



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



The day began with an overnight gap which was considered a 'large' gap, and price made no attempt to fill the gap, so the first thought should have been "Today is a Trend Day," particularly given yesterday was a Fed day. That should have been the bias going forward, meaning buy any pullback to the rising 20 EMA. The first opportunity came about 11:00am on a doji just above the 20 EMA. You probably couldn't have recognized it in real time unless you were a very observant Elliottician, but there was a 4-wave pattern at the time (with the 3rd being strong) so this could have been considered a "buy the 4th wave" trade into a 5th wave high.

Read my report toward the end at how many divergences set-up into the intraday high at \$89.00. Suffice it to say - that was a powerful location to put on a short and play for a target at least to the 20 or even 50 EMA. Price formed a flag as it slightly held support at the 50 EMA into resistance at the 20, which formed a mini-bear flag (enter short as price pulled back to the 20) just before the Cradle Crossover. It was also acceptable - from an edge standpoint - (ie, trend day) to get long as price formed dojis about the 50 EMA. This would have been done if you were expecting the trend day to continue which was a fair assumption. Your stop would have been taken out with the large down-bar at 12:30.

The large down-bar should have been a clue that a Wave 3 might be underway, particularly when we continued to move to new momentum, TICK, and price lows on the day. We got a fractal W4 (minor) pullback into 1:00, but it was only part of the powerful 3rd wave. Support from yesterday's close failed though price did find support at the rising 20 SMA on both a positive TICK and Momentum divergence. So many times, 5-wave (even fractal) impulses end on divergences.

We got a large Wave 4 retracement which formed a large-scale bear flag (which was more of an AB=CD measured move pattern). Price found resistance at the falling 50 EMA, setting up a trade (stop just beyond the 50 - target = a retest of the lows). Price fell into new lows as expected (by the Elliott Wave structure that developed - remember after you recognize a 3rd wave down, you sell short the 4th wave rally and then buy after the 5th wave completes - those are the 'ripples' you trade after seeing a rock drop into the pond ... aka 3rd wave).

A positive TICK and Momentum divergence formed into the larger 5th wave, triggering a buy trade that targeted the 20 or 50 EMA, both of which met their target into the close.



The 5-minute structure clarified in TradeStation.



A bonus Fibonacci Price Projection (off the confluence zone) chart of the NASDAQ.

Main idea: NASDAQ reached the Price Projection Low exactly at 1,279, hinting that - for now - the low will hold.

Second idea: Price is now at (rough) confluence overhead resistance (38.2% Fibonacci), hinting that a pullback is imminent... unless price breaks above 1,756. If so, the next 'super' confluence zone would be 1,870.

To preserve the lesson, I'm adding the main portion of today's intraday blog post to the official update here:



Using today's price action so far as an example, let me walk you inside the price action for April 30, 2009 in the SPY to discover that massive TICK, Breadth, and Momentum divergences all formed, clueing you in that a price reversal was far more likely than price continuation. Let's walk through the market internals quickly to see how knowledge of this concept could have led to profits.

The **main idea to learn** is that a TICK and Breadth divergence formed as price made weak new highs, and the doji reversal candles at the highs - complete with TICK, Breadth, and Momentum (not shown) Divergences all signaled a powerful low-risk short-selling opportunity that was irresistible.

To show this, let me explain the functions on the chart. We're looking at the **1-min SPY** (S&P 500 ETF). Underneath (in blue) I'm showing the **TICK** (number of advancing stocks on an uptick at the moment minus number of declining stocks on a downtick). On the third line, I'm showing just the Number of NYSE Declining Stocks (\$DECL) - usually you look at this in conjunction with the Net Advancing Stocks (\$ADV) but the hidden signal came from the advancing stocks remaining the same but there was a steady ebb upwards in the number of stocks that switched to declining on the day - that's what I want to show).

Finally, I'm showing the classic Breadth, which is the 'spread' using the formula \$ADV minus \$DECL (or number of advancing stocks positive on the day minus the number of declining stocks negative on the day).

Moving right along, price began the morning with an overnight gap (not shown as to focus on the chart scaling - I cut off the first few opening 1-min bars), so people assumed underlying strength in the market and most likely 'went long.' Price did continue its trek higher, breadth slightly expanded, and the TICK registered a marginal high at 10:15 EST. The SPY traded at \$88.90.

Price swung back down for the next hour and then made a new high on the day at \$89.00.

However, look very closely at the Market Internals. At the same time price made a new swing high above its \$88.90 morning high, the following took place:

The TICK registered a lower high reading than the morning (1015 at the morning high vs 672 for the absolute high of the day)

The \$DECL Decliners line registered a higher reading (more stocks were down on the day at the afternoon high than the morning high... the morning high saw 507 stocks down on the day while the afternoon high saw 593 stocks down on the day - almost 100 stocks were now trading lower on the day than they were when the SPY made a prior intraday high)

The Breadth (spread) line registered a lower reading than the morning high. The "Breadth" line in the morning high showed a positive value of 1,870 difference in ADV and DECL while the afternoon \$89.00 high showed a breadth difference of 1,780 - again, almost 100 stocks different)

The 3/10 Momentum Oscillator (not shown) also registered a higher low, carving in a negative momentum divergence on the 11:20am high.

Taken together, the "Weight of the Evidence" showed odds overwhelmingly favored for a downward move rather than an up-move. Or stated differently, the 11:20am high was not confirmed by strength as indicated by the Market Internal readings. Such non-confirmations and divergences almost always result in actual price reversals.