STRATEGIES FOR TRADING IN HIGH FREQUENCY MARKETS

Market Insights

FOR PROFESSIONAL TRADER USE ONLY

Algo Futures

WEEKLY NEWSLETTER
SUNDAY, OCTOBER 20TH, 2013

21ST CENTURY TAPE READING - LESSON 03

Top 10 Basic Insights Regarding the Effects of High-Frequency Trading Bots on Price

1.First Things First - Price is always a function of Supply & Demand. Changes in Supply and/or Demand effect changes in Price. The futures market is no different from the widget market or the Ice Cream market.

2.Since > 50% of all transactions are managed automated Trading Bots, these by Trading Bots are the Primary Cause of changes in Supply & Demand.

3.Buy Programs Usurp Supply - Thereby increasing price.

4.Sell Programs Increase Supply - Thereby decreasing price.

5.Software can monitor this activity in real-time thereby creating ongoing opportunities to follow and feast off of the Big Money just like a Pilot Fish follows and feasts off of a Shark.

6.'Smart Money' really does exist. For Smart Money to profit from their insight, they must trade. When they trade in an electronic market, their transactions get recorded in real-time. Thus, they leave a footprint that can be monitored.

7.There are really, really sophisticated trading entities thriving in today's electronic marketplace. They exist and thrive because the microprocessor is at the heart of today's electronic futures markets and it enables them to write algorithms

Read more...

FOLLOW THE BOTS - NEWS CHANNEL FOR NINJATRADER

We are pleased to announce a streaming broadcast player for your NinjaTrader Chart.

Subscribers to Follow The Bots are welcome to a free player.

Follow The Bots provides real-time streaming video updates on Trading Bot activity, price activity, support and resistance levels, and insights into the ongoing evolvement of market structure.

THIS NEWSLETTER IS FOCUSED ON CONTINUALLY DEMONSTRATING

Electronic footprints left from Smart Money & High Frequency Trading Bots are readable and are quantifiable.

Algorithmically generated buying and selling will frequently determine the path of least resistance.

STRATEGIES FOR TRADING IN HIGH FREQUENCY MARKETS

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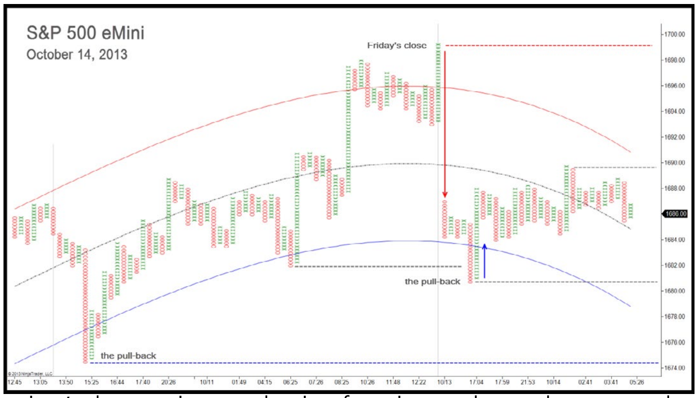
REAL-TIME MARKET COMMENTARIES



MONDAY

Monday's Morning Briefing

Good Morning Traders,

At the open of Sunday's Globex session, S&P futures sold-off below Friday's close, trading down to 1680: -19 points (1.1%).

On Friday, after rallying up to 1688, S&P futures pulled back to 1682, prior to re-testing the overnight high 1689 and going on to make a higher high (1699) into Friday's close.

The scale parameter of the overnight sell-off is equal to a hidden Markov chain sequence (17 to 23 points).

In the context of Sunday's Globex session auctioned up off the overnight low (1680) and traded back up to1690 (+10 points).

Since trading down to 1640, at/or near the September 6th low (1638), Sunday's sell-off is the first pull-back equal to approximately a daily range (17 points).

Thus, the likelihood is the short covering rally that characterized last week's recovery off the newly made low (1640) has run its course.

Gains above Friday's high (1699-1700) are likely to be dependent on their own merit: i.e. positive earnings, improved economic data, and resolution of the US government shutdown and the debt ceiling crisis.

Over the weekend, U.S. President Obama rejected House Speaker Boehner's latest offer that would extend the nation's borrowing authority for six weeks and reopen the government in exchange for the start of negotiations on deficit reduction.

The global markets, including the US, supposedly rallied on "hopes" of a breakthrough in the fiscal impasse. At present, that "hope" appears to be ill-founded.

According to the Thomson Reuters and University of Michigan report, U.S. consumer sentiment fell to its weakest level in nine months in October amid government shutdown.

Coming into Monday's session, we would expect to see resistance hold at the overnight high (1690), which is equal to the high of last Thursday's session.

We would also expect price discovery to retest the overnight low prior to attempting to fill the gap at Friday's close.

In the event, at Monday's open S&P futures ignores the overnight sell-off and attempts to fill the gap at Friday's close prior to retesting the overnight low, there is little reason to think the S&P will auction above Friday's high.

Monday's Opening Range Market Commentaries:

Good Morning Traders,

After selling off at the open of Sunday's Globex session and trading down to 1680, 19 points below Friday's close at the high, Monday's open S&P futures appeared to reject the negative sentiment.

Market participants and their high frequency computerized trading program attempted to auction the S&P back to fill the "gap" at Friday's high (1699).

During the first 6 minutes of the session, S&P futures auctioned above 1686 and traded up to 1691.

The market spent the next hour and a half trading in an approximate 2 point range, between 1690 and 1688.

The trade activity was dominated by the electronic market marker algorithm, as indicated by the typical recursive up 2 points, down 2 points sequence, which has continued through the close of the European session.

During a "pause" phase, when the market maker algorithm is dominant, it should be noted that the majority of the volume traded has a very limited time horizon.

Research into the market maker aglo sequence indicates the profit objective of the market maker is limited to 3 to 5 tick.

The "pause" phase will at some point give way to a directional move, if during the recursive 2 points, down 2 points sequence, an out-side bias is eventually determined.

The continuation to the pattern implies there is no significant buying interest or selling pressure at that price level. Only time will eventually resolve the lack of out-side participation.

When the market maker algo eventually determines the "bias" of the dominant "out-side" participation, the digital filteres will indicate the direction of the dominant trade excursion.

Weekly Market Recap | Monday's Reference Points

Hello Traders,

This week market participants got to experience a phenomenon of market development that normally does not occur, but does occur too frequent to be ignored.

The technical term used to describe this week's trading range is a "fat tail" distribution.

In simple terms a "fat tail" distribution occurs when price moves through a trading range two or more times its normal average for the same period: its normal scale parameters.

In finance, when a market's trading ranges increases two or more times the normal scale parameters (fat tails) it is considered undesirable because of the additional risk associated with trading such markets.

This week the trading range in the S&P 500 was between 1640 the low and 1698 the high: 58 points (3.5%).

Normal trading ranges (distributions) generally emerge in finance markets because the factors influencing an asset's value or price and the behavior of the market participants are mathematically "well-behaved", and the central limit theorem will provide the likely distribution parameters.

However, the markets reactions to "uncertain events" (such as a large corporate bankruptcy, or an abrupt change in a political situation) are usually not mathematically well-behaved.

Other factors that influence the scale parameters of a trading range and result in large market moves are "excessive investor optimism or pessimism".

A trader's job is to determine the buying interest and selling pattern of the market he or she actively trades. In arriving at the determination, the trader makes an estimate of how the "scope" of buying and selling will influence price direction.

In determining market development, "price" is referred to as the random variable. In probability theory, a market can be said to have a stable distribution if the majority of its trade activity is within 2 standard deviations of the mean and scale parameters.

A typical scale parameter is the average daily trading range over a period of one year. A three year daily range average can also be used to establish a robust scale parameter.

The Follow the Bots computational model employs the average daily range scale parameter to define the probability range estimates.

References, such as the maximum likelihood estimate and the extreme price excursion level are derived based on the average daily range scale parameters.

The standard deviations of the mean (VWAP) are based on the weekly average standard deviations.

In this weeks commentary, we'll discuss the details of market events that developed during this weeks session.

Our discussion will include the technical, the economic and the monetary factors that contributed to the development we observed in the market.

We will also review our daily commentary and see how the Follow the Bots computational model performed in regards to forecasting (estimating) the final weekly outcome.

1.) On Monday (10-07-13), S&P had continued to hold support above the October 3rd low (1663).

On September 9th S&P futures had traded down to 1666. These two lows established the lower parameters to the consolidation range.

The high of the range occurred on October 1st (1692) and October 2nd (1691). The scale of the 6 day consolidation range was 29 points.

The parameters of the previous consolidation "state" were: the October 1st high (1692) and the October 3rd low (1663).

2.) On Tuesday, (10-08-13) S&P futures broke down and transitioned out of the previous consolidation "state", and broke-down below 1663.

The prelude: an action or event serving as an introduction to something important. The prelude to the break-down; the increased likelihood of a lower low, was the fact that on October 7th, S&P futures failed to trade above 1680 and sold-off into the close.

On Tuesday, S&P futures auctioned down to 1663 in the globex (overnight) session.

At Tuesday's open S&P futures encountered a lack of buying interest (buy programs waning) during the retracement back to Monday's close.

The sell-off (pull-back) to re-test the overnight low, selling pressure increased (HFT sell surge). The high frequency trading bots began initiating trade to the sell-side.

The initiated selling continued until price traded down to 1651. There was a minor retracement up to 1658. However, the selling continued into the close.

The term "precursor" typically is used in chemistry to describe a compound that participates in a chemical reaction: i.e. thing that comes before another of the same kind; a forerunner.

The term can also apply to market development. For example; initiated selling at the low is typically forerunner of break-downs.

When support is breached and high frequency selling occurs on the retracement the likelihood of a lower low is inferred.

The confirmation comes when during the retracement back to what had been support, market participants fail to auction price back into the previous trading range: no buying interest (buy programs waning) and selling pressure auctions price down to a lower low.

3.) On Wednesday (10-09-13), S&P futures traded below Tuesday's close and made a lower low (1646) during the overnight session.

Prior to Wednesday's open, price auctioned back to 1658, the minor retracement level that developed during Wednesday's session.

At Wednesday's open, S&P futures auctioned back to retest the overnight low (1648). The initial retest encountered support and price auctioned up to 1653.

