

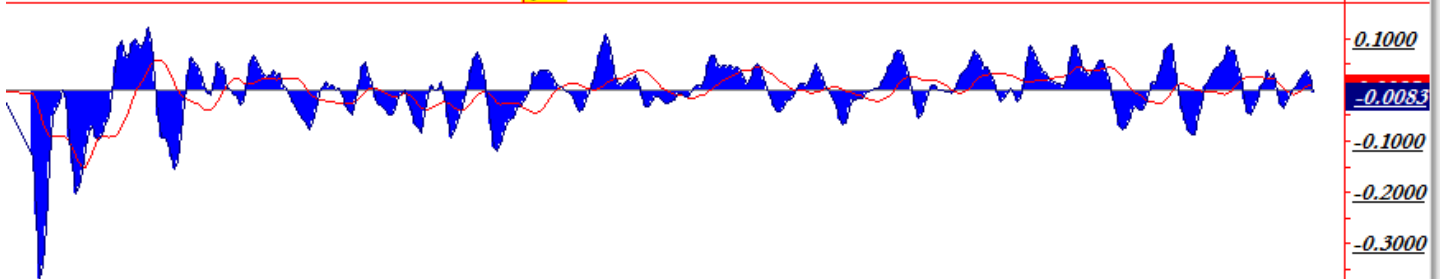
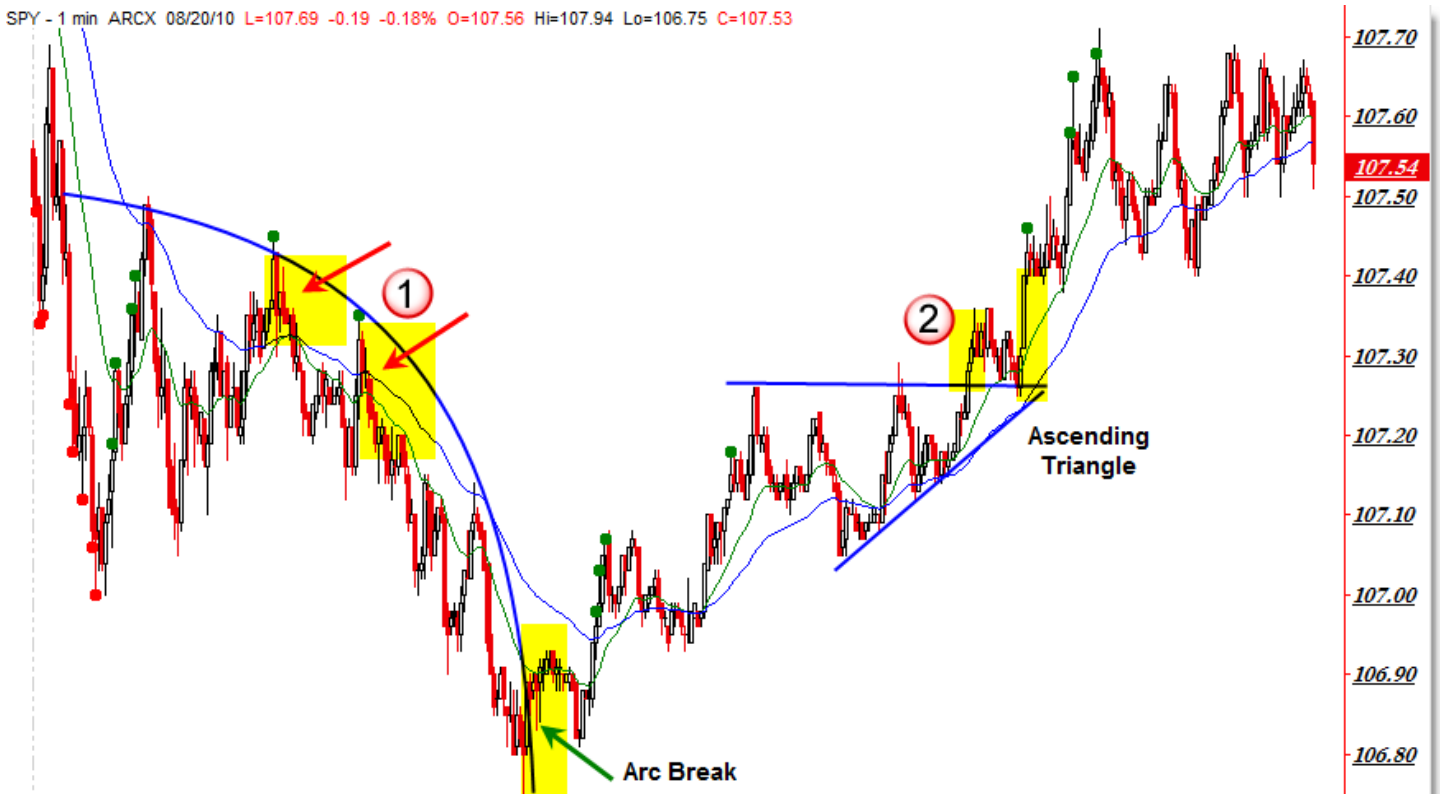


