



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

The main lesson I want to convey from today's report is that of stop-loss logic - particularly how using wider stop-losses - as psychologically strange as it may be - does often result in a higher accuracy rate given you get the 'basic idea' right... give the market room to shake out the weak hands if need be. We'll see this played out in trades #1 and #4.

1. GAP FADE, BULLISH SURGE CANDLE

Today's overnight gap was roughly 50 SPY cents, which is in the 'moderate' zone to expect a full gap fade... and we got it. I still like to wait at least two candles for the market to shake out, and in this case, price opened, fell sharply the first two minutes, and then began a recovery, producing a strong bullish bar (second bar) on the 5-min chart, which triggered entry perhaps by the 3rd bar at the \$109.40 level.

A stop is placed UNDER the intraday low at \$109.04 (better to be under \$109.00 as it is key 'round number' support) and then play for a target of a full gap fill (and 20 EMA) at the \$109.70 level (\$109.75 to be exact). Notice that price showed no sign of slowing as it interacted with yesterday's close and the 20 EMA, triggering an "exit with profit" at the \$110.00 round number resistance level as two key upper shadow doji candles formed... giving us trade #2.

But before we discuss that, look at what happened after you were triggered long at the \$109.40/50 level on the second or third bar of the day. Price rose quickly to \$109.60... and then spent the next 10 minutes freefalling to the \$109.20 level.

If you used any type of conservative/tight stop exit strategy, then you were stopped out for a loss. However, if you used a proper (moderate) stop under the intraday low at \$109.04, or a more aggressive stop under the \$109.00 level, then you were fine (after sweating it out) and then price rallied without stopping to your upside target as expected.

I covered this in yesterday's report - how loose stops (generally) increases your accuracy rate, so be sure to read that information if you have not done so already - it would have been very valuable to know for today's session.

The goal is to get the main idea correct... being that odds favored a gap fill... but not compellingly so to put on an aggressive (large) position. The target was \$109.75/80 and stop was \$109.05, giving roughly a 1 to 1 reward to risk ratio (which is fine, but if this is unacceptable, you can always pass on any trade you deem too risky).

If you moved your stop up, or jumped out of the trade when price was heading lower, then you were stopped out almost at the low of the session and just prior to a massive 80 cent rally to your target. Again, do not flip-flop between conservative and aggressive strategies - know the benefits/compromises of both strategies and choose one that fits your personality (as a risk seeker or risk averse). Stick with it and - if conservative - be willing to pass on trades you deem too risky.

2. UPPER SHADOWS, TWO DOJI, NEGATIVE DIVERGENCES, BEARISH CANDLE, ROUND NUMBER RESISTANCE

Without describing them one by one, let me simply list the factors that collided to give you trade #2:

Three Upper Shadow Candles

Two Dojis (or Shooting Stars) - candles trigger entry when their lows are broken

50 EMA (rally just above it)

Negative TICK and Momentum Divergence (see 1-min chart)

EMA Break on 1-min chart

Round Number Resistance at \$110.00

Again, your goal is to see three or four components (perhaps more) aligning and then wait for a trigger (short aggressively into the \$110.00 resistance level or short conservatively as the lows of the dojis at \$109.90 are taken out) to get into the trade. In either case, place the stop above the intraday high or just beyond (\$110.10).

The aggressive trader would play for a move back down to the intraday lows, but all traders would monitor their position for any major signs of bullish strength or reversal.

Keep in mind that the morning impulse formed a sharp new momentum high, so that was a bullish undercurrent that developed.

Price broke the 5-min EMAs (which will happen in a trading range) and then found support at the 50% Fibonacci Retracement (see 1-min chart) and formed a spinning top style candle at the 50% level (\$109.60) and then price began to rise sharply higher, forcing you to exit your short position ahead of your expected target.

Alternatively, you could have flipped/reversed and put on a buy/long trade here with a stop under the 61.8% retracement (\$109.50) as price began to rise. That was an aggressive move, but it was probably more appropriate to wait for a conservative entry - a break to new intraday highs (and the popped stops that accompany them).

