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Market Commentary: Turning Point Looms

They say April is the cruelest month, but since 1990 August has been the bull's worst enemy. But before we look at what August may have in store, let's take a look back first.

After the sharp decline off the May high, I had stated that a retracement rally into August could be the mother of all selling opportunities. Of course, after the late June, early July bounce up to 1280 **S&P**, I wondered how the market could chew up enough time to wind its way into an important turning point in August without making new highs -- but here we are.

As anticipated last week, the month of July ended near its highs with the S&P poised to turn the important monthly swing chart up -- probably as early as Tuesday. The behavior on any such move up over the next few days above July's highs will be important to observe. It will tell us something about the message of the market, the position of the market, and its bias going forward at this crucial turning point.

In addition, the S&P traced out an NR7 signal Monday -- the narrowest trading range in the last seven days. Consequently, the market is wound up going into this turning point in August. Whether or not this turning point will be the first week in August or stretch into later in the month is not knowable. However, ninety degrees ago in time was the first week in May, which was a turning point and a high. Ninety degrees prior to that was the low the first week of February. Therefore I would not give a rollover early in August a lot of room to hurt you.

It is possible the S&P could probe the 1300 level, which is the breakdown point on any celebration of a pause by the **Fed**. But, at the same time, the history of the Federal Reserve over the last 30 years or so is to push the envelope too far and cause a financial accident, if not a recession. Another rate hike on Aug. 8 into an already inverted yield curve -- especially in a market that has rallied into the Fed meeting -- may dovetail nicely, but this is the mother of all cyclical and technical selling opportunities.

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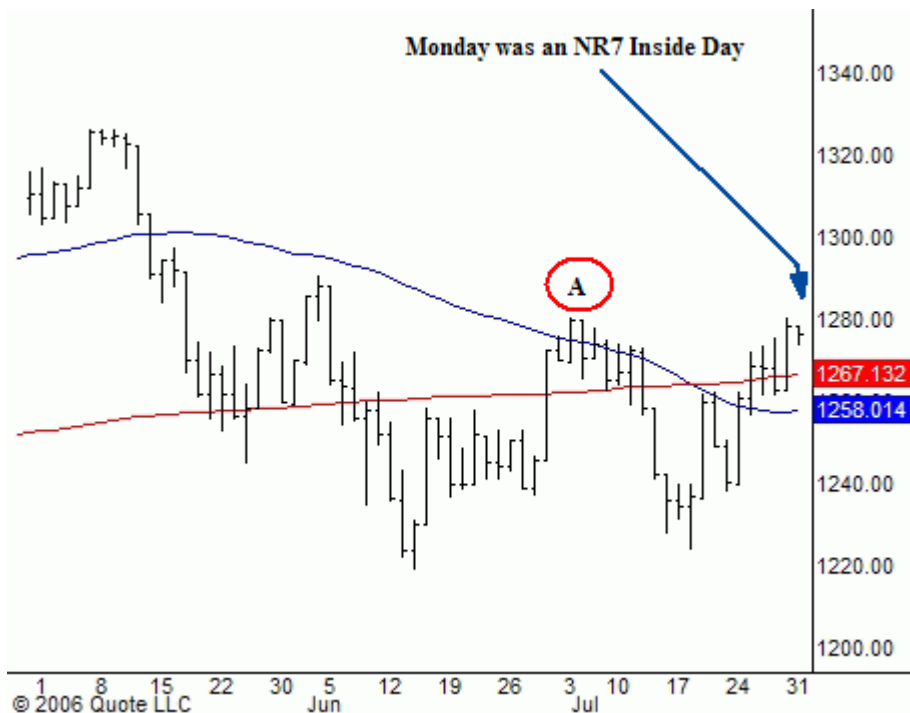
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For the most part, the varsity team is usually off the desk in August, leaving a light and uneventful month. But this August may prove different with the most important Fed decision in a long time at hand; the 18th consecutive rate hike looms as last week's lower-than-expected GDP number and still-hot inflation numbers face off, raising concerns for stagflation. The transportation index is confirming a slowdown, while at the same time oil -- and the strongest equity group, the oil sector -- is threatening a climatic spike, which may in fact help drive the S&P to a potential probe of 1300.

The important thing to remember is that with the rebirth of volatility over the last two months, the question remains as to why any of us should believe that any slowdown in the economy won't get overdone and lead to something more than just a slowdown with that backdrop. It is my opinion that any spike in the commodity stocks in August will also be a selling opportunity, prior to a possible multimonth washout in an ongoing commodity bull market.

