



## Daily "Idealized Trades" Report

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



Today had various structural elements, so it's difficult to label officially today's structure. It was a cross between a weak "Type II" or stronger "Type I" trend day, but also could be described as yet another in a long series of "Rounded Reversals" we've traded in August. For now, let's label it a hybrid between a Type I ("Rounded Reversal") and Type II ("Weak Trend Day") Trend Day... perhaps a Type 1.5 Trend Day.

We had a downward bias going into the morning session as I outlined both on the blog and in more detail on last night's report. We got that down-move as expected in the overnight futures session and morning hours pre-open, which resulted in a downward gap open of about \$0.80, which was beyond our realm of "we expect a gap fade" but shy of our realm of "we expect a Trend Day Down" so it was in the nether-land statistically between expected zones.

However, off the open, price began to rally the first three bars (15-minutes) in non-stop fashion, which took price quickly inside the "we expect a gap-fade" range (which is generally less than 65 cents) so you could have gotten long around the \$98.70 zone and placed a stop beneath the low of \$98.30 and targeted the gap at \$99.10 for about a 1 to 1 reward to risk, provided you're ok with taking that risk profile. If not, it was also quite acceptable to stand aside and let the gap make a full or partial fill without you. Remember you don't have to capture every penny possible to be a profitable trader - just let the edge/odds play out in your favor when you perceive a favorable risk/reward profile based on your experience.

Price did fill the gap quickly, which perhaps should have led to a 'short-sale' or downward bias in expectation of lower prices yet to come, given the higher structure, resistance about the \$99.10 gap level, and especially resistance about the \$99.40 level which was confluence Fibonacci as well as prior resistance from yesterday's end-of-day action. The new momentum low would also have contributed to this bias.

So the ideal trade would have been to short anywhere about the \$99.10 area with a stop-loss above \$99.40 to target the intraday lows of \$98.30. Unfortunately, this high-probability, low-risk trade set-up failed, which for aggressive traders could have led to a quick scalp profit long, knowing how powerful the \$99.40 resistance level should have held and the consolidation (battle between buyers and sellers) formed at the \$99.10 level.

The idea is that when an expected resistance level fails which has triggered short-sellers to put on positions, their frustration and stop-losses will create a short-term momentum move up (burst) that is a somewhat predictable outcome of a failed widespread expectation of a price move that failed to materialize.

You would have been stopped out too, but you could have taken the opportunity to flip long for a quick scalp with the sole expectation being "I will be long as all these short-sellers get stopped out at different levels" given that people place stops at higher and higher levels to avoid what they consider noise.

The alternate way to profit from this would have been to notice the triangle consolidation and waited until we received a confirmed breakout. I frequently highlight how we cannot predict a breakout from a triangle or deep consolidation pattern, and that the edge comes from waiting until a break occurs and playing the "Range Expansion" move that is expected to follow a "Range Contraction" move - this is a classic example.

The stop loss of the triangle would have been about 10 cents (1 or 1.5 @ES points) beyond the trendline boundaries while the entry would have been the opposing stop-loss (again, 10 or so cents above or beneath the trendlines).

Otherwise, the large upward impulse came as a surprise to many participants in the market, and the volume surge, new momentum high, and new TICK high clued us in that odds strongly favored higher prices yet to come after the first pullback... which occurred just before 1:00pm EST which failed to retrace all the way to the 20 EMA (strong momentum moves rarely allow comfortable entries).

This is also the argument of the fractal nature of Elliott Wave - Wave 1 is considered a 'bear market rally' while Wave 2 is considered the "I told you so" move as price heads lower as expected. However, Wave 2 fails to make a new low and turns up unexpectedly, cresting above the high of Wave 1 (as seen below) which triggers stop-losses and triggers in new

long (buy) trades which creates the power of the 3rd wave - which unites new buyers with old short sellers - BOTH creating demand through purchasing shares. Wave 4 is a natural pullback as expected (profit taking) and then we have a final push to highs for a 5th wave which often ends in a momentum divergence.

