Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today was the day that "Popped Stops" came into play - roughly as expected. I've been saying that if the key resistance at 1,100 failed to hold, then we would see a swift "popped stops" rally. That's exactly what occurred towards the end of today's session and I hope you benefitted from the rally... and also the clean triangle break trade. Let's see the trades.

1. DIVERGENCES, BOLLINGER, DOJI, 5-WAVE MINI-FRACTAL

This was an aggressive trade, as it was a counter-scalp against a prevailing uptrend, but price formed a doji at 9:15 CST (but did NOT take out the low of the doji) then formed a higher candle, then an "inside" bar/candle - all of which occurred at the upper Bollinger Band (5-min) and a negative momentum divergence (1-min).

Trade entry occurred at $110.45 with a break under the candle lows. The minimum target was a move back to the 20 EMA at $110.30, or the 50 EMA at the $110.25 level. Ultimately, price retraced lower to the 50 EMA, formed a hammer candle, which signaled your exit at $110.30. Price suddenly fell on the next bar, but then took out the high of the candle on the following bar, setting up a pullback entry.

2. HAMMER, 50 EMA, PULLBACK TRADE, RANGE TRADE

This was not the most 'ideal' trade, but it did reflect a hammer, then a long-lower shadow candle, then price breaking the high of the hammer (and shadow) candle at $110.28. This triggered entry to play for a retracement higher, or counter-sell signal. The expectation was for a Range Day to develop, but also to be on guard for the "Popped Stops" play, so it was helpful to watch each trade closely.

A long upper shadow formed at 9:50 at the $110.50 area, triggering a good/logical place to exit. Again, this trade was a range-day scalp with sub-optimal parameters.

By this time, a trading range had formed and the range day was confirmed, and price chopped lazily into a contraction pattern - which later was clarified as a symmetrical triangle. The next play - according to the Range Alternation/Contraction principle - was for a breakout of the triangle which usually happens with a range expansion candle on a break in EITHER direction from compression. In this case, the price broke with a sharp candle at noon that triggered entry around the $110.40 area with a stop on the opposite side of the triangle at $110.30/25.

I dedicated an entire chart to showing the pure price (pattern) projection of the triangle (height of the triangle added to the breakout at $110.35) which gave a rough target of $111.05 to play for - which was again your target "if all went well" in the trade. This would presume that we were seeing the first stage of the "Popped Stops" rally where bears/sellers were 'throwing in the towel' (taking their stop-losses) in the market, which would drive price higher. That's exactly what happened in text-book fashion that I had been mentioning well-in advance. If you did not get long from the triangle, then your next trade was to enter long as soon as price broke the high of the day to play "Popped Stops."

4. POPPED STOPS

There's no need to over-complicate this trade - this is a pure play when a market SHOULD be going down but does not do so - there are levels that sellers place their stops that when hit, create a tumultuous rise in price as a result of them all realizing at the same time that they need to exit their positions... but some hold on longer than others, fighting the tape.

If you are uncomfortable buying the high of the day - most traders are - then you are to stay sidelines and UNDER NO CIRCUMSTANCES try to put on any sort of short-sale or fade this move. Remember the "Third of Third" principle, where major price surges (vertical moves) are often third waves (usually fractals) and thus higher prices are almost certain to follow. In fact, it is one of the lowest probability plays you can make as a trader is to try to short immediately after a new price, TICK, and momentum high.

A trader should be prepared to exit any long (buy) trade on a clear sign of weakness (not just one candle like a doji) so sometimes it can be helpful to trail a stop up when playing in a major momentum move like this.

A logical exit and "stand aside" would be when price tested the $111.00 level and pulled back.

Though it was a good exit, it was NOT a good "flip and reverse."

BREAKING NEWS:

The Federal Reserve raised the Discount Rate from 0.50% to 0.75% in a surprise announcement carefully timed after the market closed. As expected, this shocked traders and send the market plunging immediately on the news.

