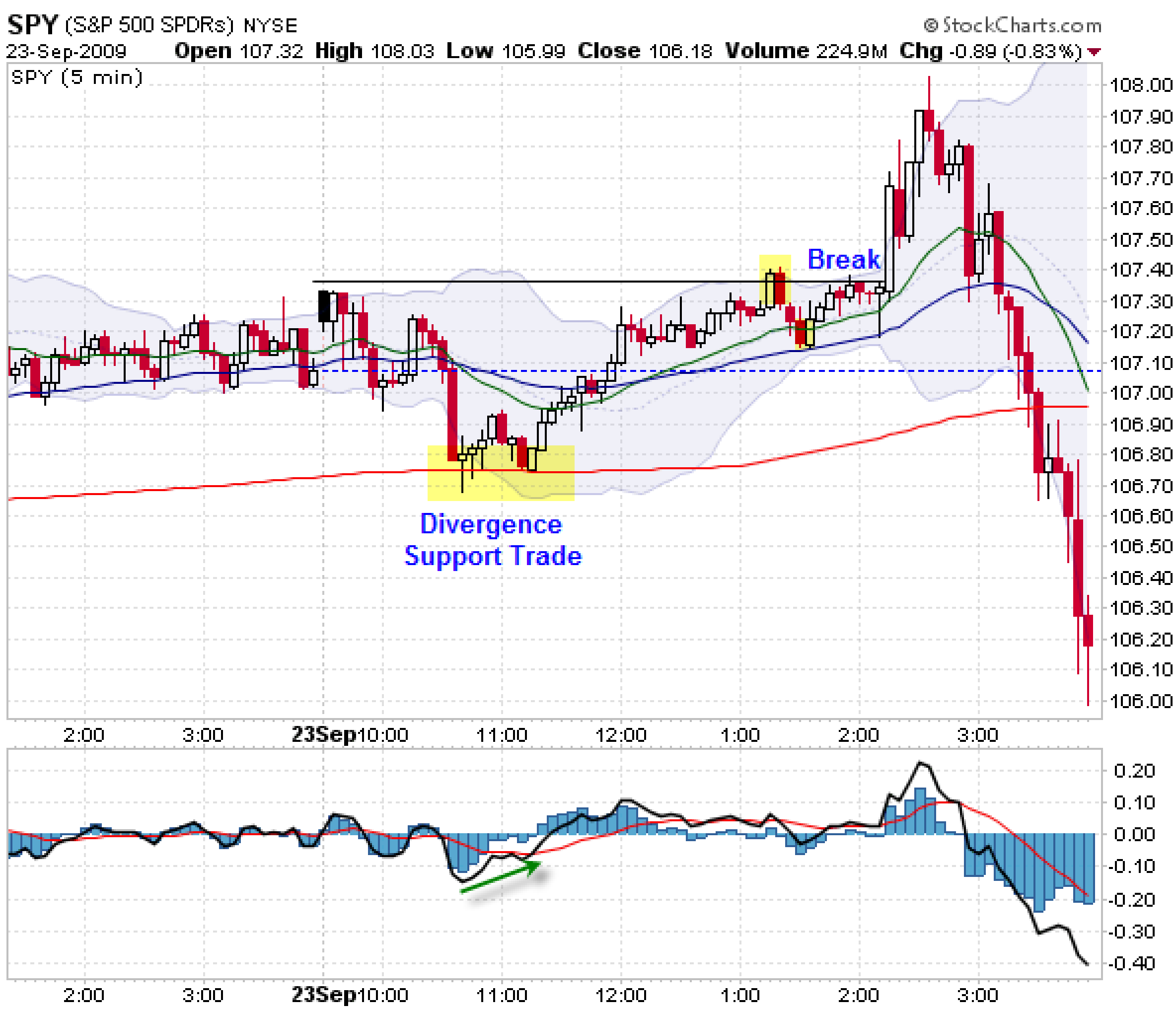
Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



I can here the dichotomy already from traders:

"This is exactly why I love trading Fed Days - the Volatility!"
and
"This is exactly why I hate and avoid trading Fed Days - the Volatility!"

Whichever side of the "Fed Day" trading camp you are on, one this is for certain - today's Fed Day action lived up to its potential as a market moving day!

Generally, there is a template to trading Fed Days, so I won't be focusing as much on the "Idealized Trades" portion today (few opportunities exist in rangebound environments that comprised the morning session).

I did want to highlight four trades:

MORNING GAP FILL

The market opened 20 cents above yesterday's close above the upper Bollinger Band on the 5-min chart. That was probably not enough reward to justify a trade, as one would have been required to act quickly off the open with about a 10 to 15 cent stop to play for a 20 cent profit. It was completely acceptable if you passed on the potential gap fade - that succeeded - on the morning's open.