However, during a subsequent (second) retest price auctioned down to 1640. Coming into Wednesday's session, the Follow the Bots computational model estimated the scaling parameter for the decline: the maximum likelihood expectation level was at/or near the September 6th low a 1638.

Following the sell-off (pull back) to 1640, the computerized trading programs (the bots) ceased executing orders to the sell-side.

S&P futures auctioned up off the low and traded up to 1657; the overnight high and the minor retracement level that developed during Tuesday's sell-off.

S&P futures sold off from the high and closed Wednesday's session at 1648.

4.) On Thursday (10-09-13), S&P futures auctioned above Wednesday's close in the overnight session.

Price traded above Wednesday's high (1658) the approximate mid-point of the developing trading range.

By the open of Thursday's session, S&P futures had auctioned back to 1666, the break-down point.

The retracement back to 1666 indicated the sell-off (correction) had recovered back to the low of the previous consolidation range.

At this point, the Bayesian logic by the Follow the Bots to interpret the computational model becomes important.

Bayesian logic is based on an "IF", "THEN" interpretation of the current data. As new information arises, the interpretation (analysis forecast) is updated.

Logic can be simply stated as follows; "IF" the selling pressure that resulted in the S&P futures trading down to 1640; 23 points (1.3%) below what had been prior support represented a substantive correction the retracement back to 1663-1666 would likely encounter resistance.

Therefore, the expected response would be for the market to encounter a lack of buying interest (buy programs waning) at Thursday's open.

In the event, the expected response (lack of buying interest) failed to develop: "THEN" the likelihood of a short covering rally would ensue.

The initial "stopping point" of the short covering rally would be potentially equal to the "scale" of the decline: 23 points.

Thus, the Follow the Bots computational model estimated the short covering rally could continue up to 1686-1687.

The precursor to the short covering rally would be initiated buying (high frequency buy surge).

Hence, aggressive sellers were alerted to be cautious.

Indeed, at Thursday's open initiated buying occurred as the S&P traded above 1666. The short covering continued into the close, with S&P futures ending the session at 1686.

5.) On Friday (10-11-13), following a minor pullback to 1674 in the afterhours (Globex) session, S&P futures the re-tested the previous day's high (1686-1888). The initial retracement "paused" at the high.

However, at Friday's open, the short covering continued. Initiated buying (high frequency buy surge) on the part of the computerized trading bots entered the order flow and the S&P traded above Thursday's high and auctioned up to 1699 into the close.

Trade Opportunities

The trading opportunities during this week's session began with selling the break-down below prior support at the six day consolidation low (1666-1663).

During the week we had commented that Wednesday's low at 1640, two points above the September 6 low at 1638 represented and 87 point (5.0) pullback below the multiyear high at 1727.

The longer-term market direction, as measured by the slope of the 200 day price average continues to point higher.

We had noted that pull-backs in the magnitude of 3.5% to 5% are common occurrences in secular bull markets.

The current multiyear high at 1727 has yet to be retested. Therefore the market structure does not indicate a double top. Furthermore, the market has not as yet auctioned up at/or near the multi-high is equal to the scale parameters of a daily range: 17 to 23 points.

As of Friday's close, at/or near 1700, the S&P 500 is making its first attempt to retest the multiyear high, since the September 20th decline.

The "excessive pessimism" regarding the US government's failure to extend the debt limit is the obvious cause of the recent sell-off.

Similarly "excessive optimism" on the "hope" an agreement would be achieved resulted in the major short covering rally.

We commented this week, that both the sell-off and the short covering rally that followed are examples of the tactics employed by large financial institutions.

We would expect to see the short covering rally run out of steam as it has now approached the 1700 price level.

It should be noted that, the August 2 high was at 1705. Thus, should the S&P fail to trade above 1705 and retest the multiyear high at 1727, it would increase the likelihood of a head and shoulders pattern developing at the high.

Coming into this week's session, in the event the S&P pulls back below Friday's high the minor support levels are indicated below.

1681, 1674, 1662, 1658, and 1640 (1638)

The micro order flow events are likely to provide the "best insights" as to the response during the initial pull-backs.

As is always the case, a pullback is the result of price selling down from the high.

Hence, the order execution sequence indicating the likelihood of support holding following the sell-off (pull back) begins with sell programs waning.

The sell programs waning event is followed by a "pause". The "pause" consists of overlapping pattern within the micro 5 tick range samples.

The pause will then result in the slope of the digital filters turning up.

The Gaussian digital regression filters are designed to compute the up, down order series.

Once the digital filters have turned up, the low to the series is the micro support level.

Each week in the Algo Futures newsletter, we feature a Tape Reading Lesson, which explain the order flow events to look for during pull-backs to support and retracements to resistance.

In the Follow the Bots Live streaming news broadcast, we focus on describing the micro order flow of events as they occur in real time.

While order flow events such as computerized buy-side and sell-side programs may occur anywhere within the trading range, such events are particularly significant at levels of key support and resistance.

Market Fundamentals

Political factors: the government shutdown and fiscal cliff.

The prolonged disagreement between Republicans and Democrats regarding the raising of the US debt limit has angered the global community.

The International Monetary Fund's policy committee said the United States needed to take "urgent action" to address the budget impasse that has blocked approval of legislation to increase the government's borrowing limit before a fast-approaching Thursday deadline.

World finance officials pledged on Saturday to deal with new risks to the global recovery while they kept up pressure on the United States to address the biggest threat of all — a market-rattling default on U.S. debt.

At risk is the favored status United States enjoys by the fact that its fiat currency, the US dollar is the global reserve currency.

While the US has been spending its resources on military actions, other countries have been accumulating gold.

"IF", the US worth was to default, alternative to the US dollar as the world's reserve currency could emerge.

In a blistering editorial characterizing the United States, China's officials are calling for a "de-Americanized world.

The article, published Sunday, Americans larger trading partner specifically references how, "the world is still crawling its way out of an economic disaster caused by Wall Street elites.

Senate leaders struggled to draft an accord that averts a U.S. default and restores full government operations, as the shutdown entered its 13th day with a lapse in borrowing authority four days away.

Despite the possibility of another financial crisis, U.S. politicians of both political parties have still failed to strike a viable deal on increasing the U.S. debt ceiling.

Lawmakers said on Sunday they lack a clear plan for preventing a U.S. default and ending the 12-day government shutdown as bipartisan Senate leaders began preliminary discussions.

Earnings Season

Total earnings for the 31 S&P 500 companies that have thus far reported results are up +9.8%, with 51.6% beating earnings expectations, while total revenues for these companies are up +1.4% and 45.2% are beating top-line expectations.

While earnings season has just begun, the results thus far are weaker than what we have seen for this same group of companies in the last quarters.

The beat ratios are similarly tracking lower.

The weak comparisons are primarily because of the Finance sector.

If we exclude results from the Finance sector, the remaining companies that have reported results are tracking better than what those same companies reported in Q2 and the last few quarters.

Overall expectations for the quarter remain low, having fallen sharply over the last three months.

Total earnings growth for the remaining 469 companies is barely in the positive relative to the same period last year (+0.1%) and in the negative excluding the Finance sector (-1.1%).

The composite earnings growth rate, combining results from the 31 companies that have reported with the 469 still to come, is +0.9% for the S&P 500.

Monday's Asian Market Recap

Asian stocks ended mixed in relatively light trading on Monday.

Investor sentiment remains cautious after U.S. President Obama rejected House Speaker Boehner's latest offer that would extend the nation's borrowing authority for six weeks and reopen the government in exchange for the start of negotiations on deficit reduction.

The global markets rallied Friday on "hopes" for a breakthrough in the fiscal impasse.

China's Shanghai Composite index rose 0.4%, to a one-month high as rising consumer prices offered fresh evidence that the economy remains on track for a slow recovery.

Property developers bucked the upward trend to end broadly lower on a report that Beijing will likely expand its property tax program in an attempt to set a floor for annual land supply and cool speculation in the housing sector.

According to a report from the National Bureau of Statistics showed that China's annual consumer inflation rate rose to a seven-month high of 3.1 percent in September.

However, the producer price index fell for the19th straight month.

According to the latest figures from the General Administration of Customs, China's exports declined unexpectedly in September.

Shipments dropped 0.3 percent in September from a year earlier, compared with forecasts for a 5.5 percent increase.

Imports grew 7.4 percent annually, faster than an expected 7 percent increase, resulting in a trade surplus of $15.21 billion.

Australian shares fell modestly.

The benchmark S&P/ASX 200 dropped 0.4%, to trade at 5,208.

On Friday the Index posted its biggest gain in three months.

Rio Tinto edged up 0.1%, after it sold a rare Argyle diamond for a record $2 million. Rival BHP Billiton slipped 0.2% and Fortescue Metals Group declined 0.6%.

Gold miner Newcrest Mining declined 3.8%, as gold prices traded at near three-month lows.

Oz Minerals plunged 9.3% after the company cut its full-year production guidance.

Banks ended mixed as investors looked ahead to Tuesday's release of minutes of the RBA's minutes of its October 1 board meeting. ANZ lost half a percent, NAB eased 0.3% and Westpac slipped 0.1%m while Commonwealth Bank gained 0.3%.

According to the Australian Bureau of Statistics, the number of home loans approved in August fell a seasonally adjusted 3.9 percent in August.

South Korea's Kospi average fell 0.2%, on disappointing trade data out of China.

The losses were limited by further foreign buying for a 32nd consecutive session.

KEPCO Engineering & Construction plummeted 15%, after a government energy consultation group recommended reducing the nation's reliance on nuclear power to generate electricity.

New Zealand shares lost ground as Diligent Board Member Services shares came under selling pressure for the second straight session on concerns over its pace of sales growth.

Shares of Diligent declined over 15%, adding to Friday's 14 percent loss.

The benchmark NZX-50 was down 0.1%, to trade at 4,734.

Xero shares rallied 9.8% to a record high after the cloud-based accounting company raised $NZ180 million from key U.S. shareholders.

According to a survey released by the Bank of New Zealand, business activity in New Zealand's service sector expanded at a faster pace in September. The headline index rose to 55.6 from 53.3 in August.

A report from the Real Estate Institute of New Zealand showed that New Zealand's house prices continued to rise in September amid solid increase in sales.

India's Sensex was moving up 0.4% despite weak industrial output data and rising headline inflation, which accelerated to a seven-month high of 6.46 percent in September, driven by high food and fuel prices.

Malaysia's KLSE Composite was marginally lower.