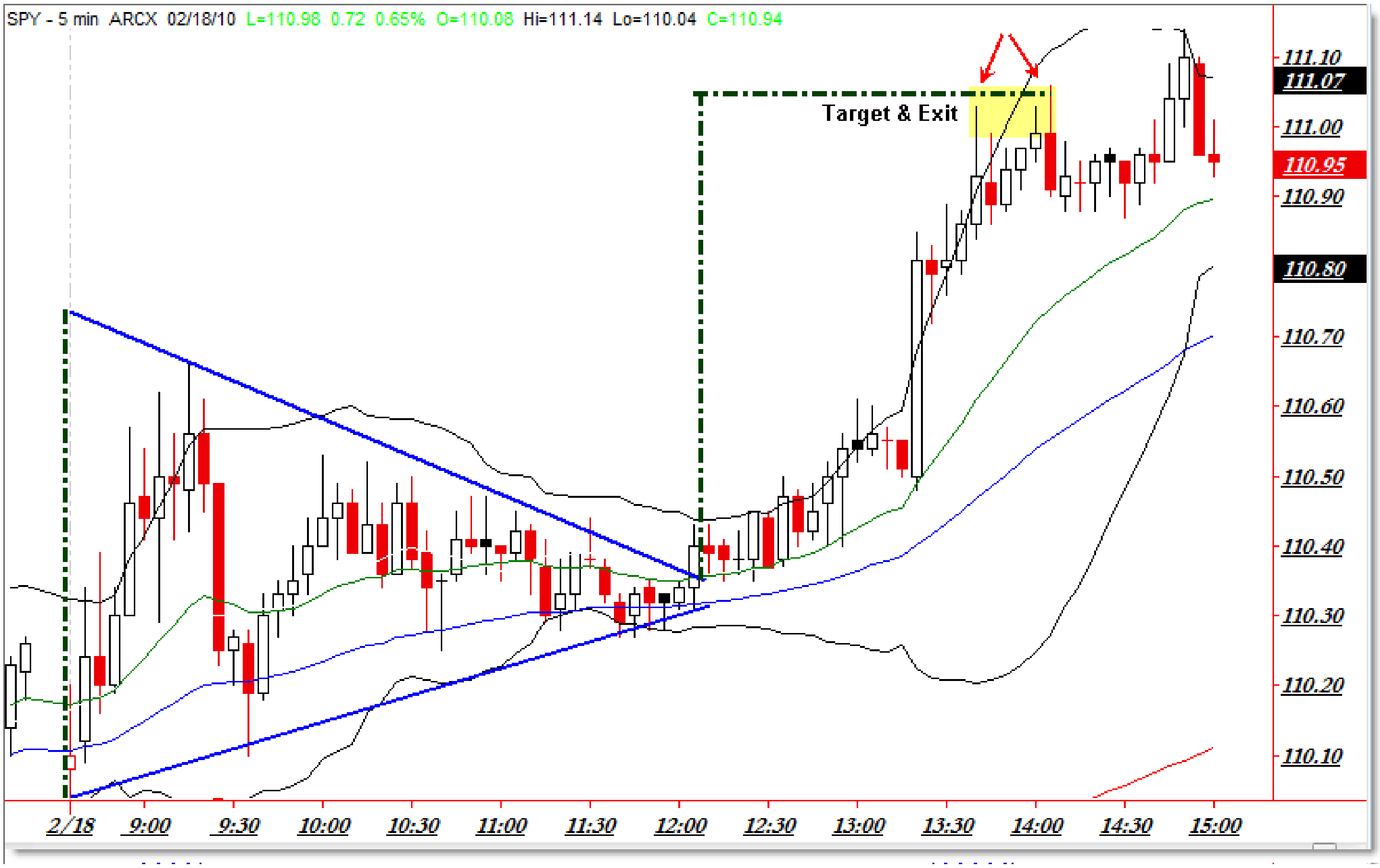
BE CAREFUL tomorrow morning - this news - in conjunction with an Options Expiration Friday - might lead to some major volatility that newer traders do not need to trade in that environment. Even experienced traders should be cautious.

This news immediately puts a sharp downward bias on tomorrow's trading session.


