



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Today gave yet another great example of how watching the higher timeframe structures and biases is SO very important. If you were just watching the 5-min chart in isolation, you might have been swept away by the afternoon sharp decline... but if you were following the higher charts as I describe at the end of each report, your question all day might have been, "So, when will the market decline?" or "Why is the market not declining like the odds favor it will?"

I'd also mentioned that - after popped stops failed to sustain new highs, that was bearish. That happened again on the morning, when more popped stops led to ANOTHER bull trap, and this bull trap ended violently... or profitably to those who were prepared.

1. POPPED STOPS

As the market gapped up and began to run higher, without even a slight pause in the first 5 and 10 minutes, you could have entered long aggressively (not for the faint of heart!) and taken advantage of the swing trading short sellers who were - yet again - forced to buy to cover their short positions. This should be routine for you now. We don't know when the popped stop phenomenon - or price slicing through the "Pocket" (see yesterday's report for a lengthy description of this phenomenon) will end, but we can be confident that when price enters a logical 'pocket of stops,' that price will continue slicing through those stops (buy orders) until they are exhausted.

We are also on guard to see if bulls/buyers are stepping up and BUYING at the highs, or if the new price highs are artificial (meaning, SELLERS are driving prices higher instead of bulls... buyers push price up just enough to trigger an avalanche, and then short-sellers stopping out take care of the rest). If price comes down hard after a "Popped Stop" rally, then we can be confident that the "Excess" (to use a Market Profile Term) will result in the intraday high.

This happened, setting up the second aggressive trade.

2. TICK DIVERGENCE FROM YESTERDAY, LONG UPPER SHADOW SHOOTING STAR ABOVE UPPER BOLLINGER BAND

The entry short was as soon as price took out the low of the 'shooting star' candle at the \$111.95 level with a stop above the intraday high at \$112.10. The target would be a play back to the rising 20 or 50 EMA at the \$111.45 level. I call this aggressive because the market is moving quickly at this time and you are purposely fading (trading short against) a powerful up move and we don't have a cleanly defined entry (like a moving average). Still, these trades do provide opportunity.

When price fell relentlessly from the high, it told us that odds favored another "Bull Trap" to occur just like yesterday (another valuable asset to these summaries is that - sometimes - day structure will repeat almost exactly from one day to the next).

Still, we had the bias that a Trading Range or a "Range Day" was the dominant expectation because of the "Jobs Report" tomorrow and traders not wanting to be caught positioned on the wrong side of a move that may move the market strongly either way. As such, we weren't looking to short with unlimited downside targets, but look to play range trades if at all possible.

3. SUPPORT BOUNCE IN RANGE, 5-WAVE FRACTAL, POSITIVE DIVERGENCE, BOUNCE OFF 200 SMA, 'THREE PUSH'

There was a lot of reason to expect at least some sort of bounce off the \$111.00 level, namely because it alone is a "Round Number" zone which can provide support. Also, we can look back to yesterday's final hours to see that price supported at this level around 2:00 EST.

For those so inclined, take a look at the 1-min chart to see a complete 5-wave "Elliott Fractal" move down into this level, which formed a "Three Push" positive momentum divergence in the 3/10 oscillator (though not in the TICK unfortunately).

To confirm, price also happened to pull back to the 200period SMA at the \$111.10 level - this is the main idea of the trading strategy/style I use and teach - confluence across non-correlated methods. Let me summarize:

5-wave Elliott Fractal move (5-waves are often terminal points prior to a reversal)

3-Push Pattern on 1-min chart along with positive momentum divergence on 5-min chart

"Round Number" support along with prior price support at the \$111.00 level
Hammer-like, spinning top candle (reversal style candle)

I'm sure you can find other methods that converged at that level, but remember we trade in real time, and even if we can find three (or even two!) methods that converge at the same point, then that often gives us an Accuracy Edge of a trade set-up.

