



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Today was a "Flat" or Rangebound day which wound up having some decent trades, despite the choppy conditions of the session.

We first began with an opening gap of around \$0.55 which was at the upper end of the "fade-able" range to expect a gap fill - and that was the first trade of the day. The fill occurred very quickly and the exit would have been once price retested yesterday's closing price near \$95.60.

Because price then inflected downwards, it increased the odds that today would be a range-day and that we should expect 'back and fill' conditions (and not expect trend day conditions).

The next trade of the day came in around 10:30am when price formed a doji and then a bullish engulfing candle as it inflected off the rising 50 period EMA - the conservative target would have been again yesterday's close, though we went slightly beyond that. We did form a doji at the \$95.80 level at 11:00 which signaled an exit (long) and set-up an aggressive short for those so inclined to trade within a range day (it's much more difficult at times).

This short trade could have been exited as price formed an 'inverted hammer' (doji-like) candle just before noon again at the rising 50 EMA.

At this point, you could have drawn in trendlines since we had two highs and two lows to create our trendline that wound up drawing out a symmetrical triangle. We formed a doji at the upper trendline exactly at noon and then bounced back to find support at the lower line of the trendline. You should have been expecting to play the price expansion move (in either direction) once we got a clean break out to play for a price expansion move - this occurred around 12:20.

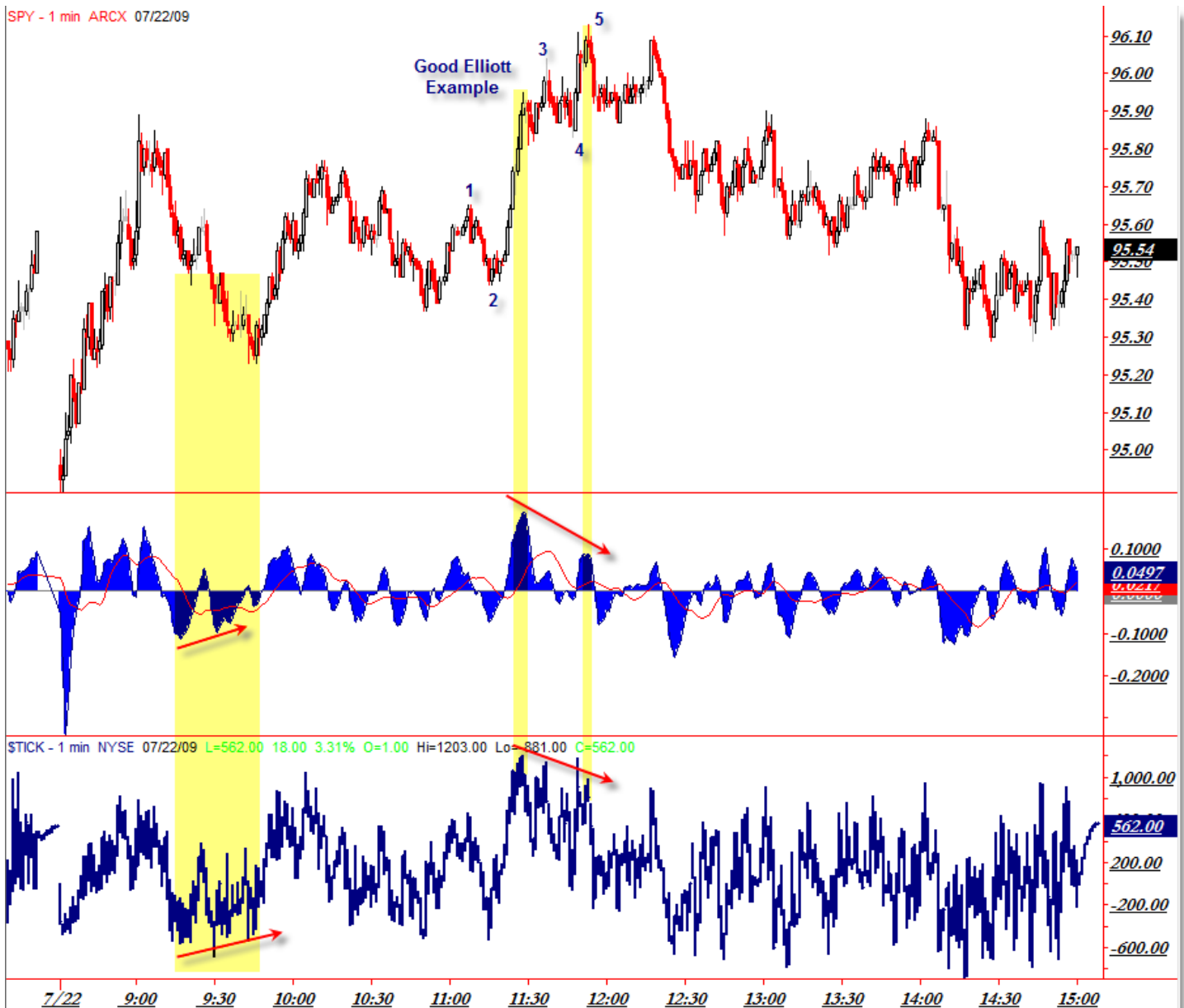
Indeed, price surged to the highs of the day and if you had not exited already, notice the 3 dojis that formed at the 1:00pm hour. The price weakness here signaled it was a good idea to exit any long trades at the high and consider going short - remember, in a range day, we fade extremes as we perceive them.

