Daily "Idealized Trades" Report

S&P 500 ETF: SPY


SPY - 1 min ARCX 07/07/10 L=106.30 3.43 3.33% O=103.13 Hi=106.24 Lo=103.02 C=106.11
Popped Stops From
This Point On
Didn't
Matter
$TICK - 1 min NYSE 07/07/10 L=902 1015 -898.23% O=4 Hi=1449 Lo=-933 C=902
7/7
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

Today was one of the best examples in a while of the Type III Trend Day structure - with the market opening at one extreme and closing at the other, without breaking meaningfully under the 20 EMA (5-min). While it's important to monitor TICK on such days, the best trades come from buying pullbacks to the rising 20 EMA or buying breakouts above new highs (shown in today's report). If you try to overcomplicate the day, you will underperform what's possible in terms of simple profits. Despite the simplicity, trend days are very easy to 'mess up' and wind up with devastating losses if you continue to short all day long. Divergences don't matter, Bollinger Bands don't matter - all that matters is the moving average and price structure (higher highs/higher lows).

The main thing to know about today's structure was that odds overwhelmingly favored a move higher in price - a retracement swing up - as I've been saying in the evening reports and this morning on the blog. We got that retracement, and in the upward movement, also had a big example of Popped Stops, which is exactly what I've been saying would likely happen on any solid move above 1,044 - once again, another piece of evidence on how important day traders should monitor and create expectations (not certainties) from higher timeframe structure and probable price moves.

1. UPWARD BREAKOUT BIAS

This trade played off the upward bias I've been mentioning was the likely outcome in price, given the daily structure of an overextension down from the 20 EMA. Price gapped slightly higher, pulled back, and then once price began making new highs on the session, this was your safe cue to enter long at the $103.50 level to play for the expected target at $104 or slightly beyond. Given that price did not retrace to the rising 20 EMA, odds favored a more powerful swing up to come. Although price exceeded the $104 target, I would suggest exiting on the reversal candles that formed at this level, along with the negative momentum divergence. Though you could have 're-bought' on the second break to new highs above $104 just before 10:00am, this was an aggressive move and the safer play was to see what the structure had to offer - though this certainly was a "Popped Stops" play for aggressive traders.

2. RESISTANCE TARGET HIT AT $104.50, NEGATIVE MOMENTUM DIVERGENCE, DOJI, UPPER BOLLINGER, TRENDLINE BREAK

This was a classic "five-wave fractal" short-sell that came with a negative momentum divergence and push into the upper Bollinger Band with a doji candle. Once price broke the rising trendline or the doji candle at the $104.50 level, this was your short-sale entry. The target was to play for a minimum retracement to the rising 20 EMA, and depending on your aggression level, this trade was either successful or a failure. If you placed your stop above the intraday high at $104.70 and exited on the actual retest of the 20 EMA just above $104, then you were fine, but most likely, you exited on the bounce and rally higher that began at 10:30am CST. That's fine - if so, this trade was a small scratch. It's better to take small stops in the context of a potential popped stops play than to continue holding short in the event that we get further upside movement from bears covering, so this trade was a scratch.

3. BOUNCE OFF 20 EMA, POSITIVE DIVERGENCES

This was a bet on the morning trend continuing as opposed to reversing - keep in mind we don't know at this point that the day will be a Type III day - we just know that the overhead target is the $104.50 level and that any move above here - particularly above $105 - should trigger massive popped stops. So, a pullback to the 20 EMA on two doji/spinning top candles at the $104.30 level was a buy set-up in the context of a prevailing trend. The 1-min chart showed a tiny positive momentum and obvious TICK divergence, giving increased odds of a successful long trade, which worked. You could have either exited the trade as price tested the prior high just shy of $105, or held on to play for a potential Popped Stops play on a break to new highs. Either way, trade 4 was crystal clear for those who trade Popped Stops.

4. POPPED STOPS

Notice the extreme bullish breakout candle just after noon CST that sent the indexes to new intraday highs which was followed quickly by a breakout above $105 and a new TICK high. This set-up was also technically a Bollinger Band Squeeze Play (range expansion) so that increased the odds of a continuation rally. The Popped Stops play has you getting long the moment you feel odds favor popped stops forming from a positive feedback loop of nervous bears buying to cover their short-sale positions and aggressive bulls buying a breakout. This positive feedback loop is expected to send prices surging higher - especially given that was the expected outcome on any break above the $104.50 level. You could have held this trade all the way into the close, but most likely, you exited at the reversal candles and negaive dual divergences at 1:30pm. There was a second "Popped Stops" play into the close.