The official entry was - aggressive - as price tested support at the \$111.05 level or -conservatively- as price broke above the high of the hammer-like reversal candle that formed at this level - just prior to the bullish engulfing candle (that's why convergence trading strategies tend to work - different groups of traders take trades off of different methods - and when these methods all align in the same direction, sometimes we can see powerful moves as a result).

The target was the 20 or 50 EMA - but if you were expecting a range day, then you would look higher for a target - being either the upper Bollinger Band (too far away due to the early morning volatile move) or any countervailing sell signal - such as dojis or divergences. As such, a series of dojis formed at the \$111.50 area, so that was plenty of reason to take a profit... and even considering flipping short to play back for a retest of the lower part of the range... though price managed to support at yesterday's close level of \$111.30.

In the tight range, there weren't many (if any) 'ideal' trades, and it soon became evident that price was contracting into some sort of pattern which later became evident to be a triangle... and we also set-up the Bollinger Band Squeeze Play - both of which were looking to enter the market on a break outside of the Bollinger Band OR the triangle trendline. There was a slight trap (false break) at 1:00pm, but the official break came slightly later at 2:00 EST.

4. TRIANGLE/CONSOLIDATION BREAKOUT

This was more of an aggressive move, as price was still within the trading range, though price did solidly break out of the trading range of the triangle and formed a sharp sell bar that stretched to the lower Bollinger Band at \$111.30. You could have taken a short entry in this area, and placed a stop above \$111.50/\$111.60 to play for a "Range Expansion" (aka 'unlimited') target... or you could have waited for a bit more confirmation than just a trendline break.

