



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

The main lesson of today's session is that we should observe the current market character and align with it - as I've been highlighting - the current market character is one of strong bullishness that is comprised of "Popped Stops" at every turn as more and more bears (short-sellers) are stopped out at new highs (creating scalping opportunities for you, the intraday trader).

I know a lot of traders are complaining about the higher prices - understandably so - (as in "My gosh - how much higher can this market go?") - but let's fall back to the basics - price is strongly in a short-term uptrend and the 5-min, 15min, 30min, 60min and daily moving average orientation (difference between 20 and 50 EMA) are all in the most bullish orientation possible. As such, the trend is up and odds favor higher prices. As mentioned in last night's report, the upper S&P 500 target is 1,150, and we are in an "open air" breakout mode (that - admittedly - is more choppy than normal) above the key 1,121 level - price is taking out stops inbetween these zones.

We'll cover this more at the end of the report - for now, let's look at the trades that could have been taken.

1. 5-MIN DOJI, 1-MIN POSITIVE DIVERGENCE, LOWER BOLLINGER, SCALP

The Jobs Report was much worse than expected - the economy lost 100,000 jobs in December, well below the 0 (no change) number that was expected. As such, this should have created a bearish bias, and for those who trade pre-market futures, this gave a sudden down-thrust as soon as the report was released.

Thus, shorting the move down off the open was tradeable, but for those who just trade SPY or futures during the NYSE session (leverage), this downward move happened so quickly.

The first set-up was a retracement scalp to play a move back into expected resistance to position short on the pullback.

Price formed a long-legged doji and then a strong bullish candle at 9:45 and then took out the high of that candle at \$113.82. Your entry was there, with a stop under the low at \$113.66, with a target for a retest of the 20 or 50 EMA at the \$114.00 area - also "round number" resistance. At this retracement, you would plan to enter short on a reversal candle and taking out the low of the candle in an "impulse sell" style trade to the downside... which never triggered.

Price surged so strongly, that it broke solidly through overhead resistance, forming a new TICK and momentum high, and preventing you from trying to short the pullback after a new momentum, price, and TICK high. This was similar to the TICK FLUSH concept I described earlier this week - in which a new TICK high immediately following a new TICK low is a Flush that eliminates the bias to short the initial pullback. As such, you were to remain neutral with price above the EMAs.

At 10:30 EST, price formed multiple doji candles on the 5-min chart, and a 5-wave fractal move on the 1-min chart which also formed a negative momentum and TICK divergence. This was a short-sale entry... that produced little gain.

2. DOJIS, DUAL DIVERGENCES, 5-WAVE FRACTAL (1-MIN)

This trade could have been passed if you were conflicted with the new price, TICK, and momentum high. But for reference, it was a trade set-up to short.

Price formed multiple reversal-style candles at the \$114.20 area and then a clear 5-wave fractal ended on a negative TICK and Momentum divergence at the 10:20am timeframe, triggering an entry short with a move under the low of the doji candles at \$114.05, and/or beneath the \$114.00 level. The stop was above the high at \$114.20 and the target was a move back to the prior low at \$113.70.

Ultimately, we got a small initial move and then a swift, sudden reversal back to the upside, which conservative traders took for an exit signal while aggressive traders may have held on, or stopped out at higher prices in frustration.

Price entered a lengthy consolidation phase, in which very aggressive traders may have bought long at the lower Bollinger Band and sold short at the Upper Bollinger Band, but in terms of lessons/ideal trades, it was better to wait for a breakout from consolidation rather than scalping pennies (or 1 @ES point) between this range. Range trading is very difficult for most traders.

Like yesterday, we would be waiting for any move above yesterday's highs at \$114.30 to play "Popped Stops" again... but price rallied to this level and then came swiftly down back off of it at 1:45 (on a New TICK and breadth high).

Price pulled back to the confluence of the 20 and 50 EMAs and formed doji candles, but price could have also fallen to the downside, so it was still best to wait for a breakout in either direction - you can get very good range expansion plays if you wait for breakouts to occur, instead of trying to predict in which direction the breakout will form. Though you certainly could have entered at the doji candles at the \$114.10 level, the better trade was to wait patiently to play the "popped stops" that would likely be taken out on any push to new highs. It happened again just like yesterday.

