



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Today gave us yet another range day in price! We're within a small trading range on the 5-min charts and within a larger trading range on the higher frame - such days are often difficult and inefficient to trade, but that doesn't mean you have to avoid range days. Let's see some of the trades.

1. GAP FADE

For the first time in many days, the market gave us a gap that was within the 'fade-able' parameters - 40 cents on the SPY. The gap did not fill, but that did not mean the trade was not an edge-based trade. On the third bar, price formed a shooting star and two long upper shadow candles at the \$111.20 area above the upper Bollinger Band. This gave us an entry when the \$110.10 low of the third candle shooting star was taken out to play for a minimum target of the rising 20 EMA at \$110.90 and a maximum target of a full gap fill to the \$111.65 price. A stop would likely be placed above the intraday highs at \$111.23 making this a trade based more on the gap set-up than the risk/reward. Price found support at the 20 EMA and formed a sudden lower shadow and began to rise, triggering us out of the gap fade with a smaller than expected profit.

For reference, the 50% Fibonacci from yesterday's closing swing low of \$110.45 to the morning high off the open at \$111.25 was \$110.85 which was a convergence target with the 20 EMA - so it should perhaps be no surprise that price inflected off this level.

For those so inclined, this provided a "buy long" trade with a stop under the 50 EMA at \$110.80 and target for a retest of the morning high at \$111.20 - though I won't call this out as an ideal trade as it happened so quickly and was part of a 'failed' gap fill.

2. LONG LOWER SHADOWS, IMPULSE BUY, MOVE INTO 20 EMA

The next ideal trade came from the two long lower shadows - one of which formed a doji - at the 10:30am zone which bounced off the 20 EMA. This was also an "impulse buy" trade (remember the last three days of impulse trades at the same time have fallen just shy of their full target) which targeted the intraday high at \$111.35. A stop would be conservatively under the lower shadows and 20 EMA at \$111.00 and aggressively under the 50 EMA at \$111.90. The initial target would be the \$111.25 to \$111.30 zone... and price did reach this target (forming a double-top) but it was also acceptable to exit as price began to inflect downward the first time it touched \$111.30 and formed two upper shadows at 10:40am, making this a very quick trade.

The double-top and shooting star that formed gave an aggressive trend reversal entry.

3. DOUBLE TOP, SHOOTING STAR AT UPPER BOLLINGER BAND.

I call this an aggressive trade because price was in an uptrend and supporting off the rising 20 EMA. However, remember from my end-of-report charts that I mentioned that the target was the \$111.50 area which was key resistance and a key target to play for long - we were 14 cents shy of this zone, so as soon as the reversal candle formed, you could have jumped in short to try for a possible inflection down off this key resistance area.

Entry would be as soon as the low of the shooting star was taken out at \$111.20 and a conservative target would be for a play back to the 20 EMA at \$111.10 with stop above the \$111.30 high - this again played off the accuracy edge and gave a one-to-one risk to reward - many traders would pass on that.

The larger, more aggressive targets included the 50 EMA at \$110.90 (also lower Bollinger), though very aggressive traders could have potentially played for a trend reversal, though evidence of a key reversal was incomplete (aka no major divergences) at this time.

Wherever you decided to exit, this was a profitable trade.

Price plunged to new intraday momentum and TICK lows, so that set-up the expectation for lower price lows yet to come and to anticipate a possible bear flag or impulse sell.

Aggressive traders could have traded long the dojis at the lower Bollinger Band on a slight positive momentum divergence at the \$110.70 level just before Noon EST to target a retracement to the 20 EMA at \$110.90, but conservative traders should have waited to play the retracement and short into overhead resistance.

