Market Commentary:
Seeing Red

There is an old story that I am told is not fiction, that a legendary speculator called Philadelphia Phil appears on the floor of the exchange when he smells "blood on the Street." As the story goes, Philadelphia Phil opens his wallet and starts to pick up bargains at that time.

I do not know if Phil came to buy on Tuesday/Wednesday, but I believe he or at least his brother may have shown up to rent for a while. Certainly there was blood on the Street.

Whether or not the blood over the last month is just a first taste of blood for the bears in a series of bloodbaths to come remains to be seen. However, I believe that ultimately the cycles do point lower. Whether or not Wednesday's tourniquet has stemmed the tide for more than a one-to-two-day bounce remains to be seen.

The market bottomed as expected, when we expected, and at the price that we expected -- at least for the short term. The parallel channel that I showed yesterday, which identified a third wave down into 1220 as support on the **S&P 500** stemmed the tide of the downside momentum -- for a while at least. The S&P respected the 1220 level being 270 degrees down from the high.

The best thing about Wednesday's action, in regard to the prospect for an upside continuation, is that the day backed and filled without taking off to the races immediately.

Wednesday's action is testimony as to why, if you want to be a trader, you need to use technical analysis. There was nothing in the way of news of fundamentals or evaluations that was a catalyst for Wednesday's rally. Contrarily, there was more bad news on the inflation front: The S&P futures were up 7 points an hour before the open, only to get drilled into the red by the opening bell, based on a bad report on inflation.

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So where does the S&P end? Up nearly 7 points. But that does not tell the whole story. Many stocks had solid gains. The fact that the market was able to ultimately shrug off the bad news speaks to the idea that it is short-term washed out and probing for a low all day.

Wednesday's action is also testimony to the value of technical analysis for the smart investor who wants to nibble when there is blood on the Street. Nothing in the way of sentiment was panicky, and the market was oversold for days. Only an understanding of patterns and time and price analysis would help focus on the whites of their eyes.

Conclusion: The sell-the-rally mentality ultimately was dented on Wednesday. It looked like that mentality has been working, as a first-hour high was carved out on the S&P and the index dived to a new low for the move just below 1220 to 1219.30. But by the last hour, the shorts, who had been throwing logs on the fire all day, were squeezed and looked to be pressed further on Thursday's open if they did not scramble.

As I said earlier in the week, I expected a rally off 1220, and that the rally to 1260 would hurt puts and calls -- which of course is the market's favorite pastime. Whether or not we can get all the way back to 1260 by Friday looks like a stretch, but the 1225 strike on the **Spyders** (SPY:Amex) equates to 1250 S&P, and seems doable.

First resistance is 1235, then 1245. Keep in mind that the culmination or capitulation cycle, which is 49 to 55 days, runs into next week. If we are going to see another meltdown, that is when it will occur. That time would coincide with a possible quarter-end liquidation. If 1220 falters into next week, then a full 360-degree move down from the high projects to 1185/1190 S&P. Also, the level 1205 is a point of interest because it resonates off the date of June 21, the summer solstice.

