



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

If you were like me, you found today's action difficult to trade - such is the profile of range days. Range Days are generally inefficient trading days because they require you to do a lot of work and monitoring, searching for opportunities, while the outcome of your trading effort can produce marginal profits and sometimes more losses than usual. With compressed range - even when trendline boundaries are clear (like today) - the chance for profit is smaller as price swings alternate (move) between a central value area (the middle of the range between the two trendlines).

However, there are lessons to learn, including how Fibonacci retracements - again - helped confirm trades (along with reversal candles) and TWO examples of the Wyckoff Sign of Strength signal which should have clued you in - if you saw it - that odds favored higher prices yet to come in the afternoon.

1. EMA RETRACEMENT, BULLISH ENGULFING, DOJI

This trade was a marginal one, as the bias going into today's session - in my opinion - was a downward bias due to upper resistance and declining market internals. So we would ideally be looking for our first trade of the day to be a short when price broke the support of the 20 and 50 EMA at the \$113.50 level.

However, price formed a bullish candle on the 4th bar and then a long-lower shadowed Bullish Engulfing candle next. These candles formed off the support of the 50 EMA, and the next candle was a long-legged doji. Trade entry generally came as price took out the high of the 10:00am doji at \$113.60. A target was the upper Bollinger Band (especially if reversal candles formed) at the \$113.80 level.

Just a note, the 50% Fibonacci retracement line was NOT present at the time this trade was taken - the Fibonacci Grid comes from the 12:00 EST price highs later - the blue Fibonacci Grid does not come into play until after this period (for the real-time trader).

However, drawing a Fibonacci grid from the low of yesterday's swing low into the close to the morning high just shy of \$113.70 did reveal that the 38.2% retracement was at \$113.75, so you could have seen the 38.2% retracement line intersect the moving averages and form the low of the morning shadows.

The trade exit occurred as upper shadow candles formed at 10:30 EST, giving a marginally profitable trade.

At this time, you could have drawn a Fibonacci Price Projection tool (for those so inclined - no requirement to do so) and found that the 61.8% projection (green) of yesterday's low and high when connected to the morning low - registered at \$113.83 (which could have been an upper target for your first or even second trade). As we'll see, price rose slightly above this level before reversing... but let's first discuss trade two.

2. EMA RETRACEMENT, BULLISH CANDLES, PRO-TREND PLAY

Like the morning trade, this set-up occurred as price bounced off the 50 EMA and formed almost a bullish hammer candle at 11:55 EST. The entry was as price broke the high of the third bullish candle at \$113.65 and target either to test the upper Bollinger Band above \$113.80, test the prior high also at \$113.80, or the 61.8% projection target at \$113.83 (again, not a requirement to draw this grid).

Price moved up to this level, formed a variety of upper shadow reversal candles, and formed a negative TICK and Momentum Divergence. While Trade #2 was a marginal trade at best, Trade #3 gave a more powerful signal.

3. DUAL DIVERGENCE, UPPER BOLLINGER, REVERSAL CANDLES

See the 1-min (also 5-min) chart to see the dual negative TICK and Momentum divergences clearer. The 1-min chart is helpful to confirm or add confidence to a set-up you are considering that is based on the 5-min chart.

The two doji candles at 11:45 and 11:45 really set the stage for this trade as price formed divergences at the upper Bollinger Band - this trade was as simple as that.

The stop was located above the \$113.90 high and minimum target for a move back to the moving averages (which become less important on range days for targets), or more appropriately for a move back to the prior swing low at \$113.50.

Price achieved this target nicely, and then formed another dual (clear) divergence and bullish engulfing candle, signaling exit and 'flip and reverse' long.

4. PRIOR SUPPORT, BULLISH ENGULFING, LOWER BOLLINGER, DUAL DIVERGENCE, FIBONACCI

For those who drew the Fibonacci grid as shown, NOW the 38.2% level came into play at \$113.53, which was a prior support level for the prior two price swings - meaning we did not need the Fibonacci tool to see the support line that was evident at the \$113.50 area. Again, we need to keep our intraday trading simple - and if different tactics (methods) align at a certain price - including prior pure price levels - then these set-up trades. We don't need to see everything, just two or three methods that align (such as a moving average, divergence, and candle reversal signal).

