Market Commentary:
Narrow Trading Range Remains

The market averages continue to churn since exploding higher last Thursday.

The **S&P** has spent the last four days in a relatively narrow trading range, between approximately 1344 and 1354, over the past four trading sessions.

The big-picture question is whether the recent sideways move is yet another consolidation or pause before exploding higher. With the majority of mutual funds using an end-of-October fiscal year-end, you can bet that money managers are hoping for yet one more push.

However, as I have been saying, the 1350 level is key resistance in price while time-wise, as explained yesterday, a possible bottom-to-bottom-to-top pattern may be playing out on a four-year cycle inversion.

On more than a few occasions I have mentioned the tendency for 90-day runs to culminate prior long advances. Such was the case from May to August in 1987, as well as the 90-day run-up into the end of 1972/early 1973 prior to a vicious two-year bear market. That run into January 1973, by the way, represented a fakeout/breakout attempt by the **Dow** to surpass 1000 -- a level it bumped its head on numerous times from the end of the 1960s until 1982, when it was finally exceeded in earnest.

I mention this because the secondary low this summer occurred on July 18 (actually, it was a process between July 14 and July 18), and 90 days up will take us into next week. Of course, even if this 90-day, 90-degree run turns out to be, in hindsight, a significant level to have taken profits, it is likely that such a top will play out in an up-down-up sequence. In other words, first a pullback that overbalances prior declines of the move up since August, and then a retracement rally to test the highs that failed. This is the way the market bottomed this summer, and as the saying goes -- as above, so below.

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It will be interesting to see if we do get a break and such a retracement rally occurs around Oct. 18, near option expiration, when there will be many cheap puts around going into this time frame -- many cheap puts that may be too tempting not to pull the plug on the market and see them come to life.

Initially, I believed that a 90-day run-up from the June 14 low could mark a high point. It turned out to be an inflection point -- but not a high. On Sept. 11, close to 90 days up from June 14, the S&P made an important reversal, leaving an outside day up from its 20-day moving average at our old friend 1292 S&P. Remember the 1292 square? Well, 1292 is 270 degrees up from the June 1220 low and 90 degrees down from the May 1327 high.

Since that time the S&P has powered ahead like a locomotive, with no more than two days of pausing at the station before chugging yet higher.

I suspect that the behavior from this 1350 resistance zone and the behavior around 90 days up from the July 14/18 testing process will be telling.

To recap, 1363 represents a full 360-degree move or cycle in price up from the 1220 June low. Moreover, the 1360 S&P level is also the projection of an Inverted Double Head and Shoulder bottoming pattern carved out over this summer.

Conclusion: Tuesday's action was notable for two things. First, the give-up in the **Chicago Mercantile Exchange** (CME) -- down more than 18 points, which was more than half of Monday's 30-point gain. Additionally the outside day down in **Google** (GOOG) was also notable. Both occurred on the heels of Monday's powerful breakout. But, as I mentioned yesterday, the breakouts in these two names were not an invitation to chase. Be that as it may, Tuesday's pullback in both names is far from a nail in the coffin of either name, and certainly not an invitation to short either name.

However, any move back into and especially below the bottom of both stocks' large triangles should see a swift selloff. Such a pattern in these two leadership names is important and would likely carry implications as to the overall market as well.

Finally, also notable in Tuesday's action was the powerful rally in many oil names despite a give-up of almost $1.50 in crude. I could not find any rationale for the upside reversal in the oil stocks. Both a friend, who is a superb trader, and I remain mystified as to the action. However, as my friend stated, "I am not required to know the reason why -- I am only required to be long, at least for today and probably tomorrow." Names in the group that saw reversals that bullishly offset Monday's decline include **Holly** (HOC), **Tesoro Petroleum** (TSO) and **Devon Energy** (DVN).