3. POPPED STOPS

Don't overcomplicate this trade - it is working very, very well and I sincerely hope you are profiting from these moves that you can anticipate in advance and trade with confidence.

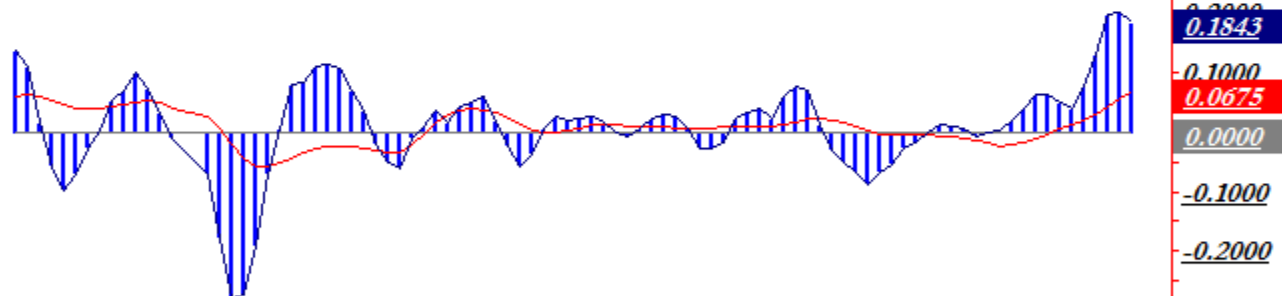
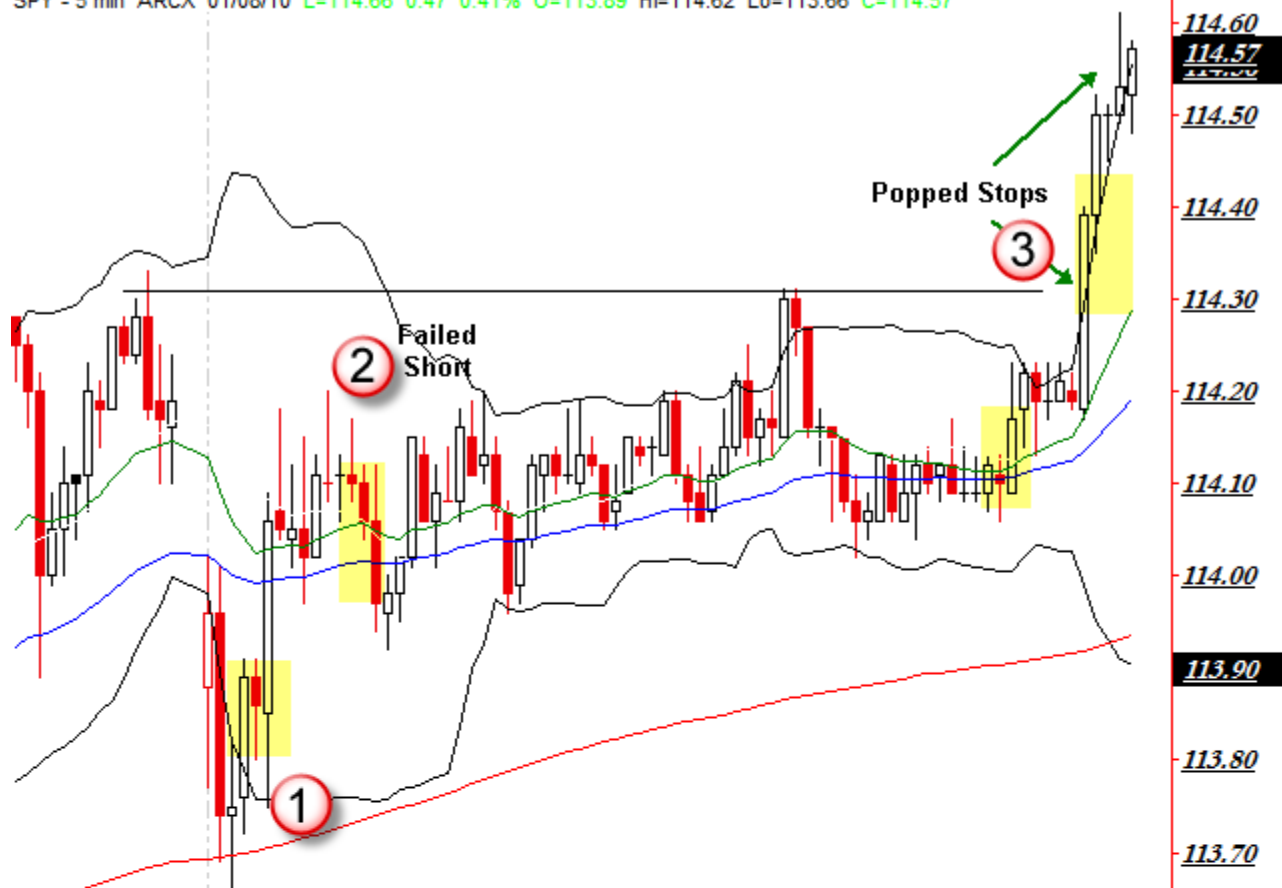
You could have market orders resting above \$114.31 or \$114.32 that trigger you in on any move to new highs, because odds favor a swift reaction move up as stop losses are taken out. You generally can't play for perfect positioning with limit orders, because these moves happen so quickly - you want to be in the trade as early as possible and not let the swift move that is expected pass you by.

