AFRAID to TRADE

overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

The day began as expected from last night's report - as a flat, directionless, rangebound market until we had a classic afternoon "1:00 breakout" trend move that carried forward into the close, defying expectations. This market seems to have much more strength than people are anticipating, which is resulting in a very powerful trend move up on the daily charts through resistance. The NASDAQ Index made a new closing high for 2009 on today's close! It's a losing bet to gamble (trade) short against the strength of the buyers/bulls until we see definitive signs of cracking in the structure.

In terms of today's structure and idealized trades, the first trade should have been a "gap fill" due to the relatively small to medium sized gap, and the sudden run-up in price immediately after the open.

Price tagged yesterday's close as expected and then began to trail lower, forming a bearish reversal candle (long upper shadow) at the highs of the day (and a slight TICK divergence when comparing to yesterday's close) and the upper Bollinger Band - enough reasons for a high-probability short, especially given that the expectation was for a range day today following yesterday's trend day.

We pushed to new lows as expected, this time forming a bullish hammer reversal candle at the rising 50 period EMA and the day's "pivot" point (blue dotted line, if you use Pivots).

This was another good scalp-long play to target a retest of the highs (again, under the assumption that today would be a range day), though we fell just short and formed an internal TICK divergence as price scraped to test the highs... three upper shadow (bearish) candles including two dojis formed at the $93.40 level, giving us ample time to exit our long and consider going short. By this time - and with you expectation of a range day - you should have noted that price was not respecting the 20 period EMA and should not have anticipated any sort of support or resistance from this line.

We bounced to test the lows of the day again in the range and then rallied up off of that level. Clear trendlines could be drawn on the day between the $93.40 level and $93.00 level - one could have engaged in range-bound trading tactics as discussed above. The day continued as such until 1:00 (I have explained many times how the market has a tendency to break out of an established range at 1:00 EST) into the "Afternoon Breakout" structure trade which also was a Bollinger Band Squeeze (compression) trade under the principle "Markets Alternate Between Range Expansion and Contraction."

I drew in a fractal Elliott Wave pattern into the highs just for an example to keep up with structure.

