



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Well that down-move didn't last long - showing the sustaining power of the buyers. Price supported on the levels mentioned in last night's report and held the 5-wave Elliott Fractal move down into positive divergences as a reversal signal, preceding today's big up move. A move under the prior support would have led to further selling, but buyers held the support line and took additional stop-losses of the sellers... who I believe are so close to throwing in the towel if they have not already done so... but that is another story.

Today showed a "perfect" Elliott Wave move (just like the last couple of days) but let's see if we get any downside move off the terminal point of the fractal. First, let's observe the key trades so we can learn about those from an educational perspective.

1. GAP FADE

This was a relatively simple trade, as price gapped 30 cents higher than yesterday's close - well within the probabilities of a gap fade, so this was your first trade, with ideal entry as soon as price took out the low of the first candle at \$114.00 (second candle) or more conservatively as price took out the low of the second candle \$113.82 just after 10:00am EST.

The stop was above the high at \$114.11 with target \$113.66 - yesterday's close. This trade also gapped up into the resistance of the 200 period SMA and upper Bollinger, forming two upper shadow candles (shooting stars). The trade had a confluence target (20 and 50 EMA), though price sliced quickly through this level.

2. LOWER SHADOWS, DOJI AND BULLISH ENGULFING, POSITIVE DIVERGENCES

This trade was an interesting one, as price had fallen lower than expected (breaking support) and forming a new Momentum low. An aggressive trader would have gotten long after seeing the 1-min positive divergences and then combining that knowledge with the doji and bullish engulfing hammer-like candle that soon formed at 10:30am. Buy as price takes out the high of that engulfing candle at \$113.57 with a stop under the intraday low of \$113.37 to target at a minimum a retest of the prior high.

Alternatively - and more conservatively - you could have demanded that price rise above the convergence of the 20 and 50 EMA before getting long, or else prepare to short any down-move that broke the lows of the shooting star candle that formed at 10:00am... and price solidly broke above this resistance level two bars later, triggering a safer entry at \$113.65 to play for a retest of the \$114.00 level (this time with stop under the low of the shooting star/doji candle at the \$113.58 level).

Price expanded sharply towards your target (also the upper Bollinger and 200 SMA) and formed a new TICK high on the session which - technically - was a Wyckoff Sign of Strength because price had not yet made its intraday high. It was a good idea to exit as price formed dojis at the upper Bollinger Band and await buying the next retracement.

However, instead of a retracement, we got a sudden "Popped Stops" breakout play that you could have taken if you were paying close attention to price and seeing the potential for a breakout.

3. POPPED STOPS, BREAKOUT TRADE, WYCKOFF SIGNAL

The 1-min chart shows the breakout play clearer, but the goal was to get long when price broke suddenly (without a pullback) to new intraday highs, which took away more stop-losses of defeated sellers who expected yesterday (and today's morning down move) to be the beginning of a larger retracement down... but took stop losses early which pushed prices higher.

Don't feel upset if you missed this trade - it happened very quickly. Entry was as price broke to a new high on increased volume - to play for "popped stops" (unlimited target... or a counter-sell signal).

The stop was under the breakout zone and would be trailed higher - with an eventual exit (red arrow) as price formed dojis at the upper Bollinger Band on a lengthy negative momentum divergence.

You could have taken a short-sale here with a stop above the doji high to play for a scalp to the rising 20 EMA, but that trade also happened quickly and had a small target.

4. SUPPORT TRADE, BREAKOUT TRADE

Like trade #2, trade #4 had two entries - an aggressive one and a conservative one.

The aggressive entry came as price formed dojis/reversal candles at the confluence support level at \$114.30 (also the lower Bollinger Band and 20 EMA). Any break of any doji was a buy, to target the recent swing high or play for a higher high or additional breakouts. Any move under this level would have been a short-sale, so your stop would be under the support level at \$114.20 (50 EMA - which would have broken the Line in the Sand and favored a Rounded Reversal).

