Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today was a relatively simple trading day - a Type III powerful trend day - that was telegraphed well-in advance by the positive divergences in momentum and market internals, along with a trendline break and EMA break as I highlighted last night. It was thus no surprise that we had a trend day up, as those who were short (swing traders) were covering their positions (buying) with profits and 'bottom fishers' were returning to buy the market, thinking this is a key low.

As such - just like yesterday ironically - the trade set-ups were extremely easy today and cal all - after trade #2 - can be summarized as "Observe up-trend, buy pullbacks to 20 EMA especially if dojis/reversal candles form."

1. PULLBACK TO SUPPORT, BULLISH ENGULFING/HAMMER, UPTREND BIAS, FADE THE FADE

I wrote last night that odds favored a sharp move higher, and so that should have been the bias. Biases are not always correct, but when they are and the market telegraphs (tips its hand) the probabilities, it is your job to act on those structures (divergences) and probabilities accordingly - sometimes with aggressive positioning to take advantage.

I would not have suggested trading short the quick opening gap - though it filled quickly if you did so. Because of the gap, this could also be called a "Fill the Fill" trade set-up (as price supported just beneath yesterday's close). The $109.00 level corresponded with the rising 20 EMA, and then a strong bullish engulfing candle formed off this confluence level, triggering an aggressive entry at the $109.00 support zone or a conservative entry as the high of the candle was taken out at the $109.15 level.

In a range-expansion play, I would have suggested holding this trade until the 9:30am doji at the upper Bollinger Band formed at the $110.00 confluence resistance level... but NOT put on a short-sale position here (though that trade would have netted 40 cents maximum). The best plan was to observe the new swing, price, momentum, and TICK highs and then waited to buy the first pullback - easy, easy.

2. IMPULSE BUY, THREE DOJI/HAMMERS, ENGULFING, 20 EMA

This was a simple pullback trade that needed no complex method to enter. After the condition of the new price, momentum, and TICK high formed, you were to find a spot to get long during/after the immediate pullback (which may or may not make it all the way back to the 20 EMA - it didn't).

Four long-legged shadow candles formed - which were mixtures of dojis and hammers (all bullish) which gave way to a bullish engulfing. The aggressive entry was as the doji candles formed at the 20 EMA support at $109.60, though the conservative entry was as price broke the high of these doji at $109.80.

While you certainly could have exited the trade at the $110.00 level (conservative), due to the structure, it was probably a better idea to try to hold on long while the price was above the 20 EMA. However, if you exited at the $110.00 level, your next trade formed almost immediately.

3. PULLBACK BUY, DOJI, 20 EMA

Price was in an uptrend for sure, but we did not have absolute confirmation that it was a Trend Day yet - that came shortly after the power candle to new highs and the repeated support of the 20 EMA.

So as not to complicate this trade, it was a standard pullback buy to the 20 EMA in an uptrend. The break above $110.00 was also an entry to play (potentially) popped stops resting there. The exit was the doji candle at the upper Bollinger Band at 11:30 CST at the $110.20 area.

4. SIMPLE PULLBACK

So as not to overcomplicate this trade as well, it was a standard pullback trade similar to trade #3.

This time, the exit was at the convergence of 5 doji at the 1:00 area at $110.40.

On a side-note, while there's certainly nothing 'illegal' about shorting here at the 5 doji candles that formed at the $110.40 area, it was a lower probability (and more difficult) trade due to the prevailing up-trend. If you tried this, you are an aggressive trader and could have profited a move of 20 to 30 cents maximum from this swing.

Interestingly enough, on that swing, a new TICK low formed when price retested the 20 EMA at 1:15, giving a puzzling Wyckoff Sign of Weakness signal. While the Wyckoff Signal is NOT a reason to enter short, we have to wait for a trigger to do so, and the trigger would be the break of the rising 50 EMA.

Until that happened, odds still favored a Trend Day up resolution to the session, but the Wyckoff signal should have given you pause and moderated some of your aggressive tactics if you were playing aggressively long (as you should have been). Thus, this might have clued you in to skip on the next doji at the 20 EMA which quickly failed (never triggered an entry) and tested the rising 50 EMA (line in the sand) and lower Bollinger Band at the $110.00 level.

