



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Like Tuesday, we had some 'major' selling in the market that took prices lower... but bounced off the support of the rising 20 day EMA which was a logical downside target for a potential 'bounce.' Thus, today officially was a Rounded Reversal.

What's interesting is that virtually all the signs pointed to downside action as the likely probability for today as mentioned in last night's report, but with the power of the buyers, it's hard to believe the sell signals anymore - even if they do come in the form of volume, momentum, and internal divergences as mentioned.

Taking these 'higher timeframe' biases into account (including the powerful resistance at the 1,150 / \$115.00 level), it was reasonable to expect and trade the downside activity that occurred early off the open.

1. RANGE EXPANSION SELL-OFF

This - though not a specifically named 'trade,' came from the downward bias as mentioned in last night's report. The play was to expect downside action today (and that it could be volatile due to the Options Expiration), but to trade long on any break of \$115.00 to play more "Popped Stops."

As the market opened lower - not really with a large gap (usually large gaps are precursors for trend days) - sellers overpowered buyers dramatically, and the only trade was to get short on a breakaway move ... if you waited for a clean retracement, it never came.

That's not to say you should always chase markets - there was a clear downside bias and downside targets, but if you did not set this up in your study last night, then you would have been chasing the market down. If your strategy is to wait for retracements, then you should not have taken a trade - remember you do NOT have to catch every single swing intraday - only those that YOU feel have the highest probability with the most reasonable stop-losses to take according to your understanding of market action.

That being said, the only thing to do was recognize the powerful down bars (relentless) and then enter an order short. This could have been done when price broke the 200 SMA at the \$114.30 level or any time prior or after. On a range expansion/breakaway trade, you are to trade and hold short until you see a countervailing buy signal (dojis, divergences, etc) and NOT exit until you see it. We first started seeing divergences in TICK around the 10:30 EST period, making it safe to exit... but generally NOT safe to get long and try to call a bottom. Due to the prior new TICK and momentum lows, it was best to WAIT and anticipate a spot to get short to play for a Trend Day down. On the 5-min chart, this happened on a breakdown at the 12:00 area under a triangle trendline either exactly at 12:00 EST or on the second breakdown shortly after at 12:30.

2. TREND DAY TRADE, TRIANGLE/SUPPORT BREAK

See the 1-min chart to identify opportunities to scalp short (meaning take a much larger position at any EMA pullback and then exit on any new price low, with a stop above the EMAs - worked well today) but otherwise, there was a short-sell on the trendline break at the \$113.60 level either on the first break at noon or the second break 30 minutes later.

The stop would be placed above the upper trendline at \$113.70 with a target again for a breakout, but realistically being the rising 20 day EMA at \$113.10 or on the index itself at 1,130. The intraday SPY low was \$113.20 and SPX low of 1,131.

This is a GREAT example of how to use higher timeframes to set targets and then watch what happens (and trade the reaction... either a breakdown or a reversal) at those levels/prices. So your exit for this breakdown trade was a retest of this level if positive divergences/buy signals formed... and they did shortly after price made its 12:45pm lows and began its "Rounded Reversal" rally off the daily 20 period EMAs... giving aggressive traders a chance to buy with a tight stop.

3. BUY OFF SUPPORT, MULTI-DIVERGENCES, BULLISH (ALMOST) ENGULFING

A bullish (almost) engulfing candle formed at 12:50 EST and the high of this candle was taken out on the next two bar at \$113.38, triggering entry with a stop under the intraday lows. You could have aggressively held this trade as a true "Trend Reversal" (meaning hold long until the close or until price took out the intraday low) which would have worked as price did form a key reversal at the daily support price (20 EMA).

Otherwise, if you were a conservative trader, you could have waited to buy when price broke above the 1-min EMA structure or even passed on this trade completely (as it was - technically - a counter-trend reversal trade on what could have been a full trend day down).

The target was a retrace to the upper Bollinger, which happened at 2:30 EST.

