



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



We actually had an ideal trading day in terms of price swings and opportunities - these don't come often so you have to do your best to take advantage of the day as much as possible. With lots to cover tonight, let's start with the best trades and lessons from the day.

OVERVIEW

Let me first make a blanket statement that "idealized trade" set-ups on Trend Days are identical:

Identify that odds/structure favors a Trend Day, then continue to watch Market Internals.

Short-Sell EVERY pullback to the 20 period EMA on the 5-min chart and either have a stop just beyond the 20 EMA (conservative) or more appropriately, trailed just above the 50 EMA.

Watch for dojis/bearish candles as price pulls back to the 20 EMA to confirm entry.

BE AGGRESSIVE and never utter the phrase "Well, it's gone so low already - it just can't go lower."

You can even put on a core position as soon as you feel odds are sufficient to expect a Trend Day and then trail a stop above the 50 EMA all day and then exit just before market close.

Pay less attention to the 3/10 (or other momentum) oscillators, and pay more attention to the TICK.

Finally, only aggressive traders should try to scalp long to play the retracements from any divergence on a Trend Day, as long as price is under the 20 EMA. Nothing wrong with trying to scalp long to play a retracement back to the 20 EMA on a divergence, but the BETTER play is to stand aside during corrections and then re-establish a short-sale position when price pulls back to the EMA. There's no way to know where to put a stop exactly when playing a divergence, and often by the time you realize the divergence is valid, price is half-way to your target.

That being said, I'll make the "idealized trades" portion today brief - describing trades in a 'blanket' fashion (as described above).

We initially had a gap of roughly 25 cents, which is in the "Expect Gap Fill" zone, but the initial two opening bars were sharp down impulse bars, placing the target for the gap at about 55 cents. It was fine if you entered to play to fill the gap - nothing wrong with that. Price tried to make an upwards reaction, but as 10:00 EST hit, price plunged which reminded me of a "Third of Third" impulse (see previous discussion on September 28th on the "Third of Third" Lesson).

I didn't label the chart with Elliott Waves today to keep the analysis focused on the Trend Day at hand, but the impulse down at this time was the powerful "heart" of the down-move - or as I like to call it - the "Third of Third." This should have clued you in - that and the new TICK and momentum lows as well as volume spike - that odds favored that actual price lows were yet to come.

Thus, the first and best "ideal" trade of the day came as price rallied back up to test the falling 20 EMA at 11:00am EST - in what looked like a type of bear flag. There were long upper shadow candles which confirmed entry near \$104.50 with a stop above \$104.70 to play to a new swing low or 'measured move' of the prior impulse.

Price formed that expected low into the noon hour, but gave us a positive momentum (and slightly bullish) TICK divergence, in which I thought we could be having a rounded reversal on a 5-wave fractal move down. I would deem it an "ideal trade" to scalp long to play for a retracement back to, or beyond the 20 EMA after the noon lows. The trade did meet the target of the 20 EMA, but wound up forming reversal candles and triggering a short-sale entry as opposed to a positive break - from this point forward (that bulls failed to use the momentum divergence to push for a Rounded

Reversal) - showed that odds favored a continuation of the Trend Day bias and the aggressive tactics that come with trend day trading.

We would prove the Rounded Reversal by a break above the 50 EMA and the \$104.00 "round number" resistance. As price started to fail at this level, you should have entered short - price fell 50 cents quickly into the 1:30 lows on yet another positive Momentum (but NOT TICK) divergence, and we did get another retracement up and another chance for bulls to push for a Rounded Reversal... the line in the sand was the 50 EMA which was back at \$104. Because bulls could not push beyond the 50 EMA, that once again confirmed the Trend Day bias and should have placed you back on the short side.

Even I was surprised by the very weak close on today's session, but it just shows that the power of a trend to 'mow over' momentum divergences and anyone saying "Price has gone too low - it can't go any lower." Their stop-losses help perpetuate the Trend Day.

