

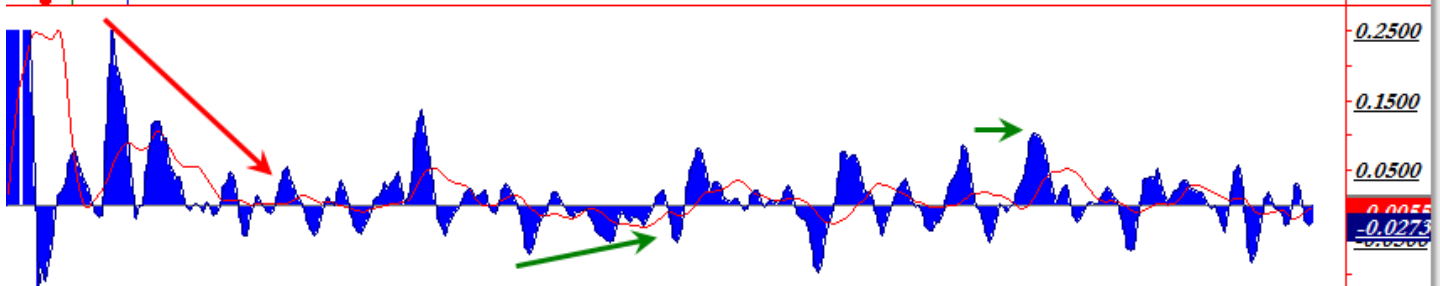


## Daily "Idealized Trades" Report

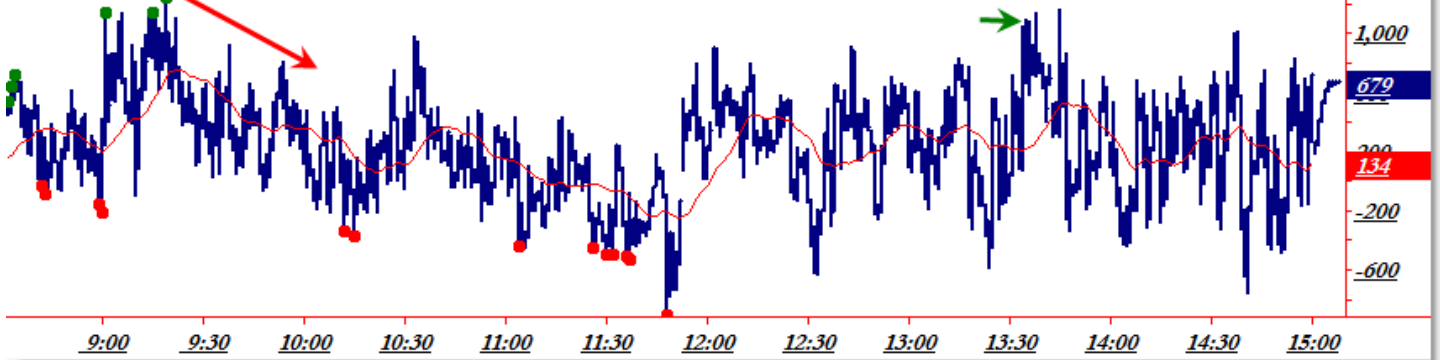
### S&P 500 ETF: SPY



SPY - 1 min ARCX 08/02/10 L=112.68 2.41 2.19% O=111.99 Hi=112.94 Lo=111.54 C=112.76



STICK - 1 min NYSE 08/02/10 L=679 399 142.50% O=6 Hi=1243 Lo=-906 C=679



I wanted to start today's report with the ending quote from last Friday's 30min chart commentary:

"What now? Watch \$110 as support - **play LONG for Popped Stops above \$111** (could be a violent move up) to target \$112 and play very aggressively long above \$112. On the same token, prepare to play short under \$109 and remain neutral while between \$109 and \$111."

" Because the market is holding its ground, **the longer we stagnate (stay flat) here instead of actually going down is rather quite bullish**, because the buyers - whoever/where ever they are - are absorbing the selling from the bears. If this continues, **it will almost certainly result in a massive popped stops price burst higher to shock the shorts**. It is natural to expect the market to fall lower, and odds are it will, but IF the market does not fall, then we enter that situation where "IF something should happen but doesn't, expect a more POWERFUL move in the opposite direction" in this case - up. "

That is exactly what happened - and it underscores the importance of active monitoring of price, along with adopting a 'price purism' approach free of bias (I know - it's hard, but it's what works). Today was either a very good trading day for you because you understand the "Popped Stops" logic I continue to discuss, or it was a learning experience regarding the power of positive feedback loops and what happens when one side of the market is forcibly squeezed. It's another reminder of the importance of understanding my favorite quote:

"IF something SHOULD happen but does not, then expect a more powerful move in the opposite direction" - I actually quoted that above but it really does bear repeating - understanding this likely was the difference in a good day and a very frustrating one.