Conclusion: August has historically been an interesting month for big turns prior to sharp declines in the fall. Two significant turning points come to mind: August 1929 and August 1987, not to mention August 2000. Interestingly, all three summers coincided with record heat waves. Of course, who's silly enough to bet on cycles? Who's silly enough to bet that the breakout last May would have seen an immediate downside reversal?

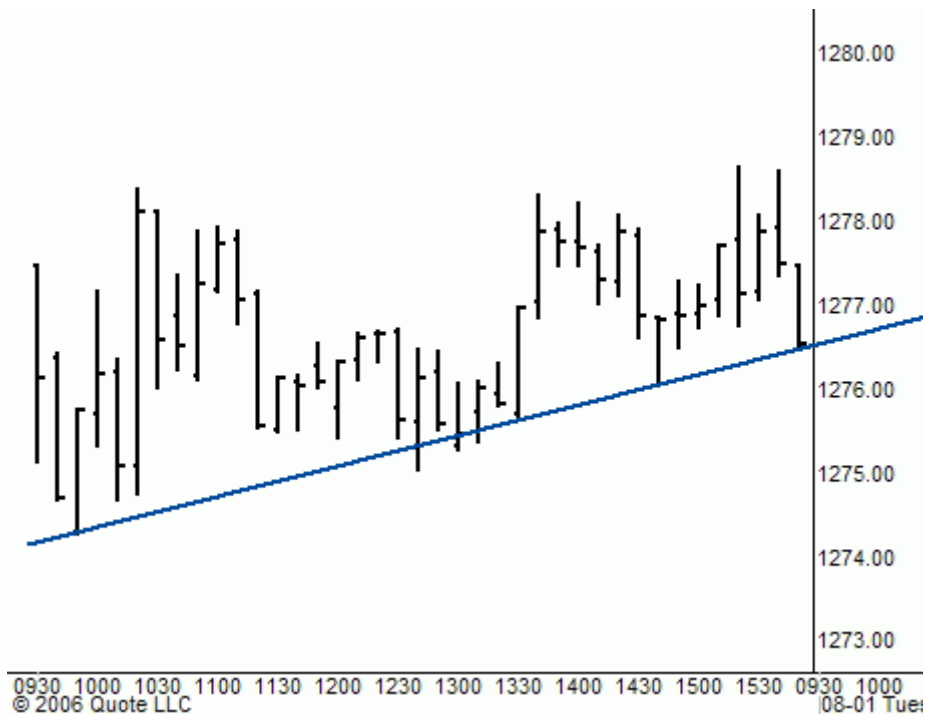
S&P 500 -- Daily



(On Monday, the S&P 500 hovered just below a turn up of the monthly swing chart, which will occur on trade above July's high (A).)

Pivot Points

S&P 500 -- 10-Minute



(A break below 1275 Tuesday that holds could see a pullback, but trade above 1280.40 prior to a break of 1275 should put us in a more defensive posture.)

S&P 500 -- 60-Minute



(Since the test of the June lows (A), the S&P 500 has been tracing out higher lows and higher highs on the hourlies (B).)

THE DAYTRADING REPORT

Chart 1

A.G. Edwards
(AGE:NYSE)
Long

Entry: 54.55 officially, but you may want to use an
ORB (Opening Range Breakout)

