



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today was another FED day with a lot of cross-currents, including Apple's (Steve Jobs) announcement of the iPad, Testimony by Treasury Secretary Geithner and Paulson in Congress, President Obama's State of the Union Address (this evening), and Alcoa (AA) Earnings. Still, the market followed a predictable script for the Fed Day:

Open in a volatile manner, consolidate (pause) in the two hours prior to the 2:15 EST announcement, and then form three sudden waves after forming a (hideous) fake-out move first.

Fed Days can be dangerous for new traders, but let's take a look at some of the opportunities that were possible - both from a conservative and aggressive approach - today.

1. 'FADE THE FADE,' CANDLE BREAKS, UPPER SHADOWS

The morning gap occurred too quickly to attempt a fade, but the second move is often a "Fade the Fade" move should price turn down after completing a fill. This happened in the first 30 minutes, as price formed four upper shadow candles at the \$109.40 area and then broke the support level at \$109.20 (candle lows). This triggered entry (\$109.18) where the arrow is located to play for - at a minimum - a retest of the intraday low at \$109.00 or even beyond in a 'trend' style movement lower in the event that price broke the \$109.00 support zone.

If you held on short under \$109.00, price then formed a sharp sell-off bar (popped stops of those long) and then formed a choppy 30 cent range for the next 30 minutes. If you are an aggressive entry, this provided a potential "flip and reverse" trade, but this trade was perhaps best skipped unless you classify yourself as a very aggressive (fading moves) trader.

2. LOWER BOLLINGER, POSITIVE TICK AND MOMENTUM DIVERGENE (WHEN COMPARED TO YESTERDAY)

This was a tough trade for those who took it, but there was a positive divergence situation when looking back to yesterday's lows which was combined with a positive trendline and EMA break on the 1-min chart, triggering entry as price rose above the \$109.00 resistance level, or even more aggressively, as price tested the lower Bollinger Band at 10:30 EST (which subsequently formed a bullish engulfing candle).

The stop was under the intraday low at \$108.60, and the minimum target was a retest swing to the 20 EMA (and maximum target - confluence of the 50 EMA and upper Bollinger at \$109.30). Ultimately, this trade did not give the desired upside target and price formed yet another consolidation range... this time a safely tradeable triangle.

3. SYMMETRICAL TRIANGLE BREAK

This was a relatively simple trade that set-up well in advance. Price formed a lengthy symmetrical triangle (see 1-min chart) with clear boundaries. It formed an even more compressed triangle with multiple dojis on the 5-min frame (see chart).

Price broke the low of the rising trendline at 12:15 EST on a sharp/strong candle that broke under the \$109.00 support zone, triggering a trade entry to play for a retest of the morning lows at the \$108.80/70 level - which is where price found support and then paused ahead of the Fed Decision/Announcement (as the FED is very, very unlikely to announce an interest rate policy change any time soon).

For most traders, it is best to AVOID trading in the 30min or even an hour prior to the announcement, and then even safer still to stand aside while the market swings violently up and down in misleading fashion directly after the announcement is made. This is my preferred method for trading - a conservative approach - though if you have traded through many FED days, you can certainly try to position inside the rapidly moving environment, but expect greater slippage (and sometimes frustration) than normal.

There was a final trade that had decent odds of succeeding, and it was the final 'ideal' trade of the day.

4. BULL FLAG, IMPULSE BUY, DOJI AND HAMMER AT 20 and 50 EMA.

This was a quick, but straightforward trade that triggered after price formed a new swing and intraday high which was accompanied by a new momentum and TICK high. That is a concept that clues us in that odds favor higher prices yet to come (after a pullback).

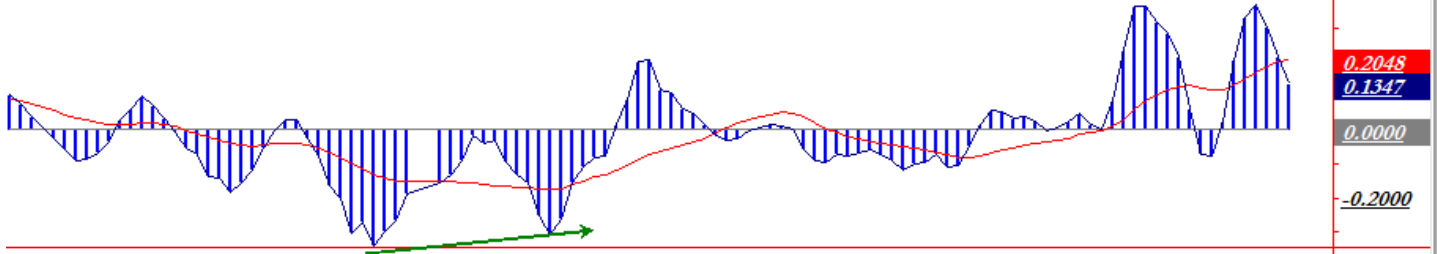
The pullback came as expected into the confluence of the 20 and 50 EMA at the \$109.15 level as price formed a long-lower shadow hammer and then doji candle. An aggressive trader would have entered at the confluence support area while a conservative trader would have waited for the high of these candles - \$109.30 - to be taken out to play for a minimum target of a retest of the intraday high (which was also the 200 period SMA) at \$109.60, or aggressively for a full flag target to move to the \$110.00 level (see Bull Flag diagram chart).

