



# Daily "Idealized Trades" Report

## SPY (SPY 500 ETF) 5-min



December's "Fed Day" is now behind us, and unfortunately for buyers, it did not have the momentum or catalyst to break the market out of the current trading range. As such, the range that began in Mid-November remains the dominant structure of the market.

We opened the morning with a 50 cent SPY gap (4 @ES points) which was in the range of "expect gap fill." However, remember last night I mentioned that some Fed Days can form Trend Days, and that price consolidates tightly in the two hours prior to the 2:15 EST announcement, so conflicting forces were at work. It was not wrong to try to short the opening gap to play for a fill, but a better opportunity came from a divergence and long upper shadows, as highlighted in the first trade.

#### 1. GAP FILL, LONG UPPER SHADOWS, SHOOTING STAR/DOJI, DIVERGENCES, UPPER BOLLINGER

If you did not short off the opening gap, then the best entry for you to short to play for the gap to fill would have been as soon as price broke the low of the shooting star with long upper shadow that formed at 9:55 EST. The low was \$111.95 and price took it out with the next bar. Your stop would be a few cents above the prior high near \$112.10 and minimum (conservative) target a retest of the rising 20 EMA at the \$111.75 level and maximum (aggressive) target a full gap fill back to \$111.35. As it was, price formed one more doji candle and then plunged to test the 20 EMA along with the R1 Pivot Point at \$111.82, forming a "Make or Break." If price held this level, then odds would favor a play to new highs on an "Impulse Buy" style logic, but a break solidly under the 20 EMA would increase the odds that we could get a full gap fill. As such, for those so inclined, this set-up a quick trade to "test" the line, particularly as a doji formed after a long lower shadow.

#### 2. IMPULSE BUY, LONG LOWER SHADOW, DOJI, R1 PIVOT SUPPORT

Price took out the high of the doji candle at \$111.83 at 10:30 EST, setting up a possible Impulse Buy trade to play for a retest of the intraday high just shy of \$112.10. For confirmation, which was costly as the candle moved so quickly, a strong Bullish candle formed as price moved upwards off the confluence support zone. The target was hit in a choppy fashion, which formed a negative TICK and momentum divergences, and the two doji candles that formed at the upper Bollinger Band gave you an excellent "exit with profit" pattern as well as a "get short for a possible reversal" set-up.

#### 3. TICK AND MOMENTUM DIVERGENCES, TWO DOJIS AT UPPER BOLLINGER, PRIOR RESISTANCE

This trade was relatively easy to spot due to the Negative Momentum and TICK Divergences (see 1-min chart for clarity) as well as the 'languishing' or choppy retracement up to the \$112.10 level which tested a prior high. Price could not meaningfully stay above \$112.00 but for two 'spike' candles, so the breaking of the low of those candles favored a minimum retest of the 20 EMA at \$111.95 or a more aggressive target of the rising 50 EMA at \$111.85. The stop would be above \$112.10 - perhaps \$112.20 in SPY and 1112.50/1113.00 in the @ES.

Pay particular attention to this trade set-up example, which shows a brilliant way to combine the 5-min and 1-min chart (as in, dojis at the upper Bollinger on the 5-min which were supplemented by negative TICK and momentum divergences on the 1-min). This is a great educational example to reference for the future.

I mentioned in advance that price tends to consolidate tightly in the hour(s) before the Fed Announcement, so there are thus no Ideal Trades during this time... though the pullback to the convergence of the 50 EMA and lower Bollinger along with a doji candle at \$111.87 would have been a great 'long' set-up on a normal day.

The Fed Announced its policy - no change in rates and the economy is reviving - and then the volatility began as usual. We usually get a three thrust move (quick spikes up and down and up ... or vice versa) before the market tips its hand and then continues in a trend direction into the close.

We had a quick upside break and then the market collapsed as soon as it rallied. This is the main reason why most people avoid trading Fed Announcements - even with seemingly good news, the market can fall fast and hard. It happens more often than not, so picking direction is very difficult and stops - especially market orders - can be filled far from where you expected them or placed them.

There was a quick "Cradle Crossover" trade set-up as price rallied back into the convergence of the 20 and 50 EMA at 2:30, but this was only for quick traders.

The final trade was also an aggressive one - an "Impulse Sell" into the close.

#### 4. IMPULSE SELL

On the 5-min chart, this represents the first pullback into resistance (20 EMA) after a new price and momentum (and TICK) low have formed. Odds favor lower price lows yet to come, so the trade set-up is to short any retracement.

This came also quickly as price tagged the underside of the 20 EMA with a quick upper shadow. Aggressive traders would have entered as close to the 20 EMA at \$111.65 as possible, though conservative traders would have waited for the low of the prior tall candle to be taken out at \$111.40.

