Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

I made a solid point yesterday of the importance of monitoring day structure, and how history can repeat itself... and today was the third day in a row where we had an almost identical trading day structure! I can't recall that happening in a long time! As such, the trades today were almost identical to those of yesterday with one exception that you should have noted - you probably should not have shorted at the morning pullback into resistance! Knowing that history was repeating - or at least looked like it was - gave you a distinct trading edge over all those who did not.

1. HAMMER/DOJI LOWER BOLLINGER BAND RETRACEMENT

The morning gap had a low probability of filling - roughly 34% - so your first trade should NOT have been a full gap fade. We also did not know that structure was going to repeat at this time, but would have been on alert.

There were three long lower shadows in the first 30 minutes at the lower Bollinger, one of which was a long hammer, so when price took out the high of this candle at the $106.80 level, it became a solid trade to play for a retest of the falling 20 EMA at the $107.20 level and then decide whether or not to short that pullback.

I also wanted to highlight this trade to teach the concept of the "do I trail or move my stop or not?" Your stop was supposed to be under the then low of the day at $106.51 (perhaps $106.45/40) to play for an exit at $107.20. If you entered at the $106.75 level, this put your stop roughly 25 cents away to play for a 40/50 cent target (depending on where you entered). Conservative traders may have passed on this trade due to the wide stop to target ratio, leaving the 'edge' to be due to accuracy edge of the trade.

If you used any sort of trailing stop strategy or moved your stop, then you were stopped out for a loss. If you held your stop under the intraday low, then you were ok and held on for the full retracement after a sudden down-draft. This is one of the most frustrating things for a new trader, because we want to protect our profit and move our stop - sometimes up to breakeven - after entry or when we get a profit, but there are situations like this where doing so will hurt, and not help. This is an entire discussion on this, and there's no easy answer (depending on whether you are a conservative or aggressive trader) but let this serve as an example of how it can be a better - though not psychologically gratifying - to leave your stop at entry and then play the trade accordingly unless there is a compelling reason to exit.

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Where I labeled the first "???" at 9:30 would reflect where - under most circumstances - I would label an "Impulse Sell/Bear Flag/Doji at 20 EMA resistance" - etc but notice that I did not do so, mainly because the prior two days that formed this set-up failed miserably. That's the benefit of these reports - I received a few emails after this trade failed thanking me for discussing this in detail in last night's report, as they passed on this trade and then profited from the "Popped Stops" that occurred right on script. It's important to know the character of the market and anything out of the

ordinary. It was very out of the ordinary for such a high probability set-up to fail two days in a row... and so thus we perhaps should have expected that the third day in a row would fail as well ... and it did. Thus, the second trade was the "Popped Stops/Wave 3" rally.

2. "POPPED STOPS,' WAVE 3, EMA BREAK

This trade triggered entry the moment price broke above the 200 SMA and 50 EMA at $107.25 and you could have anticipated this trade well in advance, placing a stop under the $107.00 swing low to play for an unlimited (until there is a new sell signal) target for a likely Wave 3 impulse.

The logical exit was as price inflected down, forming a shooting star, at the $108.00 resistance level, triggering an exit but NOT a fresh short-sale.

Why? Now that we know the script, we would expect just a simple pullback into a "Wave 4" decline into support of the 20 EMA (perhaps 50). Because price might not hit that zone, and might resume the rally at any point, it is a lower probability play to put on a short-sell trade against a prevailing impulse. It is better to wait to BUY the reaction into support once a corresponding buy signal forms... and not until.

In this case, we retraced to the 20 EMA, formed a tiny spinning top candle at 12:10 CST but did NOT take out the high of that candle (nor did that candle touch the 20 EMA) so this was NOT a trade entry at this time. Price plunged through the 20 EMA expected support and then broke the 50 EMA - preventing an entry - finally supported at the lower Bollinger Band forming two lower shadows and two doji candles. The breaking of those candles AT the Bollinger Band WAS the next trade entry.

3. LOWER SHADOWS, LOWER BOLLINGER BAND, 5-WAVE FRACTAL, POSITIVE DIVERGENCE (1-MIN)

If you see the 1-min chart, you see a clear 5-wave fractal into a positive dual divergence (momentum and TICK) which corresponded with a doji candle at the lower Bollinger on the 5-min chart.