Trail your stop closely and exit on a pullback at new highs, which occurred right at the close (exit at the close - don't accidentally let a day trade turn into a weekend trade unless you plan to do so).

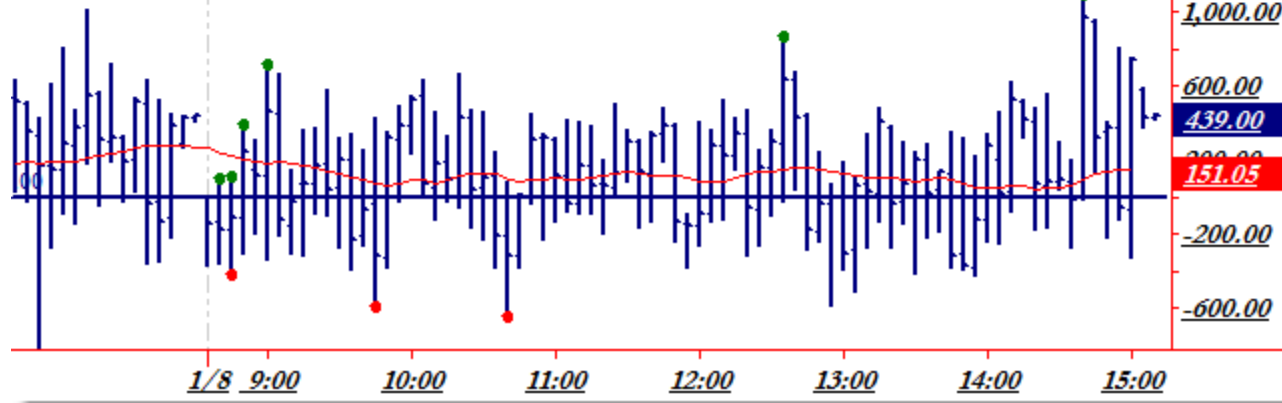
For whatever reason, this is the character/reality of the market now. It's an environment that is VERY hostile to bears/short sellers (who apparently continue to short at pullbacks from highs, as evidenced by the popped stops that continue to be hit) and very favorable to bulls and intraday traders who are unbiased (as much as possible).

Your goal is to make money, and not to predict the market - meaning you should not be stressing out and cursing as the market makes new highs - take advantage of the frustration by playing long these unexpected creeping moves higher.

