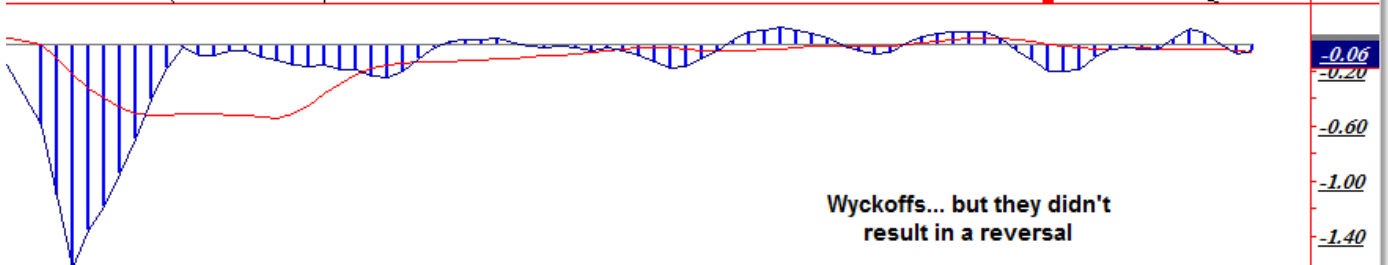
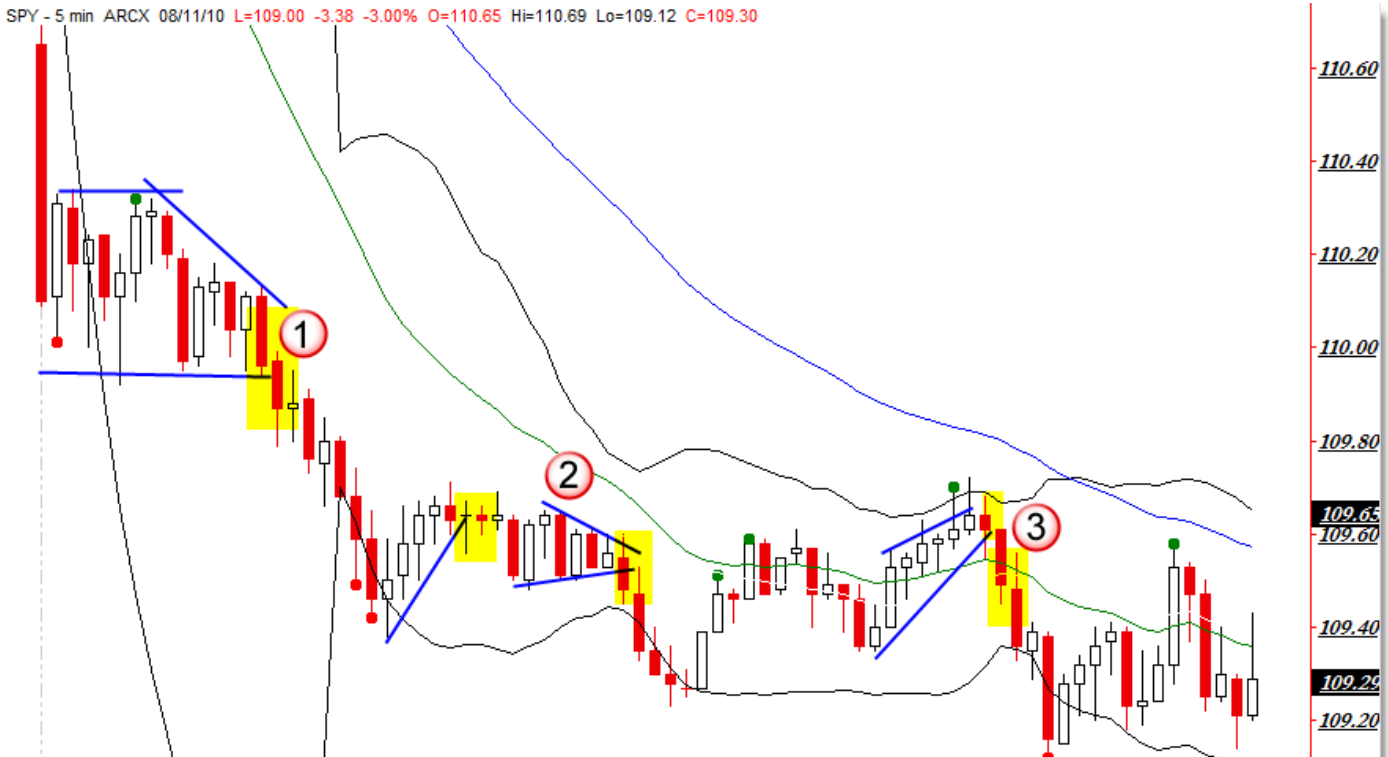




