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## Market Commentary: Market Enters a Runaway Phase

Despite a relatively light volume churning day ahead of Friday's employment report, the **Dow** scored a third record high on Thursday. The **S&P** crept further into what I have detailed this week as a window of significant resistance between 1347 and 1363.

Likely, the market will pivot with the employment data on Friday. So, we should know from the get-go whether we will get another day of stampeding.

If the bulls come out of the gate charging and the upper window of our projective resistance is hit, I would be on the lookout for any sign of a reversal, as hot money may decide to cut and run before the weekend after what has been a vertical rise. Ironically, the vertical part of this run commenced on Sept. 11.

The first week of September was when I was looking for the cycles to send the market lower for a fourth-quarter trough prior to a rally in 2007. At the time, I mentioned the idea of a cycle inversion but gave short shrift to this idea. However, since the outside day up on Sept. 11, the S&P has hardly looked back. Consequently, one has to seriously consider the idea of a cycle inversion if the S&P does not find a top between here and 1360ish -- and soon.

Moreover, any meaningful top should not just see a sideways move -- it should usher in a significant decline if the four-year cycle is going to play out.

The alternative is that if a cycle inversion has occurred, we run up into 2007. That would be an analog of what occurred after the low in 1932/early 1933, and the subsequent run-up into 1937. Of course, that low in 1932 came after a crash (1929) following a record-setting vertical bull run into the end of the Roaring 1920s -- much like the run in the 1990s.

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The two big leaders to watch here are **Goldman Sachs** (GS) and **Google** (GOOG) for clues to as to what the balance of the fourth quarter will hold. Despite the break to all-time new highs in Goldman Sachs, the monthly chart seems to echo the double top from the year 2000. In that year, Goldman saw a test failure of its high six months after the first high -- much like the current pattern.

The weekly chart of Google shows that it has wound itself into the apex of a triangle, and appears to have broken it. But we have not seen any real follow-through as yet. A follow-through here would send Google toward \$500 a share. The other side of the coin is that a break of the current uptrend line forming the current triangle will trigger a Triangle Pendulum Sell Signal and send Google toward \$300.

**Conclusion:** The market is in vertical runaway mode. The fact that many stocks rallied strongly on Thursday (names include **MasterCard** (MA), **Vertex Pharmaceuticals** (VRTX), **Abercrombie & Fitch** (ANF), **U.S. Steel** (X) and **Chemical Mining Co. of Chile** (SQM)) without the benefit of a big up day in the overall market is characteristic of this runaway phase. It is important to remember that the nature of a market in runaway mode is that as long as the market isn't getting hit, stocks will run on their own momentum.

Google (GOOG) -- Daily



(Here's another view of Google. Heads up if the rising trendline at (A) is broken, as it will likely signal a move toward \$300.)

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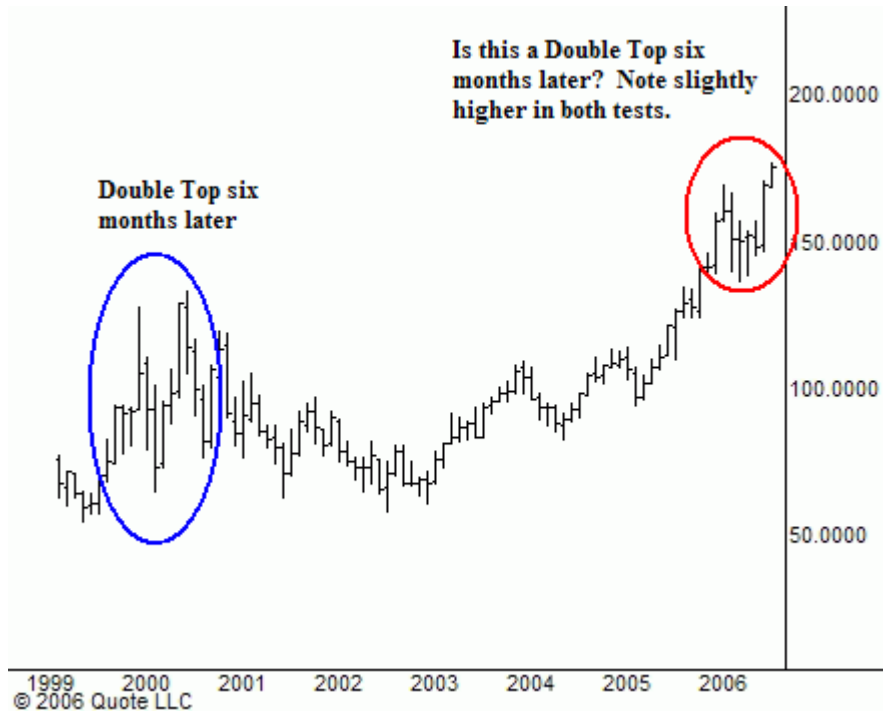
Google -- Weekly



