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Market Commentary: Under the Surface

I showed a chart Wednesday in the [Pivot Points section](#) of the newsletter that indicated the **S&P 500** was poised to pull back and test initial support at 1264.

The early opening strength Thursday was a bluff. Nevertheless, most stocks found a first-hour high, if not a first-half-hour high, before rolling over. In the process, the S&P pulled back between my initial 1264 S&P support and secondary support at 1260. The index made a low of 1261.90 before a feeble bounce at the bell to close at 1263.20.

Last-ditch support as shown in Wednesday's 10-minute chart is 1255. Nevertheless, despite my belief that the indices can and would hold up into the end of the first week of August and the Aug. 8 **Fed** meeting, many stocks are in a crash-and-burn pattern. Support on many names is being broken, with large-range gaps to the downside in just too many names for me not to believe that an accident is waiting to happen for the indices as a whole.

On Monday, I said I did not want to be short over the next couple of days. The market has really held our feet to the fire and taken us to task on that notion. We got a rally, but individual stocks gave up a lot of gusto on Thursday.

The important thing to remember is that we are trading individual names and must honor stops and pivot points on what we are trading regardless of what the overall market is doing. Many times, the market can mask deterioration under the surface for a while.

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Conclusion: Thursday scored an outside day down on the S&P -- meaning Thursday's high was above Wednesday's high. In addition, the index snuck back below its 200-day moving average once again. This large-range reversal is not a good omen coming after the three-day swing chart turned up Wednesday, but not totally unexpected.

Nevertheless, as I mentioned earlier in the week, the turn up with the three-day swing chart often defines a high when the big picture trend is down, and such was the case July 3. Moreover, Thursday's reversal also puts in the prospect of a third lower high, which as you know often indicates a Power Surge to the downside.

If 1255 S&P does not hold, the market itself may not hold up into the Fed meeting. Be that as it may, the market is certainly in defense mode and I would not get aggressive on the long side unless it is on an intraday basis.

S&P 500 -- Daily



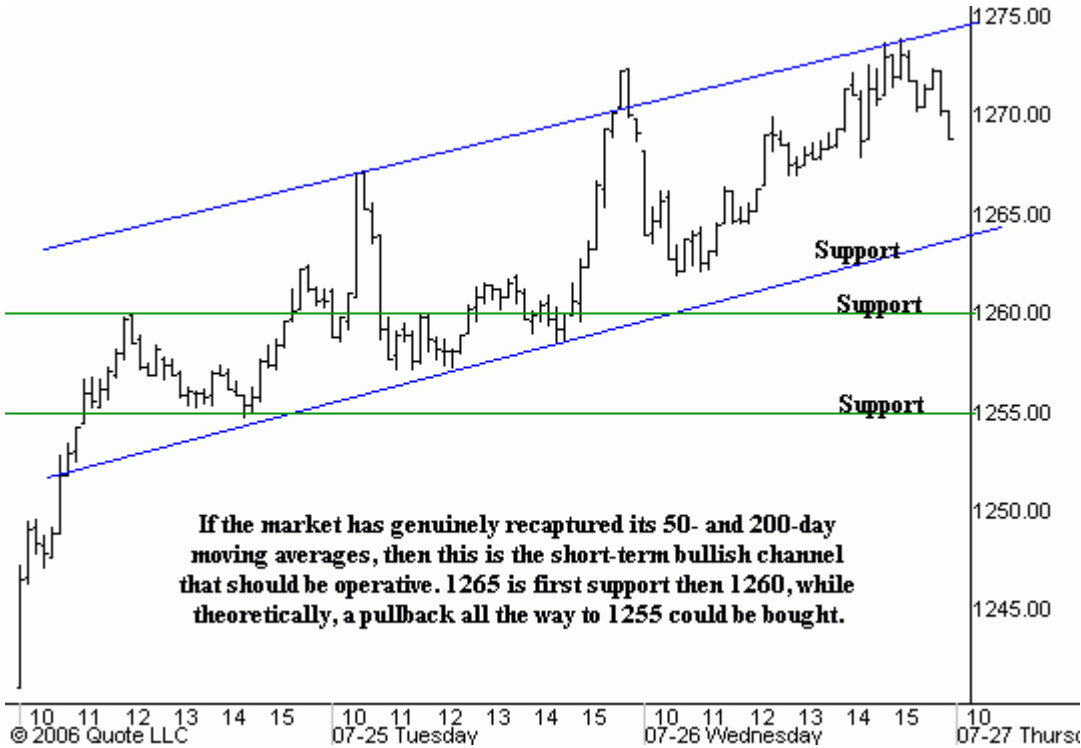
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S&P 500 -- 10-Minute



