



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



I must say I'm impressed that the market is respecting this current trading range so powerfully - I wrote in last night's report that we could likely see a play down to test \$109.00 for support and then - if no breakout down - then we would likely see a move to the upside as the range held. That's exactly what happened and - knowing that made today's trading a bit easier.

The market quickly fell from the open, and only nimble traders were able to capitalize on the move down to the \$109.00 level unless you were prepared after reading last night's report and doing your own analysis and finding \$109.00 the most likely target to play for and if you're comfortable trading straight-away off the open. I'm not counting the 15-min move down as an official 'idealized trade,' but it was certainly trade-able by those who took the bear(ish) flag pattern into the 50 EMA resistance yesterday as a sell signal and either held overnight (risky) or went short as price broke the 5-min bar low at \$109.60.

1. LONG-LEGGED DOJI, BOUNCE OFF KEY SUPPORT AT \$109.00, POSITIVE TICK DIVERGENCE (FROM YESTERDAY)

This was one of those 'scary' trades that worked well, which left new traders behind the market (they were perhaps shorting at the lows). The edge from this trade came in knowing well in advance that \$109.00 was a POWERFUL and long-term support level, and if there was any candle inflection bar at this point, or any positive divergence, you would likely be compelled to take the trade with a tight stop under \$109.00 and minimum target of the 20 EMA at \$109.50 or beyond.

The TICK divergence came in from comparing the lows of yesterday with the TICK lows yesterday and then the morning TICK which - though price was lower - the TICK was not.

The long-leg hammer candle served as an entry as price broke the open or close of the doji (after it formed) at \$109.16 or \$109.20 or after the high of the doji at \$109.30 was taken out. A stop was placed under the \$109.00 support zone, which - by the way - was a long/buy entry for VERY aggressive traders betting on a rally in advance of a candlestick trigger pulling you in long.

The initial target for most traders was a return to the \$109.50 area which would trigger a move into resistance and set-up a potential Impulse Sell. Aggressive traders - seeing the lengthy trading range I have been describing - could have put on a 'position trade' long here with a stop and reverse under \$109.00 and played for a return to the \$111.00 level over the next few days.

2. IMPULSE SELL, LONG UPPER SHADOW, MOVE INTO 20 EMA.

This was a clear-cut signal that also triggered yesterday but ... also failed. Remember we cannot know in advance which trades will succeed or fail - we can just play the edge based on price structure and low-risk opportunities. The edge comes from the probabilities of a successful trade and the smaller stop relative to the larger reward when played out over time (assuming we do not botch trades by mismanagement or emotional override).

Entry was as price retraced to the \$109.50 area and especially as price formed the long upper shadow and then 'spinning top' candle at the 20 EMA. The low of the spinning top was taken out at \$109.42 and low of the shooting star/doji was taken out at \$109.39, triggering entry there with stop above \$109.50 and target back to the intraday lows near \$109.02 (or lower Bollinger).

As you can see, price did fall as expected, but - again like yesterday - the first impulse sell signal fell just shy of its full target and price reversed higher, leaving us to exit sooner than expected with a smaller profit than expected. Price

formed a bullish engulfing bar at 10:30 am that closed at \$109.39 which should have triggered exit for most traders, though price did fall down to an intrabar low of \$109.16 before rallying hard afterwards.

You could have played the "Popped Stops" in the same manner as yesterday as price rose above the 20 and then 50 EMA, stopping out those with tight stops, but I would not necessarily classify that as an "ideal" trade - more of a 'making the best of a failed trade' that took people by surprise.

3. CONFLUENCE FIBONACCI, LONG UPPER SHADOW, ROUND NUMBER RESISTANCE AT \$110.00

This trade could be considered a defining moment between bullish or bearish sentiment/structure/bias. As seen in a separate chart, price rallied to the confluence of the 50% and 38.2% Fibonacci overlap area as shown from the prior larger two swing highs - this formed at \$109.98. For those watching - don't worry if you weren't - the 50 period EMA on the 15 min chart aligned with this zone.

For my more advanced members who enjoy seeing or trading the AB=CD Measured Move Pattern, the 138.2% Fibonacci Projection of the 'flag' style move of the AB=CD pattern was \$109.96 (look back to yesterday's report to see how the morning bear flag ended at the 161.8% projection). Again, do not worry if you do not use Fibonacci like this - there is no requirement to do so - it just helps uncover another reason for possible resistance there.

The other level of resistance came from the \$110.00 "Round Number" resistance level - which was enough to put on a short-sale trade if a doji or other reversal candle formed there.

