



## Daily "Idealized Trades" Report

### SPY (SPY 500 ETF) 5-min



Today was another choppy range day at the highs, confirming that we remain in a "Choppy-Toppy" phase (that has lasted longer than the four other similar swing highs) and remain within the established rectangle boundary, though there was a false-breakout ("Popped Stops") which took us back inside the range sharply on a 'price rejection' of the breakout of the range - that's bearish.

Today gave some good trades and great examples - let's see them.

## 1. RANGE TRADE, DOJI (2 UPPER SHADOW) AT UPPER BOLLINGER

This was a simple "Range Fade" trade, as price moved sharply up off the open, price then formed a long-legged doji at 9:40 EST, and if your rules allow you to trade in the first 30 minutes (some traders do not), then you would have been able to take a short after this doji formed, or after price took out the close of the doji at \$111.50. Two long upper shadows formed that tagged the upper Bollinger Band, falling just shy of testing yesterday's swing high at \$111.60 - the stop would have been above \$111.60 with a target back down to the lower Bollinger and prior price support at \$111.10. Price fell in a single bar, almost meeting the full target, before testing the intraday low at \$111.10 and busting higher.

Remember, that in a trading range, we don't look to moving averages as support or resistance (or targets - notice how price sliced through both). Remember that the bias was for a downside move, (due to the Rounded Reversal from yesterday), but we should also have been on guard to play "Popped Stops" in the event that yesterday's swing highs just shy of \$111.70 were taken out - if so, that would have created a quick long (buy) trade... it happened.

## 2. POPPED STOPS

There really isn't much sophisticated to describe or explain behind this set-up, other than when price "Should" go down and it triggers in new short sellers trying to capitalize on that downward bias/expectation, they enter short and then place stops just above prior swing highs or well-known resistance levels. This creates a "Pocket" of stops, given that, while most traders ENTER at about the same level, they place their stops at different levels, creating a wide pocket. Some place their stops a few pennies above the recent high (conservative), others slightly above the high (moderate) and yet others well beyond the resistance level (aggressive).

For those of you who have been trading long enough, you know that tight stops often get 'picked off' and traders often get stopped out short at the highs and stopped out long at the lows.

If buyers (market makers, hedge funds, etc) can absorb the sell orders and push the market up into this well-known "Pocket" (we all see it), then it will create positive feedback - in that buyers who are bullish were waiting to get long on a breakout to new highs, and so their buy orders are in the "Pocket," and then short sellers who are already short have their buy (cover) stops above swing highs (also in the "Pocket") and if price can be pushed into this "Pocket," then it creates a burst of "Positive Feedback," wherein sellers are buying to cover, and buyers are ... well ... buying new highs.

This isn't to say that this condition will last forever, no trade does, but it does give a high probability, low risk (your stop is just under the prior resistance level) trade with logic as to why the price is moving.

It's a short-term trade based on nothing more than stops being triggered (hence the name) and you can often play aggressively long when these opportunities occur (no, not all failed trades trigger Popped Stops - only those where logical "Pockets" of stops form).

Anyway, as soon as price broke to new highs above \$111.70, you should have entered long (I gave plenty of heads up that this was a distinct possibility) and scalped long for as long as price continued to rise. It did so until \$112.00 which was a round number resistance and then a doji and two long upper shadow candles formed outside the upper Bollinger Band.

For those who want a great example of this concept, this is it. The strong buying bar was NOT labeled "bullish" in that it was caused by bulls/buyers, but it was formed mainly in part by price entering the "Pocket" and knocking out short-sellers, causing them to rush to cover as price rose (it was NOT bulls 'panicking' into the market long so much as short selling bears panicking OUT of the market - that's a very important distinction to understand).

The implication is that if this is JUST "Popped Stops," then price will fall as bulls are not stepping up to support prices... in a sense, prices are artificially rising as a result of SELLERS driving price higher instead of BUYERS driving it higher.

As such, the result is a price fall as soon as the "Pocket of Stops" is extinguished.

You certainly could have short-sold at the \$112.00 high with the doji outside the upper Bollinger, but I hesitate to label that an "Ideal Trade" because there was no way to know in advance whether or not this was a true breakout (in which you should NOT short) or a failed breakout... either way, shorting here was very risky without a clear entry as usual - making it a reduced edge play.

