



# Daily "Idealized Trades" Report

## SPY (SPY 500 ETF) 5-min



There's lots of lessons to learn on today's trading so let's get right to them.

First, many Trend Days begin with one side of the market being violently squeezed, which carries forth all day as - in this case - we have a positive feedback environment where short sellers are covering as buyers are getting long - both pushing prices higher.

The widespread expectation was for price to hit resistance and - at a minimum - have a range day if not reversal day at the highs, and when the market gapped sharply upward on stronger than expected earnings and economic news, those who had taken short positions over the weekend were the first to 'buy in' to cover their short sales, which led to the one-sided market we saw that created the Trend Day.

Lesson: Trend Days often begin when one side of the market is squeezed after an 'obvious' or 'expected' signal failed. The large opening gap of near 1.0%, and the lack of a gap fill, led to very high odds of a trend day. Knowing higher timeframe expectations and knowing when they fail (and the points at which they fail) can benefit the day-trader greatly who can step into the market in the morning without a position, and can take advantage of the 'pain' of the stop-losses triggered from expectations unfulfilled.

So the market began with a \$1.00 SPY overnight gap which falls in the threshold of "DO NOT FADE" and "Precursor to Most Trend Days" which should have been your dominant expectation off the open. Price made about a 50% gap fill, found support at the rising 20 EMA, and inflected sharply higher to form a new TICK high on the day which hinted that higher prices were yet to come. Look closely to see that volume surged in the morning, which is a confirming sign of the overnight gap which added further confirmation to expect a trend day (if a gap occurs on lighter than average or average volume, odds favor a gap fill. If a large gap occurs with larger than average volume, odds favor the gap NOT filling and a Trend Day developing).

Price pulled back to the \$99.70 level at 11:00am, breaking the rising 20 EMA into the area I've labeled the "Make or Break" zone, so named because on a Trend Day, price should never break the 50 EMA and should only weakly break the 20 EMA. At the 11:30 time, price formed a bullish engulfing hammer-like candle which hinted that support would hold at this level, giving us a fresh 'buy long' trade on a comfortable retracement into an expected Trend Day - I deem this the highest probability, lowest risk trade (your stop would have been beneath the rising 50 EMA beneath \$99.50). This would have been a classic entry into an expected Trend Day, and if the trade failed, then the stop would be around \$0.30 away from entry (about 3 points in the @ES futures). You could have held the trade until close or until price closed solidly beneath the rising 50 EMA.

Price did rise up from this level, but formed one more test to the downside to challenge the 50 EMA and bottom Bollinger Band at \$99.80. This was also a 'make or break' zone, as price was strongly expected to hold above the rising 50 EMA. A long-legged wick (lower shadow) formed here, and price began to rise quickly upwards off this level.

Let's jump now to the TradeStation chart for a deeper explanation of this zone, which actually could have been construed as a 'false sell' signal if looking at a pattern in isolation.

Looking at the one-minute chart in isolation (third chart), you perhaps might have been tempted to take on a short-sale position expecting a breakout downwards from a symmetrical triangle. Converging trendlines were drawn from the morning highs and lows to form the triangle as price compressed within it. Again, we see a price breakout to the downside. However, if you were looking at the 5-minute chart, this 'breakout' was nothing more than a quick clip down to test the rising 50 EMA that happened almost before you knew it. If you were looking at the two timeframes in alignment, you might have noticed the breakdown on the 1-min chart and decided to short ONLY if price broke beneath

the rising 50 EMA and the lower Bollinger Band and closed solidly beneath \$99.80 - neither of which happened. This is a lesson on using and interpreting price action on two timeframes, and never looking at a single pattern in isolation.