And it did. A very long upper shadow candle formed that closed at \$109.85, triggering a short-sale on any break beneath this candle - and that happened on the very next bar, triggering a short-sale trade with entry under \$109.84 and stop above \$110.00 and target (max) for the prior \$109.20 target at best... or the confluence EMA zone at \$109.65... both of which were achieved.

I also want to highlight an important 'line in the sand' at 11:40am EST when price retraced to the convergence of the 20 and 50 period EMA at \$109.65. One strategy I've adopted over the last few months - perhaps you've noticed the change - is to pay more attention to candles instead of trading exactly at confluence levels. I'm focusing more on observing a reversal candle such as a simple doji, engulfing, or hammer to confirm a trade set-up or that support is holding, and to trigger an entry.

This is a reason why. Though I was looking to put on a buy if we saw a reversal candle at this confluence support zone, price suddenly broke the support zone before one formed. Price then formed a flag-style rally (see 1-min chart) and then formed a doji on the 5-min chart, but the high of the doji was never taken out - in fact, price collapsed just after the doji closed.

Price did not support much at all at this level, so the possible support level came... and went. The breaking of support confirmed that selling pressure was stronger than those wanting to put buys on at this level and that the full prior swing low target had odds of being achieved.

It was not the 'wrong' thing to do to put on a buy at the expected confluence support of the 20 and 50 EMA, but it was an aggressive move in the absence of price moving above the high of a candle pattern.

Lunch-time is often a difficult time to trade, but you could have shorted each of the three pullbacks to the 20 period EMA and exited at tests of lower Bollinger Bands - all good for aggressive, quick scalps.

4. POSITIVE MOMENTUM DIVERGENCE, POSITIVE TICK DIVERGENCE, DOJI AND BULLISH ENGULFING

This was one of the best trades - if not the best - of the day.

As price continued to make new swing lows (though not intraday lows), the 3/10 Oscillator along with the TICK began to make higher lows, terminating with the final doji and then bullish engulfing candle forming at the \$109.25 level just before 2:00 EST.

This was a great zone to put on a long trade and aggressively play for a potential trend reversal - it came - or at a minimum play for a return up to the 20 or - with the divergences - even 50 EMA at the \$109.50 level.

Price rallied to the target in two quick bars and then two dojis formed at the upper Bollinger Band along with the 50 EMA.

