



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



I'm not sure how exactly to label today's structure - it wasn't really a Trend Day... it wasn't really a Range Day... and although it most closely resembled a "Rounded Reversal," the price surge at the end of the day invalidated the Rounded Reversal (remember I mentioned yesterday that trading the close can be very difficult because of 'random' rebalancing that large funds do) . Let's just say that until 3:30, the day structure was a Rounded Reversal or 'busted' trend day up.

It's also a testament to what I've been saying to you for the last two weeks - no matter how bearish the structure might look, bulls maintain absolute dominance, and you must WAIT for confirmed breaks before trying to get aggressively short - CAUTION is the name of the game with an upward bias that is still strong and confirmed.

In terms of the opportunities, price opened about \$0.60 lower, which is just on the cusp of a "fade-able" gap (meaning that your first trade should have been an attempt long to fill the gap). On this first trade, the stop would have been beneath \$99.80 (the low of the morning bar) and target at \$100.45. Price pushed hard into this gap but fell just a little shy of it, as price took a spill at 10:30 downwards through the 20 and 50 EMA which should have been an exit for the gap fade if you had not already exited - this most likely resulted in a small profit or at worst a scratch if you entered early enough (there were 30 minutes of consolidation at the morning lows to enter).

For those unconfident on the gap fill trade, the morning @ES futures (@ES U 09) contract gave us an excellent "Rounded Reversal" or "Slingshot" Buy signal prior to the 9:30 EST morning open as shown on this chart:



Price then formed a "make or break" moment at the 10:30 lows, forming two long-legged candles - one of which was a long-legged doji which is often seen at turning points in the market. Since price was moving down, the expectation was for an upward reversal, and that's what happened after these candles completed, breaking above the 20 and 50 EMA. You could have interpreted this as a "Bearish Cradle" sell trade and that would have been acceptable, provided you put your stop above \$100.10 to play for a trend reversal - you would have quickly been stopped out for a small loss. Remember, for a true cradle to form, we would want price to break down and then rally on a swing back INTO the confluence crossover zone and then form dojis/reversal candles. Price did not form a sufficient rally into the cradle to trigger an official trade.

Price then 'tricked' the short-sellers once again, drawing them in off the morning gap with the expectation "Oh! Here is the top!" but once again, bulls dominated the day structure and any shorts were forced to cover as the price rallied

strongly and filled the gap at 11:00am. Price continued to bounce solidly off the rising 20 period EMA, giving aggressive scalp buys into the ensuing up move.

Around noon EST, you should have recognized the momentum and then TICK divergences that had formed. However, despite these, price continued to push higher and finally formed an absolute peak right at the 1:00 Afternoon Breakout that I frequently highlight for you.

Notice on the lower chart how we have a rare Triple Swing TICK and Triple Swing Momentum (3/10) divergence which creates the powerful "Three Push" Reversal Pattern. While you cannot expect a trend reversal off a single divergence, you CAN expect a trend reversal (more times than not - still no guarantees) from a Three Push reversal. In the event that the reversal does not occur, then your stop is very close to your entry (just above \$100.80) and you are allowed to play for a large target to the downside, perhaps even aggressively.

So, if you were entering this divergence aggressively, you would have entered short once the bearish engulfing candle (following the high candle of the day) formed or if you were conservative, you might have waited for price to break beneath the rising lower trendline that could have been drawn from the morning lows - either way, this was your "Highest Probability, Lowest Risk" trade of the day.

I mentioned in last night's report that you should WATCH CAREFULLY how price trades at the 1,007 Index level, because this was prior resistance at the November 2008 highs. I mentioned that this would likely be a resistance level intraday and that day-traders could take advantage of it. Today's high in the index was 1,007 as expected, and it formed on this VERY powerful Three-Push Pattern. That is an example of how you can use higher timeframe expectations to scalp very aggressively (or have higher confidence in your trades) intraday as price interacts with such critical levels.

Price shattered the 20 and 50 EMA as expected, and everything was on par for a "Rounded Reversal" type of day, with the expectation that the highs of the day had already formed (they had).

As we formed a hammer and doji at 2:00, you might have considered exiting your short position from the reversal and standing aside in anticipating of price hitting a resistance level so you can 're-short' the market for additional profit as a lower low was expected from the new TICK and Momentum low on the session.

Price rallied sharply, cresting just above the confluence of the 20 and 50 EMA (this would have been an excellent "Cradle" had a doji formed as these EMAs crossed over) but the better entry if you were not already short would have been to wait until price tested the 50% (which it exceeded) or the 61.8% Fibonacci retracement of the afternoon high to the 2:00pm EST lows. I drew this in a lower grid and note that price did pull back to this level, giving an excellent short-sale entry into what resembled a Bear Flag pattern to target a 'measured move' of the previous impulse down.

A stop would be placed above \$100.60.

Price began falling quickly as expected, but just as sudden as it fell, it rose two bars (10-minutes) quickly before plunging lower as expected, forming a lower low... but only by pennies.

