



## Daily "Idealized Trades" Report

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

It yet another reminder of the underlying remaining strength of the bulls/buyers, price rose back to the known upper resistance level at \$115.00 (1,150 in the S&P 500). We await a breakout above this level or beneath the lower support level, but - for now - any bearishness is helping result in more buying when stops are triggered, especially on days like today that was a relentless Type III Trend Day... again that did not start with a large opening gap (similar to January 15th - Friday's down trend day). This is a benefit to intraday traders but is very draining and difficult for swing traders who are being chopped in both directions.

Before discussing the larger picture, let's see (and learn from) the trade set-ups that occurred today so we can perform efficiency analysis on our own trades we took during the day.

#### 1. "JUMP ON BOARD OR MISS"

Similar to the discussion I provided on Friday's report where the market made a very small gap and then fell precipitously in the morning hours, today's activity began without a gap (actually a slight downside gap) and then relentlessly rose \$1.00 without a single retracement.

Like Friday's opening trade, the ONLY way to get long into this rally was to have a higher timeframe bias (I showed the positive divergences, Rounded Reversal, and odds favoring a move off support from the 20 day EMA and prior \$113.10 level). On Friday, odds favored a downward move (price at resistance with negative divergences forming) and then the resolution came without a nice pullback to short into.

Today, if support held (it did), then odds favored a move back to challenge the highs and that move happened quickly - as price covered almost the whole distance in two hours (morning).

For conservative traders, there was absolutely no trade (thinking "If I get long here, the market will reverse on me."). The two doji candles that formed at the upper Bollinger and 200 period SMA at 10:00am were NOT sell short signals but rather "take profits long" signals... but buyers trounced the potential sell signal that formed at the \$114.20 level then, which gave us a strong "tell" (market tipped its hand) that odds strongly favored higher prices because sellers - at a key point - could not push price lower.

Aggressive traders with a firm conviction that price was rallying off key support could have traded long at any point, but it would have been psychologically difficult (buying new highs after strong bullish candles formed at the upper Bollinger Band). If you did not trade here, do not beat yourself up - you are not required to trade every move, and especially should not be chasing a market higher just because it is going up. Be ready to buy the first retracement/pullback (which has better odds and a more logical stop) and feel free to pass if your strategy/experience does not allow for entry in such a strong momentum move off the open.

## 2. IMPULSE BUY, PULLBACK TO 20 EMA, DOJIS

This was actually the first "Ideal" trade for most newer and even some intermediate level traders who refused to buy long (or missed) the morning surge.

Price had formed clear new momentum and TICK highs on the session, and so odds favored higher prices yet to come after the first pullback... which happened in this case into the support level of \$114.45 which was the rising 20 period EMA (5-min) and just above the lower Bollinger Band. There was a 'zone' of entry (highlighted) which was triggered as price formed doji candles at this time. The official entry - for conservative traders seeking proof of support - was at 12:05pm when price broke the highs at the \$114.60 level.

The stop was under the 20 EMA and Bollinger at the \$114.45 level and 'big' target was \$115.00... but could have been exited at the first sign of weaknesses + divergences at the highs (sell-signal).

This happened just before 1:00pm when dojis formed at the upper Bollinger Band, to take a neutral position to await a potential pullback to support... or break of the 20 and then 50 EMA to play for a Rounded Reversal.

Notice the lengthy momentum divergence - we do best to IGNORE the 3/10 oscillators (and other oscillators) on the 5-min frame during a strong Trend Day - we do better to monitor TICK Divergences.

That being said, the day formed a lengthy TICK divergence, which decreased the odds of the trend day continuing. A few members emailed me asking about this divergence, and yes, it was a valid divergence and yes it was a non-confirmation signal, but remember that there are no 100% answers in any method of trading.

When we put on a trade, we are either 'betting' on price continuing in a trend or reversing the trend. With new momentum/TICK/price highs, these are signs of strength that argue for trend continuation.

With indicator/internal divergences, these serve to DISCONFIRM or decrease odds of further trend continuation. Divergences do NOT mean that a reversal will happen, but that odds are increasing for a reversal and decreasing for continuation.

I also wanted to note that Breadth and the \$VOLD continued to make new highs all session, rising right along with price. Recent experience is showing that the VOLD is favored (volume flowing into Advancing Stocks minus volume flowing into Declining Stocks) and has been giving slightly more accurate signals than the TICK intraday when it comes to trend or reversal days.

However, on a confirmed Trend Day (today for example), it is generally NOT SAFE or at a minimum less safe to short price highs no matter how far a divergence has stretched price. It is best to short strong up trend days ONLY when price has formed a confirmed reversal by breaking down solidly through the rising 50 period EMA on the 5-min chart.

This clearly never happened, and buyers continued to drive price higher into the close, again challenging the \$115.00 upper resistance target.

