



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Today resembled what was going to be a "Type II Trend Day Down" which resolved into an upward "Rounded Reversal- which has been the case 10 times so far in August. Remember the general commentary I've been saying for over 3 weeks now - even though sell signals look valid, and often do trigger, bulls - who are dominantly in control now - either ignore them or completely invalidate them, triggering stop-losses of the shorts (short covering, short squeezes, etc) which creates further upside momentum. It's almost comical.

We had the "Consumer Confidence" report within the first 30 minutes of trading and the market rallied in anticipation of these numbers, forming an upward gap of 85 cents, which was on the cusp of the "odds favor NOT filling" the gap. At the open, we should have taken a neutral stance for a "wait and see" attitude to see whether price would push downward (which would increase odds for a fill and trigger an entry short) or stagnate and then head higher which would trigger very high odds of a "Trend Day Up" (beginning with a large gap on economic news on larger relative opening volume than normal).

Ultimately, price formed a large downward bar on the 3rd candle, which increased the odds that the gap would fill. The best trade would have come as price rallied higher (the 1-min chart helps show the internal structure) and either aggressively entered after the 3rd candle (large down bar that closed at \$103.80) or as price took out the lows of the next doji (4th candle) at \$103.70 - both of which would have targeted yesterday's close at \$103.40 with a stop just above \$104.00 (no need to give the market the benefit of the doubt and place a stop the full distance of the morning open). This gave a roughly 30 or 40 cent target with a 30 or 20 cent stop-loss (respectively).

Upon filling the gap, price rallied upwards (which is often the second 'pure price' trade after a successful gap fill) though the move was only 40 cents maximum, and should have been exited when price completed a doji and perhaps even broke the lows of the doji at \$103.50 or upon a retest of yesterday's close, which would have resulted in a 'scratch' trade.

Aggressive traders could have taken the doji as a 'short sale' signal with a bearish bias and tried to play for a trend day down under the anticipation that the high gap had 'suckered in' the buyers and could be a bull trap that lures them in and creates downward pressure as their stops are taken out .

Ultimately price formed a triangle (it was frustrating to trade - as price chopped between the 20 and 50 EMA as well as yesterday's close) but eventually it became clear - by looking at the candle highs and lows - that price was forming a triangle pattern at the \$103.40 level, which would be expected to form a "range expansion" trade up or down, allowing you to enter long on a break of \$103.50 or short on a break beneath \$103.30 to play for a 'range expansion' move (hold until we get a countervailing exit signal). The stop-loss would be the opposing entry, giving a 30 cent stop (in either direction) to play for a much larger target (again, in either direction).

The break was to the downside.

As I was trading this, before I saw the triangle, I expected the formation to resolve in a sort of "Bear Flag" pattern down, with entry being either of the two upper dojis at the 11:00am EST time at \$103.50. Ultimately price did meet its price objective (a full 'measured move' of the morning's downward impulse) but in writing the report, I felt it better to describe the dominant "triangle" pattern as opposed to the anticipated flag - that's why these reports are helpful. We see one thing in real time and then get 'married' to that opinion and it might be a lower probability outcome... but when we examine these reports objectively, we see things we missed intraday. They serve as teaching moments so we can improve our real-time trading and pattern recognition.

Teaching Moment:

Here is the proper way to 'set a target' when using a "Fibonacci Extension" tool in anticipation of a Bear Flag:



Starting with the open's high (or the spike high, though I prefer conservative targets), begin a Fibonacci Extension Grid and then click on the low of the flagpole. Then, drag the grid to click on the high of the flag.

You can enter aggressively here, or wait until price breaks the low of the trendline (\$103.40) and then target the 100% Extension, which is nothing more than the "measured move" subtracted from the high of "click 2". It came in at \$102.56.

Notice that price did not hit the target... meaning the triangle was the better explanation... or that we should have exited any bearish trade at the doji and momentum/TICK divergence at the intraday lows.

Speaking of that doji, price formed a very small TICK divergence as shown on the 5-min chart and a clear (small) TICK and Momentum divergence as seen on the 1-min chart. Trade Management means having a target in mind, playing confidently for that target, but realizing when the odds shift (for example, internal divergences, reversal candles, etc) and price begins a reversal. Go ahead and take profits when a countervailing signal - like a buy signal in this case, from a 3/10 and TICK divergence at the lower Bollinger Band of the 5-min chart and a spinning top/doji candle.

At this point, you could have entered long to play for a retest of the 20 period EMA (exiting at \$103.00) with a stop beneath the intraday lows.

Price began to consolidate around this level as the struggle between buyers and sellers managed to come to a 'draw,' which resulted in very choppy and frustrating conditions into the close.

