



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Greetings from Milwaukee, Wisconsin!

There was one excellent trading opportunity in particular, and I'll devote most of the report to explaining it as it reflects a very good example of the "Enhanced Flag" pattern which I find to be a very high probability, low risk opportunity.

OPENING GAP FADE

We started the day with an opening gap of roughly 40 cents in the SPY, which was indeed within the "fade-able" parameters to trigger the first trade of the day being a "Gap Fade," with an entry as soon as price broke the low of the first 5-minute candle and a stop above the first candle's intraday high at \$109.76. Price quickly moved to fill the gap, which had a target at \$109.34. At this point, the short-sale trade was exited to see what the structure/price would do – as to whether we would get a bounce up off yesterday's close ... which happened for two bars... or break beneath it.

20 EMA, LONG LOWER SHADOW/HAMMER, BOUNCE OFF YESTERDAY'S CLOSE

As price formed a long, lower shadow doji at yesterday's close, this was indeed a buy signal (buy pullbacks to the 20 EMA in a rising trend) with a caveat or 'warning sign' being the distinct negative momentum AND TICK divergence from yesterday's closing price highs. In fact, one could have even deemed the pattern a "Triple Top" especially when viewing the 1-min chart.

If the long trade was taken from the doji/hammer pullback into the 20 EMA, a stop was placed either under the 50 EMA at \$109.10 or just beneath the intraday spike low near \$109.20. The target was a retest of the intraday highs at \$109.75... which fell about 2 pennies shy of making a full retest on a sudden and swift move to the upside. Look at the 1-min chart to see this sudden move up and then the quick reversal down off this level... depending on whether you took profits (or took the trade at all) as price began to fall from the upper target just a few pennies away determined the amount of profit on the trade. Aggressive traders generally hold until the target is met, while conservative traders often exit either a few points shy of a target or as price begins to move down from a target.

As price shattered lower support levels, there was not a clean entry short into the down-draft, except if you entered on the breakdown of the 50 period EMA along with a breakdown beneath \$109.00 which was round number and expected support. I won't call this an "ideal trade," but it was the only simple way to enter short into the down-draft that occurred. The 20 and 50 EMA crossed bearishly at 11:00am which was the last hope for the bulls (thus officially changing the trend structure to a down-trend after price made a lower low, lower high, and then the EMAs crossed 'bearishly.')

This clued you in that the structure being a newly confirmed downtrend, we should be looking to short any pullback. Enter the "Best Trade of the Day" and one I'll use as an educational example.

BEAR FLAG, 38.2% FIBONACCI RETRACEMENT, 50 EMA TEST, UPPER BOLLINGER TEST, 'ABC' ELLIOTT CORRECTION

There are additional charts to show this set-up. This is the definition of what I call the "Enhanced Flag" trade. Price and momentum form a new low, meaning we want to be sellers of the first rally. The rally unfolds in a nice "ABC" fashion into confluence resistance – this time being from the 50 EMA, Upper Bollinger Band, and 38.2% Fibonacci retracement.

The entry was as close to \$108.70 as possible, with a stop above the 50% retracement at \$108.90 (or aggressively above the 61.8% retracement at \$109.10). The target is shown on a different chart, which was a full measured move down to \$107.00. The minimum price objective – one that we've been seeing be hit overnight – was a 61.8% Fibonacci extension/projection, which took price down to \$107.70, which happened to be the intraday low. The flag failed to achieve the full 100% projection as of the close, but we did get support – and a nice target – at the 61.8% line.

A caveat. Where I have labeled "A" on the charts is ALSO a valid entry point into the flag because we had a 45 degree angle pullback to the 20 EMA as well as a doji/evening star candle formation. Again, this is a valid entry with a stop above \$108.80 (which also happened to be the day's "Daily Pivot" point – shown below). The smaller flag did break to the downside, though price swung back up one more time to challenge a thicker resistance zone as mentioned above.

Aggressive traders would have entered short on the 12:00 pullback while conservative traders might have also entered, or if they did not enter, then certainly would have entered as price formed a "three wave" structure into the multiple levels of confluence resistance.

Early entries would have again had to endure an upward movement while 12:50 entries would have achieved the optimum price and confirmation.

