



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Despite being an end-of-year, low volume day, today's trading action gave not only great trading opportunities (low-risk, high probability of success), but it also gave me a few good opportunities to discuss educational examples again of Fibonacci Projections (for flags) along with a nice descending triangle pattern breakout to the upside. Let's get right down to the trades and educational examples we can learn from today's session and add to our trading arsenal.

1. GAP FADE

Today felt like the pattern mentioned in last night's report (5 days of up-gaps filled) was flipped in reverse, as the gap was a down-gap which was quickly filled.

One thing that is interesting about this particular gap...the gap formed at a key Fibonacci Price Projection Target from a bear flag that formed into last night's close. An astute reader pointed out the possibility of a Bear Flag and we ran a quick Fibonacci Price Projection last evening to arrive at potential targets of \$112.42 (for the 100% projection), \$112.25 (for the 138.2% projection), and \$112.15 (the 161.8% projection). I have a chart later in the report which shows these projection price targets. The play - set-up last night- was to anticipate a potential move down to those levels (shorting if the opportunity presented it) or to buy to get long if reversal candles or other potential turns were seen at any one of these levels. This helps serve as an example of setting targets in advance and planning a gameplan for the next trading day in terms of levels at which to put on or take off a position should the market hit them intraday (which is also why we look at higher timeframes such as the 30 and 60 min to get the same targets such as moving averages or prior support prices).

The market opened just above the 161.8% projection target and quickly rallied above the 138.2% target, meaning the bear flag not only triggered (I think this is the third such example in the last month or so where a bear flag set-up into the close and the full target was hit overnight) but exceeded the full target. Don't stress, though. Bear Flag targets are spots to consider 'going long' when they are hit. As we'll see today, the 138.2% Projection became very important, and set-up three of the five "ideal trades" of the day.

As such, price formed a doji and then bullish engulfing candle that closed at \$112.30, and a "gap fade" target was just shy of \$112.60, with a stop under \$112.20. This trade worked and slightly exceeded its target, and the reversal candles - as I've been mentioning in at least the last two prior reports - set-up a "Fade the Fade" trade, which was opportunity #2.

2. FADE THE FADE, IMPULSE SELL, CONFLUENCE RESISTANCE

Trade 2 occurred as a result of a new price and momentum low, and the bias (mentioned last night from the bearish picture created by declining market internals) for lower prices ahead. Price rallied into the confluence of yesterday's close (\$112.58) along with the 20 and 50 EMAs (near \$112.60) and 200 period SMA. A long-legged spinning top formed, and the breaking of this low - at \$112.55 - triggered a trade short to play for a retest of the morning low near \$112.20. The stop was above \$112.65, and price quickly fell to challenge new lows... but - also like the prior trading days with upside gaps - price failed to complete a full retracement and did not make new immediate lows. Instead, a bullish hammer candle formed at 11:35 EST, triggering a quick 'exit with profit.' Though certainly possible, I would not have advised trading the 'retracement' higher long - though if you chose to, the target was the falling 20 EMA, and the best trade was to wait, see if this level held as resistance, and reestablish a short-sale position.

3. BEAR FLAG, RALLY INTO 20 EMA IN DOWNTREND, PRIOR NEW TICK LOW

This trade resembled a bear flag, and could have been treated as such (see 1-min chart). An aggressive entry was as soon as price tested the falling 20 EMA at the \$112.45 level, though a more conservative trade was to observe the rising

trendlines on the 1-min chart and then establish a short-sale as soon as the lower trendline was broken. This happened at 11:20 EST, and the target was for - at a minimum - a retest of the morning lows or a full 100% projection that targeted \$112.06. The 61.8% Projection of the flag target was \$112.21, and this level was hit into an area that formed a bullish hammer and test of the 5-min Bollinger Band. Though we were targeting a full move, price found support and began to rally off a prior support level (and off the overnight Bear Flag 138.2% target), so this created an "exit with profit" and "flip and trade long" thanks to the positive TICK and Momentum divergences that formed (see 1-min chart). This serves as an example of 'adaptability' in terms of paying attention to other signals when we are short in a trade and playing for a specified lower target, but price forms positive divergences at a potential support level. We must listen to the signals of the market and adapt as needed.

