# Daily "Idealized Trades" Report


SPY - 1 min ARCX 04/22/10 L=120.64 -0.02 -0.02% O=119.81 Hi=121.17 Lo=119.12 C=121.02
Trendlines Overruled Everything
1
2
3
4
121.00
120.80
120.60
120.40
120.20
120.00
119.80
119.60
119.40
119.20
0.1500
0.1000
0.0358
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-0.0373
-0.1000
$TICK - 1 min NYSE 04/22/10 L=443 281 173.46% O=1 Hi=1234 Lo=-729 C=443
1,200
800
443
323
0
-400
4/22
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

I can summarize all of today's report and potentially tomorrow's trading day in two words. Can you guess them?

**POPPED STOPS**

Please take the time to go back and read all reports, or at least a good deal of them where I spend time teaching this concept in the past (recent archives). Long-time and even new members should now be up to par on this concept, as I believe it is one of the only things that is making intraday traders money right now. If you're using what "should" work or what "is supposed" to work (meaning any sort of analytical technique that is trying to call for a top), then you likely continue to lose money, as what I can only describe as the market is currently "mocking" (or worse, directly busting) virtually any sort of sell-short signal.

For a quick summary, popped stops happens when a valid bearish/sell trade happens, but also a known/obvious resistance level exists for new bears to place their stops. When the market moves up - for whatever reason - into the 'pocket' of stops, then a "Positive Feedback" loops occurs wherein the new bears are force to buy to cover as new bulls - hopefully you now - jump in to buy and when bulls and bears BOTH are buying, then the market often skyrockets higher, giving you the intraday trader an excellent chance to profit from this short-term 'loop.'

The opposite side of the equation is... if you do decide to take a short-sell signal and then price moves up into the 'pocket' of stops, then you need to take your stop IMMEDIATELY. If you sit back in shock or defiance, then you open the possibility to a huge loss intraday that can wipe out your trading profits for a month or longer. DO NOT STAY SHORT IN A RISING MARKET. The bears continue to fuel the rally, and as long as they keep shorting and keep 'popping out,' then you as a savvy, smart, informed intraday trader NEED to take advantage of this recent phenomenon as long as it lasts. When the bears wise up and stop short-selling, then perhaps the market will finally fall, but it seems like they haven't wised up yet. Trading is a game of exploitation at some level, and if you're not exploiting the hapless bears, then you're missing out.

## 1. DEEP RETRACEMENT RALLY EXPECTATION

This was really nothing more than an oversold bounce expectation, which was an aggressive play. Usually after a deep swing or gap, price will retrace part of it or at least swing back to the 20 EMA, giving aggressive traders (who are willing to step in front of a sharp down momentum move) a chance to play an expected retracement back to the 20 EMA on the 5-min chart. Place a stop under the low ($119.20) and enter whenever you feel odds favor price is making a rally (usually when breaking above the first bullish candle) and target the 20 EMA ($119.80). Price then began to move lower, giving you a chance for a second, higher probability trade.

## 2. IMPULSE SELL, BEAR FLAG, 20 EMA, DOJIS

I know - you're thinking "Gosh I was a sucker for taking this trade" and that's exactly what happened - the bulls suckered or lured bears in with a classic Impulse Sell/Bear Flag trade set-up... which by the way has failed roughly 20 times in the last few months (I can't even remember the last time this exact trade set-up worked). I even joked last night about creating/labeling a new trade called the "Bear Flag Fail" or something (email me if you have any suggestions!) and today that trade set-up would have triggered and been profitable... for those trying to FADE the flag or going long when the bear flag officially triggered.

Anyway, I went ahead and labeled this an Idealized Trade due to the large momentum move and higher timeframe divergences and "Rounded Reversal" pattern (thanks to a smart reader for pointing that out - I actually missed that in my analysis - I've been thinking too much in bull terms to see bearish patterns anymore apparently!). The trade still failed, as price bounced off the lower Bollinger Band (it should have made a new low) and you probably should have killed the trade at the 11:00am bounce instead of hanging on stubbornly - short from the $119.80 level - to expect a new low that would never come.

That set-up trade #3.

## 3. FAILED BEAR FLAG (New Trade!), ASCENDING TRIANGLE BREAK, $120.00 BREAK, 50 EMA BREAK

This one was simple - if you were in the right mindset. If you were in the wrong mindset (meaning, expecting the market to go lower, which was fair, but not being able to believe that the market could go higher), then it was a painful experience. Price formed an ascending triangle where price broke the apex at noon at the $120.00 level, which also served as key "round number" resistance. There were apparently plenty of bearish stop-losses above $120.00 because the market surged. You - as a smart trader - should have taken advantage of the 'pain' of the short-sellers by playing "Popped Stops" - as in their pain is your gain.

