Daily "Idealized Trades" Report


C SPY - 5 min ARCX 03/24/10 L=116.90 -0.51 -0.43% O=116.97 Hi=117.43 Lo=116.60 C=116.84
1
2
3
4
117.50
117.40
117.30
117.20
117.10
117.00
116.90
116.82
116.73
116.70
0.2000
0.1000
0.0151
-0.0413
-0.1000
-0.2000
$TICK - 5 min NYSE 03/24/10 L=-272 32 -10.53% O=2 Hi=871 Lo=-1109 C=-272
800
400
0
-88
-272
-800
3/24
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

I have a few additional 'bonus charts' to share today, so let's get right into the lessons from today's Ideal Trades and how you could have traded/learned from them.

1. GAP FADE

In general, we want to 'fade' gaps less than 50 cents under most circumstances. Today's gap down was just under 50 cents, making it a fadeable gap, but we often need to wait for some sort of confirmation from price before jumping in to fill the gap (most traders feel). This came today with the 20-min bar (4th 5-min bar) breaking the spike highs, and the high of the prior spinning top candle, triggering entry about the $117.10 level with a stop 10 cents or so under the intraday low of $116.95 to play for a retest of $117.40. This is a good example for two reasons:

1. While it may seem uncomfortable to use wider stops, sometimes they are more effective than tight stops.

Immediately after entry, price spent the next three bars falling, threatening your stop. If you put your stop one penny under the intraday low of $116.90, you were stopped out. If you placed your stop at least 10 cents (1 @ES Point) under the low, then you remained in the trade and survived a "rinse and wash" moment, as the spike low (long lower shadow) was $116.87. Don't beat yourself up if you got stopped out - realize that stop-loss placement is subjective, meaning if you place stops further away, you will tend to have a higher accuracy rate (surviving 'rise/washes') but the average losing trade will be larger, while if you use tight stops, you will often have a lower accuracy rate (falling victim to traps and 'rinse/washes') but have a lower average losing trade. It's up to you which course you take.

2. Active Trade management is key.

In this case, we did not get a full retracement as expected, but experienced four long upper shadow candles at the $117.30 level (10 cents from our target) as well as negative divergences. Realizing that these were unfavorable developments and sell signals, you should have captured your profits whenever possible instead of holding on long stubbornly for a full retest. Again, this is a trade-off.

In the efficiency chart, I label this as a 'scratch' trade.

2. DUAL DIVERGENCES, TRENDLINE BREAKDOWN, 50 EMA BREAKDOWN, DOJIS

Given that the gap fade had/was failing, the next trade was a downside retracement with entry after the doji candles had formed (5-min) from the 9:30 to 10:00 frame, but particularly when price broke under the 50 EMA and key $117.00 support level - that was perhaps the best entry (unless you were aggressive and shorted after a break below a prior doji). Price sliced solidly through the lower Bollinger Band, coming to a halt with two candles with lower shadows - and an almost bullish engulfing - at 10:30, which triggered your exit at the $116.82 level (if you did not exit at the bounce off the 200 SMA or higher timeframe moving average as shown below).

Given that this was a deep retracement and price was extended from the 20/50 EMA, it was logical - but still aggressive - to trade for a retest of the EMAs at the $117.00 level.

3. COUNTER-SCALP, RETRACEMENT TO EMAS

This was a quick trade, going long after the high of the dojis or engulfing at the 10:30 frame was taken out, about the $116.85 level to play for a conservative target of $117.00 or beyond that to the upper Bollinger (aggressive). Price sliced solidly through the EMAs, leading you to believe that we could hit the upper Bollinger target. Price formed a shooting star but did not break the low of the candle at 11:15, so this was not an exit. The upper Bollinger was hit as a shooting star candle formed, signaling exit and potential 'flip and reverse.'

