



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



There's a lot of information to discuss today so let's get started!

The day will be classified as a "Rounded Reversal" or "Type I Trend Day Down" (which is a "Failure" Trend Day). The Line in the Sand - or official turning point - came at 2:30 when price broke and closed solidly above the falling 50 EMA. Until then, odds favored a Trend Day down bias.

The morning session opened with bad news from China (index down 5%) which was a factor in this morning's down open. The gap in the SPY was almost exactly \$1.00, which placed us in the "We DO NOT expect a gap fill" and subsequently "We DO expect a possible trend day down" - both biases were confirmed with the sudden down-swing on the first 30 minutes into the \$101.90 area on the SPY.

The volume spike, new TICK and momentum lows tipped the odds in favor of a "Trend Day" and for the expectation of lower prices yet to come.

I deem the 11:00 am EST doji and shooting star candle at the falling 20 EMA on a 1-minute TICK and Momentum Divergence (and Elliott Fractal completing) being the BEST trade set-up of the day - with an entry as close to the 20 EMA as possible and a stop beyond \$102.50 with a target of a minimum retest of the intraday lows at \$101.90.

Price did begin its journey to the downside, pausing all the day down to test the underside of the falling 20 EMA, which would have allowed aggressive traders - with a trend day bias - to scalp a large position short at EACH pullback with a tight stop just beneath the 20 EMA (or just slightly beyond the outer Bollinger Band on the 5-min chart).

Technically, any positive TICK reading on an expected "Trend Day" triggers a short-scalp (fading any price move up).

Price ultimately failed to dip beneath \$101.90, and instead formed positive divergences and bullish reversal candles off the lower Bollinger Band, as seen about the 1:00pm time (which is often responsible for the "Afternoon Break" set-up).

Remember, at this time, you still should have expected lower prices in a Trend Day down bias - there's no way to see the future and that price was about to 'end up' in a Rounded Reversal formation. A "Rounded Reversal" is the anti-thesis (or enemy) of a Trend Day, and the dividing line in the sand is always the falling (or rising) 50 period EMA on the 5-min chart. A true trend day (Type III) will never close meaningfully above the 50 EMA - which confirms the structure.

However, a solid close above calls the Trend Day structure into question, and at which point you look to see if there are developing key divergences or some other technical structure that resembles a "price arc" formation complete with reversal candles that perhaps you missed in real time. In this case, they existed, so you should have stopped out of any 'position trades' you anticipated to hold until the close and taken a neutral stance, or an aggressive long (buy) stance to play for the completion of the Rounded Reversal and pocket the "stop-losses" from the sellers as they bought to cover any short positions established earlier.

Such stop-outs are frustrating and there's nothing you can do about those - however, once stopped out of a high-probability structural trade, realize that many other people are being stopped out too, so you can often flip and trade long to capture their 'agony' as they are stopped out of their positions at higher and higher levels (the same technique works in reverse, and is what separates professional traders from amateurs - the ability to think in probabilities and "If/Then" conditions ahead of time... in a word... preparation).

What was surprising is that price gave one more 'death gasp' to the downside, nailing fresh long stops beneath the \$102.00 level before rising (as many times price does) into the close. If you've been following these reports, you'll know

the market has developed a theme of frequent "Rounded Reversal" structures through most of August - knowing that would have helped on today's session.



The two highlighted zones reflect the "Best Trade" set-up of the morning and then the "Turning Point" or "Line in the Sand" that flipped the structure officially from a Trend Day Down expectation to a "Rounded Reversal" expectation.

I'm also showing the "TICK Arc" that formed which mirrored the "Rounded Reversal in price.

We experienced an unfortunate "TICK FLUSH" (see archives for deeper discussion) which zapped away longs and was a precursor to an end-of-day surge. These are particularly bloody patterns which often create 'reaction' moves in the opposite direction when they form.



The 1-min actually shows a better picture, and serves as confirmation for what we're seeing on the 5-min chart - particularly at expected turning points or key trade set-ups we observe on the 5-min chart.

There were key TICK and Momentum divergences at key turning points during the day, which either triggered a fresh entry signal OR an "exit position" signal depending on the type of divergence and your trading strategy.

There was an "AB=CD" move or a "Bull Flag" off the morning lows as shown by the descending black trendlines - the entry would only have been on a break of the upper trendline if you observed it in real time, with a target being the "measured move" of the pole which would have taken you into the 20 EMA resistance on the 5-min chart - an excellent target for a quick long scalp but a more powerful "short-sell" signal upon a successful test of this level.

The ominous "TICK FLUSH" at the end of the day formed a gentle "ABC" price pattern on a positive 3/10 Divergence.



I wanted to give a "Teaching Moment" on Fibonacci retracement grids throughout the day.

I don't suggest drawing Fibonacci grids randomly, or excessively, but it's fine to spend a minute to draw a grid from intraday highs to lows, or key swing highs to key swing lows, to see levels where the current swing will end.

In this case, price respected what's called a "Dominant Fibonacci Grid" all day - which was drawn from the morning closing high down to the morning low in the first 30-min of trading.

The initial move up terminated at the 61.8% retracement before forming the morning "Bull Flag," which also terminated just beyond the 78.6% (lesser-known) Fibonacci zone.

The highlighted bars reflect price turns at the dominant Fibonacci levels drawn from the morning swing.

No, the goal is not to know exactly which zone will reverse price, or to trade between levels, but to use Fibonacci in conjunction with other techniques or price levels when entering or targeting trades. Treat it no differently than those who use "Floor Trader Pivot" numbers.



Look very closely to see that price is suffering from a negative momentum and volume divergence at the recent highs for 2009 - that is NOT a scenario that is favorable to the bulls by any means.

Price has broken beneath both the 20 and 50 EMA on the 60min chart on the SPY, and price could be setting up a bearish "Cradle Trade" which would be an excellent 'swing trade' or zone to establish an intraday bias should we continue to see lower prices.

Keep in mind that it's probably not best to get super-bearish - only look back to the down-move of August 17th which officially triggered a short-sale signal... which was quickly busted later in the week.

Odds favor downward moves from here... but the overarching ('foggy') factor is the resilience of the buyers/bulls who have damaged (busted) every short-sale trigger so far on the way up.



The 30-min chart gives us a level to watch for potential support - the \$101.50 level.

That's from the prior highs of August and from a descending trendline formation... which could be a bull flag (it would be so hard to believe that, but price is key).

A break beneath \$101.50 would be very bearish, though for now, let's watch this level for any possible support bounce which could form off these levels.