Stop: 1 point from entry

Pattern: Signal Day +1

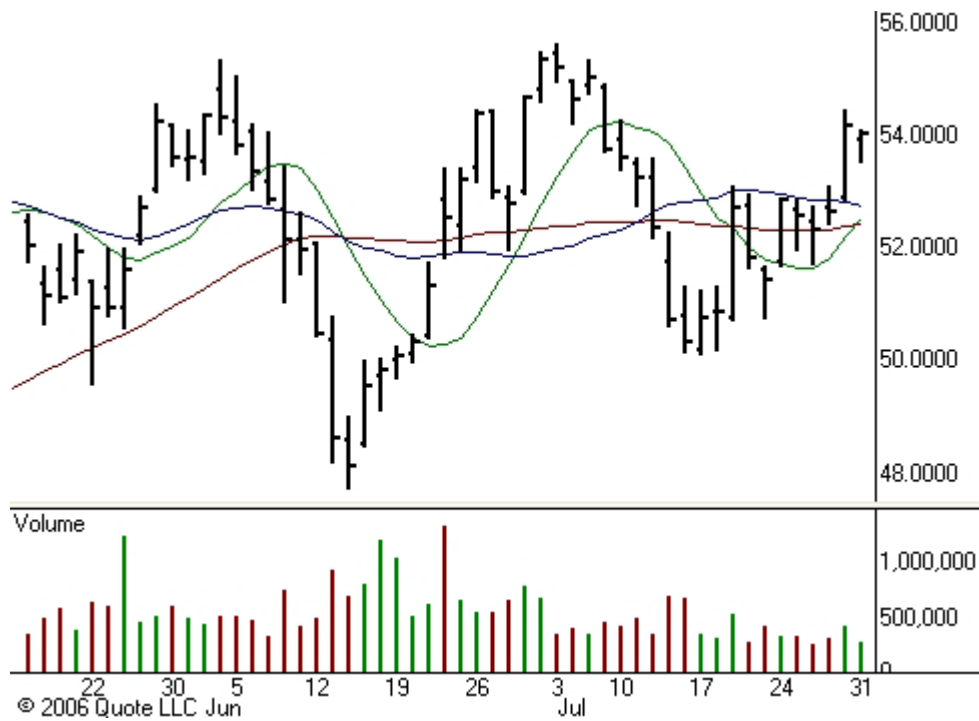


Chart 2

**Vulcan Materials
(VMC:NYSE)
Short**

**Entry: 66.45
Stop: 67.45
Pattern: *180**

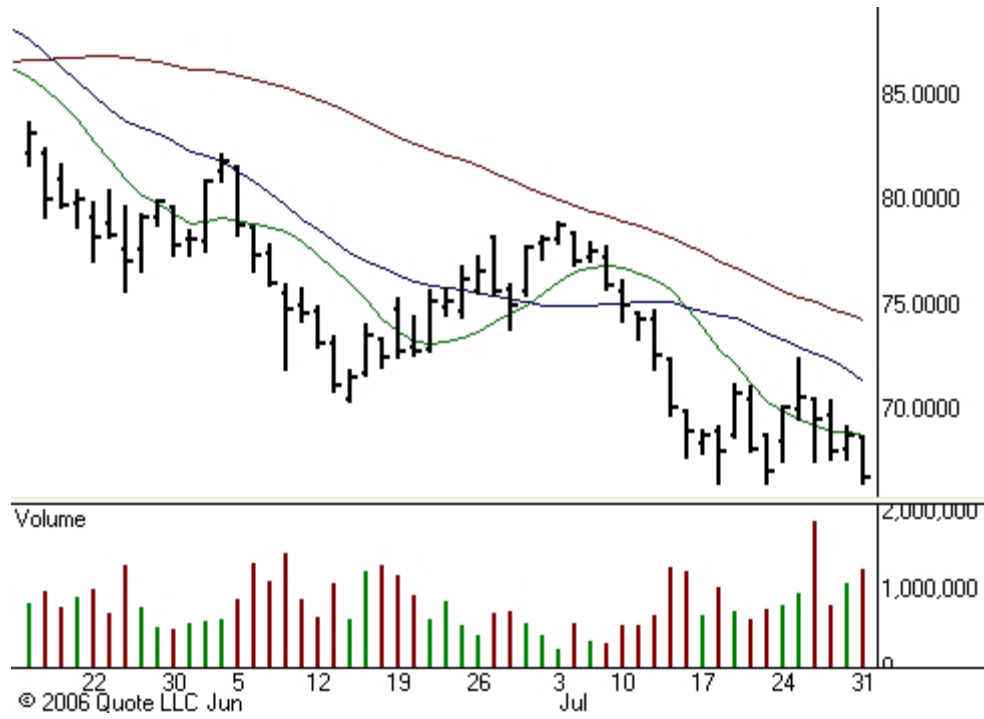


Chart 3

**Consol Energy
(CNX:NYSE)
Long**

**Entry: 42.75 officially, but only go long on an ORB
(Opening Range Breakout) as it closed at 41.15**

**Stop: 1 point from entry
Pattern: Expansion Pivot**



Chart 4

**Akamai Technologies
(AKAM:Nasdaq)
Long**

**Entry: 39.85
Stop: 38.85
Pattern: Expansion Breakout**

