Daily "Idealized Trades" Report

S&P 500 ETF: SPY


SPY - 1 min ARCX 07/06/10 L=103.08 0.88 0.86% O=103.64 Hi=104.37 Lo=101.88 C=103.01
1
2
3
4
5
104.20
104.00
103.80
103.60
103.40
103.20
103.00
102.87
102.80
102.60
102.40
102.20
102.00
0.2097
0.1000
0.0489
0.0000
-0.1000
-0.2000
$TICK - 1 min NYSE 07/06/10 L=-113 16 -12.40% O=-579 Hi=994 Lo=-1383 C=-113
Wyckoff
1,000
600
200
-113
-600
-1,000
7/6
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 was one of those volatile, dizzying days that kept you on your toes all day long. The action is reminiscent of a bear market rather than a bull market, given that buyers could not hold the upside action in the morning, and surrendered to bears to turn a major upside gap negative... then consolidated into the close. There were good trade set-ups if you were active today, and bad outcomes if you were complacent or biased in either direction.

1. REACTION DOWN FROM $104, NEGATIVE MOMENTUM DIVERGENCES, TRENDLINE BREAK

First, you could have taken a long/buy trade in the morning, given that I strongly advocated that the odds favored a bounce yet to come in today's session - we got that bounce, but like usual, the bulk of the move occurred overnight. I mentioned that the likely target was a retest of the 1,040 key level ($104), and that's exactly what we got. If you felt uncomfortable buying into a rallying market with such a small overhead target, then you should have skipped the buy trade and wait to see if we had a sell set-up at the $104 target. We did.

For some reason, TradeStation had trouble displaying the TICK this morning, so the data are absent, but we see a move up to the $104 level, giving a 'finger' bar to pop to $104.35 before collapsing down back under the $104 target. Keep in mind, the Gann number - for those who use it - is 1,044, which is just shy of today's intraday high. Anyway - the set-up was to look for any non-confirmations, and if so, trade them, but if not, play popped stops.

The trade really didn't trigger officially until we broke the rising trendline and cracked back down under $104, which happened at 9:30 CST. The likely target was a move back to the lower Bollinger Band or the rising 20 EMA - either way the bullish engulfing bar at the lower Band gave a good exit for about a 25 cent small profit.

2. BEAR FLAG, TRENDLINE BREAK, ABC RETRACEMENT

This was a set-up that took advantage again of a move back into the $104 resistance - key level - as price formed a clear 'abc' wave rally into the resistance, then turned down with a bearish engulfing candle and break of the rising trendline at the $103.80 level, triggering entry if you did not short aggressively at $104.

The small target took us to $103.40 - the 50 EMA - but aggressive traders may have decided to hold until price formed multiple divergences and reversal candles at 12:30pm. The bounce, though expected, was short-lived and triggered an exit, but just as soon as you exited, the price set-up another sell.

3. CRADLE DOJI, BEARISH ENGULFIN, TRENDLINE BREAK AT $103

Price formed a strong positive divergence in TICK and momentum at the 12:30 time, gave a hammer... but bulls could not capitalize on that bullish development. Instead, a doji formed just under the 20/50 EMA cross (cradle), and the trade entry occurred as price broke the $103 level and horizontal support just under that.

Remember my favorite phase - "When something should happen but doesn't, it often leads to a larger than expected move in the opposite direction." The fact that buyers could not push price higher after the bullish developments and support at $103 meant that odds favored a sharp downside move which you should have traded - and it was profitable. The decent exit was the trendline break at 1:30 at the $102.50 level.

4. 20 EMA, 4TH WAVE ENTRY, NEGATIVE DUAL DIVERGENCES, 5-WAVE FRACTAL

Look very, very closely at the 1-min chart to see a very tiny 5-wave fractal ending on a negative TICK and momentum divergence just after 1:30 (13:30). This occurred as price rallied to test the underside of the falling 20 EMA on the 5-min chart - a popular retracement set-up. Notice also that price rallied into a likely 4th wave from a larger-scale Elliott move down (see 5-min chart). Short at the $102.80 level aggressively, or wait for a trendline break under $102.60 and place a stop above the swing high and 20 EMA at $102.80. Look closely - price came up to rally one more time before rolling over as expected, and if your stop was too close, you were stopped out just before the expected move - this often happens when you use ultra-tight stops or - in this case - trail a stop lower immediately after entry. It's a statistical fact from research testing - the larger the stop, the more less likely you'll be shaken out by random volatility that turns an otherwise winning trade into a losing trade. This one-bar move is a good example of that.

5. 5TH WAVE END, POSITIVE MOMENTUM DIVERGENCE, BOUNCE OFF $102.