Singapore's Straits Times was down 0.05% and the Taiwan Weighted average dropped 0.9%.

Singapore's central bank kept its tight monetary policy on hold and vowed to allow a "modest and gradual" appreciation of the Singapore dollar.

According to official data, Singapore's gross domestic product eased a seasonally adjusted annualized 1.0 percent in the third quarter of 2013 compared to the previous three months.

U.S. futures traded lower overnight.

On Friday, stocks extended gains for a second day, on hopes of a short-term deal to resolve the latest fiscal crisis.

According to the Thomson Reuters and University of Michigan report, U.S. consumer sentiment fell to its weakest level in nine months in October amid government shutdown.

Monday's European Market

European stocks are trading mostly lower on Monday.

Investor sentiment remains cautious as there was no progress on raising the U.S. debt ceiling.

Attention now shifts to the Senate to search for a way to avoid a looming debt default after U.S.

The Euro Stoxx 50 index of Eurozone bluechip stocks is marginally lower.

The Stoxx Europe 50 index, which includes some major U.K. companies, is up 0.1%.

The German DAX and France's CAC 40 are down about 0.1%.

The U.K.'s FTSE 100 is gaining 0.1%.

The markets recouped most of their early losses after official data showed industrial production in the Eurozone increased at a faster-than-expected pace in August, recovering from the previous month's decline.

According to the office of Eurostat, industrial output increased a seasonally adjusted 1 percent compared to July. Economists had forecast a more modest 0.8 percent increase for August.

The Asian markets turned in a lackluster performance as traders digested mixed Chinese data and waited for a resolution to the U.S. budget deadlock.

Trading in the U.S. index futures was lower in the overnight session, ahead of a slew of key earnings reports slated for release this week.

TUESDAY

Tuesday's Morning Briefing

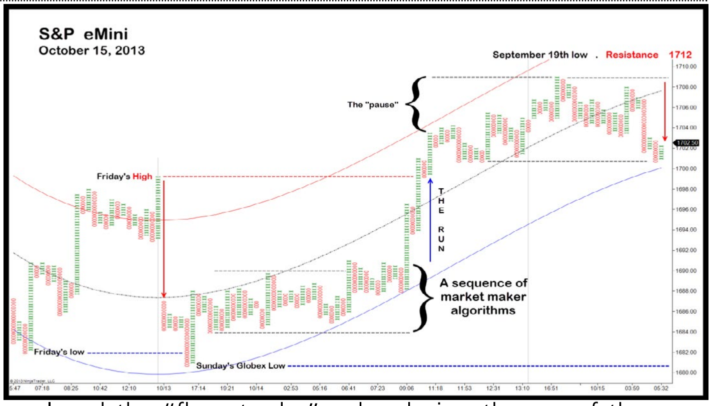
Good morning Traders,

Coming into Tuesday session, minor support at 1700 playsa critical role in determining whether or not the rally will continue higher, or pull back into Monday's trading range.

At the open of Sunday's Globex session, S&P futures gapped below Friday's close (1698) and sold down to 1680, 29 points below Tuesday's overnight high.

At Monday's open, S&P futures consolidated between, 1684-1688, before breaking out above the 1690 and rallied up to 1705.

The buy-side run up to Monday's high did not occur until the close of the European session. S&P futures spent the better part of two hours trading within the narrow range, typically defined by the high frequency market maker algorithm.



The high frequency electronic market maker algorithm has replaced the "floor trader", who during the era of the open outcry session that fulfill similar role.

In the modern electronic market, when S&P futures trades in the narrow up 2 points, down 2 points pattern indicates there is no clear "out-side" influence capable of moving the market direction.

As illustrated in the point and figure chart, market development occurs in two phases: consolidation and direction.

Don Jones at Cisco futures refers to as the run, pause pattern.

Late in the day on Monday, as the S&P traded up to 1705, the lower edge of the final pause is located at 1701-1700.

The upper edge, the breakout point of the buy-side run is located at 1690.

Overnight S&P futures modestly extended the trading range up to 1709. However, the overnight rally fell short of the next resistance level is located at 1712.

On September 19th the 1712 low had been minor support. Support at 1712 was breached during the September 20th sell-off.

Order flow events provide critical insights at the juncture of these reference points.

The Order Flow Events inform the astute observer, whether or not there continues to be sufficient demand to hold support and or supply to maintain resistance.

Coming into Tuesday session, minor support at 1700 plays a critical role in determining whether or not the rally will continue higher, or pull back into Monday's trading range.

Tuesday's Opening Range Commentary

Hello Traders,

At Tuesday's open, S&P futures sold-off below Monday's close (1705) and pulled back to 1695, -10 points.

The sell-off indicated a "pause" in the short rally that had developed following the sell-off down to 1640 on October 9th.

The "pause" represents a change in the "state" of the market condition form trend to consolidation.

Following the opening pull-back (sell-off) to 1695, the order flow event indicated sell programs waning at the low.

The price direction reversed and S&P futures auctioned back to fill the "gap" at Monday's close (1705).

The rotation back to 1705 encountered a lack of buying interest.

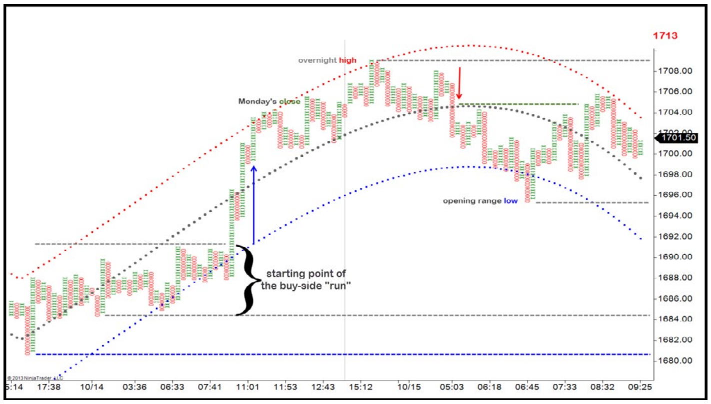
The order flow event indicated the computerized programs ceased trading to the buy-side. S&P futures auctioned back to the opening range low (1697).

The auction once again reversed direction and price rotated back to Monday's close (1705-1706), before trading back into the mid-point of the consolidation range at 1700.

A period of consolidation indicates the market has achieved equilibrium.

In other words, there are an equal number of buyer and sellers participating within the parameters of the consolidation range.

Trade opportunities during a consolidation phase are to be short at the upper parameter (the high) and long at the lower parameter (low).



Eventually, the consolidation phase (equilibrium) will give way to the dominant bias. Either, there will prove to be more buyers within the range or more sellers.

Hence, at some point price will break-out above the high (1705) or break-down below the low (1696) and the price structures will become directional.

Initiated buying (HF buy serge) at the high will indicate the break-out and initiated selling at the low will indicate the break-down.

The order flow events will provide the next insight into the market direction.

Traders are advised to monitor the activity of the computerized trading bots during pull-back and retracement of the upper and lower parameters of the consolidation range.

Resistance above Monday's high (1705) is location at 1709 and 1712.

Support below the opening range low is location at Monday's low (1684) and Sunday's globex low (1680).

Monday's Market Structure | Tuesday's Reference points

Hello Traders,

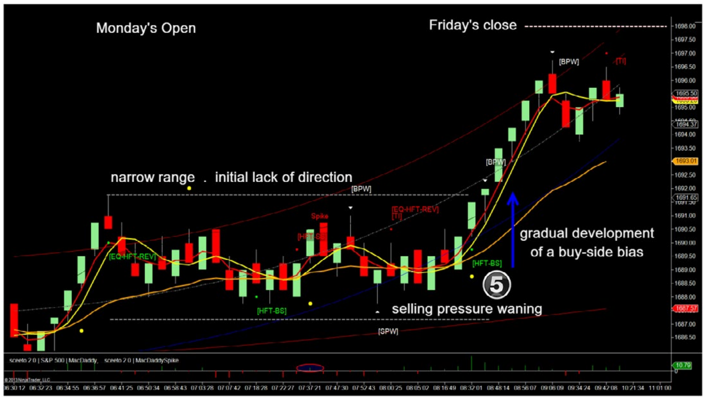
The broad benchmark S&P 500 closed at 1710: (▯) up +6 points (0.41%).
The Dow 30 closed at 15,301: (▯) up +64 points (0.42%).
The NASDAQ 100 closed at 3815: (▯) up + 23points (0.62%).
Monday's Trade Opportunities | Recap

1.) The gap below Friday's close occurred during the overnight session. Therefore, only the sellers at Friday's close were able to benefit from the overnight "gap".

2.) Buying The Pullback | The pullback to 1680, at/or near Friday's low resulted in the S&P auctioning back up to 1688.

3.) Selling Resistance | The retest of the overnight high, at/or near 1690, resulted in the S&P pulling back to 1684.

4.) Scalping the narrow range development that dominated Monday's open provided a limited opportunity.



5.) Buying The Breakout | High Frequency Buying Pressure Induced a Breakout from Narrow Range (Trade Opportunity #4). However, as is the case with all the narrow range development, a gradual market maker algo will determine the dominant "out-side" participation. A bias will develop in favor of the dominating group: buyers or sellers.

During Monday's open, the gradual bias developed to the buy side.

The buy side sequence was indicated by the following:

A.) The lack of selling pressure (sell programs waning) during the pullback to 1684-1685 is referred to as the down-tick series of the market maker algorithm.

B.) The change in direction (slope) of the digital filters, followed by the initiated buying (high frequency buy surge) that entered the order flow as the S&P auctioned above the opening range high (1690).

6.) Entering an initiated Trend. Following the start of the buy-side sequence, the order flow indicated the initiated buying remained dominant (high frequency buy surge), as the S&P auctioned up to Friday's high (1698) and continued up to 1703.

The indication of the continued buy side execution is surfaced by the slope of the Kalman filter, which continued to ascend exponentially.

Similarly, the micro digital filters indicated there was no down turn, in the up\down tick ratio [up-tick (trade at the bid)\ down-tick (trade at the offer)].

The 5 tick range bars continued to make higher highs...So tonight I sent you five – and sent you back five and highs.

7.) Selling Resistance. There was a minor "pause" in the buy programs (buy programs waning) accompanied by responsive selling (EQ-HFT-REV) and S&P pulled back to the Kalman estimate (1700-1701).