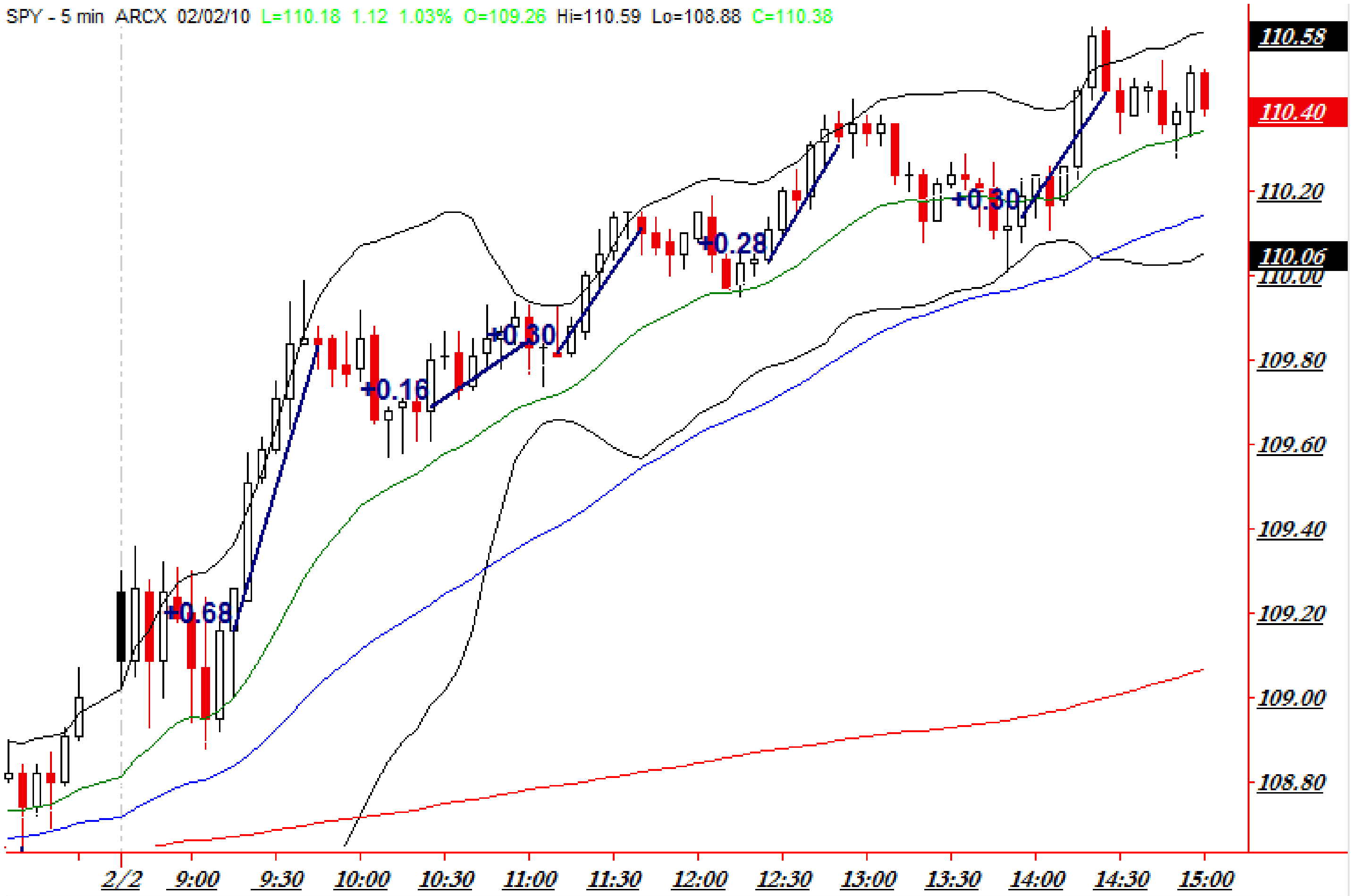
A failure here (under $110.00) would have triggered you immediately short to play for a Rounded Reversal... but it was the WRONG thing to do technically (classically) to short until price broke under $110.00. As such, on this test of $110.00, we saw a positive momentum and TICK divergence, cluing you in that it was safe to buy the break above this doji.

5. POSITIVE DUAL DIVERGENCE, LONG-LEGGED DOJI AT 50 AND LOWER BOLLINGER, TREND DAY CONFIRMED

This was a calculated bet that the trend day up would continue instead of reversing - generally the bet you should make while price remains above the 50 EMA. The long-legged doji formed at the convergence of the $110.00, 50 EMA, and lower Bollinger, adding a convergence of expected support which played out nicely.

