Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min


C SPY - 5 min ARCX 02/23/10 L=110.09 -1.07 -0.96% O=110.86 Hi=111.20 Lo=109.52 C=109.81
1
2
3
4
a
b
c
111.50
111.00
110.50
110.19
110.00
109.79
109.70
0.1000
0.0400
-0.1000
-0.1543
-0.3000
-0.5000
$TICK - 5 min NYSE 02/23/10 L=65.00 -507.00 -88.64% O=1.00 Hi=1191.00 Lo=-1065.00 C=65.00
Wyckoff
800.00
400.00
65.00
-400.00
-800.00
14:00 14:30 2/23 9:00 9:30 10:00 10:30 11:00 11:30 12:00 12:30 13:00 13:30 14:00 14:30 15:00

Today revealed exactly why trading long (from a swing-trading standpoint) is very risky when price is overextended and forming lengthy divergences - price *will* fall, but it's just a matter of being prepared and neutral and taking short-sell signals/trades upon breaks of support/moving averages.

Massive divergence resolutions (I consider what we were having a 'massive' divergence, in momentum, volume, and breadth) occur very violently - as we saw today. The good news is that I continuously highlighted these divergences for you and you should have thus benefitted from trading today's action confidently... or at a minimum, not held long through today's violent sell-off.

For newer traders who may have gotten caught in this sell-off, it is VERY important for you to understand the ***many*** signals the market gave in advance of today's sell-off. Reference the reports of the prior few days.

1. CRADLE SELL SIGNAL, BREAK UNDER $111.00, SELL-OFF/DOWNSIDE BIAS (higher timeframes), DOJI

This was one of the best trades in recent memory, given that price was forming a Rounded Reversal 'resolution' (mirror image - I copied last night's images and showed an update for reference), had formed lengthy higher timeframe negative divergences (momentum, internals/TICK, Breadth, volume), and was grossly overextended (in terms of up-days in a row). It's one thing to see a divergence forming... it's another to execute (trade) on it.

Price gapped down in the morning, quickly rallied to fill the gap (it was possible to fill the gap... but due to the higher timeframe downside bias, most conservative traders would have passed on this quick trade). The better play was to wait to see if price formed any sort of sell signal, such as a reversal candle at the 5-min EMAs (particularly the Cradle which just formed), and any downside inflection from there - would signal an entry.

As such, a doji formed at 9:00am CST, and price broke under the low of the doji at $110.99 which triggered an entry with a stop above the intraday high at $111.20 to play for a lower target ... not necessarily the huge target/move we got, but a lower target. I had shown the "Rounded Reversal/Mirror Image" chart (replicated) which targeted a test of the $110.40 prior swing long, but price violently sliced through this level after forming a mini-doji candle where price did not take out the high of the doji.

Aggressive traders like to hold positions as long as possible, particularly those were price is moving quickly in their favor - no point in exiting just because price has moved "a lot." Price can move "a lot" more, so it's best to hold as long as possible until there is a clear buy or exit signal... such as the hammer and doji candles that formed at the 9:30 area.

The sell-off was a classic "Third of Third" that I show in these reports so much (please reference prior reports on this concept - knowing it would have allowed you to profit from the sell-off that was forecast by the momentum, price, and TICK lows of 9:30am). What occurred next would likely be a "Wave 4" rally into resistance, where the next trade was to short that rally/retracement.

2. DOJI, 20 EMA, WAVE 4, DIVERGENCES

Trade 2 actually had two opportunities for entry, as seen on the 1-min frame (and 5-min). Price formed an "abc" retracement into $110.19 with a doji forming at 10:00am, and price taking out the low of the doji at $110.12. A stop was placed/trailed above the 20 EMA, though price rallied one more time for a second or 'last chance' cleaner entry, with two doji candles at the convergence of the 20 EMA and upper Bollinger. Price broke the low of the doji at 10:30am at $110.11, and then we finally saw the sell-off for the Wave 5 expected "new price lows yet to come" which was a tradeable move. Price actually formed its own five-wave fractal decline that ended on positive TICK and momentum divergences which signaled an exit (short), but a long ONLY for aggressive traders.

Due to the nature of the day structure - a Type 3 Trend Day so far - it was a very risky move to try to buy/get long into a Type 3 down trend day. Not saying it can't be done, you could have scalped out some profits, but usually price forms a large volatility move in the morning and then consolidates or perhaps chops around into the close.

The one thing I say that a trader should NEVER do is to try to buy on a Type 3 trend day when TICK is making new lows. In this case, TICK was forming price divergences, so a more 'neutral' stance should have been taken, and a long/buy position put on by only the most aggressive traders while price remained under the 50 EMA.

As such, the next trade was still a short-sale, betting on a Trend Day Continuation, at the next 'abc' rally.

