Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today always gives me a chance to share new lessons with you and today is no exception! Today, we will discuss Range Day trading tactics - identification, entry/exit, what to focus on, what to ignore, etc.

In short, here are the tips on a Range Day:

Pay attention to Divergences, Bollinger Bands, and Reversal Candles (shadows, dojis, etc). These set up trades.
Also, see if you can draw trendlines if applicable.

IGNORE moving averages (it may be a good idea to remove them if you find they get in the way).

Remember that I often call Range Days "Inefficient," which is confusing to many readers, but I argue that point because you have to do a lot of work (watching internals, looking for confluences, watching for reversal candles, etc) more than a trend day but the problem is that you do all that work for a minimal amount of profit at best. In short, more work for less money.

Other traders may love the trading conditions of the day by stating "the trade set-ups are easy to spot and enter." Remember, you will develop your own methods and strategies that you enjoy.

As a general note, I will not be describing each of the eight trades - which I believe is a record day since I have been writing these reports for a year now - but will use a blanket statement from trade 3 on to trade 8:

"Enter at the Bollinger Band Extremes when a reversal candle forms, especially if there is a divergence."

You'll see what I mean, but please forgive me for not describing every single trade - all of which are identical - in great detail (so as not to overwhelm you with a 15 page report!).

1. NEGATIVE DUAL DIVERGENCE, 200 SMA, UPPER BOLLINGER, BEARISH ENGULFING

There was a "go or no go" situation in terms of the morning's opening gap. As I sent you with the gap fade chart (stats) on Friday, a gap of 80 SPY cents had a 49% chance of filling - not worth taking on the open, and preferably to let the market play out to see if we do start to get a down move.

In this case, we actually got a Wyckoff Sign of Strength (new TICK high when price broke above $108.40, hinting higher prices were yet to come). Thus, there would not be a gap fade trade this morning. You also could have bought at 9:00am when price formed a bullish engulfing candle that bounced off the 20 and 50 period EMA. Entry was as soon as price took out the $108.41 high and then played for the $108.75 level - 200 SMA. This trade hit its target, and the negative dual divergences (TICK and 3/10) set up your first (or second) trade of the day.

With price at the 200 SMA, a bearish engulfing candle formed at 9:30am CST which formed a low of $108.55. Price actually did not take out this low until 15 minutes later with a break under this level, setting conservative traders into the trade short at $108.50 to target the 20 or 50 EMA (we did NOT know we were in a range day at this time, so we should have used moving averages as support targets).

2. LOWER BOLLINGER BAND, EMA SUPPORT, DOJI

Price formed a doji at this level, and you should have exited your short-sale at the $108.25/30 level and awaited for price to break above the high of the doji (if conservative). Price did break the high of the doji at $108.43 that formed at the $108.40 level (having a long lower shadow). This triggered the second trade that played for a retest of the $108.80 swing high and/or the upper Bollinger Band.

Notice that the TICK formed a new intraday low with the doji swing into support - this was a type of intraday Wyckoff Sign of Strength where price was not forming a new intraday low but the TICK was. Notice also that the TICK was forming a higher low than the end of yesterday's trading, so this was not a 'major' warning signal ... compare this to the morning Wyckoff Sign of Strength that DID form a new TICK high while price was not making a new high - compare to the end-of-day swing of Friday - this WAS a sign that odds favored higher prices because the TICK formed a higher high while price did not. It's always important to compare the TICK with prior swing highs, and that includes going back to the prior day's readings if need be.

The Wyckoff Weakness signal was a warning sign to watch and guard (don't get too bullish) but was not a signal to rush out and short the market. Price rallied up to test the upper resistance level as expected and formed a new TICK high on the session as price formed a new intraday high. You could have taken this as a 'cancellation' signal to 'ignore' the prior TICK low, or could have taken it as a sign of caution. In all honestly, the day's morning session would have gone easier (for me at least) had the TICK not formed a new low at 10:05 - it would have prevented an unnecessary 'cautious' standpoint.

As price rallied into the upper Bollinger Band and target at $108.80 - forming a long upper shadow - this triggered an 'exit profit' and then aggressive 'flip and reverse.'

3. UPPER SHADOW, UPPER BOLLINGER BAND, 5-WAVE FRACTAL (1-MIN), NEGATIVE DIVERGENCES, 200 SMA

Again, we formed an upper shadow at the upper Bollinger Band on a negative momentum and TICK divergence (see 1-min chart closely) on a 5-wave fractal (at the 200 SMA on the 5-min chart). This all gave us clues that odds favored a move back to test the prior lows, or the lower Bollinger Band.

