AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

A lot to go over education-wise today!

Let's start with the morning gap of less than $1.00. Testing shows that the larger the gap, the lower the odds of it filling but that less than $0.90 is about as far as you want to go to attempt a gap fade. This was an acceptable fade and it was almost a "gimme" because three dojis and a shooting star formed at obvious confluence resistance (of the 50 and 200 MAs). This was one of the easiest trades of the day - though the rest of the day was not that easy.

We slipped past our target of yesterday's close and then formed long-shadow candles which forecast a reversal (particularly the hammer-like candle). We did get a move up that formed a new momentum high. At this point, the structure was still in a downtrend, so it would have been acceptable to short at the $90.20 level with the many dojis just above the 20 and 50 EMA. We got a surprise big bar up that probably took out your stops, leaving you frustrated as the market headed lower as expected to test the support off yesterday's close.

We do find support and once price broke above the $90.60 area, we formed a "Sweet Spot" in what turned out to be the heart of Elliott's 3rd (and most powerful) Wave. This was the turning point of the day, which meant we should be looking to BUY the first pullback after this new price and momentum high which most likely was the 3rd wave - it was.

We got a convenient bull flag pattern that retraced so gently into the 20 EMA after forming an ideal 'flag' into support and we even were treated with a long-legged doji/hammer candle. I declare this to be the Highest Probability trade of the day, though the gap fill was a close 2nd.

We got our move to new highs on the day which formed a negative momentum divergence (flatline TICK divergence) and - after two powerful red bars - we got two dojis and a shooting start which was the most likely exit (or sell-short) zone. It was all but impossible in this case to call the exact top of the 5th wave since it reversed so abruptly, but the dojis were an excellent 'last chance' exit if you were still long.

I've shown that a bearish Rising Wedge formed intraday. In hindsight, I should have pushed the "1" back to the $90.20 high at 11:00am for the reason discussed below.

Wedges often are five-wave affairs that terminate in price & momentum divergences.

This chart shows a perfect example of an Expanded Flat corrective wave pattern for Wave 2. These are rare and give new Elliotticians headaches, but it shows why you can't (or shouldn't) grab price highs or lows and slap labels on them. Although you could have easily counted the first wave as ending where I labeled the "B", I wanted to show this as a "Teaching Moment" to show a possible example of a rare 'expanded flat' pattern.

We knew the correction was over once we had those strong, sustained price bars at 12:00 which was later recognized as the 3rd wave.

Highlight on the morning gap dojis, Cradle, and three New TICK Lows that preceded an end of day reversal.