



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



There is a repeating pattern that has formed on the intraday frames over the last few days. I mentioned in it this morning's blog post:

<http://blog.afraidtotrade.com/spy-gap-repetition-breeds-familiarity/>

As long as the pattern continues, it is described as the following:

1. Gap up
2. Reverse to fill the gap
3. Creep/Drift/Ooze higher into the close

For evidence, look at today's chart, yesterday's chart, last Wednesday's chart, and last Tuesday's chart. Keep this in mind as we trade our way into the close of 2009. Watch for the pattern to repeat, which gives you a direct roadmap to the next move in price, or watch for the pattern to break (with a move to the downside) which would offer a tradeable opportunity short.

As such, let's see and learn from the trade set-ups that were possible during today's session.

1. GAP FADE

This is almost a complete repetition in form and function and trading strategy of yesterday's gap that had long upper shadow candles, only today gave us a long-legged 'hanging man' candle that was quickly taken out by a sharp 'marabozu' or extreme sell bar candle. Again, the \$113.00 level served as key resistance, adding to the odds of a down-move in price. The stop was above \$113.10 and the target was another 30 cent gap fill back to \$112.75. Price swiftly fell, and with the exception of two up-bars, price fell one cent shy of the target (yesterday's close was officially \$112.74). If you didn't exit as price started to rally up off the expected target level, then you should have exited as the dragonfly or long-legged doji formed at 10:10 EST which bounced higher just above the 20 EMA and support line from yesterday's close. This set-up another trade just like yesterday... and just like yesterday... the trade failed to hit its full upside target.

2. IMPLUSE BUY, 'FADE THE FADE,' LONG LEGGED DOJI

I don't think even aggressive traders could have picked this trade up long any sooner than the close of the doji and most likely the breaking above the high of the doji at \$112.85. This was a trade set-up long to play for a retest of the \$113.00 level to take advantage of the upward movement in price.

Today's price swing up retraced more distance than yesterday's rally, though it still fell four cents shy of testing the morning high of \$113.03 - price found resistance just under the 'round number' level of \$113.00 - peaking at \$112.99. Again, just a few cents shy of the ultimate target.

So far, both trades of the morning were quick profits, and both fell just shy of achieving a full target.

At this time, we should have recognized that buyers were not being aggressive and not pushing prices to new highs, and that - like the prior days - the rally in the morning was most likely caused by anxious/nervous short-sellers/bears who were stopping out... in essence, the rally that scared the bears was mostly caused by the bears.

We take the evidence that price fell instead of rose higher on broader volume as evidence.

This should have given a bearish bias, but no specific trade set-up yet. A 'wait and see' attitude was best. Remember, our goal is to take high-probability, low-risk trades objectively, and sometimes we need to wait until a clear set-up emerges.

With the bearish bias, price broke through the 20 EMA and then quickly tested ... and failed to hold the confluence of yesterday's support price at \$112.75 and the lower Bollinger aligning with the 50 EMA. Because these could have acted as support, it was difficult to hold short through these levels, and was not recommended from an edge-based standpoint.

The next trade set-up came from trying to play divergences and a complete 5-wave Elliott fractal move.

