



# Daily "Idealized Trades" Report

## SPY (SPY 500 ETF) 5-min



We all survived another Quadruple Witching! And the market followed the script as I explained and targeted in last night's report - that odds favored a down move to test the lower support zone near \$109.00, and price bottomed strongly at \$109.28 before rallying yet again on a journey that could now take us back to the \$111.50 area.

It really is as if the market is being guided by a big hand here from level to level in repetitive fashion within this trading range that has been established since November.

The market formed a small bear flag pattern into yesterday's close and turned lower - this morning's action was a continuation of that down-move and play down to the critical support area. As such, the first couple of day-trades came from short-selling into the 20 EMA resistance with upper shadows or dojis forming at these levels.

#### 1. DOWNTREND, DOJI/UPPER SHADOW INTO RESISTANCE

These were simple, classic retracement trades to short into a prevailing downtrend, with expectation for lower prices as explained and targeted in last night's report. The best (easiest) trades come after pullbacks into an established downtrend, particularly into key EMA resistance such as the 20 or 50 EMA, and trades are triggered as dojis or other reversal candles form at these levels.

There were actually two opportunities to 'get short' - that of the early morning pullback with long upper shadow to the \$110.30 level... or afterwards on the pullback to the confluence price zone of \$110.20 which was the 20 EMA (again) and yesterday's close. A doji and then a bullish engulfing candle formed at this level, and then price suddenly plunged lower, taking out the intraday low. Odds were strong for a continuation move lower... though the target would have been a maximum move down to the \$109.00 level, or a countervailing buy (flip and reverse) signal that was likely accompanied with divergences.

For those that held short the duration of the move - notice new TICK and Momentum Lows all the way down - as long as this is occurring, odds favor lower prices yet to come, so it is acceptable to trail your stop above the 20 EMA or above prior swing highs that price makes.

The counter-buy signal came just after noon EST, which set up an "exit with profit" or aggressive "buy long" set-up which I'll classify as an "Ideal" trade.

#### 2. FLIP AND REVERSE, MINI-DIVERGENCE, DOJI AND BULLISH ENGULFING, LOWER SHADOWS

Price formed a long lower shadow that actually was the intraday low at 11:20am EST, but that was not a reason to exit or flip and go long on a single candle. The TICK and momentum registered new lows on this candle, so odds still favored lower prices yet to come - such is the nature of Trend Days.

However, price did swing back down one more time to test the prior low, finding an ultimate bottom 2 cents higher at \$109.30 and then forming a hammer candle just before noon - and when the high of this hammer was taken out at \$109.39, this could have been regarded as an "exit with profit" signal at a minimum, or an "flip and reverse long" signal for aggressive traders to try to play for a move either back to the 20 or 50 EMA at \$109.60 or \$109.80 respectively.

Price formed three bullish candles and then formed a bullish engulfing candle at noon, when suddenly took price upward above the 20 EMA. There was a mini-divergence in the TICK and momentum, as price tested the prior lows (missing an actual low by two cents) but both the 3/10 and TICK were making comparatively higher lows (than just the equivalent of 2 cents). This is a weaker form of divergence - a stronger divergence signal comes on an actual new price low with indicator/TICK higher lows as usual. Still, it was worth noting and watching.

Price did rally sharply up through the 20 EMA, testing the underside of the 50 EMA. It was acceptable and encouraging to exit with a profit (long) as dojis formed just under this level. The next play would be to wait for breaking of candle lows or other divergence signals to get short for a play with the bias that "A trend day down has formed."

However, just like yesterday (it is so eerie how these patterns repeat - see yesterday's report in regards to the failed "Wyckoff Sign of Strength" which set-up almost identically to this set-up), a Wyckoff Sign of Strength formed which muddied the waters.

Remember, today was a Quadruple Witching, and that price was affected by seemingly random forces of large positions ignoring the charts so as to 'square away' or balance out their books (if they had not done so already) for the expiry. That meant we could see more 'noise' than signal.

Until this point, price was 'working' as expected and it was - to me at least - feeling like a normalized day instead of an Expiry. That all changed after 1:00pm.

