Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today was an unexpected flat range contraction on a Fed Day announcement - I can't remember the last time a Fed Day triggered little to no activity whatsoever - it almost resembled 'worse' than a normal or range day. Some traders make (or lose) their entire month on Fed Day volatility, and those people were quite disappointed in today's lack of activity. As such, I won't nit-pick every single price action as usual, but instead will focus on key opportunities and then note the higher timeframe structure and highlight a potential major 'perk-up' or break-out in gold prices that could lead to an explosive move... or fizzle out like today's post-Fed action.

The FIRST trade of the day was a simple gap-fill. The SPY gapped lower roughly 50 cents from yesterday's close and immediately formed an up-bar off the open. Today's gap-fade example gives a good lesson in stop-loss logic, because the second bar formed almost a full (100%) retracement of the morning's open, so if you took action long (which was proper) on the first bar or as the second bar began to make new highs, your stop had to be placed beneath the intraday low at $99.70 which may have been up to 30 cents or more away to play for a target of 20 to 30 cents - perhaps you saw this and decided to pass on the trade.

The lesson is that the stop must be beyond the intraday high or low off the open on so few bars in the morning session - if you tried to move your stop closer, you were given a stop-loss (losing trade) and were out of the market as price filled the gap. The lesson I teach repeats many days - the wider your stop, the fewer times it will be hit on any given trade (which means you'll likely have a higher accuracy rate) but the stops that are hit will be larger losses relative to smaller stops.

If you use smaller stops, then you will be stopped out more frequently than using larger losses (as in this example) so you will have a lower accuracy (win) rate, but your stops will be more tolerable. It's up to you ultimately to make that decision - personally, I lean towards smaller stops as they are psychologically gratifying, but know I should use larger stops because that - more than not - will be more financially gratifying.

As the gap faded, the second trade we always expect is to trade back in the direction of the gap to play for a retest of the morning low... particularly if there's some other level of resistance that is seen. In this case, we had a pullback to the falling 20 EMA into yesterday's close. If you waited until the bar to close (candle to form), then we had a bearish engulfing candle.

The stop would be placed just above $100.30 - the swing (and intraday) high at the time. This is ANOTHER example of the debate between tight and loose stops. The target would be a retest of the $99.70 level (intraday low) with a stop above $100.30. If you trailed a stop or placed a stop anywhere beneath $100.20, you would have been stopped out for a losing trade, though if you "held on" and played for your target, you would have resulted in a winning trade. In any event, the second pullback to the $100.20 level formed a long-legged doji, so if you were not short already, that would have also been an idealized trade (same logic - price pullback into confluence resistance on a long-legged doji candle - the stop and target would be the same).

At the 10:30 level, price formed a spike low on a positive 3/10 Momentum Divergence on the 5-min AND the 1-min chart which was a non-confirmation of the low. Price also spiked under the lower Bollinger Band... but that was not a long trigger. The trigger to get long was the bullish candle following this spike-low which formed a virtual bullish engulfing (not quite) candle... it was a repudiation of the low and signaled an entry, particularly if you were watching the 1-min chart in conjunction with the 5-min chart. The minimum target would be the falling 20 EMA but maximum target would be the 50 EMA - only aggressive traders would have played for the upper target because the trend structure (EMA orientation, price highs/lows, etc) was so negative. It would have been fine to enter a short-sale as price tested the falling 20 EMA just before 11:00am, but this would have resulted in a stop-loss as price crested above.