(Google is poised to break out of a big triangle, which would probably take it toward \$500. However, look out for a possible fakeout/breakout like the recent move up on gold that failed, leaving a Triangle Pendulum Sell Signal.)

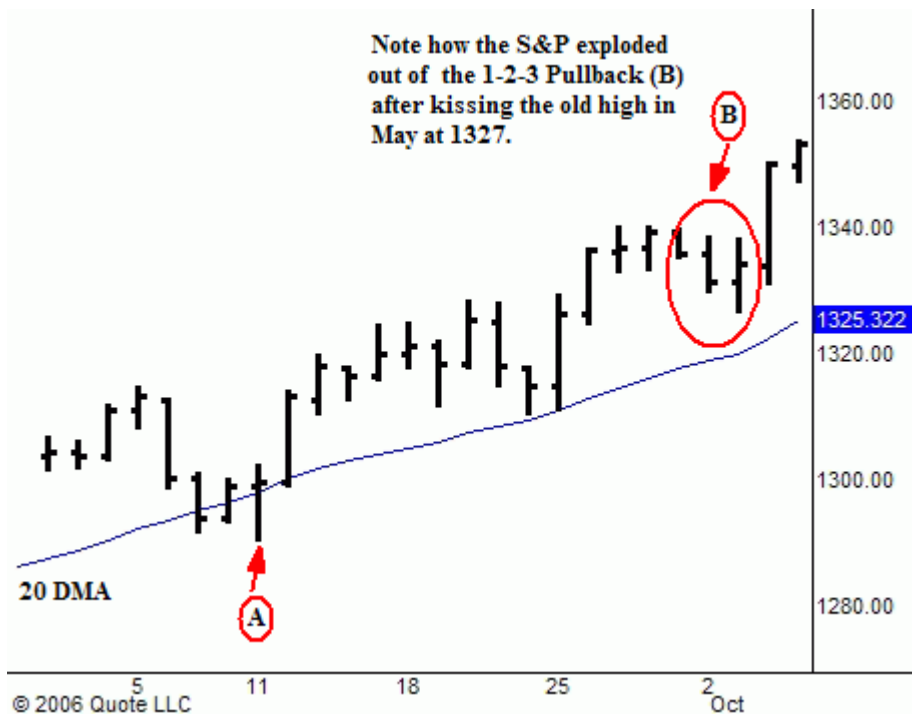
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**Goldman Sachs (GS) -- Monthly**