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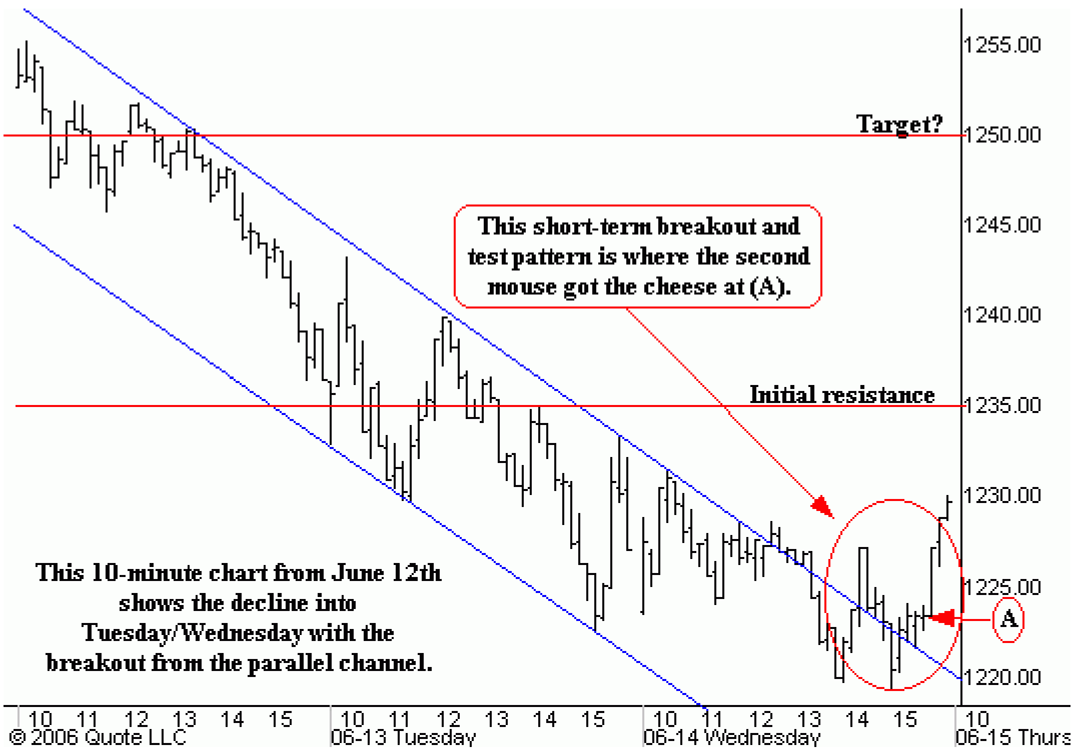
S&P 500 -- 10-Minute



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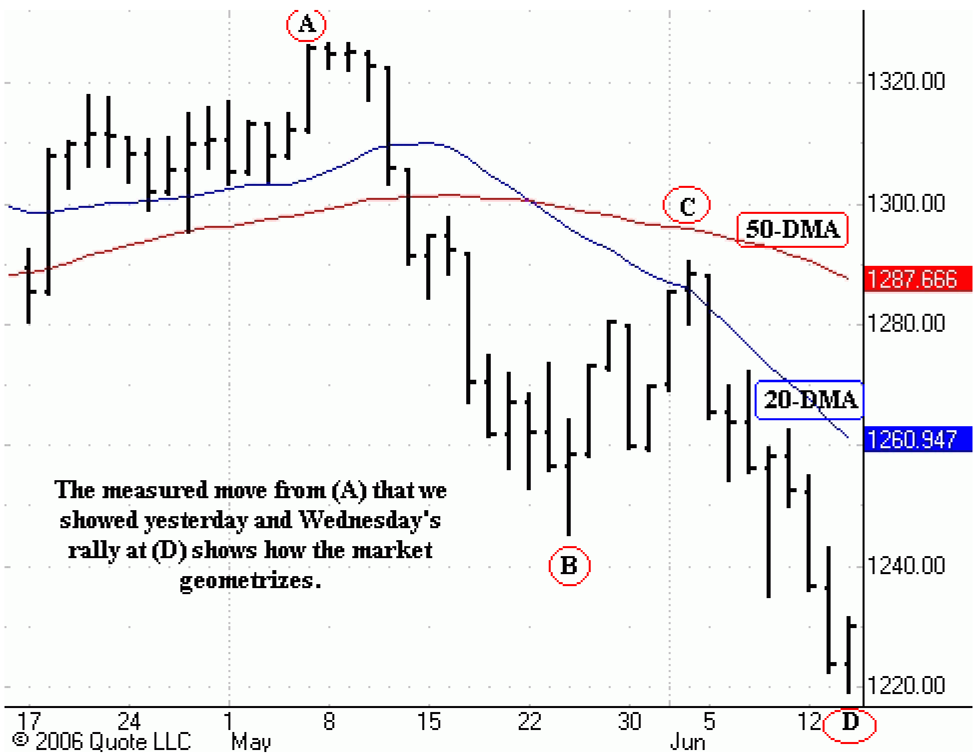
S&P 500 -- Daily



