AFRAID to TRADE overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today was a totally unexpected Trend-Day up that did not begin with a morning large gap-up as anticipated - but such is the case when the market is at a critical level, all eyes are upon it (anticipating a downward move off overbought conditions) and a slight 'spark' ignites a Trend Day up.

This is the same (similar) condition that occurred when price gave a 'false sell' or 'failed' Head and Shoulders breakdown earlier this month - so many people were leaning to the downside that all it took was a small 'spark' (upward movement) that created an avalanche of shorts covering and new longs buying (off support) creating the powerful up-move we anticipated and have experienced.

It's also a testament that when something is 'expected' to happen, you'll often get a larger than expected move in the opposite direction if we can get a slight movement against the 'crowd' or majority - large funds and professional traders know these levels and so should you - that's why it's important to have an "If/Then" mentality to trading as I mentioned in last night's post. Though I clearly expected a down-move, I suggested using a tight stop and if taken out, it would lead to a powerful 'shock' move as stops piled out of the market. That's also why being a day-trader can be so advantageous - you could have taken advantage of these short-sellers 'bailing' out of their high-probability/low-risk positions.

Trading is still a game of probabilities and there are no certainties - though it still surprises me that price was able to overcome internal divergences as mentioned last evening. Again, the easier plays are knowing where people are leaning, where the stops are (above resistance at 956) and then (the "IF/THEN" statement) taking a trade based on your bias but also instead of getting upset on a stop-loss, flipping if need be to capture the 'surprise' from many others who are stopping out all the way up which creates these powerful moves.

There really was not a comfortable entry at all (no stable pullback) as price rallied sharply until 11:00am. It was one of those "hold your nose and jump in long" if you had to get a position on, and the earlier you recognized the sellers (bears) were getting squeezed (which was described last night), then the earlier you got long and even perhaps got aggressively long. It was a "dog-pile in / dog-pile out" situation where it feels extremely uncomfortable putting on a buy order but in a momentum/run-away environment, the #1 goal is to get the trade on and not play 'cute' with limit orders because you'll miss the move ... which also is entirely fine if your system/strategy only involves buying pullbacks in a trend. Do not chase markets just to chase them - have a plan in advance (as in, "IF price solidly breaks 956 and IF we're seeing higher volume and TICK highs, THEN buy aggressively long BECAUSE shorts are being squeezed mercilessly").

As usual, on a trend day, there isn't much to discuss in terms of "Idealized Trades." The goal is to recognize the trend day as early as possible and then get long (in this case) as early as you can and then stay long for as long as you're seeing confirmation from higher price highs, support bounces off the 20 (or 50) EMA (both of which offer excellent entries), and new TICK highs.

I highlighted (pointed out) two opportunities as price tested the rising 20 period EMA - both of which resulted in new highs on the day.

The other entry technique is an aggressive method of buying ANY negative (dip beneath zero) TICK reading particularly after a new TICK and Price high. This is more of a 'scalper's game' to enter on a TICK low as it starts heading higher and exit on a new TICK high or as price has made a sufficient new high when you have profit in the position. The game is 'get long, scalp long, stay long' until (unless) we see significant TICK divergences with price highs (which were seen today) or price begins breaking the 20 and especially 50 EMA. A trailing stop should have been used between the 20 and 50 EMA.

Let's see the TICK chart.

This shows how - once you realized we were likely in a Trend Day environment (around 11:00am CST or after), then you could have used any negative TICK reading following a +1,000 (or new TICK high reading) as a 'buy long' opportunity for a quick, leveraged (large position) scalp trade and exited when the TICK either registered +1,000 again or made a new high.

This is using the TICK as a momentum oscillator and also as a trade trigger in conjunction with price.

