



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Today's structure will officially be classified as a "Rounded Reversal," upon which the apex turn down may just be beginning and could carry forward into tomorrow's trading session. Let's take a look inside.

The day began with an upside gap of \$0.30, which had high odds of filling, so the first trade of the day should have been a short-sale gap-fade targeting the \$98.30 lows. We fell mere points shy of this fill, and so if you did not exit the trade early, price formed two long lower-shadow candles that nipped just shy of a full fill, and when price began to rally back above the 20 EMA, that would have been an acceptable place to book profits to prevent a winning trade to turn into a loser. Remember, it's edge we're seeking - not perfection.

Generally, we get a "fade the fade" or in this case a long buy trade that comes off a successful gap fill as price starts to rise upwards off this level. This leads us to play for (target) the intraday highs (in this case, just shy of \$98.80) with a stop just beneath yesterday's close - this trade would have worked well also.

With price above the intraday high, we were neutral, particularly given that price formed three long-legged upper shadows (candles) at the top of the Bollinger Band. Notice that a new TICK and Momentum high formed at this level, so the play (concept) was to anticipate a new high yet to come - so the trade was to buy the first pullback into support... in this case, confluence support via the rising 20 and 50 EMAs at the \$98.65 level. We had a hammer candle and then a quick upward movement and then a long-legged doji candle and then one more pullback at this level - the stop would have been beneath \$98.60 to play for a new price high expected to come... and it did.

Price took off strongly from this expected support level (giving plenty of 'advanced warning' and almost forming a "Bull Flag" pattern in the process - it certainly can be interpreted as such and traded as such).

The "measured move" price projection - as shown below - of the Flag pattern was \$99.30.



We derive 'flag' targets by using Fibonacci Price Extension tools - starting with the "pole" low and dragging to the "pole" high and then dragging to the expected bottom of the flag (our entry). The 100% projection/extension is thus drawn.

A stop would have been under \$98.60 and then a target of \$99.30 played for... which gave us a nice long upper shadow candle to confirm our exit at this level.

Price then began to form a negative momentum divergence, but the peak of the measured move formed a New TICK high, and we generally rely more on the TICK than the 3/10 in a strong momentum environment.

Price stagnated during lunch and formed a quick "ABC" retracement down into the confluence support level of the rising 50 EMA and the Bollinger Band, forming a small hammer off this \$99.00 (which was also "round number" support) which could have been a 'buy long' trade to play for a retest of the prior high at \$99.35 or slightly beyond.

Price formed a 45 degree angular move up (which resembles more of a 'retracement' than impulse) and at this time, you should have been very aware of the "Three Push" negative momentum divergence in the 3/10 Oscillator (or any similar RoC oscillator) which is quite significant (calling a 'top' and shifting the bias to the downside), but more importantly, we had a clean negative TICK Divergence which was a glaring non-confirmation of price highs.

To make matters worse (for the bulls and give an 'easy money' opportunity for the bears), price then formed a spike high and bearish engulfing candle at the upper Bollinger Band, triggering a powerful and aggressive short-sale entry in anticipation of the intraday highs. A stop would have been placed slightly beyond (at least 10 cents or 1 @ES point) above the intraday high at \$99.41 (989.75 in the @ES) and a short-sale taken anywhere after the bearish engulfing candle.

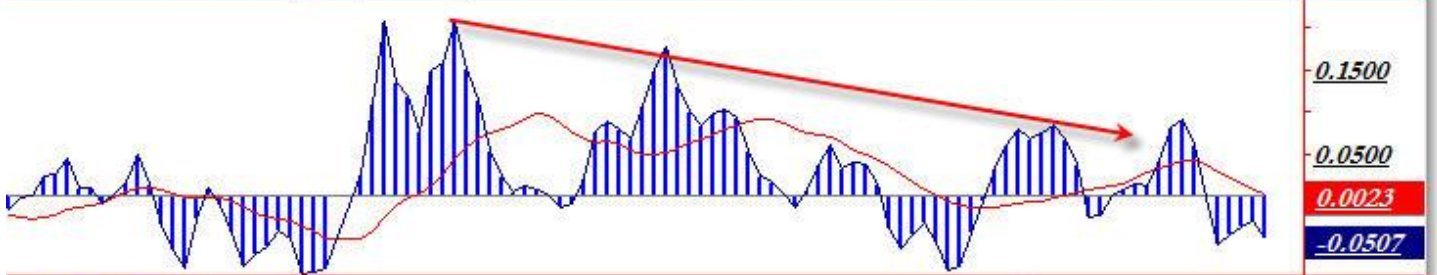
Price unexpectedly made one more thrust to the upside, ticking to an absolute high of \$99.44 (SPY) and 990.00 (@ES) which brings me to the lesson of the day - one I've been discussing almost through the whole month of August.

Do not place stops one tick or one penny away from a key high or key support/resistance level. The market WILL gun these levels and take out any ultra-conservative stops. Research/strategy testing I have conducted - along with others - shows consistently that methods test out better with a slightly larger stop (as well as a slightly smaller target).

