"Say hello to my little friend."

That's what the oil bears could have been saying, *a la* Tony Montana, about Hurricane Ernesto to those longs who loaded up before the weekend expecting the worst. Ernesto wasn't as earnest as feared. The longs got caught in the idea that what played out last year would clearly repeat.

Consequently, crude oil futures collapsed approximately $2 on Monday as the longs unloaded. In the process, the U.S. Energy Fund (USO) broke and closed below the key 65 level. Remember, that is the neckline I showed recently that was telegraphing a break.

Moreover, I recently mentioned that if Iranian saber-rattling and the Aug. 31 U.N. deadline vis-a-vis sanctions on Iran, the Hezbollah/Israeli war, the BP pipeline problem in Alaska and the foiled British terrorist plot did not cause the well-advertised explosion to $80 and higher on oil, then the oil market was telegraphing lower prices.

Not to mention the fact that the OSX (the oil service index) and many oil stocks -- which were well off their highs with a series of lower highs and lower lows -- were saying something was amiss in the near-term bull case in oil.

I suspect if Ernesto had in fact developed into a super storm heading for rigs in the Gulf, then more than likely any spike higher would have been just that -- a relatively short-lived spike that would have been used as an opportunity to sell.

So, the market had a light-volume relief rally on Monday. Wall Street looked in the eye of the hurricane, and the hurricane blinked.

*(Continued on the next page)*

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It may be the one-year anniversary of Hurricane Katrina, and we may yet survive a 1-2 hurricane punch. But storm season is just beginning on Wall Street. Seasonality, long-term cycles and the four-year cycle are all topping simultaneously, not to mention the fact that, as I will show tomorrow on the Square of Nine Calculator, the price of the May high at 1327 is opposition in time to the closing high so far on the S&P 500 in August on this retracement rally. That occurred on Aug. 18, when the S&P closed at 1302.30. Despite Monday's relief rally to a somewhat higher high, the S&P closed at 1301.80.

Some analysts believe that many money managers have raised cash already and moved to the sidelines in anticipation of a weak September/October. Certainly there has been a lot more talk about this four-year cycle low that is due than I recall in either 2002, 1998 or 1994. Some believe that because there is considerable bearish sentiment about what September and October may bring, things will play out differently this time.

Perhaps, but I have seen markets move down on staunchly bearish sentiment and move meaningful higher on solid bullish sentiment. Similarly, I have seen breakouts succeed on what appears to be the lack of conviction of light volume, while I have also seen breakouts fail on strong volume.

Consequently, I would not be too quick to judge that the market will avoid the pressure the cycles suggest this fall just because a lot of people are aware of them and talking about them. In my view, it usually takes a universality of sentiment to make contrariness in and of itself a setup worth looking at. Market psychology is a strange and fickle thing to get your head around. The question is, did the approximate 9% correction off the May high satisfy the four-year cycle low due this year? Methinks not.

That said, technically speaking, the S&P is now in the eye of the storm and the crosshairs of time and price. The S&P has rallied back to the underbelly of the Live Angle to 1301/1302 I showed last week, while at the same time numerous cycles are poised to roll over.

In addition, as I often say, the market tends to play out in threes. Patternwise, either the S&P is poised to roll over from a 1-2-3 Swing Snapback or Pullback to a test of the breakdown pivot in May, or it is poised to surge higher from a third-higher low since June, which is my Power Surge Pattern.

**Strategy:** A look at the breakout over the consolidation in early May shows a short-lived spike that immediately reversed. It's too early to say that the S&P has traced out a fractal of that pattern currently, but any first-hour high on Tuesday that sees price reverse back below Monday's low is a definite warning flag. On the other hand, if the market holds up and continues to grind higher, stocks may be able to work their way up toward Labor Day.

(Continued on the next page)
(Is the S&P poised to surge higher from a third higher low? Was Monday an authentic breakout from a third-stage consolidation or has the S&P traced out a 1-2-3 Swing Pullback to test the 1300 breakdown level?)

