



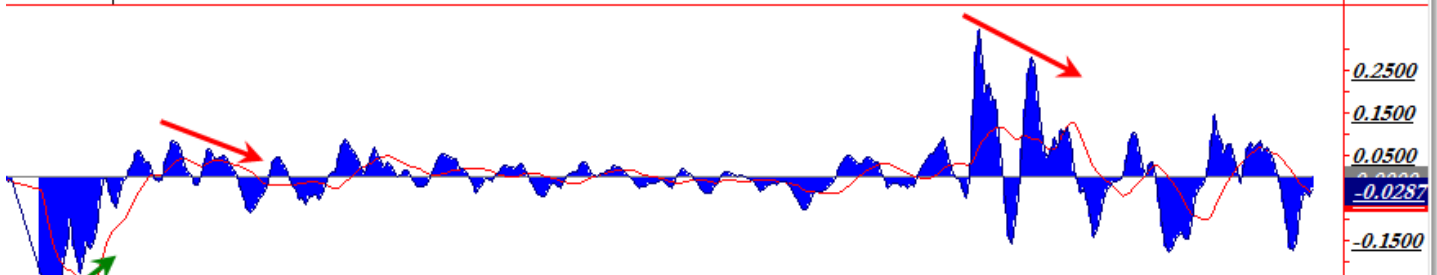
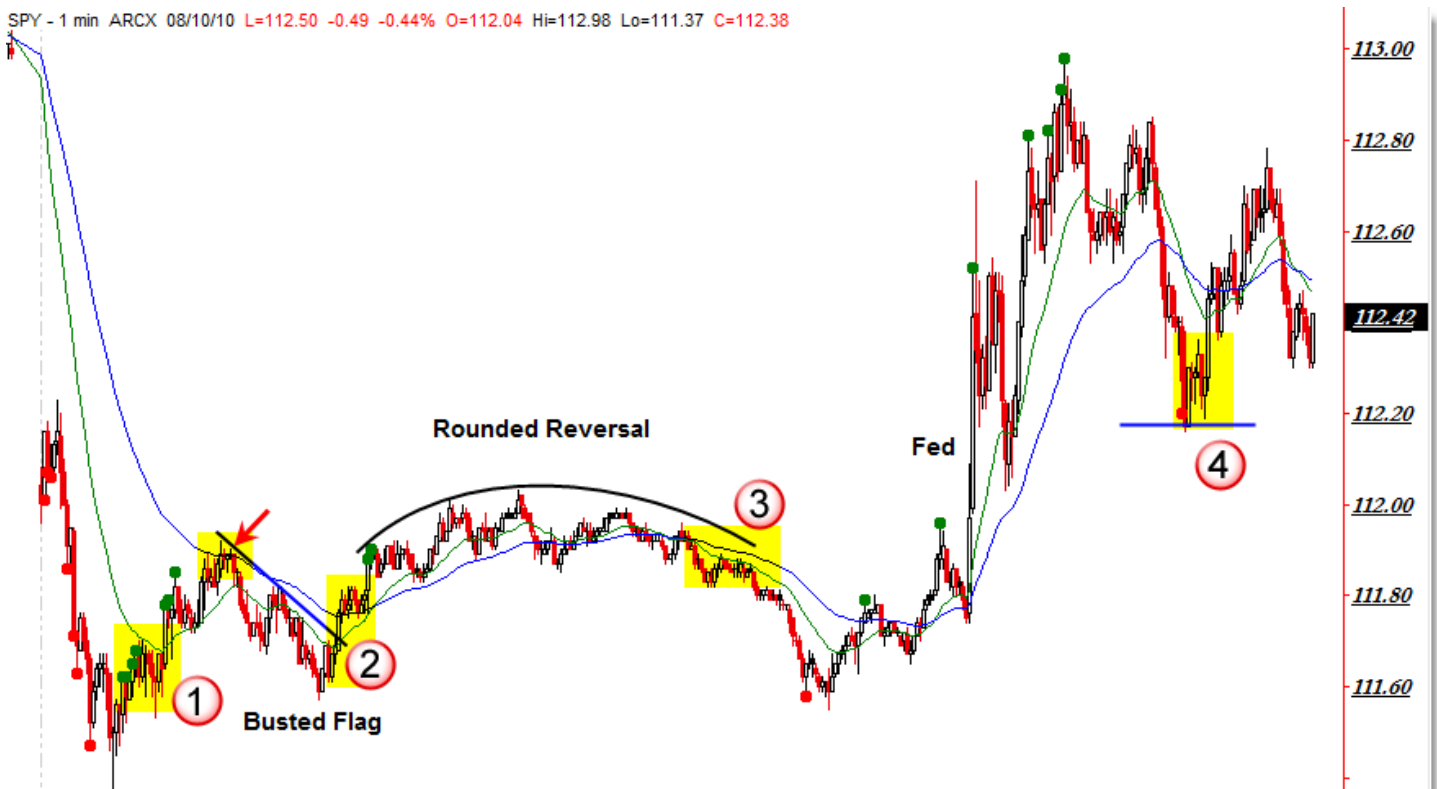
Daily "Idealized Trades" Report

