



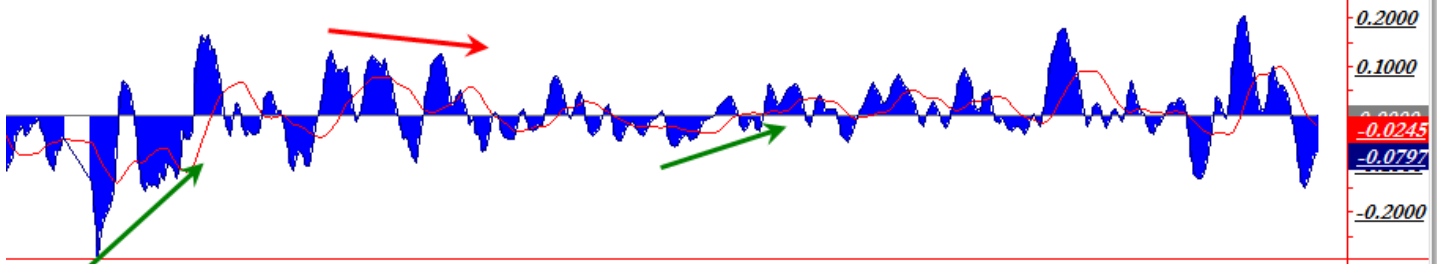
## Daily "Idealized Trades" Report

### S&P 500 ETF: SPY

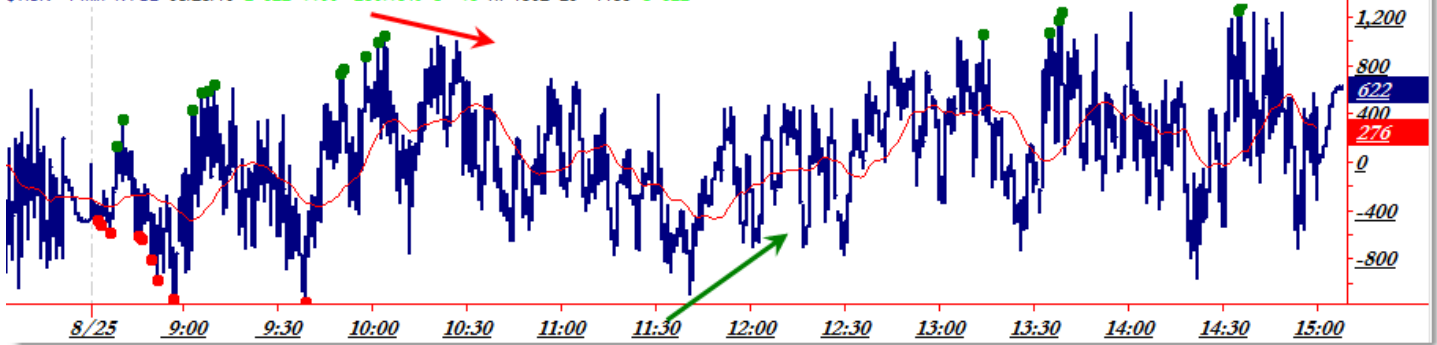


SPY - 1 min ARCX 08/25/10 L=105.87 0.34 0.32% O=104.95 Hi=106.34 Lo=104.29 C=105.94

R1 Pivot



\$TICK - 1 min NYSE 08/25/10 L=622 1100 -230.13% O=-13 Hi=1302 Lo=-1159 C=622



The "Mystery Buyer" theme came true again today, and to those of you who understand the concept and have been following along in my comments over the last few days of the "Surgical Injections" of buying, you probably benefitted today - at least hopefully. Today was almost an exact replica of yesterday - even down to the worse than expected Housing Market Data (yes, two days in a row) and the initial plunge and then the sudden - and some would certainly say 'mysterious' - buying power that came into the market that not only held the market and prevented further downside action, but triggered an identical three-push (5-wave) rally off the lows. The day structure and opportunities almost exactly followed those of yesterday, only we rallied today into the close instead of falling. That suggests that "something else" or "something artificial" is going on, but you only need to know that it is happening, and not exactly what is happening. As I said yesterday:

"... it stands to reason that you must now incorporate this type of logic (mystery/manipulation/surgical injection buying) into your trading - unfortunately, you are sadly mistaken if you believe the stock market is fair and that 'games' like this (what happened AGAIN today) don't occur. "

Not only is it the difference between a big, frustrating loss and a win (or at least a prevention of a big loss), but understanding what's likely really going on helps keep you calm and sane in an uncertain and confusing market.

