



## Daily "Idealized Trades" Report

### SPY (SPY 500 ETF) 5-min

We finally saw some downside action in the indexes after weeks of solid gains.

Today underscores the point that sometimes makes swing trading very difficult - in that price was rising for such a long period of time with negative momentum and volume divergences present, so it was risky to swing trade long because the possibility for a swift downside move was always around the corner, and could happen any day.

By the same token, it was very difficult and just as risky to get short while price was still rising, because a lot of the upwards movement of the last few weeks has been caused in part by 'popped stops' of the short-sellers. With the market exhibiting such strange characteristics and risk in both directions, the best play was to stick with the intraday frames and trade swings intraday, with a bias to the upside until lower support levels were taken out. Such is the advantage of being an intraday trader - we can have our biases going into the next trading session, but we react to what happens moment by moment and can take advantage of up and down moves with less risk (than a swing trader).

Price gapped roughly \$1.00 lower this morning, which was NOT in the realm of the "fade the gap" expectations. The first trade of the day came from anticipating short-selling the first pullback into resistance.

#### 1. FLAG-LIKE RETRACEMENT INTO CONFLUENCE RESISTANCE, NEGATIVE DIVERGENCES, DOJIS

There were a few entries into the first trade, but you should have anticipated shorting the first rally into resistance after the morning's gap impulse move lower (new TICK, price, and momentum low).

This came on a flag-like retracement to the \$114.15 level at 11:00am, in which price formed two doji candles at the underside of the 20 period EMA, and also the 38.2% Fibonacci retracement at \$114.15. This was your aggressive entry short, with stop above \$114.30 (see 5-min moving averages), but there was a conservative (triangle breakdown) entry as seen on the 1-min chart at the \$114.15 level.

If you treated this as a flag, then your 100% price projection target was \$113.21 if you truncated the morning spike and drew your grid from yesterday's closing high above \$114.80 to the morning closing low at \$113.80. If you used the spike, then the 61.8% projection target was \$113.50. Sometimes it can be helpful to have at least two or three projection targets and then wait to see if reversal candles form at those downside targets. In this case, the market formed a spike low at \$113.22, formed a bullish hammer candle on a multi-swing positive divergence, which triggered an exit somewhere about the \$113.40 area... and allowed the opportunity for a 'buy long' scalp trade.

However, I wanted to mention an additional trade entry while this larger target trade moved towards its target.

## 2. SUPPORT BREAK

This trade was simply shorting any move under the morning low of \$113.80/\$113.70 with the higher timeframe bias that price could support on the 30 or 60min moving averages (as mentioned in the last part of each day's report). When price cleanly broke under \$114.00, it was then safe to expect lower prices from a conservative "wait and see" standpoint. I mentioned that the bias was to short any move under \$114.00. This was the simple entry into that trade.

## 3. THREE-PUSH DIVERGENCE, TICK DIVERGENCE, HAMMER, 5-WAVE FRACTAL

See the separate chart that counts out fractal waves from yesterday's opening high and note the lengthy positive momentum divergence on the higher timeframe, and on the 5-min chart as well.

This trade initially was a retracement play back to overhead resistance, but had the potential to be a reversal trade due to the fractal and lengthy divergences.

Even so, the trade triggered entry as price formed a bullish hammer candle (lower shadow) at 1:25 EST and there was an aggressive entry as price took out the high of that candle at \$113.33. Due to the lengthy divergences (see 1-min chart), you could have played for a larger target, but the minimum 'retracement' target was the 20 EMA at \$113.50 as well as the 50 EMA at \$113.65. The stop would be under the intraday low at \$113.22 and aggressive traders could have marked that as the likely intraday low - it was - and held into the close unless there was a compelling sell signal in the future.

While I wouldn't call it necessarily a compelling sell signal, the final trade set-up of the day came when price tested the confluence of the upper Bollinger and 50 period EMA - and formed a spinning top. This was the "Line in the Sand" between expecting a rounded reversal (conservative traders would get long above the 50 EMA) or a continuation of the established Trend Day down.

## 4. LINE IN SAND, SPINNING TOP, 50 EMA AND UPPER BOLLINGER, TREND DAY TRADE

Notice that I did not label this trade on the 1-min chart due to the Wyckoff Signs of Strength in which we would be buyers (bullish) on the first pullback, but if you just saw the 5-min chart, then this was a high-probability, low risk short sale.