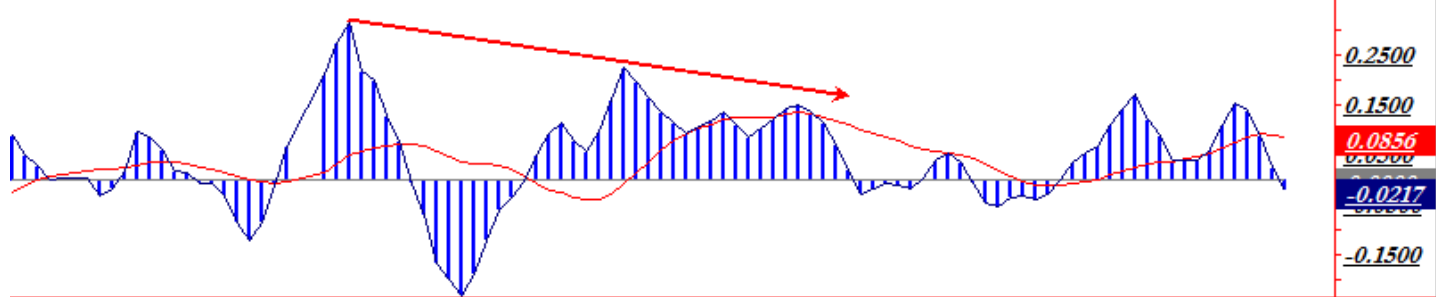
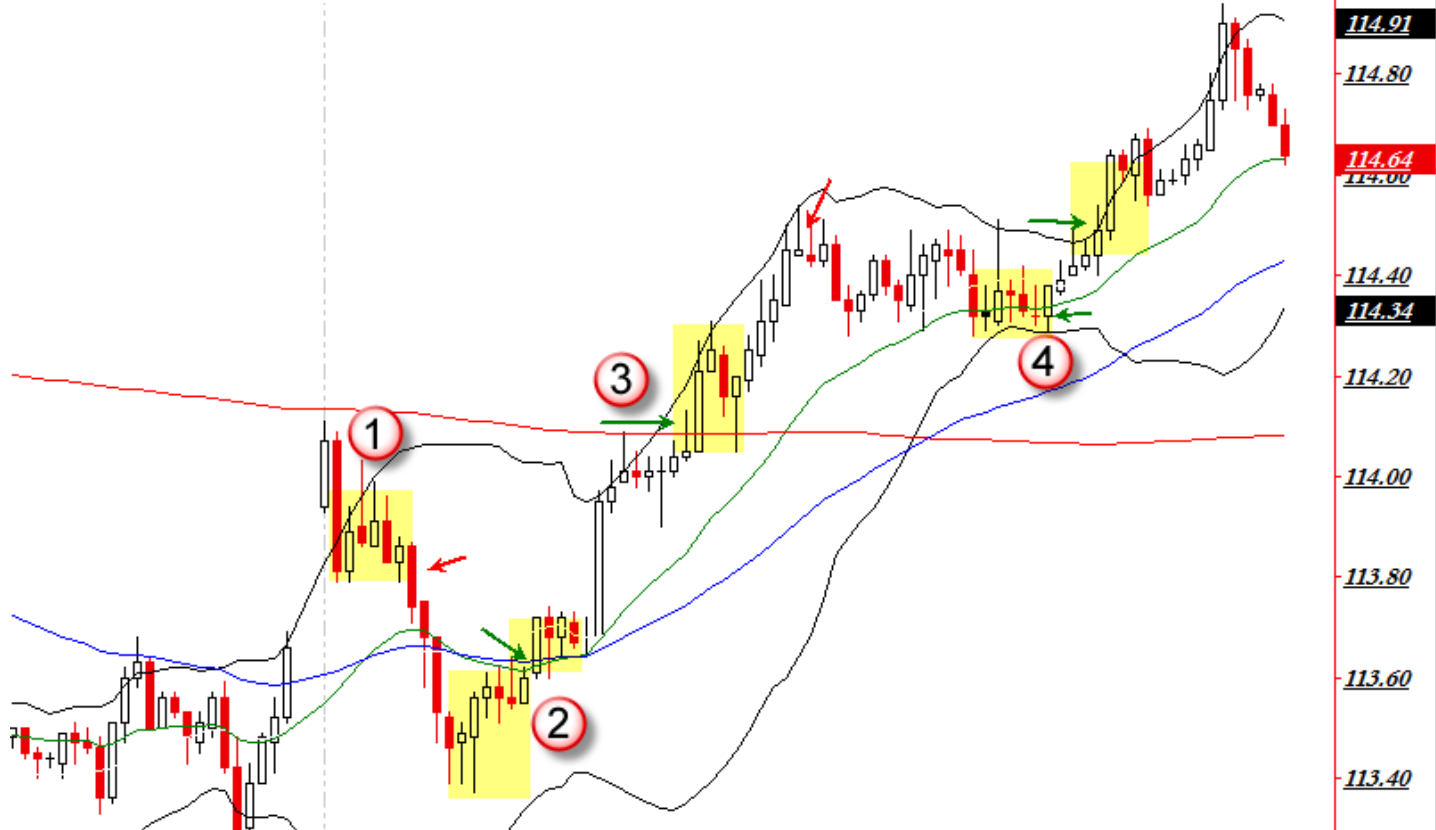
The conservative entry was as price cleared the overhead resistance of the consolidation (see 1-min) at the \$114.50 level to play yet again for another breakout and Popped Stops trade (unlimited upside target).