8.) Buying the Pullback. The minor pullback encountered responsive buying (HFT buy surge). The digital filters indicated the order sequence turned up.

The slope (direction) of the Kalman filter continued to ascend and the S&P auctioned back to retest the high (1705).

9.) Buying the Pullback. Similarly, the late in the day pullback to 1701, was accompanied by responsive buying and S&P futures retested the high (1705) into the close.

The Current Reference Points
Key support and resistance levels for the developing trading range from September 3rd through October 14th.

Resistance

1727: September 19th, Current Multiyear High
1723: September 18th, FOMC high

1720: September 20th high
1713: September 19th low, had been minor support, breached during the Friday's (09-20) sell-off.

Support

1684: the October 14th opening range low.
1680: the Sunday, October 13th low, at/or near Friday, October 11th opening range low.
1673: the October 11th Low.
1663-1666: the over-under level, was previous support on October 3rd and the overnight high during the October 10th rally.
1645: the initial "stopping point", of the October 8th sell-off; overnight low
1638: September 6th low
1630: September 3rd low, start of the month, monthly.
1624: August 28th low. The Major US Indexes ended Monday's session higher.

The broad benchmark S&P 500 closed at 1710: (□) up +6 points (0.41%).
The Dow 30 closed at 15,301: (□) up +64 points (0.42%).
The NASDAQ 100 closed at 3815: (□) up + 23points (0.62%).

Market Breadth Statistics

344 (68%) of the S&P 500 stocks closed Friday's session above the previous day's close, while 151 (30%) closed below.

On the NYSE, 3941 stocks (56%) advanced, while 2265 stocks (33%) declined. Currently, 71% of the NYSE stocks are trading above their 50 day price average.

Monday's Market Development

On Friday, S&P futures rallied up to 1698 to close the session at the weekly high.

At the open of Sunday's Globex session, S&P futures gapped below Friday's close and traded down to 1681: 17 points (1.1%).

The overnight sell-off held support and auctioned up to 1690, prior to Monday's open.

At the open of Monday's session, S&P futures made a modest pullback to 1686, before auctioning back to retest the overnight high, trading up to 1691.

The market trade was relatively flat through the European close. S&P futures auctioned between 1690-1688.

Gradually, during the opening session, a positive bias developed (more buying interest than selling pressure).

By the midpoint in the trading day, the S&P auctioned above the overnight high, trading back to fill the gap at Friday's close (1698) and went on to extend the trading range above Friday's high.

The S&P auctioned up to 1705; 19 points (1.2%) above Monday's opening range low.

There was a modest pullback to 1701, which was met with a buy response and the S&P auctioned back to close the session at the high (1705).

Market Fundamentals

U.S. stocks rose, leaving the Standard & Poor's 500 Index less than 1 percent from a record, amid signs lawmakers could reach a deal before the government loses its ability to borrow money in three days.

The S&P 500 erased early declines as U.S. Senate Democratic and Republican leaders said they are optimistic about ending a partial government shutdown and preventing the nation from breaching the debt ceiling in three days.

The emerging agreement would suspend the debt limit through Feb. 7, 2014, fund the government through Jan. 15 and require a House-Senate budget conference by Dec. 15, according to a Senate source familiar with the talks, who spoke on the condition of anonymity to discuss them.

The Federal Reserve is getting more involved in debt markets as it tries to compensate for the impact of it's almost $4 trillion balance sheet on short-term interest rates.

Policy makers are testing a new tool intended to improve their control of near-term borrowing costs.

The facility would allow banks, broker-dealers, money-market funds and some government-sponsored enterprises to lend the Fed unlimited amounts of cash overnight at a fixed rate in exchange for borrowing Treasuries in so-called reverse repo transactions.

Debt Ceiling

Central banks have begun making contingency plans on how they would keep financial markets working if the U.S. defaults on the world's benchmark debt.

Policy makers discussed possible responses when they met at the International Monetary Fund's annual meetings in Washington over the weekend, said officials who spoke on the condition of anonymity because the talks were confidential. The discussions continued as policy makers headed home.

Tuesday's Asian Market

Asian stocks ended mostly higher on Tuesday.

The latest news out of Washington suggesting that the White House and Congress are nearing an agreement to reopen the federal government and extend the U.S. debt ceiling to avert a default has calmed investor sentiment.

Japanese shares extended gains for a fifth consecutive session on optimism Senate leaders will forge a debt-ceiling deal before the Thursday deadline.

The Nikkei average rose 0.3%, to trade at 14,442.

The broader Topix index closed marginally higher.

Fuji Heavy Industries gained 0.8% on a report that the automaker might post a significant increase in its operating profit for the first half of the current year.

According to data from the Ministry of Economy, Trade and Industry, Japan's industrial production declined more than initially estimated in August.

Factory output dropped 0.9 percent from a month ago, sharper than the 0.7 percent drop previously estimated. On a yearly basis, production fell 0.4 percent.

China's Shanghai Composite declined 0.2%, with banks leading the declines on asset quality concerns.

Hong Kong's Hang Seng index closed up 0.5%, to trade at 23,336, its highest level since Sept. 23.

Australian shares rose sharply, led by gains in banks and miners, amid the receding risk of a U.S. default and as Australia's central bank left the dollar open for another interest rate cut.

The benchmark S&P/ASX 200 rallied 1.0%, to trade at 5,259, its highest closing level since September 30.

Rio Tinto Plc. shares rose 2.4% after the mining giant reaffirmed its full-year production guidance and announced the extension of its $2 billion Kestrel Mine in an onsite ceremony near Emerald in central Queensland.

According to the minutes of the Reserve Bank of Australia's Oct. 1st policy meeting, the central bank is neither ruling out further rate cuts, nor signaling an imminent intention to reduce rates.

Members of the monetary policy board stated that the overall economy continues to perform below trend, keeping the dollar open for reducing rates further.

South Korea's Kospi average rallied 1.1%, to trade at 2,041, its highest closing level since March last year.

Overseas investors bought shares worth a net 315.9 billion won on Tuesday, extending their buying streak for a 33rd consecutive session, data showed.

New Zealand shares gained ground.

The benchmark NZX-50 inched up 0.3%, to trade at 4,748.

Infratil shares advanced 0.6% after the Wellington-based infrastructure investor agreed to sell its Manston Airport in the U.K. for 350,000 pounds.

According to the Reserve Bank of New Zealand, the housing market presents risks for both financial stability and price stability. The country's housing market should overcome the problem of supply shortage to reduce risks to financial stability, he said during a speech in Auckland.

India's Sensex was up 0.2% and the Taiwan Weighted average rallied 1.1%, while the markets in Indonesia, Malaysia and Singapore were closed for public holidays.

U.S. stocks traded relatively "flat" overnight.

Tuesday's European Market

European stocks extended gains for a fourth consecutive session.

Commodities are declining, with gold prices hovering near a three-month low in London as optimism that the U.S. will avert a debt default supported the dollar.

The Euro Stoxx 50 index of Eurozone bluechip stocks is up 0.5%.

The Stoxx Europe 50 index, which includes some major U.K. companies, is up 0.7%.

Key benchmark indexes in Germany, France and the U.K. are up between 0.5% and 0.8%.

German automakers Daimler and BMW are rising 1-2 percent after European Union environment ministers agreed to German demands to block an agreement to cap car emissions.

According to the latest figures released by the Federal Statistical Office, German import prices decreased for the eighth successive month in August, and at the fastest pace in nearly four years, showed.

The import price index dropped 3.4 percent on an annual basis after falling 2.6 percent in July.

French inflation, as measured by the harmonized index of consumer prices, remained steady at 1 percent in September, data from statistical office Insee revealed, matching economists' forecasts.

According to a report released by the Office for National Statistics, the U.K. consumer price index remained unchanged at 2.7 percent in September, continuing to hover above the central bank's 2 percent target.

The factory eased for a second consecutive month.

U.S. index futures trading “flat” in the overnight session, holding on to their pervious gains.

Earnings session is underway, with reports from companies like Citigroup, Johnson & Johnson and Coca-Cola due later in the day.

WEDNESDAY

Wednesday’s Morning Briefing

Good Morning Traders,

U.S. stock-index futures were unchanged in the overnight session.

S&P futures traded within the parameters of Tuesday’s trading range.

During yesterday’s session, S&P futures traded up to 1709 in the overnight session. Late in the day, the broad benchmark index sold down below its side pullback to 1690.

On Monday, after selling down to 1680 at the open of Sunday’s Globex session, S&P futures consolidated at the low, before buying interest eventually auctioned the S&P above 1690 and rallied the market up to its current 1709 high.

Tuesday’s sell-off to the starting point (1690) of the buy side “run” up to the recent high held support and closed Tuesday session at 1694.

Overnight, S&P futures auctioned back at or near yesterday’s high, trading up to 1706. The market has sold back down to 1697.

The Asian markets ended mixed and European indexes have declined for the first time in five days.

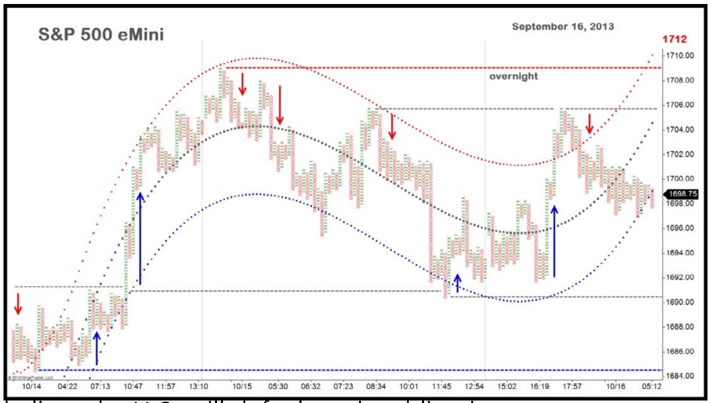
The yen fell 0.2 percent versus the dollar.

Rates on Oct. 24 Treasury bills were unchanged at 0.47 percent after climbing as high as 0.53 percent.

The 10-year note yield was little changed at 2.73 percent. Copper declined 0.7 percent.

Leaders in the Senate are rushing to lock down an agreement to end the fiscal impasse, stepping in after House Republicans’ last-minute plan to avert a U.S. government default collapsed.

Federal Reserve Bank of Dallas President Richard Fisher said the central bank could reduce the turmoil from any U.S. debt default, which he said is unlikely.