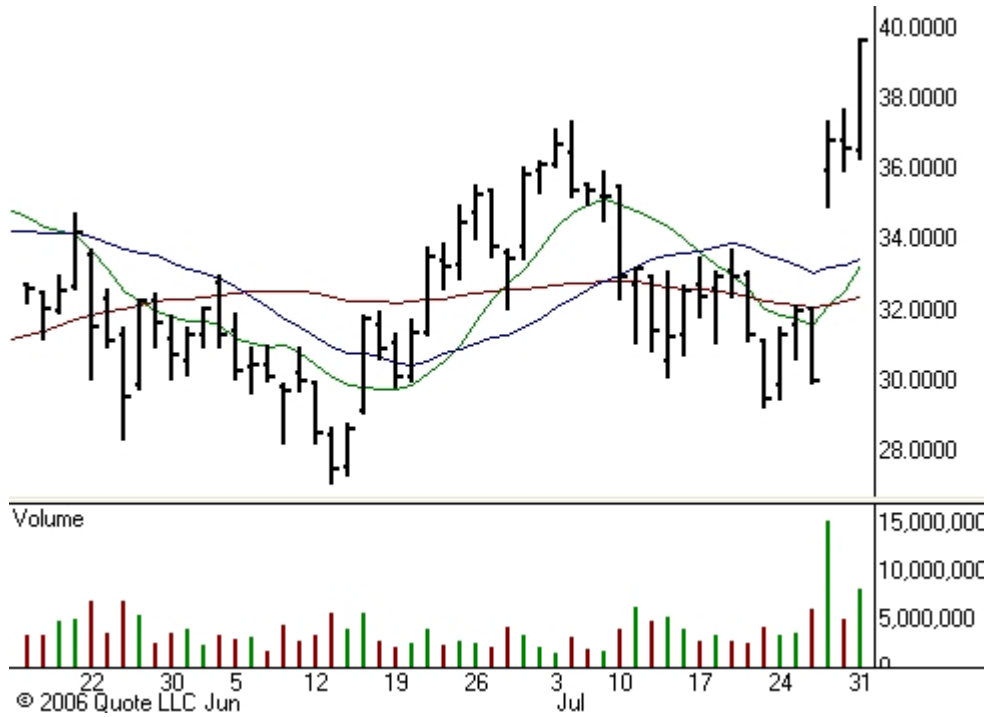


Chart 5

**DXP Enterprises ▲
(DXPE:Nasdaq)
Long**

**Entry: 36.60
Stop: 35.60
Pattern: *Expansion Pivot / 180**

Comments: Heads up as this one is very volatile.



THE SWING REPORT

Chart 1

ASA
(ASA:NYSE)
Short

Entry: 61.30
Stop: 63.30
Initial Target: 59.30 (trade toward)

Pattern: *180

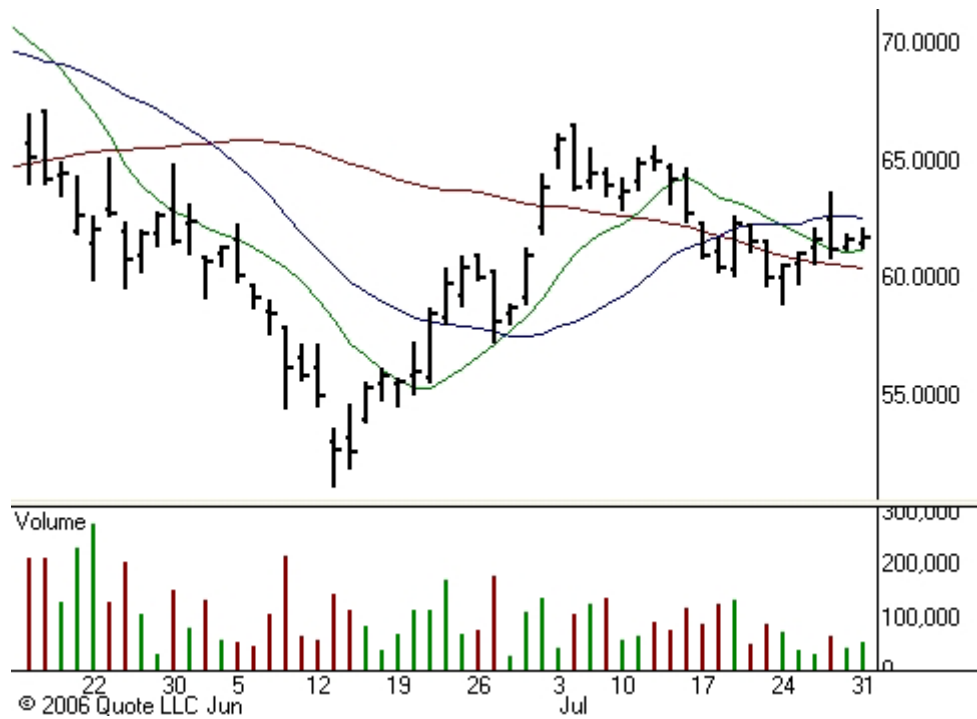


Chart 2

**Peabody Energy
(BTU:NYSE)
Long**

Entry: 51.50 officially, but aggressive traders may want to use an ORB

Stop: 2 points from entry
Initial Target: 2 points from entry (trade toward)

