



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Today is a reminder why it is very, very important to watch the larger concept and higher timeframe 'structure' and then "play out" this structure on the lower timeframe. I mentioned in last night's report that odds strongly favored a down move and that's precisely what happened. What's more - as you'll see from the 60min chart - price is following a script almost exactly and it is absolutely imperative that you are aware of the pattern. Rally to the \$111.50 level, stall, gap down, test \$109.00. Stall at \$109.00, gap higher, find resistance near \$111.50, repeat. This pattern will not last forever, but until it stops 'working,' it's best to adhere to the pattern... it is like a literal roadmap for what is likely ahead for the next trading day. That's a main reason why these reports are valuable to you - in highlighting such patterns.

Let's jump right in to learn about today's trades and compare our results to the 'ideal' trades to make us better traders day by day.

The market gapped lower by almost 80 cents, and that is OUTSIDE our probabilities to expect or play a gap fill. As such, we would be looking for lower prices in a precursor to a potential Trend Day down.

The first trade might have been to short-sell after the doji-like candle formed at the \$110.90 level and then price took out the candle low at \$110.80, but this happened so quickly that you might have missed this set-up. Ideal set-ups often have a condition and then a trigger, which allows time between the condition - new momentum/price lows favor lower price lows yet to come - and the trigger - a break of a candle low. Good if you took this trade short - with a stop above \$111.00, but a better possible opportunity came aggressively after a bullish engulfing hammer formed for those nimble enough to buy long on a potential trend day down... conservative traders would be waiting to short the pullback that the aggressive traders were willing to trade.

1. BULLISH ENGULFING HAMMER, 1-MIN DIVERGENCES, RETRACEMENT PLAY

Again, this was a counter-trend scalp back to the zone of the 20 EMA at \$110.70, and the trade triggered AFTER the bullish engulfing hammer at 11:05 EST formed and price took out the candle high at \$110.45. This gave enough evidence that odds favored a possible play back to the 20 EMA - with a stop under the candle low at \$110.30. As this was a counter-trend scalp, a tighter, more guarded stop was required.

Price moved higher into the \$110.60 level and formed a series of dojis, so it was absolutely understandable to exit with a profit at this area, or even consider shorting as the lows of these doji were taken out. However, what occurred was actually an "ABC" three-wave retracement which was actually a bull flag (see 1-min chart).

Very, very aggressive traders who might have exited as the dojis formed had a second chance to get long to play back to the 20 EMA with the 1-min bull flag formation and trendline break at the \$110.55 area to play for \$110.70 if so willing, with a stop under \$110.45. While the aggressive traders had their fun, it was now time for one of the best trade set-ups of the day.

2. IMPULSE SELL, RETRACE TO THE 20 EMA, DOJI, FLAG TARGET MET, 38.2% FIBONACCI RETRACEMENT, S2 PIVOT

Again, we still are biased to expect a possible Trend Day down after the large gap down, so the ideal trades are going to come on the short-side, barring any major positive divergences. This was potentially many people's first trade of the day. Price retraced in a clean 3-wave affair - bull flag which hit its overhead target - to the 20 EMA and then formed a doji candle. The breaking of the low of this doji at \$110.72 triggered you in short, with a stop above the doji high of \$110.84. Price fell in one bar and then something interesting happened - price rallied up to \$110.81 and potentially spooked a good deal of conservative traders (tight stops) out of an otherwise overwhelmingly high probability, low-risk trade. Have conviction in your trade set-ups and do not 'play' with your stops when they are placed above logical levels.

Beyond the 20 period EMA, we had the 38.2% Fibonacci Retracement at \$110.80 (see lower chart) and also the daily S2 (support #2) Pivot at \$110.77. The Pivot, Fibonacci Retracement, and 20 EMA (along with the upper Bollinger just overhead) provided a strong convergence of resistance overhead in which odds favored a downward move.

The initial target was for a retest of the morning low at \$110.30, or again, for a new low yet to come in a "Trend Day Down" fashion. Price formed a 5-wave impulse move lower, and at the final 5th wave... we could have exited with a strong profit and then - for aggressive traders - flipped long to play back to the 20 EMA for resistance.