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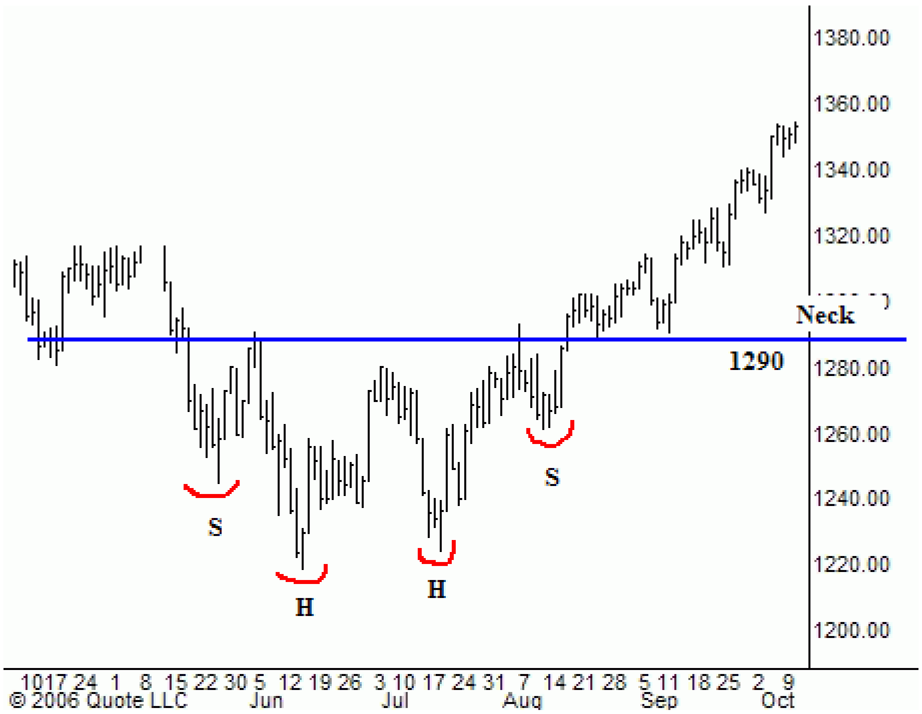
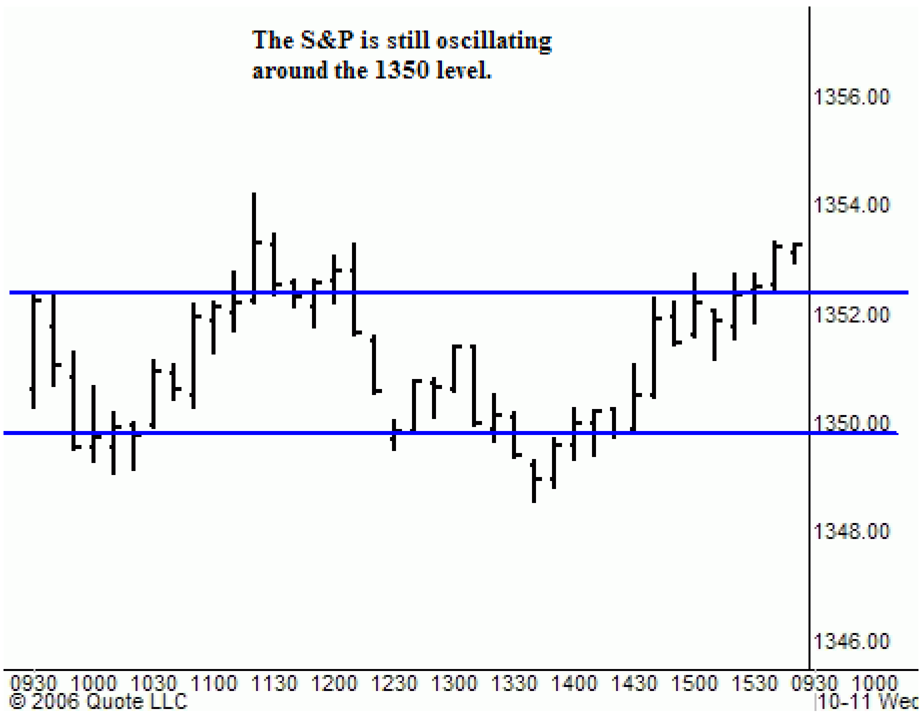
S&P 500 -- Daily