Pattern: Boomerang

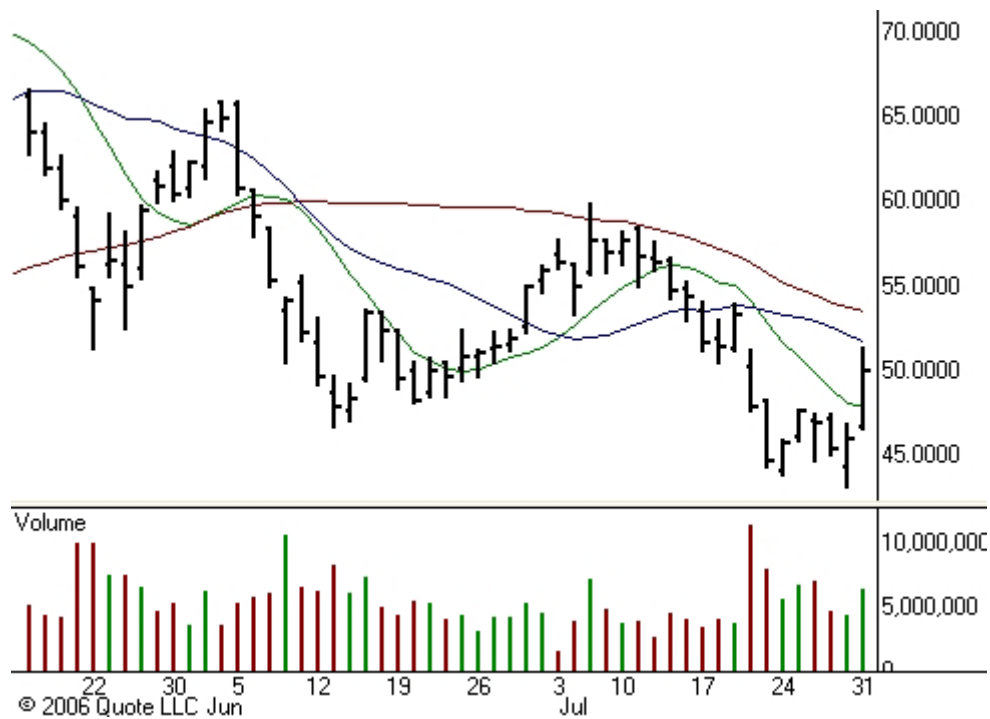


Chart 3

**3M
(MMM:NYSE)
Short**

Entry: 69.90
Stop: 71.90
Initial Target: 67.90 (trade toward)

Pattern: Cooper 1-2-3 Pullback +1



OBSERVATIONS AND TRAILING STOPS

-- Tuesday is day two in **Electronic Arts** (ERTS:Nasdaq) (long). You are long from 47.45. Maintain the stop at 45.45 and the initial target on trade toward 49.45. As of Monday's close, you are down 34 cents.

-- **ASA** (ASA:NYSE) (short) did not trigger and can be used again.

-- Tuesday is day two in **NutriSystem** (NTRI:Nasdaq) (long). You are long from 51.60. Maintain the stop at 49.60 and the initial target on trade toward 53.60. As of Monday's close, you are up 1.32.

-- Tuesday is day two in **Ctrip.com** (CTRP:Nasdaq) (long). You are long from 50.20. Maintain the stop at 48.20 and the initial target on trade toward 52.20. As of Monday's close, you are up 42 cents.

-- Tuesday is day two in **First Marblehead** (FMD:NYSE) (short). You are short from 46.20. Maintain the stop at 48.20 and the initial target on trade toward 44.20. As of Monday's close, you are up 40 cents.

-- On Monday you were stopped out of **Thomas & Betts** (TNB) (short) for a scratch.

-- Tuesday is day four 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 Tuesday's close, you are down 53 cents.

-- On Monday you covered your first piece of **Chipotle Mexican Grill** (CMG) (short) for a gain of 1.70, as per instructions, and then the stop was lowered to break even. Consequently, you were stopped out of the second piece for a scratch.

-- On Monday you were stopped out of your second piece of **Vornado Realty Trust** (VNO) (long) for a gain of 55 cents, after locking in a gain of 1.65 on the first 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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