3. POSITIVE MOMENTUM DIVERGENCE, 5-WAVE FRACTAL, 61.8% FIBONACCI RETRACEMENT

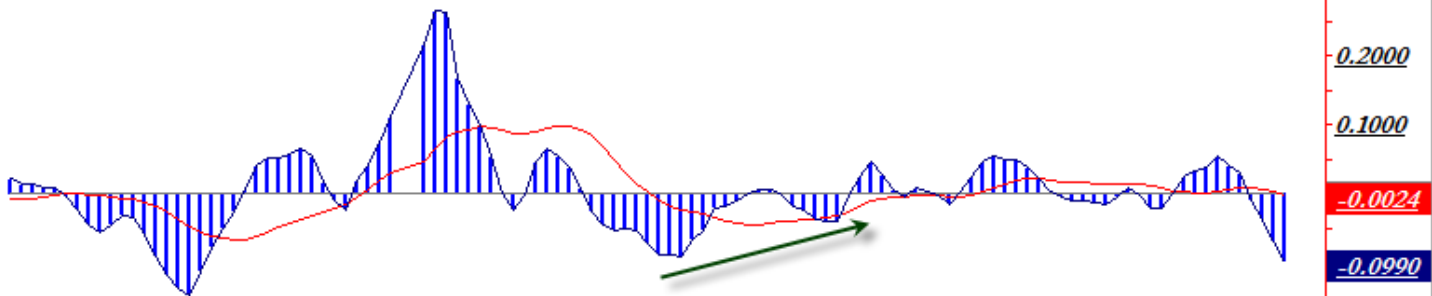
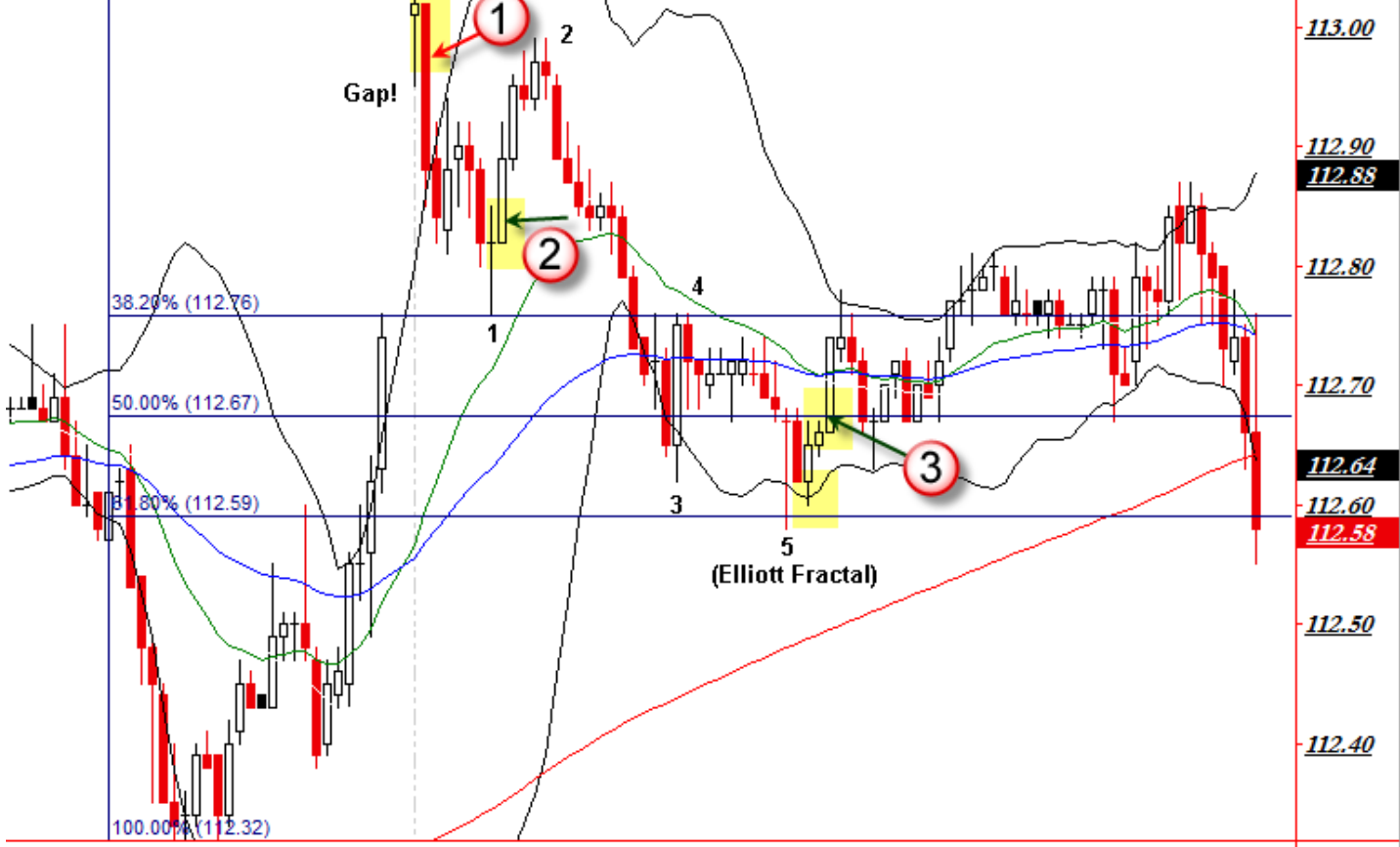
This was a 'make or break' trade set-up that would divide the bias from tentatively bullish to certainly bearish. The 61.8% Fibonacci retracement starting with the \$112.32 swing low into yesterday's close to the morning high of \$113.03 was \$112.59. Because price broke both EMA levels, this was the final "line in the sand" to try any long/buy trades.