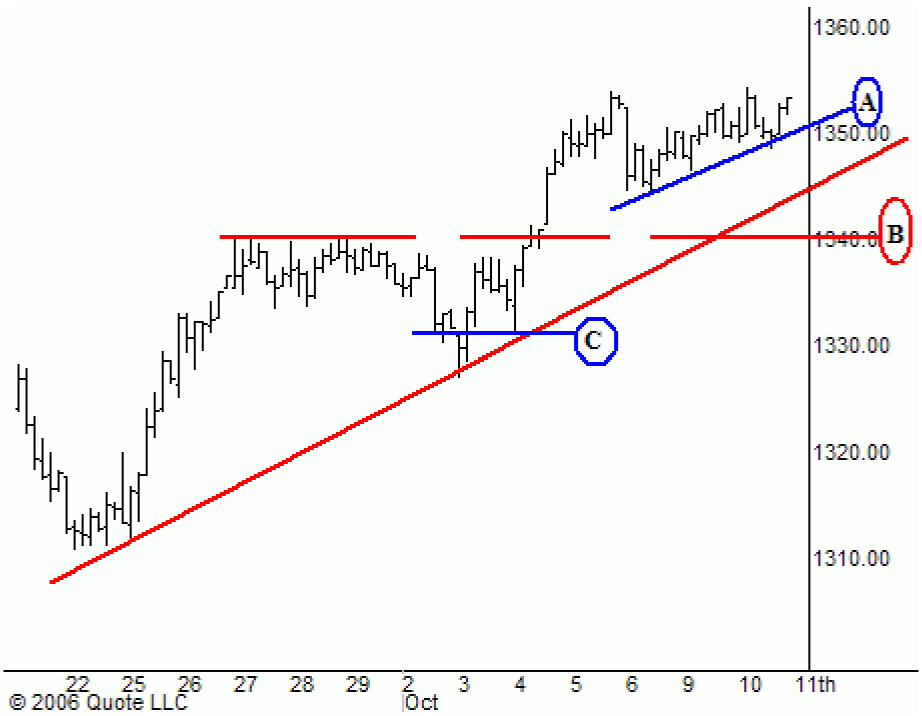
(From an Inverted Double Head and Shoulders Pattern, the S&P has a projection to approximately 1360, which confirms a 360-degree move up from 1220. Measuring from a Neckline at our old friend 1290, the 1220 low to 1290 equals 70 points, while 70 points added to 1290 gives 1360.)

