



## Daily "Idealized Trades" Report





Trying something slightly new - attaching smaller circled numbers to correspond with conservative and aggressive trade exits. The smaller number reflects a possible trade exit, though #2 turned out not to be profitable unless you exited at the retest of the Bollinger at 11:45am.

Today was one of those semi-frustrating 'range' days that required a lot of work for very little profit... which is why it's completely acceptable if you decided to take the afternoon off once you figured the day was devolving into a flat and choppy, low volatility environment. Still, let's learn from the trade set-ups that occurred, including a lesson from a trading loss.

## 1. UPPER SHADOWS, UPPER BOLLINGER, DOJI, DUAL DIVERGENCES

For the third day in a row, the market opened EXACTLY the same way - with an upside gap, a move to new intraday highs that formed a dual TICK & Momentum negative divergence, and then a sell-off into mid-day. The script changes at that point, but the first two hours of the last three days have been almost identical... giving those who are aggressive enough to 'trust' the script to have a crystal clear roadmap of opportunities.

That being said, it was possible to trade long off the bounce from the 50 EMA, but this move happened too early for most traders to take advantage of it (most prefer to let the market 'shake-out' in the first 15/30 minutes before putting on a trade).

If so, then the first trade was a trendline break (1-min) at \$112.65 that occurred after three long upper shadow candles at the upper Bollinger on a negative TICK and Momentum Divergence (see 1-min chart also). The stop was above the \$112.80 morning high and the conservative target was a retest of the converging 20/50 EMAs at the \$112.50 area. Because I've been writing so much about the negative divergences and bearish expectations from the higher timeframes, it was acceptable, especially from a swing-trading perspective as I discussed yesterday, to play for a larger target that exceeded the 5-min EMAs, which could have included the \$112.00 area (prior price support) or the lower Bollinger Band (5-min) at \$112.10. Both of these were hit, and price formed a doji/spinning top at the \$112.15 area, giving you a great place to exit with a profit, having shorted from the \$112.60 level.

Due to the new momentum, price (intraday), and TICK lows, I often do not recommend buying long to ride the pullback up to the 20 EMA into resistance (which sets up the Impulse Sell/Flag), but that was possible for very aggressive traders, as price broke the high of the spinning top/doji at \$112.20 to target \$112.35... not a great risk/reward, but the trade would have worked. For most traders, the best thing to do (rather than ride a counter-rally) is to play the expected move down after a new price, TICK, and momentum low form... when price rallies into resistance and triggers entry with a reversal candle.

## 2. IMPULSE SELL, 20/50 EMA, DOJI/SHOOTING STAR

As a caveat, for those of you who have been trading these set-ups and following these reports, in the current environment, these set-ups have had a tendency to fail, but that does not mean we should stop taking these edge-based trades because they 'might' fail ... any trade 'might' fail or 'might' succeed. It's the duality of edge - the accuracy edge in that the set-up has proven in the past to work greater than 50% of the time (random) and the monetary edge, such that WHEN the trade works, it gives you two or three times your risk, based on your stop-loss. So, keeping in the back of your mind that this trade set-up has had a less than stellar track record in the last month or so, it still was a low-risk (tight stop), high probability, good target set-up.

Specifically, the entry was as price broke under the doji lows at the \$112.35 level, with a stop above the prior spike highs at the \$112.47 level, or for good measure, at \$112.50 (anyone placing the stop too close - above the 50 EMA - got tagged out almost immediately). The target at a minimum was a retest of the \$112.05 low, if not for a new swing low to form (based on the structure of the higher timeframe). That gave us a reward to risk relationship of around 15 (stop) to 35 or more, for at least a 2 to 1 reward to risk play with greater than 50% chance of 'working out.' Unfortunately, we're

in a strange environment where "Popped Stops" is more prevalent and there's a hidden (except to those that see it) upside bias that has been 'destroying' short-sale bearish set-ups over the last few months (and even into most of 2009).

There were a few places to exit this trade.

First, let me say one of my favorite quotes from Linda Raschke (LBR Group) that I often use in my trading...