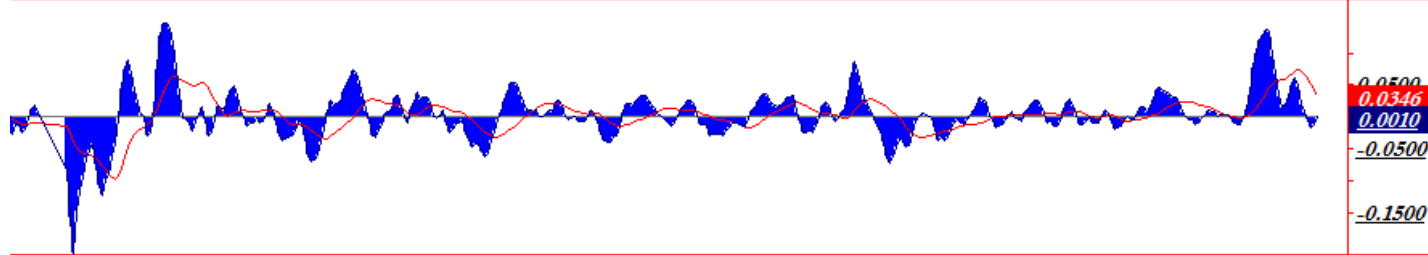
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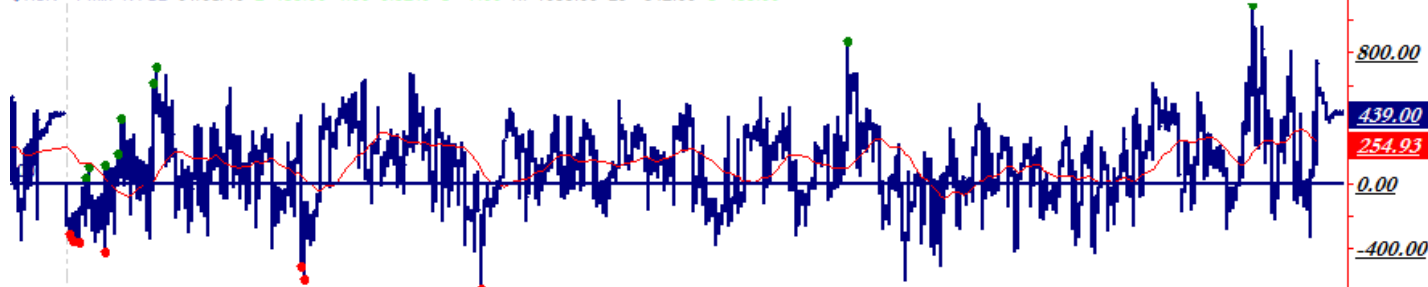
STICK - 5 min NYSE 01/08/10 L=439.00 4.00 0.92% O=-7.00 Hi=1099.00 Lo=-642.00 C=439.00



SPY - 1 min ARCX 01/08/10 L=114.64 0.45 0.39% O=113.89 Hi=114.62 Lo=113.66 C=114.57