Either way, the stop was above the 20 EMA at \$111.70 and the target was for a retest of the prior swing low if not a lower price low (or countervailing buy signal).

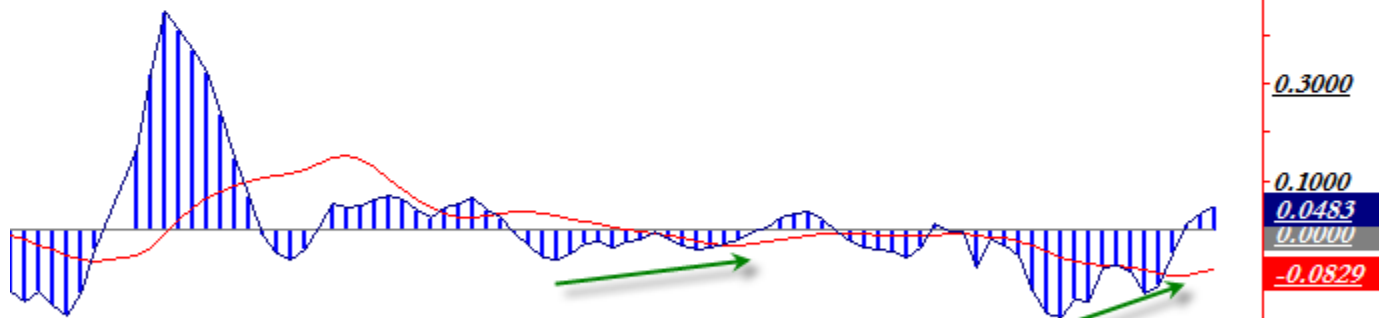
This trade fell quickly in 10 minutes, but did not give a simple buy signal to get you out.

However, price did retest yesterday's close at \$111.35, and yesterday's close is often a turning point during the day, so that could have been a target and an exit.

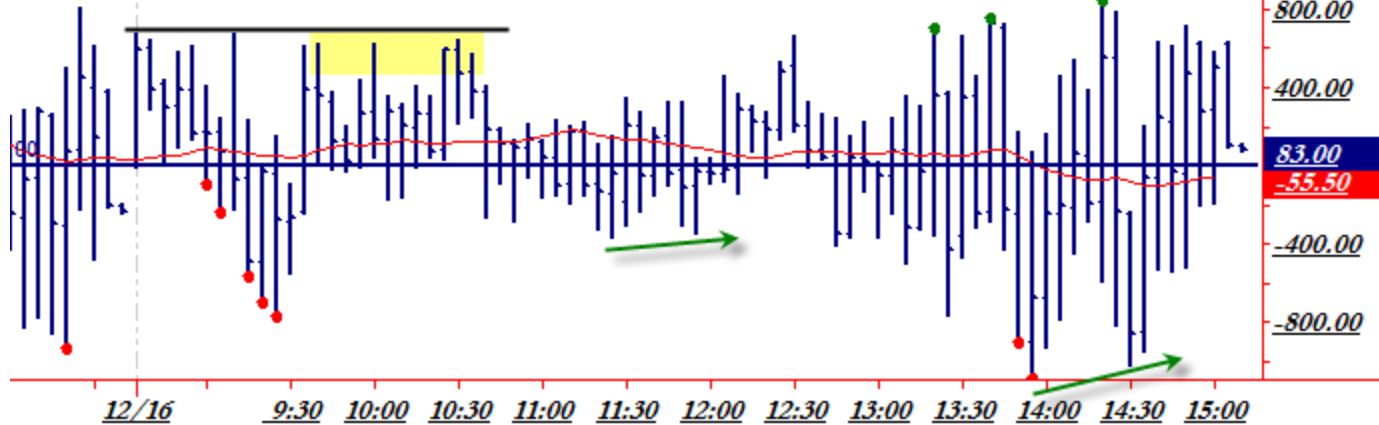
Price rallied sharply into the close after forming a negative TICK and Momentum divergence.

Nimble traders saw this quickly as price tested the support of yesterday's close - at least to exit the prior impulse sell trade with a profit, and possibly to flip aggressively and trade long into the close.

SPY - 5 min ARCX 12/16/09 L=111.35 0.00 0.00% 111.80 Hi=112.13 Lo=111.27 C=111.52



STICK - 5 min NYSE 12/16/09 L=83.00 316.00 -135.62% O=-1.00 Hi=850.00 Lo=-1083.00 C=83.00









And... we're still officially in the broader trading range. Ranges can expand like a rubber band, but are broken with an impulse move above new highs. That impulse move has NOT happened yet. Each time price tested above \$111.50, sellers stepped up and brought price back down into the range. Buyers are not yet stepping up to buy at new highs and that needs to be watched closely as price struggles to form a breakout. A "Three Push" negative momentum divergence pattern has now formed and the price structure looks weak.

