



# Daily "Idealized Trades" Report

## SPY (SPY 500 ETF) 5-min



The market is determined to bounce between \$109.00 and \$111.50 exactly, apparently! Weekend news caused an upward gap of 80 cents in the SPY, leaving us just inside the "DO NOT" fade gap bias, which exactly was the case. The gap filled roughly 50% and then found key support... giving us our first trade of the day (assuming you did not desire to attempt to play the down-move into support).

1. IMPULSE BUY, 20 EMA, 50% FIBONACCI, POSITIVE TICK & MOMENTUM DIVERGENCE (1-min)

The gap serves as a momentum 'burst,' but we can also see new highs in the 3/10 Oscillator along with price. If the key confluence support level at \$111.40 (20 EMA and 50% Fibonacci from the swing low into Friday's close) holds, then this would argue for higher price highs yet to come... or at least a high probability, low risk (stop under \$111.30 or under 50 EMA at same level) trade set-up.

Entry occurred as price broke the high of the candle (hybrid of spinning top and hammer) with lower shadow that bounced off the 20 EMA - this entry officially triggered at \$111.50 to play long for a retest of the \$111.90 level. There was a strange moment to be discussed in the next trade set-up - an exit and - for aggressive traders - short entry.

## 2. TWO DOJIS AT UPPER BOLLINGER INTO SHOOTING STAR, NEGATIVE DIVERGENCE, 5-WAVE FRACTAL

I completely understand if you exited at the \$111.80 level (1,108 in @ES) with the double-doji that formed at the upper Bollinger Band at 11:30am. That was certainly an exit signal, but there was not enough evidence to flip and go short until price took out the low of the doji or formed some other divergence.

This occurred on the next two bars up into the \$111.90 target (retest of the morning high) as a shooting star formed and a negative TICK and Momentum divergence formed as well (see 1-min frame). This gave plenty of evidence to expect a trend reversal at best (double-top pattern) or a standard retracement at the minimum back to the 20 EMA at \$111.70. This also was a set-up to play for a deeper retracement to the 50 EMA or even for a potential trend reversal.

Price took out the low of the Shooting Star at \$111.80 with a minimum target of \$111.70 with a stop above the intraday high, or - to be safer - above the \$112.00 "round number" resistance level. This gives me a chance to discuss stop-loss logic.

If you felt this trade was too small for the risk, then you certainly could have passed. Price dipped down to test \$111.70 and then formed three dojis (tri-star) and then made another sudden run to challenge \$111.90 and made a new intraday high at exactly \$112.00 - round number resistance. If you chose to be more 'aggressive' with your stop, you would have been fine - sweated it out - but fine, though you would have been stopped out on any stop less than this... assuming you did not exit at the tri-star doji candles at the \$111.75 level.

## 3. THREE-PUSH PRICE PATTERN, SPIKE OUTSIDE UPPER DOJI, \$112.00 RESISTANCE, NEGATIVE MOMENTUM DIV.

By the time price made its final push into \$112.00, we were poised eagerly to play the "Popped Stops" trade but also waiting to short at that level on any weakness or down-turn due to the lengthy negative momentum divergence and 5-wave Elliott fractal (see 1-min) that moved into this intraday high. I received emails on this trade as the TICK made a new high though price was at the upper Bollinger and formed two upper shadow candles alongside a negative momentum divergence.

If the TICK and 3/10 showed the exact same reading all the time, we would need to eliminate one of them. The fact that they do show different readings is a good thing, even though it leads to confusion on some trades - like this. It's when the TICK (market internals) and the 3/10 (based on the difference between the 3 and 10 period moving average of price) register the same reading - simultaneous new highs or simultaneous divergences - that signals become clearer and can be taken with confidence. In conflicts, I usually pay more attention to the TICK (market internals) but that doesn't mean it will not always give crystal clear or accurate signals.

