

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



I hope everyone survived July's mid-month Options Expiration! Such days often leave us with few trading opportunities and choppy conditions. However, today did offer some high-probability, low risk trades, as all days do. Let's take a look at some of them.

We began the day with a thrust to the downside as price nipped just beneath the 50 EMA. There wasn't necessarily a trade off this level, though the doji and then break above the 20 EMA gave us a quick scalp for a trade to test yesterday's close - this probably happened too quick and in too much noise for most traders - that's why we look at these charts end of day.

We formed another doji and then bearish engulfing reversal candles at the blue line of yesterday's close, giving us a nice counter-trend scalp down to re-test the day's lows - remember what I said last night - OpEx days are often choppy, range-bound days so the strategy often becomes "fade extremes" and play conservatively in a range.

I did want to highlight one powerful trade that took place mid-day. We could have drawn a trendline from yesterday's high to connect the mid-morning high and then of course drawn a horizontal line connecting support which would have given us a simple descending triangle. This is a consolidation pattern, and we want to be buyers of a breakout of the pattern or sellers on a breakdown(either up or down - we can't have a bias with a tight consolidation pattern based on the range expansion/contraction principle).

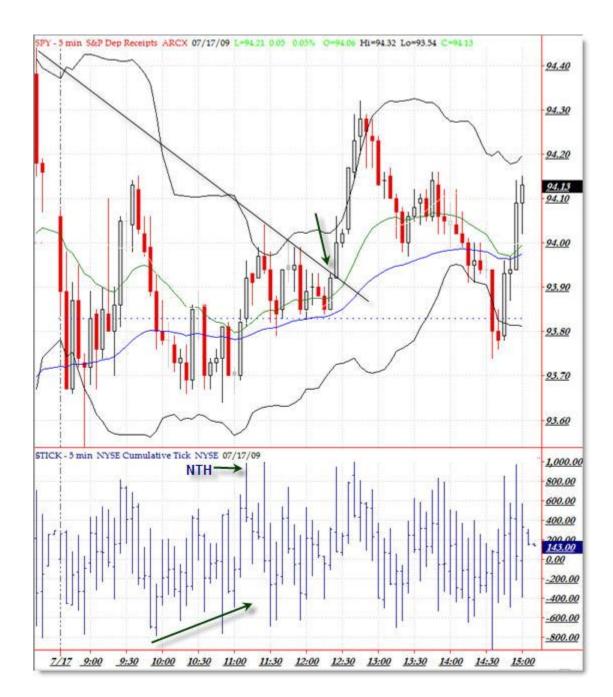
Price formed two bullish candles in a row and broke trendline and EMA resistance... off a positive momentum divergence (as well as growing firming/strength in the TICK). All this together gave us the lowest risk, highest probability 'breakout' price expansion (larger target) trade.

Price then formed a second triangle (not drawn - small pullback into 1:00) and broke out once again into the 1:00pm EST Afternoon Breakout Trade (if you aren't aware of this, I highlight it almost every day when it occurs - it's the tendency for a market to consolidate during 'lunch' and then breakout into a trend/impulse move around 1:00 EST).

Price made a new high on the day as the day shifted to the upside, but it wound up being a head-fake and - like most consolidation/range/Options Expiration days, it's often best to FADE (trade against) extremes rather than to expect continuation (like yesterday and Wednesday).

Price formed an 'abc' three-wave pullback to challenge the day's lows and then - in true 'range day' fashion, surged up to the upper-middle half of the day's range.

Remember, the type of day structure/bias (Trend or Range) will determine your trading tactics.



The main highlight from TradeStation is that of growing momentum in the TICK from 10:00am to 11:00 (CST - that would be 11:00am to 12:00pm EST).

We then formed a NEW TICK HIGH which - in Wyckoff Terms - is a "Sign of Strength" that foreshadows higher prices yet to come (due to the TICK 'burst'). We got those new highs once we broke out (trade entry signal) of the descending triangle into the 1:00 "Afternoon Breakout" Zone.



In terms of what's next, price is clearly overbought no matter what type of indicator/oscillator (like Stochastic, RSI, etc). We've formed a doji on today's session just above key resistance, and the next level to watch of course is the 950 highs from June. A break above that would trigger even more stop-losses from the shorts (my bet is that the 'power' of this rally has been in large part due to shorts bailing on positions because they were so "certain" the Head and Shoulders would break to the downside).

There would be a "Magnet Trade" or "Open Air" up to the 1,000 zone should we break above 950 cleanly... that's a big if.

In terms of Monday, odds shift slightly bearish only because of today's doji and the grossly overbought condition in price... but once again, if the herd is moving, do not get in its way.

Otherwise, an eventual pullback/retracement to confluence EMA support near \$92 seems likely to expect.

This chart is also evidence not to "Jump the Gun" on a Cradle Sell trade - the Cradle (EMA Crossover) did NOT form.



A quick lesson in two major divergences ('three push' or multi-swings) leading to price reversals, as well as two ascending triangles being broken (both with gaps) which set-up excellent trading signals to those aware of them.

Remember the principle "Price Alternates Between Range Expansion and Contraction".

After a contraction move like a triangle, we should expect a range expansion move - that is our trade.