Price also pulled back to the 61.8% Fibonacci Retracement which added to the confluence at the \$109.10 level.

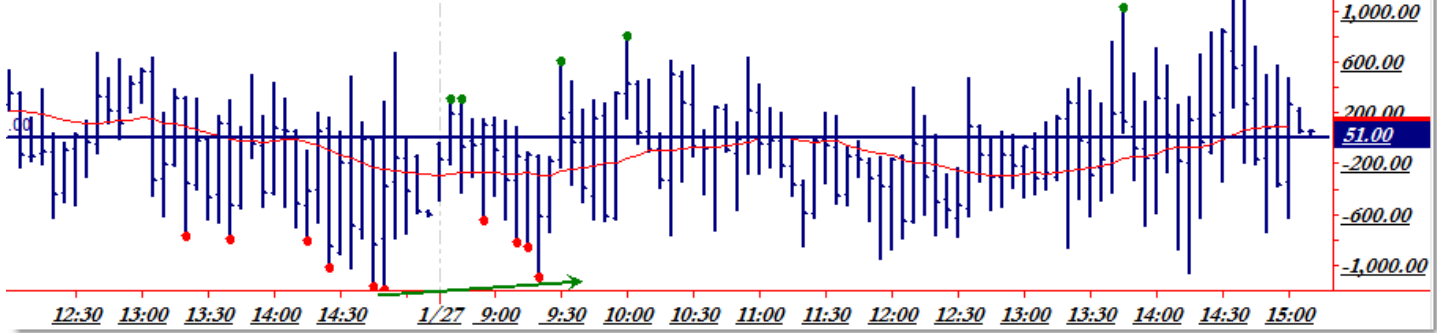
I drew the price projection of the Flag (using the Fibonacci Extension/Projection Tool) as shown. Or you could have done this with trendlines, measuring the distance of the impulse and then adding it to the low of the bottom trendline (flag) to arrive at a \$110.00 target as well.

The stop would be under \$109.00. The trade worked beautifully and can certainly be used as a great reference of the Bull Flag concept/example for your records.

SPY - 5 min ARCX 01/27/10 L=109.90 0.59 0.54% O=109.17 Hi=110.08 Lo=108.33 C=109.83



STICK - 5 min NYSE 01/27/10 L=51.00 655.00 -108.44% O=-42.00 Hi=1159.00 Lo=-1089.00 C=51.00





Notice the lengthy triangle that broke to the downside at 12:00 EST.

FED Days can be difficult to trade after the 2:15 EST announcement - so it sometimes is best for newer traders to take the day off or dip back into the simulated accounts, as you can lose money very quickly if you find yourself on the wrong side of a sudden move.

SPY - 1 min ARCX 01/27/10 L=110.00 0.69 0.63% O=109.17 Hi=110.08 Lo=108.33 C=109.83



I chose to start the flag not from the spike low, but from the consolidation low that began the impulse.

The green retracement grid starts also at the low and ends at the swing high, to find where price is likely to 'stop.'

An "ABC" three-wave retracement formed into the 61.8% zone, and a bullish engulfing candle triggered entry as price rose above \$109.20 or when the high of the flag was broken near \$109.30.

The projection tool - three clicks - shows that the 100% target was \$109.96 which was slightly exceeded (exiting your position there - particularly as doji candles formed).



We're seeing a positive posture in the three key market internals - forecasting odds favoring a potential reversal to the upside. A break above \$110.00 and especially \$110.50 would trigger a confirmation of this bullish development in internals.



We see key 30min resistance not only at the key \$110.00 level (resistance) but the 50 period EMA at the \$110.12 level. There is a prior price high to watch at the \$110.50 area, so any move above \$110.50 states that odds clearly favor a return to higher levels of \$112.00 or beyond, so keep that bias in mind.

A positive momentum divergence also hints that odds favor a rally higher from here.

Otherwise, should we inflect down from here, watch \$108.50/\$109.00 to be first support, and then adopt a short-sale bias if we're under \$108.50.



Coincidentally, the 20 EMA on the 60min frame is \$109.83 which provides a resistance level - that's where price closed exactly today - it could be resistance, though if price can break above \$110.00, then it would suggest that odds favored higher prices ahead... and we see another positive momentum divergence on the 60min frame as well.