### 3. WYCKOFF SIGN OF STRENGTH, LINE IN SAND BROKEN, PRICE TURNS TO CONSOLIDATION

In real-time, the bias was to be long after the large bullish bar at 1:30 EST with new TICK and prior new momentum high (on the rally off the lows). It was the classic "Wyckoff Sign of Strength" signal which forecasts higher prices yet to come, and a destruction/deterioration of the Trend Day Down bias - price closing above the 50 EMA on strong/solid internals is a foreshadowing of a reversal in structure to a more "rounded reversal" day.

The occurrence of this pattern tells us to buy pullbacks after the Sign of Strength forms, because it argues that the trend has changed.

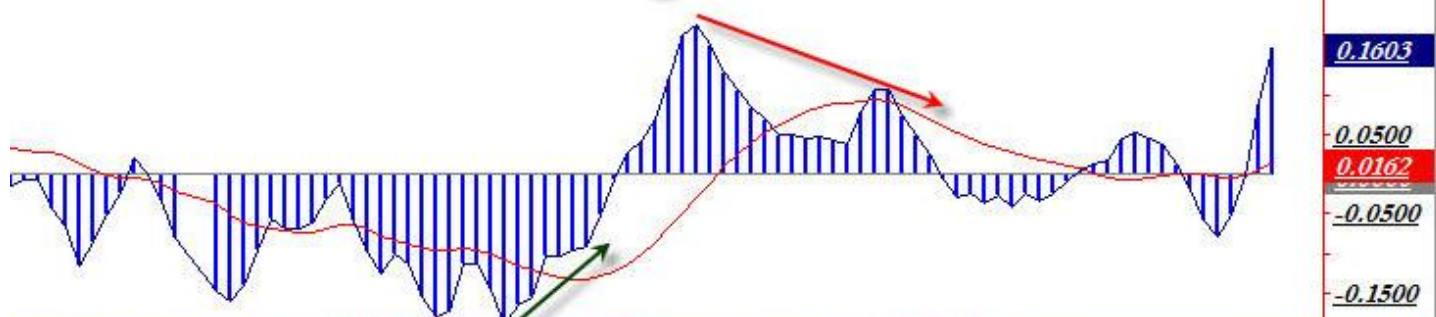
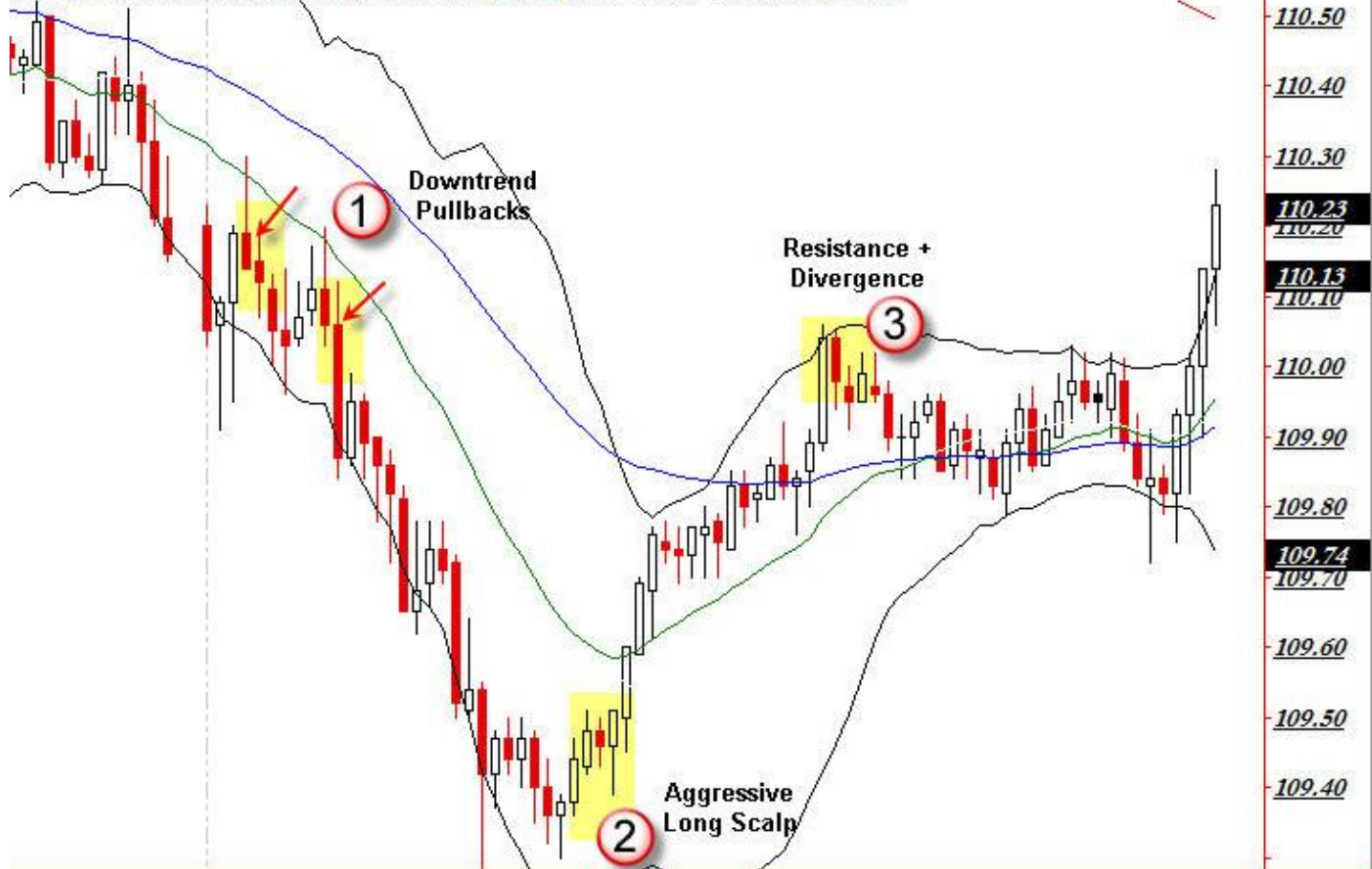
As such, if you took this bias (rightly so), your next trade was to buy the first pullback into the convergence of the 20 and 50 EMA at the \$109.90 level, with a stop perhaps under \$109.80 to play for not only a retest of the \$110.05 high, but also a new high yet to come in true "Reversal Day" status.