*"The best trades work right away/immediately."*

This means that when you put on a trade, you're betting on a specific outcome at a key inflection point (most of the time), so if price 'sits there' and doesn't 'inflect' or move as expected, particularly a trade based on momentum impulses and breakouts (breakouts really should work immediately), then it can be a good idea to go ahead and kill the trade. Linda (and others) also has said that "Time is a factor that can kill a positive expectancy," which is just a more scientific way of saying "it might be a good idea to exit a trade that doesn't seem to be working out after a set period of time" - usually an hour at the most.

This trade could have been 'time' stopped out (a topic I don't mention much - I favor 'hard' stops or price stops instead of time stops, but this is something you can look into) around 11:30 am (it triggered around 10:30am) for a scratch, or you could have 'given up' and exited at a test of the 5-min Bollinger also at 11:30, but in the 'efficiency' chart, I have the exit being a strict price-based exit at \$112.50 (which happened to be a finger spike candle... though price never got either target anyway).

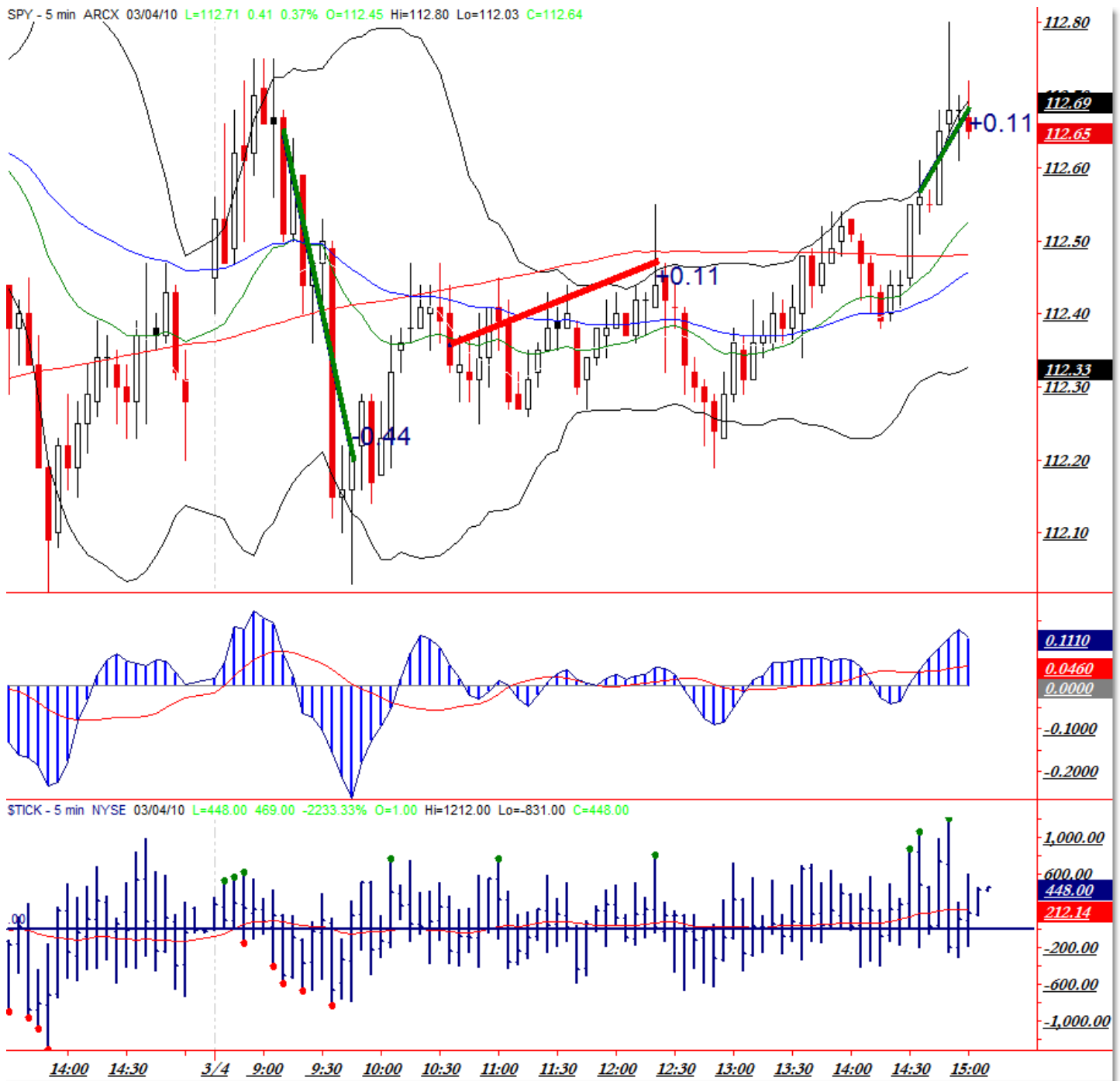
And remember, you can't win on every trade.

