Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

I'm dizzy after today's trading day! I hope you were able to hold and not get swept away by today's initial down thrust... up rally retracement, then final down move into the close... which was met with its own sharp reversal.

I mentioned in last night's report that odds seemed slightly to favor downward action on today's session thanks to the Fibonacci overhead retracement and the possible formation of a Head and Shoulders pattern - that assessment was correct and price did create a sharp, sudden, violent, and painful move off the open (quickly filling the gap) - falling roughly $1.50 in about 30 minutes.

That move was met with a tiny triangle and then an equally powerful - but longer lasting - rally to challenge the intraday highs before price failed also at this level.

Let's try to learn from today's action and start with the possible trading opportunities that existed.

GAP FADE

Before the plunge, keep in mind we started as did any other day with a gap of 30 cents, which was certainly within the "odds of filling" camp, so that perhaps should have been the first trade of the day as price began to make an early decent. However, the actual fill came so suddenly, that you were either positioned or not.

After this, the only way to stay short was to have entered on the breakdown of price support at $106.00 or the prior swing low at $105.80. Otherwise, there wasn't much to go on to know or suspect that the price move down would be as sharp as it was unless you perhaps had a higher timeframe perspective.

Volume surged, price formed a new swing low, as did the TICK and 3/10 Oscillator. However, at some point, there had to be a rally/retracement back to test the falling 20 EMA. This would have been the classic "impulse sell" or 'retracement' entry trade, and it even gave us two bearish reversal candles to short into.

But first, if you observed the triangle consolidation as drawn here, you could have played a quick, high-risk scalp back to the rising 20 EMA, with an entry at $104.90 and target near $105.20 (with stop under $104.70). This worked out well.

As price challenged the underside of the 20 EMA, two bearish long-upper shadow candles formed which triggered a 'short sale' entry to play for a retest of the lows - Impulse Sell trade. The stop was 10 cents above the 20 EMA at $105.15, and - of course - this trade was quickly stopped out.

Price faltered around the $105.30 area, swung back to the upside, and this time challenged the underside of the 50 EMA, also forming two long upper shadow candles and a tiny doji... before once again shattering this support zone and cresting higher to flip positive on the session.

As price broke above the 50EMA and the upper Bollinger at $105.50, really the only way to profit would have been to scalp long to take advantage of short-sellers' stop losses which were placed above $105.50, but that type of trade set-up (the "Stop-Pop" as I call it) is better suited for actual price highs like on the daily chart.

If you stood aside during this period, that was also fine too. There really wasn't a clean, classic entry into the surging upward motion.

Volume confirmed the upward action, and with the price surge from the morning - complete with new TICK and momentum highs, should have expected higher prices yet to come, particularly since price had broken solidly above all resistance zones - namely the 20 and 50 EMA along with yesterday's close.

Remember, these reports are not designed to be "buy here, sell here" hindsight perfection. I try to capture what you were seeing in real time, the assumptions and current structure/information you had at the time the trade set-up was described, and how it played out. Based on the evidence at the time, you would have been right to expect higher prices thanks to the volume confirmation (surge in volume along with prices), new momentum and TICK highs, and support as price formed at least two long legged lower shadow candles (hammers) off the confluence support zone.

However, price tried to rally upwards but failed to sustain the upward move and wound up stopping out traders as price broke beneath these expected support levels.