That being said, we had a prior support level, Dual divergence (see 1-min chart), Lower Bollinger Band, Bullish Engulfing Candle pattern, and the 38.2% Fibonacci area. My goal is to teach you how to apply these methods in these reports and highlight key examples, but your goal is to implement them in real time, see convergences, and put on the trade with confidence. The more examples you see and then trade yourself, the better you will become as an intraday trader.

The stop was under the \$113.50 support, entry as price took out the engulfing candle high at \$113.59, and target for a retest of the prior swing high at the \$113.80 level (in true range day expectation). With today's action - at that time - clearly favoring a range day bias, you would NOT target the moving averages for a trade exit. Bollinger Bands and prior price levels - along with reversal candles and divergences - are key to watch on Range Days.

Price rallied, formed a doji just under the \$113.80 target and upper Bollinger Band, and then began a reversal down. This was your exit signal to lock in your profits (but not necessarily strong enough to get short).

It was important to note that price formed a New TICK High on the day at 1:05 when price was clearly not forming a new high. This was your first Wyckoff Sign of Strength signal and I hope you picked up on it - if so, you would have been prepared to take trade #5 with confidence.

5. WYCKOFF, LONG-LEGGED DOJI, REVERSAL OFF 38.2% FIBONACCI AND LOWER BOLLINGER BAND

The final trade of the day was forecast by the Wyckoff Sign of Strength (new TICK high), meaning that odds favored higher prices yet to come. Even if you missed the Wyckoff Signal (fine if you did), then you would have seen the long-legged doji that 'bounced' (rejected) the \$113.52 area, which was again the 38.2% Fibonacci area and the Lower Bollinger Band. Price rose above the high of the doji on the next candle, taking out the \$113.65 doji high, forming a quick candle, and then the big 'marabozu' candle that took you back to your profit zone/target (upper Bollinger Band and prior morning high at \$113.80).

A doji then formed at this level, signaling you to exit your trade (again, in true range day fashion), but price quickly rallied higher into the close.

Price broke to new intraday highs, so those so inclined could have played the now infamous "Popped Stops" trade set-up immediately as price broke to a new high. Price rallied 20 cents quickly to peak a penny shy of \$113.99, formed a long upper shadow, and then reversed with a doji candle (your exit if you did not exit prior if you played 'popped stops').