Trading in US markets does not left that market participants believe the U.S. will default on its obligations.

Thus far, market sentiment appears to indicate a deal will be done. If an agreement is not reached, all parties are well aware it would have a devastating impact on market sentiment.

Coming into Wednesday’s open

The current market condition (state) is consolidation within the parameters of the recent two day distribution.

Resistance is currently at 1709- 1708. The next significant resistance level above yesterday’s high is located at 1712, the September 19th break down point, below which the S&P began its recent decline from its multiyear high (1727).

Minor support at Tuesday’s low at 1690.

Near term support is located at Sunday’s Globex low (1680).

S&P futures are currently trading at 1698, within the upper quadrant (25%) of the trading range, indicating market sentiment remains bullish (positive).

Curretnly the order flow indicates no selling pressure below 1697 (sell programs waning).

We would expect to see S&P futures attempt to re-test of the high.

A resurgence of selling programs below 1697 (HFT sell surge) would indicate sentiment has changed and set-up a re-test of Tuesdays’s low (1690).

Wednesday's Opening Range Commentary

Hello Traders,

After selling down to 1690 during Tuesday's session, S&P future auctioned back up into the trading range, trading up to 1706 in the overnight session.

Tuesday's overnight high was 1709, and the next known resistance, the September 19th low was located at 1713.

Coming into Wednesday session, we noted in the daily briefing that S&P futures were trading at 1698, within the upper quadrant (25%) of the trading range, indicating market sentiment remains bullish (positive).

We would expect to see a re-test of the high (1709) and the potential of a higher high, with the up-side target at 1712, the September 19th low.

At Wednesday's open, S&P futures had auctioned up to 1702-1704. The price action "paused" and the market maker algorithm was dominant for the 40 minutes.

The order flow events indicated there was no immediate selling pressure (sell programs waning) below 1702.

The micro digital filters turn up and a buy-side "run" developed. The order excursion sequence, as indicated by the digital filter was exponential, until price traded up to 1714 (+12 points).

As price auctioned up to the upper edge of the polynomial regression channel, the order events indicated the computerized buy programs ended (buy program waning).

The digital filter turned down and price pulled back to the Kalman filter estimate at 1708, the previous high.

In the NEWS

Following the rally up to 1714, the United States Congress announced that it might now solve the current crisis by scheduling another one.

S&P futures went on to auction up to 1717, before the order flow events indicated buying interest end (buy programs waning).

Senate Majority Leader Harry Reid and Republican Minority Leader Mitch McConnell announced they are working on a framework to reopen the government and avert a potentially cataclysmic default on American debt payments.

The "deal" would provide the government with enough cash to stay open until Jan. 15. The debt ceiling would be raised enough to last through Feb. 7.

Republicans would get a fig leaf to make the deal more palatable to irate GOP voters: Somewhat tighter controls on income verification for Americans seeking subsidies to buy health insurance under the law popularly known as Obamacare.

Democratic and Republican sources in both chambers warned that the details of the final arrangement could still change.

Officials remain hopeful about reaching a deal defusing the danger of a default after the government runs out of borrowing authority on midnight Thursday into Friday and must rely on dwindling cash reserves of about $30 billion to pay for programs that cost many times that amount.

Tuesday's Market Structure | Wednesday's reference points

Hello Traders,

US market closed lower on Tuesday.

The broad benchmark S&P 500 closed at 1698: (□) down -12 points (0.71%).
The Dow 30 closed at 15,168: (□) down -133 points (0.87%).
The NASDAQ 100 closed at 3794: (□) down – 21 points (0.56%).
Review of Tuesday's Trade opportunities

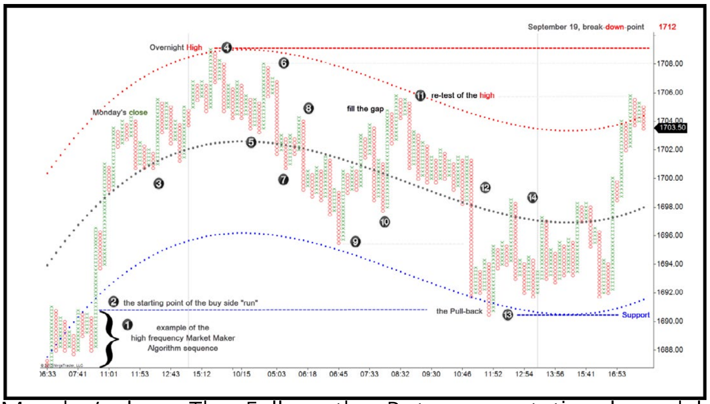
There were 14 significant order flow events worth commenting on in today's trade opportunity discussion.

Events number one through three are related to Monday's session, there included in today's discussion because an individual trading session does not occur in isolation.

All trading sessions occur within the context of a longer term distribution (trading range).

4.) Sell the retracement | At the overnight high (1709).

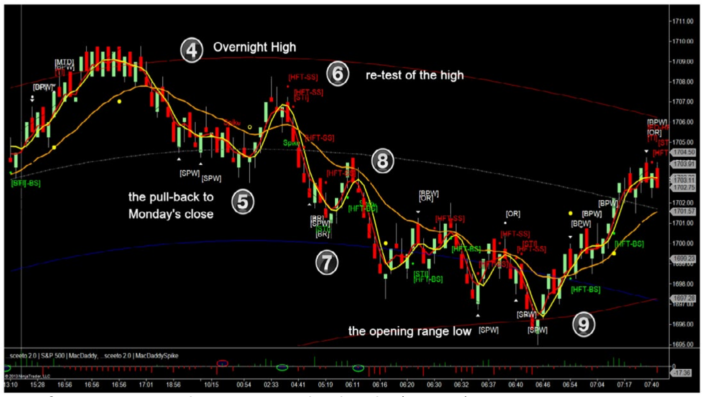
Overnight S&P futures rallied up to 1709, 25 points above



Monday's low. The Follow the Bots computational model employs a technique referred to as the scale parameters.

In the context of Tuesday's overnight session, the known resistance level was located at 1712. Sunday's Globex low was 1680. The September 19 breakdown point at 1712 is located 32 points above Sunday's low. The follow the bots computational scaling parameter identified the 1712 price level as an extreme price excursion exhaustion point.

While S&P futures failed to trade up to 1712 overnight, it was reasonable to begin looking for the buy side run to exhaust



itself at/or near the overnight high (1709).

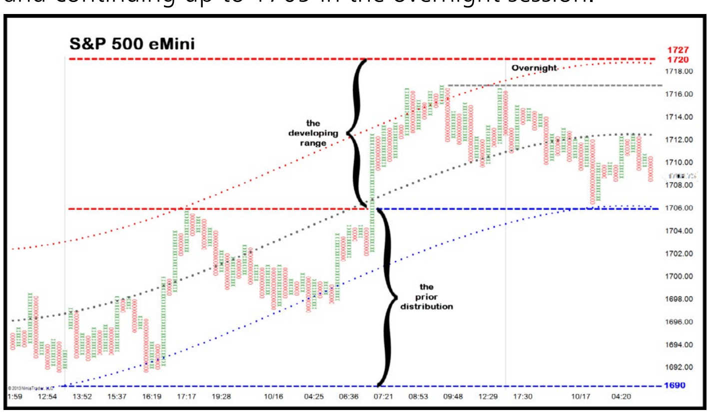
The standard criteria, i.e. the order flow event sequence, associated with a "stopping point", the end of buy side algo rotation ends when the computerized trading programs cease executing to the buy side.

The pattern consists of a period of overlapping five tick sequences, which results in an increasing down tick ratio (trade at the bid) .

The slope of micro digital filters turned down. This pattern can be seen at the overnight high (1704), when S&P futures were trading at the upper band of the polynomial regression channel.

5.) Buy The Pullback | During the pullback to Monday's close (1705) | The order flow events indicated the computerized sell programs ended.

6.) Sell the retracement | The retest of the high (1707), the point at which the initiated selling occurred as price sold down to Monday's close (1705) encountered high frequency initiated selling. This indicated the likelihood the sell side run would continue and that S&P futures would pullback to the minor support level at 1701 that developed late in the day on Monday, prior to the S&P auctioning back to the high (1705) and continuing up to 1709 in the overnight session.



7.) Buy The Pullback | The pullback to the minor support level at 1701 provided a minor scalp opportunity.

8.) Sell the retracement |The retracement back at/or near Monday's close (1705) where the initiated selling had entered at 1703, encountered responsive selling in the form of a high frequency sell surge.

9.) Buy Support | S&P futures languished at/or near the 1700 price level at Tuesday's open.

The first sell response auctioned the S&P down to 1697. Computerized sell programs ended and the S&P auctioned back to 1700.

During the retest of the low S&P futures sold down to 1696. Once again the computerized sell programs ceased executing to the sell side indicating the likelihood that the S&P would auction back to fill the gap at Monday's close (1705).

10.) Buy Support | S&P futures auctioned up off of 1696 and traded back to 1704, but failed to fill the gap at Monday's close (1705). On the subsequent retest of the low (1697) the order flow events once again indicated the computerized sell programs ended and initiated buying (high frequency buy surge) was evidenced in the order flow.

This indicated the likelihood the S&P would consolidate at the recent high. Price auctioned up and filled the gap at Monday's close (1705).

11.) Sell the retracement | During the retracement to 1705, where the S&P encountered a high frequency initiated sell surge, the order flow events detected buy programs waning.

This provided an opportunity to sell the retracement back to the gap fill price level.

The expectation was that price would continue consolidating within the opening range parameters.

12.) Sell The Breakdown | During the pullback to 1700, a prolonged sequence of narrow range high frequency market maker activity occurred.

The order flow events indicated initiated selling on the up ticks and the digital filters confirmed the dominant bias remains to the sell side.

13.) Buy Support | S&P futures sold down to the starting point of the buy side "run" at 1690. The run had resulted in the S&P auctioning up to 1709, 19 points.

During the short covering rally that began last week, there were very few day session pullbacks. S&P futures had continued to trade sequentially higher during each session.

The pullback to 1690 represented one of the few opportunities to enter the market at a favorable trade location.

Ideally, we would have preferred to see the S&P sell down to Sunday's Globex low at 1680.

However, during today's pullback to 1690 the order flow events indicated the selling programs had ended. High frequency initiated buying accompanied the pullback and the S&P auctioned back up to 1698 where the initiated selling had developed during the narrow range high frequency algo phase.