As it were, a very long lower shadow dragonfly doji formed bouncing off this critical level, with an intraday low forming at \$112.58. It was probably best to wait until we started to see evidence of a price rise before getting long, meaning waiting for price to take out the high of the candle at \$112.68. This happened four candles later with a strong bullish marabozu (extreme bullish candle) which triggered entry.

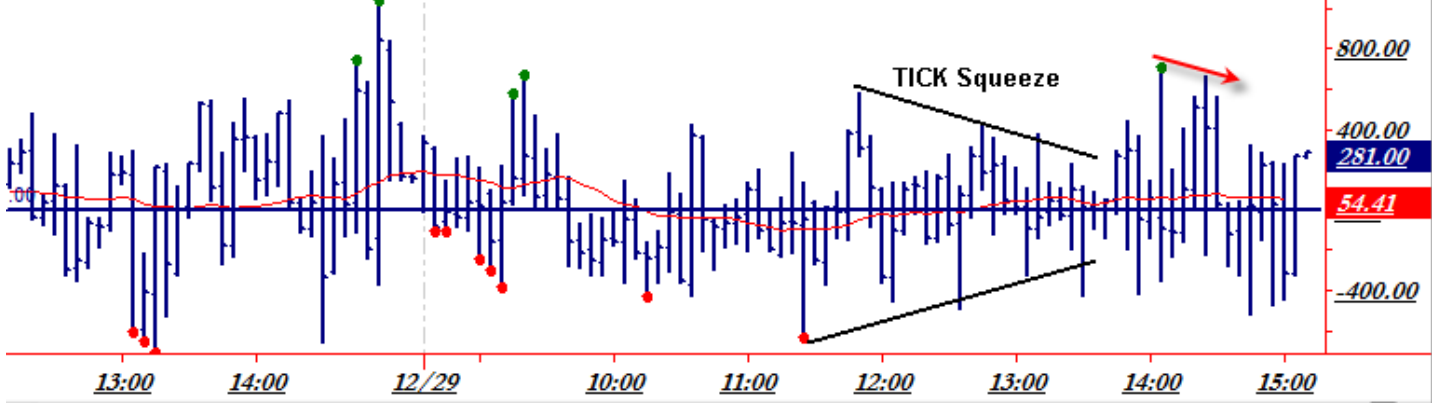
The conservative target was the upper Bollinger Band at \$112.77, which was hit as a shooting star candle formed. This was the maximum profit target possible in this quick set-up, which may have wound up in little more than a slightly profitable trade or a scratch at worst. Price consolidated for the remainder of the afternoon, so a Bollinger Band Squeeze play was anticipated, but each time price tested the Bollinger Bands, a doji or other reversal candle formed. It's aggressive and inefficient to try to play from Bollinger to Bollinger in a tight range, though it can be done (I won't label each move up and down as an "Ideal" trade).

Though it looked like price was trying to break to the upside... the eventual breakout was to the downside right into the close - a change in the pattern. It's a reminder that it's often difficult to expect in which direction a clear and obvious range consolidation move (rising rectangle and tightened Bollingers in this case) will break.