Daily "Idealized Trades" Report

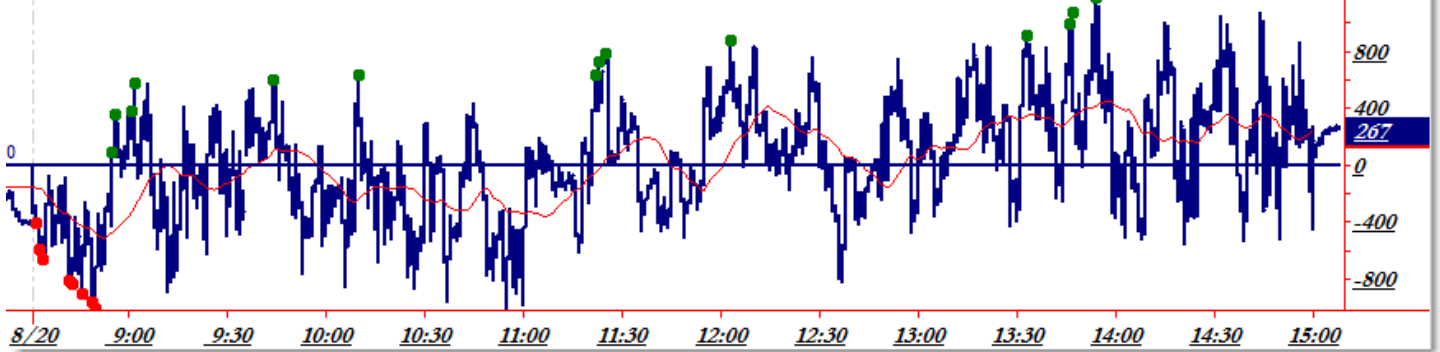
S&P 500 ETF: SPY



SPY - 1 min ARCX 08/20/10 L=107.69 -0.19 -0.18% O=107.56 Hi=107.94 Lo=106.75 C=107.53



STICK - 1 min NYSE 08/20/10 L=267 666 -166.92% O=-9 Hi=1178 Lo=-1009 C=267



The market found support at the 1,070 / \$107 target, formed positive divergences, broke the arc pattern, and then rallied as forecast into the close. Today's lesson is on trade/position management and keeping your eyes open for contradictory (in this case, bullish) evidence and responding to that evidence/new development, as opposed to clinging to your bearish bias. Let's see the set-ups and lessons in today's OpEx Friday session.

1. RETRACEMENT SELL

There were actually three separate opportunities to get short, and all three could have been separate trades under the same logic. We have a higher timeframe downside bias and expectation that if price is under \$108 or \$107.50, then the next support target is \$107. That's exactly what happened, though there were trade set-ups that triggered within that context - all three of which were price pullbacks (retracements) to the falling 20 period EMA on the 5-min chart. It doesn't have to be more complicated than that.

You place a stop and trail it just above the 20 EMA and exit either on a retest of a prior price low or just beyond a prior low. Or, you can try to hold short to target the \$107 level or lower. In the second pullback (where I have trade #1), two upper shadow candles came into play, triggering an entry short as close to the 20 EMA as possible at the \$107.40 level, or on the price breakdown under the candle lows at the \$107.30 area. In either instance, the best place to exit your trade was the dual positive divergences and bullish (almost) engulfing candle at 11:00am which also broke the arc trendline as shown above.

Arc trendlines are just like basic trendlines but they 'hug' price closer and highlight a specific arc-like movement. Usually, when the arc turns vertical, price is due for a reversal so you should exit positions on a breakthrough of the arc, while aggressive traders can establish a trend reversal position - though it's usually better to wait for confirmation of a break. We also had a positive dual divergence (see 1-min) on the push to the \$106.80 level which was immediately followed at 11:30 with a clear Wyckoff Sign of Strength (new TICK high when price was not making a new intraday high). That's your classic situation that suggests that odds favor a reversal in trend (day structure) and that's exactly what occurred into the close.

While you could have entered long after the break above the 20 EMA at 12:00 following the first Wyckoff, I show the next trade being the break above the 50 EMA after a second Wyckoff Signal triggered at the push higher at noon.

2. WYCKOFF STRENGTH, ROUNDED REVERSAL, POPPED STOPS

As I mentioned, depending on your aggression level, there were a couple of entries - the breakthrough of the arc (very aggressive), the break above the 20 EMA after the divergence and Wyckoff, and finally the break above the 50 EMA at 1:30pm. Either way, when price broke above the 50 EMA after going through all those bullish signals, odds favored a higher push into the close, triggering (or continuing) Popped Stops (bears covering) off the lows. Entry occurred at the \$107.35 area with a stop trailed under the 50 (or 20 if conservative) EMA and because price never broke the 20 EMA, you should have held long into the close to see if the "Popped Stops" would result in a sudden move to the upside - particularly on Options Expiration day. It didn't, but because price flatlined into the close, it was still a profitable breakout trade.



Using the two trades described with a moderate aggression level, roughly 70 cents were possible on today's "Rounded Reversal" or "V-Spike Reversal" session.

