Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today was a fun holiday trading environment in the morning, and then more difficult/less fun in the afternoon.

I'm taking a suggestion from a subscriber and will start labeling trades for clarity and quicker reference. I'll also try to make the reports shorter - but the purpose is to teach these concepts when they appear, and each day offers plenty of lessons for me to describe so it's difficult to balance the need for brevity and explanations of logic - many subscribers enjoy me taking the time to explain the logic behind some of the set-ups as well.

1. "Popped Stops"

I mentioned specifically that you should be long-biased above $110 given that any new high would trigger the "Popped Stops" phenomenon and Trade. Reference back to prior reports in the archive that detail this strategy and why it's very useful at new highs like this.

The market opened with a 60 cent gap which was at the upper cusp of the expected "Gap Fade" scenarios, and it wasn't wrong of you to take the early "gap fade" trade, particularly given that price made a move lower on the 4th candle. I chose personally to pass on this trade (odds of a gap fill decline as the gap increases) because I was expecting upward prices and waiting to play the potential "popped stops" trade. If you took the morning gap fade - again - no problem doing that - but you should have flipped immediately long on your stop-loss and played the "popped stops" trade as price not only formed a strong engulfing bullish bar, but took out the morning highs near $110.40.

Short-sellers who were betting on the market topping yesterday or a few days before located their stops above the 1,100 level and above the prior price highs - and the weaker shorts (with conservative/tight stops) are going to be the first to "suffer" as they have to buy-back stock to exit their position - driving the market (perversely for them) higher and creating a positive feedback loop of more buying triggers more stop-losses located at slightly higher levels which triggers more stop-losses and - people like you who are playing the "Popped Stops" buy-in trade - to buy to take advantage of this which creates more stop-losses to be taken out which ... feedback loop. Intraday traders like you can profit from that development.

2. DUAL-DIVERGENCE, UPER BOLLINGER, BEARISH ENGULFING

Positive Feedback environments cannot last forever - eventually, people stop buying or those who are short with tight stops all get their positions wiped out, leaving no one left to buy... or leaving the market vulnerable to profit taking and a pullback. There's few better sell-signals than a negative TICK divergence (along with a negative momentum divergence) at the upper Bollinger Band with a bearish Engulfing Candle forming (5-min).

Take this trade short with a stop above $110.90/$111.00 and play for a conservative target of $110.20 - the 20 period EMA or a more aggressive target of $110.00 - round number support and the 50 period EMA. Price tried to form a rally upwards off this level (note the hammer candlesticks) but price immediately failed and formed a final engulfing candle that took price to the lower Bollinger Band, creating a new (intraday) price, TICK, and Momentum Low. Odds favor that a lower price low is yet to come, so we want to short the first rally.

3. IMPULSE SELL

This trade was classic - in that we had a 3-wave "abc" pullback to the 20 period EMA and formed a nice doji sell signal after a long upper shadow/wick pierced the 20 EMA - aggressive traders will short as close to the EMA as possible, while conservative traders will short when the low of the doji was broken.

The target would be a retest of the $109.70 level, or more aggressively, yesterday's close at $109.60 - both of which were achieved quickly.

4. LONG DOJI, POSITIVE DIVERGENCES, LOWER BOLLINGER

This was a more aggressive trade, so don't be upset if you passed on this signal. A long lower shadow candle formed near the confluence of yesterday's close and the lower Bollinger Band. We also observed a positive TICK (very

important) and momentum divergence at the lows - adding confidence in the trade and the possibility that we were watching the intraday low form (just as the intraday high had formed on a negative divergence).

The initial target was a play back to the $110 level which was the confluence of the 20 and 50 EMA, though price actually retraced all the way back to the upper Bollinger Band, forming a new swing high (along with TICK and momentum relative high). This gave a more bullish spin to the day, so the 5th trade might also have been passed in favor of waiting/anticipating to buy on a pullback.

5. UPPER BOLLINGER, THREE UPPER SHADOWS, DOJI

Again, this trade had a small target (confluence of the 20 and 50 EMAs) but a high-probability chance of achieving it (it did). The stop was above the spike high and the upper Bollinger - this trade was probably only appropriate for futures traders or leveraged ETF traders, as trading the SPY alone would not have produced much reward.