5. "SECOND CHANCE ENTRY," SHOOTING STAR AT EMA CONFLUENCE

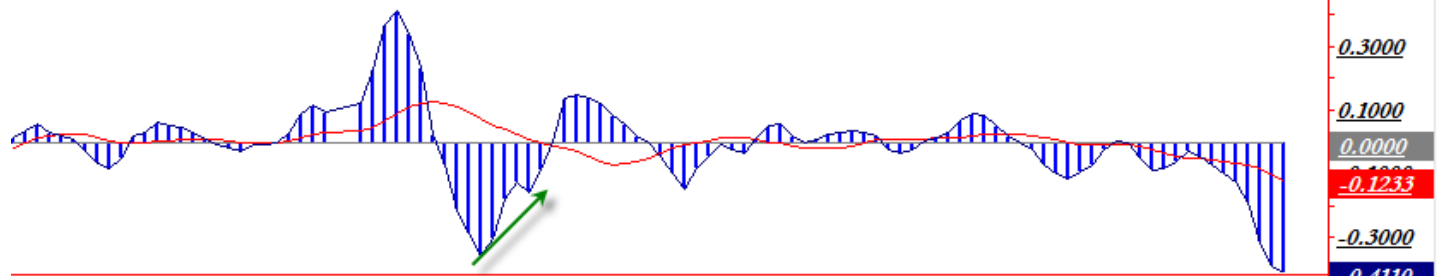
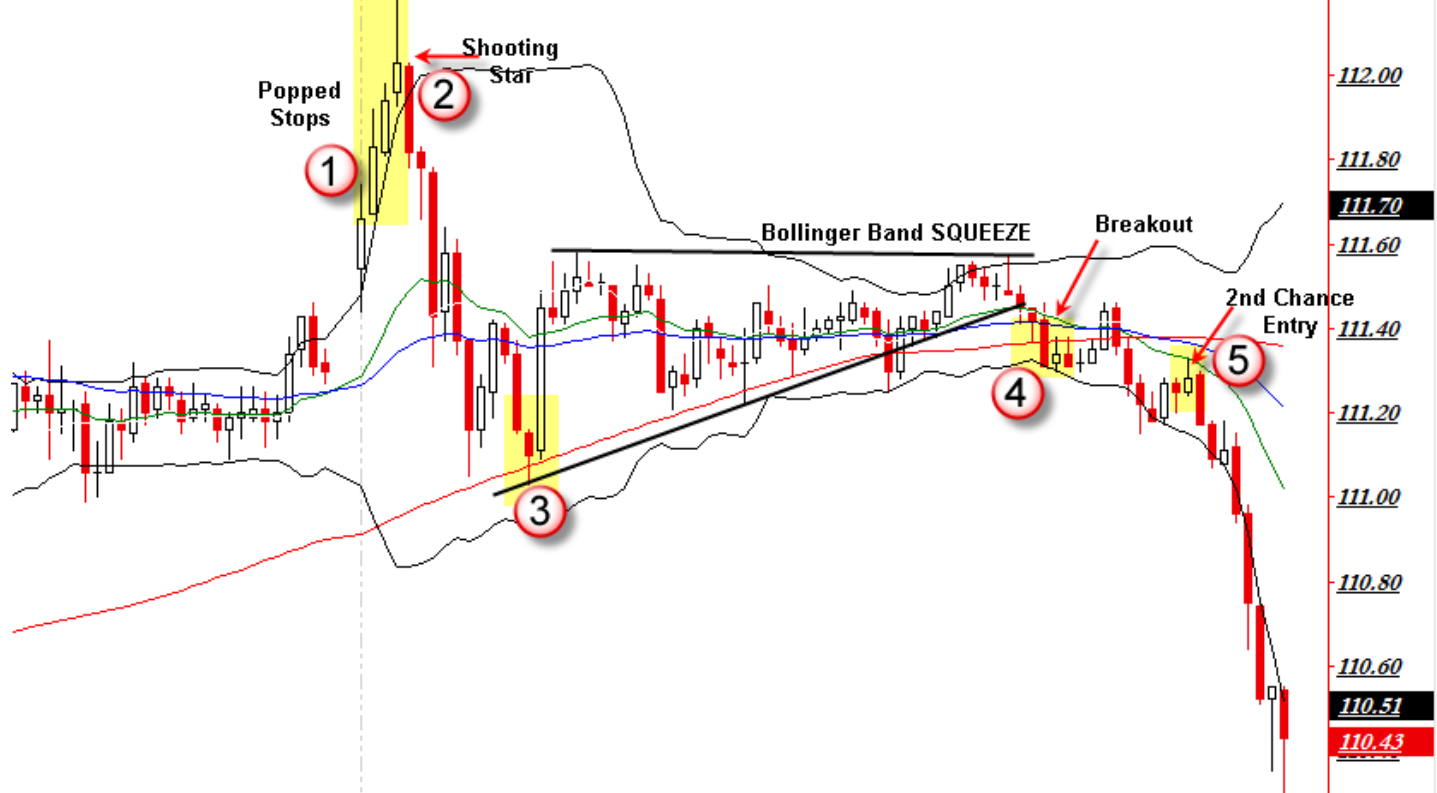
If you were already short, this was a second chance - at the 3:20pm pullback to the EMAs on a shooting-star like doji. Let me first explain why this was an 'edge' trade.

This is more of an aggressive entry, as you are shorting as price is rising, but perhaps a better strategy would be to wait to see if price took out the swing low formed at \$111.20 (again, if not already short). It did so on the next bar after the reversal candle into the 20 EMA and then began to "hug" the Bollinger Band.