14.) Sell the retracement | The retracement back to the point where the sell side "run" started provided the aggressive seller the opportunity to sell the retracement with the expectation that the S&P would sell back down through the trading range and retest the low at/or near 1690-1691.

The trade opportunities discussed in today's commentary, and the chart illustrations are provided so that our members can familiarize themselves with the intraday auction opportunities and the order flow events that provide confirmation of the day sessions market development.

Tuesdays Market Development

On Sunday S&P futures gapped below Friday's close and auctioned down to 1680 the overnight (Globex) session low.

At Monday's open, S&P futures failed to retest the overnight low (1680).

S&P futures auctioned up to 1690, 10 points above the overnight low. Price then pulled down modestly to 1684.

On the retest of the high at 1690, the high frequency market maker algorithm dominated the session for approximately 2.5 hours.

Gradually, during the market maker algo sequence a buy side bias developed with more buyers than sellers.

Shortly after the close of the European session S&P futures broke out above 1690, and the buy side run developed.

Price auctioned above Friday's high (1698) and traded up to a new high at 1703. There was a minor pullback to 1701. Price auctioned back to the high and closed the session at 1705.

Overnight, buying interest continued and the S&P traded up to 1709, modestly below the September 19th breakdown point at 1712, the lower edge of what remains of the upper supply cluster.

Price discovery determined there was a lack of interest at 1709. S&P futures pulled back to Friday's close 1707, before selling down to the minor pullback level at 1701.

The selling pressure continued at Tuesday's open. S&P futures sold down to 1695, auctioned back up to Monday's close (1705) and then consolidated in a narrow trading range between 1702 and 1699.

Gradually, during the narrow range market maker sequence a sell-side bias developed.

Late in the day, S&P futures broke down below the minor market maker algorithm cluster at 1699 and sold down to 1690, the starting point of the buy side run that began during Monday's session.

Price discovery held support at 1690 and the S&P auctioned back up to 1699, which was the point at which the initiated selling had developed. This resulted in a breakdown below the market maker algorithmic cluster.

The retracement back to 1699 encountered a sell response and the S&P futures auctioned back down to 1691, before closing Tuesday session at 1694.

The Current Support & Resistance Reference Points

Key support and resistance levels for the developing trading range from September 3rd through October 14th.

Resistance

1727: September 19th, Current Multiyear High 1723: September 18th, FOMC high

1720: September 20th high

1713: September 19th low, had been minor support, breached during the Friday's (09-20) sell-off.

1709: Tuesday, October 14th high

Support

1690: Tuesday, October 14th Low

1684: the October 14th opening range low.

1680: the Sunday, October 13th low, at/or near Friday, October 11th opening range low.

1673: the October 11th Low.

1663-1666: the over-under level, was previous support on October 3rd and the overnight high during the October 10th rally.

1645: the initial "stopping point", of the October 8th sell-off; overnight low

1638: September 6th low

1630: September 3rd low, start of the month, monthly.

1624: August 28th low

Market Fundamentals

Senate leaders are resuming talks aimed at avoiding a U.S. default and ending the 15-day-old government shutdown after the Republican-controlled House scrapped a vote on its plan.

Fitch Ratings put the U.S. AAA credit grade on ratings watch negative, citing the government's inability to raise the debt ceiling in a timely manner, according to a statement after New York markets closed today.

Wednesday's European Market

The European markets are trading lower on Wednesday.

The Asian markets ended mixed, while the U.S. index futures indicate a "flat" open.

According to the latest data from the statistical office Eurostat, Eurozone's foreign trade surplus fell more than expected in August,

The Eurozone trade with the rest of the world resulted in a surplus of 7.1 billion euros in August, down from a 18 billion euros surplus in July. This was forecast to fall to 10 billion euros.

Europe's new car registrations recovered in September with most major markets reporting growth from a year ago, the European Automobile Manufacturers' Association said. The association said sales expanded 5.4 percent in September from the prior year. Sales totaled 1.15 million units compared to the record low volumes registered in September 2012.

According to the Office of National Statistics official data, the number of people claiming jobseeker's allowance in the U.K. plunged more than expected in September to the lowest since January 2009.

Jobless claims declined 41,700 to 1.35 million, which was the lowest figure since January 2009. The decrease was sharper than the consensus of 25,000 drop.

The Euro Stoxx 50 index of Eurozone bluechip stocks is losing 0.32%.

The Stoxx Europe 50 index, which includes some major U.K. companies, is declined 0.38%.

The German DAX is dropped 0.1%.

French CAC 40 and Switzerland's SMI are declining The UK's FTST 100 index is dropping 0.5%.

In London, IMI is gaining 2.3%. The engineering group has agreed to sell its Retail Dispense business to an affiliate of Billionaire Warren Buffett's Berkshire Hathaway Inc.

In Asia/Pacific, markets ended mixed, amid concerns about the U.S.

The U.S. futures traded "flat" in the overnight session.

As lawmakers continued to struggle to reach an agreement to end the latest fiscal crisis, the major averages ended the previous session firmly in negative territory.

The Dow tumbled 0.9 percent, the NASDAQ slid 0.6 percent and the S&P 500 slipped 0.7 percent.

In commodities

November Crude is trading at $101.20 per barrel; (↓) down -$0.10.

December gold is trading at $1278.9 a troy ounce: (↓) up + $5.70.

THURSDAY

Thursday's Daily Morning Briefing

Good Morning Traders,

On Wednesday, S&P futures rallied up to 1717, a modest three points below the September 20th high at 1720 and within the scale parameter (10 points) of a daily range beneath its multiyear high at 1727.

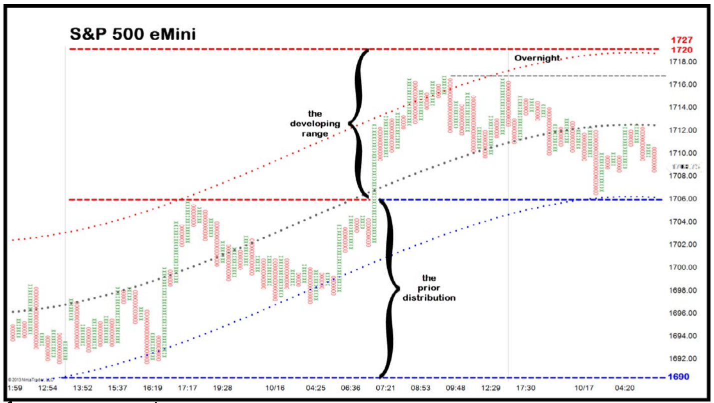
In other words, in the event the broad benchmark index was to fail to retest the multiyear high and sell off below last week's low at 1640, yesterday's rally would qualify as a double top.

The initial price discovery phase at Wednesday's high indicated a lack of buying interest.

S&P futures sold modestly below Wednesday's minor pullback level at 1709 and traded down to 1706: 10 points below Wednesday's settlement.

The issue now is whether or not buyers will enter the market on the pullback and the broad benchmark index will auction back to Wednesday's high and continue the rally above the September 20 high and retest the multiyear high at 1727.

With the US debt ceiling default crisis resolved, at least temporarily, market participants are now likely to direct their focus to earnings season.



Coming into Thursday's Session

Minor support is located at the overnight Globex low (1706).

Astute market observers will note that during Tuesday's rally, S&P futures auctioned up to 1709 in the overnight session.

During regular trading hours S&P traded at or near the overnight high, auctioning up several times to 1706-1705.

This creates what is referred to as a series of fractal highs, all located within the margin of error of each other.

Therefore an exact price is not as significant as the generalized fractal zone, approximately between 1709 and 1705.

This generalized zone currently marks the over-under area wherein, if support holds market sentiment remains positive (bullish). The possibility for a retest of the high (1716-1717) and a higher high remains the likely scenario.

However, if support is breached and the S&P trades back into the previous trading range, below 1705, then the argument becomes that market participants sold into the rally.

In other words, informed market participants perceive the rally as an opportunity to sell, i.e. take profit on the longs accumulated last week at 1640.

"Trees do not grow in the sky and markets do not rally forever".

The major US indexes sold-off from their previous multiyear high.

Hence the multiyear high is the retail (marked up) price level. Whereas last week's low (1640 represents the wholesale (relative to mark down) price level.

In the event that support is breached at 1705, the trading strategy must adapt. Instead of focusing on buying the pullback, traders should consider selling the retracement.

We will be closely monitoring whether the Trading Bots in the 1705 price zone are selling or buying. There telltale signatures will guide us in our trade decisions at this support level

Macro Market Factors

US government passed legislation that will avoid a technical debt default, ending the 16-day partial shutdown of the government.

The deal will reopen the government after 16 days of partial shutdown and fund spending through January 15 while extending the $16.7 trillion debt ceiling through February 7.

The political drama, which in the end accomplished nothing, cost the world's largest economy billions of dollars.

Standard & Poor's says the shutdown in total cost the US economy $24 billion, or $1.5 billion per day, the rating agency said Wednesday. The agency also estimated the shutdown will pare fourth quarter GDP by 0.6 percent.

"The bottom line is the government shutdown has hurt the US economy," the S&P statement said.

Moody's Analytics has estimated the government shutdown could cost the US government up to $55 billion, the same amount as devastating Hurricane Katrina in 2005.

Wednesday's Market Structure | Thursday's Reference

Hello Traders,

US stock indexes traded higher on Wednesday's
The
broad benchmark S&P 500 closed at 1721: ↑ up +23 points (1.38%).
The Dow 30 closed at 15,373: ↑ up +205 points (1.36%).
The NASDAQ 100 closed at 3839: ↑ up + points (1.20%).
Wednesday's Trading Opportunities

There were 10 trade opportunities are worth considerating during Wednesdays session.

The first three occurred during the Globex session. The remaining seven occurred during regular trading hours.

The charts posted in today's gallery illustrate the order flow events that corresponded with each of the trade opportunities discussed below.

1.) Buy Support |The ideal long opportunity occurred at the open of Wednesday's Globex session when the S&P futures pullback to retest support at Tuesday's low (1690).

The order flow indicated there was no computerized selling below 1692 and the S&P auctioned back up at or near the previous day's high (1708).

During the retracement to Tuesday's high computerized trading bots ceased their buy side execution as the S&P traded up to 1706.

2.) Sell the retracement | During the retracement at or near Tuesday's high (1708) a fractal high developed at 1706. The

sceeto order flow monitor detected buy-programs waning.