4. BULLISH HAMMER, LOWER BOLLINGER, PRIOR PRICE SUPPORT, DUAL POSITIVE DIVERGENCES

Again, the bias was still for lower prices, both from the bias from deteriorating market internals and lower targets. However, the \$112.20 level served as prior support, and it was the previously mentioned 138.2% target (that's perfectly fine if you did not draw the Fibonacci grid - it was enough to recognize that this level was prior support from the morning gap low). Also, a positive TICK (very important) and 3/10 Momentum Divergence (see 1-min chart) formed at this level. Also, for those who observe the "Elliott's Fractals" structure (again, perfectly fine if you do not - you do NOT need to recognize everything I show in these reports - my goal is to teach these principles and show you multiple examples, but it's only important that you put two or three signals in agreement when taking a trade. Do not feel obligated to catch everything in real time - I don't - but the goal is to see enough to find a good entry, reasonable stop, and logical target that is larger than your stop). The more you read the reports and follow along in your trading and grow in knowledge and experience, the more you will observe and then trade in real time.

The hammer candle on the 5-min chart that touched the lower Bollinger was also enough reason to get long, even if you didn't see the divergences and 5-wave move. Either way, enter long with a break above the hammer candle at \$112.30 and play a "Line in the Sand" trade. A move lower would place us into a trend day down bias, but the \$112.20 support line should be critical in terms of what to expect - thus, placing a stop under that level was logical.

Target a move back to test the 50 EMA at \$112.50 at a minimum. This occurred quickly after trade entry was triggered.

Dojis and long upper shadows formed at this level, but I would not recommend shorting here due to a new TICK high forming (Wyckoff Sign of Strength). Because of the new TICK high, your next trade would be to get long on the pullback into support to play for a potential Rounded Reversal (again, thanks to the Wyckoff Signal). Price retraced deeper than expected, and actually fell all the way back down to the prior \$112.30 support level, formed a doji at the lower Bollinger and then a Bullish Engulfing candle. This was your trigger to get long to play the potential move higher into the close.