The entry was as soon as price broke the low of the upper shadow candle at $108.69 with a stop above that candle's high at $108.87 (also the then intraday high) with a target to the $108.40 area (lower Bollinger Band + 50 period EMA).

We are safe in using the moving average here because we still don't know for sure that today will be a range day (yet). Odds are increasing to favor that we're forming a trading range, but as of this point in the day, price was still in an uptrending move that was supporting on the EMAs (so far). Thus, that became a logical target to play for and exit.

4. LOWER BOLLINGER BAND, 50 EMA, DOJI, BULLISH ENGULFING HAMMER

As stated above, I will not describe trades 4 - 8 in intricate detail as usual, as they all essentially are exactly the same trade. Price formed a doji on the 50 EMA that spiked (lower shadow) to the lower Bollinger Band at the $108.35 level, triggering entry when price broke the high of the doji - and the next candle - if not already long - was a bullish engulfing hammer candle. The target again was the upper Bollinger Band or the prior $108.80 swing high.

5. UPPER BOLLINGER BAND, DUAL DIVERGENCE, PRIOR HIGH, UPPER SHADOW

By now, it was becoming clear that odds were favoring a trading range, particularly if price moved down from this level at the $108.90 level (just above the prior swing high from the morning).

While this wasn't specifically a candle, it had an upper shadow that 'poked' outside the upper Bollinger Band - and you can see the 5-wave fractal and negative momentum (and TICK) divergence that formed on the 5-min and 1-min chart. The target again was the lower Bollinger Band as per the Range Day bias.

6. BULLISH ENGULFING, TRENDLINE, POSITIVE 1-MIN DIVERGENCE, LOWER BOLLINGER BAND

Notice the price movement into the rising trendline - which could have been drawn at this time - which also corresponded with the lower Bollinger Band at the $108.60 level.

Once again, an entry triggered as price moved over the high of this candle at the $108.65 level to target the $108.90 level - the upper Bollinger Band.

7. UPPER BOLLINGER BAND, TWO UPPER SHADOWS, NEGATIVE DUAL DIVERGENCES

Price pushed back into the upper Bollinger Band and Trendline, formed two upper shadow candles at this level, and then also formed a dual negative divergence into this area (see 1-min chart). The target - again - was the lower Bollinger Band (notice how price began to slice through the 20 and 50 exponential moving averages).

8. LOWER BOLLINGER BAND, 200 SMA (incidental), LOWER SHADOWS, POSITIVE DIVERGENCE

While each trade was unique in its own way, the main idea is the same. The 200 period SMA came in as an incidental confluence at the lower Bollinger Band and lower trendline at the $108.60 level. The target again was a move up to the upper Bollinger Band again at $109.90. Two upper shadow candles and a doji candle formed, triggering an exit with profit and another entry short... though price rallied shortly after into the close.

TO SUMMARIZE:

When odds favor a Range Day (price is not respecting the moving averages as targets and it is clear that the best trades are being set up at the upper or lower Bollinger Band), then focus on the Bollinger Bands, Reversal Candles, and any sort of Divergence.