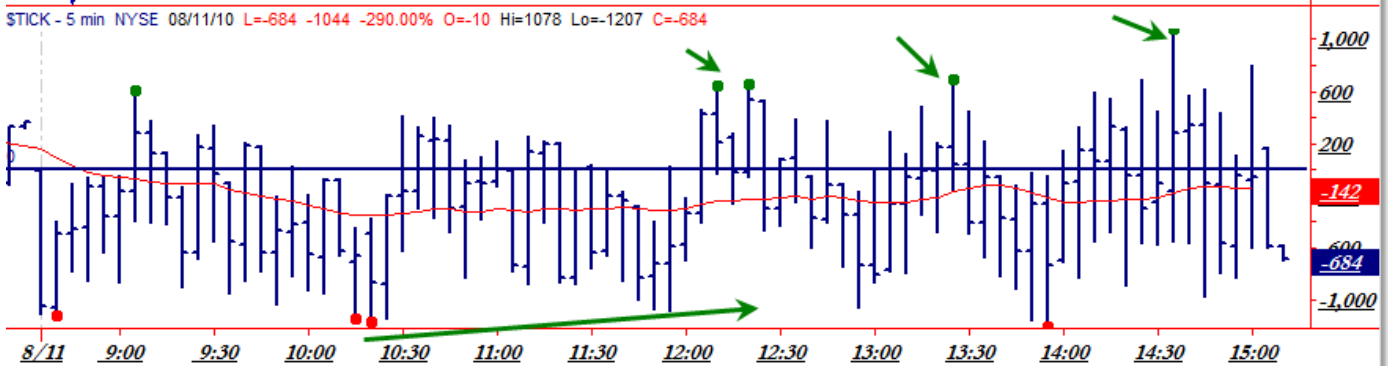
Daily "Idealized Trades" Report

S&P 500 ETF: SPY

SPY - 5 min ARCX 08/11/10 L=109.00 -3.38 -3.00% O=110.65 Hi=110.69 Lo=109.12 C=109.30



STICK - 5 min NYSE 08/11/10 L=-684 -1044 -290.00% O=-10 Hi=1078 Lo=-1207 C=-684





In a strange way, it's days like this that make many traders feel justified - at least those of us who are highly focused on charts. I spent almost the entire report last night warning of an impending price breakout and to be prepared to trade it intraday - or in the case of swing traders, continue holding short but be ready to stop-out and play long above 1,130 on the lower probability of an upside break. And by probabilities, I mean that there was probably an 80% or 85% chance of a downside break - given the technical structure I explained to you (Elliott Wave, Fibonacci, Bradley Date, multiple divergences, etc)... but in the event that we did have an upside break - I wanted you not to be frustrated or confused, but instead trade it profitably and make money from it. Remember - our goal is to TRADE the market - not forecast it. Today is a major victory for the charts - in terms of technical structure, divergences, 'cycles,' divergences, etc. Today would have been a failure for all of that if we had an upside break, but that failure would have led to very predictable, large profits to those of us who could stand outside our biases and trade long on an unexpected upside break.

As of now, after being 'held up' longer than expected, the market appears to be doing the 'normal' or 'expected' thing - falling very sharply. Good job to those of you who traded aggressively and profited today - it was absolutely inevitable that price was going to break out - but it was better to wait for the break and go with it. I'll continue this discussion later in the report.

POSITION TRADE

This is a strange trade in that it's not necessarily labeled on the chart, but it's a position trade you put on after a large downside gap when you have reason to suspect - and we CERTAINLY had that - that a range expansion or 'trend day' price move is likely. Basically, you short as soon as possible (or go long if it's an upside break) and hold that position all day long into the close UNLESS price breaks above the 50 EMA. That's a very common trend day trade - and doing so would have profited about \$1.00 today. The rest of the trades were mainly 'scalps' around the Type III Trend Day that was expected - and unfolded. Though there was a pesky bullish Wyckoff Sign of Strength that threatened to form a Rounded Reversal breakout but that ONLY would have triggered on a breakout above the "Line in the Sand" - which is always the 50 EMA on the 5-min chart. That didn't happen, so the bias remained for trend continuation.

The image I had is that the market is like a little child who is mischievous and always tests the limits of his boundaries before getting punished. Though the market "should" have gone down all day (and it did) the market got a little mischievous streak in the afternoon, pretended to form a Rounded Reversal (complete with divergences and Wyckoff Sign of Strength), edged its way almost totally to the 50 EMA threatening an official violation of the trend day ... and then collapsed after playing a little joke on the market participants. The joke being "You think I'm going to go down all day! Haha - I'm really going to reverse on you. See? Here I go - I'm reversing! Ohhh just kidding. Down I go!" That was also the case on the June push to 1,130 on the S&P 500 before the 10-day crash ("I'm going to break out! Here I go! Wheeeeeee... just kidding. Down I go 10 days in a row."). You can think of the same logic on the failed breakdown that ended in July that put us where we are right now - higher back into 1,130's resistance... well... as of yesterday at least.

