



# Daily "Idealized Trades" Report

## SPY (SPY 500 ETF) 5-min



The frustrating part about today's session was that the expected bear flag into the close completed before we day-traders could participate in it! The flag target was completed overnight, and actually made a move to the 161.8% flag target extension. Otherwise, the day's trading went relatively smoothly.

Let's learn from the examples and compare our trades to the 'idealized' trades as usual, both for educational purposes and 'efficiency analysis.'

#### 1. REVERSAL CANDLE/HAMMER, BOUNCE OFF 161.8% TARGET (aggressive)

This was an aggressive trade for sure. Remember that from last night's report, I described the possibility of a Bear Flag into the close and to trigger entry short on a break of the lower trendline at the \$110.70 level. Fortunately, I read the market correctly but unfortunately, the entire move happened overnight! I posted about this for the morning blog post at:

<http://blog.afraidttrade.com/spy-dec-8-overnight-bear-flag-meets-and-exceeds-target/>

The target was already hit off the morning open, and if you were using the Fibonacci Price Extension tool to project your target (starting with yesterday's high of \$111.53 then drawing to the first impulse low at the \$110.50 level and then ending your final click at the \$111.90 price high into yesterday's close, you came up with the following targets:

100% Projection (a proper/classic flag target): \$109.93

161.8% Projection (an 'extended' price target still using Fibonacci): \$109.29

Today's intraday low was \$109.27, so if you were using this method, you had that as a potential price turning point and you could have been watching for a reversal candle to form at this level, which occurred with a hammer-like rise with a long lower shadow. You could have entered long as the high of the 5-min candle was taken out at \$109.60 and placed a stop under either the candle close (conservative) at \$109.41 or under the intraday low (aggressive) at \$109.27. Either way, you would have played for a move back to test the underside of the 20 period EMA at the \$109.90 level (or on any bearish reversal candle or series of candles)

Price fell shy of testing the 20 EMA on the first swing, forming a long upper shadow that stretched to \$109.98 before forming a series of dojis, setting up your next trade.

#### 2. IMPULSE SELL, THREE DOJIS, UPPER SHADOW

The logic of the "Impulse Sell" trade is to observe a new price and momentum low and then sell the first retracement up into resistance and enter short when reversal candles form.

This occurred at 10:30am at the \$109.90 level with three dojis forming after the long upper shadow that took price almost to the 'round number' resistance area of \$110.00. Your stop was above the \$110.00 or even \$110.10 level to target a new swing low at best or at minimum, a retest of the prior morning low of \$109.27.

Price fell sharply and it looked like it was going to hit its target, though a small hammer formed with a long lower shadow and then a larger hammer formed with a larger lower shadow at the \$109.50 area at 11:00am EST.

Conservative traders should have exited after these dojis formed, particularly as the high of these dojis at \$109.72 was taken out. This trade at best resulted in a smaller than expected profit and at worse with a scratch or even stop-out if you held on as price rallied against you.

As I say so often, if price SHOULD do something but does NOT do it, then it can lead to a more powerful trade in the OPPOSITE direction - which has implications for type of day structure and future opportunities. You can't forecast trade failures in advance, but when they occur, they can put you on the right side of the market while other inexperienced traders scramble to figure out what went wrong and stop-out in confusion.

Aggressive traders could have flipped and gone long as soon as price broke the prior swing high at the \$109.90 level, but that was only good for a scalp as long as price was under the 50 EMA, which is the "Line in the Sand" that would have broken the expectation for a possible trend day down into a "Rounded Reversal." It's best to wait until that line is broken before getting long and to remain biased short as long as we're underneath it.

A critical test... and great opportunity... came as price did test this level on a negative divergence and reversal candle.

### 3. REVERSAL CANDLES, NEGATIVE TICK DIVERGENCE, 50 PERIOD EMA TEST OF RESISTANCE

I would deem this the "best trade of the day."

It was clear that a negative TICK divergence had formed on the new intraday price highs into the 50 period EMA as a reversal candle with three upper shadows formed.

For those so inclined - my more advanced members - take a look at the second Fibonacci chart to note that a clean "Measured Move" as shown of the prior impulse terminated with a projection target at \$111.19 which served as another - more advanced level - confluence resistance/target price and reason to short.

