Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today's Type III Trend Day holds one of the most valuable lessons you can ever learn and I can sum it up as such:

1. Trends Have Greater Odds of Continuation than of Reversing - and Trend Days offer easy opportunities
2. Short ANY and EVERY pullback to the 20 EMA - especially if doji/reversal candles form
3. UNDER NO CIRCUMSTANCES should you seek to trade long - except for a very small scalp - while price remains under the 50 EMA on the 5-min chart - it really is the "Line in the Sand" that traders watch.
4. Even though today "looked like" a Rounded Reversal with divergences, Odds still favor Trend Continuation to the downside as long as price remains under the 50 EMA.

Remember, sometimes there is no trade. And - for most people (not being very aggressive traders), the play is to STAND ASIDE if you start to see bullish signs on a trend day and refrain from shorting... and NOT initiate new buying UNTIL price rises above the Line in the Sand and confirms a reversal.

It would have saved a lot of money, even if you chose not to short at trade #5.

Though it is human nature to fight a trend, you should make it your affirmation to trade ONLY in the direction of the trend on a suspected Trend Day.

That summarizes today's lesson.

1. BREAKDOWN TRADE

This was another example where price has broken solidly lower and the only entry is a market order short as soon as possible - in the best moves, there is no safe/easy entry (such as a pullback). Either you enter short on a breakout down and short new lows (which is an aggressive technique) or you stand aside if your strategy - as most people's do - calls for shorting retracements instead of trading in sharp momentum moves. Here is where higher timeframe structures and biases come into focus.

Price moved so quickly, losing $1.00 AFTER a $1.00 gap occurred by the first 30 minutes. Again, if you are new and feel uncomfortable, it is perfectly fine to stand aside if you feel you are chasing a market. Otherwise, aggressive traders shorted and stayed short for as long as possible, perhaps until price formed a single bounce candle at $108.00 (only to make new lows) or a series of doji candles at 9:30.

THESE DOJI CANDLES WERE NOT BUY SIGNALS. You were to wait to short for your next trade, which could have occurred at different times.

2. TREND DAY RETRACEMENT TRADE

Much like the first entry - there was no specific entry (or at least no 'easy' entry). Entries included the $107.70 doji at 10:15 or the bearish (almost) engulfing at $107.60 at 10:35 (breaking the candle low). Price fell to test the $107.00 level which was a logical exit, given that a hammer candle formed there (again NOT a buy signal).

Price formed a new TICK low (ignore momentum) which led you to believe lower prices were yet to come, thus shorting the next rally.

3. TREND DAY RALLY, DOJI, NEW TICK LOW RETRACEMENT

Similar to Trade #2, there was no clean entry which begs the question:

"How do I trade on a Trend Day?"

The simple answer is to know how principles create trades, such as "Trend Continuity" and "Momentum Precedes Price," meaning you will be looking to execute short on rallies in a trend into resistance... but in strong trending environments, nice (clean) retracements don't occur.

Execution tactics include the break beneath a doji or other reversal candle for confirmation, or entering at the 20 EMA (or trendline or structure on the 1-min chart). In fact, it's usually best to drop to the 1-min chart to short pullbacks - which makes you a more active traders (executing more than 5 trades a day) but minimizing your risk and giving clean entries.

See the 1-min chart for each red arrow drawn.

The goal is to Scalp on a Trend Day (put on larger than normal positions with tighter than normal stops) to profit from the "river of opportunities" as price makes its way to new lows via retracements and swings. Trade 3 was also best exited at the $107.00 level and entered in the $107.40 zone.

Trade #4 was 'iffy' because of the TICK divergences.

4. PULLBACK SCALP, DOJI AT 20 EMA

Trade 4 was entered and exited in one bar (5-min), or if you held on beyond that one sell-off bar to see if price would continue lower. The new low formed another higher TICK low, setting up a 'positive divergence' situation and a "rounded reversal" style pattern.

I know I'll get questions about this, but I did want to mention that - while not particularly 'safe,' you certainly could have put on a buy trade due to the multiple doji candles at the lower Bollinger Band at the $107.00 "critical" line in the sand support. This was an aggressive position, and remember the profile of an aggressive trader:

They enter AT support zones BEFORE a move has been confirmed so as to benefit from a very tight stop (just under $107.00) and entering at the most favorable point for a likely reversal. They tend to be stopped out much more than conservative traders (who WAIT for price to confirm a reversal by breaking above reversal candles such as doji or hammers). The profile is that aggressive traders take more trades, have lower accuracy rates, but over time, make more money than conservative traders and this is an example of why. A conservative trader would have passed on a buy trade while price was under the 20 and 50 EMA, despite the divergences. Still, the trade rallied to the upper Bollinger, worth about 50 cents.