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S&P 500 -- 10-Minute



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Nasdaq Composite -- Daily



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Russell 2000 -- Daily



Pivot Points

S&P 500 -- 10-Minute



THE DAYTRADING REPORT

Chart 1

**Quicksilver Resources
(KWK:NYSE)
Short**

**Entry: 32.95
Stop: 33.95
Pattern: 180**

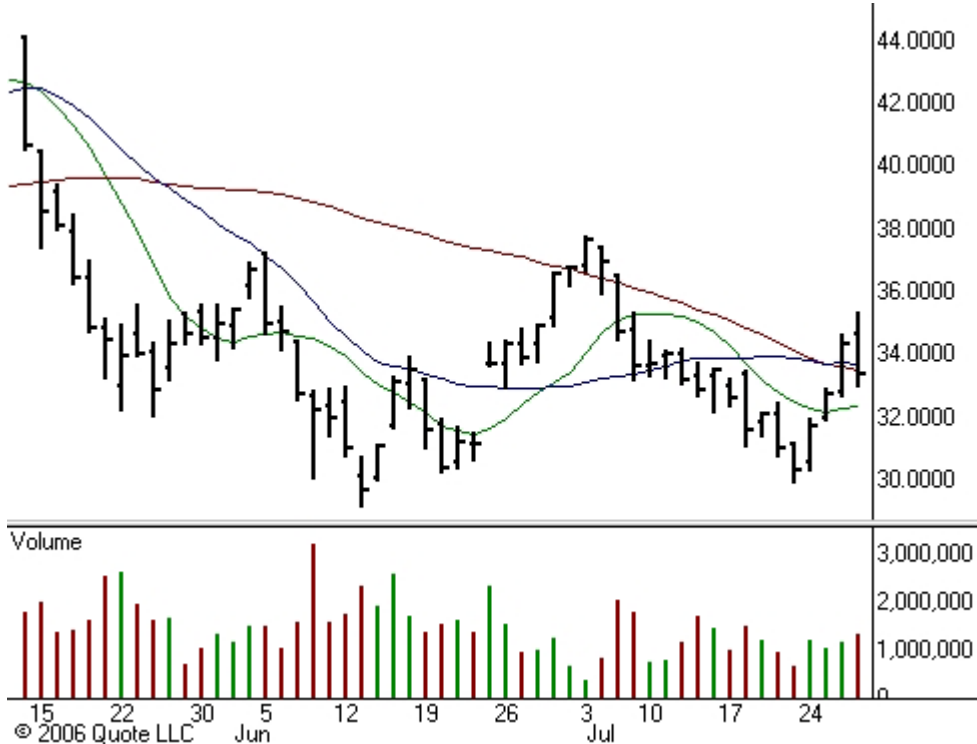


Chart 2

**Occidental Petroleum
(OXY:NYSE)
Short**

**Entry: 105.90
Stop: 106.90
Pattern: Gilligan**

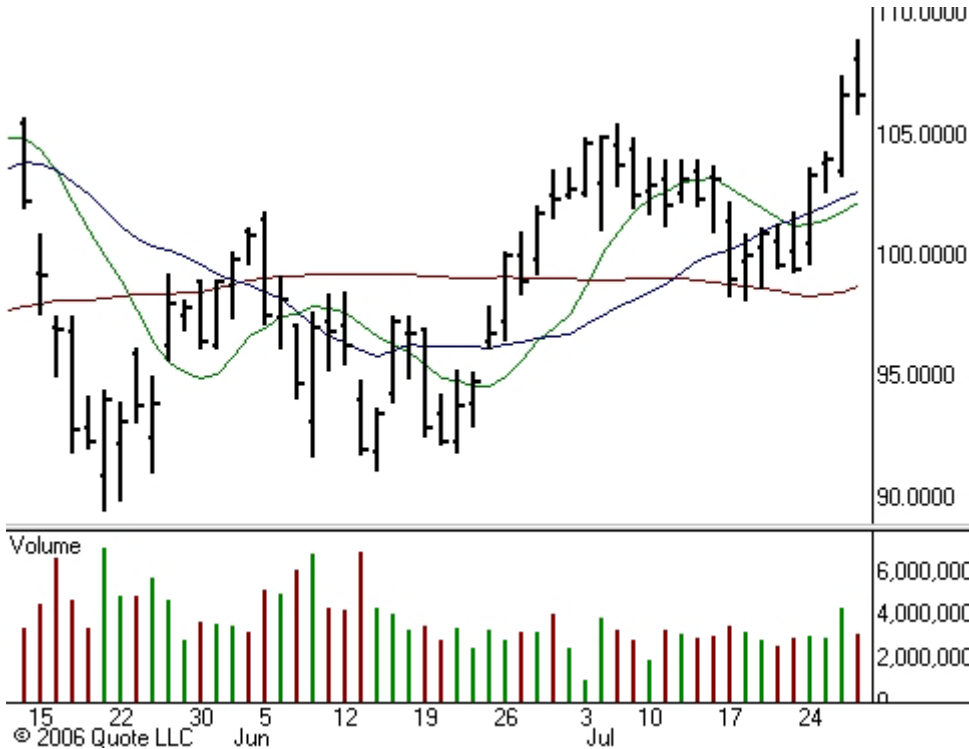


Chart 3

**Garmin
(GRMN:Nasdaq)
Short**

Entry: 91.90 officially, but since GRMN closed at 92.90 Thursday, look to short on any early pop up on trade toward 94.25. Alternatively, use an Opening Range Breakdown (ORB).