This was an aggressive move, trading long into the close, but the structure hinted it was an opportunity, given the 5-wave fractal all day, bullish engulfing candle, bounce off the lower Bollinger, and 5-min positive momentum divergence. The official entry was on the trendline break at the $102.40 level if you did not get long as price began its rally at $102.

Using the four trades above (not the 5th trade), roughly $1.20 was possible in today's volatile session.

SO FAR TODAY			10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE
(1,931,489.60)	12,008,639	9:45	13,940,128.60	0.60
(1,492,311.90)	11,404,398	10:00	12,896,709.90	0.60
180,149.60	16,175,173	10:15	15,995,023.40	0.48
517,876.80	10,480,746	10:30	9,962,869.20	0.38
(4,276,858.70)	5,889,643	10:45	10,166,501.70	0.36
(2,520,004.50)	6,631,002	11:00	9,151,006.50	0.35
(883,255.10)	6,973,950	11:15	7,857,205.10	0.34
(169,188.70)	7,163,167	11:30	7,332,355.70	0.31
(1,853,076.70)	4,814,018	11:45	6,667,094.70	0.27
(2,470,463.50)	3,042,464	12:00	5,512,927.50	0.29
(889,662.70)	4,343,347	12:15	5,233,009.70	0.34
1,231,644.00	5,802,596	12:30	4,570,952.00	0.31
211,132.60	5,107,160	12:45	4,896,027.40	0.31
2,151,498.40	6,931,191	1:00	4,779,692.60	0.32
(199,416.20)	4,441,928	1:15	4,641,344.20	0.35
2,034,632.10	6,955,270	1:30	4,920,637.90	0.32
430,415.80	6,272,800	1:45	5,842,384.20	0.36
4,200,032.10	9,522,684	2:00	5,322,651.90	0.35
2,141,038.60	8,054,944	2:15	5,913,905.40	0.44
1,173,775.30	8,279,884	2:30	7,106,108.70	0.39
(1,781,906.90)	6,173,002	2:45	7,954,908.90	0.40
(2,076,182.10)	6,571,899	3:00	8,648,081.10	0.49
94,396.00	8,929,659	3:15	8,835,263.00	0.59
(395,829.20)	10,933,224	3:30	11,329,053.20	0.59
(2,005,104.10)	10,738,162	3:45	12,743,266.10	
(2,873,632.80)	22,272,364	4:00	25,145,996.80	
(440,453.52)	8,304,358.23	Ave.	8,744,811.75	0.40

Today’s volume was slightly lower than the 10-day average, though the afternoon sell-off attracted more relative volume. The morning rally, and the end-of-day afternoon, attracted LESS relative volume.

That’s bearish, hints at lower prices ahead, and hints that we are in a bear market scenario.

Based on the chart structure we see so far, we still expect a bounce yet to come as long as price stays above the $102/$101.50 level. From a trend structure, we have the following:

Higher Low, Higher High, Higher Low. That's bullish as long as the structure builds upon that foundation, which means price has to stay above the recent $102 per share low. So far, we have. However, the EMA structure is bearish, though price broke above - and fell beneath - the 50 EMA. A new momentum high formed on today's gap, which argues for higher prices yet to come... but again it all depends on the market staying above $102.

We hit our upside target of $104 as I wrote in the prior report, so for now, look for the market to trade between $102 and $104, and for any break above either of these to be significant from a short-term perspective.

Another reason to expect a break above $104/$105 to be significant - the 50 EMA and upper Bollinger rests there. Any break above $104.50 then $105 - the prior high - likely sends price back to challenge resistance at $108. Remember, in a bear market, price does not go down every day. We can cross through a key threshold ($104), trade back above it for a period of time, and then crack back through it. For now, that is the expected play - a bounce from here back to $104 at a minimum, though a move above $105 sends us back to test the $107 gap.

Of course, any move under $102 sends the target back to $101 and a move under $101 will likely collapse the market over time - not instantly of course - back to $85.

We had a long-legged doji in today's action that had its intraday high on the bottom side of the highlighted level of 1,040 to 1,050. That is the key line to watch - but you know that already.

As long as we're under 1,040, it's a bear's paradise, but buyers can push up to that level and if they push beyond it, we will see a short-covering rally to take us back to test the 1,080 level.

Barring any further upside move from here, we would be looking at a literal market collapse, if sellers push us under 1,000, as so many traders are positioned to expect a bounce. For now, and as long as we're above 1,010, the doji at the lower Bollinger on oversold conditions and a positive Breadth and Momentum divergence all argue that odds strongly favor a continued bounce.