THAT WAS THE WEEK THAT WAS

Welcome to our Newsletter for Saturday 4th December 2010

S&P500 CASH INDEX DAILY CHART

Point A

Friday 26th November. A down-bar, narrow spread, closed in the middle, volume extremely low indicates no selling pressure from the professional side of the market on the down-side. Admittedly this is a half day trading but surely it still has to be a sign of strength.

Point B

Monday 29th November. This is a clear test. To mark it down to close near the highs and the volume is low, or relatively low, is a sign of strength.

Point C

Tuesday. Professional money has seen the strength on the previous two bars. They have jumped into the market seen by a down-bar, narrow spread, closed in the middle, and an increase in volume indicating their activity. You have to assume this is buying because of the relative strength in the previous two bars.

Point D

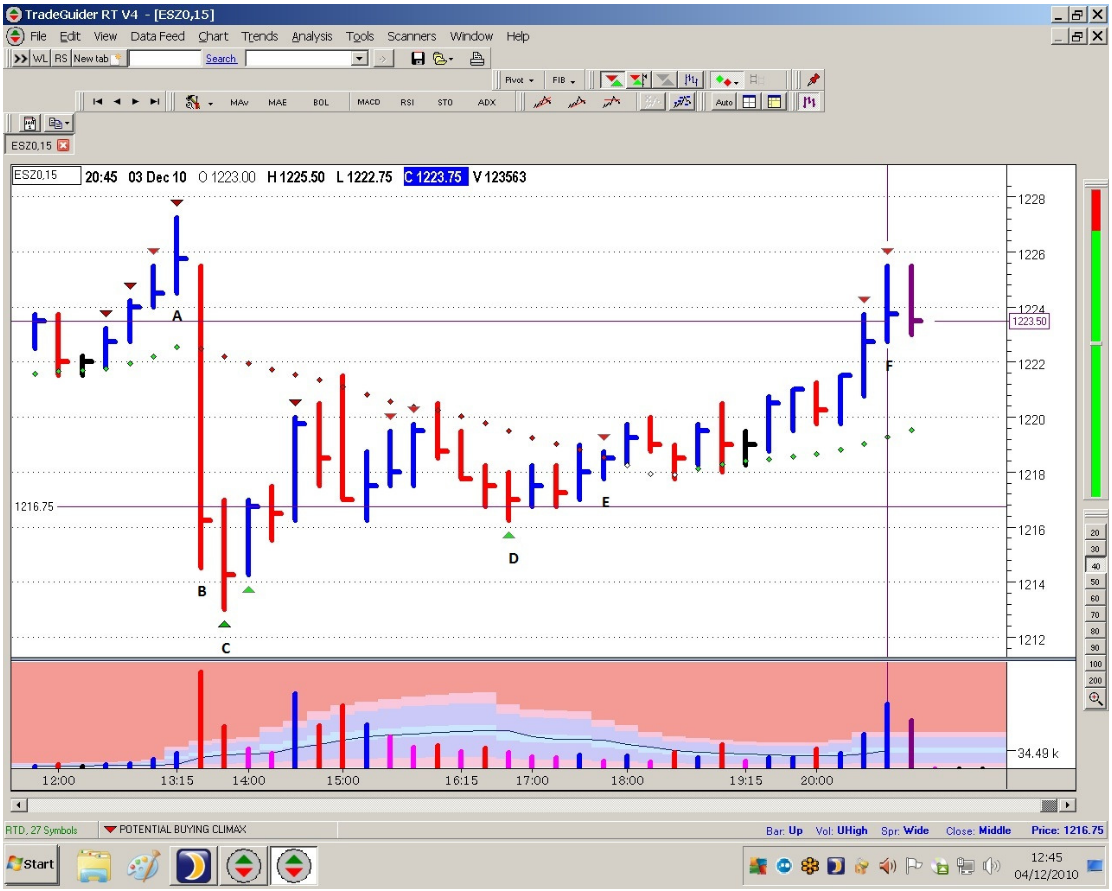
Here we have a widespread up closed near the highs. We see this sort of action time after time after we've seen the strength behind us. This rapid move up locks many traders in or out of the market who feel for various reasons they are unable to take a trade. Note how it is also pushing up through the high directly to the left. Also note the gap up. Note the volume is not excessively high or excessively low. If it was low for example, you could assume there was no demand built into that bar. If it was excessively high we could see that there is supply built into that bar - both poor indications for higher prices.

Point E

Friday. Here we have an up-bar, but note the spread has narrowed which would probably indicate no demand at that level, but we have to be cautious because you could almost say this was a test-like bar which would indicate higher prices. We'll look at the smaller timeframes to see whether we can gather more information on this.

S&P500 CASH INDEX LONGER-TERM CHART

Here we can see we are continuously over-bought, however, the market will have great difficulty in going up through the last top to the left. If it does penetrate this old top then we will have to re-draw the trendlines showing the upward move.



E-MINI S&P500 15 MINUTE CHART FOR FRIDAY 3RD DECEMBER 2010

Point A

Here we have actually three bars showing weakness automatically. You ignore the signals at your peril.

Point B

Professional money love to have a shakeout if possible. This could be on some News. I'm not quite sure because I don't listen to the News very often. It's a favourite ploy to shake the market out after the previous signs of weakness. You can imagine the carnage that a move like this will create.

