



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Yet again, we are reminded of the importance of using higher timeframes and critical levels to set up trades intraday, as well as having a gameplan for what to expect and how to trade or position if certain conditions - breakouts specifically - are met... or fail. Be prepared!

For now, there are two factors working that all intraday traders need to know:

- 1) The 1,121 level in the S&P 500 is CRITICAL resistance (50% Fibonacci)
- 2) The market is trapped currently in a month-long trading range with well-established patterns and boundaries

That is the larger structure against which we trade... and in all honesty, two trades today could have been taken (trades 1 and 4) with absolutely no other knowledge than "Price is in a trading range and 1,121 is critical resistance." Place a stop just above that level (and be prepared to 'flip and reverse' long) and then short on any weakness at critical resistance.

Remember to keep it simple if it all possible - the purpose of these reports is to teach you concepts through repeated examples each day, as well as broaden your awareness of trade set-ups, structure, and concepts designed to develop your trading edge and increase confidence and profits. You have to do your own work in real-time, but I'm here to explain the larger opportunities, concepts, and teach you new methods each day.

We're looking for points where odds/probabilities are high for a winning trade along with the stop being small relative to the target. Everything else is designed to fulfill one or both of those goals.

1. 1,121 RESISTANCE, BEARISH ENGULFING, GAP FADE

This trade could simply have been taken with the knowledge that 1,121 is a critical level, and if broken, we would trade long above it to play for "Popped Stops" of the sellers, and any weakness at this level simultaneously would trigger a trade short with a stop just above 1,121 in the S&P 500 (\$112.10 in the SPY) to play for lower levels in the event resistance held and price came down.

It did. Though I wouldn't recommend shorting as price touched this level (too aggressive), I would wait to see a bearish candle such as a doji or engulfing or some other reversal candle to trigger a trade. This happened with the bearish engulfing candle 15 minutes into the trading session (3rd bar). You could have entered also on a break under \$112.00 and placed a stop at \$112.10 and then tried to play for a 'gap fade' (price gapped up just over 25 cents - well within the range of an expected fade... so this also could have been a simple gap fade... that happened to form into a significant overhead resistance level).

Keep it simple. Gap fade into significant, known resistance. Target yesterday's close at \$111.74. Stop above \$112.10.

Price then formed a sharp, and sudden (I told you in advance to expect sharp moves off this level in last night's report) reversal down, confirming overhead resistance, and then price formed a clean and obvious 5-wave fractal move that terminated with a positive Momentum and TICK divergence... giving us our second "edge-based" opportunity.

2. 5-WAVE FRACTAL MOVE, POS. TICK AND MOMENTUM DIVERGENCE, LOWER BOLLINGER, LONG SHADOW

This also was a clear trade set-up that was (relatively!) easy to capture and trade real time, especially on the sharp up bar that came after the morning price lows. Remember - use the concepts I teach via these reports to apply them in real time when you see them - trade with confidence and read the archives in case you need to see many more examples.

A 5-wave Fractal move that ends in a positive divergence - especially both in TICK and Momentum - is a strong (high probability, low risk) reversal trade. When a bullish reversal candle forms - like a hammer, long shadow, or engulfing (or even a doji), then that serves as a trigger to get you long into the trade.

I probably wouldn't have recommended getting long until the long lower shadow candle (hammer-like) formed at 10:30 EST, inflecting off \$111.50. This candle closed at \$111.63, and any move above that candle triggered an entry long (it happened immediately) with a stop under \$111.50.

A "scalp" (small) target would be the convergence at the \$111.75 level, though aggressive traders could have held on for a larger target.

The next point to discuss would be what happened at the \$111.75 level - convergence of the 20 and 50 EMA with yesterday's close. Price broke above this level and did not really form reversal candles under the averages (we would want to get short if a reversal candle formed under this convergence zone) but until then, or as long as price remained above the level, we would be neutral and prepared to short any move lower.

Instead, price formed a doji ABOVE the level and then broke out in a strong up-bar (at 11:30 EST). This put aggressive traders further in the profit zone and prevented conservative traders from getting short, only to be stopped out.