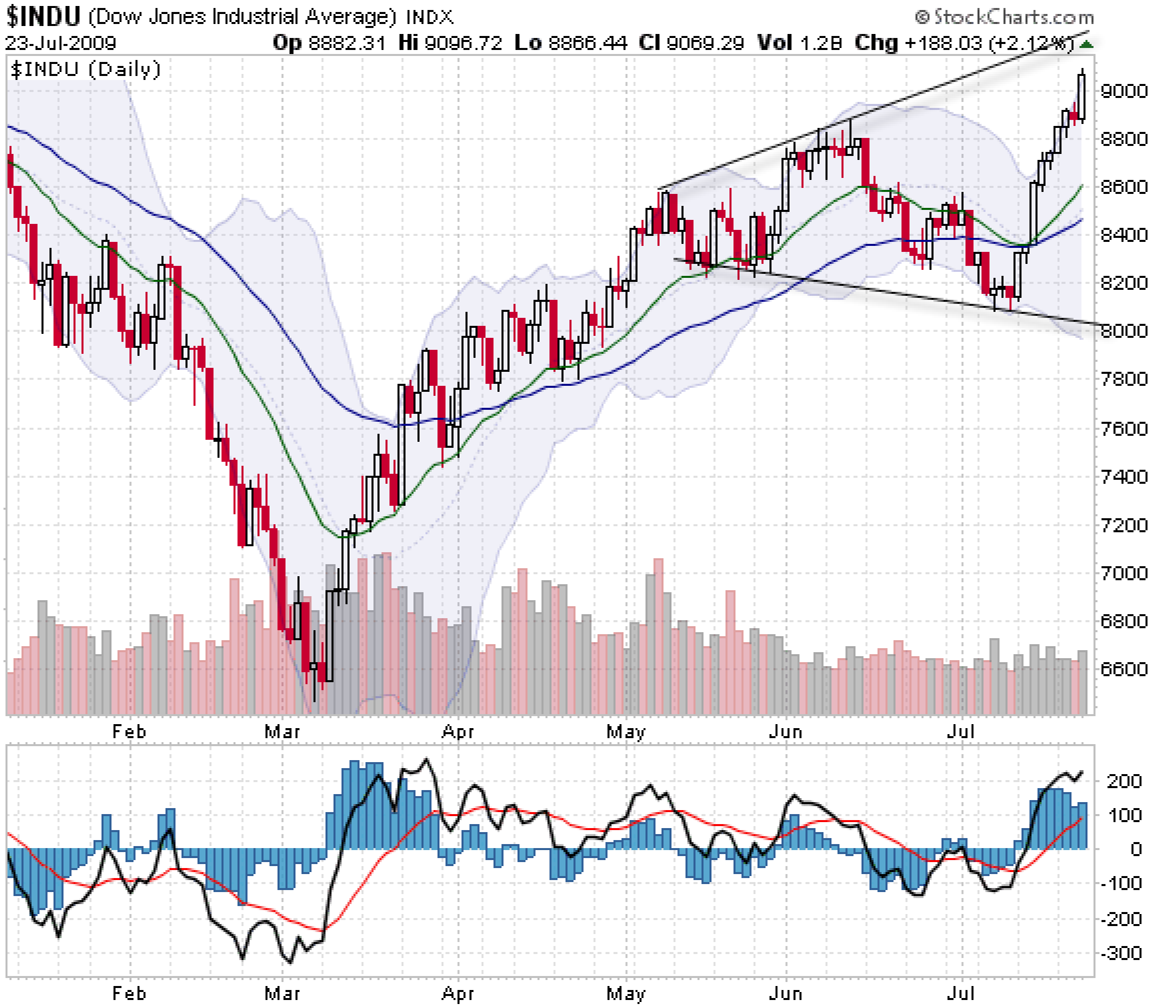
At the end of the day, we got three New TICK lows which most likely should not have been bought (you will be more confident buying TICK readings just below zero instead of -800 or below, which could be an early sign of weakness).

Interestingly enough, not only did we see the TICK start to decrease towards the end of the day but we see in this 'zoomed in' chart that Breadth (difference between Advancers and Decliners) formed a key divergence on the absolute price high of the day.

Though generally it is NOT a good idea to be short on an up-trend day (in fact, most new traders shouldn't try to short at all on trend days), you could have used the absolute price high of the day after 2:00 CST which formed a clean TICK divergence (look closely at the prior chart) and a more important Breadth Divergence (breadth divergences are generally very rare and revealing when they occur). The deterioration in breadth (and the bearish signal it gives) is likely to carry forward into tomorrow trading, giving us a Bearish Bias into tomorrow.

Still use caution into tomorrow's trading - we are in a very, very overbought condition which has been exacerbated by short-sellers being forced to cover. It's definitely not safe to get long here but it is also not very safe to get short - bulls (buyers) are in total domination of the market and it's best not to bet against them. Use the conservative tactics I've been discussing all week - WAIT to get short until you see PROOF of key levels being broken to the downside. DO NOT BE A HERO here.