4. IMPULSE SELL, DOJIS AT CONFLUENCE RESISTANCE, CRADLE, 38.2% FIBONACCI ALL AT \$110.89

This was perhaps the best trade set-up of the day, as price had formed new price and momentum lows and then retraced in a flag-style correction up to the expected confluence resistance of the 20 and 50 EMA (forming the "Cradle Trade") along with the 38.2% Fibonacci retracement at \$110.80 of the morning low of \$111.61 to the morning high of \$111.36. For reference, the 'spike' doji terminated exactly at the 50% Fibonacci retracement at \$110.98, though price did not close above the 38.2% level.

Three dojis in a row formed (counting the 'shooting-star' style candle that spiked into the 50% retracement) which triggered entry short as soon as price broke the low of these doji at \$110.86. A stop was placed above the EMA resistance at the \$110.92 area, and as you see price nipped down to trigger us into the trade...and then immediately rose with vigor to stop us out for a 5 to 10 cent loss. The target was to play for a retest of the prior low at a minimum.

Not all is lost though - one thing I have learned and tried to teach is that when something SHOULD happen and does not - there was a LOT of convergence at the \$110.90 level and odds favoring a down move to come - then it often signals a more powerful reaction in the OPPOSITE direction - in this case, to the upside - as frustrated sellers stop-out at different levels ... the logic of the "Popped Stops" play.

You would have taken a stop-out here because the trade had high probability of success and great edge, but the fact that such an 'ideal' trade failed gives even greater odds of a stronger move AGAINST that position - in this case, playing popped-stops if you are so inclined long. I won't list this as a separate trade, but as an "IF/THEN" condition from the failed Impulse Sell trade.

Price moved suddenly higher after the smaller stop-losses (evidence of a "Short Squeeze" or "Popped Stops" - see the large bullish bar at 12:55 EST.

This gave us a clue that the structure could be changing... or more appropriately... that the Range Day trading tactics were still the dominant structure.

You could have shorted the doji that formed at the \$110.10 level at the upper Bollinger to play for a retrace to the convergence of the 20 and 50 EMA at the \$110.97 level, but again, these targets are so small that passing on the trade was acceptable too.

Due to the structure changing back to bullish - or rejecting the bearish signals - odds favored higher prices to come, so that put us in the mindset to buy pullbacks or dojis at expected support levels, and four such lower shadow candles formed at the "Round Number" support zone of \$111.00 at the 20 period EMA, giving the final trade set-up of the day.

5. FOUR LOWER SHADOWS AT \$111.00 AND 20 EMA; BULLISH BIAS

For the same reasons mentioned above, price formed a support zone at the \$111.00 level which happened to be the 20 EMA. The support was more important from the "Round Number" price than the EMAs given that the bias was a "Range Day," but the four lower shadows - two dojis - forming here gave confirmation of a decent risk/reward trade (stop under the 50 EMA at \$110.95 and target either the prior highs at \$111.15 or a countervailing sell signal such as a doji candle.

The doji candle above the upper Bollinger formed at the \$111.20 level at 2:15 EST, triggering an 'exit with profit' and aggressive short-sale trade to target back to the confluence EMAs... this same set-up allowed you to play tight trades long and short into the close via the "Range Day" bias.

The structure repeated itself almost exactly into the two dojis at the upper Bollinger Bands at 3:40 EST at the \$111.30 area, but it is totally understandable if you took an early weekend by a few hours!