3. POPPED STOPS, BULLISH REVERSAL, STRONG CANDLE, SWEET SPOT REVERSAL TRADE

Price rallied higher into the 11:30 EST time and then broke to a new intraday high above \$110.00 - which triggered a Popped Stops play (buy as soon as price cracks key resistance to take advantage of the 'buy to cover' stop losses that exist above the resistance level - this should result in a short-term burst).

In addition to being "Popped Stops" (a simple explanation), this was also the "Sweet Spot" trade, which triggers after price forms a higher high, higher low, and then breaks above the recent swing high to indicate odds now favor a trend reversal (buyers rush in at this level, creating upside pressure).

Your goal was to be long into and after this break to capture the new bulls buying the breakout and old short-sellers stopping out (being squeezed). The stop is under the \$110.00 breakout and the trade has an (theoretically) unlimited target (which means - exit at the first major sell-signal). This gave us trade #4.

4. MULTI-DIVERGENCES, 5-WAVE FRACTAL, PRIOR KEY RESISTANCE, EMA & TRENDLINE BREAKS ON 1-MIN FRAME

Again, this trade had a good deal of convergences that helped identify it, including a lengthy (all day) negative momentum divergence, 5-wave fractal pattern (1-min), negative TICK divergence (officially) into the final high, prior resistance at the \$110.50 (1,105) level, and upper shadow candles at this level - the upper Bollinger.

Actually, I can simplify that as the following:

\$110.50 resistance (1,105)
 Lengthy Negative Momentum Divergence
 Minor TICK Divergence
 Trendline Breaks (1-min)
 EMA Breaks (1-min)
 Upper Bollinger Band (5-min)
 5-wave Elliott Fractal (5-min/1-min)
 Upper Shadow Candles (and a shooting star/doji)

Trade entry occurred as price broke the low of the shooting star candle at 1:00 EST at \$110.39 (if you were not short off the intraday high or earlier) and the stop was above \$110.60. With all this in your favor, it would have been better to target a larger downside price (that's what happened) but it was fine for conservative (exit early) traders to exit at the confluence of the 50 EMA and lower Bollinger Band at the \$110.15 level.

Here is another example of the importance of looser stops... or actually I would phrase it better by saying RESPECTING your stops and NOT moving them once in a trade unless there is a compelling reason to do so.

If you were playing for a small target, then you exited as price fell under \$110.20 as price started to rise.

However, if you were trying to hold on for a large target - a full intraday reversal - (again, the right idea) then you should have respected your stop at the \$110.60 level and not tried to adjust it for fear of letting a small profit turn into a scratch. Price rallied back to the intraday high (this time on a VERY weak position) with a distinct negative TICK divergence and momentum divergence back into the Bollinger Band.

This time, price formed a stunning bearish reversal candle and then began its collapse to test the intraday lows.

I could have put Trade #5 at the 3:00pm time as price pulled back in retracement mode to the confluence EMA resistance level at the \$110.18 level, formed a doji candle, and then another bearish engulfing. That was a much safer entry if you were not short already.