Price formed two upper shadows above the upper Bollinger Band and "Round Number" resistance level at \$112.00, triggering a short-sale and stop above \$112.10 along with a bias to 'flip and reverse' and then play popped stops above this level. This did not trigger.

Price finally got its deeper than normal retracement where price fell sharply through the 20 EMA and into the 50 EMA for a target.

Price was so far in a Trend Day mode up, though into key resistance on higher timeframes and with weakening momentum, so this was not shaping up to be a "Type III" Trend Day, but even still, the 50 period EMA is the final "Line in the Sand" between a Trend Day (keep buying pullbacks) and a Rounded Reversal (begin shorting rallies).

This sets up a low-risk (tight stop) trade.

### 3. "LINE IN THE SAND," 50 EMA PULLBACK, 5-WAVE FRACTAL, POSITIVE MOMENTUM DIVERGENCE, BOLLINGER

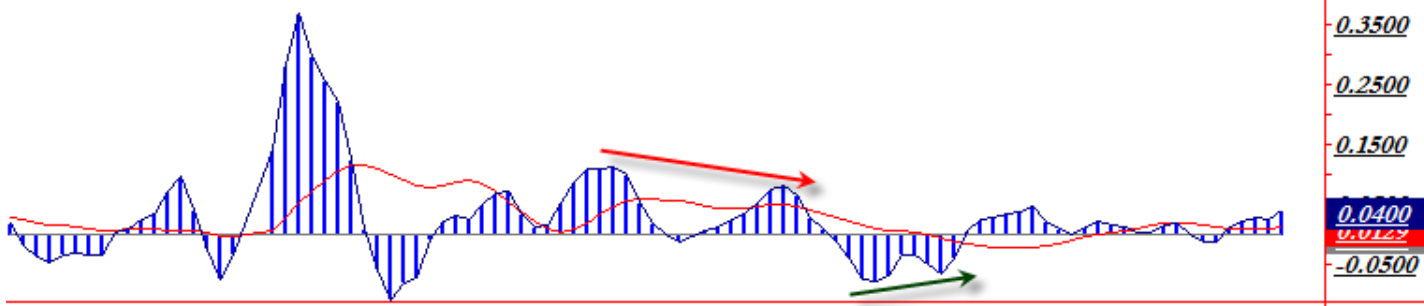
As price retraced in a 5-wave fractal (see 1-min chart) down to test key support on the 50 EMA - line in the sand - we could have been waiting to buy on any sign of price strength (or reversal candles) as well as preparing to stay short, or get short on any break and close under the 50 EMA and Lower Bollinger Band at the \$111.60 level.

As it turns out, price DID reverse off this level, forming a semi-Bullish Engulfing Candle where the high of the candle was taken out at the \$111.77 price. Aggressive traders - not needing candles for confirmation - would have entered long on the initial pullback to the 50EMA at \$111.67 to get a tighter stop and better execution (entry). Conservative traders would have waited for the high of the candle to be taken out at \$111.77.