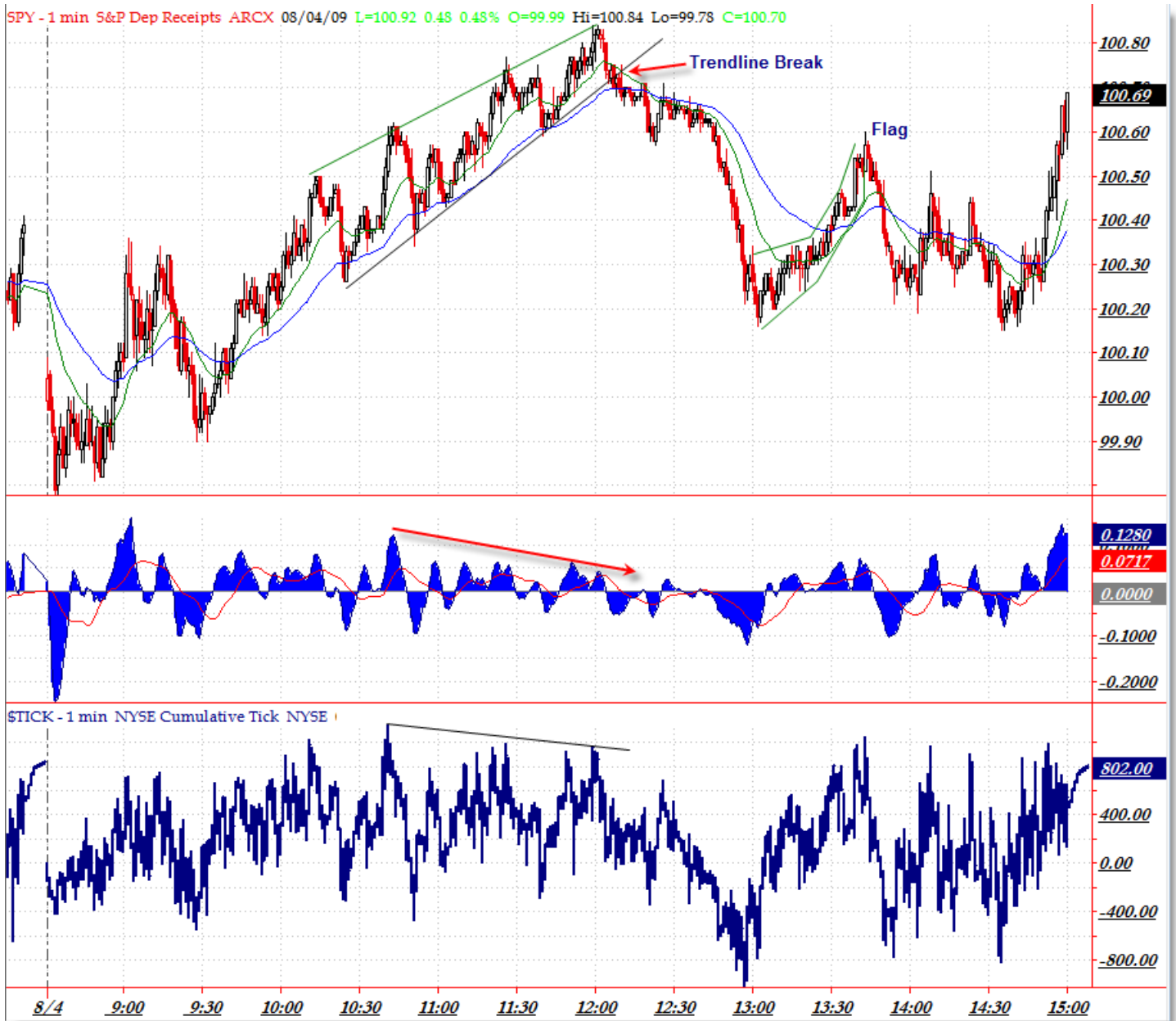
Price formed a doji off this level and then began unexpectedly skyrocketing higher, leaving you to take a sudden exit as price crested back above the 20 and 50 EMAs for a smaller than anticipated profit from the 'busted' or failed bear flag pattern.

Again, "Trade Management is Active Management" comes in to play, in that, while you have a price target, you have to monitor all positions for signs of non-confirmations or - in this case - bullish strength such as dojis, volume spikes, or

strong bullish bars. Also, the last 15 to 30 minutes of trading over the last few months have taken on a 'random' quality, so I suggest - particularly for newer traders - to go ahead an exit at the first sign of unfavorable price movement after 3:30 EST hits to save you the sudden and unexpected rallies (or sell-offs) that occur.



This chart highlights the "Super Divergence" or "Three Push" pattern that marked the intraday high which led to a high-confidence/probability short-sale, particularly when confirmed by the bearish engulfing candle.



The 1-min chart further highlights the TICK divergence and the flag structure as well as the busted flag that failed to achieve the lower price target at the end of the day.



The final chart shows that price retraced the expected 61.8% Fibonacci retracement of the initial downward impulse off the afternoon high from the Rounded Reversal.

This should have been a short-sale for the expected bear flag, with a stop-loss just above this area.

It gave immediate satisfaction, but then price rallied sharply, fell one more time to a new relative low, and then rallied without stopping into the close.

Please refer back to yesterday's concluding summary for a plan of how to trade at the levels we are now - nothing has changed from that stance.

In summary, 1,007 in the S&P 500 is critical resistance, and if that is broken, then 1,014 is the next level to watch for intraday highs. Today, as mentioned, the Index high was 1,007 which was hit on the powerful triple swing divergence. If 1,007 is broken, look for a similar structure to occur at the 1,014 level, and if buyers can take out the 1,014 level, then I'm unaware of any further key resistance overhead until the 1,100 level, which could be yet another magnet trade just like the 1,000 I mentioned a few weeks ago was.

Prices are too overextended to put on a swing position long, but bulls are too strong to put on a swing position short. The best plays are intraday with the expectation that bulls are firmly in control until proven otherwise.

Trade with this bias in that the market is grossly overextended, but that alone is NOT a reason to get short here. Until proven otherwise, bulls are in control and unless critical resistance at 1,014 or 1,007 holds (**which could signal a MAJOR top**), then this will be the bias with which we will trade intraday. Hold in the back of your mind that 1,007 or 1,014 could be the top of this rally, but do not trade off that unless we get a confirmed and powerful inflection down from that level. Don't be a hero and try to call the top - watch and trade the odds to the best of your ability.

