



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



What a strange day! Bulls did manage to defend the 875 critical level - the daily charts and even intraday charts as I highlighted in Friday's report were pointing to this as a strong possibility, particularly given the overwhelming bias to the downside in terms of sentiment.

We opened the morning with a small overnight gap which was quickly filled (first trade of the day) and then we dipped to new lows to test the 875 level quickly once again. It never manages to surprise me how - when a technical level is established - price will gravitate and bounce off that level like a magnet. In this case, we could be kissing that level goodbye for the short-term as bulls stage a comeback off this critically important support level (more details in the Weekly Intermarket Report).

Very aggressive traders aware of the bigger picture, willing to put in a close stop and play for a massive target, could have entered at the morning's strong doji at 10:00am. There wasn't much internal structure hinting at a reversal here with the exception of the knowledge of the daily structure and the importance of that level (in other words, there was no way to know - using just the intraday charts - that price was more likely to bounce from 875 than continue through it).

Price did test the intraday highs at \$88.60 and then we got a new volume high (which is VERY significant at that time of the day - volume shows a 'smile' where it runs highest at the open and close and forms an arc. We need to pay close attention to new volume highs that happen after 10:00 or 11:00am - they almost always lead to continuation moves of the price swing underway... or can be the birth of reversal trend days).

Along with the new volume high, we got a New Momentum and New Price high. This set up the "Buy the First Pullback" concept which wasn't much of a pullback (there was a quick doji just after it but we did not retrace to a key moving average). The expectation at least was for "Higher Prices Yet to Come." As price formed an even stronger candle (price impulse) at 11:45 with ANOTHER New TICK, Volume (very significant), and Momentum High, odds should have switched to anticipate an unexpected "Trend Day UP" from that point - which is exactly what we got.

Once again, we used the "Buy the First Pullback" after a New TICK, Volume, and/or Momentum High and that led to perhaps the best trade of the day (in terms of confirmation of structure). Two nice dojis formed just above the 20 period EMA and as price again broke to new highs at 1:00 (there's often a daily "1:00pm breakout trade" to play), it signaled once again that higher prices were yet to come.

The only caveat with a confirmed Trend Day expectation is that we need to turn off the 3/10 or other momentum oscillators (or any oscillator for that matter) as they will give false signals as price inches its way higher (the 3/10 will give false divergence signals while the RSI or Stochastic will give false overbought sell signals).

What's strange to me is that the TICK formed a massive divergence which isn't usual - normally the TICK (as a market internal) will confirm new price highs, particularly on a Trend Day. I wouldn't put too much stock in today's anomaly with the TICK, as I would interpret it as the Exception to the Rule as opposed to the expected structure.

During a Trend Day (the structure became clear just after noon), the play is always the same - Buy ANY pullback to the rising 20 EMA and trail a stop just beneath the 50 EMA (though you should monitor price along the way for confirmation/non-confirmation). With the non-confirmation coming from the TICK, you might have found it wiser to trail your stop just beneath the 20 EMA to be more conservative, but either way, all scalps and position trades would have been profitable after 1:00pm.

SPY - 5 min S&P Dep Receipts ARCX 07/13/09



Here we see a focus on the strange Negative TICK Divergence that formed on each new price high after noon.

It's a non-confirmation and was a sign that the market internals were not confirming the price action... but as is the case with Trend Days, they can go higher and 'creep' or 'ooze' longer and further than we think they can. That's why it often pays to play aggressively IN the direction of the Trend as opposed to finding spots to get short - any short would have been stopped out. Main Takeaway: **Go with the Trend** (you've heard it 100 times but I bet most of you were trying to find short entries as the day wound down).



A 1-min focus on the intraday action.

A basic Trend Day Structure 101 Lesson: NEVER short until the series of higher price highs and higher price lows is broken. Doing so not only is anti-edge, but against the odds and much more difficult than buying any and all pullbacks on a Trend Day (once you are sure a trend day has formed).

Where does that leave us?



875 is still the critical line in the sand and bulls took their best shot at it, holding it today.

The next level of resistance is from the possible convergence of the 20 and 50 day EMA (902 and 898 respectively). We closed just shy of that level today. One would expect sellers to try to thwart this advance today, particularly since it was brought up into target EMA resistance. I would suggest watching 902 very closely for potential resistance tomorrow as we could see a down-move... but Goldman Sachs reports (supposedly massive) quarterly profits tomorrow morning so if GS is strong on that news, the whole market will rally and slice through overhead resistance easily. Bears have the edge beneath 902; Bulls have the edge above it tomorrow. Watch the morning gap - if it is larger than 0.80%, then we could see yet another trend day (which would be VERY rare) and of course if there's any weakness on tomorrow's open, bears are likely to seize it lower. It depends on how the market reacts to Goldman's earnings for clues to tomorrow's trading.