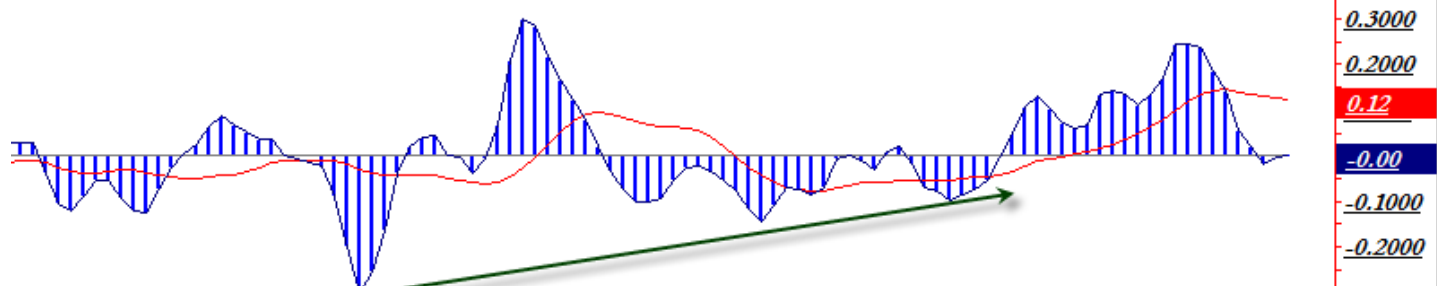
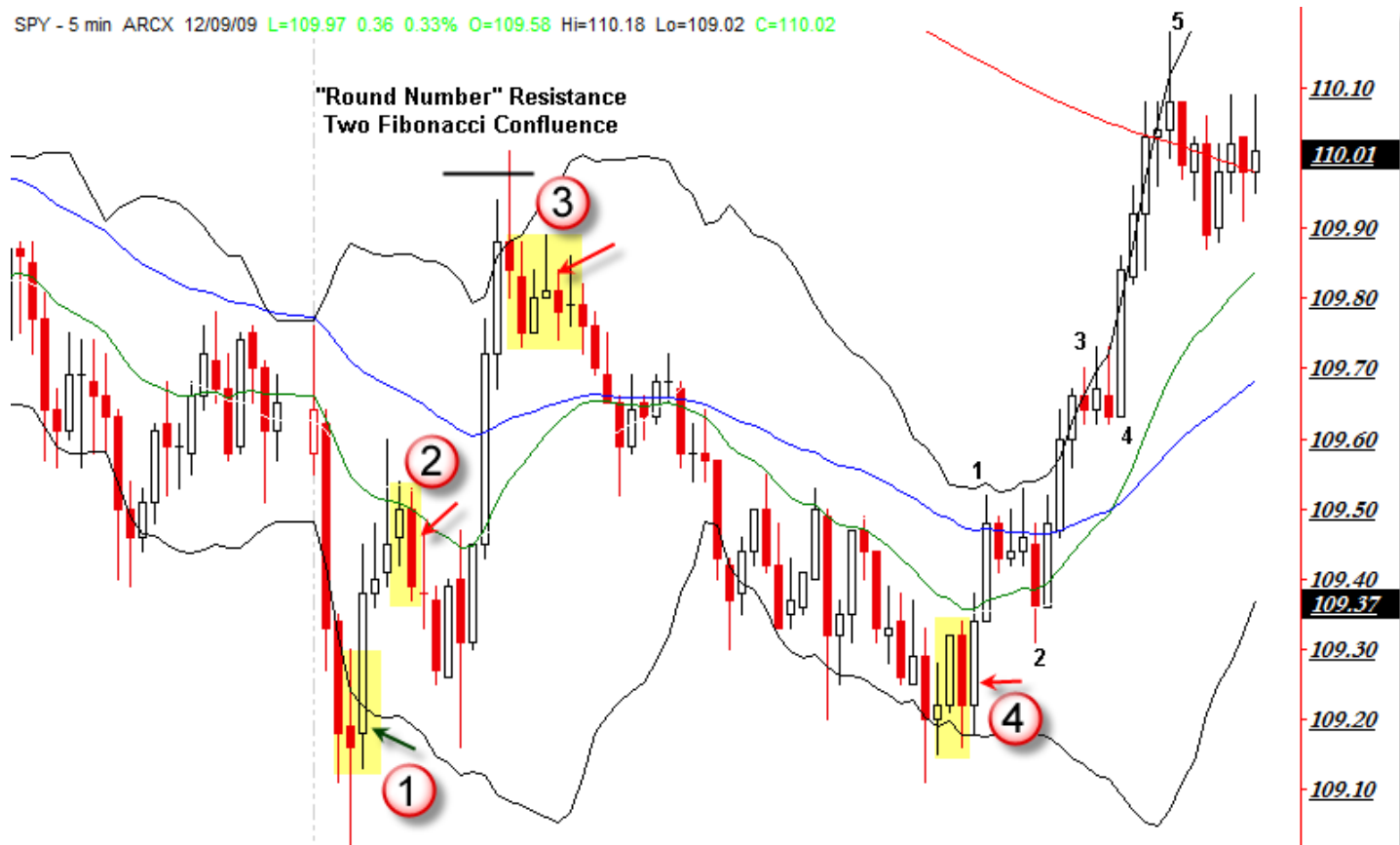
This was a precarious point, because of the positive momentum and TICK divergences hinting at underlying strength, and the upper resistance zone at \$109.50 (EMA and Bollinger) hinting at resistance. With such conflicting information, it's often best to pass on a trade, or put on a trade (in this case, short) with a tight stop in the event that a rally occurs. The rally did occur, price strongly broke above this zone, and aggressive traders could have put on a "Popped Stops" trade while more aggressive traders could have added to earlier positions or put on new positions as price cleared expected resistance.

Initial upside target included the \$110.00 level which -again - was a confluence Fibonacci and 'round number' resistance zone.