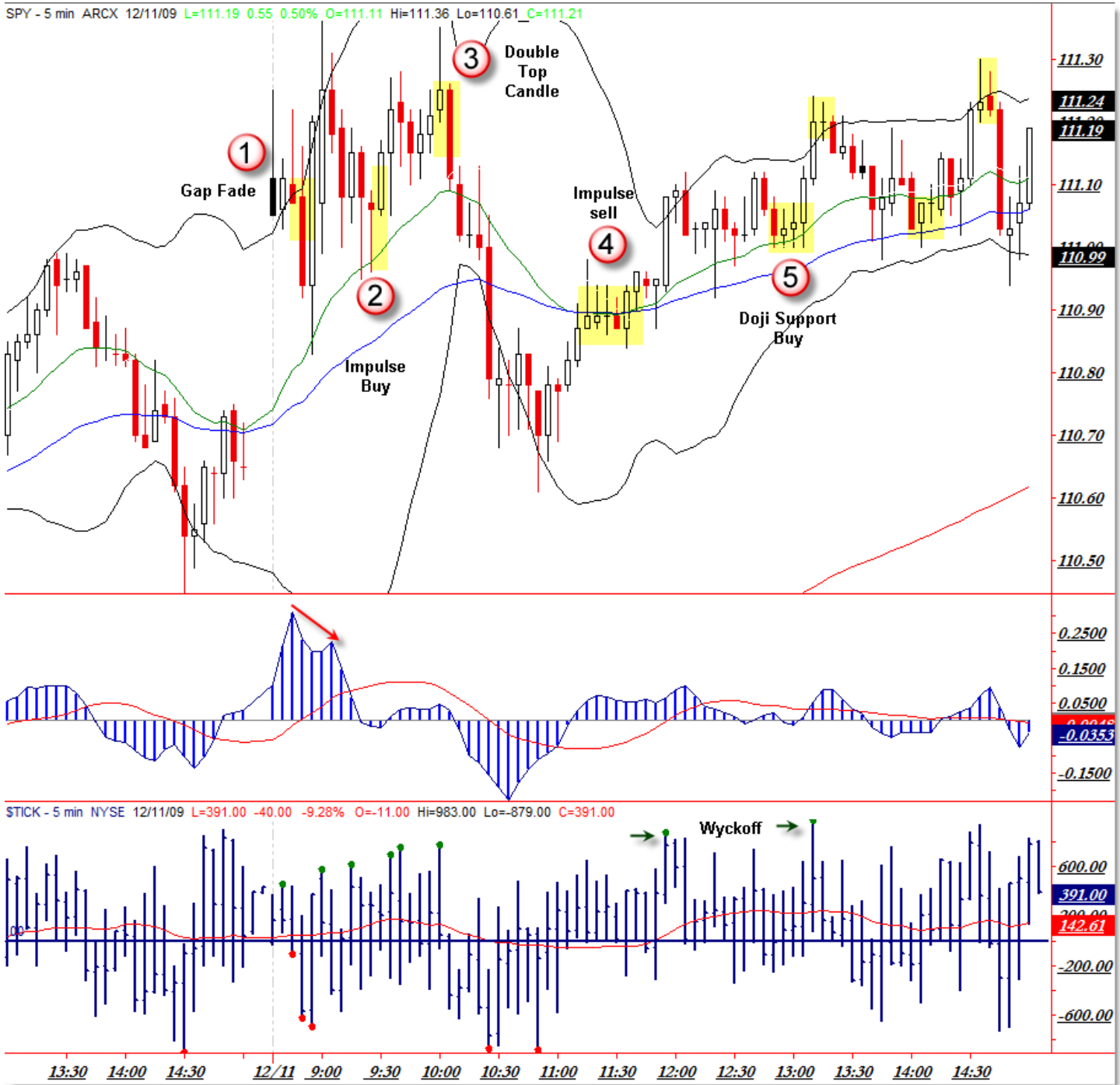
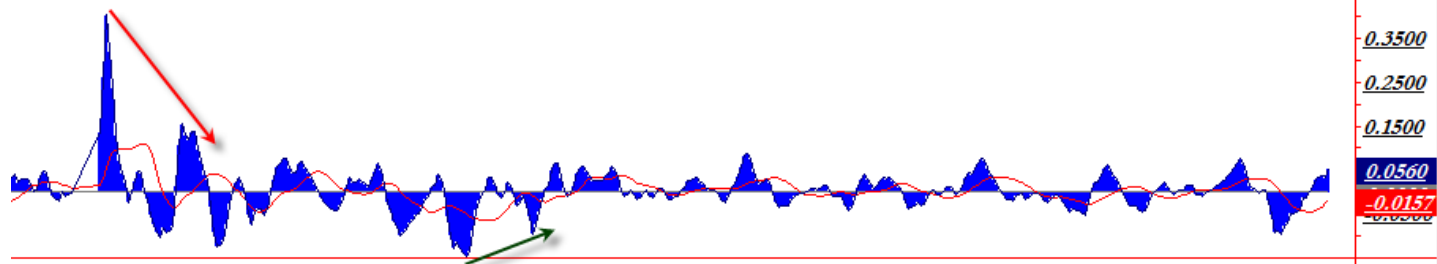