S&P 500 ETF: SPY

SPY - 5 min ARCX 08/10/10 L=112.46 -0.53 -0.47% O=112.04 Hi=112.98 Lo=111.37 C=112.38



SPY - 1 min ARCX 08/10/10 L=112.50 -0.49 -0.44% O=112.04 Hi=112.98 Lo=111.37 C=112.38



STICK - 1 min NYSE 08/10/10 L=360 -273 -43.13% O=-6 Hi=1351 Lo=-1187 C=360



A quick comment on the state of the market before discussing the trades of the day.

First, my goal as a trader and analyst is to make decisions based on the chart evidence, assess what different groups of traders are thinking, position with the odds as I understand them, but then be open-minded and able to flip/reverse the position in the event a Popped Stops unexpected situation develops. I try to adhere to an unbiased technical purist, mixed with realism (meaning determining what the charts say but then being equally prepared to trade moves that go in the direction of what the charts say, or against them... which often leads to better opportunities/quicker profits).

I don't want to go too much into detail on different forms of analysis and what they're saying in the market right now, but the consensus is that something big is about to happen. Maybe it will - maybe it won't. Don't get upset if you expect it to and then nothing happens - we exist in the real world - not the theoretical. But with that in mind, I wanted to do a quick little fly-by of what's going on in terms of different groups of technical traders right now.

- The **Elliott Wave Purists** are calling for - or saying already - that we have begin a daily chart Wave 3, which is the short-term count I've been showing you. I think that is a logical conclusion. Other Elliott Purists say that we are beginning the third wave of the primary 3rd wave - implying that the market is about to - literally - fall off the cliff right and collapse here right now (I do NOT believe that, but we need to know what others are thinking).
- **Cycle Traders** note that today is a "**Bradley Date**," and I admit that I'm not that big on cycles, but today (August 10) is a major Bradley Cycle Turn date - and many are interpreting it as the beginning of a major down move ahead or - in cycle purism which states only that something BIG is about to occur rather than which DIRECTION it will occur, the date just means that something big is about to happen. A good number of traders are aware of this. There's also talk of other 'bad' (bearish) cycles "hitting" around this (some hit last week).
- **Volume** has been steadily FALLING on market rallies (this one included) and RISING on market declines. That is indicative - a la Charles Dow Theory - of a Bear Market and suggests lower prices ahead. This was the case ahead of the 2008 September/October Bear Market Plunge... and the pattern is in some ways similar now to then.
- There are **multiple momentum and breadth divergences** along with the volume divergences - but nothing that would necessarily suggest a 'fall off the cliff' - divergences don't really do that - they just warn of turns and don't necessarily speak to magnitude of turns... though the longer a divergence situation occurs, the larger the chance of a severe resolution.

I'm sure there's other things out there that suggests a big correction is ahead, but that's enough to tap us into the minds of a good deal of technical/chart traders and how they may be currently positioning and what they're expecting... and alternatively, how powerful the upside rally will be if the Bradley Date, Elliott Wave pattern, Divergences, Fibonacci, and all that fail to produce the sharp/sudden/collapse that many traders think - or are convinced - is about to happen. Your job is to TRADE - not forecast. Trading means sometimes going against what seems extremely obvious... as I explain in the latter part of the report. Either way, I do think something big is about to happen, but I'm not going to bias myself or work myself up in a frenzy trying to predict it - or be upset if my prediction doesn't come true.