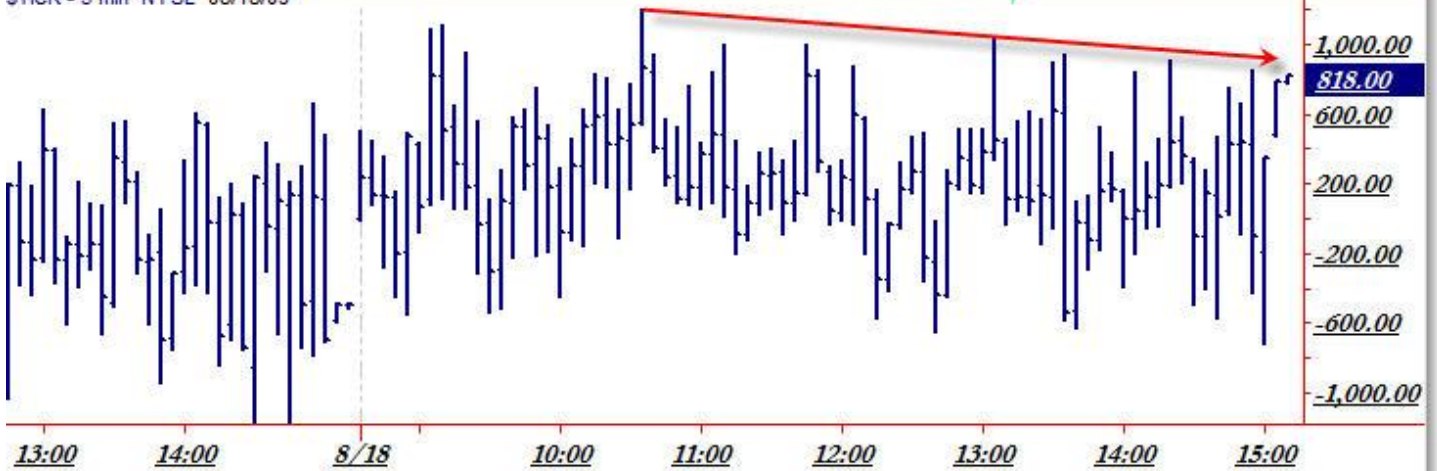
Also, do NOT expect perfection in real-time patterns. Give your patterns and trades ROOM to work in your favor - do not get upset if you do not see results from the first second you put on the trade. The purpose of these reports/summaries is to teach you the real-life, messy reality we encounter each day and through repetition of seeing these patterns and analyzing structure in a calm environment, become much more confident FIRST to put on positions you might have missed otherwise, and SECOND to hold on to high-probability positions longer than you would have. I sweated through this trade with the rest of you who took it, but the difference in a winner and a loser came down to how much heat you could take. If your stop was a penny beyond the high, you were stopped out with a loser. If it was at least 5 cents (10 cents is preferable... or 1 @ES point beyond where you think it should go), then you would have had a winner (when exited at close). There was one final thrust up that materialized then ended as quickly as it began that you had to trust and endure as well. The only way to get the full profit was to trust the pattern, not micro-manage the position, and let the edge play out.

Odds STRONGLY favored a reversal down off the \$99.41 level... and here's something I didn't pick up on in real time that - had you seen it - would have given you not only the confidence to hold through small 'wiggles,' but perhaps confidence to put on a swing trade position or - IF your strategy allows it - hold the trade overnight. The overhead resistance reflects exact Fibonacci confluence resistance, as we'll see in the charts below.

SPY - 5 min ARCX 08/18/09 L=99.31 1.00 1.02% O=98.53 Hi=99.44 Lo=98.35 C=99.09



STICK - 5 min NYSE 08/18/09





Don't be afraid to draw arcs on your charts. Remember, price might not always respect straight trendlines - sometimes supply and demand come into balance and rotate gently, as in the case of an 'arc' or "Rounded Reversal" as seen above.

Support and resistance levels off an arc make good scalp entries and exits just like a standard trendline does.



This now goes into the "expected play for tomorrow" segment.

Drawing a Fibonacci grid from the \$101.60 highs and then a second grid from the \$100.81 highs (as shown above) both to the intraday lows of \$98.14 reveal an EXACT Fibonacci confluence of the 50% and 38.2% levels at the \$99.47 level, which was just shy of today's intraday high.

If you drew this Fibonacci grid in advance, you would have had this level in mind as a possible target to play for long on a likely "Wave 4" retracement up into confluence Fibonacci resistance.

For now, the 'play' is to be short under these levels, stop out (stop-loss) should price break firmly above \$99.50, and target a minimum play back to \$98.25 or lower if we indeed are playing out a fractal 5-wave pattern down as drawn above.

We'll soon know if not by tomorrow's open, then by tomorrow afternoon what the expected play will be.

Watch both levels closely.



A 5-min look at the same chart.