3. 5-WAVE FRACTAL, BULLISH ENGULFING, POSITIVE MOMENTUM DIVERGENCE, BOLLINGER

This was also a counter-trend (day) set-up, but there was enough convergence along with a tight stop and reasonable upside target to make this trade worth it, even for some conservative traders.

Price stabbed outside the lower Bollinger Band at \$110.08 on a positive internal momentum divergence. The bullish engulfing candle the formed here and formed a high of \$110.23 set a trigger for entry, after these conditions were met. Price took a full candle that did not take out the high, and finally the 1:05 EST candle did take out the high, triggering an entry with a target of the 20 EMA (minimum) at \$110.35 and stop under \$111.10. Because of the convergence of the divergences, a more reasonable target might have been for a test of the "Line in the Sand" or the 50 EMA at \$110.50. This would be the "Line of Demarcation" between whether to expect a continuation of the Trend Day down or not.

Price moved in an upwards range fashion up to the 50 EMA, triggering an exit (there were also shooting star and doji candles that could have triggered you out earlier), and then price surged up and rose above the 50EMA. I wanted to include #4 as a discussion point instead of a specific trade.

4. DISCUSSION POINT - WYCKOFF, FAILED LINE IN SAND.

This trade is one of the best examples of the difference between conservative and aggressive strategies.

Remember, aggressive traders enter EARLY with less information (prior to candles forming) while conservative traders see the same set-up but WAIT for confirmation, such as a candle formation and/or the price closing above the high of that expected reversal candle.

When price formed a large upper/bullish breakout bar above the "Line in the Sand" and the upper Bollinger Band, the TICK made a new intraday high. This is the "Wyckoff Sign of Strength" set-up and it tells us that higher prices are likely yet to come due to the strength showing up in the internals when price is not making a new high.