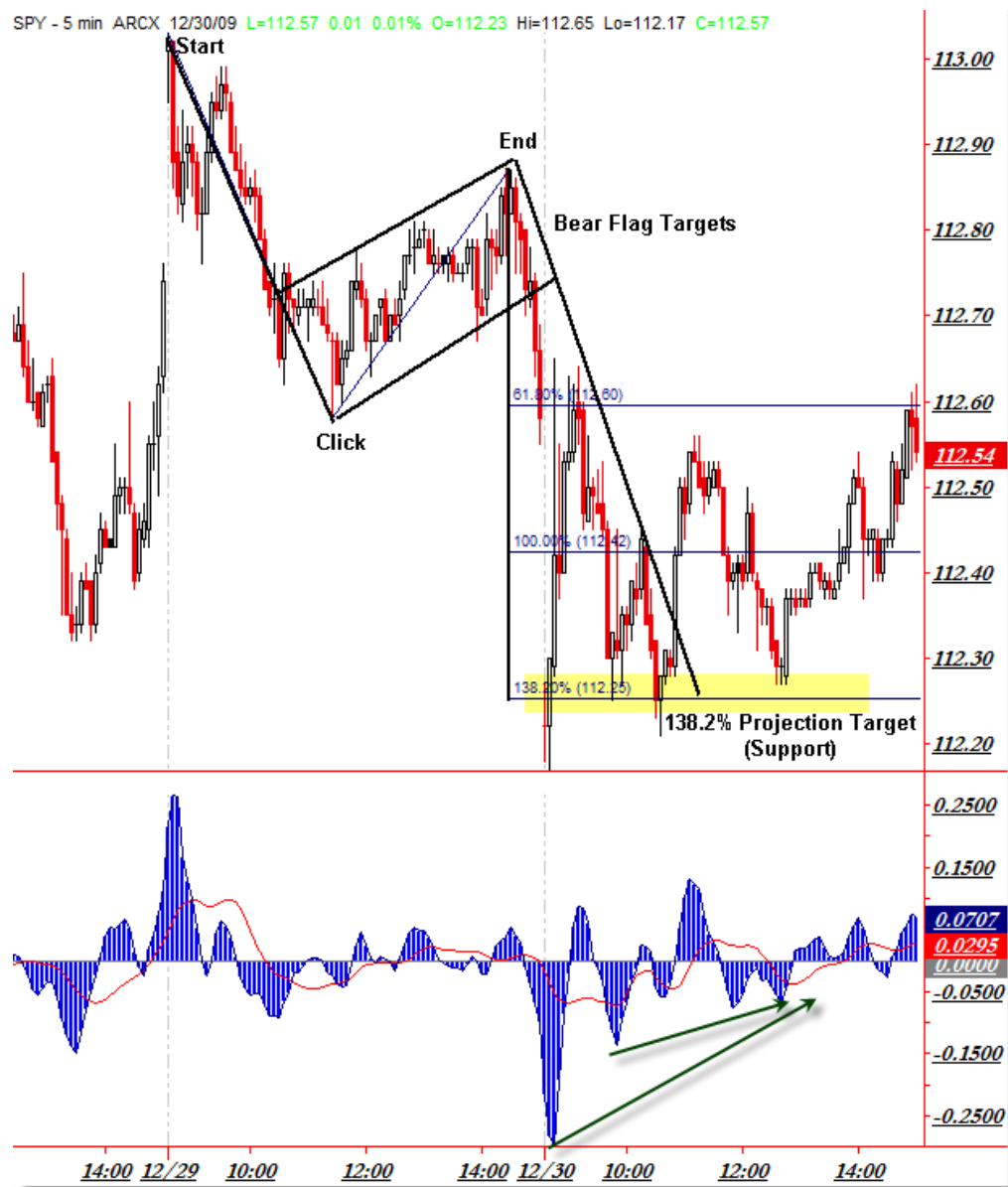
5. BULLISH ENGULFING, DOJI, LOWER BOLLINGER, PRIOR SUPPORT, DUAL DIVERGENCES

Again, this level retested the clear support level (no advanced methods needed) at the \$112.27 level from three prior tests. You only needed see the prior support zone, lower Bollinger, Doji, and Bullish Engulfing to get long.

More advanced/experienced intraday traders likely saw the positive TICK and Momentum divergence on the 1-min and also 5-min chart. Notice the lengthy positive divergence as seen on the 5-min chart.

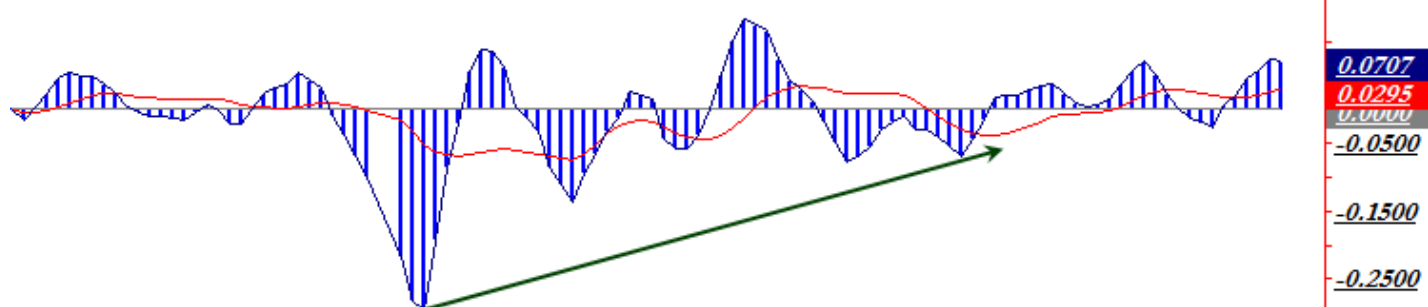
Price faltered and struggled to overcome the high of the bullish engulfing candle at \$112.38, but when it did, it also broke above the 20 EMA, triggering an official entry to play for a move at least to test the prior \$112.56 swing high from

the afternoon. The shooting star candle that formed at this level at the upper Bollinger served as a nice exit for this trade to let the market meander into the close.

