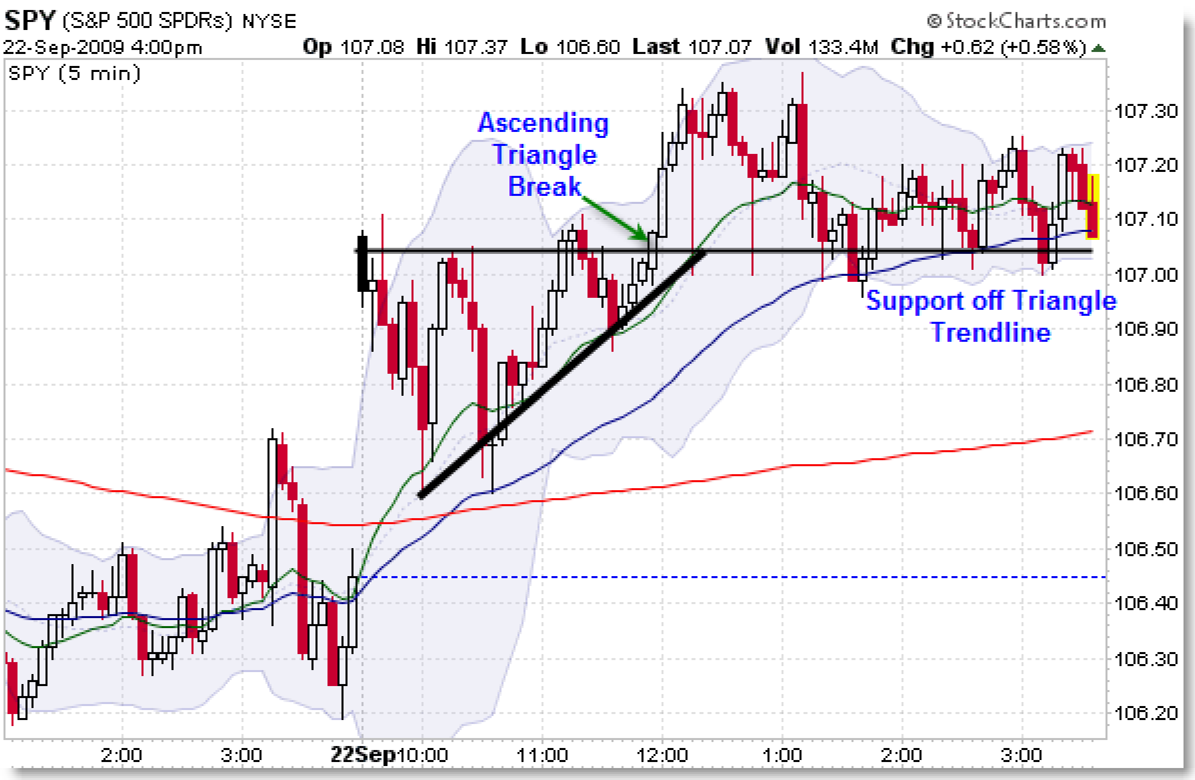
Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



The market is positioning itself ahead of Wednesday's FOMC "Fed Day" announcement, which is likely why price stayed so flat in the final two trading hours. Be aware that tomorrow will experience volatility about the 2:00pm EST time when the announcement is released - normally there's a sharp three-wave movement that newer traders often do best to avoid. Don't let that catch you off guard.

GAP FADE

The first trade of the day should have been a gap-fade trade to play for the $106.45 level, particularly as price began to make new lows off the first few bars. The stop would be placed just above $107.10 (recall yesterday's discussion about conviction in stop-losses) as we got another swing up that challenged the highs just before falling down in a quick downward swing.

Here's where things got interesting - or frustrating. The edge often comes from filling a gap, but in this case, we had a prevailng buy signal or at least potential reversal signal that served to impede the downward motion that we expected to fill the gap. A long-lower legged doji formed at the $106.60 level which happened to inflect off the rising 50 and 200 period moving averages as shown. In addition - as seen in a later chart - this was the 78.6% "Fibonacci" gap fade percentage (if taking a "Fibonacci" grid from the morning high to yesterday's close) and also the 50% standard Fibonacci grid off the $106.50 swing low into yesterday's close also to today's high. Even if you didn't pick up on these in real-time, it's a good lesson to learn for the future.

