



## Daily "Idealized Trades" Report

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

The bullish bias resurfaced today and gave us a great example of a range compression play and more Popped Stops... though not with as good an outcome (playing stops) as expected. Let's take a look at the trades of the day.

#### 1. GAP FADE, SUPPORT BUY

This really wasn't a 'fair' gap fade because price gapped down only 12 cents - clearly within the expected "fade the gap" statistic.

More so, this was a "buy a pullback into support in a rising uptrend" trade, with support being the convergence of the lower Bollinger Band and 50 EMA at the \$114.42 level. A bullish hammer candle (lower shadow) formed here and then price took out the high of the hammer at \$114.52 on the next bar, triggering entry with a stop under \$114.40. The initial target was to play for a fill of the gap at \$114.65, but realistically, we could have expected price to rise higher than that and test the important overhead resistance at \$115.00, so both served as targets (\$114.65 = conservative; \$115.00 = aggressive).

Price then tested yesterday's closing swing high along with the very critical \$115.00 (1,150 in the SP500 - which I've been highlighting to you) and then formed a bearish engulfing candle, triggering your second trade. Had price burst above \$115.00, then you would have played "Popped Stops" long. Because that failed, you were to short the failure test.

#### 2. FAILURE TEST, RESISTANCE, UPPER BOLLINGER, BEARISH ENGULFING

Price failed to overcome the \$115.00 level, formed a bearish engulfing candle at the upper Bollinger, and then began falling (after a tiny rally) at the \$114.90 level - triggering you short on a close under the engulfing low at \$114.80, with a stop-loss above \$115.00 and a minimum (conservative) target for yesterday's close at the \$114.65 level, or for an aggressive trader (perhaps anticipating a Range Day in the works), down to the prior support at \$114.45. Price failed to support at either of the moving averages, which clued us in that we were to expect a RANGE DAY bias and trade accordingly, expecting to play moves off the upper and lower Bollinger Bands.

#### 3. BULLISH HAMMER, BOUNCE OFF PRIOR SUPPORT & LOWER BOLLINGER BAND

This was a relatively simple trade, as we thus expected a Range Day and then should NOT be looking to moving averages for guidance (trade entries or exits) and instead be entering and exiting on Bollinger Band tests and reversal candles there.

Price formed a long lower shadow at 11:00am then rose sharply, forming a Bullish Engulfing Hammer. If you did not enter prior, then the official entry was when price rose above the hammer at the \$114.62 level to play for the upper

Bollinger Band at \$114.85. This trade worked with minimal retracement or stress. This could have set-up a retracement/reversal trade short, but there was no specific candle that triggered entry at the 12:00 frame as price consolidated.

Price then formed a clear triangle pattern (which I highlighted on the blog) along with a compression in the 3/10 Oscillator and the TICK. At this point, you should have been waiting to play any breakout from the clear price and indicator consolidation... which occurred just before the classic "Afternoon Breakout" move.

#### 4. SYMMETRICAL TRIANGLE BREAK, RANGE EXPANSION PLAY

This trade was easy enough to anticipate in advance, and clear when the signal was given at the break above the upper trendline at 1:30 EST, placing a stop under the lower trendline at \$114.70 and playing for a minimum target of a retest of the morning high... or a break above... at the \$115.00 level. Though the entry bar was clear, price faltered, retraced back to the support of the 20 EMA (testing our patience!), formed a doji, and then 're-broke' in a large range expansion candle to rise above the morning high and the \$115.00 level. I wanted to call attention (with a description) of the Popped Stops bias at this time.

