

With today's powerful Type III trend day that was ripe with opportunities, let's take a look at the four simple trade set-ups that occurred today and learn lessons from these the next time this structure develops.

First, let me note that the bias, as mentioned in the 6:00pm EST update last night in the report, was to the upside and the suggestion was to play for the "Popped Stops" at the new highs - this bias played itself out both in the Trend Day up and into the final push higher into the close just after 3:00 EST.

The day opened with a large upside gap - as mentioned last night in part thanks to Intel's earnings - which resulted from positive earnings not only from Intel but from JP Morgan. Remember that any gap greater than 95 cents in the S&P (9 @ES points) is a frequent precursor of Type 3 Trend Days. This bias was evident from the opening gap.

The gap was roughly \$1.30 in the SPY. The first move off the open was actually a down-move that unfurled in an "ABC" (three swing) fashion as labeled. You should NOT have attempted or expected this gap to fill completely - doing so was squarely against the odds.

The tactic is to wait to BUY after a large impulse or momentum move on the first retracement/reaction, preferably into support from a Fibonacci line or the 20 period EMA. Price retraced just shy of the 20 EMA and into the 38.2% Fibonacci retracement of the gap (at \$108.27). This was your optimum buy point with a stop-loss beneath the 20 EMA or slightly beneath "round number" support at \$108.00. The minimum target was a retest of the prior high at \$108.80, which formed almost immediately in an almost unrelenting fashion (another clue that a trend day bias is favored).

Price then stalled at the \$108.80 intraday highs and then formed four doji candles in a row at the convergence of the 20 period EMA (a buy signal by itself) and the lower Bollinger Band. I deem this to be the "best trade" of the day (second only to the "Popped Stops" after 3:00pm).

Remember, "best trade" may be deemed because of the tight stop relative to the gain, or the probability of a successful outcome (or both). In this case, the stop was under \$108.60 with an entry at the \$108.70 level and a target of a new swing high. Five upward candles emerged quickly which did take price to new intraday highs into the \$109.00 resistance level (which was above the upper Bollinger Band and served as "round number" resistance). This would have been a nice place to exit your trade and wait to buy-back on the next pullback to the 20 EMA.

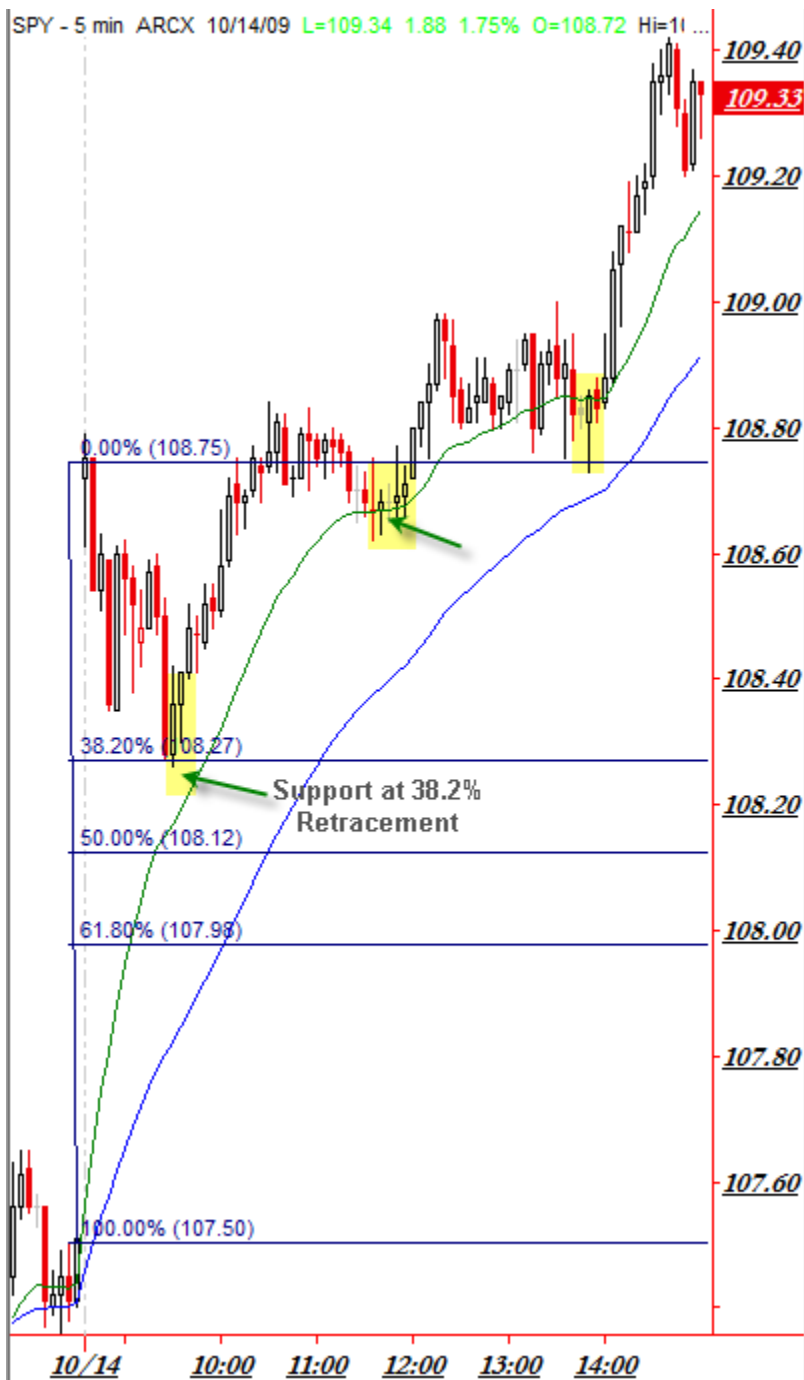
It is best NOT to short the market to play for retracements back to the 20 EMA on Trend Days - stand aside during retracements and wait to re-buy on support. Odds favor higher prices, and pullbacks generate fresh (better) buy signals.