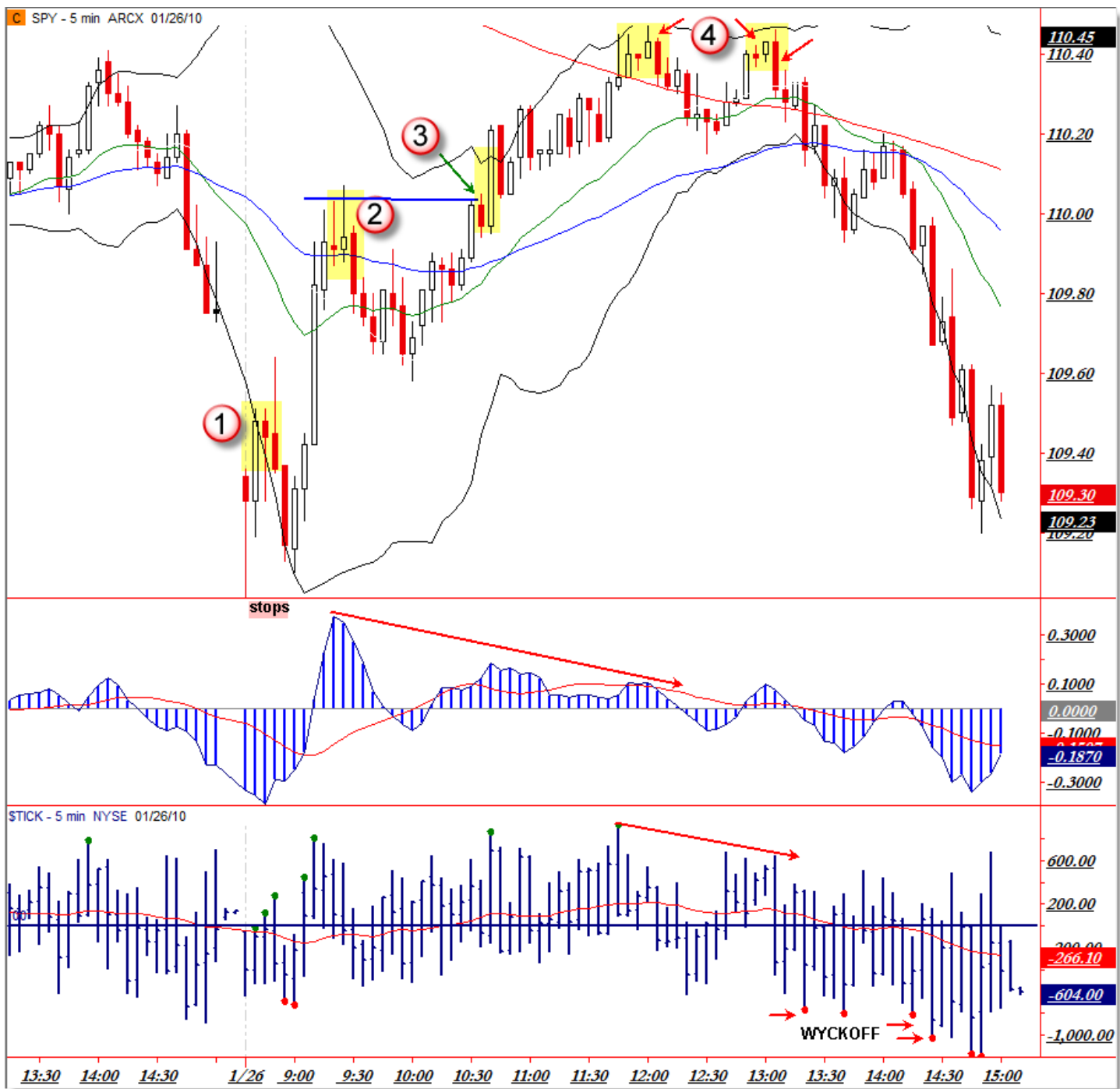
Price collapsed after that into the close.

Notice that Wyckoff Signs of Weakness (new TICK lows while price is NOT making new intraday lows) formed at 2:00 EST and then 2:30 EST and beyond - if you start seeing new TICK lows while price is forming the rounded reversal pattern that it did on declining market internals/momentum, then you have two options (reference my 'rant' from Friday's report):

1. Get short and stay short (or short ALL pullbacks as long as price/TICK/momentum is making new lows)
2. Stay out if you cannot comfortably find a pullback entry.

It should be evident to you know by reading these reports that you - under NO circumstances - are to buy long at ANY TIME (until you see a key divergence, that is) that price, Momentum, and the TICK are ALL making new lows in a momentum move. DO NOT TRY TO FIND THE BOTTOM.

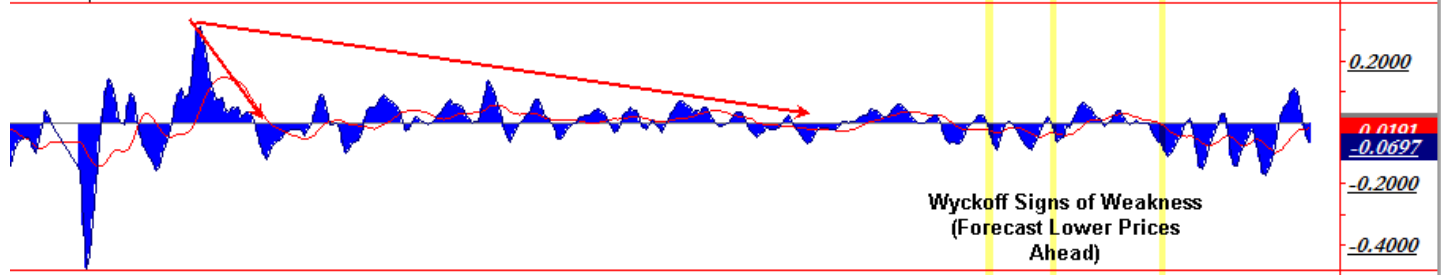
The money you save (or make, if you trade the move) will be your own.