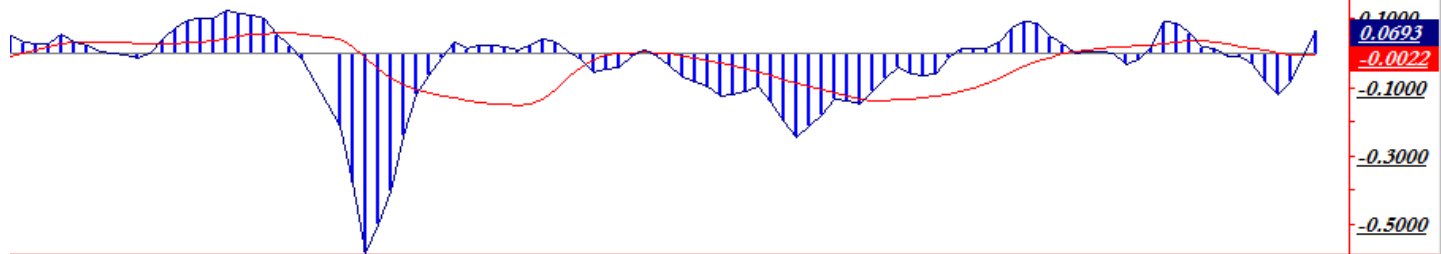
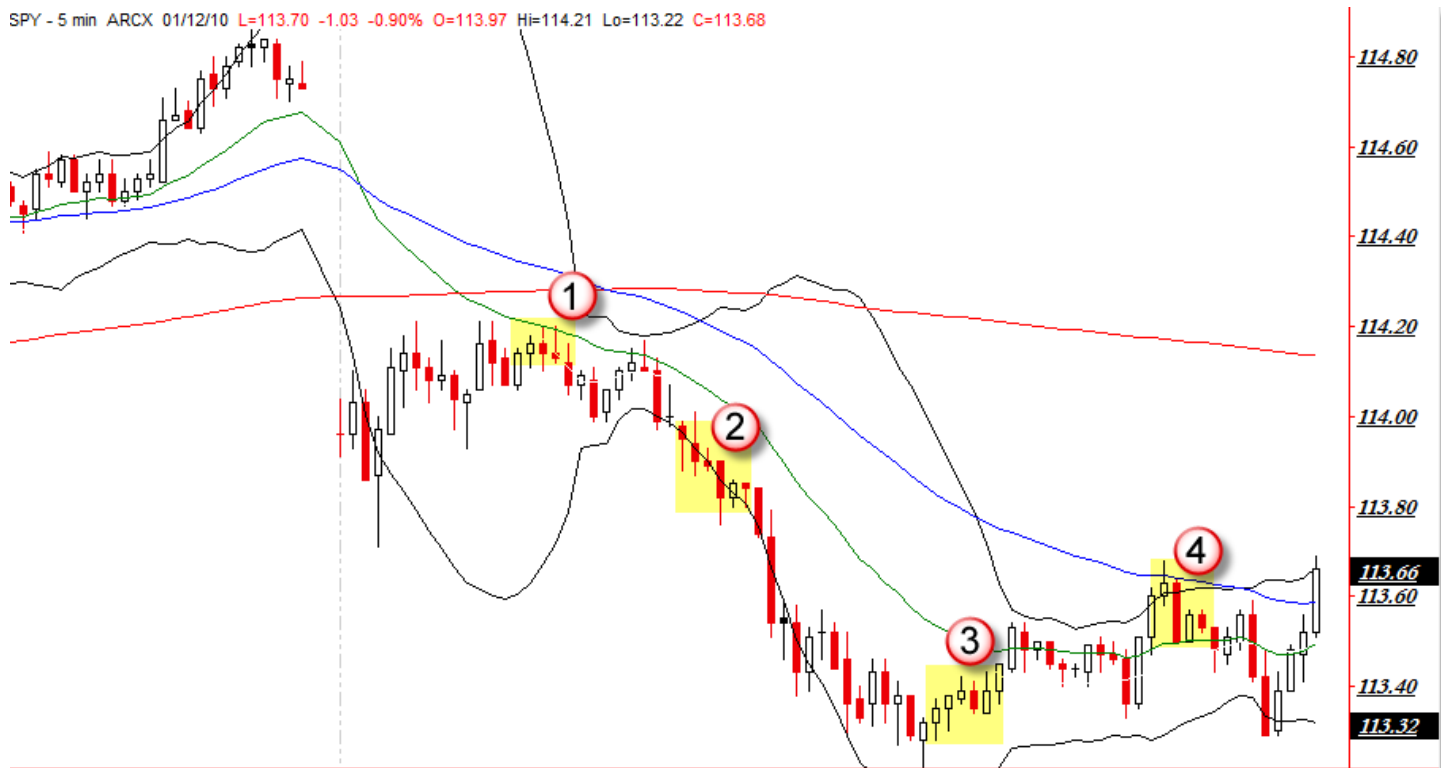
Taking it on that frame, the entry was simply to short any move under the 5-min spinning top candle at \$113.58 to play for a potential test of the prior low - placing a stop above the spinning top high at \$113.68.

