



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

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

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We had a 'fake-out' gap which preceded a very sharp sell-off into support - bounced - and then formed a nice Measured Move. Today provided a few great lessons you can use as references, or as one member described it "A text-book sell-off" day early. I also wanted to highlight the Fibonacci retracements and Flag projections that were possible today.

#### **1. 20 EMA SUPPORT BOUNCE, DOJI + BULLISH ENGULFING HAMMER**

I wanted to discuss the first move down into support, whether or not you took a trade here. We had a sudden gap-fill (again, perhaps too quick for most gap-fade traders to take advantage of it) which formed a long-legged doji on the 3rd candle and then a spinning top on the 5th and bullish engulfing candle on the 6th.

If you are an aggressive trader, then you were to buy as price formed a move up off the 20 EMA support level at the \$109.55 area to try to play for a move back to new highs at \$110.20 - with a stop under the 50 EMA at the \$109.30 area for a decent reward/risk. As you can see, this trade was stopped out very quickly as price broke the 20 and then 50 EMA.

If you are a conservative trader, then this is an example where being conservative saved you. Remember that conservative traders see a set-up but then trigger into the set-up on a close or break above a particular reversal candle. That did not happen officially if referring to the bullish engulfing candle at 9:00 CST (I will switch to using Central Time, as that is what I show on the TradeStation charts - which will make it easier when discussing timing of trades).

The high of the bullish engulfing was \$109.74, which was not taken out by the next candle which was - itself - a bearish engulfing. Remember, conservative traders take less trades and often have a higher accuracy rate than aggressive traders, and as a trade-off, tend to make less money long term (due to the fewer trades and later entries) than aggressive traders.

I felt this was a good chance to discuss the difference between strategies and outcomes.

#### **2. BEAR FLAG, CRADLE SELL, DOJI**

This was perhaps the best trade set-up of the day, given that it was easy to anticipate and gave great triggers for entry for both conservative and aggressive traders.

After the morning plunge formed new TICK and momentum lows, odds favored lower price lows yet to come AFTER the first retracement (Momentum Principle). So, we were to wait out (ride out) the first reaction and then get short into an overhead resistance level, or when the lower trendline on the 1-min chart was broken.

Price gave us a nice doji candle that formed right at the confluence of the 20 and 50 EMA at the \$109.30 level. An aggressive entry was as price rallied into resistance though a conservative entry was as price broke beneath the low of the doji and the 1-min (or 5-min) trendline, which resembled a bear flag.

In fact, it was a bear flag, and could have been traded as such. I have a separate chart showing you the price projection target -using the Fibonacci Extension/Projection tool - which was \$108.17. This was your aggressive exit for this trade. A conservative exit would be on any buy signal, which could have been interpreted after the 3/10 divergence and two bullish candles off the \$108.60 level at 10:15am CST.

However, using the 1-min chart, a trader could have remained short (even during these two bullish bars) because price never broke the EMA structure nor the trendline which could have been drawn at that time - thus keeping you short until your target.

Once price reached the target - which was also the critical 1,080 S&P 500 support level I've been describing - this served as an exit and a 'flip and reverse' for aggressive traders, particularly when the trendline and EMAs were broken on the 1-min frame.

### 3. TRENDLINE BREAK, DAILY CHART SUPPORT, FLAG TARGET

This trade had multiple specific entries, and some of them include the official break of the blue trendline (1-min) at the \$108.30 level or the 'retest' throwback to the upper side of the trendline shortly after at \$108.15 or shortly after that at 12:00 CST when price clearly broke above the 50 EMA, forming a mini-swing high at \$108.40.

Either way, there were plenty of chances and signals to get long at higher timeframe support (\$108.00 in the SPY) and that should have been your bias. The stop was under the intraday low at \$108.00 with a target being the 38.2% Fibonacci retracement or the 50% Fibonacci retracement of the move down (both of which were hit) or the 50 EMA on the 5-min chart (hit early). Price actually moved to the 61.8% retracement, but not before another trade emerged.

Again, conservative traders would hold on for a smaller target while aggressive traders would hold longer to a higher target. The best exit was at the \$109.00 level which was the 50.0% Fibonacci Retracement and 'round number' overhead resistance, and a doji formed at this level (at the upper Bollinger Band).

While you could have put on a short-sale position here - it was very aggressive - be wary of the Wyckoff Sign of Strength that just happened (new TICK and Momentum highs while price is clearly not making intraday highs) which hints that odds favor a trend reversal to the upside - or at least favors buying the first pullback into support as the next trade.

### 4. WYCKOFF SIGN OF STRENGTH, TRENDLINE BREAK, BULLISH ENGULFING

Trade 4 might best be seen on the 1-min frame, or by the bullish engulfing candle on the 5-min frame. Buy after the descending trendline is broken at the \$108.60 level OR conservatively wait for a potential 'throw-back' (which occurred this time but does not always unfold) to test the upper side of the trendline at the same level.