The price moved down in a 5-wave fractal move to new lows into a distinct positive momentum divergence into the \$107.80 lows on a hammer, test outside the lower Bollinger Band, and positive TICK and Momentum divergence – plenty of evidence to exit your short (or at least half the position) and wait perhaps to 're-short' on a pullback to the 20 EMA. Price also came just a few pennies shy of the 61.8% Fibonacci target at this time... though this target was hit into the close.

SECOND BEAR FLAG & NEGATIVE TICK DIVERGENCE INTO OVERHEAD RESISTANCE

The final 'idealized trade' came as another bear flag formed just shy of the 50 EMA and upper Bollinger Band (with bearish engulfing pattern) just before 3:00.

I've shown this flag also in a separate chart with dual Fibonacci Price Projections/Extensions that ironically happen to 'converge' (form confluence) at the exact same level - \$107.70.

This happened to be the low of the day, and odds are good – barring any major earnings or news event over the weekend – that price will rally on Monday off these support confluences, as well as the 'triple swing' positive momentum divergence and potential 'rounded reversal' pattern.

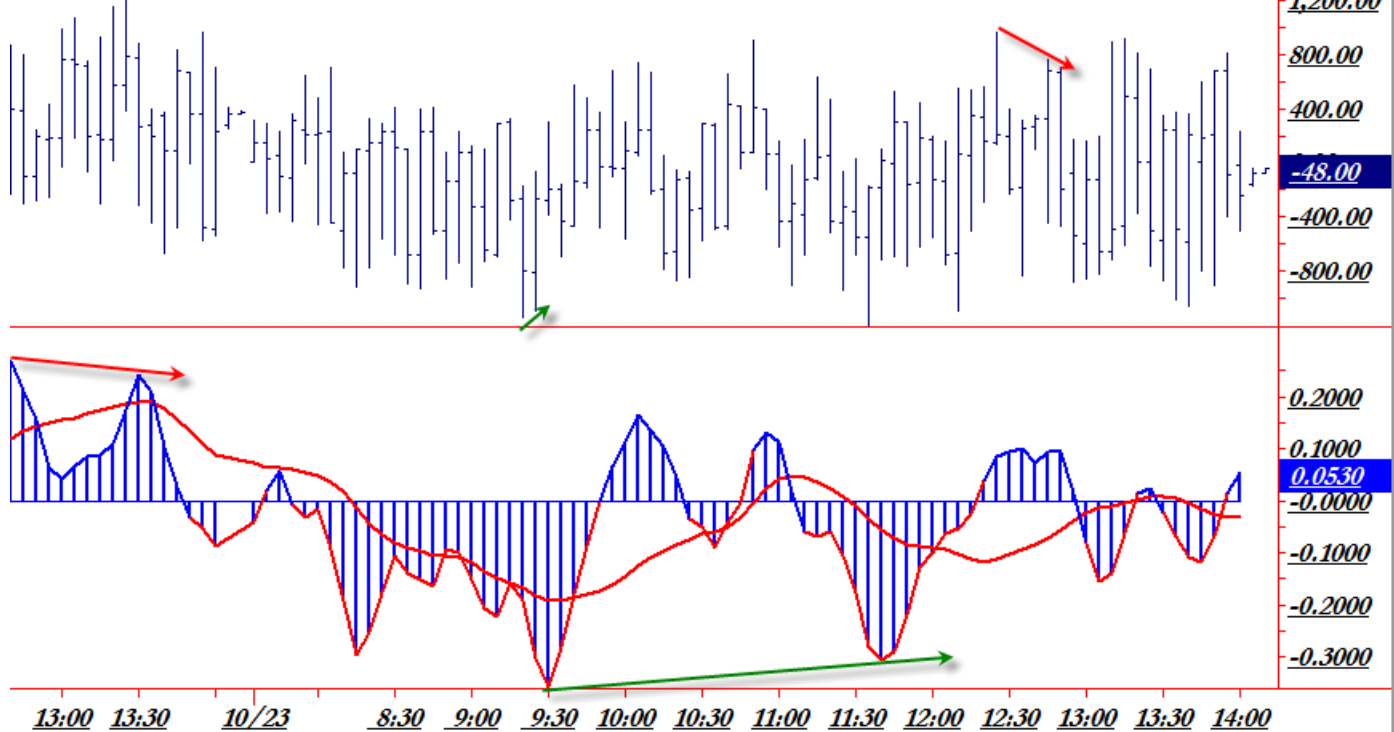
Wait for a break Monday of the 5-min EMA at \$108.20 to get long, but trade long above that level to play off the stops of those who were short.