Stop: 1 point from entry

Pattern: Expansion Pivot



Chart 4

**Biosite
(BSTE:Nasdaq)
Short**

Entry: 39.40
Stop: 40.40
**Pattern: Expansion Breakdown /
Volume Expansion Breakout**



THE SWING REPORT

Chart 1

3M
(MMM:NYSE)
Short

Entry: 69.30
Stop: 71.30
Initial Target: 67.30 (trade toward)

Pattern: 180

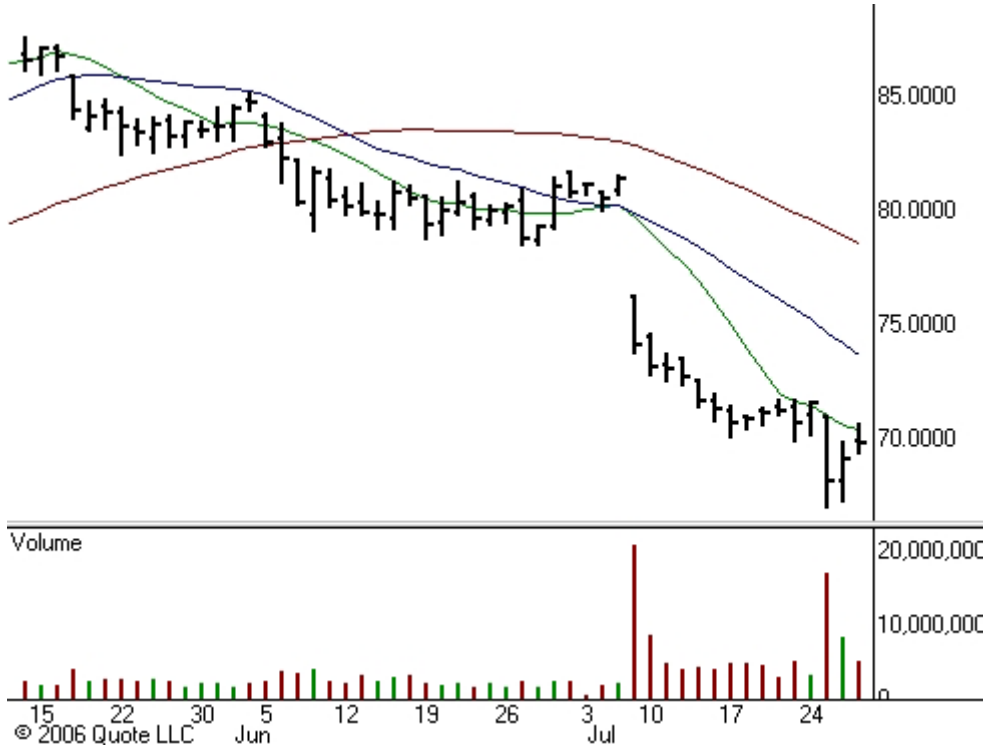


Chart 2

**ASA
(ASA:NYSE)
Short**

**Entry: 60.90
Stop: 62.90
Initial Target: 58.90 (trade toward)**

Pattern: Cooper 1-2-3 Pullback / 180



OBSERVATIONS AND TRAILING STOPS

- Friday is day two in **Thomas & Betts** (TNB) (short). According to instructions, you should have shorted near 46.50. Since TNB opened at 47.50, the alternative instructions were to short on an Opening Range Breakdown, which occurred at 47.30, and so you should use 47.30 officially as the short entry. Lower the stop to break even at 47.30 and maintain the initial target on trade toward 45.30. As of Thursday's close, you are up 1.56.
- Friday is day two in **Manpower** (MAN) (short). You are short from 58.95. Maintain the stop at 60.95 and the initial target on trade toward 56.95. As of Thursday's close, you are down 17 cents.
- Friday is day two in **Chipotle Mexican Grill** (CMG) (short). You are short from 51.50. Lower the stop to 52.50 and maintain the initial target on trade toward 49.50. As of Thursday's close, you are up 56 cents.
- On Thursday in **Ipsco** (IPS) (long), you should have sold your first piece as IPS traded up to 94.39, a penny away from the target. Use a price of 94.25 officially, which locks in a profit of 1.85. As you know, once the first piece is sold, the trailing protective stop on the second piece is raised to break even at 92.40. In this case, you were subsequently stopped out for a scratch on the second piece.
- On Thursday in **Holly** (HOC) (long) you were stopped out at 49.50, locking in a gain of 1.00 after selling the first piece on Wednesday for a 1.80 gain.
- Friday is day four in **Vornado Realty Trust** (VNO) (long). You are long from 103.55 on a gap open. Maintain the stop at 101.40 and the initial target on trade toward 105.40. As of Thursday's close, you are down 31 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.

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