4. FLIP AND REVERSE, SHOOTING STAR, UPPER BOLLINGER, DIVERGENCES, TRENDLINE BREAK

This was perhaps the best trade of the day, given the reversal candles forming at the upper Bollinger (5-min) which was the end of a 5-wave Elliott Fractal (see 1-min chart) which resulted in a trendline break (entry) at $117.15 to play for a retest of the lows or bottom Bollinger Band (range day bias) at $116.75, with a stop above the high at $117.30.

This trade played out brilliantly, and for those of you who have a keen eye for the "AB=CD" Measured Move pattern, this was a perfect example with price reaching the exact measured move of the prior impulse (see chart) for an exit signal... and even flip and reverse for those so inclined.

Though not labeled an "Idealized Trade" specifically, the spike to new intraday lows that was met with a positive momentum and lengthy TICK divergence at 1:00 CST was a trade set-up, given the bullish candle with lower shadow that formed off the 5-min lower Bollinger at $116.60.

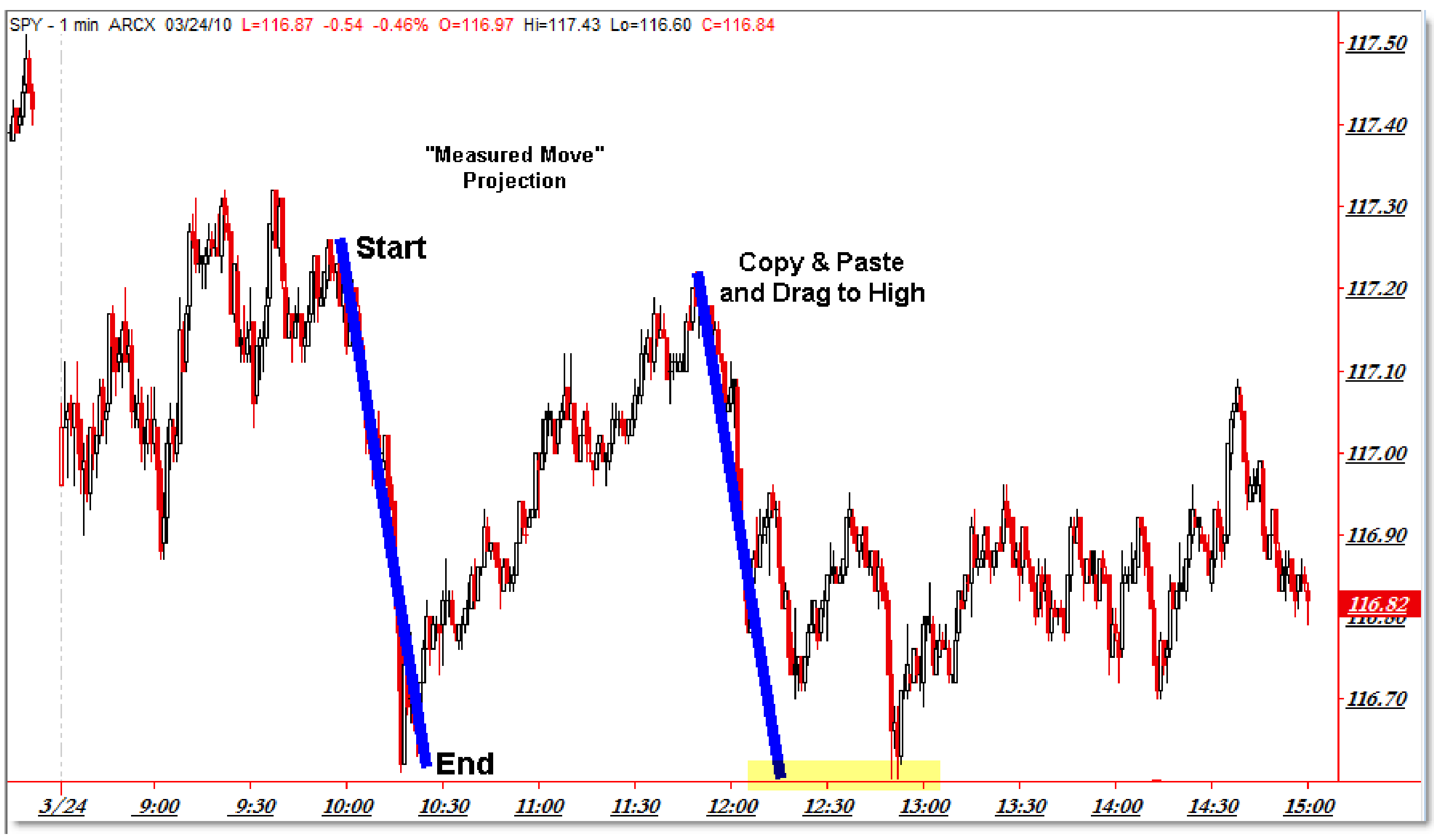
Price consolidated into the close with few if any good trade set-ups.