If you follow the price forward, this trade began to work solidly into the 3:30 EST rally, and then price suddenly shifted course, fell sharply, took out your stop, and then - just as quickly (actually more quickly) rallied to new (swing) highs as expected and forecast by the Wyckoff Sign of Strength. Such is the frustration and difficult conditions on Options Expiration Days - you can get the main idea and trade correct, but the 'random' volatility of the large funds' rebalancing can cause stop-losses on set-ups that would 'work' profitably on normal, days.

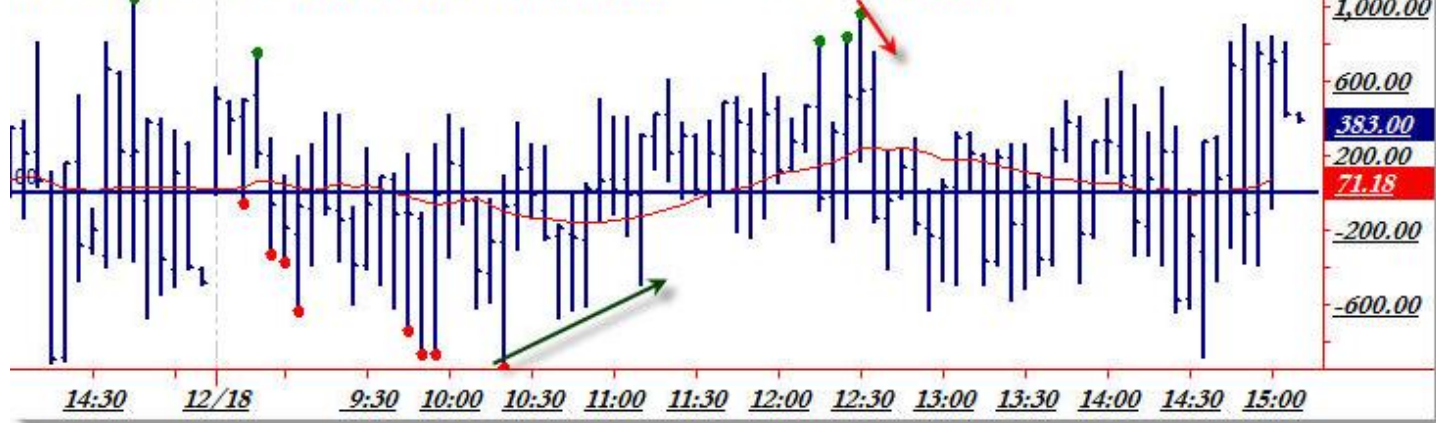
The other way to interpret this - looking back with the benefit hindsight - was to note the overhead resistance of the upper Bollinger Band and negative momentum divergence as price formed its new swing high above \$110.00, which often acts as key resistance (round number resistance). You could have put on a scalp-short trade here to play for a move back down to confluence support (EMAs) at the \$109.85 level and THEN gotten long to play for the swing back up that was forecast by the Wyckoff Sign of Strength.

Either way, the end of the day was much more difficult to trade than the opening and the move and rally up into noon.