That being said, we had a decision to make - do we go ahead and **keep playing short** to fill the gap, or do we **exit the gap trade after the doji** and strong candle up after the doji and lock in a profit... or third **do we lock in a profit** and then declare the doji strong enough of a buy signal to **flip and reverse long** to play for a test of the intraday high at $107.10?

The correct decision from hindsight was of course to exit with a smaller than expected (or scratch) profit and then flip long - but don't be upset if you did not take this course of action. We trade with the information we have at the time and then learn from our experiences so as to trade better next time.

This is the essence of trading - knowing your edge from your trade set-up, taking the trade, and then MONITORING the trade for any signs of adverse developments which would force an early exit - that is good trade management. This trade provides a lesson in good trade management. Don't feel bad if you defer to the old trading axiom "When in doubt, get out" which will likely wind up saving far much more money than trying to impose your will on the market (in this case, continuing to play for a gap fade despite a powerful - under normal circumstances - buy signal which resulted in further upside price action.

That being said, price bobbled after re-testing the morning high and then pulled back into a confluence support zone of the rising 20 period EMA and the R1 Daily Pivot (these serve both as support and resistance... despite their names). You could have put on a trade here, or waited to enter long o a break of the $107.10 resistance level, which - by this time - had formed an ascending triangle pattern.

Remember all the discussions aboute pops above resisance leading to impulse moves thanks to short-sellers covering - this was another example of that (though we did not make a new 2009 high at this point on the chart).

Still, the long entry here at $107.10 - with a stop under the 20 EMA and the R1 Pivot at $106.90 - led to a play to the R2 pivot, over which price was unable to break.

This gives us ANOTHER lesson in good trade management. The official price projection target of the triangle - which is the height of the triangle - was roughly 40 cents ($107.10 minus $106.70). When added to the breakout price of $107.10, this gave us a target of $107.50 to exit the triangle expansion play (long). However, once again, a barrier stood in the way of our price target. Price initially reached a high of $107.35 as price tagged the upper Bollinger Band and the R1 pivot, swung back down and then retested this level to make a marginal high. At this time, a negative momentum and TICK divergence formed, which should have given you pause.