Price consolidated as the Dow Jones flirted with the 10,000 level... knowing that a break above this level would result in the "Popped Stops" phenomena I enjoy showing you.

There were trade entries (pullbacks) as highlighted, particularly with the hammer candle that poked outside the lower Bollinger Band (just above the 50 EMA) at the \$108.80 level just prior to 3:00pm. Once we had a strong bullish candle just after 3:00pm, all bets were off and the market began to slice through the "Pocket of Stops" (from short-sellers) above "Dow 10,000" and SPY \$109.00.

You should have entered long at these highs and scalped long a portion of this move to the upside to take advantage of the short-sellers on the higher timeframes who were being stopped out.

That is a major benefit of intraday trading tactics - you can expect the market to fall just like everyone else, but if you are stopped out or see the market slice into a level of "logical" stop-losses (pocket), then you can flip and reverse and take advantage of the buying pressure the short-sellers are generating. The logic works the opposite way as well.



This 5-min chart specifically shows the trade set-up off the morning "abc" retracement.

After a gap, we observed a three-wave corrective move (abc) into the confluence level of the 38.2% Fibonacci retracement price of the gap itself, which also formed just above (near) the rising 20 period EMA.

This is a good example of how I like to teach the "confluence across non-correlated trading strategies" set-ups.

We've combined the momentum principle ("Momentum Precedes Price" such that a new momentum high should lead to a new price high yet to come... buy the first pullback), Elliott Wave (three-wave correction), Fibonacci (38.2% Retracement) and the 20 period EMA. Don't try to overcomplicate your analysis but pay attention to areas where these concepts blend together.

