



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today was an interesting day in some ways (technically a 'flat' range day), and frustrating in others. Let's take a look at the lessons we can learn from today's activity so we can apply them in the future.

1. GAP FADE, FIBONACCI CONFLUENCE, 50 EMA, UPPER SHADOWS/DOJIS

The first trade of the day was relatively simple, in that price gapped up into a confluence Fibonacci resistance level (which could have been drawn in advance - see separate Fibonacci chart), which formed at the \$110.36 level. The 50 period EMA also intersected at this level, giving plenty of reason to expect lower prices ahead in a play to fill at least half of the morning gap. The gap was roughly \$1.00, so odds were low that we would experience a full gap fade - we ultimately fell 20 cents shy of a full fade.

Aggressive entry - which was warranted in this case - was as price pushed into the overhead resistance levels and formed multiple upper shadows, indicating that buyers were struggling to overcome resistance. Entry was near \$110.30 with a conservative target being the rising 20 period EMA at the \$110.00 level, and aggressive target to try to play for as much of the fill as possible, exiting on any reversal buy signal.

We got such a reversal signal at 10:15 EST as price formed a sharp bullish candle, triggering exit at the \$109.80/90 level.

Price then formed two upper shadow dojis at the \$110.10 level at 10:30, giving another chance to short, but I did not label this specifically as an idealized trade (it was just a doji that did not form at a key resistance level or divergence).

You actually could have short-sold each pullback that occurred, including the doji at 11:15 EST at the \$109.75 level - all playing for a retest of the low or a new swing low (or - in this case - a test of the lower Bollinger Band).

The next opportunity to discuss came at 11:45.

2. THREE-PUSH PATTERN, TRIPLE DIVERGENCE, TICK DIVERGENCE, LOWER BOLLINGER, TRENDLINE BREAK

This was a moderate trade set-up, given that it was fighting a trend (technically) but was also taking advantage of a three-push divergence along with a dual TICK & momentum divergence at the lower Bollinger Band (5-min).

Price broke a trendline on the 1-min chart, triggering a conservative entry at \$109.80, while the aggressive entry would be as price tested or began to bounce off the lower Bollinger Band at \$109.50. There wasn't a reversal candle this time at this level, but price began to break above prior candle highs and again the trendline as seen on the 1-min chart.

The small target was a play back to the 20 EMA at \$109.80, but a more realistic target (thanks to the lengthy divergence) was for a challenge of the 50 EMA at the \$110.00 level (round number resistance). Price formed dojis at noon, giving you a clear cover to exit with a profit.

At this time (see 1-min chart), price formed a new TICK high while price was under the intraday high, giving us a classic Wyckoff Sign of Strength, that told us that odds favored a rounded reversal or higher prices yet to come. As such, we would want to buy the first pullback to play this developing structure.

3. WYCKOFF, CRADLE, HAMMER/DOJI

After the Wyckoff Sign of Strength formed, odds favored a rounded reversal day as the bias - and the best place to be long was on a pullback into confluence EMA support - or what I call the "Cradle" trade (where the 20 and 50 EMAs cross).

A hammer and then a doji formed at this level (\$110.05), triggering entry with a tight stop under \$110.00. Price rose sharply... and then fell just as sharply to take out the tight stop-loss.

A note here for reference - this brings us back to the "How tight/loose should my stop be?"

It depends on your style of trading and ability to accept risk. In general, studies show that it is preferable in most cases to use a wider/looser stop, and this set-up shows why that might be so. Had you trailed your stop under the lower Bollinger, you would have remained long in trade #3 to exit with a profit at the \$110.40 level, as you were correct in your assumption that the market would head higher.

In general, a loose stop will result in more trades "working" (giving a profit) which increases your accuracy rate, however losses will be larger... while a tight stop will decrease your win rate (resulting in more stop-outs like this) while reducing your average losing trade.

It's best to understand the trade-offs and then use the same strategy (of stop-loss placement) consistently.

If you held through the 'rinse and wash,' then you were to exit as price retested the Fibonacci confluence level at \$110.40... setting up a very aggressive trade to scalp against a move back into confluence with a bearish engulfing.

4. FIBONACCI CONFLUENCE, BEARISH ENGULFING, TINY DUAL DIVERGENCE, TRENDLINE BREAK

Again, this was relatively aggressive as the odds shifted to favor a rounded reversal... but to complete the move to higher highs, price had to overcome the Fibonacci confluence at \$110.36 as well as the intraday high. Buyers could not do so, giving you a chance to trade short and fade them.

Entry was as price broke the trendline on the 1-min chart (notice the mini-divergences) at the \$110.30 level, or as price took out the low of the 5-min bearish engulfing candle at \$110.27. A stop would be above \$110.41/45.