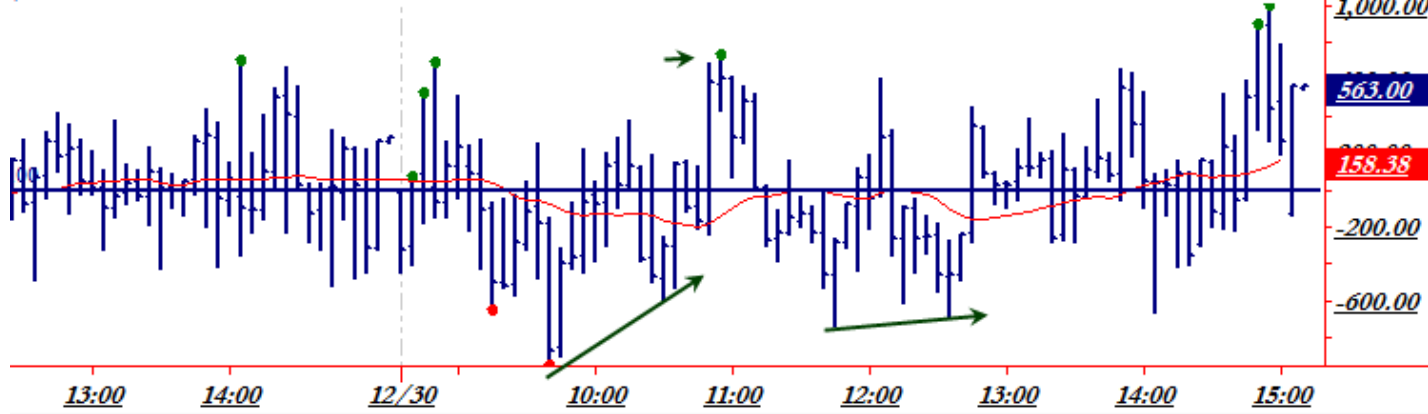


This chart shows the Bear Flag that formed into the close, and the three targets (61.8%, 100% - true bear flag - and 138.2% - a Fibonacci level). Price found key support all day at the \$112.25 level forecast by this price projection move.

SPY - 5 min ARCX 12/30/09 L=112.57 0.01 0.01% O=112.23 Hi=112.65 Lo=112.17 C=112.57



STICK - 5 min NYSE 12/30/09 L=563.00 276.00 96.17% O=-9.00 Hi=1009.00 Lo=-943.00 C=563.00



Price formed a new TICK high at 11:00am CST, serving as a Wyckoff Sign of Strength and tipping the odds to favor the potential for a Rounded Reversal. Always pay attention to potential Wyckoff Signals from market internals.



The 1-min chart shows that trade #3 came into the 50% retracement of the 9:30am swing low to the morning swing high. This also was a 4th wave in a potential Elliott fractal move that played out as expected. It was also a bear flag trade.



Though not mentioned in the report, I also wanted to highlight a great example of a descending triangle breakout to the upside. The breakout trigger came just before 2:00 CST and then price gave a final "pullback" or "last chance" entry as the upper side of the trendline was tested.

Sometimes it can help to keep a chart clean of indicators and just focus on price itself and pay attention to patterns. Sometimes you'll miss simple patterns as we are looking at all our charts with indicators all over them.



Here's an updated look at the Market Internals screen I use. It's still showing a very bearish picture for the market, in that internals (Breadth, TICK, and Volume Differential) are making new swing lows while price is not. It also 'looks like' price could be forming a rounded reversal pattern at the highs. Whatever happens, this is NOT the picture of bullish strength.



We're under the same assumptions we were yesterday - odds strongly favor a downward retracement from here based on market internals, negative volume divergence, and negative momentum divergence. Play aggressively short any move under \$112.00.

As we've all seen, nothing is ever guaranteed, and profits go to those who are prepared. Trade long on any upside move from here and especially a move above \$113.00 which will create higher prices due to the now infamous "Popped Stops" phenomena of the short-sellers.



The picture is the same on the 60-min chart, as are the biases.

Short aggressively under \$112.00 (that would break the lower Bollinger and the 50 EMA... otherwise this area could hold as confluence support while price is above it). Otherwise, prepare to play 'Popped Stops' above \$113.00.

It would be squarely against the odds - though certainly not impossible - for price to form a strong rally off these negative divergences and non-confirmations.



The doji candles at the highs and upper Bollingers forecast a pullback into prior support, which could be 1,110 and even 1,100. This is the dominant probability going forward.

Tomorrow sees the release of Initial Jobless claims prior to the market open, so watch for a potential gap if the numbers greatly exceed or fail to meet expectations: <http://www.bloomberg.com/markets/ecalendar/index.html>

POWERED BY **ECONODAY**

Jobless Claims

Released on 12/31/2009 8:30:00 AM For wk12/26, 2009

| | Prior | Consensus | Consensus Range |
|--------------------|-------|-----------|-----------------|
| New Claims - Level | 452 K | 460 K | 445 K to 465 K |

Otherwise, tomorrow is New Year's Eve so - no surprise - volume will be light (assuming you're not taking a vacation too!)

The market will be closed Friday.