

UPSIDE BREAKAWAY GAP

Since an upside breakaway gap on 9-5, the market has come within approximately seven handles of the all-time high. Trade location is of significant focus. While there is no excess on the recent rally high that could also be an indication that short-term inventory is too long.

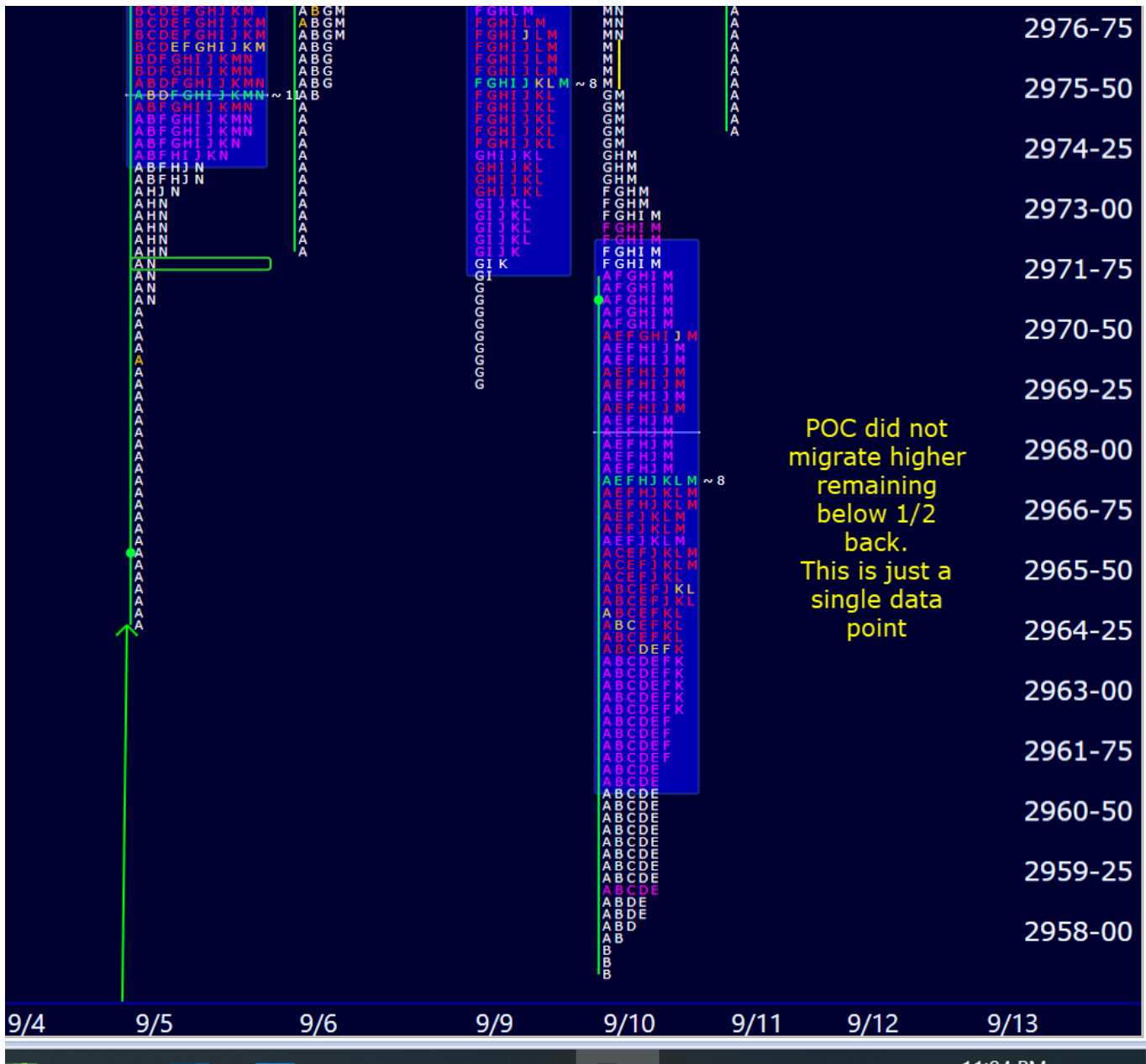
It is quite common for experienced traders to liquidate their long positions below the all-time high and reestablish those positions if there is price acceptance above the previous