In terms of how to trade this, you can already be short, or short a break under \$111 (or whatever your threshold) but take your stop-loss if the S&P 500 rises above 1,130 on a strong move. Don't sit there and say "Well, it's Elliott Wave 3 or a big Bradley Date so I'm going to hold short." You will probably get crushed on a violent upside popped stops play. I've known of traders who have lost their careers on one single trade - my guess is if we do get an upside break, there will be bears who will lose their career if they persist in a stubborn short. A good trader would then get long on a sudden break above 1,135/1,140 to play popped stops to take advantage of the bears' panic.

Now, with that somber discussion out of the way - on to the trades of the day!

1. BULLISH CANDLES, 1-MIN DIVERGENCE

This was just a quick mean-reversion trade - quite aggressive at that. The entry long was on the break above the long lower shadow candles that formed a top around the \$111.65 level, triggering entry there and a stop under the low at \$111.35 (wide stop). The target was a snap-back to the falling 20 EMA - but that didn't happen, so the trade was managed with an exit on the negative divergences and spinning top along with the trendline break at 9:30 - which could have triggered a short sale... but it didn't have the benefit of pulling back into the 20 EMA to make it an easy retracement trade... and the market actually did not sell off as anticipated. Usually we form a range ahead of a Fed Announcement, and that's what happened today.

2. TRENDLINE BREAKOUT

This was another aggressive trade - akin to a little Popped Stops play when the market busted yet another morning bear flag pattern, triggering an entry on the break above the trendline and respective 1-min EMAs at \$111.80. The stop was under the \$111.60 swing low to play for as large a target as possible, though again good trade management got you out as the massive divergences undercut each new price high - any exit in that area was good as you set up a bearish sell position. It turns out that the market formed a nice rounded reversal pattern, triggering your next trade.

3. TRENDLINE BREAK, ROUNDED REVERSAL, DUAL DIVERGENCES

This was one of the best examples of how a market - particularly on the 1-min chart - can rise and rise but momentum and TICK fall and fall - which sets up a short-sale on the break of a trendline. This was a fun little trade that triggered nicely at as price hit the \$112 level and came down, as you placed your stop above \$112.10 and played for a potential retest of the low... which succeeded in testing the morning swing low of \$111.60 but not a full retest. Again, the market tends to consolidate in a tight range ahead of the actual announcement at 2:15 EST.

I do not have any trades suggested in the initial breakout of the Fed news as this action can be random and unpredictable, but if you succeeded in trading it - good work.

4. CONFLUENCE SUPPORT RETRACEMENT

This was a quick trade for aggressive traders who are ok with playing the 'ripples' after the Fed announcement. Usually we get a surge, pullback, then second surge. Price did pullback to confluence EMA and the 61.8% Fibonacci (as drawn) support at \$112.20, triggering you entry with a stop under \$112 (volatile markets require wider stops) and price did not push to new highs as was possible, but again good trade management got you out once divergences began to form and undercut the new swing highs - as dojis formed on the 5-min chart. A good exit was about the \$112.60 trendline breakdown and bearish candle.



Roughly 80 cents was possible today - assuming you did not trade the initial surge/breakout from the Fed. If you did - that was risky - but it gave you the potential for much more profit.

SO FAR TODAY		CST	10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME		15-min VOLUME	RANGE
1,769,451.80	14,413,131	8:45	12,643,679.20	0.38
890,623.20	9,815,291	9:00	8,924,667.80	0.38
(2,238,934.30)	7,383,656	9:15	9,622,590.30	0.36
(70,077.70)	6,315,029	9:30	6,385,106.70	0.30
(2,351,641.50)	4,172,650	9:45	6,524,291.50	0.27
(2,311,978.20)	3,736,998	10:00	6,048,976.20	0.24
(435,894.70)	4,827,395	10:15	5,263,289.70	0.26
(1,940,338.80)	2,559,031	10:30	4,499,369.80	0.19
(952,693.80)	4,147,377	10:45	5,100,070.80	0.20
(1,035,285.20)	2,561,035	11:00	3,596,320.20	0.19
(860,751.30)	2,527,126	11:15	3,387,877.30	0.21
(1,265,701.20)	1,548,068	11:30	2,813,769.20	0.21
(440,748.80)	2,348,816	11:45	2,789,564.80	0.19
506,068.40	3,255,430	12:00	2,749,361.60	0.19
(592,196.70)	2,296,824	12:15	2,889,020.70	0.21
592,235.90	3,448,251	12:30	2,856,015.10	0.19
1,109,595.80	4,200,476	12:45	3,090,880.20	0.26
(940,785.20)	2,152,042	1:00	3,092,827.20	0.28
2,162,397.40	6,097,263	1:15	3,934,865.60	0.27
24,454,540.10	30,858,988	1:30	6,404,447.90	0.24
15,551,247.10	21,753,908	1:45	6,202,660.90	0.30
4,951,196.00	10,360,028	2:00	5,408,832.00	0.28
3,988,157.82	9,997,570	2:15	6,009,412.18	0.30
4,241,855.73	11,065,978	2:30	6,824,122.27	0.31
(56,678.27)	8,129,032	2:45	8,185,710.27	
823,585.36	15,884,955	3:00	15,061,369.64	
1,751,817.27	7,532,936.46	Ave.	5,781,119.19	0.26