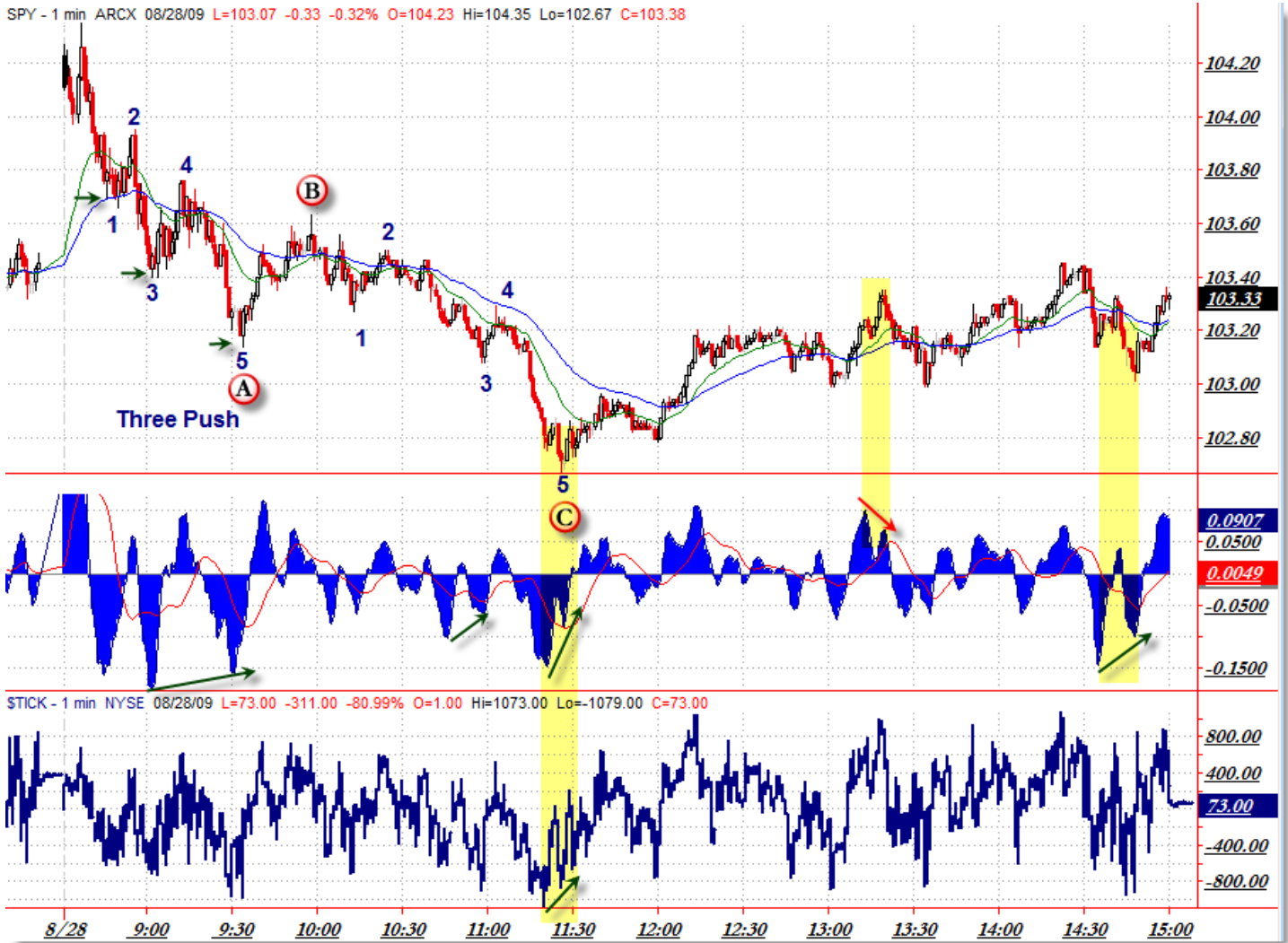
Again, price bounced around the EMAs and formed a tight trading range with an upward bias.

When the 20 and 50 EMAs converge at the same level, and remain that way, then odds favor a range-environment which favors fading techniques (instead of using EMAs as targets or trade entries).

Notice that the \$103 level provided significant support thanks to the 200 period SMA but more importantly the "round number" or "psychological" support that occurs at round numbers (like \$103).



The 5-min chart in TradeStation shows highlights the TICK divergence and also the 'bearish cradle' that formed at the 12:00 noon EST (11:00 CST) frame.



For full image, visit:

http://farm4.static.flickr.com/3543/3866015458_9fc56835c2_o.jpg

The 1-min chart breaks down two fractal Elliott Wave counts which were tradeable in real time using the momentum/divergence methods I frequently highlight here, though looking back, it appears that the holistic pattern was a corrective "Zig-Zag" ABC move (Waves A and C of a Zig-Zag subdivide into a 5-wave fractal).

Otherwise, we can see TICK and 3/10 Divergences which gave short-term windows of opportunities, or gave a little confirmation to the structure or any trade set-ups you were seeing on the 5-min chart.

I try not to give too much "prediction" in the idealized trades structure over the weekend, but the stance I have provided in the last 4 reports has - strangely enough - not changed... we just keep adding dojis.

I think I am going to call Guinness to report a world-record of dojis at highs (kidding).



We now have 5 dojis at the Bollinger Band highs... that's still bearish until proven otherwise with a break above 1,040.

The last time this happened was early June which preceded a 70 point decline into the 880 lows... which was the failed "Head and Shoulders" pattern.

Unless price rises to break 1,040, classic technicians have little choice except to be bearish for a short-term pullback anticipation to the 1,000 area or deeper to the 980 zone for prior price support.

That is the guiding 'bias' that should prevail ... though as usual, bulls are strongly in control ... so don't get too aggressively short unless we start seeing downward moves on the lower timeframes or a weak open on Monday.