Price did not make new TICK highs on this breakout, calling it into question to an extent, but price travelled higher despite no new TICK or momentum highs on the day. It was fine if you passed on this trade as a result of the non-confirmations in momentum and TICK.

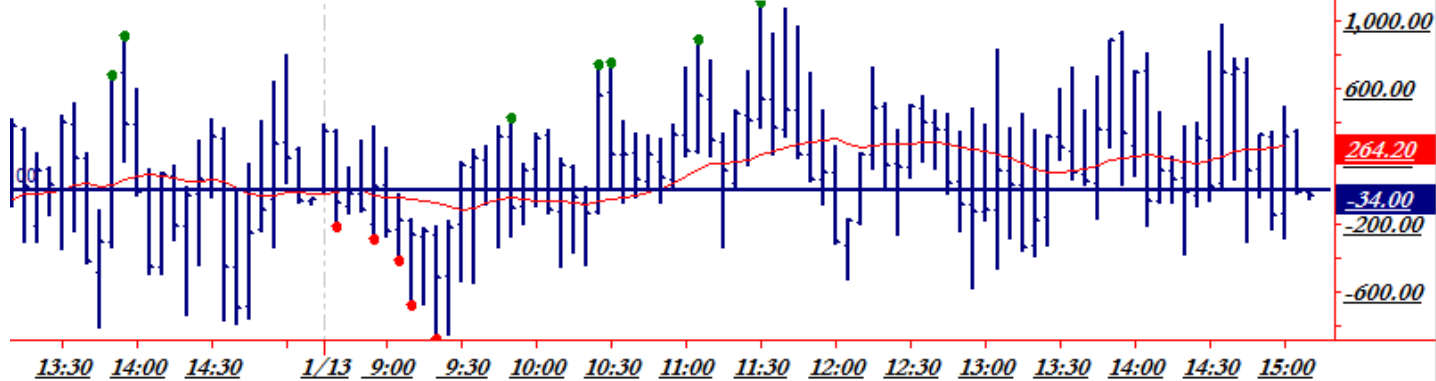
Price formed a bearish engulfing candle at 3:05 EST, but that did not push prices lower nor was the low of the candle taken out - buyers pushed price higher all the way into the close but lost ground with 30-minutes to go on what seemed like a bullish power-run to the overhead resistance level (and key breakout zone) at \$115.00 (1,150).

Again, any move over 1,150 is a powerful buy set-up that will likely trigger massive short covering (popped stops), as 1,150 is all that stands in the way of the 1,225 target if price is higher than 1,150.

