



Daily "Idealized Trades" Report





I think the surprise for most traders today was the afternoon sell-off, given that the news was so positive and expectations (of a market rally today) were so high based on recent positive earnings announcements. However, market internals (specifically Breadth and VOLD) failed to confirm the high and the market broke short-term trendlines and sold-off, finding support and bouncing sharply off the 1,200 area, leaving intraday traders feeling today was a roller-coaster!

Let's see what potential opportunities existed and what we can learn for the future.

1. POPPED STOPS

Simple, but often very effective. When price breaks above a key resistance level and a decent percent of traders have put on new short-sales at the resistance level, then when price breaks the level, the classic "Popped Stops" phenomenon (positive feedback) takes hold - and with the carry-over news from Apple and Yahoo, it was strongly expected that the market would continue its rally, forcing weak short-sellers to exit, driving price higher.

Unfortunately, the move did not last as long as expected, but it was good for around 15 to 20 cents of 'easy' profit, depending on your aggression level. The best exit was after the doji and spinning top candle at 9:00am when price broke the low of these bars - the down bar happened very quickly. However, with a bullish bias still established and price still above yesterday's closing low near \$120.80, we were still left with a bullish bias and should have been prepared to buy the next pullback.

2. PULLBACK, BULLISH BIAS, DOJI, 50 EMA, BOLLINGER

The long-legged doji at 9:30 is often a bullish reversal candle, so when price broke back above the 20 or 50 EMA - breaking above the high of the candle - that was a safe entry to expect a return to test the morning high (with a stop under \$120.60 or \$120.70, depending on your aggression level). Unfortunately, price did not reach the high, as the next two candles left long upper shadows that scraped against resistance at \$121.00, so you should have been prepared to exit to salvage the trade as soon as possible, as when price broke back under the 20 EMA and took out the low (\$120.90) of the prior two candles. Not all ideal trades work out perfectly, but we take trades based on edge and probability.

You actually could have shorted the breakdown from the descending triangle (see 1-min chart) but I did not label this as an ideal trade as the bias was for bullish moves until proven otherwise. The break under key support at \$120.60 was an aggressive short-sale entry that would have produced a nice trade, but the sell-off happened so quickly and was finished completely in 15 minutes.

3. HAMMER/DOJI/ POSITIVE TICK DIVERGENCE, LOWER BOLLINGER

Given the long shadow of the hammer candle that formed at 10:30 and the slight positive TICK divergence (when compared to the 9:30 low) in conjunction with a tiny positive momentum divergence (1-min) made this an aggressive 'scalp' trading opportunity to play from the break above the hammer (\$120.40) back to the convergence of the 20 and 50 EMA at \$120.75. This trade worked out perfectly, and the exit came as a bearish engulfing candle formed at 11:00. This was a puzzling set-up on what to do next, given that - perhaps 20 times now - a similar 'bear flag' or 'impulse sell' into resistance has failed... you should have at least remained neutral, given the past failures of this trade set-up.

Add one more 'failed bear flag into EMA resistance' trade to the list as price "Popped Stops" above the 50 EMA of those who took this bearish trade. I'm thinking about creating a new trade set-up called the "Anti-Bear Flag" for such moments... so as not to remain sidelined when this trade fails! Technically, it would be a "Popped Stops" play based on pattern failure, but fun to think of nevertheless!

Price consolidated for the next few hours, forming a nice symmetrical triangle pattern, and you could/should have short-sold the breakout... which occurred to the downside at 1:00pm.

4. SYMMETRICAL TRIANGLE BREAKOUT

Keep in mind that 1:00 CST is often called the “Afternoon Breakout” period, so to see price consolidate then break a rising trendline was a sell-signal with an expectation of a potential breakout play, with the goal being to hold on short as long as possible (confirmed buy signal for exit) and stop above the upper trendline (see 1-min chart for clarity).

The trade continued with down bar after down bar (seven in a row) until another long lower shadow candle bounced off the key support at \$120.00 (round number). Also, clear positive dual divergence formed. With all that evidence suggesting a bounce/rally into the close, that was plenty of info to exit your short and even put on a long.

5. HAMMER, DUAL DIVERGENCES, \$120.00

The striking thing about this trade was the bounce off the “Round Number” \$120.00 but also the clean/clear positive dual (momentum and TICK) divergences (and the lower shadow candle that formed).

Entry was when price took out the high of the reversal candle at \$120.20... or for aggressive traders (willing to risk a tight stop under \$120.00) it was as price hit and immediately began to rise off \$120.00. Either way, the target was a snap-back rally/retracement to the falling 20 EMA (5-min) at \$120.40 which occurred very quickly and price seemed to form bearish candles for a nice exit there... but buyers continued their ‘impossible rally’ into the close, not really giving a clean entry.



Using a moderate aggression level, roughly \$1.00 (10 @ES Points) was possible in today's 5 trades, with 4 being winners and one (trade #2) being a scratch/small loss.



We did make a new swing high today (over yesterday) as widely expected, but it was made on such a divergence in momentum, volume, and internals - and it happened at the upper trendline as I've been showing on recent reports - and the market sold-off at the \$121.25 level. Pay close attention to the 60min charts I've drawn for the trendline.

For now, we bounced off the 38.2% Fibonacci Retracement as drawn in a bullish recovery into the close.

Watch \$120.00 for key support - and be cautious if price is under \$120.00 but continue the bull bias as long as we're above it.



The trendline is all that matters!

Not entirely, but it sure feels that way, doesn't it? Price sold off after hitting the upper trendline as drawn, though we did bounce off the 50 EMA but I'd just as well call it a bounce off \$120.00 (support).

The play/bias should remain bullish unless proven otherwise with a break under \$120.00, and if under \$120.00, then expect a move back to \$119.50 at least. Should a sell-off take price under \$119.00 or more importantly \$118.50, then it could be a downside sell-off/breakdown. But that has NOT happened yet and price remains in the upward trendline - expect it to remain that way.

Don't try to overcomplicate it.



A "Price Purism" chart showing the dominant trendlines... with a small bull and bear trap occurring recently.

Expect price to remain between these zones and 'bounce' between them until we get a solid break... which would be a break under 1,185 to get bearish or 1,225 to get bullish (remember the confluence resistance at the 1,225/8 level).



Under normal circumstances, we would call a doji candle (what formed today) in such an over-extended condition to be bearish, but look at how many doji candles lie in the graveyard of this non-stop (some say 'impossible') rally. So don't let the doji bother you.

1,212 was prior resistance, and we're close to that again and still maintaining the uptrend as we have done so in a stable trendline since March (the trendline was steeper from the February low to early March).

I know a lot of people are trying to call tops in this market, and yes the market will top eventually (it can't do this for the next 5 years!) but it's FAR better to understand that there is a seemingly impossible bullish drive to this market that has destroyed each and every sell signal or bearish omen mercilessly - and it would seem safer to assume that the market will continue to do that until proven otherwise.

Maintain a bullish "Popped Stops" bias unless we see a break and solid close under 1,180 (or a sharp move under 1,200).