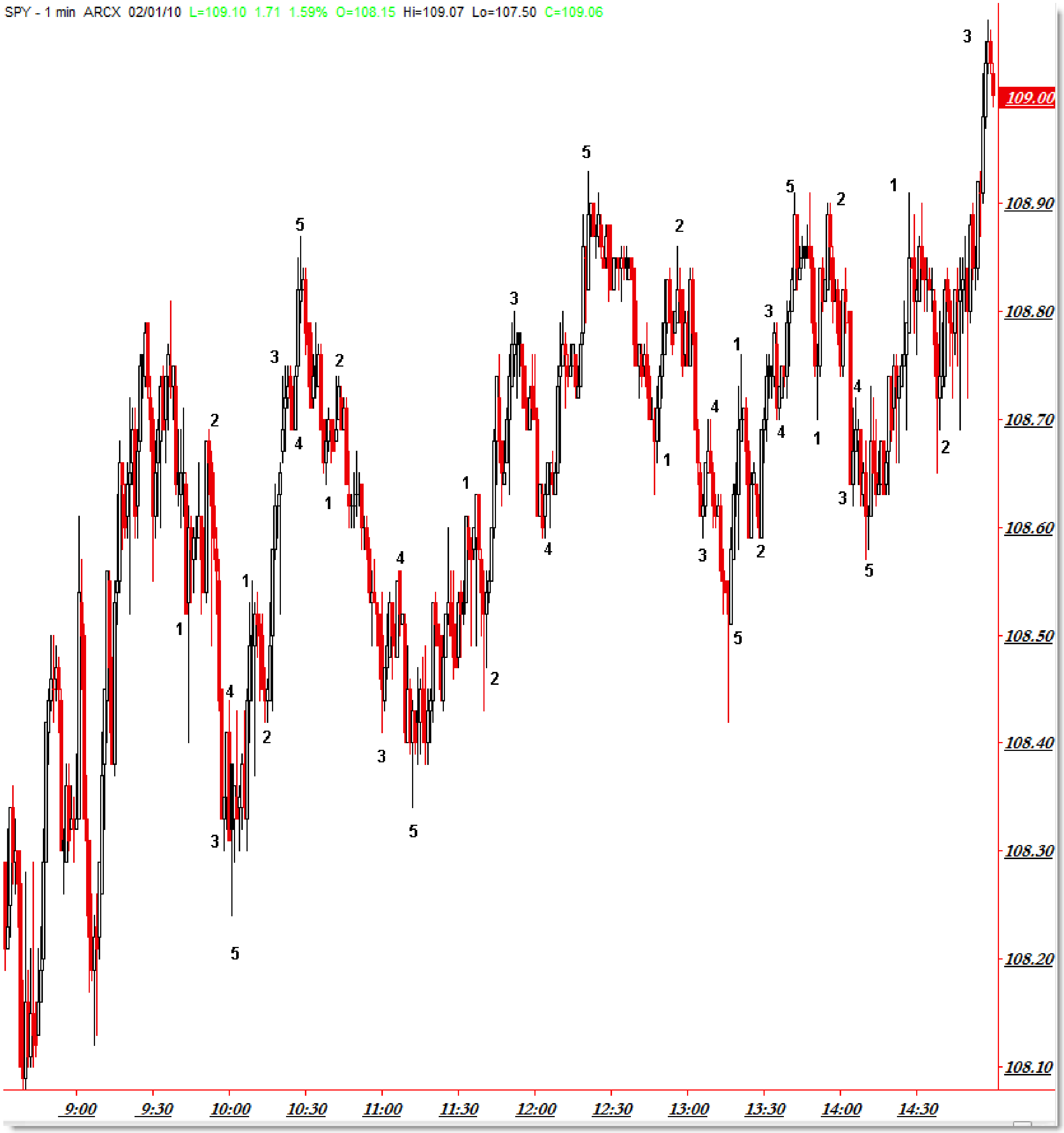
Simplest/Best Range Day Trades = Bollinger + Candle + Divergence


SPY - 5 min ARCX 02/01/10
On A Range Day, Follow Three Things:
1. Bollinger Bands
2. Candles (reversals)
3. Divergences
109.00
108.80
108.57
108.40
108.20
108.00
107.80
107.60
107.40
0.2000
0.1033
0.0337
-0.2000
$TICK - 5 min NYSE 02/01/10
721.00
136.65
-200.00
-600.00
-1,000.00
11:00
12:00
13:00
14:00
Feb'10
10:00
11:00
12:00
13:00
14:00
15:00

Today stayed contained within an upper and lower trendline as shown above, and between the Daily Pivot ($108.15) and R1 Pivot ($109.00).

Trading a tight range day takes a lot of work for a minimal amount of profit (compressed swings/targets). Stops always go outside the trendlines or Bollinger Bands.

Look for divergences especially on range days - particularly in the TICK or 1-min 3/10 oscillator.