SPY - 5 min ARCX 02/18/10 L=111.00 0.74 0.67% O=110.08 Hi=111.14 Lo=110.04 C=110.94
1
2
3
4
111.10
111.07
111.00
110.95
110.90
110.80
110.70
110.60
110.50
110.40
110.30
110.20
110.10
0.1000
0.0553
0.0333
0.0000
-0.1000
$TICK - 5 min NYSE 02/18/10 L=573.00 -41.00 -6.68% O=-3.00 Hi=1210.00 Lo=-726.00 C=573.00
1,200.00
800.00
573.00
400.00
332.73
0.00
-400.00
2/18
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 02/18/10 L=111.02 0.76 0.69% O=110.08 Hi=111.14 Lo=110.04 C=110.91
Popped Stops
1
2
3
4
$TICK - 1 min NYSE 02/18/10 L=573.00 -41.00 -6.68% O=-3.00 Hi=1210.00 Lo=-726.00 C=573.00
2/18
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

Using a moderate aggression level, I identified roughly $1.00 in 'ideal' profits today, including the two 'scalp' morning trades and the triangle breakout trade (in its entirety) into the afternoon. This assumes you were already long and did not bother to take an additional long trade from the popped stops - doing so would have added additional profit potential.



It's possible to use the Height of a Triangle Pattern, measure it, then project that height to the breakout zone to arrive at a price projection target, which was just above $111.00 in this case as shown. This was both your target and exit for the triangle breakout trade at noon that evolved into the "Popped Stops" trade.

Draw the height from the beginning of the triangle, which may mean extending one of the parallels (trendlines) backwards, as shown in this example.

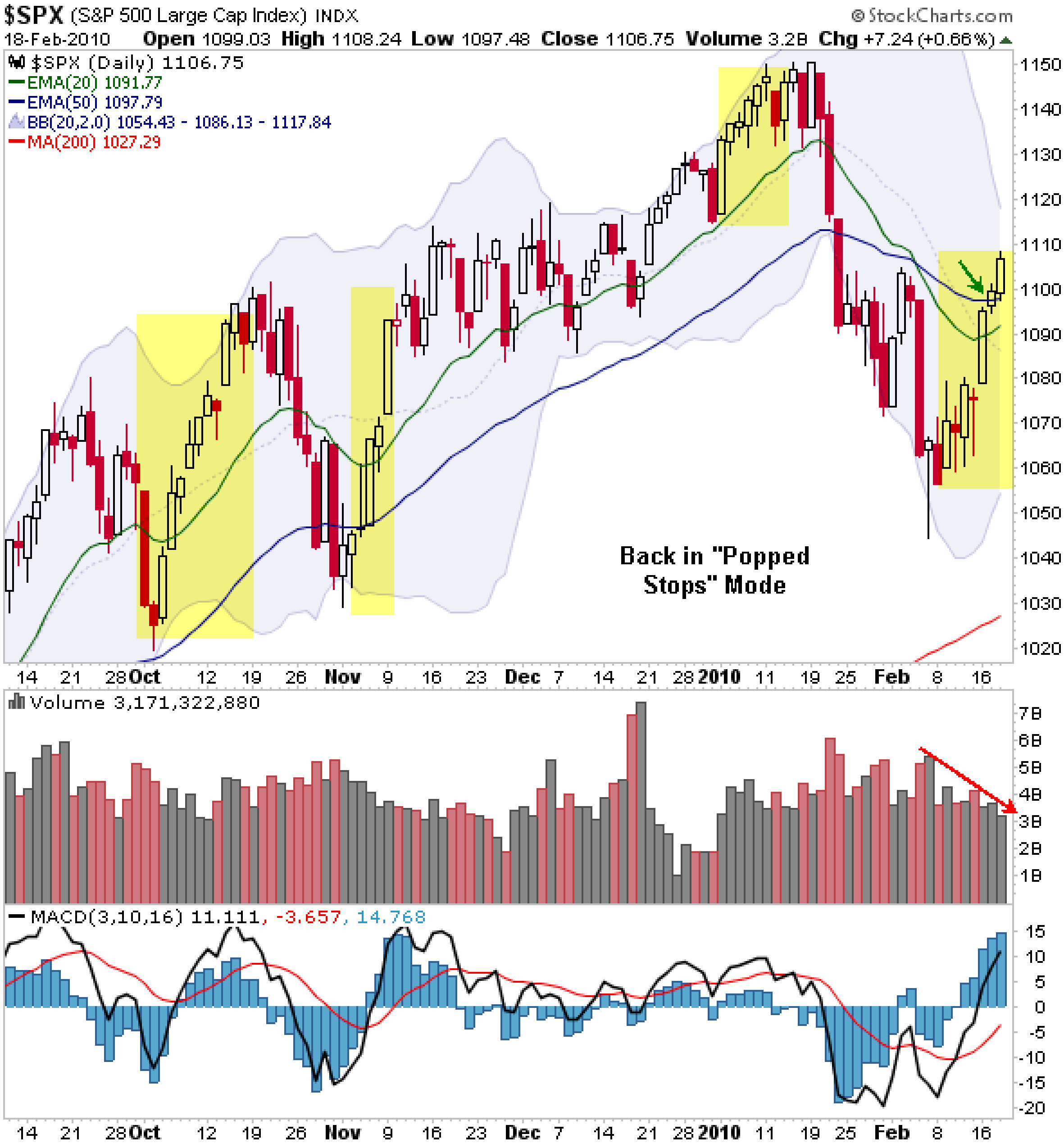
The 60min chart is a better tell of current market condition, but you can see the 'creeper trend' mode we have entered, which is perpetuated by "Popped Stops" of the short sellers.

