Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today was more of a "V-Spike" reversal, which underscores the rarely used principle "Trends End in a Climax Move" (such as a V-Spike). Still, it's better to assume trend continuity until signals are clear that the trend has reversed. It's often better - from an edge perspective - to bet (trade) on trend continuity instead of reversal, with the knowledge that all trends must eventually end.

Remember that Friday is an Options Expiration Day, and there's a tendency that I have been noticing - the "strangeness" or volatility (unexpected moves) that are often feared (that prevent some traders from trading OpEx days) have been moving backward in the week, showing up on Tuesday & Wednesday instead of Friday. By this I mean the 'random' action that often destroys a solid technical (chart) edge (pattern) that is caused by large fund rebalancing due to the Options Expiration date is expected to occur on "OpEx" Friday. However, as many of you know, we've had some high probability patterns "busted" this week, including another failed flag today.

1. LONG UPPER SHADOW SHOOTING STAR, CONFLUENCE EMA RESISTANCE, DOWNWARD BIAS UNDER $107.00

This trade was based on the higher timeframe bias that odds favored a continuation down-move if price broke under $107.00 as I explained in last night's report. That happened shortly after a long-range shooting star candle formed at 9:00am at the $107.25 level and then the next candle broke the low of the candle and then shortly after $107.00. Entry occurred whenever you felt comfortable - either at the EMA resistance at $107.20 (aggressive) or as soon as price broke under $107.00 (conservative). The target was an impulse swing lower, which gave us plenty of long-legged dojis with which to exit.

Remember, exit signals might NOT necessarily be buy signals (or reversal signals). We usually need two or three (or more) confluences to put on a trade, but only a few to exit a trade at a known target or support level. The $106.30 level - with four lower shadow candles - provided a great exit... but the following provided a great entry for aggressive traders.

2. FOUR LOWER SHADOW CANDLES, LOWER BOLLINGER, 5-WAVE FRACTAL STRUCTURE AND POSITIVE DIVS (1MIN)

Four doji candles - or long lower shadow candles - are often not enough reason to put on a position. However, when they form at the lower Bollinger, it increases the odds, but still probably not enough to put on a counter-trend trade.

What did (at least for me) was the observable 5-wave fractal move (notice the non-labeled "Third of Third" going down) when ended at the absolute intraday low with a positive TICK and 3/10 Momentum divergence (see 1-min chart). Combined, these were reasons to get long and put a tight stop under the intraday low of $106.10 and enter either as price broke above the 20 EMA on the 1-min chart at $106.35 or above the 5-min long hammer shadow at $106.40.

This was an aggressive counter-trend move, given that price just made a new price, momentum, and TICK low, so we would want to be short-sellers of the first rally up into resistance in what would come to resemble a bear flag trade and wave 4 counter-rally to then play short for a wave 5. Unfortunately, the trade failed.

3. BEAR FLAG, IMPULSE SELL, 38.2% FIBONACCI, 20 EMA

Bear flags can form quickly after the first retracement off a new price, momentum, and TICK low rallies into overhead support - usually the 20 EMA or a Fibonacci level. In this case, we had both aligning at the $106.70 level, triggering aggressive traders short right there (with a tight stop above the level, or perhaps even as far as above $107.00 to let the structure play out without fear of being whipsawed) while conservative traders would wait for a candle signal to trigger them in - the 5-min chart actually didn't give a candle signal (no doji or shooting star) but that doesn't stop you from putting on a trade.

Price faltered a bit, trailing lower and then suddenly broke above the 20 EMA on the 5-min chart, stopping out traders with a tight stop. In the process - though admittedly I did not see this in real time (my bias got the best of me) - a weak Wyckoff Sign of Strength formed shortly after 9:30 and then definitively at 10:40 - that should have clued us in to expect higher prices and go ahead and take a stop-loss if we had not done so already.

I mentioned that aggressive traders - who often use wider stops - should have placed their stop above $107.00 which was above the 50 EMA (5-min) and also 50% Fibonacci zone.

This was a situation where nothing could have saved the position - odds strongly favored a downside resolution but it was not to be. I showed the 'efficiency grid' taking a larger than normal stop by playing with a wider target - losing almost 40 cents on the position - a rarity.

Very aggressive traders, seeing the Wyckoff Signals and the failed "It should have worked" bear flag set-up, would have immediately been given permission to flip and go long to play the popped stops of the frustrated mass of intraday traders who indeed remained short and placed their mass of stops above the 50 EMA - as you see - though I did not call it an Idealized Trade - the Popped Stops trade triggered entry just before 11:30am, allowing you to make back some of the profit you may have lost on the failed flag.