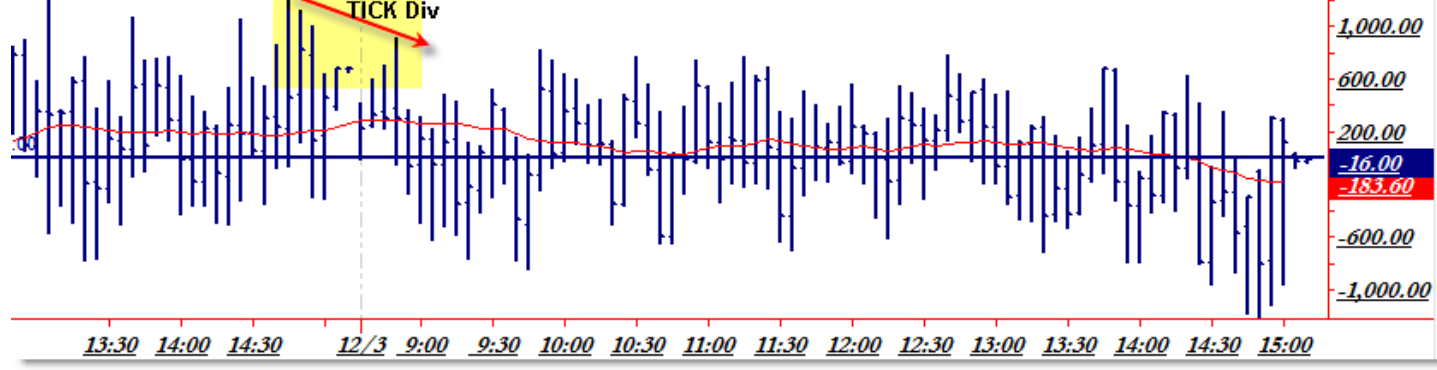
Remember, the "Bollinger Band" squeeze play occurs after the Bands have compressed and then we take a short sale when trendlines are broken or when price busts through a Bollinger Band extreme (do NOT fade Bollinger Band moves after a range compression move).

This is based on the "Price Expansion/Contraction" Principle - and the target is theoretically unlimited (a countervailing buy signal). Breakout trading strategies "work" because - while MOST trades will fail or produce a small target, trades like this where the market makes the expected large volatility move will profit much more than the losses taken on prior failed breakout trades. As an aside, the market fell on a weaker than expected "Service Industry" report, where the reading of 48.7 was lower than the ISM number of 50.6 in October - needless to say, that's bearish.

SPY - 5 min ARCX 12/03/09 L=110.27 -0.98 -0.88% O=111.55 Hi=112.18 Lo=110.29 C=110.38

