Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

It's a little difficult to describe today's trend structure. I suspect it will be classified as a "rounded reversal" or Failed Type II Trend Day (Making it a Type I Trend Day).

We gapped up in the morning (as anticipated - we were testing daily chart support) but the gap-fade trade (first trade of the morning short) would have worked very well, to enter either just after the open or as price failed to overcome confluence EMA resistance - target yesterday's close. Stop above $88.90 or $89.00.

There was a nice 'second chance' entry as price pulled back and formed a 'doji' at the falling 50 EMA, and then price cascaded down through support in what appeared to be a strong 3rd wave (of some degree) decline. The play - if not already short - was to wait for a 4th wave retracement and then get short for the final 5th wave. Remember, we're not concerned with the full Elliott Wave - only to identify the 3rd wave, wait out the 4th wave, then get aggressive on the 5th wave. The pattern (and lesson) I taught yesterday (new momentum/TICK low on the 3rd wave, divergence in momentum/TICK with price on 5th wave) was evident today as well - I do hope you took advantage of it --- or at least learn it this evening to take advantage next time it occurs - and it will.

As price pushed to new lows in the noon hour, we had a clean Elliott 5-wave fractal that completed itself on a positive divergence, which should have forced a long (buy) trade to target an "ABC" Swing up at least to the 20 EMA if not all the way to the 50 EMA (both targets were met) with a stop beneath the lows of the day.

Now, price formed a 5-wave advance (which is strange for a retracement) into the confluence resistance of the 20 EMA and Bollinger Band. This was another great spot to put on a short-sale trade (in fact, I go into more detail about this spot later in the report).

We did get a new low, though it occurred on a distinct positive divergence, which also created a "Three Push" or Triple Swing positive momentum Divergence... in conjunction with a powerful Bullish Engulfing Candle - that was perhaps one of the, if not the best trade of the day. I also go into more detail and show it up close at the end of the report.

Price rallied into EMA resistance, formed a nice brief Bull Flag (waves A and B) and then ejected to close roughly flat on the day to finish out the C wave of the correction. This could be part of a larger fractal, but we're not concerned about precise Elliott - only what makes money through adding confirmation to our trading strategy and structure of what's happening in price.

An inside look at two very high probability, low-risk trades.

First, we had a flag-like retracement up into the confluence of the 50 EMA + Top of the Bollinger Band. We also had a mini-negative momentum divergence (much clearer on the 1-min chart) and a flat-line TICK Divergence. Sell short anywhere in the first red-bar (5-minutes to decide) near $87.80 and place a stop perhaps just above $88.00. Target either a test of the lows or a new price low (both of which were achieved).

Next, for those who follow Elliott (fine if not), we had the end of some sort of 5-wave fractal move (either the fractal that began off the $87.80 entry (look closely) or the larger-scale fractal). We then had a powerful Bullish Engulfing Candle (which could have alone triggered entry after it completed) and then a "Triple-Swing" Positive Momentum Divergence as well as price having nipped beneath the lower Bollinger Band. Enter aggressively in either red bar or wait for the confirmation for the white bar and then play for a Trend Reversal with a stop just beneath the low of the day.

What about Tomorrow?

We could get a bounce, seeing as that price technically held the 880 level on a closing basis and we've just nipped beneath the 200 SMA. The structure is clearly bearish, and in the intermediate trend, we do expect more down-side, but tomorrow could be an up-day since we are at a critical and absolute support area for bulls to defend. Buyers may try to make a last stand here and it seems the news is doing all it can to hold price at these levels because they know what a break beneath them would mean - an almost certain return to 800 and the potential to fall all the way back to 666 or lower.

The next 60min chart is showing a possible structure for a bounce.

We have a strong bullish bar close, positive momentum divergence, new relative TICK high (not seen since the end of June), and a Fibonacci Price Extension Target (which really is nothing more than a type of Bull Flag - look closely).

Of course, this will be proven wrong with a break to new lows, in which case, we would suggest shorting beneath those levels if structure (TICK, momentum, etc) promotes it.


SPY - 60 min S&P Dep Receipts ARCX 07/08/09 L=88.00 -0.06 -0.07% O=88.59 Hi=88.80 Lo=87.00 C=88.00
1. Fibonacci Extension Target
2. Positive Momentum Divergence
3. New TICK High
all hint that we could see a short-term move/bias up tomorrow
61.80% (89.47)
Fibonacci Extension Target
100.00% (87.14)
88.02
$TICK - 60 min NYSE Cumulative Tick NYSE 07/08/09 L=-301.00 273.00 -47.56% O=2.00 Hi=1408.00 Lo=-1308.00 C=-301.00
-0.38
-301.00
5/11 5/13 5/15 5/19 5/21 5/26 5/28 Jun'09 6/3 6/5 6/9 6/11 6/15 6/17 6/19 6/23 6/25 6/29 Jul'09 7/6 7/8