Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

The market appears to be following yet another predictable script, which was the case from the mid-November to mid-December 2009 range where the boundaries were clear, divergences were effective, and price gapped and ran strongly from one boundary to the next. As long as you are aware of this pattern (I describe/define it and update it with each evening's reports), you should be fine in your intraday trading.

Let's jump right in to today's discussion on the idealized trades!

1. GET SHORT OR MISS THE MOVE

This is the THIRD day in a row where the first trade was set-up as a result of the prior day's bias (a move into resistance or support) as the market opened and then moved relentlessly in the opening direction - I've described each event the same way.

The ONLY way to profit is to have a higher timeframe understanding of the probabilities of the next move tomorrow (which was a move into resistance on conflicting market internals... momentum and TICK divergence but breadth and VOLD highs... made the interpretation less clear, but the move into resistance was clear).

If you had that in mind, then you could have traded short and targeted the prior support zone at the $113.10 level (1,130 S&P 500). Otherwise, if you are a conservative trader, you would have stayed SIDELINED as there was no easy retracement to the 20 EMA on the 5-min chart... though there were at least four safe pullbacks into the EMAs on the 1-min frame that you could have shorted aggressively (tight stop; larger position).

Please see the prior two reports for a lengthier discussion on this topic - there is no need to repeat it here. That is the value of these reports - history does repeat and sometimes it repeats the VERY next day. Knowing this can help your trading activities directly - instead of being caught off guard as so many traders seem to be these days.

2. AGGRESSIVE SCALP, RETRACEMENT TRADE, TRENDLINE BREAK, BULLISH CANDLES, SWING TO 20 EMA

I've had a few of my more aggressive members ask "Why don't you label the counter-trend moves as trades?" I discussed this in part in yesterday's report, that these trades are absolutely permissible, but I sometimes do not label them "Ideal Trades" because I do not want to encourage newer traders to take on too much risk - the BETTER trade is to WAIT on the sideline for the market to retrace and THEN short when the pullback rallies into the expected resistance level. Aggressive and experienced traders certainly can buy suspected lows on down trend days - which is what this clearly was at this time - but it is a riskier position than trying to wait to short the initial pullback.

That being said, look at the 1-min chart to see the trendline break and then at the 5-min chart to see the two bullish engulfing candles - hinting that odds favored a move back to the 20 EMA (to exit your long/scalp there). Entry would take place when price broke the 1-min trendline or the high of the bullish engulfing candle at 11:15am ($113.20). The target was the 20 EMA at $113.42 while the stop was under the intraday low at $112.98.

This is why I often 'skip' discussing these trades again because I do not want to encourage excessive risk-taking with new traders. At this time, we saw a strong, powerful down-trend day (with no sign of reversing yet).

Taking this trade the 'safe' way would have led to entry at $113.20, target $113.40 and stop at $113.00. That is risking 20 cents to gain 20 cents - not impossible, and the trade worked, but it places the 'edge' of the trade squarely on the side of the accuracy edge instead of the 'monetary' edge (risk/reward relationship). The trade had a slightly greater than 50% chance of working, but if it failed, then the risk would be equal to the reward, resulting in a very slight to neutral edge over time.

It is preferable to take trades with a 20 cent risk with a 40, 50, or 60 cent potential target which also have a greater than 50% chance of winning - all this being equal. That's exactly why I highlight key trades in this report - to train your thinking/eye to spot these opportunities so that you can learn them and then apply them in real-time as these opportunities form.

As such, with the aggressive trade successful and price at the overhead resistance level, it was now safe to put on a short-sale trade with a tighter stop (above the 20 EMA) and then target the intraday low.

3. TREND DAY RESISTANCE SALE, DOJIS, 20 EMA, BEARISH ENGULFING

Again, the safer trade is to WAIT to short a move into resistance on a down-trend day.

The safe entry came as price formed dojis at the 20 EMA and especially the bearish engulfing candle at the 12:45pm EST at $113.20 (the low of the candle - aggressive traders would have taken a short as price retraced to the 20 EMA at the $113.40 level). The target was a retest of the swing low with better odds of achieving this target.

Price came roughly 5 cents short of a full retest at 1:20 and then began to drift higher, breaking another trendline on the 1-min chart and triggering an 'exit with profit' if you were short during this trade.

We can't see the future so we have to trade accordingly, which means monitoring our trades for any adverse development (bullish buy signals) and then exiting accordingly with a profit instead of trying to play for a full target, ignoring new data/candles/information, and then letting a profit turn into a loss - never let that happen.

