



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Today was a "Fed Day" in all its glory. The recent pattern of Fed Days is exemplified perfectly in this chart above - often there's a large morning impulse or gap which is followed by two or three hours of congestion (very low opportunity) and then when the 2:15 EST Fed Statement is announced (policy), then the market first lurches in a false direction, shaking people off guard, then arises in a powerful opposite direction (usually IN the direction of the morning gap) which is sometimes (though not always) followed by an 'unexpected' lurch back in the direction of the first surge (down).

Volatility and volume run high and newer traders are often advised to stand aside on such days - even professional traders can have problems on the wild and sudden swings (in both directions suddenly) on Fed Days.

There was a strong and sudden surge off the open thanks to better than expected earnings in some major companies, as well as other positive economic news. In my experience, on Fed Days, the market will often gap or run strongly in one direction off the open, consolidate, and then move in the "Three Step" pattern you see at the end of the day.

There were few "Ideal Trades" to show you as examples today, so this portion will be reduced.

Essentially, to have made any money today before the announcement, you would have been forced to enter the surging market off the open, which is very difficult for most people (there is no way to set a profit target as well as stop-loss logic is complicated and often far away from entry). It was fine to stand aside if you were waiting for a pullback to enter (to make yourself feel more comfortable) but in so doing, there was no pullback, and thus no entry for you. Remember you do NOT have to trade every moment of the day and if you don't see a preferred set-up, it's best not to trade.

After the market formed a pullback into noon, that was the only decent set-up prior to the Fed Announcement (which often cannot be predicted using technical analysis - or at least there's very little edge in doing so. Not only can you not anticipate what the Fed will report, but more importantly, you cannot anticipate what the market reaction (and counter-reaction) will be (in terms of the digestion/interpretation of the report).

Around 12:30, price formed a doji at the lower Bollinger Band at \$100.80, and you could have entered there long with a stop beneath the rising 50 EMA at \$100.70 or less and played for a new high... which formed quickly to the top of a compressed Bollinger Band with a doji at \$101.20 which should have signaled exit after the doji and roll-over in price.

The market was flat - as is always expected - prior to the announcement (no trades) and then there was a sudden burst of volatility down... then a surge up... then a collapse down.

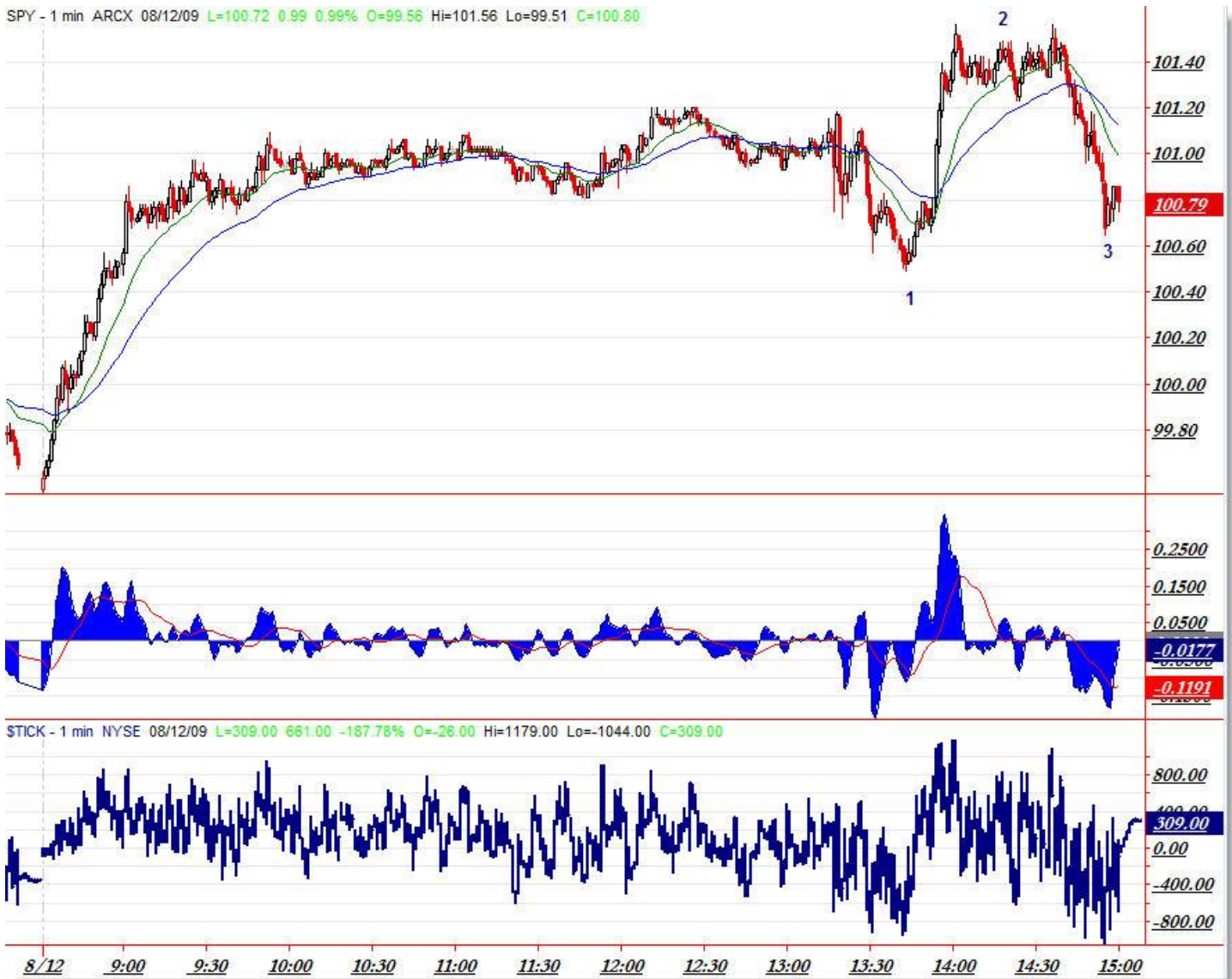
I am not going to pretend that these moves could have been traded perfectly due to the volatility of the moment. Again, newer traders should probably avoid the "1, 2, 3 Action" that occurs (and doesn't occur) directly after a Fed announcement.