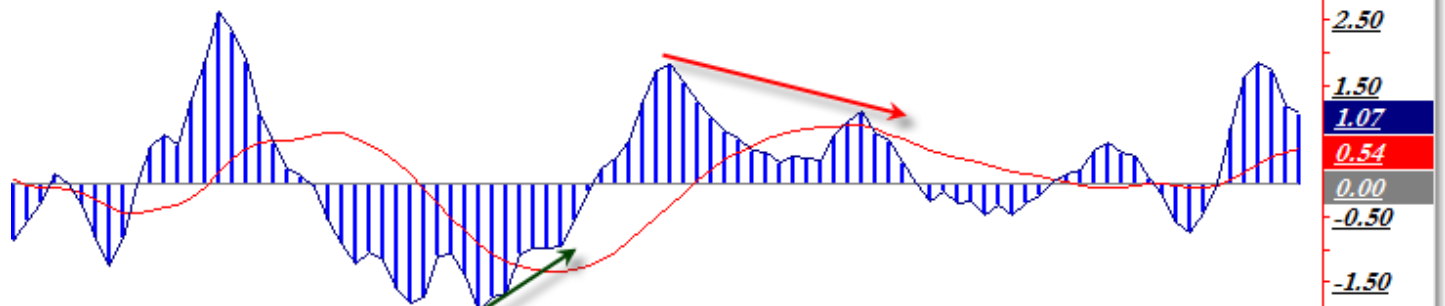
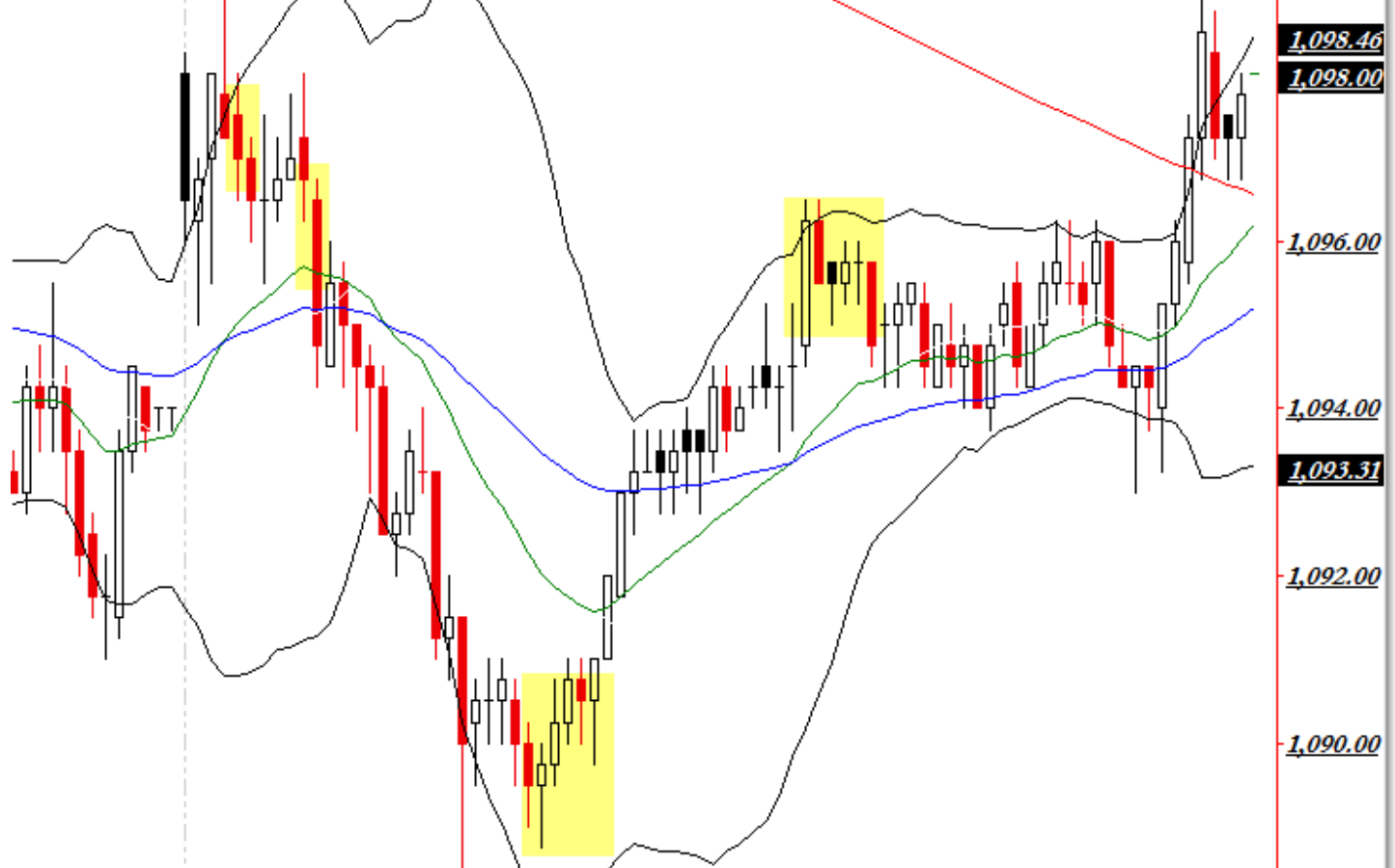
SPY - 5 min ARCX 12/18/09 L=110.12 -0.06 -0.05% O=110.20 Hi=110.30 Lo=109.28 C=110.14



