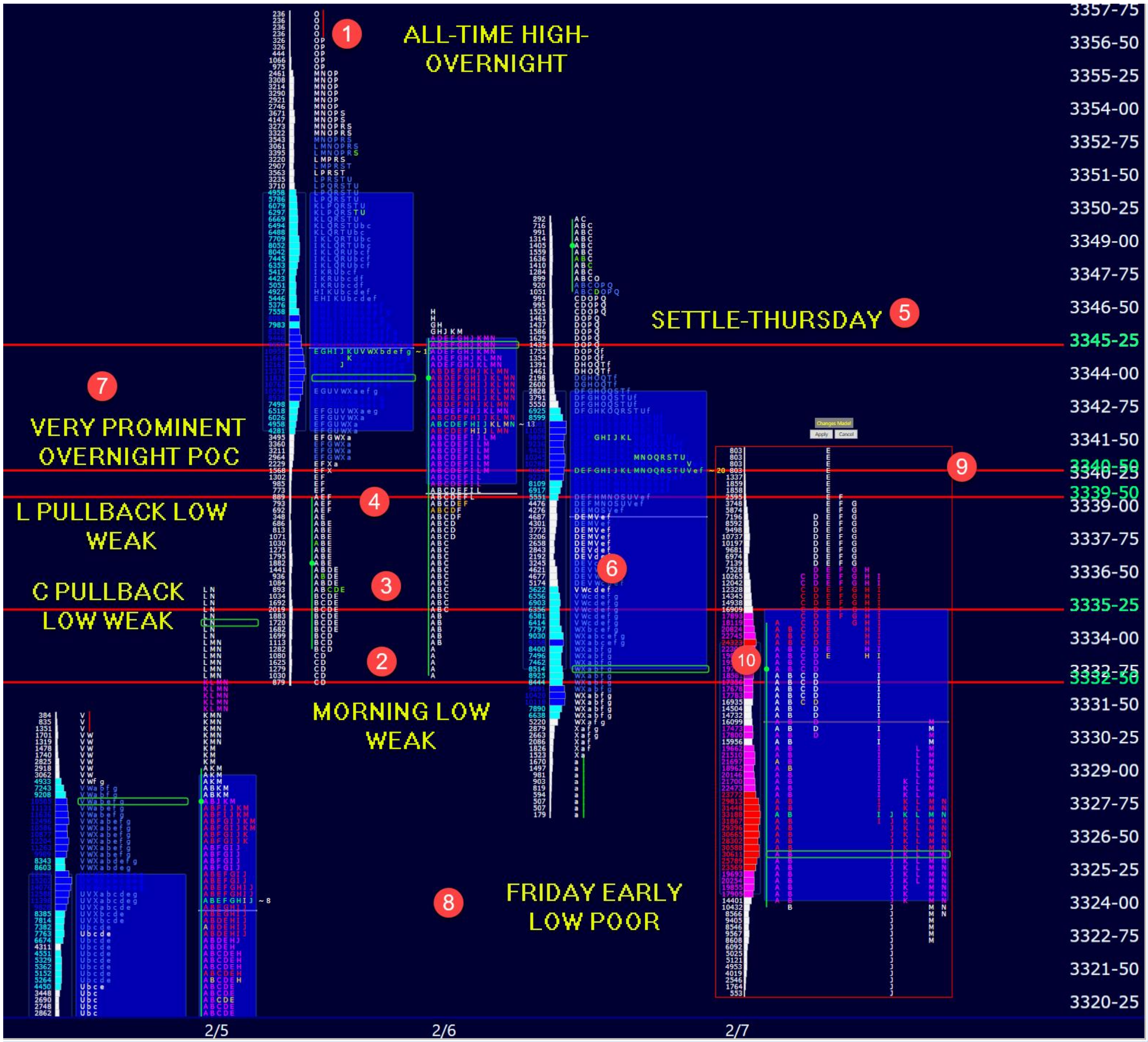
PREPARATION REPORT FOR 2-10-2020



ORIENTATION

What has occurred before greatly influences the odds going forward. Those factors having influenced Friday's trading are numbered sequentially.