We traded back to yesterday's close (which often serves as support and resistance on the day) and then had a slight bounce, though a choppy two hour period unfolded with few if any opportunities for profit.

There was a very hard to discern bear flag which probably did not lend itself to an opportunity intraday, but price did form an "AB equals CD" relationship which terminated strangely enough at the extended trendline from the morning's triangle (notice the dojis and long lower shadows that formed off that level).

If you were short, you should have exited at the choppy dojis at the bottom Bollinger Band and aggressive traders may have considered going long.

The lesson to learn is that once you suspect we have a confirmed range day, look to fade extremes in price as we form reversal candles and test support/resistance. Momentum oscillators are generally less effective (in terms of divergences or new highs/lows) on Range Days.



A good example of the "Elliott Pattern" - or as I call them "Elliott's Fractals" where there is a strong momentum move which results in a new TICK and Momentum High (Wave 3) which sets up two trades for you: BUY after the 4th wave finds support and then SELL once the 5th wave ends. Notice the divergence examples that worked as expected.

There was also a key divergence going into the 9:30 CST (10:30 EST) lows.

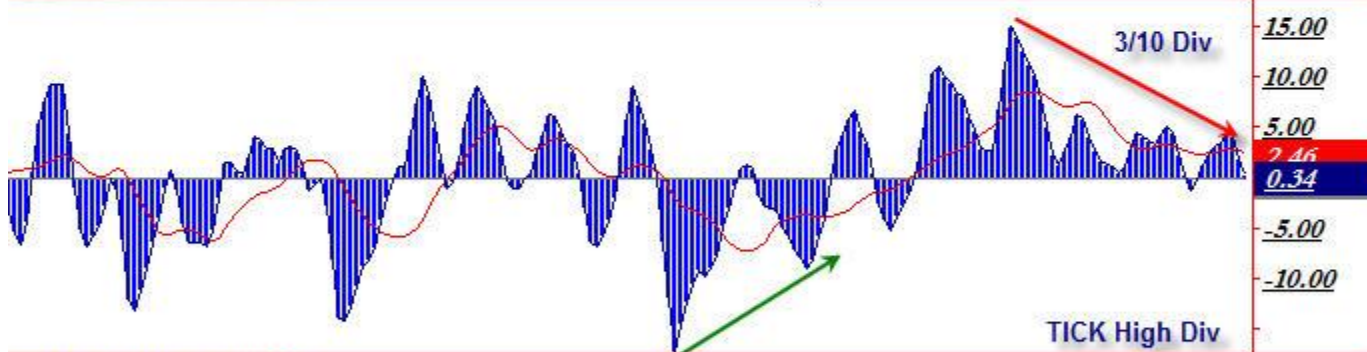
On a range day, there really wasn't much assistance from the TICK or the 3/10.

