



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Yet another day opens with an upside gap, taking away the stops of short-sellers/bears... but yet again buyers did not step up and push prices higher, which is evidence that prices were likely pushed higher mostly on short-covering instead of new longs entering the market. Remember, markets can rise when sellers refuse to sell (absence of sellers drives demand/price higher) and when sellers buy to cover their short positions. Today gave a great chance to discuss the Wyckoff Sign of Weakness in more detail, as the market internals flashed a clear sell signal more than an hour in advance of the afternoon sell-off. Let's get right to the trades of the day!

1. GAP FADE, LONG UPPER SHADOW CANDLES/DOJI

This trade was for the strong-willed among us who were willing to fight the morning gap and 'popped stops.' Others may have decided to play the 'popped stop' morning rally by trading long off the open. While that strategy worked well on Thursday, this morning's upside gap of 30 cents - well-within the range to expect a full fill - did fill, giving an opportunity to short into the gap.

The price formed three long upper shadow candles (shooting stars and doji) above the upper Bollinger Band which clued us in that odds favored a down-move because higher prices near the \$113.00 level (1,130 in the S&P 500) were being rejected as evidenced by the upper shadows.

Trade entry occurred as price broke the doji low at \$112.87 with a stop above \$113.02 to play for a full fill of the morning gap, giving a target of \$112.60. Remember, yesterday's closing price often becomes not only a price target to play for, but a support level to watch if reversal candles (or divergences) are forming, in which case we would flip and reverse our position and trade in the direction of the gap (which is labeled a "Fade the Fill" trade).

Price formed two lower shadow spinning top candles, triggering an exit and 'flip and reverse' for most traders.

2. 'FADE THE FILL,' IMPULSE BUY, SPINNING TOPS, YESTERDAY'S SUPPORT, DUAL DIVERGENCES

The SPY closed Thursday at \$112.61 (ignore the blue line in StockCharts.com's chart) which gave a target to play for and also a level to see if any reversal candles would form. They did (spinning tops).

This triggered a trade entry as soon as the high of these candles were broken - at the \$112.65 level to play for a swing up to test the \$113.00 morning highs at best... or as in what happened, trade long until a countervailing sell signal intervenes. In this case, a stop would go under the rising 50 EMA at the \$112.55 level.

Notice on the 1-min chart that price formed a complete 5-wave fractal move into the morning lows (into support) and that a clean positive momentum and TICK divergence - almost a three-push on the TICK which is rare - formed. Aggressive traders would have traded long upon seeing the dual divergences (in both TICK and Momentum) as price tested support at \$112.61 which allowed for a better entry and tighter stop.

As price rallied, a Tri-Star doji formed at the \$112.75 level at the upper Bollinger Band. A flat-line (neutral) TICK and momentum divergence formed into the new swing highs and Tri-Star pattern, so this could have served as an exit/sell with profit signal as soon as the low of the doji pattern was taken out at noon EST as price dipped under \$112.70. I would not call this a "sell-short" signal, but instead an "exit long" signal. Aggressive traders could have exited half of their position here and still played for a full retest of the morning high, but that did not come to pass and they would have been stopped out at lower levels.

Price consolidated into the lunchtime "afternoon doldrum" period, and the only major trade set-up for those willing to trade in a consolidation range was to buy the dojis that formed at the lower support line of the 50 EMA and lower Bollinger Band at the \$112.60 level (also support from yesterday's close).

The better play was to notice this consolidation period forming and begin anticipating putting on a range expansion play when price broke and closed outside the Upper or Lower Bollinger Band. It was at this time that a clean Wyckoff Sign of Weakness signal formed, though I discuss this signal separately in its own chart (see Wyckoff SP500 Chart). This led us to believe that price had greater odds of expanding in a range breakout mode to the downside, which is exactly what happened, giving us the third trade of the day.

3. BOLLINGER SQUEEZE/BREAKOUT, WYCKOFF SIGN OF WEAKNESS

I got word that this took a few traders by surprise, but remember, a lot of what we try to do as intraday traders is to set-up a situation (or realize what price structure is communicating to us) which gives us the "condition." We then enter a trade based on a trigger.

For example, under the principle "price alternates between range expansion and contraction," we would observe the tightening of the Bollinger Bands (or low reading in the ADX Indicator) and the state "price is forming a contraction." We would then expect "price will soon breakout into a range expansion move," though we cannot be sure which direction price will break.

We wait - on the sidelines - until we get a confirmed trigger, which usually is one or two full closes outside the extreme of the 'squeezed' Bollinger Band. We then enter a trade and place a stop on the opposite side of the Bollinger. This is the "Bollinger Band Squeeze Play."

What's interesting is that we previously - during the consolidation - had a clear Wyckoff Sign of Strength to those who perceived it. It didn't happen in the TICK (which usually is the case), but in more esoteric market internals including Breadth (the net advancers on the day minus the net decliners) along with the Volume Differential (\$VOLD in TradeStation) which compares VOLUME flowing into advancing stocks on the day minus volume flowing into declining stocks on the day.

Reference the later "internal-specific" chart that I keep during the day but rarely post in these reports because - in general - Breadth and VOLD mirror the TICK. I have the software plot red dots on my internal indicators to highlight new intraday lows, and this allows me to compare indicator lows with price lows. This allows me to compare price and internal readings and look more closely for the Wyckoff Sign of Strength signal, or for Divergences. Feel free to contact me about this if you need more assistance, or are a TradeStation user and want to replicate this chart.