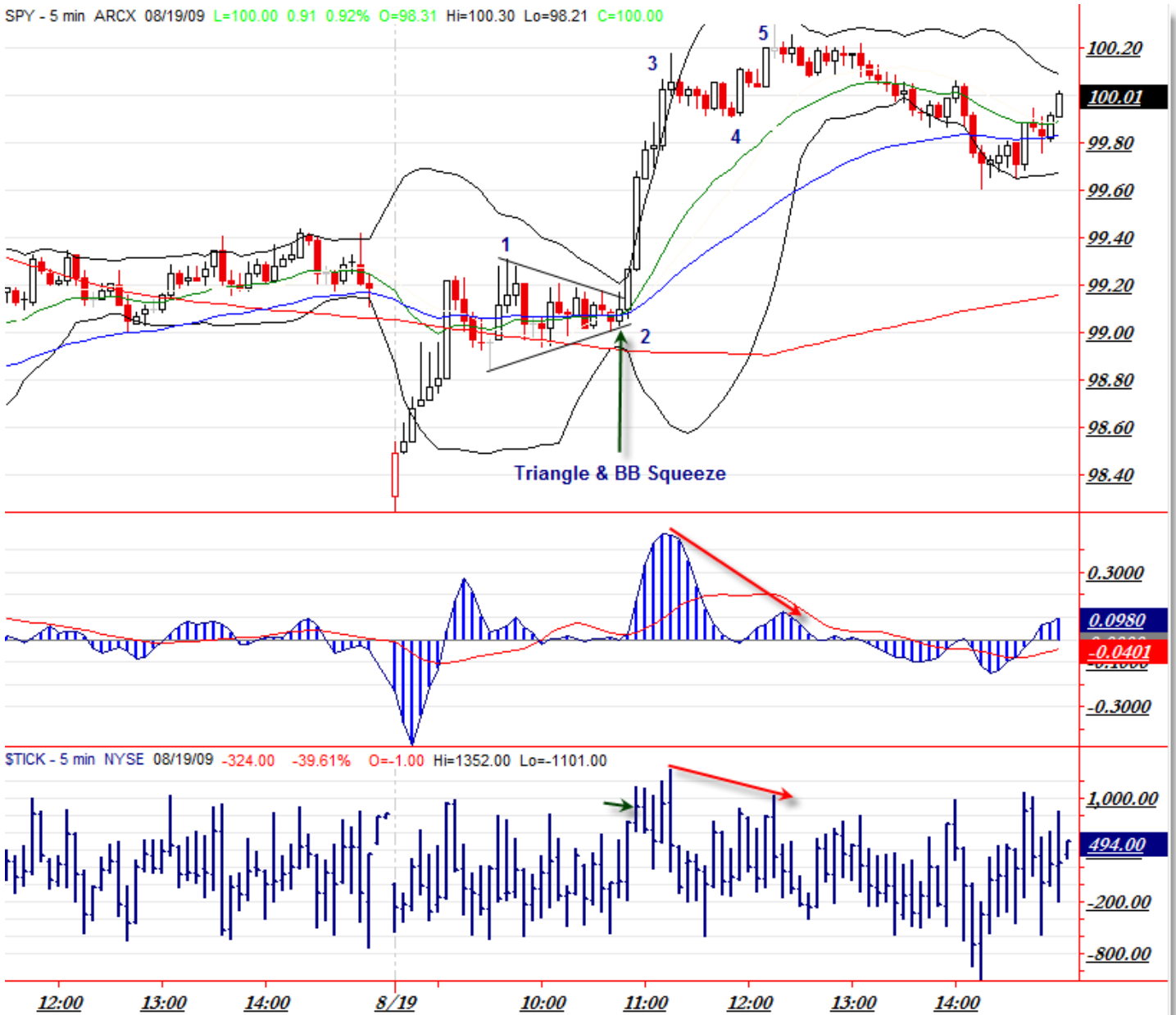
We want to buy the 4th wave into support and sell-short the 5th wave once we see a turn-down and a confirmed momentum divergence.

That was the play as usual today, given that the 5th wave terminated in an obvious doji as price hesitated/consolidated just beneath the upper Bollinger Band. There were plenty of dojis or consolidation candles to exit any existing long (buy) positions and put on a short-sale position, though you also could have waited as a conservative strategy to sell-short once price broke down beneath the rising 20 EMA which also would have been affective.

The expectation is that the 5th wave or the divergence should be the high of the day, meaning a stop-loss should be placed there and a short-sale position entered to target either prior lows, prior moving averages, or lower Fibonacci levels. I've shown many times this week how trend moves devolve up or down into "Rounded Reversals" thanks to negative TICK or Momentum divergences along with a clean 5-wave fractal move or a "Three Push" pattern... along with an 'arc formation' to price.

Price did push to a lower thrust down though we formed a long-legged doji at the lower Bollinger Band and then rallied upwards off that level - many days have seen buying into the close. When playing for a reversal trade, we have to manage our position closely and exit when we get a buy signal (since levels aren't always clear to place targets).

Let's take a more in-depth move and note the "Power Divergence" (5-wave fractal + negative momentum + negative TICK divergence) that formed which should have clued you in that odds - at a minimum - favored that the intraday high was formed at the 1:00 EST period.



The TS chart above shows us the powerful and glaring negative TICK divergence into the noon CST period which also formed a negative 3/10 Oscillator divergence on a 5-wave Fractal Move that terminated in a doji candle.

What we're looking for is 'confluence in clues across non-correlated strategies' as shown above to assess structure and opportunity.

This serves as a great example of how non-correlated methods/strategies (candles, Elliott Wave, momentum divergences, TICK Divergences, etc) form a coherent picture of supply and demand.



This chart focuses in on the specific 'triangle' consolidation pattern and the upward break along with the strong momentum move that occurred once price broke a known resistance level - as stop-losses were triggered, a momentum move up formed.



An example as mentioned in Tuesday's report on setting a Fibonacci Expansion target if you interpreted the pullback as a 'bull flag' (which was very difficult to do in real time, but this serves as an example of targeting)



We see that in the 1-min chart, the '3rd wave' as labeled in the 5-minute chart also 'fractalized' as expected into its own 5-wave fractal move that ended on a negative momentum divergence. One of the clues of 'Elliott Wave' is the "third of third" or the internal 'third' fractal wave of a larger fractal 3rd wave. This clues you in that higher prices are expected after an initial pullback as the trend/impulse move matures.



A bonus example to show how you can use all the principles and set-ups/concepts I teach in the intraday SPY on the charts of individual stocks you trade (or ETFs, other futures, etc).

A fellow trader successfully profited from, and showed me this pattern on APA which is about a good example of the "Three Push" pattern complete with negative momentum divergence as possible.