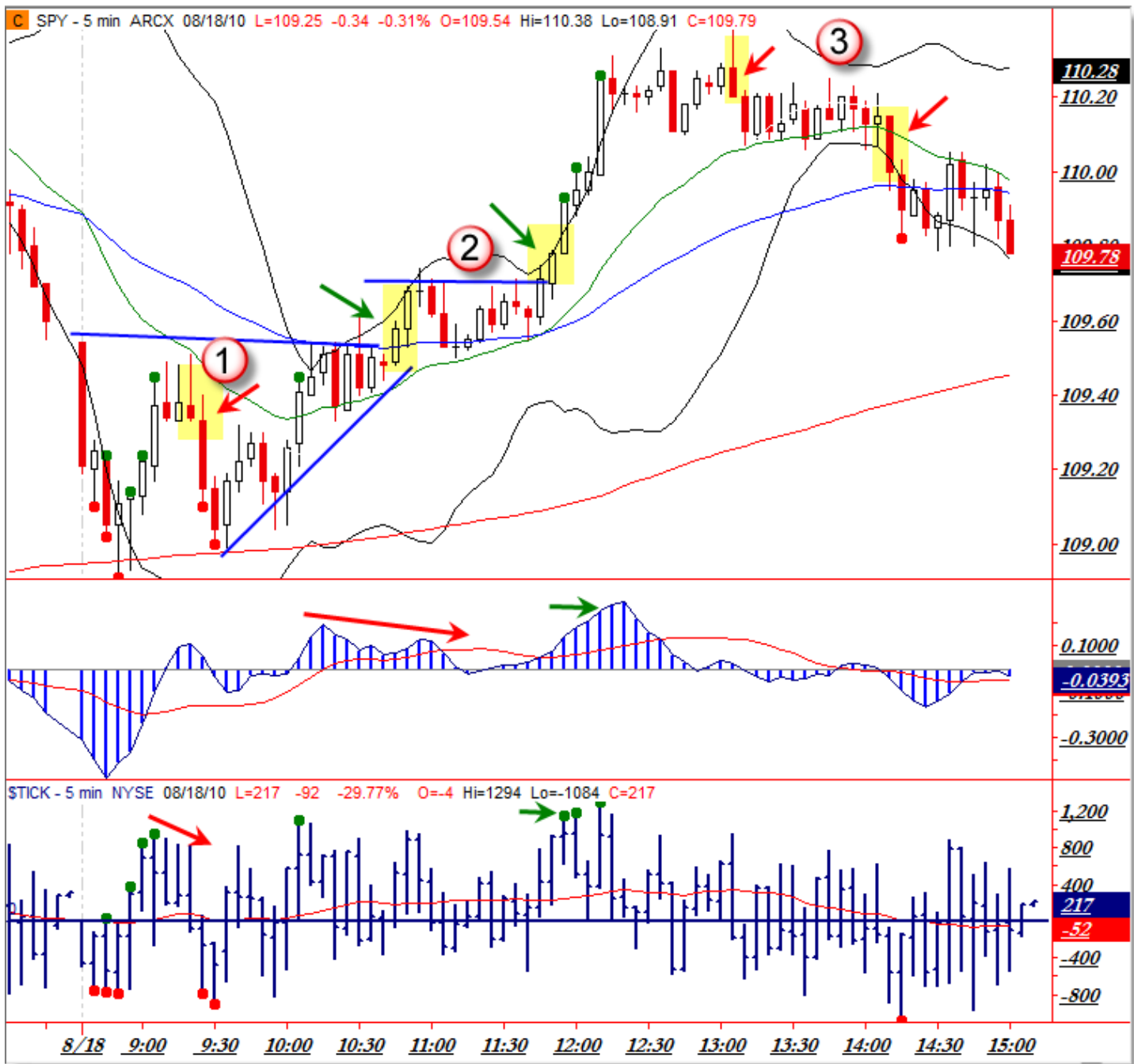
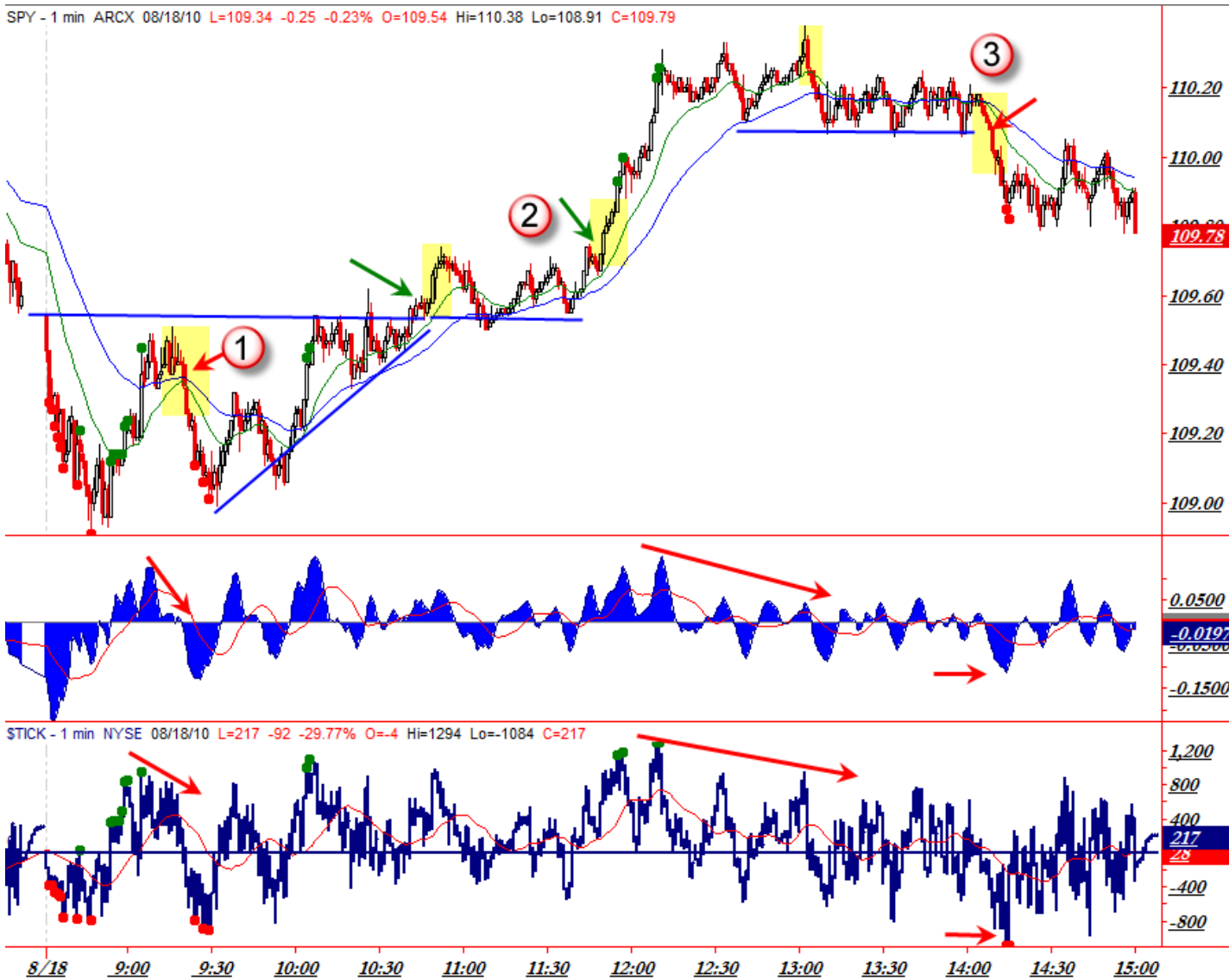




Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min





A really curious thing happened today – and it was the same thing that happened yesterday. In fact, today's opportunities and structure were almost identical to those of yesterday. It's interesting, fascinating, and terrifying all at the same time – interesting because it's neat but terrifying because it leads us to believe that "higher forces" (Fed, Government, large hedge funds) control the market and are interfering with the natural way that things work... or is this the natural way things work? I'll leave that to the philosophers and stick with the trading. On a simpler level, yesterday's action – and report – was a roadmap to today's action. I sincerely hope you did not make the same mistakes – if any – that you did yesterday on today's action. If so, take time to learn and to understand the value of taking extra time to read these reports and learn the lessons from each day's material. I need not underscore the importance of learning repetitive patterns – they DO repeat and sometimes they repeat the very next day.

1. SHORT-SELL RETRACEMENT, DIVERGENCES, SHADOWS, 20 EMA

This was your classic retracement into resistance trade where three upper shadows/reversal candles formed as a negative dual divergence formed as well. You were to short on the break of the candle lows at the \$109.40 level, place a stop above the candle highs at \$109.50, and play for a minimum retest of the lows and support at \$109, if not for a larger downside target to come. As it were, price found support on the rising 200 SMA and rallied off key support at \$109. Any breakdown under \$109 was a major "sell short" trigger, but so far that hasn't happened, so you should have exited as price rallied upward off \$109 and certainly exited when the prior candle high at \$109.20 was taken out.