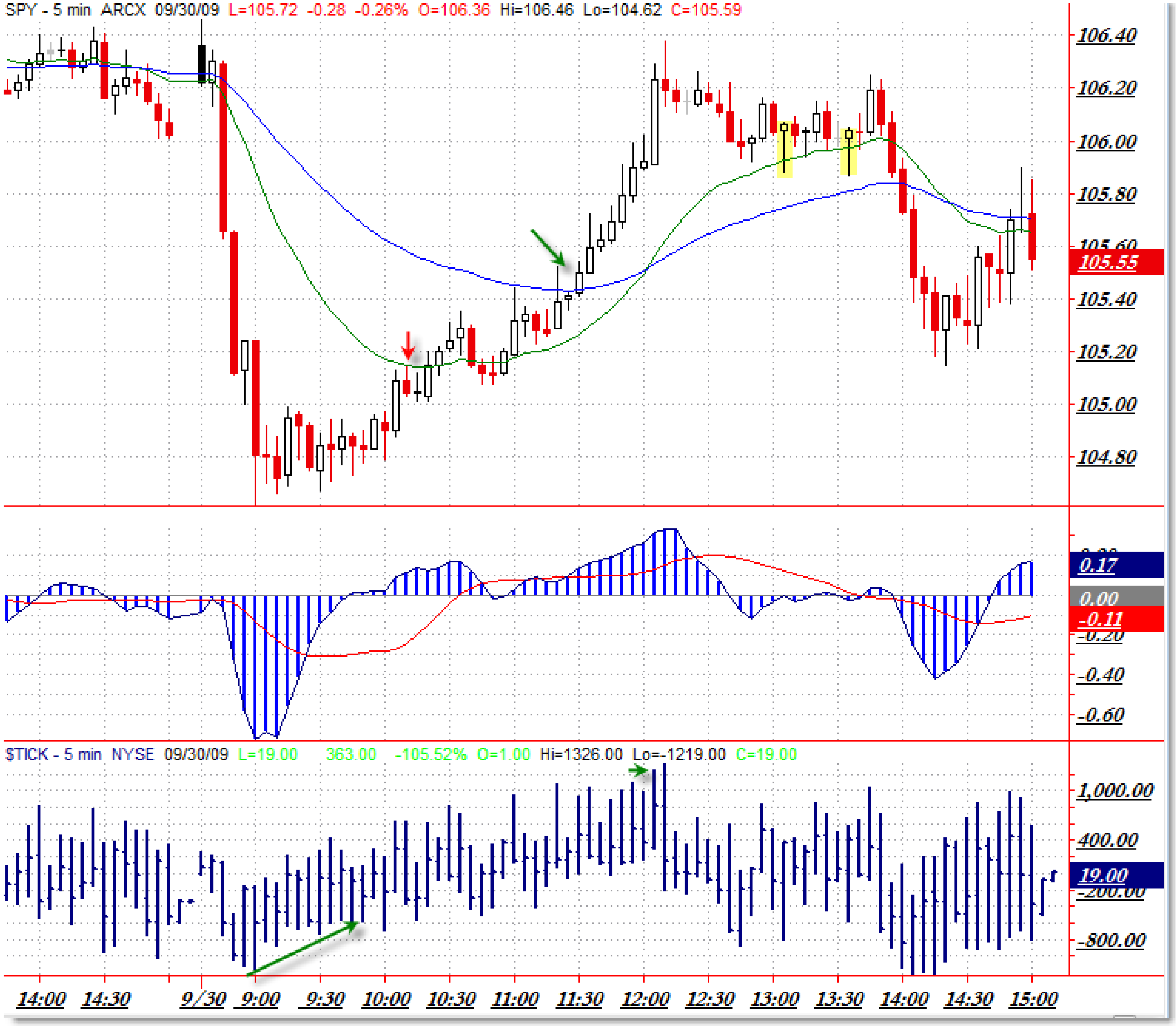
The strength of the down-bars was a testament perhaps to the upwards bias traders had put on the day, and the stop-losses that were being triggered as a result (along with sellers getting short underneath these support zones - positive feedback).

The price swing to the downside - which was only entered into short if one saw the break of support - otherwise, the trade was missed - terminated at a rather 'open air' price of $105.20, as a bullish strong candle formed which was then followed by an even stronger candle about the 3:30 period.

