



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Finally! I felt like this was a text-book classic day to trade - one that offered excellent opportunities in real time and excellent examples of the concepts I teach in these summary reports - use today's report as a good reference of a great gap-fade, Wyckoff Sign of Strength, and (near) perfect Rounded Reversal Structure.

1. GAP FADE

I had mentioned in Friday's report, along with a few prior reports, that 1,150 was an upside target to play for in the S&P 500, and the eventual target if 1,121 was broken - we hit that level directly at the open, and overhead targets are initial resistance levels. Knowing this would have helped you fade the morning gap more effectively.

Price opened roughly 50 cents higher from Friday's close, which is within the expected range to expect a gap fade, and so the entry came as price broke the low of the first (or even second - for confirmation) candle at the \$114.90 level, with a stop-loss placed above the high of \$115.13. The target was a move back to fill the gap at \$114.57, which occurred with only two up-candles amidst a string of down candles - the final of which sliced through not only yesterday's support, but the 20 EMA as well.

Usually, after a successful gap fade, we would try the "Fade the Fade" trade, which is to trade long as the upside gap is filled into the support of yesterday's close, particularly if a reversal candle forms, wherein we play for a move to the recent morning high - playing an "Impulse Buy."

Price cracked under the 20 EMA and yesterday's support level with a violent sell-bar, which caused conservative traders perhaps to pass on the next trade.

2. IMPULSE BUY, DOJI/BULLISH ENGULFING, 50 EMA

This is in similar nature to the "Fade the Fade," only price broke lower than yesterday's close as expected support. However, price did retrace to the 50 EMA and form a doji (inverted hammer) candle which was immediately followed by a bullish engulfing candle with a long lower shadow - both of which formed into the support of the 50 EMA after a new price and momentum high (the "Impulse Buy" trade).

Entry was as price broke above the high of the doji at \$114.51, or above the high of the bullish engulfing candle at \$114.55 with a stop under the low and 50 EMA at the \$114.40 area to play for a maximum target of a retest of the morning high at the \$115.00 level.

As you can see, price managed to form an 'abc' bear flag style retracement that ended quickly with price breaking under the lower trendline (see 1-min chart). This was an early stop-out (small profit at best - scratch) for the long if you took it, and a new short-sell trade (bear flag, impulse sell) off the new TICK and Momentum low that formed.

3. BEAR FLAG, IMPULSE SELL, 38.2% FIBONACCI

This trade began with a sudden reversal of an expectation for higher prices off an earlier impulse buy, which suddenly turned into an impulse sell (new momentum & TICK low at 10:00 EST).

There was no overhead EMA to hit, but price did rise to the 38.2% Fibonacci resistance level at \$114.67 from the morning high to the intraday low. Price then broke the clear lower (rising) trendline at 11:10 EST at the \$114.55 level, triggering a fresh entry or a stop-loss if long from the prior trade.

If trading an impulse sell, then the target was a retest of the morning low at \$114.38, or if playing a bear flag, then the 61.8% Projection Target was roughly \$114.25 and full 100% projection of \$113.98.

Ultimately, price tagged the lower Bollinger Band at \$114.30 then formed a strong bullish reversal candle that found resistance at the 50 EMA (5-min) as doji candles formed... but price broke above this level, triggering yet another early exit if you tried to hold on short for the bear flag (if you did not exit at the prior swing low).

At this point, a positive momentum and TICK divergence formed, so you could have traded a scalp to the upside, but it was a difficult trade to endure if you did so.

Price formed a second bear flag set-up that triggered at 12:30 EST as price broke again under a rising lower trendline which also broke under the 50 EMA at \$114.45. This was certainly a trade, but I wanted to focus on the next trade, which gives a good example of a "Three Push" reversal pattern.

4. THREE-PUSH REVERSAL PATTERN, POSITIVE DIVERGENCES, BULLISH CANDLE AT LOWER BOLLINGER

This was a fun pattern to trade - on each successive new intraday low in the index, we had a higher low in the 3/10 Oscillator (and to an extent, TICK). This is the foundation of the 'Three Push' reversal pattern, which is used to forecast and trade an intraday trend reversal.

The bullish candle (long lower shadow) that formed at 12:55 EST was your trigger to enter long on a break above the high of \$114.35 which occurred at 1:00... placing a stop under the intraday swing low at \$114.24.

A Three-Push trade theoretically has an unlimited upside target, so you would hold long into the close unless you saw some other sell signal or series of divergences... which occurred just before the close as price formed a doji at the \$114.85 level at the upper Bollinger on a clear negative TICK divergence (exit signal).

However, there was one more point to mention or trade to take if you missed the Three-Push entry.

5. WYCKOFF SIGN OF STRENGTH, TRENDLINE BREAK, BREAK ABOVE BOLLINGER

Most traders are uncomfortable taking this kind of trade, as it happens as price breaks to a new (swing) high above a prior resistance level, but the set-up is clear: buy on a break of a known resistance level and play for a breakout move, trailing your stop under the 20 (in this case) EMA. Also, there were two Wyckoff Sign of Strength signals as seen with the new intraday TICK highs when price had NOT formed a new swing high - these often occur prior to a market reversal and give you permission/edge to buy either the next breakout or pullback.