## 1. PRICE BREAKDOWN

As I've been saying, the expectation is for lower prices, so we must be on the look-out for any intraday sell opportunities, and sometimes these come off the open. There's no perfect set-up so we either jump in or miss the move - and in this case (like yesterday) we had an entry when price took out the opening low and the \$105 level for our first trade, and then the Housing Data came out at 9:00am CST that was worse than expected, sending the market plunging as expected, but then the market did the unexpected - actually, did EXACTLY the same thing it did yesterday - and rallied. You should have immediately covered your short and - if you're aggressive - gotten long immediately. "There they go again - rushing in to save the market from a plunge."

This is a concept that is so difficult to explain, but it's what I seek to do each day when I create a narrative in these reports for you. The narrative right now is "the market 'should' be falling and to an extent it is, but there are mystery buyers that rush in at JUST the right time with surgical precision to support/prevent falls in the stock market. Their surgical injections of capital occur when bears/short-sellers are rushing in and then they overcome their supply which forces the bears to cover - buying - to prevent losses (stop-losses). The buying from the bears triggers these popped stops plays which propels the market higher."

You need to think - and trade - in terms of concepts and narratives, not in individual trade set-ups. That's why it's so important to study the higher timeframe structure and create expectations - IF/THEN scenarios - for price and then see whether - live intraday - the market follows the narrative of what it's 'supposed' to do (that is, what most people think it should do) or if the market does the opposite of what the majority expect (which is, most of the time!). Your narrative provides a framework with which to interpret trade set-ups - in terms of which to ignore or doubt and which to hold strong to your conviction and not be shaken out by a single candle.

This was one of those "Well, I'll go ahead and take the short, but I'll be watching very closely for any signs of monkey business - things that shouldn't happen - and if so, I'll rush to the exits early and not stubbornly hold short because the market should go down due to bad economic reports." Understanding the "Surgical Injection" concept was key not only to exiting this high-probability morning short, but in hanging on tight to the afternoon popped stops breakout.

## 2. POPPED STOPS

Simply put, this was the price breakout that triggered in the EXACT same nature as yesterday's action did. Your goal is to learn from prior days' action and then apply the lessons you learned. Yesterday, the market plunged initially on the bad housing number and then surged unexpectedly, and today, it did the same thing. There was your trade - again based on a narrative instead of a set-up.

But - there was a set-up. It was the breakout above the morning trendline and bullish engulfing candle at the 9:30 time. This trade targeted the 50 EMA - and a good exit was the bearish engulfing candle at 10:30.

## 3. CONFLUENCE RESISTANCE, 5-WAVE FRACTAL, DUAL DIVERGENCE

Given the last trade was a popped stops, this was a bit of a risky trade but still enough evidence to trigger a trade. Look back to yesterday - the set-ups was almost identical in terms of the three-push or 5-wave fractal move up into resistance that formed a negative dual divergence. Enter short at the resistance at \$105.40 and play for a retest of lower levels but be on guard for any additional 'monkey business' or buy signal. Place a stop above the high at \$105.40 and then monitor the position - the exit was as price formed three doji candles in a row and then a bullish engulfing candle at 12:00 - bouncing off the \$105 level (if you had not exited already).

## 4. POPPED STOPS

On suspected Type 2 trend day downs - which was what we had early on - the line in the sand is the 50p EMA. Any break above that average triggers a reversal trade - that you can call a "rounded reversal" or Popped Stops. The clean entry was as price took out the upper Bollinger and 50 EMA at the \$105.50 level, placing a stop under \$105.30 (the crossover of the 20/50 EMAs).

Here is where having a narrative and conviction comes in - those with a thorough understanding of the Popped Stops concept - and a narrative of the surgical injection games (that I've been showing you) would have suspected that the breakout had good odds of continuing, given the principle "If something SHOULD happen but DOESN'T, then it often leads to a LARGER than expected move in the opposite direction."