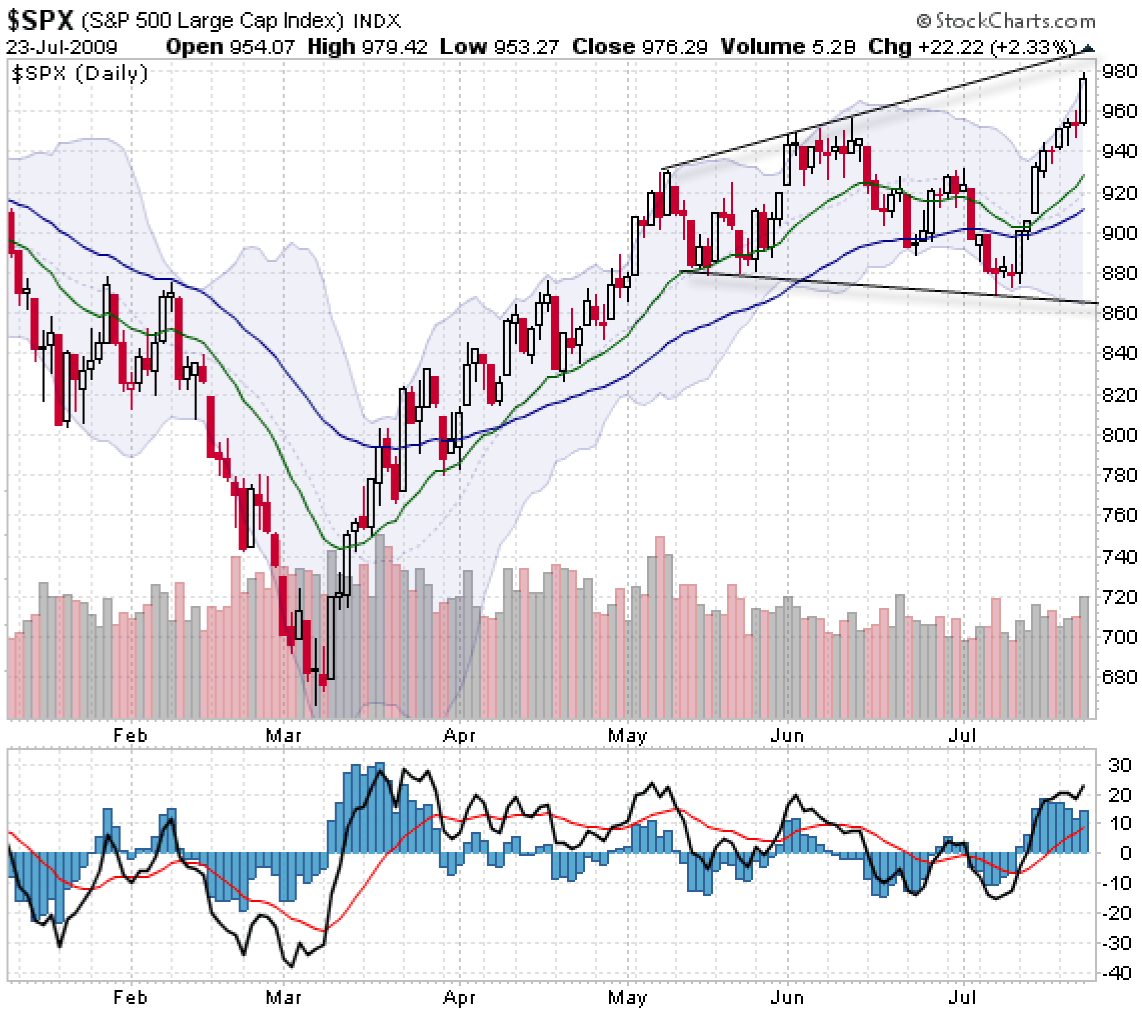
A quick look at the Dow Jones and S&P 500 daily structure:



I first mentioned the possibility of a "Broadening Formation" in the structure of the Dow Jones Index on July 15th which - to my surprise - appears to be the dominant pattern as the Dow is above 9,000 currently which was the initial price target projected (actually slightly beyond 9,000) for the target.

http://blog.afraidtotrade.com/dow-daily-structure-july-15th/

The broadening formation (or 'megaphone') is generally a bearish formation and the last one occurred at the top of the market in 2007/early 2008.



The 'Broadening Top' formation in the S&P 500 is just shy of the price projection target to the upside.

1,000 is now a "magnet trade" likely target which could be reached earlier than expected.