Point C

Here we have an automatic signal telling us the market appears to be getting strong. The main criteria here is that it is a down-bar and the spread has narrowed. There is some volume activity and on this activity the market closed off the lows. If the market had genuinely been weak after that huge down-bar, you are more likely to see an up-bar on no demand. But to immediately follow that down-bar with the spread relatively narrow closing off the lows, would tend to indicate strength.

Point D

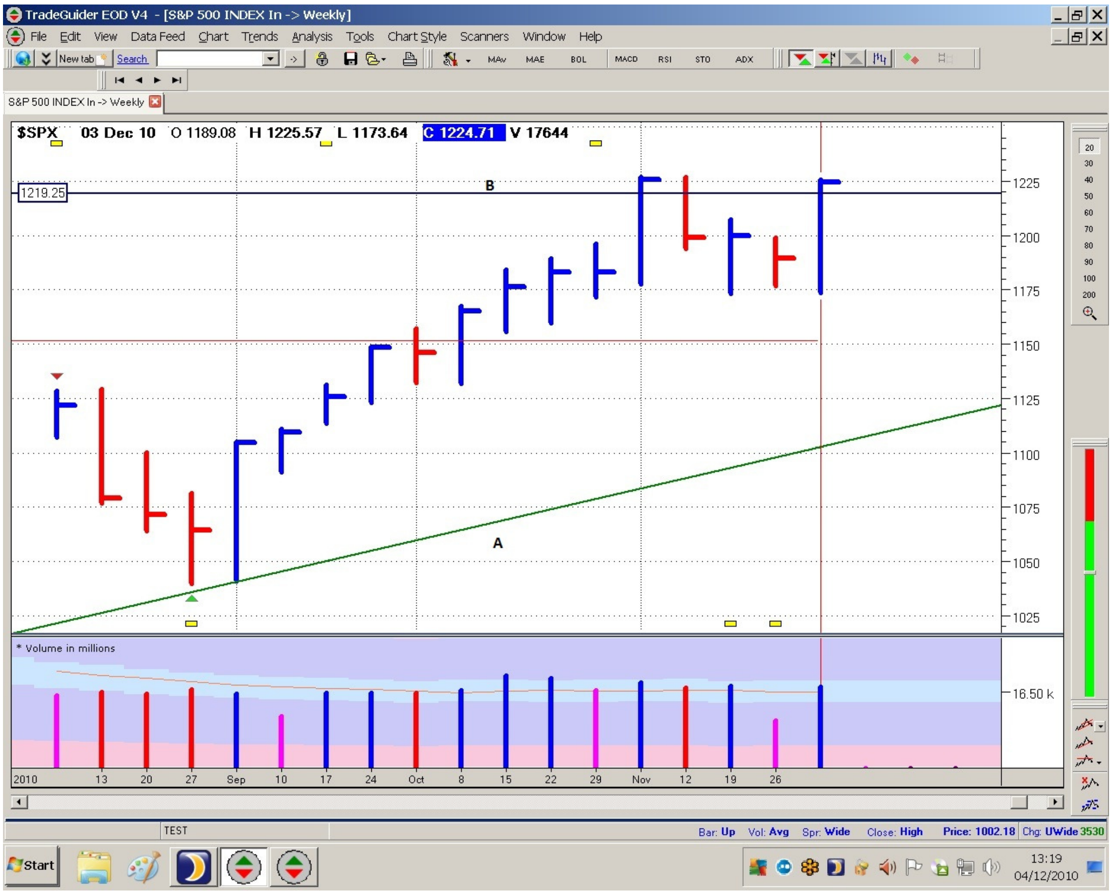
Here we have a down-bar, again the spread has narrowed indicating support on the lows must have come in. The volume is low indicating no selling pressure from the professional side, even closing well off the lows. The market appears to have little or no selling pressure from the professional side. If there is little or no selling pressure then demand must be greater than supply and hence higher prices.

Point E

Here we do have an up-bar, be it not all that clear, telling that this is no demand and has produced an automatic sign of weakness. Professional money is fully aware of this, and three bars later there was a clear test in a rising market. The market was marked down, closed top quarter, spread narrow, testing that potential weakness. This is a successful test in a rising market.

Point F

Closing price Friday there is without question supply hitting these bars. You would expect higher volume at the close Friday as many traders like to not carry trades over the weekend. But despite this, there is supply present. If the market wants to go higher you would expect testing. If the market wants to go lower you will start to see no demand or upthrusts. We wait with bated breath to see what happens next week.



S&P500 CASH INDEX WEEKLY CHART

This is a weekly chart of the S&P500 cash market. Point A is the lower long-term trendline which appears to support this market every time it reaches that area. We have drawn a horizontal line across the top (Point B). This is drawn through the last high and is a serious point of resistance to higher prices. To push up and through this old high is going to require a lot of effort which may include gapping up, and may include further testing.

RESISTANCE

An old high to the left of your chart will always act as a resistance to higher prices as traders will always get locked in and potentially become what we call weak holders. Their main concern is to get out without too much loss. Professional money are fully aware of this and are not interested in buying off these locked-in traders at what may appear to be higher prices to them. A ploy that always appears to work is to gap up through these areas as rapidly as possible. These locked-in traders then look at the higher prices and are now more likely not to sell. A successful gapped-up bar on a wide spread through an old high to the left will need to be tested. If the market is very bullish then the test may appear on the next bar. In other words, a down-bar, spread will be narrow, closed in the middle or high, and the volume will be low relative to the volume on the previous up-bar. If the market is weak you very often see a no demand or an upthrust bar to trap the unwary.

Tom Williams