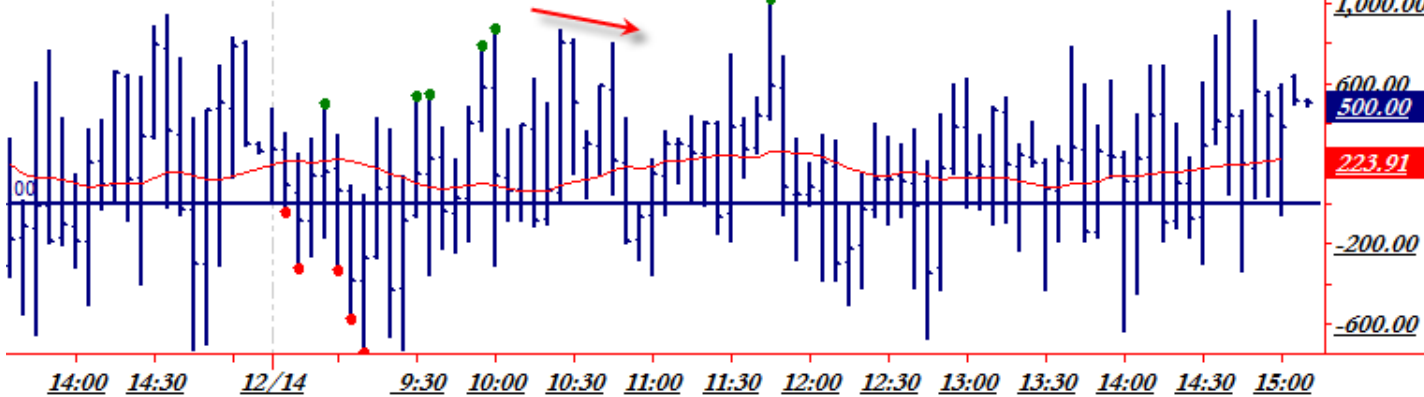
Either way, the play was for the upper Bollinger at a minimum or a new swing high at best. Price did retrace to the upper Bollinger, forming a 'shooting star' candle at \$111.88 at 2:45 EST or a second shooting star at 3:15 EST.

Without describing them here officially as "Idealized Trades," you could have bought both pullbacks to the 50 EMA at the \$111.75 level - though price played "ping-pong" between this average and also the lower and upper Bollinger Bands into the close.

SPY - 5 min ARCX 12/14/09 L=111.72 0.61 0.55% O=111.87 Hi=112.00 Lo=111.37 C=111.87



STICK - 5 min NYSE 12/14/09 L=500.00 242.00 93.80% O=8.00 Hi=1028.00 Lo=-739.00 C=500.00









Interestingly enough, price did officially test the \$111.50 line... and then some. Price is making today's swing highs on lower relative volume and a distinct momentum divergence - this is seen identically on the 60min chart and the message is the same. It's a bearish non-confirmation.

However, that does not mean price is required to go down - price is ruled by supply and demand, and more buyers, or more aggressive buyers than sellers, then price will go up, no matter what volume or indicators are saying. If indicators were perfect, there would be no need for stop-losses! As such, the play remains to be biased short and prepared for a down move on any sign of weakness here at overhead resistance but also be keenly aware and alert for any further push to new highs which will continue to trigger the stop-losses of the (many) bears/short-sellers out there who will have no choice but to "buy to cover" on any move to new highs - **be ready to profit from this either way.**



The 60min chart shows the entirety of the current trading range, with 'spikes' above the \$111.50 level. I suspect both sides of the market - bulls and bears - are holding their breath right now... for the slightest push up will trigger a momentum move higher as bears rush for the exits. Otherwise, indicators and trendlines hint that price is likely to remain in the trading range.

Remember that any break to new highs will likely trigger a strong momentum move that could last days, so do not short and walk away from your computer. Be neutral and be prepared to capitalize on the side of the market that is caught leaning the wrong way when the market tips its hand and either begins falling from here or rises up to fresh new 2009 highs.



In referencing the current “structure” or character of the market, we see five prior times since July that price ‘seemed’ to be ready to break down but then suddenly and quickly began making stellar new highs and crushing the short-sellers, creating more buying pressure as they covered their stops.

It looks like price could be in the early phases of yet another “burst” move that takes everyone by surprise.

I repeat, any move above 1,121 should trigger a rush of new buyers along with old short sellers buying to cover.

Either way, price is clearly compressed and the Bollinger Bands are forming a tight consolidation, meaning the “Bollinger Band Squeeze” play is setting up (which argues to trade the range breakout - in either direction - once price breaks out of this established trading range).

**SUBSCRIBER NOTE:** I will be traveling and presenting to the AFTA -Dallas Chapter meeting at 7:00pm CST tomorrow evening so tomorrow’s *Idealized Trades* report will be delayed and may be published on Wednesday Morning. Wednesday’s report may also be delayed.