The exit was as price formed a bearish engulfing candle that poked outside the upper Bollinger Band at the $110.60 level (exit at the $110.45/50 area). The day ended near the highs, making this a powerful Type III Trend Day you can use as a great reference.

The Wyckoff Weakness signal failed today to produce any follow-through, letting us know the power of a trend day.



I wanted to try a new 'feature' which a couple of readers have mentioned would be helpful - and I think so as well.

This is a work in progress, but I'll start to put potential profits and losses based on the Ideal Trades so that you can perform "efficiency analysis" - which is comparing what your actual profit in a given trade was when measured against a reasonable (not the low tick and not the high tick) swing in hindsight (enter on a break above candles, exit at a break beneath or at targets, etc as described by the report).

These numbers are never going to be exact because we all have different styles (some like to enter EXACTLY at a moving average or support area while others prefer to wait for a candle to form and then price take out the high of that candle to enter) so these will be guidelines as best I can compromise between the aggressive and conservative style to reflect what was reasonably possible in each trade.

A reasonable goal might be "*I want to achieve at least 50% of the total amount possible either on the whole day or on a specific trade*."

So, today's potential profit using the Ideal Trades **was $1.72**. The 50% mark of this was $0.86 (17 and 9 @ES points).

Buying at the 9:30 breakout and holding in trend day fashion (I highlighted the strong possibility for a power-move up due to positive divergences in internals and breaking of lower frame moving averages) and holding to the close would have netted a $1.00 full-day profit (buy at the $109.40 break, exit at close of day at $110.40).

This is why it is often best to trade so as to capture the most from likely swings... with lower risk.


SPY - 1 min ARCX 02/02/10 L=110.24 1.18 1.08% O=109.26 Hi=110.59 Lo=108.88 C=110.38
1
2
3
4
5
110.40
110.20
110.00
109.80
109.60
109.40
109.20
109.00
0.1500
0.0500
0.0063
-0.0500
$TICK - 1 min NYSE 02/02/10 L=34.00 -687.00 -95.28% O=20.00 Hi=1191.00 Lo=-729.00 C=34.00
800.00
400.00
183.90
34.00
-400.00
2/2
9:00
9:30
10:00
10:30
11:00
11:30
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14:30

Classically, this move up is a counter-retracement currently, and will remain that by definition unless the rally breaks above the 61.8% Retracement, in which case we will have to assess if this is a pro-trend move back in the direction of the higher prevailing trend.

Until then, we are watching overhead resistance levels as targets - such as here at $110.50, next at $111.30, then $112.20, given that there are no main price highs (prior resistance) zones above $110.50 (here) because price fell so sharply after January 20th.

Volume is weaker than expected in what would be fitting for a pro-trend move, which is why I'm inclined to call this a "counter-trend oversold retracement rally" unless we can break solidly above $112.50.

The 3/10 Oscillator began to trail lower, forming a negative divergence on the 30min frame by the end of the day.

The 60min chart only pulls the perspective back wider to see the entirety of the recent fall, which unfolded in a 5-wave impulsive fashion (notice the strength of the 3rd wave and the volume surge that accompanied it).

This is a clue that we could be seeing an impulsive (pro-trend) move to the downside, meaning the trend has reversed.

We'll know for sure within the next couple of weeks if price can rally above $112.50. If not, then look for each of the Fibonacci overhead levels to provide both a target to play for and a resistance level intraday.

I mentioned that odds favored a strong rally today due to the positive build in market internals along with the 'magnet' zone of the "Cradle Crossover" at the 1,110 level (cross of the 20 and 50 EMA).

In the event that price rallies from here above 1,100, then the January sell-off would be one in a long string of perverse Bear Traps, especially if the moving averages approach a crossover but do not do so (similar to that of early November).

In that case, we would flip to take advantage of the shifting sand under the market and play popped stops yet again as the bears would be stopping out. However, as long as price remains under the 1,110 level, we should expect a continuation of the down move yet to come due to the surge in volume and the new momentum low (Wyckoff Sign of Weakness).

From a classical standpoint, we are still in a confirmed uptrend, having only formed a lower swing low for the moment. If a lower high forms and then price drops under 1,070 again, this would officially confirm a daily downtrend.