5. LINE IN THE SAND, BOLLINGER BAND, 50 EMA, BEARISH ENGULFING, BREAK OF 20 EMA

Price formed a Wyckoff Sign of Strength (new TICK high) and the structure was setting up to form a Rounded Reversal. However, Rounded Reversal days are ONLY confirmed with a price break (and usually two bar close) above the 50 EMA (5-min). Until this happens, odds of calling the right trade (whether we break out or not) becomes random - roughly 50% - which does not generate an edge. It's generally best to avoid trading when you don't have an edge, which usually is the case when a market is in transition mode.

We can't know for sure which way price is going to break because we can never accurately assess the positions, moods, emotions, and needs of all traders in aggregate - it's impossible. What we can know is that IF price broke above the 50 EMA, then those who were shorting would be forced to cover which would also attract new buyers trying to call a bottom. Until that occurred - a violation of a line in the sand - odds favored a continuation of the trend day... if even by a 51% to 49% margin. Thus entering short at the $107.50 level was risky, but offered a very tight stop if correct - above $107.60.

As such, price formed a bearish engulfing, then broke the 20 EMA triggering a safe entry at $107.25 for all traders to play for a new low... and/or a continuation move down due to all the traders who bought during the rally and are now stopping out.

Keep in mind that - for the most part - trend days are perpetuated by a larger fund (called a "Higher Timeframe Player") liquidating (or buying) positions all day long, and the combined pressure often 'overrules' intraday traders trying to fight the trend. Perversely, the trend day is also perpetuated by the intraday traders who buy, thinking they've caught the bottom, and then panic to sell their position at a loss.

Price plunged into the close, making this a perfect example of a crystal-clear Type III Trend Day.

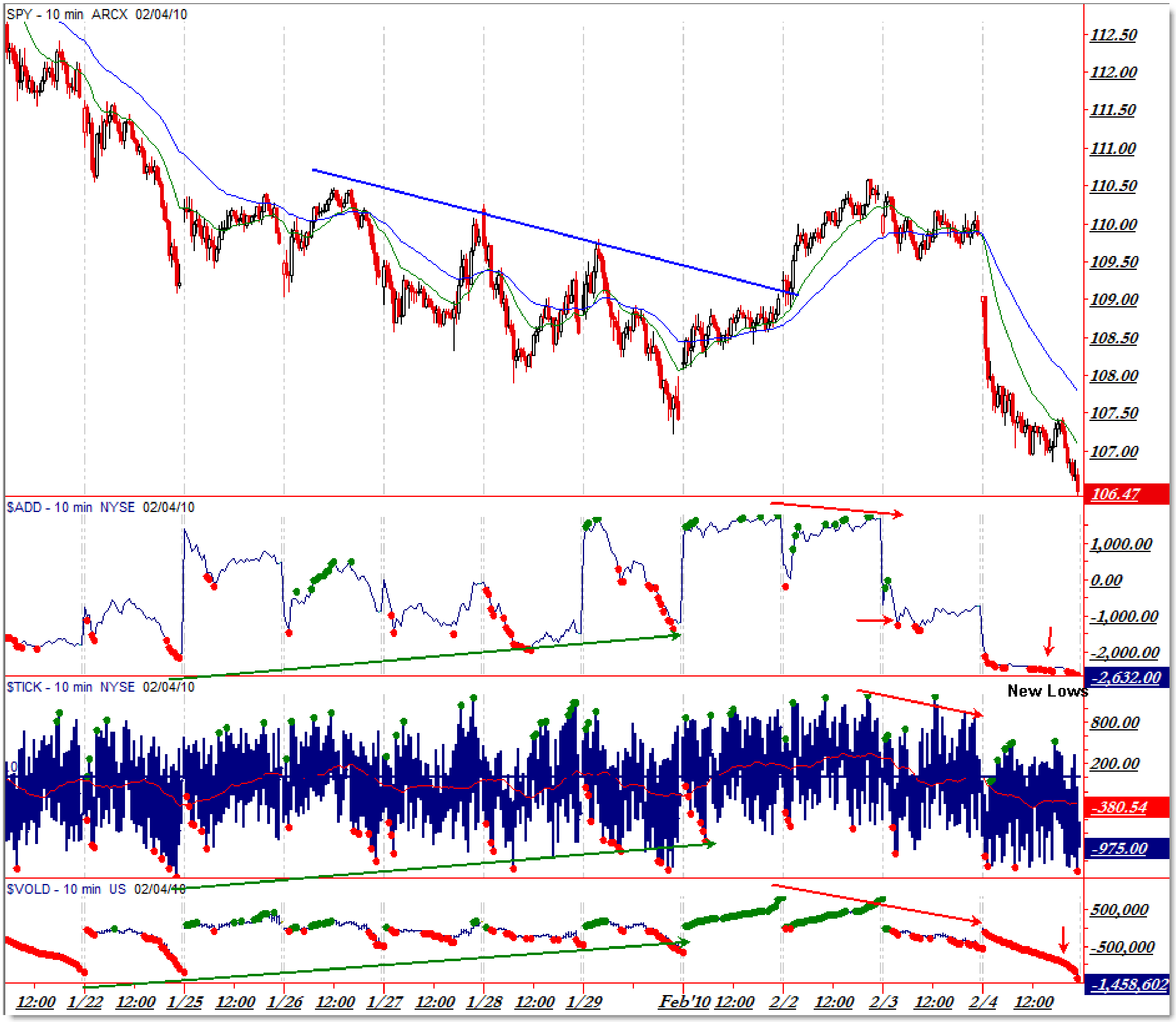
(Price opens with a large gap and falls to close at the lows of the day, with price NEVER breaking above the 50 EMA at any time).