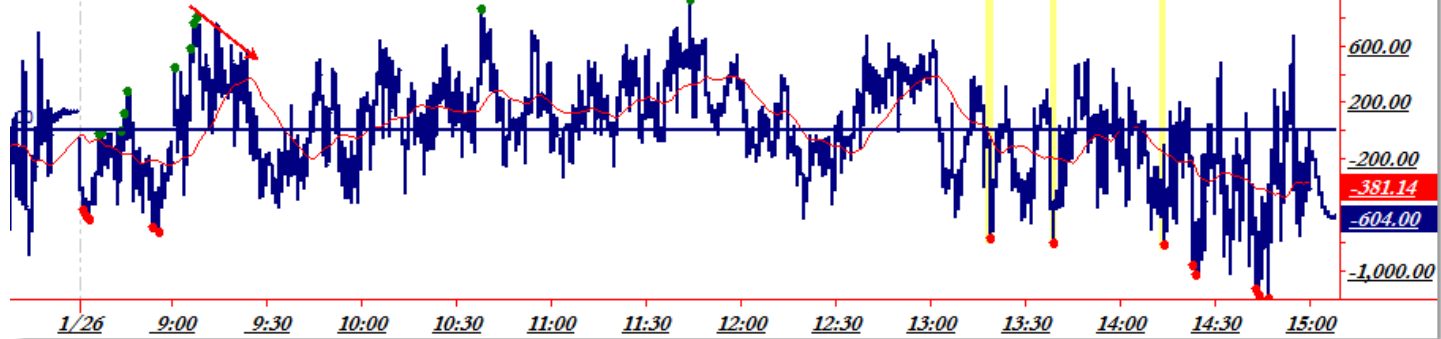
Notice the Wyckoff Signs of Weakness that formed late in the afternoon that preceded the large sell-off.

PAY ATTENTION to market internal signals as clear as this when they occur in real-time.

SPY - 1 min ARCX 01/26/10



STICK - 1 min NYSE 01/26/10





A quick look at the longer-term internals structure shows price at a critical support level (1,090 and then 1,085) and forming positive divergences in all internals - a bullish sign.

It's still possible to see a rally from here, but if buyers cannot drive prices higher in retracement fashion above 1,100 and 1,105, then short any move under 1,090 to target the 1,080 support level... and then short aggressively on any break under 1,080 (prior support).



To keep things simple, keep a long bias above \$110.50 (price resistance) and especially above \$110.00 (above 50 EMA and prior resistance). Keep a short bias if price breaks under \$109. Remain neutral (waiting for one of those to break) while between those levels.

The 60min chart currently gives a better picture than the 30min in my opinion.



We see that the \$109.50 and \$109.00 level is key support (see mid December price lows) and we are seeing a slight positive momentum movement into the current price consolidation.

Unfortunately (for sellers), price found resistance at \$110.50, which was the falling 20 period EMA as seen here on the 60 min chart. That's very bearish that price continues to inflect lower off higher timeframe moving averages (suggesting the trend down is still in force).

However, it would be better to adopt a neutral position here while we're between these two levels - \$110.50 and \$109.00 - and wait for a break above or beneath ... otherwise, continue scalping intraday for the position set-ups described above.



You should be able to 'feel' the precarious position the market is in currently - look at all the "open air" beneath the 1,080 support zone (which comes in from prior price lows).

If sellers can push price under 1,080, then the next target (support) is the 1,040 zone as seen above.

Under that, we see support just above the 1,000 level.

We could envision a support bounce here, but if not... odds are strong that we will move (perhaps quickly) to test the 1,040 level.

The new momentum low (daily) reminds me of an intraday Wyckoff Sign of Weakness, as does the surging volume on the most recent sell-off days.

Be ever vigilant and take advantages of your unique position as an intraday trader.