



## ***Daily "Idealized Trades" Report***

### **SPY (SPY 500 ETF) 5-min**

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There was no bounce at all off the 50 day EMA (other than intraday yesterday) - which implied that odds strongly favored lower prices. Volume and volatility have returned to the market as investors are 'spooked' and are taking profits ahead of potential damaging legislation to banks, and we are in the middle of a 'sell-off' in equities as buyers are taking profits while aggressive short-sellers are shorting... giving is a positive feedback environment and the underpinnings for today's Type III Trend Day.

#### 1. GAP FADE

If you are an aggressive-style trader, your first move would have been to buy the down gap this morning in anticipation of a gap fade - the gap was roughly 50 cents, which is in the 'moderate' expectation for a fill, and we came 5 cents shy of a full fill. The fill occurred within two candles, and I often prefer waiting two candles (10 min) to see how the market opens, so this was most likely a trade that happened too quickly to take advantage.

I did want to list it as an educational mention in today's report... but again this was a trade ONLY for aggressive traders that would have failed (been filled before waiting for confirmation) for conservative traders.

#### 2. AGGRESSIVE SUPPORT BREAK SELL

The second trade I'm discussing was also an aggressive maneuver, but it is one that has been effective on the last few trading sessions, and it is to get short as soon as possible once support is broken to play for a trend move that occurs on the broken support.

Again, for conservative traders, you would want to wait for a pullback/retracement (safer entry) to short, while aggressive traders would have seen yesterday's lows broken, resistance from a move down off the move to fill the morning gap, and then a breakdown of the intraday low.

And of course, this would be the day that type of strategy failed short-term and resulted in a stop-loss. Price fell 50 cents after breaking the \$111.00 support lows so that was a good 5 @ES futures points, but price found a bottom, formed a bullish engulfing candle, and then sharply retraced up to the 20 and then 50 EMA. This would have been a profitable trade if you exited after the bullish engulfing formed at \$110.80, or when you saw price sharply break above the descending trendline on the 1-min chart (in large momentum environments, follow the 1-min chart for clues as to when to enter and exit).

There was also a mini-five wave fractal move into a three-push (triple swing) positive 3/10 oscillator divergence which clued us in that odds favored a retracement and to capture profits on our short and then ride out (stand aside) during the retracement and then wait to re-short the market on the expected pullback.

Yes, aggressive traders could have traded the pullback as well, but the best move - for conservative traders especially (who avoided getting chopped around as the aggressive traders most likely did) was to wait to short the first immediate pullback to the 5-min EMA... which was the best trade of the day.

### 3. IMPULSE SELL, NEGATIVE DUAL DIVERGENCE, TRENDLINE BREAK, 50 EMA PULLBACK, DOJIS AND BEARISH ENGULF.

You could have also called this a potential Bear Flag trade. Again, like yesterday, I wanted to list the reasons this was a high-probability, low-risk trade:

Downtrend on higher timeframes (such as 5-min, 15 min, 30min)

Negative/Bearish EMA Structure (5-min especially)

Morning new Price, TICK and Momentum low precedes lower price low yet to come (principle)

Pullback into 20 and then 50 EMA

Dojis and candles forming AT the 50 EMA

Trendline Break on the 1-min chart

Three Push Negative Momentum (and then TICK) Divergence (see 1-min)

ABC Three-Wave pullback into the 11:00am, \$111.50 high

And a few other signs of confirmation, but again, you do NOT have to see all of these - you just need to put a few pieces/observations together in your favor, enter at a reasonable level when you feel odds are strong/confirmed to expect a down move, and then place your stop above likely resistance which would change/violate your opinion (the 50 EMA... which would cross the "Line in the Sand" and invalidate a Trend Day bias).

The initial target was a play back to test the intraday lows at \$110.50 (yes, a full \$1.00 move - 10 @ES points), though conservative traders could have exited on the hammer and then strong candle that bounced off the lower Bollinger Band at 12:15pm EST.

I also wanted to highlight another short-sale trade which I did not highlight specifically as an "Idealized Trade" (because it occurred in the context of an existing short-sale trade). This was the simple pullback short-sale into the 50 EMA at 12:30 EST.

Price gently fell to test the lows, granting multiple dojis as an exit signal at the \$110.50 target level and giving a 'flip and reverse' potential trade for aggressive (BUT NOT CONSERVATIVE!) traders. You really only want to trade long on a trend day if price comes into a higher timeframe key support level (we were under the 50 EMA daily chart) or if price forms Wyckoff Signs of Strength (WE DID NOT) and then price subsequently breaks above the 50 EMA (Line in Sand... again, we did not).

As such, trading long at this point was an aggressive, counter-trend move.

As a refresher, aggressive trades (entries) occur EXACTLY at a support zone and use a tight stop and often small target (scalps) which tend to be LESS ACCURATE (get stopped out more) than conservative strategies, which delay entries (execution) in favor of 'proof.' It is better to adopt a conservative or aggressive strategy for all of your trades depending on your unique personality, and not try to vary your strategy constantly.

### 4. BREAKDOWN OF INTRADAY LOWS, PURE MOMENTUM SELL-OFF PLAY, POPPED STOPS

If you decided to get long on a retest of the \$110.50 level, you should have immediately stopped out (again, aggressive traders often use tighter stops because they enter at key support or resistance levels without waiting for confirmation

that price is reversing) and then considered 'flipping' and going short to take advantage of all the traders who did get long to try to play for a bounce - now they will be stopping out and new shorts will be entering the market, creating a positive feedback loop which is tradable for you (this is the "Popped Stops" play).

