



## Daily "Idealized Trades" Report

### S&P 500 ETF: SPY





Thank you to everyone who attended today's MTA Presentation on Market Internals with me! If you missed the lunch-time session, Shane will be providing me with a link to the recording that I will share with you when I receive it. I really enjoyed the presentation - great questions and that was the first time I've gone into that level of depth on market internals.

The market is about to do something really big, so you should be prepared. I spend extra time tonight discussing the "forecasting tomorrow" portion, so let's discuss the trades and then the "what's likely to happen next!" portion.

#### 1. POPPED STOPS

This was a trade that most people probably missed and that's fine - If you listened to the news, specifically that the ISM Non-Manufacturing index came in better than expected (54.3 vs expectation of 53) then you probably rushed to get long to play the upside break in price. Indeed, it was a "Popped Stops" breakout play that targeted a move to \$113 as I mentioned was a potential upside target. That target was hit very quickly, and as soon as price hit the target, the market plunged, leaving many traders (even CNBC) very puzzled. Such is the power of technical analysis - we don't need to explain anything, just look for levels for the market to target and then see how price reacts at these likely turning points in price. This was good for a quick scalp that ultimately turned on a dime and headed lower. Enter in this case on the break to new intraday higher at 8:55am at the \$112.70 level, target at least \$113 and monitor what happened at \$113 if you decided not to exit immediately at the \$113 level.

I don't think you could have anticipated the crash, other than to say "The market is being 'held up' artificially and so the natural course of the market is down and the unnatural course of the market is up" but that's more speculative than objective (chart evidence) but nonetheless we did have a mini-crash after the positive ISM news. If you were very aggressive, you could have scalped a piece of the down-move on the trendline break at 9:30am but that was a difficult play.

This dislocation sent the market in a 'difficult to read' phase and the market crept higher into the noon hour where the next safe trade occurred. Remember, we can't possibly capture every swing, and seek only to trade when the odds are in our favor and the price patterns/structure is clear (to our understanding).

#### 2. UPPER BOLLINGER, DUAL DIVERGENCES, DOUBLE TOP, TRENDLINE BREAK

This was a decent trade that was announced in advance due to the rally back into overhead resistance from the morning high as bearish candles formed at the Upper Bollinger at the \$113 level... which was confirmed with a trendline break/trade entry at \$112.90 with a stop above \$113. The initial target was the rising moving averages, which was undercut by a strong push to the 200 SMA and lower Bollinger Band. The trendline break and bounce off the lower Bollinger and 200 SMA was a good exit if you had not done so already, and was an aggressive long/buy entry, but the safer entry was the break above the \$112.70 level and EMAs at 1:00pm CST.

#### 3. PRICE BREAK, EMA BREAK

Price actually formed a Wyckoff Sign of Strength here on the push higher, though if you weren't positioned ahead of the one-bar bounce, this trade really did not yield much profit. More importantly, the Wyckoff New TICK High clued you in to expect higher prices yet to come, setting up the next trade on the pullback to the 20 EMA at 2:00pm (14:00) or more specifically on the break to new highs above \$112.95 at 2:30.

#### 4. POPPED STOPS, BREAKOUT

To be clear, you could have entered on a pullback to the rising 20 EMA on the spinning top doji candles at the \$112.80 level, or waited for extra confirmation for "Popped Stops" on a break to new swing highs - triggering long at the \$112.90 level to play long into the close. Upper shadow candles formed at the upper Bollinger on a dual divergence, triggering an early entry just above \$113 for a smaller than expected profit.