Volume was higher - relative to its 10-day average in the SPY - during two periods - the morning sell-off and the afternoon "Fed Announcement" reaction. Given that these went in opposite directions, there's not much we can make - this is typical Fed Day volume action. Low as we move into the announcement, then surging after it.

I wouldn't make too much of today's volume data.

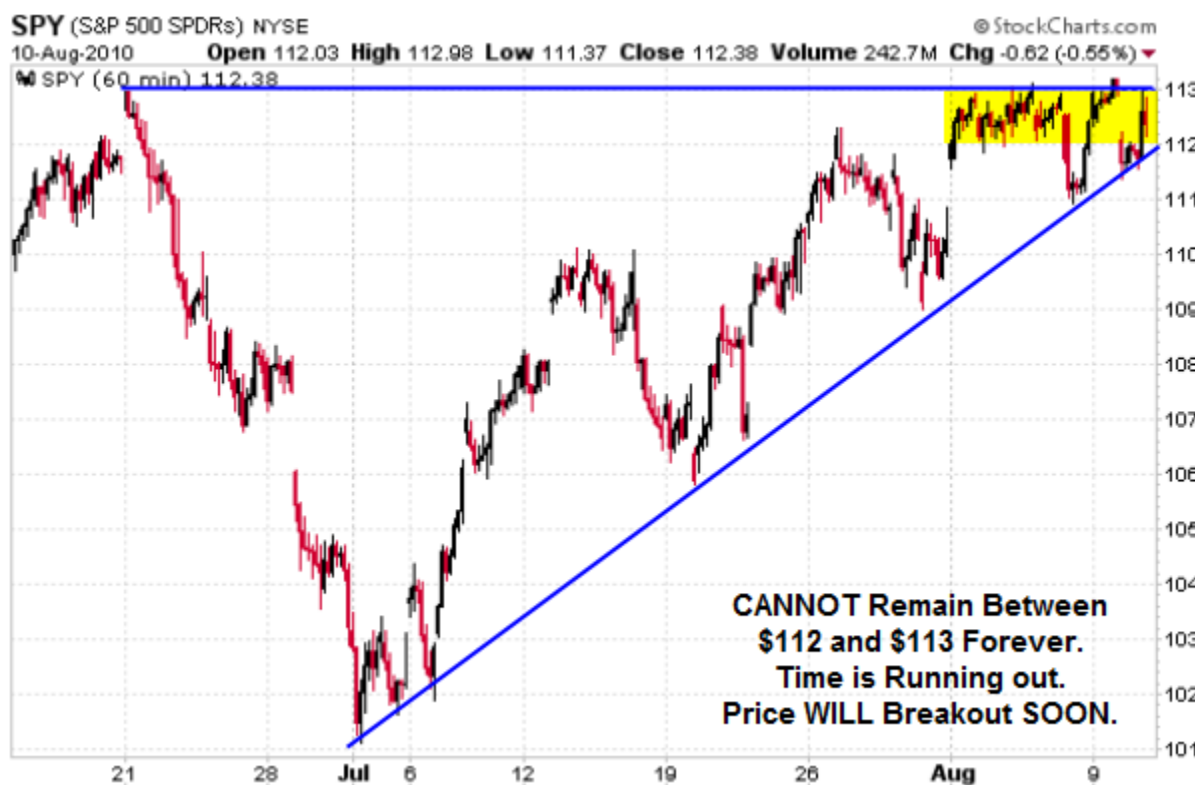


The next series of charts shows the price compression triangle - also known as bearish rising wedge or Elliott Wave Ending Diagonal - in which the market rests now. Don't let the bearish terms of the patterns mislead you - these are COMPRESSION patterns and - though we like to impose bearish connotations to them - it's best to interpret them broader as price compression patterns that precede price expansion (breakout/trend move).

