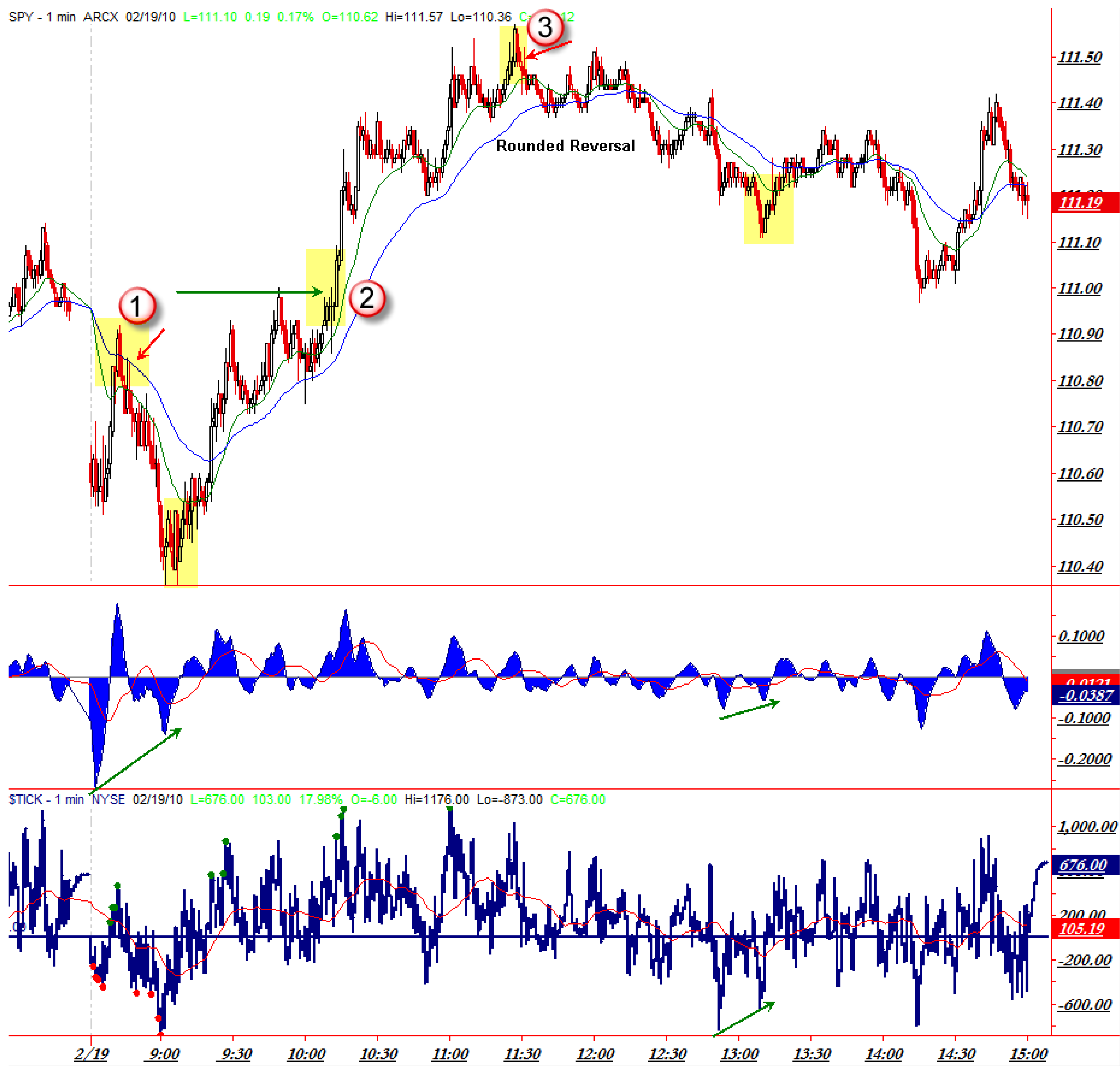
Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min


SPY - 1 min ARCX 02/19/10 L=111.10 0.19 0.17% O=110.62 Hi=111.57 Lo=110.36
1
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Rounded Reversal
$TICK - 1 min NYSE 02/19/10 L=676.00 103.00 17.98% O=-6.00 Hi=1176.00 Lo=-873.00 C=676.00
2/19
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Today gave us another "Rounded Reversal" and "script" day from the past week. We had another day of weak open, failed bear flag/impulse sell, 'popped stops,' 5-wave divergence, weakness into the close. Without delay, let's learn from this repetitive structure (for reference) and some of the trades that you could have taken today (also for reference).

1. RESISTANCE SELL, DOWNWARD BIAS, DOJI/UPPER SHADOW

The first trade you could have made was a quick gap-fade scalp that filled within two bars, so I did not list this as an ideal trade. In fact, the gap did not fill on the first swing, so this would have been a "Fade the Fade" trade as price moved into the resistance area of yesterday's close at the $110.90 area, putting on a short-sale trade into the resistance of the 20 EMA at the $110.80 level (notice the upper shadow) and playing for a new swing low (or at a minimum, a retest of the $110.50 low). The stop would be above the $110.90 high or $111.00 to be safe, and this trade fulfilled its goal (exceeded it) with an exit signal - spinning top outside the lower Bollinger - on an inflection off $110.40.

This was an exit signal, and an entry long signal for aggressive traders looking to play a counter-trend scalp back to the 20/50 EMA at the $110.70 level to set-up an Impulse Sell or perhaps a Bear Flag short sale trade. Notice the new TICK, Price, and Momentum low at 9:00am CST. Notice also the distinct positive momentum divergence on the 1-min chart. This made it relatively 'safe' for an aggressive trader to scalp long, but not for a conservative trader. The conservative play would be to wait for a doji or reversal candle to form at the confluence of the 20 and 50 EMA... but this never happened.

Price blew through the resistance at $110.0 and then formed doji candles that SUPPORTED on the 20 EMA - thus a short-sale trade was neither triggered either for conservative or aggressive traders. A neutral stance was called for.

The next trade was either a few steps ahead of the large rally - thanks to the Wyckoff Sign of Strength at 9:30am - by buying a break of the doji candles that formed, or conservatively after price ticked to a new intraday high above the $110.90/$111.00 level to play the same (exact) "Popped Stops" play as has been the case for three days last week.

Also, this would 'pop out' the stops of all those who came in to the market today thinking the market was going to make a huge downside move due to the surprise Fed Discount Rate Hike (that was the prevailing bias in the news).

2. POPPED STOPS

Nothing magical about this trade, other than the downward bias was so strong ("They raised rates - the market will collapse!") that any upward pressure would cause the bears who entered short - appropriately - to cover. Remember, we are not in this to call the market perfectly, but to find key inflection points that will likely trigger tradeable moves - such as a 'popped stops' or unexpected rally that goes against conventional wisdom or sometimes charting probabilities (as has been the case with the identical failed flag signals in the morning last week).

Trade entry took place either at the doji candles at the $110.90 level or more appropriately as price broke to new intraday highs at $111.00. This trade would be held as long as possible to capture the 'popped stops' rally, but a logical exit was as price formed a spinning top at 10:30 at the $111.40 area at the upper Bollinger. This was a 4th wave pullback but the 5th wave happened so quickly (and above the 20 EMA support) that it was difficult to put a trade on to play the terminal 5th wave (notice the "Third of Third" wave on the 1-min chart).

The next trade was very clear to take - short-sell the 5th wave divergence with clear doji candles.

3. 5TH WAVE FRACTAL, NEGATIVE TICK & MOMENTUM DIVERGENCE, DOJI CANDLES

This was - in my opinion - by far the easiest trade to spot and execute. We had a clear 5-wave divergence (for even those of us who don't count Elliott Waves - remember all we're concerned with is seeing five-wave fractals as being exhaustion patterns just like a flag or three push or any other pattern - you don't even have to call it Elliott Wave if you don't feel comfortable with the term).

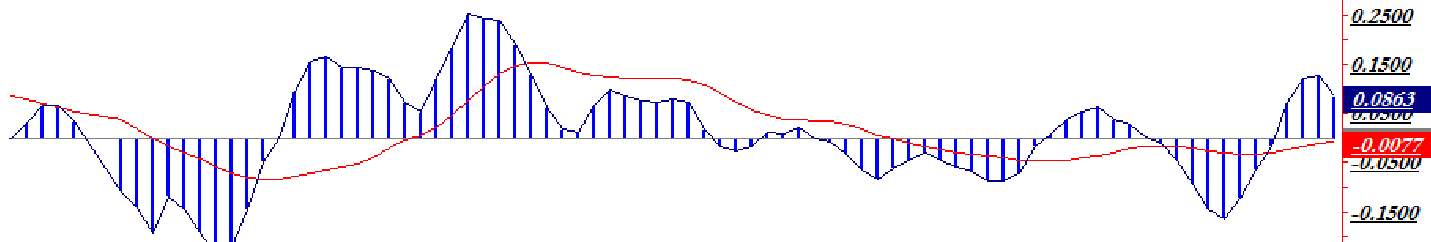
Pay close attention to both the 5-min and 1-min chart to see the obvious TICK and momentum divergences that occurred as price formed doji candles at/near the upper Bollinger at the $111.50 level. A trendline was broken on the 1-min chart at $111.45, triggering your entry, or as price moved under the low of the doji at $111.40. Either way, your goal was to short the market to play at least for an "ABC" retracement/reversal, and for a move at least to the 50 EMA at the $111.20 level if not beyond. The stop was above the intraday high at $111.60.

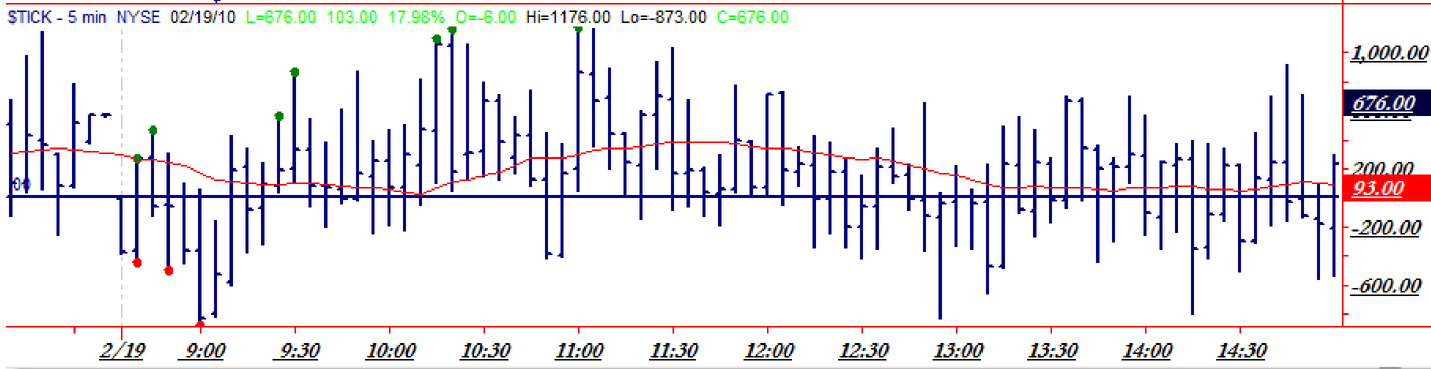
I show the best exit for this trade being the 1:00pm dual TICK and Momentum divergence - after another 5-wave fractal move down into the lower Bollinger Band (5-min). While an exit, this was only a 'flip and reverse long' trade for aggressive traders.

Price then 'chopped' around into the close, giving no simple, conservative entries (only aggressive 'fade' entries).

We have survived another Options Expiration day safely!

SPY - 5 min ARCX 02/19/10 L=111.12 0.21 0.19% O=110.62 Hi=111.57 Lo=110.36 C=111.14
+0.31
-0.38
-0.30
$1.00 Possible