Price broke the high of the 5-min doji at $107.20 at 1:05 CST, triggering entry to play at least for a retest of the high or a developing Wave 5 that pushed to new intraday highs. The stop was tight - under the low of the prior candles at $107.00 (also round number support). It was very logical to exit - and now that the 5th wave completed - to flip and short with any candles at the $108.00 level.

I placed "???" again because some traders might have interpreted the retracement into the convergence of the 20 and 50 EMAs (with doji) at the $107.40 level. Once again, price did not solidly break the low of these doji at $107.28, so this was a very aggressive entry (not a conservative one) that failed. Now we turn to the next trade.

4. 5TH WAVE, DUAL DIVERGENCES, UPPER SHADOWS, UPPER BOLLINGER BAND

This was a simple trade to take, given that we saw yet another (the third day in a row) clean 5-wave fractal (though this time the 4th wave retraced more than expected) that formed on a final negative TICK and Momentum divergence, which also happened to form at the Upper Bollinger Band, overhead resistance level at $108.00, with upper shadow candles (dojis), where price broke the low of the final doji at $107.82/80. This triggered a short-sale to play for a retracement to the 20 or 50 EMAs at the $107.50 level. Price broke under this level, but that shows why an exit (at a key level) is often not a "flip and reverse" (buy) unless there are other factors at work.

5. 200 SMA, LONG SHADOW HAMMER, LOWER BOLLINGER BAND, 5-WAVE FRACTAL, DUAL DIVERGENCE

Once price formed its 5-min shadow that slipped under the 200 SMA (closing above it) and almost testing the lower Bollinger Band at $107.30, we looked inside the action and found another clean 5-wave fractal that ended on a positive TICK and Momentum (dual) divergence. That was enough to get long as the hammer's high was broken at $107.48 with a stop under $107.30 to play either into the close or for a retest of $108.00 - both of which occurred.

SPY - 5 min ARCX 02/12/10 L=108.31 0.18 0.17% O=106.99 Hi=108.10 Lo=106.51 C=108.04

1 2 3 4 5

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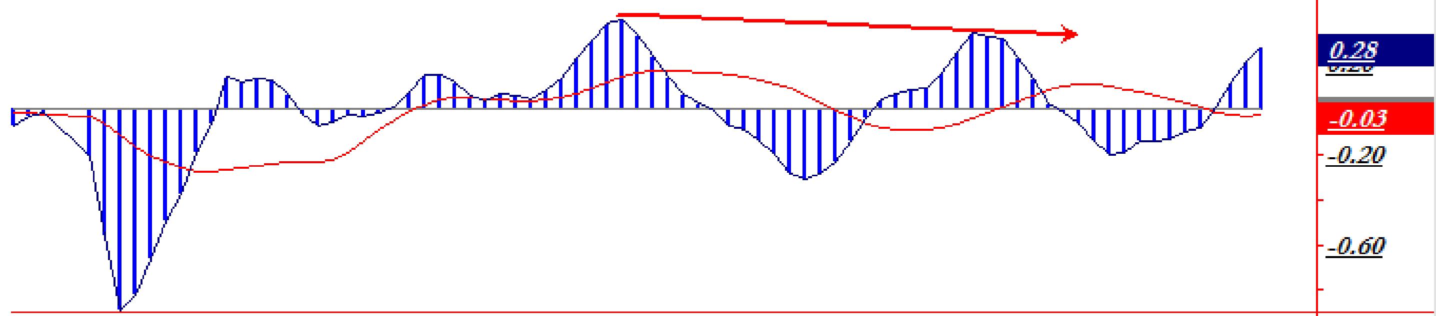
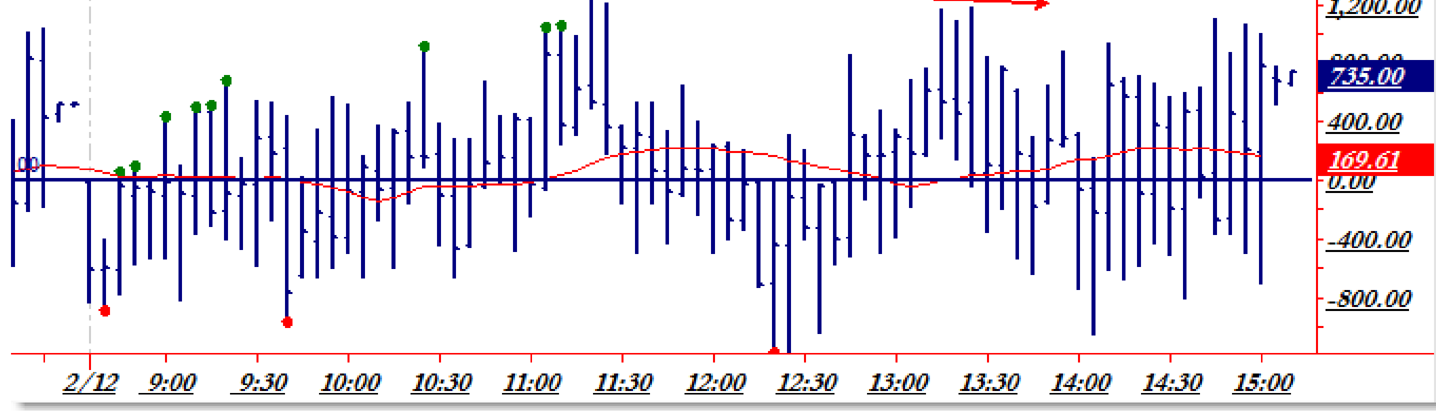
108.08
108.02
107.80
107.60
107.40
107.31
107.20
107.00
106.80
106.60