There's no need to be upset by this, but to take advantage of your unique position as an unbiased, chart-driven intraday trader - able to capitalize on either side of the market.

As I've been saying, should price break $110.00 (1,100), then we would see a sharp rally higher in popped stops fashion. That' exactly what happened today after dancing under this level for two days.

Price rallied now to the 61.8% Fibonacci level, breaking the 50EMA and the early February price high. If price rises above $111.00 (1,110), then we have clear "open air" back to the highs at 1,150 ($115). The negative internals, volume, and momentum hint otherwise, warning us that it is very risky to get long here, but the price rally warns us that it is equally if not more so risky to get short. No one but the big funds who move markets benefit when traders are thrown into confusion like this (ie, Popped Stops), and we're back in one of those modes we experienced for most of 2009.

As such, long bias above $111.00 (strong bias), short bias while under.



With price above critical resistance level (1,100), we are in "Open Air" mode, and the rally is being perpetuated by "Popped Stops" (short sellers being forced out of positions buy 'buying to cover,' driving the market higher). It's very important to understand this. It's the exact same mode the market has been in throughout most of 2009, and now appears into 2010. It's when a valid, classical chart sell signal is given, the short-sellers enter (appropriately), and then price rallies above a known level where sellers have their stops, and the sellers exit, pushing the market higher. That appears to be what's going on now, so do NOT try to short this rally unless we're back under 1,100. I know that this can be very frustrating to many traders, but we trade the "real" market, not an ideal market or how things "should" work (ie negative volume divergences into confluence resistance areas SHOULD produce a down-move). The benefit to knowing this and using "If/then" statements is that you can take advantage of the sellers stopping out (swing traders) intraday by playing long (even if going long goes against everything you know). We're here to make money, not call the market correctly, and that means flipping biases once key levels are broken, especially on an intraday basis.

Just before I was about to send out today's report to you, word broke on the wire that the Federal Reserve had raised the Discount interest rate 25 basis points to 0.75. This is not the "Fed Funds Rate," but the "Discount Rate" charged for emergency bank loans, but it still could have very bearish consequences for the market tomorrow.

If you have not done so already, pay very close attention to the futures either on Television or on financial websites (if you are a SPY trader only), and be VERY aware of the position of the market and the potential gap in the morning.

REMEMBER: Tomorrow is Options Expiration and we'll wake up to the market's reaction to the CPI Data at 8:30 EST. Tomorrow might be a very big down-day if the CPI data comes in higher than expected (consult Bloomberg Econoday for estimates) so be prepared to trade it, or stand aside if your strategy calls for trading in more stable environments.

Here is a current chart as of 4:10 CST of the @ES futures contract: