



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Today followed a normal pattern with few major surprises. As expected, the market followed the bias I mentioned from Friday, which was a downward bias, confirming the bulls are having difficulty overcoming the overhead resistance as outlined in this week's Intermarket Report and in last Friday's Idealized Trades report.

We started the day with an overnight gap of roughly \$0.60, which was in the 'moderate' range and WAS fadeable (though with less confidence than had the gap been less than \$0.50). Thus, the FIRST trade of the day should have been a gap fill with a stop beneath \$100.50 and a target of \$101.20. This trade worked as a perfect example of a gap-fill and I hope you profited from it.

The 'best trade of the day' (which I pointed out in an afternoon blog post) came as price completed a retracement to the resistance of yesterday's close and formed a three-push negative momentum divergence as well as a standard TICK divergence on the 1-min chart. Please see the post for additional information:

<http://blog.afraidtotrade.com/best-trade-of-the-day-spy-divergence-aug-10/>

That divergence was enough of a signal to trigger a potentially aggressive short-sale signal at the 11:00am hour, and as you can see from the 5-min chart, a "Bear Flag" trendline breakdown also occurred at the \$101.05 price, triggering a separate reason to get short and play for a minimum target of a retest of the morning lows at \$100.60 or more aggressively (and appropriately) for a new price low yet to come. Notice the bearish engulfing candle that occurred just prior to the lower trendline break in price.

Price continued to fall through the afternoon until 1:00 when we had a quick mini-bear flag (or more appropriately, an AB = CD "Measured Move" trade... please reference August 6th Idealized Trades for a description of the "AB=CD" pattern).

Price began its final wave to new lows just before 2:00 EST, and just after 2:00pm, a weak bullish engulfing candle formed which locked in place a 5-minute positive momentum divergence. If you look closely at the TICK, we would have expected the TICK to make a meaningful new low on the 2:15 low price of the day, but the TICK formed a 'flat-line' or 'equal' divergence, which is a weaker form of a pure positive divergence, but it sends a signal nonetheless.

At the 2:00pm lows, you could have counted a small fractal 5-wave move beginning with the 11:00am high to count down 5-waves into this low (as I've labeled), or you could have gone with a slightly higher degree count of "ABC" as I've drawn on the final chart. Either way, this level was primed for some type of reaction up, and the reaction (retracement) carried forth all the way into the close.

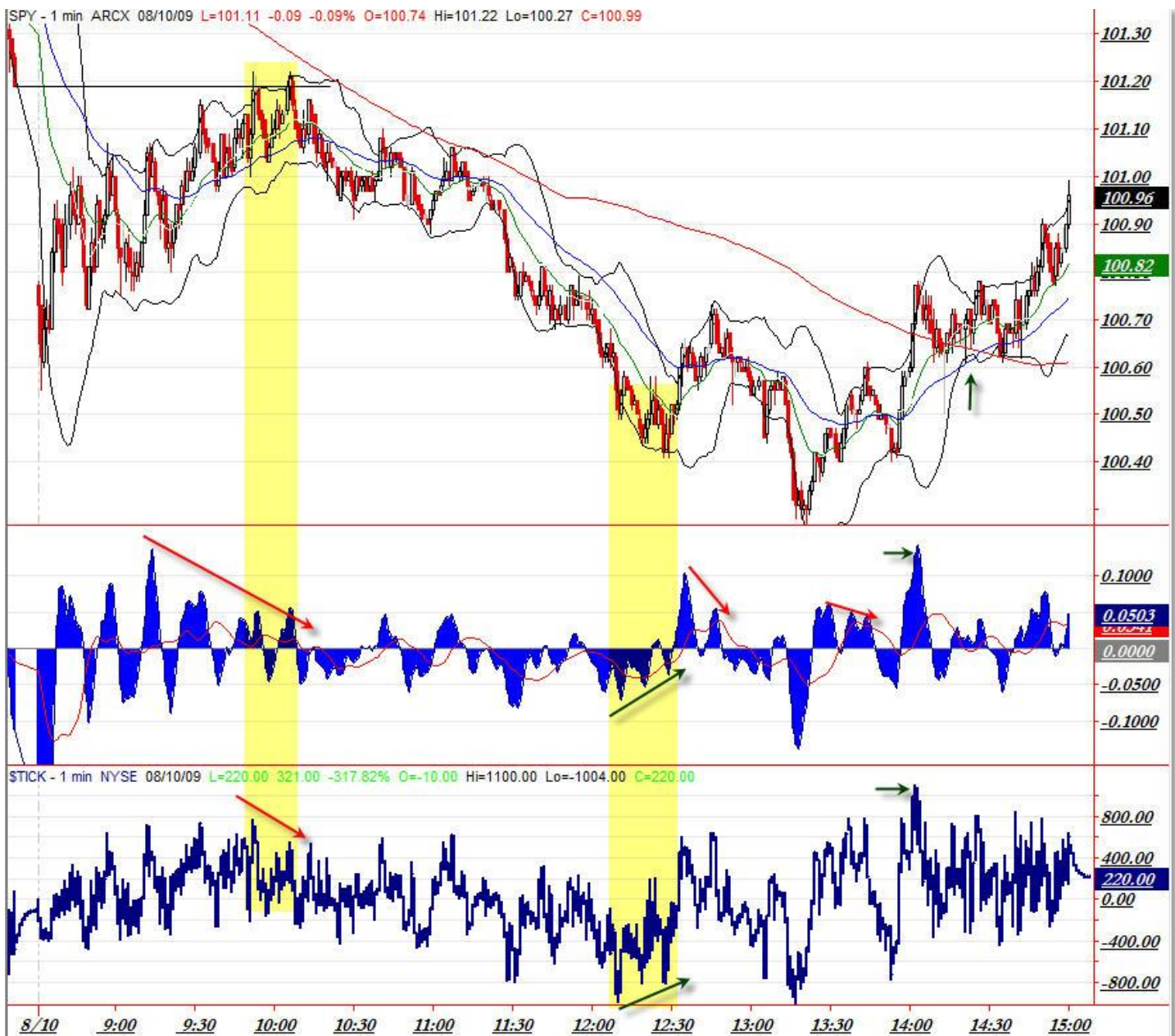
In summary, the best trades laid out as follows:

1. "Fade the Gap" (open)
2. Short the Pullback / Bear Flag / Negative 3/10 Divergence / Negative TICK divergence / resistance (11:00am)
3. Short a mini-Measured Move/Mini-Bear Flag (1:45pm EST) into 20 EMA resistance
4. Buy the 5-wave structure low on Positive 5-min divergence and Flat TICK Divergence for reversal (2:15pm EST)

The goal is to measure up what your trades were in relation to the 'ideal' or 'perfect' trades in retrospect. Doing so forms the foundation for "Efficiency Analysis" and enhances your pattern recognition skills to recognize these trades and confirmations/non-confirmations in real time when they occur (in the heat of the day with real money on the line).



The 5-min TradeStation chart shows a clearer picture of the day, overlaying TICK and 3/10 Oscillator divergences along with a fractal Elliott Count that 'fractalized' either a "C" corrective wave down or a "3" impulsive Wave down. For now I lean to the 'corrective' mode, but remember we use Elliott to confirm what we're seeing - not to be precise in an academic count.



The 1-min chart takes us closer into the price action, particularly in regard to the 11:00 EST (this chart is in Central Time) divergence into resistance at Friday's close (gap fill). That was your best trade of the day.

We had another 'three push' momentum and TICK divergence at 1:30 EST (12:30 CST) which resulted in the "AB = CD" measured move trade and could have been expected to be the lows of the day (that was my expectation) but price had one more swing to the downside before forming the ultimate low of the day at \$100.30. This is an example of where expectation (of a pure reversal off the highlighted region) fails to be met and a final price low comes unexpectedly. This situation is alleviated by either placing wider stops beneath the price lows at \$100.50, or alternatively having tight stops taken out but RE-ENTERING the trade once price rises back above either your stop-loss price OR your original entry (because you were playing for a divergence). In other words, don't let an unexpected swing low upset you and sideline you if price begins to rise - you were CORRECT in your assessment that price was forming a reversal, it's just that one more swing occurred than you expected so take your stop-loss and if price rises as you expected it would after you're stopped out, get back long and play for the same trade.



The longer 5-min structure shows that price nipped just beneath the 61.8% Fibonacci retracement of the August 6th low to the August 7th high. That was another reason I felt the \$100.45 price low of 1:30 would hold... but we had one more 'fake out' swing beneath this Fibonacci support level before price formed its final low on the day.

This also shows a possible Elliott Wave count which fractalizes the waves and shows an educational pattern.

It would be bullish and cause an expectation for an UP day tomorrow if we can rise above \$101.20 in the SPY, though watch \$101.20 closely. If bulls cannot push solidly above this level, the bias would then be to the downside and we can't know in advance until we see how buyers and sellers interact at this critical level - bullish above; bearish beneath.

Remember that WEDNESDAY is the FOMC Meeting and days BEFORE "Fed Days" tend to be quiet, listless, flat days with little opportunity (range-bound days). That is the current expectation ahead of Wednesday's meeting.