



## Daily "Idealized Trades" Report

### SPY (SPY 500 ETF) 5-min



Finally! A trend day comes along and breaks the frustrating string of "Rounded Reversal" patterns we've been having for most of the days in August.

Unfortunately, the overwhelming majority of price action in this trend day came in the overnight/futures session only, as SPY or SDS or other ETF traders were greeted this morning with a powerful downside gap of \$2.00 in the SPY. Odds were exceedingly slim that the gap would fill and high that the day would evolve into a Trend Day - it did so, only it gave us small scalping opportunities only. As such, it will be labeled a "Type III" Trend Day for reference.

With the overnight gap and new price/momentum/TICK lows, the expectation should have been "wait to sell-short the first pullback in anticipation of a new price low yet to come." This trade came as price 'flatlined' around the \$98.50 area, forming multiple dojis around the 10:00am level. Price did make a new thrust to lows at the \$98.20 area before piercing the lower Bollinger Band (on the 5-min chart) and forming a bullish engulfing pattern, which should have been an initial trigger out (profit taking) of any short-sale positions in anticipation to re-short to play for a full trend day.

Price breached gently above the 20 EMA and tagged the upper Bollinger Band at noon EST, giving us a good re-shortening opportunity for a nice scalp (scalps are small-target, highly leveraged positions - the leverage - depending on your risk-tolerance - make up for the small target and small stop).

I expected a breakdown into the classic 1:00pm Afternoon breakout trade, but price was immediately rebuffed to the upside before quickly heading lower to test the \$98.40 low (best seen on 1-min chart). A trading range developed during this period, which was broken at 3:00pm to the downside to confirm the true "Trend Day" structure (the 2:30 period was the classic "make or break" zone, of which a break and 5-min close above the 5-min EMA would have shifted the odds to favor a "Rounded Reversal" day, but because price tagged this level at \$98.60 three times (testing both the upper Bollinger Band and the falling 50 EMA ... great places to locate stop-losses) the bias remained to the downside (meaning you should have been looking for places to get short ONLY and not looking for any sort of buy-long when price was under the falling 50 EMA on a Trend Day bias).

We did get a push to new lows on a volume surge to the downside, as price 'walked' down the 20 EMA into the close.



I zoomed the chart in on the 5-min chart to highlight the trading day prices and avoid the scaling from the overnight price plunge.

The large bullish engulfing bar came on a positive momentum and flat-line TICK divergence at the 10:30 (CST) area, which could have triggered you out of your short positions and - for aggressive traders - triggered a buy-in long scalp (where green arrow is) to play for (exit) the 20 period EMA.

Also, note that any positive TICK reading - particularly as price pulls back into resistance on a down Trend Day - is a good short-sale opportunity for a quick, aggressive scalp.



The 1-min chart reveals slightly more structure, in that the morning consolidation formed a nice triangle pattern that broke to the downside for a quick move down.

Price formed a standard "abc" correction up into the \$98.80 level, forming a negative momentum divergence (again, this is the 'spike shadow' on the 5-min chart) which gave an excellent short-sale position.

The price consolidated about the \$98.40 to \$98.60 level, and a break either way would have been a 'range expansion' trade. The overarching bias to the downside pushed price to break downward from consolidation, forming new momentum lows on each swing.

Barring anything unforeseen, this downward bias and relatively (though not absolutely) weak close along with negatively sloping EMAs should carry forward into tomorrow's trading, meaning that the expectation will be for a down morning if not down day (barring a rounded reversal) so keep that in mind unless proven otherwise.