1. The all-time high was established overnight on Wednesday. Unless that high is subsequently taken out, there will be some downward pressure on the market.
2. Overnight inventory was long on Wednesday night. Overnight inventory is measured from the settle of the day timeframe session. The odds are high (approximately 70%) that there will be a counter auction or correction

relative to overnight inventory. As the market opened on Thursday morning, the odds played out with the market correcting overnight inventory.
The A period low was weak as it was just a single tick above the overnight low. At the same time, the low was not considered poor as there were single prints representing excess. Weak lows increase the odds that they will be taken out. A single weak low is simply one data point. The more data points, the greater the odds that they will be revisited.

3. The C period pullback low on Thursday was also weak as it was just a single tick above unchanged from Wednesday. There are now two data points suggesting weakness.
4. The afternoon pullback low in L period was also weak as it was exactly at unchanged. There are now three data points suggesting weakness.
5. Thursday's settle was above all the weak data points shown above. **IMPORTANT -** weak data points are only considered corrected or repaired if price trades through those levels during pit session hours.
6. Coming into Friday morning, the overnight inventory is approximately 100% short as it traded mostly below Thursday's settle. The odds, once again, favor a correction or counter auction relative to overnight inventory. This comes back into play later in the morning on Friday. It can be very misleading, relative to final trade.
7. There is also a very prominent POC as part of Thursday night's overnight trade. The more prominent a POC, the greater the odds that it will be revisited. Remember, these are only odds <u>not</u> absolutes. Notice that it was revisited, like the discussion of overnight inventory above, on Friday before the final downward break in the afternoon.
10. #10 is out of order. We will pick up with #8 shortly – remember markets are not linear either. We were engaged in a real-time webinar on Friday morning. One of the attractions for this webinar was the announcement of the Monthly Jobs report. For many, this is considered the most important financial release of the month. The report is released one hour prior to the NYSE opening. The hour of electronic trade between the announcement of the report and the NYSE opening is usually very informative. Historically, we have observed that if the price, following the release of the report, holds a

particular direction, that is the most likely final direction for the day. This was the case on Friday also.

8. Friday's early low (A & B periods) was poor as there were no single prints or excess. Without excess the odds are low that the auction was completed.
9. The afternoon rally on Friday was the return to the very prominent, overnight POC.

LET'S GET REAL

Economic releases - I have continually advised you not to read or listen to economic releases. At the same time, I recommend that you watch the market and determine how the market reacts when faced with economic reports. Most of us are not experienced enough to read these reports. For example, what are the adjustments relative to prior numbers, or what were the whisper numbers? How did the components break down? For example, yesterday's disappointment was not in the overall number but rather in the decrease in manufacturing jobs. I'm willing to bet that a lot of short-term traders lost money on Friday because they were buying the headline number.

As I anticipated, based upon the odds discussed above, the weak downside references were all taken out. When the market broke sharply, following the opening, I covered the remainder of my short position.

The market left a weak low in A & B periods. Following a rally, I re-entered the market on the short side. For the next 3+ hours the market was in my face. Value was lower (we trade value not price) and the A & B low was weak or not secure. I was finally profitable; however, I gave up a substantial part of my potential profit as I hedged against being wrong.

I often spout that the market must take care of current business first. I think the current business, that I had overlooked even though I had seen it, was the short overnight inventory, the additional shorts from being too aggressive on the initial break, and short-term traders continuing mindset to buy all breaks.

Even though I was profitable, it was a particularly stressful day. It is very difficult not to have self-doubt when the market is in-your-face for over three hours. I should've had more confidence in lower developing value and the poor AB low.

What I would not have done was to become long in face of lower value and the poor low.

CONFLICTING INFORMATION

As traders, we often become too impatient. While I clearly recognized the short inventory position, it wasn't what I needed to improve my position, so I rationalized it away. In other words, I created my own false reality.

Finally, with the sharp break in I period, I recognized that the weak longs, who had mistaken short covering for new money buying, were forced to liquidate.

PERSPECTIVE FOR MONDAY

There is no meaningful excess at the all-time highs. When all-time highs are established during the overnight session the odds are lower that they will be lasting.

All trends remain up. If you can't resist shorting a trend, remember, that unless you are right very quickly you are probably wrong.

The number of gaps, underneath the market, suggest that the market is greatly overdone to the upside. That doesn't mean that it's finished.