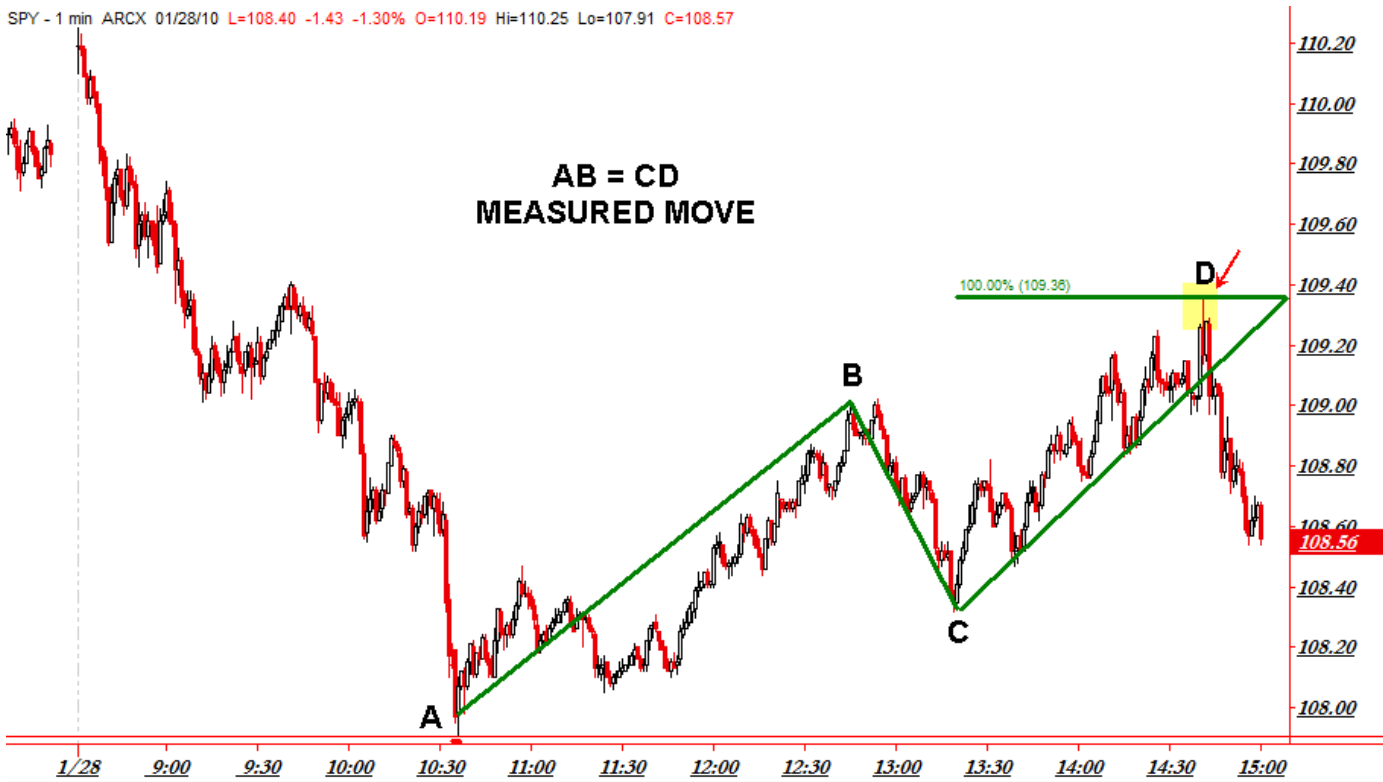
I wanted to highlight this as a "Bull Flag" but this is more appropriately labeled an "AB=CD" Measured Move Trade (notice the symmetry). I drew a separate chart to show the measurements of this trade.







The chart above shows the morning Bear Flag (green) with target and the full-day Fibonacci Retracement Targets (blue).



The chart above shows the specifics of the AB=CD Measured Move trade which triggered at 1:30 on a break above the trendline I drew on the 1-min chart (because we do not know when "C" will end). The target is an equal swing to \$108.36 which was hit that served as your exit... notice above how this level was also the 61.8% Fibonacci retracement.



At the risk of sounding like a broken record, buyers must hold the \$108.00 support level or else we see 'open air' and the potential of a sharp sell-off to the next level of support. Today's "Finger Trade" (or 'rinse and wash') under the \$108.00 level and the sharp buying pressure that drove price higher could indicate that the \$107.91 low print might hold as a counter-rally forms off a positive momentum divergence and rounded reversal price shape... but that would be a counter-trend move on the lower frame charts.

Thus, we expect a likely bounce off \$108.00 so trade accordingly, but if buyers cannot hold this level (sellers continue pushing lower), then the next support level is much lower... thus \$108.00 reflects a "cliff" of support. Either hold it and rise... or fall off it and see a trend move to the downside.



The 60min chart shows how a rounded reversal pattern could be forming, but that the larger structure is now a confirmed and official downtrend (negative moving average orientation, new price lows, volume rising as price makes new lows).

This is countered with a positive momentum divergence and prior support (see daily chart) at the \$108.00 level.

Take a neutral to bullish bias while price is above \$108.00, a bullish retracement expectation if above \$109.50, and then a potentially aggressive bias if under \$108.00 (especially if in a trend move with high volume - short aggressively intraday if so).



The Daily Chart clarifies why the 1,080 level is critical support - actually it's the 1,085 level from the six prior price lows that forged the support level. Otherwise, we see the September swing high stopped exactly at 1,080. Beneath 1,080, we only see the prior support low at the 1,020 to 1,030 level as the next 'stopping point' for sellers to take profits and bulls to try to buy back into what they suspect to be a strong uptrend continuing.

The new momentum low and rise in volume as price has been selling off is a negative sign, but even sell-offs often have counter-bounces.

Still, the key is to watch 1,080 and be biased slightly bullish for a retracement bounce expectation if above, and then aggressively short under.