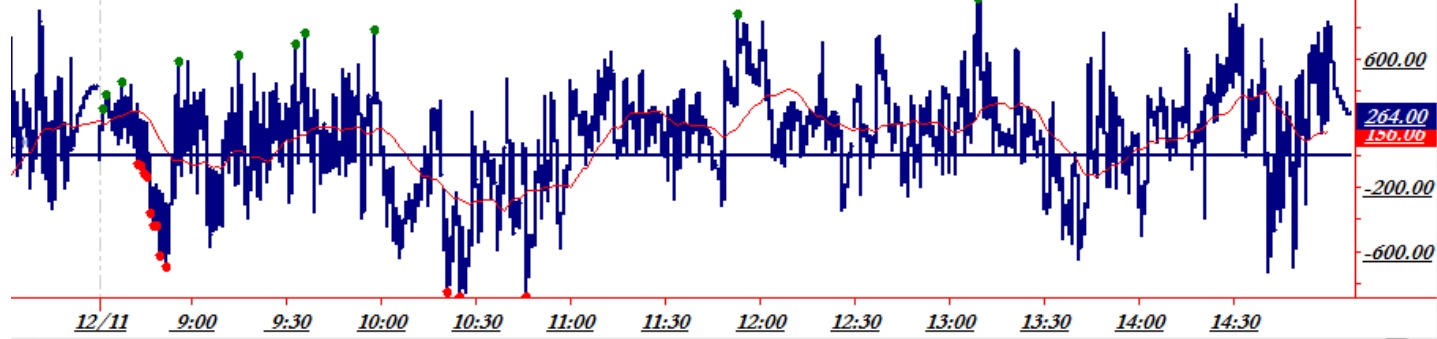
Chart to use as a reference for @ES traders.

Remember that December futures expire next Friday, so move over to the March contract.

SPY - 1 min ARCX 12/11/09 L=111.22 0.58 0.52% O=111.11 Hi=111.36 Lo=110.61 C=111.21



STICK - 1 min NYSE 12/11/09 L=264.00 -167.00 -38.75% O=-11.00 Hi=983.00 Lo=-879.00 C=264.00

