AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

We had what looked to be a "Trend Day" up, but on closer inspection, we had a moderate $0.20 gap up in the SPY (which is not 'large' and had greater odds of filling). Normally, these gaps fill instantly so it would have been fine to play for a gap fill, but that did not occur today.

Instead, price surged to a new high, which increased the odds of a Trend Day, but you should have been anticipating at a Type II Trend Day at best (thanks to the small gap).

The large, sustained move that continued from yesterday's close looked eerily similar to what we see in an Elliott 3rd Wave, so one should have been anticipating as such - waiting to buy the 4th wave pullback into EMA (or Fibonacci) support and playing for a final 5th wave up (which we got after 1:00).

Price formed a lengthy, rectangle consolidation until the classic afternoon (1:00pm) Breakout trade.

During this time, it was safe to buy pullbacks (particularly with dojis) to the rising 20 EMA to play for a Trend Day position, trailing the stop beneath the rising 50 EMA. Though price didn't rise quickly, it didn't meaningfully fall through the 20 EMA either, so your long trade was still in effect, it just took time to consolidate.

The next 'ideal' trade came in at the 1:00 afternoon breakout - we often get nice breakout moves at this time and today was no exception. Price surged to a new high, subdividing into a 5-wave fractal affair that ended the larger 5th wave move.

Here is where looking at structure comes in - though the day favored a Trend Day posture, price often significantly retraces after we get a terminal 5th wave up on a negative momentum divergence (look at the 3/10 Oscillator). That is enough to force an exit to any trend day positions, and is a signal for aggressive traders to get short and anticipate the high of the day being formed - this was the case today.

In addition to the momentum divergence, we also had a volume divergence as well. Price then formed a retracement back to the 20 EMA, formed a mini-bear flag into the 2:30 lows, bounced off the rising 50 EMA, and then failed to make a new high (as expected) into the close, dislodging the Trend Day into a Type I Failed Trend Day into the close.

Knowing Elliott Wave and the divergences that form within it could have helped give you the edge in knowing the high was in place. I addressed this in my afternoon post:

http://blog.afraidtotrade.com/momentum-divergence-and-elliott-wave-mark-intraday-high-june-11/

which should be read in complement with this end-of-day educational report.

Shorting when price broke beneath the rising 50 EMA would have been an ideal trade as well to take advantage of those traders who were trapped in their assumption that the day would continue higher into the close - their stop-losses could have been your gains.

Lessons from the 1-min chart.

Notice the large impulse just before 9:00am which resembled a 3rd wave - price then pulled back to the rising 20 EMA into a nice bull flag position and then price rallied quickly up to test the R1 Pivot before forming a 'topping candle,' negative Momentum Divergence, 'failure test' at R1 Resistance, and the completion of an Elliott 5th fractal wave. That was clearly an "ideal" trade with all that confirmation.

Price consolidated and then finally broke above the R1 pivot before forming a lengthy Head and Shoulders reversal pattern that was missed on the 5-min chart. This also shows how Elliott Wave and classic pattern recognition support each other.

We knew things were 'amiss' because we formed a new TICK and new Momentum Low on the day at 1:30... that's a significant "Change of Character" and "First Sign of Weakness" to use Wyckoff Method terminology - these hinted clearly that lower prices were yet to come (momentum precedes price).

Price formed one last reaction up to $95.80 and then sharply collapsed into the close, forming a bear flag (and new TICK/Momentum Low) along the way at 2:30.

By combining and incorporating Market Internals into our Trading, we can often see deeper insights than those who do not use them.

This chart shows the "Breadth" (net advancers minus net decliners) forming a 'flatline' momentum divergence on the highs of the day.