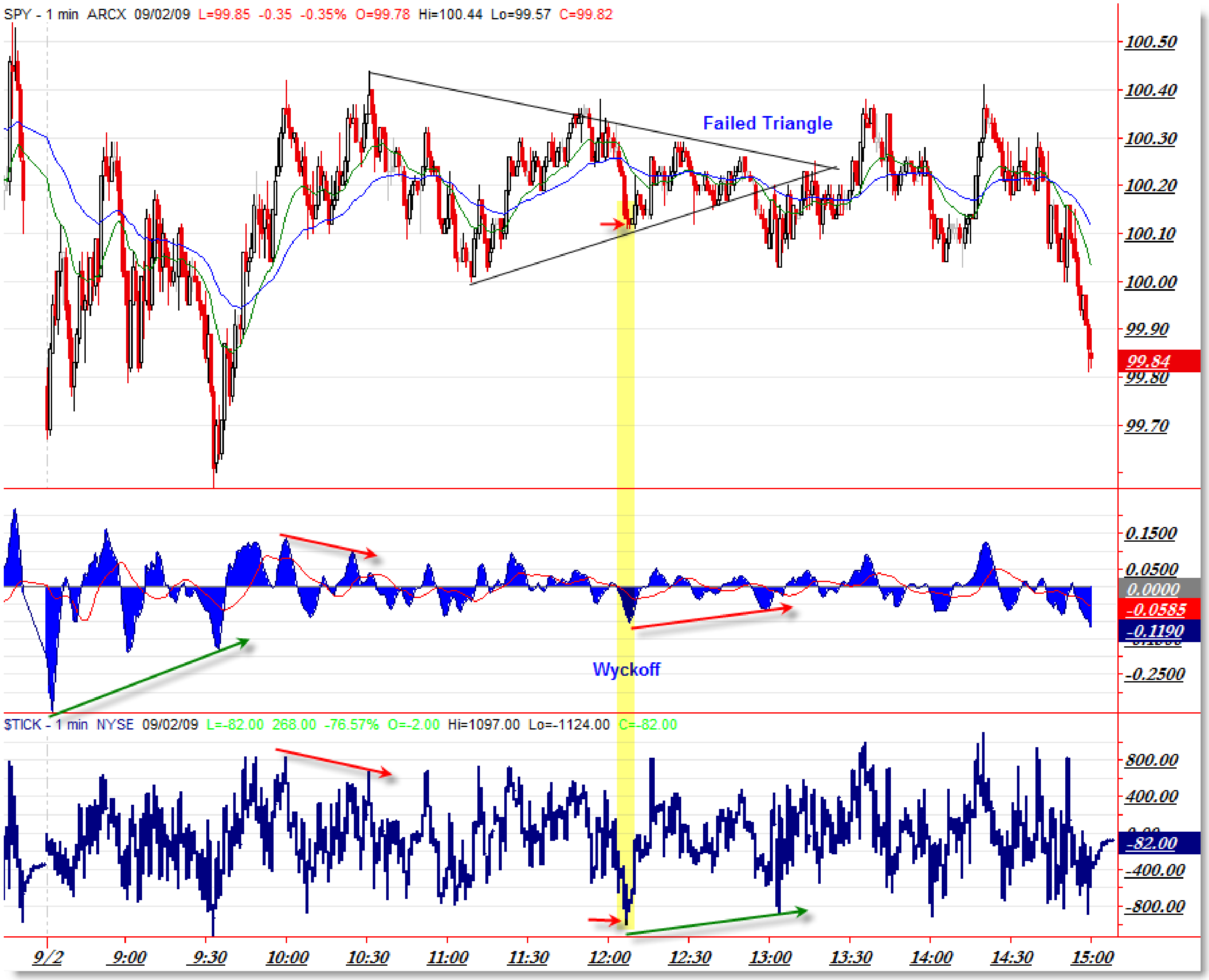
Another interesting trade set-up here as price challenged the 50 EMA (remember - it's the "line in the sand" on trend day down expectations) and formed another 'spike' above the upper Bollinger Band and another tough bearish candle.

Ultimately, price simply bounced off the 20 period EMA to form a tight range and second test of the highs at $100.40... but this time price formed an internal "double top" (1-min chart) on a negative momentum and - more importantly - TICK divergence. It would have been a good idea to play a short here with a stop just above $100.40. Price managed to test the $100 level yet again to find support (round-number support) and then you should have stepped aside in anticipation of the Fed Announcement - which usually spikes the market in three violent swings that many new traders probably should avoid.

Ultimately, this expectation that occurs on almost all Fed Days failed to materialize - there was not a violent swing in either direction. It was like waiting for a grand firecracker to explode... and realizing it was a dud. There were no idealized trades after the Fed announcement as far as I could see - none to discuss from an educational perspective at least.

Take a look at the 5-min and 1-min chart for added detail, including TICK and 3/10 Divergences highlighted.

Other than the gap fill, this was perhaps the best trade of the day - a re-test spike into $100.40 with two bearish candles (long-legged doji-like candles) underneath the Bollinger Bands on a negative momentum and - more importantly - TICK divergence.



Today even gave us a relatively rare example of a failed Consolidation Triangle - which often produces a surge (trend/impulse/momentum) move up or down upon price breaking out of the 'apex' or point where the trendlines intersect... which in this example would have been a downward break.

Ultimately, price rose up, stopping out shorts... but instead of forming a range move up after thwarting the shorts, price fell back down and thwarted the longs who had entered as a result of a potential failed triangle.

Such is the futility of trading range-days - it's often best to stand aside if you can see them coming or anticipate them. The trouble was, today was Fed day and - again - I can't remember the last time we had a tight/narrow range day like this on a Fed Day (usually, the default expectation is either for a Trend Day solid or a Rounded Reversal).

Speaking of Triangles - it's likely we have the 'breakout' of the daily triangle formation that has existed in Gold prices since 2009 began.

The scalp target is - of course - the $1,000 area and we'll need to see how price trades at this major resistance level.

This is the @YM Mini Gold futures (continuous contract) so the past price data is adjusted and is not exact with actual Gold indexes you would find in StockCharts.

A break solidly above $1,000 would likely trigger an avalanche move up ... but let's see if today's break is a trap just like the 1-min SPY chart above was.