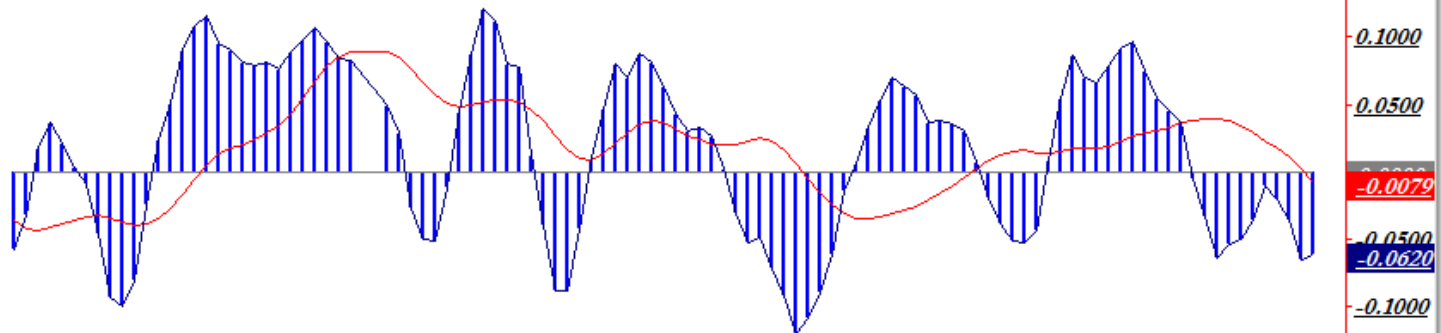
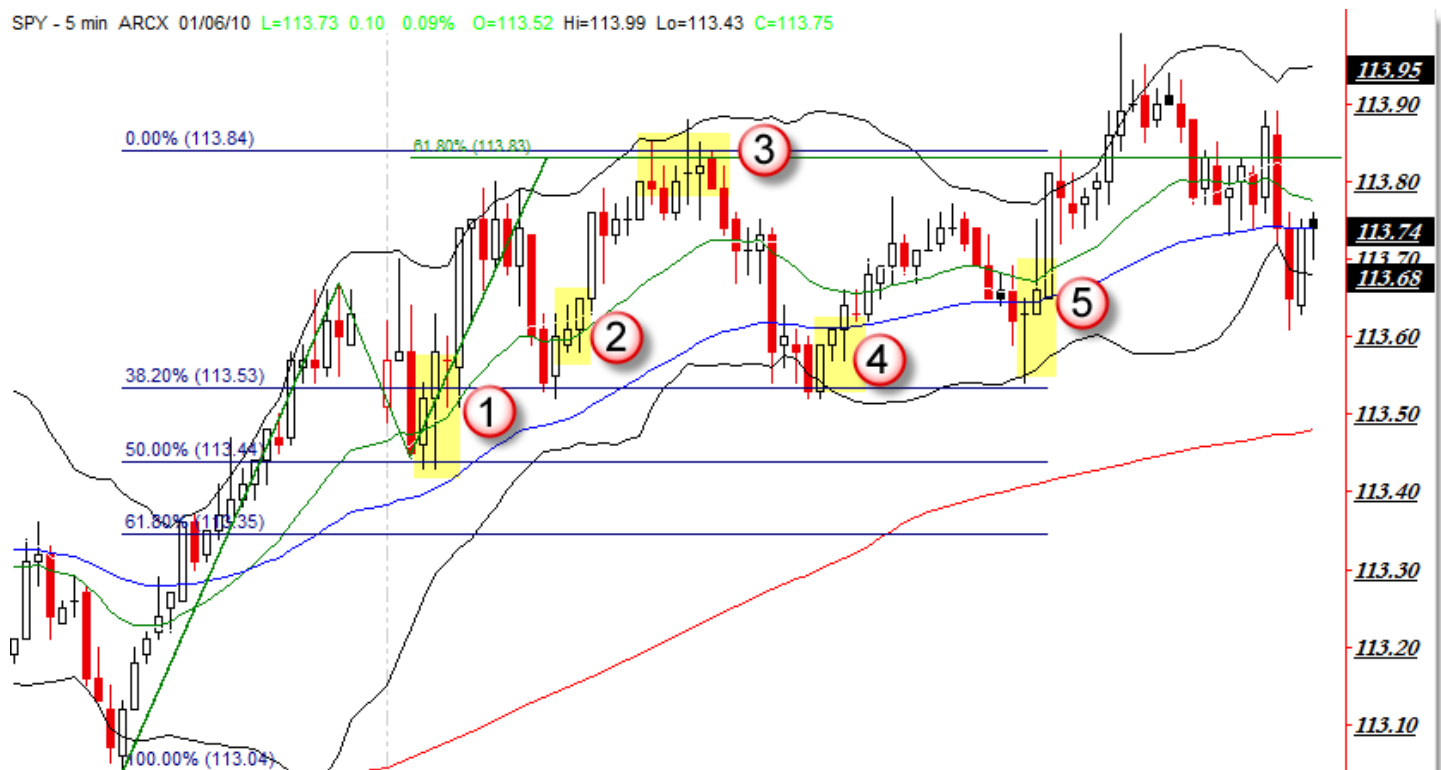
It's odd - price continues to make new marginal highs, but each time it does, price retraces. The character (behavior) of the market is thus still in "Popped stops" mode, and it wouldn't surprise me one bit if the majority of buy orders that continue to push prices to new highs intraday are those of the bears/short-sellers stopping out at higher levels... re-entering... then stopping out again.

If the bulls were buying new highs, we would not see pullbacks, but would see a "positive feedback" expansion move to the upside. The "back and fill" or back and forth action tells us that we have a two-sided market, instead of complete domination of the bulls.

