Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today was another "Range Day," which began with a very small opening gap that was filled within the first five minutes and continued in a tight range all day long. The dominant strategy on range days is to fade extremes (using oscillators like RSI or Stochastic) and note (trade) any TICK divergence or fade extreme TICK readings.

Range days are quite inefficient from a trading standpoint, as you have to work the whole day and often wind up with less (fewer) profits and trading opportunities. Let's take a look at the opportunities in today's trading.

There was no chance to profit from the morning gap, and when price surged to the high of the day at $98.40, perhaps the expectation was for higher prices so odds favored a higher move. However, price immediately flipped and reversed down (hinted only by a slight negative momentum divergence (first chart) and negative TICK high divergence from yesterday's pricing (left side of lower chart). Plus, there was a long 'upper shadow' on the early candle just prior to the plunge - but otherwise there were no concrete signals (also price was beyond the outer boundary of the standard Bollinger Band).

After the plunge through EMA support to new lows on the day, the expectation could have been "we will make lower prices on the day thanks to a new price, TICK, and momentum low" however this was NOT the case, as pure momentum principles that work on regular and trend days fail to work on tight range days (just like Trend Days, it takes some time - usually at least two hours - to have confidence in the type of day we're having).

Remember, there is a "Goldilocks" phenomenon to using pure momentum principles - not too "rangebound" and not too "powerful trend day."

On Range Days, moving averages are useless as support and resistance - and one of the clues we're having a Range Day is that the EMAs converge and price whips up and down through them (notice how the EMAs provided NO support on the morning drop and NO resistance on the 11:00am rise - those were your clues).

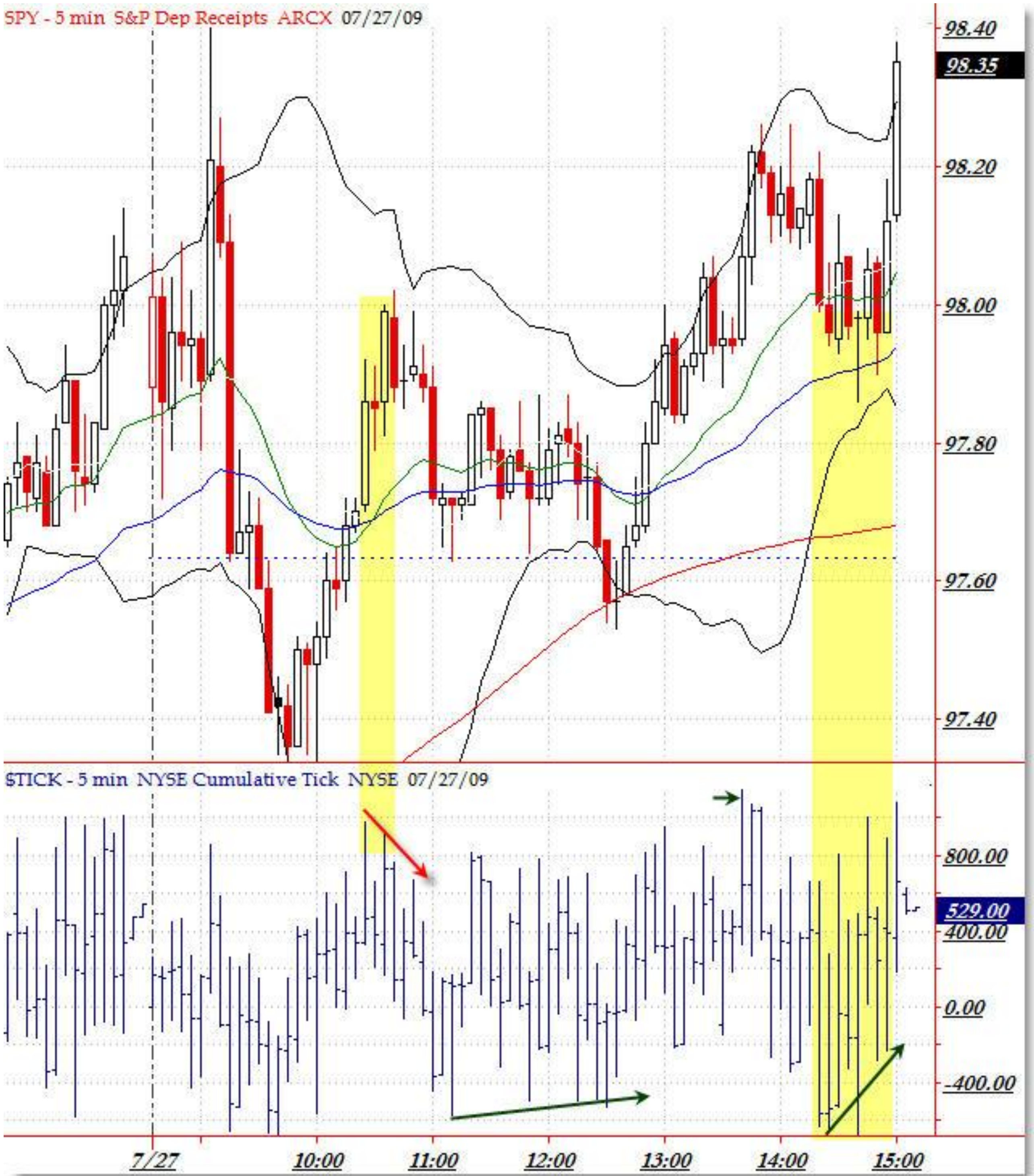
As price made new lows just before 11:00am, we had a doji, bullish engulfing, then two long-legged bullish hammer-like candles that formed off a positive TICK divergence (see 1-min chart) - all of which gave you a nice 'go long' opportunity which could have been exited as price tested the falling (converging) EMAs as a doji formed off this level. The doji at the confluence EMAs combined with new TICK and Momentum lows about 11:20 gave you a short-sell entry which was very quickly stopped out.

