



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Today could be a very important day for the market - provide the Jobs Report comes in worse than expected tomorrow morning - it might mark the very top of this rally... but do keep in mind that 'calling a top' is generally unwise, and it is better to wait for confirmation of a breakdown, especially given the strength of the bulls in this rally from March. Remember, the Jobs Report for July will be released tomorrow and it could potentially be a major market mover - strong

to the upside if it is better than forecast or of course strong to the downside if it is worse than forecast. Be alert for a possible trend day to develop tomorrow.

That being said, let's take a look at the opportunities for the day.

We began the morning with an overnight gap of roughly \$0.50 which was - as usual - a fade-able (trade-able) gap so the first play of the morning should have been a 'gap fill' down to the \$100.40 support area.

Price managed to blow strongly through this level as well as all 5-min EMAs to make a new swing low of \$99.70 as it formed three long-legged bullish shadow candles (one of which was a hammer-like candle) that nipped beneath the lower Bollinger Band, and as price started to rise off this level, though could have been a tight scalp trade to target the 20 EMA at \$100.10 with a stop beneath the \$99.70 lows.

Because a new momentum and TICK low had formed on the 10:00am price low swing, we would be expecting an absolute new price low to come after a pullback, so once the pullback came and appeared to show signs of reversing around 11:30 (price pulled up into the 50% Fibonacci retracement zone - see lower chart) and formed three quick smaller upper shadow bearish candles (including a semi-engulfing and a shooting star just above EMA resistance). On the very bearish bar that broke down beneath the rising trendline as well as the EMA support zones wrapped around the \$100.10 level, this would have been an excellent short-sale entry to play for a bear flag in the anticipate on lower lows yet to come. This perhaps was the highest probability, lowest risk (stop above \$100.40) of the day.

However, as you can see, price formed an unexpected (or at least, unwelcome) swing to the upside between 12:00 and 1:30... which was irritating but did not threaten the stop-loss.

This provides a lesson in trade management. As price tested the morning lows near \$97.70, we formed a quite stunning bullish hammer/doji candle on a slight TICK and Momentum divergence (though price did not technically make a lower low). Conservative traders could have gone ahead and exited the full or at least a partial position here just to be safe to lock in a profit. Aggressive traders would have held, either trailing a stop or holding until the \$100.40 stop was taken out - your method depends on your experience and risk tolerance.

Price formed an "ABC" corrective phase back up to challenge the \$100.20 level which corresponded with the 38.2% Fibonacci retracement (as seen below) and the 200 period SMA before forming a long upper shadow and then reversing sharply back down as price broke another rising trendline in a second (fractal) bear flag trade. Technically, it was an "AB = CD Measured Move" trade, though it comprised the price projection move of the early morning bear flag trade.

I have a description about the AB = CD trade below.

Price slightly exceeded the second weak bear flag of "Measured Move" trade of the afternoon (price targets often form or provide support) and at 2:00 EST, there were two long lower shadow candles that again poked beneath the lower Bollinger Band and formed three strong hammer candles (bullish) in a row. At any case, this was plenty of evidence to exit any short sale position to anticipate a strong reaction up (which could have also served as an aggressive entry).

Price did form another upward rally (that still looks like a corrective move - corrective moves take a 45 degree angle movement most of the time).

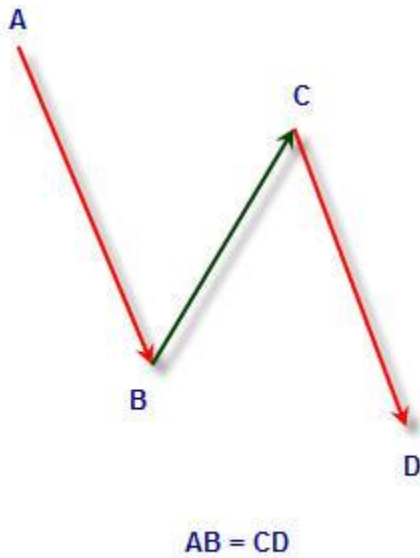
Let's look to other charts to see specific opportunities.



This chart shows the Fibonacci Levels that were dominant off the morning swing, as price challenged and resisted both at the 50% and the 38.2% Fibonacci retracement levels (as well as the upper Bollinger Bands in both cases). These signaled excellent short-sale scalp entries.



Going into the 10:00am CST hour, price was retesting the 50% Fibonacci level on what appeared to be a negative TICK divergence, though price had one final swing to the upside that actually formed a new TICK high on the session which was puzzling and might have prevented you from getting aggressively short. This reminds us that, as repetitive and 'predictive' as TICK divergences and all these patterns are, nothing is absolute and we always deal in a world of probabilities. In either case, a stop should have been placed above the 61.8% Fibonacci retracement at \$100.50.



Or the "CD" swing should equal the "AB" swing.
Watch for flag-like pullback from B to C.

The "AB=CD" trade is NOT related to Elliott Wave and is nothing more than a weaker Bull (or Bear) flag - same concept.

The idea - just like the bear flag - is to short-sell upon a breakdown of the rising lower trendline as the "D" swing leg begins and play for (target) an equal swing of the "AB" leg. A stop-loss would go above the high of "A".

To recognize this, note the 45 degree angular pullback in the BC swing just like a bear flag.



Prediction Time:

First, let me underscore that the Jobs Report for July is released tomorrow morning before market open. According to Bloomberg.com, the consensus is for a reported loss of 300,000 jobs (range = loss anywhere from 190,000 to 375,000) with the unemployment rate rising to 9.7%.

Any major aberration from these levels will likely cause a trend day up or down as a result - perhaps the if the number was worse than expected, the move to the downside would be exaggerated due to the strong overhead technical resistance.

From a technical standpoint - the market is at absolutely critical resistance at the 1,007 level which is the November 2008 highs and just beneath the 38.2% Fibonacci retracement from the absolute 2007 high to the absolute 2009 low.



It is very possible that we are seeing the absolute highs here (with two bearish candles forming) of the March swing up... and for aggressive traders, if the Job Report gaps down the market or in other ways forms a Trend Day Down, aggressive traders might want to consider putting on a short-sale position with a stop above Index level 1,020 to play for a minimum target of 875.

Bulls are uncharacteristically strong, which is why caution is still needed. Conservative traders may want to wait for proof that these upper resistance levels will hold or just stick to day-trading.

This could be one of those rare moments in the market that a key inflection point is upon us... or at least a low-risk (tight stop), high-probability opportunity for those bold enough to take it.

At a minimum, I hope you've taken my advice about watching intraday tests of 1,007 which have set up very powerful short-selling scalp opportunities.

Otherwise, wait to see how Friday's action plays out and I'll keep subscribers to the Weekly Intermarket Piece updated closely with this weekend's report.