



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Despite today's "Range Day" structure, there were some great trading (and educational) opportunities. Let's start first with the trades:

The morning began with a gap too small to bother fading. The opening bias was to the upside as described in last night's report and we had an initial up-move until the Consumer Confidence as shown below:

Released on 10/27/2009 10:00:00 AM For October, 2009

	Prior	Consensus	Consensus Range	Actual
Consumer Confidence - Level	53.1	54.0	51.0 to 55.0	47.7

(Bloomberg.com Econoday data)

One would think this would be a big deal, given that last month, the number was 53.1% and the consensus was for a jump to 54% (51% being the low of the range) and the actual number came in lower than expected or forecast at 47.7%. The market sold off very hard on this news and then reversed just as quickly. Laying aside this report, let's take a look at the trade.

BOLLINGER BAND SHADOW SPIKE, TWO LOWER SHADOWS

This trade would be for the aggressive traders only, as price formed two long lower shadow candles that stretched outside the lower Bollinger Band at 10:00am. A doji formed on the second candle, which is a reversal candle. The trade would be to play long after the high of the doji was taken out and target either the 20 EMA at \$106.80 or yesterday's close near \$106.90 - both targets hit rather suddenly.

BOLLINGER BAND SPIKE, 5-WAVE FRACTAL COMPLETE, TEST OF HIGHS, IMPULSE SELL

The better or 'more ideal' trade actually came in just before 11:00am as a short-sale in reaction to the new price and momentum low. Generally, we like Impulse Sells to retrace to the 20 EMA, but the upper Bollinger also can serve as an entry... through generally not under the "Impulse Sell" logic (most don't retrace that far).

Still, it was possible to assume that the structure would be a "Range Day," and if so, then you would be looking to short tests of Bollinger Bands as seen here. As a bonus, we had a clean/clear 5-wave fractal structure that terminated at the intraday highs - an excellent short-sale opportunity. The stop would be above the high at \$107.40 with a conservative target of yesterday's close at \$106.90 (remember, we do NOT play for moving averages on a Range Day) or a retest of the lower Bollinger Band (which actually came at 12:30). Either strategy was successful.

TRIANGLE AND SUPPORT BREAK... AND DOJI AT RESISTANCE

If you weren't already short, or had just exited your prior short sale, then a second short-sale trade triggered near 1:00pm EST. You could have observed an ascending triangle pattern form and then breakdown at 12:00 for an aggressive entry, or you could have waited to see if price would support off yesterday's close at \$106.90. Ultimately, price broke beneath this level, rose two bars, formed a doji underneath yesterday's close (and the EMAs ... which hold less weight on range days) and then triggered entry as the low of the candle was taken out, OR enter short after the large red candle formed near 12:50.

A target would be the morning low near \$106.20 with a stop above \$107.00. This trade succeeded quickly.

There is a series of trades aggressive traders could have taken, meaning a buy long off the Bullish Engulfing candle at 1:30 along with the test of the Lower Bollinger Band to play for a retest of the 20 EMA or higher, which occurred quickly. A quick, aggressive short could have also been played as price formed a long upper shadow and then a hanging man

candle (doji-like) at the 20 EMA off the new momentum low - akin to the "Impulse Sell" trade. The impulse sell fell just a few pennies shy of its target of a retest of \$106.20

Under the same logic, you could have entered short where I've labeled "3" which was a long upper shadow under the 50 EMA. Stop above \$107.00 which was threatened but - hopefully - not taken out. This brings us to our final 'idealized' trade.

5-WAVE FRACTAL, UPPER BOLLINGER, TWO DOJIS at YESTERDAY'S CLOSE

If you were not short already, then it was a stellar idea to short after either the first or second doji at yesterday's close and the upper Bollinger Band formed. Enter as the low of the doji is taken out and place a stop above \$107.00 (perhaps \$107.10 or \$107.15). This trade would have targeted either the afternoon low of \$106.20 or the lower Bollinger Band (which was hit). Or it could have been an 'exit on close' trade - all of which were profitable.



A focus on the triangle and wedge ('flag') formation that comprised the price patterns of the day.

Also, a look at the lengthy positive momentum divergence which **could forecast highs prices ahead**, particularly if the \$107.00 zone is taken out tomorrow.

Otherwise, look to be biased short under \$106.00.



We see a Wyckoff Sign of Strength at the 2:15 EST TICK Spike which preceded the short-term high within the next hour. Otherwise, the highlighted areas reflect candle 'wicks' or 'spikes' at or near resistance/support.



The 1-min chart shows multiple 5-wave fractals as well as a 'fractal within a fractal' for the lunchtime move down to test the morning lows.

Remember, 5th waves often mark terminal points of a move and are good reversal opportunities for either small targets or complete trend reversals.



30min chart reflects positive momentum divergences on the recent lows which is somewhat bullish.

Also, we see volume declining now as a trend as price has fallen, which also is slightly bullish.

The 20 period EMA rests at \$107.00 and the 50EMA rests at \$107.65.

Thus, it would be recommended to watch the \$107.00 level for any bullish move and trade long above it.

Otherwise, should price fail to rally here (breaking the divergence), look to trade short as long as price is under \$106.00.



Another reason to expect a possible bounce into tomorrow's trading day.

Price has retraced to the 50% Fibonacci zone at \$106.16 of the October lows. This - along with the lower Bollinger Band at \$105.88 and positive momentum divergence seems to forecast some sort of rally up tomorrow.

Again, a break beneath \$106.00 disconfirms this and suggests price would retest the \$105 area.



On the daily chart, we see no support levels anymore until the 1,047 and then 1,020 level.

Price remains in a sell-swing bias but that does not mean price will fall straight down.

Look to the recent past as shown above for clues as to what's happened on each prior 'arc-over' pullback.