5. POPPED STOPS

This is the exact same logic as trade #4, only by now, we had the entire day structure - Trend Day - behind us as a reference. During Popped Stops Positive Feedback Loops (bears buying to cover/bulls buying breakouts), nothing else matters and we often ignore the 3/10 Momentum oscillator. Watching internals and TICK is far more important, but even then the positive feedback loop/popped stops (demand) was so powerful that it overcame the divergences (non-confirmation signal).

Markets are driven by supply and demand - and the Popped Stops plays that occur are eternal reminders of this fact.

Using the grid above, roughly $2.00 was possible in today's "Popped Stops" day.

Market Internals have been strengthening each day, and formed a clean positive divergence on the July 1st low, hinting strongly that odds favored an upside move. Today, we got a continuation of that upside move as price remained above the 1,020 level and broke the key 1,040 level, triggering a vicious round of Popped Stops just as expected. There is absolutely nothing mysterious or strange about what it happening - it is occurring exactly as expected.

SO FAR TODAY			10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE
(3,487,662.00)	10,458,773	9:45	13,946,435.00	0.61
(4,533,776.00)	8,242,164	10:00	12,775,940.00	0.61
(3,660,551.20)	12,375,454	10:15	16,036,005.20	0.49
(1,597,574.70)	8,215,862	10:30	9,813,436.70	0.40
(1,041,144.80)	9,217,133	10:45	10,258,277.80	0.34
793,869.90	10,460,619	11:00	9,666,749.10	0.36
399,130.90	8,577,642	11:15	8,178,511.10	0.33
584,369.50	8,225,042	11:30	7,640,672.50	0.29
(529,066.30)	6,123,538	11:45	6,652,604.30	0.27
70,785.40	5,745,214	12:00	5,674,428.60	0.29
(1,337,875.60)	4,022,987	12:15	5,360,862.60	0.34
967,491.10	5,765,063	12:30	4,797,571.90	0.31
(467,576.90)	4,604,791	12:45	5,072,367.90	0.33
472,804.80	5,615,354	1:00	5,142,549.20	0.31
896,183.30	5,862,619	1:15	4,966,435.70	0.33
2,241,049.20	7,485,294	1:30	5,244,244.80	0.32
(2,014,511.00)	3,573,747	1:45	5,588,258.00	0.34
102,351.90	5,305,268	2:00	5,202,916.10	0.32
1,277,654.50	7,191,210	2:15	5,913,555.50	0.40
(2,027,478.20)	4,952,303	2:30	6,979,781.20	0.37
(2,366,401.90)	5,099,145	2:45	7,465,546.90	0.40
(1,910,871.80)	5,586,485	3:00	7,497,356.80	0.48
(1,159,611.70)	7,291,476	3:15	8,451,087.70	0.48
336,317.60	11,846,752	3:30	11,510,434.40	0.59
2,772,967.70	15,927,373	3:45	13,154,405.30	
2,765,805.90	28,775,800	4:00	26,009,994.10	
(478,973.86)	**8,328,734.92**	**Ave.**	**8,807,708.78**	**0.39**

Despite the power of today's session, volume was lower in most time periods in the SPY and for the day as a whole.

Unfortunately, this casts a bearish shadow on today's activity and firmly places the definition of the rally as a "Counter-Trend Swing" up in the context of a bear market down trend. This is the case - price up, volume down = bearish.

Look closely at the chart to see that the bulk of the Popped Stops play came as buyers pushed the price above the $105 level - blue line. This is exactly why it is so important to reference these higher timeframe price levels intraday - if you don't, you are trading blind and will miss easy opportunities.

We are seeing the snap-back rally as expected, and as I've been saying was extremely likely given the deeply oversold condition, bounce off powerful confluence support at 1,010 ($101) and the multi-timeframe positive breadth and momentum divergences.

What now? I've drawn the Fibonacci retracement grid to show that the $107 to $108 level is the very likely upside target, which also includes a potential gap fill target from June 29. If we stay above $106, expect $107 or even $108.

This chart may show the target better.
"IF above $106 THEN expect price to target the $107/$108 area as seen above."

Volume is not really confirming today's rally, so that still places the technical definition as a "Bear market rally."

I think the best thing to do is watch the daily chart for its respective levels, which include 1,077 (Gann number) and 1,070 (20 day EMA). If by chance buyers push us beyond 1,070, then the next daily confluence level appears to be the 1,100 level - round number, prior price resistance, and 50d EMA.

Parameters from the SPX then become

"IF above 1,060 THEN expect 1,070 and then IF above 1,075 THEN target as high as 1,100"

We will continue to call this a Bear Market Rally swing as expected - and as was overdude - unless we break above 1,130 in which case definitions will need to change.