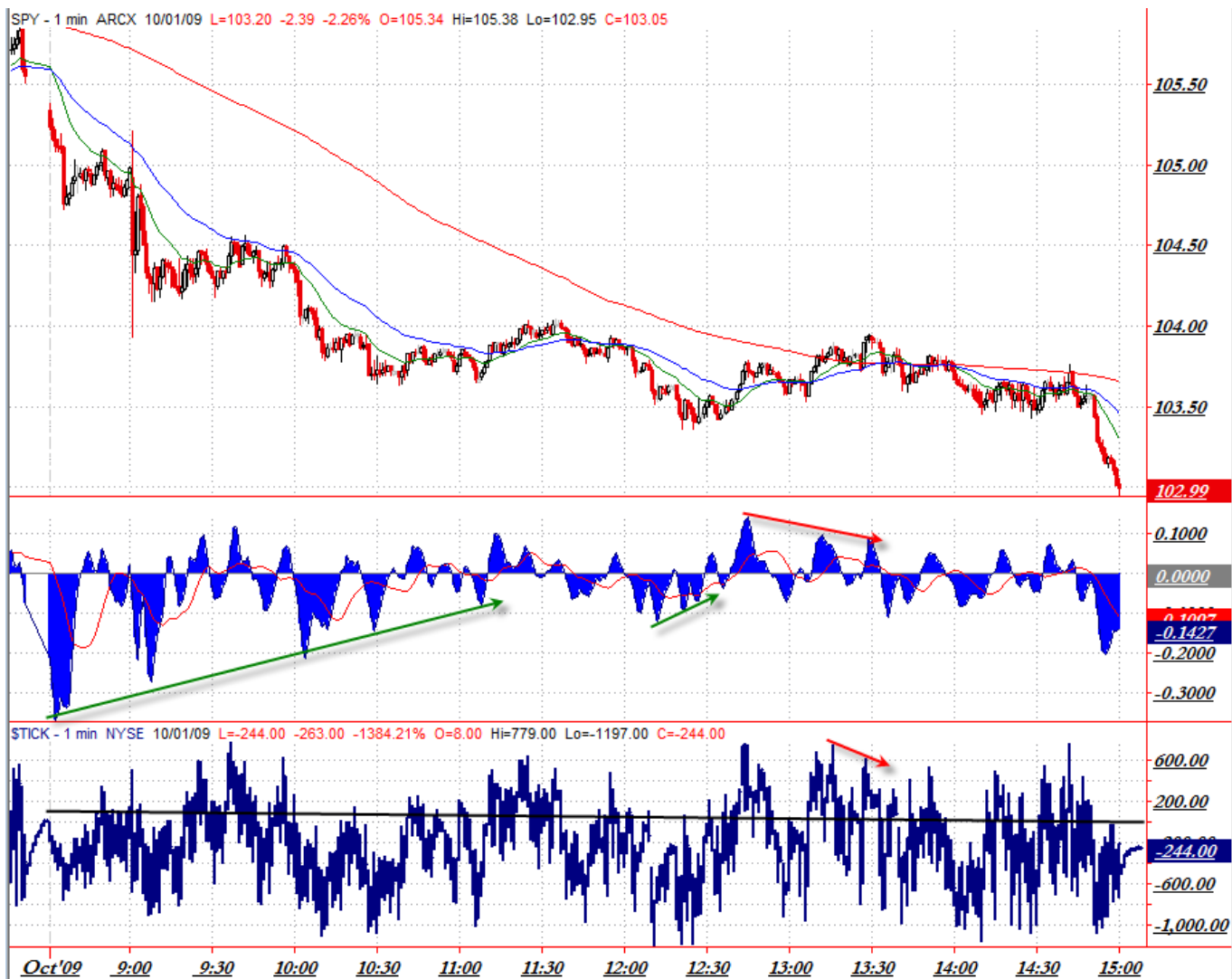
Let's see today's action on different types of charts.



New TICK lows hinted at new price lows yet to come (on each new low). The momentum oscillator proved to be useless in that it gave false divergences. There also were NO "Wyckoff Signs of Strength" (new TICK highs) on the session, and in fact, ANY new TICK reading near 500 to 800 (particularly as price pulled back to the falling 20 EMA) was a fresh short-sale signal.



This is the identical chart of the @ESZ09 "e-mini" S&P 500 futures contract.



The 1-min structure helped confirm turning points, particularly on any tiny momentum divergences on swing highs (pullbacks to the 20 period EMA on the 5-min chart).

Even though it seemed highly likely (to me at least) that bulls would step in (or some fund would) and push the market to the "Rounded Reversal" stage (notice the arc pattern into the lows), this was NOT the case and the power/force of the downtrend carried price to close at the lows of the day, classifying today's structure as a true Type 3 Trend day and hinting at lower prices -downward bias on tomorrow's trading... though the dominant direction will be determined by the reaction to the Jobs Report tomorrow, so it would be futile to try to 'predict' the exact outcome of tomorrow's report (or, more specifically, the market reaction to tomorrow's report).

REMEMBER that the Jobs Report tomorrow can and often does move markets dramatically - don't be caught unexpected. We can easily get another Trend Day move (more likely it seems, to the downside) either way, given what the Government releases and how funds react to it.

From Bloomberg.com 's "Economic Calendar" (powered by Econoday):

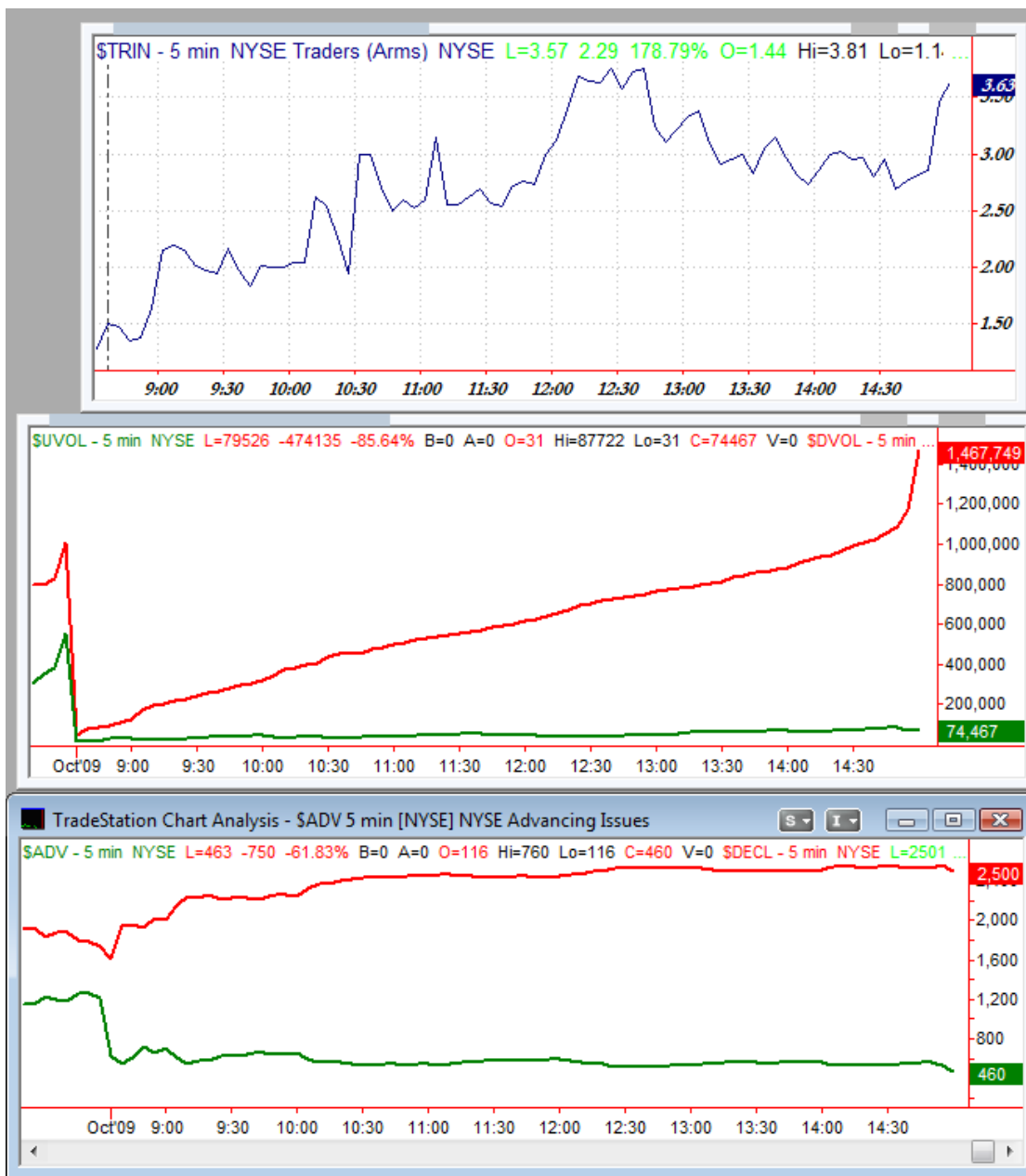
The report will be released tomorrow at 8:30am EST (one hour before market open) and the following is the consensus:

Expectation is for the economy to lose 170,000 jobs (range = -235k to -135k)

Last month's report showed a loss of 216,000 jobs. It would be very bad for the market should the report show that more than 216,000 jobs were lost.

It is expected that the unemployment rate will rise to 9.8% (consensus ranges from 9.6 to 9.9%).

Watch this WELL in advance of trading the open - watch the futures or Bloomberg/CNBC if your trading account won't allow you to call up futures market charts.



A chart of Market Internals (Top= \$TRIN, Middle=\$UVOL and \$DVOL, Lower = \$ADV and \$DECL).

The TRIN continued to rise all day until 12:30 CST, then backed off which was actually bullish. The TRIN is expected to be inverse (negatively correlated) to prices, such that a rising TRIN is bearish and a falling TRIN is bullish. It is a ratio measure of volume flowing into Rising Stocks (declining ratio) or into Declining Stocks (rising ratio). A ratio of 1.0 means volume is equally balanced between advancers and decliners.

The middle chart shows Up-Volume vs Down-Volume. Notice how stellar volume continued to flow into declining stocks on the day (no surprise). By the end of the day, we had a Down-Volume reading of almost 1,500,000 and an Up-Volume Reading of 75,000. That's a ratio of 20 to 1 - the largest spread I can remember in a long time.

The lower panel shows traditional "Breadth" which is net NYSE Advancers (green) vs Decliners (red) on the day. 2,500 stocks finished lower on the session with only 460 finishing higher, leaving us a negative breadth ratio of almost 5.5 decliners to 1 advancer.



Something very interesting:

Today's action took us to a Red Bar on the "Color Bar" chart. The red bar corresponded with a clean and confirmed break of the 20 EMA at 1,046 - this is a sell signal.

HOWEVER, if you look back to August and September, this same sell signal triggered and was IMMEDIATELY overruled by a yellow bar and then a close back above the 20 EMA and then a flip back to green. Thus, the red bar carries less significance in the current "market melt-up" environment than it would otherwise.

Still, the daily 50 EMA rests at 1,017, which is a natural target.

If bulls lose (fail to hold) the 1,017 level, then that would set up an instant test of the 1,000 level, and a break beneath 1,000 sets up a target of 960 (June highs) and breaking that sets up a test of the 900 level. Watch and write down these levels going forward.

Unless the Jobs Report tomorrow is bullish, odds under classic technical analysis are strong that lower prices are yet to come.