



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Range-bound Day.

On a range day, many 'edge' trades fail, particularly those which use EMAs as triggers for entry. Notice how the EMAs flattend from 11:00am onwards. A "cradle" is the only trade you can take when EMAs converge. Otherwise, EMAs are useless when they converge, particularly if we're in a trading range.

The expectation going into today's trading was for that of a possible 'trading range' environment. We normally don't get two trend days in a row - the market needs to consolidate after a large gain (or loss).

As such, the small morning gap continued this thought process and the gap was quickly filled. Price inflected back down off yesterday's high and set-up a quick, aggressive 'impulse buy' scalp trade (as we had a new momentum high and pullback to the rising 20 EMA with a hammer candle). The target was the intraday high which was quickly achieved, as two long-upper shadows (bearish) formed. Price actually inflected back up one more time, but that was all the bulls could muster.

Price plunged in a steep downward swing to new lows along with a new momentum low. This set-up an Impulse Sell trade as dojis formed at the underside of the 50 EMA... though the trade failed and was quickly stopped out. At this point (the noon highs), a doji formed and then price broke the rising trend channel, setting up a Bear Flag trade. We did get downside action and a profitable scalp (price did eventually test the lows... but it was not a bear flag) so the classic bear flag failed.

At this time (around 1:00), you should have noticed the trading range environment, which was evidenced by the low ADX reading. The bias on the day was flat to down, but the 'ideal trades' were to fade extremes, or play 'ping-pong' as price bounced from trendline support to trendline resistance.

Alternately, it was just as acceptable to step aside and enjoy your afternoon - you do not have to trade every day, and days after a big trend day often are very difficult to trade.

If you stuck around, we did get a price expansion move (as expected from the low ADX) into the close.

In my professional opinion, you were best served avoiding the choppiness of a post-trend day unless we get a large gap in the morning session.

Remember, the market alternates from price expansion to price contraction.

A Focus on ADX values beneath 15 (turns blue):





Slight TICK divergences.

Best strategy after noon might have been to fade TICK highs and lows. Even better was to stand aside.



A focus on Market Internals (TICK, TRIN, Breadth) throughout the day.

That the TICK and Breadth were both rising was very eerie.