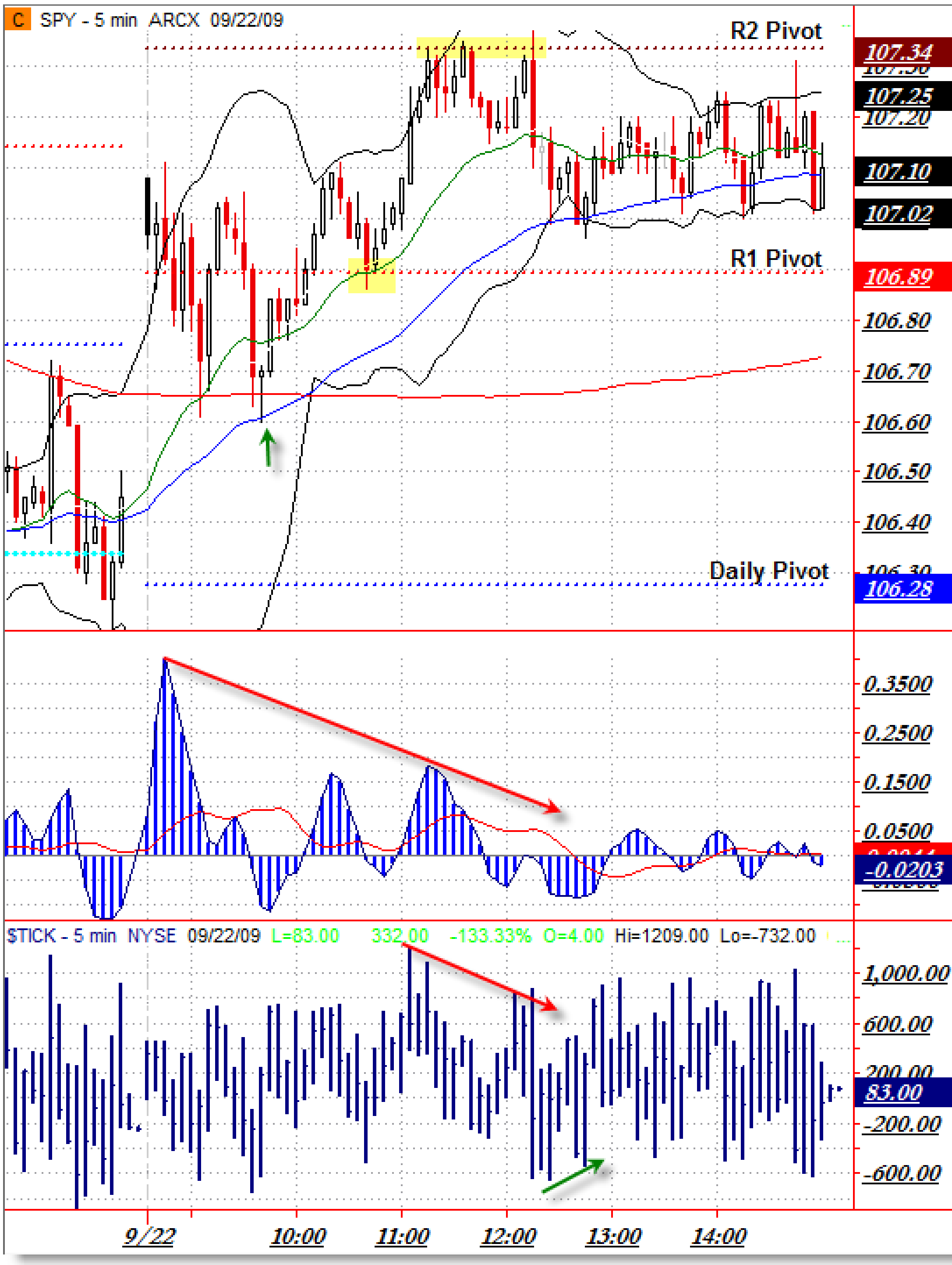
Again, you had a decision to make - continue to play long for the $107.50 target... or take an early exit with profit since price was having difficulty overcoming the R2 pivot on negative divergences. You also could have flipped and considered this a short-sell signal... though that would have been an aggressive play.

Just like the morning gap fade taught us, trying to fight the market to play solely for our target was the wrong course of action. It was acceptable to exit early when new information entered the system and the pathway to profit (in the trade) met key resistance. It would have been an aggressive - though ultimately profitable - stance to exit and then reverse short.