C SPY - 5 min ARCX 12/29/09 L=112.57 -0.15 -0.13% O=113.01 Hi=113.03 Lo=112.49 C=112.50



STICK - 5 min NYSE 12/29/09 L=281.00 127.00 82.47% O=-2.00 Hi=712.00 Lo=-632.00 C=281.00





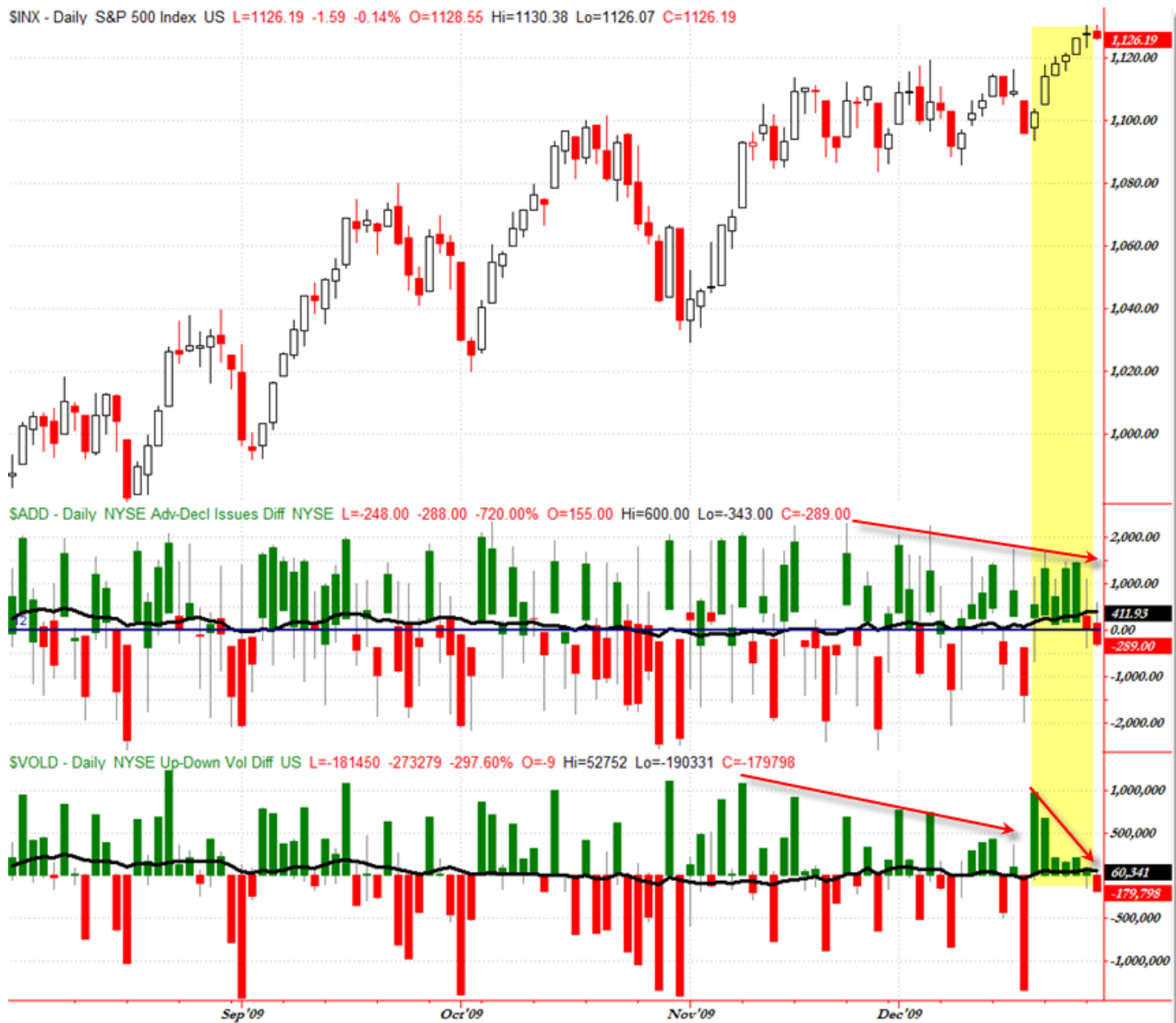
The 1-min chart shows the VOLD or Volume Difference, which was particularly telling today. Volume was flowing in aggregate (net) into declining stocks almost entirely off the open. Like yesterday, we started seeing breakdowns to new intraday lows in the \$VOLD prior to a sudden sell-off. VOLD began making new lows as early as 12:00CST after price had made a swing low, and then began to breakdown after 1:30 CST while price was well off the morning lows.