Pivot Points

S&P 500 -- 10-Minute

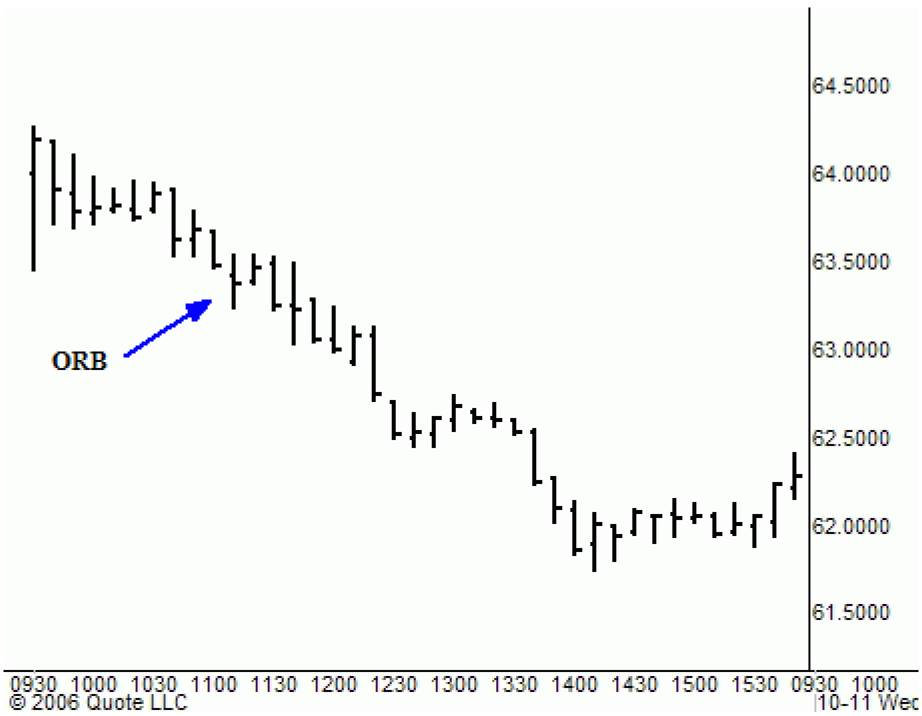


S&P 500 -- 60-Minute



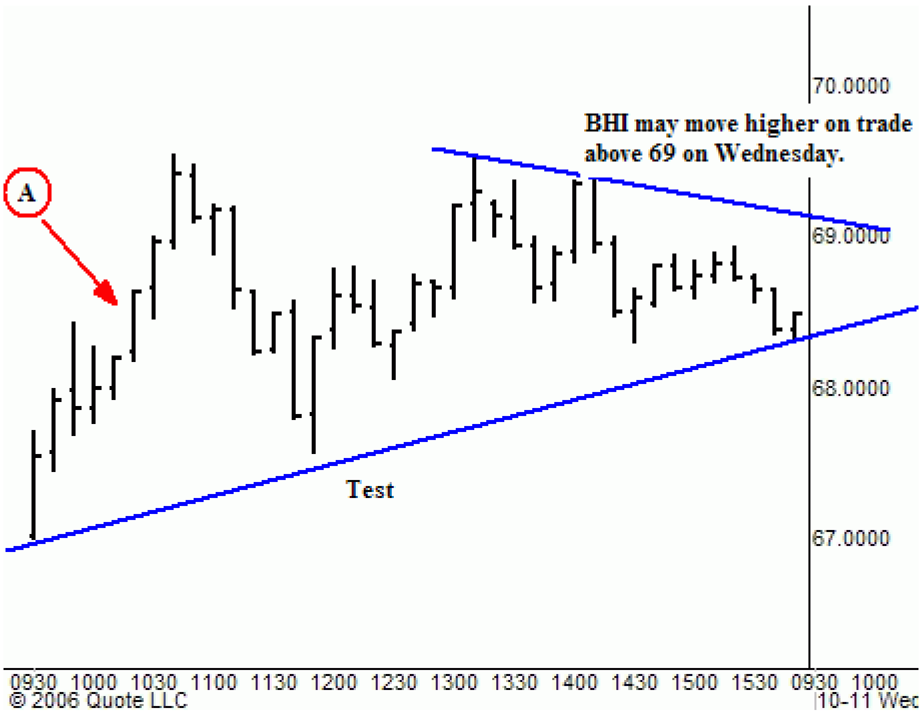
(A break below 1350 (A) that sticks should usher in a pullback to 1340ish (B). A break below 1340 that sticks should test 1330-1333 (C).)

Equinix (EQIX) -- 10-Minute



(Equinix was a long Day pick for Tuesday. The stock gapped open and bearishly "ORBed" lower, sealing the day for a reversal. Heads up for these gap reverse ORBs. They gap in the expected direction, given prior day's setup, but the ORB in the opposite direction nails the door shut on a rally.)

Baker Hughes (BHI) -- 10-Minute



(Baker Hughes was a short day pick for Tuesday that played out the opposite pattern of Equinix. It gapped down in the expected direction, but an ORB higher (A) saw a sharp spike.)