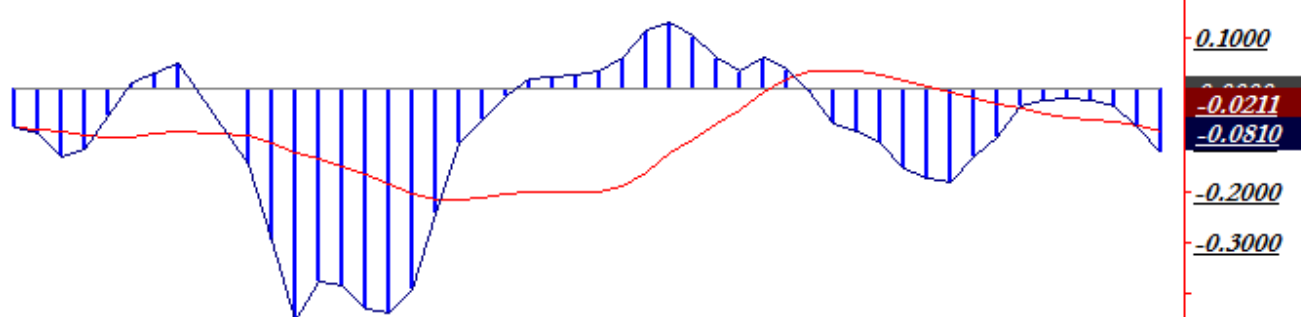
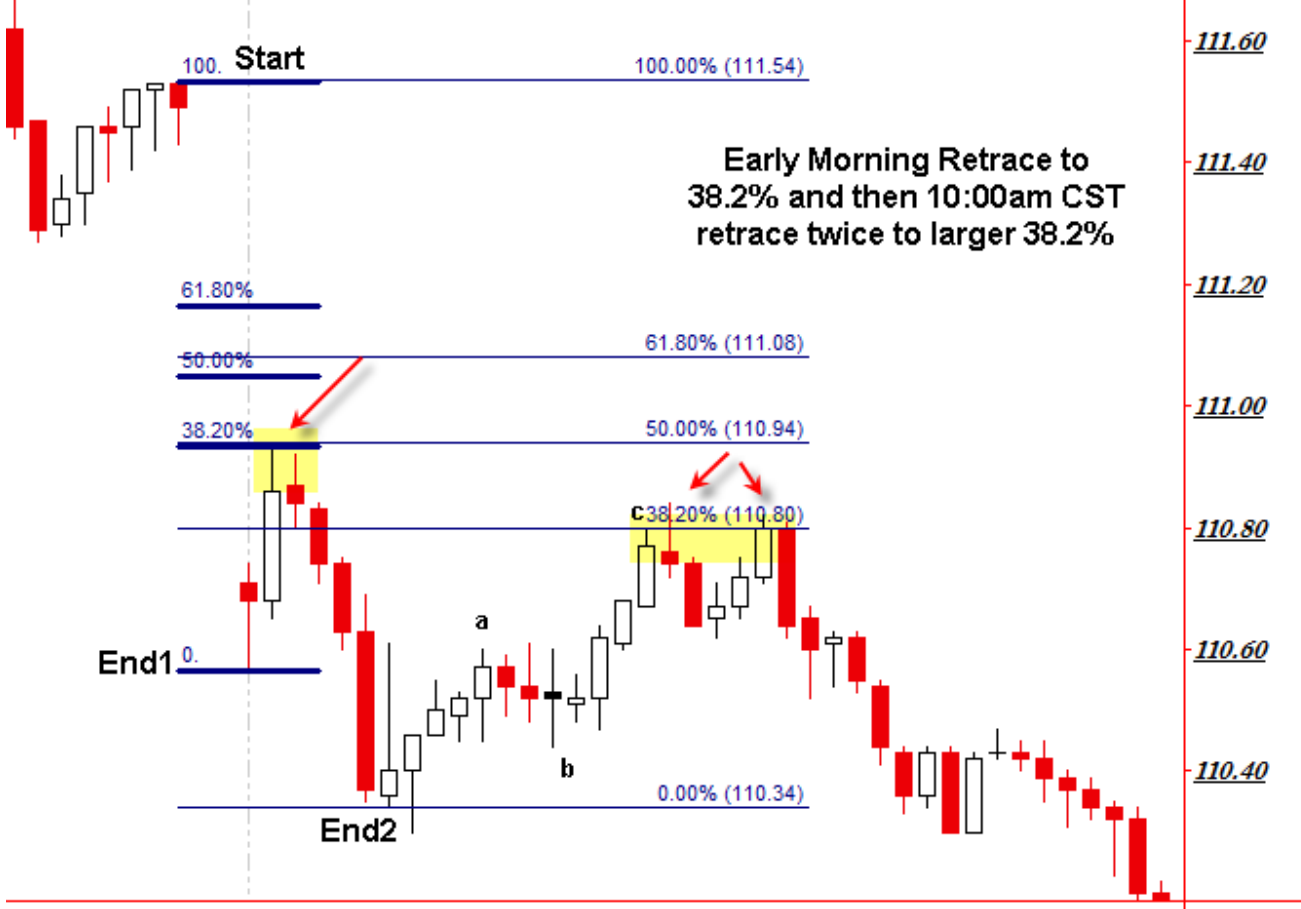
Aggressive traders would have entered long the moment they saw the close of the large bullish candle and the new TICK high to play for a trend reversal, with a stop under the 50 EMA. They would not wait for the high of the candle - at \$110.61 - to be taken out before entering. They also would have been immediately stopped out.

A conservative trader would have seen the exact same set-up and then waited for price to move above the candle high to trigger them in. This did not happen. In fact, this wound up being a bull trap and led to a move to test the intraday lows, and revealing the strength of the trend day down (odds favor trend continuation). It's generally safer to wait for TWO candles to close above the 50 EMA ("Line in the Sand") to make sure the breakout is not false. You'll miss your perfect entry, but times like this can make up for waiting, when price forms traps.