3. ABC RALLY INTO 20 EMA, BEARISH ENGULFING

It was possible that price was forming a "Rounded Reversal" at this time, and we did see a New TICK high - which is a classic "Wyckoff Sign of Strength" at 12:30, so this threw the 'type of day structure' into a bit of chaos. On one hand, we had a violent sell-off and Trend Day down, but on the other, we had lengthy dual divergences and then a Wyckoff Sign of Strength. Wyckoff signals are often precursors of Rounded Reversals, the 'enemy' of Trend Days.

So, you could have certainly passed on taking this short-sale trade, which was an 'abc' rally that slightly broke the 20 EMA and formed a bearish engulfing pattern, triggering entry at $109.82 to target a retest of the prior low at $109.60. Price actually moved to a slight new low at the lower Bollinger Band on a hammer candle, triggering an exit and now a safer - but still risky - entry for long/buy aggressive traders.

4. LENGTHY DIVERGENCES, BOLLINGER BAND, HAMMER, BREAK ABOVE 50 EMA

This trade also had two entries, one for aggressive traders and the other for conservative traders willing to bet 'against' a trend day. The first entry - aggressive - was as price broke the high of the hammer candle off the lower Bollinger Band at $109.70 (with a stop under the intraday low at $109.52). This targeted the 50 EMA (remember, with such lengthy divergences, we can often play for a larger target than a retest to the 20 EMA on the 5-min chart).

The second - late or conservative entry was as price broke above the 20 EMA at $109.80 (to play for the 50 EMA), but it was perhaps a safer conservative bet to wait for price to break above the 50 EMA at the $110.00 level. I labeled this 'trade' in the Efficiency Chart below.

Unfortunately, price did NOT complete a full rounded reversal and higher close as expected, which serves to underscore my point about the risk of trying to fight a prevailing trend day.

Price signaled an exit with a trendline break on the 1-min chart along with a dual TICK and momentum divergence that you should have exited any long position at the formation of this development at 2:30 CST.

Price closed near the lows of the session, locking in the official "Type III Trend Day Down" structure and reminding us of the power of the trend continuity principle.

Taking the morning short from the Cradle, then taking the second "doji EMA pullback," shorting the bearish engulfing breakdown under the 20 EMA, then trying to get long into the close but 'scratching out' at break-even.

This assumes a moderate trading aggression level (waiting for confirmation). Aggressive traders could expect to profit more; conservative traders might expect to profit less.

Chart & Commentary from Monday's Report:

"Remember, you will have an advantage over other traders who do NOT look at the concept of "Market Structure" or "Market Character." The Rounded Reversal pattern is such a characteristic or structural component as seen above that will help guide your trading decisions, particularly as we trade intraday within the boundaries of the pattern, and now shorting once the pattern is broken. A "mirror image" (which would mean a sharp price decline) could occur if the pattern is to complete totally (which would look like a sagging bridge or the letter "M")."

And now today's resolution of the Mirror Image "Structure" pattern:

Today's action shows the importance of rising above 'indicators' and taking into account 'structure' or character.

This is a great example of a "Mirror Image" Rounded Reversal Pattern exceeding its target.

The market found tentative support at the 38.2% Fibonacci retracement area as shown above, as the EMAs crossed bearishly, forming a "Cradle Crossover" of overhead resistance. Any move that breaks the Cradle at $110.50 would shock the sellers, sending price unexpectedly higher.

Otherwise, short aggressively if price breaks under $109.50.

This shows why it's important to wait for a signal to short, such as a key break under the 20 EMA on the hourly chart, which occurred within the first bar (which had a mini-bounce spinning top). Once price broke the 20 EMA, this was your signal to enter short to play (target) at least the 50 EMA... though price exceeded that target.

It's key to understand that the longer a negative divergence situation occurs, the more violent will be the resolution (to the downside) as shown above. It's risky to be long because the drop could occur at any time, but also risky to be short (perhaps being stopped out) unless you see a clear, clean break of trendlines or EMAs as above.

Now, let's see if the $110.00 resistance level holds, and if so, then play for a retest of $109.0 or $108.00 if not a full move down to $107.50 in the next week.

Be nimble and ready to play 'popped stops' (today drew in a lot of short-sellers) on any move higher than $110.25 here, though odds favor downside resolution.

This is the expected move after having hovered in "thin air" for the last three days - a sudden, sharp, violent sell-off.

For now, price rests on the 20 day EMA at 1,094, so be prepared for a potential bounce off that level, but if not, continue shorting aggressively, as this would be a key level that - once broken - should trigger further selling.

Volume slightly rose on today's down-day, but not enough to be significant.

The key level now is 1,090 for a "will it hold?" play, and aggressive shorting (intraday if not swing trading) underneath.