Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

I'd mentioned in last night's report to take a bullish bias as long as price continued higher, and that's what occurred, despite all the odds to the contrary... and there were good odds of a reversal or retracement on multiple timeframes. This underscores the importance of taking into account market "character," and the character right now is a 'do or die' march higher by the buyers which is aided by the short-covering (short squeezes) of the sellers... creating nice 'popped stops' rallies to play. Otherwise, everything favored downside, including intraday divergences as we'll soon see.

1. BREAK OF SUPPORT, FADE THE FADE (GAP), CRADLE

It was certainly possible - if you had quick reflexes and trade directly off the open - to play the 20 cent gap this morning, but it was probably a better idea to wait and see if price began to move lower off the resistance level that yesterday's closing price can create.

In this case, price retraced into the "cradle" crossover of the 20 and 50 EMAs at the $113.70 level and formed two upper shadow candles. We did not get an official gap fill in the SPY, and then price took out the low of these two 'spinning top' style candles at the $113.54 level - triggering an official short-sale under this level with a stop above the morning high of $113.69. Aggressive traders held short for a countervailing buy signal, and that could have been the next trade of the day on a "flip and reverse" position for those so inclined.

2. BULLISH ENGULFING, AGGRESSIVE RETRACEMENT PLAY

Price formed a new intraday swing low, broke prior support levels, and odds favored lower prices yet to come due to the new TICK and Momentum lows. As such, conservative traders would WAIT to get short on the first pullback into overhead resistance while aggressive traders would consider trading long (buying) to ride the expected retracement into resistance.

The Bullish Engulfing Candle triggered entry when the high of $113.34 was taken out, and the target was the $113.60 level (20 and 50 EMA). A stop would be under the intraday low of $113.18 for a quick scalp trade. It worked, and price formed a shooting star candle at the 50 EMA to trigger an official exit... but this serves as an example of why waiting for price to close under a key reversal candle can be more effective than jumping in short while a candle forms. Aggressive traders would go ahead and short at this confluence resistance level at $113.65 to play an Impulse Sell to expect a test of the lows... but conservative traders would not enter the position until price broke beneath the low of the shooting star candle at $113.57. Luckily - because this was a very high probability trade set-up - price did not break this level and so - hopefully - you came just pennies short of entering a trade short that would have immediately resulted in a stop-loss.

The fact that price shattered this high-probability sell signal gave you a big warning that odds favored higher prices yet to come, as buyers just dominated a likely sell signal. This speaks to market structure and you recognize these points with experience - a failed major sell signal flips the balance to expect higher prices later as a result.

I won't label it an official trade, but you could have - aggressively - played long as the stops from those that did short early were taken out in a mini-popped stops rally (the big candle that formed at 10:50am EST).

The next trade took advantage of this upward bias and the new TICK and Momentum highs that formed.

3. IMPULSE BUY, CRADLE BUY, BULL FLAG BUY, DOJI CANDLES

This was a reasonably simple trade to put on, given that price had just formed a new intraday high which was accompanied by momentum and TICK highs. The goal - just like the failed impulse sell before it - was to buy the first pullback to support and enter a trade when the high of a reversal candle - like a doji - was taken out.

This occurred at 12:00EST with two doji candles, and price took out the high of the second doji at $113.79. The minimum (conservative) target was a retest of the intraday high at $113.92, or more appropriately the key resistance level of $114.00. Price swung quickly to $114.00, formed a negative momentum and TICK divergence at the upper Bollinger along with a long-legged doji, setting up the next trade (and exiting the prior one).

4. DUAL DIVERGENCE, DOJI AT UPPER BOLLINGER... THEN BEARISH ENGULFING and FINGER TRADE

This was an interesting trade, with multiple reversal candles at the upper Bollinger which formed on a negative TICK and 3/10 Oscillator Divergence.

It's worth mentioning that Breadth (Advance - Declines) and $VOLD (Volume Difference) both made new highs on the day at this time... and I was guilty of trying to short a reversal here probably like everyone else... but the lesson is that the VOLD (Volume Difference) indicator - for those who use it - has been quite accurate for the last few weeks - perhaps we should have paid more attention to that. It's lessons like that which teach us if we made any 'unforced errors' while trading in real time when we go back and compare our results with what happened 'in hindsight' - it's the quickest way to learn what's working *right now* in the market if you can pick up on these patterns quickly - I try to highlight these pattern/strategy shifts to you as best I can in these reports. Right now, VOLD is doing better at forecasting intraday reversals/continuation than the TICK.

