



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



The market gave us yet another "Range Day" which would have been a third "doji" had we not been granted the final up-bar. We'll take a look at this.

First, let's start with the lessons learned from the trading opportunities of the day, which serves as a reference going forward.

The morning gave us a down gap of almost 30 cents, which was certainly and easily in the "Odds Favor a Gap Fill" statistic, so that should have been our opening bias. I generally like to give the market two or three 'bars' (10 or 15 minutes) to sort out the very early price action, and what I'm looking for is if we get an immediate push right off the open to try to fill the gap (in which case I'll get long) or if we get a little bit further downside action which might invalidate taking a gap fade trade, or give me a better fill.

In this case, waiting paid off solidly for a better execution price and stop-loss compared to waking up and shorting off the open. For example, we generally would not like to buy as the market is plunging - but rather see if we can get a bullish candle or an internal reversal on the 1-min chart before committing to a gap-fade trade.

In this case, we got a strong bullish thrust candle (notice the lower wick spike beneath the lower Bollinger Band and strong close) on the 5th bar of the morning, so it would have been the better idea to take a long (buy) upon the price taking out the high of this or the previous candle either at \$102.70 or \$102.80 to play for the gap fill just shy of \$103.20 for a 50 cent target and a stop-loss at least 10 cents beneath the low at \$102.50. This gave a 20 cent risk for a 50 cent reward for an entry at \$102.70 or a 30 cent risk to a 50 cent reward at \$102.80 entries - both acceptable due to the accuracy edge of the gap fade.

The market rallied very quickly toward the target on higher volume which took price solidly through the EMA and yesterday's closing price resistance at the \$103.20 level for the next target being yesterday's consolidation closing swing high at \$103.50... which was exceeded slightly as well.

At this point, price formed a negative TICK and Momentum divergence (see 1-min chart) which should have clued you in to scalp short, particularly after the spinning top candle just prior to the large red down bar (entering short upon the break of the spinning top's low at \$103.40 for a very quick scalp target to test the confluence of the 20 and 50 (and 200) period moving averages at the \$103.20 level.

Price looked as though it wanted to form a rally off this level so a long (buy) trade off here would have been acceptable with a stop underneath the expected confluence support at \$103.20... but price quickly shattered these levels and formed a momentum move to the downside, testing the lower Bollinger Band at 11:30 at the \$102.80 level.

Look closely at the 1-min chart to see a great example of how the "Elliott's Fractals" concept - and the multi-swing positive 3/10 Divergence - could have helped you either exit any short-sale or - more aggressively - enter long at the reversal point up to play for the 20 or 50 EMA levels higher - with a stop beneath the \$102.80 lows.

A nice "Measured move" formed here which brings us to the "Best Trade" of the day and a valuable lesson.

When you see price form a 'mirror image' or a 'Measured Move,' ($AB = CD$), if you are nimble, you can play for the final leg just like a bull flag. However, once price completes the "measured move," you can take a short at the completion price (the target) particularly if there's other reasons to do so (structure on a higher timeframe for example).

In this case, price pulled back to the confluence area of the falling 50 period EMA along with the resistance of yesterday's close at \$103.20.. and formed a shooting star candle. That was plenty of reason to get short with a close stop above \$103.25 or \$103.30 to play for a re-test of the lows at \$102.80... which happened very quickly.

Upon reaching the lows just after 1:00, price formed a nice positive Momentum and lengthy TICK divergence, and also formed a "Bullish Engulfing" reversal candle as price bounced off the expected support of the lower Bollinger Band - again, plenty of reason to exit the short with a profit and flip long to challenge again either the 20 and 50 EMAs (conservatively) or again the \$103.20 area from yesterday's close - both profit targets worked.

By this time, you should have been expecting further "Range Day" or "Consolidation Day" trading tactics (fading extremes), which meant to be on the look-out for further momentum or TICK divergences, and to see how price reacted to prior highs and lows.

The next opportunity was for very aggressive 'scalpers' only, as price retraced 7 bars down to the convergence of the 20 and 50 EMA with a bullish reversal candle at the \$103.05 level... though this trade was only good for two more bars and failed to form a new swing high above the \$103.30 level which also reflected the 200 period SMA.

A negative momentum and TICK divergence formed at this level (price ticked higher by a few pennies) and actually provided a better 'short-sale' than a long scalp to this area. The stop was above \$103.30 and the target was either back to the \$103.00 'round number' zone where numerous dojis formed as we were taken in to the 'end-of-day' activity.

Price respected support at this level and rallied into the close, confirming a tight range day and choppy environment - which most likely was frustrating for the majority of traders today.



The morning swing gave us a nice TICK and roll-over momentum divergence into the \$103.60 area.

