



## Daily "Idealized Trades" Report

### S&P 500 ETF: SPY



SPY - 1 min ARCX 08/17/10 L=109.45 1.19 1.10% O=109.19 Hi=110.39 Lo=108.88 C=109.59



One reason I love charting (technical analysis) is because it allows you to assess if the market is doing what it is "supposed" to do or not. If the market behaves exactly (closely) as you expect it to - based on your reading of the charts - then you have a much higher chance of making good money than if the charts either aren't sending a clear signal (that happens) or if the charts are not doing what you expect they should... though that can give you a slightly better chance to make money by playing the failures (I call them "Popped Stops")... but that's another story.

Why do I bring that up? Right now, and today specifically, the market is doing EXACTLY what it should be doing from a chart perspective. We hit resistance at the 1,130 level on massive negative divergences last week, fell sharply into the close of last week, and then ended on massive positive divergences (momentum, breadth/internals) and today we see the snap-back rally - a corrective wave so far - that was forecast by the positive turn in internals/momentum. It would have been unexpected - and likely led to a sharp sell-off - if the market did not 'respect' these divergences and continued falling. In other words - today's rally was right on cue, right on time, and right on as expected - as I highlighted in last night's report and in yesterday morning's public blog post:

<http://blog.afraidtotrade.com/monday-morning-check-on-slightly-bullish-market-internals/>

Ok - great - now what? We have a deterioration of the internals and momentum (see 5-min chart) into critical overhead resistance at 1,100 - which was the likely target expected from an upside bounce. Now we would expect the market to pause and turn lower as a result - and we'll see if that happens tomorrow and in to the end of the (Options Expiration) week. If so, keep shorting the market but if we get an 'unexpected' breakout above confluence resistance at 1,100 and a violation of the declining internals/momentum/volume (specifically toward the end of the day), then we can expect a more powerful upside move in part as a direct result of the bears - who are short-selling with the odds in their favor - rush to stop-out and buy-back shares to prevent a small loss from turning into a big one should the market continue its rally.

Honestly, it's understanding the type of logic I mention above that will make or break you as a trader long-term. Trading is a game of probabilities where we do our best to assess the odds as they exist at the time, position accordingly, manage the position as new information comes in, and exit appropriately either at the expected target or beyond, early if data show the odds have deteriorated to reach the full target, or at the pre-determined stop-loss.

## 1. POPPED STOPS, PRICE BREAKOUT

This was an easy one - I mentioned specifically trading long on any move above \$109 and price stagnated at a horizontal trading range leaving a resistance line at \$109.20 in the morning which price broke solidly - with new TICK highs - at 10:00am, triggering your first official trade off the opening gap and run (or so it's called). It was a breakout and popped stops trade that meant you were to hold the trade as long as possible and NOT get spooked out by a single candle - the bearish candle at \$109.90 at 10:25am. Price pushed up to test \$110 where you could have exited with a nice profit as price formed a dual negative divergence, and your official exit signal came as price formed reversal candles and broke the rising trendline at 11:00am also at \$110.00.

I would NOT recommend a short-sale here for anything other than a scalp back to the 20 EMA... but as you clearly see, the market did NOT give that to you and your counter-trend trade would have been a scratch - and with that in mind, odds favored higher prices yet to come (as long as price remained above the 20 EMA) so the next play was a breakout above the horizontal resistance at \$110.

## 2. RESISTANCE BREAK, TREND DAY PLAY

Price formed a symmetrical triangle shape that ended with a breakout above \$110 at 12:20pm CST, triggering your next long entry at \$110. Unfortunately, TICK (and momentum) failed to register a new high along with the new intraday price high, so you should have been very cautious/safe with this trade, tightly trailing the stop and being ready to exit at the first sign of trouble... which was the clear negative dual divergence and then powerful bearish breakdown candle at 12:40 at the \$110.15 level - leaving not much room for profit in this trade... but a good sense that the market was likely to make a potential reversal due to the obvious deterioration in TICK and momentum... along with a "Three Push" Reversal Pattern and Complete 5-Wave Elliott Fractal... setting up your final trade(s).

## 3. THREE PUSH PATTERN, 5-WAVE FRACTAL, DUAL DIVERGENCES, TRENDLINE BREAKS, EMA BREAKS

I actually label three different entries for the same trade - which underscores why it's important to set-up the play (strategy/bias) first and then play it out if price gives a confirming entry signal, such as a break under a reversal candle low, trendline, or moving average.

This pattern is relatively rare, but when price pushes to three new highs on steadily declining momentum on each high - then that's the classic "Three Push" reversal pattern which triggers entry on a break of the rising trendline or EMA. That took place at 1:00pm (trendline off the lows) or 2:00pm (break under the 20 EMA). The negative divergences are clear. If you missed those entries, you had a final chance to get on board at 2:30 on a thrust back into the 20 EMA as overhead resistance just above \$110. This trade never gave any indication of positive reversal (buy signal) so you should have held short into the close.

Also, note the clear Wyckoff Sign of Weakness just before 1:00pm CST on the power sell candle - that was another 'concept' that let you know that it was safe (higher probability) to expect a price decline and to trigger in short on a break of the 20 EMA or trendline. Concept + Price Trigger = Trade Entry.



Today actually gave some good chances for profit - up to \$1.50 as seen in the trades above.

Also, sometimes it can be helpful to use a candle chart for your 5-min TICK if you can do that and then compare candles in price and TICK, noting specifically when there is a discrepancy. If so, this is a 'hidden' non-confirmation that suggests a reversal is likely.