This trade worked quickly, with a price fall to a new swing low at a test of the lower Bollinger Band (trade exit with profit) before the bulls took over and pushed price higher into the close.

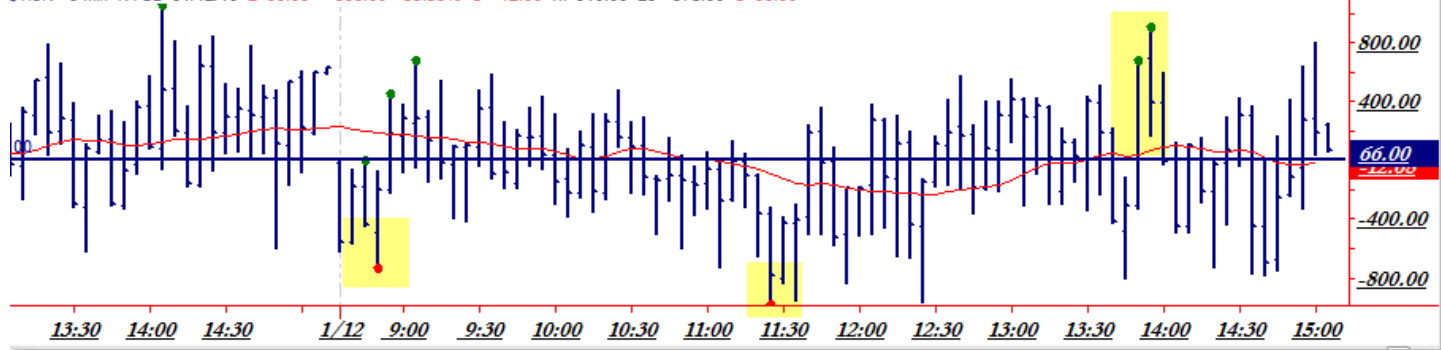
On the 1-min frame, you would have clearly seen the Wyckoff Sign of Strength and potentially passed on shorting this trade, or even considered getting long on the initial pullback to the 20 EMA (5-min) which was quickly stopped out by two large down candles.

It's possible that these Wyckoff Signs of Strength and potential rounded reversal will carry forward bullishly into tomorrow's trading session.

SPY - 5 min ARCX 01/12/10 L=113.70 -1.03 -0.90% O=113.97 Hi=114.21 Lo=113.22 C=113.68