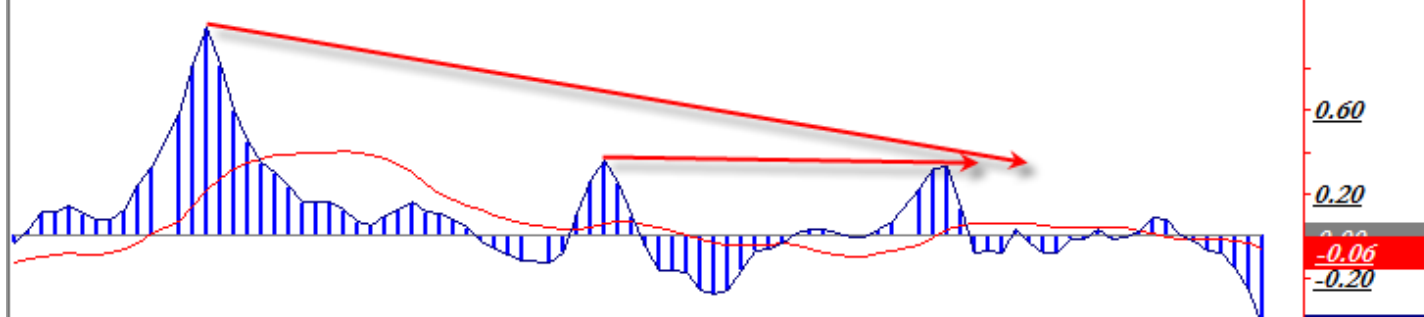
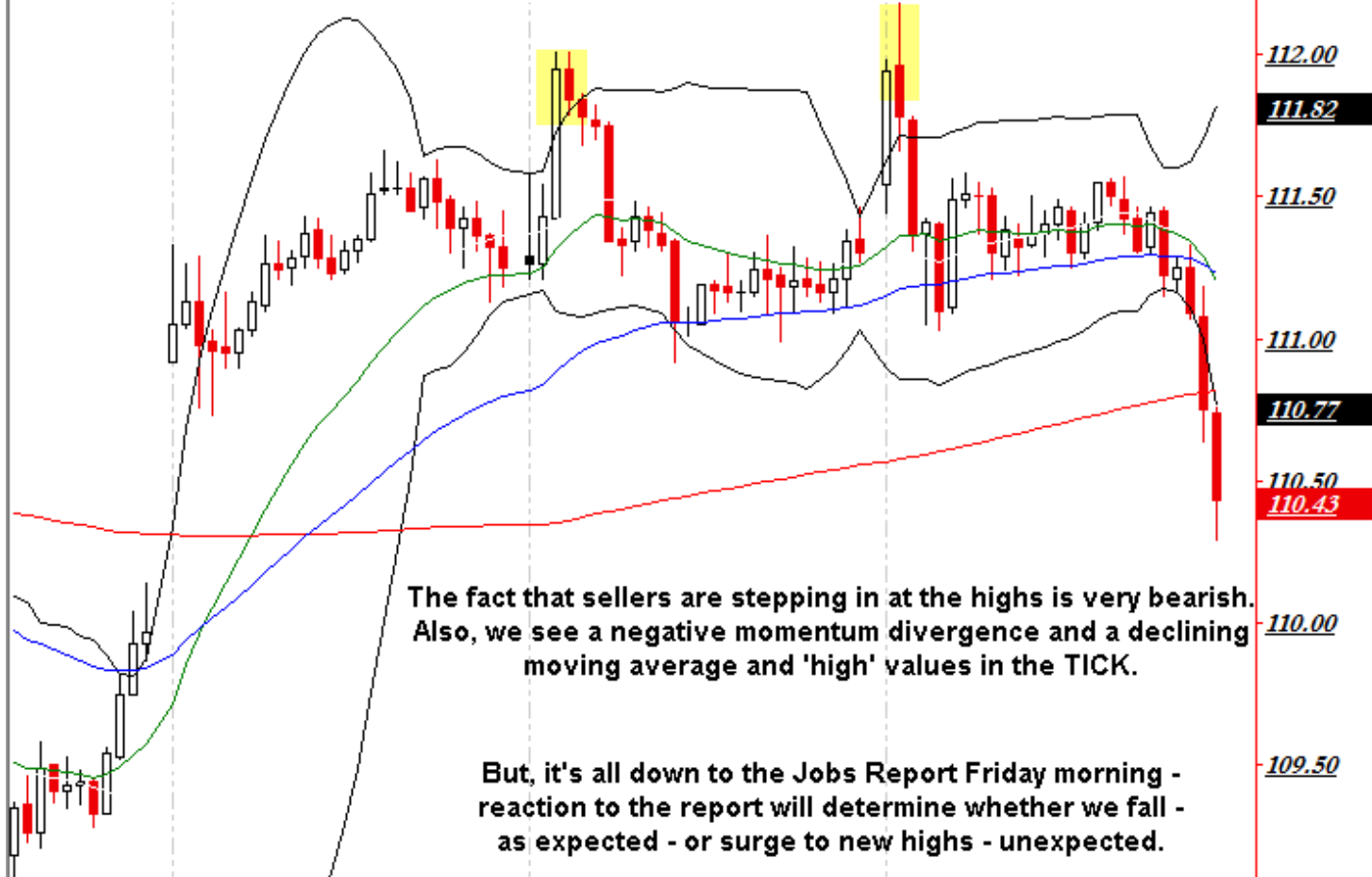


STICK - 5 min NYSE 12/03/09 L=-16.00 -689.00 -102.38% O=-3.00 Hi=913.00 Lo=-1210.00 C=-16.00