SO FAR TODAY		CST	10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME		15-min VOLUME	RANGE
(1,130,530.80)	14,051,580	8:45	15,182,110.80	0.40
1,000,719.50	11,908,741	9:00	10,908,021.50	0.40
1,916,470.70	12,234,129	9:15	10,317,658.30	0.29
369,774.80	7,934,746	9:30	7,564,971.20	0.26
(699,329.90)	5,357,045	9:45	6,056,374.90	0.34
(1,127,732.50)	4,332,898	10:00	5,460,630.50	0.21
(1,737,191.30)	4,731,523	10:15	6,468,714.30	0.34
(487,605.50)	4,565,801	10:30	5,053,406.50	0.18
2,084,740.50	7,908,102	10:45	5,823,361.50	0.16
2,199,683.80	6,814,816	11:00	4,615,132.20	0.19
(309,461.20)	3,377,516	11:15	3,686,977.20	0.16
745,824.10	4,085,076	11:30	3,339,251.90	0.18
(217,083.50)	2,350,929	11:45	2,568,012.50	0.18
(324,561.00)	2,671,384	12:00	2,995,945.00	0.17
(73,646.10)	3,247,441	12:15	3,321,087.10	0.17
(1,211,708.80)	1,927,787	12:30	3,139,495.80	0.18
(775,931.90)	2,341,923	12:45	3,117,854.90	0.23
1,136,039.10	4,157,042	1:00	3,021,002.90	0.21
(1,242,393.40)	2,437,256	1:15	3,679,649.40	0.30
(961,216.90)	4,848,236	1:30	5,809,452.90	0.25
217,649.45	6,440,875	1:45	6,223,225.55	0.30
3,155,478.09	8,798,824	2:00	5,643,345.91	0.26
243,032.09	6,273,346	2:15	6,030,313.91	0.36
(1,453,482.18)	5,393,163	2:30	6,846,645.18	0.27
(3,408,989.82)	6,199,753	2:45	9,608,742.82	
(1,932,728.18)	14,694,773	3:00	16,627,501.18	
(154,776.19)	6,118,642.50	Ave.	6,273,418.69	0.25

Today was a wash in terms of Relative Volume - today's volume was almost exactly the same as the average SPY 10-day volume, and given that today opened weak and closed strong - forming a doji candle - this was a stalemate day in both price and volume terms.



A positive Breadth, TICK, and VOLD Divergence 'undercut' today's low and suggests we could see further upside action - at least from the perspective of market internals - if price can rally back above 1,080 as a confirmation/trigger.



I don't know if you feel the same way I do, but it "feels" like "they" just won't let this market fall. Every time the market looks like it's finally going to collapse lower, something comes in to support the market and prevent a swift down-move. That's not to say we haven't had swift down-moves, but most of them are one-day affairs (Aug 11 and Aug 19) that get supported. Keep that in mind - there may be outside forces affecting the supply/demand relationship in unusual ways.

Chart-wise, we are getting slightly conflicting signals, particularly in the form of a positive momentum and market internals divergence along with a complete short-term 5-wave pattern as seen above. Trade long on a break above \$108 intraday to play for a \$109 target or \$110 on an extreme 'popped stops' move. The other evidence argues for further declines, but remember the market will not fall without retracements - and perhaps we're due a common counter-trend retracement over the next couple of days, while the bigger picture remains very bearish.



We also see a positive momentum divergence on the 60min frame and overhead 20 EMA resistance at \$108 (even). Intraday traders will want to position long to play popped stops if we do continue the upside rally. However, any move lower that breaks these positive momentum and breadth divergences should be shorted as it could lead to another sharp sell-off, meaning if bulls can't force a short-term rally off these divergences, then they will be the ones rushing to the exits setting up a "Popped Stops" play to the downside.



We tested the 1,070 expected support target, closing just above 1,070 and almost got a full test of the key 1,060 level (the low was 1,064). So far, that will be the key support level to watch, as I've highlighted above. We would expect any price bounce from here NOT to go above the confluence resistance at 1,100, so any bounce that breaks back above 1,100 will be unexpected and will likely trigger some stops above that level. Otherwise, any break under 1,060 should

be shorted aggressively to target a retest of 1,040 at a minimum if not a full move back to the 2010 low of 1,010.



A quick glance at the weekly frame shows that the larger-scale Fibonacci Retracements - namely 1,228, 1,220, and 1,014 - remain the dominant prices to watch. They mark the high, low, and midpoint of 2010.

Otherwise, we see volume decreasing as 2010 progresses. And on the Elliott Wave front, we see the potential first wave (complete) and second wave (also complete) that seem to make the most sense as a dominant count. That would place us in the 3rd wave down at the moment, which could carry price back to 900 or 800. Also, the broader Head and Shoulders price target takes price down to the 850/900 level (depending on where you draw the neckline).

As an intraday trader, don't get overly biased by this rather bearish perspective, and remember that if this bearishness does NOT come to pass as so many people think it will - namely with a break back above 1,130 - you should be able to play long for popped stops of the frustrated bears. Trade - don't forecast.