Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

I felt today was a stable, somewhat enjoyable trading session, given that price and structure followed a steady script without many nasty whipsaws. Today also held valuable lessons in terms of Elliott Wave and Fibonacci, so let's get started with today's lessons!

On a membership announcement, be sure to check out the new "Research" section of the Premium Site:

http://premium.afraidtotrade.com/research

where you can find the newly published "2009 Gap-Fade Research" article and future research posts I will publish.

1. FLAG-STYLE PULLBACK, WAVE 4 PULLBACK, 20 EMA, BULLISH POWER CANDLE, DAILY PIVOT

I wrote in Friday's report (chart republished here) how I felt we were in a 4th wave structure as evidenced by the 3rd of 3rd concept in Friday's power move into the close, and thus anticipated higher prices yet to come on Monday. We got those higher prices as expected into a near-perfect 5-wave fractal structure which I completed today.

Having this bias in mind, you should have been looking for opportunities to get long, which trades 1 and 2 gave you in almost identical logic - both being pullbacks to the rising 20 period EMA.

The aggressive entry was triggered as soon as price tested the $106.10 level prior to the power candle, though the power candle completion and then break above the 1-min trendline gave conservative traders all the evidence they needed to play for a retest of the morning swing high at the $106.60 level. An aggressive trader would have held on as long as possible, exiting only when a confirmed signal was given. The doji at the $106.95 area at the upper Bollinger Band was enough evidence to suspect a pullback (given that the negative momentum and TICK - from yesterday) divergence was in play at 9:15). Price retraced back to the 20 EMA in a flag-like fashion with a nice trendline on the 1-min chart, giving the second set-up. The stop on the first trade was under the 50 EMA at $106.00, though a conservative stop-loss would be placed under the 20 EMA after entry.

2. BULL FLAG, RETRACEMENT, BULLISH ENGULFING, RISING TREND PULLBACK

Price retraced back to the $106.50 area, giving another chance for a potential entry during a pullback in an established uptrend. There was a long-legged doji at 9:30 that was puzzling and volatile, but price did form two more candles into the 20 EMA before forming a bullish engulfing candle, giving conservative traders the confidence they needed to put on a trade with a break of the high of the candle at $106.75. Using the price projection tool, we got a target near $107.30, which would have been reason to exit on a test of this level. A conservative trader might have decided to exit at any weakness (there was none) at the $107.00 overhead 'pure price' resistance level.

It turns out that the $107.30 level was also a Fibonacci Confluence Resistance level as seen below, giving us our third - aggressive -trade.

3. CONFLUENCE RESISTANCE/FIBONACCI, DOJI, NEGATIVE DIVERGENCE

This was an aggressive 'counter-trend' (on the 5-min chart) style trade, but the convergences (Elliott Wave + Fibonacci + Doji + Negative Divergences) were enough to warrant at least a 'scalp' trade here, if not a full reversal (which was effective). You should have exited any long trade (swing or otherwise) at this level at a minimum.

See the Fibonacci Grid along with the Elliott Wave grid for a closer inspection of this set-up.

The main idea was that price had completed a Bull Flag target at the $107.30 level which also reflected an overhead Fibonacci confluence grid (or single area, if you did not locate the confluence). A 5-wave clear count terminated at this zone, which began with Friday's lows.

To top it all off, a clear doji formed at 10:15am which became an execution signal at the overhead zone, either at the zone (aggressive) or on a break below the doji (conservative) at $107.10. The stop would be placed above $107.35 or $107.40.

Price swung back up one more time to peak with a spinning top (doji-like) at $107.29 at 10:50 before collapsing and marking the high tick of the session. An aggressive player would have held short here, keeping the higher timeframe (30min and 60min) downtrend (in that this was simply a counter-trend retracement into resistance) and held for a larger downside target (perhaps as a swing trading tactic). A conservative intraday trader might have exited at a test of the 20 or 50 EMA on the 5-min chart.

The divergences and deteriorating structure would have (should have) prevented an aggressive buy trade at the rising 20 EMA at 11:00am, given that price fell slightly through this level as well.

You should have adopted a neutral stance, looking for any sign of strength... or weakness (evidence of a continued deterioration in structure). That came for aggressive traders at trade 4, while conservative traders may have preferred to wait on the sidelines.

4. BEAR FLAG RETRACEMENT, 20 EMA BREAK, 1-min MINI-DIVERGENCE & FIVE-WAVE FRACTAL

This was not a high-confluence trade, at 11:45 when price solidly (strong candle) broke the rising 20 EMA and ended a 5-wave mini-fractal on the 1-min chart, complete with negative momentum divergence. The best entry came as price solidly broke under $107.00 to play for - at a minimum - a scalp back to the rising 50 EMA at $106.75. Price actually fell sharply through that level in a swing that took on the characteristics (new TICK, momentum, and impulse low) of some sort of larger 3rd wave fractal... making us set the next trade up as a "sell the rally."

A Wyckoff Sign of Weakness formed at 12:15 as highlighted.

5. WYCKOFF PULLBACK, FLAG, SLIGHT BREACH OF 20EMA

Generally, we want to short-sell pullbacks to the 20 EMA after new price/TICK/momentum lows. This happened right on schedule/as anticipated, and price gave us another nice 5-wave fractal move (complete with negative momentum and TICK divergence (look closely)). The price broke gently above the confluence of the 20 and 50 EMA at $106.75 - testing our patience - but eventually did move lower. This is a nod to conservative traders who wait for price to break lower timeframe trendlines before entering. Price fell to retest the $106.45 low - a conservative exit - then rallied back to the 20 and 50 EMA giving a late entry if need be at 2:00pm.

The final trade of the day (#6) was a simple retracement in a newly confirmed downtrend if you chose to short into the close.

Notice the 5-wave fractal move that built the high price + doji at 10:30am.

Again, the 1-min chart was very useful for showing retracement/trendline breaks as confirmed by structure on the 5-min chart.

Notice the divergences in both TICK and momentum (you often have to look closely). These signal entries into a trade set-up on the higher timeframe.

The Elliott Count I published in Friday's report, highlighting the "Third of Third" concept.

The resolution of the Wave Count, showing the expected final 5th wave emerging after the 4th wave consolidation (where we were at the end of Friday) and complete count.

Don't get so caught up in the precise wave counts, as you do answering the following questions:

"Was that a 3rd of a 3rd?"
"Was that a 5th wave with a divergence?"
"Are we in corrective mode (3-waves) or impulsive mode (5-waves)?"

Starting with Friday's low, we drew Fibonacci Retracement grids from the prior swing highs as shown to arrive at the following retracement grid with the $106.80 and $107.40 level as two levels of confluence resistance.

The intraday price high coincided with the 5-min Bull Flag projection Target and the confluence grid as shown above.

There's really no need to overcomplicate the higher timeframe charts tonight.

Price retraced as expected into overhead resistance, keeping the downtrend alive, finding a convergence of 30min and 60min moving averages too much for buyers to overcome.

Simple logic tells us to expect sellers to continue pushing prices to test $104.50 or lower.

Again, no amount of description can clarify the message of the chart:

Odds favor a retest of the prior lows of $104.50 over the next few sessions unless an unexpected news event or report throws the balance back to the buyers.

This view would be invalidated (stop-loss) with any move back above $107.00 before $105.00 or $104.00 is hit next.

We still see odds favoring a retest of the 1,040/1,020 level, barring anything newsworthy that is unexpected.

Price is moving in an impulsive fashion lower, and is thus expected to continue the impulse until requisite lower support levels are tested.