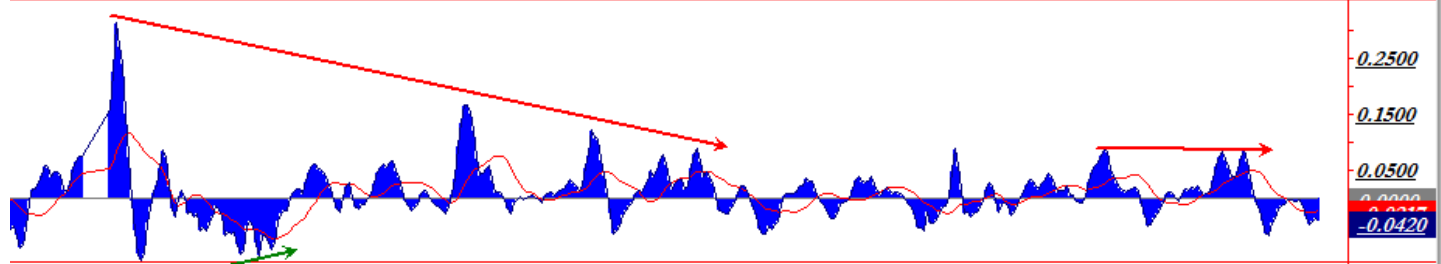
SPY - 5 min ARCX 01/13/10 L=114.60 0.94 0.83% O=113.95 Hi=114.94 Lo=113.37 C=114.61



STICK - 5 min NYSE 01/13/10 L=-34.00 18.00 -34.62% O=102.00 Hi=1113.00 Lo=-869.00 C=-34.00