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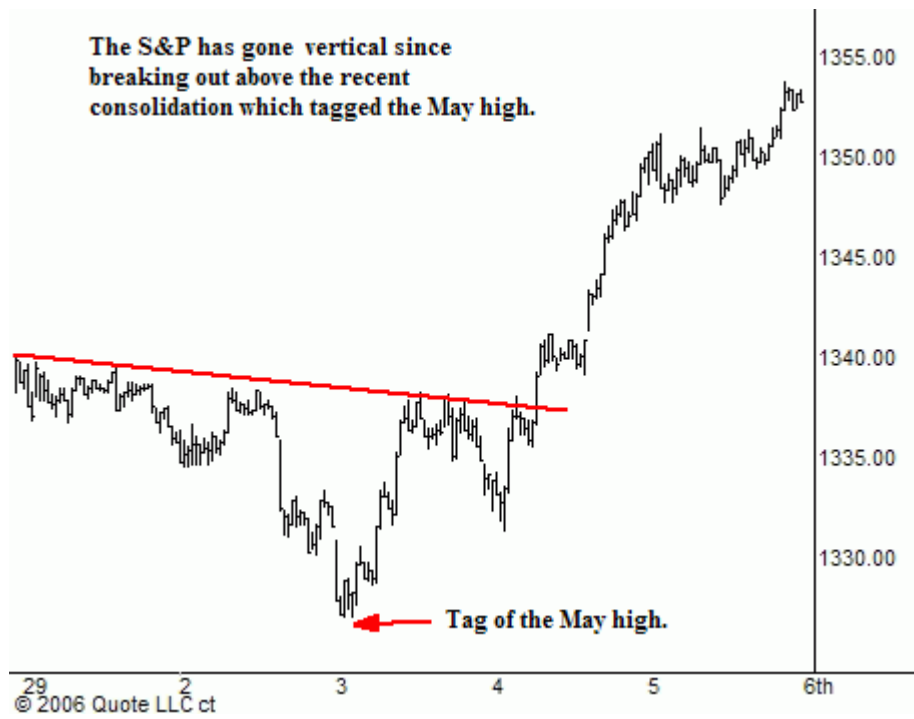
S&P 500 -- Daily



(The S&P has driven persistently higher since the outside day up on Sept. 11 (A). Is this "a sign" of a cycle inversion?)

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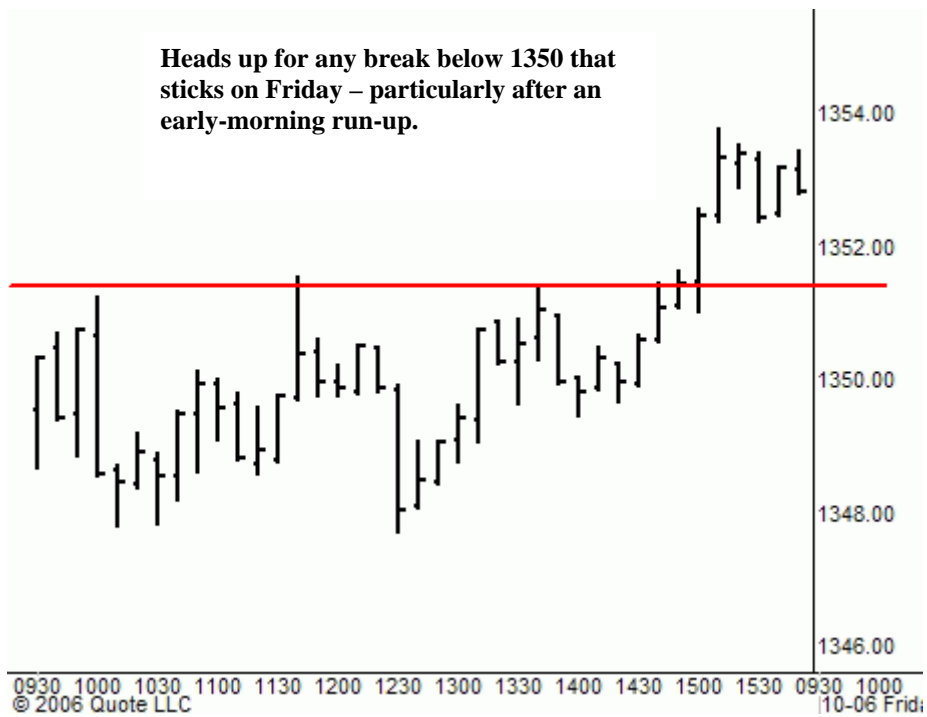
S&P 500 -- 10-Minute



## Pivot Points

S&P 500 -- 10-Minute

Heads up for any break below 1350 that sticks on Friday – particularly after an early-morning run-up.

