

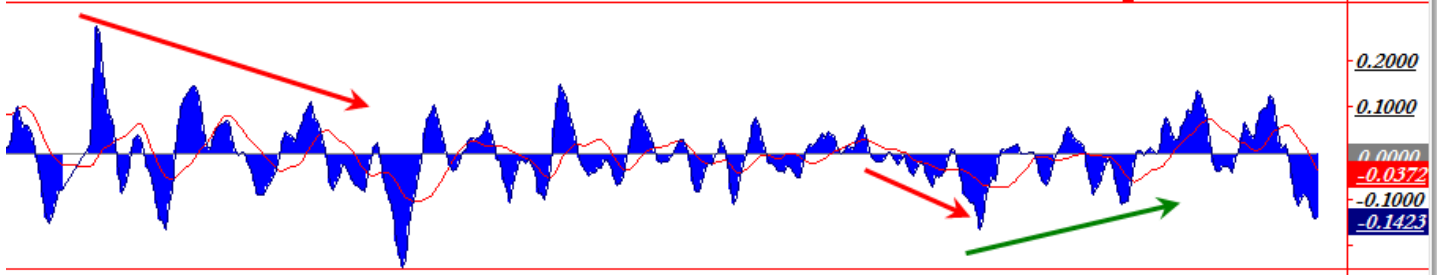


Daily "Idealized Trades" Report

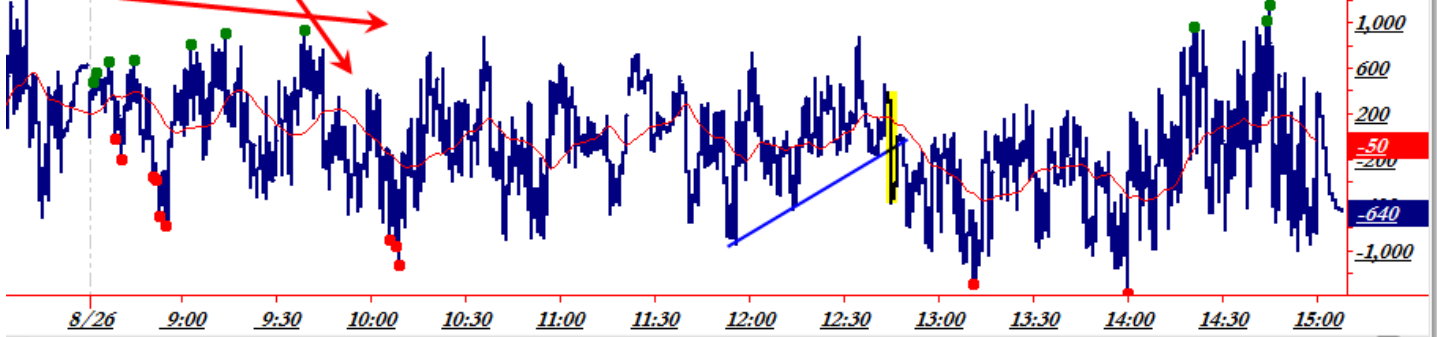
S&P 500 ETF: SPY



SPY - 1 min ARCX 08/26/10 L=104.97 -0.97 -0.92% O=106.44 Hi=106.58 Lo=104.88 C=105.23



STICK - 1 min NYSE 08/26/10 L=-640 -1262 -202.89% O=2 Hi=1148 Lo=-1377 C=-640



Today was a relatively standard day in terms of opportunity and price follow-through, which gives us a chance to learn some classic lessons we can apply on future days.

1. DUAL DIVERGENCE, TRENDLINE AND 20 EMA BREAK

This was one of those set-ups that was telegraphed way in advance in terms of the 'corrective' waves that form negative divergences - and declining market internals (from yesterday). The market pushed higher and eventually formed a shooting star at the upper Bollinger Band at 9:40am, and aggressive traders could have shorted aggressively at the \$106.45 area, though most other conservative traders would wait for the 'prove it to me' entry trigger on the 20 period EMA and rising trendline price breakdown at 10:00am at the \$106.20 level. Either way, your stop goes above the intraday high and your big target could be a full trend reversal or a shorter term exit on a future buy signal - such as that from 10:20am on the hammer candle off the lower Bollinger Band at the \$105.80 level. This was a good example of a trend reversal set-up and the 'collapse' that comes from an overstretched market on declining internals and divergences - sometimes the down-move happens very quickly and it's best to position ahead of the 'collapse' to profit from it.

