



# Daily "Idealized Trades" Report

## SPY (SPY 500 ETF) 5-min



I'm always impressed when the market follows the script as defined from the 30min and 60min structures. I'd mentioned we were stuck in a trading range and that odds favored a retest of the upper portion of the trend channel - particularly if the 60min EMAs were broken - and that bias/set-up was complete just after the morning gap, and price began to fall down as also anticipated when the \$111.50 area was challenged as resistance - we're still tightly within that range.

Always pay attention to the levels described at the end of each day's report - these are target levels and key levels that reactions are expected to happen, and they set up excellent trading opportunities barring any unforeseen news reactions (such as Dubai)... and sometimes these levels even work with surprising news events (aka - price stopped at the lower trendline of the channel after the "Dubai Decline").

Anyway, let's move into the educational trades portion.

#### 1. IMPULSE BUY, HAMMER CANDLES, POSITIVE 1-MIN MOMENTUM DIVERGENCE, 38.2% FIBONACCI RETRACEMENT

The odds were very low to try for a gap-fill off the morning large impulse (roughly a \$1.00 gap) so the anticipated trade set-up would be to buy the first pullback into support (ideally with reversal candles) to play for a retest of the morning high or beyond in Trend Day fashion (bias). The large opening gap and prior discussed "play" to the top of the range at \$111.50 gave good odds to expect a Trend Day.

Aggressive traders could have shorted on or after the 3rd 5-min bar to play for a retracement down to the rising 20 EMA, but it's best to wait to BUY into an uptrend than try to scalp small pieces of retracements - though of course it's not 'banned' if you know exactly what you are doing (playing counter-trend scalps).

Price formed a hammer candle closing just above \$111.00 at 10:15 EST, and then formed another hammer just a bit lower 10 minutes later - both of which triggered entry upon a break above the hammer highs (the second hammer 'almost' tested the rising 20 EMA, which would have been a perfect entry). This also occurred at the 38.2% Fibonacci Retracement of yesterday's close to this morning's high - this area came in at \$110.80 - it just takes a second to draw a quick Fibonacci retracement grid.

Thus, entry occurred near \$110.00 with a stop under \$110.80 and a minimum (conservative) target of \$111.25 (prior high) or aggressively for a new swing high (or even the upper Bollinger Band test).

Price rallied almost non-stop into noon, at which time two long upper shadow dojis formed at the upper Bollinger Band, triggering an "exit with profit" situation (and perhaps triggering an aggressive 'sell short' to play for a move back to the 20 EMA).

Price managed to swing once more to a marginal new intraday high on a negative TICK and momentum divergence (see both 1min and 5min chart) which was a non-confirmation, and should have given you pause about expecting an aggressive trend day bias, but should NOT have flipped your bias to expect a rounded reversal day just from that divergence - it was a non-confirmation but not a fatal one. It did tell you to be more on guard, less aggressive, and to be looking for breaks of the 20 or 50 EMA and ANY possible Wyckoff Sign of Weakness ... all of which happened later in the afternoon (but you had no way of knowing that at this time).

#### 2. TREND DAY BIAS, PULLBACK TO 20 EMA

This is a standard Trend Day bias trade - buy ALL pullbacks to the 20 EMA, particularly when doji or other reversal candles form. There were also two dojis and a bullish engulfing candle - I've highlighted the zone at 1:00 EST on the 5-

min chart for a reference - there was plenty of reason - and odds - to expect a move back to retest the prior \$111.40 level or even the \$111.50 area as described in last night's report as the 'upper trendline boundary' - which was the case. The stop was close - under \$111.20 - giving a decent risk/reward relationship as well.

There was also a very slight positive 3/10 Momentum Divergence on the 1-min chart as well as a 'flag' style trendline break to the upside (triggering official entry) as shown on the 1-min chart as well.

Price actually rallied three solid bars upwards after these 'plenty of chances' to get long into support (people must have acted aggressively on this trade) and price pushed to new intraday highs at the upper Bollinger Band... this time on an internal (immediate swing) negative TICK divergence and an external TICK divergence (the TICK high of the session was made at 11:20 EST at 1,097 TICK value while the SPY was at \$111.30 - the TICK reading at the 1:30 EST price high of \$111.66 was 1,033 - 60 stocks 'ticking lower' on the absolute highs of the day - this is the logic of a TICK divergence and why it is more important than momentum divergences).

The two long upper shadows gave a powerful exit signal and even a 'sell short' signal for aggressive traders.