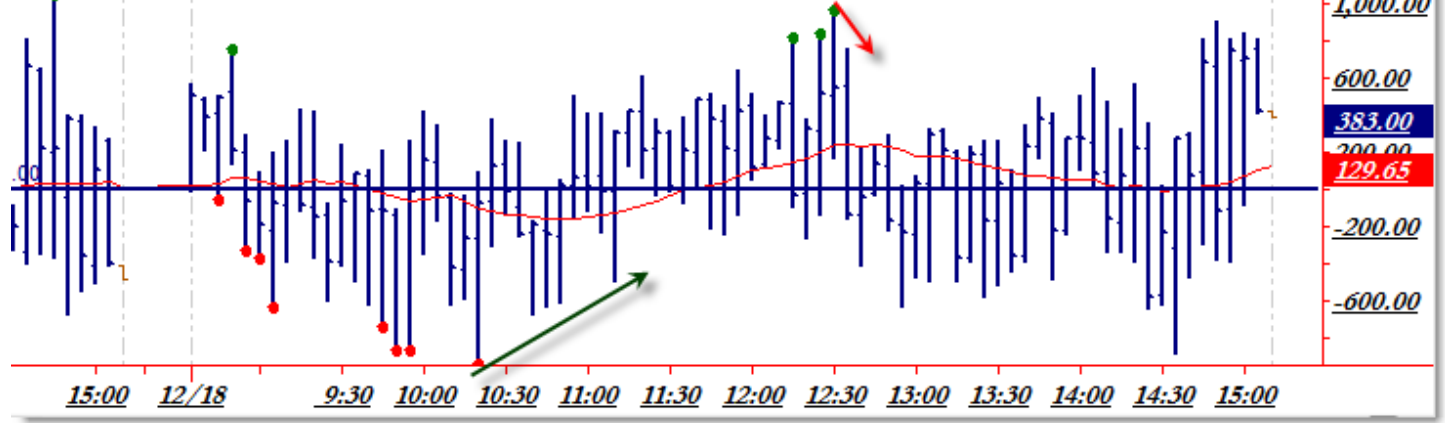
\$TICK - 5 min NYSE 12/18/09 L=383.00 865.00 -179.46% O=3.00 Hi=959.00 Lo=-933.00 C=383.00



