



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



Greetings from the road! The Dallas AFTA presentation went well and now it's back to work on the markets! Today was an interesting day with a clear structure but some tricky points. Let's see them all in more detail to learn for the future.

1. GAP FADE

The SPY gapped down just over 40 cents in the SPY (3.25 in @ES) which was certainly within our "this is fadeable" probabilities so the first trade of the day should have been to get long when able to play for a gap fade back to the \$111.88 level. Aggressive traders could have entered any time in the choppy first 30 minutes, with a stop placed

perhaps under the 200 SMA at the \$111.30 level and target \$111.88. Conservative traders would have waited for a breakout above a candle high or above any trendline on the 1-min chart, such as the bullish engulfing and higher close at the \$111.45 level at 10:10am EST. Again, stop under \$111.30; target \$111.88.

Conservative traders may also have chosen to exit at the confluence overhead resistance level (20 and 50 EMAs) at \$111.65 for an early profit target exit. As price rallied into the gap, and especially formed a shooting star candle, this set-up the second trade of the day.

2. 'FADE THE FADE,' RESISTANCE AT YESTERDAY'S CLOSE, NEGATIVE DIVERGENCES, SHOOTING STAR

For many traders, this represented a "slam dunk" trade particularly as the shooting star formed a long upper shadow above the key resistance of yesterday's close at \$111.88. Price broke the low of this candle at \$111.80, triggering entry to play short for a minimum (conservative) target of the confluence EMAs again at \$111.70 (with stop above \$111.90) for a 1 to 1 reward to risk... or more aggressively for a full retest of the morning lows at the \$111.40 level... which was achieved.

Before the full target was achieved, there was an opportunity to play for an "Impulse Buy" and possible trend day up... which failed as quickly as it triggered. I did want to call your attention to it so as to discuss the situation.

3. IMPULSE BUY, CONFLUENCE EMA SUPPORT, DOJI, BULLISH ENGULFING

This was a 'make or break' momentum for the market, in that if buyers could support at this level, then odds would shift to favor a retest of the highs if not price making higher highs, though if the confluence EMA level at \$111.70 was broken, then odds would then shift to target the aforementioned target of the prior swing lows near \$111.40.

The stop was just under the EMA confluence at \$111.65/60... and price triggered a long as the high of the doji at 11:30am was taken out... but it was a bull trap as price quickly fell to take out the stop and then fall to the expected target.

Along the way, price retraced to the 20 EMA at noon EST, forming an "Idealized Trade" and type of Bear Flag, so this could have been taken if not already short after the failed "impulse sell" or playing for a price reversal from the trade #2 highs. The stop for the flag was above the 20 EMA at \$111.60 and target was a 'measured move' down to the \$111.40 level (\$111.37 to be exact). Price hit the \$111.40 target, bounced, formed a doji, and bullish engulfing, triggering an aggressive long trade.

4. BULLISH ENGULFING, FLAG TARGET, PRIOR MORNING SUPPORT, POSITIVE TICK DIVERGENCE

Often, bull or bear flag targets become inflection/turning points in the market, especially if they align with other levels, such as prior support, moving averages, or Bollinger Bands. In this case, the \$111.40 level was near the morning lows of \$111.30/35 and aggressive traders could have put on a long into this support/confluence area, or after the high of the Bullish Engulfing Candle at \$111.51 at 1:45 EST to be taken out. The stop would be placed under the \$111.35 lows and minimum target to the 20 EMA at the \$111.60 level... which probably was too small a risk/reward for conservative traders. This was a trade for aggressive traders, picking up shares long at the confluence support area and TICK divergence instead of waiting for confirmation from a candle high. Still, the trade hit its target, formed dojis at the upper resistance line, and triggered an "exit with profit" or new short-sale trade at the 20 EMA.

Price formed a trading range during this time, and then began to accelerate to the downside. Price breaking prior lows and the morning lows on strong range expansion bars triggered the next trade set-up.

5. BREAKOUT (OF SUPPORT) TRADE

This trade triggered when the support line (from the rectangle) at \$111.40 was taken out, or later – for confirmation – when the morning low of \$111.30/35 was taken out after the large range expansion bar. I tend personally not to like breakout trades because – although the stop is defined (above the breakout price at \$111.40) – the target is not as defined, and you can find yourself exiting too early instead of waiting for the proper exit, which is a clean new buy signal... such as that which occurred with the spike low doji (key reversal) that formed and then price broke the high of the \$111.11 level into the close. Price also found key support at the important “round number” \$111.00 level. Price rose solidly in a rejection of the lows move higher into the close.









Where are we in the “anticipation” phase?

We should be expecting the \$111.50/\$112.00 resistance level to hold as it has done since November 15th. Price has formed – so far – Bull Traps above this level which have resulted in impulse moves lower after buyers failed to push the indexes to new highs.

There’s one thing that can break the market out of this trading range tomorrow... or force it back down to the \$109.00 key support level, and that’s the Fed Announcement/Policy meeting tomorrow – released as usual at 2:15 EST.

The market reaction to the Fed Meeting (expectation is for NO change in interest rate, though the Fed can surprise with statements they make... or how the market interprets these statements) will determine which of the two scenarios will occur: Any move above \$112.00 should trigger a flood of “Popped Stops” and impulse higher which you can trade... or any negative speech from the Fed could send the market much lower to test eventually back to the \$109.00 key support area. Don’t try to be a hero ahead of the Fed Meeting tomorrow.



Price structure on the 60 min echoes that of the 30 min.

Price is at upper resistance on negative volume and momentum divergences. The market is eagerly anticipating the announcement tomorrow, and no one can know in advance how the market will respond to the announcement, but we can be prepared. Fed Days tend to start with gaps, consolidate into a very tight (often NON-Tradeable) range in the 2 hours prior to the meeting, and then make a quick surge as the meeting releases/announces its policy at 2:15 EST.

Remember, this is also an Options Expiration Week... and more importantly is a QUADRUPLE WITCHING which means the market could see some major volatility for the rest of the week. BE VERY CAREFUL and trade with caution in the event volatility does pick-up unexpectedly – don't get caught on the wrong side of a market swing and honor your stops.



The Fed Meeting Announcement and Friday's Expiration will likely give a possible breakout of the tight range we are in one way or the other. The market has been on 'pause' mode awaiting a catalyst to move, and we could get that this week.

As such, be prepared, don't be a hero (don't put on a position as a 'gamble'), let the market tip its hand, guard your stops, watch open positions very closely.

A break above 1,121 should be expected to trigger a massive short-squeeze, leading to upward momentum, though the indexes are at critical resistance levels, so any breakout move is likely to form a trend or range expansion move – be prepared for either outcome.