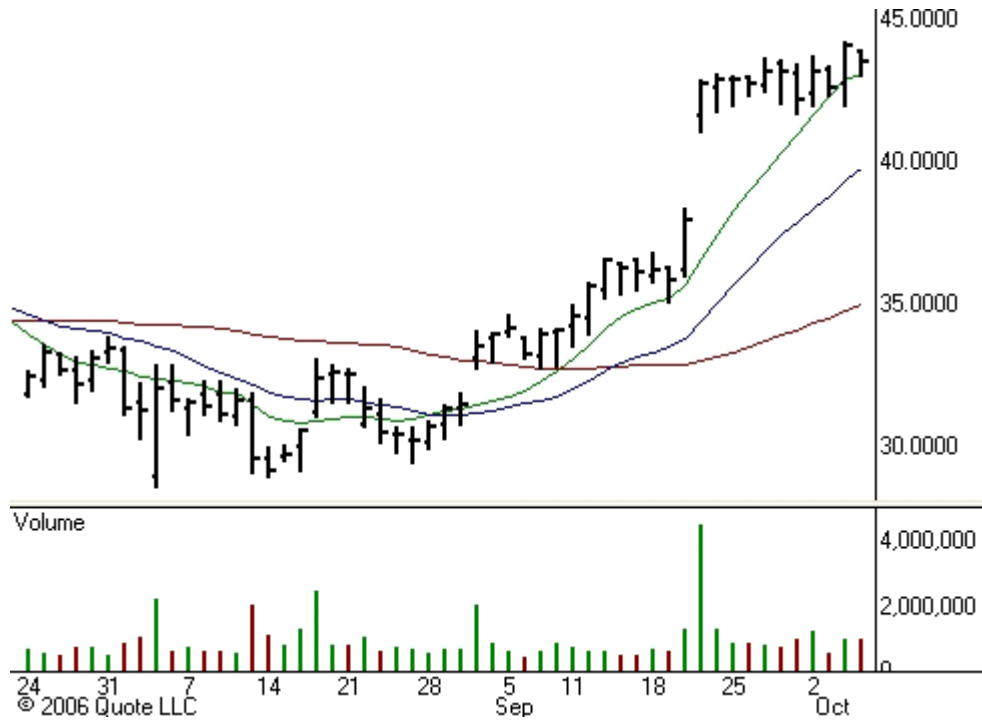


# THE DAYTRADING REPORT

## Chart 1

**Gymboree  
(GYMB:Nasdaq)  
Long**

**Entry: 44.35  
Stop: 43.35  
Pattern: Jack-in-the-Box**