Otherwise, I'm highlighting short-term TICK and momentum divergences above along with the 5-wave Elliott Fractal move.



I wanted to call your attention to a larger pattern in Market Internals as seen on the 20 min chart. Market Internals frequently lead (precede) price reversals - if you look closely at December 18th at the \$109.50 price lows. All three internals - Breadth, TICK, and \$VOLD (volume difference) were making higher lows while price formed its final low prior to the big rally we're having now.

At present, ALL three internals - breadth, TICK, and VOLD are NOT confirming new price highs, and in the case of VOLD and Breadth (which are correlated as they deal with Advancing and Declining Stocks) are making NEW LOWS since the Dec 21st readings. This is inherently and seriously bearish, and needs your attention. It forecasts a breakdown in price ahead. As such, watch closely for 30min and 60min EMAs to be broken to the downside and get ready for a potential down-move (with downward gaps) ahead. As a caveat, no indicator is perfect, but this is a powerful signal that market internals are NOT confirming higher index price highs.



Here is an updated chart of daily market internals (Breadth and VOLD) that I sometimes show.

You can see that the VOLD (Volume Differential... ie volume flowing INTO advancing stocks minus volume flowing INTO declining stocks) has been declining steadily each day, registering a negative reading today.

Breadth has also been coming off its mid-November highs.

With the two doji-like candles at the highs, odds are overwhelming (but not guaranteed, as the market has been making a literal mockery of sellers since the July lows) for a downward swing ahead.



This is getting ridiculous, but remember our goal as intraday traders is not to predict, but to anticipate likely moves (pathways for price) and then trade appropriately. Some of the best trades - like the popped stops - occur when the majority is wrong. The majority is calling for a sudden end to this 'non-stop' rally... which means that if the rally continues, they will be forced to stop-out (buy to cover) which pushes prices higher and gives you intraday easy profits.

That being said, we are seeing very distinct negative volume and momentum divergences that are pulling back like a rubber band. When the force driving the market higher lets go, the rubber band will snap back into place and - in this case - a market downswing similar to that of December 16th and 17th will occur (that was the last time we had extended volume and momentum divergences - see 60min chart).

Short any break under the 50 EMA and lower Bollinger at \$112.25. Otherwise remain neutral and scalp intraday and be prepared yet again to scalp long (or fade gaps!) on any move above \$113.00 to knock out more stops of the short-sellers.



Same commentary as on the 30min frame, only the 60min frame shows us prior divergence periods.

The 20 EMA rests at \$112.50, so any move under that is likely to take price quickly lower to test \$112.00 (critical confluence support), and any move under \$112.00 is likely to be met with heavy selling.

My though - and the thought of many in the trading community - is that the "Big Boys" or large funds are doing whatever they can to hold the market higher into the close of 2009 so that the official account statements that get sent to clients read "record year!" or "best year ever" or "non-stop rally into 2009" or something where they can brag that they made their clients lots of money - the government is interested in keeping stock prices higher as well.

This logic will expire as 2009 ends officially on Thursday, so they need only hold the market up two more trading days. Each day the market is stretched on lower and lower volume means that the expected correction will be potentially violent, resulting in gaps and a move at least to \$109.50.



With two doji-like candles forming today and yesterday at the upper Bollinger on negative Momentum and Volume divergences, odds are overwhelming for a down move to test prior support at the 1,115 or 1,110 level so that is the dominant bias going forward.

Because this bias is so obvious, be prepared to scalp long on any move to new highs which would further trap sellers (are there any left?!) and force the market higher - a situation you as an intraday trader can profit from.