



## Daily "Idealized Trades" Report

### SPY (SPY 500 ETF) 5-min



With today being a semi-holiday in the market, we'll get less insights from deeply studying day structure and trading opportunities (it was not a normal day) so we'll move quickly through the summary portion and then focus more on the 'prediction' section today.

First, we had an overall upwards/bullish bias as I stated in Friday's report which played out with the morning gap that pushed the Dow Jones Index and the SPY ETF to fresh new 2009 highs - a major news story.

Price gapped up over 50 cents in the SPY (5 @ES points) and then began to rally sharply off the open, eliminating the possibility of a gap fade trade for the morning session. Thus, one could have expected a "Trend Day" up, however one had to pay attention to the overhead resistance level at the \$108.03 (S&P 500 value of 1,080) both as a target to play for (scalp on the morning session) and resistance zone to watch (take profits and see what happens).

In the event the fresh new 2009 high would have broken out with increased volume and momentum, one would have employed the "Popped Stops" trade/scalp wherein you get aggressively long in the momentum that comes from new price highs being made above old resistance levels - that did not trigger today.

At the absolute price highs, a reversal doji candle formed on a negative momentum and TICK divergence which was a sign of weakness. One could have taken a quick scalp short after the doji formed to play for a quick retracement off of overhead resistance, though price fell only three bars before forming another doji 'in mid air' and then rallying up, this time not to exceed the \$108.00 level by far. More dojis formed and price then began another descent to the 20 period EMA.

Remember that pullbacks in an uptrend to the 20 EMA, particularly when dojis form, and especially when reversal candles form at or outside the lower Bollinger Band, are buying opportunities - if only for a small scalp trade.

A range developed min-day, and the quick "scalps" (candles at the extremes of the Bollinger Bands on the 5-min chart) formed which are shown on the TradeStation 5-min chart below. Close stops are employed on each trade and a target for each is to exit when the opposing Bollinger Band is hit. For most traders, this was too narrow a range to have made any large profits.

Remember that according to the "Expansion/Contraction" price principle, markets alternate between states of range contraction and expansion... thus the mid-day range had odds of breaking out into a momentum move either upwards, shattering overhead resistance which would call for a long (buy) trade (with a stop under \$107.80) or downwards playing for a maximum target of yesterday's close with a stop above \$108.05. The downward break hypothesis would be consistent with a type of "Rounded Reversal" day... which is exactly what happened.

Take any stop-loss if you were long and then flip and reverse short (or enter short fresh) as soon as price broke beneath the \$107.80 support level AND the rising 50 EMA. Play for a larger target (than a scalp) with a stop above the consolidation zone at \$108.00.

Price fell pennies shy of 'filling the gap' (which acts as support) and then a doji and long lower shadow candles formed outside the lower Bollinger Band on a slight positive TICK and Momentum divergence on the 1-min chart. This served as an exit for your short-sale and a quick "flip long" to play for a retest upwards to the falling 20 EMA at the \$107.60 area. A stop loss would have been placed under Friday's close and the 200 SMA at \$107.20. The trade worked almost perfectly, for a profitable exit as expected.

With the new TICK and Momentum low on the session, in addition to the 45 degree angle movement that resembled a "Bear Flag," you should have taken a short-sale trade either as price touched the 20 EMA with the dojis just after 3:00,

or as the "shooting star" formed as price tested the underside of the 50 period EMA at the \$107.70 area. This is another example of why you can't place a stop exactly at a moving average - price nipped just above the 50 EMA before heading lower in a powerful down-bar.

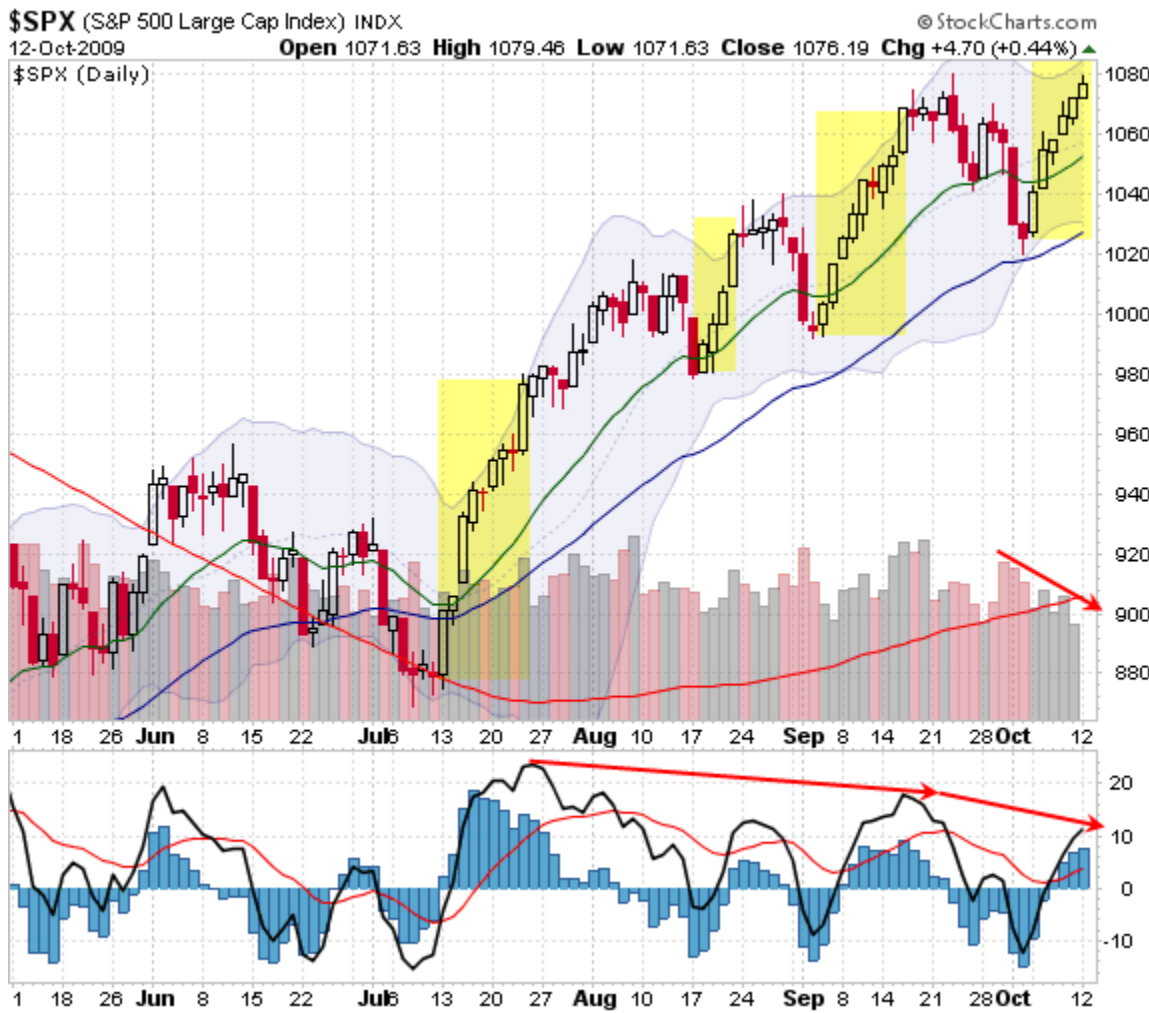
I assume that this trade would have continued to play out to the downside had the market not "run out of time" and the "closing games" kicked in - in terms of portfolio/fund rebalancing which creates 'random' movements (program trading) into the close. Many traders will refuse to take a signal with less than 30 minutes remaining in the trading day for this reason - portfolio rebalancing and program trading are inherently random, and often occur within the last 30 minutes of the trading day.