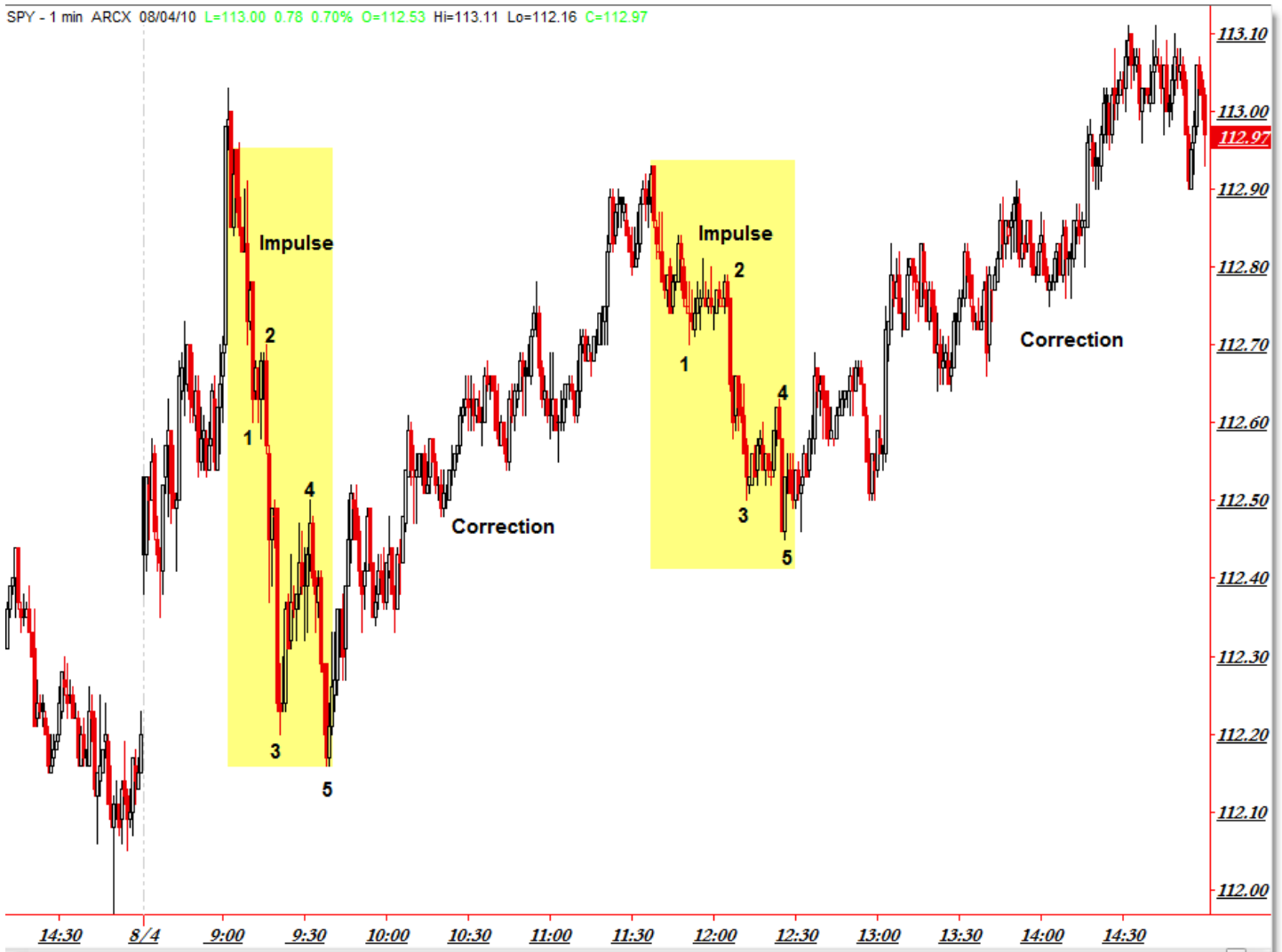
Using today's idealized grid and a moderate aggression level, roughly 70 cents were possible in today's session.

SO FAR TODAY		CST	10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME		15-min VOLUME	RANGE
(4,801,704.40)	7,883,601	8:45	12,685,305.40	0.54
(3,016,666.60)	6,656,310	9:00	9,672,976.60	0.54
500,949.40	13,720,511	9:15	13,219,561.60	0.36
4,236,167.40	11,633,522	9:30	7,397,354.60	0.26
1,490,950.40	8,667,820	9:45	7,176,869.60	0.28
(342,040.10)	5,147,414	10:00	5,489,454.10	0.28
(1,182,331.30)	3,784,315	10:15	4,966,646.30	0.29
(2,981,388.40)	2,905,277	10:30	5,886,665.40	0.22
(3,487,775.60)	2,287,596	10:45	5,775,371.60	0.27
(956,918.10)	3,362,884	11:00	4,319,802.10	0.28
(3,039,147.20)	2,192,512	11:15	5,231,659.20	0.25
(435,624.60)	3,439,636	11:30	3,875,260.60	0.26
608,849.60	3,829,454	11:45	3,220,604.40	0.22
(1,208,091.10)	2,391,834	12:00	3,599,925.10	0.24
(7,743.20)	3,359,362	12:15	3,367,105.20	0.24
(467,237.40)	3,154,096	12:30	3,621,333.40	0.22
(1,263,601.40)	2,431,435	12:45	3,695,036.40	0.26
(2,024,631.40)	1,632,701	1:00	3,657,332.40	0.36
(759,888.50)	3,246,248	1:15	4,006,136.50	0.27
(2,224,968.70)	2,498,945	1:30	4,723,913.70	0.23
(380,041.00)	4,299,210	1:45	4,679,251.00	0.27
(12,702.00)	4,382,070	2:00	4,394,772.00	0.28
(1,192,797.73)	3,824,890	2:15	5,017,687.73	0.38
377,149.18	6,990,594	2:30	6,613,444.82	0.31
(4,547,589.27)	5,456,909	2:45	10,004,498.27	
(4,358,551.55)	11,851,496	3:00	16,210,047.55	
<b>(1,210,668.21)</b>	<b>5,039,640.08</b>	<b>Ave.</b>	<b>6,250,308.29</b>	<b>0.30</b>

I'm starting to think that the recent volume decline is a function of the Summertime Doldrums.