Once price successfully held the \$99.80 level, and the moving averages remained in bullish orientations, odds still strongly favored a Trend Day posture. What happened next is interesting in that price broke out to the upside of the symmetrical triangle at the 1:00 EST "Afternoon Breakout" time which was a signal to get back long to play for a range expansion play. You could have gotten aggressively long at the green arrow in the second chart which labels this trade, or waited for a potential pullback which did come shortly after as price re-tested both the 20 EMA and the upper trendline of the triangle pattern, forming a hammer. It was more comfortable to wait for a retest/retracement swing, but sometimes these 'easy entry' swings never come and you often have to 'pay up' with a market order to get into a swiftly moving momentum environment (in other words, don't try to play perfect with limit orders in an upwardly moving momentum breakout trade - you might never get the trade on).

The stop would have been placed beneath \$100 which also served as round number resistance. The target would be a breakout move, or again, holding to the close for a trend move ... though price formed the intraday high over an hour to the close. This goes back to the prior updates that talk about trade management, in terms of monitoring price for adverse developments as we make new price highs - such as internal TICK divergence, as we did have at the highs, when combined with a bearish reversal candle - which we had as well. Remember, price breakout trades have theoretically unlimited targets (which allow you to play for big gains) but you need to watch price closely for internal non-confirmations as we saw here.

There was a clear TICK divergence going into the day's highs near \$100.50 which was followed quickly by two strong bearish engulfing candles. Price retraced back to find support at the 20 EMA, but the market internals were deteriorating and we were observing a concentration of TICK Lows at 2:00 which wasn't good for bulls. Look closely at all prior negative TICK readings to see that they just spiked down quickly and reversed just as quickly (these provide excellent entries on a Trend Day as well, by the way, for a scalp).

Price tried one more rally up and formed bearish candles (notice the doji as we hit 2:30 CST) and then sharply reversed to the downside, challenging and then breaking the rising 50 EMA. The market is known to do strange things into the close, so it's often best to stand aside unless you have a clear edge in your position, but choppy conditions and sudden turn-arounds often dominate the close, making trading difficult.

Price then rallied upward to close above \$100.30, pushing the S&P 500 to close above 1,000 for the first time since November 2007.





The 'false breakout' could have been negated by watching the 5-min chart to note that there was likely support as the 50 EMA and Bollinger Band converged. It would have been best to get short upon a break of those levels on the 5-minute chart.

In terms of where we go from here and what to expect, I stick to the same mantra I've described for the last two weeks. Bulls are in control and you cannot be trying to pick a top to short. You should not go short for more than a scalp (in other words, do not hold overnight short) until key levels on the 30 and 60 minute chart are cleanly broken on rising volume. No matter how overextended price is, or how many levels of resistance are overhead, bulls have broken through them and pushed price MORE overextended - a decent part of this rally has been likely due to short-sellers covering overnight positions so DO NOT be one of them. DO NOT be a hero and DO NOT fight the trend.

Until proven otherwise, the bias remains to the upside and buyers - for whatever reason - are dominant. Do not try to outsmart this, figure it out, or over-think it. Bears are absolutely being demolished and the simple play is to go with the bullish momentum, no matter how painful that might seem or how non-sensical it might seem.

The next level for the Bulls to take out... I mean, the next level for overhead resistance comes in at the 1,007 level which is the November 2008 price highs. When (I mean, if) bulls break above that level, the next level of resistance comes in at the 38.2% Fibonacci Retracement of the 1,576 price high of 2007 to the 666 price low of 2009. This 38.2% retracement comes in at 1,014.

Like everyone, I would expect to see at least one of these levels contain this price rally to the upside to create a meaningful down-swing that everyone is expecting. It would be a definite game-changer if bulls can keep this rally going and bust above 1,014. By "bust above," I don't mean take price to 1,015. I mean a close above 1,020 or 1,025 on high volume - that would confirm that the resistance was broken which would then set-up a target of 1,100 at a minimum.

I detailed this as well as the monthly, weekly, daily, and 60-minute chart of the S&P 500 to my "Weekly Intermarket" Technical Analysis Reports.

As day-traders, you need to pay attention to how price interacts with 1,007 and if we rise above that, then how price interacts with 1,014 - both of which will be watched even by non-technicians as resistance levels so price could falter there.

Try not to burden yourself with expectations (in "the rally is so overextended that it HAS to go down now") - especially intraday - and trade the price, patterns, and structure as it develops.