AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

# Daily "Idealized Trades" Report

## SPY (SPY 500 ETF) 5-min


The best way I could describe today's trading session was "Quirky." I had a reader comment to me "Nothing I did worked today." I'll also discuss the 'failed ideal' trades along with the successful ones today.

First, we had a relatively large ($0.70) gap in the SPY which falls just shy of expecting a Trend Day Up and just above what we'd expect for a successful filled gap - we got neither but came so close to getting both. It was a paradox.

Remember, large gaps often precede trend days - large gaps are in the neighborhood of $0.90 and greater than $1.00. The upper range where I'm comfortable to fade (fill) a gap is around $0.60. So this was in the nether region and we got what we expected - a push down to "attempt" a gap fill that did not fill and a push up to "attempt" a Trend Day that - technically - was not a standard trend day.

It was more of the "Opening Gap Test Drive" Market Profile Structure (where we get an initial impulse, it is faded with a gap fill, "testing" yesterday's close, and then we "Drive" off this level to new highs on the day.

So once we got the morning open and big red bar on the 15 minute bar, the best trade became a gap fill. Here, we learn a very valuable lesson in stop-loss and trade management. Upon getting short anywhere in the red bar at 9:45, the most logical area to place a stop was above the intraday high at $95. Depending on where you got short, this could have been a maximum risk of $0.40 for a target (at the low of $94.60) of around $94.10 or $0.50 away - that's about a one-to-one risk to reward. But remember, it's not about 2 to 1 or 3 to 1. If your trade has edge, you're better off playing for it for the accuracy of the trade. Of course, the higher you executed to the high of the morning, the better your risk-reward was.

Ultimately, we did NOT fill the gap (fell $0.10 shy) so perhaps the best profitable exit was to exit the trade once we broke back above the 20 EMA after 11:00am. Of course, conservative traders take early exists so this time the 'exit early' (or even trailing stop) strategy paid off.

Remember, it's mainly about trade execution and management - which is born from experience.

Price did not break the uptrend established intraday last week (that carried through ALL of last week!) so it was probably not a good idea to get aggressively short (with the exception of the scalp for the gap-fade) unless we broke beneath the 50 EMA on the 5-min chart. The first lesson I always teach is on Trend Identification and to trade in the direction of the trend.

Once we do get a gap fill, the NEXT play is to buy back in the direction the gap occurred once we come into support - that happened just after 11:00am either as we tagged the rising 50 EMA or broke back above the 20 EMA.

If you look at the 1-min chart, price formed a nice Elliott Fractal move that terminated in the 12:45 highs which led for a long exit or a quick short scalp (small target).

We didn't get much of a 1:00pm breakout today but instead formed two dojis off the confluence of the 50 EMA and the bottom of the Bollinger Band, giving us a nice low-risk, trend entry retracement trade. Price rose off this level into new intraday highs, pulled back to the 20 EMA to form a 1-min triangle then we got a large range breakout move into the 3:00 hour and then consolidation into the close.

This was technically a choppy day that happened to be a weak, weak Type II Trend Day up (I would almost classify it a Type 1.5 but there is no such thing).

Let's drop to the 1-min charts and see other opportunities that confirmed or disconfirmed opportunities we saw on the 5-min chart.


(Please view the download link under the July Idealized Trades Archive for a full image or type in this url:

http://premium.afraidtotrade.com/wp-content/uploads/2009/07/july-20-intraday-1min.jpg

We're seeing inside the action and highlighting the opportunities discussed earlier.

A new momentum and TICK low at point 3 at 9:30 (this is Central Time) hinted that a new price low was yet to come. When it did (point 5) we had a "SUPER Divergence... what I would deem to be the best trade of the day. We had a "three push" pattern in the 3/10 Oscillator that terminated with a distinct positive TICK divergence - that's about the best you can get in terms of 'knowing' what's about to happen and we got a large reversal to the upside that unfolded in its own fractal pattern that also terminated with a triple-swing (3-push) negative momentum AND TICK divergence. This was a perfect exit and an aggressive short-sale.

The short sale trade for aggressive traders unfolded in its own 5-wave fractal (not shown) which had its own New Momentum and New TICK Low which terminated on the final wave with a Positive Momentum (though not a TICK) divergence.

The next play was an up-move which ended in a nice triangle consolidation which broke out to the upside on a new TICK and Momentum High (which hinted that higher prices were yet to come, and they did).

Today is actually a great example of how to use TICK and Momentum in the manner presented in my recent FuturePath Trading Webinar (I will be re-presenting it in the future).


In terms of what to expect for tomorrow, I thought we'd at least try for a down-day today due to price being at key resistance and a Doji forming on Friday's session! I hate to say it, but it's probably best not to get aggressively short or even start planning that until we see a shift in momentum to the downside. Even if you're an aggressive trader, it's probably best to play like a conservative, which means WAIT for PROOF that the market has reversed which will come from a cascade of bearish developments that work their way upwards on the intraday charts (meaning, true trend reversals and breaking of lower EMAs for support on the 1min, then 5min, then 15min, then 30min, etc. Right now, anyone trying to fade this market - and they have the odds in their favor based on the charts in terms of overhead resistance and overbought conditions - is getting crushed... so why put your capital at risk and join them?

Be patient, be conservative, let the market tip its hand. No matter what the chart or your opinion says, it's supply and demand - in whatever form from whatever source - that dominate the market. Your opinion and my opinion don't count. The reality is that we're about 5 points away from a fresh 2009 high. I mentioned that if bulls defended 875, then it would trigger a massive "stop-loss" covering (short squeeze) rally and I was 100% right ... but this rally has gone further faster than I expected it to do, which tells me that a LOT of people were betting short on the market and had to cover quickly.

I have to fall back to Classic Technical Analysis 101 - no matter how much I feel like the price 'should' hit resistance here, as long as the trend is up, you should be a buyer ... until we make a lower low and a lower high and confirm that with bearish breaks in the EMA structure. Please use caution - I know a lot of people who have struggled in this rally.