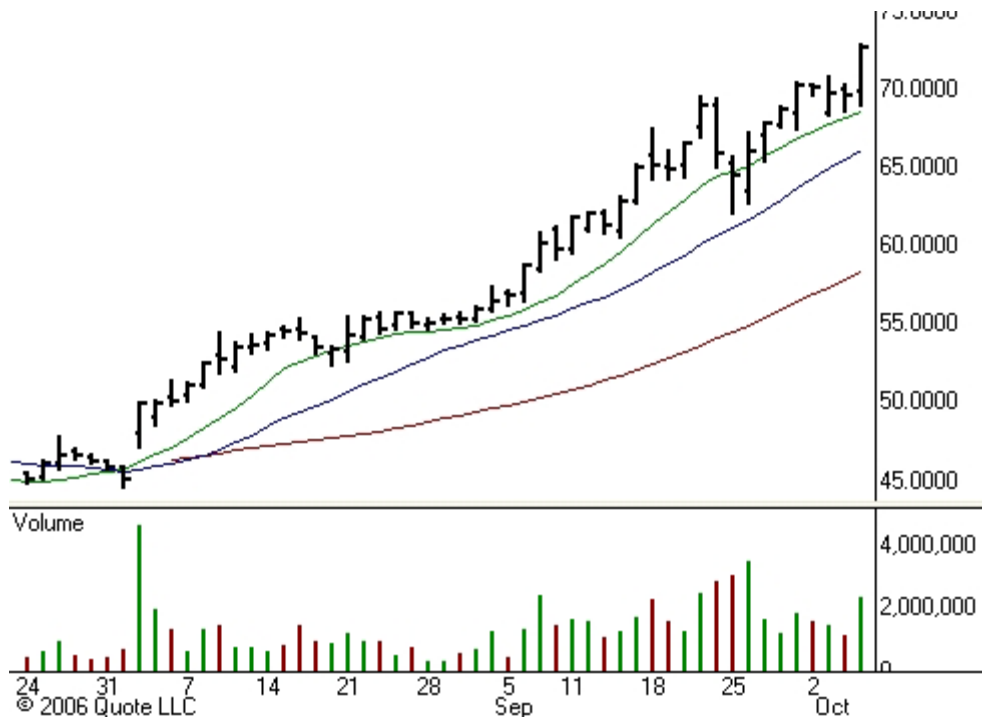




**Chart 2**

**MasterCard  
(MA:NYSE)  
Long**

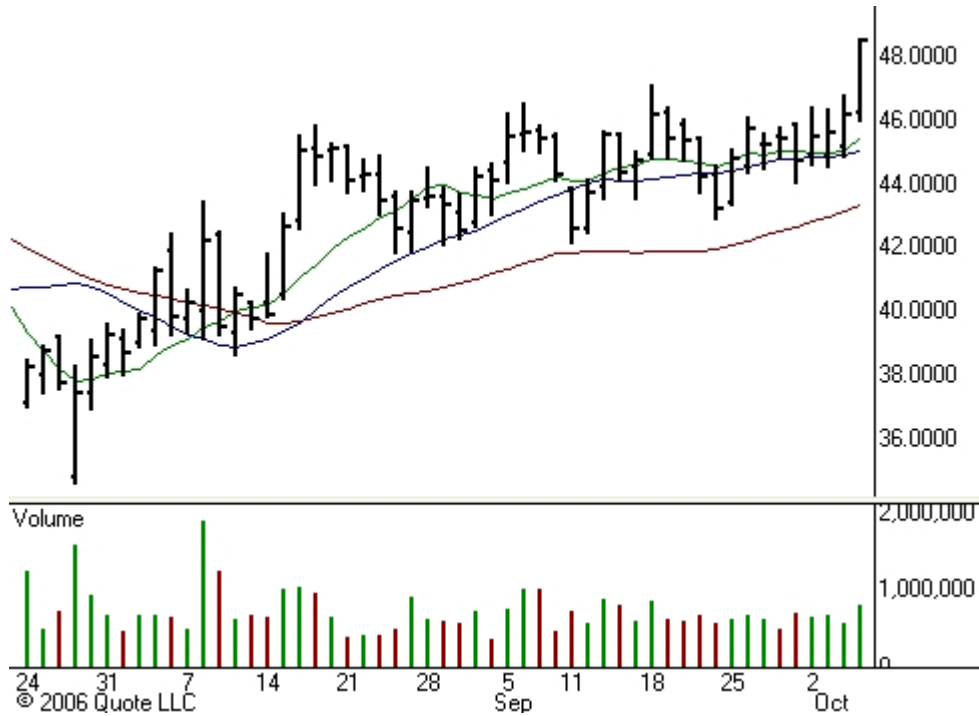
**Entry: 73.00  
Stop: 72.00  
Pattern: \*Expansion Breakout**