(Continued on the next page)
S&P 500 -- Daily

Note the false breakout over the flat consolidation (A) prior to the high of the year.

Note how the S&P has rallied back to the point of the breakdown (B).

(Continued on the next page)
(Did the S&P break out of a consolidation on Monday (A)? A move back below a short-term trendline will trigger a Boomerang Sell Signal on the short-term charts.)

(Continued on the next page)
U.S. Oil Fund (USO) -- Daily

On Monday the USO broke a Neckline suggesting lower prices.
Pivot Points

S&P 500 -- 10-Minute

(Trade below 1297 (B) violates a short-term uptrend line. Trade below 1292 Square (C) is a red flag.)
Abercrombie & Fitch (ANF) -- 10-Minute

ANF was a Day pick for Monday and still looks interesting.
NGPS was a Day pick for Monday that made a first hour high and left a late day ORB.

NovAtel (NGPS) -- 10-Minute
THE DAYTRADING REPORT

Chart 1

Cognizant Technology Solutions
(CTSH:Nasdaq)
Long

Entry: 71.30
Stop: 70.30
Pattern: 180 / Holy Grail
Chart 2

Vornado Realty Trust
(VNO:NYSE)
Long

Entry: 106.45
Stop: 105.45
Pattern: LROD / New Closing High

Comments: VNO has pivoted out of a Mini Cup & Handle pattern, which looks interesting.
Chart 3

Fomento Economico Mexicano
(FMX:NYSE ADR)
Long

Entry: 93.00
Stop: 92.00
Pattern: 180 / Holy Grail

Pattern: Power Surge (3rd higher low).
OBSERVATIONS

-- Public Storage (PSA) and Abercrombie & Fitch (ANF) still look interesting on the long side.
THE SWING REPORT

Chart 1

ASA
(ASA:NYSE)
Short

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

Pattern: *Expansion Pivot / 180
Chart 2

Affiliated Managers
(AMG:NYSE)

Long

Entry: 94.75 officially, but since AMG closed at 93.87, look to go long on an ORB

Stop: 92.60

Initial Target: 2 points from entry (trade toward)

Pattern: *180 / V-Thrust / Holy Grail
**OBSERVATIONS AND TRAILING STOPS**

-- Tuesday is day two in Harley-Davidson (HOG) (long). You are long from 58.05. Maintain the stop at 57.05 and the initial target on trade toward 60.05. As of Monday's close, you are up 50 cents.

-- Tuesday is day two in International Securities Exchange (ISE) (long). You are long from 42.00. Maintain the stop at 40.00 and the initial target on trade toward 44.00. As of Monday's close, you are down 52 cents.

-- Tuesday is day two in Raytheon (RTN) (long). You are long from 46.85. Maintain the stop at 45.85 and the initial target on trade toward 48.85. As of Monday's close, you are up 5 cents.

-- Palomar Medical Technologies (PMTI) (short) did not trigger.

-- Tuesday is day seven in United Therapeutics (UTHR) (short). You are short from 54.50. Maintain the adjusted stop at 55.00 and the initial target on trade toward 52.50. As of Monday's close, you are up 36 cents.

-- Tuesday is day eight in The GEO Group (GEO) (long). You are long from 44.60 on an ORB. Raise the stop to 43.60 and maintain the initial target on trade toward 46.60. As of Monday's close, you are up 58 cents.

-- Tuesday is day nine in Monsanto (MON) (long). You are long from 46.88 on a gap open. Maintain the adjusted stop at 45.50 and the initial target on trade toward 48.75. As of Monday's close, you are up 1 cent.

-- On Monday you were stopped out of Invitrogen (IVGN) (short) for a loss of 1.20.

-- Tuesday is day 12 in Mack-Cali Realty (CLI) (long). You are long from 50.45. A week ago Friday you sold your first piece, locking in a gain of 93 cents. Raise the adjusted stop on the second piece to 51.50. As of Monday's close, you are up 2.04 on the second piece.
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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