



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Today was yet ANOTHER "Rounded Reversal." Take a look back to note that 7 of the first 10 trading days in August could loosely be described as "Rounded Reversals," where there is an initial impulse in the morning which forms a tight trading range in the mid-afternoon which then forms a 'reversal' in the opposite direction into the close. Instead of noting this as an academic observation, TAKE ADVANTAGE to study this pattern and all the prior reports in August, because it gives you an edge over other participants who aren't picking up on this reality.

For whatever reason, the morning bias is LESS likely to continue into the close, and knowing/expecting this gives you an edge. Funds are active in this market and are having their way, so find out their patterns and take advantage.

There isn't much in terms of "Idealized Trades" (like flags, triangles, etc) to discuss, but let's note what happened and what points we should have established a "Trend Day" bias and then changed it to favor a "Rounded Reversal" bias.

First, the morning did NOT start with an overnight gap, so this should have made you less biased to a Trend Day until the market relentlessly plunged without any sort of bullish candle on the 5-min chart until after 10:00am EST. However, this is why reading these reports and studying market action daily closely can be of immense help - both on Tuesday and Wednesday, price ejected from the open without a meaningful pullback - when the market is showing a particularly tendency, particularly a 'rare' one like that on two days of the week, odds are that the same pattern will repeat within the next few days - for example, today.

The rule is the same - there's no 'idealized' or 'easy' entry into a run-away market. I always note you have to 'hold your nose' and throw in a market order, or else you'll miss the entire move... which is fine if you have a stated rule "I will not chase market moves." Sometimes your strategy will cause you to miss some moves in any market or stock.

Aggressive traders would have sold short as price took out the low of yesterday afternoon at \$100.80/\$100.70 which would have been the last logical level of support - breaking beneath this level would have triggered a 'sweet spot' short-sale trade that would have required trailing a stop above the 20 (conservative) or 50 (aggressive) EMA.

That was really the only strategy to get you short in the event you were not already after a 30 minute breakdown entry (that strategy calls for selling short a breakout of the first 30 minute range).

Otherwise, you were looking to get short on the first pullback, which peaked at 11:00am EST just shy of the falling 20 EMA. At this point, perhaps you should have been anticipating a possible Trend Day, but giving credence to the possibility we might not get a full trend day due to the lack of a major economic report and lack of a large-scale overnight gap to the downside. Meaning, you could have anticipated lower prices, but been less aggressive in so doing.

The pullback shows a classic Elliott Wave pattern (seen on the 1-min chart) which terminated into the 11:30 lows that formed a clean dragonfly (bullish) doji which was followed by another long-legged bullish 'hammer-like' doji at the lower Bollinger Band on a clean positive Momentum Divergence. That was enough to cover your shorts and perhaps wait to re-short or stand on the sidelines to see what price was likely to do next... or wait out the expected 'lunch' period consolidation which is so common (and anticipate a 1:00 afternoon breakout).

Price chopped aimlessly around in this region until we did breakout above the 20 EMA into the 1:00am "Afternoon Break" which marked a possible turning point thanks to the slight New TICK Highs (Wyckoff Sign of Strength) which clued us in that we could be having a Rounded Reversal. We'd need to wait until price broke above the 50 EMA to be certain, though aggressive traders could have begun nibbling long off these levels in anticipation.

Just before 3:00 EST, we did get an official break and close above the 50 EMA complete with a pick-up in volume (spikes) and new TICK Highs on the day, which confirmed that odds had definitely shifted the structure to a "Rounded Reversal" in which we should have been (certainly exiting short positions) looking to be long and buy pullbacks.

Again, there has been a bit of 'random' action (or impulse action) at the end of the day created by large fund action, and today was certainly no exception. The only way to anticipate it was to understand the Rounded Reversal structure and note the recent tendency of the market to form "Rounded Reversals" which was evidenced through most of August already.



The 5-min TradeStation chart shows us a clean picture of the "Rounded Reversal" pattern including the New TICK Highs (green arrows) that accompanied each of the new price highs, which hinted that new price highs were yet to come.

Also, until price confirmed/completed the Rounded Reversal toward the end of the day, any TICK spike above 0 would have been a great short-sale entry for a quick scalp trade in lieu of a Trend Day bias (again, until proven otherwise).



The 1-min chart zooms us in on the day's structure.

There was a clean "Three Push" pattern in both the 3/10 oscillator and the TICK going into the 11:00am EST lows, but we had one little extra 'flush' to the downside which snagged the buy stop-losses at that point which created the day's absolute lows (I defined the "TICK Flush" in yesterday's report). A 'flush' is when an unexpected move occurs after an 'edge' pattern forms which zaps away stop-losses and forms a 'capitulation' low (or high). It's frustrating, but it's

overcome either by using wider stops (my recommendation) or getting back long in the event that your stop is taken out when price rises BACK ABOVE your original entry point.

Notice toward the end of the day, we had a TICK channel breakout and then a new TICK high which was a "Wyckoff" Sign of Strength that hinted that higher prices were yet to come... and they did, changing the structure. There was also a positive 'build-up' of higher lows as indicated in the TICK at the 2:30 EST area (13:30 on the above chart)



In terms of 'prediction' and expectation/structure, this chart - similar to the one I showed last evening - gives more information on the possible "Rounded Arc" Formation price is completing. This structure is VERY bearish, particularly given that price is challenging major chart resistance at the 1,007 and 1,014 level. Momentum is making new early lows while we're seeing a negative divergence with price highs. It's possible the break-out above this arc will hold as the

swing high, or if not, then there could be one more swing up as a final "Bear Trap" (could be vicious) that would zap away all the demand in one fell-swoop, marking a climax high. Otherwise, if the structure continues, it will highlight a 'gentle' transfer from demand (buyers) to supply (sellers) and we should see a reciprocal down-move off these levels.



To make matters worse, we're seeing clean and obvious "Breadth" (internals) divergence with new price highs. The indicator is \$ADD in TradeStation (which you can use) which is the difference between the Advancers and Decliners (classic "breadth"). Notice how 'breadth' is forming lower highs as price forms higher highs - that is a classic non-confirmation and warns of a breakdown/retracement ahead.

Aggressive traders might become biased to the short-side here, but as a caveat, remember that the market has melted overhead resistance and prior divergences, as well as busting a widely seen Head and Shoulders pattern. Bears have been stopped out all the way up and probably are now more conservative, not willing to pressure the market down. Bulls have remained dominant for whatever reason (the reason is irrelevant) as all that matters is 'price.' There no guarantee price will turn down from these levels, though the technical purist approach finds overwhelming evidence it will do so... or at least that a stop-loss above 1,020 (meaning, a close above 1,020 and 1,030) would invalidate bearish

sentiment) and a lower price target could be played down to the 900 or even 875 area, giving a large edge from current levels. We play the odds, not the certainties, and do the best with the data we have at the moment we have it.

So the 'end analysis' is the same as I've been writing to you for the last three or so weeks:

"Temper your bearishness, bulls are STILL in control, get short only if you are aggressive OR if we get a confirmed short-sell signal via the breakdown of EMA support and trend changes on the 60 and 30 minute timeframes, understand that the RISK is to be long and the REWARD is to be short, but since bulls are in control, there is no signal to get long here (price is FAR too overextended at critical resistance levels) and equally so, there is NO short-sell signal just yet unless you are an aggressive trader.

Today's action was proof that you can't just walk up and get short - the end-of-day action/reversal/turn-around would have frustrated you endlessly. This means that the bulls still refuse to give-up so respect that until proven otherwise.

Enjoy the weekend.