DIVERGENCE/SUPPORT/BOLLINGER/DOJI TRADE/S1 PIVOT BOUNCE

Price formed a large down-bar around 10:30 EST which stopped at the confluence of the 200 period SMA and the lower Bollinger. A doji (long-legged lower shadow) formed at the $106.70 price, and the market paused/consolidated until about 11:20am. Though technically not a positive divergence (price had a higher high on the $106.75 than the prior $106.70), the momentum oscillator and the TICK registered clearly higher readings while the price formed a flat-line test of a prior low (and support zone on the 200 SMA).

You could have entered long as we broke above $106.80 to play for a retest of the intraday highs (aggressive) or for the confluence of the overhead EMAs with the $107.10 area of yesterday's close - both of which worked (with a stop 10 cents beneath the intraday low of $106.70).

NEGATIVE DIVERGENCE, BEARISH ENGULFING, BOLLINGER BAND

The next trade came just after 1:00 EST, with price challenging an intraday high on an established "Range Day" in advance of the Fed Announcement (scheduled for 2:15 EST). A bearish (almost) engulfing pattern formed at the upper Bollinger Bands on a negative TICK and momentum divergence, allowing you to short a break of the candle's low at $107.30 for a play back to the confluence EMAs (which succeeded) or yesterday's close at $107.10 (which failed). The stop would be placed near $107.50 or 10 cents above the intraday high (at the time).

FED ANNOUNCEMENT, "STOP-POP," BOLLINGER BAND SQUEEZE PLAY

The last "ideal" trade of the day came - ONLY if you were an aggressive trader comfortable with the volatility of Fed Day announcements - with the price surge that came from the initial announcement as expected (there is an expected surge up or down the moment the report is released). In this case, that also happened to correspond with a "Bollinger Band Squeeze Play" which is a volatility expansion play that triggers when the upper and lower Bollinger Bands "compress" around price. Under normal circumstances - and even these - we get price expansion moves that are good for a decent impulse move profit (sometimes allowing us to play for a large target).

Also, the concept of the "Stop-Pop" lessons I've been teaching you here triggered when we broke to new highs. Enough shorts were forced to cover to help you get a long (aggressive) buy trade thanks to their buy-to-cover orders (that's the logic at least).

Those are the four educational 'idealized' trades you should study as a reference for today's trading.

I am hesitant to call the violent price move down an "educational lesson" because such moves are not necessarily typical and can't really be replicated in future trading days (as easily as the other trades can be). To have any hope of profiting, you would have had to see the $108.00 level as overhead resistance, ignored the fact that bulls have been majorly dominant over sellers, and expected sellers to prevail at a test of new 2009 highs. That's a lot to ask. This coming off new TICK and Momentum (and volume) highs of the session.

Still, there was a shooting star (upper shadow) candle that poked outside the upper Bollinger Bands which was a bearish development... though still not enough evidence to reverse the tide.

It also would have been difficult to hold through the breaking of each new support level on the way down. As such, I deem the end-of-day (surprising) action as a reason to love or hate Fed Days (as to whether you see steady and sustained price moves as a method to add profits quickly... or lose money quickly).

The TradeStation chart shows the Floor Trader Pivot lines (dotted) along with the TICK. There were two divergences to notice on today's Range Day (in advance of the Fed Meeting). There is no term other than "Fed Day" to refer to ... Fed Days in terms of day structure.

In addition to breaking prior resistance at 2:00 EST, price surged above the daily R1 pivot.

The morning thrust to new lows bounced off the S1 pivot - adding to the levels of confirmation discussed on the 5-min chart above. Again, we see the inner-workings of the divergence just after 11:00 EST (which technically wasn't a true divergence). We see the afternoon breakout clearer, which actually ended on a negative momentum divergence... though the TICK formed a new high.