Depending on how you managed the first gap-fade trade (I label it as a scratch), roughly $0.80 was possible today from a moderate risk-tolerance level with 3 wins and 1 loss/scratch.

Chart showing the dominant Fibonacci grid for the day (from yesterday's closing high to the 10:15am low) along with the standard "Floor Trader" pivot points (which sometimes have significance, and other days have no significance at all).

These are added techniques you can use to find confluences of support or resistance, or trades to take as reversal candles form at one of these levels.

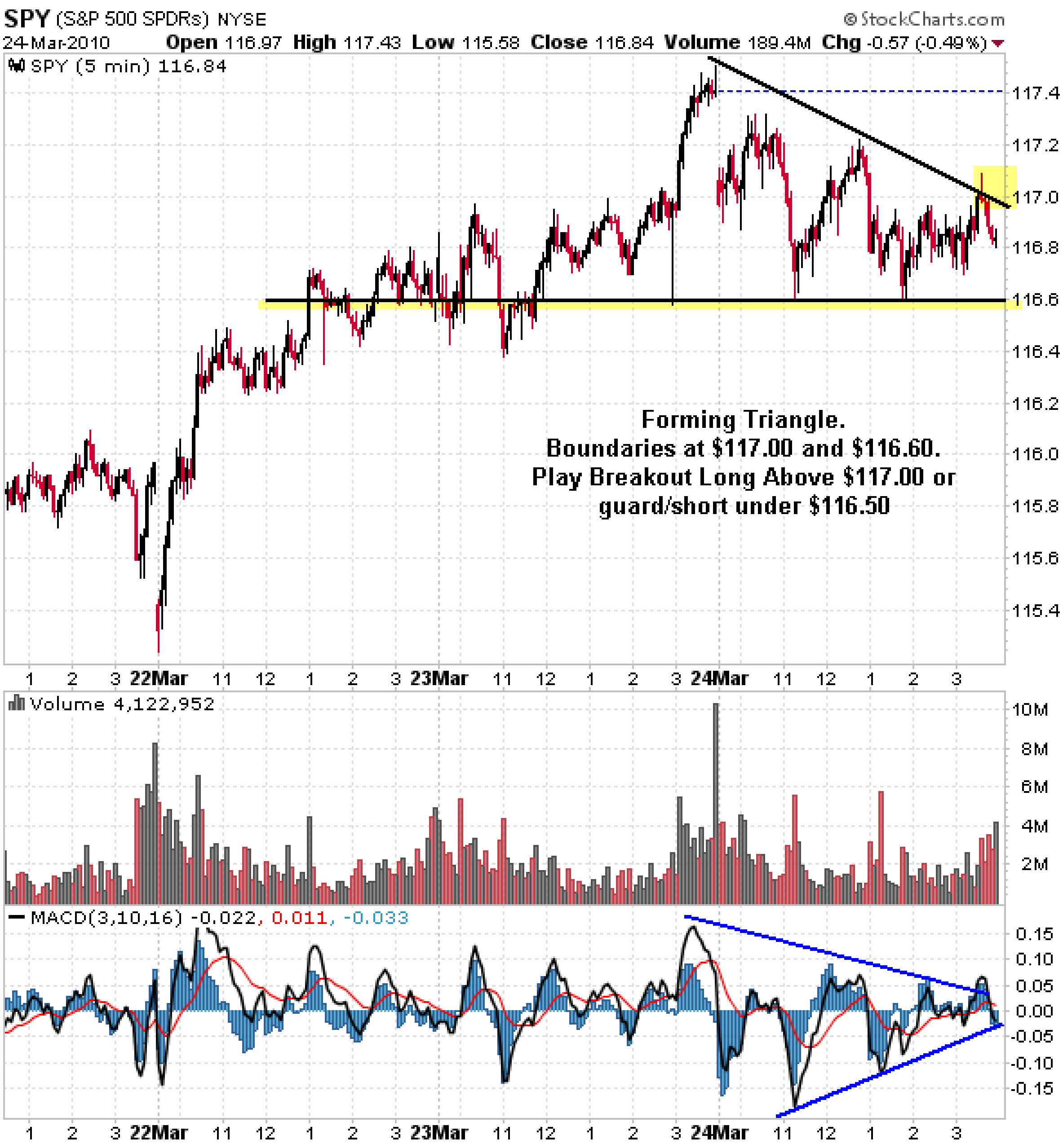
Showing a dominant 'full-day' trendline and the reactions on both sides of the trendline. Can be helpful some days.