There was really only one good trade today, and it came from the iron-will confidence of understanding the logic behind what I said on Friday and what I repeated above. "Everything in the world seems to indicate that the price will go down, but if it doesn't, expect a massive bullish surge as bears rush to the exits to cover." You played that out with your first trade of the day, and that was about all the market gave you today.

## 1. POPPED STOPS

I won't go into excruciating detail, but I specifically told you to play long for popped stops above \$111 and especially above \$112. You had time to enter, but never a perfect, nice retracement entry. The best trades won't give you a clean pullback, so this is often what separates new traders from experienced ones. Don't beat yourself up if you didn't trade the morning surge - that's perfectly fine. If you are a new trader, you must stick to your strategies and not chase market moves just because price is going up. As you progress to become an experienced trader, you know that these set-ups are psychologically difficult to take - buying a market that is surging higher - but they are absolutely necessary and once you have experience in a good number of these set-ups, they become second nature (hopefully).

Main idea - set-up the "IF/THEN" statements from the night before and be aware of the conditions that favor a big move about to 'explode.' We had those conditions setting up - and the market exploded. That means that you either join the market range expansion play or you stand aside. Your cleanest entry was on the break above the doji candles at 9:00am on a break above \$111.80, but your 'last chance' safe entry was on the break above \$112 (round number resistance). Sometimes you just have to close your eyes and hit the buy button ( - ok maybe don't close your eyes, but hold your nose or something). If you can't bring yourself to do that - that is fine. You will miss the trade, but there will always be other opportunities. Trail your stop higher and exit on a clean sell signal - NOT just a single candle.

That good exit signal came at 10:00am on a multi-swing divergence, plenty of reversal candles, and a bearish engulfing. But as you can tell, not even THAT was enough to stop the positive feedback loop of buyers buying and sellers buying (to cover their short-sales). That's the nature of break-out trading - it's NOT for everybody. There's never a perfect entry and never a perfect exit in real time, but taking those trades is the only way to get quick, big profits. Go back and review

my webinar on Breakout Trading tactics - I'll also be presenting a seminar (hopefully it will also be a webinar) at the Las Vegas Traders Expo in November specifically on this type of "Popped Stops" play.

## 2. 5-WAVE FRACTAL, BOLLINGER, DIVERGENCES, ENGULFING

It's usually not a good idea to short-sell a move on a developing Type III Trend Day, but again this is a professional/aggressive move. Conservative traders should NOT try to trade counter a trend day in motion while price is above the 20 EMA - it's very risky. Your main idea is to 'fade' a swing to target a move back to the 20 EMA or perhaps lower Bollinger, and to enter when price breaks a trendline after forming divergences with a reversal candle.

That's what happened here if you look closely at the dual divergences, trendline break, reversal candles, and bearish engulfing candle - triggering your entry at \$112.60 with a stop above the intraday high at \$112.75 and then playing for a minimum target of the 20 EMA at \$112.45 or the lower Bollinger Band at \$112.30 - both of which were hit. Notice also the 5-wave push that ended this move, adding to your confidence.

It didn't reverse the market - which underscores the importance of playing IN the direction of a prevailing trend rather than against it.

## 3. LOWER BOLLINGER, BULLISH ENGULFING

There was a very tiny positive dual divergence - look closely at the 1-min - on the bounce off the lower Bollinger, but it was risky to enter long there at \$112.30. The safer entry was a push back above the 20 EMA and declining trendline at \$112.40, placing a stop under the candle low at the \$112.30 level and playing for a push to the upper Bollinger. We actually did get that push, so if you stayed in the trade, you were ok, but I have the ideal trade exiting on the subsequent divergence, reversal candles, and trendline break at 12:30 at the \$112.40 area for a 'scratch' trade. You can't know the future - you can only trade the odds as you interpret them at the time. If you are a conservative trader, you would exit immediately on an unfavorable development but if you're more aggressive, you might try to hold on for the full target, except if price falls under \$112.30 to trigger your stop.

## 4. POPPED STOPS

This was another simple Popped Stops play that got you long on the break to new intraday highs above \$112.70 with a stop trailed beneath the 20 EMA at the \$112.55 level and your goal was to hold this as long as possible, hoping for a positive feedback loop to take price - in popped stops mode - up to \$113. That didn't officially happen, so depending where you exited was how much profit you obtained - if you exited on the push above the upper Bollinger, you were ok and even if you trailed your stop under the 20 into the close, you were ok. No way to get much profit from this move, but it was a classic set-up that did not trigger the expected push to impulse highs as expected by the typical popped stops play.



Really, the best chance for profit came from playing the anticipated popped stops morning play for about 50 cents. The rest of the trades - save #2 - were technically scratches.