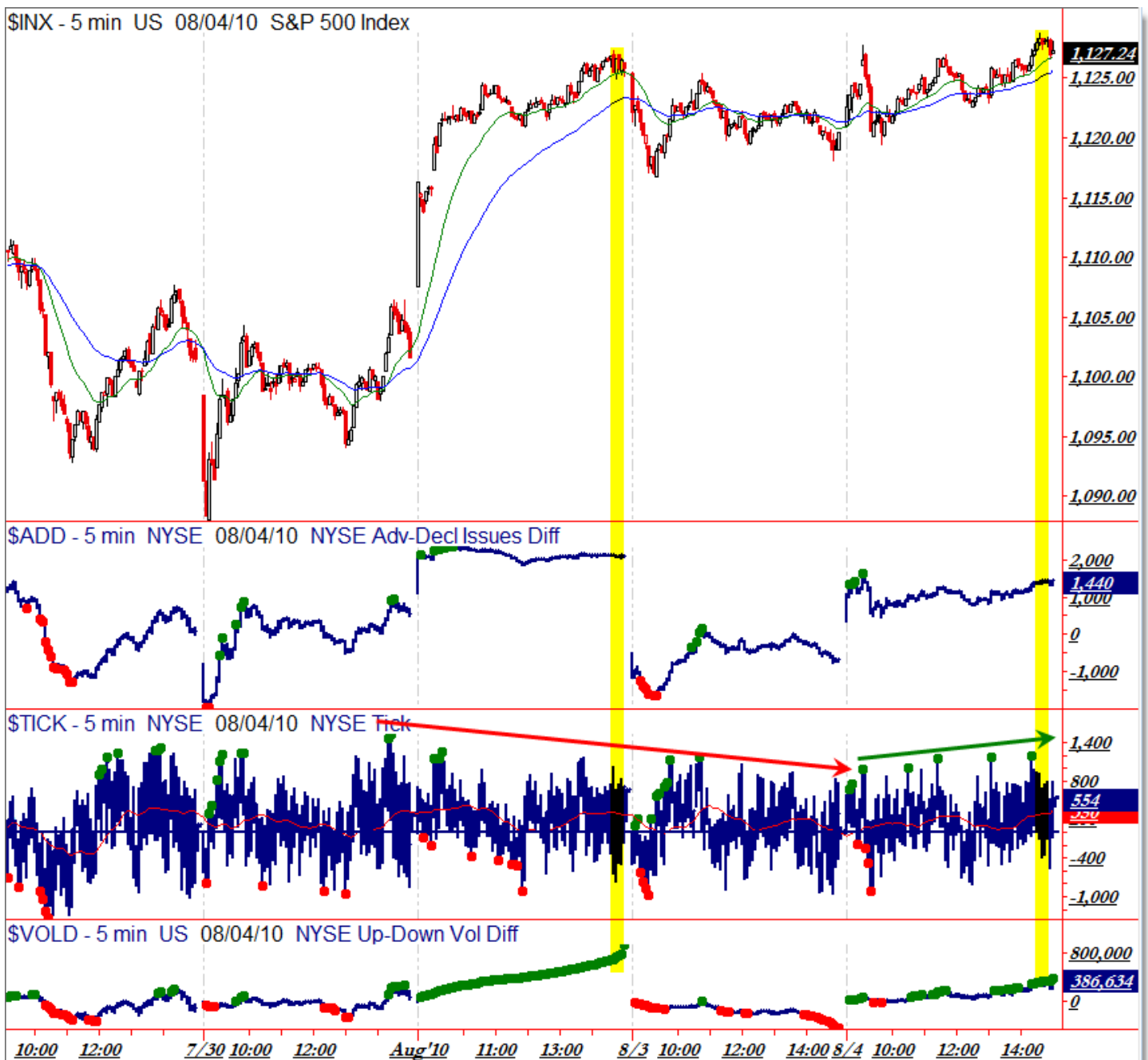
Today, the market rose but volume declined - 1.2 million shares less than the 10-day SPY average. You don't need me to tell you that's a bearish non-confirmation.

