



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



It felt like today was a day where things made more sense than some of the days last week- in terms of divergences, momentum, and Elliott fractals. Let's take an in-depth look at today's "Rounded Reversal" structure.

The market opened with a \$0.60 gap in the SPY from Friday, which put us just at the end of the 'fade-able' range statistically, though the gap did not fill without a rush to the upside (stopping out any gap-fade trades) before noon. The only way you could have played a pure gap fade would have been not to use a stop, and that's just impractical. So if you chose to take a gap-fade for your first morning trade - perhaps shorting at the \$103.60 level as price rose off the open and started to fall lower, perhaps you placed your stop around the \$103.80 area or even the \$103.90 area - both of which likely would have been hit. This takes us back to the "it is generally better to use wider rather than tighter stops" discussion I've been showing for quite some time.

Either way, the gap fade was either considered an initial failure (due to the upswing to a new high) or an irregular gap fade (as the statistics will report back that today was a successful gap-fade day).

The market showed weakness going into the morning highs of \$103.90, forming a consolidation, bearish rising wedge, negative momentum divergence and flatline TICK divergence at the 11:00am high - the key turning point of the day. A bearish shooting star candle also formed at this level.

Looking back, if you were well-practiced in Elliott fractals, you might have also observed all these convergences culminating in a 5th-wave fractal - triggering a short-sale position on any downbar from the \$103.90 area with a stop above \$104.05 (which would be just above 'round number' resistance). This trade initially would have scalped lower to the rising 20 EMA at \$103.70 for a quick profit, though due to the multiple price weaknesses as mentioned above, it also would have been a great idea to play for a "Trend Reversal" and larger target move, which could have been aggressively the fill of the gap or yesterday's lows at \$103.00, which would have also reflected 'round number' support.

We see that price plunged precipitously off the upper support levels, particularly accelerating when price broke the "Line in the Sand" 50 period EMA at \$103.50 into the 1:00 "Afternoon Breakout" zone - pay close attention to this on the chart.

Conservative traders could have waited to short as price broke beneath the 50 EMA which confirmed the 'rounded reversal' bias and ended any sort of "Trend Day" notion (the 50 EMA is often the demarcation line, as I've defined many times in these reports between the two type of day structures).

Price plunged to new Momentum and TICK lows on the day, which set up - in my assessment - the BEST trade of the day, which was the 4th-Wave "Impulse Sell" that formed at 2:00 EST.

The large impulse down should have been easily recognized as a "3rd Wave" which meant that a 4th wave was likely to retrace part of the move and then we would want to get short as price pulled back into resistance - this is the classic "Impulse Sell" trade I frequently mention, which calls for an entry short after a new price and momentum low forms a retracement up into a resistance level. The stop in this case would be above the 50 EMA at \$103.30 and entry as close to \$103.10 as possible (which was the falling 20 EMA).

The target would be a new swing low or a minimum (conservative) target of a prior price support at \$102.80 - both targets were hit.

As price formed its way lower into an impulse move down into the \$102.60 level, we had a bullish reversal candle (hammer-like) that nipped just outside the lower Bollinger Band on a positive Momentum (shown) and flatline TICK (slight positive) divergence - both of which called for an 'exit short' trade signal for profit and a 'enter long' aggressive entry as price broke above the \$102.75 level (prior candle highs off a now-confirmed divergence).

Price movement became erratic (as it often does at the last 30 minutes, but we 'ping-ponged' about the \$103.00 and \$102.60 area - leaving opportunity only for the most aggressive scalpers.



I'm highlighting the "Third Wave" momentum concept along with the "Fifth Wave" Divergence concept. For more information, please reference the "Best Trades to Take" Elliott Wave lesson in our Education section:

<http://education.afraidtotrade.com/education/elliott-wave-principle/the-best-trades-to-take-in-elliott-wave/>

The main idea - on the upside - is that after a new price and momentum high, we want to BUY the first retracement and then play until we see a new price high and exit upon seeing a TICK or momentum divergence, which we interpret perhaps as the 5th wave. We then want to short the divergence with a close stop and play for a possible Trend Reversal. The rules are flipped for the afternoon downward 5-wave impulse structure. DO NOT TRY TO CAPTURE EVERY WAVE. That is impossible - rather, stick to 'buying the 4th wave' and then 'short-selling the 5th wave' for your 'edge' trades.



The one-minute chart further enhances the day's structure and the fractal Elliott internal waves that formed their own 'teaching moments' of this concept (complete with TICK and momentum divergences).

The 1-min chart often confirms our entry from patterns/structures we see on the 5-min chart and helps improve trade execution and accuracy.



In terms of tomorrow's trading - we've formed a doji on the daily chart of the S&P 500 at the upper Bollinger Band and off of four-days of a strong price rally. Odds seem to favor a downward bias for tomorrow's trading session, but keep in mind the bulls/buyers have been shaking off any such bias all the way up.

Dojis at upper resistance levels (Bollingers) on volume and momentum divergences tend to "work" meaning we should expect lower prices, but the rules seem to be different now with rampant buying on any sort of bearish structure.

Trade cautiously as always.



The 60-min chart is also showing a slight internal negative momentum divergence on the recent swing-up to new highs at the 1,030 level.

This frame also seems to favor lower prices ahead due to the divergence and positioning at the upper Bollinger Band level.

Remember, these are biases only. Upon the morning open, we'll have more information and can trade/decide appropriately depending on what the short-term direction is then. However, given no unforeseen news or developments, odds seem to favor a downward Tuesday even if slightly so.