



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today was another example of how having a higher timeframe perspective helped you enter this morning's sell-off (blamed on President Obama's announcement of tighter regulation on large banks) and then exiting near the lows and considering a counter-trend trade - all based on the \$113 support line and the 50 day EMA support line. Let's see what I mean!

1. PULLBACK BUY, DOJI, BULLISH ENGULFING, CONFLUENCE SUPPORT

Remember, we had no way of knowing price would sell-off, so the bias remained "we are in a trading range, the odds favor a move up to the \$115 level, but I will short a move under \$113" (in simplistic terms).

As such, price moved higher, pulled back into the EMA support zone at \$113.75, formed a doji and then a bullish engulfing hammer-like candle, giving us the first trade of the day. Entry was as price took out the high of the doji at \$113.99 (or aggressively if you bought at the 20 EMA just after the doji formed at \$113.85) to target at least the intraday high at \$114.27 or even beyond that in a higher timeframe 'range' swing trade to target \$115.00.

Unfortunately, this trade was caught in the cross-currents of intraday news cycles, later including President Obama's 'stunning' announcement that tighter regulations will be imposed on big banks - which predictably triggered a sell-off. Stocks began falling in anticipation of his official announcement.

In all fairness, there was other bearish news that the jobless claims increased higher than expected (482,000 vs consensus of 440,000). However, we are not looking to trade off news, but to profit off price moving towards or through certain levels and setting up low-risk trades along the way - this is the best way to anticipate the market's next likely move, enter a position, and then guard against risk from unexpected announcements.

So the first trade was stopped out quickly with a loss - the stop was best placed under the 50 EMA or the (then) intraday low of \$113.66, resulting in a stop-out that depended on where you entered (conservative traders suffer the largest stop-outs when a trade goes against them due to waiting for confirmation... vs aggressive traders who enter close to the inflection point in the market without waiting for proof).

This should have sidelined you to wait for price to either support at the \$113.00 zone (1,130) in which you would be looking to buy for the next trade, or short-sale under it on a break of support and 'popped stops' (along with shorts selling) to play for a range expansion move. That is exactly what happened.

2. POPPED STOPS, BREAK OF KEY SUPPORT, STRONG EXPANSION TRADE

For the last three days in a row, the morning session has been characterized by a momentum move that did NOT give traders a clean entry - to profit, a trader had to put on a position INTO a momentum move or else stand aside and let the move pass by (which is fine for conservative traders).

I've been highlighting over the last few sessions the importance of the \$113 level (support) and that a trader should short under this level. This was that trade, as soon as price took out \$113 (again - no need to complicate this).

You were to stay short in a range expansion, positive feedback environment until you received a compelling buy signal OR price hit the higher timeframe (lower) target of 1,110 (\$111) which was the 50day EMA as I mentioned. That's exactly where price supported today - after forming multiple divergences.

I won't label each of them as individual trades (to keep the report brief) but on EACH pullback (see 5-min and also 1-min), those were 'scalp' shorting opportunities (meaning, short with a tight stop and put on a larger position than normal and exit just beyond price making a new swing low on the day).

Pretend as if the highlighted regions and arrows on the 5-min chart are "Ideal Trades" numbers 3, 4, and 5. These were simple retracement trades that triggered once price took out the low of a reversal candle, such as a doji, or broke a mini-support trendline on the 1-min chart.

As we moved into "ideal trade #3" territory, we have the same discussion I explained on yesterday's report (please re-read that section on "when/how do I play reversals on trend days... or should I?")

3. 50 EMA DAILY SUPPORT, TICK DIVERGENCE, MULTI-SWING 1-MIN MOMENTUM DIVERGENCES, DOJI

This was still an aggressive trade (reversal position on a potential full down trend day), but there was plenty of reason to expect a potential reversal off a support level I have highlighted previously and mentioned as a lower target to play for.

To simplify, you could have gotten long when the S&P 500 touched the rising 50 day EMA at 1,110.

To enhance your odds, you could have observed the positive TICK divergence (and lengthy 1-min divergence) as well as the series of dojis and price bouncing off the lower Bollinger Band at the \$111.61 level.