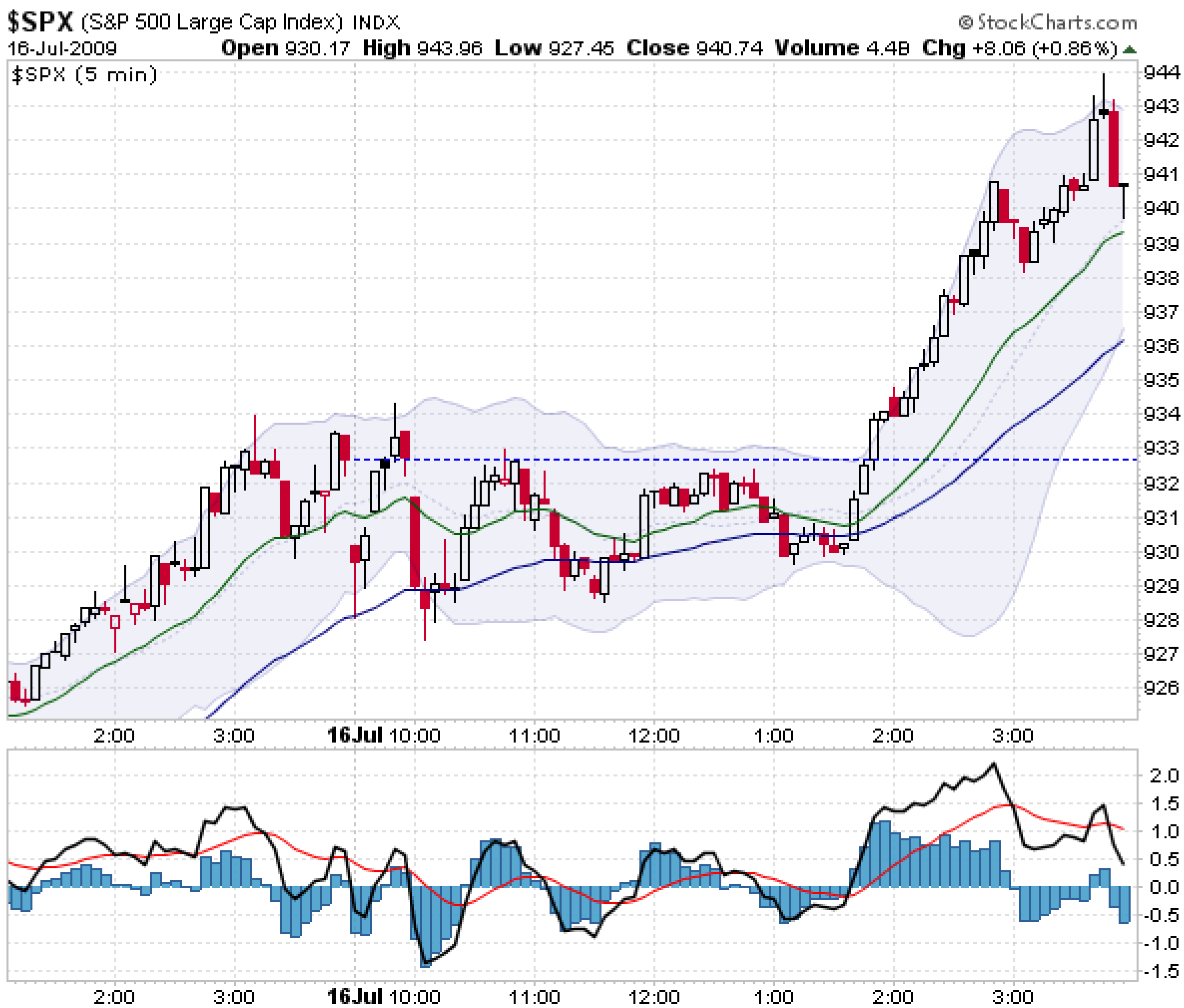
The main idea I want to share as a 'teaching moment' is that once price broke out, we had the highest TICK reading on the day, which in Wyckoff terms is a "First Sign of Strength" which favors higher prices yet to come (from a momentum 'burst' or hidden strength). This is a great educational example of that concept.