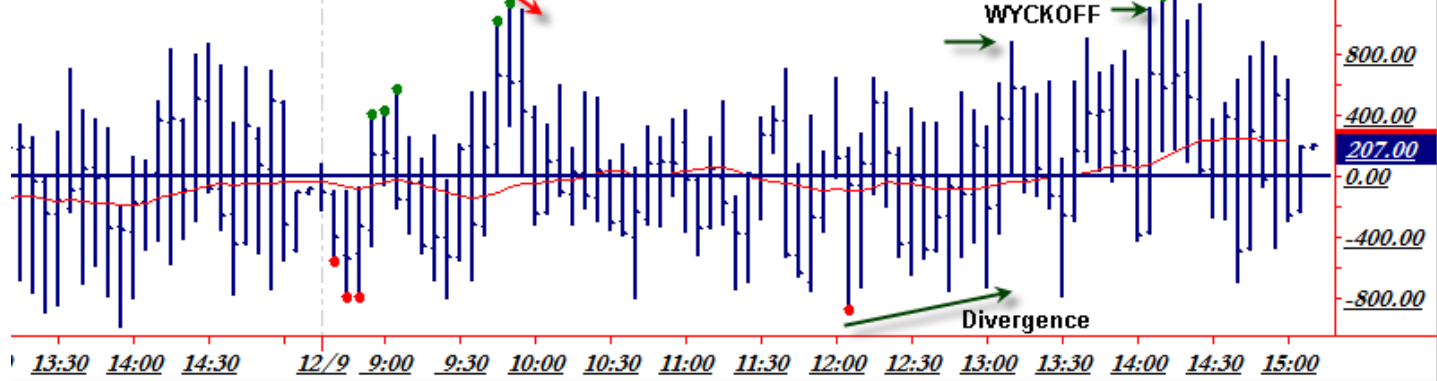
Price overshot this zone, and with price so close to the close, it was acceptable but aggressive to put on a short-sale with the dojis that formed at the upper Bollinger Band - at the minimum, these were 'exit with profit' targets for those still long from lower levels.

SPY - 5 min ARCX 12/09/09 L=109.97 0.36 0.33% O=109.58 Hi=110.18 Lo=109.02 C=110.02

"Round Number" Resistance
Two Fibonacci Confluence



2/09/09 L=207.00 293.00 -340.70% O=-1.00 Hi=1196.00 Lo=-880.00 C=207.00



SPY - 5 min ARCX 12/09/09 L=109.66 0.04 0.04% O=109.58 Hi=110.01 Lo=109.02 C=109.65



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Grid showing the starting and ending points - prior swing highs from the last two days - to find this morning's Fibonacci Confluence target and resistance level.

The 38.2% and 50% retracement converged at the \$109.99 level as a reversal candle formed here.

SPY - 1 min ARCX 12/09/09 L=110.10 0.49 0.45% O=109.58 Hi=110.18 Lo=109.02 C=110.02



Not mentioned in the report, but a fractal 5-wave move unfolded with TICK and momentum divergence (look close) at the \$110.00 high.

Otherwise, we see smaller positive divergences at the 12:30 CST period prior to the afternoon rally.

A Wyckoff Sign of Strength (oscillators making new high while price is not) occurred to kick-off the rally.

Wyckoff Signs after positive divergences often precede intraday turns and rallies so pay attention when these form.



Strangely enough... there's still no change!

We are still in a trading range with \$109.00 as primary support and \$111.50 as primary resistance.

As expected the market gapped down from the prior \$111.50 retest of the high (and failed bull traps) and now price has tested the lower level as expected at \$109.00. With a positive divergence building and price inflecting strongly off this level, odds favor price rising to test the upper \$110.50 area yet again, but I'd feel more comfortable if price rises above the \$110.25 level (50 EMA).

That being said, look back to the prior two times this situation occurred - on November 23 and November 30. Price rallied off the \$109.00 level, paused at the 50 EMA... and then gapped sharply up through it. Be aware that this can happen again tomorrow or the next day, so until proven otherwise, a bullish bias is favored.



Same comments as above in the 30 min chart.

The 60min chart is also showing a positive divergence, so odds favor a move higher.

Tomorrow gives us the Jobless Claims report at 8:30am EST, so any major surprise could move the market sharply either way, and a major unexpected announcement could produce a trend day so be on guard.

Consensus is for 460,000, with the range being 450k - 500k. See Bloomberg EconoDay:
<http://www.bloomberg.com/markets/ealendar/index.html>



We're in the longest consolidation phase since the July lows, and that is interesting. Classically, it warns us that, when something SHOULD happen (price 'should' go down like the other four times) and it does NOT happen, then it sends a more powerful signal in the other direction (bullish).

Stated differently, price was supposed to form a normal down-swing at the end of November but perhaps due to the seasonality, buyers 'absorbed' the sellers and the correction formed sideways. When the market is due for a bullish swing next in the cycle, then the bullish swing could be stronger than expected.

It's conjecture now without proof, but do watch for ANY move above 1,121 to turn into a potentially powerful up-move and any move under 1,080 to target 1,030, and for any subsequent downside move under 1,000 to target 950 or even 900 over time. Don't try to be a hero - trade in line with the market, and right now, the market is in a trading range preparing for a range expansion move that has not materialized yet.