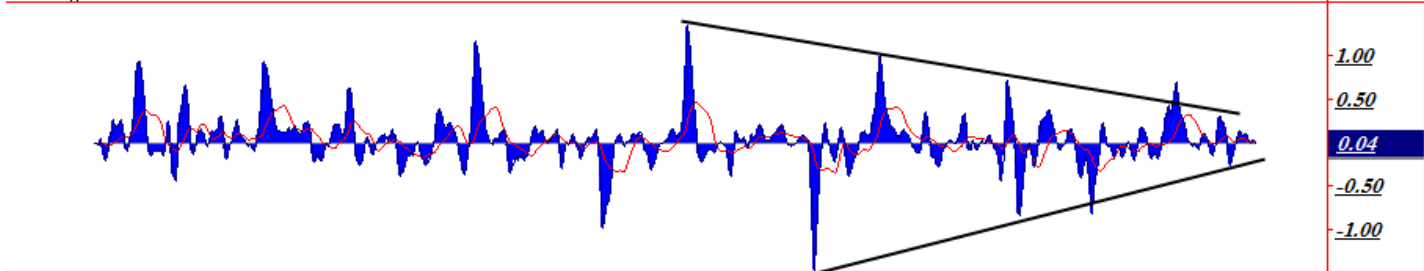
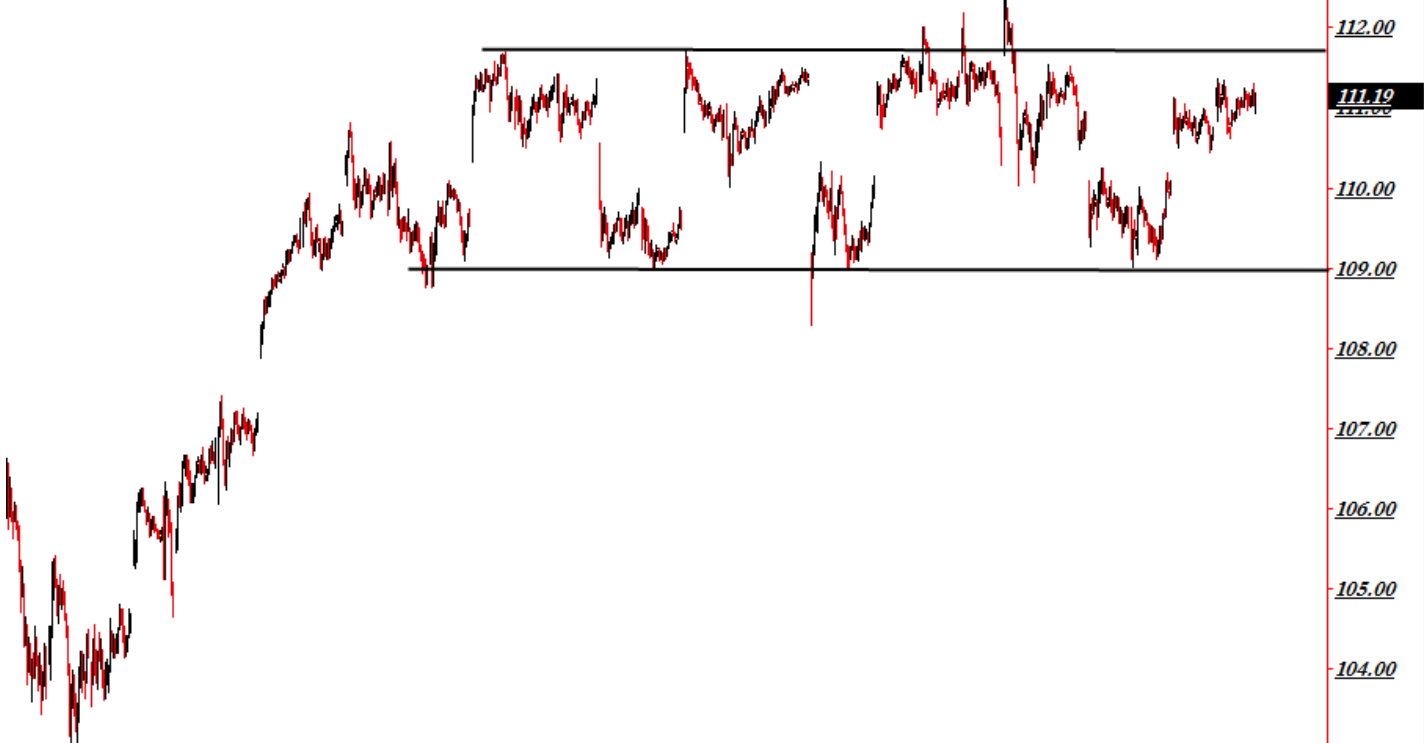


One min chart reveals an "Elliott Fractal" move down into the 11:30EST lows that formed a positive divergence. That marked the low of the day.

Otherwise, we saw a negative divergence on the morning swing high that formed after the 'failed' gap fill.

Thus, both the intraday high and low were formed on 1-min negative divergences (which also showed up if you look closely at the 5-min frame).