Remember our saying – if the market should fall in a sell signal but does not, it can often lead to an 'unexpected' (by now, they should probably be EXPECTED) upside breakout which gives us a new trade – Popped Stops.

2. POPPED STOPS, ASCENDING TRIANGLE BREAK, EMA BREAK

This trade – a simple breakout above EMA resistance at \$109.55 – was also the breakout of a symmetrical triangle pattern. The first trigger long – entry – was on the break at 11:00am at the \$109.60 area with a stop under the 20 EMA (at least if not further down) at \$109.40. You had to endure a "throwback retracement" that actually gave you a better buy – this time triggering the Cradle Buy trade set-up (hammer that formed at 11:30 at the convergence of the 20/50 EMA crossover). So far, that's two entries, and the final – last – entry came on the second breakout at 11:50am above \$109.75. You were to hold this trade in breakout/Popped Stops logic until the reversal candles formed at the \$110.20 area for a nice profit.

If you are an aggressive trader, you could have shorted on the initial breakdown/bearish engulfing candle/dual divergence at the (what would later become the intraday) high of \$110.20 level, but given that we could have witnessed a trend day continuation higher (despite the divergences), it was probably a better idea to short on the break under the 20 EMA at \$110.10 or 50 EMA at \$110. Hey – didn't that exact same thing happen yesterday?

3. BREAKDOWN

This was almost exactly equivalent to yesterday's trade with three entries and a clear reversal after a 5-wave Elliott fractal move up. You even had the nice last chance short-sell as price rallied back into the resistance of the 20 EMA at 2:30. Unlike yesterday's trade, the market did not sell off sharply into the close... instead... it sold off sharply AFTER the close (they 'held the market up' into the close). See the @ES chart for details.



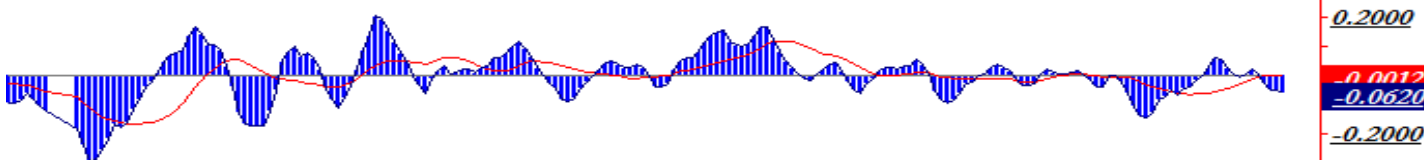
Using the ideal grid, roughly 90 cents were possible in today's session.



Look closely – this is the classic progression prior to a mini-crash (on any timeframe).

The initial rally ends on negative dual divergences, then price breaks not only the rising trendline but the horizontal trendline, and in most cases a Wyckoff Sign of Weakness (2:00pm) forms just prior to the downward 'crash' – which actually occurred just after the market closed today.

SPY - 2 min ARCX 08/18/10 L=109.37 -0.22 -0.20% O=109.54 Hi=110.38 Lo=108.91 C=109.79



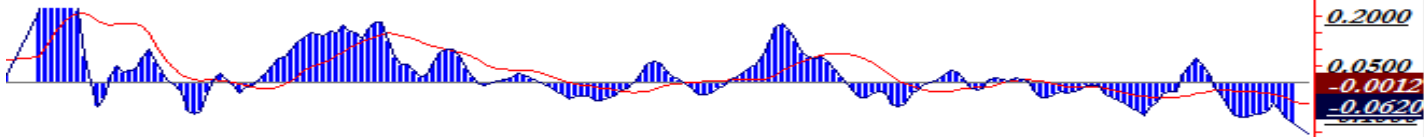
STICK - 2 min NYSE 08/18/10 L=217 -92 -29.77% O=-4 Hi=1294 Lo=-1084 C=217



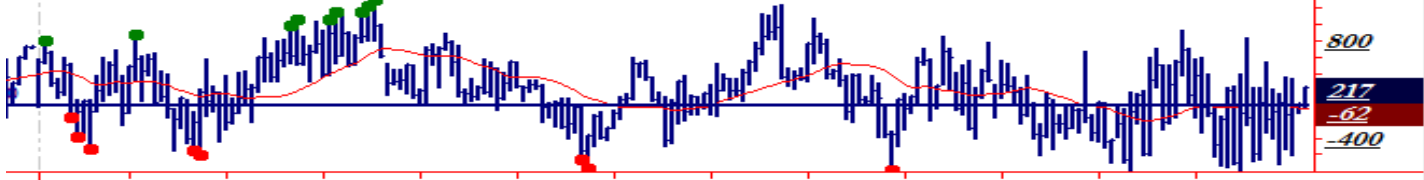
8/18 9:00 9:30 10:00 10:30 11:00 11:30 12:00 12:30 13:00 13:30 14:00 14:30

Structure and Opportunities from yesterday (below) and today (above) were almost identical.