This is a lesson as well in trading probabilities, never certainties. There would never be a need for a stop loss nor position sizing if we knew exactly what would happen next. Probabilities playing out in our favor over time keep us in the game long-term.

As such, a clear "Third of Third" wave formed (see 1-min chart), giving us the expectation to buy the first pullback after the new price, momentum, and TICK high formed after 11:30.

4. TRIANGLE, WAVE 4 BUY, PULLBACK BUY, DOUBLE DOJI, IMPULSE(ISH) BUY

See the 1-min chart for the clear triangle pattern that formed, with the entry being when price broke above the upper trendline at noon. This was a likely Wave 4 (easily identified due to the power of the prior wave then counting backwards to see the first and second wave) which meant that there was a tradeable opportunity to play for a 5th wave that might materialize. Two dojis also formed on the 5-min chart... though they formed above the 20 EMA which was the expected pullback target.

The trade was exited either when price poked outside the upper Bollinger Band, or at the close of the next candle at the $107.50 level which resembled a bearish engulfing. Plus, a distinct negative divergence formed, triggering an entry.

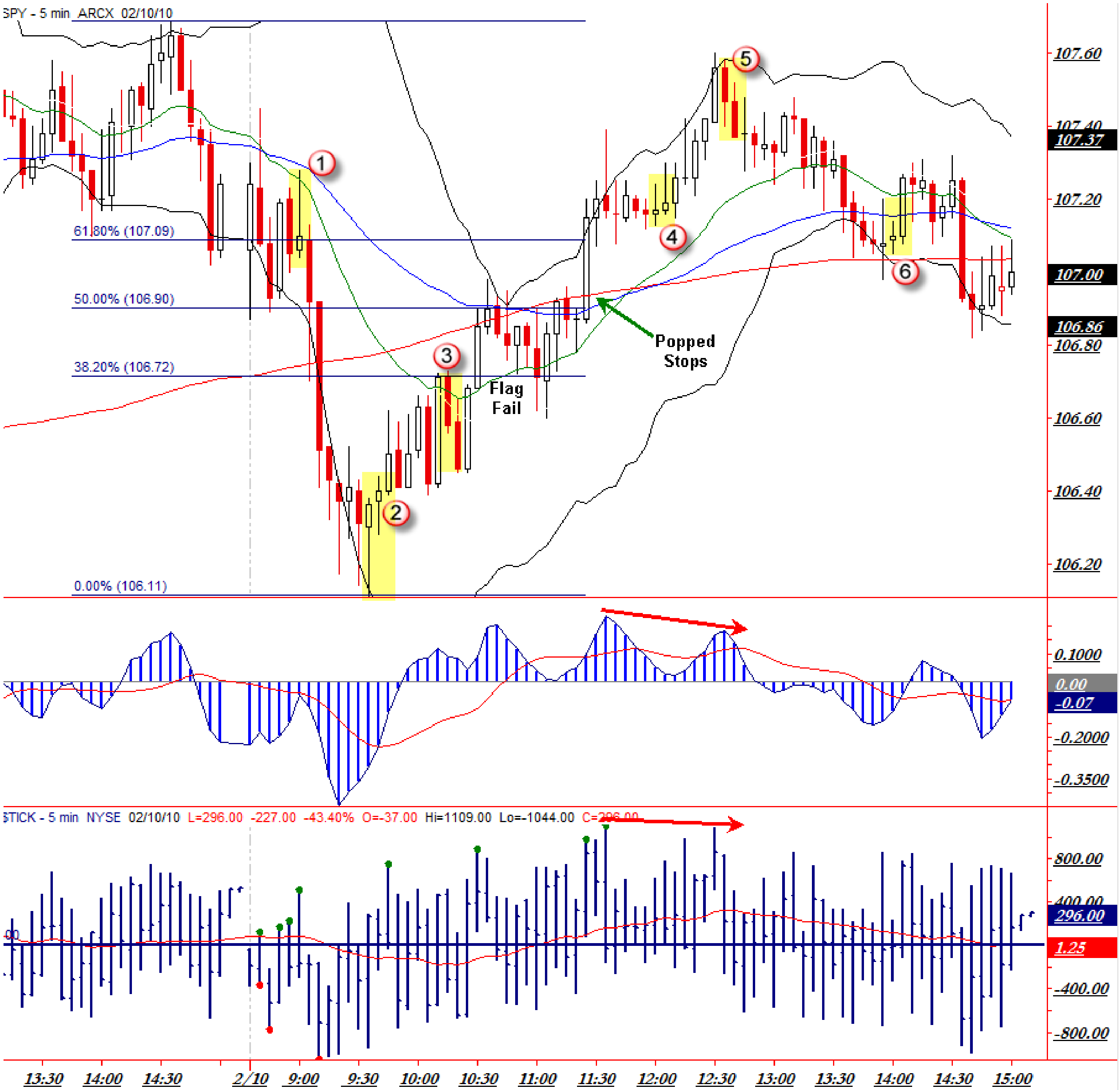
5. 5-WAVE MOVE COMPLETES, NEGATIVE DUAL DIVERGENCE, UPPER BOLLINGER BAND, 1-MIN TRENDLINE BREAK