1. TRIANGLE BREAKDOWN, RETRACEMENT ENTRY, SUPPORT BREAK

You could have shorted earlier but the official entry - or conservative entry occurred on the horizontal support break at the \$109.90 level at 10:00am. These breakdown trades don't give you a great location to place a stop, so they're not for all traders, but you have to 'pay up' to play a breakout move, and they're not as comfortable/easy as retracements. Still, it was best to exit this trade on the trendline break after the spinning top candle formed at the \$109.60 area at 10:30 and wait to re-short the market on the upside retracement.

2. "ROUNDED REVERSAL" TRIANGLE, TRENDLINE BREAK

Price didn't pull all the way back to the 20 EMA - which would have been an easy trade. Instead, price consolidated between \$109.40 and \$109.60 before breaking the short-term symmetrical triangle at 11:45am, triggering your entry at the \$109.50 level. You actually had an earlier entry due to the negative dual divergences and trendline break - and bearish candle - at 11:00am at \$109.60 - but you had to put up with further consolidation before realizing a profit. Trail your stop above the 20 EMA and it was best to exit on the spinning top and doji candles - along with the crystal clear positive TICK and Momentum divergences at noon CST at \$109.30.

You certainly could have played long for a mean reversion trade, or for an aggressive potential reversal, but I do not suggest taking counter-trend trades on a Type III Trend Day for anything more than a scalp. Don't ever bet on a reversal UNTIL we get back above the 50 EMA - and THEN you can play the popped stops and breakout. If you tried too hard to get long to play for a break of this Trend Day, you were thwarted with an unnecessary loss as you tried to fight the day. Don't do that. Stand aside while the market churns around and play counter trend ONLY when the market has proven it is reversing - which triggers officially with a break above the 50 EMA. Yes, we had a divergence, yes we had Wyckoff Signs of Strength, and NO these did not result in a trend reversal. When in doubt - stay out. Divergences and Wyckoff Signals are CONDITIONS, and they are NOT trade signals unless you are an aggressive trader willing to take the risk of a stop-out by fighting the trend.

As such, the next trade - if you managed to resist the urge to go long here - was the breakdown back under the 20 EMA.

3. 'REVERSAL FAILURE,' TRENDLINE BREAK DUAL DIVERGENCES (1-MIN)

This was a gutsy play, only because the market had indeed shown signs of potential reversal to the upside. However, rule #1 in technical analysis is "Trends, once established, have greater odds of continuation than of reversal." To play a reversal, it's best to wait for confirmation, at least for most traders. Price broke the rising trendline after forming negative dual divergences (see 1-min) at the \$109.70 level. The safer entry was a breakdown back under the 20 EMA at \$109.50 - this time the trade allowed you to play the "Popped Stops" of the BULLS who just got long. Price chopped around into the close, without really giving a nice clean exit.



Not including the position trade, roughly 90 cents were possible today, but including the position trade, almost \$2.00 was possible.

Big moves like this that originate with a downside gap mostly benefit the bold swing traders who were holding short already with a stop-loss above 1,130 (\$113).

Alphabetically		By Correlation Value	
	^DJI		^DJI
^DJI	1		1
AA	0.931	UTX	0.995
AXP	0.853	DD	0.968
BA	0.912	CAT	0.962
BAC	0.722	XOM	0.956
CAT	0.962	GE	0.953
CSCO	0.953	CSCO	0.953
CVX	0.909	MSFT	0.942
DD	0.968	DIS	0.939
DIS	0.939	AA	0.931
GE	0.953	MCD	0.922
HD	0.559	BA	0.912
HPQ	0.818	CVX	0.909
IBM	0.809	MMM	0.896
INTC	0.824	WMT	0.893
JNJ	0.625	T	0.862
JPM	0.838	AXP	0.853
KFT	0.822	JPM	0.838
KO	0.756	INTC	0.824
MCD	0.922	KFT	0.822
MMM	0.896	HPQ	0.818
MRK	0.055	IBM	0.809
MSFT	0.942	KO	0.756
PFE	0.557	PG	0.728
PG	0.728	BAC	0.722
T	0.862	VZ	0.632
TRV	0.465	JNJ	0.625
UTX	0.995	HD	0.559
VZ	0.632	PFE	0.557
WMT	0.893	TRV	0.465
XOM	0.956	MRK	0.055

A quick bonus research chart/graph I did.

This is the correlation (Pearson's r) values of the current Dow Jones 30-stocks to the Dow Jones Index itself.

I took the data from Yahoo Finance, ran a correlation study using daily prices from January 2010 to present to see what the individual correlations were between the stocks and the index.