### 3. TWO UPPER SHADOWS, DUAL TICK/MOMENTUM DIVERGENCE, UPPER BOLLINGER

As mentioned, price had formed both an internal and external TICK divergence on the absolute price highs at 1:30 EST, and it had done so on a shooting star style gravestone doji at the upper Bollinger Band. The next candle was a strong bearish candle (almost bearish engulfing) which triggered entry for aggressive traders to play for a retest of the 20 EMA at the \$111.45 level at a minimum OR a full trend reversal (aka Rounded Reversal) potential (hold to play at least for the 50 EMA at \$111.25).

This probably wasn't a great trade for new or conservative traders, since it was purposely fading an established Trend Day bias, entering short trying to call the 'top' of the day by playing in advance for a Rounded Reversal prior to any trendline or moving average break. This doesn't mean you can't do it, only that newer traders often do better by taking trades in the direction of the prevailing trend than trying to call tops and bottoms.

At any rate, price did fall quickly back to the rising 20 EMA, giving us yet another opportunity to buy long into an EMA pullback on what STILL is favored to be a Trend Day up.

### 4. EMA PULLBACK, TREND DAY, BULLISH ENGULFING, 1-MIN TRENDLINE BREAK

Compare both the 5-min (20 period EMA and bullish engulfing candle) and the 1-min chart (positive trendline break) to see the logic behind this trade.

We were still in a Trend Day up bias mode, which meant odds favored buying pullbacks to play for retests of prior highs (in this case, the \$111.60 level) or even new highs.

Because price was not being confirmed by the TICK at the absolute highs, this reduced some of the odds in this trade, but it was still a good, simple trading opportunity. Remember, these reports are designed to teach you trading tactics and strategies, and learning the lesson is more important than picking out magic trades that worked in hindsight - in real time, even good trades go bad and it's always important to learn why - if at all possible.

The stop was under the 20 EMA at the \$111.40 level and target \$111.60 with entry near \$111.45/\$111.50. This might not have been a sufficient risk/reward for most people, but remember this still is a decent risk/reward in the futures contract (this would have been risking around \$50 to play for \$100 or more per contract in this trade).

Price did rush to challenge the \$111.60 target, but did not make a new price high (the swing high was \$111.63), and price formed two dojis after coming off this level, leaving no room to give the market the 'benefit of the doubt' if you did not exit with a profit above \$111.60.

After seeming to support once again on the 20 EMA, price then chopped strongly through this level on a strong bearish engulfing, tested the 50 period EMA, and finally formed our official "Wyckoff Sign of Weakness" that is often the precursor to END officially the bias for a continuation of a Trend Day. Wyckoff Signs of Weakness are hints that the 'trend is turning,' and that downward action could be ahead.

Wyckoff signals occur when price only makes a mere swing low (nothing too significant and certainly NOT a new intraday low) but the TICK - or the 3/10 Oscillator (ideally both) make NEW intraday lows. This is a powerful signal of a momentum shift and leads us to believe that price will follow in the direction of the new momentum lows.

Thus, we want to be short sellers from this point on as price challenges the underside of the 20 or 50 EMA and anticipate a possible Rounded Reversal forming.