#### 5. POPPED STOPS

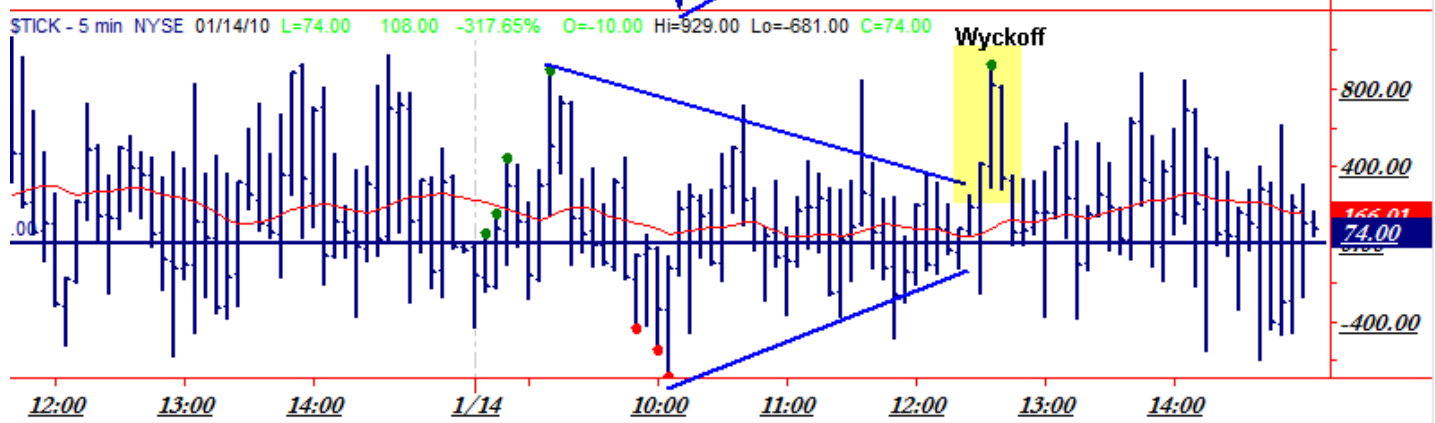
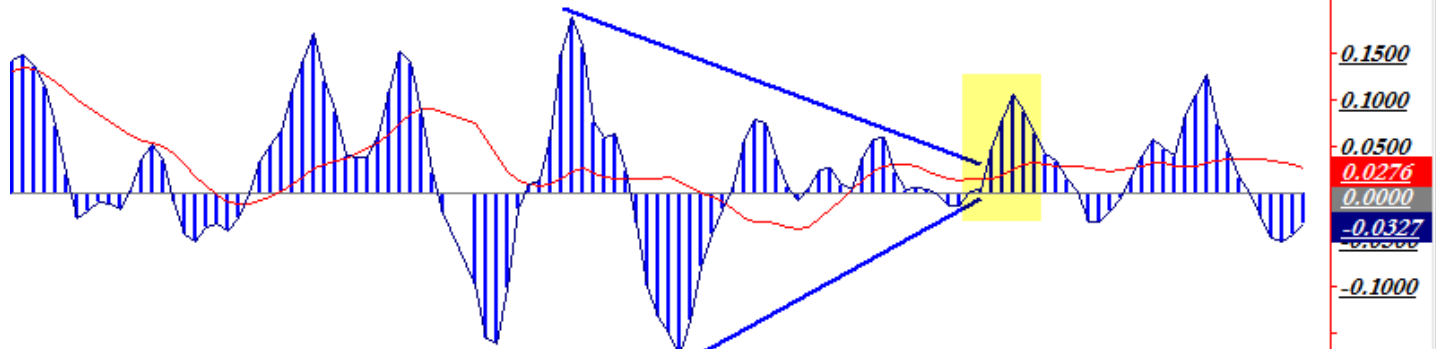
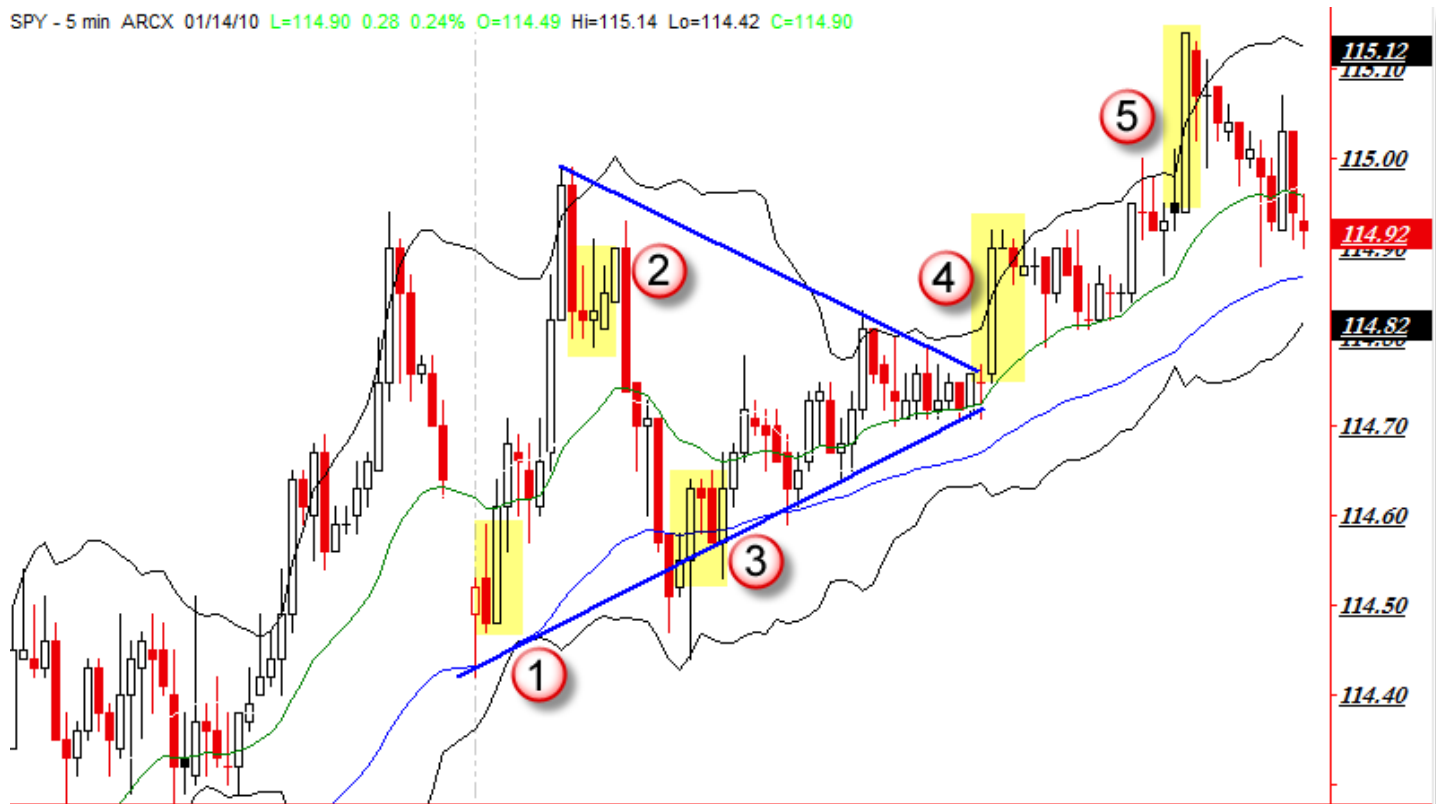
I've been mentioning that any move above \$115.00 (1,150) will likely trigger the "Popped Stops" play and here it was... only price only 'popped' for a short time and then quickly retraced back down to lower levels into the close. That was strange.