**Chart 3**

**Manitowoc  
(MTW:NYSE)  
Long**

**Entry: 48.70**  
**Stop: 47.70**  
**Pattern: Expansion Breakout / Rule of 4 Breakout**

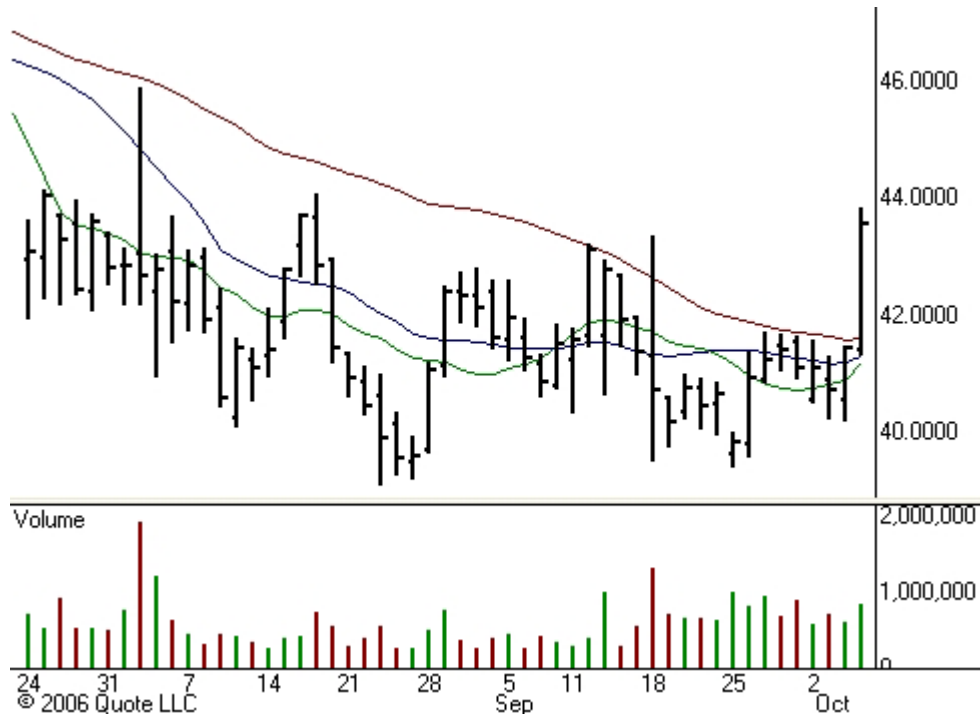


**Chart 4**

**Thor Industries  
(THO:NYSE)  
Long**

**Entry: 44.00  
Stop: 43.00  
Pattern: Expansion Pivot**

**Comments:** Heads up as this one is extremely volatile.



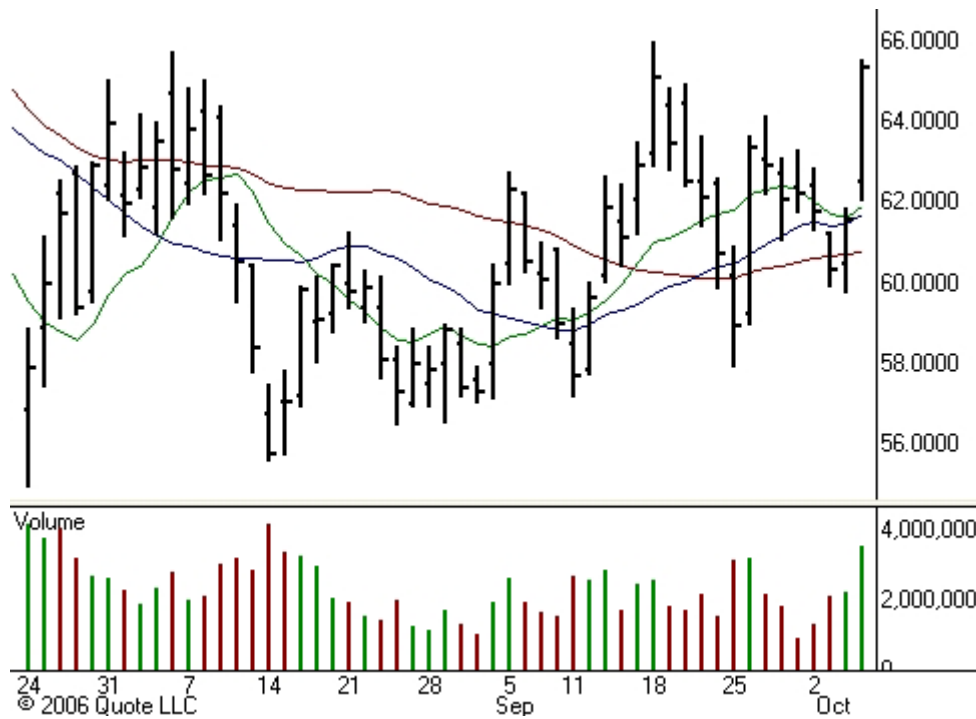
# THE SWING REPORT

## Chart 1

**Allegheny Technologies  
(ATI:NYSE)  
Long**

**Entry: 65.70**  
**Stop: 63.70**  
**Initial Target: 67.70 (trade toward)**

**Pattern: Expansion Pivot**

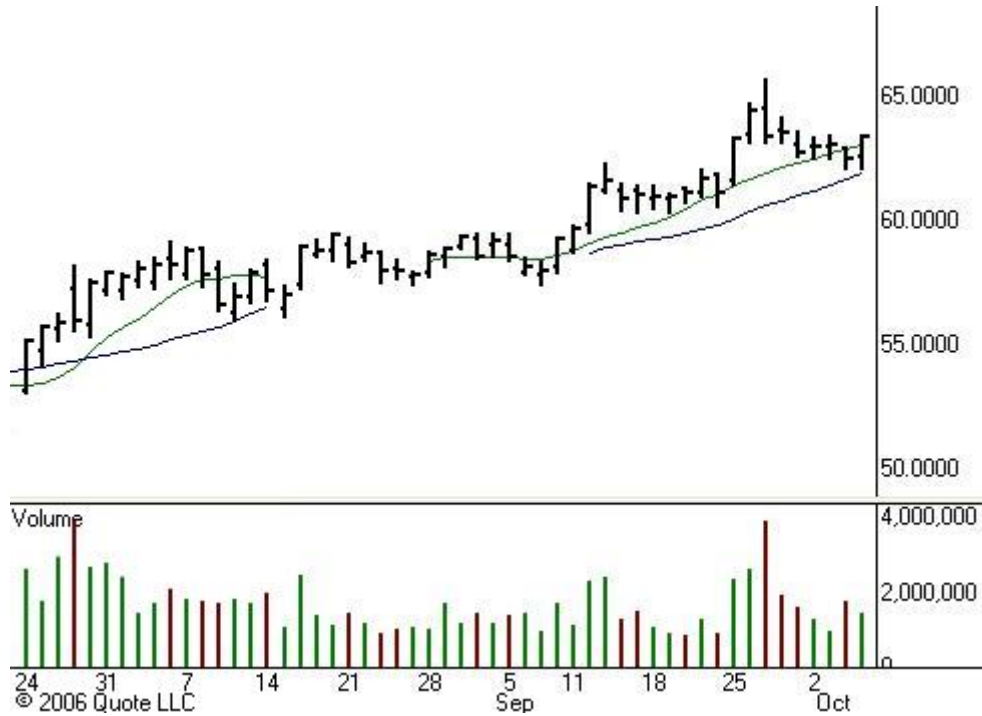


**Chart 2**

**Harley-Davidson  
(HOG:NYSE)  
Long**

**Entry: 63.60  
Stop: 61.90  
Initial Target: 65.50 (trade toward)**

**Pattern: V-Thrust / 180 / Holy Grail**



### OBSERVATIONS AND TRAILING STOPS

-- Friday is day two in **Devon Energy** (DVN) (long). You are long from 62.40 on a gap open. Raise the stop to 60.40 and maintain the initial target on trade toward 63.50. As of Thursday's close, you are down 15 cents.

-- Friday is day two in **DivX** (DIVX) (long). You are long from 21.45 on an ORB. Maintain the stop at 19.45 and the initial target on trade toward 23.45. As of Thursday's close, you are down 2 cents.

-- Friday is day two in **Vulcan Materials** (VMC) (long). You are long from 79.80. Maintain the stop at 77.90 and the initial target on trade toward 81.80. As of Thursday's close, you are up 12 cents.

-- Friday is day three in **Boston Properties** (BXP) (long). You are long from 104.10. Raise the stop to 104.10 and maintain the initial target on trade toward 106.10. As of Thursday's close, you are up 1.36.

-- On Thursday you were stopped out of your second piece of **J. Crew** (JCG) (long) for a gain of 1.00, after locking in a gain of 2.00 on the first piece.

-- On Thursday you were stopped out of your second piece of **AutoZone** (AZO) (long) for a gain of 2.90, after locking in a gain of 1.74 on the first piece.

-- Friday is day eight in **FactSet Research** (FDS) (long). You are long from 49.40. Raise the stop to 49.40 and look to sell your first piece on any open above 50.40 on Friday. As of Thursday's close, you are up 1.05.

-- Friday is day eight in **USG Group** (USG) (short). You are short from 46.65. Maintain the stop at 48.65 and the initial target on trade toward 44.65. As of Thursday's close, you are down 90 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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