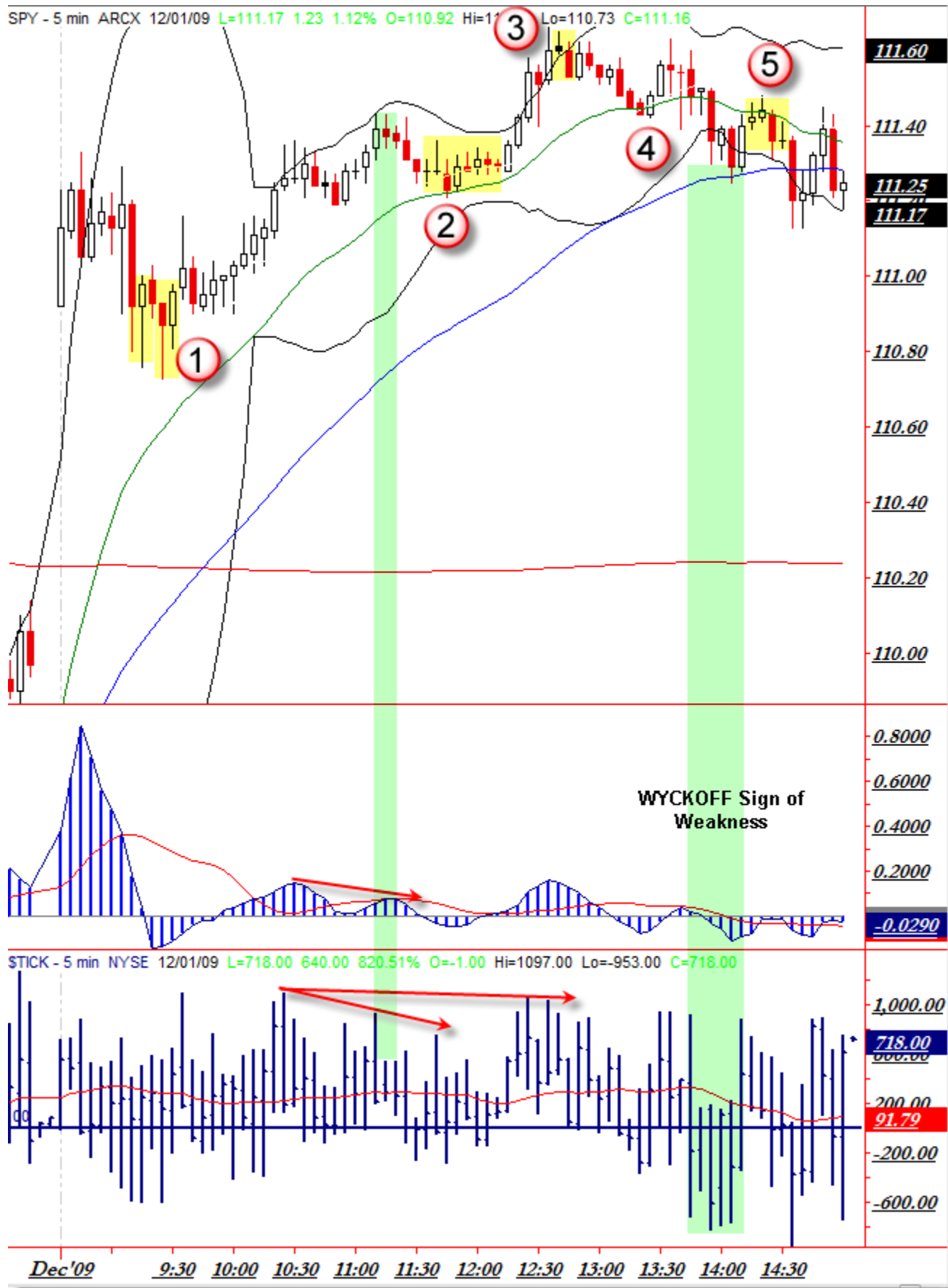
#### 5. SPINNING TOPS AT 20 EMA, WYCKOFF SIGN OF WEAKNESS, AGGRESSIVE PLAY FOR ROUNDED REVERSAL

The short-sale was taken as price formed two spinning tops at the 3:00 EST time at the underside of the 20 EMA at the \$111.40 level. A stop was above \$111.50 and a target for a break of the 50 EMA or an aggressive hold until close.