Price then entered the "no-man's-land" in that it had formed lengthy divergences and was drifting above the 20 EMA but NOT above the 50 EMA. Odds still favored lower prices (due to the trend structure as discussed in last night's report) UNTIL price breaks above the 50 EMA.

As such, aggressive traders could have shorted on the retest and multiple doji formations into the 50 EMA while conservative traders would wait for price to break back below the 20 EMA to get short and play for a continuation of the Trend Day.

Unlike yesterday, today price broke above the 50 EMA, invalidating the Trend Day officially, and giving us a trade to play for a reversal... specifically the Rounded Reversal!

4. ROUNDED REVERSAL, BREAK ABOVE 50 EMA, WYCKOFF SIGN OF STRENGTH

If you look at the 1-min chart, I labeled the Wyckoff Sign of Strength at 1:30 EST (new momentum and/or TICK high on the day while price is clearly not making a new high for the day). This hinted that odds were shifting away from the Trend Day but was not enough to take a bullish position as long as price was under the 50 EMA (Line in the Sand).

Instead, price (bulls and bears) used the 50 EMA as resistance and the 20 EMA as support (it's always interesting to see this happen) and then eventually broke upwards through the 50 with a power candle. This triggered your stop-loss if you were aggressively short (as it triggered other stop losses) and then formed yet another Wyckoff Sign of Strength, and you should have thus been long as a trader (if this was part of your plan) from this point on to play for a "Rounded Reversal" that had been confirmed by the Wyckoff Signs and the break above the 50 EMA.

Price rose in an uptrend fashion (and the 20 EMA crossed bullishly above the 50 EMA) into the close, making the $114.00 resistance area (upper Bollinger, 200 SMA, bearish engulfing) a good area to take profits long if your plan is not to exit all positions at the close anyway.

Use today and the prior two days as comparisons on Trend Days and Rounded Reversals and learn the lessons/insights from them. Use that to your advantage.

SPY - 5 min ARCX 01/20/10 L=113.86 -1.20 -1.04% O=114.28 Hi=114.45 Lo=112.98 C=113.89
$TICK - 5 min NYSE 01/20/10 L=-345.00 -1175.00 -141.57% O=-7.00 Hi=996.00 Lo=-1074.00 C=-345.00
1
2
3
4
115.00
114.80
114.60
114.40
114.20
113.97
113.89
113.80
113.60
113.42
113.20
0.1093
0.0000
-0.1000
-0.3000
-0.5000
800.00
400.00
154.56
0.00
-345.00
-800.00
14:00
14:30
1/20
9:00
9:30
10:00
10:30
11:00
11:30
12:00
12:30
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14:30
15:00

Shorting opportunities in the morning with pullbacks… into an eventual break.

Then we see Wyckoff Signs of Strength and additional trendline breaks which foreshadowed the Rounded Reversal forming.

A look at market internals (Breadth, TICK, and Volume Difference) shows a bullish posture to the TICK (higher TICK lows and higher TICK highs) but Breadth and VOLD - which are linked/correlated - are not showing bullish positions yet.

In a trading range - as we are in - we look less to the 20 EMA and 50 EMA as targets or trade entries - they really become useless as you see price chop up and down through them as the range continues.

The $115.00 level is overhead resistance; the $113.20 is lower support; and the $114 area reflects the midpoint of the range - as seen above.

As such, you should not get fancy in your analysis, but should look to divergences and reversal candles at upper or lower Bollinger Bands as being the best indicators for forecasting reversals/trades... or just watch the $115 and $113 areas and trade around those.

We do not know how long this trading range will last - but take advantage of the clear (obvious) pathways while they exist.

Otherwise, trade long above $115 and short under $113.

The same description is true for the 60min chart, and we're not seeing much additional data in the chart.

The key zones are $115 and $113 and very little else matters (meaning do not try to force an Elliott Wave count here, do not be applying advanced Fibonacci methods, **keep it simple**).

You will lose money if you overcomplicate this.

It would appear we are repeating a trading range from the past, only the range is tighter and narrower and is forming on the intraday charts instead of the daily charts (meaning swings take place up one day; down the next instead of unfolding over 3 or 4 day periods as in November/December).

1,150 is resistance (as I've highlighted many times) and now the 20 EMA at 1,133 is support.

We should expect this range to continue BUT be prepared to trade long above 1,150 and short under 1,130 (to target 1,110).