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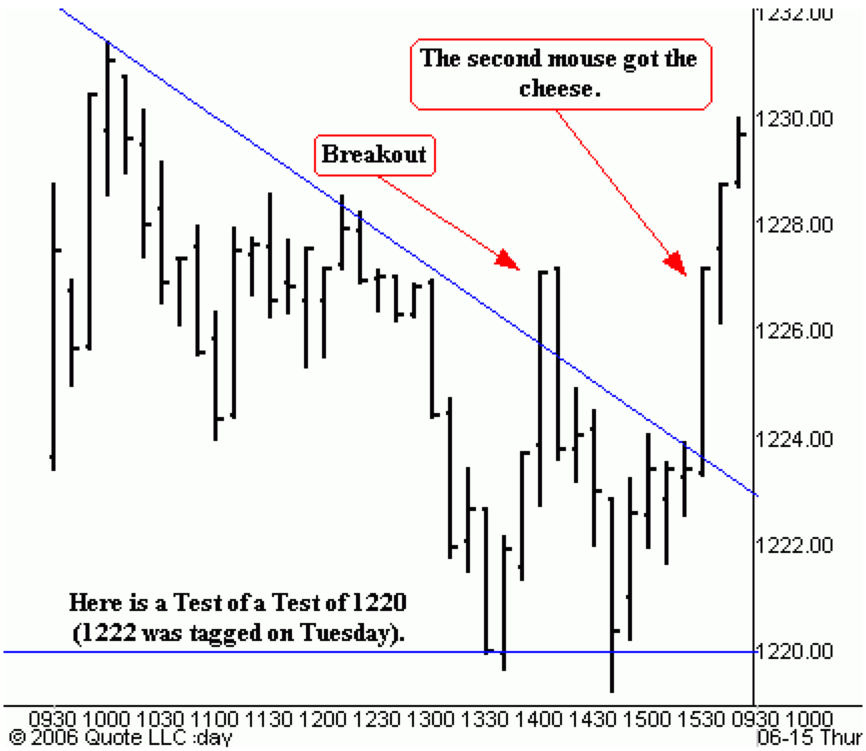
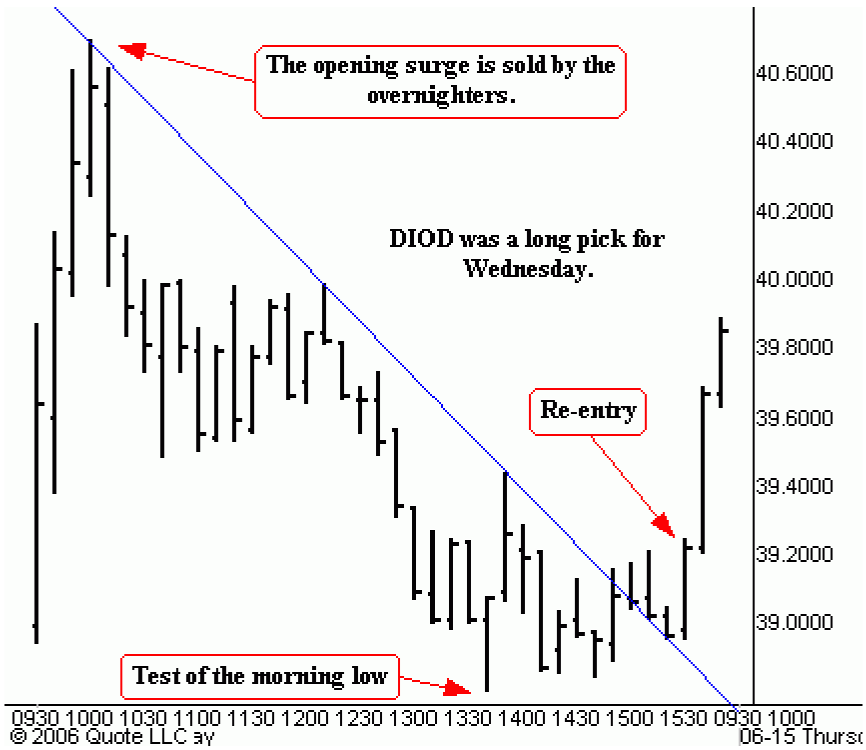
StreetTracks Gold Shares (GLD:NYSE) -- Daily

Pivot Points

S&P 500 -- 10-Minute



Diodes (DIOD:Nasdaq) -- 10-Minute



THE DAYTRADING REPORT

Chart 1

Flowserve
(FLS:NYSE)
Long

Entry: 49.90
Stop: 48.90
Pattern: Gilligan

Chart 2

LCA-Vision
(LCAV:Nasdaq)
Long

Entry: 47.10
Stop: 46.10
Pattern: N/R7

Comments: The narrow range volatility signal in LCAV, at its 200-day moving average while the market is trying to bounce, looks interesting with expiration in front of us. Can LCAV bounce to 50?