Because of the volatility at the highs, I'm not deeming any 'idealized trades' at this period, though certainly there were set-ups. The bias was for further upside in the "Impulse Buy" mode, especially as dojis formed at the \$111.70 level along with a descending triangle pattern, but price did not form support at an EMA, and then price quickly ejected to the downside, breaking the \$111.70 support and the 20 EMA - too quick for most people to put on a trade there, especially since the bias was for higher prices as price bounced off support.

Price then formed two hammers at 11:30am, testing and bouncing off the lower Bollinger Band, and this was an aggressive trade too - but it was a scalp only, playing back up to the 20 period EMA at \$111.45 - not much room for a safe risk-reward position.

Also, price jabbed down to test the \$111.20 prior morning low, and in the process, formed a new TICK and Momentum low on the session, setting up a possible Wyckoff Sign of Weakness. A long/buy upward bias would be granted on a close above the 20 and 50 EMA at the \$111.45 level, though the Wyckoff Sign of Weakness fought against this bias. It was an uncertain environment at the noon move up into the confluence EMA zone, but it did give an edge trade.

### 3. IMPULSE SELL, WYCKOFF, DOJI AT EMA RESISTANCE

Remember that on range days - which was the bias so far - we don't look to EMAs for entries or exits. However, the major new TICK and momentum low set-up a type of "Impulse Sell" or - more appropriately - a Wyckoff Sign of Weakness. The edge comes in from taking a stand, and placing a trade short as the low of the 11:30am EST doji was taken out at the \$111.40 level and placing a stop above the 50 and 20 EMA level at \$111.50 (roughly 10 cent risk) and playing for a new intraday low at best (which occurred as price tested the \$111 round number support zone) or the intraday price low at \$111.20 (20 cent reward).

It was a risky trade, given that, if it was still a Range Day, then price would blow upward through these averages, stopping you out, and allowing you to trade long to play for the upper Bollinger Band near \$111.70 or beyond.

But price fell, and it fell hard - busting through \$111.20 without stopping, which should have kept you in (usually you wait to see if a bullish/reversal candle forms before exiting most impulse style trades). As price formed a new low at 12:30 on a test of \$111.00, the 3/10 Oscillator gave a 5-min positive divergence while the TICK - as expected - made new lows. Interesting development - and frustrating.

Three dojis formed in a row after 12:30pm EST, giving you the possibility for aggressive traders to play for a retest of the falling 20 EMA to play the expected Wave 4 rally (or flag rally) up into resistance, and then flip and exit to short for an expected move to new lows a la Elliott's Fractals.

### 4. POSITIVE MOMENTUM DIVERGENCE, THREE DOJIS AT LOWER BOLLINGER, WAVE 4

As mentioned above, three dojis formed at the lower Bollinger Band and \$111.00 round number level. This gave a long/buy trade as price broke the high of these dojis at the \$111.10 area to play for a retest of the 20 EMA at \$111.20 with a stop at \$111.00. I call this an 'aggressive' trade, as the risk/reward relationship was equal, so the edge in this trade came ONLY from the accuracy edge (in playing the dojis as reversal candles and the expected retracement up into resistance after a new price low).

Price did this, and actually spiked to test the 50 EMA at the \$111.30 level before forming a clean sell signal and long upper shadow doji ... in expectation of a bear flag and final 5th wave down.

