AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today was a "Rounded Reversal" with plenty of lessons to learn in making assumptions, reading market internals, watching momentum and non-confirmations.

Judging by the large, unfilled overnight gap, most people would have assumed we were going to have a strong trend day down - and that would be absolutely a correct assumption.

However, trend days are not 'magical' and you MUST watch market internals for confirmation that the Trend Day has greater odds of continuing than of reversing - in this case, we had PLENTY of warning that odds favored a "Rounded Reversal" forming as opposed to a Type III Trend Day - those who knew how to interpret non-confirmations and follow 'hidden' signals could have - at a minimum - prevented losses by exiting short positions early or could have even profited by flipping long to trade the 'rounded reversal' swing up into the close.

Either way, let's take a look at the intraday structure and learn some valuable lessons.

First, we had the futures down sharply prior to the market open which gave us a clue we should be expecting a big move. Also, Friday's market action was classified as a 'rangebound' or narrow day which meant that odds slightly favored a range expansion play for Monday's trading.

I also mentioned in the morning blog post:

http://blog.afraidtotrade.com/ideal-spy-bear-flag-completes-intraday-with-lessons/

that a Bear Flag structure carried forward from the 15 and 30 minute intraday charts which completed just above the intraday lows - structure from prior days 'bleeds over' into today's price action and expectations.

Once the market opened, we had a large-scale overnight gap that made no sign of filling - this was your signal to get aggressively short to play for a Trend Day down.

At 10:00 and 10:30am EST, we had new Price, Momentum, and TICK Lows - all calling for new price lows yet to come.

However, as we realized these new lows around noon, we observed a significant momentum and TICK divergence - a "Three Swing" divergence in both. This was a non-confirmation of lower prices and hinted that you should - at a minimum - lighten up on your short positions. It was also acceptable to scalp long for a divergence retracement trade to the falling 20 EMA - which worked. The non-confirmations were early warning signals that "all is not right" with this down trend day and that we should be on guard in the event that a "Rounded Reversal" develops.

I sent out this chart to clients mid-day with the warning to cover shorts and not to get aggressive to the short-side due to the non-confirmations:

In addition to the three-swing positive TICK and Momentum divergence, we saw new intraday highs (spikes) in the TICK. According to Wyckoff, this is a "first sign of strength" and is a signal that higher prices could be in the making - with Internals firming up and strengthening.

New TICK Highs often precede New Price Highs - in the same way that momentum does. The Divergence + the New TICK highs signaled odds had shifted to expect a rounded reversal and that the intraday lows were already in place.

On a side-note, notice the red arrows I marked as price came back to retest the intraday 5-min 20 EMA - each pullback provided a new short-sale entry for a quick scalp.

Price first nipped above the 20 EMA at 2:30, which corresponded with a new high TICK reading - this was becoming a clear sign that price was mounting a reversal.

Price became trapped between the 20 and 50 EMA and indecision dojis formed... but the ground was set for a move up and that's exactly what we got into the close. Aggressive traders could have played long into the close and conservative traders should have exited any short positions still on if you were still expecting a Trend Day (assuming you failed to take into account the divergences in the TICK and Momentum as mentioned above).

Here is a closer look at the intraday structure as seen in TradeStation:

There was also a positive divergence in Breadth (net advancers minus net decliners) which helped serve as a warning signal to shorts.

Use today's chart as an excellent example of how a Rounded Reversal develops and how a Trend Day Down devolves into a Rounded Reversal as multiple non-confirmations form.