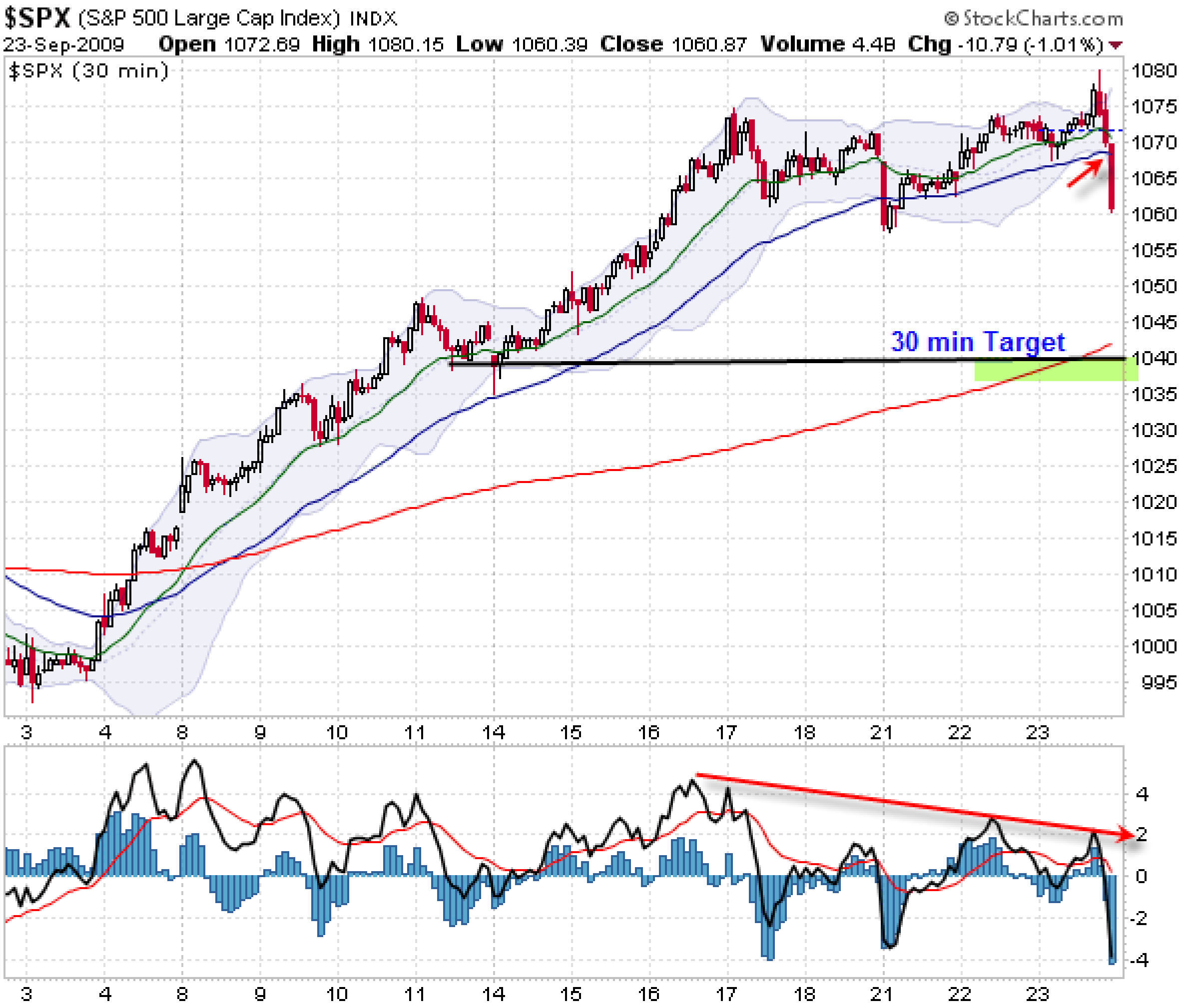
The lesson to learn is the "momentum" "Wyckoff" concept of the New PRICE and MOMENTUM and TICK low should lead to a new price low yet to come in the future... which gives us the "Impulse Sell" trade and - in this case - a late "Cradle" trade (red arrows). If you were looking in Elliott Terms, this would have been the 4th wave pullback (remember - think in real-time - in hindsight we have a sharp plunge but in real time, it resembled a 4th wave pullback in anticipation to short the upcoming 5th wave after a 3rd wave impulse down). The TICK continued to make new lows throughout the session, which was the only way you could have kept short in this aggressive move.

Flipping back to the actual S&P 500 Index, we see a very, very bearish picture. It would appear price has formed a double-top (technically a new 2009 high on a nasty gravestone doji that peaked above the upper 60min Bollinger Band) on a distinct double or triple negative momentum divergence.

From this, we see that the 1,060 level held which reflects the rising 50 period EMA along with the lower Bollinger Band. 1,060 is now the 'line in the sand' that buyers need to hold to thwart a flood of sell orders that would be expected to come in on a break of this level.