SPY - 5 min ARCX 02/04/10 L=106.62 -3.21 -2.92% O=108.98 Hi=109.03 Lo=106.42 C=106.44
1
2
3
4
5
110.00
109.50
109.00
108.50
108.00
107.57
107.00
106.47
0.00
-0.16
-0.40
-0.60
-0.80
IGNORE 3/10 Divergences - FALSE on Trend Days
$TICK - 5 min NYSE 02/04/10 L=-975.00 -789.00 424.19% O=-46.00 Hi=533.00 Lo=-1332.00 C=-975.00
Wyckoff...
Failed
600.00
200.00
-200.00
-424.84
-600.00
-975.00
Divergences
2/4
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

If you suspect that odds favor a Trend Day, you can employ more aggressive techniques (using larger positions with tighter stops at the 20 EMA and smaller targets such as the lower Bollinger or new swing low) to collect more profits from an easy-to-trade day structure (Type III Trend Day). You can also put on a Core position, meaning establish a short-sell as early as you feel odds favor a Trend Day and then hold that position until price breaks above the 50 EMA (breaking the line in the sand) or at the close.

Using the 'ideal trades' in a moderate aggression level, almost $3.00 was possible in trading activity today. Newer traders should set their "Efficiency Goal" to achieve at least half of that level each day.

The main point of this chart is to show the "Neutral Zone" (or as some members call, "No-Man's-Land") at 1:30 CST as being a critical turning point in the structure. A Wyckoff Sign of Strength signal had triggered - a bullish sign - but price remained under the 50 period EMA (5-min chart). While price was between these levels on the 5-min chart (20 and 50 EMA), it was best to take on a neutral position (no trade at all) unless you are an aggressive trader. The power of the Trend Day invalidated the Wyckoff Sign of Strength and multi-swing divergences and closed sharply lower, washing out all the new longs that bought in No-Man's Land (trying to call a bottom).



After forming internal divergences into the February 2nd highs of $110.50, price fell as forecast and now internals have all made new lows (except for TICK, whose low was on January 22nd). This forecasts lower prices ahead and a deterioration of the condition of the market.

I was correct in referring to the rally in early February as "Corrective" (or counter-trend) and we are now seeing "Pro-Trend" moves (impulses) to the downside - as long as that continues, the odds strongly favor lower prices ahead with price rallying in correction mode and falling in impulsive mode (for those who follow Elliott Wave).

Today was a big day - officially (classically), we broke the key "Line in the Sand" support at the $107.50 and $107.00 level. While we're under that, odds favor lower prices due to the "Open Air" pocket under price here (plus the rise in volume and momentum to the downside).

The next support level lies at the $104.00 area, and it is possible to see a sharp sell-off to get there.

Odds favor a positive feedback environment, where sellers/bears are shorting (driving price lower) and buyers/bulls are stopping out (or selling with profit from positions established months ago). Unless we see any sort of strong rally and new highs in breadth any time soon, then the over-arching bias will be a move down to $104.00.

This is a quick Elliott potential count, showing the rally in February as an "ABC" move into the 38.2% retracement, with us embarking now on a third wave down. The gap and sharp sell-off this morning confirms the structure as a 'third of third,' or the 'heart' (midpoint) of the completed 5-wave pattern down IF this count is correct.

Again, with no support levels under us, and resistance levels above, it's very likely that the trend has changed to the downside.

Bloomberg Reports the Following for tomorrow's Jobs Report:

	Prior	Consensus	Consensus Range
Nonfarm Payrolls - M/M change	-85,000	0	-40,000 to 75,000
Unemployment Rate - Level	10.0 %	10.1 %	9.9 % to 10.2 %

There's little to say now that critical levels are broken - no need to hedge.

The only bullish argument that can be made is that Friday morning's Jobs Report will come out better than expected (no one can predict what the numbers will be, nor what the market's reaction will be) and as such, buyers will rush back on good news to support price here. That's a possibility, but barring any better-than-expected Jobs Report, it's likely that price will drop to the next confluence support level at the 1,040/1,030 level as shown above.

For those keeping track, the "Cradle" officially triggered (unlike in July) with the 20 day EMA crossing under the 50 EMA - a further confirmation that odds favor lower prices ahead.

Again, barring a phenomenal Jobs Report tomorrow (which can happen), the momentum, volume, and EMA structure signals that lower prices are favored here.