The Popped Stops play is a short-term 'burst' that takes advantage of the rush of orders that hit the market from the sellers (bears) and also new buyers rushing to buy breakouts... and we would expect higher prices from this rush of buy orders.

However, sellers stepped back in and pushed prices lower into the close... once again underscoring the power of the large funds to move the market however they want into the close (meaning, trading tactics into the close are more difficult due to large fund rebalancing and reposition into the close which doesn't take into account the charts).

If there was a trade set-up that worked 100% of the time... well there's not one - note even the Popped Stops which is highly accurate and takes advantage of a market thrown off balance. Everything is still about odds and probabilities and I wanted to highlight this 'failed' (or lower 'pop' than expected) "Popped Stops" play today as a reminder that nothing is 100%.

SPY - 5 min ARCX 01/14/10 L=114.90 0.28 0.24% O=114.49 Hi=115.14 Lo=114.42 C=114.90



Use today's report as a great example of a Range Breakout forming and price expanding (trade set-up) which also triggered a new TICK high while price was NOT making an intraday high - that's the Wyckoff Sign of Strength which forecasts higher prices yet to come (buy the first pullback if not long already).

SPY - 1 min ARCX 01/14/10 L=114.97 0.35 0.31% O=114.49 Hi=115.14 Lo=114.42 C=114.90



Toda also gave a good example of the Wyckoff Sign of Strength.

Today's Popped Stops rally materialized... but only was worth 10 cents of profit before the market reversed back into today's range.



Many times, market internals guide the way ahead, and if so, then Internals are NOT yet confirming the new highs in price. Breadth, TICK, and Volume Difference are all diverging from the recent intraday highs today, which serves as a non-confirmation. Given that this is occurring at overhead resistance (\$115.00), this would be a powerful sell-short signal in most conditions. The rampant bullishness puts a damper on all sell signals, so take that into account, but under normal conditions, this would be a very high probability short.

Should price violate this sell signal too, then trade long aggressively above \$115.00.



On the 30min frame, price formed a shooting star at the upper Bollinger Band on a negative volume and momentum divergence. That also is a powerful sell signal that will be confirmed/triggered if price can break the 20 EMA (and especially 50 EMA) at the \$114.30 level. Aggressive traders can start shorting here with a tight stop above \$115.00 and then flip to play "Popped Stops" on any break above \$115.00.

Again, under normal circumstances (these are not), this would be a classic high probability sell signal.

However, the ability of buyers to push price higher no matter what dampens this sell signal so trade with caution with \$115.00 being the key between a long or short bias.



The picture is the same on the 60min frame, only we have a doji candle on a negative volume and momentum divergence at the upper Bollinger.

Again, strong sell signal but buyers have thwarted every single sell signal so far so take nothing for granted.



The 1,150 level is absolutely key for sellers to keep the market under and bulls to break above. If price is above 1,150, then the next confluence resistance target is 1,225 and that should be your bias.

Until price breaks above this level, it is thus deemed an overhead resistance level which happens to be one of many resistance levels buyers have broken through.

Long bias above 1,150; short bias under while watching the 20 and 50 EMA as support zones.