That's not to say most people could have taken the 'measured move' long, but that the pattern ended at the \$111.19 level (also known as the AB=CD Pattern).

Stop-loss was placed above the 50 EMA at \$111.25 (above \$111.30) and the target was for a retest of prior lows at the \$109.50 level at best or - for a minimum - a return to test the lower Bollinger Band.

### 4. TRI-STAR DOJI ON POSITIVE TICK DIVERGENCE AT LOWER BOLLINGER

This was a slightly aggressive trade, as it was a counter-trend scalp on an otherwise confirmed trend day down, but that doesn't mean we have to limit ourselves if a bullish scalp trade presents - IF we know the risks and are comfortable playing for a small target. The tri-star doji pattern (three doji in a row) at 12:45 EST which formed at the lower Bollinger Band gave a good low-risk entry to play for a return at best to the falling 50 EMA with entry at \$109.85 (high of dojis), stop under the low of the dojis and bottom Bollinger at \$109.80, and target the 50 EMA and round number resistance at \$110.00. Price did retrace strongly up - roughly in only two candles - to test the 50 EMA at \$110.08 before setting up the next short-sale 'trend day' trade.

### 5. DOJI AT 50 PERIOD EMA, TREND DAY TRADE

This was no more than a standard retracement trade in the direction of the prevailing trend as price retraced to a key expected resistance level - the 50 EMA.

A doji helped confirm entry with a stop above \$110.10 (high of the doji), entry under the low of the doji (\$109.98) and target for a prior swing low at a minimum to the \$109.80 level or - more appropriately, for a new low in price (per trend day bias).

You could have exited as the bullish candle formed off the lower Bollinger Band at 2:30 EST at the \$109.65 level.

The remainder of the day consisted of short-sale trades into resistance via the 20 or 50 EMA, particularly as candles formed, in true Trend Day trading tactics fashion.







Some of our new members are like me in that we trade the @ES Futures Contract so I wanted to show how the SPY chart and @ES chart are almost identical, which is why the concepts I discuss for educational reference on the SPY chart translate in pattern to the @ES. A 10 cent move on the SPY roughly translates into a 1 point move in the @ES. For those not familiar with futures contracts, a 1 point move in the futures equals a move of \$50 to your account *per contract*. One @ES contract - which requires \$7,000 margin - is equal to 500 shares of SPY, which currently takes \$55,000 to trade.



An example of how to use the Fibonacci Projection tool to find targets for Bull and Bear Flags... along with the 161.8% Projection Target which worked well on today's morning lows.



Showing how a Measured Move - or "AB=CD" pattern (similar to a bull flag) found the high of the 11:00am CST move which found confluence with the 50 period EMA as three upper shadows formed.

This happened on a TICK divergence.

That is why I write these reports - to teach you (and myself!) these concepts through repetition. It's how to combine simple though non-correlated methods into finding high probability, low-risk trade set-ups (that do require a bit of thought... but that makes it an exciting challenge to look forward to each day - as in "What type of confluence trades will the market give us today that I can take?")



Again, the goal is not to overcomplicate the current structure. The analysis remains the same:

Price is in a trading range and the expectation as explained in yesterday's report was for a move down to lower levels to test the \$109.00 area. This has happened (or was about 25 cents away from a full test).

Because price has been in a trading range, odds favor price staying in the trading range and bouncing higher and lower within the range until a move above \$112.00 - which would trigger aggressive long bias - or beneath \$109.00 which would trigger an aggressive short bias occurs.



The 60min chart gives us more reasons to suspect that \$109.00 might hold as support - as shown above.

The structure is the same - trading range - and play within the range but be on guard and ready to trade a breakout which could lead to a sudden price movement (range expansion).



The buyers 'lost' the support of the 20 day EMA today at the close, meaning the next logical support target IF the trading range mentioned above is broken would be the 50 EMA at the 1,078 level... but if price breaks and closes under the 50 EMA... it could just be yet another bear trap so be closely on guard and watch/trade the market more closely going forward.

Remember that we're still in a technical uptrend as of today's close so keep that larger structure in mind.