Let's take a moment to look at higher frame structures:

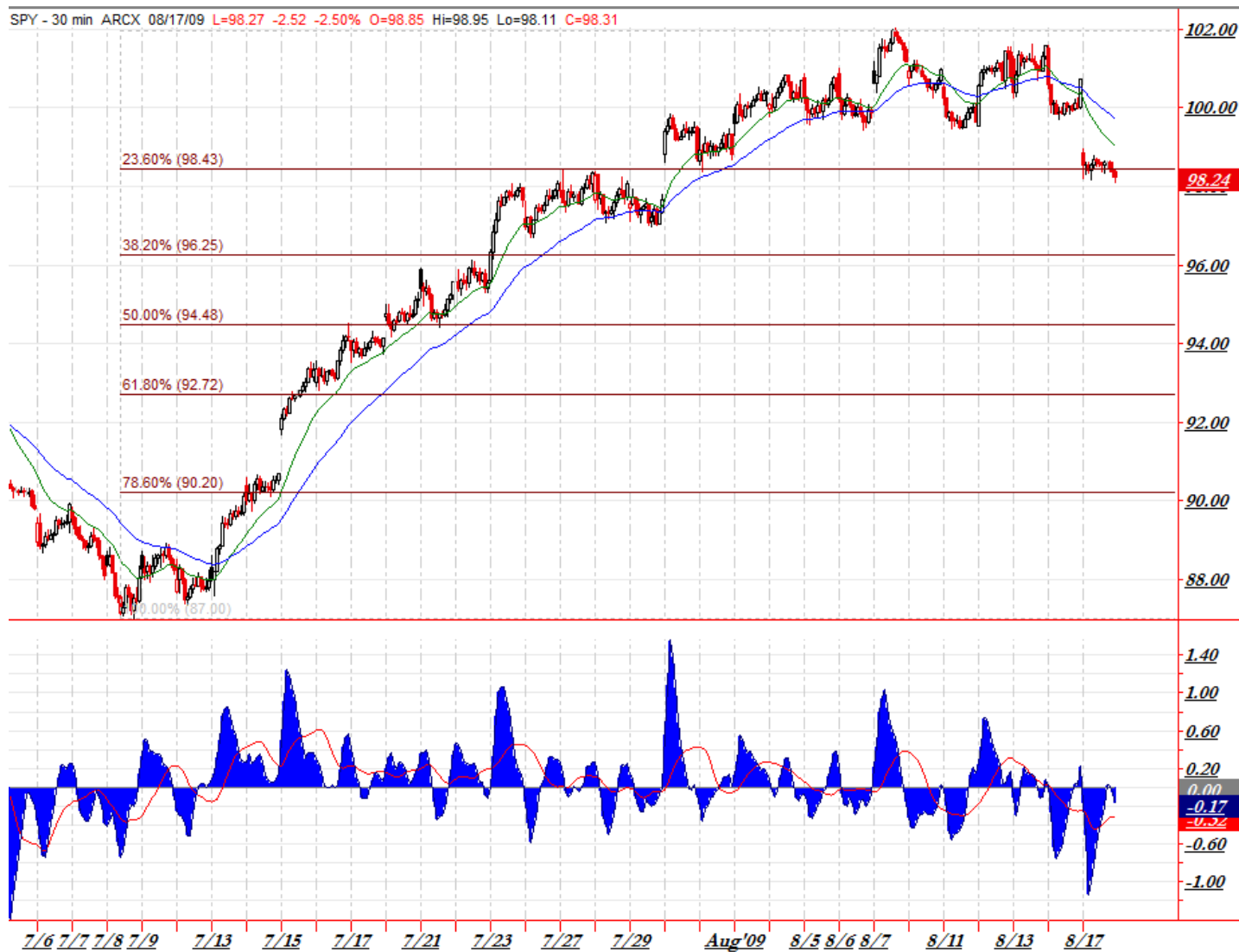


As I highlighted for you in Friday's report (and in my Weekly Intermarket Report), this was the dominant 60-min (and 30-min) pattern - that of a "Rounded Arc" which had extremely bearish implications.

Momentum and Breadth were giving us very negative readings and now we are seeing the resolution of those technical structures with a hard downside move today.

Odds are the downside momentum will continue, though watch for potential support at the \$96.00 level.

For those so inclined, here is the 30min chart with potential Fibonacci Areas to watch intraday for possible targets provided we continue moving downward as expected. These might provide short-term bounces on the way down:



The 1,004 and 1,014 levels (on the S&P500 Index) are holding as expected so far.

Unless we get a strong move up tomorrow, it's generally safe now to put on a bearish bias. It will take immense force for the bulls to overcome this.