#### 5. BEAR FLAG, 5TH WAVE DOWN, DOJI AT EMA RESISTANCE

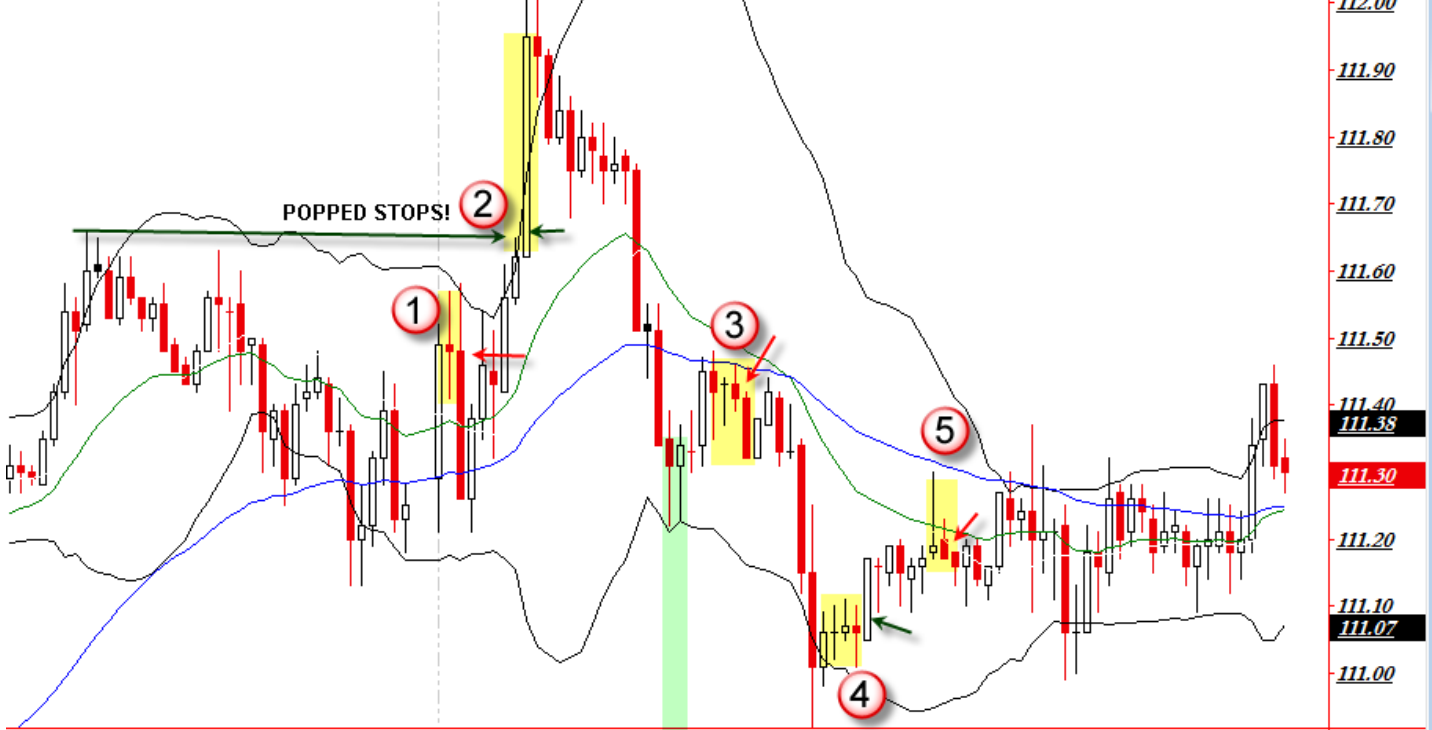
Now we can use moving averages as targets and support resistance, because the downside bias is 'taking over' as price has made new swing lows on the session and appears to be forming (or wanting to form) a 5-wave fractal move down.

The entry was as price took out the low of the long upper shadow doji at the \$111.20 area, and minimum target was a retest of the \$111.00 area, if not to hold for an absolute new low on the session. The stop would be above \$111.30, which was above the doji (at 1:00 EST) high and above the 50 EMA. This gave a 2 to 1 reward to risk ratio, with a positive accuracy expectancy as well.

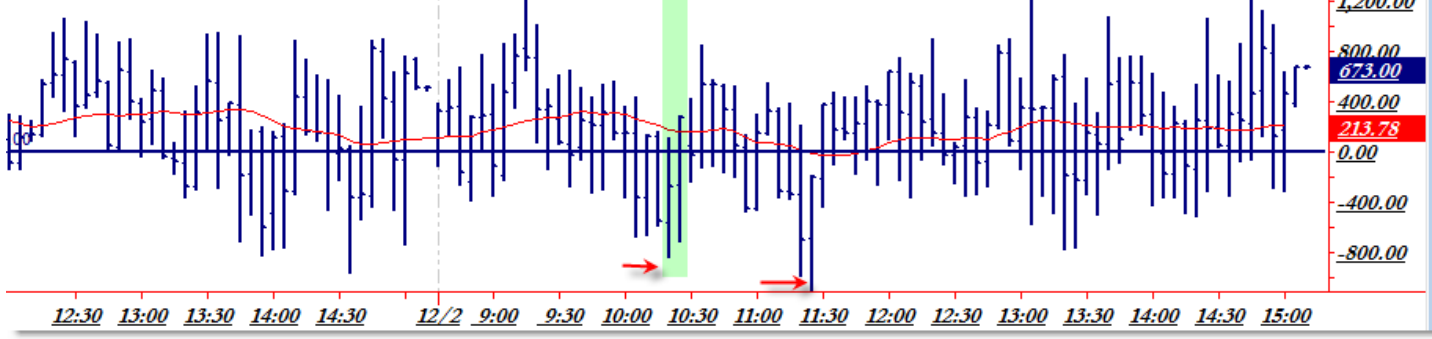
Ultimately, the trade failed (remember, we do NOT know the future - we are only playing out high probability (greater than 50% or 60% chance of succeeding due to confluence signals coming together), and we protect ourselves further by ensuring a positive expectancy from our risk/reward.