Showing another example of the "Measured Move" or AB=CD pattern.

It's like a bear or bull flag, where you use the initial impulse to project a final low (target) from the high of the "flag" or retracement.

Today's example worked perfectly, with the final low occurring at the projection (in this case, a "copy/past" of the prior impulse). Price rallied off the low.



Thanks to a member who pointed out the descending triangle pattern forming today.

I prefer to look at triangles as consolidation patterns which often set-up breakout plays, and don't inherently view them as bullish or bearish triangles.

Prepare for a potential range expansion move once price ejects (breaks) from the apex (convergence of the trendlines) of the triangle. Until then, we could see a bit more consolidation between $116.60 and $117.00 as price moves toward the apex (the trendlines converge).

The 'height' or price projection of the triangle would be roughly $1.00, which would target $118.00 on an upside break or $115.60 on a downside break. Notice that $115.60 would be a logical downside target, as it is near a prior swing low.

Notice that today's triangle pattern - or consolidation - formed its lower trendline at the 50 EMA on the 30-min chart as well as the 20 EMA on the 60-min chart.

This makes $116.60 a confluence and multi-timeframe support level... so expect it to hold as support, but should price break beneath $116.50, it would hit 'open air' (no support) on the 30-min frame and would target $116.25 (50 EMA) on the 60-min frame.

Watch tomorrow's action very closely for a resolution of the compressing triangle.

Price formed a higher high yesterday on a slight negative momentum divergence (same on the 30-min frame) so keep that in mind as a bearish non-confirmation... but also keep in mind that other such negative divergences have been 'ignored' by the market in the non-stop rally.

For now, the play remains unchanged:

"Buy Long" while still in this uptrend and price is above $115.50 or "stay out/sidelined" if you can't bring yourself to buy at the highs.

Do not short for anything other than an intraday trade while above $116.00 (unless you are an aggressive trader willing to accept a stop-loss if price rises back above $117.50). Play popped stops above $117.50.

I mentioned yesterday that 1,175 is "hidden" resistance (namely a Gann target) so we'd need to see the market rise back above 1,175 to get comfortably bullish again, but we can't short until price breaks under the trendline as drawn above, so that puts us back to the intraday timeframes instead of trying to swing trade this while we're under 1,175. Swing trade long above 1,175 to target 1,225, but until then, if not in a position already, maintain a neutral bias until we see price under 1,160 or above 1,175.