Remember, when entering an environment of positive feedback (which takes practice to recognize), you have an UNLIMITED target, meaning you hold on as long as you can until you see a confirmed buy signal (for your exit) or - preferably - into the close. Today, the market fell hard on a sharp sell-off that took price down all the way into the close. Remember, from my charts that I have been saying "short bias under \$113.00" and then "strong short bias under \$111.00" (the 50 day EMA). We were clearly under these levels and so the strong short bias was in play.

I say this because when key support levels are broken, these positive feedback loops occur as new shorts enter to profit from a down-move (swing traders + intraday traders) while those who were trading (holding) long for a bounce ("this is the bottom") are slowly stopped out and forced to sell (pushing prices lower).

You want to identify when odds favor a Positive Feedback loop forming, and then trade (and hold on!) for as long as you can because you do not know when the feedback loop will end (but you get good clues from positive divergences and bullish/doji candles).

#### **An important word here, as I've already gotten a few emails.**

There are very few things I call "wrong" or "incorrect" in trading, because all trades we take are a factor of our assessment of the probabilities at hand, and so there is usually a good argument that can be made for both sides, but usually the evidence on one side will 'win,' which creates our execution of the trade and location of the stop .

However, there are certain times when if you execute a certain trade, you are executing against powerfully strong odds of receiving a successful outcome that it would be deemed absolutely inappropriate to put on a trade. Not to say that you will always lose on the trade, but you will lose 8 or 9 times out of 10 if you repeat the same trade in the future (I'm estimating odds for argument's sake).

Let me simplify (please pardon my directness). If you tried to trade long at any point after price broke under \$110.50, particularly as the TICK and momentum (both 5-min and 1-min charts) were making new intraday lows while price was making new intraday lows, then you put on a trade that had about a 10% to 20% (and that's being generous) of success (meaning, finding the absolute bottom of the move that would have put you into a profitable trade).

If you did this, and you are upset with yourself, then realize you entered a trade with a 10% chance of success and a 90% chance of failure, and instead of being disappointed with yourself, learn the lesson, do not fight a powerful trend move, and instead stand aside if you feel compelled to try to find a bottom or if you feel uncomfortable getting short into a momentum move (it is totally fine to feel like the market has moved too far and the moment you get short, it will reverse). The best thing to do is to get and remain short, but if this is too aggressive, then that is ok to stand aside.

However, from an edge standpoint - and I cannot make this more clear - IT IS NOT FINE to trade long into a market that is making new price, momentum, TICK, Breadth, and VOLD lows ... all of which forecast (in a principle as old as Dow Theory itself) that Lower Price Lows are Yet to Come.

#### **Bottom line: when this situation occurs in the future, you have two options:**

1. Stand Aside if you prefer conservative strategies
2. Get in the direction of the momentum move if you prefer aggressive strategies (try to enter as early as possible).

**There is no third option.**



There was NOT a Wyckoff Sign of Strength mid-day, so this did not favor odds of a reversal, but we still kept close watch on how price behaved as it retested the falling 50 EMA - the Line in the Sand.

The afternoon new TICK + New Price lows (arrows) highlight my point that you do NOT buy the market when price is falling sharply and the TICK (internals) is also making new intraday lows. Short rallies only and do not consider getting long until a clear divergence forms or some other compelling buy signal.



Again, we see new Momentum and TICK lows after 2:00 EST, plus a very bearish EMA structure. You should have scalped/shorted each pullback (if that is your strategy).

Otherwise, I'm showing how simple trendlines can help trade entry/execution on an idea from the 5-min chart.



I drew a potential 4-wave count in last night's report which has now completed (fulfilled) the final 5th wave I was indicating might unfold today.

We have fulfilled that condition now into a potential prior price support zone, but the omens beyond that are bearish.

Volume is surging during the sell-off (bearish) while momentum is making new lows (forecasting lower price lows yet to come).

For those interested in Elliott, we might be seeing a fractal move where the "5" is actually the end of a "3" and that the 1 and 2 would be in the same spot, but the 3 and 4 I drew above would only be a smaller fractal of a larger 3rd wave.

Take a look at the 60min chart to see why we could get a bounce here... but if we don't bounce, then we are looking to retest prior lows as seen on the daily chart near \$103 (1,020 SP500).



We've made it all the way down to the mid-November lows of \$109.50, an aggressive target which is now achieved. It would be significant if we continue the sell-off here, and we very well could. Volume is surging to new chart highs while the momentum oscillator is plunging to new chart lows - both of which indicate odds favoring lower prices ahead.

Take a look at the daily chart to see who we could support at the 1,080 level, so watch that intraday, but if not, the next pathway for price is to retest 1,020 and we'll see what happens if that scenario unfolds.



There has been a lengthy negative momentum divergence that started in July and has continued to today - this could hint at a much deeper pullback (or even reversal) ahead. But let's not get too far ahead of ourselves - take it one day at a time.

Price could support off the 1,080 prior price low (the Nov/Dec trading range found its lower boundary there) so be prepared to trade a potential counter-bounce there.

Otherwise, if price breaks under 1,080, then I see no key price support level except the 1,020 prior price level from October/November. This is the larger structure now.

Bulls could not hold the 50 EMA nor the lower daily Bollinger Band, so we could be entering an expansion move down from here after failing to overcome critical resistance at 1,150.



Another reason to expect the 1,080 level to hold is the 20 week EMA as shown above - it's exactly at 1,080.

We could get a bounce here, but we need to be careful to watch the next few trading days closely due to the economic uncertainty and the government's bulls-eye on large banks (plus the uncertainty of Federal Reserve Chairman Bernanke's nomination which is stalling in the Senate). A market abhors uncertainty... and that's exactly the signals Washington is sending, so be very much on guard to trade a continued down move through support levels.

The 50 week EMA rests at 1,040 which would be a logical target on a break of 1,080. Remember, the daily chart pegs support at 1,020.

Have a great weekend and be safe!