



## Daily "Idealized Trades" Report

### SPY (SPY 500 ETF) 5-min



Can we call today's action another example of a "Rounded Reversal?"

It's proof positive that - no matter how much traders seem to say "A-ha! HERE is the top!" Bulls always thwart them. Refer back to my 'broken record' speech I've been saying every day - bulls are in control, don't fight them, WAIT FOR PROOF before getting short, odds favor the bulls, etc etc etc.

The day started out roughly equivalent with yesterday's close (no gap) so odds were very reduced that today would be a Trend Day. The morning downward plunge after the open was sharp and swift and relentless - but once again, the bulls are using ANY pullback to buy and trap the short sellers. As a day trader, you need to be aware of this (as I'm sure you are) and either lessen any bias to the downside or take advantage and have more confidence in any long trade until proven otherwise... in other words, be patient with buy trades and be more discriminating/selective with short-sales (scalps only).

After the plunge to new lows in the morning, the expectation was to sell short the first rally to play for a new low yet to come in price - this rally came in two solitary bars (a bullish engulfing) that took price back to the \$100 level before quickly (not at a known resistance level like a moving average) reversed back to the downside. However, the expected new low in price did come, but it was mere pennies lower as a long lower shadow formed just before 11:00am EST and was quickly eclipsed by a bullish engulfing (strong) candle which - after the bullish candle closed - left a permanent TICK and Momentum divergence, which should have triggered you out of any short-sale positions and - for aggressive traders - gotten you into a reversal long position to play off this potentially powerful reversal condition and 3/10 and TICK divergence.

Price rallied quickly to break above the 20 EMA, and then faltered into noon to form a contracting triangle (technically a 'descending triangle') which broke sharply to the upside just after noon EST. This is a lesson that you should treat ANY triangle pattern as a consolidation pattern and not try to anticipate the break direction until it occurs - classic TA will teach you that descending triangles break to the downside - they do not. This is a tendency, and not a hard rule, and in my experience trading, any triangle has roughly equal odds to breakout in any direction, and the edge comes from entering at the breakout zone and placing a stop on the opposite side of the trendline to play for a range expansion move a la the "Price Expansion/Contraction" Principle.

Price only managed to 'expand' two bars which came into confluence resistance at the falling 50 EMA, 200 period SMA, and top of the Bollinger Band which formed a long upper shadow shooting star candle - a good place to exit using trade management skills (meaning, although you may be playing for a large target via the triangle, you notice all these bearish omens and go ahead and exit earlier than expected either with a small profit or a scratch).

Price then fell to test the support lows of the \$99.80 price level before teaching us another valuable lesson.

I mentioned that if you were playing for a triangle, the stop-loss would be placed just beneath support. This is a lesson that you need to be judicious with your stop-loss placement - meaning you should never put a stop just one or two price ticks away from where you think you should - you should always go slightly beyond where expected support would be. In this example, price support rested at \$99.80 though price 'nipped' the stops just beneath this level and hit \$99.72 before forming a long lower shadow and reversing very sharply into the range expansion play to the upside that you expected from your triangle pattern. Generally, it's best to place a stop at least \$0.10 beyond where you think you should (and that's beyond the exact support price) to be safe. That's about an extra point in the @ES futures (or around 10 points in the @YM Dow Minis). You should be aware of this 'game' when trading intraday - especially in the @ES futures.

So price rallied hard off the "stop-run" below \$99.80 and rose sharply to break out solidly above the 20 and 50 EMA confluence, forming a New Momentum and New TICK (more important) high on the session... exactly at the 1:00pm afternoon breakout I discuss for you so often - please learn this expected play as well and don't miss it (there are plenty of examples in past reports here).

Because of the new (relative) price high at \$100.20 and new absolute Momentum and TICK high of the session, odds strongly favored a higher high yet to come so the strategy would have been to wait to buy the first pullback.

The first pullback actually gave us the Highest Probability/ Lowest Risk trade of the day (knowing these makes a good reference for literal 'ideal' trades), we had the following information:

New Momentum and New TICK high

Breaking upwards above resistance from EMAs and prior afternoon highs

Bull Flag trendline formation

Cradle Buy Trade at confluence EMA crossover support

Bullish Hammer

Bounce off Daily S1 (first support) Pivot

Remember, the goal of these reports is to see these patterns over and over so that you can recognize them when they develop in real time and trade them aggressively.

Price rallied sharply as expected, triggering an official "Sweet Spot" Trend Reversal as we peaked above \$100.30 around 2:30. Volume strongly confirmed this move which added to the confidence now that higher prices were yet to come.

The new momentum high, New TICK high on the day, and volume confirmation at the 3:00 hour all worked like the prior high, which meant that ANOTHER new price high was yet to come, giving us an 'edge' trade to buy the first pullback.

By this time, you likely (should have) recognized the powerful impulse up and counted backwards a "1 and 2" rally which led you to believe we had just experienced the 3rd wave and were pulling back into the 4th wave. The play then is to buy when the 4th wave completes to play for a 5th wave yet to come.

The pullback was quick and ended 'in thin air' on a doji as price rallied up to the \$100.80 level at the upper Bollinger Band at the 1,007 level (which I have highlighted to you strongly in the last two reports that is a strong resistance level and to watch price closely and to expect intraday reversals as price comes into this level). This should have been an exit for you, particularly as price fell very sharply off the \$100.80 SPY level (1,006 in the \$SPX index as seen in a later chart).

If you felt this was the peak of wave 5, then you should have shorted price as we headed lower below \$100.70 and \$100.60 to play for a quick short-sale scalp... though perhaps this might best have been avoided as the last 30 minutes can be quite choppy and somewhat 'random' as the last few days have shown. Either way, the negative TICK and negative Momentum divergence as the S&P 500 tested the critical 1,007 level should have been plenty of warning for you to exit your short-sale position.



The 5-min chart from TradeStation highlights the day's opportunities a bit clearer - the divergences are highlighted.



The 1-min chart further clarifies the day's structure and can add an extra layer of information when used in conjunction with the 5-min chart.



The "prediction" going forward remains the exact same as it has for about two weeks now. Please read the last few days for a more detailed explanation, but the summary is as follows:

Bulls are in control. Do not bet against the bulls. Play short-sales ONLY for small scalps. No matter how bearish the picture looks, avoid getting biased to the short-side. Play the long side - do not get in the way of the bulls. We're too overextended (and at critical resistance) to get swing-long here, but bulls are too dominant so we have to WAIT for a confirmed sell-signal to get short so caution is warranted.

The above chart show the S&P 500 Index (\$SPX) that cannot crack CRITICAL resistance at the 1,007 level. If 1,007 is broken, then 1,014 is the next level of resistance, but there's not much at all (there's open air) above 1,014.

Please see the Intermarket Weekly Reports for a detailed explanation.