Market Commentary: Don’t Follow the Crowd

Not all economic news is created equal.

On Friday, the consumer price index came in lower than expected, which played right into the options expiration arbs' hands.

However, for all the early hoopla, the news was pretty much met with sellers as the S&P 500 made a first-hour high. What could have been a super gonzo of a Friday with the bulls pulverizing resistance instead turned into a mild-mannered rally.

The CPI report may have been a more significant catalyst at lower levels in the indices. But few traders were willing to see the report as enough of a reason to throw more money into stocks at resistance.

So, the question becomes, what can the market count on to catapult it through resistance come next week's typical options-expiration hangover?

With Friday's options expiration came the unwinding of all those puts bought for a few months out on the heels of the waterfall decline from May and the outbreak of the Israeli/Hezbollah war.

The market has marched up a wall of worry from the June/July lows shrugging off an approaching hurricane season, $70-plus oil, Mideast war, the Fed and the uncovering of a serious, massive terrorist plot, as well as a sharp break in the housing market -- all as the prospect of the four-year cycle trough this fall approached.

These puts have now expired as worthless -- coincident with the evaporation of many of the aforementioned bricks in the wall of worry. The concerns of the summer mirror the recent euphoria.

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On Friday, the bulls appear to have squandered the opportunity to capitalize on the lower-than-expected CPI report. With the market at an inflection point, it should either blow out to S&P 1340/1350 or roll over. Instead, stocks made a first-hour high on Friday as reflected by the S&P that left a Lizard sell setup, as the index was pinned to the 1320 strike.

That does not mean that it isn't going to try again to go higher next week, but it certainly had an opportunity to do so on Friday. As I see it, there is still a chance for stocks to rally into next week, but time is running out if the cluster of cycles that I am looking at is going to bear down.

I say that the market has a chance to rally further because the **Dow Jones Industrial Average** is so close to a new all-time high that it may get goosed up there to create a headline that drags the public in. Additionally, there is an inverted Head and Shoulders pattern on the S&P, which I mentioned over a month ago that still projects to 1340 S&P. Thirty years ago in 1976, the Dow bumped its head up against resistance numerous times without being able to break out.

**Conclusion:** While the market is celebrating the "collapse in oil" and more data that indicate the Fed will remain on hold in the wake of Friday's CPI, the market should also be thinking about whether or not the weakening commodities reflect slowing global growth or whether the decline in commodities is just the froth coming off speculation.

A funny thing happened on the way to the bank -- while Wall Street and Main Street media were clamoring about the bull market and energy and while Congress was ready to roast the price gougers, few were questioning why the majority of oil stocks were refusing to follow oil up for the last few months. What everybody knows is seldom worth betting on. Few ever get very rich following the popular consensus on Wall Street, and right now that popular consensus seems convinced that the market is going materially higher.

*(Continued on the next page)*
First-hour high on Friday

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The 20-day moving average and a rising trend line show key support at 1310. A break below this week's low of 1290.95 in September confirms a sell setup.
S&P 500 -- Weekly

The S&P "should" accelerate higher from this week's outside up week seen at (A). However, the index did not rollover from last week's outside down week seen at (B). Many times, this kind of up and down rapid flipping in the weekly trend line indicates a turning point.

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streetTracks Gold -- (GLD)

Power Surge sell signal from third lower high

GLD has pulled back to support at the same time that the S&P is at resistance underscoring the idea of an inflection point.

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U.S. Oil Fund -- (USO)

As above, so below?

$65 to $72

Gilligan sell signal

50-DMA

At (A), we mentioned the setup for a sharp break in oil. However on Friday, the USO left a Gilligan, Lizard buy setup as oil approached $61 support. The USO is at potential support having traced out a measured move.

Waterfall decline $65 to $57.

Gilligan buy signal

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Pivot Points

Equinix (EQIX) -- 10-Minute

On Friday, EQIX was a short day pick. We said to look to short on an opening pop up toward 61.90.
Trade below 1310 indicates that the advance is over.
THE DAYTRADING REPORT

Chart 1

Corrections Corp. of America
(CXW:Nasdaq)
Long

Entry: 44.00
Stop: 43.00
Pattern: *Cooper 1-2-3 Pullback / 180
Agnico-Eagle Mines  
(AEM:NYSE)  
Long

Entry: 31.25  
Stop: 30.25  
Pattern: Gilligan

Comments: AEM looks interesting as it has just tagged its 200-day moving average for the first time in a long time.
Allegheny Technologies (ATI:NYSE)

Long

Entry: 63.60
Stop: 62.60
Pattern: 180

Pattern: Power Surge (3rd higher low).

Chart 3
Ventana Medical Systems ▲
(VMSI: Nasdaq)
Short

Entry: 41.65
Stop: 42.65
Pattern: Expansion Breakdown /
Volume Expansion Breakout

Comments: Heads up as this one is volatile.
-- Equinix (EQIX) still looks interesting as a short.

-- Keep WebEx Communications (WEBX) and Jones Lang LaSalle (JLL) on your radar as longs.
THE SWING REPORT

Altria Group
(MO:NYSE)
Long

Entry: 83.40
Stop: 81.40
Initial Target: 85.40 (trade toward)

Pattern: 1-2-3 Swing Pullback
Ladish (LDSH:Nasdaq)

Short

Entry: 28.90  
Stop: 30.50  
Initial Target: 26.90 (trade toward)

Pattern: Cooper 1-2-3 Pullback

Chart 2
-- Monday is day two in *Psychiatric Solutions* (PSYS) (long). You are long from 35.70 on a gap open. Maintain the stop at 33.65 and the initial target on trade toward 37.65. As of Friday's close, you are down 34 cents.

