



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



I hope you survived (or rather, thrived) in today's trading activity. I talked to at least one trader who got very long right after open and then stayed long all day, completely confused as to how the market could possibly be going down after the economy 'only' lost 10,000 jobs instead of the forecast 100,000. The lesson is that we MUST stay nimble and be adaptive to changing market conditions - the market is a forward looking mechanism - it is always looking ahead to the next report. We as technicians or chart traders can take advantage of subtle shifts in the market - often by watching the internals - and act accordingly, either to limit losses quickly from a bias gone wrong, or to take advantage of unexpected turns in the market that frustrate not only the majority, but common logic ("If the report was good, the market HAS to go up").

Anyway, all life-lessons aside, let's walk through today's action - there is so much to learn from today's volatility.

1. "POPPED STOPS," PRE-MARKET SURGE, JOB REPORT BEAT

I mentioned the price action all came down to the REACTION to the Jobs Report and nothing (little) else mattered. That was absolutely correct, as it seemed the market was getting ready for a worse than expected report (afternoon sell-off). The market yet again surprised the majority by rising sharply and suddenly after the 8:30EST announcement and then really didn't look back... until 10:00am.

So, the first trade of the day was CERTAINLY not a gap fade, but to go with the momentum and expect a Trend Day and expect "Popped Stops" from those (frustrated/furious) short-sellers/bears who were swing trading short - some of whom put positions on into yesterday's close (meaning they were very motivated to exit their positions).

As cruel as it may seem, the easiest trades you can make are when you know that one side of the market is getting squeezed out of their positions - rightly taken - and you profit from their stop-losses. That was part of why the market rallied so strongly in the morning from the \$111.70 open to the \$112.40 intraday high.

But, like I've been saying in prior reports, we NEED to see buyers stepping up, driving prices higher and NOT JUST short-sellers covering (buying) which perversely and artificially drives prices higher. Markets will fall when the "Pocket of Stops" run out IF the buyers are not buying at the highs - it's clear from the last three sessions now that they were not.

So the market had to fall - a la Market Profile Theory... they use the term "Excess" to describe this situation.

2. EXCESS, BEARISH ENGULFING, DOJI

This was an aggressive trade, as there was no way to be certain price would pull back to the 20 EMA, which was the expectation and edge trade. Bulls could have stepped in and drove prices higher at any point, making this a more difficult trade with stop above \$112.40, entry near or under \$112.20, and target \$111.80 or lower (20 EMA).

A bearish engulfing candle formed which was followed by a doji - both of which formed at the upper Bollinger Band. The 'scalp' play was for a move down to the rising 20 EMA where odds favored a support zone forming.

3. IMPULSE BUY, DOJIS, BULLISH ENGULFING, TEST OF 20 EMA

Under the principle "Momentum Precedes Price," we expect new price and momentum highs to lead to new price highs yet to come - so we want to be buyers into an expected price support zone, such as a Fibonacci retracement or 20 or 50 period EMA. We want to enter especially if a bullish or reversal candle forms, such as a doji or engulfing... both of which formed as price consolidated at the \$111.80 price support zone, giving plenty of reason to 'get long' and enter with a stop under \$111.70 or even \$111.60 and target for a retest of the prior swing high at \$112.40.

Ultimately, the trade stagnated and then failed as price sliced through the 20 EMA and quickly tested the support of the 50 EMA (blue) and 200 SMA (red) at the \$111.60 level, stopping you out of your long you just took.

That's a tell-tale signal - when something SHOULD work and it doesn't work, it often sends a more powerful indication that price is likely to reverse and head in the OPPOSITE direction... but we need confirmation of this before getting short in advance of a possible breakdown - after all - it could just be a quick "Popped Stops" against the buyers, particularly since price tried to support off the 200 SMA.

However, this was the line in the sand - if price broke beneath \$111.40 - the SMA and prior support - then odds would favor lower prices yet to come because the EMA structure would be broken and price - on the 5-min chart - would have devolved into an official trend reversal down ("Sweet Spot").

This set-up a trade should price fall under \$111.40... otherwise we would get long on a break back above the 20 EMA.

4. SWEET SPOT, FINAL SUPPORT BREAK.

Keep in mind, there was no way we could have known in advance that price was about to collapse as hard as it did - we just knew that the \$111.40 zone was important from a support perspective, as the EMAs were turning into resistance and the price was making lower lows and lower highs. When price sliced through this area with such force, it became evident that price had decent odds of retesting the lows - no matter how strange that might have felt at the time (sometimes doing the thing that makes money is the hardest thing to do at the time - short on a day when the TV personalities are basically throwing champagne parties celebrating the birth of a new bull market).

And maybe that's exactly why price fell so hard - people couldn't believe it was going to fall, and so as it fell, it took away the weak new buyers who had just bought at the highs, and now their stops were being "Popped."

