2010 Market Bottom: Undercut, Go and Retrace

by Erik Grywalski

Tweet

Note: The following article is meant to **help you learn from the market** and **does not serve as investment advice** for any specific group or individual. For more information, **please read** the **HSR Terms of Use**.

In this article, I'm going to show you how I was able to anticipate the **August 2010 Market Bottom** weeks before the actual event.

Please let me explain why I'm doing this review.

I'm doing this to show you the value in understanding common characteristics and behaviors of price.

Armed with this knowledge, you may stay on the right side of the market in future cycles.

This is definitely not about me.

Historicalstockresearch.com is about learning from the market so that you can be on your way to becoming a better stock investor.

Once you understand **how price typically behaves**, your chart reading skills will reach a new level.

Below, is my weekly recap (in blue) from Monday, July 10, 2010.

In it, I outline various scenarios for the S&P 500 based on common behaviors of price.

Weekly Recap: Back Inside 1,040

The markets bounced last week after two straight weeks of heavy losses. The S&P 500 is now back inside the widely watched 1,040 level. As a general rule, markets typically move to fool the majority. With all of the recent talk of the ominous head and shoulders topping pattern, it's no surprise that the market would accommodate the masses before pulling the rug out and rallying back inside 1,040. The failed breakdown may be a pause before moving lower or it may lead to a recover/basing phase that would set the market up to challenge its April highs at some point in the future.

After a market breaks a key support level, it will usually do one of the following (listed from most bearish to most bullish):

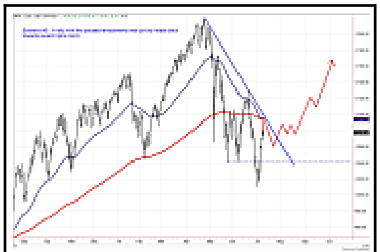
1. Continue to move in the direction of the break.
2. Retrace back to the previous support level (1,040) and fail.
3. Get back inside the previous support level and rally followed by a failure/move to new lows.
4. Get back inside the previous support level, rally and retrace back down to the breakdown level before consolidating to move higher at some point.
5. Get back inside the previous support level and rally towards the highs despite everyone's disbelief.

At this point, we can rule out #s 1 and 2, which is a good thing for the bulls. There is no way of knowing which of the three remaining scenarios will play out. The most bullish scenario seems unlikely due to all of the recent technical damage on the charts, but the market will be the final arbiter. Time will only tell, but it's a good idea to anticipate (not predict) and prepare for a resolution using one of the three potential scenarios.

Historical Chart Examples 1A-1C: S&P 500 Price Scenarios July 10, 2010


Click to enlarge 1A


Click to enlarge 1B


Click to enlarge 1C

Now that you've had a chance to review my weekly recap from July 10, 2010, let's take a quick look back at how the S&P 500 actually bottomed.

Here's a chart of the 2010 Bottom, which occurred on August 27th:


Click to enlarge

Did you notice how the actual bottom was similar to chart 1B (middle chart) posted above?

On August 25, 2010, price came back down to test 1,040 before reversing to the upside.

What did I do on the move back down to a former breakdown level?

Not much.

I was out of town and away from my computer just as the market was about to get going on the upside.

I should've been looking at the market and focused, but I wasn't and I admit it.

Markets tend to make major moves when you least expect it.

Late August 2010 was no different.

It wasn't until September 12, 2010 that I had all of the signals straightforward and was favoring an uptrend.

Without question, this was a late-call, but the right one (directionally) nonetheless.