SPY - 15 min ARCX 12/11/09 L=111.29 0.65 0.59% O=111.11 Hi=111.36 Lo=110.61 C=111.11



STICK - 15 min NYSE 12/11/09 L=258.00 -173.00 -40.14% O=-11.00 Hi=983.00 Lo=-879.00 C=258.00

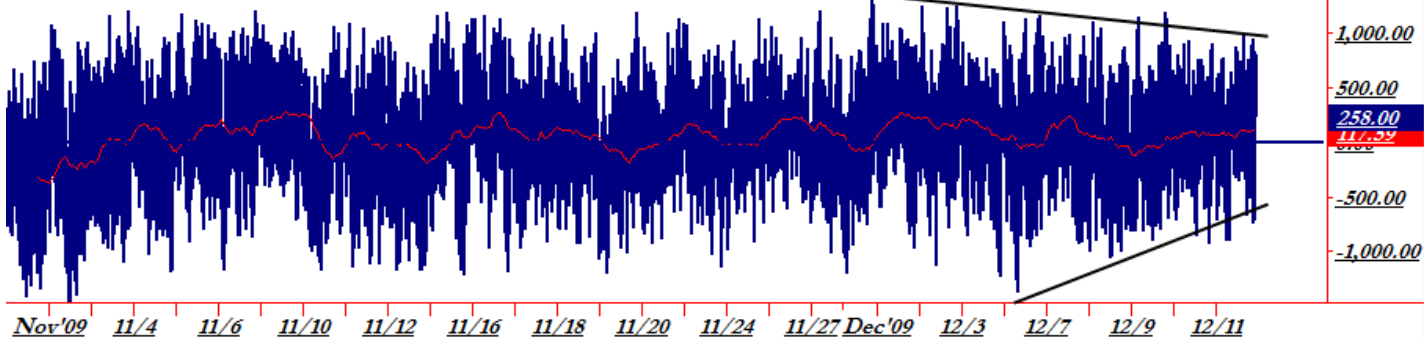


Image of Range Compression in the SPY in both the 3/10 Oscillator (triangle in volatility) and the TICK. Market is forming a tight coil in anticipation of a strong range expansion move in either direction.



The end-of-report commentary is the same as it has been! We are still in a trading range from the \$111.50 level in the SPY to the \$109.00 level, and price has given us a clear roadmap in which to trade as long as price remains in this boundary.

The risk now is that the range will break and that price will embark on a strong range expansion move up or down (arguments can be made both ways) which traps people who are trading within the range, or leaning on the wrong side of the market when it breaks. For now, expect \$111.50/\$111.75 to be upper resistance and \$109.00 to be lower support, and for price to gap between these two levels with tight range-bound conditions.

Price is currently supporting on the 30min moving averages as shown above, so watch for any move under these levels to signal potential for more downside action to \$109.00. Otherwise, it's probably not worth playing long the 25 cents to the upper resistance line unless we start to get increased volume and momentum as price breaks this level.



The trading range is seen more clearly on the 60min frame, and this is perhaps one of the clearest trading ranges I've seen - the one small bear trap and three small bull traps remain but everything else is contained within a range.

The repetitive action is so clear that it would appear that a single individual is toying with the market - bringing it up and down in the same pattern since mid-November.

Notice the contraction or coil in the 3/10 Oscillator - large volatility moves often occur when the oscillations contract as they are now.



As long as price remains in this range, there is nothing I can add to the analysis. This is the longest solid trading range of the year unless you count the whole Head and Shoulders from June to July as a singular consolidation.

Notice the range expansion move that took place in July as that "consolidation" broke... though it gave a bear trap breakout signal first.

The play is to wait for a breakout of the current range - which - in my assessment - has higher odds of breaking to the upside than downside - but the edge is to wait for the market to tip its hand and THEN enter instead of trying to be a hero and getting chopped up in this range... or caught on the wrong side of a break.

Have a great weekend!