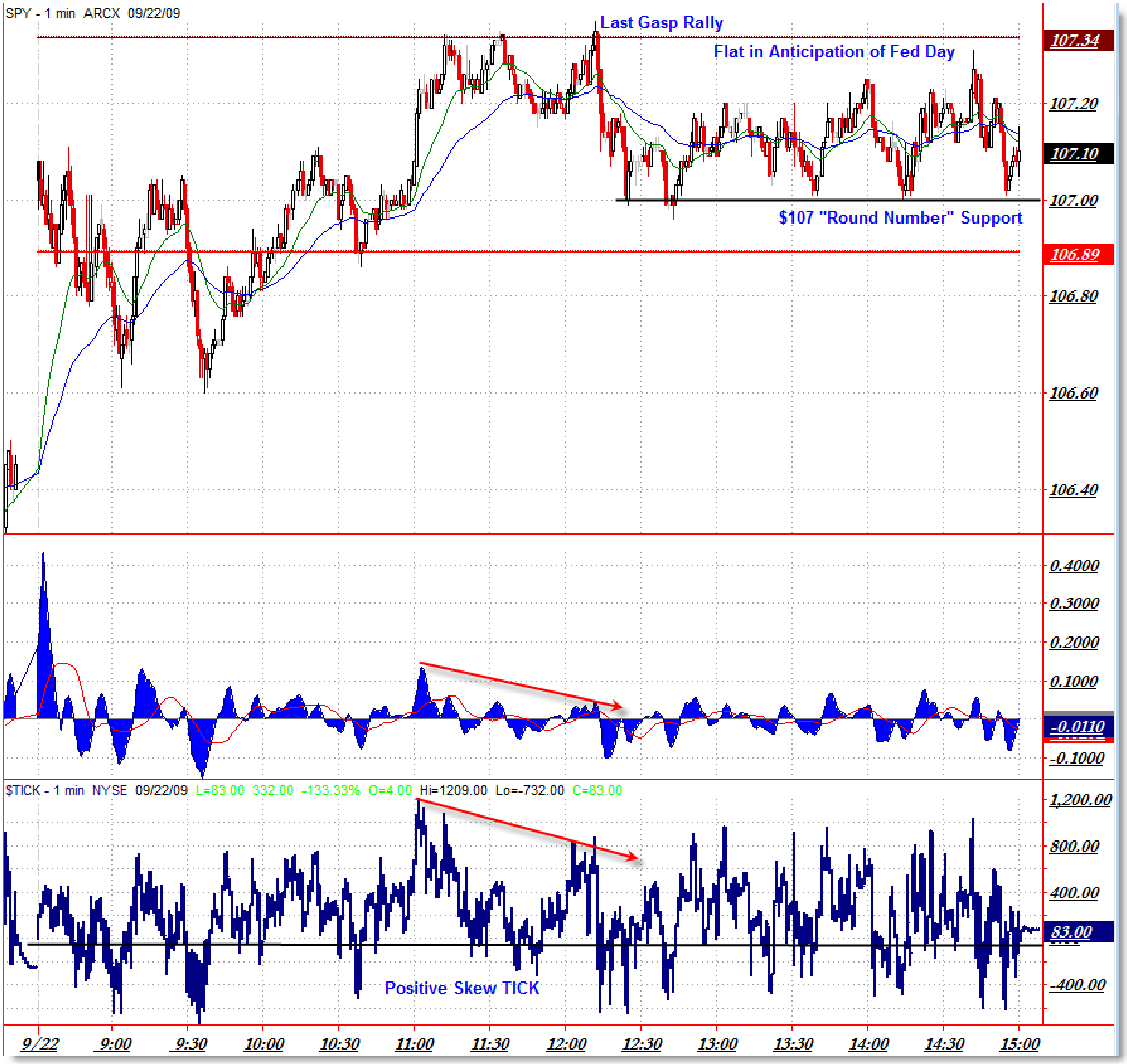
This gives us another lesson in why it's important to hold stops above key resistance levels... if you shorted at the second test of R1 at 11:30 CST / 12:30 EST, then you had to endure one more thrust to the upside which actually formed a new high on the day... stopping out all shorts who had placed their well-intentioned stops just above the intraday high. However, all short-sellers who had their stops 10 cents or so above the intraday high from 11:30am CST still remained short and wound up taking a nice profit either at the rising 20 EMA or at the rising 50 EMA (in confluence with the lower Bollinger Band).

A positive TICK and momentum divergence (see 1-min chart) formed at the challenge of the 5-min chart's Bollinger and 50 EMA, which could have been taken as a long buy... this also was the "Line in the Sand" to determine whether to keep playing long (Trend Day) or to start looking for more short-sale trades (Rounded Reversal).

Ultimately, price held this level, rallied higher, and then formed a tight trading range with little edge in trading into the close.



The TradeStation chart shows us the pivot levels as well as the TICK Divergences on the day which helped solidify trades.

