
# Daily "Idealized Trades" Report

## SPY (SPY 500 ETF) 5-min


Today was a major options expirations day, in addition it was the September expiry of index options - so today's choppy action was no surprise. Just a reminder - if you're a @ES or @YM futures trader, you should already be using the December contract with symbol "Z" (example - @ESZ09 for December S&P 500 e-minis).

We often get random moves on such days and many day traders take an early weekend (not trade on Friday), but today did give us some good opportunities... and a near exact repetition of yesterday's price action. Let's take a look.

There was no gap again today, so odds favored a range day instead of a trend day, and that's exactly what we got.

Unless you were short off the open as price began to fall, there really was no idealized trade - even the long lower shadows under the lower Bollinger Band at the $106.50 level were difficult to get long, and the price retracement was one bar to the target of the 20 EMA, so if you missed this, the trade progressed without you.

I would deem the first 'idealized trade' to be at the $106.80 pullback into the falling 20 EMA off of a new (morning) oscillator (but not TICK low). The Breadth (internals) were mixed at this point, which gave less confidence in either direction, but the trend structure and EMA structure was bearish, and a stop would have been placed above the 50 EMA at $107.00 (round number resistance) and the target would be a retest of the $106.50 lows. This trade 'worked,' but as the internals hinted, it would be a very bumpy ride.

If you missed getting short after the first large bar, then there were plenty of long, upper shadows and dojis in which to short, again with a stop trailed above the 50 EMA. Price actually formed a triangle pattern (see 1-min chart) which broke to the downside, which also triggered a short-sale trade with a target near $106.40 (height of the triangle at 40 cents subtracted from the large breakout bar at $106.75).

I did want to call your attention to this frame - the 11:00 - 12:00 period - which contained an excellent example of an "AB = CD" pattern that fulfilled a downside target (showing the 'fractal' nature of price patterns). See the 1-min chart for this example.

BEST TRADE of the DAY

Now for the Best Trade - both from a trading and educational standpoint.

There was a 5-wave progression to the downside that - almost exactly like yesterday - ended with a positive momentum divergence (though not a TICK divergence this time) that formed two long lower shadow candles that poked outside the lower Bollinger Band - one of which formed a doji. All of this came at the price projection point (termination target) for two patterns - the triangle and the AB=CD measured move pattern (price often reverses at price targets).

With all that evidence behind you, you should have exited any short positions and traded aggressively short for a trend reversal at best, or an ABC reversal. You would target a larger price than the 20 or 50 EMA in anticipation of a reversal - which is what occurred.

Price crossed bullishly, and then the EMAs crossed bullishly at the 2:00 zone.

From this point, you should have traded pullbacks to the 20 or 50 EMA - both of which 'worked' for quick scalp trades.

The best "exit" of the day came as price formed a shooting star (long upper shadow candle) at 3:30 as price retested yesterday's close at $107.15, which led to a sudden and swift down-move into the close (many traders avoid trading the close because moves can be violent).

Although not labeled, this shooting star candle at resistance formed on a "Three Push" negative momentum divergence - a powerful reversal signal that - if it holds up - will have bearish undertones/bias for Monday's trading.


Elliott Wave structure almost identical to Thursday's session.

Breadth is overlaid to show the flat/lifeless period in the morning that sprung to a bullish bias into the afternoon. For me, Breadth is not essential, as it mainly shows/mirrors price too closely. The question is "why have something that tracks price too closely?" I agree - it's unnecessary. However, watch for breadth contractions to warn/confirm 'range days' and watch for any divergences, which are even more rare than TICK divergences.


The 1-min frame shows the morning Triangle which gave way to the important "AB = CD" Measured Move (almost like a bear flag) pattern. At the termination or price projection $106.40) of the Measured Move, the play is to go long.

Notice the lengthy positive momentum divergence that preceded this point.

Otherwise, there was a negative momentum and TICK divergence going into the 2:30 highs, though this only produced a 'scalp' down before price rallied to a new high - again showing bullish dominance.

Ultimately, the price closed on a weak note for the day which has ramifications for the daily chart and puts in a bearish bias over the weekend for Monday's trading session.