THE DAYTRADING REPORT

Chart 1

Holly
(HOC:NYSE)
Long

Entry: **46.25**
Stop: **45.25**
Pattern: **Expansion Pivot / 180 / LROD**

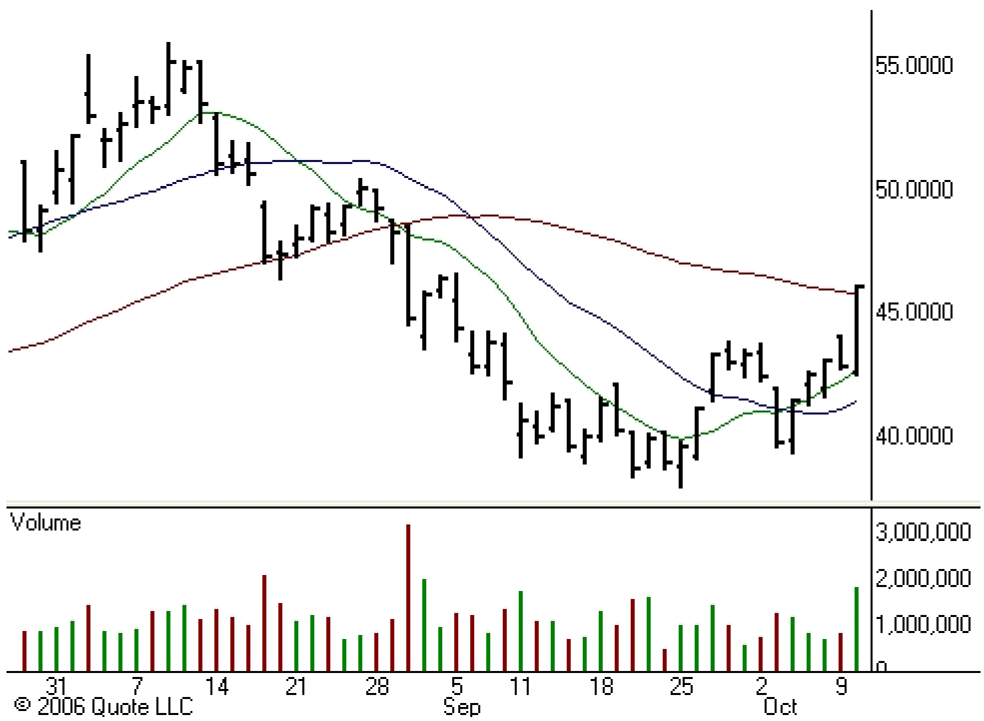


Chart 2

FMC Technologies
(FTI:NYSE)
Long

Entry: **55.10**
Stop: **54.10**
Pattern: **LROD**

Comments: Although still officially in a downtrend, FTI looks interesting as Tuesday's outside day up came after an up-down-up sequence – i.e., a bottoming pattern from last week.