The micro digital filters turned down and high frequency initiated selling followed. The S&P sold down from the high and traded back down 1697.

3.) Buy The Pullback | During the overnight pullback to 1697, selling pressure decreased. S&P futures stalled in traded in a narrow two point range, indicative of the high frequency market maker algo.

4.) Buy The Breakout | At the open of Wednesday's session, S&P futures auctioned back up above 1697 and paused at 1704.

During the first 30 minutes of the Wednesday's session of high-frequency market maker algorithm dominated the open. Once again the S&P traded in the typical market maker narrow two point trading range sequence.

During the market maker sequence, on the downtick to 1702, the computerized trading bots ceased executing to the sell side.

A buy side bias developed, the micro digital filters turned up and a buy side "run" was initiated.

The buy side "run" exhibited the exponential function, the digital filters slope up exponentially, on until the S&P auctioned up to 1613.

When S&P futures traded to 1613, the September 19 low, the buying interest paused. Price pulled back 1708 and retested support at the previous day's high.

5.) Sell Resistance | The September 19th low offered a known resistance level which offered a viable profit target. The opportunity to take profit and\or Sell Resistance occured here when ...sceeto's Order Flow Monitor surfaced the event, 'Buy Programs Waning'.

6.) Buy The Pullback | During the pullback to the previous day's high the order flow events indicated sell programs waning. The computerized trading bots once again initiated trade to the buy side.

7.) Buy The Pullback | The buy side execution continued and the S&P auctioned above 1713 and rallied up to 1717, three points shy of the September 20 high at 1720.

8.) Sell the retracement | When the S&P auctioned up to 1717 the computerized trading programs ceased executing to the buy side. High volume responsive selling terminated the up move, and price sold back down the prior days high at 1709.

9.) Buy The Pullback | Following the sell-off to 1709, the computerized trading bots ceased executing to sell side. High volume responsive buying was evidenced in the order flow during the pull-back.

Support held, buy side execution returned and S&P futures auctioned back to retest the high into the close.

10.) Sell the retracement | On the retracement back to the high at or near 1717-1716, high volume responsive selling continued to "cap" up move. High-Frequency computerized selling followed The S&P modestly down ticked to 1713.

Wednesday's Market Development

S&P futures pulled back to 1690 during Wednesday's trading session and held support at the starting point of the buy side run that developed during the previous session.

Overnight, the S&P pulled back to 1692. There was no selling pressure below the prior days low and the S&P auctioned back to the fractal high at 1706.

Prior to Wednesday's open S&P futures sold down from the overnight high and pulled back to 1696.

At the start of Wednesday's session computerized trading bots ceased executing to the sell side.

Buy programs initiated during the narrow market maker sequence and the S&P traded back 1705, "paused" and pulled back to 1702.

During the brief market maker sequence the computerized trading bots once again initiated buy programs.

S&P futures auctioned above the prior days high at or near 1709 and broken out above the previous Tuesday's high and traded up to the September 19 low at 1712.

The buy programs continue in the S&P extended the trading range up to 1717.

During the initial price discovery phase up to 1617, the buy programs decreased. Buying interest waned and in the S&P sold down to 1709 and retested support at the previous high.

During the pullback to 1709 computerized high-frequency sell programs diminished (sell programs waning). Buying interest returned in the S&P auctioned back to the high at 1717 into the close.

The Current Support & Resistance Reference Points

Key support and resistance levels for the developing trading range from September 3rd through October 16th.

Resistance

1727: September 19th, Current Multiyear High
1723: September 18th, FOMC high
1720: September 20th high
1717: Wednesday, October 15th high, the "stopping point" to Wednesday rally.

The current pull-back is insufficient to meet the classification of resistance.

Support

1709-1706: the minor pull-back level during Wednesday's session and Tuesday's high (fractal highs).
1701: Wednesday's opening range low
1692: Wednesday's overnight low
1690: Tuesday, October 14th Low
1684: the October 14th opening range low.
1680: the Sunday, October 13th low, at or near Friday, October 11th opening range low.
1673: the October 11th Low.

1663-1666: the over-under level, was previous support on October 3rd and the overnight high during the October 10th rally.

1645: the initial "stopping point", of the October 8th sell-off; overnight low

1638: September 6th low
1630: September 3rd low, start of the month, monthly.
1624: August 28th low

Thursday's Asian Market

Asian stocks rose broadly on Thursday.

Japanese shares extended gains for the seventh straight session on relief over the last minute U.S. debt deal.

The Nikkei average rose 0.8%, to trade at 14,587, its highest level since September 27.

The broader Topix index also gained 0.8%.

Exporters benefited from a weaker yen, which traded at a three-week low versus the dollar and euro early in the session.

Kansai Electric Power jumped 2.8 percent after the utility swung to a first-half consolidated net profit of 15 billion yen, beating its forecast of a 32 billion yen loss.

China's Shanghai Composite index dropped 0.2%, extending losses for a third consecutive session, as investors adopted a cautious stance ahead of a slew of reports on GDP, factory output, retail sales and fixed-asset investment set to be published on Friday.

Hong Kong's Hang Seng index dropped 0.3%.

Foreign direct investment flow into China increased at a faster pace in September, the latest figures from the Ministry of Commerce showed.

China attracted $8.84 billion of FDI in September, up 4.9 percent from a year earlier and faster than the 0.6 percent gain recorded in August.

During the first nine months of the year, FDI flows increased 6.2 percent year-over-year to $88.6 billion.

In a statement posted on its website, the People's Bank of China said it would continue its "prudent" monetary policy stance to maintain the banking system liquidity at reasonable and appropriate level.

Australian shares eked out modest gains, with banking and healthcare stocks pacing the gainers.

The benchmark S&P/ASX 200 finished 0.4% higher, to trade at 5,283.

The building materials supplier and Chicago-based USG Corp have signed a 50:50 strategic joint venture pact to create a world-leading building business named USG Boral Building Products. Newcrest Mining fell 0.6% despite beating its own forecasts on gold production and costs for the September quarter.

Woodside Petroleum retreated 1.4% after the oil & gas producer reported a 27 percent decline in its third-quarter sales.

Fortescue Metals Group tumbled 3% after reaffirming its full-year guidance.

According to data from a survey by the National Australia Bank, business confidence in Australia hit a two-year high in the third quarter, reflecting the political change associated with the federal election, showed.

South Korea's Kospi gained 0.3% as overseas investors extended their record-breaking buying spree for the 35th straight session. Foreigners remained net buyers, purchasing local shares worth 282.9 billion won on Thursday, breaking the previous record of 34 consecutive sessions set from January to March of 1998.

South Korea's producer prices eased 0.1 percent sequentially in September following the 0.3 percent increase in August, the Bank of Korea said.

New Zealand's benchmark NZX-50 rose 0.4%, tracking gains elsewhere across Asia after U.S. lawmakers produced an eleventh-hour deal to avert a disastrous default.

Exporter Fisher & Paykel Healthcare declined 1.1%, as the kiwi dollar held near a five-month high against the greenback.

According to a survey by ANZ, New Zealand consumer confidence increased in October after easing in September,

The consumer confidence index advanced to 122.3 from 119.3 in September. The level is consistent with perky spending trends, the survey report said.

The key benchmark indexes in Indonesia, Malaysia, Singapore and Taiwan were up between 0.3 percent and 0.5 percent, while India's Sensex was down 0.4 percent.

Singapore's non-oil domestic exports declined 1.2 percent in September from a year earlier due to continued weakness in electronics shipments, official data showed. Economists had forecast a 2.8 percent decline.

U.S. stocks maintained their gains in the overnight session.

In the previous session the NASDAQ rallied to a fresh thirteen-year high.

The US Senate reached an 11th-hour compromise deal to end the 16-day fiscal impasse.

The National Association of Home Builders reported an unexpected drop in homebuilder confidence in October.

The Dow and the S&P 500 rose about 1.4% each, while the NASDAQ added 1.2%.

Thursday European Market

European stocks sold-off from a five-year high on profit taking as investors digested mixed earnings reports.

The Euro Stoxx 50 index of Eurozone bluechip stocks is moving down 0.4 percent,

The Stoxx Europe 50 index, which includes some major U.K. companies, is up 0.1%.

France's CAC is down 0.3%, the German DAX is declining half a percent.

The U.K.'s FTSE 100 is edging down 0.1%.

Nestle is climbing over 3 percent. The Swiss food and drink giant said it expects to deliver nearly 5 percent growth for the full year, along with a rise in margins and underlying earnings per share in constant currencies amid an improvement in its capital efficiency.

According to monthly data from the European Central Bank, the euro zone's current account surplus increased to EUR 17.4 billion in August from EUR 15.5 billion in July, mainly due to a rise in trade surplus. The surplus on trade in goods increased to EUR 14.7 billion from EUR 11.1 billion.

Data from the Office for National Statistics showed that U.K. retail sales increased more than expected in September.

Retail sales volume, including automotive fuel, rose 0.6 percent in September from the previous month.

Friday's Market Briefing

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Thursday's Market Structure | Friday's Reference Points

Hello Traders,

US stock indexes traded higher on Wednesday's

The broad benchmark S&P 500 closed at 1733: (↑) up +11 points (0.67%).

The Dow 30 closed at 15,371: (↓) down -2 points (0.01%).

The NASDAQ 100 closed at 3863: (↑) up + 23points (0.62%).

Thursday's Market Development

On Wednesday's session S&P futures broke out above Tuesday's high (10-15-13) at 1708-1706 and auctioned up to 1716, on its path to retest the multiyear high at 1727.

During the Wednesday's Globex session, S&P futures sold down below Wednesday's close and pulled back to retest support at 1706.

Following a minor retracement to 1712, S&P futures pulled back at or near 1706 at Thursday's open.

During the pullback to 1706, the selling pressure decreased (sell programs waning). The computerized trading programs began executing buy-side orders.

S&P futures auctioned back the previous day's high, broke out above 1716 and auctioned up to 1724.

Following a minor pause in the buy side execution, S&P futures pulled back to 1721. Trade activity, as measured by the rate of trade per second diminished. The auction "paused".

However, coming into the close the computerized programs again initiated buy-side trade and the S&P auctioned up to retest the multiyear high at 1727.

The rally extended modestly, a 1729 at or near the approximate location where stop loss orders typically are located above prior resistance.

S&P futures closed the session at the multiyear high; the ending Thursday's session at a new historic close.