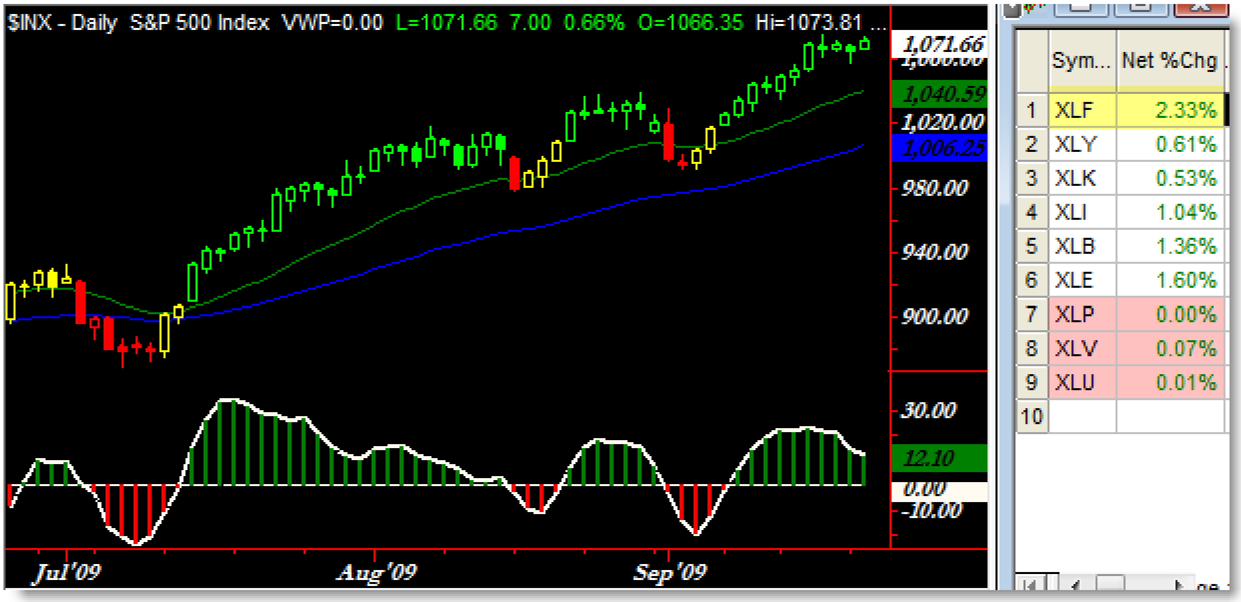


As always, the 1-min chart confirms or dis-confirms what we're seeing in terms of structure and set-ups on the 5-min chart (and can reveal turning points via TICK and momentum divergences better).

The big take-away from this chart was the massive momentum and TICK divergences into the 12:00CST / 1:00 EST highs as shown above. It was a "last gasp" rally into a very weak intraday high that should have been shorted on any weakness - it led to a quick and profitable scalp.

Two Retracement Grids on this morning's gap.
First, taking a percentage retracement from yesterday's close to the intraday high (a true gap retracement):

Second, a standard/classical Fibonacci retracement grid from the prior swing low to morning's swing high:



A little commentary on the current color bars and today's sector returns.

The color bars help determine swings and are based on an average true range function from the highs and lows to switch colors.

Not surprisingly, the current color is green, though there have been three red color bars over the last two months. This shows that bulls have dominated the short-sellers and rule the supply/demand equation at the moment, as I've been saying in the last few weeks' reports. Supply and demand move prices - not chart patterns.

However, the 3/10 momentum oscillator continues to show momentum divergences, though price continues to rise against all technical evidence to the contrary - keep this bullish bias in mind.

That being said, the intraday sector performance was quite bullish, with Financials rising over 2% today. They were followed by Energy (up 1.6%) and Materials (1.3%). The main take-away - in how I have this chart organized - is that money flowed strongly into the "Offensive" or "Aggressive" sectors today and the Defensive (conservative) sectors like Consumer Staples (XLP), Health Care (XLV), and Utilities (XLU) remained very flat today - that in itself is bullish.

Technical evidence remains bearish... in terms of slight volume divergences and momentum divergences at the highs.

That doesn't seem to matter, though, as bulls continue their dominance over sellers.

Watch a break of $107.50 to create yet another momentum burst you should trade from more short-sellers covering their positions (buying to cover)... but also watch a break beneath $106.00 (particularly $105.50) to shock the dominant bulls and see if a little panic selling can form on a break if tomorrow starts with a down gap and then continues lower after the Fed Announcement.

Remember, the Fed is on a campaign to prop up the financial markets, so it would be unexpected for tomorrow to be a hideous down day... but it all depends on the market interpretation of anything the Fed announces at tomorrow's meeting.

The actual S&P 500 index is very close to a new high, which would come in on any intraday move above 1,074/1,075.

Otherwise, watch the 20 EMA (at 1,067) and 50 EMA (with lower Bollinger) at 1,060 for potential support. If this support is broken, we have open air to the downside... in the same way that a break above 1,075 would cause an 'open air' trade to the upside.