AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today was one of the least interesting, choppy days I can remember! This type of environment is more akin to what we're used to in the "Summer Doldrums." There were opportunities during the day, particularly for those who prefer "range fading" tactics, but even then, the day was quite choppy... though in a stable way.

The dominant pattern, which I hope you recognized in real time, was the lengthy symmetrical triangle that began as the day started as price wound down to an "Equilibrium Level" or "Balance Area" that was broken to the upside for the famous "1:00 Afternoon Breakout Trade."

Let's start from the beginning.

I mentioned last night that today's structure would be determined almost entirely from the result of the GDP number... which came in only slightly worse than expected, but even that didn't thwart the bulls (in other words, they held the market up from a potential crash).

That being said, there was no overnight gap at all (which has become quite rare - most days have some sort of overnight gap that - if not too large - has a tendency to fill in the morning).

The first swing was sharply to the upside which formed a large 'topping' (long upper shadow) tail at the $99.50 area just above the 20 and 50 EMA confluence, which (on the next candle around $99.20) served as an excellent short-sale entry with a stop above $99.50. This was in line with a bias to the downside as the EMAs flipped negative so this could have been considered a "pro-trend" trade short to target new lows on the session.

We got a steady swing down that tested and broke the morning lows of $98.70 and went as low as $98.40, but this level should have been seen as an aggressive scalp buy long due to the following factors as 10:00am passed:

Two LONG lower shadows (signaling price rejection of the lows)
Price peeking outside (two times) of the lower Bollinger Band (hinting about an 85% chance of reversal)
Positive 3/10 Momentum Divergence
Positive TICK Divergence (as seen on the 5-min and 1-min chart) - very powerful
Bullish Hammer coming off the lows
The fact that price had no gap which increased the odds of the structure being a "Range" day - which it was

I'm sure there were more reasons but we're not looking for academic perfection when trading real time - we're looking to pick up on two or three non-correlated methods to signal a price turn in a given direction, which both gives us a logical target (the 20 EMA or $99.00 'round number' zone) and a logical stop-loss (beneath the long legs of the dojis at $98.40).

So the entry long would have been after the hammer long legged doji formed at $98.70 to target $99.00 which doesn't seem like much, but on the @ES futures, that was about a target of 2 @ES points or $100 per contract you traded for about 30 minutes of 'work.' That's $500 for a 10 contract position. On a range day, you don't get many 'perfect' opportunities and I call them 'inefficient' because you're having to do more work for less chance of profit... though advanced traders can raise their position size to compensate for the low volatility... but that's for another lesson.

Price breached above $99.00 and then quickly headed lower after peaking at $99.20. By this time, you should have realized we were having a Range Day and not been very aggressive. You perhaps should also have noticed the triangle forming and traded off dojis or reversal candles/tests of the extreme of the triangle. If you did not want to scalp small targets (with stop-losses just outside the angle trendlines), then you should have waited for the expected "Range Expansion" play that was likely to come once the triangle completed... and it did so right on schedule for the famous

"1:00pm Afternoon Breakout" trade, in which you definitely should have entered long once price broke above the descending trendline at $99.00 and played for a price expansion move to the upside (with a stop beneath $98.80).

The move did take us higher, but not as high as we would have liked, as a doji then a bearish engulfing, then a shooting star candles all formed at the $99.30 level which was at the top of the Bollinger Band. This signaled an early entry (you must monitor your trades for signs of weakness that develop - like this which you can't forecast or target in advance, particularly when playing for range expansion moves).

Price fell quickly (which could have been a short only for aggressive traders) to test the rising trendline that continued from the morning session at the $98.90 level as a two hammers and a doji formed at this level, signaling an exit for your aggressive short and a buy-back in long position (note the New TICK High and new relative momentum high after 2:00 - this signaled that higher prices were likely yet to come - buy the first pullback).

Price did actually made a higher high above the afternoon high, but in so doing, it formed a massive long-legged doji (reversal/indecision candle) at the upper Bollinger, which signaled an exit and potentially aggressive short.

On Range Days, it's best to pay attention to reversal candles that occur at the outside of the Bollinger Bands and ignore moving averages... you can use moving averages to confirm a range day by noting their convergence). Look also for TICK divergences (if any) and consider fading TICK extremes (for advanced traders).

The 5-min chart (today, I'm showing the actual @ES U 09 futures contract instead of SPY for a different perspective).

Note the "Compression in Momentum" which often precedes a price breakout that you can trade.

There are also slight divergences with price and the TICK which offer confirmation/non-confirmation.

The 1-min chart (this time SPY for easier reference) highlights a key TICK divergence in the morning lows (also seen on 5-min) and also the triangle of the day, complete with the breakout just after 1:00 EST (12:00 CST here).

With price faltering at the highs, odds seem to favor a downward move to occur soon, which could be sharp on Monday, but again, no matter how much we think price should fall, bulls still are showing resilience and we have to suspend belief and respect that - the cautious stance remains the same.

If there is a large gap to the downside on Monday (alternately, a gap to the upside), then odds could favor a trend day as price breaks the recent consolidation we're experiencing and expands in a given direction. Be on guard either way.