Yes, odds are still overwhelming that price ejects to the downside. I don't plan to inundate you with that - there's plenty of people showing how odds favor downside action - some of which are even calling it imminent. That may very well be the case, but be very aware that - to the extent that a large swath of traders are absolutely convinced that the market is going to go down, they will be positioned short (or in leveraged ETFs) and in the chance that the market breaks strongly to the upside above \$113 then \$114 and higher, all of these people who are convinced will eventually feel the competing pain of loss and will eventually stop-out. You can think of a current short-seller as a future buyer - who will panic buy if the market goes up.



We saw volume pick-up to the upside today, but overall the market declined 0.5% on slightly higher volume... but the higher volume came after the bullish spike from the Fed. If we do get an upside break tomorrow or soon, this volume data may be seen as evidence in advance of the bullish break. I'm trying hard to prepare you for the potential for an upside break - if the market does as everyone expects it will, then there's no problem... but that's not always the case. Do not underestimate the power and resolve of the Fed to support the market - and do not underestimate the millions or billions of dollars of profit that hedge funds or very large funds will gain by supporting the market and 'jamming out' the shorts if they can hold up the market and push it above the resistance at 1,130 that everyone's watching. Remember - the market is driven by supply and demand - and that means that if everyone is seeing bearish patterns on the charts and shorting, if there is a concerted effort to overcome that supply by buying shares/futures, then the price will rise as demand overcame supply. A strong push above \$113 (1,130) likely will scare nervous bears out and could ignite a firestorm of buying - from bulls and bears - to the upside. If that DOES NOT happen, then the odds still are overwhelming for a price fall ahead. That still should be your dominant expectation, but you should NOT remain short above \$113 particularly if price, volume, momentum, internals are surging on the breakout.



There are very few things that are certain in the market, but one thing you can bank on is that price WILL eject out of this narrowing trading range, and it may do so very violently. "Above all, do no harm" - that means DO NOT get caught with a swing or position trade short above \$113 - no matter how much chart evidence you have that suggests price is headed lower. Charts don't make money - price does. Charts only reveal probabilities and places that likely trigger 'popped stops' moves when the crowd is forced out of their 'normal positions.'

On the same notion, if you are bullish here, DO NOT get caught holding long under \$111.

That's first on the agenda. From there, you can build strategies, depending on your aggression level, about what to do. Maybe you buy a straddle at the \$112 or \$113 level (buy equal number of puts and calls at the same price/strike). Maybe you are hedged right now and will pull off the hedge when the market breaks. Maybe you're getting ready to plunge into a 2x or 3x leveraged fund. I can't make specific recommendations because you all are different - depending on your experience and aggression level.

Main idea - get ready/anticipate a relatively large price breakout move one way or the other above \$113 or beneath \$111. Prepare to trade that aggressively on the intraday frames and - to be safe - don't stubbornly hold on to your breakout position if price initially breaks out and returns inside the range - else you'll risk being caught in a 'false' breakout or bull/bear trap. In other words, most likely, something big is about to happen so be prepared either to avoid it if you're a new/conservative trader or profit from it if you're an experienced aggressive trader.

Oh - and don't try to predict the breakout - if you let your ego get involved, you're probably asking for trouble if the market breaks the 'wrong' way. There is no right or wrong way - only the market's way. If you've been trading long enough, you know that the market - most often - does the most UNEXPECTED thing to hurt the most people (that's why it's so important to understand the Popped Stops Logic I discuss so often).



Not really much more to say - either the market will break sharply above 1,130 - yanking out the stop-losses of the bears and causing a very likely super-powerful upside breakout that takes traders by surprise, or the market will do what the chart suggests it will and fall, shattering support under the 1,100 level which triggers a short-sale to play for 1,060 or perhaps 1,010 on a market crash (assuming this market was being held up artificially and then the bullish 'force' stops buying pullbacks). Either way, there's a lot of energy and emotion building up right now - and the market is so very compressed here. We're likely to see a feedback loop develop on an upside or downside break.