

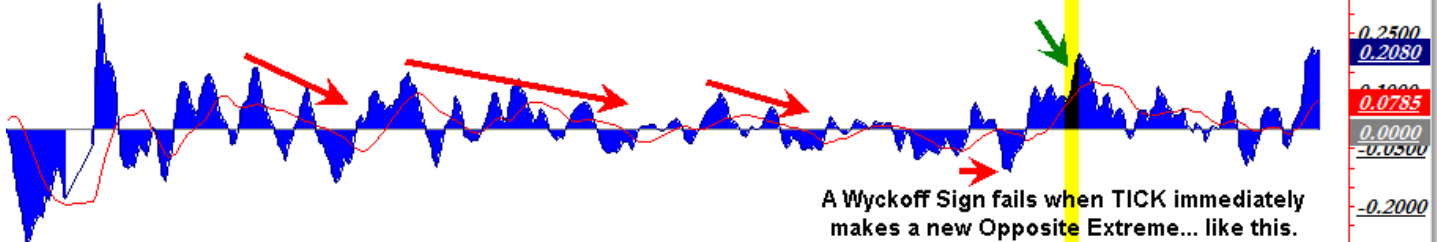


## Daily "Idealized Trades" Report

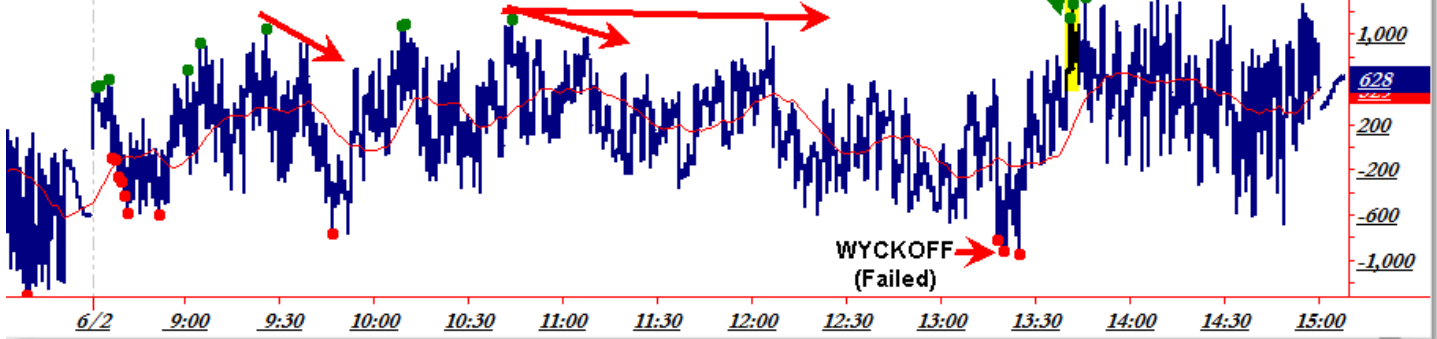
### S&P 500 ETF: SPY



SPY - 1 min ARCX 06/02/10 L=110.30 2.77 2.58% O=108.08 Hi=110.34 Lo=107.51 C=110.33



STICK - 1 min NYSE 06/02/10 L=628 1226 -205.02% O=-1 Hi=1327 Lo=-947 C=628



Today reminds me of Steinbeck's *Of Mice and Men*: "The best laid plans of mice and men often go awry." The lesson of today is that we trade in an environment of uncertainty and probabilities - nothing is guaranteed. Also, having solid, unchangeable biases cost money if you aren't open to new, contradictory information as it develops.