That happened at the 11:45 am bullish TICK candle and bearish price candle, along with the 12:35 bearish TICK candle and bullish price candle. This is a good hint for those who want to explore this concept further.

SO FAR TODAY			10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	CST	15-min VOLUME	RANGE
(3,321,219.90)	11,795,118	8:45	15,116,337.90	0.33
(1,806,399.90)	8,045,914	9:00	9,852,313.90	0.33
(2,242,596.20)	6,568,010	9:15	8,810,606.20	0.31
(2,120,156.30)	5,179,496	9:30	7,299,652.30	0.31
(926,539.00)	5,267,037	9:45	6,193,576.00	0.34
1,679,339.40	8,352,087	10:00	6,672,747.60	0.20
3,661,682.60	10,534,466	10:15	6,872,783.40	0.23
2,002,057.70	6,763,671	10:30	4,761,613.30	0.16
2,320,994.50	7,445,319	10:45	5,124,324.50	0.16
(879,273.30)	2,407,362	11:00	3,286,635.30	0.17
53,699.80	3,103,820	11:15	3,050,120.20	0.17
1,327,254.10	4,218,392	11:30	2,891,137.90	0.15
(735,932.70)	1,977,922	11:45	2,713,854.70	0.18
(424,614.80)	2,093,817	12:00	2,518,431.80	0.18
637,517.20	3,562,373	12:15	2,924,855.80	0.17
2,098,403.80	5,336,617	12:30	3,238,213.20	0.18
651,438.80	3,635,258	12:45	2,983,819.20	0.22
1,428,594.60	4,309,522	1:00	2,880,927.40	0.22
(917,042.30)	2,446,395	1:15	3,363,437.30	0.27
(3,309,571.90)	2,181,037	1:30	5,490,608.90	0.27
(3,085,157.20)	2,572,559	1:45	5,657,716.20	0.27
(2,687,348.40)	3,192,034	2:00	5,879,382.40	0.27
(110,422.55)	5,773,332	2:15	5,883,754.55	0.34
(256,502.55)	6,313,332	2:30	6,569,834.55	0.28
(1,598,098.18)	7,259,002	2:45	8,857,100.18	
3,411,198.82	19,594,892	3:00	16,183,693.18	
<b>(198,026.69)</b>	<b>5,766,491.69</b>	<b>Ave.</b>	<b>5,964,518.38</b>	<b>0.24</b>

Relative volume analysis shows that today's volume was slightly less but almost equal to (200,000 shares lower) 10-day SPY Volume. Given that today was a very powerful bullish up day, we have to lock this in as a slight NON-CONFIRMATION of the rally which suggests that the rally will be ending soon and further downside prices are ahead, as we see in the higher timeframe charts below.



This breakout was exactly what was expected from the positive divergences in market internals and momentum - thus for now the market is doing 'exactly' what it should... which is impulse lower and correct higher... not move up or down in a straight line but in wave-like motions. Market internals, momentum, and volume give us clues as to where price is likely to REVERSE and end a swing and begin a new one. As such, we had positive divergences 'undercutting' the recent price lows (as I mentioned in yesterday's blog post) and today we get the "snap-back" resolution of the positive divergences and the price signal that triggered the trade - the breakout above \$108.50 and \$109.00 as a "buy long" trade entry confirmation. Price rallied almost all the way to \$110.50 on the corrective wave up - yes, this so far should officially be classified as a corrective wave against the larger downtrend.

What now? We do have confluence short-term support at \$109.25, so if price slices back under \$109, short aggressively intraday to target a return to \$108.50, \$108, or even \$107.50. Notice closely that the 3/10 momentum oscillator undercut today's high with a small negative divergence (seen clearer on the 5-min chart) - that's bearish.



It's quite possible we ended this "mini-wave 2" ABC correction up today at the \$110.50 level as shown. If so, look for price to continue its downswing through support at the \$109.25 level (multi-timeframe EMA support). Any move back under \$109 should be shorted aggressively with a mini-target of \$108 or \$107.50, but an intermediate target of \$106 or even \$101.

We're STILL in a phase where price is rising on declining volume (as you can see) and then falling on rising volume - according to Charles Dow (Theory), this is evidence of a higher timeframe downtrend and arguably 'bear market' so keep that higher timeframe structure in mind which is certainly in play UNLESS we break back above \$113 any time soon.



The "IF/THEN" trading parameters for the rest of the week are very clear: There is massive confluence resistance at 1,100 (as shown), so one would expect the highest probability outcome is a failure to overcome resistance which leads to another push lower to retest the 1,070 or break down to the 1,010 level eventually. The alternate play comes in from trading long for "Popped Stops" on a breakout above confluence resistance at 1,100 which would target a jump back to 1,130, and any solid breakout above 1,130 should be traded long aggressively for Popped Stops. Though odds are overwhelming for further downside action and that should be your top bias/expectation as long as we're under 1,100, do not underestimate the 'power' of buyers to jam this market higher - call it manipulation, call it supply/demand, but don't stay short above 1,100 or 1,130 should the price begin slicing to the upside - it would almost certainly trigger a sharp popped stops upward impulse that you do not want to hold short. Sidestep it and look to re-short at a better time - don't let ego keep you in a losing trade. It's super easy to make money when things go as expected (the market falls at resistance at 1,100) but the trick to long-term success is crisis management when things go wrong!