Soon after, price merely formed a new swing high on the day but the TICK registered a New Intraday High - giving us the Wyckoff Sign of Strength (two subscribers emailed me about this time asking if this was the Wyckoff Signal - it was! Great job in recognizing that as it formed).

This meant that odds favored higher prices yet to come, and the best thing to do would be to wait for a pullback and/or bullish candles to form. They did so just after noon.

3. WYCKOFF SIGN OF STRENGTH, PULLBACK TO 20 EMA, DOJIS/HAMMER

I have a broad highlight at the #3 because there were various entries that you could have taken. There were two dojis and a hammer - with two lower shadows that bounced off the 20 EMA. This was between \$111.85 and \$111.90, so any trade in this zone - or as price broke above \$111.90 - was a trade to expect higher prices yet to come.

Because price had significant resistance at the 1,121 (\$112.10) level, you could have played up for a move to the resistance level to see if buyers could step up and break resistance... or if sellers would hold prices under this level.

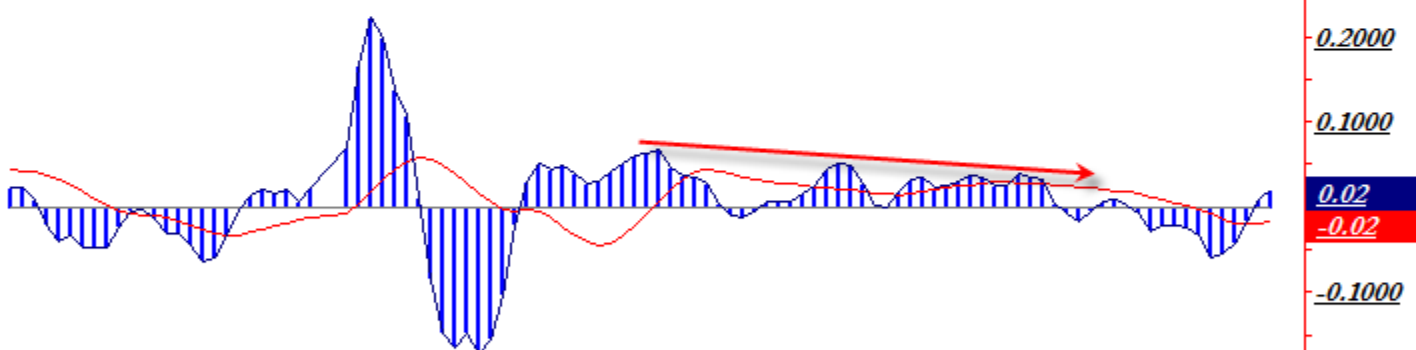
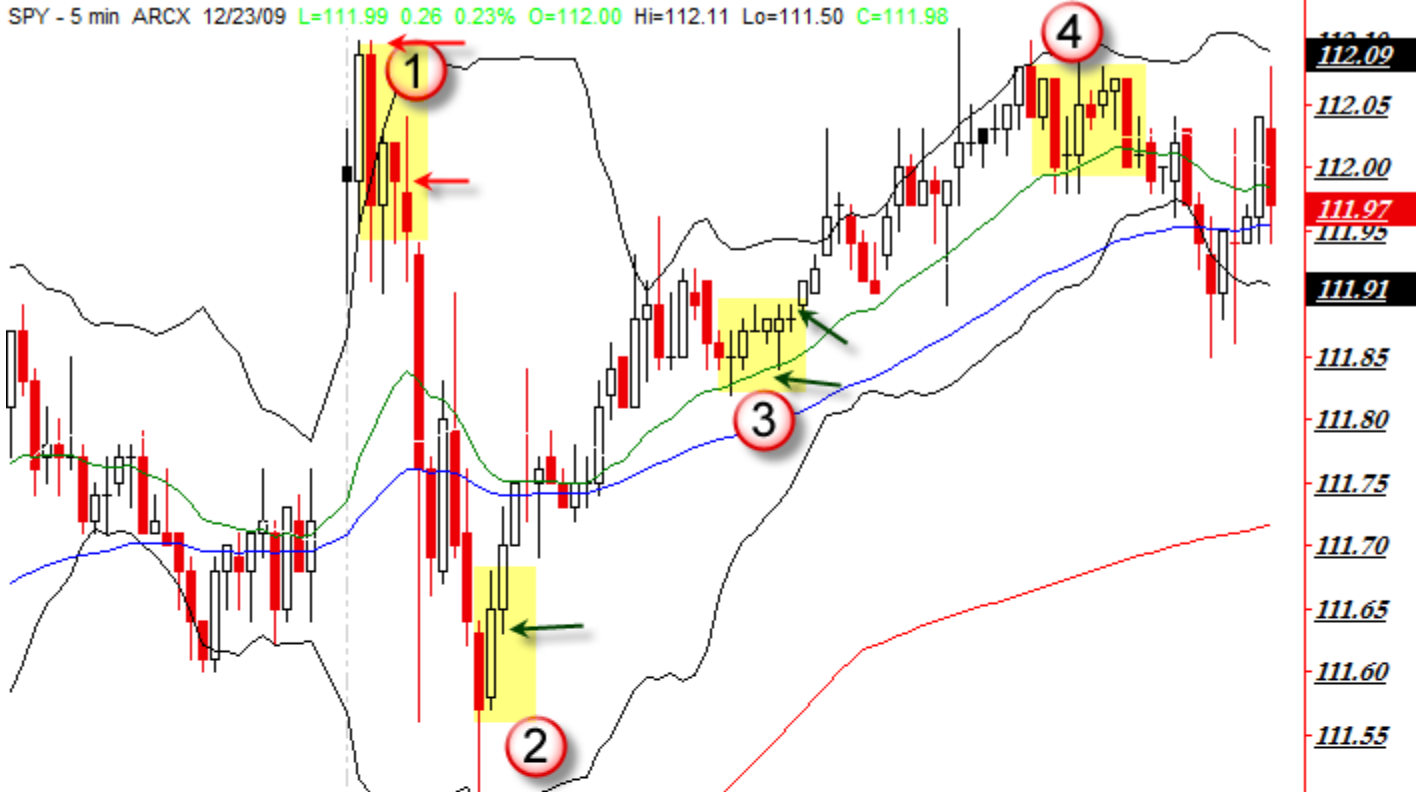
Meaning, \$112.10 was your target which was achieved within the next few hours.