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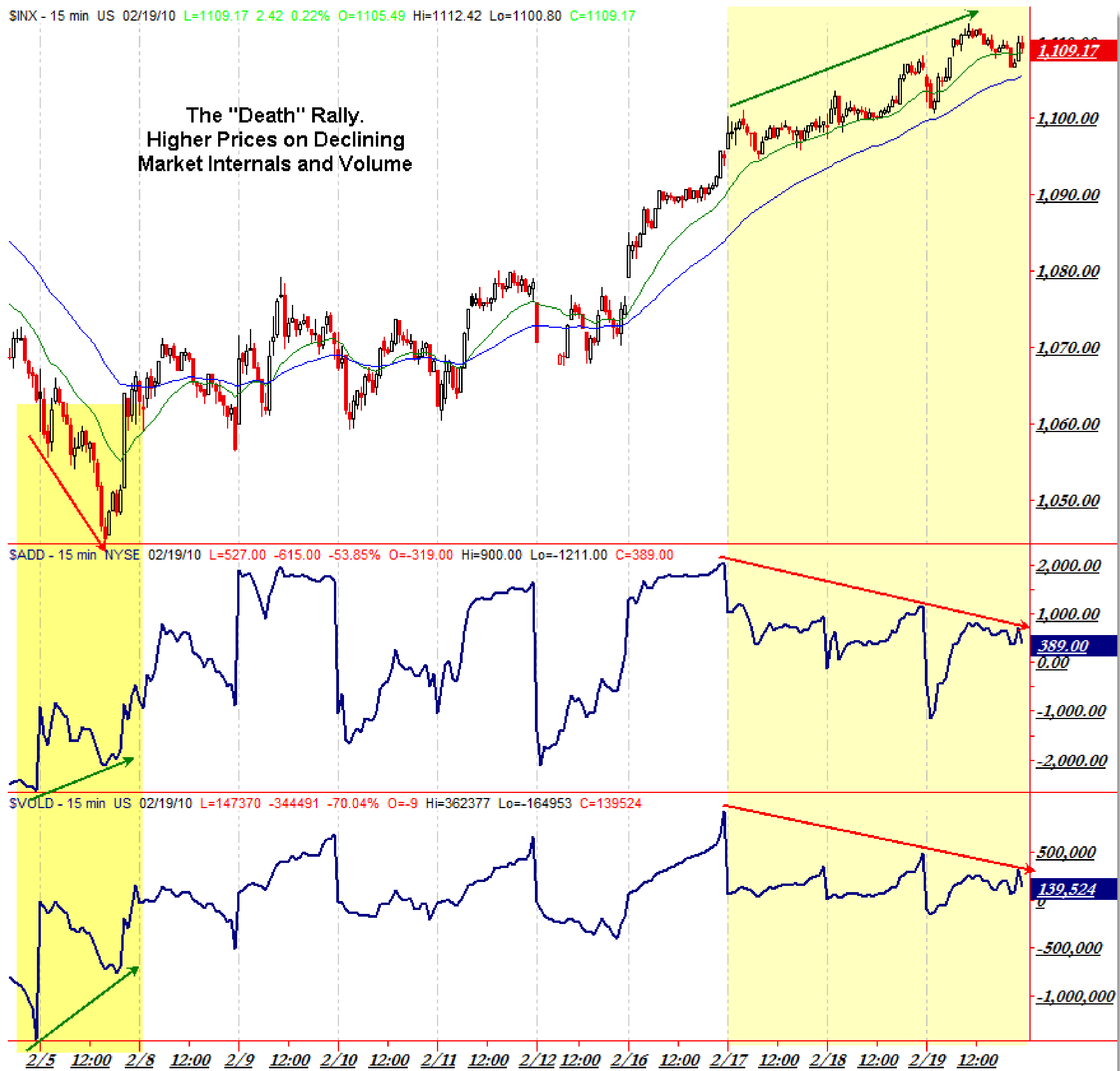

The "rally of death" or the "rally of bones" continues as price is being marked up (some say manipulated up) on lower and lower readings in market internals (including volume). I contend that this is the result of "Popped Stops," who are driving the market up in part along-side perhaps one or two large funds/firms that are buying and pushing the market higher with as much force as they can... but this rally is 'smoke and mirrors' (fake) according to market internal readings, which continue to drop lower and lower.

Market Internal divergences precede reversals (see February 5th), so this is a VERY risky spot to be long but due to the 'popped stops' rising current, also risky to be short. Stick to your intraday trading.

The bias remains "Weak" long above $111.00, short to neutral from $110.00 to $111.00, and 'very' short biased under $110.00.

Volume and momentum (along with internals) are forming clean negative divergence, but a signal to get short has NOT been given (such as the break of a moving average or trendline).

The 60min chart shows the same picture, only that price is in the 'open air' above the 61.8% retracement (and above the upper Bollinger Band).

This would be a very, very low probability spot to get long or be long, but that does not mean the market cannot keep rising - it means it rises on lower and lower probability of continued rising.

Still, it's not yet safe to short either, so the best trades will come from short-term cautious moves on intraday frames unless we see weakness develop here.

The weekly chart shows that buyers successfully drove price higher off a bounce of the 50 week EMA at the 1,050 zone (notice the doji) and are now in rally mode. Technically, the trend remains up, but it remains up on a very lengthy negative volume and momentum divergence, which builds extreme caution into the system.

My contention is that we are back in the "Market Must Rise at Any Cost" mode where funds ("the mysterious buying force") are taking advantage of the bears by surgically driving the market higher to take out known and obvious 'pockets' of stops-losses (buy orders) from the sellers - as evidenced by the break above 1,100 and the prior 5 to 8 days in a row rallies as highlighted above.

I would have thought we were done with that situation, but apparently not. The market is in a VERY tenuous/cautious bullish mode, though any move back under 1,100 and 1,090 calls for aggressive shorting.

Until then, keep your focus on intraday charts.