Under 'normal' circumstances, this doji sell signal would have 'worked' to produce a down-swing, giving you a profit and allowing you to place a tight stop just above the confluence EMAs (which was hit). Successful trading is about risk/reward, opportunity identification, and probabilities - this was a classic trade that failed.

When a classic (or 'edge-based') trade fails, it often sends a more powerful signal that 'something else' is operating - in this case, it gave us evidence that we might have a range day forming. This was confirmed after noon when the EMAs converged and price chopped up and down between them - tell-tale signs of a Range Day.

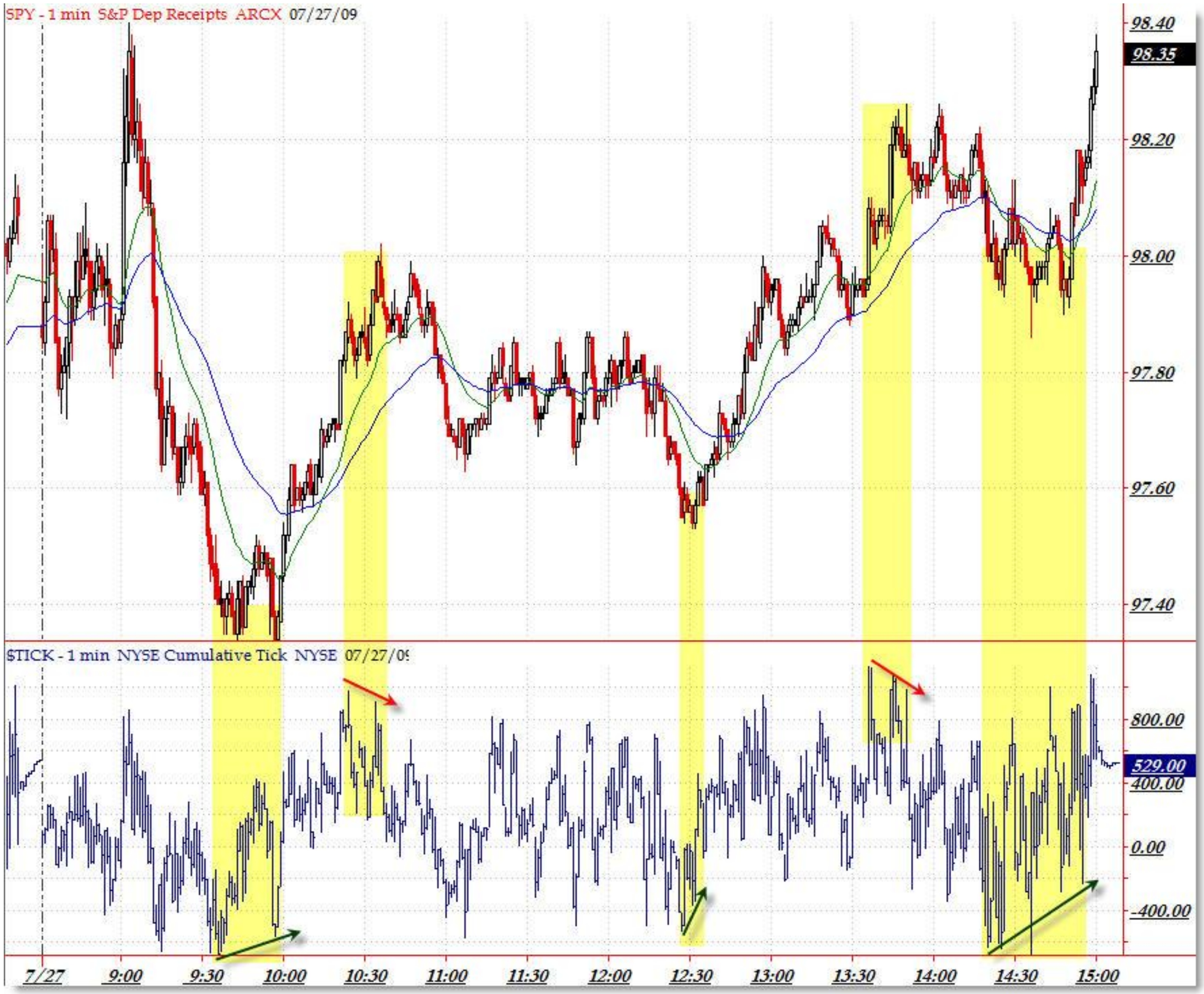
As 1:00 arrived, price broke down from consolidation and the expectation might have been for a momentum move down - however this as well was not the case when price challenged the lower Bollinger Band and the 200 period SMA and formed a doji (along with a positive TICK divergence as price began to rise). This was evidence to ABANDON any short-sale positions and go ahead and flip long in acknowledgement that a Range Day was upon us and that odds favored higher prices as the TICK was hinting via divergences.

What also formed at this time was a strange type of "Bull Flag" or more properly a "Measured Move" trade (also known as an "AB equals CD" price pattern). The letters are NOT Elliott Wave notation, but rather the notation for a Measured Move. The "AB" swing should yield an equal move that is labeled "CD" which is the tradable move just like a bull flag (trading the swing as price breaks above the flag). If you were familiar with this pattern and recognized it in real time (I suspect few people did - that's the benefit of these end-of-day reviews so that you can familiarize yourself and act in real-time as you see these classic patterns form). Price did complete an exact 'measured move' (which was your exit) and began trailing lower. Price formed a doji and positive TICK divergence about 3:30 into the $98.00 support zone and surged higher into the close - once again, **bulls are still dominant** and you have to trade with this bias in mind.



Here we see the 5-min TICK divergences that formed through the day and the resulting price move the occurred.

Remember, TICK divergences are far more 'powerful' than indicator divergences, and on a Range Day, you should be keenly aware and trade (scalp) aggressively any TICK divergence you observe (with a tight stop in the event the divergence fails).



The 1-min chart highlights the TICK divergences seen on the 5-min chart.