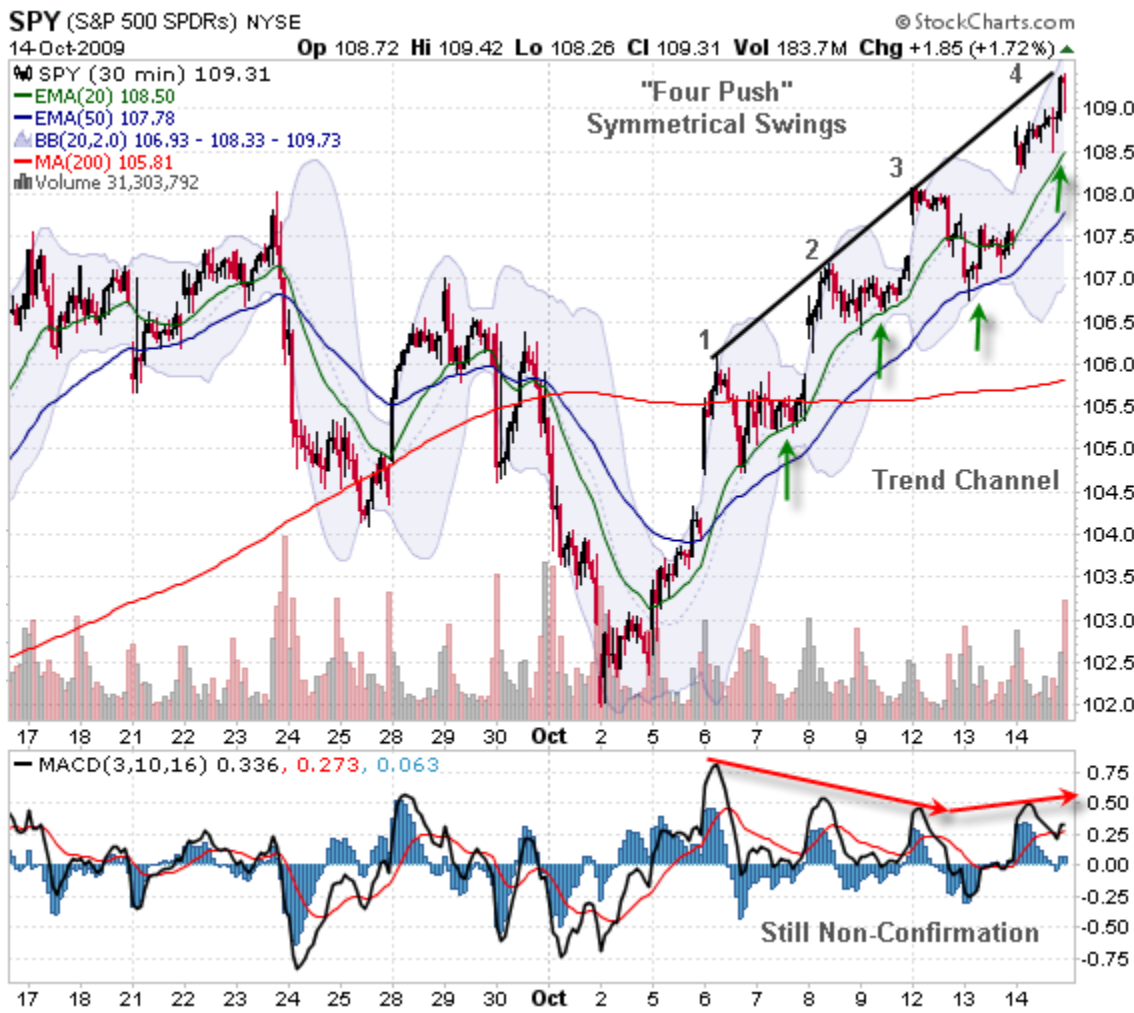


Watch the TICK for signs of confirmation via higher TICK highs along with higher Price Highs. I am also showing the "Popped Stops" trade.



The 1-min chart helped to see internal divergences in momentum and TICK on key swings, which help our analysis and decisions on the 5-min (or higher) frame.

At the end of the day on the upward breakout, the new price high above \$109.00 was accompanied by new TICK and Momentum highs, signaling not only a confirmation of the Trend Day, but the expectation for higher price highs yet to come.



As I've been mentioning in the last few updates - all the technical evidence is pointing to the downside but I've been warning you to take the technical evidence with a grain of salt... if not ignore it temporarily... because bulls/buyers have been solidly in control and they remain so.

As such, and as I keep reminding you, no amount of technical, fundamental, or quantitative evidence/analysis is going to turn the market lower. Analysis and indicators do NOT turn markets up or down. The aggregate supply and demand equation does - buyers and sellers in all their forms.

As such, lay everything aside and realize that price will continue higher beyond all expectations until this buying force (as I keep calling it here) plays out or stops buying. Your options are to stand aside or - preferably - scalp long intraday thanks to this bias/force/buying pressure, particularly in regards to retracement trades and "stop pop" trades.

The analysis and my commentary as such remains the same. Despite all you might be seeing, a strong and intensely powerful bullish bias remains which will continue until the force is finished and there is no way to know when that force will cease buying... so either stand aside, refrain from shorting, or join long and scalp with the force which continues to push prices higher... in part by short-sellers on higher timeframes buying to cover (stopping out).

As an intraday trader, you can take advantage of this reality whereas swing traders are having great difficulty.



Same as the 30-min frame, only with more data.