-- Monday is day two in *Ipsco* (IPS) (short). You are short from 86.60. Lower the stop to 86.60 to break even and look to cover on any open below 85.30. As of Friday's close, you are up 1.48.

-- Monday is day two in *Lufkin* (LUFK) (short). You are short from 54.00. Maintain the stop at 56.00 and the initial target on trade toward 52.00. As of Friday's close, you are down 43 cents.

-- Monday is day three in *Chipotle Mexican Grill* (CMG) (short). You are short from around 51.10. Maintain the stop at 53.25 and the initial target on trade toward 49.25. As of Friday's close, you are down 10 cents.

-- Monday is day four in *Deckers Outdoor* (DECK) (long). You are long from 47.00. Maintain the stop at 45.00 and the initial target on trade toward 49.00. As of Friday's close, you are down 75 cents.

-- Monday is day four in *Essex Property Trust* (ESS) (long). You are long from 126.75. The initial target of 128.75 was approached as ESS reached a high of 128.57. I suspect that most of you took your first piece off the table, locking in a gain of about 1.80. If you did not sell your first piece on Friday, look to do so on any trade toward 127.75. Maintain the adjusted stop at 125.75. As of Friday's close, you are down 17 cents on the second piece.

-- Monday is day five in *Akamai Technologies* (AKAM) (long). You are long from 43.65. You sold your first piece on Thursday, locking in a gain of 1.25. Raise the adjusted stop on the second piece to 46.00 and look to sell your second piece on trade toward 49.00. As of Friday's close, you are up 3.53 on the second piece.

-- Monday is day five in *Mack-Cali Realty* (CLI) (long). You are long from 52.45. Maintain the adjusted stop at 52.45 to break even and the initial target on trade toward 53.95. As of Friday's close, you are up 49 cents.

-- On Friday in *Freeport-McMoRan* (FCX) (short) you were stopped out at 53.00, locking in a gain of 80 cents after covering your first piece on Thursday, locking in a gain of 2.00.

-- On Friday in *M Systems* (FLSH) (long) you were stopped out at 44.00, locking in a gain of 1.50 after selling the first piece on Tuesday for a gain of 1.00.
THE TRADING REPORTS HIT LIST

For the week beginning Sept. 18, 2006

The following is a list of those strongly trending stocks (up and down) that my work shows to be the most interesting for the current week. Not all strongly trending stocks are created equal. The following stocks are culled from screens that meet my proprietary criteria based on patterns, time and price.

Uptrending

VF Corp. (VFC:NYSE)
Vornado Realty (VNO:NYSE)
Essex Property (ESS:NYSE)
Lockheed Martin (LMT:NYSE)
Apartment Investment & Management (AIV:NYSE)
Correction Corp. of America (CXW:NYSE)
Prologis (PLD:NYSE)
Akamai Technologies (AKAM:Nasdaq)
Zimmer Holdings (ZMH:NYSE)
GEO Group (GEO:NYSE)
Altria Group (MO:NYSE)
Becton Dickinson (BDX:NYSE)
Baxter (BAX:NYSE)
Harley-Davidson (HOG:NYSE)
American Financial Group (AFG:NYSE)
Reinsurance Group (RGA:NYSE)
FoxHollow Technologies (FOXH:Nasdaq)
MasterCard (MA:NYSE)
Veritas (VTS:NYSE)
Vimpel Communications (VIP:NYSE)
Vertex Pharmaceuticals (VRTX:Nasdaq)
Boston Properties (BXP:NYSE)
Abercrombie & Fitch (ANF:NYSE)
WebEx Communications (WEBX:Nasdaq)
Jones Lang LaSalle (JLL:NYSE)
CorVel (CRVL:Nasdaq)
Integral Systems (ISYS:Nasdaq)
Deckers Outdoor (DECK:Nasdaq)

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Downtrending

F5 Networks (FFIV:Nasdaq)
Navteq (NVT:NYSE)
Omnicare (OCR:NYSE)
Walter Industries (WLT:NYSE)
USG (USG:NYSE)
Chipotle Mexican Grill (CMG:NYSE)
FedEx (FDX:NYSE)
3M (MMM:NYSE)
Peabody Energy (BTU:NYSE)
Getty Images (GYI:NYSE)
Rackable Systems (RACK:Nasdaq)
Palomar Medical Technologies (PMTI:Nasdaq)
Komag (KOMG:Nasdaq)
FMC Technologies (FTI:NYSE)
Manpower (MAN:NYSE)
Black & Decker (BDK:NYSE)
L3 Communications (LLL:NYSE)
United Therapeutics (UTHR:Nasdaq)
Terex (TEX:NYSE)
Toro (TTC:NYSE)
Textron (TXT:NYSE)
IndyMac Bancorp (NDE:NYSE)
Hydrol (HYDL:Nasdaq)
Garmin (GRMN:Nasdaq)
Baker Hughes (BHI:NYSE)
Newmont Mining (NEM:NYSE)
Dril-Quip (DRQ:NYSE)
Thomas & Betts (TNB:NYSE)
Ventana Medical Systems (VMSI:Nasdaq)
American Commercial Lines (ACLI:Nasdaq)
Cooper Industries (CBE:NYSE)
Holly (HOC:NYSE)
Marathon Oil (MRO:NYSE)
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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