It's better to take the day off and regroup/enjoy yourself rather than struggle and lose money very quickly if you're on the wrong side of a Fed swing - if you were short on the initial down-swing, then if you for some reason stepped away from your trading terminal for 15 minutes, then you would have endured a sudden, painful move up from \$100.50 to \$101.50, which is a \$1.00 SPY move (10 point move in the @ES futures). Losing 10 points in 15 minutes in an @ES Futures contract translates to a \$500 loss per contract (or profit if you were a wizard and were able to pick up on this surge... most new traders - I'm guessing - lost money if they tried to play this particular Fed swing action).

Let's look at the day from our other perspectives.



We see slight TICK divergences during subsequent price highs during the day on three occasions. Still, even with these, it's not generally a good idea to short a potential Trend Day for anything more than a quick scalp.



The one-minute chart walks us inside the day's action at a deeper level, which shows us just how 'flat' the late morning and mid-afternoon session was - staying in a range from \$100.80 to \$101.20 before the Fed Announcement.

I did want to highlight a closer look at the 1-min chart:



This shows the complete "Fed Announcement" action, in which the first "impulse down" played out in a stable 5-wave structure, complete with new momentum (and TICK) low on the 3rd wave which then led to a final 5th wave that terminated with a doji-like/spinning top candle on a positive Momentum (and flatline TICK) divergence, just prior to the large surge to the upside.

The large surge from \$100.50 to \$101.50 unfolded in a stable 5-wave Elliott structure according to the basic rules/set-up I always highlight (meaning, once you see a powerful 3rd wave, wait for the 4th wave to play out into support and then play long the final 5th wave and then short at the peak of the final 5th wave if a divergence occurs, which is almost always the case).

While this unfolded on the 1-minute chart, only the most experienced/active scalper traders were able to take advantage, but even this tells us that in the rampant volatility, there was structure/order in the progression to the upside.

SINX - 30 min US 08/12/09 L=1005.81 11.46 1.15% O=994.00 HI=1012.78 Lo=993.36 C=1005.81



I'm showing an internal "Rounded Reversal" or "Arc" technical pattern reaching the "apex" or highest point in the price structure.

While this doesn't guarantee a reversal, it does highly suggest that this strong upswing off the June lows is at least coming into a major technical decision node... meaning the bulls have to continue to push prices higher against this structure which is a daunting task. Odds clearly favor, though do not guarantee, a reversal down and an end to this powerful upswing at these levels... combined with the fact that - as mentioned in the Weekly Report - price is facing key overhead resistance at both 1,007 (November 2008 high) and 1,014 (38.2% Fibonacci retracement of the 2007 high to the 2009 low).

Until proven otherwise, risk remains to the upside while opportunity remains to the downside... though as I've said for the last two weeks, the bulls still are (technically) in control so do not fight them until we get a crystal clear sell signal.