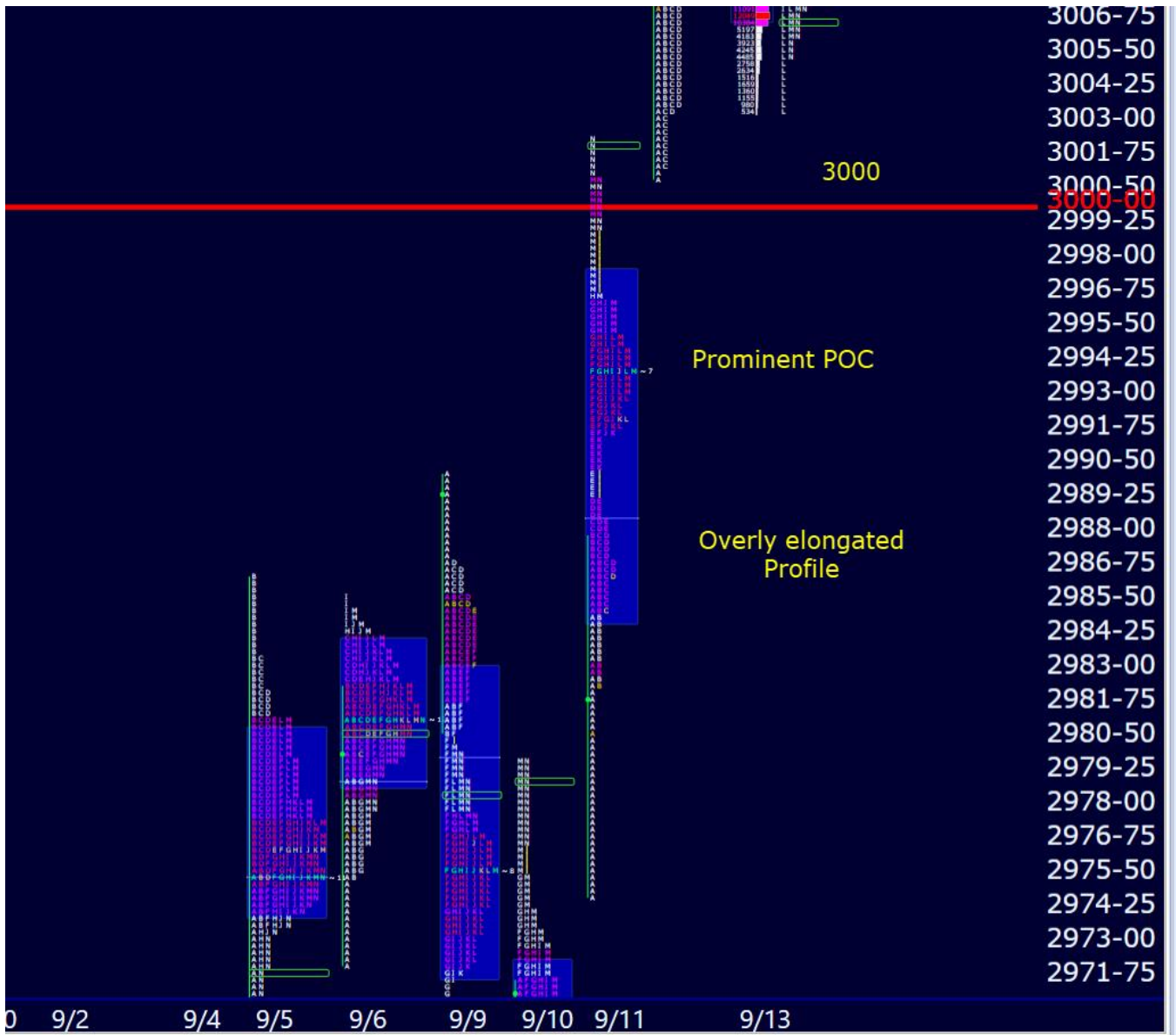


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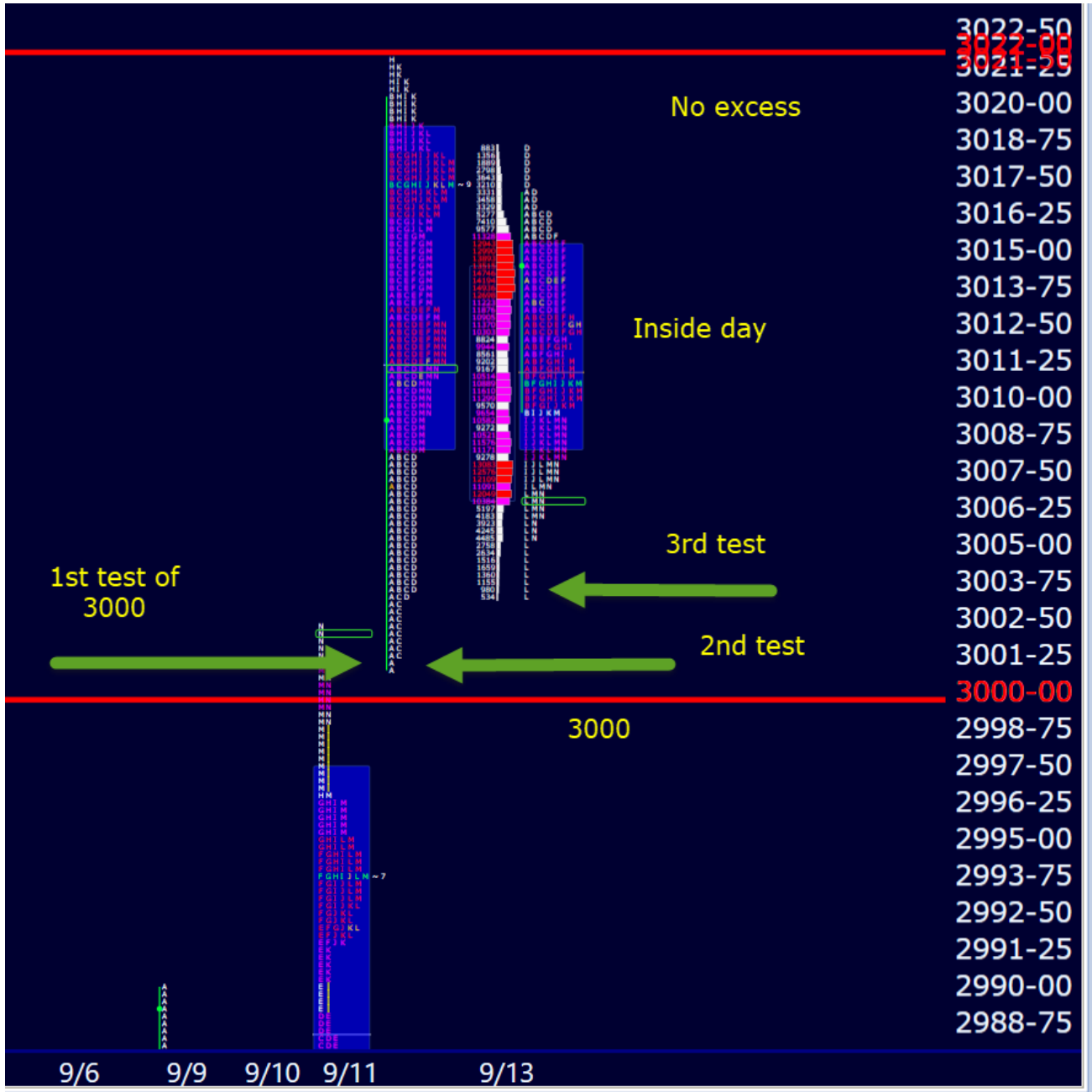
all-time high. These traders recognize that this is a very high-risk area. They recognize that there is less risk re-establishing their positions above the current high than being long just below that high.

The following Profiles, starting with 9-10, highlight some potential downside references if there is a short-term correction. These references also bring into question the quality of the recent rally.





The profile on the 11th was overly elongated with a prominent POC that did not migrate higher in the upper distribution. Additionally, volume did not support the magnitude of the run-up on either 9-10 or 9-11.



MEMBRANE

I imagine a membrane weakening each time it is poked. The 3000 level was first tested during A period on the 12th. The second test occurred during C period on the 12th with the third test occurring during L period on the 13th. I don't know whether the 3000 level will be taken out or tested again; however, the odds have certainly gotten higher that a test or break will occur.



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INSIDE DAYS

Inside days are a form of short-term balance. Friday presented us with an inside balancing day. Scenarios relevant to the inside days are as follows.

1. The lowest odds scenario would be remaining within Friday's inside day with maybe a little extension on one or both sides.
2. A downside breakout testing the 3000 level and extending lower. If this occurs, review the Profiles above.
3. A downside breakout failing to significantly penetrate the 3000 level. The potential then would be for a rally back up to Friday's high.
4. An upside breakout. The destination trade would then be to the all-time high.