The fourth and final trade was almost identical to trade #1, except we had a lengthy negative momentum divergence this time.

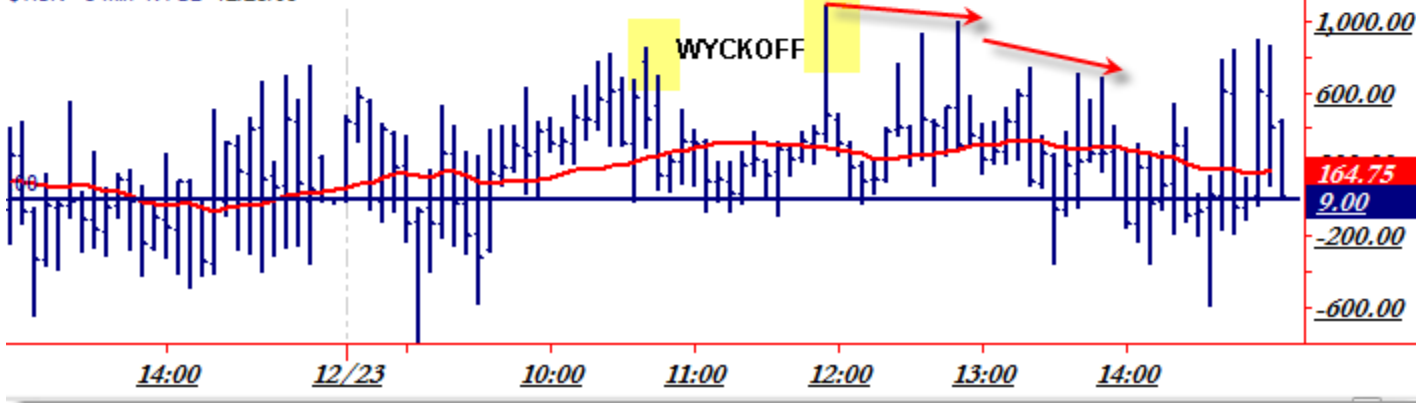
4. RESISTANCE AT 1,121, LENGTHY NEGATIVE TICK AND MOMENTUM DIVERGENCES

Keeping this trade simple as well, notice the negative TICK and Momentum divergences that accompanied the new swing highs in price, testing prior morning resistance and the key \$112.10 level. This was an "exit with profit" zone and then you entered a neutral holding pattern to see if buyers could push price higher, and if so, then you would enter long to play "Popped Stops" in a range expansion move. The alternative was to enter short on any weakness at this level, which is exactly what happened. Short close to \$112.10 or \$112.00 and place a stop above \$112.10 - be ready to