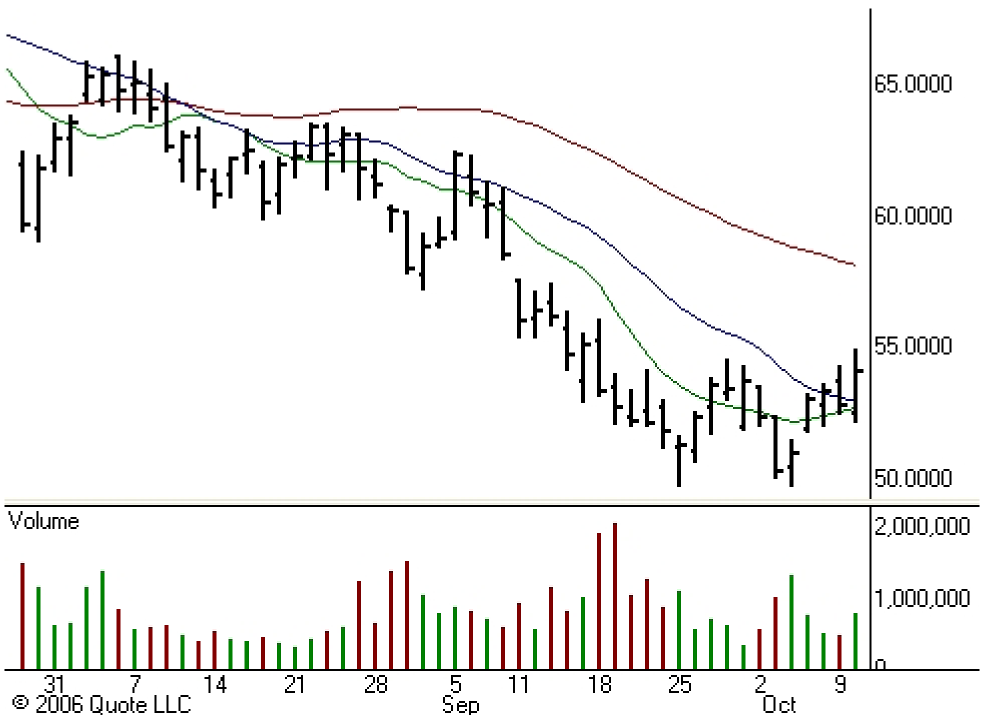
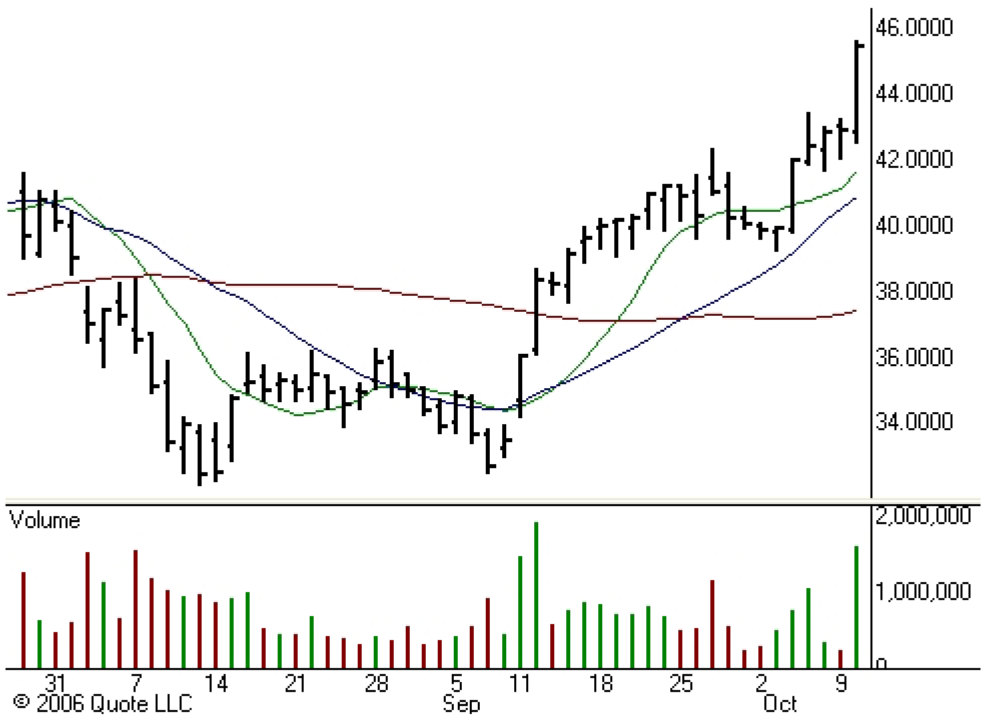