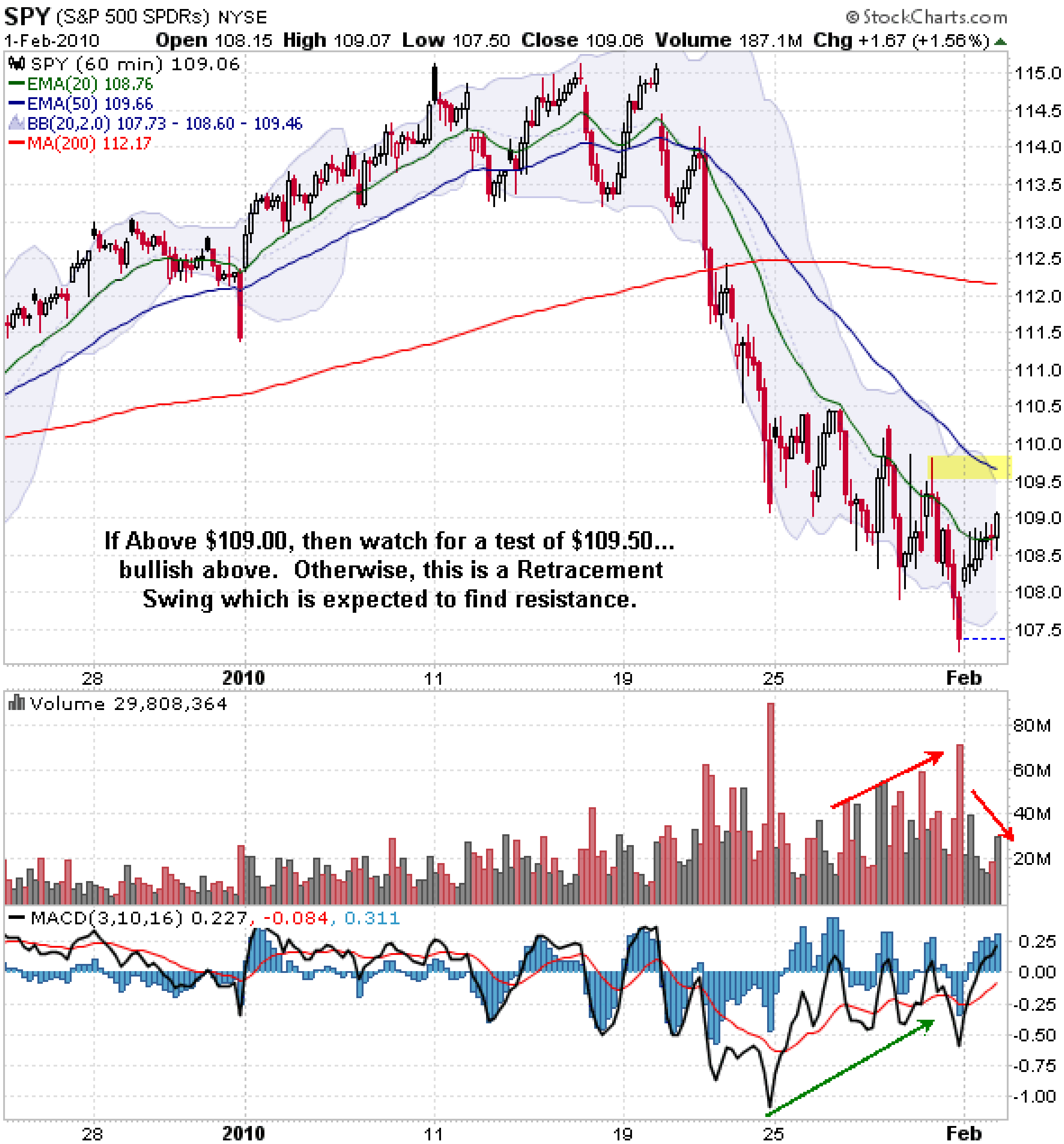
A day of five wave "Elliott Fractals." Look for a clean (simple) 5-wave pattern and then see if there is a divergence at what you perceive to be the final 5th wave of the fractal - if this is occurring at a higher timeframe resistance area (or even 1-min resistance), then this is an 'exit' and then 'flip and reverse' position to play for a reversal... especially on a range day like today.

Market Internals - as I've been showing to you - are diverging positively, arguing for the likelihood of a rally higher to form from here. The new lows ("Finger Trade") on Friday were formed on a higher low in ALL internals, suggesting strongly that it was exactly the "Finger Trade" that I described.

I suspected strongly that Friday's sudden end-of-day selloff might be a "Finger" and I'm glad I explained that in Friday's report. A "Finger" is a "rinse and wash" that breaks a known support level (or resistance) which triggers stop-losses and then price suddenly and violently reverses in the opposite direction - that's exactly what happened.

Now that the Finger has 'triggered,' we can expect a sharp upward move - which began today. The key level to watch tomorrow is $109.00 - a break above argues for a quick move at least to $109.50 (see 60min chart) and any move higher argues that we could see a retracement back to the EMA cradle at the $110 level (see daily chart).

The only concern of the day is the lighter volume that occurred on an upswing - that is a bearish omen and not a sign of bullish strength.



For now, we expect price to rally in retracement mode at least to the $109.50 or even $110.00 level (perhaps as high as $110.50). I'll keep monitoring the action each day and discuss the probability of these upper targets being hit as each day passes.

For now, odds favor higher prices in a retracement swing - so keep that bias in mind as we trade this week and watch for any further signs of weakness to eliminate this bias.

I'm showing that the confluence EMA "Cradle" exists at the 1110 level in the SP 500 (see the 20 and 50 EMAs). This is a likely target for price to rally into, but it is also a likely overhead resistance zone that buyers will have immense difficulty overcoming.

The larger target is the 1,020/1,030 highlighted zone, but it would be reasonable to expect a retracement to the 1,100 level again before achieving this lower target... and as intraday traders, we are interested in playing the day by day opportunities instead of getting too far ahead of ourselves and being blindsided by sudden moves.