flip and reverse - and then play for lower levels including the 20 EMA at the \$111.95 level (not much of a target, but the trade was successful). Price rallied higher into the close.

SPY - 5 min ARCX 12/23/09 L=111.99 0.26 0.23% O=112.00 Hi=112.11 Lo=111.50 C=111.98



STICK - 5 min NYSE 12/23/09





This is the overnight S&P 500 (@ES) chart - notice that price already moved to a new high prior to the morning session open.

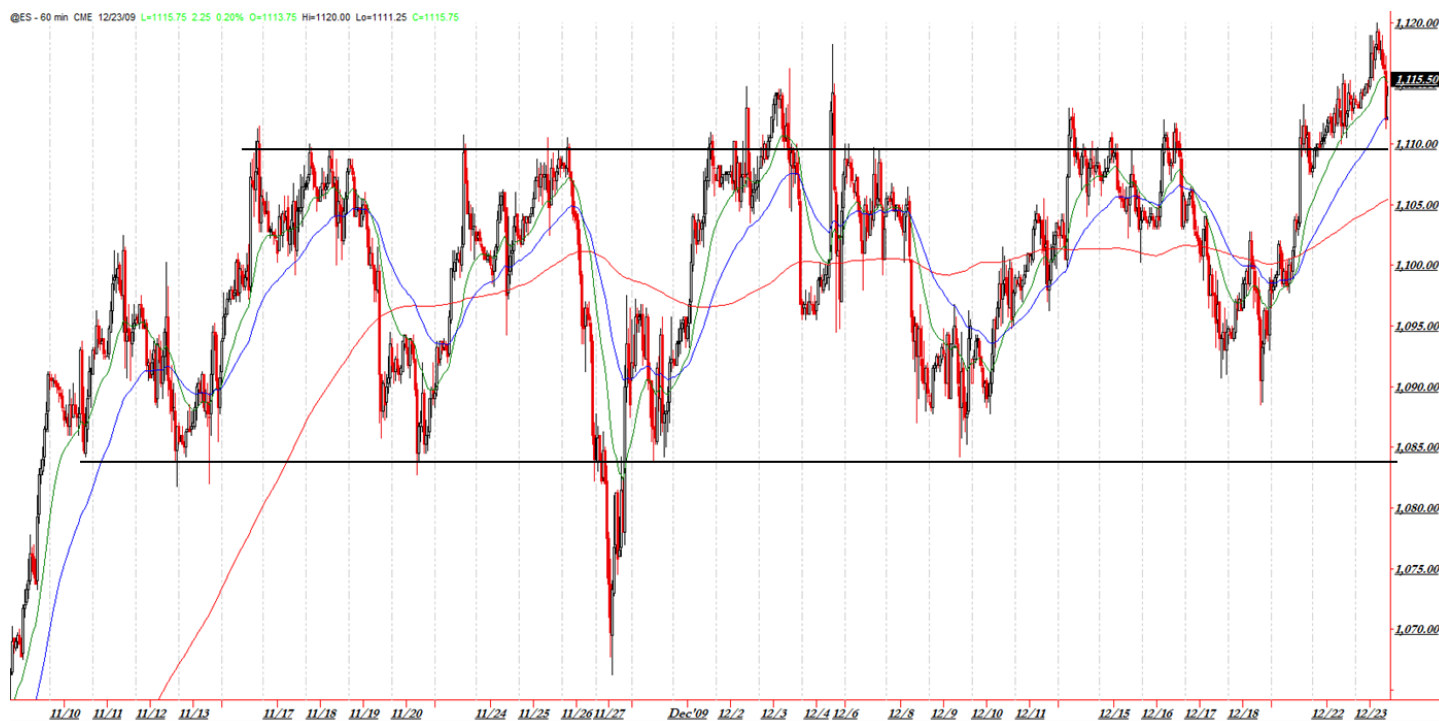
Price actually formed a "Head and Shoulders" reversal pattern with neckline at 1,116 and head at 1,120, which gave a target of 4 points beneath the neckline... or a target of 1,112 (which is 1,116 - 4). Price hit this on the intraday low and then bounced higher into what appears to be a counter-trend move up which looks to be forming a rounded reversal.