The arrows reflect trade set-ups and opportunities, first from the "rangebound" conditions and then from the price expansion moves including the failed bear flag into the close.



The 1-min chart zooms us in on price detail, showing divergences in both TICK and momentum, as well as the Daily Pivot lines... the most important of which was the R2 Pivot at \$107.86... which did an excellent job of serving as support throughout the majority of the day.



For the past week, I've been sharing that the price target - despite all the technical/chart evidence to the contrary - was for price to re-test the \$108.00 (1,080) levels which I saw as almost an inevitability given that price has "busted" three prior sell-signals in almost identical fashion. This has now happened - the highs have been tested.

What now? The same. I can and will show you many reasons that price "should" begin pulling back from here - and perhaps it might. However, there is an underlying pressure to the upside that is almost making a mockery of the sell signals and classic technical (and quantitative) analysis at the moment. Whatever this force is (short covering, foreign government purchasing of US Stocks, Treasury/Fed manipulation, hedge fund activity... unknown) , the force is dominant and in control of the supply/demand equation.

Remember, supply and demand rule the market/prices... not indicators, quantitative or fundamental analysis formulas. If buying pressure is higher than selling pressure, the market will rise.

Realize that as I walk you through this discussion of the "classic" analysis in the marketplace which is overwhelmingly flashing a sell signal... perhaps one of the strongest sell signals of the year. However, the prior "strong" sell signals - including a valid and triggered head and shoulders pattern in July - have failed, which perversely thrust prices higher in short-covering (short-squeeze) rallies.

Use extreme caution both on the long side at these overextended levels... but also on the short side.



As seen on both the S&P 500 and the SPY daily chart, a glaring negative volume and momentum divergence have formed on the recent price highs. Beyond that, a doji formed today at the top of the daily Bollinger Band.

Aggressive traders can put on a swing-trade position short here to play for a return to \$105 at a minimum or perhaps even down to \$102. A stop loss would be placed at a minimum of \$108.50 or \$109.00.

This is a clear sell signal that virtually everyone is seeing which almost leaps off the chart.

However, the last two times this same sell signal flashed - as highlighted above... the early September doji failed the next day while the mid-September doji produced a small down-move before a new high was hit (Fed Day) and then a swing down to \$102 occurred... prior to the current rally.

Under normal circumstances, this would be an "obvious" short-sale trade. However, I wouldn't be doing my job if I did not warn you not to be surprised if this short-sale trade fails as well.



Beyond what I mentioned on the daily chart, we see a "Three Push" bearish reversal pattern forming on the 30min timeframe, complete with one of the most glaring negative momentum divergences I remember seeing on a major ETF. Remember today is a 'holiday,' so take that into account when noting today's volume.

However, the Three Push "triple swing" negative momentum divergence IS valid and IS a valid and strong technical (chart) sell signal under normal circumstances.

Despite these divergences, the trend structure and EMA structure is still up, so unless price starts breaking solidly beneath the 30 and 60 minute 20 period EMAs, odds will continue to favor the upside. Because the technical evidence is so weighted to the downside (bias) and people are taking short-sale trades right here, ANY new price high will trigger an avalanche of "Stop Pops" which will perversely push the market even higher... but you should take advantage of that intraday instead of being frustrated by it. Remember - you're not here to be a great analyst and predict with great accuracy tomorrow's move - you're here to make money and I've found that "IF/THEN" statements and open-minded logic are the best way to do that, particularly when something SHOULD work and it doesn't... it often leads to quick profit by taking advantage of those who were wrong, frustrated, and are being stopped out (and it works both ways).