That's not to say price will collapse - again, we trade with "IF/THEN" statements - not foreknowledge or absolutely. IF price (buyers) break above \$112.25 on volume and momentum, THEN we will trade long because of the "Popped Stops" phenomenon of short-sellers being forced to cover (buy). Also, any breakout of the range should lead to a positive feedback loop/environment where a momentum move erupts... so be on guard. Otherwise, expect the range to hold.



The 60min chart shows the entirety of the trading range and the boundary at \$111.50 (now stretched to \$112.00) and clearly at \$109.00.

We see the “Three Push” negative divergence clearer here, and see that on the 60min chart, the two recent volume spikes were “sell” bars, particularly into the close.

The play is the same - watch closely for an upside break above \$112.25, though until that happens, odds favor a move back to test the prior lows.

Short under a break of \$111.25 which is the 50 EMA and was a support level - it is also the lower Bollinger Band.



The S&P 500 is very compressed in terms of volatility and range. The ATR (ave. true range) made the lowest low of 2009 today - registering at 13 points. Such low volatility readings are often the precursors of big moves. Price continues to remain trapped between 1,120 and 1,080 - so look closely for any breakout that closes above or beneath those levels to signal the start of a potential new impulse move.

Remember that Quadruple Witching is Friday, so the market could experience some strange movements Thursday and Friday as funds balance out (square out) their positions. See the next chart to view the S&P year to date with the ATR indicator and the VIX (Volatility Index), which is at 20.50, at the lowest levels of 2009.

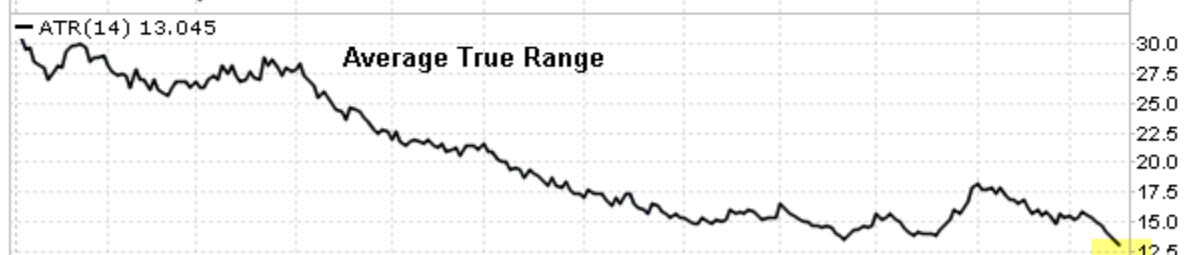
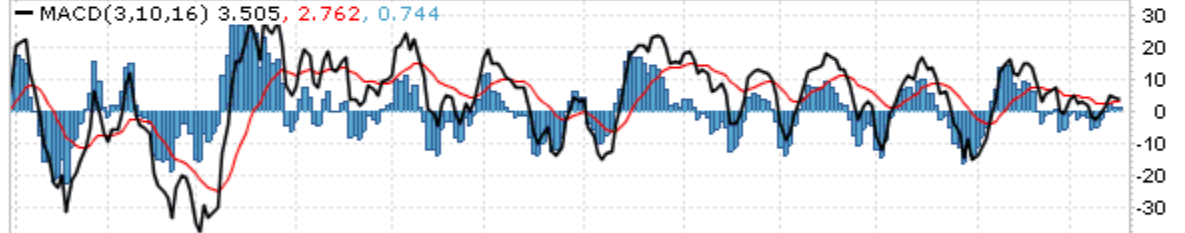
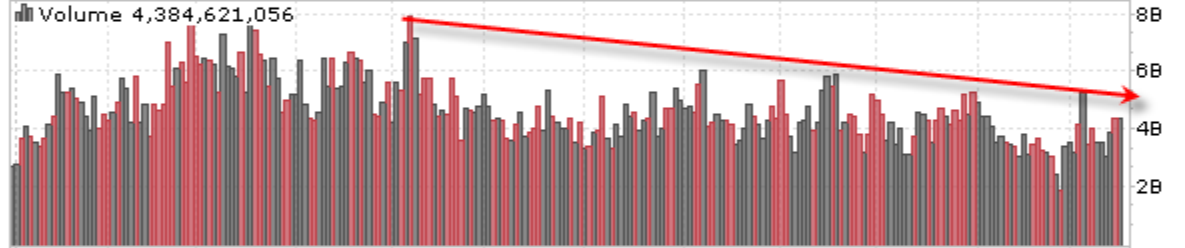
**\$SPX (S&P 500 Large Cap Index) INDX**

© StockCharts.com

16-Dec-2009 **Open** 1108.61 **High** 1116.21 **Low** 1107.96 **Close** 1109.18 **Volume** 4.4B **Chg** +1.25 (+0.11%) ▲



2009 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec



2009 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec