Daily "Idealized Trades" Report

S&P 500 ETF: SPY

SPY - 5 min ARCX 08/24/10 L=105.43 -1.69 -1.58% O=105.95 Hi=106.39 Lo=104.97 C=105.53

$TICK - 5 min NYSE 08/24/10 L=-478 -147 44.41% O=-12 Hi=1318 Lo=-1131 C=-478

SPY - 1 min ARCX 08/24/10 L=105.42 -1.70 -1.59% O=105.95 Hi=106.39 Lo=104.97 C=105.53
$TICK - 1 min NYSE 08/24/10 L=-478 -147 44.41% O=-12 Hi=1318 Lo=-1131 C=-478

I received a handful of emails today asking the same question:

"What in the world happened that held this market up this morning? Shouldn't we have crashed?!"

Good question! I have a segment later in the report that addresses that - but I'm with you - in the pre-market, there was talk that the Housing Number would be worse than expected, but when it came out, it was TWICE as bad as expected (consensus was for Existing Home Sales to be 4.65 Million though the report showed 3.83 Million - ouch. Instead of plunging, the market skyrocketed. "Manipulation!" Maybe, but remember the old saying "Buy the rumor, sell the fact" or I guess it works in the opposite direction "short-sell the rumor then buy-back to cover on the fact" or whatever happened. Remember - we're not here to answer the questions - we're here to make money. So, when the market did not fall/plunge/crash as expected/anticipated, then the play became "Popped Stops" because when the market DOESN'T do what it's expected to do, it often leads to a larger rally in the unexpected direction. You really have to understand this concept or else you'll continue to be one of those flung around by the market and losing on both directions (in this case, shorting the bad news and then covering your short at a higher price with a loss, and then getting frustrated as you continue to see higher and higher prices and eventually you throw in the towel and get long... right at the top when "popped stops" is over and the market is ready to reverse). Pay special attention to today's summary and the commentary that follows, especially if you had a bad day today (as I know some of you have already emailed).

1. MARKET BREAKDOWN

From the last few reports, I've been telling you the "IF/THEN" parameter to short or expect downside action on a break under $106/1,060 and that the higher timeframe bias hints towards lower prices. Today's opening gap - and poor futures pre-market performance - hinted that lower prices were likely so your first trade was to short the market as it fell. No clean entry, no clean stop - just 'believe' in the higher timeframe charts and short unless some other bullish chart evidence comes along.

The Housing Number at 9:00 was indeed horrible, the market plunged as it should have, a free-fall was in motion... but wait, the market didn't free-fall like it "should." Instead, we had a violent, sharp turn-around as 'buyers' rushed in to support the market. You can sit there and demand that the market fall, and be confused when it's not falling, but if you continued to hold your short position as the market formed up-bar after up-bar from 9:30 forward, you lost money. They're no two ways about it. That's exactly why "Popped Stops" works - it's when traders position for an expected move (in this case, down) but either that move doesn't come or the market moves in the opposite direction immediately after putting on the trade. Eventually, the short-sellers will be forced to buy-back their shares to cover, either at a scratch or at a loss. As long as there are bewildered bears to cover (intraday traders holding leveraged/large positions short), then the Popped Stops play will continue. The experienced trader will exit but may not flip/reverse immediately. The aggressive/experienced trader will take the stop-loss early/properly without complaint or confusion (trading is a game of probabilities, after all - just like a coin toss or flip-over of the cards) and then sometimes 'flip/reverse' and go long to play off the pain and confusion of those who are losing money when the market is doing the "opposite" of what it should do. That always has been, and always will be, the logic and 'fuel' for any Popped Stops play you trade or I discuss in the reports. Though I show this trade to be a profit in the grid, it was most likely a scratch or a loss for many of you that took it. And because of the price failure, it led to a better opportunity for those able to take it.