There were few opportunities, other than fading the price when it tested the upper or lower Bollinger Band, but even then, that gave way to the final "Popped Stops" play.

Remember, when a trade set-up SHOULD work but doesn't work, it often means that a larger than expected move is about to occur in the OPPOSITE direction. For simplicity, I'll label this the classic "Popped Stops" set-up.

### 3. POPPED STOPS

Because the prior Bear Flag failed, AND we were having a few new TICK highs on the session (Wyckoff Signs of Strength because price was not making new highs), this gave a reversal bullish bias to the end of the day... and the best trade entry for that to play out - to take advantage of any potential short-squeeze in price - came when price did break a prior high at \$112.50 at 2:30 CST. This was a quick trade with a quick entry for those who are comfortable trading into the close, to hold until we saw a counter-sell signal (such as the 5-min dojis at the upper Bollinger) or hold until the full close. Either way, this trade began quickly and ended quickly, giving a profit to the aggressive traders who took it.



Ugh - today wasn't a very profitable day, as are most 'range day' structures. The higher timeframe bearish bias slanted the aggression level to the downside, that's why the first trade is labeled as being held for a larger target than the 20/50 EMAs, and why I held the 'bear flag/impulse sell' trade longer - placing the stop above the \$112.50 prior high level (and getting tagged on the 'spike' bar, which is fine because the flag never met its target). Finally, I highlighted the "Popped Stops" play into the close. Two winning trades; one losing trade - good for around \$0.44. Not all days can produce big wins. This was a day where it was acceptable to having a slight losing day as well.



Technically, the market broke bullishly into the close above a triangle/trendline boundary line that ended at the \$112.50 level, so that's bullish and could argue for a retest or break above \$113.00, so - being unbiased and opportunistic - be ready to take advantage of any bullish momentum from tomorrow morning's "Jobs Report" should it be better than expected. Barring that, be ready also to short aggressively under \$112.00 in a sell-off swing similar to that of February 23-25.



I've been pointing out the parallels to the mid-February 'top' and sell-off that occurred, and there's no reason to believe that we can't see a similar downside resolution, due to price forming a similar "Rounded Reversal" structure complete with a declining (negative divergence) reading in both volume and momentum (and breadth, as I've been showing).

Still, divergences are NOT reasons to get short unless you are an aggressive trader willing to take the risk of a market re-entering "Popped Stops" mode (your stop being one of the ones that helps drives the market higher). Notice previously how - when price broke the rising 20 EMA here, we had a sharp/violent sell bar. That could happen tomorrow, especially if the market reacts negatively to the Jobs Report, so watch to short any move under \$112.00 and especially \$111.50. Otherwise, be prepared to trade long for more "Popped Stops" if the market reacts positively and breaks above \$113.00.

