



Daily "Idealized Trades" Report





Despite what looked like mildly successful scalp/short sale trades thanks to negative internals & momentum divergences, the market continued its "Rally at ANY Cost" mode which gave the short-sellers even more pain and served to prove that this market is being driven by a gross demand/supply imbalance and positive feedback (bulls buying; bears buying... to cover/stop-out). Let's take a look at what we could have learned from today's action, which will serve to make us a little bit better each day as we develop as traders.

1. GAP FADE

This was a standard gap fade... that ultimately failed... as price gapped up 30 SPY cents, poking above the upper Bollinger on the 5-min chart and forming a spinning top and long-legged doji at the \$119.05 level, triggering a short-sale once price broke back under the key \$119.00 level to target a move back to the \$118.75 level.

Ultimately, price found support at the rising 20 EMA, forming a bullish spinning top at support, and then the next candle took out the high of the candle at the \$119.00 level, leading to this gap-fade trade being a scratch or small loss at worse.

2. SHOOTING STAR, UPPER BOLLINGER

Admittedly, this was an aggressive trade, so I won't spend too much time discussing it as I don't want the newer traders to adopt aggressive tactics until they're ready. Aggressive tactics are better for experienced traders, and usually involve 'scalps' or counter-trend moves to play back to a support area (or vice-versa). They're not recommended for most traders.

Still, price spiked outside the upper Bollinger, formed a shooting star, then the next candle at 9:15 CST took out the low of the shooting star candle at the \$119.20 level, triggering an entry with a stop above \$119.35 to play for a retracement (minimum) to the 20 EMA at the \$119.00 level. That's almost a 20 cent risk for a 20 cent reward - again, the territory of aggressive tactics. But it worked, and price actually broke the 20 EMA to test the rising 50 EMA with a long lower shadow candle and sudden bullish engulfing candle.

An aggressive trader also might have put on a position (buy) as price bounced off the 50 EMA and prior swing low at the \$118.85 level, but this trade (execution) happened so quickly and devolved just as quickly into two upper shadow candles (shooting stars shortly after, giving an exit. With price so close to the 20 EMA, this was not a short-sale.

Given that the market is in "Rally at Any Cost" mode, and our last two efforts to short-sell the market resulted in small profits at best, maybe it was time to give the long side of the market a try.

3. HAMMER CANDLE, 20 EMA, UPTREND, ROUND NUMBER \$119, TRIANGLE BREAK

With price solidly in an uptrend, price found support just under the 20 EMA at the \$119.00 level which was also the 'round number' support of \$119.00, triggering an aggressive buy. The better buy came as price broke above the hammer candle at \$119.07 at 10:15 with a stop under \$118.95 and target at least \$119.30 - the prior intraday swing high which was achieved. Notice also on the 1-min chart that price broke solidly out of a symmetrical triangle formation - that's a buy signal by itself.

As price tested this level and made new (slight) highs on the session, we saw a clear negative momentum and more importantly a negative TICK divergence at 10:45, leading us to take an exit anywhere in the \$119.30 region on any reversal candle.

We could have seen a 'popped stops' move occur at any moment, so we would not want to short JUST because price was forming candles and divergences at new highs, so it was better to take a cautious stance and wait for a pick-up in internals OR a breakdown through the morning trendline and/or 20 EMA. That's exactly what happened next.

4. TRENDLINE BREAK, NEGATIVE DUAL DIVERGENCE, 20 EMA BREAK

This was one of those trades you wait for and almost everyone loves playing. The negative TICK and Momentum divergence at the \$119.35 high at 11:00am was blatantly obvious, but we do not short JUST BECAUSE there are divergences unless you are an aggressive trader (willing to take a small loss if price continues rising).

The better signal was when price broke the morning trendline (see 1-min chart) which corresponded with a breakdown of the 20 EMA on the 5-min chart at the \$119.22 level - triggering your short with a stop above \$119.35. The minimum target was a test of the 50 EMA at the \$119.10 level or the 'round number' \$119.00, both of which were hit.

At this point, and for the next two highlights at 12:15 and 1:00 CST (see first chart), it was up to you whether you put on a buy/long trade at this time, given that there were bullish reversal candles at the lower Bollinger Band (5-min chart) with price bouncing off the \$119.00 'round number' support line.

With these two set-ups being roughly identical - with the 1:00 CST set-up having a long-legged doji as a better entry candle - I didn't specifically label them on the chart. I suspect most traders may have taken at least one of these buy set-ups off support.

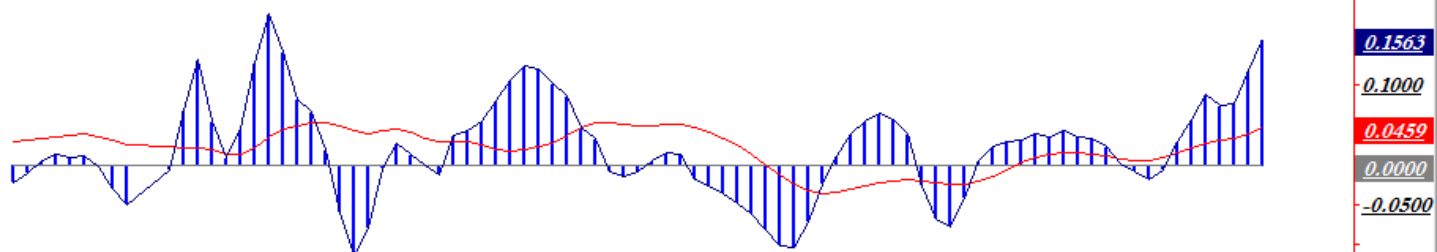
The last 'ideal' trade set-up of the day came just before the close, if you're aggressive and willing to buy new highs into the close (I don't recommend it most of the time).