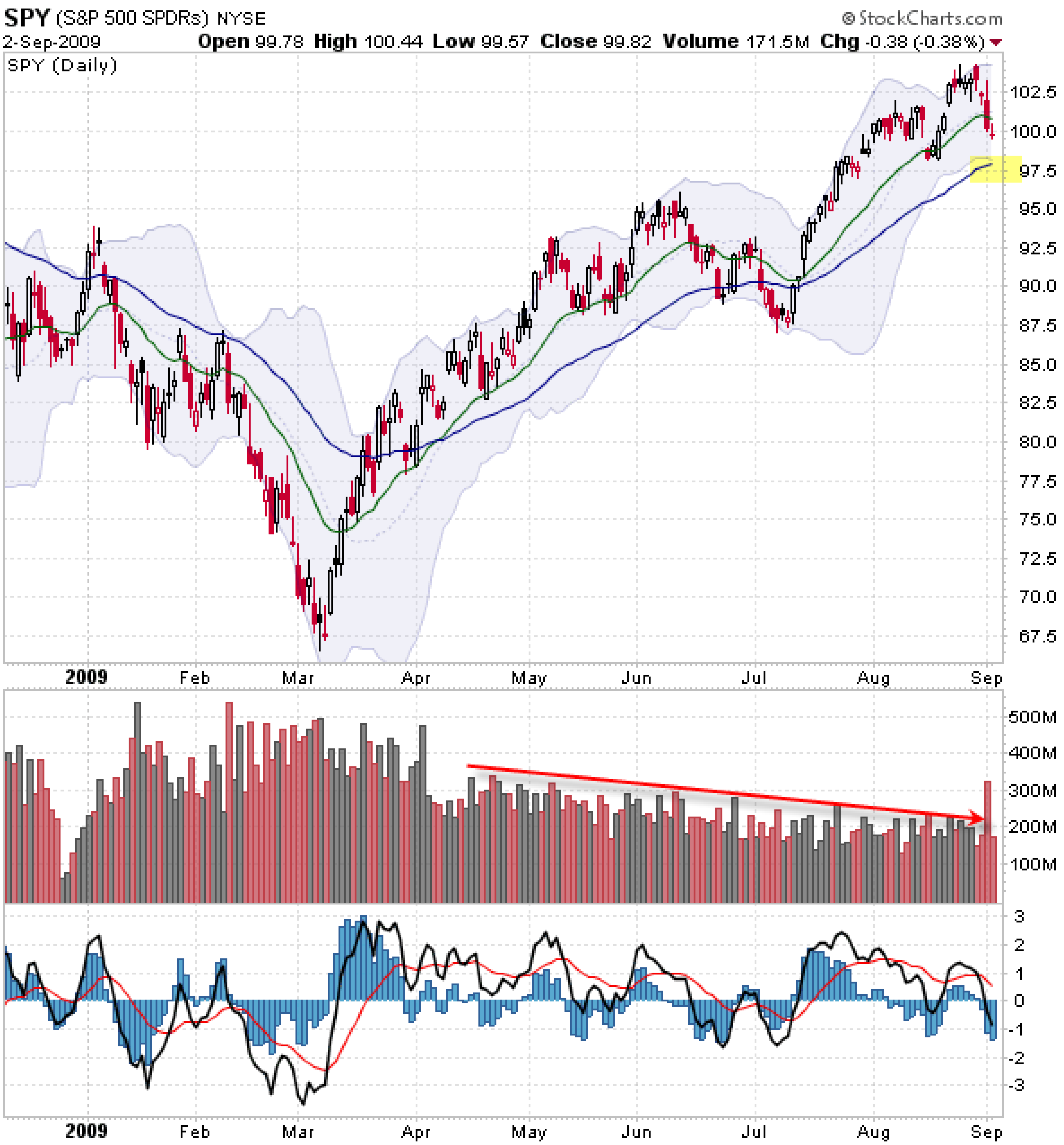
In the event that you want to trade gold, consider the ETF "GLD."

It is generally a decent proxy, and today cleanly broke out of the triangle on solid volume (27.6 million shares - well above average).

I'll try to follow up this with a post, but be aware that this could be the genesis of a larger move breaking out (which has ripples across other major markets).

The 30min SPY chart shows price corrected sideways today into a challenge (test) of the falling 20 EMA and formed a doji and shooting star candle (long upper shadows) at this expected resistance level.

A break above $100.50 (which is where shorts will be putting various stop-losses) would trigger a move (likely) to the $101.00 area, though the bias is - of course - for lower prices due to this structure and the end-of-day rollover to the downside.



The intended (short-term) SPY target is roughly $97.50, which is the rising 50 day EMA along with the lower Bollinger Band, unless proven otherwise with a close solidly back above the flattening 20 day EMA.

The volume spike of yesterday seemed to confirm odds favor lower prices yet to come.