The main take-away lesson is that odds were overwhelming for a downward swing after noon - it came complete with dual divergences and a clean Wyckoff Sign of Weakness. However, let it be a reminder that the market is driven by supply and demand, and sometimes the Big Players - Big Money - decide they want to put on massive buy orders, and keep in mind that the large Fundamental Analysis investors - like Warren Buffett for example - never look at charts. They just see price at a fundamental value and buy - despite all sorts of bearish signals on the intraday chart (that they never see). Our job as intraday traders is not to be squished by these big funds! Today, the Big Funds squished some intraday traders who were leaning too bearish and did not react in time to a sudden and unexpected reversal in the making... and that failure to react perversely drove the market higher into the close as they were forced to buy to cover, and a vicious (or virtuous - depending on how you were positioned) Positive Feedback Loop (I mention these very often) developed, leaving intraday traders who are comfortable trading the "Popped Stops" set-ups with a very easy profit. Those who fought the tape... not so much. Let's take a look step by step.

### 1. FLAG, BULLISH ENGULFING

This was a similar set-up to some of the prior morning trades after a gap, where price gaps initially, retraces, and then price continues in the direction that it gapped. It's a sign of impulse and a precursor to a Trend Day... which today technically was - a Type II Trend Day. So you could have gotten long on the trendline break as labeled as price broke back above resistance at \$108.00 to play either for a small target of the 20 EMA at \$108.35 or a larger possible target being the 50 EMA at \$108.70... which was hit as price formed a doji then bearish engulfing candle on a negative dual divergence, your second set-up.

### 2. SHOOTING STAR, DUAL DIVERGENCE, 50 EMA

This was one of those classic set-ups that are (at least to most of us) irresistible at the time - they have a high probability of 'working,' and offer a very tight stop in relation to a large target. They don't always work - this trade was a scratch - but then again, we can't win on every trade. Price broke the shooting star low and then broke back under the 20 EMA at the \$108.50 level, triggering a short-sale there with a stop above \$108.70 to target the intraday low (or lower) at \$107.60. The buyers had other plans, however, and this should have been our FIRST clue that things were more bullish than they seem. Remember my favorite (current) saying:

"If something SHOULD happen but does not, then it often leads to a LARGER THAN EXPECTED move in the opposite direction."

Let's understand why. We are technical, chart traders who make up a good portion of intraday traders. However, you can't think that you're the only ones trading, or that everyone trades like you. In market profile terms, there are "Higher Timeframe" players - like Warren Buffett and very large portfolios - that don't even look at the charts when putting on positions. So let's say we have a set-up like this when many intraday traders get short at a known level, but the higher timeframe player(s) absorbs (buys) all the sell orders and then the price keeps rising because the fund keeps buying. What must the intraday traders - who now are being stopped out - do? That's right - BUY to cover as their stops get hit. So we have higher timeframe player buying (and he can't just press a button and buy - he has to spend all day or several days getting the position on... actually he has traders to do that for him once he issues an order... but that's a different story) and then the intraday traders, once price rallies above key resistance or their stop-losses, are forced to buy TOO. That creates a Positive Feedback Loop. That's also explains partly why when the market SHOULD go down based on technical analysis, but does NOT go down, it usually means that there's a big fund or a 'higher timeframe player' that is

putting on a very large position, and are taking every opportunity or dip in the market to do so. Intraday traders cannot counter the buy orders of a large portfolio, and so the market will keep rising until the buyer(s) has completed the purchase... which means that every single intraday sell signal will be busted along the way. Traders who do not understand this will continue to stop-out as they keep shorting the market, while those who have 'caught on' (usually through having this experience happen more than once... or twice), will then "join" the buyer and then play "Popped Stops" of those who continue to short a rising market, despite very valid short-sale signals.

That type of logic explains why trade 2 failed and why trade 3 was a great position.

### **3. POPPED STOPS**

In short, the logic for this trade is explained above. When price broke EMA resistance off to a new high, we would expect short-sellers to cover, leaving us open to profit if we're long. Hold on as long as possible, until a valid sell signal occurs which was logically the doji and upper Bollinger Play shortly after. This positive feedback loop was short.