Watch to short any break under 1,115 tomorrow - otherwise repeat your bias today which is to trade higher an anticipate a breakout move and play the inflection off the resistance level.



Though not mentioned above, price formed a triangle at 12:30 EST which also gave you a quick trade set-up or confirmation to trade long on the pullback to the 20 EMA (5-min).

Otherwise, price broke under a key trendline at trade #4 to help trigger you in to that short-sale.



An Overnight or "Full" view using the @ES futures (continuous) to see the specifics of the recent month-long trading range with boundaries at 1,110 and 1,085.

It looks cleaner with this chart which eliminates the gaps as seen on the SPY charts.

It's bullish as long as price remains above 1,110 or potentially finds support at that level, which could be a major inflection point.

If price falls under 1,110, target a minimum of 1,090 for the upcoming bias.

If price sustains a move above 1,120, be aggressively bullish.

Otherwise, be aggressively bearish under 1,085 and continue the 'range-bound' expectation between 1,085 and 1,110.



Price continues to remain in a trading range, though it would appear the range is taking a more bullish posture as price continues to scrape against overhead resistance.

A negative momentum and volume divergence are forming - but remember that this is a holiday week so lower volume is absolutely expected. The negative momentum divergence is a non-confirmation and argues for lower prices - or at least to watch for any sign of weakness.

Trade short under \$111.50 but otherwise maintain this "anxious wait and see" posture to trade against 1,121 or to scalp a breakout long to play the "Popped Stops" above.

Don't try to outthink the market or get too complex or fancy. Stick with the basics right now - they are working.



I've drawn both trading ranges for you - the recent 'rising' range in black and the long-term 'rectangle' range in blue.

Price is forming a negative volume and momentum divergence - both of which argue for lower prices in a 'repeat performance' of the prior times we have seen this exact same pattern.

If history repeats, expect a move downward to start here and accelerate with a gap to the downside.

Holiday weeks do have a bullish bias to them, and the lower volume can contribute to more volatility so be careful. The market is at a very, very critical turning point.

Again, the play is to expect a down-move as forecast by the divergences and upper resistance, BUT be prepared to trade long aggressively on any break to the upside which will begin the "Popped Stops" phenomena that you can profit from.



The bias is the same - play long above 1,121; neutral from 1,080 to 1,121; and short under 1,080.

I'm showing the McClellan Oscillator (measures breadth) which is flat to slightly rising under price so watch this - a rising Oscillator is bullish.

Tomorrow is the last day before the Christmas Holiday, and we'll see Initial Jobless Claims as well as a report on Durable Goods Orders both before market opens. See EconoDay for details:

<http://www.bloomberg.com/markets/ecalendar/index.html>

Be nimble tomorrow and ready to act quickly. Otherwise, enjoy your holidays!