2. POPPED STOPS, SYMMETRICAL TRIANGLE

Technically, the market set-up a symmetrical triangle (drawn) that price broke at the $105.90 level at 10:00am which triggered you in for a new trade. Intraday short-sellers likely placed their emergency "Ohh the market will never get there" stops at the opening high of $106.00, so when price ejected through (above) $106, they had to buy-back shares to cover. This was an easy profit for those able to understand Popped Stops Logic and play the breakout of the

symmetrical triangle as drawn. The long trade continued until a "Three Push" pattern - or 5-wave Elliott Fractal completed with a clear negative dual divergence (see 1-min chart). That triggered an exit as price came down from the $106.40 high and set-up an aggressive short-sell either there... or more appropriately at the breakdown of the morning trendline and EMAs.

3. THREE PUSH, 5-WAVE FRACTAL, DUAL DIVERGENCE, TRENDLINE BREAK, 20 EMA BREAK

The three-wave pattern was so symmetrical and I'd prefer to label it a "Three Push" reversal pattern rather than a 5-wave Elliott Fractal (as wave 4 overlapped into Wave 1 which technically isn't supposed to happen) but the outcome and trade set-up is the same: Look for divergences on the final (third) push, look for a reversal candle, short-sell on a break under the reversal candle (bearish almost engulfing) or on the break of a rising trendline. Place the stop above the high and hold on for a price reversal or other powerful buy signal. That's exactly what happened here, with an aggressive trigger at the $106.20 level and a conservative/safer trigger on a break under the 20 EMA and rising trendline and price support at $106. This is actually a great set-up to do a little more research on (not just glance over - really understand why it was a good set-up) as you can often get good profits from similar set-ups. This trade ended with the 5-wave move down into a dual positive momentum and TICK divergence at 12:00 noon at $105.80 at the lower Bollinger Band.

4. RETRACEMENT/RESISTANCE SELL

This wasn't much of a trade - at least there wasn't a lot of confluence like Trade 3 - but it was a short-sell into overhead EMA resistance at the 50 EMA and upper Bollinger just under $106.20. The stop would be above the high and entry either at the EMA or as price began falling from that level back under the 20 EMA and candle low at the $106 support. This trade pushed back to the lower Bollinger and began forming a series of up-candles off the $105.60 area, triggering a managed profitable exit.

5. TRENDLINE BREAK, SHOOTING STAR, BOLLINGER, DUAL DIVERGENCE, EMA BREAK

This was a trade quite similar to #3 in that we had a retracement up that ended on a negative dual divergence, while a reversal candle formed (shooting star) triggering an entry at the $106.10 level or safer on a break back under $106.00 which sliced through the rising trendline and then 20/50 EMA support areas. The stop goes above the candle high and this trade worked quite nicely as the market fell sharply into the close.