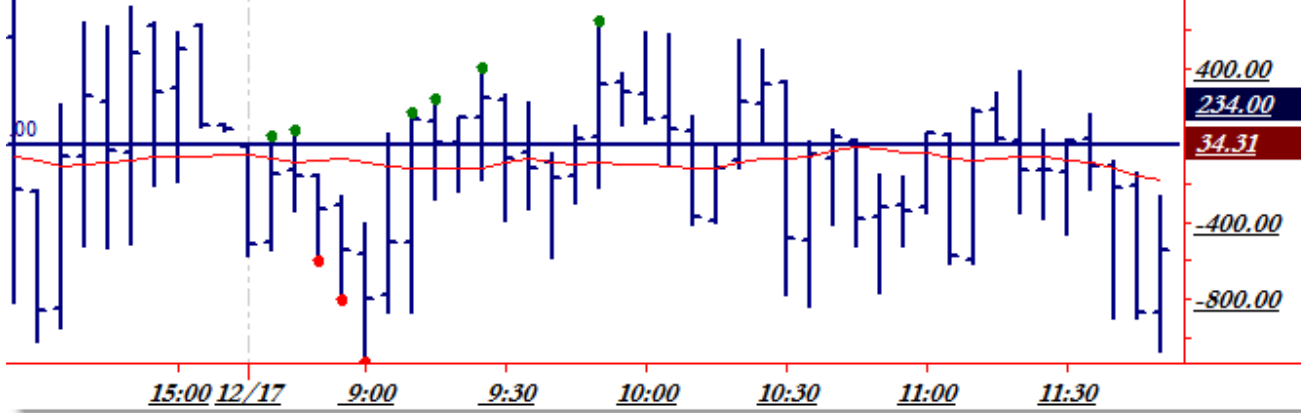
Price fell into the close, and if you recognized the trap after it formed, you could have played short to 'pop' the stops of the buyers/bulls who were snared by the vicious trap.



SPY - 5 min ARCX 12/17/09 L=110.23 -1.29 -1.16% O=110.72 Hi=110.93 Lo=110.08 C=110.23



STICK - 5 min NYSE 12/17/09 L=232.00 149.00 179.52% O=-10.00 Hi=1048.00 Lo=-1122.00 C=232.00



The second bar stopped at the 38.2% retracement of the low to the high drawn, and then Trade #2 stopped at the 38.2% of the morning low to closing high drawn here. This is how you can use Fibonacci quickly to confirm structure/entries.



Per request of members, I've started sharing the @ES futures chart, and leaving it clean as a 'comparison' to compare with their trades. I do my discussions off the SPY chart so as to be more responsive to subscribers who trade other ETFs or stocks based on what the SPY is doing... or don't trade futures (yet!).



The 1-min chart gave a few crystal clear Elliott's Fractals examples, including fractal waves as shown above. Also, we had a mini-rounded reversal into the close with the bull trap that tricked traders.



For whatever reason, the market is following a clean and repetitive pattern, almost by design. As long as it follows this pattern, you need to keep it simple and forecast the next move by looking at the recent past.

This means that odds favor a move back down to \$109.00 because - like in the past - we have found resistance near \$111.50 and then gapped down through the moving averages.