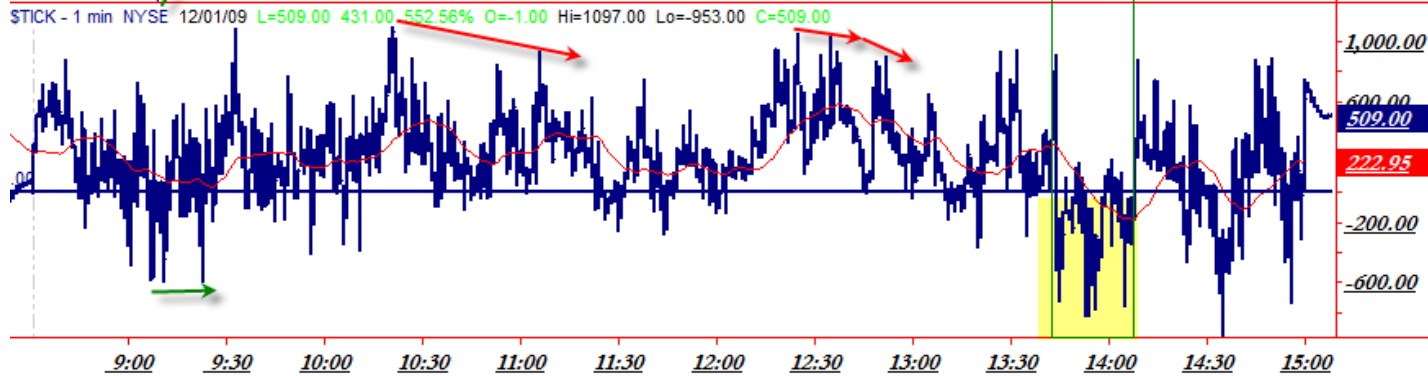
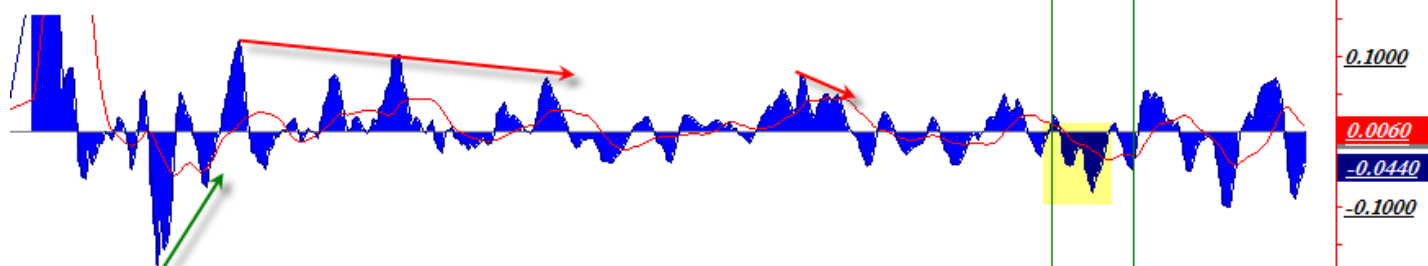
Price quickly sliced again powerfully through the 50 EMA, broke outside the lower Bollinger Band, and then formed a doji/spinning top at the lower Bollinger, causing conservative traders to go ahead an exit with a profit, though aggressive traders might have held on to play short into the close. Price suddenly rallied back up but did NOT take out the stop, and then fell on another sudden down bar into the close.

Trading the close (last 30 minutes) can be very difficult, so sometimes it's best to take a quick profit when you have one and exit on any unfavorable price action.

Because of the Wyckoff Reversal signal and the upper boundary at \$111.50 (described later), we have to take a downside bias to tomorrow's session as long as price remains under \$111.50. Play a breakout long with "Popped Stops" if price can rise above \$111.50, but otherwise, if the rectangle channel continues, we are looking for a play for lower prices.



SPY - 1 min ARCX 12/01/09 L=111.23 1.29 1.17% O=110.92 Hi=111.66 Lo=110.73 C=111.25





Yesterday, I mentioned odds seemed to favor an upside move to challenge \$111.50 - that happened in a single day, which underscores the very choppy (difficult/dangerous) conditions in which we are trading. This is crushing swing trades but is allowing great opportunity for you, the intraday trader.

Nothing more to say (no need to overcomplicate the obvious) than to keep watching \$111.60 as overhead resistance and \$109.00 as support within a larger rectangle pattern. Any move above \$111.70 should trigger the "Popped Stops" opportunity to trade aggressively long due to new longs stepping in while old short sellers are forced to buy to cover. Otherwise, expect a down move as per the prior times price has experienced resistance at the \$111.50 level.

Short aggressively any move under \$109.00.



I wanted to pull everything off to show you just how 'chippy' the latter part of November has been - it underscores a violent battle between buyers and sellers with traders caught in the cross-fire. From a Market Profile Perspective, "Value" is built in at the \$110.50 area as price has been oscillating up and down around this midpoint.

Be very careful and take nothing for granted - don't overleverage yourself in this environment.



Same analysis goes for the 60min chart. In a trading range, moving averages are irrelevant, as they provide neither support nor resistance. Look to the trendlines for support and resistance.

Again, any move above \$111.70 will likely give you the "Popped Stops" opportunity (don't miss that) and if we do get the expected down move from here, price would be expected to hold the support line at \$109.00.



From a neutral perspective, it almost looks like bulls/buyers are priming for a break to new 2009 highs due to the last two up days and the higher relative volume... but before getting too excited, realize that this week's two high volume days are compared to last week's holiday trading volume - which of course would be relatively lower.

The play is the same - the 1,112 level has held as resistance and the 1,085 level has held as support.

Don't overcomplicate trading within a range - if the recent past is any guide, then the next move will be down (see prior swing highs) but an upside break - particularly one fueled with the stop-losses of devastated/frustrated bears/short sellers - could be very powerful and would be a wonderful trading opportunity.