



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today was perhaps one of the easiest days I can remember trading - which is perhaps unfortunate because many people I assume took off early and did not trade this pre-Christmas half-day.

I can sum the day up in two trades, the first of which was announced and expected well-in advance, particularly if you closely follow the 'prediction' piece of these reports:

1. Enter Long on any move above \$112.10 to play "Popped Stops" and trail a tight stop, playing aggressively long
2. Buy the first pullback into confluence support that exhibited positive momentum & TICK divergences

For this 'holiday edition' of the Idealized Trades report, I'll keep the discussion brief while still explaining these concepts to you so you will be able to apply them next time in real time - the more you learn, the more you will recognize in real-time.

1. POPPED STOPS

There need not be anything more complicated or complex than that. I have been saying all week that ANY move above \$112.10 or \$112.00 is an opportunity to play "Popped Stops" long to take advantage of the short-sellers stopping out above an absolutely critical "Line in the Sand" resistance level - 1,121 in the S&P 500 (mainly as a 'self-fulfilling prophecy').

Price gapped above this level off the open, surged 15 cents quickly (1.5 @ES points), paused, and then surged upward again relentlessly ... just as expected. You need to understand this concept or else you will miss a very, very easy opportunity to make quick profits - which is what we try to do as day/intraday traders.

I've discussed the logic many times in these reports, so re-visit the archives and read about any prior day where I discuss the "Popped Stops" phenomena (it will be in the brief description of the day).

Main idea: Stops are located just above key resistance areas in "pockets," with the conservative or tight stops JUST above a known resistance area. If buyers can push price slightly above a known resistance level, then price enters the "Pocket" and immediately triggers these resting stop-loss market orders, which are buy orders. Remember, price is moved by supply and demand - not charts - and so the frustrated short-sellers are forced to cover, which drives prices higher. Enter as soon as you see an up move into the pocket - which you can anticipate WELL in advance, and scalp (ie, do not play for a huge target initially). Trail a stop or look to exit on any unfavorable (down) price movement.

You had two chances to enter the Popped Stops trade: First, right off the opening bar (very aggressive) or second, as price took out the \$112.35 intraday high after a slight pullback. Notice how we had three sudden up-candles in a row -

that is EXACTLY what you are trying to play for. Those are the stop-losses being triggered (buy to cover) of nervous, conservative short-sellers with tight stops.

Without sounding crude in saying this, their pain is your (intraday) gain.

Price formed a quick sell (down) candle and then rallied up to challenge new highs only to fail to overcome them, giving you a 'heads up' to exit your long scalp with a profit... but not necessarily get short (we don't know how far the price will rise based on the "Popped Stops").

We then wait to see what happens and see if another trade set-up will form. It did.