### **4. 5-WAVE FRACTAL, DUAL DIVERGENCE, TRENDLINE BREAK, BEARISH ENGULFING**

Here's where I mentioned that odds were overwhelming that price would fall, potentially reversing on the session. I even posted on the blog shortly before the sell-off:

<http://blog.afraidtotrade.com/a-little-spy-nonconfirm-on-the-way-up-june-2/>

Price actually did give a good profit if you shorted here - giving a clean bullish hammer then a bullish engulfing and break above the established trendline at the \$108.70 level. It was generally a good idea to take profits here and wait to re-short on a retracement... however the upwards retracement never stopped!

Price even formed a Wyckoff Sign of Weakness... that was overruled with a new TICK (and price) high that formed 30 min later. This whole incident tells us that we need to monitor our positions and watch for any signs of change in the behavior or structure of the market. There were plenty of signals that said price was heading higher, so if you shorted or remained short after the new TICK and price high of 1:15pm, then you did so against the odds. The odds shifted - as I mentioned would be the case in the blog post - once we got a new TICK and price high... which I noted would continue the trend day (at the time, I didn't foresee that happening, but I 'played devils advocate' in the event that it did and kept my stand - which was admittedly bearish - neutral).

As such, when price rose to a new TICK/Price high and broke the 200 SMA, that was another great place to get long for more Popped Stops.

### **5. POPPED STOPS**

As a reminder, if you're uncomfortable playing price breakouts and Popped Stops plays, do not do so. If you feel like you're chasing, then don't trade. Popped Stops plays are advanced method tactics that are appropriate for aggressive and even moderate traders, but most conservative traders struggle with Popped Stops plays.

The goal is to get long whenever you're convinced that we have a positive feedback loop developing, which occurs after a known/obvious sell-signal or resistance level - where sellers have placed stops - is broken. You are to continue trading in the direction of the break for as long as possible to take advantage of the bears covering/short squeeze. While you could have held into the close, it was also acceptable to exit on the consolidation just prior to the close.

SPY - 5 min ARCX 06/02/10 L=110.32 2.79 2.59% O=108.08 Hi=110.34 Lo=107.51 C=110.33



Today was no fun for the valid short-sale positions, which ended as scratches (trade 2).

Using a moderate aggression level, roughly \$1.50 was possible trading today's seemingly confusing activity. Not every day is simple!



I mentioned in last night's report that any move back above \$109.00/\$109.50 was a potential buying play and that's what happened. Perhaps that's part of why the market surged was because we broke higher timeframe EMAs and traders stopped out as a result, while others bought to take advantage of the breakout.

Either way, we're in a slightly more bullish position now due to the surprise reversal, but we're still under the turning point level of \$111.00. The play is this: IF we go above \$111.00, THEN we will switch the upper target to \$115.00, as we will likely see a positive feedback loop help carry us there. Be neutral while we're inbetween \$111 and \$109, and go back to a short-sale bias that targets \$104.50 if we're under \$107.

Also, price found support this morning (and yesterday) at the 50% Fibonacci Retracement as drawn... so it's not like this rally came out of no-where, it just came as a surprise to most traders.



The 60min chart carries forward the comments of the 30min.

\$111 is the boundary to divide bull and bear expectations, as many bears will stop-out if we break above \$111.00. Intraday traders can take advantage of that 'popped stops' play on a larger scale.

A break above \$111 would also shift the Elliott Wave count, but I'll update that if it occurs tomorrow.



I tend to think of the index in terms of "IF/THEN" statements and encourage you to do so as well.

We're in a trading range between 1,105 and 1,070 as highlighted, and whichever zone we break first will give us our next likely swing target: 1,150 if above 1,110 or 1,040 if back under 1,070.

Though a lot of people seem to think we're going to go back down - even people on TV - a break above 1,110 would surprise many people and could easily send us to 1,150.

Watch closely tomorrow what happens here at these key levels and don't allow yourself to get too biased either way.