@ESH10 - 5 min CME 12/18/09 L=1098.00 3.75 0.34% O=1094.25 Hi=1102.75 Lo=1088.50 C=1098.00



STICK - 5 min NYSE 12/18/09 L=383.00 865.00 -179.46% O=3.00 Hi=959.00 Lo=-933.00 C=383.00





Another bit of evidence to encourage a short-sell at the \$110.05 level at 1:30 EST was the 5-wave fractal move that unfolded. There was also a 5-wave fractal move that unfolded on the swing down into the 11:15am EST lows which then formed one more swing down on a positive momentum and TICK environment (compare the lows).

Otherwise, I'm showing a Fibonacci Grid from yesterday's swing high into the close, which further added weight to the "short at the 1:30 high" level... which - confusingly - was also the Wyckoff Sign of Strength signal.

Such are the cross-currents of expiry days.



I've been successfully calling these turns and targets in the market mainly because the market is currently following a clear script. As long as the market continues to repeat this pattern - as if guided by some large hand - then the pathway forward is clear. Price fell as expected and described last night, and fell just shy of a full retest of \$109.00. Now, odds favor price to rally higher to challenge \$111.50 again, potentially gapping higher through the moving averages shown above AGAIN because that's what price has done three times exactly prior since November 15th (4 times if you count the Nov. 15th gap). See the 60min chart for this pattern clearer. It's eerie.

To be fair, any break of \$109.00 would be a clear short-sell signal, as would any move above \$112.00 be a strong buy signal. Until EITHER of these happen, then odds favor that price will continue to trade in this 'script' or range.



Again, there's not much more I can say about this to make it plainer.

As long as the market follows its current script, then odds favor a 'repeat performance' of price to gap higher and then move up to test the \$111.50 to \$112.00 upper resistance level.

Like that of Nov 22, Dec 30, Dec. 10, and presently - price has formed a positive momentum divergence on the 60 minute chart. ALWAYS keep these levels in mind when trading - that's how you could have gotten aggressively long, or at least exited with a nice short profit as price began to rally higher off the \$109.30 intraday lows.

I know it sounds silly to say, but this pattern will continue until it stops... meaning, a clean break above \$112.00 or under \$109.00. Use this as your roadmap going forward as you trade intraday.

As a caveat, a member brought to my attention that we have closed under the 200 SMA on the 60min chart as shown above. To continue the expectation that higher prices are likely to result in a test of \$111.50, we'd like to see price rise back above the 200 SMA. Otherwise, watch closely as price is under the 200 SMA.



The chart remains the same. Lower support rests at 1,090 while upper resistance rests at 1,115/1,121.

1,121 remains the 50% Fibonacci retracement zone - if broken, it should lead to a strong momentum burst to the upside as short sellers' stops are taken out. Otherwise, look for a continuation of the range for as long as price remains in it.

Remember, ranges ARE trends just like up or down trends - so price is thus in a 'flat' or 'consolidation' "trend" phase.

Or, stated differently, "the current short-term trend is sideways."

Have a great weekend!