SO FAR TODAY		CST	10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME		15-min VOLUME	RANGE
303,355.40	14,361,030	8:45	14,057,674.60	0.54
(4,583,935.00)	5,647,195	9:00	10,231,130.00	0.54
5,584,558.70	18,057,912	9:15	12,473,353.30	0.35
(594,118.70)	6,573,939	9:30	7,168,057.70	0.28
(1,602,228.70)	5,489,348	9:45	7,091,576.70	0.32
(1,213,535.90)	4,283,531	10:00	5,497,066.90	0.29
(1,731,636.90)	4,164,750	10:15	5,896,386.90	0.30
(2,314,880.00)	4,153,082	10:30	6,467,962.00	0.24
115,920.90	5,926,654	10:45	5,810,733.10	0.29
(1,530,553.70)	2,896,149	11:00	4,426,702.70	0.27
(2,536,435.50)	2,920,179	11:15	5,456,614.50	0.25
(1,330,606.10)	2,378,072	11:30	3,708,678.10	0.28
(513,849.30)	2,636,551	11:45	3,150,400.30	0.21
(995,612.40)	2,787,855	12:00	3,783,467.40	0.25
(892,018.50)	2,247,220	12:15	3,139,238.50	0.27
(2,253,408.60)	1,436,253	12:30	3,689,661.60	0.28
(1,589,683.50)	2,803,637	12:45	4,393,320.50	0.37
(3,023,026.80)	1,688,629	1:00	4,711,655.80	0.46
(3,254,270.50)	2,483,119	1:15	5,737,389.50	0.29
(2,994,212.50)	3,768,713	1:30	6,762,925.50	0.30
(845,972.27)	5,121,924	1:45	5,967,896.27	0.33
(413,065.18)	5,325,409	2:00	5,738,474.18	0.32
(1,108,879.27)	4,999,716	2:15	6,108,595.27	0.42
(3,430,394.73)	4,365,974	2:30	7,796,368.73	0.38
(3,832,270.45)	7,623,650	2:45	11,455,920.45	
(4,383,104.00)	13,449,555	3:00	17,832,659.00	
<b>(1,575,533.21)</b>	<b>5,291,924.85</b>	<b>Ave.</b>	<b>6,867,458.06</b>	<b>0.33</b>

Ever have one of those situations where price and volume feel totally out of line? Like today?

Price surged over 2% while volume declined... and in the relative volume chart above, volume declined in almost EVERY single 15-min SPY 10-day period as seen. That is NOT a bullish confirmation - in fact, it's a bearish non-confirmation.

We look to volume for clues - but we do NOT make money off of volume, but rather price. As strange as it feels psychologically, if price is rising in popped stops format, you need to keep playing long no matter if volume keeps trailing lower.



Admittedly, there were clues that a breakout was possible - and perhaps even likely. We did have a positive momentum divergence that I pointed out Friday, and we also had a bullish trendline break going into Friday's close that preceded this morning's gap. I mentioned playing long above \$111 for a potentially strong 'popped stops' move - which is exactly what happened. Now, we face key resistance at the \$113 level on a slight negative volume and momentum divergence - that should be a warning signal to bulls.

I know it's dangerous to interpret, but I think a lot of this move was - exactly as I said Friday - popped stops from frustrated bears. If this was a pure breakout, we should have seen higher volume but we didn't - and I'm not sure today is enough to change the viewpoint of the bears. So, if we pop higher above \$113, expect to play EVEN MORE popped stops from even more frustrated bears. You're here to make money as a trader - not to call every market turn or play by the classic rules that seem to be breaking all around us. If that means going long when everything else says price is going down, then go long and profit from those who are popping out of their stops - this is a zero-sum game, after all.



The 3/10 Momentum oscillator has done a remarkably good job at calling the recent turns in the market. I suspect we could push further higher in price given today's burst which dislocated a great deal of stops from the bears, and that momentum burst could very well carry forward into tomorrow. For that reason, keep playing long on any move above \$113 - though \$113 has been a key target to watch, and we're here, so by the same notion, be prepared to play short on a downward move that breaks the short-term rising trendline at the \$112.70 level.



Price cleanly broke above the 1,115 resistance confluence today - but now faces a final overhead test of resistance at the 1,130 (Bollinger Band and June spike high) level but more importantly at the 1,140 level. We could easily see a push to test 1,140 or even as high as 1,150 (a very key level) so be prepared to trade that intraday on a continued "popped stops" burst higher.

Look at the key confluence support at 1,090 that got stronger - the 20/50 day EMAs are converging at this level, and a few more days we will have a bullish 20/50 EMA cross. Otherwise, the 38.2% Fibonacci retracement rested at 1,090 - all of which buyers used to jam price higher.

In the bigger picture, a clean break above 1,140 would open the chart up to a very bullish confirmation where we would thus adjust short-term targets to 1,170 then 1,220 - but we're not there yet. The expected play for the next few days is a test of 1,140 and a second round of popped stops above 1,140. Keep to your intraday charts and stay safe.