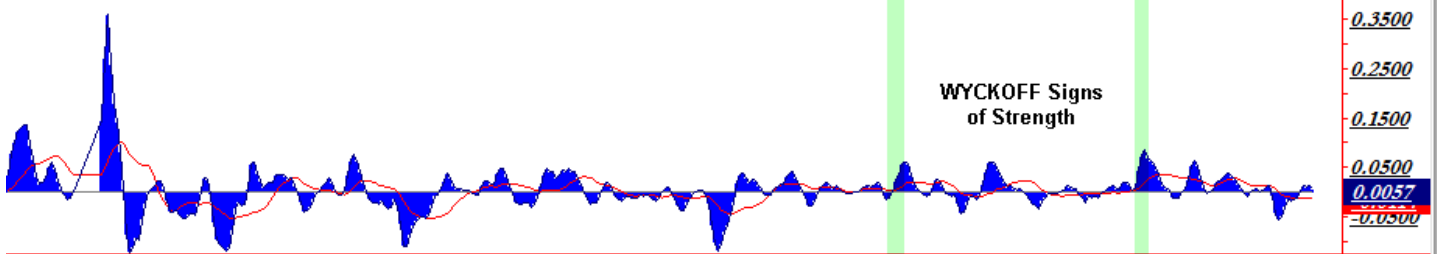
SPY - 5 min ARCX 01/11/10



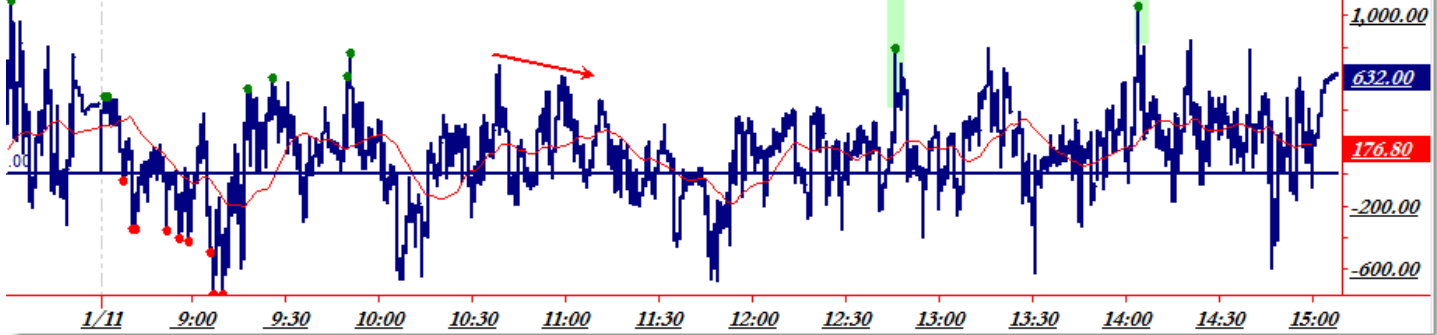
Pay attention to the two Wyckoff Signs of Strength today - new TICK highs while price is NOT making intraday highs. These are 'hidden' signs of strength that frequently precede trend reversals, giving permission to buy any bullish signals such as pullbacks or breakouts.

Otherwise, the day structure was a perfect rounded reversal that formed a clean three-push pattern.

SPY - 1 min ARCX 01/11/10 L=114.70 0.13 0.11% O=115.08 Hi=115.13 Lo=114.24 C=114.73



STICK - 1 min NYSE 01/11/10 L=632.00 193.00 43.96% O=25.00 Hi=1062.00 Lo=-752.00 C=632.00



Although I called the 'bear flags' in the report, these could simply be described as breaks from rising trendlines, giving an opportunity to short-sell.

Otherwise, there was a long-term bullish trendline break at 1:00 CST which formed a new TICK high - aka Wyckoff Sign of Strength... which was followed by ANOTHER Wyckoff signal at 2:00 CST - both of which argued that higher prices were likely to come.



We hit the 1,150 target I've been mentioning on the SP500, making that the peak today and a current resistance level. Buyers don't seem worried, and any move above 1,150 or \$115.00 on the SPY strongly argues in favor of a continuation of this power-up trend we are experiencing.

The play remains the same as the last few days I've been describing - the bias is to the upside/trading long, playing popped stops if needed at new highs, and buying pullbacks to 30m and 60m 20 EMA, which is clearly holding as a powerful support level.

Whoever is driving this market higher is doing a good job of overriding all sell orders/bias, so you'll do yourself a favor of trading in the direction of the trend as long as we're above the 20 and 50 EMA. Strong long bias above here and especially \$115.00 (if buyers can push beyond resistance) otherwise do NOT short for anything other than intraday scalps while we're above \$114.00.



The 60min chart shows the same bias as the 30min.

Price is riding a clean upper trend channel and odds favor continuation of the creeper "melt-up" trend until proven otherwise - shorting this trend has proved painfully unfruitful for those who do so longer than an hour.

The upward bias continues while price is above the 20 EMA, which is currently situated at \$114.25.



I'm using the SPY instead of the SPX because there is an erroneous tick on the chart.

This is a slightly bearish candle at the upper Bollinger which is occurring on a negative volume divergence, but nothing so far has deterred buyers from pushing prices higher and higher, so your bias should be to watch/trade higher prices and be on guard for any downside action which could form, but NOT to bet on that downside action until it clearly materializes and is confirmed - particularly with a break under \$112.00 (1,120 in SPX).