Any move beneath the confluence support area at \$107.70 would negate these bullish tones (Rounded Reversal, positive divergences, 5-wave structure) and would set-up a potential price target of \$107.02, which is the 100% price projection of the larger flag as mentioned above.

SPY - 5 min S&P Dep Receipts ARCX 10/23/09



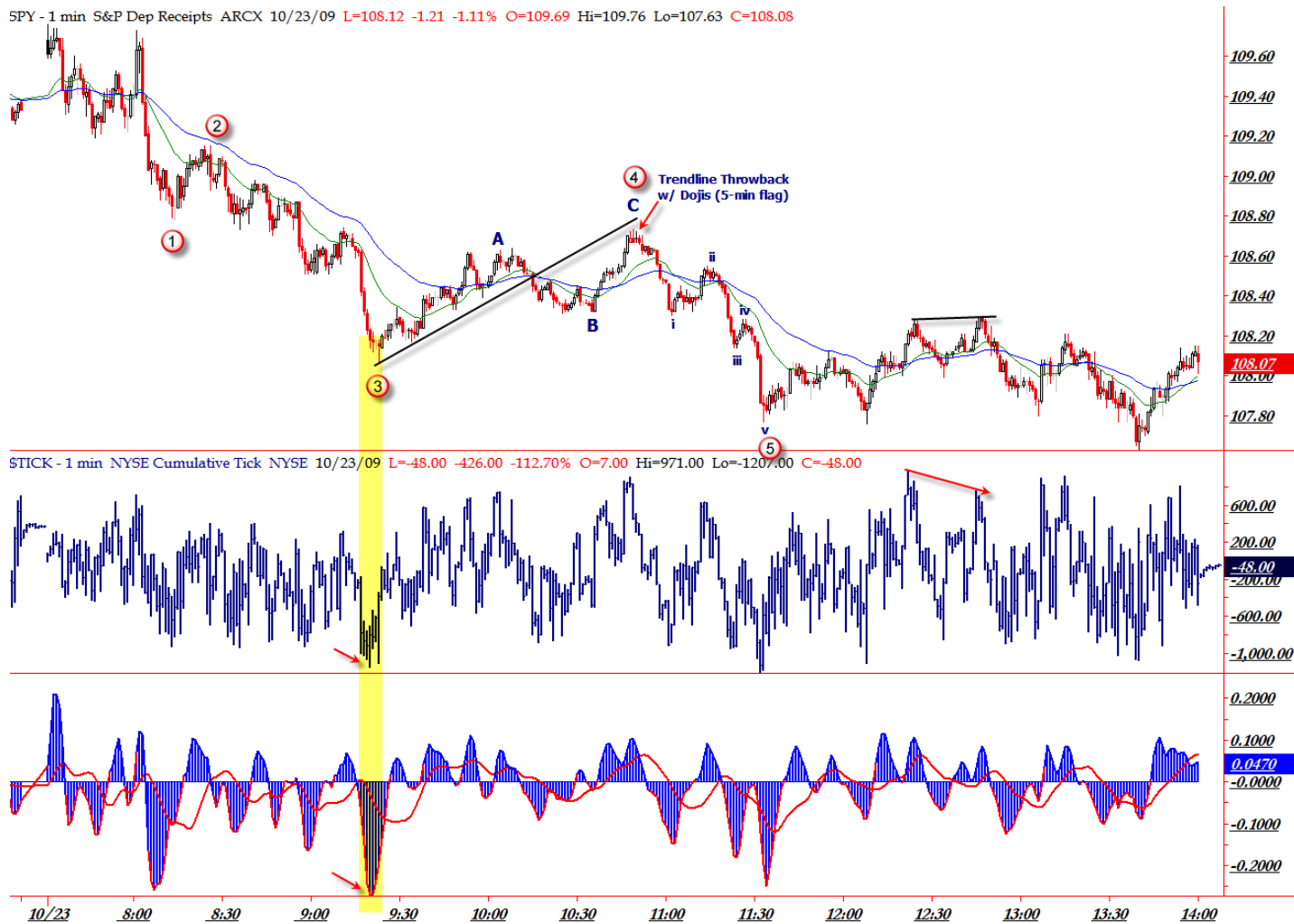
\$TICK - 5 min NYSE Cumulative Tick NYSE 10/23/09



Red zone reflects possible levels to place stops after the Bear Flag trade mentioned above.