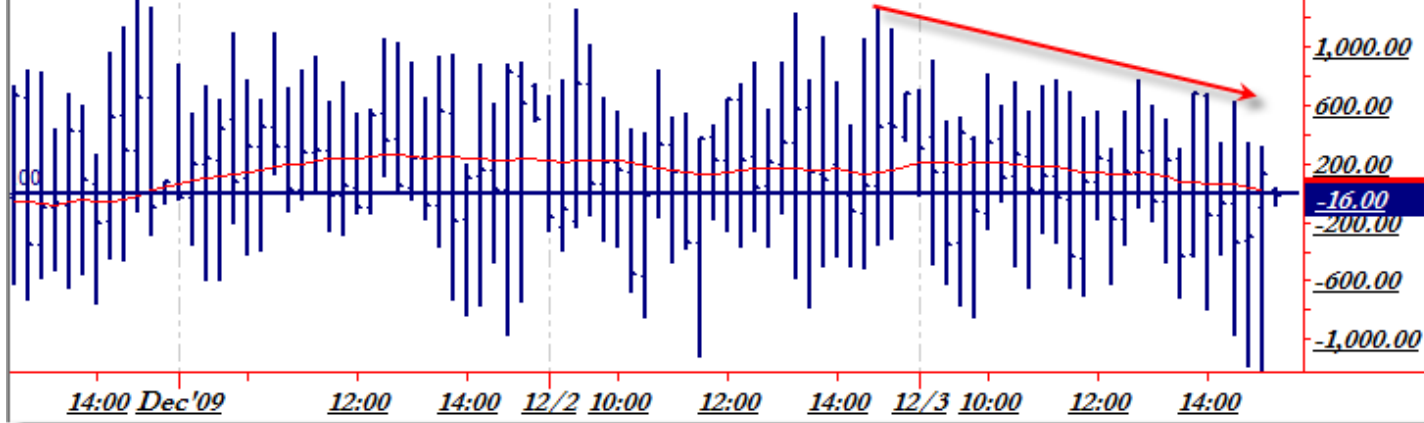




SPY - 15 min ARCX 12/03/09 L=110.24 -1.01 -0.91% O=111.55 Hi=112.18 Lo=110.29 C=110.38



STICK - 15 min NYSE 12/03/09 L=-16.00 -689.00 -102.38% O=-3.00 Hi=913.00 Lo=-1210.00 C=-16.00





Without overcomplicating the analysis - best to keep it simple - odds overwhelmingly favor a price move back down to challenge the \$109.00 area.

Friday's "Jobs Report" is released an hour prior to market open (8:30 EST) so if the number disappoints - there is chatter that it will - then we would likely see an opening gap that could result in a trend day that takes price back down to \$109.00.

Any move under \$109.00 would argue for a bearish breakdown and would trigger aggressive short selling... and "Pop" the stops of bulls (instead of bears!).

It all comes down to the reaction to the Jobs Report tomorrow - if better than expected, the market should recapture the losses and retest \$111.50 if not higher, but if worse than expected, the market should move lower perhaps down to \$109.00.

Be on guard for a possible Trend Day tomorrow.



Again, not much more to add by viewing the 60 min structure.



The 20 day EMA rests at 1,094 - any move under that should retest the 50 EMA at 1,075. Any eventual move under that should challenge the prior 1,040 low, and any move under 1,020 would argue for a possible trend reversal down... especially if price then moved under 1,000 which would lead to a pullback that could re-test 900.

Under standard analysis, the market is 'screaming' sell-signal (this is a sort of 'Evening Doji Star' at known resistance) and - if the "Choppy Tippy" cycle repeats (see highlighted area), then we will see a sharp down day(s) ahead.

But wait to see how the market reacts to the Jobs Report before getting overly biased either way - no one knows or can predict how the market will react to that number tomorrow morning.