Thursday's Trade Opportunities

The Follow the Bots computational model classifies today's sessions in accordance with the price structure.

The most common pattern of market development includes some form of consolidation, where in the market auctions between a high and the low, spending the majority of its time in the midpoint of the distribution.

On occasion, a market will trade in a single direction throughout the session. This type of price structure is classified as a trend day.

Today was such a session.

The ideal trade opportunity on a trend day is to get in early and stay with the trend until it reaches a termination point.

1.) As noted in this morning's daily briefing long opportunity occurred when the S&P pulled back to retest overnight low at 1708-1706.

Astute market observers will recognize that 1708-1706 was Tuesday's high, which the S&P auctioned above during Wednesday session.

The minimum expectation on the long opportunity at today's open was that the S&P would auction up to the next resistance level at 1720 (09-20-13) and potentially retest the multiyear high at 1727.

2.) The buying interest that was observed at Thursday's open continued to two dominate the order flow as the S&P auctioned up to and above Wednesday's high at 1716.

3.) During the buy-side "run", both the micro digital filters and the longer term Kalman filter continued to advance exponentially.

While the computerized buy programs laws periodically, no significant sell side execution accompanied the pause.

There were very few instances in which the micro five tick range samples overlap and no instance in which the digital filters turned lower until S&P futures auctioned up to 1724.

4.) The one opportunity to consider selling the rally (counter trend trade) occurred when the S&P auctioned up to 1724.

The order flow events indicated that the computerized trading bot's had ceased executing to the buy side.

S&P futures modestly pulled back from the high, the digital filters turned down and price pulled back to 1721.

Despite the presence of computerized selling (HFT sell surge)

there was no significant pullback.

Instead, the price action went "flat". The rate of trade decreased. The volume of trade diminished. The end for approximately 2 hours S&P futures traded in a two point range.

5.) Following the "pause" in the trade activity, the slope of the digital filters which are calibrated to calculate the up-tick (trade at the offer) and down-tick (trade at the bid) ratio turned up.

The slope of the Kalman filter continued to ascend.

As price auctioned back the prior high (1724), initiated buying (HFT buy surge) was evidenced in the order flow.

S&P futures traded above 1724 and auctioned up to its previous multiyear high (1727) and made a higher high, ending the session at 1728.

The Current Referecne Points

Key support and resistance levels for the developing trading range from September 3rd through October 17th.

Resistance

1727: September 19th, Current Multiyear High, is current a "stopping point". The likelihood is the rally will continue higher.

The minimum range extension target, based on the starting point of the buy-side "run" at 1707 is 1638.

The maximum likelihood expectation target is 1745-1750.

Support

1720: minor support

1709-1706: the minor pull-back level during Wednesday's session and Tuesday's high (fractal highs).

1701: Wednesday's opening range low

1692: Wednesday's overnight low

1690: Tuesday, October 14th Low

1684: the October 14th opening range low.

1680: the Sunday, October 13th low, at or near Friday, October 11th opening range low.

1673: the October 11th Low.

1663-1666: the over-under level, was previous support on October 3rd and the overnight high during the October 10th rally.

1645: the initial "stopping point", of the October 8th sell-off; overnight low

1638: September 6th low

1630: September 3rd low, start of the month, monthly.

1624: August 28th low

Market Fundamentals

American consumers are likely to breathe easier now that lawmakers have averted a U.S. default and end a government shutdown.

Coming into the holiday shopping season, Consumer Confidence is expected to rebound, boding well for the spending that accounts for 70 percent of gross domestic product.

Earnings

Google reported sales that topped estimates during the third quarter as the number of promotions sold via mobile, video and other services made up for shrinking advertising prices.

More fines in store for the Banksters, as a group of Singapore investors who lost money on $154.7 million in credit-linked notes pursue a law suit against Morgan Stanley.

Friday's Asian Market

Asian stocks rallied broadly on Friday.
The regional benchmark indexes traded up to five-month high, after data showed China's economic growth accelerated for the first time in three quarters.
China, the world's second-largest economy, is on track to achieve the government's growth target of 7.5 percent this year.
With the economy pulling out of a jittery period of slower growth, investors expect a push toward long-term reforms.
Government data showed that China's gross domestic product expanded 7.8 percent year-over-year in the third quarter of 2013, snapping two quarters of slowing growth.
According to data released by the statistical office, industrial output rose 10.2 percent in September, matching forecasts, while retail sales and fixed asset investment both decelerated slightly to grow an annual 13.3 percent and 20.2 percent, respectively.
China's Shanghai Composite index closed 0.2% higher, to trade at 2,194.
The Hong Kong's Hang Seng index added 1.1% to finish at 23,340.
Japanese shares eased slightly, snapping a seven-session winning streak, as investors took some profits off the table due to a strong yen.
The Nikkei average was down 25 points or 0.2%, to trade at 14,562.
The broader Topix ended little changed with a negative bias.
Exporters came under selling pressure as the dollar fell to 97.92 yen, well below the mid-98 yen range seen in Tokyo the previous day.
Sharp Corp added 1.0%, after the electronics maker said it would begin manufacturing IGZO LCD panels for smartphones at its Kameyama Plant No. 2 within this year.
Standard & Poor's has affirmed its sovereign credit ratings on Japan, citing the economy's strong external position and improved political stability. The nation's long- and short-term unsolicited sovereign credit ratings were affirmed at 'AA-' and 'A-1+', respectively. The outlook on the long-term rating remains 'negative.'
Australian shares rose notably on increased optimism about growth in China, Australia's biggest trading partner and the key export destination for its mining rich industry.
The benchmark S&P/ASX 200 rose 0.7% to 5,321, its highest closing level since June 2008.
Gold miner Newcrest soared 5.3% after gold futures settled more than $40 an ounce higher ounce on Thursday.
Qantas Airways declined 3.4% after the national carrier flagged a decline in yields for passenger flights in the coming months due to soft underlying demand and competitive pressures.
South Korea's Kospi average closed 0.6 percent higher at 2,052, its highest level since August 3. 2011.
Shares of Hyundai Motor, the nation's largest automaker, ended down 3%, on profit taking.
Overseas investors purchased shares worth a net 308.2 billion won on Friday, extending their buying streak for a 36th consecutive session, official data showed.
New Zealand shares posted modest losses as investors freed up some cash to participate in a private equity sale of shares in Summerset Group and in the Meridian retail offer.
The benchmark NZX dropped 0.4 percent to 4,759.
Sky City Entertainment Group led the decliners on the exchange, falling 3.7% to $3.94 after the casino operator said its revenue before one-time items dropped 2.8% so far this financial year.
Xero shares soared over 7%, extending recent gains after completing a capital rising.
India's Sensex was rallying 2%, tracking a firmer rupee, which rose to 60.92 per in early in the session amid speculation that short-term fiscal uncertainties in Washington would delay a stimulus tapering.
Investors are now looking to the release of the crucial nonfarm payrolls report to be released on Tuesday and next Fed policy meeting scheduled for Oct. 29-30 for clues to when the U.S. central bank would begin reducing its $85 billion-a-month bond purchase program.
Indonesia's Jakarta Composite index was moving up 0.3%, Singapore's Straits Times was gaining 0.2%.
Malaysian shares were marginally higher and the Taiwan Weighted average rose 0.8%.
U.S. stocks indexes traded modestly higher overnight, as investors digested mixed earnings reports and data on jobless claims and manufacturing activity in the Philadelphia region.
The Dow ended the day just below the unchanged line, while the tech-heavy Nasdaq and the S&P 500 rose 0.6% and 0.7%, respectively.

Continue from page one.... Tape Reading Lesson of the Week

to take advantage of any, and every, discrepancy in the market.

8.Market inefficiencies are the bread and butter of short-term algorithmic trading shops. They 'know' where the stops are and can fire off algorithmic trading runs with sufficient force to trigger a bucket of stops. They enter enormous amounts of orders and then immediately cancel them (spoofing) just to trick you.

9.Today's traders can, and do, profit by understanding where the Trading Bots lurk and pounce.

10.Increases in Price momentum, either up or down, will fade if price moves are not backed by substantive, and ongoing High-Frequency Trading Bot activity.

DAILY MARKET RECAPS

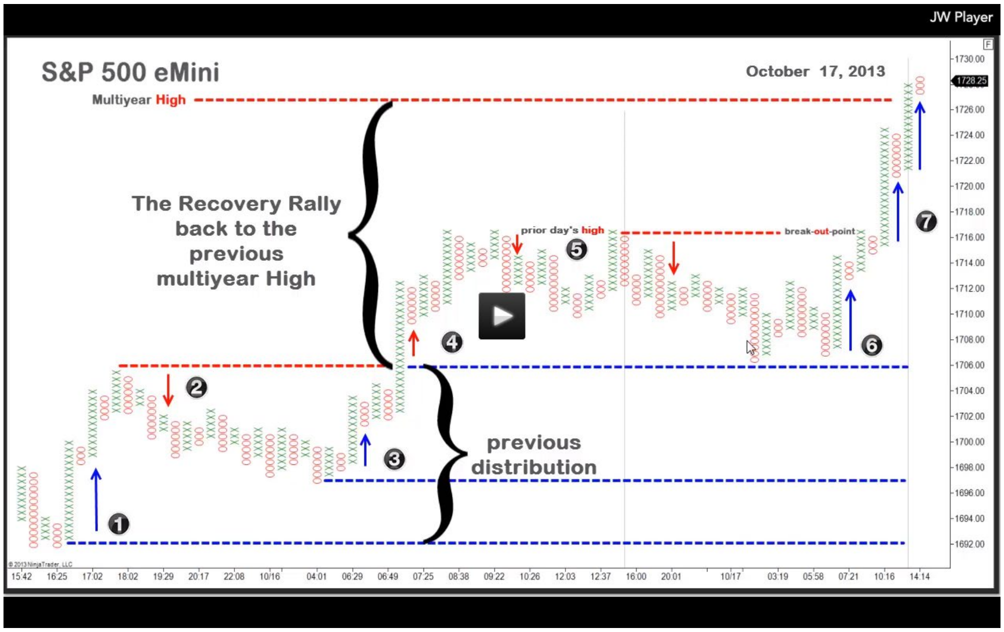
Sunday's Market Recap

Monday's Market Recap

Tuesday's Market Recap

Wednesday's Market Recap

Sunday's Market Recap



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