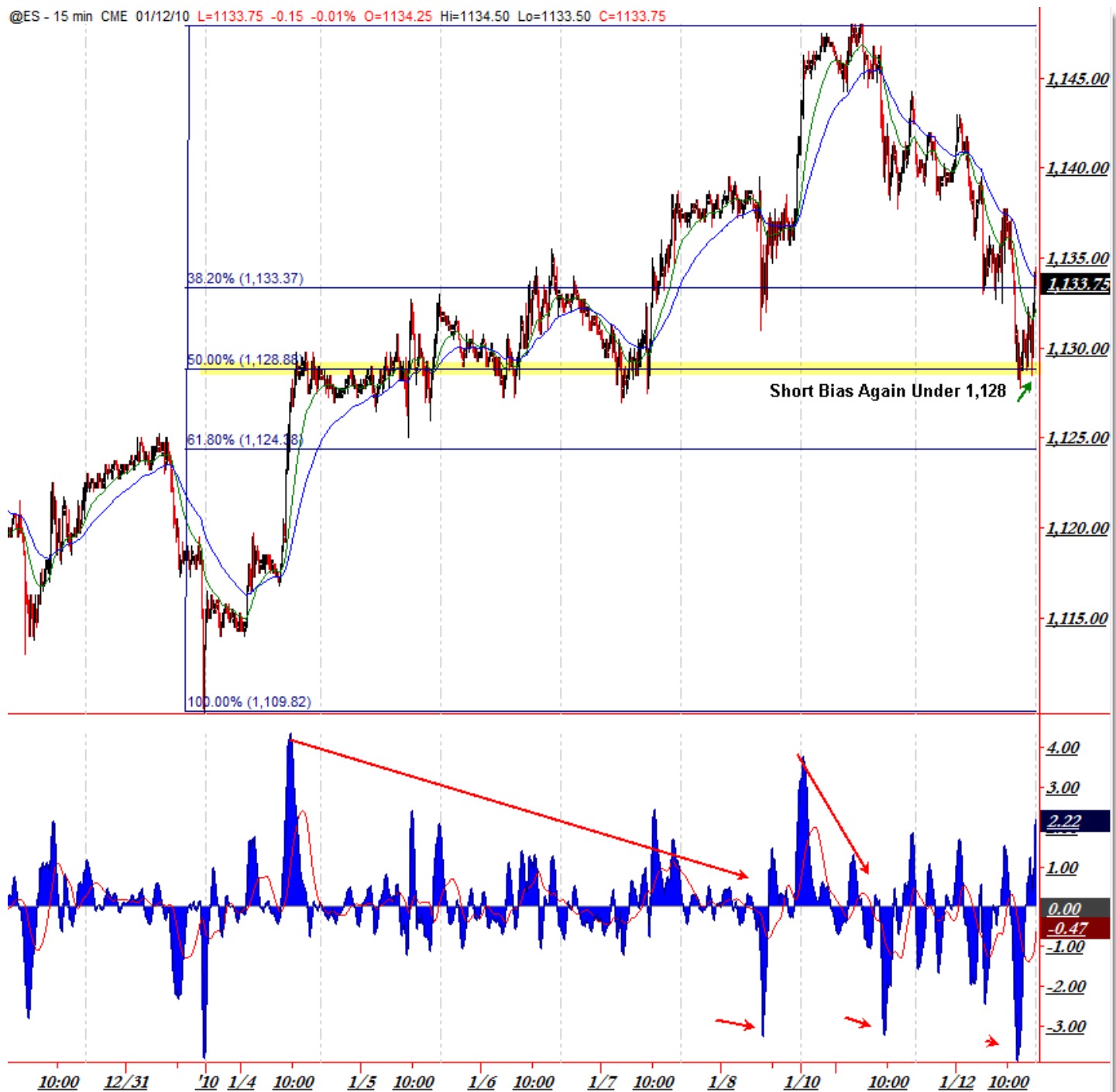
STICK - 5 min NYSE 01/12/10 L=66.00 -566.00 -89.56% O=-12.00 Hi=910.00 Lo=-978.00 C=66.00







Potential 5-wave Fractal count showing lengthy positive divergence.



15-min @ES futures chart shows logical support at 1,128 from prior price lows and 50% retracement.

Long bias above 1,135 but downtrend and short bias beneath 1,130. Today produced another new momentum low, arguing odds favor lower prices yet to come.



Market Internal chart showed lengthy deterioration of Market Internals - with no downside action - until today.

Like a rubber band being artificially stretched, a market will snap back - sometimes violently - when negative internals 'finally' catch up with rising prices.



Price finally broke under the "impossibly strong" rising trend that continuously supported on the rising 20 EMA.

The bias is now to the downside, and the 30min EMAs now form a convergent resistance level at the \$113.90 level, so prepare to be short-biased while price is under this level.

Any move higher than \$114.00 tips the bias back to the buyers/bulls - and should this happen, do not be upset - buyers have overcome all pullbacks prior. Take it day by day and let price show you the probabilities.



Price broke the 20 EMA on the 60min chart along with the rising trendline, but we have a long-term (intermediate) trendline that ends near the \$113.50 area now.

Any move under \$113.50 places the odds strongly to expect a test of lower levels including \$112.00, but remember that buyers have thwarted sellers all the way up and this could be yet another bear trap as on Dec 18 and 31.

Otherwise, watch for the EMAs now to serve as resistance.

Long bias above \$114.00; short under. Strong short under \$113.00.



For now, this is simply and orderly, clean, and overdue pullback in a very powerful uptrend in price.

It will be classified as such while price is above the 20 and 50 EMA - at 1,126 and 1,106 respectively.

Yesterday formed a doji at an overhead resistance target at the upper Bollinger Band - a swing trading sell signal so we're seeing sellers act on that signal to push price lowers (along with buyers taking profits).

Look for price to touch the 20 EMA as a minimum target going forward at a minimum.