A reminder, do NOT remain short when a Popped Stops Positive Feedback Loop develops.

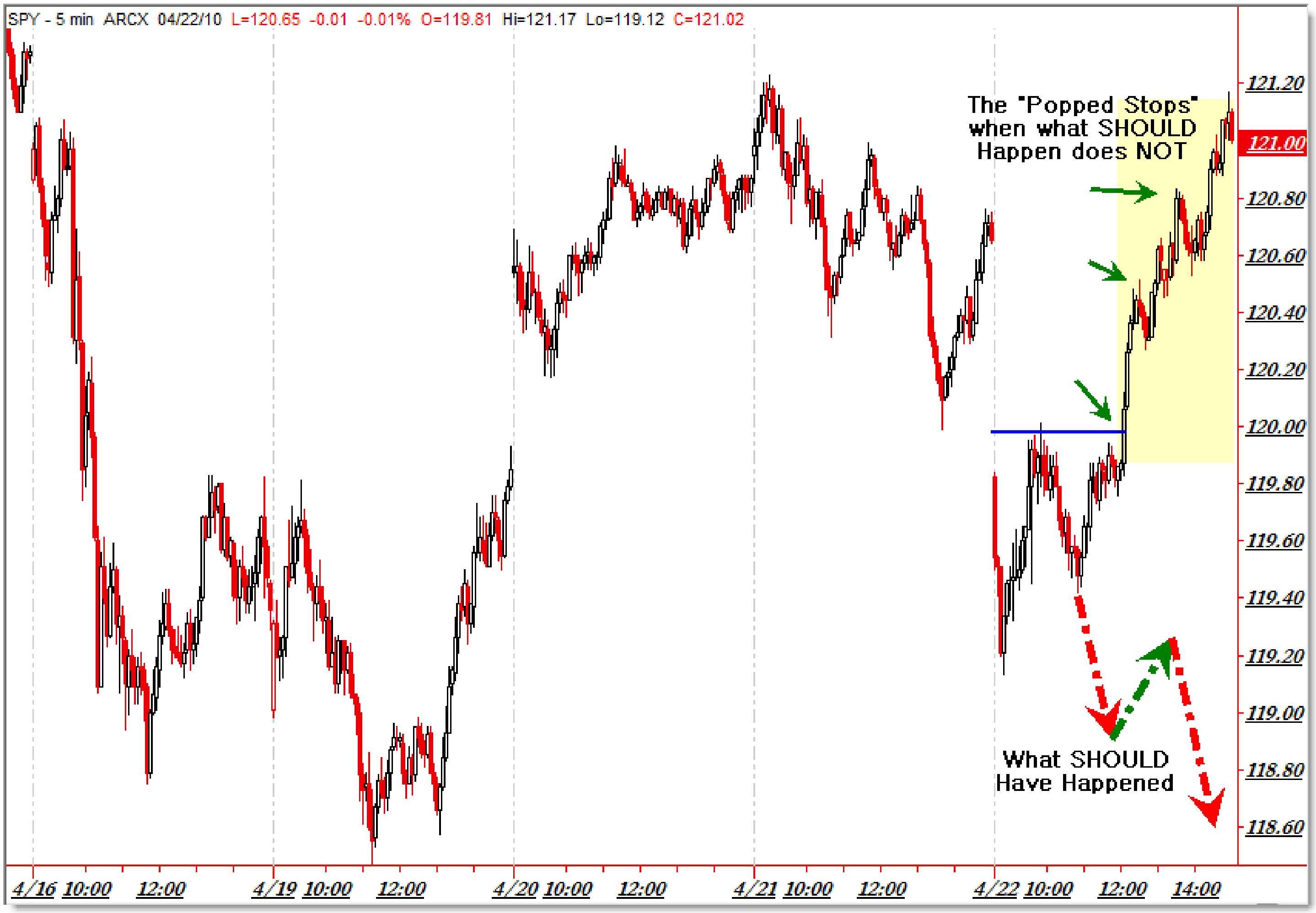
You are to hold on as long as possible, which realistically was to the $120.50 level which was the 200 SMA (5-min) as bearish reversal candles formed. This was your exit but NOT NOT NOT NOT NOT sell short signal. You could have sold short if you were aggressive, but notice that price did NOT get the target of the 20 EMA - that shows that we were in a vicious positive feedback loop and we should be buyers.