5. POPPED STOPS

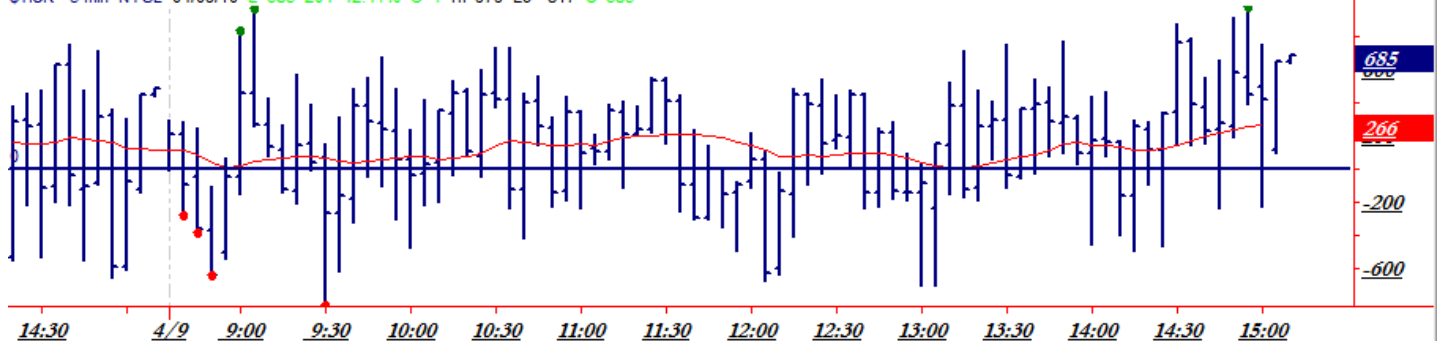
This was a plain vanilla "Popped Stops" play which I highlighted in last night's report - look to trade long on any solid break to new highs above \$119.25. There were reversal candles at the 3:45 time, making this less than ideal, but finally with 15 minutes to go in the trading day, bulls/buyers broke the indexes to new highs, popping stops along the way (short-squeeze on a breakout).

If you were willing, you could have profited, but this was another trade for experienced and aggressive traders only - newer traders can get beat up badly sometimes being on the wrong side of a move into the close.

SPY - 5 min ARCX 04/09/10 L=119.81 1.04 0.87% O=119.02 Hi=119.60 Lo=118.80 C=119.55



STICK - 5 min NYSE 04/09/10 L=685 204 42.41% O=1 Hi=979 Lo=-817 C=685





The dominant short term structure is the parallel trend channel as shown above, with upper boundary (here) at \$119.50 and lower boundary at the \$118.00 level. Like the last time we were at this level and I alerted you to that development - April 6th - odds favor a downside retracement to test the lower trendline at the \$118.00 level.

However, any breakout above \$119.50 and break above \$112.00 will continue the 'popped stops' rally and break price out of the trendline. So far, the trendline has 'worked' on both sides, so keep this in mind when trading Monday - watch for a potential short-term pullback or at least sideways pause/consolidation (like that of April 5 - 7).



Again, take the broader pattern into context, which is a rising parallel trend channel as described in the 30min chart. With price being at the upper boundary of the line, we would naturally expect a short-term consolidation/pause or a potential downside movement. With as strong as the market has been, a sideways correction seems favored.

Nothing else seems to matter - not divergences of any kind which only shows how powerful the positive feedback loop is currently (bulls buying and bears buying to short cover).

I'll continue to repeat the only phrase that matters that you should be adhering to:

"You're either long/buying or out/neutral. You're not short this market for anything other than an intraday scalp."

I've said it many times in these reports, and it continues to be true ... until we break under the lower trendline at the \$117.75 level but that hasn't happened yet, so odds still favor trend continuation.



The weekly chart puts the move into perspective, and shows us the upper target that the market is likely playing towards - the 61.8% Fibonacci Retracement which aligns exactly with the 200 week SMA at the 1,228 level.

I've mentioned that as the #1 target to play for if the market broke above 1,150 and that's exactly what's happening.

While everyone talks about the negative volume divergence, it hasn't caught up with the market yet.

If the S&P 500 can clear the 'psychological' resistance at 1,200, then it will almost certainly test 1,225.

There is nothing (major/obvious) resistance-wise above 1,225.



And the rally continues... and continues... and continues. That shows the absolute importance of understanding STRUCTURE and CHARACTER of a market - by assessing the character of a market, it lets you know what patterns and indicators (if any) the market is favoring (trendlines and moving averages currently) and which the market is either ignoring or - worse - mocking (negative divergences, overbought RSI/Stochastic oscillators, doji/reversal candles, upper Bollinger Bands).

Keep in mind that if bulls can clear 1,200, then 1,225 is almost certain to be tested, so prepare to play that move intraday... but determine for yourself if you can handle the risk (of a sudden and sharp market decline) as a swing trader. Each day brings us one day closer to a market correction... but it's best NOT to bet that the correction occurs until we break the lower trendline and then the 20 day EMA at the 1,170 level - those who have bet against this trend have only contributed to it continuing... via popped stops through stop-losses being triggered. That remains the case.