Central governments are still supplying stimulus to support the market.

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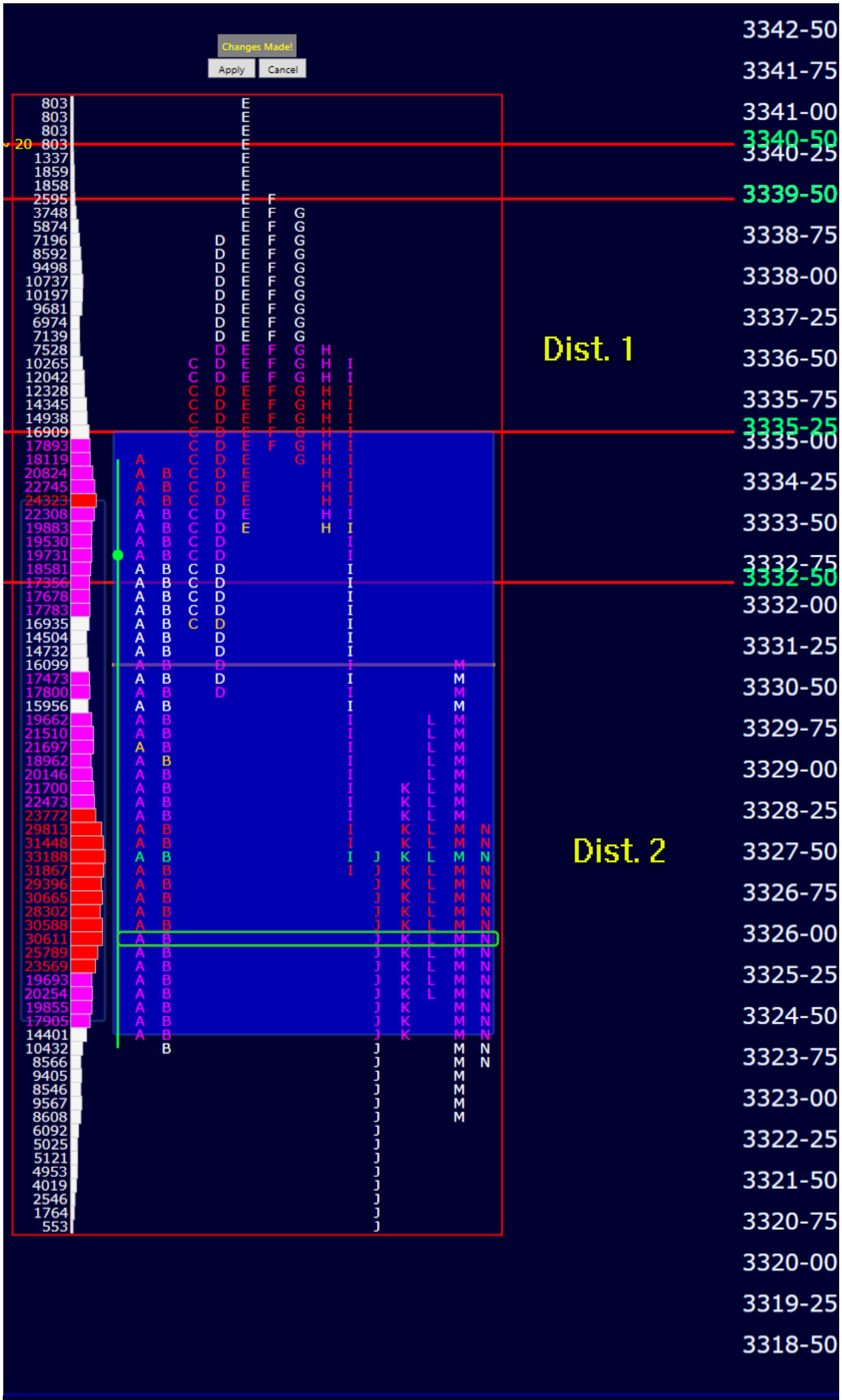
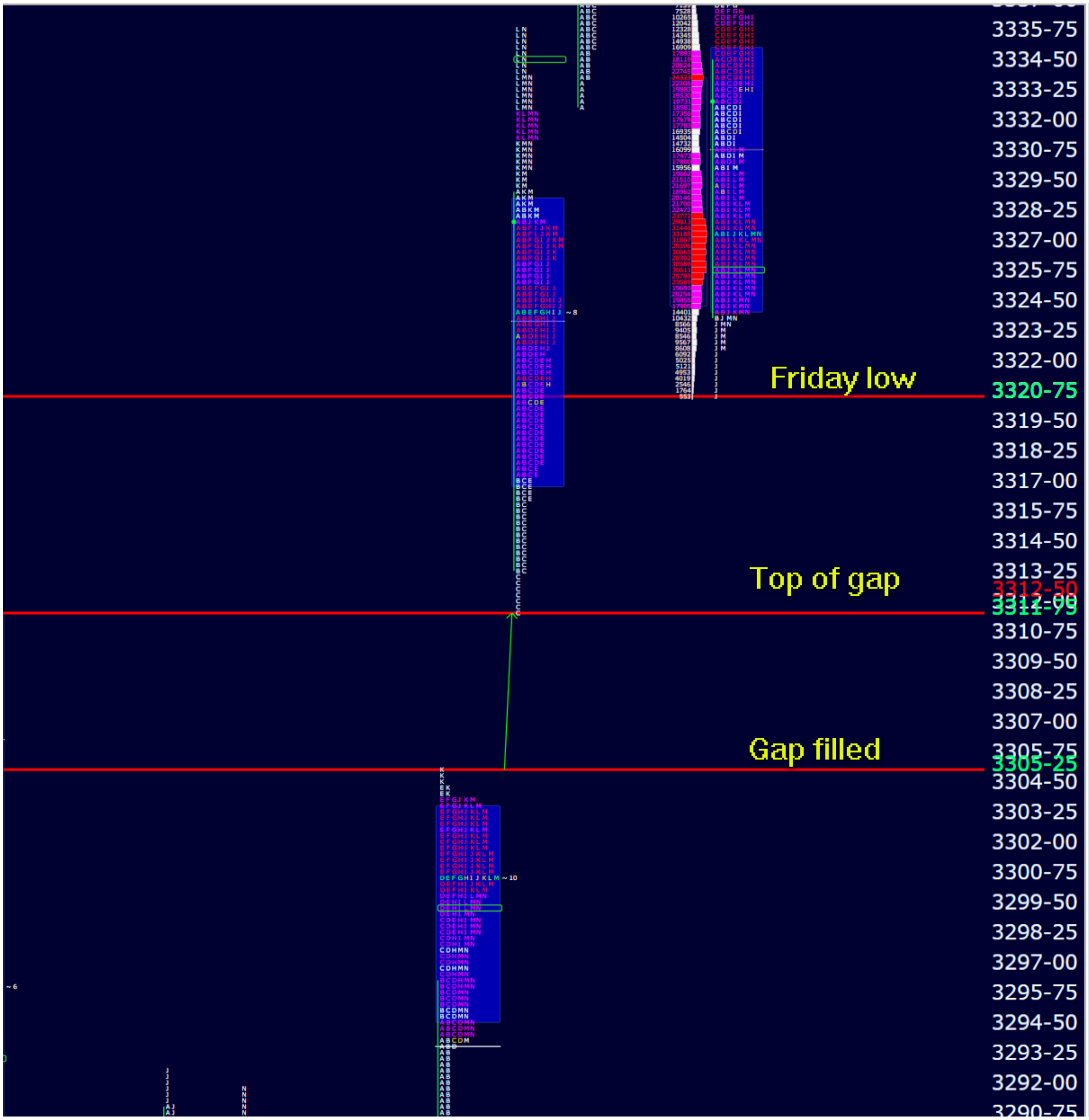


As the week opens, I'm treating Friday as two separate days or distributions. Failure to find acceptance below Friday's second distribution keeps all trends to the upside.

The development of value and the acceptance of price below Friday's lower distribution confirms, at least, a short-term auction to the downside.

The graphic below shows the important downside references if the market explores lower on Monday.


Friday low
Top of gap
Gap filled
3335-75
3334-50
3333-25
3332-00
3330-75
3329-50
3328-25
3327-00
3325-75
3324-50
3323-25
3322-00
3320-75
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