To recap - this is how you increase your odds with multiple simple confluences:

50 day EMA at 1,113 (the S&P 500 low was 1,114) (daily)

Multiple Dojis (including one long doji) on 5-min chart

Lower Bollinger Band test (5-min)

Positive TICK divergence at the lows (all intraday frames)

Lengthy positive momentum divergence on 1-min chart (also 5-min... but 3/10 is less effective on trend days)

Trendline and EMA break (1-min chart)

(advanced) 5-wave Elliott fractal move into this area (see my 1-min annotation)

You may have been able to find other reasons, but even if you found 3 reasons mentioned above in real-time, it was plenty of reason to put on a long (buy) trade.

Price broke the high of the dojis at the \$111.85 level which was a conservative (prove it to me) entry or an aggressive trader could have entered at the \$111.70 level. The stop was under the intraday low, and minimum target the upper Bollinger Band (5-min) or for a full trend reversal (aggressive).

Price then formed a Bull Flag (more appropriately, an AB=CD Measured Move Pattern) which met its target, broke for 1 close above the 50 EMA and then failed to rise above the upper Bollinger Band. If you had not exited previously when price formed dojis at the upper Bollinger Band at 1:45 EST at the \$112.10 area, then this would be a sell signal (as price failed to remain above the 50 EMA. I would not recommend shorting here, as price looked to be forming a Rounded Reversal with a confirmed break above the 50 EMA... though price dipped back inside (it was a bull trap) plus price had formed a Wyckoff Sign of Strength (see 1-min).

As such, you would be looking to BUY the first pullback into support to play for this rounded reversal and higher move into the close.

A doji formed at the \$112.00 level off the 20 EMA, and price rose pennies above this doji triggering an entry, but the next bar was a bearish engulfing that took price under the 20 EMA, triggering a quick stop-loss... and then price collapsed under this level.

The final trade was a buy into the multiple doji candles at the prior support zone and lower Bollinger.

4. DOJI CANDLES, 5-MIN BOLLINGER BAND, WYCKOFF PULLBACK

Due to the Wyckoff Sign of Strength and Rounded Reversal structure, we would want to be long, and so as price formed dojis (lower shadows) at the lower Bollinger and prior afternoon support level (again, the 50 day EMA), then we want to get long.

Price rallied higher but found resistance at the 50 EMA, and then formed a bearish engulfing candle before closing at the low of the session. Aggressive traders would have exited as price touched the small target underside of the 50 EMA prior to the close.

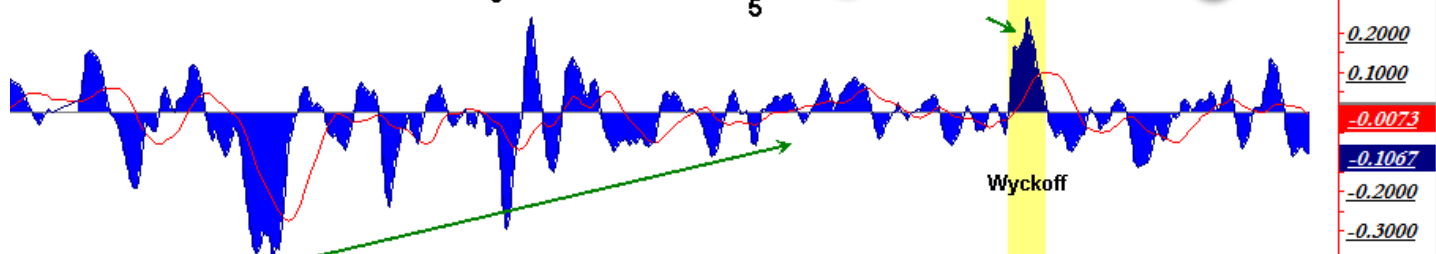
It is generally a bearish signal when price fails to form a rounded reversal.

On a note of trivia...