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-0.24
+0.26
-0.19
-0.50
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$TICK - 5 min NYSE 08/24/10 L=-478 -147 44.41% O=-12 Hi=1318 Lo=-1131 C=-478
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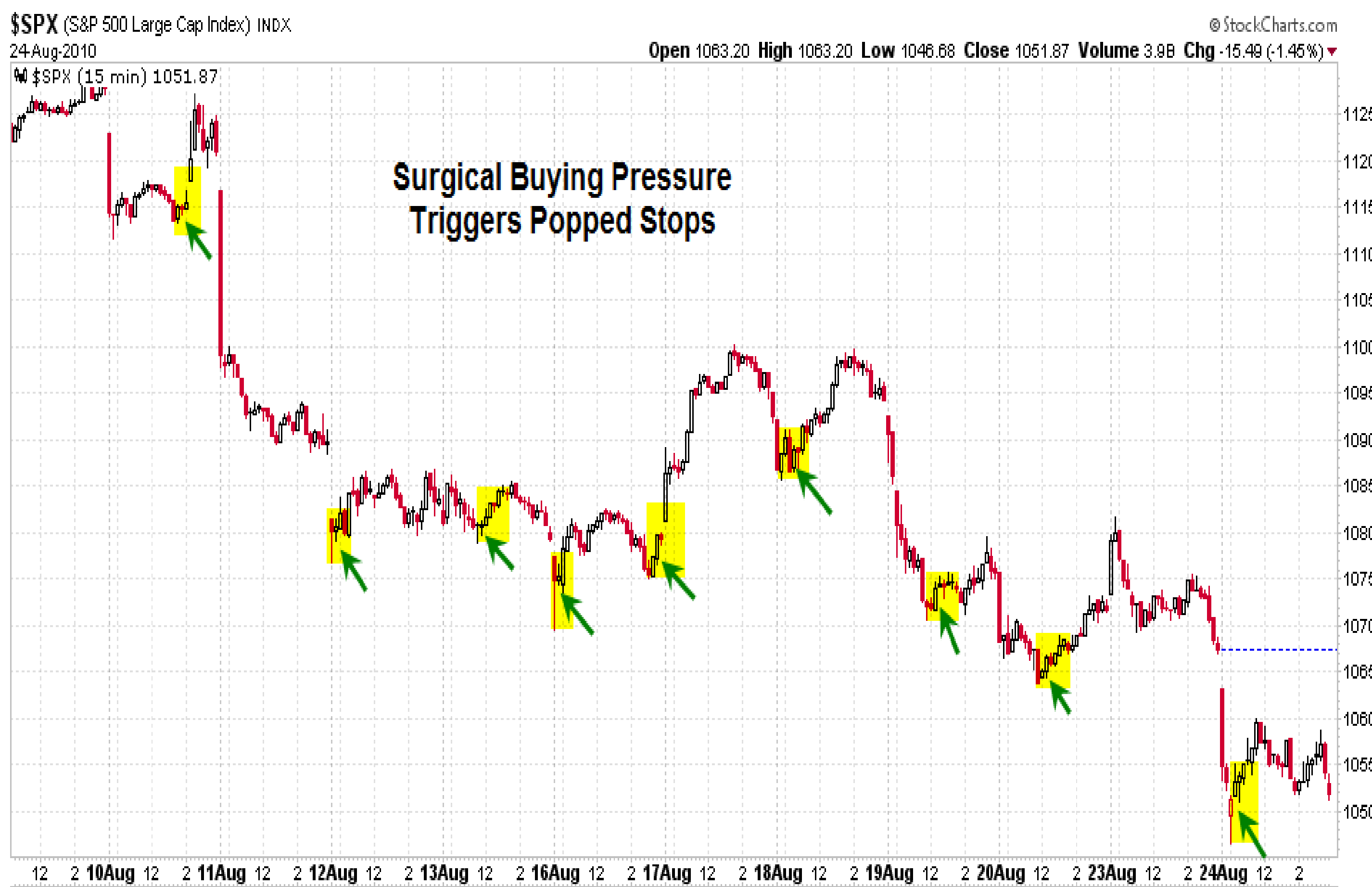

An update on my "Like a Surgeon" pure price discussion from last week. We continue to see perfectly timed injections of buy orders exactly at the opportune moment - usually when sellers are rushing into the market - that triggers an almost instant "popped stops" rally that boosts the market higher. That's not to say the market is being manipulated and supported - clearly the market is falling. But look closely, particularly on the failed/busted rounded reversals of Aug 10, 13, and 16 and the magical stopping of market gaps lower from August 12, 16, 18, and especially today. I don't think these are coincidences that the market finds a magic bottom right when a sell signal develops.

And it doesn't have to be "the Fed manipulating the market." Assume the following scenario - the "Big 5" banks collude (or maybe even just one - doesn't have to be all 5) at just the right time to flood the market with buy orders to overcome the selling pressure when a major/obvious sell signal takes place. If the one or two (or five) buyers can overcome the thousands of traders shorting shares - remember price is supply and demand after all - then if they 'support' the market with surgical injections, then it traps the short-sellers instantly and forces them to cover. What happens then? The market rallies quite sharply as the bears rush for the exits, hitting market orders to exit losing positions. When the sellers stop covering, then the Big 5 (or one or two funds) then start selling the shares they just purchased to initiate the short-squeeze and they make a nice, easy, predictable profit. Then, when the market starts falling again, they rush in, buy all the shares being sold or shorted (there actually is a limited amount, they're not infinite) and then the cycle repeats. A popped stops rally is manufactured, the market rallies as a short-squeeze unfolds, and then the big funds sell (market falls). Then ... well you get the picture.