2. IMPULSE BUY, BUY INTO CONFLUENCE EMA AND FIBONACCI SUPPORT, DUAL DIVERGENCES

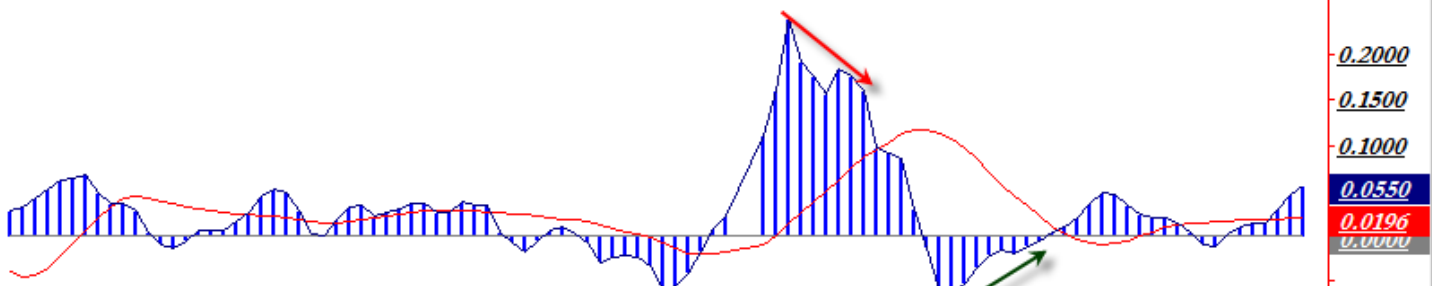
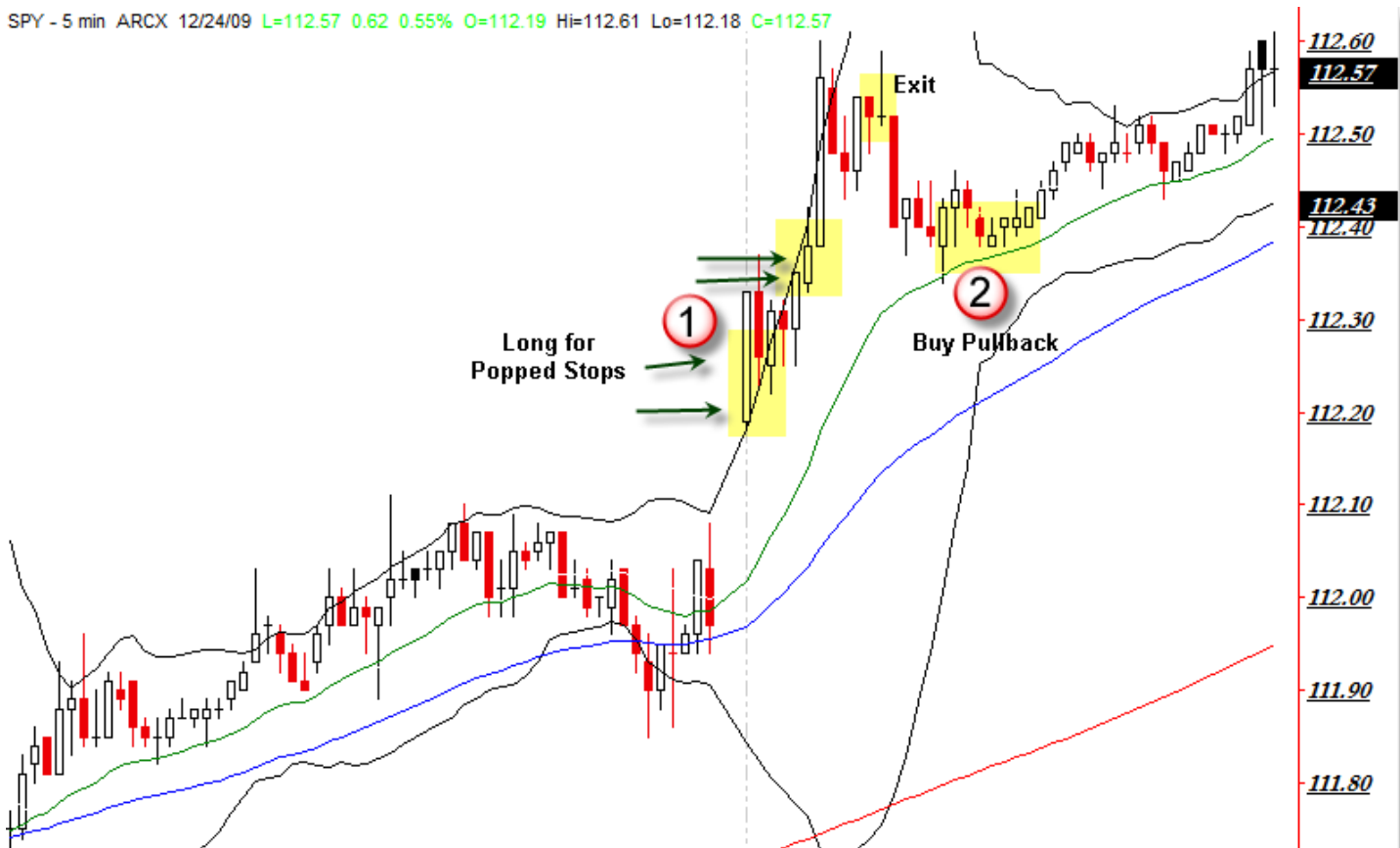
This was a trade that you couldn't necessarily set up as easily in advance, because you can't foresee divergences in advance, but when positive divergences appear at a confluence support level, it adds confidence that you will have a winning trade... or at least will have a small stop in favor of a larger target with a (much) greater than 50% chance (random flip of a coin) of getting a winning trade.

See the 5-min chart to set this trade up - a pullback into the 20 EMA that formed a bullish engulfing candle that found support at the 20 EMA. There were actually two chances for entry - first as price took out the high of the bullish engulfing candle at \$112.43 at 10:55am EST, or second as price pulled back dojis at a second test of the 20 EMA at the \$112.40 level. At this time, we could clearly see positive TICK and Momentum divergences, which gave a more compelling reason to get long at this spot.