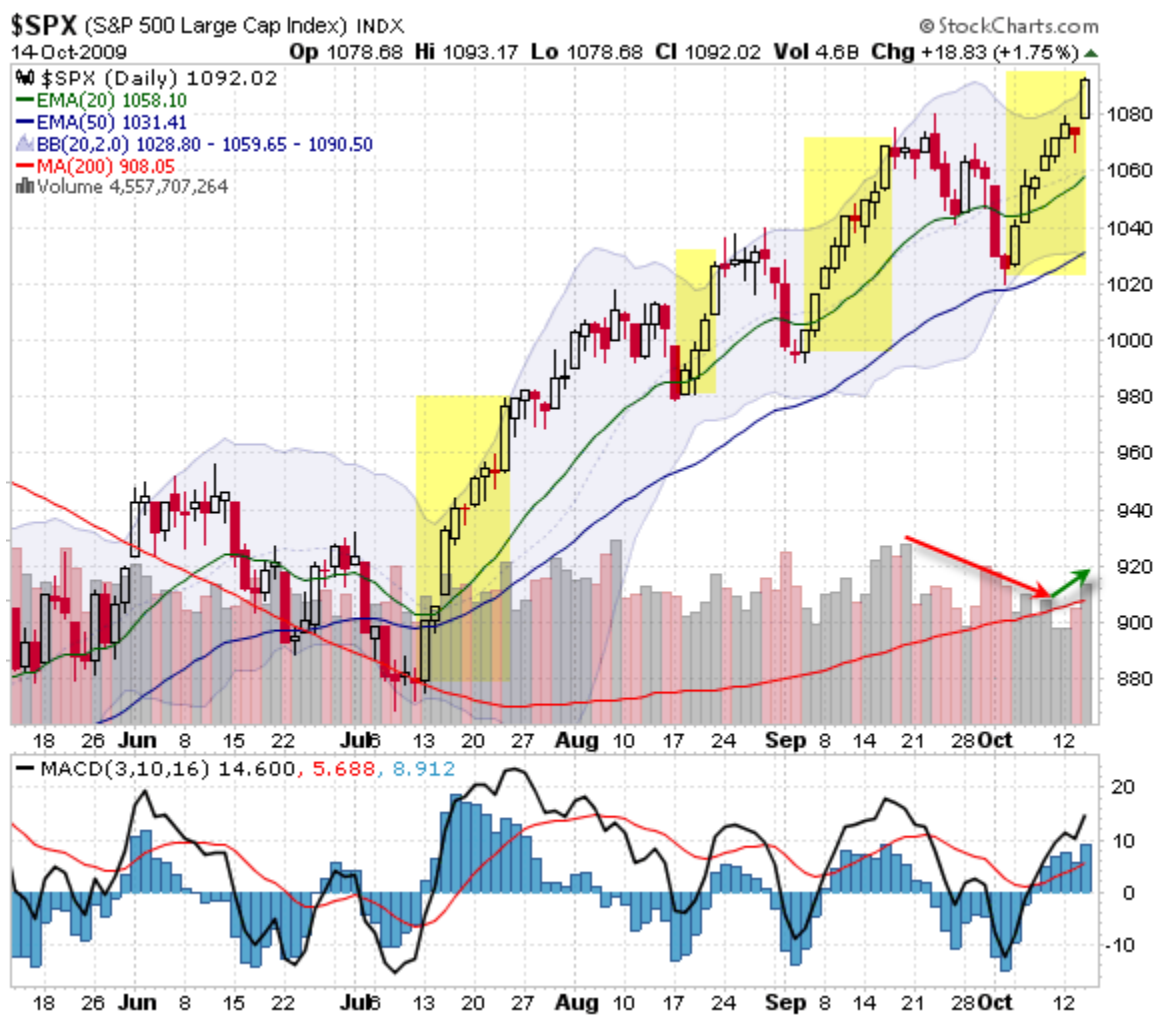
It is almost as if the buyers/buying pressure (including shorts covering) are making a mockery of the sellers/selling pressure.

Remember the teachings of Mark Douglas in *Trading in the Zone*:

"You don't have to know what's about to happen next in the market to make money."

To me, I interpret that as "Do your homework, do your analysis, form an opinion and a strategy, try to implement the strategy in the next trading day, however if the market does the complete opposite of what you thought would happen, flip your bias and trade in the unexpected direction to take advantage of all the people who came to the same conclusion as you did and are now confused and stopping out in frustration."

It can also mean to lean when to follow and when to ignore your signals and classic analysis without frustration.



Highlighted zones reflect "Popped Stops" or places where the buyers vanquished valid short-sell signals (on the daily frame).

Stick to your intraday timeframes and shorter term or even 'scalping' (playing for small pieces of price swings) until proven otherwise with breakdowns of moving averages on the 30 and 60 minute frame.