Whether the Fed's behind this is a whole other question (as in, lending big banks capital to be able to perform these surgical buy injections), but it stands to reason that you must now incorporate this type of logic into your trading - unfortunately, you are sadly mistaken if you believe the stock market is fair and that 'games' like this don't occur.

A quick update on the Gann Squares (green) and Andrews Pitchfork (blue) prices. I provide this chart each week in the Weekly Reports but it's good to reference here in the daily reports too - the numbers do not change so you can use this as a reference.

There's a Gann Squares number at 1,044, and today's low was 1,046 (close enough I guess) and that level has been a very significant support area in the past as you can see. Under that is 1,012 and above that is 1,077 and 1,110. The traditional way Gann Squares 'work' is to look for confluence with other Support/Resistance levels and then if price 'breaks through' one Gann Square price (like 1,077) then you can expect the market to fall to the next Gann Number (like 1,044). It looks like that happened.

For now, if the market breaks under 1,044 - meaning we don't get some sort of bounce here as we very well might - then look for the next target to be 1,012 then 981 and so on.

I couldn't resist labeling the $105.50 level an 'artificial' floor, as it seems like there were some big computer programs out there that had resting - major - buy orders exactly at $105.50. The market just couldn't fall under that level today - and had those programs not halted the decline, we almost certainly would have seen a sharp downside break. Alas, markets are ruled by supply and demand - and computer programs, big banks, the Fed, or any other big institution can buy shares, ETFs, futures and the buying demand can overcome the selling supply/pressure. It doesn't have to move as we expect it to - and in fact, when the market moves unexpectedly, it can lead to nicer opportunities - but that's a different story.

If there is a big mystery buyer that won't let the market go under $105.50, then the market won't go under $105.50. Period. So for now, look tomorrow to see if the market again mysteriously supports at the $105.50 level as the program would not be finished absorbing the selling shares. Look to trade long for popped stops above the $106.50 level otherwise look to short very aggressively any move that is allowed to happen under $105.50 and under $105.00.

It's again possible that - if the larger Elliott Wave community is correct - that we are in a third wave of multiple degrees (remember I call these "Third of Thirds" on the intraday charts that represent the 'heart' or most intense part of the move). The gap down this morning could indeed be the heart of the down-move, meaning we have about an equal distance to go to the downside, or stated differently, where we are now is the half-way point of the decline that started in early August (seen above) at the $113 level (1,130). Still, we're short-term - most of us intraday traders - and don't need to get caught up in scaring ourselves to short blindly. In the event that the market doesn't continue falling sharply as expected - in which case you'll simply keep shorting - you'll need to prepare to trade long for popped stops. If you bias yourself too much, you'll have trouble doing that as an intraday, unbiased, 'take any opportunity' trader.

For now, watch $105.50 and $105.00 as potential support zones (whether real or artificial - price is king) and then continue shorting any breakdown under $105. Look for $106.50 then $107.00 to be overhead resistance and prepare to trade long above there.

Hmm. Perhaps the Elliott Wave analysts are 100% correct - that we indeed are in a small 3rd wave of an intermediate 3rd wave of a larger 3rd wave. If that's the case, then we should be seeing multiple days of 2% losses in a row, or a move similar to that of September/October 2008 (heart of the bear market). Remember - Elliott is just one way to view the market and I wouldn't suggest getting caught up in advanced Elliott when trying to trade intraday - have a good sense of the larger picture, probabilities, where large groups of traders are positioned (and what they're thinking - for example, expecting a severe market crash to be unfolding right now) and then know the 'pressure points' - or prices where a lot of stops are clustered in the event large-scale expectations don't come true - and for now that's the 1,100 and 1,130 level. If the Elliott count above indeed does turn out to be correct, we're talking an end to the (3) wave at the 850 level or so.

Elliott aside, we've broken key support at 1,060 today, closed near 1,050, and that officially places the 'chart odds' target for a retest of 1,010. Be prepared to keep trading short - expecting possible trend days down if that's the case - and be on guard for any sudden or surprise rally to the upside, which will surprise a lot of people and 'pop their stops,' allowing you to play any popped stops breakout that shocks the swing traders from what is "supposed" to happen (market fall).