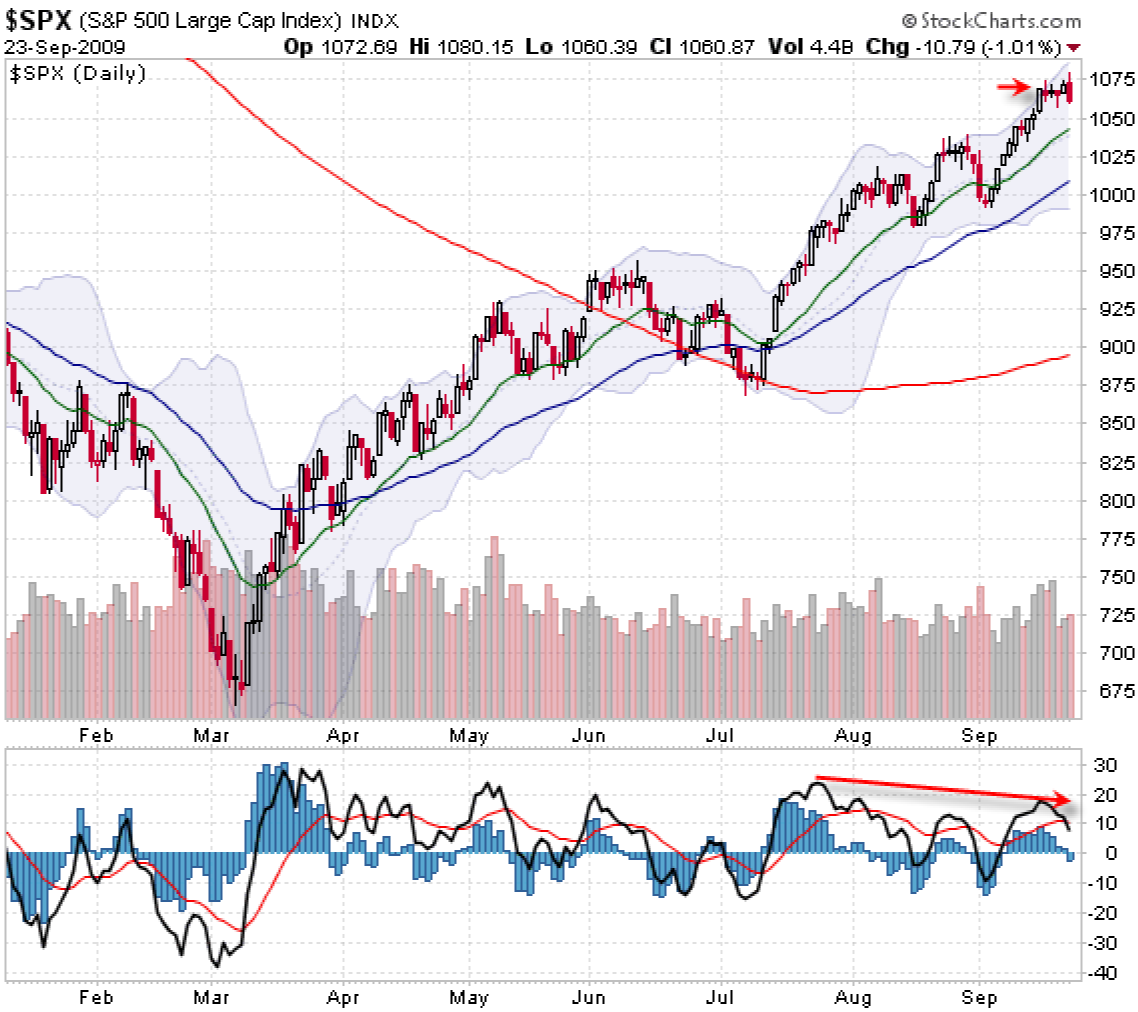
The bias going into Thursday's session should be

"Watch 1,060 very closely. Any break of this level could continue the solid down-action that began into today's close, and a lot of bulls' stop-losses would be taken out beneath this level. However, until this happens, the level could also hold support, and we would want to play long on a bounce off this level. Keep in mind that the picture looks much more bearish than bullish at the moment, so unless we do get a bounce here, odds are we'll see more downside- under classic conditions (remember, bulls have been so powerful as to erase 'classical' assumptions).



If the 30min chart is a guide, then it looks like a move back to 1,040 is the likely and expected play - particularly given that - as you'll see - the rising 20 day EMA rests at 1,042.

Bulls suffered a major defeat in losing ground at the 50 EMA on the 30min frame.



On the daily frame, we see multiple dojis and today's Bearish Engulfing (type) Candle at the upper Bollinger Range... which forms on a negative momentum divergence.

It would appear imminent - again under classical assumptions - that a retest of the rising 20 EMA (at 1,042) or 50 EMA (at 1,008) would be the expected play/bias for the next few trading days.

We could be looking at a relatively bad end (bearish) to this week... and any up-move from here would do so squarely against the odds as described here. The only thing going for the bulls is that today's 1% decline occurred on lower relative volume (it would have been very bearish to see higher volume on today's down-day).

Until proven otherwise - and bulls have shown they can do it - odds seem to favor a continuation of the downward move that began into today's close... unless bulls can pull out another miracle save.