5. An upside breakout failure. An upside breakout failure would still leave 3000 level in play.

Scenarios help you be mentally prepared for different likelihoods on Monday morning. Scenarios are a form of dress rehearsals.

FRIDAY'S RECAP

Refer to the graphic on the next page.

Last week completed the first warm-up week prior to the start of the Intensive on October 1st. As you are aware, we don't call trades. Our goal is to provide you with information that will give you command over your own trading. Friday morning demonstrates that point.

Step one in this process is learning to observe the market. Friday's recap starts with three very important observations occurring within the first hour of trade.

1. The opening occurred well within Thursday's range. This suggests that the day will be an inside rotational day. With inside openings the odds favor heavy early chop. Step aside and wait until the chop is over before becoming involved. This worked on Friday.
2. The A period high was a single tick below Thursday's POC. This is a weak high as it was within a single tick of a visual reference. The odds are that it will be taken out later in the session. This occurred.



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- 3. The B period low was exactly at Thursday's settle. Same as above, weak low. It was also taken out.

With two weak references, the order in which things occur is relevant. The high was taken first. The remaining session had downward range extension.

The "Live Commentary" highlighted each of the steps as they occurred or set up the potential for an odds-based trade. The purpose of the Live Commentary is to assist you in developing both your observational skills and timing as well as fostering odds-based thinking.