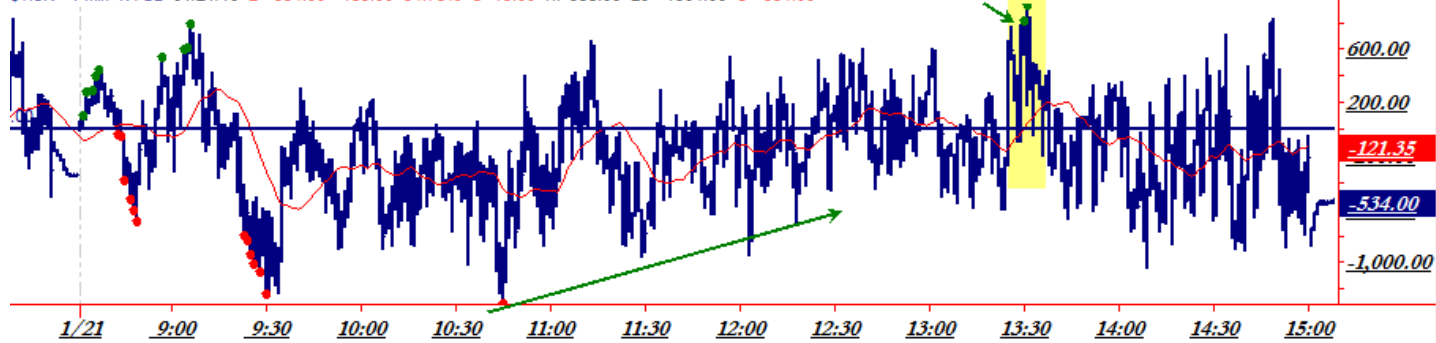
It was said on CNBC that the market tried to rally mid-day due to an interview with House Financial Services Committee Chairman Barney Frank declared that he saw Congress passing financial overhaul regulation "3 to 5 years out" which was bullish for now, bearish later, but this conflicted with what the President announced, and the market abhors uncertainty, and so the feeble attempt to rally ended in a weak close.



SPY - 1 min ARCX 01/21/10 L=111.41 -2.48 -2.18% O=113.92 Hi=114.27 Lo=111.56 C=111.70



STICK - 1 min NYSE 01/21/10 L=-534.00 -189.00 54.78% O=15.00 Hi=938.00 Lo=-1304.00 C=-534.00



Look closely at the "Third of Third," which was the precipitous fall that occurred at 10:30 EST. When you see a huge down bar (series of bars like this) and then can look backward at that time and count a potential waves 1 and 2, then you are probably looking at some sort of 3rd wave, which means you can get short RIGHT then or wait for the 4th wave pullback of some sort to get short. This is how you apply Elliott intraday in real time - look for the THIRD of THIRD (plus new momentum/TICK lows and play for continuation) and then look for the FIFTH of FIFTH (plus divergences and play for a reversal).



Not surprisingly, we see new market internal lows in TICK and VOLD but not quite Breadth.

New price + internal lows argues in favor of lower prices yet to come - keep this in mind.



Volume is increasing as price falls from its highs and resistance at \$115.00 (1,150). This is VERY bearish, but we all realize the power of the buyers/bulls to overcome any bearish signal... but under classical technical analysis, the new volume highs as price makes new lows combined with the new lows in the 3/10 oscillator (and bearish moving averages) argue for lower prices yet to come.

It might be a good idea to short aggressively under \$111.50, as seen on the 60 min chart.



The 61.8% Fibonacci retracement ends at the \$111.53 level which is also a key prior support/resistance level.

Any move under here gives you a trade set-up and bias (intraday) to play for the \$109.30 prior support from mid-December as the next likely swing.

Otherwise, we could see a bounce higher off this support, so be prepared to trade long if we start to see strength tomorrow, otherwise remain biased to the downside.



This shows why reading the final part and taking notes on each day's report is so important.

The bias was "If 1,130 was broken, then the next immediate target and support zone is 1,113 - the 50 EMA." Today's low was 1,114. You can gain so much information from higher timeframes in this manner but DO NOT overcomplicate it.

As such, we could see a continued bounce off this expected (and key) support area.

Otherwise, if buyers cannot support prices here, then short to test the 1,100 level and if sellers can push price under 1,100... then we could be looking at a deeper correction that will likely take price to 1,030... and any move under 1,020 argues for a move to 1,000 quickly... and we'll discuss that possibility if we start to move towards those targets.



As reference, I wanted to show the structure of the Dow Jones index today along with the S&P 500.