Chart 3

Under Armour
(UARM:Nasdaq)
Long

Entry: 45.75
Stop: 44.75
Pattern: Expansion Breakout



THE SWING REPORT

Chart 1

World Acceptance
(WRLD:Nasdaq)
Long

Entry: **47.80**
Stop: **45.80**
Initial Target: **49.80 (trade toward)**

Pattern: Cooper 1-2-3 Pullback +1

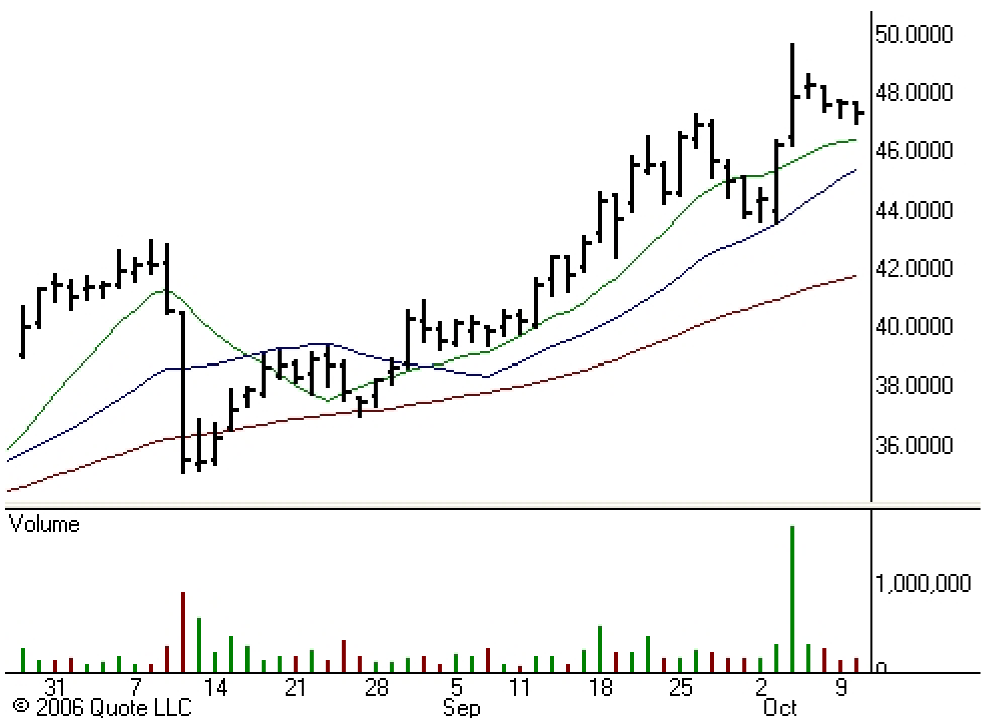


Chart 2

Corrections Corp. of America
(CXW:NYSE)
Long

Entry: **47.00**
Stop: **45.50**
Initial Target: **49.00 (trade toward)**

Pattern: Cooper 1-2-3 Pullback / NR7

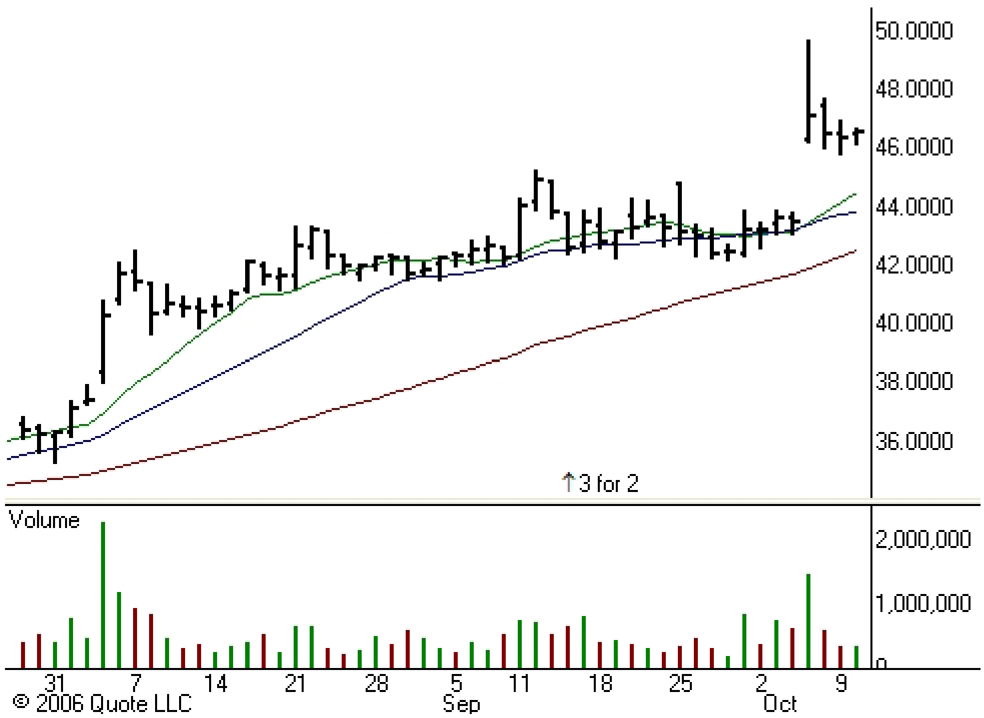
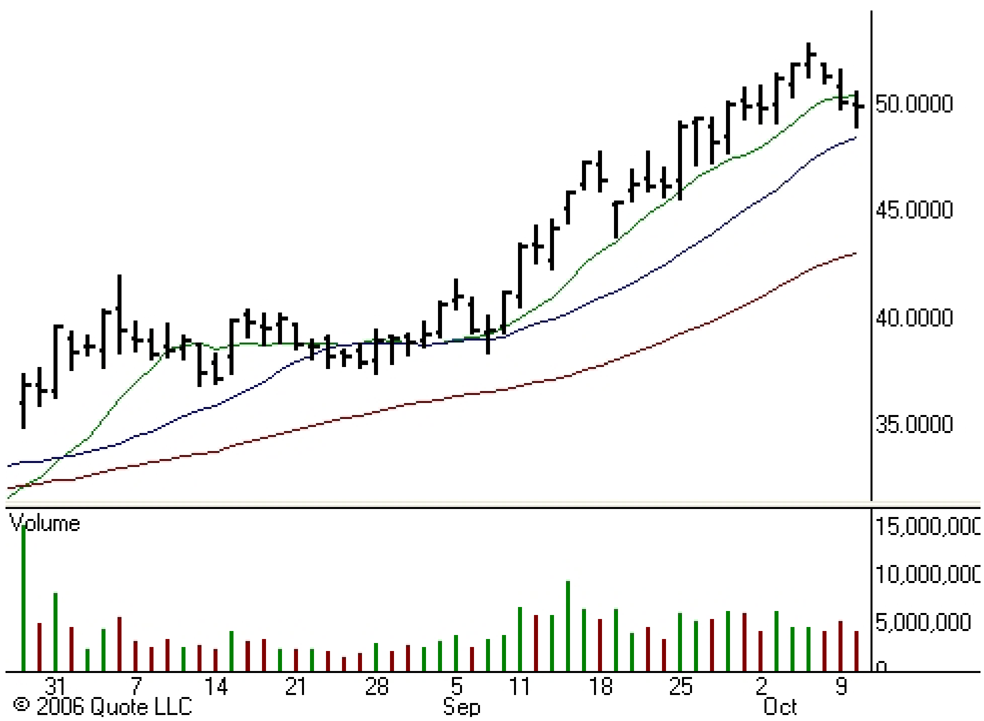