Either way, it created a strong impulse, and if you weren't short into it - that's fine if you missed it - you should have expected LOWER prices to come later after an initial retracement occurred - so your plan was to find a spot to get long if so desired, or - perhaps more appropriately - find a spot to get short again after a meaningful retracement.

At this time, the "Third of Third" Elliott Wave concept 'kicked in,' with an almost vertical drop down. This underscores the power of 3rd waves and you should have been thinking "Gosh, this could be a 3rd wave" ... but just because you recognize it as a third wave doesn't mean there's an automatic entry - the best is to watch the 1-min chart and wait for a 5-wave fractal to form and see if positive divergences or bullish candles form. That's your exit-short signal and aggressive 'go long' signal.

5. DEAD CAT BOUNCE, WAVE 4 RALLY, HAMMER AND DOJIS

As price formed a long lower shadow near 11:50am, this was the first possible bottom... though it gave no buy signal. The next candle was a strong bullish hammer up to the \$110.50 level - you could have bought long after the high of this candle was taken out and played for a return (retrace) to the 20 period EMA at the \$110.90 level, which also happened to 'converge' with the 38.2% Fibonacci Retracement (see 1-min chart) at \$111.00 (also round-number resistance). That was a great place to target (with a stop under the hammer low at \$110.20) and then anticipate flipping and getting short to play for the final 5th wave (which had odds of forming) back down to the prior low under \$110.10.

See the 1-min chart to observe the high probability, low risk confluences that formed at this level, giving you plenty of time to anticipate and then put on a trade - the 1-min chart even gave you a negative momentum divergence (but not a divergence in TICK).

6. WAVE 5, NEGATIVE MOMENTUM DIVERGENCE, PULLBACK INTO 38.2% FIB AND 20 EMA

This trade gave PLENTY of advance warning, with the best entry coming as price began to form reversal candles at the \$110.90 level at 12:45 EST (prior to the surge up to \$111.00). We didn't know that price would surge up one last "dying breath," so it was best to go ahead and get short to prevent missing the move and get the best location for a stop-loss - above the 50 EMA at \$111.15.

Price did give one last breath, which officially took us up to the 38.2% Fibonacci retracement of the morning high to the 1-min closing low. This also shows why - when a trade set-up is obvious to a wide spread of market participants, you can't locate your stop one or two pennies above where you entered - you will be tagged out.

Being an expected 5th wave, the target was for a minimum retest of the morning lows of \$110.00 or even to hold for a lower low (remember 5th waves can 'truncate' or stop to form a double bottom instead of going to a new low).

Look again at the 1-min chart to see the fractal division - 5 fractal waves - that comprised the final larger 5th wave.

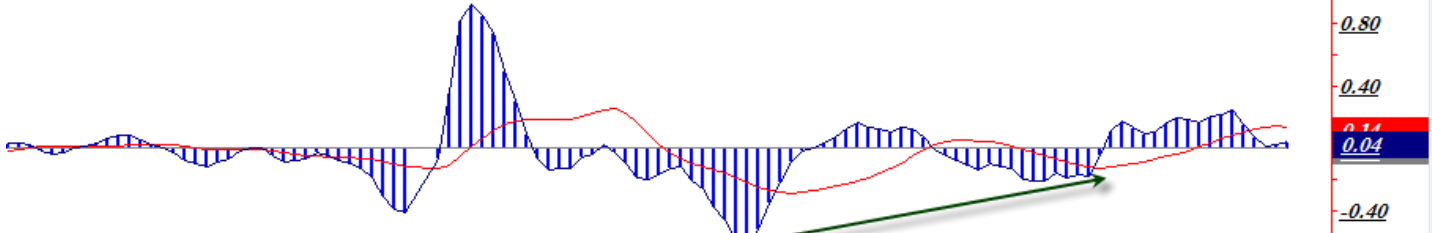
Just like the 3rd of third wave concept is important, the 5th of fifth wave is just as important - it forecasts that odds favor a trend/price reversal with a larger 5-wave fractal move being complete - again, use this as an example.