Remember, not always do we have an exit resulting in a 'flip and reverse,' but clear 5th wave moves are the exception (when combined). In this case, we could clearly and easily count out 5 waves into the upper Bollinger Band at $107.60 on the 5-min chart, and then note a clear negative TICK and momentum divergence both on the 5-min chart and more clearly on the 1-min chart. For those who are conservative, a trendline break also occurred on the 1-min chart which triggered a late entry. Aggressive traders would have held on for a trend reversal, though conservative traders could have exited either at the 20 EMA at $107.25, 50 EMA at $107.15, or key support level at $107.00 when a small then large doji formed.

6. AGGRESSIVE SUPPORT TRADE, DUAL DOJI, KEY SUPPORT

This trade was aggressive as it was playing into a correction wave bounce (ABC) but that doesn't mean aggressive traders can't try to play for a bounce. Three dojis formed at 2:00pm CST - two small dojis spread by a long-legged doji. This all occurred at the $107.00 key support level which also was the 200 SMA, lower Bollinger, and 38.2% Fibonacci Retracement (see 1-min chart). That was enough to put on a scalp trade.

It didn't last long, nor did it return much of a profit at all, as price rallied sharply in one bar then formed two doji candles before reversing. Exit was as soon as price took out the low of the second doji at $107.20.


SPY - 5 min ARCX 02/10/10
61.80% (107.09)
50.00% (106.90)
38.20% (106.72)
0.00% (106.11)
1
2
3
4
5
6
Flag Fail
Popped Stops
107.60
107.40
107.37
107.20
107.00
106.86
106.80
106.60
106.40
106.20
0.1000
0.00
-0.07
-0.2000
-0.3500
$TICK - 5 min NYSE 02/10/10 L=296.00 -227.00 -43.40% O=-37.00 Hi=1109.00 Lo=-1044.00
800.00
400.00
296.00
1.25
-400.00
-800.00
13:30
14:00
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Today's Efficiency Chart assumes that you took an aggressive loss on Trade #2 with the stop above $107.00. If you are a conservative trader, you would have stopped out at $106.80, 20 cents lower.

Also, to alter the above chart, if you are an aggressive trader, you may have played "Popped Stops" after being stopped out above $107.00 to take advantage of others being stopped out, and thus entered a non-labeled trade from $107.00 to $107.30 or beyond which would have eliminated the loss from the prior trade.

Remember, though I label $1.16 possible (depending on what vehicle you use - be it leveraged ETFs, futures, stocks, options or just plain SPY), you'll need to tweak this grid to your own trading style - be it conservative or aggressive. The SPY charts I show serve as a benchmark for the diverse members of traders/subscribers who trade using these methods.

Notice the Elliott 5-wave fractal moves.

The most important part of intraday Elliott ONLY is finding the spike in internals on the powerful 3rd wave (the true key to using Elliott in real time) and then buying the 4th wave pullback, and then short-selling (or buying) on divergences in the 5th wave.

The chart above shows you TWO examples of this concept - momentum/TICK extremes on the 3rd wave and divergences on the 5th wave. That is all most traders need to know about intraday Elliott Wave.

While not technically a negative divergence, today saw deterioration in all market internals, and a breakout in the morning and 'throwback' to the underside of the bear flag trend channel. We should see a move lower begin here, particularly if sellers take out $107.00 again.

No major change since last night - I'm still assuming we are in a bear flag corrective structure, which means the bias is to the downside and we have overhead resistance at the $108.00 level.

This bias would be changed with a break above $108 and especially $108.50.

Until then, we would expect lower prices to come, including a retest (at a minimum) of $104.50 in the even that sellers push price under $107.00 and especially $106.00.

The 60min chart shows the bear flag (expected) formation into overhead resistance.

Volume has 'dried up' as the correction continued, which is exactly "textbook" in terms of a bear flag pattern.

The 50 EMA rests at $107.57 and served as today's high (resistance) when it came into alignment with the 50% Fibonacci (see 30min chart).

No change - the 1,043 level remains the 38.2% 'rally' retracement support while the 20 and 50 EMAs remain overhead resistance zones.

The expectation is for lower prices (see lower timeframe chart) but - as we all know - anything can happen so we must continue monitoring our bearish expectations day by day and trading signals accordingly.