4. LINE IN THE SAND BREAK

The final trade was a true trend reversal trade as price broke above the 50 period EMA (5-min) which I refer to as the "Line in the Sand." As long as price is above this level (especially after the Wyckoff Signs of Strength and multi-swing divergences), then we would expect a Rounded Reversal to complete itself into the close.

That is exactly what happened, as price broke the 50 EMA (notice the doji just before - it was the last line of defense for the sellers) and surged into the close.

You could have passed on this trade if you do not prefer trading into the close, particularly on an Options Expiration Day, but from my perspective, we didn't see anything 'strange' today as what occurs on some expiration Fridays.

Today's trading day was relatively straight-forward and offers us valuable lessons on early moves on a suspected Trend Day and the divergences with Wyckoff signals that forecast a Rounded Reversal.



Notice how the TICK stayed concentrated under zero for the duration of the morning and then crept higher for the rest of the day. The distribution of the TICK serves as a clue to expect a Trend Day. This time we saw clear positive divergences as price made lows and then spikes to new intraday highs while price was FAR away from making new intraday highs (the Wyckoff Sign of Strength, which forecasts higher prices yet to come).



The 1-min chart shows potential aggressive 'scalps' (short with a large position, enter at the EMA test, exit on a test of a prior low) you could have taken during the trend move.

Otherwise, I'm highlighting the three Wyckoff Signs of Strength that forecast an intraday reversal.



The 30min chart shows the new trading range we are in currently, starting with January 7th and ending today.

Technically - and I know a lot of people are bearish here - we are in a trading range as of today's close. Any move under \$113.00 puts us into a strong negative bias... but we're not officially there yet.

Buyers have shown uncanny and 'magical' strength to continue propping price higher, and as long as we see a dominant support level, we have to assume they will 'magically' push price higher and buy this dip too.

A lot of technical damage was done today (volume surged, Breadth and VOLD made new lows, etc) so this indeed *could* be the start of a deeper retracement, but we should have a "prove it to me" attitude on the short-side as long as price is above \$113.00.

There is a three-day weekend ahead of us and Trading will not resume until Tuesday, so anything could happen between then.



The 60min frame shows us the 38.2% Fibonacci level rests at \$112.91 which is just beneath the key support at the \$113.25 level shown on the 30min frame. Sometimes prior price support can be stronger than Fibonacci support, so keep a close watch on the \$113.00 level as the 'line in the sand.'

There's still powerful resistance at the \$115.00 level and buyers have not been able to overcome that yet..

We made a new momentum low on both the 30 and 60 minute frames, as you can see, which is a bearish overall sign.



Price has supported at the 1,130 level which now is the rising 20 day EMA.

ANY move under this level will set-up a trade short to test the rising 50 line at 1,110 (or prior support at the 1,117 level) so keep that in mind.

Otherwise, this still is an uptrend and anyone who has tried to call a top has been sorely embarrassed so far.

Let the market 'tip its hand' by breaking key support levels before getting massively bearish. This could be the start of a decline, but we are going to have to see key levels - like 1,130, 1,110, and of course 1,090 broken first. Any break of 1,100 is significant and any break under 1,090 will clue us in to expect a move back to the 1,030 level at a minimum.

Until then, we should expect these levels to hold as support until proven otherwise.



Instead of showing the weekly chart, I wanted to show the monthly chart which gives us a clearer perspective on why 1,150 is a potentially major resistance level.

It's the 50 month EMA (exactly at 1,150) and price has not yet overcome this level.

This price rally is similar to the move off the bottom in 2003 which rallied almost non-stop until early 2004, but we've covered more ground than 2003.

Any move above 1,150 sets up the next likely move to target 1,228 (61.8% Fibonacci + weekly 200 SMA) so be aware of that possibility.

Otherwise, we're seeing sell signals on lower timeframes into higher timeframe resistance levels. It's a major turning point that will resolve itself - and you can take advantage of the moves as an intraday trader instead of standing aside waiting for a resolution.