When you think you've spotted a TICK divergence on the 5-min chart, it's ALWAYS best to drop quickly to the 1-min chart to do a visual "second check" to make sure. If you find the TICK divergence is also forming on the 1-min chart, you can enter and manage your trade much easier and efficiently.

Remember to use relatively tight stops (not a penny or point away, of course) but not "too tight" because you are trading counter to the price move (aka 'fading' price).

TEACHING MOMENT: "Simple Fibonacci Retracements Intraday"

Here is a "Teaching Moment" on how to use Fibonacci retracements of key (observable) price swings. Please Keep it Simple intraday when using Fibonacci and ONLY draw a grid when you know what you are trying to find.

For example, as price formed a massive swing from the $98.40 high to the $97.40 low that ended at 10:00 CST, you could have bought at the lows (particularly thanks to the TICK divergence and doji/hammer reversal candles at the low) and asked "Where is Price LIKELY to find resistance?" in other words "How LONG should I hold this trade?"

The ANSWER to the specific question was that a minimum target would be the 50% retracement at $97.87 (so perhaps you might decide to take off half the position at that level) or a MAXIMUM upside target of 61.80% which was exactly $98.00 (which also served as "round number" resistance). Your stop would be at most $0.20 below the $97.34 low so this gave a very favorable risk/reward trade.

As price continued to move higher, shooting through the 38.2% retracement of the morning high to the lows, it could have told you this was a "sign of strength" and that price was retracing a significant part of the morning impulse down.

Price actually stopped exactly at the 61.8% Fibonacci retracement, which was your optimal exit and an aggressive place to put on a fresh short-sale position (which was confirmed by both a 1-min and 5-min TICK divergence as well as bearish candles on the 5-min chart).

In this sense, a Fibonacci grid confirmed your suspicion that odds favored a downward move and the TICK divergences along with bearish candles helped give you confidence to put on a short-sale trade with a stop perhaps $0.20 or less above expected resistance at $98.00, giving you an edge trade.

The question NOW becomes "What is my TARGET for this short-sale trade I am in now?" or, alternatively "Where is price likely to find support?"

Again, we turn to a NEW Fibonacci grid to answer this specific question. It's perhaps best to erase your morning Fibonacci grid so as not to clutter the screen, but for educational purposes, I'm showing both (so as not to draw a separate chart).

As we draw a new Fibonacci grid (blue) from the lows to the morning Highs (or vice versa depending on your software) our question becomes "How MUCH percent will the market move down and retrace the impulse up from $97.34 to $98.00?" Again, a Fibonacci grid can hold the answer.

The initial target would be a 38.2% retracement at $97.75 so you could consider taking off half the position there or even taking off half the position at the 50% retracement and playing yet again for a MAXIMUM target of a 61.8% retracement.

In this case, price found support at the 50% Fibonacci retracement level (almost exactly) and began to inflect higher, so you could have exited as price began its rise up from $97.67. Ultimately, we tested this level two times as price formed a consolidation before breaking down slightly beneath the 61.8% retracement which would have been a MAXIMUM target (exit as price hits $97.59) as explained in the earlier discussion.

Once again, you could have used the price inflection off the 61.8% retracement in conjunction with the 5-min doji at the 200 SMA as well as the 1-min TICK divergence here to 'get long' (buy) and anticipate a price swing up, which is what occurred (again with a tight stop a stable distance beneath the 61.8% retracement at $97.59 - notice price nipped beneath this level, taking out any ultra-tight stops).

These are two examples of how drawing a simple Fibonacci retracement grid with a SPECIFIC question and purpose in mind could have assisted you in setting targets and confirming trade entries.

The "prediction" remains the same as I've been saying all week - no matter what your bias is or how overbought you think price is or how much you just can't wait to get short, BULLS ARE IN CONTROL and you must respect that (price) and you need to wait for CONFIRMATION of a true breakdown before considering getting aggressive to the short-side.

Until proven otherwise, an upward bias remains. The upward bias persists in part due to short-sellers being forced to cover their well-intentioned short-sale positions - don't be one of them.