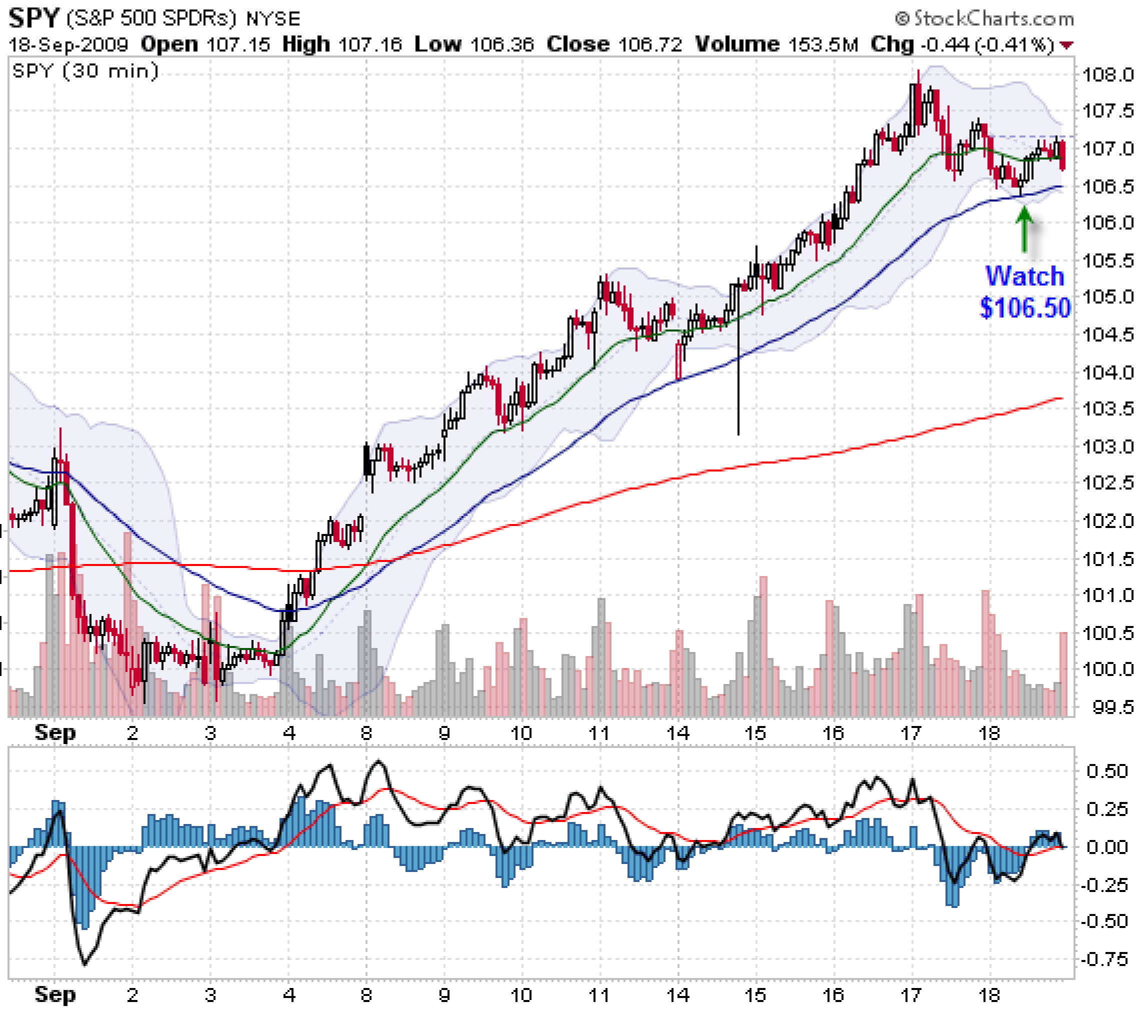

Putting my "classical technical analysis hat on," I say the following:

This is a POWERFUL sell signal in the SPY and S&P 500 - given that a doji and downward day (today) has formed above the upper Bollinger Band on a negative momentum divergence. Suggestion would be to expect a down-move to challenge the $105 or $104 area with a stop above $108. Price could fall as low as the $100 level. Price is grossly overextended and the risk-reward relationship is majorly skewed to the downside (risk to the upside/opportunity to the downside).

Putting on my "reality" hat on, I say:

Keep in mind that bulls/buyers/demand has overcome ALL sell signals and made a mockery of bears/sellers. Bearish stop-losses have helped propel prices further to the upside. Bulls are firmly in control and there seems to be an over-riding vehicle/mechanism that continues to push prices higher.

Combining the two, I say "Expect downside ahead, but be realistic in the fact that bulls - for whatever reason - keep pushing prices higher against all bearish signals in their path." Or "be cautious."




30 min structure shows that $106.50 is very important to watch for support.

A break under here - especially beneath $106.00 - would trigger short-selling and opportunity to play for $104.

Until then, $106.50 is powerful and expected support that would create opportunity if broken.


60 min chart shows a distinct negative momentum divergence and price failing to overcome the $108 level.

Watch the 20 EMA (where we are now) as support and if it fails, support would be expected at $106, which is the rising 50 EMA along with the lower Bollinger Band. A break beneath $106 would send prices lower.


A bonus chart of the Monthly S&P 500 shows overhead resistance at the 20 month SMA, "50" zone in the RSI, and a distinct negative divergence in the McClellan Oscillator. Notice the negative volume divergence as well.

Can bulls - who remain dominant and amazingly resilient - overcome this? The line is drawn.