A triple-swing negative dual divergence formed into 1:30, so you could have shorted that as well, but again only if aggressive. Price only pulled back to the 20 EMA (as expected... but the divergence 'should' have produced a trend reversal). For those willing, or those (like I am becoming) who are so cynical at bearish intraday set-ups, you could have bought long on the doji and bullish candles that formed off the 20 EMA at 2:00.

## 4. BULLISH CANDLES AT 20 EMA, RESISTANCE BREAK, POPPED STOPS

If you chose to stay neutral (probably a better strategy because the market certainly COULD have reversed after the triple divergence), then you had a clean entry, another Popped Stops Loop, after the $120.80 resistance was broken. This may have happened too close to the end-of-the day for you, so if your strategy did not call for trading into the close, then you perhaps would have skipped this trade. Being popped stops, you are to play as long as possible, and this time that meant holding until the close or just before.


Using the 'ideal grid,' roughly $1.30 was possible in today's trading, with 3 profitable signals and 1 failed signal (#2... are you surprised that ANOTHER sell-short signal failed? You shouldn't be) which was salvaged before a stop-out.




Today's price action is yet another reminder of the important phrase - that I've told you to use as a reference:

"If price SHOULD do something and it DOES NOT, then it means a GREATER THAN EXPECTED move is likely yet to occur in the OPPOSITE direction."

Based on the momentum and downward action and 'flag' retracement this morning, odds favored lower prices yet to come (yes, we bounced off trendline and EMA support, but speaking from a condition of momentum and short-term trend). So when bears shorted but price went up to break resistance at $120.00 anyway, it led to the ominous (or profitable) "Positive Feedback Loop" that I describe so often.

That means all the bears who just got short (on a proper signal) just had to buy to cover while bulls - hedge funds - whatever - bought price to drive it higher, creating a "Positive Feedback" loop of bulls buying and bears buying.

Traders who do not understand this concept - you as a member should very well now - are having an extremely difficult time making money.


While it was a bumpy ride on the 30-min chart, price bounced off the rising 200 SMA and - to an extent - the lower Bollinger.

I drew a horizontal potential resistance bar at $121.25 which could serve as resistance tomorrow, but if we get above it, and then above $121.50, be prepared to play popped stops.


As I'll show in the next chart, I believe the only thing that matters right now is the trendline channel as shown here on the 60min frame.

Today's low was a combination of the lower trendline (price never closed on an hourly basis beneath this line) and the 20 day EMA (seen later).

You really need to keep higher timeframe charts as references for potential support/resistance levels to enhance your intraday trading and opportunities.

We're at/near the upper boundary at $121.50, which happens to be prior price resistance, so we can't make a call as to whether price will break above or fall down at resistance. Watch the level closely tomorrow.

What you should do is play long with a "Popped Stops" bias above $121.50 (unless you see strong negative divergences).


If you're struggling to figure out why the market just won't go down, memorize this chart.

I thought about using this as the only chart in the "forecasting tomorrow" section of tonight's report, because it really is the only thing that matters.

Don't puzzle yourself with Elliott Wave, moving averages, momentum, volume, or anything else.

The market and large funds - for whatever reason - are respecting these trendlines (with few exceptions) and the market is bouncing between the upper and lower boundaries and WILL CONTINUE to do so indefinitely until one of two things happen:

Price shatters to the upside and rallies going straight up (unlikely) or

Price breaks the lower trendline, sharply closing under $118.50 (hasn't happened yet)

So UNTIL that happens, stop betting against the trend if you're doing so and profit from it... or stand aside if you can't bring yourself to buy. As strange as it is and as statistically improbable it is, the rally continues and you're better off going with the trend than trying to fight it and be a hero by calling a top.

The market cannot rally forever and will reverse at some point, so we don't want to be swing traders with our whole portfolio long here (we could wake up and see a sharp down move), but as intraday traders, you want to put more capital to work on the LONG/BUY side than the short side, and yes that means skipping some bearish set-ups.


The other thing that seems to matter is the rising 20 day EMA, which - for the second time recently - was the absolute low of the day. Did you see that when you were trading real time? You should be incorporating these levels into your intraday charts.

There's really no point in getting any fancier with the analysis and bias for tomorrow except to say play "Popped Stops" aggressively above 1,212, otherwise watch closely to see if 1,210 is resistance (we are near the upper trendline) and play accordingly.

The people who are most confused right now are the ones applying all sorts of analysis and straying away from the basics right now. I'm always tempted to go deeper with the charts, but my goal is to focus on what matters instead of have a bias for or against any method. Right now, what's working for traders is the 'popped stops' mentality and trendlines. Stick with the basics right now!