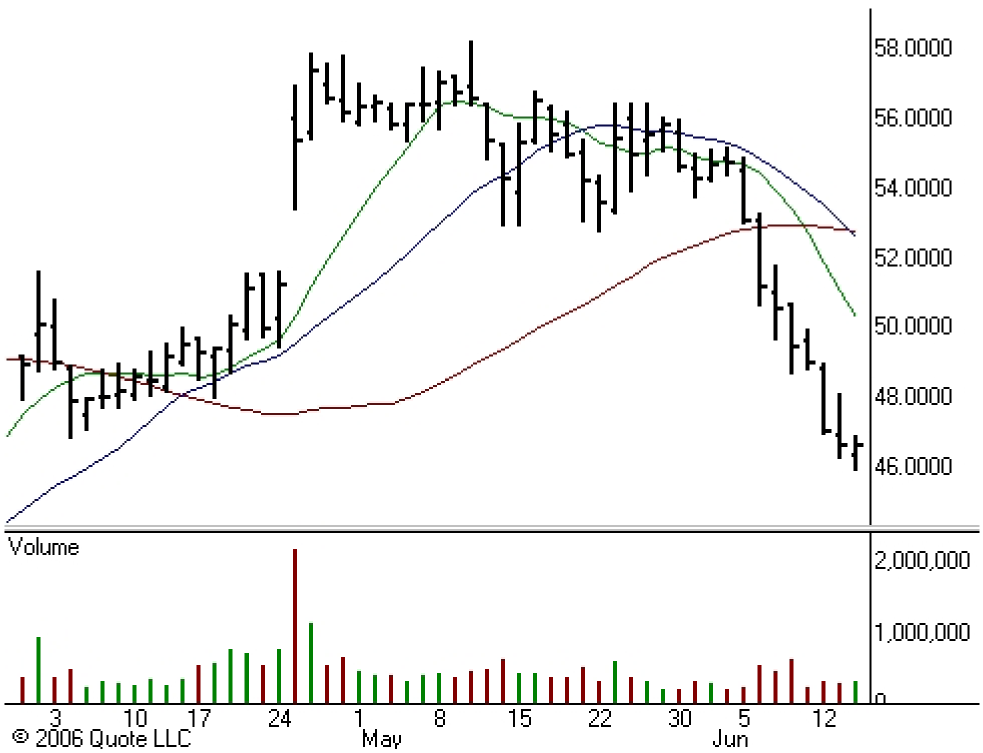


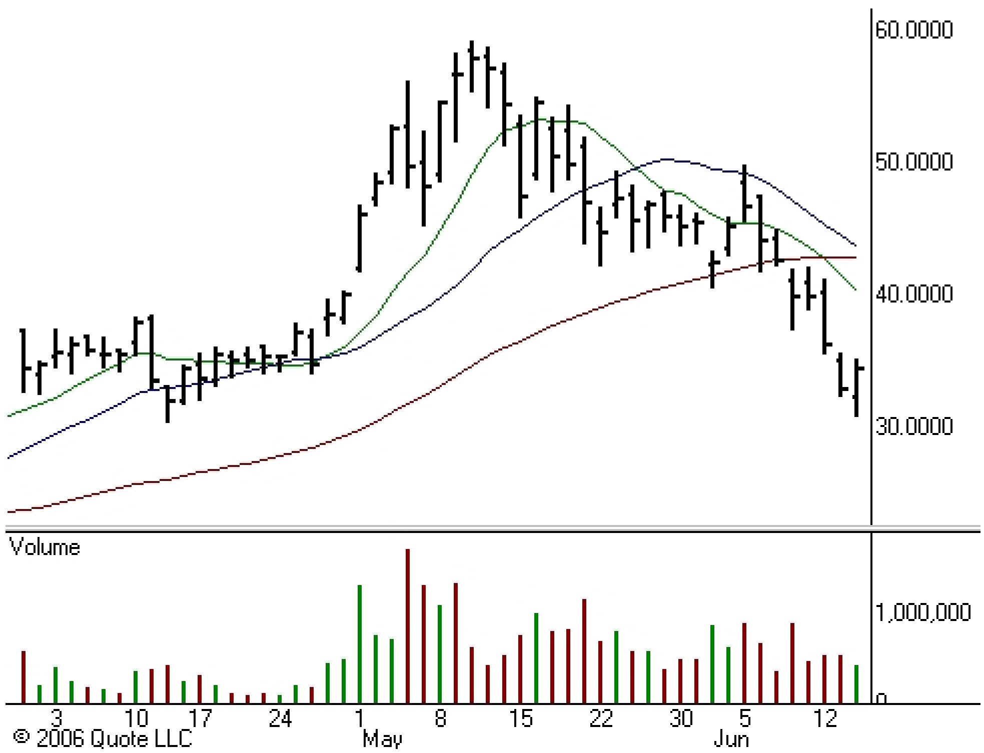
Chart 3

DXP Enterprises
(DXPE:Nasdaq)
Long

Entry: **35.35 officially, but you may want to use an Opening Range Breakout (ORB)**

Stop: **1 point from entry**
Pattern: **Gilligan**

Comments: Heads up as DXPE is extremely volatile and should be used only by the most aggressive traders.



OBSERVATIONS

-- **Zimmer Holdings** (ZMH:NYSE) still looks interesting as a long as it left an N/R7 (narrowest range in seven sessions) signal.