Otherwise we see tiny TICK and momentum divergences through the day.

This chart also shows the second smaller flag into the close.



The 1-min chart shows the inner structure, along with an Elliott count complete with new momentum low on 3rd wave and momentum divergence on 5th wave (as labeled).

As the earlier trendline formed, price broke the trendline, but then came back to test the underside of the trendline, setting up a very powerful trade (Bear Flag) which also formed dojis on the 1-min chart.

I can't recall a better example of so many non-correlated factors coming together on two timeframes that set-up an Idealized Flag trade.

This is the benefit of these reports – learning and applying non-correlated methods to identify 'confluence' trading opportunities.



This chart shows how to set targets for Flags – using Fibonacci price extension tools. Start with the flag high, draw to the impulse low, then drag and click on where you believe the peak (top) of the flag will be. The resulting grid is drawn, showing a 61.8% target at \$107.58 and 100% (full flag) target at \$107.94.

Price found support at the close of the session at the 61.8% projection.

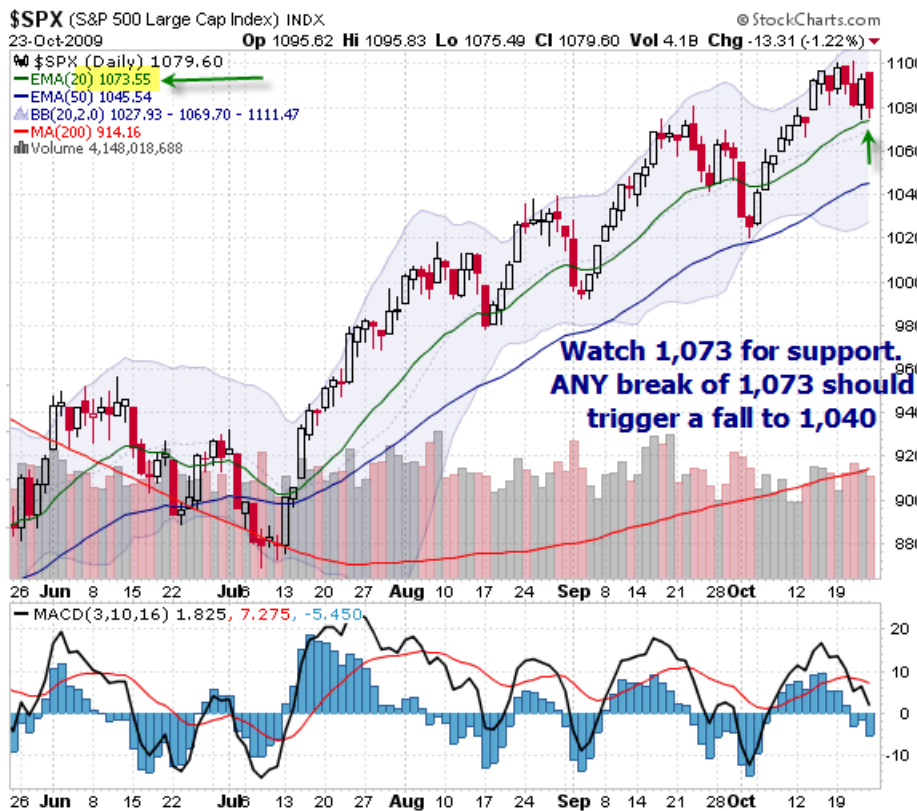


Looking deeper into the Fibonacci Extension tool to show the projection (same method) for BOTH intraday flags.

It turns out that the 61.8% projection of BOTH flags formed confluence support at the \$107.70 level... which was roughly the intraday low and could be a support zone going into Monday's trading... barring anything news or earnings related over the weekend into Monday (ie, assuming technical structure drives the market Monday instead of an unexpected earnings report).



5-min chart shows the structure to watch for Monday's session.



In addition to the positive divergences and Fibonacci targets, we see that the S&P 500 is testing again the 20 period EMA on the daily frame.

Watch for any move up off 1,073 (today's low was 1,075) and again, any break of 1,100 should trigger the "popped stops" play.

Long above 1,100 ; short under 1,070.

Have a great weekend!