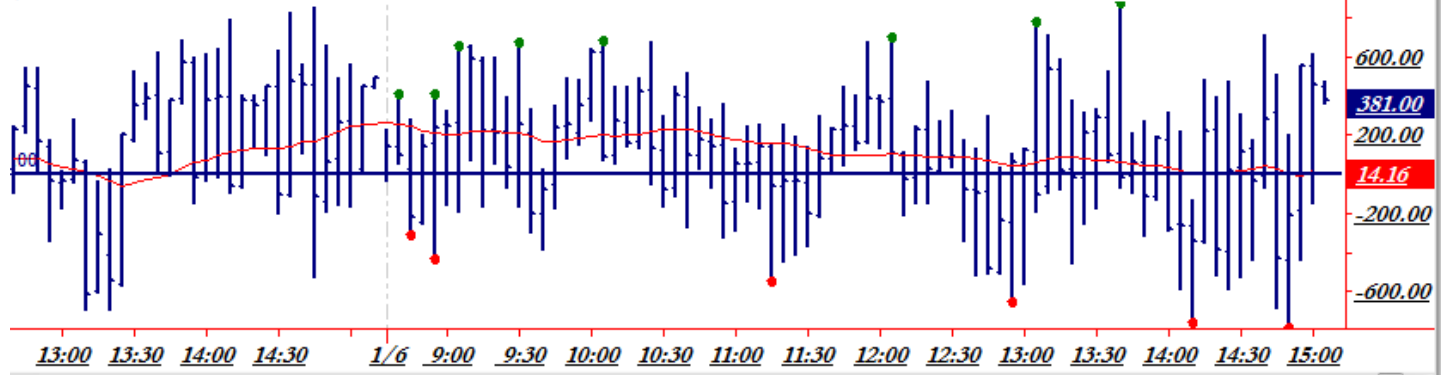
Keep this in mind - it makes a difference in knowing WHO is making new highs and HOW STRONG they are.

If the answer is "Weak Bears," then we would approach new highs with more suspicion than if they were strong, aggressive bulls.

SPY - 5 min ARCX 01/06/10 L=113.73 0.10 0.09% O=113.52 Hi=113.99 Lo=113.43 C=113.75



STICK - 5 min NYSE 01/06/10 L=381.00 -108.00 -22.09% O=10.00 Hi=880.00 Lo=-782.00 C=381.00





I thought today might devolve into a Head and Shoulders, and the H&S trade entry would have been triggered on a break of the neckline at \$113.53... but price thwarted this pattern as well, driving prices solidly to new highs (after the release of the Fed Minutes).

Otherwise, I've highlighted the two Wyckoff Signs of Strength for you.



We're still seeing market internal divergences, which are NOT confirming new highs. In general, market internal readings are more accurate than any indicator you can use, because you are looking at the 'insides' of the market (like taking an X-Ray). When price is rising and internals are falling, it forecasts a reversal in price. While the market can certainly continue rising indefinitely, it would be nice to see strong market internals to confirm it to give us a reason to trade long, instead of playing 'popped stops' at new highs (meaning bears continue to doubt this rally).



We're back to where the chart from today resembles the chart from yesterday, and we need to keep this simple.

Price is rallying in a state of declining volume and momentum - that's a bearish non-confirmation (fact).

However, buyers continue to use the lower timeframe EMAs as support (keep them on your charts) and continue to drive prices to new 2010 highs.

The "Santa Claus" Rally is officially over now (last few days of December and first two or three days of January), so we're moving out of that holiday seasonality.

The danger for positioning long is clear, but there is opportunity to trade long intraday (or short if price begins to breakdown). Enjoy and take advantage of your unique position as an intraday trader, when so many swing traders - trying to short for an expected retracement down - are slowly draining their accounts to the "popped stops."



It would appear that price is forming a rising consolidation wedge, so watch to trade a break of the upper trendline (rising at the \$114.00 level) or under \$113.00. We could see a range expansion play after all this consolidation in price, so be prepared for that. Odds would favor a downside break, but we're in an environment where price is literally mocking the short-sellers, so do keep this 'market character' in mind and be flexible as an intraday trader, but slightly biased to the upside (no matter how strange that feels).

Remember, the "Jobs" report is released this Friday which could move the market either way in a big move.



Same picture - price is forming tiny range candles at the upper Bollinger. The next major price resistance is at 1,150, so we could be on a march to test that level soon. Otherwise, range is dramatically compressed.

Thursday gives us an initial picture on Unemployment (ADP Unemployment released at 8:15 EST) and of course Friday is the "BIG DAY" when the big "Jobs Report" is released - which could move the market strongly, particularly in the morning (it's released at 8:30 EST).

These reports will drive the market in the coming days so be nimble and willing to trade from either direction on a price range expansion move.