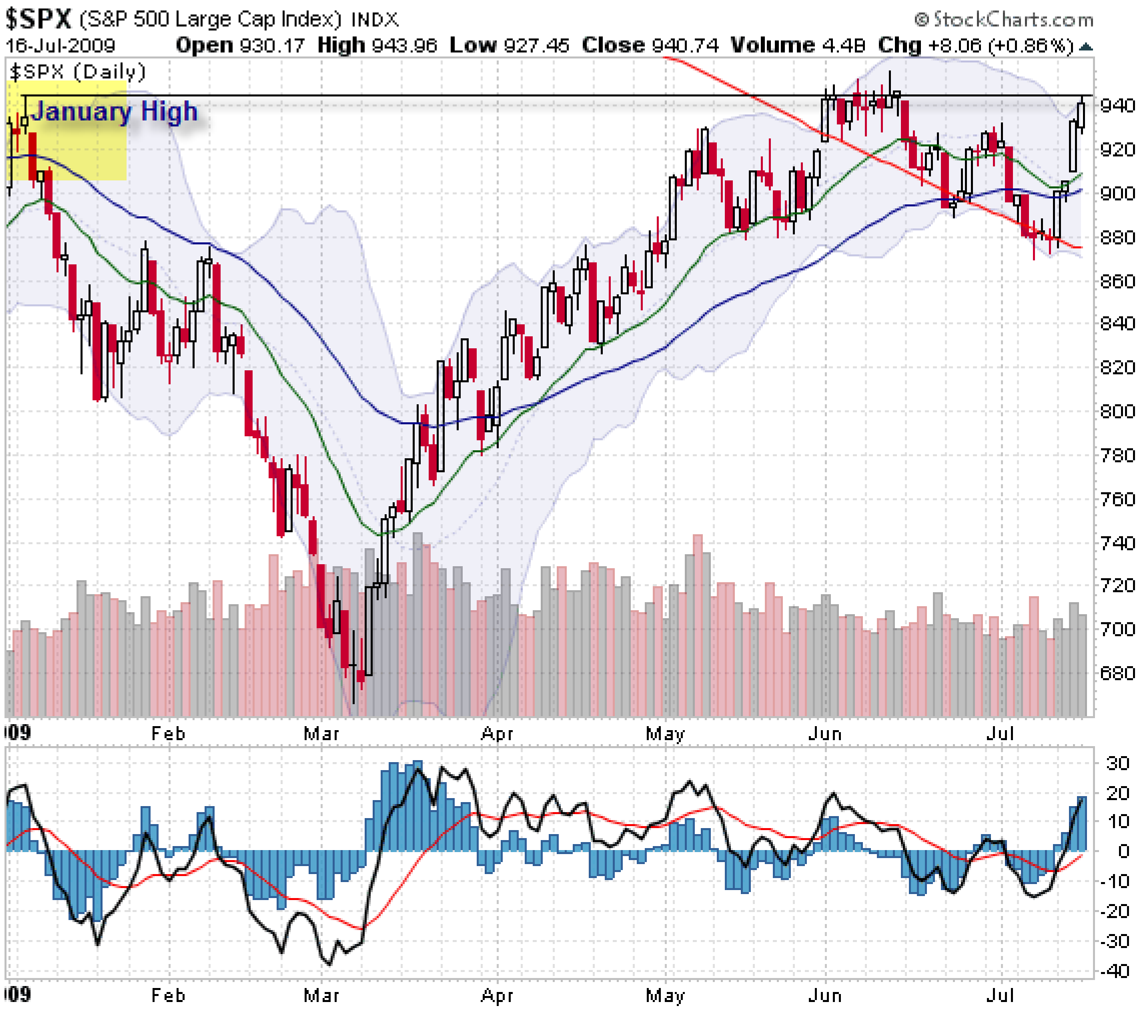
This is also a lesson in why range-bound fading strategies can be highly accurate, but if you do not exit a breakout position in time (ie thinking we would hit the upper range and $93.40 and inflect back down... and held on to this belief as you lost money) then the strategy can actually be a net losing strategy if you're making small gains and have one or two very large losses (assuming you shorted all the way up).

There were no clean entries (safe pullback entries, that is) as price rose to new highs, and your only way to profit would have been to understand the range expansion principle and go ahead and 'market order' yourself into the position, no matter how uncomfortable it felt. You could have trailed a stop beneath the rising 20 EMA and exited on any deep retracement through it (which never came).

However, the 'ideal' exit (and aggressive short-sale) came at the $94.40 level AFTER the upper doji had formed on a negative TICK divergence. There wasn't much time in the day to scalp out a profit, but that would have been the ideal EXIT for your long. There's a chance the negative TICK reading and strong thrust down in price into the close could carry forward into tomorrow's trading session.

There's not many other clues we can assess about tomorrow's action because it is an "Options Expiration Friday" and generally the market is very volatile, somewhat random, and difficult to read as funds "square up" positions before options expire, so classic technical analysis is weaker during those days. That does not mean you should not trade opportunities you see, however. Tomorrow's bias is - as I see it now - down but again the random nature of options expiration days throws classic analysis off base.





Just a few points higher and we breach the January high of 2009 - which has served as resistance even during June. Price held this level like a literal ceiling.

A break and close above it would continue to trigger massive short-sellers to cover... I must admit I did not think I would be discussing a "Last Line in the Sand" for Bears (short-sellers) after just discussing a "Last Line in the Sand" (at 875) for Bulls.

Things can change very quickly in the market and - as Mark Douglas says in *Trading in the Zone*, "ANYTHING can happen."