THE SWING REPORT

Chart 1

Chipotle Mexican Grill
(CMG:NYSE)
Long

Entry: **58.40**
Stop: **56.90**
Initial Target: **59.90 (trade toward)**

Pattern: *Expansion Pivot / 180

Chart 2

Daktronics
(DAKT:Nasdaq)
Long

Entry: **47.05**
Stop: **45.05**
Initial Target: **49.05 (trade toward)**

Pattern: Holy Grail

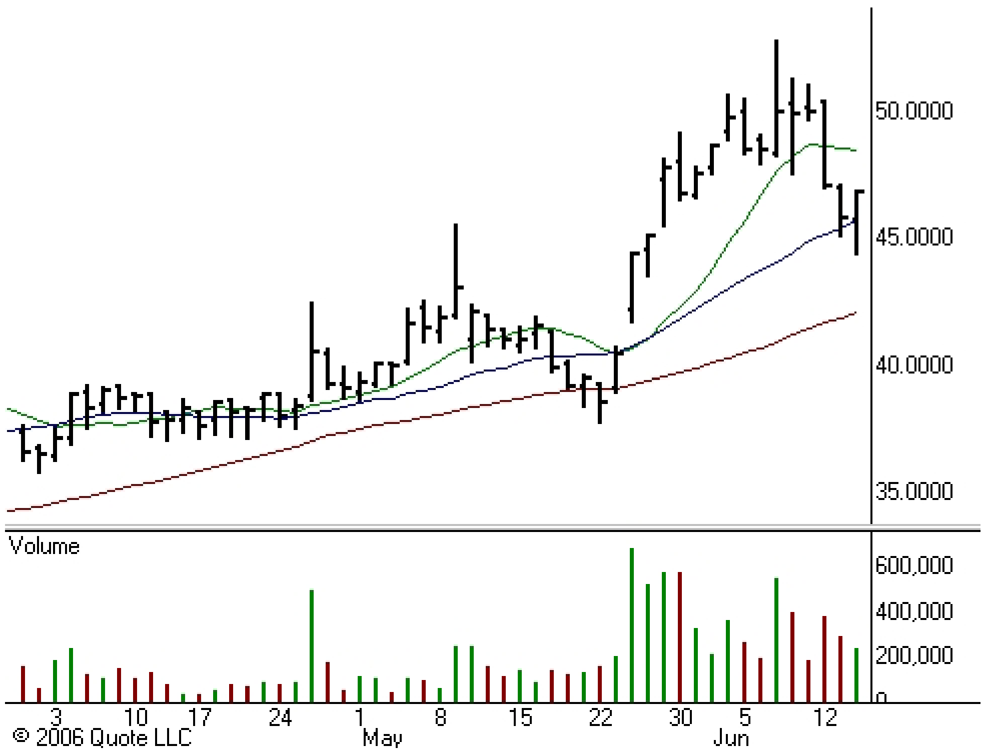
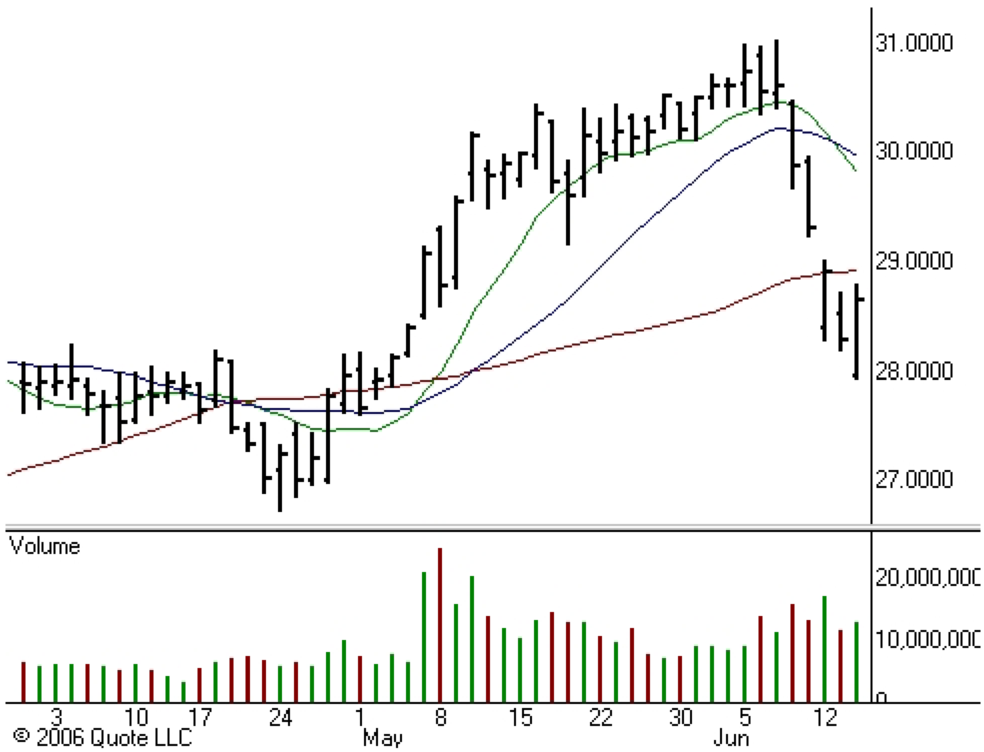


Chart 3

Walt Disney
(DIS:NYSE)
Long

Entry: **28.90**
Stop: **27.90**
Initial Target: **29.90 (trade toward)**

Pattern: LROD



OBSERVATIONS AND TRAILING STOPS

-- Thursday is day two in **Goldcorp** (GG:NYSE) (long). You are long from around 25.40 on a gap open. Maintain the stop at 23.75 and the initial target on trade toward 27.35. As of Wednesday's close, you are up 3 cents.

-- Thursday is day two in **Palomar Medical Technologies** (PMTI:Nasdaq) (long). You are long from 42.15. Maintain the stop at 40.15 and the initial target on trade toward 44.15. As of Wednesday's close, you are down 27 cents.

-- On Wednesday in **Focus Media** (FMCN:Nasdaq) (short), you were stopped out on a gap open at 55.15, above the protective stop of 54.90, for a loss of 1.25.

-- On Wednesday in **Ladish** (LDSH:Nasdaq) (short) you were stopped out of the second piece at 32.75, locking in a gain of 1.00 after covering the first piece on Tuesday for a gain of 2.00.

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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