As price tested the confluence of the 20 and 50 EMA, you could have put on a buy trade, anticipating that the reversal had run its course into support and that a reversal to the upside was the likely bias going forward - that was my assumption, but the market had one more swing down in store to surprise us. It likely took out any stop-loss strategy you used, unless you used the prior swing low at $109.60 as support (which 'worked') and thus placed a stop there.

Even if you were stopped out as the EMA confluence broke, it would have still been an 'edge' trade to put on a buy at the following point:

6. SPIKE OUTSIDE LOWER BOLLINGER, TEST OF PRIOR SUPPORT, HAMMER CANDLE (BULLISH ENGULFING)

Price formed a sudden sell candle (remember, expect volatile moves on holiday low-volume trading days) and then formed two bullish bars, one of which (the second bar) formed a cross between a bullish hammer and - technically - a bullish engulfing candle that pierced outside the lower Bollinger Band - bullish signal.

It also formed at prior price support from the intraday (morning) lows, and did so on a slight positive momentum divergence (seen on 5-min chart).

The target again was a retest of the confluence of the 20 and 50 EMA and the 'round number' resistance at $110.00... though price again managed to run all the way up to the upper Bollinger Band which confirmed - a little late - that we had a "Range Day" on our hands.

There were no major opportunities to discuss into the close.

SPY - 5 min ARCX 11/11/09 L=110.10 0.51 0.47% O=110.31 Hi=110.82 Lo=109.62 C=110.15
Doji + Bearish Engulfing
+ Dual Divergence at
Upper Bollinger
Popped Stops
Impulse
Sell
Dojis/Spikes at
Bollinger
Spike outside Bollinger
at prior support on
divergences
$TICK - 5 min NYSE 11/11/09
14:00 14:30 11/11 9:30 10:00 10:30 11:00 11:30 12:00 12:30 13:00 13:30 14:00 14:30 15:00

SPY - 1 min ARCX 11/11/09
Third of Third
(predicts a 4th and 5th waves)
Trading Range
$TICK - 1 min NYSE 11/11/09

http://blog.afraidtotrade.com/how-else-can-we-interpret-recent-volume-developments-as-bearish/

I presented this chart and explanation on the blog at the link above.

The main idea is that volume signals are CONFIRMING lower prices and DIS-CONFIRMING higher prices, sending a very powerful bearish signal according to classic volume analysis.

Speaking personally, this is probably the most basic form of 'technical analysis' in terms of looking at pure price and volume which often sends the clearest signals.

There is no way possible to interpret this development other than call it a 'non-confirmation' and see it as a bearish development, arguing for a price reversal under the logic of there is greater urgency/participation to SELL than there is to BUY.

If price continues to rise, it does so against the backdrop of a powerful sell-signal from the most basic sources.

Price once again supported today on the rising 20 period EMA at the $109.50 area (also yesterday's support).

Events like this should remind you to keep these levels in mind as you trade intraday. You don't necessarily have to watch all the higher timeframes at once, but just note where the key moving averages are at least on the 30 and 60 minute frames (which is why I present these charts to you each evening).

Watch to see if price is forming bullish divergences or other buy signals at one of these key levels on the lower frame charts... or if momentum is picking up as price slices through one of these averages.

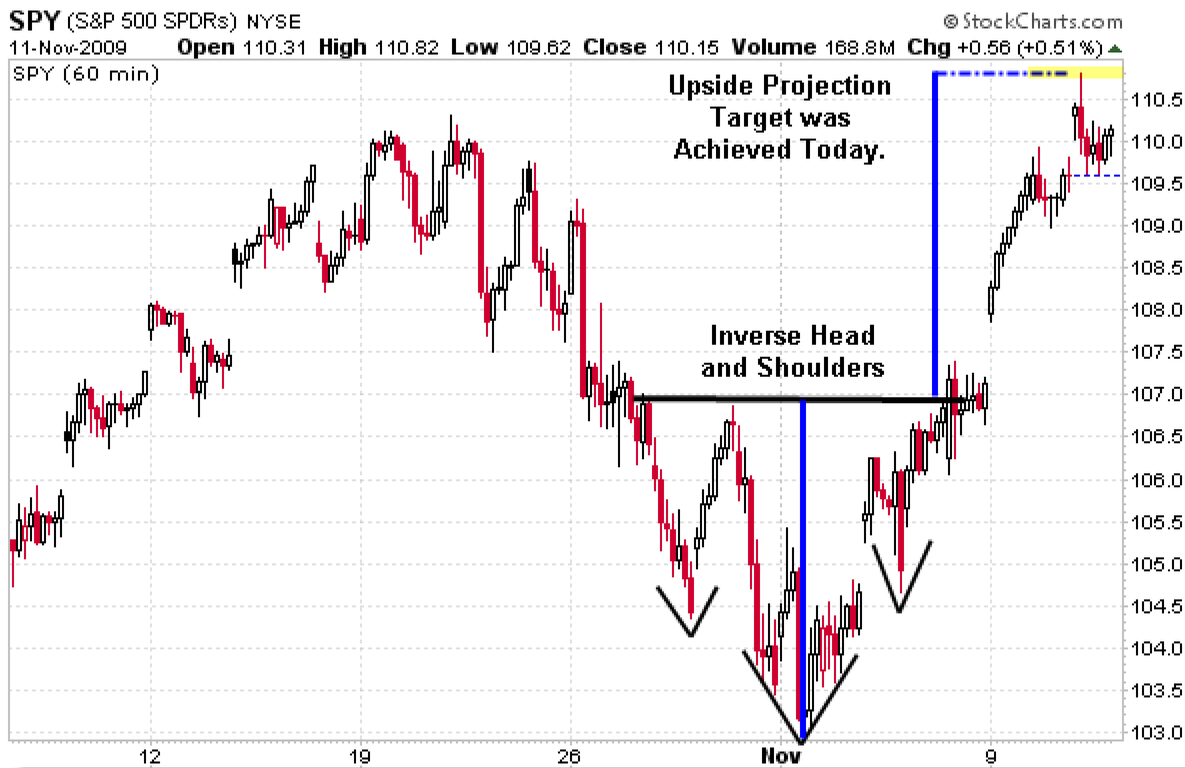
It looks as though a slight 3-push pattern or at least triple-swing negative momentum divergence has formed under price along with a neg. volume divergence.

This time we're seeing a negative divergence at the new 2009 highs on the 60 - minute chart - NOT a good sign for buyers/bulls. The negative volume divergence is much more 'revealing' than the momentum divergence.

Momentum indicators are based on price (they're derivatives of price). Volume sends a completely separate signal - that of 'lack of participation' as volume declines as prices continue to rise.

If prices continue to rise from here, they do so squarely against the odds as we understand them based on the history and observations of 100 years of technical analysis. It would hint that a giant buying 'force' was holding prices up as evidenced by higher prices on lower volume.

For swing traders, this is a very low risk (stop somewhere above the 1,121 S&P 500 level - the 50% Fibonacci retracement) and high reward opportunity to get short.



Quick "Inverse Head and Shoulders" pattern analysis shows that the pattern formed and completed, with price achieving its price projection target on today's highs (take the height from the neckline to the head, then add that to the neckline to get your target).

Under classic analysis, this would mark a pause or reversal in trend, or at least serve as a retracement level to watch.

Any move above the target at $110.75 (area) would be very bullish and continue to knock out stops (creating more buying pressure) above the highs. Otherwise, this is a bearish pattern-completion signal.

Tomorrow gives us two events to watch:

Jobless Claims at 8:30am EST - consensus = 512,000

30-Year Treasury Bond auction - 1:00pm EST (could move market)

Any major surprise on either of these events could send the market up or down. Watch the Jobless Claims report and reaction on the news in the morning as well as the futures market for any sign of a possible trend day either way - or 'no big deal' if the number comes in line with estimates.

As a classic technician, there is no way possible (other than noting the uptrend and positive moving averages) to interpret this chart as being short-term bearish - given that we have a negative volume divergence and two dojis at recent price highs at the 1,100 "round number" level just shy of the upper Bollinger Band. Looking back at recent history, we see that each prior time this has happened (exception - late July) the market has pulled back in a retracement move (at least) back to the 20 EMA - this now is a short-term target.

With this 'obvious' picture in mind, keep in mind that any move to new highs will continue to "pop out" short-sellers' (swing traders') stop-losses which would (perversely) push the market against them to further highs... which you can take advantage of intraday by buying long into these short-squeezes or short-covering rallies.

It's likely that the pre-market action - and reaction to the Initial Jobless Claims Report - will set the tone for whether to be bullish and play "Popped Stops" at new highs or be bearish and look to short intraday weakness.