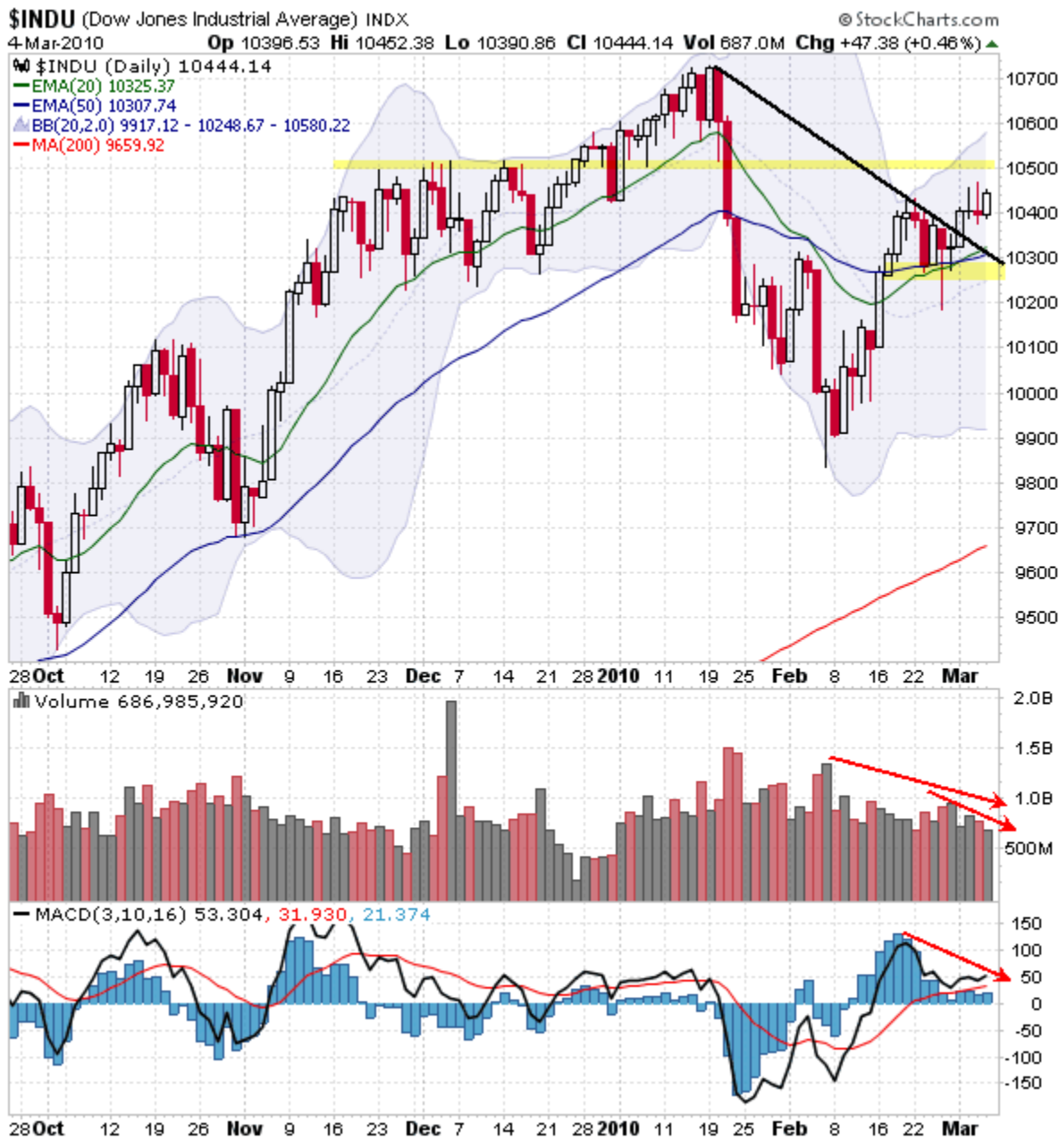




We're clearly still in "Thin Air." A few readers emailed to ask what that meant, and I define "Thin Air" as price being above support levels without critical resistance areas overhead (except for the 1,050 level), and though it's good to be in "Open Air" (meaning price is likely to move through the air pocket to the next level), it's not as good to be in "Thin Air," which refers to price being held up by nothing - it's price grinding to higher highs on declining volume, momentum, and breadth. It's saying the market is running out of fuel/oxygen, and - while it certainly can keep creeping higher - it does so squarely against the chart probabilities and principles of non-confirmation (in that bullish up moves SHOULD be confirmed and expected to go higher when we see rising volume, breadth, and momentum... and higher prices should be expected to reverse/stall if met with lower/declining volume, momentum, and breadth).

Not much to add, other than to prepare to play "Popped Stops" above 1,130 - remember tomorrow at 8:30 EST is the "Jobs Report" which could send the market violently moving in EITHER direction - and to prepare to short weakness that breaks the 1,115 and especially 1,100 level. Keep to your intraday frames, especially tomorrow.





A bonus chart of the Dow Jones Index, which is in the same structure as the S&P 500 - negative momentum and volume divergence, and in 'open air' (thin air) territory, though the 10,500 level could provide resistance... or another round of "Popped Stops" if buyers push the index above 10,500.