This isn't to say you can't short highs to try to play for a retracement to the 20 EMA - you can - but realize that it is an aggressive move, and my goal in these reports is to teach these concepts to you each day through repeated examples and descriptions of these concepts each day using fresh data and examples - and I also want to teach the safest, highest probability, lowest risk entries so that newer traders can follow along and build experience, while intermediate traders can compare their results to the 'ideal' trades and thus perform personal efficiency analysis.

As strange as it might sound, if you feel that you cannot buy the market because of so many divergences, but yet you also cannot short the market due to the creeping trend or that price is above the 20 EMA, then - like the morning move - you are to stand aside and not trade. Perhaps the 'theme' of today's report is learning when NOT to trade... and that would be when price action is operating either outside your personal experience/comfort level, or is forming obviously conflicting signals (decreasing the odds of putting on a successful trade due to signal confliction).

That being said, let us move on to trade #3.

### 3. LENGTHY SUPPORT, TREND DAY BIAS, BOLLINGER BAND SQUEEZE, MULTI-DOJI CANDLES

Price clearly supported from 1:00 until 3:00pm EST, forming multiple dojis at the 20 period EMA (and - at some points - just above the lower Bollinger).

Aggressive traders - ignoring the TICK divergences - (otherwise they would have sat sidelined awaiting a break under the 50 EMA at \$114.70) would have bought at any point while price was supporting on the 20 EMA. Also, traders could have sat aside and waited for price to break under the 50 EMA in which to get short to play a 5-wave Elliott Fractal move and Rounded Reversal bias after a lengthy TICK divergence... but price did NOT break under the 50 EMA so the short-bias did NOT trigger.

If you waited for confirmation - the better play - then you were to buy as price broke above the intraday highs of \$114.95... but again, with resistance at \$115.00, it still was probably better to wait for a move above \$115.00 (if not long already) to play the expected "Popped Stops" above this level.

Thus, entry could have taken place as price broke above \$115.00 at the 3:30 period... which did not produce much of a bounce into the close.

The best trade of the day - if you missed getting long shortly off the open (which was psychologically difficult), was the #2 pullback into support.

SPY - 5 min ARCX 01/19/10





Though I did not mention it, price broke above a wedge or triangle pattern that triggered at 12:00 EST (highlighted) which would have confirmed a trade entry on a breakout.

Otherwise, we see the lengthy negative momentum and TICK divergences that formed.

There were no Wyckoff signs of strength today - TICK gave false signals in terms of using it as a momentum indicator... that or the market was in 'creeper' mode all day in a slow melt-up which did not include 'spikes' or one-sided action that the big funds usually employ on Trend Days.



This is an updated "Internal" view of the market at a close level, showing a negative Momentum and TICK divergence as price moves into resistance while showing a new high in both Breadth and VOLD. It's not usual to have such divergent readings in key market internals, so caution is warranted (in other words, no clear signal is given as was the case in the prior divergences I've shown).

But the bias remains: Strong Long bias if the market rises above \$115.00... otherwise short at resistance.



A longer-term perspective of the description I gave above.



There's no need to get ultra sophisticated right now - price is at a key resistance level and either it is going to break through, in which case you, the intraday trader, take advantage of that move by playing long (Popped Stops - short sellers will be buying to cover)... or otherwise we keep a short-sale bias in anticipation that resistance will hold.

We are now officially in a price trading range from \$115.00 to \$113.20 similar to what we were in mid-December, so until price can break out of this zone, we need to watch how price trades and then take advantage of the intraday swings in both directions (in other words, eliminate our bias as in "The market HAS to reverse here - It just HAS to" or "Price just HAS to break above to new highs ... it just HAS to!".)



The 60min chart shows us the broader trading range that has begun in January.

The 20 and 50 moving averages - in a trading range - are less helpful in setting up targets and trades than the upper and lower Bollinger Band.

Keep this in mind - when price is in a clear trading range, Bollinger Bands take priority over moving averages (which is just the opposite in a trending environment).



I have heard that a lot of people are calling "FOUL" and declaring this market manipulation, but pull the perspective back a bit and notice that price - in a clear and confirmed uptrend - pulled back to the support of the rising 20 day EMA (a logical target and support zone) and then bounced off of it today. That is classic Technical Analysis 101.

Keep this in mind - it's what I've been saying - that as long as price remains above the 20 day EMA (currently at 1,132), then odds favor higher prices yet to come and that's exactly what we're seeing. If we see price break under 1,130, then we would expect price to move down to test the rising 50 EMA at 1,110, and if price breaks under 1,100, odds would favor a deeper pullback than we've seen so far.

But until then, as strange as it may seem, the trend is up, price is rising, and if buyers can clear above the 1,150 area (KEY resistance), then we should expect a subsequent surge higher as the short-sellers stop-out. Until then, we are still in a short-term trading range (defined above) so use that to your advantage as an intraday trader who is not crippled by bias.