Simply put - get long and hold on!

But more specifically, price never closed under the rising 20p EMA on the 5-min chart, and you actually had additional trade entries on each of the next two pullbacks at 1:30 and 2:30pm CST if you didn't exit on the push to the \$106 overhead resistance level (with dojis and divergences - which actually was a desirable exit).

Just remember one thing - if there really is a magic mystery buyer - or group of magic mystery buyers that truly are supporting this market artificially, and if these magic mystery buyers really have the power to support the market (all of that is conjecture of course) then the market is not going to go down and you should be biased to the upside - despite all the sell signals and bearish evidence from the charts.

Of course... the flipside is that if the market truly is being held up artificially... we are exposed to a future crash coming, similar in scope and magnitude to that of the May 6 Flash Crash... which had similar "artificial magic mystery buyers" that kept supporting the market until it eventually collapsed.

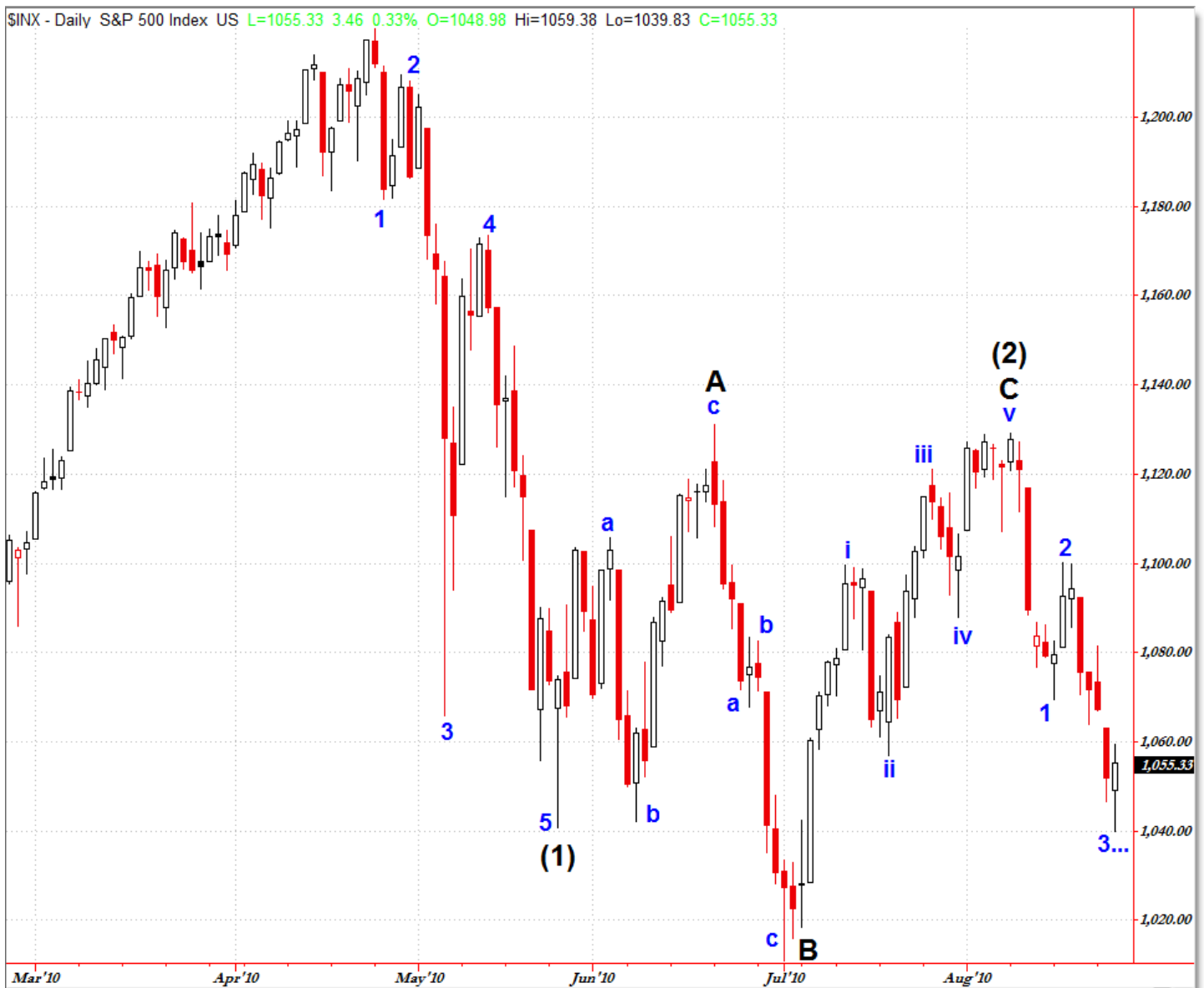
My advice is to watch the market closely, do NOT get biased either super bullish or super bearish, keep an open mind, and stick to your intraday charts. Things change so quickly that it's becoming difficult for most swing traders to manage in the current environment, so many are dropping down to the lower frames to manage risk and trade more actively.



