



## Daily "Idealized Trades" Report

### SPY (SPY 500 ETF) 5-min



Today was a "Type III" trend day - we opened with a 'large' gap, made new TICK lows, continued to make new TICK and Price lows, never broke above the 50 EMA, and closed on the low of the day.

I can summarize today's "Idealized Trades" in one sentence:

"Realize early on that today favors a trend day, and the moment you realize that, get short and hold until the close, trailing your stop above the 50 EMA while scalping aggressively (small targets) each time price retraced to the 20 and/or 50 EMA, particularly when price forms a reversal candle such as a doji or shooting star."

But let's learn a little bit from today's action.

1. DO NOT fade a large gap

Large gaps are the precursors of Type III Trend Days - it is WRONG to try to fade them.

2. Watch Market Internals all day for signs of continuation

We noted - through the morning session - lower price lows which were combined with lower TICK and Breadth Lows. This is the sign of a large, prevailing trend, and you should stay aggressively short.

3. Even though it looked like today was going to create a "Rounded Reversal" - and it was ok if you tried to play long in the afternoon (and in fact you could have profited from it) - you're better off WAITING for price to break above the 50 EMA to CONFIRM that a Rounded Reversal has taken place. Until then, trail your stop above the 50 EMA. ODDS FAVOR price closing on the lows of the day until proven otherwise by a positive break above the 50 EMA.

4. Ignore Momentum Divergences (in isolation) on Trend Days.

Momentum Precedes Price, but all momentum oscillators - and oscillators in general (like RSI, Stochastic, MACD) will FAIL (giving false buy signals) on a Trend Day. Lesson: TURN THEM OFF and use Moving Averages ONLY until (and unless) price breaks above a key EMA.

5. ONLY MOVING AVERAGES set-up the best trades on Trend Days

Note the red arrows. Other than the aggressive 'divergence doji scalp' trade long at 1:30, there were NO other 'ideal trades' using intricate methods - SHORT ANY PULLBACK.



Text written from today's blog post:

So we began with a large, 1.00% morning gap down in the S&P 500 (and other indexes) which should have clued you in to be expecting a range expansion and possible Trend Day move.

We began with new TICK lows sub 1,000 right off the bat and a negative breadth (bottom panel) reading of -1,700 which trended down all day and hit a final low of -2,372, confirming the new price lows all the way down.

From the morning, it was clear that the best plays were to short pullbacks and retracements to the falling 20 EMA, particularly if confirmed with some sort of reversal candle (like a doji, engulfing, or shooting star) - I marked most of these simple pullback trades with red arrows.

Generally, you would place a stop just above the 20 EMA and as the moving averages narrowed, you would then shift up to use the 50 EMA as a trailing stop.

So as we progressed, we kept seeing New TICK Lows and New Breadth Lows on the day until we got a climax and doji at 1:30 EST. One could have aggressively played a long here and anticipated a 'rounded reversal' or

failed trend day (meaning to expect that as the low) but in this case, we see yet another example of how playing long or trying to call the 'bottom' on a trend day is a loser's game.

Today was a "Type III" or "True" Trend Day in the sense that we got a large morning opening gap and the market internals confirmed as price made new lows, and finally price closed on the low of the day - a Textbook Example.