SPY - 1 min ARCX 08/04/10 L=113.00 0.78 0.70% O=112.53 Hi=113.11 Lo=112.16 C=112.97



I don't mean to go into a lot of detail here, but it's worth pointing out that one of the basic benefits of Elliott Wave concepts is not always in the counting itself, but in identifying "Impulses" and "Corrections." Impulses "Move" price forward sharply without much price-bar overlap, while corrections move price forward (against the trend) in a choppy, overlapping, convoluted, complicated structure. Elliott Wave identifies (allows) two different types of impulses (5-wave affairs) and (I think) 13 or so types of corrective patterns (zig-zags, flats, running flats, triangles, doubles, triples, etc). In other words, anyone should be able to count a 5-wave impulse, while EW professionals fight over how to count a correction. To me, it doesn't matter as long as you can recognize the difference between an impulse - which I highlighted in yellow - and a correction - which I didn't highlight.

That being said, what it seems to imply is that the "path of least resistance" for price is to the downside, but keeping the market held up is requiring more and more strength/buying power/pressure. In other words, it would appear the market - as seen above - is "Impulsing" down and "Correcting" up. That would imply a future sharp move down yet to come if this analysis is correct... but as always, PRICE is king. As always, we're traders, not analysts, so we want to form our expectations and then see if price confirms to them or not - and we would \*expect\* lower prices ahead but by the same token, be prepared - on a neutral bias - to TRADE upward moves and especially an upward breakout above \$113 no matter what the chart says because we make money in our trades by trading price - no matter how strange the trading action might feel. If price \*should\* go down soon but does not, then it will almost certainly lead to a very big move in the OPPOSITE direction - up.



Sort of mixed signals from Mkt Internals - first, with price making a new high today, NO market internal is subsequently making a new high above Aug 2nd. So - there is your bearish non-confirmation.

On the other hand, if we wipe August 1st off the chart, then all three market internals are making new highs as a confirmation.

This is not the sign of bullish strength, but it does not really have the bearish 'power' of non-confirmation - but perhaps because price has been chopping around the 1,125 area. According to the Price Alternation Principle, after a lengthy consolidation phase (or rectangle), we would EXPECT a range breakout/big trend move yet to come - just we don't know what direction. Be prepared to trade an impending breakout which should be anticipated as "Popped Stops" above 1,130 (targeting 1,140 at least) or a breakdown short-sale (downward) impulse lower if under 1,115.



It bears repeating but EVERYTHING on the chart indicates that odds STRONGLY favor a down-move in price yet to come.

That is the expectation and bears are shorting - but remember, we are traders, which means we prepare to trade PRICE and what ACTUALLY happens as opposed to what SHOULD happen. Price should go down. Period. And people are shorting - which means that they are subsequently placing their stop-losses above 1,130 and any continued bullish melt-up in price to and beyond (above) 1,130 would "shock the shorts" and likely lead to a very powerful upward impulse breakout above 1,130 to target at least 1,140 or even beyond on a very strong impulse.

BE PREPARED TO TRADE THAT and do not be mad if the market continues its melt-up. And, of course, if the market does fall as the chart indicates it "should," then you can have an easier time trading the anticipated breakdown in price.

This type of logic is difficult for new traders to understand, but it really does make the difference between a professional trader and a new/amateur trader. A professional - unbiased and using "IF/THEN" logic - anticipates moves and then trades what happens based on the scenarios he/she plans. An amateur says "Well, my chart says price is going to go down so I am going to short" and benefits if the market does go down, but either fights the market or takes a stop-loss if the market breaks out, but the trader feels betrayed and frustrated. That's normal, but as you develop, you are likely to adopt the more neutral "IF/THEN" style of thinking and analysis/trading as opposed to the "The market MUST do this and if it doesn't, I'll be upset" logic.



Price hit our upside target at \$113 that I mentioned was a likely play. It did so on negative breadth, momentum, and volume divergences. I'm cynical enough to say "That doesn't matter" because the play is simple: Trade long for a Popped Stops breakout that will shock the shorts above \$113, be neutral while we're still in this range, and short-sell under \$112 and especially \$111.50. It's really that simple.



This is becoming a "Make or Break" for this common and widely accepted Elliott Wave count, which places us in the terminal 5th wave of a "C" final wave of Wave 2 as labeled. If this EW count is correct, then we should be in for a sharp decline yet to come.

But EW is only ONE way to view the market and set up "IF/THEN" statements. Rather, you should be thinking "Ok - a LOT of people think the market is about to crash right now and it very well might. However, I'm a neutral, objective trader, and any price pulse above 1,130 and then above 1,140 should trigger a massive Popped Stops breakout as these same bears rush to cover or hedge their short-sale positions... and I will benefit from an upside breakout in that case. While I expect - like nearly everyone else - that price will fall soon, if it does not, I will then expect a bigger reaction to the upside and will attempt to profit from it."

Daily trading affirmations. IF/THEN Statements. Price Purism. Trade on!!