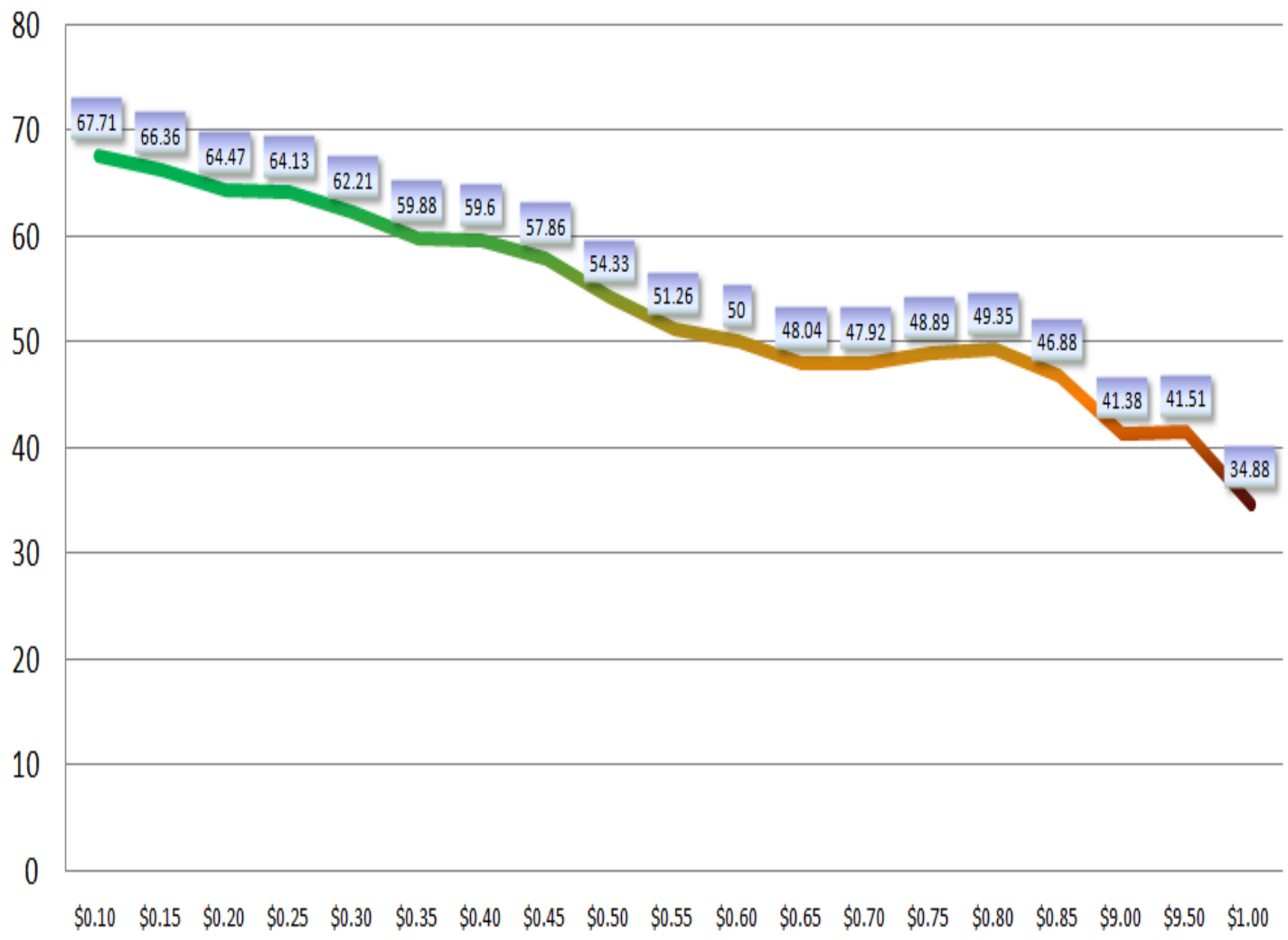
Officially, it would be a counter-bounce (notice the EMA structure), but as an intraday trader, we are concerned most with what the odds favor and not what our biases might favor - so be prepared and map out the likely pathway for price ahead to help you trade intraday.



I mentioned that the 1,080 level is a critical target/support level, and we hit that in the index today, meaning the 1,080 level remains critical, critical support... and the bullish (almost) engulfing hammer-like candle is a classic buy signal that has formed at this level, adding to the bias that we're likely to see a rally at least to 1,100 (\$110.00).

Watch for any signs of strength in the index and be ready to trade long tomorrow and Friday, though you should also be prepared to short aggressively if sellers push price under the 1,080 level. We would say "Open Air" exists under 1,080.

Percentage of Gap Fills as a Function of Gap Size (SPY 2009 -247 days)



Here is a "sneak peek" of my updated research on gap fills, which I will be conducting and publishing for members hopefully by this weekend.

This chart is the most important, which addresses SPY overnight gaps and the percentage of gaps that fill which have the specified size of the gap.

In other words, if we want to know what percentage of gaps that were at least 50 SPY cents filled, we would see above that 51.26% of gaps that were 50 cents filled - which is close to random.

Of gaps that were at least \$1.00, 34.88% of those gaps filled.

I will be explaining the logic and construction - but this is all trading days in 2009 (247) using the SPY.

The main idea is that the larger the gap you see, the lower the percentage (odds) of it filling - as seen above.