Otherwise, price consolidated and triggered a mini-Cradle Trade at noon.

2. CRADLE TRADE

This wasn't your perfect cradle, as it happened during a price consolidation instead of a pure thrust back into the confluence EMA resistance crossover - but price did form a shooting star/doji candle at the \$106.00 resistance level as the 20/50 EMAs crossed. You enter on the push-up into the cradle cross, or the break under the candle low at the \$105.90 level, place a stop at least 10 cents above the cradle (say \$106.10) and hold on - similarly to trade #1 - for a potential trend reversal and breakout move to the downside. You could have scratched out and been scared by the big bullish candle shortly after the trade triggered, but then you missed the whole point of the trade - it often pays to remain in a trade unless your predetermined stop is taken out unless the market clearly forms a big buy signal such as dual divergences and price taking out the high of a reversal candle or crossing above moving averages. In the absence of price breaking out above the 20/50 EMA resistance area, you should have remained short. If by chance you missed this Cradle Trade, you had a second chance entry on the price breakdown through support.

3. SUPPORT BREAKDOWN

Given all we just discussed above and the bearish developments from trades 1 and 2, trade 3 was a final trigger short on a breakdown under horizontal trendline support and a close/break under the lower Bollinger Band. Enter short for a breakout move, place a stop above the 20/50 EMA level, trail your stop above the 20 EMA as the trade makes money, and be ready to exit on any buy signal - such as the positive momentum divergence and doji candle along with the breaking above the candle highs as the market rallied off the target support level at \$105. I wouldn't recommend trading long into the close, though you could have certainly done so.



Today's ideal grid - and overlapping of trades 2 and 3 - netted around \$1.50 to \$1.70 in profit.



Honestly, tomorrow's expectations and trading opportunities will depend on what the GDP number is tomorrow - so all we can do is look at, and memorize key levels that may come into play depending on how the market reacts to the report. Consensus - via Bloomberg - is for a reading of 1.3% and the number comes out one hour before the market opens at 7:30 CST / 8:30 EST. You need to be watching what happens to the futures after that number, or what the people on TV are saying. Jim Cramer has low-balled the number and says he expects to see 0.5%, and there are commentaries that the recent economic weakness may not show up fully in the numbers. Either way, a reading under 1.3% may cause the market to fall very sharply - especially if the number is under 0% (look for an extremely harsh sell-off) or rise sharply if the number is above 2%.

Technical levels to watch include \$105 as 'magic' support and \$106.50 as overhead resistance, though the 20 and 50 EMAs at \$105.50 and \$106 could also be overhead resistance levels to watch. Look to be long above \$106.50 and short aggressively under \$104.50.



Same parameters, only I'm showing the positive momentum divergence - a bullish sign - and the declining trendlines and EMAs overhead at key levels - a bearish sign.

Any break above \$107 would be expected to continue the rally up to \$108.50 at least, and of course any breakdown under \$104.50 would almost certainly eventually collapse the market back to test the July low at the \$101 level - potentially quickly on a sharp breakdown.



There's a consensus of aggressive buyers who have stepped in to support the market at the 1,040 level since May - with the exception of the bear trap in July. Look for that level to hold as support here meaning we could see a bounce (that's been the historical pattern), but if the GDP number is worse than expected, look to play short any move under 1,040 to target a retest of 1,010 - which could happen in one day.

If by chance the GDP report shows negative growth - recessionary - it would be conceivable to see a market crash tomorrow especially if the S&P 500 trades below 1,000 - we honestly could see another Flash Crash moment so do be on the alert that this development is a possibility - however remote the odds.

As much as I hate saying it, the potential exists also for a typical pattern we're seeing in the market if the report is bad but not terrible - the futures may plunge initially then the magical mystical buyers will swoop in, support the market, and we creep higher all day long - to the mass confusion of most traders... but that pattern, shouldn't be very confusing as it's happening more and more frequently. Either way, be very vigilant and active tomorrow with your positions.