It may not be of much value to you, but it's interesting to see which stocks - UTX, DD, CAT, XOM are MOST correlated with the Dow Jones and which are least - HD, PFE, TRV, MRK. The column on the left lists the correlations in alphabetical order while the right column is easier to interpret - it sorts by correlation strength.

SO FAR TODAY		CST	10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME		15-min VOLUME	RANGE
9,230,107.80	23,367,627	8:45	14,137,519.20	0.36
4,220,363.20	13,778,197	9:00	9,557,833.80	0.36
30,885.70	9,955,950	9:15	9,925,064.30	0.33
3,266,874.60	10,065,048	9:30	6,798,173.40	0.31
1,997,501.30	8,613,225	9:45	6,615,723.70	0.30
2,250,811.90	8,747,002	10:00	6,496,190.10	0.24
3,754,667.30	9,595,091	10:15	5,840,423.70	0.25
5,996,920.90	11,220,304	10:30	5,223,383.10	0.18
1,103,121.60	6,467,688	10:45	5,364,566.40	0.20
681,730.80	4,406,096	11:00	3,724,365.20	0.18
1,768,552.40	5,467,424	11:15	3,698,871.60	0.23
491,541.30	3,417,459	11:30	2,925,917.70	0.20
1,403,352.80	4,391,004	11:45	2,987,651.20	0.20
2,194,715.90	4,955,097	12:00	2,760,381.10	0.18
2,202,288.40	5,235,717	12:15	3,033,428.60	0.21
795,662.30	3,633,623	12:30	2,837,960.70	0.19
1,139,949.30	4,299,064	12:45	3,159,114.70	0.25
461,313.20	3,415,469	1:00	2,954,155.80	0.26
279,528.80	4,123,976	1:15	3,844,447.20	0.27
(1,999,447.60)	3,990,282	1:30	5,989,729.60	0.25
(856,671.90)	5,529,316	1:45	6,385,987.90	0.28
2,500,388.00	8,459,564	2:00	5,959,176.00	0.28
418,287.73	6,293,051	2:15	5,874,763.27	0.32
648,737.91	7,654,002	2:30	7,005,264.09	0.31
5,976,405.36	14,944,366	2:45	8,967,960.64	
11,314,636.73	27,762,988	3:00	16,448,351.27	
2,356,624.07	8,453,408.85	Ave.	6,096,784.78	0.26

We have a very powerful signal of CONFIRMATION in terms of volume of today's down move.

Volume was up on every single 15-min period - except the 1:30pm periods. Otherwise, sell-volume was up across the board which suggests that lower prices are yet to come.



I won't spend as much time on the analysis as I've been doing the last few days - simply because we are in breakout mode and price can move very quickly. The bias is still for lower prices, but that doesn't mean we'll get there overnight. We still have levels to target, likely bounce off of, and then continue heading lower.

As such, it looks like price is primed to bounce short-term here off \$109 - a downside target that has been hit. That's because it's the prior low from late July and the 38.2% Fibonacci retracement as drawn in the 60-min frame.

If bulls can't bounce us up off \$109, then we really could be looking for another market crash ahead of us... so keep shorting under \$109.



Odds are good for at least some sort of bounce here - as the \$109 level forms a confluence with the July low, 38.2% Fibonacci retracement, and 200 period SMA as shown above. Dojis are forming on the price chart - as are positive divergences and the Wyckoff Sign of Strength signals still hint for potential upside prices (that just didn't play out before the close).

Intraday traders should prepare to trade any upside move from here that could target \$111, but any move under \$109 and particularly \$108.80 should be shorted.



Ouch. This is exactly what was expected from the charts - sellers held the market to resistance at 1,130 and simultaneously shattered EMA support and the rising trendline as I drew last night. It looks like this is the beginning of a new sell leg that has a very good chance of taking us back to 1,060 at a minimum, if not a complete retest of 1,010.

That will continue to be the dominant expectation UNLESS we see price rise back above 1,130 which would be the only thing to change that higher-timeframe downside bias. Swing traders who shorted at upper levels are doing well while day traders should continue monitoring intraday charts and prepare to trade up and down on the intraday frames as price swings short-term - instead of collapsing back to 1,010 in one or two days.



Just a quick bonus chart - bonds have been skyrocketing, and that's usually a very bad warning sign for stocks. In the inter-market cycle, bonds tend to lead stocks, and this massive rally in bonds suggests that the well-informed investors are exiting equities and seeking safety of bonds... despite the fact that they are getting extraordinarily (even record) low yields for their bond investments. That underscores perhaps how 'scared' they are about the future of the economy/stock market... and there's another variable in the equation - the Federal Reserve has announced (yesterday) that they will resume buying 2 and 10 year treasuries. Take it for what it's worth - it's bullish. Do you want to fight the Fed?