That being said, this was a high-probability short with a stop-loss above the "smack" to new highs (the Finger Trade) at $114.03 which quickly resulted in a Bearish Engulfing (price rejection) candle. This was a short when price took out the low of the Bearish Engulfing at $113.84 (if you were not already aggressively short from the prior doji or immediately as price began to fall on the 1-min chart on the move above $114.00).

It's rare for a "Popped Stops" play to originate on such deteriorating market internals, so the bias was to short, but also to be prepared to stop out quickly on any new high and immediately flip aggressively to scalp a range expansion play to the upside. This is how Popped Stops works - there is plenty of reason to be short (trigger for sellers to enter) and then a logical level for sellers to locate their stops (above prior highs) and then when and if price (bulls) enters this "pocket," then you (if short) stop out and then immediately flip and reverse to take advantage of all the other people who took the same action you did... but they had their stops at higher levels (or do not understand the Popped Stops play).

This set-up an easy trade the minute price took out the afternoon high if you had not already exited your prior short-sale trade when price tested the rising 50 EMA at the $113.80 level. I wouldn't call this a strong buying opportunity trade due to the deterioration of internals, so the next play was to wait to short a move under support at $113.70 or wait to get long on any move to new highs above $114.03 to play popped stops. The market battled between these two levels, and then the "Popped Stops" trade won out.

5. POPPED STOPS

I hope you took this trade and didn't just let it pass you by - or if you are sim-trading, that you saw this trade and anticipated playing it in advance. Take the time to go back and read prior reports where I discuss this concept - in the current market, the popped stops play is absolutely critical to learn. I'd mentioned in the summary last night to play any move above $114.00 long to play popped stops - you could have anticipated this trade well in advance.

The TICK continued to form lower intraday highs (as did the 3/10 Oscillator) while the $VOLD and $ADD (volume and breadth internals) continued to register new highs. As mentioned, the VOLD has been more reliable than the TICK (though in the past, the TICK has been the most reliable internal), and price was officially in an uptrend as exemplified by higher highs, higher lows, and the moving average orientation.

This trade triggered the minute (you could have had a market order ready - you don't want to limit order yourself into the popped stops trade if you can help it - this trade triggers so quickly that you might be left on the sidelines if you are trying to play too perfect with a limit order... but in the futures market with smaller orders, this usually isn't an issue).

Once price broke to a new high, you enter and you can even do so aggressively (with a larger position size than usual) to take advantage of this "almost infallible" trade (for a quick scalp that is exited as soon as price begins pulling back).

There's no way to know how far price will rally when stops are being taken out, and the power of the trade is that bears are frustrated and angry and have their stops at different levels (that's what creates the "Pocket"). Price will rise until:

A) All short-sellers who are needing to sell, do sell (emptying the Pocket)
B) Buyers stop buying (or don't buy) and sellers put on NEW short sale positions

Price rallied without stopping, immediately to $114.30 and then formed a doji and hanging man candle with more negative divergences (1-min chart) which was a place to exit any remaining position for popped stops (taking an aggressive (larger) position, you can scale out as price hits new highs... trailing a stop underneath).

As such, if you were aggressive, you could have shorted the new high that formed divergences (1-min chart) to take advantage of the tendency for the market - recently - to blast to a new high and then suddenly decline. This was your final trade set-up of the day for those aggressive enough to take it.

6. 1-MIN DIVERGENCES, REVERSAL CANDLES, EXTENSION FROM 20 EMA

Again, this was an aggressive, counter-trend play that took advantage of the 'rollover' from the overextended condition in price that the "open air" popped stops rally created. A short was triggered when price took out the low of the hanging man/spinning top candle at $114.21 and minimum target was a return to the 20 EMA or the $114.00 level.

Price found support at this level and then rallied in semi-bear flag-fashion into the close... ending the day on a bullish note ahead of tomorrow's Jobs Report.

Again, as I mentioned last night, the market now is driven (higher it seems) by expectations on what tomorrow morning's Jobs Report Numbers will be ... it looks like traders think it will be bullish!