SPY - 2 min ARCX 08/18/10 L=109.37 -0.22 -0.20% O=109.54 Hi=110.38 Lo=108.91 C=109.79



STICK - 2 min NYSE 08/18/10 L=217 -92 -29.77% O=-4 Hi=1294 Lo=-1084 C=217



8/17 9:00 9:30 10:00 10:30 11:00 11:30 12:00 12:30 13:00 13:30 14:00 14:30



This is more of a fun chart than a revelation of profound philosophy, but look closely at how the market has what seem to be surgically orchestrated bouts of sudden buying pressure at just the right time – to prevent the market from plunging further. First, we have the August 6th sell-off thwarted by a violent round of popped stops and the same thing happened the next day on the gap down, roll-over day, and then BAM popped stops into the close.

Buyers didn't step in to prevent the selling pressure on August 11th but they certainly did so on the sharp gap-down on August 12th... and when the market rolled over sharply to the downside with another exact same (I even called it as such) gap down on August 15th. That day also gave us a rounded rollover similar to that of August 10th that was thwarted with surgical precision of concerted buying into the close and into August 17th.

The market fell into the close and sharply this morning, only to be surgically injected with more buying pressure this morning.

Key take-away: When the market "looks like" it's going to fall off a cliff, it gets saved from the abyss by brave bulls rushing in to buy... or maybe they're not bulls. Either way, the markets – price – are driven by supply and demand... though from where the supply and demand come from are not only beyond our perspective, but unknowable. But you don't have to know or figure it all out – you just have to trade in the real world, not in a perfect world (where markets that look like they're going to go down, actually do go down... and markets that look like they're going to go up actually go up). Be ready to play pattern failures – after all, as long as this continues, **money will flow easily to those that understand this principle who can adapt to trade Popped Stops and away from those who don't.**

I could go off in a thousand directions regarding conspiracy theories – many traders are doing this now – but none of that matters. Don't get upset, don't be confused, don't complain (that's a waste of time) - just trade, take your stops when needed, and decide whether or not to 'flip/reverse' or just stay sidelined when the market gives a clear sell signal... only to rally very sharply in another Popped Stops 'surgical injection' rally higher. You don't make money with conspiracy theories – only by trading and avoiding bias – either bullish or bearish.



Like yesterday, the parameters for tomorrow are clear. We have a market that is compressing between two specific trendlines and WILL break out above or beneath one of them. Fact. The trendlines currently exist at the \$109.50 area (lower rising support) and \$110.25 (upper horizontal resistance). This is a classic ascending triangle, but rather than seeing this as a bullish triangle pattern (it may be), it's best to see it neutrally as a range compression triangle and prepare to trade the break above \$110.50 long or under \$109.50 (better under \$109) short.

Beyond that, we have chart signs indicating odds favoring LOWER prices ahead – namely the DECLINE in volume on the market rallies and INCREASE in volume on market declines. Beyond that, we have a (so far) double top chart pattern (inside an ascending triangle) and a crystal clear negative momentum (and breadth) divergence on today's high. Combined, all of it points to a breakdown under \$109, but as mentioned above, DO NOT underestimate the willingness and ability of "them" to hold this market up and prevent a fall – with surgical precision. That's to say, don't just run out there and short with your whole account – but instead, guard your risk (you can certainly be short) but prepare to play popped stops above \$110.50 and \$110.



Same commentary – the odds are overwhelming for a downside break and resolution of this double top pattern into more specific resistance at the 50% Fibonacci retracement level at \$110.40. While we expect price to fall from here – and it certainly should – be equally prepared to trade long (take your stops) and play popped stops (for the frustrated bears who do not understand probabilities... namely those who think in certainties and hold on to their shorts) above \$110.50 and especially above \$111.

By the way, in Elliott terms, we likely just completed – or will be completing very soon – a small counter-trend Wave 2 up (with pro-trend Wave 1 down ending on August 16th).



Since today was a direct repeat of yesterday, there's really nothing new I can say – the 20 and 50 day EMAs still converge as potential resistance with the “round number” resistance level at 1,100.

Odds are overwhelming for a downside resolution – perhaps an extremely sharp one – but you're a trader, not a forecaster, so be prepared to stop-out on a break above 1,100 and either stay sidelined until we break above 1,130 or play intraday popped stops on the way up if this market is held up here and a fall is prevented.