Chart 3

Akamai Technologies
(AKAM:Nasdaq)
Long

Entry: **50.75**
Stop: **48.75**
Initial Target: **52.75 (trade toward)**

Pattern: Cooper 1-2-3 Pullback / 180 / Holy Grail



OBSERVATIONS AND TRAILING STOPS

-- **World Acceptance** (WRLD) (long) did not trigger.

-- Wednesday is day two in **RTI International Metals** (RTI) (long). You are long from 44.35 on an ORB. Maintain the stop at 42.35 and the initial target on trade toward 46.35. As of Tuesday's close, you are up 93 cents.

-- Wednesday is day four in **Allegheny Technologies** (ATI) (long). You are long from 65.70. On Monday you sold your first piece, locking in a gain of 2.00. Raise the stop for the second piece to 68.40 and continue to look to sell your second piece on trade toward 72.40. As of Tuesday's close, you are up 4.00 on the second piece.

-- Wednesday is day four in **Harley-Davidson** (HOG) (long). You are long from 63.60. Maintain the stop at 62.70 and the initial target on trade toward 65.50. As of Tuesday's close, you are up 2 cents.

-- Wednesday is day five in **DivX** (DIVX) (long). You are long from 21.45. Maintain the stop at 19.45 and the initial target on trade toward 23.45. As of Tuesday's close, you are up 84 cents.

-- Wednesday is day five in **Vulcan Materials** (VMC) (long). You are long from 79.80. Raise the stop to 79.80 and look to sell your first piece on any open above 81.20. As of Tuesday's close, you are up 1.65.

-- Tuesday is day 11 in **FactSet Research** (FDS) (long). You are long from 49.40. On Monday you sold your first piece, locking in a gain of 85 cents. Raise the stop to 50.40. As of Tuesday's close, you are up 1.49 on the second 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.

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