



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Today gave us a "Flat Day" structurally, which meant fading the range would have been the preferred strategy from the moment odds favored a range day bias. This would not have been the case until price failed to make a new low at 10:00am after the morning thrust down and then finally when price turned down after failing to make a new high at the \$104 level at 12:30. From that point on, it was safe to assume a "Range Day" bias - these days take longer to confirm than Trend Days.

The SPY opened up 40 cents which was certainly within the "odds favor a gap-fill" statistics, so that should have been the first trade of the morning, particularly as price broke the lows of the first 5-min 'doji' candle and began heading lower. The stop would have been at least above \$103.60 for a target of \$103.00 which - for most entries - gave about a one to one risk to reward (roughly 30 cents of risk for 30 cents of reward). The dilemma with smaller gaps is this situation where it's hard to get a risk/reward edge, so you defer to the probabilities of the gap filling as your 'edge' in the trade.

Unfortunately, this particular 'small' gap did not fail - it fell 10 cents short of its target, so you either stopped out at breakeven (using a trailing stop once you're in the profit zone strategy) or were stopped out for a loss.

With the strong Bullish Engulfing candle complete (3rd bar), you should not have been holding short after that period. Seeing the strong upward momentum, and knowing that this pattern has formed various times in August (a run-away momentum environment that does not pullback to allow a safe entry), you could have flipped and gotten long as price crested to a new intraday high at \$103.60. Remember, when price 'busts' (or fails) a classic pattern (such as a gap-fade), then odds favor a continuation move for no other reason than the stop-losses of those who took the pattern being taken out, generating more buy (long) orders which push price higher.

Thanks to better than expected economic news, price surged almost straight up in the morning to an intraday high of \$104.25 before a hideous long upper-shadow candle formed well above the 5-min Bollinger Band which became an instant short-sale as price began to head lower, breaking support of prior candle lows. The target for a standard pullback (after a large momentum move as this) was to play for a minimum of the rising 20 EMA, which happened to converge just above the 50 EMA - both of which served as targets for a short-sale scalp.

Once price reached this level, it would have been a good idea to exit the position and wait for confirmation if odds favored a run down to test \$103 or if we would find support at this level, and then play for a move up under the "momentum precedes price" principle. Price chopped around for 20 minutes at these levels before finally finding support and as price broke above these consolidation candles at 10:30 at the \$103.40 area, you could have put on a long/buy to play conservatively for the prior 5-min closing highs at the \$103.90 level or aggressively for a new swing high yet to come.

Generally, with such a large price spike, odds are lower that the spike will be taken out. In Market Profile Theory, this is known as an "Excess" and reflects "Price Rejection" - sometimes "excess" or "spikes" can mark significant tops which is good to know intraday.

Still, price did make a strong rally, bouncing upwards off the rising 20 EMA in a "Trend Day" style fashion until we reached the decision point just before 1:00pm EST. I refer to this as the "Decision Point" because price had rallied sharply upwards in an "Arc" formation (see lower charts) which is often associated with reversals in trend, and also price formed yet another long-legged candle - this time a clean doji (Gravestone Doji to be exact) at the upper Bollinger Band which corresponded with the prior intraday closing (bar) high - that was plenty of reason to take a profit on any long-trade established at earlier levels and justification to flip short for aggressive traders to enter short as price broke beneath the lows of the doji (at \$103.90) with a stop above the spike high at \$104.00 (perhaps \$104.10 or \$104.15).

Price never managed to challenge this level again, and we did get the true price reversal as forecast from the arc formation.

Price then moved to support on the rising 50 EMA at \$103.60 before making a breakdown that set-up a "Magnet Trade" to challenge the rising 200 period SMA at \$103.20.

Price chopped around support and resistance as shown via the 200 SMA and the bearish convergence of the 20 and 50 EMAs. Due to the now downward price structure, it would have been a very good trading idea to short once price pulled back to form yet another doji at the \$103.40 level at the confluence EMA resistance level with a stop above \$103.50 and a target of yesterday's close just shy of \$103.00 - which also would be expected to serve as "round number" support.

This short-sale trade worked very efficiently, and price formed yet another doji at the support area of yesterday's close... meaning any price break above the high of the doji would be a long scalp buy to play yet again for the convergence of the 20 and 50 EMAs... with a stop beneath \$102.90 and a target of \$103.30. This trade (scalp) worked out quite well indeed.

I tend not to like the choppiness at the end of day, but aggressive traders might have tried to play the 'ping-pong' that comprised the end-of-day trading activity.

Let's look closer at some of these opportunities.



I'm showing the "Floor Trader" Pivot Points as auto-calculated and auto-drawn. These can serve also as non-correlated methods to find support and resistance, particularly since so many traders follow them.

The daily "pivot" is the dotted blue line as shown at the \$103.15 area, which contained the morning's price decline virtually to the penny. The next time this "pivot" came into play was the afternoon which also held as support, minus one slight 'nip' beneath this level (to form the Doji at the lower Bollinger Bands as described above).

The 3/10 Oscillator was somewhat helpful in at least one divergence, but the TICK - on a range day - is only good for fading extremes. New TICK highs did not lead to new price highs, and there were few if any meaningful TICK divergences as seen on the 5-min chart.



The 1-min chart does show some slightly meaningful TICK divergences to the upside, but the last two divergences were good for scalps only.

Here, we see the dominant rounded arc formation which triggered an "Arc Breakdown" short trade once price broke the arc (think of it as a curved trendline).

Otherwise, there was a 'bull trap' outside the arc which only yielded a spike candle even on the 1-min chart which serves as the same meaning as discussed above as "excess."

Price followed the 20 and 50 EMAs as expected in a momentum move in terms of support and resistance for very, very quick scalps for those so inclined.



We're picking up another 3-push negative momentum divergence on the 60-min chart along with a negative volume divergence at the highs.

Though this is a potential early warning sign that risk is higher to the upside - or at least that momentum and volume are not confirming new price highs - it's generally a better idea in this environment to WAIT for price to shatter the 20 and 50 EMAs here before committing to a short (downward) bias.

You can see from the 17th that even waiting for a break does not guarantee success.

The mantra is the same - bulls are dominating... but the fact that the last two days have shown significant price rejection (large intraday down-moves after early morning strength) should be troubling to the bulls and encouraging to the bears.

Keep watching closely for any signs of weakness that last for more than a day.



The same discussion above applies to the 30-min chart, only you can see the 3-push negative momentum divergence pattern clearer.



As mentioned yesterday, a bearish-favored bias remains only because price has formed two doji (indecision) candles in a row at the upper Bollinger Band on a negative volume and a negative momentum divergence.

Before getting to excited, keep in mind that bulls have completely ignored any technical sell signal whatsoever, as demand has continued to crush supply ... almost entirely since March.

A bias is just an assessment of the odds - and the assessment must come back with a bearish bias unless bulls continue to push to higher prices or start working off these non-confirmations.