SPY - 5 min ARCX 01/07/10 L=114.21 0.50 0.44% O=113.50 Hi=114.33 Lo=113.18 C=114.19
Popped Stops
Gap
Cradle
1
2
3
4
5
6
114.30
114.19
114.10
114.00
113.90
113.80
113.70
113.60
113.50
113.40
113.30
0.1500
0.0404
-0.0110
-0.1500
$TICK - 5 min NYSE 01/07/10 L=435.00 71.00 19.51% O=2.00 Hi=1020.00 Lo=-894.00 C=435.00
1,000.00
600.00
435.00
272.77
-200.00
-600.00
14:30
1/7
9:00
9:30
10:00
10:30
11:00
11:30
12:00
12:30
13:00
13:30
14:00
14:30
15:00


SPY - 1 min ARCX 01/07/10 L=114.20 0.49 0.43% O=113.50 Hi=114.33 Lo=113.18 C=114.19
1
2
3
4
5
6
114.30
114.19
114.10
114.00
113.90
113.80
113.70
113.60
113.50
113.40
113.30
0.1000
0.0500
0.0073
-0.0500
-0.1000
-0.1500
$TICK - 1 min NYSE 01/07/10 L=435.00 71.00 19.51% O=2.00 Hi=1020.00 Lo=-894.00 C=435.00
1,000.00
600.00
435.00
189.64
-200.00
-600.00
1/7
9:00
9:30
10:00
10:30
11:00
11:30
12:00
12:30
13:00
13:30
14:00
14:30
15:00


SPY - 3 min ARCX 01/07/10 L=114.20 0.49 0.43% O=113.50 Hi=114.33 Lo=113.18 C=114.19
Volume Difference and Breadth
Continued to Make Higher Highs
with Price, Forecasting Higher
Prices Yet to Come
TICK Diverged
$ADD - 3 min NYSE 01/07/10 L=610.00 1.00 0.16% O=-50.00 Hi=694.00 Lo=-924.00 C=664.00
WYCKOFF
$TICK - 3 min NYSE 01/07/10 L=435.00 71.00 19.51% O=2.00 Hi=1020.00 Lo=-894.00 C=435.00
$VOLD - 3 min US 01/07/10 L=480584 79911 19.94% O=-9 Hi=470862 Lo=-59299 C=470862
WYCKOFF
1/7 9:00 9:30 10:00 10:30 11:00 11:30 12:00 12:30 13:00 13:30 14:00 14:30 15:00

What's working quite well is the rising moving averages - as price retraced to find an intraday low at the $113.20 level which was the confluence of the 50 EMA and lower Bollinger Band.

In an uptrend - which is what we are in - sometimes the most basic form of analysis is the most profitable. That could have clued you in for a target to play for on this morning's move down, or given you added confidence to get long.

Either way, price is climbing steadily against all divergences and nay-sayers in a clean, rising trend.

Tomorrow's Jobs Report will dictate which direction price will travel, so I would not put much 'stock' in forecasting a likely move ahead of tomorrow morning's report.

Again, the 8:30 EST "Jobs Report" and the traders' reaction to it on Wall Street will determine whether we keep rising (potential breaking very sharply to the upside into a trend day long you should play) or collapse lower, breaking through support.

You'll know what to expect after the report is released, so watch these timeframe charts for potential targets, such as $113.00 for support. Any move under $113.00 has odds to retest the $112.00 level.

Price broke up through the 1,121 "Fibonacci" level and also the lengthy prior horizontal resistance level. That's bullish and calls for a strong bullish bias as long as we're above the breakout zone and the 1,120 level. There are likely a large number of (bullish) stops under 1,115 now and especially under 1,100, so take advantage of the popped stops phenomenon in REVERSE if we get any down-move.

1,150 is a price target, so that was the bias that still remains once we broke above 1,121.

Otherwise, wake up early to watch the Jobs Report and how traders react to it. Bloomberg lists the data as:

Released on 1/8/2010 8:30:00 AM For Dec, 2009 POWERED BY ECONODAY

	Prior	Consensus	Consensus Range
Nonfarm Payrolls - M/M change	-11,000	10	-50,000 to 40,000
Unemployment Rate - Level	10.0 %	10.1 %	9.9 % to 10.2 %
Average Hourly Earnings - M/M change	0.1 %	0.2 %	0.1 % to 0.2 %
Average Workweek - Level	33.2 hrs	33.2 hrs	33.1 hrs to 33.3 hrs

(Source: http://www.bloomberg.com/markets/ecalendar/index.html)

Watch for any major difference from consensus levels.