7. ELLIOTT 5TH OF FIFTH WAVE, POSITIVE DUAL TICK/MOMENTUM DIVERGENCE, BULLISH ENGULFING

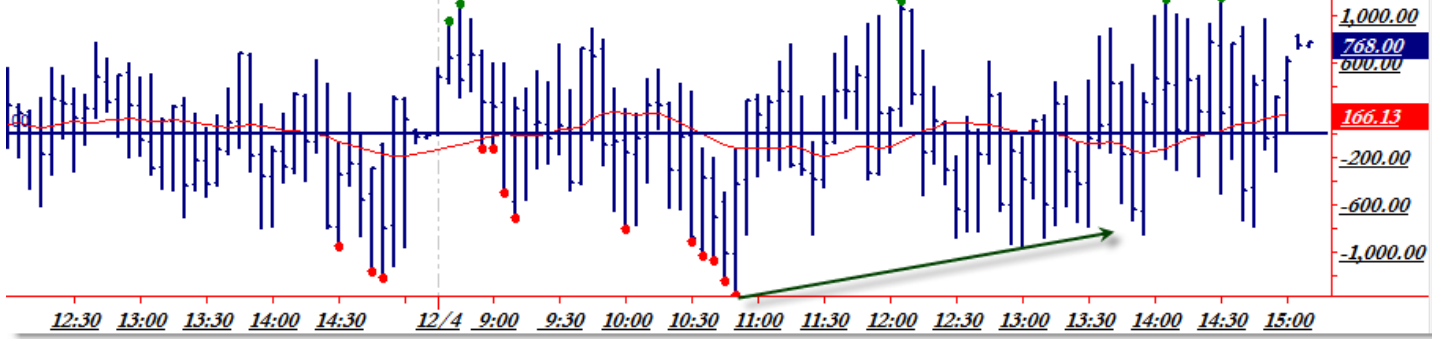
Just as we had great odds of falling from the \$110.80 highs down to the \$110.00 lows in a 5th wave move, we had great odds (low risk) of price finding a bottom and rising after the positive dual divergences set in and then price formed a strong Bullish Engulfing candle at the 2:30 EST lows that also poked outside the lower Bollinger Band.

The entry was as soon as the high of the Bullish Engulfing candle at \$110.30 was taken out, with stop beneath the recent swing low at \$110.05 and target for a trend reversal at best or at minimum a retracement back to the 20 or 50 EMA at \$110.60 or \$111.80 respectively. Aggressive traders were to hold until the close or until a strong counter-sell signal came in - which happened at the 3:30 doji at the upper Bollinger Band at the round number resistance level of \$111.00.

SPY - 5 min ARCX 12/04/09 L=111.28 0.90 0.82% O=111.84 Hi=112.38 Lo=110.04 C=111.01



STICK - 5 min NYSE 12/04/09 L=768.00 784.00 -4900.00% O=32.00 Hi=1160.00 Lo=-1362.00 C=768.00





This chart best explains the "Third of Third" (as being the Point of Recognition that lower prices are ahead) and "Fifth of Fifth" (meaning odds favor a price/trend reversal) Elliott "fractal" concepts.

This also shows one of the best examples of External (multi-swing) and internal (immediate swing) positive Momentum and TICK divergences. Use this page as a reference.



"Simplified" 1-min chart for reference as to where the idealized trades took place.

Trade 1 was for a very small profit as was trade 2, while trade 3 was a loss.

The rest were relatively easy to spot (using these methods I teach) in terms of the level of confirmation on each of trades 5, 6, and 7.



Quick comments - Price still cannot rise (or fall) out of the dominant trading range, so the last few days commentaries remain the same now as then. The \$111.50 area is key resistance while \$109.00 is key support.

Buyers have pushed price outside the range three times, only to trigger "Popped Stops" (shorts covering) which quickly ended as buyers did NOT step up and buy. That's bearish. Volume also surged today - as price fell - that's bearish. There's a phrase "Three Strikes and You're Out!" and the bulls have pushed price to three new intraday highs but have NOT capitalized on any of them, in fact, they have lost MORE ground each time they pushed to new highs.

As such, a broadening formation has formed (blue trendlines) and that is bearish, which shows a market out of balance.

As price remains in the trendline boundaries of the rectangle, the obvious target is a play back to \$109.00 unless bulls can muster one more push to new highs... triggering even more popped stops but popped stops alone will NOT a new bull market make. If buyers will not step up and drive prices higher, we will go down in price.



Insights on the 60 min chart are the same as the 30 min chart.

Don't try to be a hero and guess whether buyers or sellers will win the vicious battle taking place for control of the supply/demand equation which has resulted in a tight rectangle with multiple gaps since mid-November.

All signs point to a down move - momentum declining, volume surging on down-bars, and three "Bull Traps" in a row - but take nothing for granted in this environment where bulls will do anything to keep the market up.

In other words, it's not as easy as "get short, exit at \$109.00." Play out the intraday swings as they come.



Today gave us an outside bar where the high and the low were beyond yesterday's high and low - that signals a market out of balance and is dangerous for both buyers and sellers.

The momentum oscillator is almost registering zero while we made a fresh new 2009 price high today - it registered just above 15 in early November and mid-September and above 20 in late July - that's bearish.

Volume is picking up, but you would be hard-pressed to call this a "bullish" day - so even though the volume bar is black (buying), realize that the majority of 60-minute bars along with 30-min bars today were red/sellers (8 down bars; 5 up bars on the 30 min chart).

Still, the 20 EMA has been holding as support and it may very well do so here at 1,095. Gold fell \$50 today, the US Dollar Index surged and is nearing a trend reversal up (breaking daily moving averages) so if these trends continue, then we are looking at the high of 2009 being made right here just 2 points shy of the 1,121 target - the 50% Fibonacci retracement.