Price became very choppy toward the last two hours of the day, initially falling, then bursting upwards through the 50 EMA (popping out more stops), and then plunged in a volatile fashion back down to the \$111.00 target level before forming a long legged doji at 2:30 EST outside the lower Bollinger Band (I wouldn't necessarily call that a 'buy' signal, though you could have treated it as such) and then price floundered aimlessly into the market close.

SPY - 5 min ARCX 12/02/09 L=111.27 -0.03 -0.03% O=111.28 Hi=112.01 Lo=110.92 C=111.30



STICK - 5 min NYSE 12/02/09 L=673.00 164.00 32.22% O=1.00 Hi=1257.00 Lo=-1104.00 C=673.00





I strongly recommend visiting the Bloomberg EconoDay (or other financial news site) at <http://www.bloomberg.com/markets/ecalendar/index.html>

**Thursday Dec 3**

Weekly Bill Settlement

**Ben Bernanke Speaks**

Chain Store Sales

Monster Employment Index

Jobless Claims  
 [CONSENSUS] ★ 8:30 AM ET

Productivity and Costs  
 [CONSENSUS] ★ 8:30 AM ET

30-Yr Bond Announcement  
 • 9:00 AM ET

ISM Non-Mfg Index  
 [CONSENSUS] ★ 10:00 AM ET

There's a lot that is happening tomorrow on the Economic Front, which could explain today's reduced volume - traders are preparing (squaring up) for tomorrow's big economic announcements that could move markets in advance of Friday's "Jobs Report."

Initial Jobless Claims, and ISM Non-Manufacturing Index reports are released tomorrow - the website explains all of these reports and details the expectation behind them.



An updated 'referential' post stripping away (most) indicators and just looking at price in the choppy trading range at the \$111.60 and \$109.00 level.

If history is any guide, then the next move will be a down one, and would be expected to occur on a downside gap (see Nov. 19 and Nov 27).

Perhaps we get one more choppy day (Thursday) and then the "Jobs Report" Friday will either break us upwards out of the trading range or shoot us back down to the \$109.00 level.

Remember, the Friday (first Friday of the month) Jobs Report can and does move markets - particularly if there is a surprise in the report from what is expected. We have to make it through Thursday before Friday's Job Report comes out, so perhaps Thursday will be a tight range day unless there's a movement of traders AHEAD of the report.



Don't overcomplicate the situation - a break above \$111.75 should create a breakout play to the upside... but today's "Bull Trap" (price causing 'popped stops' but NOT following through) is bearish and suggests that Bulls/Buyers are not buying at the highs... so we need to watch this dynamic. Sometimes when a "trap" occurs, it is a precursor for a large move in the OPPOSITE direction, which would be down which would target the \$109.00 level. Any move under \$109.00 would be an aggressive short-sale bias.

Just the fact that price is in the upper part of the trading range... and on lower relative volume... argues for a down move, but remember that a solid break above \$111.75 and now above \$112.00 would be a 'go long' signal. Be prepared and don't let your opinion of what SHOULD (or should not) happen cloud your view of what is REALLY happening.

Meaning, don't blind yourself to an upside breakout if you think the market has to collapse from here... or don't blind yourself to a possible downward move if you believe the market is going to breakout from here. Let the market tip its hand - don't try to outguess the market. We should have a break one way or the other on Friday's Jobs Report.



No additional insights from the 60-min chart, only we see that price is forming more of a rectangle than a 'rounded reversal.'

Volume is slightly diverging (not that it has produced much of a downward move yet) as is momentum, and the logical expectation is for a move back down to the \$109.00 area... but again be on guard for a break to the upside which would further 'shock' sellers.

I'm curious why the upward spike today didn't seem to draw in new buyers - let's keep a close watch on the market here.



We again are in the "Choppy Tippy" period of the prior four market swing highs, and the widespread expectation is for a move down (perhaps quickly), but do be on guard for a sudden upward move which would trigger an upward bias creating Positive Feedback due to short-sellers covering and - this time - new longs buying on tomorrow's news or trading session.