There was a nice TICK and Momentum divergence from 11:00am CST to 12:00pm CST (green arrow).

Finally, we had a nice negative divergence into the 1:00pm CST area with price failing to overcome the 200 period SMA at the \$103.30 level.

All were excellent trading opportunities.



There were quite a few meaningful momentum and TICK divergences in today's "Range Day," as is the expectation with Range Days. You want to be 'faders' of extreme moves, particularly when a TICK or momentum divergence sets in.

A nice example of a "Measured Move" formed at noon EST (aka "AB = CD" Pattern).

There was a bear flag going into the 11:00am EST time which offered a nice scalp opportunity.

Study this chart for additional insights on the importance of confirmation/non-confirmation (aka, new price highs should be confirmed with new momentum or TICK highs - if not, that is a non-confirm which sets up an aggressive trading opportunity to 'fade' the new high... or low).

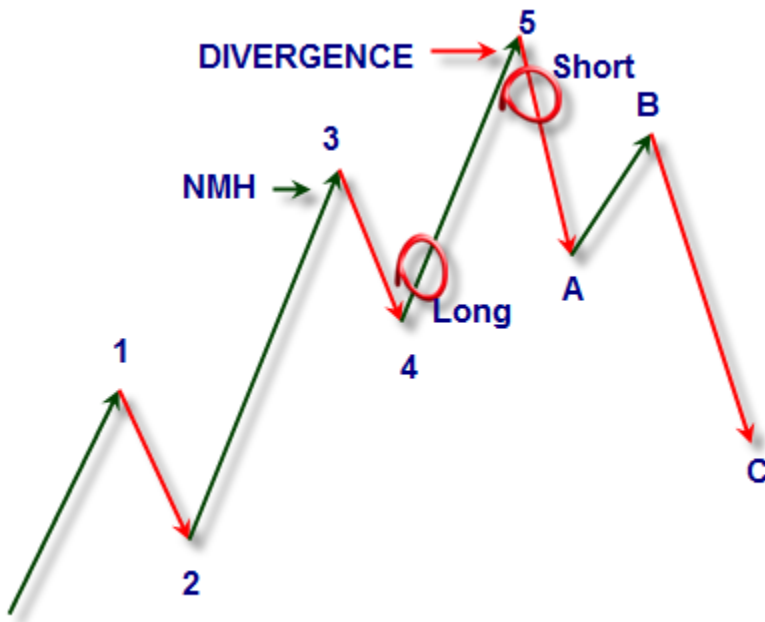


This chart perhaps shows one of the best examples of the "Elliott's Fractals" concept I discuss frequently.

You're not looking for an "Elliott Purism" count, but only paying attention to the special opportunities after an impulse move and then the divergence that frequently follows the impulse.

The concept is to recognize a new momentum low (or high) and then wait for a pullback to short (into resistance) and then play for the '5th wave.' The 5th wave should end in a positive momentum divergence, which gives you the opportunity to "buy the end of the 5th wave" which should lead either to a major or minor price reversal.

The lower chart reflects this trade concept:



(NMH = New Momentum High)



For a quick "bias for the day ahead" study, we have the following chart.

Though we're seeing a three-swing negative momentum divergence on the 30-min chart (VERY bearish), I would advise NO shorts unless price breaks solidly beneath the 30min 50 period EMA at 1,025, or more comfortably at 1,020.

This consolidation we're seeing could be nothing more than a gentle pullback for price to rise higher, which would be against the odds and divergences, but bulls have shown absolutely amazing resiliency so do not short unless we get confirmed breaking of support levels as seen here.

Initial downside targets would be the 1,010 area, though any break above 1,035 would likely lead to another momentum push higher as more and more stop-losses from the sellers are triggered, fueling the bullish fire.

According to the "Range Expansion/Contraction" principle, the range contraction we're seeing in price currently - particularly the "Tri-Star Doji" we're seeing on the Daily Chart - should lead to a large momentum move up or down.

Think of the market as coiling down into equilibrium like a compressed spring which will soon... expand.



The dreaded "Tri-Star" Doji formation has formed at the 1,030 highs and the upper Bollinger, placing odds virtually overwhelmingly - though of course not guaranteed - for a price move back down to challenge the 1,000 level if not lower.

The last time we saw a Tri-Star Doji Pattern - which actually is a VERY rare candle formation - was ... of course ... the July 2009 lows which preceded a 150 point rally in two months.

The negative volume and momentum divergence further push the odds to the downside... but bulls have shown a rampant tendency to ignore the odds so don't jump 'all in' short unless we see some sort of downward move.

The bias for the coming day is for downward action - perhaps in a trend day fashion... but do be very careful and abandon this bias on any upward momentum off the open.