\$INX - 60 min US 07/22/09

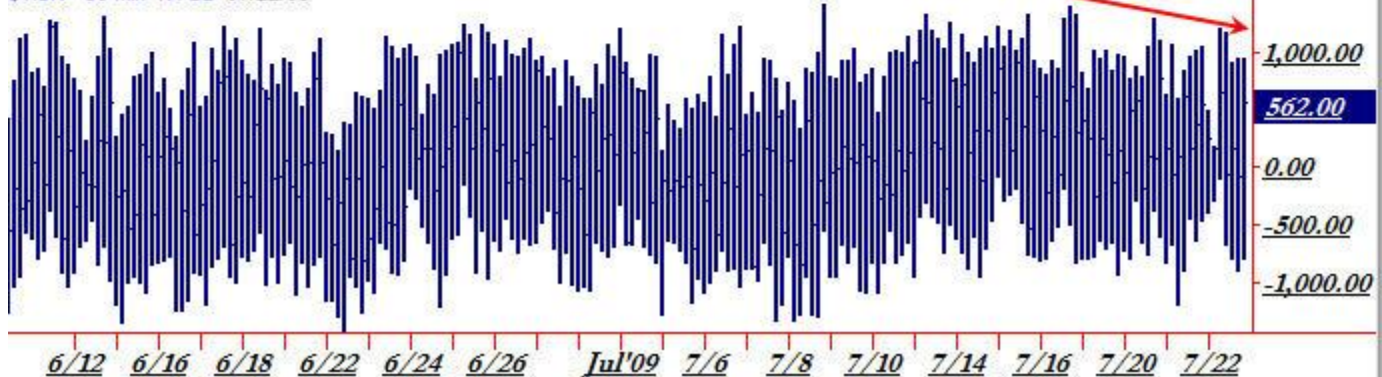
Prior Resistance



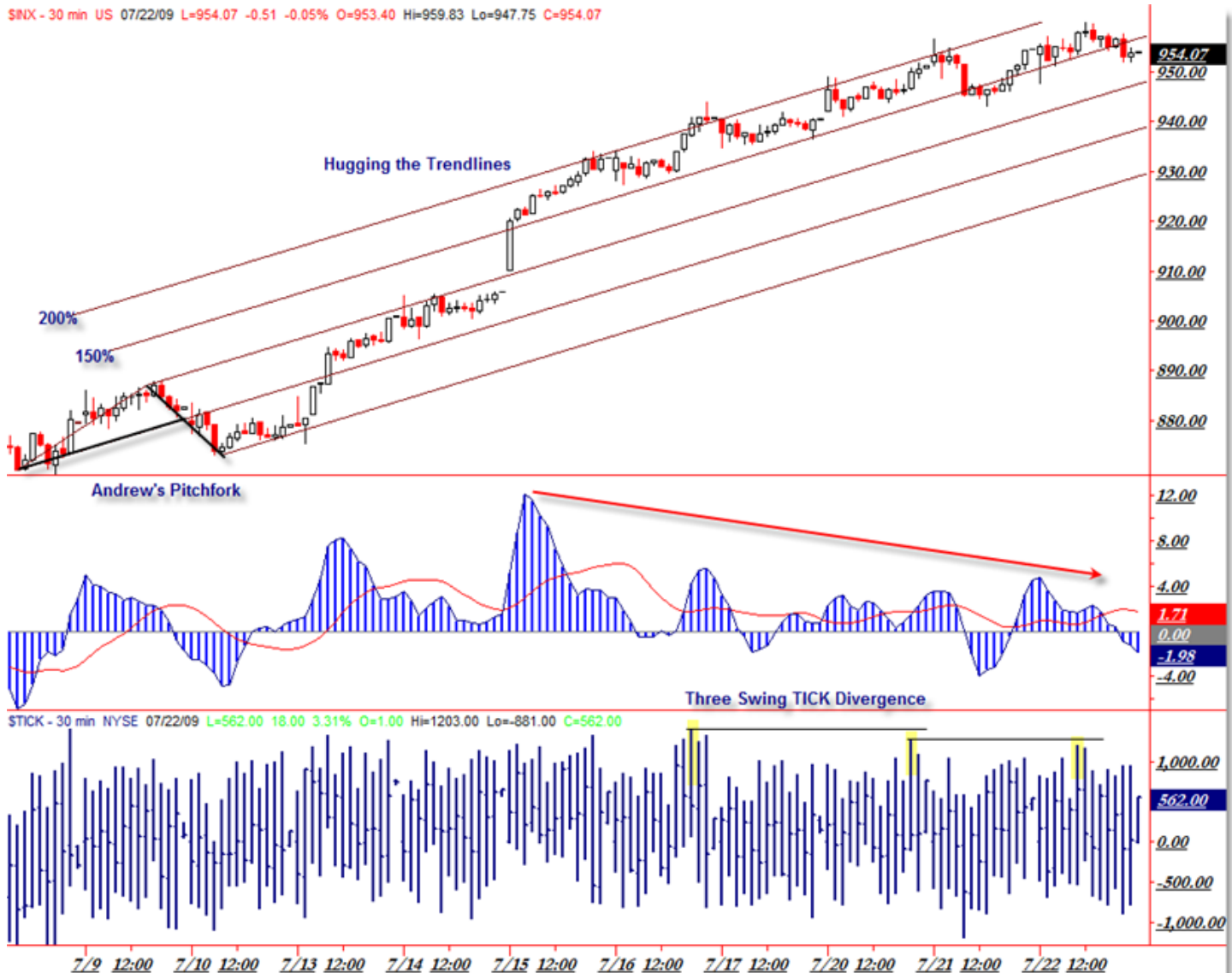
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\$TICK - 60 min NYSE 07/22/09



Stepping into prediction mode here. Odds strongly favor - but do NOT guarantee - a down-move is more likely than continuation as we challenge overhead resistance at the 956 area which dates back to June and January as key highs the market has failed to overcome. There is also a multi-swing negative TICK divergence which is not as important as the powerful three-swing negative TICK divergence that has formed under price. This would be an excellent low-risk (stop above 965 or where you're comfortable which could be expanded to the 1,000 level depending on your timeframe and risk tolerance) and a minimum target of 920 and potentially a whole move to test the lows... but too early to call that.



The 30-min chart allows us to step inside price to see the power of this recent rally. If you draw an Andrew's Pitchfork from the initial "seed" swing, then you are given a pitchfork where price spends time until July 15th when it broke strongly through the 100% line. You had to expand the pitchfork to include the 150% and 200% lines, both of which have contained price very well all the way up. We're starting to see weakness and have broken beneath the 150% line two times now and are currently underneath it. With the momentum and especially the TICK divergence, odds strongly favor the downside - the risk is to the upside while the opportunity is to the downside. The bias would be to the downside on the next trading session, barring that or other unforeseen positive news, and it still pays to be cautious/careful as I've been advocating. But now, I would be more conservative on the long-side due to price being at significant resistance ("last line in the sand for sellers") with internal divergences.

A break above 960 would challenge this view and a break above 965 would likely trigger further short-covering and new longs buying which could jack the price higher. A move to 1,000 - which many people are advocating - is not out of the question but odds favor at least some type of down-swing before reaching that level instantly.