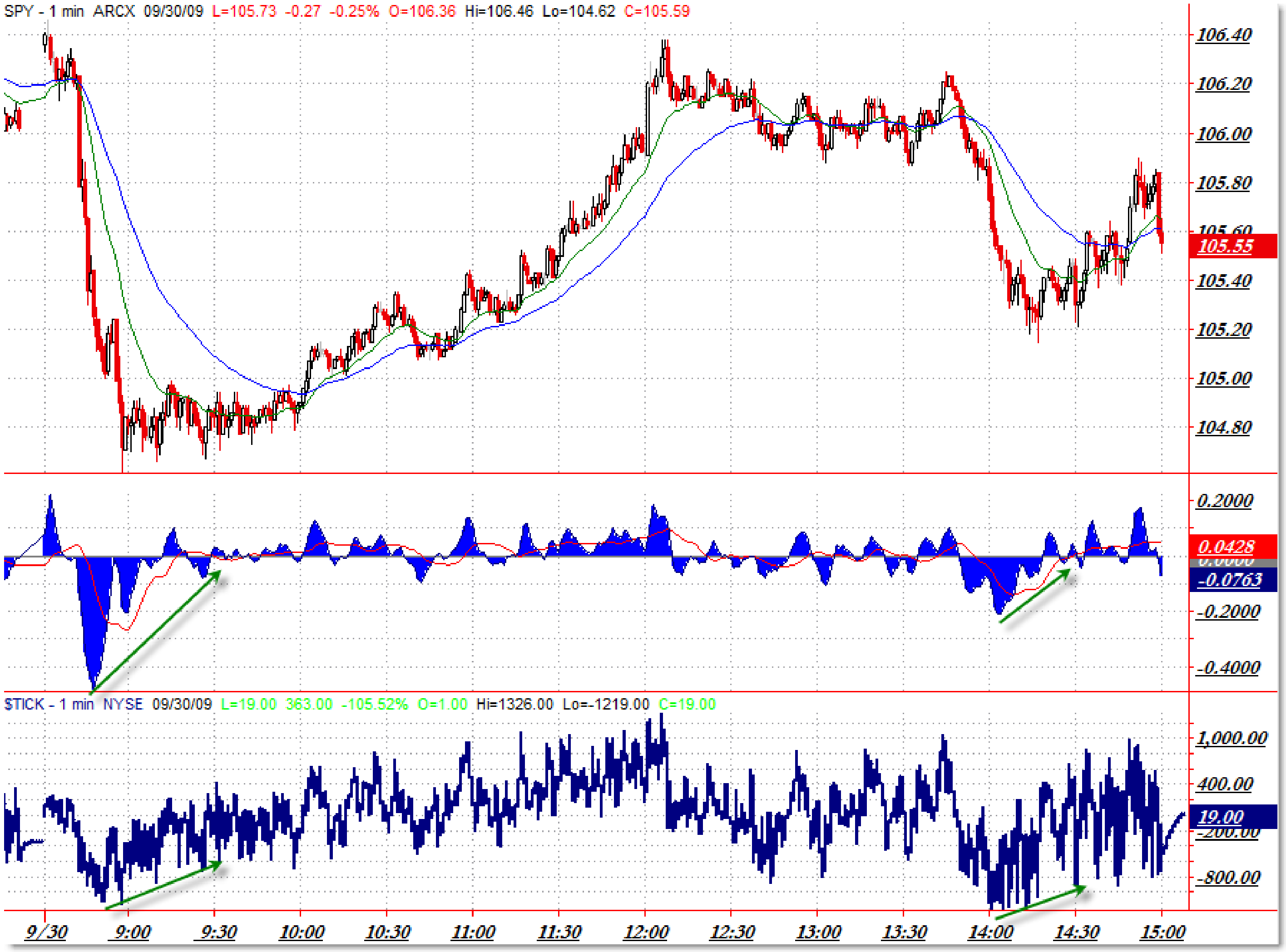
Why was trading today so difficult for most people?

Keep in mind that today was the "End of the Quarter" rebalancing/re-positioning/Window Dressing. September 30th marks the end of the Quarter 3. Quarter 4 begins tomorrow and runs from October to December. It many ways, today was just like an Options Expiration day, with funds rebalancing, which is exactly why the standard classic methods didn't seem to be in fashion (or working) today. It's also why the moves were so exaggerated - funds were moving quickly either to gather winning stocks and dump losing stock, and hedge funds were looking to lock in gains or put on new positions. The aggregate effect was the rampant volatility both up and down in the market.

Let's see some of the additional charts.



The TICK is overlaid here to show the combination of price and the momentum oscillator.



The one minute chart shows the beautiful "arc" formation that carried price into the mid-day highs before the sell-off began.

Otherwise, there were minimal TICK and momentum divergences to note.

The December @ES Contract 5-min chart is shown.

This chart highlights the "Arc" formation with lesson that price - once it breaks down outside of an arc (usually at the 3 o'clock position), that terminates the move. It has to do with the "price exhaustion" or "climax" principle in that price rises to an unsustainable angle and must therefore fall.

Looking forward now, we see the 30 min SPY chart, and what appears to be a symmetrical triangle consolidation pattern forming on today's action.

Watch for a break up above $106.50 to call for a bias/trade to test the prior highs near $108.00... and equally look for a break beneath $105.00 to continue the pathway lower to set up a downward bias and potential trading opportunities.

Momentum is not giving us much help (it is showing exactly what price is showing - no current divergences).

This is a special 'advanced' look at the daily chart for you - which shows the Andrews Pitchfork tool as drawn from the November lows to the January highs then back to the March lows. The 100% and 0% "tine" lines (outer trendlines)are standard - as is the 50% (which creates the pitchfork), but I've added the "Fibonacci" levels of 61.8% and 38.2% respectively.

As you can see, these Fibonacci areas have contained almost the entirety of the rally from the March lows... with the recent two pullbacks supporting on the 50% Tine Line.

Price is currently supporting - of course - on the rising 20 EMA (that helped halt today's lows - buyers stepping in at that zone) but we're also underneath the upper 61.8% Tine Line so one of those two has to break.

IF we're seeing a 'false throw-over' like we did on the July lows (when the head and shoulders was broken), then the implication is that we'll be moving to the downside now as the expected direction in price.

This is a chart to keep and watch how price behaves over the next few days to see if price will continue to respect the 61.8% line as resistance ... or if this time we'll finally break outwards from the line (which hasn't happened until very recently).

Until proven otherwise - and until we break beneath 1,040, then bulls still rule the day as does demand. It would appear that bulls are losing some strength and are vulnerable to some downward action here, though.