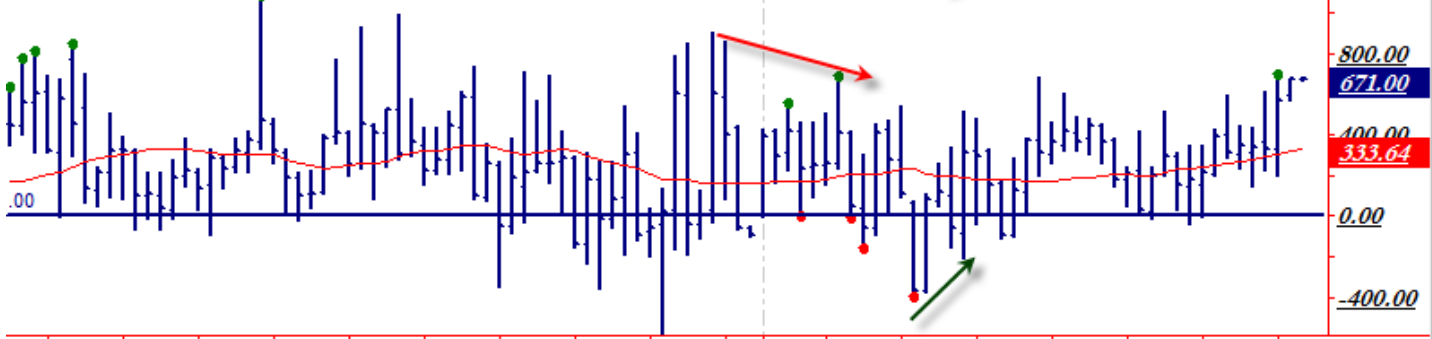
You probably didn't see it, but there was a Fibonacci confluence/convergence at the \$112.35 area as shown on a separate chart below on the 1-min frame. I also explain more about this confluence on this chart. It's fine if you missed this confluence in real time, but it provides a good educational example for me to explain in these reports.

The stop was under the \$112.30 level, with target for a retest of the prior highs at a minimum - back to \$112.60. This occurred as our half-day ended.

SPY - 5 min ARCX 12/24/09 L=112.57 0.62 0.55% O=112.19 Hi=112.61 Lo=112.18 C=112.57



STICK - 5 min NYSE 12/24/09 L=671.00 760.00 -853.93% O=4.00 Hi=703.00 Lo=-393.00 C=671.00



10:30 11:00 11:30 12:00 12:30 13:00 13:30 14:00 14:30 12/24 9:30 10:00 10:30 11:00 11:30 12:00



The overnight @ES chart shows price rallying, pullback back sharply this morning, and then surging to "pull out all the stops" (literally) at higher prices.

We'll see if buyers step up and continue pushing prices higher... or if these new 2009 highs are viciously being made by the bears/short-sellers' stop losses being taken out (short-squeezes).



A 5-wave fractal Elliott count took place into this morning's high, and then an "abc" pullback formed into the positive divergence and convergence Fibonacci grid as shown on the next chart.



An example of Fibonacci confluence at the \$112.35 level, coming in from the swing lose into yesterday's close (blue) and the morning opening low (green).

The 38.2% and 61.8% (respectively) levels converged along with the 5-min 20 period EMA, and complete with positive TICK and Momentum divergences, set up a compelling trade with entry at or near the convergence point at \$112.33 and stop slightly under \$112.30 with target a retest of the prior high at the \$112.60 level.

It only takes a moment to put on Fibonacci grids, and you can write down the levels or convergences instead of keeping the grid on your chart... although notice how the green grid (from morning open) contained price as both support and resistance... so it can be helpful to keep grids on your charts if you don't mind the clutter.



With the holiday ahead of us, it's probably best not to draw too many conclusions from these charts, as anything could happen news-wise over the weekend that would usurp the charts.

Still, note the upper resistance line and the rising bullish trendlines that are containing price... loosely.

We see a negative volume and momentum divergence underlying the new 2009 highs - that isn't the picture of bullish strength. It would appear prices are drifting higher (being manipulated?) on lower volume, which is frequently the case, so we'll have to see if buyers take up a position of strength here and buy at new highs... or if sellers return to take profits and push prices lower.



The 60min chart does a better job of showing the negative volume and momentum divergences - non-confirmations - and the upward "drift" on lower 'holiday volume.'

If this is a true breakout, it doesn't feel like one thanks to the lower volume so be on guard that this could be a (manipulated) bull trap that could result in a swing back down to \$110.00.

Otherwise, higher prices could result in more 'popped stops' of the short-sellers. The lower volume argues this case.

True breakouts need higher volume to keep them going.



It's unusual to have strong new highs on such dismal (declining) volume, so watch this development very closely. This isn't the bullish picture of strength (yet). It could turn into one, but we're not there yet. Keep to your intraday trading tactics, playing 'popped stops' at new highs and keep a long (buy) bias with a VERY cautious stance (and itchy sell trigger) and be prepared to short on any weakness that develops.

Remember also that we're in a bullish end-of-year cyclic tendency. Happy holidays! Enjoy the time off.