Using today's grid, roughly \$1.50 was possible - though the first few trades were perhaps scratches. The bulk of the profit came from the conviction or anticipating that "THEY" are supporting/boosting the market artificially (a theme I've been rather clear about in the reports - I label it "surgical injections") and the Popped Stops play on the 'unexpected' breakout above the morning high at the \$105.50 level.

I think today is further proof you need to incorporate this type of thinking into your intraday and swing trading. It would have made you money or at least prevented you from staying stubbornly short.

"THEY" are probably going to do anything possible to keep this market from falling. IF they are successful, then we can anticipate a big wave of popped stops and frustrated bears - and a sharp upside rally that few people will expect.



For those playing the Elliott Wave home game, this would appear to be the most likely structure - or at least consensus of most EW analysts (though the notation/wave labeling is not exact but it gets the point across).

That's not to say it's the only interpretation, but it appears to be what I'm seeing labeled most frequently in the EW community. If the count is correct, we could see a slight bounce up for a fractal 4th wave here that shouldn't go above 1,080, and if it does, we'll know that something else is going on, particularly on a breakout back above 1,100 which would trigger a nice round of popped stops that would send the market back to 1,030 most likely.

And if the structure plays out as the count implies, then as mentioned we can expect a short-term up move, then a 5th wave fractal back down to 1,010 or probably lower (if this really is the big third of third of third wave).

For whatever reason - and this is me speaking here - "they" don't appear willing to let the market collapse right here, so that clues us in that because the market is not collapsing like perhaps it should, then that needs to put you on high alert and cautious to 'expect the unexpected' which would be a sharp break to the upside. And of course, barring any further games that support the market artificially, we do indeed expect further downside action to test 1,010 IF the support at 1,040 fails and then a potential melt-down IF the support at 1,000 also fails. Play the "IF/THEN" game - not certainties.



We're at confluence overhead resistance at the \$106 level (50p EMA and upper Bollinger on 30min and 20p EMA at \$106 on 60-min) so look for that level to hold resistance. Should buyers break the market back above \$106 then trade long for popped stops.

For now - and unless we do break above \$106.50, this move today so far was a simple "ABC" rally up that happened to form on a positive momentum divergence - thus what happens at \$106 will be key.

Otherwise, short any breakdown under \$105.50.



Same parameters - we still have a positive divergence in the 3/10 oscillator and a market pushing up into confluence resistance at \$106. A break above \$106 triggers a likely play to the \$108 level, but anything less - including a breakdown back under \$105 - triggers the expectation for further lower prices to come including a move back to \$104 and eventually to \$101.



We have to deal with market realities - and the reality is that each time - with the exception of early July - that the market has tested the 1,050 level and spiked down under 1,050 to the 1,040 level, 'mystery' buyers have stepped in to support the market which triggered an immediate - and sometimes violent - upside popped stops short-squeeze rally. UNTIL PROVEN OTHERWISE, I think it might be wise to expect a similar pop up here - no matter how strange that may seem or sound. While chart odds strongly favor a move back to test 1,010, today the market was supported/held up on its pathway down there so when something should happen but doesn't, we need to expect a bigger move the OTHER way. It's a big battle and we're here to make money - not predictions. Trade what happens and deal in realities - and if there are buyers - whoever they may be - that are preventing the market from falling under 1,050, then you would do well to trade long on a rally that develops here.