



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today's special "TICK" chart took up an entire page. The question is - how does the TICK fare when it is NOT a trend day?

The day (morning) opened with expectation for a Trend Day (the Job report can move mountains and markets) but it was just a fizzle as the report was in-line with expectations - so no surprise. Surprises move markets. Today I'm sure is puzzling to new traders just starting out. I'm sure they're cursing the market for rising on a day when it was announced we lost 660,000 jobs and the unemployment rate has hit a near 30 year high. But that's the market - it looks to the future, not the present.

Right out of the gate, we got an upside gap which found resistance into the CRADLE - I call this the highest probability trade of the day (gap fill + Cradle Sell). It worked perfectly into new lows. The question is - since we're unlikely to have a trend day, what will the day look like? If it's not a trend day, it's probably going to be some sort of range day (remember, a la Market Profile Theory, there are 3 types of Trend Days and 3 types of "not" Trend Days).

This meant you should be looking to play mean reversion trades and fade intraday extremes as the market trades around value.

Though the TICK did not form a divergence at 9:30 (remember my beef about the TICK being a coincident indicator rather than a leading indicator MOST of the time), the 3/10 oscillator did. A hammer formed on the lows of the day and it was a conservative trade to EXIT the morning short (the Cradle can play for an unlimited target like the Sweet Spot, which also triggered shortly after 9:00) but it's best to take it swing by swing.

Also, one could have chosen to fade the move and buy after the hammer to play for a retest of the 20 EMA which occurred very quickly. Notice the TICK made a new high on the day on the swing up to the 20.

Price entered no-man's-land and then broke above the 20 and 50 EMA with little resistance - that was a hint that odds had shifted to the bullish side, particularly when the EMAs crossed over and a NEW Cradle formed.

However, just before the Cradle Formed, an important negative divergence set-up both in the TICK and in Momentum. A gravestone doji set-up on the high of the day (at the time) which would have provided an excellent scalp back into the Cradle.

And a Cradle Did form before the doji, so one could have interpreted it as a buy and placed a tight stop beneath the convergence of the 20 and 50 EMA.



Unfortunately, a Tight Stop strategy failed and the Cradle Held. As many times as it seems impossible to believe, testing shows that wider stops test out better than Tighter stops on balance. This shows why.

There was chop (as expected) through the Noon hour which wound up forming the Flag portion of a Bull Flag and - like clockwork - price burst out of the flag at the 1:00 breakout zone (I need to come up with a new name for that - suggestion?). It also broke a Bollinger Band squeeze, though I probably wouldn't call it that.

Price traveled up to resistance through the Measured Move projection of the Bull Flag and formed a Flat-Line Divergence as well as a nice doji (in mid air) that formed the intraday high ... or so we thought. The late-surge surprised traders again and formed an unexpected high.

But before that happened, price trailed back down, coming off of the Flag High.

At the end of the day? No edge. Mutual Fund/Big Fund mayhem.

Here's an educational reminder on how to Project the "Measured Move" of a Flag, and how to see that this particular Flag came down to the 50% Fibonacci Retracement:



The colored lines reflect the Fibonacci Grid drawn from the morning low to afternoon high. The colors were drawn to reflect retracement levels. The Flag terminated at the 50% Retracement.

To Project once you think price has found support (perhaps after the 1:00 breakout), start with the same Fibonacci Grid you used for the Retracement, but this time use the PROJECTION tool and then click one more time on the suspected LOW of the Flag. A 100% Projection thus is the target for your flag (it also gives you the 38% and 61%).

The purple text (and blue line) show you where to click.