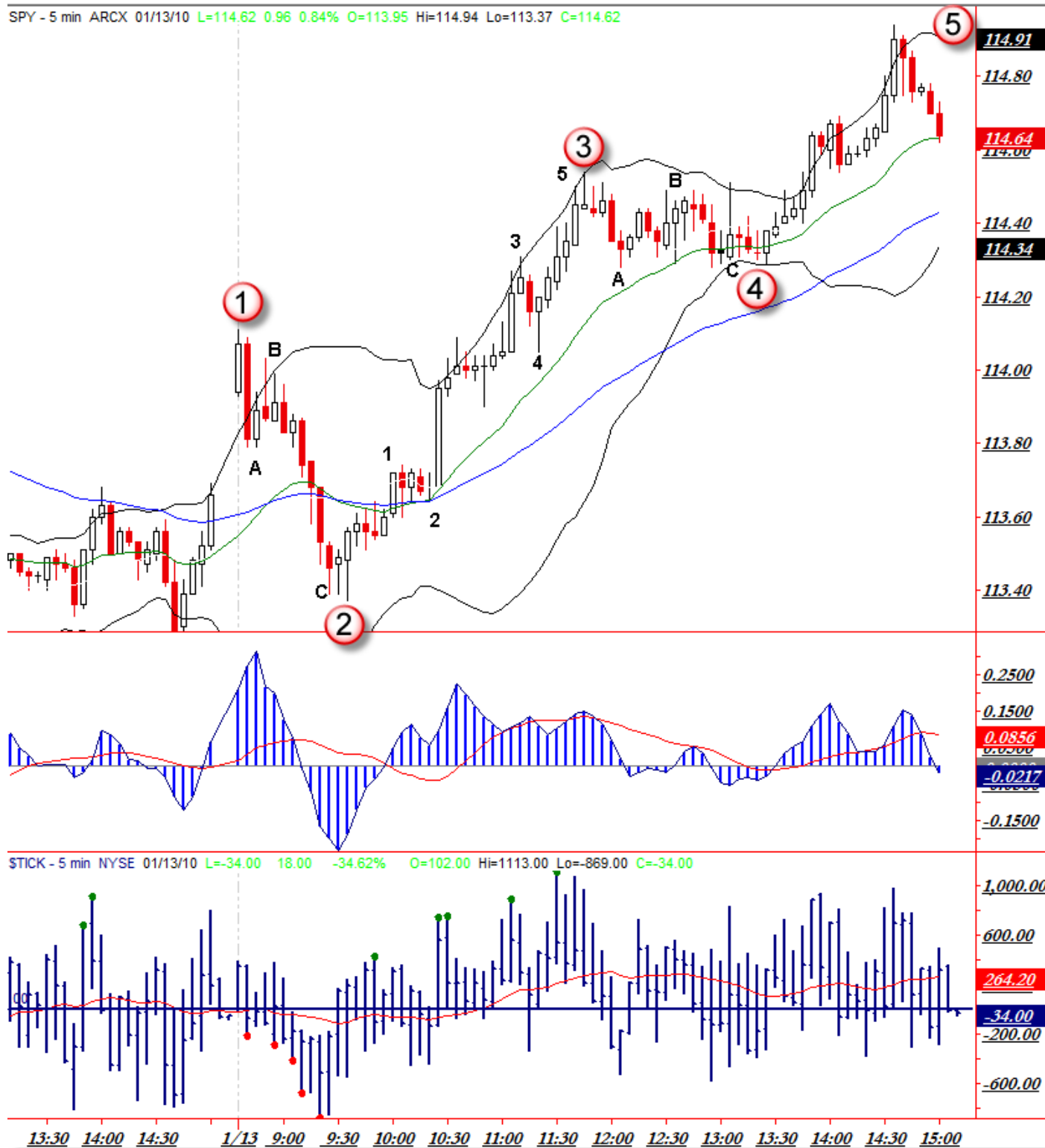


SPY - 1 min ARCX 01/13/10 L=114.60 0.94 0.83% O=113.95 Hi=114.94 Lo=113.37 C=114.61



STICK - 1 min NYSE 01/13/10 L=-34.00 18.00 -34.62% O=102.00





We finally got another day that formed a complete 5-wave fractal complete with negative momentum and TICK divergences into the 5th wave.

If this structure is correct, then odds favor the possibility of one more swing higher to the \$115.00 level to complete the final fractal 5th wave of the larger 5th wave... or it could already be complete and then we would expect downside action from there (particularly as price tests key overhead resistance).



5-min 'pure' structure for reference.

StockCharts often has 'erroneous ticks' such as the 12:00pm bar. Ignore those.



Price did retrace to the 50% level of the Dec 31 low to Jan 11 high, forming a doji at the lower Bollinger Band (yesterday's low). The market did retrace and gap into the overhead "cradle" resistance level mentioned yesterday, but then found a higher low and then broke through it, underscoring the remaining power of the buyers.

Trade aggressively long if price rises above \$115.00 (popped stops) but be also on guard for a false breakout.

The trend is still up and remains so while price is above key EMAs.



The dominant rising trend channel remains in place, holding price as support today (and yesterday) as the buyers continue - seemingly against all rational odds - to push prices higher.

I've been saying "don't complicate this" and that still holds true. The buyers are dominating sellers, no matter what the charts are showing, so trade in that direction until PROVEN otherwise (meaning a solid break and close under the trendline... which we almost had yesterday).

Still, \$115.00 is a MASSIVE resistance area (50 month EMA) so it would be expected to be a logical resistance area and price to retrace downward from here... but if not, it will lead to more "popped stops" so be ready to trade those as an intraday trader.



I know a lot of prognosticators are calling this rally "finished" and calling for a "massive" correction that is certainly coming, but they continue to be wrong so far - trading from a bias makes turning a profit very difficult.

Continue trading intraday with an upside/buyers bias as long as price continues making new highs and remains bouncing off the 20 EMA as support. The trend is clear and the market is rising - trade in the direction of the trend until proven otherwise... on this frame would be a break and close under 1,100.

With price above the 1,150 resistance level - IF price breaks that this week - then the next confluence resistance target the market will likely seek is 1,225.

Be nimble as an intraday trader and eliminate bias as much as possible.