Traders entered short as price broke the low of the day along with the 50 EMA, lower Bollinger, and lower trendline. Price gave a 'second chance' entry as a doji formed into the "Cradle Crossover" of the 20 and 50 EMA just prior to the large sell-off bar. All of this occurred at the \$112.60 level.

Savvy traders who enjoy trading measured moves could have seen - especially on the 15-min chart - that price might be setting up a measured move, which - using the Fibonacci Extension tool as shown in a lower chart - we arrive at a "Price Projection" downside target of \$112.34. This was also a bear flag and this is the way we set bear flag targets.

A stop would be placed above \$112.75 to play for this target, or again any countervailing buy signal.

As it unfolded, price formed five sell-bars in a row to form a doji candle at the price projection target of \$112.34, giving us an exit and - for savvy/aggressive traders - a chance to play long until price tested the underside of the 20 EMA for a potential bear flag trade set-up. Conservative traders would have waited to short the pullback into the 20 EMA.

4. BEAR FLAG, IMPLUSE SELL

Again, we use conditions to assess structure and then candles to trigger us into trades.

The condition was that a new price and new momentum (and TICK and internals) low had formed just after 2:00 EST, which led us to believe that odds favored lower prices yet to come, and that we should look to short-sell the first pullback into the 20 EMA. This occurred, and price slightly broke above the 20 (and 50) EMA on two long upper shadow

candles, which gave further evidence that odds favored a new low yet to come (price rejection of higher levels). A stop was above \$112.50 and minimum target for a retest of the low at \$112.32 or a full bear flag target projection down to \$112.21 (100% Projection). As seen, price failed to make the new intraday low, but did form two quick sell-bars taking us back down under \$112.40 before a sudden price reversal formed that took price higher into the close. As I write this report, I see no way to have anticipated a failure in the bear flag set-up on the 5-min chart, and this is an example of how even good set-ups do not always result in the profit targets expected - losses are part of the game! The main idea is to take high-probability set-ups based on structure and principles, that allow for smaller stop-losses than targets.





I keep this chart minimized each day as a way to see how price is relating to Market Internals other than the TICK. These should be revealing the same insights, but when not, this is when internals take on a powerful way to signal potential reversals in price. At 11:00am CST, the Volume Differential (\$VOLD) began forming new intraday lows while price was slightly above its morning lows. At 11:30, the Breadth Line (Advancers minus Decliners) registered a new intraday low.

This was a "Wyckoff Sign of Weakness" that was not reflected in the TICK - in general, market internals should reveal similar signals.

A Wyckoff Sign of Weakness is triggered when market internal(s) make a new intraday low while price is not yet making a new low. The principle is that "Internals Lead Price," and thus price will reverse in the direction of the Internals. The Wyckoff signal is a structural change, but gives no trading signal. It just tells us to watch and prepare for the possibility of new price lows yet to come, though we were triggered short by the Bollinger Band Squeeze play as described above.



This chart shows the 38.2% Fibonacci Retracement serving as overhead resistance on two swings into this level in the morning and afternoon. The grid began at the morning high and ended at the morning low.

We also can use the Fibonacci Price Projection Tool to highlight targets for Bull and Bear flags, or Measured Moves as shown above.

Start with the intraday high, draw to the 'pole' low, then click your final click on the high of the flag. The 61.8% and 100% price projections are drawn by the computer, and the 100% projection level is the target for a potential flag.



The 1-min chart is always helpful for internal 5-wave fractal moves along with TICK and Momentum divergences which help us make decisions based on a potential set-up or confluence we see on the 5-min chart.



We're in a bullish seasonality, meaning the December month in general has historically been bullish for stocks, or at least has a bullish bias to it.

We're seeing that again, as prices are being pushed up on lower and lower volume - which is justified in the supply/demand relationship. Funds can move prices easier with lower volume, and that's exactly what we're seeing - an oozing, creeping, heavily supported upward movement in price as all interested parties - hedge funds, mutual funds, the Treasury, the Obama Administration - have vested interests in keeping the market higher to close 2009 on the best note possible so all parties can point to higher stock prices as an accomplishment. As such, we see the absence of major sellers in the market, and the absence of major sellers - big funds sitting on their positions - is bullish, as fewer sellers means higher prices in the supply/demand equation.

That being said, watch for a potential 'repeat performance' of a swift down-move that could occur suddenly as a result of the negative momentum and volume divergences. Short under \$112.00, otherwise remain scalping long to pick-off more stops from unfortunate bears/short-sellers.



The prior two times in December we saw price inch its way to higher prices on negative volume and momentum divergences, we saw a swift and sudden sell-off. We're seeing those same negative divergences now, which means being bullish right here is opening yourself up to the risk of an overnight/sudden decline in price... but by the same token, in the low-volume environment and against the backdrop of all the powerful influence who want this market higher, it is equally if not more-so risky to short this "melt-up" in the market.

Continue trading intraday, managing positions closely, and be aware of the larger picture as seen here.

Until proven otherwise, the trend is still up, as is the bias, but each new high in price on lower volume or momentum reading is a crack in the bullish ice that will break eventually.



Major price breakouts should be accompanied with higher volume, not record-low volume of the year. Granted, we're in the holiday season and many traders are on vacation, reducing overall volume.

However, in the reduced volume, price can be pushed higher than most people think it will go - that is what is happening now.

This is not the picture of bullish strength, but - until proven otherwise - has the markings of a short-squeeze, as sellers are driving prices higher, not buyers.

Watch very closely and be prepared to adjust quickly to any sudden move in price.