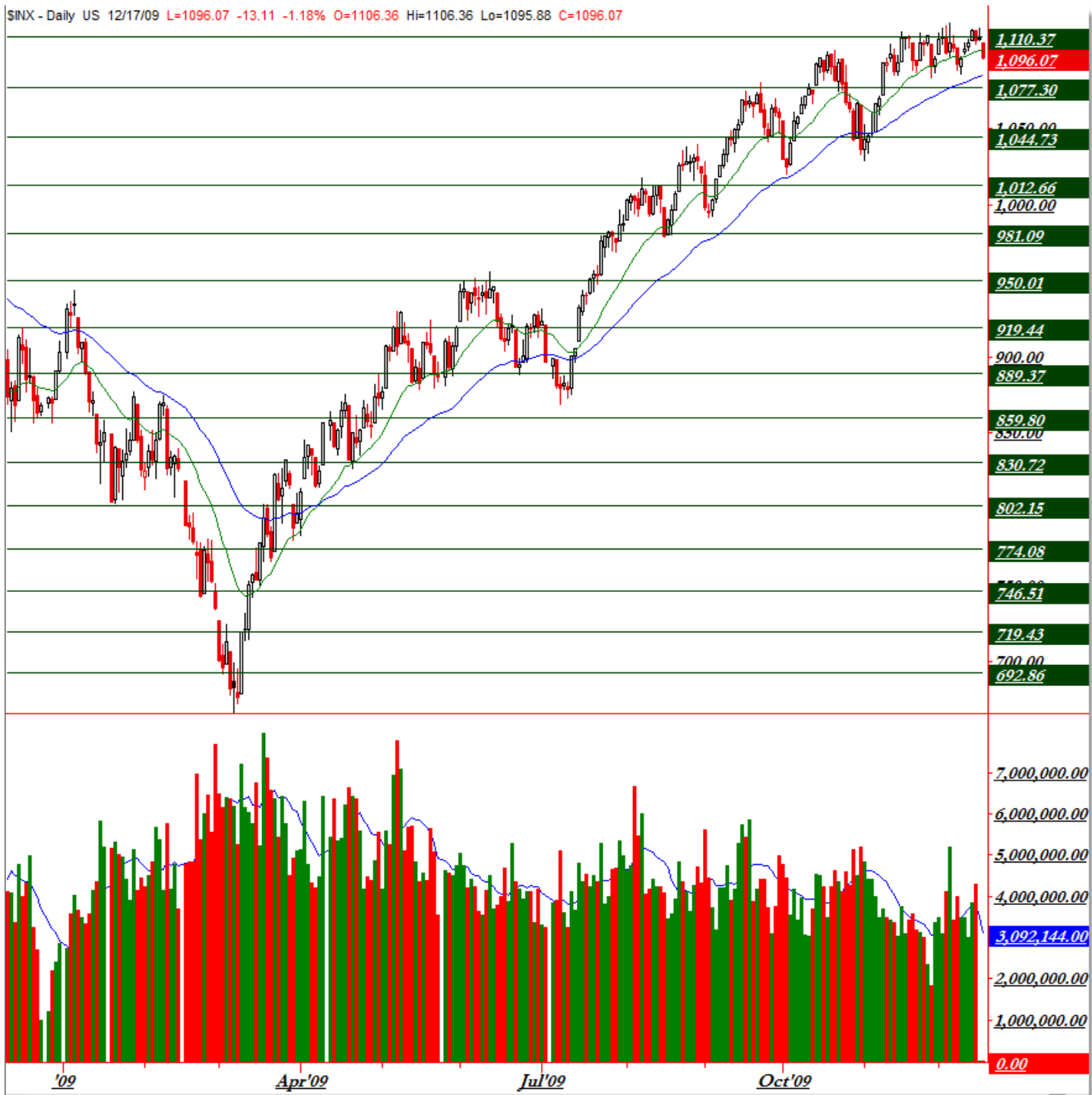
The bias is to the downside for a target of \$109.00. Any sudden up-move above \$111.00 would negate this bias.

REMEMBER that Friday is Quadruple Witching, so trading in the cross-currents might be difficult.



Again, price is repeating the pattern of resistance at \$111.50 (though this time with bull traps), gap through the moving averages, and retest \$109.00.

Volume has picked up as price has moved lower, and again we are working off a “Three Push” negative momentum divergence that I called out to you in last night’s report.



Special "Gann Squares" gridline chart starting off the 666.79 price lows.

Main idea is that 1,110 is a "Gann Squares" number along with 1,077. These are numbers the public isn't watching, but - as seen from the past - these numbers can mark short-term turning points in the price.

Watch these 'hidden' numbers as a reference.

This chart - in TradeStation - also shows the dramatic decline in volume since the March lows.



No change in the daily S&P 500.

Odds still favor a move down to the 1,080 level, which is now strong convergence support... and ANY move under 1,080 (\$109 on the SPY) would argue for a move down to 1,020 at a minimum if not lower.

Volume declines towards the last days in December, and sometimes volatility picks up.

Be careful trading intraday on tomorrow's Quadruple Witching.