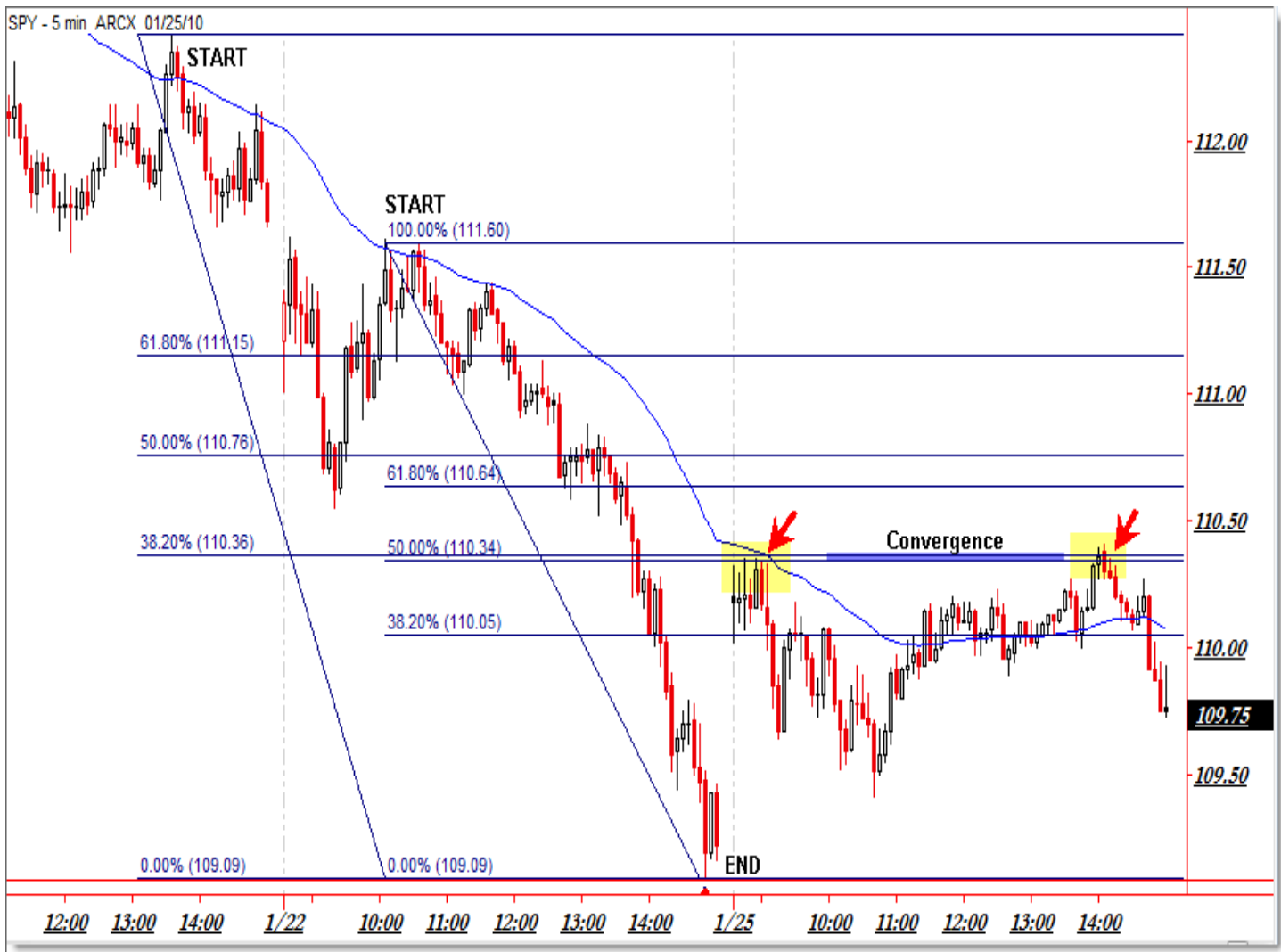
You could have exited conservatively as price tested the support of the 20 or 50 EMAs at the \$110.10 level, or at the \$110.00 'round number' support level... though price fell sharply through this support zone into the close (it would have been very difficult to hold for a full move to the intraday lows).





1-min chart shows divergences and trendline breaks.

Sometimes trendline analysis can be the simplest way to enter or manage your trades intraday.



Today gave us a good example of a Fibonacci Confluence resistance zone at \$110.35.

Notice that two attempts to rise above this level failed - you would start your grids at the prior two swing highs (shown above) and draw to Friday's low at \$109.09. Your software program then shows you the Fibonacci levels, and you should watch for any convergences, as shown above, to be key resistance levels... to enter short on a test, or to exit a long trade into this target.



Volume was lighter on today's pullback into the 20 EMA on the 30min chart - a sell signal.

I also drew a potential "abc" three-wave pullback label to show the corrective nature of this 'rally.'

For now, it is technically a corrective rally against a strong down-move, but a move over \$110.50 would hint that we could rally back to the \$111.00 level going forward.



Price broke key support at the \$113.00 level and then fell precipitously to test the target lows at \$109.50, and now we are (potentially 'were') in 'bounce' mode in a retracement rally.

Price has formed two new momentum lows, which hint that new price lows are yet to come, and volume rose sharply on the down-move, indicating across-the-board selling pressure. Today's rally resulted in reduced volume, which is bearish. The final hour witnessed a sharp sell-off on high volume... bearish.

\$109.50 is support, but if sellers push under that, then the next support line is the \$108.00 level... and under that, we would look to \$102.00.



The daily chart shows how 1,080 is the next downside target, as it is the zone of the prior swing lows from the November period, which provide a target.

Any move under 1,080 will cause us to target the 1,040 lows and then 1,020.

Notice the lengthy negative momentum divergence that preceded this sell-off - while we cannot call tops and bottoms using momentum alone, we do know that lengthy negative divergences *eventually* will resolve in a reversal... and the longer the divergence persists, the worse the pullback will be.

As a note, it appears that we have formed a Wyckoff Sign of Weakness (new momentum low while price is far from making a new chart low) which further argues the potential for lower prices ahead.

That being said, Apple (AAPL) and Texas Instruments both reported better than expected earnings an hour ago, so that could put a bullish spin on the market tomorrow, so be prepared to scalp long if the market opens to the upside.