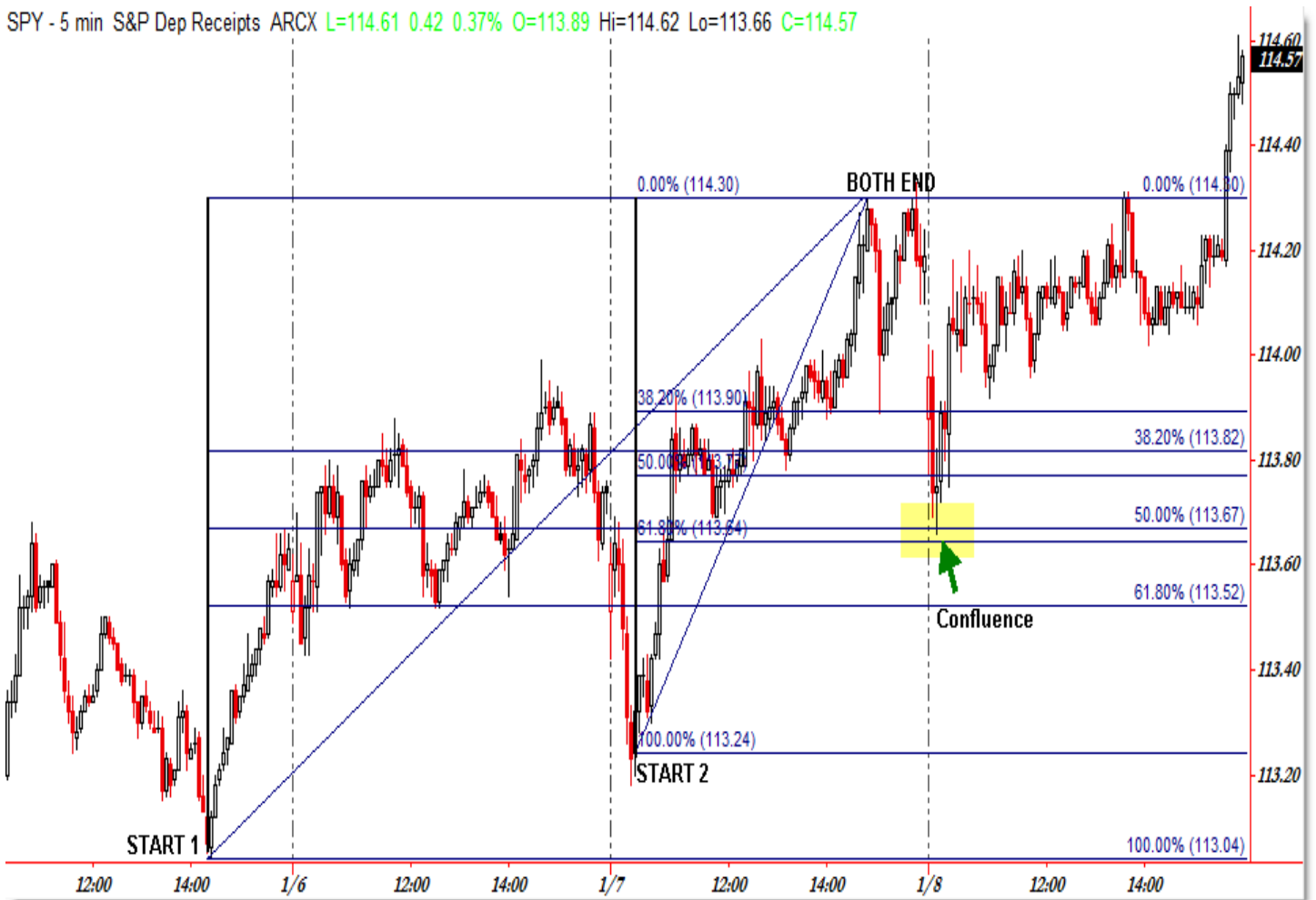


STICK - 1 min NYSE 01/08/10 L=439.00 4.00 0.92% O=-7.00 Hi=1099.00 Lo=-642.00 C=439.00



1/8 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 - 5 min S&P Dep Receipts ARCX L=114.61 0.42 0.37% O=113.89 Hi=114.62 Lo=113.66 C=114.57



A Fibonacci Confluence from the Jan 5th and Jan 7th swing lows to yesterday's swing highs at \$114.30 reveal a convergence at the \$113.65 level.

That helped add confidence if you took the morning trade long (and was also a possible target if you took the opening move trade short).

\$INX - 30 min S&P 500 Index US



30-min “price only” chart reveals the recent move higher is a lengthy rising wedge formation with two bear traps.

The target is still 1,150 (which was triggered after price broke above 1,121) but it’s done so laboriously.

Wedges do not have to be bearish, though traditionally, this pattern is labeled a “bearish rising wedge.”



We're still in the same position - bullish 'melt-up,' which continues as long as price remains above multi-timeframe EMAs as it does.

Don't try to overcomplicate this - price has an upward bias and the movement is taking stop-losses of the short-sellers (swing and position traders) with it, giving you - the intraday trader - an opportunity to profit.

Remain long-biased while the price moves higher and watch for any break of support at \$114.00.



On the 60min frame, support is also \$114.00 and we see the same upper trendline channel line that extends back to mid-December.

Volume is - reasonably - increasing as we move away from the end-of-year holiday volume... though the momentum oscillator is diverging (false signal in strong uptrend).



I've been mentioning the potential target at least at 1,150 if 1,121 was taken out, and that is still the bias now.

Price is 'creeping' or 'oozing' higher and a good portion of the increase is still bears (shorts) covering, making this a 'melt-up' rally (just like a melt-down decline would be stopping out buyers).

Stick to the intraday frames and trade swings accordingly with a bullish bias.



Taking a Friday look at the weekly frame, we see a negative momentum and volume divergence underlying the recent move to new recovery highs - that's fueling bearish speculation, and the stop-losses of the bears are keeping the rally going.

Price rallied above the critical 1,121 Fibonacci area, and 1,150 is the next short-term target. If price rallies above 1,150, then the target immediately becomes the 1,200 (1,225) area which shows a convergence of the 200 week SMA and the 61.8% Fibonacci area.