The Efficiency Chart assumes that you "wised up" and expected a failure trade for the morning (otherwise) flag/retracement into EMA resistance. Even if the trade succeeded, I would not have deemed it 'ideal' due to the 'character' of the market failing the last two exact structures - history repeats - we do well to learn its lessons. I assume you played the "Popped Stops" / Wave 3 rally instead of trying - in vain - to short the normally good bear flag.
Also, it assumes that you did NOT short at the 11:30am highs, expecting it just to be a simple "Wave 4" pullback into support (which actually cracked lower than expected). Generally, we do not short the pullbacks from 3rd waves.

Taking you inside the correction - which is clearly a retracement corrective rally (evidenced by divergences in momentum/TICK, volume (not shown) and the overlapping swings/waves).

For now, it's a game of 'ping-pong' between the rising support now at $106.80 and upper resistance above $108.30.

Strangely, the downside bias remains unchanged as this correction continues. It is still officially a 'counter-trend' rally, and we must maintain that stance objectively unless price breaks solidly above $108.50. Volume has declined over the entirety of the rally, further locking in the 'corrective' definition.

Corrections (in downtrends) are upwards retracements into resistance, which forecast lower prices yet to come, creating an opportunity for swing traders to short when they feel they market has retraced into a resistance level, such as $108.30. Traders will place stops above $108.50, so that's why any move above $108.50 will likely trigger an upward surge. UNTIL THEN, we have to assume that the resolution will be to the downside and would be confirmed with an entry short under $106.50.

Same bias and analysis as on the 30min frame - negative divergence and 'corrective' rally that anticipates downside resolution, but we would need to flip bullish on any move above $108.50 (the line in the sand).

Price has yet to overcome 1,080 in the index, so if it did, we would expect the next level of overhead resistance - which could occur quickly - to be at least 1,090 (20 day EMA) and then the critical 1,100. We'd have to be bullish to expect a retest of the highs of buyers push price beyond 1,100, but until then, the technical structure, odds, and evidence call for a downside resolution as the #1 expectation going forward for price to move at least back to 1,040 if not lower.

The weekly structure shows why price supported at the 1,040 level (one major explanation). It's the 50 week EMA, and perhaps funds saw that and tried to buy a pullback to expected long-term support, trying to catch the bottom of a retracement. If sellers can push price back under 1,040, we would then enter an environment of "open air" (on the weekly chart) which would pull price - likely - to test 850 (July lows).

The negative volume and momentum divergence make this the likely assumption, as they have failed to confirm higher prices with strong readings in momentum or volume (labeling the rally also a 'corrective' rally up against last year's downtrend).

Remember, **Monday is a holiday** and Tuesday I will be speaking at the New York Trader's Expo (travel permitting) so there **may be no report Tuesday** evening (if so, it will be delayed) and **Wednesday's report will be delayed** also due to travel.