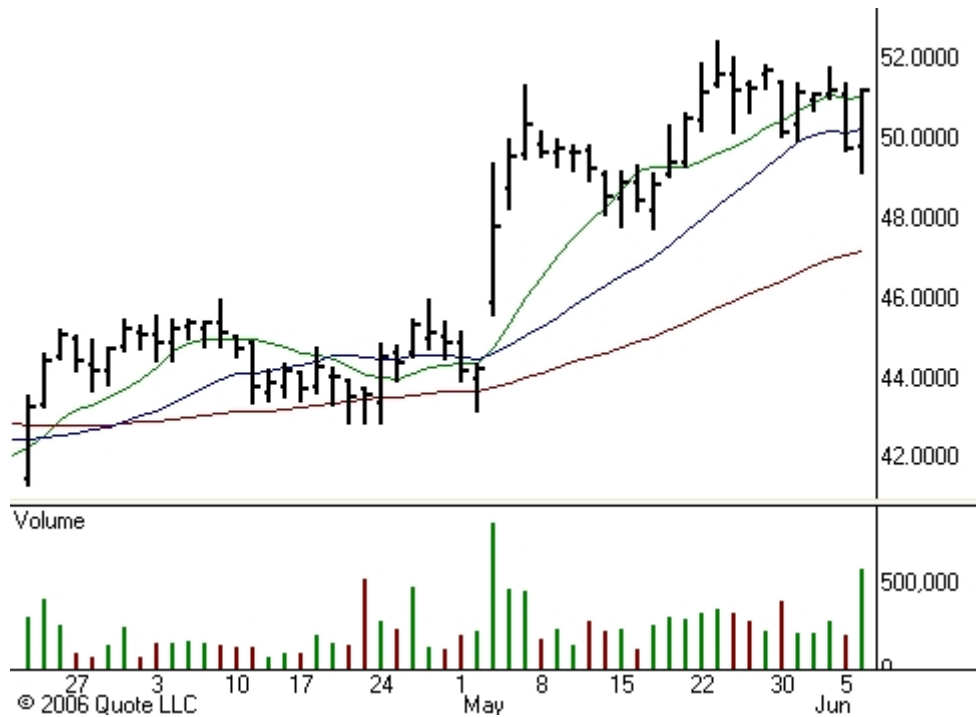
THE SWING REPORT

Chart 1

Corrections Corp. of America ▲
(CXW:NYSE)
Long

Entry: 51.40
Stop: 49.40
Initial Target: 53.40 (trade toward)

Pattern: 180



OBSERVATIONS AND TRAILING STOPS

-- Wednesday is day two in **Caterpillar** (CAT:NYSE) (short). You are short from 68.65. Maintain the stop at 70.65 and the initial target on trade toward 66.65. As of Tuesday's close, you are up 17 cents.

-- Wednesday is day two in **Flowserve** (FLS:NYSE) (short). You are short from 52.60. Lower the stop to 53.60 and maintain the initial target on trade toward 50.60. As of Tuesday's close, you are up 17 cents.

-- Wednesday is day three in **F5 Networks** (FFIV:Nasdaq) (short). You are short from 48.80. Lower the stop to 49.80 and maintain the initial target on trade toward 46.80. As of Tuesday's close, you are up 18 cents.

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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